



## Media Release

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### **Sticky investors remain despite another month of net foreign outflow**

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Foreign investor outflow from the Malaysian bond market was particularly more pronounced in February, representing a m-o-m increase of 3.4% compared to the start of the year when net foreign outflow momentum seemed to dissipate. A closer look at the composition of investors reveals that most of the outflow from November onwards was contributed by short-term 'non-sticky' investors, i.e., banks and asset management companies. Tallying with the observation, yields of shorter-tenured government bonds (3-month to 5-year papers) experienced an upward movement in February, signalling some selling pressure among short-term 'non-sticky' investors prior to the Fed's first policy rate hike for the year which took place on 15 March. Two more hikes are expected for the rest of the year.

Much of the net foreign outflows in February were contributed by the divestment in MGS and GII. With a large chunk of government bonds (MGS and GII) totaling RM8.75 billion maturing during the month and a corresponding net foreign bond investor outflow of RM7.6 billion of the same securities, the trend suggests little investment rollover activity by these investors. Triggered by the Trump presidential win and expectations of business-friendly tax reform and inflationary policies, and hence further Fed rate normalisation, the foreign outflows was exacerbated by BNM's clampdown on offshore trading of the Ringgit. Moreover, uncertainties still prevail in the global space given current geopolitical and economic concerns which include Trump's policy details, Brexit and the outcome of elections in key European countries like France and Germany.

Lumpy government bond maturities in 2017 are expected this month and during the August to November period, which will once again contribute to foreign outflow pressure. That said, demand for government securities is still generally supported by local institutional investors, as evidenced by the trend in February. As such, we may experience a rebalancing from foreign to domestic ownership in 2017.

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