

## Malaysia

### Yield Movements

Between 31 August and 30 October, Malaysia's local currency (LCY) government bond yield movements were mixed (**Figure 1**). Yields of tenors from 1 month to 6 years declined an average of 10 basis points (bps). The longer-end of the yield curve (from 7 years to 15 years) increased an average of 2 bps, while the 30-year tenor jumped 17 bps. The yield spread between 2-year and 10-year government bonds expanded from 84 bps to 96 bps during the review period.

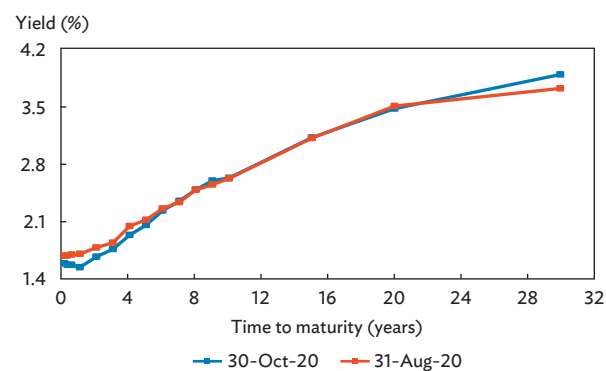
The decline in yields at the shorter-end of the curve can be attributed to the effect of Bank Negara Malaysia's (BNM) cumulative 125-bps reduction in the overnight policy rate year-to-date through 30 October. Attractive real yields, which are driven by persistent consumer price deflation and high liquidity in the financial system, also contributed to high demand for government securities. Adding to the demand were foreign capital inflows after Malaysian Government Securities (MGS) and Government Investment Issues were given a higher weight in the JP Morgan Government Bond Index–Emerging Market Index in September.

On the other hand, the low demand for long-term securities reflects some investors' flight to safety amid uncertainties caused by the coronavirus disease (COVID-19) pandemic. Excess supply concerns may also be a factor as Malaysia's fiscal deficit is projected to increase following the government's stimulus programs that will be funded through domestic borrowing. In August, Malaysia's Parliament raised the government's debt ceiling to 60% of its gross domestic product from 55% as part of measures to counter the effects of the COVID-19 pandemic.

BNM's monetary policy committee previously reduced its policy rate in July but decided to keep it steady at 1.75% during its latest meeting in September given the committee's cautiously optimistic outlook for the economy. Despite some resurgence in COVID-19 cases, analysts expect BNM to maintain its policy rate during its meeting in November as its accommodative and stimulus packages are deemed sufficient to support the economy during the pandemic.

Malaysia's economy contracted 2.7% year-on-year (y-o-y) in the third quarter (Q3) of 2020, an

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



Source: Based on data from Bloomberg LP.

improvement from the contraction of 17.1% y-o-y in the second quarter (Q2) of 2020, as economic activities resumed after the easing of Movement Control Order measures. The sharp decline in Q2 2020 prompted the World Bank in September to downgrade its full-year 2020 economic growth forecast for Malaysia to -4.9% y-o-y from -3.1% y-o-y in June. This was in line with BNM's forecast for growth of between -5.5% y-o-y and -3.5% y-o-y. BNM and the World Bank are cautiously optimistic about the economy's gradual recovery in the second half of 2020 as economic activities resumed in May. Analysts, however, are still wary that recent spikes in COVID-19 cases will greatly affect Malaysia's economic recovery, especially as restrictions may be reintroduced.

Prices of basic goods and services in Malaysia decreased 1.4% y-o-y in September, the same rate of decline recorded in August, after contracting 1.3% y-o-y in July. Consumer prices were pulled down by declines in the cost of transport; housing, water, electricity, gas, and other fuels; and clothing and footwear. BNM expects negative inflation for full-year 2020 due to falling global oil and other commodity prices.

