

Malaysia—Update

Yield Movements

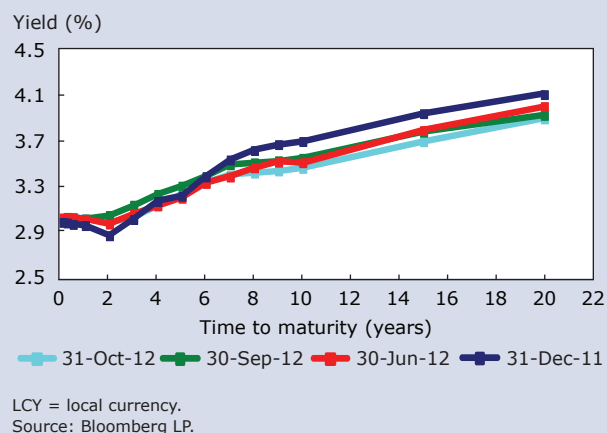
Between end-June and end-September, the yield curve for Malaysian local currency (LCY) government bonds steepened, with yields falling at the very short- and very long-end of the curve but rising elsewhere along the curve (**Figure 1**). As inflation continued to ease, yields at the very short-end fell between 1 basis point (bp) and 2 bps, while yields rose in the belly of the curve, but fell at the very-long end of the curve. Between end-September and end-October, yields at the very short-end of the curve rose slightly, while yields at the belly to the very-long end fell between 3 bps and 11 bps. The yield spread between the 2- and 10-year maturities narrowed to 47 bps at end-October from 50 bps at end-September and 53 bps at end-June.

Bank Negara Malaysia (BNM) decided to keep its overnight policy rate steady at 3.0% after its Monetary Policy Committee meeting on 6 September. BNM has kept its rate at this level since May last year. BNM expects headline inflation to remain moderate for the rest of 2012 and into 2013.

Malaysia's consumer price inflation eased further to 1.3% year-on-year (y-o-y) in September from 1.4% in August and July. During the first 9 months of the year, consumer price inflation averaged 1.8% y-o-y.

In 3Q12, Malaysia's real gross domestic product (GDP) grew 5.2% y-o-y, slightly lower than the revised 5.6% growth in the previous quarter. Domestic demand buoyed Malaysia's economy as weakness in the global economy persisted. Aggregate domestic demand growth eased to 7.3% y-o-y in 3Q12 from a revised 9.2% in 2Q12, due to lower growth in private and public consumption. Private consumption growth eased slightly to 8.5% y-o-y in 3Q12 from 8.8% in 2Q12, while public consumption growth slowed to 2.2% y-o-y in 3Q12 from 10.5% in the previous quarter. Capital

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



spending continued to post double-digit growth at 22.7% y-o-y, with the private and public sectors registering growth of 22.9% and 22.4% y-o-y, respectively.

On the supply side, growth in the construction sector slowed to 18.3% y-o-y in 3Q12 from 22.2% in 2Q12. Manufacturing sector growth eased to 3.3% y-o-y in 3Q12 from 5.6% in the previous quarter. The mining sector shrank 1.2% y-o-y in 3Q12, after posting 2.3% growth in the previous quarter. Meanwhile, the services and agriculture sectors expanded as the former grew 7.0% y-o-y in 3Q12 from 6.6% in 2Q12, while the latter posted 0.5% growth in 3Q12 after a 4.7% decline in 2Q12.

Size and Composition

Malaysia's total LCY bonds outstanding rose 15.7% y-o-y to MYR972.2 billion (US\$318 billion) at end-September, with both government and corporate bonds posting strong growth (**Table 1**). Total LCY government bonds rose 16.1% and total LCY corporate bonds increased 15.3% in 3Q12. On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding grew 4.1% in 3Q12.

