



Media Release

Dovish global central banks continue to push domestic bond yields lower

The prospect of a low global interest rate environment and consequent search for yields is expected to continue to place downward pressure on domestic bond yields. A number of central banks in the region have lowered their policy rates over the past few months, which have tilted investors' interest rate expectations downward. The most influential actor in shaping investor expectations would be the more dovish US Federal Reserve. As widely anticipated, the Fed had cut its policy rate band by 25 bps on 31 July 2019, albeit assuring investors that the cut does not mark the beginning of an easing cycle. Nevertheless, the market has so far priced in another rate cut in September amid global growth concerns.

This shift in the interest rate landscape had sparked a renewed hunt for yields among foreign investors. Increased demand for higher-yielding bonds had led to a net inflow of RM5.7 bil into the Malaysian bond market in July (June: RM6.6 bil). The stronger demand, in turn, led to a broad-based retreat in yields across the maturity spectrum and rating bands in July. We do not envisage this downward pressure to subside in August as investors remain on the lookout for more rate cuts by the Fed next month.

While the prospect of a global growth slowdown and the fear of a looming recession signalled by an inverted US treasury yield curve, has the potential to dampen investor appetite for emerging market assets, the impact on Malaysia so far has been largely confined to the domestic equity market. The FTSE Bursa Malaysia Composite Index has been on a downward trend since the start of July, while demand for fixed income instruments led to a bond price rally during the month.

"Prevailing uncertainties and growing concerns over global growth momentum pave a path for further loosening of global liquidity conditions going forward. The hunt for yield in EM assets will continue so long as an attractive yield differential is maintained, thus providing a counter to potential rationalisation of passive investor flows in the market," notes Kristina Fong, RAM's Head of Research.

Government bond issuance activity stayed robust in July, with total MGS and GII issuance at RM10.5 bil compared to the RM8.0 bil charted in June. Bid-to-cover

ratios at government auctions are also consistent with the robust demand seen in July, with all issues that were up for tendering achieving a ratio of above 2 times.

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