

Roundtable Discussion on Bond Market Development

10th March 2017



Bond Market Sub-Committee
Financial Market Committee, Bank Negara Malaysia

Content

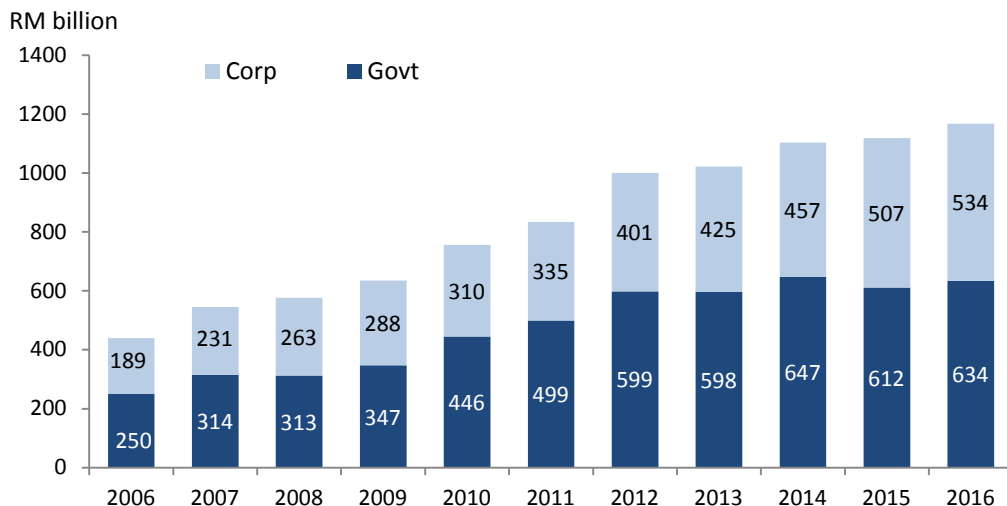
1. Updates on Malaysian Bond Market

2. Discussion on Developments of Malaysian Bond Market



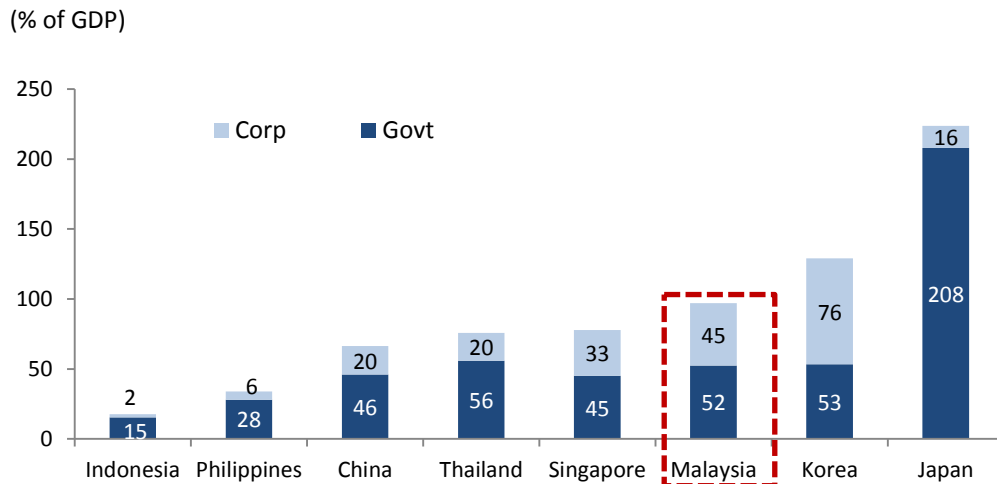
Continuous growth in domestic bond market...

Size of Domestic Bond Markets (as at 31 Dec' 16)



- Malaysian bond market at an outstanding of RM1.2 trillion or 90% of GDP.
- Average annual growth rate at 10.5% since 2006.
- Estimated to grow further with net issuance of ~RM80 billion¹ in 2017.

