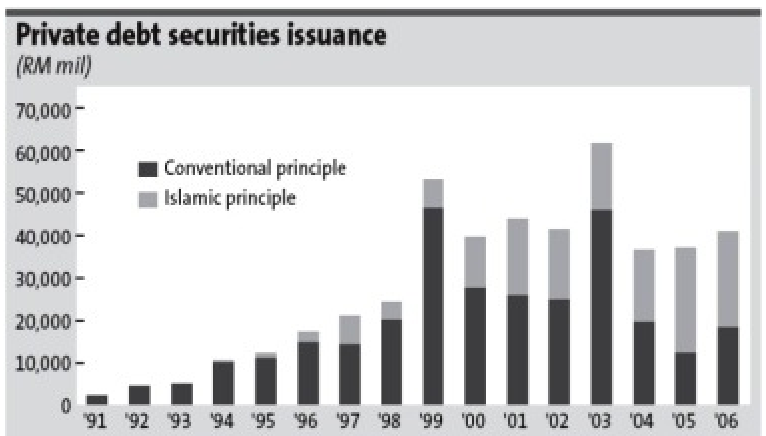
Malaysia’s bond market strengthened further in 2007, backed by continued growth in Islamic instruments and private debt securities issuance.

By SURAJ RAJ

MALAYSIA'S bond market has grown tremendously in terms of bonds outstanding, market depth and types of bonds being offered.

Some of the notable achievements over the past few years include the successful promotion of the Islamic bond or *sukuk* market, which has contributed significantly to the country's Islamic financial system.

Industry observers have also praised the establishment of Bondweb Malaysia Sdn Bhd, the country's first independent bond pricing agency, which has helped minimise the level of subjectivity in bond pricing while providing daily individual stock level valuation for more than 1,800 bonds in the domestic market.



Source: Bank Negara Malaysia statistics and bond information and dissemination system

To get a more meaningful insight of the country' debt market performance this year, *StarBiz* spoke to representatives from RAM Rating Services Bhd and Malaysian Rating Corp Bhd (MARC), the country's two credit rating agencies.

RAM Rating managing director and chief executive officer Wong Fook-Wah opines that 2007 would be another record year for the primary bond market.

Wong Fook-Wah

"New issuance by private sector rose by 32% to RM40.4bil for the first nine months. By year-end, we expect total new issues to hit about RM65bil.

"Next year, we expect it to be about RM50bil," he said.

MARC chief executive officer Mohd Razlan Mohamed concurred with Wong, noting that the performance of the primary market had been encouraging this year.

"Malaysian government securities and government investment issue both increased by 43.3% and 53.8% respectively during the first nine months of 2007, mainly to fund the Government's development expenditure under the Ninth Malaysia Plan as well as to refinance some of its maturing borrowings," he said.

As for the corporate sector, Razlan said private debt securities issuance (excluding Cagamas) surged 63.7% to RM38.7bil in the first nine months this year .

Mohd Razlan Mohamed

"Our target for new issuance this year is between RM45bil and RM50bil and we believe this target is well on track based on the deals that are still in the pipeline," he said.

Wong pointed out that there was continued interest and popularity in the use of Islamic instruments this year due to its relative cost competitiveness and vigorous promotion and development efforts by the Malaysian Government to turn the country into a hub for Islamic finance.

Razlan said that in 2000, sukuk made up only 16.3% of total corporate bonds outstanding while conventional bonds commanded the balance.

Dr Yeah Kim Leng

"As at September, *sukuk* has grown to 57.7% while conventional bonds have dropped to 42.3%," he said, adding that the *sukuk* market was expected to grow even further given the Government's drive for Islamic banking.

Looking into 2008, RAM Rating anticipates that the major bond issuers will be sectors such as financial services (RM68.5bil or 57% of total rated value), infrastructure and utilities (RM33.9bil or 28%) and asset-backed securities (RM8.8bil or 7%).

Razlan added that economic corridors such as the Iskandar Development Region, the Northern Corridor Economic Region and the East Coast Economic Region would also further spearhead development spending.

"The high capital expenditure requirements (of these developments) will lead to further bond issuances," he said.

Corporate bonds issuance
(RM mil)

	9M '07	9M '06	% Chg
Straight bonds	4,353.9	6,645.6	–34.5
Convertible bonds	30.8	155.8	–80.2
Islamic bonds	8,900.1	4,160.6	113.9
Asset backed bonds	6,065.3	745.9	713.2
Medium term notes 4	19,343.4	11,932.3	62.1
Cagamas bonds	1,750	6,9500	–74.8
New issues of debt securities	40,443.5	30,590.3	32.2
		Excluding Cagamas	
New issues of debt securities	38,693.5	23,640.3	63.7

Source: Bank Negara Malaysia

However, he pointed out that global economic growth might be affected next year due to the further potential deterioration of the sub-prime mortgage bonds.

RAM Holdings Bhd group chief economist Dr Yeah Kim Leng said despite the turmoil in the global financial markets caused by the US sub-prime mortgage crisis, yields in the Malaysian debt markets had remained stable.

"Thus far, global credit tightening and credit risk re-pricing have not affected the Malaysian market. However, we expect a slight pick-up in yields next year due to the anticipated rise in inflationary expectations and gradual build-up in price pressures this year," he added.