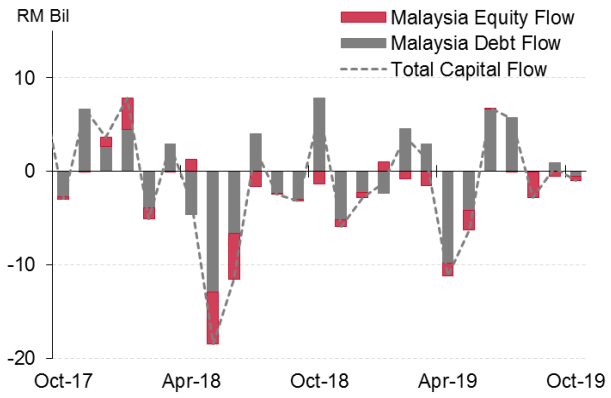
Malaysia Bond Flows Update

Foreign funds pulled out of debt market in October

- **Foreign investors turned net sellers of Malaysia's debt securities in October**
  - Debt market: foreign holdings fell by RM0.5b (Sep: +RM0.9b) or -0.3% MoM (Sep: +0.5%) to RM188.6b (Sep: RM189.1b). Share to total Malaysia's debt sustained at 12.7% for the third successive month, as Malaysia's total outstanding debt increased by RM 0.2b.
  - Equity market: foreign investors remained as net sellers for four straight months, but with a marginally smaller outflow in October (-RM0.5b; Sep: -RM0.6b)
  - Overall capital market: net outflow of foreign funds (-RM1.0b), after a short-lived inflow in the preceding month (+RM0.3b), amid heightened concerns on emerging economies' growth, a weaker Ringgit, prolonged US-China trade war uncertainty.

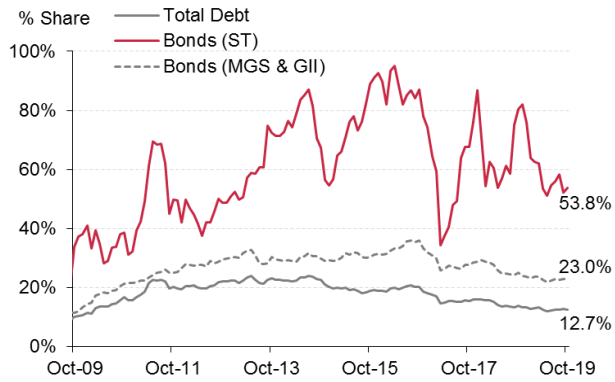
Graph 1: Net Foreign Capital Flows



Source: BNM, Kenanga Research

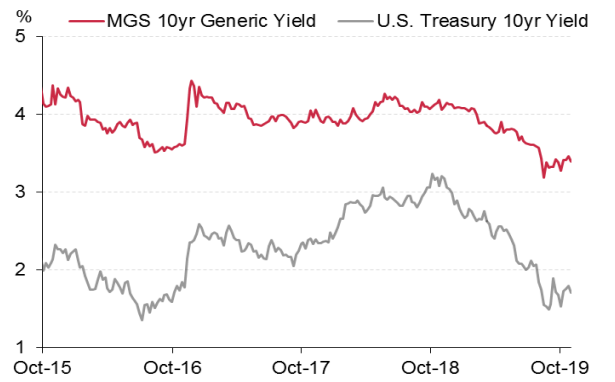
- **Outflow in debt market driven by a net decrease in holdings of Malaysian Government Securities (MGS) and Malaysian Treasury Bills (MTB)**
  - MGS (-RM0.4b; Sep: +RM0.5b): foreign holdings share of total MGS inched up to 37.9% (Sep: 37.5%) as outstanding MGS decreased to RM405.6b (Sep: RM410.9b).
  - MTB (-RM0.4b; Sep: +RM0.04b): foreign holdings share of total MTB tilted down to 28.1% (Sep: 28.2%).
  - These offset increases in holdings of Malaysian Islamic Treasure Bills (MITB) by RM0.1b, Private Debt Securities (PDS) by RM0.2b and Malaysian Government Investment Issues (GII) by RM0.05b.
- **Thus far, total capital outflow stood at RM4.8b versus RM24.8b in the same period of last year**
  - Net-outflow may persist in the near term: concerns on China's economy following the release of a 27-year low 3Q19 GDP growth and delays in the signing of Phase-1 US-China trade deal to lead to risk-off mode.
  - Total net outflow is expected to be less compared to last year (-RM33.6b): major central banks have pivoted towards monetary easing, with the Fed embarked on a third rate cut in October.
  - Against this development, the US 10-year Treasury note average yield recorded a drop of 1 basis point (bps) to 1.70% in October, while the benchmark Malaysian 10-year MGS average yield edged down by 3 bps to 3.39%, widening the average yield spread to 169 bps (Aug: 165 bps).
- **BNM left the OPR at 3.0% for the rest of the year, but may lean towards further easing (up to 50 basis points) in 2020 to uplift growth**
  - Headwinds emanating from the external sector including slowdown in major markets, declining global trade, and continued uncertainty on the final resolution of the US-China trade spat may still weigh on domestic growth.
  - This would exert downward pressure on the Ringgit, which we project to depreciate to RM4.20 against the greenback (2018: RM4.13) by year-end.

Graph 2: Foreign Holdings of Malaysian Debt



Source: Dept. of Statistics, Kenanga Research

Graph 3: US Treasury Yield Vs. MGS Yield



Source: Bloomberg, Kenanga Research

Table 1: Foreign Holdings of Malaysian Bonds

		May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
MGS	Value (MYR billion)	143.4	149.1	154.7	153.7	154.2	153.8
	% of Total MGS	35.8%	36.9%	38.3%	37.7%	37.5%	37.9%
GII	Value (MYR billion)	14.7	14.7	14.7	15.3	15.3	15.4
	% of Total GII	4.5%	4.4%	4.4%	4.6%	4.7%	4.7%
BNM bills	Value (MYR billion)	5.0	5.0	5.0	5.0	5.0	5.0
	% of Total BNM bills	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
PDS	Value (MYR billion)	12.0	12.0	11.9	11.9	12.0	12.2
	% of Total PDS	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%
Total Foreign Debt Holdings	Value (MYR billion)	175.9	182.6	188.3	188.2	189.1	188.6
	% of Total Securities	11.9%	12.3%	12.6%	12.7%	12.7%	12.7%

Source: BNM, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed 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