

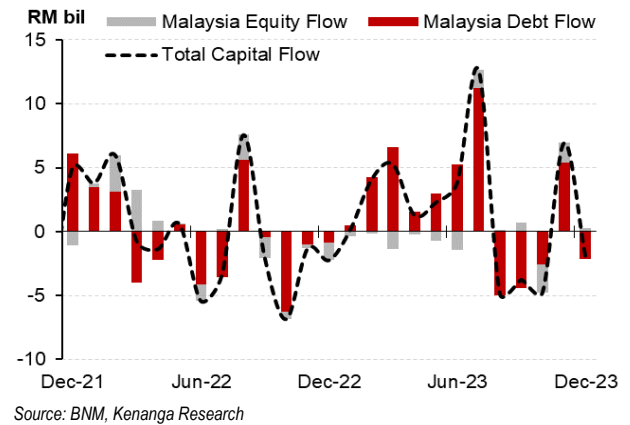
Malaysia Bond Flows

Foreign portfolio funds turned net sellers of RM2.1b in domestic bonds in December

- **Foreign investors turned net sellers of Malaysia's government bonds in December (-RM2.1b; Nov: RM5.4b), driven by a sell-off in long-term securities**

- As a result, the total foreign debt holdings decreased to RM270.4b in December (Nov: RM272.6b), with its share to the total outstanding debt falling to a two-month low of 13.6% (Nov: 13.8%).
- The cautious wait-and-see approach adopted by investors, coupled with Moody's downgrade of China's credit outlook, may have tempered demand for risk assets in December. However, outflows could have been slightly offset by the narrowing of the MY-US 10-year bond yield differential and the Fed's dovish pivot. Notably, in 2023, cumulative foreign funds turned into a net inflow of RM21.3b (2022: -RM5.5b), primarily driven by net buying of Malaysian debt securities (RM23.7b), slightly offset by net sell-off of equities (-RM2.4b).

Graph 1: Monthly Net Foreign Capital Flows



- **Marginal inflows in short-term securities did little to offset the RM2.3b divestment from Government Investment Issues (GII) and Malaysian Government Securities (MGS)**

- GII (-RM2.1b; Nov: RM2.2b): largest outflow in 18 month; foreign holdings share fell to 9.6% (Nov: 10.0%).
- MGS (-RM0.2b; Nov: RM3.3b): recorded a marginal outflow, reducing the foreign holdings share back to October's level of 34.4% (Nov: 35.0%).
- Malaysian Treasury Bills (RM0.1b; Nov: RM0.6b): continued to attract foreign investors' demand, resulting in the foreign holdings share reaching a four-month high of 35.8% (Nov: 34.4%).

- **Foreign investors remained net buyers (RM0.2b; Nov: RM1.6b) of the local bourse for the second straight month**

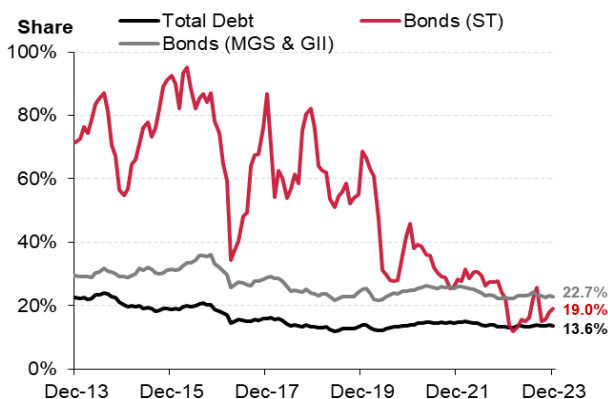
- While still registering inflows, the amount is considerably lower than the RM1.6b recorded in November. This decline can be traced back to a significant outflow of RM0.3b during the week of December 4-8, primarily attributed to a net selling of consumer products and services stocks. Thereafter, foreign investors consistently engaged in net buying of Malaysian equities, propelled by the Fed's decision to maintain interest rates and signal a dovish shift.

- **Overall, the capital market recorded its fourth net foreign outflow (-RM1.9b; Nov: RM6.9b) in 2023**

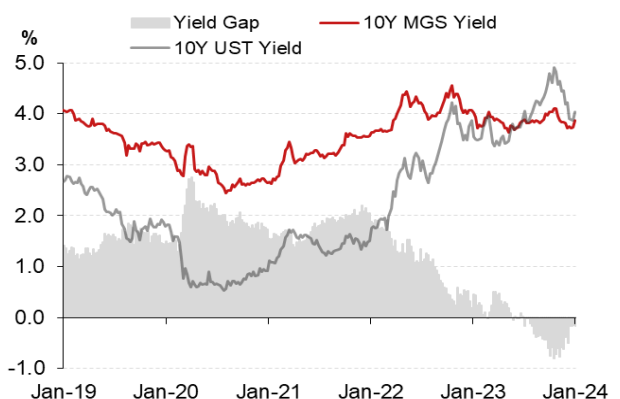
- **Investors to increase exposure in the domestic debt market as major central banks embark on easing cycle**

- While the Fed may only start to cut rates in 2Q24 due to the lack of compelling evidence of a slowdown in US economic activity, the growing consensus that the central bank may cut more than it initially indicated could continue to encourage bond investors to shift their focus away from the US debt market to higher-yielding emerging market assets. With its solid fundamentals, a positive growth story, and the absence of a rate cut signal on the central bank's agenda, Malaysia stands well-positioned to attract substantial capital inflows.
- Investors capitalising on carry returns and the prospect of capital appreciation, might progressively enhance their portfolio allocation to Malaysian debt in the near to medium term. This strategic adjustment may optimise the efficient frontier of their mixed-asset portfolio. The appeal of this move is amplified by our bullish outlook for the ringgit and the BNM's steady policy rate throughout 2024.

Graph 2: Foreign Holdings of Malaysian Debt



Graph 3: US Treasury (UST) Yield vs. MGS Yield



09 January 2024

Table 1: Foreign Holdings of Malaysian Bonds

		Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
MGS	Value (MYR billion)	207.0	201.9	201.3	199.7	203.0	202.9
	% of Total MGS	36.6%	35.8%	35.4%	34.4%	35.0%	34.4%
GII	Value (MYR billion)	51.0	50.4	50.8	50.6	52.9	50.7
	% of Total GII	10.2%	9.8%	9.7%	9.7%	10.0%	9.6%
MTB	Value (MYR billion)	0.5	1.3	1.2	1.3	1.9	2.0
	% of Total MTB	22.5%	37.8%	34.0%	27.8%	34.4%	35.8%
MITB	Value (MYR billion)	7.8	7.5	3.2	2.8	1.7	1.8
	% of Total MITB	22.2%	24.3%	12.4%	13.2%	11.8%	12.6%
PDS	Value (MYR billion)	12.9	13.1	13.2	12.8	13.1	13.0
	% of Total PDS	1.4%	1.6%	1.6%	1.5%	1.5%	1.5%
Total Foreign Debt Holdings	Value (MYR billion)	279.2	274.2	269.7	267.2	272.6	270.4
	% of Total Securities	13.8%	14.0%	13.7%	13.5%	13.8%	13.6%

Source: BNM, Kenanga Research

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