The Ringgit Revisited

Beneficiary of a shifting dollar order

OVERVIEW

- We revise our 2025 year-end ringgit forecast to 4.08/USD, citing clearer signs of a structural shift in global currency dynamics. De-dollarisation, once thought as a decade-long process, is accelerating. With rising US fiscal risks, the ringgit appears set to return to its pre-COVID trading range.
- The USD's supremacy is no longer absolute. Central banks are diversifying away from USD reserves, gold demand is surging, and new payment systems are circumventing US financial infrastructure. The shift, once marginal, is becoming structural—driven by geopolitical risk, US fiscal indiscipline, and the rise of non-USD trade in Asia.
- Malaysia stands to benefit modestly from this realignment. The ringgit is supported not only by USD softness, but also improving fundamentals and stronger regional trade linkages. If reforms persist and policy credibility holds, the currency may be revalued—not as an outlier, but as a stable regional proxy in a shifting global order.
- Rise of Alternatives: While a weaker USD supports the ringgit, its upside now faces stiff competition from gold and Bitcoin (BTC)—mainstream alternatives drawing capital away from EM FX. Malaysia must now differentiate beyond macro stability through reforms, ESG, and innovation to stay relevant in this tri-polar flow world.

CONTEXT AND POSITIONING

- **From noise to narrative**
  - Since Trump's re-election in November 2024, we held our 4.45/USD year-end ringgit forecast, cautious not to overreact to volatility masquerading as trend. The FX market was noisy, the signals, inconclusive. That has changed. Recent data and policy shifts are aligning in a way that points to a clearer trajectory.
  - **We now revise our 2025 year-end forecast to 4.08/USD, not based on short-term flows, but on what looks like a fast-moving structural shift in the global monetary order.** De-dollarisation, once viewed as a slow-burn process stretching over decades, is now unfolding within a two- to three-years. It reflects a reconfiguration of capital flows, remapped reserve strategies, and a growing fiscal discount on US assets.

Graph 1: USDMYR Trading Bands

Source: Bloomberg, Kenanga Research

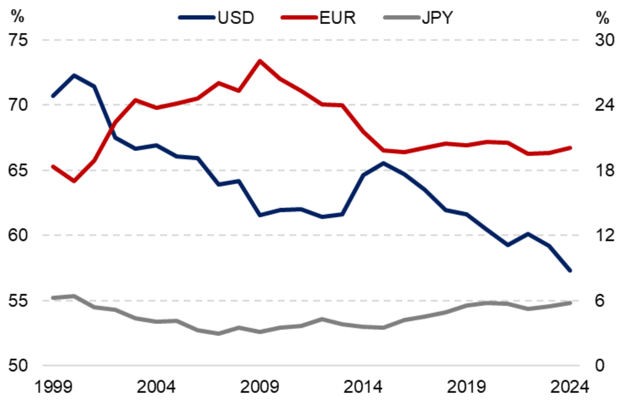
  - Since the 2005 de-peg, the ringgit has oscillated within a series of psychological trading bands shaped by a mix of fundamentals and behavioural anchors:
    - Band 1 (2007–2014): Confidence-driven post-depeg stability, MYR ranged between 3.00–3.50/USD.
    - Band 2 (2015–2018): Political risk repricing amid the 1MDB fallout, range widened to 3.50–4.50/USD.
    - Band 3 (2019–2022): Pandemic-driven volatility, stabilising in the 4.00–4.50/USD zone.
    - Band 4 (2023–2024): Fed's rate hikes above 5.00% and US exceptionalism pushed MYR to 4.50–5.00/USD for over 60.0% of the time.

- These are not just price zones—they are memory anchors. Traders cluster around them, reinforcing the bands through positioning, risk management, and even media narratives. In 2025, the ringgit has hovered in Band 3. We argue it could re-enter the lower end of Band 2 (3.50–4.00/USD) by mid-2026.
- This is not a tactical shift. It reflects:
  - A rethink of reserve composition, as central banks reduce USD exposure in favour of gold and other reserves currencies namely EUR and JPY.
  - Increased use of non-USD trade settlement, especially in ASEAN-China corridor.
  - Diminished appetite for US Treasuries (UST), with China diversifying amid US fiscal concerns.
  - Even the US is debating whether to adopt BTC as a strategic reserve, given arguments that BTC, like gold, can hedge against inflation, especially as US debt tops USD36.0t and deficits show no sign of slowing.
  - Malaysia's own improving position, including persistent CA surplus and better terms of trade.
- But this transition will not happen automatically. A return to Band 2 requires credible policy reform. Malaysia's drop to 34th in the 2024 competitiveness ranking, the worst on record, underscores the urgency. To sustain a stronger band, Malaysia must reassert its relevance in regional supply chains, boost productivity, lure talents and attract long-term capital.
- The ringgit's recent rally is not just noise. It is the early stage of a structural repricing, reflecting not just the USD weakness, but Malaysia's potential. If it acts decisively. It can capitalise on this window.

