2 October 2024

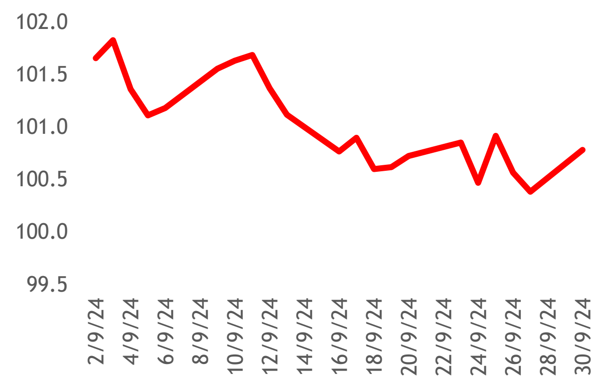
CURRENCY | Sep-24 Monthly Currency Review

Ringgit Becomes Top Performing Currency Benefiting from the Fed's Shift to Policy Easing

- *USD weakened further as Fed began cutting rates. The US dollar weakened further in Sep-24 as the DXY dollar index fell by -0.9%mom to 100.78, marking the third consecutive months of depreciation. The monthly average of the dollar index also declined at -1.1%mom to 101.05 (Aug-24: 102.21)*
- *Strong demand for ringgit. Strong demand for the local currency persisted into Sep-24 with the ringgit surging further by +4.8%mom, marking third consecutive month of appreciation. Consequently, the ringgit's year-to-date's appreciation against the US dollar rose to +11.4%ytd, where the closing at RM4.123 as at end-Sep-24 was the strongest level last seen in Jun-21.*
- *Ringgit to appreciate further. Given the recent sharp appreciation, we have revised our ringgit outlook as we foresee the narrowing interest differentials and favourable economic fundamentals to support Ringgit to appreciate further and to end the year around RM4.03 (previous forecast: RM4.23; end-2023: RM4.59). We also foresee our MIDF TWRI to move higher to 95.0 by year-end.*

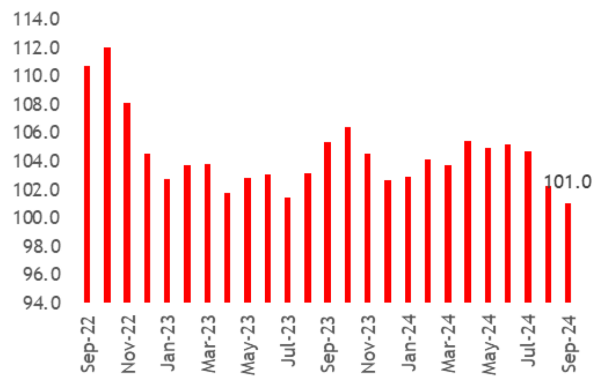
USD weakened further as Fed began cutting rates. The US dollar weakened further in Sep-24 as the DXY dollar index fell by -0.9%mom to 100.78, marking the third consecutive months of depreciation. The monthly average of the dollar index also declined at -1.1%mom to 101.05 (Aug-24: 102.21). Throughout the month, the dollar index trended lower weighed down by the rate cut expectations. Even after the FOMC's decision to shift to policy easing and the -50bps reduction in fed funds rate, the continued moderation in the US inflation resulted in reduced demand for US dollar. The DXY index closed at intra-month low of 100.38 on 27th September 2024 after the headline PCE price inflation eased to +2.2%yoy in Aug-24, the slowest in more than 3 years and bolstering the case for more rate cuts by the Fed. In contrast, prior to that, there was an increase in safe-haven demand for the greenback on 25th September 2024 due to escalation in geopolitical conflict following Israel's aggressive attacks on Lebanon.

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



Source: Bloomberg, MIDF

Chart 2: Monthly Average of DXY Dollar Index



Source: Bloomberg, MIDFR

USD weakened vs. most currencies. Following the continued weakness in the US dollar, major and regional currencies generally appreciated Sep-24. Among major currencies, euro and pound sterling gained

+2.2%mom and +1.9%mom, respectively, sharper than Canadian dollar (+1.8%mom). Japanese yen, on the other hand, weakened by -0.2%mom as Bank of Japan maintained its policy setting, holding back from further policy tightening. Among regional currencies, Thailand appreciated the most by +5.0%mom, followed by Malaysian ringgit (+4.8%mom) and Chinese yuan (+2.1%mom).

