

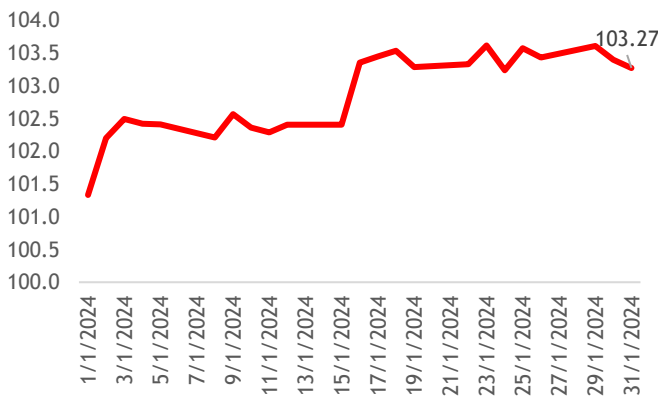
## CURRENCY | Jan-24 Monthly Currency Review

### Sluggish Start for Ringgit in 2024

- *US dollar started the year strong. The USD appreciated for the first time in 3 months as the DXY index gained +1.9%mom to close at 103.27 in Jan-24 (end-Dec-23: 101.33). The monthly average change was smaller as the dollar index only increased slightly by +0.2%mom to 102.88 (Dec-23: 102.64) after 2 months of decline. Moving forward, we foresee the dollar to weaken later this year as the Fed is expected to cut interest rates as inflation moderates further. Nevertheless, there is a possibility for prolonged strength in US dollar in view of risks of recession in the US economy and escalating geopolitical tensions that might lead to greater risk aversion.*
- *Malaysian ringgit plunged -2.9%mom to RM4.733, as the dollar appreciated in Jan-24. On average, the ringgit depreciated -0.5%mom to RM4.683. The ringgit's performance followed the dollar movement closely during the month despite resilient domestic demand, supported by healthy labour market and low inflation. As predicted, BNM kept the OPR unchanged at 3.00% in the Jan-24 interest rate decision, leaving the current FFR-OPR spread status quo.*
- *Despite the ringgit's lacklustre performance at the outset of the year, we project the ringgit to appreciate in 2024, moving towards RM4.20 by year-end. The strengthening of ringgit will be supported by the expected decline in interest rate differentials, with the Fed is expected to reduce rates while BNM to maintain the OPR at 3.00%.*

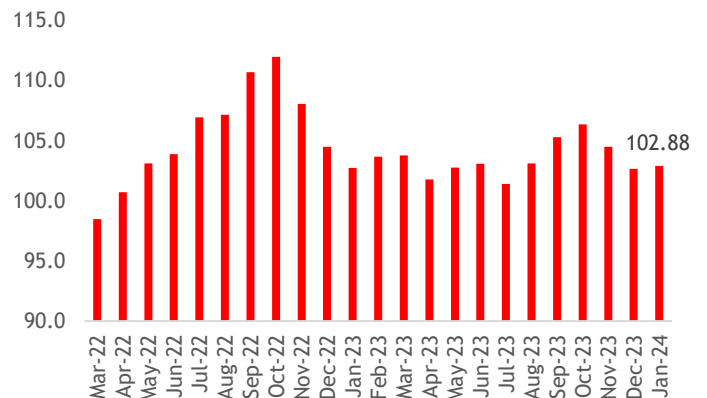
**US dollar started the year strong.** The USD appreciated for the first time in 3 months as the DXY index gained +1.9%mom to close at 103.27 in Jan-24 (end-Dec-23: 101.33). The monthly average change was smaller as the dollar index only increased slightly by +0.2%mom to 102.88 (Dec-23: 102.64) after 2 months of decline. There was a steep daily appreciation mid-month as the DXY index jumped higher by +0.9% against the previous day to 103.36 on 16th Jan-24, underpinned by increased safe-haven demand from the rising geopolitical crisis in the Middle East as Houthi rebels elevated the attacks in the Gulf of Eden. However, during the month the continued appreciation pushed the US dollar to the intra-month high of 103.62 on 23 January 2023 stemming from heightened expectations for Fed to keep the FFR at the current elevated level for an extended period given the still high inflation (i.e. core inflation still well above 2%), the resilience in the labour market and strength in the overall economy. The dollar experienced some reversal towards the end of the month, closing lower than its intra-month high after the core PCE inflation came in lower than market expectations. Additionally, there was no surprise in its expected decision at the Jan-24 FOMC meeting to leave the interest rate at the current level of 5.25%-5.50%. Moving forward, we foresee the dollar to weaken later this year as the Fed is expected to cut interest rates as inflation moderates further. Nevertheless, there is a possibility for prolonged strength in US dollar in view of risks of recession in the US economy and escalating geopolitical tensions that might lead to greater risk aversion. Additionally, if the US economy continues to show resilience, with sustained strength in aggregate demand and tight labour market, interest rate cuts could be postponed, which will be supportive of the dollar.

