

Analyst Team

Qi Gao

FX Strategist (Asia)

+65 6305 8396

qi.gao@scotiabank.com

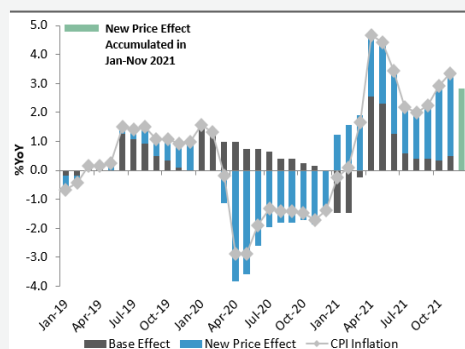
FOLLOW US ON TWITTER

[@Scotiabankfx](https://twitter.com/Scotiabankfx)

Overview

- The BNM is expected to hold its overnight policy rate (OPR) steady at 1.75% on Thursday afternoon; We have seen signs of economic recovery on the back of the fiscal and monetary support
- The MYR has been running a relatively tight correlation with the KLCI Index and the DXY Index; In the meantime, the MYR seems a bit undervalued considering Malaysia's robust current account balance and bouncing oil prices
- Going forward, the MYR will remain susceptible to a broad market tone in general; In the near term, USD/MYR is likely to resume its downward momentum towards the 4.15 level amid booming oil prices and a dollar retracement

Malaysia CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

BNM to Maintain Overnight Policy Rate at 1.75%

Asia Overview — EM Asian currencies were mixed versus the dollar on Wednesday. The SGD and JPY gained 0.2% and 0.3% respectively amid a 2bp drop in the 10Y UST yield.

The CNY and CNH rallied 0.1% and 0.2% respectively. USD/CNH will likely trade between 6.34 and 6.40 at the moment, with downside potential. China's central bank changed the monthly release time of its loan prime rates (LPRs) to 9:15am local time from 9:30am on the 20th of each month, effective this month. The KRW declined 0.1%. However, USD/KRW will likely head for the 1,180 level when approaching the month end and the Lunar New Year that falls on February 1. Finance minister Hong Nam-ki said on Wednesday that housing prices are expected to further stabilize due largely to the central bank's rate hikes and the Fed's push for faster monetary tightening. While the finance ministry is working on another round of an extra budget of some KRW 14tn to support small merchants, Second Vice Finance Minister Ahn Do-geol said that "the issuance of Treasury bonds will be distributed as evenly as possible in a bid to minimize the impact of debt sale on the government bond market." He also pledged that the ministry plans to take timely actions if volatility in the bond market increases. The TWD declined 0.1% amid equity outflows. USD/TWD will likely hover around the 27.6 level at present.

The INR gained 0.2%. USD/INR will likely consolidate around the 74.5 level for now. India's crypto firms seek tax clarity from the 2022 Union Budget. The RBI has sought details of shadow banks' "buy now, pay later" (BNPL) arrangements with e-commerce (e-com) players. The IDR weakened about 0.2%. USD/IDR is likely to trade between 14,200 and 14,400 for now. Indonesia raises its allocation for economic recovery budget, known as PEN, to IDR 455.62tn this year from the previously planned IDR 414tn, according to Finance Minister Sri Mulyani Indrawati in a parliamentary hearing on Wednesday.

The MYR dropped about 0.3%. However, USD/MYR is likely to slide again towards the 4.15 level in the near term. The PHP edged down. USD/PHP is likely to fluctuate between 50.5 and 51.5 at present, with ongoing upside risks. The BSP awarded all of PHP 510bn term deposits offered at its weekly auction on Wednesday. The THB advanced 0.3%. USD/THB is likely to head for 32.5 once firmly falling below the 33.0 level, remaining susceptible to the Covid-19 situation.

Regional equity indices resided in the red on Wednesday. China's SHCOMP index declined 0.33% despite USD 461.7mn of equity inflows, while India's NIFTY50 index slid 0.96%. South Korea's KOSPI index dropped 0.77% in spite of USD 19.3mn of stock inflows. In the meantime, Taiwan's TWSE index fell 0.82% as global funds reduced their holdings in local main board shares by USD 70.5mn on Wednesday. Malaysia's KLCI index and Indonesia's JCI index closed down 0.82% and 0.33% respectively. Thailand's SET index ended 0.12% lower.

Malaysia • The BNM is expected to hold its overnight policy rate (OPR) steady at 1.75% on Thursday afternoon. Malaysia's CPI inflation rose to 3.3% yoy in November from 2.9% the month before, and will likely stay around the 3.0% yoy level in December. The nation's headline inflation is expected to ease markedly starting from April on the base effect in our view.

