

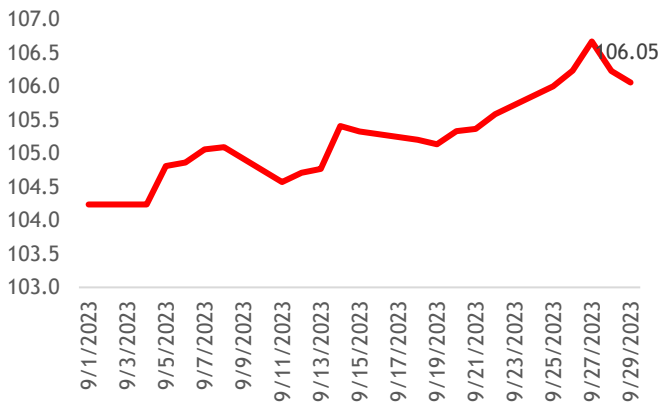
## CURRENCY | Sep-23 Monthly Currency Review

### Fed's Hawkish Sentiment Put Pressure on Ringgit

- *US dollar continued to appreciate as Fed signalled hawkish pause. The greenback strengthened against major currencies in Sep-23 as the DXY index rose by +2.3%mom to end the month at 106.05 (end-Aug-23: 103.62). The monthly average saw the dollar appreciated by +2.1%mom to 105.28, the highest in 10 months. The greenback continued to remain on an appreciating trend following the Fed's still hawkish signal given the resilience in the US economy and labour market. The rally towards the end of the month was also underpinned by fears over a possible US government shutdown that would have taken effect on 1st Oct-23.*
- *Ringgit continued to weaken in Sep-23. Malaysian ringgit closed the month -1.1%mom weaker at RM4.689 on the stronger dollar, although not as sharp as most regional currencies. On a monthly average, the ringgit depreciated -1.5%mom to RM4.682. The depreciation of ringgit reflected strong correlation with the stronger dollar and therefore fluctuations in the financial market. Despite better economic releases in China, the positive developments failed to provide support for the ringgit to rally.*
- *Ringgit to end the year at RM4.30. We remained optimistic for the ringgit to appreciate in 4QCY23. Taking into account the recent weakness and the Fed's delayed pause, we maintain our forecast for the MYR average to RM4.48 per dollar and year-end at RM4.30. We expect EM currencies, including ringgit, to benefit from reversing fund flows into riskier markets once the appeal for the safety of the USD subsides. Fundamentally, economic conditions remain supportive of the ringgit as the domestic economy stays resilient.*

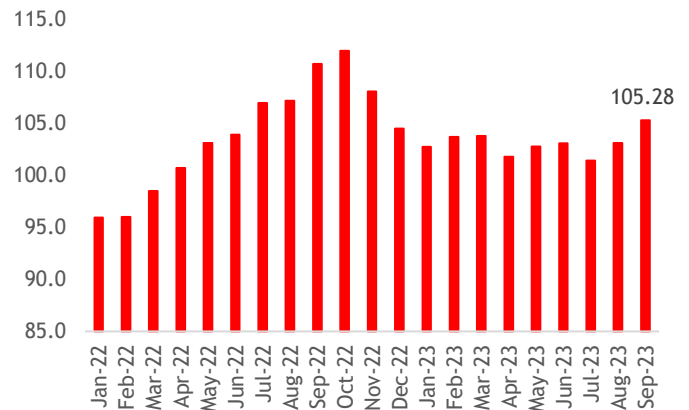
**US dollar continued to appreciate as Fed signalled hawkish pause.** The greenback strengthened against major currencies in Sep-23 as the DXY index rose by +2.3%mom to end the month at 106.05 (end-Aug-23: 103.62). The monthly average saw the dollar appreciated by +2.1%mom to 105.28, the highest in 10 months. The dollar reached its intra-month high on 27<sup>th</sup> Sep-23 at 106.67, the highest level since Nov-22, a broad strengthening even before the FOMC's decision to keep its policy rate unchanged on 20<sup>th</sup> Sep-23, as widely expected. The greenback continued to remain on an appreciating trend following the Fed's still hawkish signal given resilience in the US economy and labour market. The rally towards the end of the month was also underpinned by fears over a possible US government shutdown that would have taken effect on 1<sup>st</sup> Oct-23. The shutdown was averted as the Senate passed a last-minute short-term stopgap funding bill. However, the dollar closed lower than its month's peak as latest data showed further easing in core PCE inflation in Aug-23. Overall, we foresee the dollar to weaken in Oct-23 following subsiding fears over the government shutdown and moderating demand-driven inflation, which reduced the likelihood for more hike i.e. the Fed ultimately approaching the end of its tightening cycle.

