

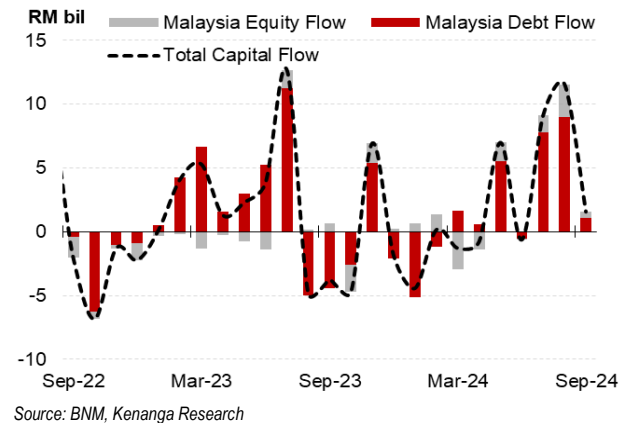
08 October 2024

# Malaysia Bond Flows

September inflows moderated on rising geopolitical risk and profit taking activity

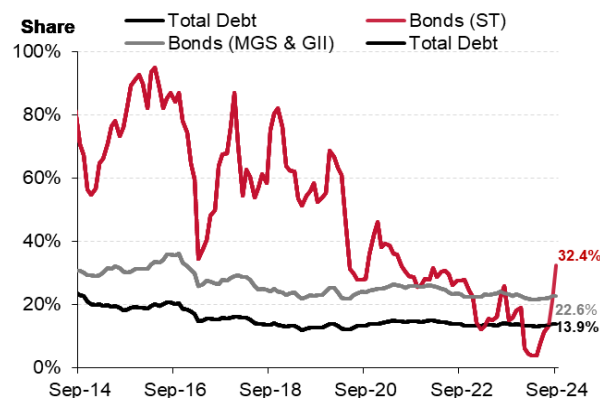
- Foreign investors continued its buying spree of Malaysia bonds for the third straight month in September, but the net inflows shrank to RM1.0b (Aug: RM9.0b) likely due to rising tensions in the Middle East and profit taking as ringgit hit its strongest level since March 2022.**
  - Total foreign debt holdings increased to RM289.1b in September (Aug: 288.1b), while the foreign share of total outstanding remained unchanged at 13.9% (Aug: 13.9%).
  - September saw inflows driven by China's stimulus, robust domestic trade growth, and a larger-than-expected US rate cut from the latest FOMC meeting. Demand focused on short-dated securities, as investors adjusted portfolios amid rising US market uncertainty alongside escalating geopolitical tensions in the Middle East. However, softer inflows emerged as solid US economic data—particularly a strong labour market and declining jobless claims—led to net selling of Malaysian Government Securities (MGS). The strengthening of the ringgit may have also encouraged profit-taking.
- Inflows were driven by strong demand for Malaysian Islamic Treasury Bills (MITB) and Malaysia Treasury Bills (MTB) but net selling of Malaysian Government Securities (MGS) partially offset these gains.**
  - MITB (RM1.4b; Aug: RM0.7b): Inflows continued to rise, with its total foreign holdings share rising substantially to 31.9% from 20.6% in August.
  - MTB (RM0.7b; Aug: RM0.6b): Inflows saw an increase from the previous month, with foreign holdings share increasing to 33.4% (Aug: 22.4%).
  - MGS (-RM0.7b; Aug RM6.2b): Reverted to outflows after two months of substantial inflows albeit MGS holdings continued to increase to a tenth-month high of 34.8% (Aug: 34.6%) due to a decrease in the total outstanding (RM617.3b; Aug: RM622.8b).
- Foreign investors reduced their exposure to local bourse, resulting in softer inflows of RM0.5b in September (Aug: RM2.5b)**
  - This shift indicates a growing caution among investors regarding the market's current outlook driven by mixed US economic data. Profit taking was also seen as a contributing factor to the decline in the investments to FBM KLCI.
- The capital market registered a sizable decrease of net foreign inflows from last month (RM1.6b; Aug: RM11.5b)**
- Domestic debt market remains attractive despite global market volatility**
  - In the first week of October, outflows of RM4.8b were recorded due to heightened geopolitical tensions and a reduced likelihood of a 50 bps Fed rate cut after a stronger-than-expected September jobs report. This trend may continue in the coming weeks, with escalating geopolitical conflicts and the Fed reconsidering rate cuts due to robust US job data.
  - Despite these challenges, domestic bonds remain attractive due to favourable yield differentials, particularly compared to the US. Ongoing Fed monetary easing could further boost local bonds appeal. Additionally, a stable Overnight Policy Rate, a steady sovereign credit rating, strong GDP growth, stable inflation, and a resilient labour market provide a supportive economic environment. Malaysia's potential inclusion into BRICS could also attract investors seeking diversification and growth.

Graph 1: Monthly Net Foreign Capital Flows



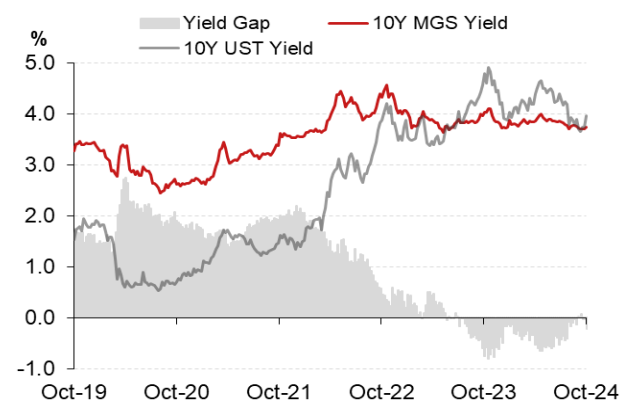
Source: BNM, Kenanga Research

Graph 2: Foreign Holdings of Malaysian Debt



Source: Dept. of Statistics, Kenanga Research

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



Source: Bloomberg, Kenanga Research

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**Table 1: Foreign Holdings of Malaysian Bonds**

		Apr-24	May-24	June -24	July-24	Aug-24	Sep-24
<b>MGS</b>	Value (MYR billion)	203.5	206.8	204.3	209.4	215.6	214.9
	% of Total MGS	32.8%	32.8%	33.3%	34.2%	34.6%	34.8%
<b>GII</b>	Value (MYR billion)	49.3	50.4	51.8	53.2	54.0	54.3
	% of Total GII	8.8%	9.1%	9.2%	9.3%	9.5%	9.4%
<b>MTB</b>	Value (MYR billion)	0.2	0.2	0.6	0.7	1.3	2.0
	% of Total MTB	5.1%	4.5%	10.5%	12.0%	22.4%	33.4%
<b>MITB</b>	Value (MYR billion)	0.3	1.0	1.7	2.1	2.8	4.1
	% of Total MITB	3.2%	9.2%	11.5%	13.7%	20.6%	31.9%
<b>Corporate Bond and/or Sukuk (CBS)</b>	Value (MYR billion)	13.1	13.5	12.9	13.7	14.4	13.8
	% of Total CBS	1.5%	1.6%	1.5%	1.6%	1.7%	1.6%
<b>Total Foreign Debt Holdings</b>	Value (MYR billion)	266.4	271.9	271.3	279.1	288.1	289.1
	% of Total Securities	13.0%	13.2%	13.2%	13.5%	13.9%	13.9%

Source: BNM, Kenanga Research

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