Economics & FX Highlights

AmBank Group
AmBank Research
25 January 2021

- **Growing concerns over worsening coronavirus epidemic**
- **MYR to fluctuate in the range of 4.0282 – 4.0567 against US dollar**

Global Highlights

The dollar appreciated by 0.12% to 90.238 – the first gain in three days, supported by: (1) safe-haven flows due to the worsening coronavirus epidemic in the US as well as the rest of the world; and (2) relative outperforming economic data release which includes: (i) January's flash Manufacturing PMI expanding faster to 59.1 from 57.1 in December (cons: 56.5) – marking an all-time high. Both production and new exports orders were at their highest since 2014 and job creation was the strongest in 2 years; and (ii) January's flash Services PMI jumping to 57.5 from 54.8 in December (cons: 53.6). The rate of expansion was the second sharpest since March 2015 and steep overall. However, the pace of new business growth softened at the start of 2021 as restrictions placed on firms due to the ongoing coronavirus disease pandemic dampened demand.

Meanwhile, modest selling was seen in the equity market with the Dow falling 0.57% to 30,997 while the S&P 500 shaved 0.30% to 3,842. The UST10-year slipped 2.03bps to 1.086% while the gold price shed 0.77% to US$1,855.6/oz.

The euro strengthened by 0.06% to 1.217 following the positive tone from the ECB's meeting. Meanwhile, the economic data release showed signs of softening economic activity with: (1) January's flash EU Manufacturing PMI easing to 54.7 from 55.2 in December (cons: 54.5); and (ii) January's flash Services PMI deteriorating to 45.0 from 46.4 in December (cons: 44.5).

The pound weakened by 0.34% to 1.369 due to a weaker dollar added with weaker IHS Markit/CIPS UK flash Composite PMI data. It dropped to 40.6 in January from 50.4 in December (cons: 45.5). The index was the lowest since May 2020 and much weaker than in the second national lockdown period during November (49.0). However, the speed of the downturn in the UK's private sector output was still softer than at the start of the pandemic (13.8 in April 2020), with many businesses citing successful efforts to adapt and prepare for new Covid-19 restrictions.

The Japanese yen weakened 0.27% to 103.8, also the weakest in three days owing to; (1) December inflation rate dipping further into disinflationary for the third month at 1.2% y/y from -0.9% y/y in November; as well as (2) January's Jibun Bank Manufacturing PMI flash estimation which slipped to 49.7 from 50.0 in December. Similarly, the yuan depreciated by 0.31% to 6.482 against the stronger dollar.

Crude oil prices fell as Brent shaved off 1.23% to US$55.41 while WTI slipped by 1.62% to US$52.27 per barrel – both to the lowest since 15 January, weighed down by a build-up in US crude inventories and worries that new pandemic restrictions in China will curb fuel demand in the world's biggest oil importer.

Malaysia Highlights:

The MYR fell after three days of gains, depreciating by 0.35% to 4.043, the weakest since early in the week. The KLCI gained 0.12% to 1,596.7 despite foreign selling coming in at RM89.7mil. Prior to Friday's closing, bonds were under slight pressure without the presence of any buying flows; the 3-, 5-, 7- and 10-year yields added 2bps to 1.895%, 2bps to 2.100%, 2.5bps to 2.495% and 1.5bps to 2.730%, respectively. The IRS curve shifted higher: (3Y) 0.9bps to 1.980%, (5Y) 0.7bps to 2.182%, and (7Y) 0.5bps to 2.345%. Meanwhile, the 10-year IRS remained unchanged at 2.600%. Elsewhere, the KLIBOR 3-month held steady at 1.940%.

Against major currencies, the MYR weakened mostly; 0.69% to 4.923 vs. the EUR, 0.09% to 3.897 vs. the JPY and 0.04% to 1.603 vs. the CNY. The ringgit strengthened 0.05% to 3.127 vs. the AUD while was muted at 5.534 vs. the GBP. Against its Asean peers, the ringgit traded lower across the board; (SGD) 0.12% to 3.048, (THB) 0.13% to 7.416, (PHP) 0.28% to 11.89 and (VND) 0.31% to 5,707.

MYR Outlook For The Day

We expect the MYR to trade between our support levels of 4.0282 and 4.0363 while the resistance is pegged at 4.0504 and 4.0567.

