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Enough liquidity to meet needs

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PETALING JAYA: The Malaysian banking system and bond market have ample liquidity to meet borrowers' funding needs unlike in some Asian countries where companies are scrambling to issue local currency bonds due to difficulty in getting foreign currency loans.

These Asian companies are even offering higher yields for the bonds which are seeing less take-up from European banks as they pull back funding to the region.

"There is no doubt that some European banks have tightened their US dollar lending to companies in Asia due to the sovereign debt crisis coupled with the deleveraging effect and stringent capital requirements of the Basel III accord," said Bond Pricing Agency Malaysia Sdn Bhd (BPAM) CEO Meor Amri Meor Ayob.

"But local banks are in better shape compared with their foreign counterparts due to their limited exposure to the eurozone debt crisis.

"Contrary to what is being reported and observed in other emerging markets in Asia, the yield spread has actually narrowed in the ringgit bond market (indicating that companies are not really in a rush to issue bonds by offering high yields)," Meor Amri told *StarBiz*.

In fact, the corporate yield curve, especially those with *AAA* credit rating, has been flattening since beginning of the year rather than steepening.

"The yields from mid to long-end of the yield curve has actually decreased quite substantially," he said.

Reuters recently reported that corporates were rushing in to issue bonds in some Asian countries as they were not able to get banks to lend them US dollars or euros.

This had resulted in the widening of bond spreads and soaring yields.

Issuers in Hong Kong had paid a mark-up of as much as four percentage points above the US debt yields to secure five-year funds, about 10 times more than they did in 2007 before the US subprime crisis.

It also reported that eight top-tier Hong Kong-based companies had hit debt markets with a record US$8bil worth of dollar bonds in January and the risk, according to bankers, was now of a long-term jump in funding costs in the region as US and

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International reserves at healthy level

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European banks stayed away.

Industry observers said as European banks shrank their balance sheets and reduced lending to Asian companies, the local currency bank loan and bond markets would have to absorb some of the US dollar loans that were not rolled over or renewed as European banks retreated from the funding market.

But they agree that this was more applicable in the region than in Malaysia which had almost negligible foreign currency debt or loans and the country's ringgit bond market and banking system were more than able to meet the funding needs of corporations and the public sector.

Bank Negara's international reserves stood at a healthy level of RM423.4bil in 2011, and had risen by RM94.8bil from a year earlier.

Meor Amri said there was enough liquidity, demand and confidence in the ringgit bond market, both from foreign and local investors and issuers. This, he said, could be observed in the healthy growth of the local bond market over the years, especially in the Islamic sukuk segment.

He noted that the real interest rate had also turned positive as inflation rate moderated to 2.7% in January, which was below the current Bank Negara overnight policy rate of 3%.

This would encourage more savings and as well as attract both local and foreign investors into the Malaysian bond market on the backdrop of a strengthening ringgit, he said.

He added that this would provide a good platform for local/foreign companies to take advantage of the cheaper funding costs in the local bond market.

Meanwhile, Islamic finance consultancy Amanie Advisors Sdn Bhd director Baiza Bain said there were institutions from the eurozone and the Gulf Cooperation Council (GCC) that were currently exploring a ringgit-based sukuk issuance.

"At the moment, Malaysia has ample liquidity to absorb the combination of the foreign and local sukuk issuers.

"Towards the middle and by year-end, it may be a different story as more issuances hit the market, investors may ask for tighter credit rating and a higher yield spread as they would be spoilt for choices amongst the many issuers that have entered the market by then," he noted.

The central bank, Meor Amri said, had also taken pro-active steps to contain the rising household debts as evident from the tighter approvals for home mortgages, car loans and credit cards over the past year, noting that this would provide ample cushion for the local banking sector, moving forward.