



FX Thoughts

23 February 2024

MYR – Look Past the Soft Patch

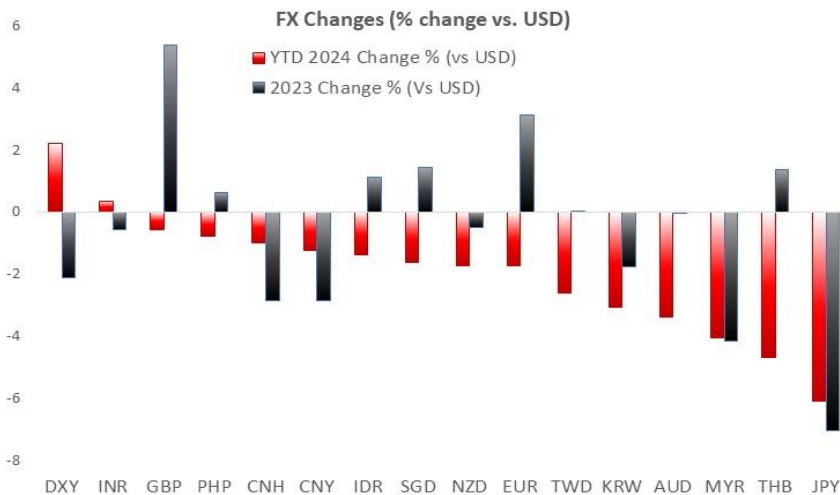
The bout of softness in the Ringgit (MYR) was due to a mix of both external and domestic factors. But we expect this MYR weakness to be temporary and still expect MYR to claw back some of its losses. Both domestic and external factors will need to improve, and we see it coming from 3 fronts: 1/ yield differential dynamics can improve when Fed embarks on rate cut cycle; 2/ more sustained turnaround in tech downcycle can benefit Malaysia exports and MYR; 3/ eventual stabilisation in Chinese economy should further boost Malaysia’s inbound tourism, trade, investments and broad sentiment. These factors can be supportive of MYR but may require some patience.

Christopher Wong
FX Strategist

+65 6530 4367
christopherwong@ocbc.com

Taking Stock: MYR has been trading on a softer footing (YTD -4 % vs. USD), alongside other regional currencies including, THB (-4.7%) and JPY (-6.1%). Weakness did not stand out in particular, but it was the 4.80 level on Wednesday that had captured attention. The underperformance of regional FX can be attributed to external developments such as markets’ push back on Fed’s timeline of first cut and magnitude of cut after US data (CPI, PPI, NFP) surprised to the upside while Fed officials’ comments suggested that they are in no hurry to cut rates. All these contributed to the upticks in UST yields and USD.

MYR Softness, Alongside Other AXJs



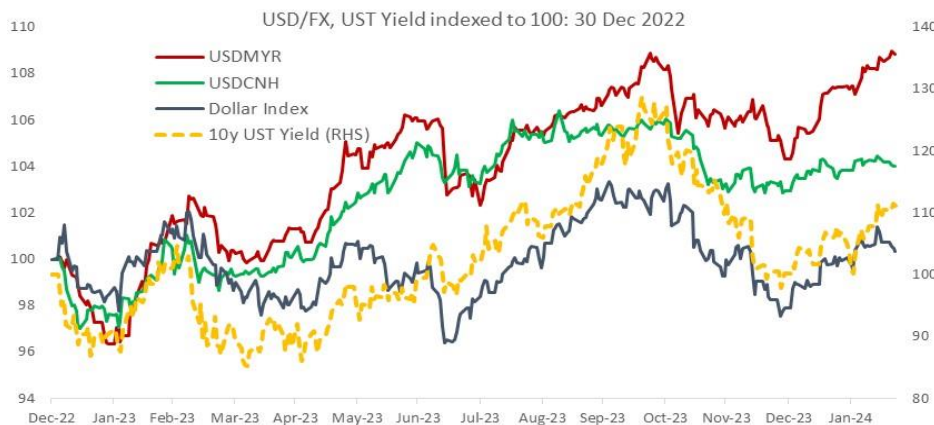
Note: Currencies ranked in terms of YTD % change vs USD (red column)

Source: Bloomberg (as of 22 Feb), OCBC Research



With the Ringgit, **our observation was that the currency had at times been trading asymmetrically to market developments.** For instance, when there was broad USD pullback, risk-on sentiments, the MYR did not react positively but when USD, UST yields rose or when broad market sentiment was risk-off, the MYR traded in line with those sentiments.

