

Malaysia

Yield Movements

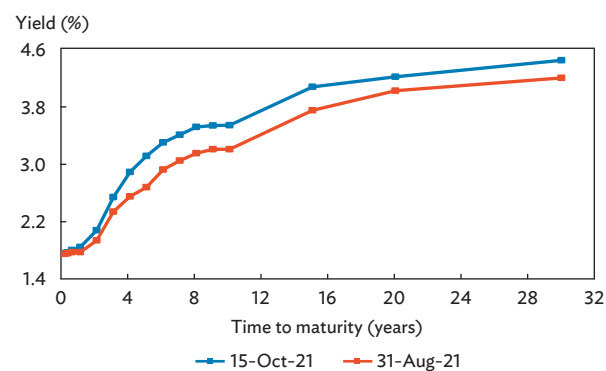
Local currency (LCY) government bond yields in Malaysia increased for all tenors between 31 August and 15 October (**Figure 1**). Yields for short-term tenors (1 month to 1 year) jumped an average of 3 basis points (bps), while bonds with 4-year to 15-year tenors soared an average of 36 bps. Yields of 1-month and 3-month tenors jumped the least at 1 bp each, while the 5-year yield rose the most among all tenors with a 44-bps gain during the review period. The yield spread between 2-year and 10-year government bonds expanded from 126 bps to 146 bps during the review period.

Investors flocked to safe-haven assets, leading to low demand for Malaysian government bonds. Net capital inflows in the third quarter (Q3) of 2021 were just MYR3.0 billion, a contraction of 67.1% quarter-on-quarter (q-o-q) from MYR9.0 billion in the previous quarter. Investors moved their investments to safe-haven assets in Q3 2021 to take advantage of the the prospect of the United States (US) Federal Reserve's earlier-than-expected normalization of interest rates.

Developments on the domestic political front also contributed to this guarded stance as investors observed how the new administration would tackle the economic challenges Malaysia is facing. The less-than-enthusiastic reception for government securities may also be attributed to short-term bond supply concerns amid an increased number of auctions in October and the anticipation of the 2022 budget announcement. Malaysia continued to have a low-interest-rate environment as Bank Negara Malaysia (BNM) kept its overnight policy rate unchanged in September.

On 9 September, the monetary policy committee of BNM maintained its policy rate at 1.75%. The committee is optimistic that the global and domestic economies are still on track to their path to recovery. Even as movement restrictions dampened Malaysia's economic growth in the second quarter (Q2) of 2021, the gradual reopening of the economy and policy support mitigated the impact. The year-to-date consumer price inflation of 2.3% was still within the range of 2.0%–3.0% expected by BNM for full-year 2021.

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



Source: Based on data from Bloomberg LP.

A lack of major developments on the financial front during the review period could be seen in the performance of Malaysia's currency. The Malaysian ringgit slightly weakened 0.1% against the US dollar during the review period to close at MYR4.1575 per USD1.0 dollar on 15 October.

Malaysia's economy contracted 4.5% year-on-year (y-o-y) in Q3 2021, after contracting 16.1% y-o-y in Q2 2021, due to coronavirus disease (COVID-19)-induced restrictions imposed in July affecting all major economic sectors. BNM expects Malaysia's full-year 2021 economic growth to fall in the range of 3.0%–4.0%.

The increase in prices of basic goods and services in Malaysia was largely unchanged during Q3 2021. Coming from a high level of 3.4% y-o-y in June, consumer price inflation decelerated in July and August, recording inflation of 2.2% y-o-y and 2.0% y-o-y, respectively. Inflation picked up slightly to 2.2% y-o-y in September, back to its July level, as prices of food and nonalcoholic beverages increased.

As part of the Government of Malaysia's National Recovery Plan, which is an exit strategy from the COVID-19 crisis, states have been classified according to four phases based on various thresholds, with Phase 1 having the strictest restrictions. As of 18 October, no state was in Phases 1 and 2, nine states were in Phase 3, while seven states were in Phase 4. As of 18 October,

70.2% of Malaysia's adult population had been fully vaccinated.

