



From the Desk
of the
Chief Economist

BANK ISLAM

VIEW ON RINGGIT: TOO MUCH INFORMATION SHARING BY THE FED

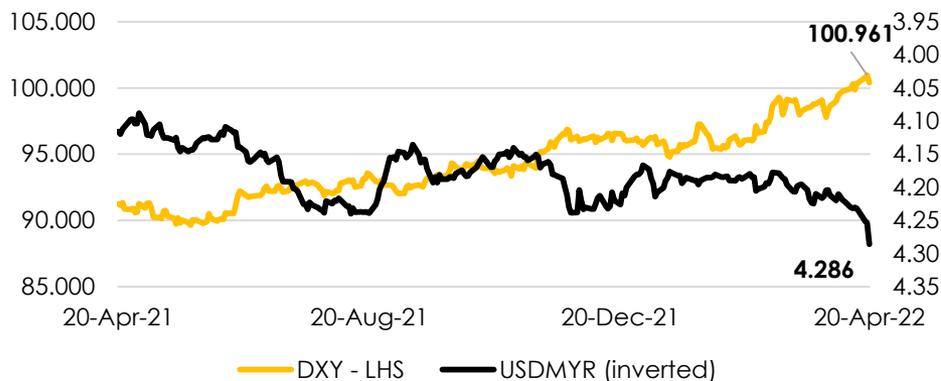
22 APRIL 2022

ECONOMIC RESEARCH

**DR. MOHD AFZANIZAM ABDUL RASHID
SHAFIZ BIN JAMALUDDIN
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN**

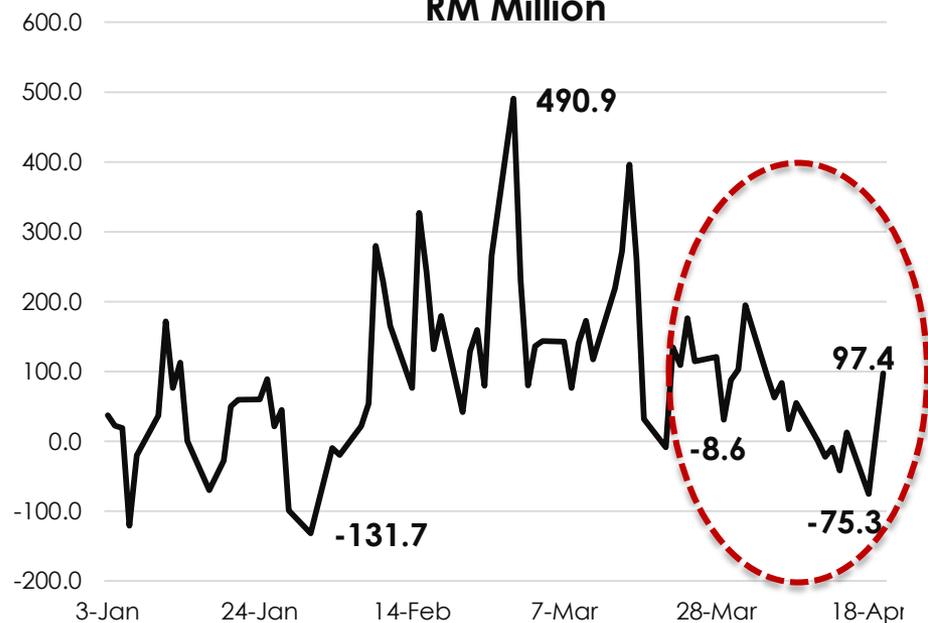
THE RINGGIT VERSUS THE U.S. DOLLAR HIT 21-MONTH LOW AT RM4.2950

U.S. Dollar Index (DXY) vs. USDMYR



Sources: Bloomberg, CEIC

Daily Foreign Fund Flow in Malaysia, RM Million

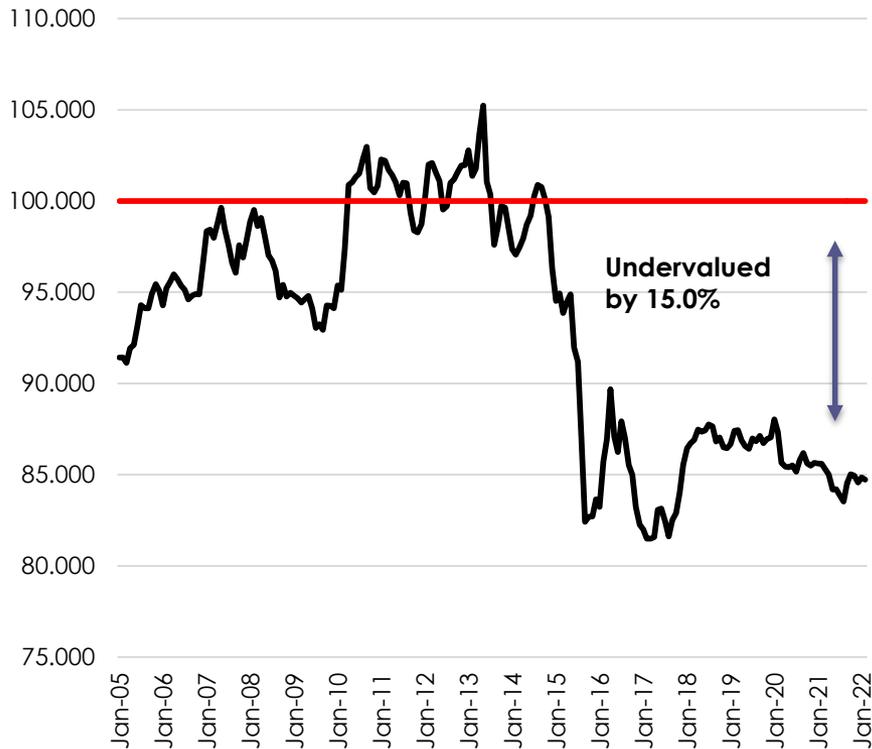


Source: Bursa

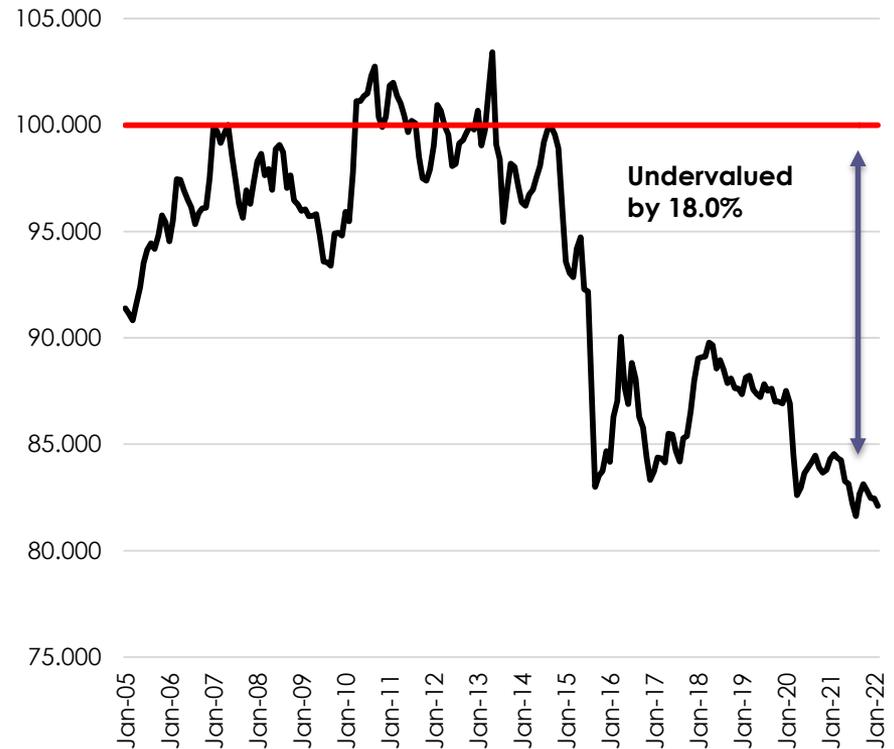
- ✓ The USDMYR has weakened to as low as RM4.2950 before it closed to RM4.2895 on 21 April. This was the lowest point so far since the Ringgit hit its rock bottom during the pandemic at RM4.447 on 23 March 2020.
- ✓ Undoubtedly, this could be quite alarming especially when the U.S. Federal Reserve (Fed) and other major central banks are expected to raise their benchmark interest rate at a rapid pace.
- ✓ To some degree, it does give the impression that the Bank Negara Malaysia (BNM) could be behind the curve given its recent communique whereby they remained guarded on the evolving economic outlook.
- ✓ At the same time, foreign funds were net sellers recently, implying that these investors were shifting their portfolio allocation away from Malaysia although this can be too early to tell in light of the improved equities valuation.
- ✓ **Having said that, we are still keeping our year-end USDMYR target at RM4.15** on account of:
 - Higher commodity prices will help to improve government fiscal space.
 - The reopening of international borders will increase tourism receipts.
 - BNM will normalise its monetary policy accommodation in 2H2022.