**Chart 1: Movement of DXY Dollar Index in Jan-24**



Source: Bloomberg, MIDFR

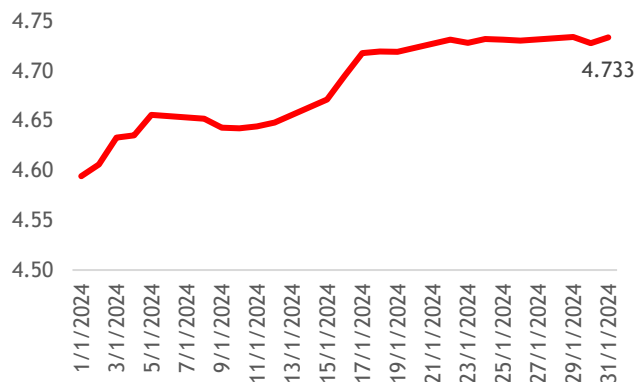
**Chart 2: Monthly Average of DXY Dollar Index**



Source: Bloomberg, MIDFR

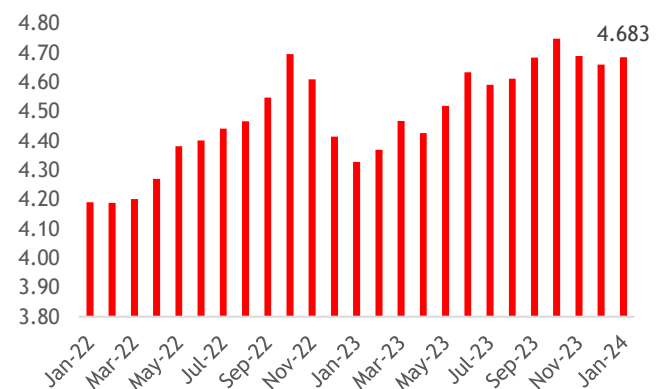
**Ringgit slipped against the USD.** Malaysian ringgit plunged -2.9%mom to RM4.733, as the dollar appreciated in Jan-24. On average, the ringgit depreciated -0.5%mom to RM4.683. The ringgit's performance followed the dollar movement closely during the month despite resilient domestic demand, supported by healthy labour market and low inflation. As predicted, BNM kept the OPR unchanged at 3.00% in the Jan-24 interest rate decision, leaving the current FFR-OPR spread status quo. Movement in commodity prices did not bolster the ringgit much even though Brent crude oil prices rose by +6.1%mom and ended the month at USD81.71pb. We foresee the ringgit and other regional currencies to strengthen supported by expectations for the dollar to weaken with the Fed to start cutting interest rates later this year. As a result, EM currencies are likely to benefit from the return of appetite for riskier assets. Additionally, recovery in regional trade, on the back of pick-up in global production activities and continued recovery in China, is also expected to provide support to EM currencies.

