



Media Release

Limited foreign interest in Malaysian bond market in October

Foreign interest in the Malaysian fixed-income market was somewhat subdued in October, with a marginal net outflow of RM541.3 mil (September: net inflow of RM908.0 mil). "This was mainly driven by a perceived change in investors' preference to higher risk-return assets, such as equities, amid renewed optimism on US-China trade talks in October. This was highlighted by the strong rally by the S&P 500 and the FBM KLCI in the same month," observes Kristina Fong, RAM's head of research.

The upward shift in US interest rate expectations had also pushed US Treasury (UST) yields to a more attractive level, which may have prompted yield-seeking investors to switch away from Malaysian bonds. The market had been gradually pricing in less easing by the US Federal Reserve (Fed), as indicated by the persistent uptrend in long-term yields in the last two months. These expectations were reaffirmed during the Fed's most recent monetary policy meeting on 30 October. Despite implementing its third rate cut this year, the Fed had exhibited a less dovish stance while also signalling a pause in rate movements. Given the Fed's overall tone, the benchmark 10-year UST yield continued trending upwards, extending October's pattern of declining yield differentials between the 10-year MGS and UST.

On the home front, government bond issuance was relatively robust in October. MGS and GII issuance summed up to RM9.0 bil compared to RM5.5 bil the preceding month. This brought the issuance level to RM102.0 bil in 10M 2019 - on track towards meeting our forecast of RM110 bil-RM120 bil for the year. Going forward, we anticipate MGS/GII issuance to increase to RM115 bil-RM125 bil in 2020, taking into account the Government's deficit financing requirements under Budget 2020 and the refinancing of maturing debts next year.

In October, corporate bond issuance remained relatively healthy, amounting to RM5.9 bil (September: RM14.9 bil). In view of the healthy pace of issuance to date, corporate issuance stood at RM112.1 bil as at end-October, topping the lower end of our forecast of RM110 bil-RM120 bil for 2019.

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