Malaysia

Yield Movements

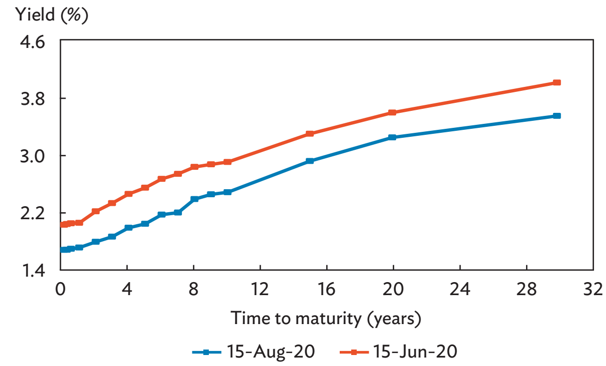
Between 15 June and 15 August, Malaysia's local currency (LCY) government bond yields declined across all tenors (**Figure 1**). The shorter-end of the yield curve (from 1 month to 1 year) declined an average of 36 basis points (bps). Yields for longer-term tenors (from 2 years to 30 years) decreased an average of 45 bps. The yield spread between 2-year and 10-year government bonds expanded from 69 bps to 70 bps during the review period.

The movement of the yield curve in Malaysia was driven by Bank Negara Malaysia's (BNM) decision to further cut its overnight policy rate in July. The increased demand in the Malaysian debt market was also bolstered by attractive real yields amid persistent consumer price deflation. The deflationary environment and shrinking economy has led analysts to believe that BNM will reduce its policy rate by another 25 bps before the year ends.

On 7 July, BNM reduced its overnight policy rate by 25 bps to 1.75% during its monetary policy committee meeting. It was the fourth time in 2020 that BNM has reduced the policy rate, with the reductions this year totaling 125 bps. The decision came amid persistently weak domestic and global economic conditions brought about by the coronavirus disease (COVID-19) pandemic. Domestically, Malaysia's economy contracted in the second quarter (Q2) of 2020 on a year-on-year (y-o-y) basis. Consumer price inflation is also expected to remain low in 2020. The monetary policy easing aims to stimulate the economy to accelerate Malaysia's recovery.

Malaysia's economy contracted 17.1% y-o-y in Q2 2020 after increasing 0.7% y-o-y in the first quarter (Q1) of 2020, as economic activities stopped in April due to the implementation of Movement Control Order (MCO) measures. BNM expects the economy to gradually recover in the second half of 2020 given the slow resumption of economic activities beginning in May. As global economic conditions remained subdued, BNM revised its economic growth forecast for full-year 2020 to between −5.5% y-o-y and −3.5% y-o-y in August from between −2.0% y-o-y and −0.5% y-o-y in April. However, the central bank sees the economy rebounding in 2021, growing between 5.5% y-o-y and 8.0% y-o-y.

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



Source: Based on data from Bloomberg LP.

Prices of basic goods and services in Malaysia posted a slower decline of −1.9% y-o-y in June, driven by higher domestic fuel prices. This came after the economy recorded consumer price inflation of −2.9% y-o-y in both April and May, which was in line with BNM's expectation of negative inflation for full-year 2020 due to falling global oil and other commodity prices.

In June, the Government of Malaysia launched the Short-Term Economic Recovery Plan worth MYR35.0 billion to aid the recovery of the economy from the detrimental effects of the COVID-19 pandemic. This was on top of the MYR295.0 billion economic stimulus package launched in March and April. The recovery plan is part of the Government of Malaysia's six-staged strategy for emerging from the pandemic: resolve, resilience, restart, recover, revitalize, and reform. The first three stages have passed with the implementation of the MCO, injection of stimulus, and gradual reopening of the economy. The MCO, which started on 18 March, was a preventive measure to arrest the spread of COVID-19. On 4 May, Malaysia transitioned to conditional MCO where restrictions were loosened to allow some industries to reopen. On 10 June, Malaysia entered the recovery MCO phase wherein some interstate travel and social gatherings were allowed.

Size and Composition

Malaysia's LCY bond market expanded 1.8% quarter-on-quarter (q-o-q) in Q2 2020 to reach a size of MYR1,554.8 billion (USD362.7 billion), up from MYR1,527.8 billion at the end of Q1 2020 (**Table 1**). The growth corresponds to a 4.5% y-o-y jump from MYR1,488.1 billion at the end of Q2 2019. The growth in the LCY bond market in Q2 2020 was supported by expansions in both LCY government and corporate bonds, which accounted for 53.3% and 46.7%, respectively, of total LCY bonds outstanding at the end of June. Total outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR976.2 billion on growth of 1.0% q-o-q from MYR966.7 billion at the end of the previous quarter, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q2 2020 increased 1.7% q-o-q to MYR94.2 billion from MYR92.6 billion in Q1 2020, driven by increased government bond issuance.

