Budget 2021 a boon for bond market

MARKETS

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By **DALJIT DHESI**

PETALING JAYA: Amid fiscal constraints, the Malaysian bond market is poised for growth with higher development expenditure that will support government issuances as investors search for better yields in emerging markets, including Malaysia.

RAM Ratings senior economist Woon Khai Jhek (pic below) told StarBiz that given its size and expansionary nature, Budget 2021 is conducive for the growth of the bond market.

Despite the fiscal constraints, he said the government has prioritised fiscal stimulus measures to shore up the economy given the fragility of the near-term outlook.

"The significantly higher allocation for development expenditure of RM69bil will support a robust pipeline of Malaysian Government Securities (MGS) and Government Investment Issues (GII) next year.

"As such, we expect government issuance level to remain elevated, possibly at the higher end of our earlier projection of RM155bil-RM165bil next year, " he said.

Bond Pricing Agency Malaysia CEO Meor Amri Meor Ayob agrees that Budget 2021 would be a boon for the bond market with the expected increase in the issuance of MGS/GII and corporate bonds.

"It is necessary for the government to table an expansionary fiscal budget when the economic condition is severely impacted by the pandemic. Bear in mind, the Malaysian government is not alone in having enlarged budget deficit in 2020 and 2021, as countries worldwide are doing the same to kick-start their stalled economy, " he noted.

Maybank Kim Eng head of fixed-income research Winson Phoon who is maintaining a "neutral" outlook of the MGS this year, said based on the official forecast of RM86.5bil in budget deficit, he is revising down gross MGS+GII issuance forecast this year to RM148.8bil from RM155bil.

Phoon is forecasting a gross and net supply of RM160bil and RM92bil, respectively, for MGS and GII in 2021.

AmBank Group chief economist Anthony Dass said that for 2021, gross issuance (MGS+GII) is projected at RM160bil. This, he said, is based on a 5.4% fiscal deficit to GDP, which amounts to RM84.8bil, and maturities in 2021, projected at RM73.7bil.

For this year, the bank has revised downward its gross issuance (MGS and GII) for 2020 to RM149.5bil from between RM155bil and RM165bil previously.

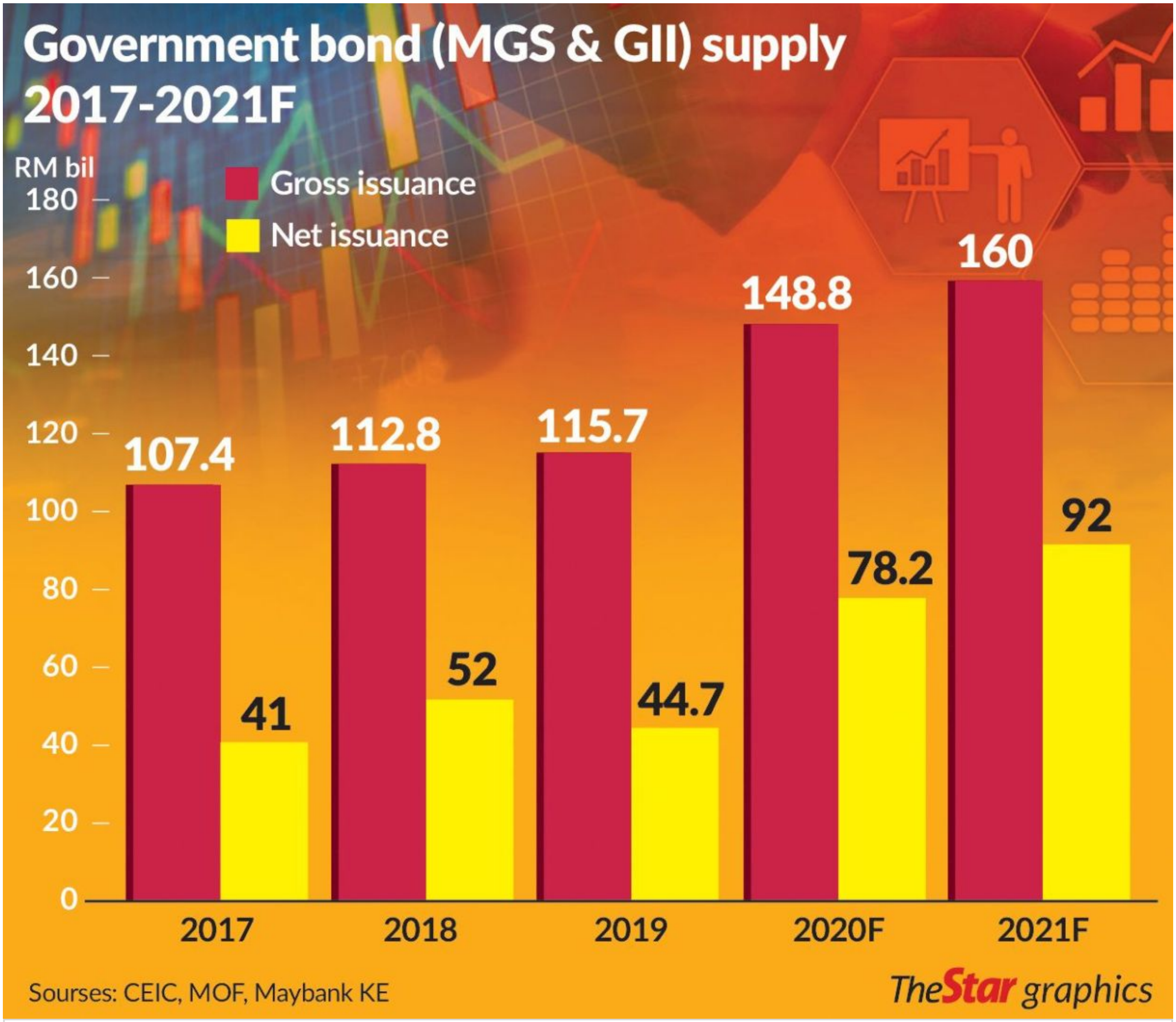
Woon said the high development expenditure also bodes well for corporate bonds next year. Budget 2021 has earmarked RM15bil or 21.7% of development expenditure for the continuation of transport infrastructure projects with high-multiplier impact including the MRT3, Pan Borneo Highway, Klang Valley Double-Track Project and RTS Link from Johor to Singapore.

