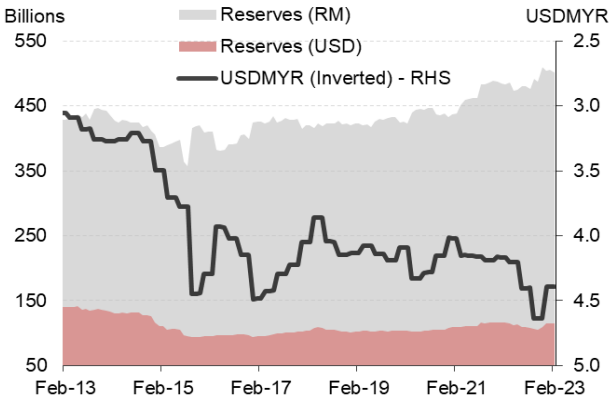
BNM International Reserves

Fell by 0.8% MoM to USD114.3b in February due to stronger USD demand

- **Bank Negara Malaysia (BNM) international reserves reverted to a downtrend, declining by USD0.9b or 0.8% MoM to USD114.3b as of 28 February 2023**
  - Sufficient to finance 5.0 months of imports of goods and services (previously retained imports) and is 1.0 time total short-term external debt.
- **The downtrend was primarily attributable to a depletion in the foreign currency reserves**
  - Foreign currency reserves (-USD0.8b or -0.8% MoM to USD102.2b): fell for the first time in three months, possibly due to FX intervention by the central bank, reduced exports receipts and capital outflows, as well as a decrease in the USD-converted value of other currency-based assets. In the meantime, the central bank's net foreign currency reserves increased marginally to USD60.2b in January (Dec: USD59.3b).
  - Meanwhile, other reserve assets, gold, special drawing rights and IMF reserve position remained fairly unchanged.

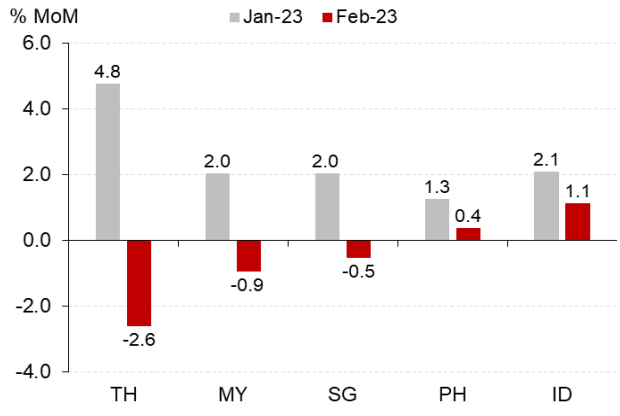
Graph 1: BNM's International Reserves



Source: BNM, Bloomberg, Kenanga Research

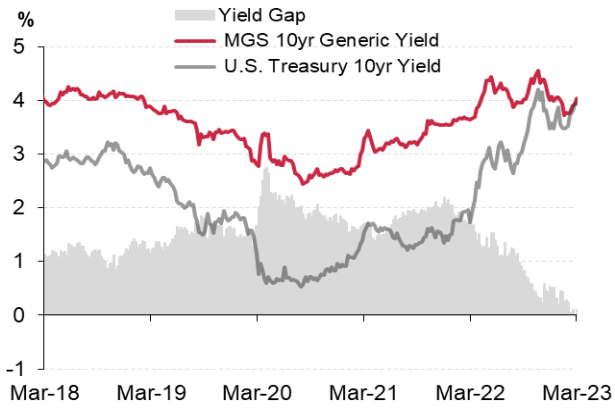
- **In ringgit terms, the value of BNM reserves declined by RM4.2b or 0.8% MoM to RM501.6b**
  - USDMYR monthly average (4.363; Jan: 4.322): after three consecutive months of appreciation, the Ringgit lost some of its gains in February due to the stronger demand for USD amid continued hawkish rhetoric by the Fed, as well as the weakening of the yuan due to rising US-CN geopolitical tensions. Furthermore, the Ringgit was negatively affected by the disappearance of its positive yield advantage over US Treasury for the first time in over a decade.
  - Regional currencies: tracking the same path, THB (-2.6%) and SGD (-0.5%) also weakened against the greenback as the USD index climbed to an average of 103.67 in February (Jan: 102.69). However, IDR strengthened by 1.1% due to Indonesia's (ID) better-than-expected 4Q22 GDP reading and solid ID-US 10-year government bond yield differential, while PHP appreciated by 0.4% due to Bangko Sentral ng Pilipinas' aggressive rate hike (+50 bps).
- **BNM is expected to maintain status quo amid global economic uncertainties and decelerating domestic inflation**
  - We reckon that the BNM has concluded its policy normalisation cycle and will opt to maintain the overnight policy rate (OPR) at its current level on March 9 due to indications of a slowdown in domestic inflation and the ongoing global economic deceleration. At this juncture, it is likely that the BNM may retain the OPR at 2.75% until end-2023, but major shifts in economic conditions in the coming months may prompt BNM to re-evaluate their rate adjustments.
  - USDMYR year-end forecast (4.11; 2022: 4.40): the local note may continue to trade under pressure around the 4.46 - 4.50 zone in the next few weeks as the BNM is expected to stop short at 2.75%, while the Fed may continue to hike by another 25 bps in March. The weakening trend of the ringgit is likely to persist for the time being, with the possibility of a reversal only emerging in 2H23. This expected turnaround is contingent on two factors, firstly, the Fed signalling an end to their interest rate hikes and secondly, China experiencing a robust economic recovery.

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

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	**Feb-23**	**501.63**	**-4.20**	**4.3887**	**114.30**	**-0.86**	**5.0****	**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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