

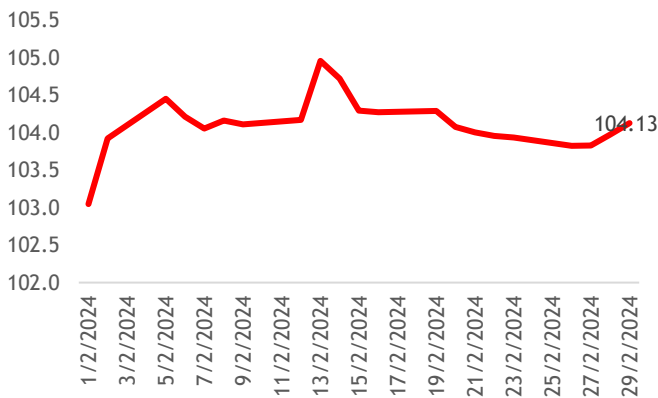
CURRENCY | Feb-24 Monthly Currency Review

Ringgit Touched 26-Year Low in Feb-24

- *The USD appreciated for 2nd straight month as the DXY index rose +0.8%mom to close at 104.13 in Feb-24 (end-Jan-24: 103.27). In terms of the monthly average, the change was steeper as the dollar index jumped by +1.2%mom to 104.12 (Jan-24: 102.88). However, the US dollar could maintain its strength for an extended period due to the risks of a recession in the US economy and rising geopolitical tensions, which could increase risk aversion.*
- *Malaysian ringgit weakened -0.2%mom to RM4.743, as the dollar appreciated in Feb-24. On average, the ringgit plunged -1.8%mom to RM4.768. The ringgit touched a new 26-year low, closing on 20 February 2024 at RM4.799 as escalating geopolitical tension triggered a run towards safe-haven assets.*
- *Despite the ringgit's extended weakness, we forecast the ringgit to strengthen towards RM4.20 by the end of 2024. The appreciation will likely be driven by the narrowing interest rate differentials, as the US Federal Reserve is expected to cut its policy rates while BNM would keep the OPR steady at 3.00% this year.*

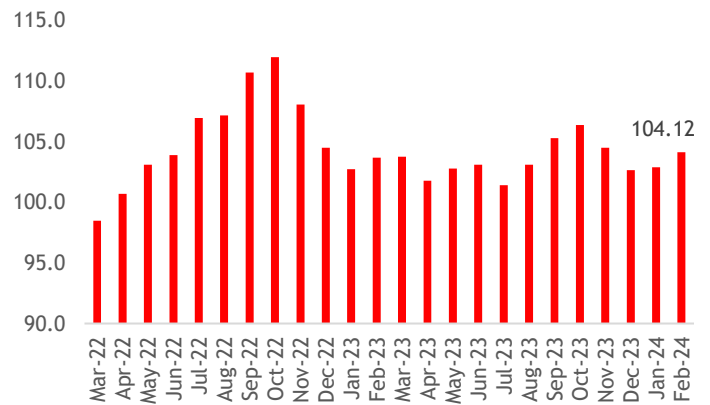
USD appreciated further. The USD appreciated for 2nd straight month as the DXY index rose +0.8%mom to close at 104.13 in Feb-24 (end-Jan-24: 103.27). In terms of the monthly average, the change was steeper as the dollar index jumped by +1.2%mom to 104.12 (Jan-24: 102.88). The dollar closed at its intra-month high of 104.96 on 13 February 2024, which was also the highest closing since mid-Nov-23 due to a softer-than-expected moderation in the US CPI inflation. The dollar strength was also supported by the continued tightness of the labour market. Jan-24 FOMC meeting minutes revealed Fed officials remained cautious of cutting the policy rate too early, citing the need to observe further development to ascertain that inflation is sustainably moving lower towards the Fed's 2% target. The dollar however reversed some of its mid-month gains on signs of easing inflationary pressure and domestic demand conditions indicated by softer core PCE inflation and moderating services PMI. However, the dollar depreciation at month end was limited by risk aversion due to escalating geopolitical tension in the Middle East. Looking ahead, we anticipate a potential weakening of the dollar towards the latter part of the year, following expectations of interest rate reductions by the Federal Reserve to reduce the level of policy restrictiveness in response to further easing in inflation. However, the US dollar could maintain its strength for an extended period due to the risks of a recession in the US economy and rising geopolitical tensions, which could increase risk aversion. Moreover, should the US economy remain robust, marked by persistent strong aggregate demand and a tight labor market, the anticipated interest rate cuts may be delayed, and this will also bolster dollar value.

