

## Malaysia

### Yield Movements

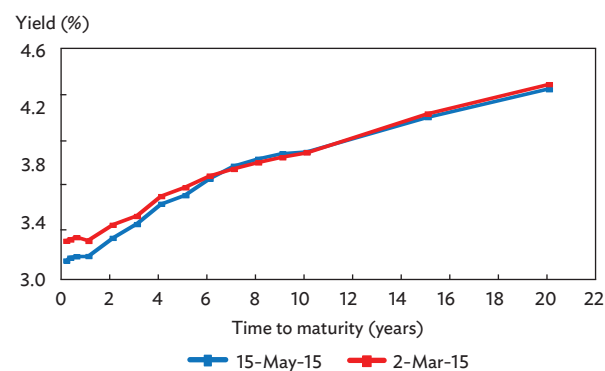
Between 2 March and 15 May, Malaysian local currency (LCY) government bond yields fell for most tenors, particularly at the short-end of the curve, as the market expected the Bank Negara Malaysia (BNM) to maintain the overnight policy rate due to manageable inflation (**Figure 1**). Yields for tenors between 1 month and 1 year fell between 10 basis points (bps) and 14 bps. Meanwhile yields for the rest of the tenors were broadly unchanged. Yields for bonds with tenors of between 2 years and 6 years fell 2 bps–9 bps; yields for tenors between 7 years and 9 years increased 2 bps–3 bps; and the 15-year and 20-year tenors fell 2 bps and 3 bps, respectively.

BNM decided to maintain its overnight policy rate at 3.25% at monetary policy meetings on both 5 March and 7 May. BNM stated that domestic demand continues to support the economy. Notwithstanding the possible dampening effects of the implementation of the Goods and Services Tax (GST) on 1 April 2015, private consumption is expected to be buttressed by rising income and employment. Meanwhile, inflation is expected to increase, though remain manageable, with implementation of the GST.

Inflation eased in the first 4 months of the year to 1.8% year-on-year (y-o-y) in April from 2.7% y-o-y in December. While risks to inflation remain with implementation of the GST, the effects of low global oil prices are expected to outweigh these upward pressures.

Meanwhile, Malaysia's gross domestic product (GDP) growth slowed to 5.6% y-o-y in 1Q15 from 5.7% y-o-y in 4Q14, mainly due to a 0.6% y-o-y decline in exports. By type of expenditure, growth in private final consumption accelerated to 8.8% y-o-y in 1Q15 from 7.6% y-o-y in 4Q14; gross fixed capital formation growth also rose to 7.9% y-o-y from 4.3% y-o-y. By type of industry, the y-o-y growth in the services sector eased to 6.4% from 6.6%. On the other hand, mining and quarrying sector posted strong growth at 9.6% y-o-y from 9.5% in the earlier quarter. Also, growth in the manufacturing sector rose to 5.6% y-o-y in 1Q15 from 5.4% y-o-y growth posted in the prior quarter.

**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 decreased 2.7% quarter-on-quarter (q-o-q) to MYR1,073 billion (US\$290 billion) at end-March, led by the government bond sector, particularly central bank bills (**Table 1**). On a y-o-y basis, however, the LCY bond market grew 2.1% in 1Q15. Government bonds outstanding totaled MYR612 billion (US\$165 billion), while corporate bonds summed to MYR461 billion (US\$125 billion). *Sukuk* (Islamic bonds) continued to comprise the majority of the LCY bond market with a share of 53% of total bonds outstanding at end-March.

**Government Bonds.** LCY government bonds outstanding decreased 5.4% q-o-q and 0.3% y-o-y to close at MYR612 billion at end-March. Central government bonds—comprising Malaysian Government Securities (MGSs), Government Investment Issues (GIIs), and Treasury bills—increased 2.2% q-o-q to MYR531 billion. Outstanding BNM monetary notes, on the other hand, contracted 46.8% q-o-q to MYR57 billion as there was no issuance in 1Q15.