Size and Composition

Malaysia's LCY bond market grew 1.5% q-o-q in Q3 2021, reaching a size of MYR1,718.8 billion (USD410.6 billion) at the end of the quarter, up from MYR1,693.3 billion at the end of the prior quarter (**Table 1**). The expansion in Q3 2021 was slower than the 2.7% q-o-q growth logged in Q2 2021. On a y-o-y basis, the LCY bond market expanded 8.5% y-o-y, a moderation from the 8.9% y-o-y growth posted in Q2 2021. The growth may be attributed to increases in both LCY government and corporate bonds, which accounted for 54.6% and 45.4%, respectively, of total LCY bonds outstanding at the end of Q3 2021. Total outstanding *sukuk* (Islamic bonds) reached MYR1,096.7 billion at the end of September on growth of 3.0% q-o-q. This rise was supported by increased stocks of government and corporate *sukuk*.

LCY bonds issued in Q3 2021 declined 14.2% q-o-q to MYR86.8 billion from MYR101.2 billion in Q2 2021 as government and corporate bond issuances both decreased.

Government bonds. At the end of Q3 2021, Malaysia's LCY government bond market expanded 1.5% q-o-q to a size of MYR938.4 billion from MYR924.1 billion at the

end of June. The growth was slower than the increase of 3.9% q-o-q in the prior quarter. The LCY government bond market's growth was driven by the 1.6% q-o-q growth in outstanding central government bonds, which comprised 97.4% of total outstanding LCY government bonds at the end of September. No outstanding central bank bills were recorded at the end of Q3 2021, while the amount of outstanding Sukuk Perumahan Kerajaan, which comprised 2.6% of total outstanding LCY government bonds at the end of September, was unchanged from Q2 2021.

Issuance of LCY government bonds in Q3 2021 contracted 13.4% q-o-q to MYR48.5 billion from MYR56.0 billion in Q2 2021. The decline was due to a drop in issuances of Treasury bills. Total Malaysian Government Securities (conventional bonds) issued during the quarter declined, while Government Investment Issues increased in Q3 2021 compared to Q2 2021 at MYR24.1 billion.

Corporate bonds. LCY corporate bonds outstanding jumped 1.4% q-o-q to MYR780.4 billion at the end of September from MYR769.2 billion at the end of June. This growth was faster than the 1.3% q-o-q expansion recorded in Q2 2021. The amount of outstanding corporate *sukuk* expanded 1.9% q-o-q to MYR638.0 billion in Q3 2021 from MYR626.4 billion in Q2 2021, with growth easing from 2.0% q-o-q in the prior quarter.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2020		Q2 2021		Q3 2021		Q3 2020		Q3 2021	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,584	381	1,693	408	1,719	411	1.9	6.1	1.5	8.5
Government	848	204	924	223	938	224	2.3	8.0	1.5	10.6
Central Government Bonds	820	197	900	217	914	218	2.9	9.6	1.6	11.5
of which: <i>Sukuk</i>	377	91	415	100	435	104	2.7	13.8	4.8	15.2
Central Bank Bills	4	1	0	0	0	0	(20.0)	(60.8)	–	(100.0)
of which: <i>Sukuk</i>	0	0	0	0	0	0	–	(100.0)	–	–
Sukuk Perumahan Kerajaan	24	6	24	6	24	6	(10.1)	(10.1)	0.0	0.0
Corporate	735	177	769	185	780	186	1.3	3.9	1.4	6.1
of which: <i>Sukuk</i>	592	142	626	151	638	152	1.7	6.0	1.9	7.8

() = 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.

The top 30 corporate bond issuers in Malaysia comprised MYR462.8 billion of LCY corporate bonds outstanding at the end of September, representing 59.3% of the total LCY corporate bond market (**Table 2**). Government institution Danainfra Nasional led all issuers with outstanding LCY corporate bonds totaling MYR74.9 billion. The largest share among all sectors in the top 30 list belonged to financial institutions (51.8%) with MYR239.7 billion of outstanding LCY corporate bonds at the end of September.

