



Media Release

Global liquidity tightening main risk for Malaysian bond market in 2H 2017

The latest issue of RAM Ratings' *Bond Market Monthly* notes that August is fast turning into another month of international market moves, following an eventful month of various developments in global monetary policies. A striking theme in July was an overall pause in the tightening of monetary policy by global central banks. Although the moves had already been priced in, expectations on the relative pace and timing of future monetary policy tightening will fan market volatility through the rest of 2017. Emerging debt markets will bear most of the downside brunt, with a general shift towards risk aversion by portfolio investors amid lingering uncertainties over the extent of the US Federal Reserve's actions this year following lower-than-expected inflation and a mixed growth performance. Domestically, the delay in 1MDB's payment to IPIC did not significantly affect the market when it was announced at the beginning of the month.

Despite some strengthening of the ringgit against the greenback in July, foreign holdings of Malaysian bonds experienced another month of net sell-offs. This was likely a response to the expected further liquidity tightening amid the Fed's proposed asset reduction. Foreign bond holdings summed up to RM191.5 billion as at end-July 2017, about 1.2% lower m-o-m. That said, the proportion of "sticky" foreign investors, i.e. central banks, governments, pension funds and insurance companies, improved to 55% in 2Q 2017, compared to 44% a year earlier; this can help curtail the extent of market volatility. Another supporting factor for foreign participation is the stabilisation of Malaysia's weight in the JP Morgan Government Bond Index-Emerging Markets (or GBI-EM) Global diversified index, with the inclusion of a new Government Investment Issue (or GII) in the basket.

While issuance of government securities was ample (RM10 billion) in July, corporate bond issuance waned. At RM2.8 billion, it was the second-lowest monthly gross issuance of corporate bonds YTD, albeit above January's nadir of RM1.8 billion. We believe that the cost of financing plays a part in the slower bond issuance, especially when the rush for issuance seems to have slowed down after the recent rate hike in June. That said, YTD gross issuance (RM57.6 billion) is still higher than the previous corresponding period's RM47.3 billion.

Meanwhile, domestic yields loosely tracked the uptrend in UST yields, although movements remained mixed across tenures. MGS yields rose for 3- to 6-month papers

as well as 5- to 10-year bonds, but stayed rather steadfast for other tenures. Higher-rated (AAA/AA₁) corporate yields for 5- and 10-year papers had also been lifted 2-5 bps as at end-July. In general, yield curves steepened m-o-m in July.

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