



Media Release

Foreign inflow continued in March, but outflow pressure to increase amid future technical rebalancing

Foreign investors' interest in the Malaysian bond market remained healthy in March, which marked the second consecutive month of net inflows of foreign funds. Foreign holdings of Malaysian debt securities rose RM2.9 bil in March, bringing the YTD net value to RM5.1 bil. The continued foreign interest is in line with the ongoing repositioning of global funds in response to the US Federal Reserve's (the Fed) increasingly more dovish tone. Besides its reiteration that it will be more "patient" in future policy decisions, the Fed's dot plot in March suggests that the present rate hike cycle will likely pause this year.

"This strong foreign buying interest is likely to be short-lived, as the domestic bond market is expected to face some outflow pressure in April due to the rebalancing of benchmark indices for emerging market (EM) bonds," explains Kristina Fong, RAM's head of research. The Bloomberg Barclays Global Aggregate Index's inclusion of Chinese bonds with effect from April is envisaged to shift some funds away from EMs to China. Malaysia's lower weight (from 5.94% to 5.88%) in the JPMorgan Government Bond Index-Emerging Markets effective 29 March is also envisaged to lead to some technical outflows in April.

Fund outflows had also been aggravated by concerns about the planned exclusion of Malaysian bonds from the fixed-income benchmark components of index provider FTSE Russell and Norway's sovereign wealth fund. That said, there is still uncertainty over the extent and severity of the sell-down, which would depend on the time frame of the disposal, the monthly value of the rationalisation if done in a staggered manner, and the extent to which the sell-down would be absorbed by foreign or domestic buyers.

Meanwhile, government bond issuance came up to a healthy RM15.5 bil in March, almost double the preceding month's RM8.0 bil and the highest monthly issuance on record. Despite the sizeable supply, the market had a healthy appetite, as indicated by the healthy bid-to-cover ratios at government bond auctions. On the other hand, corporate bond issuance climbed up to RM11.3 bil in March (February: RM9.1 bil), marking the third consecutive month of increase. Similar to the preceding month, the robust issuance was backed by both the quasi-government and private sectors.

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