

Macro Note

Malaysia: Foreign Portfolio Outflows Persist In July

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- Malaysia recorded a larger foreign portfolio outflows totalling MYR5.0bn in Jul (Jun: -MYR1.7bn; May: +MYR1.7bn). This came after overseas investors continued to pare down their holdings of Malaysian equities for 25 months in a row (Jul: -MYR1.3bn; Jun: -MYR1.2bn) and Malaysian debt securities by the most since Mar 2020 (Jul: -MYR3.6bn; Jun: -MYR0.5bn). Debt instruments that succumbed to foreign selling last month were Malaysian Government Securities (MGS, -MYR3.6bn), Treasury Bills (-MYR0.6bn), and private Sukuk (-MYR0.05bn).
- Bank Negara Malaysia's foreign reserves remained at the highest level since Dec 2014, rising merely by USD1.3m m/m to USD111.100bn as at end-Jul (end-Jun: +USD0.2bn m/m to USD111.099bn). The latest reserves position is sufficient to finance 8.1 months of retained imports and is 1.1 times total short-term external debt.
- The volatility of capital flows in emerging markets has increased significantly since Jun as US Fed moves closer to QE tapering, renewed uncertainty around COVID-19 infections and China's regulatory crackdown spark concerns over a softer global growth momentum ahead. Constrained fiscal space and fluid political situations at home further present challenges to Malaysia's foreign portfolio flows and subsequently undermine the near-term outlook for MYR. Major events to watch in the coming month include Malaysia's 2Q21 GDP release (on 13 Aug), Jackson Hole Economic Symposium (on 26-28 Aug), and the reconvening of Malaysia's Parliament (on 6 Sep).

Both Debt And Equity Markets Faced Stronger Selling Pressures In Jul

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The breakdown of foreign debt flows in Jul and YTD (in MYR bn) are as follows:

Type Of Debt Instrument	Jun	Jul	Jan-Jul 2020	Jan-Jul 2021
1. Malaysian Government Securities (MGS)	+0.44	-3.58	+0.70	+11.23
2. Government Investment Issues (GII)	+0.25	+0.43	-0.43	+6.40
3. Malaysian Treasury Bills (MTB)	-0.24	-0.55	+2.71	+4.31
4. Private Debt Securities (PDS) including private Sukuk	+0.05	+0.06	-0.67	+0.80
5. Bank Negara Malaysia Bills (BNM Bills)	-1.00	n.a.	-1.00	-2.00

Year to date (YTD), foreign holdings of Malaysian government bonds (MGS & GII) declined for the first time in 15 months by MYR3.2bn to MYR219.8bn as at end-Jul (end-Jun: +MYR0.7bn to MYR223.0bn). This brought foreign shareholdings of Malaysian government bonds to a 5-month low of 24.6% (from 25.1% in Jun). For MGS alone, foreign investors held MYR188.6bn or 40.4% of total MGS outstanding as at end-Jul (end-Jun: MYR192.1bn or 40.4%). For GII, overseas investors further increased their holdings to MYR31.2bn, which was equivalent to 7.8% of total GII outstanding last month (from MYR30.8bn or 7.9% as at end-Jun).

In the Malaysian equities space, foreign ownerships dropped to an all-time low of 20.2% of total market capitalisation as at end-Jul (end-Jun: 20.3%; end-2020: 20.7%; end-2019: 22.3%).

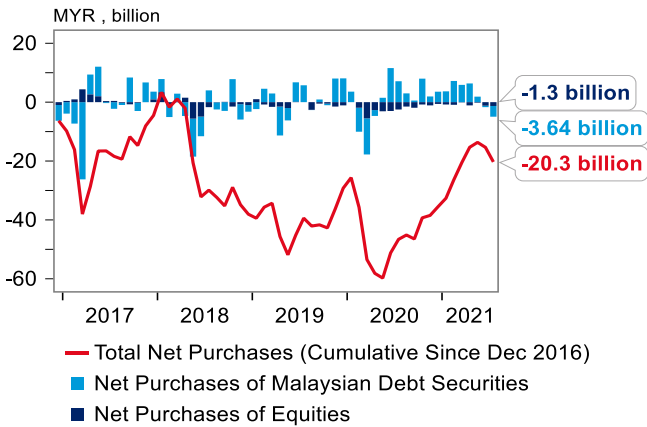
Foreign Reserves Remained At The Highest Since Dec 2014

Bank Negara Malaysia's (BNM) foreign reserves rose by just USD1.3m m/m to USD111.100bn as at end-Jul (end-Jun: +USD0.2bn m/m to USD111.099bn), keeping its highest level since Dec 2014. The latest reserves position is sufficient to finance 8.1 months of retained imports and is 1.1 times total short-term external debt. YTD, foreign reserves jumped by USD3.5bn in the first seven months of 2021, marking the largest gain since Jan-Jul 2017 when it increased by USD4.9bn (Jan-Jul 2020: +USD0.6bn).

