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MALAYSIA-SG SECURITIES

SG SECURITIES: M'SIA AGAIN FACES HOT MONEY DILEMMA AS FUNDS RETURN

By: Tham Choy Lin

SINGAPORE, Jan 25 (Bernama) -- Malaysia will again face the dilemma of hot money flows as in 1993 and 1994 as funds return to the country, said Neil Saker, SG Securities head of regional economic head of research.

While foreign funds would be welcomed in the next few years, they may cause inflationary pressure and too much overheating in the stock and property markets, he said.

And that would lead to an appreciation of the ringgit and affect the competitiveness of Malaysian exports, he said.

Saker said between 1991 and 1994, Malaysia drew a wave of funds with net private capital of RM14 billion in 1993, mostly going into the bullish stock exchange, from just RM5 billion in 1991.

However, he did not foresee signs of overheating in the short term, noting the government's efforts to maintain price controls on food and its zero inflation target even during boom times.

"There is going to be a lot of money coming in. Foreign investors love Malaysia because it is still very cheap. The ringgit is about 30 per cent undervalued," he said at a SG quarterly briefing here today.

He also said foreign investors love high growth and Malaysia was very attractive, especially when it would be back in the MSCI Index by end May," he said.

Saker also expected the ringgit peg to be revised by end 2001 or early 2002. The ringgit was pegged at RM3.80 to the US dollar in September 1998 when Malaysia imposed selective capital controls to insulate itself from rogue speculators.

While the peg continued to be a boost for Malaysian exports, Saker cautioned against possible difficulties in the long term, pointing out that that companies would tend to get lazy and lag in upgrading their operations.

He said foreign direct investment (FDI) must also pick up after sliding last year.

Asked if the Clob impasse between Malaysia and Singapore would be an issue for foreign investment, he said judging from meetings with foreign investors in London and New York, the Clob problem was viewed generally as a bilateral matter.

Some RM17 billion worth of Malaysian funds once traded over Singapore's Central Limit Order Book (Clob) market remain frozen after Singapore halted their trading after Malaysia's capital controls were introduced.

SG Securities, which has forecast Malaysia's Gross Domestic Product to rise to 6.8 per cent this year, expects the Kuala Lumpur Composite Index to rally between 950 and 1,000 in the first quarter with a year-end target of 1,100.

It estimated an inflow of at least RM5 billion or about 0.8 per cent of the projected average market capitalisation for this year.

Saker also described Malaysia's capital controls as a "misnomer" because they no longer existed for non-residents but for locals who were still subject to certain limits of money to be taken out of the country.

"Many foreigners are still under the illusion that capital controls exists but for non-residents, there are no more controls," he said.

Malaysia had since replaced the controls on portfolio investments with an exit tax.

Saker also said the forthcoming UMNO elections would also be closely

watched as it was seen as a proxy for the succession to the country's
leadership after Prime Minister Datuk Seri Dr Mahathir Mohamad. -- BERNAMA
TCL SHY