We have seen signs of economic recovery on the back of the fiscal and monetary support. Malaysia's industrial production increased 9.4% yoy in November after growing 5.5% yoy the previous month, beating market expectations for a 7.3% rise. Malaysia's finance minister Zafrul Abdul Aziz said on Tuesday that positive indicators, including the declining jobless rate, have shown that national economic growth of 5.5-6.5% this year can be achieved. He added that this would be the year of economic recovery, driven by the MYR 322.1bn (20.3% of GDP) allocation in Budget 2022, the biggest one in the country's history,

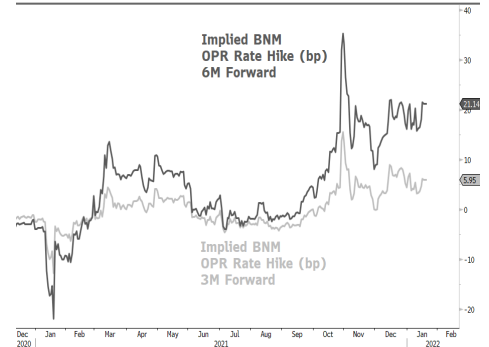
The MYR has been running a relatively tight correlation with the KLCI Index and the DXY Index. With the Fed exiting from its ultra-easy monetary policies, the global and local stock markets are expected to remain volatile in the months ahead, weighing on the MYR from time to time.

In the meantime, the MYR seems a bit undervalued considering Malaysia's robust current account balance and bouncing oil prices. The Brent April-July 2022 spread's

backwardation will continue and deepen in the first quarter, indicating further upside room for oil prices towards \$90-\$100 per barrel down the road particularly if taking into account strong demand and low stockpiles.

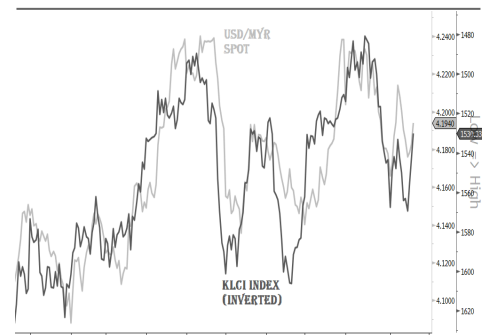
Going forward, the MYR will remain susceptible to a broad market tone in general. The MYR has been consolidating between 4.15 and 4.25 amid swinging equity and bond portfolio flows. In the near term, USD/MYR is likely to resume its downward momentum towards the 4.15 level amid booming oil prices and a dollar retracement.

Implied BNM OPR Rate Hiked (bp)



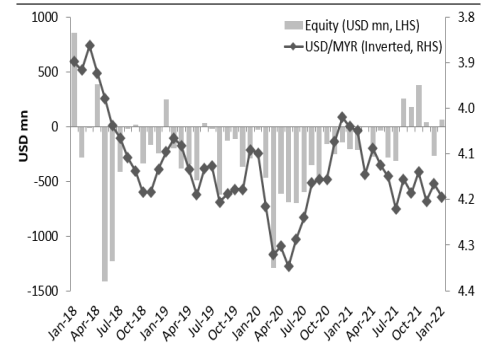
Source: Bloomberg & Scotiabank FICC Strategy

USD/MYR Spot vs. KLCI Index (Inverted)



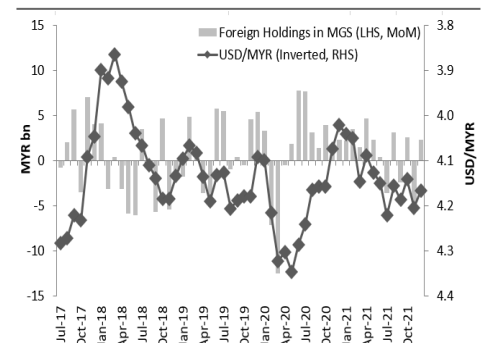
Source: Bloomberg & Scotiabank FICC Strategy

USD/MYR Spot vs. Malaysia Foreign Portfolio Investment Net MTD Value



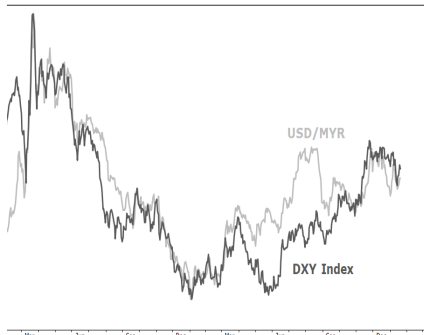
Source: Bloomberg & Scotiabank FICC Strategy

USD/MYR Spot vs. Foreign Holdings in MGS



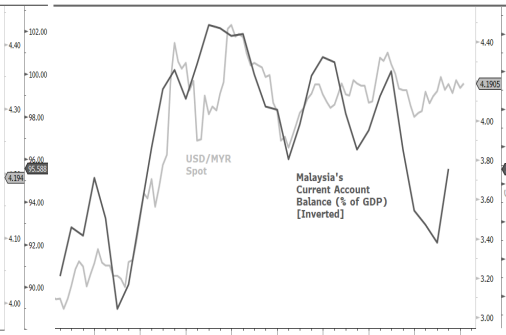
Source: Bloomberg & Scotiabank FICC Strategy

