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Worst is over for the ringgit

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Fitch revises country's outlook from negative to stable

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PETALING JAYA: A stable credit rating outlook and a forecast that the worst is over for the ringgit has lifted the fortunes of Malaysia's capital markets.

The lift was also helped by the prospects of better political stability.

In response, the stock market closed 21.3 points higher at 1,727 points while the ringgit appreciated by 0.7% to 3.74 against the US dollar yesterday.

At one stage, the market was as high as 30 points up while the ringgit appreciated by as much as 1% as it rebounded from a 10-year low of 3.787 against the dollar on Monday.

Fitch, the rating agency that has since March alluded to a possible downgrade in the sovereign debt ratings of Malaysia, revised its outlook on the country's debt ratings from negative to stable on Tuesday night.

This came as pleasant news as Fitch had put Malaysia on a "negative" watch for two years, and had just four months ago warned of a "more than 50%" chance of cutting the country's credit rating.

Malaysia continues to be rated as A- by Fitch – one level above the lower three bands of the investment grade which range from BBB+ to BBB-.

A downward rating to the BBB band would have resulted in higher borrowing costs for the country, something that the Government was bent on avoiding when it made tough fiscal policies to improve the public finances.

Among them is the reduction of the country's subsidy bill – largely by the gradual increase in fuel prices to be in tandem with market prices – and the implementation of the Goods and Services Tax (GST) which broadens the tax base.

A downward rating would also have negatively impacted the strength of the ringgit.

A currency strategist said the risk of further depreciation of the ringgit had lessened extensively with Fitch's latest review on its outlook for Malaysia.

"I think there are some more legs for the ringgit to appreciate in the days ahead," independent interest rate and foreign exchange strategist Dr Suresh Kumar Ramanathan told *The Star*.

Nonetheless, some analysts cautioned that the stock market could face some volatility before it heads into a blue skies scenario next year.

"The Fitch report is very positive but there are still external uncertainties, for example, the potential interest rate hike in the United States," said Kenanga's head of research Chan Ken Yew.

He said an interest rate hike would continue to strengthen the US dollar and weaken the ringgit.

"Until that hike takes place, people will continue speculating about the timing and the quantum of the US interest rate hike," said Chan.

Nonetheless, he felt that the stock market would end the year on a stronger note.

In its report, Fitch said Malaysia's rating was supported by reasonably strong real GDP growth rates and low inflation volatility.

Malaysia's five-year real GDP growth averaged 5.8% between 2010 and 2014.

Also on the positive side, political instability had been reduced with the postponement of Umno polls by 18 months, said Fitch.

Prime Minister and party president Datuk Seri Najib Tun Razak said the delay would allow Umno to concentrate on serving the people, consolidate and help its Barisan Nasional partners get ready for the next general election.

In Fitch's report, some key drivers for Malaysia's positives included its improving national finances. By 2020, Malaysia is expected to have a balanced budget, without having to borrow to finance expenditure.

Also, Fitch saw progress on the GST and fuel subsidy reform as supportive of the fiscal finances.

It also said that while the share of foreigners holding government securities was high and a weakness in Malaysia's debt profile, local agencies such as the Employees Provident Fund could provide funding to support the sovereign needs in the event of a sell-off.