CURRENCIES

MYR rally still has legs, but breather to come

- *Seasonal patterns suggest MYR gains have legs in Dec before a pause.*
- *While the psychological level of 4.00 sits in the crosshairs of possibility - given a constructive macro backdrop, weaker USD and MYR's momentum-driven propensity - we view fair value (4.10-4.20) as the central tendency.*
- *A combo of rotational portfolio inflows and surges in onshore FCY deposits on trade gains may have added to the temporary scramble for MYR bids, which could be absorbed by a boost to net reserves in the coming months.*

MYR breaks from the pack; external backdrop conducive

- MYR rallied 2% on the week, second only to BRL among major DM/EM currencies. The spurt has taken USDMYR to 4.13, which is our 12-month target, faster-than-expected - but the rally may still have some legs. MYR tends to see momentum-driven retracement runs of appreciation. Major MYR gains in 2005-2024 (mean: 11.7%, min: +10%, max: +14%) provide runway for the 9.2% gain from Apr's peak of 4.50 to extend. The psychological support of 4.00 sits within the cross hairs of possibility, but will likely be brief, reverting to fair value (4.10-4.20) as the central tendency for 2026.
- Global backdrop remains favorable for MYR. Receding risks related to tariffs/trade and inroads to ending the US government shutdown have trimmed USD safe-haven bids. Having tested our short-term target of 100, we expect DXY to drift lower to the 95-handle in 2026 as the US rate cuts outpace other central banks (Figure 2-3), gold prices stay supported, and US REER converges with productivity growth (Figure 4).
- An anchor for Asia FX, CNY has strengthened since Trump Tariffs in Apr, with China's current account resilient and capital outflows abating, while a proactive approach towards yuan internationalization and settlement may incentivize policymakers to fix CNY REER within a stable range (Figure 5-6).

Key catalysts driving MYR outperformance

Global trends do not fully explain MYR's breakout since Oct, which may point to:

- **Correlations** with DXY and CNH weakening or reversing over past month (Figure 7). We note particularly weak outturns in East Asia FX (JPY, KRW, TWD) which hint at nascent regional rotations into ASEAN (MYR, THB, IDR - Figure 9 and 14). Nonetheless, this anomaly may be short-lived as periods of falling MYR-DXY correlations that accompany sharp MYR gains typically taper off after 8-10 weeks.
- **Seasonality**: A recurring pattern of MYR strength in Nov and Dec - coinciding with year-end export conversions, dividend repatriation, portfolio rebalancing, and thinner USD trading - may extend MYR's recent rally before diminishing in Jan-Feb (Figure 8)
- **Momentum**: Since 2005, consecutive stretches of MYR appreciation (>4 months) averaged cumulative gains of 5-6% (Figure 9), suggesting that the current run (Aug-Nov 2025: +3.5%) could still have room to ride seasonal upside. Gains have not stretched past 6 months, and corrections of 0.6-1.5% typically follow a month after, which broadly ties in with fading tailwinds into Jan-Feb. Notably, 5-to-6-month windows of appreciation tend to be followed by MYR underperformance in the subsequent 3-12 months.
- **BOP flows**: While MYR gains had appeared outsized relative to regional merchandise trade performances, the recent trade data signals strong rebound in 3Q25 (Figure 11-12). Other segments have provided offsets, including net direct and portfolio flows.
- **Net portfolio investment income** turned positive for the first time since 3Q00, as resident repatriation flows (credits) steadily rose amid deepening of FX flexibility. In addition, higher bi-directional USD volatility encourages repatriation and FX hedging among investors and exporters (Figure 17-19), accruing to both official reserves (YTD gross: +USD6.6bn and net: +USD15bn) and onshore FCY deposits (Figure 13 and 16).

USDMYR central tendency at 4.10-4.20 in 2026

We are revising our near-term targets for USDMYR to reflect the recent bout of seasonal strength, positioning for a re-test of the 4.05-4.10 range through Jan 2026, but expect the pair to revert to a central tendency (4.10-4.20) around fair value (4.15) in 2026.

