

Ringgit weakens further

Prospects of further Fed rate hikes dampen sentiment

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PETALING JAYA: The ringgit fell in tandem with other Asian currencies, at one point weakening to 4.480 to the US dollar as investors continue to pull funds out of emerging markets following the US Federal Reserve signal of more rate hikes next year.

The local currency, which closed at 4.478 last Friday against the greenback, fell to a low not seen since last September, and according to analysts, may even drop lower than the Asian financial crisis low of 4.712 seen in January 1998.

Johns Hopkins University's Eni professor of international economics Michael Plummer told *StarBiz* the rise in benchmark US interest rates would weaken the ringgit further. He sees the US dollar-ringgit cross rates trading in a 10-percentage-point range in the second-half of next year.

The Fed raised the overnight lending rate by 25 basis points to a range of 0.50% to 0.75% last week. Plummer said investors were also anticipating that increased government spending on infrastructure and tax cuts could spur economic growth. Economists had argued that the shortage of overall demand had held back the US economy, and that the US government should take advantage of the low interest rate environment by issuing debt to fund spending on infrastructure projects.

Plummer said the market's anticipation that a Donald Trump administration would pave the way for deregulation and lower taxes could potentially weaken the ringgit.

Meanwhile, Malaysian Rating Corp Bhd chief economist Nor Zahidi Alias said the prospects for the ringgit were clouded by not only US fiscal and monetary policies, but also the high foreign holdings of Malaysian sovereign bonds.

He noted that this has become "a thorny issue" because this makes the ringgit more vulnerable to further sell-offs of Malaysian

ARCADÉ MONEY CHANGERS (LABUAN)

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CURRENCY	WE BUY	WE SELL	CURRENCY	WE BUY	WE SELL
1 US DOLLAR	4.43	4.47	1 NEW ZEALAND	3.12	3.20
1 STERLING POUNDS	5.57	5.66	1 CANADA DOLLAR	3.30	3.42
1 EURO	4.62	4.72	100 THAILAND BHAT	12.30	12.60
1 AUSTRALIAN DOLLAR	3.26	3.33	100 INDIAN RUPEES	00000	00000
1 SINGAPORE DOLLAR	3.06	3.11	100 SAUDI RIYALS	116	122
1000 JAPANESE YEN	37.70	38.60	100 NEW TAIWAN DOLLAR	14.30	14.60
100 CHINESE RENMINBI	63.40	64.20	1 SWISS FRANC	4.25	4.42
100 HONG KONG \$	57.40	58.00	100 PHILIPPINE PESO	8.80	9.30
1M INDONESIA RUPIAH	330	336	1000 KOREA WON	3.78	3.88
100 UAE DIRHAMS	118	123	1M VIETNAM DONG	175	200

NO COMMISSION/NO CHARGES OTHER CURRENCIES UPON REQUEST

Currency woes: A screen displaying various foreign currency exchange rates including the US dollar against the ringgit is seen at a money changer in Kuala Lumpur. The ringgit hit a low not seen since last September as emerging-market currencies are hammered by a flight of capital fuelled by an expected rise in US interest rates next year. — AFP

bonds, where yields have risen. In November alone, foreign holdings of Malaysian bonds declined by about RM20bil, causing a 6% depreciation of the ringgit.

"If such a scenario were to unfold again, the strength of the US dollar will likely continue to exert downward pressure on regional currencies — the ringgit included," Nor Zahidi said.

However, the medium-term prospect for the ringgit remains favourable as Asia will still be a global growth driver, and the Malaysian economy will likely return to its trend growth, auguring well for the ringgit in the medium term.

Bloomberg quoted Second Finance Minister Datuk Johari Abdul Ghani as saying that the current situation "is a turbulence, not a cri-

sis", and that the ringgit will eventually recover to its fair value.

"It is a confluence of the relative decline in cash metrics, high foreign holdings of bonds being sold off, investors' trepidation about forex controls and the underlying political or headline risks," said Vishnu Varathan, a senior economist at Mizuho Bank Ltd in Singapore.

Johari added that while capital flight would be unavoidable, foreign investors will return when things stabilise.

Foreign funds halted a seven-week selling streak in Malaysian stocks, buying a net RM44mil of shares last week, according to a note by MIDF Amanah Investment.

Outflows have slowed to RM2.5bil this year, compared with RM19.5bil in 2015, MIDF said.