

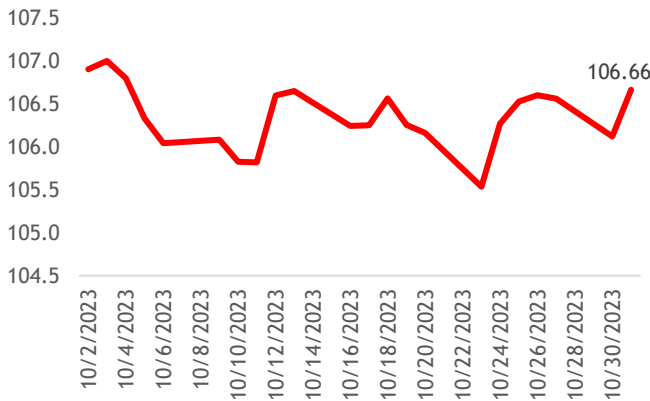
CURRENCY | Oct-23 Monthly Currency Review

Ringgit Touched a New Low in Oct-23

- US dollar strengthened ahead of the Nov-23 FOMC decision. The US dollar appreciated against major currencies in Oct-23 as the DXY index rose by +0.5%mom to end the month at 106.66 (end-Sep-23: 106.17). The monthly average saw the dollar appreciated by +1.0%mom to 106.35, the highest in 11 months. The dollar reached the monthly peak at 107.0 early in the month following hawkish commentary by Fed officials, a steep appreciation even ahead of the stronger-than-expected Sep-23 nonfarm payrolls data. We opine the dollar to trade lower in the coming months as we believe the Fed already reached the end of its tightening cycle following another pause in Nov-23.*
- Ringgit touched an all-time low in Oct-23. Malaysian ringgit closed the month -1.4%mom weaker at RM4.764 on the back of stronger dollar. In terms of the monthly average, the ringgit depreciated at the same rate to RM4.747. The ringgit touched the lowest daily closing ever recorded at RM4.794 on 23rd Oct-23 as dollar strengthened and treasury yields increased in reaction to the conflict in the Middle East. Despite the further weakness, we remained optimistic for the ringgit to appreciate towards year-end as no further widening of FFR-OPR differential shall lead to more flows returning to emerging market.*
- Keeping our ringgit year-end target status quo at RM4.30. With OPR is expected to be maintained at 3.00% even going into 2024, we expect ringgit will benefit from no further widening of FFR-OPR differential. Economic fundamentals generally remain supportive of the ringgit with the domestic economy displaying resilience with inflation is under control. While we are optimistic that the ringgit will appreciate towards year-end, there is a downside bias which will limit ringgit from strengthening further. For example, the absence of a definitive pause by the Fed, another rise in US treasury yields, and escalating geopolitical crisis in the Middle East could lead to renewed support for the dollar.*

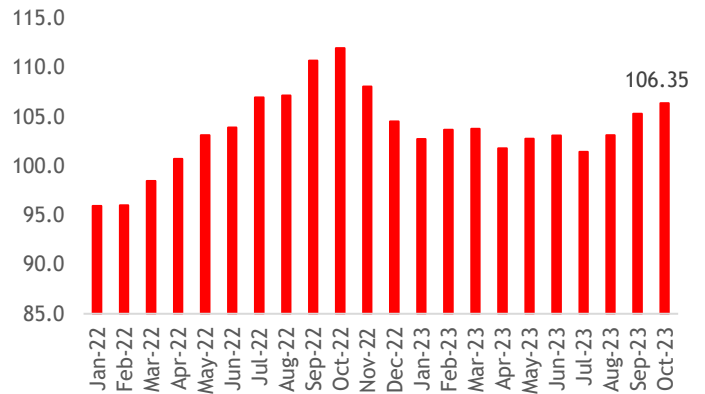
US dollar strengthened ahead of the Nov-23 FOMC decision. The US dollar appreciated against major currencies in Oct-23 as the DXY index rose by +0.5%mom to end the month at 106.66 (end-Sep-23: 106.17). The monthly average saw the dollar appreciated by +1.0%mom to 106.35, the highest in 11 months. The dollar reached the monthly peak at 107.0 early in the month following hawkish commentary by Fed officials, a steep appreciation even ahead of the stronger-than-expected Sep-23 nonfarm payrolls data. The greenback however traded lower, at the end of the month as core PCE prices, the Fed's favoured inflation gauge, moderated further in Sep-23 to the lowest level since mid-2021, reversing the earlier gains from the higher-than-expected 3QCY23 GDP growth. Additionally, the US dollar weakened from the highs during the month as the market largely expected the Fed to stand pat on FFR target and the high-interest rate is expected to be maintained for an extended period as the Fed remained adamant in reaching its 2% inflation target. We opine the dollar to trade lower in the coming months as we believe the Fed already reached the end of its tightening cycle following another pause in Nov-23. On the flip side, ongoing geopolitical conflicts in the Middle East and possibility of another fiscal impasse, which could affect the US government operations, could support the dollar as increased risk aversion will result in higher safe-haven demand.

