

USD in high demand

Banks keeping more cash in US dollars as the Aug 2 deadline approaches

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PETALING JAYA: Banks are holding more cash in US dollars in the run-up to the Aug 2 deadline for raising the United States debt ceiling.

"In general, there is optimism over the talks but this is a cautious move just in case the deadlock continues," said deputy CEO and group treasurer of the CIMB group Datuk Lee Kok Kwan.

The demand for US dollars in the money market has gone up, he told *StarBiz*.

Talks to raise the US debt ceiling from US\$14.3 trillion have reached a stalemate and there is a possibility that the US may default on its debt for the first time in history.

However, *Bloomberg*, quoting persons familiar with the talks on the debt yesterday, said that US President Barack Obama and congressional leaders had begun a fresh attempt to reach an agreement on raising the US debt cap, with a potential framework for a deal emerging before a threatened default deadline. (See Page 9)

"Overall, we do not see much impact here as the markets are much smaller compared with the US," said Lee.

"Not many people have invested in US treasuries, hence we do not see much of a shift in funds," he



pointed out.

However, Lee said there could be some hesitancy in accepting US treasuries as collateral especially on the part of international banks.

"People are likely to avoid US treasuries in the interbank market," he said.

He added that a bigger haircut could be charged if US treasuries were accepted.

US treasuries have always been the most acceptable form of debt; with the uncertainty over US debt, a continued avoidance of US treasuries may hinder trade as it becomes more expensive to charge US treas-

uries as collateral.

Despite the doubts, yields of US treasuries remain stable, indicating that investors remain confident of an eventual deal on the debt ceiling being hammered out.

The US issues debt in the form of US treasuries are currently held mostly by the US, China as well as Japan.

"There could be a bit of change in mindset regarding US treasuries," said Pong Teng Siew, research head at Jupiter Securities.

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risk. People may have to work on different paradigms."

"Nobody knows what will happen," Pong added.

"Will the agreement reached be sufficient to push off the default and will it be on time?"

Pong expected the biggest short-term risk to be in the US repo market where overnight lending was based on the security of US treasuries.

"There might be a shortage of liquidity as people ask for more security," he said.

Pong said in a situation like this, cash would be preferred as there could be a general drift down on assets.

The local bond market continued to perform strongly.

"We have not observed any noticeable impact on the trading of local bonds with regards to the US debt deadlock crisis," said CEO of Bond Pricing Agency Malaysia Meor Amri Meor Ayob.