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Media Release

RAM Ratings: Foreign bond flows reversed in November, leading to RM5.2 billion m-o-m decline

After a technical surge in foreign bond inflows amounting to RM7.8 billion in October following a readjustment of the bond composition of the JPM GBI-EM Index, portfolio flows reversed to the tune of RM5.2 billion in November. This is not entirely surprising given the myriad developments during the month, which had prompted foreign investors to park their funds elsewhere. "If not for some portfolio rebalancing by index-based investors, the scales would be tipped towards even greater outflow pressure going forward. Lingering global uncertainties over the US-China trade spat and Brexit outcome still take centre stage, fuelling global risk aversion," notes RAM's head of research, Kristina Fong.

The tabling of Budget 2019 in early November pointed to a wider-than-expected targeted fiscal deficit of 3.7% of GDP this year and 3.4% the next, raising concerns about how the "Big 3" rating agencies will react to this development. That said, there may be some respite from fiscal concerns in December as Moody's had reaffirmed Malaysia's A3 sovereign rating and maintained its stable outlook earlier in the month. Other than the tabling of Budget 2019, foreign holdings also declined throughout November due to positioning in the lead-up to the Fed's continued tightening in December, the ringgit's weakness relative to its regional peers, and Malaysia's more subdued GDP growth of 4.4% in 3Q 2018.

As reported last month, gross corporate bond issuance had then already surpassed the lower limit of our RM90 billion-RM100 billion forecast for 2018. As at end-November, this number had almost reached the upper limit of our projection, following an additional RM8.8 billion of corporate issuance that brought YTD issuance to RM99.5 billion. Total gross corporate issuance for the year will more than likely surpass RM100 billion and our forecast. That said, one of the clear trends in this post-GE14 era is that quasi-government debt papers will no longer be able to prop up corporate bond issuance in 2019; the market is already experiencing a slowdown in such issuance. Compared to the YTD gross issuance in 2017, the current lower issuance value is attributable to more subdued quasi-government issuance this year.

We also observe a clear moderation in the issuance of infrastructure-related debt securities. We expect this trend to continue as the Government maintains its stance on rationalising the country's debts through more stringent management of project

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costs and timelines. As such, we envisage gross corporate issuance to moderate to RM70 billion-RM80 billion in 2019.

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