RINGGIT IS GROSSLY UNDERVALUED. THIS SUGGESTS THAT ROOM FOR FUTURE APPRECIATION IS VISIBLE

MYR NEER



MYR REER

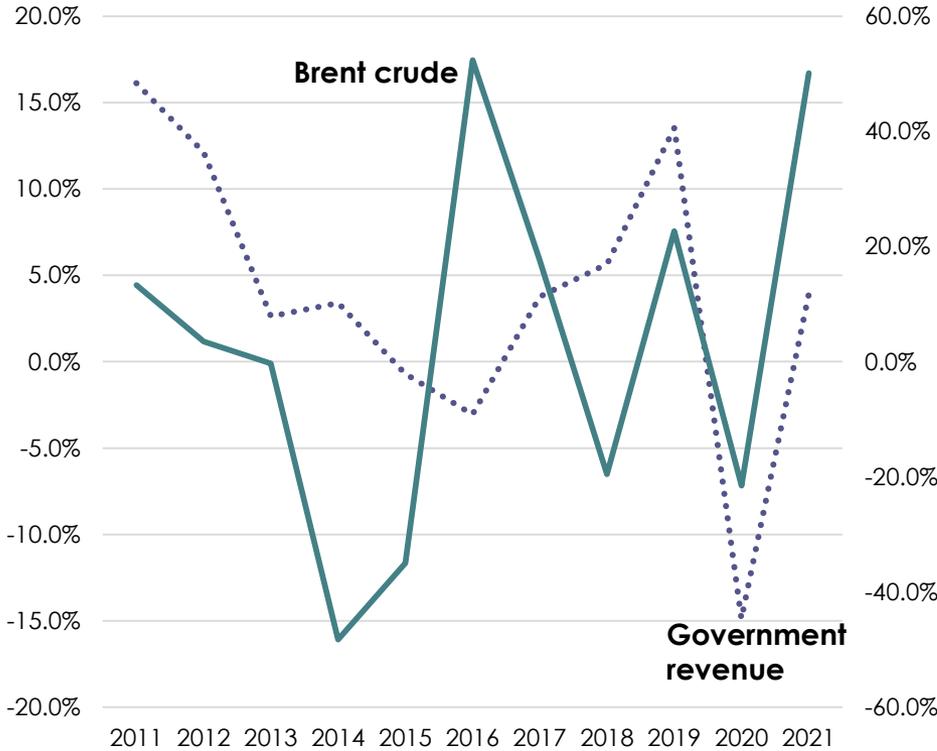


Source: CEIC

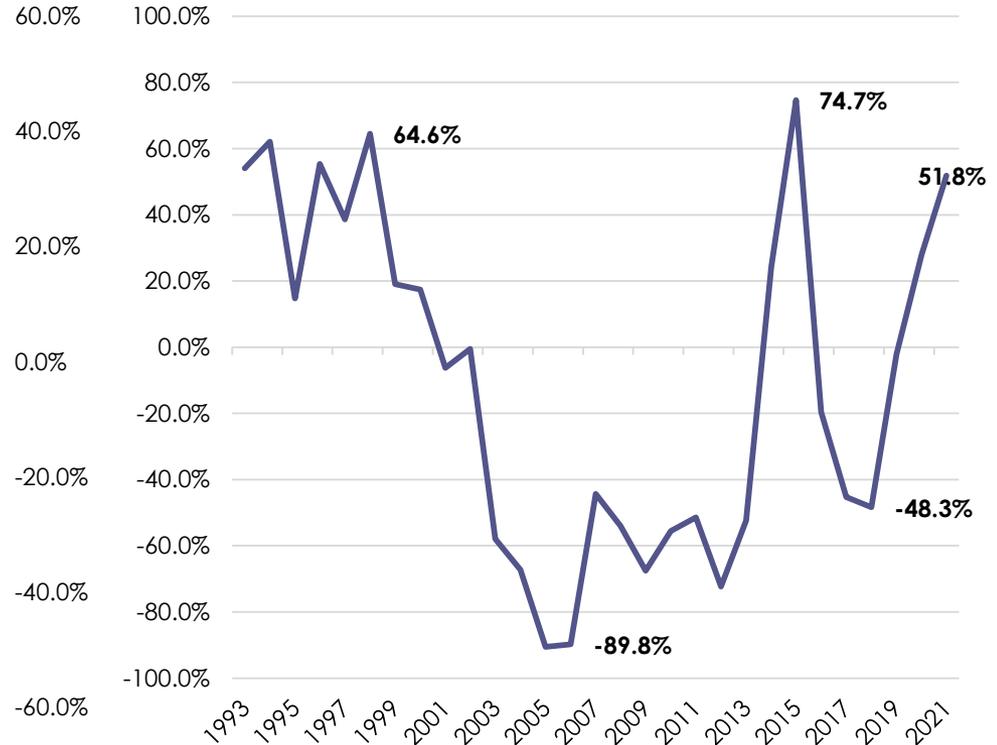
- ✓ Based on the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER), the Ringgit is undervalued by 15.0% and 18.0% respectively.
- ✓ There is a business case for foreign funds to come in. Overnight Policy Rate (OPR) is expected to be higher while Price Earnings Ratio (PER) for FBMKLCI is currently stood at 15 times which is lower than the historical average of 17 times.

