

MALAYSIAN RATING CORPORATION BERHAD
(1040011)

MAY 2019

Monthly Bond Market & Rating Snapshot

FINANCIAL VARIABLE	APR-19	MAY-19	M-O-M CHANGE
OVERNIGHT POLICY RATE (%)	3.25	3.00	-25 bps
3-YEAR BENCHMARK MGS (%)	3.41	3.40	-1 bp
10-YEAR BENCHMARK MGS (%)	3.79	3.78	-1 bp
3-YEAR IRS (%)	3.56	3.45	-11 bps
10-YEAR IRS (%)	3.90	3.75	-15 bps
RINGGIT 3-YEAR AAA (%)	4.05	3.94	-11 bps
RINGGIT 3-YEAR AA (%)	4.34	4.24	-10 bps
RINGGIT 3-YEAR A (%)	5.65	5.49	-16 bps
2-YEAR US TREASURY (%)	2.27	1.92	-35 bps
10-YEAR US TREASURY (%)	2.50	2.12	-38 bps
MYR/USD	4.13	4.19	-1.3%
US DOLLAR INDEX	97.5	97.8	0.3%
BRENT CRUDE (USD/BARREL)	72.8	64.5	-11.4%
GOLD SPOT (USD/OUNCE)	1,283.55	1,305.45	1.7%
KLCI Index	1,642.29	1,650.76	0.5%
S&P 500 Index	2,945.83	2,752.06	-6.6%

Sources: Bloomberg, MARC Fixed Income Research



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Global Markets

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The US increased tariffs on Chinese goods after it accused China of backtracking on trade commitments. China retaliated by also hiking tariffs on US imports, which took effect on June 1, 2019. In Europe, economic sentiment rebounded despite a gloomy bond market. In China, foreign exchange reserves dropped marginally on the back of a weaker yuan. The trade conflict has also resulted in a contraction in the manufacturing sector.

Malaysian Government Bond Market

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Primary market for local govvnies was supportive in May with demand mostly concentrated on Government Investment Issue (GII) papers. Meanwhile, Malaysian Government Securities (MGS) recorded gains in the secondary market following Bank Negara Malaysia's (BNM) move to cut the OPR and announcement of measures to deepen the local bond market. However, gains were limited by the weakening global and local economic growth prospects.

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In May, foreign holdings of local bonds stood at its lowest since December 2011. The outflows were mainly driven by the depreciating ringgit, falling crude oil prices and weaker 1Q 2019 GDP performance.

Global Markets

A quick review

The US-China trade war escalated

In May, the US escalated the US-China trade war by hiking tariffs on US\$200 billion worth of Chinese imports from 10% to 25% after the US accused China of backtracking on trade commitments made during recent negotiations. China retaliated by also increasing tariffs on roughly US\$60 billion of US goods, which took effect on June 1, 2019. The trade tensions caused US Treasury (UST) yields for mid- to long-term bonds to decline to a range of 1.91% to 2.57%. Meanwhile, a portion of the curve inverted in the last week of May and the spread for the 10y vs. 3m UST yields stood at -22 bps on May 31, 2019.

Economic sentiment improved but bond yields fell to the negative territory

In Europe, the 10y bund yield averaged at -0.08% compared to 0.01% in the prior month as bond yields continued to fall. The bond yield ended the month at a year-to-date low of -0.20%. Economic sentiment, however, rebounded from ten consecutive months of decline, mainly due to optimism in the services sector. Economic sentiment came in at 105.1 in May from 103.9 in April while services sentiment climbed to 12.2 from 11.8 in the preceding month. Meanwhile, in the UK, Prime Minister Theresa May stepped down on June 7, 2019 as she acknowledged her failure to deliver Brexit. On the back of growing political uncertainty, the pound sterling fell by 4.1% from 1.3173 against the greenback in early May to 1.2629 at end-May.

Chinese yuan weakened on stronger USD while manufacturing sector hit by trade war

In China, the yuan weakened slightly to an average of 6.86 against the US dollar (USD) from an average of 6.72 in April. The stronger USD resulted in a 0.12% m-o-m fall in foreign exchange reserves by US\$3.81 billion to US\$3.095 trillion. The trade conflict caused manufacturing activity to contract for the first time in four months. The official manufacturing purchasing managers' index (PMI) slowed to 49.4 in May on a decline in new orders, overseas sales and employment. In contrast, non-manufacturing PMI was unchanged from the previous month at 54.3.

Exhibit 1: Summary of US rates

US rates (%)	Apr-19	May-19	M-o-m change
Federal Funds Rate (Upper Bound)	2.50	2.50	0 bp
2-year UST	2.27	1.92	-35 bps
5-year UST	2.28	1.91	-37 bps
10-year UST	2.50	2.12	-38 bps
30-year UST	2.93	2.57	-36 bps

Sources: Bloomberg, MARC Research

Exhibit 3: Summary of UK rates

UK rates (%)	Apr-19	May-19	M-o-m change
Bank of England Official Bank Rate	0.75	0.75	0 bp
2-year Gilt	0.76	0.60	-16 bps
5-year Gilt	0.91	0.64	-27 bps
10-year Gilt	1.19	0.89	-30 bps
30-year Gilt	1.69	1.47	-22 bps

Sources: Bloomberg, MARC Research

Exhibit 2: Summary of euro rates

Euro rates (%)	Apr-19	May-19	M-o-m change
European Central Bank Deposit Facility Rate	-0.40	-0.40	0 bp
2-year Bund	-0.58	-0.66	-8 bps
5-year Bund	-0.41	-0.58	-17 bps
10-year Bund	0.01	-0.20	-21 bps
30-year Bund	0.66	0.43	-23 bps

