

MALAYSIAN RATING CORPORATION BERHAD  
(9440011)

JUNE 2019

## Monthly Bond Market &amp; Rating Snapshot

FINANCIAL VARIABLE	MAY-19	JUN-19	M-O-M CHANGE
<b>OVERNIGHT POLICY RATE (%)</b>	3.00	3.00	0 bp
<b>3-YEAR BENCHMARK MGS (%)</b>	3.40	3.29	-11 bps
<b>10-YEAR BENCHMARK MGS (%)</b>	3.78	3.63	-15 bps
<b>3-YEAR IRS (%)</b>	3.45	3.40	-5 bps
<b>10-YEAR IRS (%)</b>	3.75	3.69	-6 bps
<b>RINGGIT 3-YEAR AAA (%)</b>	3.94	3.81	-13 bps
<b>RINGGIT 3-YEAR AA (%)</b>	4.24	4.14	-10 bps
<b>RINGGIT 3-YEAR A (%)</b>	5.49	5.40	-9 bps
<b>2-YEAR US TREASURY (%)</b>	1.92	1.75	-17 bps
<b>10-YEAR US TREASURY (%)</b>	2.12	2.01	-11 bps
<b>MYR/USD</b>	4.19	4.13	1.4%
<b>US DOLLAR INDEX</b>	97.8	96.1	-1.7%
<b>BRENT CRUDE (USD/BARREL)</b>	64.5	66.6	3.2%
<b>GOLD SPOT (USD/OUNCE)</b>	1,305.45	1,409.45	8.0%
<b>KLCI Index</b>	1,650.76	1,672.13	1.3%
<b>S&amp;P 500 Index</b>	2,752.06	2,941.76	6.9%

Sources: Bloomberg, MARC Fixed Income Research

Fixed Income Research led  
by:

**Nor Zahidi Alias**  
Chief Economist  
+603 2717 2936  
[zahidi@marc.com.my](mailto:zahidi@marc.com.my)

**Global Markets**

2

The US Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BOE) maintained interest rates amid weak inflation readings. Trade tension eased after the US and China agreed to resume trade talks after the G20 summit. Nevertheless, government bond yields continued their descent on external uncertainties. In China, exports soared due to front-loading by exporters while the government ramped up monetary stimulus after the default of a regional lender.

**Malaysian Government Bond Market**

3

Sentiment for government bonds in the primary market improved in June. All tendered issues were oversubscribed and their bid-to-cover (BTC) ratios were above their one-year averages. Meanwhile, rising expectations of further monetary easing by global central banks fuelled a Malaysian Government Securities (MGS) market rally in June. The MGS yield curve bull flattened with yields edging to their multi-year lows by 10 bps to 23 bps.

**Malaysian Corporate Bond Primary Market**

6

**MARC Rating Activities**

9

**Foreign Holdings of Local Bonds**

10

Foreign holdings of local bonds received a boost from the global bond rally in June as foreign investors desperately hunt for higher-yielding bonds. MGS accounted for most of the inflows during the period. However, foreign investors remained net sellers for the whole of 1H2019. The turnaround in June was unable to mitigate the heavy outflows seen in the last two months.

## Global Markets

### A quick review

*Inflation expectations down again*

In June, the Fed maintained the target range for the federal funds rate (FFR) at 2.25% to 2.50% amid a core inflation reading of below 2%. Inflation expectations measured by the 5y/5y forward inflation rate and the 10y breakeven inflation rate also fell for the second consecutive month to 1.85% and 1.70%. Meanwhile, the G20 summit resulted in a resumption of US-China trade negotiations. Despite the trade truce, US Treasury (UST) yields continued their descent across the curve, declining between four bps and 27 bps m-o-m. The 10y UST yield was down by 11 bps to 2.01%.

*ECB and BOE maintained interest rates*

In Europe, the ECB held key interest rates steady; these rates are expected to remain at their present levels at least until 1H2020 to ensure a sustained increase in inflationary pressures. Bund yields bull flattened after the long end of the curve fell by an average of 16 bps. Like its counterparts, the BOE also maintained a dovish stance by keeping the bank rate unchanged at 0.75% while continuing with its asset purchase program of corporate and government bonds. On the political front, the lead candidates for the UK's next prime minister are Boris Johnson and Jeremy Hunt, who are both pro-Brexit. During the month, 10y gilt yields tumbled the most in comparison with other maturities to settle at 0.83% from 0.89% in May.

*Export front-loading by exporters continue*

In China, exports soared to a four-month high of USD213.9 billion in May as companies rushed out shipments to avoid higher US tariffs whereas imports decreased by 4.2% in a sign of weak domestic demand. In June, the overnight interbank rate slipped to a four-year low of 1.60% compared to 2.17% in the prior month partly in response to the government's takeover of distressed Baoshang Bank, a small regional lender. The default prompted the central bank to ease the credit crunch by giving out CNY300 billion in rediscount and standing lending facility quotas to small- and medium-sized banks.

