



MYR – Limited room to rally amid rising headwinds

27 February 2026

Executive Summary

We see challenges ahead for the Ringgit despite its recent stellar run in 4Q2025 and early-2026. Several US self-inflicted developments and Malaysia’s solid economic/fiscal/political backdrop have helped push USD/MYR below the key 4.00 level. However, growing headwinds ahead include AI-related risk sentiment, improving risk-return appeal of JGBs, and upcoming election risks. We target USD/MYR at 3.82 under a risk-on environment, with a 4.00-4.20 range in mind if downside risks materialise.

MYR on track to repeat stellar 4Q2025 performance

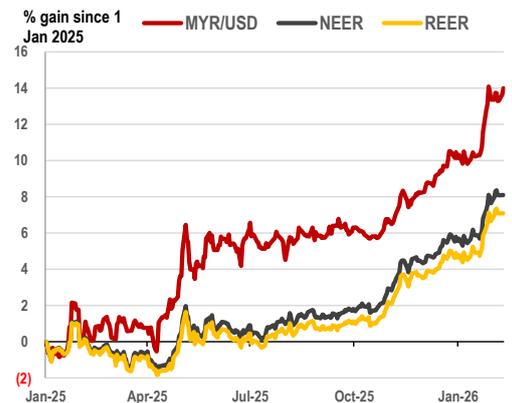
Bullish ringgit momentum continues to persist in early-2026 following a strong 4Q2025, with MYR strengthening seen against all Asian currencies and most G10 currencies (Exhibit 1 and 2). Following a 10% decline in 2025, the highly watched USD/MYR also fell below the psychologically important 4.00 mark in late January, and has hovered around the 3.90 level since mid-February.

A confluence of USD headwinds and MYR tailwinds

Several US-centric developments this year have continued to add a bearish undertone to the USD, including geopolitical risks, trade tensions, and risks to Fed independence, with the DXY index declining by up to 0.8% d/d during each event (Exhibit 6). This is despite the backdrop of more hawkish-than-expected Fed monetary policy amid stabilising US employment and continued inflation upside risks, which has helped cushion short-dated USTs from steeper declines than USD valuation (Exhibit 4 and 5).

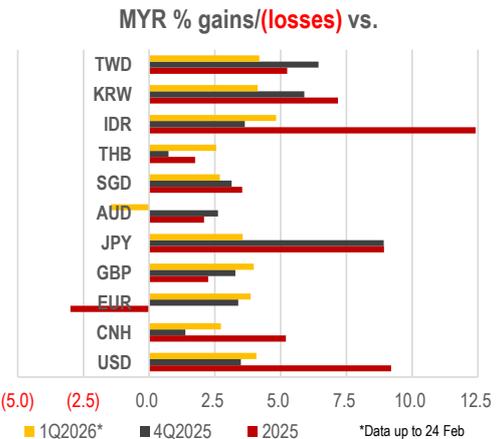
Meanwhile, domestic growth remains underpinned by solid private consumption, buoyant tourism and construction activity, and strong E&E-led exports amid the global AI-driven semiconductor upcycle, suggesting little need for looser monetary policy vis-à-vis a stable inflation profile. A fiscally-prudent local backdrop and relative political/policy stability (especially when compared to regional peers) also bolsters the Ringgit’s appeal and sentiment, leading to rising MYR turnover in recent years. However, non-resident portfolio debt inflows remain constrained by factors such as valuations, investment suitability, and portfolio rebalancing requirements, which may have driven the recent detachment from Ringgit strength (Exhibit 7 and 8).

