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ECONOMIC REVIEW | 2019 Ringgit

Ringgit Revised Downward as More Risks Emerge

- *Norway's SWF's decision and FTSE Russell's warning remain a threat. The decision of Norway's sovereign wealth fund (SWF) to reduce exposure to emerging market including Malaysia is expected to see a substantial outflow from Malaysian bond market over time, putting pressure on Ringgit. In addition, the possible downgrade of Malaysian bond market by FTSE Russell will continue to haunt Ringgit until Sep-19, the deadline given.*
- *BNM rate cut impact on Ringgit Currency. Referring to our report titled "OPR Cut to Stimulate Investment & Domestic Spending Activities" released yesterday, BNM had cut the OPR by 25bps, resulting in the change in OPR from 3.25% to 3.00%. Lower interest rates tend to be unattractive for foreign investments, reducing the demand for and relative value of the currency.*
- *We revised downward our end-2019 Ringgit target to RM4.10 against the USD. Factoring in all the above, we revised our Ringgit forecast. We foresee Ringgit at USD/RM4.10 by year-end of 2019, 2% decrease from USD/RM4.00 previously forecasted.*

Norway's SWF's decision and FTSE Russell's warning remain a threat. The decision of Norway's sovereign wealth fund (SWF) to reduce exposure to emerging market including Malaysia is expected to see a substantial outflow from Malaysian bond market over time, putting pressure on Ringgit. In addition, the possible downgrade of Malaysian bond market by FTSE Russell will continue to haunt Ringgit until Sep-19, the deadline given. If the downgrade takes place, Malaysia would be excluded from the World Government Bond Index (WGBI) for the first time since 2007 hence further outflow from domestic bond market could be seen, heightening chances for more Ringgit's depreciation.

Concerns on Trump's move linger. While a trade deal between the US and China is expected to provide a relief to rest of the world, fears flare as the delicate trade talks could collapse. Trump's latest threat to raise tariffs on USD200b worth of Chinese goods to 25% from 10% effective this Friday has escalated trade tensions. If the talks fail, it will further dampen global trade and investment activities including Malaysia's and eventually weigh on growth. Weak exports demand is likely to narrow Malaysia's current account surplus, contributing to Ringgit weakness.

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Some upside factors are still in place. Despite all the downside risks to Ringgit, gradual pick-up in commodity prices particularly Brent crude oil, better fiscal position of Malaysian government, higher investment and domestic consumption activities likely resulting from OPR cut and steady economy growth will be supportive to Ringgit.

We revised downward our end-2019 Ringgit target to RM4.10 against the USD. Factoring in all the above, we revised our Ringgit forecast. We foresee Ringgit at USD/RM4.10 by year-end of 2019, 2% decrease from USD/RM4.00 previously forecasted. Similarly, we expect Ringgit to average at a higher rate of USD/RM4.12 in 2019 compared to USD/RM4.05 previously estimated.

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