THEMATIC REPORT

Authors:
MIDF Economics & Policy

USDMYR: Beyond the US Fed Influence

KEY HIGHLIGHTS

- **The difference between Malaysia's Overnight Policy Rate (OPR) and the US's Fed Funds Rate (FFR) is among key factors influencing the trajectory of USDMYR. However, it is not the sole factor.**
- **Other factors that we believe has an influence on the ringgit are: (1) Balance of Payments, (2) Foreign Fund Flows, (3) External Trade, (4) Foreign Exchange Policy, (5) Commodities Prices, amongst others.**
- **Malaysia's current account surplus to GDP ratio fell to +1.7% in 2023, the lowest since 1997. The ratio has been in single digit since 2012 and below +5.0% after 2013.**
- **Portfolio investment stayed in deficit since 2013 except in 2021.**
- **Stronger influence from other factors recently saw breakdown in correlation between commodity prices and Ringgit.**
- **We are introducing our Trade-Weighted Ringgit Index. MIDF TWRI is derived from the Ringgit's trade-weighted FX performance against the currencies of Malaysia's 16 largest trading partners.**
- **MIDF TWRI showed that singling the USD as a sole measure of the Ringgit's performance will not be a complete representation of Ringgit's performance vis-à-vis Malaysia's overall macroeconomic performance and outlook.**
- **Fundamentally, Ringgit is in a good position to strengthen in 2024 as the domestic economy stays on upbeat momentum, supportive global commodity prices, sustained trade surplus and possible central bank rate cuts in 2024. We project for USDMYR to average lower at RM4.38 in 2024 (2023 average: RM4.56), and reach RM4.20 by year-end (end-2023: RM4.59).**

BACKGROUND

Fixation on USDMYR. We opine that the Malaysian Ringgit's performance in the past couple of years has been more influenced by the Fed's policy decisions especially since the start of aggressive rate hikes in 2022, which has led to broad strengthening in US dollar against other currencies. We expect there will be a shift in foreign fund flows, which shall be more supportive for a strengthening of EM currencies and Ringgit this year, given that we believe sentiment has shifted. This is in light of the US Fed having reached the peak of its tightening cycle and is expected to eventually cut interest rates (to reduce the level of policy restrictiveness on the economy) as inflation has been moderating and seems to be under control.

Temporary weakness in RM at the start of year. However, the recent weakening of Ringgit year-to-date towards RM4.79 by mid-Feb-24 (end-2023: RM4.59) was again influenced by the changing market sentiment as recent stronger-than-expected data releases in the US led to a review in the timing for rate cuts by the Fed, from Mar-24 to Jun-24 as shown by the fed funds futures (as of 15 February 2024). We have indicated that the resilience in the US job market and the broader economy will cause the US Fed to maintain the high-for-longer policy stance before embarking on shift to rate cuts later this year amid expectations for inflation to continue moderating. This is a downside risk to Ringgit outlook as the US dollar will stay strong for an extended period. We expect Ringgit to strengthen later this year when the Fed shifts its policy stance to be less hawkish (or slightly more dovish).

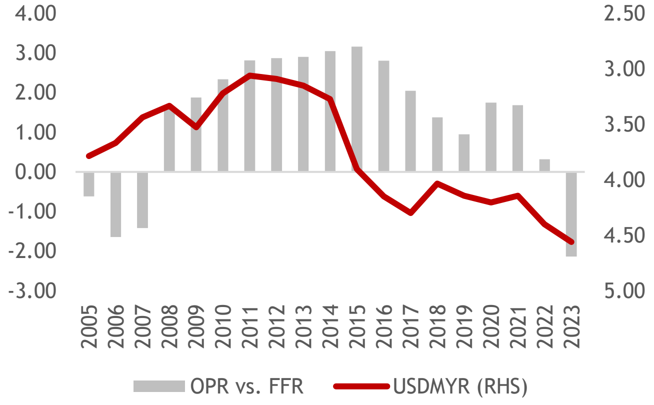
Looking beyond USDMYR. Nevertheless, we opine that there may be other structural changes which could somewhat explain the broad weakening of Ringgit thus far, beyond the influence of US rate movements. For example, we noticed changes in composition of external trade (both goods and services), reduced foreign holdings of MGS (in contrast to growing government debts), and changing patterns in foreign currency holdings. We believe that there is a possibility that these factors having an influence on the movement of Ringgit in the longer run, in contrast to changes in market sentiment often used as the reasoning for FX movements in the short run. We also believe the government's commitment in fiscal consolidation and improving fiscal management would also support Ringgit's performance in the long run. From our observation, the weakening of Ringgit particularly in 2015 coincides with the decline in oil prices in 2014-15 which led to growing concerns over the effect of reduced petroleum income on the government's fiscal balance. Although from market perspective, the Ringgit's depreciation during the time was also influenced by the strengthening of USD in reaction to the

Fed's shift towards rate hikes, moving away from the quantitative easing which was adopted in response to the Global Financial Crisis in 2008-09.

INTEREST DIFFERENTIAL FACTOR

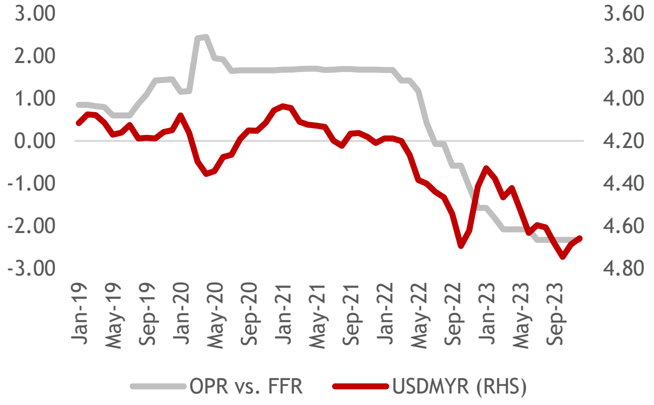
Interest rate differential is not the only factor. The difference between Malaysia's Overnight Policy Rate (OPR) and the US's Fed Funds Rate (FFR) is among key factors influencing the trajectory of USDMYR. However, it is not the sole factor. Series of interest rate hikes in the post-pandemic era by the US Fed caused the OPR-FFR differential to reach a new low of -250bps in 2023. However, we noticed this was not the case in 2005-2007 because Ringgit strengthened but the interest differential was in the negative territory. On another note, in the post-Global Financial Crisis (GFC) 2008-09, the differential surged positively with the spread touching high peak of +300bps in 2015, but yet Ringgit started to weaken since 2013. We therefore believe the weakening of Ringgit also involved other factors, some structurally, beyond the interest differentials.

