

09 March 2023

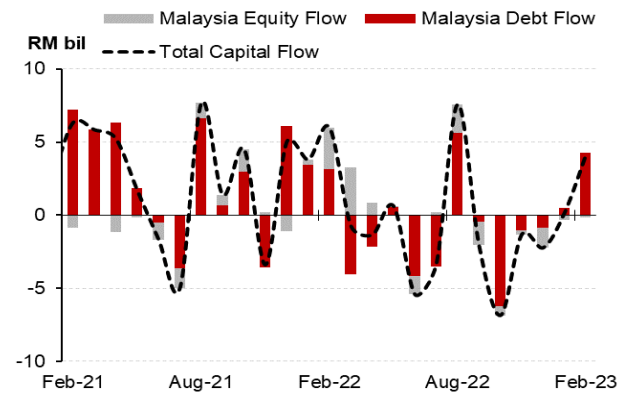
Malaysia Bond Flows

Foreign inflows rose to a 6-month high in February but tempered by hawkish Fed

- **Foreign investors remained net buyers of Malaysia’s debt securities for the second straight month in February (RM4.3b; Jan: RM0.5b), with inflows rising to its highest level since August 2022**

- Total foreign debt holdings rose (RM251.5b; Jan: RM247.3b), with its share to total outstanding debt increasing (13.2%; Jan: 13.1%) for the first time in seven months.
- Foreign demand appeared to be robust in early February, as evidenced by a broad decline in bond yields and strong government bond auction results; this was likely bolstered by the US Fed’s modest 25 bps rate hike. However, we suspect that demand may have tapered off later in the month due to a resurgence of global risk-aversion, prompted by market expectations of prolonged Fed hawkishness.

Graph 1: Monthly Net Foreign Capital Flows



Source: BNM, Kenanga Research

- **The greater inflow was attributable by a sizeable increase in holdings of Malaysian Government Securities (MGS) and a smaller outflow of Malaysian Islamic Treasury Bills (MITB), which outweighed a smaller increase in Government Investment Issues (GII)**

- MGS (RM4.0b; Jan: RM1.3b): foreign holdings share of total outstanding bonds remained the same (34.5%).
- MITB (-RM0.4b; Jan: -RM1.7b): foreign holdings share continued to fall (6.6%; Jan: 8.8%).
- GII (RM1.0b; Jan: RM1.4b): foreign holdings share remained at 8.7%.

- **For the equity market, foreign investors remained net sellers for the sixth consecutive month in February**

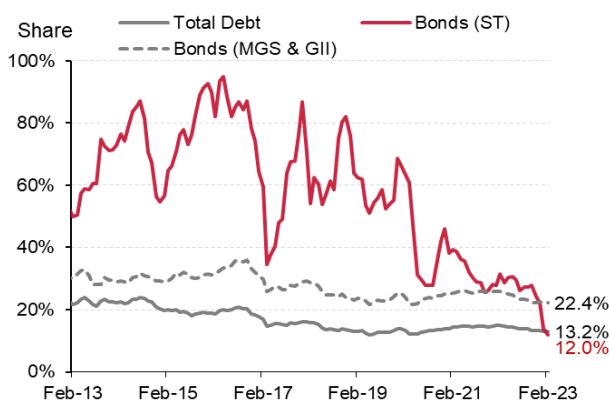
- Foreign outflows moderated slightly (-RM0.2b; Jan: -RM0.3b), amid moderate global risk-off sentiment.

- **Overall, the capital market recorded its largest net inflow in six months (RM4.1b; Jan: RM0.2b)**

- **Bond flows may moderate in March amid renewed Fed hawkishness**

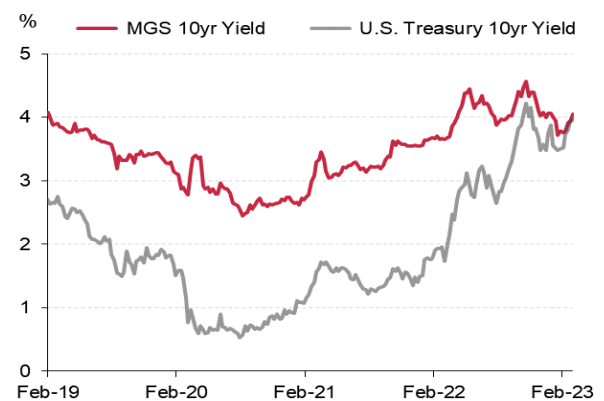
- The 10-year US Treasury average yield increased by 13 bps to 3.64% in February, whilst the 10-year MGS average yield fell 6 bps to 3.81%, narrowing the average yield spread further to 17 bps (Jan: 35 bps).
- Foreign demand for domestic bonds may face headwinds in March as investors turn risk-averse in response to the possible return of hawkish Fed policy; this has been fuelled by astonishingly robust US jobs data and persistently elevated inflationary pressures. This has also been exacerbated by Jerome Powell’s recent remarks suggesting a larger 50 bps rate hike remained on the table, depending on the strength of upcoming economic data. Although a more stable recovery in Malaysia’s foreign inflows could emerge in 2Q23, this outcome remains highly dependent on a marked slowdown in US inflation and jobs growth, as well as the Fed signalling the end of its tightening cycle.
- BNM is expected to keep the overnight policy rate at 2.75% after today’s Monetary Policy Committee meeting and for the rest of 2023, given slower domestic inflation and an uncertain global economic outlook.

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

		Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
MGS	Value (MYR billion)	186.5	183.8	183.7	186.0	187.3	191.3
	% of Total MGS	35.9%	34.8%	34.4%	34.6%	34.5%	34.5%
GII	Value (MYR billion)	39.7	38.4	39.7	40.2	41.6	42.5
	% of Total GII	8.6%	8.3%	8.5%	8.5%	8.7%	8.7%
MTB	Value (MYR billion)	4.6	4.3	3.4	3.0	2.6	2.6
	% of Total MTB	54.1%	51%	45.0%	34%	28%	29%
MITB	Value (MYR billion)	10.7	8.7	7.2	4.0	2.3	1.9
	% of Total MITB	22.6%	22.6%	20.0%	17.7%	8.8%	6.6%
PDS	Value (MYR billion)	13.4	13.4	13.6	13.6	13.6	13.2
	% of Total PDS	1.7%	1.7%	1.7%	1.7%	1.7%	1.6%
Total Foreign Debt Holdings	Value (MYR billion)	254.9	248.7	247.6	246.8	247.3	251.5
	% of Total Securities	13.8%	13.4%	13.3%	13.2%	13.1%	13.2%

Source: BNM, Kenanga Research

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