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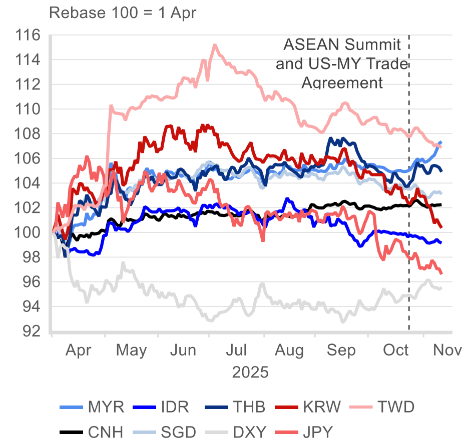
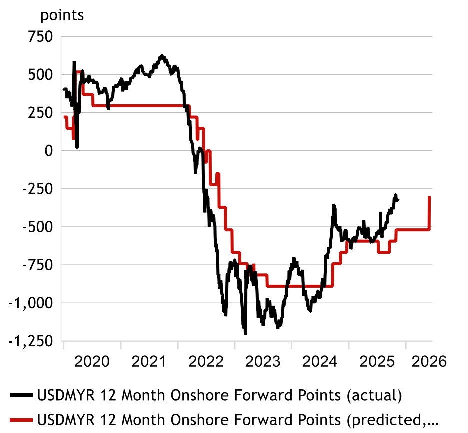
Contributions from Oliver Chong are acknowledged

MYR has outperformed regional currencies particularly since late Oct...



USDMYR forward curve has built-in market expectations of three US FFR cuts in 2026



CIMB FX Forecasts

Currency	4Q25	1Q26	2Q26	3Q26	4Q26
DXY	97.4	96.9	95.9	94.7	93.7
EURUSD	1.19	1.20	1.22	1.23	1.24
GBPUSD	1.35	1.36	1.36	1.37	1.37
USDCHF	0.79	0.79	0.78	0.78	0.78
AUDUSD	0.66	0.67	0.67	0.68	0.68
USDJPY	150	148	146	145	144
USDCNH	7.10	7.08	7.10	7.10	7.12
USDIDR	16,650	16,700	16,750	16,700	16,700
USDMYR	4.08	4.05	4.10	4.13	4.15
USDSGD	1.27	1.27	1.26	1.26	1.26
USDTHB	32.80	33.00	33.00	33.30	33.50

USDCNH prior forecast: 7.08, 7.06, 7.04, 7.02, 7.00
USDMYR prior forecast: 4.18, 4.17, 4.15, 4.15, 4.13

DXY: Model points to USD weakness through 2026

Our DXY model projects a gradual decline toward 95 in 2026, suggesting a medium-term bearish dollar bias driven by narrowing yield differentials with Europe and Japan as the Fed maintains a broadly accommodative policy stance, alongside firm gold prices as select central banks continue gradual reserve diversification. Although spot DXY remains above its model fair value of 97.3 for 4Q25, this divergence largely reflects temporary weakness in major currencies — EUR softness amid renewed fiscal concerns in France, JPY depreciation on PM Takaichi's expansionary budget plans, and GBP's drag from UK's fiscal constraints.

We expect this gap to narrow as the Fed's easing cycle progresses and ECB-BOJ policy convergence deepens. Under our base case, the Fed continues cutting rates through 2026 while Brent oil prices stay stable around the USD60-63/bbl range, supporting global risk appetite and regional FX. On balance, the dollar's trajectory remains modestly lower, though intermittent rebounds may occur on stronger-than-expected US growth and labour-market data, or on improved trade sentiment heading into the 2026 mid-year elections.

