19 August 2015

Escalating Geopolitical Risk From Regional Market to Add Further Pressure on Emerging Market Index

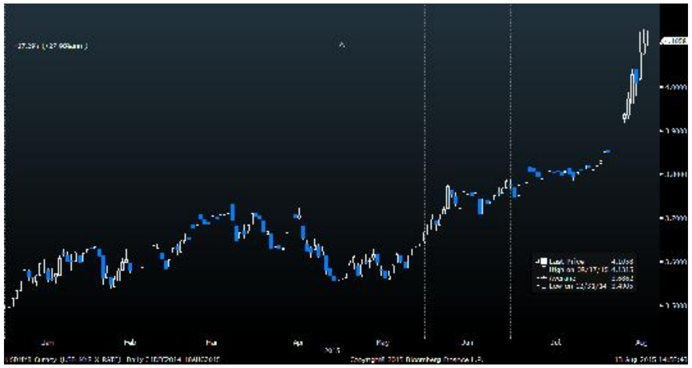
What Happen:

- We see an escalating geopolitical risk from what happened to Malaysia lately. It seems that the prolonged 1MDB (Malaysia Development Bhd) case involving the current Malaysian Prime Minister to really become a major concern for the foreign investor in Malaysia and Emerging Market generally.
- We see the case to influence the major foreign outflow that the Malaysian currently experiencing, ranging from bond market, stock market even the currency Malaysian Ringgit.
- This things made it more difficult for the Malaysian Central Bank, when they have to support the currency. Consequently, they have spent around USD 40 billion in 1 year.
- Therefore, we recommend investor to be very careful in investing in the stock market. We are aware that our Indonesian index has dropped by around 13% YTD, however, with the heightened geopolitical risk we predict is going to add further pressure to the emerging market index.

Asia(per USD)		Year-Dt
Malaysian Ringgit	MYR	-14.48
Indonesian Rupiah	IDR	-10.55
South Korean Won	KRW	-7.95
Thai Baht	THB	-7.58
Singapore Dollar	SGD	-5.65
Japanese Yen	JPY	-3.6
Offshore Chinese Renminbi	CNH	-3.56
Indian Rupee	INR	-3.48
Philippine Peso	PHP	-3.44
Chinese Renminbi	CNY	-2.95
Taiwanese Dollar	TWD	-2.39
Hong Kong Dollar	HKD	0

Source: Bloomberg, Sinarmas Investment Research

Chart 1 : Malaysian Ringgit YTD Chart



Comment:

From the currency perspective, Malaysian Ringgit apparently to be the worst performing currency among Asian Market (YTD until 18 Aug 2015). Since Jan 2015, the Malaysian Ringgit has depreciated around 14% against the USD.

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Chart 2 : Malaysia 10 Year Bond Yield Since 2008

Comment:

The Malaysia 10 year government bond yield spiked up to its 2009 level at 4.31%.

Chart 4 : Malaysia Asset and Liabilities US Dollar Equivalent of International Reserves

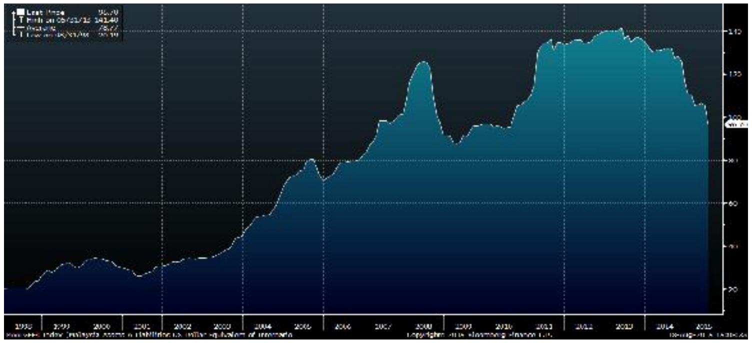

Chart 3 : Malaysia Stock Index Since 2008

Comment:

Things have been hard for Malaysian investors, not only for bonds, but also for the stock market investors. Technically speaking, Malaysian Stock Index has started its bearish trend since 3Q 2014, when it actually traded below its 200 DMA. Since then, it has been apparently struggling to perform until now.

Comment:

Malaysian Reserves have touched back its 2009 level at USD 96.7 Billion. The readings have fallen from its high of USD 140 Billion in 2013. We can see here that the Malaysian Central Bank has been actively engaging in supply USD to support Malaysian Ringgit, however, it seems not to work well looking at the currency at the moment.

Source: Bloomberg, Sinarmas Investment Research

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