

FX Insight

MYR: To Benefit from a Goldilocks Play

Goldilocks, Palm, Brent to Support

USDMYR has been on a gradual yet bumpy decline (>2.5%) since hitting a high of 4.20 (28 Nov). A slightly more favourable external environment could potentially support the case for further gains ahead.

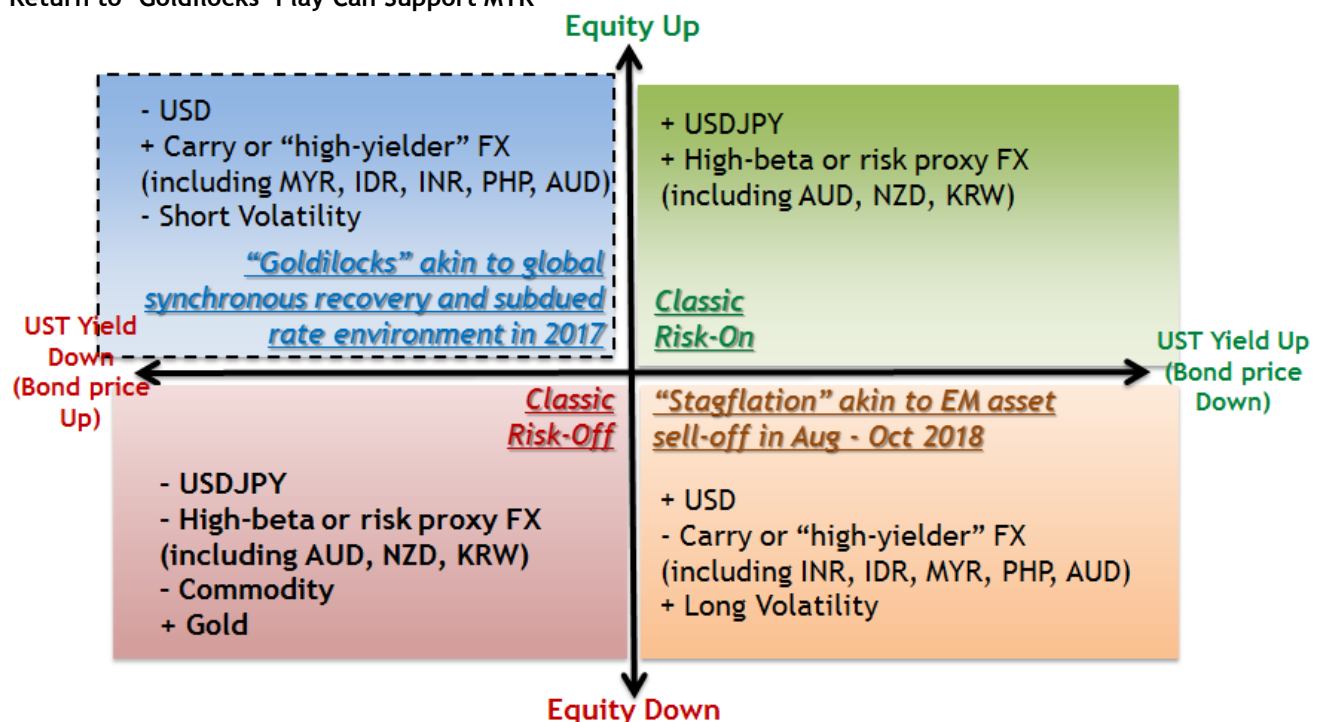
In particular, an external environment of (1) pause in Fed rate hike; (2) global growth 'neither hot nor cold' (global growth momentum slowing but not tanking); (3) global inflation not at risk of overshooting most central bank's medium-term objectives (i.e. benign inflation) could suggest a return to 'goldilocks' play and this could support higher-yielder FX including MYR.

In addition, supported oil and palm oil prices could further lend support to the MYR.

