

BNM International Reserves

Fell by USD3.1b in April due to capital outflows following aggressive Fed rate tightening

- **Bank Negara Malaysia (BNM) international reserves declined for the fourth consecutive month, falling by USD3.1b or -2.7% MoM (Mar: -0.1%) to USD112.5b as of 29 April 2022**

- Sufficient to finance 5.9 months of imports of goods and services (previously retained imports) and is 1.2 times total short-term external debt.

- **The decline was mainly attributable to a sharp drop in foreign currency reserves**

- Foreign currency reserves (-USD3.1b or -3.0% MoM to USD100.0b): fastest pace of decline since June 2018 due to the foreign exchange intervention to limit ringgit's weakness amid portfolio capital flight.
- Other reserve assets (-USD0.02b or -0.7% MoM to USD2.7b): lowest holdings in 17 months.
- Gold (-USD0.01b or -0.6% MoM to USD2.4b): decreased marginally.

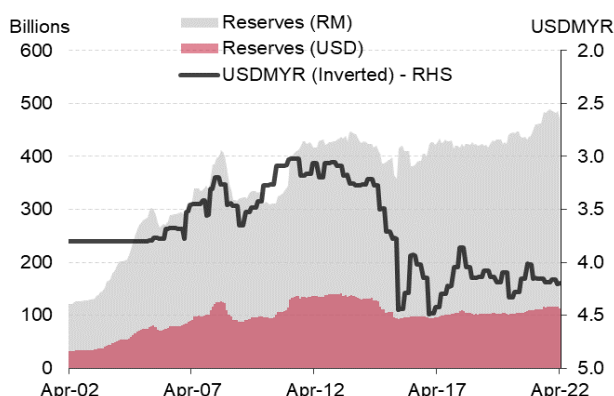
- **In ringgit terms, the value of BNM reserves registered the largest decline in 52 months, falling by RM13.2b or -2.7% MoM to RM472.6**

- USDMYR monthly average (4.267; Mar: 4.199): the ringgit weakened by 1.6% against the USD, the fastest pace of depreciation in nine months, mainly due to a sharp rise in both the USD index (DXY) (100.7; Mar: 98.7) and 10-year US Treasury yield (2.7%; Mar: 2.1%) on average. The local note experienced strong selling pressure due to rising market volatility amid Fed's hawkish stance and weakening of the yuan amid China's strict COVID-19 policy.
- Regional currencies: most of the regional currencies tracked the same path, led by THB (-1.6%), followed by SGD (-0.6%) and IDR (-0.1%), mainly due to foreign fund outflows and a stronger DXY amid global risk-off environment. Bucking the trend, PHP strengthened by 0.2% against the USD due to falling Brent crude oil price (USD105.9/barrel; Mar: USD112.5/barrel) on average and the Philippine central bank's hawkish statement.

- **BNM may continue to cautiously remove monetary policy accommodation while ensuring a sustainable growth**

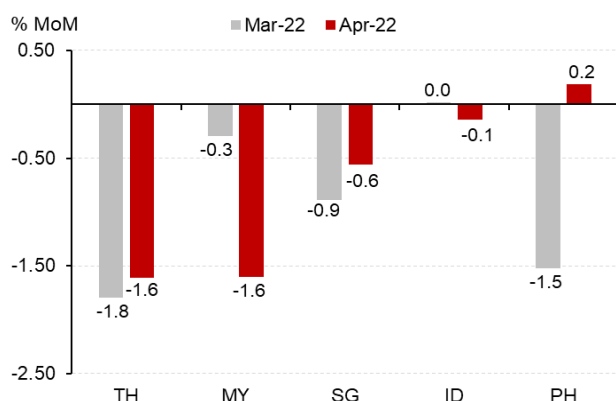
- After maintaining the status quo (1.75%) since July 2020, the BNM delivered a surprise 25 basis points hike on May 11 as "latest indicators show that growth is on a firmer footing driven by strengthening domestic demand amid sustained export growth". Moving forward, the BNM is expected to hike between 50 to 75 basis points in the three remaining meetings this year. However, the decision will continue to be highly data-dependent as risks to growth remain.
- USDMYR year-end forecast (4.28; 2021: 4.17): despite optimism over a strong post-pandemic recovery, emerging market currencies may continue to be under pressure due to the worsening supply chain crisis and heightened market uncertainty amid China's unyielding COVID-19 policy and the ongoing war between Russia and Ukraine. To add, the current Fed's tightening cycle is expected to increase portfolio outflows from riskier economies, including Malaysia, further weakening the ringgit. Hence, we have revised our USDMYR year-end forecast to 4.28 from 4.10.

Graph 1: BNM's International Reserves



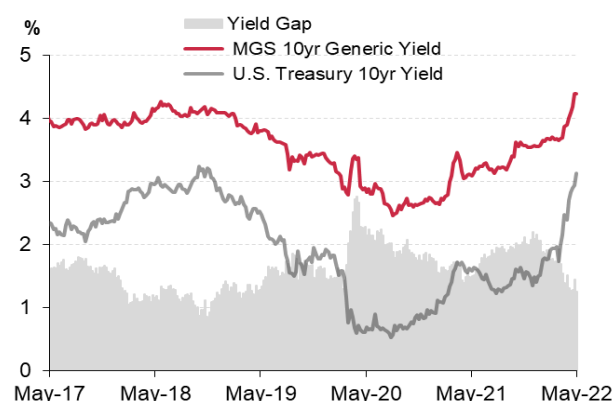
Source: BNM, Bloomberg, Kenanga Research

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

12 May 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-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
End-2021	Dec-21	486.79	54.55*	4.1645	116.89	9.25*	7.7	1.2
Latest release	Apr-22	472.60	13.23	4.2009	112.5	-3.09	5.9**	1.2

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

*: Change from the preceding year

**: Imports of goods and services

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