Total government bond issuance declined 65.6% q-o-q in 1Q15 to MYR31 billion, primarily due to the lack of issuance of BNM monetary notes. The central bank ceased the

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

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q14		4Q14		1Q15		1Q14		1Q15	
	MYR	US\$	MYR	US\$	MYR	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,051</b>	<b>322</b>	<b>1,103</b>	<b>316</b>	<b>1,073</b>	<b>290</b>	<b>2.8</b>	<b>5.5</b>	<b>(2.7)</b>	<b>2.1</b>
Government	614	188	647	185	612	165	2.7	4.2	(5.4)	(0.3)
Central Government Bonds	502	154	519	149	531	143	4.1	12.5	2.2	5.7
of which: <i>sukuk</i>	180	55	188	54	195	53	3.2	20.4	4.0	8.3
Central Bank Bills	99	30	107	31	57	15	(7.4)	(27.5)	(46.8)	(42.3)
of which: <i>sukuk</i>	41	12	43	12	19	5	1.8	(29.9)	(54.4)	(52.1)
<i>Sukuk Perumahan Kerajaan</i>	13	4	20	6	24	7	44.9	108.1	19.6	89.1
Corporate	438	134	457	131	461	125	3.0	7.5	1.0	5.4
of which: <i>sukuk</i>	298	91	323	92	328	89	4.2	9.3	1.6	10.4

(-) = 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.

issuance of BNM monetary notes—a tool used to mop up excess liquidity in the money supply—amid easing inflation. Meanwhile, the issuance of central government bonds rose 21.1% q-o-q to MYR27 billion.

**Corporate Bonds.** LCY corporate bonds increased 1.0% q-o-q, bringing total outstanding bonds to MYR461 billion at end-March. The share of corporate *sukuk* to total corporate bonds outstanding inched up to 71.2% at end-March from 70.8% at end-December.

Corporate bond issuance declined 34.7% q-o-q to MYR19 billion in 1Q15 (on a total of 64 new issues) from MYR28 billion in the previous quarter. **Table 2** lists notable corporate bonds issued in 1Q15.

The largest corporate issuers in 1Q15 were from the transportation and financial sectors, led by Prasarana, Danga Capital, and AM Bank. Prasarana issued a multi-tranche Islamic MTN comprising a MYR700 million 5-year tranche, MYR200 million 10-year tranche, and MYR1.1 billion 15-year tranche. The notes carried 4.02%, 4.38%, and 4.64% profit rates, respectively. The issue was guaranteed by the Government of Malaysia. Danga Capital issued MYR1.5 billion worth of 15-year *sukuk* with a profit rate of 4.88%. The bond was rated AAA with a stable outlook by RAM Ratings. AM Bank issued MYR800 million worth of 3-year and MYR600 million of 4-year medium-term notes with coupon rates of 4.25%

**Table 2: Notable LCY Corporate Bond Issuance in 1Q15**

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Prasarana		
5-year Islamic MTN	4.02	700
10-year Islamic MTN	4.38	200
15-year Islamic MTN	4.64	1,100
Danga Capital		
15-year Islamic MTN	4.88	1,500
AM Bank		
3-year MTN	4.25	800
4-year MTN	4.30	600
AISL		
2.5-year <i>Sukuk</i>	4.25	300
5-year <i>Sukuk</i>	4.45	900
HBMS		
5-year Islamic MTN	4.24	750
Cagamas		
3-year MTN	3.95	440

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

Source: Bank Negara Malaysia Bond Info Hub.

and 4.30%, respectively. The issuance was rated AA2 with a stable outlook by RAM Ratings.

**Table 3** provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR252.6 billion at

end-March, representing 54.8% of the LCY corporate bond market. Banking and financial institutions comprised 16 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR138.44 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

**Foreign Currency Bonds.** In April, the Government of Malaysia issued US\$1.5 billion worth of dual-tranche US dollar *sukuk* via a special purpose vehicle, Malaysia Sovereign *Sukuk*. The issue comprised a US\$1 billion 10-year tranche and a US\$500 million 30-year tranche. The 10-year and

