



Media Release

Another month of muted foreign fund flows in September

Foreign investors' interest in the Malaysian bond market stayed muted in September, with a net inflow of RM908.0 mil. Even so, it is still an improvement relative to the preceding month, which charted a slight net outflow of RM88.7 mil. On the whole, the domestic bond market managed to register a net overall foreign inflow of RM6.5 bil in 3Q 2019.

"Despite the improvement, it still could not compensate for the sizeable outflow of RM7.4 bil in 2Q 2019, which had been triggered by the placement of Malaysia on FTSE Russell's watchlist for potential exclusion from the World Government Bond Index (WGBI)," notes Kristina Fong, RAM's head of research.

While the results of FTSE Russell's most recent review on 26 September were ultimately favourable to Malaysia, the related uncertainties in the lead up to it and the potential inclusion of Chinese bonds in the WGBI have kept foreign investors on the side lines for the month. Nevertheless, the possibility of exclusion from the WGBI cannot be completely discounted because Malaysia remains on the watchlist for a potential downgrade, although the risk is lower now given Bank Negara Malaysia's initiatives and various engagements to address investors' concerns. Moreover, China is also still on the watchlist for potential inclusion in the WGBI.

In September, Malaysian corporate bond issuance accelerated to RM14.9 bil (August: RM4.6 bil), driven by robust issuance from the quasi-government and private sectors. This brought overall corporate issuance to RM27.7 bil in 3Q 2019. This strong pace of corporate issuance has been a mainstay through most of 2019, likely due to attractive funding costs as YTM's have been trending downwards since the beginning of the year.

Despite the relatively muted government bond issuance in September (RM5.5 bil), full-year MGS/GII issuance remains on track towards meeting our projection of RM110 bil-RM120 bil for 2019. Going forward, we expect MGS/GII issuance to come up to RM115 bil-RM125 bil in 2020, taking into account the Government's deficit financing requirements pursuant to the recently tabled Budget 2020 and the refinancing of maturing debts next year.

Analytical contact

Woon Khai Jhek, CFA
(603) 3385 2512
khaijhek@ram.com.my

Media contact

Padthma Subbiah
(603) 3385 2577
padthma@ram.com.my

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