Issuances of LCY corporate bonds in Q3 2021 declined 15.3% q-o-q to MYR38.3 billion from MYR45.2 billion in Q2 2021. The contraction was a reversal from the growth of 4.7% q-o-q posted in the previous quarter due to slow issuance activities in July and August.

In September, Lembaga Pembiayaan Perumahan Sektor Awam, Malaysia's statutory body in charge of handling public housing financing services, issued eight tranches of Islamic bond totaling MYR4.0 billion with tenors ranging from 7 years to 30 years and coupon rates from 3.34% to 4.58% (**Table 3**). Guaranteed by the Government of Malaysia, the bond was drawn from the company's Islamic Commercial Paper and Medium-Term Note Programme. In July, another government agency, Malaysia Rail Link, issued a six-tranche *sukuk* totaling MYR3.0 billion. The tenors of the tranches ranged from 5 years to 25 years and the periodic distribution rate came as low as 2.88% and as high as 4.48%. Proceeds from the issuance will be used for the East Coast Rail Link project. In August, Cagamas, the National Mortgage Corporation of Malaysia, had a double issuance of a 3-year ASEAN sustainability *sukuk* and 3-year conventional ASEAN sustainability bond totaling MYR300.0 million. In the same month, Cagamas raised MYR200.0 million from a 1-year floating rate conventional note, MYR85.0 million from a 1-year conventional medium-term note, and MYR25.0 million from a 1-year Islamic bond. Funds raised from these issuances will be used to purchase Islamic financing and affordable housing loans. In September, Cagamas continued its fundraising efforts, successfully issuing MYR550.0 million of 2-year conventional bonds and a total of MYR1.5 billion from a triple-tranche *sukuk* with tenors of 1 year, 2 years, and 3 years. Proceeds from the September fundraising efforts will be used to fund the purchase of housing loans and other eligible assets from Malaysia's financial system.

Investor Profile

In the Malaysian market, foreign holdings of LCY government bonds slightly fell in July, with holdings of foreign investors amounting to MYR230.1 billion worth of LCY government bonds from MYR233.8 billion in June. Foreign holdings increased in both August and September to MYR236.5 billion and MYR236.8 billion, respectively (**Figure 2**). Net capital outflows from the bond market were recorded in July totaling MYR3.7 billion, offsetting some of the inflows of MYR6.4 billion and MYR0.3 billion in the succeeding 2 months. The pullback in July can be attributed to persistently high COVID-19 cases and political uncertainties in Malaysia. The positive sentiment from foreign investors in August, on the other hand, was due to positive progress in the government's National Recovery Plan and the National Immunization Programme, leading to the gradual reopening of the economy. The selling pressure in September was due to the US Federal Reserve's shift in monetary stance allowing the possibility of policy rate normalization in 2022, which would be earlier than previously expected by investors. Foreign holdings as a share of LCY government bonds declined from 26.0% at the end of June to 25.5% at the end of July before recovering to 26.0% in August and slightly falling by the end of September to 25.9%.

At the end of June 2021, financial institutions and social security institutions led all investors in LCY government bonds with holdings equivalent to 34.7% and 27.2% of the total market, respectively (**Figure 3**). The holdings of financial institutions and social security institutions each declined compared to the same month in 2020. The foreign holders' share expanded to 25.7% during the review period from 22.6% in the previous year. The holdings of insurance companies and BNM grew to 4.8% and 1.9%, respectively, from 4.5% and 1.5% between June 2020 and June 2021.