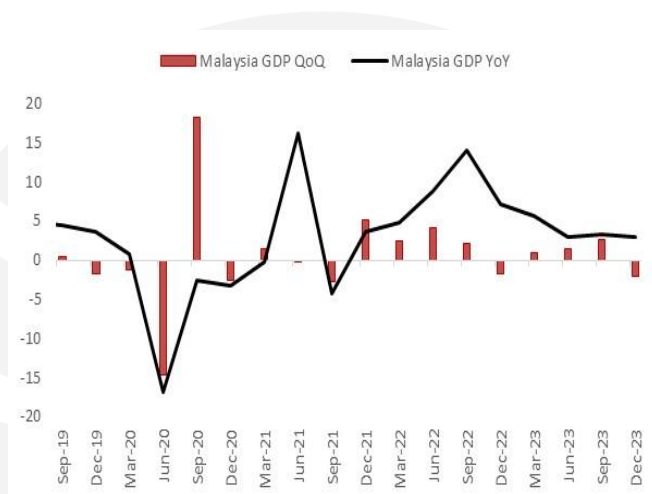
Price Action in MYR Asymmetric to Market Developments at Times



Source: Bloomberg, OCBC Research

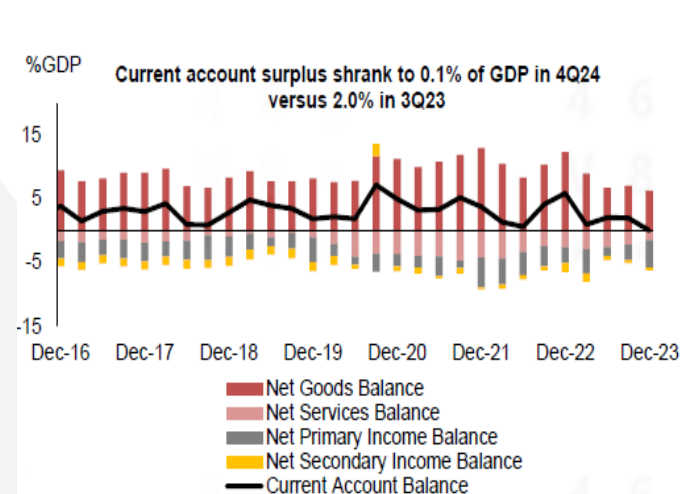
And over the past couple of weeks, we also saw the MYR trading more in line with domestic fundamentals, and data suggests a soft patch. For instance, industrial production surprised to the downside in Dec, 4Q GDP report shows growth undershoot advance estimates while current account narrowed. Broadly, the export trend was also bumpy. In addition, widening of UST-MGS yield differentials was also another factor underpinning USDMYR's rise. Near term, these drivers may still weigh on MYR, to some extent.

Sequential Contraction in 4Q GDP



Source: Bloomberg, OCBC Research

Sharp Narrowing in Current Account Surplus



Source: CEIC, OCBC Research



Temporary Softness in MYR Should Fade

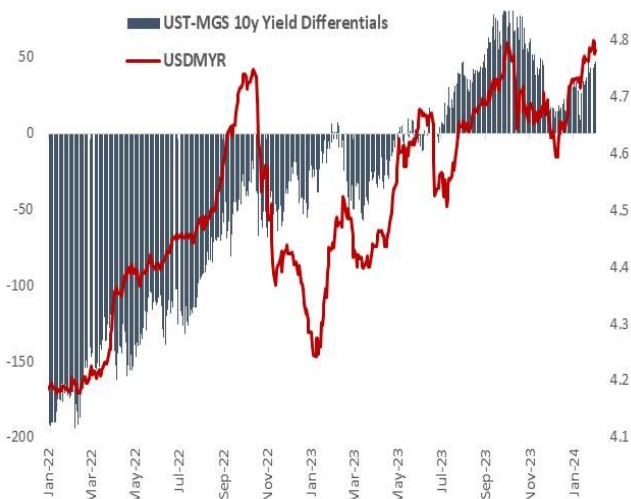
But we see MYR weakness as temporary and still expect MYR to claw back some of its losses. Both domestic and external factors will need to improve, and we see it coming from 3 fronts: 1/ yield differential dynamics can improve when Fed embarks on rate cut cycle; 2/ more sustained turnaround in tech downcycle can benefit Malaysia exports and MYR; 3/ eventual stabilisation in Chinese economy should further boost Malaysia’s inbound tourism, trade, investments and broad sentiment. These factors can be supportive of MYR but may require some patience.