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



Source: Bloomberg, MIDFR

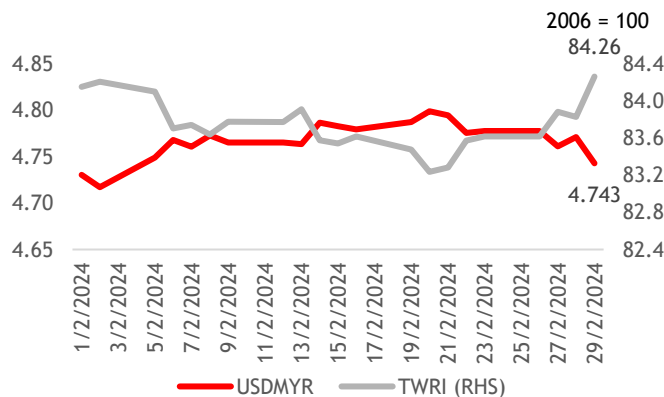
Chart 2: Monthly Average of DXY Dollar Index



Source: Bloomberg, MIDFR

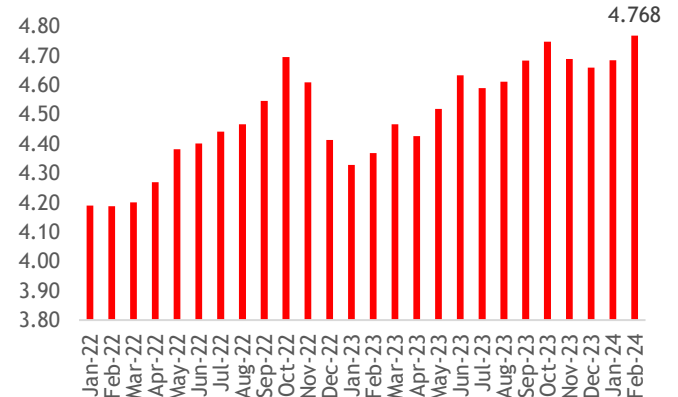
Ringgit depreciated against the USD. Malaysian ringgit weakened -0.2%mom to RM4.743, as the dollar appreciated in Feb-24. On average, the ringgit plunged -1.8%mom to RM4.768. The ringgit touched a new 26-year low, closing on 20 February 2024 at RM4.799 as escalating geopolitical tension triggered a run towards safe-haven assets. Since then, the ringgit appreciated towards month end, benefiting from the decline in dollar as inflation in the US eased further in Jan-24. Movement in commodity prices failed to provide support for the ringgit despite the Brent crude oil prices surging by +2.3%mom to USD83.62pb. Economic fundamentals continued to point for a stronger ringgit this year, especially from the expected turnaround in external trade with exports registering the first expansion in Jan-24 after 10 months of contraction. We continue to foresee the ringgit and other regional currencies would appreciate in 2024, to be supported by the reversal of funds flowing back into EMs and the recovery in external trade.

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



Source: Bloomberg, MIDFR

Chart 4: USDMYR Monthly Average



Source: Bloomberg, MIDFR

Chart 5: Brent Crude Oil (USD pb) and Crude Palm Oil (RM/tonne) Prices

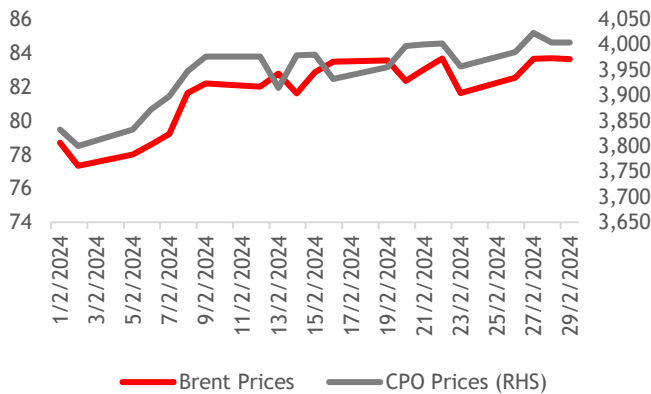
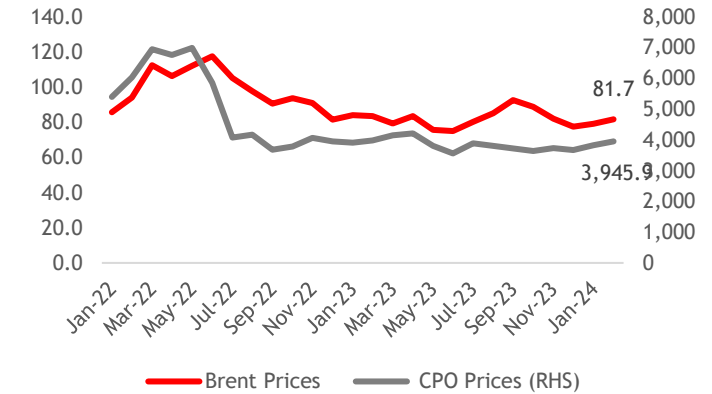


