

Malaysia

Yield Movements

Malaysia's local currency (LCY) government bond yield curve moved upward for all tenors between 31 August and 14 October (**Figure 1**). Yields of short-term bonds (from 1 month to 1 year) jumped an average of 19 basis points (bps), while yields of longer-term, fixed-income securities (2–30 years) soared an average of 45 bps. The yield spread between the 10-year and 2-year government bonds expanded from 70 bps to 78 bps during the review period.

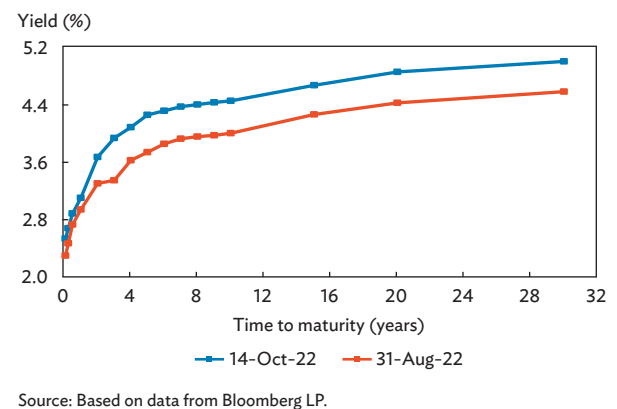
Yields of government securities went up as Bank Negara Malaysia (BNM) raised its overnight policy rate in September to combat inflationary pressure. Investors also sold Malaysian fixed-income securities as the yields on United States (US) Treasuries became more attractive due to the series of interest rate hikes by the Federal Reserve.

On 8 September, BNM's Monetary Policy Committee hiked its overnight policy rate to 2.50% from 2.25%. The increase was meant to temper rising inflation as the economy of Malaysia continued to reopen, with demand-driven inflationary pressure creating a high-cost environment. BNM's decision also factored in its expectation that central banks around the world would continue adjusting their monetary policies to combat inflation. On 3 November, BNM raised the policy rate by another 25 bps.

Prices of basic goods and services in Malaysia remained elevated during the third quarter (Q3) of 2022. Consumer price inflation logged 4.4% year-on-year (y-o-y) in July, accelerating to 4.7% y-o-y in August before slightly slowing to 4.5% y-o-y in September. Average inflation for the first 9 months of 2022 was 3.3% y-o-y, higher than the upper limit of the central bank's inflation forecast of between 2.2% and 3.2% for full-year 2022.

Malaysia's gross domestic product jumped 14.2% y-o-y in Q3 2022, an extension of the 8.9% y-o-y growth recorded in the second quarter (Q2) of 2022 due to improved performance across all sectors of the economy. In the first 3 quarters of 2022, economic growth in Malaysia averaged 9.4% y-o-y, exceeding BNM's expected growth rate of 5.3%–6.3% for full-year 2022.

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



Size and Composition

The LCY bond market of Malaysia expanded 2.6% quarter-on-quarter (q-o-q) in Q3 2022, reaching a size of MYR1,853.0 billion (USD399.6 billion) at the end of September (**Table 1**). This growth was faster than the 2.3% q-o-q increase recorded in the prior quarter. On an annual basis, Malaysia's bond market rose 7.8% y-o-y, accelerating from the 6.6% y-o-y expansion in Q2 2022. The growth was due to increases in both outstanding government and corporate bonds, which comprised 56.6% and 43.4%, respectively, of total outstanding bonds at the end of the review period. Total outstanding *sukuk* (Islamic bonds) grew 3.9% q-o-q in Q3 2022, extending the 1.5% q-o-q expansion logged in Q2 2022. This growth was spurred by expanding stocks of both government and corporate *sukuk*.

Issuance of LCY bonds in Q3 2022 grew 7.2% q-o-q on increased issuance of government bonds. However, this was slower than the 35.5% q-o-q growth registered in the previous quarter.

Government bonds. The LCY government bond market of Malaysia rose 3.2% q-o-q in Q3 2022, a deceleration from the expansion of 4.1% q-o-q recorded in Q2 2022. The growth was due to a 3.9% q-o-q rise in central government bonds outstanding, which comprised 98.7% of total government bonds outstanding at the end of September. Outstanding BNM bills at the end of Q3 2022 were more than four times the amount in the previous

