

E-ZINE INVESTPENANG

INSIDE THIS ISSUE:

<i>Fading Ringgit Rally May Resume in 2011, Morgan Stanley Says</i>	1
<i>HKE_x considers launching yuan futures</i>	2
<i>The Euro Goes Head to Head with the Canadian Dollar</i>	3
<i>Pound Plunges on Risk Aversion</i>	4



FADING RINGGIT RALLY MAY RESUME IN 2011, MORGAN STANLEY SAYS

Malaysia's ringgit is headed for a period of consolidation as technical indicators signal this year's market-leading rally may be running out of steam, according to Morgan Stanley.

The currency has strengthened 9 percent in 2010 and reached a 13-year high of 3.1238 per dollar on Aug. 23, Asia's best performance excluding the yen. Malaysia's economy expanded 8.9 percent last quarter, following growth of 10.1 percent in the first three months, the best quarters in a decade.

"The ringgit momentum may be close to exhaustion after moving so quickly," Hong Kong-based strategists Stewart Newnham and Yee Wai Chong from the U.S. bank, wrote in a research report today. "We therefore expect dollar-ringgit to enter a period of consolidation before heading lower in 2011."

The ringgit declined 0.1 percent to 3.1427 per dollar as of 2:59 p.m. in Kuala Lumpur, from 3.1410 a week ago, according to data compiled by Bloomberg. The currency has appreciated 1.5 percent in August, poised for a third monthly gain.

The currency reached Morgan Stanley's end-2010 target of 3.13 "ahead of schedule," the strategists wrote. They cited the dollar-ringgit's deviation from its 200-day moving average and deviations in returns from the average between 1999 and 2010, for their currency outlook.

Gains for 2011
Morgan Stanley maintained its forecast for the ringgit to trade at 3.13 per dollar by the end of the year, Chong wrote in an e-mail today. The currency may advance 1.8 percent to 3.09 by the end of June and to 3.05 by end-2011, he wrote.

Bank Negara Malaysia has raised its overnight interest rate three times to 2.75 percent and eased foreign-exchange controls on Aug. 18 by allowing the use of ringgit to settle cross-border trades.

"The central bank has pleasantly surprised the market with its preemptive tightening and partial relaxation of capital controls," according to Morgan Stanley's report. "Valuations are not an impediment for the ringgit to continue to strengthen further" in 2011, it said.

The U.S. bank said its estimates for gross domestic product to increase 6.5 percent in 2010 and 5 percent in 2011 have "upside risks."

By David Yong
(Source: Bloomberg Businessweek, Aug. 27, 2010)

HKEX CONSIDERS LAUNCHING YUAN FUTURES MARKET-PAPER

SHANGHAI: The Hong Kong Exchanges and Clearing (HKEx) is considering launching a yuan currency futures market, another small step towards internationalising the Chinese currency, reported the *China Business News*.

HKEx had not fixed a plan for yuan futures products yet but the size of each contract would be one million yuan (US\$147,100), the newspaper said, citing a spokesman from the exchange.

HKEx chief executive Charles Li said earlier there was a need for investment tools using the yuan to broaden the acceptance of the currency by international trade partners amid efforts to internationalise the currency, the newspaper said.

Li added that a yuan-denominated product could be traded on the HKEx as early as the end of the year or early 2011.

The HKEx would further study the development of the product if most banks show strong interest, but the initial volume may not be very big, the newspaper said.

Until a few months ago, Hong Kong banks could only deposit yuan funds at the designated clearing bank.

In recent months, China opened alternatives for the use of yuan outside its borders as it develops Hong Kong as an offshore market to trade the currency.

The move has prompted some deliverable forwards deals in the territory, already marking the potential emergence of a market that could eventually draw business from the mainland and offshore.

Last month, CITIC Bank International and Industrial and Commercial Bank of China (Asia) completed Hong Kong's first foreign exchange swap for yuan. Meanwhile, a senior government adviser said in Beijing that China must not loosen its grip on credit growth over the rest of this year.

Some analysts believe that Beijing should rev up a slowing economy by allowing banks to lend more than the 7.5 trillion yuan (US\$1.1 trillion) cap set at the start of the year, but Xia Bin, an adviser to the cabinet and central bank, disagreed.

"The goal of monetary policy in the second half is to firmly safeguard the 7.5 trillion yuan target," the *China Business News* quoted him as saying.

He said the target for 2011 would exceed this year's, though he did not suggest by how much.

Chinese banks extended a record 9.6 trillion yuan in new loans in 2009, and the government has been trying to steer monetary conditions back to normal after that unprecedented surge.

The National Development and Reform Commission, a powerful planning agency, said on Thursday the government would keep a firm handle on credit growth over the rest of the year to control inflationary expectations.