Figure 1: After recent rebound off excessive short positioning…

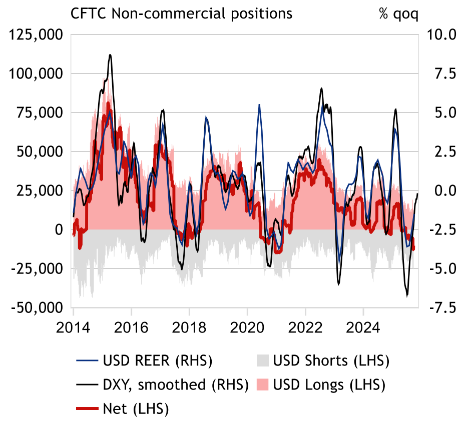
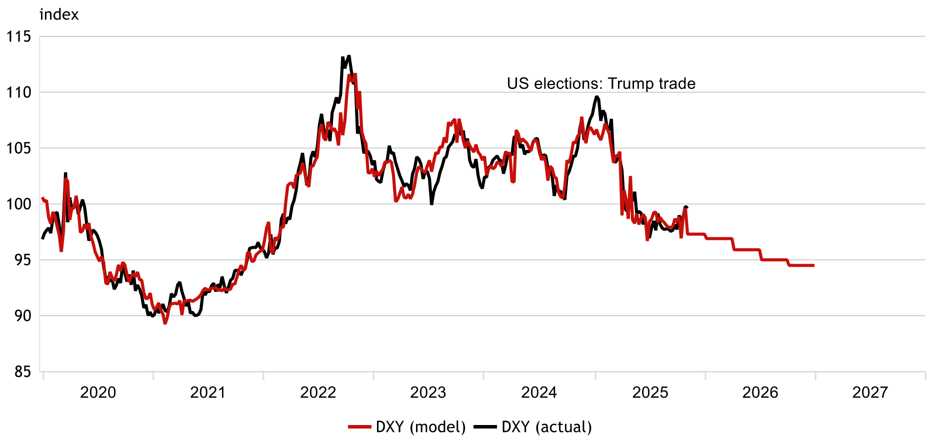
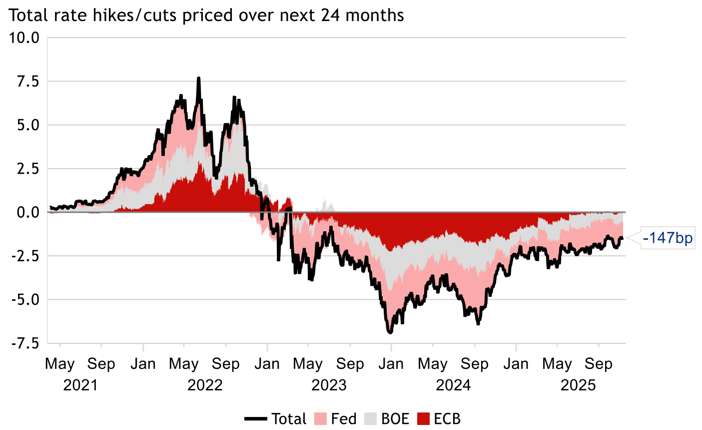


Figure 2: … our DXY model indicates room for USD weakness in 2026 …



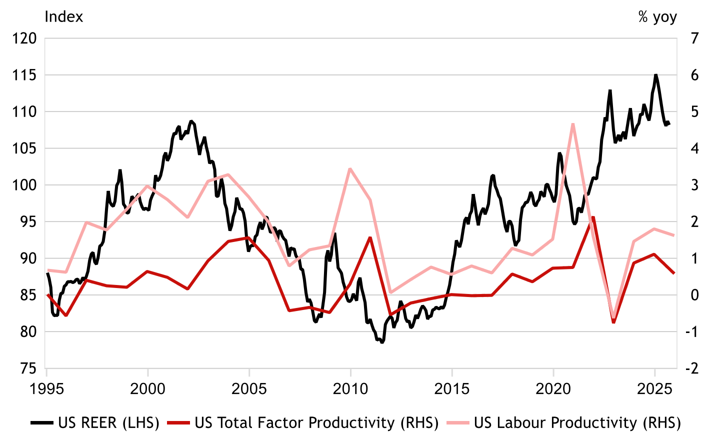
SOURCE: CIMB TREASURY AND MARKETS RESEARCH, MACROBOND

Figure 3: … as Fed to outpace major central banks in rate cuts through next 24 months



SOURCE: CIMB TREASURY AND MARKETS RESEARCH, MACROBOND

Figure 4: Over the long term, US productivity growth has not kept pace with appreciation in US REER



