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Ringgit likely to hit 4.20-4.40 against us dollar by year-end

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KUALA LUMPUR, Feb 27 —The ringgit is expected to hit 4.20-4.40 against the US dollar by year-end in view of the United States (US) Federal Reserve's (Fed) likely interest rate cut decision in anticipation of an economic recession in the US this year, said Capital Dynamics Asset Management Sdn Bhd managing director Tan Teng Boo.

He said the interest rate decision would have a positive impact on the ringgit and other currencies, such as the Thai baht and the Indonesian rupiah, as well as on currencies of the developed countries, namely the Japanese yen.

"It all depends on the US Fed and has nothing to do with our (local) economic policy.

“The recent (world currencies depreciation) was not just felt by the ringgit, but other currencies as well, including the Japanese yen which plunged by 50 per cent — a currency that was supposed to be the strongest currency once upon a time,” he said.

Tan was speaking at a media briefing on the stock market titled “Is Investing in Malaysia Still Attractive Now?” here, today.

Commenting on when the recession might happen, he said it depends on major global development, including the Red Sea crisis and the Panama Canal drought, which have been causing higher good prices, thus potentially leading to higher US inflation.

Tan said that other leading indicators, such as the unemployment data, also indicated that the US job market would remain tight, impacting the country’s wages and inflation.
Additionally, the headline and core Consumer Price Index (CPI), coupled with the Producer Price Index (PPI), also came in higher than expected.

“The current feeling is that inflation will return, and the US Fed has no choice but to increase the interest rate again.

“Of course, with the interest rate increase at that point in time, emerging countries will suffer again but that will most likely be the factor to push the US economy into recession,” he said.

On a month-on-month (m-o-m) basis, headline CPI rose by 0.3 per cent in January 2024, while excluding the food and energy components, core CPI increased by 0.4 per cent.

In the same month, the US seasonally adjusted PPI for final demand increased by 0.3 per cent m-o-m, while excluding foods, energy, and trade prices, core PPI rose by 0.6 per cent.

Tan said the ringgit has been affected by its nominal exchange rate, but valuation-wise, the local currency is currently undervalued.
“The US Fed had been having very aggressive fiscal spending in a very irresponsible manner, and their debt is very high at 120 per cent of gross domestic product, which I think is the highest in American history since World War II.

“So, you have the largest economy behaving irresponsibly, and of course, that affects the rest of the world and Malaysia being a developing country was (also) affected,” he said.

Tan stressed that it was unfair to blame the government for the depreciation of ringgit versus the greenback.

“It (should be) based on facts. To accuse the current government that it caused the ringgit to weaken, I think that is a lot of nonsense and not based on facts or analysis. It is (just) politically driven (and) it’s wrong,” he said.

Tan expects that Bank Negara Malaysia (BNM) will keep the overnight policy rate (OPR) unchanged for the remainder of the year.

Nevertheless, he said interest rate differential will not forever determine currency rate, as the indicator to look at in determining the long-term direction of currency should be the structural factors.

He said the global trade environment will likely recover in 2024, buoyed by the expected strong rebound in China's economy, and this development is positive for Malaysia's current account surplus.

"A country is competitive when it is able to consistently experience current account surplus," he said.

During its first meeting of the year on Jan 24, BNM's Monetary Policy Committee decided to maintain the OPR at 3.00 per cent, marking the fourth consecutive meeting that the committee has opted to hold the key rate.

— Bernama