

## Malaysia

### Yield Movements

Yields on Malaysia's local currency (LCY) government bonds jumped for all tenors between 28 February and 15 May (**Figure 1**). An average increase of 28 basis points (bps) was logged for the yields of short-term tenors (1–6 months). Meanwhile, the yields of longer tenors (4–30 years) ascended an average of 79 bps.

The smallest increase in yields was recorded for the 1-month tenor at 23 bps. Among all tenors, the 2-year yield soared the most with a 120 bps gain. A contraction in the 2-year and 10-year government bond yield spread was recorded, from 126 bps to 82 bps, during the review period.

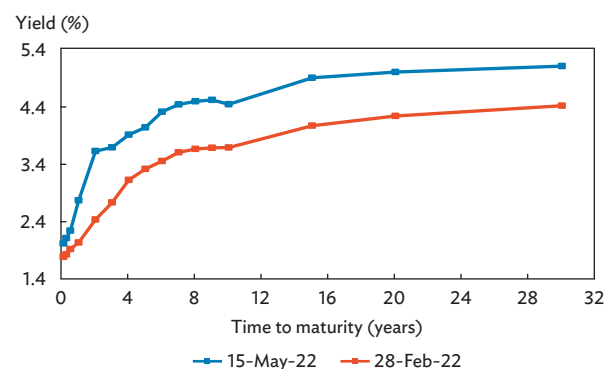
The upward movement of the yield curve was due to Bank Negara Malaysia's (BNM) decision to raise its overnight policy rate in May, following the global trend whereby central banks around the world have been raising interest rates to combat inflationary pressure.

On 11 May, the Monetary Policy Committee of the BNM hiked its policy rate to 2.00% from 1.75%. The central bank deemed it necessary to increase interest rates as a precautionary measure against rising inflation caused by the growing cost of commodities and global supply chain concerns exacerbated by the Russian invasion of Ukraine.

The increase in prices of basic goods and services in Malaysia was largely unchanged during the first quarter (Q1) of 2022. Coming from a high of 3.3% year-on-year (y-o-y) in November 2021, consumer price inflation continued to decelerate each month during the quarter, recording inflation of 2.3% y-o-y in January and 2.2% y-o-y in both February and March. In April, inflation increased marginally to 2.3% y-o-y. The BNM expects inflation for full-year 2022 of between 2.2% and 3.2%.

The Malaysian economy recorded an expansion of 5.0% y-o-y in Q1 2022, up from 3.6% y-o-y in the previous quarter, buoyed by faster growth in the services sector as containment measures in response to the coronavirus disease (COVID-19) continued to ease. The BNM expects the annual growth rate of Malaysia for full-year 2022 to be in the 5.3%–6.3% range.

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



Source: Based on data from Bloomberg LP.

### Size and Composition

The LCY bond market of Malaysia expanded 1.7% quarter-on-quarter (q-o-q) in Q1 2022, reaching a size of MYR1,764.9 billion (USD419.8 billion) at the end of March, up from MYR1,736.2 billion at the end of the fourth quarter (Q4) of 2021 (**Table 1**). This growth was faster than the 1.0% q-o-q increase registered in the prior quarter. On an annual basis, Malaysia's LCY bond market expanded 7.0% y-o-y, decelerating from the growth of 8.2% y-o-y posted in Q4 2021. The growth of the bond market was due to expansions in both LCY government and corporate bonds outstanding, which accounted for 55.3% and 44.7%, respectively, of total outstanding LCY bonds at the end of the review period. Total outstanding *sukuk* (Islamic bonds) hit MYR1,122.5 billion at the end of Q1 2022, growing 1.8% q-o-q. This jump was supported by increased stocks of government and corporate *sukuk*.

Issuances of LCY bonds in Q1 2022 fell 8.6% q-o-q to MYR81.4 billion from MYR89.0 billion in the prior quarter due to a decline in issuance of corporate bonds.

