

## Malaysia

### Yield Movements

Between 1 September and 15 October, Malaysian local currency (LCY) government bond yields fell for all tenors except the 3-year tenor, which rose 20 basis points (bps) (**Figure 1**). Yields for all remaining tenors fell between 8 bps and 25 bps.

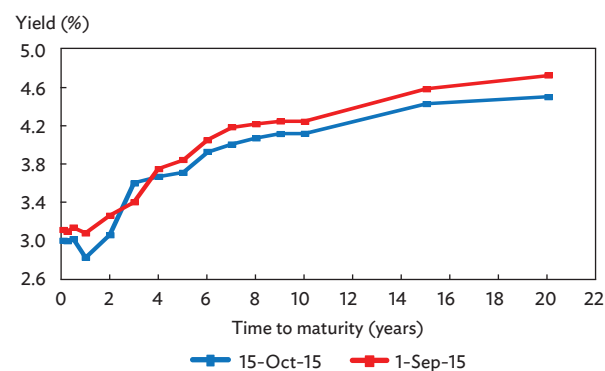
The fall in yields was due to a correction in the market after a selloff in LCY government bonds in the months preceding October amid concerns over a possible rate hike by the United States (US) Federal Reserve in September, the slowdown in People's Republic of China, and the continued depreciation of the Malaysian ringgit. There likely were also foreign outflows toward the end of September due to the maturation of benchmark government securities. However, the decision by the Federal Reserve in September to leave its policy rates unchanged resulted in the local government bond market rebounding in October.

The Malaysian ringgit depreciated 17.9% year-to-date through 15 October, reaching a low of MYR4.5 to US\$1 on 29 September before rebounding modestly to MYR4.1 in mid-October. Near-term risks to the Malaysian bond market and the ringgit include potential foreign outflows in response to an impending rate hike by the Federal Reserve and declining oil prices. The latter would also constrain the government's ability to achieve its fiscal targets.

Inflation trended downward in 3Q15, falling to 2.6% year-on-year (y-o-y) in September from 3.1% y-o-y in August and 3.3% y-o-y in July, primarily due to the continued contraction in the transportation index as a result of lower domestic fuel prices. Easing inflation allowed Bank Negara Malaysia (BNM) to maintain its overnight policy rate at 3.25% in its 11 September policy meeting.

Malaysia's gross domestic product growth slowed to 4.9% y-o-y in 2Q15 from 5.6% y-o-y in 1Q15, due to weaker private consumption and fixed capital formation, and a contraction in exports. Lower inflation and a slowdown in the domestic economy have prompted expectations that the BNM will maintain its policy rate for the rest of the year to support economic growth.

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



LCY = local currency.  
Source: Bloomberg LP.

### Size and Composition

The Malaysian LCY bond market barely moved in 3Q15, with only a slight decline of 0.01% quarter-on-quarter (q-o-q) to MYR1,076 billion (US\$245 billion) at end-September (**Table 1**). Increases in the stock of outstanding corporate bonds, central bank bills, and *Sukuk Perumahan Kerajaan* were offset by a decline in the outstanding stock of central government bonds, due to scheduled maturities of Malaysian Government Securities (MGS) and Government Investment Issues (GII). On a y-o-y basis, the LCY bond market declined 0.3% in 3Q15. Government bonds outstanding totaled MYR602 billion at end-September, while corporate bonds summed to MYR474 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-September.

**Government Bonds.** LCY government bonds outstanding decreased 1.0% q-o-q and 4.9% y-o-y to close at MYR602 billion at end-September. This was due to a sizable number of scheduled maturities among MGS and GII in 3Q15 relative to new issuances. Meanwhile, BNM resumed issuance of central bank bills in August, albeit at a lower volume than in 2014.

