



Media Release

Global uncertainties reined in foreign bond investors' hunt for yields in August

Foreign holdings of Malaysian bonds remained largely unchanged in August, charting a marginal net outflow of RM88.7 mil after two consecutive months of strong net inflows (July: +RM5.7 bil; June: +RM6.6 bil). The muted foreign interest last month is largely attributable to the escalation in the US-China trade war, which had strangled foreign investors' appetite for higher-yielding securities from emerging markets.

Looking ahead, foreign interest in Malaysian bonds could remain soft, primarily due to the announced rebalancing of weights for a number of fixed-income benchmark indices. The inclusion of Chinese government debt in the JPMorgan Government Bond Index-Emerging Market (GBI-EM) will reduce Malaysia's weight in the index by 95 bps to 5.17%. This is estimated to result in around USD191.9 mil (approximately RM815.6 mil) of outflows each month between March and December 2020, given the expected gradual tapering off for the weight. "The outcome of FTSE Russell's review on Malaysia's eligibility for inclusion in the World Government Bond Index (WGBI) and the addition of China to the index are scheduled to be announced on 26 September. This represents another key event that may further dampen passive investor interest in the market," highlights Kristina Fong, RAM's head of research.

Despite relatively muted foreign interest, domestic bond yields nosedived in August following the US Federal Reserve's (the Fed) decision to cut its policy rate band by 25 bps on 31 July 2019 – its first since December 2008. The 10-year MGS yield had declined 27.1 bps as at end-August, its steepest m-o-m fall since January 2016. This pressure is not envisaged to subside in September, with markets continuing to price in another rate cut by the Fed at this month's Federal Open Market Committee meeting. Domestically, investors are still on the lookout for a potential rate cut at Bank Negara Malaysia's next monetary policy committee meeting in November.

We have revised upwards our projection of gross corporate bond issuance for 2019, to RM110 bil-RM120 bil (originally RM90 bil-RM100 bil). This takes into account of the healthier pipeline through the rest of the year and the extraordinarily large issue (RM27.6 bil) by Urusharta Jamaah Sdn Bhd in May. Urusharta Jamaah is an SPV set up by the Ministry of Finance to hold Lembaga Tabung Haji's underperforming assets.

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