

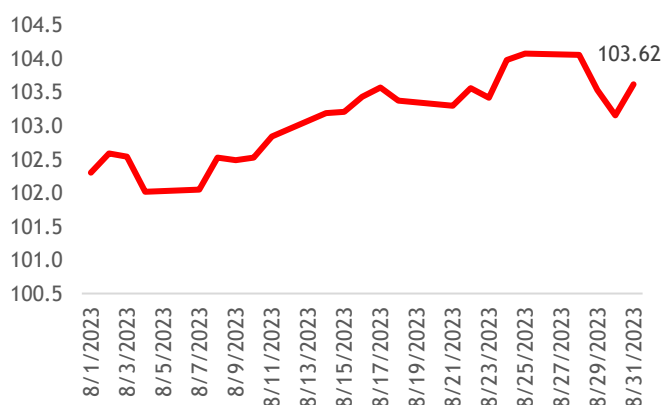
CURRENCY | Aug-23 Monthly Currency Review

Ringgit is Expected to Appreciate Towards End Year

- US dollar strengthened again as Fed still open to more hikes. The greenback appreciated against major currencies as the DXY index rose in Aug-23 by +1.7%mom, ending the month at 103.62 (end-Jul-23: 101.86). In terms of the monthly average, the dollar index averaged higher by the same percentage to 103.10 in Aug-23.
- Ringgit depreciated on the stronger dollar in Aug-23. Malaysian ringgit ended the month -2.8%mom weaker at RM4.639 as a result of the stronger dollar. Nevertheless, ringgit depreciated at a much smaller margin of -0.5%mom to RM4.611 based on the monthly average, fairing better than regional currencies.
- Ringgit to appreciate to RM4.24 by year-end. We foresee the ringgit to end the year around RM4.24, and averaging at RM4.43 for the full year 2023 (year-to-date average: RM4.49).

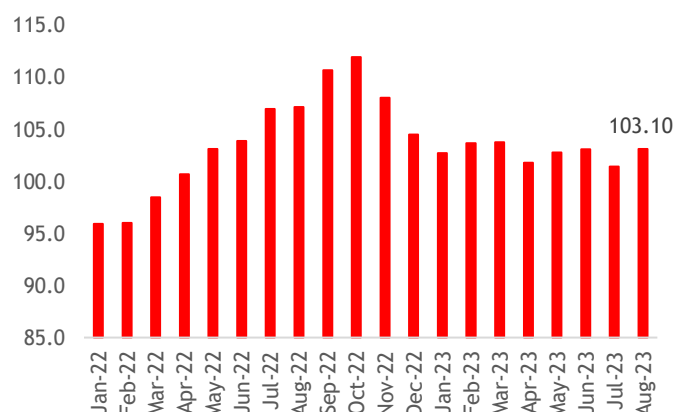
US dollar strengthened again as Fed still open to more hikes. The greenback appreciated against major currencies as the DXY index rose in Aug-23 by +1.7%mom, ending the month at 103.62 (end-Jul-23: 101.86). In terms of the monthly average, the dollar index averaged higher by the same percentage to 103.10 in Aug-23. The intra-month movement saw a steep dollar appreciation despite inflation generally on easing trend. The dollar rallied as Fed still indicated hawkish stance as inflation remained above the Fed's 2% target, although market widely expected the Fed will keep its policy interest rate steady at Sep-23 FOMC meeting. The dollar continued to appreciate ahead of the Fed's chair speech at the Jackson Hole Symposium, although Jerome Powell's hawkish tone was soon overwhelmed by indications of an easing tightness in the labour market which saw the dollar depreciated from the highs during the month. Expectations for another hike by the Fed after the Sep-23 FOMC meeting somewhat diminished following core PCE inflation data was within expectations and new signs of cooling labour market, indicating the greenback will be trading weaker as the Fed seen reaching the end of its tightening cycle.

