FX15 – KUALA LUMPUR CONFERENCE

Organised by Bloomberg in Partnership with Malaysian Association of Corporate Treasurers (MACT) and The Financial Markets Association of Malaysia (PPKM)

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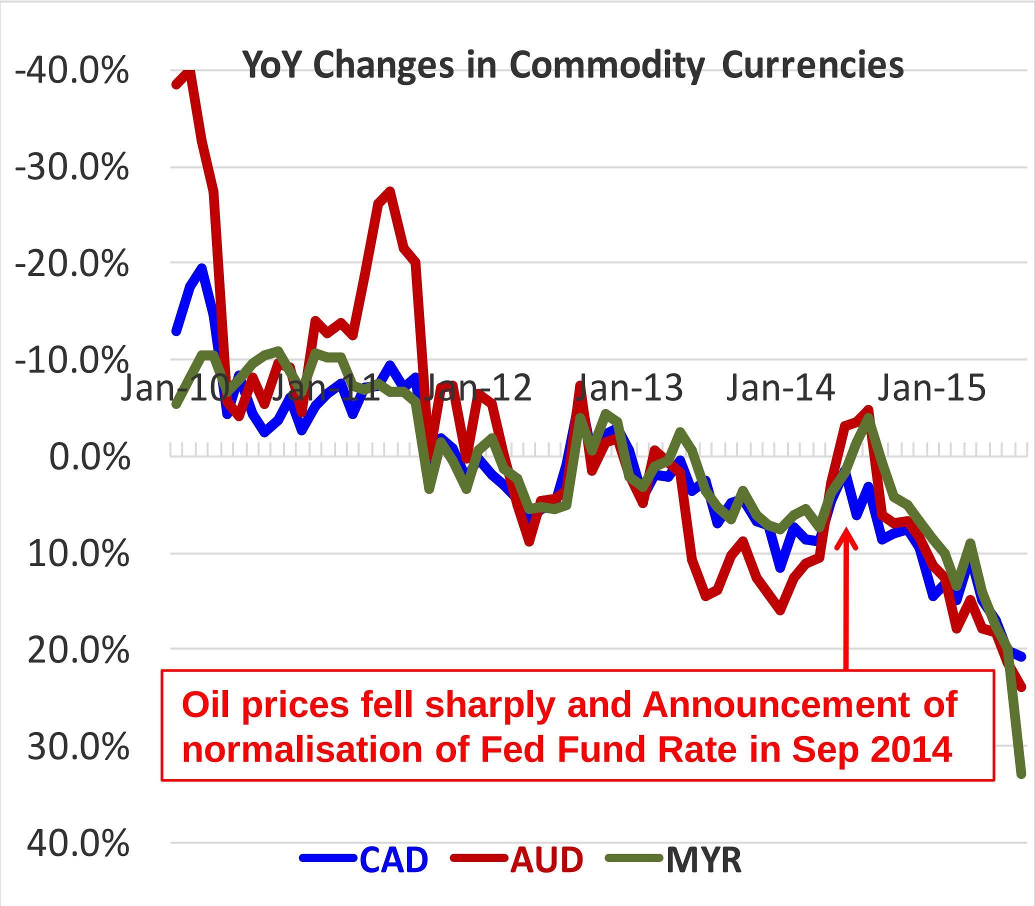
Malaysian Ringgit vs Currencies of Other Commodity Exporting Nations



Source: CEIC, CIMB Research

	MYR/USD	CAD/USD	USD/AUD
9/1/2014	3.17	1.0878	0.9339
8/31/2015	4.25	1.314	0.7113
% Drop	-34%	-21%	-24%
Fair Value of MYR/USD		3.83	3.93

- Fair value of Ringgit to 1 US Dollar is between 3.83 and 3.93 if based on percentage drop of Canadian Dollar and Australian Dollar since September 2014 when MYR was at 3.17
- Tan Sri Governor Dr. Zeti Akhtar Aziz's statements that "..the current movements of the Ringgit are affected by .. **investor expectations relating to monetary policies of major central banks and the trends in crude oil and gas prices**..." and that "… the exchange rate reflected **market sentiment and not underlying economic fundamentals** …"

