

Fed decision has removed risk factor

FROM P1 **Fed rate hike**

The ringgit is expected to average at about 4.20 against the US dollar next year according to Minister in the Prime Minister's Department Datuk Seri Abdul Wahid Omar who said Malaysia's economic fundamentals were strong with visible level of fiscal discipline and adequate reserves to deal with potential capital outflows.

"As we move forward, with the economy continuing to grow, I think there are little reasons for people to make any unexpected moves. Having said that, we will always move forward and continue to embrace proactive policies," he said, according to *Bernama*.

The Fed decision has removed a risk factor and with that the narrative of the local market has changed as has the trajectory of the index to one of a possible return to uptrend led by window dressing activity which could take the index back above the 1,700-point level before the year ends.

"The market saw strong buying interest yesterday and follow through rebound from the day earlier. Window dressing activity, if any, would have started from yesterday and the index's next major hurdle is the 1,690-point level," said a chartist at a local brokerage yesterday.

"The short-term upside could last for up to a month. In the long term, however, the market is going to sit down on the implications. There could be some withdrawal of liquidity through all asset classes," said Inter-Pacific Securities Sdn Bhd head of research Pong Teng Siew.

The companies that are highly leveraged or those whose profits are only marginally comfortable might see the situation pushing them to

losses, added Pong.

Pong said the US has indicated potentially four rate hikes coming up next year, resulting in the rates going up by up to 100 basis points.

"It will hurt the emerging economies. On a net basis, it is not positive," he added.

Pong said the banking system could experience some liquidity constraints leading to a lack of appetite for large debt issuance.

On whether BNM will change its policy in response, Pong said it is unlikely that there will be a policy response to this.

"BNM will be quite prudent not to change the interest rates. If there are any implications from the foreign-exchange market, it should not influence the ringgit," he said.

He does not expect there to be further pressure on the ringgit on the back of the crowded US dollar market, thus expecting ringgit to remain in the current range of RM4.20 to RM4.40 against the US dollar.

The Fed raised its key interest rate on Wednesday from a range of 0% to 0.25% to a range of 0.25% to 0.5%.

The rate hike signals the recovery of the US economy, a consumption-led economy, which expects to improve the exports market.

"While the spillover effect would not be so immediate, we expect export-driven economies like Malaysia to ride on this development," said Lee Tien Xiang, analyst at Fundsupermart.com.

He said the development in the US coupled with the Chinese government's announcement to shift from being an investment-driven economy to a consumption-led economy are good news for Malaysia.



Pic by Hussein Shaharuddin

STRONG ECONOMIC FUNDAMENTALS: Minister in the Prime Minister's Department Datuk Seri Abdul Wahid Omar delivering his speech entitled 'Economic Outlook The Way Forward For Malaysia' at UTM, Kuala Lumpur yesterday.

Fed rate hike cheered by equity market

Domestic factors like economic growth and inflation will determine monetary policy response from BNM, say analysts

by **KAVITHAH RAKWAN & FARAH ADILLA**

THE short-term reaction of the US Federal Reserve (Fed) interest rate hike to the Malaysian equity market will be unambiguously positive but the pace of normalisation could determine if the country sees withdrawal of liquidity.

Economists and analysts believe domestic factors like the economic growth and inflation will determine monetary policy response from Bank Negara Malaysia (BNM) while the

higher inflation-adjusted returns in the country should limit any outflow, if any, to a minimal without compromising domestic liquidity conditions.

"The policy response from BNM will be determined more by domestic factors like expectation of growth and inflation and liquidity conditions. Yield differentials now still favour emerging market assets but any future outflow of funds would be determined by the pace of normalisation by the Fed," said Dr Yeah Kim Leng, dean at the School of Business at the Malaysia University of Science and Technology.

The Fed statement said future moves would be data dependent and that "economic conditions will only warrant gradual increases in the Fed funds rate".

Schroders Investment Management believes the Fed move indicates a slow lift-off and then greater tight-

tening further out but there are risks.

"The Fed and chair Janet Yellen remain committed to a gradual tightening, but the danger is that if they are perceived as being more hawkish than the very low expectations built into markets, then the US dollar will strengthen and push down inflation further. In this way the normalisation of interest rates could stall as the currency markets tighten policy for the Fed," Keith Wade, chief economist and strategist noted in a statement on the matter.

That said, the action by the Fed removed the uncertainty of timing of the normalisation process leading relieved investors to push the benchmark FBM KLCI up 1.37% or 22 points yesterday to 1,656 points as the ringgit strengthened marginally against the greenback to 4.313.

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