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Influx of gulf funds viewed as temporary

Political situation in the region dictates continuity of inflow into local market

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PETALING JAYA: The recent inflow of funds into the Malaysian sukuk market from the Gulf Cooperation Council (GCC) is temporary, fuelled by the build-up of investable funds in the GCC from the hike in crude oil prices amid the political upheaval in the Middle East and North Africa region.

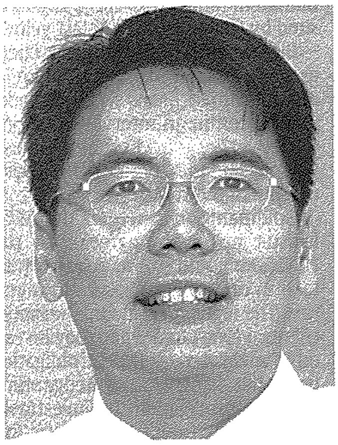
Industry observers and analysts viewed the withdrawals of funds from the region and their inflows into the domestic sukuk market and other more stable ones would depend on the severity and duration of the region's ongoing political turmoil.

Bond Pricing Agency Malaysia chief executive officer Meor Amri Meor Ayob said the level of interest from the GCC countries for the market was due to the availability of investable funds there.

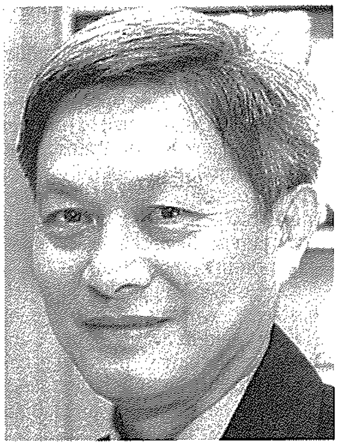
"With the price of crude oil remaining at current level in the foreseeable future due to the uncertainties in the region, the build-up of investable funds for GCC countries will accelerate and this should bode well for our sukuk market.

"It is therefore, in Malaysia's best interest, to continue to offer quality sukuks in the market for the investors (including those from the GCC) and provide an environment for cheaper issuance costs to potential issuers," he told *StarBiz*.

RAM Holdings Bhd chief economist Dr Yeah Kim Leng said investors were already cutting exposure to the Mena region and the magnitude of the withdrawals would depend on the depth, spread and duration of the ongoing political turmoil, adding that this would benefit the more stable economies in Asia that were able to attract those funds.



Meor Amri Meor Ayob



Dr Yeah Kim Leng

He added that funds from the more stable Mena countries which were benefiting from the surge in crude oil price would likely be redirected elsewhere and this could benefit the local sukuk market.

Malaysia was in a good position to leverage on the expected increase in GCC investors' interest in the local sukuk market on the one hand, and to attract more GCC companies to issue ringgit-denominated sukuk on the other, as exemplified by the recent Gulf Investment Corp GSC Kuwait's (GIC) maiden issue of RM600mil sukuk.

As at 5pm local time yesterday, the Nymex crude was hovering at US$99.79 per barrel, up by 16 cents. *Bloomberg*, at the end of last month, reported that yields on Malaysia's dollar-denominated Islamic bonds were trading near their lowest level in a month as investors favour Malaysia's assets over those in the Middle East amid escalating political violence.

Citing prices from Royal Bank of Scotland Group, the wire agency added that yield on the Government's 3.928% sukuk due June, 2015 fell 11 basis points (bps) last week to 2.89%. They were at 2.88% on Feb 22 and at 2.86% at the beginning of February. Rates on syariah-compliant debt from Petroliam Nasional Bhd declined seven bps to 2.75%, it noted.

On whether the interest from the GCC countries would continue, Yeah said the sustainability of this trend would depend on the funding needs of GCC companies and their interest in investing in Malaysia as well as given the region's potential as an alternative to low-yielding assets in advanced economies.

Malaysian Rating Corp Bhd (MARC) fixed-income research head Wan Murezani Wan Mohamad viewed the political unrest as creating a temporary panic sell-off in the affected region on rising risk aversion.

Nonetheless, he said that did not mean sukuk elsewhere would be similarly affected.

"For example the Government US dollar-denominated sukuk issued last year witnessed its yield declining 30 bps in the second half of February and over the same period, the yield on Dubai International US dollar-denomiated sukuk rose 19 bps.

"The yield differential between these sukuks widened by 50 bps to 360 bps in the same period. This shows that what we are seeing now is an idiosyncratic political risk in the affected region and not risks aversion in the sukuk as a whole," Wan Murezani noted.

In general, he added that MARC opined the sukuk issuance to pick up in 2011, exceeding the US$17bil raised in 2010 with Malaysia expected to retain its significant pie in the global sukuk market.

This would mainly be driven by the country's economic activities and the Government's various fiscal stimulus packages.

Yeah said the size of the sukuk market reached RM296bil last year, after having expanded by 18% or about the same pace as in the previous year.

According to him, RAM is projecting a 15% increase, driven by the sustained funding requirements and large capital inflows expected this year.