Economic Update

25 January 2021

Malaysia – 2021 overall headline inflation expected to normalise

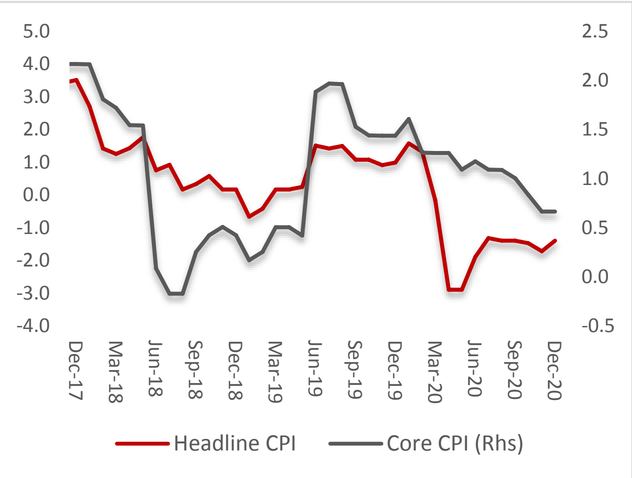
As expected, headline inflation remained in the deflationary region for the 10th straight month, impacted by the ongoing Covid-19 disruptions. Headline inflation in December fell by 1.4% y/y from -1.7% y/y in November. The drag in headline inflation mainly came from transport where it slipped by 8.4% y/y in December (Nov: -11.1% y/y) as well as housing, water, electricity, gas and fuel which contracted at the same pace as in December by 3.3% y/y. This brings the full-year average to -1.1%. It is the first time since 1969 for the economy to report a negative inflation. In 1969, headline inflation fell by 0.4% y/y.

Meanwhile, core inflation, which excludes fuel and other administered prices, maintained positive growth throughout the year. In December, core inflation rose by 0.7% y/y, similar to November. It is being supported by sustained domestic demand along with a gradual resumption of economic activities. For the full year, core inflation climbed by 1.1% y/y.

Month-on-month, the headline inflation rose 0.5% in December following -0.2% in November. The increase was supported by higher fuel pump prices. Fuel pump prices for RON95, RON97 and diesel averaged higher in December at RM1.74 per litre, RM2.04 per litre, and RM1.93 per litre, respectively (November: RM1.63 per litre, RM1.93 per litre, and RM1.75 per litre).

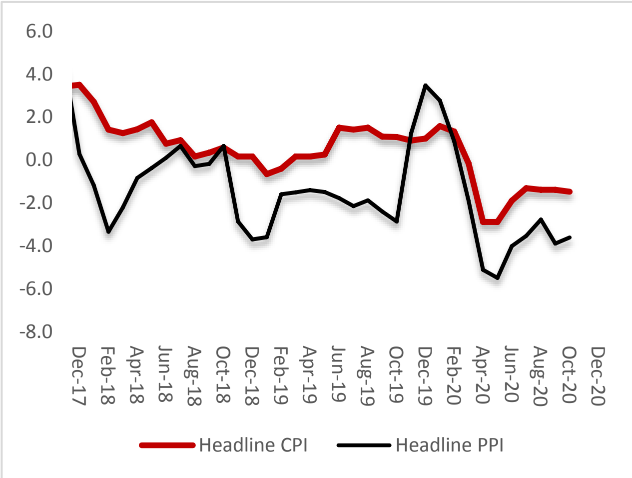
For 2021, the overall headline inflation is expected to normalise. This will be supported by an improving global growth and trade, added with local stimulus measures amounting to RM340bil as well as the low base. Along the line, the the Producer Price Index (PPI), which currently averages at -2.7% for the first 11 months, should also gain momentum as the current low input cost should be rising on the back of firmer commodity prices. Headline inflation should average around 1.9%–2.1%.

Chart 1: Headline & Core Inflation Rate (y/y %)



Source: CEIC/AmBank Research

Chart 2: Inflation & PPI (y/y %)



Source: CEIC/AmBank Research

Today's Event

Country	Event	Surv	Prev
US	Chicago Fed National Activity Index (Dec)	-	0.27
	Dallas Fed Manufacturing Index (Jan)	-	9.7
DE	Ifo Business Climate (Jan)	91.9	92.1
SG	Inflation Rate YoY (Dec)	-	-0.1%
	Core Inflation Rate YoY (Dec)	-	-0.1%