#### Exhibit 1: Summary of US rates

US rates (%)	May-19	Jun-19	M-o-m change
Federal Funds Rate (Upper Bound)	2.50	2.50	0 bp
2-year UST	1.92	1.75	-17 bps
5-year UST	1.91	1.77	-14 bps
10-year UST	2.12	2.01	-11 bps
30-year UST	2.57	2.53	-4 bps

Sources: Bloomberg, MARC Research

#### Exhibit 2: Summary of euro rates

Euro rates (%)	May-19	Jun-19	M-o-m change
European Central Bank Deposit Facility Rate	-0.40	-0.40	0 bp
2-year Bund	-0.66	-0.75	-9 bps
5-year Bund	-0.58	-0.66	-8 bps
10-year Bund	-0.20	-0.33	-13 bps
30-year Bund	0.43	0.27	-16 bps

Sources: Bloomberg, MARC Research

#### Exhibit 3: Summary of UK rates

UK rates (%)	May-19	Jun-19	M-o-m change
Bank of England Official Bank Rate	0.75	0.75	0 bp
2-year Gilt	0.60	0.62	2 bps
5-year Gilt	0.64	0.63	-1 bp
10-year Gilt	0.89	0.83	-5 bps
30-year Gilt	1.47	1.47	0 bp

Sources: Bloomberg, MARC Research

#### Exhibit 4: Summary of Japan rates

Japan rates (%)	May-19	Jun-19	M-o-m change
Bank of Japan Short-term Interest Rate	-0.10	-0.10	0 bp
2-year JGB	-0.17	-0.22	-5 bps
5-year JGB	-0.19	-0.26	-7 bps
10-year JGB	-0.09	-0.16	-7 bps
30-year JGB	0.46	0.36	-10 bps

Sources: Bloomberg, MARC Research

# Malaysian Government Bond Market

## Primary market review

*Growth of outstanding MGS/GII papers slowed in June amid decline in GII issuance*

In June, total outstanding MGS/Government Investment Issue (GII) papers rose to RM762.4 billion (May 2019: RM754.4 billion), higher by 1.1% m-o-m (May 2019: +1.6% m-o-m). The slower increase was due to the decline in gross issuance of GII papers worth RM4.0 billion (May 2019: RM8.0 billion). There were no matured papers recorded for the second straight month in June. For 1H2019 overall, gross issuance for both MGS/GII papers grew by 6.9% y-o-y to RM67.0 billion (1H2018: RM62.7 billion). GII papers dominated issuances, as indicated by the GII-to-MGS ratio of 54:46 (2018 YTD: 49:51).

*BTC ratios for the MGS/GII papers exceeded their one-year averages*

Sentiment for government bonds in the primary market improved in June. All tendered MGS/GII issues were oversubscribed and BTC ratios were above their one-year averages. The 5y MGS recorded a BTC ratio of 2.5x while the 20y GII registered a BTC ratio of 4.3x, the highest level in recent years for any govies. Meanwhile, the government received total bids of RM18.5 billion (May 2019: RM22.4 billion) during the period. Demand for these papers was supported by: 1) heightened Fed rate cut expectations; 2) potential global easing; 3) moderate May CPI data; and 4) the firmer ringgit.

**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
May-19	4.0	8.0	12.0	-	-	-	4.0	8.0	12.0	400.2	354.2	754.4
Jun-19	4.0	4.0	8.0	-	-	-	4.0	4.0	8.0	404.2	358.2	762.4
1H 2019	31.0	36.0	67.0	7.2	10.5	17.7	23.8	25.5	49.3			

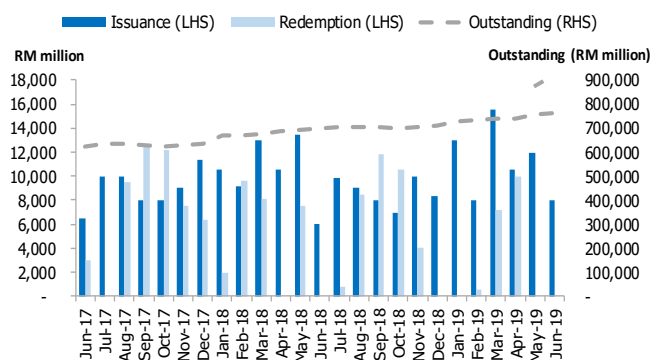
Sources: BNM Bond Info Hub, MARC Research

**Exhibit 6: MGS auction results in June 2019**

Issues	Tenure (years)	Issue date	Amount (RM mil)	BTC (x)	Average yield (%)
5-yr New Issue of MGS (Mat on 06/24)	5	14-Jun-19	4,000	2.49	3.478
20-yr Reopening of MGII (Mat on 09/39)	20	28-Jun-19	2,000	4.27	4.074

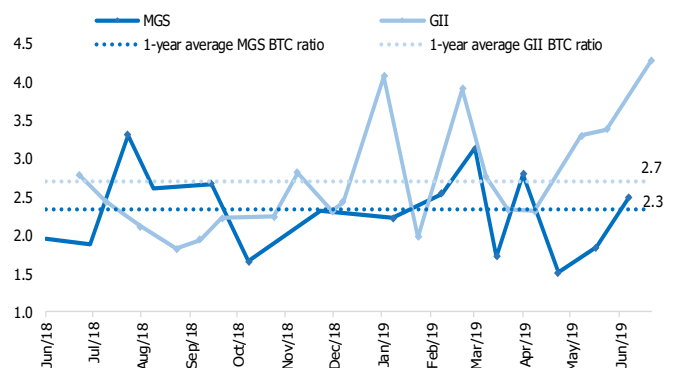
Sources: BNM Fast, MARC Research

**Exhibit 7: Total outstanding MGS/GII papers grew slower m-o-m in June amid lower gross issuance**



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

*Supportive global monetary policy backdrop underpinned MGS market rally*

Rising expectations of further monetary easing by global central banks fuelled an MGS market rally in June. Major central banks further eased their monetary stance from already accommodative levels; this, coupled with weak US economic data print, pushed MGS yields to their multi-year lows. Investors closely followed developments of the Fed's future monetary policy direction against the backdrop of subdued inflation growth. While the Fed held the FFR unchanged, it hinted that it may cut its key interest rate in the upcoming July Federal Open Market Committee (FOMC) meeting. On the other hand, lingering concerns surrounding FTSE Russell's possible move to exclude Malaysian bonds from its index appeared to have abated in June.

