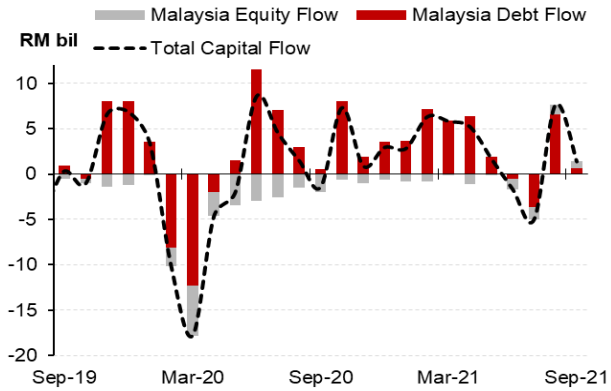
Malaysia Bond Flows

Foreign fund inflow softened in September

- **Foreign investors remained net buyers of Malaysia's debt securities for the second consecutive month in September, although inflows narrowed (RM0.6b; Aug: RM6.6b)**
  - Total foreign debt holdings increased (RM251.1b; Aug: RM250.4b), while its share to total outstanding debt edged lower (14.6%; Aug: 14.7%).
  - The moderation was largely driven by a global bond sell-off, following increasingly hawkish signals from major central banks on rising inflationary pressure. The US Fed indicated that tapering could be decided in November and that rate hikes may begin in 2022, whilst the Bank of England signalled the policy rate could be raised before year's end.

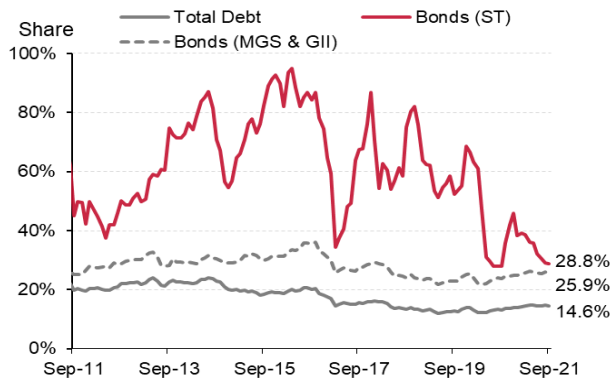
Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

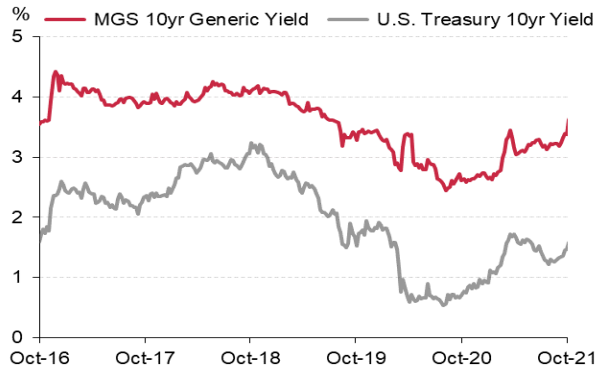
- **The softened inflow was mainly due to a net decrease in holdings of Malaysian Government Securities (MGS) and a smaller net increase of Government Investment Issues (GII)**
  - MGS (-RM2.4b; Aug: RM3.1b): foreign holdings share of total outstanding bonds remained at 40.3% (Aug: 40.3%).
  - GII (RM2.2b; Aug: RM3.2b): foreign holdings share continued to rise (9.0%; Aug: 8.6%).
  - MTB (RM0.5b; Aug: RM0.0b): foreign holdings share decreased to a 3-month low (57.7%; Aug: 65.9%).
  - PDS (RM0.4b; Aug: RM0.3b): foreign holdings share remained at 1.8% for the eighth consecutive month.
- **For the equity market, foreign investors remained net buyers for the second straight month**
  - Foreign inflows edged lower to RM0.7b (Aug: RM1.0b), amid investors' concerns regarding Evergrande's debt crisis and the US Fed's tapering plans.
- **Overall, the capital market recorded a smaller foreign inflow in September (RM1.4b; Aug: RM7.7b)**
- **Debt market to continue experiencing softer inflows ahead of the US Fed's tapering announcement**
  - The US 10-year Treasury average yield increased by 9 basis points (bps) to 1.37% in September, while the 10-year MGS average yield rose by 6 bps to 3.29%, slightly narrowing the average yield spread to 192 bps (Aug: 194 bps).
  - Foreign demand for local bonds will likely be pressured amid a sustained global bond sell-off, as major central banks continue to raise rates and the US Fed potentially announces tapering in November. Furthermore, Evergrande's debt crisis may continue to undermine investor confidence, as its collapse could destabilise regional financial stability. Nevertheless, domestic bonds will find some support from high yield differentials and the further reopening of the local economy amid an improving COVID-19 situation. As such, we maintain our end-2021 USDMYR forecast at 4.18 (2020: 4.02).
  - We expect BNM to keep the policy rate unchanged at 1.75% for the rest of the year and until at least 2Q22, to ensure sustained support for the economy as Malaysia shifts into an endemic phase of 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

Table 1: Foreign Holdings of Malaysian Bonds

		Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
MGS	Value (MYR billion)	189.3	191.7	192.1	188.6	191.7	189.3
	% of Total MGS	41.0%	41.1%	40.4%	40.4%	40.3%	40.3%
GII	Value (MYR billion)	31.2	30.5	30.8	31.2	34.4	36.6
	% of Total GII	8.2%	7.9%	7.9%	7.8%	8.6%	9.0%
BNM bills	Value (MYR billion)	1.0	1.0	0.0	0.0	0.0	0.0
	% of Total BNM bills	100%	100%	0%	0%	0%	0%
PDS	Value (MYR billion)	13.6	13.5	13.5	13.6	13.9	14.3
	% of Total PDS	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
Total Foreign Debt Holdings	Value (MYR billion)	246.1	247.9	247.4	243.7	250.4	251.1
	% of Total Securities	14.8%	14.8%	14.6%	14.4%	14.7%	14.6%

Source: BNM, Kenanga Research

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