

M'sia bond yield down to lowest since 2013

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This is following Bank Negara's unexpected move to cut rates

KUALA LUMPUR: Malaysian bonds rose for a second day and the three-year yield dropped to its lowest level since 2013 after the central bank unexpectedly cut interest rates on Wednesday.

Bank Negara reduced the overnight rate to 3%, the first policy shift since it tightened in 2014. Only Goldman Sachs Group Inc forecast the move among economists in a *Bloomberg* survey.

The central bank cited downside risks from the UK vote to leave the European Union and revised the floor for its base rate lower, suggesting room for more cuts. South Korea left its key rate unchanged yesterday, after slashing it to a record in June.

"The speculation of further easing has played a part," said Eugene Leow, a Singapore-based fixed-income strategist at DBS Bank Ltd. "However, note that the global hunt for yield is still in play."

The three-year bond yield fell eight basis points to 2.89% as of 12:10pm in Kuala Lumpur yesterday, the lowest for a benchmark of that maturity since May 2013, according to prices from Bursa Malaysia.

Flows into emerging-market debt funds set a new weekly record for the period ended July 6, according to EPFR Global data, on concern developed economies will take a hit after Britain voted to exit the EU, forcing the Federal Reserve to delay interest rate increases. Foreign ownership of Malaysian sovereign bonds climbed to a record RM204bil in June.

Bank Negara reduced the base for the benchmark rate to 2.75% on Wednesday and lowered 2016's projection for inflation to 2% to 3%, from as much as 3.5%. Consumer prices



Economic strategy: A trader looks at chickens for sale at a meat market in Kuala Lumpur. Bank Negara reduced the base for the benchmark rate to 2.75% on Wednesday and lowered 2016's projection for inflation to 2% to 3%, from as much as 3.5%. — Reuters

climbed 2% in May from a year earlier, down from a seven-year high reached in February.

The yield on Malaysian bonds due in 2021 declined three basis points to 3.21%, the lowest since June 2013. The ringgit strengthened 0.3% to 3.9598 per US dollar, a fourth day of

gains, according to prices from local banks compiled by *Bloomberg*. It reached 3.9548, the strongest since May 4.

Malaysia sold RM2.5bil of notes maturing in 2031 yesterday and got bids for 2.2 times the amount on offer. — *Bloomberg*