

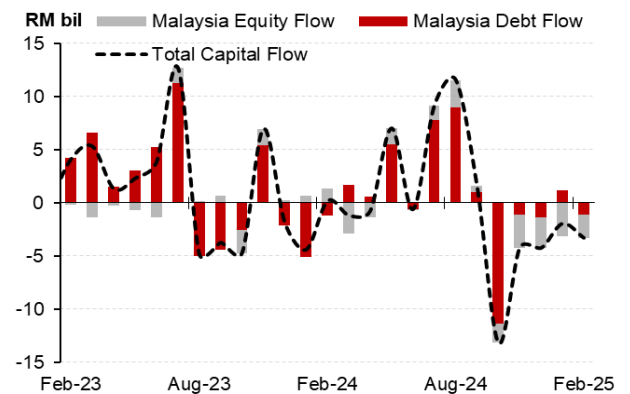
10 March 2025

# Malaysia Bond Flows

Foreign investors turn net sellers in February amid intensifying tariff war

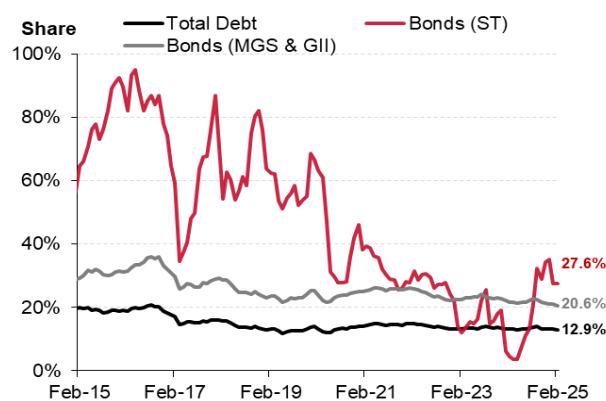
- Foreign investors recorded a net outflow of RM1.1b (Jan: RM1.2b) in February, driven by global market volatility.**
  - Foreign debt holdings** declined to RM275.2b in February (Jan: RM276.4b) with its share of total outstanding debt falling to below 13.0% (12.9%; Jan: 13.1%), for the first time since June 2020.
  - Key drivers:** Investors cut holdings by RM3.8b in the first two weeks, seeking safe-haven assets amid Trump's tariff announcements, contentious remarks on Gaza, and strong US inflation data. However, net purchases of RM2.7b in the latter half helped offset losses, supported by strong domestic GDP growth (2024: 5.1% vs. 3.6% in 2023) and signs of a slowing US economy. Weaker US February flash services PMI, a softening housing market, declining consumer confidence, and job loss concerns reinforced expectations of two Fed rate cuts this year, improving sentiment and drawing foreign inflows to stable emerging markets like Malaysia.
- Bond market movements:** Outflows were driven by sell-offs of Government Investment Issues (GII) and Malaysian Government Securities (MGS), which exceeded the modest inflows observed in Corporate Bonds and Sukuk (CBS).
  - GII (-RM1.4b; Jan: RM0.4b): reversed last month's inflows, lowering foreign ownership to 8.3% (Jan: 8.7%).
  - MGS (-RM0.2b; Jan: RM1.6b): turned to net outflows, shrinking foreign holdings to 31.8% (Jan: 32.3%), lowest in more than 14 years.
  - CBS (RM0.6b; Jan: RM0.7b): inflows declined, but foreign holdings inched up to 1.9% (Jan: 1.8%), a 38-month high.
- Equity market trends:** Foreign investors net sold Malaysian equities for the fifth straight month (-RM2.2b; Jan: -RM3.1b)
  - The sell-off was broad-based, with the utilities hit hardest. While fresh tariff concerns weighed on sentiment, early-month bargain hunting and improving local fundamentals offered some support.
- Overall, the capital market registered a higher net foreign outflows in February (-RM 3.3b; Jan: -RM2.0b)**
- Capital market outlook:** Foreign outflows to persist amid heightened market volatility
  - Near-term outlook:** The US-led tariff war has deepened global financial instability, driving investors toward safe-haven assets. The upcoming universal tariffs threat in April, coupled with Germany's fiscal boost have lifted UST yields higher, pressuring emerging market bonds, including MGS.
  - However, outflows could slow if further signs of US economic weakness prompt a more dovish Fed stance. Malaysia's stable macroeconomic fundamentals remain attractive, supported by a strong sovereign rating, steady OPR at 3.00%, and resilient trade and FDI prospects. Fiscal consolidation boosts investor confidence, while the Johor-Singapore SEZ as well as chip design contract with ARM provides a long-term investment catalyst. Though MGS yields may stay elevated, Malaysia's solid economic fundamentals should help cushion external pressures.

Graph 1: Monthly Net Foreign Capital Flows



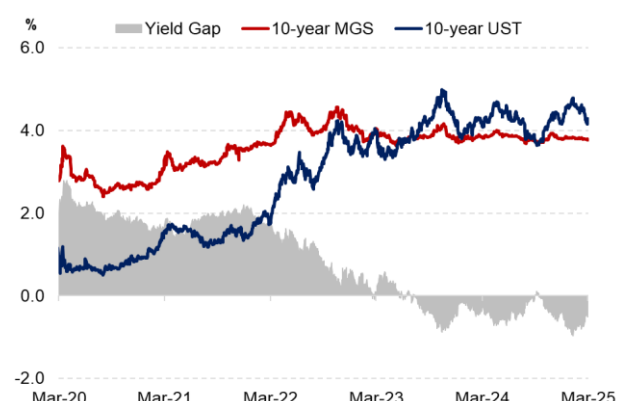
Source: BNM, Kenanga Research

Graph 2: Foreign Holdings of Malaysian Debt



Source: BNM, 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-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
<b>MGS</b>	Value (MYR billion)	214.9	207.9	206.6	204.7	206.2	206.1
	% of Total MGS	34.8%	33.2%	32.7%	32.3%	32.3%	31.8%
<b>GII</b>	Value (MYR billion)	54.3	50.7	50.3	50.3	50.7	49.2
	% of Total GII	9.4%	8.9%	8.8%	8.8%	8.7%	8.3%
<b>MTB</b>	Value (MYR billion)	2.0	1.2	2.5	2.6	2.5	2.4
	% of Total MTB	33.4%	19.6%	50.4%	51.4%	49.5%	52.7%
<b>MITB</b>	Value (MYR billion)	4.1	4.6	4.0	2.7	1.3	1.2
	% of Total MITB	31.9%	33.1%	28.5%	27.2%	14.7%	14.3%
<b>Corporate Bond and/or Sukuk (CBS)</b>	Value (MYR billion)	13.8	13.3	13.2	15.0	15.7	16.3
	% of Total CBS	1.6%	1.5%	1.5%	1.7%	1.8%	1.9%
<b>Total Foreign Debt Holdings</b>	Value (MYR billion)	289.1	277.7	276.6	275.2	276.4	275.2
	% of Total Securities	13.9%	13.3%	13.2%	13.1%	13.1%	12.9%

Source: BNM, Kenanga Research

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