UNIVERSITI TEKNOLOGI MARA

THE DYNAMIC DETERMINANTS OF MALAYSIAN BOND PRICE

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

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

Government bonds are one of the major government debt instruments that the government uses to provide the required liquidity for project finance. Bonds are seen as monetary policy instruments as well as low-risk investment products. These products are issued with maturities ranging from medium to long term. The aim of this research is to investigate the factors that affect the price of the bond in Malaysia. Particular attention will be paid to selected factors are interest rate, inflation rate and yield of the bond. Using a rich dataset from Datastream, Bank Negara Malaysia (BNM), and World bank. This study will include a yearly data set of each variable covering the period from 2005 to 2020 (16 years) by employing time series data which concentrated on descriptive analysis, correlation analysis, regression analysis, and the normality test. The outcome is expected to demonstrate a substantial link between the dependent variable (bond price) and the independent factors (interest rate, inflation rate and bond yield). It also provides some additional quantitative information for bond investors when investing in bonds.

ACKNOWLEDGMENT

The tremendous support and help of many individuals have enabled this project to become a reality. I would want to offer my deepest appreciation to every one of them.
First and foremost, I want to thank Allah S.W.T for the intelligence, power, and health He has given up on me in order to complete this research.

Next, I would want to thank my parents which is Halimhafid bin Yassin and Misriah Binti Masngat, for their encouragement, which aided in the preparation of my study and served as my inspiration to continue this endeavour. I am really grateful to my family and friends, who were constantly by my side when I needed them the most and assisted me much in completing my research.

I would like to convey my heartiest gratitude and appreciation to my esteemed adviser, Encik Bazri Abu Bakar, for sharing his knowledge, as well as for his true assistance and skill in this research. I would like to express my heartfelt appreciation to Dr Norashikin Ismail and Encik Husnizam Hosin for sitting on my panel and reading my project paper.

Last but certainly not least, I respectfully express my gratitude to everyone who assisted me in completing this thesis.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Bonds are financial instruments in which an investor loans money to a firm or government for a specified length of time in exchange for periodical interest payments. When the bond matures, the bond issuer repays the investor's money. Bonds are sometimes referred to as having fixed income since they generate fixed payments during the life of the bond. Bonds are issued by corporations to fund existing operations, new initiatives, or acquisitions. Governments sell bonds to raise funds and augment earnings from taxes. When a person purchases a bond, he becomes a debtholder for the organization that issued the bond. Many forms of bonds, particularly investment-grade bonds, are less risky than stocks, making them an important component of a well-diversified investment portfolio.

Bonds, especially investment-grade bonds, are lower-risk investments than stocks, making them a vital component of a well-diversified investment portfolio. Bonds can help to mitigate the risk of more volatile investments such as equities, and they can provide a constant source of income while conserving capital throughout retirement. Aside from that, bonds in the secondary market are valued based on their face value, or par. Bond prices, like any other asset, are determined by supply and demand. However, interest rates, inflation rates, and bond yields all have a significant influence on pricing.

This section will look at the background of the research, a description of the challenges involved in this analysis, the nature of the study, the study's limitations, and the definition of words utilized in this study. The study focuses on the factors that influence bond prices in Malaysia. The study's goal is to look at the variables influencing bond prices in Malaysia's developing market, and it will use time-series data to do so.

1.2 Background of Study

In the last decade, Malaysia has made great strides in expanding its capital markets, notably its bond markets. In accordance with the goals of the Capital Market Masterplan 1, this development took place (CMP 1). Both the government and the private sector have reaped the benefits of the recent economic boom. Key industries benefitting from the high expansion of bond markets include the financial industry, infrastructure, and housing. Malaysia has been