

BNM International Reserves

Another month of robust foreign capital inflows boost August holdings by USD2.1b

- **Bank Negara Malaysia (BNM) international reserves increased by USD2.1b or 1.9% MoM, reaching USD116.8b as of 30 August 2024—the highest level since December 2021**

- Despite this increase from July, reserve adequacy in terms of import coverage dipped to 5.4 months (July: 5.5 months), likely due to a surge in imports. Additionally, the reserves remain just sufficient to cover 1.0 time the total short-term external debt, barely meeting the IMF's minimum recommended adequacy level.

- **The rise in reserves was primarily driven by a sharp increase in foreign currency reserves, boosted by significant capital inflows**

- Foreign currency reserves (+USD2.1b or 2.0% MoM to USD104.5b): increased to an almost 10-year high, supported by significant foreign inflows (RM11.5b) into the capital market, along with potentially higher repatriation of export earnings and foreign direct investment. Notably, BNM's net FX reserves increase rose for the third consecutive month to USD59.3b in July (Jun: USD59.1b).

- However, the short position in FX swaps surged to a record high of USD29.3b, indicating continued BNM intervention.
- Gold, special drawing rights, other reserve assets and IMF reserve positions remained relatively unchanged.

- **In ringgit terms, the value of BNM reserves hit another record high of RM550.5b (+RM9.2b or 1.7% MoM)**

- USDMYR monthly average (4.42; Jul: 4.68): The ringgit surged in August, becoming the world's best-performing currency with a sharp 6.0% appreciation—the fastest September 1998, when the local note was pegged to the USD. This was primarily driven by a sharp correction in the USD, as the Fed hinted at a possible rate cut in September amid cooling inflation and a weakening labour market. Malaysia's strong growth outlook, stable monetary policy, fiscal reforms, and relative political stability further bolstered the ringgit's performance.

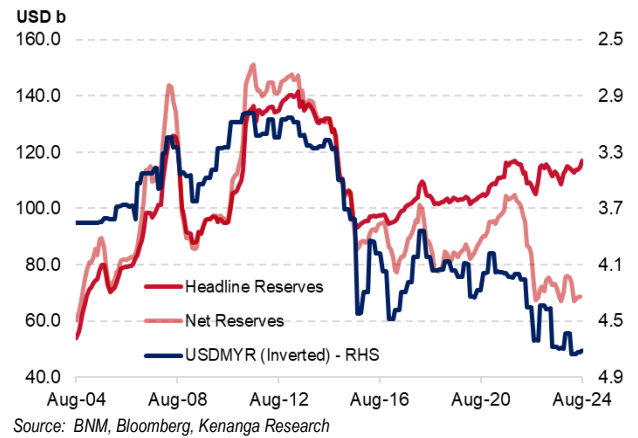
- Regional currencies: Other ASEAN-5 currencies also benefited from the USD's decline, with the THB (4.3%) leading the gains, followed by the IDR (3.2%), PHP (2.7%), and SGD (2.4%). Growing expectations of multiple Fed rate cuts pushed the USD index down to an average of 102.5 in August (Jul: 104.6), its lowest level in over a year. This, combined with a risk-on sentiment, fuelled demand for emerging market assets, supporting regional currencies.

- **No change to monetary policy settings expected amid stable inflation and growth prospects**

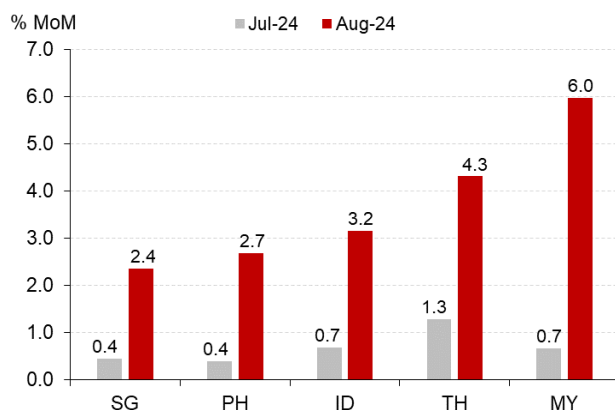
- With inflation subdued and economic growth steady, BNM is expected to maintain its current monetary policy for the next 12-15 months. However, upside risks to inflation, arising from changes in government policies and external risks, especially geopolitical tensions, remain. Undoubtedly, BNM will stay vigilant and ready to respond if necessary.

- USDMYR year-end forecast (4.42; 2023: 4.59): Last Friday's key US jobs data continues to keep the market guessing whether the Fed will cut rate by 25 or 50 bps in September, with the probability of the latter dropping back to 30.0%. We have been bullish on the ringgit since last year, forecasting it to reach 4.25/USD by end-2024, driven by expectations of US economic weakness and subsequent Fed rate cuts. However, emerging signs of a potential soft landing in the US economy suggest the Fed may cut rate by only 50-75 bps this year, rather than the 100-125 bps currently expected by the market. This could lead to a USD rebound in 4Q24, pushing the ringgit to trade closer to 4.40/USD by year-end from around 4.33 currently.

Graph 1: BNM's International Reserves

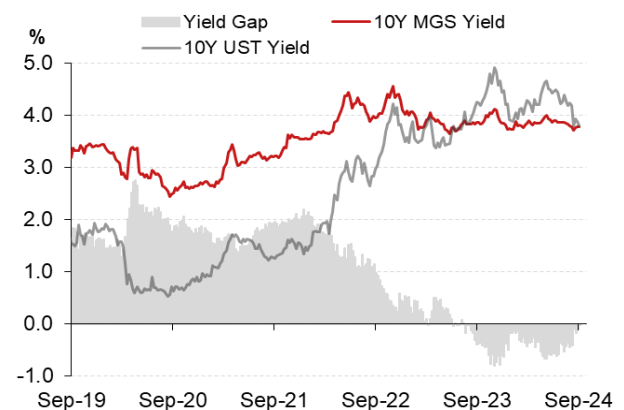


Graph 2: ASEAN-5 Currencies (monthly average)



Source: BNM, CEIC, Kenanga Research

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



Source: Bloomberg, Kenanga Research

09 September 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)	Aug-24	550.45	9.19	4.7128	116.80	2.14	5.4**	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	Aug-24	550.45	9.19	4.7128	116.80	2.14	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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