We explore the 3 drivers below:

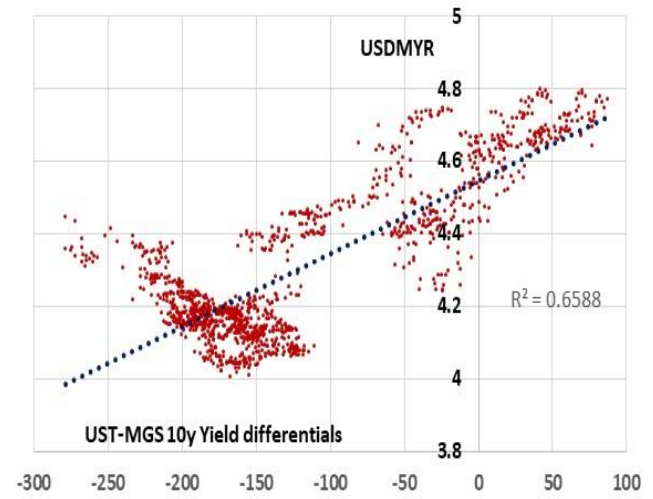
1/ Yield Differential Dynamics Can Improve

Corrective upticks in UST yields amid hawkish re-pricing saw UST-MGS yield differentials widened and the USDMYR traded higher, alongside. But as Fed gets closer to embarking on rate cut cycle, the differentials can narrow. Our house view looks for 100bps cut from the Fed, starting 2Q while we also expect BNM to remain on hold this year. This would eventually narrow the UST-MGS yield differentials and that should see USDMYR trade lower.

Eventual Narrowing in Yield Differentials Should See USDMYR Head Lower



Source: Bloomberg, OCBC Research



Source: Bloomberg, OCBC Research

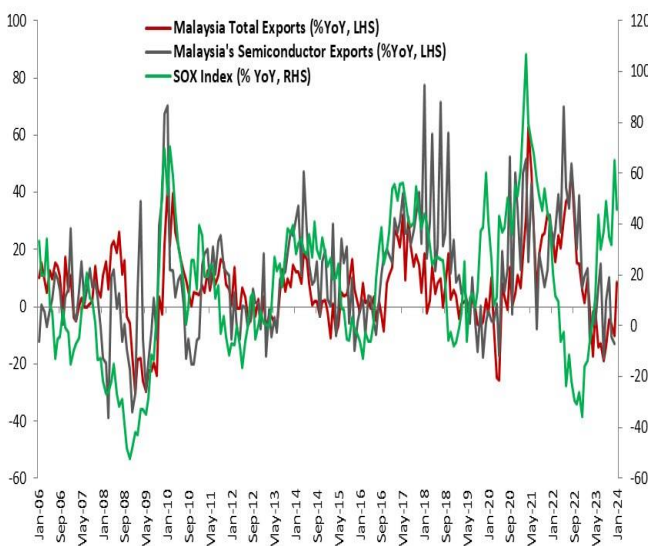
2/ More Sustained Turnaround in Tech Downcycle Can Benefit Exports, MYR

The exports recovery momentum in Malaysia should not go un-noticed. Jan rebound in exports puts an end to the 10-consecutive months of decline since Mar 2023 and the improvement can be seen across most products, including manufactured and agriculture goods.



