

Ringgit Weekly Outlook

Possible trend reversal as US disinflationary expectation could pare down USD overvaluation

Fundamental Overview

- The ringgit weakened to above the 4.67 level against the USD due to the depreciation of the yuan and the strengthening of the USD index (DXY). Despite a marginal improvement in China's exports in August, the yuan continued to weaken above the 7.30/USD threshold due to the weaker-than-expected Caixin services PMI reading and lack of major stimulus by the government to invigorate the economy. Meanwhile, the DXY soared close the 105.0 level due to rising inflation expectations amid a strong ISM services PMI reading (54.5; Jul: 52.7) and rising Brent crude oil price.
- The direction of the local note will be primarily influenced by the upcoming US core inflation reading (Consensus: 0.2% MoM; Jul: 0.2% MoM) and a series of economic data releases from China next week. Any below consensus reading from the US inflation numbers may trigger a dovish repricing in Fed rate expectations (CME FedWatch Tool is currently pricing in a rate cut in May 2024), which would reduce the overvaluation of the USD and benefit the MYR. The ringgit may also closely track the yuan, as the market will likely monitor China's stimulus plan and its overall economic health.

Technical Analysis

- The USDMYR is expected to turn neutral-to-bearish next week, with the pair likely to trade near its 5-day EMA of 4.669 as its RSI reading is nearing overbought level (See ST Technical table).
- Technically, MYR weakness against the USD should reverse if risk sentiment improve, with the pair immediate support awaits at (S1) 4.661. Conversely, the pair may test (R1) 4.683 if DXY trend higher.

Table 1: Currency Outlook

	Long Term*						Trend
	Q2-23	Q3-23F	Q4-23F	Q1-24F	Q2-24F	Q3-24F	
USDMYR	4.667	4.509	4.290	4.205	4.180	4.155	▼

	Short Term (Technical)						Trend
	RSI (7)	EMA (5)	R1	R2	S1	S2	
USDMYR	72.316	4.669	4.683	4.691	4.661	4.647	—

Signal for USD Trend = ▲ Bullish — Neutral ▼ Bearish

*F=Forecasts for end of period

Source: Kenanga Research, Bloomberg

RSI (7): 7-day Relative Strength Index

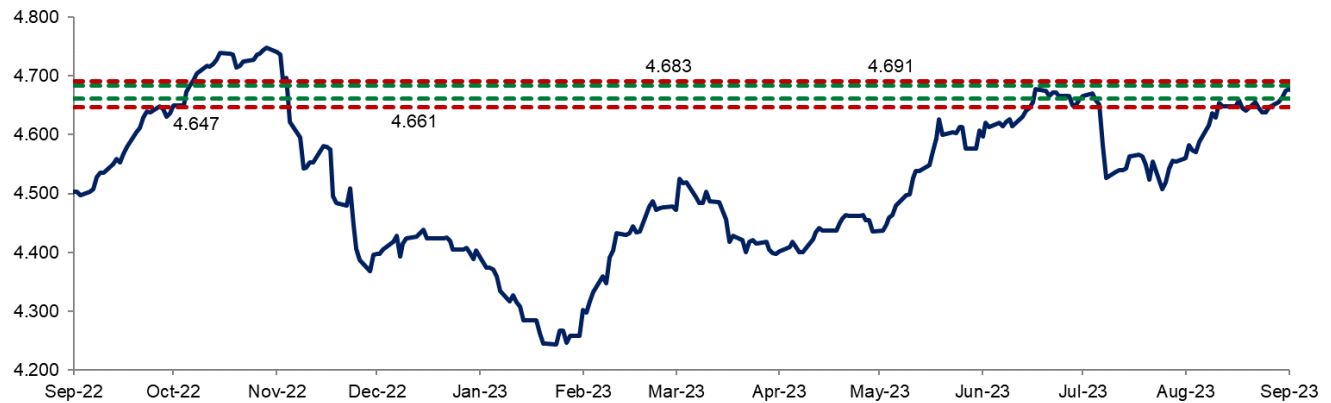
Measures the speed and magnitude of a security's recent price changes to evaluate overvalued or undervalued conditions. A reading of 80 or above indicates an overbought situation while a reading of 20 or below indicates an oversold condition.

EMA (5): 5-day Exponential Moving Average

EMA gives more weight to the most recent periods, places more emphasis on what has been happening lately. Old data points retain a multiplier even if they are outside of the selected data series length.