He said the financing needs for these big-ticket projects are likely to be largely supported by the bond market.

“Another factor that will spur corporate bond issuance is the accommodative interest rate, underpinned by the overnight policy rate stabilising at 1.75% for next year. While we are not yet out of the woods, the projected economic recovery in 2021, in addition to attractive rates, will encourage issuers to lock in their financing in 2021.

“All said, we expect corporate bonds to increase to in excess of RM100bil next year. Our projection for 2020 issuance is RM80bil-RM95bil, ” he noted.

Phoon also attributed the pick up in private debt securities (PDS) issuance next year to the higher and sustainable bond issuance, with the government planning to issue its first sustainable bond in 2021 as well as the economic recovery based on the Finance Ministry’s forecast GDP growth of 6.5%-7.5% next year.



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Meor Amri is upbeat on continued net foreign inflows into the bond market. Barring any unexpected developments, he said foreign investors would continue to flock into the ringgit bond market vis-a-vis other more advanced economies due to the higher sovereign yields offered.

The net foreign inflows over the past five months (May to September) of RM23.7bil have more than made up for the outflows in February and March. As such, net foreign inflows as at end-September stood at RM 4.8bil.

Woon felt that foreign appetite for Malaysian bonds is unlikely to ebb with continued yield hunting amid favourable yield spreads. Furthermore, he said, the continued liquidity boosting efforts by global central banks would also drive inflows into emerging market bonds.

"That said, some downside risks including the second and third waves of the Covid-19 escalation that has again prompted lockdowns globally, Brexit and closer to home, domestic political risks, have the potential to taper some of this inflow momentum, " he noted.

On the yield front, Dass said while the 10-year MGS yield is expected to be around 2.6% to 2.7% in 2020, there could be some upward pressure in 2021.

He said it could likely be around 2.7% to 2.9% on the back of a more positive economic outlook. This could be on the assumption that the pandemic would be contained, higher supply of MGS and GII issuance amounting to RM160bil, and inflation pressure kicking in and hence opening the door for a rate hike.

Woon said the outlook of domestic bond yields looked to be suppressed over the long term, given the liquidity boosting and quantitative easing programmes by major central banks.

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