**Chart 1: Movement of DXY Index in Sep-23**



Source: Bloomberg, MIDFR

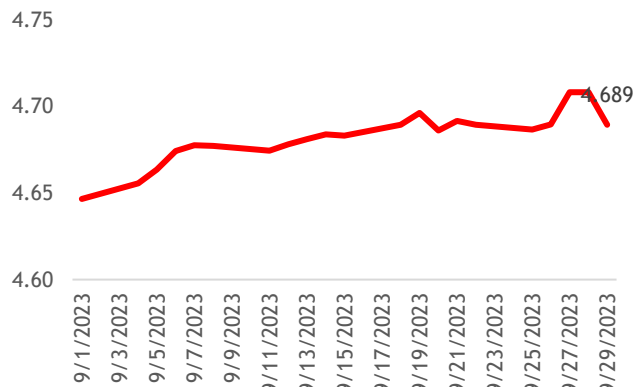
**Chart 2: Monthly Average of DXY Dollar Index**



Source: Bloomberg, MIDFR

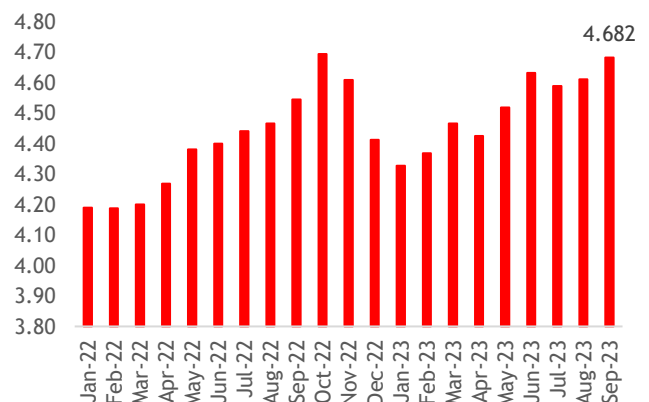
**Ringgit continued to weaken in Sep-23.** Malaysian ringgit closed the month -1.1%mom weaker at RM4.689 on the stronger dollar, although not as sharp as most regional currencies. On a monthly average, the ringgit depreciated -1.5%mom to RM4.682. The ringgit even reached its weakest level on 27<sup>th</sup> Sep-23 at RM4.708, aligned with the dollar strengthening and it was the lowest level since early Nov-22. The depreciation of ringgit reflected strong correlation with the stronger dollar and therefore fluctuations in the financial market. Despite better economic releases in China, the positive developments failed to provide support for the ringgit to rally. For example, activities in China's manufacturing sector expanded as the NBS Manufacturing PMI rebounded to 50.2 in Sep-23, ending the 5-month contraction. Similarly, China's services sector expanded further as NBS Non-Manufacturing PMI rose to 51.7 (Aug-23: 51.0). The movement in commodity prices also was also unable to support ringgit as Brent crude oil prices ended the month higher by +9.9%mom at USD95.43pb. On average, Brent crude oil prices rose +8.8%mom to USD92.59pb. Despite the recent weakness, we maintained our projection for the ringgit to appreciate towards year-end as expectations for a hawkish Fed subsided, which would lead to increased inflows into EM markets including Malaysia. Moreover, we expect ringgit to gain from better growth fundamentals such as positive boost from faster pick-up in China's economic recovery.

