

## Malaysia

### Yield Movements

Between 28 February and 15 May, Malaysia's local currency (LCY) government bond yields increased across all tenors (**Figure 1**). Yields of tenors from 1 month to 1 year jumped an average of 4 basis points (bps). The belly of the curve (2–9 years) went up an average of 20 bps. At the longer-end of the yield curve, 20-year and 30-year bonds increased an average of 18 bps, while 10-year and 15-year bonds increased an average of only 5 bps. The yield spread between 2-year and 10-year government bonds contracted from 126 bps to 108 bps during the review period.

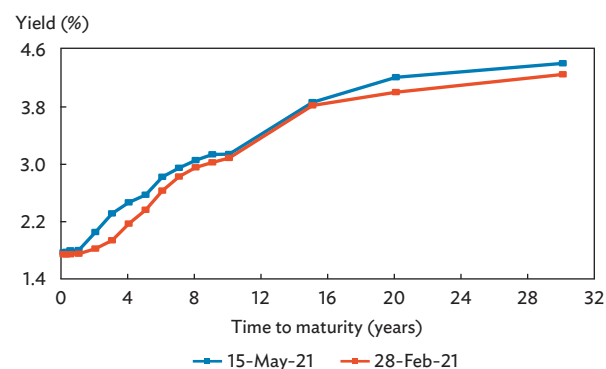
The increase in yields tracked the increase in long-term United States Treasury yields as consumer price inflation in the United States was expected to rise, due to base effects, supply shortages, and recent stimulus packages. Low demand for Malaysia's long-term securities can also be attributed to investor cautiousness due to the uncertainty of the path of the COVID-19 pandemic. Events that pose challenges to the economy are potential vaccine rollout complications and a resurgence of cases necessitating a Movement Control Order once again.

On 6 May, Bank Negara Malaysia's (BNM) monetary policy committee kept its policy rate unchanged at 1.75% as the global and domestic economic outlooks remained positive. Consumer price inflation in Malaysia is also expected to trend upward in 2021. The overnight policy rate has been at 1.75% since July 2020.

Malaysia's economy contracted 0.5% year-on-year (y-o-y) in the first quarter (Q1) of 2021, an improvement from a decline of 3.4% y-o-y in the fourth quarter (Q4) of 2020. On a quarter-on-quarter (q-o-q) seasonally adjusted basis, Malaysia's economy rebounded to expand 2.7% after contracting 1.5% in the previous quarter. The improved performance of the economy in Q1 2021 can be attributed to the gradual resumption of economic activities after the Movement Control Order restricted business operations last year. Various stimulus packages also contributed to Malaysia's economic recovery. BNM forecasts full-year economic growth of 6.0%–7.5% in 2021.

The prices of basic goods and services in Malaysia increased 4.7% y-o-y in April from a low base. Consumer

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



Source: Based on data from Bloomberg LP.

price inflation rebounded to 0.1% y-o-y in February after a decline of 0.2% y-o-y in January. The increase in inflation in the transport segment contributed to the rise in consumer price inflation as oil prices rose. Higher prices of housing, water, electricity, gas and other fuels, and food and nonalcoholic beverages also helped push consumer prices upward. BNM expects consumer price inflation for full-year 2021 to be between 2.5% and 4.0%, driven by higher global oil prices.

On 12 May, Malaysia reverted to a Movement Control Order due to a resurgence of COVID-19 cases. Economic activities will continue, however, while social activities were limited. BNM noted that the reimposition of containment measures will have less severe effects on the economy than in 2020 as businesses will be allowed to operate.

### Size and Composition

Malaysia's LCY bond market expanded 2.8% q-o-q in Q1 2021 to reach a size of MYR1,648.9 billion (USD397.8 billion) at the end of March, up from MYR1,604.5 billion at the end of Q4 2020 (**Table 1**). The growth corresponds to a 7.9% y-o-y jump from MYR1,527.8 billion at the end of Q1 2020. The growth in the LCY bond market in Q1 2021 was supported by expansions in both LCY government and corporate bonds, which accounted for 54.0% and 46.0%, respectively, of total LCY bonds outstanding at the end of March. Total