Sources: Bloomberg, MARC Research

Exhibit 4: Summary of Japan rates

Japan rates (%)	Apr-19	May-19	M-o-m change
Bank of Japan Short-term Interest Rate	-0.10	-0.10	0 bp
2-year JGB	-0.15	-0.17	-2 bps
5-year JGB	-0.16	-0.19	-3 bps
10-year JGB	-0.04	-0.09	-5 bps
30-year JGB	0.57	0.46	-11 bps

Sources: Bloomberg, MARC Research

Malaysian Government Bond Market

Primary market review

Growth of outstanding MGS/GII papers were mainly attributed to the sharp rise in gross issuance of GII papers

Total outstanding MGS and GII in May climbed to RM754.4 billion, higher by RM12.0 billion compared to the previous month. The surge was mainly due to higher gross issuance of GII papers worth RM8.0 billion (April 2019: RM3.5 billion) which comprised 66.7% of total gross issuance in May. Meanwhile, gross issuance of MGS papers declined in May by RM3.0 billion to RM4.0 billion (April 2019: RM7.0 billion). YTD, gross issuance for both MGS/GII papers grew by 4.1% y-o-y to RM59.0 billion (2018 YTD: RM56.7 billion). The GII-to-MGS ratio came in at 54:46 (2018 YTD: 49:51) during the period.

Primary market for MGS/GII papers was supportive in May with GII papers recording significantly high BTC ratios

In May, the government received total bids of RM22.4 billion (April 2019: RM19.6 billion). Primary market for MGS/GII papers was supportive during the period amid: 1) steady April CPI growth; 2) BNM's assurance that Malaysia would support free and fair trade in response to the US Treasury's placement of Malaysia in its currency manipulator watchlist; and 3) continued decline in interest rate swap (IRS) levels. All tendered issues were oversubscribed with heavy bidding interest slanted towards the GII papers, with both the 30.5y and 15.5y GII registering bid-to-cover (BTC) ratios of 3.3x and 3.4x. However, the 10y MGS only recorded a BTC ratio of 1.8x.

Exhibit 5: Summary of Malaysian government bonds (RM billion)

	Gross issuance			Redemption			Net issuance			Total outstanding		
	MGS	GII	Total	MGS	GII	Total	MGS	GII	Total	MGS	GII	Total
Apr-19	7.0	3.5	10.5	-	10.0	10.0	7.0	-6.5	0.5	396.2	346.2	742.4
May-19	4.0	8.0	12.0	-	-	-	4.0	8.0	12.0	400.2	354.2	754.4
2019 YTD	27.0	32.0	59.0	7.2	10.5	17.7	19.8	21.5	41.3			

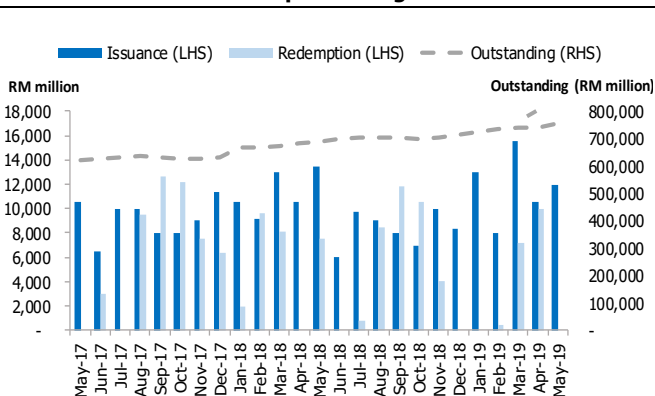
Sources: BNM Bond Info Hub, MARC Research

Exhibit 6: MGS auction results in May 2019

Issues	Tenure (years)	Issue date	Amount (RM mil)	BTC (x)	Average yield (%)
30.5-yr New Issue of MGII (Mat on 11/49)	30.5	15-May-19	2,000	3.30	4.638
10-yr Reopening of MGS (Mat on 08/29)	10	24-May-19	4,000	1.84	3.836
15.5-yr New Issue of MGII (Mat on 11/34)	15.5	31-May-19	2,500	3.38	4.119

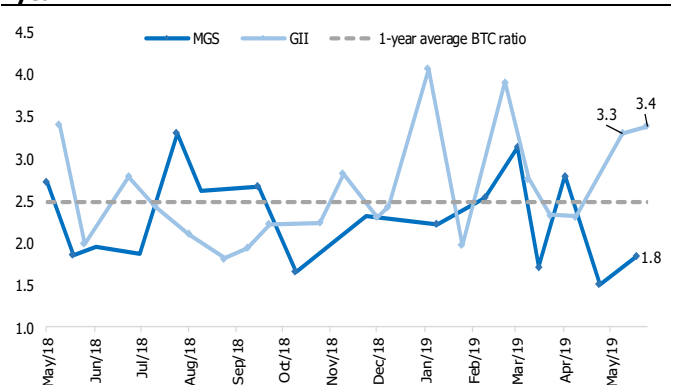
Sources: BNM Fast, MARC Research

Exhibit 7: Total outstanding MGS/GII papers was higher in December amid no redemption being recorded



Sources: BNM Bond Info Hub, MARC Research

Exhibit 8: BTC ratios of MGS and GII papers for the past one year



Sources: BNM Fast, MARC Research

Secondary market review

BNM's move to cut the OPR and announcement of new financial market measures supported the MGS market