**Chart 3: USDMYR (RM) Movement in Sep-23**



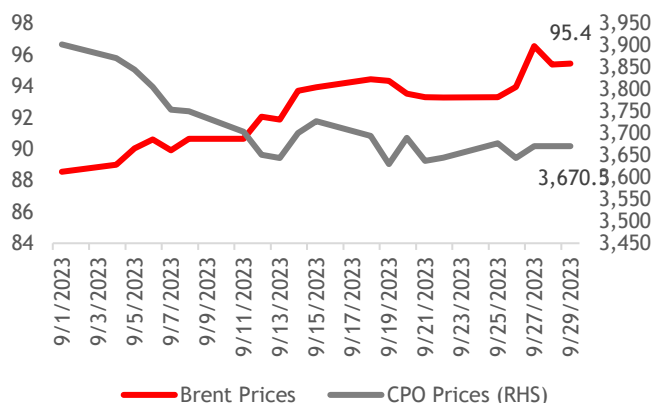
Source: Bloomberg, MIDFR

**Chart 4: USDMYR (RM) Monthly Average**



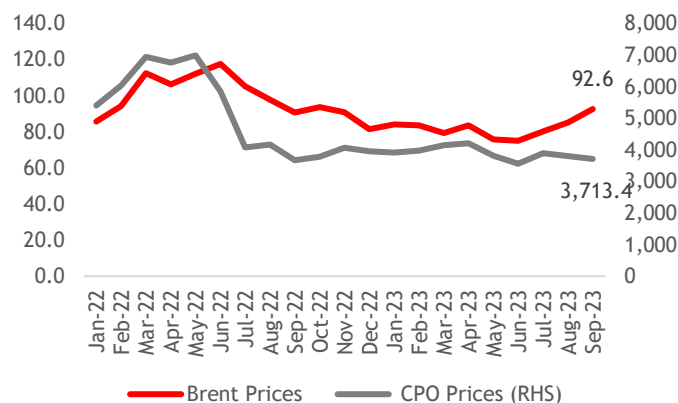
Source: Bloomberg, MIDFR

**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

**Ringgit strengthened against euro and pound.** Despite depreciating against US dollar, the ringgit closed the month stronger against the euro and pound by +2.1%mom and +2.9%mom, respectively. The monthly average saw the ringgit appreciate against the euro and pound by +0.6%mom and +0.9%mom, respectively. Ringgit strengthened against the euro and pound following the growth concerns in the EU and UK in addition to the less hawkish sentiments by the ECB and BOE. However, the ringgit closed weaker against the Chinese yuan (-0.5%mom), Australian dollar (-0.8%mom), and Canadian dollar (-1.5%mom). The same is observed from the monthly averages; the ringgit performed worse than the Chinese yuan (-0.9%mom), Australian dollar (-0.6%mom) and Canadian dollar (-1.1%mom).

**Table 1: Selected Currencies to MYR MoM Change**

|               | End Period |        |          | Average |        |          |
|---------------|------------|--------|----------|---------|--------|----------|
|               | Sep-23     | Aug-23 | % Change | Sep-23  | Aug-23 | % Change |
| <b>EURMYR</b> | 4.960      | 5.064  | +2.1%    | 5.002   | 5.031  | +0.6%    |
| <b>GBPMYR</b> | 5.731      | 5.899  | +2.9%    | 5.806   | 5.858  | +0.9%    |
| <b>CNYMYR</b> | 0.642      | 0.639  | -0.5%    | 0.641   | 0.636  | -0.9%    |
| <b>AUDMYR</b> | 3.027      | 3.002  | -0.8%    | 3.008   | 2.991  | -0.6%    |
| <b>CADMYR</b> | 3.478      | 3.426  | -1.5%    | 3.459   | 3.422  | -1.1%    |

