

Malaysia

Yield Movements

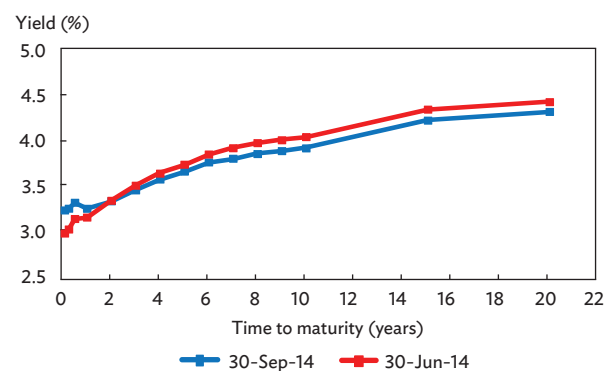
Between end-June and end-September, all Malaysian local currency (LCY) government bond yields fell, except for instruments at the shorter-end of the curve, resulting in a slight flattening of the curve (**Figure 1**). Yields for the 1-month tenor climbed as much as 25 basis points (bps), while yields for the 3-month to 1-year maturities edged up between 10 bps and 23 bps. The rise in yields on the shorter-end of the curve was due to Bank Negara Malaysia's (BNM) decision on 10 July to raise the overnight policy rate 25 bps to 3.25% to mitigate the risk of continued high inflation and potential economic and financial imbalances. Meanwhile, yields for securities with tenors of 3 years or more declined between 6 bps and 12 bps, which narrowed the gap between 2-year and 10-year tenors to 58 bps at end-September from 69 bps at end-June. Yields on the longer-end of the curve fell as the market reacted positively to BNM's decision to raise the policy rate on expectations of more manageable inflation in the near-term.

In its Monetary Policy Committee meeting on 18 September, BNM decided to keep its overnight policy rate steady at 3.25%. BNM deemed its current monetary policy stance to be supportive of growth. Inflation is expected to be relatively stable as the effects of price adjustments for utilities and energy have diminished.

However, inflation has remained elevated in 3Q14, increasing to 3.3% year-on-year (y-o-y) in August from 3.2% in July, before easing to 2.6% in September. Risks to inflation remain as the government raised fuel prices in early October and is planning to implement the good and services tax (GST) in April 2015.

Malaysia's real gross domestic product (GDP) growth accelerated to 6.4% y-o-y in 2Q14, the fastest pace in 6 quarters, from 6.2% in 1Q14. On the supply side, the growth was fueled by increases in the manufacturing sector, which rose 7.3% y-o-y compared with 6.8% in the previous quarter, led by electrical and electronic products, and transport equipment. On the demand side, exports and domestic demand drove the economy, accelerating 8.8% and 6.5%, respectively. On a seasonally adjusted and q-o-q basis, the economy grew 1.8%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

Total LCY bonds outstanding in Malaysia rose 2.5% quarter-on-quarter (q-o-q) to MYR1,079 billion (US\$329 billion) at end-September, led by the government bond sector, particularly central bank bills (**Table 1**). Government bonds outstanding totaled MYR633 billion (US\$193 billion), while corporate bonds summed to MYR446 billion. *Sukuk* (Islamic bonds) dominated the market, surpassing conventional securities in terms of share of the total market in 3Q14, with 52% of bonds outstanding. On a y-o-y basis, the LCY bond market grew 8.7% as of end-September.

Government Bonds. LCY government bonds increased 3.4% q-o-q to close at MYR633 billion at end-September. Central government bonds—comprising Malaysian Government Securities, Government Investment Issues, and Treasury bills—remained unchanged at MYR508 billion. The size of outstanding BNM monetary notes, on the other hand, climbed 22.0% q-o-q to MYR108 billion. The increase may be a result of the central bank mopping up excess liquidity in the market amid elevated inflation.

The government issued more bonds in 3Q14 than in the previous quarter, with issuance rising 14.5% q-o-q to MYR105.8 billion, led by central bank bills. Meanwhile, issuance of central government securities fell 20.0% q-o-q.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	MYR	US\$	MYR	US\$	MYR	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	993	305	1,053	328	1,079	329	(0.04)	2.2	2.5	8.7
Government	584	179	612	191	633	193	(0.7)	(0.4)	3.4	8.4
Central Government Bonds	468	143	508	158	508	155	1.9	10.1	0.02	8.7
of which: <i>sukuk</i>	166	51	190	59	187	57	2.5	20.4	(1.8)	12.7
Central Bank Bills	107	33	88	28	108	33	(12.5)	(32.6)	22.0	0.6
of which: <i>sukuk</i>	41	13	35	11	42	13	(19.3)	(34.7)	19.8	3.8
<i>Sukuk Perumahan Kerajaan</i>	9	3	16	5	17	5	43.5	242.3	9.7	91.0
Corporate	410	126	442	138	446	136	0.9	6.1	1.1	9.0
of which: <i>sukuk</i>	274	84	302	94	314	96	1.0	9.0	4.0	14.5

() = negative, 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.