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

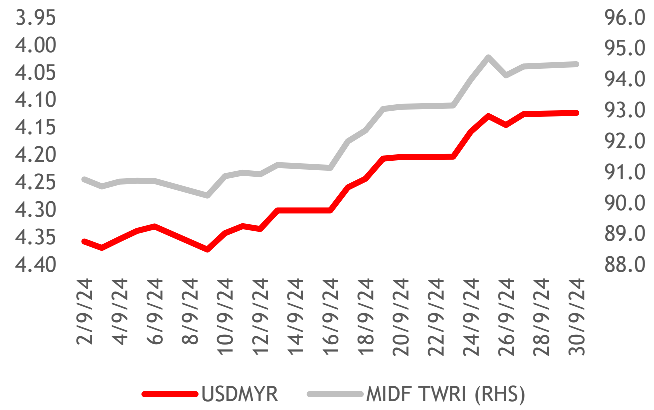
	2020	2021	2022	2023	Sep-24	YTD Change	MoM Change
DXY	89.94	95.67	103.52	101.33	100.78	-0.5%	-0.9%
EURUSD	1.222	1.137	1.071	1.104	1.447	+1.5%	+2.2%
GBPUSD	1.367	1.353	1.208	1.273	1.338	+5.1%	+1.9%
USDCAD	1.273	1.264	1.355	1.324	143.63	-1.8%	+1.8%
USDSGD	1.322	1.349	1.34	1.32	1.285	+2.7%	+1.7%
USDAUD	1.3	1.377	1.468	1.468	1.114	+0.9%	+0.8%
USDJPY	103.25	115.08	131.12	141.04	1.353	-2.1%	-0.2%
USDTHB	29.96	33.21	34.61	34.26	32.43	+5.6%	+5.0%
USDMYR	4.02	4.167	4.405	4.594	4.124	+11.4%	+4.8%
USDCNY	6.527	6.356	6.899	7.1	15,140	+1.7%	+2.1%
USDKRW	1,087	1,190	1,260	1,291	1,315	-1.8%	+1.8%
USDVND	23,098	22,826	23,633	24,269	24,568	-1.2%	+1.2%
USDIDR	14,050	14,263	15,573	15,399	7.019	+1.2%	+1.0%
USDTWD	28.09	27.67	30.73	30.58	31.66	-3.4%	+0.9%
USDPHP	48.03	50.99	55.74	55.39	56.04	-1.2%	+0.2%
USDINR	73.07	74.34	82.74	83.21	83.8	-0.70%	+0.1%

Source: Bloomberg, MIDFR

Strong demand for ringgit. Strong demand for the local currency persisted into Sep-24 with the ringgit surging further by +4.8%mom, marking third consecutive month of appreciation. Consequently, the ringgit's year-to-date's appreciation against the US dollar rose to +11.4%ytd, where the closing at RM4.123 as at end-Sep-24 was the strongest level last seen in Jun-21. This makes ringgit as the best performing currency thus far this year vis-à-vis US dollars and other currencies. Apart from the weakening of US dollar, we believe the ringgit's remarkable performance was also supported by the increased appetite among investors to increase exposure to the domestic capital market, given the positive economic fundamentals as reflected by the stronger economic growth, still robust domestic economic activities, continued recovery in the external trade and the government's commitment to improve fiscal position.

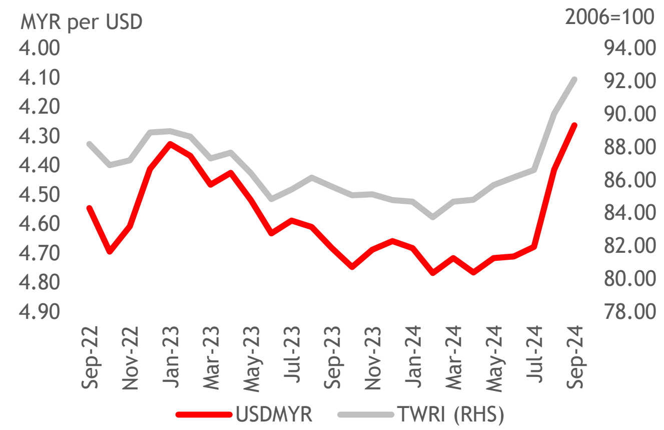
TWRI touched the highest level since 2015. On a broader perspective, our MIDF Trade-Weighted Ringgit Index (TWRI) also rose further by +3.4%mom to 94.5 in Sep-24. The MIDF TWRI even touched 94.7 on 25 September 2024 which was the highest level last seen in 2015, which reflected strengthening of ringgit against the US dollar and other currencies of Malaysia's trading partners. On the year-to-date basis, the index soared +10.7%ytd in 9MCY24, particularly boosted by the ringgit's appreciation against Taiwan dollar (+14.7%ytd), South Korean won (+13.5%ytd) and Vietnamese dong (+12.8%ytd).

