



Media Release

RAM Ratings: Malaysian bond market charted positive foreign inflow in July but volatility amid external risks remains at forefront

Foreign investors returned onshore in July amid an increased appetite for emerging market (EM) assets, breaking their three-month outflow streak. With a net inflow of RM4.0 billion, total outstanding foreign holdings of Malaysian bonds stood at RM189.8 billion as at end-July 2018 (+2.2% m-o-m). Asian EM bonds have become an attractive buy once again amid sturdy growth, benign inflation and tighter rates in key markets like Indonesia. Thanks to continued resilience in economic momentum, the Malaysian bond market is currently showing signs of stabilisation. Demand for government bonds was solid in July amid supportive local and foreign take-ups, particularly for seven-year MGS which saw a strong bid-to-cover ratio of 3.302 times.

“There might have been some reprieve for the bond market in July but around RM34.9 billion of long-term government papers are set to mature during the August-November period and debt rollovers may be constrained if fiscal uncertainties continue to be a key concern for foreign investors,” noted RAM’s Head of Research, Kristina Fong. Additionally, EM asset interest is at risk of waning as trade war concerns and uncertainties over liquidity tightening which follow from that are expected to continue to drive volatility in global capital markets.

Geopolitical risks, which have remained a mainstay in global markets, are also fuelling volatility. The current Turkish Lira crisis may reverse the positive global EM story as risks of potential widespread financial contagion effects remain rife. Given that EM Asia is still a little more removed from the source of the risk, some volatility may be felt but not to the same extent as economies with closer direct trade and financial linkages to Turkey like EM Europe and EM Latin America.

As anticipated, issuance from the quasi-government segment was quiet during the month, in view of rising uncertainties over government-linked entities as the Government’s exercise in reviewing their roles is still ongoing. Issuance from this segment is expected to be moderate for the rest of the year. Meanwhile, private sector issuance continued to slow in July, with gross issuance amounting to RM5.9 billion.

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