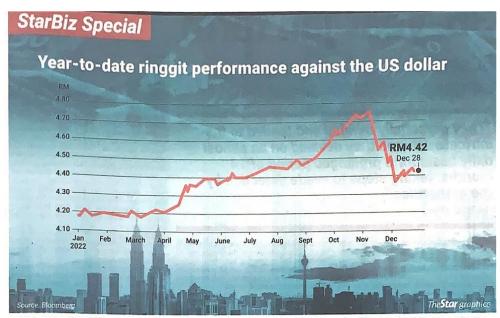
KERATAN AKHBAR

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Worst is over for ringgit?



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Local currency may find solace in 2023

ECONOMY

By GANESHWARAN KANA ganeshwaran@thestar.com.my

PETALING JAYA: After a turbulent year for the ringgit, the market has a mixed views on how the local currency would fare in 2023.

how the local currency would fare in 2023. Nevertheless, analysts strongly agree on one common point – the ringgit is far from likely to appreciate to the 3.00 to 3.99-mark against the US dollar. Some economists said the ringgit, which breached the 4.70-mark against the US dol-lar in October, may find solace in 2023 as

the United States' Federal Reserve (Fed) is expected to turn less aggressive on its rate

"Our economics team expects an appreciation bias to the ringgit, averaging US dollar-ringgit exchange rate of 4.34 in 2023 (2022 forecast: 4.40) to end the year at 4.30."

Hong Leong Investment Bank Research

This may lead to further easing of the US dollar and, in turn, allow the appreciation of the ringgit.

In fact, the US Dollar Index – a common measure of the greenback's strength – has been on a downtrend since early November.

However, analysts also believe that several headwinds, including the risk of economic slowdown, may limit the ringgit's recov-

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UNIT KOMUNIKASI KORPORAT KEMENTERIAN EKONOMI

Economists see a stable domestic economy next year

Malaysia University of Science and Technology economics professor Geoffrey Williams expects a "normalisation of the exchange rate" against the greenback to around RM4.20 to RM4.30 per US dollar. Speaking with StarBiz, he also anticipated similar normalisation against regional currencies.

rencies.

However, he cautioned that there are many

However, he cautioned that there are many risks in the global financial environment next year, and hence, any volatility in exchange rates is not predictable.

"Next year should be more stable in terms of the domestic economy because the rebound from the luckdowns will subside, there will be no pre-election stimulus and the pressure on inflation will ease off.

"So we expect normal economic growth of 4% to 5% and inflation normalising to around 5% to 2.5%.

"We also expect more stable interest rates and hopefully a pause on interest rates and hopefully a pause on interest rates takes.

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This is a best case scenario," he said.
Hong Leong Investment Bank (HLIB)
Research said the worst could be over for the

policy tightening, HLIB Research said the pace of US federal fund rate (FRP.Malaysia's overnight policy rate (OPR) spread widening is expected to slow down.

This should bode well for the ringgit.

The last episode of FFR-OPR spread videning happened from December 2018. Intalling 225 basis points.

Despite the spread-widening duration lasing three years, the peak of ringgits weakness happened in December 2016 fone year in that three-year cycle) and appreciated thereafter.

We are inclined to believe the situation is "We are inclined to believe the situation is "We are inclined to believe the situation is "State of the peak of the pack of the pack

somewhat similar this time around, and that we are now past the peak of the ringgit's

weakness.
"Our economics team expects an appreciation bias to the ringgit, averaging US dolar-ringgit exchange rate of 4.34 in 2023 (2022 forecast: 4.40) to end the year at 4.30," it said

484 to 58% and inflation normalising to around 728 to 2.59%.

"We also expect more stable interest rates and hopefully a pause on interest rate hikes. This is a best case scenario," he said. Hong Leong Investment Bank (HLIB) Research said the worst could be over for the ringgit.

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With the Fed decelerating its monetary

temporary.

It added that the economic slowdown in the first half of 2023 (1H23) may give the US

the first half of 2023 (1H23) may give the US dollar an advantage.

"In 2H23, however, the ringgit could strengthen, especially if global demand improves.

"We expect 2023 US dollar-ringgit exchange rate to average 4.50 (2022 forecast: 4.40) with end-2023 rate at 4.42 (end-2022 forecast: 4.43); the research house said. CGS-UMB Research also said the ringgit's stabilisation is supported by Bank Negara's intervention and the country's strong economic fundamentals.

Meanwhile, RHB Research believes the eco-

nomic dynamics that led to significant weak-ening of the ringgit previously have reversed course and are likely to be less important in

2023.
The research house said that in 2022, Malaysia's currency had at one point been one of the weakest currencies against the US dollar on a regional basis.
The main reason was a domestic lack of confidence in the ringgit, rather than just the US dollar stronghening.

US dollar strengthening.
Looking ahead, however, RHB Research
said the domestic sentiment is likely to continue to improve as the new government announces fiscal, inflation and infrastructure

announces fiscal, inflation and infrastructure sector policy reforms. This will result in the declining of the US dollar hoarding during the course of 2023. "This in itself will be a key catalyst for the US dollar-ringgit exchange rate ending 2023 in the 4.20-4.30 range," it added.

RHB Research highlighted the sovereign rating risks on the ringgit's performance in 2023. "Should government finances worsen further, we cannot rule out a downgrade of Malaysia's sovereign rading. "This could raise bond yields, lift funding costs and accelerate the outflow of capital, which could pressure the ringgit even more."