Exhibit 1: MYR NEER strength since 4Q2025 suggests domestic factors at play



Sources: AmBank Economics, Bloomberg

Exhibit 2: MYR broadly on track to repeat its appreciation against key peers this quarter



Sources: AmBank Economics, Bloomberg

Exhibit 3: AmBank FX forecasts

| | 1Q26 | 2Q26 | 3Q26 | 4Q26 | 1Q27 |
|---------------|------|------|------|------|------|
| DEX | 97.5 | 96.5 | 95.8 | 95.1 | 95.2 |
| EURUSD | 1.18 | 1.19 | 1.20 | 1.21 | 1.21 |
| GBPUSD | 1.36 | 1.37 | 1.37 | 1.36 | 1.35 |
| AUDUSD | 0.69 | 0.70 | 0.69 | 0.68 | 0.66 |
| USDJPY | 154 | 150 | 148 | 145 | 145 |
| USDCNH | 6.90 | 6.85 | 6.82 | 6.80 | 6.80 |
| USDMYR | 3.91 | 3.87 | 3.84 | 3.82 | 3.83 |

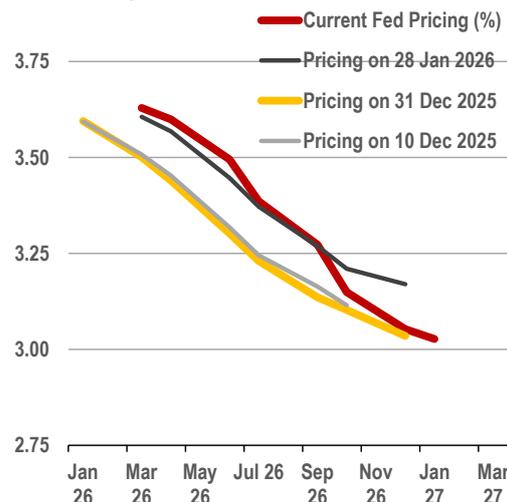
Source: AmBank Economics

US-driven catalysts to determine the USD/MYR direction ahead

Our revised FX forecasts (Exhibit 3) reflect these recent developments locally and in the US (Exhibit 6), as well as other political and fiscal developments in Japan and the UK, and a rising hawkish outlook for the RBA. Issues that drove earlier USD weaknesses remain mostly unresolved and still pose some additional downside risks, including geopolitical tensions (Iran), Fed monetary policy and independence (uncertainty over Warsh’s stance and Powell’s tenure), and trade/tariff policies (Trump’s response to Supreme Court judgement, and reaction by other countries). However, we think many of these factors have been well-established, leaving little room for further pricing in by markets.

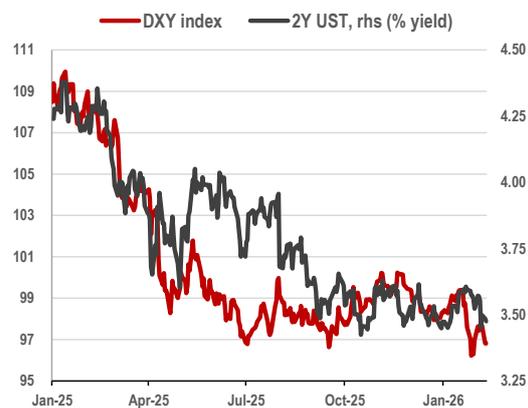
Accordingly, we remain cautiously optimistic that the Ringgit rally has some room to run. Our projections see USD/MYR gradually inching lower towards 3.82 in 2H2026, with key resistance levels at 3.86 (the lows of 2016/2018 post-1MDB), 3.82 (average USD/MYR levels since the 2005 peg), and 3.80 (the pegged level post-Asian Financial Crisis). That said, we think downside factors for the ringgit (upside risks for USD/MYR) are growing, including the souring of AI-related risk sentiment (headwinds for domestic equities and E&E-driven exports), trade/tariff risks from the US – especially on semiconductors, risk-return trade-offs indicating growing appeal of JGBs (but requiring Japan fiscal clarity first), and upcoming election risks for Malaysia. A manifestation of said risks may see USD/MYR rapidly climb above 4.00 and re-test the 4.20 handle.