Source:TradingEconomics/Bloomberg/AmBank Research

Key Financial Market Movement

Table 1 : Currency pair against the dollar

	Last Close	d/d (%)	YTD (%)
Dollar Index	90.24	0.1	0.4
EURUSD	1.22	0.1	-0.6
GBPUSD	1.37	-0.3	0.8
USDJPY	103.8	0.3	0.6
AUDUSD	0.77	-0.6	0.7
NZDUSD	0.72	-0.4	0.2
USDCNY	6.48	0.3	0.3
USDCNH	6.50	0.5	0.6
USDINR	72.98	0.0	-0.1
USDSGD	1.33	0.4	0.6
USDKRW	1103	0.5	2.0
USDPHP	48.08	0.1	0.1
USDTHB	29.99	0.2	0.2
USDIDR	14035	0.2	1.0
USDMYR	4.04	0.4	0.9

Source: Bloomberg/AmBank Research

Table 2 : Regional Equity Market Performace

	Last Close	d/d (%)	YTD (%)
Dow Jones	30,997	-0.6	3.2
S&P 500	3,841	-0.3	4.1
Euro Stoxx 50	3,602	-0.4	1.1
FTSE 100 Index (UK)	6,695	-0.3	1.9
DAX (Germany)	13,874	-0.2	1.1
Nikkei	28,631	-0.4	5.0
Hang Seng	29,448	-1.6	7.2
Shanghai Comp.	3,607	-0.4	3.0
India	48,879	-1.5	1.5
KOSPI (S. Korea)	3,141	-0.6	6.7
Singapore	2,992	-0.8	4.6
SE Thai	1,498	-1.0	2.0
PSEi (Philippines)	7,046	-1.3	-2.1
Jakarta Comp.	6,307	-1.7	3.3
FBM KLCI	1,597	0.1	-0.4

Source: Bloomberg/AmBank Research

Table 3 : Currency pair against the ringgit

	Last Close	d/d (%)	YTD (%)
EUR/MYR	4.923	0.7	0.0
GBP/MYR	5.534	0.0	0.9
AUD/MYR	3.127	-0.1	0.9
JPY/MYR	3.897	0.1	0.3
CNY/MYR	1.603	0.0	-0.6
SGD/MYR	3.048	0.1	0.2
THB/MYR	7.416	-0.1	-0.7
IDR/MYR	3471	-0.1	0.1
PHP/MYR	11.893	-0.3	-0.8
VND/MYR	5707	-0.3	-0.9

Source: Bloomberg/AmBank Research

Table 4 : Regional 10-year Government Bond Performace

	Last Close (%)	d/d (bps)	YTD (bps)
US	1.086	-2.0	17.2
Euro	-0.514	-1.7	9.2
UK	0.306	-2.3	13.5
Japan	0.036	0.9	1.9
China	3.123	-1.5	-4.9
India	5.906	-1.9	8.2
Singapore	1.002	-1.5	13.0
Thailand	1.319	1.2	4.3
Indonesia	6.248	1.6	37.8
Malaysia	2.720	0.6	13.3

Source: Bloomberg/AmBank Research

Table 5: Malaysia Government Securities Yield (MGS)

	Last Close (%)	d/d (bps)	YTD (bps)
3-year	1.863	1.1	0.5
5-year	2.073	1.8	-2.2
7-year	2.477	2.5	9.7
10-year	2.720	0.6	13.3
15-year	3.321	-0.7	14.8
20-year	3.553	0.0	24.7
30-year	3.954	0.3	12.3

Source: Bloomberg/AmBank Research

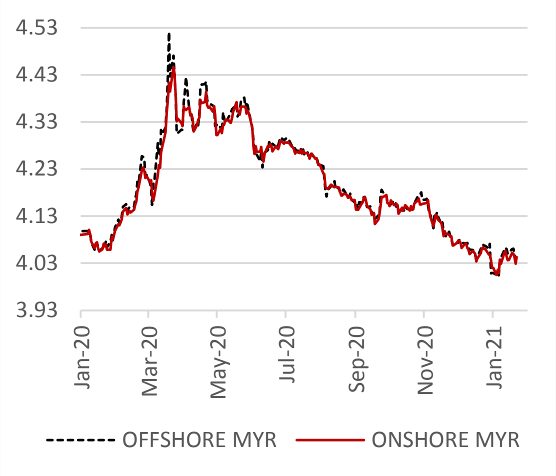
Table 6: Key Financial Data

	Last Close	d/d (bps)	YTD (bps)
3-year IRS (%)	1.980	0.9	-6.5
5-year IRS (%)	2.182	0.7	-5.5
7-year IRS (%)	2.345	0.5	-3.1
10-year IRS (%)	2.600	0.0	-1.1
3-months KLIBOR (%)	1.940	0.0	0.0
MY 5-year CDS (bps)	41.24	2.2%	12.7%
Brent	55.41	-1.2%	8.5%

