

## MYR Still Undervalued

- MYR is still undervalued in terms of either NEER or REER, particularly if taking into account the nation's growth and monetary policy outlook
- BNM is expected to raise its policy rate by 25 bp to 3.25% in January 2018
- In addition, Malaysia's current account surplus could widen further amid resilient oil prices and synchronized global growth
- We maintain our short USD/MYR position with a new target of 4.00 and would like to add to the short position on rallies

**Asia Overview** - Most EM Asian currencies declined versus the dollar during Thursday's Asian session, led by the MYR that weakened 0.3%. The MYR stretched its declines yesterday. Malaysia's foreign reserves rose slightly to USD 101.9bn as of 30 November from USD 101.5bn a fortnight ago, which is sufficient to finance 7.5 months of retained imports and is 1.1 times the short-term external debt. The IDR declined slightly. We see upside potential for USD/IDR towards 13,600 due to the progress on the US GOP tax plan and emerging geopolitical risks in Middle East. Indonesia's consumer confidence rose to 122.1 in November from 120.7 a month ago. The CNH and CNY dipped Thursday. We expect the yuan to trade in a range of 6.50-6.70 in the weeks ahead. China's foreign reserves rose to USD 3.119tn in November from USD 3.109tn a month earlier, slightly below market forecasts of USD 3.124tn. The INR, TWD and THB slid marginally. USD/INR is expected to reach 65 at the year end. The RBI will sell INR 150bn of bonds on Friday. USD/TWD is expected to trade higher in the rest of the year and to reach our year-end forecast of 30.2. USD/THB is likely to range trade between 32.5 and 33.0 at the moment on concern over the central bank's smoothing operations. Thailand's consumer confidence rose to 78.0 in November from 76.7 the month before, the highest level since February 2015. The KRW closed flat Thursday after dropping 0.7% the previous session. USD/KRW is likely to range trade between 1,080-1,120 with an upward bias this month. The PHP gained slightly on Thursday. However, USD/PHP is likely to head for the 51 level going forward. Philippines Finance Department said Thursday that CPI inflation will probably be at a favorable level owing to country's good macroeconomic fundamentals. The JPY dropped more than 0.7% as 10Y UST yields climbed.

Regional equity indices diverged on Thursday. China's SHCOMP index slid 0.67%, but India's NIFTY50 index rallied 1.22%. Korea's KOSPI index fell 0.50% and the KOSDAQ index slipped 1.94%. Foreign investors offloaded a net USD 332.1mn of Korean shares. In the meantime, Taiwan's TWSE index declined 0.37% as global funds reduced their holdings in local main board shares by USD 225.1mn on Thursday. However, Malaysia's KLCI index and Thailand's SET index closed up 0.04% and 0.53% respectively. Indonesia's JCI index ended 0.48% lower amid USD 65.7mn of equity outflows.

**Malaysia** • We believe the MYR is still undervalued in terms of either the NEER or the REER, particularly if taking into account the nation's growth and monetary policy outlook. The upcoming 14th Malaysian General Election could spark expectations of more pro-growth policies.

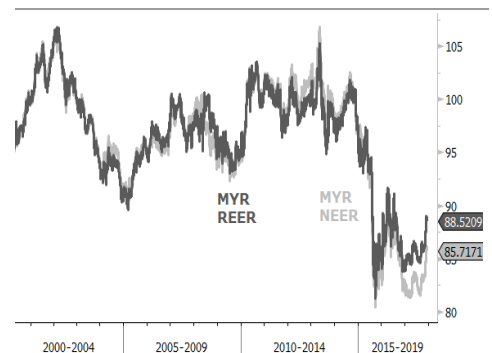
Even though Malaysia's CPI inflation is likely to decline slightly in November and December on account of the base effect, we expect the BNM to raise its overnight policy rate (OPR) by 25 bp to 3.25% on 25 January 2018 as its real policy rate is stuck in negative territory. The BNM has said that it may consider reviewing the current degree of monetary accommodation and the MYR is "far from reflecting its fair value."

