A few days ago, a few news sites published an article by a Goh Wei Liang. One of the statements he made in his article was this.

“And in just the past month, I saw how Malaysians transform from being constitutional experts, to aviation analysts and now economics.” – Goh Wei Liang

This article got quite a bit of attention too. It even triggered a reply and a reply to a reply! And while we don’t necessarily agree with everything what he wrote (like how our Ringgit is depreciating only because of the strengthening of the US Dollar), he did raise a good question la. And that question is the exact title of his article.
But it's no secret la, the Ringgit IS doing badly now, and maybe what we need to do is understand the situation first before doing anything la. So yea, let's get down to business.

[Updated 18/9/15] Since this article was published, the Ringgit fell as far as RM4.36 per USD, but in the past few days, it has improved to about RM4.25 per USD (still lower than when we screen-capped the picture above though). We reckon it has something to do with this chunk of money which we're currently writing an article about so stay tuned. :B

WSJ reported that it has fallen 12.2% this year so far. To put things in perspective, it fell 6.2% for the WHOLE of last year (and that is already considered bad). As of time of writing, the Ringgit is now the year’s worst performing currency in Asia. And quite frankly, many of are wondering how did things escalate (or descend) so quickly?

And the way things are going, some have even started to compare the situation to 1997/1998. During the times of the Asian Financial Crisis.

Some have also said that we should implement the solution to the crisis in 1997, which was to peg the Ringgit to the US Dollar.
But before anyone can conclusively say anything, there’s a lot of like, various factors to take into consideration.

So we explore this in our conversations on this topic with 2 people. One is the Director of EquitiesTracker.com, Alvin Vong, and the other is a banker and analyst who prefers to remain anonymous so we’ll just refer to him as Bankman from here on.

So without further ado, here are 4 reasons why pegging the Ringgit may not work like last time.

1. Pegging the ringgit actually costs money one ya?

Sadly, it’s not as simple as this.

If the gomen decides to peg the ringgit, it’s not as easy as just telling

| “Oi! Don’t sell ringgit at 4.11. Sell at 3.8 ok?“.

Think of the RINGGIT like Malaysia’s STOCK PRICE. To keep the price of the ringgit at a certain price (relative to USD), gomen actually needs to manipulate the market through forces of supply and demand.

| VERY SIMPLY, when RM goes down, gomen buys more ringgit to create demand for it using foreign reserves, when RM goes up, they can sell more ringgit back to the market and build back the foreign reserves.

This article talks about how it works in detail. It’s also interesting to note that Bankman said this about our overseas stash.
“It would be very costly to defend the currency at this point of time. We have already wasted 5 Billion USD in the last 2 weeks of July 2015, and probably more this month.” – Bankman

The Star and The Malay Mail Online talked about it too! In fact, we've already spent… USD$25 billion DEFENDING IT SINCE JULY 2014! And sure enough, there are rumours that Bank Negara has stopped defending the ringgit for now. We'll go into why a bit later.

But if that's the case, why did we peg the Ringgit back in 1997/1998!?!? Well basically, it was a ribut tahi back then – a very uncertain time for all currencies – look at how our Ringgit fluctuated back then versus the USD. In 1998 (crisis started in July 1997 but hit us a bit later), the Ringgit even fell all the way down to RM4.885 per USD. See how uppy-downy it was? AND see how after we pegged it, it doesn't move?

![MYR/USD graph from late Nov 1997-early Jan 1999. Straight line was when it was pegged.](image)

Now imagine if you were looking to start a business in Malaysia. A bit scared right? Let's say you budget RM2.5m for your business, but tomorrow all of a sudden it costs RM4m, then next day it costs RM1m. WAHLAU STRESS!

So to foreign investors, this made it hard to invest in building businesses in Malaysia, like buying a product who's price keeps changing everyday. Some people, purportedly even made money from this situation, which is why at some point, Tun M said ENOUGH… the Ringgit will be 3.8 and the gomen will pay to make sure it stays there.

