

StanChart: Ringgit needs to absorb external shocks

By Ushar Daniele
ushar@mmail.com.my

KUALA LUMPUR — Although various external factors will continue to impact the value of the ringgit, economists at Standard Chartered Bank Malaysia Bhd believe the nation's fundamentals have been set in stone and are strong enough to assist in its growth.

Economists at the bank's global research briefing 2017 held at The Westin Kuala Lumpur yesterday explained why the fall of the local currency did not impact the economy, and showed that local fundamentals are still strong and capable to ward off the effects of a slippery ringgit. Standard Chartered Bank chief economist Mario Maratheftis said the economy is

not affected as much by the ringgit's fall, rather a greater effect comes from the change in monetary policies as well as any changes in the interest rates, as these two are the main drivers of the ringgit's overall performance.

"The ringgit is facing a shock that cannot be controlled. When there is such a shock, something needs to absorb the shock.

"To do that, there is a need for a fixed exchange rate but priorities were put on the stability of the exchange rate instead, hence there is nothing in place to absorb the shock," he said.

Maratheftis said something has to give way and if the currency doesn't move to absorb the shock, what would absorb the shock?

"When faced with external shocks like the collapse of oil prices and with priorities

put on exchange rates, the real economy will have to be the shock absorber which can potentially cause recessions," he said.

Having to pick one external factor that can cause the ringgit to plunge, Maratheftis said it would be the US Federal Reserve policy.

"If the hike is aggressive this year, then the ringgit will have to absorb the shock as Malaysia is a small open economy."

Standard Chartered Bank Asia chief economist David Mann opined that although the ringgit has dropped to its lowest at 4.48 against the US dollar, it has not brought the same impact on the economy and market domestically akin to 1997-1998 Asian Financial Crisis.

"Since 2013, the ringgit has continued to slip, but it has not impacted both the economy and the market because of the fundamentals now," he said.

Mann said back in the 90s, the key indicator to external vulnerability was on how much of the external debt was denominated in foreign currency.

"Back then it was not even a question as all of the external debt was in foreign currency and all in short-term debt but these days, bonds in local currencies are owned by foreigners with most of them are in investment, pension funds, insurance companies and even sovereign wealth funds," he said.

In the bank's regard, this proves that it was a beacon of stability in terms of how the currency moves to adjust in trade.

Foreign Exchange strategist for Asean and South Asia Divya Devesh said their projected trajectory of the ringgit as of June this year will stand at 4.60 against the dollar and is expected to stabilise at 4.30 by early next year.