

Malaysia may have seen worst of selldown on ringgit
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Asia's worst-performing currency is starting to come back into favour, says Neuberger and Nikko

KUALA LUMPUR: Malaysian assets are coming back onto the radar for global funds after they fled last November when policymakers clamped down on trading in offshore ringgit forwards to halt a slide in the currency.

Neuberger Berman Group LLC says the ringgit may be among the region's better performers in coming months, while an improving economy has convinced Nikko Asset Management Co to change its view of Malaysian bonds to neutral after earlier cutting holdings.

"The ringgit has a few things going for it now," Prashant Singh, Neuberger's senior portfolio manager for emerging market debt, said in an interview in Singapore last week.

"If you look at the overall balance of payments, with the increase in commodity prices, the current account has improved. Foreign direct investment in Malaysia has improved so that has helped."

While still expecting the ringgit to weaken along with most Asian currencies against the dollar, analysts have boosted forecasts for three straight months. They now see it falling to 4.46 per dollar by mid-year, a smaller decline than the earlier prediction of 4.55, according to a Bloomberg survey. The exchange rate was at 4.43 at 5pm in Kuala Lumpur on Wednesday.

The ringgit has been the worst performer of 11 Asian currencies in the past six months, losing 5.3%, as the election of US President Donald Trump in November and rising US interest rates saw investors take money out of the most liquid emerging markets.

Clamp down

Bank Negara Malaysia responded to the ringgit's slump in November by clamping down on the trading of offshore non-deliverable forwards. That had the effect of stemming declines, but also damped interest from overseas investors as they found it harder to hedge their positions in the country's assets.

While global funds have cut holdings of ringgit bonds to a five-year low, sentiment is starting to improve as the focus shifts to the nation's improving current-account surplus and trade outlook.

As crude prices recover and the global economy stabilizes, the outlook for the net oil exporter has brightened and its current-account surplus widened to the most in more than two years in the last quarter of 2016. Prime Minister Najib Razak aims to shrink the budget deficit for an eighth year, with the shortfall expected to fall to 3% of gross domestic product, from 3.1% in 2016.

The improving outlook is cause for optimism for Nikko Asset. The Tokyo-based fund-management company is neutral on Malaysian bonds after reducing its exposure following the central bank's clampdown on non-deliverable forwards.

Decent fundamentals

"From a bond investor's perspective, the budget is consolidating and fundamentals are decent," said Edward Ng, a fixed-income portfolio manager in Singapore at Nikko Asset, which oversees about US\$171 billion.

"The economy is not just reliant on commodities, and the electrical and electronics sector is starting to look good as well, so they will also benefit from some of the US growth."

Ng said Nikko is monitoring the recent uptick in inflation as it may undermine the attraction of the nation's bonds, though at present it sees no cause for alarm.

Malaysia's central bank is also trying to revive interest in its financial markets.

In December it revised rules to encourage investors to hedge their currency exposure onshore and ordered exporters to hold at least 75% of export proceeds in ringgit.

"The new rule which forces exporters to convert at least 75% of their export revenues into ringgit definitely helps," Neuberger's Singh said. "That has alleviated some of the outflow pressure on the balance of payments."

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