“Back in 1998, Mahathir ignored the advice of the International Monetary Fund in taking the steps he did to stabilize the ringgit, including a peg of 3.8 to the dollar. The IMF, which called the currency link a “retrograde step” at the time, later acknowledged it was a “stability anchor.”” – As quoted from Bloomberg.
[Updated 27/8/15] CILISOS reader disqus_t5CUiFAotm informed us that although the Ringgit was pegged back in 1997/1998, it wasn’t pegged in the conventional manner. A normal currency peg would see the gomen of a country buy and sell their currency to maintain it at a certain price. But what Malaysia did back in 1997/1998 was effectively **ban the Ringgit from being traded overseas**. This stabilised the Ringgit because **Malaysia then had full control of the Ringgit**.

This CERTAINTY of price in the middle of the **Asian Financial poopstorm** made investors alot more comfortable, and because of that, Malaysia’s economy weathered the storm alot better than its counterparts.

So what does that graph look like today?

**2. The USD is dem powderful now.**

So back in 1997, Ringgit to USD was going up and down and up and down. But now leh?

![Graph showing the depreciation of the Ringgit]

"The main factor for the depreciation of the Ringgit is **the strengthening of the USD and the weakening demand from China.**" – Alvin Vong

The USD is a very strange currency because it’s what OIL is bought with... and they used to buy ALOT. Problem now is, the US of A is **less dependant on foreign oil now than ever before**. So oil-producing economies across the world are all doing badly this year cos their main customer is now on an oil diet. (Here’s an article of some of the countries that are most heavily affected by the oil price drop. They don’t mention Malaysia but they mention Asia.)

In fact, Alvin mentions that other countries that rely heavily on oil exports, such as Russia, are **all feeling the pinch** of the combined factors of both the strengthening of the USD and the drop in oil prices.

![Image of Uncle Sam]

Yeaa uncle sam dun wan our oily malaysian dishes no more yo
As for Malaysia? Well it affects us too because a big chunk of our exports are actually oil and gas related stuff.

In a nutshell, we will quote Channel News Asia in summarising why our Ringgit is dropping.

“The Malaysian currency has been battered by continued strengthening of the US dollar and low oil prices.” – Channel News Asia

This is probably also WHY Bank Negara might have stopped defending the Ringgit. USD too strong adi so bohpian gotta just ride it out lor.

On the other hand, the changes in the economy of China is also having a huge impact on Malaysia. China is a country that controls it’s currency very tightly. Even if it’s currency, the Yuan (also known as Renminbi) is said to be determined by the market (like Malaysia today), China tries very hard to keep the value of it’s currency low. Why?

1. So that foreign countries can buy their stuff at a cheaper price.
2. So that imports are expensive, forcing people to buy local products instead

And in the past week, China lowered the value of their currency 3 times! How does that affect Malaysia? Well, China is the 2nd largest export market of Malaysia. Meaning we sell a lot of stuff to them la. And when their currency has less value, they would probably stop buying so much stuff, which also means buying less stuff from Malaysia.

Bankman also pointed out that Australia, another country that relies heavily on exports to China, also kena from China devaluing it’s currency, although probably less cos it’s affected by China, not the US demand for oil.

But even if the economy of these two countries contribute a lot to our economy, we still have other things that contribute to our economy right? Takkan everything depend on the economy of two countries ni? Yes, there are other factors involved (and yes it’s partially you-know-who), but first you should also know…

3. Our economy can tahan the Ringgit drop better this time (!)

“Although there are similarities in the movement of the ringgit between 1997/98 and today, the stark contrast was economic strength. In 1997 Malaysia had a current account deficit and a fiscal surplus. That situation reversed a year later and has been so ever since.” – The Star, 8 August 2015

Ya we know… gomen paper right? Even Najib said something similar. So sure you won’t believe right?

But here’s the shocker – both Alvin and Bankman also mentioned that we are in a stronger financial position to deal with the situation now. Alvin also believed that the falling Ringgit is something that the gomen of Malaysia had anticipated.

Articles like this & this also go to show that the gomen actually planned for the oil price drop since the beginning of the year.