Chart 1: OPR-FFR Differentials (%) vs. USDMYR



Source: Macrobond, MIDFR

Chart 2: OPR-FFR Differentials (%) vs. USDMYR

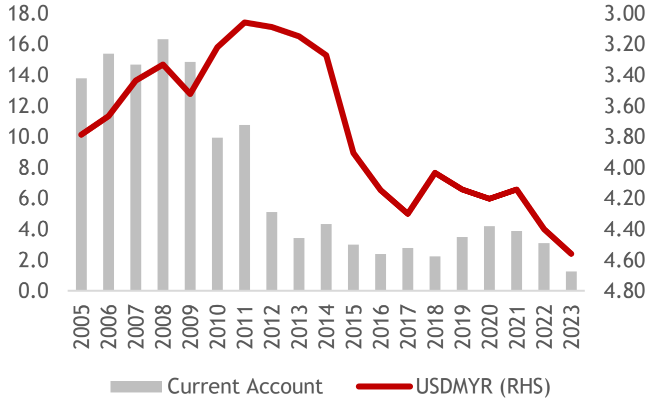


Source: Macrobond, MIDFR

BALANCE OF PAYMENT FACTOR

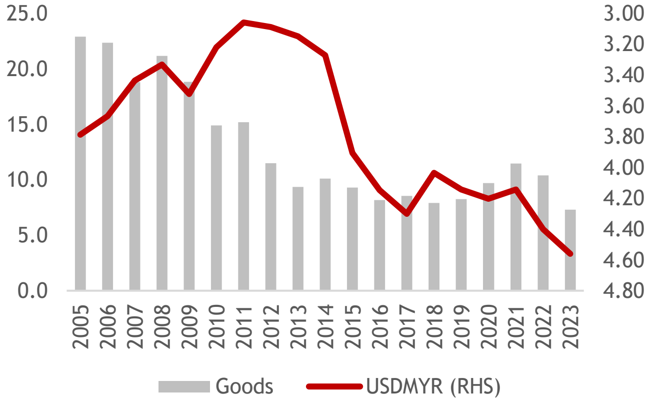
Smallest current account surplus ratio since 1997. Malaysia's current account surplus to GDP ratio fell to +1.7% in 2023, the lowest since 1997. The ratio has been in single digit since 2012 and below +5.0% after 2013. It was contributed by smaller goods surplus and deepening services deficit. Goods surplus ratio declined to record low +7.3% in 2023 and services account stayed in deficit since 2012. The pandemic-led crisis worsened the services deficit to more than -3.0% of GDP during 2020-2022. Moreover, reliance on foreign labor led to a continued deficit in the employee compensation, especially via remittances, with the relative size growing from -0.1% of GDP in 2008 to as high as -0.6% by 2019, before the pandemic. We expect this to grow again after the economy and international borders reopened since 2022.

Chart 3: Current Account (% of GDP) vs. USDMYR



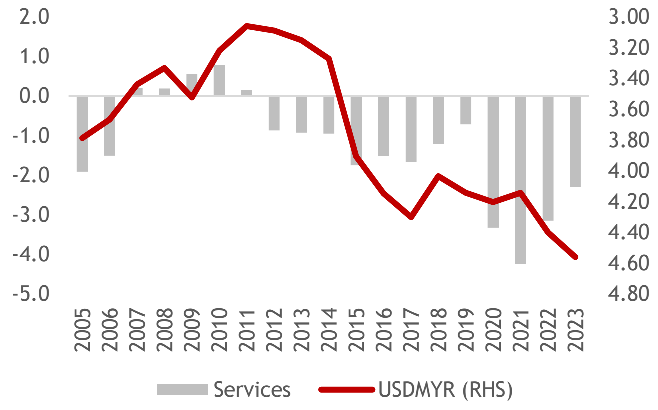
Source: Macrobond, MIDFR

Chart 4: Goods Exports (% of GDP) vs. USDMYR



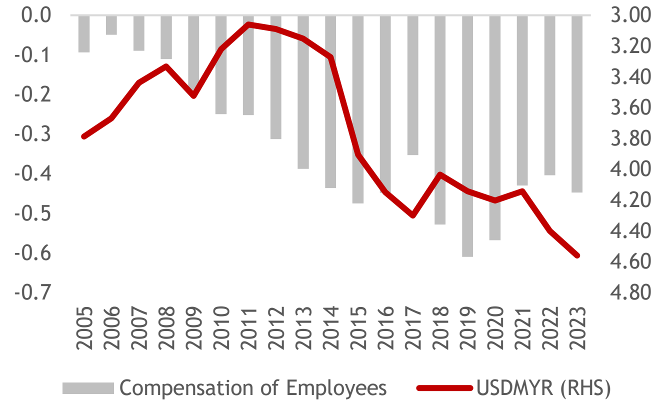
Source: Macrobond, MIDFR

Chart 5: Services Exports (% of GDP) vs. USDMYR (RM)



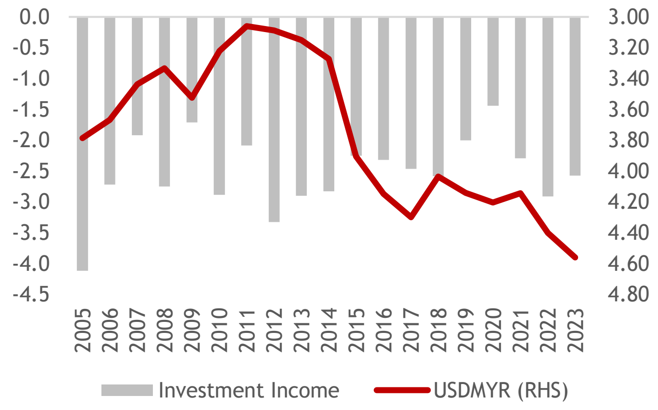
Source: Macrobond, MIDFR

Chart 6: Compensation of Employees (% of GDP) vs. USDMYR (RM)



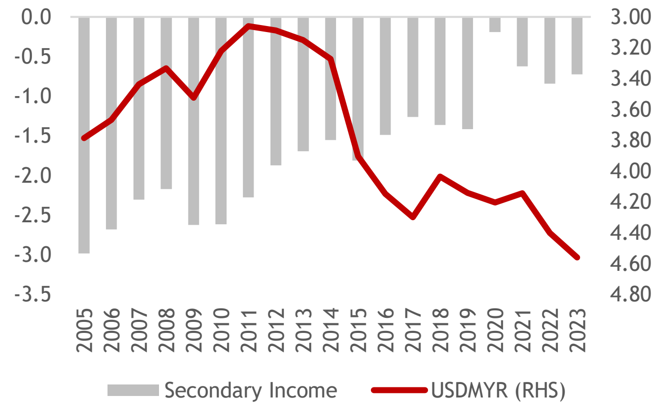
Source: Macrobond, MIDFR

Chart 7: Investment Income (% of GDP) vs. USDMYR (RM)



Source: Macrobond, MIDFR

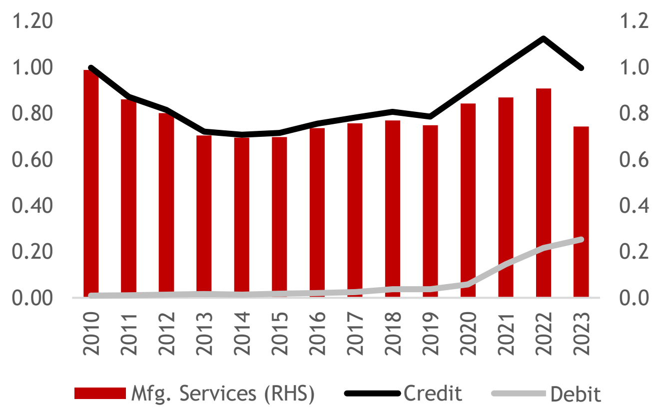
Chart 8: Secondary Income (% of GDP) vs. USDMYR (RM)



Source: Macrobond, MIDFR

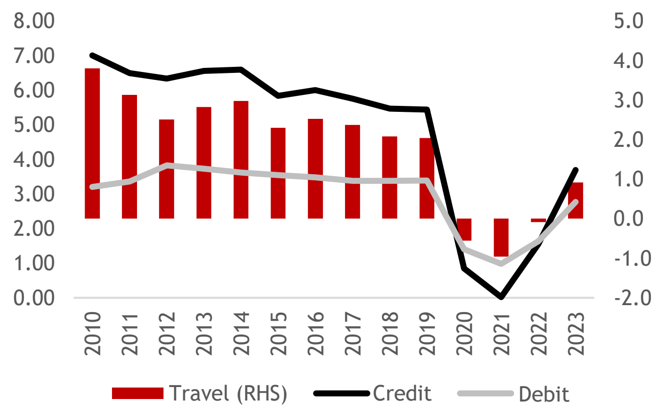
Travel exports were already in descending trend even before 2020. Covid-19 pandemic hammered Malaysia's travel account into deficit in 2020-2022. However, the tourism business returned to surplus with the ratio rebounding to +0.9% of GDP in 2023 following post-pandemic reopening efforts and improved vaccination rates globally. Out of all services trade components, travel (+3.8%), manufacturing services (+1.0%), maintenance & repair (+0.03%) and telecommunication (+0.06%) recorded surpluses in 2010. After more than a decade, only manufacturing services and travel were in surpluses with the ratio at +0.7% and +0.9% of GDP, respectively in 2023.

