

Ringgit and equities down on Fed moves

Fed hints future hikes may be accelerated

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PETALING JAYA: The ringgit tested fresh multi-year lows against the surging US dollar after the United States Federal Reserve (Fed) raised interest rates for the first time in a year, and hinted that future hikes could be accelerated.

Stocks on Bursa Malaysia declined, tracking losses across the region.

The increase in the federal funds rate (FFR) to a range of between 0.5% and 0.75%, which was announced by Fed chairman Janet Yellen (pic) overnight, was widely expected.

Investors, however, are becoming increasingly wary about the dangers of a more hawkish Fed.

According to reports, most Fed officials now project three or more rate hikes in 2017. In September, Fed officials had predicted they would only raise rates once or twice next year.

"Although the Fed is expecting a faster pace of rate hikes in 2017, at the moment we are maintaining our expectations of two rate hikes, which will lead the FFR to 1.25%," MIDF Investment Research said yesterday.

But the prospect of rising interest rates in the US is already luring fund managers away from the region, as they seek higher yields in US dollar-denominated assets.

The FBM KLCI fell for a second straight day to close 6.30 points, or 0.4%, lower at 1,636.99 points.

Other stock markets around the region were also hit, except those in Japan.

In Singapore, the Straits Times main index was down 0.8% to 2,930.77 points, while in Hong Kong, the main Hang Seng Index tumbled 1.8% to 22,059 points.

Foreign funds have pulled out more than RM2.5bil from the local bourse so far this



year, on top of a net outflow of RM19.5bil in 2015.

"We do not foresee the equity market turning bearish anytime soon," MIDF said.

This is partly because the firm sees the stock market as building a base at current levels, with the "hollowing out" of foreign funds in the last three years.

"As the amount of foreign hot money in the stock market is currently very low, any overhang has been virtually eliminated," it said.

It reiterated its 2017 target for the FBM KLCI at 1,830 points after what MIDF called its "uncharacteristically" three years of straight losses.

But the lack of foreign interest in the local stock market could also be explained by the

surge in overseas holdings in the local bond market.

Total bond foreign holdings as at end-November stood at RM221bil, reports said.

Official data from Bank Negara showed that foreigners held about half of the total outstanding bonds in the market.

This is a potential sources outflow that could further pressure the ringgit, which has fallen 3.8% against the US dollar year-to-date. The local currency was last traded at 4.4657 against the greenback yesterday.

MIDF expects the ringgit to remain volatile next year, largely due to the unpredictable fiscal and monetary policies in the US.

It expects the ringgit to strengthen to 4.20 against the US dollar by the end of 2017.