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	1,528	354	1,604	399	1,649	398	2.9	6.0	2.8	7.9
Government	804	186	853	212	890	215	3.9	4.9	4.3	10.7
Central Government Bonds	767	177	827	206	865	209	4.0	6.4	4.6	12.8
of which: <i>Sukuk</i>	362	84	384	95	403	97	5.9	10.6	5.1	11.5
Central Bank Bills	10	2	2	0	1	0	11.1	(42.2)	(50.0)	(90.0)
of which: <i>Sukuk</i>	2	0	0	0	0	0	50.0	(71.2)	-	(100.0)
Sukuk Perumahan Kerajaan	27	6	24	6	24	6	0.0	(3.9)	0.0	(10.1)
Corporate	724	168	752	187	759	183	1.7	7.3	1.0	4.8
of which: <i>Sukuk</i>	577	133	609	151	614	148	1.5	11.0	0.9	6.5

(-) = negative, - = not applicable, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth 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.

outstanding *sukuk* (Islamic bonds) at the end of the review period stood at MYR1,041.6 billion on growth of 2.5% q-o-q, spurred by increased stocks of government and corporate *sukuk*.

Issuance of LCY bonds in Q1 2021 jumped 11.7% q-o-q to MYR100.2 billion from MYR89.7 billion in Q4 2020, driven by increased government bond issuance.

**Government bonds.** The LCY government bond market grew 4.3% q-o-q to MYR889.6 billion in Q1 2021, up from MYR852.6 billion in the previous quarter. The growth was due to the 4.6% q-o-q increase in outstanding central government bonds, which comprised 97.2% of total outstanding LCY government bonds at the end of March. The growth in central government bonds can be attributed in part to the government's additional stimulus package that was unveiled in March to mitigate the impact of the COVID-19 pandemic on the economy. Outstanding central bank bills, which comprised a 0.1% share of total LCY government bonds outstanding, contracted 50.0% q-o-q as some bills matured in March. The outstanding stock of Sukuk Perumahan Kerajaan, which comprised 2.7% of total outstanding LCY government bonds at the end of March, remained unchanged from the previous quarter.

LCY government bonds issued in Q1 2021 surged 81.0% q-o-q to MYR57.0 billion from MYR31.5 billion in

the previous quarter, as issuance of government bonds and Treasury bills increased. Issuances of Malaysian Government Securities and Government Investment Issues both increased from the previous quarter.

**Corporate bonds.** LCY corporate bonds outstanding expanded 1.0% q-o-q to MYR759.3 billion in Q1 2021 from MYR751.9 billion in Q4 2020. Outstanding corporate *sukuk* rose 0.9% q-o-q to MYR614.4 billion at the end of March from MYR608.6 billion in the prior quarter.

The top 30 corporate bond issuers in Malaysia accounted for an aggregate MYR457.3 billion of corporate bonds outstanding at the end of Q1 2021, or 60.2% of the total corporate bond market (Table 2). Government institution Danainfra Nasional continued to dominate all issuers with outstanding LCY corporate bonds amounting to MYR74.5 billion. By industry, finance comprised the largest share (51.7%) of the top 30 issuers with MYR236.4 billion in outstanding LCY corporate bonds at the end of March.

Issuance of LCY corporate bonds decreased 25.8% q-o-q to MYR43.2 billion in Q1 2021 from MYR58.2 billion in Q4 2020. The bulk of the issuance during the quarter (MYR28.0 billion) occurred in March as companies frontloaded their financing needs to lock in lower interest rates after there had been upward pressure on bond yields in previous months.

