PHILLIP RESEARCH SDN BHD (198695-X)
(Formerly known as: Phillip Commodities Sendirian Berhad)
CMSL/A0307/2013
B-2-6, Block B, Level 2, Unit 6, Megan Avenue II, No.12 Jalan Yap Kwan Seng,
50450 Kuala Lumpur Tel: 27830300. Fax: 03-27113036

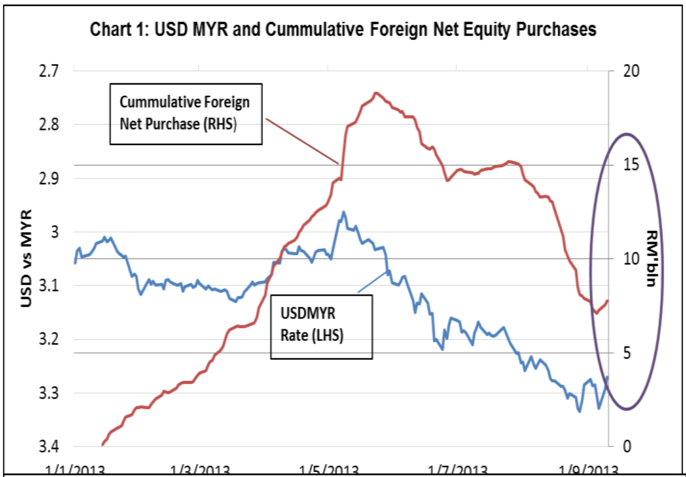
13 September 2013

Will Foreign Selling Continue?

Foreign institutional selling in Malaysia since June has slowed down. This is obvious in our analysis in i) The USD MYR exchange rate versus the cumulative foreign net purchases for 2013 ii) Foreign holdings of Malaysian Government Bonds versus Rate of decline for our local currency and iii) Futures index (FKLI) premium/ discount against the cash market of FBM KLCI.

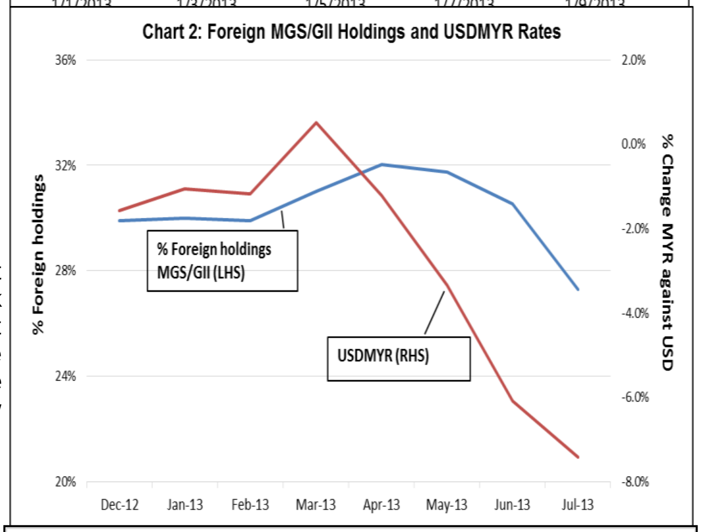
Foreign funds returned since early this week.

We note that foreign institutions have become net buyers of the Malaysia Stocks index in recent days after nearly 30 consecutive days of net selling, foreign cumulative holdings since beginning of the year was at its peak in late April, at RM18.8bln worth of equities bought while currently cumulative net purchases are at RM7.7bln or circa 40% of peak holdings. The selling may have priced in for possible tapering of bond purchases in the United States and also the weak fiscal balance sheet issue in Malaysia. After hitting a low of RM3.33 per USD in late August, the local currency has since strengthened to RM3.26 per USD (see chart) which may indicate foreign outflow has tapered off.