Source: Bloomberg, MIDFR

**YTD ringgit remained among the worst performing currencies against the USD.** Ringgit depreciated by -6.1%ytd against the US dollar, steeper than most other currencies except Japanese yen and South Korean won, which depreciated by -12.2%ytd and -6.6%ytd, respectively. Similar to ringgit, regional currencies also weakened this year on the back of the strength in US dollars as Fed delayed the pause to its tightening cycle. Indonesian rupiah remained the best-performing regional currency, appreciating by +0.5%ytd despite the recent -1.7%mom depreciation in Sep-23. On a monthly basis, almost all of the currencies depreciated against the USD except for the Canadian dollar, which appreciated +0.2%mom. Against other currencies, the ringgit fared at the middle of the group, depreciating by -1.1%mom, weakening at the same rate as the Vietnamese dong and Taiwan dollar.

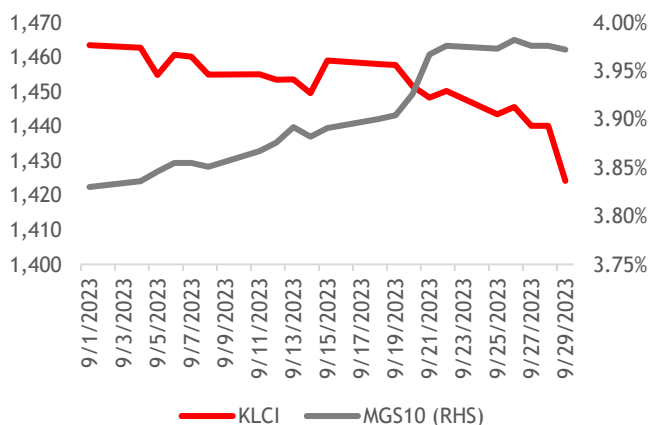
**Table 2: Yearly Average of Selected Currencies to the USD**

|               | 2019    | 2020    | 2021    | 2022    | 2023 (YTD) | YTD Change | MoM Change in Sep-23 |
|---------------|---------|---------|---------|---------|------------|------------|----------------------|
| <b>DXY</b>    | 97.40   | 95.82   | 92.51   | 104.00  | 103.07     | +2.4%      | +2.3%                |
| <b>EURUSD</b> | 1.119   | 1.142   | 1.183   | 1.053   | 1.083      | -1.2%      | -2.4%                |
| <b>GBPUSD</b> | 1.277   | 1.284   | 1.376   | 1.237   | 1.245      | +1.1%      | -3.6%                |
| <b>USDJPY</b> | 109.03  | 106.77  | 109.85  | 131.55  | 138.17     | -12.2%     | -2.6%                |
| <b>USDAUD</b> | 1.439   | 1.453   | 1.332   | 1.442   | 1.496      | -5.3%      | -0.5%                |
| <b>USDCAD</b> | 1.327   | 1.341   | 1.254   | 1.302   | 1.346      | +0.5%      | +0.2%                |
| <b>USDPHP</b> | 51.79   | 49.61   | 49.29   | 54.53   | 55.50      | -1.7%      | -0.2%                |
| <b>USDTHB</b> | 31.05   | 31.29   | 32.00   | 35.06   | 34.52      | -5.4%      | -4.3%                |
| <b>USDSGD</b> | 1.364   | 1.379   | 1.344   | 1.379   | 1.341      | -1.9%      | -1.0%                |
| <b>USDIDR</b> | 14,144  | 14,543  | 14,296  | 14,853  | 15,109     | +0.5%      | -1.7%                |
| <b>USDVND</b> | 23,227  | 23,230  | 22,935  | 23,409  | 23,658     | -2.9%      | -1.1%                |
| <b>USDKRW</b> | 1,165.8 | 1,179.5 | 1,144.9 | 1,292.0 | 1,301.6    | -6.6%      | -2.0%                |
| <b>USDTWD</b> | 30.91   | 29.47   | 27.93   | 29.80   | 30.94      | -4.7%      | -1.1%                |
| <b>USDINR</b> | 70.42   | 74.12   | 73.94   | 78.63   | 82.37      | -0.5%      | -0.5%                |
| <b>USDCNY</b> | 6.910   | 6.900   | 6.451   | 6.733   | 7.036      | -5.5%      | -0.5%                |
| <b>USDMYR</b> | 4.143   | 4.201   | 4.144   | 4.401   | 4.515      | -6.1%      | -1.1%                |

