

Malaysia

Yield Movements

Between 31 August and 15 October, movements in Malaysia's local currency (LCY) government bond yields were mixed (**Figure 1**). The shorter end of the yield curve (from 1 month to 5 years) declined an average of 1 basis point (bp). Yields of long-term tenors (from 6 years to 30 years) increased an average of 12 bps. The yield spread between 2-year and 10-year government bonds expanded from 20 bps on 31 August to 31 bps on 15 October.

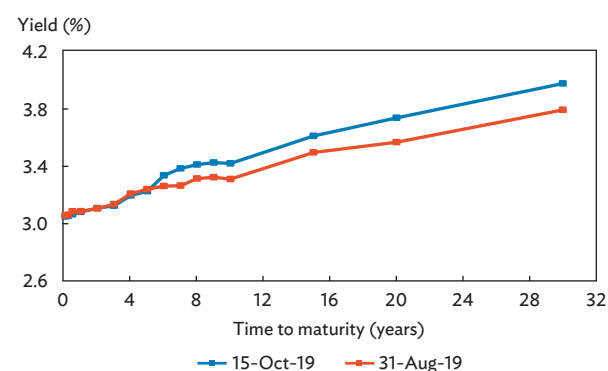
The movements in the yield curve in Malaysia are reflective of the trend in the United States during the review period where the shorter end of the yield curve dropped while the longer end rose. Uncertainty over the upcoming Bank Negara Malaysia's (BNM) monetary policy committee meeting in November may have contributed to investors preferring shorter duration tenors over long-term investments, as assessed by some market participants, and as evidenced by short-term yields falling and long-term yield rising toward the end of the review period.

At its monetary policy committee meeting on 12 September, BNM decided to keep its overnight policy rate at 3.00% on the back of strong economic growth and low inflation. The central bank has refrained from being too dovish despite the accommodative stances of major global central banks.

Malaysia's economic growth accelerated to 4.9% year-on-year (y-o-y) in the second quarter (Q2) of 2019 from 4.5% y-o-y in the first quarter. To support economic growth, the Government of Malaysia widened its 2020 fiscal deficit target to 3.2% of gross domestic product from 3.0%, which was announced during its budget meeting on 11 October. Malaysia's minister of finance also stated that the government is planning on issuing samurai bonds next year to raise funds instead of raising additional tax revenues.

Consumer price inflation eased to 1.1% y-o-y in September from 1.5% y-o-y in August. Core inflation also eased to 1.5% y-o-y in September from 2.0% y-o-y in August. The Sales and Services Tax, which was

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



Source: Based on data from Bloomberg LP.

introduced on 1 September 2018, did not significantly affect inflation.

Size and Composition

Malaysia's LCY bond market expanded 0.3% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2019 to reach a size of MYR1,493.1 billion (USD356.5 billion), up from MYR1,488.1 billion at the end of Q2 2019 (**Table 1**). The growth corresponds to an 8.3% y-o-y jump from MYR1,378.6 billion at the end of Q3 2018. On a y-o-y basis, the growth in the LCY bond market in Q3 2019 was supported by growth in both LCY government and corporate bonds, which accounted for 52.6% and 47.4%, respectively, of total LCY bonds outstanding at the end of September. Total outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR920.2 billion on growth of 0.3% q-o-q from MYR917.5 billion at the end of the previous quarter, spurred by increased stocks of corporate *sukuk*.

Issuance of LCY bonds in Q3 2019 decreased 25.2% q-o-q to MYR84.7 billion from MYR113.1 billion in Q2 2019, driven by the contraction of LCY government and corporate bond issuance.

Government bonds. The LCY government bond market grew 0.8% q-o-q to MYR785.7 billion in Q3 2019, up from MYR779.1 billion in the previous quarter. The

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,379	333	1,488	360	1,493	357	0.7	9.1	0.3	8.3
Government	725	175	779	189	786	188	0.4	8.1	0.8	8.3
Central Government Bonds	681	165	742	180	749	179	0.8	7.0	0.9	9.9
of which: <i>Sukuk</i>	301	73	333	81	331	79	2.0	13.2	(0.6)	10.1
Central Bank Bills	16	4	9	2	10	2	(15.3)	189.7	10.9	(34.2)
of which: <i>Sukuk</i>	3	0.7	2	0.4	4	0.8	(45.5)	-	133.3	16.7
Sukuk Perumahan Kerajaan	28	7	28	7	27	6	0.0	0.0	(3.9)	(5.6)
Corporate	653	158	709	172	707	169	1.1	10.2	(0.2)	8.3
of which: <i>Sukuk</i>	493	119	555	134	559	133	1.0	12.3	0.7	13.2

