Macro | FX Research & Strategy

Global

FX Tech Flash

MYR: Objective Met; New Range Likely

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Still Bearish USDMYR but Cautious of Oversold Conditions

Less than a month ago, we sent out a FX Tech Flash – MYR: Holding Steady (8 Jul) looking for USDMYR to trade lower towards 4.22 objective. Technically we highlighted 3 observations that suggest room for further downside:

(1) bearish crossovers (21 and 50DMAs then cutting 100 DMA to the downside);

(2) bearish momentum (on weekly chart) and

(3) a rising wedge pattern (typically associated with a bearish reversal) suggest room for further downside.

We also drew references to macro drivers underpinning MYR strength – both external and domestic – broad USD softness, RMB stability (MYR highly correlated and sensitive to RMB movements), supported market sentiment (covid containment), oil price stability, foreign inflows into bonds as well as fiscal and monetary responses to deal with the economic fallout of COVID-19.

Taken together, USDMYR has more than met our objective and looks on track to test psychological support at 4.20 levels. (spot ref last seen at 4.2040). In fact, MYR was the outperformer (+1.6% vs. USD) amongst the 12 Asian FX (8 Jul to 5 Aug).

USDMYR (Daily) – Maintain Bearish Bias but RSI Oversold

More Downside Likely; New Range of 4.15 - 4.25 Could Play Out

As seen from the chart on first page, the bearish momentum – on both the daily and weekly (not shown here) remains intact. But RSI is falling into oversold conditions on the daily chart – flags caution. Nevertheless, key support at 4.20/4.2040 levels (61.8% fibo retracement of 2020 low to high, psychological level). A decisive break below this support could open way for further downside. Next support levels seen at 4.18, 4.1460 (76.4% fibo). Resistance at 4.2270 (200 DMA), 4.25/4.2540 levels (21DMA, 50% fibo) before 4.2735. Bias remains for further downside play. Bearish bias would be nullified on move back above 4.30.

MYR - An Outperformer (8 Jul - 5 Aug 2020)

Source: Bloomberg, Maybank FX Research & Strategy

Macro Underpinnings Intact

On the domestic front, we shared in the last report that pace of foreign inflows into MYR-bonds accelerated in Jun (largest since Mar 2016) and that foreign share of MGS rose to 37% (from 35.9% in May). Though Jul data will only be available in the next few days, price action on MGS suggest that foreign inflows likely have continued as markets position for 25bps cut in OPR at the next MPC (10 Sep).

10Y MGS Yield at Record Lows

Source: Bloomberg, Maybank FX Research & Strategy

On the external front, there are some recent developments that could further support sentiment and weigh on USD overall.

1. **Next Tranche of US Fiscal Stimulus Likely.** It was understood that the White House and Democrats aim to commit to a compromise by end of this week as there are currently disagreement on several issues. For a start, Republicans were proposing for a $1tn stimulus and looked to scale back the

$600-a week jobless benefit to $200-a week (saying that the benefit is a disincentive for Americans to return to work) while Democrats were proposing a stimulus package worth $3-$3.5tn and to extend support for $600-a week. Trump subsequently said he is considering the use of executive authority to stop tenant evictions and lower payroll taxes as Congressional negotiations on stimulus stalled early this week (potentially a backstop if negotiations fail). The jobless benefit of $600 per week and federal eviction moratorium (which protected an estimated 12mio renters from eviction for 4 months) expired in the week ended 31 Jul. As of 4 Aug, House Speaker Pelosi said during a PBS interview that she also hoped a deal could be reached this week with legislation drafted and passed next week. Senate Democratic Leader Schumer said that the two sides have made some concessions but "still far away on a lot of issues". Treasury Secretary Mnuchin and White House Chief of Staff Mark Meadows said that the Republicans would agree to a moratorium on evictions through end-year and had made an offer on supplemental unemployment insurance (one of the main sticking points in negotiations). **Development is expected to remain fluid and there will be a lot of "noises" in between.** Pelosi and Schumer will meet Meadows and Mnuchin for further discussion tonight (5 Aug).