**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	8.26	No	No	Transport, Storage, and Communications
2.	Cagamas	23.04	6.22	Yes	No	Finance
3.	Khazanah	20.00	5.40	Yes	No	Finance
4.	Prasarana	15.91	4.30	Yes	No	Transport, Storage, and Communications
5.	Danainfra Nasional	14.10	3.81	Yes	No	Finance
6.	Pengurusan Air	11.73	3.17	Yes	No	Energy, Gas, and Water
7.	Maybank	11.36	3.07	No	Yes	Banking
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.00	2.97	Yes	No	Finance
9.	CIMB Bank	8.05	2.17	No	No	Banking
10.	Public Bank	7.55	2.04	No	Yes	Banking
11.	Sarawak Energy	7.00	1.89	Yes	No	Energy, Gas, and Water
12.	Aman Sukuk	6.26	1.69	Yes	No	Construction
13.	BGSM Management	6.02	1.63	No	No	Transport, Storage, and Communications
14.	Bank Pembangunan	5.90	1.59	No	No	Banking
15.	RHB Bank	5.60	1.51	No	No	Banking
16.	Turus Pesawat	5.31	1.43	Yes	No	Transport, Storage, and Communications
17.	Cagamas MBS	5.04	1.36	Yes	No	Finance
18.	1Malaysia Development	5.00	1.35	Yes	No	Finance
19.	Celcom Transmission	5.00	1.35	No	No	Transport, Storage, and Communications
20.	Malakoff Power	4.88	1.32	No	No	Energy, Gas, and Water
21.	Manjung Island Energy	4.85	1.31	No	No	Energy, Gas, and Water
22.	Rantau Abang	4.80	1.30	Yes	No	Finance
23.	YTL Power International	4.77	1.29	No	Yes	Energy, Gas, and Water
24.	Hong Leong Bank	4.70	1.27	No	Yes	Banking
25.	AM Bank	4.55	1.23	No	No	Banking
26.	Putrajaya Holdings	4.13	1.11	Yes	No	Property and Real Estate
27.	Tanjung Bin Power	4.05	1.09	No	No	Energy, Gas, and Water
28.	Danga Capital	4.00	1.08	Yes	No	Finance
29.	CIMB Group Holdings	3.76	1.02	No	Yes	Finance
30.	TNB Western Energy	3.66	0.99	Yes	No	Construction
<b>Total Top 30 LCY Corporate Issuers</b>		<b>252.60</b>	<b>68.21</b>			
<b>Total LCY Corporate Bonds</b>		<b>461.31</b>	<b>124.56</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>54.8%</b>	<b>54.8%</b>			

LCY = local currency.

Notes:

1. Data as of end-March 2015.

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.

30-year *sukuk* were priced at 3.04% and 4.24%, respectively.

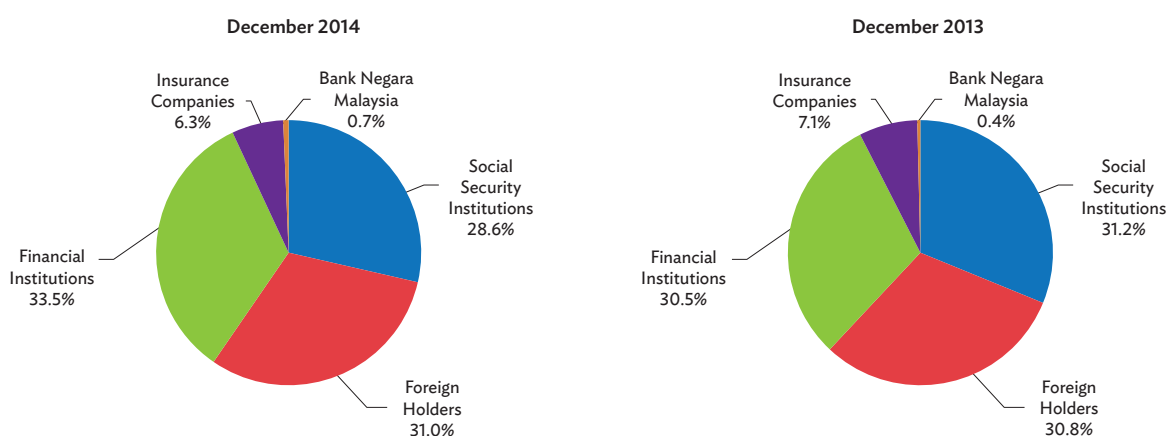
### Investor Profile

At end-December, the share of government bonds held by financial institutions—including banks, development financial institutions, and nonbank financial institutions—rose to 33.5% on holdings of MYR162.7 billion from 30.5% at end-December 2013 (Figure 2). Banks remained the largest holder among this group with a position of MYR139.8 billion.