While BNM has yet to publish its Jul FX swaps data, the central bank's net short position in FX swaps narrowed for the second straight month by USD0.6bn m/m to USD7.8bn or 7.0% of total foreign reserves as at end-Jun (end-May: -USD0.6bn m/m to USD8.3bn or 7.5% of total foreign reserves).

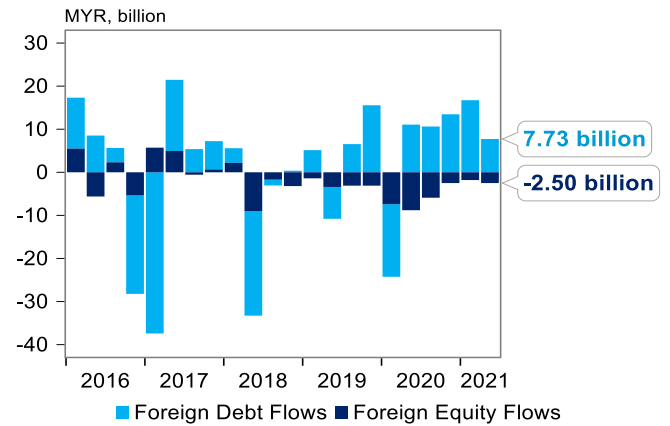
Foreign Holdings Of Malaysian Bonds And Equities

Source: Macrobond, UOB Global Economics & Markets Research



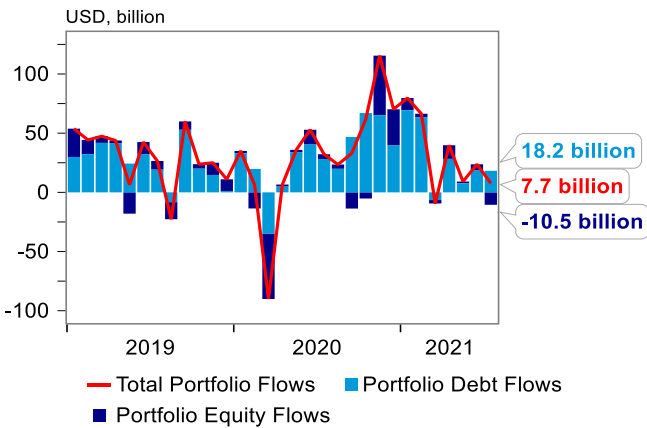
Quarterly Flows Into Malaysian Equities and Bonds

