Foreign investors buy EM bonds as risk sentiment improves

Foreign appetite for emerging market bonds made a comeback in August with net purchases of MGS and GII (RM3.6 bil), MTB and MITB (RM1.9 bil), and corporate bonds (RM69.1 mil). Total net foreign holdings rebounded in August to RM5.6 bil following two consecutive months of net outflows that saw funds pulling out of emerging markets. With recent strong US economic data easing fears of a hard landing, global risk-off sentiments have eased among investors.

Longer-tenor MGS yields ticked up while short duration yields fell, steepening the yield curve in August. The 10-year MGS yield increased the most, climbing 8.6 bps m-o-m to 3.98%. Yet, the yield differential between 10-year MGS and 10-year UST securities continued to narrow, averaging 106 bps in August (July: 116 bps), as investors expect the Fed’s hawkish rate hikes to continue for the rest of the year. UST yields rose by a larger 48.0 bps m-o-m to 3.42%. This narrowing trend persisted into September, with the yield spread averaging around 74.4 bps as at 13 September.

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