

8 April, 2024

## Foreign Flows Turned Positive in March

- Foreign holdings of MYR debts securities increased to RM265.8bn
- Foreigners bought RM0.8bn of MGS and RM1.4bn of GII
- Foreign investors sold RM2.9bn in equity market
- Total portfolio outflows of RM1.2bn for equities and debt securities combined
- Demand for bonds has been strong whilst stable BNM outlook could lend supports to Malaysia government bonds

Foreign inflows made a comeback in March as foreign investors turned net buyers of Malaysia's debt securities (Mar: +RM1.7bn; Feb: -RM1.2bn) for the first time in three months, mainly driven by a inflows of Government Investment Issues (GII) and Malaysian Government Securities (MGS). As a result, the total foreign debt holdings increased to RM265.8bn in March (Feb: RM264.1bn), bringing its share of the total outstanding debt to 13.0%.

Looking into details, foreign investors bought MGS by +RM0.8bn (Feb: +RM0.5bn; Jan: -RM1.8bn) while GII recorded a bigger inflow of RM1.4bn (Feb: -RM2.2bn; Jan: -RM0.7bn). With that, foreign holdings of government bonds (MGS+GII) increased by RM2.2bn to RM251.7bn or 21.7% of total bonds outstanding (Feb: -RM1.7bn to RM249.5bn or 21.7%). Individually, foreign investors held RM202.4bn of MGS, or 33.2% of total MGS outstanding and RM49.3bn of GII or 8.9% of total GII outstanding as of end-March. Meanwhile, foreigners bought MITB by -RM0.1bn but sold Private Debt Securities (PDS) including Private Sukuk by RM0.2bn.

As at end-March 2024, foreign investors bought RM1.7bn of Malaysian bonds (Feb: -RM1.2bn; Jan: -RM5.1bn). Meanwhile, foreign investors turned net sellers on Bursa Malaysia after four straight months of inflow with investors selling RM2.9bn of equity in March (Feb: +RM1.3bn; Jan: +RM0.7bn). As a result, Malaysia recorded overall foreign portfolio outflow of RM1.2bn in March 2024 (Feb: +0.1bn; Jan: -RM4.3bn). Cumulatively, YTD, foreign portfolio outflows amounted to RM5.5bn (3M23: +RM9.6bn), purely lifted by outflows from debt securities (3M24: -RM4.6bn, 3M23: +RM11.4bn). Foreign selling of Malaysian equities accumulated to RM0.9bn in 3M24 (3M23: -RM1.8bn).

**Table 1: Foreign Holdings of Malaysia Total Debt Securities**

	Foreign Holdings (RM'bn)		Monthly Flows (RM'bn)		YTD Flows (RM'bn)	Foreign Holdings (%)	
	Mar	Feb	Mar	Feb		Mar	Feb
MGS	202.4	201.6	0.8	0.5	-0.5	33.2	33.3
GII	49.3	47.9	1.4	-2.2	-1.5	8.9	8.8
PDS <sup>^</sup>	13.5	13.7	-0.2	0.8	0.4	-	-
Others*	0.6	0.9	-0.3	-0.4	-3.2	-	-
<b>Total</b>	<b>265.8</b>	<b>264.1</b>	<b>1.7</b>	<b>-1.2</b>	<b>-4.8</b>	<b>13.0</b>	<b>13.0</b>

Source: Bank Negara Malaysia, BIMB Securities

<sup>^</sup> Private sector conventional and sukuk

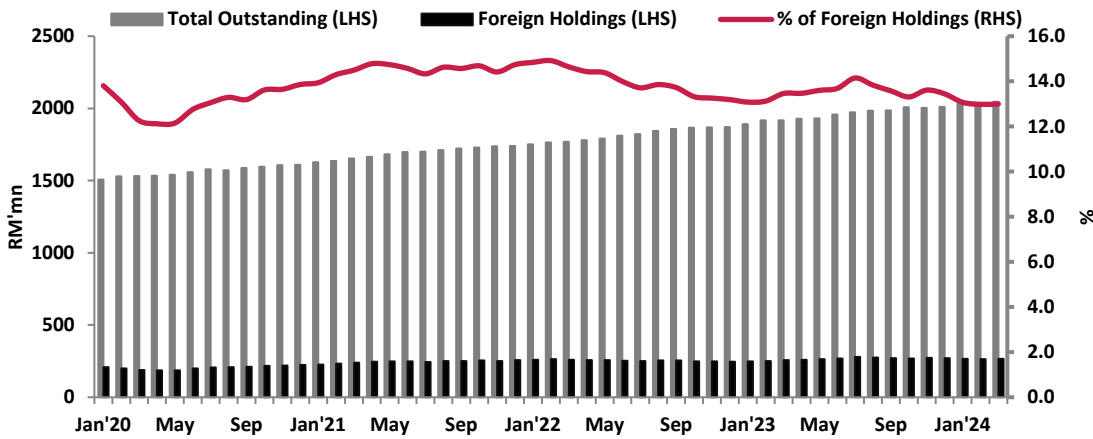
\*Includes BNM notes and treasury bills (conventional and Islamic)