### Size and Composition

Malaysia's LCY bond market expanded 1.9% quarter-on-quarter (q-o-q) in Q3 2020 to reach a size of MYR1,583.7 billion (USD381.0 billion), up from MYR1,554.8 billion at the end of Q2 2020 (**Table 1**). The growth corresponds to a 6.1% y-o-y jump from

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	1,493	357	1,555	363	1,584	381	0.3	8.3	1.9	6.1
Government	786	188	829	193	848	204	0.8	8.3	2.3	8.0
Central Government Bonds	749	179	797	186	820	197	0.9	9.9	2.9	9.6
of which: <i>Sukuk</i>	331	79	367	86	377	91	(0.6)	10.1	2.7	13.8
Central Bank Bills	10	2	5	1	4	1	10.9	(34.2)	(20.0)	(60.8)
of which: <i>Sukuk</i>	4	0.8	0	0	0	0	133.3	16.7	-	(100.0)
Sukuk Perumahan Kerajaan	27	6	27	6	24	6	(3.9)	(5.6)	(10.1)	(10.1)
Corporate	707	169	726	169	735	177	(0.2)	8.3	1.3	3.9
of which: <i>Sukuk</i>	559	133	582	136	592	142	0.7	13.2	1.7	6.0

(-) = 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* refers to Islamic bonds.

5. 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.

MYR1,493.1 billion at the end of Q3 2019. The growth in the LCY bond market in Q3 2020 was supported by expansions in both LCY government and corporate bonds, which accounted for 53.6% and 46.4%, respectively, of the total LCY bonds outstanding at the end of September. Total outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR993.2 billion on growth of 1.7% q-o-q from MYR976.2 billion at the end of the previous quarter, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q3 2020 declined 4.5% q-o-q to MYR90.0 billion from MYR94.2 billion in Q2 2020, driven by decreased government bond issuance.

**Government bonds.** The LCY government bond market grew 2.3% q-o-q to MYR848.4 billion in Q3 2020, up from MYR829.0 billion in the previous quarter. The growth was due to the 2.9% q-o-q increase in outstanding central government bonds, which comprised 96.7% of total outstanding LCY government bonds. Outstanding central bank bills, which comprised a 0.5% share of total LCY government bonds outstanding at the end of September, contracted 20.0% q-o-q as some bills matured. The outstanding stock of Sukuk Perumahan Kerajaan (2.8% of total outstanding LCY government bonds) declined 10.1% q-o-q from the previous quarter.

LCY government bonds issued in Q3 2020 fell 14.0% q-o-q to MYR51.6 billion from MYR60.0 billion in the previous quarter, as issuance of Treasury bills

declined and no central bank bills were issued during the quarter. The lack of issuance of Bank Negara Monetary Notes may be attributed to the central bank's liquidity enhancement measures. Another move to expand liquidity in the LCY bond market was the increased issuance of MGS from the previous quarter, as MGS switch auctions were conducted in September. The government redeemed some illiquid bonds and replaced them with more liquid benchmark MGS. The high level of MGS issuance may also be attributed to the government's funding needs for its economic programs to battle the COVID-19 pandemic. On the other hand, issuance volume of Government Investment Issues slightly declined from the previous quarter.

**Corporate bonds.** LCY corporate bonds outstanding expanded 1.3% q-o-q to MYR735.3 billion in Q3 2020 from MYR725.8 billion in Q2 2020. Outstanding corporate *sukuk* rose 1.7% q-o-q to MYR592.0 billion at the end of September from MYR582.3 billion in the prior quarter.

The top 30 corporate bond issuers in Malaysia accounted for an aggregate MYR445.9 billion of corporate bonds outstanding at the end of Q3 2020, or 60.6% of the total corporate bond market (**Table 2**). Government institution Danainfra Nasional continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR71.6 billion (9.7% of total LCY corporate bonds outstanding). By industry, finance comprised the largest share (53.1%) of the top 30 issuers with MYR236.9 billion

