Maybank

FX Global

FX Insight

USDMYR Heads Higher Amid Weaker Global Sentiment

MYR Sees Weakening Due to External Factors

The USDMYR has been climbing quite substantially recently, breaching several key resistance levels as the global macro situation has turned unfavourable. Weakness in the prices of key Malaysian (such as crude palm oil and crude oil), disappointment on China's recovery and broad USD strength/rising UST 10 y yields (amid more hawkish Fed speak) has weighed heavily on the MYR. In the near term, we do not rule out the possibility that the USDMYR could still be move further upwards given that global sentiment could be subdued for a while still. We see key resistance levels for the pair at 4.6244 and 4.7495. Support is at 4.5481, 4.5000 and 4.4729. Amid the global uncertainty, our FX-tracking model finds that the USDMYR in the short run may not hit the high of 2022 and top out at 4.69.

However, We Believe MYR Weakness Should Be Short-Term

A lot of the current weakness is mainly driven by negative short-term sentiment due to external factors.

However, the situation we believe should gradually turn and the medium term outlook for the MYR we see is still positive. Next month, once the Fed does do its hawkish pause, there could be some USD unwinding. Furthermore, the weakness in sentiment that has resulted in foreign bond outflows should gradually become inflows and strengthen with time especially later in the year when the Fed may soften its stance as inflation falls. Also, China's economy could show a more discernible recovery by the fourth quarter possibly boosting appetite for regional EM assets.

Additionally, looking at the MYR REER, we see a negative Z-Score and the currency appears to be the third most undervalued in the region. This points to the MYR seeing heavier gains once the global situation changes.

Consequently, we expect the USDMYR to trend downwards to hit 4.25 by year-end.

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External Factors Weighing on MYR and Further Near Term Weakness Not Ruled Out

The USDMYR has been heading higher in the recent period as a number of external factors have appeared to weigh on the MYR. Among them include:

1. Weakness in commodity prices: Two of Malaysia's major commodity exports have been experiencing quite substantial weakness recently. The first of which is crude palm oil where prices have fallen sharply this month in line with the substantial rise in the USDMYR. There has been a strong soya bean harvest in Latin America, which consequently has meant that palm oil is facing more competition from its other edible oil rival – soybean oil. There is also expectations of rising palm oil production with a 9% increase already observed a month earlier as indicated by the Malaysian Palm Oil Association estimates. Additionally, demand looks to be weak with the uneven recovery in China as data shows Malaysia's palm oil exports rose by only 1.6% in the first 20 days of May. Aside crude palm oil, the other major Malaysian commodity – crude oil is also facing a difficult period as the disappointing China recovery hurts the prospects that oil demand could hold up in the face of lower demand from the western economies. Both WTI and Brent risk stabilizing at a range of $70 - $80 per barrel compared to expectations of $100.00.

2. Disappointment on China's recovery: The country's uneven recovery does not bode well for Malaysia's external position. In 2022 alone, trade between Malaysia and China stood at an astounding RM487.13bn or 17.1% of Malaysia's total global trade. This in fact also marked a 15.6 % increase from the previous year. Our analysis find that the CNH has a sensitivity of 0.851 on the MYR which is quite substantial. CNH has been recently hurt by the pessimism regarding China's recovery and geopolitical tensions, which all in turn weighs on the MYR.

3. Recent Rebound in USD strength and UST yields: The DXY in addition to UST 10 Y yields has risen in the last few sessions as overoptimistic rate cut bets were pared with a number of Fed officials have been giving more hawkish speak. As it stands, there is a possibility the Fed may engage in a hawkish hold which can risk keeping the DXY supported. Weaker European PMI mfg data has also helped given support to the DXY recently. Overall, DXY strength looks like it can continue weighing on the MYR.

