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Sovereign bonds may be timed to take advantage of US rate cut (HL)

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THE Government's next sovereign bond issue, believed to be between US\$1 billion and US\$2 billion (US\$1 = RM3.80) in size, will likely be timed to take advantage of a widely anticipated further cut in US interest rates.

Borrowing costs have fallen in the past months but the prospect for further savings is nudging Malaysia towards firming up plans to go to the global capital market, sources said.

Dealers said the US Federal Reserve (Fed), which has been steadily cutting interest rates, will likely continue to do so by between 50 and 100 basis points each time in the near term.

The US central bank has reduced short-term interest rates five times so far this year, to 4 per cent from 6.5 per cent, as part of efforts to bolster a fast decelerating economy. And there is strong talk that the Fed would announce another cut at its meeting tomorrow.

The demand for Malaysian sovereign bonds has meanwhile improved and will likely continue to see favourable trading in the coming months, sources said, adding that the new issue is now "a matter of timing".

"It is all about betting that spreads will narrow further on the back of declining US interest rates, while yields and investor sentiment remain stable," an analyst said.

Malaysian sovereign bonds' spreads have become attractive, with the yield for debts maturing in 2009 now standing at 7.23 per cent, or about 205 basis points over US treasuries.

And with improved investor sentiment in Malaysian papers, new issues will likely be cost-effective, he added.

Prime Minister Datuk Seri Dr Mahathir Mohamad had on Friday said the Government plans to issue international bonds to help fund various projects.

It would be Malaysia's first offering since November 2000 when it sold 650 million euros of five-year bonds, and also the first US dollar denominated issue since 1999. Asked about the size of the issue yesterday, Dr Mahathir would only say:

"We borrow every year... I have been told that there is a need for us to borrow, and I assume we will be issuing bonds again."

It is understood that the bonds' proceeds will go towards building schools and colleges, and also part finance the construction of two ports and a power project.

Dealers noted that while cheaper funds might be available at home, a sovereign issue would help inject fresh capital into the economy and also set a benchmark for future issues.

In addition, foreign funds inflow would ease pressure on domestic capital and keep borrowing costs low for domestic borrowers.

As for the domestic debt market, at least a couple of billions of ringgit worth of corporate bonds will likely be offered in the next few months, sources said.

The potential issuers include Malaysia Mining Corp Bhd (MMC), Perlis Power Sdn Bhd and Sepang Power Sdn Bhd, which are believed to have plans to issue about RM1 billion worth of bonds each. KFC Holdings Bhd is also said to be looking at the bond market.

MMC would be seeking funds to finance its stake in Port of Tanjung Pelepas, and Perlis Power and Sepang Power for their power generation projects.

New issues would also include exercises to restructure loans and refinance existing bonds, dealers said, with Johor Corp Bhd being a likely candidate.

The Corporate Debt Restructuring Committee (CDRC) is currently going through the company's books.

Formerly known as Johor State Economic Development Corp, Johor Corp is saddled with debts totalling RM5.4 billion and has sought CDRC's help to work out a deal with about 50 local and foreign lenders.

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