Chart 1: Movement of DXY Index in Oct-23



Source: Bloomberg, MIDFR

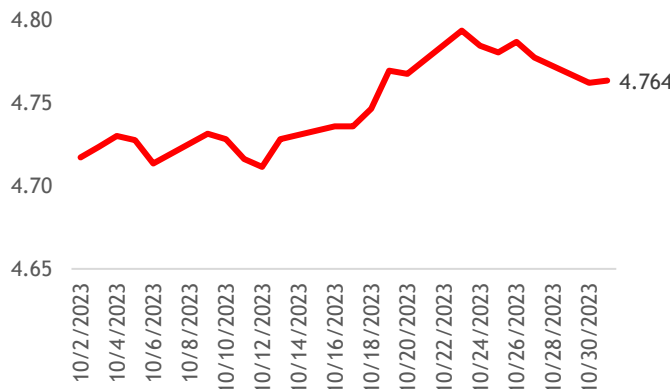
Chart 2: Monthly Average of DXY Dollar Index



Source: Bloomberg, MIDFR

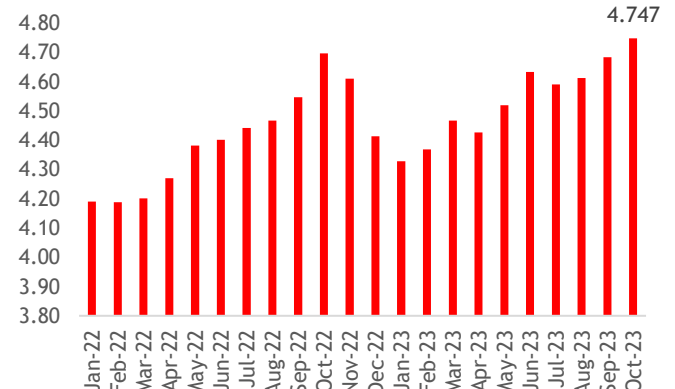
Ringgit touched an all-time low in Oct-23. Malaysian ringgit closed the month -1.4% mom weaker at RM4.764 on the back of stronger dollar. In terms of the monthly average, the ringgit depreciated at the same rate to RM4.747. The ringgit touched the lowest daily closing ever recorded at RM4.794 on 23rd Oct-23 as dollar strengthened and treasury yields increased in reaction to the conflict in the Middle East. The broad strengthening of US dollar caused ringgit and other currencies to depreciate as the outflow of funds continued due to risk aversion. However, the ringgit appreciated at the end of the month as the US dollar weakened on moderating inflation and expectations for no more hike by the Fed. Despite better-than-expected economic data out of China provided little support to the ringgit as the financial market movements (from the Israel-Palestine conflict and expectations on Fed's future decisions) posed a greater influence on the ringgit's performance. Moreover, the movement in commodity prices also was unfavourable towards the ringgit as the Brent crude oil prices declined - 8.3% mom to USD87.41pb (or contracted by -4.2% mom on average to USD88.70pb). Despite the further weakness, we remained optimistic for the ringgit to appreciate towards year-end as no further widening of FFR-OPR differential shall lead to more flows returning to emerging market. In addition to positive growth fundamentals and continued recovery in China, we expect ringgit will also benefit from easing safe-haven demand for the US dollar.

