Malay Mail, 24 March 2015

> "If Opec could controll the prices, it would have done so, but it is not the interest of Opec to control prices."
>
> — *Mohammed al-Madi, Saudi Arabia's governor to Opec*

Rising US dollar chips away Malaysia's competitiveness

Divya from Standard Chartered Bank says, the ringgit weakness is primarily driven by external forces.

By V. Paramasivam
vijianp@mmail.com.my

KUALA LUMPUR — Malaysian exporters basking in healthy earnings from the strong US dollar may cringe soon, as a weakened ringgit combined with a bullish greenback forecast for the next three years could impinge on profits.

Currently, the ringgit is trading near a six-year low and hovering around RM3.688 against the dollar yesterday, which is bad news for thousands of small and medium entrepreneurs (SMEs) across the country involved in exports.

Imported raw materials or components from chemicals, plastic resin, brass and copper strips, as well as paper products are almost certain to cost more - thus pushing up production costs.

"This situation is making us worried. The depreciating ringgit is very peculiar to us. We are a very resourceful country, but it is the way it is being managed.

"Our exports will cost more now and this will weaken our competitiveness in the domestic and international markets," said SME Association of Malaysia's national president Teh Kee Sin.

The association has about 5,000 members nationwide.

The US currency is expected to remain bullish for the next three years. Sinking oil prices, as well as a strengthened economy, improved budget deficit and higher interest rates in the US have all made the US dollar more attractive.

Last month, Bank Negara Governor Tan Sri Dr Zeti Akhtar Aziz said Malaysia boasts a stable banking system and a strong financial system and that economic growth was on the right trajectory.

The country's international reserves stood at RM381.5 billion as of March 13 this year, which is sufficient to finance 7.8 months of retained imports.

Yet, the ringgit remains vulnerable to external vagaries.

"In our view, the ringgit's weakness has primarily been driven by external factors like the collapse in crude oil prices. Malaysia is a net oil exporter and as such, weaker oil prices impact Malaysia's trade and fiscal balances.

"Additionally, we remain in a strong US dollar environment as the US Federal Reserve nears its first rate hike, which has further exacerbated the pressure on the ringgit," said Singapore-based Standard Charted Bank forex strategist Divya Devesh.

But it's not all gloomy for Malaysia. The improving US economy is favourable for local exporters as demand will soar and Malaysian exports from electrical and electronic appliances to rubber gloves and furniture are bound to gain.

"The spending behaviour is good for Malaysia and the world market too. As living standards improve, there will be more demand for goods," added Teh.

Moreover, the ringgit continues to depreciate against other currencies like the Singapore dollar, Japanese yen and British pound sterling.

The bond market has weathered the impact of the falling ringgit. The Malaysian Government Securities (MGS) is performing well.

The ringgit was hit hard by capital outflows seen in the short-term instruments such as the Bank Negara Bills (BNB).

From October 2014 until February this year, foreign holdings of BNB dipped substantially from RM60.4 billion to RM40.7 billion, whereas foreign holdings for MGS barely changed at RM146.7 billion, according to Bond Pricing Agency Malaysian Sdn Bhd (BPAM).

"The medium-to-long-term economic outlook of Malaysia in the eyes of foreign investors was still relatively intact, despite a dip in the foreign holdings of BNB, as short-term instruments are more susceptible to the expectations of interest rate movements, in this case, the US interest rate hike this year is imminent.

"As long as the fundamentals of the Malaysian economy remain sound and inflation expectation is well-anchored, MGS is expected to do well, especially with the support of local institutional players because MGS is still considered a safe haven asset among other ringgit-denominated asset classes," said BPAM CEO Meor Amri Meor Ayob.

The MGS yield did not really suffer, except for a brief period in December due to the plunge in global energy prices.

The 10-year MGS yield has dropped to the level of approximately 3.90 per cent, which was the level seen before the plunge in global oil prices, added Meor.

"As long as the Malaysian economy is holding up well in the face of negative sentiments surrounding the country, the outflows in the MGS segment will be minimal," said Meor.

On the tourism front, the sector is tipped to boom along with the depreciating currency, making Malaysia more attractive to outsiders, especially those from developing economies.

"It is good for inbound tourism. The weak currency will make Malaysia an affordable destination and service providers in the tourism industry will be happy, as tourists will have more money in their pocket to spend.

"But there will be sluggish growth for the outbound segment as Malaysians will have to pay more for packages and their buying power will be less now. This is good as Malaysians will spend more at home," said Mayflower Acme Tours Sdn Bhd head of outbound travel Abdul Rahman Mohamed.

The government aims to woo 29.4 million tourists this year and earn a staggering RM89 billion.

Other sectors such as education, online businesses and the retail sector are also expected to profit from the stronger US currency.

MARKET REPORT

FTSE BURSA MALAYSIA 10 MOST ACTIVE COUNTERS

MONDAY MARCH 23, 2015

COUNTER	TURNOVER	HIGH	LOW	L/DONE	UP/DOWN
PRIVA	139,010,600	34	29.5	32.5	+ 2.5
ETITECH	111,354,400	11	10	11	+ 0.5
TALAMT	72,392,800	9	8.5	8.5	+ 0.5
JADI	60,738,900	11	9.5	10	+ 1
PUC	47,563,600	16	14.5	14.5	- 1.5
SUMATEC	45,563,000	23.5	22	22	- 0.5
AWC	43,482,400	42	38.5	40.5	+ 3.5
CAP	43,120,900	36	30	34.5	+ 3.5
NEXGRAM	41,993,300	12.5	11.5	12	- 0.5
GLOTEC	41,388,000	8	7	7.5	+ 0.5

FTSE BURSA MALAYSIA CLOSING INDICES

MONDAY MARCH 23, 2015

		CHANGE
FBMEMAS:	12,343.24	(- 41.00)
FBMKLCI:	1,795.85	(- 7.80)
INDUSTRIAL:	3,315.92	(- 5.50)
CONSUMER PRODUCT:	590.80	(- 4.92)
INDUSTRIAL PRODUCT:	133.69	(+ 1.30)
CONSTRUCTION:	296.60	(+ 0.31)
TRADING SERVICES:	236.85	(- 0.78)
FINANCE:	15,920.31	(- 48.14)
PROPERTIES:	1,304.28	(+ 0.58)
PLANTATIONS:	7,756.12	(- 45.93)
MINING:	567.40	(- 4.05)
FBMSHA:	12,959.35	(- 24.55)
FBMACE:	6,889.23	(- 25.94)
TECHNOLOGY:	21.22	(+ 0.11)