

Malaysia

Yield Movements

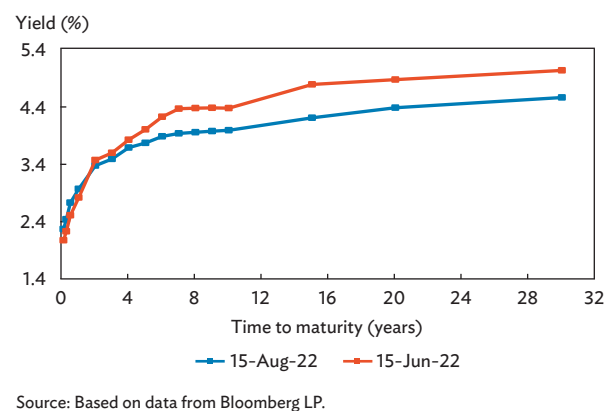
The yield curve for Malaysia's local currency (LCY) government bonds flattened between 15 June and 15 August (**Figure 1**). Short-term yields (from 1 month to 1 year) increased an average of 19 basis points (bps), while yields in the belly of the curve (2–5 years) fell an average of 14 bps, and longer term yields (6–30 years) declined an average of 44 bps. During the review period, the spread between the 10-year and 2-year government bond yields tightened from 90 bps to 61 bps.

The increase in short-term yields was due to the Bank Negara Malaysia's (BNM) decision to raise its overnight policy rate in July to combat inflationary pressure. The decline in long-term yields can be attributed to investors' attraction to the yields of Malaysian fixed-income securities amid market expectation of less aggressive moves by the United States Federal Reserve to tighten monetary policy. Malaysia has managed to keep its inflation rate in check, with yields of long-term bonds offering a buffer against rising inflation.

The Monetary Policy Committee of the BNM raised its policy rate to 2.25% from 2.00% on 6 July. The committee saw it fit to increase interest rates as a precautionary move to temper rising inflation due to the rising cost of and growing demand for commodities. The BNM also noted that the conditions that previously compelled the central bank to loosen its overnight policy rate in the midst of the coronavirus disease (COVID-19) pandemic had already subsided.

Malaysia's consumer price inflation saw an upward trend during the second quarter (Q2) of 2022. From 2.2% year-on-year (y-o-y) in March, price gains for basic goods and services accelerated each month during Q2 2022, logging inflation rates of 2.3% y-o-y and 2.8% y-o-y in April and May, respectively, before picking up to 3.4% y-o-y in June and 4.4% y-o-y in July. This brought average inflation for the first 7 months of 2022 to 2.8% y-o-y, well within the central bank's inflation forecast of between 2.2% and 3.2% for full-year 2022, leading to the BNM being less aggressive in hiking its policy rate compared to other central banks in the region.

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



The gross domestic product of Malaysia expanded 8.9% y-o-y in Q2 2022, continuing the 5.0% y-o-y growth logged in the prior quarter, due to faster growth in the services and manufacturing sectors. The construction sector also rebounded after contracting in the first quarter (Q1) of 2022. A low base from Q2 2021, resulting from a complete movement control order, also contributed to the high annual economic growth. Year-to-date through June 2022, Malaysia's economic growth averaged 7.0% y-o-y, exceeding the BNM's expected annual growth rate of 5.3%–6.3% for full-year 2022.

Size and Composition

The Malaysian LCY bond market grew 2.3% quarter-on-quarter (q-o-q) in Q2 2022, attaining a size of MYR1,805.3 billion (USD409.5 billion) at the end of June, increasing from MYR1,764.9 billion at the end of the Q1 2022 (**Table 1**). Growth accelerated from the 1.7% q-o-q uptick logged in the previous quarter. On a y-o-y basis, the LCY bond market of Malaysia jumped 6.6% y-o-y, but down slightly from 7.0% y-o-y in Q1 2022. The bond market's growth in Q2 2022 was spurred by expansions in both outstanding LCY government and corporate bonds, which accounted for 56.3% and 43.7%, respectively, of total LCY bonds outstanding at the end of June. Total *sukuk* (Islamic bonds) outstanding reached MYR1,139.2 billion at the end of the review period, increasing 1.5% q-o-q. This growth was due to higher stocks of government and corporate *sukuk*.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2021		Q1 2022		Q2 2022		Q2 2021		Q2 2022	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,693	408	1,765	420	1,805	410	2.7	8.9	2.3	6.6
Government	924	223	976	232	1,016	230	3.9	11.5	4.1	9.9
Central Government Bonds	900	217	958	228	997	226	4.1	12.9	4.1	10.8
of which: <i>Sukuk</i>	415	100	455	108	470	107	2.9	12.9	3.3	13.4
Central Bank Bills	0	0	0	0	0.9	0.2	(100.0)	(100.0)	-	-
of which: <i>Sukuk</i>	0	0	0	0	0.2	0.05	-	-	-	-
Sukuk Perumahan Kerajaan	24	6	18	4	18	4	0.0	(10.1)	0.0	(24.9)
Corporate	769	185	789	188	790	179	1.3	6.0	0.1	2.6
of which: <i>Sukuk</i>	626	151	649	154	651	148	2.0	7.6	0.2	3.9

