

# Malaysia—Update

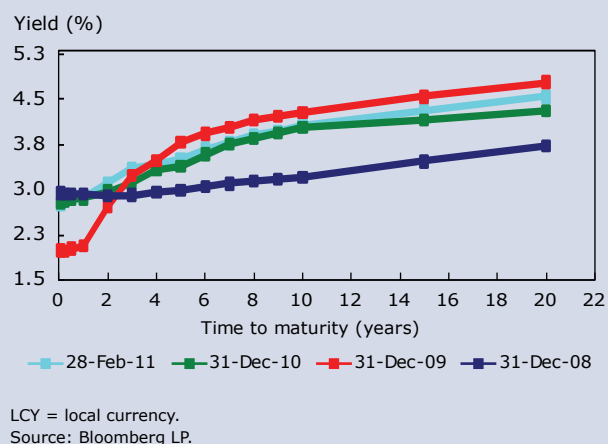
## Yield Movements

The yield curve for Malaysian LCY government bonds flattened between end-December 2009 and end-December 2010, with rates rising on the very short-end while falling from the belly to the longer-end of the curve. Between end-December 2010 and end-February 2011, Malaysian government bond yields fell slightly on the very short-end but rose on the rest of the curve, with the short-end and the long-end rising more than the belly. The rise in the yield curve reflects market expectations of further rate hikes given that other countries in the region—the Republic of Korea, Thailand, and Indonesia—have already increased their policy rates to combat building inflationary pressures. While Bank Negara Malaysia (BNM) decided to keep its key policy rates steady at 2.75% during its last Monetary Policy Committee meeting on 11 March, BNM has increased the statutory reserve requirement ratio to 2% from 1% (**Figure 1**).

Rates are also expected to rise as issuance increases in 2011. The government recently announced 29 new issuances and re-issuances of treasury bonds for the whole of 2011, compared with only 19 in the previous year. Gross issuance of Malaysian Government Securities (MGS) and Government Investment Issues (GII) amounted to MYR64.7 billion in 2010, which pales in comparison to the MYR262.1 billion worth of total bills issued by BNM last year. MGS and GII maturing in 2011 amount to MYR44.5 billion, compared with MYR23.4 billion in 2010.

Malaysia's economic growth eased to 4.8% year-on-year (y-o-y) in 4Q10, versus 5.3% in the previous quarter, due to falling external demand. Private consumption increased 6.5% y-o-y, while gross fixed capital formation rose 9.2%. Meanwhile, public sector spending shrank 0.3% y-o-y in 4Q10. Also, exports grew only 1.5% y-o-y in the last quarter of 2010, significantly lower than the 6.6% y-o-y growth posted in 3Q10. For the full-year 2010, Malaysia's gross domestic product (GDP)

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



expanded 7.2%, rebounding from growth of only 1.7% in 2009.

During the first 9 months of 2010, the overall budget deficit was estimated to be MYR25.1 billion, or 4.5% of GDP. The government targeted a budget deficit of 5.6%–7.0% of GDP for the whole of 2010. In 2011, the government is projecting a budget deficit of 4.5% of GDP.

Meanwhile, Malaysia's consumer price inflation rose to 2.2% y-o-y in December, the highest level since May 2009, mainly driven by higher food prices. In 2010, Malaysia posted average consumer price inflation of 1.7%.

## Size and Composition

Total outstanding local currency (LCY) bonds in Malaysia increased 18.9% y-o-y to MYR755.3 billion as of end-December (**Table 1**). Outstanding LCY government bonds jumped 28.5% y-o-y to MYR445.6 billion, mainly due to the increase in outstanding central bank bills. Excluding central bank bills, outstanding government LCY bonds rose by 9.8% y-o-y. LCY corporate bonds outstanding, on the other hand, posted 7.4% y-o-y growth.

