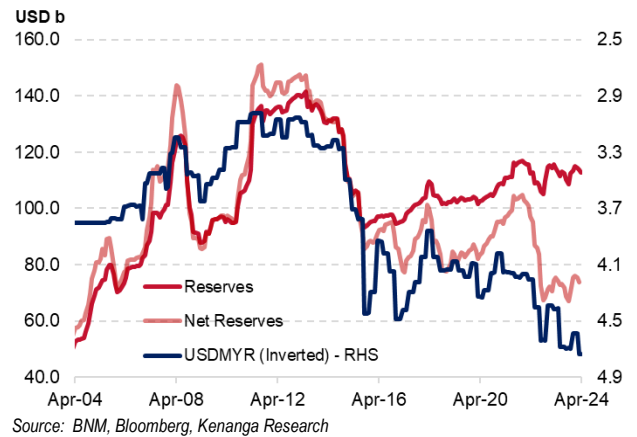


BNM International Reserves

Fell by USD1.0b in April amid risk-off environment

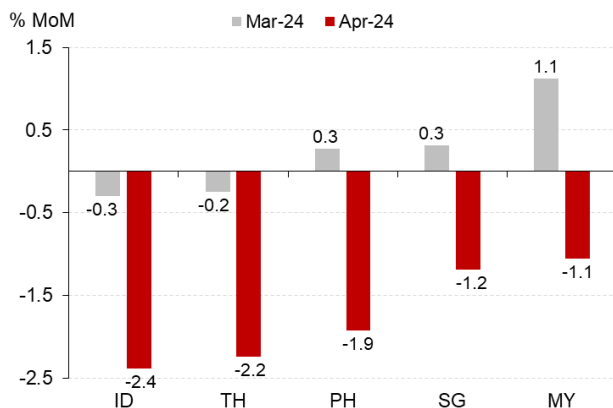
- Bank Negara Malaysia (BNM) international reserves continued to decline by USD1.0b or -0.9% MoM to a five-month low of RM112.8b as of 30 April 2024**
 - It is sufficient to finance 5.5 months of imports of goods and services (previously retained imports: 6.6 months) and is 1.0 time total short-term external debt.
- The decline was primarily attributed to a continued drop in foreign currency reserves and other reserve assets**
 - Foreign currency reserves (-USD0.7b or -0.7% MoM to USD100.6b): decreased for the third consecutive month, potentially due to a reduction in the converted value of non-USD assets, BNM's foreign exchange intervention, outflows from the capital market, and lower repatriation of export earnings.
 - Other reserve assets (-USD0.4b or -14.1% MoM to USD2.3b): declined at the fastest pace since August 2018.
 - Meanwhile, special drawing rights, gold and IMF reserve positions remained relatively unchanged.
- In ringgit terms, the value of BNM reserves reached the second-highest level on record of RM534.3b (-RM4.7b or -0.9% MoM)**
 - USDMYR monthly average (4.77; Mar: 4.72): Despite erasing all its March gains, the ringgit remains the least worst-performing currency in the ASEAN-5 against the USD, partly due to intervention by the local authority. The ringgit faced pressure from the still elevated US core PCE reading and solid retail sales figures, denting hopes for a Fed rate cut.
 - Regional currencies: Following the ringgit's 1.1% depreciation, other ASEAN currencies also weakened against the USD, including the SGD (-1.2%), PHP (-1.9%), THB (-2.2%), and IDR (-2.4%). This trend is largely due to the strengthening USD index (April average: 105.4; March: 103.7), driven by robust US data and risk-off sentiment stemming from geopolitical tensions.
- BNM is expected to maintain the status quo despite upside risk to prices**
 - While facing potential upward pressures on inflation due to the prospect of subsidy rationalisation in 2H24 and the recent wage hike for civil servants, inflation rates are expected to remain stable, staying below 3.0% for both 2024 and 2025. Given our optimistic growth forecast, the BNM is expected to uphold its current policy rate of 3.00% for the next 6-12 months.
 - USDMYR year-end forecast (4.42; 2023: 4.59): Despite the hotter-than-expected inflation readings in the US, indicators such as weak labour demand, sluggish wage growth, and a rise in corporate bankruptcies, credit card defaults, and auto delinquencies suggest that vulnerable segments of the economy are grappling with elevated interest rates. Anticipated further economic softness and the potential easing of inflationary pressures in the coming months could prompt the Fed to consider a rate cut as early as September. Concurrently, with expectations of the BNM maintaining its current stance for the remainder of the year and the government's commitment to fiscal discipline, there may be strong potential for the ringgit to strengthen below the 4.50/USD level by the end of 2024.

Graph 1: BNM's International Reserves



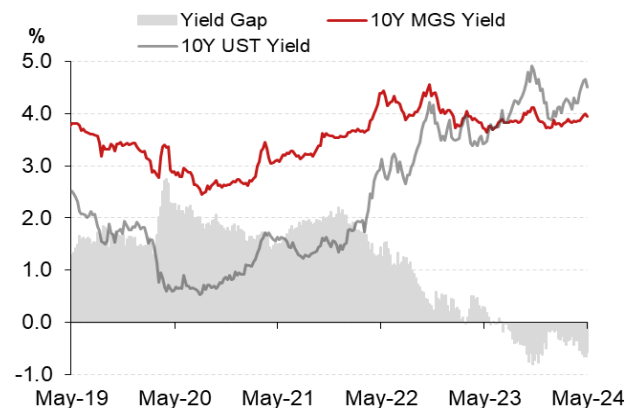
Source: BNM, Bloomberg, Kenanga Research

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

09 May 2024

Table 1: Latest Update and Historical Milestone for BNM Reserves

		RM bil	Change from previous month	USDMYR	US bil	Change from previous month	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)	Mar-24	538.97	14.53	4.7361	113.80	-0.48	5.6**	1.0
End-2020	Dec-20	432.37	8.28*	4.0170	107.64	4.02*	8.6	1.2
End-2021	Dec-21	486.85	54.47*	4.1650	116.89	9.25*	7.7	1.2
End-2022	Dec-22	503.33	16.48*	4.3900	114.65	-2.24*	5.2**	1.0
End-2023	Dec-23	520.75	17.42*	4.5890	113.48	-1.18*	5.4**	1.0
Latest release	Apr-24	534.25	-4.71	4.7363	112.80	-0.97	5.5**	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)

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may affect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my