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



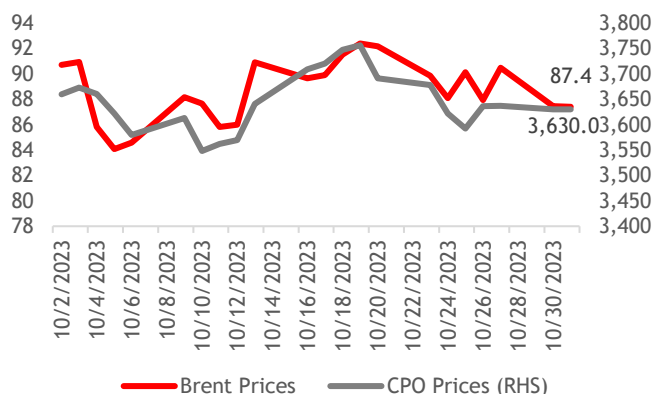
Source: Bloomberg, MIDFR

Chart 4: USDMYR (RM) Monthly Average



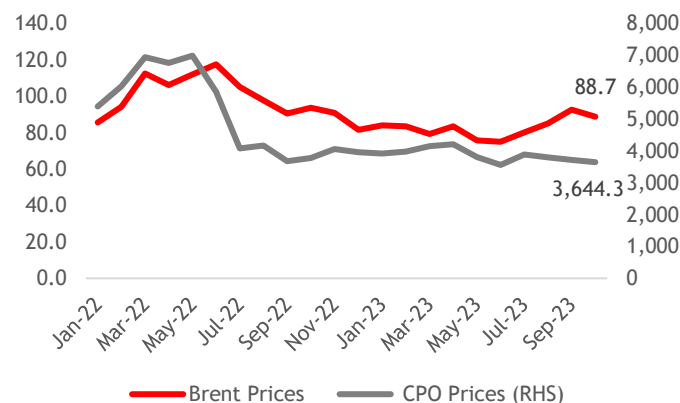
Source: Bloomberg, MIDFR

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 depreciated against the euro and pound. Given the relatively sharper decline in ringgit, the local currency weakened against the euro and pound by -1.9%mom and -0.9%mom, respectively, in Oct-23. The monthly average saw the ringgit depreciated against the euro by -0.2%mom but appreciated against the pound by +0.5%mom. Ringgit depreciated against the euro and pound despite the rising recession concerns in the euro area and UK due to the flight to safety away from EM currencies. Ringgit also closed weaker against the Chinese yuan (-1.3%mom) but gained against the Australian dollar (+0.5%mom) and Canadian dollar (+1.5%mom). On monthly average however, the ringgit performed worst against Chinese yuan (-1.1%mom), Australian dollar (-0.2%mom) and Canadian dollar (-0.2%mom).

Table 1: Selected Currencies to MYR MoM Change

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

Source: Bloomberg, MIDFR

Ringgit continued to lag behind most currencies so far this year. Ringgit weakened by -7.5%ytd against the US dollar, the second worst-performing currency after the Japanese yen which depreciated -13.6%ytd. Other regional currencies also weakened this year following the broad strengthening of the dollar as still-elevated inflation caused the Fed to delay the pause from further hikes. Indonesian rupiah, which until last month was the only regional currency to strengthen against the dollar for the year, reversed all its gains to depreciate -2.0ytd but remained the best-performing regional currency. Against the previous month, almost all of the currencies depreciated against the USD except for the Thailand baht (+1.2%mom) and euro (+0.0%mom). Against other

currencies, the ringgit fared among the worst-performers, depreciating by -1.4%mom, better than only the Indonesian rupiah, Canadian dollar, Japanese yen and Australian dollar.

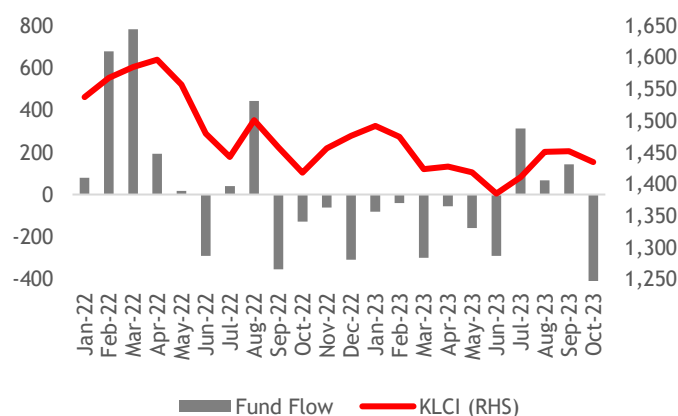
Table 2: Yearly Average of Selected Currencies to the USD