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

Corporate Bonds. LCY corporate bonds slightly increased 1.1% q-o-q, bringing total outstanding bonds to MYR446 billion at end-September. The share of corporate *sukuk* to total corporate bonds outstanding increased to 70% at end-September from 68% at end-June.

Corporate bond issuance expanded 25.8% q-o-q to MYR33 billion in 3Q14 on a total of 80 new issues during the quarter, from MYR27 billion in the previous quarter.

Table 2 lists some notable corporate bonds issued in 3Q14.

The largest corporate issuers in 3Q14 were from the financial sector, led by Maybank and Bank Pembangunan Malaysia. Maybank issued a 10-year bond valued at MYR3.5 billion. The bond was rated AA3 by RAM Ratings and has a coupon rate of 5.30%. Bank Pembangunan Malaysia, rated AAA, raised MYR3.0 billion from the sale of four tranches of *murabahah* (profit-sharing) medium-term notes.

Table 3 provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR249.2 billion at end-September, representing 55.8% of the LCY corporate bond market. Financial firms comprised 10 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR88.8 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

Table 2: Notable LCY Corporate Bond Issuance in 3Q14

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Maybank		
10-year bond	5.30	3,500
Bank Pembangunan Malaysia		
7-year Islamic MTN	4.19	700
10-year Islamic MTN	4.38	500
15-year Islamic MTN	4.75	900
20-year Islamic MTN	4.85	900
Danainfra Nasional		
7-year Islamic MTN	4.23	400
10-year Islamic MTN	4.41	400
15-year Islamic MTN	4.76	400
20-year Islamic MTN	4.93	500
25-year Islamic MTN	5.14	400
30-year Islamic MTN	5.29	500

LCY = local currency, MTN = medium-term note.

Source: Bank Negara Malaysia Bond Info Hub.

Investor Profile

At end-June, the share of government bonds held by financial institutions—including banking institutions, development financial institutions, and nonbank financial institutions—rose both on a q-o-q and y-o-y basis. Financial institutions accounted for 34.0% of the total government bond market at end-June with holdings valued at MYR164.5 billion (**Figure 2**). Banks remained

Table 3: Top 30 Issuers of LCY Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (US\$ billion)			
1.	Project Lebuhraya Usahasama	30.60	9.33	No	Yes	Transport, Storage, and Communications
2.	Cagamas	23.21	7.07	Yes	No	Finance
3.	Khazanah	20.00	6.10	Yes	No	Quasi-Government
4.	Prasarana	13.91	4.24	Yes	No	Transport, Storage, and Communications
5.	Pengurusan Air	11.73	3.58	Yes	No	Energy, Gas, and Water
6.	Danainfra Nasional	11.70	3.57	Yes	No	Finance
7.	Maybank	11.36	3.46	No	Yes	Finance
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	9.50	2.90	Yes	No	Quasi-Government
9.	CIMB Bank	8.05	2.45	No	No	Finance
10.	Public Bank	8.02	2.45	No	Yes	Finance
11.	BGSM Management	7.20	2.19	No	No	Transport, Storage, and Communications
12.	Sarawak Energy	7.00	2.13	Yes	No	Energy, Gas, and Water
13.	Aman Sukuk	6.44	1.96	Yes	No	Construction
14.	Bank Pembangunan	6.00	1.83	No	No	Finance
15.	RHB Bank	5.60	1.71	No	No	Finance
16.	Cagamas MBS	5.38	1.64	Yes	No	Finance
17.	Malakoff Power	5.38	1.64	No	No	Energy, Gas, and Water
18.	Turus Pesawat	5.31	1.62	Yes	No	Quasi-Government
19.	1Malaysia Development	5.00	1.52	Yes	No	Quasi-Government
20.	Celcom Transmission	5.00	1.52	No	No	Transport, Storage, and Communications
21.	Hong Leong Bank	4.95	1.51	No	Yes	Finance
22.	Manjung Island Energy	4.85	1.48	No	No	Energy, Gas, and Water
23.	Rantau Abang	4.80	1.46	Yes	No	Quasi-Government
24.	AM Bank	4.54	1.38	No	No	Finance
25.	KL International Airport	4.36	1.33	Yes	No	Transport, Storage, and Communications
26.	Putrajaya Holdings	4.13	1.26	No	No	Property and Real Estate
27.	Tanjung Bin Power	4.05	1.23	No	Yes	Energy, Gas, and Water
28.	YTL Power International	3.77	1.15	No	Yes	Energy, Gas, and Water
29.	Jimah Energy Ventures	3.71	1.13	No	No	Energy, Gas, and Water
30.	TNB Western Energy	3.66	1.11	No	No	Construction
Total Top 30 LCY Corporate Issuers		249.20	75.96			
Total LCY Corporate Bonds		446.37	136.07			
Top 30 as % of Total LCY Corporate Bonds		55.8%	55.8%			

