

Increased foreign buying likely

By DALJIT DHESI

MARKETS

Monday, 29 Sep 2025



PETALING JAYA: Foreign buying of Malaysian bonds is set to gain momentum over the next few months and going into next year with the recent interest rate cut by the US Federal Reserve (Fed) and in anticipation of more cuts, going forward.

Economists and bond experts said the rate cuts would help attract foreign funds to invest in the ringgit bond market due to the narrowed yield differentials spread between the US Treasuries (UST) and Malaysian Government Securities (MGS), making the local ringgit bond market more attractive to foreign investors, among other factors.



RAM Rating Services Bhd senior economist and head of economic research Woon Khai Jhek

RAM Rating Services Bhd senior economist Woon Khai Jhek told StarBiz the restart of the US monetary policy easing cycle has improved the attractiveness of emerging market (EM) bonds and should help drive foreign buying of Malaysian bonds moving ahead.

“However, the magnitude and persistence of flows will hinge on the Fed rate cuts and the emergence (or not) of geopolitical or trade policy shocks.

“Markets pricing in further easing has already pushed down UST yields and narrowed the UST-MGS yield differential, which enhances the relative appeal of the local bond market,” he said.

Pricing in of interest rate cuts began to build up in August, ahead of the widely anticipated Fed move in September. Foreign investors returned as net buyers of Malaysian bonds in August after two consecutive months of foreign fund outflow.

Overall, foreign fund inflow clocked in at RM3bil in August (net foreign outflow in July: RM5.5bil), driven mainly by MGS and government investment issues (GII) (RM3.3bil).

This renewed interest was partly supported by a narrower 10-year UST and MGS yield differential of 82.9 basis points (bps) as at end-August compared to 99.3 bps as at end-July. This followed a notable decline in the 10-year UST yield (end-July: 4.37%; end-August: 4.23%), as markets priced in growing rate cut prospects.

Woon said the Fed's 25-bps interest rate cut in September further cemented the belief of a lower interest rate environment, moving ahead. This led to a further compression in the 10-year UST-MGS yield spread, which stood at 68.6 bps as at Sept 23, bolstering the attractiveness of Malaysian bonds, he noted.

Alongside the rate cut, the Fed also signalled more cuts ahead for the rest of the year.

The Fed's September dot-plot showed the median projections among Federal Open Market Committee (FOMC) meeting members for the Fed rate target band at 3.50% to 3.75%, indicating another 50-bps rate reduction by the end of 2025.

This indicates more rate cuts relative to the June dot-plot, which has a median projection of 3.75% to 4%. The Fed's dot plot shows where top Fed policymakers think interest rates are headed, going forward.

The Federal Open Market Committee (FOMC), the US central bank's main policy-setting body, will hold its final two meetings of the year on Oct 28-29 and Dec 9-10.

Woon said current market pricing also implies roughly a 75% probability of another 50 bps by the end of the year, according to CME FedWatch. This will further turn the interest rate differential in favour of Malaysian bonds, and in turn, increase the attractiveness of Malaysian assets, he noted.



MARC Ratings Bhd chief economist Ray Choy

MARC Ratings Bhd chief economist Ray Choy said the case for ringgit bonds has remained intact and is likely to persist through 2026. This is because the US interest rate cuts have gained momentum following clearer signs of weakness in the US labour market.

He said while Malaysia may also lower interest rates next year, its rate cuts are typically smaller in scale relative to those in the United States, resulting in a more favourable interest rate differential supporting the ringgit.

“A developing political and institutional arbitrage story within Asean is also emerging, with Malaysia’s relative political stability and scope for structural reforms gaining comparative traction.

“Finally, geopolitical and geoeconomic repositioning, including US tariffs, is already embedded into risk premia, making further shifts on this front less likely to be perceived as extraordinary,” he noted.

Choy said foreign inflows tend to concentrate in government bonds given their superior market liquidity compared to corporate bonds, which global investors place high value on as an investment criterion. In particular, foreign investors are likely to cluster around market-weight, highly liquid maturities in the five-year to 10-year range, he said.



Stantley Tan, Head of Global Markets, OCBC Bank (Malaysia) Berhad

OCBC Bank (M) Bhd head of global markets Stantley Tan said the recent rate cut by the Fed has narrowed the interest rate differential between the US dollar and the ringgit, enhancing the relative attractiveness of ringgit-denominated assets.

“Since post-Liberation Day tariff negotiations, and despite a slowdown in exports, both Malaysia and Indonesia have come through the tariff hikes relatively unscathed.

“The country’s solid economic fundamentals are expected to bolster confidence in the longer-term strength of the Malaysian economy and drive foreign investment flows into the local economy with ringgit denominated fixed-income assets, in particular MGS and GII standing to benefit,” he said.

Tan said the demand from domestic investors continues to underpin the outlook for ringgit fixed-income assets, even as the yield curve remains relatively flat compared to regional peers.

OCBC’s house view opines that Bank Negara may consider another overnight policy rate (OPR) cut in the first half of 2026, especially if external uncertainties arise and there is a gradual weakening of economic fundamentals. This in itself could present additional upside for long-term investors in ringgit denominated fixed income assets.

However, Tan said:” It remains to be seen whether Budget 2026 will maintain the previously signaled commitment to fiscal discipline.

“Continued adherence to this path would reinforce the positive outlook that has been a key driver of the ringgit bonds’ strength year-to-date.

“Conversely, any erosion of fiscal credibility could undermine investor confidence and pose challenges to the ongoing rally in ringgit bonds.”



Stanley Tan, Head of Global Markets, OCBC Bank (Malaysia) Berhad

Meanwhile, Bond Pricing Agency Malaysia's (BPAM) CEO Meor Amri Meor Ayob said he expects the Fed to cut further for the remainder of the year despite the recent 25bps interest rate cut.

As such, he said this would be a boon for the ringgit bond market as Malaysia has a steady economic growth path coupled with benign inflationary pressure.

"Foreign investors may choose to reduce some exposure to US Treasuries, especially in the longer tenure, due to the uncertainty in US president Donald Trump's trade policies as the US Supreme Court will be hearing the legitimacy of Trump's tariff in November.

"If the ruling is not favourable to Trump, the US could face a shortfall in its revenue collection," he said.

That said, he said foreign investors are sensitive to Malaysia's fiscal discipline too. He said it remains to be seen how foreign investors interpret the recent government initiative in which all Malaysians with a valid driving licence will be allowed to purchase subsidised petrol at RM1.99 per litre while big corporations and foreigners are excluded from this subsidised price.

Meor Amri expects more foreign inflows into government bonds for the remainder of the year.

Some of the potential growth drivers for the ringgit bonds for 2025 include achieving the fiscal deficit target, upside surprise in economic growth, and the launch of tokenised bonds.

Malaysia is targeting a fiscal deficit of 3.8% of gross domestic product (GDP) for 2025, a decrease from 4.1% in 2024.

Meor Amri said some of the challenges for the ringgit bonds are unexpected slowdown in economic growth, heightened geopolitical risk as well as uncertainty in US foreign policy toward Malaysia in the event Malaysia becomes a full BRICS member.