(-) = negative, - = not applicable, 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. 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.

LCY bonds issued in Q2 2022 climbed 35.5% q-o-q to MYR110.3 billion from MYR81.4 billion in Q1 2022 as issuances of government and corporate bonds increased. This was a reversal from the contraction of 8.6% q-o-q logged in the preceding quarter.

Government bonds. Malaysia's LCY government bond market grew 4.1% q-o-q to a size of MYR1,015.8 billion at the end of Q1 2022. The increase was quicker than the growth of 2.8% q-o-q logged in the previous quarter. The LCY government bond market's growth was driven by a 4.1% q-o-q jump in outstanding central government bonds, which accounted for 98.1% of total outstanding LCY government bonds at the end of the review period. Central bank bills were issued again by the BNM during the quarter after inactivity since June 2021. The amount of outstanding Sukuk Perumahan Kerajaan at the end of Q2 2022 was the same as in the previous quarter.

LCY government bond issuance in Q2 2022 grew 33.7% q-o-q to MYR66.9 billion, due to increased issuances of Treasury bills and bonds, and central bank bills. The issuance of Malaysian Government Securities (conventional bonds) and Government Investment Issues (Islamic bonds) both jumped in Q2 2022 compared to the previous quarter.

Corporate bonds. Outstanding LCY corporate bonds marginally grew 0.1% q-o-q to MYR789.5 billion in Q2 2022, down from the 0.3% q-o-q growth registered in

the prior quarter. Corporate *sukuk* outstanding inched up 0.2% q-o-q to MYR650.6 billion at the end of Q2 2022. This growth rate was lower than the 0.9% q-o-q growth recorded in Q1 2022.

The top 30 issuers of corporate bonds in Malaysia had a total of MYR468.5 billion worth of LCY corporate bonds outstanding at the end of the review period, corresponding to a share of 59.3% of total outstanding LCY corporate bonds (**Table 2**). Danalinfra Nasional, a state-owned company, had the most outstanding LCY corporate bonds at the end of Q2 2022, amounting to MYR80.0 billion. By sector, the biggest share among the top 30 list was comprised by financial institutions (50.6%) with MYR236.9 billion worth of outstanding LCY corporate bonds at the end of the review period.

LCY corporate bond issuance in Q2 2022 increased 38.3% q-o-q to MYR43.5 billion, reversing the 23.7% q-o-q contraction registered in Q1 2022. Companies brought forward their fundraising in anticipation of higher interest rates in the short-term due to monetary policy tightening in economies around the world.

At the end of June, electric utility company Tenaga Nasional issued five tranches of Islamic medium-term notes (MTNs) totaling MYR4.0 billion (**Table 3**). Drawn from the company's Islamic MTN program, the notes had tenors ranging from 7 years to