Elsewhere MYR and MYR-denominated assets have somewhat been under-invested since Malaysia's last General Election in May-2018, with foreign holdings of Malaysian debt fallen to more than 2-year lows. Potential re-balancing of portfolio amid political risks in regional AXJs (Thailand General Election in Mar, Indonesia Presidential/General Election in Apr, and Philippines Mid-term in May) could benefit MYR and MYR-denominated assets.

From a valuation perspective, MYR remains 7% - 8% undervalued relative to our fair value estimate of 3.80.

Return to 'Goldilocks' Play Can Support MYR



Note: EUR and GBP were not included as idiosyncratic factors (political uncertainties at home) taking precedence over exogenous macro factors in driving the respective currencies

Source: Bloomberg, Maybank FX Research & Strategy

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

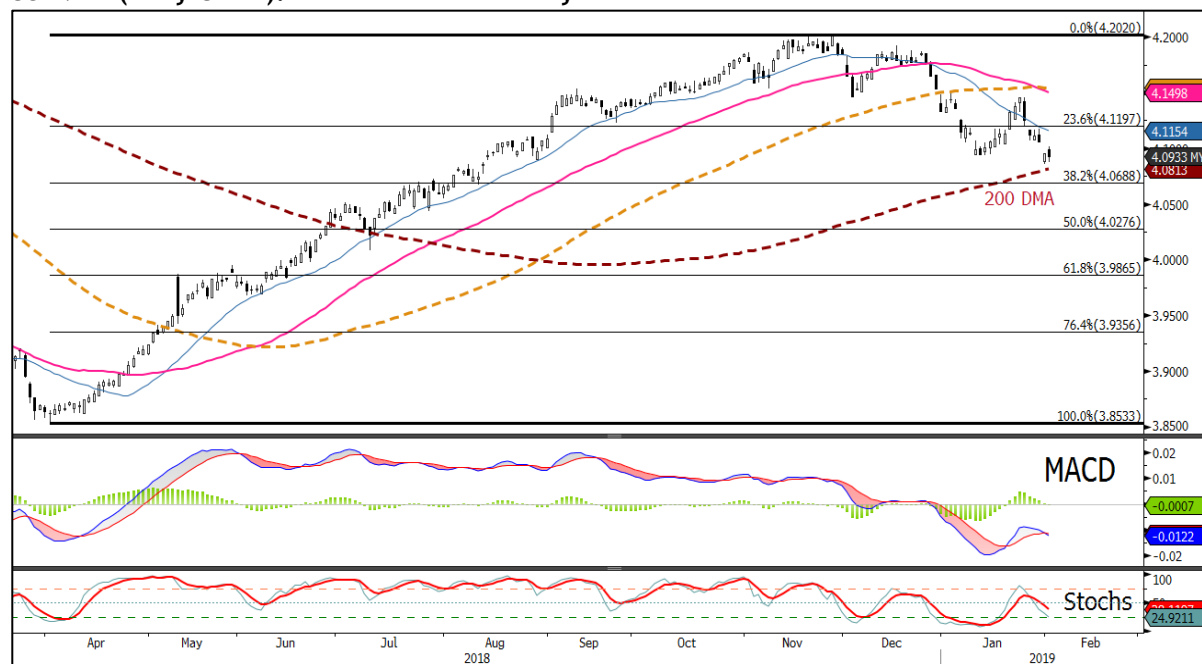
Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg

