

# Malaysia—Update

## Yield Movements

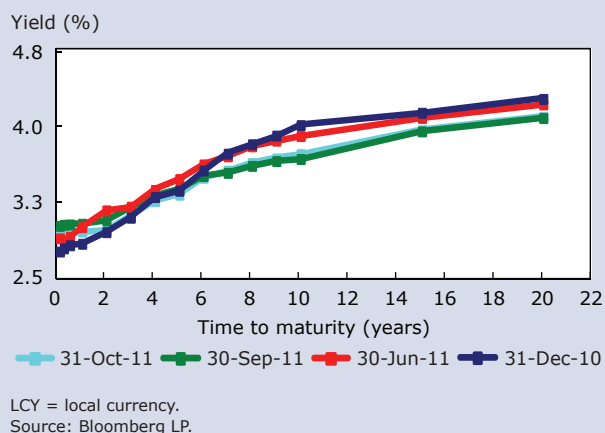
Between end-June and end-September, the yield curve for Malaysian local currency (LCY) government bonds flattened, with rates rising at the very short-end while falling along the rest of the curve. In October, yields fell at the very-short end to the belly of the curve, but rose slightly at the long-end, reflecting concerns over global economic stability (**Figure 1**). Yields at the very short-end to the belly fell between 2 basis points (bps) and 10 bps in October, while yields at the long end rose between 1 bp and 5 bps. The drop at the short-end and the rise at the long-end of the curve widened the yield spread between 2- and 10-year maturities to 76 bps from 60 bps at end-September.

In May, Bank Negara Malaysia (BNM) decided to increase its overnight policy rate by 25 bps to 3.00% from 2.75%. Also, BNM increased the statutory reserve requirement ratio by 100 bps from 2.00% to 3.00%. BNM decided to keep its overnight policy rate at 3.00% during its Monetary Policy Meeting on 11 November.

Malaysia's consumer price inflation slightly rose to 3.4% year-on-year (y-o-y) in September from 3.3% in August. During the first 9 months of the year, the consumer price index has increased 3.2%.

Malaysia's real gross domestic product (GDP) growth increased to 5.8% y-o-y in 3Q11, compared with revised 4.3% growth in 2Q11, due driven by stronger domestic demand. Domestic demand grew 9.0% y-o-y in 3Q11, supported by public consumption growth which surged to 21.7% y-o-y in 3Q11 from 6.6% in 2Q11. Meanwhile, private sector spending posted 7.3% y-o-y growth in 3Q11 following a 6.4% growth in 2Q11. Growth in gross fixed capital formation also improved to 6.1% y-o-y in 3Q11 versus 3.2% in the previous quarter.

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



On the supply side, all sectors except mining posted higher growth rate. Service sector recorded 7.0% y-o-y growth in 3Q11, slightly higher than the 6.8% growth posted in 2Q11. The increase was mainly due to favorable performance by the wholesale and retail trade subsector which grew 9.0% y-o-y in 3Q11, as well as the communication, and transportation and storage subsectors which increased 8.7% and 6.1%, respectively. Meanwhile, manufacturing sector rose 5.1% in 3Q11 from 2.1% in 2Q11. Agriculture and construction sectors also posted higher growth at 8.2% and 3.0%, respectively.

## Size and Composition

The total amount of outstanding LCY bonds increased 16.5% y-o-y to MYR840 billion at end-September, as LCY government and corporate bonds each posted double-digit growth (**Table 1**). Outstanding LCY government bonds rose 19.8% y-o-y to MYR505 billion, led by central bank bills, which expanded 58.0%. Excluding central bank bills, outstanding LCY government bonds increased 10.9% y-o-y. Meanwhile, outstanding LCY corporate bonds increased 11.8% y-o-y to MYR335 billion.

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

	Amount (billion)						Growth Rate (%)										
	Jun-11		Jul-11		Aug-11		Sep-11		Jun-11		Jul-11		Aug-11		Sep-11		
	MYR	US\$	MYR	US\$	MYR	US\$	MYR	US\$	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	812.2	269.0	817.8	275.5	836.2	281.4	840.0	263.4	16.7	3.7	0.7	16.5	3.4	2.2	16.5	3.4	0.4
Government	484.9	160.6	490.3	165.2	500.6	168.5	505.0	158.4	20.9	2.9	1.1	19.8	4.1	2.1	19.8	4.1	0.9
Central Government Bonds	376.1	124.5	383.6	129.2	388.6	130.7	376.8	118.2	13.5	1.3	2.0	10.9	0.2	1.3	10.9	0.2	(3.0)
Central Bank Bills	108.4	35.9	106.3	35.8	111.6	37.6	127.7	40.0	57.0	8.8	(1.9)	58.0	17.8	5.0	58.0	17.8	14.4
Others	0.5	0.2	0.5	0.2	0.5	0.2	0.5	0.1	(52.1)	-	-	(52.1)	-	-	(52.1)	-	-
Corporate	327.3	108.4	327.5	110.3	335.6	112.9	335.0	105.0	11.1	4.9	0.1	11.8	2.3	2.5	11.8	2.3	(0.2)

