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Malaysian bond yields likely to spike

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Analysts say improvement in global economy will have some impact in H2

Nor Zahidi: 'Such a scenario may trigger expectations of higher inflation and lead to higher yields in the second half of 2013.'

PETALING JAYA: Malaysia's bond yields, which have been near record low of late, could see a slight spike in the second half of this year, according to analysts.

They reckoned the improvement in the global economy would trigger some inflationary pressure resulting in possible monetary intervention that could push bond yields higher.

Malaysian Rating Corp Bhd (MARC) chief economist Nor Zahidi Alias said the rating agency expected a slight upside bias in bond yields going into the second half, especially if the global economic sentiment improves further due to sustainable growth in the US economy following recovery in the housing and labour markets.

Such a scenario, he said, would lift Malaysia's economic prospects as improvements in the external sector would provide additional impetus to the economy which was already exhibiting persistent strength in domestic activities.

"Adding to this, capacity utilisation in the manufacturing sector remains relatively high while the labour market remains strong. Such a scenario may trigger expectations of higher inflation and lead to higher yields in the second half of 2013.

"Even if actual inflation remains benign, the expectations of monetary intervention and the resumption of the government's subsidy rationalisation programme will likely push yields slightly higher," he told *StarBiz*.

Strong economic fundamentals would continue to drive foreign investors into the government bond segment, especially if the global economic scenario turned sour again, he said.

Overall, he noted MARC maintained a slight upside bias in bond yields in the second half and expected a mild steepening yield curve due to the above mentioned reasons.

An analyst with a bank-backed brokerage concurred with Zahidi and said the movement of yields was closely related to the state of the global economy and liquidity level.

Post general election, there is more certainty among foreign investors of Malaysia's economy and policies and this has led to inflow of funds into the local debt market causing yields to slide.

The analyst said, however, he expected yields to move up slightly by the second half of this year.

According to data compiled by *Bloomberg*. the yield on the 3.48% securities maturing in March 2023 dropped three basis points, or 0.03 percentage point, to 3.3% on May 8, the lowest for a benchmark 10-year note since February 2009.

The decline was five times the average move in the past three months, the most among 22 emerging markets tracked by *Bloomberg*. Borrowing costs on local-currency 2022 sukuk dropped seven basis points last week to a nine-month low of 3.46%, the news wire noted.

OCBC Bank (M) Bhd head of global treasury Ng Seow Pang, however, felt bond yields still have the potential to ease as the domestic economy was expected to continue to grow steadily for the year with inflation remaining at manageable levels.

The global economy was expected to grow at a modest pace and lingering quantitative easing in certain geographies would continue to fuel the rise in asset prices, including Malaysian bonds.

Malaysia commands an investment grade of *A*- from *S+P*, making it an attractive destination for foreign fund managers, he added. With the relatively high yields on the bonds, he said the bank expected to see a continuous inflow at least in the short term.

On the issuance of Malaysian Government Bonds/Government Investment Issues (GII), Bond Pricing Agency Malaysia CEO Meor Amri Meor Ayob said the market generally expected RM90.6bil gross sovereign issuance (MGS, GII and Sukuk Perumahan Kerajaan (SPK)) for 2013 as compared with RM94bil (excluding SPK issuance and switch auction) gross sovereign issuance in 2012.

Net issuance was expected to be around RM40bil since the sovereign bonds maturity in 2013 stands at RM50.6bil, Meor noted, adding that as of April 30, total sovereign issuance (MGS, GII and SPK) had reached RM35.2bil