Upside on MGS was limited amid weaker global and local economic growth prospects

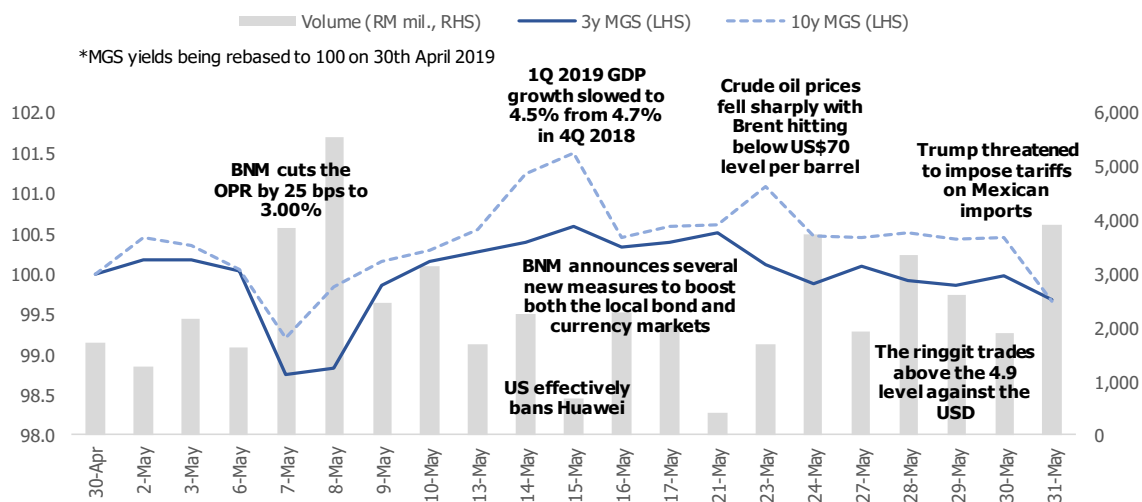
The benchmark MGS yield curve bull flattened in May on a quieter trading month

MGS recorded gains in May as BNM cut the OPR by 25 bps to 3.00% in line with the dovish stance adopted by global central banks. MGS was also supported by BNM's announcement of measures to boost both the bond and foreign exchange markets. Measures announced to deepen the bond market include enhancing the bond repurchase market and developing a hedging platform for investors. The announcement came as the inclusion of ringgit bonds in the FTSE Russell index comes under threat. BNM also stated that Norway's sovereign wealth fund plan to cut its emerging market bond holdings will not have a significant impact on Malaysia's bond market.

Meanwhile, the upside on MGS was limited by: 1) a large drop in crude oil prices as US inventories grew; 2) rising concerns of a prolonged US-China trade war following the US ban on Huawei; 3) a slowdown in the 1Q 2019 GDP due to weaker trade and investment; 4) the weakening ringgit; 5) Trump's threat to impose new tariffs on Mexican imports; and 6) foreign outflows to safe-haven assets in developed markets amid heightened risk of a recession in the global economy.

By end-May, the MGS benchmark yield curve bull flattened. Yields along the short end to the belly of the curve were down by one bp to 10 bps while yields further up the curve were down by five bps. The 20y/3y MGS spread had narrowed by four bps to 89 bps (April 2019: 93 bps). Meanwhile, the 10y/3y MGS spread remain unchanged at 38 bps with the 10y MGS last traded at 3.78% (April 2019: 3.79%). Trade volume continued to fall for the second straight month in May, coming in at RM48.5 billion (April 2019: RM49.8 billion).

Exhibit 9: Daily performance of three- and 10-year MGS yields throughout May 2019



Sources: Bloomberg, BPAM, MARC Fixed Research

Exhibit 10: MGS benchmark yields

MGS yields (%)	Apr-19	May-19	M-o-m change
3-year MGS	3.41	3.40	-1 bp
5-year MGS	3.59	3.53	-6 bps
7-year MGS	3.77	3.67	-10 bps
10-year MGS	3.79	3.78	-1 bp
20-year MGS	4.12	4.07	-5 bps

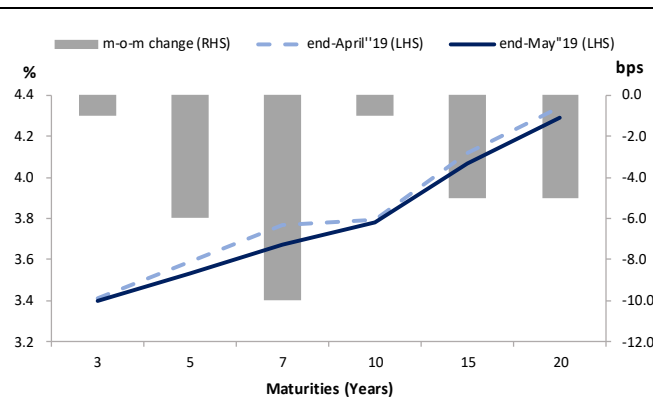
Sources: Bloomberg, MARC Fixed Research

Exhibit 11: OPR and IRS rates

Rates (%)	Apr-19	May-19	M-o-m change
Overnight Policy Rate	3.25	3.00	-25 bps
1-year IRS	3.55	3.43	-12 bps
3-year IRS	3.56	3.45	-11 bps
5-year IRS	3.61	3.50	-11 bps
10-year IRS	3.90	3.75	-15 bps

