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Upgrade fails to spark rally

THE credit rating upgrade by Fitch Ratings last week had failed to spark renewed interest in the local equity market, said stockbroking research house MIDF Sisma Securities.

It said the re-rating process would "normally" lead to steady inflow of portfolio funds.

The upgrade last week saw the Kuala Lumpur Stock Exchange Composite Index, barometer of the 100 top stocks on the local stock exchange, hovering slightly above the 720-level since then.

However, MIDF Sisma said the country's benchmark sovereign bond ended last week at US\$111.03 (US\$1 = RM3.80), its highest closing price this year, with the spread over comparable US bonds narrowing further to around 162 basis points.

"Indeed, a raise in ratings is generally supportive of Malaysian international bond spreads," it said in its research report. The stockbroking house expects further spread compression since there is still upside for subsequent upgrades in sovereign ratings in view of Malaysia's accelerating growth prospects for next year.

Fitch last week upgraded Malaysia's foreign currency rating to BBB+ from BBB, highlighting the country's impressive external adjustment since the Asian financial crisis.

The rating agency said the Government's continued efforts to push through corporate and financial sector restructuring augured well for the country's medium-term economic growth prospects.

"The agency also extends a cautious welcome to recent announcements on political succession, while continuing to express reservations about the current economic policy mix in the context of a fixed exchange rate regime," it said.

MIDF Sisma expects "the upgrade momentum will trickle down" to Moody's Investors Services and Standard & Poor's (S&P), the other two major international rating agencies.

In June, Moody's announced a potential upgrade, citing the country's strong external indicators as well as good progress in bank and corporate reforms.

Two months earlier, rival S&P had raised the country's ratings outlook to "positive" from "stable", a prelude to a potential upgrade.

Following Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement of his intention to step down in October next year, both agencies reaffirmed their positions on Malaysia's credit ratings.

On the ringgit peg issue, MIDF Sisma said despite some reservations among rating agencies, it believes it has proven the test of time and was "most adequate" for Malaysia at this juncture.

In its comments, Fitch said Malaysia had sacrificed an important element of policy flexibility with its continued adherence to a rigid exchange rate while the absence of an exit strategy remains a source of uncertainty.

It noted that pressures on the exchange rate had subsided in the current environment of a weaker US dollar and low global interest rates.