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



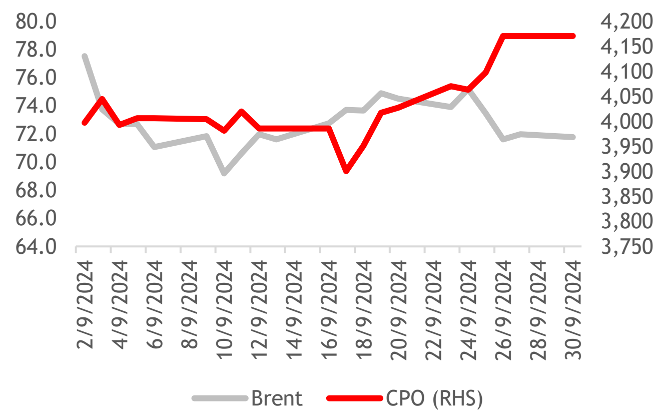
Source: Bloomberg, MIDFR

Chart 4: USDMYR vs MIDF TWRI Monthly Average



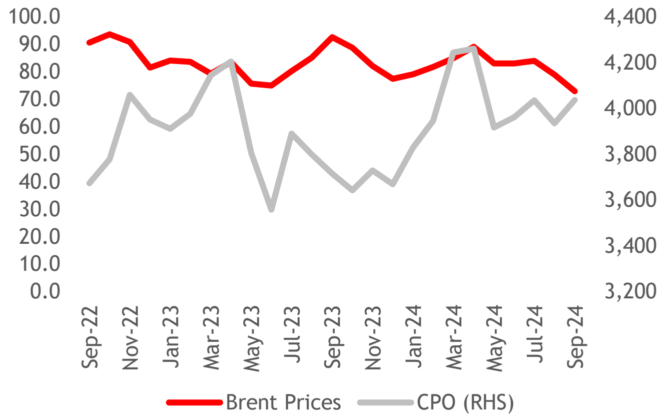
Source: Bloomberg, MIDFR

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 other currencies in Sep-24. The Ringgit gained the most in Sep-24 mainly against the Turkish Lira (+5.2%mom), Canadian dollar (+5.1%mom), Bangladesh Taka (+4.9%mom), US dollar (+4.8%mom) and Nepalese Rupee (+4.7%mom). The Ringgit also appreciated against other major currencies i.e. euro (+3.8%mom), pound sterling (+3.1%mom) and Japanese yen (+2.9%mom).

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

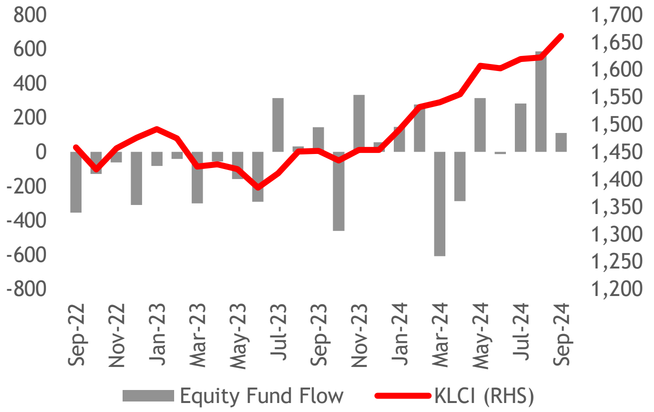
	2020	2021	2022	2023	Sep-24	YTD Change	MoM Change
TRYMYR	0.54	0.31	0.24	0.16	0.12	+28.8%	+5.2%
CADMYR	3.16	3.27	3.25	3.47	3.05	+13.7%	+5.1%
BDTMYR	4.75	4.83	4.27	4.18	3.45	+21.1%	+4.9%
USDMYR	4.02	4.17	4.40	4.59	4.12	+11.4%	+4.8%
NPRMYR	0.03	0.04	0.03	0.03	0.03	+12.2%	+4.7%
PHPMYR	0.08	0.08	0.08	0.08	0.07	+12.8%	+4.6%
EURMYR	4.95	4.72	4.69	5.08	4.61	+10.0%	+3.8%
TWDMYR	0.14	0.15	0.14	0.15	0.13	+15.3%	+3.8%
CNYMYR	0.62	0.66	0.64	0.65	0.59	+10.0%	+3.7%

