Maybank

FX Tech Flash

MYR: Holding Steady

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Modest Room for MYR to Strengthen

BNM lowered OPR by 25bps to record low of 1.75% at its MPC meeting yesterday. There was little reaction on USDMYR post-BNM decision as the move was well anticipated by markets. Our house view now looks for BNM to keep OPR at record low till end-2021. We are keeping our USDMYR forecasts and downward trajectory unchanged, partly on expectations for USD softness. Technically a rising wedge pattern is playing out - this is typically associated with a bearish reversal. We do not rule out a move towards 4.22 levels should support at 4.25 gives way. Bias is nullified on move back above 4.32. We also see room for SGDMYR to trade lower.

Technically more Room for Downside if 4.25 Support Goes

For the past 3-4 weeks, USDMYR consolidated with a slight skew to the upside up till yesterday morning when USDMYR traded a low of 4.2675 briefly prior to BNM MPC decision. It then traded modestly firmer for the session and was last seen at 4.2750 levels. Nonetheless USDMYR levels remain on the lower side on a MTD basis. On weekly chart, bearish momentum remains intact while RSI is falling. A rising wedge pattern is potentially playing out - typically associated with a bearish reversal while bearish crossover was earlier observed - 21DMA cuts 100DMA to the downside and is likely 50DMA is on track to cut 100DMA to the downside soon. Immediate support at 4.25 levels (50% fibo). A decisive break below 4.25 puts next support at 4.22 levels (200 DMA). Resistance at 4.2975 (38.2% fibo retracement of 2020 low to high), 4.3080 (50 DMA) and 4.3170 levels. Our bias is nullified on move back above 4.32.

USDMYR (Weekly Chart): Bearish Momentum Intact

Source: Bloomberg, Maybank FX Research & Strategy

OPR Not the Only Tool

Our Economists highlighted (see note here) that OPR was not the only tool to deal with the economic fallout of covid-19. BNM has injected MYR62b liquidity via 100bps SRR cut plus flexibility in SRR compliance (MYR41b), reverse repo operations (~MYR11b) and MGS purchases (~MYR10b).

BNM doubled its Special Relief Facility (SRF) to SMEs under Economic Stimulus Package (PRIHATIN) from MYR5b to MYR10b, with MYR8.4b disbursed as of last month. As of June 2020, MYR47.5b loan repayment moratorium for Apr-Sep 2020 is in effect.

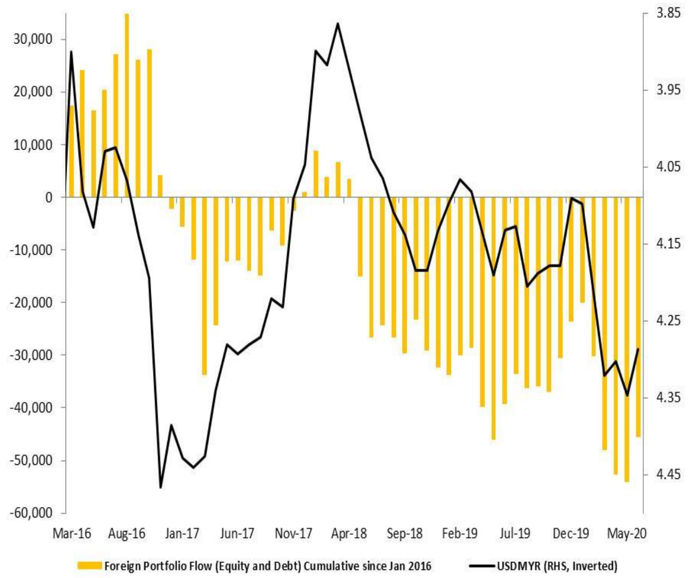
BNM also provided regulatory reliefs to banks in terms of key ratios e.g. allow banks to operate below the minimum required liquidity coverage ratio (LCR) of 100% and drawdown on the 2.5% capital conservation buffer; lower net stable funding ratio (NSFR) of 80%; cut regulatory reserves held against expected losses to 0%.

Fiscal responses are also at play with record MYR295bn economic stimulus (equivalent to 20% of GDP) and is helping to ease household burden.

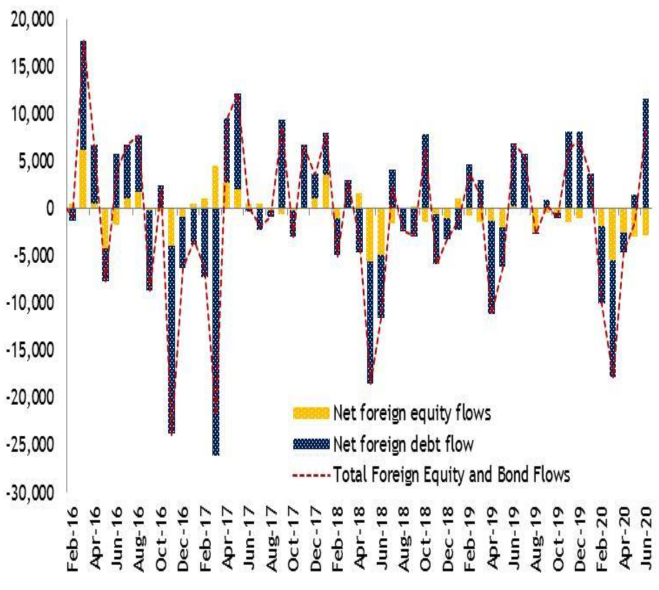
Further Inflows Can Support MYR

Domestically, financial conditions have improved and markets have stabilised. KLCI has nearly clawed back its YTD losses and since Mar, it outperformed regional bourses. Up about 29% vs. STI up 20%. On YTD basis, KLCI is down -0.9% while STI, SET, JCI, PSEi are all down between 13 and 20%. Our FI strategist also noted (see note here) that pace of foreign inflows into MYR-bonds accelerated in Jun (largest since Mar-2016) and that foreign share of MGS rose to 37% in Jun (from 35.9% in May). We also noted in the chart below that net foreign portfolio (equity and bonds) outflow has slowed in Jun. Further slowing of net outflows or if flows can turn positive, MYR could stand to benefit further.