2. **Fed Reaffirms on Dovish Commitment; Focus Shifts to Sep FOMC**. Fed Chair Powell's dovish assessment of the growth rebound, covid situation and a strong undertaking to keep policy support in place for longer (at the last FoMC 28-29 Jul) reaffirms a dovish commitment. He said "that even if the reopening goes well and many, many people go back to work… it is still going to take a fairly long time for parts of the economy that involve lots of people getting together in close proximity to recover… and those people are going to need support". He stressed **that policy support such as emergency swaps lines, temporary repo facility will also be extended with some central banks including Australia, Brazil, Singapore, NZ amongst others until 1Q 2021 since the crisis and the economic fallout from the pandemic are far from over**. On long term policy review, he hinted that a decision would be completed in "the near term". This puts focus on Sep's FoMC as there could be potential change in policy. To be sure Powell did not commit to any specific timeframe (other than "near term") nor did he say which options is preferred. We had earlier highlighted that Fed officials were signaling reduced emphasis on Philips curve estimates when setting policy. Fed's Brainard said "that with inflation exhibiting low sensitivity to labor market tightness, policy should not pre-emptively withdraw support based on a steeper historically steeper Philips curve that is not currently in evidence". In not putting an emphasis on Philips curve, the Fed loses its primary inflation forecasting tool but to rely on actual inflation outcomes to determine the appropriate time to change policy. A **case of Fed maintaining policy accommodation for even longer than**

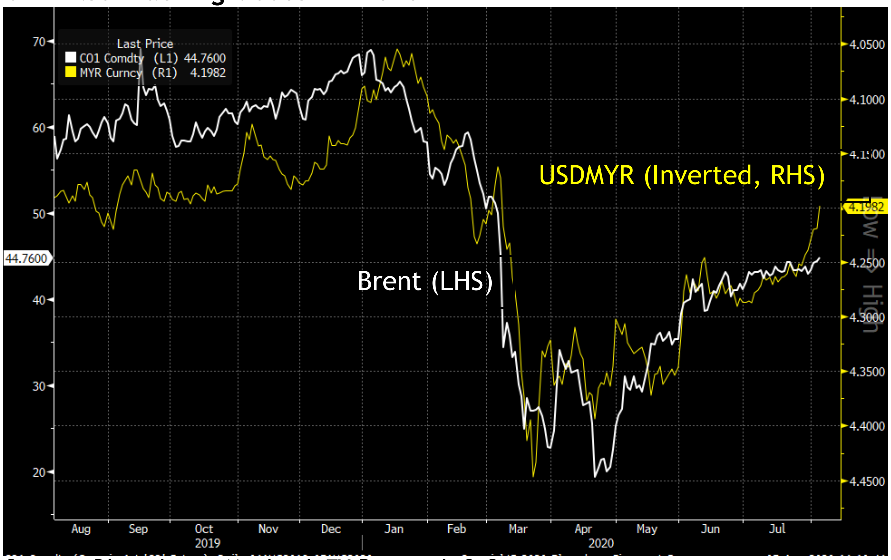
expected until actual inflation overshoots target would reaffirm USD weakness and keep positive sentiment intact.

Elsewhere, USDCNH continue to trade lower today (last seen at 6.95 levels). We highlighted previously that *a break below psychological-7 could see the pair trade lower towards 6.98, 6.93 and beyond*. This is slowly materialising. And we reiterate that MYR can continue to draw strength from RMB strength, given MYR's sensitivity and correlation to CNH (OLS regression on YTD daily log values between MYR (Y-dependent variable) against CNH (X-independent variable) shows a beta of 2 with a correlation of 0.86).

