

09 September 2021

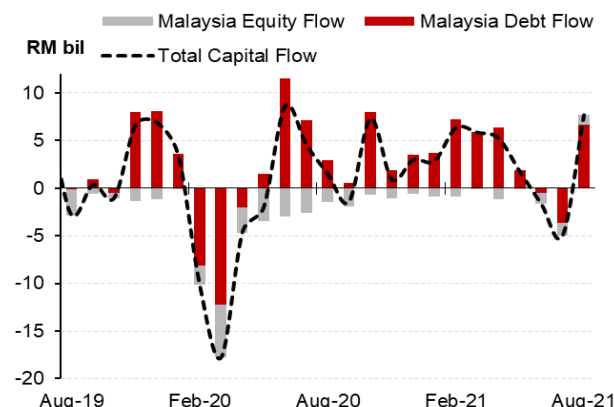
Malaysia Bond Flows

Foreign inflows returned in August, reaching a 10-month high

- Foreign investors turned net buyers of Malaysia's debt securities in August following two consecutive months of selling, with inflows reaching its highest level in 10 months (RM6.6b; Jul: -RM3.6b)

- Total foreign debt holdings increased (RM250.4b; Jul: RM243.8b), with its share to total outstanding debt rising to 14.7% (Jul: 14.4%).
- The renewed demand was driven by improving domestic political stability, following the appointment of the new Prime Minister, and the increasingly high yield differentials of local debt. Additionally, uncertainties concerning Malaysia's growth recovery have slightly eased, given the strong vaccination campaign and relaxation of some lockdown measures.

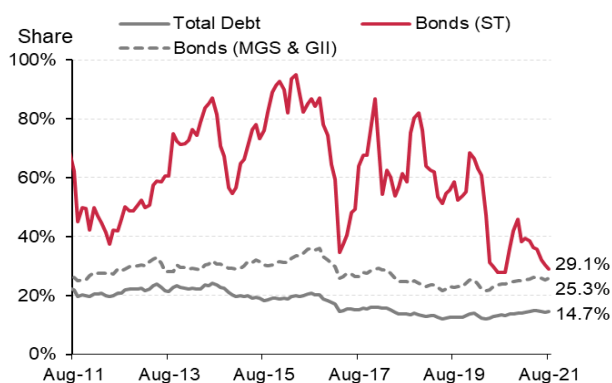
Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

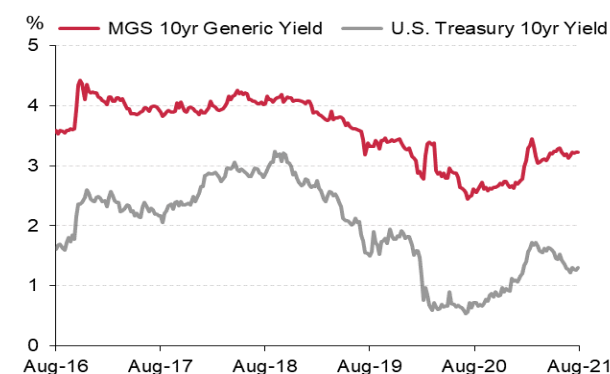
- The inflow was driven by a sizeable net increase in holdings of Government Investment Issues (GII) and Malaysian Government Securities (MGS), along with a slight rise in Private Debt Securities (PDS)
 - GII (RM3.2b; Jul: RM0.4b): foreign holdings share of total outstanding bonds rose to a 5-year high (8.6%; Jul: 7.8%).
 - MGS (RM3.1b; Jul: -RM3.6b): largest increase in 4 months, but foreign holdings share edged lower to 40.3% (Jul: 40.4%).
 - PDS (RM0.3b; Jul: RM0.1b): foreign holdings share sustained at 1.8% for the seventh consecutive month.
- For the equity market, foreign investors turned net buyers for the first time since June 2019
 - This marks the biggest inflow for equities in 31 months (RM1.0b; Jul: -RM1.3b), amid a stabilising domestic political condition.
- Overall, the capital market rebounded and registered its largest foreign inflow in 14 months (RM7.7b; Jul: -RM5.0b)
- Debt market may sustain inflows in the near term, given the easing of political risk and attractive yield differentials
 - The US 10-year Treasury average yield decreased by 3 basis points (bps) to 1.28% in August, while the 10-year MGS average yield rose by 4 bps to 3.22%, further widening the average yield spread to 194 bps (Jul: 187 bps), an 11-month high.
 - Given the improvement in domestic political stability, we expect the high yield differentials of local bonds to resume attracting foreign demand, as was the case earlier this year. This will be further supported by Malaysia's strong vaccination momentum and the continued easing of restriction measures, although downside risks remain given the relentlessly high level of local COVID-19 cases and uncertainties relating to US Fed tapering. Nevertheless, we have revised our end-2021 USDMYR forecast to 4.18 from 4.03 previously (2020: 4.02), taking into account the ongoing global COVID-19 condition and a potentially bullish USD towards the end of the year.
 - We expect BNM to maintain the policy rate at 1.75% at today's Monetary Policy Committee meeting and for the rest of the year, to ensure continued support for the economy given downside risks concerning COVID-19.

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

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Table 1: Foreign Holdings of Malaysian Bonds

		Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
MGS	Value (MYR billion)	184.6	189.3	191.7	192.1	188.6	191.7
	% of Total MGS	40.8%	41.0%	41.1%	40.4%	40.4%	40.3%
GII	Value (MYR billion)	30.7	31.2	30.5	30.8	31.2	34.4
	% of Total GII	8.0%	8.2%	7.9%	7.9%	7.8%	8.6%
BNM bills	Value (MYR billion)	1.0	1.0	1.0	0.0	0.0	0.0
	% of Total BNM bills	100%	100%	100%	0%	0%	0%
PDS	Value (MYR billion)	13.9	13.6	13.5	13.5	13.6	13.9
	% of Total PDS	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Total Foreign Debt Holdings	Value (MYR billion)	239.7	246.1	247.9	247.4	243.7	250.4
	% of Total Securities	14.5%	14.8%	14.8%	14.6%	14.4%	14.7%

Source: BNM, Kenanga Research

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