USDMYR Technical Outlook: Sell Rallies Preferred

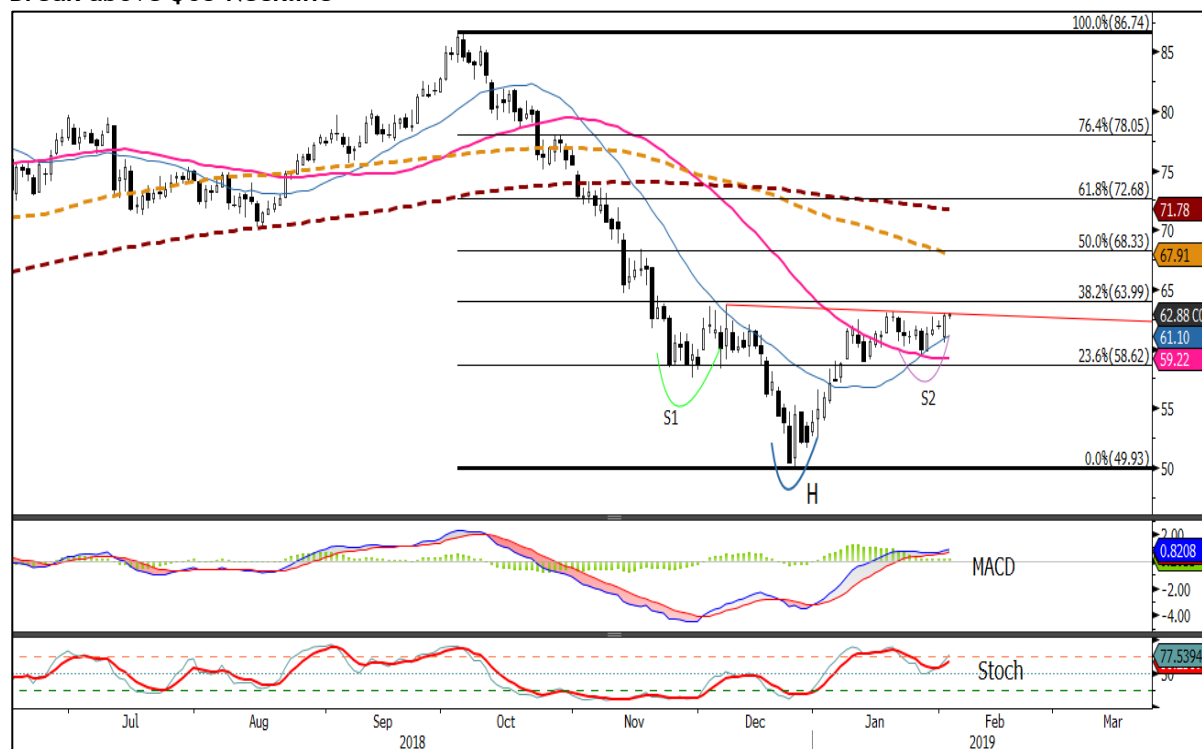
USDMYR was seen at 4.0930 levels. Daily momentum shows signs of turning bearish while stochastics is falling into near oversold conditions. 50 DMA cuts 100 DMA to the downside - typically a bearish signal. Bias for further downside play. A break below key support at 4.0810 (200 DMA) could usher in further downside towards 4.0690 (38.2% fibo retracement of 2018 low to high) and 4.05 levels. Area of resistance at 4.1150 (21 DMA) - 4.12 (23.6% fibo) before 4.15 (50, 100 DMAs). Sell rallies preferred.