	2020	2021	2022	2023	Sep-24	YTD Change	MoM Change
LKRMYR	0.02	0.02	0.01	0.01	0.01	+2.0%	+3.7%
VNDMYR	0.17	0.18	0.19	0.19	0.17	+12.8%	+3.5%
GBPMYR	5.50	5.63	5.30	5.84	5.52	+5.7%	+3.1%
SGDMYR	3.04	3.09	3.28	3.48	3.22	+8.0%	+3.0%
KRWMYR	0.37	0.35	0.35	0.36	0.31	+13.5%	+3.0%
JPYMYR	3.89	3.62	3.36	3.25	2.87	+13.4%	+2.9%
IDRMYR	0.03	0.03	0.03	0.03	0.03	+9.5%	+2.6%
THBMYR	13.38	12.56	12.75	13.40	12.78	+4.9%	-0.3%

Source: Bloomberg, MIDFR

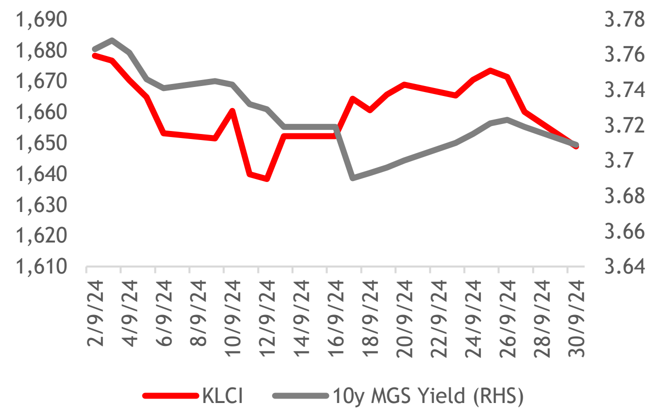
Continued foreign inflows into equity and debt markets. The month of Aug-24 was the second consecutive month of increased net purchases by foreign investors of Malaysian equities by +USD109.8m (Aug-24: +USD586.5m), which was the smallest net inflows in 3 months. In terms of foreign flows into the domestic bond market, the latest available statistics suggests the foreign holding of Malaysian debt securities rose further to RM288.1b in Aug-24 (Jul-24: RM279.1b). As ringgit strengthened further in Sep-24, we believe the inflows in the local debt market continued last month, on top of the continued inflows into the equity market.

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



Source: Bloomberg, MIDFR

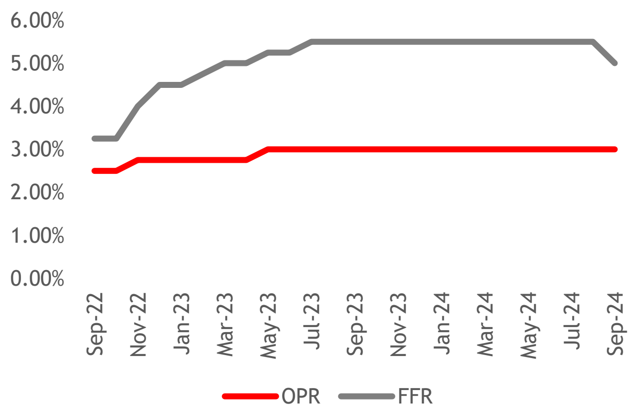
Chart 8: FBMKLCI and MGS 10-Yield Movement in Sep-24



