

## Economic, political fears will weigh down ringgit

FROM P1 Ringgit

as first time, which had led BNM to intervene in the market to support the local currency.

"Previously, BNM intervened in the market to slow down the ringgit's appreciation. But in this round, it is defending the ringgit.

"This total loss of US\$3.8 billion from the reserves in May and June was calculated based on data from the International Monetary Fund," Kit said in a phone interview last Friday.

Last Friday afternoon, the ringgit traded at a low of 3.3090 per dollar, versus 3.2865 last Thursday, on speculation that more foreigners had sold their ringgit assets in response to political developments. This was the weakest level for the local currency this year.

In response to a query on the move, a BNM official said the central bank "does not normally comment on its market operations".

But in a press statement, the central bank said the international reserves of the country at end-July stood at US\$125.07 billion, compared to US\$125.78 at end-June. The July reserves were sufficient to support 9.9 months of retained imports.

On the outlook for the ringgit, Kit said in his report: "We are revising our USD-RM forecast to 3.33 by year end. This reflects the recent weakening of the ringgit."

"So long as concerns over the economy and political uncertainties persist, we suspect there could be a further reversal of foreign capital flows in the coming quarters," he added.

The recent fall in commodity prices, existing concerns over economic growth, inflation and political uncertainties have all contributed to foreigners liquidising their holdings in Malaysian debt securities, according to the report.

"For the first time, foreigners reduced their holdings of Malaysian debt se-

curities by 11.1% in May, as the stock of foreign debt security holdings fell (by RM14 billion) to RM112.5 billion, from a peak of RM126.5 billion in April," the economist said.

Since then, more foreign selling of Malaysian debt papers "has likely taken place", particularly following BNM's decision not to raise interest rates on July 25, Kit added in his report. The ringgit is also seen to be weakening further in the first half of next year.

"We expect a further weakening of the ringgit in the first half of next year as the economy will likely remain soft, while a rebound in the second half of 2009 is largely contingent upon an economic recovery and an easing of political uncertainties," the report stated.

Citigroup's report also said the likely strengthening of the US dollar later this year and expected weakening of the Singapore dollar vis-à-vis the US dollar, would also drag down the ringgit as the Singapore dollar "has the second largest weight" in the RMNEER (nominal effective exchange rate) basket.

It added that the recent fall in commodity and crude oil prices has also helped put the brakes on the ringgit's (earlier) appreciation.

Net exports of crude palm oil (CPO) and crude oil together account for nearly 60% of Malaysia's current account surplus, and any drop in prices would have a material impact on the current account's position.

"Large net foreign selling of plantation stocks in recent weeks has further added pressure on the ringgit.

"The fall in CPO prices has already triggered significant foreign selling of plantation stocks in recent weeks," Kit said in his report. But a rebound of commodity prices would impute some downside risks to Citigroup's USD-RM forecasts, he added.

# Khazanah unit inks deal with China on WTE project

Tanjung Rhu Investments has signed a RM495.6m JV agreement with BCSGEE

By ALFEAN HARDY

HAZANAH Nasional Bhd unit, Tanjung Rhu Investments Ltd, has signed a joint venture (JV) agreement with the Beijing China Sciences General Energy & Environment Co Ltd (BCSGEE) and will invest up to RM495.6 million to develop a minimum of eight municipal waste-to-energy (WTE) projects in the country over the next three years.

BCSGEE is a leading player in China's environmental protection and municipal WTE industry.

While the statement did not provide the exact equity structure of the Khazanah-BCSGEE JV, it did state that Tanjung Rhu was to have majority shareholding.

In a statement issued last Friday, Khazanah managing director Tan Sri Azman Mokhtar said the investment in the JV project was part of the company's mandate to invest strategically in local and regional markets.

He said the JV was Khazanah's first in the sustainable development sector, which he said was a growing sector both globally and in China.

"The market is still nascent and there is tremendous growth opportunity. Currently there are approximately only 70 municipal WTE plants (in China), while we estimate that (the country), with a current urban popula-

tion of 600 million people coupled with a rising income and urbanisation rate, has room for at least 200 plants in the next few years.

"We are targeting to invest up to US\$150 million (RM495.19 million) in eight to 10 projects over the next three years.

"We are in the process of completing the acquisition of a project with 800 tonnes per day installed capacity and are already working on three or four other (projects).

"For a major developing nation like China, the need to meet its thirst for energy while minimising environment pollution is of paramount importance and (requires) a fine balance.

"Hence, it is very timely that the Chinese government offers preferential electricity tariff and tax breaks for WTE

projects," he added.

Azman said that Khazanah, which is the government's investment arm, had identified the sustainable development sector as a strategic industry to invest in and that this sector, particularly alternative energy, was booming with a global investment growth of about 40% year-on-year.

He said that the JV was a landmark transaction for Khazanah's investments in China as well as in the sustainable development and renewable energy sectors.

