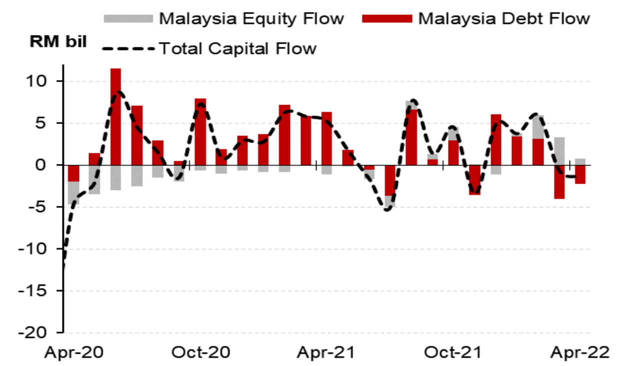
Malaysia Bond Flows

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.

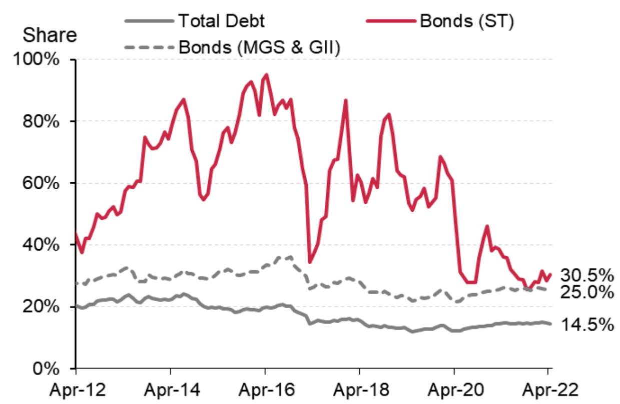
Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

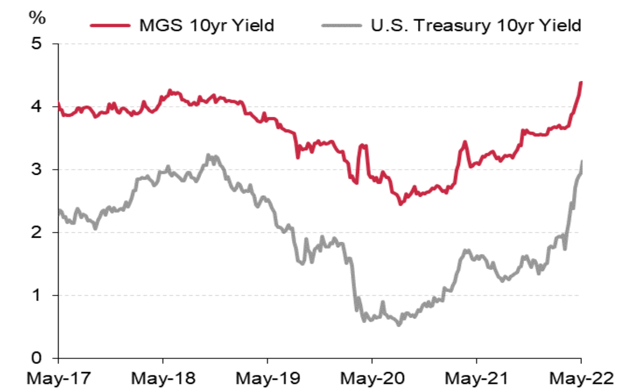
- **The moderated outflow was attributable to a smaller net sell-off of Malaysian Government Securities (MGS) and Government Investment Issues (GII), as well as an increase in holdings of Malaysian Treasury Bills (MTB) and Malaysian Islamic Treasury Bills (MITB)**
  - MGS (-RM2.1b; Mar: -RM3.2b): foreign 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

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

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