

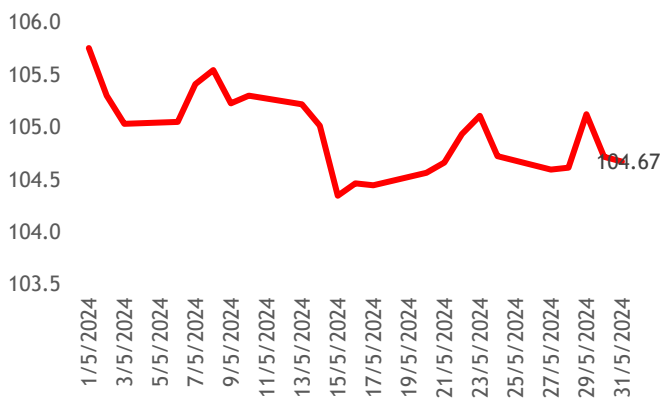
CURRENCY | May-24 Monthly Currency Review

Positive Shift for Ringgit in May-24

- *The US dollar ended weaker in May-24 after 4 months of appreciation, with the DXY Dollar Index closing -1.5%mom lower at 104.67 (Apr-24: 106.22). The monthly average also fell by -0.4%mom to 104.95 (Apr-24: 105.41).*
- *The Malaysian ringgit rebounded and appreciated by +1.4%mom in May-24, closing at RM4.707 by the end of the month, a rather encouraging turnaround from the declines in the previous months.*
- *MIDF Trade-Weighted Ringgit Index (TWRI) surged by +1.0%mom to 86.11 in May-24.*
- *We anticipate an average of around RM4.53 in 2024 (2023: RM4.56) and a trend towards RM4.43 by year-end (end-2023: RM4.59). However, several downside risks could limit the chances for ringgit to strengthen (rising geopolitical tensions, delay in Fed's rate cuts, weaker growth in China, etc)*
- *We anticipate our MIDF TWRI to reflect a broad appreciation of the ringgit, projecting the index to end the year higher at 91.50 (end-2023: 85.34).*

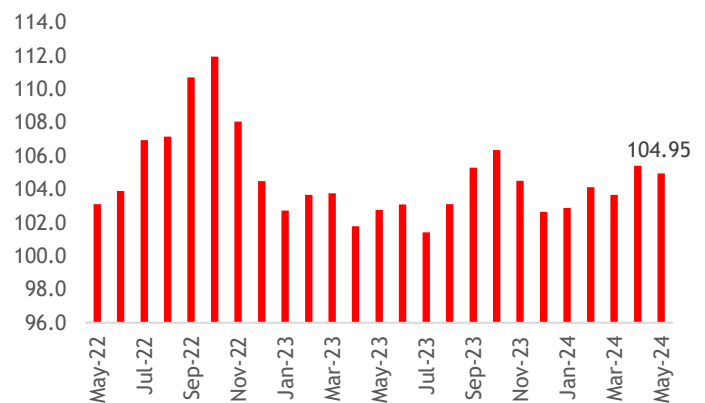
USD first monthly decline in five months. The US dollar ended weaker in May-24 after 4 months of appreciation, with the DXY Dollar Index closing -1.5%mom lower at 104.67 (Apr-24: 106.22). The monthly average also fell by -0.4%mom to 104.95 (Apr-24: 105.41). During the month, the US dollar started from a stronger position at 105.76 before broadly depreciating as a series of US economic releases signalled a softer economic outlook, cooling in the labour market and moderate inflation reading. The dollar registered its lowest daily closing at 104.35 on 15th May 2024. However, the US dollar rose again to surpass the 105 level on 23rd May 2024 after minutes of the recent FOMC meeting revealed the Fed is cautious about cutting interest rates too early, reinforcing the expectations for high-for-longer and therefore delayed rate cuts. Sentiment in the market shifted again as the downward revision of US 1QCY24 GDP and within-expectations core PCE numbers saw the dollar's strength subsiding towards the end of the month. We continue to anticipate that the Fed will begin easing its policy rate in the latter part of 2HCY24 as the US inflation remains on a broad moderating trend despite recent stickier readings. On that note, we expect the dollar's strength to subside as the Fed approaches rate easing. Conversely, potential US recession risks, increasing geopolitical tensions, and rising risk aversion could extend the dollar's strength.

