

Manulife favors Asian dollar bonds for currency advantage

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Asian dollar bonds are expected to perform better than local debt for a fourth year as a recovering US economy boosts the greenback against emerging-market currencies, Manulife Asset Management says.

The region's exchange rates will weaken in the remainder of this year, with the exception of China's yuan and Taiwan's dollar, Bloomberg surveys of analysts show. Dollar returns on securities priced in the US currency were 3.7% this year as of April 17, 2014, more than the 3.1% for domestic notes, HSBC Holdings Plc indexes show.

"We're overweight US dollar-denominated bonds relative to local-currency bonds because we think there's better opportunity in 2014," Neal Capecci, Hong Kong-based senior director for fixed income, said in a phone interview on April 14, 2014. "As the US economy continues to show improvement, we think that could be dollar-positive, resulting in broad dollar strength relative to Asian currencies."

Asian securities issued overseas beat local counterparts in the last three quarters as a US move to cut record monetary stimulus prompted a selloff in emerging-market currencies. China Petrochemical Corp raised US\$5.3 billion (RM17.1 billion) this month in Asia's biggest greenback-denominated offering in a decade, while Korea Land & Housing Corp and Woori Bank Co are planning issuances as borrowers take advantage of rising demand.

JPMorgan Asset Management, which oversaw US\$1.6 trillion at the end of 2013, sees offshore notes leading gains for now. Returns on domestic debt may accelerate later in the year as nations with improving current accounts help lure investors back to emerging markets, according to Stephen Chang, Hong Kong-based head of Asian fixed income.

Currency Swings

The Bloomberg-JPMorgan Asia Dollar Index, which tracks the region's 10 most-used currencies excluding the yen, fell 0.9% in January, its worst start to a year since 2009

and has since risen 0.5%. Indonesia's rupiah led the advance this year with a 6.5% gain, followed by the Indian rupee's 2.6% and the Thai baht's 1.5%.

"Our scenario still calls for US dollar bonds to outperform first," JPMorgan Asset's Chang said in an e-mail interview on April 16, 2014. "But local currency is the laggard and can catch up if the positive environment sustains."

Manulife, which oversees US\$41 billion in Asian fixed-income assets including Japan, prefers BBB rated corporate dollar bonds of short maturities, which it considers "not expensive," according to Capecci. Its Asia Total Return Bond Fund returned 5.3% this year, beating 99% of its peers, according to data compiled by Bloomberg.

Top Holdings

Among the fund's top company dollar bond holdings are the BB rated 2018 debt of department-store chain Parkson Retail Group Ltd, which yielded 6.90% at the end of last week, data compiled by Bloomberg show. That compared with 3.99% for similar-rated US corporate securities due in three to five years, according to Bank of America Merrill Lynch indexes.

The fund also has the BBB rated 2022 notes of India's Reliance Industries Ltd that yield 4.69%, compared with 3.98% on US bonds due in five to 10 years.

Pioneer Investments is "cautious but optimistic" on Asian local-currency bonds, Hakan Aksoy, who helps oversee about US\$4.7 billion of developing-nation and high-yield debt, said in an e-mail interview this month.

"If we continue to see a positive market trend this year, local-currency bonds may have a better absolute performance than hard-currency bonds," he said. "We are still cautious and we believe volatility will continue."

'Healthy Performance'

Both offshore and local-currency notes handed investors losses of 2.4% and 5.7%, respectively, in 2013, HSBC data show, as yields on 10-year US government bonds rose 127 basis points. They gained this year as the Treasury yield dropped 33 basis points to 2.7%. Fed chair Janet Yellen said last week the central bank has a "continuing commitment" to support the US economy, tempering concern it will tighten policy sooner than previously expected.

Asia's offshore and local bonds will deliver a "healthy performance" should Treasury rates increase only gradually from current levels, according to Sergey Dergachev, who helps oversee about US\$10 billion in emerging-market debt at Union Investment Privatfonds GmbH in Frankfurt.

"The risk of a significant tightening in US rates is relatively modest at the moment," he said by e-mail on April 15, 2014. Union favors Indian dollar debt, especially from the nation's biggest banks and energy companies, and some notes of government-backed companies in South Korea, according to Dergachev.

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