

BNM to Stay on Hold Next Thursday

- The BNM is expected to leave its policy rate unchanged at 1.75% next Thursday
- Malaysia's widening trade surplus, resilient oil prices and more bond portfolio inflows are supportive of the MYR
- FTSE Russell will publish its Fixed Income Country Classification Annual Announcement on 24 September
- We would like to sell USD/MYR now with a target of 4.05 and a stop of 4.20

Asia Overview - Most EM Asian currencies weakened versus the dollar during Thursday's Asian session. The SGD declined 0.2% but the JPY was little changed.

The CNY and CNH declined about 0.2% each. USD/CNH will likely slide towards 6.80 in the coming weeks, while remaining susceptible to the US-China relations. China is planning a sweeping set of new government policies to develop its domestic semiconductor industry, conferring the same kind of priority on the effort it accorded to building its atomic capability, according to Bloomberg. The Trump administration is debating the scope and effective date of its bans on Chinese social media apps WeChat and TikTok and will make its decisions public later this month. The KRW weakened 0.2%. USD/KRW will likely trade between 1,180 and 1,190 in the near term. President Moon Jae-in said on Thursday that South Korea plans to create a KRW 20tn of so-called "New Deal Fund" to invest in the nation's New Deal projects. South Korean government and ruling Democratic party officials held a working-level meeting on Thursday to discuss the second cash handout and the fourth extra budget. The TWD edged up. USD/TWD is expected to fluctuate around the 29.4-29.5 level. Taiwan estimates that chances for a trade deal with the US are positive and could happen very fast. The CBC sold TWD 170bn of 364-day NCDs at an average interest rate of 0.270% Thursday, down from 0.288% at the last auction on 3 August.

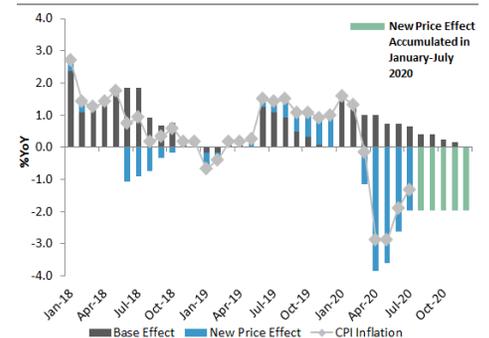
The INR dropped 0.6%. USD/INR is expected to consolidate around 73 and then head for the 72 level in the weeks ahead. Prime Minister Narendra Modi on Thursday invited US companies to invest in India by taking advantage of its stable tax regime and attractive FDI policies. The RBI bought INR 71.3bn of 5.79% 2030 bonds at Operation Twist on Thursday, less than a plan to purchase a total of INR 100bn of notes. Meanwhile, it sold INR 100bn of T-bills as planned. The IDR declined 0.2%. USD/IDR is likely to trade in a range of 14,500-15,000 on market concerns over the central bank's independence. Coordinating Minister for Economic Affairs Airlangga Hartarto told reporters on Thursday that the Indonesian government doesn't support the setting up of a monetary board at the central bank. He added that the government will keep burden-sharing program and bond purchases by the BI in 2021. Indonesia will sell IDR 20tn of T-bills and bonds in the September 8 auction. The MYR closed flat. USD/MYR is likely to trade lower towards 4.10 gradually in the weeks ahead. The PHP slid 0.1%. However, USD/PHP will likely head for 48.0 after fluctuating around the 48.5 level. Moody's keeps Philippine credit rating at Baa2 with a "stable" outlook on Thursday. The THB stretched its losses, down 0.7% on Thursday. USD/THB will likely fluctuate between 31.0 and 31.5, with an upside potential. Thailand's CPI inflation rose to -0.50% yoy in August from -0.98% yoy the prior month, compared to market estimate of -0.60%. Thailand on Thursday reported the first local transmission of Covid-19 since 26 May.

Most regional equity indices resided in the red on Thursday. China's SHCOMP index slid 0.58% despite USD 133.9mn of equity inflows, while India's NIFTY50 index declined 0.07%. South Korea's KOSPI index gained 1.33% with foreign investors purchasing a net USD 157.2mn of Korean shares. In the meantime, Taiwan's TWSE index advanced 0.46% as global funds added to their holdings in local main board shares by USD 368.8mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed down 1.44% and 0.59% respectively. Thailand's SET index ended 0.30% lower amid USD 64.1mn of stock outflows.