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

	Amount (billion)						Growth Rate (%)							
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10		Nov-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
Total	721	234	743	240	755	247	755	247	15.1	3.7	3.7	18.9	4.7	1.7
Government	422	137	443	144	446	146	446	146	20.9	5.1	6.0	28.5	5.7	0.6
Central Government Bonds	340	110	349	111	347	113	347	113	10.7	2.6	1.9	0.7	2.1	(0.5)
Central Bank Bills	81	26	93	32	98	32	98	32	116.0	17.0	23.1	225.3	20.8	4.6
Others	1	0	1	0	1	0	1	0	(77.5)	0.0	0.0	(77.5)	0.0	0.0
Corporate	300	97	300	97	310	101	310	101	7.8	1.7	0.6	7.4	3.3	3.4

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" refers 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.

On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding increased by 4.7%. Outstanding central bank bills grew 20.8% q-o-q, as issuance rose to MYR82.4 billion in 4Q10 from MYR76.0 billion in 3Q10. LCY corporate bonds outstanding increased 3.3% q-o-q.

Issuance of LCY corporate bonds amounted to MYR25.6 billion in 4Q10, 18.4% higher than the MYR21.6 billion issued in the previous quarter. Among the largest corporate LCY issuers in October–December were Senai Desaru Expressway (MYR5.6 billion), Cagamas (MYR 2.5 billion), Pengurusan Air SPV (MYR2.2 billion), CIMB (MYR2.0 billion), and Malaysia Airports Capital (MYR1.5 billion).

As of end-December, the top 50 corporate LCY issuers accounted for 68.8% of total bonds outstanding (**Table 2**). The top two issuers of LCY corporate bonds were both state-owned: the national mortgage corporate, Cagamas, with MYR19.2 billion outstanding, followed by Khazanah Nasional with MYR13.2 billion. Meanwhile, communications company Binariang and expressway operator Project Lebuhraya ranked third and fourth with MYR11.3 billion and MYR10.3 billion in LCY bonds outstanding, respectively.

Finance companies accounted for more than half of the outstanding LCY corporate bonds in Malaysia as of end-2010 (**Figure 2**). Transportation and communications companies followed with 16%, while utilities companies accounted for 12%.

Of the top 50 corporate issuers of LCY bonds in Malaysia in 2010, 33 were privately-owned, and 15 of these were listed on Bursa Malaysia.

## Investor Profile

As of end-September 2010, financial institutions were still the largest holders of government bonds, with 43.8% of total outstanding MGS and GII, followed by social security institutions, which held 27.9%. Meanwhile, foreigner investors held 20.3% at end-September, up from an 18.1% share at

