

**Najib Investment to Boost Malaysia Bonds, UOB Says (Update1)**  
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(Updates with Zeti's comments in second and 11th paragraphs.)

By Lilian Karunungan

Nov. 19 (Bloomberg) -- Malaysian bonds are attractive because the government has refrained from joining other emerging-market nations in announcing measures to curtail foreign investment, said UOB Asset Management Ltd.

A plan to sell shares in state-owned companies and attract funds for construction projects will boost the allure of ringgit debt, Chia Tse Chern, director for fixed income at UOB Asset, a unit of Singapore's third-biggest bank, said in an interview yesterday. Malaysia isn't considering imposing capital controls, central bank Governor Zeti Akhtar Aziz said in Oslo yesterday.

Prime Minister Najib Razak announced a \$444 billion 10-year development plan in September to build railways and power plants. A record share offering by Petronas Chemicals Group Bhd., a unit of the state oil company, took in bids for 10 times the amount on offer on Nov. 12. The government may also divest holdings of printing company Percetakan Nasional Malaysia Bhd., CTRM Aero Composites Sdn., an aerospace components maker, and two biotechnology companies, Najib said in March.

"If you look at the news flow from Malaysia, Najib is very investor-friendly," said Chia, part of a team that oversees the equivalent of \$10.6 billion of assets. "They have a nice structural story that will underpin the strength of the ringgit. We'll probably see a lot of foreigners buy into these companies."

#### Ringgit Appreciation

The ringgit has climbed 9.4 percent in 2010, trailing only the 11 percent gain in the Thai baht in Asia outside of Japan. Malaysia's central bank on Aug. 18 relaxed currency controls, allowing local firms to use the ringgit to settle cross-border transactions.

Former premier Mahathir Mohamad fixed the ringgit at 3.8 to the dollar in September 1998, blaming speculators including hedge fund manager George Soros for the 34 percent plunge in its currency. A ban on offshore trading of the ringgit has remained in force since.

UOB Asset invested in Malaysia's five-year government bonds and also likes Indonesia's debt maturing in five to seven years because of the higher yields compared with regional counterparts, said Chia, the portfolio manager for UOB Asset's United Asian Bond Fund.

The yield on Malaysia's 3.835 percent note maturing in August 2015 fell five basis points yesterday to 3.29 percent, according to data from stock exchange operator Bursa Malaysia. The rate has dropped 58 basis points since reaching this year's high of 3.87 percent on Feb. 19, according to data compiled by Bloomberg.

#### 'Rigorous Surveillance'

The extra yield investors demand to hold Malaysia's five-year debt over U.S. Treasuries has narrowed 53 basis points, or 0.53 percentage point, to 179 points since the ringgit reached a 13-year high against the dollar on Nov. 5.

The ringgit will appreciate 5 percent to 2.98 per dollar by the end of the third quarter of 2011, from 3.1210 in Kuala Lumpur today, according to the median estimate of 13 economists surveyed by Bloomberg.

Malaysia's central bank will maintain "rigorous surveillance" to ensure markets aren't overwhelmed from any influx of funds, Zeti said yesterday.

"Of course, we will collaborate with other countries, if the need arises and there is any risk to stability in our region," she said.

#### 'Critical Stage'

South Korea's finance ministry yesterday said the government supports a law reviving a bond tax on international investors as it seeks to stem capital inflows arising from monetary easing in the U.S. Taiwan on Nov. 9 said overseas funds can only invest up to 30 percent of their portfolio in the island's debt, while Thailand last month removed a 15 percent tax exemption for foreigners on domestic bond income.

"Capital controls in Asia haven't really reached a critical stage," said Chia. "We can't really say the whole of Asia is heading in that direction. I like Malaysia a lot."

Chia's United Asian Bond Fund, which invests in debt issued by Asian companies, financial institutions and governments, returned 7.3 percent this year, outperforming the average 4.2 percent among its peers, according to data compiled by Bloomberg.

Indonesia is looking at a longer holding period for foreign investors of central bank bills before they can be sold to the secondary market, Perry Warjiyo, director for monetary policy at Bank Indonesia, said in Jakarta on Oct. 29.

#### Indonesia Yields

Bonds in Indonesia have returned 20.4 percent this year, the best performance among 10 local-currency debt indexes compiled by HSBC Holdings Plc. Malaysia's government securities have gained 4.7 percent.

Overseas holdings of Malaysia's debt climbed to 68 billion ringgit (\$21.7 billion) as of Sept. 30, 66 percent more than at the end of last year, according to data from Bank Negara Malaysia on Oct. 29. Ownership of Indonesian bonds climbed 80 percent this year to 194.9 trillion rupiah (\$21.8 billion) as of Nov. 16, data from the finance ministry's website showed.

The yield on Indonesia's 9.5 percent note maturing in June 2015 fell 2 basis points to 6.36 percent yesterday, according to prices from the Inter Dealer Market Association. The extra yield demanded over Treasuries has narrowed 33 basis points to 489 points since the rupiah reached a three-year high of 8,875 per dollar on Nov. 5, according to data compiled by Bloomberg.

Indonesia's "government bond yield is still pretty high," Chia said. The measures to curb flows "so far are not very draconian," he said. "The fundamentals have actually improved a lot more than I expected for this country."