**Chart 3: USDMYR Movement in Jan-24**



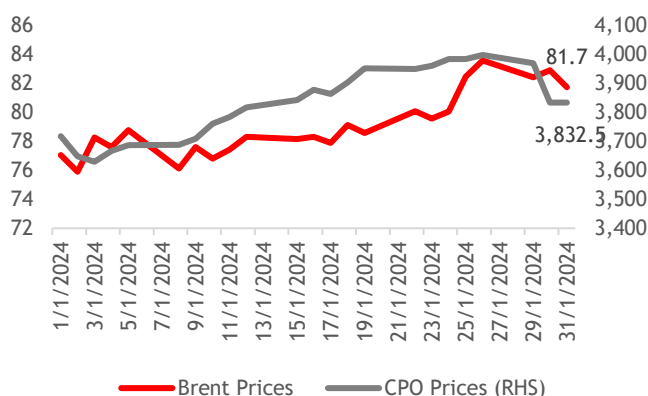
Source: Bloomberg, MIDFR

**Chart 4: USDMYR Monthly Average**



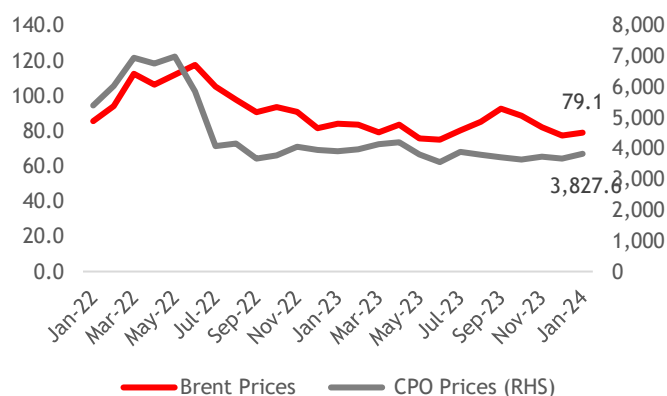
Source: Bloomberg, MIDFR

**Chart 5: Brent Crude Oil (USD pb) and Crude Palm Oil (RM/tonne) Prices**



Source: Bloomberg, MIDFR

**Chart 6: Monthly Average Prices of Brent Crude Oil (USD pb) and Crude Palm Oil (RM/tonne)**



Source: Bloomberg, MIDFR

**Ringgit depreciated against most currencies.** The ringgit depreciated against most other currencies except for the Japanese yen (+1.0%mom), the Thai baht (+0.5%mom) and the South Korean won (+0.3%mom). Against major currencies, the ringgit depreciated against the euro and the pound sterling by -0.9% and -2.7%, respectively.

**Table 1: Yearly Average of MYR to Selected Currencies and MoM and YTD Change**

	2020	2021	2022	2023	2024 (YTD)	MoM/YTD Change in Jan-24
<b>JPYMYR</b>	3.936	3.775	3.358	3.247	3.207	+1.0%
<b>THBMYR</b>	13.430	12.965	12.559	13.107	13.317	+0.5%
<b>KRWMYR</b>	0.356	0.362	0.341	0.349	0.354	+0.3%
<b>TRYMYR</b>	0.604	0.479	0.268	0.197	0.155	-0.1%
<b>IDRMYR</b>	0.029	0.029	0.030	0.030	0.030	-0.5%
<b>TWDMYR</b>	0.143	0.148	0.148	0.146	0.150	-0.7%
<b>EURMYR</b>	4.795	4.901	4.629	4.933	5.112	-0.9%
<b>PHPMYR</b>	0.085	0.084	0.081	0.082	0.084	-1.2%
<b>SGDMYR</b>	3.047	3.084	3.191	3.396	3.510	-1.5%
<b>CADMYR</b>	3.134	3.306	3.381	3.379	3.496	-1.7%
<b>CNYMYR</b>	0.609	0.642	0.654	0.644	0.654	-2.0%
<b>VNDMYR</b>	0.181	0.181	0.188	0.191	0.192	-2.3%
<b>GBPMYR</b>	5.391	5.701	5.432	5.673	5.954	-2.7%
<b>USDMYR</b>	4.201	4.144	4.401	4.561	4.686	-2.9%
<b>NPRMYR</b>	0.035	0.035	0.035	0.035	0.035	-3.0%
<b>BDTMYR</b>	4.952	4.873	4.725	4.225	4.273	-3.2%
<b>LKRMYR</b>	0.023	0.021	0.014	0.014	0.015	-5.3%

Source: Bloomberg, MIDFR

**Most currencies weakened against the USD in Jan-24.** Except for the Indian rupee which appreciated +0.2%mom, other currencies generally weakened against the US dollar in Jan-24. This reflected the broad strengthening of the dollar. The ringgit, which depreciated -2.9%mom, was among the worst performing

currencies against the US dollar, but the depreciation was not as sharp as the South Korean won (-3.3%mom), Australian dollar (-3.6%mom), Thai baht (-3.7%mom) and the Japanese yen (-4.0%mom).

