

Ringgit hits 16-year low on PM graft allegations

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By BLOOMBERG

Malaysia's ringgit tumbled to the weakest level since a dollar peg was scrapped in 2005 amid the risk Greece will exit the euro and as the government probes reports that Prime Minister Najib Abdul Razak misappropriated funds.

The currency dropped 0.6% to 3.8025 versus the greenback as of 9:27 am in Kuala Lumpur, data compiled by Bloomberg show. The currency was fixed at 3.8 per dollar in 1998 during the Asian financial crisis after it slumped 35% the previous year amid a devaluation in the Thai baht.

Malaysia's currency is Asia's worst-performing exchange rate this year amid a political debate surrounding state investment company 1Malaysia Development Bhd. that has engulfed Najib. The Wall Street Journal reported on July 3 that about US\$700 million (RM2.6 billion) may have moved through government agencies, banks and companies linked to 1MDB before apparently appearing in the prime minister's accounts.

"The ringgit is likely to stay weaker than 3.80 for now if the Greece situation and the euro-zone decisions that ensue lead to further uncertainty, as safe-haven flows into the dollar and yen intensifies," said Saktiandi Supaat, head of foreign-exchange research at Malayan Banking Bhd. in Singapore. "Besides that, the intensification of the domestic political uncertainty may have contributed a bit to the weakness."

Asian currencies fell on Monday after the Greek public voted against further austerity measures on Sunday, prompting European leaders to call for an emergency meeting scheduled on Tuesday to keep the country in the 19-member bloc.

Oil's drop

The ringgit led losses as Malaysia's Attorney-General said on Saturday that a special task force obtained documents related to the apparent transfer of funds in its probe of 1MDB and during raids on three companies. Najib has denied the allegation, telling reporters on Sunday that "I am not a thief."

A 48% drop in Brent crude prices from 2014's peak prompted Fitch Ratings to warn in March that Malaysia, as a net oil exporter, faced the risk of a downgrade because

of deteriorating finances. Fitch refrained from doing just that on June 30 following a review and instead raised the outlook on the A- rating, the fourth-lowest investment grade, to stable from negative, resulting in a short-lived rally in the ringgit.

Malaysia imposed capital controls in 1998 under then Prime Minister Mahathir Mohamad when the ringgit plunged to a record 4.885 in January of that year. He banned offshore trading in the currency, blaming US billionaire George Soros and other “rogue speculators” for pushing down the ringgit.

Ringgit forecasts

ING Groep NV forecasts the ringgit will weaken further and sees a year-end exchange rate of 3.85 amid the “political noise” that’s adding to the already-under pressure trade account, Tim Condon, head of Asia research in Singapore, wrote in a July 3 report. Barclays Plc and Credit Suisse Group AG predict 3.88 and 3.83, respectively.

Malayan Banking’s Saktiandi said Bank Negara Malaysia may try to slow the pace of the ringgit’s decline and said it’s sticking with its third-quarter and year-end forecasts of 3.82 and 3.78.

“We’ve got a lot of volatility post-Greece; you’ve got a leg down in oil and that at the margin is going to see commodity currencies like Malaysia being hit,” said Michael Every, the head of financial markets research at Rabobank Group in Hong Kong. “We’re going to see a lot of volatility over the next couple of days.”

The ringgit has also weakened over the past 12 months on the risk that monetary tightening in the US will spur capital outflows.

Twelve-month non-deliverable ringgit forwards dropped 0.7% to 3.9205 a dollar. One-month implied volatility, a measure of exchange-rate swings used to price options, rose 50 basis points to 10.68.

Not sustainable

The Southeast Asian nation’s exports contracted in May for the fourth month this year as Brent crude prices declined. The trade surplus narrowed to RM5.51 billion, down from 2014’s high of RM11 billion in November. The broader current-account excess was RM10 billion in the first quarter, the highest since the three months to June 2014.

Bank Negara governor Zeti Akhtar Aziz, who guided the ringgit during the Asian financial crisis when she was assistant governor at the monetary authority, said in Bern, Switzerland, on June 29 that the currency's depreciation isn't sustainable.

The nation has moved on from emergency measures, she said, after commenting earlier in the month that the weakness doesn't reflect economic fundamentals.

Reserve holdings

Malaysia's declining foreign-exchange reserves suggest the central bank is at least trying to stem this year's 8.2% drop in the ringgit. The holdings were at US\$105.3 billion as of the middle of June, 9 percent lower than at the end of last year. They stood at about US\$20 billion in 1998 when capital controls were introduced. Official data shows overseas investors hold 32% of the nation's government bonds, compared with 18% for Thailand.

Bank Negara "stands ready to maintain orderly conditions in the foreign-exchange market," Zeti said in a June 8 e-mail to Bloomberg.

As far as the economy goes, gross domestic product is officially forecast to increase 4.5% to 5.5% this year, slowing from 6% in 2014. It contracted 7.4% in 1998.

Emerging-market currencies are affected by uncertainties in the global economy and most of their declines aren't consistent with growth prospects, Zeti said in the e-mail.

— **by Jongwoo Cheon**

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