

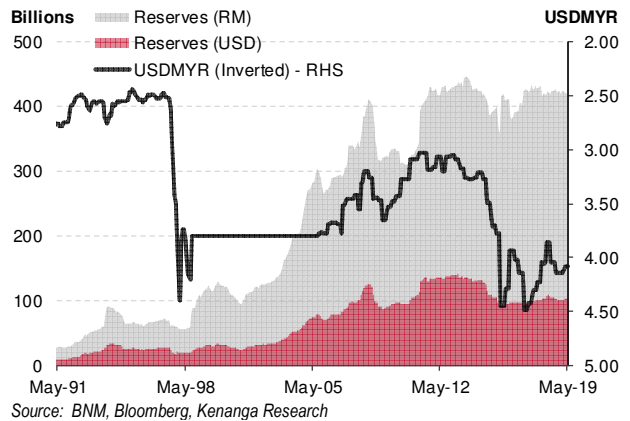
BNM Forex Reserves

Fell in May to a 3-month low as Ringgit faces selling pressure

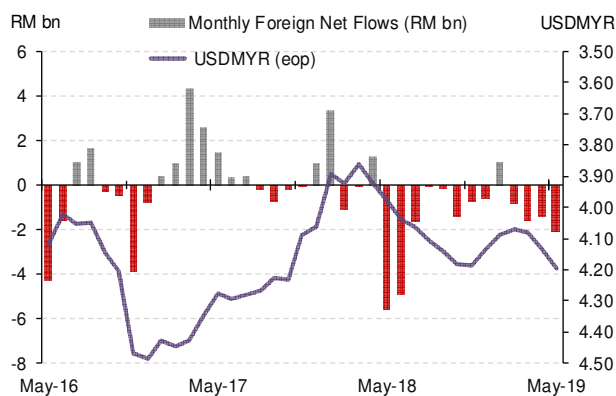
OVERVIEW

- Bank Negara Malaysia (BNM) foreign international reserves fell by USD1.1b or 1.1% MoM to a 3-month low of USD102.3b as at May 31 from USD103.4b a month before.** According to BNM, the reserves position is sufficient to finance 7.3 months of retained imports and is 1.1 time the short-term external debt. The month's decline in forex reserves was the first this year after rising for four consecutive months since January.
- The decline in foreign reserves was mainly attributable to a fall in foreign currency reserves and other reserve assets.** Specifically, foreign currency reserves fell by 1.0% MoM (Apr: +0.2%) to USD96.3b in May, while other reserve assets dropped sharply by 4.3% MoM to USD2.2b.
- In Ringgit terms, the value of forex reserves fell by 1.1% MoM or -RM4.5b, to RM417.4b as at end-May from RM421.9b in the preceding month, its lowest since May 2018.** On average, the USDMYR was traded at RM4.17 in May versus RM4.11 in the previous month, weakening as much as 1.3% MoM (Apr: -0.9%), charting its third month of depreciation. The continued depreciation in Ringgit could be attributable to the US-China trade war escalation as well as another knock-on effect following US Treasury's decision to include Malaysia in the Monitoring List of Potential Currency Manipulator. Earlier, investors were shaken by FTSE Russell's announcement on the potential exclusion of Malaysian debt from the FTSE World Government Bond Index. BNM's decision to cut the OPR by 25 basis point could have further exacerbated investors concern. The performance of other regional currencies were mixed with the Thai Baht bucking the trend or up by 0.2% MoM outperforming other regional peers while the Indonesian Rupiah was among the worst performer or down by 1.7% MoM in May.
- Uncertainties arising from external factors continue to exert risk to the domestic financial market and economic growth.** On the trade war front, the US has raised tariffs to 25.0% from 10.0% on USD200.0b of Chinese goods on May 10, with President Trump vowing to impose tariffs on the remaining USD300.0b untaxed imports from China. So far total US tariffs applied exclusively to Chinese goods has increased to USD250.0b. Meanwhile, the growth slowdown in major economies including the US, China, and Eurozone is expected to weigh on domestic activity. Nonetheless, the dovish stance by the US Fed and European Central Bank may put a damper on the outflow of hot money from the domestic market. However, we reckon capital outflows would continue in dribs and drabs on the back of lingering uncertainties in the global economy and financial market.
- For the rest of the year, **we foresee the Overnight Policy Rate to remain at 3.00%** amid subdued inflation associated with the impact of policy measures, though there is still room to cut the OPR in anticipation of further deterioration on the domestic economy. On the Ringgit outlook, **we maintain our USDMYR year-end forecast of 4.10** on the back of relatively sound economic fundamentals despite heightened economic risk and uncertainty. An increasingly dovish US Fed and elevated crude oil price may also provide some support to the Ringgit.

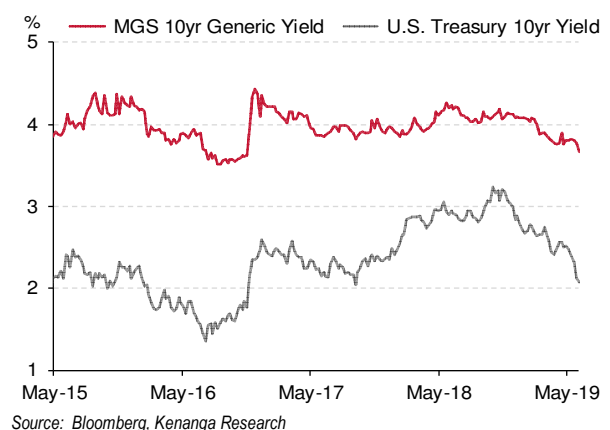
Graph 1: Malaysia's External Reserves Growth Trend



Graph 2: Capital Flows



Graph 3: 10-Year US Treasury Yield Vs 10-Year MGS Yield



12 June 2019

Table 1: Latest Update and Historical Milestone for BNM Reserves

	Month	RM bil	Change	USDMYR	US bil	Change	Months	Times
		O/stand.	frm Prev	Average	O/stand.	frm Prev	of	of ST
			Mth			Mth	retained	Debt
			RM bil			US bil	Imports.	
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
End-2016	Dec-15	424.15	24.51	4.4872	94.52	-1.87	8.8	1.3
End-2017	Dec-17	414.60	-15.79	4.0770	102.40	0.58	7.2	1.1
End-2018	Dec-18	419.54	-3.31	4.1729	101.40	-0.58	7.4	1.0
Latest release (end-May 2019)	May-19	417.36	-4.52	4.1709	102.30	-1.11	7.3	1.1

Source: Dept. of Statistics, Kenanga Research, CEIC, Bloomberg

For further information, please contact:

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

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saufuddin.sapuan@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 effect 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.

Published and printed 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

