

Ringgit's slide spurs worst quarterly bond losses in 6 yrs

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A slide in Malaysia's ringgit spurred the biggest quarterly loss in the nation's bonds since 2009 and drove up the cost to insure the debt by the most in four years.

The currency declined 15% from June 30, the steepest drop since 1997 and trailing only the Brazilian real, Colombian peso and Russian rouble among 24 emerging markets tracked by Bloomberg.

The ringgit's weakness, slowing Chinese growth, slumping commodity prices and a looming US interest rate increase prompted global investors to pull funds from Malaysian stocks and bonds.

Reports from The Wall Street Journal and New York Times over money laundering and overseas property purchases relating to 1Malaysia Development Bhd and Prime Minister Najib Abdul Razak also weighed on sentiment.

Malaysia's local currency bonds dropped 1% this quarter, the biggest decline since June 2009, according to a JPMorgan Chase & Co index.

Five-year credit default swaps insuring the debt rose more than 1 percentage point to 247, the highest level since 2009, according to CMA prices.

"I can't really see where the floor is until we actually have a really clear view on what's going on with China and the US," said Michael Every, Hong Kong-based head of financial markets research at Rabobank Group. "The political situation means people don't feel so confident putting money in."

No repeg

Central bank governor Zeti Akhtar Aziz reiterated on Wednesday that there's no plan to repeg the ringgit. It was fixed at 3.80 to the US dollar in 1998 during the Asian financial crisis, a measure that stood until 2005.

"If you peg the currency, something else will adjust," Zeti told reporters in Kuala Lumpur. "That means it's either prices or demand conditions, and those might have greater costs on our economy."

The 10-year government bond yield climbed 29 basis points to 4.3% this quarter, the most since the three months ended 2013 and pushing up borrowing costs for Najib's US\$444 billion (RM2 trillion) development programme.

The ringgit fell to a new 17-year low of 4.48 per US dollar and a measure of the currency's volatility used in pricing options rose by the most this quarter since at least 2006. Brent crude continued its descent, hurting Asia's only major oil exporter.

"I really can see no real support for the ringgit at the moment," Rabobank's Every said.

The nation's stocks were the relative bright spot as the benchmark FTSE Bursa Malaysia KLCI Index fell 5.8% this quarter, the least among Southeast Asia's major bourses.

Overseas investors sold a net RM17.7 billion of shares this year, surpassing 2014's RM6.9 billion of outflows, according to a report on Monday from MIDF Amanah Investment Bank Bhd in Kuala Lumpur.

Global funds reduced government bond holdings in August to the lowest since March.

"The additional risks of political uncertainty are largely priced in and I don't think much will change on that anytime soon," said Mixo Das, a Singapore-based strategist at Nomura Holdings Inc, which is underweight on the country's equities. "As for the fund outflow risks, I also think that the worst on that is past us."

— **By Liau Y-Sing & Choong En Han**

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