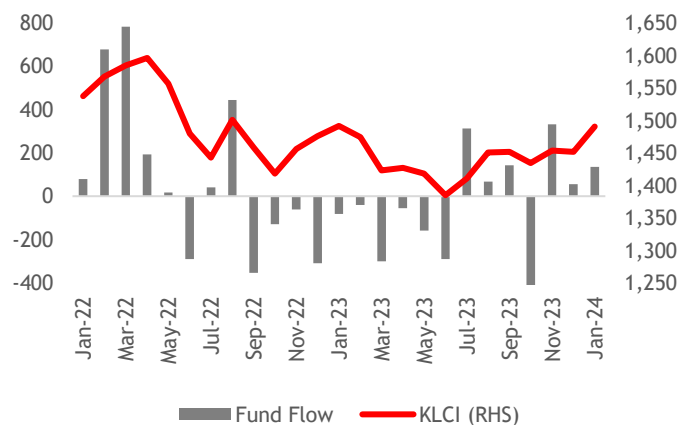
**Table 2: Yearly Average of USD to Selected Currencies and MoM and YTD Change**

	2020	2021	2022	2023	2024 (YTD)	MoM/YTD Change in Jan-24
<b>DXY</b>	95.82	92.51	104.00	103.44	102.88	+1.9%
<b>GBPUSD</b>	1.284	1.376	1.237	1.244	1.270	-0.3%
<b>USDCAD</b>	1.341	1.254	1.302	1.350	1.341	-1.4%
<b>EURUSD</b>	1.142	1.183	1.053	1.082	1.091	-2.0%
<b>USDAUD</b>	1.453	1.332	1.442	1.506	1.505	-3.6%
<b>USDJPY</b>	106.77	109.85	131.55	140.58	146.05	-4.0%
<b>USDINR</b>	74.12	73.94	78.63	82.60	83.12	+0.2%
<b>USDVND</b>	23230.3	22934.5	23408.9	23835.0	24462.6	-0.6%
<b>USDCNY</b>	6.900	6.451	6.733	7.083	7.168	-1.0%
<b>USDSGD</b>	1.379	1.344	1.379	1.343	1.335	-1.5%
<b>USDPHP</b>	49.609	49.290	54.526	55.636	55.980	-1.6%
<b>USDTWD</b>	29.472	27.935	29.804	31.159	31.187	-2.3%
<b>USDIDR</b>	14543.0	14295.9	14853.1	15236.6	15613.6	-2.4%
<b>USDMYR</b>	4.201	4.144	4.401	4.561	4.683	-2.9%
<b>USDKRW</b>	1179.5	1144.9	1292.0	1306.5	1324.2	-3.3%
<b>USDTHB</b>	31.29	32.00	35.06	34.80	35.18	-3.7%

Source: Bloomberg, MIDFR

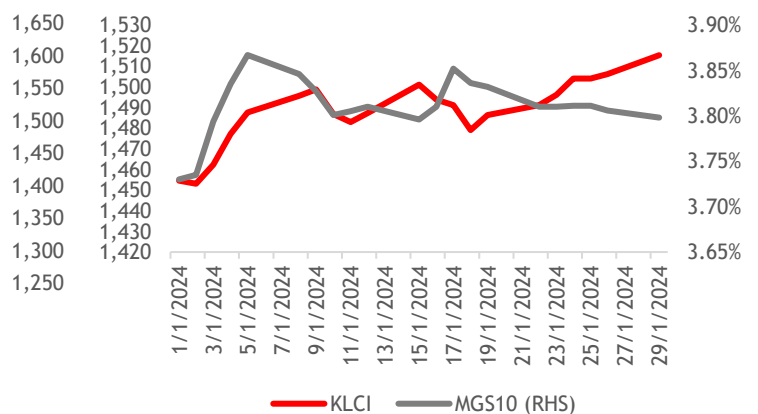
**Foreign funds continued to register inflow in Jan-24.** Foreign investors net bought USD145.17m domestic equities in Jan-24 (Dec-23: +USD55.41m). In terms of foreign holding of Malaysian bonds, the latest data as of Dec-23 declined to RM270.4b (Oct-23: RM272.6b). We believe outflows from the domestic bond market persisted into Jan-24 given the weakening of ringgit amid net inflows of foreign funds into the equity market during the month.

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




Source: Bloomberg, MIDFR

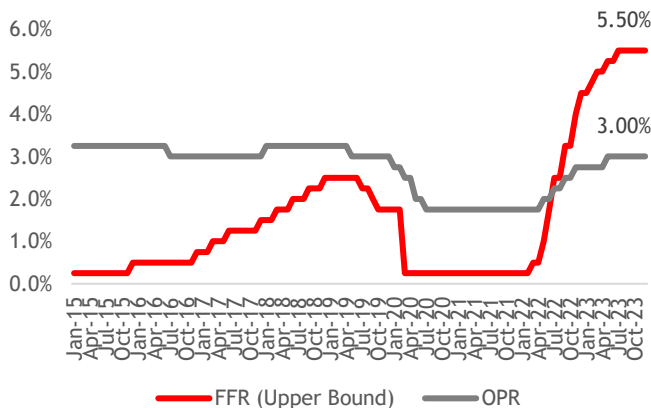
**Chart 8: FBMKLCI and MGS 10-Yield Movement in Jan-24**