Source: Macrobond, UOB Global Economics & Markets Research



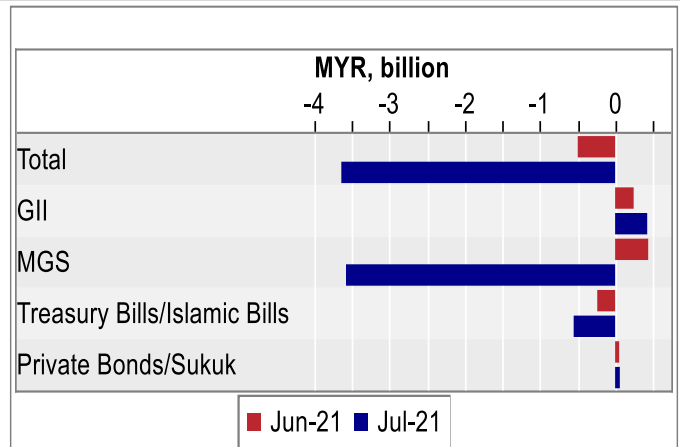
Non-Resident Portfolio Flows Into EMs

Source: IIF, UOB Global Economics & Markets Research



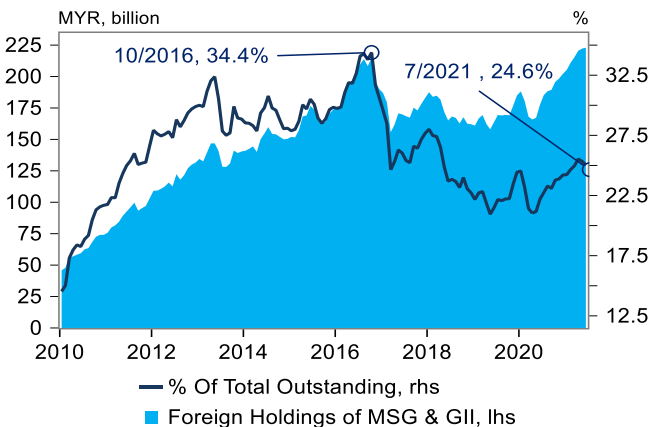
Breakdown Of Foreign Flows Into MYR Bonds

Source: Macrobond, UOB Global Economics & Markets Research



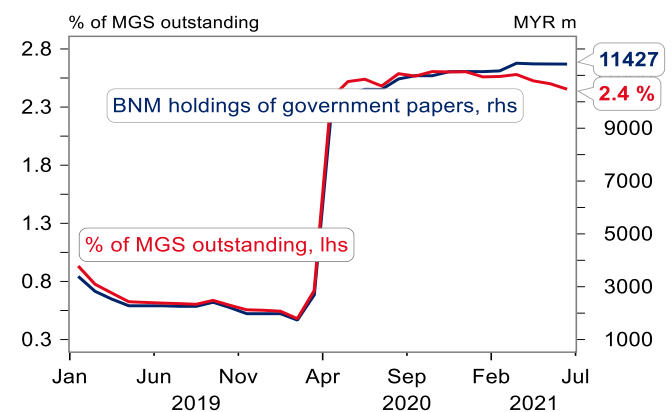
Foreign Holdings Of Malaysia Government Bonds

Source: Macrobond, UOB Global Economics & Markets Research



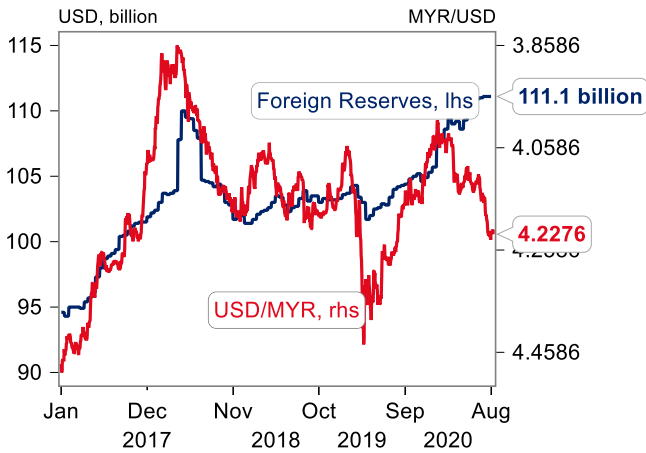
BNM Holdings of Government Papers

Source: BNM, UOB Global Economics & Markets Research
Note: BNM holdings of government bonds are part of normal market operations to ensure orderly functioning of the market



