

Currency slide puts pressure on Asian bourses

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The discount of futures to the cash has narrowed substantially, so there may be a turn, says a local trader

By LEE SIEW LIAN

A CONTINUING slide in regional currencies, which have fallen against the US dollar to levels not seen since late-1998, spooked the domestic stock market and other neighbouring bourses yesterday.

The rupiah, the baht and the Singapore dollar have declined by between 0.7 and 1.7 per cent in the past week. The US dollar is appreciating amid strong demand for higher yielding US assets as protection against the impact of a slowing global economy.

Coupled with Wall Street's plunge overnight, heavy selling was triggered in blue-chips on the Kuala Lumpur Stock Exchange (KLSE)

which saw its benchmark Composite Index sliced by about 6 per cent.

The index fell 38.91 points to breach the 600-point level, at 594.26 for the first time since April 1999.

The tech-laden Nasdaq fell 6.17 per cent on Tuesday, its worst close since late October 1998, and the blue-chip Dow Jones Industrial Average by 2.99 per cent.

In reaction, Hong Kong's Hang Seng Index shed more than 4 per cent, while Singapore's Straits Times Index lost 1.4 per cent and Bangkok's SET 2.24 per cent.

On the KLSE, investors were said to be concerned that the ringgit might be becoming increasingly overvalued, heightening speculation that the ringgit's 3.80 peg to the greenback will be adjusted.

This is despite the Government having repeatedly said that the peg will remain, given the obvious stability it provides the economy.

It is feared that the strong ringgit could affect Malaysia's competitiveness against the other economies in the region, some equity and futures traders said.

But others pointed out that that would be discounting the benefits of financial and economic stability afforded by the pegged ringgit.

"For foreign funds, selling Malaysian stocks is (one) way to take advantage of a currency which may be overvalued," said Sebastian Chang, Vickers Ballas' head of research.

"And investors are worried about a double whammy losing on the stocks they hold and on the ringgit if the peg is moved lower," said a local institutional dealer.

A week ago, in ruling out an adjustment of the ringgit peg, Bank Negara Malaysia had said that the Malaysian currency was close to its equilibrium value in relation

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to the fixed 3.80 rate.

Bank Negara Governor Datuk Dr Zeti Akhtar Aziz put to rest any notion of a change in the ringgit peg, saying that the central bank will not react to short-term developments in the financial markets.

A year ago the ringgit was said to be undervalued and now it is supposed to be overvalued, she noted. If the peg had been adjusted in accordance with short-term developments, there would not be the kind of stability it is meant to provide.

In Bank Negara's view, the peg is sustainable and viable, Zeti had said.

Yesterday, Prime Minister Datuk Seri Dr Mahathir Mohamad similarly said there

was no need to adjust the fixed exchange rate system, as foreign investors are comfortable with it.

Private economists reckon that the ringgit is now between 5 per cent and 10 per cent overvalued, but a number of them acknowledge that the movement in regional currencies may not be substantial enough to warrant a peg adjustment.

But leaving the ringgit at where it is may hurt Malaysia's exports, and affect efforts to see the economy through an anticipated slowdown in the months ahead, they said.

The US dollar has appreciated in recent weeks amid strong demand for higher yielding US assets as protection against the impact of a slowing global economy.