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

	Amount (billion)						Growth Rate (%)										
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12		Aug-12		Sep-12		
	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	934	305	952	304	952	305	972	318	15.0	12.1	1.9	15.7	4.1	2.2	15.7	4.1	2.2
Government	559	183	576	184	570	183	586	192	15.3	12.1	3.0	16.1	4.8	2.9	16.1	4.8	2.9
Central Government Bonds and Bills	417	136	426	136	420	135	424	139	10.9	6.4	2.3	12.6	1.8	1.1	12.6	1.8	1.1
Central Bank Bills	142	46	147	47	147	47	159	52	31.0	33.1	3.4	24.5	12.0	8.2	24.5	12.0	8.2
<i>Sukuk Permuhan Kerajaan</i>	0	0	3	1	3	1	3	1	-	-	-	-	-	-	-	-	-
Corporate	375	123	376	120	382	122	386	126	14.6	12.1	0.2	15.3	2.9	1.1	15.3	2.9	1.1

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.

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

Total LCY government bonds stood at MYR586.1 billion at end-September, rising 16.1% y-o-y as central government bonds and bills and central bank bills posted robust growth in 3Q12. On a q-o-q basis, total LCY government bonds outstanding rose 4.8% in 3Q12. Central government bills and bonds rose 12.6% y-o-y and 1.8% q-o-q to MYR424.5 billion at end-September. Meanwhile, outstanding central bank bills grew 24.5% y-o-y and 12.0% q-o-q in 3Q12.

Total LCY government bond issuance rose 13.1% y-o-y to MYR141.3 billion in 3Q12, mainly due to the increased issuance of central bank bills, which rose 13.1%. Meanwhile, issuance of government bonds—Malaysian Government Securities (MGs) and Government Investment Issues (GIIs)—rose 3.1% y-o-y in 3Q12.

Outstanding LCY corporate bonds rose 15.3% y-o-y to MYR386.1 billion at end-September, slightly higher than the 14.6% growth posted in the previous quarter. On a q-o-q basis, total LCY corporate bonds outstanding rose 2.9% in 3Q12. The surge in issuance of corporate bonds that began in 1Q12 was sustained in 3Q12, with issuance rising 67.1% y-o-y in June–September.

Table 2: Notable Corporate Issuances in 3Q12

Corporate Issuer	Instrument	Amount (MYR billion)
Celcom Transmission	IMTNs	5.00
Tanjung Bin Power	IMTNs	4.20
Khazanah Nasional	IBONDS	2.50
DanaInfra Nasional	IMTNs	2.40
Prasarana	IBONDS	2.00
HLA Holdings	MTNs	2.00
Malacoff Corp	IBONDS	1.80
Kuala Lumpur Kepong	IMTNs	1.00
Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN)	IMTNs	1.00
Magnum Corp	MTNs	1.00
AMMB Holdings	MTNs	1.00

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, MTNs = medium-term notes.
Source: Bank Negara Malaysia.

Among the largest corporate LCY issues during 3Q12 were the *sukuk* (Islamic bond) issuances of Celcom Transmission and Tanjung Bin Power worth MYR5.0 billion and MYR4.2 billion, respectively (**Table 2**). Several state-owned companies also issued *sukuk* in 3Q12. DanaInfra Nasional, a company wholly owned by the Ministry of Finance, issued MYR2.4 billion worth of Islamic medium-term notes (MTNs) in July. In August, government investment holding arm Khazanah Nasional raised MYR2.5 billion from the sale of zero-coupon *sukuk* with 10- and 20-year maturities, while state-owned Syarikat Prasarana Negara Berhad (Prasarana) sold MYR2 billion worth of 10- and 15-year *sukuk*. Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN), Malaysia's National Higher Education Corporation, issued MYR1 billion worth of 10-year *sukuk*.

Other notable issuances in 3Q12 included MTNs from HLA Holdings (MYR2.8 billion), AMBB Holdings (MYR1 billion), and gaming firm Magnum Corporation (MYR1 billion). In September, power generation company Malakoff Corporation raised MYR1.8 billion from the sale of 30-year Islamic MTNs, while rubber and oil palm producer Kuala

Lumpur Kepong issued MYR1 billion worth of 10-year *sukuk*.