Total government bond issuance increased 26.7% q-o-q to MYR41 billion in 3Q15, led by central bank bills and

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	MYR	US\$	MYR	US\$	MYR	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,079</b>	<b>329</b>	<b>1,076</b>	<b>285</b>	<b>1,076</b>	<b>245</b>	<b>2.5</b>	<b>8.7</b>	<b>(0.01)</b>	<b>(0.3)</b>
Government	633	193	608	161	602	137	3.4	8.4	(1.0)	(4.9)
Central Government Bonds	508	155	557	148	549	125	0.02	8.7	(1.5)	8.0
of which: <i>sukuk</i>	185	56	207	55	203	46	(1.9)	12.8	(1.9)	10.0
Central Bank Bills	108	33	23	6	25	6	22.0	0.6	6.4	(77.0)
of which: <i>sukuk</i>	42	13	4	1	2	0.4	19.8	3.8	(59.5)	(96.0)
<i>Sukuk Perumahan Kerajaan</i>	17	5	28	7	28	6	9.7	91.0	1.8	67.1
Corporate	446	136	468	124	474	108	1.1	9.0	1.3	6.1
of which: <i>sukuk</i>	314	96	337	89	340	77	4.0	14.5	1.0	8.5

( ) = 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.

Treasury bills. Meanwhile, there was a lesser amount of GIIIs issued in 3Q15.

**Corporate Bonds.** LCY corporate bonds slightly increased 1.3% q-o-q in 3Q15, bringing total outstanding bonds to MYR474 billion at end-September. Many corporate bond issuers opted to wait on new issuances as anticipation of a Federal Reserve rate hike in September caused an uptick in yields. The ratio of corporate *sukuk* to total corporate bonds outstanding slightly fell to 71.9% at end-September from 72.1% at end-June.

Corporate bond issuance fell 18.4% q-o-q to MYR24 billion in 3Q15 (on a total of 49 new issues) from MYR30 billion in 2Q15. *Sukuk* accounted for 60.5% of total issuance, while conventional bonds registered a share of 39.5%. By type of instrument, conventional commercial paper had the highest share of total issuance at 39.3%, followed by Islamic medium-term notes with a share of 28.7%. **Table 2** lists notable corporate bond issuances in 3Q15.

The largest corporate issuers in 3Q15 were from the casino, financial, and utilities sectors, led by GENM Capital, Pengurusan Air, and Sarawak Energy. GENM Capital, a casino operator, issued dual-tranche medium-term notes comprising a MYR1.1 billion 5-year tranche and a MYR1.3 billion 10-year tranche with coupon rates of 4.5% and 4.9%, respectively. Pengurusan Air SPV, a water services company wholly owned by the Ministry

of Finance, issued *sukuk* comprising a MYR700 million 5-year tranche and a MYR800 million 10-year tranche with coupon rates of 4.28% and 4.63%, respectively.

**Table 3** provides a breakdown of the top 30 LCY corporate bond issuers in Malaysia, whose total LCY bonds outstanding stood at MYR253.8 billion at end-September, representing 53.6% of the LCY corporate bond market. Financial firms, including banks, comprised 15 of the 30 largest corporate bond issuers, with bonds outstanding worth MYR132.2 billion. Highway operator Project Lebuhraya Usahasama remained the largest issuer with outstanding bonds valued at MYR30.6 billion.

## Investor Profile

At the end of June, foreign investors were the largest holder of government bonds at a share of 32.4%, supplanting financial institutions—including banks, development financial institutions, and nonbank financial institutions—whose share declined to 30.9% from 32.4% at end-June 2014 (**Figure 2**). Social security institutions remained the third largest holders of government bonds with a share of 26.6%, slightly higher than their share of 26.0% a year earlier. The share of insurance companies' government bond holdings fell to 5.4% from 6.2% a year earlier.

The largest investor groups in LCY corporate bonds at the end of June remained domestic and foreign banks

**Table 2: Notable LCY Corporate Bond Issuance in 3Q15**

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
GENM Capital		
5-year MTN	4.50	1,100
10-year MTN	4.90	1,300
Pengurusan Air SPV		
5-year Islamic MTN	4.28	700
10-year Islamic MTN	4.63	800
Sarawak Energy		
10-year Islamic MTN	4.75	700
20-year Islamic MTN	5.28	800
Kuala Lumpur Kepong		
10-year Islamic MTN	4.58	1,100
Krung Thai Bank Public Company		
10-year bond	5.10	1,000
Putrajaya Holdings		
4-year Islamic MTN	4.03	150
6-year Islamic MTN	4.23	200
7-year Islamic MTN	4.31	150
8-year Islamic MTN	4.41	150
9-year Islamic MTN	4.48	250

LCY = local currency, MTN = medium-term note.  
Source: Bank Negara Malaysia Bond Info Hub.

