



Media Release

Foreign bond investors turned net buyers in September

The latest data in RAM's *Bond Market Monthly* indicates that foreign investors' confidence seemed to have returned in September, amid the current landscape of modest volatility and low yields. Foreign holdings of Malaysian bonds hit RM200.1 billion at month-end (+4.9% m-o-m) – the highest level in 7 months.

Supported by the strengthening of the ringgit against the USD (+1.8% of the monthly average between August and September) and robust economic fundamentals, September posted RM9.3 billion of net foreign inflows. MGS and GII accounted for the lion's share (RM7.9 billion) of this net inflow. The rapid flight to safety in August appears to have cooled as the perceived risks vis-a-vis geopolitical tensions subsided in September. UST yields trended upwards, especially towards the end of the month, fuelled by renewed expectations of the US Federal Reserve's (the Fed) tightening, coupled with the unveiling of President Trump's tax reform plans.

Amid renewed expectations of another Fed rate hike, corporate bond issuance climbed up to RM18.1 billion in September as issuers took the opportunity to lock in better rates ahead of the rate tightening. At its meeting in September, the Fed was still determined to tighten its monetary policy as planned, maintaining its guidance of 3 rate hikes this year. YTD issuance, which summed up to RM84.4 billion as at end-September, had already reached almost 90% of the lower end of our projected RM95 billion-RM105 billion for 2017. On the government side, YTD long-term government issuance came up to RM85.5 billion as at end-September, in line with our full-year projection of RM100 billion-RM110 billion.

The Fed also announced the commencement of its balance-sheet trimming in October, by gradually reducing the reinvestment of principal payments from matured securities. Moving forward, we may see some strengthening of the greenback, although this may be moderated by uncertainties over the continuity of the North American Free Trade Agreement (NAFTA) and the passing of President Trump's business-friendly tax reform bill. Meanwhile, after years of low interest rates and massive bond purchases, the European Central Bank (ECB) will kick off talks on starting its QE tapering in late October; this will be closely watched. While the deceleration of the bond-buying programme is expected to be gradual, the ECB is only likely to raise interest rates after 2018. Any delay by these 2 central banks in normalising monetary policy (already priced in by the market) is likely to heighten global market volatility.

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