Government bonds. The LCY government bond market grew 3.2% q-o-q to MYR829.0 billion in Q2 2020, up from MYR803.5 billion in the previous quarter. The growth was due to the 4.0% q-o-q increase in outstanding central government bonds, which comprised 96.2% of total outstanding LCY government bonds. This may be attributed to the government's funding needs for fiscal stimulus. Outstanding central bank bills, which comprised a 0.6% share of total LCY government bonds outstanding at the end of June, contracted 50.0% q-o-q as most bills matured and some were redeemed early amid minimal central bank bill issuance during the quarter. The outstanding stock of Sukuk Perumahan Kerajaan (3.2% of total outstanding LCY government bonds) remained unchanged from the previous quarter.

LCY government bonds issued in Q2 2020 jumped 15.4%, spurred by robust issuance of government bonds and Treasury bills. These were more than enough to offset the decline in BNM bills. Issuance of Malaysian Government Securities increased while Government Investment Issues slightly declined from the previous quarter.

Corporate bonds. LCY corporate bonds outstanding expanded 0.2% q-o-q to MYR725.8 billion in Q2 2020 from MYR724.3 billion in Q1 2020. Outstanding corporate *sukuk* rose 0.9% q-o-q to MYR582.3 billion at the end of June from MYR576.8 billion in the prior quarter.

The top 30 corporate bond issuers in Malaysia accounted for an aggregate MYR439.6 billion of corporate bonds outstanding at the end of Q2 2020, or 60.6% of the total corporate bond market (**Table 2**). Government institutions Danainfra Nasional, Prasarana, and Cagamas continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR67.6 billion (9.3% of total LCY corporate bonds outstanding), MYR34.5 billion (4.8%), and MYR33.1 billion (4.6%), respectively. By industry, finance comprised the largest share (53.6%) of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**1,488**	**360**	**1,528**	**354**	**1,555**	**363**	**3.3**	**8.7**	**1.8**	**4.5**
Government	779	189	804	186	829	193	1.8	7.8	3.2	6.4
Central Government Bonds	742	180	767	177	797	186	3.0	9.8	4.0	7.4
of which: *Sukuk*	333	81	362	84	367	86	2.0	13.0	1.5	10.1
Central Bank Bills	9	2	10	2	5	1	(46.8)	(49.7)	(50.0)	(45.7)
of which: *Sukuk*	2	0.4	2	0.3	0	0	(71.2)	(72.7)	(100.0)	(100.0)
Sukuk Perumahan Kerajaan	28	7	27	6	27	6	0.0	(1.8)	0.0	(3.9)
Corporate	709	172	724	168	726	169	5.0	9.7	0.2	2.4
of which: *Sukuk*	555	134	577	133	582	136	6.8	13.5	0.9	5.0

( ) = negative, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second 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.

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

		Outstanding Amount				
	Issuers	LCY Bonds (MYR billion)	LCY Bonds (USD billion)	State-Owned	Listed Company	Type of Industry
1.	Danainfra Nasional	67.6	15.8	Yes	No	Finance
2.	Prasarana	34.5	8.0	Yes	No	Transport, Storage, and Communications
3.	Cagamas	33.1	7.7	Yes	No	Finance
4.	Project Lebuhraya Usahasama	29.4	6.9	No	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.4	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	24.7	5.8	Yes	No	Property and Real Estate
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.0	Yes	No	Finance
8.	Pengurusan Air	18.4	4.3	Yes	No	Energy, Gas, and Water
9.	Khazanah	14.2	3.3	Yes	No	Finance
10.	CIMB Bank	14.1	3.3	Yes	No	Finance
11.	Sarawak Energy	13.0	3.0	Yes	No	Energy, Gas, and Water
12.	Maybank Islamic	13.0	3.0	No	Yes	Banking
13.	Maybank	11.4	2.7	No	Yes	Banking
14.	CIMB Group Holdings	11.3	2.6	Yes	No	Finance
15.	Jimah East Power	9.0	2.1	Yes	No	Energy, Gas, and Water
16.	Danga Capital	8.0	1.9	Yes	No	Finance
17.	Danum Capital	8.0	1.9	No	No	Finance
18.	Public Bank	7.9	1.8	No	No	Banking
19.	GENM Capital	7.6	1.8	No	No	Finance
20.	Bank Pembangunan Malaysia	7.2	1.7	Yes	No	Banking
21.	GOVCO Holdings	7.2	1.7	Yes	No	Finance
22.	Tenaga Nasional	7.0	1.6	No	Yes	Energy, Gas, and Water
23.	Bakun Hydro Power Generation	6.3	1.5	No	No	Energy, Gas, and Water
24.	YTL Power International	6.1	1.4	No	Yes	Energy, Gas, and Water
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	1.2	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.	Sunway Treasury Sukuk	4.8	1.1	No	No	Finance
Total Top 30 LCY Corporate Issuers		**439.6**	**102.6**			
Total LCY Corporate Bonds		**725.8**	**169.3**			
Top 30 as % of Total LCY Corporate Bonds		**60.6%**	**60.6%**			