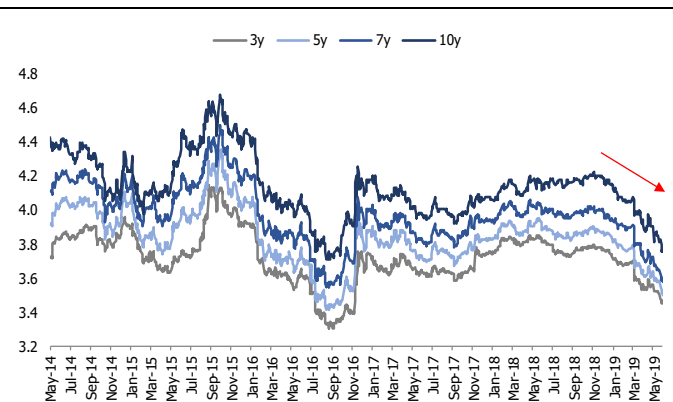
Sources: Bloomberg, MARC Fixed Research

Exhibit 12: MGS yield curves



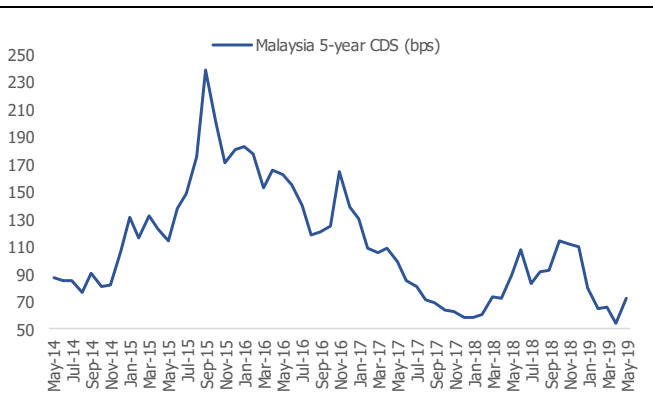
Sources: Bloomberg, MARC Research

Exhibit 13: MYR IRS curves



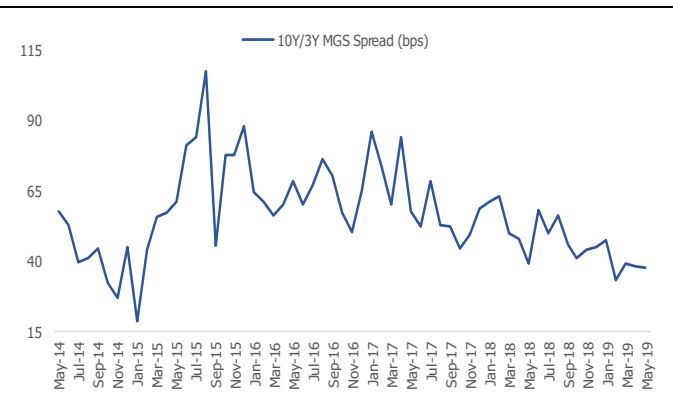
Sources: Bloomberg, MARC Research

Exhibit 14: Malaysia's 5Y Credit Default Swap (CDS) curve



Sources: Bloomberg, MARC Research

Exhibit 15: 10Y/3Y MGS spread



Sources: Bloomberg, MARC Research

Exhibit 16: Top five local govies trades for May 2019

Security	Traded amount (RM mil)	Issue tenure (Years)	Last traded yield (%)
MGS 1/2019 3.906% 15.07.2026	4,530	7	3.67%
MGS 6/2012 3.492% 31.03.2020	3,995	8	3.20%
MGS 2/2018 3.757% 20.04.2023	3,117	5	3.53%
MGS 2/2019 3.885% 15.08.2029	3,029	10	3.78%
MGS 2/2009 4.378% 29.11.2019	2,825	10	3.16%

Sources: BPAM, MARC Research

Exhibit 17: Summary of MGS trading volume (RM million) based on maturity profile

	< 3M	3M-6M	6M-1Y	1Y-2Y	2Y-3Y	3Y-5Y	5Y-7Y	7Y-10Y	> 10Y
Apr-19	16,732	19,705	53,885	47,123	38,837	90,718	56,309	84,061	80,598
May-19	17,458	21,831	56,751	45,701	43,933	86,871	58,681	87,482	88,198
M-o-m change	725	2,126	2,866	-1,422	5,096	-3,848	2,373	3,422	7,600

Sources: BPAM, MARC Research

Malaysian Corporate Bond Primary Market

Corporate bond issuance activity in May and 2019 YTD was dominated by MoF's SPV Urusharta Jamaah's RM27.6 billion sukuk

Total gross issuance of corporate bonds surged by RM21.1 billion to RM32.2 billion (April 2019: RM11.1 billion) in May after experiencing a decline of RM0.2 billion in April. Issuance activity was led by the unrated corporate bonds segment which registered an increase of RM27.8 billion to RM28.9 billion (April 2019: RM1.1 billion). The segment was led by the Ministry of Finance's special purpose vehicle Urusharta Jamaah Sdn Bhd's (Urusharta) dual-tranche zero-coupon sukuk worth RM27.6 billion for the purpose of financing the acquisition of Lembaga Tabung Haji's underperforming assets.

Issuance activity in quasi-government, rated corporate and Cagamas bonds segments was relatively minute

Meanwhile, issuance activity in other segments was relatively minute with rated corporate bonds coming at RM3.3 billion (April 2019: RM3.0 billion) while there were no issues from both the quasi-government (April 2019: RM7.1 billion) and Cagamas (April 2019: -) bonds segments.

YTD issuance value of corporate bonds rose by RM20.8 billion to RM69.8 billion (2018 YTD: RM48.9 billion). Issuance activity was tilted towards the unrated corporate bonds segment while issuance activity in other segments was also minute. The top three issuers YTD were Urusharta (RM27.6 billion), DanaInfra Nasional Bhd (RM6.8 billion) and Malayan Banking Bhd (Maybank, RM3.7 billion).