Size of Regional Domestic Bond Markets (as at 30 Sept' 16)



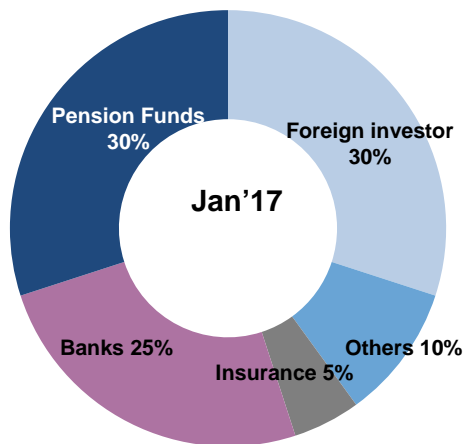
- Malaysian bond market remains the largest in Southeast Asia and third largest in Asian region.

Source: Asian Bonds Online, Bank Negara Malaysia

¹ Corporate bond issuances is based on estimate by RAM Holdings Bhd

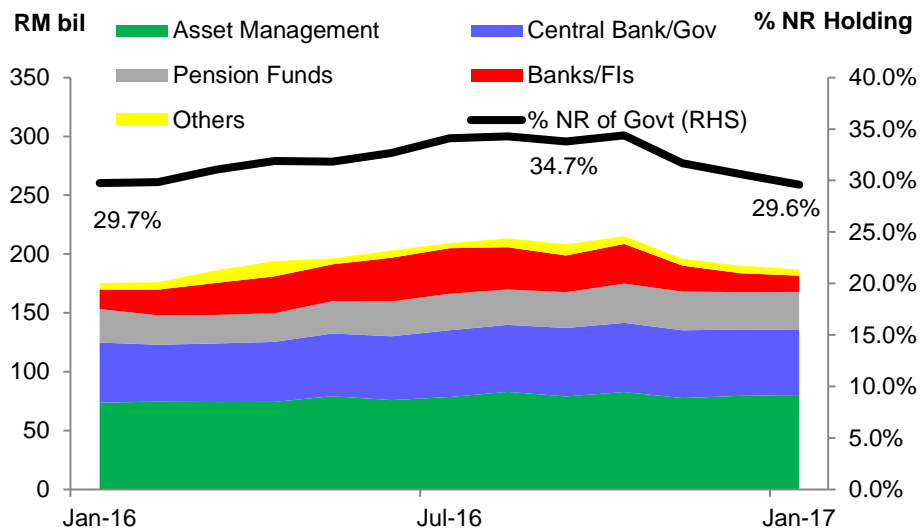
Relatively high non-resident holdings

Diverse investor base of government bonds



*Others include DFIs, non-bank FI, statutory body, co-operatives and central bank

Non-resident Holdings of Malaysian government bonds



Source: Bank Negara Malaysia



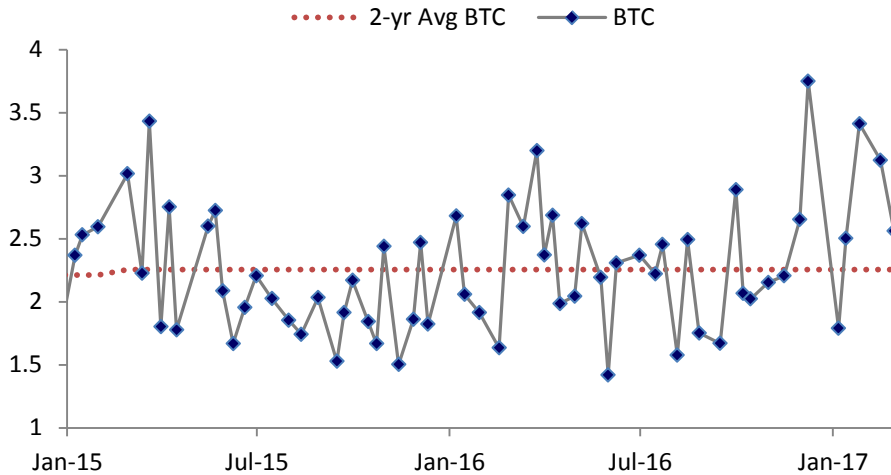
- Diverse investor base supports the liquidity of the bond market.
- Relatively high NR holdings of 28.7% suggest need for greater transparency and surveillance.