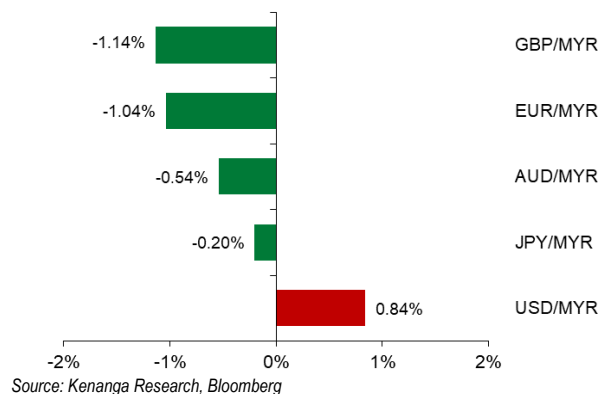
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Graph 1: USDMYR Trend



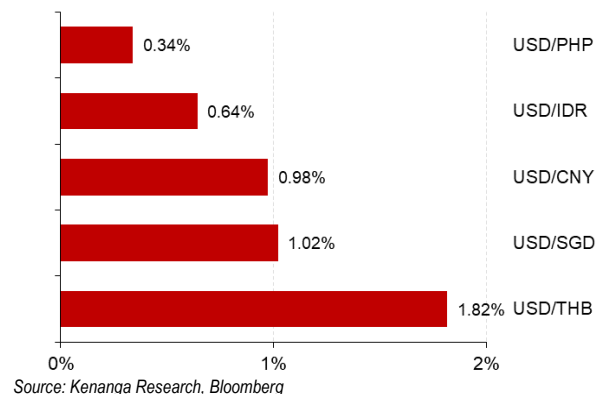
Source: Kenanga Research, Bloomberg

Graph 2: Weekly Performance of Core Pairs



Source: Kenanga Research, Bloomberg

Graph 3: Weekly Regional Peers' Performance



Source: Kenanga Research, Bloomberg

08 September 2023

Table 2: Performance of Core Pairs

Currencies	03/01/23 YTD	07/09/22 Last Year	07/08/23 Last Month	31/08/23 Last Week	07/09/23 Yesterday	ytd (%)	yoy (%)	mom (%)	wow (%)
MYR									
USDMYR	4.409	4.503	4.560	4.639	4.678	6.10%	3.88%	2.58%	0.84%
AUDMYR	2.962	3.032	2.993	3.002	2.986	0.80%	-1.52%	-0.23%	-0.54%
GBPMYR	5.255	5.174	5.801	5.899	5.832	10.99%	12.72%	0.54%	-1.14%
EURMYR	4.649	4.463	5.001	5.064	5.012	7.79%	12.30%	0.22%	-1.04%
JPYMYR	3.373	3.112	3.203	3.179	3.173	-5.95%	1.94%	-0.96%	-0.20%
SGDMYR	3.280	3.198	3.399	3.435	3.428	4.50%	7.19%	0.87%	-0.20%
ASEAN 5 + CN + JP									
USDIDR	15601	14918	15185	15230	15328	-1.75%	2.75%	0.94%	0.64%
USDTHB	34.444	36.732	34.843	34.98	35.616	3.40%	-3.04%	2.22%	1.82%
USDSGD	1.346	1.409	1.342	1.351	1.365	1.39%	-3.09%	1.73%	1.02%
USDPHP	55.799	57.15	56.04	56.602	56.795	1.78%	-0.62%	1.35%	0.34%
USDCNY	6.915	6.966	7.193	7.259	7.330	6.00%	5.22%	1.90%	0.98%
USDJPY	130.690	144.700	142.350	145.920	147.440	12.82%	1.89%	3.58%	1.04%
USD									
EURUSD	1.053	0.990	1.097	1.087	1.071	1.66%	8.17%	-2.43%	-1.54%
GBPUSD	1.191	1.144	1.273	1.268	1.246	4.58%	8.83%	-2.16%	-1.77%
AUDUSD	0.670	0.672	0.656	0.647	0.638	-4.80%	-5.04%	-2.68%	-1.33%

Source: Kenanga Research, Bloomberg

Table 3: Upcoming Major Data Release And Policy Announcement for the Week

Date	Country	Indicator	Previous	Consensus/Forecast
11/9/2023	MY	Industrial Production (JUL)	-2.2%	-0.2%*
11/9/2023	MY	Retail Sales (JUL)	5.8%	N/A
13/9/2023	US	Core Inflation Rate (AUG)	0.2% MoM	0.2% MoM
14/9/2023	EA	ECB Interest Rate Decision	4.25%	4.50% (25 bps hike)
14/9/2023	US	Retail Sales (AUG)	0.7% MoM	0.1% MoM
14/9/2023	US	PPI (AUG)	0.3% MoM	0.4% MoM
15/9/2023	CN	Industrial Production (AUG)	3.7% YoY	3.8% YoY
15/9/2023	CN	Retail Sales (AUG)	2.5% YoY	3.0% YoY

Source: Kenanga Research, Trading Economics, Bloomberg
*KIBB

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