GROWING DE-DOLLARISATION

- **Act I: The Imminent Goodbye to the USD Reserve Currency Status**
  - The USD is not about to lose reserve status overnight, but its era of unchallenged dominance is steadily eroding. The shift is neither sudden nor dramatic—rather, it is quiet, persistent, and gathering pace.
  - Over the past decade, central banks have steadily diversified their reserves away from the greenback. This picked up during President Donald Trump's first term, spurred by geopolitical uncertainty and the weaponisation of the USD. By end-2024, based on the IMF's currency composition of official foreign exchange reserves dataset, the USD's share of global foreign exchange reserves had fallen to 57.8%, down from 66.0% in early 2015,

Graph 2: Currency Composition of Official FX Reserves



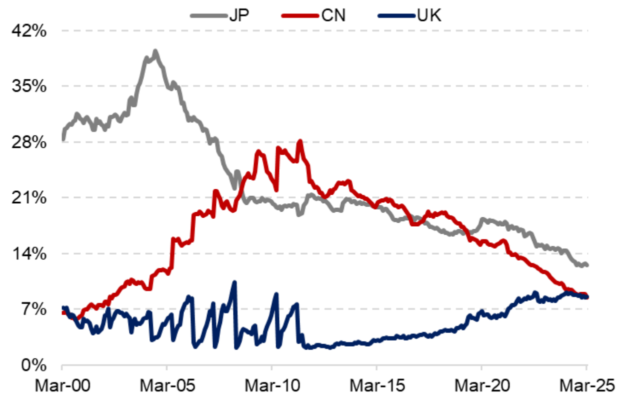
Source: IMF, Kenanga Research

  - The shift is deliberate. Emerging market central banks, especially in China, Turkey, and India, have ramped up their gold purchases to record levels. Surging bullion prices have inflated gold's share in reserve portfolios in USD terms, but even after adjusting for valuation effects, the trend is clear.
  - Two key developments have quickened this shift:
    - **First**, the use of USD reserves as a tool of geopolitical coercion—exemplified by the freezing of Russia's assets—has made alternative assets more appealing to sovereigns wary of Washington's reach**.**
    - **Second**, Trump's brand of economic nationalism, characterised by tariff wars and retreat from multilateralism, has hurt US asset appeal.
  - The long-standing cycle of recycling trade surpluses with America into UST is breaking. Reserve managers eyeing not just gold, but also whether the EUR and JPY can capture more share in a multipolar financial system.
  - If central banks continue shifting their allocations towards other major reserve currencies, precious metals, or even blockchain-based digital assets such as BTC, the USD may face a sustained erosion of its privileged role.

- **Act II: A New Architecture of Payments**
  - Reserve allocations are changing, and so is the global payments system. Cross-border financial flows are increasingly bypassing the USD-based system.
  - One emblem of this shift is Project mBridge, a cross-border central bank digital currency (CBDC) platform involving Bank of International Settlement (BIS), China, Hong Kong, Thailand, the UAE, and Saudi Arabia. It enables real-time settlement of transactions among participating central and commercial banks without using USD.
  - Payment autonomy is no longer theoretical. China's expanding role in global trade, particularly in e-commerce and manufacturing supply chains, is driving demand for renminbi settlement. Broader local currency settlement frameworks among ASEAN members are gaining traction. What once seemed symbolic is now material.
  - Malaysia is actively aligning with this shift. Bank Negara Malaysia (BNM) promotes local currency use in trade, particularly with China, Indonesia, and Thailand. Bilateral trade in CNY and MYR has picked up. The goal to conduct up to 20.0% of trade in regional currencies reflects a strategic pivot: reducing dependency on the USD while bolstering the resilience of regional currencies against external financial shocks.
  - This transition is not just ideological, it is practical. Benefits include lower FX transaction costs, reduced vulnerability to USD liquidity shocks, and greater monetary autonomy. If USD liquidity becomes less relevant to Asia's economy, so does its influence on local currency valuation.

- **Act III: Portfolio Rebalancing in a Fractured World**
  - Capital markets are also reacting to the shifting tectonics. Portfolio rebalancing provides some of the clearest signals of waning confidence in US assets.
  - In April, Japan saw record foreign inflows into equities and long-term bonds, totalling USD56.6b. Much of this was driven by global investors seeking shelter from political and fiscal uncertainty in the US, especially amid renewed Trump-era trade tension.
  - China has been more explicit. Its UST holdings fell to USD765.0b in March, down from a peak of over USD1.3t in 2011. For the first time since 2000, the UK has overtaken China as the second-largest foreign holder of UST—signalling Beijing's retreat from US assets. At the same time, China's gold reserves have risen sharply—a quiet but clear signal of de-risking from the US financial system.