Holdings of foreign investors were mostly unchanged in 4Q14 with a share of 31.0% valued at MYR150.8 billion. Meanwhile, the share of social security institutions fell to 28.6% of the total market at end-December, down from 31.2% a year earlier, as a result of divestments made by the Employees Provident Fund of its MGSs holdings. The share of insurance companies' government bond holdings also fell to 6.3% at end-December from 7.1% a year earlier.

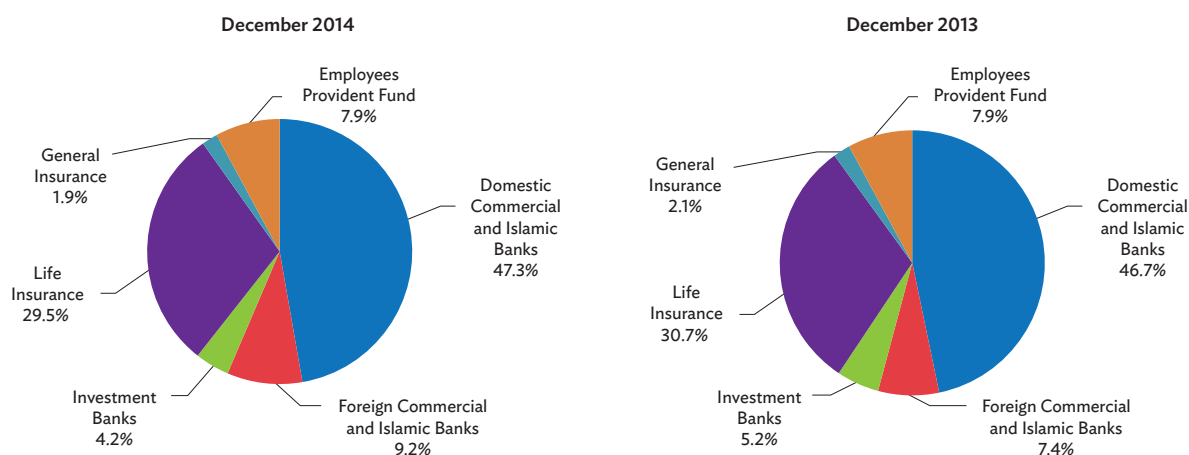
Domestic and foreign banks (commercial and Islamic) remained the largest investor group in LCY corporate

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.  
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.  
Source: Bank Negara Malaysia.

bonds at end-December with a combined share of 56.5% (**Figure 3**). Compared with a year earlier, the shares in corporate bonds increased 0.6 percentage point to 47.3% for domestic banks, and 1.8 percentage points to 9.2% for foreign banks. Meanwhile, the share of life insurance companies decreased slightly to 29.5% at end-December from 30.7% a year earlier. Investment banks also trimmed their position to 4.2% of total corporate bonds from 5.2% a year earlier, while general insurance companies' share declined to 1.9% from 2.1%. The share of Employees Provident Fund remained unchanged at 7.9%.

## Ratings Update

In February, Standard and Poor's (S&P) affirmed Malaysia's long-term and short-term foreign currency ratings at A and A-2, respectively. The rating agency also affirmed Malaysia's long-term and short-term local currency ratings at A and A-1, respectively. The outlook on the long-term ratings is stable. S&P noted that falling oil prices are not expected to disrupt Malaysia's long-term fiscal consolidation given its fairly diversified and broad-based growth.

## Policy, Institutional, and Regulatory Developments

### Singapore, Malaysia, and Thailand Sign Memorandum of Understanding on Cross-Border Equity and Debt Securities Offerings

In March, a Memorandum of Understanding was signed between the Monetary Authority of Singapore; Singapore Exchange; Securities Commission Malaysia; and the Securities and Exchange Commission, Thailand for the creation of a streamlined review framework for the Association of Southeast Asian Nations (ASEAN) common prospectus. This framework aims to facilitate cross-border offerings of equity and debt securities in ASEAN. The framework is expected to be implemented beginning in 3Q15.

### BNM and PBOC Renew Bilateral Currency Swap Arrangement

In April, BNM and the People's Bank of China (PBOC) renewed their bilateral currency swap arrangement for another 3 years. The size of the arrangement was maintained at CNY180 billion–MYR90 billion. The arrangement will continue to promote bilateral trade and investment flows between Malaysia and the People's Republic of China.