

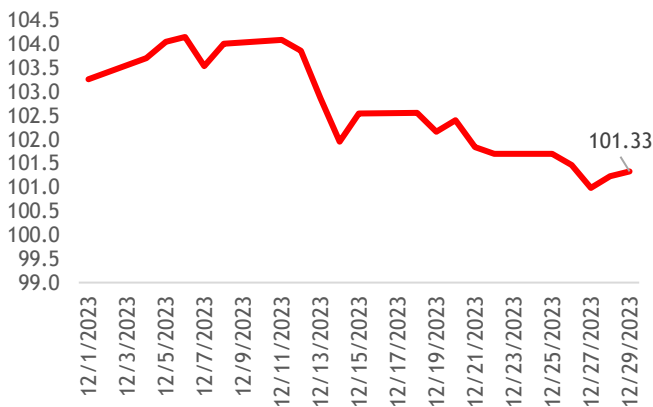
CURRENCY | Dec-23 Monthly Currency Review

Ringgit Ended Weaker in 2023 Despite Strengthening in Dec-23

- *A challenging year for ringgit. The year 2023 was a challenging year for ringgit as the local currency even touched new low since the Asian Financial Crisis, closing at RM4.794 on 23 October 2023. The depreciation in ringgit was mainly due to external factors. Firstly, the delayed pivot by the Fed which hiked further by additional +100bps in 2023. The weaker-than-expected recovery in China's economy also weighed down on the ringgit performance.*
- *US dollar depreciated to close the year lower. The US dollar weakened against major currencies for the second consecutive month in Dec-23. The DXY index declined by -2.1%mom to close the month at 101.33 (end-Nov-23: 103.50). Greenback's depreciation was underpinned by growing expectations that the Fed will start cutting its policy interest rate in 2024. If demand condition stays robust and labour market remains tight, the dollar could gain from the higher-for-longer policy bias.*
- *Ringgit rally continued into the second month in Dec-23. Malaysian ringgit appreciated +1.5%mom to RM4.594, gaining on the weakness in US dollar. Looking at the monthly average, the ringgit registered another monthly appreciation of +0.6%mom to RM4.659.*
- *We foresee the ringgit appreciating to RM4.20 at year-end in 2024. Despite the overall sluggish performance in 2023, we foresee the ringgit to rebound and appreciate in 2024. With the expectations of narrowing interest rate differentials as the Fed is expected to start cutting the interest rate while BNM will keep the OPR at 3.00%, ringgit and other regional currencies will benefit from the reversal of fund flows, going back into EMs.*

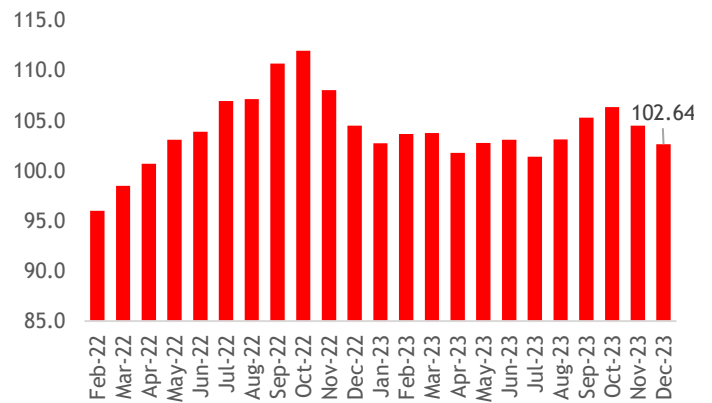
US dollar depreciated to close the year lower. The US dollar weakened against major currencies for the second consecutive month in Dec-23. The DXY index declined by -2.1%mom to close the month at 101.33 (end-Nov-23: 103.50). The monthly average saw the dollar depreciating by -1.8%mom to 5-month low of 102.64. Greenback's depreciation was underpinned by growing expectations that the Fed will start cutting its policy interest rate in 2024. The dovish sentiment also heightened, which led to the dollar index falling further mid-Dec-23, as the FOMC projected quicker rate cuts in 2024 after the Fed's unsurprising decision to keep the FFR steady at 5.25%-5.50% at the Dec-23 FOMC meeting. Additionally, sustained and faster-than-expected moderation in core PCE inflation also led to weaker demand for US dollar. For full-year 2023, the US dollar depreciated -2.1% as market priced in quicker rate by the Fed this year. Following the recent rally in US Treasuries, we foresee the dollar weakening will continue as safe-haven demand subsidies along with growing investors' appetite for riskier assets. Nevertheless, upside biases for the dollar to rally remain as the risks of possible recession in the US and rising geopolitical tensions could result in increased risk aversion, which is supportive of the dollar. On another note, rate cuts may be delayed by the continued resilience in the US economy, if demand condition stays robust and labour market remains tight, and therefore the dollar could gain from the higher-for-longer policy bias.