USDMYR Technical – Lean Bias Upwards

USDMYR was last seen around the 4.6265 levels. On the weekly chart, bullish momentum still looks intact with the RSI, MACD and stochastics on the rise. An upward sloping trend line support can also be observed from the lows seen in both Feb and Apr 2023. The last period when external factors heavily weighed on the MYR such as in 2022, we saw a rally of about 14% in the USDMYR. This time around, we are not ruling out that the climb in the pair from the Feb low can hit such levels although we note that we are likely not in a rate hiking cycle anymore nor are we in a China lockdown (instead we are in a recovery phase albeit one that may just be below expectations). We now watch if it can decisively hold above the resistance at 4.6244 (FI retracement of 76.4% of Nov 2022 high to Feb 2023 low) with the next at 4.7495 (Nov 2022 high). Support is at 4.5481 (previous resistance turned support), 4.5000 (support on upward trend line) and 4.4729 (50-dma). Near term, on the daily chart, there could be some interim retracement given that momentum indicators look stretch with stochastics and RSI in overbought conditions.

Chart 1: USDMYR (Weekly Chart): Bias Upwards

Source: Bloomberg, Maybank FX Research

SGDMYR Technicals - Lean Upwards

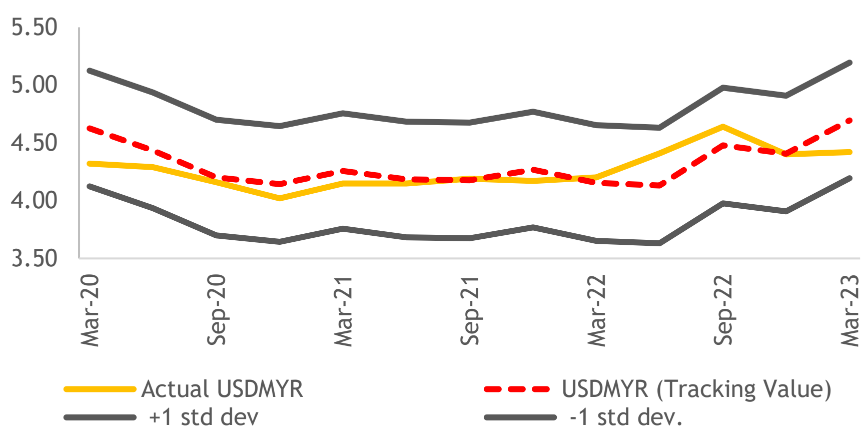
SGDMYR was last seen around 3.4216, well pass prior record highs seen in 2022 at around 3.3951. For now, we are not ruling out further upward movement in the pair given that the near term pressure the MYR can face from the external factors described earlier in the piece. At the same time, the SGD can be rather resilient during periods of weaker global sentiment due to its safe haven appeal. The recent Singapore core inflation data has also reignited bulls speculating on MAS tightening (although our house view expects a hold as price pressures gradually ease). Levels wise, we watch if it can decisively cross and hold above the 3.4134 level (61.8% taking FI extension of Mar 2022 low to Nov 2023 high). Next levels after that are at 3.4620 (76.4% taking FI extension of Mar 2022 low to Nov 2023 high) and 3.5000 (psychological level). Support is at 3.3951 (Nov 2022 previous record high) and 3.3500 (psychological level).

Chart 2: SGDMYR (Weekly Chart): Risk of Further Upside

Source: Bloomberg, Maybank FX Research

Meanwhile, our FX-tracking model, which tracks where the USDMYR may head to in the short-run finds that the pair may not hit the high of 2022 and top out at 4.69. However, it is important to note that this is not an equilibrium model and therefore does not reflect where the USDMYR would head to in the medium to long run.

