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Syed Muhammed Kifni | smkifni@midf.com.my

## NDF foretelling Ringgit respite?

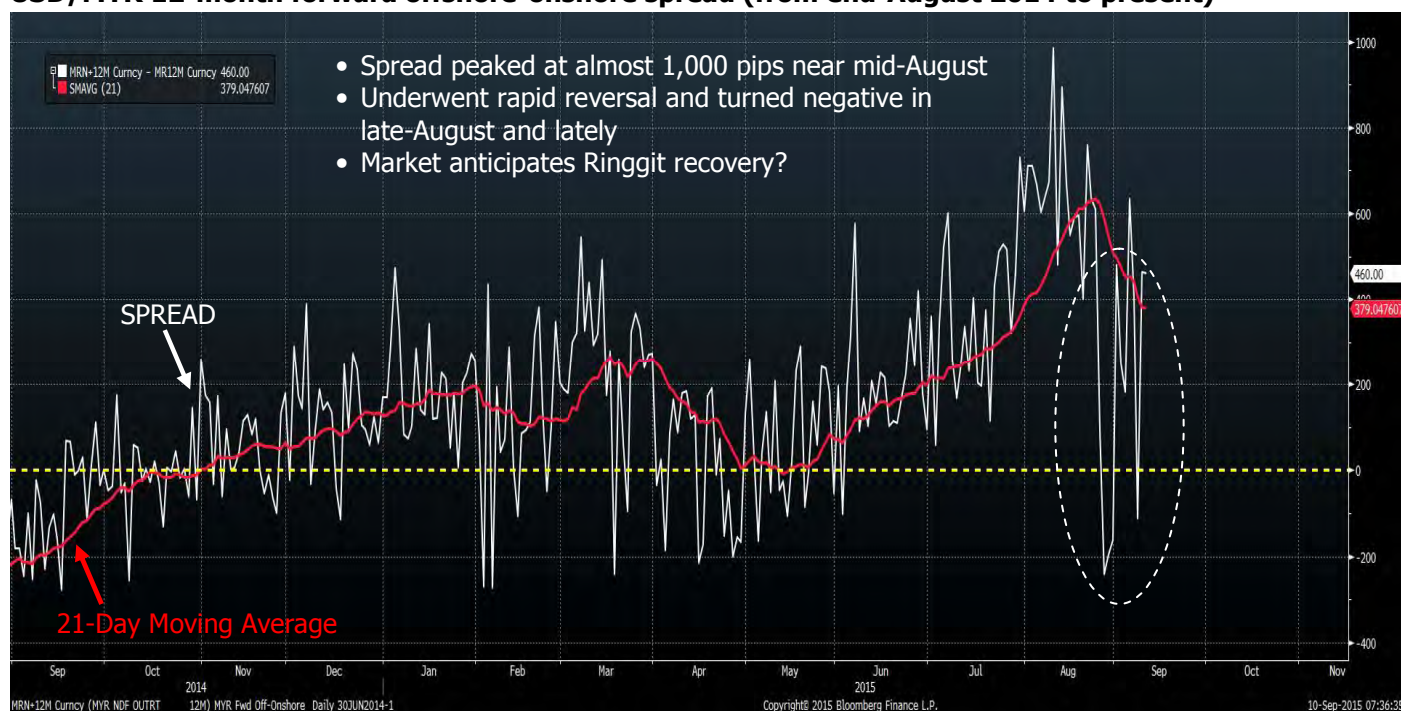
KLCI: 1,603.36 points

*Equity market regains some upside*

*2015 Year-end Target: 1,650 points*

**Ringgit forward offshore-onshore spread...** The offshore and onshore currency forward rates should be identical, theoretically. Any sustained deviation from the zero-parity is a manifestation of the underlying pressure being exerted on the particular currency pair. In the case of USD/MYR, we witnessed the building up of pressure since the final quarter of 2014. The spread between the USD/MYR non-deliverable forward (NDF) traded offshore and onshore interbank forward rates was gradually rising until it reached a temporal peak in March 2015 and subsequently tapered down in the next two months. Likewise, the spot USD/MYR was rising and falling during the similar timelines.

### USD/MYR 12-month forward offshore-onshore spread (from end-August 2014 to present)



Source: Bloomberg, MIDFR

**...which spiked up to almost 1,000 pips near mid-August...** Henceforth, the underlying pressure returned more strongly. In the ensuing months of June to August 2015, the spread of USD/MYR offshore-onshore forward rates expanded progressively and eventually spiked up to almost 1,000 pips near mid-August. During that time span, the spot USD/MYR breached two important psychological levels, namely 3.80 in early July and 4.00 near mid-August.

**...is now showing clear sign of tapering.** Towards the end of August however, the underlying Ringgit situation was turning for the better. This was attested by the rapid reversal in the offshore-onshore spread as it turned negative in late August and again lately. It is notable that the spread slumped to more than -200 pips at its recent trough, the lowest level since March this year. We believe the prevailing downswing is related to, among others, the changing market perceptions over the timing and pace of US Fed's future monetary actions.

**The forward market may be anticipating spot Ringgit recovery in the near-term...** The collapsing offshore-onshore spread may portend to at least a transitory reversal in the spot USD/MYR trend. On this score, we may see the Ringgit strengthening against US Dollar towards between 4.20 and 4.00 levels within the next few months.

## USD/MYR (from end-August 2014 to present)




Source: Bloomberg, MIDFR

...which would, likewise, be positive to the equity market. The impact of strengthening Ringgit on the equity market would most likely be positive.

## FBM KLCI (from end-August 2014 to present)



Source: Bloomberg, MIDFR

**Reiterate year-end 2015 FBM KLCI baseline target of 1,650 points.** We reiterate our year-end 2015 FBM KLCI baseline target of 1,650 points (with upper and lower range of 1,700 and 1,600 points respectively) which equates to PER16 of 14.6x and -0.4SD (standard deviation). 

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

|              |  |
|--------------|--|
| BUY          | Total return is expected to be >15% over the next 12 months.   |
| TRADING BUY  | Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.  |
| NEUTRAL      | Total return is expected to be between -15% and +15% over the next 12 months.  |
| SELL         | Total return is expected to be <-15% over the next 12 months.  |
| TRADING SELL | Stock price is expected to <i>fall</i> by >15% 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. |