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Local bond market to remain volatile

Outlook remains bright as economic slowdown merely part of the cycle

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KUALA LUMPUR: The local bond market, which has been sluggish for the past one month, is likely to continue seeing volatility in the next few months, according to Bondweb Malaysia Sdn Bhd chief operating officer Meor Amri Meor Ayob.

From a long-term perspective, however, the bond market's outlook remained bright as economic slowdown was merely "part of the cycle," he noted.

"For the secondary market, there will still be a lot of uncertainties until the (equity) market settles down. Inflation is a global issue. Every bond market in the world is facing the same issue.

"With the possibility of interest rates being hiked, bond market will definitely turn into a bear market but it is not doom and gloom. It is a normal behaviour around the world," he told *The Edge Financial Daily*.

Usually, when equity markets collapse, bond markets will rise. But with increasing global inflationary pressure, the move to curb inflation by raising interest rates will make bonds cheaper with higher yields.

Meor Amri said the volatility of bond prices for the past few weeks was largely due to bearish sentiment among the investors.

"Malaysian bond market is made up of professionals; retail participation is almost zero. If the professionals stay out, liquidity tends to disappear and thus, the yields and the prices fluctuate. By nature of the market, this kind of volatility is predictable and should not be unexpected," he added.

Bondweb is the country's first and only bond pricing agency regulated by the Securities Commission. It provides an extensive range of evaluated prices of Malaysia bonds on a daily basis.

Meor Amri. Photo by Suhaimi Yusuf

Bondweb's market development head Mohd Shaharul Zain said the last time Malaysian bond market saw a collapse was in 2002 where bond prices sank and yields skyrocketed.

It is not inflation but interest rates that would directly affect the bond prices. This means bond yields will be intact if interest rates do not jump. Bank Negara governor Tan Sri Zeti Akhtar Aziz reportedly said Malaysia's inflation could have hit 6% to 7% in June. The country's May inflation stood at a 22-month high of 3.8%.

Meanwhile, Meor Amri said global Islamic bond market continued to see "explosive" growth, as investors in the Middle East were eagerly looking for syariah-compliant bonds.

"With the current price of oil, about US$10 trillion (RM33 trillion) of oil money will flow into that region in the next three years. They need to put the money somewhere and syariah-compliant bonds are what they are looking for," he said.

Malaysian bond market is among the largest in the world as a proportion of gross domestic product. Ringgit-denominated Islamic bonds account for two-thirds of the global Islamic bonds outstanding in 2007.

In view of the robust demand for Islamic bonds, Bondweb and Thomson Reuters — the world's leading source of intelligent information for business — had last Friday signed a global data distribution agreement, whereby Bondweb's daily evaluated prices of about 2,000 unlisted Malaysian bonds will be available across Thomson Reuters' products.

Meor Amri said Bondweb was leveraging on Thomson Reuters' global network to have its data delivered to all major financial markets as fast as possible.

Meanwhile, Thomson Reuters Malaysia managing director Simon Soo Hu said Bondweb's data would complement its existing bond pricing services that was benefiting more than 200,000 financial professionals worldwide.

In particular, he said the partnership would help promote Malaysian Islamic bonds to investors in the Middle East, who previously might not have the access to Malaysian bond prices.

"At Thomson Reuters, we are very focused on Islamic contents. Globally, we are trying to have as much sukuk contents as possible," he said.