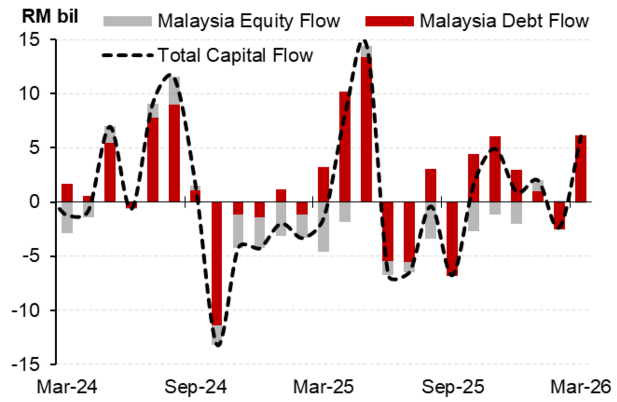
Malaysia Bond Flows

Foreign investors return to debt market despite rising geopolitical tensions

- **Foreign investors** registered net inflows of RM6.1b in March (Feb: -RM2.5b), reversing the outflows of the previous month. This turnaround marked the strongest monthly inflow in ten months. Resilient domestic fundamentals anchored demand and supported sustained interest in Malaysian Government Securities (MGS).
- **Foreign holdings**: Total holdings increased to RM305.4b in March (Feb: RM299.2b), lifting the foreign share of total outstanding debt to 13.4% (Feb: 13.1%).
  - **Key drivers:** Resilient macro conditions supported the recovery. Industrial production rose 5.9% YoY on the back of a stabilising electronics cycle. Confidence was reinforced by credible policy guidance, including officials' reaffirmation of a 4.0–4.5% growth target for 2026. However, renewed inflows did not trigger yield compression. MGS benchmarks held above 3.60% in line with US Treasuries. Global duration forces continue to dominate local pricing, leaving Malaysian bonds exposed to external volatility despite firm demand. Sentiment weakened late in March, with RM2.4b in outflows recorded amid rising expectations that a prolonged US–Iran conflict could sustain geopolitical and rates uncertainty.

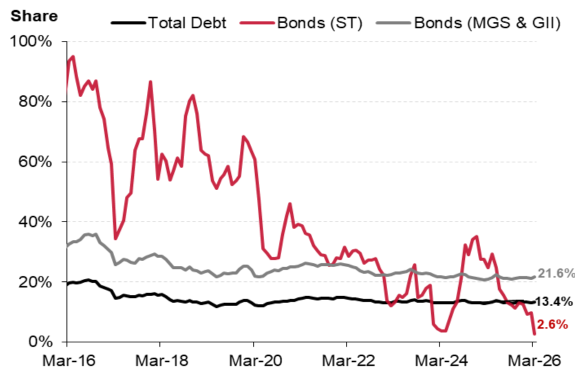
Graph 1: Monthly Net Foreign Capital Flows



Source: BNM, Kenanga Research

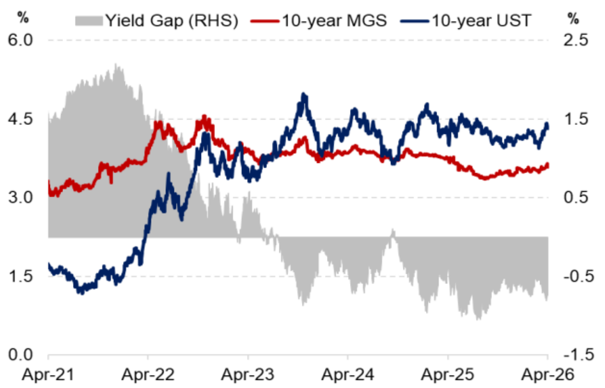
- **Bond market movements**: Robust demand for MGS and corporate bonds and sukuk (CBS) drove inflows, offsetting outflows from Government Investment Issues (GII).
- **MGS:** Inflows increased significantly to RM5.1b (Feb: RM0.5b), lifting foreign ownership to 34.1% from 33.6% in March.
- **CBS:** Holdings reverted to inflows of RM2.8b (Feb: -RM1.7b). This raised foreign ownership to 2.3%, driven by increased exposure to corporate bonds.
- **GII:** Outflows softened modestly to RM1.2b (Feb: -RM1.4b), leaving foreign ownership at 7.7%. (Feb: 7.7%)
- **Equity market trends:** Foreign investors turned marginal net sellers of the FBM KLCI in March, unwinding the modest inflows recorded in February (-RM42.0m; Feb: RM0.2b). Equity sentiment softened early in the month as West Asia tensions pushed energy prices higher and weighed on risk appetite. However, outflows remained contained and did not develop into broad capitulation. Sentiment improved toward month-end as selling pressure abated. Constructive US–Iran diplomatic signals helped stabilise confidence and supported a gradual recovery in participation.
- **Capital market trends:** Malaysia's capital market recorded net inflows of RM6.1b in March (Feb: -RM2.3b). This recovery stems entirely from significant foreign demand in the local debt market, which overcompensated for the weakness in equities.
- **Local debt market outlook: We expect inflows into local debt market amid sustained domestic resilience**
- Energy-related shocks have driven a hawkish repricing of the US rates curve. Markets are embedding elevated geopolitical risk premia rather than reassessing the medium-term policy path of the Fed. Prolonged US–Iran tensions and the m closure of the Strait of Hormuz intensify energy supply risks. These factors pose near-term headwinds for regional debt markets. That said, the recent announcement of a two-week US–Iran ceasefire may ease risk-off sentiment and provide near-term support to local bonds, although reescalation risks remain.
- Malaysia's bond market remains supported by strong macro buffers. A stable sovereign credit rating, controlled inflation, and an unchanged OPR at 2.75% anchor underlying demand. While elevated global yields leave local rates sensitive to US duration risk, Malaysia's sound fundamentals and its status as a net energy exporter should help sustain foreign interest as global risk premiums normalise.

Graph 2: Foreign Holdings of Malaysian Debt



Source: BNM, Kenanga Research

Graph 3: US Treasury Yield vs. MGS Yield



Source: Bloomberg, Kenanga Research

Table 1: Foreign Holdings of Malaysian Bonds

		Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
MGS	Value (MYR billion)	221.1	226.1	225.9	229.8	230.4	235.4
	% of Total MGS	33.3%	33.9%	33.7%	34.1%	33.9%	34.1%
GII	Value (MYR billion)	50.7	49.6	52.0	50.3	48.9	47.7
	% of Total GII	8.3%	8.0%	8.4%	8.0%	7.8%	7.7%
MTB	Value (MYR billion)	0.7	0.6	0.5	0.4	0.4	0.3
	% of Total MTB	17.1%	13.9%	12.0%	8.7%	8.6%	5.5%
MITB	Value (MYR billion)	0.8	0.8	0.7	0.4	0.4	0.0
	% of Total MITB	8.8%	12.5%	13.2%	7.2%	9.9%	0.0%
Corporate Bond and/or Sukuk (CBS)	Value (MYR billion)	18.5	20.6	21.6	20.9	19.2	22.0
	% of Total CBS	2.0%	2.2%	2.3%	2.2%	2.0%	2.3%
Total Foreign Debt Holdings	Value (MYR billion)	291.7	297.8	300.8	301.7	299.2	305.4
	% of Total Securities	13.1%	13.3%	13.4%	13.3%	13.1%	13.4%

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