MYR Remains Highly Correlated to CNH

Source: Bloomberg, Maybank FX Research & Strategy

MYR Also Tracking Moves in Brent



Source: Bloomberg, Maybank FX Research & Strategy

To conclude, a softer USD on both (1) countercyclical thematic (USD falls as global economy rebounds) and (2) US-centric factors (US is still a covid-19 epicentre, now with rising risks of second wave infection, potential political risks in the lead up to US Presidential elections in Nov 2020, eroding rate advantage (both nominal and real terms), massive and increasing Fed's balance sheet amid QE, deteriorating twin deficits of fiscal and current account and chatters of resumption of reserve diversification, reallocation away from USD (after the pause in 1Q), alongside stable RMB, oil prices and risk sentiment could support the case for MYR gains.

But we caution there are also risks to the view and it would be complacent to ignore. In particular, upcoming US-China trade talks (15 Aug) and US stimulus package. On the former, White House press secretary said in a briefing earlier that China is falling short on promised energy targets while Trump repeatedly said that the deal is not as important to him as before because of China's role in the spread of coronavirus and he has also threatened to ban Tik Tok unless an American company buys it by 15 Sep. A case of US-China tensions re-escalating could potentially undermine sentiment and weigh on MYR and other risk-on proxies. On the latter, no compromised deal amongst Democrats and White House could also derail sentiment and drag MYR lower. Elsewhere how covid pandemic pans out and Aug seasonality (MYR fell in 11 out of 14 Augusts over the last 14 years since 2005 with average decline of -1.3% vs. USD) are also some factors to watch. Recent resurgence in covid cases from Vietnam to Japan, Melbourne, Manchester, etc. is a reminder that economies reopening are at risk of a more bumpy and slower path ahead.

MYR - Seasonally Weak in August

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
14 Yr Avg	.37	.19	1.14	1.18	-1.18	-.45	.10	-1.29	-.51	.50	-.89	.53
2019	.91	.78	-.45	-1.27	-1.12	1.21	.29	-2.02	.42	.21	.00	2.17
2018	4.10	-.55	1.61	-1.54	-1.45	-1.31	-.32	-1.74	-.54	-1.12	.13	1.13
2017	1.26	-.22	.36	1.90	1.22	-.13	.34	.26	1.11	-.21	3.47	.70
2016	3.92	-1.57	8.37	-.78	-4.89	3.09	-.88	-1.73	-.74	-1.65	-6.04	-.45
2015	-3.54	.47	-2.39	3.78	-2.32	-2.56	-1.99	-8.50	-4.77	2.15	1.03	-1.11
2014	-2.03	2.28	.62	-.26	1.31	.29	-.06	1.54	-3.61	-.85	-2.52	-3.09
2013	-1.71	.75	-.12	1.58	-1.80	-2.57	-1.88	-1.82	1.32	3.00	-1.96	-1.65
2012	3.96	1.52	-1.98	1.13	-4.72	.67	1.17	-.16	2.19	.31	.43	-.73
2011	.15	.31	.76	2.15	-1.75	.06	1.48	-.15	-7.40	4.27	-3.08	.29
2010	-.31	.61	4.14	2.22	-2.20	1.08	1.48	1.08	1.95	-.56	-2.17	3.62
2009	-4.25	-2.78	1.82	2.48	1.96	-.80	.28	-.35	1.69	1.32	.68	-.37
2008	2.21	1.03	.48	1.05	-2.36	-1.13	.26	-4.07	-1.26	-2.92	-2.20	4.82
2007	.81	-.11	1.33	1.14	.65	-1.66	-.28	-1.21	3.02	2.25	-.97	1.71
2006	.68	.94	.93	1.66	-.14	-1.23	.37	-.62	-.22	1.11	.80	2.57
2005	.00	.00	.00	.00	.00	-.04	1.37	-.60	.08	-.15	-.08	.04

-8.50 8.37

Source: Bloomberg, Maybank FX Research & Strategy

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