	2019	2020	2021	2022	2023 (YTD)	YTD Change	MoM Change in Oct-23
DXY	97.40	95.82	92.51	104.00	103.40	+3.0%	+0.5%
EURUSD	1.119	1.142	1.183	1.053	1.081	-1.2%	+0.0%
GBPUSD	1.277	1.284	1.376	1.237	1.242	+0.6%	-0.4%
USDJPY	109.03	106.77	109.85	131.55	139.33	-13.6%	-1.5%
USDAUD	1.439	1.453	1.332	1.442	1.504	-7.0%	-1.5%
USDCAD	1.327	1.341	1.254	1.302	1.348	-2.3%	-2.1%
USDPHP	51.79	49.61	49.29	54.53	55.63	-1.8%	-0.3%
USDTHB	31.05	31.29	32.00	35.06	34.72	-4.3%	+1.2%
USDSGD	1.364	1.379	1.344	1.379	1.344	-2.2%	-0.3%
USDIDR	14,144	14,543	14,296	14,853	15,174	-2.0%	-2.7%
USDVND	23,227	23,230	22,935	23,409	23,741	-3.8%	-1.1%
USDKRW	1,165.8	1,179.5	1,144.9	1,292.0	1,306.6	-6.7%	-0.2%
USDTWD	30.91	29.47	27.93	29.80	31.08	-5.2%	-0.5%
USDINR	70.42	74.12	73.94	78.63	82.46	-0.6%	-0.3%
USDCNY	6.910	6.900	6.451	6.733	7.063	-5.7%	-0.3%
USDMYR	4.143	4.201	4.144	4.401	4.538	-7.5%	-1.4%

Source: Bloomberg, MIDFR

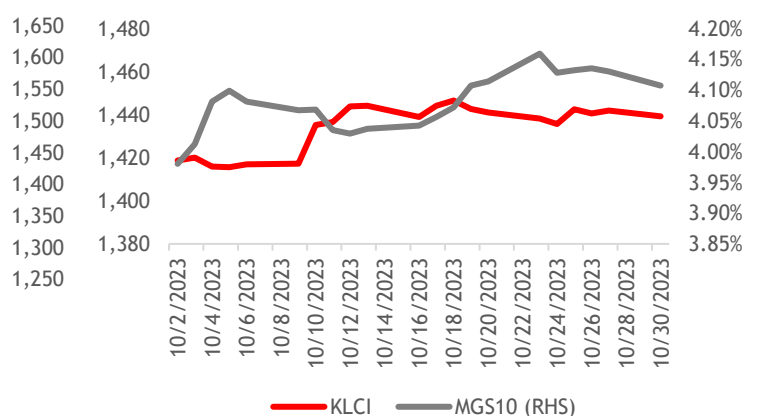
Foreign funds registered outflow in Oct-23. Foreign investors net sold domestic equity with a total net outflows of -RM460.4m in Oct-23 (Sep-23: RM143.4m). This makes Oct-23 as the first month of net outflows of foreign funds from the local equity market after 3 months of net inflows. Meanwhile, based on the latest available data in Sep-23, foreign holding of Malaysian bonds declined for the second month in a row to RM269.7b (Aug-23: RM274.2b). Given the rising MGS yields in Oct-23, we believe foreign holdings of domestic bonds declined further in Oct-23 as the trends are generally in line with the weakening of the ringgit.

Chart 7: FBMKLCI (Average) vs Fund Flow Into Malaysian Equity (USD m)



Source: Bloomberg, MIDFR

Chart 8: FBMKLCI and MGS 10-Yield Movement in Oct-23



Source: Bloomberg, MIDFR

Keeping our ringgit year-end target status quo at RM4.30. We maintain our target for the ringgit to appreciate in 4QCY23. We expect EM currencies would strengthen as the Fed approaching the end of its tightening cycle, which will lead to the return of fund flow into riskier markets. With OPR is expected to be maintained at 3.00% even going into 2024, we expect ringgit will benefit from no further widening of FFR-OPR differential. Economic fundamentals generally remain supportive of the ringgit with the domestic economy displaying resilience with inflation is under control. The recent signs of continued recovery in China and increased E&E exports also pointed to better external trade performance in the coming months. In addition, the elevated global commodity prices will benefit the ringgit as Malaysia is a net commodity exporter. While we are optimistic that the ringgit will appreciate towards year-end, there is a downside bias which will limit ringgit from strengthening further. For example, the absence of a definitive pause by the Fed, another rise in US treasury yields, and escalating geopolitical crisis in the Middle East could lead to renewed support for the dollar. 📈