Source: Bloomberg, MIDFR

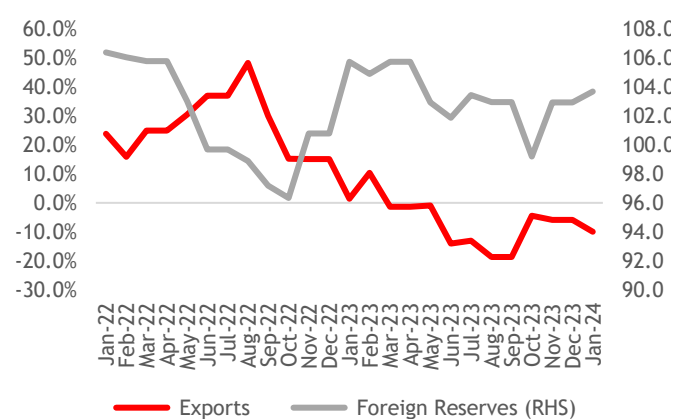
**We continue to foresee the ringgit appreciating towards RM4.20 by year-end.** Despite the ringgit's lacklustre performance at the outset of the year, we project the ringgit to appreciate in 2024, moving towards RM4.20 by year-end. The strengthening of ringgit will be supported by the expected decline in interest rate differentials, with the Fed is expected to reduce rates while BNM to maintain the OPR at 3.00%. The adjustments are likely to favour the ringgit and other regional currencies as we expect more funds will flow back into emerging markets. Moreover, the ringgit stands to gain from an external trade recovery as China's economy continues to recover. However, concerns about the recession risk in the US and prolonged weakness in global trade and manufacturing activities could limit the ringgit's prospects. Also, the ringgit outlook may be affected by continued strength in the US dollar if the Fed delays rate cuts to a later period in view of the resilience in the US economy and elevated inflation. 

**Chart 9: Fed Funds Rate vs OPR at Month-End (%)**



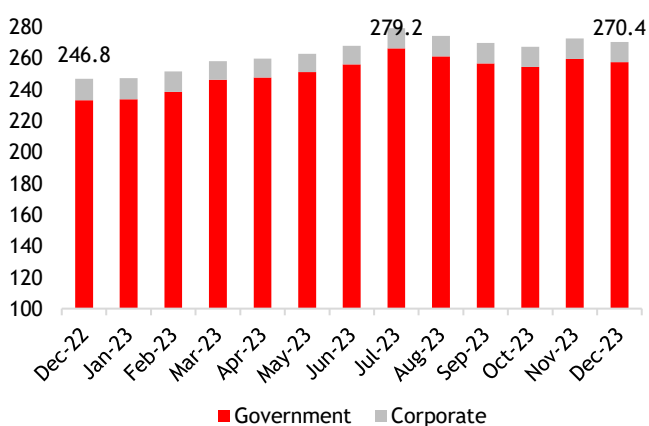
Source: Bloomberg, MIDFR

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



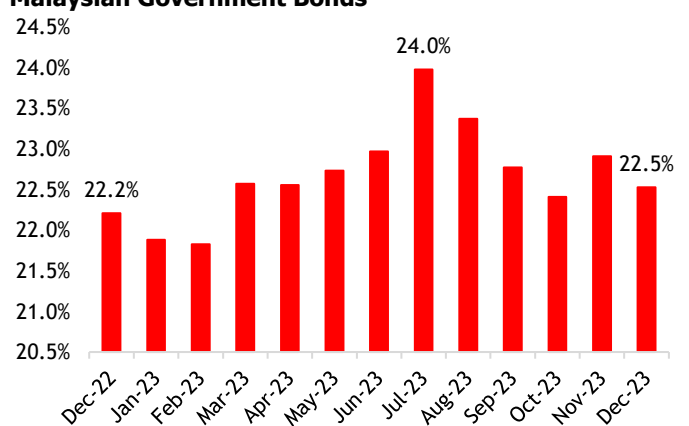
Source: Bloomberg, IMF, MIDFR

**Chart 11: Foreign Holdings of Malaysian Bonds (RM b)**



Source: BNM, Bondstream, MIDFR

**Chart 12: Foreign Holdings as % of Outstanding Malaysian Government Bonds**



Source: BNM, Bondstream, MIDFR

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

Indicator	3Q23	4Q23	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.45	4.42	4.35	4.25
Exchange Rate, vs USD (end-period)	4.70	4.59	4.44	4.38	4.32	4.20