Exhibit 18: Summary of corporate bond issuance in May 2019 (RM billion)

Year	Unrated corporate	Quasi-government	Total unrated	Rated corporate	Cagamas	Total rated	Total corporate bonds
Apr-19	1.1	7.1	8.2	3.0	-	3.0	11.1
May-19	28.9	-	28.9	3.3	-	3.3	32.2
M-o-m change	27.8	-7.1	20.8	0.3	-	0.3	21.1

Sources: BPAM, MARC Research

Exhibit 19: Historical trend of bond issuance by category (RM billion)

Year	Unrated corporate	Quasi Government	Total unrated	Rated corporate	Cagamas	Total rated	Total corporate bonds
2013	12.3	13.6	25.9	52.4	7.9	60.3	86.2
2014	8.0	21.9	29.9	52.7	3.3	55.9	85.9
2015	14.0	15.6	29.6	51.5	3.8	55.3	85.0
2016	13.2	28.1	41.3	39.3	4.1	43.4	84.8
2017	20.7	37.6	58.3	55.8	8.7	64.6	122.9
2018	13.9	28.7	42.6	52.4	9.0	61.3	103.9
2019 YTD	35.1	16.2	51.3	18.2	0.2	18.5	69.8

Sources: BPAM, MARC Research

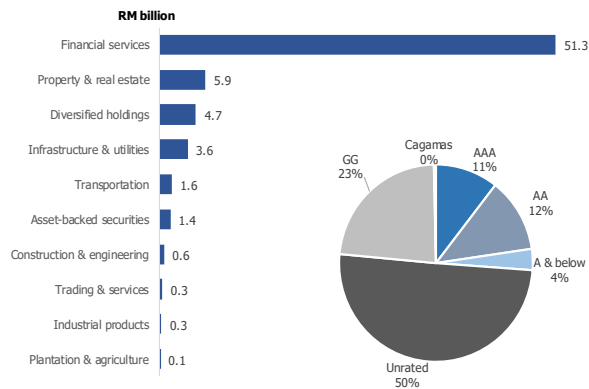
Note: Numbers may not necessarily add up to total due to rounding.

Exhibit 20: Top corporate bond issuers in May 2019 (issue size RM1.0 billion and above)

Issuer	Industry	Category	Principle	No. of issues	Amount (RM bil)	Tenure (years)	Coupon (%)
*Urusharta Jamaah Sdn Bhd	Financial services	Unrated	Islamic	2	27.6	7 - 10	-
Danum Capital Bhd	Diversified holdings	AAA rated	Islamic	1	2.0	4	3.96

Sources: BPAM, MARC Research

*Issued zero-coupon sukuk with yield-to-maturities of between 4.05%–4.10%

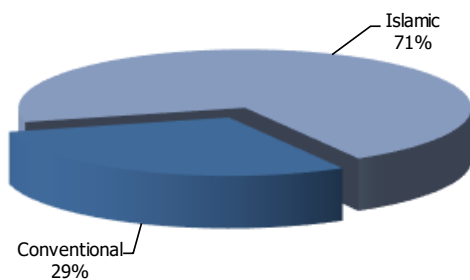
Exhibit 21: Corporate bond issuance composition by sector and ratings in May 2019


Sources: BPAM, MARC Research

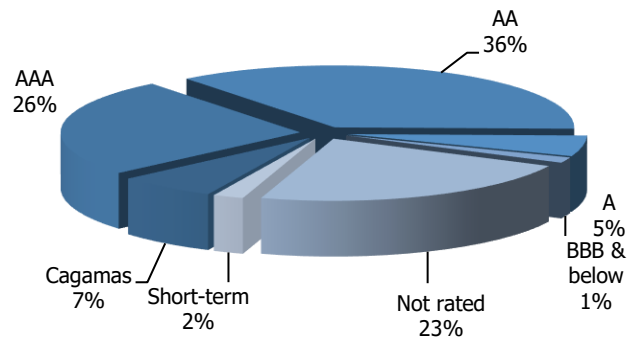
Exhibit 22: Outstanding size of Cagamas and corporate bonds as of May 2019 (RM billion)

Asset class	Conventional	Islamic	Total
Cagamas	19.5	14.1	33.7
Corporate Bonds	137.7	330.9	468.7
Corporate	56.2	249.2	305.4
Corporate guaranteed	21.1	49.0	70.1
Financial	53.8	28.7	82.5
ABS	6.6	4.0	10.7

Sources: BPAM, MARC Research

Exhibit 23: Corporate bonds outstanding: Conventional & Islamic


Sources: BPAM, MARC Research

Exhibit 24: Corporate bonds outstanding: Distribution by rating band


Sources: BPAM, MARC Research

Exhibit 25: AAA corporate benchmark yields

AAA (%)	Apr-19	May-19	M-o-m change
3-year	4.05	3.94	-11 bps
5-year	4.19	4.07	-12 bps
7-year	4.33	4.18	-15 bps
10-year	4.50	4.32	-18 bps

Sources: Bloomberg, MARC Research

Exhibit 26: AA/AA2 corporate benchmark yields

AA/AA2 (%)	Apr-19	May-19	M-o-m change
3-year	4.35	4.25	-10 bps
5-year	4.50	4.40	-10 bps
7-year	4.66	4.52	-14 bps
10-year	4.83	4.69	-14 bps

Sources: Bloomberg, MARC Research

Exhibit 27: A/A2 corporate benchmark yields

A/A2 (%)	Apr-19	May-19	M-o-m change
3-year	5.67	5.48	-19 bps
5-year	6.09	5.99	-10 bps
7-year	6.57	6.47	-10 bps
10-year	7.18	7.07	-11 bps

