

12 June 2024

# Malaysia Bond Flows

Largest inflows in 10 months, driven by US economic weakness

- **Foreign investors net bought local bonds for third consecutive month in May (RM5.5b; Apr:RM0.6b)**

- Consequently, total foreign debt holdings rose to RM 271.9b (Apr: RM266.4b) in May, with its share of total outstanding debt increasing to 13.2% (Apr: 13.0%), a five-month high.
- A combination of robust Malaysian macroeconomic data and weakness in key US indicators has drawn investors to redirect their funds into the Malaysian debt market in May. Notably, on May 7 and 8, investors net bought RM2.3b in bonds following the release of weak US jobs report and ISM services figure. To add, on May 17, lower-than-expected US inflation figures and weak retail sales led to single-day inflows of RM0.9b. Also contributing to these inflows were strong domestic IPI data, alongside waning US consumer sentiment.

- **May's substantial inflows were driven by funds flowing into Malaysian Government Securities (MGS), Government Investment Issues (GII) and Malaysian Islamic Treasury Bills (MITB)**

- MGS (RM3.3b; Apr: RM1.1b): recorded the highest inflows in six months, led by a decrease in US bond yields. However, the foreign holdings share remained at 32.8% (Apr: 32.8%), influenced by the new issuance and reopening of MGS, totalling up to RM10.0b.
- GII (RM1.0b; Apr: RM0.1b): increased significantly, with foreign holdings share rising to 9.1% (Apr: 8.8%).
- MITB (RM0.7b; Apr: -RM0.2b): turned to an inflow, resulting in a sharp increase of the foreign holdings share (9.2%; Apr: 3.2%).

- **Foreign investors turned net buyers of Bursa Malaysia in May (RM1.5b), reversing April's (-RM1.4b) outflows**

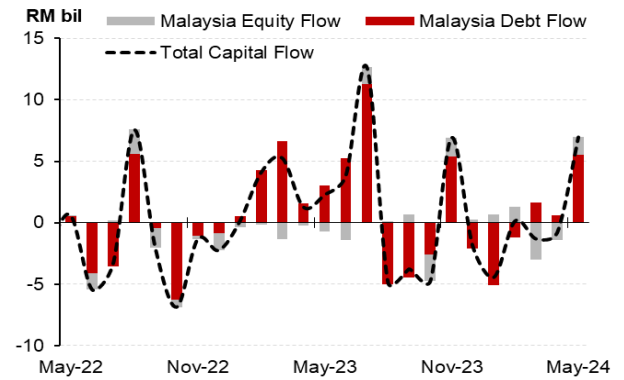
- Notably, on the first week of May, a significant foreign inflow of RM1.1b was recorded, mainly propelled by investments in the utilities sector. While inflows persisted for most of the month, buoyed by domestic economic optimism and positive movement in US stocks, foreign buying activity on the local bourse reversed in the final week of May, resulting in a substantial outflow of RM1.2b.

- **The capital market recorded net foreign inflows of RM7.0b (Apr: -RM0.8b), its highest level since July 2023**

- **Domestic debt market well-positioned as major central banks start cutting rates**

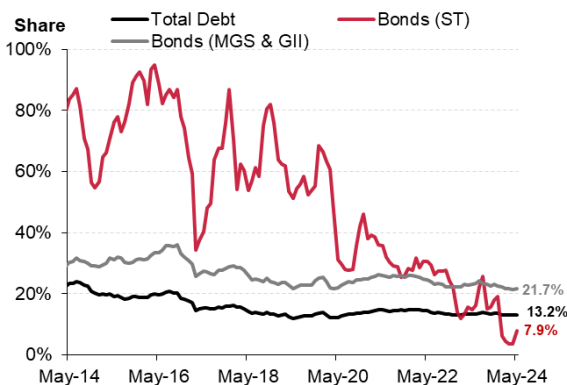
- Despite recent rate cuts by G10 central banks, we expect the Fed to hold its current rate for the next few months, with a potential reduction as early as September. This move would likely follow stronger evidence of a weakening labour market and diminishing inflationary pressures. With interest rates expected to stay elevated for at least the next quarter, investors are likely to continue buying US Treasuries, particularly short-term bonds, amid heightened market volatility.
- In emerging markets, limited policy stimulus from China may steer investors towards debt over equity. Malaysia stands to benefit from this shift, offering relatively attractive value and quality. The potential for ringgit appreciation from its current level further enhances investor returns. With BNM maintaining the overnight policy rate at 3.00% potentially until the end of 2025, and coupled with the government's fiscal consolidation efforts, the domestic bond market is well-positioned to attract significant inflows.

Graph 1: Monthly Net Foreign Capital Flows



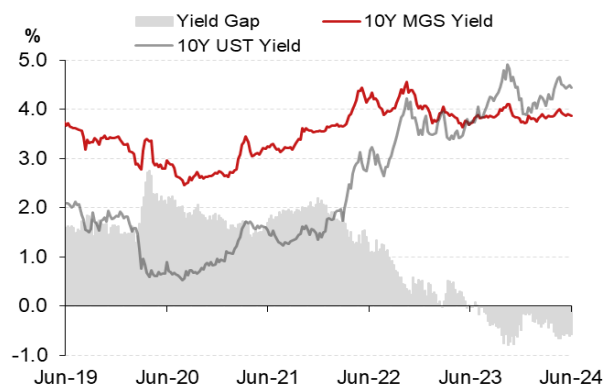
Source: BNM, Kenanga Research

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

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**Table 1: Foreign Holdings of Malaysian Bonds**

		Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
<b>MGS</b>	Value (MYR billion)	202.9	201.1	201.6	202.4	203.5	206.8
	% of Total MGS	34.4%	33.8%	33.3%	33.2%	32.8%	32.8%
<b>GII</b>	Value (MYR billion)	50.7	50.1	47.9	49.3	49.3	50.4
	% of Total GII	9.6%	9.3%	8.8%	8.9%	8.8%	9.1%
<b>MTB</b>	Value (MYR billion)	2.0	0.5	0.5	0.2	0.2	0.2
	% of Total MTB	35.8%	12.6%	10.1%	3.8%	5.1%	4.5%
<b>MITB</b>	Value (MYR billion)	1.8	0.8	0.4	0.5	0.3	1.0
	% of Total MITB	12.6%	4.6%	2.6%	3.7%	3.2%	9.2%
<b>Corporate Bond and/or Sukuk (CBS)</b>	Value (MYR billion)	13.0	12.9	13.7	13.5	13.1	13.5
	% of Total CBS	1.5%	1.5%	1.6%	1.6%	1.5%	1.6%
<b>Total Foreign Debt Holdings</b>	Value (MYR billion)	270.4	265.3	264.1	265.8	266.4	271.9
	% of Total Securities	13.6%	13.2%	13.1%	13.1%	13.0%	13.2%

Source: BNM, Kenanga Research

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