Chart 1: Movement of DXY Index in Aug-23



Source: Bloomberg, MIDFR

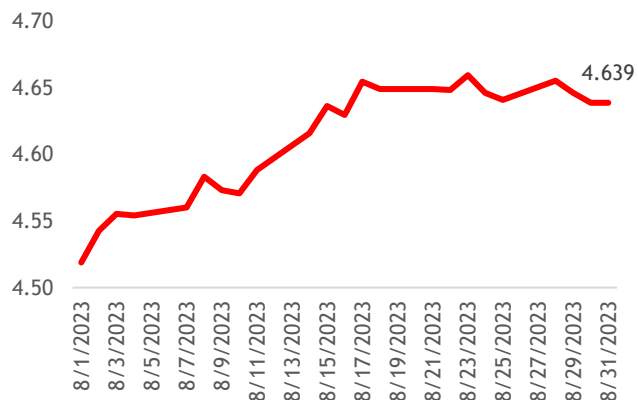
Chart 2: Monthly Average of DXY Dollar Index



Source: Bloomberg, MIDFR

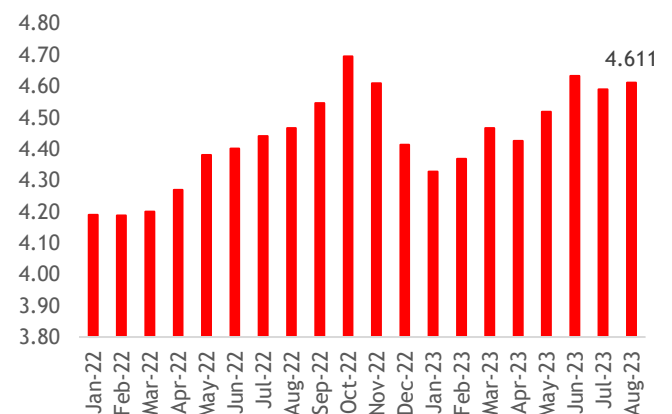
Ringgit depreciated on the stronger dollar in Aug-23. Malaysian ringgit ended the month -2.8%mom weaker at RM4.639 as a result of the stronger dollar. Nevertheless, ringgit depreciated at a much smaller margin of -0.5%mom to RM4.611 based on the monthly average, faring better than regional currencies. Apart from the dollar strength, the performance of ringgit and other regional currencies was also dragged down by China's lacklustre economic recovery, with manufacturing and trade continuing to remain sluggish. Moreover, renewed concerns over China's real estate crisis also caused regional currencies to weaken. The movement of commodity prices failed to outweigh the downward pressure from the financial market developments and general concerns on growth outlook as ringgit depreciated despite Brent crude oil prices ending the month higher by +1.5%mom at USD86.86pb. On average, Brent crude oil prices rose +6.2%mom to USD85.10pb. We foresee the ringgit performing better in the latter part of the year as expectations for a hawkish Fed subsides and China's recovery picks up again supported by stimulus measures, including the recent 10bps cut by PBOC for the 1-Year loan prime rate (LPR).

