

## **Here's why the ringgit rout isn't slowing and how bad things could get**

### **The Malaysian Insider**

#### **August 25, 2015**

The ringgit rout continues as markets opened today, falling to a record low of 3.08 against the Singapore dollar.

The currency is also at a 17-year low against the greenback, opening this morning at 4.2630 per US dollar,. The ringgit was pegged at 3.80 against the US dollar from September 1998 until 2005.

It is the worst-performing currency in Southeast Asia to date.

Why is the ringgit collapsing and how bad will things get?

#### **Falling forex reserves**

The main reason for the accelerated sell-off in the ringgit is Malaysia's plunging foreign exchange reserves, which fell to a US\$94.5 billion on August 14 from US\$96.7 billion on July 31. The lower a country's forex reserves, the less it is able to do to shore up a sinking currency.

Malaysia's forex reserves have fallen 19% since the start of the year, dipping below US\$100 billion for the first time last month since 2010, fuelling speculation that Bank Negara Malaysia is digging into the reserves to shore up the currency.

Meanwhile, capital outflows from the country are accelerating, to three times the size of capital investments in the country in Q1.

Economists say many Malaysians are also sending their money overseas because the falling value of the ringgit.

The reserves slid four times as fast as Indonesia, whose rupiah is the second worst-performing currency in the region.

Malaysia's forex holdings are sufficient to finance 7.5 months of retained imports and is currently just 1 time short-term external debt, according to an August 21 statement by Bank Negara Malaysia.

At their weakest levels during the 1997 Asian Financial Crisis, Malaysia's forex reserves had dropped to US\$20 billion. Bank Negara governor Tan Sri Zeti Akhtar Aziz has ruled out a return to a fixed exchange rate.

#### **Low oil prices**

Another reason for the ringgit rout is the unanticipated devaluation of China's renminbi on August 11, which has pushed crude oil prices below its March low of US\$42 a barrel to just over US\$40 a barrel on August 24. That will have further

negative implications for the Malaysian economy, says Philip Wee of DBS Group Holdings.

The Malaysian government cut its 2015 GDP growth forecast on January 20 to 4.5%-5.5% from 5%-6%, while the deficit target was raised to 3.2% of GDP from 3% owing to the halving in value of oil since June 2014. Malaysia is the largest net exporter of petroleum and natural-gas products in Southeast Asia, with petroleum accounting for roughly 30% of national revenues.

### **Currency woes**

The renminbi devaluation has also “triggered currency depreciation across the emerging markets” as well as a “major equity sell-off worldwide on global growth worries,” says Wee of DBS.

A weaker renminbi implies cheaper Chinese exports, making goods produced elsewhere in the region less competitive.

Indeed, foreign appetite for Malaysian securities has been declining since the start of the year on the back of an unresolved political leadership crisis surrounding Prime Minister Datuk Seri Najib Razak as well as a looming US interest rate increase, which is widely expected to take place in September.

How low will the ringgit go?

In its latest USD/MYR forecast on August 11, DBS is expecting the ringgit to strengthen slightly to 4.01 against the USD by year end but weaken to 4.16 by end 2016.

On the other hand, the SGD/MYR is expected to strengthen to 2.84 by year end and 2.86 by Q2 next year. – The Edge Markets, August 25, 2015.

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