**Table 2. Top 50 Corporate Issuers in Malaysia** (as of 31 December 2010)

Issuer	Outstanding Amount (MYR billion)					State- Owned	Privately- Owned	Listed Company	Sector
	BONDS	IBONDS	MTN	IMTN	TOTAL				
1. Cagamas			9.42	9.76	19.18	Yes	No	No	Real Estate
2. Khazanah		13.20			13.20	Yes	No	No	Bank
3. Binariang GSM		3.17		8.28	11.30	No	Yes	No	Financial
4. Project Lebuhraya		6.57		3.68	10.25	No	Yes	Yes	Bank
5. Prasarana	5.11	2.00		2.00	9.11	Yes	No	No	Insurance
6. Maybank	6.10	1.50			7.60	No	Yes	Yes	Financial
7. Malakoff Corp		1.70		5.60	7.30	No	Yes	No	Utility
8. Senai Desaru Expressway Bhd		1.46		5.58	7.40	No	Yes	No	Securities
9. Rantau Abang Capital Bhd				7.00	7.00	No	Yes	No	Bank
10. KL International Airport	1.60	4.76			6.36	Yes	No	No	Bank
11. CIMB Bank	5.50				5.50	No	Yes	No	Infrastructure
12. AM Bank	1.60		4.43		5.46	No	Yes	Yes	Bank
13. Valuecap	5.10				5.10	Yes	No	No	Bank
14. 1Malaysia Development Bhd.				5.00	5.00	Yes	No	No	Financial
15. Jimah Energy Ventures				4.65	4.65	No	Yes	No	Securities
16. Putrajaya Holdings		0.99		3.57	4.56	Yes	No	No	Securities
17. Bank Pembangunan Malaysia	1.00		2.60	0.90	4.50	Yes	No	No	Infrastructure
18. Tanjung Bin				4.29	4.29	No	Yes	No	Utility
19. Celcom Transmission				4.20	4.20	No	Yes	No	Securities
20. YTL Power International	2.20		1.70		3.90	No	Yes	Yes	Financial
21. Tenaga Nasional	1.50	2.15			3.65	No	Yes	Yes	Securities
22. RHB Bank	0.60		3.00		3.60	No	Yes	No	Securities
23. Danga Capital				3.60	3.60	Yes	No	No	Securities
24. Cepak Mentari	3.50				3.50	No	Yes	Yes	Financial
25. Public Bank	1.20		1.87		3.73	No	Yes	Yes	Bank
26. The Export-Import Bank of Korea			2.98		2.98	Yes	No	No	Infrastructure
27. Hijrah Pertama		2.92			2.92	No	Yes	No	Bank
28. Malaysia Airports Capital				2.50	2.50	No	Yes	No	Securities
29. CIMB Group	2.13			0.35	2.48	No	Yes	Yes	Financial
30. Kapar Energy Ventures		2.19			2.19	No	Yes	No	Securities
31. Johor Corp		2.15			2.15	Yes	No	No	Securities
32. Syarikat Bekalan Air Selangor				2.13	2.13	Yes	No	No	Manufacturing
33. Public Finance	2.88				2.88	No	Yes	No	Telecoms
34. Sime Darby				2.00	2.00	No	Yes	Yes	Utility
35. Hyundai Capital Services			2.00		2.00	No	Yes	No	Financial
36. Lion Corp	1.93				1.93	No	Yes	Yes	Securities
37. PLUS SPV				1.80	1.80	No	Yes	No	Education
38. MISC				1.80	1.80	Yes	No	Yes	Financial
39. Silterra Capital		1.80			1.80	Yes	No	No	Bank
40. Puncak Niaga	0.76	1.20			1.78	No	Yes	Yes	Infrastructure
41. Penerbangan Malaysia				1.75	1.75	Yes	No	No	Manufacturing
42. Encorp Systembilt		1.75			1.75	No	Yes	No	Air transport
43. EON Bank	0.50		1.16		1.66	No	Yes	No	Securities
44. HLCM Capital			1.65		1.65	No	Yes	No	Financial
45. GB Services			1.60		1.60	No	Yes	No	Utility
46. Industrial Bank of Korea			1.60		1.60	Yes	No	Yes	Utility

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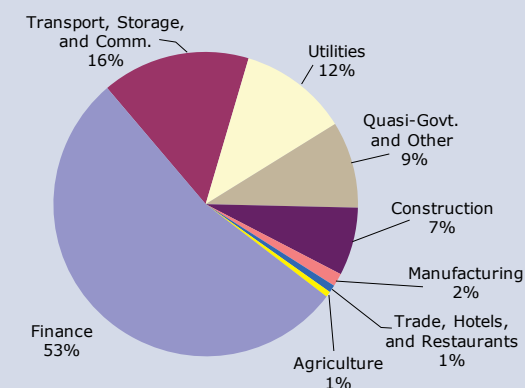
Table 2 continued

Issuer	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Sector
	BONDS	IBONDS	MTN	IMTN	TOTAL				
47. Oversea-Chinese Banking Corporation	1.60				1.60	No	Yes	Yes	Diversified
48. OCBC Bank (Malaysia)	1.30	0.20			1.50	No	Yes	No	Securities
49. Lingkar Trans Kota				1.45	1.45	No	Yes	Yes	Manufacturing
50. RHB Capital	0.65		0.79		1.44	No	Yes	Yes	Financial
<b>Total for Top 50 Corporate LCY Bond Issuers</b>	<b>213.24</b>								
<b>Top 50 as % of Total Corporate LCY Bond Outstanding</b>	<b>68.84%</b>								

IBONDS = Islamic Bonds, IMTN = Islamic Medium-Term Notes, LCY = local currency, MTN = medium-term notes.