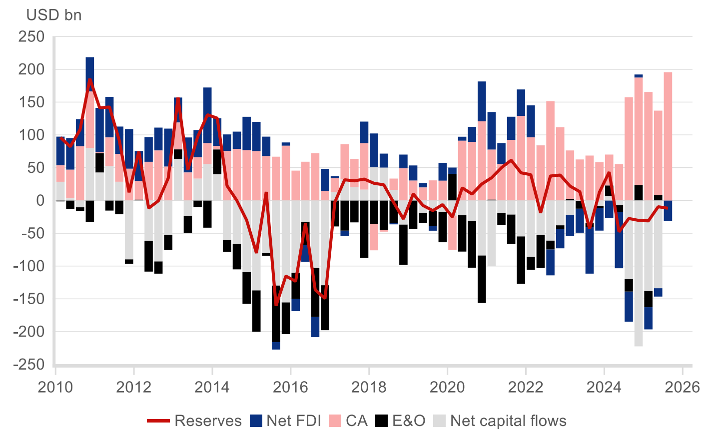
SOURCE: CIMB TREASURY AND MARKETS RESEARCH, BLOOMBERG

CNH: Acting as a stabilizer

The yuan's role as a regional anchor has strengthened in 2025 as China prioritises stability and gradual internationalisation over short-term competitiveness. The PBOC for much of the year has maintained a defensive but orderly stance, using moderately stronger daily fixings at key junctures to temper depreciation pressure without resorting to heavy intervention. This contrasts with the more flexible approach in 2018, when the PBOC allowed the yuan to weaken as a buffer against US tariffs, in effect using the exchange rate as a policy tool to absorb external shocks. The reduced spread and volatility between onshore (CNY) and offshore (CNH) rates reflect firmer market confidence in the PBOC's guidance, as the narrowing basis signals improved alignment of liquidity conditions and reduced speculative pressure on the yuan. The PBOC's ability to guide the yuan within a controlled range has been supported by a persistent and growing current account surplus alongside easing capital outflow pressures, which together provide a solid external buffer.

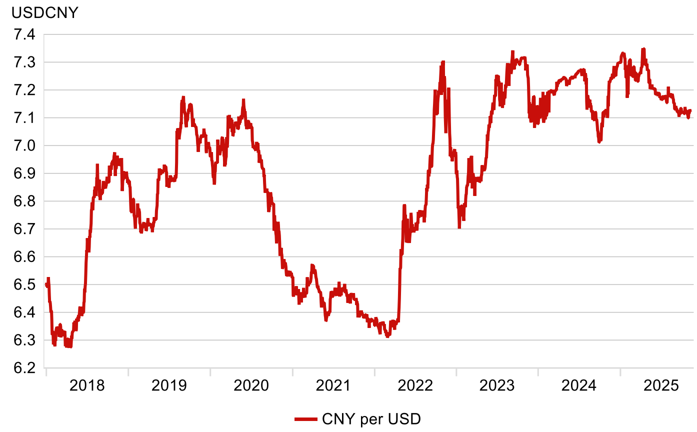
Meanwhile, China's deeper trade integration with Asia and ASEAN has also helped to largely offset the double-digit decline in exports to the US while growing yuan-settlement in regional trade has strengthened cross-border payment flows. Although the yuan's growing role as a regional FX anchor has not fully shielded Asian currencies from broad dollar strength, its stability has helped cushion losses during periods of dollar appreciation, reinforcing its position as a stabilising force across regional FX markets.

Figure 5: China's current account exhibits resilience despite tariffs while capital outflows have abated



SOURCE: CIMB TREASURY AND MARKETS RESEARCH, MACROBOND

Figure 6: Unlike the sharp depreciation during Tariffs 1.0 in 2017-19, CNY has appreciated since Tariffs 2.0 in Apr 2025



SOURCE: CIMB TREASURY AND MARKETS RESEARCH, MACROBOND

Figure 7: DXY and CNH correlations for major currencies suggest weakening links over past month