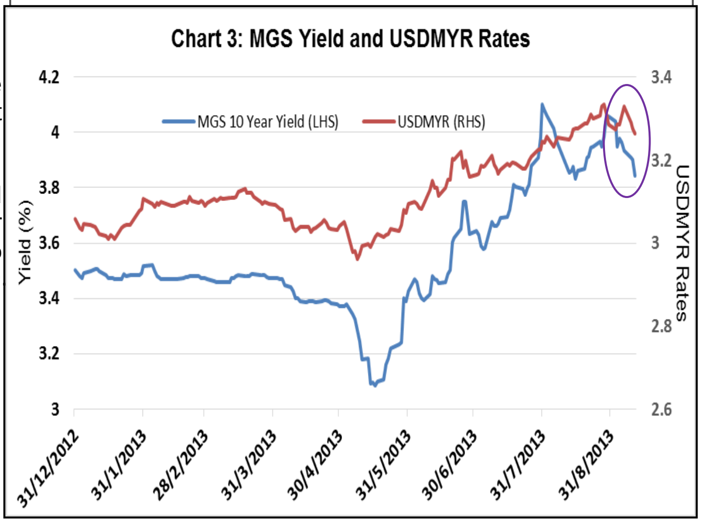
Statistics of foreign holdings on Malaysian bonds

On foreign institutional holdings of MGS & GII for 2013, as at end July 2013 their holdings had fallen to 27% from the peak of 32% of total MGS and GII holdings in Malaysia. August statistics have not been released by Bank Negara but the Malaysian Ringgit has actually strengthened by 0.1% since end July 2013 rates. This again indicates that foreign outflow may have tapered down.



MGS yield spiked as currency declined

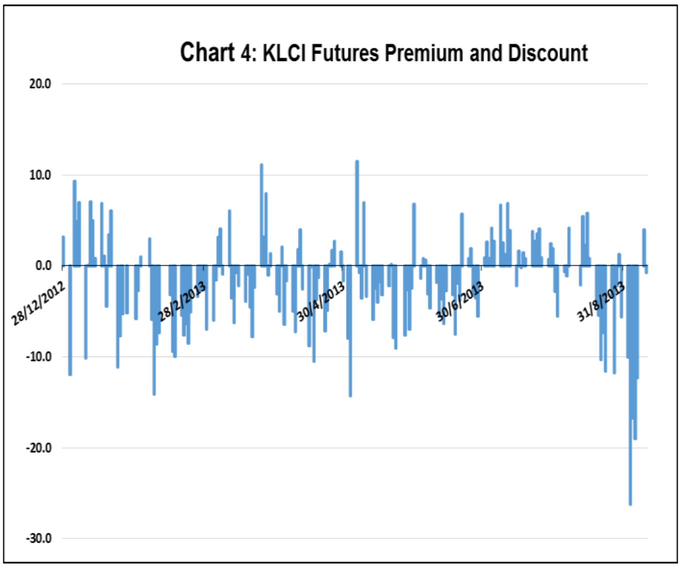
10 year MGS yields rose from 3.1% in mid-May to 4.1% at the end of July 2013 as foreign funds left the country (see Chart 4). This was also reflected in the local currency which depreciated from RM2.99 per USD to RM3.30 in end August. However, 10 year MGS yield has started to decline since end July 2013 indicating outflows by foreigner have slowed or reversed. Currently, 10 year MGS yield has fallen to 3.84% while the local currency has strengthened to RM3.26 per USD



Source: Bloomberg, Sun Daily, BNM

Futures discount back to normal

If we access the relative positions of the futures index market, we witnessed a wide discount whereby index was trading below the cash market with a wide disparity (26 point discount on 3 September 2013). This is indicative of downside anticipation from futures traders given recent economic development in the country coupled with US political backlash in response on Syria crisis. Despite the sharp difference witnessed on 3 September 2013, futures market quickly kept up the pace and closed the gap amid strengthening of the Ringgit and easing political tension in Syria on the 9 September 2013(Chart 3: 4 point premium). On different contract months, the futures market is currently on a backwardation market whereby far month contract prices are trading lower than near month contracts indicative investors are pricing in more risk with a downside bias in anticipation of looming general uncertainty both domestic and macro factors. Thus far, the premium/discount between futures and cash index has returned to normalcy (single digit difference).



Source: Bloomberg, Phillip Futures

Conclusion

Based on our analysis, initial data indicate foreign institutional selling momentum may have slowed down. Bulk of foreign fund flows which have left the country may have already priced in the Fed's tapering in September. The outflow from emerging markets had also coincided with regional equity weakness thus going forward we will still need to monitor the US market which is near their all-time high. This may be an opportune time for investors to accumulate positions in the equity market in view of foreign net purchases of late.

For Phillip Research Sdn Bhd

Phua Lee Kerk
Executive Director