

Headline	Malaysia is running out of trump cards		
MediaTitle	Malay Mail		
Date	15 Nov 2016	Language	English
Circulation	100,000	Readership	300,000
Section	Money	Page No	19
ArticleSize	570 cm ²	Journalist	N/A
PR Value	RM 19,539		



Malaysia is running out of trump cards

AMID a deepening emerging-market rout, three of Donald Trump's seven promises to American workers are making Asia particularly nervous.

A US withdrawal from the Trans-Pacific Partnership (TPP) would kill the 12-nation deal, while labelling China as a currency manipulator is set to provoke a tit-for-tat response. If the president-elect delivers on those two threats, the export-led region will wait for Trump to make good on his vow to end "all foreign trading abuses".

Although no Asian nation would relish the prospect of an all-out trade war, Malaysian investors are perhaps most at risk.

Why Malaysia? China, Japan, South Korea, India and Singapore are among America's 15 biggest trading partners; Malaysia is not. And while it's a TPP member, the accord's demise is the least of Kuala Lumpur's worries. It might even be a short-term boon. After all, the Southeast Asian country is an energy and palm-oil exporter. It's not terribly competitive at

Tight squeeze

Malaysian lenders' cost of dollar funding is one of the steepest among major Asian economies

The dollar crunch may ease if the ringgit falls, so foreign investors would find local currency-denominated assets cheap again. But authorities can't allow an abrupt exchange-rate adjustment to take place right now. Among other things, a weaker home currency would push up dollar-linked coal-purchase costs for power producer Tenaga Nasional Bhd; those pressures would in turn get passed on to consumers who are already among the most indebted in the region.

That would be an ill-timed blow. Friday's gross domestic product report might have masked the weakness in Malaysia's consumer economy, but bank lending trends offer a clue.

The so-called Amanah Saham Bumiputera unit trusts, which are available only to the indigenous Malay Muslim population,

much else.

Opening up Malaysia's consumer economy of 30 million people as part of the free-trade bargain could turn a fast-vanishing current-account surplus into a permanent deficit. That would weigh on the ringgit, scare away investors in Malaysian bonds, and lead to a spike in companies' cost of capital.

But TPP being dead doesn't help either. For one, dollars are in short supply in the banking system, and therefore a flight to safety among investors jittery about a Trump presidency makes Malaysia a particularly vulnerable emerging market.

This can be seen in the overall cost for a bank trying to raise dollar funds by borrowing locally in the interbank market, using those ringgit to purchase greenbacks in the spot market and then selling them forward by, say, three months. That operation now costs 1.78%, the stiffest premium over Libor among major Asian economies, according to data compiled by Bloomberg.

have been a popular asset for banks to lend against. But advances against such securities are slumping. According to Bloomberg Intelligence analyst Diksha Gera, retail clients may be redeeming their unit-trust investments to manage their cash flow better amid higher living costs.

Cashing out

Malaysian banks loved lending against unit trusts that were bought for their juicy returns, but retail buyers may be selling them now to cope with a higher cost of living

A global probe into allegations of theft and the laundering of billions of dollars from Malaysian state-run investment fund 1MDB led to the first conviction in Singapore on Friday. The scandal has weighed on both investor and consumer sentiment.

However, an early election may be in the cards and the government has been throwing money around to placate voters. Since May, domestically-focused Public

Headline	Malaysia is running out of trump cards		
MediaTitle	Malay Mail		
Date	15 Nov 2016	Language	English
Circulation	100,000	Readership	300,000
Section	Money	Page No	19
ArticleSize	570 cm ²	Journalist	N/A
PR Value	RM 19,539		

Bank Bhd has outperformed its larger and more international rival Malayan Banking Bhd on expectations consumers will shake off their blues.

But on Friday, the Malaysian currency fell 0.7% onshore. If that doesn't sound like much, it's only because the central bank may have intervened to prevent a steeper slide. In offshore forward markets, where

the bets are settled in dollars, the ringgit dropped to a 12-year low.

If fears about a Trump presidency keep exchange rates volatile, and the US\$5.5 billion (RM23.8 billion) of foreign inflows into Malaysian bond markets turn into outflows, hopes consumers will provide a floor to the economy may quickly disappear.

Andy Mukherjee is a Bloomberg Gadfly columnist covering industrial companies and financial services.

Headline	Malaysia is running out of trump cards		
MediaTitle	Malay Mail		
Date	15 Nov 2016	Language	English
Circulation	100,000	Readership	300,000
Section	Money	Page No	19
ArticleSize	570 cm ²	Journalist	N/A
PR Value	RM 19,539		



Source: Bloomberg Intelligence



Source: Bloomberg

* By borrowing locally in the interbank market, buying U.S dollars in the spot market, and selling those dollars three-month forward in the foreign-exchange market.