

BNM International Reserves

On continued uptrend in December on FX revaluation gains and gold buying activity

- **Bank Negara Malaysia (BNM) international reserves rose marginally by USD0.2b or 0.2% MoM (Nov: 0.5%) to USD116.9b as of 31 December 2021**

- Sufficient to finance 7.7 months of retained imports and is 1.2 times total short-term external debt.

- **This was attributable to an increase in foreign currency reserves, gold and other reserve assets**

- Foreign currency reserves (+USD0.2b or 0.2% MoM to USD104.1b): grew for the third consecutive month to the highest level since December 2014, partly due to the quarterly revaluation changes.

- Gold (+USD0.1b or 6.6% MoM to USD2.3b): fastest pace of increase in 18 months, due to its safe-haven appeal amid rising Omicron fears.

- Other reserve assets (+USD0.02b or 0.6% MoM to USD3.1b): reverted into an uptrend.

- **In ringgit terms, the value of BNM reserves recorded its first decline in three months, falling by RM2.2b or -0.4% MoM to RM486.8b, its largest decline since December 2020**

- USDMYR monthly average (4.211; Nov: 4.175): despite widening MY-US 10-year government bond yield spread, improving China's macroeconomic figures, better-than-expected domestic macroeconomic readings and improving local COVID-19 situation, the ringgit extended its losses by 0.9% (Nov: -0.3%) against the safe-haven USD in December. The greenback was mainly supported by the Fed's hawkish pivot during its mid-December meeting and Omicron variant concerns. To note, the USD index (DXY) rose to an average of 96.2 in December (Nov: 95.3).

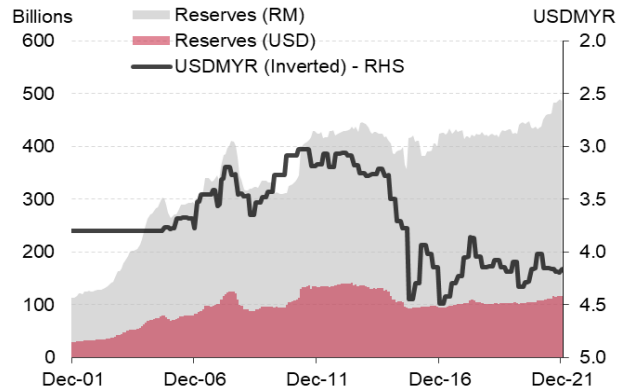
- Regional currencies: majority of the regional currencies also weakened against the USD in December, led by THB (-1.4%), followed by SGD (-0.5%) and IDR (-0.5%). Bucking the trend, PHP managed to outpace the USD uptrend and appreciated by 0.2% on the back of a strong remittance flows into the country.

- **BNM may only start to tighten its monetary policy in the 2H22**

- Since the reopening of most social and economic sectors in October, the domestic economy is already showing some signs of recovery and GDP growth is expected to rebound to 4.0%-6.0% in the 4Q21 (3Q21: -4.5%) Nevertheless, the BNM is expected to remain cautious and leave the policy rate unchanged at 1.75% at least until end of 1H22 to support the ongoing recovery and to ensure Malaysia's smooth transition to endemicity.

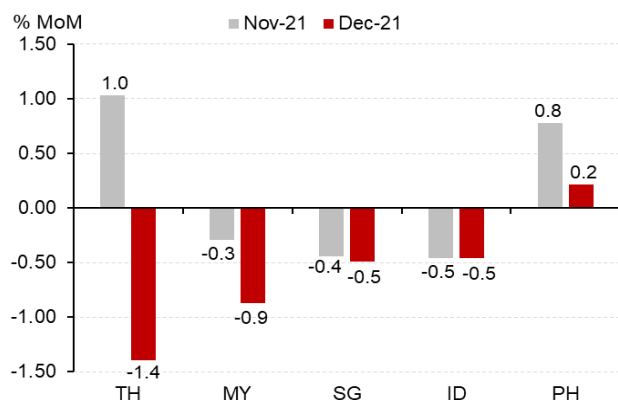
- USDMYR year-end forecast (4.10; 2021: 4.17): in the 1Q22, the local note may continue to struggle to appreciate against the safe-haven dollar on the back of rising DXY amid expectation of a faster first rate hike by the Fed and deteriorating global economic outlook due to the fast-spreading Omicron variant. Nevertheless, we remained cautiously bullish on the ringgit trend in the near term and project the USDMYR pair to trade at around the 4.15 level by the end of March due to Malaysia's improving economic outlook and elevated crude oil prices.

Graph 1: BNM's International Reserves



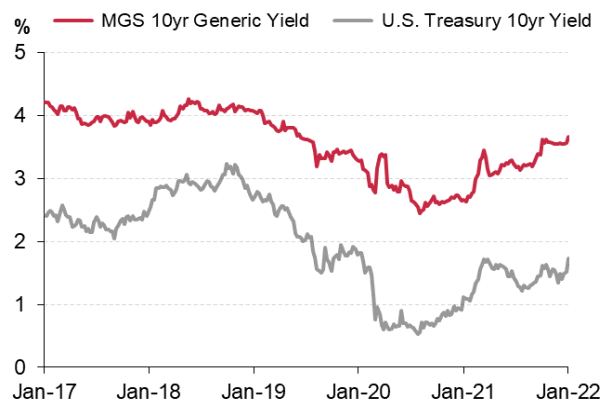
Source: BNM, Bloomberg, Kenanga Research

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

10 January 2022

Table 1: Latest Update and Historical Milestone for BNM Reserves

		RM bil	Change frm Prev Mth	USDMYR	US bil	Change frm Prev Mth	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)	Nov-21	488.98	2.76	4.1913	116.67	0.54	8.0	1.3
End-2017	Dec-17	414.60	-9.56*	4.0470	102.40	7.92*	7.2	1.1
End-2018	Dec-18	419.54	-4.94*	4.1356	101.40	-1.00*	7.4	1.0
End-2019	Dec-19	424.12	4.59*	4.0933	103.60	2.17*	7.5	1.1
End-2020	Dec-20	432.24	8.12*	4.0158	107.60	4.02*	8.6	1.2
Latest release (End-2021)	Dec-21	486.79	-2.19	4.1642	116.90	0.23	7.7	1.2

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

*: Change from the preceding year

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