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Budget tailored to revive battered economy

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OUR Prime Minister Datuk Seri Dr Mahathir Mohamad has just returned home from Japan and it is enlightening to hear him say that Malaysia's capital controls is fast gaining acceptance with a lot of countries. It should not therefore come as a surprise, that countries, whose currencies are under attack by currency traders, may follow our way of shutting them off.

In fact, just prior to our announcement of capital control, the Japanese yen was traded at about 143 yen to the US dollar and the Nikkei had tumbled to a 12-year low. The yen almost immediately improved to 141 yen to the US dollar with the announcement of our capital controls.

The most depressing news at that time among economists was that, it was a matter of time before we see a 150 yen to the dollar and some even went as high as 160 yen. Today the yen is being traded at 116 yen to the US dollar.

Whilst it may be argued that Japan has implemented a number of measures to put its financial houses in order, it cannot be denied that Malaysia's capital control have contributed indirectly towards the strengthening of the yen. It maybe just pure fear among currency traders to liquidate just in case Japan follows Malaysia's way.

Among those who have voiced support for our capital control is none other than Japan's own Vice-Minister of Finance, Eisuke Sakakibara. Another big gun, is, incoming German Chancellor Gerhard Schroeder, who said that there should be some form of limit on financial speculations.

A surprise figure is George Soros, named by Dr Mahathir as being the culprit for our economic woes. It seems he has now accepted Dr Mahathir's view and intends to write a book. Together with these well-known personalities, are those who over a year ago had blamed Asian governments for the regional crisis, they are now beginning to condemn currency traders.

On the technical front our rising Timing Device was arrested last Wednesday, at a peak of 356.0 points. The arrest has come much earlier than our prediction that it will happen early this week and well before it reach the overhead resistance at + 450.5 points. The earlier downturn is a sign of weakness in the market and will manifest itself this week.

Our O/O Indicator has continued to rise at a slower pace. We expect a slowdown in trend to continue this week and a reversal in trend will most probably come next week.

The Budget is fresh out of the oven at the time of writing. As expected the 1999 budget is tailored to revive the battered economy. It is estimated to have a deficit of RM16.6 billion, which works out to be about 6 per cent of our GNP.

The general opinion is, it is not up to expectations and the disappointments will be reflected in our market. The year 1999 will most likely see our economy recovering and grow by 1 per cent.