

FX Insight

MYR - “Cautiously” Steady

Study Suggests that MYR Should Remain Steady...

Malaysia goes to the polls on 9th May.

Our study on how Ringgit performs in previous episodes of Malaysia General Election since 1980 shows that (1) MYR typically appreciates up to 2% (vs. the USD) between parliament dissolution day and polling day and (2) should continue to remain steady around current spot levels with chance for modest gains (up to 1.5%) in the event that BN wins a majority or manages to secure a 2/3 majority at the parliamentary level. But in the event of a negative surprise on the election outcome, MYR could underperform. The GE in 2013 saw MYR fell about 9% 90 days post-polling day.

But Every Election is Unique

That said every election period is unique. MYR has appreciated around 6% vs. the USD in the 90 days prior to the dissolution of parliament in the current episode. This is the largest magnitude of gains in the same period (90D before dissolution date) relative to previous episodes of Malaysia GE's since 1982. We caution that excessive optimism might already be in the price and the MYR could potentially trade cautiously in the lead up to polling day. External environment of trade tensions between US and China is also a major risk factor that may pose risks to MYR outlook.

Cautious of Rebound Risks for USDMYR and SGDMYR; Bias to Fade

USDMYR continues to trade near recent lows. Pair was last seen at 3.8680 levels. Bearish momentum on daily chart remains intact but shows tentative signs of waning while stochastics is showing signs of turning from near-oversold conditions. Rebound risks not ruled out. Resistance at 3.90 (21, 50 DMAs) and 3.95 levels. But underlying momentum remains intact as indicated on monthly chart while pair continues to trade within the bearish trend channel formed since Sep 2017. Key area of support at 3.84 - 3.85 remains a key level to watch. Decisive break below this area of support puts next key support at 3.82 (50% fibo retracement of late 2013-14 double bottom to 2015-2017 double top). SGDMYR continued to trade near recent lows of 2.95 levels. Bearish momentum on daily chart remains intact but shows signs of waning while stochastics is showing signs of rising from near over-sold conditions. Cautious of rebound risks in the near term. Upcoming MAS monetary policy decision on 13 Apr is a key event risk to watch - tightening could lend strength to SGD crosses. Resistance at 2.97 (21, 50 DMAs). But bias to fade the cross. Support at 2.94 (interim double bottom). Need a decisive break below the interim double bottom at 2.94 to open way for further downside towards 2.92, 2.90.

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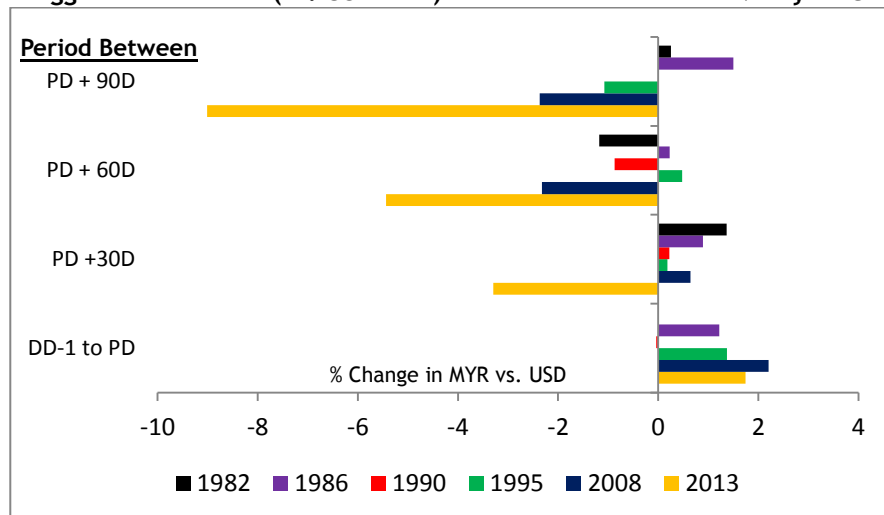
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Eye on Election Results

We look at how Ringgit had performed in the past 6 episodes of General Elections since 1980. Our study excludes General Elections that were held in 1999 and 2004, respectively as the Ringgit was pegged to the USD during this period. We share our observations below:

Ringgit Performance (vs. USD in %) in Different Periods of Malaysia GE

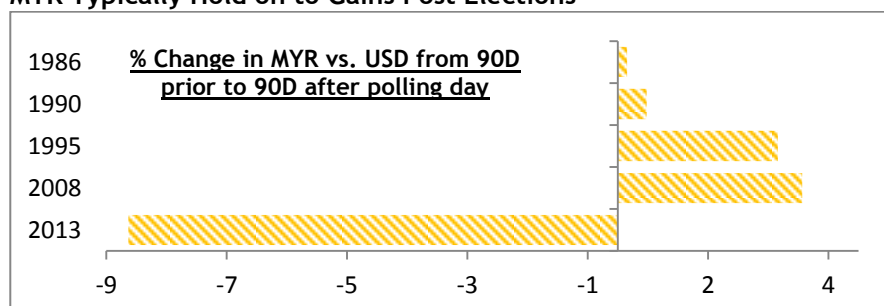


Note: DD-1 refers to 1 day before parliament dissolution date; PD refers to Polling Day