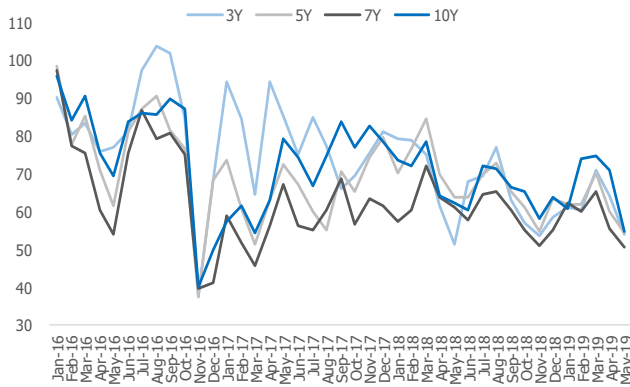
Sources: Bloomberg, MARC Research

Exhibit 28: AAA, AA/A2, A/A2 blended credit spreads

AAA, AA/A2 & A/A2 (%)	Apr-19	May-19	M-o-m change
3-year	146	134	-12 bps
5-year	155	151	-4 bps
7-year	165	164	-1 bp
10-year	200	188	-12 bps

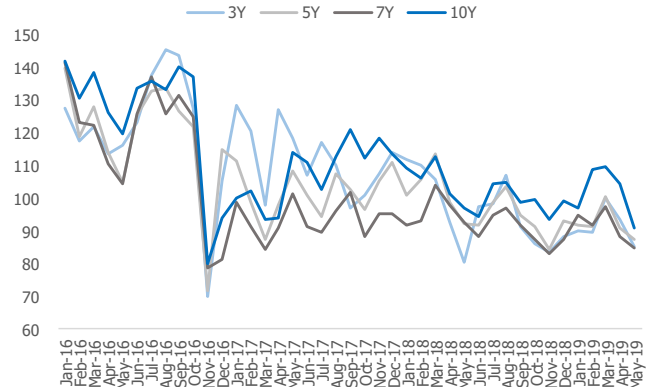
Sources: Bloomberg, MARC Research

Exhibit 29: AAA corporate bonds yield spread (bps)



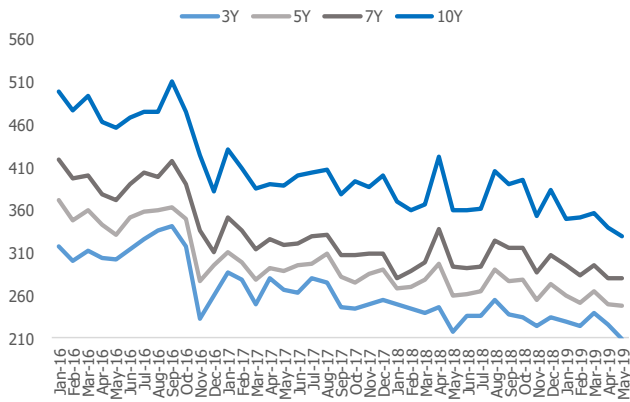
Sources: Bloomberg, MARC Research

Exhibit 30: AA/AA2 corporate bonds yield spread (bps)



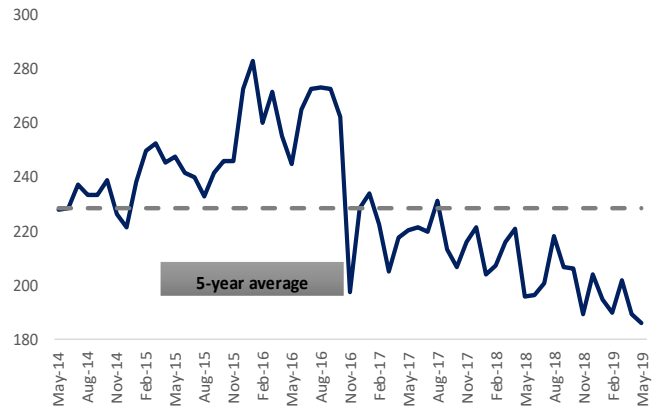
Sources: Bloomberg, MARC Research

Exhibit 31: A/A2 corporate bonds yield spread (bps)



Sources: Bloomberg, MARC Research

Exhibit 32: 5Y blended credit spread (bps)



Sources: Bloomberg, MARC Research

Exhibit 33: Secondary market volume (RM billion)

Asset class	Apr-19	May-19	M-o-m change
MGS/GII	86.2	80.1	-6.2
Cagamas	0.4	0.1	-0.3
FI corporate	0.9	1.7	0.8
Non-FI corporate	6.4	7.4	1.0

Sources: BPAM, MARC Research

Exhibit 34: Non-FI corporate traded by rating band (RM billion)

Rating band	Apr-19	May-19	M-o-m change
AAA	2.3	3.8	1.5
AA	3.5	3.2	-0.3
A	0.3	0.2	-0.1
BBB and below	-	-	-
Short-term	0.1	-	-0.1

Sources: BPAM, MARC Research

MARC Rating Activities

MARC affirmed 13 issue ratings, two FI ratings, one sovereign rating, assign FI ratings for CCBM and withdrew two issue ratings in May

In May, MARC affirmed 13 issue ratings under three issuers and the outlook on these issues remained stable. MARC also affirmed two financial institution (FI) ratings and one sovereign rating. MARC has assigned FI ratings of AA+/MARC-1 to China Construction Bank (Malaysia) Berhad (CCBM). Meanwhile, MARC also withdrew its AAA_{IS} rating/stable outlook on Cagamas MBS Bhd's RM245.0 million Tranche 5 under the RM2.1 billion asset-backed sukuk Musyarakah issuance (CMBS 2007-1-i) and its AAA rating on Maybank's RM10.0 billion Senior Medium-Term Notes programme.