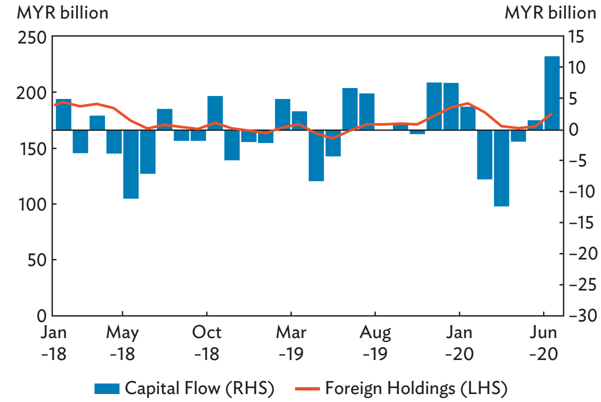
LCY = local currency, MYR = Malaysian ringgit, USD = United States dollar.
Notes:
1. Data as of 30 June 2020.
2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR billion)
Danainfra Nasional		
7-year Islamic MTN	2.86	0.40
10-year Islamic MTN	3.01	0.60
15-year Islamic MTN	3.27	0.60
20-year Islamic MTN	3.57	0.60
30-year Islamic MTN	3.89	0.60
Danum Capital		
5-year Islamic MTN	2.97	0.50
7-year Islamic MTN	3.14	0.50
10-year Islamic MTN	3.29	1.00
Cagamas		
1-year MTN	2.55	0.05
1-year MTN	2.65	0.03
2-year MTN	3.10	0.50
2-year MTN	2.75	0.07
2-year MTN	2.70	0.06

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

Figure 2: Foreign Holdings and Capital Flows in the Malaysian Local Currency Government Bond Market



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.

the top 30 issuers with MYR235.6 billion in outstanding LCY corporate bonds at the end of June. This was followed by the transport, storage, and communications industry with MYR69.2 billion, which represented 15.7% of total LCY corporate bonds outstanding at the end Q2 2020.

Issuance of LCY corporate bonds declined 15.7% q-o-q in Q2 2020. Corporations had been cautious in their LCY bond issuances since March, with monthly issuances progressively decreasing as the Malaysian economy continued to grapple with the effects of the COVID-19 pandemic.

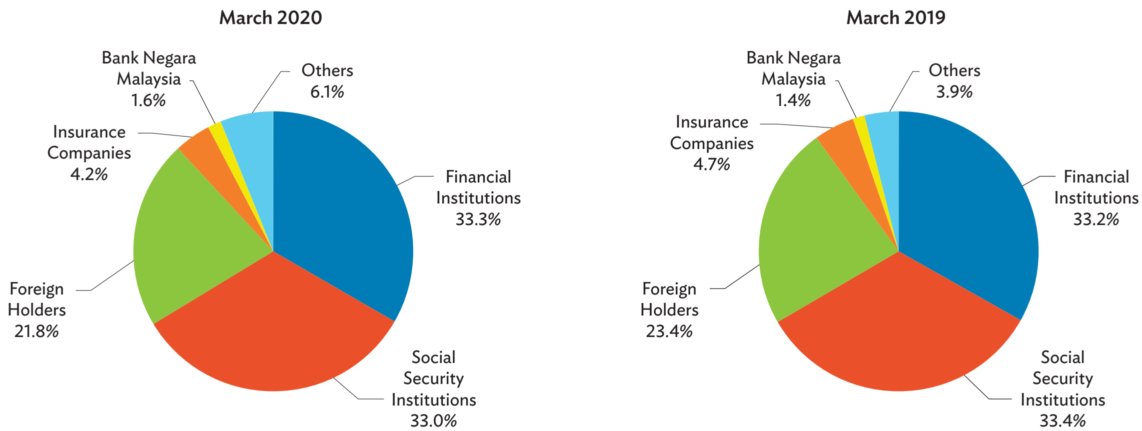
Danainfra Nasional issued the most tranches of Islamic medium-term notes (MTN), issuing five tranches with tenors ranging from 7 years to 30 years (**Table 3**). The 10-year to 30-year tranches were each worth MYR0.6 billion and had coupon rates of between 3.01% and 3.89%. Investment company Danum Capital issued three tranches of Islamic MTNs totaling MYR2.0 billion, with tenors ranging from 5 years to 10 years and coupon rates from 2.97% to 3.29%. Proceeds from the issuance will be used for Shariah-compliant general investments and refinancing current obligations. Cagamas, the national mortgage corporation of Malaysia, issued 1-year and 2-year MTNs. Its largest issuance was a MYR0.5 billion 2-year MTN with a 3.10% coupon rate. The financial institution will use proceeds from the issuance for its working capital and other general corporate purposes.