Chart 3: USDMYR (RM) Movement in Aug-23



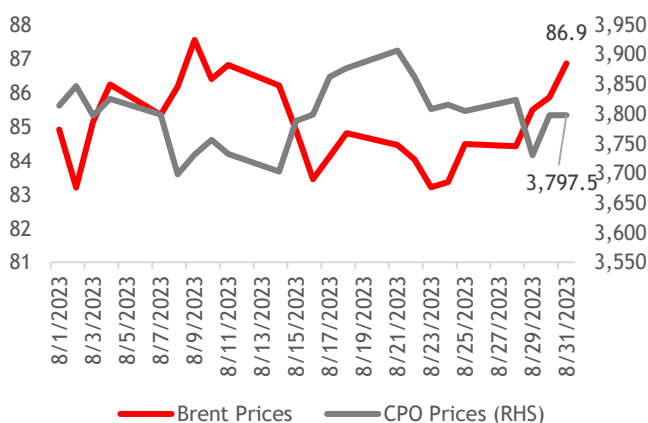
Source: Bloomberg, MIDFR

Chart 4: USDMYR (RM) Monthly Average



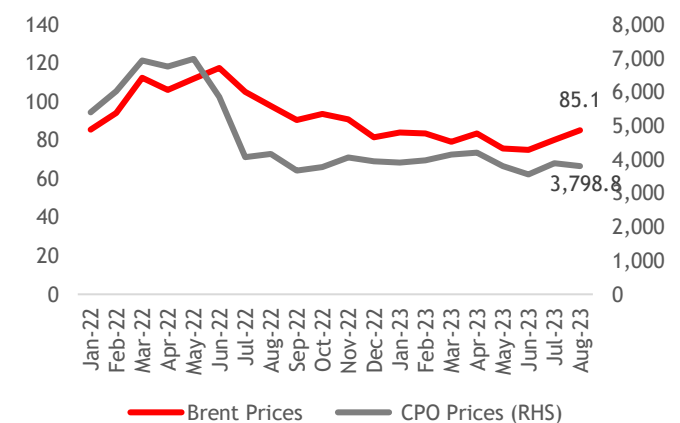
Source: Bloomberg, MIDFR

Chart 5: Brent Crude Oil (USD) and Crude Palm Oil (RM) Prices Movement



Source: Bloomberg, MIDFR

Chart 6: Brent Crude Oil (USD) and Crude Palm Oil (RM) Monthly Average Prices



Source: Bloomberg, MIDFR

On average ringgit appreciated against other currencies. Despite weakening against US dollar, the monthly average saw ringgit appreciated against selected currencies, namely Australia dollar (+3.3%mom), Canadian dollar (+1.5%mom), euro (+0.9%mom), pound (+0.9%mom), and Chinese yuan (+0.4%mom). However, looking at the closing by end-Aug-23, ringgit ended weaker against euro (-1.8%mom), pound sterling (-1.8%mom), Chinese yuan (-1.3%mom) and Canadian dollar (-0.6%mom). However, ringgit closed +0.6%mom stronger against Australian dollar. The overall weakness of ringgit at the end of Aug-23 was due to relatively sharper fall related to concerns over exposure to China's real estate crisis. Although Malaysia's banking system has exposure to the local subsidiary of Country Garden, China's struggling major property developer, which caused ringgit to be more susceptible to the slowdown in China's property market, BNM indicated the exposure is rather limited, amounting to less than 0.1% of outstanding banking system loans and bonds as of Jun-23.

Table 1: Selected Currencies to MYR MoM Change

	End Period			Average		
	Aug-23	Jul-23	% Change	Aug-23	Jul-23	% Change
EURMYR	5.064	4.972	-1.8%	5.031	5.074	+0.9%
GBPMYR	5.899	5.795	-1.8%	5.858	5.914	+0.9%
CNYMYR	0.639	0.631	-1.3%	0.636	0.638	+0.4%
AUDMYR	3.002	3.020	+0.6%	2.991	3.091	+3.3%
CADMYR	3.426	3.408	-0.6%	3.422	3.472	+1.5%

Source: Bloomberg, MIDFR

YTD ringgit depreciated more than other currencies. Ringgit depreciated by -5.0%ytd against US dollar, sharper than most other currencies except Japanese yen, which depreciated by -9.9%ytd. Similar to ringgit, regional currencies also weakened this year on the back of the strength in US dollars. In contrast, Indonesian rupiah is the best performing regional currency, with appreciation of +2.3%ytd so far this year. Apart from the delayed pivot by the Fed, the weakening of regional currencies was linked to concerns over slower-than-expected economic recovery in China, which also dragged down regional trade and production activities. Ringgit was also among the currencies which weakened the most from the month-on-month performance in Aug-23, depreciating by -2.8%mom which was not as sharp as Philippine peso (PHP), Australian dollar (AUD), and Korean won (KRW).

Table 2: Yearly Average of Selected Currencies to the USD

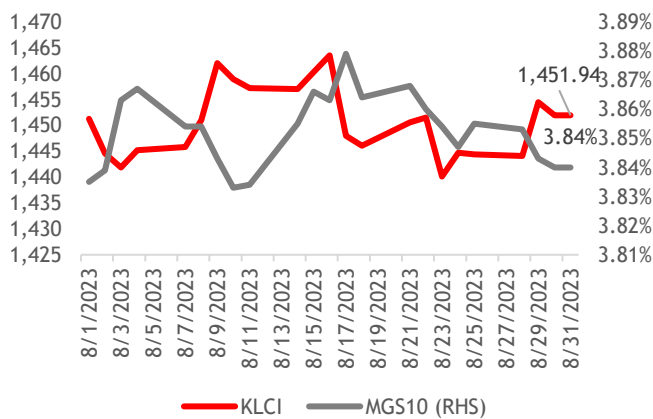
	2019	2020	2021	2022	2023 (YTD)	YTD Change	MoM Change in Aug-23
DXY	97.40	95.82	92.51	104.00	102.80	+0.1%	+1.7%
EURUSD	1.119	1.142	1.183	1.053	1.085	+1.3%	-1.4%
GBPUSD	1.277	1.284	1.376	1.237	1.245	+4.9%	-1.3%
USDJPY	109.03	106.77	109.85	131.55	137.00	-9.9%	-2.2%
USDAUD	1.439	1.453	1.332	1.442	1.489	-4.8%	-3.5%
USDCAD	1.327	1.341	1.254	1.302	1.345	+0.3%	-2.4%
USDPHP	51.79	49.61	49.29	54.53	55.34	-1.5%	-3.0%
USDTHB	31.05	31.29	32.00	35.06	34.36	-1.2%	-2.2%
USDSGD	1.364	1.379	1.344	1.379	1.338	-0.9%	-1.6%

