Ringgit decouples from price of crude oil

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PETALING JAYA: The ringgit is falling despite the rising price of crude o il, evidence that the once strong link between the currency and the commodity has weakened as the market turns its attention towards monetary policy uncertainties.

Analysts said speculation of another interest rate hike in the US and further easing by Bank Negara are weighing on sentiment.

The ringgit on Friday settled at 4.157 against the US dollar, its weakest exchange rate since March. The price of Brent crude oil hovered around US$52 a barrel on the same day, its highest level since June.

This decoupling of the ringgit and oil has been happening for quite some time.

Over the past one month, the ringgit has fallen 1.6% against the US dollar, while the price of oil has risen 9.3% over the same period.

"Many see oil as the first point of reference in forming a view about the ringgit, but amid rising financial market volatility, expectations about the US monetary policy has been the dominant force in the foreign exchange market," MIDF Amanah Investment Bank research head Zulkifli Hamzah said.

The ringgit and oil have previously moved in the same direction for at least the past two years.

This positive correlation is largely based on the fact that oil tax and dividend income contribute a sizeable chunk to the Government's overall revenue.

Oil-related income used to make up about a third of the Government's budget, but a slump in the price of crude oil had reduced its contribution to about a fifth.

"Ringgit behaviour has exhibited partial decoupling from oil price for some time, especially now that the Government is less reliant on oil-related revenue," Zulkifli said.

From 2010 until mid-2014, world oil prices had been fairly stable, at around US$110 a barrel. This means at current levels, the price of crude oil has halved from where it was two years ago.

While the outlook for oil prices has improved in recent weeks, it has taken a backseat.

It seems that investors are putting more weight on widening monetary policy divergence between central banks when it comes to pricing the ringgit.

A rate hike in the US, analysts said, will boost the appeal of US assets, prompting an exodus of investment funds from emerging markets.

The US Federal Reserve raised interest rate for the first time in nearly a decade in December last year. Futures markets are now tilting towards the Fed moving again by the end of 2016.

But while the US is on a tightening cycle, other central banks around the world, including Bank Negara, is moving on the opposite direction.

In mid July, the Malaysian central bank surprised the market by lowering its benchmark overnight policy rate (OPR) for the first time since 2009 by 25 basis points to 3%.

HSBC Global Research, in a recent note, said it now expects Bank Negara to make another 25 basis point cut next month to boost slacking economic growth.

But it warned against "overly aggressive" rate cuts, which could lead to a huge capital outflow and further weakness to the ringgit.