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

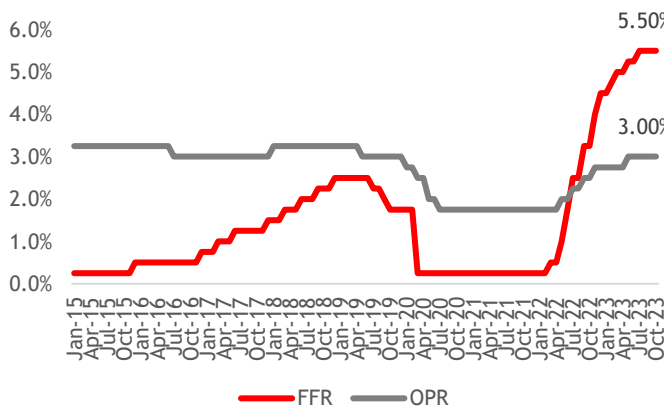
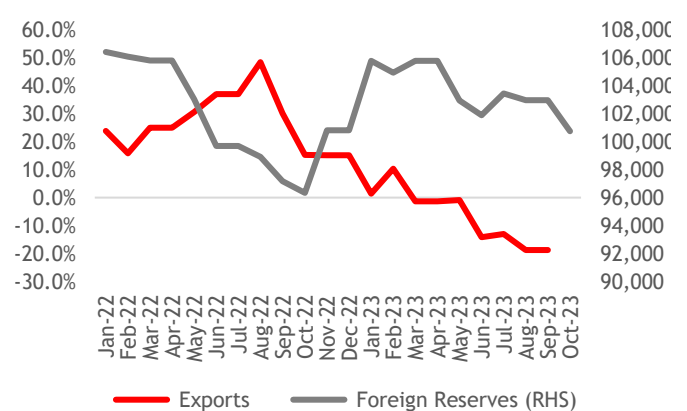
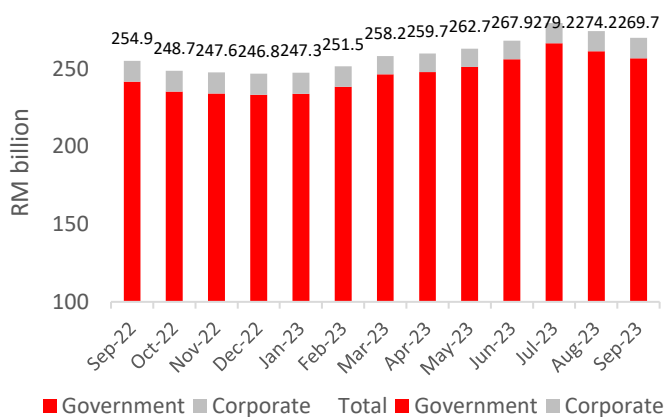


Chart 10: Exports (YoY%) and Foreign Reserves (USD m)



Source: Bloomberg, MIDFR

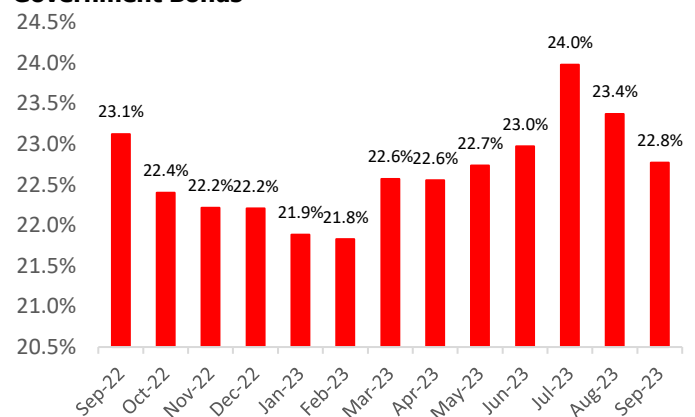
Chart 11: Foreign Holdings of Malaysian Bonds



Source: BNM, Bondstream, MIDFR

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	3Q23	4Q23f	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.58	4.40	4.28	4.21	4.11
Exchange Rate, vs USD (end-period)	4.70	4.30	4.39	4.23	4.16	4.10
10Y Government Bond Yield (average)	3.97	3.97	3.75	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.84	3.77	3.75	3.65	3.63	3.60

Source: MIDFR

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