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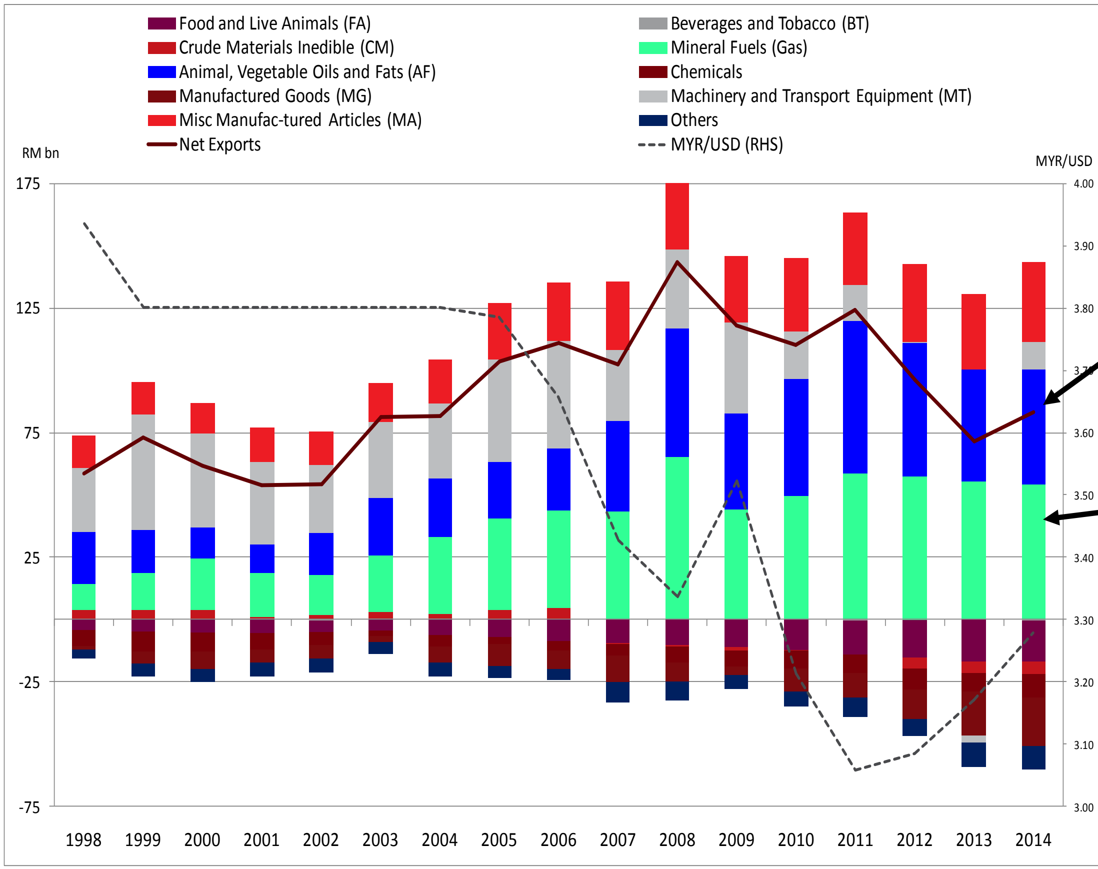
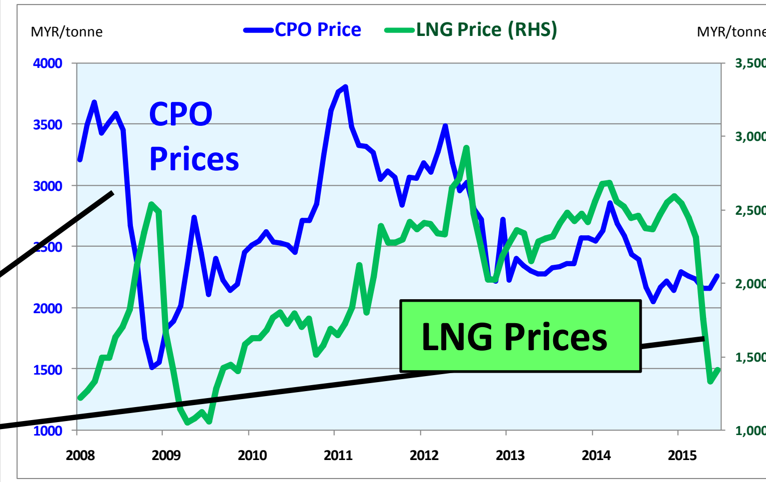
Outlook of MYR: Diversified Export Product Base. However, LNG Exports (Mineral Fuels) are Expected to Decline Markedly as Contracts Reprice

