

BNM International Reserves

Up USD4.9b or 4.4% MoM in December due to FX revaluation gains and risk-on sentiment

- **Bank Negara Malaysia (BNM) international reserves rose by the most in 16 months, increasing by USD4.9b or 4.4% MoM to USD114.6b as of 30 December 2022**

- Sufficient to finance 5.2 months of imports of goods and services (previously retained imports) and is 1.0 time total short-term external debt.

- **The rise was mainly attributable to the improvement in market condition as reflected by an increase in foreign currency reserves and gold**

- Foreign currency reserves (+USD4.4b or 4.5% MoM to USD102.6b): back to above the USD100.0b level for the first time in seven months, mainly due to FX revaluation gains and higher converted value of non-dollar assets.

- Gold (USD0.24b or 11.4% MoM to USD2.3b): fastest pace of increase in almost seven years due to an increase in gold price amid recessionary fears.

- Meanwhile, both special drawing rights and IMF reserve position increased by USD0.17b and USD0.07b respectively.

- **In ringgit terms, the value of BNM reserves declined by RM5.7b or -1.1% MoM to RM503.3b**

- USDMYR monthly average (4.410; Nov: 4.610): the ringgit appreciated by the most since September 1998, mainly due to the USD index (DXY) downward correction amid Fed's less hawkish expectation, US cooler-than-expected core inflation reading, seasonal weakness and the Bank of Japan's surprise policy shift. The local note was also supported by the strengthening of the yuan amid China's reopening optimism. However, ringgit's upside was partially capped by a weaker-than-expected domestic macroeconomic readings and global recessionary fears.

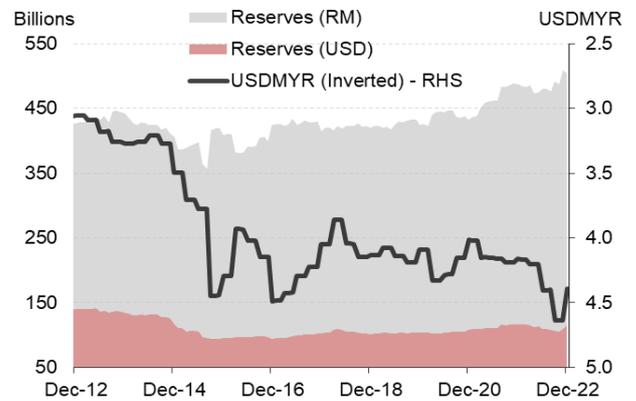
- Regional currencies: all ASEAN-5 currencies strengthened against the greenback as the DXY fell to an average of 104.5 in December (Nov: 108.0) due to a return of risk-on sentiment. The appreciation was led by THB (4.7%), followed by MYR (4.5%), PHP (3.5%), SGD (2.6%) and IDR (0.3%).

- **BNM may end its tightening cycle soon due to the looming global growth slowdown and increasing uncertainties**

- In an attempt to curb the record high core inflation, BNM is expected to deliver its fifth rate hike in a row on 19 January, bringing the overnight policy rate to 3.00%. In March, the possibility of another similar sized rate hike depends mainly on the inflation trend and growth outlook, in which a higher-than-expected reading may compel the BNM to increase the OPR to 3.25%.

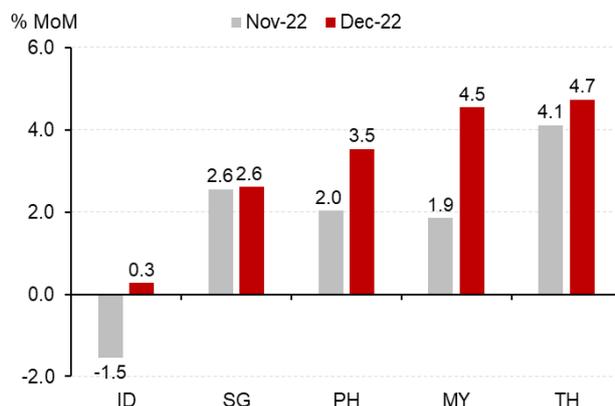
- USDMYR year-end forecast (4.11; 2022: 4.40): a further widening of monetary policy divergence between BNM and the Fed may pressure the ringgit to trade weaker against the USD in 1Q23. However, in 2023 as whole, we are fairly bullish on the ringgit, with the local note expected to trade stronger around the 4.32 level on average as it benefits from diminishing USD strength due to a potential Fed pivot in 2H23 and the appreciation of the yuan due to the eventual reopening of China.

Graph 1: BNM's International Reserves



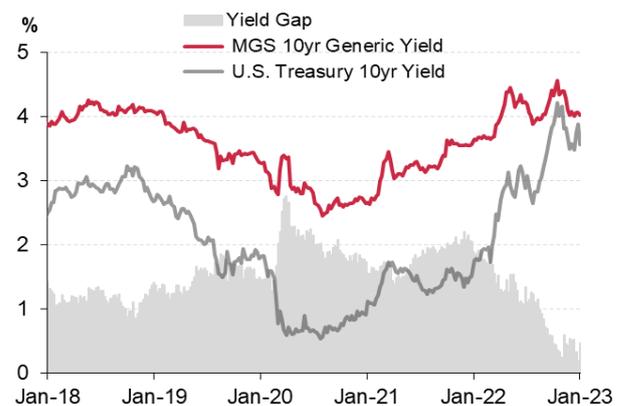
Source: BNM, Bloomberg, Kenanga Research

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 2023

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-22	509.02	21.23	4.6401	109.70	4.47	5.3**	1.0
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	Dec-22	503.29	-5.73	4.3917	114.6	4.88	5.2**	1.0

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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