LCY = local currency.

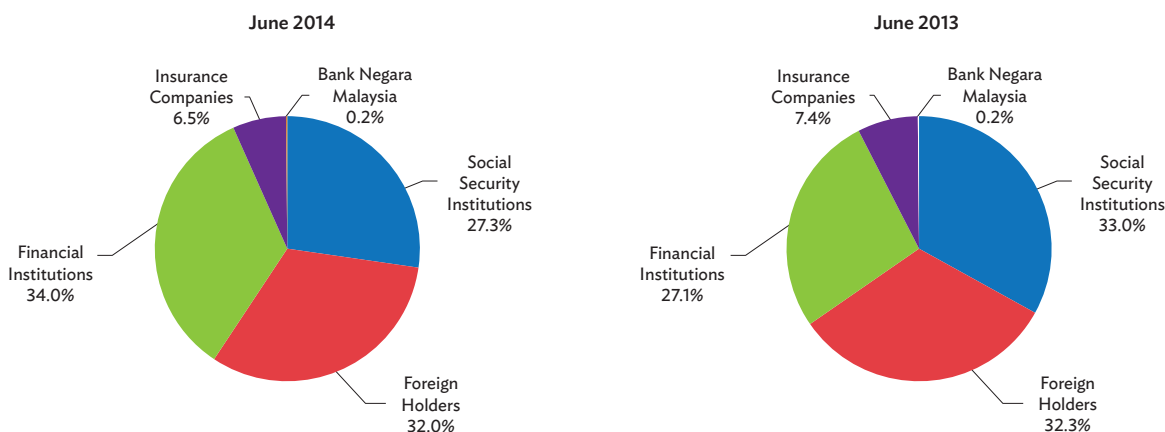
Notes:

1. Data as of end-September 2014.

2. 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.

the largest holder among this group and strengthened their position in Government Investment Issues by MYR6.3 billion from end-March levels.

Holdings of foreign investors were slightly down from a share of 32.3% a year earlier to 32.0% at end-June, but higher compared with 30.8% in the previous quarter. Foreign investors increased their holdings of Malaysian Government Securities by MYR5.4 billion from the previous quarter.

Social security institutions dropped to the third-largest holder of LCY government bonds at end-June from the top spot a year earlier. The holdings of social security institutions fell to a share of 27.3% of the total market, down from 33.0% at end-June 2013 and 29.4% at end-March 2014, as a result of divestments made by the Employees Provident Fund.

Policy, Institutional, and Regulatory Developments

Prime Minister Announces 2015 Federal Budget

On 10 October, Malaysia announced the release of its 2015 federal budget. The 2015 budget allocates MYR273.9 billion, an increase of MYR9.8 billion from the 2014 initial allocation. The government stated that the economy is expected to grow between 5% and 6% in 2015, and the government's fiscal deficit will be reduced to 3% of GDP. The government also announced planned amendments to tax rates in 2015, including a reduction in income taxes by 1%–3%, implementation of the GST of 6%, and abolition of the sales and services tax. Furthermore, the corporate income tax and small and medium-sized income tax will be reduced 1% each in 2016. To strengthen the Islamic financial market, the government plans to introduce the Investment Account Platform, a *shari'a*-compliant investment product that will allow investors to finance businesses, small and medium-sized enterprises, and other entities via the Islamic financial market. The Investment Account Platform will have an initial start-up fund of MYR150 million. The government also announced plans of further rationalization of its current subsidies. A report by the Ministry of Finance indicated a reduction in subsidies to MYR37.7 billion in 2015 from MYR40.6 billion in 2014.