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	74.5	18.0	Yes	No	Finance
2.	Prasarana	37.0	8.9	Yes	No	Transport, Storage, and Communications
3.	Lembaga Pembiayaan Perumahan Sektor Awam	34.2	8.2	Yes	No	Property and Real Estate
4.	Cagamas	29.0	7.0	Yes	No	Finance
5.	Project Lebuhraya Usahasama	28.9	7.0	No	No	Transport, Storage, and Communications
6.	Urusharta Jamaah	27.3	6.6	Yes	No	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	24.8	6.0	Yes	No	Finance
8.	Pengurusan Air	18.3	4.4	Yes	No	Energy, Gas, and Water
9.	CIMB Bank	14.4	3.5	Yes	No	Finance
10.	Sarawak Energy	13.0	3.1	Yes	No	Energy, Gas, and Water
11.	Maybank Islamic	13.0	3.1	No	Yes	Banking
12.	CIMB Group Holdings	12.6	3.0	Yes	No	Finance
13.	Khazanah	11.9	2.9	Yes	No	Finance
14.	Malayan Banking	11.7	2.8	No	Yes	Banking
15.	Tenaga Nasional	10.3	2.5	No	Yes	Energy, Gas, and Water
16.	Danga Capital	10.0	2.4	Yes	No	Finance
17.	Jimah East Power	9.0	2.2	Yes	No	Energy, Gas, and Water
18.	Danum Capital	8.4	2.0	No	No	Finance
19.	Bank Pembangunan Malaysia	7.2	1.7	Yes	No	Banking
20.	Public Bank	6.9	1.7	No	No	Banking
21.	GENM Capital	6.5	1.6	No	No	Finance
22.	Sapura TMC	6.4	1.5	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.	GOVCO Holdings	5.7	1.4	Yes	No	Finance
26.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
27.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
28.	1Malaysia Development	5.0	1.2	Yes	No	Finance
29.	Jambatan Kedua	4.6	1.1	Yes	No	Transport, Storage, and Communications
30.	Kuala Lumpur Kepong	4.6	1.1	No	Yes	Energy, Gas, and Water
<b>Total Top 30 LCY Corporate Issuers</b>		<b>457.3</b>	<b>110.3</b>			
<b>Total LCY Corporate Bonds</b>		<b>759.3</b>	<b>183.2</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>60.2%</b>	<b>60.2%</b>			

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

Notes:

1. Data as of 31 March 2021.

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.

Energy company Sapura Energy issued the equivalent of MYR6.5 billion in 7-year *sukuk murabahah*, an Islamic bond in which bondholders are entitled to a share of the revenues generated by the assets, under its Multi-Currency Sukuk Programme (**Table 3**). Proceeds from the issuance will be used to settle financial obligations of its subsidiary Sapura TMC. Government-owned public sector home financing board Lembaga Pembiayaan Perumahan Sektor Awam issued eight tranches of *sukuk murabahah* with tenors ranging from 5 years to 30 years and coupon rates ranging from 3.07% to 4.91%. Maybank Islamic also issued *sukuk murabahah* under its Subordinated Sukuk Programme. Proceeds of the 10-year bond will be used for business expansion, general corporate purposes, and other Shariah-compliant activities. During the review period, Cagamas, the national mortgage corporation of Malaysia, issued several conventional medium-term notes to fund the purchase of housing-related transactions from the financial system.

**Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021**

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Sapura Energy		
7-year <i>sukuk murabahah</i>	Floating	6,504.7
Lembaga Pembiayaan Perumahan Sektor Awam		
5-year <i>sukuk murabahah</i>	3.07	275.0
7-year <i>sukuk murabahah</i>	3.51	515.0
10-year <i>sukuk murabahah</i>	3.85	325.0
15-year <i>sukuk murabahah</i>	4.46	600.0
24-year <i>sukuk murabahah</i>	4.79	765.0
25-year <i>sukuk murabahah</i>	4.81	700.0
29-year <i>sukuk murabahah</i>	4.88	100.0
30-year <i>sukuk murabahah</i>	4.91	720.0
Maybank Islamic		
10-year <i>sukuk murabahah</i>	2.90	1,000.0
Cagamas		
1-year MTN	2.12	55.0
1-year MTN	2.10	400.0
1-year MTN	2.20	175.0
3-year MTN	2.38	55.0

MTN = medium-term note, MYR = Malaysian ringgit.

Notes:

- Sukuk murabahah* are Islamic bonds in which bondholders are entitled to a share of the revenues generated by the assets.
- Multiple issuances of the same tenor indicates issuance on different dates.

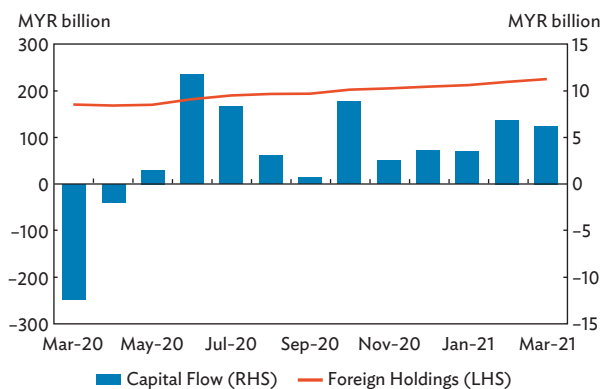
Source: Bank Negara Malaysia Bond Info Hub.

