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RINGGIT DROPS TO LOWEST LEVEL SINCE 1994

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KUALA LUMPUR, Aug 11 (Bernama) -- The ringgit dropped to its lowest level since 1994 today, and the local stock market is in a free-fall and analysts say the worst may not over.

"I don't have a crystal ball," said Kuala Lumpur Stock Exchange (KLSE) executive chairman Datuk Nik Mohamed Din Nik Yusoff today when asked when the stock market will pick up.

Since the beginning of the month, the KLSE's benchmark Composite Index has fallen 100 points; it broke the 900 mark today mainly due to a weakening ringgit.

The ringgit fell to around RM2.74 against the US dollar at one point before closing at 2.7335/85, its lowest level in more than three years.

Dealers said the fall of the ringgit today may have been a follow-through from a statement by Prime Minister Datuk Seri Dr Mahathir Mohamad on Friday.

Dr Mahathir had said the government would let market forces decide the ringgit/US dollar level and he was happy with the level of the ringgit at that time (2.65).

Dealers said Dr Mahathir's statement had perhaps given them an excuse to sell following a series of bearish news such as concerns about high interest rates on tight liquidity, high growth in money supply and the overall poor currency scenario in the region.

Many economists seemed to concur that the ringgit would continue to be weak in the coming days. There were also rumours that Malaysia together with Singapore and Australia will lend US\$1 billion each to aid Thailand and these have been viewed as negative for the region's currencies because "they will be drawn closer to Thailand's economic woes."

Malaysia's recent biggest monthly trade deficit in 17 years, quickening loans growth and not-so-encouraging corporate earnings were the other negative factors.

Forex dealers said that in the next few days there might be a game of dare of how far forex market players would want to push the ringgit down and at what level would Bank Negara tolerate their push.

At this point, dealers believed that offshore players would push the ringgit to as low as 2.8, which will be the lowest level since 1973.

A dealer at a major local bank said the ringgit might drop to the 2.8 level within the next one or two days.

"It has to come to that level before a retracement is possible," he felt, hinting of a possible Bank Negara intervention.

Some viewed the weakening of the stock market and ringgit as inter-related. A dealer said the weakening of the stock market "also fuels the selling of the ringgit as offshore players liquidate their stocks and then sell ringgit and buy US dollars to repatriate their funds."

Another dealer said the loss in the foreign exchange is too high and this was the reason for the offshore funds liquidating their stocks.

Nik Din is in agreement with the dealers, saying that investors might be cashing out due to the uncertainty of the ringgit.

Asked which foreign funds might be cashing out, Nik Din said: "I don't know, but I also heard of talks that domestic funds are coming in."

Stock market analysts contacted today said although the market is "very cheap" at a price earnings ratio of 15 times, now is not the time to buy.

"You cannot beat the market when the selling is still on," one of them

said.

Dealers said the continued weakening of the ringgit, which is passing through various critical support levels, is also igniting fresh programme selling by foreign players who had held on to their shares in the previous sell-down.

Local players were also seen selling their shares, a dealer said.

Many analysts are also unwilling to commit themselves on when the stock market might see a rebound.

"On the charts, we are seeing a strong support level at 880. Failing that, the next level should be 850," an analyst said.

For the market to rebound, he said it should find its base first. "And for now, we haven't seen any," he added.

Another analyst said with the index breaking critical support levels in a relatively short time, selling pressure is expected to continue into the next few sessions. -- BERNAMA

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