



USD Up, All Currencies Down

Following the persistently high inflation in the US, the Federal Reserve (Fed) decided to raise its Fed rates in each of its meeting starting from the 0.25% rate hike in March this year. Treasuries yields have already moved ahead and this has attracted more funds inflows into the more-attractive yielding US bonds. The Russia-Ukraine war also resulted in more funds moving to USD (US dollar) assets, which are deemed to be safer than other asset class. Consequently, almost all currencies weakened against the USD. There are many factors influencing the different degree of a currency depreciation. Those countries that have recently raised their interest rates have seen their currencies weakened relatively less vis-a-vis the USD. A weaker ringgit has many implications – likely higher inflation on imported consumer goods, exported-oriented companies generally will benefit and Malaysian equities as well as bonds will be less attractive to foreign fund managers.

Supply disruption from Covid-19 induced lockdown in several countries followed by subsequent improvement in demand from opening of various economies had led to higher inflation. The Russia-Ukraine war further aggravated the tight supply. The sustainably high inflation has forced the Fed to raise its Fed rates, which has also increased the risk of a recession if the speed of rate hike is too aggressive.

The rate hike in the US and the expectation of further rate increases in the future resulted in stronger USD and weaker ringgit, which has depreciated by 4.6% against the USD at end-Apr 2022 (see Exhibit 1) and 2.6% vis-à-vis SGD (Singapore dollar). The relatively strong SGD is mainly due to three times rate hikes in the past six months. Meanwhile, Japanese yen plunged 13.7% to 40-year low due to its near zero interest rate. Chinese yuan also weakened by 4.0% in the past four months as the country is expected to further reduce its interest rates to support the weakening economy.

While US inflation rose 8.5% in March, Malaysian inflation was only up 2.2% mainly due to 4.0-4.3% in food inflation. Government subsidies, especially on petrol and diesel, have helped suppressed the Malaysian inflation at an enviably low level. Nevertheless, Bank Negara Malaysia has decided to bring forward the 0.25% OPR interest rate hike on 11 May 2022. Our bond yields while have improved but they do not increase as much as the surging yield in the US (see Exhibit 2). The current yield differential between the 10-year Malaysian Government Securities and 10-year US Treasury bills has narrowed to 144 basis points, down from 205 basis points at end-2021. Foreign funds have started to exit our bond market lately; however, they seem to remain comfortable with our equities market.

In the past, a weaker ringgit did not necessary result in negative market (see Exhibit 3). Export-oriented sectors like rubber glove and plantation were marginally better while furniture was the obvious beneficiary of weaker ringgit in the past.

Exhibit 1: Selected currencies weaken against USD

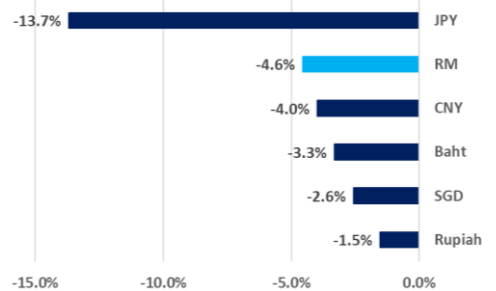
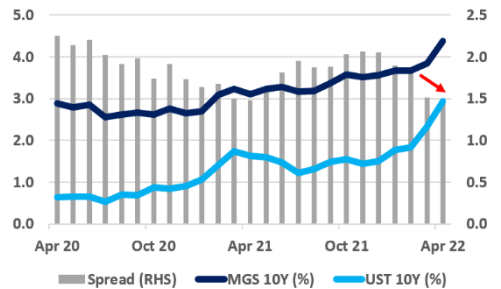


Exhibit 2: Yield differential, Msia vs US



Source: Bloomberg, PCM May 2022

Exhibit 3: Impact on weaker ringgit in the past

Period	RM vs USD	KLCI	Plantation	Glove*	Furniture*
Aug to Sep 15	-10.7%	2.3%	0.0%	9.5%	26.9%
Apr 16 to Jan 17	-16.3%	-2.9%	0.7%	-2.1%	29.9%
Apr to Nov 18	-8.6%	-8.0%	-11.5%	23.4%	7.0%
Jan to Mar 20	-9.6%	-17.4%	-22.8%	2.9%	-36.1%
Jan to Apr 22	-4.6%	1.2%	33.1%	-21.4%	5.8%

*Selected stocks

Source: The Edge, PCM, 2 May 2022

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