USDIDR	14,144	14,543	14,296	14,853	15,077	+2.3%	-1.0%
USDVND	23,227	23,230	22,935	23,409	23,589	-1.9%	-1.6%
USDKRW	1,165.8	1,179.5	1,144.9	1,292.0	1,297.7	-4.7%	-3.7%
USDTWD	30.91	29.47	27.94	29.80	30.81	-3.6%	-1.3%
USDINR	70.42	74.12	73.94	78.63	82.29	-0.1%	-0.6%
USDCNY	6.910	6.900	6.451	6.733	7.004	-5.0%	-1.6%
USDMYR	4.143	4.201	4.144	4.401	4.494	-5.0%	-2.8%

Source: Bloomberg, MIDFR

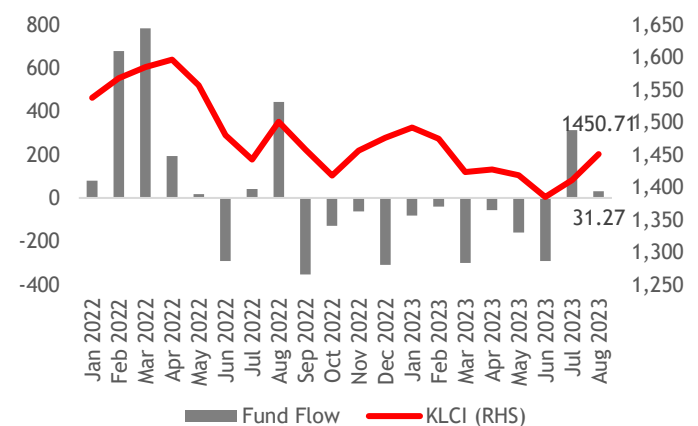
Both equity and stock market ended the month lower. In line with the ringgit depreciation, the FBMKLCI ended Aug-23 -0.5%mom lower at 1,451.94 while the yield for the benchmark MGS 10 rose by +1bps to 3.84%. The monthly average however saw FBMKLCI rose +2.8%mom to 1450.71 while the MGS yield rose by +1bps to 3.85%. Meanwhile, foreign holdings of Malaysian bonds reached an all-time high in Jul-23 at RM279b. Foreign holdings of govies, totalled RM207.0b, accounted for 24.0% of the total outstanding government bonds, the highest in 14 months and surpassing the pre-pandemic average (2019 average: 23.1%).

Chart 7: FBMKLCI and MGS 10-Yield Movement in Aug-23



Source: Bloomberg, MIDFR

Chart 8: FBMKLCI (Average) vs Fund Flow Into Malaysian Equity (USD m)

