What's Moving the Ringgit?

The path of USDMYR is driven by (i) interest rate differentials today and likely changes in the near future; (ii) RMB direction and outlook, as China is Malaysia's largest trading partner; (iii) domestic US and Malaysian economic or political developments; (iv) general market risk on/off sentiment. Usually only one of these forces asserts a strong influence at a given time.

Ringgit rebounds from an over-shoot

The USDMYR took 3 1/4 years to depreciate from 4.00 to 4.79 (from Jan 2021 to April 2024), but less than 6 months to appreciate to 4.11. The US Federal Reserve's hiking cycle took 1 1/3 years to raise policy rates by 525bps, but conditions that caused a pivot from *'higher for longer'* to *'make a big cut'* took just 4-5 months to show up (inflation, labour data, slowing US economy). Three sequential events triggered Ringgit's sharp appreciation, (1) optimism over Malaysia's political stability, and impending subsidy reduction in 1H24; then in July (2), rising likelihood of the Fed starting rate cuts, which moved USDMYR to 4.20. In mid-September, (3) Ringgit appreciated alongside RMB when China announced its multi-pronged monetary stimulus, briefly pushed USDMYR to 4.11. **But Iran's missile attack on Israel last Tuesday ended this run of positive influences on Ringgit. Markets have now pivoted** to focus on whether the worsening hostilities in the Middle East will eventually disrupt oil supply (oil prices +9% in a week). US Treasury yields have risen from risk aversion AND data signaling a strong US economy, the latest being last Friday's non-farm payroll employment data, which at 254k far exceeded the 150k expected. **The market's fixation over US rate cuts and a weak US economy is over.**

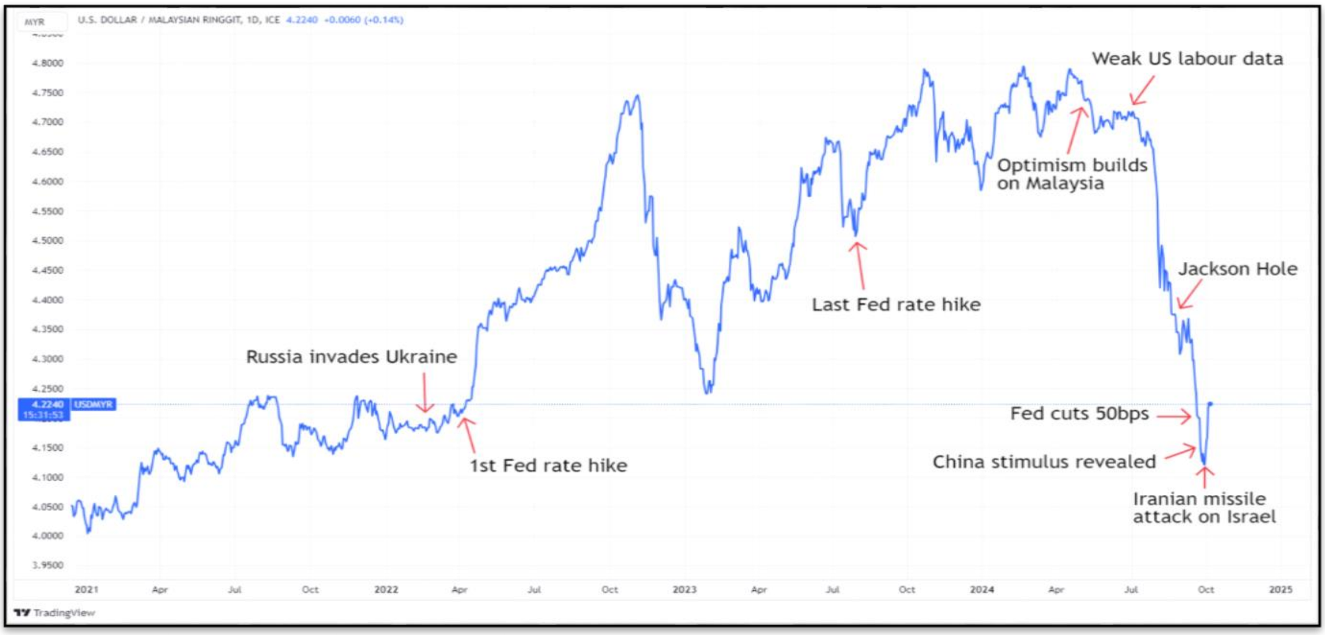
Trading political oil. The market's short attention span has shifted away from US recessionary concerns onto the Middle East hostilities and the possibility that it could interrupt global oil supplies. Higher oil prices are not necessarily a negative for Malaysia at a macro level (LNG export prices have a variable component linked to oil prices), but Government revenues do not benefit directly. But it is not demand-supply imbalance pushing up prices - the global oil market is well-supplied. Even if Iranian oil supply is taken off the market (2-3m barrels per day), this can be compensated by Saudi Arabia's 3m spare oil capacity and rising supply from non-OPEC members (US and Guyana).