(-) = negative, - = not applicable, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year. Notes:

1. Calculated using data from national sources.

2. Bloomberg LP end-of-period local currency-USD rates are used.

3. Growth rates are calculated from local currency base and do not include currency effects.

4. Sukuk Perumahan Kerajaan are Islamic bonds issued by the Government of Malaysia to refinance funding for housing loans to government employees and to extend new housing loans.

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

growth was mainly due to the 0.9% q-o-q increase in outstanding central government bonds, which comprised 95.3% of total outstanding LCY government bonds. Outstanding central bank bills, which comprised only a 1.3% share of total LCY government bonds outstanding, grew 10.9% q-o-q. On the other hand, the outstanding stock of Sukuk Perumahan Kerajaan (3.4% of total outstanding LCY government bonds) declined 3.9% q-o-q.

LCY government bonds issued in Q3 2019 declined 6.3% q-o-q as issuances of central government bonds decreased. Issuance of Malaysia Government Securities and Government Investment Issues dropped compared to the previous quarter. These declines were partially offset by the growth in Treasury bills and central bank bills.

Corporate bonds. LCY corporate bonds outstanding fell 0.2% q-o-q to MYR707.4 billion in Q3 2019 from MYR709.0 billion in Q2 2019. However, outstanding corporate *sukuk* rose 0.7% q-o-q to MYR558.6 billion at the end of September from MYR554.8 billion in the prior quarter.

The top 30 LCY corporate bond issuers in Malaysia accounted for an aggregate MYR417.1 billion of corporate bonds outstanding at the end of Q3 2019, or 59.0% of the total corporate bond market (**Table 2**). Government institutions Danainfra Nasional and Cagamas continued

to dominate all issuers with outstanding LCY corporate bonds amounting to MYR60.0 billion (8.5% of total LCY corporate bonds outstanding) and MYR33.0 billion (4.7% of total LCY corporate bonds outstanding), respectively. By industry, finance companies comprised the largest share (52.7%) of the top 30 issuers with MYR219.6 billion in outstanding LCY corporate bonds at the end of September. This was followed by the energy, gas, and water industry with MYR66.4 billion, which represented a share of 15.9% of total LCY corporate bonds outstanding at the end of Q3 2019.

Issuance of LCY corporate bonds declined 36.0% q-o-q in Q3 2019 from a high base when state-owned finance company Urusharta Jamaah issued a large dual-tranche zero-coupon bond in May.

Lembaga Pembiayaan Perumahan Sektor Awam (Public Sector Housing Financing Board) had the largest total issuance (MYR3.0 billion) in Q3 2019 (**Table 3**). The state-owned property and real estate company issued several Islamic medium-term notes with tenors ranging from 21 years to 29 years and with coupon rates from 3.69% to 3.86%. Maybank issued two perpetual Islamic medium-term notes totaling MYR2.8 billion and with coupon rates of 4.08% and 4.13%. Proceeds from the issuance will be used to fund the bank's investments in Islamic financial instruments and other Islamic business activities. Danainfra Nasional, the government-owned institution in charge of funding public infrastructure

