



## Media Release

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### **Hawkish MPC messaging and robust GDP numbers attract foreign funds**

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As highlighted in the latest issue of RAM Ratings' *Bond Market Monthly*, foreign bond holdings increased in November in conjunction with the strengthening ringgit and Bank Negara Malaysia (BNM)'s more hawkish stance on the overnight policy rate after better-than-expected 3Q 2017 GDP results. More robust foreign investor demand was seen particularly for short-dated government securities, which subsequently saw yields dive an average of 42 bps for 3-month, 6-month and 1-year papers.

November's performance is reflective of a reversal in trends in foreign fund flow this year, which has been largely characterised by fund outflows (after the Trump presidential win and BNM's revision of offshore hedging rules), as well as episodic volatility caused mostly by geopolitical uncertainties such as US-North Korea tensions. Some of these risk factors contributing to outflows have since receded after BNM provided some leeway in the hedging of foreign currency and interest rate exposures onshore. However, the bond market is still anticipated to experience outflow pressures next year, stemming from external global developments such as the finalisation of President Trump's tax bill overhaul and expectations on the relative pace and timing of future monetary policy tightening by the US Fed.

Meanwhile, gross issuance of MGS and GII in 11M 2017 reached RM102.5 billion. As at time of publication, YTD issuance had already surpassed the high end of our projection range (RM100 billion-RM110 billion) at RM113.9 billion. On the corporate side, gross issuance summed up to RM111.2 billion as at end-November. Akin to the issuance of government securities, YTD corporate bond issuance has currently also exceeded our expectation (RM105 billion-RM115 billion) at RM118.5 billion. We note that this year's robust issuance has been supported by both quasi-government entities and the private sector, with respective y-o-y increases of 34.3% and 27.0%, as fundraising was brought forward to 2017 to lock in better rates in anticipation of higher interest rates in 2018. "Taking this into account as well as the projected issuance pipeline, we expect gross corporate issuance to moderate to around RM90 billion-RM100 billion in 2018," notes Kristina Fong, RAM's Head of Research.

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