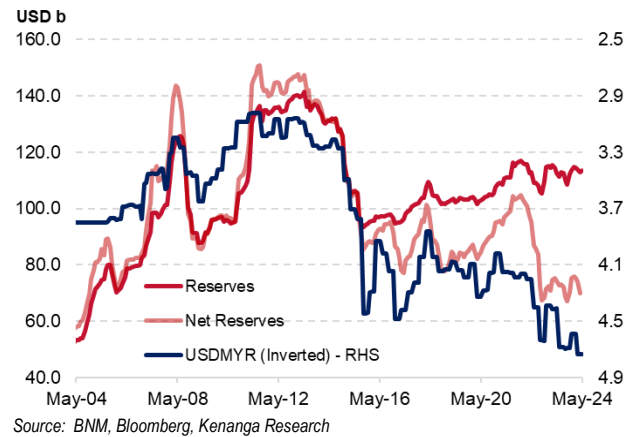


BNM International Reserves

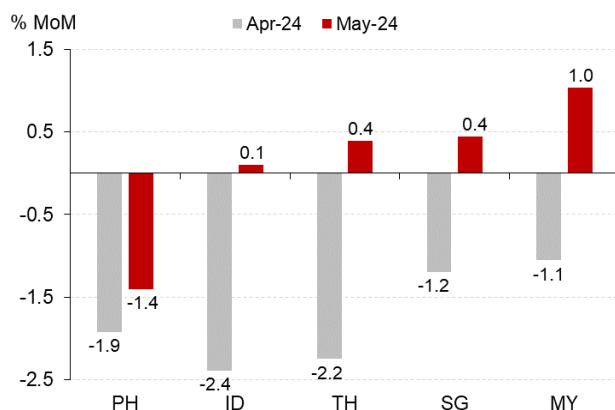
Rose marginally by USD0.8b in May amid substantial foreign capital inflows

- After three consecutive months of decline, Bank Negara Malaysia (BNM) international reserves grew by USD0.8b or 0.7% MoM, to RM113.6b as of 31 May 2024**
 - It is sufficient to finance 5.4 months of imports of goods and services (previously retained imports: 6.7 months) and is 1.0 time total short-term external debt.
- The rebound was primarily attributed to an increase in foreign currency reserves**
 - Foreign currency reserves (USD0.9b or 0.9% MoM to USD101.5b): increased for the first time in four months, mainly driven by substantial inflows (RM7.0b) from the capital market, and potentially higher repatriation of export earnings.
 - IMF reserve positions (-USD0.1b or -5.1% MoM to USD1.3b): fell at the fastest pace since March 2015.
 - Meanwhile, special drawing rights, gold and other reserve assets remained relatively unchanged.
- In ringgit, the value of BNM reserves almost hit the highest level on record (RM538.1b; RM3.8b or 0.7% MoM)**
 - USDMYR monthly average (4.72; Apr: 4.77): The ringgit rebounded in May, becoming one of the best-performing ASEAN currencies as the USD index (DXY) depreciated. This depreciation was driven by a lack of hawkish conviction from the Fed, a softer US jobs report, a slowdown in core CPI, and weak retail sales. The prospect of policy divergence between the Fed and G10 central banks also exerted pressure on the USD. Additionally, the ringgit was bolstered by the BNM's decision to maintain the policy rate and robust domestic macroeconomic readings.
 - Regional currencies: In line with the ringgit's appreciation (1.0%), most ASEAN currencies also strengthened against the USD. The SGD and THB each appreciated by 0.4%, while the IDR saw a modest gain of 0.1%. This occurred as the DXY averaged lower at 104.9 in May (Apr: 105.4), with Fed Powell suggesting that a rate hike was unlikely. In contrast, the PHP weakened for the second consecutive month, depreciating by 1.4% on average, mainly due to signals from the Bangko Sentral ng Pilipinas indicating a readiness to pivot to monetary easing.
- Status quo expected by the BNM amid manageable inflation outlook and solid growth prospects**
 - Inflation rates are expected to remain stable, averaging around 2.7% in 2024. Our inflation forecast has already taken into account the recently announced diesel subsidy rationalisation and the potential floating of RON95 in 4Q24. Coupled with our optimistic growth forecast of 4.5-5.0%, the BNM is expected to keep the overnight policy rate unchanged at 3.00%, potentially until the end of 2025.
 - USDMYR year-end forecast (4.42; 2023: 4.59): Even though the latest nonfarm payroll figures exceeded all forecasts, pushing rate cut expectations back to November, we continue to see signs of weakness in the US economy. Job seekers are taking longer to find work, firms are laying off workers to cut costs, and with mounting credit card debt and higher mortgage bills, something is likely to break soon. This builds the case for a Fed rate cut in September. Combined with Malaysia's solid fundamentals, the ringgit is set to appreciate. The government's efforts to repatriate foreign income and its commitment to fiscal consolidation may also help strengthen the local note.

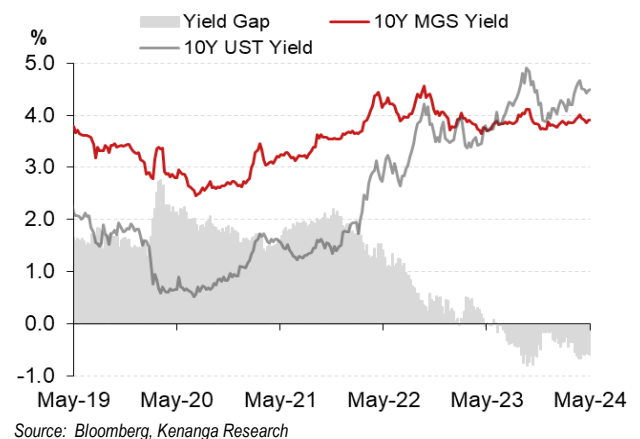
Graph 1: BNM's International Reserves



Graph 2: ASEAN-5 Currencies (monthly average)



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



11 June 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	May-24	538.09	3.84	4.7367	113.60	0.81	5.4**	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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