

## **Foreign investors pull over RM11b from M'sia**

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**By Choong En Han**

International investors are selling Malaysian stocks at the quickest pace in Asia as Prime Minister Najib Abdul Razak struggles to contain a political scandal and doubts grow over the outlook for the economy.

Foreign funds have pulled a net RM11.7 billion of the nation's shares this year as the benchmark FTSE Bursa Malaysia KLCI Index retreated 4.1 percent. The ringgit has slumped to its lowest level since 1998 after tumbling 11 percent against the dollar, the biggest decline among Asian currencies.

Overseas money managers are paring holdings amid concern the crisis will distract Najib as a commodities rout and the prospect of higher US interest rates threaten economic growth. The prime minister is fighting off a scandal linked to 1MDB, a debt-ridden state investment company. A probe into about RM2.6 billion that was deposited into Najib's personal accounts found that the funds were legal donations from the Middle East.

"Already shaky trust of foreign investors is being eroded," said Mixo Das, a strategist at Nomura Holdings Inc in Singapore. "Further outflows are possible."

Net foreign sales in Malaysian stocks this year are almost double the RM6.9 billion for the whole of 2014, exchange data show. Overseas investors have been net sellers for 14 straight weeks through the week ended July 31, the longest selloff since 2008, according to MIDF Amanah Investment Bank Bhd.

### **Rising volatility**

The KLCI has slumped 9.3 percent from its April 21 high, including a 1.8 percent decline yesterday that was the biggest this year. The gauge lost 0.5 percent at 9.13am in Kuala Lumpur on Friday. The ringgit dropped 0.1 percent, taking its weekly decline to 2.4 percent. That would be the biggest slump in eight months.

Volatility is increasing, with a gauge of 30-day price swings rising to its highest level in six months. The stock measure trades at 15.2 times projected 12-month earnings, or about 10 percent higher than the MSCI South-East Asia Index.

The Wall Street Journal reported on July 3 that US\$700 million (RM2.6 billion) may have moved through government agencies and state-linked companies to accounts bearing

Najib's name. The premier has denied taking money for personal gain and has described the furor as part of a campaign to remove him from office.

The Malaysian Anti-Corruption Commission said it won't disclose the identities of the donors to Najib and plans to question him to seek an explanation on the funds.

### **Stability threatened**

For Aberdeen Asset Management Sdn's Gerald Ambrose, the political crisis means Malaysia risks losing its status as a safe haven in the region.

The ruling National Front coalition has dominated power since the country gained independence in 1957. Neighboring Thailand is under military rule after a coup, while in Indonesia, President Joko Widodo is struggling to push through policies following the closest election in more than a decade.

"Long-term political stability has long been one of Malaysia's trump cards, but it's not so easy to say that nowadays," said Ambrose, who oversees about US\$3.6 billion as managing director of Aberdeen Asset Management in Kuala Lumpur. "Uncertainties surrounding 1MDB and the quite public political spat has clearly not helped foreign investors' sentiment towards the country."

Najib chairs the advisory board of 1MDB and has resisted urgings from ex-premier Mahathir Mohamad to quit over the fund's performance as it amassed about RM42 billion of debt in less than five years. Najib on July 28 sacked his deputy prime minister Muhyiddin Yassin, who had urged answers on the 1MDB imbroglio including its investment decisions.

### **Buying opportunities**

Franklin Templeton Investment is sticking with its investments in the nation's stocks.

"We actually stayed in and we will continue to stay in," Mark Mobius, chairperson of the emerging markets group at Franklin Templeton Investment, said by phone from Singapore. "We are still finding opportunities in that market and particularly when there are concerns there, you can see some possibilities."

Foreign outflows may accelerate if the political scandal prevents the government from tackling the issues affecting the economy, says Alan Richardson, a Hong Kong-based money manager at Samsung Asset Management, which oversees about US\$112 billion.

Malaysia's foreign-exchange reserves have dropped to the lowest level since the 2008 global credit crunch, reducing ammunition to shore up the currency. A plunge in Brent crude is cutting revenue for Asia's only major net oil exporter, while the Federal Reserve is mulling its first increase since 2006 as soon as next month.

### **Earnings impact**

The government forecasts the economy will expand 4.5 to 5.5 percent this year, down from its earlier projection of as much as 6 percent. Earnings at companies on the KLCI are projected to grow 11 percent in the next 12 months, data compiled by Bloomberg show. That compares with a 41 percent gain in Thailand and an increase of 82 percent in Indonesia.

"Investors are worried," said Richardson, who has been underweight Malaysian equities since November. Stocks in the nation would only start to look attractive "if some of the adverse developments" are resolved, he said.

- *Bloomberg*

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