

# BNM move unlikely to stem ringgit's fall

> Sharp reversal of capital flows in anticipation of US policy changes and Fed interest rate increase

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**PETALING JAYA:** Bank Negara Malaysia's (BNM) move to clamp down on ringgit non-deliverable forward (NDF) trades, which is aimed at curbing speculative activity on the offshore market, is unlikely to stem the fall in the ringgit, which has weakened 1.73% against the US dollar over the past week.

"It is not going to stop the (downward) trend because what is happening really is that after Donald Trump was elected (as the next US president), there has been a sharp reversal of capital flows in anticipation of policy changes.

"All these will induce change in global forex trading, and that is something the central bank cannot control," an economist with a local bank told SunBiz.

BNM governor Datuk Muhammad Ibrahim, who took office on May 1, is seen to be more aggressive in dealing with the micro issue than his predecessor, Tan Sri Dr Zeti Akhtar Aziz.

"Zeti was a macro policy governor. As long as the macro fundamentals are nice, she will leave some leeway for the market. As for the new governor, he has the experience in the treasury and forex markets and he is micro managing the situation," the economist noted.

However, with micro measures being put in place, he said, it could be somewhat negative for the market, especially the foreigners, who always want a free market.

"But in these circumstances, as Malaysia is small and offshore ringgit trading is very thin, speculation can actually get out of hand. That's why the intention is to curb that speculative element and make sure that the ringgit is still being facilitated, but more for underlying trade and investment," he explained.

The economist said speculative activity could become "out of control" if the ringgit continues on a downward spiral. "If the ringgit breaches the



A foreign currency money changer in Kuala Lumpur. Investors are buying US dollars due to the Fed's repeated signals of an imminent interest rate increase, says forex broker FXTM.

previous low of 4.44, then it will lead to another round of speculation. His (the governor's) intention is to make sure that the ringgit is not out of line of what's happening," he added.

The ringgit, which weakened 0.54% to 4.4183 against the US dollar as at 5pm last Friday, has been declining in the past eight trading days, its longest downward streak for more than a year. The Malaysian currency has lost 2.84% year to date.

It was reported last Friday that BNM was intervening in the market to prevent further punishment of the ringgit.

BNM, which does not recognise offshore trading of the ringgit due to the speculative positioning, has asked onshore banks to stop facilitating any NDF trades in the ringgit as well as avoid engaging with any non-resident banks that are suspected of offshore ringgit trading.

On Saturday, Muhammad said several foreign exchange (forex) traders in the domestic market were observed to be looking towards the NDF market for cues in determining the opening market price for the ringgit, which led to the inadvertent import of the NDF volatility into the onshore market.

Investors generally use the NDF market to exchange the ringgit due to the restrictions in the domestic market.

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executive director Lee Heng Guie, meanwhile, is of the view that the market will continue to see volatility ahead due to the BNM Monetary Policy Committee meeting this week and the US Federal Reserve (Fed) meeting next month.

"When sentiment is weak, you are bound to see volatility ... most important is that the ringgit remains tradeable and the liquidity is there. That whatever trade or investment will be facilitated," he noted.

Given the heightened uncertainty in the forex market, FXTM vice-president of market research Jameel Ahmad said, it is difficult to provide a projection on the ringgit movement over the next couple of months.

"What investors need to focus on at the moment is the present and the constant pressure that the emerging market currencies (and even global) are facing following the resurgence in US dollar demand," he told SunBiz.

Jameel said investors are buying the US dollar following the repeated signals by the Fed of its intentions to raise interest rates in December.

"The financial markets are being completely driven by the US dollar at present, with woes for the emerging market currencies returning and even major global currencies hitting milestone lows against the US dollar."