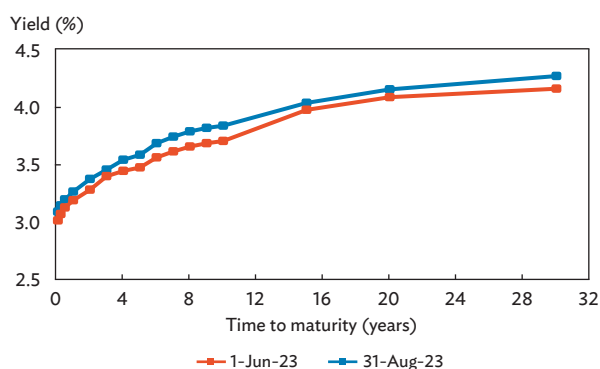# Malaysia

Yield Movements

The local currency (LCY) government bond yield curve of Malaysia shifted upward between 1 June and 31 August (Figure 1). The yield curve's movement largely tracked that of the United States (US), whose Treasury bond yields increased for all tenors during the review period. On 6 July, Bank Negara Malaysia decided to keep its overnight policy rate unchanged at 3.00% after a surprise 25-basis-points rate hike on 3 May. Investors remain cautious as the US Federal Reserve hiked its interest rates during its July meeting to contain consumer price inflation and maintain a high employment rate.

Figure 1: Malaysia's Benchmark Yield Curve—
Local Currency Government Bonds

Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The LCY bond market of Malaysia expanded 2.0% to reach MYR1,953.1 billion in the second quarter (Q2) of 2023 on increased outstanding securities for all LCY bond types (Figure 2). Fixed-income securities of the Government of Malaysia remained the main drivers of expansion in the Malaysian LCY bond market. Treasury and other government securities outstanding grew, albeit at a slower pace compared to the first quarter (Q1) of 2023, due to reduced issuance during the review period. Partially contributing to the LCY bond market's growth was a continued increase in outstanding Bank Negara Malaysia bills, which constituted just 0.6%

Figure 2: Composition of Local Currency Bonds Outstanding in Malaysia
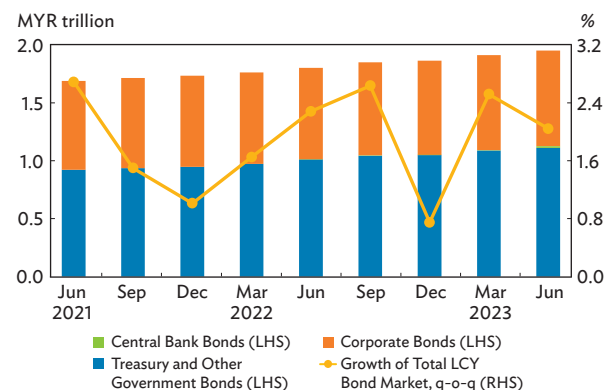
LCY = local currency, LHS = left-hand side, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, RHS = right-hand side.
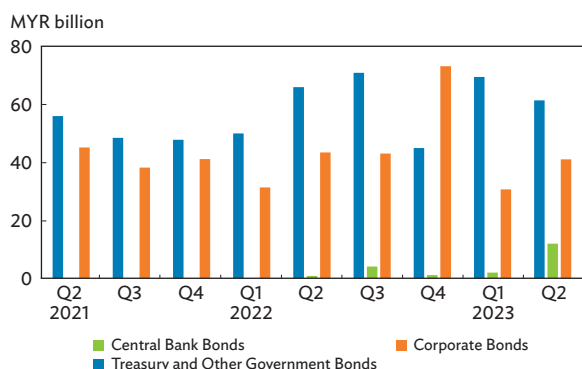Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

of total LCY bonds. In Q2 2023, outstanding corporate bonds also jumped. DanaInfra Nasional, a government-owned finance company, continued to be the top corporate bond issuer at the end of June 2023, with total LCY bonds outstanding totaling MYR82.9 billion.

Issuance of LCY bonds in Malaysia rebounded in Q2 2023, rising 12.1% quarter-on-quarter (q-o-q) due to increased issuance from the central bank and corporate entities (Figure 3). This expansion was slightly offset by a decline in the issuance of Treasury and other government bonds. Malaysian Government Securities (conventional bonds) issuance dipped 10.0% q-o-q, while the issuance of Government Investment Issues (*sukuk*, or Islamic bonds) was steady from the previous quarter. During the quarter, Cagamas, or the National Mortgage Corporation of Malaysia, was the leading issuer in the market with seven issuances of Islamic commercial paper, five *sukuk*, and nine conventional bonds all totaling MYR6.1 billion.

In Q2 2023, 64.1% of Malaysia's LCY bonds outstanding were Islamic bonds (Figure 4). Outstanding Islamic bonds totaled MYR1.3 trillion at the end of June, equivalent to growth of 2.3% q-o-q. Comprising most of the outstanding LCY corporate bonds, corporate *sukuk* continued to drive the Islamic bond market's growth in Q2 2023.
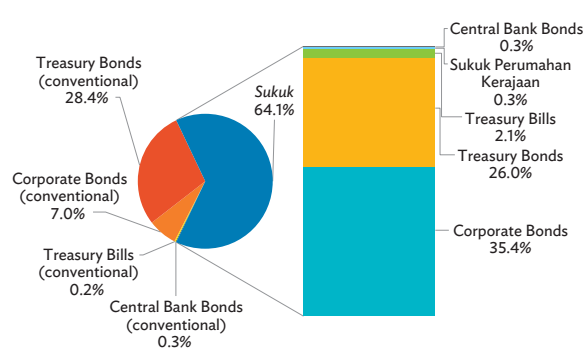
Figure 3: Composition of Local Currency Bond Issuance in Malaysia

MYR = Malaysian ringgit, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Figure 4: Composition of Local Currency Islamic Bonds Outstanding in Malaysia

Note: Sukuk Perumahan Kerajaan are Islamic bonds issued by the Government of Malaysia to refinance funding for housing loans to government employees and to extend new housing loans.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Capital Flows

Foreign portfolio flows into the Malaysian bond market amounted to MYR9.8 billion in Q2 2023 (Figure 5). For the second consecutive quarter, the Malaysian market recorded net portfolio inflows. Foreign holdings of LCY government bonds rose to 23.1% of this market segment at the end of June, up from 22.7% at the end of March, due to easing consumer price inflation in Malaysia and as the yields of Malaysian fixed-income securities were relatively more attractive than those of US Treasuries.

Figure 5: Capital Flows in the Local Currency Government Bond Market in Malaysia
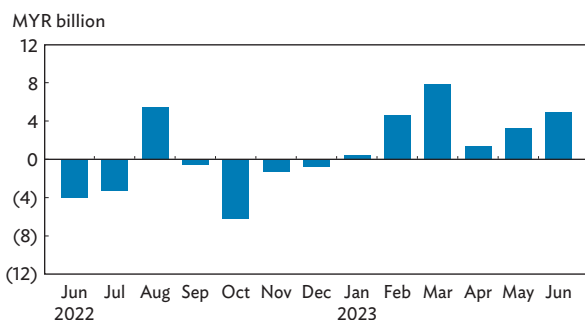
( ) = negative, MYR = Malaysian ringgit.
Notes:
1. Figures exclude foreign holdings of central bank bonds.
2. Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
Source: Bank Negara Malaysia Monthly Statistical Bulletin.