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Trillion-ringgit market

Bond and sukuk reached new heights in 2012, sometimes at breakneck speed

Comment
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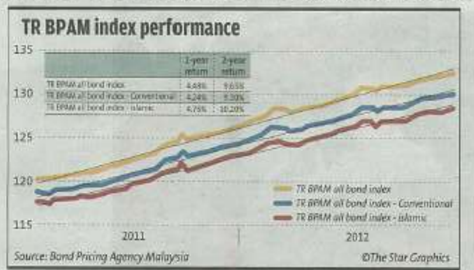

Malaysian fixed income market valuation annual trend in RM million

RM mil	2006	2007	2008	2009	2010	2011	2012
All	454,645	557,886	584,619	651,511	765,701	846,152	1,011,205
Annual rate of change (%)	8.58	22.71	4.79	11.44	17.53	10.51	19.51
Conventional	307,684	358,301	373,097	401,123	469,950	493,841	533,142
Annual rate of change (%)	2.95	16.45	4.13	7.51	17.16	5.08	7.96
Sukuk	146,951	199,585	211,522	250,388	295,751	352,311	478,063
Annual rate of change (%)	22.55	35.81	5.98	18.37	18.12	19.12	35.69
Ratio: Sukuk/Conventional (%)	48	56	57	62	63	71	90

Source: Bond Pricing Agency Malaysia ©The Star Graphics

ALTHOUGH 2012 did not end in a big bang (no pun intended!), the bond and sukuk markets in Malaysia continued to grow at a breakneck speed.

Conducive supply and demand dynamics, coupled with ample liquidity, helped lift the industry to new heights.

Despite the seemingly unsustainable growth rates recorded by the industry in the past year, it is still possible for the industry to prolong the high growth rate going forward.

To survive and be resilient, adaptation is key to the industry. This can only happen if the transformation agenda for the industry is unrelenting.

Growth in volume

The Malaysian fixed income market continues to register double digit growth in the last four years.

In 2012, the market breached the RM1 trillion (or RM1,000bil) mark for the first time on Oct 31, 2012 when the market ended the day with an outstanding amount of RM1,002.17bil (conventional bonds: RM534.84bil; sukuk: RM467.33bil).

By the end of 2012, the total market outstanding amount stood at RM1.011 trillion.

The promotion of the sukuk market through various initiatives has generated substantial dividends for the industry.

The high growth rate of 35.69% for the sukuk market in 2012 allowed it to catch up with the conventional bond market.

By the end of 2012, the sukuk market is close to parity with the conventional bond market. This year, 2013, there is a good possibility the sukuk market will surpass the conventional bond market in terms of value for the first time.

Malaysia maintains a healthy demand for bonds and sukuk.

Throughout 2012, RM635.86 billion worth of bonds and sukuk were successfully raised.

This factor has been facilitated by non-Malaysian domiciled issuers.

A number of issuers from South Korea and the Gulf States (among others) have taken the opportunity to raise capital by issuing bonds and sukuk in Malaysia.

Throughout 2012, RM1,620.51bil of bonds and sukuk were traded.

These trades were done via the professional or wholesale market.

With the launching of retail bond trading sometime in 2013, a new set of market players could start to make its presence felt and tip the demand factor to a higher gear.

Benchmark performance as measured by the TR-BPAM Bond Index Series indicates positive returns above the inflation rate for the 1-year and 2-year return categories.

Malaysia maintains a healthy demand for bonds and sukuk.

As an asset class, the sukuk papers (benchmarked under the TR BPAM Index-Islamic) performed better compared to conventional bonds.

Using a simple linear trend line analysis, as shown in the graph, sukuk is expected to report better returns going forward .

Improving the efficiency of the fixed income market remains the focus of the regulators as well as market players.

Infrastructure improvements, legislation strengthening and skill set development are expected to be the core building blocks to move the industry to a higher level.

The announcement to allow retail players participate directly in the bond and sukuk markets bodes well for the industry as it opens a new dimension in the current supply-demand dynamics of the market which has been traditionally wholesale in nature.

The Way Forward

On the regulation front, the Capital Markets and Services (Amendment) Act 2012 which became effective on Dec 28, 2012 introduces a new approval framework that will facilitate the offering of a broader array of capital market products with the aim to encourage market and product innovation, promote market efficiency and allow more informed investment decisions.

The bulk of the effort must be aimed towards market education and access to information.

Once people are equipped with the necessary knowledge and have access to data, fixed income as an investible asset would be part of their financial investment portfolio considerations.

This would naturally create the demand pull and elevate the breadth and depth of the market to push the industry forward.

● *The writer is the CEO of the Bond Pricing Agency.*