

11 January 2022

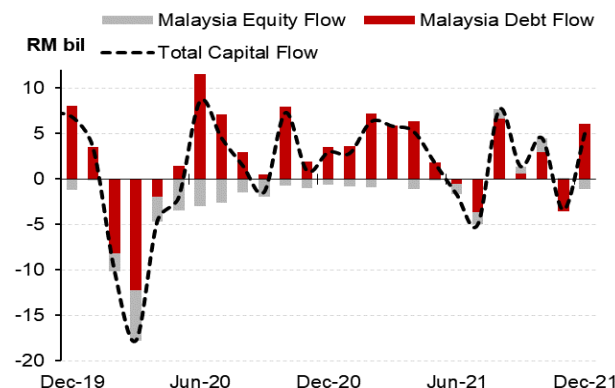
# Malaysia Bond Flows

Inflows returned in December, registering a 4-month high

- Foreign investors turned net buyers of Malaysia's debt securities in December (RM6.1b; Nov: -RM3.6b), after a month of net selling

- Total foreign debt holdings increased to RM256.6b (Nov: RM250.4b), while its share to total outstanding debt rose to 14.8% (Nov: 14.4%), a 7-month high.
- Demand was likely driven by the return of global risk-on sentiment as Omicron fears began to subside, following reports that it was less severe than other COVID-19 variants. Furthermore, domestic bonds retained high yield differentials against many developed market bonds, keeping them attractive despite monetary policy tightening by major central banks.

Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

- The month's inflow was driven by a sizeable net increase in holdings of Malaysian Government Securities (MGS) and Government Investment Issues (GII), which outweighed a softer rise in holdings of Malaysian Treasury Bills (MTB)

- MGS (RM2.4b; Nov: -RM4.9b): foreign holdings share of total outstanding bonds edged higher (39.4%; Nov: 39.3%)
- GII (RM3.9b; Nov: RM1.2b): foreign holdings share rose to 10.5% (Nov: 9.7%).
- MTB (RM0.5b; Nov: RM0.7b): foreign holdings share increased to 44.2% (Nov: 43.4%).

- For the equity market, foreign investors turned net sellers for the first time in 5 months (-RM1.1b; Nov: RM0.2b)

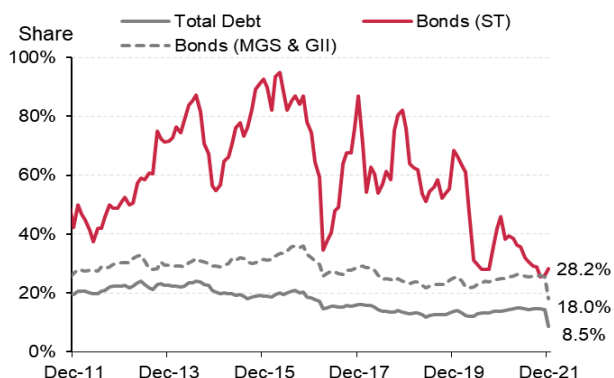
- Demand for equities may have been hindered by lingering uncertainty over the Omicron variant and the US Fed's increasingly hawkish tilt, as it quickened the pace of its tapering process.

- Overall, the capital market registered its largest inflow in 4 months (RM5.0b; Nov: -RM3.4b)

- Debt market remains at risk of outflows in the near-term, as the US Fed may aggressively tighten monetary policy

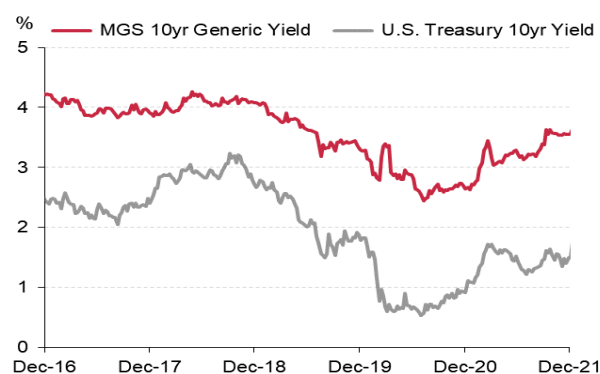
- The US 10-year Treasury average yield fell by 6 basis points (bps) to 1.45% in December, while the 10-year MGS average yield remained at 3.55%, raising the average yield spread to 211 bps (Nov: 205 bps), an 18-month high.
- Despite the return of foreign funds, the debt market may yet experience outflows in the near-term due to the US Fed's increasingly hawkish tilt. The release of the December FOMC meeting minutes indicated that Fed is considering hiking interest rates earlier and may begin balance sheet reductions soon after, which could impact foreign flows to Malaysia in the near to medium-term. Nonetheless, we still expect the bond market to register an overall net inflow in 2022, supported by a strong domestic recovery outlook and relatively high yield differentials. Against this backdrop, we are cautiously bullish on the ringgit's outlook and forecast the USDMYR to reach 4.10 by end-2022 (2021: 4.17).
- We expect BNM to keep the policy rate unchanged at 1.75% until at least September 2022, in order to support Malaysia's ongoing recovery and to remain cautious of lingering COVID-19 risks.

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

		Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
<b>MGS</b>	Value (MYR billion)	188.6	191.7	189.3	192.0	187.1	189.5
	% of Total MGS	40.4%	40.3%	40.3%	40.1%	39.3%	39.4%
<b>GII</b>	Value (MYR billion)	31.2	34.4	36.6	39.3	40.6	44.5
	% of Total GII	7.8%	8.6%	9.0%	9.5%	9.7%	5.4%
<b>MTB</b>	Value (MYR billion)	5.3	5.3	5.8	3.0	3.7	4.2
	% of Total MTB	66.2%	65.9%	57.7%	46.2%	43.4%	44%
<b>MITB</b>	Value (MYR billion)	5.1	5.2	5.2	4.9	4.3	3.7
	% of Total MITB	19.5%	18.5%	18.4%	20.0%	19.4%	19.9%
<b>PDS</b>	Value (MYR billion)	13.6	13.9	14.3	14.8	14.8	14.7
	% of Total PDS	1.8%	1.8%	1.8%	1.9%	1.9%	1.9%
<b>Total Foreign Debt Holdings</b>	Value (MYR billion)	243.8	250.4	251.1	254.0	250.4	256.6
	% of Total Securities	14.4%	14.7%	14.6%	14.7%	14.4%	14.8%

Source: BNM, Kenanga Research

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