Chart 1: Movement of DXY Dollar Index in May-24



Source: Bloomberg, MIDFR

Chart 2: Monthly Average of DXY Dollar Index



Source: Bloomberg, MIDFR

USD retreated against most currencies. The USD depreciated against all the currencies of advanced economies but still gained against most EM currencies. Year-to-date, however, all currencies have dipped against the greenback except for the pound, which registered a slight gain of +0.1%ytd. Notably, the Japanese yen was the worst performer against the USD, -10.3%ytd.

Table 1: End Period of USD Against Selected Currencies, YTD Change and MoM Change

	2020	2021	2022	2023	May-24	YTD Change	MoM Change
DXY	89.94	95.67	103.52	101.33	104.67	+3.3%	-1.5%
USDAUD	1.300	1.377	1.468	1.468	1.521	-2.3%	+2.8%
GBPUSD	1.367	1.353	1.208	1.273	1.264	+0.1%	+2.0%
EURUSD	1.222	1.137	1.071	1.104	1.082	-1.7%	+1.7%
USDCAD	1.273	1.264	1.355	1.324	1.356	-2.8%	+1.1%
USDJPY	103.25	115.08	131.12	141.04	151.08	-10.3%	+0.3%
USDMYR	4.020	4.167	4.405	4.594	4.729	-2.4%	+1.4%
USDSGD	1.322	1.349	1.340	1.320	1.346	-2.3%	+1.1%
USDTHB	29.96	33.21	34.61	34.26	36.08	-7.0%	+1.0%
USDTWD	28.09	27.67	30.73	30.58	31.80	-5.8%	+0.3%
USDIDR	14,050	14,263	15,573	15,399	15,819	-5.3%	+0.0%
USDCNY	6.527	6.356	6.899	7.100	7.207	-2.0%	-0.0%
USDINR	73.07	74.34	82.74	83.21	83.19	-0.3%	-0.0%
USDKRW	1,086.5	1,189.9	1,260.3	1,291.1	1,344.5	-6.8%	-0.2%
USDVND	23,098	22,826	23,633	24,269	24,864	-4.6%	-0.5%
USDPHP	48.03	50.99	55.74	55.39	56.56	-5.4%	-1.3%

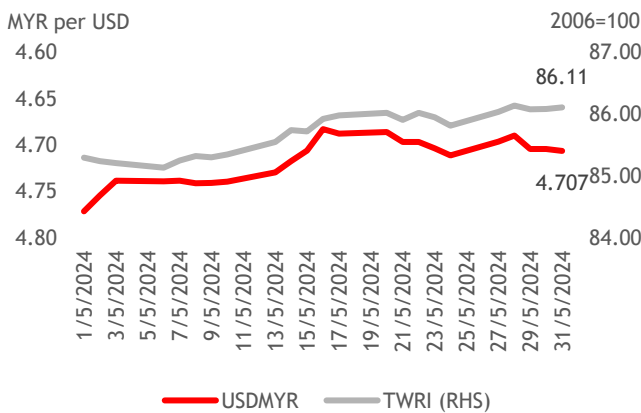
Source: Bloomberg, MIDFR

Ringgit rebounded in May-24. The Malaysian ringgit rebounded and appreciated by +1.4%mom in May-24, closing at RM4.707 by the end of the month, a rather encouraging turnaround from the declines in the previous months. On average, the ringgit gained +1.0%mom to RM4.717. At the beginning of May-24, the ringgit was traded at relatively weaker level of RM4.772 but steadily strengthened afterward to its intra-month high of RM4.683 on 16th May 2024. The appreciation towards the 2-month high mainly reflected the broad weakening of US dollar. However, the ringgit's exchange rate failed to sustain below the RM4.70 as dollar strengthened after

the release of FOMC meeting minutes. On the commodity front, Brent crude oil prices dropped by -7.1%mom to USD81.62pb during the month, thus unable to bolster the ringgit to appreciate to stronger levels. Despite robust growth fundamentals and expanding domestic demand in Malaysia, fluctuations in the ringgit's exchange rate against the dollar were mainly affected by market expectations regarding the Fed's future policy direction. We expect this factor will continue influencing ringgit exchange rates in the near term.