Net Exports by Products





Source: Bank Negara Malaysia, Bloomberg, CEIC, CIMB Research

- Palm oil / edible oil exports look relatively stable
- Most of the other components should benefit the current account balances as imports decline (especially consumption) while exports should benefit from a weaker MYR

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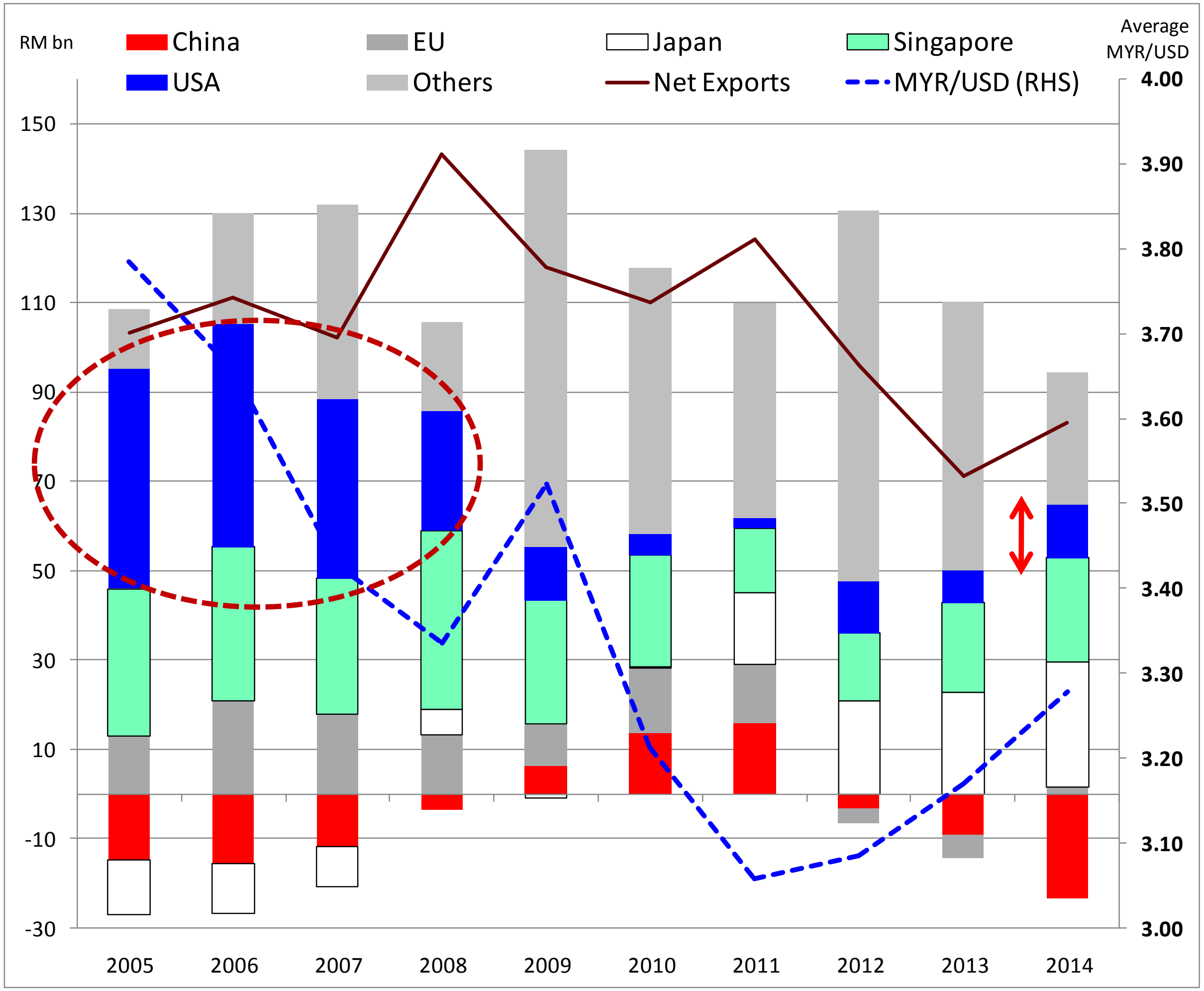
Outlook of MYR: Higher Exports, Lower Imports in Other Categories Supported by Weaker Malaysian Ringgit