**Imran Nurginias Ibrahim**

imran@bimbsec.com.my

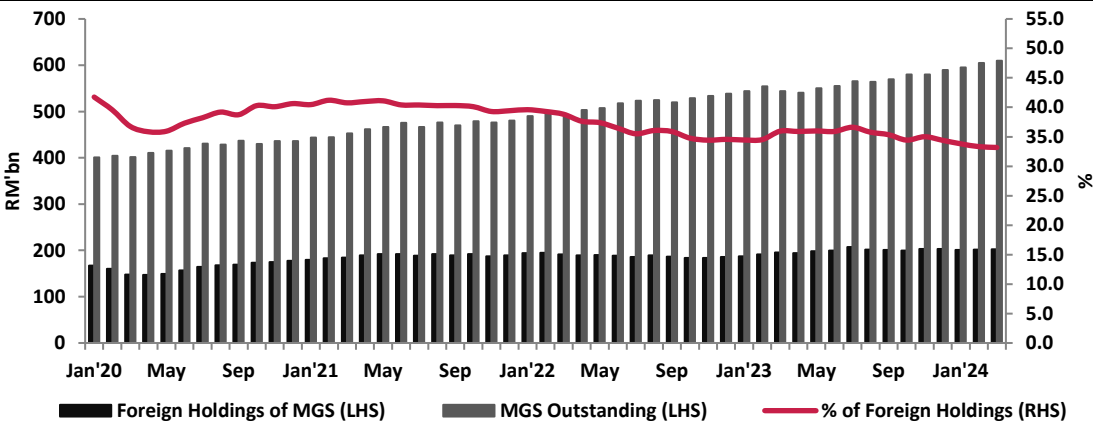
(603) 2613 1733

Chart 1: Foreign Holdings of Malaysia debt securities



Source: Bank Negara Malaysia, BIMB Securities

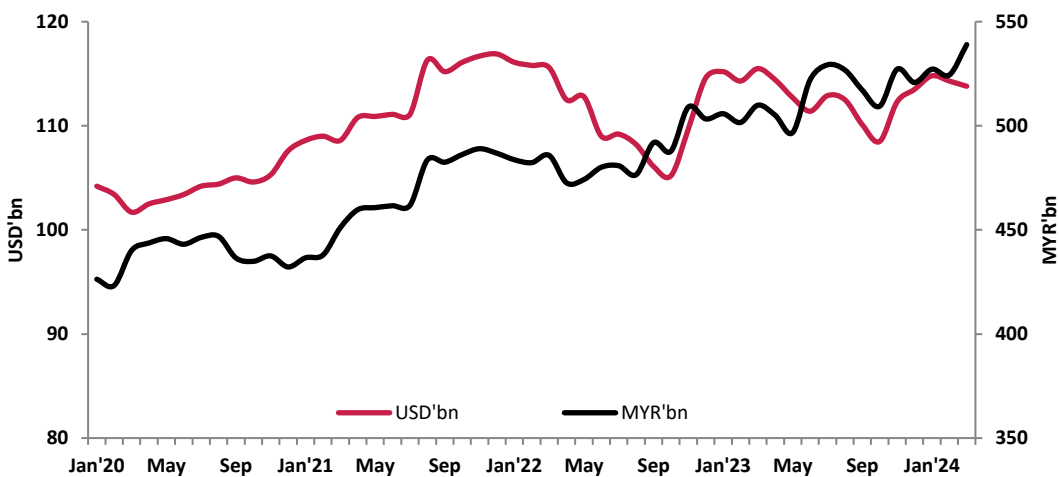
Chart 2: Foreign Holdings of MGS



Source: Bank Negara Malaysia, BIMB Securities

Bank Negara Malaysia’s international reserves declined by USD0.5bn or -0.4% MoM to RM113.8bn as of end-March 2024. The decline was mainly attributed to a slight reduction in foreign currency reserves (-USD0.5bn to USD101.3bn) which declined for second consecutive months. In ringgit terms however, the value of BNM reserves increased by RM14.6bn to RM539bn. The current reserve is sufficient to finance 5.6 months of imports of goods and services and is 1.0 time total short-term external debt.

