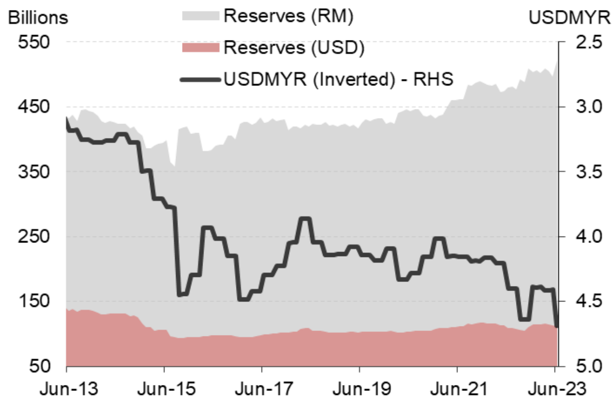
10 July 2023

BNM International Reserves

Continued its decline in June on FX reserves revaluation losses and BNM's intervention measures

- **Bank Negara Malaysia (BNM) international reserves remained on a downtrend for the third straight month, declining by USD1.3b or 1.1% MoM to a seven-month low of USD111.4b as of 30 June 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.
- **This was attributable to a decline in foreign currency reserves, special drawing rights (SDRs) and gold**
  - Foreign currency reserves (-USD1.1b or -1.1% MoM to USD99.2b): dipped below USD100.0b for the first time since November 2022, reflecting BNM's intervention in the forex market and loss from the quarterly foreign exchange revaluation, due to a 0.4% rise in the USD index (DXY) on a quarterly basis.
  - SDRs (-USD0.1b or -2.1% MoM to USD5.7b): fastest pace of decline in nine months.
  - Gold (-USD0.1b or -2.4% MoM to USD2.4b): first decline in nine months as gold price fell by 1.9% MoM and 2.5% QoQ due to a stronger USD.

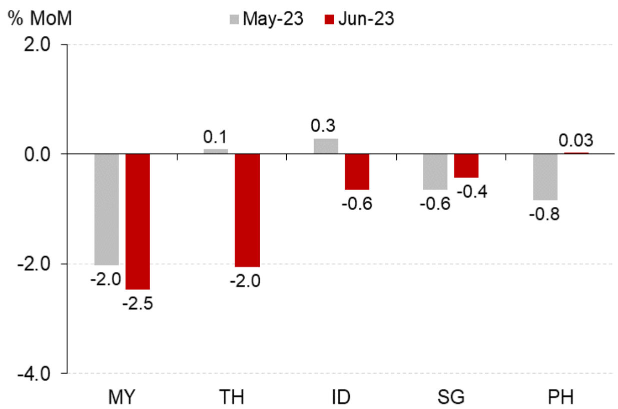
Graph 1: BNM's International Reserves



Source: BNM, Bloomberg, Kenanga Research

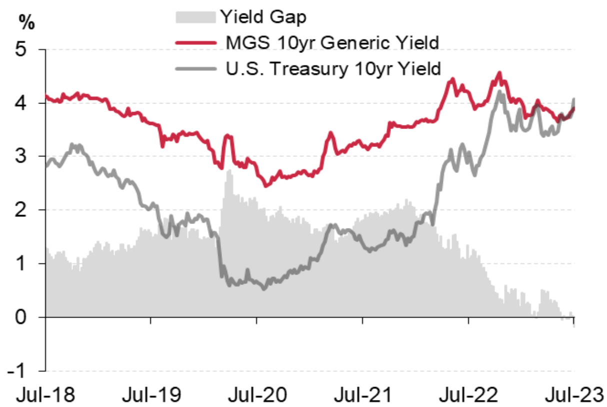
- **In ringgit terms, the value of BNM reserves hit a new record high of RM522.0b (+RM25.3b or 5.1% MoM)**
  - USDMYR monthly average (4.630; May: 4.516): despite the US debt ceiling deal and the Fed's decision to pause in its June meeting, the ringgit has continued to depreciate above the 4.60 level against the USD, mainly due to US' persistently solid macroeconomic data and the Fed's hawkish stance. Furthermore, the local note was also influenced by the weakening of the yuan due to China's sluggish factory activity and People Bank of China's easing measures.
  - Regional currencies: tracking the same path as the weak MYR (-2.5%), other regional currencies such as THB (-2.0%), IDR (-0.6%) and SGD (-0.5%) also weakened against the greenback as the DXY climbed to an average of 103.08 in June (May: 102.77). However, bucking the trend, PHP appreciated marginally by 0.03% due to solid PH-US interest rate differential and Bangko Sentral ng Pilipinas' active intervention in the foreign exchange market.
- **BNM to maintain status quo on policy rate for the next 6-12 months amid rising global economic uncertainties and decelerating domestic inflation rates**
  - We believe that the BNM has concluded its policy normalisation cycle and will opt to keep the overnight policy rate at 3.0% in the medium term as the ongoing moderation in cost factors may continue to drive both core and headline inflation lower in the coming months. However, the BNM is likely to maintain a data-dependent approach in its decision-making process and monitor the core inflation trend, changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.
  - USDMYR year-end forecast (4.29; 2022: 4.40): Despite the ongoing risk-off market sentiment and weak China's economic outlook, we maintain a relatively bullish view on the outlook for the ringgit in the next 3-6 months. We expect the ringgit to potentially benefit from an anticipated improvement in China's economy amid growing expectations of additional monetary and fiscal stimulus. Additionally, we expect the DXY to weaken due to the Fed's possible dovish pivot in 4Q23, which could be triggered by a slowdown in US economic growth.

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

	Month	RM bil O/stand.	Change frm Prev Mth RM bil	USDMYR End Period	US bil O/stand.	Change frm Prev Mth US bil	Months of retained Imports.	Times of ST 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)	Jun-23	**522.05**	25.26	4.6863	111.40	-1.26	5.0**	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	**Jun-23**	**522.05**	**25.26**	**4.6863**	**111.40**	**-1.26**	**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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