



Media Release

2016 a year of yo-yo bond flows

All things considered, 2016 has been a volatile year for Malaysia's fixed-income market as investors chose between yield search and risk aversion. Heavily influenced by market sentiment on the direction of US interest rates, the unexpected results of the BREXIT referendum and active yield-hunting by investors, MGS yields in particular experienced 4 major double-digit bps jolts in the first 11 months of the year. In line with this, foreign holdings of Malaysian bonds see-sawed throughout the year, with the most recent major contraction in November, as highlighted in the latest issue of RAM Ratings' *Bond Market Monthly*.

Following President-elect Trump's unexpected victory that has heightened uncertainties, the Malaysian bond market saw the largest net monthly outflow to date of RM19.9 billion in November. The value of foreign holdings stood at RM221.0 billion as at end-November, i.e. an 8.3% m-o-m drop. Foreign holdings of MGS and GII, which made up 88.7% of total foreign holdings at month-end, posted a combined outflow of RM18.8 billion in November. Bank Negara Malaysia's (BNM) recent action of curbing offshore trading of the ringgit may have also magnified the amount of capital outflow during the month. The sudden clamp-down on offshore hedging activities had amplified uncertainties for foreign investors as such action inevitably drew comparisons to the capital controls during the Asian financial crisis in the late 1990s.

Since BNM's announcement, there has been talk of increasing the liquidity of the onshore foreign-exchange forward market. However, whether the liquidity created will be sufficient to cater to the needs of foreign investors that have become accustomed to the unregulated offshore non-deliverable forward (NDF) market is yet to be seen. We therefore believe that any sort of normalisation to this policy change will be more of a matter of time. These measures, partly to stymie significant ringgit volatility, have been successful to some extent. Nonetheless, until the onshore forex forward market becomes more established, we would expect less participation by foreign investors in the bond market for at least another quarter.

Moreover, the Fed's recent lifting of the federal funds rate (FFR) and subsequent signal of several more to follow in 2017 may see foreign investors pricing in this rate normalisation in the coming year; this could also exacerbate the decline in foreign participation. However, the timing of these planned FFR hikes remains to be seen.

Other uncertainties such as President-elect Trump's much-anticipated policy direction and OPEC's commitment on oil output could further influence the direction of global fund flows. That said, we still expect some capital-market volatility despite the reduced level of participation, on account of lingering external uncertainties.

Meanwhile, gross issuance of government securities summed up to RM92.0 billion in 11M 2016. With only another month left to the year, we expect full-year issuance to come in within our projection of RM90 billion-RM100 billion. Moving forward, we project gross issuance of government securities to clock in at RM100 billion-RM110 billion in 2017, taking into account the Government's financing needs next year.

On the corporate side, gross issuance summed up to RM81.4 billion in 11M 2016, i.e. already converging with our projection of RM75 billion-RM85 billion for the year. We note that this year's robust issuance has been supported by both private and quasi-government entities, with respective y-o-y increases of 9.1% and 83.3%. In particular, the significant jump in quasi-government issuance was attributed to both new issuers coming into the market (from 7 to 11 entities), as well as existing institutions, especially utilities and transport-related entities issuing larger amounts throughout the year. Looking ahead, we expect full-year gross corporate issuance to reach RM75 billion-RM85 billion based on issuance in the pipeline, taking into account the prevailing volatility and uncertainties.

The *RAM Bond Market Monthly* is a snapshot of bond-market activities in Malaysia. Please click [here](#) for the full report.

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