UNIVERSITI TEKNOLOGI MARA

MACROECONOMIC VARIABLES AND MALAYSIA BOND YIELD

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Thesis submitted in fulfillment
of the requirements for the degree of
**Bachelor of Business Administration
(Investment Management)**

Faculty of Business Management

December 2017

AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA, Johor. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergaduate, Universiti Teknologi MARA, Johor regulating the conduct of my study and research.

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LETTER OF SUBMISSION

21st December 2017

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Dear Madam,

SUBMISSION OF PROJECT PAPER

Attached is the project paper titled "MACROECONOMIC VARIABLES AND MALAYSIA BOND YIELD" to fulfill the requirement as needed by the Faculty of Business Management, Universiti Teknologi MARA.

Thank you.

Yours sincerely,

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ABSTRACT

Currently, there was reported that there will be pressure from foreign investors increasing their selling of Malaysian Government Securities (MGS) and Government Investment Issue (GII).The yields also will go up as bond prices drop, which will indicates more funds will have to be assigned from the operating expenditure to service debt. Based on this issue, this paper attempts to study the relationship between macroeconomic factors and Malaysian government bond. 10 year of Malaysian government bond yield is used as a dependent variable while macroeconomic variable used as independent variable. Macroeconomic variables selected in this study are inflation rate, unemployment rate and industrial production rate. This study has 63 observations that covered from January 2012 until March 2017 included in the analysis. All monthly data gathered from International Monetary Fund. Consumer Price Index is used as a proxy for inflation rate while industrial production rate is used as proxy for industrial production and Unemployment rate is used as proxy for unemployment. All the data was analyzed by using Ordinary Least Squares method to estimate the regression equation with the help from E-Views software. The study conducts descriptive statistics that shown all the basic elements in the data. The correlation analysis also implemented in this study to identify the relationship among the variables. This study used regression analysis to explain the research findings. Since the study used OLS method, it will conduct testing on the assumption in this study. Based on the findings, the study specifies that inflation rate showed positive relationship towards Malaysian government bond which is consistent with prediction in hypotheses. However, there are two variables have shown unexpected findings that have been predicted in hypotheses which are industrial production and unemployment rate. Unemployment has shown negative relationship towards Malaysian government bond, while on the other hand; industrial production index has shown no relationship towards Malaysian government bond. Previous study from different research found different findings from their study in order to determine the relationship between macroeconomic variables and government bond yields.

TABLE OF CONTENT