Source: Bloomberg/AmBank Research

Key Daily FX Charts

Chart 1: Onshore & Offshore MYR

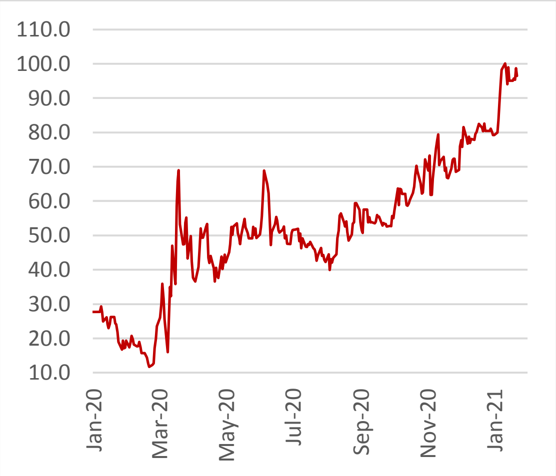


Source: Bloomberg/AmBank Research

Chart 2: Malaysia 5-year CDS (bps)

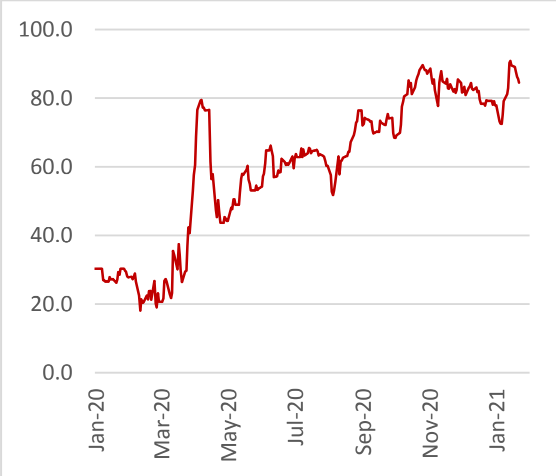
Source: Bloomberg/AmBank Research

Chart 3: UST10/2 Spread (bps)



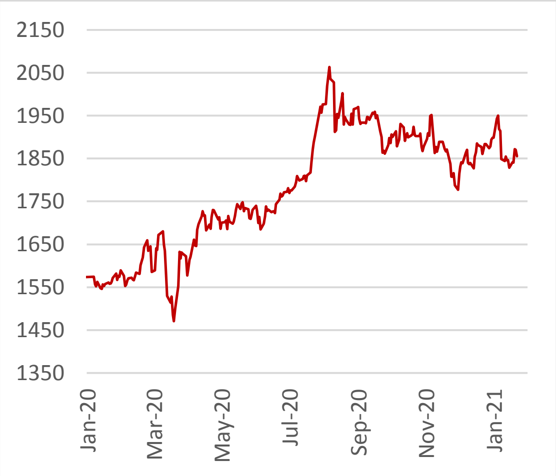
Source: Bloomberg/AmBank Research

Chart 4: MGS10/3 Spread (bps)



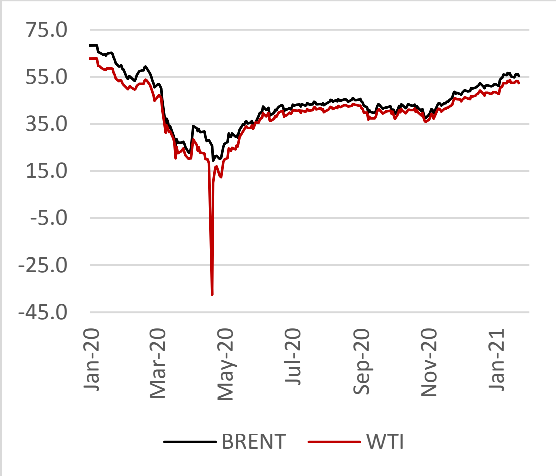
Source: Bloomberg/AmBank Research

Chart 5: Gold Price (US$/oz)



Source: Bloomberg/AmBank Research

Chart 6: Crude Oil Price (US$/bbl)



Source: Bloomberg/AmBank Research

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