

Ringgit's gain reflects confidence in economy

> Malaysian unit hitting 3.90 to US dollar by end of this year achievable

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15/7

PETALING JAYA: The strengthening of the ringgit despite the surprise cut in the Overnight Policy Rate (OPR) on Wednesday reflects investors' confidence in Malaysia's economic outlook, according to analysts.

The ringgit strengthened 0.5% to 3.9465 against the greenback as at 5pm yesterday. Its rise bucks the general trend whereby an interest rate cut will lead to the weakening of a currency.

RHB Research head of research Lim Chee Sing attributed the continued rise in the ringgit to the preemptive move by Bank Negara Malaysia to cut the benchmark interest rate in the wake of the gloomy economic conditions.

He believes the year-end target of RM3.90 to US\$1 is achievable given less impact expected from three major external events - US interest rate increase, stabilising oil prices and a gradual depreciation of the Chinese currency.

Inter-Pacific Research Sdn Bhd head of research Pong Teng Siew (*pix*) said the ringgit has been on an uptrend over the past few months regardless of any interest rate revision expectation.

"However, the inflow of foreign



The ringgit has been on the uptrend in the past few months.



funds could be the main trigger point for the strengthening of the ringgit today. They are optimistic about the potential beneficial impact on the economy," he told *SunBiz*.

Although the strengthening of the ringgit is associated with better economic outlook, Pong is of the view that the rate cut will not help the economy much given the

weak external environment and the lacklustre business environment.

"Business confidence is still weak at the moment, I don't think people will rush out to invest just because the interest rate is lower," he said.

Pong highlighted that the rate cut may even lead the man on the street to save more for retirement.

"So, consumption will drop even more with a lower interest rate," he

added.

While the ringgit is expected to be sustained at current levels for the time being, Pong cautioned that the soft export outlook will weaken the ringgit in the second half of this year.

Hong Leong Investment Bank Research economist Sia Ket Ee expects the US dollar to regain

strength in the second half on growth and interest rate differential.

"Locally, the narrowing trade surplus and Bank Negara monetary easing bias will be negative for the ringgit," he said. Sia's forecast ringgit range is maintained at 4.00 to 4.20 against the US dollar.

On the Malaysian stock market, the FBM KLCI fell 5.61 points or 0.34% to 1654.78 points yesterday. Pong expects the index to be range-bound for the rest of the year, plus and minus 50 points from the current level.

Theoretically speaking, an interest rate cut should see a positive impact on the equity market, but AmResearch said in reality this may not happen as risk on sentiment arguably on expectation of broader global monetary easing will support the ringgit gains in the short term.

"US\$/ringgit is anticipated to trade on depreciation bias should markets position for further monetary easing," it added.