

Trade war creates unstable environment for foreign inflows

BERNAMA

19/08/2018

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KUALA LUMPUR, Aug 19 (Bernama) – Intensifying trade friction between China and the United States has left the local equity market sentiment cautious, creating an unstable environment for foreign fund inflows.

Bank Islam Chief Economist, Dr Mohd Afzanizam Abdul Rashid said foreign funds were generally net sellers from Aug 13 to 17, and this had a significant impact on local equities.

“Investors preferred to stay on the sidelines and hold more cash rather than establish a new position in equities,” he told Bernama.

Meanwhile, Prime Minister Tun Dr Mahathir Mohamad on Thursday announced that the Council of Eminent Persons (CEP) would not be dissolved yet, saying its services were still needed.

Commenting on this, Mohd Afzanizam said market players would likely react positively towards this news.

“With the council's role being maintained, they will be in the best position to advise on policy recommendations, subsequently lifting market confidence once clarity is provided on the policy end,” he added.

In an effort to strengthen bilateral ties with China, Dr Mahathir is currently on a five-day official visit to Beijing to invigorate future cooperation between the two countries, especially in the political, trade, investment, agriculture, technology and regional security realms.



Dr Mohd Afzanizam Abdul Rashid (Pix source: sinarharian.com.my)

The prime minister will witness the signing of three memoranda of understanding (MoUs) to mark the strengthening of the Kuala Lumpur–Beijing strategic partnership in the areas of agriculture and agri-commodities.

Meanwhile, RAM Rating Services Bhd Head of Research, Kristina Fong said in July, foreign investors started to return onshore amid an increased appetite for emerging market assets, breaking their three-month outflow streak.

She said with a net inflow of RM4.0 billion, total outstanding foreign holdings of Malaysian bonds stood at RM189.8 billion as at end-July 2018 (a 2.2 per cent increase month-on-month).

“There might have been some reprieve for the bond market in July but around RM34.9 billion of long-term government papers are set to mature during the August-November period and debt rollovers may be constrained if fiscal uncertainties continue to be a key concern for foreign investors,” she added.

On the Malaysian economy, FXTM Global Head of Currency Strategy and Market Research, Jameel Ahmad said gross domestic product (GDP) growth has taken an unexpected negative turn for the second quarter, registering 4.5 per cent.

He said this reading would likely accelerate some underlying concerns that the overall growth outlook for the Malaysian economy this year would need to be readjusted downward.

The weaker GDP growth, on the other hand, dampened demand for the ringgit, which traded lower against the US dollar at 4.1050/1080 on Friday compared with 4.1030/1070 on Thursday.

“Emerging markets will be hoping for China to resume trade talks with the United States later in August and this will increase the possibility of foreign funds coming back into emerging markets, including the ringgit,” he added.

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