Chart 3: International Reserves



Source: Bank Negara Malaysia, BIMB Securities

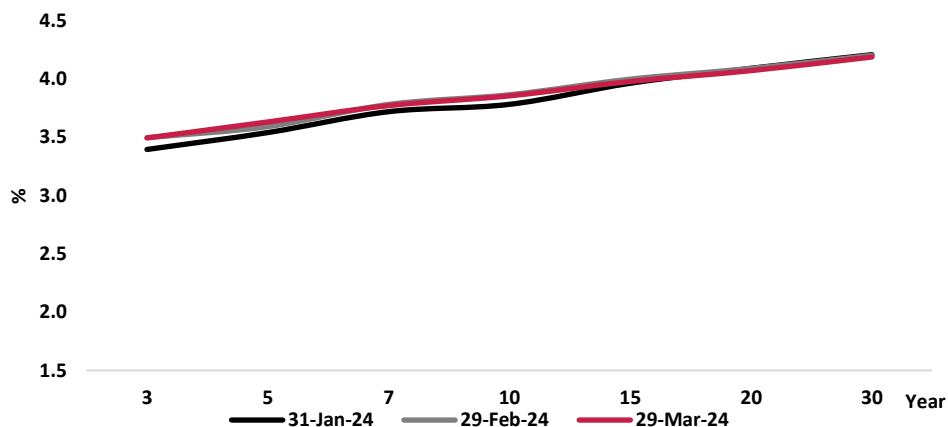
Table 2: Spread against US 10-year treasury (%)

Country	10-yr government bond (end-Mar)	Spread vs. US 10-yr treasury (end-Mar)	10-yr government bond (end-Feb)	Spread vs. US 10-yr treasury (end-Feb)
US	4.2003	-	4.2502	-
UK	3.933	-27	4.124	-13
Germany	2.298	-190	2.411	-184
Japan	0.727	-347	0.709	-354
China	2.295	-191	2.353	-190
Malaysia	3.855	-35	3.864	-39
Indonesia	6.693	249	6.605	235
Thailand	2.502	-170	2.556	-169
Singapore	3.1063	-109	3.0974	-115

Source: Bloomberg, BIMB Securities

The US Treasury (UST) yields inched marginally lower in the range of 3bps and 8bps as investors reassessed future interest rate path after dovish note by the Fed. A bout of dovish guidance from major central bankers including those of the Fed itself, the ECB and BOE, continued to reaffirm expectations that policy easing will be kicking off soon during the summer months. The third estimate of 4Q23 GDP for the US came in at 3.4%, up from 3.2% in the second estimate and 3.3% in the advance estimate, aided by an upward revision to consumer spending. Meanwhile, the Fed's preferred inflation measure, PCE deflator and core PCE deflator rose 2.4% and 2.8% YoY, respectively. Separately, Fed Chair Powell said that PCE deflator was within the Fed's expectation and would only be appropriate to cut rates when inflation is in check. The benchmark 2Y UST yield fell to 4.62% while the benchmark 10Y UST saw its yield decline to 4.20%. Meanwhile, German Bunds posted modest gains in Europe as sentiment was aided by expectations of ECB rate cuts by the middle of the year. Regional bonds performed mixed with IndoGB 10Y yield shifted up and closed at 6.69%. Similarly, Singapore 10Y yield settled higher at 3.11% while ThaiGBs saw its 10Y yield closed lower at 2.5%.

Chart 4: MGS curves



Source: Bank Negara Malaysia, Bloomberg, BIMB Securities

Malaysian Government Securities (MGS) yields mostly ended little changed with the exception of 5Y MGS, which saw its yield rising 4bps. On the other hand, Government Investment Issues (GII) yields mostly ended stronger, with yields edging lower between 1bp and 3bps. Meanwhile, 10Y MGS and 5Y GII yields plateaued at 3.86% and 3.61%, respectively.

Throughout March 2024, there were three sovereign papers auctioned with a total of RM15.0bn issuance.