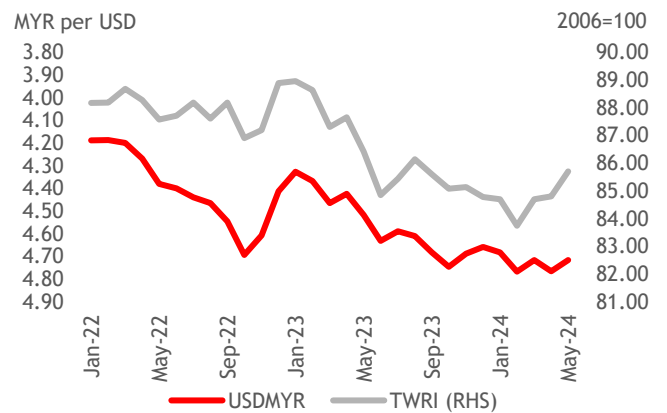
Ringgit strengthened against trading partners' currencies for 4-straight months. On a broader perspective, our MIDF Trade-Weighted Ringgit Index (TWRI) surged by +1.0%mom to 86.11 in May-24. This increase reflects the ringgit's appreciation against the currencies of Malaysia's main trading partners. In particular, ringgit gained the most against the Philippine peso (+2.7%) and Vietnamese dong (+1.8%%). The Philippine peso weakness was attributable to the less hawkish sentiment out of the central bank. Meanwhile, Vietnamese dong plunged due to external trade factor, rising inflationary pressure and low credit growth.

Chart 3: USDMYR vs. MIDF TWRI in May-24



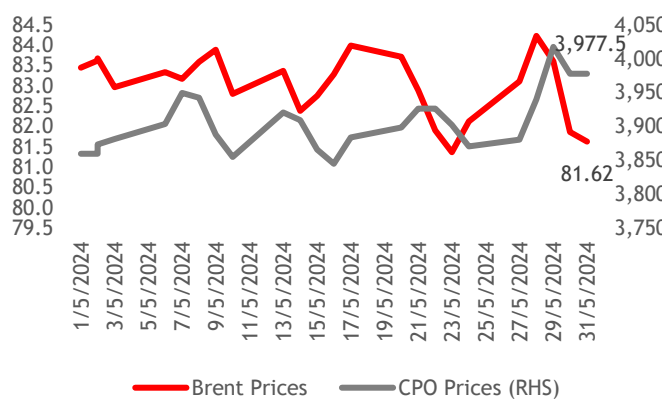
Source: Bloomberg, MIDFR

Chart 4: USDMYR vs MIDF TWRI Monthly Average



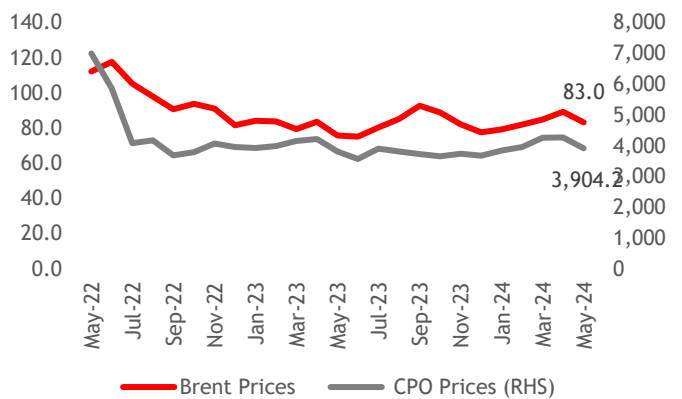
Source: Bloomberg, MIDFR

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 outperformed most currencies in May-24. As indicated by TWRI improvement, the ringgit appreciated against most regional currencies in May-24. Notably, the strong gains were against the Bangladeshi takas (+8.5%mom), Sri Lankan rupees (+2.8%mom) and Philippine peso (+2.7%mom). Ringgit also appreciated against the euro (+0.3%mom) but was virtually unchanged against the pound sterling.

Table 2: End Period of MYR Against Selected Currencies, YTD Change and MoM Change

