

09 January 2020

Malaysia Bond Flows

Foreign debt holdings hit a 20-month high in December

- Foreign investors retained as net buyers of Malaysia's debt securities for the second successive month

- Dec (+RM8.1b; Nov: +RM8.0b): picked up to a 20-month high (RM204.7b; Nov: RM196.6b). Share to total Malaysia's debt increased to 13.8%, a 14-month high.
- 2019 (+RM19.9b; 2018: -RM21.9b): largest inflow in seven years, observed mostly in the 2H19 as investors hunted for higher-yielding emerging markets securities following slew of policy rate cuts by the central banks in the advanced economies and amid positive developments surrounding the US-China trade negotiation.

- Inflow driven by a net increase in holdings of Malaysian Government Securities (MGS), Malaysian Government Investment Issues (GII) and Private Debt Securities (PDS)

- MGS (+RM5.5b; Nov: +RM4.7b): foreign holdings share of total MGS edged up to 41.6% (Nov: 40.5%), a 19-month high.
- GII (+RM2.7b; Nov: +RM3.0b): foreign holdings share increased to 6.2% (Nov: 5.4%), a 20-month high.
- PDS (+RM0.6b; Nov: +RM0.4b): foreign holdings share sustained at 1.8%.

- Meanwhile, foreign investors remained as net sellers of Malaysian equities for six straight months

- Dec (-RM1.2b; Nov: -RM1.4b): marginally smaller outflow.
- 2019 (-RM11.2b; 2018: -RM11.8b): continued sell-off.

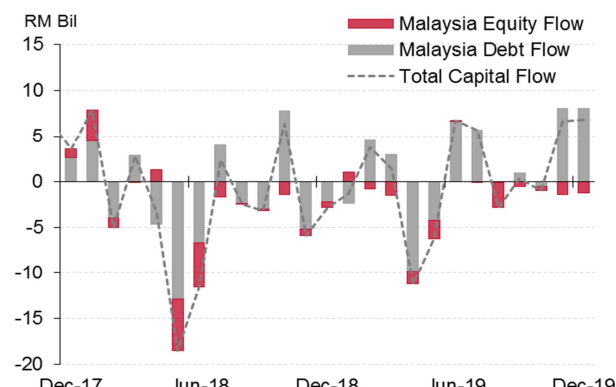
- Overall capital market registered a larger inflow of foreign funds (+RM6.9b; Nov: RM6.6b) in December

- 2019 (+RM8.7b; 2018: -RM33.6b): largest inflow in 6 years.

- Debt market to continue experience a net inflow in 2020 as a search-for-yield behaviour dominates

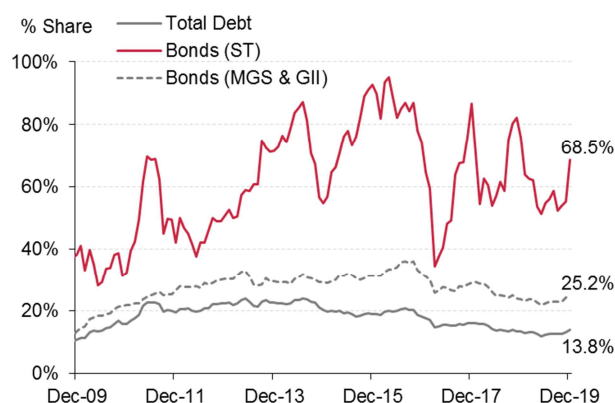
- Inflows to sustain particularly in the 1H20 amid a low interest rate environment brought about by the global accommodative monetary stance and a risk-on mode following the US-China trade truce. These might lift the Ringgit to near the 4.00 against the USD support level, before settling at 4.10 by end-2020.
- Cautious growth outlook retained, in spite of ease in trade tension, as uncertainties from the external front persist, in particular with regards to global trade momentum and rising geopolitical tensions. Coupled with further weakness in domestic activities, we reckon that the BNM may decide to slash the OPR by 25 basis points to 2.75% as soon as early 1Q20.

Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

Graph 2: Foreign Holdings of Malaysian Debt



Source: Dept. of Statistics, Kenanga Research

Graph 3: US Treasury Yield Vs. MGS Yield



Source: Bloomberg, Kenanga Research

09 January 2020

Table 1: Foreign Holdings of Malaysian Bonds

		Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
MGS	Value (MYR billion)	154.7	153.7	154.2	153.8	158.4	163.9
	% of Total MGS	38.3%	37.7%	37.5%	37.9%	40.5%	41.6%
GII	Value (MYR billion)	14.7	15.3	15.3	15.4	18.4	21.1
	% of Total GII	4.4%	4.6%	4.7%	4.7%	5.4%	6.2%
BNM bills	Value (MYR billion)	5.0	5.0	5.0	5.0	5.0	5.0
	% of Total BNM bills	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PDS	Value (MYR billion)	11.9	11.9	12.0	12.2	12.6	13.2
	% of Total PDS	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%
Total Foreign Debt Holdings	Value (MYR billion)	188.3	188.2	189.1	188.6	196.6	204.7
	% of Total Securities	12.6%	12.7%	12.7%	12.7%	13.2%	13.8%

Source: BNM, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

