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Forex rule **yet** to **spark** ringgit rebound

> Export proceeds conversion below expectations, has not yielded desired results

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PETALING JAYA: The lower-than-expected conversion of export proceeds into ringgit could be the reason behind the continued depreciation of the local currency since early February, economists say.

"We are still in the gestation period (for export proceeds conversion), but it has not yielded good results as intended because of the exemption given. Based on the progress, we only can get RM30 billion to RM40 billion this year compared with market projection of RM90 billion.

"As the conversion is slower, definitely there is less strength in the ringgit," an economist who declined to be named told *SunBiz*, adding that current average monthly conversion is only about RM2 billion to RM3 billion.

Bank Negara did not respond to queries at press time.

The ringgit, which depreciated 4.5% in 2016, has weakened 0.58% against the US dollar since early last month. The local currency lost close to 0.1% to 4.4542 against the greenback as at 5pm last Friday.

Nonetheless, economists opined that the ringgit is unlikely to hit 5.00 against the greenback considering the current market fundamentals.

Professor of economics at Sunway University Business School Dr Yeah Kim Leng said the assumptions for ringgit to hit 5.00 are sharp reversal of fund flows, drastic decline in China's yuan and oil prices, and more than three



US interest rate increases due to a stronger US economy.

"Based on the current fundamentals with trade surplus, rising exports growth and commodity prices and sustained economic growth, it is unlikely to see the ringgit depreciating to 5.00 against the US dollar," explained Yeah, who foresees the ringgit trading between 4.40 and 4.50 to the dollar in the next few months.

Hong Leong Investment Bank Research economist Sia Ket Ee believes the ringgit is very much externally driven as the US dollar's strength, arising from US President Donald Trump's policies and rising uncertainties in European politics, will affect the movement of the ringgit.

He cautioned that if Trump embeds any trade policy into his tax reform, it could spark another round of the strengthening of the greenback in anticipation of higher US interest rates.

In addition, Sia said, any unfavourable outcome from the elections in European countries such as France and Germany will strengthen the US dollar as a safe-haven currency due to concerns over the potential break-up

of the European Union.

Domestically, he said, the ringgit has stabilised, thanks to Bank Negara's move to compel exporters to convert their proceeds into ringgit. However, the positive impact could have been negated by foreign fund outflows on the back of bond redemption by foreigners.

Despite that, he believes that the global bond market has stabilised after concerns over Trump's policies eased.

"Foreigners understand that the stability is there after the implementation of Bank Negara's measures. There is no hurry for them to leave the country," he said, noting that quantum of bond redemption, if any, may not be as high as last year.

Market sentiment also plays a vital role in driving the currency movement, according to economists.

"Right now, sentiment is still fragile. We do see the ringgit has probably bottomed out, but expect more clarity in the second half of the year. Our ringgit projection for the rest of the year is 4.30 to 4.55 against the dollar," Sia said.

Yeah noted that higher political risk premium and reversal of fund flows could undermine the ringgit's recovery.

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