	2020	2021	2022	2023	May-24	YTD Change	MoM Change
BDTMYR	4.952	4.873	4.725	4.225	4.014	+4.1%	+8.5%
LKRMYR	0.023	0.021	0.014	0.014	0.016	-9.1%	+2.8%
PHPMYR	0.085	0.084	0.081	0.082	0.080	+3.2%	+2.7%
VNDMYR	0.181	0.181	0.188	0.191	0.185	+2.4%	+1.8%
IDRMYR	0.029	0.029	0.030	0.030	0.029	+3.1%	+1.4%
CNYMYR	0.609	0.642	0.654	0.644	0.650	-0.6%	+1.4%
NPRMYR	0.035	0.035	0.035	0.035	0.035	-2.1%	+1.4%
TWDMYR	0.143	0.148	0.148	0.146	0.145	+3.6%	+1.0%
TRYMYR	0.604	0.479	0.268	0.197	0.146	+6.4%	+1.0%
THBMYR	13.430	12.965	12.559	13.107	12.794	+4.7%	+0.3%
KRWMYR	0.356	0.362	0.341	0.349	0.340	+4.7%	+1.6%
USDMYR	4.201	4.144	4.401	4.561	4.707	-2.4%	+1.4%
CADMYR	3.134	3.306	3.381	3.379	3.449	+0.5%	+1.1%
JPYMYR	3.936	3.775	3.358	3.247	2.993	+8.8%	+1.1%
SGDMYR	3.047	3.084	3.191	3.396	3.482	-0.1%	+0.7%
EURMYR	4.795	4.901	4.629	4.933	5.105	-0.6%	+0.3%
GBPMYR	5.391	5.701	5.432	5.673	5.989	-2.5%	-0.0%

Source: Bloomberg, MIDFR

Foreign interest in domestic equity returned. Interest from foreign funds improved in May-24 as foreign investors net bought USD314.25m domestic equities (Apr-24: -USD287.37m). In terms of foreign holding of Malaysian bonds, the latest data as of Apr-24 showed an increase to RM266.4b in Apr-24 (Mar-24: RM265.8b). However, this increase in Apr-24 was mainly due to the foreign exchange impact due to ringgit's depreciation because in dollar terms the foreign holdings of domestic bonds fell by -USD438.1m to USD55.8b. However, reading from the strengthening of ringgit and the declining yields in May-24, we opine this suggests possible returning of foreign funds into the domestic bond market.

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

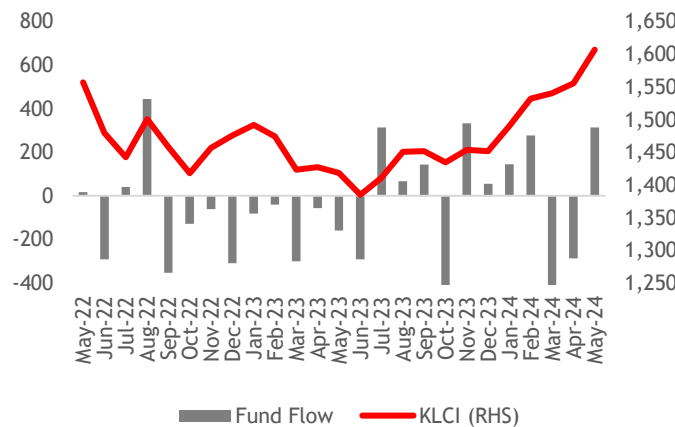
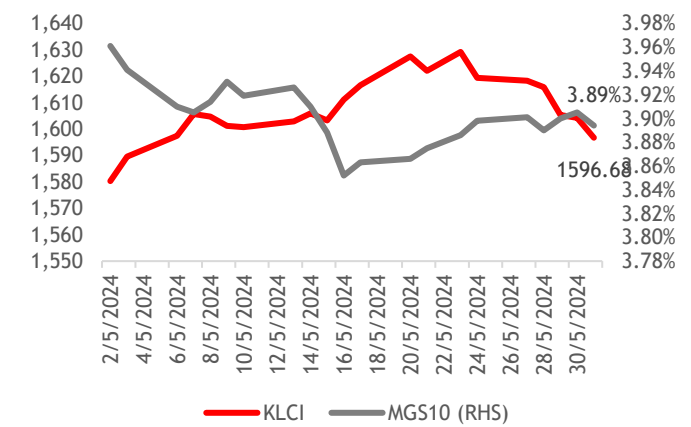


Chart 8: FBMKLCI and MGS 10-Yield Movement in May-24



Source: Bloomberg, MIDFR

Source: Bloomberg, MIDFR

Maintaining our projection for the ringgit to close the year stronger at RM4.43. The inflow of foreign funds into emerging markets, particularly with the anticipated reduction of the Fed's FFR, is expected to benefit the ringgit and other regional currencies. Recent indications of a softer US economic outlook have increased expectations for a Fed rate cut in 2024. We anticipate an average of around RM4.53 in 2024 (2023: RM4.56) and a trend towards RM4.43 by year-end (end-2023: RM4.59). Additionally, the ringgit will benefit from a revival in external trade activities as Malaysia consistently maintains a trade surplus. On the flip side, several downside risks could limit the chances for ringgit to strengthen. For example, weaker growth in China and the US as well as escalation in the geopolitical tensions could negatively affect Malaysia's external recovery, and therefore reduce support for ringgit. Moreover, the extended strength in the US dollar, particularly if the Fed further delays rate cuts due to persistently high inflation or stronger-than-expected US economic growth, will also weaken the ringgit's appreciation prospect.