	Period	DXY	CNH	MYR	IDR	THB	SGD	KRW	AUD	EUR	GBP	CHF	JPY
	10 years	1.00	0.73	0.84	0.68	0.57	0.23	0.81	0.75	0.93	0.73	-0.15	0.78
	3 years	1.00	0.30	0.62	0.68	-0.14	0.90	0.10	0.28	0.97	0.77	0.82	0.31
DXY	1 year	1.00	0.82	0.91	0.90	-0.42	0.97	0.71	0.76	0.99	0.98	0.98	0.73
	Since 1 Apr	1.00	0.61	0.68	0.83	0.53	0.87	0.65	0.80	0.94	0.85	0.88	0.03
	1 month	1.00	0.16	-0.69	-0.43	0.79	0.90	0.59	0.06	0.94	0.95	0.89	0.85
	10 years	0.73	1.00	0.71	0.30	0.70	-0.01	0.76	0.83	0.55	0.60	-0.37	0.70
	3 years	0.30	1.00	0.41	0.36	0.54	0.27	0.61	0.72	0.11	-0.22	-0.16	0.82
CNH	1 year	0.82	1.00	0.92	0.88	-0.21	0.85	0.61	0.87	0.85	0.80	0.84	0.36
	Since 1 Apr	0.61	1.00	0.91	0.85	0.37	0.68	0.31	0.84	0.75	0.50	0.74	-0.59
	1 month	0.16	1.00	0.33	0.47	0.27	0.43	0.03	0.76	0.42	-0.01	0.43	-0.05

SOURCE: CIMB TREASURY AND MARKETS RESEARCH, MACROBOND

Figure 8: Seasonality favors MYR appreciation in Nov-Jan and Jul

USDMYR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2014	1.3	-1.4	-0.6	0.1	-1.2	-0.6	0.1	-1.1	3.0	1.3	3.5	2.4
2015	1.3	1.9	1.9	-2.4	2.0	1.8	2.7	8.1	5.7	-2.2	-1.6	1.4
2016	-3.2	1.2	-7.2	0.0	5.8	-2.6	1.3	-0.5	2.0	1.5	6.4	0.4
2017	-1.3	0.2	-0.4	-1.9	-1.4	0.3	-0.3	-0.2	-1.1	0.2	-3.4	-1.0
2018	-3.7	0.6	-1.5	1.5	1.5	1.5	0.7	1.1	0.6	1.1	0.1	-1.2
2019	-1.1	-0.6	0.4	1.3	1.3	-1.4	-0.1	2.0	-0.6	-0.4	0.1	-2.0
2020	0.0	3.0	2.3	-0.2	0.9	-1.4	-0.9	-1.7	-0.4	0.0	-1.9	-1.4
2021	0.7	0.1	2.4	-1.2	0.8	0.6	1.7	-1.5	0.7	-1.1	1.7	-1.1
2022	0.5	0.3	0.2	3.4	0.7	0.6	1.0	0.6	3.5	2.0	-6.0	-1.2
2023	-2.9	5.3	-1.6	0.9	3.7	0.9	-3.5	3.2	1.0	1.5	-2.2	-1.5
2024	3.0	0.5	-0.7	1.0	-1.3	0.3	-2.7	-6.0	-4.5	6.3	1.3	0.8
2025	-0.4	0.1	-0.6	-2.6	-1.6	-0.9	1.2	-0.9	-0.4	-0.5	-1.4	
Mean (2005-24)	-0.4	0.6	-0.6	-0.5	1.3	0.2	-0.2	0.6	0.5	0.2	0.0	-0.6
Mean (2018-24)	-0.5	1.3	0.2	1.0	1.1	0.1	-0.5	-0.3	0.0	1.4	-1.0	-1.1
Mean (2022-24)	0.1	2.9	-1.1	1.0	1.2	0.6	-3.1	-1.4	-1.7	3.9	-0.4	-0.4

