

Malaysia Bond Flows

Foreign inflows softened in January but resilience in MGS demand keeps outlook firm

- **Foreign investors remained net buyers of Malaysian bonds in January, although inflows moderated. Net purchases eased to RM1.0b from RM3.0b in December.** Malaysia's solid macroeconomic fundamentals continued to attract demand for Malaysian Government Securities (MGS), but rising global uncertainty capped appetite.

- **Foreign holdings** increased slightly to RM301.7b from RM300.8b, lifting their share of total outstanding debt to 13.3% (Dec: 13.4%).

– **Key drivers:** Global volatility intensified amid geopolitical frictions, a sharp sell-off in Japanese government bonds and a firmer hawkish tilt from the Fed. This weighed on risk sentiment and triggered sizeable outflows in the first three weeks of the month at RM5.8b. Inflows returned in the final week and more than offset the earlier selling. Malaysia's resilient macro backdrop and steady participation from long-term investors provided support. Sentiment improved after Prime Minister Anwar reaffirmed commitments to governance reform, fiscal discipline and wage adjustments.

Stronger-than-expected preliminary 4Q25 GDP growth of 5.7%, a wider trade surplus and ongoing fiscal consolidation reinforced macro stability. Bank Negara Malaysia's (BNM) decision to keep the OPR at 2.75% anchored rate expectations. Policy continuity and credible domestic fundamentals proved sufficient to sustain inflows despite a challenging global backdrop.

- **Bond market movements: Inflows continued at a slower pace as strong buying of MGS offset outflows from Government Investment Issues and corporate bonds and sukuk**

- **MGS:** Returned to net inflows of RM3.9b (Dec: -RM0.2b), lifting foreign ownership to 34.1% from 33.7%.
- **GII:** Posted net outflows of RM1.8b (Dec: RM2.4b), lowering foreign ownership to 8.0% from 8.4%.
- **CBS:** Swung to outflows of RM0.7b (Dec: RM0.9b), pulling foreign ownership down to 2.2% (Dec: 2.3), mainly driven by reduced exposure to corporate bonds.

- **Equity market trends:** Foreign investors began the year on a firmer footing, returning as net buyers of FBM KLCI equities with RM1.0b in inflows (Dec: -RM2.0b), for the first time since September 2025. Buying concentrated in financial services and industrial products and services, signalling renewed confidence in Malaysia's corporate earnings outlook.

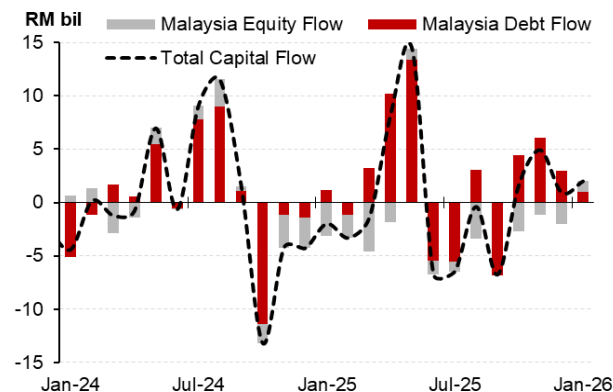
- **Capital market trends:** Total capital market inflows edged up to RM2.0b in January from RM1.0b in December.

- **Local debt market outlook: We expect demand for local bonds to remain resilient in the near term, supported by a solid domestic economy**

- A hawkish Fed bias the Fed and the lack of clear labour-market softening limit expectations for aggressive US rate cuts. This backdrop supports front-end rates, while elevated term premia and heavy supply should keep long-end yields sticky and delay meaningful easing. Geopolitical tensions between the US and Iran warrant close monitoring. Still, the recent Japan Prime Minister Takaichi policy outcome has reduced the risk of a renewed sharp JGB sell-off, easing upward pressure on global yields.

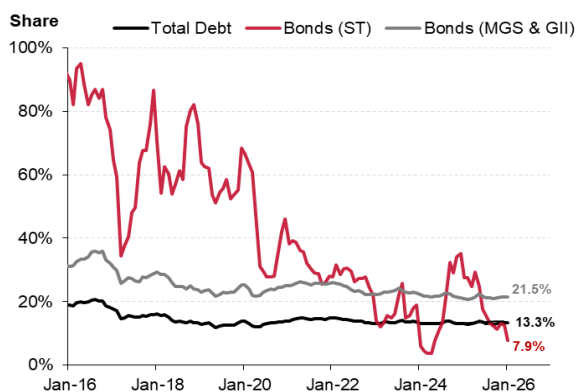
- Resilient private-sector activity and targeted fiscal measures continue to underpin demand. Upcoming 4Q25 GDP data should stay positive, with leading indicators still pointing to expansion. Inflation remained contained, with limited pass-through from SST adjustments, subsidy rationalisation and wage increases. These growth and inflation dynamics give BNM room to keep the OPR at 2.75% through 2026. Stable rates stability should reinforce foreign investors' confidence in Malaysian local bonds.

Graph 1: Monthly Net Foreign Capital Flows



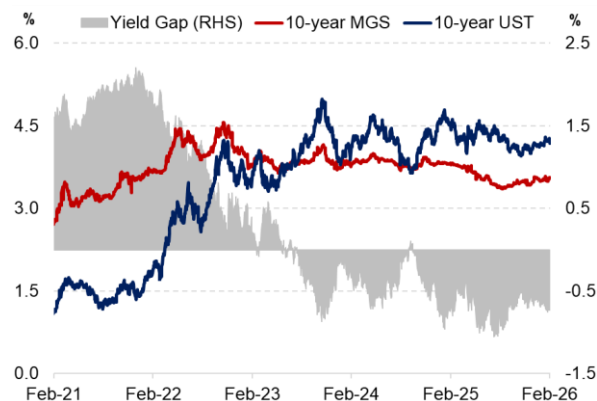
Source: BNM, Kenanga Research

Graph 2: Foreign Holdings of Malaysian Debt



Source: BNM, Kenanga Research

Graph 3: US Treasury Yield vs. MGS Yield



Source: Bloomberg, Kenanga Research

10 February 2026

Table 1: Foreign Holdings of Malaysian Bonds

		Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
MGS	Value (MYR billion)	224.1	220.3	221.1	226.1	225.9	229.8
	% of Total MGS	33.4%	33.7%	33.3%	33.9%	33.7%	34.1%
GII	Value (MYR billion)	51.1	48.4	50.7	49.6	52.0	50.3
	% of Total GII	8.2%	7.7%	8.3%	8.0%	8.4%	8.0%
MTB	Value (MYR billion)	0.2	0.3	0.7	0.6	0.5	0.4
	% of Total MTB	8.2%	6.7%	17.1%	13.9%	12.0%	8.7%
MITB	Value (MYR billion)	0.7	0.8	0.8	0.8	0.7	0.4
	% of Total MITB	16.5%	17.2%	8.8%	12.5%	13.2%	7.2%
Corporate Bond and/or Sukuk (CBS)	Value (MYR billion)	18.1	17.6	18.5	20.6	21.6	20.9
	% of Total CBS	2.0%	1.9%	2.0%	2.2%	2.3%	2.2%
Total Foreign Debt Holdings	Value (MYR billion)	294.2	287.3	291.7	297.8	300.8	301.7
	% of Total Securities	13.3%	12.9%	13.1%	13.3%	13.4%	13.3%

Source: BNM, Kenanga Research

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