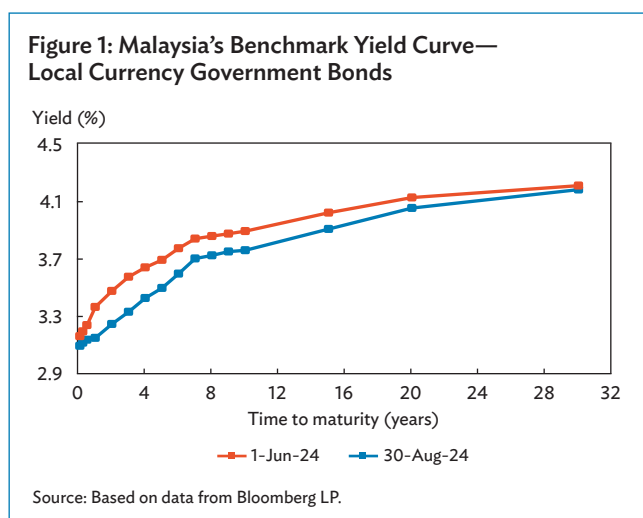


Malaysia

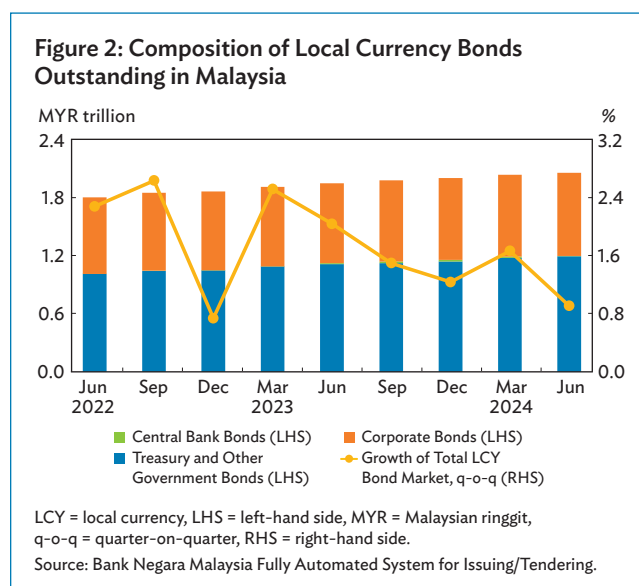
Yield Movements

Local currency (LCY) government bond yields in Malaysia fell for all tenors between 1 June and 30 August on expectations of policy rate cuts by the United States Federal Reserve. Yields fell an average of 14 basis points across the curve during the review period (Figure 1). Yields fell on increased expectations of a policy rate cut by the Federal Reserve in its September meeting amid moderating inflation and weak labor data. The drop in yields was further supported by continued foreign bond inflows in the domestic bond market. With Bank Negara Malaysia expected to maintain its policy rate for the rest of the year, domestic bonds are deemed even more attractive by investors as the Federal Reserve signals impending rate cuts. On 11 July, Bank Negara Malaysia held its policy rate steady at 3.50% amid stable inflation and sustained economic growth.



Local Currency Bond Market Size and Issuance

Growth in Malaysia's LCY bonds outstanding moderated in the second quarter (Q2) of 2024 amid reduced issuance of central bank bills. The LCY bond market reached a size of MYR2.1 trillion at the end of June on 0.9% quarter-on-quarter (q-o-q) growth, supported by both the government and corporate bond segments. However, the reduced stock of central bank bills led to a slowdown in overall growth (Figure 2). Government bond market grew 1.6% q-o-q in Q2 2024, driven by increased issuance of Treasury bills. Meanwhile, corporate bonds outstanding rose 1.3% q-o-q in Q2 2024 due to a rebound in issuance during the quarter. *Sukuk* (Islamic bonds) continued to comprise a majority of the total LCY bond market in Q2 2024 with a share of 63.4% at the end of June.