Net Foreign Outflows ((debt and equity) have slowed; consistent with Stability in MYR



Foreign Portfolio Inflows Driven Largely by Bond



Source: Bloomberg, CEIC, Maybank FX Research & Strategy

External Environment Matters As Well

A supported external environment including broad USD softness, CNH strength, upbeat risk sentiment (owing to covid development) and stable oil prices will also continue to drive MYR stronger. (Though we note that the reverse (i.e. risk off environment) will provide intermittent support for USDMYR)

In particular, USD is a counter cyclical FX. USD tends to weaken in episodes of global growth rebounds and strengthens on episodes of broad market risk-off, global growth momentum falling and US growth outperformance, monetary policy divergence (in favour of US).

In the last 12 years or so, there have been 2 notable episodes of USD weakness – (1) when global growth rebounded from a low point in 2009 post-GFC, DXY fell by about 16% and (2) when synchronous economic recovery, led by exports upswing in 2017, DXY fell more than 10% - both over 2 – 3 quarters time frame depending on the durability and sustainability of the growth rebound.

In the current episode where COVID lockdown measures are gradually eased globally and policymakers pledged ample fiscal and monetary support, several indicators such as PMIs, sentiment surveys have already indicated activity rebound ahead. Not surprisingly, DXY has also fallen by about 5% from Mar high before entering into a phase of consolidation in Jun. Further USD softness to play out especially if global growth can gather momentum in 2H; aggressive Fed QE; concerns over US' deteriorating twin deficits could help support the case for softer USDMYR ahead.

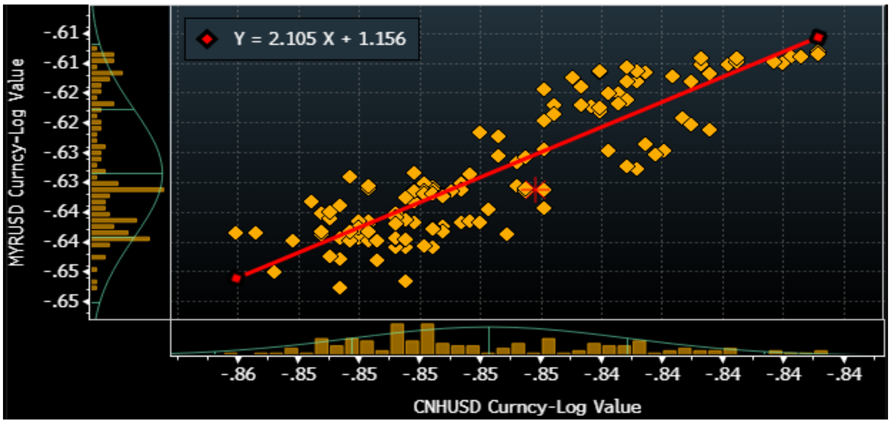
A note on CNH, and recent move on Chinese equities which have surged towards 2016 highs this week, guided by a front-page editorial featured on the state media Securities Times Journal on Monday that talked up the prospects of fostering a "healthy" bull market after the pandemic is now more important to the economy than ever and that investors should look forward to the "wealth effect of the capital markets".

Before this, equities have been gradually rising on stimulus as well as rotation away from its debt market. Along with some official hints from PBoC that China could be exiting from "ultra-loose" accommodative conditions suggest more unwinding in the domestic bond markets.

USDCNH has already broken a few key support levels. A break below psychological-7 could see the pair trade lower towards 6.98, 6.93 and beyond.

And we noted that MYR is sensitive to movements in CNH. OLS regression between MYR (Y-dependent variable) against CNH (X-independent variable) shows a beta of 2.1 with a correlation of 0.885. If USD stays weak and CNH strengthens further, MYR could draw strength from these external factors.

MYR is Highly Correlated and Sensitive to Changes in CNH



Note: Regression on daily change in log values between MYR (as Y-dependent variable) over CNH (as X-independent variable) on YTD

Source: Bloomberg, Maybank FX Research & Strategy

SGDMYR Technical Outlook: Risks to the Downside

SGDMYR slipped, in line with our repeated calls in the last FX Weeklies Outlook (please see one of the notes here) for SGDMYR to trade with bias to the downside. Move lower came amid MYR resilience while SGD underperformed. Cross was last seen at 3.0650 levels. Daily momentum is mild bearish bias while RSI is falling. Risk remains skewed to the downside. Immediate support at 3.0610 (23.6% fibo retracement of 2020 low to high) before 3.0530 (100 DMA), 3.0440/50 levels (200DMA, 38.2% fibo). Break below these levels puts next support at 3.0300 (50% fibo) and 3.0160 (61.8%). Resistance at 3.0720 (21 DMA), 3.0820 levels.

SGDMYR: Room for Downside to Unravel

Source: Bloomberg, Maybank FX Research & Strategy

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