Asean bond market stature rises

Vital funding source besides banks

By WONG WEI-SHEN
weishen.wong@thestar.com.my

KUALA LUMPUR: Asean bond markets are growing as an important source of long-term funding to pay for the development of infrastructure projects in fast-expanding economies across the region.

As it is, experts say infrastructure development projects in Asean are too dependent on bank loans.

"Not only will the economy be better served by a new source of funds, but the risk of depending on the banking sector for long-term financing is also greatly reduced," Bank Negara deputy governor Datuk Muhammad Ibrahim said at the opening of the Asean Fixed Income Summit (AFIS) yesterday.

It has been estimated that infrastructure spending in Asia will reach US$8 trillion (RM26.24 trillion) over the next decade, with a large portion being in Asean.

Asian Development Bank head of office of regional economic integration Iwan J. Azis said there is still a huge deficit in infrastructure within Asean, not only in the physical sense but also non-physical in areas such as health and education.

"There is still a lot of spending needed to finance these infrastructure, and we cannot rely solely on the banking system," he said.

He added that the region was very serious in raising the degree of financial integration and using local currency.

"It will reduce a mismatch in currencies and maturities, and increase the degree of financial integration. It will also strengthen the demand and supply side of local currency," he added.

Asean's contribution to cross-border equity stands at 9%. "The region is still integrated with the rest of the world. The United States is still the biggest equity investor in the region," said Iwan.

Meanwhile, Barclays director of DCM South-East Asia Yik Hui said there were key trends moving into 2015, the first of which was the rise of in-region demand in the bond market.

"This will be coming from fund managers, pension funds and the likes of them because liquidity is there and they will invest," he said.

He also expects emerging market funds from Asia, Europe and Latin America to pick up.

Another trend will be an increase in cross-over funds, essentially resulting in investors in the US, Europe and Japan investing in hybrid investments.

The fast-flowing cross-border movement of cash and investment, however, is driving up volatility in the bond market.

Aberdeen Asset Management Asia senior investment manager Asian fixed income Ken Akintewe anticipates volatility within the bond market to pick up, as there still is structural improvement to growth in the US.

However, he added that global investors tend to react too strongly on any data from the two big economic powerhouses: the US and China.

"I wouldn't underestimate the potential of how global investors will react," he said.

He believes the cycle will be extremely gradual, as it will most likely take a few years for the US to raise interest rates by a couple of basis points.

AFIS was organised by Cagamas Bhd in collaboration with Bank Negara, the ACI Financial Markets Association of Malaysia and the Malaysian Association of Corporate Treasurers.

Muhammad Ibrahim shaking hands with Bank of China (Malaysia) Bhd deputy CEO Jenny Xu at the summit. Looking on are Cagamas Bhd chairman Datuk Ooi Sang Kuang (left) and president/CEO Chung Chee Leong.