BRENT CRUDE OIL PRICES AND FEDERAL GOVERNMENT ARE POSITIVELY CORRELATED

Brent Crude (% change) vs. Government Revenue (% change)



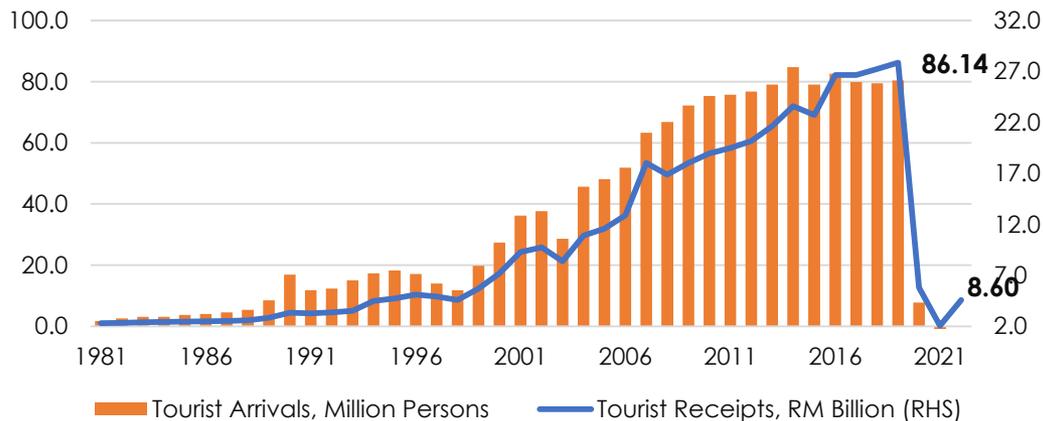
5-year Moving Correlation between Brent Crude & Government Revenue



Source: Bank Islam Malaysia Berhad

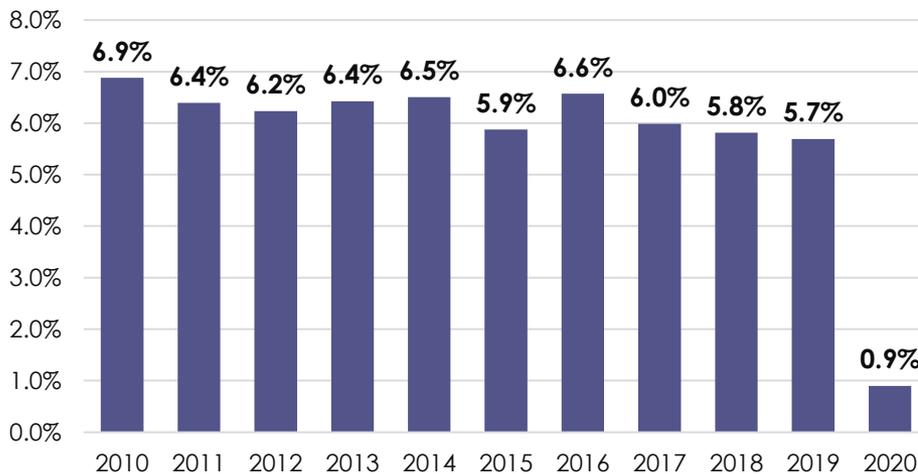
- ✓ The positive correlation between the Brent crude and the federal government revenue suggests a wider fiscal policy space at a time when crude oil prices remain elevated. This implies the government would have the means to facilitate the economic recovery process.