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	74.9	17.9	Yes	No	Finance
2.	Prasarana	38.7	9.2	Yes	No	Transport, Storage, and Communications
3.	Lembaga Pembiayaan Perumahan Sektor Awam	37.6	9.0	Yes	No	Property and Real Estate
4.	Cagamas	31.9	7.6	Yes	No	Finance
5.	Project Lebuhraya Usahasama	28.9	6.9	No	No	Transport, Storage, and Communications
6.	Urusharta Jamaah	27.3	6.5	Yes	No	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	23.8	5.7	Yes	No	Finance
8.	Pengurusan Air	18.5	4.4	Yes	No	Energy, Gas, and Water
9.	Malayan Banking	14.6	3.5	No	Yes	Banking
10.	Maybank Islamic	13.0	3.1	No	Yes	Banking
11.	Sarawak Energy	12.0	2.9	Yes	No	Energy, Gas, and Water
12.	Khazanah	11.9	2.8	Yes	No	Finance
13.	CIMB Bank	11.9	2.8	Yes	No	Finance
14.	CIMB Group Holdings	11.6	2.8	Yes	No	Finance
15.	Tenaga Nasional	10.3	2.4	No	Yes	Energy, Gas, and Water
16.	Danga Capital	10.0	2.4	Yes	No	Finance
17.	Jimah East Power	8.9	2.1	Yes	No	Energy, Gas, and Water
18.	Danum Capital	8.4	2.0	No	No	Finance
19.	Public Bank	6.9	1.6	No	No	Banking
20.	Sapura TMC	6.4	1.5	No	No	Finance
21.	YTL Power International	6.1	1.5	No	Yes	Energy, Gas, and Water
22.	Bank Pembangunan Malaysia	6.1	1.4	Yes	No	Banking
23.	Malaysia Rail Link	5.8	1.4	Yes	No	Construction
24.	Infracap Resources	5.8	1.4	Yes	No	Finance
25.	GOVCO Holdings	5.7	1.4	Yes	No	Finance
26.	Bakun Hydro Power Generation	5.5	1.3	No	No	Energy, Gas, and Water
27.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
28.	GENM Capital	5.3	1.3	No	No	Finance
29.	EDRA Energy	5.1	1.2	No	Yes	Energy, Gas, and Water
30.	1Malaysia Development	5.0	1.2	Yes	No	Finance
Total Top 30 LCY Corporate Issuers		462.8	110.6			
Total LCY Corporate Bonds		780.4	186.4			
Top 30 as % of Total LCY Corporate Bonds		59.3%	59.3%			

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

Notes:

1. Data as of 30 September 2021.

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

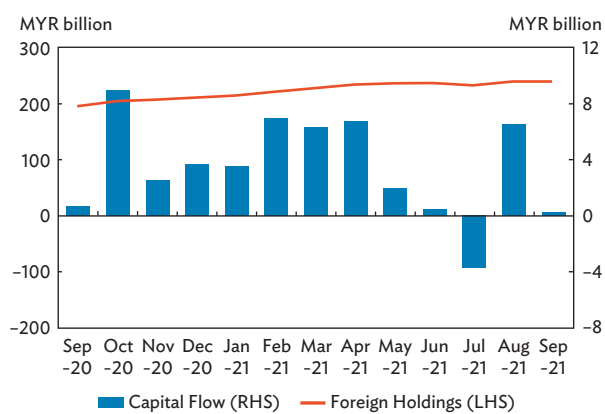
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

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

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Lembaga Pembiayaan Perumahan Sektor Awam		
7-year sukuk murabahah	3.34	235.0
8-year sukuk murabahah	3.44	785.0
13-year sukuk murabahah	3.86	600.0
14-year sukuk murabahah	4.00	600.0
18-year sukuk murabahah	4.27	900.0
19-year sukuk murabahah	4.33	200.0
24-year sukuk murabahah	4.48	100.0
30-year sukuk murabahah	4.58	580.0
Malaysia Rail Link^a		
5-year sukuk murabahah	2.88	400.0
7-year sukuk murabahah	3.33	465.0
15-year sukuk murabahah	4.12	635.0
15-year sukuk murabahah	4.06	500.0
20-year sukuk murabahah	4.41	500.0
25-year sukuk murabahah	4.48	500.0
Cagamas^a		
1-year Islamic MTN	2.15	25.0
1-year Islamic MTN	2.18	200.0
1-year MTN	Floating	200.0
1-year MTN	2.15	85.0
2-year Islamic MTN	2.40	150.0
2-year MTN	2.37	300.0
2-year MTN	2.40	250.0
3-year ASEAN Sustainability Sukuk	2.67	100.0
3-year ASEAN Sustainability Bond	2.67	200.0
3-year Islamic MTN	2.78	1,150.0