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2021		Q2 2022		Q3 2022		Q3 2021		Q3 2022	
	MYR	USD	MYR	USD	MYR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,719	411	1,805	410	1,853	400	1.5	8.5	2.6	7.8
Government	938	224	1,016	230	1,049	226	1.5	10.6	3.2	11.8
Central Government Bonds	914	218	997	226	1,035	223	1.6	11.5	3.9	13.3
of which: <i>Sukuk</i>	435	104	470	107	507	109	4.8	15.2	7.9	16.7
Central Bank Bills	0	0	0.9	0.2	4	0.9	–	(100.0)	388.2	–
of which: <i>Sukuk</i>	0	0	0.2	0.05	1	0.2	–	–	400.0	–
Sukuk Perumahan Kerajaan	24	6	18	4	9	2	0.0	0.0	(49.7)	(62.2)
Corporate	780	186	790	179	804	173	1.4	6.1	1.9	3.1
of which: <i>Sukuk</i>	638	152	651	148	666	144	1.9	7.8	2.3	4.4

(-) = 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. 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.

quarter. The amount of outstanding Sukuk Perumahan Kerajaan at the end of September was about half of the amount in the previous quarter.

Issuance of LCY government bonds in Q3 2022 expanded 12.4% q-o-q, spurred by increased issuance of Treasury and central bank bills. Malaysian Government Securities (conventional bonds) issuance decreased from the prior quarter, while issuance of Government Investment Issues (Islamic bonds) rose in Q3 2022. The increased Islamic bond issuance was supported by the Government of Malaysia's September issuance of its inaugural sustainability *sukuk* worth MYR4.5 billion.

Corporate bonds. LCY corporate bonds outstanding increased 1.9% q-o-q in Q3 2022, extending the marginal growth of 0.1% q-o-q recorded in Q2 2022. Outstanding corporate *sukuk* rose 2.3% q-o-q at the end of September, which was faster than the 0.2% q-o-q growth in the prior quarter.

Malaysia's 30 largest corporate bond issuers had a combined MYR476.3 billion worth of outstanding LCY corporate bonds at the end of Q3 2022. This was equivalent to a share of 59.2% of total corporate bonds outstanding (**Table 2**). Government-owned company DanaInfra Nasional continued to have the largest amount of outstanding corporate bonds at the end of September at MYR80.9 billion. In terms of sector, the largest

share comprised financial institutions (50.4%) with MYR239.8 billion worth of corporate bonds outstanding at the end of Q3 2022.

Issuance of LCY corporate bonds in Q3 2022 declined 0.7% q-o-q, a reversal from the 38.3% q-o-q growth logged in the prior quarter. Corporate entities refrained from issuing fixed-income securities as it became more expensive to raise funds through corporate bonds due to the high-interest-rate environment brought about by the central bank's rate hikes.

In Q3 2022, Lembaga Pembiayaan Perumahan Sektor Awam (Public Sector Home Financing Board) and Sarawak Petchem each issued MYR4.0 billion worth of bonds (**Table 3**). The Public Sector Home Financing Board issued nine Islamic medium-term notes (MTNs) in August, with tenors ranging from 3 years to 30 years. In July, Sarawak Petchem, a state-owned oil and gas company, issued 13 Islamic MTNs with tenors from 3 years to 15 years. Proceeds from the issuance will be used to fund the Sarawak Methanol Project. National mortgage company Cagamas issued MYR3.7 billion worth of conventional and Islamic MTNs in Q3 2022. Most notable of which was the issuance in July of a 1-year floating-rate MTN, the first bond in Malaysia to be priced using the Malaysia Overnight Rate, Malaysia's new alternative reference rate.

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.	DanalInfra Nasional	80.9	17.5	Yes	No	Finance
2.	Lembaga Pembiayaan Perumahan Sektor Awam	40.3	8.7	Yes	No	Property and Real Estate
3.	Prasarana	40.2	8.7	Yes	No	Transport, Storage, and Communications
4.	Cagamas	32.9	7.1	Yes	No	Finance
5.	Project Lebuhraya Usahasama	28.2	6.1	No	No	Transport, Storage, and Communications
6.	Urusharta Jamaah	27.3	5.9	Yes	No	Finance
7.	Perbadanan Tabung Pendidikan Tinggi Nasional	21.1	4.5	Yes	No	Finance
8.	Pengurusan Air	19.0	4.1	Yes	No	Energy, Gas, and Water
9.	Tenaga Nasional	17.0	3.7	No	Yes	Energy, Gas, and Water
10.	CIMB Group Holdings	15.0	3.2	Yes	No	Finance
11.	Maybank Islamic	13.0	2.8	No	Yes	Banking
12.	Malayan Banking	12.6	2.7	No	Yes	Banking
13.	CIMB Bank	12.1	2.6	Yes	No	Finance
14.	Sarawak Energy	10.8	2.3	Yes	No	Energy, Gas, and Water
15.	Danum Capital	10.1	2.2	No	No	Finance
16.	Danga Capital	10.0	2.2	Yes	No	Finance
17.	Khazanah	9.4	2.0	Yes	No	Finance
18.	Jimah East Power	8.7	1.9	Yes	No	Energy, Gas, and Water
19.	Malaysia Rail Link	7.9	1.7	Yes	No	Construction
20.	Public Bank	6.9	1.5	No	No	Banking
21.	Sapura TMC	6.4	1.4	No	No	Finance
22.	Kuala Lumpur Kepong	5.6	1.2	No	Yes	Energy, Gas, and Water
23.	YTL Power International	5.5	1.2	No	Yes	Energy, Gas, and Water
24.	Bank Pembangunan Malaysia	5.5	1.2	Yes	No	Banking
25.	Turus Pesawat	5.3	1.1	Yes	No	Transport, Storage, and Communications
26.	Bakun Hydro Power Generation	5.1	1.1	No	No	Energy, Gas, and Water
27.	1Malaysia Development	5.0	1.1	Yes	No	Finance
28.	EDRA Energy	4.9	1.1	No	Yes	Energy, Gas, and Water
29.	Infracap Resources	4.9	1.0	Yes	No	Finance
30.	PNB Merdeka Ventures	4.8	1.0	No	No	Finance
Total Top 30 LCY Corporate Issuers		476.3	102.7			
Total LCY Corporate Bonds		804.2	173.4			
Top 30 as % of Total LCY Corporate Bonds		59.2%	59.2%			

