

BNM International Reserves

Rises by 0.3% or USD0.3b in May after four straight months of declines

- After a sharp drop in April (-USD3.1b), Bank Negara Malaysia (BNM) international reserves rebounded by USD0.3b or 0.3% MoM to USD112.8b as of 31 May 2022

- Sufficient to finance 5.7 months of imports of goods and services (previously retained imports) and is 1.1 times total short-term external debt.

- This was attributable to an increase in foreign currency reserves, special drawing rights (SDRs) and other reserve assets

- Foreign currency reserves (+USD0.3b or 0.3% MoM to USD100.3b): recorded a marginal gain after declining sharply in April (-3.0% MoM), due to a -1.2% fall in the USD index (DXY) on a monthly basis.

- SDRs (+USD0.03b or 0.5% MoM to USD6.0b): fastest pace of increase in nine months.

- Other reserve assets (+USD0.01b or 0.2% MoM to USD2.7b): reverted into an uptrend after a two-month decline.

- In ringgit terms, the value of BNM reserves increased marginally by RM1.6b or 0.3% MoM to RM474.2b

- USDMYR monthly average (4.380; Apr: 4.267): Despite Malaysia's solid 1Q22 GDP growth and BNM's monetary policy tightening, the ringgit weakened by 2.6% against the USD, the fastest pace of depreciation since March 2020, mainly attributable to a stronger USD amid a more hawkish Fed and rising geopolitical tensions. On top of that, the local note was also pressured by a weaker yuan due to China's slowing economic growth.

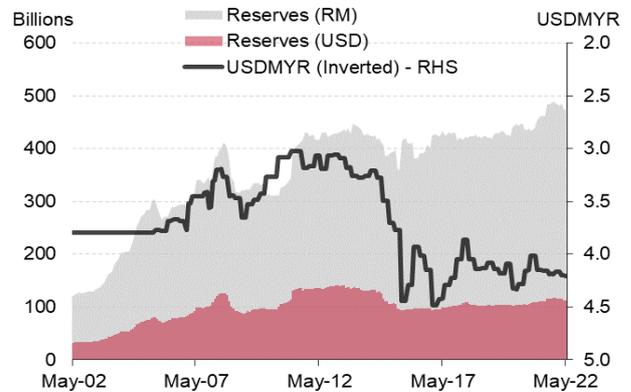
- Regional currencies: broad-based depreciation against a strengthening USD amid the deterioration in global risk appetite, led by THB (1.8%), followed by IDR (-1.6%), SGD (-1.2%) and PHP (-0.7%). To note, the DXY rose by 2.4%, while the 10-year US Treasury yield jumped by 14.1 basis points on average in May.

- BNM to lean towards further tightening amid emerging inflation fears and weak ringgit environment

- There is a high possibility that the BNM may continue its tightening cycle in July as a possible implementation of targeted subsidies and withdrawal of price controls are seen to increase inflationary pressure. On top of that, the persistent weakness of the ringgit due to rising capital outflows may compel the BNM to hike again. However, despite expectations of a robust post-pandemic domestic economic recovery and China's reopening optimism, we remained cautious as the Russia-Ukraine war continues to weigh on global supply chain and growth in the immediate term.

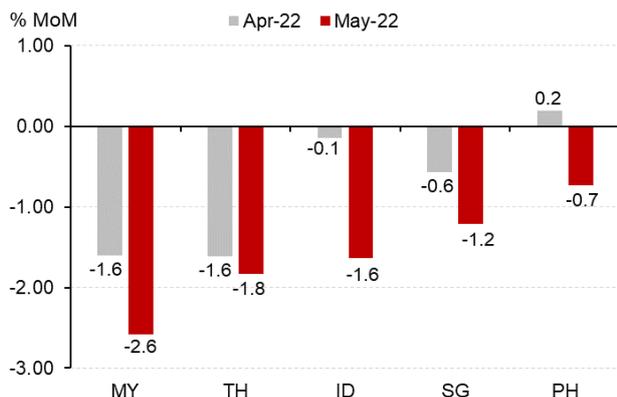
- USDMYR year-end forecast (4.28; 2021: 4.17): in the near term, the local note may continue to struggle to gain traction against a strengthening USD due to the Fed's continued hawkishness and weakening global risk sentiment. However, the ringgit may reverse its losses in 4Q22 and appreciate below the 4.30 level against the greenback amid potential supply chain normalisation and expectation of weak USD price dynamics.

Graph 1: BNM's International Reserves



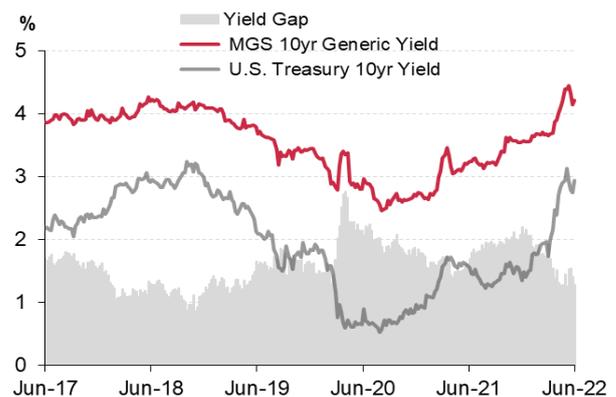
Source: BNM, Bloomberg, Kenanga Research

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

09 June 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	May-22	474.22	1.62	4.2041	112.80	0.34	5.7**	1.1

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

*: Change from the preceding year

**: Imports of goods and services

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