USDMYR (Daily Chart): Bias for Downside Play



Source: Bloomberg, Maybank FX Research & Strategy

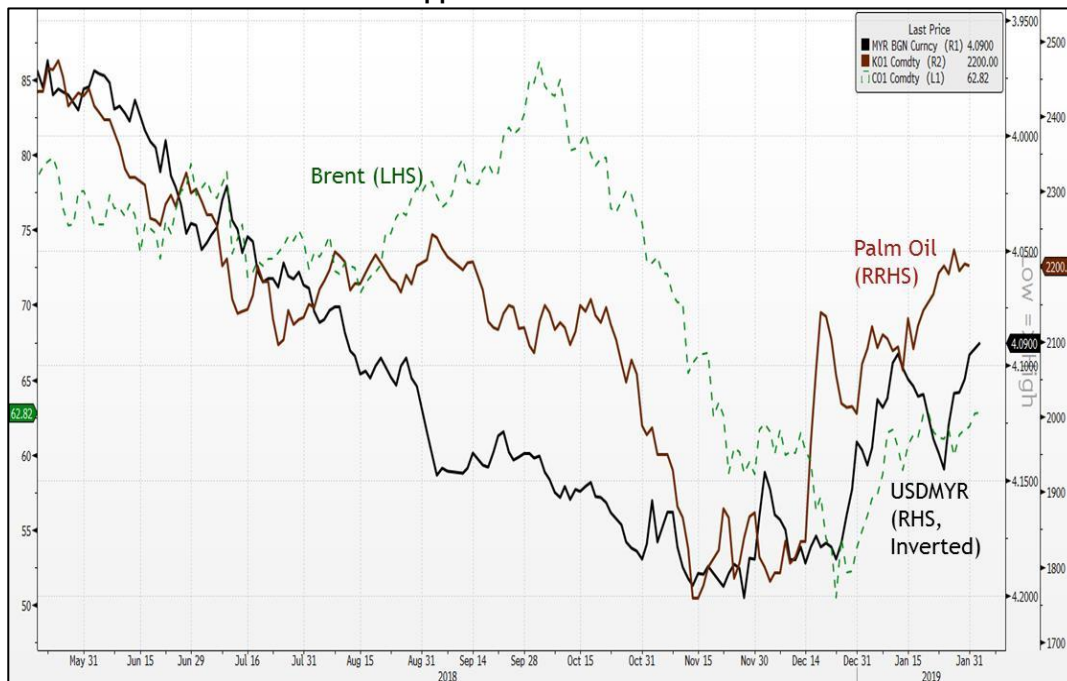
Brent Technical Outlook: Near Term Upside Risk towards \$70 - 75 on Break above \$63 Neckline



Source: Bloomberg, Maybank FX Research & Strategy

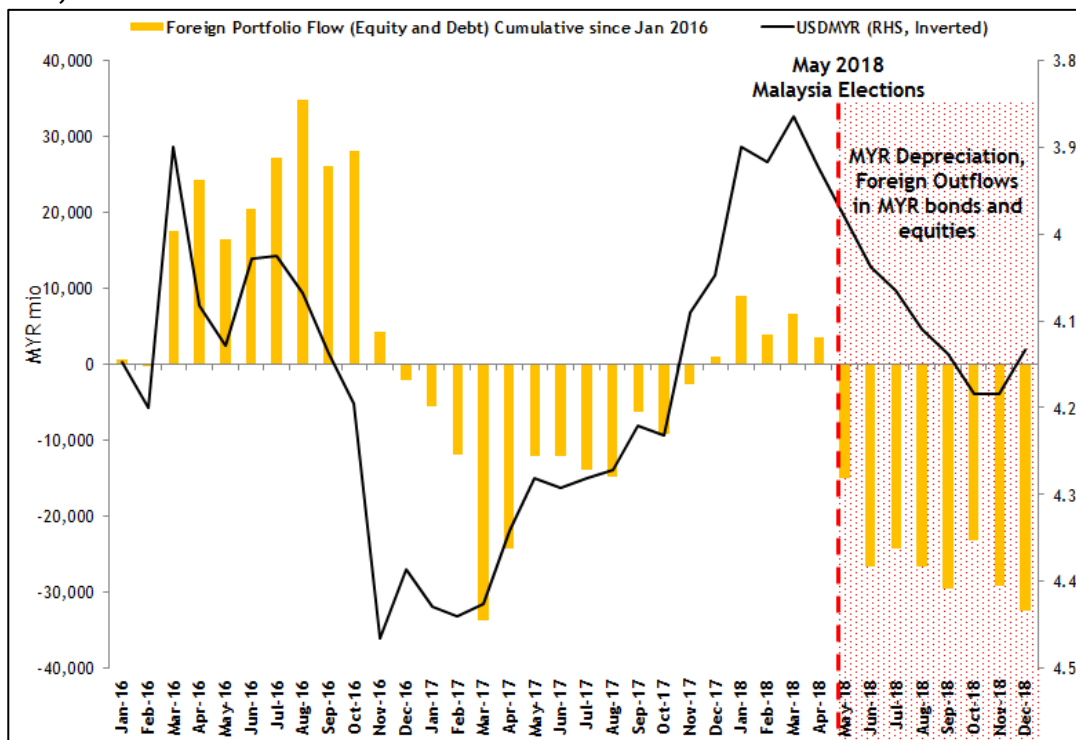
An inverted head & shoulders (H&S) pattern is potentially forming on the Brent, with neckline at \$63. This is typically a bullish reversal setup. A potential completion of the inverted H&S could see Brent test higher towards \$70 - \$75/bbl objective in the short term. This could further provide some support for MYR, to some extent.

