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FX Flash

MYR - Development Initiatives to Support

MYR Spiked on Release of Development Initiatives

According to BNM press release (16 May), the central bank is rolling out further development initiatives targeted at improving market efficiency, liquidity and accessibility of its domestic financial markets.

These recently announced development initiatives include (1) enhancement to repo market liquidity and flexibility; (2) physical delivery of MGS futures; (3) expansion of dynamic hedging programme to include trust banks and global custodians; (4) increased flexibility for dynamic hedging programme participants to manage FX risks; (5) simplified FX transaction and documentation process; (6) enhancing the provision of MYR liquidity beyond local trade hours via 156 appointed overseas office (AOOs) operating in 36 countries.

In particular on point 1, BNM will further increase the availability of off-the-run bonds to be borrowed via repo for market-making activities to further boost liquidity. Repo tenor may also be extended beyond 1 year, subjected to ongoing review. For points 3 and 4, trust banks and global custodians can now apply to undertake dynamic hedging on behalf of their underlying clients and registered institutional investors can enter into forward contracts to buy MYR beyond the current 25% threshold of underlying assets (upon BNM's approval) to facilitate the management of FX risks.

We view these initiatives as positive development. They are a continuation of BNM's disciplined approach and committment towards broadening and deepening the onshore financial markets. Investors' confidence should gradually return and MYR-denominated assets should see its appeal grow. Governor Nor Shamsiah added that these measures are partly in response to FTSE Russell's review on Malaysian bonds (16 Apr). Recall that the criteria used by FTSE Russell to assess market accessibility include 1) Market, macroeconomic and regulatory environment, 2) FX market structure, 3) Bond market structure, and 4) Global settlement and custody. FTSE Russell review is still ongoing and the decision will only be made known in Sep-2019. We expect Malaysian authorities and BNM to continue to make efforts to address FTSE Russell concerns and these will include engagement with FTSE Russell and market players. These should help MYR to recover gradually. We still expect MYR to gradually strengthen to 4.10 (vs. USD) by end 2Q 2019 (as per our forecast).

Link to BNM Press Release.

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Looking for Pullback from the Recent Run-Up

USDMYR has reacted in response to the recent announcement. The pair fell from above 4.17-handle to 4.1565 intra-day low. We shared in our GM Daily this morning (see here) that we were looking for a pullback towards 4.15. This is potentially materialising. Pair was last seen at 4.16 levels. Bullish momentum on daily chart is waning while stochastics is showing signs of turning lower from overbought conditions. A bearish divergence appears to be in the making. We continue to look for a move lower. Immediate support at 4.15 before 4.1450 (21 DMA). A break below those key support should see a move towards 4.1280 (200 DMA). Resistance at 4.1760 (May high), 4.1920 (2019 high).

USDMYR (Daily Chart): Bearish Divergence in Play?

Source: Bloomberg, Maybank FX Research & Strategy

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Published by:

Maybank

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