**Government bonds.** At the end of March, Malaysia's LCY government bond market grew 2.8% q-o-q to MYR975.9 billion from MYR949.4 billion at the end of Q4 2021. This is an acceleration from the growth of 1.2% q-o-q logged in the prior quarter. Growth in the LCY government bond market was driven by a 2.8% q-o-q

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2021		Q4 2021		Q1 2022		Q1 2021		Q1 2022	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,649</b>	<b>398</b>	<b>1,736</b>	<b>417</b>	<b>1,765</b>	<b>420</b>	<b>2.8</b>	<b>7.9</b>	<b>1.7</b>	<b>7.0</b>
Government	890	215	949	228	976	232	4.3	10.7	2.8	9.7
Central Government Bonds	865	209	931	224	958	228	4.6	12.8	2.8	10.8
of which: <i>Sukuk</i>	403	97	441	106	455	108	5.1	11.5	3.2	12.9
Central Bank Bills	1	0	0	0	0	0	(50.0)	(90.0)	–	(100.0)
of which: <i>Sukuk</i>	0	0	0	0	0	0	–	(100.0)	–	–
Sukuk Perumahan Kerajaan	24	6	18	4	18	4	0.0	(10.1)	0.0	(24.9)
Corporate	759	183	787	189	789	188	1.0	4.8	0.3	3.9
of which: <i>Sukuk</i>	614	148	643	154	649	154	0.9	6.5	0.9	5.7

(-) = 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. Bloomberg LP end-of-period local currency–USD rates are used.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. *Sukuk* refers to Islamic bonds.
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.

expansion of outstanding central government bonds, which accounted for 98.1% of total LCY government bonds outstanding at the end of Q1 2022. There were no central bank bills outstanding at the end of the review period, while the amount of Sukuk Perumahan Kerajaan outstanding at the end of March was unchanged from the previous quarter.

LCY government bonds issued in Q1 2022 increased 4.5% q-o-q to MYR50.0 billion from MYR47.9 billion in Q4 2021. The growth was spurred by an increase in issuances of Treasury bills. Issuance of Malaysian Government Securities (conventional bonds) decreased, while Government Investment Issues (Islamic bonds) increased in Q1 2022 compared to the prior quarter.

**Corporate bonds.** The amount of outstanding LCY corporate bonds grew 0.3% q-o-q to MYR789.0 billion in Q1 2022 from MYR786.8 billion at the end of the previous quarter. This was a deceleration from the 0.8% q-o-q growth logged in Q4 2021. Outstanding corporate *sukuk* expanded 0.9% q-o-q to MYR649.1 billion at the end of March from MYR643.5 billion at the end of December. The growth rate in Q1 2022 was the same as in the prior quarter.

Malaysia's top 30 corporate bond issuers had a combined MYR468.5 billion worth of outstanding LCY corporate bonds at the end of Q1 2022, a share of 59.4% of the total LCY corporate bond market (Table 2). State-owned

DanaInfra Nasional had the largest amount of outstanding LCY corporate bonds during the review period, totaling MYR79.9 billion. Among all sectors in the top 30 list, the biggest share comprised financial institutions (51.4%) with MYR240.9 billion worth of LCY corporate bonds outstanding at the end of Q1 2022.

LCY corporate bonds issued during the review period fell 23.7% q-o-q to MYR31.4 billion from MYR41.2 billion in Q4 2021 due to rising interest rates that made it more expensive for companies to raise funds. The contraction was a reversal from the growth of 7.6% q-o-q logged in the prior quarter.

In January and March, Cagamas issued several Islamic medium-term notes (MTNs) (Table 3). It also issued conventional MTNs in February and March. The MTNs had tenors from 1 year to 3 years and coupon rates from 2.47% to 3.31%. In March, Kuala Lumpur Kepong, a palm oil producer, issued a dual-tranche *sukuk* totaling MYR2.0 billion. The tenors of the tranches were 10 years and 15 years, and the periodic distribution rates were 4.17% and 4.55%, respectively. Proceeds from the issuance will be used for the company's general corporate purposes, which are Shariah-compliant. Toward the end of Q1 2022, Perbadanan Tabung Pendidikan Tinggi Nasional raised MYR1.5 billion through a four-tranche *sukuk* issuance with tenors from 5 years to 15 years and coupon rates from 3.49% to 4.31%. The funds raised will be used for Shariah-compliant education financing.

