

Malaysia

Yield Movements

Between end-September and end-December, the local currency (LCY) government bond yield curve in Malaysia flattened as yields rose at the shorter-end and fell from the 2-year maturity through the end of the curve (**Figure 1**). Yields rose the most for the 1-year maturity, climbing 1.5 basis points (bps). Yields from the 2-year maturity through the end of the curve fell between 2 bps and 9 bps.

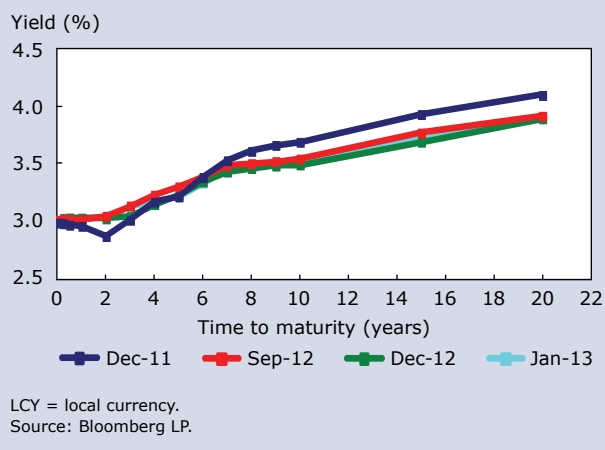
Between end-December and end-January, there was not much change in the yields except for the 3-year maturity, which rose 9 bps. The yield spread between the 2- and 10-year maturities remained at 47 bps at end-January, the same level as end-December; however, it narrowed significantly compared with a spread of 82 bps at end-December 2011.

Rising yields at the shorter-end of the curve reflected expectations of higher inflation in 2013 as domestic demand remained strong. Consumer price inflation in Malaysia was relatively tame in 2012 with inflation easing to 1.2% year-on-year (y-o-y) in December from 1.3% in November and October. Between November and December, consumer price inflation remained flat. For the full-year 2012, inflation averaged 1.6% y-o-y as price indices for all main groups rose except for clothing and footwear, and communications.

Bank Negara Malaysia (BNM) decided to leave the overnight policy rate unchanged at 3.0% in its Monetary Policy Committee meeting on 31 January. BNM has kept its benchmark rate at the same level since May 2011. The central bank considers the current monetary policy to be supportive of the economy while inflation remains contained.

Malaysia's real gross domestic product (GDP) expanded 6.4% y-o-y in 4Q12 compared with 5.3% growth in 3Q12. This was largely driven by investment, which posted double-digit growth

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



of 15.0% y-o-y, while growth in government spending and private spending slowed to 1.1% and 6.1%, respectively. All sectors recorded positive y-o-y increases in 4Q12, led by the services, manufacturing, and construction sectors. For the full-year 2012, GDP growth was recorded at 5.6% compared with 5.1% in 2011. For 2013, the government has targeted a GDP growth rate of between 4.5% and 5.5%.

Size and Composition

Total LCY bonds outstanding in Malaysia reached MYR1.0 trillion (US\$327 billion) at end-December, climbing a significant 19.9% y-o-y (**Table 1**). Both the government and corporate bond sectors contributed to the strong growth during the period. On a quarter-on-quarter (q-o-q) basis, however, the bond market grew by a more modest rate of 2.8%.

Government Bonds. At end-December, outstanding LCY government bonds stood at MYR599 billion, rising 2.2% q-o-q and 20.0% y-o-y. All three government bond instruments recorded positive y-o-y growth. Central government bonds and bills, which accounted for 73.5% of the total stock of government bonds at end-December, grew

