

Stronger ringgit seen next year

STABLE AGAIN: Local currency expected to rise to RM4.25 versus US dollar

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THE ringgit, which the market considers as fundamentally undervalued, will likely gain strength to around RM4.25 against the US dollar next year on the back of improving commodity prices.

However, research houses also see the US dollar continuing its rally in the first half of next year as they look expectantly to United States president-elect Donald Trump taking charge of the world's largest economy on January 20 and the rollout of policy boosters.

Research houses reiterated that the ringgit weakness was temporary

and not a reflection of underlying fundamentals.

"We expect to see stability returning to the ringgit over the next year or so as oil prices stabilise, domestic demand continues to remain resilient and commodity prices see a turnaround," said Maybank Investment Bank (Maybank IB) in a report.

The ringgit is currently about 20 per cent undervalued to its fair value point estimate of RM3.65.

The research house expects the ringgit to trade at the 4.2500 levels in the last quarter of the year, saying the unwinding of the popular carry trade and portfolio outflows could weigh on the ringgit in the short term, especially since the ringgit

was considered as the most vulnerable (among Asian currencies) to foreign outflows.

The ringgit opened at 4.4295 yesterday and was traded at 4.4230 at 5pm from Wednesday's close of 4.4323. The stronger performance was led by earlier expectations the European Central Bank would extend its asset purchase programme at its meeting yesterday.

In the case of the US Federal Reserve (Fed), which will hold its policy meeting next week, market expectations are for a hike in the interest rate.

Maybank IB expects to see medium-term value for the ringgit next year. Its chief economist Suhaimi Ilias expects the ringgit to appreciate to 4.25 by the end of this year, appreciate steadily to 4.15 in the coming first quarter and ending next year at 4.15.

A higher US dollar versus the ring-

git is expected in the second and fourth quarters of next year due to the expectation of Fed rate hikes.

For Singapore-based Maybank FX Research, the first half of the year will see the dollar supported by the Trump administration before concerns about his policies emerge in the second half.

It said some of the positive factors which could cushion against the ringgit depreciation were a potential early call for elections in the second half of next year and an Organisation of the Petroleum Exporting Countries deal that could lend support to oil prices.

For UOB Bank, the ringgit, which it estimated a fair value of RM3.90, is very much in an oversold position.

"Firmer oil price is positive for the ringgit though the effects are overshadowed by prospects of higher US 10-year yields and charging dollar bulls."

INFOGRAPHIC: NST

Ringgit outlook for end-2017 (versus US dollar)

AffinHwang Capital Research	4.10
AmBank	4.48
Barclays	4.57
BIMB Securities	4.20
BNP Paribas	4.75
Citigroup	4.43
HSBC Bank	4.50
Maybank Investment Bank	4.15
Nomura Research	4.76
RHB Research	4.20
UOB Bank	4.35*

Source: BT and Bloomberg * mid-2017