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#### CURRENCY SPECULATORS' ROLE IN CRISIS MINIMAL, SAYS IMF REPORT

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WASHINGTON, April 17 (Bernama) -- Currency speculators were not major participants and thus not responsible for the Asian financial crisis that has sent the region's stock markets and currencies crashing, says an International Monetary Fund (IMF) report on hedge funds released here Thursday.

Barry Eichengreen, one of the authors of the report and a member of the IMF research team, said that in Malaysia's case, it appeared that only a few hedge funds took modest positions on the Malaysian Ringgit.

None appears to have "ridden" the ringgit for any substantial range of its fall from 2.5 to 3.5 per US dollar. Reflecting their holdings of Malaysian equities, many hedge funds incurred losses from the ringgit's depreciation, he said.

The initial pressure on the ringgit appears to have emanated from institutional investors closing out long equity positions, reflecting their concern that the stock market was overvalued, rather than a buildup of speculative short positions reflecting concerns about the sustainability of the external debt and the state of the banking system, he noted.

Malaysian Prime Minister Datuk Seri Dr. Mahathir Mohamad, concerned about speculative trading, had called on the IMF to carry out a study on the role of hedge funds in the Asian crisis at the annual World Bank/IMF meetings in Hong Kong last September.

Eichengreen, at a press conference to unveil the report, said the study was conducted over the Fall and Winter (between September and December) of 1997 where IMF staff talked to government officials, regulators and fund managers in New York, London, Hong Kong and Kuala Lumpur.

He said, there are less than 100 hedge fund investors globally. "Nimble and quick on their feet," they are often organised as private partnerships and resident offshore for tax and regulatory purposes.

Their legal status places few restrictions on their portfolios and transactions, leaving their managers free to use short sales, derivative securities, and leverage to raise returns and cushion risk.

While hedge funds are large in absolute terms, they are dwarfed by other institutional investors (banks, pension funds, mutual funds) some of whom engage in the same activities as hedge funds.

Eichengreen said, this points against the conclusion that hedge funds play a singular role in precipitating crises.

Hedge funds did have large positions against the Thai baht in mid-1997, but so did other investors, and most hedge funds were relatively late to take those positions. "They were at the rear not the front of the financial herd," he said.

And there is scant evidence that hedge funds had equally large positions against other Asian currencies. "This reflects the fact that many hedge fund managers, like other market participants, were surprised by the speed and virulence of the Asian contagion."

Eichengreen said hedge funds' forward sales of the Thai baht are impossible to estimate precisely. Of the Bank of Thailand's US\$28 billion forward book at the end of July 1997, US\$7 billion is thought by market participants to represent transactions taken directly with hedge funds.

The report says, regulation of collective investment vehicles can be justified on three grounds, namely consumer protection, systemic risk, and market integrity.

Few regulators see a need for stricter regulation on the first two ground. "But there is some concern that hedge funds can dominate or manipulate particular markets, " the report says.

It recommends that countries impose limited measures to strengthen supervision, regulation and market transparency to deal with this concern.

The report suggests that other markets replicate the large trade and position reporting mechanisms in place like the United States, to make hedge fund operations more transparent, raising margin and collateral requirements, and retraining the ability of financial institutions to lend domestic assets to non-residents.--BERNAMA

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