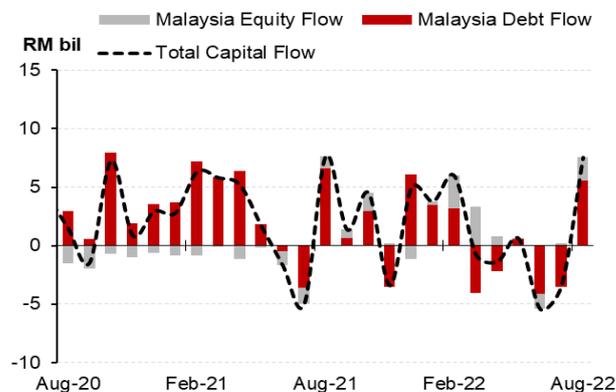


Malaysia Bond Flows

Bond inflows returned in August, its largest in 8-months

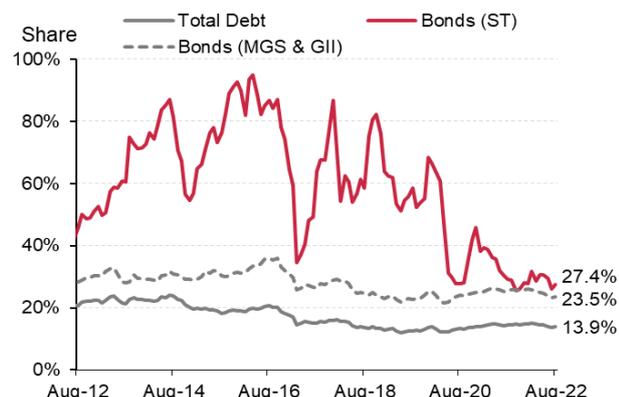
- Foreign investors turned net buyers of Malaysia's debt securities for the first time in three months (RM5.6b; Jul: -RM3.5b), recording the largest net inflow of the year**
 - Total foreign debt holdings rose to a 3-month high (RM255.4b; Jul: RM249.8b), with its share to total outstanding debt increasing to 13.9% (Jul: 13.7%).
 - Bond inflows likely returned due to improving global risk sentiment, especially in early August, as US recession expectations eased and the market began to anticipate a less hawkish Fed stance. Furthermore, Malaysia may have benefited from sustained capital outflows from China.
- The inflow was attributable to a broad-based increase in foreign holdings of government bonds, led by Malaysian Government Securities (MGS), Malaysian Islamic Treasury Bills (MITB) and Government Investment Issues (GII)**
 - MGS (RM3.5b; Jul: -RM3.3b): foreign holdings share to total outstanding bonds rose to a 2-month high (36.1%; Jul: 35.5%).
 - MITB (RM1.8b; Jul: RM1.3b): foreign holdings share increased to a 14-month high (21.1%; Jul: 19.1%).
 - GII (RM0.2b; Jul: -RM1.4b): inflows returned but foreign holdings share edged lower to 8.8% (Jul: 8.9%).
- For the equity market, foreign investors remained net buyers for the second successive month**
 - Recorded a greater net inflow of RM2.0b (Jul: RM0.2b), its largest in five months, as global risk appetite improved amid easing expectations of rate hikes, inflation, and recession in the US.
- Overall, the capital market recorded the largest net inflow in 11-months (RM7.6b; Jul: -RM3.4b)**
- Debt market may record a softer inflow in September amid the return of global risk aversion and aggressive Fed rate hike**
 - The 10-year US Treasury average yield increased by 6 bps to 2.92% in August, whilst the 10-year MGS average yield fell by 11 bps to 3.96%, narrowing the average yield spread to an almost 4-year low (104 bps; Jul: 122 bps).
 - Despite the strong inflow recorded in August, we still expect foreign demand for domestic bonds to be slightly pressured in the near-term. This is considering the return of global risk-aversion following the Fed's renewed hawkish stance at Jackson Hole, with the market now expecting another 75 bps rate hike at the next FOMC meeting, and also due to falling MGS-UST yield differentials. However, domestic bonds may find some support from BNM's 25 bps rate hike and solid macroeconomic fundamentals. Moreover, we still expect bond flows to improve in 4Q22 on fewer government bond maturities and as the pace of Fed hikes ease. As such, we retain our year-end USDMYR forecast at 4.35 (2021: 4.17).
 - Given Malaysia's robust economic recovery, we continue to expect BNM to raise the overnight policy rate by 25 bps at its November 2022 and January 2023 meetings, which would bring it to a neutral rate of 3.00%.

Graph 1: Net Foreign Capital Flows



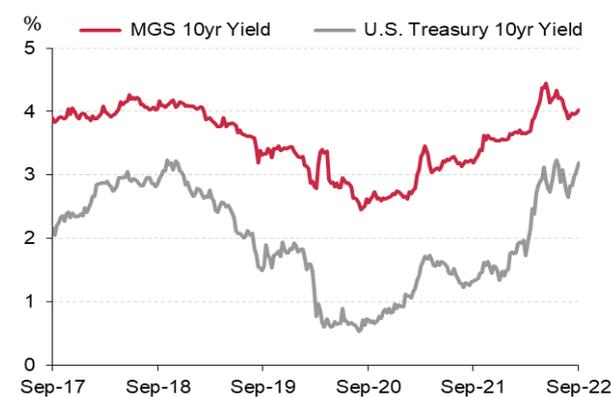
Source: BNM, Kenanga Research

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

09 September 2022

Table 1: Foreign Holdings of Malaysian Bonds

		Mar-22	Apr-22	May-22	Jun-22	Jul-22	Jul-22
MGS	Value (MYR billion)	191.4	189.3	189.8	188.9	185.7	189.1
	% of Total MGS	38.8%	37.6%	37.4%	36.5%	35.5%	36.1%
GII	Value (MYR billion)	44.9	44.4	44.2	40.8	39.4	39.6
	% of Total GII	10.4%	10.3%	10.1%	9.2%	8.9%	8.8%
MTB	Value (MYR billion)	5.1	5.2	5.8	4.7	4.7	4.9
	% of Total MTB	53.7%	55%	60.6%	56%	55.7%	57%
MITB	Value (MYR billion)	3.9	4.7	4.2	5.5	6.8	8.6
	% of Total MITB	17.7%	20.4%	18.3%	21.0%	19.1%	21.1%
PDS	Value (MYR billion)	13.9	13.4	13.5	13.4	13.2	13.3
	% of Total PDS	1.8%	1.7%	1.7%	1.7%	1.7%	1.6%
Total Foreign Debt Holdings	Value (MYR billion)	259.1	256.9	257.5	253.3	249.8	255.4
	% of Total Securities	14.7%	14.5%	14.4%	14.0%	13.7%	13.9%

Source: BNM, Kenanga Research

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Published and printed by:

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