No rating migrations in May, and QSP Semenanjung remains under MARCWatch Negative

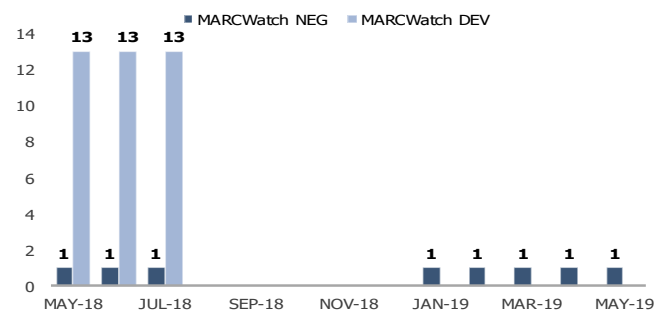
There were no rating migration activities in May, and neither were there any new issues placed under MARCWatch. However, Quantum Solar Park (Semenanjung) Sdn Bhd's (QSP Semenanjung) RM1.0 billion Green Sustainable and Responsible Investment Sukuk rating remained under MARCWatch Negative.

Exhibit 35: List of rating actions in May 2019

Principle	Category	Main sector	Issuer	Date announced	Rating action	Rating outlook	Long-term rating		Short-term rating		Issue size (RM mil)	Credit enhancement
							Before	After	Before	After		
Islamic	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	31-May-19	WITHDRAWN	STA	AAA	AAA	-	-	245	-
Islamic	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	400	-
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	385	-
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	260	-
Islamic	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	245	-
Islamic	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	320	-
Islamic	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	290	-
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	260	-
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	250	-
Conventional	Structured Finance	Residential Mortgages	Cagamas MBS Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	105	-
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	27-May-19	AFFIRMED	STA	AAA	AAA	-	-	200	-
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	27-May-19	AFFIRMED	STA	AA	AA	-	-	50	-
Conventional	Structured Finance	Property	Special Coral Sdn Bhd	27-May-19	AFFIRMED	STA	B-	B-	-	-	800	-
-	Financial Institution	Finance	China Construction Bank (Malaysia) Bhd	16-May-19	INITIAL	STA	AA+	AA+	MARC-1	MARC-1	-	-
-	Sovereign Rating	Country	Malaysia	15-May-19	AFFIRMED	STA	AAA	AAA	-	-	-	-
Conventional	Corporate Debt	Finance	Malayan Banking Berhad	2-May-19	WITHDRAWN	STA	AAA	AAA	-	-	10,000	-
-	Financial Institution	Finance	Malayan Banking Berhad	2-May-19	WITHDRAWN	STA	AAA	AAA	MARC-1	MARC-1	-	-
Islamic	Corporate Debt	Trading/Services	UEM Edgenta Bhd	2-May-19	AFFIRMED	STA	AA-	AA-	MARC-1	MARC-1	1,000	-

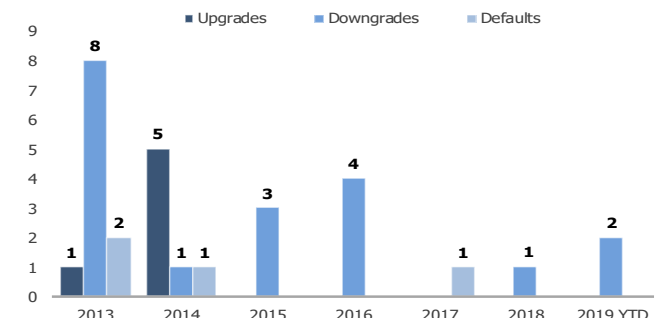
Source: MARC Research

Exhibit 36: MARCWatch placements, by issue count



Source: MARC Research

Exhibit 37: MARC rating migrations, by issue count



Source: MARC Research

Foreign Holdings of Local Bonds

Foreign holdings of local bonds at its lowest since December 2011

Foreign holdings of local bonds in May stood at its lowest since December 2011 after falling RM4.2 billion to RM175.9 billion (April 2019: RM180.1 billion). In terms of percentage share of total outstanding, foreign ownership came in at 11.9%, down 0.6 percentage point from the previous month. The outflows were mainly driven by the depreciating ringgit, falling crude oil prices and weaker GDP growth in 1Q 2019. Expectations of a prolonged US-China trade war also caused foreign investors to shrug off local bonds.

Foreign outflows from MGS and GII contributed most to the total outflow

Total net foreign outflows from MGS and GII amounted to RM4.3 billion (April 2019: -RM7.1 billion). As a result, the foreign share of MGS and GII outstanding dropped to 35.8% (April 2019: 37.1%) and 4.5% (April 2019: 4.8%). Meanwhile, treasury bills also saw net foreign outflows (-RM0.01 billion) though there was a minor increase in foreign buying of corporate bonds (+RM0.9 billion).

YTD foreign outflows amounted to RM8.9 billion, led by treasury bills and MGS

The first five months of this year saw a net foreign outflow of RM8.9 billion (Jan – May'18: -RM14.2 billion, 2018: -RM21.9 billion). The largest foreign outflow came from Malaysian treasury bills totalling RM2.9 billion (Jan – May'18: -RM0.4 billion, 2018: +RM0.4 billion), with MGS coming in at a close second with RM2.8 billion (Jan – May'18: -RM7.5 billion, 2018: -RM18.3 billion).

The local bond market continues to be affected by negative external developments

After recording a net inflow of RM0.9 billion in 2016, Malaysia has faced two consecutive years of net foreign outflows totalling RM30.8 billion. Cumulatively since 2005, foreign holdings of local bonds have been on a downtrend since July 2014 amounting to RM147.2 billion (April 2019: RM151.4 billion). Negative external developments that include the oil price collapse and US-China trade war have been eroding the appetite of foreign investors for local bonds.