Source: Bloomberg, MIDFR

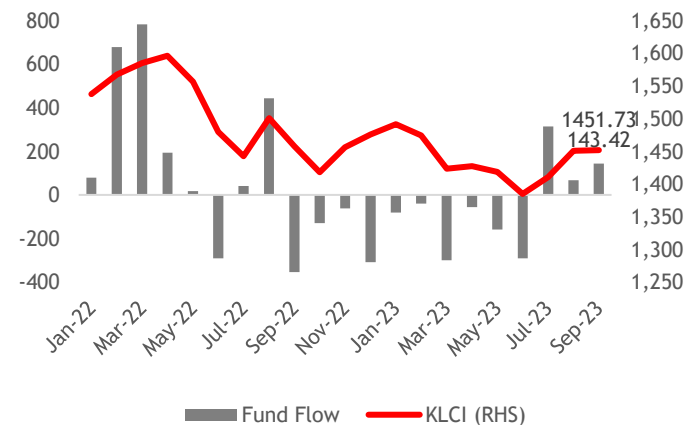
**The equity market and bond yield ended the month lower.** As the ringgit depreciated, the FBMKLCI ended Sep-23 -1.9%mom lower at 1,424.17 while the yield for the benchmark MGS 10y rose by +13bps to 3.97%. The monthly average however saw FBMKLCI rose +0.1%mom to 1,451.73, in line with net foreign inflows recorded during the month; while the 10y MGS yield rose by +5bps to 3.91%. Meanwhile, foreign holdings of Malaysian bonds declined from its all-time high to RM274.2b. Foreign holdings of govies, totaled RM261.1b, accounted for 23.4%, still higher than the pre-pandemic average (2019 average: 23.1%).

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



Source: Bloomberg, MIDFR

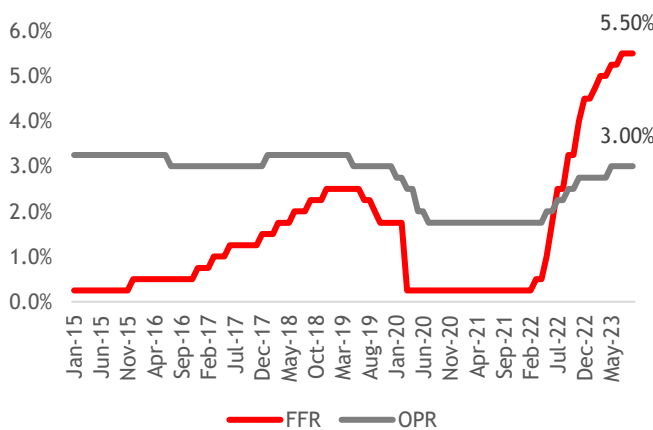
**Chart 8: FBMKLCI (Average) vs Fund Flow Into Malaysian Equity (USD m)**