Source: Bloomberg, MIDFR

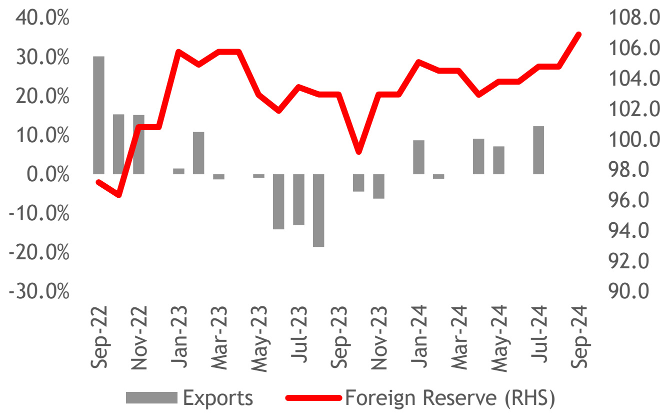
Ringgit to appreciate further. Given the recent sharp appreciation, we have revised our ringgit outlook as we foresee the narrowing interest differentials and favourable economic fundamentals to support Ringgit to appreciate further and to end the year around RM4.03 (previous forecast: RM4.23; end-2023: RM4.59). In addition, demand for ringgit will be underpinned by sustained current account surplus on the back of the continued export recovery. We also foresee our MIDF TWRI to move higher to 95.0 by year-end, reflecting continued Ringgit's strength against other currencies. However, potential headwinds could affect ringgit outlook, which include weaker global trade and economic outlook as a result of worsening geopolitical conflicts and risk of slowdown in major economies (i.e. China and the US). On another note, apart from weaker global growth outlook, dollar demand could increase if the Fed decides to take longer time to carry out more rate cuts in reaction to possible re-acceleration in the US inflation.

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



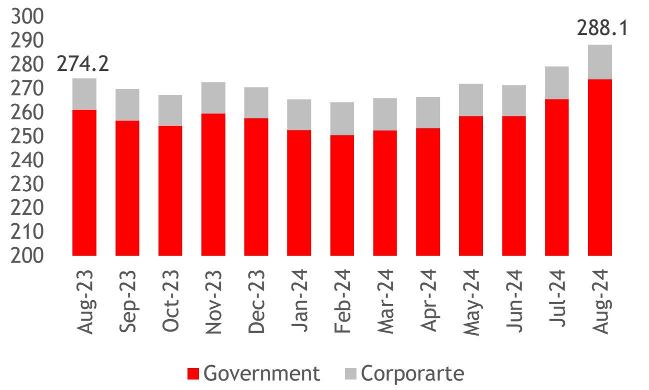
Source: Bloomberg, MIDFR

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



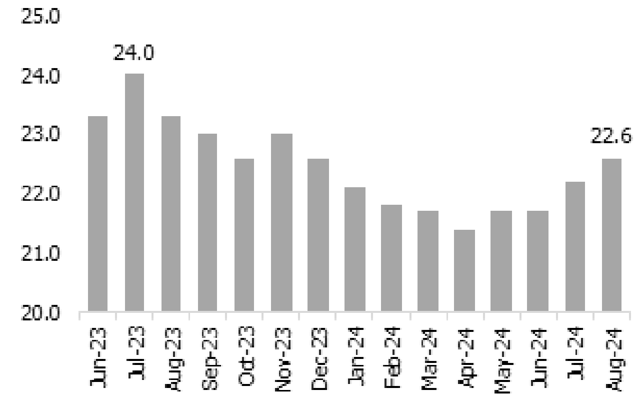
Source: Bloomberg, IMF, MIDFR

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	2Q24	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.72	4.73	4.57	4.53
Exchange Rate, vs USD (end-period)	4.70	4.59	4.72	4.72	4.37	4.23
10Y Government Bond Yield (average)	3.97	3.91	3.83	3.90	3.80	3.74
10Y Government Bond Yield (end-period)	3.84	3.73	3.85	3.87	3.80	3.60

Source: Bloomberg, MIDFR

September 2024 Key Economic Events

8 Sep: Bangladesh Bank lifts all cheque withdrawal limits Starting from Sunday, customers can withdraw any sum of cash from any bank via bearer's cheques. Bangladesh Bank restricted cheque cashing in recent weeks for security reasons, but the limit has been lifted this week. Last week, the central bank raised the withdrawal limit by Tk 100,000 to Tk 500,000.

8 Sep: China opens manufacturing, health care sectors to foreign money Beijing will remove the last remaining limits on overseas investments in the manufacturing sector starting from Nov. 1 and cut its list of areas that are restricted for foreign investors, according to a statement from the National Development and Reform Commission posted on Sunday.