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	79.9	19.0	Yes	No	Finance
2.	Prasarana	39.7	9.4	Yes	No	Transport, Storage, and Communications
3.	Lembaga Pembiayaan Perumahan Sektor Awam	37.6	8.9	Yes	No	Property and Real Estate
4.	Cagamas	31.2	7.4	Yes	No	Finance
5.	Project Lebuhraya Usahasama	28.2	6.7	No	No	Transport, Storage, and Communications
6.	Urusharta Jamaah	27.3	6.5	Yes	No	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	24.6	5.9	Yes	No	Finance
8.	Pengurusan Air	18.7	4.5	Yes	No	Energy, Gas, and Water
9.	CIMB Group Holdings	14.3	3.4	Yes	No	Finance
10.	Maybank Islamic	13.0	3.1	No	Yes	Banking
11.	Malayan Banking	12.5	3.0	No	Yes	Banking
12.	Khazanah	11.9	2.8	Yes	No	Finance
13.	Tenaga Nasional	11.6	2.8	No	Yes	Energy, Gas, and Water
14.	CIMB Bank	11.6	2.7	Yes	No	Finance
15.	Sarawak Energy	10.8	2.6	Yes	No	Energy, Gas, and Water
16.	Danga Capital	10.0	2.4	Yes	No	Finance
17.	Jimah East Power	8.8	2.1	Yes	No	Energy, Gas, and Water
18.	Danum Capital	8.0	1.9	No	No	Finance
19.	Public Bank	6.9	1.6	No	No	Banking
20.	Kuala Lumpur Kepong	6.6	1.6	No	Yes	Energy, Gas, and Water
21.	Sapura TMC	6.4	1.5	No	No	Finance
22.	Malaysia Rail Link	6.2	1.5	Yes	No	Construction
23.	YTL Power International	5.8	1.4	No	Yes	Energy, Gas, and Water
24.	Infracap Resources	5.8	1.4	Yes	No	Finance
25.	Bakun Hydro Power Generation	5.5	1.3	No	No	Energy, Gas, and Water
26.	Bank Pembangunan Malaysia	5.5	1.3	Yes	No	Banking
27.	Turus Pesawat	5.3	1.3	Yes	No	Transport, Storage, and Communications
28.	GOVCO Holdings	5.1	1.2	Yes	No	Finance
29.	1Malaysia Development	5.0	1.2	Yes	No	Finance
30.	EDRA Energy	5.0	1.2	No	Yes	Energy, Gas, and Water
<b>Total Top 30 LCY Corporate Issuers</b>		<b>468.5</b>	<b>111.4</b>			
<b>Total LCY Corporate Bonds</b>		<b>789.0</b>	<b>187.7</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>59.4%</b>	<b>59.4%</b>			

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

Notes:

1. Data as of 31 March 2022.

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

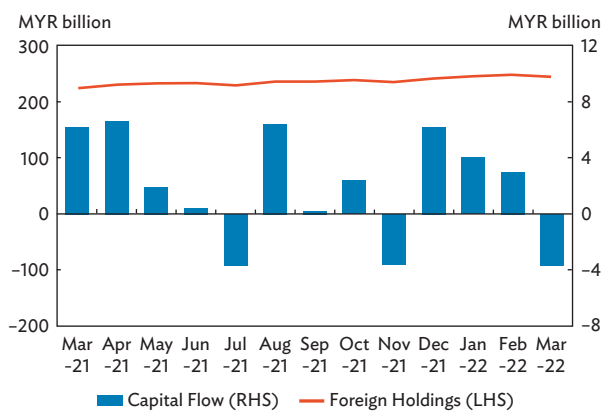
Source: *AsianBondsOnline* calculations based on Bank Negara Malaysia Fully Automated System for Issuing/Tendering data.

**Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2022**

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
<b>Cagamas<sup>a</sup></b>		
1-year Islamic MTN	2.47	100.0
2-year MTN	2.93	400.0
2-year MTN	2.95	330.0
2-year Islamic MTN	2.95	200.0
2-year MTN	2.86	150.0
3-year Islamic MTN	3.31	930.0
3-year Islamic MTN	3.10	200.0
<b>Kuala Lumpur Kepong</b>		
10-year Islamic MTN	4.17	1,500.0
15-year Islamic MTN	4.55	500.0
<b>Perbadanan Tabung Pendidikan Tinggi Nasional</b>		
5-year Islamic MTN	3.49	400.0
7-year Islamic MTN	3.73	600.0
13-year Islamic MTN	4.11	150.0
15-year Islamic MTN	4.31	350.0

MTN = medium-term note, MYR = Malaysian ringgit.  
<sup>a</sup> 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.

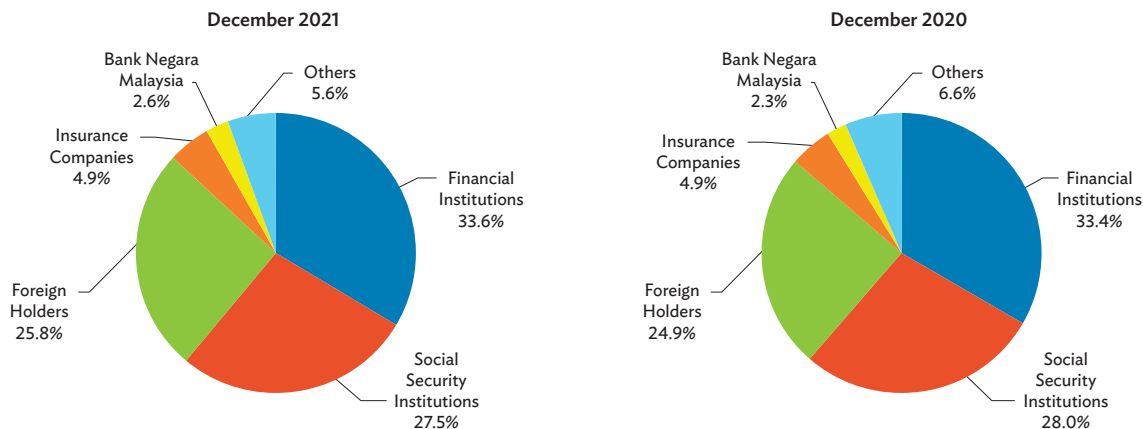
## Investor Profile

Foreign holdings of LCY government bonds in Malaysia increased in February, with holdings of foreign investors amounting to MYR248.9 billion worth of LCY government bonds, up from MYR245.9 billion in January (Figure 2). In March, foreign holdings were closer to their January level again at MYR245.2 billion. Net capital outflows from the bond market were recorded in March totaling MYR3.7 billion, somewhat offsetting the inflows of MYR4.0 billion and MYR3.0 billion in the preceding

2 months. The sell-off in March followed a global trend in bond markets worldwide spurred by the monetary policy tightening of the United States Federal Reserve. Foreign holdings as a share of LCY government bonds declined from 26.1% at the end of January to 26.0% at the end of February and to 25.6% at the end of March.

At the end of Q4 2021, financial institutions and social security institutions were the largest investors in LCY government bonds, holding 33.6% and 27.5% of total bonds outstanding, respectively (Figure 3). Financial

**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.

institutions' holdings increased compared to the same period in 2020. On the other hand, the share of social security institutions declined. Foreign holders' share of the pie grew to 25.8% from 24.9% in the previous year during the review period. The share of insurance companies was steady at 4.9%, while that of the BNM grew to 2.6% from 2.3% between December 2020 and December 2021.

## Policy, Institutional, and Regulatory Developments

### Bank Negara Malaysia Launches the Malaysia Islamic Overnight Rate

On 25 March, the BNM announced the establishment of the Malaysia Islamic Overnight Rate (MYOR-i), which will be used as a reference rate for Shariah-compliant financial products. MYOR-i is expected to help develop the Islamic financial market of Malaysia, reinforcing best practices in the Shariah-compliant financial system. The BNM noted that MYOR-i is the first Islamic benchmark in the world that is transaction-based, and it will replace the Kuala Lumpur Islamic Reference Rate immediately. With this new Islamic benchmark, the BNM aims for better transparency and innovation in Islamic finance, leading to efficiency in pricing financial instruments and boosting the economy of Malaysia.