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

Notes:

1. Data as of 30 September 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 Third Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)	Corporate Issuers	Coupon Rate (%)	Issued Amount (MYR million)
Lembaga Pembiayaan Perumahan Sektor Awam			13-year Islamic MTN	5.34	275
3-year Islamic MTN	3.69	385	14-year Islamic MTN	5.42	280
4-year Islamic MTN	3.90	675	15-year Islamic MTN	5.50	350
5-year Islamic MTN	3.94	100	Cagamas ^a		
7-year Islamic MTN	4.12	480	1-year Islamic MTN	3.45	25
8-year Islamic MTN	4.16	400	1-year MTN	Floating	200
10-year Islamic MTN	4.20	910	1-year MTN	3.45	85
12-year Islamic MTN	4.28	300	1-year Islamic MTN	3.41	560
16-year Islamic MTN	4.46	300	1-year MTN	3.49	30
30-year Islamic MTN	4.81	450	2-year Islamic MTN	3.75	285
Sarawak Petchem			2-year Islamic MTN	3.77	115
3-year Islamic MTN	4.38	190	2-year MTN	3.75	110
4-year Islamic MTN	4.71	200	2-year MTN	3.76	205
5-year Islamic MTN	4.83	305	2-year MTN	3.74	45
6-year Islamic MTN	5.01	400	2-year MTN	3.89	40
7-year Islamic MTN	5.05	415	3-year MTN	3.85	250
8-year Islamic MTN	5.09	350	3-year Islamic MTN	3.93	100
9-year Islamic MTN	5.11	325	3-year MTN	3.93	390
10-year Islamic MTN	5.11	400	3-year MTN	4.00	30
11-year Islamic MTN	5.19	250	5-year MTN	4.25	1,000
12-year Islamic MTN	5.27	260	5-year MTN	4.18	200

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

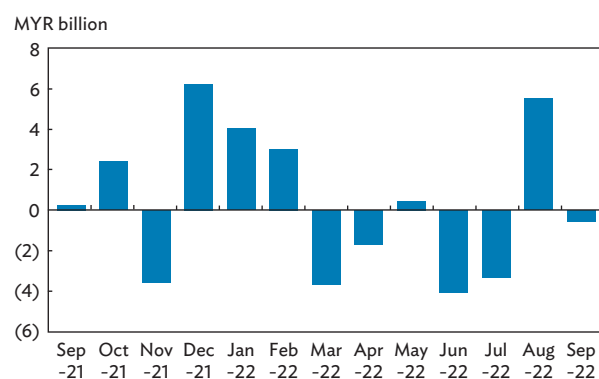
^a Multiple issuance of the same tenor indicates issuance on different dates.

Source: Bank Negara Malaysia Bond Info Hub.

Investor Profile

Capital amounting to MYR3.3 billion flowed out of Malaysia in July. This was more than offset in August with net capital inflows of MYR5.5 billion due to positive economic data in the US easing risk-off sentiments among global investors (**Figure 2**). In September, however, funds flowed out of Malaysia again, this time worth MYR0.6 billion due to the Federal Reserve's hawkish stance in hiking interest rates. For Q3 2022, Malaysia experienced net capital inflows of MYR1.6 billion, a reversal from the net outflows of MYR5.3 billion experienced in Q2 2022, due to the high volume of capital that entered the economy in August.

