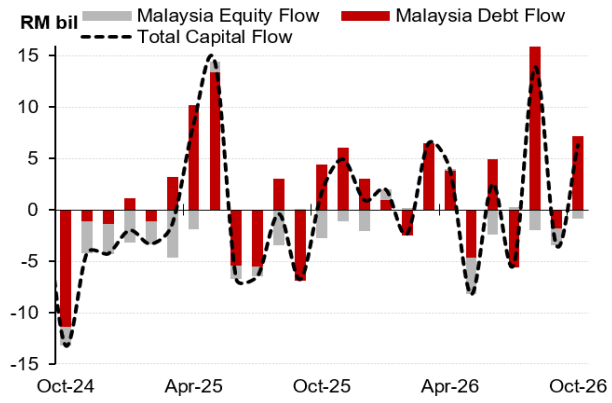
Malaysia Bond Flows (Oct-26)

Foreigners return with RM7.2b as UST-MGS gap narrows; GE16 risks loom

- **Foreign investors returned as net buyers of Malaysian bonds in October. Inflows rebounded to RM7.2b (Sep: -RM1.8b), led by strong demand for MGS and corporate bonds and sukuk (CBS)**
  - **Foreign holdings:** Foreign holdings rose to a record RM325.5b (Sep: RM318.3b), lifting their share of total outstanding debt to 13.5% (Sep: 13.4%).
  - **Key drivers:** Inflows built through the month and accelerated in the final week. Corporate bonds led buying in the first week (+RM2.5b), including RM1.6b on 7 October, while higher UST yields kept government bonds in mild net selling. Government bonds took over from mid-month, with RM1.7b of buying on 16 October as an AI-sector debt sell-off pulled short-dated UST yields lower. This reversed on 19 October, when government holdings fell RM3.1b and pushed the third week into net outflows of RM3.7b. The final week brought the month's largest inflows of RM5.5b, including RM2.3b on 28 October, as the 10Y UST fell below 5.00% and the Fed held rates, narrowing the UST-MGS gap.

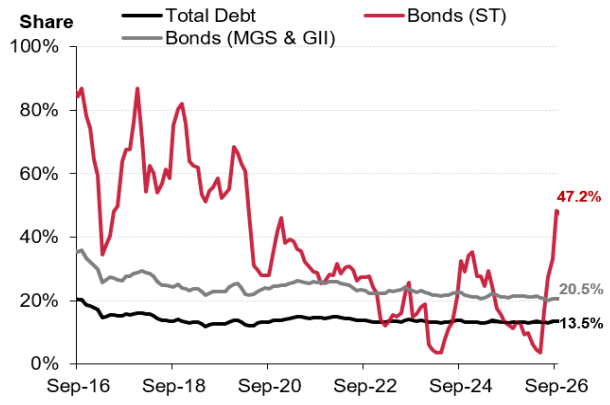
Graph 1: Monthly Net Foreign Capital Flows



Source: BNM, Kenanga Research

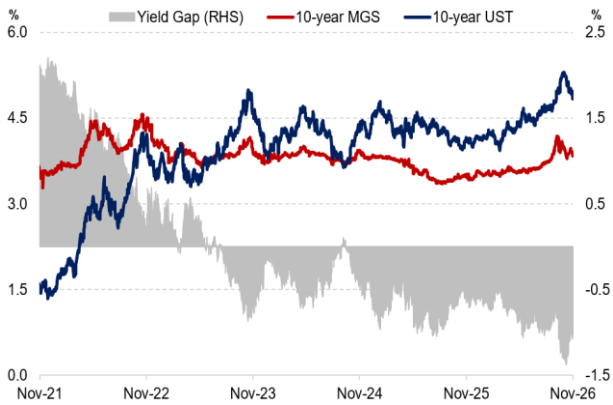
- **Bond market movements**: Strong foreign buying of MGS and CBS outweighed selling of GII (-RM1.3b) and Treasury bills (-RM0.6b), driving net inflows
  - **MGS:** Swung to inflows of RM4.7b (Sep: -RM1.8b), lifting foreign ownership to 33.1% (Sep: 32.9%).
  - **CBS:** Inflows rose to RM4.3b (Sep: RM1.9b), lifting foreign ownership to 4.0% (Sep: 3.6%).
  - **GII:** Outflows eased to -RM1.3b (Sep: -RM3.2b), cutting foreign ownership to 6.5% (Sep: 6.8%).
- **Equity market trends**: Foreign investors stayed net sellers of Malaysian equities in October, though outflows eased to -RM0.9b (Sep: -RM1.7b). Selling centred on the financial services and utilities sectors. Concerns over heavy AI-related capital spending, higher oil prices and regional market volatility continued to weigh on sentiment. Still, expectations of resilient domestic growth after Budget 2027 helped slow the pace of foreign selling.
- **Capital market trends:** Malaysia's capital market swung to net inflows of RM6.3b in October (Sep: -RM3.5b), driven by strong bond buying.
- **Local debt market outlook: Foreign bond flows to stay firm, though GE16 and external risks could drive near-term volatility**
  - We expect foreign demand for Malaysian bonds to stay firm in the near term. Gridlock following the Democrats' sweep of Congress reduces the likelihood of fresh US fiscal stimulus, helping to pull UST yields lower and narrow the UST-MGS spread in favour of MGS and GII. Early November flows support this view, with foreign investors adding RM4.8b in the first two trading sessions, including RM3.9b in government bonds. While long-end UST volatility linked to the 2027 US debt-limit cycle could intermittently disrupt inflows, we view our end-2026 10Y UST forecast of 5.00% as a ceiling rather than a central path, leaving scope for the yield differential to remain supportive of foreign participation.
  - Domestic fundamentals also remain supportive. BNM held the OPR at 2.75% on 5 November and struck a more constructive tone on growth following 3Q26 GDP growth of 5.3%. We continue to expect a single 25 bps hike to 3.00% in 1Q27, followed by an extended pause through 2027. Importantly, the move appears largely priced into the front end of the curve, while a firmer ringgit and supportive carry dynamics should help offset the impact on duration demand. We therefore maintain our end-2026 10Y MGS yield forecast at 3.88%. Nonetheless, GE16-related uncertainty in 1Q27 and the unresolved Iran conflict could keep foreign flows volatile at times.

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

		May-26	Jun-26	Jul-26	Aug-26	Sep-26	Oct-26
MGS	Value (MYR billion)	234.14	237.56	230.14	235.17	233.42	238.15
	% of Total MGS	33.6%	33.6%	33.0%	33.3%	32.9%	33.1%
GII	Value (MYR billion)	42.07	41.30	40.94	46.54	43.31	42.05
	% of Total GII	6.6%	6.4%	6.3%	7.1%	6.8%	6.5%
MTB	Value (MYR billion)	0.28	1.25	2.60	3.00	3.55	3.51
	% of Total MTB	5.6%	27.7%	34.7%	42.9%	59.2%	58.5%
MITB	Value (MYR billion)	0.25	0.69	0.69	0.79	1.52	0.98
	% of Total MITB	2.5%	9.9%	15.4%	17.6%	33.7%	27.9%
Corporate Bond and/or Sukuk (CBS)	Value (MYR billion)	28.16	29.02	29.83	34.60	36.52	40.84
	% of Total CBS	2.9%	3.0%	3.0%	3.5%	3.6%	4.0%
Total Foreign Debt Holdings	Value (MYR billion)	304.90	309.83	304.20	320.10	318.32	325.53
	% of Total Securities	13.1%	13.2%	12.9%	13.5%	13.4%	13.5%

Source: BNM, Kenanga Research

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