Source: Bloomberg, MIDFR

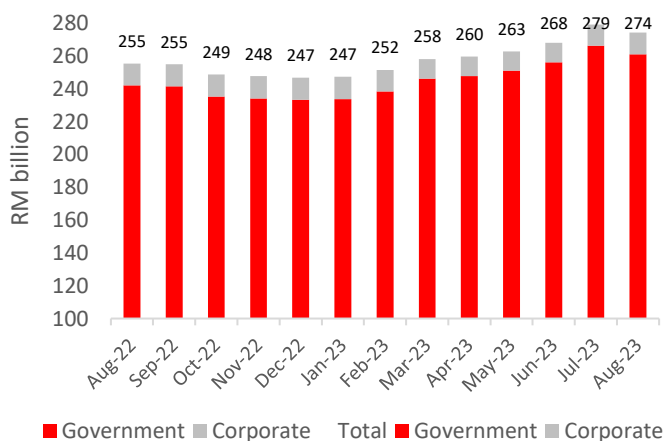
**Ringgit to end the year at RM4.30.** We remained optimistic for the ringgit to appreciate in 4QCY23. Taking into account the recent weakness and the Fed's delayed pause, we maintain our forecast for the MYR average to RM4.48 per dollar and year-end at RM4.30. We foresee EM currencies to appreciate once Fed confirms the end of its tightening cycle, which can arrive as soon as in the 4QCY23. We expect EM currencies, including ringgit, to benefit from reversing fund flows into riskier markets once the appeal for the safety of the USD subsides. Fundamentally, economic conditions remain supportive of the ringgit as the domestic economy stays resilient. Being a net commodity exporter, the ringgit will benefit from the rising global commodity prices and sustained trade surplus. Aside from the Fed's pause, we continue to foresee ringgit appreciation driven by strong domestic demand conditions as we expect BNM to hold the OPR steady at 3.00%. In addition, faster China's recovery is expected to revive the sluggish regional trade performance, benefitting regional currencies including the ringgit. While we remain positive on the ringgit appreciating later this year, weakening bias remained as the Fed has yet to declare its tightening cycle's end.

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



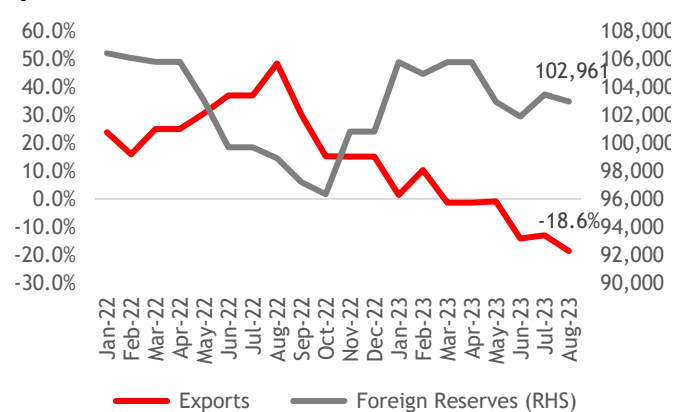
Source: Bloomberg, MIDFR

**Chart 11: Foreign Holdings of Malaysian Bonds**



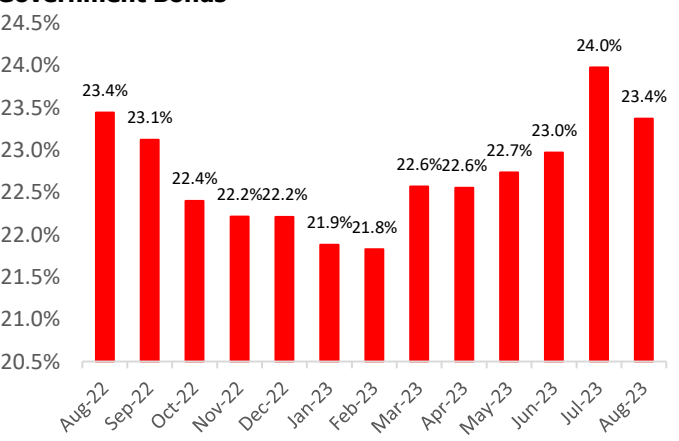
Source: BNM, Bondstream, MIDFR

**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

**Table 3: Quarterly Forecast for MYR and MGS 10-year yield**

| Indicator                              | 4Q23f | 1Q24f | 2Q24f | 3Q24f | 4Q24f |
|--|-------|-------|-------|-------|-------|
| Exchange Rate, vs USD (average)        | 4.39  | 4.40  | 4.28  | 4.21  | 4.11  |
| Exchange Rate, vs USD (end-period)     | 4.30  | 4.39  | 4.23  | 4.16  | 4.10  |
| 10Y Government Bond Yield (average)    | 3.78  | 3.75  | 3.72  | 3.63  | 3.62  |
| 10Y Government Bond Yield (end-period) | 3.77  | 3.75  | 3.65  | 3.63  | 3.60  |

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