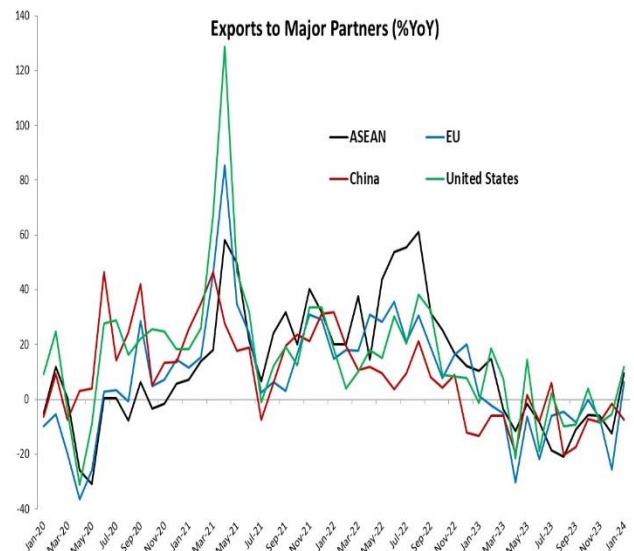
Exports to key markets, including ASEAN, US, EU and Japan have also rebounded sharply, with the exception of China and HK. We expect the turnaround in tech downcycle to further benefit Malaysia's exports and the MYR, given Malaysia's growing role as a semiconductor exporter (6th largest exporter holding 7% of market share globally). The World Semiconductor Trade Statistics (WSTS) organisation anticipates a strong rebound in semiconductor market, projecting a 13.1% increase in semiconductor sales for 2024. Meanwhile, SOX (Philadelphia semiconductor index) Malaysian Industrial Development Finance (MIDF) projects Malaysia exports to grow 5.2% for 2024.

Malaysia Semi-Con Exports Should Recover; SOX Recovery Typically Precedes Exports Recovery



Source: CEIC, Bloomberg, OCBC Research

Exports Recovery to Major Key Markets Underway Except for China



(ASEAN here refers to Singapore, Thailand, Indonesia, Philippines, Brunei and Vietnam)

Source: CEIC, OCBC Research

Eventual Stabilisation of the Chinese economy Can Benefit MYR

Markets are still on the lookout for more fiscal support measures in coming weeks, in particular targeting consumption, following a slew of recent measures (including the larger than expected 25bps cut to 5y LPR, 50bps RRR cut, the lowering of rates on relending funds to banks that lend to agricultural sector and small firms, allowing bank loans pledged by developers' commercial properties to be used to repay other loans and bonds as well as reports that China is considering to mobilise RMB2tn to buy onshore equity).

The eventual stabilization of the Chinese economy, demand and sentiments at some point in 2024 should potentially benefit Malaysia's exports, inbound tourism, investments and broad sentiment. The positive spillover effects can have a positive bearing on MYR.



Improved Sentiments on China can Potentially Benefit MYR



Source: Bloomberg, OCBC Research

USDMYR – Double Top?

USDMYR rose to a high of 4.8053 (vs USD) on 21 Feb. Pair was last seen at 4.78 levels. Daily momentum shows signs of turning bearish while RSI eased from overbought conditions. Potential double top observed, this can be associated with a bearish reversal. Bearish divergence on daily MACD is also observed. At the same time, price action displayed a rising wedge (another signal of bearish reversal). We watch price action, but risks appear skewed to the downside. Support at 4.76 (21 DMA), 4.7515 (23.6% fibo retracement of Dec low to Feb high) and 4.7180 (38.2% fibo). Resistance at 4.8050 (recent high).





SGDMYR – Pullback but Bullish Trend Channel Intact

SGDMYR rose to a high of 3.5757 (21 Feb) but has since eased lower. Last seen at 3.5540. Mild bullish momentum on daily chart faded while RSI fell. Bearish divergence on daily MACD appears to be playing out. Further pullback to the downside not ruled out but bullish trend channel remains intact. Downside likely to find dips. Support at 3.5430 (21 DMA), 3.5290 (23.6% fibo retracement of Aug low to Feb high), 3.50 (38.2% fibo, 100 DMA). Resistance at 3.5760 levels (recent high).



SGDMYR Curncy (SGD-MYR X-RATE) Candle Chart Daily 24FEB2019-23FEB2024

Copyright© 2024 Bloomberg Finance L.P.

23-Feb-2024 16:41:09



Macro Research

Selena Ling
Head of Strategy &
Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herbertwong@ocbcwh.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com



This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W