

11/09/1997

RM1bn Khazanah benchmark bonds

KHAZANAH Nasional Bhd, the Government's investment arm, will issue next week bonds worth RM1 billion, the first of the Khazanah Benchmark Bond programme that aims to create a benchmark yield curve for the ringgit bond market.

Under the programme launched in Kuala Lumpur yesterday, Khazanah will issue bonds on a quarterly basis with maturities of three, five, seven and 10 years. The issue size will not be less than RM500 million each.

The RM1 billion issue is part Khazanah's contribution to the RM60 billion standby fund that the Government is establishing to support the local stock market.

The bonds, to mature in three years, will be issued on September 18 and is open for applications on Bank Negara Malaysia's Fully Automated System for Tendering (FAST) from today, the statement said.

Prime Minister Datuk Seri Dr Mahathir Mohamad announced last week that the Government would set up a RM60 billion fund to support the Kuala Lumpur Stock Exchange (KLSE). He said Khazanah would raise RM30 billion for the fund, while the rest would come from "other sources".

The zero-coupon bonds which will be issued according to the Islamic financing concept of murabahah are fully guaranteed by the Government.

In its statement, Khazanah said the development of the ringgit bond market has been hampered by the lack of a functional benchmark yield curve.

"Malaysia has quite a well-established market; the KLSE is still the biggest in terms of market capitalisation in Asean (but) in recent years, the growth of the debt market has lagged behind that of the equities, Khazanah said.

It noted that government securities, which are considered default-risk free, are normally used by market participants as a benchmark for pricing other bonds.

"However, the present supply-demand imbalance of Malaysia Government Securities (MGS) has resulted in their prices and yields being distorted, and are viewed as not being an effective benchmark.

"The Government has recognised the need to cross this hurdle in the development of the ringgit bond market, and had announced in the 1997 Budget the introduction of a series of bonds aimed at providing a benchmark yield curve."

Benchmark yields, Khazanah explained, assist in the "price discovery" function in both the primary and secondary markets, while providing an indication of the prevailing as well as market expectation of the future term structure of interest rates.

In addition, by enabling the efficient pricing of all types of bonds, benchmarks will also promote the development of the corporate bonds market.

As difficulties in the pricing and trading of corporate bonds are reduced and the cost of raising capital through the bond market falls, companies can be expected to issue more papers, it added.

It is hoped that with the introduction of the Khazanah Benchmark Bonds, the statement said, the secondary market for bonds will become more efficient and active. The programme will in time also assist in the development of bond futures and options to add breadth and depth to the financial derivatives market.

"And in line with the Government's efforts to encourage greater savings among the public, unit trust companies and banking institutions will now be able to offer additional instruments in the form of bond funds and bond-related savings schemes," it added.

The launch of the Khazanah Benchmark Bonds programme was marked by the signing of an agreement yesterday by Khazanah with PB Trustee Services Bhd, on behalf of the bondholders; and Bank Negara, as the depository and paying agent.

Khazanah, which is wholly-owned by the Minister of Finance Inc, said in managing the Government's assets to optimise returns, it is well-placed to "ensure that the proceeds of the benchmark issues are prudently reinvested so as to uphold and improve the risk-rating of Khazanah Nasional at all times".

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