Chart 9: Manufacturing Services (% of GDP)



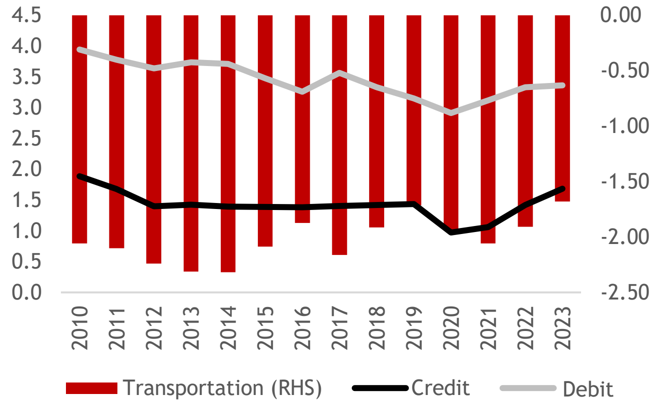
Source: Macrobond, MIDFR

Chart 10: Travel (% of GDP)



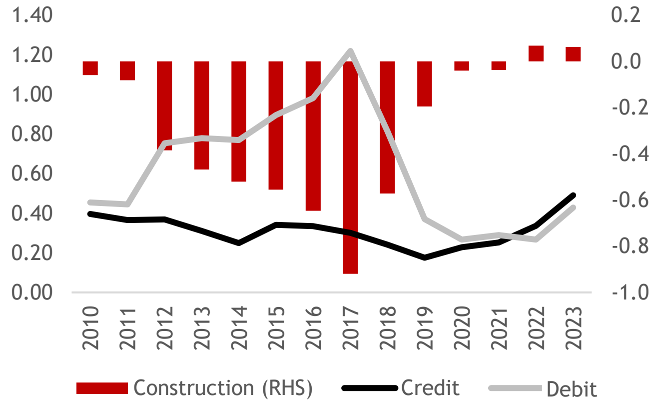
Source: Macrobond, MIDFR

Chart 11: Transportation (% of GDP)



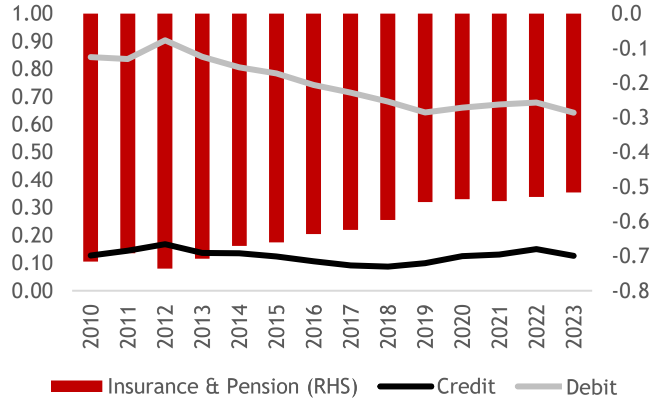
Source: Macrobond, MIDFR

Chart 12: Construction (% of GDP)



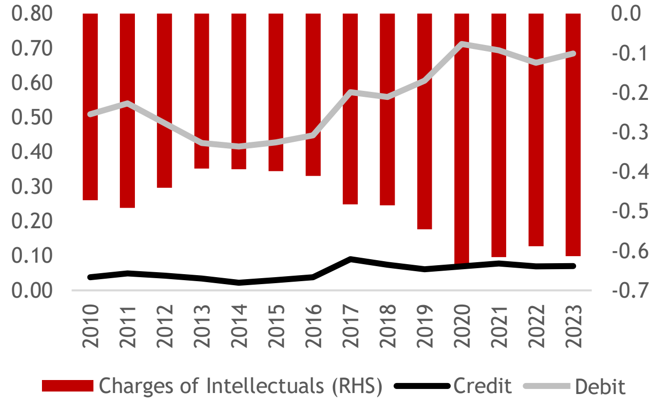
Source: Macrobond, MIDFR

Chart 13: Insurance (% of GDP)



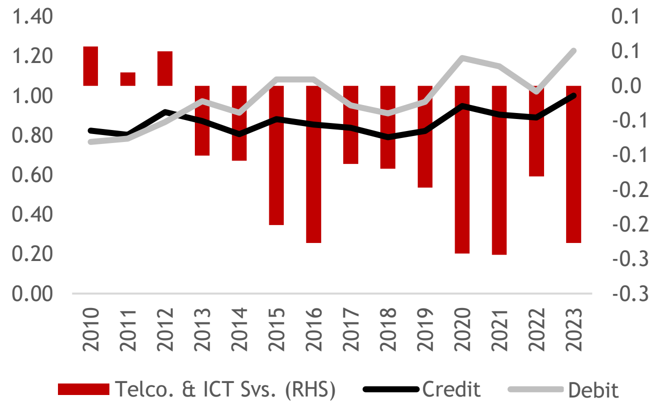
Source: Macrobond, MIDFR

Chart 14: Intellectual Charges (% of GDP)



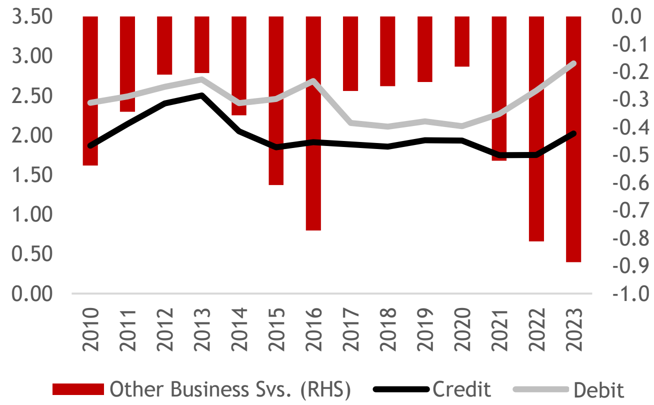
Source: Macrobond, MIDFR

Chart 15: Telecommunication (% of GDP)



Source: Macrobond, MIDFR

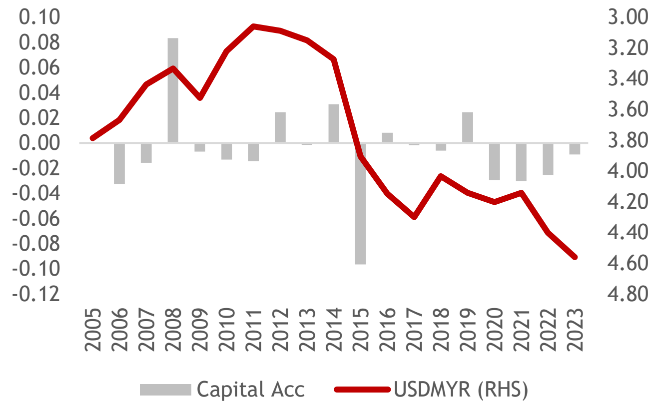
Chart 16: Other Business Services (% of GDP)



Source: Macrobond, MIDFR

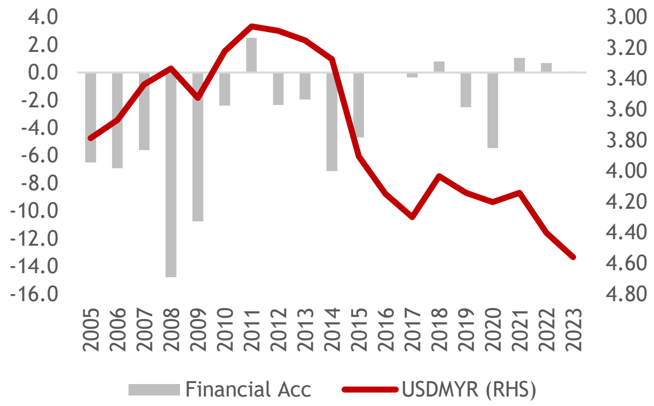
Deficits in portfolio investment and financial derivatives. Portfolio investment stayed in deficit since 2013 except in 2021. Post-GFC '09 saw the ratio surge to a record high at 6.5%. Similarly, net flows of financial derivatives registered marginal deficit except for certain years. On a positive side, direct investment turned around from deficit to surplus in 2016. This could be due to the shift in oil & gas investment from the upstream to the downstream segment. Also, the US-China trade war also led to increased investment in distribution hub in Malaysia as well as the ASEAN region, as part of the China+1 strategy.

