

'Markets expected Fed rate hike'

SMALL IMPACT: StanChart says US recovery should help global demand

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THE United States Federal Reserve Fund's (Fed) first interest rate hike in nine years on Wednesday did not come as a surprise as regional bourses and currencies have factored in the move.

The Fed raised the rate by 25 basis points to 0.25-0.5 per cent, which is considered a dovish hike and expected to provide a small impact.

Standard Chartered Bank (StanChart) economist Jeff Ng said the rate hike suggested that the US economy was picking up and should help global external demand.

European and Asian bourses rallied following the Fed announcement, and the benchmark FTSE Bursa Malaysia KLCI jumped 22.39 points to close at 1,656.52 points yesterday. The ringgit also closed stronger against the greenback at 4.3105 from 4.3160 on Wednesday.

Vincent Loo Yeong Hong of RHB Research said the US confidence in its recovery augured well for the other markets.

Disconcerting would be the narrowing interest rate differential between the US and markets like Malaysia, which could spur capital outflows.

"Rate hikes will continue to depress commodity prices, which is not good for commodity exporters like Malaysia, while outflows will continue to place pressure on the ringgit."

OCBC Bank economist Wellian Wiranto said the negative lining was that the hike was by no means the only one.

"Even if (Fed chairman Janet) Yellen has stressed that the path ahead will be gradual, there is, nonetheless, the reality that rates will be higher. It's just a matter of when and how much."

"For companies exposed to external debt liabilities, higher rates

mean higher servicing costs and it's still an open question whether most are prepared for the new reality," he added.

So far, the market has taken the move largely in its stride.

BIMB Securities economist Imran Nurginias Ibrahim said the important part was the message it gave to financial participants on the path of future rate hikes.

"On this front, the Fed reaffirmed that the pace of rate hikes would be slow relative to history, and the length of the cycle, by extension, would be longer."

Uncertainty in emerging economies would continue as they depended on global markets to determine the response, he warned.

"Once the market finishes digesting the implications of the Fed's decision and outlook, attention should turn to end-of-month/quarter/year rebalancing, another factor which could weigh on the dollar after this year's big rally."

Imran said Bank Negara Malaysia would face a tough choice between supporting the economy and defending the ringgit.

"Given our expectations on

growth and inflation for next year, we continue to expect the overnight policy rate to remain on hold for most of next year.

"Given that risks to the outlook are tilted to the downside, any change in

policy stance is more likely to be an easing bias but not after exhausting other policy options."

The probability of Bank Negara making any rate adjustment in the near term was relatively low, he added.

Imran expects Bank Negara to stay pat next year, saying it was unlikely for the central bank to hike rates to defend the currency.

Ng, however, warned of volatilities ahead.

"Rising interest rates in the US can potentially provide some dollar strength over the short term and this may cause some volatility in the forex market."

StanChart expects the ringgit to end the year at RM4.45 versus the dollar and head towards RM4 by the end of next year.

Meanwhile, Fitch Ratings has warned that Malaysia remains vul-

nerable to a shift in investor sentiment following the hike.

Malaysia's external liquidity position has deteriorated because of large capital outflows and loss of forex reserves.

"A flexible exchange rate and large gross external assets will continue to cushion Malaysia's vulnerability to such an event," said associate director

"Rising interest rates in the US can potentially provide some dollar strength over the short term and this may cause some volatility in the forex market."

Jeff Ng

Standard Chartered Bank economist

Sagarika Chandra.

Additionally, the ability of domestic agencies, such as the Employees Provident Fund, to provide funding in the event of a sell-off by non-residents, is expected to continue to support the sovereign's domestic funding needs.

It's no surprise!

THE anticipated United States Federal Reserve's decision to raise its interest rates for the first time in nearly a decade has helped spur rallies in stock and currency markets globally.