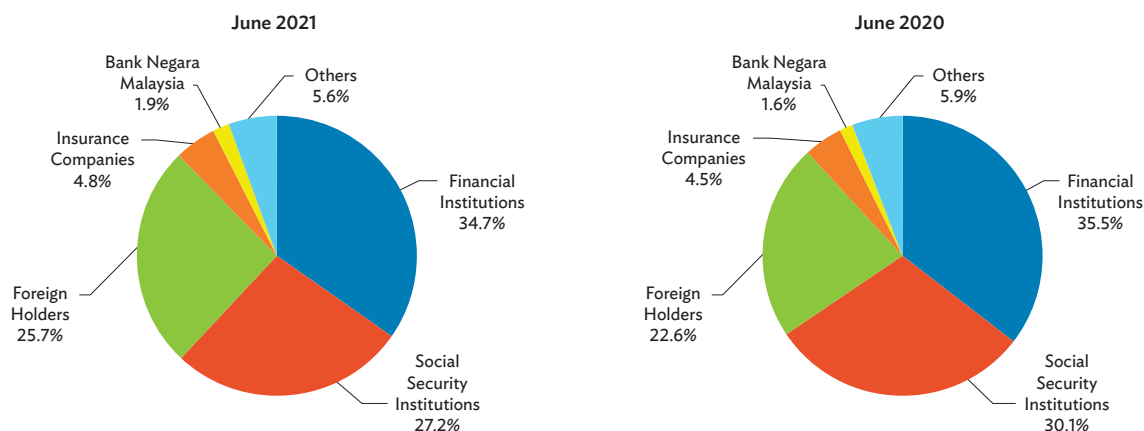
MTN = medium-term note, MYR = Malaysian ringgit.
 Note: *Sukuk murabahah* are Islamic bonds in which bondholders are entitled to a share of the revenues generated by the assets.
^a Multiple issuance of the same tenor indicates issuance on different dates.
 Source: Bank Negara Malaysia Bond Info Hub.

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.

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

Bank Negara Malaysia Launches Malaysia Overnight Rate

On 24 September, BNM announced that the Malaysia overnight rate (MYOR) will be the new alternative reference rate for Malaysia. MYOR will be based on transactions in liquid markets, reflecting accurately Malaysia's financial environment. BNM clarified that the Kuala Lumpur interbank offered rate (KLIBOR) will still be used for other financial transactions. Periodic reviews will be conducted, however, to ensure that MYOR and KLIBOR are reflective of current market conditions. These benchmarks allow consumers to have the flexibility of choosing whichever rate suits their needs. The introduction of MYOR also broadens investors' risk management strategies. BNM also announced the discontinuation of the 2-month and 12-month KLIBOR starting 1 January 2023, as these rates are not used much in the financial market. Efforts are ongoing to develop a new Islamic benchmark rate to replace the Kuala Lumpur Islamic Reference Rate by the first half of 2022.

Malaysian Banks to Stop Issuing London Interbank Offered Rate-Referenced Contracts

On 22 October, BNM announced that by 31 December banks under its supervision must stop issuing new contracts referencing the London interbank offered rate (LIBOR). This is in line with global developments wherein other benchmark rates for major currencies will be replacing LIBOR starting January 2022. BNM set the fourth quarter of 2021 as a period when banks must ensure that contracts currently referencing the USD-denominated LIBOR and maturing after June 2023 have a fallback provision (i.e., a procedure for replacing LIBOR as a benchmark rate). Banks must also make sure that their systems and procedures are ready for the transition from LIBOR. In recent months, BNM has been preparing for the discontinuation of LIBOR by developing an alternative reference rate that will be used in parallel with the existing KLIBOR.