Chart 17: Capital Account (% of GDP) vs. USDMYR



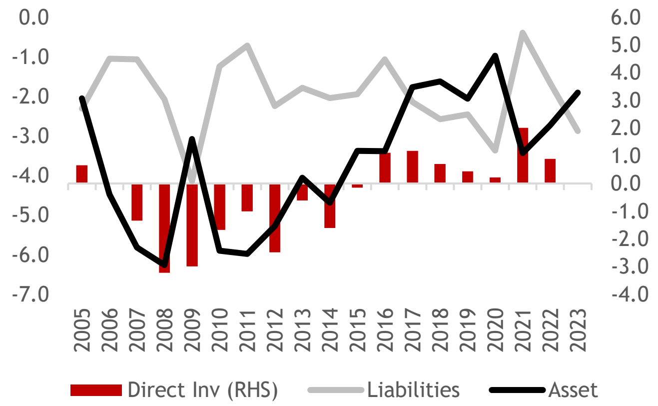
Source: Macrobond, MIDFR

Chart 18: Financial Account (% of GDP) vs. USDMYR



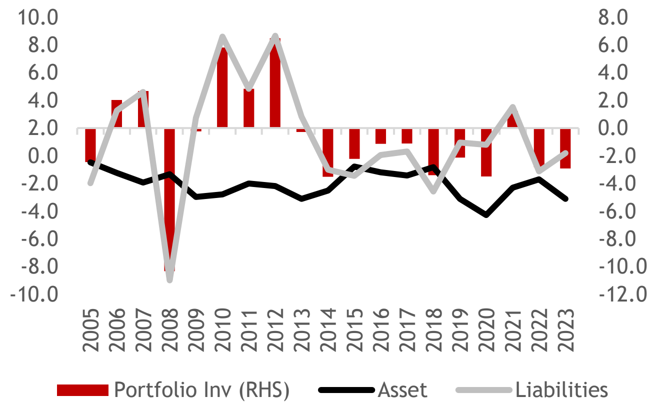
Source: Macrobond, MIDFR

Chart 19: Direct Investment (% of GDP) vs. USDMYR



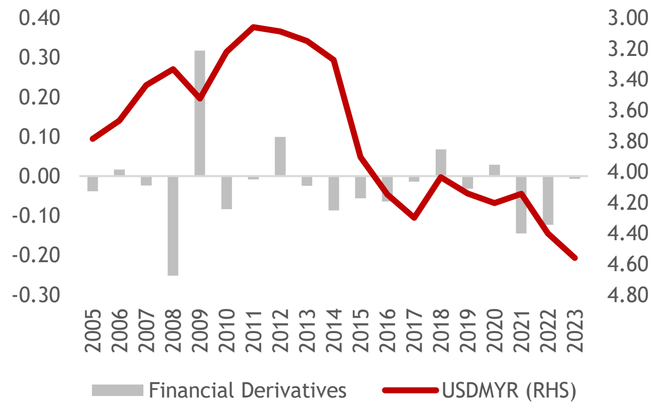
Source: Macrobond, MIDFR

Chart 20: Portfolio Investment (% of GDP)



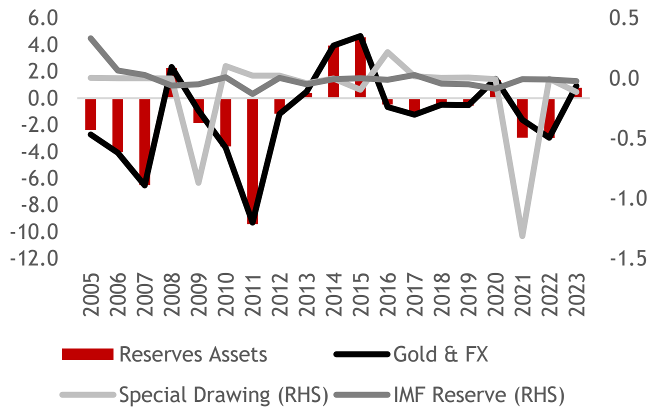
Source: Macrobond, MIDFR

Chart 21: Financial Derivatives (% of GDP) vs. USDMYR (RM)



Source: Macrobond, MIDFR

Chart 22: Reserve Assets (% of GDP)



Source: Macrobond, MIDFR

FOREIGN FUND FLOW FACTOR

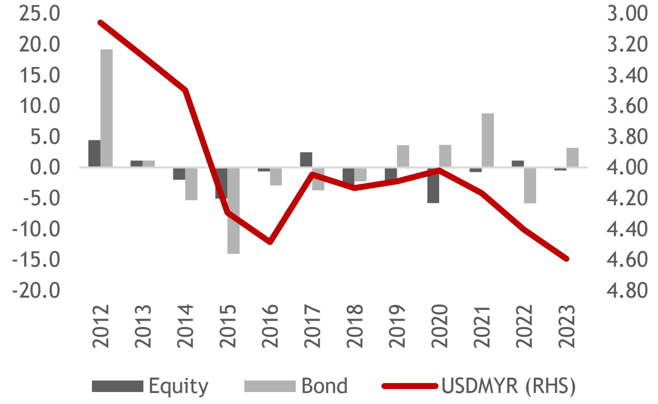
Influence of foreign fund flows in the bond markets. In dollar terms, the bond market has seen a decline in foreign holdings of government bonds from USD73.0b in 2012 to USD59.3b in 2023. The decline was mainly attributable to 5 consecutive years of outflow totalling -USD28.3b from 2014 to 2018 due to the effects of the crude oil supply glut (2014-2016), +200bps FFR hike from Dec-16 to Dec-18, and the start of the US-China trade war in 2018. Over this period, we saw the Ringgit depreciated by -24.8% vs. the USD to RM4.154 (as of end-2018).

Equity market also saw net outflows. Similarly, the equity market registered an average -USD656m outflow from 2012 to 2019, mainly as a result of the 3 years of outflows from 2014 to 2016 amounting to -USD7.7b due to the fall of oil and crude palm oil prices. The US-China trade war also triggered outflows in 2018 and 2019 amounting -USD5.6b. Equity market outflow continued into the pandemic years registering an outflow of -USD6.5b in 2020 and 2021.

Mixed flows in the post pandemic period. Post pandemic, the bond market registered the first outflow in 4 years at -USD5.8b as the Fed's aggressive hike in 2022 sapped away interest from the bond market. The bond market, however, garnered interest in 2023, registering a USD3.2b inflow as BNM stabilized OPR at the pre-pandemic level while Malaysia's credit ratings remained stable. As for Malaysia's equity market, it has seen returned interest in 2022 as the economy reopened, registering the first inflow in 4 years amounting to USD1.1b. In contrast, in 2023 the equity market witnessed an outflow of -USD514m as sentiment in the market was influenced by the delayed pivot by the Fed, including its signal for higher for longer.

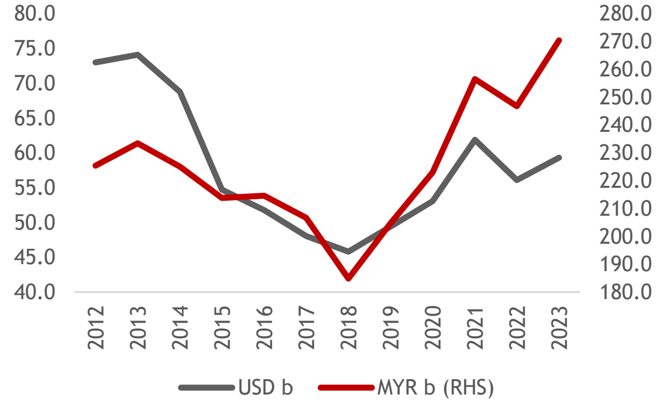
Fund flows does have an influence. We noticed that the inflow into the equity market (vis-à-vis outflow from the bond market) may have been behind the strengthening of Ringgit in Dec-23. This was as flow of funds were influenced by the shift in market sentiment towards growing expectations for rate cuts by the Fed in 2024.