Stabilisation in Palm Oil/ Brent Supportive of MYR



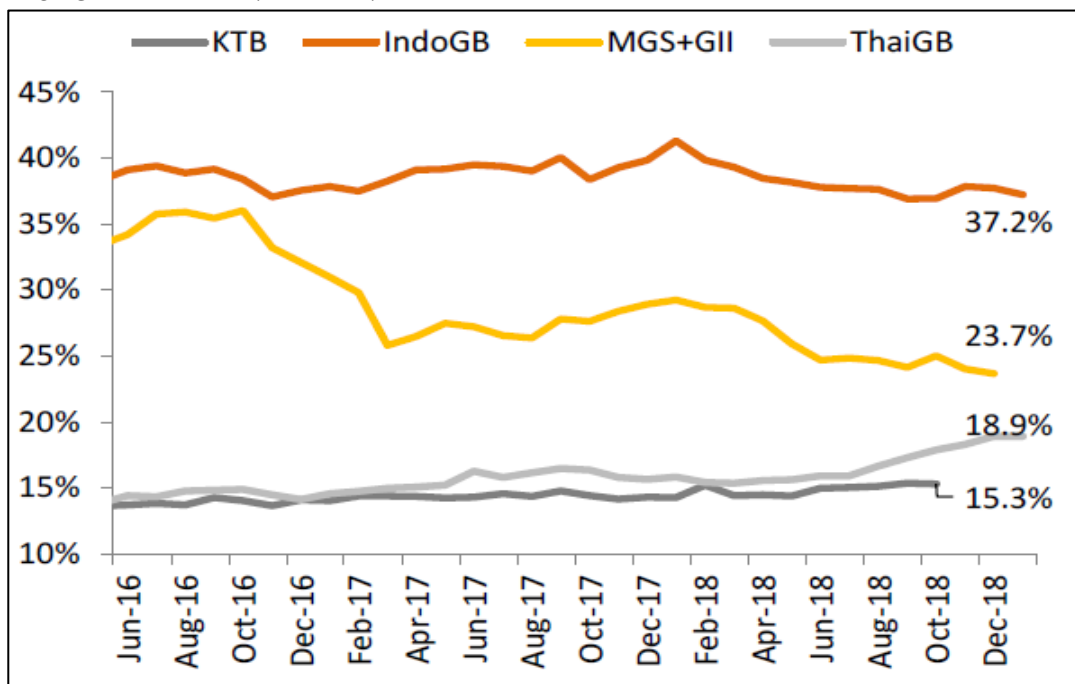
Source: Bloomberg, Maybank FX Research & Strategy

MYR, MYR-Denominated Assets Under-Invested in Post GE-World



Source: CEIC, Bloomberg, Maybank FX Research & Strategy

Foreign Holdings of Malaysian Debt Fallen to 2-Year Low; A Potential Re-balancing of Regional Portfolio due to Political Risk Events in Other AXJs Could Benefit MYR and MYR-denominated Assets

