CIMB ROUNDTABLE SERIES

MORE DEMAND FOR ASEAN BONDS

Higher yields seen leading to stronger currencies and potential rating upgrades, say experts

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ASEAN bond markets have better growth prospects than developed markets due to their higher yields, and this could lead to stronger currencies and potential rating upgrades, say market experts and analysts.

CIMB-Principal Asset Management Bhd chief executive officer Munirah Khairuddin said this achievement was largely due to various incentives and policies implemented by governments in the region.

These include, for instance, reduction of withholding tax and improvement in market liquidity.

"Government bonds from Malaysia, Thailand, Indonesia and the Philippines are now included in various bond indices such as JP Morgan Emerging Market Board 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 breadth and depth as well as liquidity in the market," said Munirah.

She was speaking to reporters at the CIMB Asean Research Institute roundtable series themed "Broadening investor base in Asean bond markets", held yesterday.

The combined size of the Asean bond markets was US$1.19 trillion in June compared with US$112.76 billion in 1997.

There was a call to broaden the bond market investor base to ensure a more diverse and balanced financial system and financing for infrastructure and other developmental priorities.

Meanwhile, recent measures introduced by Bank Negara Malaysia to allow foreign fund managers to dynamically hedge their currency risks in ringgit bond investments and the introduction of the appointed overseas office have proven to be effective.

"The measures have managed to attract stable flows of foreign investment into the ringgit bond market, and at the same time, develop the onshore forex market," said Datuk Chung Chee Leong, Cagamas Bhd chief executive officer.

The Asian Development Bank estimates that the region needs US$110 billion in infrastructure expenditure annually until 2025 as issuances of long-term local currency bonds will allow infrastructure project owners to match the currency and maturity profile of their financing needs.

(From left) Asian Development Bank (ADB) senior economics officer Maria Cynthia Petalcorin; Securities Commission Malaysia executive director of market and corporate supervision Kamarudin Hashim; ADB principal economist, economic research and regional cooperation, Dr Donghyun Park; ADB director Dr Joseph E Zveglich Jr; Cagamas Bhd chief executive officer Datuk Chung Chee Leong; CIMB Asean Research Institute director of operations Hong Jukhee, CIMB-Principal Asset Management Bhd CEO Munirah Khairuddin and ADB economic research and regional cooperation department economist Dr Shu Tian at the CIMB Asean Research Institute's roundtable series 'Broadening Investor Base in Asean Bond Market' in Kuala Lumpur yesterday. PIC BY SALHANI IBRAHIM

In order to grow the local currency 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 enhance regional integration.

A diverse investor base comprising local institutional investors, local financial institutions, local retail investors and foreign fund managers will contribute towards a deeper and broader domestic bond markets as an over-concentration of a particular class of investor could cause market disruption during tough economic conditions.