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	71.6	17.2	Yes	No	Finance
2.	Prasarana	36.0	8.7	Yes	No	Transport, Storage, and Communications
3.	Cagamas	31.2	7.5	Yes	No	Finance
4.	Project Lebuhraya Usahasama	29.4	7.1	No	No	Transport, Storage, and Communications
5.	Urusharta Jamaah	27.6	6.6	Yes	No	Finance
6.	Lembaga Pembiayaan Perumahan Sektor Awam	24.4	5.9	Yes	No	Property and Real Estate
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.6	5.2	Yes	No	Finance
8.	Pengurusan Air	18.1	4.4	Yes	No	Energy, Gas, and Water
9.	Khazanah	14.2	3.4	Yes	No	Finance
10.	CIMB Bank	14.1	3.4	Yes	No	Banking
11.	Maybank Islamic	13.0	3.1	No	Yes	Banking
12.	Sarawak Energy	13.0	3.1	Yes	No	Energy, Gas, and Water
13.	Maybank	12.8	3.1	No	Yes	Banking
14.	CIMB Group Holdings	11.3	2.7	Yes	No	Finance
15.	Tenaga Nasional	10.0	2.4	No	Yes	Energy, Gas, and Water
16.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
17.	Danum Capital	8.0	1.9	No	No	Finance
18.	Danga Capital	8.0	1.9	Yes	No	Finance
19.	Public Bank	7.9	1.9	No	No	Banking
20.	GOVCO Holdings	7.2	1.7	Yes	No	Finance
21.	Bank Pembangunan Malaysia	7.2	1.7	Yes	No	Banking
22.	GENM Capital	6.5	1.6	No	No	Finance
23.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
24.	Bakun Hydro Power Generation	5.9	1.4	No	No	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	1.3	Yes	No	Transport, Storage, and Communications
28.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
29.	Sunway Treasury Sukuk	5.1	1.2	No	No	Finance
30.	1Malaysia Development	5.0	1.2	Yes	No	Finance
<b>Total Top 30 LCY Corporate Issuers</b>		<b>445.9</b>	<b>107.3</b>			
<b>Total LCY Corporate Bonds</b>		<b>735.3</b>	<b>176.9</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>60.6%</b>	<b>60.6%</b>			

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

Notes:

1. Data as of 30 September 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.

in outstanding LCY corporate bonds at the end of September.

Issuance of LCY corporate bonds increased 12.1% q-o-q to MYR38.4 billion in Q3 2020 from MYR34.2 billion in Q2 2020. The growth may be attributed to corporations taking advantage of, and investors chasing yields in, a low-interest-rate environment.

Danainfra Nasional issued the most tranches of Islamic medium-term notes (MTNs), issuing six tranches with tenors ranging from 7 years to 30 years (Table 3). The issuance was via the state-owned funding vehicle's Islamic MTN program. Government-owned utility company Tenaga Nasional Berhad issued three tranches of Islamic MTNs, with its MYR1.5 billion 20-year tranche recording the highest issuance amount during the quarter. Malaysia Rail Link issued two multitranche bonds. In July, Malaysia Rail Link issued four tranches from its Islamic MTN program to fund its East Coast Rail project. In September, it issued a triple-tranche bond to further fund the same project. Malaysia Rail Link raised a total of MYR2.8 billion from the two issuances.

**Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020**

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
<b>Danainfra Nasional</b>		
7-year Islamic MTN	2.66	600
10-year Islamic MTN	2.86	500
15-year Islamic MTN	3.35	500
20-year Islamic MTN	3.72	600
25-year Islamic MTN	3.87	600
30-year Islamic MTN	4.01	1,200
<b>Tenaga Nasional Berhad</b>		
10-year Islamic MTN	2.90	750
15-year Islamic MTN	3.25	750
20-year Islamic MTN	3.55	1,500
<b>Malaysia Rail Link</b>		
10-year Islamic MTN	3.13	895
15-year Islamic MTN	3.58	390
20-year Islamic MTN	3.88	405
25-year Islamic MTN	4.11	310
10-year Islamic MTN	2.87	200
20-year Islamic MTN	3.75	300
25-year Islamic MTN	3.89	300

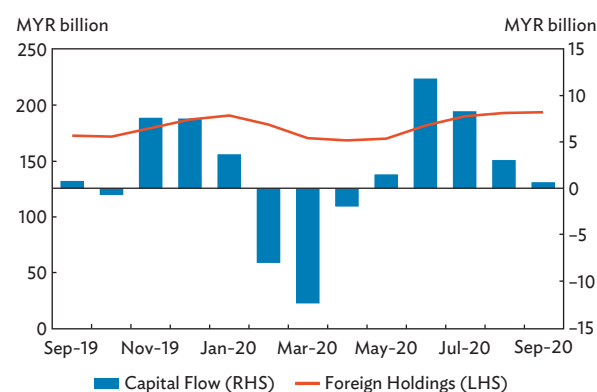
MTN = medium-term note, MYR = Malaysian ringgit.  
Source: Bank Negara Malaysia Bond Info Hub.

