

Challenges for the ringgit

Weak crude oil prices, volatile external environment and further US rate hikes could weigh on its outlook

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PETALING JAYA: Although sentiments on the ringgit have improved, the currency will still face a number of issues in 2016, with weak crude oil prices, a volatile external environment and further US rate hikes among the factors that could weigh on its outlook.

The ringgit has been one of the worst-performing currencies this year but it has not been alone as the rupiah faces pressure following the US rate hike. Other currencies that have also been hit include the Brazilian real and the ruble.

Analysts said the ringgit would face renewed pressure from the weak crude oil prices and more interest rate hikes but the pace of decline could be slower than in 2015.

The market expects the ringgit to average 4.40 to the greenback with the consensus ranging between 3.90 and 5.00.

The US Federal Reserve raised the benchmark federal funds rate by 25 basis points on Dec 17, the first rate-hike since 2006. The rate now ranges from 0.25% to 0.50% with further hikes possible.

Maybank Investment Bank Bhd group chief economist Suhaimi Ilias, who expects the ringgit to hover around the 4.20 to 4.30 levels in the first-half of next year, said the range of movement would not be as volatile as compared to 2015 and that there was less of a possibility of a precipitate drop in value for the currency.

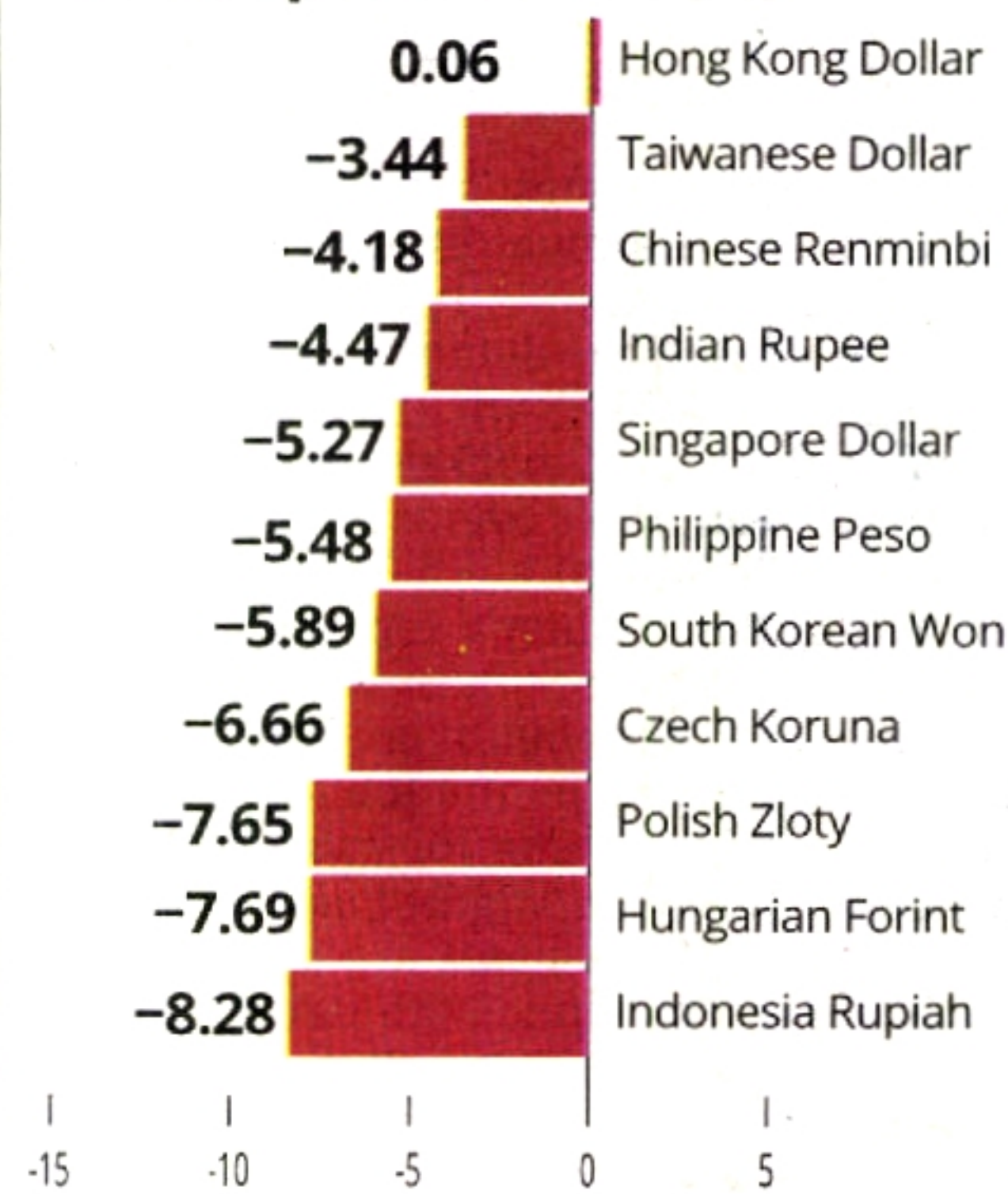
The ringgit traded in a wider range this year, largely due to the political uncertainties stemming from the 1Malaysia Development Bhd (1MDB) crisis and the falling crude oil prices.

Suhaimi said the ringgit would not be as volatile next year although crude oil prices and a weaker yuan would weigh on the currency's outlook.