In addition, Malaysia's current account surplus could widen further amid resilient oil prices and synchronized global growth as the country is the sole net oil exporter in

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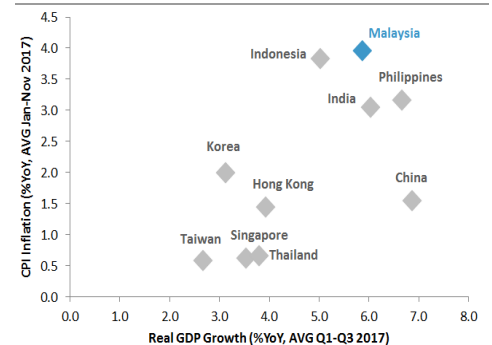
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### MYR NEER and REER



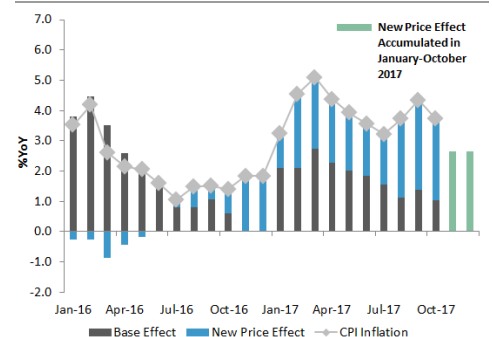
Source: Bloomberg & Scotiabank FICC Strategy

### EM Asia: Real GDP Growth (%YoY) vs. CPI Inflation (%YoY)



Source: Bloomberg & Scotiabank FICC Strategy

### Malaysia's CPI Inflation



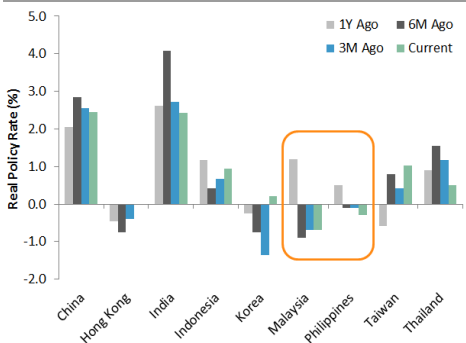
Source: Bloomberg & Scotiabank FICC Strategy

the region. Crude oil prices could continue their modest rally into the year of 2018 on the back of a nine-month extension to OPEC-led supply cuts. We note Brent crude oil, the global oil benchmark, has shifted into "backwardation" with near-term oil prices higher than those for delivery in the future from "contango," showing signs that the oil market has been believing a rebalancing is underway.

In the near term, a broadly strengthening dollar due to the progress on the US GOP tax plan could send the oversold USD/MYR higher.

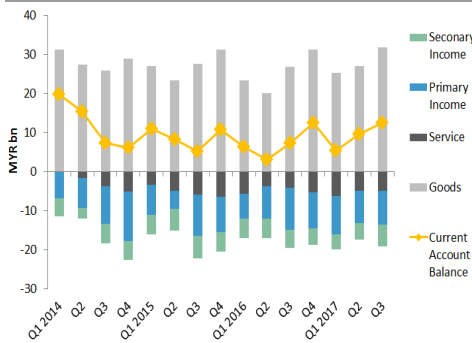
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EM Asian Central Banks: Real Policy Rates (%)



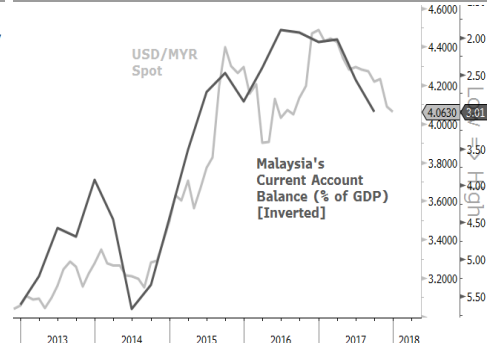
Source: Bloomberg & Scotiabank FICC Strategy

Malaysia's Current Account Breakdown



Source: Bloomberg & Scotiabank FICC Strategy

Malaysia's Current Account Bal. vs. USD/MYR



Source: Bloomberg & Scotiabank FICC Strategy

**TODAY'S CALENDAR**

Time (HKT)	Economy	Type	Release	Period	Consensus	Last	Significance
08:30	AU	CREDIT	Home Loans MoM	Oct	-2.0%	-2.3%	med-high
15:30	TH	DATA	Foreign Reserves	Dec 1		\$202.7bn	med
15:30	TH	DATA	Forward Contracts	Dec 1		\$32.3bn	med
16:00	TW	TRADE	Exports YoY	Nov	9.4%	3.0%	med-high
16:00	TW	TRADE	Imports YoY	Nov	6.7%	0.1%	med-high
16:00	TW	TRADE	Trade Balance	Nov	\$4.95bn	\$5.20bn	med-high
	CN	TRADE	Exports YoY	Nov	5.3%	6.9%	med-high
	CN	TRADE	Imports YoY	Nov	13.0%	17.2%	med-high
	CN	TRADE	Trade Balance	Nov	\$35.00bn	\$38.19bn	med-high
09-Dec 09:30	CN	INFL	CPI YoY	Nov	1.8%	1.9%	med-high
09-Dec 09:30	CN	INFL	PPI YoY	Nov	5.8%	6.9%	med-high

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