(commercial and Islamic) with shares of 47.5% and 5.8%, respectively (**Figure 3**). Compared with the same period in 2014, the share of domestic banks increased 1.2 percentage points, while that of foreign banks decreased 1 percentage point. Life insurance companies

remained the second largest holders of LCY corporate bonds with a share of 31.7%, slightly higher than the 31.2% share a year earlier. The share of investment banks remained unchanged at 4.9%.

## Policy, Institutional, and Regulatory Developments

### Prime Minister Announces 2016 Federal Budget

On 23 October, the prime minister announced the release of Malaysia's 2016 federal budget, which totals MYR267.2 billion, up from the 2015 revised budget total of MYR260.7 billion. Federal government revenue is estimated to be MYR225.7 billion in 2016, MYR3.2 billion higher than the 2015 target. The government also announced a fiscal deficit target of 3.1% of gross domestic product in 2016, down slightly from 3.2% in 2015. The economy is expected to grow between 4.0% and 5.0% in 2016, and annual inflation is expected to be between 2.0% and 3.0%. The government also announced plans for both tax relief and higher income tax rates of 26% (from 25%) for those with an income of MYR0.6 million–MYR1 million and 28% (from 25%) for those with income of more than MYR1 million. The goods and services tax is expected to contribute to the MYR39 billion increase in revenue in 2016, although certain basic goods and medicines shall be exempted from this tax. A small reduction in subsidy allocations from MYR 26.2 billion to MYR26.1 billion is also expected in 2016.

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	30.6	7.0	No	No	Transport, Storage, and Communications
2.	Cagamas	21.1	4.8	Yes	No	Finance
3.	Khazanah	20.0	4.6	Yes	No	Finance
4.	Danainfra Nasional	17.6	4.0	Yes	No	Finance
5.	Prasarana	15.6	3.6	Yes	No	Transport, Storage, and Communications
6.	Pengurusan Air	13.5	3.1	Yes	No	Energy, Gas, and Water
7.	Maybank	11.4	2.6	No	Yes	Banking
8.	Perbadanan Tabung Pendidikan Tinggi Nasional	11.0	2.5	Yes	No	Finance
9.	Sarawak Energy	8.5	1.9	Yes	No	Energy, Gas, and Water
10.	CIMB Bank	8.1	1.8	No	No	Banking
11.	Public Bank	7.6	1.7	No	No	Banking
12.	Aman Sukuk	6.6	1.5	Yes	No	Construction
13.	BGSM Management	6.0	1.4	No	No	Transport, Storage, and Communications
14.	RHB Bank	5.4	1.2	No	No	Banking
15.	Turus Pesawat	5.3	1.2	Yes	No	Transport, Storage, and Communications
16.	Putrajaya Holdings	5.1	1.2	Yes	No	Property and Real Estate
17.	1Malaysia Development	5.0	1.1	Yes	No	Finance
18.	Malakoff Power	4.9	1.1	No	No	Energy, Gas, and Water
19.	Manjung Island Energy	4.9	1.1	No	No	Energy, Gas, and Water
20.	YTL Power International	4.8	1.1	No	Yes	Energy, Gas, and Water
21.	AM Bank	4.5	1.0	No	Yes	Banking
22.	Cagamas MBS	4.5	1.0	Yes	No	Finance
23.	Celcom Networks	4.5	1.0	No	No	Transport, Storage, and Communications
24.	Bank Pembangunan Malaysia	4.4	1.0	Yes	No	Banking
25.	Tanjung Bin Power	4.0	0.9	No	No	Energy, Gas, and Water
26.	Danga Capital	4.0	0.9	Yes	No	Finance
27.	Hong Leong Bank	4.0	0.9	No	Yes	Banking
28.	Telekom Malaysia	3.7	0.8	No	Yes	Transport, Storage, and Communications
29.	TNB Western Energy	3.7	0.8	Yes	No	Energy, Gas, and Water
30.	CIMB Group Holdings	3.6	0.8	Yes	No	Finance
<b>Total Top 30 LCY Corporate Issuers</b>		<b>253.8</b>	<b>57.8</b>			
<b>Total LCY Corporate Bonds</b>		<b>473.8</b>	<b>107.8</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>53.6%</b>	<b>53.6%</b>			

LCY = local currency.

