

13 May 2022

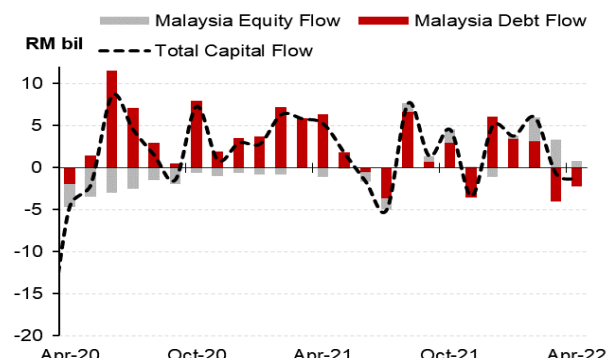
Malaysia Bond Flows

Foreign selling of bonds eased in April; equity inflows at a 3-month low

- Foreign investors remained net sellers of Malaysia's debt securities second straight month in April (-RM2.2b; Mar: -RM4.0b), albeit to a lesser extent

- Total foreign debt holdings fell to a 4-month low (RM256.9b; Mar: RM259.1b), with its share to total outstanding debt declining to 14.5% (Mar: 14.7%).
- Foreign demand for local debt remained pressured by the sharp narrowing of MGS-UST yield spreads and the global bond sell-off, triggered by expectations of more aggressive Fed tightening. However, the local debt market recorded a smaller net outflow, likely due to the lesser amount of government bond maturities in April.

Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

- The moderated outflow was attributable to a smaller net sell-off of Malaysian Government Securities (MGS) and Government Investment Issues (GII), as well as an increase in holdings of Malaysian Treasury Bills (MTB) and Malaysian Islamic Treasury Bills (MITB)

- MGS (-RM2.1b; Mar: -RM3.2b): foreign holdings share of total outstanding bonds declined to 37.6% (Mar: 38.8%).
- GII (-RM0.5b; Mar: -RM1.0b): foreign holdings share of total outstanding bonds edged lower (10.3%; Mar: 10.4%).
- MTB (RM0.1b; Mar: -RM0.5b): foreign holdings share rose to a 2-month high (54.9%; Mar: 53.7%).

- For the equity market, foreign investors remained net buyers for the fourth straight month in April

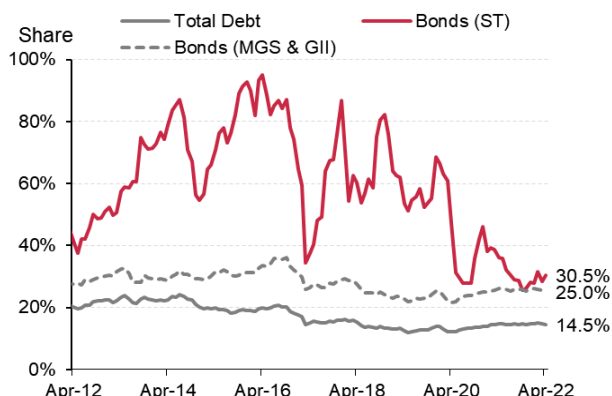
- Foreign inflows moderated to RM0.8b (Mar: RM3.3b), a 3-month low, amid strong volatility in global financial markets.

- Overall, the capital market recorded a deeper net outflow (-RM1.4b; Mar: -RM0.7b), reaching a 5-month low

- Debt market may remain pressured as the US Fed continues aggressive policy tightening

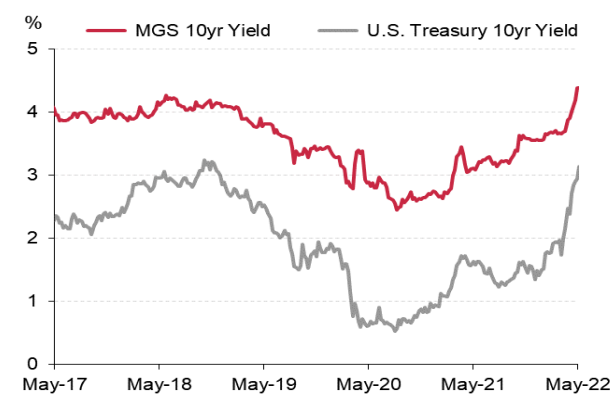
- The 10-year US Treasury average yield surged by 66 basis points (bps) to 2.75% in April, whilst the 10-year MGS average yield rose by 39 bps to 4.11%, further narrowing the average yield spread to 136 bps (Mar: 163 bps), a 3-year low.
- We expect the domestic debt market to continue registering outflows in the near-term, amid the sustained decline in yield differentials, the ongoing global bond sell-off, and China's deteriorating economic outlook. Overall, this weakness stems from an increasingly hawkish Fed, following its recent 50bps rate hike and with potentially more to come. However, we could see a smaller net outflow in May, following the start of BNM's tightening cycle and as there are no scheduled MGS or GII maturities this month. With that said, due to the ongoing monetary policy divergence between the Fed and BNM, as well as China's weakening outlook, we have revised our end-2022 USDMYR forecast to 4.28 from 4.10 beforehand (2021: 4.17).
- Given BNM's surprise 25bps rate hike on May 11 and its more hawkish stance, we now expect the central bank to raise the overnight policy rate by another 50bps to 75bps this year, including a 25bps hike at its next meeting in July.

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

13 May 2022

Table 1: Foreign Holdings of Malaysian Bonds

		Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
MGS	Value (MYR billion)	187.1	189.5	194.1	194.6	191.4	189.3
	% of Total MGS	39.3%	39.4%	39.6%	39.3%	38.8%	37.6%
GII	Value (MYR billion)	40.6	44.5	44.2	45.8	44.9	44.4
	% of Total GII	9.7%	5.4%	10.4%	10.5%	10.4%	10.3%
MTB	Value (MYR billion)	3.7	4.2	4.6	5.6	5.1	5.2
	% of Total MTB	43.4%	44%	48.5%	59%	53.7%	55%
MITB	Value (MYR billion)	4.3	3.7	3.1	2.9	3.9	4.7
	% of Total MITB	19.4%	19.9%	17.0%	16.5%	17.7%	20.4%
PDS	Value (MYR billion)	14.8	14.7	14.1	14.2	13.9	13.4
	% of Total PDS	1.9%	1.9%	1.8%	1.8%	1.8%	1.7%
Total Foreign Debt Holdings	Value (MYR billion)	250.4	256.6	260.0	263.2	259.1	256.9
	% of Total Securities	14.4%	14.8%	14.9%	14.9%	14.7%	14.5%

Source: BNM, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

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

Zalman Basree
Economist
zalman@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

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