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Robust demand for bonds

Trimming of foreign holding in ringgit debt is temporary, say BPAM CEO

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PETALING JAYA: Industry observers are positive on the local bond market, saying the trimming of foreign investors' holding of ringgit-denominated debt is a temporary phenomenon amid the worsening eurozone sovereign debt crisis.

Bond Pricing Agency Malaysia Sdn Bhd (BPAM) CEO Meor Amri Meor Ayob said in essence, it was the credit quality of the assets that mattered most in times of heightened uncertainties.

As long as the contagion risk of the eurozone sovereign debt crisis was contained, he said the demand for local bonds would remain healthy going forward. However, he added yields or cost of funds would not deviate too much from the current levels.

"With Malaysia being one of the few countries in Asia-Pacific that has not begun easing its monetary policy unlike China and Australia which had cut their benchmark interest rates by 25 basis points (bps), our interest rates remained on the high side when compared to many other regional peers. This will be attractive once the risk appetite starts to pick up in the future.

Meor Amri: 'Malaysia can withstand much stronger external shocks.'

"With the relatively high savings rate among its people and adequate foreign reserves, Malaysia can withstand much stronger external shocks, especially when coupled with its prudent monetary policy as well as fiscal discipline practices. As a result, the ringgit bond yields will most likely remain well bid in the near future," he told *StarBiz*.

According to Bank Negara figures, foreign investors trimmed holdings of ringgit denominated debt in April to RM185.6bil from an all-time high of RM191.2bil in March, the first reduction this year. Investments were still 7% higher than RM173.1bil a year earlier.

Meor said the local bond market was expected to remain resilient despite these external headwinds, underpinned by strong domestic institutional support, at least until the eurozone sovereign debt crisis starts to show signs of abating.

This was evidenced by the decrease in Malaysian Government Securities (MGS) yield levels by 7bps to 21bps across various tenures (between three years and 20 years) since April, he said.

Growth drivers for bonds this year, he said, would depend on the pump priming measures implemented by the government under the Economic Transformation Programme, such as the much anticipated My Rapid Transit sukuk anticipated some time during the year.

Malaysian Rating Corp Bhd (MARC) CEO Mohd Razlan Mohamed felt the magnitude of the "trimming" of holdings of ringgit bonds by foreign investors was not that pronounced, adding that it was premature to conclude this would be a continuing trend.

He said the yields for MGS and private debt securities (PDS) should remain attractive relative to risk as compared with most of the developed nations. Razlan said the rating agency was also mindful that foreign investor demand for ringgit bonds was affected by exchange rate expectations.

The demand for ringgit bonds/sukuk he said was not driven by foreign investors as the flush liquidity in the country's domestic banking and capital markets continued to support the ability of the market to absorb new supply of PDS.

Despite the negative global economic situation, Razlan said the outlook of bonds/sukuk issuance in Malaysia remained positive this year, noting that the domestic bond pipeline would be sustained by corporate spending and new infrastructure projects.