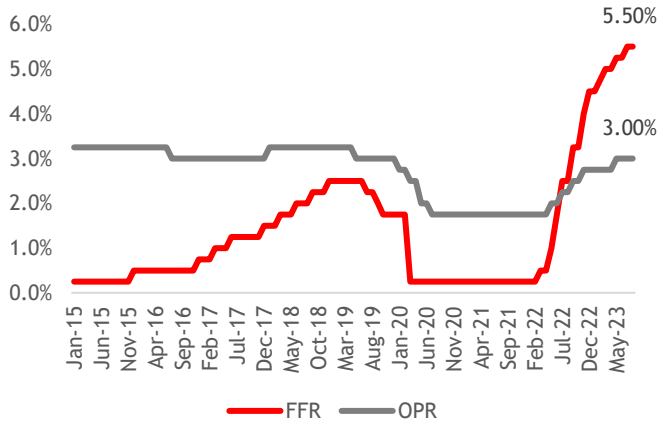


Source: Bloomberg, MIDFR

Ringgit to appreciate to RM4.24 by year-end. We foresee the ringgit to end the year around RM4.24, and averaging at RM4.43 for the full year 2023 (year-to-date average: RM4.49). We foresee EM currencies including ringgit, would appreciate, supported by reversal of fund flows into riskier markets. In particular, as we foresee the Fed to keep the fed funds rate unchanged at 5.25%-5.50% and BNM to maintain OPR at 3.00% for the rest of the year, we do not expect pressures from interest rate differential would attract more funds into the US market. In other words, we expect there will be rebalancing of fund flows to other parts of the world, including Malaysia. We also maintain a bullish view on the local currency as we anticipate expectations for the Fed to stay hawkish will subside in the later part of the year, and further supported by the positive fundamentals in Malaysia's domestic economic conditions and continued current account surplus. The possible boost to external trade outlook

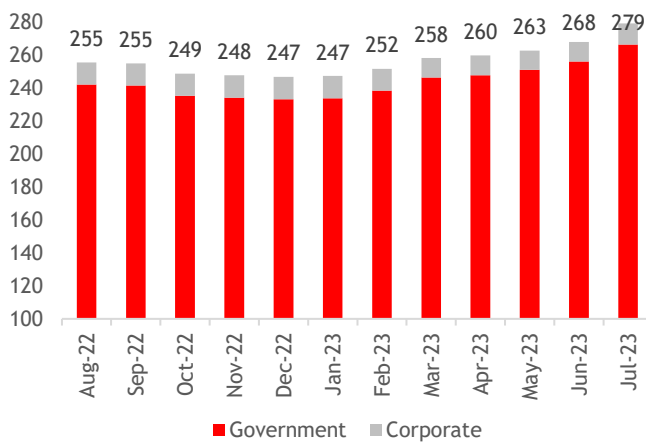
and renewed pick-up in China's economic recovery would also be positive for ringgit. While we expect ringgit to appreciate later this year, there is weakening bias as Fed yet to declare the end of its tightening cycle and concerns over China's growth prospects.

Chart 9: FFR (Upper Bound) and OPR End of Month Rates



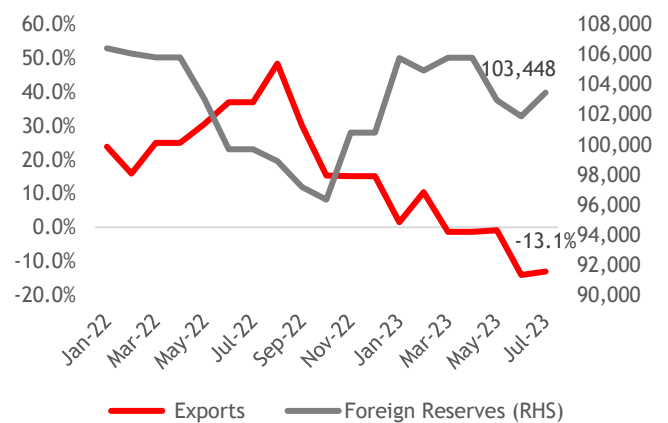
Source: Bloomberg, MIDFR

Chart 11: Foreign Holdings of Malaysian Bonds



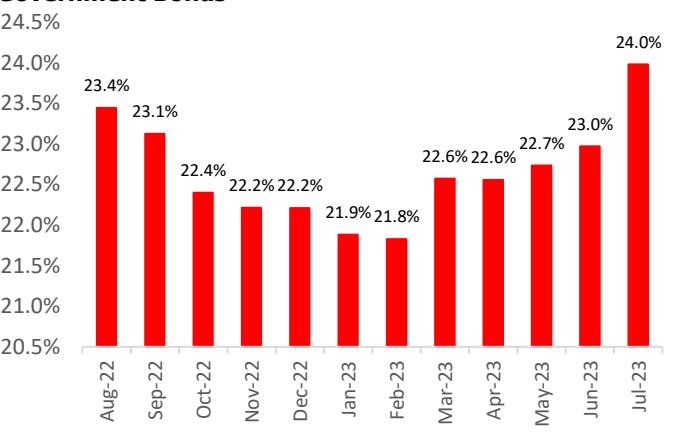
Source: BNM, Bondstream, MIDFR

Chart 10: Exports (YoY%) and Foreign Reserves (USD m)



Source: Bloomberg, IMF, MIDFR

Chart 12: Foreign Holdings of Outstanding Malaysian Government Bonds



Source: BNM, Bondstream, MIDFR

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