<b>10Y Government Bond Yield (average)</b>	3.97	3.91	3.75	3.72	3.63	3.62
<b>10Y Government Bond Yield (end-period)</b>	3.84	3.73	3.75	3.65	3.63	3.60

Source: MIDFR

## January 2024 Key Economic Events

**2 Jan: Sri Lanka's China 'debt trap' fears grow as Beijing keeps investing** Surging investment from China, including a multibillion dollar oil project late last year, is leaving a giant question mark over Sri Lanka even as it tries to restructure towering debt and recover from its worst economic crisis as an independent nation: Just how much leverage does Beijing have over the island country?

**8 Jan: Sheikh Hasina wins fifth term in Bangladesh amid turnout controversy** Sheikh Hasina has secured her fifth term as Bangladeshi prime minister in an election whose outcome was decided the moment its schedule was announced in early November when the main opposition boycotted the poll.

**12 Jan: Indonesian Candidates Differ on Solutions for South China Sea Disputes** Disputes in the South China Sea and how Indonesia should deal with China was a key focus at a nationally televised presidential debate earlier this week. Indonesians will elect a new president on February 14, and during the latest debate, the country's three candidates exchanged views on security, geopolitics and international relations.

**15 Jan: Philippines plans military upgrades to disputed South China Sea outposts** The Philippines has said it plans to develop islands and reefs in the South China Sea that are the subject of contesting claims from China. The upgrades to the territorial features will seek to make them liveable for troops, Manila's military chief Romeo Brawner said on Monday. The announcement came amid simmering tensions between the Philippines and China.

**23 Jan: Turkey's parliament approves Sweden's NATO bid** Turkey's parliament has approved Sweden's NATO membership bid after more than four hours of debates. The legislators ratified Sweden's accession protocol by 287 votes to 55, with four abstentions on Tuesday.

**23 Jan: Consumers losing confidence in the EU economy** Following on from the recent rise in eurozone inflation, consumers say they are losing confidence in the EU economy, according to the latest consumer economic sentiment Indicator for January 2024.

**31 Jan: China's economy suffers 'soft start' to 2024 despite manufacturing activity rebound** A tiny jump in China's manufacturing activity in January still indicated "a soft start" to 2024 for the world's second-largest economy, analysts said, weighing on Beijing's efforts to regain growth momentum.

**5 Jan: Nepal bans citizens from working in Russia or Ukraine after deaths in military** The government of Nepal has banned its citizens from travelling to Russia or Ukraine for employment after 10 young men were killed and dozens more reported missing while fighting, predominately in the Russian military.

**11 Jan: Malaysia, Singapore agree to jointly develop special economic zone** Malaysia and Singapore agreed on Thursday to jointly develop a special economic zone (SEZ) in the southern Malaysian state of Johor, aiming to attract investments and free up movement of goods and people.

**13 Jan: Lai Ching-te will be the next president of Taiwan** On January 13th 2024, voters elected Lai Ching-te of the Democratic Progressive Party as Taiwan's next president. Mr Lai won 40% of the vote; his closest rival, Hou Yu-ih of the Kuomintang, won 34%.

**22 Jan: Thailand announces new value-added tax refund limit and criteria for tourists** The Thai government has announced new regulations for VAT refunds for tourists. The new rules, which took effect on Jan 1, expand the eligibility criteria for refunds and increase the maximum refund amount.

**23 Jan: Vietnam economy expected to grow 6% in 2024** Vietnam's economy is projected to grow by 6% this year, rebounding from a slowdown in 2023, driven by the expectation of export recovery, as per the January update from the Asean+3 Macroeconomic Research Office (Amro).

**26 Jan: Japan's foreign worker population tops 2 million for first time** The rise to a record 2,048,675 foreign workers, up 225,950, or 12.4 percent, from the previous year, was also due to a recovery in the number of technical interns following the end of Japan's strict coronavirus border controls.

**31 Jan: Canada's economy likely grew in December, avoiding recession** Canada's economy likely grew in December after expanding more than expected in November, data showed on Wednesday, indicating a final quarter rebound as the central bank considers when to start reducing 22-year-high interest rates.

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