Malaysia's Net Exports by Country, 2008-2014 (in RM billion)



Source: CEIC, CIMB Research

- **In particular, exports to the USA**
- **USA was Malaysia's largest market prior to** the 2008 Global Financial Crisis
- The USA is finally recovering after many years of muted economic activity and it will be interesting to see how big the USA market can become again for Malaysia especially with the USD/MYR above 4

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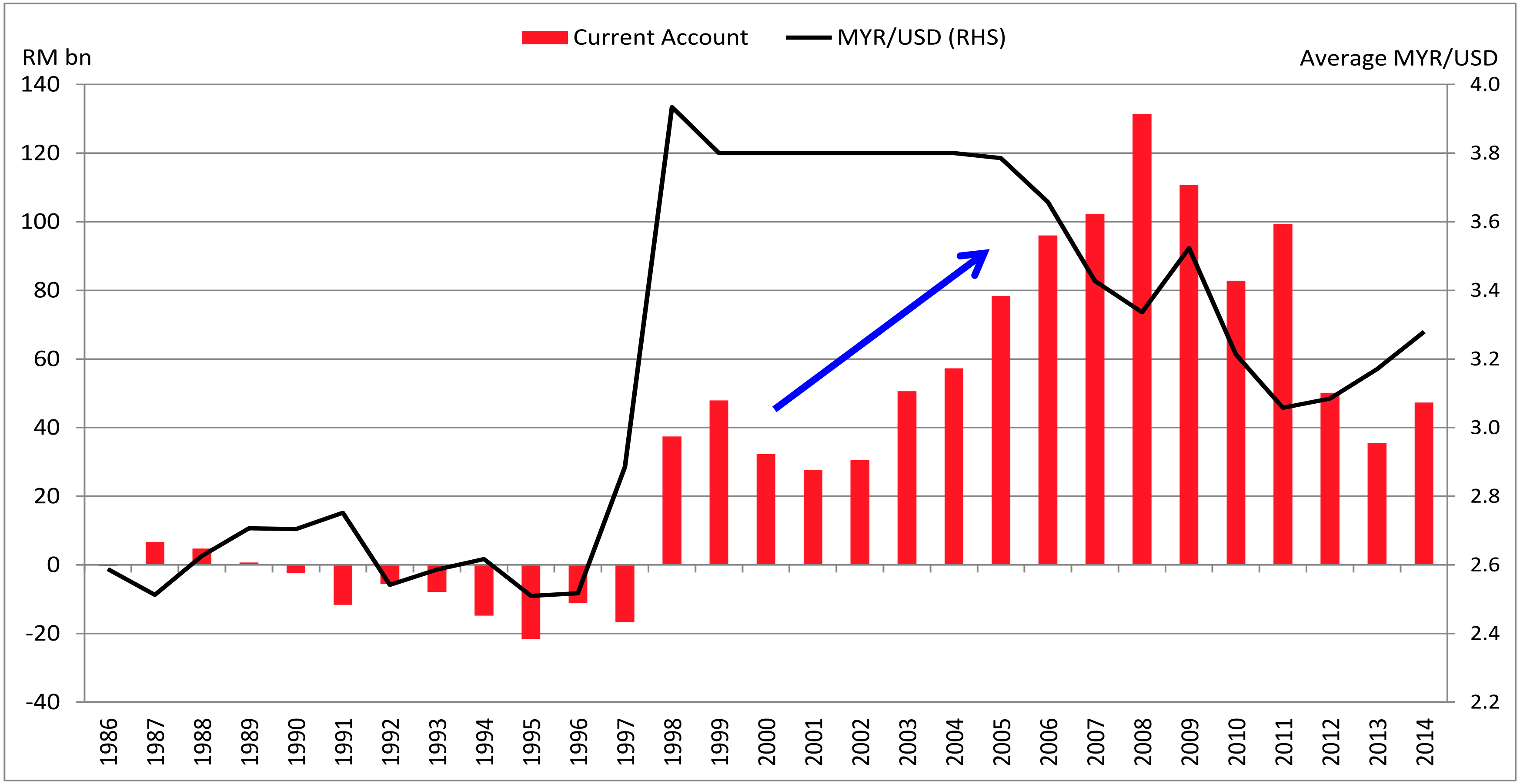
Impact of Current Account Surplus & MYR