USD/MYR Spot vs. DXY Index



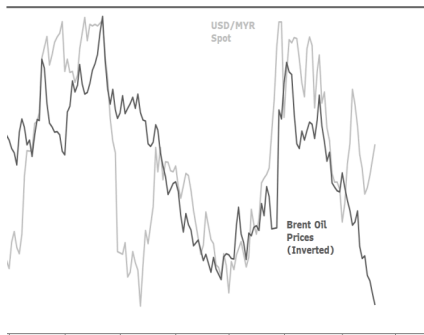
Source: Bloomberg & Scotiabank FICC Strategy

USD/MYR Spot vs. Malaysia Current Account Balance (% of GDP, Inverted)



Source: Bloomberg & Scotiabank FICC Strategy

USD/MYR vs. Brent Oil Prices (Inverted)



Source: Bloomberg & Scotiabank FICC Strategy

Brent April-July 2022 Spread
The backwardation suggests higher oil prices



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:00	KR	INFL	PPI YoY	Dec		9.0%	9.8%	med
08:00	AU	INFL	Consumer Inflation Expectation	Jan			4.8%	med-high
08:30	AU	JOB	Employment Change	Dec	60.0K		366.1K	high
08:30	AU	JOB	Unemployment Rate	Dec	4.5%		4.6%	high
08:30	AU	JOB	Participation Rate	Dec	66.2%		66.1%	high
09:00	CN	DATA	Share of Payments via SWIFT in CNY (%)	Dec			2.14%	med
09:30	CN	PBOC	1-Year Loan Prime Rate (LPR)	Jan 20	3.70%		3.80%	high
09:30	CN	PBOC	5-Year Loan Prime Rate (LPR)	Jan 20			4.65%	high
10:00	NZ	DATA	Non Resident Bond Holdings	Dec			57.1%	med
15:00	MY	BNM	BNM Overnight Policy Rate	Jan 20	1.75%		1.75%	high
16:00	TW	TRADE	Export Orders YoY	Dec	7.3%		13.4%	med-high
16:30	HK	INFL	CPI Composite YoY	Dec	2.5%		1.8%	med
	ID	BI	BI 7-day Reverse Repo Rate	Jan 20	3.50%		3.50%	high

IMPORTANT NOTICE and DISCLAIMER:

This report is prepared by Scotiabank as a resource for clients of Scotiabank for information and discussion purposes only. This report should be considered a marketing communication and has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this report does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the UK Prudential Regulation Authority or UK Financial Conduct Authority. This document has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and the information contained in this publication is not subject to any prohibition in the EU on dealing ahead of the dissemination of investment research. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from publicly available sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness and neither the information nor the forecast shall be taken as a representation for which Scotiabank or any of its employees incur any responsibility. Neither Scotiabank nor its representatives accept any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice. Scotiabank and/or its respective officers, directors or employees may from time to time take positions in the products mentioned herein as principal or agent. Directors, officers or employees of Scotiabank may serve as directors of corporations referred to herein. Scotiabank may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same. This report may include forward-looking statements about the objectives and strategies of Scotiabank. Such forward-looking statements are inherently subject to uncertainties beyond the control of Scotiabank including but not limited to economic and financial conditions globally, regulatory development in Canada and elsewhere, technological developments and competition. The reader is cautioned that the member's actual performance could differ materially from such forward-looking statements. Past performance or simulated past performance is not a reliable indicator of future results. Forecasts are not a reliable indicator of future performance. You should note that the manner in which you implement any of strategies set out in this report may expose you to significant risk and you should carefully consider your ability to bear such risks through consultation with your legal, accounting and other advisors. Information in this report regarding services and products of Scotiabank is applicable only in jurisdictions where such services and products may lawfully be offered for sale and is void where prohibited by law. If you access this report from outside of Canada, you are responsible for compliance with local, national and international laws. Not all products and services are available across Canada or in all countries. All Scotiabank products and services are subject to the terms of applicable agreements. This report and all information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever nor may the information, opinions and conclusions contained in it be referred to without in each case the prior express consent of Scotiabank. Scotiabank is a Canadian chartered bank.

If you are affected by MIFID II, you must advise us in writing at trade.supervision@scotiabank.com.

™Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotia Capital Inc. and Scotia Capital (USA) Inc., Scotiabank Europe plc, Scotiabank (Ireland) Limited - all members of the Scotia-bank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of the Canadian Investor Protection Fund. Scotia Capital (USA) Inc. is a broker-dealer registered with the SEC and is a member of FINRA, NYSE, NFA and SIPC. The Bank of Nova Scotia is authorized and regulated by the Office of the Superintendent of Financial Institutions in Canada. The Bank of Nova Scotia is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

To unsubscribe from receiving further Commercial Electronic Messages click this link: <https://www.unsubscribe.gbm.scotiabank.com/>.