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

**Figure 2. LCY Corporate Bond Issuers in Malaysia by Industry, December 2010**



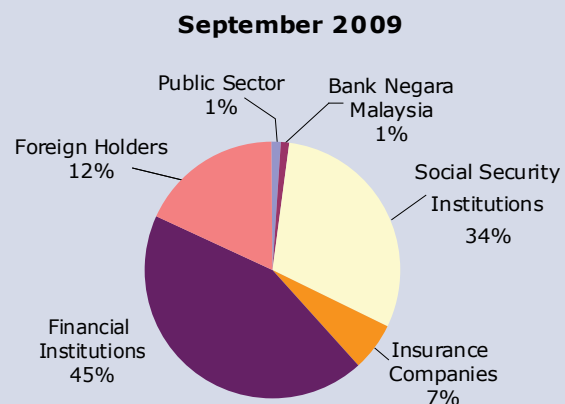
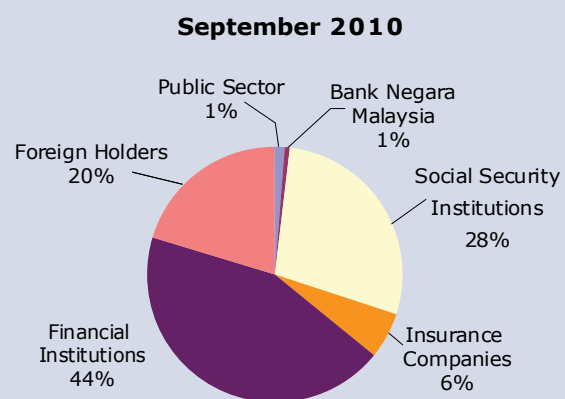
Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

end-June, while insurance companies comprised 6.0% of the total (**Figure 3**).

## Rating Changes

R&I affirmed Malaysia's long-term LCY and FCY ratings as well as its short-term FCY rating in October, and posted a stable country outlook (**Table 3**). R&I cited Malaysia's economic recovery driven by external demand and robust domestic demand.

**Figure 3. Malaysian LCY Government Bond Market Investor Profile**



Source: Bank Negara Malaysia.

**Table 3: Selected Sovereign Ratings and Outlook for Malaysia**

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	A3	A-	A-	A
Outlook	stable	stable	stable	stable

FCY = foreign currency, LT = long term.  
Source: Rating agencies.

## Policy, Institutional, and Regulatory Developments

### International Islamic Liquidity Management Corporation Established

In October 2010, Bank Negara Malaysia (BNM), 10 other central banks, and two multilateral organizations established the International Islamic Liquidity Management Corporation (IILM) to assist financial institutions offering Islamic financial services to manage their liquidity and enhance institutional linkages. The IILM initiative will facilitate cross-border investment flows by issuing short-term, multi-currency liquidity instruments beginning in December 2011.

Malaysia was selected as the host country for the IILM. In addition to BNM, founding members include the Central Bank of Qatar, Bank of Mauritius, Saudi Arabian Monetary Agency, Central Bank of the United Arab Emirates (UAE), Central Bank of Iran, Bank Indonesia, Banque Centrale du Luxembourg, Central Bank of Nigeria, Central Bank of Sudan, Central Bank of Turkey, Islamic Development Bank, and Islamic Corporation for the Development of the Private Sector.

### Bursa Malaysia, AIBIM, and Bloomberg Launch New *Sukuk* Index; Malaysia to Start Cross-Border *Sukuk* Trading in 2H11

On 21 February, Bursa Malaysia, the Association of Islamic Banking Institutions Malaysia (AIBIM), and Bloomberg LP launched the Bloomberg AIBIM Bursa Malaysia Sovereign *Sharia'h* Index (BMSSI) as part of efforts to enhance the Islamic finance platform. The new MYR-denominated *sukuk* index aims to provide a benchmark for future *sukuk* issuances, as well as a measurement of the performance of MYR-denominated government Islamic securities.

BNM also announced that its wholly-owned subsidiary, the Malaysian Electronic Clearing Corporation (MyClear), has embarked on an initiative to allow cross-border trading of Islamic bonds. Set to launch in the second half of 2011, MyClear will provide a platform for Malaysians to invest in foreign securities held by international and regional securities depositories.