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Media Release

Foreign appetite for Malaysian bonds returned in June

After a tepid last two months, foreign buyers returned to the Malaysian bond market in June, mopping up RM11.6 bil in domestic bond securities, resulting in the biggest monthly net foreign inflow since March 2016. The return of foreign interest reflects declining risk aversion towards emerging markets due to stabilising oil prices and a resumption in economic activities as lockdowns ease in this region. Increased global liquidity amid central banks' quantitative easing measures may have also encouraged more foreign inflows.

Yields, however, remained elevated in the first half of June reflecting supply risks arising from the sharp uptick of Malaysia's projected fiscal deficit after the latest round of additional stimulus programmes that will be funded domestically. Concern over the implications of a greater supply of government issues this year pushed the 10-year MGS yield up to a peak of 3.12% on 9 June (end-May: 2.87%). Investors may also have demanded a risk premium due to the IMF's bleaker global growth projection and the revision of S&P Global Ratings' outlook on Malaysia's sovereign rating, from stable to negative in June.

Yields began to gradually retreat towards the second half of June, as the possibility of another OPR cut at the monetary policy committee (MPC) meeting on 7 July loomed. As the 25 bps cut materialised, lowering OPR to a record low of 1.75%, bond yields nosedived across the maturity spectrum in early July. This saw the benchmark 10-year MGS yield falling 20.8 bps between end-June and 16 July. The prospect of further monetary loosening is envisaged to keep a lid on yields in the near term. Looking ahead, RAM expects another 25 bps cut with the OPR possibly ending the year at 1.50%.

Analytical contact
Woon Khai Jhek, CFA
(603) 3385 2512
khaijhek@ram.com.my

Media contact
Padthma Subbiah
(603) 3385 2577

padthma@ram.com.my

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About RAM Rating Services Berhad (RAM Ratings)

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