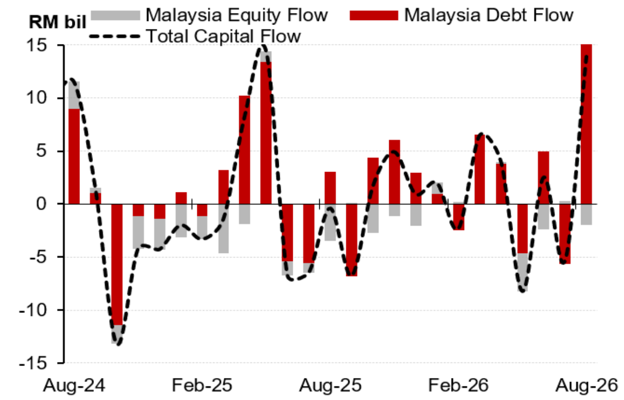
08 September 2026

Malaysia Bond Flows (Aug-26)

Foreign investors return, but it's a duration trade, not a risk-on signal

- **Foreign investors turned net buyers of Malaysian bonds in August, with inflows of RM15.9b (Jul: -RM5.6b), the third-largest monthly inflow on record and the highest since September 2013. Global duration repricing amid heightened US fiscal concerns drove the reversal, while Malaysia's resilient domestic fundamentals supported the shift into local debt.**
  - **Foreign holdings:** Total foreign holdings rose to RM320.1b (Jul: RM304.2b), lifting foreign ownership of total outstanding debt to 13.5% (Jul: 12.9%). However, the recovery in Malaysian Government Securities (MGS) holdings remained partial: holdings stood at RM235.2b, still below June's RM237.6b.
  - **Key drivers:** Renewed demand for duration triggered the sharp reversal from July's outflows. Concerns over US fiscal sustainability pushed long-end US Treasury yields higher and lifted term premia, while the ringgit strengthened alongside the US rates repricing. Malaysia's resilient growth, moderating inflation, stable policy framework and improving external position likely reinforced the appeal of Malaysian debt relative to regional peers, letting the country to capture part of the broader reallocation into local-currency bonds.

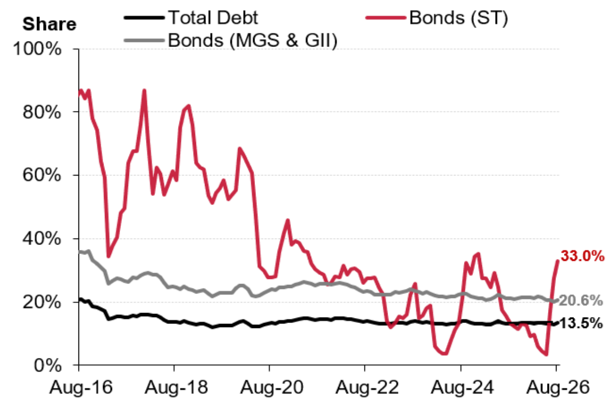
Graph 1: Monthly Net Foreign Capital Flows



