~ Ang Kok Heng

From The Desk of CIO

Foreign Funds Bullish

"Foreign funds bought RM13.5 billion worth of Malaysian shares last year and they continued to mop up another RM4.3 billion worth of stocks for the first two months of this year. The inflow is part of the "hot money" that spillover to Malaysia. The money entering the equity market still pales in comparison with the amount the bond market received as foreigners bought RM61.9 billion worth of our government bonds last year."

Most local investors remain wary of the imminent general election as local institutions sold aggressively in January this year when the news of dissolution of parliament became more prominent.

Nevertheless foreign funds, on the other hand, have been net buyers for the past two years where they increased their purchase of local shares to RM13.5b last year from RM1.8b in 2011. This helped to raise the foreign holdings in Malaysian shares by 1% to 23.8% (see *Chart 1*). The increased in foreign participation can be seen from the higher foreign holdings in some of the stocks such as Public Bank-Foreign. Meanwhile, the only major sell down by foreign funds were in June and Nov 2012. Profit taking on the consumer/telco stocks in Nov caused the KLCI to fall by 3.7% (see *Table 1*).

Last year local institutions sold RM9.2b worth of stocks while retailers sold another RM4.3b. In fact, retailers have been net sellers in almost every month for the past two years.

The trend of local-selling and foreign-buying continues into March this year.

The influx of foreign funds was not only happening in the equity market, the bond market also experienced heavy inflows of hot money where RM61.9b was invested in the government bonds last year. Currently, foreigners hold about 30% of our government bonds (see *Chart 2*), the second highest in ASEAN after Indonesia.

While the inflow of foreign funds has helped to strengthen the Ringgit but their retreat will hurt our local currency. A massive exodus of foreign funds is detrimental to the ringgit as a weaker ringgit may lead to more selling on Malaysian stocks by foreign investors, an event which we have been monitoring closely.

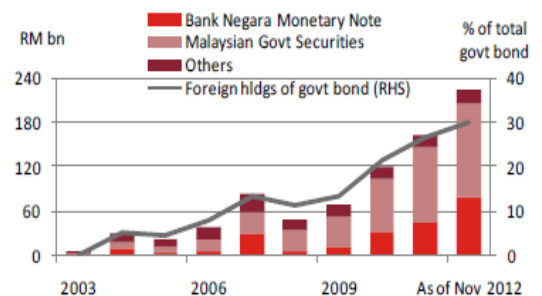**Chart 1: Foreign shareholdings in local equity market**
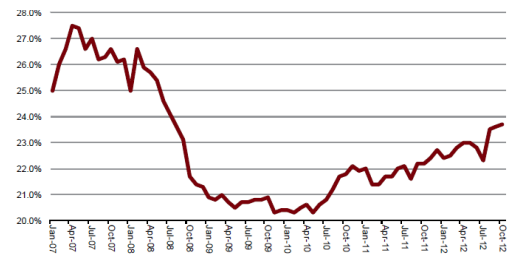
Source: CIMB Research

Table 1: Trading participation by category of investors

Date	Retail (RM' m)	Local Institution (RM' m)	Foreign (RM' m)	KLCI M-o-M
Jan-12	-608	230	349	-0.6%
Feb-12	-204	-1,060	1,265	3.2%
Mar-12	-736	-2,677	3,413	1.7%
Apr-12	65	-1,504	1,440	-1.6%
May-12	-305	-142	447	0.6%
Jun-12	-334	1,011	-677	1.2%
Jul-12	-806	-2,309	3,115	2.0%
Aug-12	-163	-943	1,106	0.9%
Sep-12	-413	-588	1,002	-0.6%
Oct-12	-211	-1,209	1,420	2.2%
Nov-12	-173	348	-175	-3.7%
Dec-12	-371	-389	760	4.8%
Jan-13	-918	-1,629	2,547	-3.6%
Feb-13	-1,205	-613	1,818	0.6%

Sources: Bursa Malaysia, PCM

Chart 2: Foreign participation in Malaysian bonds

Source: BNM, CIMB Research

For Phillip Capital Management Sdn Bhd

Nona Salleh
Executive Chairperson