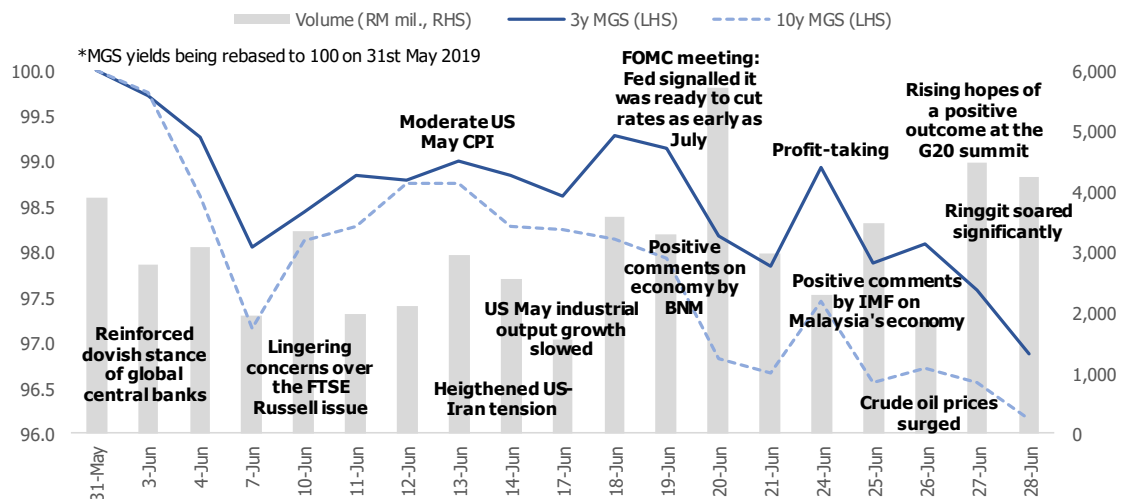
*Firmer crude oil prices as well as BNM's and IMF's positive comments also lent its support*

Demand for MGS was also boosted by deepening pessimism about the global economy as well as the prospects of a US-China trade truce. In the same month, the heightened US-Iran tensions that lifted crude oil prices also lent its support to MGS. Bank Negara Malaysia's (BNM) and the International Monetary Fund's (IMF) confidence in Malaysia's future outlook also managed to increase buying interest for MGS, especially among foreign investors.

*Buying interest mostly concentrated on longer-dated MGS papers*

By end-June, the 10y MGS fell to 3.63%, the lowest since April 2013, while the 3y MGS fell to 3.29%, the lowest since August 2016. The MGS benchmark yield curve continued to be bull flattened with both the 20y/3y and 10y/3y MGS yield spreads narrowing to 34 bps (May 2019: 38 bps) and 77 bps (May 2019: 89 bps). Back-end yields fell more sharply amid continued demand for longer-dated papers, garnering about 26.3% of total trades in June. Monthly trade momentum surged to RM55.8 billion (May 2019: RM48.5 billion).

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



Sources: Bloomberg, BPAM, MARC Fixed Research

**Exhibit 10: MGS benchmark yields**

MGS yields (%)	May-19	Jun-19	M-o-m change
3-year MGS	3.40	3.29	-11 bps
5-year MGS	3.53	3.42	-11 bps
7-year MGS	3.67	3.57	-10 bps
10-year MGS	3.78	3.63	-15 bps
20-year MGS	4.29	4.06	-23 bps

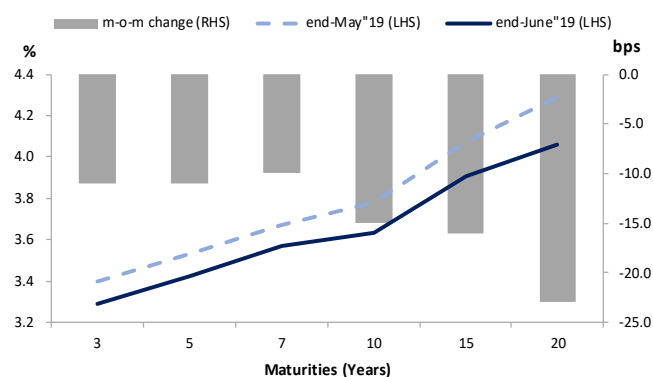
Sources: Bloomberg, MARC Fixed Research

**Exhibit 11: OPR and IRS rates**

Rates (%)	May-19	Jun-19	M-o-m change
Overnight Policy Rate	3.00	3.00	0 bp
1-year IRS	3.43	3.38	-5 bps
3-year IRS	3.45	3.40	-5 bps
5-year IRS	3.50	3.48	-2 bps
10-year IRS	3.75	3.69	-6 bps