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

	Outstanding Amount (billion)						Growth Rate (%)									
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12		Nov-12		Dec-12	
	MYR	US\$	MYR	US\$	MYR	US\$	MYR	US\$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	q-o-q	q-o-q	y-o-y
Total	972	318	992	325	1,006	331	327	1,000	327	4.1	15.7	2.0	1.5	(0.6)	2.8	19.9
Government	586	192	601	197	609	200	196	599	4.8	16.1	2.5	1.3	(1.7)	2.2	20.0	
Central Government Bonds and Bills	424	139	432	142	437	144	144	440	1.8	12.6	1.9	1.2	0.6	3.7	12.2	
Central Bank Bills	159	52	164	54	167	55	50	154	12.0	24.5	3.1	1.8	(7.6)	(3.0)	44.6	
Sukuk Perumahan Kerajaan	3	1	5	1	5	1	1	5	-	465.2	73.1	0.0	0.0	73.1	1,775.0	
Corporate	386	126	391	128	397	131	131	401	2.9	15.3	1.2	1.6	1.0	3.9	19.8	

- = not applicable, () = negative, 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.

12.2% y-o-y. Central bank bills rose 44.6% y-o-y but fell 3.0% q-o-q. *Sukuk Perumahan Kerajaan* (Islamic bonds issued by the government) recorded the highest growth rate at 1,775% y-o-y, although the amount of these bonds outstanding came from a very low base of only MYR0.2 billion at end-December 2011 and increased to MYR5 billion at end-December 2012.

In 4Q12, government bond issuance fell 24.8% q-o-q, as issuance volumes declined from the previous quarter for all types of government bonds. However, on a y-o-y basis, the issuance of government bonds rose a significant 23.5%.

Corporate Bonds. The size of Malaysia's LCY corporate bond market climbed to MYR401 billion (US\$131 billion) at end-December, expanding 3.9% q-o-q and 19.8% y-o-y. In 4Q12, corporate bond issuance totaled MYR32.5 billion, down 21.4% compared with the previous quarter. However, on a y-o-y basis, corporate bond issuance climbed 40.2%. **Table 2** lists some notable corporate bonds issued during 4Q12.

The largest issuer during the quarter was Turus Pesawat, a special purpose company fully owned by Malaysia's Ministry of Finance. Turus Pesawat, which sold MYR3.4 billion of multi-tranche *sukuk* (Islamic bonds) in November, was established to raise funds to lend to Malaysian Airlines System (MAS) for the purpose of purchasing new planes and refinancing a MYR1.0 billion bridge loan. The bond sale comprised the following issues:

Table 2: Notable Corporate Issuance in 4Q12

Corporate Issuer	Instrument	Issued Amount (MYR billion)
Turus Pesawat Sdn Bhd.	IMTNs	3.40
Khazanah Nasional	IBONDS	2.00
Golden Assets International Finance	IMTNs	1.50
CIMB Bank	BONDS	1.50
RHB Bank	MTNs	1.30
Cagamas	IMTNs	1.04
Imtiaz Sukuk	IMTNs	1.00

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

- 10-year *sukuk* worth MYR500 million, profit rate of 3.74%;
- 12-year *sukuk* worth MYR500 million, profit rate of 3.93%;
- 15-year *sukuk* worth MYR750 million, profit rate of 4.12%; and
- 20-year *sukuk* worth MYR1.65 billion, profit rate of 4.36%.

Government investment holding arm Khazanah Nasional sold MYR2 billion worth of zero-coupon *sukuk* in October. The *sukuk* were drawn from an unrated *Sukuk Musyarakah* Program and were issued at a discount. The bond sale comprised the following issues:

- 5-year *sukuk* worth MYR1 billion at an issue price of 83.825 and implied yield of 3.7%; and
- 15-year *sukuk* worth MYR1 billion at an issue price of 53.845 and implied yield of 4.2%.

Golden Assets International Finance, a subsidiary of Singapore-listed palm oil plantation firm Golden Agri Resources Ltd., issued MYR1.5 billion of 5-year *sukuk* bearing a profit rate of 4.35%. The bonds were part of the company's Islamic Medium-Term Note (IMTN) Program of up to MYR5 billion.

CIMB Bank issued MYR1.5 billion of 10-year Lower Tier 2 subordinated notes in November, completing its MYR5 billion issuance program. The bonds carry a coupon of 4.15%. Proceeds from the subdebt issue will be used to boost the bank's working capital requirements and for general banking business.