Foreign investors held a 23.4% share of Malaysian LCY government bonds outstanding at the end of July, which increased to 23.7% in August before falling back to 23.3% in September (**Figure 3**). The spread between the yields of the 10-year US Treasury and the 10-year Malaysian Government Security narrowed between the end of August and the end of September, making MYR-denominated bonds less attractive to foreign investors. At the end of Q3 2022, foreign investors held

Figure 2: Capital Flows into the Malaysian Local Currency Government Bond Market

(-) = negative, MYR = Malaysian ringgit.

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.

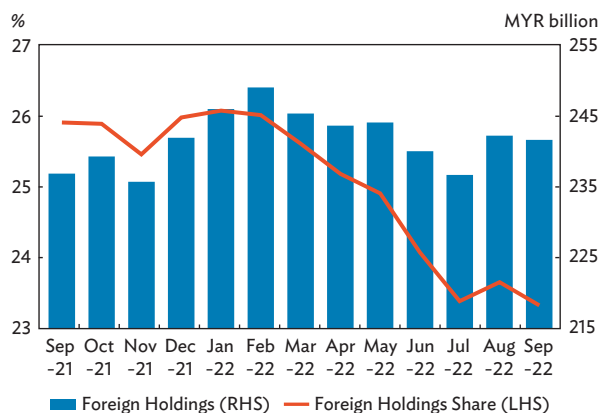
Source: Bank Negara Malaysia Monthly Statistical Bulletin.

MYR241.5 billion worth of LCY government bonds, which was less than the MYR239.9 billion held at the end of the previous quarter.

By the end of the first half of 2022, financial institutions and social security institutions were the largest investors in LCY government bonds, holding 35.2% and 27.4%,

respectively, of total bonds outstanding (**Figure 4**). Shares of financial and social security institutions increased from 34.7% and 27.2%, respectively, compared to the same period in 2021. On the other hand, the share of foreign holders declined to 24.0% at the end of Q3 2022 from 25.7% in the previous year. Insurance companies' holdings were the same at 4.8%, while the BNM's share rose from 1.9% to 2.7% between June 2021 and June 2022.

Figure 3: Foreign Holdings of Malaysian Local Currency Government Bonds



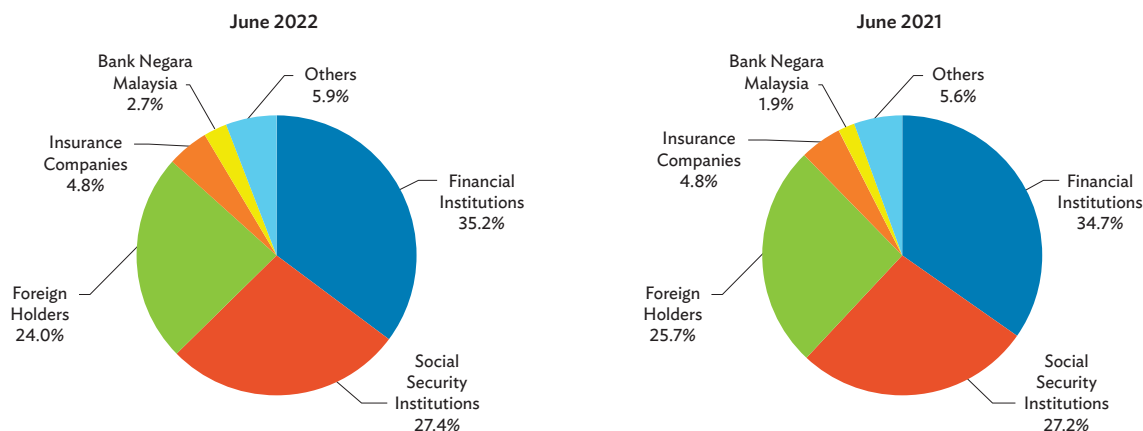
LHS = left-hand side, MYR = Malaysian ringgit, RHS = right-hand side.
 Note: Figures exclude foreign holdings of Bank Negara Malaysia bills.
 Source: Bank Negara Malaysia Monthly Statistical Bulletin.

Policy, Institutional, and Regulatory Developments

Government of Malaysia Issues First Sustainability Sukuk

On 30 September, the Government of Malaysia raised funds through its inaugural Sustainability Government Investment Issues, worth MYR4.5 billion and with a tenor of 15 years. The issuance showed Malaysia's commitment to develop a sustainable economy. The sustainable bond served as a new benchmark bond in Malaysia's Islamic bond market. The proceeds will be used to fund the government's social and green projects under its Sustainable Development Goals Sukuk Framework.

Figure 4: Local Currency Government Bonds Investor Profile



Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.
 Source: Bank Negara Malaysia.