Source: Bloomberg, Maybank FX Research & Strategy

- MYR typically appreciates up to 2% between the period of parliament dissolution and polling day (about 15 to 31 days);
- MYR is typically stable (with gains up to 2%) 30 days post-polling day except for the GE held in 2013 when Barisan Nasional (BN) Ruling coalition saw its smallest margin of victory since 1969.
- MYR underperformed by most for the period 60D and 90D post-polling day for the GEs held in 2008 and 2013. This could be due to election results which saw BN being denied a two-thirds majority for two consecutive GEs held in 2008 and 2013.
- In particular for the GE held in 2013, MYR depreciated relatively more post-polling day than other GEs. Recall that back in 2013, BN garnered 47.4% votes vs. 51.4% for the GE held in 2008 at the parliamentary level.
- Overall, MYR typically appreciate in the 90days before and after polling day in past GEs post 1986, except for the GE held in 2013. A better than expected election results could suggest that MYR can hold on to gains.

MYR Typically Hold on to Gains Post Elections



Source: Bloomberg, Maybank FX Research & Strategy

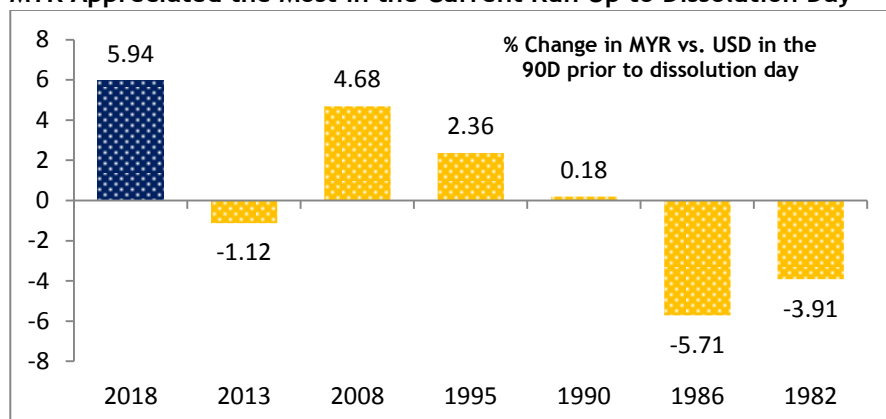
In a recent [report](#) published on 9 Apr by our Malaysia Economic team, our Economists outlined 3 possible scenarios on the outcome of the upcoming General Election: (1) Baseline, that BN wins with a majority at the parliamentary level, but short of two-thirds (status quo); (2) Best-case, that BN secures two-thirds majority; (3) an Alternative scenario, where BN wins with a simple majority. Based on our study of MYR moves in previous episodes of GE over event window periods and taking into consideration past election results, MYR should continue to remain steady around current spot levels with chance for modest gains (up to 1.5%) in the event that BN wins a majority (maintain status quo) or manages to secure a 2/3 majority at the parliamentary level under scenarios 1 and 2. But in the event of a negative surprise on the election outcome, MYR could underperform.

MYR Strength May Have Been Priced-In in the Near Term

Having shared what the study may imply for the MYR under different scenarios, we believe every election is unique.

For the current period, MYR has appreciated around 6% vs. the USD in the 90 days prior to the dissolution of parliament on 7 Apr. This is the largest magnitude of gains in the same period (90D before dissolution date) relative to previous episodes of Malaysia GE since 1982. We caution that excessive optimism might have been priced in and the MYR could potentially trade cautiously ($\pm 2\%$) in the lead up to polling day.