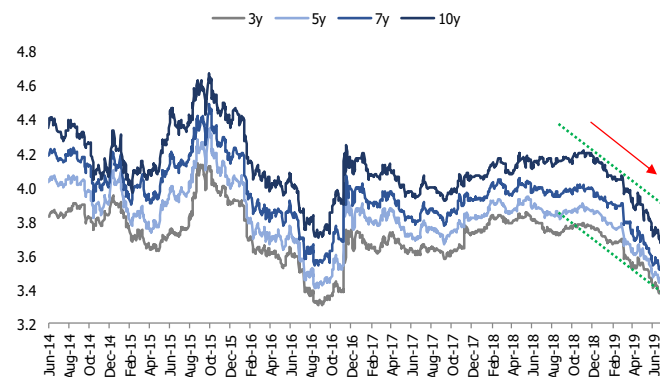
Sources: Bloomberg, MARC Fixed Research

**Exhibit 12: MGS yield curves**



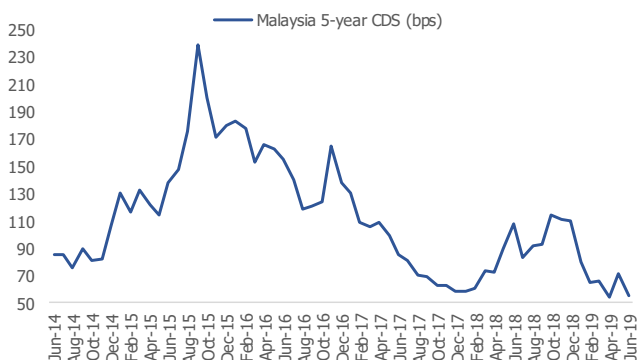
Sources: Bloomberg, MARC Research

**Exhibit 13: MYR IRS curves**



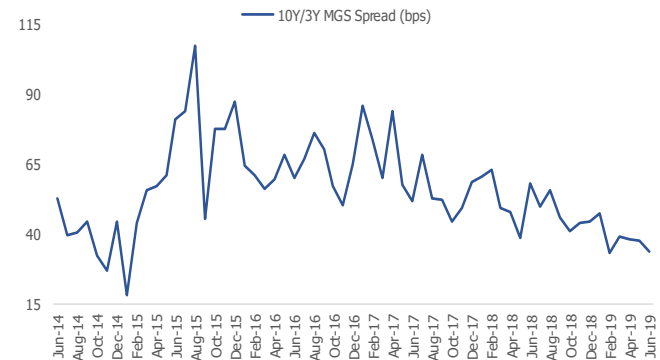
Sources: Bloomberg, MARC Research

**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 June 2019**

Security	Traded amount (RM mil)	Remaining tenure	Last traded yield (%)
MGS 4/2014 3.654% 31.10.2019	4,895	5 months	3.08%
MGS 3/2018 4.642% 07.11.2033	4,165	14 years	3.91%
MGS 2/2019 3.885% 15.08.2029	4,031	10 years	3.63%
MGS 2/2009 4.378% 29.11.2019	3,445	6 months	3.07%
MGS 1/2019 3.906% 15.07.2026	3,212	7 years	3.55%

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
May-19	725	5,280	3,995	2,486	6,218	5,614	6,246	8,464	9,455
Jun-19	370	8,340	2,581	2,757	7,021	6,515	6,024	5,915	14,726
M-o-m change	-356	3,059	-1,414	271	802	902	-222	-2,549	5,271

Sources: BPAM, MARC Research

## Malaysian Corporate Bond Primary Market

In June, corporate bond issuances were mainly from corporates from the financial services sector

Long-term corporate bond issuances in June declined by RM23.6 billion to RM8.7 billion after surging to RM32.2 billion in May. Most of the issuances in June came from rated issuances from corporates within the financial services sector, namely CIMB Group Holdings Bhd (RM2.0 billion), Hong Leong Financial Group Bhd (RM1.1 billion) and Hong Leong Bank Bhd (RM1.0 billion). In June, rated corporate bond issuances amounted to RM6.6 billion (May 2019: RM3.3 billion). Meanwhile, unrated corporate bond issuances dropped to RM2.1 billion (May 2019: RM28.9 billion). There were no long-term bonds issued by quasi-government entities and Cagamas during the period, similar to the previous month.

Corporate bond issuances in 1H 2019 lifted by Urusharta's RM27.6 billion Sukuk issuance

In 1H2019, total issuances surged by RM23.4 billion to RM78.4 billion (1H2018: RM55.0 billion), the highest 1H figure ever recorded. This was mainly due to the large issuance of unrated sukuk by Urusharta Jamaah Sdn Bhd (Urusharta) worth RM27.6 billion, the largest issuer for 1H2019. Excluding the unrated corporate bonds segment, other segments registered a decline amid a slowdown in both public and private investment growth, moderate 1Q2019 GDP growth and ongoing global trade concerns. By sector, financial services contributed about 71.4% (1H2018: 57.9%) of total corporate bond issuances in 1H2019.

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

Year	Unrated corporate	Quasi-government	Total unrated	Rated corporate	Cagamas	Total rated	Total corporate bonds
May-19	28.9	-	28.9	3.3	-	3.3	32.2
Jun-19	2.1	-	2.1	6.6	-	6.6	8.7
M-o-m change	-26.9	-	-26.9	3.3	-	3.3	-23.6

Sources: BPAM, MARC Research

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

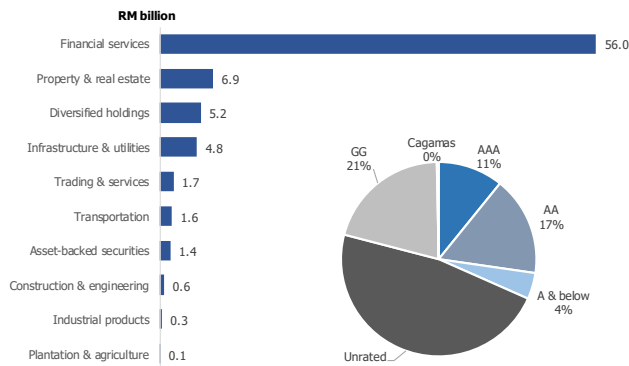
Year	Unrated corporate	Quasi Government	Total unrated	Rated corporate	Cagamas	Total rated	Total corporate bonds
2014	8.0	21.9	29.9	52.7	3.3	55.9	85.9
2015	14.0	15.6	29.6	51.5	3.8	55.3	85.0
2016	13.2	28.1	41.3	39.3	4.1	43.4	84.8
2017	20.7	37.6	58.3	55.8	8.7	64.6	122.9
2018	13.9	28.7	42.6	52.4	9.0	61.3	103.9
1H 2018	6.8	17.6	24.4	25.7	4.9	30.6	55.0
1H 2019	37.2	16.2	53.3	24.8	0.2	25.1	78.4