Graph 3: Major Foreign Holders of Treasury Securities*



Source: Macrobond, Kenanga Research
**As a percentage of total foreign holdings*

  - Still, the overall stock of foreign holdings of UST reached a record high in March, suggesting continued demand elsewhere as other countries continue to see US debt as a safe haven. But concerns are growing as a chorus of policymakers and investors believe the US debt burden trajectory is unsustainable. The uncomfortable truth is that creditors are waking up to the possibility that the US may never repay its debt in real terms.
  - The market is beginning to internalise what the rating agencies have long signalled, especially now that all major agencies are aligned. Moody's has finally joined Fitch and S&P in warning about long-term fiscal vulnerabilities. Trump's plans for more tax cuts and spending sprees show no signs of restraint. Persistently high primary deficits risk fuelling inflation. Term premiums on long-dated USTs are rising in response.

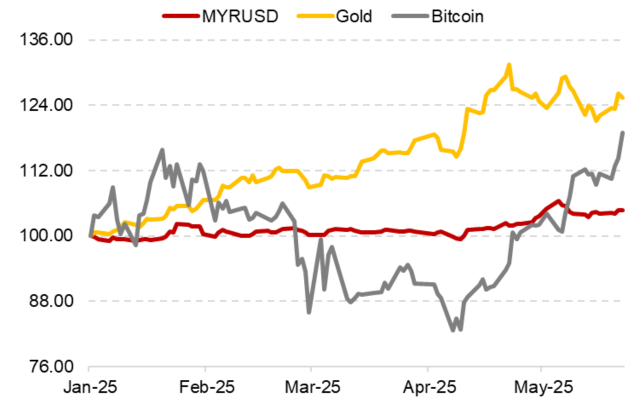
THE CHALLENGE OF RINGGIT UPSIDE: RISE OF ALTERNATIVE ASSETS

- While a weaker USD and improving fundamentals support the ringgit, its upside now faces a new constraint: capital competition from alternative assets. Gold and BTC, once fringe, now mainstream, are reshaping how investors diversify in a world of fiscal overreach, geopolitical risk, and monetary distrust.

- Gold's resurgence is structural. Central banks, especially in EMs, are replacing USD reserves with bullion at a record pace. This has flipped its historical correlation with USDMYR, signalling that as gold demand rises, EM currencies like the ringgit may no longer benefit as much from USD weakness alone.

- BTC has entered the institutional portfolio. Since US spot ETF approvals in early 2024, it has absorbed flows that once went to high-yield EM debt and equities. Increasingly viewed as a hedge against fiat debasement, BTC's negative correlation with EM FX suggests that capital rotation is no longer binary, between the USD and EM, but increasingly tri-directional.

Graph 4: Gold Vs Ringgit Vs BTC indices (Jan-2025=100)



Source: Bloomberg, Kenanga Research

- For Malaysia, this splintering of flows matters. Even with policy stability and a trade surplus, the ringgit now competes not just with USD assets, but with gold, BTC and digital alternatives that offer perceived insulation from systemic risk. That does not invalidate the bullish MYR thesis, but it raises the bar. Malaysia must differentiate not just through macro stability, but through reform-driven credibility, ESG alignment, and increasingly, financial innovation.

CONCLUSION & OUTLOOK

- The ringgit's recent appreciation is often dismissed as a by-product of USD weakness. That view misses the broader context. Foreign inflows into Malaysian capital market are rising, underpinned by BNM steady policy, a sustained trade surplus and a relatively stable macro backdrop. Investors are not simply fleeing the US, they are rotating into credible, reform-oriented markets.

- This is not a tactical call. It reflects deeper, structural forces reshaping the global monetary order. Malaysia's fundamentals are improving at the margin. In a world where the USD hegemony is fading, the ringgit could quietly emerge as a relative winner. Exporters may grumble about currency strength, but the solution is not depreciation but to upgrade competitiveness. Under the NIMP 2030 roadmap, Malaysia aims to move up the value chain. Product sophistication will be a key catalyst in making that ascent possible. A good product sells, regardless of the currency it is priced in.

- We revise our end-2025 USDMYR forecast to 4.08 and end-2026 forecast to 3.95, with an upside if US fiscal risks stay underpriced and Malaysia keeps up reform momentum. Should the Fed begin easing in late 2025 while BNM stays put, Malaysia could offer a rare combo: monetary stability and yield in a fractured global order.

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