Chart 23: Foreign Fund Flow of Malaysian Bond and Equity (USD b) vs. USDMYR (RM)



Source: Bloomberg, Bondstream, MIDFR

Chart 24: Foreign Holdings of Malaysian Bonds in USD and MYR

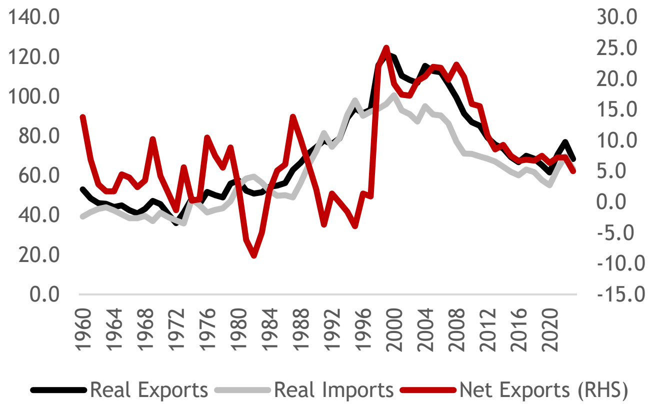


Source: Macrobond, MIDFR

EXTERNAL TRADE FACTOR

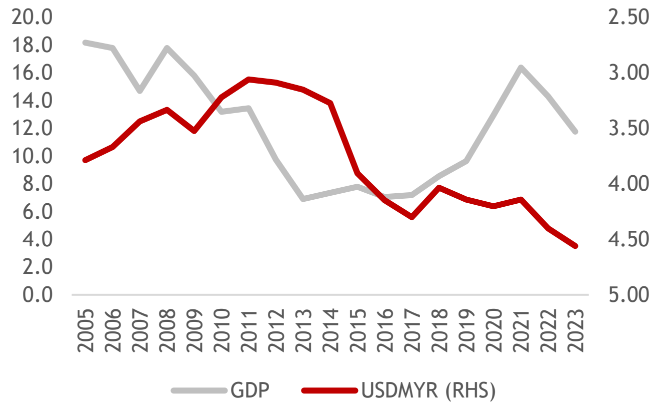
Lower net exports and less dependency on the US. Fundamentally, the share of exports of goods & services to Malaysia's GDP stayed below 80.0% since 2012. The ratio was above 80% from 1994-2011 and in fact, surpassed 100.0% in 1998-2007. Consequently, the ratio of net exports to GDP was at a double-digit rate for the 14-year period since 1998. Macroeconomic structural shift from export-oriented to domestic-driven was among the factors leading to this shift, especially after the 1997-98 Asian Financial Crisis. Apart from that, we also noticed structural change in Malaysia's external trade sector in terms of products and trading partners. Almost two decades, overseas sales of manufactured goods to total exports increased from 7.3% to 8.9% in 2023. Mineral Fuels, Chemicals and Oils & Fats had similar trajectory. However, the trade balance to exports decreased on certain products such as Mineral Fuels, Oils & Fats and Chemicals. The biggest reduction was Mineral Fuels from +51.4% in 2005 to +1.6% in 2023. Manufactured goods also transitioned to surplus from deficit over more than 15 years until 2019. By trading partner, due to location and also being part of the regional production network, Malaysia is now more exposed to ASEAN and China. Exports to ASEAN as of total outbound shipments, which stood at 29.5% in 2023, higher by +3.5%-point from 2005. Trade with China grew more than double from 6.6% in 2005 to 13.5% in 2023. Meanwhile, exports shares with the US, EU and Japan fell to 11.3%, 7.9% and 6.0%, respectively, last year. The shift was not only about change of trade destination, but also explained the change from being the source of surplus to deficit contributor. Malaysia was and is recording trade surplus with the US, EU and Japan. However, for the trade with China, Malaysia registered double-digit deficit ratio of trade balance to exports value. Reiterating our points, the weakness in Ringgit could be related to structural change in Malaysia's external trade sector and its contribution to GDP, particularly smaller net exports for key products and higher exposure to trade deficit contributor in terms of trade with major market like China.

Chart 25: External Trade (% of GDP), 1960-2023



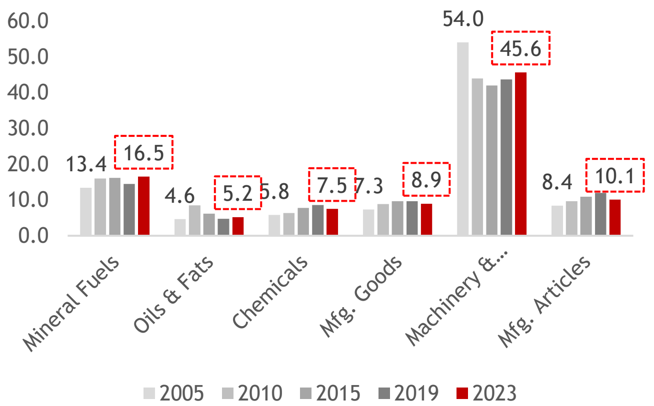
Source: Macrobond, MIDFR

Chart 26: Trade Balance (% of GDP) vs. USDMYR



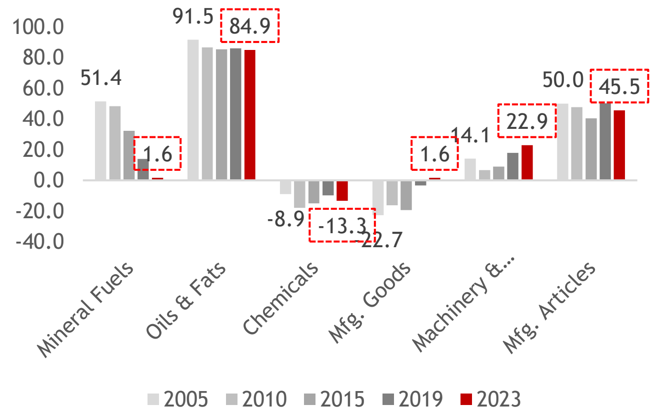
Source: Macrobond, MIDFR

Chart 27: Exports by Key Product (% of Exports)



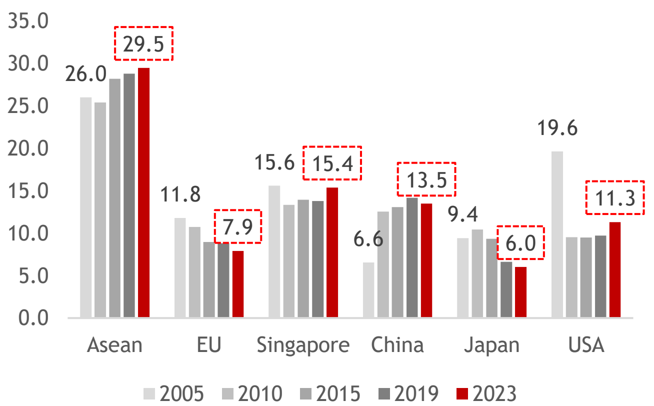
Source: Macrobond, MIDFR

Chart 28: Trade Balance by Key Product (% of Exports)



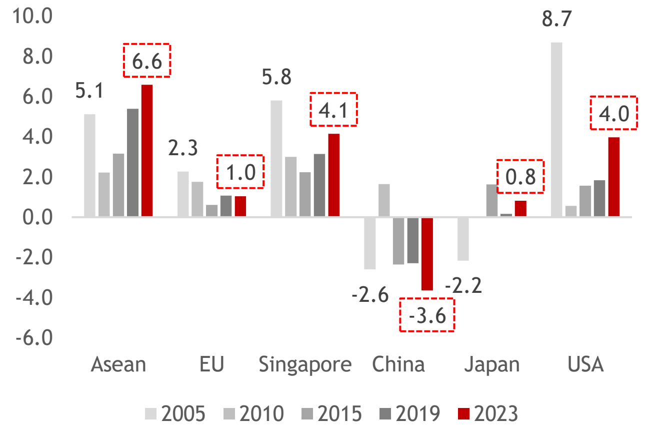
Source: Macrobond, MIDFR

Chart 29: Exports by Key Country (% of Exports)



