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# Escaping Najib's Malaysia, investors flee currency, stock market

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WHILE Prime Minister (PM) Datuk Seri Mohd Najib Razak's Cabinet overhaul may have achieved the "unified team" he was seeking in the face of probes into his bank accounts, global funds have been voting with their feet.

The ringgit has slumped 6%, the benchmark stock index lost 8% and sovereign bond risk jumped to a four-year high since the Malaysian Anti-Corruption Commission on Aug 3 said Najib had received RM2.6 billion from donors and not state investment company Malaysia Development Bhd (IMDB).

The conclusion failed to help IMDB's bonds, which are trading at 82 cents on the dollar.

PineBridge Investments LLC has cut Malaysian sovereign bond holdings, while Schroder Investment Management Ltd says it's too early to buy Asia's worst-performing currency, as political uncertainty clouds the outlook for an economy rocked by plunging oil prices and an emerging-market (EM) sell-off.

Najib denies taking money for personal gain and has counterattacked against what he described as a campaign to oust him, by reshuffling his Cabinet, suspending a leading newspaper and seeking the arrest of a newsletter's founder.

"By sacking everyone who criticises him, PM Najib is putting himself more in the spotlight from an international investor perspective," said Anders Eaergemann, who helps manage US\$10.6 billion (RM43.5 billion) EM debt at PineBridge in London.

"We are increasingly worried about the outlook for Malaysian government bonds due to the ongoing IMDB scandal and have recently reduced our exposure further."

The UK-based *Sarawak Report (SR)* and *The Wall Street Journal (WSJ)* last month

reported on documents that almost US\$700 million may have moved through government agencies and companies linked to IMDB before ending up in accounts bearing Najib's name.

A warrant is out for the arrest of the SR founder under laws relating to false statements and acts detrimental to democracy. Lawyers for Najib sent a letter criticising the WSJ report.

Malaysia's *The Edge* newspaper has been suspended from publication as the government said its coverage of the events threatened public order. Publishers of all three media outlets contested the criticism.

On July 28, Najib said he needed a "unified team" when he removed Tan Sri Muhyiddin Yassin from his Cabinet, shortly after the deputy PM called for "the real truth" on IMDB.

His rural development minister also fell in the shuffle, while Attorney General Tan Sri Abdul Gani Patail, who helped to lead a IMDB probe, was replaced for health reasons.

Amnesty International described Malaysia as a human rights "black hole" in May after the arrest of opponents on sedition charges.

Najib, who chairs the advisory board of IMDB, has resisted calls from ex-Premier Tun Dr Mahathir Mohamad to step down over the RM42 billion in debt amassed by the sovereign fund.

IMDB said in a statement that it had investor support for its reorganisation plans.

"IMDB maintains regular contact with its bondholders, via meetings and conference calls," the statement said.

"The vast majority of our bondholders are fully aware of our current strategy and the ongoing execution of our rationalisation plan, and we are pleased with the support



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they have provided."

La Francaise Des Placements, which sold almost half of its IMDB debt in April, sees similarities between the controversy and allegations involving Petroleo Brasileiro SA (Petrobras) that has led to protests against Brazil's President Dilma Rousseff.

While the fund doesn't expect a default, the current climate makes it "difficult to buy", she said.

"As EM fund managers, we are more or less used to difficult stories," said Yasmine Ravai-Mans, a senior La Francaise Des Placements fund manager in Paris.

But if the money was used for other purposes than the national interest, she said, "it will not be just a regular case of corruption, it'll be a huge scandal. The mix of politics, money trails, central bank investigations would rank it close to Petrobras in terms of how toxic it is to EM investors."

The ringgit has tumbled 23% in the last 12 months and slid to a 17-year low of 4.1340 per dollar on Monday. Local-currency sovereign debt handed investors a 8.1% loss in dollar terms this month, the worst performance after Russia among 16 EMs tracked by JPMorgan Chase & Co indexes.

"There's a growing trust deficit with the current leadership," said Chua Hak Bin, a Singapore-based economist at Bank of America Merrill Lynch which sees the currency dropping to 4.28 by the end of 2016.

"Without confidence returning on the leadership and government, investors will be reluctant to jump into the currency and the markets."

Overseas investors cut holdings of Malaysian debt by 2.4% in July to a three-year low of RM206.8 billion, central bank data show. The FTSE Bursa Malaysia KLCI Index lost 10% this year as foreign investors pulled US\$3.3 billion.

The nation has to show "a greater tolerance toward democracy, fighting corruption and a conservative monetary and fiscal policy" to restore confidence, said Christian Wildmann, a fixed-income portfolio manager at Union Investment Privatfonds GmbH in Frankfurt.

Malaysia's 10-year sovereign yield has jumped 26 basis points this month to 4.33% and Wildmann sees its rising to 4.7% by year-end.

Moody's Investors Service is standing by its A3 rating on Malaysia with a positive outlook as Najib's administration hasn't reversed reforms despite the "increased political risk," said Christian de Guzman, a VP in Singapore.

Merrill's Chua said politics may affect economic management. There are doubts that when central bank governor Tan Sri Dr Zeti Akhtar Aziz finishes her term at the end of April, she will be replaced by someone as "independent and credible", he said.

"Investors cannot see the end-game," he said. "Anybody who questions the PM has basically been sidelined." — *Bloomberg*