

06/05/1999

Investment bankers already knocking on Malaysia's doors

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SOME eight months ago, Malaysia was regarded as a "pariah" when it instituted selective capital controls to cushion the impact of the Asian economic and financial downturn.

Adding insult to injury, international rating agencies downgraded the country's sovereign rating - which reflected the status of the country's creditworthiness - from investment grade to almost "junk bond" status.

But when the capital controls began to show results in the country's low external debt position, tremendous cashflow, strong reserves and undervalued currency, the very same rating agencies started to change their tune. The country's sovereign rating has now being restored to an investment grade of triple B minus.

And following Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement that the Government will be going on a roadshow to raise funds overseas through the issuance of sovereign bonds, many investment banks are jumping on the bandwagon to offer the country various options as to how to go about it.

Ironically, these are the same companies which did not have anything good to say of the country's measures to revive its economy.

Since the Government announced the roadshow, several investment bankers have come up with "solid proposals" as to how Malaysia can raise funds in the international bond markets. Besides J.P. Morgan, which has submitted its proposal to the Government, the others include Credit Suisse First Boston, Salomon Smith Barney and Goldman Sachs.

The country needs to raise about US\$2 billion (US\$1 = RM3.80) to help finance additional development allocations for the remaining period of the Seventh Malaysia Plan (1996-2000).

The country now can choose to denominate its proposed sovereign bonds in US dollar, euro, sterling, yen, or any other currency in the world.

Analysts say two primary markets - the US and Europe - are the most attractive.

While most analysts say Malaysia will be smart to diversify its portfolio by denominating the bonds in several currencies as this will help to reduce the risk, the US bond market is still the most attractive.

Although the euro, the single European currency, does provide an attractive advantage in terms of "hungry" investors looking forward to trade in the new market, there are still a lot of uncertainties about the currency itself.

The euro market may, in time, grow to become an avenue to source funds from. However, analysts said it still lacks stability - one of the most important factors that investors usually look for. Furthermore, it is not certain as to what Malaysia's sovereign bonds will be priced at.

According to analysts, the US market still offers the lowest interest rates. Recently, Colombia, Brazil and South Korea issued yankee bonds and these received good response from investors.

But if Malaysia is to issue sovereign bonds in the US market, it will be according to the US Treasury's benchmark.

If Petronas bond spreads are used as a yardstick, Malaysia's sovereign bond position should not be lower than that for the national oil corporation.

At the close of last year, Petronas bonds' spread fell to about 12 percentage points or 1,200 basis points over US Treasury bonds. It is now

below 300 basis points.

Analysts said the bond spreads are proxies for market sentiments - if a country is given a lower credit rating, the bond spread will be higher. As Malaysia's credit rating has been perceived as "lower than what it is supposed to be", the country may have to pay a higher interest rate for the loans it raises.

But the country is in no hurry to issue sovereign bonds. In fact, the Government has yet to decide when the bonds will be issued, their denomination or the lead manager to handle it.

It can afford to take the time to weigh its options although by the looks of things investment bankers are already knocking on the doors.

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