Sources: BPAM, MARC Research

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

Issuer	Industry	Category	Principle	No. of issues	Amount (RM bil)	Tenure (years)	Coupon (%)
CIMB Group Holdings Bhd	Financial services	AA & A rated	Conventional & Islamic	3	2.0	1 - 97	3.80 - 4.88
Opulence Synergy Bhd	Trading & services	Unrated	Conventional	3	1.1	10 - 14	0 - 15.00
Hong Leong Financial Group Bhd	Financial services	AA rated	Conventional	1	1.1	10	4.30
Pengurusan Air SPV Bhd	Infrastructures & utilities	AAA rated	Islamic	3	1.1	5 - 10	4.00 - 4.15
Hong Leong Bank Bhd	Financial services	AA rated	Conventional	1	1.0	10	4.23

Sources: BPAM, MARC Research

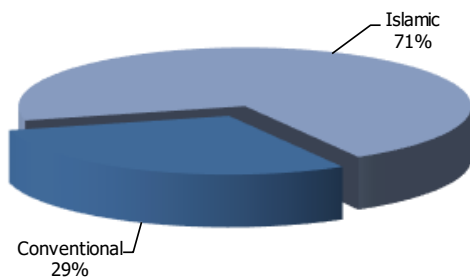
**Exhibit 21: Corporate bond issuance composition by sector and ratings in June 2019**


Sources: BPAM, MARC Research

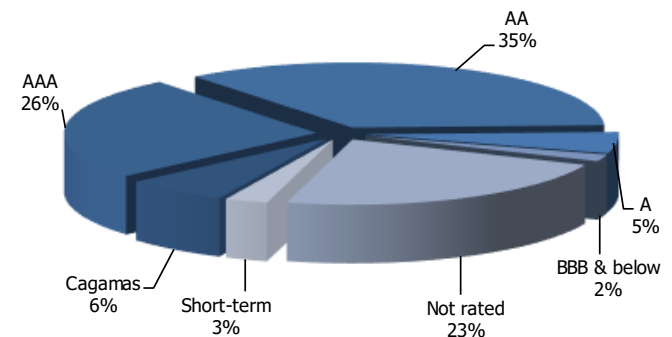
**Exhibit 22: Outstanding size of Cagamas and corporate bonds as of June 2019 (RM billion)**

Asset class	Conventional	Islamic	Total
Cagamas	19.4	14.0	33.5
Corporate Bonds	137.6	335.0	472.5
Corporate	57.1	254.0	311.0
Corporate guaranteed	21.1	49.6	70.7
Financial	51.7	27.4	79.1
ABS	7.7	4.0	11.7

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 (%)	May-19	Jun-19	M-o-m change
3-year	3.94	3.81	-13 bps
5-year	4.07	3.95	-12 bps
7-year	4.18	4.08	-10 bps
10-year	4.32	4.21	-11 bps

Sources: Bloomberg, MARC Research

**Exhibit 26: AA/AA2 corporate benchmark yields**

AA/AA2 (%)	May-19	Jun-19	M-o-m change
3-year	4.25	4.15	-10 bps
5-year	4.40	4.29	-11 bps
7-year	4.52	4.44	-8 bps
10-year	4.69	4.60	-9 bps

Sources: Bloomberg, MARC Research

**Exhibit 27: A/A2 corporate benchmark yields**

A/A2 (%)	May-19	Jun-19	M-o-m change
3-year	5.48	5.40	-8 bps
5-year	5.99	5.73	-26 bps
7-year	6.47	6.17	-30 bps
10-year	7.07	6.61	-46 bps

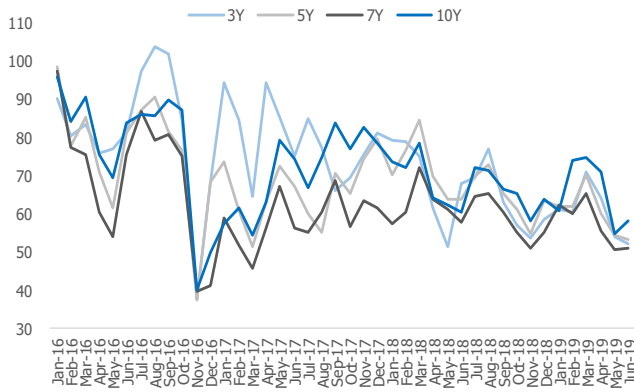
Sources: Bloomberg, MARC Research

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

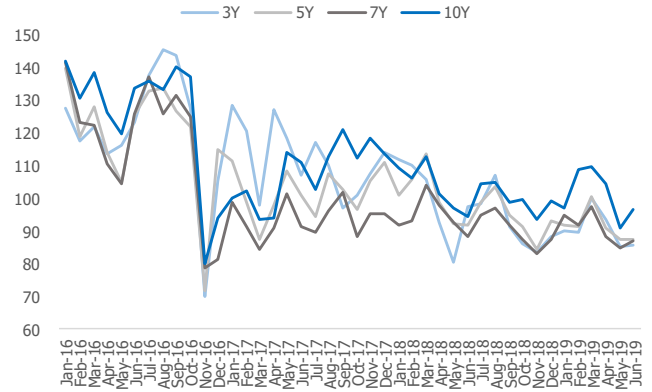
AAA, AA/A2 & A/A2 (%)	May-19	Jun-19	M-o-m change
3-year	134	135	1 bp
5-year	151	144	-7 bps
7-year	164	156	-8 bps
10-year	188	177	-11 bps