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Malaysia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (MYR billion)	LCY Bonds (USD billion)			
1.	Danainfra Nasional	60.0	14.3	Yes	No	Finance
2.	Cagamas	33.0	7.9	Yes	No	Finance
3.	Prasarana	30.4	7.2	Yes	No	Transport, Storage, and Communications
4.	Project Lebuhraya Usahasama	29.9	7.1	No	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.6	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	22.5	5.4	Yes	No	Property and Real Estate
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.2	Yes	No	Finance
8.	Pengurusan Air	17.3	4.1	Yes	No	Energy, Gas, and Water
9.	CIMB Bank	13.3	3.2	Yes	No	Finance
10.	Khazanah	12.5	3.0	Yes	No	Finance
11.	Maybank Islamic	11.4	2.7	No	Yes	Banking
12.	Maybank	11.3	2.7	No	Yes	Banking
13.	Sarawak Energy	11.1	2.7	Yes	No	Energy, Gas, and Water
14.	CIMB Group Holdings	10.4	2.5	Yes	No	Finance
15.	Danga Capital	10.0	2.4	Yes	No	Finance
16.	Jimah East Power	9.0	2.1	Yes	No	Energy, Gas, and Water
17.	GENM Capital	7.6	1.8	No	No	Finance
18.	Public Bank	7.4	1.8	No	No	Banking
19.	Bank Pembangunan Malaysia	7.3	1.7	Yes	No	Banking
20.	GOVCO Holdings	7.2	1.7	Yes	No	Finance
21.	Tenaga Nasional	7.0	1.7	No	Yes	Energy, Gas, and Water
22.	Bakun Hydro Power Generation	6.3	1.5	No	No	Energy, Gas, and Water
23.	YTL Power International	6.1	1.4	No	Yes	Energy, Gas, and Water
24.	ValueCap	6.0	1.4	Yes	No	Finance
25.	Telekom Malaysia	5.8	1.4	No	Yes	Telecommunications
26.	Rantau Abang Capital	5.5	1.3	Yes	No	Finance
27.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
28.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
29.	1Malaysia Development	5.0	1.2	Yes	No	Finance
30.	Kuala Lumpur Kepong Berhad	4.6	1.1	No	Yes	Energy, Gas, and Water
Total Top 30 LCY Corporate Issuers		417.1	99.6			
Total LCY Corporate Bonds		707.4	168.9			
Top 30 as % of Total LCY Corporate Bonds		59.0%	59.0%			

LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.

Notes:

1. Data as of 30 September 2019.

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 data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Third Quarter of 2019

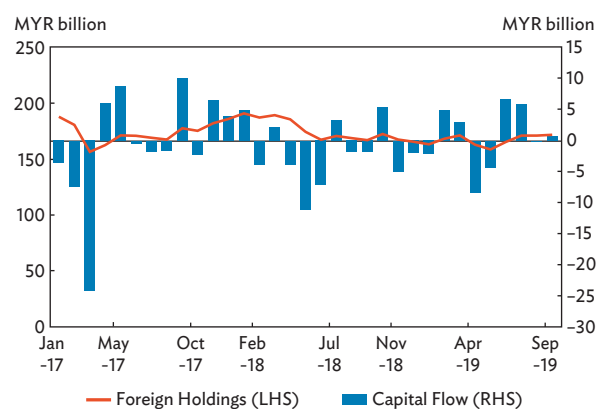
Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR billion)
Lembaga Pembiayaan Perumahan Sektor Awam		
21-year Islamic MTN	3.69	1.3
25-year Islamic MTN	3.77	0.7
29-year Islamic MTN	3.86	1.0
Maybank		
Perpetual Islamic MTN	4.08	1.2
Perpetual Islamic MTN	4.13	1.6
Danainfra Nasional		
7-year Islamic MTN	3.34	0.3
10-year Islamic MTN	3.47	0.4
15-year Islamic MTN	3.62	0.4
20-year Islamic MTN	3.69	0.4
25-year Islamic MTN	3.80	0.5
30-year Islamic MTN	3.90	0.6

MTN = medium-term note, MYR = Malaysian ringgit.
Source: Bank Negara Malaysia Bond Info Hub.

projects, issued another six tranches of *sukuk* in September. Its tenors ranged from 7 years to 30 years with coupon rates from 3.34% to 3.90%. Proceeds from the issuance will be used for costs related to the construction of the Pan Borneo Highway Project.

Investor Profile

Foreign holdings of LCY government bonds in Q3 2019 jumped to MYR514.9 billion from MYR487.7 billion in Q2 2019 due to a large capital inflow in July (**Figure 2**). In May and August, BNM introduced measures to liberalize foreign exchange administration policies after FTSE Russell's announcement in April that Malaysian government bonds were being reviewed for exclusion from its World Government Bond Index. Capital inflows slowed in September as FTSE Russell kept Malaysia on its watch list until the next review in 2020. Although good news for Malaysia, the risk of being downgraded and removed from the World Government Bond Index remains a concern for investors. A total of MYR6.5 billion in net capital inflows were recorded in Q3 2019, reversing the net capital outflows of MYR5.9 billion posted in the previous quarter. As a share of LCY government bonds, foreign holdings of LCY government bonds increased to 23.0% at the end of Q3 2019 from 22.3% at the end of Q2 2019.

