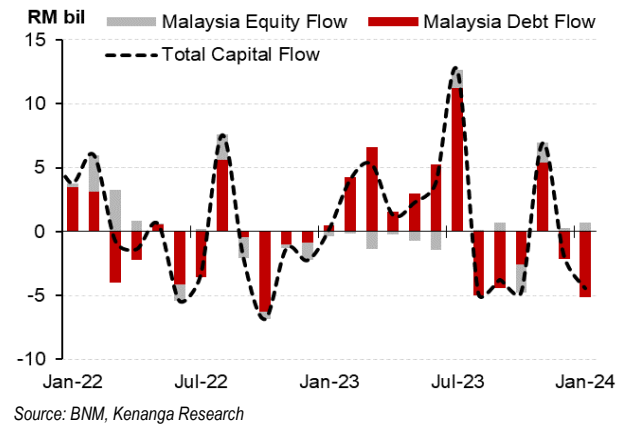


Malaysia Bond Flows

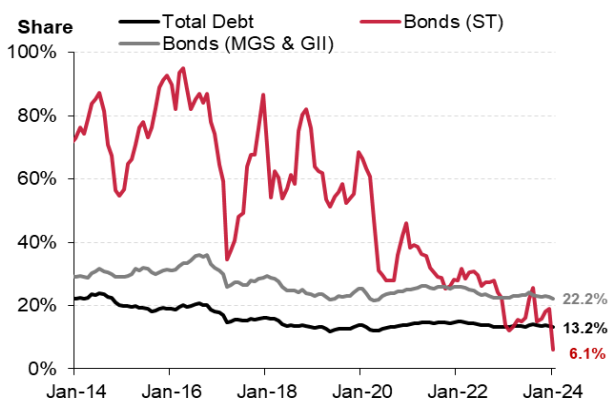
January domestic bond market rattled by Fed's hawkish shift, triggering bigger net outflow

- For the second consecutive month in January, foreign investors reduced their exposure in Malaysia's debt securities, recording a bigger net outflow of RM5.1b (Dec: -RM2.1b), mainly driven by a sell-off in Malaysian Government Securities (MGS) and Malaysian Treasury Bills (MTB)**
 - Consequently, total foreign debt holdings declined to RM265.3b in January (Dec: RM270.4b), with its share to the total outstanding debt reaching an 11-month low of 13.2% (Dec: 13.6%).
 - The shift in global risk sentiment, triggered by escalating tensions in the Middle East and China's weak macroeconomic conditions, has significantly reduced demand for risk assets in January. The largest outflow of the month (-RM1.7b), were recorded on January 15 due to the hawkish repricing of Fed's rate hike expectations following a hotter-than-expected US CPI reading. However, these net sales were marginally offset by RM1.6b inflow on January 25, fuelled by China's unexpected stimulus measures announcement, which sparked a risk rally. Additionally, the optimism was reinforced as Bank Negara Malaysia (BNM) maintained the overnight policy rate (OPR) at 3.00%, accompanied by a positive outlook on the economy.
- Broad-based outflows, driven by divestment from MGS, MTB, and Malaysian Islamic Treasury Bills (MITB)**
 - MGS (-RM1.8b; Dec: -RM0.2b): recorded its largest outflow in five months, reducing the foreign holdings share to 33.8% (Dec: 34.4%), the lowest since May 2011.
 - MTB (-RM1.5b; Dec: RM0.1b): first outflow in four months, resulting in the foreign holdings share reaching an 80-month low of 12.6% (Dec: 35.8%).
 - MITB (-RM1.0b; Dec: RM0.1b): reverted to outflow; foreign holdings share shrank to an almost five-year low of 4.6% (Dec: 12.6%).
- Foreign investors remained net buyers (RM0.7b; Dec: RM0.3b) of FBM KLCI stocks for the third straight month**
 - Inflows doubled from the amount recorded in December as foreign investors continued to purchase domestic equities, particularly utilities stocks (e.g., YTL Power International), which saw a net buying of RM0.6b (as of the week ending on January 26). Notably, the pace of inflows was partly curbed by the RM0.2b outflows recorded on January 18, marking the largest daily outflow since mid-October 2023.
- Overall, the capital market recorded its second consecutive net foreign outflow (-RM4.4b; Dec: -RM1.9b)**
- Investors to gradually shift their focus away from the US debt market to higher-yielding emerging market assets**
 - While investors might continue to hold US debt for a while longer due to its attractive yields and high coupons, the anticipated Fed rate cuts in 2H24 could lessen their interest, especially in Treasury floaters. As Fed Fund rates decrease, investors seeking to maintain their yields may turn towards high-yielding emerging market debt, especially to countries where central banks are not planning rate cuts.
 - Despite potential challenges from slowing global economic activity and rising geopolitical tensions, Malaysia's debt capital flows are expected to see an uptick in portfolio investments. This optimism stems from growing investor confidence, buoyed by a stable OPR and a positive outlook on the government's reform policies.

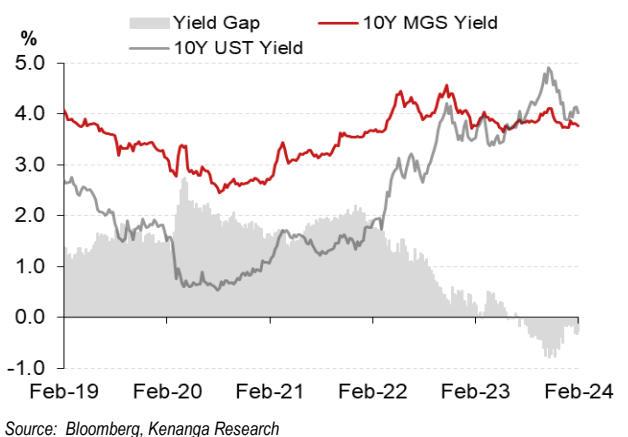
Graph 1: Monthly Net Foreign Capital Flows



Graph 2: Foreign Holdings of Malaysian Debt



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



09 February 2024

Table 1: Foreign Holdings of Malaysian Bonds

		Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
MGS	Value (MYR billion)	201.9	201.3	199.7	203.0	202.9	201.1
	% of Total MGS	35.8%	35.4%	34.4%	35.0%	34.4%	33.8%
GII	Value (MYR billion)	50.4	50.8	50.6	52.9	50.7	50.1
	% of Total GII	9.8%	9.7%	9.7%	10.0%	9.6%	9.3%
MTB	Value (MYR billion)	1.3	1.2	1.3	1.9	2.0	0.5
	% of Total MTB	37.8%	34.0%	27.8%	34.4%	35.8%	12.6%
MITB	Value (MYR billion)	7.5	3.2	2.8	1.7	1.8	0.8
	% of Total MITB	24.3%	12.4%	13.2%	11.8%	12.6%	4.6%
PDS	Value (MYR billion)	13.1	13.2	12.8	13.1	13.0	12.9
	% of Total PDS	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%
Total Foreign Debt Holdings	Value (MYR billion)	274.2	269.7	267.2	272.6	270.4	265.3
	% of Total Securities	14.0%	13.7%	13.5%	13.8%	13.6%	13.2%

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

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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