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	80.0	18.2	Yes	No	Finance
2.	Prasarana	39.7	9.0	Yes	No	Transport, Storage, and Communications
3.	Lembaga Pembiayaan Perumahan Sektor Awam	36.8	8.3	Yes	No	Property and Real Estate
4.	Cagamas	31.1	7.1	Yes	No	Finance
5.	Project Lebuhraya Usahasama	28.2	6.4	No	No	Transport, Storage, and Communications
6.	Urusharta Jamaah	27.3	6.2	Yes	No	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	22.1	5.0	Yes	No	Finance
8.	Pengurusan Air	18.8	4.3	Yes	No	Energy, Gas, and Water
9.	Tenaga Nasional	16.8	3.8	No	Yes	Energy, Gas, and Water
10.	CIMB Group Holdings	13.5	3.1	Yes	No	Finance
11.	Maybank Islamic	13.0	2.9	No	Yes	Banking
12.	Malayan Banking	12.5	2.8	No	Yes	Banking
13.	Khazanah	10.9	2.5	Yes	No	Finance
14.	Sarawak Energy	10.8	2.4	Yes	No	Energy, Gas, and Water
15.	CIMB Bank	10.6	2.4	Yes	No	Finance
16.	Danum Capital	10.1	2.3	No	No	Finance
17.	Danga Capital	10.0	2.3	Yes	No	Finance
18.	Jimah East Power	8.7	2.0	Yes	No	Energy, Gas, and Water
19.	Public Bank	6.9	1.6	No	No	Banking
20.	Kuala Lumpur Kepong	6.6	1.5	No	Yes	Energy, Gas, and Water
21.	Sapura TMC	6.4	1.4	No	No	Finance
22.	Malaysia Rail Link	6.2	1.4	Yes	No	Construction
23.	Bakun Hydro Power Generation	5.5	1.3	No	No	Energy, Gas, and Water
24.	Bank Pembangunan Malaysia	5.5	1.2	Yes	No	Banking
25.	Turus Pesawat	5.3	1.2	Yes	No	Transport, Storage, and Communications
26.	YTL Power International	5.3	1.2	No	Yes	Energy, Gas, and Water
27.	GOVCO Holdings	5.1	1.2	Yes	No	Finance
28.	1Malaysia Development	5.0	1.1	Yes	No	Finance
29.	EDRA Energy	5.0	1.1	No	Yes	Energy, Gas, and Water
30.	Infracap Resources	4.9	1.1	Yes	No	Finance
Total Top 30 LCY Corporate Issuers		468.5	106.3			
Total LCY Corporate Bonds		789.5	179.1			
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 June 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 Second Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Tenaga Nasional		
7-year Islamic MTN	4.73	1,120.0
10-year Islamic MTN	4.84	300.0
15-year Islamic MTN	5.23	880.0
20-year Islamic MTN	5.36	500.0
25-year Islamic MTN	5.57	1,200.0
Danainfra Nasional		
7-year Islamic MTN	3.99	415.0
10-year Islamic MTN	4.07	300.0
15-year Islamic MTN	4.53	870.0
20-year Islamic MTN	4.68	355.0
30-year Islamic MTN	4.80	560.0
Cagamas^a		
2-year MTN	3.84	50.0
3-year Islamic MTN	3.92	555.0
3-year Islamic MTN	3.91	100.0
3-year Islamic MTN	4.00	150.0
5-year MTN	3.78	1,000.0

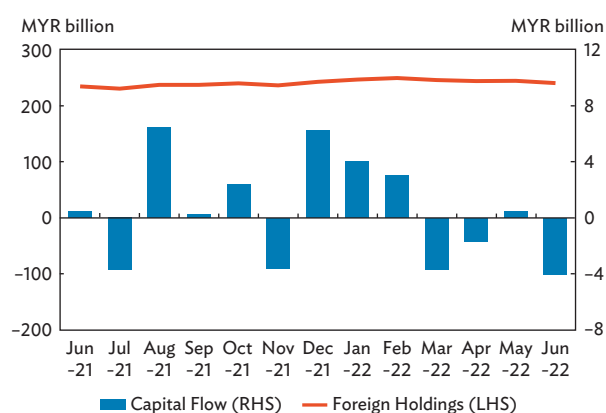
MTN = medium-term note, MYR = Malaysian ringgit.

^a Multiple issuance of the same tenor indicates issuance on different dates.
Source: Bank Negara Malaysia Bond Info Hub.

25 years and coupon rates from 4.73% to 5.57%. In April, financial services company Danainfra Nasional issued a five-tranche Islamic MTN worth MYR2.5 billion. With periodic distribution rates from 3.99% to 4.80%, the proceeds raised from the issuance will finance funding requirements of MRT line projects in Malaysia. Mortgage company Cagamas issued two MTNs in Q2 2022: a 2-year and a 5-year bond. Proceeds of the latter, which amounted to MYR1.0 billion, will be used to fund the purchase of housing loans. Cagamas also issued several 3-year Islamic MTNs with coupon rates ranging from 3.91% to 4.00%, the proceeds of which will be used to purchase home financing.

