

Raising interest rates an option: ForexTime

> Bank Negara can do this if ringgit doesn't regain momentum and inflationary pressure rises, says VP and chief market analyst

BY EVA YEONG

sunbiz@thesundaily.com

KUALA LUMPUR: Bank Negara Malaysia (BNM) has the option of raising interest rates to prevent currency weakness if the ringgit is unable to recover momentum and inflationary pressure increases, said ForexTime Ltd.

"It is an option. Maybe you would have to raise interest rates. A higher interest rate policy will attract foreign investors, it can encourage capital inflows. Higher

interest rates can improve the currency value. It can then reduce inflation risk. I'm not saying that it will occur but it is an option," its corporate development vice-president and chief market analyst Jameel Ahmad told reporters at a briefing yesterday.

He said cutting interest rates is not an option for the central bank as interest rates are already quite low at 3.25% and cutting interest rates would discourage investors from keeping their capital in Malaysia.

Jameel said intervening in the currency market is expensive and will deplete reserves while pegging the ringgit would spook investors, making them move their money out of Malaysia.

Meanwhile, the government could consider speeding up any economic reforms to exploit the potential of the Asean Economic Community (AEC) in order to prevent further currency weakness.

"If there is anything that the government can do for consumers legislation reforms, to

improve your ability to exploit the potential for this, to gain as much as possible from AEC, this would help. The more you exploit the potential, the more foreign investors will look at Malaysia strongly and this improves confidence ... the more investors are investing in your economy, the stronger it is for the currency. That's a huge benefit," he said.

Another option, although less popular, is to consider banning US dollar deposits, which would naturally increase the amount of ringgit.

Moving forward, Jameel said investors should watch out for possible domestic risks including domestic consumer spending, which will likely be under threat.

"If your currency is depreciating, consumers are going to have less purchasing power. Cost of living is probably increasing, cost of purchasing abroad is definitely increasing. All of a sudden consumers don't have as much disposable income," he said, adding that businesses and corporations would also be affected in the same way.

He said investors should also watch out for inflation pressures as recent policy statements suggest that it is going to peak at the turn of the year.

"This seems accurate. This is something that the local economy is going to be talking about a lot in the coming months. If inflation pressures do not peak, if it does not meet expectations, this basically means consumers are not

spending. They are no longer purchasing. This would actually weigh on gross domestic product (GDP) growth.

"When we talk about GDP falling to a two-year low of 4.7%, if consumers are not spending and if inflation pressures do not peak, there is a risk that GDP growth will continue to fall steadily lower in Malaysia," he added.

He said latest GDP data suggests a 4.7% growth but if growth comes at a low 4% range, it would weigh on the currency and markets.

"That means that reduced growth is ongoing. Economies are spending less. I would say that lower growth is less potential for the currency and local markets."

Jameel expects the US Federal Reserve to raise interest rates this month, which would improve global confidence.

He declined to comment on where the ringgit would be at the end of 2015, saying only that the currency is affected by many external factors such as the slowdown in China and commodity prices, but investors should look out for signs of improvement in the Malaysian market.

He added that the economy is still doing well and growth is robust while export competitiveness has improved and the latest import figures are better than expected.

Analysts expect the ringgit to weaken slightly in the short-term if the US Federal Reserve decides on an interest rate hike.

Jameel says the economy is still doing well

