UNIVERSITI TEKNOLOGI MARA

DETERMINANT OF BOND MARKET IN MALAYSIA

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ABSTRACT

The Malaysian bond market has experienced fast growth in recent years as more business operations have increased from time to time. However, only a few people are well aware of the macroeconomic factors that significantly impact the bond performance specifically bond yields. The issue arises when there are only a few researchers conduct studies related to government bond yields and it is rare to find any research conducted in Malaysia. Thus, to cater that problem, this study was conducted to determine the relationship between government bond yields and macroeconomic factors such as gold price, oil price,and stock market performance. This study will also identify the most significant variables towards the government bond yields as to improve the confident of government and investors in making any further investment decision. Secondary data were obtained from 2006 to 2020, including quarterly data used in this paper that also accumulate to 60 number of observations. Moreover, the study's findings are divided into three categories: descriptive analysis, correlation analysis, and regression analysis. The expected result for this study is that only gold price and crude oil price shows a significant relationship between Malaysia government bond yields. These empirical findings assist investors in determining the elements that may influence government bond yields and decision-making.

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INTRODUCTION

1.1 INTRODUCTION

In today's expanding global economy, the bond market plays an essential role as an alternate source of funding. Following the Asian financial crisis of 1997, the government beganactively using bonds as a primary source of long-term financing to improve the country's financial system and minimize the country's vulnerability to future financial crises (Fabella &Madhur, 2003). According to Hale (2005) the bond market can offer funds to businesses at a cheaper cost than bank loans. However, while bonds do not have to pay for monitoring, bankshave imposed extra fees for reserve and capital requirements, operational expenses, and monitoring fees usually paid to borrowers.

Following the financial crisis, the Malaysian government has realized the significance of a well-functioning capital market for fast economic growth, as well as the enhancement of the bond market's strong development to offer a competitive source of long-term financing to the economy. There has been considerable progress since then in amending the Securities Commission Act of 1983 by the Malaysian government. Securities Commission Malaysia (SC) became the only regulator for all fundraising operations in Malaysia since July 2000, includingthe registration and approval of corporate bond issues.

Throughout this paper, the first chapter will explore the context of Malaysian Government Bonds. It is essential to have a thorough grasp of the background to comprehend better how the gold price, stock market performance, and crude oil price may influence the yields on Malaysian government bonds. From the viewpoint of investors, Malaysia's Government Bond Yields are crucial because changes in yields may impact the bond price andthe decision-making of investors, depending on their level. According to Ozcelebi (2021), 10-year government bond yields are a leading indicator of long-term monetary circumstances in the United States, and 10-year US Treasury yields have historically been considered a safe- haven asset in a period of poor macroeconomic prospects. This shows that 10-year governmentbond yields are one of the keys in determining the level of an economy. Furthermore, the Malaysian government's bond in the financial market is a significant instrument since it is highly liquid and serves as a benchmark for all other bonds.