Source: CEIC, CIMB Research

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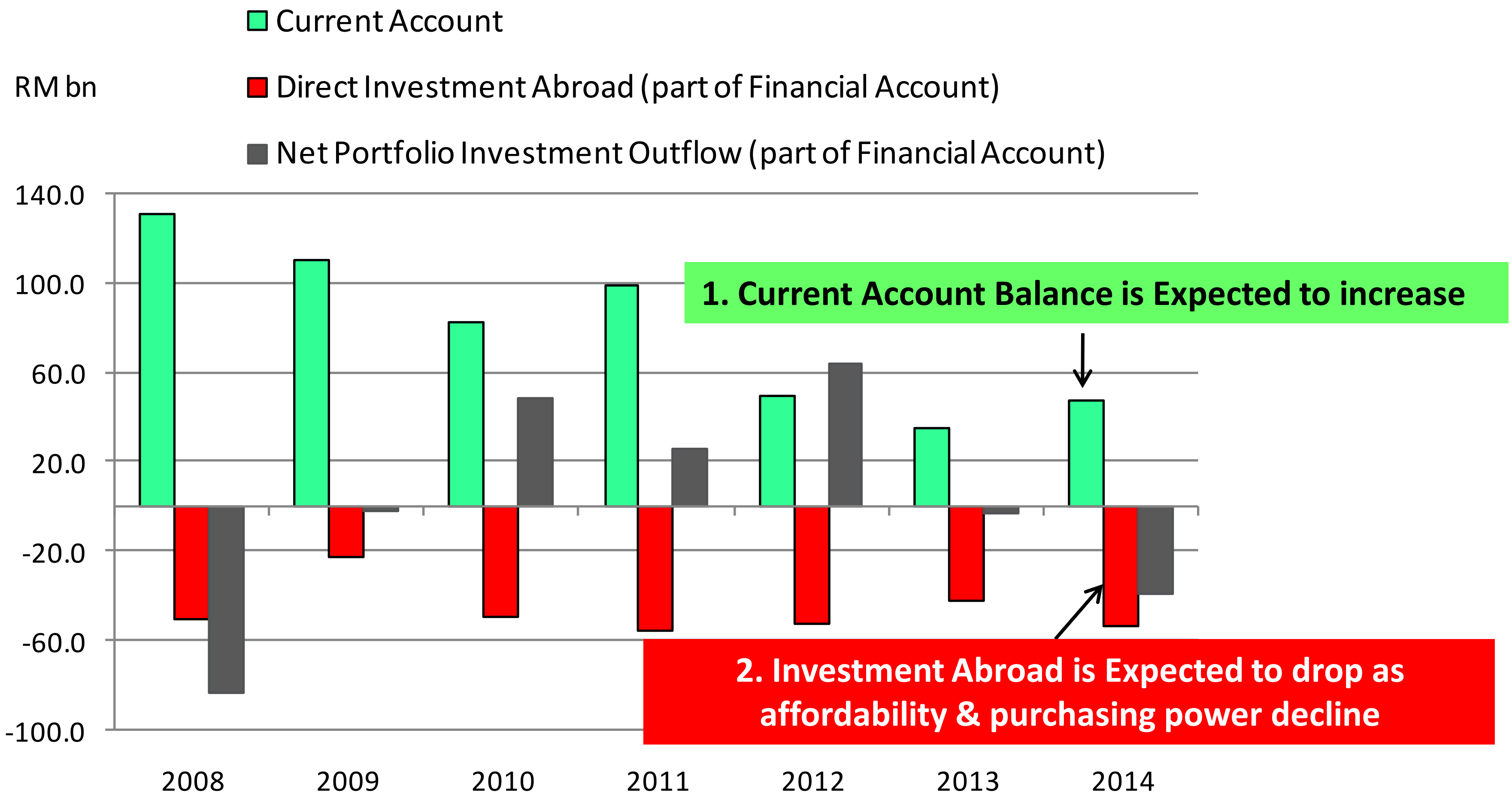
Drop in Investments Abroad will Contribute to Stronger Balance of Payments (Current Account + Financial Account + Capital Account) which Represent the Net Cashflow of the Nation. USD/MYR FX Level and BNM FX Reserves Correlated Depending on Proportion of Foreign Currency Earnings Converts to MYR