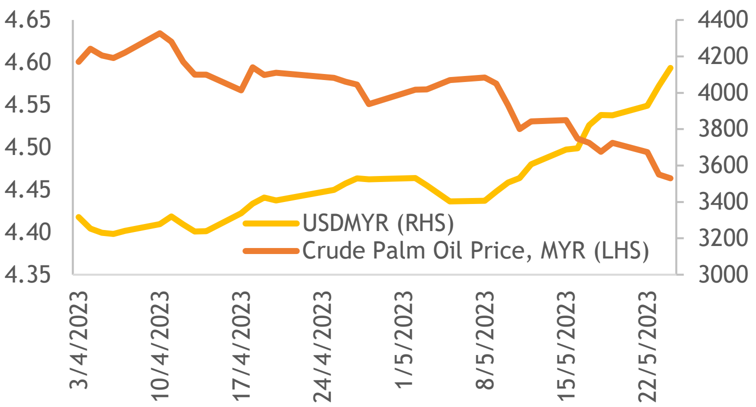
Chart 3: USDMYR May Not Hit The High of 2022 in the Short Term



Source: Bloomberg, Maybank FX Research
Note: Values are derived by an OLS Regression run with USDMYR on real yield, reflation proxy, current account % of GDP, USDCNY and Brent Price. The variables are chosen based on a mix of fundamental indicators and those that can affect short-term sentiment towards the MYR. This model is strictly only a

reflection of where the USDMYR may head in the short term and it is not an equilibrium model to imply where the pair may head in the medium – long term.

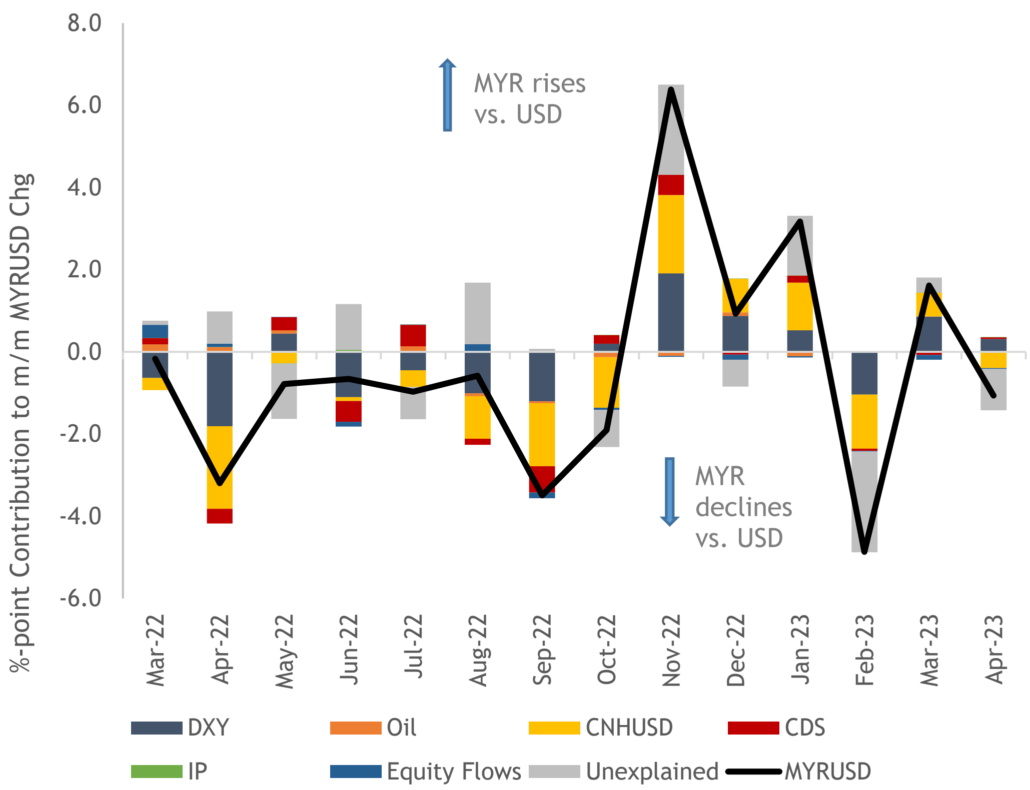
Chart 4: USDMYR Rising in Line with Fall in Crude Palm Oil Prices



Source: Bloomberg, Maybank FX Research

As an interesting note, we also decomposed the drivers of the MYR in the last couple of months and we found the DXY and CNHUSD can have a substantial impact on the MYR in either direction.