Tourists Arrivals and Receipts to Malaysia

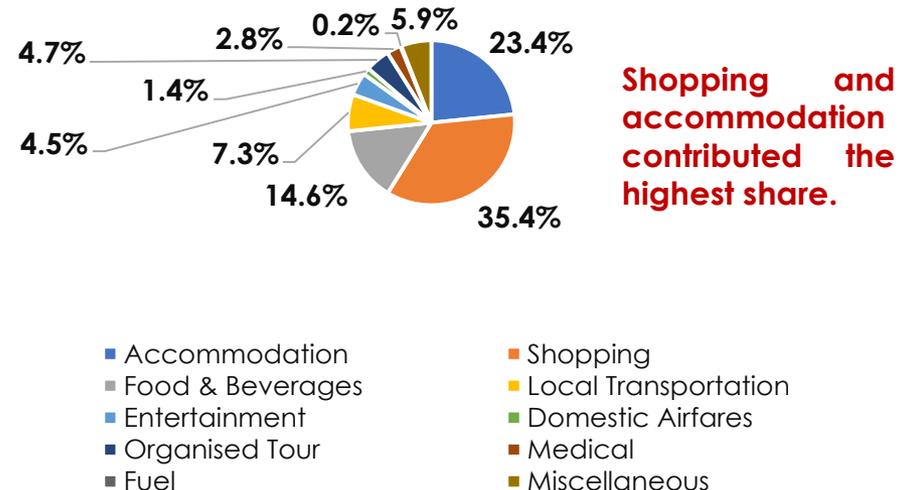


- ✓ Thus far, the Ministry of Tourism, Arts and Culture has set a target of 2.00 million (2021: 0.13 million) international tourist arrivals and RM8.60 billion (2021: RM0.24 billion) tourist receipts in 2022 following the reopening of the country's border.
- ✓ This would mean there will be demand for the Ringgit from these tourists which could eventually support its value.

Tourists Receipts as % of GDP



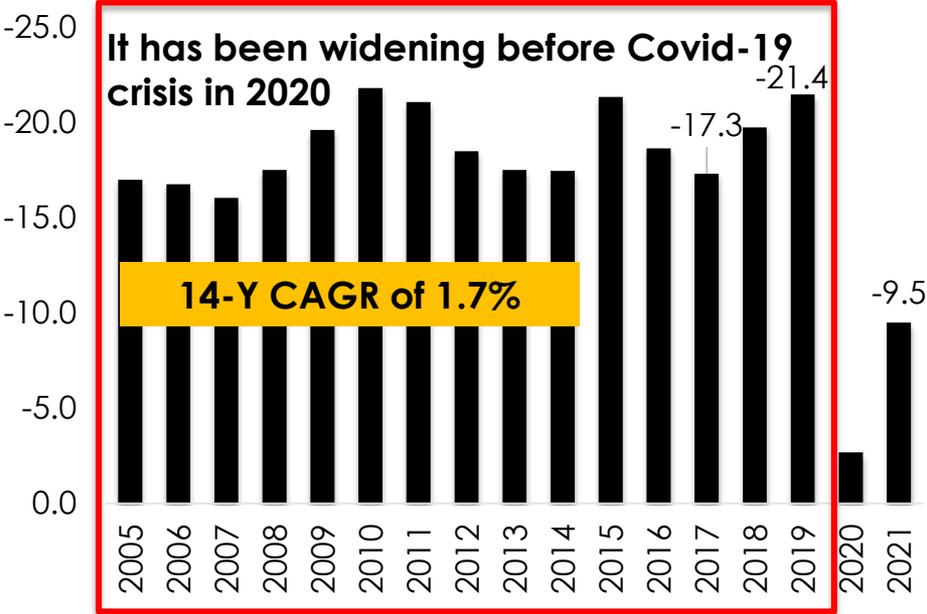
Share of Tourists Expenditure in 2020, %



Sources: CEIC, Tourism Malaysia

HOWEVER, THE INFLUX OF FOREIGN WORKERS CONTRIBUTES TO WEAKER RINGGIT AS MORE MONEY ARE GOING ABROAD. THIS IS A STRUCTURAL PROBLEM WHICH REQUIRES LONGER TIME TO BE RESOLVED