- In 2016, NR holdings peak at 34.7% in November but readjusted post-Trump and post-NDF measures.
- NR FIs holdings reduced the most post-NDF measures.
- NR holdings reduction were mainly from less than 3 years maturity

Period	< 3 years	3-5 years	> 5 years
November'16	83.8	39.9	72.2
6th March'17	68.6	37.1	68.4
Changes	-15.2	-2.8	-3.8

Well supported Government securities auctions

Historical BTC for MGS and MGII Auction

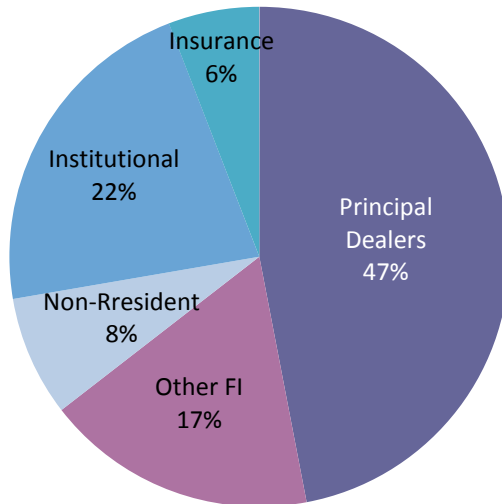


- 2-year average BTC of Government securities auctions is strong at 2.3x.
- Auctions in 2017 recorded an average BTC of 2.7x.

Government Issuances	Issue Date	Issuance (RM bil)	BTC
3-yr MGII Reopen	06/01/2017	3.5	1.79
15-yr MGS Reopen	13/01/2017	4.0	2.50
10.5-yr MGII New	26/01/2017	4.0	3.41
7.5-yr MGII New	15/02/2017	4.0	3.12
30-yr MGS Reopen ¹	28/02/2017	2.0	2.56

1. With additional RM1.0 billion of private placement

2016 Auction Participation by Investor Type

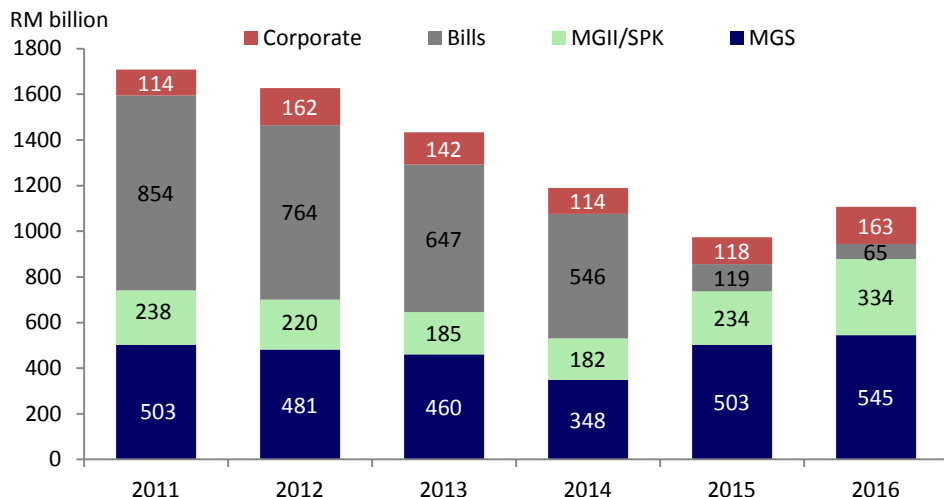


- Significant support was observed by diverse investors such as pension funds, institutional investors, insurance and banks.