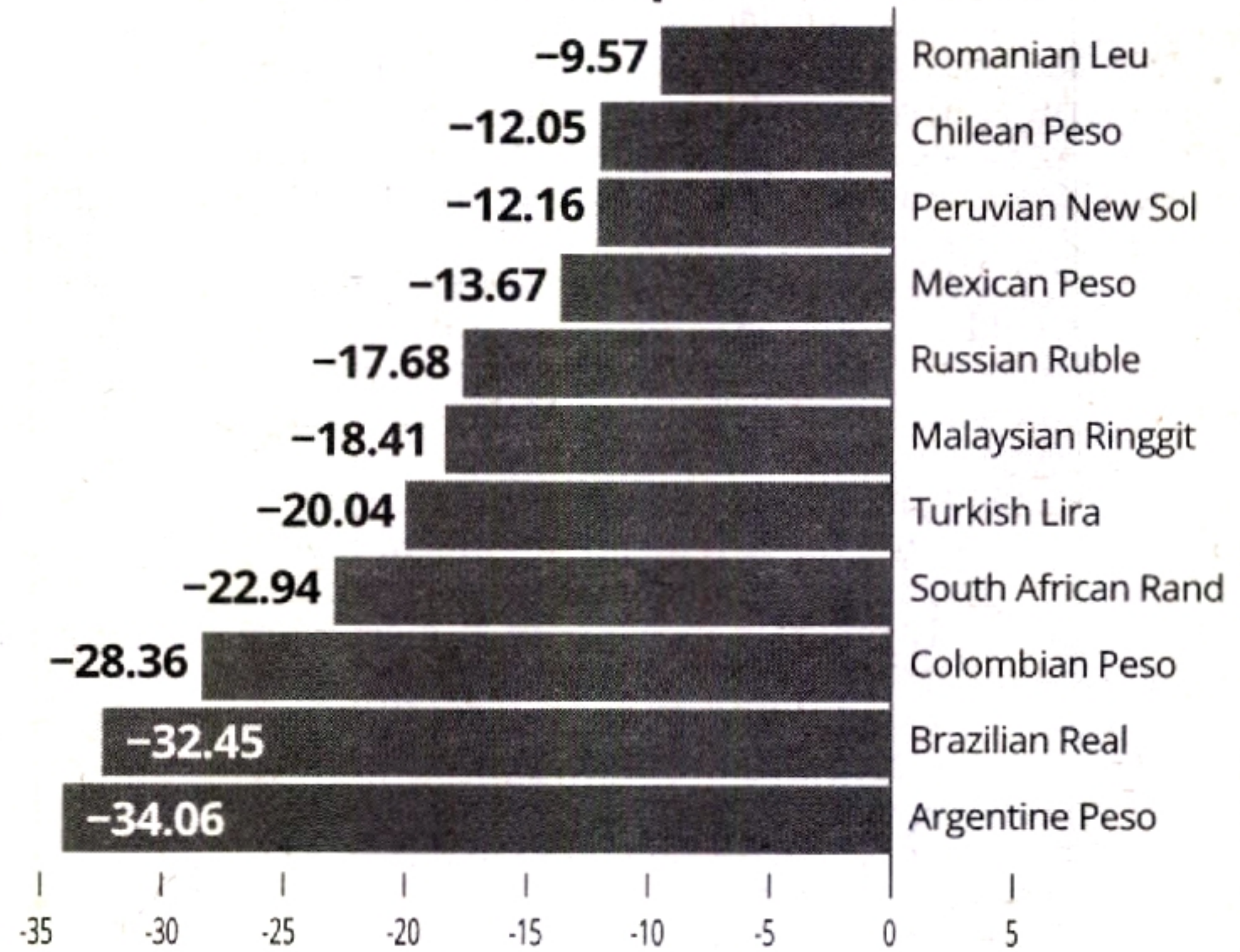
"The crude oil price is something to watch. In our estimate, if crude oil price is lower, then what is being priced at the moment could lead to a risk of a bigger deficit and that could be a dampener for the ring-

Top gainers and losers for currencies

Best spot returns (%)



Worst spot returns (%)



git," he told *StarBiz*.

The Government had estimated an average crude oil price of US\$48 per barrel for Budget 2016.

The price of global benchmark Brent hovers around US\$36-US\$38 per barrel.

While Suhaimi said a weaker yuan might not necessarily be negative in the long term as Chinese policymakers liberalises trading in the yuan compared to steering it under a currency peg.

Nevertheless, he views the dissipating political risks associated

with 1MDB and a stabilising current account surplus coming from a still-healthy trade surplus to help support the ringgit.

"The trade surplus remains resilient and the depreciating ringgit is a boost to our manufacturing sector exports and that has helped sustain our trade surplus and current account surplus," Suhaimi said.

Meanwhile, Johns Hopkins University's Eni professor of international economics Michael Plummer said the currency could trade in a 10

percentage-point range in the short term.

Plummer sees the ringgit hitting a new low of 4.50 next year on fund outflows as investors bet on stronger growth in the developed economies and further US interest rate hikes.

Despite the negativity surrounding the Trans Pacific Partnership (TPP) agreement, both Plummer and Suhaimi said the trade pact would give a boost to business confidence that would flow eventually to consumer confidence. Business

and consumer confidence have weakened in the past year in the face of the uncertain external and domestic environments.

"Malaysia is expected to be one of the biggest winners from the agreement, assuming it is ratified next year. This should inspire confidence," Plummer added.

Suhaimi pointed out that the TPP would enhance Malaysia as an investment destination and the pact's stringent requirements would boost investor confidence.

He said government officials and policymakers must engage more with foreign investors to tell the Malaysian side of the story. Suhaimi recalled that this was done during the 1997/1998 Asian financial crisis.

"Going out and meeting foreign investors is what is missing this time round from the part of policymakers as it is all about managing perception. We need to go out and explain," he noted.

Plummer believes Bank Negara would continue to adopt a policy of stable ringgit accommodating growth rather than an overly strong ringgit.

"Interventions to smooth market fluctuations is likely to continue," he said, adding that a weaker currency would help boost exports.