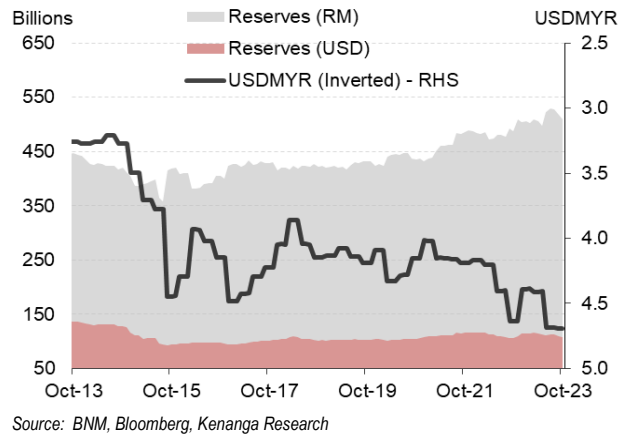


BNM International Reserves

Shrank further by USD1.6b in October due to the depletion of FX reserves

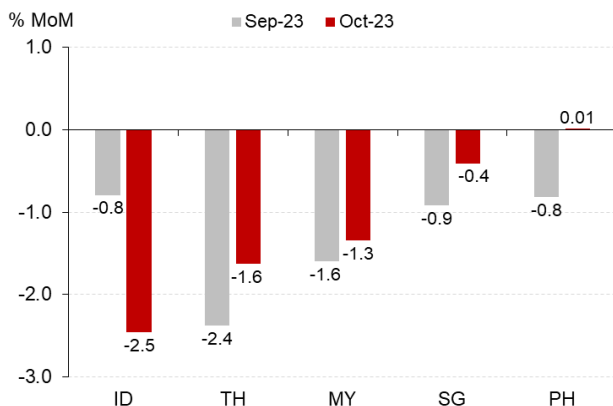
- Bank Negara Malaysia (BNM) international reserves declined for the third consecutive month, falling by USD1.6b or -1.5% MoM to a one-year low of USD108.5b as of 31 October 2023**
 - Sufficient to finance 5.1 months of imports of goods and services (previously retained imports: 7.0 months) and is 1.0 time total short-term external debt.
- The decline was mainly attributable to a continued drop in foreign currency reserves**
 - Foreign currency reserves (-USD1.6b or -1.6% MoM to USD96.5b): shrank to its lowest level since October 2022 due to continued central bank interventions, a fall in the conversion value of other foreign currencies into USD, reduced exports receipts and possible rise in portfolio capital outflows. Notably, the BNM's net FX reserves fell to an 11-month low USD56.7b in September (Aug: USD59.8b) as the short position in FX swaps widened to USD24.1b (Aug: USD22.9b).
 - IMF reserve position (-USD0.1b or -6.2% MoM to USD1.3b): declined at the fastest pace since March 2015.
 - Meanwhile, special drawing rights, other reserve assets, and gold reserve were relatively unchanged.
- In ringgit terms, the value of BNM reserves declined further by RM7.8b or -1.5% MoM to RM509.4b**
 - USDMYR monthly average (4.75; Sep: 4.68): despite Malaysia's robust macroeconomic fundamentals and China's better-than-expected GDP performance, the ringgit depreciated to its weakest level on record in October, breaching the psychological threshold of 4.70/USD. This can be attributed to the negative widening of the 10-year MY-US government bond yield differential, which reached -72.1 bps on average (Sep: -45.7 bps), driven by concerns of a hawkish Fed and escalating tensions in the Middle East.
 - Regional currencies: tracking the same trajectory as the weak ringgit (-1.3%), other ASEAN-5 currencies, namely the IDR (-2.5%), THB (-1.6%), and SGD (-0.4%), also saw depreciation against the USD. This was a result of the USD index strengthening by over 1.0% to an average of 106.4 in October (Sep: 105.3). However, PHP managed to strengthen marginally (0.01%), thanks to the off-cycle rate hike by the Bangko Sentral ng Pilipinas' on October 26.
- BNM status quo on policy rate to extend into 2024 amid modest inflation and optimistic GDP outlook**
 - We reckon that the BNM will likely maintain status quo with no adjustments to the overnight policy rate at 3.00% and a neutral policy tone in 2024. This expectation is rooted in the central bank's modest inflation outlook and its optimistic perspective on the economic trajectory. Nonetheless, it's worth noting escalating geopolitical tensions, contributing to increased macroeconomic uncertainty, have the potential to overshadow any emerging signs of recovery in global trade and growth. This, in turn, could exert pressure on domestic GDP growth.
 - USDMYR year-end forecast (4.44; 2022: 4.40): despite the ongoing strength of US economic activity and the increasing geopolitical tensions, which are driving demand for the safe-haven USD, there are evident signs of vulnerability in the economy, especially in the labour market. We anticipate a potential further increase in the US unemployment rate, making the Fed's pursuit of a soft landing increasingly unlikely. Once the market observes more evidence of these developments, the USD is likely to weaken further, benefiting the ringgit.

Graph 1: BNM's International Reserves



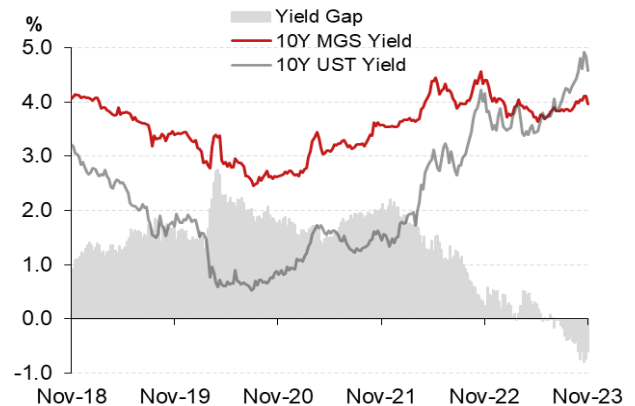
Source: BNM, Bloomberg, Kenanga Research

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 November 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	4.6860	112.94	1.54	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	Oct-23	509.36	-7.78	4.6946	108.50	-1.65	5.1**	1.0

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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