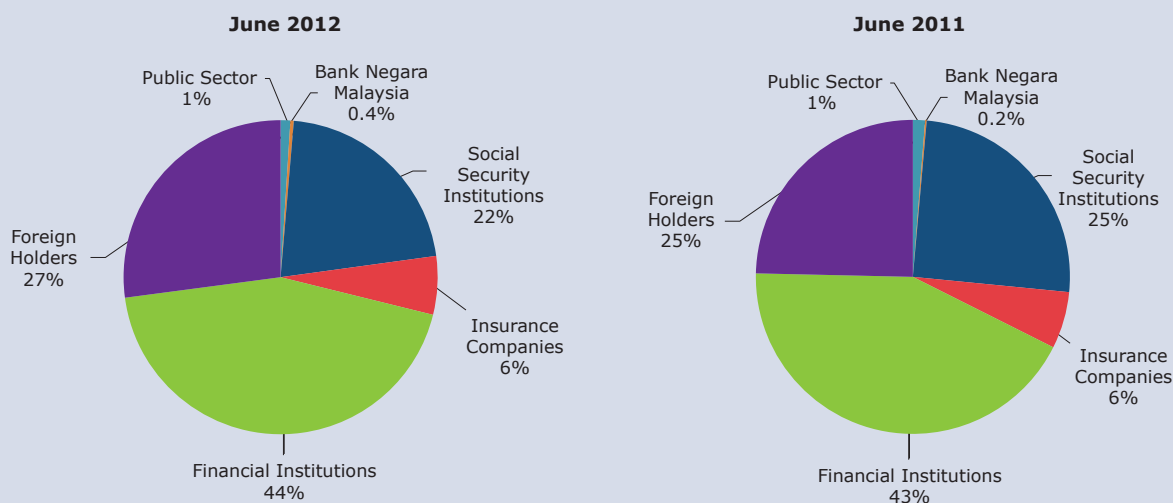
As of end-September, the top 30 issuers in Malaysia accounted for 56.3% of total LCY corporate bonds outstanding (**Table 3**). Project Lebuhraya remained the largest issuer of LCY corporate bonds with MYR30.6 billion outstanding, followed by national mortgage corporation Cagamas Bhd. and the government's investment holding arm Khazanah Nasional with outstanding amounts of MYR19.9 billion and MYR15.7 billion, respectively.

Investor Profile

At end-June, financial institutions were still the largest holders of MGSs and GIIs, with 44.1% of total outstanding government bonds, followed by foreign investors and social security institutions, which held 27.1% and 21.5%, respectively. The holdings of insurance companies accounted for 6.0% of the total (**Figure 2**).

Despite the depreciation of the Malaysian ringgit against the United States (US) dollar in the

Figure 2: Malaysian LCY Government Bonds Investor Profile



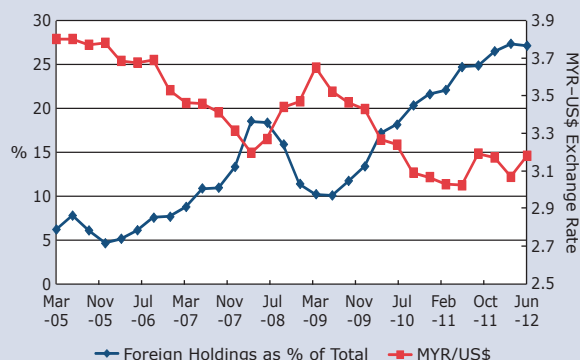
LCY = local currency.
Source: Bank Negara Malaysia.

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia (as of end-June 2012)