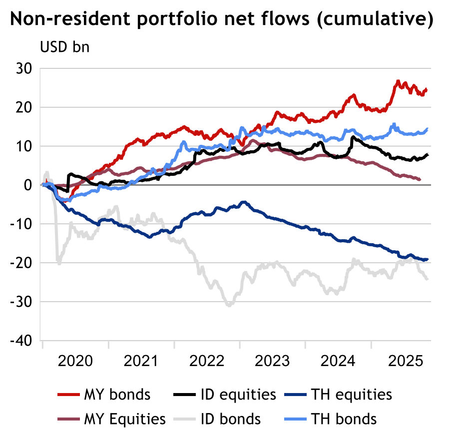
(positive denotes MYR depreciation vs. USD; negative sign denotes MYR appreciation vs. USD)

SOURCE: CIMB TREASURY AND MARKETS RESEARCH

Figure 9: USDMYR tends to see momentum-driven retracement runs of strength. ***Note negative changes indicate MYR appreciation and positive returns indicate MYR depreciation***

Type	Count	Months	Period Return	Post 1M	Post 3M	Post 6M	Post 12M	Pre 1M	Pre 3M	Pre 6M	Pre 12M
Appreciation (MYR ↑)	5	4	-5.0	0.6	-0.4	-1.0	-2.8	1.0	-0.4	-0.7	-4.1
	2	5	-5.7	1.5	1.1	8.3	6.8	1.3	-1.8	-3.1	-6.8
	2	≥6	-6.2	1.3	2.6	3.8	6.0	3.2	4.7	2.9	4.9
Depreciation (MYR ↓)	3	4	9.7	-2.3	-0.2	-2.8	-6.5	-0.7	0.0	-0.9	-2.7
	2	5	12.0	-1.7	-3.6	-8.8	-7.0	-2.1	-1.1	2.3	2.8
	3	≤6	12.8	-3.2	-3.8	4.4	2.0	-1.2	-2.2	-3.8	-4.0
Type	**Count**	**Magnitude**	**Period Return**	**Post 1M**	**Post 3M**	**Post 6M**	**Post 12M**	**Pre 1M**	**Pre 3M**	**Pre 6M**	**Pre 12M**
Appreciation (MYR ↑)	31	0 to -3 %	-1.9	1.2	1.8	2.3	2.9	0.8	1.4	0.7	2.5
	17	-3 to -6 %	-4.6	1.5	1.2	1.2	1.0	1.3	2.5	4.0	3.5
	8	≤-6 %	-8.3	2.2	2.4	2.3	3.4	3.2	1.0	2.3	5.3
Depreciation (MYR ↓)	39	+5%	3.4	-1.5	-2.0	-1.6	-0.6	-0.7	-1.5	-1.2	-0.1
	11	+5 to +10 %	7.5	-1.7	-1.5	-1.3	-2.6	-2.1	-3.5	-3.4	-1.1
	5	≥ +10%	12.8	-3.3	-1.9	-1.3	-3.3	-1.2	0.1	0.7	0.5

Figure 10: Non-resident inflows have picked up for MY and TH bonds as well as ID equities