On the other hand, articles like this & this show that Bank Negara are well aware of the situation.

Our Bank Negara governor, Tan Sri Zeti Aziz has also spoken up against pegging the Ringgit and that we had moved on from ‘capital controls’.

[Updated 17/9/15] Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz said this today about our financial situation.

“No, it isn’t doom and gloom, but we are not portraying a picture that everything is fine. We are experiencing a highly challenging period that we have so far been able to manage. And therefore the private
sector and consumers must also learn to manage this kind of environment.” – Tan Sri Dr Zeti Akhtar Aziz as quoted by The Malay Mail Online.

But despite saying that, she still believes that we are not in a financial crisis because we have a strong financial system and high foreign reserves levels.

“We are not heading towards a crisis in our country, and the reason why I can confidently say this is because we have had growth of about five per cent for several years now.” – Tan Sri Dr Zeti Akhtar Aziz as quoted by The Malay Mail Online.

Bankman also agreed that pegging the Ringgit would be a step backward for the country.

“Pegging the currency now would mean that we would’ve backtracked in time where we had weak economic policies. All the positives that was done by our Bank Negara back then would’ve been reversed and make us back into a third world country.” – Bankman

But while our financial system might be better…

4. Our currency problem now may not be just economical

“This is what I can say … I may contravene the law and be arrested for talking about an individual’s account when I leave this room,” – Tan Sri Zeti Akhtar Aziz jokingly to The Star, 14th Aug 2015

When even the governor of Bank Negara Malaysia jokes about being arrested, you know our country got problems yo. And looking around the internet we find that many people say the same. That the current POLITICAL situation in Malaysia is having an effect on our economy. Articles like this, this, this, & this (yeap, even Najib said so!) all attribute at least a part of the issue with the Ringgit dropping as political.

Alvin & Bankman say that the political situation of Malaysia has definitely affected the Ringgit. However they both had differing opinions to just HOW MUCH impact the political situation had on the Ringgit.

Alvin said this.

“Yes, political instability contributes to our currency depreciating but in my opinion it’s not the main factor.” – Alvin

Bankman however, said this.
“Government confidence is definitely impacting the strength in the Ringgit. Political instability increases risk and casts doubt to investors and businesses in the country.” – Bankman

Other parties are also somewhere in between.

“Fundamentally, the Malaysian economy is not that bad. It’s just a shame that the fundamentals are being overshadowed by domestic political developments,” ANZ’s Khoon Goh, as quoted by CNBC.

SO IF DON’T PEG THEN HOW!?

What we gather from all the experts we spoke to is that **SOME of the currency downturn is due to external factors**, but that there are **DEFINITELY internal factors as well**, and **neither can be solved by currency pegging**. Pegging the currency worked in a very specific scenario back in 1997, but because the conditions are different, it might not work the same today.

This article from The Malay Mail Online talks about how our solution shouldn’t be to go back to what we did before but something else altogether.

“The focus should be on addressing the underlying problems and not the adjustment mechanism which corrects itself once the root cause — in this case, confidence in the country’s administration — and rule of law is reestablished,” – Dr Yeah Kim Leng, dean of the school of business at the Malaysia University of Science and Technology, as quoted by The Malay Mail Online.

And we also found articles (here and here) talking about how Malaysia needs to restore investor confidence more than anything else to solve our current crisis.

Our PM’s very own brother was quoted as saying that if it were purely based on the economy, our Ringgit should be about RM3.70 per USD now but that is not the case due to investor sentiment.

But as to what can our country actually do to restore confidence? Well, this letter to MalaysiaKini by Ramon Navaratnam talks about a number of things the gomen can do to restore that confidence, and one of his statements is this.

“**Transparency and integrity are basic prerequisites of good governance**, which strengthens and sustains public confidence in government and good governance. Hence, they must be upheld at all costs all the time, to strengthen our very foundations as a progressive and successful nation and not one that could be failing.” – Ramon Navaratnam, as quoted by MalaysiaKini.
So yea. TLDR – Don’t peg currency.

#1MDB.

Haiz.