

09 December 2022

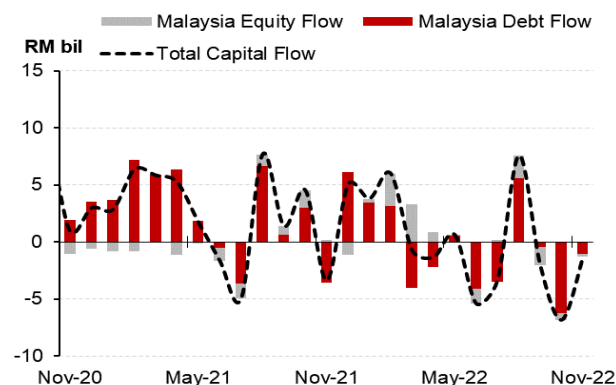
Malaysia Bond Flows

Foreign selling eased following GE15 and the return of global risk-on sentiment

- **Foreign investors remained net sellers of Malaysia's debt securities for the third straight month in November (-RM1.0b; Oct: -RM6.3b), albeit to a lesser extent**

- Total foreign debt holdings fell to RM247.6b (Oct: RM248.7b), as its share to total outstanding debt edged lower (13.3%; Oct: 13.4%).
- Foreign selling of Malaysian bonds eased in November, as demand picked up towards the end of the month following the formation of the unity government, and due to the return of global risk-on sentiment with markets pricing in a less hawkish US Fed. This came off the back of potentially strong foreign selling earlier in the month ahead of the 15th General Election (GE15) and amid the brief hung parliament period.

Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

- **The smaller outflow was driven by a larger sell-off of Malaysian Treasury Bills (MTB), which outweighed a rebound in holdings of Government Investment Issues (GII) and a softer outflow of Malaysian Government Securities (MGS)**

- MITB (-RM1.0b; Oct: -RM0.2b): foreign holdings share fell to an 11-month low (45.0%; Oct: 51.1%).
- GII (RM1.3b; Oct: -RM1.2b): foreign holdings share rose to 8.5% (Oct: 8.3%).
- MGS (-RM0.1b; Oct: -RM2.7b): foreign holdings share edged lower (34.4%; Oct: 34.8%).

- **For the equity market, foreign investors remained net sellers for the third consecutive month**

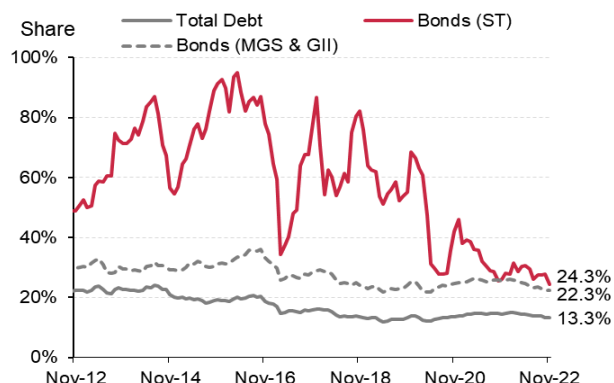
- Foreign outflows edged lower (-RM0.3b; Oct: -RM0.6b), amid the easing of domestic political uncertainty.

- **Overall, the capital market recorded its smallest net outflow in three months (-RM1.3b; Oct: -RM6.9b)**

- **Debt market may see a modest return of foreign inflows in December**

- The 10-year US Treasury average yield fell by 16 bps to 3.87% in November, whilst the 10-year MGS average yield dropped 13 bps to 4.30%, widening the average yield spread for the first time in five months (43 bps; Oct: 39 bps).
- The debt market may record a slight net inflow in December, supported by the return of political stability and the appointment of the new Prime Minister. Furthermore, foreign demand may be buoyed by easing global risk aversion following relatively dovish comments from the Fed and signs that US inflation is cooling. However, the risk of outflows remain amid a widening rate gap between BNM and the Fed, with the US central bank widely expected to raise rates by another 50 bps at its upcoming meeting (Dec 13 – 14). Hence, we expect a more sustained return of foreign inflows from 2Q23 onwards, when most major central banks will likely complete their tightening cycles.
- We expect BNM to raise the overnight policy rate by another 25 bps at its next meeting (Jan 18 – 19), given strong growth momentum and persistently elevated core inflation. However, due to growing global economic uncertainty and a potential domestic slowdown later in the year, we currently assign only a 50.0% probability for another 25 bps hike in March.

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

		Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
MGS	Value (MYR billion)	188.9	185.7	189.1	186.5	183.8	183.7
	% of Total MGS	36.5%	35.5%	36.1%	35.9%	34.8%	34.4%
GII	Value (MYR billion)	40.8	39.4	39.6	39.7	38.4	39.7
	% of Total GII	9.2%	8.9%	8.8%	8.6%	8.3%	8.5%
MTB	Value (MYR billion)	4.7	4.7	4.9	4.6	4.3	3.4
	% of Total MTB	56%	55.7%	57%	54.1%	51%	45.0%
MITB	Value (MYR billion)	5.5	6.8	8.6	10.7	8.7	7.2
	% of Total MITB	21.0%	19.1%	21.1%	22.6%	22.6%	20.0%
PDS	Value (MYR billion)	13.4	13.2	13.3	13.4	13.4	13.6
	% of Total PDS	1.7%	1.7%	1.6%	1.7%	1.7%	1.7%
Total Foreign Debt Holdings	Value (MYR billion)	253.3	249.8	255.4	254.9	248.7	247.6
	% of Total Securities	14.0%	13.7%	13.9%	13.8%	13.4%	13.3%

Source: BNM, Kenanga Research

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