

Malaysia—Update

Yield Movements

Between end-December 2009 and end-October 2010, Malaysian government bond yields rose at the short-end of the curve, while yields fell at the middle to the long-end of the curve (**Figure 1**). The flattening of the yield curve reflected expectations of benign inflation, providing room for the central bank to put monetary tightening on hold. Bank Negara Malaysia (BNM) decided to keep its key policy rate steady at 2.75% during the last monetary policy committee meeting on 12 November. BNM has already raised its key rate three times in 2010 by a total of 75 basis points.

After posting robust 9.5% year-on-year (y-o-y) growth in 1H10, Malaysia's gross domestic product (GDP) is expected to expand 7.0% for all of 2010. According to the latest annual Economic Report 2010/2011 issued by the Ministry of Finance, Malaysia's economy is expected to grow 5%–6% in 2011, supported by resilient domestic demand.

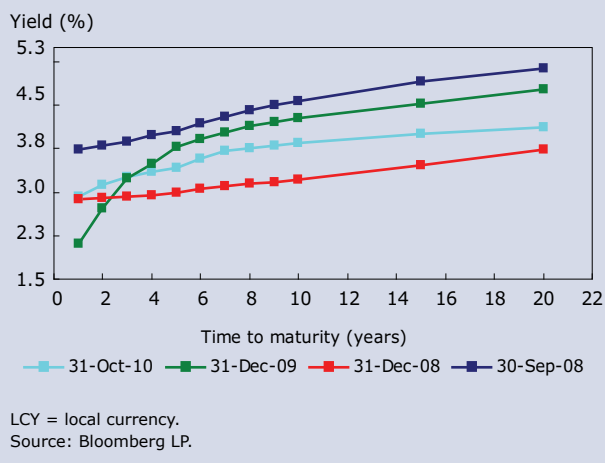
The report also says that the government is on track to meet its 2010 budget deficit target of 5.6% of GDP. Government expenditure is expected to reach MYR206.2 billion in 2010, while revenue is expected to reach MYR162.1 billion. For 2011, the government expects its budget deficit as a percentage of GDP to fall to 5.4%.

Consumer price inflation in Malaysia slid to 1.8% year-on-year (y-o-y) in September from 2.1% in August and 1.9% in July. For the January–September period, consumer price inflation was reported at 1.5% y-o-y.

Size and Composition

As of end-September, the total amount of outstanding local currency (LCY) bonds had increased 15.1% y-o-y to MYR721.3 billion (**Table 1**). Outstanding government LCY bonds surged 20.9% y-o-y to MYR421.6 billion, mainly due to the increase in outstanding central bank bills as BNM continued to mop up excess liquidity in the

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



market. Excluding central bank bills, outstanding government LCY bonds rose by 9.5% y-o-y. Meanwhile, corporate LCY bonds outstanding increased by 7.8% y-o-y.

On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding increased 3.7% in 3Q10 as outstanding central bank bills grew 17.0%. Issuance of central bank bills increased from MYR68.2 billion in 2Q10 to MYR76.0 billion in 3Q10. Corporate LCY bonds inched up slightly, posting 1.7% q-o-q growth.

Issuance of corporate LCY bonds amounted to MYR21.6 billion in 3Q10, which was down 5.8% q-o-q and 7.6% y-o-y. Among the large corporate LCY issues during July–September were the *sukuk* (Islamic bond) issuances of Celcom Transmission (MYR4.2 billion), Cagamas (MYR1.0 billion), and Malaysia Airports Capital (MYR1.0 billion). Also, two banks from the Republic of Korea issued MYR-denominated bonds: Export–Import Bank of Korea (MYR850 million) and Woori Bank (MYR320 million).

As of end-September, the top 20 corporate LCY issuers accounted for 46.2% of total corporate

Table 1: Size and Composition of the LCY Bond Market in Malaysia

	Amount (billion)						Growth Rate (%)													
	Jun-10		Jul-10		Aug-10		Sep-10		Jun-10		Jul-10		Aug-10		Sep-10					
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m			
Total	695.9	215.7	702.5	220.2	710.7	225.6	721.3	233.8	14.0	7.4	1.0	15.1	3.7	1.5	18.3	10.8	1.8	1.6		
Government	401.2	124.4	408.5	128.0	414.9	131.7	421.6	136.7	15.0	0.9	2.0	20.9	5.1	1.6	15.0	0.9	2.0	(0.3)	10.7	
Central Government Bonds	331.2	102.7	337.7	105.8	336.8	106.9	339.8	110.2	58.0	112.8	1.1	116.0	17.0	4.8	(87.1)	(43.7)	-	(77.5)	-	-
Central Bank Bills	69.1	21.4	69.8	21.9	77.1	24.5	80.8	26.2	8.6	3.1	(0.2)	0.6	7.8	1.7	8.6	3.1	(0.2)	0.6	7.8	1.7
Others	1.0	0.3	1.0	0.3	1.0	0.3	1.0	0.3												
Corporate	294.7	91.4	294.1	92.2	295.8	93.9	299.7	97.2												

LCY = local currency, 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 LP 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.

