Bond market to stay resilient amid risks

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MARKETS

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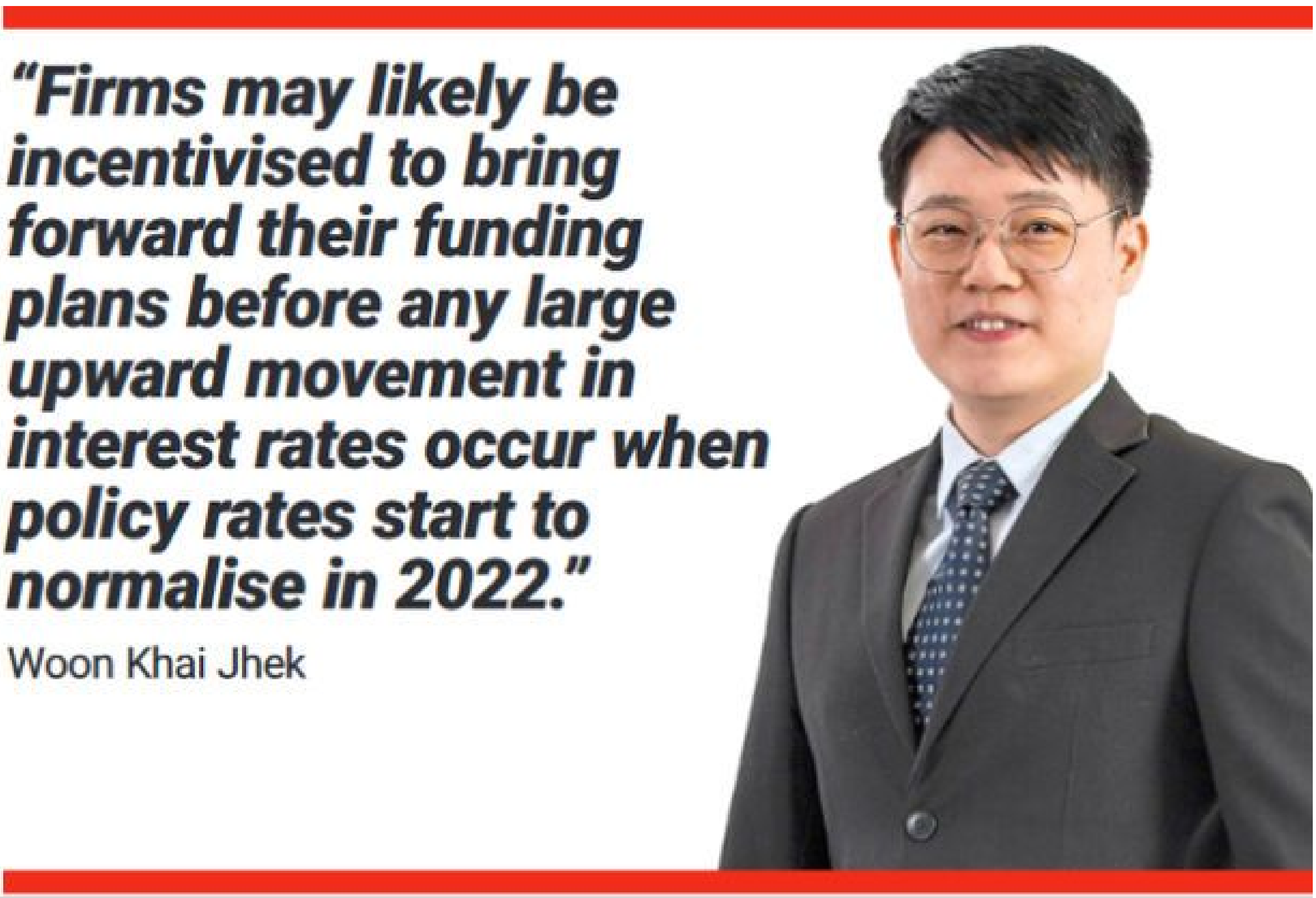

Woon Khai Jhek Ram

PETALING JAYA: The Malaysian bond market is expected to remain strong in the second half of the year

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While issuance was rather tepid during the first two months of 2021 (January-February average: RM4bil), he said the overall issuance swelled to a high of RM23.8bil and RM12.7bil in March and April, respectively.

He said the recent robustness could be attributed to the front-loading of firms' financing needs to lock in lower interest rates, especially amid the substantial upward pressure on bond yields earlier this year.

While upward pressure on yields (cost of borrowing) has subsided since then, yields are likely to still trend with a slight upward bias as the global economic recovery continues.

"Firms may likely be incentivised to bring forward their funding plans before any large upward movement in interest rates occur when policy rates start to normalise in 2022.

"This should help to sustain the issuance momentum through the second half of this year, " he noted.

RAM projects some RM100bil-RM110bil of gross corporate bond issuance in 2021, matching the performance recorded in 2020 (RM104.6bil). The healthy corporate issuance is envisaged to be supported by the continued attractiveness of bond financing amid relatively low bond yields, budding economic recovery, notwithstanding transitory setbacks, and financing for big-ticket infrastructure projects.

For the Malaysian Government Securities (MGS) and Government Investment Issues (GII) market, the rating agency expects GII issuance at RM155bil-RM165bil in 2021 (2020: RM151.9bil).

This is driven by the government's heftier deficit financing needs amid the slew of stimulus measures to tackle the pandemic.

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But he said ringgit bonds have rebounded strongly since then, with the 10-year MGS yield falling by about 50 basis points (bps) from its peak in March. This was due to the lifting of the bond sentiment by the removal of the FTSE Russell overhang and a retracement in US treasury yields encouraged the search for higher yields in the Asian emerging market.

FTSE Russell announced on March 29 that Malaysia's sovereign debt market would be removed from the watch list and have its membership retained in the World Government Bond Index based on recent market enhancements.

The country has been on the list since April 2019.

Phoon, however, said that given the evolving Covid-19 situation, bond market outlook would remain challenging over the next three to six months.

"Inflation prints are expected to continue with its upward trajectory in the coming months, largely because of low base effect and higher energy prices.

"While the effect could be transitory, especially for Malaysia, a key risk to bonds is whether there are signs of a more entrenched reflation story in the US that goes beyond the transitory effect, and this will

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It is also forecasting RM110bil of gross corporate bond issuance, slighter higher than last year amid still conducive funding conditions.

Bond Pricing Agency Malaysia CEO Meor Amri Meor Ayob (pic below) said despite the resurgence of the pandemic in some countries, the general global economic recovery is gaining traction with the rollout of vaccine programmes in many nations.

Stronger external demand and the same rollout of vaccinations in Malaysia are expected to drive the growth of the local economy, especially in the second half of this year, he said.

"Domestically, the rapid growth in the industrial production in March also suggests a stronger economic recovery ahead albeit possibly held back as a result of the recent resurgence in Covid-19 cases and the implemented movement restrictions in most parts of the country.

"However, the impact of the recent movement restrictions is expected to be less significant than the

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