RHB Bank issued MYR1.3 billion worth of 10-year Lower Tier 2 notes in November. The notes, rated AA3 by RAM Ratings, carry a coupon of 4.4%. Proceeds from the issuance will be used to refinance maturing Lower Tier 2 notes.

Other notable issuances in 4Q12 included Cagamas MYR1.04 billion worth of conventional bonds and *sukuk* in several tranches in December, and Imtiaj Sukuk Bhd.'s MYR1 billion dual-tranche IMTNs in November.

As of end-December, the total bonds outstanding of the top 30 corporate bond issuers in Malaysia stood at MYR221.8 billion (**Table 3**), accounting for 55.3% of total corporate bonds outstanding. Project Lebuhraya Usahasama Bhd. remained the largest issuer of LCY corporate bonds in Malaysia with bonds outstanding valued at MYR30.6 billion. National mortgage corporation Cagamas and government investment holding arm Khazanah followed with total bonds outstanding amounting to MYR20.2 billion and MYR17.7 billion, respectively.

Finance-related companies accounted for a third of the list of the top 30 LCY corporate bond issuers in 4Q12. Other bond issuers were from the energy, gas, and water; transport, storage, and communications; quasi-government; and construction sectors.

Investor Profile

Financial institutions remained the largest holder of Malaysian Government Securities (MGSs) and Government Investment Issues (GIIs) in Malaysia, holding a 43% share of total outstanding MGSs and GIIs at end-September (**Figure 2**). In absolute terms, the share of financial institutions stood at MYR182 billion in 3Q12, up from MYR161 billion in the same period a year earlier.

Foreign investors were the second-largest investor group at end-September with a share of 29%. The share of foreign investors has steadily risen since June 2009. **Figure 3** shows the relationship between the MYR-US\$ exchange rate and foreign holdings of MGSs and GIIs between end-March 2005 and end-September 2012. Foreign holdings' share of the total has steadily climbed as the MYR appreciated against the US\$ during this period.

In 3Q12, the share of social security institutions fell to 21% of the total stock of MGSs and GIIs, down slightly from 24% a year earlier, while the share of insurance companies' holdings was steady at 6%.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Malaysia

Issuers	Outstanding Amount (MYR billion)					State- Owned	Privately Owned	Listed Company	Type of Industry
	BONDS	IBONDS	MTNs	IMTNs	TOTAL				
1. Project Lebuhraya Usahasama Bhd.				30.6	30.6	No	Yes	No	Toll Roads and Expressway
2. Cagamas			9.1	11.1	20.2	Yes	No	No	Finance
3. Khazanah		17.7			17.7	Yes	No	No	Quasi-Govt. and Other
4. Pengurusan Aset Air Bhd.				11.3	11.3	Yes	No	No	Energy, Gas, and Water
5. Malaysian Banking Bhd.	9.7	1.5			11.2	No	Yes	Yes	Finance
6. Prasarana	1.9	4.0		4.0	9.9	Yes	No	No	Transport, Storage, and Comm.
7. Binariang GSM		3.0		6.9	9.9	No	Yes	No	Transport, Storage, and Comm.
8. CIMB Bank	8.5				8.5	No	Yes	No	Finance
9. Malakoff Corp		1.8		5.6	7.4	No	Yes	No	Energy, Gas, and Water
10. Public Bank	1.2		4.9		6.1	No	Yes	Yes	Finance
11. Senai Desaru Expressway Bhd.				5.6	5.6	No	Yes	No	Construction
12. Sarawak Energy				5.5	5.5	Yes	No	No	Energy, Gas, and Water
13. KL International Airport	1.6	3.8			5.4	Yes	No	No	Transport, Storage, and Comm.
14. AM Bank	0.5		4.7		5.2	No	Yes	No	Finance
15. Putrajaya Holdings		0.4		4.7	5.1	No	Yes	No	Property and Real Estate
16. 1Malaysia Development Bhd.				5.0	5.0	Yes	No	No	Quasi-Govt. and Other
17. Celcom Transmission				5.0	5.0	No	Yes	No	Transport, Storage, and Comm.
18. Hong Leong Bank	3.7		1.2		4.9	No	Yes	Yes	Finance
19. Manjung Island Energy Bhd.				4.9	4.9	No	Yes	No	Energy, Gas, and Water
20. RHB Bank	0.6		4.0		4.6	No	Yes	No	Finance
21. Aman Sukuk Bhd.				4.4	4.4	Yes	No	No	Finance
22. Tanjung Bin Power				4.2	4.2	No	Yes	No	Energy, Gas, and Water
23. Jimah Energy Ventures				4.2	4.2	No	Yes	No	Energy, Gas, and Water
24. Bank Pembangunan Malaysia	0.8		2.4	0.9	4.1	Yes	No	No	Finance
25. Rantau Abang Capital Bhd.				3.8	3.8	No	Yes	No	Quasi-Govt. and Other
26. Danga Capital				3.6	3.6	Yes	No	No	Finance
27. Cekap Mentari	3.5				3.5	No	Yes	No	Finance
28. Perbadanan Tabung Pendidikan Tinggi Nasional				3.5	3.5	No	Yes	No	Quasi-Govt. and Other
29. Turus Pesawat Sdn Bhd.				3.4	3.4	Yes	No	No	Quasi-Govt. and Other
30. YTL Power International			3.3		3.3	No	Yes	Yes	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers	32.0	32.2	29.6	128.0	221.8				
Total LCY Corporate Bonds					401.0				
Top 30 as % of Total LCY Corporate Bonds					0.6%				