Figure 2: Foreign Holdings and Capital Flows of Local Currency Central Government Bonds in Malaysia

LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.

Notes:

1. Figures exclude foreign holdings of Bank Negara Malaysia bills.
2. Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.

Source: Bank Negara Malaysia Monthly Statistical Bulletin.

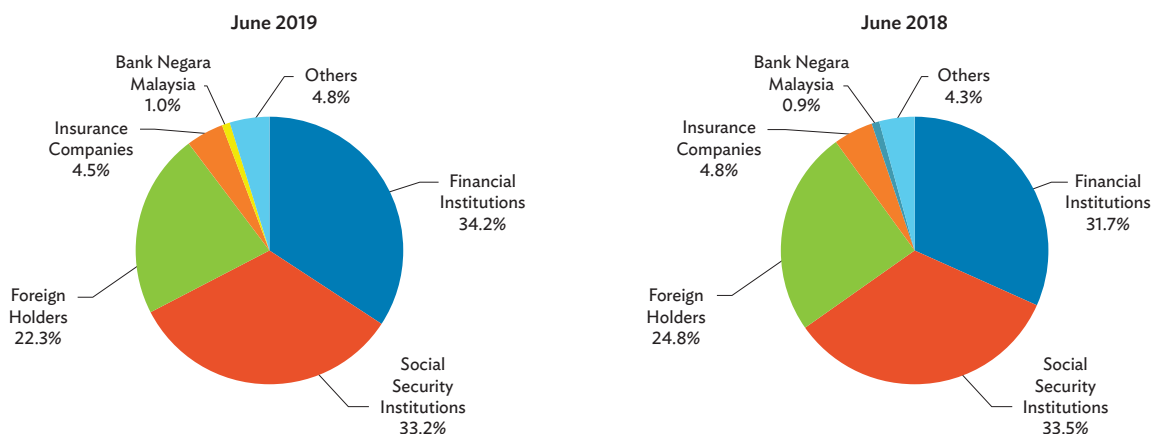
Financial institutions overtook social security institutions at the end of Q2 2019 to lead all investors in LCY government bonds with a 34.2% share of the total, up from 31.7% at the end of Q2 2018 (**Figure 3**). Social security institutions dropped to the second spot with a share of 33.2% at the end of Q2 2019, down from 33.5% at the end of Q2 2018. Shares of foreign holders and insurance companies fell to 22.3% and 4.5%, respectively, from 24.8% and 4.8% during the review period. BNM's holdings of LCY government bonds increased to 1.0% of the total at the end of Q2 2019 from 0.9% a year earlier.

Policy, Institutional, and Regulatory Developments

Bank Negara Malaysia Liberalizes Foreign Exchange Policies

On 16 August, BNM issued several new policies on foreign exchange administration to provide more flexibility and efficiency for businesses in managing their foreign exchange risks. Resident investors are allowed to hedge their foreign currency current account obligations up to their underlying tenure. Resident treasury centers may hedge on behalf of their related entities. Nonresident treasury centers may also do so, but they must register first with BNM. Nonresident investors

Figure 3: Local Currency Government Bonds Investor Profile



Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.
Source: Bank Negara Malaysia.

are allowed to hedge on an anticipatory basis through an appointed overseas office for the settlement of their trades in goods and services. Finally, the definition of domestic MYR borrowing has been revised to exclude credit facilities used by corporations for miscellaneous expenses. This aims to help businesses manage their operational expenses without undue impact on their investment activities.

Bank Indonesia and Bank Negara Malaysia Sign Local Currency Bilateral Swap Agreement

On 27 September, Bank Indonesia and BNM agreed to develop measures to strengthen monetary and financial cooperation between the two central banks.

They signed a LCY bilateral swap agreement that grants both central banks access to foreign currency liquidity from each other. Up to IDR28.0 trillion or MYR8.0 billion may be exchanged in order to support the wide use of the domestic currency for cross-border economic activities between Indonesia and Malaysia. The agreement is effective for 3 years and can be extended upon mutual agreement between the two central banks. On the backdrop of the increasing use of technology in the financial markets, Bank Indonesia and BNM signed a memorandum of understanding to help each other in developing innovations in payments and digital financial services, enhancing anti-money laundering mechanisms, and combating the financing of terrorism.