



## The Return of Foreign Funds

The Malaysian stock market has shown significant recovery after falling for the first six months of this year. There are many suppositions as to why the FBMKLCI (KLCI) has rebounded by 6% in Jul-23 alone. Political-inclined investors point to the coming state election. Economists said rebound of ringgit made Malaysian markets attractive. Analysts point to cheap valuations after the continuous decline of our market. Inflow of foreign funds in the month of July is definitely a strong catalyst that sowed the seed of confidence. Those who missed picking up stocks at the low are forced to join the bandwagon just in case the market continues with its ascent. After the sharp July market rebound, the August month will be a formidable challenge as traditionally August is a weak month.

The Malaysian market as represented by the 30 big-cap stocks, KLCI, has been falling since September 2022, immediately after Datuk Seri Anwar Ibrahim was appointed as 10<sup>th</sup> Prime Minister. The decline also coincided with net selling by foreign funds. As such, the sharp 6% gain of KLCI in Jul-23 was a long-awaited relief to investors. The recovery of our market was in tandem with the further gains of S&P500 (see Exhibit 1). This upturn helped to narrow our year-to-date loss to -2%, still one of the worst market performers in this region. Thailand market was down by 6.75% due to uncertainty in appointing its prime minister.

A large part of foreign selling was because of the weakening ringgit, a major factor that foreign fund managers take into consideration when putting money abroad. Ringgit was heading towards Nov-22 low of RM4.75 per USD early July this year, when earlier in the year it was around RM4.25 to a USD. Some were speculating of invisible hands that pulled the ringgit out of the mud ahead of the state elections on 12 Aug-23 (see Exhibit 2). A stronger ringgit may also be a relief to Bank Negara when considering on its next action on OPR rate.

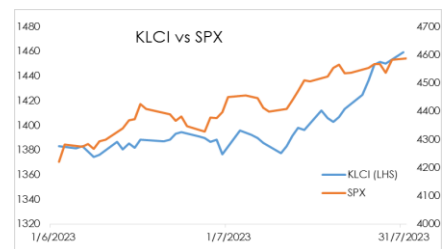
A large part of foreign funds went to Utilities (esp Tenaga), Plantations and Financial Services. All these sectors have strong weighting on KLCI. We also saw strong foreign inflows into South Korea and Taiwan markets from the middle of Jul-23.

The total inflow of foreign funds in Jul-23 was RM1.4bn (see Exhibit 3) which was only 17.5% of the total RM8.0bn foreign outflow from Sep-22 to Jun-23.

The directions of foreign funds in equity and bond markets in Malaysia are substantially different. Last year, foreigners bought RM4.4bn of Malaysian shares but sold RM9.8bn of Malaysian bonds. The trend changed entirely as foreigners sold RM4.2bn of our shares first half of 2023 but bought RM21.2bn of our bonds in the same period.

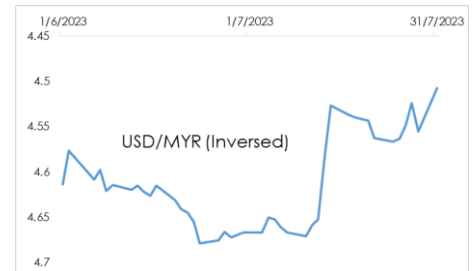
The return of foreign funds is a good sign, we will have to look at the coming state elections to provide a better indication.

Exhibit 1: Strong US market lifted sentiment



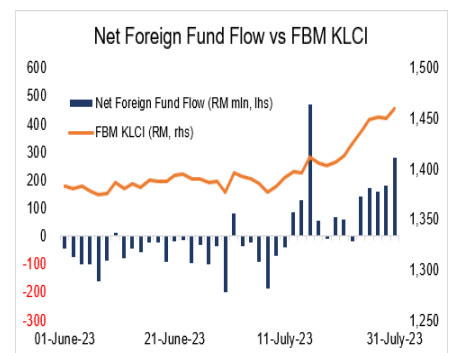
Source: Bloomberg, PCM Aug-23

Exhibit 2: Ringgit strengthened against USD



Source: Bloomberg, PCM Aug-23

Exhibit 3: Foreign fund inflow



Source: Bloomberg, PCM Aug-23

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