Source: BNM, Kenanga Research

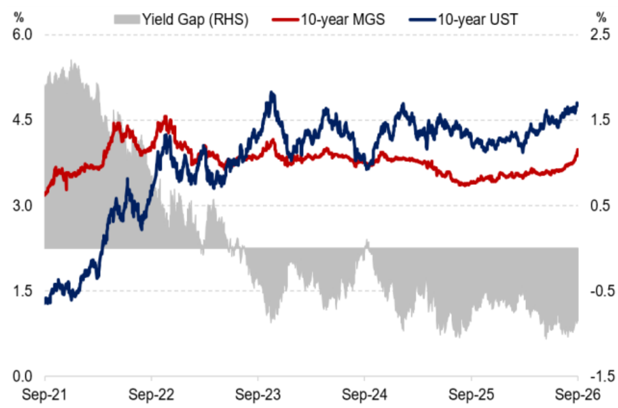
- **Bond market movements**: Inflows were broad-based across MGS, Government Investment Issues (GII) and Corporate Bonds & Sukuk (CBS), with GII recording the largest increase in foreign ownership.
  - **MGS:** Shifted to inflows of RM5.0b (Jul: -RM7.4b), lifting foreign ownership to 33.3% (Jul: 33.0%). Holdings remained below the June level, suggesting the recovery has yet to fully reverse earlier outflows.
  - **GII:** Reverted to inflows of RM5.6b (Jul: -RM0.4b), raising foreign ownership to 7.1% (Jul: 6.3%).
  - **CBS:** Inflows sharply increased to RM4.8b (Jul: RM0.8b), supported by continued demand for both corporate bonds and sukuk. Foreign ownership rose to 3.5% (Jul: 3.0%).
- **Equity market trends**: Foreign investors turned net sellers of Malaysian equities in August, recording outflows of RM2.0b (Jul: RM0.3b). Selling was concentrated in the financial, industrial and technology sectors, pointing to more cautious risk appetite even as foreign investors returned to Malaysian debt. The divergence between bond and equity flows suggests the August reallocation was driven more by duration and relative fixed-income attractiveness than by a broad-based rise in risk appetite.
- **Capital market trends:** Malaysia's capital market recorded strong net inflows of RM13.9b in August, a 15-month high (Jul: -RM5.3b), driven mainly by the sharp reversal in bond flows.
- **Local debt market outlook: External uncertainty clouds flows; but fundamentals remain supportive**
  - Global rates remain the near-term swing factor. US fiscal concerns and higher term premia will likely keep investors selective towards duration, while the US-Israel-Iran conflict could add to market volatility. Warsh's comments should be read as a test of the Fed's inflation threshold, not a signal of a policy shift. We expect the Fed to hold rates through the rest of 2026, with the first cut only in 2Q27, later than current market pricing implies. Until that cut comes into view, demand for local bonds is likely to stay uneven, with global duration repricing doing more to drive flows than any easing in liquidity.
  - Malaysia's fundamentals argue for patience rather than an imminent inflow wave. Resilient economic growth, moderating inflation, stable sovereign ratings and a well-anchored monetary policy framework, plus healthy external balances, attractive real yields and ample domestic liquidity, put Malaysia ahead of regional peers on relative value. But with the Fed cut still some way off, we see foreign participation picking up only gradually into 2027, rather than a near-term acceleration from August's rebound. The near-term risk is that August's inflow proves a one-off duration trade rather than the start of a sustained trend.

Graph 2: Foreign Holdings of Malaysian Debt



Source: BNM, Kenanga Research

Graph 3: US Treasury Yield vs. MGS Yield



Source: Bloomberg, Kenanga Research

Table 1: Foreign Holdings of Malaysian Bonds

		Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
MGS	Value (MYR billion)	235.4	236.1	234.1	237.6	230.1	235.2
	% of Total MGS	34.1%	34.1%	33.6%	33.6%	33.0%	33.3%
GII	Value (MYR billion)	47.7	47.0	42.1	41.3	40.9	46.5
	% of Total GII	7.7%	7.5%	6.6%	6.4%	6.3%	7.1%
MTB	Value (MYR billion)	0.3	0.3	0.3	1.3	2.6	3.0
	% of Total MTB	5.5%	5.5%	5.6%	27.7%	34.7%	42.9%
MITB	Value (MYR billion)	0.0	0.0	0.3	0.7	0.7	0.8
	% of Total MITB	0.0%	0.0%	2.5%	9.9%	15.4%	17.6%
Corporate Bond and/or Sukuk (CBS)	Value (MYR billion)	22.0	25.7	28.2	29.0	29.8	34.6
	% of Total CBS	2.3%	2.6%	2.9%	3.0%	3.0%	3.5%
Total Foreign Debt Holdings	Value (MYR billion)	305.4	309.2	304.9	309.8	304.2	320.1
	% of Total Securities	13.4%	13.4%	13.1%	13.2%	12.9%	13.5%

Source: BNM, Kenanga Research

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