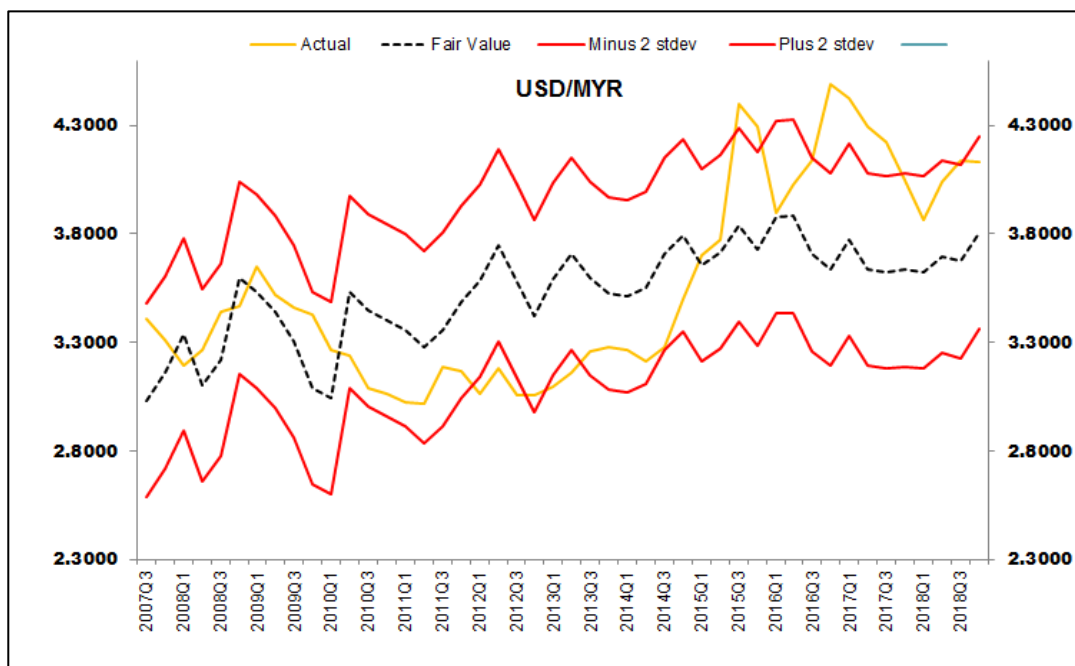


Source: BNM, CEIC, Maybank KE

About 7 - 8% Undervalued Relative to Fair Value Estimate

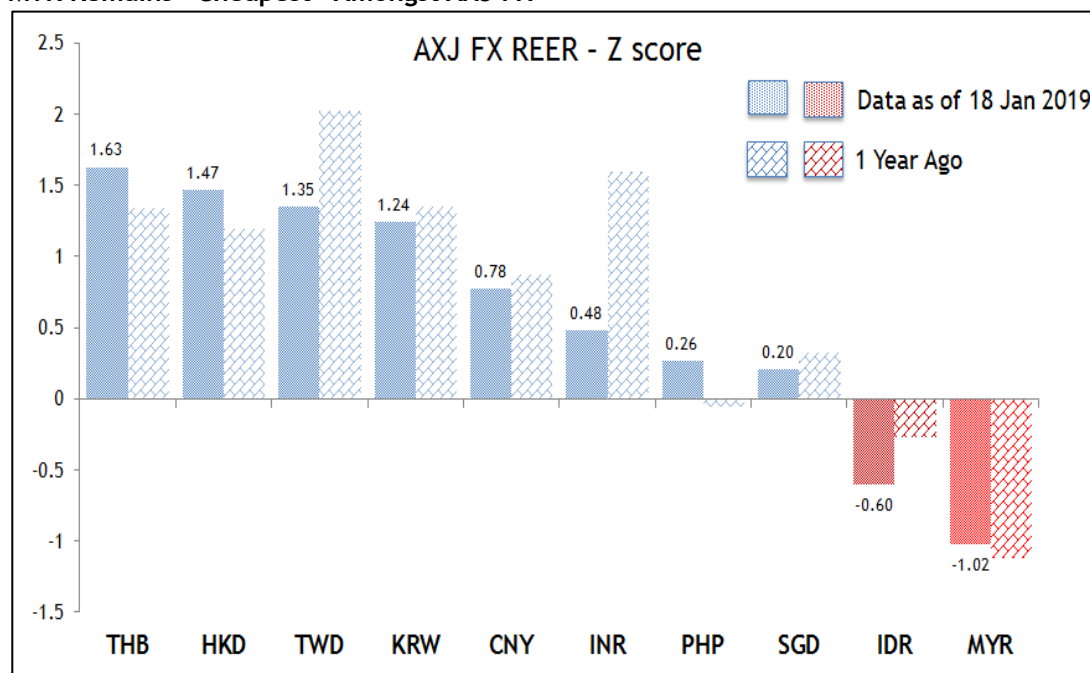
Our fair value model which takes into account the relative differentials in interest rates, inflation, current account and a reflation proxy variable (defined as the change in the ratio of MSCI World index to JPM Global Aggregate Bond Index) estimates USDMYR at 3.80 levels.