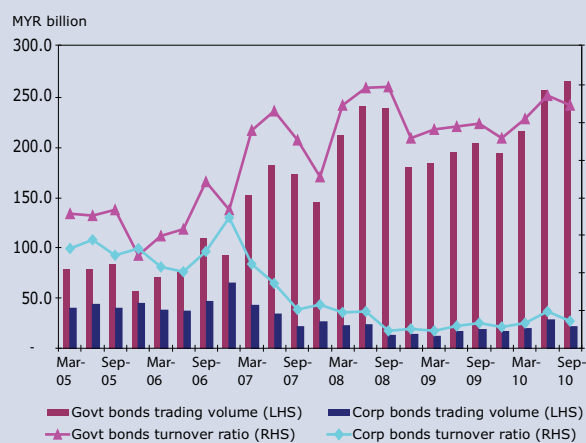
Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

LCY bonds outstanding (**Table 2**). National mortgage corporate Cagamas Bhd remained the biggest issuer of corporate LCY bonds, with MYR18.1 billion outstanding at the end of 3Q10, followed by Khazanah Nasional and Binariang GSM, with MYR13.2 billion and MYR11.3 billion, respectively.

Turnover

Government LCY bond trading volume reached MYR265.8 billion in 3Q10 from MYR256.4 billion in 2Q10. However, the turnover ratio was 0.65 in 3Q10, slightly lower than the turnover ratio of 0.67 in 2Q10. Meanwhile, the trading volume of corporate LCY bonds fell to MYR21.5 billion in 3Q10 from MYR28.3 billion in 2Q10. The turnover ratio for corporate LCY bonds dropped to 0.07 in 3Q10 from 0.10 in 2Q10 (**Figure 2**).

The trading of treasury bills and bonds remained high in 3Q10, with total trading volume reaching MYR124.1 billion, while the turnover was steady at 0.37. On the other hand, the trading of central bank bills increased in July–September, amounting to MYR141.7 billion, as the central bank issued more bills in 3Q10. However, the turnover ratio dropped for central bank bills to 1.89 in 3Q10 from 2.65 in the previous quarter (**Figure 3**).

Figure 2: LCY Bonds Quarterly Trading Volume and Turnover Ratio

LCY = local currency, LHS = left-hand side, RHS = right-hand side.
Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

Table 2: Top 20 Corporate Issuers in Malaysia, September 2010 (MYR billion)

Issuer	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Cagamas	-	-	8.98	9.12	18.09
Khazanah	-	13.20	-	-	13.20
Binariang GSM	-	3.02	-	8.28	11.30
Project Lebuhraya	-	6.57	-	3.68	10.25
Prasarana	5.10	2.00	-	2.00	9.10
Maybank	6.10	2.50	-	-	8.60
Malakoff Corp	-	1.70	-	5.60	7.30
Rantau Abang Capital Bhd	-	-	-	7.00	7.00
KL International Airport	1.60	4.76	-	-	6.36
AM Bank	1.06	-	4.40	-	5.46
Value Cap	5.10	-	-	-	5.10
1 Malaysia Development Bhd	-	-	-	5.00	5.00
Jimah Energy Ventures	-	-	-	4.77	4.77
Tanjung Bin	-	-	-	4.59	4.59
Bank Pembangunan Malaysia	1.00	-	2.60	0.90	4.50
Celcom Transmission	-	-	-	4.20	4.20
Putrajaya Holdings	-	0.99	-	3.07	4.06
YTL Power International	2.20	-	1.70	-	3.90
Tenaga Nasional	1.50	2.15	-	-	3.65
Danga Capital	-	-	-	3.60	3.60
Total	23.66	36.89	17.68	61.79	140.02
	% of total corporate outstanding				46.72%

- = not applicable, MTN = medium-term notes.

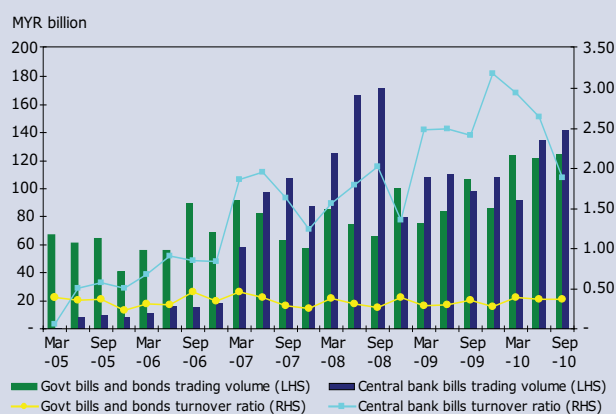
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST).

Policy, Institutional, and Regulatory Developments

BNM Further Liberalizes FX Rules

In August, BNM announced the further liberalization of foreign exchange (FX) administrative rules to promote efficiency in trade. The new rules provide for the following:

- (i) the use of the ringgit as a settlement currency for the international trade of goods and services between residents and non-residents;
- (ii) the borrowing of any amount of foreign currency by a resident company from its respective non-resident, non-bank related company, thus abolishing all limits on cross-border, foreign currency inter-company borrowings; and
- (iii) the lifting of the limit on residents' anticipatory hedging of current account transactions with licensed onshore banks.

Figure 3: Trading Volume and Turnover Ratios of Gov't Bills and Bonds and Central Bank Bills

LHS = left-hand side, RHS = right-hand side.

Note: Trading volume of government bills and bonds include trading volume of treasury bills, Malaysian Government Securities (MGS), and Government Investment Issues (GII).

Source: Bank Negara Malaysia, FAST.

To promote bilateral trade between the People's Republic of China and Malaysia, the China Foreign Exchange Trading System (CFETS) has issued a separate statement that allows trading of the yuan against the ringgit. Aside from the ringgit, other currencies that are traded on the CFETS are the US dollar, euro, pound sterling, yen, and Hong Kong dollar.