

BNM International Reserves

Rose 1.3% MoM to USD112.9b in July due to an increase in foreign currency reserves

- **Bank Negara Malaysia (BNM) international reserves reverted to an uptrend after three straight months of decline, increasing by USD1.5b or 1.3% MoM to a three-month high of USD112.9b as of 31 July 2023**

- Sufficient to finance 5.1 months of imports of goods and services (previously retained imports) and is 1.1 time total short-term external debt.

- **This was primarily due to a sharp increase in foreign currency reserves**

- Foreign currency reserves (USD1.5b or 1.3% MoM to USD100.7b): rebounded to above the USD100.0b mark due to an increase in the repatriation of export proceeds and a higher USD-converted value of other currency-based assets.

- Meanwhile, special drawing rights, other reserve assets, gold, and IMF reserve position remained fairly unchanged.

- **In ringgit terms, the value of BNM reserves hit another record high of RM529.3b (+RM7.2b or 1.4% MoM)**

- USDMYR monthly average (4.591; June: 4.630): despite the recent 25 basis points (bps) rate hike by the Fed, the ringgit managed to recoup some of its losses. This was attributed to Fed chair Powell's dovish remarks during the post-FOMC press conference, along with the increasing market expectations of a potential policy shift amid the unexpected downside reading in the US core CPI for June. Nevertheless, the local note was pressured due to the widening negative yield differential between the MY-US 10-year government bonds. Additionally, a weaker yuan resulting from China's lacklustre macroeconomic data further added to the strain on the ringgit.

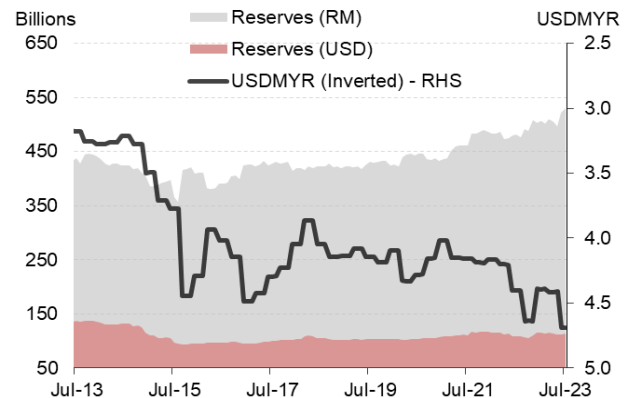
- Regional currencies: most ASEAN-5 currencies appreciated against the USD, with PHP leading at 1.6%, followed by THB (1.0%), SGD (0.9%), and MYR (0.8%). This trend emerged as the USD index (DXY) weakened to an average of 101.41 in July (June: 103.08). However, the IDR bucked the trend, depreciating by 0.8% due to increasing market expectations of a possible dovish shift in Bank Indonesia's stance amid its lower-than-expected inflation readings.

- **BNM is expected to retain status quo throughout 2024 amid easing price pressure, however, uncertainty remains**

- Given the persistent downward trajectory of both headline and core inflation, the BNM is expected to maintain the overnight policy rate at 3.00% for the next 6 to 12 months. However, looking ahead, the possibility of price shifts in food and commodities due to the uncertainty surrounding government policies, geopolitical risks, and weather conditions could significantly impact the inflation outlook. Therefore, it is likely that the BNM will continue to adopt a data-dependent approach in its decision-making process.

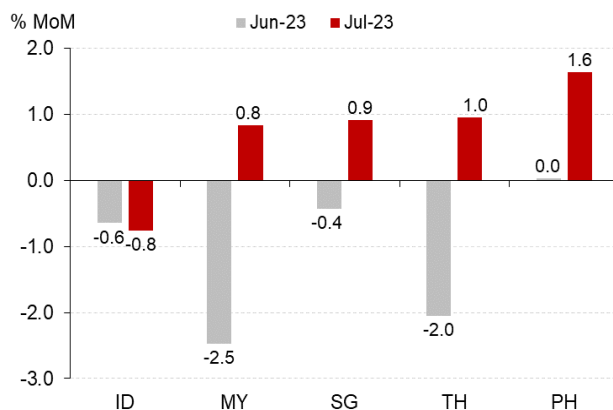
- USDMYR year-end forecast (4.29; 2022: 4.40): while the ringgit's recent appreciation towards the 4.50/USD threshold was short-lived and it is currently hovering within the range of 4.54 - 4.57, we uphold our neutral-to-bullish stance on the trajectory of the local note in the next three to six months due to our weak USD outlook. The DXY is expected to trend lower around the 95.0 level in 4Q23 as we expect the Fed to turn more dovish amid continued disinflationary dynamics and potential weakening of labour market conditions in the US.

