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Abstract
The article reports on the further appreciation for the Malaysian ringgit as forecasted throughout 2008 and 2009. The trend was impacted by the robust macroeconomic fundamentals and official tolerance for a stronger currency. However, two risks have been anticipated for the recent forecast including a sharper slowdown in the U.S. which will further depress Malaysian export growth and thus weigh on the currency and the expected interest rate cuts in 2008.

MYR: Further Gains In 2008

BMI View: The ringgit is currently experiencing a period of weakness on the back of renewed risk aversion, as fears over the US economy and global credit markets keeps investors wary of emerging market assets. With technical indicators pointing towards a potential short-term bounce for the dollar, we expect MYR weakness to persist in the near term. Key support arrives at MYR3.39/US$. However, expectations of a US interest rate cut rate may provide a boost to the ringgit. A break above MYR3.36/US$ could precipitate a return to the MYR3.32/US$ area.

Core View – Robust macroeconomic fundamentals and official tolerance for a stronger currency point towards further gradual appreciation for the ringgit throughout 2008 and 2009. Economic growth surprised on the upside in Q307, coming in at 6.7% y-o-y (beating market forecasts of a 5.8% expansion) as strong domestic demand growth compensated for the ongoing downturn in the country's export sector.

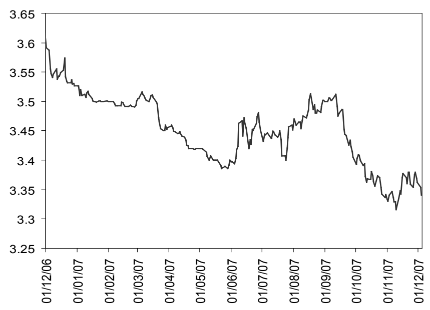
While we are forecasting further misery for Malaysian exports going forward, as the US economy continues to suffer, healthy private and public consumption and ongoing robust growth in the services sector should help maintain the economic momentum. We are currently forecasting real GDP growth of 5.5% in 2008 and 2009, but recognise that if the current consumption boom sustains itself, there are upside risks to these projections.

Furthermore, the central bank's ongoing commitment to liberalising the country's foreign exchange rules also suggests further appreciation going forward. **Bank Negara Malaysia** (BNM) announced the latest changes to its foreign exchange administration rules on September 26, which included eliminating the registration requirements (although not approval requirements) for forward foreign exchange contracts, property investment loans and foreign currency investments up to MYR50mn. While the latest moves by Malaysia's central bank to liberalise FX rules are unlikely to see the currency market open fully, they could draw higher levels of capital inflows to Malaysia as investors are tempted by the lower cost of doing business, which will consequently add to the upward pressure on the currency.

Risks To Outlook – There are two key risks to our current forecasts. The first is a sharper than anticipated slowdown in the US, which will further depress Malaysian export growth and thus weigh on the currency. The second is the expectation of two 25bps interest rate cuts in 2008 as the central bank seeks to further boost domestic consumption, which will consequently apply downward pressure on the currency. This risk will be heightened in the event of a more pronounced downturn in the US than currently expected. However,

Riding The Ringgit

Malaysia – Exchange Rate, MYR/US$



Source: BMI

with inflationary pressures rising across the region, BNM may be forced to leave rates on hold. While this will help support currency appreciation, it may impact negatively on consumption. This will drag upon economic growth, especially if exports suffer more than expected, and thus sully the current positive economic picture.

DATA & FORECASTS

	2006	2007f	Latest Period		2008f	2009f
Population, mn [11]	25.80	26.24	-	-	26.68	27.11
Nominal GDP, US$bn [12]	156.20	179.60	-	-	198.40	216.30
GDP per capita, US$ [12]	6,053	6,844	-	-	7,437	7,980
Real GDP growth, % change y-o-y [1,13]	5.9	5.5	6.7	Jul-Sep	5.5	5.5
Industrial production index, % y-o-y, ave [13]	5.1	3.9	3.4	Sep	7.2	5.6
Fiscal revenue, MYRbn [2,14]	115.6	134.8	-	-	148.2	162.8
Fiscal expenditure, MYRbn [3,14]	134.0	155.4	-	-	169.4	184.6
Budget balance, % of GDP [4,12]	-3.2	-3.3	-	-	-3.2	-3.0
Consumer prices, % y-o-y, ave [5,12]	3.6	1.8	1.9	Oct	2.4	2.9
Lending rate, %, eop [6,11]	6.80	6.30	-	-	6.20	6.20
Exchange rate MYR/US$, eop [15]	3.53	3.30	3.34	4-Dec	3.10	2.90
Imports, US$bn [7,16]	137.30	140.25	106.70	Jan-Sep	157.38	175.73
Exports, US$bn [8,16]	168.60	174.47	127.50	Jan-Sep	190.93	207.23
Trade balance, US$bn [16]	31.30	32.54	20.80	Jan-Sep	31.64	29.22
Current account, US$bn [16]	26.74	23.25	-	-	21.73	19.14
Current account, % of GDP [12]	17.12	12.98	-	-	11.01	8.89
Forex reserves (- gold), US$bn [9,15]	82.24	93.50	93.32	31-Oct	100.82	112.61
Import cover, months g&s [10,12]	7.5	7.8	-	-	7.7	7.7
Foreign debt, US$bn [14]	53.4	54.2	-	-	56.9	59.8
Foreign debt, % of GDP [12]	34.2	30.2	-	-	28.7	27.6

Notes: f BMI forecasts. 1 The Oxford Economic Forecasting model is used when generating forecasts.; 2 Federal Government, Total Revenue & Grants; 3 Federal Government, Total Expenditure & Loans Minus Repayments; 4 Federal Government; 5 Chain-weighted index (2000 = 100), sourcing from IMF and Bank Negara Malaysia; 6 Modes of the range of rates quoted for the base lending rate. Beginning in Jan 1996, weighted average base lending rate charged by commercial banks; 7 Imports of goods, free on board; 8 Exports of goods, free on board; 9 Excluding gold; 10 Number of months of gross imports whose cost would be covered by a country's monetary reserves; Sources: 11 International Monetary Fund. 12 BMI calculation; 13 Statistics Department, Malaysia; 14 Bank Negara Malaysia; 15 IMF; 16 International Monetary Fund and Statistical Department, Malaysia.

BMI View: CPI inflation rose 1.9% y-o-y in October to match August's eight-month high, as higher food and oil prices continue to feed into the economy. Food and non-alcoholic beverages rose 2.8% y-o-y, reflecting the growing global trend of 'agflation', while transport and utility costs rose 2.5% and 1.3% respectively, as global oil prices continue to head higher. Nonetheless, with well anchored inflationary expectations and further currency strength anticipated, price growth is likely to remain well contained. While we are forecasting average inflation to rise to 2.4% from an expected 1.8% in 2007, that this figure still remains within the central bank's expectations, and as such maintain our forecast for two 25bps interest rate cuts in 2008. However, we now suggest that the first of these cuts will not take place until Q208.