Chart 1: Movement of DXY Index in Dec-23



Source: Bloomberg, MIDFR

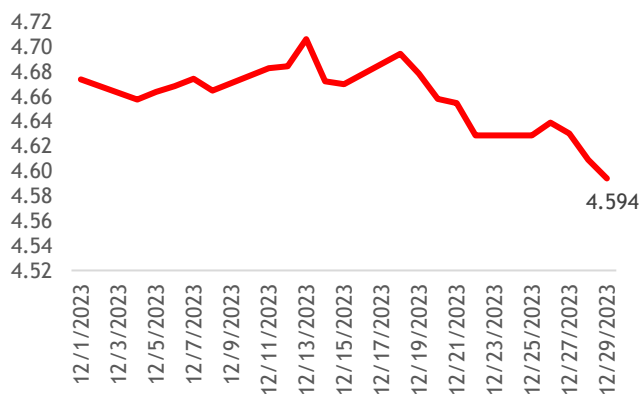
Chart 2: Monthly Average of DXY Dollar Index



Source: Bloomberg, MIDFR

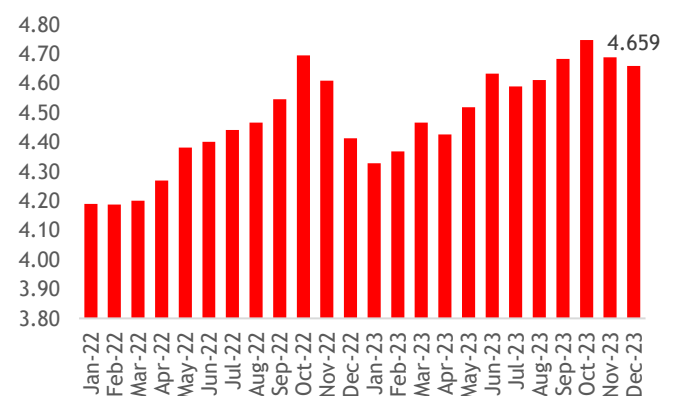
Ringgit rally continued into the second month in Dec-23. Malaysian ringgit appreciated +1.5%mom to RM4.594, gaining on the weakness in US dollar. Looking at the monthly average, the ringgit registered another monthly appreciation of +0.6%mom to RM4.659. Economic fundamentals remained supportive of the ringgit as domestic demand continued its resilience, supported by a robust labour market, and sustained moderation in consumer inflation. The ringgit also benefitted from more encouraging economic releases in China, one of Malaysia’s major trading partners. In particular, the ringgit’s appreciation during the month was more influenced by expectations for policy easing by the Fed as movement in the commodity prices was not supportive of ringgit; Brent crude oil prices plunged -7.0%mom and ended the month at USD77.04pb. Moving forward, we foresee the ringgit and other regional currencies are seen to benefit from weakening dollar, more funds flowing back into EMs and recovery in the regional trade, underpinned by sustained growth in China’s economy and recovering global manufacturing activities.

