

MALAYSIAN RINGGIT TO FACE FINANCIAL MARKETS AFTER PEG REMOVED

KUALA LUMPUR, (AFP) – The value of the Malaysian ringgit will be determined by market forces for the first time in seven years after the central bank removed the peg to the dollar and introduced a managed float.

Major commercial banks are to begin posting buy and sell quotes for the ringgit from Friday morning, which will guide trading in the currency, banking sources said.

The central Bank Negara is not expected to issue a reference quote for trading in the ringgit, which had been pegged at 3.80 to the US dollar, but will participate in the market as one of the players.

Announcing the managed float late Thursday, central bank governor Zeti Akhtar Aziz said the ringgit had not been internationalized and therefore would not be traded offshore.

Analysts expect the ringgit, which was widely seen as undervalued, will appreciate within a range from 3.50 to 3.70 to the dollar.

The exchange rate under a managed float, which values the ringgit against a basket of currencies, “is not expected to deviate significantly from the current prevailing level,” Bank Negara said in a statement Thursday.

Mohamad pegged the ringgit and imposed capital controls in 1998 to insulate the country from the fallout of the Asian crisis.

But speculation that China would adjust its own currency peg and allow the yuan to rise had in recent months put pressure on Malaysian authorities to prepare to follow suit.

China on Thursday revalued its currency for the first time in about a decade, pegging the yuan to the dollar at 8.11 while also scrapping the fixed link with the dollar in favour of a basket of currencies.

The yuan, or renminbi, was previously fixed in a narrow range around 8.28 to the dollar, which the US and Europe Union claimed undervalued the Chinese currency and gave its exports an unfair competitive advantage.

Malaysia allowed swiftly and announced the managed float, although it has declined to reveal which currencies the ringgit will be valued against.