

Bond market set to attract foreign money



By **DALJIT DHESI**

MARKETS

Monday, 18 Aug 2025



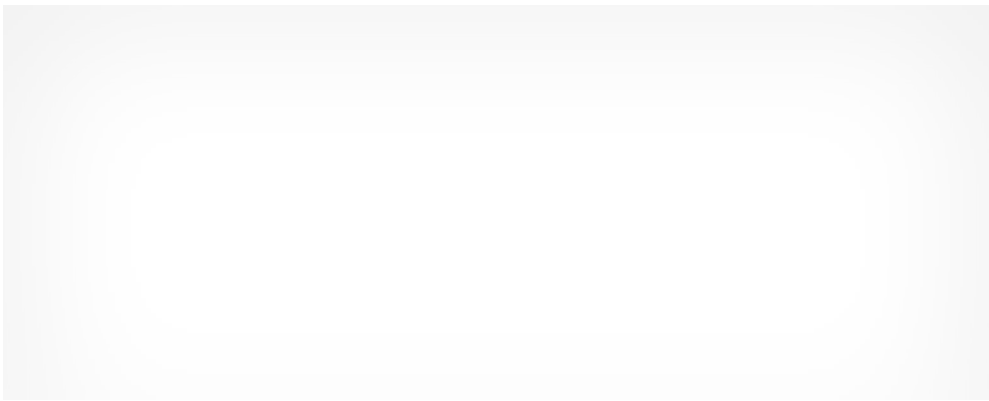
PETALING JAYA: After witnessing net foreign fund outflows from the Malaysian bond market in June and July, foreign investors, although taking a cautionary stance, are set to buy ringgit bonds in the coming months.

This to an extent would be triggered by the lower reciprocal tariffs from 25% to 19% on Malaysian exports to the United States, the 90-day tariff truce extension between the United States and China, and likely upcoming interest rate reductions by the US Federal Reserve (Fed). All these are positive for the local bond market.

Net foreign fund outflows from the domestic bond market in June and July stood at RM5.4bil and RM5.5bil, respectively.







RAM Rating Services Bhd economist Nadia Mazlan told StarBiz the recent reduction in US tariffs on Malaysian goods to 19% from 25% could help restore some foreign appetite for ringgit-denominated bonds in the coming months.

The country recorded net foreign fund outflows in June and July, primarily driven by weaker investor sentiment and heightened uncertainty over the looming US reciprocal tariff deadline.

“However, the latest tariff reprieves, including the United States tariff deadline extension for China, could reverse or at least dampen outflow starting this month. So far, there are telltale signs that foreign investor sentiment has improved slightly.

“The ringgit strengthened against the US dollar to RM4.23 as of Aug 12 from RM4.28 on Aug 1, while the 10-year Malaysian government securities (MGS) yield fell to 3.44% as of Aug 16 from 3.46% on Aug 1.



STARPICKS

Spot the signs, act early

“Should this risk aversion sentiment in the market continue to subside, we should see a more sustained foreign buying of ringgit-denominated bonds in the second half of 2025,” she said.

As at press time, the ringgit was hovering at RM4.22 against the US dollar.

Furthermore, Nadia said foreign demand for local bonds could also be supported by the upcoming rate reductions by the Fed, which would narrow the positive interest rate differential of US bonds over local bonds, and in turn, increase the attractiveness of Malaysian assets.

The US federal funds rate (FFR) currently is at a range of between 4.25% and 4.5%.

Markets are widely expecting the Fed to trim the FFR by 25 basis points (bps) in September to a target range of 4% to 4.25%, with the market-assigned probability of a cut having increased to 94% on Aug 12 from 57% on July 11, according to CME FedWatch Tool data.

The CME FedWatch Tool estimates the probability of the Fed changing interest rates at upcoming meetings.

Nadia said markets are also banking on at least another rate cut in October or December, which is similar to the Fed’s June dot-plot projection which indicated a median FFR target range of 3.75% to 4% by year-end from the current FFR range of 4.25% to 4.5%.



In contrast, she said Bank Negara Malaysia (BNM) is expected to maintain the overnight policy rate or OPR at 2.75% for the remainder of the year.



MARC Ratings Bhd chief economist Ray Choy

MARC Ratings Bhd chief economist Ray Choy said the reduction of US import tariffs on Malaysian goods from 25% to 19% was a positive development for Malaysia's trade outlook, particularly for export-oriented sectors.

He said this could help ease some of the external headwinds weighing on growth and the ringgit, potentially improving sentiment towards local bonds.

"However, while the tariff cut may marginally support investor sentiment and trade performance, foreign investor demand for ringgit bonds in the remainder of 2025 will still be heavily influenced by broader geopolitical risks, global interest rate trends and currency stability.

"While the tariff reduction may provide a marginal boost to foreign inflows, especially equities, sustained buying interest in MGS and government investment issues (GIIs) will likely require a combination of improved global risk appetite, strong domestic fundamentals and supportive interest rate differentials," Choy noted.

Looking ahead, he expects foreign demand to favour government bonds (MGS/GII) over corporates for the remainder of 2025, with buying concentrated in medium to long-term maturities for yield pick-up and a declining inflation risk premium.



