RINGGIT SLIDES THROUGH DR M'S PEG AS NAJIB'S FINANCES PROBED

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by SIMON HARVEY & LIAU Y-SING

Pic by Hafizi Mohamed

A DECADE after Malaysia scrapped the ringgit peg to the dollar, the exchange rate is back where it began just as Prime Minister Datuk Seri Mohd Najib Razak contests a report alleging the misappropriation of funds.

The currency fell 0.8% to 3.8092 versus the greenback in Kuala Lumpur and has dropped 23% from a 2011 high as a political debacle surrounding a state investment company exacerbated oil-related losses. Former Premier Tun Dr Mahathir Mohamad fixed the currency at 3.8 from 1998 to 2005 to protect businesses amid the Asian financial crisis, blaming speculators for pushing the ringgit to a record low.

Malaysia's currency is Asia's worst-performing exchange rate this year, eroding returns for investors. The *Wall Street Journal* reported on July 3 that about US$700 million (RM2.66 billion) may have moved through government agencies, banks and companies linked to 1Malaysia Development Bhd (1MDB) before apparently appearing in the prime minister's accounts. Central bank governor Dr Zeti Akhtar Aziz said in June that the ringgit was undervalued, while Dr Mahathir suggested the country should consider a repeg.

"Short-term investors will probably not want to run the risk of catching a falling knife, whereas longer-term, real-money investors would be happy to take this as a buying opportunity and move in once some of the dust settles," said Vishnu Varathan, a Singapore-based economist at Mizuho Bank Ltd. "A weaker ringgit would set back the ability of households to raise living standards."

The ringgit led regional losses as Malaysia's Attorney General said on Saturday that a special task force obtained documents related to the apparent transfer of funds in its probe of 1MDB and from raids on three companies. Najib has denied the allegation, telling reporters on Sunday that "I am not a thief".

Capital Controls

Back in 1998, Mahathir imposed capital controls during the Asian financial crisis as the ringgit plunged to an unprecedented 4.885 a dollar. It slumped 35% the previous year amid a devaluation in the Thai baht. He banned offshore trading in the currency, blaming US billionaire George Soros and other "rogue speculators" for pushing down the ringgit.

Minister in the Prime Minister's Department Tan Sri Nor Mohamed Yakcop said in July 2005 when he was second finance minister that the decision to remove the peg would re-energise the economy and lure new foreign investment.

Asian currencies also dropped on Monday after Greece voted against further austerity, risking a euro exit, and Finance Minister Yanis Varoufakis resigned.

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"The ringgit is likely to stay weaker than 3.80 for now if the Greece situation and the eurozone decisions that ensue lead to further uncertainty, as safe-haven flows into the dollar and yen intensify," said Saktiandi Supaat, head of foreign-exchange research at Malayan Banking Bhd (Maybank) in Singapore. "Besides that, the intensification of the domestic political uncertainty may have contributed a bit to the weakness."

Oil's Drop

A 49% drop in Brent crude prices from 2014's peak prompted Fitch Ratings to warn in March that Malaysia, as a net oil exporter, faced the risk of a downgrade because of deteriorating finances. Fitch refrained from doing that on June 30 and instead raised the outlook on the A- rating, the fourth-lowest investment grade, to stable from negative, resulting in a short-lived rally in the ringgit.

ING Groep NV forecasts the ringgit will weaken further and sees a year-end exchange rate of 3.85 amid the "political noise" that's adding to the already-under pressure trade account, Tim Condon, head of Asia research in Singapore, wrote in a July 3 report. Barclays plc and Credit Suisse Group AG predict 3.88 and 3.83, respectively.

Maybank's Saktiandi said Bank Negara Malaysia (BNM) may try to slow the pace of the ringgit's decline and said it's sticking with its third-quarter and year-end forecasts of 3.82 and 3.78.

BNM "stands ready to maintain orderly conditions in the foreign-exchange market," governor Zeti said in a June 8 email to *Bloomberg*.

Capital Outflows

The ringgit has also weakened over the past 12 months on the risk that monetary tightening in the US will spur capital outflows. Global funds held 31% of Malaysian government bonds in May, compared to 17% for Thailand, central bank data show.

Overseas investors sold more Malaysian stocks than they bought last week, a 10th week of outflows and the longest stretch since 2013, according to a report from MIDF Amanah Investment Bank Bhd. The FTSE Bursa Malaysia KLCI Index of stocks fell 1% on Monday.

The central bank's Zeti, who guided the ringgit during the Asian financial crisis when she was assistant governor, said in Bern, Switzerland, on June 29 that the currency's depreciation isn't sustainable. The nation has moved on from emergency measures, she said.

'Orderly Conditions'

Declining foreign-exchange reserves suggest the central bank may have tried to stem this year's 8.1% drop in the ringgit. The holdings were at US$105.3 billion as of the middle of June, 9% lower than at the end of last year. They stood at about US$20 billion in 1998 when capital controls were introduced.

"Malaysia isn't helping itself by making domestic issues an additional concern for investors," said Alan Richardson, a Hong Kong-based money manager at Samsung Asset Management Ltd. — *Bloomberg*