Source: Bank Negara Malaysia

Healthy liquidity in secondary market

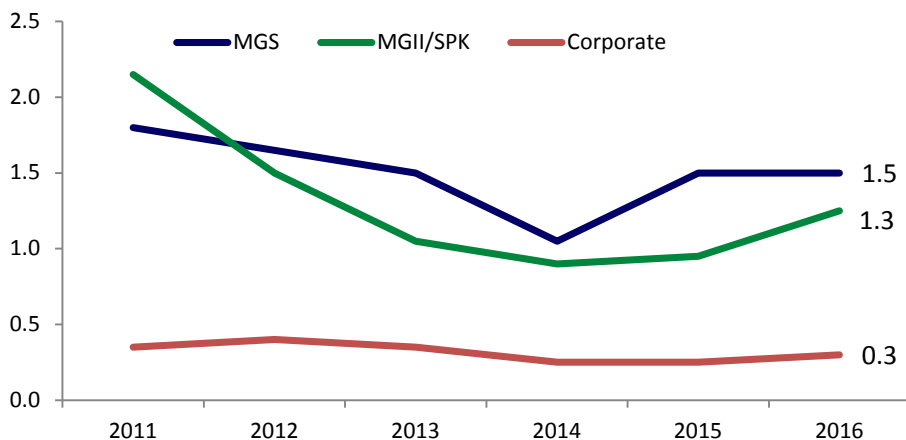
Bond Trading Volume



- 2016 secondary bond trading volume increased 14% y-o-y, primarily in MGII, following inclusion into global bond indices.
- Average daily volume for 2016 picked up to RM4.5 billion, particularly in MGII which recorded RM1.4 billion daily.

RM billion	2011	2012	2013	2014	2015	2016	YTD
MGS	2.1	2.0	1.9	1.4	2.0	2.2	2.0
MGII/SPK	1.0	0.9	0.7	0.7	1.0	1.4	1.0
Bills	3.4	3.1	2.6	2.2	0.5	0.3	0.1
Corporate	0.5	0.7	0.6	0.5	0.5	0.7	0.6
Total	7.0	6.6	5.8	4.8	4.0	4.5	3.7

Bond Turnover ratio



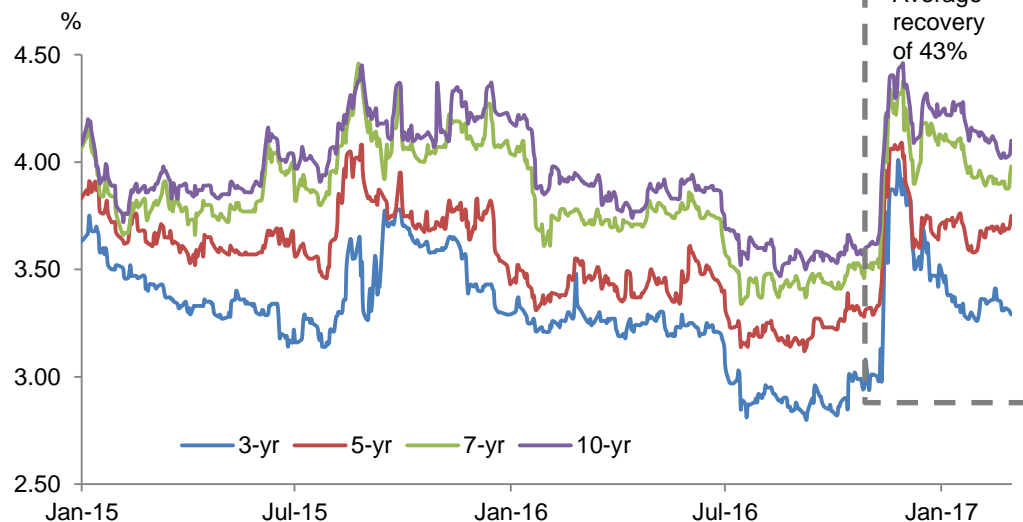
- Aggregate total bond turnover ratio is ~1