- I. 10-yr Reopening of MGS 11/33, RM5.0bn
- II. 30-yr New Issue of MGII (Mat on 03/54), RM5.0bn (RM3.0bn auction + RM2.0bn private placement)
- III. 5-yr Reopening of MGS 08/29, RM5.0bn

## Outlook

Developed-market sovereign yields generally repriced higher in 1Q24 led by the UST. The MGS curve stayed resilient in 1Q24 despite weaker Ringgit and some selloffs in UST. ASEAN bond yields largely traded on lower vs. UST, especially for Malaysia where domestic supply and demand profiles are supportive. Gross MGS+GII supply totaled RM50bn in 1Q24 and we foresee that government bond issuance to be lower between RM175.0bn to RM180.0bn in 2024 (2023: RM185.9 billion). Foreign funds had been net sellers of Malaysia's bond with outflows continued for three consecutive months in Dec-Feb but turned positive in March. We are mildly positive on the overall foreign flow this year, assuming Fed easing in 2H24 on the basis of US soft-landing – because a US hard-landing could affect foreign flows differently. With BNM unlikely to change its monetary policy stance anytime soon, local bonds lack catalyst. Yields traded in a tight 10-15bps range in the past 3 months, and may extend into a large part of 2Q24. Weaker Ringgit had not had much impact on bonds. Anticipation that BNM will hold the OPR at 3.00% throughout this year while the Fed is planning to cut could be helpful to lessen the rate differential advantage of the US over Malaysia. With domestic CPI continuing to be rather tame, and no clear developments yet as to the timing of the planned removal of petrol subsidies, local govies should continue to remain supported. Still, we will watch for inflation trajectory, which will likely rise further in the next 3-9 months due to already implemented measures (e.g. higher water tariff, services tax) and planned restructuring in fuel subsidies to a targeted mechanism. But the cost-pushed nature of inflation is unlikely to cause rate hike, and less likely for local bonds to reprice significantly, although a moderate upward repricing in yields is still possible, depending on the pace of adjustments. The next BNM MPC decision on 9th May is expected to be a non-event.

**DEFINITION OF RATINGS**

BIMB Securities uses the following rating system:

**STOCK RECOMMENDATION**

<b>BUY</b>	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
<b>TRADING BUY</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
<b>HOLD</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>TAKE PROFIT</b>	Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.
<b>TRADING SELL</b>	Share price may fall by more than 15% in the next 3 months.
<b>SELL</b>	Share price may fall by more than 10% over the next 12 months.
<b>NOT RATED</b>	Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

<b>OVERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
<b>NEUTRAL</b>	The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months
<b>UNDERWEIGHT</b>	The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

**Disclaimer**

This report has been prepared for information and educational purposes only and are not recommendation or endorsement to sell or solicitation to buy any securities, subscription of financial products or otherwise to be taken as investment advice of any form or kind and neither should be relied upon as such. The information herein was obtained or derived from publicly available information, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that all information and data are accurate and the opinions are fair and reasonable, we do not represent or warrant their accuracy, timeliness, completeness and currentness or applicability of such information for any particular purpose. The investments advice or idea discussed or recommended in this report may not be suitable for all investors. Any recommendation presented in this report is general in nature and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this report. The investors are advised to conduct own research and seek independent professional advice prior to taking any investment or investment related decisions. The directors and employees of BIMB Securities Sdn Bhd and BIMB Group of Company may from time to time have a position in either the securities mentioned or may provide services to any company and affiliates of such companies whose securities are mentioned herein. BIMB Securities Sdn Bhd and BIMB Group of Company accept no liability for any direct, indirect or consequential losses, claims and damages arising from any use of this report. BIMB Securities does not have a financial interest in the securities or other capital market products of the subject company(ies) covered in this report. Unless stated otherwise, BIMB Securities is not a market maker in the securities or other capital market products of the subject company(ies) covered in this report. BIMB Securities did not receive compensation for corporate finance services from the subject company(ies) in the past 12 months. BIMB Securities did not receive compensation or benefit (including gift and special cost arrangement e.g., company/issuer-sponsored and paid trip) in relation to the production of this report. The analyst(s) who prepared this research report is/are prohibited from receiving any compensation, incentive or bonus based on specific transactions or for providing a specific recommendation for, or view of, a particular company.

**Printed and published by**

**BIMB SECURITIES**

**BIMB SECURITIES SB (290163-X)**

*A Participating Organisation of Bursa Malaysia Securities Berhad  
Level 34, Menara Bank Islam*

*No 22, Jalan Perak,*

*50450 Kuala Lumpur.*

*Tel: Tel: 03-2691 8887 Fax: 03-2691 1262*

<http://www.bimbsec.com.my>



Noorhayati Maamor  
Head of Research