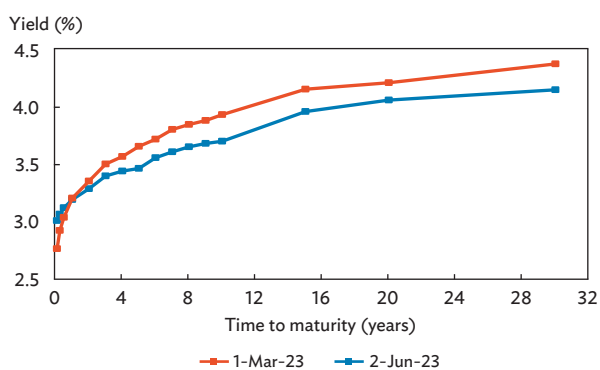


Malaysia

Yield Movements

The local currency (LCY) government bond yield curve of Malaysia flattened between 1 March and 2 June (Figure 1). The movement of the yield curve of Malaysian fixed-income securities largely tracked the movement of the yield curve of United States (US) Treasury bonds, wherein short-term yields increased while long-term yields fell. Malaysian LCY government bonds benefited from the renewed attractiveness of emerging markets as the US Federal Reserve signaled that it would soon halt its interest rate hikes. On 9 March, Bank Negara Malaysia decided to keep its overnight policy rate unchanged amid strong economic growth in 2022 and moderating but still elevated consumer price inflation. The Malaysian central bank had a surprise rate hike on 3 May, increasing the overnight policy rate by 25 basis points to 3.00%, as a precautionary measure against potential financial risks.

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

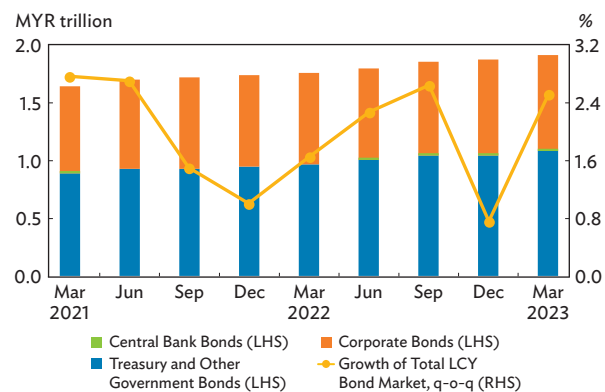


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The Malaysian LCY bond market expanded 2.5% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2023, reaching MYR1.9 trillion (USD433.5 billion) at the end of March; growth was hindered somewhat by declining maturities (Figure 2). This extended the growth of 0.8% q-o-q posted in the previous quarter, with an expansion in all outstanding LCY bond types

Figure 2: Composition of Local Currency Bonds Outstanding in Malaysia



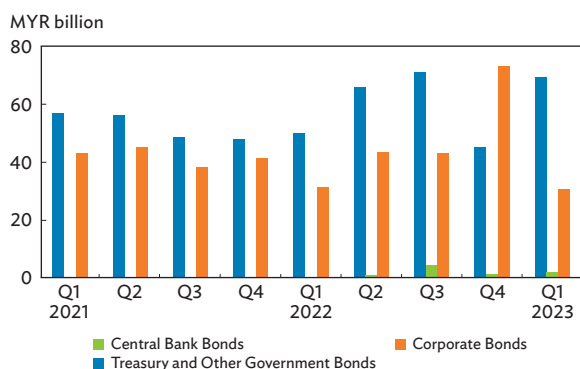
LCY = local currency, LHS = left-hand side, MYR = Malaysian ringgit, q-o-q = quarter-on-quarter, RHS = right-hand side.

Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

contributing to the Q1 2023 growth. Outstanding Treasury and other government securities increased at a faster pace than in the fourth quarter (Q4) of 2022, continuing to be the main drivers of growth in the Malaysian LCY bond market. Outstanding fixed-income securities of the Government of Malaysia constituted a majority of the LCY bond market. Meanwhile, growth in Bank Negara Malaysia bills outstanding rebounded from Q4 2022. Corporate bonds outstanding also expanded in Q1 2023, but at a slower pace than in the prior quarter as issuers reduced their issuance amid uncertainties in global financial markets due to the turmoil in the banking industry in the US. Government-owned finance company DanaInfra Nasional continued to top all corporate bond issuers with total outstanding LCY bonds worth MYR82.3 billion at the end of March 2023.

Malaysian LCY bond issuance contracted 14.4% q-o-q in Q1 2023 due to a decline in the issuance of LCY corporate bonds (Figure 3). Aside from uncertainties in the financial market, the reduced issuance of LCY corporate bonds in Q1 2023 was also the result of a high base from the previous quarter. This offset the rebound in issuance of Treasury and other government bonds and central bank bills. Malaysian Government Securities (conventional bonds) and Government Investment Issues (*sukuk* or Islamic bonds) drove the 54.4% q-o-q growth in Treasury and other government bonds. During the

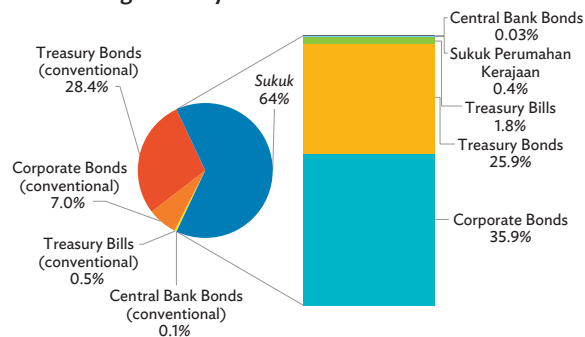
Figure 3: Composition of Local Currency Bond Issuance in Malaysia



MYR = Malaysian ringgit, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Figure 4: Composition of Local Currency Islamic Bonds Outstanding in Malaysia



MYR = Malaysian ringgit.

Note: 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.

Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

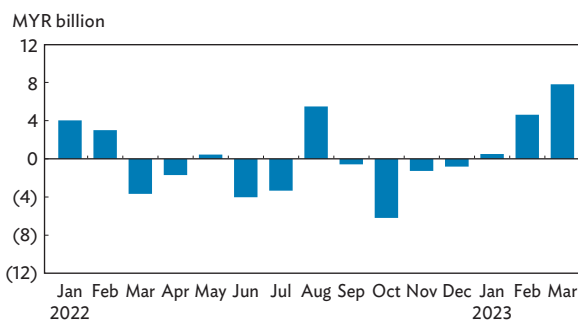
review period, Maybank Islamic had the largest aggregate issuance with eight Islamic commercial paper issuances totaling MYR4.0 billion.

Outstanding sukuk comprised 64.0% of Malaysia’s LCY bond market in Q1 2023 (Figure 4). Islamic bonds outstanding amounted to MYR1.2 trillion at the end of March, growing 3.6% q-o-q. Outstanding corporate sukuk continued to drive the Islamic bond market as they comprised a majority of LCY corporate bonds outstanding at the end of Q1 2023.

Capital Flows

Capital inflows worth MYR13.0 billion were recorded in Q1 2023 (Figure 5). Foreign investors turned to emerging markets after the Federal Reserve signaled that it would soon halt its interest rate hikes. Foreign holdings of LCY government bonds slightly increased to 22.7% at the end of March from 22.4% at the end of December.

Figure 5: Capital Flows in the Malaysian Local Currency Government Bond Market



() = negative, MYR = Malaysian ringgit.

Notes:

- Figures exclude foreign holdings of central bank bonds.
- 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.