Overall, Choy said foreign inflows are likely to continue, but at a more moderate pace compared to the first half of the year.

Inflows will be supported by a narrowing of the US Treasuries (UST) and MGS yield differential, as markets price at least one Fed rate cut in September and potentially another by December, he said.

“In addition, the government’s ongoing fiscal consolidation strategy, targeting a fiscal deficit of 3.8% of gross domestic product (GDP) in 2025 (2024: 4.3%) will anchor foreign demand.

“This is also in line with the 13th Malaysia Plan’s goal of reducing the deficit to 3% or below by 2030, further enhancing Malaysia’s creditworthiness to foreign investors.

“In terms of corporate bond inflows, we expect demand to remain positive but selective, skewing towards high-grade debt papers,” Choy said. However, he cautioned key downside risks persist and may weigh on inflows.

These include ongoing global risk-off sentiment stemming from conflicts in the Middle East and abrupt shifts in trade policy, such as the proposed 100% levy on semiconductors, which could dampen sentiment, given that Malaysia accounts for about a fifth of US semiconductor imports, he said.

RAM’s Nadia concurred that the upside from the recent tariff reduction would likely be limited, as foreign investors are expected to remain cautious given lingering uncertainties from US protectionist trade policies, especially the proposed sectoral tariffs on semiconductors.

“For Malaysia, this sector-specific tariff could have a sizeable impact on economic growth given that about 8% of Malaysia’s total exports are US-bound electrical and electronic (E&E) goods.

“This uncertainty in US tariff policies, which could turn on a dime under US president Donald Trump and trigger investor ‘risk-off’ sentiment, will remain a key challenge to Malaysian bonds for the rest of this year,” she said.

Nadia is projecting RM155bil to RM165bil worth of issuance of MGS and GII this year, a slight moderation from RM176.7bil in 2024. For corporate bonds, she said the rating agency is expecting between RM110bil and RM120bil issuances from RM124.2bil last year.

MARC’s Choy said for this year, he is forecasting government bond issuance to reach RM163.5bil, while corporate bond issuance is expected to reach RM125bil, bringing the total to RM288.5bil, he said.





Bond Pricing Agency Malaysia's (BPAM) CEO Meor Amri Meor Ayob

Bond Pricing Agency Malaysia's (BPAM) chief executive officer Meor Amri Meor Ayob reckoned with the import tariff on Malaysian goods reduced to 19% from 25%, coupled with BNM's rate cut, and the expectations of Fed cutting interest rates in September, foreign interest in ringgit bonds, particularly MGS, is likely to be rekindled soon.

"We expect foreign interest will remain in government bonds, especially the MGS. Some potential growth drivers for ringgit bonds in 2025 include maintaining fiscal discipline by reducing government debt while diversifying revenue sources, as well as exploring the idea of tokenising MGS and GII on blockchain platforms.

"Such initiatives could enhance transparency, reduce transaction costs and capture the imagination of tech-savvy investors on the global stage. For example, tokenising real-world assets like sovereign bonds could enable fractional ownership and expand access to retail investors," Meor Amri noted.

Highlighting the challenges for ringgit bonds for 2025, he said a slower-than-expected pace of Malaysia's economic growth could weaken demand for fixed-income assets and curb foreign inflows.

"If the government's budget deficit target is missed, whether due to weaker revenue collection, higher subsidy bills or unplanned expenditure, it may raise concerns over fiscal discipline.

"Another key risk is elevated global yields, particularly in UST. If UST yields remain high, they could offer more attractive, low-risk returns to global investors compared with MGS. This yield differential may lead to capital outflows or reduced foreign participation in the MGS space," Meor Amri said.



Maybank Investment Banking Group head of fixed income research Winson Phoon

Commenting on foreign investors buying into ringgit bonds for the remainder of the year, Maybank Investment Banking Group head of fixed income research Winson Phoon said tariffs are highly consequential to Malaysia's growth prospects but not necessarily the key driver to foreign flows.



He said in the medium to long term, ringgit bonds may gain from flow redirection, driven by gradual diversification away from US-dollar assets.

“Foreign flows could remain choppy through the rest of 2025. Fed easing, if materialised, would be conducive to foreign demand for ringgit government bonds. Foreign holdings of corporate bonds are likely to remain small.

“It would be bond-positive if the government can deliver another fiscal outperformance this year, similar to last year. However, a sharp US dollar rebound could sour sentiment and drive outflows from the ringgit bond market,” Phoon said.

Phoon is forecasting gross MGS and GII supply of RM168bil and net supply of RM84bil for 2025. For corporate bonds, he is projecting gross supply of RM125bil and net supply of RM38bil.

Business & Finance newsletter

Catch up on stories you can't afford to miss w

Email Address

By clicking on the Sign Up button, it is deemed that you cor

Follow us on our official [WhatsApp channel](#) for breaking news alerts and key updates!

TAGS / KEYWORDS:

Bond , Tariffs

TOPIC:

Markets

IS THIS ARTICLE USEFUL? ★★★★★

100% of our readers find this article useful

REPORT A MISTAKE



Others Also Read

ENTERTAINMENT 25m ago

Michelle Yeoh reveals husband counts their love in days, not years: 'If I really ask, he'll give...

