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Global Economics & Market Strategy

MYR Strength Over-Done: Long USDMYR at 4.002

- **Long USD/MYR at 4.0020, stop loss at 3.9700, and a 2-week target of 4.0300. The potential return for this trade is 0.70% in 2 weeks.**

- **We believe three factors may cause Ringgit to weaken in the short term. These factors include stringent lockdowns being imposed in Malaysia, Dollar weakness is over-stretched and could entice importers to buy USD at current levels, and net short Dollar positioning could fall.**

- **USD/MYR tested the low of 3.9980 early in the year. However, the 2 week moving average of new cases continues to rise, with the risks tilted towards a further acceleration.**

Head, Rates/FX Strategy
Economics and Market Strategy

Dr. Suresh Rama, CQF
+603 9280 8864
suresh.kumar.ramanathan@rhbgroup.com

Global FX Strategy: Long USDMYR

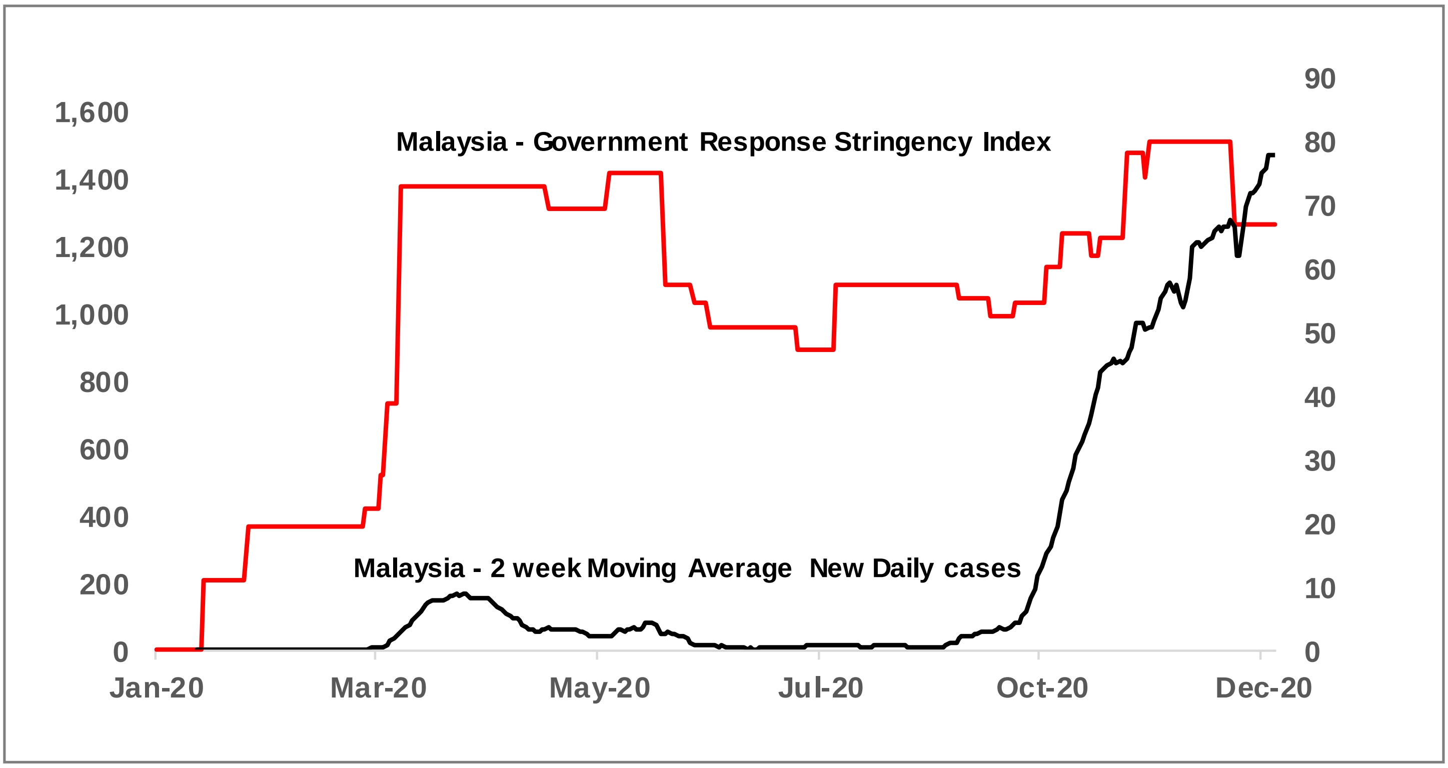
We believe three factors may cause Ringgit to weaken in the short term. Domestically, the risk of further stringent lockdown in the weeks ahead could dampen economic activity. The 2 week moving average of new cases continues to edge higher and this trend may continue for much of January. A Covid-19 Government Response Stringency Index for Malaysia shows there is an increased likelihood of new cases remaining high in the near term (Figure 1). Second, Dollar weakness is over-stretched and could entice importers to accumulate cheap USD at current levels.

Lastly, in terms of positioning, we believe the market's large net short posture is over-done and may turn in the near-term. Speculators increased their net short dollar positions in the latest week, according to U.S. Commodity Futures Trading Commission data. The value of the net short Dollar position rose to $30.40 billion in the week ended December 29th and compared with a net short of $30.15 billion which printed in the previous week. Given the large increase in Dollar shorts, the risk of a significant reduction in Dollar shorts in the near-term can't be ruled out. Hence, positioning will become supportive of a long USD/MYR trade in the short-term.

Global FX News

The Dollar found support as concerns about surging COVID-19 cases and uncertainty about U.S. runoff elections in Georgia fuelled demand for safer assets. The fate of U.S. President-elect Joe Biden's agenda, including rewriting the tax code, boosting stimulus and infrastructure spending, hinges firmly on Tuesday's twin Senate races in the battleground state of Georgia that will determine control of the chamber. The greenback held gains from overnight in early Asian trading on Tuesday after U.S. stocks retreated from record highs at the start of the new year. The GBP/USD was under pressure as PM Boris Johnson ordered a nationwide lockdown to try and slow a fast-spreading coronavirus variant. Sterling was little changed at $1.3572 early in the Asian session. The Dollar index was flat at 89.86 after rebounding Monday from a 2 ½ year low of 89.41. The safe-haven JPY was little changed at 103.13. Japan's prime minister said the government is considering a state of emergency for Tokyo amid a surge in coronavirus cases. The Euro was steady at $1.22535 after reaching $1.231 on Monday for the first time since April 2018.

Figure 1 – Malaysia Daily New Covid-19 Cases Momentum is Up: Trend Likely to Continue in Near-Term



This is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest). If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region. This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.
OxCGRT collects publicly available information on indicators of government response. These indicators take policies such as school closures, travel bans, etc. and record them on an ordinal scale; the remainder are financial indicators such as fiscal or monetary measures. OxCGRT measures the variation in governments' responses using its 'COVID-19 Government Response Stringency Index (Stringency Index)'. This composite measure is a simple additive score of nine indicators measured on an ordinal scale, rescaled to vary from 0 to 100. Please note that this measure is for comparative purposes only, and should not necessarily be interpreted as a rating of the appropriateness or effectiveness of a country's response. It also includes a measure of 'COVID-19 Containment and Health Response' index which is based on the metrics used in the 'Stringency Index' plus testing policy and contact tracing.
Source: Thomas Hale, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799