

Renewed global investor interest in Southeast Asia

BY Aishah Mustapha

The local bourse, represented by the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI), has had a good rally over the past year. But as it passed the psychologically important 1,500 points on Oct 29, investors are asking what will happen next. Has the rally peaked? Is it sustainable?

To put things into perspective, Malaysia is not the only country that's seeing a bull run, say analysts and fund managers. In fact, the 18.45% rise in the FBM KLCI so far this year has trailed Thailand's SET Composite Index's 38.07% increase and Indonesia's Jakarta Composite Index's 42.27% gain.

"It's too narrow to just focus on Malaysia's stock market. This is not just about Malaysia, but about renewed global investor interest in Southeast Asia," says a fund manager.

He explains that with lower yields and returns in the developed markets, a positive, sustainable macro-economic story in the emerging markets will attract more foreign capital inflows, which benefits Malaysia.

There has been an influx of foreign capital into the region's emerging markets. On the local bourse, foreign funds increased trading

activities from last year, according to Bursa Malaysia data tracked by an analyst.

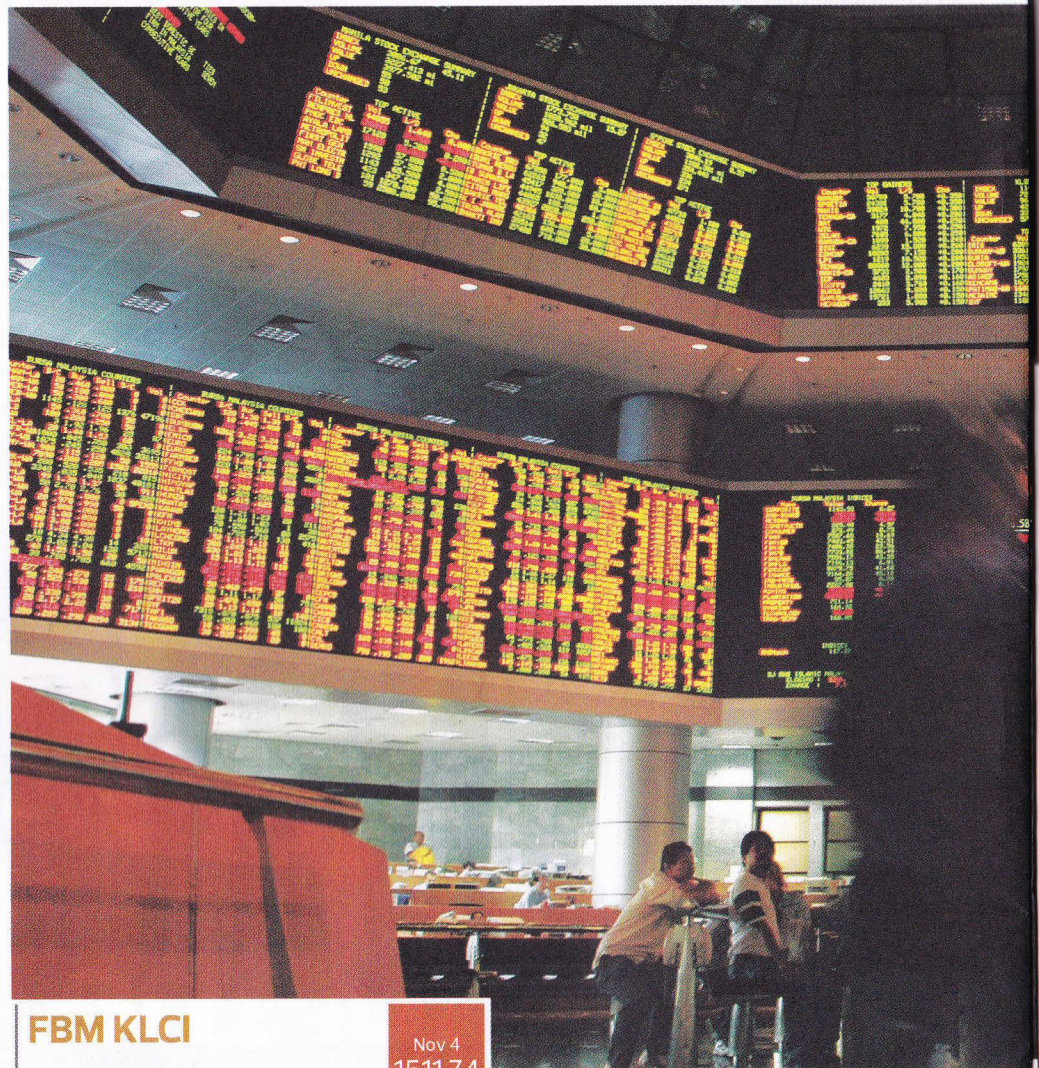
In October last year, foreign institutions accounted for 24.83% of the total value traded, contributing RM6.8 billion in buying trades and RM6.2 billion in selling trades.

In October this year, foreign institutions accounted for 26.49% of the total value traded, with RM10.6 billion in buying trades and RM8.8 billion in selling trades. In September, they were net buyers with RM11.7 billion worth of trades.

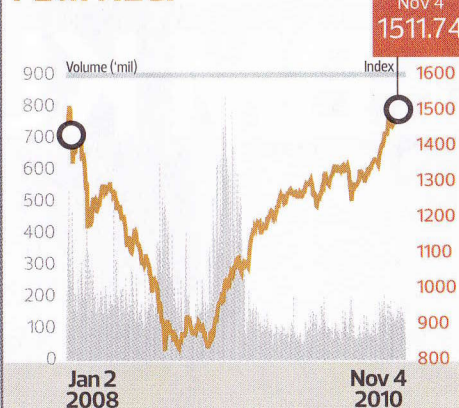
Foreigners have also increased holdings of the Malaysian Government Securities (MGS). According to data from Bank Negara Malaysia, foreigners held around RM67.98 billion of MGS as at end of September. This is an increase from RM45.04 billion held as at end of January this year.

A local fund manager says the low interest rate trend seen globally has prompted investors to park their money in emerging markets, which offer higher potential returns.

"Interest rates are quite low all across the globe, and this is creating consumer inflation and asset inflation ... which is why capital is flowing to this region in search of better yields. The appreciation in regional currencies and a robust capital market environment offer them



FBM KLCI



a good place to put their money.

"As long as interest rates are kept low globally and our currency appreciates, this should continue to fuel the local market rally. In the US, interest rate is almost zero now, and so is Japan's," he notes.

Meanwhile, a further increase in US dollar supply is expected, following the announcement last Wednesday of a second round of "money printing" or quantitative easing, dubbed QE2.

"With QE2 coming in, you can expect more liquidity to come into the market. As to whether