Exhibit 4: Current Fed rates are higher than earlier expected, though two cuts are still expected by end-2026



Sources: AmBank Economics, Bloomberg

Exhibit 5: Steeper DXY declines were also avoided due to greater JPY weakness



Sources: AmBank Economics, Bloomberg

Exhibit 6: Steady erosion of USD strength on several self-inflicted events

| Issue | Date | Subsequent DXY d/d performance [^] | Major US non-data catalysts (and reversals) in 2026 |
|--------|--------|---|---|
| 1 | 03 Jan | -0.2% | Iran - Invasion and capture of President Maduro |
| 2 | 11 Jan | -0.3% | DOJ Subpoena - Powell voices concerns of threats to Fed independence |
| | 13 Jan | 0.3% | > De-escalation, as Trump and Bessent distances from DOJ/voices Fed support |
| 3 | 18 Jan | -0.4% | Greenland - Trump threatens tariffs on EU/UK for Greenland 'ownership' |
| | 21 Jan | 0.1% | > Trump backs down over Greenland threats, after another 0.8% decline on 20 Jan |
| 4 | 23 Jan | -0.8% | 'Rate Check' by NY Fed boosts JPY and weakens USD |
| 5 | 27 Jan | -0.8% | Debasement trades - Trump signals comfort with recent USD declines (of -1.7%) |
| | 28 Jan | 0.2% | > Bessent contradicts Trump; reiterates administration support for a strong dollar |
| 6 (2*) | 30 Jan | 0.7% | Kevin Warsh selected as next Fed chairman - a more hawkish pick than expected |
| 7 | 20 Feb | -0.1% | US Supreme Court voids Trump's IEEPA reciprocal tariffs |
| | 22 Feb | -0.1% | > Trump raises Section 122 global tariffs to 15%; vows more under other Sections/Acts |

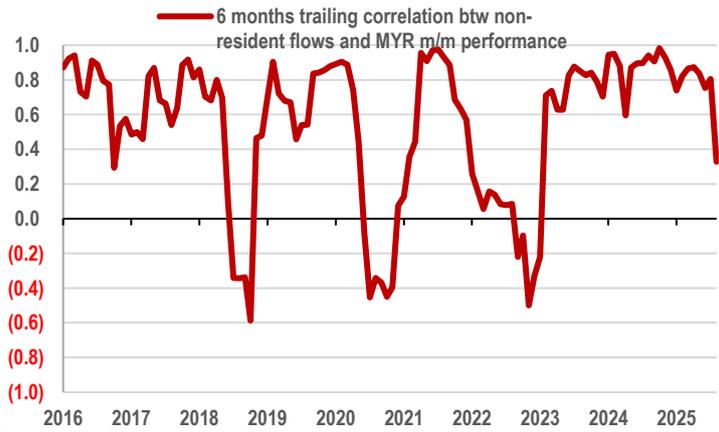
[^]where development is over the weekend, the d/d perf. is measured on the next Monday

*both issues relate to central banking and Fed independence

Note: On issue 7, we think DXY losses were relatively minimal owing to: 1) An expected court event, 2) Does not indicate a change in Trump's trade regime, 3) Represents judicial check-and-balance against the US executive, providing some confidence, and 4) Hot PCE inflation data on Friday

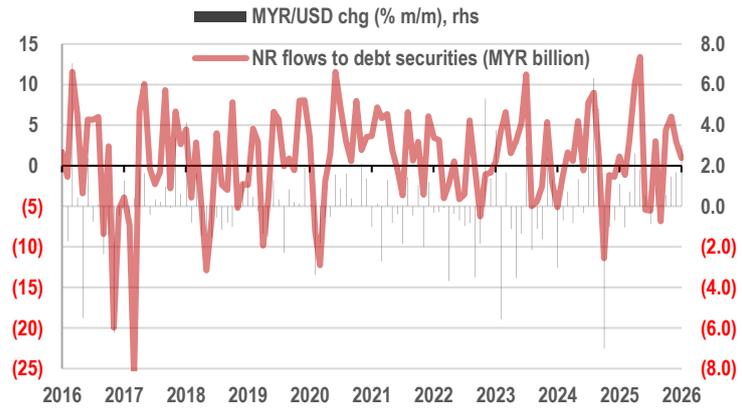
Sources: AmBank Economics, White House, various news sources

Exhibit 7: USD/MYR directionality typically sees a strong correlation with non-resident (NR) portfolio debt flows...



