Maybank

Macro | FX Research & Strategy

Global

FX Flash

MYR: To Take Cues from External Drivers

Broader USD Moves, UST Yields Matter

The +230 pips knee-jerk reaction in USDMYR yesterday (12 Jan) has more than reversed today (13 Jan). We note that the State of Emergency does not involve curfews, and most government and economic activities will continue as usual, subject to other health protocols. MYR may even find additional support if the declaration is lifted earlier than 1 Aug. Looking on we expect external factors in the macro environment to play a bigger role in driving MYR while the focus on domestic uncertainties fade. In particular, the extent of UST yield increases and broad USD direction could matter a bit more. Overall, we maintain a positive outlook on MYR with our year-end forecast on hold at 3.90, anchored by on commodity rebound, RMB stability and carry allure drivers.

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USDMYR Reversed Post-Announcement News

USDMYR saw a +230pips spike on 12 Jan, largely in response to Malaysia's declaration of National State of Emergency, reflecting initial uncertainty over what the state of emergency entails for social restrictions, economic activities, and in part due to broader USD/AXJ upmove amid the rise in UST yields and broad USD bounce.

But the spike has more than reversed today, with USDMYR below pre-announcement levels (closed at 4.0440) as market digest the fact that the State of Emergency does not involve curfews, and most government and economic activities will continue as usual, subject to other health protocols as the focus is targeted on containing the covid pandemic. At the same time, long-end UST yields eased (after 10y auction for $38bn sale of 10y bonds saw strong demand and Fed officials said that they are not close to discussing on tapering QE) and USD softness resumed.

External Drivers Could Impact USDMYR Direction

Focus on another 30y UST auction later tonight if demand can persist. Stronger demand could see UST yields ease further. But the key focuses for US this week (on Thu) are on Fed Chair/Vice Chair speeches (look out for any comments re QE tapering) and on Biden's stimulus proposal (building on the $900bn bill in Dec-2020). A scenario of smaller stimulus price tag and another strong demand for USTs could cap or moderate the pace of UST yield increases and that could drag on USD and provide a relief for risk proxy FX, including MYR.

Maintain Constructive Outlook on MYR; Maintain Forecast for Now

We remain constructive on MYR outlook, with support largely from global economic recovery, a softer USD environment, firmer brent and palm oil prices, RMB strength (MYR more correlated than SGD to RMB moves). Fiscal policy remains expansionary with record spending allocation of MYR322.5bn. Monetary responses have been forthcoming and we expect BNM to maintain record low OPR of 1.75% until end 2021, including utilising policy levers to sustain the economic recovery.

This incorporates our Economist's view of a Malaysia GDP of 5.1% (official (6.5-7.5%) and Bloomberg consensus (6.8% as at early Jan 2021)) and a baseline scenario of OPR staying at record low 1.75% this year ("dovish pause". In addition, BNM is likely to focus on execution of other policy instruments - SME financing, liquidity measures (BNM purchases of MGS), and targeted loan moratorium & flexible loan repayments while budget 2021 remains expansionary.

Foreign holdings of Malaysia bonds are also not as heavily positioned as they used to be. Return of foreign money in search of attractive carry could further support MYR.

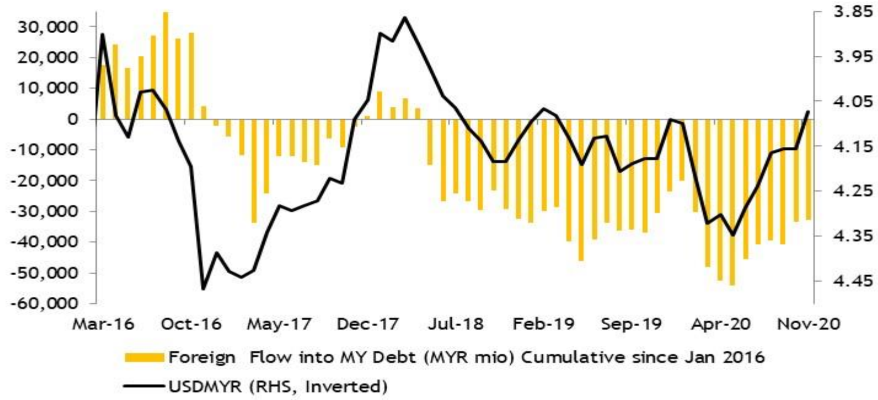
For now, we keep our end-2021 USDMYR forecast unchanged at 3.90. Shifts in sentiments will depend in part on domestic factors such as progress in eventual vaccine roll-out, and external factors such as commodities and particularly the oil price trajectory.

If Asia's growth and trade recovery narrative remains intact, the ringgit can potentially still see some appreciation vs. the USD, on net, this year. We note that despite signs of a dollar rebound recently, modest dollar softening may return at some point given its nature as a countercyclical currency, or when US fiscal deficit concerns emerge more strongly. If the dollar softens again in the near to medium term, USDMYR could be weighed down again.

Forecast	1Q 2021	2Q 2021	3Q 2021	4Q2021
USD/MYR	4.02	3.95	3.90	3.90

In summary, our view for further MYR strength draws on commodity rebound, RMB stability and carry allure thematics though near term, domestic uncertainties such as covid infection spread may be a potential drag.

Return of Foreign Inflows into MY-Debt Can Support MYR Strength



Source: Bloomberg, Maybank FX Research & Strategy

USDMYR Technical Outlook: Signs of Slowdown in USDMYR's Rise

Source: Bloomberg, Maybank FX Research & Strategy

USDMYR was last at 4.0440 levels. Mild bullish momentum on daily chart intact but RSI shows early signs of turning lower. Price action (12 Jan candlestick) saw a shooting star pattern - typically associated with a bearish reversal. We look for price confirmation in subsequent sessions to confirm if the reversal has legs to run. Support at 4.0420 levels (21 DMA, 50% fibo), 3.9960 levels (2021 low). Break below previous multi-year low could open room for further downside towards 3.95 levels. Meantime, resistance at 4.0730 (50 DMA), 4.1030 (23.6% fibo retracement of 2020 high to 2021 low) before 4.1140 levels (100 DMA).

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