More pain ahead for Malaysia amid messy politics, finance group warns
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Malaysia is paying the price for weak foreign currency holdings and messy politics as the cost to protect its debt soars to near a four-year high. UBS Group AG predicts even more pain ahead.

The spread on the nation's credit-default swaps widened 74 basis points in 2015 to 180 this week, a level not seen since October 2011. It's the worst performing in Asia and almost 40 basis points more than similar-rated oil-producer Mexico, which the Swiss bank says best illustrates the malaise for Malaysia.

"The moves in CDS are telling us that the market is increasingly nervous about the central bank's ability to manage the foreign-exchange selloff in light of its relatively light reserves position," said Manik Narain, a London-based strategist at UBS. "Malaysia's situation may now be more precarious."

Bank Negara Malaysia's foreign-exchange reserves slipped below US$100 billion last month for the first time since 2010. They look "increasingly meagre" by emerging-market standards, said Narain, and compare with foreigners' RM206.8 billion (US$50.6 billion) holdings of local-currency debt in July, the lowest in three years.

The ringgit this week traded near the weakest level since 1998 as Prime Minister Datuk Seri Najib Razak comes under the spotlight over reports of an almost $700 million donation into his bank account that was initially linked to debt-ridden state investment fund 1Malaysia Development Bhd (1MDB).

The central bank might have to raise interest rates because of a limited ability to defend the currency amid falling reserves, Narain said.

The ringgit was trading at 4.09 per dollar at 10:18 am in Kuala Lumpur and UBS expects the currency to fall to 4.20 by year-end. – Bloomberg, August 19, 2015.

Source:
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