
**ASEAN Roundtable Series on
“Broadening investor base in ASEAN bond markets”
Press Release
(FOR IMMEDIATE RELEASE)**

ASEAN policy makers hold the key to promoting broader and deeper domestic bond markets across ASEAN to create buffer against external shocks: further development and education on FX hedging tools as well as a holistic approach covering the entire value chain are critical

Kuala Lumpur, 24 November 2017 – ASEAN needs to broaden its investor base especially for bond markets in order to ensure more diverse and balanced financial systems and financing for infrastructure and other long-term developmental priorities. The Asian Development Bank estimates that the region needs US\$110 billion in infrastructure expenditure per year until 2025. As revenue from infrastructure projects is earned in local currency over a long period of time, issuance of long-term local currency bonds will allow infrastructure project owners to match the currency and maturity profile of their financing needs.

The importance of local currency (LCY) bond markets was particularly highlighted by the Asian financial crisis (AFC) of 1997-1998. LCY bonds can help to mitigate the maturity and currency mismatch that contributed to the AFC. In order to grow LCY bond markets, policymakers in ASEAN need to focus on promoting financial stability and market resilience including through intervention measures in urgent times, foster the development of domestic investors, facilitate larger bond markets, and enhanced regional integration. Towards this end, a diverse investor base comprising local institutional investors, local financial institutions, local retail investors and foreign fund managers will contribute towards more stable growth in the domestic bond markets as an over-concentration of a particular class of investor could cause market disruption in extreme economic conditions.

These issues were discussed during a roundtable titled, “*Broadening investor base in ASEAN bond markets*” which was organised by CIMB ASEAN Research Institute (CARI) today, in collaboration with the ASEAN Business Club and the Asian Development Bank (ADB).

The panel of speakers comprised of Dr. Donghyun Park Principal Economist, Economic Research and Regional Cooperation Department, Asian Development Bank; Mr. Kamarudin Hashim Executive Director, Market and Corporate Supervision, Securities Commission Malaysia; Datuk Chung Chee Leong, Chief Executive Officer Cagamas Berhad; Dr. Shu Tian, Economist, Economic Research and Regional Cooperation Department, Asian Development Bank and Ms. Munirah Khairuddin, Chief Executive Officer, CIMB-Principal Asset Management Berhad.

Dr. Donghyun Park began by highlighting ADB’s November 2017 Asia Bond Monitor report

findings. He highlighted that bond yields rose in most ASEAN bond markets and advanced-country bond markets, indicating a close co-movement of bond yields between emerging markets and developed markets under tightening global liquidity conditions.

While countries including Malaysia and Singapore are beginning to create broader and balanced investor base which comprise of both domestic and foreign investors, others in ASEAN are still struggling to achieve this. Presenting on a study by the ADB titled, Foreign and Domestic Investments in Global Bond Markets Dr. Shu Tian noted that, “At the aggregate level, foreign investors are more sensitive to bond markets performance than domestic investors. This evidence reveals differences in the composition of foreign and domestic investors, which results in different investment motives and trading patterns. A more diversified investor profile and broader investor base would contribute to the development of deeper and more liquid bond markets”.

From a market participant’s point of view, Datuk Chung Chee Leong offered his perspective on how government policy can help to develop domestic institutions and their participation in bond markets, “The ASEAN capital market has experienced immense development since the Asian Financial Crisis in 1997. We commend the efforts that have been implemented to strengthen market infrastructure and improve secondary market liquidity by regulators around the region under the Asian Bond Markets Initiative and look forward to further development in cross-border intra-ASEAN issuances and investment. On further development and education on hedging tools available to entice participation of diverse range of investors, the recent measures introduced by Bank Negara Malaysia in allowing foreign fund managers to dynamically hedge their currency risks in Ringgit bond investments, as well as on the introduction of Appointed Overseas Office have proven to be effective in attracting the stable flows of foreign investment into Ringgit bond market, and at the same time developing the onshore FX market.”

Ms. Munirah Khairuddin spoke about the significant growth in ASEAN bond markets in tandem with the progress in ASEAN economies over the past decade. The combined size of the ASEAN bond markets was US\$1.19 trillion in June 2017 compared to US\$112.76 billion in 1997¹. This achievement is largely attributable to various incentives and policies of regional governments pertaining to reduction of withholding tax and improvement in market liquidity, among other things, that had positively impacted the markets.

Munirah Khairuddin commented, “From the fund management perspective, as an asset class, ASEAN bond markets are very attractive as yields are relatively higher as compared to bond yields in developed markets. Better growth prospects will further result in stronger currency and potential rating upgrade. Government bonds from Malaysia, Thailand, Indonesia and the Philippines are now included in various bond indices such as J.P. Morgan Emerging Market Bond Index (EMBI) which are widely used by global bond investors. For Malaysia, the market has a large investor base comprising pension funds, insurance funds, asset management

companies, financial institutions and others to provide the breadth and depth of the market as well as its liquidity.”

“Policy makers’ efforts should be intensified to foster broader, deeper and more liquid domestic bond markets across ASEAN to further grow the bond markets which is still relatively small collectively as compared to the size of developed bond markets in North Asia. A holistic approach should encompass the entire value chain from bonds origination to investors’ education,” she added.

In conclusion, in line with other CARI’s previous discussions on deepening capital markets, broadening the investor base for bond markets across ASEAN requires a concerted effort from policymakers to create a more enabling environment which is also conducive enough to prevent sudden losses and outflows that occurred during the previous two financial crises. This also requires a balance between forming an integrated ASEAN markets, open markets and intervention measures in urgent times especially for smaller ASEAN economies. Malaysia and other developed ASEAN capital markets are a good example of how regulators and markets are working hand-in-hand to promote deeper capital markets.

The roundtable concluded with the launch of November 2017 Asia Bond Monitor published by the ADB, witnessed by Dr. Joseph E. Zveglic Jr., Director, Economic Research and Regional Cooperation Department of Asian Development Bank and Director of Operations of CARI, Jukhee Hong.

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About CARI

CIMB ASEAN Research Institute (CARI) was established in 2011 by CIMB Group. CARI is the first independent, transnational research institute dedicated solely to the advancement and acceleration of ASEAN integration. CARI is also the secretariat for the ASEAN Business Club.

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