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Media Release

Malaysian bonds benefit from sustained foreign demand in July

Regional bond markets have seen a recent resurgence of foreign interest as sentiments improve on the resumption of economic activities. Another driving factor is the ample global liquidity from quantitative easing.

Malaysian bonds have been popular, charting their third consecutive net foreign inflow in July (+RM7.1 bil). The consistent inflow had largely offset panic selling during the height of the pandemic, with the YTD-July net inflow currently standing at RM1.3 bil. Consequently, foreign holdings of MGS/GII rose to 23.5% of the total outstanding in July, close to the 23.9% in February – pre-COVID-19. In contrast, the participation rate in Thailand and Indonesia stayed on a downtrend despite also seeing a consistent return of foreign demand.

In line with robust foreign demand, yields trended down through July. This broad-based decline was also driven by BNM's fourth rate cut this year, for a total of 125 bps year to date. The benchmark interest rate stands at 1.75% – the lowest since the introduction of this policy tool in 2004. Concurrently, the benchmark 10-year MGS yield fell to a record low of 2.62% as at end-July (-32.2 bps m-o-m) while the shorter-term 1-year MGS hit a fresh low of 1.78% (-26.9 bps m-o-m).

Looking ahead, we expect domestic bond yields to stay suppressed amid the abundance of global liquidity and not discounting another round of OPR cuts by BNM. We think OPR could possibly end 2020 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

Date of release: 19 August 2020

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RAM Rating Services Berhad
(763588-T)

Level 8, Mercu 2
KL Eco City
No. 3, Jalan Bangsar
59200 Kuala Lumpur
Malaysia

T + 603 3385 2488
F + 603 3385 2582
E ramratings@ram.com.my
www.ram.com.my