Malaysia's Current Account vs Financial Account, 2008-2014 (in RM billion)



Source: CEIC, CIMB Research

Exporters/Businesses + Asset Managers' Unhedged Investments Abroad Sitting on Large Unrealised FX Gains : (1) Large Existing & Growing Captive Onshore Foreign Currency Account ("FCA") Bank Deposit balances

Year-End	International FX Reserve (BNM)	Onshore Foreign Currency Deposits with Malaysian Banks		BNM's International FX Reserve & Onshore Foreign Currency Deposits
		Total	of which, held by Business Ent (incl. Exporters)	
	USD million	USD million	USD million	USD million
2007	101,567	6,883	5,230	108,449
2008	91,671	10,480	6,395	102,151
2009	96,770	14,699	10,001	111,470
2010	106,615	17,352	11,208	123,967
2011	133,280	20,338	13,515	153,618
2012	139,720	25,838	17,307	165,558
2013	142,592	24,276	15,796	166,868
2014	116,011	26,556	16,822	142,567
Jul-15	95,553	28,487	18,722	124,040

Source: Bank Negara Malaysia

- Foreign Currency bank deposits on-shore has increased from USD6.8 billion in 2007 to USD28.4 billion in July 2015
- Not included in BNM's FX reserves (part of decentralized pool) where most of these USD monies are captive within the nation's borders totaling to almost 30% of BNM's FX Reserves
- If 10% or more of these FCA deposits start converting and lock in their windfall FX gains, MYR will strengthen considerably especially in the current thin USDMYR FX markets
- The conversion can be done on spot or forward basis where the FX Swap points are in their favour

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In addition, (2) Exporters Forward Export Sales

- ✓ Many Malaysian exporters have committed export trade flows but have not hedged their forward USD / FCY revenue proceeds. This is in addition to their current large USD cash holdings in bank deposits

- ✓ Again the positive forward swap points allow exporters to lock in a USDMYR forward FX rate that is higher than spot levels whether via **FX forwards or Option based Structure:**

(as of 21 September 2015)	1-month	3-month	6-month
MYR / USD Spot rate	**4.2500**	**4.2500**	**4.2500**
+ Forward Swap at premium (bid price)	**0.0100**	**0.0270**	**0.0470**
Selling with Forward Swap	**4.2600**	**4.2770**	**4.2970**

as USD Interest Rates Lower than MYR interest rates

Source: Bloomberg

(3) Malaysian Institutional Funds & Investors with Foreign Asset Holdings / Investments Abroad

- ✓ Many Malaysians have invested abroad since FX liberalization, covering both fund managers as well as individuals in both properties and financial assets
- ✓ **As at end-June 2015, Malaysians had accumulated direct investments abroad amounting to MYR522 billion**
- ✓ If the currency risk position was left unhedged, which is the likely scenario, these existing investments are sitting on large FX gains when translated in MYR terms
- ✓ Again, it might be prudent to hedge and lock in some of their windfall FX gains
- ✓ The locking in of the weakened USD/MYR currency level can be achieved regardless of whether the funds intend to liquidate & repatriate their investments abroad or even if no repatriation / liquidation is planned
- ✓ Proactive measures already announced by the Government to encourage Government-Linked Companies and pension funds to repatriate their overseas investments