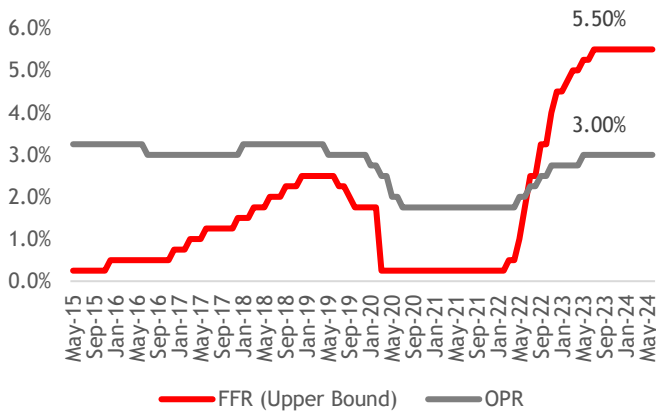
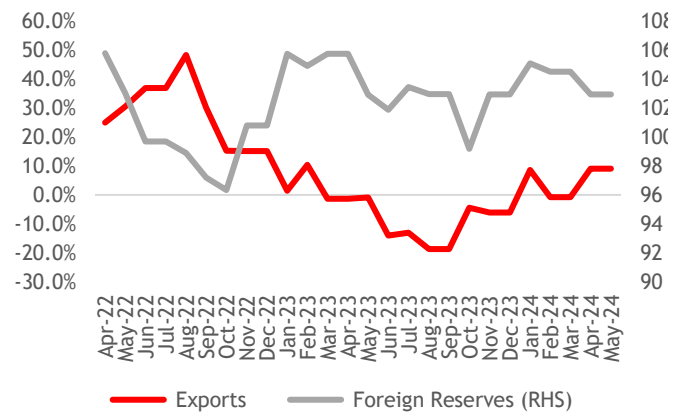
We are maintaining our target for MIDF TWRI to close the year higher at 91.50. Despite the MYR's slide against the USD, we foresee ringgit's performance against other currencies in the index mostly will continue to be positive. The anticipated recovery in Malaysia's external trade and a brighter economic outlook are set to enhance the ringgit's performance this year. Apart from the trade recovery, elevated commodity prices (e.g., crude oil, LNG, and crude palm oil) are expected to increase demand for the ringgit. On another note, the ringgit stand to gain against other currencies from the anticipated policy easing by other central banks, in contrast to BNM which is expected to keep OPR unchanged at 3.00% this year. Consequently, we anticipate our MIDF TWRI to reflect a broad appreciation of the ringgit, projecting the index to end the year higher at 91.50 (end-2023: 85.34). 