Chart 3: USDMYR (RM) Movement in Dec-23



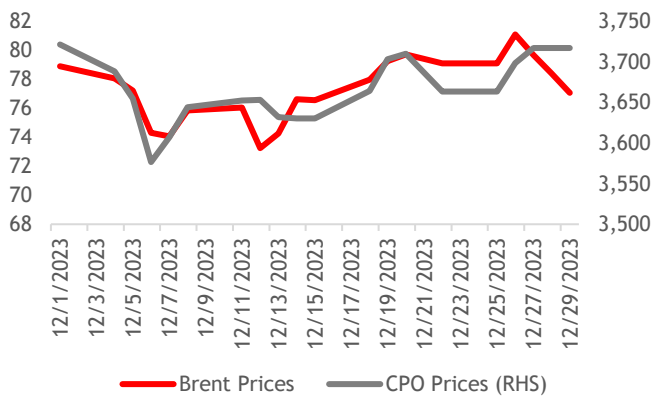
Source: Bloomberg, MIDFR

Chart 4: USDMYR (RM) Monthly Average



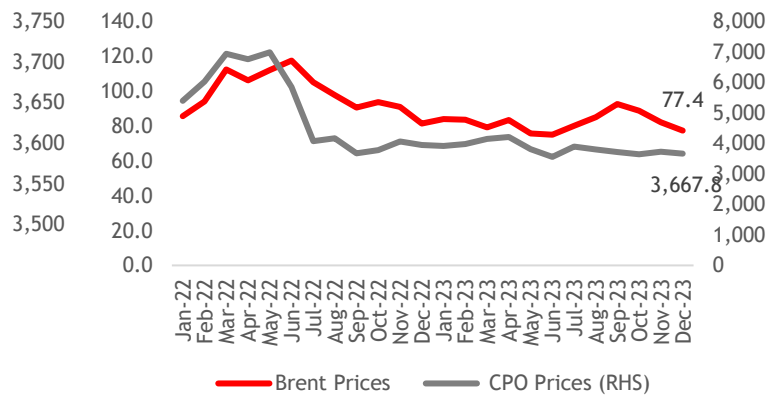
Source: Bloomberg, MIDFR

Chart 5: Brent Crude Oil (USD) and Crude Palm Oil (RM) Prices Movement



Source: Bloomberg, MIDFR

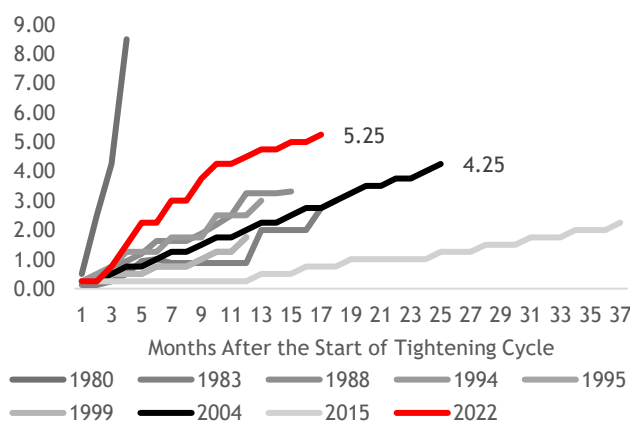
Chart 6: Brent Crude Oil (USD) and Crude Palm Oil (RM) Monthly Average Prices



Source: Bloomberg, MIDFR

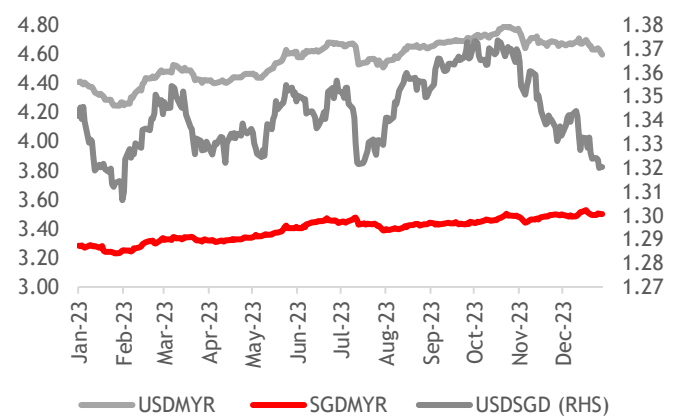
A challenging year for ringgit. The year 2023 was a challenging year for ringgit as the local currency even touched new low since the Asian Financial Crisis, closing at RM4.794 on 23 October 2023. The ringgit exchange rate against the Singapore dollar also weakened and closed at historical low at RM3.527 on 18 December 2023. The depreciation in ringgit was mainly due to external factors. Firstly, the delayed pivot by the Fed which hiked further by additional +100bps in 2023. The cumulative +525bps hikes since Mar-22 makes the recent tightening cycle as the most aggressive rate increases since 1980. Secondly, apart from the continued hawkishness and higher-for-longer signal by the Fed, the weaker-than-expected recovery in China's economy also weighed down on the ringgit performance. As a result, despite the positive domestic economic fundamentals, the ringgit returned to depreciating trend from the peak RM4.244 at the end of Jan-23. Only in the final 2 months ringgit appreciated against the dollar but still ended the year -4.1% weaker than end-2022.

