

Ringgit, Bursa Malaysia hit

Local currency not spared inflation cutting across globe

KUALA LUMPUR: At the beginning of 2022, the outlook for both the ringgit and Bursa Malaysia looked promising as pandemic threats had shrunk.

The local currency stood at RM4.1715 to the US dollar while the benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) was at 1,549.05 when the new year's first trading day (Jan 3) ended.

Even with the emergence of the war in Ukraine in late February, the ringgit and local bourse continued to thrive until the markets upended as United States policy-tightening headlines propped the greenback.

The responses to external shocks were broadly in line with the situation abroad, which saw capital flights occurring globally.

The ringgit fell to a historic low of RM4.7465 against the US dollar on Nov 4, 2022, as inflation started to cut a swathe across the globe and at home.

This was its worst level since the currency recorded RM4.7125 on Jan 9, 1998, as a result of the Asian financial crisis.

The pound, euro and yen were among the major currencies also



hitting fresh all-time lows.

Bank Islam Malaysia Bhd chief economist Firdaos Rosli said that aside from being hit by bets on further rate hikes by the US Federal Reserve (Fed) in its bid to tame inflation, the local note has been pressured by the widening interest rate differential between the Federal Funds Rate (FFR) and Overnight Policy Rate (OPR).

Firdaos said the reduced foreign portfolio investments into Malaysia of late have put the ringgit under pressure as well.

He said although the foreign funds flow into equities for the first 11 months of 2022 was positive at RM5.68bil, foreign investors sold their Malaysian bond holdings worth RM12.35bil during the period.

"Currencies of emerging countries will continue to be under pres-

sure as the Fed has yet to indicate its desire to pivot as long as US inflation continues to trend way above its 2.00% target rate," he told Bernama.

Year to date, the ringgit has lost 6.0% of its value against the US dollar, while Bursa Malaysia was 4.8% down as of Dec 23, 2022.

Nevertheless, he reckoned that the ringgit had recovered some losses since the second week of November 2022.

Hence he said, the local unit could end the year within the range of RM4.46 to RM4.49 against the greenback.

Firdaos also said that the weaker ringgit could be a catalyst for boosting Malaysia's net export growth as import growth decelerates.

On a year-on-year basis, export growth caught up with import growth for the first time this year in November 2022 (both up by 15.6%), suggesting favourable trade balance growth in the immediate term.

He said this could lend support to the Gross Domestic Product (GDP) for the fourth quarter of 2022 and, subsequently, full-year 2022, for which he forecast an 8.1% growth.

"We are pencilling in Malaysia's GDP growth to come in at 4.5% in 2023, and 4.7% in 2024.

"Should the reopening of China's economy intensify, it could give the necessary buffer for the positive outlook of the ringgit for the end of this year," he noted.

Meanwhile, he reckoned that the FBM KLCI could end 2022 at around the 1,560 level.

Juwai IQI chief economist Shan Saeed projected that the ringgit would maintain its structural stability in 2023 with the US dollar going into depreciation mode.

"The ringgit should be between RM4.10 and RM4.37 in 2023 based on the premise that higher oil prices, economic stability and, above all, depreciating US dollar come back into the market.

He said the ringgit had been appreciating 8.14% in the last five weeks against the US dollar.

Meanwhile, CGS-CIMB Securities Sdn Bhd expected the FBM KLCI to gain 8% to end 2023 at 1,633 amid the potential return of foreign funds, merger and acquisition activities, and clarity on the new government policies.