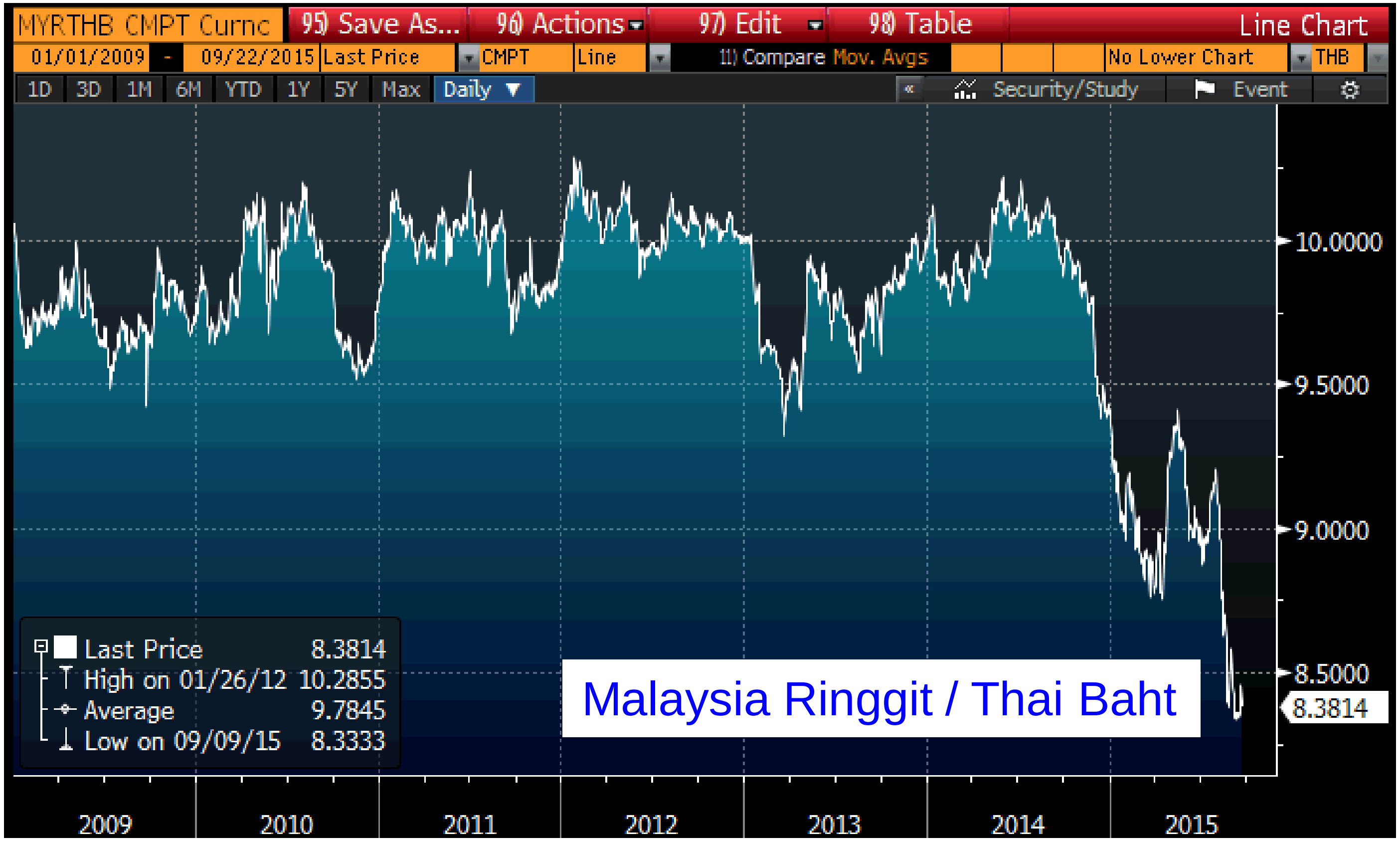
(3) Malaysian Institutional Funds & Investors with Foreign Asset Holdings / Investment Abroad

- As businesses/exporters & institutional funds are sitting on very large open currency risk positions as well as large unrealized FX gains, should consider locking in or realizing some of the “windfall” FX gains and reduce their existing large open currency risk position
- As the FX markets are thin, USD/MYR FX prices can gap and strengthen in large amounts if too many exporters / businesses or fund managers start locking in their windfall profits concurrently especially when trading weaker than economic fundamentals
- Point is that UDSMYR FX is no longer a one directional bet similar to the CNY which ended abruptly not too long ago
- Two incidental but perhaps interesting perspectives:

  a) if left to choice in amount of currency depreciation of 20% versus 30% for JPY, AUD, CAD and EUR, think these countries will prefer 30% versus 20% depreciation

(3) Malaysian Institutional Funds & Investors with Foreign Asset Holdings / Investment Abroad

b) The other perspective is that one should look at the Thai Baht and its performance where despite negative market sentiment on domestic politics, where their balance of payments and current account numbers are inferior to Malaysia's plus lower GDP growth, the Baht has shown significant resilience – separation of politics versus economic fundamentals



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