Issuers	Outstanding Amount (MYR billion)					State- Owned	Privately- Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTNs	IMTNs	TOTAL				
1. Project Lebuhraya				30.60	30.60	No	Yes	Yes	Transport, Storage, and Comm.
2. Cagamas			9.57	10.38	19.94	Yes	No	No	Finance
3. Khazanah		15.70			15.70	Yes	No	No	Quasi-Govt. and Other
4. Pengurusan Air Bhd.				11.28	11.28	Yes	No	No	Energy, Gas, and Water
5. Maybank	9.70	1.50			11.20	No	Yes	Yes	Finance
6. Binariang GSM		3.02		7.22	10.24	No	Yes	No	Transport, Storage, and Comm.
7. Prasarana	1.91	4.00		4.00	9.91	Yes	No	No	Finance
8. Malakoff Corp.		1.80		5.60	7.40	No	Yes	No	Finance
9. CIMB Bank	7.00				7.00	No	Yes	No	Finance
10. Public Bank	1.20		4.87		6.07	No	Yes	Yes	Finance
11. Senai Desaru Expressway Bhd.				5.58	5.58	No	Yes	No	Construction
12. Sarawak Energy				5.50	5.50	Yes	No	Yes	Energy, Gas, and Water
13. KL International Airport	1.60	3.76			5.36	Yes	No	No	Transport, Storage, and Comm.
14. Celcom Transmission				5.00	5.00	No	Yes	No	Transport, Storage, and Comm.
15. 1Malaysia Development Bhd.				5.00	5.00	Yes	No	No	Finance
16. Hong Leong Bank	3.70		1.16		4.86	No	Yes	Yes	Finance
17. Manjung Island Energy Bhd.				4.85	4.85	No	Yes	No	Energy, Gas, and Water
18. AM Bank	0.49		4.28		4.77	No	Yes	Yes	Finance
19. RHB Bank	0.60		4.00		4.60	No	Yes	No	Finance
20. Aman Sukuk Bhd.				4.42	4.42	Yes	No	No	Construction
21. Jimah Energy Ventures				4.32	4.32	No	Yes	No	Energy, Gas, and Water
22. Putrajaya Holdings		0.39		3.88	4.27	No	Yes	No	Finance
23. Bank Pembangunan Malaysia	0.90		2.40	0.90	4.20	Yes	No	No	Finance
24. Tanjung Bin Power				4.20	4.20	No	Yes	No	Energy, Gas, and Water
25. Rantau Abang Capital Bhd.				3.80	3.80	No	Yes	No	Quasi-Govt. and Other
26. Danga Capital				3.60	3.60	Yes	No	No	Finance
27. Perbadanan Tabung Pendidikan Tinggi Nasional				3.50	3.50	No	Yes	No	Quasi-Govt. and Other
28. Cepak Mentari	3.50				3.50	No	Yes	Yes	Finance
29. YTL Power International			3.32		3.32	No	Yes	Yes	Energy, Gas, and Water
30. Tanjung Bin Energy				3.29	3.29	No	Yes	No	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers	30.60	30.17	29.60	126.90	217.26				
Total LCY Corporate Bonds	60.57	63.18	61.79	180.65	386.09				
Top 30 as % of Total LCY Corporate Bonds	50.5%	47.7%	47.9%	70.2%	56.3%				

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, LCY = local currency, MTNs = medium-term notes.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST).

Figure 3: Foreign Holdings of LCY Government Bonds vs. the MYR–US\$ Exchange Rate



LCY = local currency.

Source: Bank Negara Malaysia.

second half of 2011 and in 2Q12, the share of foreign holdings among total LCY government bonds continued to rise from 21.5% at end-2010 to 26.5% at end-2011 (**Figure 3**). The share of foreign holdings increased further to 27.3% at end-March and slightly dropped to 27.1% at end-June.

Policy, Institutional, and Regulatory Developments

ASEAN Trading Link Launches with the Connection of Bursa Malaysia and Singapore Exchange

ASEAN Exchanges—a collaboration among the seven stock exchanges of the Association of Southeast Asian Nations (ASEAN) that seeks to promote growth in the region's capital markets—announced the rollout of the ASEAN Trading Link on 18 September with the connection of Bursa Malaysia and Singapore Exchange. The ASEAN Trading Link allows brokers to execute trades directly to connected exchanges without having to be licensed with that exchange.

Bloomberg AIBIM Bursa Malaysia Corporate *Sukuk* Index Launches

Bloomberg announced in September the launch of an index developed in partnership with the Association of Islamic Banking Institutions Malaysia (AIBIM) and Bursa Malaysia. The Bloomberg AIBIM Bursa Malaysia Corporate *Sukuk* Index will serve as a benchmark for investors in MYR-denominated *sukuk* in Malaysia. According to Bloomberg, the new index will track and measure the performance of the most liquid and credit worthy *sukuk* in Malaysia.