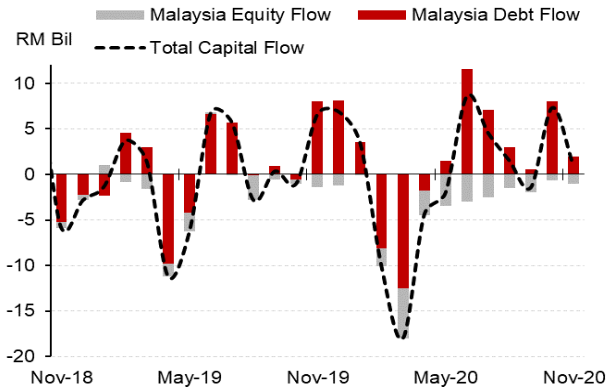
08 December 2020

Malaysia Bond Flows

Foreign fund inflow slowed in November

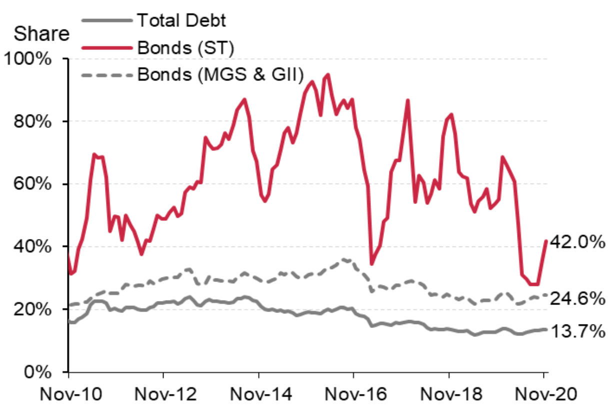
- **Foreign investors remained net buyers of Malaysia's debt securities for the seventh consecutive month in November, although inflows moderated (RM1.9b; Oct: RM8.0b)**
  - Total foreign debt holdings continued to edge higher in November (RM219.4b; Oct: RM217.5b), while its share to total outstanding debt remained the same at 13.7% (Oct: 13.7%).
  - Broad dollar weakness and favourable yield differentials continue to drive Malaysia's debt securities. However, investors' sentiment was tempered by concerns surrounding local COVID-19 cases and domestic political uncertainty.
- **The narrowed inflow was mainly due to a smaller net increase in holdings of Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (GII).**
  - MGS (RM1.8b; Oct: RM3.9b): foreign holdings share of total MGS eased to a two-month low (40.1%; Oct: 40.3%).
  - GII (RM0.9; Oct: RM2.4b): foreign holdings share edged up to 6.3% (Oct: 6.1%), a 31-month high.
  - MTB (RM-0.1b; Oct: RM1.8b): foreign holdings share surged to 69.6% (Oct: 65.7%), highest in two years.
- **For the equity market, foreign investors remained as net sellers for 17 straight months**
  - Foreign selling on Bursa increased in November (-RM1.0b; Sep: -RM0.7b), the biggest in two months, partly due to MSCI's index rebalancing activities.
- **Overall, the capital market registered a smaller net foreign inflow of RM0.9b (Oct: RM7.3b), marking two straight months of expansion**
- **The debt market will likely experience reduced foreign demand in the short term, following Fitch's recent downgrade of Malaysia's sovereign credit rating, however it is not expected to significantly impact the market's long-term stability**
  - The US 10-year Treasury average yield rose by 6 basis points (bps) to 0.84% in November, whilst the 10-year MGS average yield increased by 5 bps to 2.66%, which has marginally narrowed the average yield spread to 182 bps (Oct: 183 bps).
  - Foreign inflows are expected to persist in the near term on the back of global risk-on sentiment as COVID-19 vaccine optimism may continue to boost investors' risk appetite and drive risky assets higher. As such, the ringgit is also positioned to benefit from the persistent weakness in the US dollar and improving crude oil prices. Hence, we have revise our USDMYR year-end forecast to 4.07 from 4.30 (2019: 4.09).
  - We see a higher probability that Bank Negara Malaysia (BNM) would keep the overnight policy rate (OPR) unchanged at 1.75% on the back of improving economic conditions and positive vaccine sentiment.

Graph 1: Net Foreign Capital Flows



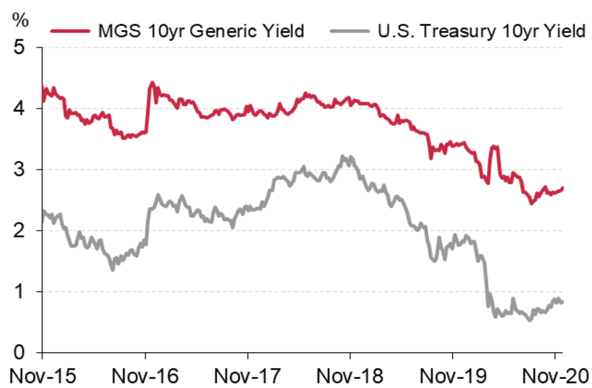
Source: BNM, Kenanga Research

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

Table 1: Foreign Holdings of Malaysian Bonds

		Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
MGS	Value (MYR billion)	156.9	164.6	167.8	169.2	173.2	175.0
	% of Total MGS	37.3%	38.2%	39.2%	38.8%	40.3%	40.1%
GII	Value (MYR billion)	20.5	20.7	20.5	20.2	22.6	23.4
	% of Total GII	5.8%	5.8%	5.8%	5.6%	6.1%	6.3%
BNM bills	Value (MYR billion)	5.0	4.0	4.0	4.0	3.0	2.0
	% of Total BNM bills	100%	100%	100%	100%	100%	100%
PDS	Value (MYR billion)	12.7	12.5	12.4	12.3	12.4	12.8
	% of Total PDS	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Total Foreign Debt Holdings	Value (MYR billion)	198.9	206.0	209.0	209.5	217.5	219.4
	% of Total Securities	12.8%	13.1%	13.3%	13.2%	13.7%	13.7%

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

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

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