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



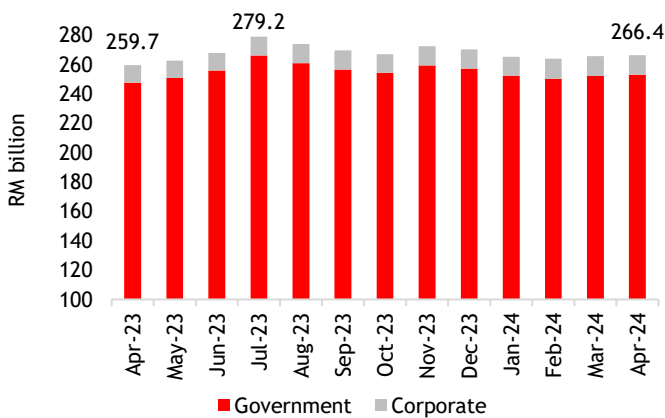
Source: Bloomberg, MIDFR

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



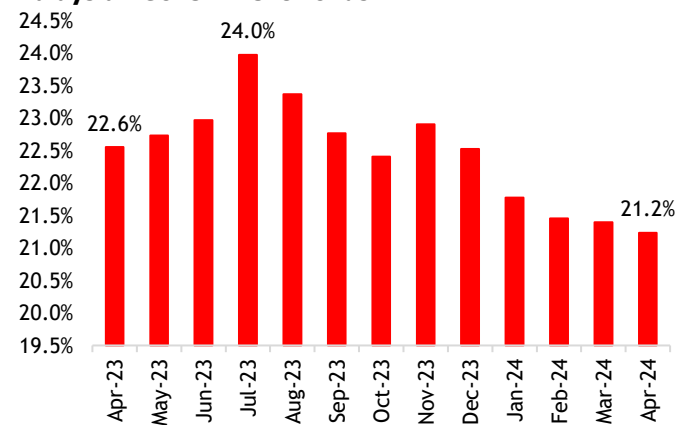
Source: Bloomberg, IMF, MIDFR

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	1Q24	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.70	4.57	4.53
Exchange Rate, vs USD (end-period)	4.70	4.59	4.73	4.69	4.56	4.43
10Y Government Bond Yield (average)	3.97	3.91	3.83	3.95	3.86	3.74
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.92	3.80	3.68

Source: MIDFR

May 2024 Key Economic Events

7 May: Indonesia Economy Expands Steadily at Start of Year, But Challenges Persist Indonesia's economy grows 5.11 pct in Q1. Indonesia's economy grew by 5.11 percent year on year in the first quarter of this year, Statistics Indonesia BPS announced on Monday.

9 May: Bangladesh economy resilient despite inflation, uncertainties The latest Purchasing Managers' Index (PMI) readings, a leading economic indicator, indicate the resilience of Bangladesh economy in the face of inflationary pressure and uncertainties stemming from ongoing geopolitical conflicts, specifically the unrest in middle-east.

11 May: China's consumer inflation edges up in signal of slow economic recovery The national consumer price index rose 0.3 per cent year on year in April, official statistics showed on Saturday, ticking up from an 0.1 per cent rise in March, with price increases in areas including energy, education and tourism offsetting falling food costs.

17 May: Taiwan is selling more to the US than China in major shift away from Beijing The island exported \$24.6 billion worth of goods to the U.S. in the first three months, compared with \$22.4 billion to mainland China, according to Taiwan's official data.

20 May: Vietnam Deputy PM: Economy facing mounting pressure; credit growth remains weak Vietnam's economy is facing mounting pressure and the government will maintain policies that support growth, Deputy Prime Minister Le Minh Khai said on Monday.

23 May: Euro-Zone Activity Hits One-Year High as Recovery Gains Pace Euro-area private-sector business activity reached its highest level in a year — suggesting the region's economic rebound is taking hold.

31 May: Turkish economy expands 5.7% in first quarter on strong domestic demand Turkey's economy grew 5.7% in the first quarter, in line with expectations, official data showed on Friday, driven by strong domestic demand.

8 May: Nepal: World Bank approves \$80m facility to strengthen insurance and financial services The World Bank's board of executive directors has approved an \$80m development policy credit for Nepal to strengthen the stability of the financial sector, including the insurance industry.

9 May: South China Sea: Philippines says 'not turning against' Beijing, economy doing well despite maritime feud The Philippines said geopolitical tensions with Beijing have not affected the Southeast Asian nation's economy and the government is still willing to work with Chinese investors.

16 May: Japan's Economy Shrinks Again as Inflation Hits Consumers' Pocketbooks The Japanese economy contracted in the first quarter of 2024, extending a rough patch and signalling that inflation fueled by a weak yen is hurting consumer demand.

20 May: Thailand's Economic Growth Slows Even as It Beats Estimate Gross domestic product in the three months through March increased 1.5% from a year earlier, the National Economic and Social Development Council said Monday. While that's slower than the 1.7% pace in the fourth quarter and lagged the performance of its peers in Southeast Asia, it was well above the 0.8% median estimate in a Bloomberg survey.

23 May: Singapore Q1 GDP up 2.7% y/y, above market forecast Singapore's economy grew 2.7% on a year-on-year basis in the first quarter of 2024, government data showed on Thursday, matching a preliminary estimate of 2.7% released last month.

28 May: Sri Lanka holds rates to control inflation, foster economic stability Sri Lanka's central bank held interest rates steady on Tuesday to ensure inflation pressures remain in check as authorities look to foster economic stability and lift growth following the South Asian nation's worst financial crisis in decades.

31 May: Canada Economy Grew 1.7% in First Quarter, Missing Forecasts The Canadian economy expanded less than expected in the first quarter, with weak inventory growth offsetting strong consumption gains, prompting traders to boost bets on the Bank of Canada cutting rates as early as next week.

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