

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.

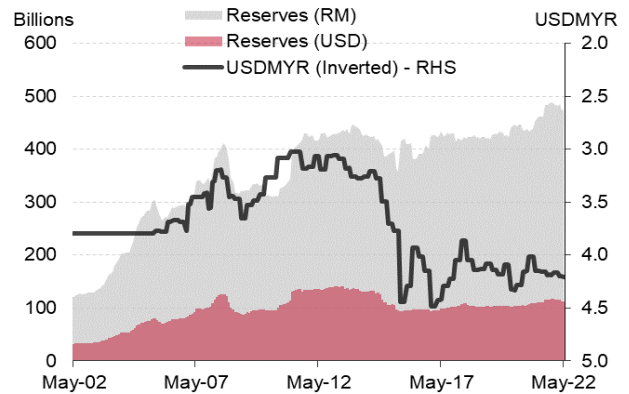
- Regional currencies: broad-based depreciation against a strengthening USD amid the deterioration in global risk appetite, led by THB (1.8%), followed by IDR (-1.6%), SGD (-1.2%) and PHP (-0.7%). To note, the DXY rose by 2.4%, while the 10-year US Treasury yield jumped by 14.1 basis points on average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

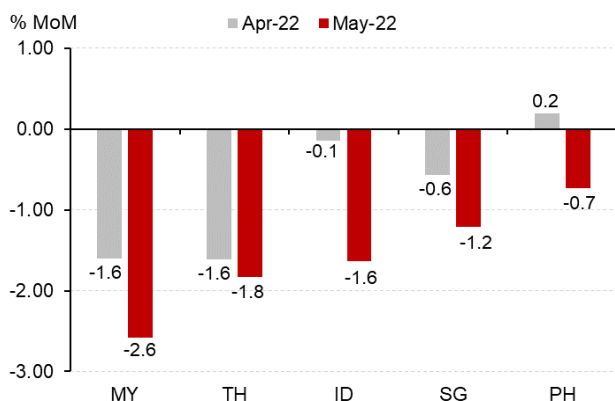
- USDMYR year-end forecast (4.28; 2021: 4.17): in the near term, the local note may continue to struggle to gain traction against a strengthening USD due to the Fed's continued hawkishness and weakening global risk sentiment. However, the ringgit may reverse its losses in 4Q22 and appreciate below the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

Graph 1: BNM's International Reserves



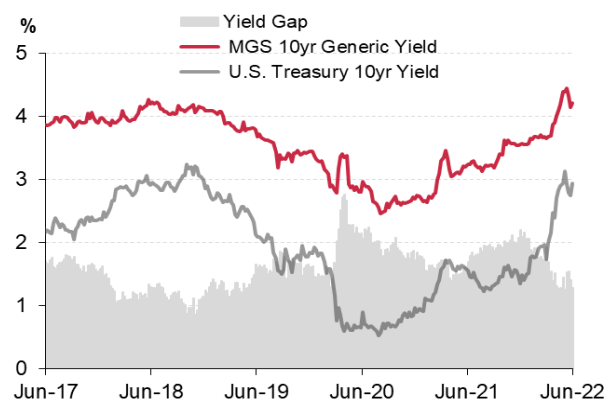
Source: BNM, Bloomberg, Kenanga Research

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

For further information, please contact:

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

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Zalman Basree
Economist
zalman@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 affect 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