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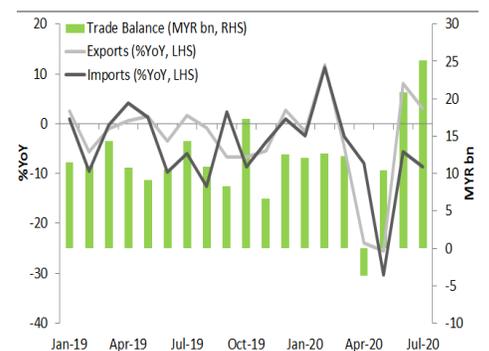
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Malaysia CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

Malaysia Exports, Imports and Trade Balance



Source: Bloomberg & Scotiabank FICC Strategy

Brent Nov-Dec Spread's Contango

Likely to narrow and flip to backwardation



Source: Bloomberg & Scotiabank FICC Strategy

Malaysia • The BNM is expected to leave its policy rate unchanged at 1.75% next Thursday, with the nation's CPI deflation to continue the rest of the year. Finance Minister Tengku Zafrul Abdul Aziz said in parliament on 24 August that Malaysia is prepared to increase stimulus for pandemic relief if necessary.

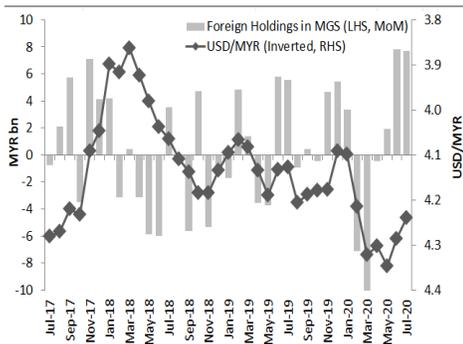
On the FX side, Malaysia's widening trade surplus, resilient oil prices and more bond portfolio inflows are supportive of the MYR.

The country's trade surplus widened to a historical high of MYR 25.15bn in July from a revised MYR 20.85bn the month before. Exports rose for the second straight month in July, unexpectedly expanding 3.1% from a year earlier. Meanwhile, imports shrank 8.7% yoy compared to market estimate of a 4.5% fall.

The global economic recovery remains on track amid the reflation policies, which will boost commodity prices further going forward. In our view, crude oil prices will stay resilient with an upside potential the rest of the year. France has launched a EUR 100bn plan to rescue its economy from the coronavirus crisis, which could improve risk sentiment in general.

In addition, FTSE Russell will publish its Fixed Income Country Classification Annual Announcement on 24 September after the close of US trading. It would attract more bond portfolio inflows should Malaysia continue to remain on the WGBI and avoid a downgrade to Market Accessibility Level 1 from 2. In the period of May-July, foreign investors raised their holdings in Malaysian Government Securities (MGS) by a total of MYR 17.38bn, attributable to their high real yields amid the nation's continued deflation.

Foreign Holdings in Malaysian Government Securities



Source: Bloomberg & Scotiabank FICC Strategy

USD/MYR vs. USD/CNH



Source: Bloomberg & Scotiabank FICC Strategy

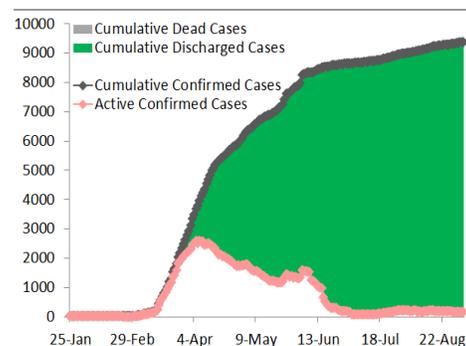
We would like to sell USD/MYR at 4.14 now with a target of 4.05 and a stop of 4.20, along with the yuan's potential appreciation. The pair is expected to stay below the downward line since reaching this year's high in late March, with the coronavirus outbreak contained properly in the nation.

USD/MYR Spot Likely to Head for 4.05



Source: Bloomberg & Scotiabank FICC Strategy

Malaysia Covid-19 Situation



Source: Malaysia's MOH & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
07:00	KR	BOP	Current Account Balance	Jul			\$6,880.0mn	med
09:00	PH	INFL.	CPI YoY 2012=100	Aug	2.7%		2.7%	med-high
09:30	AU	DATA	Retail Sales MoM	Jul	3.3%		2.7%	med-high
13:00	SG	DATA	Retail Sales SA MoM	Jul	20.9%		51.1%	med-high
13:00	SG	DATA	Retail Sales YoY	Jul	-15.0%		-27.8%	med-high
15:00	MY	DATA	Foreign Reserves	Aug 28			\$104.3bn	med
16:20	TW	DATA	Foreign Reserves	Aug			\$496.17bn	med
	PH	CREDIT	Bank Lending Net of RRP's YoY	Jul			9.6%	med

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