

KERATAN AKHBAR

TARIKH : 29 DISEMBER 2022
AKHBAR : THE STAR
MUKA SURAT : 1 & 2 (Starbiz)

Worst is over for ringgit?



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Local currency may find solace in 2023

ECONOMY

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PETALING JAYA: After a turbulent year for the ringgit, the market has a mixed views on 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 dollar in October, may find solace in 2023 as the United States' Federal Reserve (Fed) is expected to turn less aggressive on its rate hike.

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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 recovery.

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Economists see a stable domestic economy next year

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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.

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 lockdowns 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 2% to 2.5%.

"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.

With the Fed decelerating its monetary

policy tightening, HLIB Research said the pace of US' federal fund rate (FFR)-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 widening happened from December 2015 to December 2018, totalling 225 basis points.

"Despite the spread-widening duration lasting three years, the peak of ringgit's weakness happened in December 2016 (one year into that three-year cycle) and appreciated thereafter.

"We are inclined to believe the situation is 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 dollar-ringgit exchange rate of 4.34 in 2023 (2022 forecast: 4.40) to end the year at 4.30," it said in a note.

In addition, HLIB Research said China's loosening of Covid-19 restrictions may also lead to higher demand for commodities, which may spur interest in commodity currencies and trade partners, including Malaysia.

The research house pointed out that the ringgit's expected appreciation would be pos-

itive for Bursa Malaysia.

With the FFR-OPR spread likely to peak in 2023, this may help arrest weakness on Bursa.

"Secondly, our case for a ringgit appreciation bias in 2023 is also good for the market - broadly, the FBM KLCI has reacted positively during times of ringgit strength, vice-versa," it added.

CGS-CIMB Research also concurs that a stronger ringgit will boost interest in the Malaysian equity market.

However, it said the recent ringgit strength, as seen from November onwards, could be temporary.

It added that the economic slowdown in 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-CIMB 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-

nomics dynamics that led to significant weakening 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 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 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 rating.

"This could raise bond yields, lift funding costs and accelerate the outflow of capital, which could pressure the ringgit even more."