Ringgit slumps to lowest since 1998

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KUALA LUMPUR — A lack of positive economic news contributes to the ringgit sliding to a new record low of RM4.50 against the US dollar yesterday, says economics professor at Sunway University Business School Yeah Kim Leng.

He said the ringgit was in a more vulnerable position due to self-fulfilling expectations, while the lack of positive news failed to reverse the negative sentiments against the local currency as it slumped to its lowest since the 1998 financial crisis.

According to Bloomberg data, the ringgit crossed the RM4.50 psychological mark at 11.20am.

Prior to this, the ringgit's lowest point was at RM4.88 to US$1 in January 1998.

Yeah said after a short breather towards the end of last year, the dollar has resumed its upward momentum.

"Diverging policies between the United States and the rest of the world, and excessive optimism on US president-elect Donald Trump's upcoming stimulus will continue to underpin the strength of the dollar," he said.

"Until there are greater clarity and realistic expectations of Trump's policies, the dollar strength and currency volatility will prevail."

Bank Islam Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid said financial markets were still assessing on what may unfold under Trump when he takes office on Jan 20.

"Therefore, high-frequency indicators such as business sentiments, employment and inflation will be the key determining factors for such optimism in the immediate term," Afzanizam said.

He said the latest ISM Index for the manufacturing sector, which gauged business sentiments in the US, rose to 54.7 points as of last month, surpassing 53.8 points median estimates as surveyed by Bloomberg.

In particular, the New Orders sub-index, which rose to 60.1 points last month from 53 points, indicate production would pick up its pace this year.

"Such an out-turn would also imply businesses are becoming more receptive to the economic outlook this year. This would translate into more hiring and capital expenditure among firms in various industries," Afzanizam said.

He said such indicators suggest the Fed is likely to increase its rates this year and coupled with Trump's policies on tax cuts and infrastructure spending, it would further reinvigorate the positive outlook on US economy.

MIDF Amanah Investment Bank Bhd chief economist Kamaruddin Mohd Nor said the ringgit will remain volatile this year, clouded by external headwinds.

"The faster pace of US interest rate hikes, expected US expansionary fiscal policy, a possible setback to global trade, rise in protectionism as well as the prospects of China economy — all these factors weigh down on the ringgit," he said.

"Once US policies crystallise, we can then hope sentiments will improve, improving the performance of the ringgit."

The ringgit slipped against the Singapore dollar to 3.1075 from 3.1008, and fell against the pound sterling to 5.5088 from 5.5040, but was firmer against the Euro at 4.6829 from 5.6892 yesterday.