

Lower corporate bond issuance seen

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Corporate bond issuance is expected to decline to between RM70bil and RM90bil this year after a bumper year with a record RM124.6bil



Bank Negara has highlighted that the global economy is expected to continue to experience slow growth

PETALING JAYA: Malaysia's gross corporate bond issuance is expected to decline to between RM70bil and RM90bil this year after a bumper year with a record RM124.6bil bonds issued last year, [Malaysian Rating Corp Bhd \(MARC\)](#) said.

In its latest report, MARC said the issuance this year was mainly due to the implementation of projects under the Economic Transformation Programme ([ETP](#)) as the major catalyst.

“A large amount of the financing for the ETP is likely to come in via unrated government-guaranteed (GG) notes.

“This means bond yields coming in at circa 3.8% to 4.3%, assuming the benchmark 10-year Malaysian Government Securities (MGS) yields max out at 3.8%. The rest of the issuances are likely to be driven by AAA-rated bonds,” it added.

The rating company said that 2012 was a bumper year for corporate bond issuance, where more than 40% came from RM19.6bil PLUS' sukuk programme and RM30.4bil total issuance in the GG non-rated segment by companies such as Syarikat Prasarana, DanaInfra, Turus Pesawat and [SME Bank](#).

It estimates almost RM32.5bil corporate bonds to mature this year. Therefore, it expects the net issuance will be in the range of RM43bil to RM58bil.

“That amount of issuance can be comfortably absorbed by domestic funds alone,” it added.

Meanwhile, MARC targets government bond issuance to be between RM90bil to RM95bil this year to finance the Government's budget deficit target and to refinance some of its maturing securities.

MARC noted in its report that the Government's deficit target was at RM40bil for this year and it expected RM50.5bil maturing in MGS/Government Investment Issues (GII).

The estimated issuance volume by MARC for MGS/GII for this year is flat, considering debt issuance last year was at RM94bil.

“Demand for govvnies' should not be a major problem as the domestic market is flush with liquidity, which pension funds, insurance funds and excess deposits are growing rapidly. This should help to sustain the demand for government bonds,” it said.

“We expected a robust issuance in the GG segment, as the current public debt-to-gross domestic product ratio of 53% is close to the self-imposed debt ceiling of 55%.”

As at December 2012, MARC said the foreign holdings of MGS rose to a record high of RM129.7bil, about 44%. This made the foreign funds to be the biggest holders of MGS, higher than the holding amounts from the [Employees Provident Fund](#).

“Positive interest rate differential between Malaysia and developed countries as well as a stable sovereign credit rating will likely keep luring foreign funds in the MGS market,” it said.

MARC said an influx of foreign funds had also helped to push MGS yields lower. Liquidity injections by major central banks in developed countries have triggered capital flows into the region.

“Should the jitters surrounding the general election emerge among foreign investors, the likelihood of a sell-off in the local currency should not be dismissed, given by the high foreign holders of the government bonds,” it noted.

MARC said there was a significant correlation between the level of ringgit versus US dollar and foreign holdings of government bonds, through which a sell-off in the local currency would affect the ringgit sovereign bond market negatively.

The central bank has highlighted that the global economy is expected to continue to experience slow growth. However, growth in the regional economies remains supported by domestic demand.

“As domestic demand remain resilient, we expect [Bank Negara](#) has no compelling reason to lower the overnight policy rate (OPR) at 3%, as the central bank is concern with the country's high household debt although there is a likelihood for a rate hike if there is gradual improvement in US and China economies,” it said.

On bond yields, MARC estimates the government bond yields will continue to be depressed as the likelihood of a hike in the OPR is quite remote for the first half of the year.

It estimates yields are likely to move higher in the second half of the year as inflationary pressure creeps in at about 2.5%.

“Higher bond yields will become stronger should the Federal Government continue to proceed with subsidy rationalisation effort after the general election,” it added.

Given the fact that bond yields have dropped significantly in the past few years, the rating agency said it was “hard to imagine” yields to fall even further this year, especially as economic fundamentals did not suggest any significant downside risk in the next one year.

It said the bond bull-run currently seen was a function of funds flow, adding that it was something usual when bond yields were declining (shrinking risk premium) at a time when negative rating actions outpacing positive rating action significantly.