Chart 6: Monthly Average Prices of Brent Crude Oil (USD pb) and Crude Palm Oil (RM/tonne)



Source: Bloomberg, MIDFR

Source: Bloomberg, MIDFR

Ringgit continued to weaken against most currencies. Although the ringgit registered strong gains against the Turkish lira (+2.6%mom) and Japanese yen (+1.9%mom) in Feb-24, the local currency mostly depreciated against other currencies. Against major currencies, the ringgit also depreciated against the euro and the pound sterling, both by -0.2%mom.

Table 1: Yearly Average of MYR to Selected Currencies YTD Change and MoM Change

	2020	2021	2022	2023	Average Jan-Feb 2024	YTD Change	MoM Change
JPYMYR	3.936	3.775	3.358	3.247	3.196	+2.9%	+1.9%
TRYMYR	0.604	0.479	0.268	0.197	0.155	+2.5%	+2.6%
THBMYR	13.430	12.965	12.559	13.107	13.305	+1.2%	+0.8%
TWDMYR	0.143	0.148	0.148	0.146	0.151	+0.1%	+0.8%
KRWMYR	0.356	0.362	0.341	0.349	0.356	-0.1%	-0.4%
IDRMYR	0.029	0.029	0.030	0.030	0.030	-1.1%	-0.6%
PHPMYR	0.085	0.084	0.081	0.082	0.084	-1.5%	-0.4%
VNDMYR	0.181	0.181	0.188	0.191	0.193	-1.7%	+0.7%
CNYMYR	0.609	0.642	0.654	0.644	0.658	-2.1%	-0.0%
BDTMYR	4.952	4.873	4.725	4.225	4.308	-3.4%	-0.3%
NPRMYR	0.035	0.035	0.035	0.035	0.036	-3.4%	-0.4%
LKRMYR	0.023	0.021	0.014	0.014	0.015	-7.4%	-2.2%
CADMYR	3.134	3.306	3.381	3.379	3.512	-0.7%	+1.0%
EURMYR	4.795	4.901	4.629	4.933	5.128	-1.4%	-0.5%
SGDMYR	3.047	3.084	3.191	3.396	3.526	-1.4%	+0.1%
GBPMYR	5.391	5.701	5.432	5.673	5.984	-2.8%	-0.2%
USDMYR	4.201	4.144	4.401	4.561	4.724	-3.1%	-0.2%

Source: Bloomberg, MIDFR

Most currencies continued to weaken against the USD. Other currencies depreciated against the USD in Feb-24, except for selected currencies namely the Indonesian rupiah (+0.4%mom), the South Korean won

(+0.2%mom), the Indian rupee (-0.2%mom), and the Philippine peso (+0.1%mom). Ringgit which depreciated -0.2%mom did not depreciate as steeply as other currencies, with only the euro (-0.1%mom) depreciating softer among the currencies which weakened against the USD.

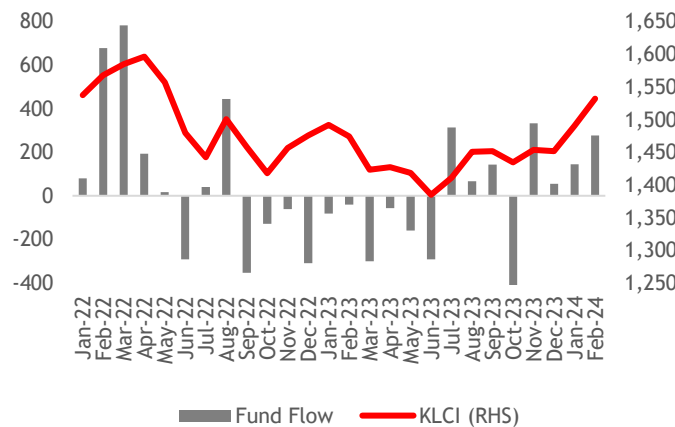
Table 2: Yearly Average of USD to Selected Currencies and MoM and YTD Change