Chart 7: Changes in Federal Funds Rate Since the Start of Tightening Cycle (% points)



Source: Bloomberg, MIDFR

Chart 8: Ringgit's Performance Against USD and SGD in 2023



Source: Bloomberg, MIDFR

Ringgit depreciated against most currencies in 2023. As one of the worst performing currencies, the fall in ringgit was larger than other currencies. This had caused the ringgit weakening against other currencies over the year, with the exception (i.e. gaining) against the struggling Turkish Lira (+51.5%), the Japanese yen (+3.2%)

and the Bangladeshi taka (+2.2%). Against the major currencies, the ringgit also depreciated against the euro and the pound sterling by -7.5% and -9.2%, respectively. In contrast, the month-on-month performance signalled a better outlook for the ringgit, gaining over most currencies but the Japanese yen (-3.4%mom), the Thai baht (-1.3%mom), the Canadian dollar (-1.2%mom) and Taiwan dollar (-0.7%mom). The ringgit also strengthened against major currencies in Dec-23 i.e. the euro and pound by +0.3%mom and +1.0%mom, respectively.

Table 1: Selected Currencies to MYR MoM Change

	2019	2020	2021	2022	2023	MoM Change in Dec-23	Change in 2023
TRYMYR	0.730	0.604	0.479	0.268	0.197	+3.9%	+51.5%
JPYMYR	3.801	3.936	3.775	3.358	3.247	-3.4%	+3.2%
BDTMYR	4.910	4.952	4.873	4.725	4.225	+1.2%	+2.2%
CNYMYR	0.600	0.609	0.642	0.654	0.644	+1.1%	-1.2%
VNDMYR	0.178	0.181	0.181	0.188	0.191	+1.5%	-1.3%
KRWMYR	0.355	0.356	0.362	0.341	0.349	+1.5%	-1.7%
NPRMYR	0.037	0.035	0.035	0.035	0.035	+1.2%	-3.6%
PHPMYR	0.080	0.085	0.084	0.081	0.082	+1.2%	-4.6%
TWDMYR	0.134	0.143	0.148	0.148	0.146	-0.7%	-4.6%
THBMYR	13.349	13.430	12.965	12.559	13.107	-1.3%	-4.9%
IDRMYR	0.029	0.029	0.029	0.030	0.030	+0.7%	-5.1%
SGDMYR	3.037	3.047	3.084	3.191	3.396	+0.4%	-5.6%
LKRMYR	0.023	0.023	0.021	0.014	0.014	+0.1%	-15.6%
USDMYR	4.143	4.201	4.144	4.401	4.561	+1.5%	-4.1%
CADMYR	3.122	3.134	3.306	3.381	3.379	-1.2%	-6.2%
EURMYR	4.639	4.795	4.901	4.629	4.933	+0.3%	-7.5%
USDMYR	4.143	4.201	4.144	4.401	4.561	+1.5%	-4.1%

Source: Bloomberg, MIDFR

Ringgit is among the worst-performing currencies for the year. Ringgit depreciated -4.1% on an annual basis in 2023, the second worst-performing currency after the Japanese yen which depreciated -7.0% during the year. Meanwhile, the Singapore dollar ended the year as the best-performing regional currency for the year, appreciating by +1.5% against the US dollar, followed by the Indonesian rupiah (+1.1%) and Thai baht (+1.0%).

