Maybank

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Global

FX Flash

MYR: Short Term Negativity to Reverse

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Watch if Other Rating Agencies Follow-Up

USDMYR gapped higher in the open this morning, in reaction to Malaysia's rating being lowered to BBB+ from A- by Fitch Ratings on Fri, 4 Dec (after onshore spot closed). Outlook has been revised to stable, from negative. Fitch cited weakened key credit metrics as the depth and duration on covid-19 crisis necessitated a strong fiscal response, weighing on its already high debt burden (see note here from our Fixed Income Research). We note that **BBB+ is still an investment grade.** Both S&P ratings and Moody's still have Malaysia's rating at A-/A3 (investment-grade status). Risk is whether S&P Ratings follows suit as it currently has a negative outlook watch on Malaysia. Elsewhere we continue to watch developments re supply bill which has entered into a "committee stage" last Mon and could be subjected to few more rounds of voting as the bill will be closely scrutinised till 15 Dec.

MYR Negativity to Reverse When Uncertainty Subsides

Uncertainty could keep MYR slightly on the back foot for now. However, if there is no follow-up action from S&P ratings or Moody's in coming days, we expect **knee-jerk MYR negativity to reverse and the broader trend of USD softness, Asian FX appreciation trend to resume, with MYR playing catch-up.** A softer USD environment, firmer oil prices and RMB, improved medium term outlook on global economy (on vaccine deployment) are some factors supporting our bias for MYR strength. Overall we keep to our revised USDMYR forecast.

Forecast	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021
USDMYR	4.08 (4.12)	4.02 (4.08)	3.95 (4.08)	3.90 (4.04)	3.90 (4.00)

Previous forecasts in parenthesis

USDMYR: Bearish Momentum Intact thought RSI Oversold

USDMYR closed at 4.0620 last Fri - near 11-month low. But opened and traded as high as 4.0885 levels before easing off. Last seen at 4.0720 levels. Bearish momentum on weekly chart remains intact but on the daily chart bearish momentum shows signs of fading while RSI is rising from near-oversold conditions. Technically some signs of bottoming around 4.05-4.06 in the interim with mild risks to the upside but not expecting a sharp rise for now. Immediate resistance at 4.0830 (61.8% fibo retracement of 2018 low to 2020 high), 4.0940 (21 DMA), 4.1080 levels. Immediate support at 4.0620 before key support at 4.0520 levels (2019, 2020 low). Beyond the near term we look for a break below key support targeting more downside play towards 4.0450, 4.00 levels.

USDMYR (Weekly): Break Below 4.05 to Usher in More Downside

Source: Bloomberg, Maybank FX Research & Strategy

Fitch is Also Concerned of Political Uncertainty, Apart from Fiscal

Fitch attributed the downgrade to the depth and duration of covid-19 that have weakened several of Malaysia's key credit metrics. In particular Malaysia's fiscal burden which was already high relative to peers going into the health crisis. Fitch also highlighted political concerns saying that *lingering political uncertainty following the change in government last March weighs on the policy outlook as well as prospects for further improvement in governance standards* and made reference to the slight weakening of Malaysia's World Bank governance score to the 64th percentile in 2020. This is closer to the 'BBB' median of 58th percentile than the 'A' median of 76th percentile. *Deterioration in governance and continued political uncertainty could dampen investor sentiment, constraining economic growth*. (Please see here for Fitch rating action commentary).

A Softer USD Trajectory into 2021 Underpins A Lower USDMYR

We maintain our bias for USD downside play on: (i) unwinding of dollar semi-haven demand alongside vaccine progress, (ii) Fed's commitment to dovish bias (with its AIT framework and greater tolerance on inflation overshoots), (iii) diversification out of USD in global payments and on a longer-term basis, FX reserves reallocation, and (iv) a slower recovery in US fiscal deficits compared to DM peers or Asian economies.