	2020	2021	2022	2023	Average Jan-Feb 2024	YTD Change	MoM Change
DXY	95.82	92.51	104.00	103.44	103.47	+2.8%	+0.8%
GBPUSD	1.284	1.376	1.237	1.244	1.267	-0.8%	-0.5%
EURUSD	1.142	1.183	1.053	1.082	1.085	-2.1%	-0.1%
USDCAD	1.341	1.254	1.302	1.350	1.345	-2.5%	-1.1%
USDAUD	1.453	1.332	1.442	1.506	1.518	-4.6%	-1.1%
USDJPY	106.77	109.85	131.55	140.58	147.77	-6.0%	-2.0%
USDINR	74.12	73.94	78.63	82.60	83.05	+0.4%	+0.2%
USDCNY	6.900	6.451	6.733	7.083	7.181	-1.2%	-0.3%
USDPHP	49.61	49.29	54.53	55.64	56.01	-1.5%	+0.1%
USDVND	23,230	22,935	23,409	23,835	24,478	-1.5%	-0.9%
USDSGD	1.379	1.344	1.379	1.343	1.340	-1.9%	-0.4%
USDIDR	14,543	14,296	14,853	15,237	15,630	-2.0%	+0.4%
USDKRW	1,179.5	1,144.9	1,292.0	1,306.5	1,327.6	-3.0%	+0.2%
USDMYR	4.201	4.144	4.401	4.561	4.724	-3.1%	-0.2%
USDTHB	29.47	27.93	29.80	31.16	31.30	-3.2%	-1.0%
USDTHB	31.29	32.00	35.06	34.80	35.51	-4.6%	-0.9%

Source: Bloomberg, MIDFR

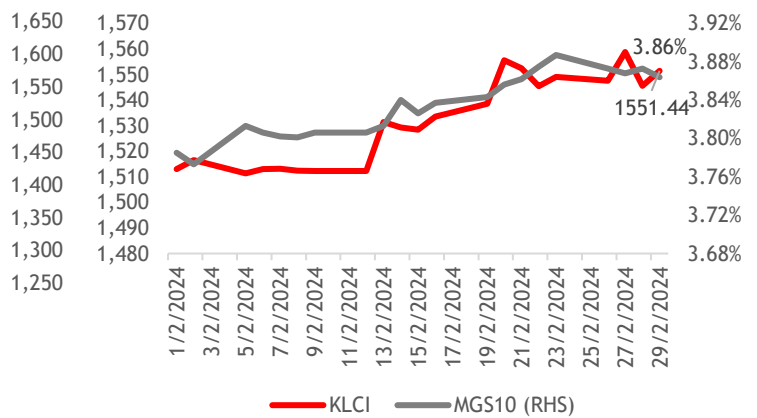
Equity market marked 4th consecutive month of inflows. Foreign investors net bought USD276.6m domestic equities in Feb-24 (Jan-24: USD145.3m). In terms of foreign holding of Malaysian bonds, the latest data as of Jan-24 saw a decline of -RM5.1b to RM265.3b (Jan-24: RM270.4b). We opine that outflow from the bond market might have persisted into the Feb-24 given rising MGS yields and weakening ringgit. In other words, we believe the bond market outflow contributed to the weakening of ringgit amid another month of inflows of foreign funds into the local 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 Jan-24



Source: Bloomberg, MIDFR

Trade-weighted ringgit appreciated +0.2%mom from Jan-24. Looking beyond the ringgit-US dollar exchange rate, our MIDF TWRI (Trade-Weighted Ringgit Index) indicated that the ringgit strengthened by +0.2%mom to 84.26. Despite the weakening of ringgit against the US dollars, the index suggests ringgit on balance managed to strengthen against currencies of major trading partners in Feb-24. We concur that the movement in ringgit is not reflective of the actual fundamentals of the broader economy. In other words, the local currency remained undervalued vis-à-vis the positive macroeconomic conditions.