Graph 1: BNM's International Reserves



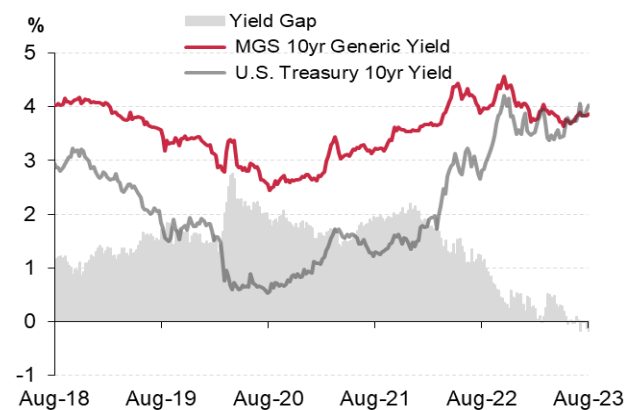
Source: BNM, Bloomberg, Kenanga Research

Graph 2: ASEAN-5 Currencies (monthly average)



Source: BNM, CEIC, Kenanga Research

Graph 3: 10-Year US Treasury vs. MGS Yield



Source: Bloomberg, Kenanga Research

08 August 2023

Table 1: Latest Update and Historical Milestone for BNM Reserves

		RM bil	Change frm Prev Mth	USDMYR	US bil	Change frm Prev Mth	Months of retained	Times of ST
	Month	O/stand.	RM bil	End Period	O/stand.	US bil	Imports.	Debt
Pre crisis high	Jan-94	89.99	13.51	2.7598	32.61	4.29	na	na
Start of Asian Financial Crisis (AFC)	Apr-97	70.93	-1.26	2.5110	28.25	-0.87	na	na
Reserves at its lowest in USD term	Nov-97	61.30	-0.40	3.5022	17.50	-0.50	3.4	na
Ringgit at its weakest during AFC (Monthly Average)	Jan-98	56.61	-2.5	4.3990	20.25	-1.46	3.2	na
Govt imposed capital control and pegged ringgit at 3.80 to USD	Sep-98	81.51	23.6	3.8000	21.45	1.22	4.4	na
USDMYR peg removed	Jul-05	297.17	13.07	3.7978	78.25	3.48	9.0	7.6
Highest level post USDMYR de-peg (before GFC)	Jun-08	410.87	10.73	3.2665	125.78	0.59	10.0	5.1
Biggest single month decline in USD-terms	Sep-08	379.35	-20.83	3.4567	109.75	-12.84	9.0	4.1
Lowest level during the Global Financial Crisis	May-09	322.47	2.07	3.6513	88.32	0.59	8.3	3.8
Highest Level (in USD term)	May-13	436.80	3.52	3.0884	141.43	1.12	9.5	4.3
Highest Level (in MYR term)	Jul-23	529.26	7.20	4.6878	112.90	1.49	5.1**	1.1
End-2018	Dec-18	419.54	4.94*	4.1356	101.40	-1.00*	7.4	1.0
End-2019	Dec-19	424.12	4.59*	4.0933	103.60	2.17*	7.5	1.1
End-2020	Dec-20	432.24	8.12*	4.0158	107.60	4.02*	8.6	1.2
End-2021	Dec-21	486.79	54.55*	4.1645	116.89	9.25*	7.7	1.2
Latest release	Jul-23	529.26	7.20	4.6878	112.90	1.49	5.1**	1.1

Source: Dept. of Statistics, Kenanga Research, CEIC, Bloomberg

*: Change from the preceding year

**: Imports of goods and services (effective from 22 February 2022)

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