BONDS = conventional corporate bonds, IBONDS = Islamic bonds, IMTNs = Islamic medium-term notes, LCY = local currency, MTNs = medium-term notes.

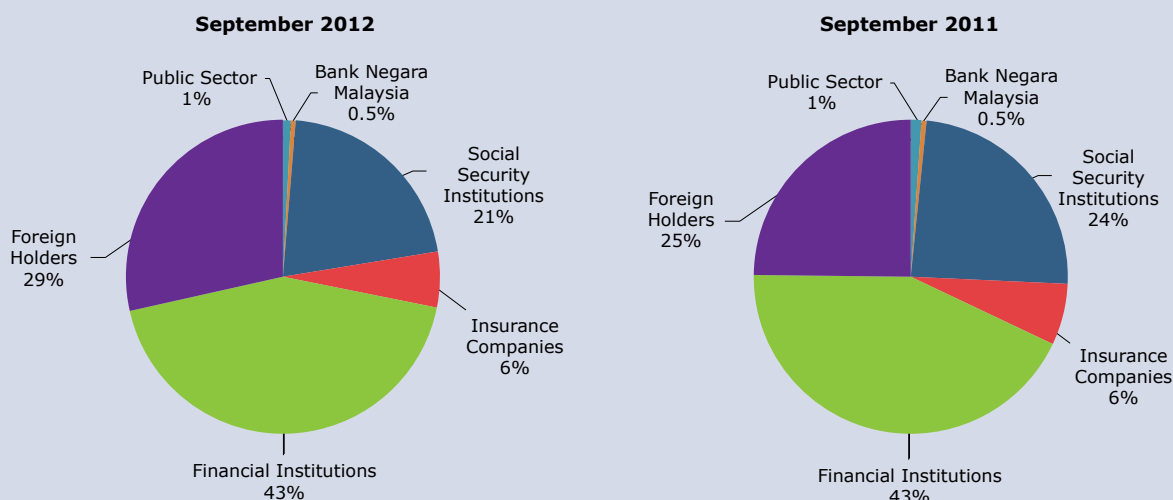
Notes:

1. Data as of 31 December 2012.

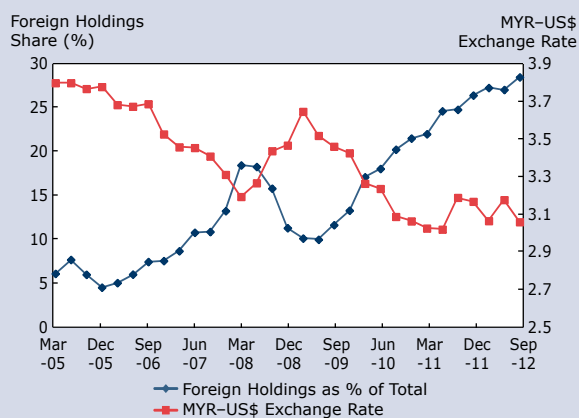
2. Total outstanding amount includes commercial paper.

3. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile

LCY = local currency.
Source: Bank Negara Malaysia.

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

LCY = local currency.
Source: Bank Negara Malaysia.

Rating Changes

On 18 October, Ratings and Investment (R&I) affirmed Malaysia's foreign and domestic currency issuer rating at A and A+, respectively. The outlook on both ratings was stable. R&I cited Malaysia's solid economy, stable external balance, and the agency's low level of concern over its financing capabilities as the reasons for the ratings action.

Policy, Institutional, and Regulatory Developments

BNM Announces *Sharia'h* Standards for Mudarabah

On 22 October, BNM issued the *Sharia'h* Standard on *Mudarabah* (a partnership where one partner provides capital to the other for investment in a commercial enterprise) to all Islamic financial institutions under its purview as part of its efforts to enhance the *sharia'h*-compliant regulatory framework in Malaysia. The new *Sharia'h* Standard on *Mudarabah* will serve as a guideline for Islamic financial institutions in developing Islamic financial products and services based on the concept of *mudarabah*. The *Sharia'h* Standard on *Mudarabah* is the second in the series of *Sharia'h* Standards (formerly known as *Sharia'h* Parameters). The first series was the *Sharia'h* Standard on *Murabahah* (a contract based on the sale of an asset at cost plus mark-up).

BNM and SC Sign MOU to Strengthen Joint Regulatory Oversight

On 30 October, BNM and Securities Commission Malaysia (SC) signed a Memorandum of

Understanding (MOU) to improve their joint regulatory oversight. The MOU provides for enhanced collaboration between BNM and SC, with the aim of promoting financial sector and capital market stability. The MOU reinforces the intent to collaborate, cooperate, and share information to enable both agencies to effectively carry out their respective mandates.

SC Introduces New Capital Market Regulations

On 2 January, SC announced new capital market regulations through the Capital Markets and Services (Amendment) Act 2012 (CMSA 2012), which aims to encourage market innovation, promote market efficiency, and allow for more informed investment decisions. CMSA 2012 introduces a new approval framework that will facilitate the offering of a broader array of capital market products for the benefit of issuers, intermediaries, and investors. New regulations under CMSA 2012 include, among others, (i) guidelines for business trusts that allow for greater fundraising flexibility and provide investors with an opportunity to invest in a new asset class, (ii) revised guidelines on private debt securities and *sukuk* (Islamic bonds) that allow publicly listed companies and banks to offer bonds and *sukuk* to retail investors, and (iii) the establishment of a consolidated capital market compensation fund.

Moody's Adjusts FCY Bond and LCY Country Risk Ceilings for Malaysia

On 7 January, Moody's Investors Service (Moody's) adjusted the foreign currency (FCY) bond and LCY country risk ceilings for Malaysia. The adjustments, however, will not affect Malaysia's A3 sovereign rating. Moody's said the change in ceilings would mean that the highest rating that can be assigned to a domestic issuer in Malaysia, or to a structured finance security backed by LCY receivables, are as follows: (i) the long-term FCY bond ceiling was raised to A1 from A3, (ii) the long-term FCY deposit ceiling remained at A3, (iii) the short-term FCY bond and deposit ceilings remained unchanged at P-1, and (iv) the long-term LCY bond and deposit ceilings were lowered to A1 from Aa2. According to Moody's, the decision to readjust the country ceilings for Malaysia was based on its assessment of moratorium risks, given the country's ability and willingness to service both its public and private cross-border debt obligations.

RAM Ratings Launches Global and ASEAN Ratings Scale

In January, RAM Ratings Services Bhd. launched its global and Association of Southeast Asian Nations (ASEAN) ratings scales. The scale will enable RAM to benchmark ratings against global and regional peers. The Credit Guarantee and Investment Facility (CGIF) was the first institution to be given a global and ASEAN rating of AAA by RAM.