Source: Macrobond, MIDFR

Chart 30: Trade Balance by Key Country (% of GDP)



Source: Macrobond, MIDFR

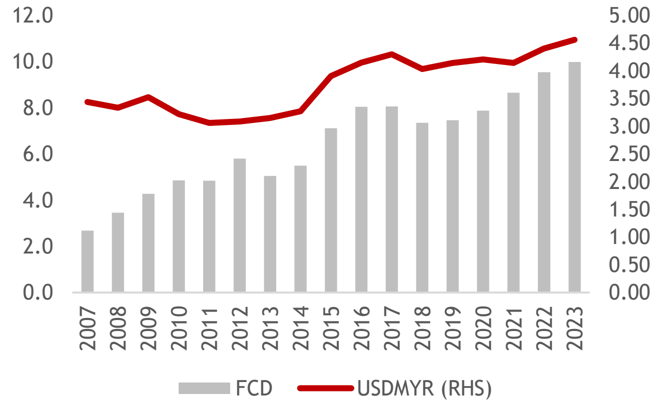
FOREIGN EXCHANGE POLICY FACTOR

Increased foreign currency deposits... In Dec-16, BNM stated that local exporters must convert 75.0% of exports proceeds into Ringgit and 25.0% can be retained in foreign currency. The repatriation policy also highlight that the foreign earnings must be returned to Malaysia within six months, and since 2021 exporters are not required to covert foreign earnings into Ringgit. We opine that BNM is providing more space for the exporters to manage their finances, especially in meeting foreign currency obligations. Although the decision to convert will be decided by the companies themselves, BNM observed a consistent trend where exporters tend to convert 60-70% of foreign proceeds. Following the foreign exchange policy change, looking at the breakdown of total deposits in Malaysia's banking system, the latest data shows foreign currency deposits (FCD) accounted roughly 10.0% in 2023, the highest ever recorded. The ratio has been on an uptrend since the first reporting period. Prior to 2017, the average annual growth rate for the FCD was +23.5%pa, faster than +8.1%pa growth in total deposits. After the imposition of repatriation policy in Dec-16, the growth rate decelerated to +6.5%pa for

FCD and +4.9%pa for total deposits during 2017-2020. After 2021, FCD grew by +13.1%pa which more than double of total deposits' +5.6%pa (2021-2023).

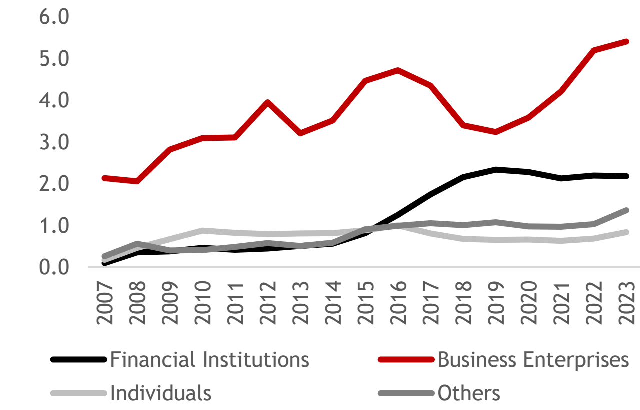
...especially higher holdings by business enterprises. There are seven holders of FCDs, (i) Federal Government, (ii) State Government, (iii) Statutory Agency, (iv) Financial Institutions, (v) Business Enterprises, (vi) Individuals and (vii) Others. The federal, state governments and statutory agencies only represent less than 2.0% of FCD holdings. The major holders are Business Enterprises (share: 54.2%), Financial Institutions (21.9%), Others (13.7%) and Individuals (8.4%) in 2023. Among others, we believe the rise of FCD ratio to total deposits especially driven by Business Enterprise and Financial Institutions has led to the weakening of Ringgit since 2016. Understandably, with the strengthening of US dollar backed by the Fed's aggressive policy tightening, the preference to hold FCD grew even more last year, driven mainly by increased FX holdings particularly among businesses enterprises. However, the trend may slow and could even reverse because the preference to hold FCD may shift in anticipation of weakening of US dollars with the Fed is expected to cut interest rates later this year.

Chart 31: Foreign Currency Deposits, FCD (% of Total Deposits) vs. USDMYR



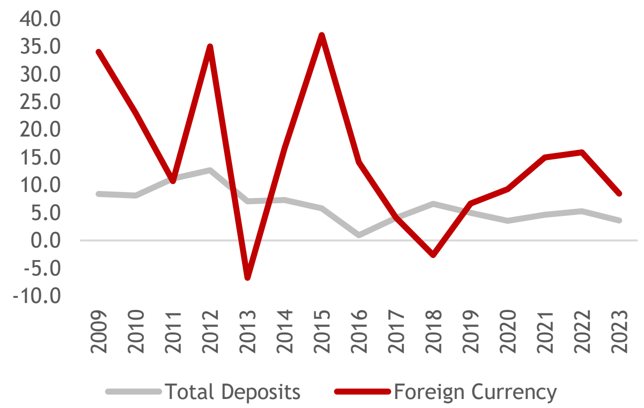
Source: Macrobond, MIDFR

Chart 32: Major Depositors (% of Total Deposits)



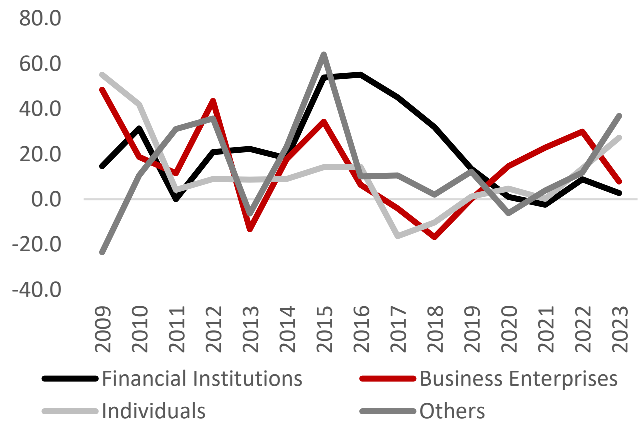
Source: Macrobond, MIDFR

Chart 33: Total Deposits vs, FCD (YoY%)



Source: Macrobond, MIDFR

Chart 34: Major FCD Depositis (YoY%)



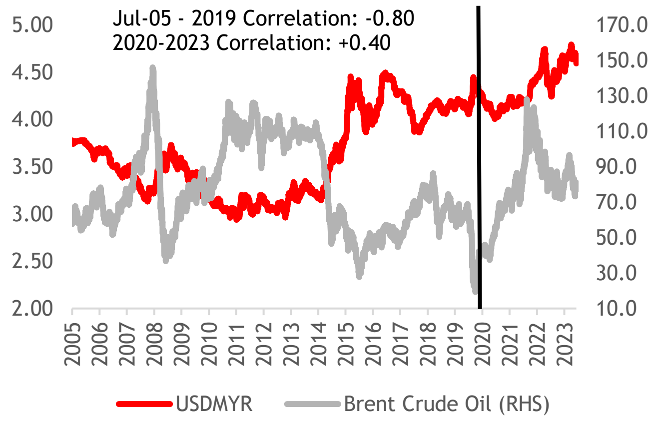
Source: Macrobond, MIDFR

COMMODITY PRICES FACTOR

Stronger influence from other factors recently saw breakdown in correlation between commodity prices and Ringgit. Ringgit's depreciation this time around also was not due to the plunge of commodity prices like in 2014-2017 as Brent crude oil prices have remained relatively high. The sustained decline of oil prices in 2014-2017 due to the supply glut saw the Ringgit touching a low of RM4.498 on 4th Jan-17, which was the lowest since early 1998. Moreover, drawing a historical comparison with the more recent development, since 22nd Jul-05, when the Ringgit de-pegged from the dollar until 2019, the correlation between MYR/USD stood at -0.80, indicating appreciation in Ringgit when Brent prices increased. However, since 2020 the correlation is at +0.40 indicating a negative relationship between oil prices and Ringgit's strength.

