

# Global buyers eye Malaysian bonds

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HONG KONG: Global bond buyers are set to give Malaysia a big vote of confidence, queuing up to buy US\$500 million (RM1.9 billion) worth of new debt just days after the country's equity markets were blacklisted by an influential US pension fund.

"There is demand for Malaysian bonds. A lot of people hope for a ratings upgrade and the credits offer an attractive (yield) compared with other papers," Ben Yuen, associate director of fixed income at First State Investment (Asia), said.

Bond buyers eye a combination of fiscal prudence, economic growth, growing foreign reserves and comfortable short-term debt.

A roadshow to New York, led by Prime Minister and Finance Minister Datuk Seri Dr Mahathir Mohamad earlier this month to pre-market the deal, met with great success, Government and investment banking sources said.

The long term, macro-economic view of bond investors puts into more distant perspective the risks of poor corporate transparency and ethical issues that last week led the US\$151 billion California Public Employees' Pension Scheme (Calpers) to axe Malaysia from its equity portfolio.

The timing for the long-awaited bond issue — mandated to Morgan

Stanley and UBS Warburg — could not be better for Malaysia, determined to show its best side to investors in the wake of the potentially damaging Calpers move.

Malaysia will cash-in on its enduring popularity among global bond investors, its standing as a component of JP Morgan's key emerging market bond index and booming investor appetite for higher yielding Asian assets with an investment grade rating.

"It's an improving credit fundamental story. We are bullish on the Malaysian bonds," said Imogine Baker, a regional credit analyst at HSBC. "We expect a ratings upgrade."

HSBC has advised its accounts department to aggressively accumulate Malaysian sovereign and longer-dated credit of state-owned oil company Petronas.

Another technical factor driving up Malaysian bond prices is relative short-supply, with only \$3.7 billion worth of sovereign paper in the market, compared with Korea's \$4 billion, China's \$4.5 billion and the Philippines' \$10.1 billion.

Some analysts say BBB-rated Malaysia has made the right moves on corporate and financial sector reforms and should be rated at least on par with BBB-plus South Korea.

"Our client survey shows international fund managers are gradually stepping up their exposure to Malaysia since the closing months of 2001," David Fernandez, head of sovereign research at JP Morgan, wrote in a note to clients.

This is in sharp contrast to the pullout by Calpers.

The Malaysian stock market has underperformed by delivering returns of just 0.65 per cent so far this year compared with 19.5 per cent in the Philippines, 16.5 per cent in Thailand and 14.1 per cent in Indonesia.

Malaysian bonds in contrast have delivered total returns of 3.22 per cent so far this year, higher than the regional average of 2.94 per cent, the JP Morgan Asia Credit Index showed.

Malaysian sovereign bonds due 2011 currently offer a spread of 175 basis points (bps) over comparable US Treasuries, while paper due in 2009 trades 75 bps wider than comparable South Korean bonds due in 2008, with a big opportunity for upside.

"Recall, for much of 2000 and early 2001, the Malaysia '09s traded either through or flat to the Korean '08; there is no reason to believe this cannot happen again," HSBC said in a recent client note. — Reuters