

Malaysia Bond Flows

August records first foreign debt outflow in eight months and largest since October 2022

- Foreign investors turned net seller of Malaysia’s debt securities for the first time in eight months in August (-RM5.0b; Jul: RM11.3b), recording the largest outflow since the dissolution of parliament in October 2022

- Although the total foreign debt holdings fell to RM274.2b from its record high of RM279.2b in July, its share to total outstanding debt rose to a 15-month high of 14.0% (Jul: 13.8%).
- Despite the relative political stability achieved following state elections in August, foreign demand for domestic debt was hindered by increased market uncertainty and weak domestic macro picture. Additionally, domestic bonds have become increasingly less attractive due to the deepening of negative MY-US yield spreads.

- The outflow was mainly driven by a net sell-off of Malaysian Government Securities (MGS), Government Investment Issues (GII), and Malaysian Islamic Treasury Bills (MITB), which outweighed an increase in holdings of Malaysian Treasury Bills (MTB)

- MGS (-RM5.2b; Jul: RM7.6b): largest outflow since the implementation of movement control order in March 2020 (-RM12.5b); foreign holdings share declined to a six-month low (35.8%; Jul: 36.6%).
- GII (-RM0.7b; Jul: RM1.8b): foreign holdings share of total outstanding bonds decreased (9.8%; Jul: 10.2%).
- MITB (-RM0.2b; Jul: RM1.4b): foreign holdings share rose to a 43-month high (24.3%; Jul: 22.2%).

- For the equity market, foreign investors remained net buyers for the second successive month

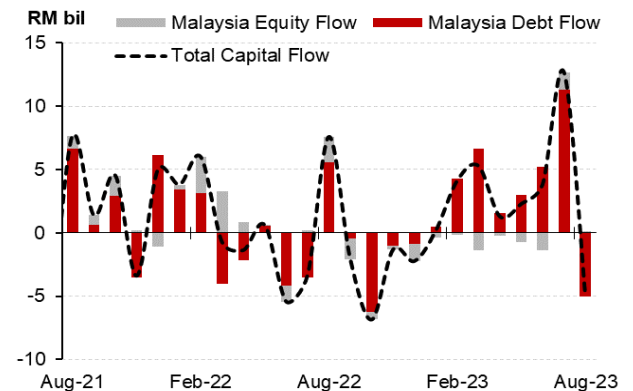
- Equities continued to record foreign inflows, albeit significantly lower at RM0.1b (Jul: RM1.4b). This was primarily due to net inflows of RM0.5b during the second week of August 7-11, which can be attributed to market expectations that the Fed has concluded its interest rate hiking cycle and a more attractive valuation of the local stock market.

- Overall, the capital market recorded its first net outflow (-RM4.9b; Jul: RM12.7b) since December 2022 (-RM2.2b)

- A potential return of risk-on sentiment may help to attract foreign inflow of capital in 4Q23

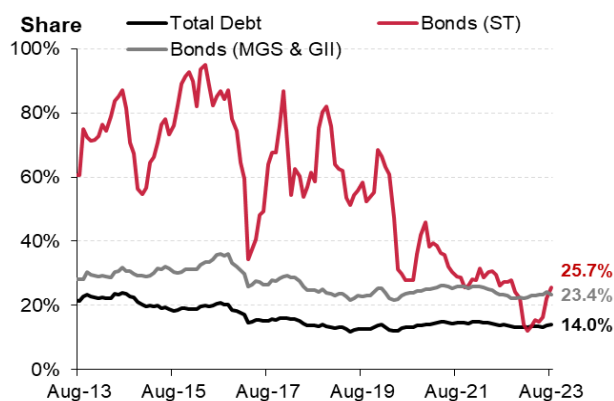
- The Fed is expected to officially halt its hiking cycle at 5.50% in September, driven by the anticipation of a continued slowdown in US inflation figures, along with a cooling job market and weakened loan demand. This could heighten the necessity for diversification, potentially wooing foreign investors to return to invest in high-yielding emerging market bonds. Given the expected strengthening of the ringgit against the USD in 4Q23, investors are poised to gain from both currency appreciation and capital growth.
- With both headline and core inflation continuing to trend lower, the BNM is expected to maintain the status quo on interest rates. The transition of the central bank’s monetary policy stance from "accommodative" in March to "slightly accommodative" in May, and finally dropping the phrase altogether in September, indicates that the current overnight policy rate (OPR) is deemed sufficient to maintain price stability while remaining supportive of growth. Therefore, we anticipate the BNM to maintain the OPR at 3.00% until 2024.

Graph 1: Monthly Net Foreign Capital Flows



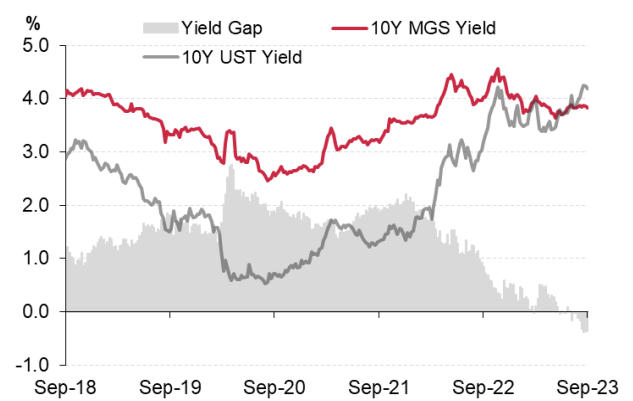
Source: BNM, Kenanga Research

Graph 2: Foreign Holdings of Malaysian Debt



Source: Dept. of Statistics, Kenanga Research

Graph 3: US Treasury (UST) Yield vs. MGS Yield



Source: Bloomberg, Kenanga Research

11 September 2023

Table 1: Foreign Holdings of Malaysian Bonds

		Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
MGS	Value (MYR billion)	195.7	194.0	197.9	199.4	207.0	201.9
	% of Total MGS	36.0%	35.9%	36.0%	35.9%	36.6%	35.8%
GII	Value (MYR billion)	44.8	46.4	45.6	49.3	51.0	50.4
	% of Total GII	9.0%	9.2%	9.2%	9.7%	10.2%	9.8%
MTB	Value (MYR billion)	2.7	2.9	2.5	1.0	0.5	1.3
	% of Total MTB	29.6%	32.3%	28.3%	25.3%	22.5%	37.8%
MITB	Value (MYR billion)	3.1	4.3	5.0	6.3	7.8	7.5
	% of Total MITB	9.1%	11.5%	12.1%	15.3%	22.2%	24.3%
PDS	Value (MYR billion)	11.9	12.0	11.7	11.9	12.9	13.1
	% of Total PDS	1.5%	1.5%	1.4%	1.3%	1.4%	1.6%
Total Foreign Debt Holdings	Value (MYR billion)	258.2	259.7	262.7	267.9	279.2	274.2
	% of Total Securities	13.5%	13.5%	13.4%	13.2%	13.8%	14.0%

Source: BNM, Kenanga Research

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