Sources: Bloomberg, MARC Research

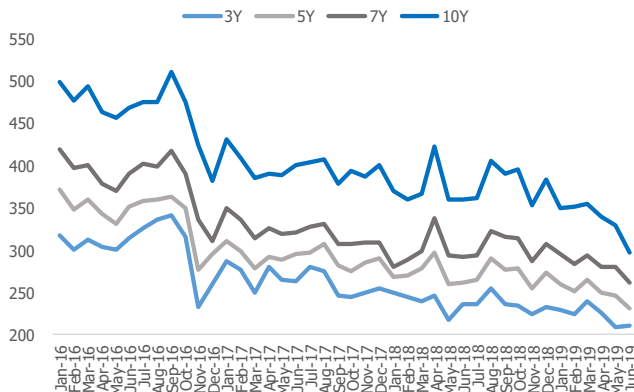


**Exhibit 29: AAA corporate bonds yield spread (bps)**


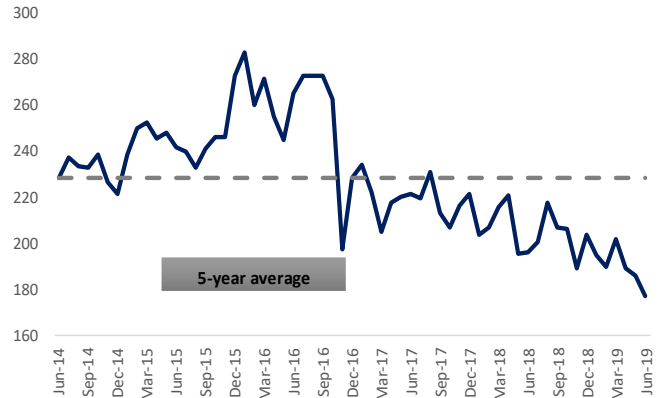
Sources: Bloomberg, MARC Research

**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	May-19	Jun-19	M-o-m change
MGS/GII	80.1	83.1	3.0
Cagamas	0.1	0.4	0.3
FI corporate	1.7	0.7	-0.9
Non-FI corporate	7.4	6.8	-0.6

Sources: BPAM, MARC Research

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

Rating band	May-19	Jun-19	M-o-m change
AAA	3.8	2.7	-1.1
AA	3.2	3.6	0.4
A	0.2	0.4	0.2
BBB and below	-	-	-
Short-term	-	0.1	0.1

Sources: BPAM, MARC Research



## MARC Rating Activities

In June, MARC affirmed one issue rating and one sovereign credit rating

In June, MARC maintained its *C<sub>IS</sub>* rating on Talam Transform Bhd's outstanding RM45.6 million Settlement Bithaman Ajil Islamic Debt Securities. Within the same month, MARC also maintained Singapore's foreign currency sovereign rating of AAA with a stable outlook based on its national rating scale.

MARC has downgraded four issues from TSH's two SPVs in June

MARC downgraded four issues from two special purpose funding vehicles set up by TSH Resources Bhd (TSH) in June. The downgrades were due to TSH's continued high leverage position and its cash flow being hampered by low crude palm oil prices in recent years. MARC lowered TSH Sukuk Ijarah's RM300.0 million Sukuk Ijarah Medium-Term Notes programme rating of *AA<sup>-IS</sup>* to *A<sup>+IS</sup>*. Meanwhile, TSH Sukuk Murabahah Sdn Bhd's RM50.0 million Sukuk Murabahah Commercial Papers and RM150.0 million Sukuk Murabahah Medium-Term Notes have been downgraded to *A<sup>+IS</sup>* and *MARC-2<sup>IS</sup>* from *AA<sup>-IS</sup>* and *MARC-1<sup>IS</sup>* respectively.

QSP Semenanjung remains under MARCWatch Negative

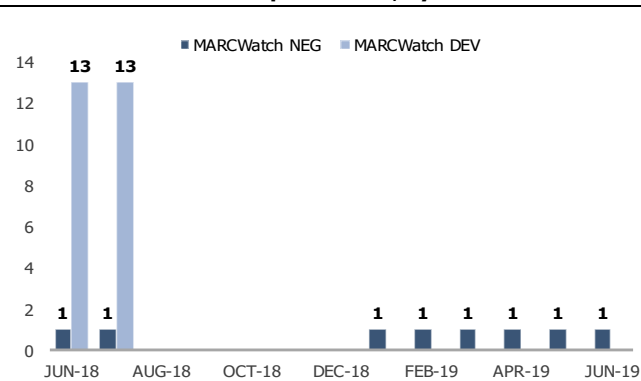
In the same month, MARC extended its MARCWatch Negative on Quantum Solar Park (Semenanjung) Sdn Bhd's (QSP Semenanjung) RM1.0 billion Green SRI Sukuk rating.

**Exhibit 35: List of rating actions in June 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	Corporate Debt	Construction	Talam Corporation Bhd	28-Jun-19	AFFIRMED	STA	C	C	-	-	134	-
Islamic	Corporate Debt	Plantation	TSH Sukuk Ijarah Sdn Bhd	19-Jun-19	DOWNGRADED	STA	AA-	A+	-	-	300	-
Islamic	Corporate Debt	Plantation	TSH Sukuk Murabahah Sdn Bhd	19-Jun-19	DOWNGRADED	STA	AA-	A+	-	-	150	-
Islamic	Corporate Debt	Plantation	TSH Sukuk Murabahah Sdn Bhd	19-Jun-19	DOWNGRADED	STA	-	-	MARC-1	MARC-2	50	-
-	Sovereign Rating	Country	Singapore	11-Jun-19	AFFIRMED	STA	AAA	AAA	-	-	-	-

