

Ringgit bonds set to draw more foreign funds



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MARC Ratings Bhd chief economist Ray Choy

PETALING JAYA: Corporate Malaysia is set to attract more foreign investors into the ringgit bond market next year, riding on the country's strong economic fundamentals, the strength of the ringgit, manageable inflation, and the government's ongoing consolidation exercise.

Malaysia's economy is projected to grow between 4% and 4.5% next year, down from 4% to 4.8% this year.

For the third quarter of 2025 (3Q25), growth, as measured by gross domestic product (GDP), expanded by 5.2%, while the economy grew by an average of 4.7% in the first nine months of 2025.

MARC Ratings Bhd chief economist Ray Choy told StarBiz that foreign investors are likely to continue increasing their exposure to ringgit bonds through the first half of 2026 (1H26), supported by firm domestic fundamentals and a resilient external environment.

“The ringgit is projected to appreciate to RM3.93 against the US dollar by mid-2026, which should enhance total returns for foreign holders of ringgit-denominated debt.

“It remains one of Asia’s strongest currencies year-to-date, appreciating 8.2% against regional peers as of Nov 24.

“Real returns on Malaysian assets are also solid, with headline inflation expected at 1.4% by end-2025 and 1.6% by end-2026, below both the post-pandemic average of 1.8% and the pre-pandemic average of 1.9%,” he noted.

Choy added that fixed income spreads remain attractive, reflecting a more favourable US Treasury (UST) and Malaysian government securities (MGS) yield differential, driven by deeper US rate cuts relative to Malaysia.

He said the US Federal Reserve (Fed) has already delivered two cuts, in September and October this year, and markets have assigned a 77% probability to another cut at the December Federal Open Market Committee (FOMC) meeting.

By contrast, he said Bank Negara Malaysia has implemented only one overnight policy rate cut in July and is expected to deliver just one more in 2026.

“Fiscal consolidation will remain a crucial anchor for investors, with the government’s narrowing deficit reinforcing confidence in Malaysia’s medium-term debt trajectory; the fiscal shortfall is projected to decline from 3.8% of GDP in 2025 to 3% by 2028,” Choy said.



RAM Rating Services Bhd senior economist Woon Khai Jhek

Similarly, RAM Rating Services Bhd senior economist Woon Khai Jhek expects foreign interest in ringgit bonds to remain constructive into the 1H26.

He said the global monetary policy backdrop is turning more supportive as major central banks, led by the Fed, continue normalising rates lower.

He added that this narrows the UST-MGS yield differential and improves the relative appeal of Malaysian debt.

The 10-year UST-MGS yield spread narrowed to 59.1 basis points (bps) as of end-October (end-September: 69.4 bps), the tightest spread since early April 2025, he noted.

Woon said the UST-MGS yield spread tightened further to 56.7 bps as of Nov 25 on growing rate-cut bets ahead of the upcoming FOMC meeting in December.

“Besides that, onshore fundamentals are also steady. Fiscal consolidation is progressing, and economic growth is still holding up, considering the challenges posed by US protectionism.

“These factors underpinned the strong rebound in foreign demand we saw in October 2025 and should help sustain flows into 2026, although bouts of risk-off sentiment and shifts in US Fed monetary policy direction may still cause episodic volatility and drive foreign fund outflows from the Malaysian bond market,” Woon said.

The bond market recorded net foreign inflows of RM4.4bil in October 2025, reversing September’s RM6.8bil outflows.

Woon also expects the bulk of foreign inflows to remain concentrated in government securities (MGS and government investment issue) given their depth, benchmark status, and index inclusion.



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

Bond Pricing Agency Malaysia's (BPAM) CEO Meor Amri Meor Ayob said foreign investors are likely to continue buying ringgit bonds next year, as Malaysia remains one of the more resilient and fundamentally sound economies in the region.

He said this stability continues to anchor global demand for its fixed-income assets.

“S&P Global Ratings recently revised Malaysia’s 2026 growth outlook upward to 4.5% from 4.3%, supported by steady domestic demand and a benign inflation forecast of around 1.9%.

This combination of firmer growth and contained price pressures convinces investors that real yields will remain attractive.

“Geopolitically, Malaysia’s ability to maintain a balanced and pragmatic stance between the US and China helps reduce policy or sanctions-related tail risks – a point increasingly important for global portfolio managers navigating a fragmented world economy,” he said.

Meor Amri said the government’s ongoing commitment to fiscal consolidation adds credibility to the macroeconomic outlook.

The deficit is projected to narrow to 3.8% of GDP in 2025 and further to 3.5% in 2026, from 4.1% in 2024, he said.

He added that a clearer fiscal trajectory typically leads to greater investor confidence in sovereign credit quality and currency stability.

Having said that, Meor Amri said key challenges that could impact the ringgit bond market in 2026 include a potential unexpected slowdown in economic growth, rising geopolitical tensions, and uncertainty around US policy toward Malaysia, particularly if Malaysia moves closer to full BRICS membership.

These factors could spark temporary risk-off sentiment and lead to short-term foreign outflows, he said.