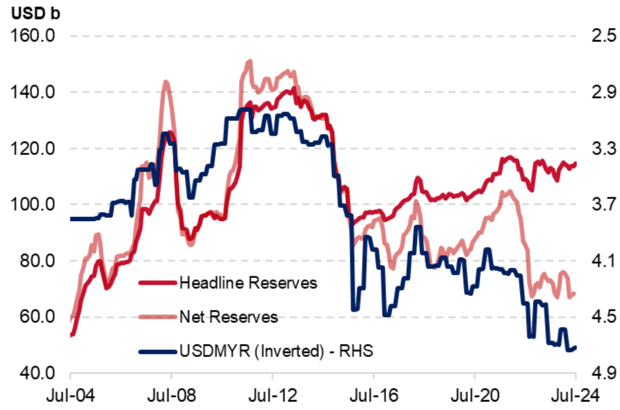
BNM International Reserves

Strong foreign capital inflows boost July holdings by USD0.9b

- **Bank Negara Malaysia (BNM) international reserves rose for the third consecutive month, increasing by USD0.9b or 0.8% MoM to RM114.7b as of 31 July 2024**
  - This level is sufficient to finance 5.5 months of imports of goods and services (previously retained imports: 6.4 months) and is 1.0 time total short-term external debt.
- **The increase is primarily due to an increase in foreign currency reserves, driven by substantial capital inflows**
  - Foreign currency reserves (USD0.8b or 0.8% MoM to USD102.4b): increased to a 16-month high, supported by significant foreign inflows (RM9.1b) from the capital market, and potentially higher repatriation of export earnings. Notably, BNM's net FX reserves saw a marginal gain to USD59.1b in June (May: USD58.4b).
  - Meanwhile, the short position in FX swaps surged to a record high of USD28.0b, signalling FX intervention.
  - Gold, special drawing rights, other reserve assets and IMF reserve positions remained relatively unchanged.

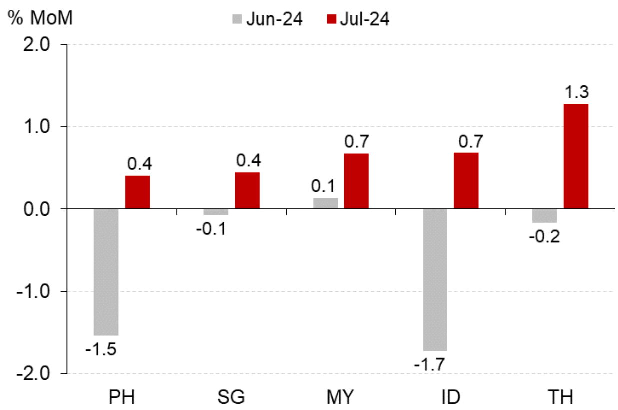
Graph 1: BNM's International Reserves



Source: BNM, Bloomberg, Kenanga Research

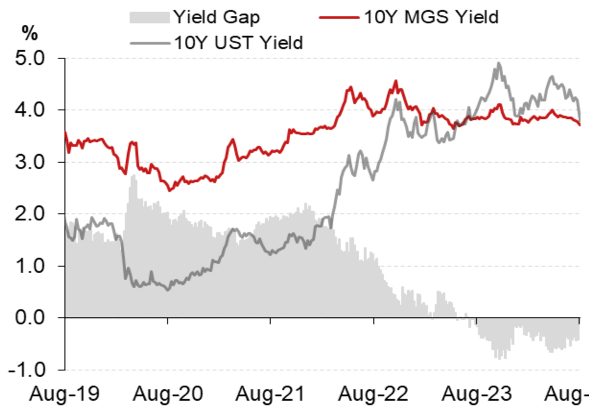
- **In ringgit terms, the value of BNM reserves hit a new record high of RM541.3b (+RM4.0b or 0.7% MoM)**
  - USDMYR monthly average (4.68; Jun: 4.71): The ringgit appreciated for the third straight month in July, buoyed by a weak USD amid soft US core inflation readings, weakening ISM manufacturing and services figures, signs of struggling US job market and Fed Chair Powell's hints at potential rate cuts. The local note also benefitted from positive domestic factors, such as robust 2Q24 advance GDP reading, stable labour market conditions, record-high distributive trade sales values, and the BNM's status quo.
  - Regional currencies: Following the ringgit's 0.7% appreciation, all other ASEAN-5 currencies also strengthened against the weakening USD, led by the THB (1.3%), followed by the IDR (0.7%), SGD (0.4%), and PHP (0.4%). Despite, rising bets of a Trump presidency and increasing geopolitical tensions, the USD index (DXY) averaged lower at 104.6 in July (Jun: 105.2), mainly due to the increasing likelihood of a September rate cut by the Fed. A stronger yen, spurred by the Bank of Japan's unexpected rate hike and hawkish stance, further pressured the DXY.
- **BNM set to maintain policy settings amid balanced growth and inflation prospects**
  - Given the stable inflation outlook, the BNM may hold the overnight policy rate steady for the next 12 months. The BNM is expected to remain vigilant, monitoring the impacts of the diesel subsidy rationalisation, the progressive wage policy rollout in October, and the civil servants' salary increase in December, ranging from 15.0% to 42.7%. This adjustment will benefit 1.6m civil servants, representing about 9.0% of Malaysia's 17.1m labour force, one of the largest civil servants per capita in the world. BNM's cautious stance underscores its commitment in balancing price stability, while supporting economic growth.
  - USDMYR year-end forecast (4.42; 2023: 4.59): A weakening DXY, expected to hover around the 101.0-102.0 level in 4Q24, driven by expected 25 bps rate cuts by the Fed in September and potentially December amid a cooling job market and slowing inflation, could further bolster the ringgit. Domestically, ongoing government debt reduction through fiscal consolidation may boost investor confidence and potentially lead to a credit rating upgrade. Coupled with BNM's maintaining its policy stance, especially as most global central banks are expected to lower rates in 4Q24, this could attract capital inflows, reinforcing the positive outlook for the ringgit. However, downside risks persist due to US political and global geopolitical uncertainties.

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

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)	Jul-24	**541.26**	3.98	4.7190	114.70	0.88	5.5**	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	**Jul-24**	**541.26**	**3.98**	**4.7190**	**114.70**	**0.88**	**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)*

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