- = not applicable, 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-US\$ 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 3.4% in 1Q11, with government and corporate bonds growing 4.1% and 2.3% q-o-q, respectively.

Issuance of government bonds—Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs)—increased 50.4% y-o-y to MYR25.9 billion in 3Q11 from MYR17.2 billion in 3Q10. Government bond issuance is expected to total MYR90.2 billion in 2011—55.2% higher than the MYR58.1 billion in government bonds issued in 2010—of which MYR75.0 billion had already been issued by end-September.

Meanwhile, issuance of LCY corporate bonds increased 14.7% y-o-y to MYR24.8 billion in 3Q11. Among the largest corporate issues during 3Q11 were the subordinated debt issues of Public Bank (MYR3.0 billion), Maybank (MYR2.0 billion), and CIMB Bank (MYR1.5 billion). Also, YTL Power International issued MYR2.2 billion worth of 7-year notes. Prasarana issued MYR2.0 billion of *sukuk* (Islamic bonds) in August, while MISC issued a total of MYR1.3 billion of *sukuk* in July and September. Another notable *sukuk* issuance in 3Q10 was MYR750 million worth of 5-year notes by the Kuwait-based Gulf Investment Corporation.

At end-June, the top 30 corporate issuers in Malaysia accounted for 51.0% of total LCY corporate bonds outstanding (**Table 2**). Cagamas Bhd, Khazanah Nasional, and Binariang GSM remained the biggest issuers of LCY corporate bonds at the end of 2Q11, with outstanding amounts of MYR20.0 billion, MYR13.2 billion, and MYR11.3 billion, respectively.

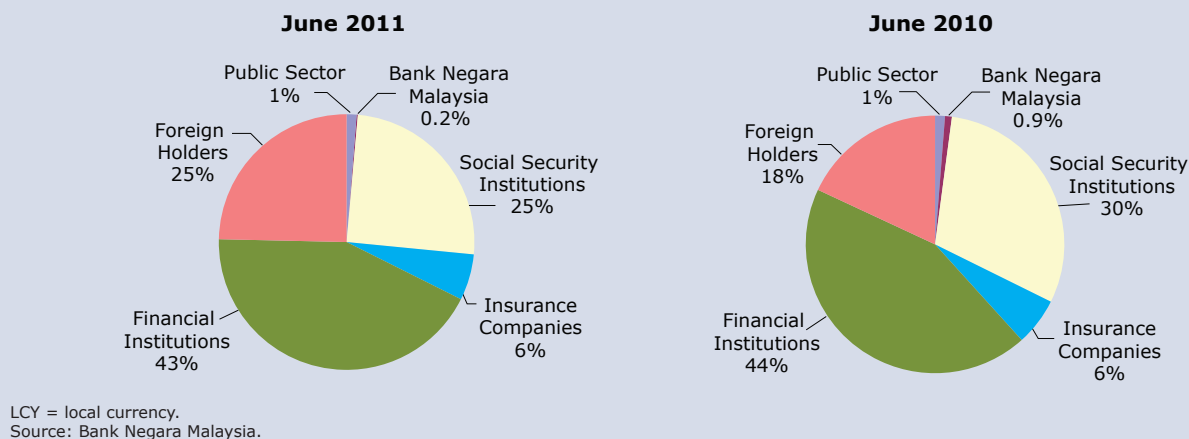
## Investor Profile

As of end-September, financial institutions were the largest holders of MGSs and GIIs, with 51.0% of total outstanding government bonds, followed by social security institutions at 26.5%. Insurance companies comprised 5.6% of the total (**Figure 2**). Meanwhile, the share of government bonds outstanding held by foreign investors rose to