The current level of Ringgit remains fundamentally undervalued by about 7-8% and this suggests room for MYR to correct towards its fair value estimate.



Source: EvIEWS, CEIC, Bloomberg, Maybank FX Research & Strategy

MYR Remains “Cheapest” Amongst AXJ FX



Source: CEIC, Bloomberg, Maybank FX Research & Strategy

DISCLAIMER

This report is for information purposes only and under no circumstances is it to be considered or intended as an offer to sell or a solicitation of an offer to buy the securities or financial instruments referred to herein, or an offer or solicitation to any person to enter into any transaction or adopt any investment strategy. Investors should note that income from such securities or financial instruments, if any, may fluctuate and that each security's or financial instrument's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. This report is not intended to provide personal investment advice and does not take into account the specific investment objectives, the financial situation and the particular needs of persons who may receive or read this report. Investors should therefore seek financial, legal and other advice regarding the appropriateness of investing in any securities and/or financial instruments or the investment strategies discussed or recommended in this report.

The information contained herein has been obtained from sources believed to be reliable but such sources have not been independently verified by Malayan Banking Berhad and/or its affiliates and related corporations (collectively, "Maybank") and consequently no representation is made as to the accuracy or completeness of this report by Maybank and it should not be relied upon as such. Accordingly, no liability can be accepted for any direct, indirect or consequential losses or damages that may arise from the use or reliance of this report. Maybank and its officers, directors, associates, connected parties and/or employees may from time to time have positions or be materially interested in the securities and/or financial instruments referred to herein and may further act as market maker or have assumed an underwriting commitment or deal with such securities and/or financial instruments and may also perform or seek to perform investment banking, advisory and other services for or relating to those companies whose securities are mentioned in this report. Any information or opinions or recommendations contained herein are subject to change at any time, without prior notice.

This report may contain forward looking statements which are often but not always identified by the use of words such as "anticipate", "believe", "estimate", "intend", "plan", "expect", "forecast", "predict" and "project" and statements that an event or result "may", "will", "can", "should", "could" or "might" occur or be achieved and other similar expressions. Such forward looking statements are based on assumptions made and information currently available to us and are subject to certain risks and uncertainties that could cause the actual results to differ materially from those expressed in any forward looking statements. Readers are cautioned not to place undue relevance on these forward looking statements. Maybank expressly disclaims any obligation to update or revise any such forward looking statements to reflect new information, events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

This report is prepared for the use of Maybank's clients and may not be reproduced, altered in any way, transmitted to, copied or distributed to any other party in whole or in part in any form or manner without the prior express written consent of Maybank. Maybank accepts no liability whatsoever for the actions of third parties in this respect.

This report is not directed to or intended for distribution to or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

Published by:



Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Christopher Wong
Senior FX Strategist
wongkl@maybank.com.sg
(+65) 63201347

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
Senior FX Strategist
leslietang@maybank.com.sg
(+65) 63201378