

## **Ringgit remains undervalued but pressured**

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It appears unlikely that there will be a strengthening of the ringgit in the near term, as it continues to be hit by a mix of external factors and concerns over political uncertainty domestically. This is despite the fact Malaysia's economy remains fundamentally sound and the ringgit remains undervalued, said analysts.

According to Barclays Bank Plc regional economist for emerging markets Rahul Bajoria, the same set of factors which were pulling the ringgit down several months ago are still in play.

He said the persistent decline in crude oil and other commodity prices has affected Malaysia, just like it has affected other commodity-driven countries. The currency is also being affected by the end of quantitative easing (QE) and the uncertainty over when the US Federal Bank (Fed) will raise interest rates in the US.

"The persistent decline in oil prices and commodities has affected Malaysia, but also all commodity-driven countries. Having an open economy, Malaysia is not isolated from currency weakness.

"Also post-2008, the accommodative US monetary policy and the QE programme meant a lot of easy money flowed into emerging markets. Because of Malaysia's open economy, flows into the country were large. With the Fed set to raise rates, some of the money will leave. The concern is because banks and households are more highly leveraged than before so there might be an impact on them," said Bajoria.

He added that political uncertainty domestically has not helped to improve investor sentiment.

However, he was keen to point out that Malaysia remains fundamentally strong.

"Malaysia should easily hit a 5% growth rate even with concerns over poor economic and consumer sentiment.

"The savings rate is high, inflation is at a good level and policymaking remains good. The government and Bank Negara Malaysia ruling out capital controls has done well to reassure investors and this is good. Malaysia's demographics in terms of its labour profile is also good, it is a young country," he said.

Centennial Asia Advisors chief executive officer Manu Bhaskaran concurred: “Most emerging economy currencies particularly those of commodity exporters and other exporters have weakened in recent weeks, so there is a global dimension to it reflecting US dollar strength and the reflux of capital back into the US and other developed economies.

“Malaysia’s fundamentals in terms of current account surplus, low inflation, well-managed banking system, reasonably strong corporate balance sheets, etc are clearly not a reason. However, whenever there is substantial outflow of capital within a short period of time, there is bound to be an impact on the currency. One has to ask what it is that has precipitated such massive selling.”

Both Bajoria and Bhaskaran said it is impossible to forecast if the ringgit will break the RM5 to the US dollar level or when it may start to regain some strength.

“The ringgit’s weakness is coming from external factors, so it is in an adjustment process and there is unlikely to be an immediate correction. But currency is supposed to be a stabiliser and in Malaysia’s case the market is faring pretty well otherwise.

“Liquidity levels remain good and bond yields have not spiked. So it seems that the currency is taking the brunt of it and this is supposed to happen, it (currency) is supposed to adjust,” explained Bajoria.

On suggestions the ringgit will continue to decline past the RM5 to the US dollar mark, Bajoria said: “The reason people are forecasting these things is because several key psychological barriers have been breached recently and so people are bracing for the next breach.

“It is impossible to forecast where the ringgit will be in a few months. We were saying it will be in the high RM3 to the US dollar region just a while back, now we are anticipating RM4.58 in a year’s time.”

Nonetheless, he added that the local note remains undervalued, saying “the ringgit definitely looks cheap right now”.

Meanwhile, Bhaskaran said he had “absolutely no idea” if the ringgit will weaken beyond RM5, but agreed that the local note is undervalued.

“The ringgit is currently highly undervalued, but we know from history that undervaluation can persist for some time,” he said. He believes that the recovery of

the ringgit depends on investor confidence, and said, “if confidence can be restored, I guess the currency could snap back quite quickly.”

Bajoria, meanwhile, opined that clarity over some of the external factors could help the ringgit recover. “The decline might stop with some clarity. If there can be clarity over when the Fed will raise rates, this would bring in some stability and certainty which would help.”

Furthermore, if foreign reserves levels continue to rise for a few months that would also help ease some of the pressure. Malaysia’s international reserves rose in the first two weeks of September. Reserves increased to US\$95.3 billion (RM423.92 billion) as of Sept 15 from US\$94.7 billion on Aug 28, said Bank Negara Malaysia.

“For many months it was (the foreign reserves) falling. But recently it rose, and if there can be a few more months of that, it will ease concerns and help stabilise the ringgit,” Bajoria said.

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