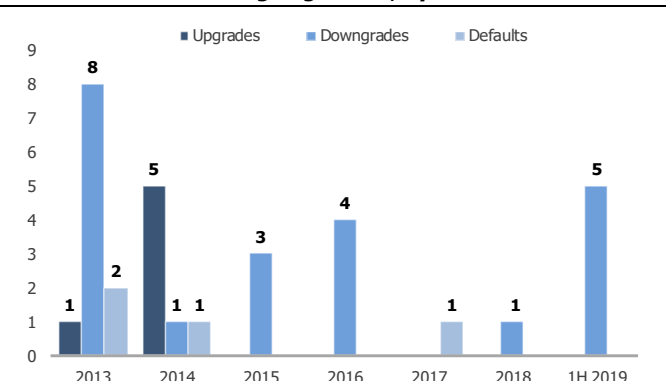
Source: MARC Research

**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

*Global bond rally boosted the appeal of local bonds among foreign investors in June*

The local bond market recorded a total net foreign inflow of RM6.6 billion (May 2019: -RM4.2 billion) in June after having experienced two consecutive months of outflows since April. Total foreign holdings of local bonds stood at RM182.6 billion (May 2019: RM175.9 billion). Meanwhile, in terms of percentage of total outstanding, foreign ownership rose to 12.2% (May 2019: 11.9%). The improved foreign appetite for local bonds was spurred by the desperate hunt for yield following the global bond rally. This came after major central banks had shifted to more dovish stances against a backdrop of a gloomy global economic outlook.

*By instrument, MGS accounted for most of the inflows followed by MTBs*

MGS accounted for most of the foreign inflows in June followed by Malaysian Treasury Bills (MTB). Total foreign holdings of MGS rose to RM149.1 billion (May 2019: RM143.4 billion) while foreign share of total outstanding increased to 36.9% (May 2019: 35.8%). In the MTB space, foreign holdings rose to RM1.8 billion (May 2019: RM0.9 billion) with foreign share of total outstanding at 24.2% (May 2019: 13.6%). However, both GII (-RM10.2 million) and corporate bonds (-RM63.8 million) recorded net foreign outflows.

*Foreign investors remained as net sellers of local bonds for 1H 2019*

Despite the turnaround in June, foreign investors remained net sellers of local bonds for 1H2019. The local bond market experienced heavy foreign outflows in April and May amid: 1) announcements by Norway's sovereign wealth fund (SWF) and FTSE Russell on their plans to exclude Malaysian bonds from their respective indices; 2) weaker crude oil prices; 3) moderate 1Q2019 GDP growth, and; 3) concerns of a prolonged US-China trade war. The total net foreign outflow in 1H2019 had amounted to -RM2.2 billion (1H2018: -RM20.9 billion). MGS registered net foreign inflows for the whole of 1H2019 at RM3.0 billion (1H2018: -RM13.5 billion) while other instruments registered net foreign outflows.

**Exhibit 38: Summary of foreign holdings in local bonds**

Category	Foreign holdings (RM mil)		Composition (%)		Foreign flows (RM mil)	
	May-19	Jun-19	May-19	Jun-19	May-19	Jun-19
MGS	143,351	149,127	35.8	36.9	-3,763	5,776
GII	14,669	14,659	4.5	4.4	-520	-10
Treasury bills	882	1,813	13.6	24.2	-13	931
BNM notes	5,000	5,000	64.9	54.3	-	-
Corporate bonds	12,041	11,977	2.6	2.5	94	-64
<b>Total</b>	<b>175,943</b>	<b>182,576</b>	<b>11.9</b>	<b>12.2</b>	<b>-4,202</b>	<b>6,633</b>

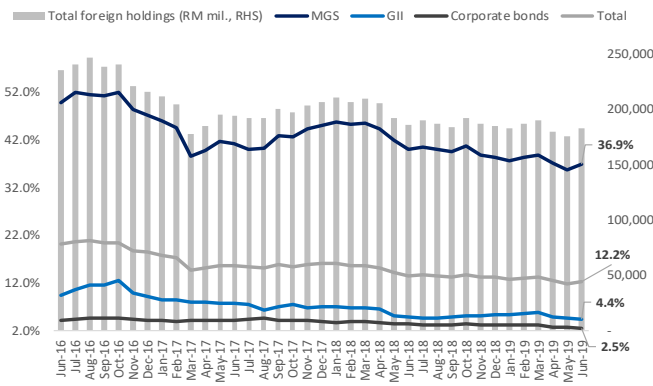
Sources: BNM, MARC Research

**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
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
1H 2018	-13,501	-4,380	-783	-	-350	-1,860	-20,874
1H 2019	2,975	-1,234	-1,920	-	-	-2,071	-2,249