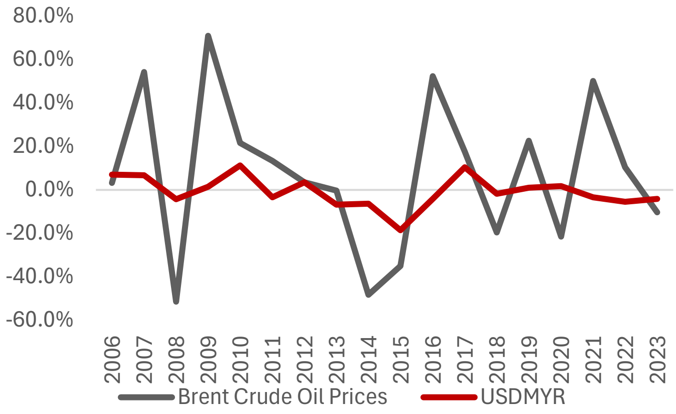
This depicts that the Ringgit is currently strongly influenced by sentiment within the financial market rather than economic fundamentals and will improve once there is better visibility on the global interest rates outlook.

Chart 35: USDMYR vs. Brent Crude Oil Prices (USD pb)



Source: MIDFR

Chart 36: YoY Change USDMYR and Brent Crude Oil Prices

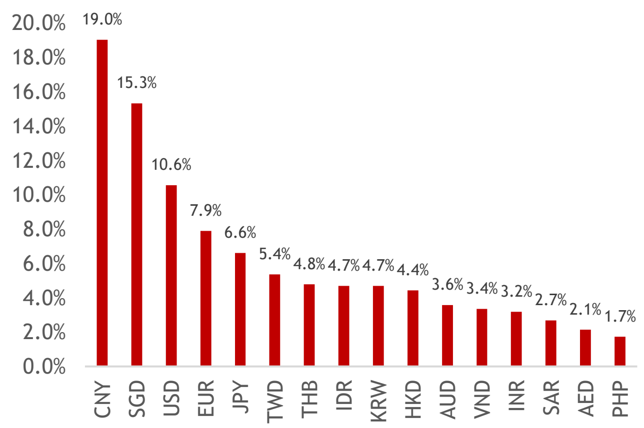


Source: Macrobond, MIDFR

INTRODUCING MIDF Trade-Weighted Ringgit Index

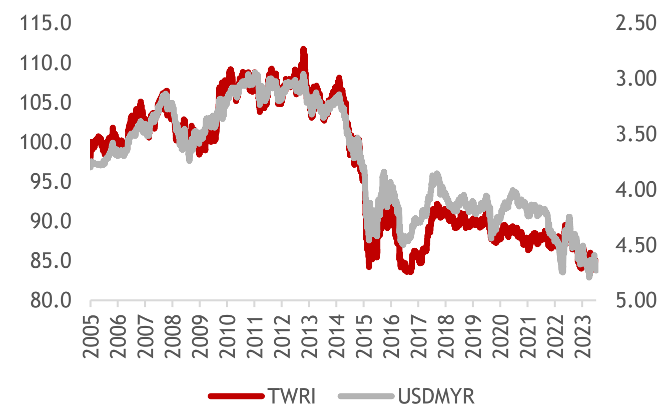
MIDF Trade-Weighted Ringgit Index (TWRI); measuring Ringgit FX beyond USDMYR. Our MIDF TWRI is derived from the Ringgit's trade-weighted FX performance against the currencies of Malaysia's 16 largest trading partners[1]. The size of trade with these 16 partners accounted for 89.9% of Malaysia's total trade in 2023. Among the top 3 major components of the MIDF TWRI are Chinese yuan (weight: 19.0%), Singapore dollar (15.3%) and US dollar (10.6%). The assigned weight for each currency was determined by the size of total trade between Malaysia and the respective countries. For the base year, we adjusted the index using the annual average for 2006 as the starting point, the first year after the Ringgit's exchange rate was de-pegged from RM3.80 to the dollar on 21 July 2005. By developing MIDF TWRI, we believe the trade-weighted index will provide a more holistic assessment of the Ringgit's value beyond (but inclusive of) USDMYR. In other words, MIDF TWRI shall be a better gauge to measure the relationship between changes in Ringgit's FX rates and Malaysia's macroeconomic performance.

Chart 37: MIDF TWRI Components' Adjusted-Weightage



Source: MIDFR

Chart 38: MIDF TWRI (2006 = 100) vs USDMYR



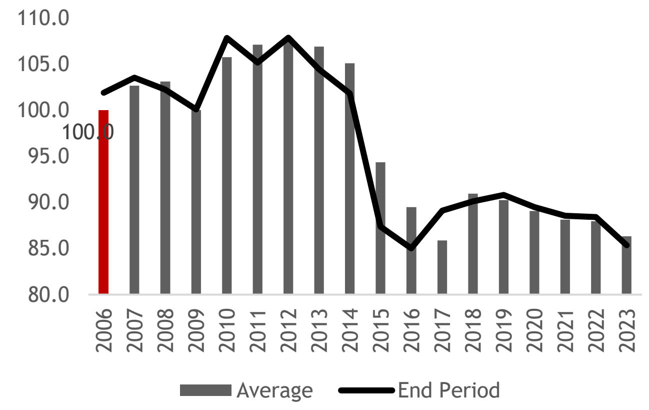
Source: Macrobond, MIDFR

MIDF TWRI showed less volatility than USDMYR. Since the de-pegging of Ringgit from the US dollar in Jul-05, our MIDF TWRI generally follows a similar trend as observed in the USDMYR. This was expected as the movement in Ringgit and other currencies were more or less impacted by the changes in the value of US dollar. Even after adjusting to Malaysia's external trade, the downtrend in MIDF TWRI, especially between 2014 to 2023, indicates a broad-based weakening of the

[1] The 16 major trading partners for Malaysia are: China, Singapore, USA, Euro area, Japan, Taiwan, Thailand, Indonesia, South Korea, Hong Kong, Australia, Vietnam, India, Saudi Arabia, United Arab Emirates and the Philippines.

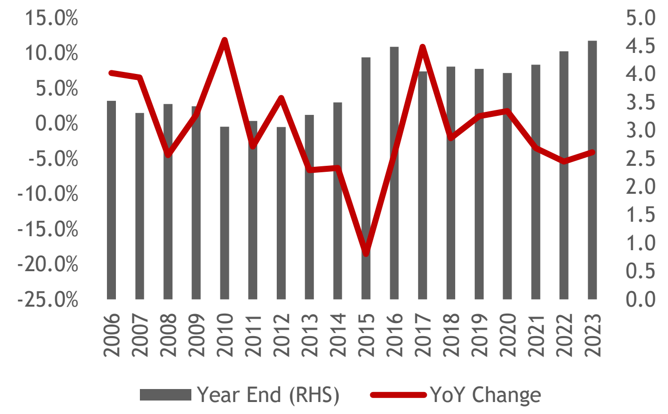
Ringgit against US dollars as well as currencies of major trading partners. Again, as discussed above, this may be explained by structural changes (e.g. shift in external trade patterns, fiscal issues, dependency on foreign services, liberalization of FX policy, etc.) However, despite the similar trend of movement, there is a significant difference in terms of volatility between MIDF TWRI and USDMYR. We conclude that MIDF TWRI is less volatile as the standard deviation of the rate of change is larger in USDMYR at 0.14 as compared to TWRI's 0.09. The smaller volatility of the TWRI as compared to USDMYR indicated that the index mitigated the more excessive movement in USDMYR. The assigned weights, which represent trade volume with the major trading partners, also ensure MIDF TWRI reflected the reduced reliance on trade with the US. Furthermore, MIDF TWRI also incorporates fluctuations in the Ringgit's foreign exchange rates against other currencies. Consequently, it is influenced by factors that extend beyond those affecting the value of the US dollar.