MYR Appreciated the Most in the Current Run Up to Dissolution Day



Source: Bloomberg, Maybank FX Research & Strategy

Reiterate MYR Strength in the Medium Term

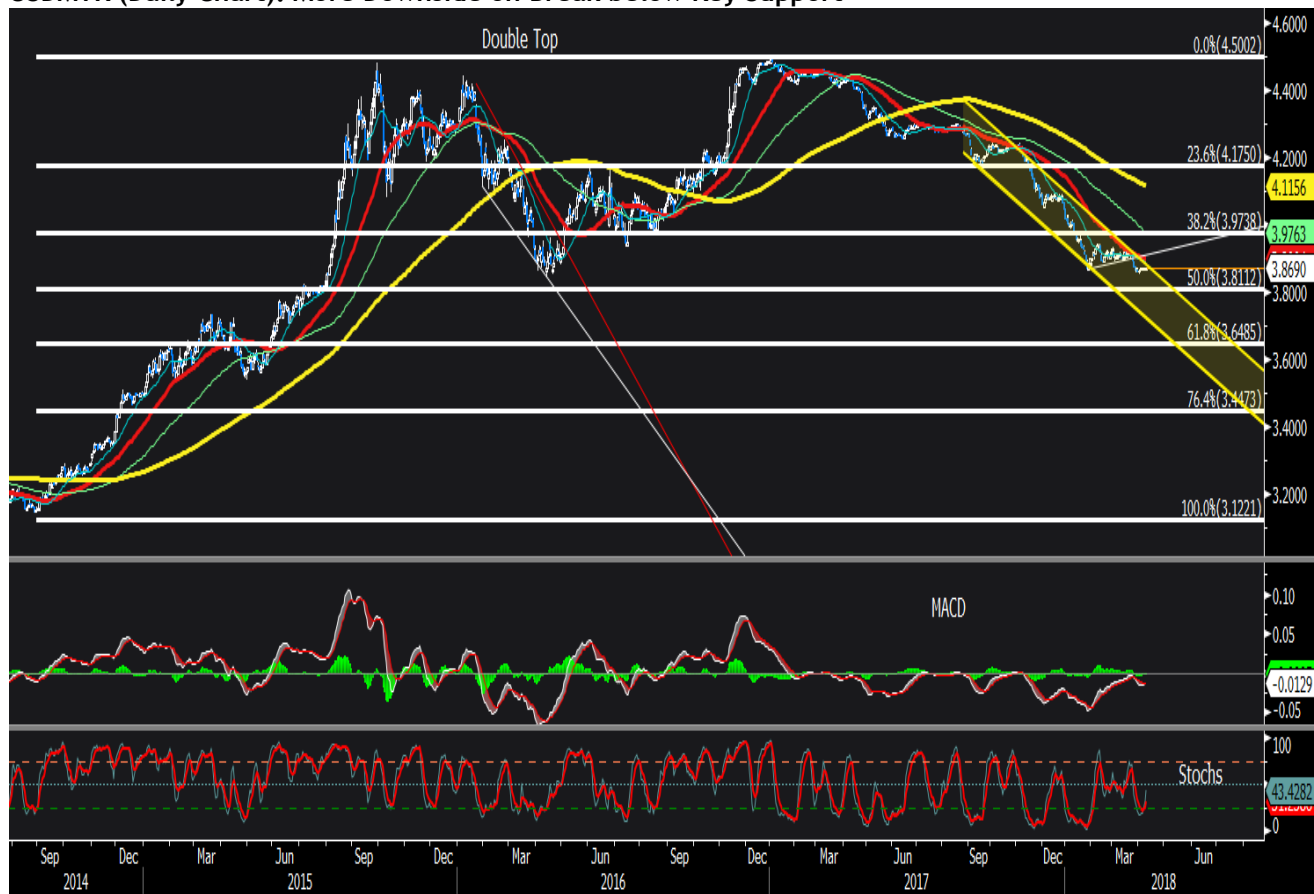
We maintain our medium term bias for MYR strength on the back of improving domestic and external factors. Some of these domestic factors include (1) sustained growth pick-up backed by consumption, investment and exports; (2) BNM initiatives (Apr-2017) to deepen and broaden domestic financial markets were positive steps to restore foreign investors' confidence; (3) BNM's pre-emptive move in Jan described the hike as pre-emptive to ensure that the stance of monetary policy is appropriate to prevent the build-up of risks that could arise from interest rates being too low for a prolonged period of time; (4) Sustained current account surplus and rising FX reserves to retained imports & short-term debt should also provide an anchor for Ringgit. Current external environment of monetary policy continuity, relative oil price stability and still subdued inflationary pressures in US amid synchronous global economic recovery should continue to bode well for exports recovery and benefit countries that are trade-dependent including the MYR.

A key risk that may pose risks to our outlook is the ongoing trade tensions between US and China. While a full blown trade war is not our base line assumption, on-off escalation does not bode well for risk sentiment and could impact MYR to some extent.

Rebound Risk Not Ruled Out for USDMYR; Key Support at 3.84 - 3.85, if Broken May Point to Further Downside

USDMYR continues to trade near recent lows. Pair was last seen at 3.8680 levels. Bearish momentum on daily chart remains intact but shows tentative signs of waning while stochastics is showing signs of turning from near-oversold conditions. Rebound risks not ruled out. Resistance at 3.90 (21, 50 DMAs) and 3.95 levels. But underlying momentum remains intact as indicated on monthly chart while pair continues to trade within the bearish trend channel formed since Sep 2017. Key area of support at 3.84 - 3.85 remains a key level to watch. Decisive break below this area of support puts next key support at 3.82 (50% fibo retracement of late 2013-14 double bottom to 2015-2017 double top).

USDMYR (Daily Chart): More Downside on Break below Key Support



Source: Bloomberg, Maybank FX Research & Strategy

SGDMYR - Cautious of Rebound Risks; Bias to Fade

SGDMYR continued to trade near recent lows; last seen at 2.9540 levels. Bearish momentum on daily chart remains intact but shows signs of waning while stochastics is showing signs of rising from near over-sold conditions. Cautious of rebound risks in the near term. Upcoming MAS monetary policy decision on 13 Apr is a key event risk to watch - tightening could lend strength to SGD crosses. Resistance at 2.97 (21, 50 DMAs). But bias to fade the cross. Support at 2.94 (interim double bottom). Need a decisive break below the interim double bottom at 2.94 to open way for further downside towards 2.92, 2.90.

SGDMYR (Weekly Chart): Key Support at 2.94



Source: Bloomberg, Maybank FX Research & Strategy

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