Total LCY bond issuance in Malaysia was dragged down by a contraction in issuance of central bank bills. In 2023, Bank Negara Malaysia increased its issuance of central bank bills as part of efforts to manage excess liquidity in the market. However, the central bank curtailed its issuance starting in the first quarter of 2024 as liquidity conditions stabilized (**Figure 3**). Meanwhile, issuance of government bonds rose 25.0% q-o-q in Q2 2024, primarily due to higher issuance of Treasury bills. Corporate bond issuances also increased 17.1% q-o-q, as companies took advantage of lower borrowing costs amid declining bond yields. Despite these increases, LCY bond issuance fell 13.6% q-o-q to MYR116.4 billion in Q2 2024, again largely due to the reduction in central bank bill issuance.

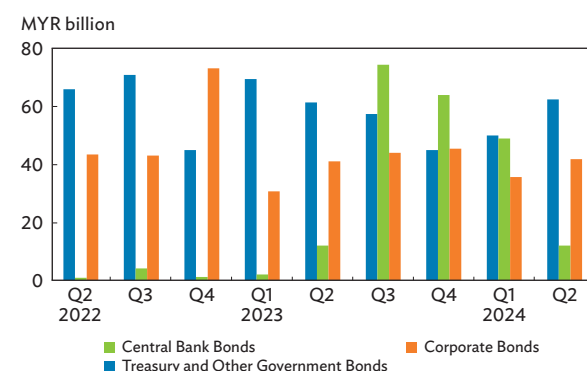
Investor Profile

Bond holdings in Malaysia remained unchanged from a year earlier. Nearly 80% of Malaysia’s LCY government bonds outstanding were held by domestic investors at the end of March. Among these domestic investors, financial institutions and social security institutions held the largest shares at 33.2% and 29.8%, respectively (**Figure 4**). Meanwhile, foreign holdings in Malaysia’s domestic government bond market slightly decreased to 21.2% at the end of March from 22.7% a year earlier.

Sustainable Bond Market

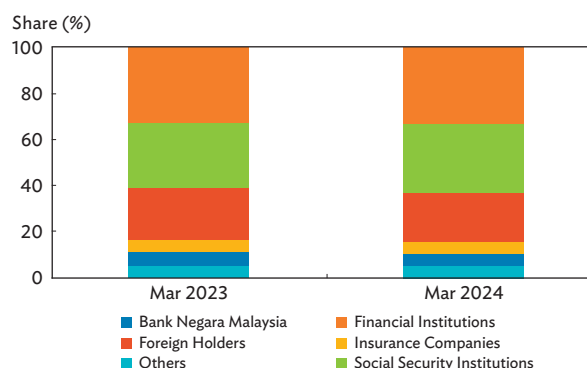
At the end of June, Malaysia’s sustainable bond market largely comprised long-term sustainability bonds issued by the corporate sector. The size of Malaysia’s sustainable bond market reached USD14.2 billion at the end of June on 3.5% q-o-q growth. Sustainability bonds comprised almost three-fourths of the sustainable bond market, with green bonds the next most common bond type (**Figure 5**). A majority of sustainable bonds outstanding at the end of June were issued by private corporations and carried maturities of more than 5 years. Sustainable bonds issued by the government were also only longer-term securities. Consequently, the size-weighted average tenor of sustainable bonds in Malaysia at the end of June was 8.7 years. Over 80% of the sustainable bonds outstanding in Malaysia at the end of Q2 2024 were denominated in ringgit.

Figure 3: Composition of Local Currency Bond Issuance in Malaysia



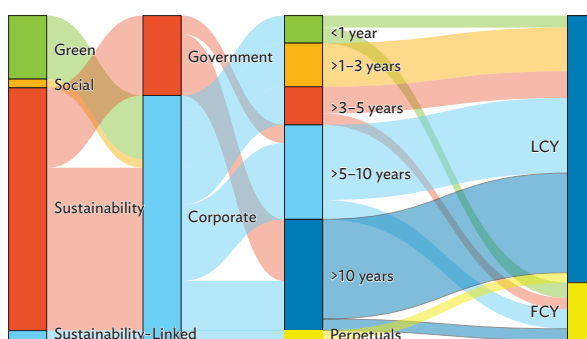
MYR = Malaysian ringgit, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Figure 4: Local Currency Government Bonds Investor Profile



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

Figure 5: Market Profile of Outstanding Sustainable Bonds in Malaysia at the End of June 2024



FCY = foreign currency, LCY = local currency.
Source: AsianBondsOnline calculations based on Bloomberg LP data.