SOURCE: CIMB TREASURY AND MARKETS RESEARCH

Figure 11: MYR gains appear outsized vs. regional merchandise trade performance…

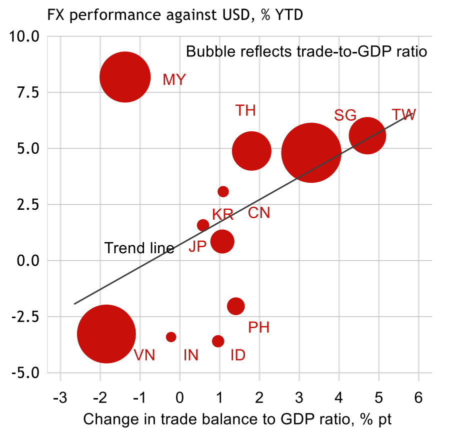


Figure 12: …but recent trade data signal sharp current account gains in 3Q25…

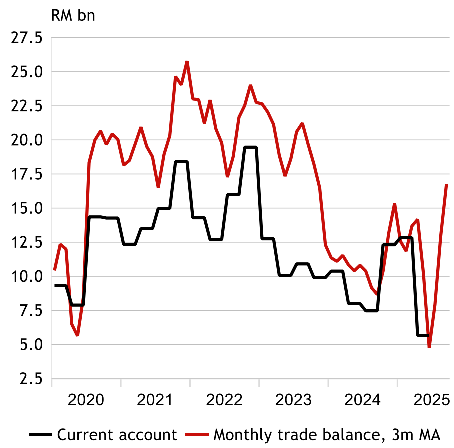
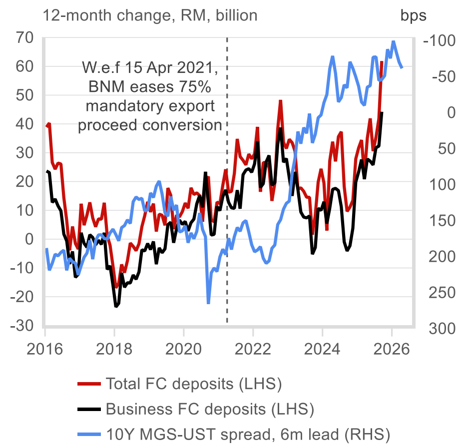


Figure 13: … which have accompanied increases in onshore FCY deposits



SOURCE: CIMB TREASURY AND MARKETS RESEARCH

Figure 14: Other BOP segments have provided offsets…

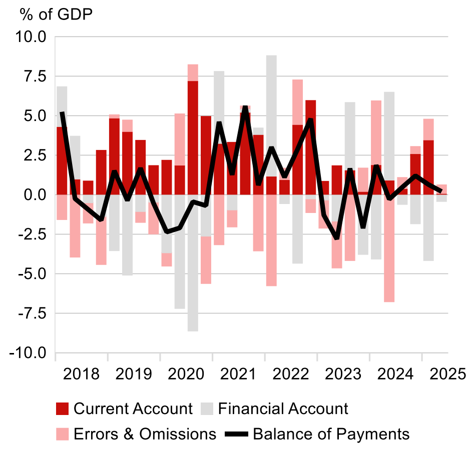


Figure 15: … including in portfolio investments

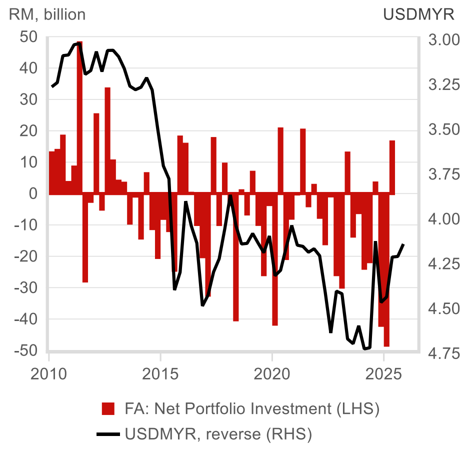
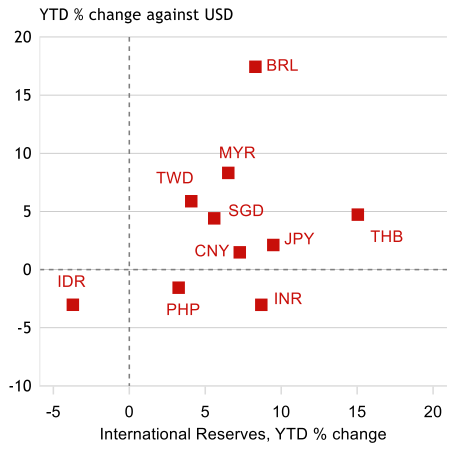