Chart 39: MIDF TWRI Annual Average and Year End Value



Source: MIDFR

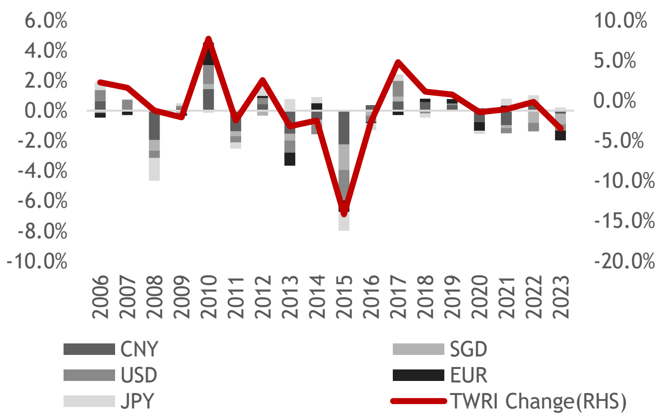
Chart 40: USDMYR: Year End Value and Annual Change (%)



Source: Bloomberg, MIDFR

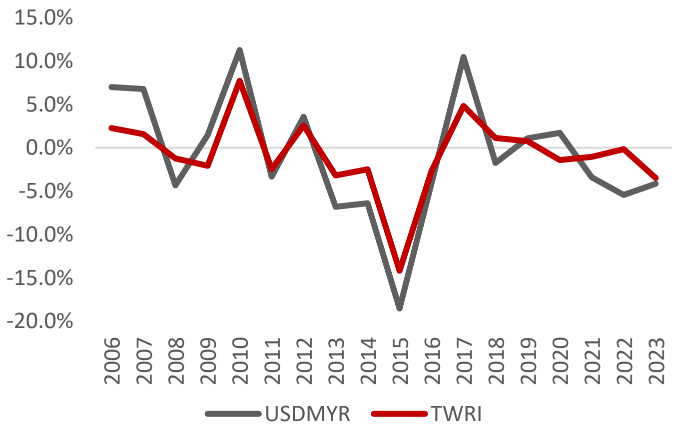
USDMYR alone is not a comprehensive measurement of Ringgit's performance. In 2022, the Ringgit only experienced marginal depreciation of -0.1% according to the MIDF TWRI, less significant compared to the -5.5% plunge if measured by USDMYR. Looking at the contribution of major components to the change in MIDF TWRI in 2022; the SGD and USD contributed to -0.8%-point and -0.6%-point to the changes, respectively. The negative contributions, however, were offset by the appreciation of Ringgit against CNY (+0.4%) and JPY (+0.6%), while the Ringgit was virtually unchanged against the euro. Such drastic differences between the components of MIDF TWRI were due to the varying degrees of the impact of the pandemic on each economy and the foreign currency market. For example, China was the last major economy to end reopen in Jan-23 due to its strict Zero Covid Policy with lockdowns extended into 4QCY22. Hence MIDF TWRI showed that singling the USD as a sole measure of the Ringgit's performance will not be a complete representation of Ringgit's performance vis-à-vis Malaysia's overall macroeconomic performance and outlook.

Chart 41: MDFI TWRI Annual Change (%) and Contribution to Change by Major Components (%)



Source: MIDFR

Chart 42: MIDF TWRI vs USDMYR (% Annual Change)



Source: Bloomberg, MIDFR

CONCLUSION AND EXPECTATION

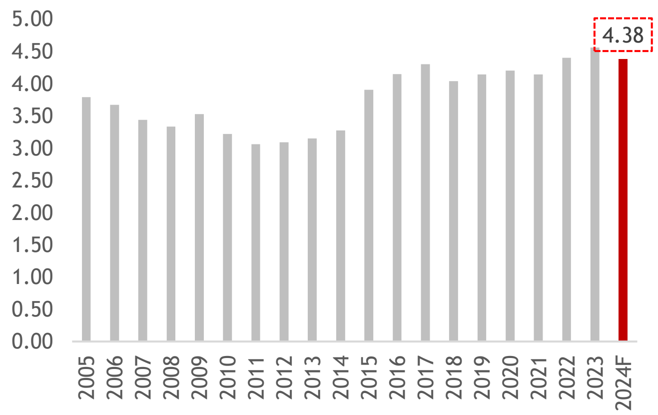
USDMYR is influenced by a multitude of factors. From our analysis we can surmise that the performance of USDMYR is influenced by a multitude of factors. These factors can work in tandem which would exacerbate the movement of USDMYR or it can be, at points, divergent of each other which would moderate the Ringgit's movement. It is difficult to pin-point the level influence each factors have as it depends on current situation be it external or domestic.

Measuring the Ringgit performance beyond the USD is now more important post-pandemic. The MIDF TWRI reveals the importance of looking at Ringgit performance beyond just the USDMYR movement, especially in the post-pandemic period. With the broad strengthening of dollar and the aggressive policy tightening by the Fed, the fixation on USDMYR movement exacerbates the extent of weakness in Ringgit. While the sentiment surrounding USDMYR movement has been increasingly focused on the future direction of the Fed which determines the value of US dollar, this somehow ignores changes of Ringgit against other currencies as well as the structural changes in the economy beyond the foreign exchange market. This explains why the movement in Ringgit vs. US dollar failed to capture and reflect the positive economic fundamentals and the recent developments in Malaysia's macroeconomy.

MIDF TWRI could be a better measure for Ringgit movement. The index allows captures the effect of trade on Ringgit movement with the index adjusted according to Malaysia's trade with other countries. The reduced volatility reflects the relative stability of Ringgit against major trading partners, not exaggerating the recent excessive strength in dollar, and perhaps the excessive weakening of dollar when Fed begins cutting rates. While the trend in MIDF TWRI also pointed to weaker Ringgit performance from the long-term perspective, this can be explained by changes such as reduced current account balance (on the back of growing imports), deficits in portfolio investment and financial derivatives, and foreign fund flow. Hence, the MIDF TWRI displayed a comprehensive measurement which incorporates structural factors at the same time mitigating the volatility that comes with measuring the Ringgit against a single safe-haven currency like the USD. In other words, as the USD movement is significantly exposed towards market sentiment, the TWRI allows for a relatively more exhaustive assessment of the Ringgit's performance beyond the bilateral exchange of USDMYR.

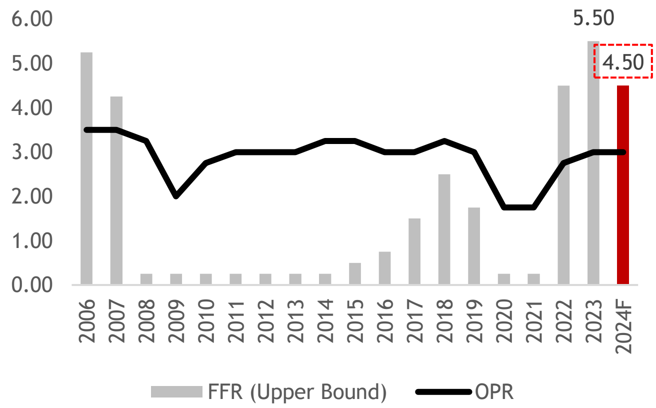
2024 to be appreciation year for Ringgit. Strong US dollar has been the main factor for the depreciation of most currencies since early 2022 due to the aggressive interest rate hikes by the Fed. Similarly, Ringgit has also weakened and remained on the depreciation path as the Fed kept on delaying its interest rate pause. In addition, contractionary external trade performances also dragged the recovery for Ringgit in 2023. Fundamentally, Ringgit is in a good position to strengthen in 2024 as the domestic economy stays on upbeat momentum and as a net commodity exporter (of crude petroleum, LNG and palm oil), Ringgit stands to gain from the supportive global commodity prices and sustained trade surplus. Most importantly, the Fed and other major central banks are done with their interest rate hikes and most likely turn to rate cuts in 2024. As we expect Ringgit to appreciate benefiting from more inflows coming back to the emerging markets, we project for USDMYR to average lower at RM4.38 in 2024 (2023 average: RM4.56), and reach RM4.20 by year-end (end-2023: RM4.59).

Chart 43: USDMYR 2024 Forecast (Average)



Source: Macrobond, MIDFR

Chart 44: FFR 2024 Forecast (%)



Source: Macrobond, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
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(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology