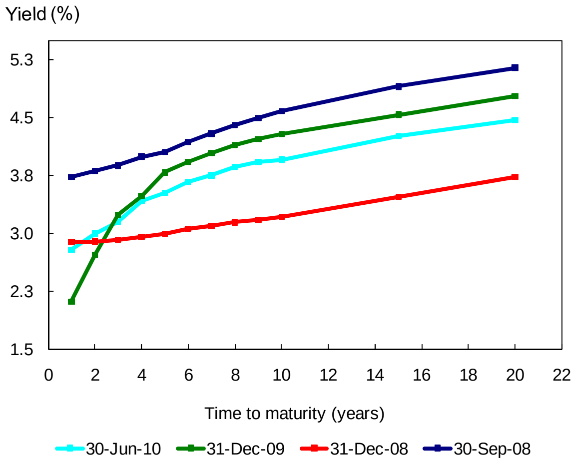
Malaysia—Update

Yield Movements

The Malaysian government bond yield curve flattened between end-December 2009 and end-June as yields rose at the short end of the curve reflecting the increase in Malaysia's key policy rates, but dropped in the middle and long end of the curve as the economy recovers **(Figure 1)**. During the first half of this year, Bank Negara Malaysia (BNM) raised its overnight policy rate by a total of 50 basis points to 2.50%.

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



Source: Bloomberg LP.

Malaysia's economy grew 10.1% year-on-year (y-o-y) in 1Q10—the fastest rate of expansion since 1Q00—driven by growth in domestic demand as well as an improved external sector performance. Higher private consumption and sustained public sector spending boosted the domestic economy. In 1Q10, private consumption and public spending posted 5.1% and 6.3% y-o-y growth, respectively, while exports surged 19.3% y-o-y, mainly due to strong demand for electronics, petroleum, and chemical products. Manufacturing surged 16.9% y-o-y in 1Q10, while the construction and services sectors posted 8.7% and 8.5% y-o-y growth, respectively.

On 08 July, BNM raised its overnight policy rate (OPR) by 25 basis points to 2.75%, a level that the Monetary Policy Committee considers to be appropriate given its assessment of the growth and inflation prospects of the Malaysian economy. This is the third time the central bank increased its OPR this year, following the 25 basis points increase in February and another 25 basis points increase in May. For the January–May period, consumer price inflation was reported at 1.4% y-o-y. BNM expects inflation to remain moderate for the rest of the year and forecasts a range of 1%–2% for 2010 as a whole.

Size and Composition

The total amount of Malaysian local currency (LCY) bonds outstanding as of end-March rose 11.0% y-o-y to MYR648 billion. In 1Q10, government and corporate LCY bonds outstanding grew 12.7% and 9.0% y-o-y, respectively **(Table 1)**. Meanwhile, total central government bonds (excluding central bank bills) outstanding increased 22.2% y-o-y in 1Q10.

On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding increased 2.0%, while total LCY corporate bonds outstanding dropped by a marginal 0.9%.

The top 20 corporate issuers in Malaysia made up about 47.7% of total corporate bonds outstanding in 1Q10 **(Table 2)**. The national mortgage corporation, Cagamas Berhad, is still the top issuer of corporate bonds, with MYR16.6 billion outstanding in conventional and Islamic medium-term notes, followed by the government's investment-holding arm, Khazanah Nasional, and the investment holding company, Binariang GSM, with MYR13.2 billion and MYR11.3 billion, respectively.

Rating Changes

According to the latest annual sovereign report of Moody's Investors Service released in June, Malaysia's sovereign credit outlook is stable and is adequately supported by favorable expectations for economic performance and policy management. The country's strong external position, the deep and liquid capital markets and a well managed financial system

Meanwhile, Fitch Ratings affirmed Malaysia's long-term foreign currency issuer default rating (IDR) at 'A-' and its long-term local currency IDR at 'A', both with stable outlook. However, Fitch raised concern on the structural weakness of Malaysia's public finances.

Table 1: Size and Composition of Local Currency Bond Market in Malaysia

	Amount (billion)							
	Dec-09		**Jan-10**		**Feb-10**		**Mar-10**	
	MYR	USD	MYR	USD	MYR	USD	MYR	USD
Total	635.3	184.7	637.2	186.7	634.3	186.7	648.0	198.6
Government	346.9	100.9	350.5	102.7	351.2	103.4	362.2	111.1
Central Government Bonds	312.6	90.9	321.1	94.1	324.6	95.6	328.1	100.6
Central Bank Bills	30.0	8.7	26.4	7.7	24.3	7.1	32.5	9.9
Others	4.3	1.2	3.1	0.9	2.4	0.7	1.7	0.5
Corporate	288.4	83.9	286.7	84.0	283.0	83.3	285.7	87.6

	Growth Rate (%)						
	Dec-09		**Jan-10**	**Feb-10**	**Mar-10**		
	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	10.3	1.4	0.3	(0.5)	11.0	2.0	2.2
Government	10.9	(0.5)	1.1	0.2	12.7	4.4	3.1
Central Government Bonds	19.9	1.8	2.7	1.1	22.2	5.0	1.1
Central Bank Bills	(29.2)	(19.8)	(12.2)	(8.0)	(27.1)	8.2	33.8
Others	(56.0)	-	(28.1)	(21.7)	(79.9)	(60.1)	(29.1)
Corporate	9.6	3.7	(0.6)	(1.3)	9.0	(0.9)	0.9

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year

Notes:

1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. Others refer to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

Source: Bank Negara Malaysia, Fuly Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

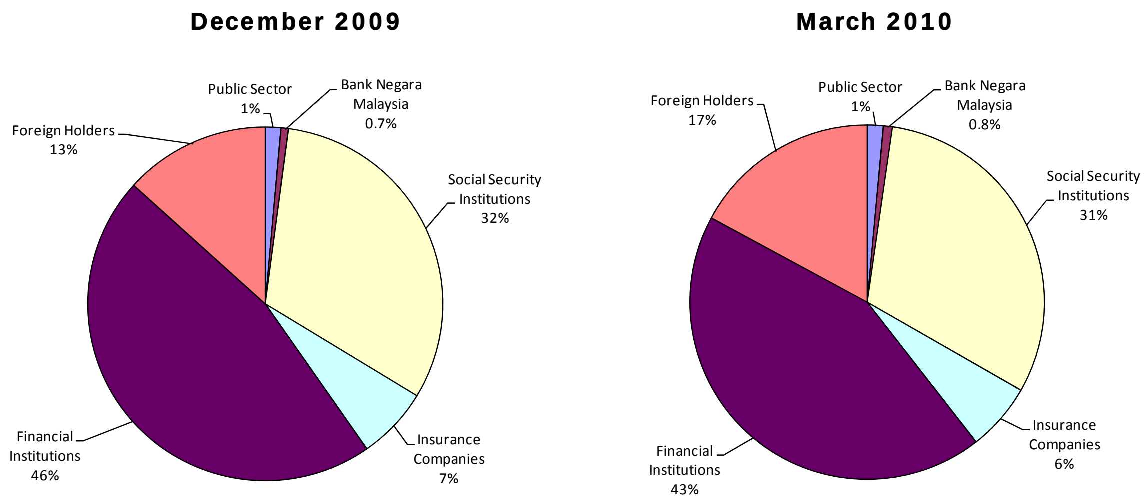
Table 2: Top 20 Corporate Issuers (MYR billion)

Issuer	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Cagamas	-	-	9.1	7.5	16.6
Khazanah	-	13.2	-	-	13.2
Binariang GSM	-	3.0	-	8.3	11.3
Project Lebuhraya (PLUS)	-	7.1	-	2.7	9.8
Prasarana	5.1	2	-	2	9.1
Maybank	6.1	2.5	-	-	8.6
Rantau Abang Capital Berhad	-	-	-	8.0	8.0
Malakoff Corp.	-	1.7	-	5.6	7.3
KL International Airport	1.6	5.3	-	-	6.9
Valuecap	5.1	-	-	-	5.1
1 Malaysian Development Berhad	-	-	-	5.0	5
Jimah Energy Ventures	-	-	-	4.8	4.8
Tanjung Bin	-	-	-	4.8	4.8
Putrajaya Holdings	-	1.1	-	3.1	4.1
AmBank	1.1	-	3.0	-	4.0
YTL Power International	2.2	-	1.7	-	3.9
Tenaga Nasional Berhad	1.5	2.2	-	-	3.7
Cekap Mentari Berhad	3.5	-	-	-	3.5
CIMB Bank	3.5	-	-	-	3.5
Public Bank Berhad	1.2	-	1.9	-	3.1
Total	**29.8**	**39.8**	**12.8**	**55.2**	**136.4**
			% of total corporate outstanding		**47.73%**

MTN = medium-term notes.

Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

Figure 2. Local Currency Government Bond Investors Profile



Source: Bank Negara Malaysia.

Investor Profile

As of end-March 2010, financial institutions were still the largest holders of Malaysian Government Securities (MGS) despite the drop in their share of MGS holdings. Financial institutions held 43% of outstanding MGS and social security institutions held 31% **(Figure 2)**. Foreign holdings as a percentage of total MGS outstanding increased from 13% at end-2009 to 17% as of end-March. Meanwhile, insurance companies and the public sector held 6% and 1%, respectively, of total MGS outstanding.

Policy, Institutional, and Regulatory Developments

Corporate Debt Restructuring Committee Revises Eligibility Criteria

The Corporate Debt Restructuring Committee (CDRC) has revised its eligibility criteria to allow more companies to seek assistance from the CDRC in restructuring their debt obligations. Under the revised eligibility criteria, companies seeking to resolve their debt obligations under the CDRC must meet the following criteria:

i. aggregate indebtedness of MYR30 million or more; MYR25 billion—guarantee funds
ii. at least two financial creditors;
iii. not in receivership or liquidation, except in cases where receivers have been appointed over certain specified assets and the directors remain in control over the company's overall operations; and
iv. difficulties in servicing debt obligations, which may not include having already defaulted, provided that criteria (i) and (ii) are also met.

The revised criteria extends eligibility to any company listed on Bursa Malaysia that has been classified as either PN17 (Main Market—the merged main board and second board of Bursa Malaysia) or GN3 (ACE market—the revamp of the Malaysian Exchange Securities Dealing and Automated Quotation [MESDAQ]), irrespective of the amount of debt outstanding.