

United Asian Bond up 7.6% YTD; bets on M'sian, Indonesian debts

BY LILIAN KARUNUNGAN |

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 Management, a unit of Singapore's third-biggest bank, said in an recent interview. Malaysia isn't considering imposing capital controls, central bank Governor Zeti Akhtar Aziz said in Oslo recently.

Prime Minister Najib Razak announced a US\$444 billion (\$580.9 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, aerospace components maker CTRM Aero Composites Sdn Bhd 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 US\$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% in 2010 (against the US dollar), trailing only the 11% 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 US dollar in September 1998, blaming speculators, including hedge fund manager George Soros, for the 34% 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, portfolio manager for UOB Asset's United Asian Bond Fund, which invests in debt issued by Asian companies, financial institutions and governments.

[This Singapore-registered Asian bond unit trust was the fifth-best performing fund in its category this year, turning in gains of 7.6% as at Nov 19. Over the past 12 months, it returned 9.5%. See table for more information.]

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

The ringgit will appreciate 5% to



Malaysia's focus on development of infrastructure, including power generation, is seen as being investor-friendly

Performance of Singapore-registered Asian bond funds

	YTD RETURN DEC 31, 2009 TO NOV 19, 2010 (%)		ONE-YEAR RETURN NOV 19, 2009 TO NOV 19, 2010 (%)	
	VALUE	RANK	VALUE	RANK
Fidelity Funds — Asian High Yield A Acc USD	8.81	4	11.42	1
Legg Mason Asian Bond Trust	10.91	1	11.37	2
Aberdeen Asian Credit SGD	10.73	2	11.04	3
Fullerton Asian Bond B	9.23	3	10.77	4
United Asian Bond Fund	7.58	5	9.54	5
DBS Asia Bond B SGD	7.51	6	8.57	6
ING (L) Renta Fund Asian Debt P Cap	5.83	8	7.74	7
BGF Asian Tiger Bond Fund A2 USD	5.74	9	7.7	8
BNP Paribas L1 Bond Asia ex-Japan C C	5.34	11	6.83	9
Schroder Asian Premium Bond	5.7	10	6.4	10
Legg Mason WA Asian Opportunities A Acc USD	3.88	12	5.21	11
Templeton Asian Bond A (Mdis) USD	2.5	14	4.5	12
International Opps Fds Asian Bond A	2.51	13	3.91	13
ABF Pan Asia Bond Index	2.17	15	3.07	14
Schroder Asian Bond	-0.78	16	-0.19	15
LionGlobal Asia Bond SGD	6.45	7	NA	NA
Bond Asia Pacific Average	5.88	16	7.19	15

2.98 per US dollar by end-3Q2011, from 3.1210 currently, 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 by any influx of funds, Zeti said on Nov 18. "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 on Nov 18 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 US. Taiwan on Nov 9 said overseas funds can only invest up to 30% of their portfolio in the island's debt, while Thailand last month removed a 15% 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."

Indonesia is looking at a longer holding period for for-

eign 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.

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

Overseas holdings of Malaysia's debt climbed to RM68 billion (\$28.6 billion) as at Sept 30, 66% more than at end-2009, according to data from Bank Negara Malaysia on Oct 29. Ownership of Indonesian bonds climbed 80% this year to IDR194.9 trillion (\$28.6 billion) as at Nov 16, data from the finance ministry's website shows.

The yield on Indonesia's 9.5% note maturing in June 2015 fell two basis points to 6.36% on Nov 18, 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 US 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." — Bloomberg LP ■