Fed rates hike may see same from BNM

by ALEXANDER WINIFRED

AN INCREASE in interest rates by the US Federal Reserve (Fed) could result in a similar hike by Bank Negara Malaysia (BNM) to prevent fund outflows.

BNM's current Overnight Policy Rate of 3.25% is "pretty low" and may not be sufficient to encourage investors to keep capital in Malaysia after the Fed raises rates, possibly this month, said Jameel Ahmad, chief market analyst at ForexTime, an international online foreign-exchange (forex) broker.

"People in Malaysia shouldn't rule out the possibility of an increase in interest rates. A higher interest rate will attract capital inflows and reduce the inflation rate. It is an option," Jameel said.

Reducing interest rates is "not an option" as it would lead to the ringgit falling heavily, the analyst said.

BNM kept its key interest rate unchanged at 3.25% on Nov 5 citing a weaker external environment, slowing private consumption and higher inflation.

While there is a possibility BNM may maintain interest rates initially due to the weak economic situation, ultimately the central bank will need to raise rates, said Prof Dr Hoo Ke Ping , a prominent economic macroanalyst based in Kuala Lumpur.

"The Fed hike will attract fund outflows (from Malaysia's markets).

I would expect BNM to move (to raise rates) at the same pace as the Fed or slower," the economist said.

Malaysia's economy would need to grow faster than 4% in 2016 to sustain investor sentiment and the ringgit, Jameel said yesterday at a press briefing in Kuala Lumpur.

As a Dec 17 decision from the Federal Open Market Committee looms, analysts expect the Fed to raise rates.

"We think there will be two rate hikes this year, with each hike at 25 basis points for a total increase of 50 basis points," said Christopher Wong, a forex strategist at Maybank in Singapore.

"We think BNM will focus on upside risk to inflation next year as well as maintaining market liquidity in onshoring local corporate earnings," the analyst said.