Table 2: Yearly Average of Selected Currencies to the USD

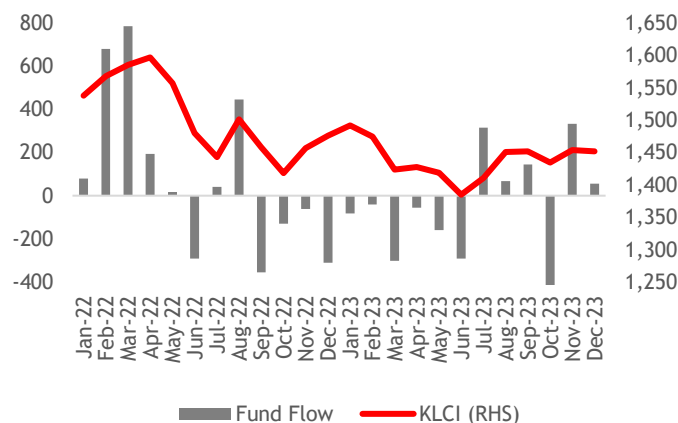
	2019	2020	2021	2022	2023	MoM Change in Dec-23	Change in 2023
GBPUSD	1.277	1.284	1.376	1.237	1.244	+0.8%	+5.4%
EURUSD	1.119	1.142	1.183	1.053	1.082	+1.4%	+3.1%
USDCAD	1.327	1.341	1.254	1.302	1.350	+2.4%	+2.3%
USDAUD	1.439	1.453	1.332	1.442	1.506	+3.1%	-0.0%
DXY	97.40	95.82	92.51	104.00	103.44	-2.1%	-2.1%
USDSGD	1.364	1.379	1.344	1.379	1.343	+1.3%	+1.5%
USDIDR	14,144	14,543	14,296	14,853	15,237	+0.7%	+1.1%
USDTHB	31.05	31.29	32.00	35.06	34.80	+3.1%	+1.0%

USDPHP	51.79	49.61	49.29	54.53	55.64	+0.2%	+0.6%
USDTWD	30.91	29.47	27.93	29.80	31.16	+2.3%	+0.5%
USDINR	70.42	74.12	73.94	78.63	82.60	+0.2%	-0.6%
USDKRW	1,165.8	1,179.5	1,144.9	1,292.0	1,306.5	-0.1%	-2.4%
USDVND	23,227	23,230	22,935	23,409	23,835	-0.0%	-2.6%
USDCNY	6.910	6.900	6.451	6.733	7.083	+0.5%	-2.8%
USDMYR	4.143	4.201	4.144	4.401	4.561	+1.5%	-4.1%
USDJPY	109.03	106.77	109.85	131.55	140.58	+5.1%	-7.0%

Source: Bloomberg, MIDFR

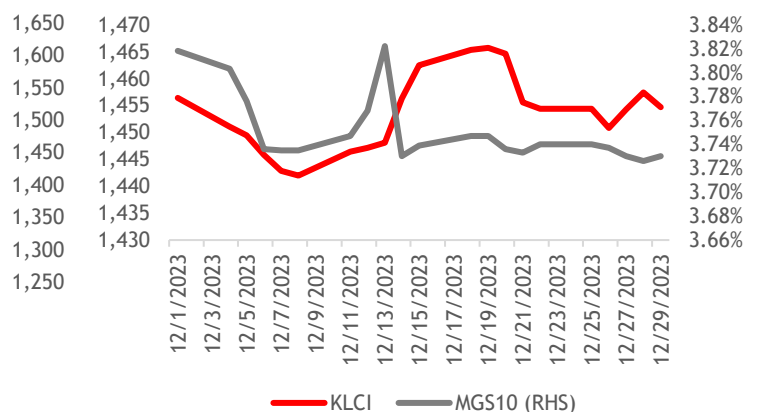
Foreign funds continued to register inflow in Dec-23. Foreign investors net bought RM55.41m domestic equities in Dec-23 (Nov-23: 332.3m). In terms of foreign holding of Malaysian bonds, the latest data as of Nov-23 registered an increase to RM272.6b (Oct-23: RM267.2b), ending 3 months of decline. We believe the return inflows of foreign funds into the domestic debt market also persisted in Dec-23, given the further decline in MGS yields and the strengthening of ringgit in the final month of 2023.

Chart 9: FBMKLCI (Average) vs Fund Flow Into Malaysian Equity (USD m)