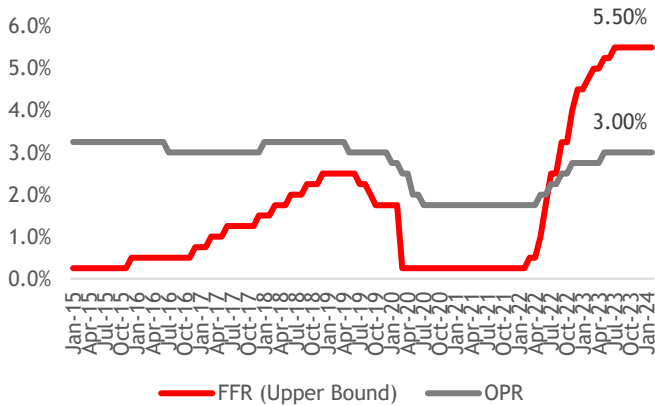
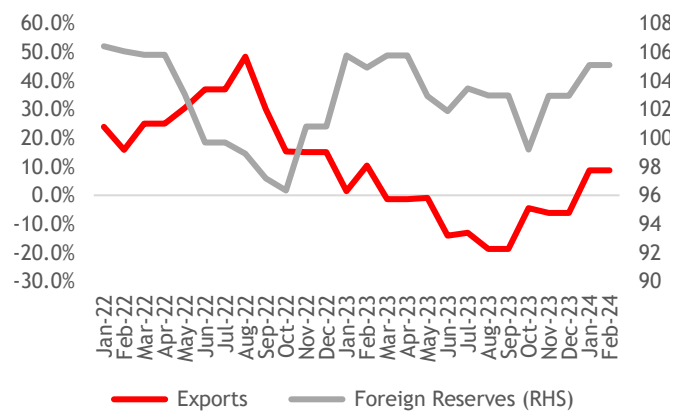
Ringgit is still on track to appreciate towards RM4.20 by year-end. Despite the ringgit's extended weakness, we forecast the ringgit to strengthen towards RM4.20 by the end of 2024. The appreciation will likely be driven by the narrowing interest rate differentials, as the US Federal Reserve is expected to cut its policy rates while BNM would keep the OPR steady at 3.00% this year. Such adjustments should benefit the ringgit and other regional currencies because capital flows are expected to return to EMs. Additionally, the ringgit is poised to benefit from a rebound in external trade. Nonetheless, the potential for a US recession and prolonged weaknesses in global trade and manufacturing could cause the ringgit to remain weak. Furthermore, the outlook for the ringgit might be negatively impacted by prolonged strength in the US dollar, especially if the Fed delays rate cuts in response to persistently elevated inflation and more resilient conditions in the US economy. 

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



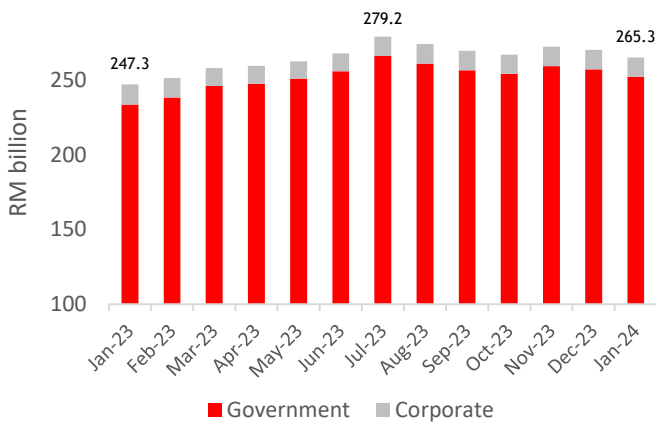
Source: Bloomberg, MIDFR

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



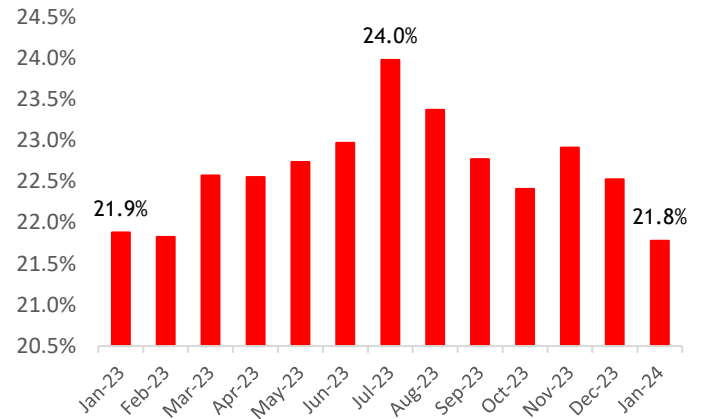
Source: Bloomberg, IMF, MIDFR

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	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

February 2024 Key Economic Events

3 Feb: Sri Lanka signs free trade deal with Thailand to revive economy The island nation has been renewing a focus on trade deals to foster economic growth and help its battered economy, which is estimated by the World Bank to have contracted 3.8 percent last year after a severe foreign exchange crunch plunged it into a wider financial crisis.