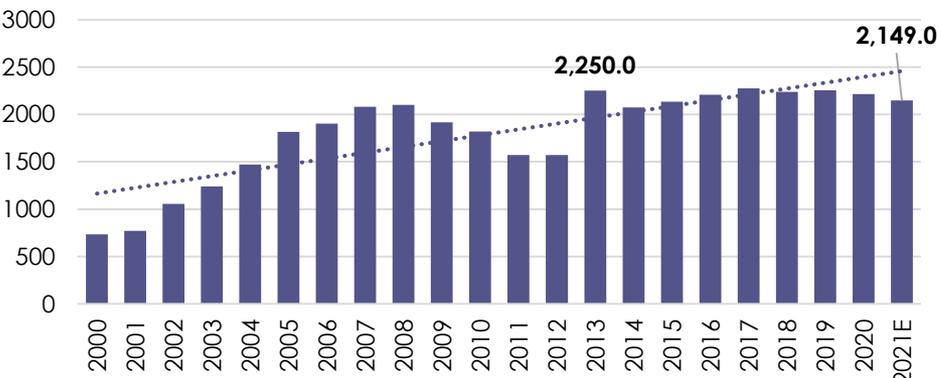
Net Secondary Income, RM Billion



✓ The large number of foreign workers in Malaysia continued to transfer substantial amount of money to their respective home countries via personal transfers and oversea remittances.

✓ The **Net Secondary Income*** has been in deficits balance, reflecting outflows have overwhelmed the inflows as foreign workers were selling our Ringgit.

Non-Malaysian Citizens Employment ('000 persons)



*Note: Net balance recorded in balance of payment after deducting the amount of money (inflows) sent by residents to Malaysia and money (outflows) sent by non-resident to their home countries.

Sources: CEIC, BNM Annual Report

SPEECH BY THE FED OFFICIALS SHOW THAT THEY ARE ABOUT TO GET TOUGH ON THE INFLATION

Date	Remarks by the Fed officials
18 April 2022	St Louis Fed President James Bullard has reiterated the calls for interest rate to elevate to 3.5% by end of this year as inflation is currently running at 40-year high. Hence, he has hinted a 75-basis-point rate hike increase in the May meeting, a move that delivered by former Fed Chair Alan Greenspan in 1994.
19 April 2022	Chicago Fed President Charles Evan did not see the need for bigger hikes. He is open to 50-basis-point increase during the May meeting and the Fed could bring its policy target range by 2.25%-2.50% by the end of 2022.
20 April 2022	San Francisco Fed President Mary Daly was in view that the case for a-half-percentage-point increases is “complete” and “solid” during the upcoming May meeting in light of high inflation. Such hike could probably trigger a mild recession but she noted that was not her expectations.
21 April 2022	The Fed Chairman Jerome Powell has sealed the deal of half-point rate rise is possible in the Fed’s meeting in May. He affirmed that the Fed is considering a more aggressive path of monetary policy, indicated similar rate rises could be warranted after that to tamp down the inflation.

Source: Various news

Statement from the U.S. Fed officials have been the main source of instability – Blackout period (a week before the FOMC meeting) may calm the market sentiments next week (FOMC meeting: 3-4 May, 2022). Perhaps the USDMYR would stabilise as Ringgit has already in the oversold position from the technical analysis point of view.

The BNM would be independent in their OPR decision – While the Fed is likely to be aggressive in their monetary tightening bias, the BNM will continue to observe the domestic factor before embarking their normalization process.

The exchange rate will remain fluid and so with our forecast – We shall reassess our stand on Ringgit once the Fed concludes their FOMC meeting.

Produced and issued by BANK ISLAM MALAYSIA BERHAD (Bank Islam) for private circulation only or for distribution under circumstances permitted by applicable laws. All information, opinions and estimates contained herein have been compiled or arrived at based on sources and assumptions believed to be reliable and in good faith at the time of issue of this document. This document is for information purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. No representation or warranty, expressed or implied is made as to its adequacy, accuracy, completeness or correctness. All opinions and the content of this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Bank Islam as a result of using different assumptions and criteria. No part of this document may be used, reproduced, distributed or published in any form or for any purpose without Bank Islam's prior written permission.

An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

BANK ISLAM

Assuring Trust. Delivering Value.

Thank You