

BNM International Reserves

Higher foreign currency and gold reserves lift June holdings slightly by RM0.2b

- **Bank Negara Malaysia (BNM) international reserves continued to rise, increasing by USD0.2b or 0.2% MoM to RM113.8b as of 28 June 2024**

- It is sufficient to finance 5.4 months of imports of goods and services (previously retained imports: 6.4 months) and is 1.0 time total short-term external debt.

- **This can be attributable to higher foreign currency and gold reserves amid quarterly revaluation gains**

- Foreign currency reserves (USD0.1b or 0.1% MoM to USD101.5b): increased slightly due to FX revaluation gains. Of note, the BNM's net FX reserves increase marginally to USD58.4b in May (Apr: USD57.6b), but still well below its 10-year average of USD80.9b, as the short position in FX swaps remained high at USD26.9b.
- Gold (+USD0.1b or 5.1% MoM to USD2.9b): largest holdings on record as gold price surged by 4.3% QoQ to USD2,326.8/troy ounce, driven by rising demand for safe-haven assets.

- Meanwhile, special drawing rights, other reserve assets and IMF reserve positions remained relatively unchanged.

- **In ringgit, the value of BNM reserves fell slightly to RM537.3b (-RM0.8b or -0.2% MoM)**

- USDMYR monthly average (4.71; May: 4.72): Despite the USD's relative strength, the ringgit appreciated for the second straight month in June, albeit marginally by 0.1% (May: 1.0%), partly due to the narrowing of the 10-year MGS-UST negative yield differential (average Jun: -43.6 bps; May: -58.0 bps). We note that the ringgit is the only currency in the ASEAN-5 region to have strengthened against the USD, attributed to the continued coordinated initiatives by the government and BNM, as well as a robust macroeconomic backdrop.

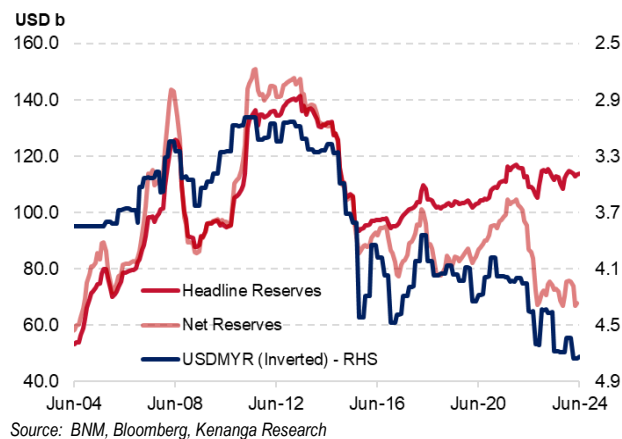
- Regional currencies: In contrast, all other ASEAN-5 currencies weakened against the strengthening USD, led by the IDR (-1.7%), followed by the PHP (-1.5%), THB (-0.2%), and SGD (-0.1%). The USD index averaged higher at 105.2 in June (May: 104.9), buoyed by stronger-than-expected nonfarm payrolls, a hawkish Fed, concerns over the French election outcome, the Bank of England's dovish stance, and a weakening JPY. Also, the weaker yuan, amid lack of domestic catalysts, further weighed on Asian currencies.

- **BNM is expected to keep policy status quo for the time being amid favourable growth-inflation balance**

- With inflation expected to average around 2.7% in 2024 and 3.0-3.5% in 2025, BNM is likely to keep the OPR unchanged for the next 12-18 months. However, the central bank will continue to monitor the pass-through effects of the recent diesel subsidy rationalisation, and the potential floating of RON95 and the implementation of the progressive wage policy in 4Q24. Coupled with solid growth prospects, our outlook reflects BNM's balanced approach to maintaining price stability while supporting economic expansion.

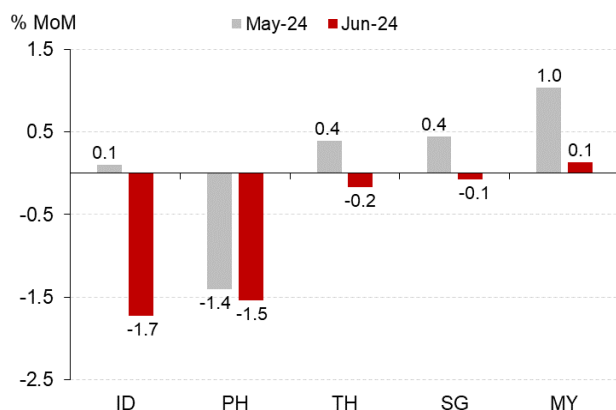
- USDMYR year-end forecast (4.42; 2023: 4.59): Despite the US economy's unexpected resilience to a 525-basis point rate hike, the lagged effects are becoming evident. Over-leveraged consumers and businesses face higher borrowing costs, leading to rising credit card and auto loan delinquencies and a surge in corporate bankruptcies. Consequently, this may prompt two rate cuts by the Fed this year. Coupled with a robust domestic economic outlook and BNM's status quo, we maintain a bullish ringgit outlook for 2H24.

Graph 1: BNM's International Reserves



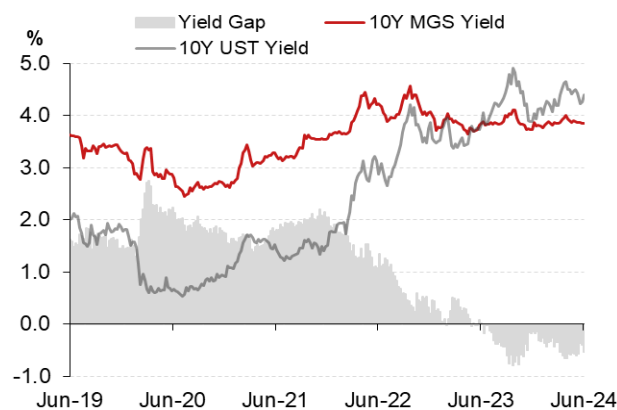
Source: BNM, Bloomberg, Kenanga Research

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 July 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	Jun-24	537.28	-0.81	4.7213	113.80	0.21	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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