## Investor Profile

Foreign holdings of LCY government bonds in Q1 2021 jumped to MYR655.0 billion from MYR614.8 billion in Q4 2020, with monthly holdings increasing during the quarter, an extension of the trend of expanded monthly holdings in place since May 2020 (**Figure 2**). A total of MYR16.6 billion in net capital inflows were recorded in Q1 2021, with most of the inflows coming in February. As a share of LCY government bonds, foreign holdings increased to 26.0% at the end of Q1 2021 from 25.2% at the end of Q4 2020. The enthusiasm from foreign investors, especially in March, may be attributed to FTSE Russell removing Malaysia from its fixed-income watch list and retaining Malaysia in its FTSE World Government Bond Index.

At the end of Q4 2020, financial institutions and social security institutions led all investors in LCY government bond holdings with 33.4% and 28.0% of the total, respectively (**Figure 3**). Financial institutions held a larger share at the end of December compared to the same month in 2019, while the share of social security institutions dropped. The foreign holders' share remained the same at 24.9% during the review period. The holdings share of insurance companies increased to 4.9% from 4.7% between Q4 2019 and Q4 2020, while the share of total holdings of BNM surged to 2.3% from 0.6%.

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



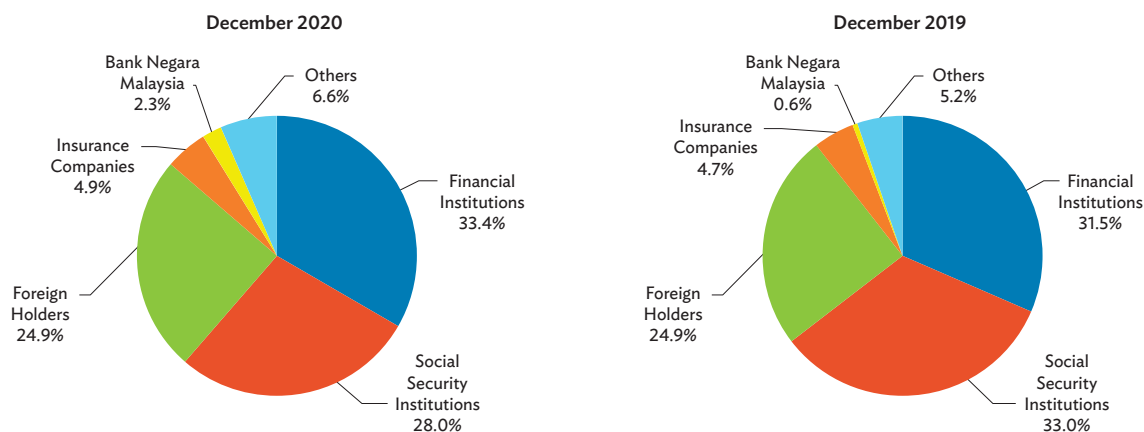
LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.

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.

## Policy, Institutional, and Regulatory Developments

### FTSE Russell Removes Malaysia from Its Watch List

On 29 March, FTSE Russell announced that it had removed Malaysia from its fixed-income watch list and retained Malaysia in its FTSE World Government Bond Index. The decision was made in consideration of regulatory enhancements in Malaysia's financial market. When Malaysia was included in FTSE Russell's watch list in 2019, BNM introduced regulations that made its government bond market more accessible to foreign investors by improving secondary market liquidity and facilitating foreign exchange transactions.

### Bank Negara Malaysia Liberalizes Foreign Exchange Policy

On 31 March, BNM introduced regulations that provide greater flexibility to export-oriented industries. Effective 15 April, resident exporters can (i) manage the conversion of their export proceeds based on their foreign currency needs, (ii) settle their domestic trades in foreign currency with other residents, (iii) extend the repatriation of their export proceeds without seeking approval from BNM, and (iv) net-off their export proceeds against permitted foreign currency liabilities without seeking approval from BNM. Resident corporates can engage in commodity derivatives hedging with nonresident counterparties. These new regulations aim to attract foreign direct investments to support Malaysia's economic recovery.