

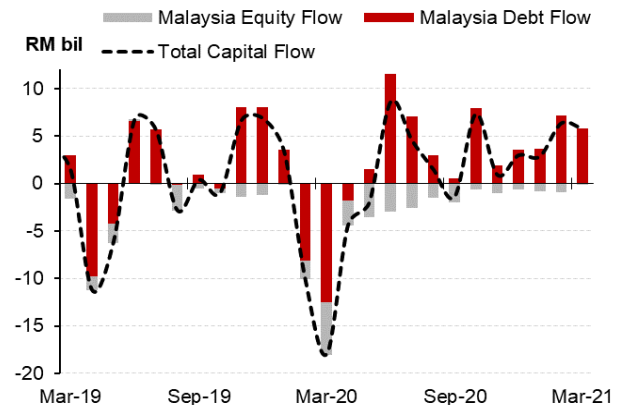
08 April 2021

Malaysia Bond Flows

Foreign fund inflow softened in March on impact of rising UST yields

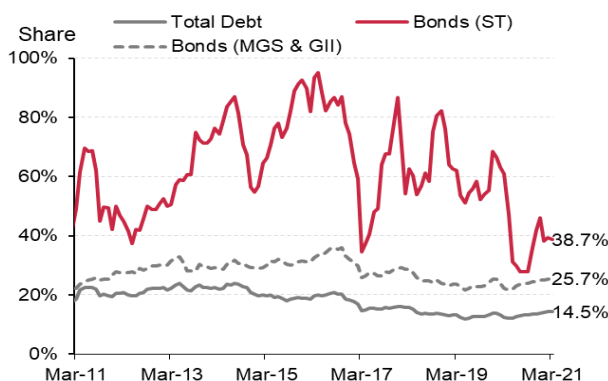
- Foreign investors retained as net buyers of Malaysia’s debt securities for the eleventh successive month, although the inflow moderated to RM5.8b in March (Feb: RM7.2b)**
 - Total foreign debt holdings continued to climb, remaining at its highest level in over four years (RM239.6; Feb: RM233.8b), as its share to total outstanding debt securities increased to a 35-month high (14.5%; Feb: 14.3%).
 - Inflows continued to be driven by high yield differentials and improving recovery optimism, following the unveiling of the RM20.0b PEMERKASA package and further relaxation of COVID-19 restrictions. Nevertheless, inflows likely softened as a result of the global bond sell-off.
- The narrowed inflow was mainly due to a smaller net increase in holdings of Malaysian Government Securities (MGS), outweighing a greater increase in Government Investment Issues (GII)**
 - MGS (RM1.5b; Feb: RM3.5b): foreign holdings share of total MGS decreased slightly (40.8%; Feb: 41.2%).
 - GII (RM2.9; Feb: RM2.1b): foreign holdings share increased to 8.0% (Feb: 7.2%), a 49-month high.
- For the equity market, outflows persisted for 21 consecutive months**
 - However, investors offloaded funds at a slower pace in March (-RM0.03b; Feb: -RM0.9b), a 21-month low, on the back of improving recovery optimism.
- Overall, the capital market registered a smaller net foreign portfolio inflow in March (RM5.8b; Feb: RM6.3b)**
- Debt market may continue attracting foreign demand in the near term, amid attractive yield differentials and following FTSE Russell’s positive review of Malaysian bonds**
 - The US 10-year Treasury average yield rose by 37 basis points (bps) to 1.65% in March, whilst the 10-year MGS average yield increased by 45 bps to 3.35%, widening the average yield spread to 170 bps (Feb: 162 bps).
 - Foreign inflows may sustain on the back of FTSE Russell’s decision to keep Malaysian bonds in the World Government Bond Index and as high yield spreads keep local bonds attractive. Nevertheless, downside risks have emerged due to a possible rise in global risk-off sentiment, amid a resurgence of COVID-19 infections and mutated strains in Europe. The ringgit may be pressured in the near-term, as US bond yields could continue to rise. However, in the long-term, the ringgit may find some strength should the domestic economy open further as more people get vaccinated. As such, we retain our year-end USDMYR forecast at 3.95 (2020: 4.02).
 - We maintain that the overnight policy rate (OPR) will likely remain unchanged at 1.75% for the rest of the year. However, should the COVID-19 situation worsen in the near term, we believe BNM still has room to cut the OPR by 25 – 50 bps.

Graph 1: Net Foreign Capital Flows



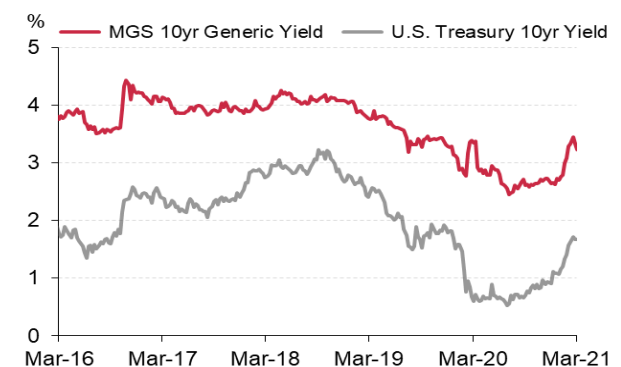
Source: BNM, Kenanga Research

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

08 April 2021

Table 1: Foreign Holdings of Malaysian Bonds

		Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
MGS	Value (MYR billion)	173.2	175.0	177.3	179.6	183.1	184.6
	% of Total MGS	40.3%	40.1%	40.6%	40.5%	41.2%	40.8%
GII	Value (MYR billion)	22.6	23.4	24.8	25.7	27.8	30.7
	% of Total GII	6.1%	6.3%	6.6%	6.8%	7.2%	8.0%
BNM bills	Value (MYR billion)	3.0	2.0	2.0	2.0	2.0	1.0
	% of Total BNM bills	100%	100%	100%	100%	100%	100%
PDS	Value (MYR billion)	12.4	12.8	12.8	13.0	13.3	13.9
	% of Total PDS	1.7%	1.7%	1.7%	1.7%	1.8%	1.8%
Total Foreign Debt Holdings	Value (MYR billion)	217.5	219.4	223.0	226.7	233.8	239.6
	% of Total Securities	13.7%	13.7%	13.9%	14.0%	14.3%	14.5%

Source: BNM, Kenanga Research

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