

BNM International Reserves

Fell to its lowest level in 20 months in August, mainly due to a sharp decline in foreign currency reserves

- Bank Negara Malaysia (BNM) international reserves fell by USD1.0b or 0.9% MoM to USD108.2b as of 30 August 2022, its lowest level since December 2020**

- Sufficient to finance 5.4 months of imports of goods and services (previously retained imports) and is 1.1 times total short-term external debt.

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

- Foreign currency reserves (-USD1.0b or -1.1% MoM to USD96.1b): dropped to its lowest level in 28 months after a slight rebound in July (+USD0.2b), potentially due to the BNM foreign exchange intervention operations.
- IMF Reserve Position (-USD0.1b or -3.8% MoM to USD1.3b): dipped to its lowest position in 23 months.
- Other reserve assets (+USD0.1b or 4.1% MoM to USD2.8b): increased at the fastest pace in 19 months.

- In ringgit terms, the value of BNM reserves declined by RM4.3b or -0.9% MoM to RM476.5b**

- USDMYR monthly average (4.464; Jul: 4.441): despite a deceleration in US CPI in July and better-than-expected Malaysia 2Q22 GDP reading, the ringgit depreciated to its weakest level on record against the greenback as the USD index (DXY) ascent to above the 107.0 level on average, mainly due to the Fed's continued hawkishness and EUR's decline below parity. In addition, the local note was also pressured by the sharp yuan's depreciation due to China's weak economic prospects and the narrowing of MY-US yield premium.

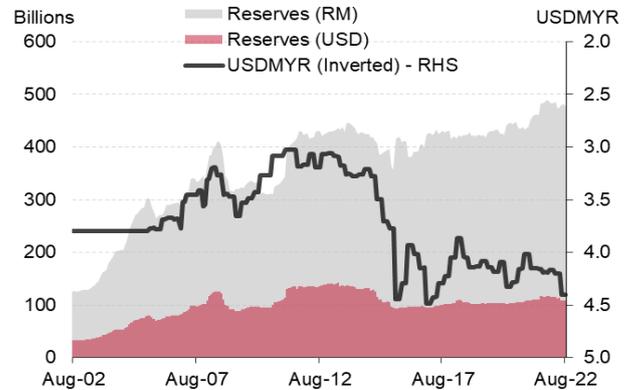
- Regional currencies: bucking the weak ringgit (-0.5%) trend, all ASEAN-5 currencies appreciated against the strengthening USD (Graph 2), mainly due to the normalisation of monetary policy by central banks (i.e. BoT, BI, BSP) in August. The appreciation was led by THB (1.6%), followed by IDR (0.9%), SGD (0.8%) and PHP (0.3%).

- BNM is likely to maintain its tightening bias until at least 1Q23**

- The improvement in the Malaysia labour market and robust economic recovery may compel the BNM to hike the overnight policy rate (OPR) by another 25 basis points (bps) at its Monetary Policy Committee on September 8 in an effort to pre-empt the build-up of demand-side inflationary pressure. Moving forward, we expect the BNM may continue to raise the OPR in 25 bps increments at every meeting until January 2023, bringing it to 3.00%.

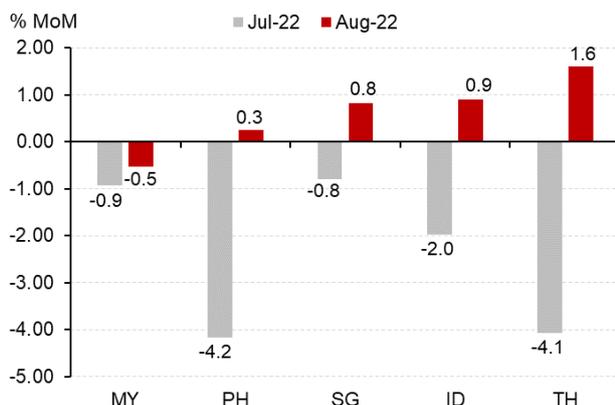
- USDMYR year-end forecast (4.35; 2021: 4.17): despite recently breaching the psychological threshold of 4.50 against the USD, the ringgit still has the potential to reverse its losses and strengthened around the 4.35 level by end-2022 amid favourable domestic economic prospects, potential USD seasonal weakness and elevated commodity prices. The ringgit is also expected to benefit from a potential rebound in yuan post-Chinese Communist Party's Congress in October. However, our forecast is subjected to significant downside risks, including domestic political uncertainty, a possible China's invasion of Taiwan and bets of another super-sized Fed rate hike post-September FOMC meeting.

Graph 1: BNM's International Reserves



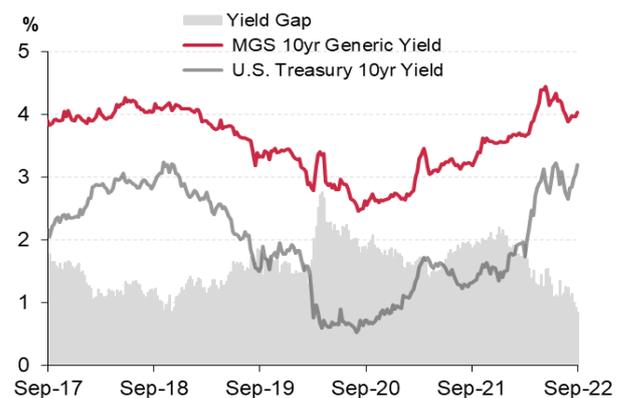
Source: BNM, Bloomberg, Kenanga Research

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

08 September 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 | Aug-22 | 476.50 | -4.27 | 4.4039 | 108.20 | -0.98 | 5.4** | 1.1 |

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

*: Change from the preceding year

**: Imports of goods and services (effective from 22 February 2022)

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Published and printed by:

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