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Funds buying US\$-Malaysian bonds

MALAYSIAN bonds denominated in US dollars are making great strides among US and Asian funds, hence providing a helpful backdrop for the country's economic revival.

"Foreigners have rushed into US\$-Malaysian bonds due to their wide spreads versus the likes of South Korea and Thailand," said Special Adviser to the Malaysian Government Salomon Smith Barney managing director and global head of sovereign risk Steven Taran.

Recent prominent buyers included US funds, namely, Alliance, Fidelity, Prudential and Travelers, and Asian funds such as Jardine, Barings and Invesco.

Nevertheless, he said, bond investors would always demand a higher spread in Malaysian bonds even for other Asian nations with the same rating.

According to Taran, the positive momentum is further spurred by foreign investors feeling encouraged by the speed at which the government apparatus was able to bring about the necessary changes.

"Prime Minister Datuk Seri Dr Mahathir Mohamad's insistence on doing things the 'Malaysian way' still irked some investors, but they were assured by recent public relations trips by Dr Mahathir himself that there was a low probability of default," he added.

At a teleconference yesterday, Morgan Stanley Dean Witter (MSDW) executive director/chief regional economist Tim Condon said there is great potential in the Malaysian market as there is tremendous amount of liquidity in the region and very little competition among other markets in South-East Asia.

Given this scenario, Condon said, the task for Malaysia to bring capital back into the market lies heavily on instilling confidence among investors by disseminating information on its recovery.

"There is an information gap between the realistic situation in Malaysia and what investors know. The current situation where there is a tremendous liquidity but not enough papers provides Malaysia with good opportunities to go out there and tell the market its story," he continued.

MSDW vice-president and senior sovereign credit analyst Anne Ginsberg said the performance of Petronas bonds has seen a "powerful rally" which indicates that investors see the positive signs of recovery in Malaysia. Petronas bonds, she said, are trading at about 350 basis points higher than the Treasury bonds.

Speaking generally about sovereign credit rating, Ginsberg said, it really boils down to the level of external debt burden in a country and if it has sufficient cash reserves to service the debts.

Setting Malaysia's credit situation apart from the rest of the countries in the region, Ginsberg said, clearly Malaysia ranks the highest with regards to quality of debt.

"Malaysia's quality of debt surpasses that of the region. The size of its debt burden is also low while its policy mix is sound and sustainable with monetary policy under tight control despite the expansionary fiscal policy," she added.

Distinguishing between South Korea, Thailand and Malaysia, she said, in terms of debt servicing as percentage of exports, Malaysia's stands at only 7 per cent while South Korea's is 12 per cent and Thailand's 13 per cent.

In addition, Malaysia's reserves coverage of short-term debt is 4 times as opposed to South Korea and Thailand which stands at merely one and 1.4 times.

With regards to the stock market however, Taran said, the re-entry of equity investors is likely to be slow.

This is because equity investors are still not comfortable with the issue of corporate governance and the constantly changing rules in Malaysia, he said, adding that the recent fall in the local bourse following the announcement of the exit levy reflected this.

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