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Media Release

Geopolitical risks dominated foreign investor bond flows in August

August was a busy month of developments on both the international and domestic fronts, with a couple of trends dominating investors' portfolio allocations. The global scene was still dominated by risk aversion and flight to safety to the US dollar and Treasury assets amid escalating trade war rhetoric. Additionally, the threatening contagion from troubled emerging markets of Turkey and Argentina along with no clear sign of any abatement in liquidity tightening by the Federal Reserve and the European Central Bank despite these downside risks, also contributed to less buying interest amongst foreign investors. As such, the ringgit weakened against the USD along with some outflow pressure on government bonds, as illustrated by the 1.1% net outflow in August for long- and short-term papers. Yield movements were relatively muted in spite of this, with the 10-year MGS yields falling marginally to an average of 4.05% for the month (July: 4.08%), underpinned by domestic support as bid-to-cover ratios mostly kept sturdy above 2.00%.

As such, corporate bond issuance continued to be healthy with RM6.1 billion of private sector debt issues in August. In comparison, the quasi-government sector saw more muted issuance activity of RM2.2 billion and this was mainly attributed to Danainfra Nasional Berhad, the funding vehicle for the ongoing MRT project. We maintain our expectation of relatively benign issuance by this segment on account of the Government's continued cost rationalisation. To date, overall corporate debt issuance remained higher y-o-y at RM69.9 billion compared to RM66.3 billion last year – despite more fragile market conditions due to persistent geopolitical and domestic policy uncertainties.

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