"We are excited as this investment is another milestone in Khazanah's China coverage after opening our Beijing representative office in May this year," Azman said.

"This transaction allows us to re-invest part of the profits we've realised from our investments in China," he added.

## Adjust to higher cost economy, says Dr M

TUN Dr Mahathir Mohamed, the architect of Vision 2020 said Malaysia can achieve the target by managing and adjusting to a higher cost economy.

"The world trend today is towards the higher cost of everything. Our cost must increase anyway. But since high cost goes with prosperity, why not rise above the tide by actually creating and managing a higher cost economy.

"That way we can achieve our 2020 target," said the former Prime Minister in a speech entitled "Approaching 2020 — Major Trends That Will Impact Malaysian Business" at the Perdana Leadership Foundation CEO Dinner Lecture 2008 in Kuala Lumpur last Friday.

While there is no talk about deliberately increasing and managing cost, he noted that unconsciously, this was what the government has been doing all these years.

"And we have been successful at it. Otherwise, with our high cost, we would be poorer than our low-cost



Malaysia's cost will not be so high as to make it totally uncompetitive, says Dr Mahathir

competitors. But we know we are more prosperous than them," he said.

Dr Mahathir said Malaysia's costs are already higher than it was 30 years ago, and was higher than those in other Asean countries, except Singapore.

Yet, he noted that the country had remained attractive, with political stability and consistency in the govern-

ment cited as one of its greatest assets.

He said there were other things which made Malaysia attractive, and if the country improves on these assets, the increase in cost (not just labour but transport and materials) would not make Malaysia any less attractive or the products less competitive.

"We must also remember that the pressure of increasing prices will be felt by our competing neighbours as well. They too will have to increase their cost of production.

"So our cost will not be, comparatively speaking, so high as to make us totally uncompetitive," he said.

Dr Mahathir also stressed that Malaysia should systematically raise wages, which would result in higher purchasing power that would prosper businesses and in turn earn the government more income.

"I don't often admire Singapore or what it does. But when Singapore gained independence, it carried out a pro-

gramme of steadily increasing wages every year.

"If we manage wage increases carefully enough, the wage spiral would not be too damaging.

"In time, it would settle and we would adjust to a high cost environment while our living standards also improve. Even our poor people will be less poor," he said.

The former premier explained that Malaysia cannot any longer offer itself as a cheap labour country.

He explained that with Malaysia's population expected to hit 35 million by 2020, a mass consumer market would make local manufacturing more viable.

"Against this, expect increased and less restricted imports. We must be more competitive and develop skills in high-tech products and we must pay higher wages.

"The days of low labour costs would have been over before 2020," he said. — Bernama

## Company aims to be part of 2nd Penang bridge, Iskandar Malaysia projects

FROM P1 UCMB

provide further details on the supply contract.

Tansaid: "We hope to emerge as one of the players in the second Penang bridge and Iskandar Malaysia projects. We are also eyeing the Integrated Resort project in Singapore."

"On the local front, we command about a 50% share in the oil and gas sector.

"However, our aluminum rods and conductors, which are used in the power sector,

contribute the most in terms of the company's revenue," he said in a recent interview.

UCMB, a manufacturer of cables, wires, rods and conductors, is a wholly-owned unit of listed Leader Universal (M) Bhd. In 2007, UCMB posted a revenue of RM673 million.

Leader derives 93%, or RM2.64 billion, of its revenue from UCMB and other subsidiaries in the cable and wire division, while power generation contributes 6% to com-

pany earnings.

For financial year 2008 (FY08), analysts expect the cable and wire division to contribute RM2.71 billion to the company's revenue.

UCMB has a commendable track record locally. It has been involved in the runway and aerobridge extension works of the Kuala Lumpur International Airport, the first solar plant in Kulim, Kedah and the Jana Manjung power plant in Lumut.

Its major local clients include Tenaga Nasional Bhd, Telekom Malaysia Bhd, Keretapi Tanah Melayu Bhd, Sarawak Energy Bhd's unit Syarikat SESCO, Sabah Electricity Sdn Bhd and Petrolim Nasional Bhd.

On the overseas front, Tan said the company has close ties with conglomerates including Japan's Chiyoda Corp and Mitsubishi Heavy Industries Ltd as well as Areva of France.

It now exports 40% of its products, with the AustriaAsia

region (Australia, New Zealand and neighbouring countries) being its largest market with a 50% share, followed by the Middle East (25%), Europe (8%) and others.

"Through our tie-up with Japan's Chiyoda, we now supply cables to the Qatar gas project, the largest in the world.

"We are supplying more than 1,800km of cables for the project over three years," Tan said.

UCMB also commands a

20% market share locally, which consists of some 30 players.

The company has a monthly output of 7,000 tonnes of aluminum-based cables and rods, making it the largest of its kind here.

UCMB now has three plants that develop advanced power and control cables, instrumentation cables, telecommunication cables and specialty cables such as welding and automotive cables.