The 3 handle. Some market strategists expect USDMYR to fall below 4.00 in 2025. We feel the conditions to expect that are moving away further away from us. For the MYR to move below 4.00, the Fed would have to cut more aggressively than currently expected in 2025 (100-125bps), which is possible if the US economy deteriorates more rapidly than expected, creating a larger yield differential favouring the MYR. One positive factor poised to help the Ringgit is the Malaysian government's further subsidy rationalization in its upcoming 2025 Budget to be tabled this month. A second factor would be a stable/growing Chinese economy that gives rise to an appreciating RMB. Such positive conditions may re-assert themselves in 2025, just not yet.

Where are you going, Mr. Ringgit?

Given Mid-East hostilities and rising US bond yields, USDMYR could to rise towards 4.30-4..35 in the immediate term. Once the pace of 2025 US rate cuts are clearer, we expect the Ringgit to trade in a range of 4.18- 4.27 in 2025 until meaningful changes occur in those aforementioned narratives. CIMB Treasury forecasts the USDMYR to end 2024 at 4.18, then depreciate to 4.20 by June 2025 and 4.27 by end-December 2025.

USDMYR: Rebounding after a Precipitous Drop – the easy money's made



Source: Bloomberg

Outlook and Recommendations

A risk-off environment prevails currently in anticipation of a Israeli reprisal to Iran's missile attack last week. If this is avoided, it offers markets an opportunity to focus on a better US economy (and even the China stimulus). An improving picture of the US economy has come from inflation, retail sales, labour market, wage growth service ISM data, in the past 4-6 weeks.

(i) For investors needing to Buy USD in the next 2-4 weeks, expect USDMYR to trend higher.

(ii) Buy Principal ASEAN Dynamic Fund, on current weakness in ASEAN currencies and markets, where fundamentals are still strong.

(iii) Long iShares Silver Trust (SLV US) or enter into moderately-bullish Principal-Guaranteed Sharkfin FRNID on SLV US

(iv) Buy USD bonds as yields rise; we believe this is an opportunity as higher yields will reverse as the easing cycle gets underway

(v) Alternatively, buy ETFs such as SPTL US or TLT US, which hold US Treasury bonds with tenors over 20 years

For US equities though, spiking oil prices, if sustained, could still reverse the positive data mentioned above, valuations appear elevated and the US elections are only a month away, when the policy uncertainty that it brings comes into sharp focus. We remain underweight equities at 40% allocation.

CIMB Currency Forecasts

	4Q24	1Q25	2Q25	3Q25	4Q25
Currencies					
DXY	100.1	100.1	99.8	100.2	100.4
EURUSD	1.11	1.12	1.13	1.14	1.14
GBPUSD	1.33	1.32	1.32	1.33	1.31
USDCHF	0.84	0.85	0.86	0.85	0.85
AUDUSD	0.69	0.69	0.70	0.68	0.67
USDJPY	139	136	133	132	130
USDCNH	7.00	7.03	7.05	7.07	7.08
USDIDR	15,000	14,900	14,800	14,750	14,650
USDMYR	4.18	4.18	4.20	4.24	4.27
USDSGD	1.29	1.29	1.28	1.28	1.27
USDTHB	32.80	32.70	32.40	32.00	32.00

Source: CIMB Treasury

Sources: Company Website, Annual Report(s), Rating Report(s), Information Memorandum, Bloomberg

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