UNIVERSITI TEKNOLOGI MARA

THE IMPACT OF MACROECONOMIC FACTORS ON MALAYSIAN GOVERNMENT BOND YIELDS- 10 YEAR

ERRA SHAZIERA BT MOHD RASHUL
2016717077

Final Year Project Paper submitted in fulfillment
of the requirements for the degree of
**Bachelor of Business Administration
(Investment)**

Faculty of Business and Management

December 2018

ACKNOWLEDGEMENT

After several months of hard work for my research project, finally it comes to its end. Now, it is time to warmly thank everyone who provided their assistance for me. First, I would like to thank UiTM because giving me the opportunity to make my own research paper. Next, I would like to express my sincere recognition to my lecturer, Madam Yuslizawati Binti Mohd Yusoff, who provide advice and shares knowledge on how to do a research paper and helped until I finished this paper. Last but not least, I would like to thank my family for their support and also to my friends who always helped and provide the necessary facilities in order to complete this paper. Thank you so much.

ABSTRACT

A government bond is a debt security issued by a government to support government spending. Before investing in government bonds, investors need to assess several risks associated with the country, such as country risk, political risk, inflation risk and interest rate risk, although the government usually has low credit risk. Government bonds are considered risk-free and are traded in highly liquid markets. Government bond yields is the return on investment, expressed as a percentage, on the government's debt obligations. On the downside, government bonds return is typically low rate of return. Thus, the purpose of this study is to identify whether macroeconomic factor has an impact on government bond yields in Malaysia. Dependent variable is the government bond yields. The independent variables are inflation rate, interest rate, GDP, stock market volatility and unemployment rate. The study conducted by using time series data analysis. Data collected is on the quarterly basis. There are 32 observation with the period of study between 2010 Q1 until 2017 Q4 that derived from Thomson Reuters DataStream. We apply ordinary least square (OLS) method which is multiple regression analysis. The result showed the GDP, interest rates, stock market volatility and unemployment rate are positive significant towards Malaysia government bond yields-10 years while the inflation rate showed positive insignificant towards Malaysia government bond yields-10 years.

TABLE OF CONTENT

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Within this paper, the main part will talk about on the background of Malaysia Government Bond. The learning of the foundation is essential and critical to upgrade the comprehension of how inflation rate, interest rate, GDP, stock market volatility and unemployment rate can influence the Malaysian Government Bond Yields-10 year. Malaysia government bond yields-10 year is critical in the point of view of investors in light of the fact that the expansion and lessening of bond yields can influence the bond price and basic leadership of investors. Next, this part will proceed with the problem statement which gives reader altogether comprehends of this research. At that point, it will proceed to the questions and objectives pf this study, extra with the significance, scope, limitations of study. At that point proceed with the meaning of the key terms and toward the finish of this section, the summary will be presented.

1.2 Research Background

The Malaysian bond market is one of the most developed and dynamic bond markets in the region. It is the largest local currency bond market in the Association of Southeast Asian Nations (ASEAN). As of 31 December 2011, the market has reached the size of MYR848 billion (equivalent to $282.3 billion).

A demonstration of the significance of the Malaysian fixed-income in the worldwide security markets is its incorporation in various worldwide files, for example, the consideration of Malaysian government bonds in the World Government Bond Index, which is a standout amongst the most referenced benchmark advertise lists by the universal putting network and in addition in the Barclays Aggregate Index.

Malaysia government bond has four types mainly the Malaysian Government Securities (MGS), Malaysian Treasury Bills (MTB), Malaysian Islamic Treasury Bills (MITB) and Government Investment Issues (GII). MGS and GII are financial assets