US rate hike fears impacted foreign demand for MGS and GII in August

The deterioration in sentiment last month contributed to a significant foreign selloff of MGS and GII (RM5.9 bil). The hawkish tone of the US Federal Reserve (Fed) Chair at the annual Jackson Hole symposium from 24-26 August reignited concerns that interest rates may stay higher and for longer than expected. This saw a steep repricing of interest rate futures tied to the Fed policy rate, with the odds of a rate hike spiking to circa 62% and 58% for the November and December Federal Open Market Committee meeting on 28 August (1 August: 33% and 29%). Nevertheless, much uncertainties remain on the horizon, making such bets fluid at best.

The outflow was partially offset by foreign net inflows into MTB and MITB (RM637.3 mil) and corporate bonds (RM211.9 bil), which moderated the overall foreign fund outflow (RM5.0 bil) in August. The bond selloff saw the benchmark 10-year MGS and UST yields respectively rising 1.1 bps and 12.0 bps m-o-m to 3.85% and 4.09% as of end-August. The ringgit depreciated to 4.64 against the US dollar (end-July: 4.54). As at 18 September, the 10-year MGS yield stood at 3.91% while the USD/RM exchange rate was 4.69.

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