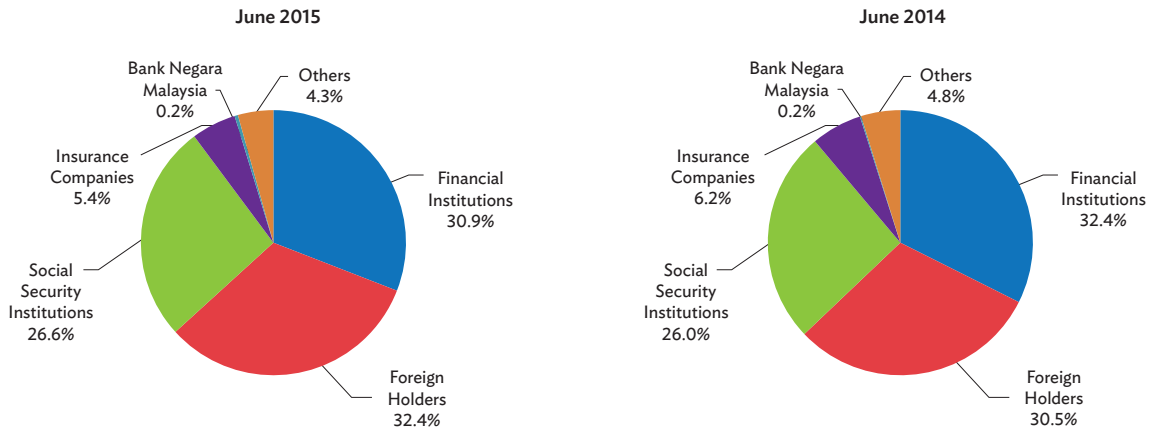
Notes:

1. Data as of end-September 2015.

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

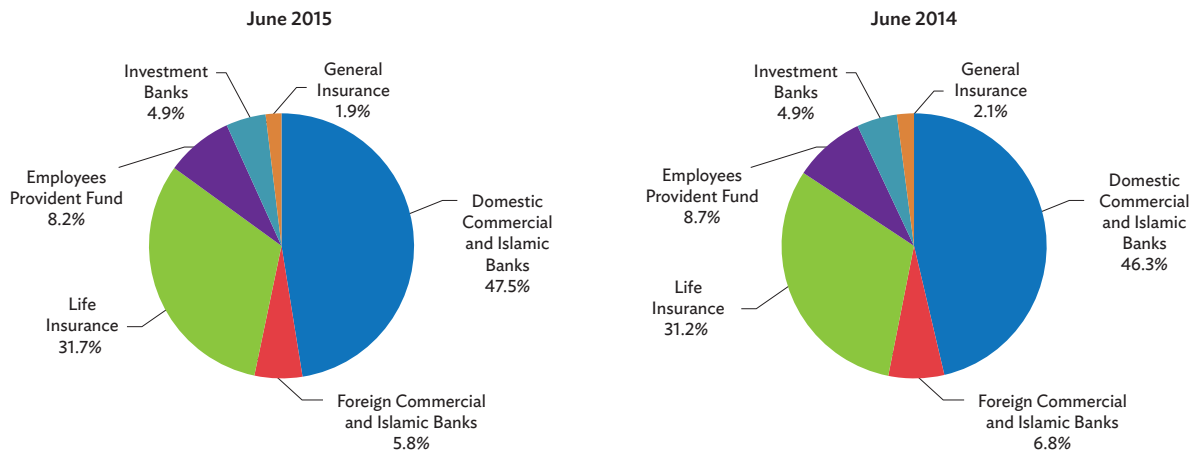
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering (FAST) data.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.  
Source: Bank Negara Malaysia.

Figure 3: LCY Corporate Bonds Investor Profile



LCY = local currency.  
Note: The Employees Provident Fund's (EPF) bond holdings data is as of end-December 2014, as data is based on the EPF's annual report.  
Source: Bank Negara Malaysia.