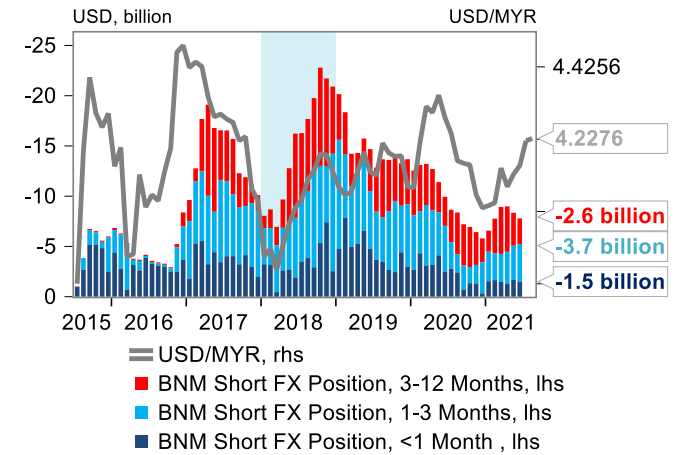
Foreign Reserves Vs. USD/MYR

Source: Macrobond, UOB Global Economics & Markets Research



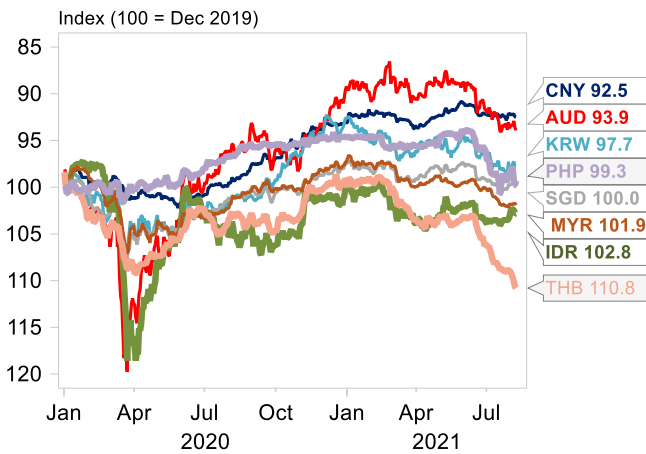
BNM's Short Position In FX Swaps

Source: Macrobond, UOB Global Economics & Markets Research



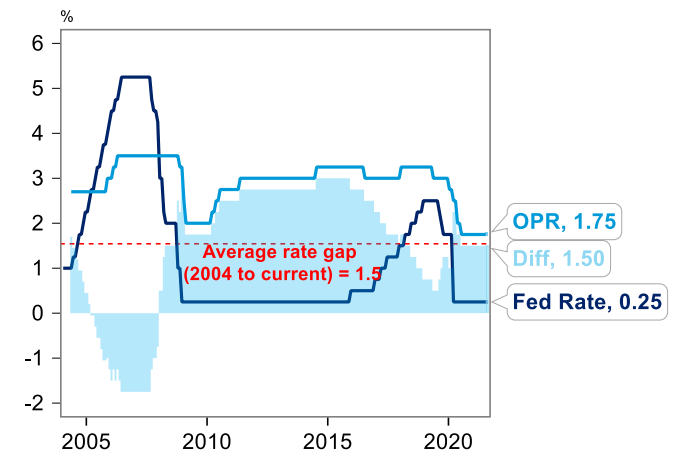
USD/Asia FX Performance

Source: Macrobond, UOB Global Economics & Markets Research



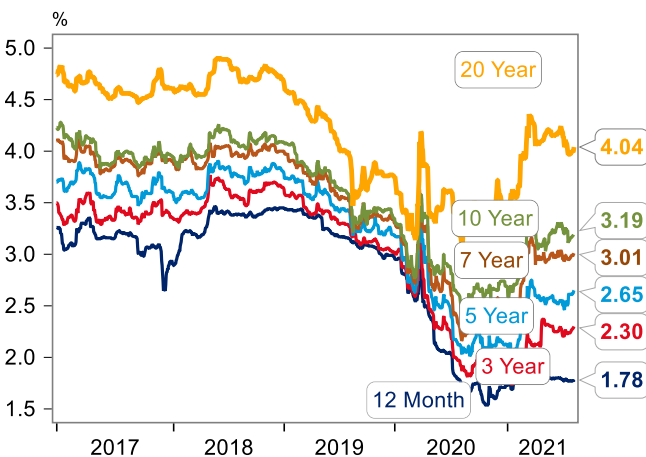
Malaysia Overnight Policy Rate (OPR) vs. Fed Funds Rate

Source: Macrobond, UOB Global Economics & Markets Research



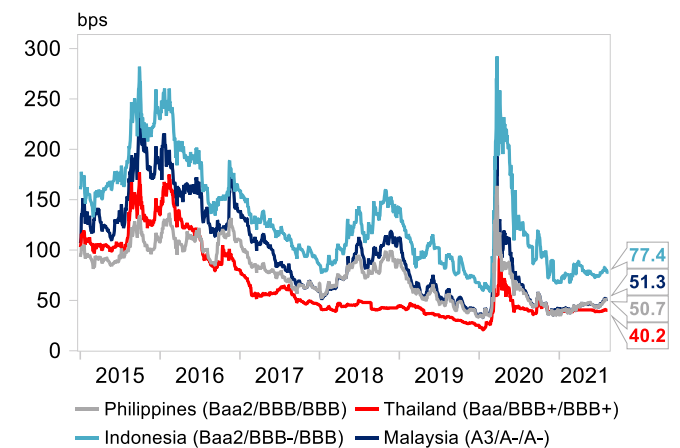
Malaysia Government Securities, MGS Yields

Source: Macrobond, UOB Global Economics & Markets Research



Sovereign Credit Default Swaps (CDS)

Source: Bloomberg, UOB Global Economics & Markets Research



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