Source: Bloomberg, MIDFR

Chart 10: FBMKLCI and MGS 10-Yield Movement in Dec-23



Source: Bloomberg, MIDFR


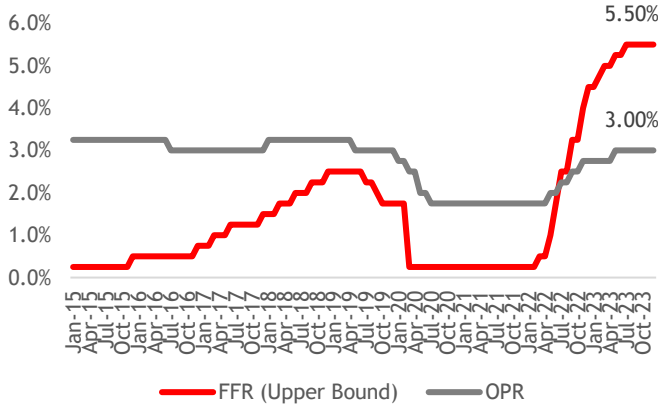
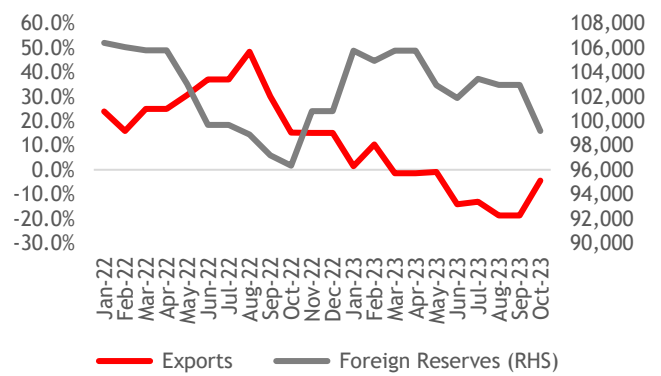
We foresee the ringgit appreciating to RM4.20 at year-end in 2024. Despite the overall sluggish performance in 2023, we foresee the ringgit to rebound and appreciate in 2024. With the expectations of narrowing interest rate differentials as the Fed is expected to start cutting the interest rate while BNM will keep the OPR at 3.00%, ringgit and other regional currencies will benefit from the reversal of fund flows, going back into EMs. Additionally, as China's economy recovers, the ringgit will also be supported by the more upbeat regional trade performance. On the other hand, several factors could weigh down on ringgit performance such as possible recession risk in the US and continued weakness in global trade and manufacturing activities. 

Chart 11: Fed Funds Rate vs OPR at Month-End (%)



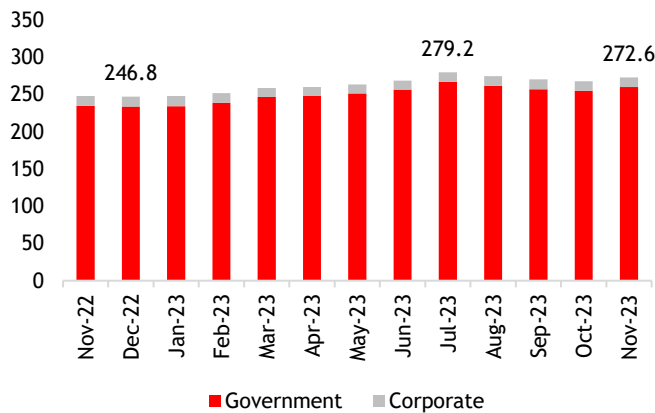
Source: Bloomberg, MIDFR

Chart 12: Exports (YoY%) and Foreign Reserves (USD m)



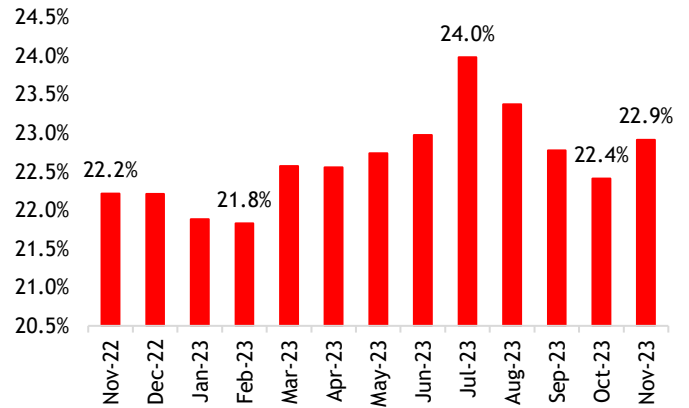
Source: Bloomberg, IMF, MIDFR

Chart 13: Foreign Holdings of Malaysian Bonds (RM b)