7 Feb: 'India Out' campaigns simmer in Bangladesh amid election fallout The Bangladeshi diaspora and opposition groups have fuelled this anti-India movement and advocated boycotts of Indian products. This movement mirrors similar campaigns in the Maldives, where Mohamed Muizzu capitalized on anti-India sentiment to win the presidential election.

8 Feb: Singapore shoppers scoop up Lunar New year bargains in Malaysia as city state's dollar rides high: 'it's like a bonus' As the cost of living back home soars, Singaporeans are taking advantage of their local dollar's unprecedented strength when they cross the border. The Singapore dollar has risen to a record 3.55 ringgit, as Malaysia's currency is buffeted by weaker exports and a wide interest rate gap with the US

9 Feb: Philippines expects stable rice price in first half of 2024 Philippine Agriculture Secretary Francisco Tiu Laurel said rice prices may stay elevated through September this year due to concerns over El Nino's impact on global rice supply and heightened demand for the grain, which is keeping international prices high.

14 Feb: Prabowo Subianto claims victory in Indonesian presidential election The 72-year-old former special forces commander, who had run unsuccessfully for president twice before, had about 58 percent of the votes, according to four pollsters, based on "quick count" ballots at samples of voting stations nationwide. The number of ballots tallied ranged from about 86 to 95 percent as of 14:00 GMT on Wednesday.

26 Feb: Taiwan remains 4th in global economic freedom index Taiwan ranked fourth in the 2024 Index of Economic Freedom, maintaining its best ranking achieved in 2023, according to the annual report released in February by the Washington-based Heritage Foundation.

27 Feb: Japan's new births fall to record low in 2023 as demographic woes deepen The number of births fell 5.1% from a year earlier to 758,631, while the number of marriages slid 5.9% to 489,281 -- the first time in 90 years the number fell below 500,000 -- foreboding a further decline in the population as out-of-wedlock births are rare in Japan.

5 Feb: Turkey's inflation sees biggest monthly jump since August, nears 65% year on year In January, Turkish inflation logged its biggest monthly jump since August with a 6.7% rise from December, while year-on-year inflation hit nearly 65%, according to the Turkish central bank's figures released Monday.

7 Feb: Thailand and Muslim separatist rebels agree on roadmap to peace, Malaysian facilitator says Malaysia's facilitator said Wednesday that the Thai government and Muslim separatist rebels in southern Thailand have agreed in principle on a roadmap to try to end a decades-long Muslim insurgency.

8 Feb: China consumer prices plunge at fastest rate for 15 years as deflation fears deepen Data released on Thursday showed that China's consumer price index tumbled last month, falling by 0.8% compared with a year earlier.

14 Feb: Nepal reports slower decline in poverty Nepal has failed to bring down the poverty rate in the past 12 years as 20% of the population remains pegged below the poverty line, says a new government survey.

15 Feb: Euro-Area Economy Is Losing Momentum, EU Says, Slashing Outlook Gross domestic product in the currency bloc will accelerate only slightly to 0.8% this year after 0.5% in 2023, the European Commission said in a report Thursday. In November, it had predicted a more marked improvement to 1.2%. It also cut its 2025 forecast to 1.5%, from 1.6%.

27 Feb: Vietnam invests over 3.7 billion USD in Development Triangle provinces of Laos, Cambodia The Vietnamese Ministry of Planning and Investment (MPI) revealed the data at the 13th conference on trade, investment, and tourism promotion for the Cambodia - Laos - Vietnam (CLV) Development Triangle held in Attapeu province of Laos on February 27.

27 Feb: Canada's international student spike was blamed on private colleges. Here's what really happened A CBC News analysis of the data reveals that what has been framed as a nationwide explosion in international student numbers — prompting Ottawa to impose an immediate two-year cap — is disproportionately linked to a handful of schools, the vast bulk of them public institutions, predominantly in Ontario.

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