Investor Profile

Foreign holdings of LCY government bonds in Q2 2020 declined to MYR518.5 billion from MYR542.2 billion in Q1 2020, albeit monthly holdings showed an increasing trend (**Figure 2**). A total of MYR11.4 billion in net capital inflows were recorded in Q2 2020, with most of the inflows coming in June. This came as yields of Malaysian Government Securities increased at the start of June amid the government's additional economic stimulus measures as part of its Short-Term Economic Recovery Plan. The inflows reversed the capital outflows of MYR16.7 billion recorded in the previous quarter amid heightened concerns over the global economic impact of the COVID-19 pandemic. As a share of LCY government bonds, foreign holdings increased to 22.7% at the end of Q2 2020 from 22.2% at the end of Q1 2020.

At the end of Q1 2020, financial institutions and social security institutions led all investors in LCY government bond holdings with 33.3% and 33.0% of the total, respectively (**Figure 3**). Financial institutions had a higher share than social security institutions at the end of March compared to the same month in 2019. Foreign holders decreased their share of total holdings to 21.8% from 23.4% during the review period. The share of insurance

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.

companies likewise fell to 4.2% from 4.7% between Q1 2019 and Q1 2020, while the share of total holdings of BNM increased to 1.6% from 1.4%.

Ratings Update

On 26 June, S&P Global Ratings reaffirmed Malaysia's long-term issuer credit rating of A– but downgraded its outlook to negative from stable. The negative outlook implies that Malaysia is seen as susceptible to negative changes in its economic conditions but still has strong capacity to meet its debt obligations. With this outlook, the rating may be lowered over the medium term. The decision was driven by COVID-19's negative effects on the economic growth and fiscal position of Malaysia. Nevertheless, with its track record of good fiscal management, the Government of Malaysia pledged to commit to its fiscal reform agenda over the medium and long term. It also affirmed its commitment to fiscal consolidation efforts upon the recovery of the global economy.

Policy, Institutional, and Regulatory Developments

Banks to Continue Flexible Loan Repayment for Borrowers

On 29 July, BNM assured individuals and small and medium-sized enterprises affected by the COVID-19 pandemic that banks are committed to aid them as they repay their loans. As the blanket moratorium ends on 30 September, banks stand ready to accommodate flexible loan repayment plans and other arrangements specific to a person's or company's situation. As movement controls eased and most businesses have been able to restart repaying their loans, a targeted moratorium extension and provision for flexible repayment will be provided by the banking industry to individuals who lost their jobs in 2020 and have yet to find a new one. Assistance will also be provided to employed individuals whose salary has been affected by the pandemic. Based on a person's or business' circumstances, they may be given the option to pay just the interest portion of their loan for the meantime, increase the duration of their loan, or discuss with the bank other more flexible options until they regain financial stability.

The Fintech Booster Programme Launched to Support Malaysian Companies

On 4 August, the Fintech Booster Programme of the Malaysia Digital Economy Corporation was launched. In cooperation with BNM, the program aims to help financial technology companies based in Malaysia in their capacity building. Participating companies are introduced to the following aspects of the financial technology industry: legal and compliance, business model, and technology. As a centralized hub, the program fosters collaboration between industry players—such as consultants, advisors, and solution providers—in supporting the industry's growth, development, and innovation.