Ringgit hits 4.33 to US dollar

Currency at new low on possibility of Fed rate hike this month, slowing China growth

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PETALING JAYA: The ringgit tumbled to a new 17-year low, as the increasing likelihood of the US Federal Reserve raising interest rates this month and slowing growth in China triggered a renewed selloff in emerging-market economies.

The extended decline in crude oil prices also exacerbated the downward pressure on the currency, even as investor sentiment towards the country remained dampened by ongoing domestic political uncertainties.

The ringgit closed at 4.33, down 1.62% against the US dollar, and off an intra-day low of 4.3405.

The lowest the ringgit has ever closed against the greenback was at 4.7125 in January 1998. Thereafter, from September 1998, the ringgit was pegged at 3.80 to the US dollar until July 2005.

The fall of the ringgit was in tandem with the decline in the country's equity market after a region-wide selloff sent the benchmark FTSE Bursa Malaysia KL Composite Index down 6.31 points to close at 1,582.85, compared with an intraday low of 1,567.91 yesterday.

Year-to-date, the ringgit has lost 19% against the US dollar, making it the worst performer in the region, which currencies had also been battered by capital outflows because of the rising expectations of a US interest rate hike.

The ringgit also closed at a new record low of 3.0356 against the Singapore dollar.

"The ringgit's weakness, which was broadly in line with regional trends, had a lot to do with the US dollar's strength that's being driven by the upcoming policy meeting of the US Federal Reserve, which could result in an interest rate hike," Singapore-based foreign-exchange (forex) analyst at Maybank Group, Christopher Wong, told *StarBiz*.

"Further dampening investor sentiment towards the ringgit is the decline in crude oil prices, while a slowdown in China's economy could have a negative implication on regional trade over the near-term," he said.

There has been a massive sell-down of equities in the region, as the markets are now governed by "fear", instead of greed, according to AmBank Group currency strategist Wong Chee Seng.

"Fear is governing the markets now," Wong said.

"The ringgit is particularly vulnerable because the market perceives that Malaysia has a weak defence of its currency due to its relatively low international reserves," he added.

Wong noted that Malaysia's international reserves at present could only cover one time its short-term external debt – which was the lowest ratio among Asian countries.

"The market is very uncomfortable with Malaysia's position as the defence line (for the ringgit) gets weaker, the concern is that the sell-down of ringgit-denominated assets will spread from the equity to the bond market," Wong explained, noting the risk posed by high foreign holdings of Malaysian Government Securities.

Malaysia's international reserves stood at US$94.7bil (RM357.7bil) as of end-August, which represented a marginal increase of 0.2% from US$94.5bil just two weeks earlier, while its forex reserves increased 0.6% to US$86.4bil from US$85.9bil.

Bank Negara said the country's reserve position was sufficient to finance 7.4 months of retained imports and was one time the short-term external debt.

According to Kenanga Research, the uptick in Malaysia's international and forex reserves were signs that Bank Negara had eased off from aggressively defending the ringgit from rapid depreciation.

"The central bank now seems more comfortable with letting market forces decide the value of the local currency," Kenanga Research said in its recent report.

"We view the shift to a policy of minimal intervention as appropriate, given the difficulty in swimming against the tide of massive portfolio outflows," the brokerage wrote, adding that the downward pressure on the ringgit would likely remain at least until the Fed makes its first rate hike.

An encouraging jobs report, which followed a string of key indicators pointing to a continued US economic recovery, has prompted