*Turnover Ratio = Volume/Outstanding

Source: Bank Negara Malaysia, ETP

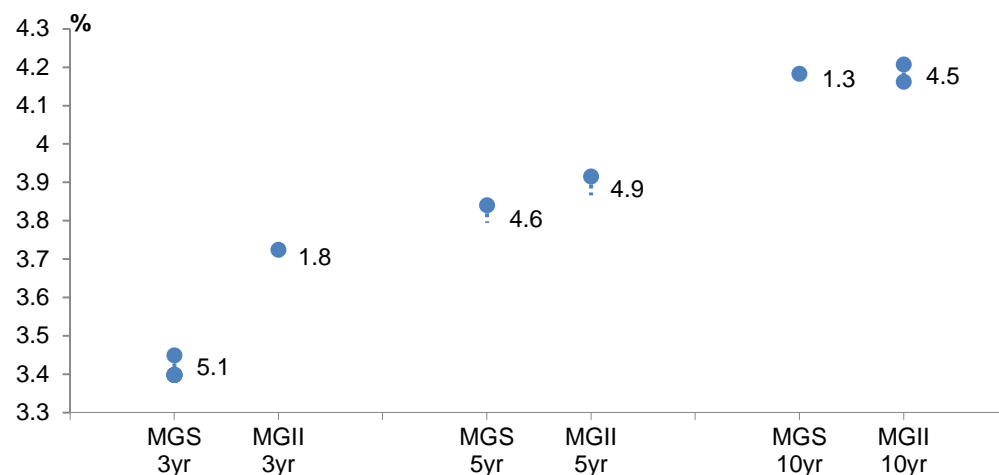
Bond yields reflect global and domestic market

MGS Yields



- Post Trump election, MGS yields spiked, reaching a peak in end-Nov'16.
- Post implementation of NDF measures in early Dec'16, MGS yields stabilized supported by strong buying flows from yield-hunting institutional investors
- Regional countries experienced spiked in yields, recovered thereafter.

MGS MGII Bid-Ask Spreads (bps)



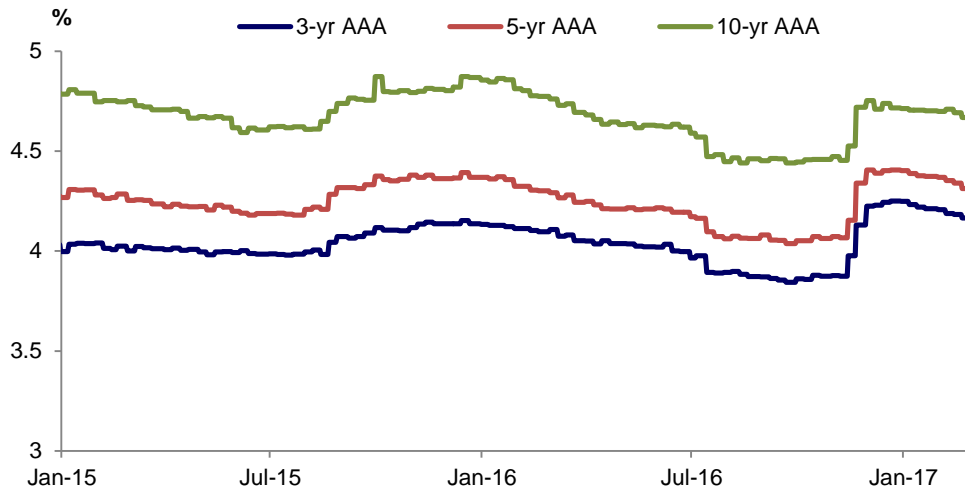
- Bid-ask spread remained narrow amidst the volatility in global bond markets.
 - MGS benchmark (1.3 to 5.1 bps)
 - MGII benchmark (1.8 to 4.9 bps)
 - Long-term bonds (5 to 10 bps)

Source: Bloomberg

Data as at 3rd Mar,17

Corporate bond yields were relatively stable

MGS Yields



- Corporate bond space remained conducive for issuers with YTD issuances of RM8 billion.
- Corporate bond yields remained relatively stable over the past 2 years.
- Post-trump election and post implementation of NDF measures, corporate bond yields were relatively more stable than government bond yields.