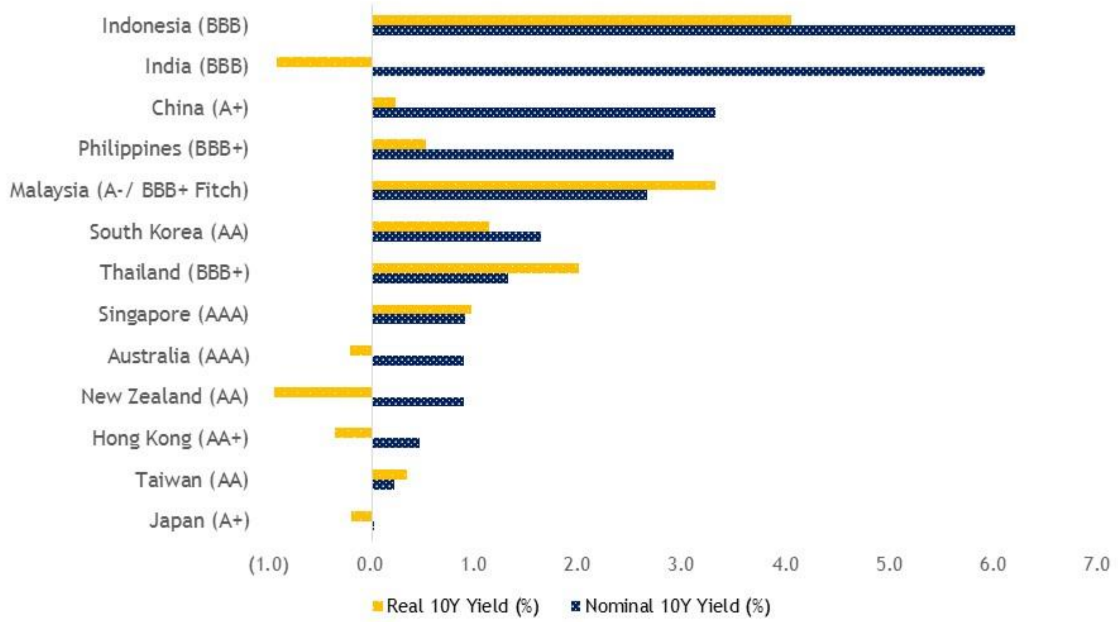
Arguments for potential dollar debasement are not new, and we might not see a near-term continuation of the sharp fall-off in dollar strength post-March, but a combination of the aforementioned factors could still work to weigh on the dollar structurally in 2021.

Carry Allure; BNM Maintains Policy Space

Low rates for longer globally is likely to persist for 2021 as inflation remains subdued in the near term and policymakers are likely to allow for easy policies to run longer to secure a firmer recovery. In particular Fed's adoption of average inflation targeting (AIT) regime and tolerance for overshoots in inflation and employment, alongside other DM central banks' pledge to not withdraw monetary stimulus prematurely should help to anchor low rates for longer.

In this low rate environment with growth recovering from low bases and inflation expectations still benign in the near term, a hunt for yield can persist. Asia is home to some of the highest carry in the world. In real terms (adjusted for inflation), Indonesia and Malaysia bonds are attractive at between 3 and 4%. On ratings-adjusted basis, China and Malaysia bonds have the second and third highest yields in FTSE WGBI.

MYR Remains Attractive Carry



Note: (1) Real yield calculated from nominal 10y yield – 12-month rolling average inflation of respective countries; (2) All data as of 24 Nov 2020; (3) Sovereign rating in parenthesis based on S&P ratings.
Source: Bloomberg, CEIC, Maybank FX Research & Strategy

In addition, foreign holdings of Malaysia bonds are not as heavily positioned as they used to be. The existing longs are "sticky", long term strategic investors, Malaysia bond yields are still attractive and remain in major bond indices, such as WFBI. Elsewhere BNM has ample policy space to support bond market liquidity and yields through its purchases – currently holding 1.4% of MGS, way below the 10% limit.

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Published by:

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