Chart 5: Drivers of USDMYR in Recent Periods Prior to May 2023



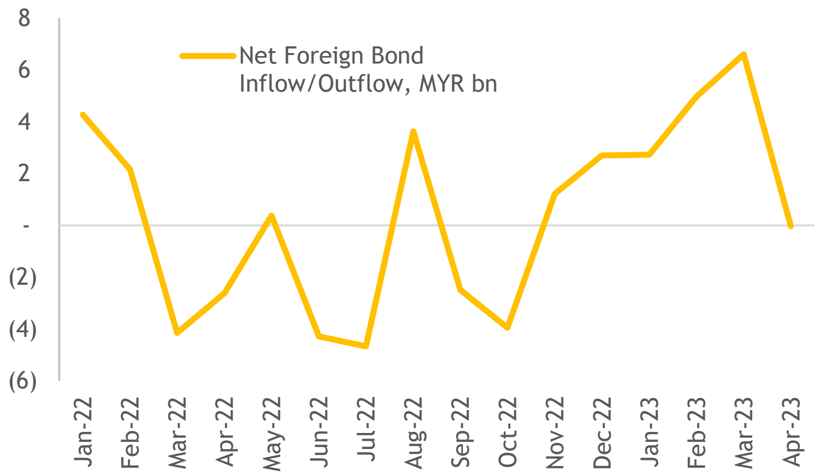
Source: Bloomberg, Maybank FX Research

MYR Could Have Been Weighed Down By Foreign Outflows

Regarding foreign bond flows, we see positive net foreign inflows until March 2023 before there was an outflow in April 2023. This was in line with other regional EM countries too and could be a reflection of investors positioning for a Fed cut earlier in the year and then subsequently cutting positions as Fed cut bets were pared back and more concerns about the global economy emerged. We do not rule out the possibility that there has been a net outflow also in May. Overall, the reduced interest in Malaysian government bonds could be a factor that is weighing on the MYR. However, given the possibility that the Fed may soften later in the year as inflation falls and the economy weakens, foreign inflows could strengthen again further down the road as investors position for potential falling yields. This should give more support for the MYR.

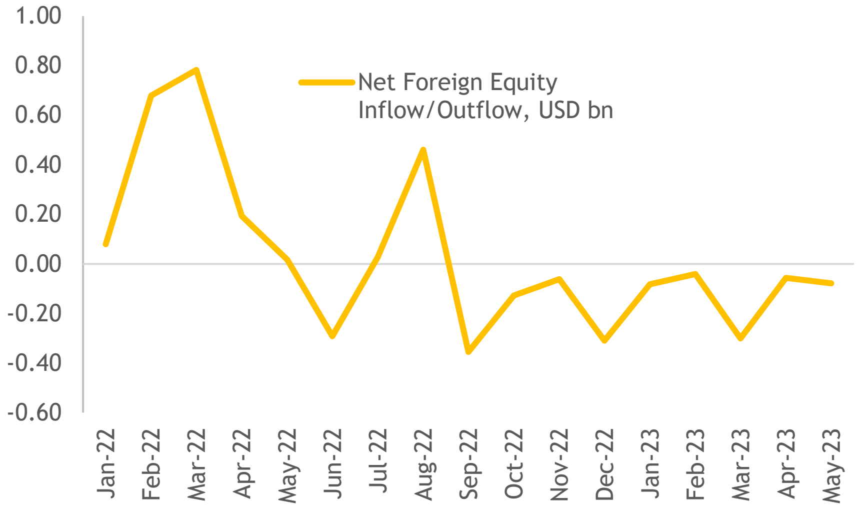
Equities meanwhile have seen a year to date net foreign outflow of -$0.56bn. On a monthly basis, there has been net outflows for every month of this year so far. Given the global uncertainties regarding the US regional banking crisis, the Fed's rate path, US – China tensions and recession risks, the path looks muddled and challenging for regional bourses. Therefore, foreign interest in Malaysia equities could be more subdued for now and this can continue to weigh on the MYR. However, as the macro environment turns more favorable towards year-end, we do not rule out the possibility that foreign sentiment towards Malaysia equities could improve.