Figure 16: YTD reserve accumulation adds premium to FX gains



SOURCE: CIMB TREASURY AND MARKETS RESEARCH

Figure 17: Increasing two-way volatility may be encouraging more hedging…

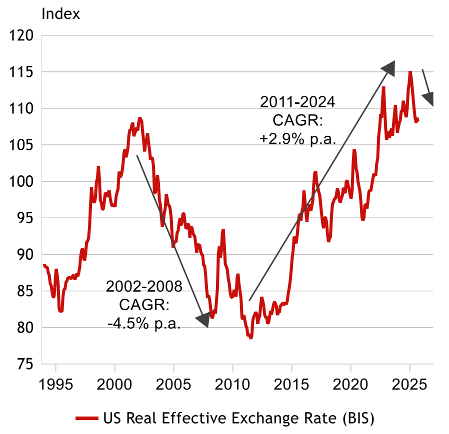


Figure 18: … of Malaysia's growing offshore asset base …

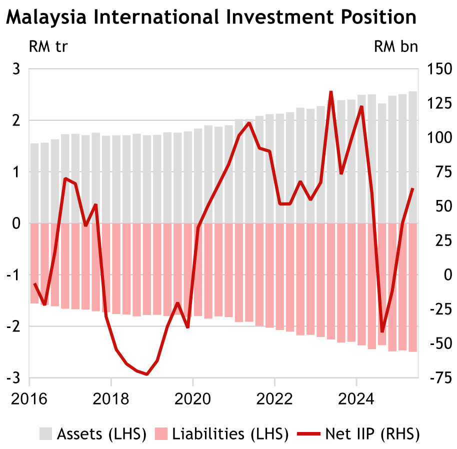
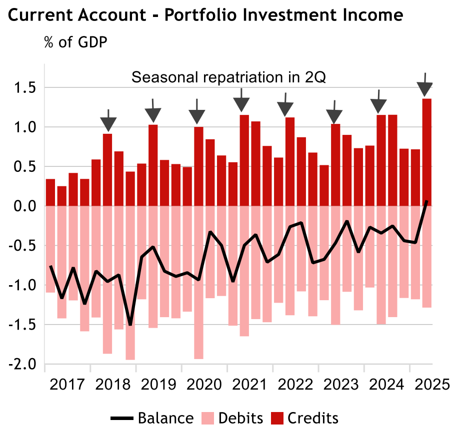
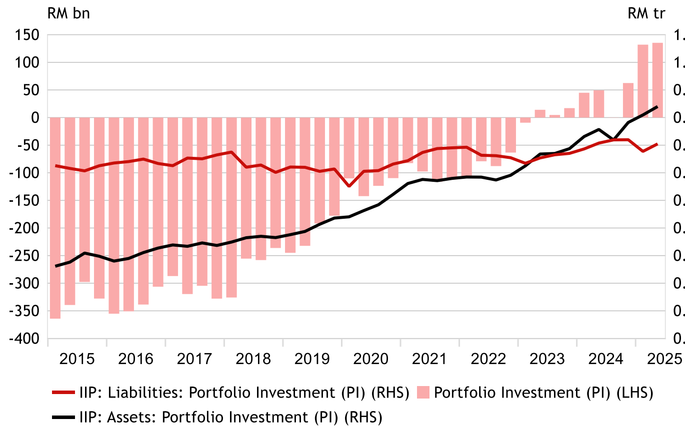


Figure 19: … and regular resident repatriation flows (credits), which turned net portfolio investment income positive in 2Q25 for the first time since 3Q 2000



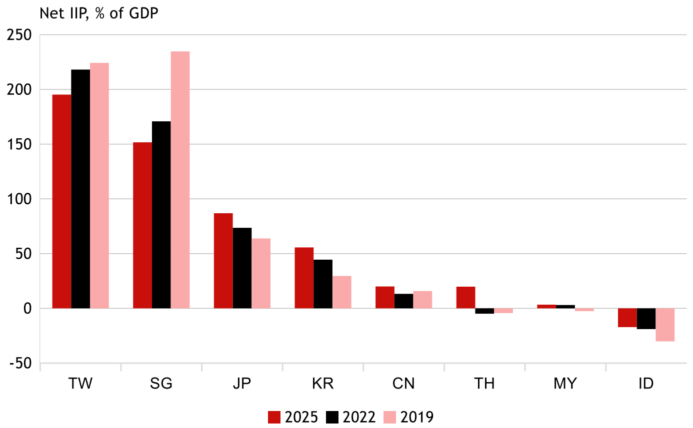
SOURCE: CIMB TREASURY AND MARKETS RESEARCH

Figure 20: Malaysia turns a net creditor in portfolio investments



SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 21: Malaysia's net international investment position is still small in comparison to other EM countries in the region



SOURCE: CIMB TREASURY AND MARKETS RESEARCH

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