11 Sep: Trump tariff threats will trigger import 'rush,' say trade experts, and consumers pay the price Trade analysts are warning that new tariffs threatened by former President Donald Trump, which he doubled down on during Tuesday night's presidential debate, will create inflationary pressures in the supply chain and ripple through the broader economy.

12 Sep: European Central Bank cuts interest rates again as inflation slows The European Central Bank (ECB) has cut its key interest rates as the markets expected, marking its second reduction this year following a move in June. New interest rates have been set at 3.65% for main refinancing operations, 3.90% for the marginal lending facility, and 3.50% for the deposit facility.

16 Sep: Thai baht is too strong and impacting exports, minister says Thailand's baht is too strong and is affecting exports, which are expected to post only small growth this year, the commerce minister said on Monday. The central bank should take action over the strong baht, Commerce Minister Pichai Naripthaphan told a news conference.

16 Sep: We are not artificially keeping the Indian Rupee strong, says RBI Governor The Indian rupee's resilience is reflecting the nation's strong economic fundamentals and the central bank isn't artificially bolstering the currency, Reserve Bank of India Governor Shaktikanta Das said. India is attracting a lot of foreign-exchange inflows, especially after bond index inclusion, and that's supporting the rupee, Das said.

18 Sep: Indonesia's central bank front runs Fed with surprise rate cut Indonesia's central bank delivered its first rate cut in more than 3 years on Wednesday, just hours ahead of the widely expected start of the U.S. Federal Reserve's easing cycle in efforts to bolster growth in Indonesia's economy. Bank Indonesia (BI) unexpectedly trimmed the benchmark rate by 25bps to 6.00%, its first rate cut since February 2021.

18 Sep: Fed slashes interest rates by a half point, an aggressive start to its first easing campaign in four years The Federal Reserve on Wednesday enacted its first interest rate cut since the early days of the Covid pandemic, slicing half a percentage point off benchmark rates in an effort to head off a slowdown in the labor market. The decision lowers the federal funds rate to a range between 4.75%-5%.

19 Sep: Taiwan Central Bank Leaves Key Interest Rates Unchanged The Central Bank of the Republic of China (Taiwan) kept its benchmark discount rate at 2.000% on Thursday. It maintained its secured loan rate and unsecured loan rate at 2.375% and 4.250%, respectively. The Taiwanese central bank attributed the decision to a gradual downward trend in domestic inflation and the global economic situation.

19 Sep: Bank of England keeps rates at 5%, propels pound to over 2-year highs The Bank of England (BoE) kept its Bank Rate steady at 5% during the 19 September meeting, in line with economists' expectations. The Committee also voted unanimously to reduce the stock of UK government bond purchases held for monetary policy purposes, financed by the issuance of central bank reserves, by £100b over the next 12 months, bringing the total to £558b.

20 Sep: BOJ signals no rush in raising rates again, keeps policy steady The Bank of Japan kept interest rates steady on Friday and its governor said it could afford to spend time eyeing the fallout from global economic uncertainties, signalling it was in no rush to raise borrowing costs further. The dovish comments pushed down the yen, heightening uncertainty over whether the BOJ could hike interest rates again this year, as many market players had predicted.

25 Sep: Enough fish supply during monsoon, traders warned not to hike prices The Fisheries Development Authority of Malaysia (LKIM) has urged traders not to take advantage of the upcoming north-east monsoon to increase fish prices. Authority chairman Muhammad Faiz Fadzil said preparations have been made to keep buffer stocks to meet market demand during the monsoon period, which is expected to be from November to March.

27 Sep: China launches late stimulus push to meet 2024 growth target China's central bank on Friday lowered interest rates and injected liquidity into the banking system as Beijing assembled a last-ditch stimulus assault to pull economic growth back towards this year's roughly 5% target. The People's Bank of China cut the amount of cash banks must hold as reserves, known as the reserve requirement ratio (RRR), by -50bps.

28 Sep: Malaysia and Indonesia renew local currency bilateral swap agreement The renewal of the Local Currency Bilateral Swap Agreement (LCBSA) between Malaysia and Indonesia enables the exchange of local currencies between Bank Negara Malaysia (BNM) and Bank Indonesia (BI) with a value amounting to RM24 billion or IDR82 trillion for five years. Both central banks inked the renewal of the LCBSA here on Friday, following the initial agreement signed in 2019 and the subsequent renewal in 2022.

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

DISCLOSURES AND DISCLAIMER