Chart 6: Foreign Investors could be Cutting Down Bond Positions as Fed Cut Bets are Pared Back



Source: Bloomberg, Maybank FX Research

Chart 7: Equity Outflows so Far only in 2023

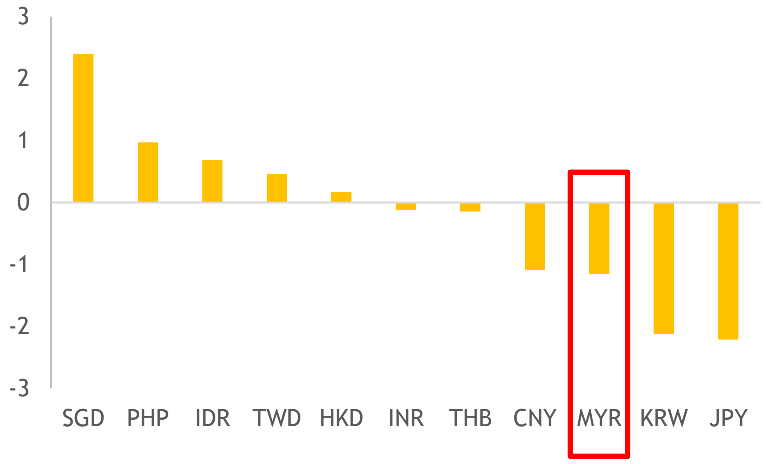


Source: Bloomberg, Maybank FX Research

The MYR Also Looks Undervalued

As it stands, based on the MYR REER Z-score, it is actually among the most undervalued currency in the region. After the KRW and JPY, the MYR stands as the third most undervalued in the region. Hence, this can imply a possibility that when the global environment does turn, the MYR can see a much stronger appreciation.

Chart 8: REER Z-Score



Source: Bloomberg, Maybank FX Research

Conclusion: We Expect the USDMYR Still Move Downwards By Year-End

We do not deny that the earlier mentioned factors do weigh on the MYR except that based on our analysis, they do not justify a decline in the currency to current levels. If the global environment does turn more favorable towards EM currencies, the MYR can be positioned to see substantial gains. Our expectations is for USD strength to stay supported in the next two quarters amid the possibility of the Fed keeping a hawkish tone even if they pause. China's economy may also still require some further time to pick-up given it may take a while for consumers to loosen their purses. However, the situation could shift getting closer to year-end as the Fed may soften its stance as the economy weakens and inflation moves further down. At the same, China's economy could show a more discernible recovery by then. Therefore, investors may again turn more favourable towards EM assets leading the MYR to be a big gainer. hence, we continue to hold our forecast for USDMYR to hit 4.25 by year end.

Table 1: USDMYR and Key Crosses Forecast

Forecast	2Q 2023	3Q 2023	4Q 2023	1Q 2024
USDMYR	4.4500	4.4000	4.2500	4.2000
SGDMYR	3.35	3.35	3.26	3.22
GBPMYR	5.47	5.41	5.27	5.21
EURMYR	4.85	4.84	4.72	4.70
AUDMYR	2.98	2.95	2.98	2.98
NZDMYR	2.80	2.86	2.85	2.81
100JPY/MYR	3.30	3.28	3.27	3.28

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