Source: BNM, Bondstream, MIDFR

Chart 14: 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	1Q24f	2Q24f	3Q24f	4Q24f
Exchange Rate, vs USD (average)	4.63	4.70	4.45	4.42	4.35	4.25
Exchange Rate, vs USD (end-period)	4.70	4.59	4.44	4.38	4.32	4.20
10Y Government Bond Yield (average)	3.97	3.91	3.75	3.72	3.63	3.62
10Y Government Bond Yield (end-period)	3.84	3.73	3.75	3.65	3.63	3.60

Source: MIDFR

December 2023 Key Economic Events

5 Dec: Indonesia Is Asia's Biggest Climber in the World's Talent Ranks Indonesia climbed 14 spots in the graduate business school's Global Talent Competitiveness Index for 2019-2023 compared with the previous five-year period, making it the world's second-biggest gainer after Albania's 16-spot jump. Still, there's more to be done for Southeast Asia's largest economy that placed 75th out of 113.

12 Dec: Bangladesh disqualifies hundreds of candidates for general election The Bangladesh Election Commission disqualified more than a quarter of candidates – predominantly independents running against the ruling Awami League – from contesting the upcoming general election, officials said.

15 Unexpected dip puts official inflation figures in doubt Nepal's monthly consumer inflation, which hovered over 7 percent over several months, came as a surprise for many when the central bank issued a new report on Thursday. The mid-October to mid-November inflation rate dropped sharply to 5.38 percent, a 22-month low.

15 Dec: China's economy is forecast to slow sharply in 2024, the World Bank says, calling recovery 'fragile'. China's economy will slow next year, with annual growth falling to 4.5% from 5.2% this year despite a recent recovery spurred by investments in factories and construction and in demand for services, the World Bank said in a report. "The outlook is subject to considerable downside risks," the report said.

21 Dec: Taiwan accuses China of economic coercion after tariff cut removals Taiwan on Thursday (Dec 21) accused China of "typical economic coercion" after Beijing announced the end of tariff cuts on some chemical imports from the island - saying Taipei violated a trade agreement - just ahead of Taiwanese elections next month.

25 Dec: Rhetoric escalates in China-Philippines South China Sea dispute State-controlled newspaper the People's Daily issued the call in a commentary published on Monday, saying the Philippines has repeatedly infringed on China's territory in the region and risked making a severe "miscalculation".

26 Dec: Singapore's core inflation eases to 3.2% in November Singapore's core inflation dipped to 3.2 per cent year-on-year in November, official data showed on Tuesday (Dec 26). It edged down from 3.3 per cent year-on-year in October due to lower inflation for retail and other goods, food, as well as electricity and gas costs, the Ministry of Trade and Industry (MTI) and the Monetary Authority of Singapore (MAS) said.

6 Dec: Greece, Turkey try to reset their relationship after years of hostility Issues that have brought Greece and Turkey to the brink of war five times in as many decades will be off the agenda during Turkish President Recep Tayyip Erdogan's visit to Athens.

13 Dec: China-Vietnam relations enter 'new stage' after Xi Jinping strikes deal with Hanoi Ties between China and Vietnam entered a new phase as Chinese President Xi Jinping wrapped up a two-day visit to the neighbouring country on Wednesday after striking a deal with Hanoi to step up cooperation and build a community with a "shared future".

15 Dec: Euro zones likely in recession, PMI surveys show the downturn in euro zone business activity surprisingly deepened in December, according to closely watched surveys which indicated the bloc's economy is almost certainly in recession.

19 Dec: Meta's news ban in Canada remains as Online News Act goes into effect A bill that mandates tech giants pay news outlets for their content has come into effect in Canada amid an ongoing dispute with Facebook and Instagram owner Meta over the law.

23 Dec: Tourist arrivals to Sri Lanka surpass 1.4 mln this year Sri Lanka received over 1.4 million tourists by the end of the third week of December, the latest statistics released by the Sri Lanka Tourism Development Authority (SLTDA) show.

26 Dec: Thailand plans new minimum wage hike, keeps inflation target next year Thailand will increase its minimum wage in January, Prime Minister Srettha Thavisin said on Tuesday (Dec 26) confirming a previous deal, while the government plans to further raise it in March.

28 Dec: New JN.1 coronavirus variant taking root across Japan Researchers in Japan say a new coronavirus variant thought to be better at evading the human body's immune system is becoming increasingly prevalent nationwide. The National Institute of Infectious Diseases says the JN.1 variant accounts for an estimated 31 percent of all detected cases this week, up sharply from 11.6 percent in the week through December 3.

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