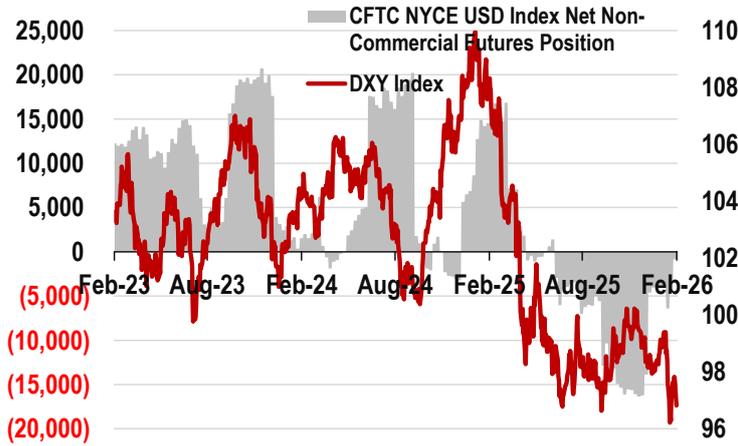
Sources: AmBank Economics, CEIC

Exhibit 8: ... though recent improvements in MYR sentiment have driven MYR strength regardless of NR flow directionality



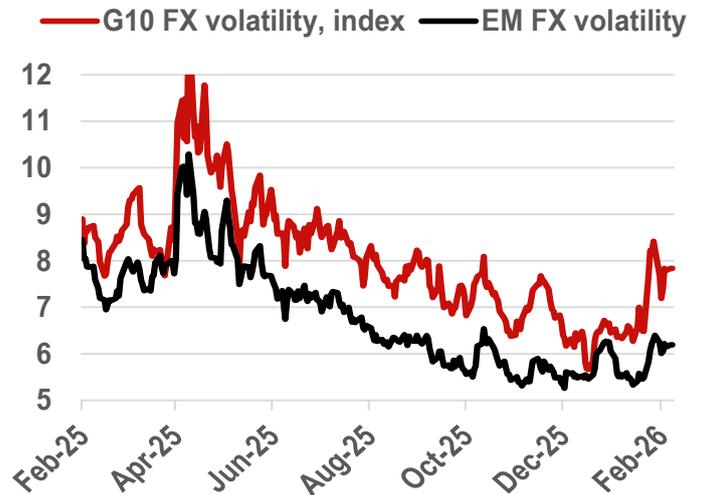
Sources: AmBank Economics, CEIC

Exhibit 9: Bearish USD positioning has receded after recent declines



Sources: AmBank Economics, Bloomberg

Exhibit 10: More frequent US-driven shocks have recently continued to drive elevated G10 currency volatility



Sources: AmBank Economics, Bloomberg

AmBank Economics

| | |
|----------------------------------|--|
| Firdaos Rosli | firdaos.rosli@ambankgroup.com |
| Nik Ahmad Mukharriz Nik Muhammad | nik-ahmad-mukharriz.n@ambankgroup.com |
| Lee Si Xin | lee.si-xin@ambankgroup.com |
| Raja Adibah Raja Hasnan | raja-adibah.r@ambankgroup.com |
| Michael Yim | yim.soon-kah@ambankgroup.com |
| Aman Nazmi Abd Karim | aman-nazmi.abd-karim@ambankgroup.com |

Group Treasury & Markets

| | |
|----------------------------------|--|
| Corporate Client Group (CCG) | +603-2059 8700/8600 |
| Institutional Client Group (ICG) | +603-2059 8690 |
| Azli Bin Abdul Jamil | azli-abd-jamil@ambankgroup.com |
| Jacqueline E. Rodrigues | jacqueline-r@ambankgroup.com |
| Ho Su Farn | ho-su-farn@ambankgroup.com |
| Melisa Lim Giok Ling | melisa-lim@ambankgroup.com |
| Roger Yee Chan Chung | roger-yee@ambankgroup.com |
| Muhammad Hafizin Aiman Bin Halim | muhammad-hafizin-aiman.h@ambankgroup.com |

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