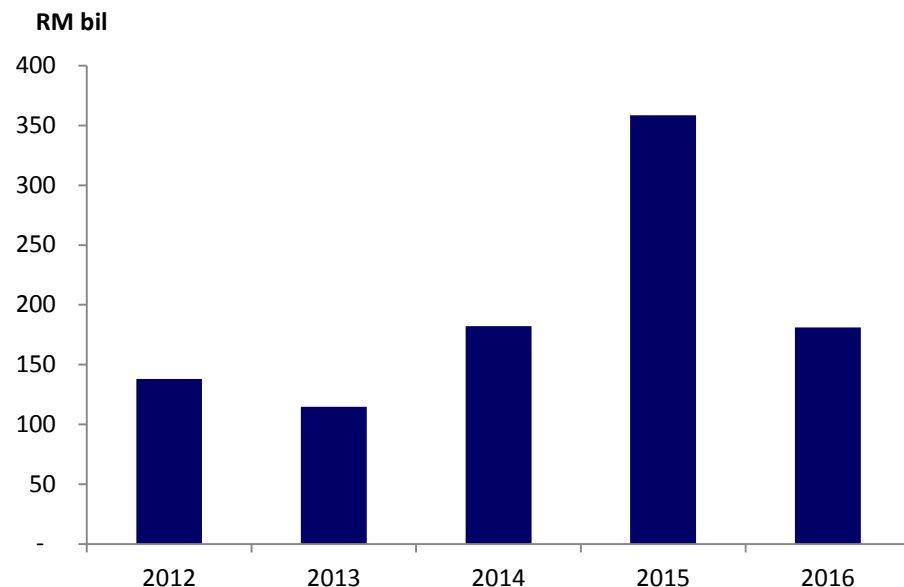
AAA Corporate Bond Spread vs MGS

Tenor	07-Nov-16		25-Nov-16		06-Mar-17	
	AAA Corp	Spread	AAA Corp	Spread	AAA Corp	Spread
3 yr	3.87	74	4.13	12	4.14	82
5 yr	4.07	67	4.34	28	4.3	52
7 yr	4.25	62	4.48	16	4.46	45
10 yr	4.45	67	4.72	29	4.65	54

Source: Bloomberg

Repos are widely used as funding and market making

Historical Repo Volume



Source: ETP

- Average annual repo volume of RM195 billion since 2012.
- Considerable growth in repo activities in 2015 was driven by BNM initiatives which liberalise short-selling activities and reverse repo operations.
- Key market players in repo market are primarily local financial institutions.

No	Financial Institution	Market share (%)
1	Public Bank	20
2	CIMB Bank	19
3	HSBC	15
4	Hong Leong Bank	12
5	KAF Investment	6
6	JP Morgan Chase	5
7	Standard Chartered	5
8	Affin	5

- Repo is an alternative source of liquidity management tool and funding instrument for financial institutions.

Discussion on Bond Market Development Initiatives

1

Promote stable and sustainable growth of domestic bond market with balanced composition of investor

- ✓ Increase participation of longer-term investors and reduce speculative investors
- ✓ Non-resident banks were mainly concentrated in less than 3 years maturities and were most volatile in 2016

2

Enhance surveillance mechanism to facilitate better risk management

- ✓ Requirement to maintain onshore segregated accounts for investments
- ✓ Ability to monitor enables space for onshore market flexibilities to be developed

3

Promote better liquidity through enhancement in hedging tools

- ✓ Further expansion of short-selling framework:
 - Malaysian Government Investment Issue (MGII)
 - Expand framework to resident investors
- ✓ Greater participation in the repo market
- ✓ Develop onshore FX hedging under better visibility and surveillance

