

Foreign flows into local bond market returns to positive territory



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Bond Pricing Agency Malaysia CEO Meor Amri Meor Ayob, however, felt interest may be seen in short-term bonds as long-term bonds prices decrease more than short-term bonds in a rising rate environment.

PETALING JAYA: Foreign flows into the local bond market returned to positive territory in May amid foreign investors' flight-to-safety demand and Bank Negara's hawkish pivot

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Notwithstanding this, they were significantly lower than the cumulative net foreign inflows of RM25bil from January to May 2021, according to MARC Ratings Bhd.

Total Malaysian Government Securities/Government Investment Issues (MGS and GII) outstanding expanded by 11.1% year-on-year (y-o-y) to RM947.3bil in May 2022 as there was no redemption of government bonds recorded.

This is notwithstanding the reduced issuances in both the MGS (May: RM4.5bil; April: RM10bil) and GII (May: RM8bil; April: RM9.5bil) segments during the month.



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From January to May 2022, MGS and GII issuances were higher at RM72.5bil versus RM67bil recorded during last year's corresponding period, the rating agency added.

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However, the losses were reversed towards the end of the month as bond investors deemed the selloff to be overdone.

Rising concerns about the global growth outlook also spurred some flight-to-safety as global stocks tumbled.

Notably, the 10-year MGS yield retreated from its peak of 4.46% to close the month at 4.19%, which was 19 bps lower than April's close at 4.38%.

The central bank decided to raise the overnight policy rate by 25 bps to 2% on May 11, 2022, marking its first interest rate hike since January 2018.



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The hawkish pivot came about as Malaysia's gross domestic product surprised on the upside in the first quarter of this year with a growth of 5% y-o-y.

"We perceive the rate hike to act as a defence against significant capital outflows and ringgit depreciation amid the higher interest rates in the United States.

"Given this, together with a firmer growth outlook in 2022, we opine that rate hikes by Bank Negara in the second half of the year are highly probable," it added.

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RAM Rating Services Bhd economist Nadia Mazlan said foreign investor interest is expected to remain weak in the near term. She said the weakness would be due to the narrowing yield differential between the MGS and US Treasuries which would dampen the attractiveness of MGS.

Bond Pricing Agency Malaysia CEO Meor Amri Meor Ayob, however, felt interest may be seen in short-term bonds as long-term bonds prices decrease more than short-term bonds in a rising rate environment.

“When interest rates are rising, investors will shorten the duration to reduce exposure to falling bond prices.

“Short-term bond investors face minimal price risk as they can simply hold it out to maturity instead of selling it at a discount prior to maturity for a long-term bond,” he noted.

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