Total new loans in the first seven months of the year reached 5.2 trillion yuan, implying that monthly new lending should average about 500 billion yuan over the rest of 2010.

By Karen Yeung, Edited by Jacqueline Wong
(Source: Reuters, Aug. 27, 2010)

"The goal of monetary policy in the second half is to firmly safeguard the 7.5 trillion yuan target," said Charles Li



THE EURO GOES HEAD TO HEAD WITH THE CANADIAN DOLLAR

This isn't a currency pairing we look at very often, and yet the two currencies are regarded as being among the main global currencies in existence. So let's put that right today by looking to see which one came out on top in the currency converter for July.

The closing figure for June was 1.2890 for the Euro against the Canadian dollar, so we were looking for any improvement on that. And the first change in that figure was certainly an improvement, with the currency claiming 1.3340 at the close of the first day of play in July. But was this a blip or the start of something bigger?

There was an immediate drop back to 1.2890 the following day, but then the Euro regained its footing after that trip and finished on 1.3340 the day after. The next couple of days saw some tussling between the two currencies before the week as a whole finished with the Euro on 1.3311.

So things had started off well for the Euro on the whole, and the next major

move we saw was on the 13th. However this move went in favor of the Canadian dollar, as it managed to push the Euro back to 1.2978. This momentary display of power didn't last very long though, as the Euro went up to 1.3157 the following day.

We had a feeling the Euro would prove to be the stronger currency for the moment at least. This was borne out the next day as it added another short term jump to the previous one. This saw it claiming a rate of 1.3201 and that changed very swiftly to 1.3586 to close out the week. It was so far so good for the Euro – and the Canadian dollar didn't seem to have much in the tank to trouble it with.

The following week started well too, with the Euro bouncing up to 1.3667 and seemingly knowing no bounds when it came to higher exchange rates. But could it last through the second half of the month as well?

The following day dropped to 1.3583 and when the day after that went down

to 1.3284 it was clear the Canadian dollar was trying to fight back. A week ending rate of 1.3386 gave the Euro something to think about, before coming back the following week to close out Monday on a slightly better 1.3395.

So did the Euro have enough left to worry the Canadian dollar in the last few days of the month? After a few minor peaks and troughs here and there, the Euro managed to claim a rate of 1.3504 on the 29th. But it seemed to have peaked slightly too soon and the closing rate for July turned out to be slightly lower on 1.3454.

However this was still much better than the figure it had ended June with, so all in all the Euro had a successful improvement against the Canadian currency in July.

(Source: Currency-Converter.com, Aug. 26, 2010)



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POUND PLUNGES ON RISK AVERSION

Better than expected UK growth numbers this morning failed to boost support the pound as investors sold into every bounce ahead of a speech by U.S. Federal Reserve Chairman Ben Bernanke.

Today data showed Britain's economy grew faster than originally estimated in the second quarter as construction output proved stronger than first thought.

"Sterling was completely unimpressed by the GDP data," said Ian Stannard at BNP Paribas. "UK data looks very toppish from here on and there are downside risks for cable."

The upbeat data follows strong August retail and industrial orders surveys, suggesting that Britain's recovery from recession hasn't entirely run out of steam. Growth was 0.3 percent in the first quarter.

"The expenditure breakdown of GDP shows that the recovery is built on very fragile foundations,"

said Samuel Tombs of Capital Economics. "Total investment posted a larger than expected fall, while net trade made no contribution to GDP growth."

Financial markets have increasingly been pricing in a weak growth outlook for 2011 due to the slowing U.S. economy and looming public spending cuts across Europe, not least in Britain where most government departments' budgets are set to fall by a quarter over four years.

Sterling fell to the day's low against the dollar this afternoon after the greenback rallied across the board on comments from Federal Reserve Chairman Ben Bernanke that he was ready to provide additional stimulus if necessary.

The addition of additional capital to the markets has added to risk aversion today and the Dollar has strengthened across the board.

Sterling has also dropped against the Eu-

ro this afternoon with many traders skeptical about the move "We don't expect any losses in sterling/euro to last as we are bearish on the euro, given the fiscal situation and the Irish downgrade earlier this week served a timely reminder," said Christian Lawrence at RBC Capital. The upward trend is still intact above 1.2100 GBP/EUR.

The pound has lost the most against the Australian Dollar with just over 1.2% drop this afternoon. The Australian Dollar is benefitting from its high yield appeal, with interest rates above 5% over there and the outlook for both US and UK rates to be very low well into 2011 traders are able to borrow at 0.5%, transfer to AUD and earn 4.5% for free, this 'carry trade' has proven very profitable over the past year.

By Samuel Allen
(Source: Exchange Rates, UK, Aug 27, 2010)