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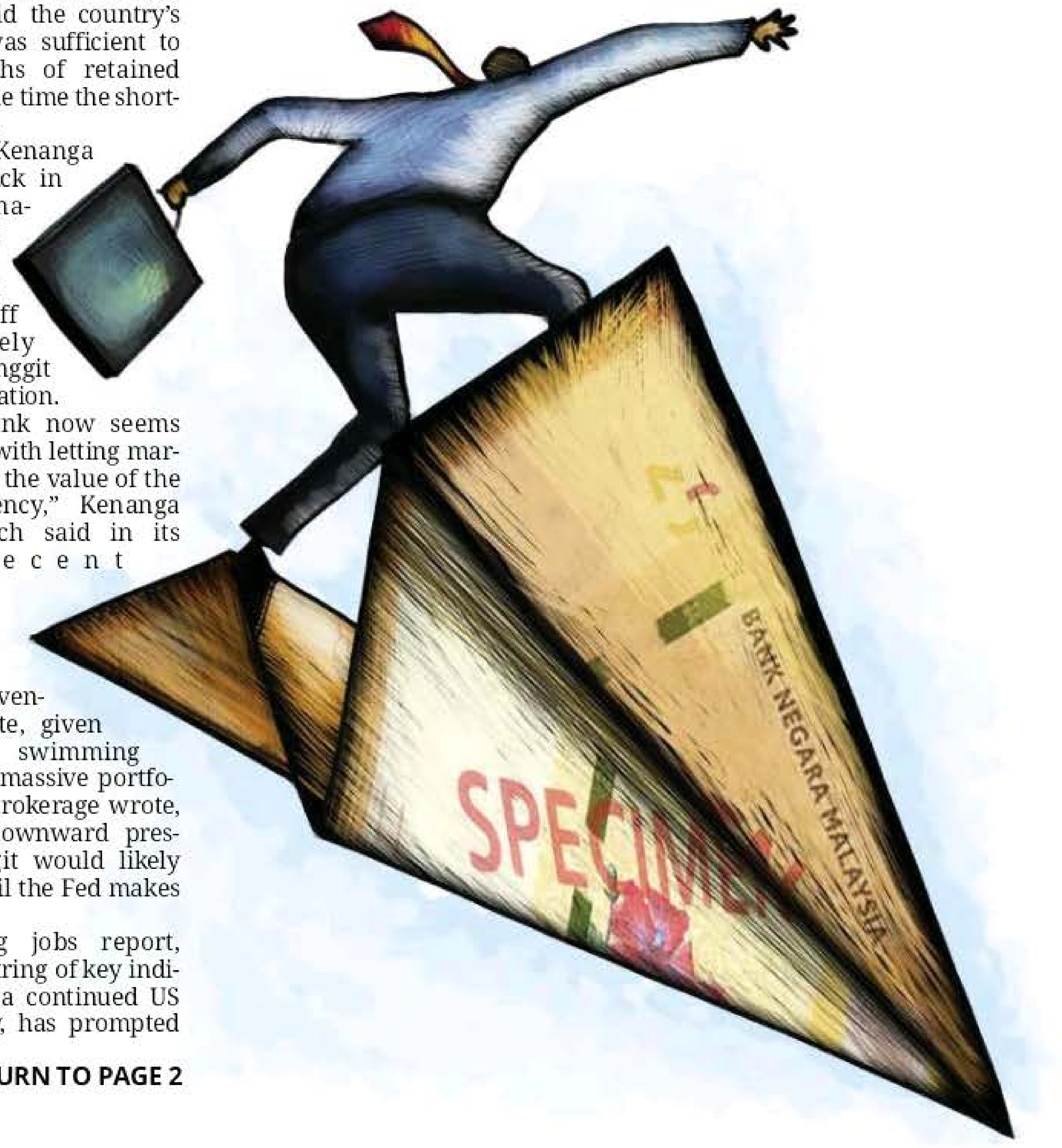

MIDF Research says indicators point to Fed rate hike this month

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more bets on the Fed raising interest rates for the first time in more than nine years at the conclusion of a two-day monetary policy meeting on Sept 17.

A report released last Friday by the US Labour Department showed that the unemployment rate in the world's largest economy had fallen to a seven-year low of 5.1% in August from 5.3% the previous month, although jobs growth had slowed, with non-farm payrolls rising to 173,000, compared with 245,000 in the preceding month.

"We still expect the Fed to conduct its first interest rate hike in September, as most of the other indicators are pointing towards that direction," MIDF Research said.

Head of the International Monetary Fund, Christine Lagarde, however, had urged the Fed not to rush its decision to raise interest rates amid concerns that many emerging economies would suffer if large capital outflows from these markets into dollar-denominated assets could risk a market turmoil that could hurt growth.

Meanwhile, crude oil prices on the international benchmark Brent dropped 1.2% on Monday to US$49 per barrel. Prices of the strategic commodity were down by 28% from this year's closing peak of about US$68 in June on a global supply glut and concerns that China's slowing economy could weigh on demand.

There were concerns that a prolonged slump in crude oil prices could derail the fiscal consolidation efforts of Malaysia, which counts on oil and petroleum-related sources to contribute 21% of the total government revenue under the revised Budget 2015.

Amid the external headwinds, concerns are growing in the domestic socio-political arena.

"Until Malaysia resolves its political dilemma, its currency will continue to be one of the biggest losers in Asia, as capital outflows batter the region," an analyst said.

"Although the country's economic fundamentals are intact, investors' opinion on Malaysia has turned sour because of the combination of external and domestic factors," he added.

Meanwhile, Malaysia's current account surplus would likely come under pressure, and thus weigh on the outlook on the ringgit, as its trade surplus would likely narrow further in the months ahead.

Official data released last Friday showed Malaysia's trade surplus in July had narrowed to RM2.4bil, the lowest since October 2014, from RM8bil in the preceding month, as import growth outpaced export growth that had been partly driven by the ringgit's depreciation.

"Export growth will likely be subdued moving forward, while import growth is expected to remain strong until year-end," Alliance Research chief economist Manokaran Mottain said.

"This is expected to put further downside pressure on Malaysia's narrowing current account surplus," he added.