**Table 2: Top 30 LCY Corporate Issuers in Malaysia** (as of September 2011)

Issuers	Outstanding Amount (MYR billion)					State- Owned	Privately- Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTN	IMTN	TOTAL				
1. Cagamas			9.39	10.56	19.95	Yes	No	No	Finance
2. Khazanah		13.20			13.20	Yes	No	No	Quasi-Govt. and Other
3. Binariang GSM		3.02		8.28	11.30	No	Yes	No	Transport, Storage, and Comm.
4. Maybank	8.10	1.50			9.60	No	Yes	Yes	Finance
5. Malakoff Corp		1.70		5.60	7.30	No	Yes	No	Finance
6. Prasarana	5.10	2.00			7.10	Yes	No	No	Finance
7. CIMB Bank	7.00				7.00	No	Yes	No	Finance
8. Public Bank	1.20		4.87		6.07	No	Yes	Yes	Finance
9. KL International Airport	1.60	4.26			5.86	Yes	No	No	Transport, Storage, and Comm.
10. Project Lebuhraya		5.82			5.82	No	Yes	Yes	Transport, Storage, and Comm.
11. Rantau Abang Capital Bhd				5.80	5.80	No	Yes	No	Quasi-Govt. and Other
12. Senai Desaru Expressway Bhd				5.58	5.58	No	Yes	No	Construction
13. Valuecap	5.10				5.10	Yes	No	No	Finance
14. 1Malaysia Development Bhd				5.00	5.00	Yes	No	No	Finance
15. AM Bank	0.49		4.48		4.96	No	Yes	Yes	Finance
16. Jimah Energy Ventures				4.54	4.54	No	Yes	No	Utilities
17. Bank Pembangunan Malaysia	1.00		2.40	0.90	4.30	Yes	No	No	Finance
18. Celcom Transmission				4.20	4.20	No	Yes	No	Transport, Storage, and Comm.
19. Tanjung Bin				4.07	4.07	No	Yes	No	Utilities
20. YTL Power International			3.63		3.63	No	Yes	Yes	Utilities
21. RHB Bank	0.60		3.00		3.60	No	Yes	No	Finance
22. Danga Capital				3.60	3.60	Yes	No	No	Finance
23. Cekap Mentari	3.50				3.50	No	Yes	Yes	Finance
24. Sarawak Energy				3.00	3.00	Yes	No	Yes	Energy, Gas, and Water
25. GOVCO Holdings				3.00	3.00	Yes	No	No	Quasi-Govt. and Other
26. CIMB Group	2.13		0.50	0.35	2.98	No	Yes	Yes	Finance
27. The Export-Import Bank of Korea			2.98		2.98	Yes	No	No	Finance
28. Hijrah Pertama		2.92			2.92	No	Yes	No	Finance
29. Malaysia Airports Capital				2.50	2.50	No	Yes	No	Finance
30. Gulf Investment Corporation	1.00			1.35	2.35	No	No	No	Finance
<b>Total Top 30 LCY Corporate Issuers</b>					<b>170.81</b>				
<b>Total LCY Corporate Bonds</b>					<b>334.97</b>				
<b>Top 30 as % of Total LCY Corporate Bonds</b>					<b>51.0%</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 Government Bonds Investor Profile**

24.6% at end-June from 21.5% at end-December 2010 and 18.1% at end-June 2010.

## Policy, Institutional, and Regulatory Developments

### Securities Commission Issues Revised Guidelines for Corporate Bonds and *Sukuk*

In July the Securities Commission of Malaysia (SC) issued revised guidelines for private debt securities and *sukuk* in line with the broader objectives of the Capital Market Masterplan 2. The revised guidelines replace the earlier Guidelines on Offering Private Debt Securities and Guidelines on the Offering of Islamic Securities, both of which were issued in July 2004. The new measures streamline the approval process and time-to-market for the issuance of corporate bonds and *sukuk*. The revised guidelines also remove the mandatory rating requirement for selected issues and offers, and provide greater disclosure of relevant information for debenture holders. The revised Islamic Security Guidelines provide more clarity to ensure compliance with *sharia'h*

(Islamic law) rulings and principles endorsed by the *Sharia'h* Advisory Council of the SC.

### Acts Amended Pursuant to Capital Market Masterplan 2

Amendments to the Securities Act 1993 and Capital Markets and Services Act 2007 (CMSA), pursuant to strategies outlined in the Capital Market Masterplan 2, came into force on 3 October. The amendments include

- (i) a legal framework for the private retirement scheme industry,
- (ii) licensing provisions in the CMSA,
- (iii) regulations pertaining to over-the-counter (OTC) derivatives and a framework for reporting OTC derivative contracts,
- (iv) a framework to enable the Audit Oversight Board to grant recognition to foreign auditors, and
- (v) authority for the SC to obtain information considered necessary for the purpose of monitoring, mitigating and managing systematic risks; and to issue directives for managing systemic risk.