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Media Release

RAM Ratings: YTD corporate debt issuance met full-year forecast for 2018

As of end-October 2018, YTD corporate debt issuance (RM90.8 billion) had surpassed the lower end of RAM Ratings' projected RM90 billion-RM100 billion for 2018, and appears set to stay within our estimate. In 2019, corporate bond issuance is projected to ease to RM70 billion-RM80 billion, primarily on account of the fewer infrastructure-related bond issues that are expected; these accounted for 17% of total issuance in 10M 2018. The other contributing factor is the slower pace of quasi-government issuance amid the Government's project-rationalisation initiatives.

The tabling of Budget 2019 on 2 November has provided more near-term clarity on the Government's fiscal-management strategies for this year and the next, with an estimated fiscal deficit-to-GDP ratio of 3.7% for 2018 and 3.4% for 2019. Given the larger fiscal deficit this year, we expect the Government to ramp up the issuance of MGS/GII by around RM10 billion, on top of our original estimate of RM100 billion-RM110 billion. For 2019, we project MGS/GII gross issuance to remain stable at RM110 billion-RM120 billion.

Notably, October charted a surprisingly large net foreign bond inflow of RM7.8 billion (+4.2% m-o-m) - the largest since September 2017, following two consecutive months of outflows. This can be largely attributed to a one-off technical adjustment in foreign investors' portfolios, in reaction to the change in the composition of Malaysian bonds in JPMorgan's GBI-EM Index because of adjustments to the maturity rule. Following the rebalancing at end-October, there was a surge in demand for MGS, which was evident in the intraday dip of 7.9 bps in the 10-year MGS yield on 31 October - a sharp break away from the uptrend throughout the rest of the month.

That said, yields across the maturity spectrum (including the 10-year MGS) still rose m-o-m, which indicates that investors are still not too bullish on Malaysia. The higher yields may be partly attributable to the downside risks stemming from volatile oil prices and the lingering weakness of the ringgit, along with the market's concerns over a larger-than-budgeted fiscal deficit this year, as announced via Budget 2019 on 2 November, and the uncertainty this brings to Malaysia's sovereign ratings.

Analytical contact
Woon Khai Jhek, CFA

RAM Rating Services Berhad
(763588-T)
Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
T +603 7628 1000
+603 2299 1000
F +603 7620 8251
E ramratings@ram.com.my
W www.ram.com.my

(603) 7628 1093
kristina@ram.com.my

Media contact
Padthma Subbiah
(603) 7628 1162
padthma@ram.com.my

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