## Investor Profile

Foreign holdings of LCY government bonds in Q3 2020 jumped to MYR575.2 billion from MYR518.5 billion in Q2 2020, with monthly holdings increasing during the quarter, an extension of the trend of expanded monthly holdings in place since May (Figure 2). A total of MYR12.0 billion in net capital inflows were recorded in Q3 2020, with most of the inflows coming in July. The September inflows were driven by increased foreign holdings of MGS after the JP Morgan Government Bond Index–Emerging Market Index gave more weight to Malaysian debt securities. The net inflows in Q2 2020 and Q3 2020 were due to improving global investor sentiment and a sustained nonresident investor base in the Malaysian LCY bond market. However, investors remain cautious as FTSE Russell retained Malaysia on its fixed-income watch list for possible exclusion from its FTSE World Government Bond Index. As a share of LCY government bonds, foreign holdings increased to 23.6% at the end of Q3 2020 from 22.7% at the end of Q2 2020.

At the end of Q2 2020, financial institutions and social security institutions led all investors in LCY government bond holdings with 35.5% and 30.1% of the total, respectively (Figure 3). Financial institutions held a larger share at the end of June compared to the same month in 2019, while the share of social security institutions

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



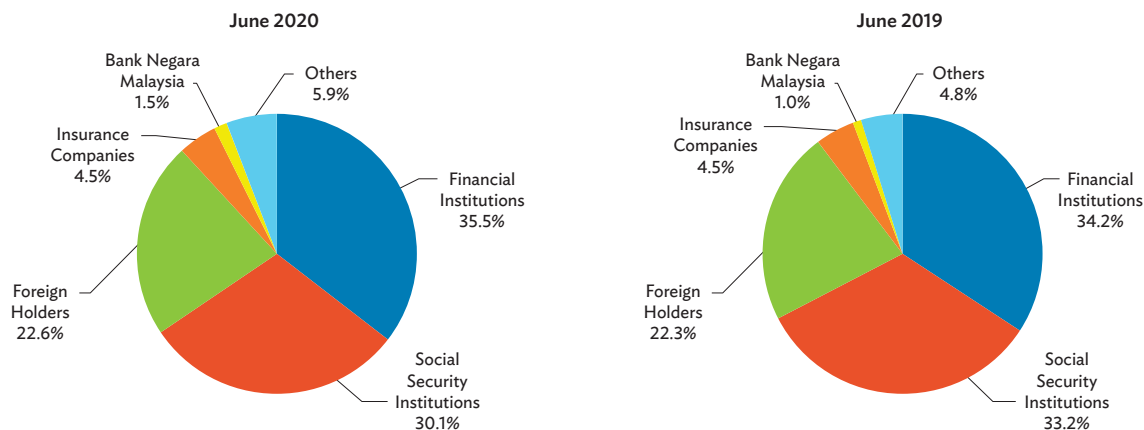
LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.

Notes:

- Figures exclude foreign holdings of Bank Negara Malaysia bills.
- 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.

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.

dropped. Foreign holders slightly increased their share of total holdings to 22.6% from 22.3% during the review period. The holdings share of insurance companies remained unchanged at 4.5% between Q2 2019 and Q2 2020, while the share of total holdings of BNM increased to 1.5% from 1.0%.

## Policy, Institutional, and Regulatory Developments

### Japan and Malaysia Sign Bilateral Swap Agreement

On 18 September, the Bank of Japan and BNM signed a bilateral swap agreement allowing the two central banks to swap their Japanese yen and Malaysian ringgit, respectively, for United States dollars. The swap agreement provides up to USD3.0 billion each for Japan and Malaysia. The agreement supports stability in the financial markets of both economies, and strengthens ties and economic cooperation between the two economies.

### FTSE Russell Keeps Malaysia in Its FTSE World Government Bond Index

On 24 September, FTSE Russell decided to keep Malaysia in its FTSE World Government Bond Index, but the economy remained on the data provider's FTSE Russell Fixed Income Watch List for possible exclusion. In its September 2020 fixed-income review, FTSE Russell acknowledged BNM's policy reforms to enhance secondary market bond liquidity and improve foreign exchange market structure. FTSE Russell will continue to monitor developments in the Malaysian bond market as BNM's policies take effect and assess whether these regulatory reforms translate into practical improvements for international participants.