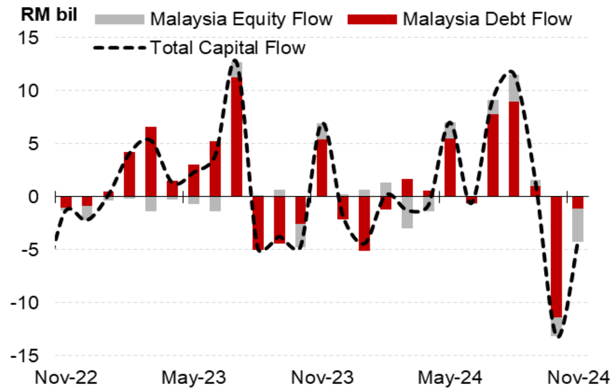
09 December 2024

Malaysia Bond Flows

Softer outflows in November amid Trump's re-election

- **Foreign investors reduced holdings of Malaysian debt in November, but the pace of outflows slowed significantly to -RM1.1b (Oct: -RM11.4b), despite heightened macro uncertainty following Trump's re-election**
  - **Foreign debt holdings:** Fell to RM276.6b in November (Oct: 277.7b), with the foreign share of total outstanding debt dipping to at 13.2% (Oct: 13.3%).
  - **Reason:** November's net outflows were tempered by positive developments, including: improved foreign direct investment outlook, buoyed by the Prime Minister's visit to South Korea, which secured RM32.8b in potential investments; Stronger trade ties with Vietnam, Egypt, and other Global South partners, boosting sentiment; a stable monetary policy, which anchored confidence.
  - **Risk:** Despite these factors, foreign investors continued to exit Malaysian markets, redirecting capital towards safe-haven assets amid US post-election uncertainty. Robust US economic data, renewed tariff threats, and escalating geopolitical tensions particularly from the Russia-Ukraine conflict, further dampened demand for Malaysian bonds.

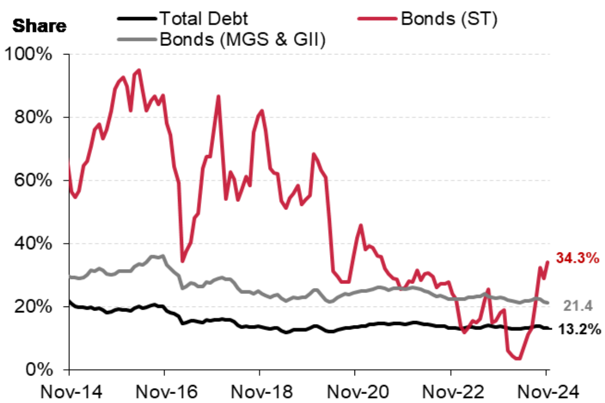
Graph 1: Monthly Net Foreign Capital Flows



Source: BNM, Kenanga Research

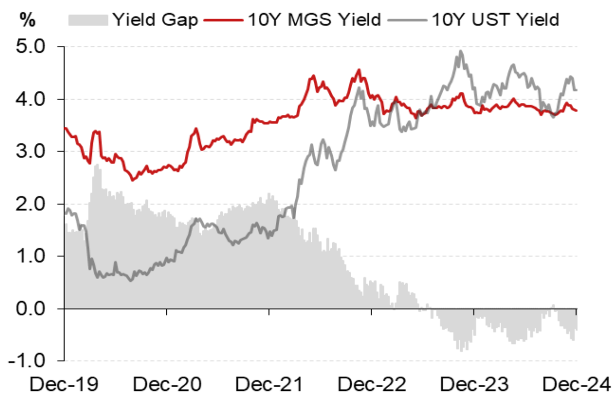
- **The slowdown in outflows was primarily driven by increased demand for Malaysia Treasury Bills (MTB) and reduced selling pressure in Malaysian Government Securities (MGS) and Government Investment Issues (GII)**
  - MTB (RM1.3b; Oct: -RM0.8b): reverted to inflows, with foreign holdings share surging to 50.4% (Oct: 19.6%), as short-term instruments offered better compensation for interest rate risk
  - MGS (-RM1.4b; Oct: -RM6.9b): outflows eased, with MGS holdings decreasing to 32.7% (Oct: 33.2%), marking the lowest level since April 2011.
  - GII (-RM0.4b; Oct: -RM3.7b): outflows persisted albeit at softer pace, with its total foreign holdings share decreasing to 8.8% (Oct: 8.9%), a seven-month low.
- **Foreign investors net sold the FBM KLCI, resulting in RM3.1b of divestment in November (Oct: -RM1.8b)**
  - Malaysian equities saw a continuation of outflows in November, marking the second consecutive month of divestment. The utilities sector led this trend, reflecting investor caution amid heightened economic volatility. Rising US-China tariff tensions, compounded by Trump's re-election, prompted a broader retreat from emerging markets (EM), redirecting capital flows towards safer assets in the US.
- **The capital market recorded two consecutive months of net foreign outflows (-RM 4.2b; Oct: -RM13.2b)**
- **Risk aversion weighs on Malaysia's debt market, strong fundamentals provide support**
  - A soft US jobs report reinforces the likelihood of a 25bps rate cut by the Fed in December, potentially boosting demand for risk-on assets. However, Trump's re-election introduces fresh risks, deterring investors from long-term bonds. Trump's protectionist tariff policies are expected to increase economic volatility, disrupt global trade, fuel inflation, and slow the pace of Fed rate cuts. Rising geopolitical tensions and China's sluggish recovery could further dampen demand for EM assets, likely driving Malaysian bond yields higher as investors reassess risks.
  - That said, BNM is expected to maintain the OPR at 3.00% through at least 2025, providing a stable monetary backdrop. With fiscal reforms to narrow the budget deficit, strong GDP growth, a solid credit rating, and low inflation, Malaysia to manage external challenges effectively and limit the risk of significant capital outflows.

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

Table 1: Foreign Holdings of Malaysian Bonds

		June -24	July-24	Aug-24	Sep-24	Oct-24	Nov-24
MGS	Value (MYR billion)	204.3	209.4	215.6	214.9	207.9	206.6
	% of Total MGS	33.3%	34.2%	34.6%	34.8%	33.2%	32.7%
GII	Value (MYR billion)	51.8	53.2	54.0	54.3	50.7	50.3
	% of Total GII	9.2%	9.3%	9.5%	9.4%	8.9%	8.8%
MTB	Value (MYR billion)	0.6	0.7	1.3	2.0	1.2	2.5
	% of Total MTB	10.5%	12.0%	22.4%	33.4%	19.6%	50.4%
MITB	Value (MYR billion)	1.7	2.1	2.8	4.1	4.6	3.9
	% of Total MITB	11.5%	13.7%	20.6%	31.9%	33.1%	28.5%
Corporate Bond and/or Sukuk (CBS)	Value (MYR billion)	12.9	13.7	14.4	13.8	13.3	13.2
	% of Total CBS	1.5%	1.6%	1.7%	1.6%	1.5%	1.5%
Total Foreign Debt Holdings	Value (MYR billion)	271.3	279.1	288.1	289.1	277.7	276.6
	% of Total Securities	13.2%	13.5%	13.9%	13.9%	13.3%	13.2%

Source: BNM, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my