Exhibit 38: Summary of foreign holdings in local bonds

Category	Foreign holdings (RM mil)		Composition (%)		Foreign flows (RM mil)	
	Apr-19	May-19	Apr-19	May-19	Apr-19	May-19
MGS	147,115	143,351	37.1	35.8	-3,545	-3,763
GII	15,189	14,669	4.8	4.5	-3,515	-520
Treasury bills	895	882	14.9	13.6	-1,237	-13
BNM notes	5,000	5,000	42.4	64.9	-	-
Corporate bonds	11,947	12,041	2.7	2.6	-1,524	94
Total	180,145	175,943	12.5	11.9	-9,820	-4,202

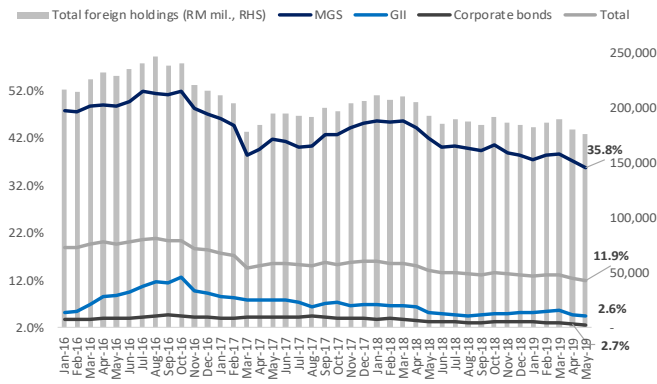
Sources: BNM, MARC Research

Exhibit 39: Historical trend of foreign flows in local bonds (RM million)

Year	MGS	GII	Treasury bills	Sukuk Perumahan Kerajaan (SPK)	BNM notes	Corporate bonds	Total
2013	7,407	1,409	443	-	-1,892	665	8,031
2014	8,207	1,857	-966	610	-16,728	-530	-7,550
2015	16,834	6,480	3,029	-605	-36,878	73	-11,067
2016	6,334	9,899	-1,559	-5	-15,636	1,792	826
2017	-4,041	-3,032	1,555	-	-3,724	300	-8,943
2018	-18,287	-2,603	401	-	650	-2,026	-21,865
2019 YTD	-2,801	-1,223	-2,850	-	-	-2,007	-8,882

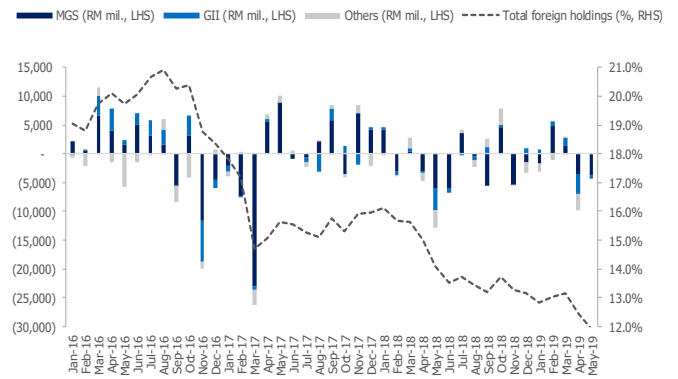
Sources: BNM, MARC Research

Exhibit 40: Foreign holdings of ringgit bonds as percentage of total outstanding



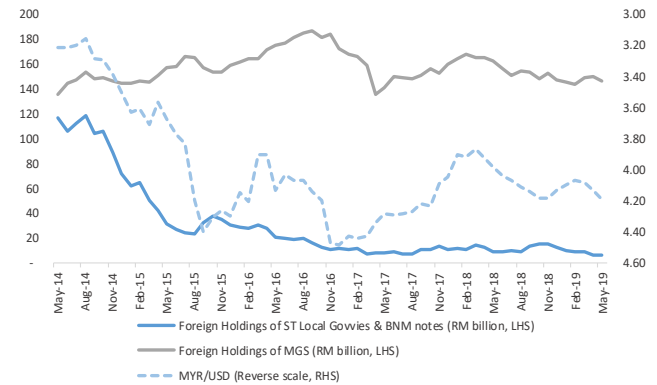
Sources: BNM, BPAM, MARC Research

Exhibit 41: Monthly foreign flows and total foreign holdings of local bonds



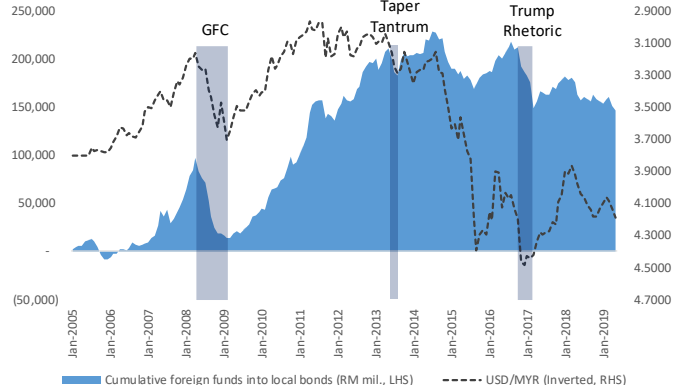
Sources: BNM, BPAM, MARC Research

Exhibit 42: Monthly performance of the ringgit versus foreign holdings of short-term local govies & BNM notes, and MGS



Sources: BNM, Bloomberg, MARC Research

Exhibit 43: Monthly cumulative foreign flows into local bonds since January 2005



Sources: BNM, Bloomberg, MARC Research

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