Investor Profile

Foreign investors reduced their holdings of Malaysian LCY government bonds in April, with the foreign-owned share of LCY government bonds declining to MYR243.5 billion from MYR245.2 billion in March (**Figure 2**). After a quick recovery to MYR244.0 billion in May, foreign holdings

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:

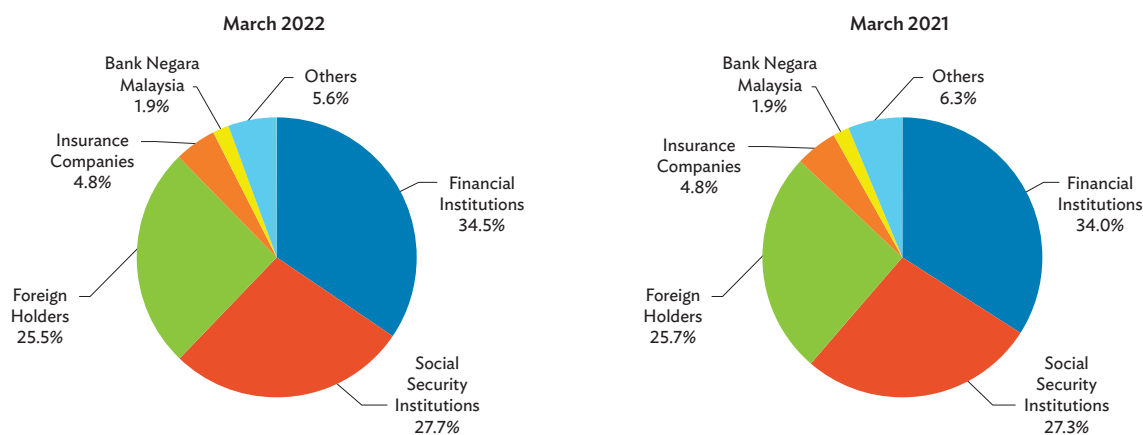
- Figures exclude foreign holdings of Bank Negara Malaysia bills.
- Month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.

Source: Bank Negara Malaysia Monthly Statistical Bulletin.

dipped again to MYR239.9 billion in June. As a share of LCY government bonds, foreign holdings declined every month of the review period—from 25.2% at the end of April to 24.9% at the end of May and 24.1% at the end of June. Net capital outflows from the bond market were registered in April and June amounting to MYR1.7 billion and MYR4.1 billion, respectively. The net inflows of MYR0.5 billion in May were insufficient to offset these earlier outflows. The huge outflows in June were in line with outflows from emerging markets globally brought about by geopolitical risks, aggressive monetary policy tightening by the Federal Reserve, and inflation concerns worldwide.

At the end of March, the largest investors in LCY government bonds were financial institutions and social security institutions, with holdings of 34.5% and 27.7% of total outstanding bonds, respectively (**Figure 3**). The share of financial and social security institutions inched up from 34.0% and 27.3%, respectively, from the same period in 2021. Meanwhile, the share of foreign holders shrunk to 25.5% at the end of March from 25.7% a year prior. The holdings of insurance companies and the BNM were steady at 4.8% and 1.9%, respectively, between March 2021 and March 2022.

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.

Ratings Update

On 27 June, S&P Global Ratings revised its outlook for Malaysia's sovereign credit rating from negative to stable. At the same time, the rating agency affirmed the economy's credit rating of A-. The revision in outlook stemmed from S&P Global Ratings' view that Malaysia's economic growth momentum could be sustained in the next couple of years. It also reflected Malaysia's sustainable recovery spurred by its effective COVID-19 policy response. The affirmation of the credit rating was due to the Malaysia's strong external position, flexible monetary policy, and track record of achieving sustainable economic growth.

Policy, Institutional, and Regulatory Developments

Cagamas Conducts Maiden Issuance Based on Malaysia Overnight Rate

On 5 July, Cagamas, the national mortgage corporation of Malaysia issued the first floating-rate note referencing the Malaysia Overnight Rate (MYOR). Launched by the BNM in September 2021, MYOR is Malaysia's alternative reference rate to replace the London Interbank Offered Rate. MYOR is also transaction-based, allowing for a more robust reference rate and one that is reflective of active and liquid markets in Malaysia. To improve financial benchmarking in Malaysia, in March the BNM also launched the Malaysia Islamic Overnight Rate for Shariah-compliant financial products. Proceeds from Cagamas' floating-rate conventional MTN will be used to finance the purchase of housing loans from Malaysia's financial system.