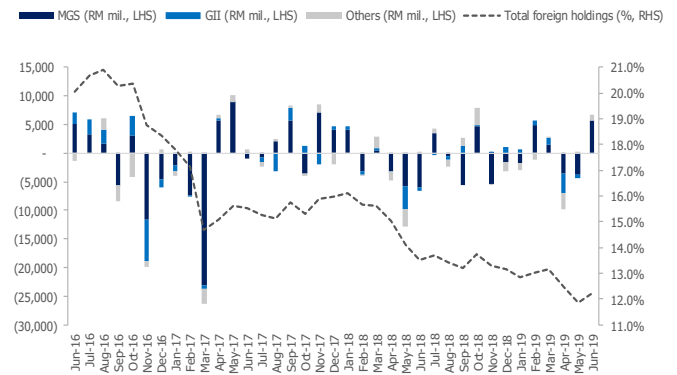
Sources: BNM, MARC Research

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



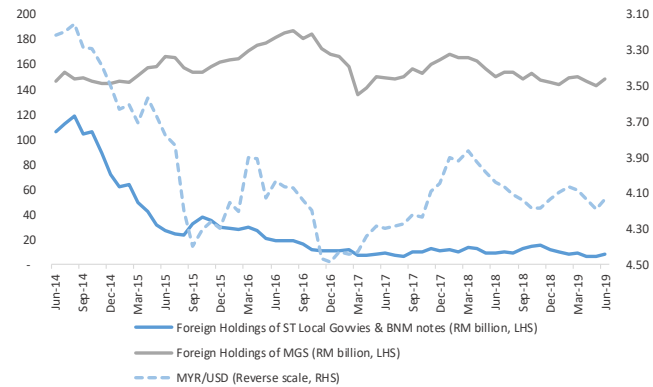
Sources: BNM, BPAM, MARC Research

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



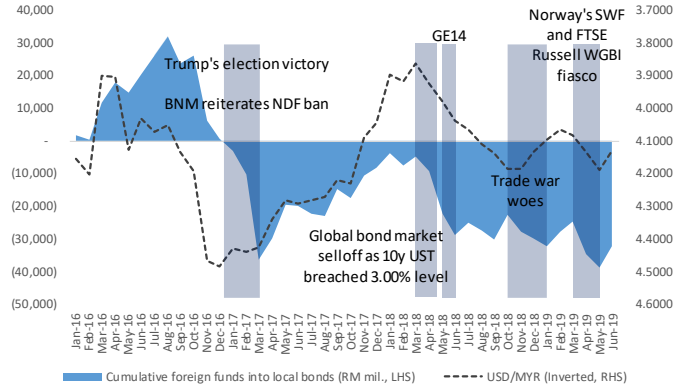
Sources: BNM, BPAM, MARC Research

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



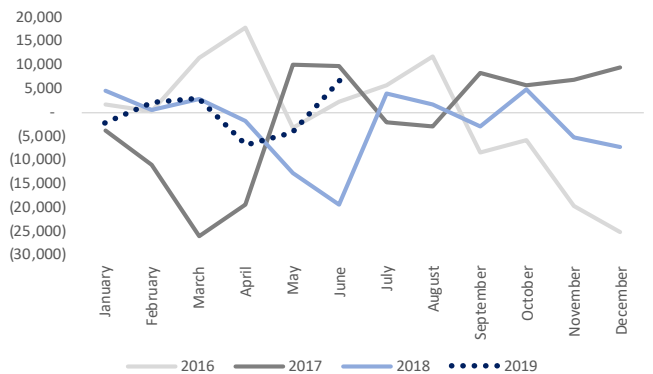
Sources: BNM, Bloomberg, MARC Research

**Exhibit 43: Cumulative foreign flows into local bonds since January 2016**



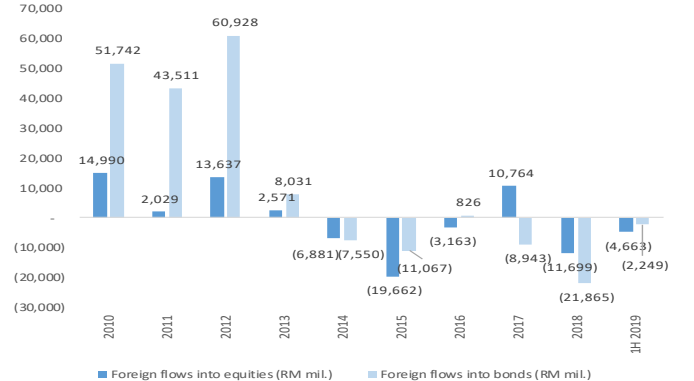
Sources: BNM, Bloomberg, MARC Research

**Exhibit 44: Yearly cumulative foreign flows in local bonds performance comparison**



Sources: BNM, Bloomberg, MARC Research

**Exhibit 45: Total yearly foreign flows for both Malaysian bond and equity markets**



Sources: BNM, Bloomberg, MARC Research

---

----- Disclaimer -----

Copyright © 2019 Malaysian Rating Corporation Berhad and any of its subsidiaries or affiliates ("MARC") have exclusive proprietary rights in the data or information provided herein. This document is the property of MARC and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorised purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without MARC's prior written consent.

Any opinion, analysis, observation, commentary and/or statement made by MARC are solely statements of opinion based on information obtained from issuers and/or other sources which MARC believes to be reliable and therefore, shall not be taken as a statement of fact under any circumstance. MARC does not and is in no position to independently audit or verify the truth and accuracy of the information contained in the document and shall not be responsible for any error or omission or for the loss or damage caused by, resulting from or relating to the use of such information. NEITHER MARC NOR ITS AFFILIATES, SUBSIDIARIES AND EMPLOYEES, GIVE ANY EXPRESS OR IMPLIED WARRANTY, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTY AS TO THE ACCURACY, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR USE OF ANY SUCH INFORMATION.

This document is not a recommendation to buy, sell or hold any security and/or investment. Any user of this document should not rely solely on the credit rating and analysis contained in this document to make an investment decision in as much as it does not address non-credit risks, the adequacy of market price, suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security concerned.

MARC and its affiliates, subsidiaries and employees shall not be liable for any damage or loss arising from the use of and/or reliance on documents produced by MARC or any information contained therein. Anyone using and/or relying on MARC's document and information contained therein solely assumes the risk in making use of and/or relying on such document and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bound by it.

---

**© 2019 Malaysian Rating Corporation Berhad**

Published and Printed by:

**MALAYSIAN RATING CORPORATION BERHAD** (Company No.: 364803-V)  
19-07, 19<sup>th</sup> Floor, Q Sentral, 2A Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 KUALA LUMPUR  
Tel.: +603 2717 2900 Fax: +603 2717 2910 Email: [marc@marc.com.my](mailto:marc@marc.com.my)  
Website: [www.marc.com.my](http://www.marc.com.my)