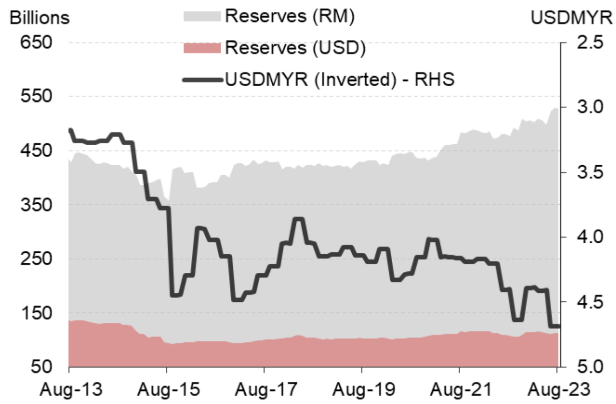
BNM International Reserves

Fell by USD0.4b to USD112.5b in August due to a marginal decrease in FX reserves

- **Bank Negara Malaysia (BNM) international reserves reverted to a downtrend, declining marginally by USD0.4b or 0.4% MoM to a two-month low of USD112.5b as of 30 August 2023**
  - 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 decline was primarily due to a slight drop in foreign currency reserves and other reserve assets**
  - Foreign currency reserves (-USD0.4b or -0.4% MoM to USD100.3b): fell marginally due to BNM FX intervention aimed at minimising volatility in the FX market. However, it is to note that the central bank's net foreign currency reserves increased marginally to USD60.8b in July (Jun: USD60.5b; 10-year average: USD85.9b).
  - Other reserve assets (-USD0.1b or -2.0% MoM to USD2.7b): reverted into a contraction after two straight months of growth.
  - Meanwhile, special drawing rights, gold, and IMF reserve position remained fairly unchanged.

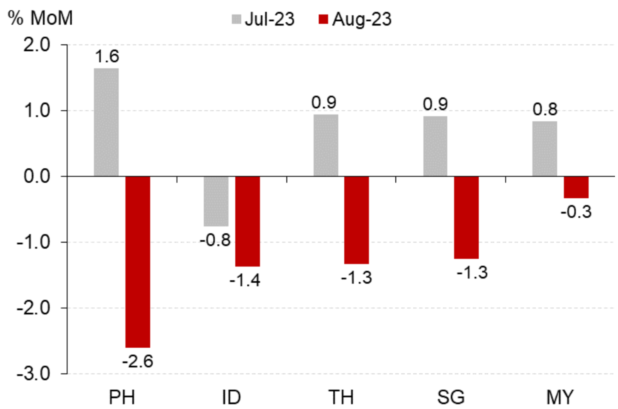
Graph 1: BNM's International Reserves



Source: BNM, Bloomberg, Kenanga Research

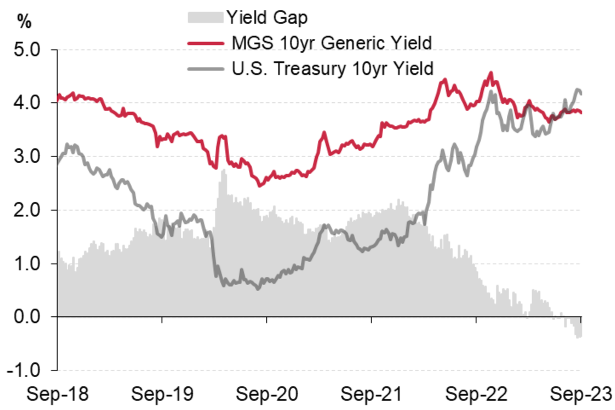
- **In ringgit terms, the value of BNM reserves declined to RM526.8b (-RM2.4b or -0.5% MoM)**
  - USDMYR monthly average (4.61; Jul: 4.59): the ringgit reversed some of its July's gains due to the weakening of the yuan and a stronger USD. To note, the yuan weakened by more than 0.8% MoM on average against the USD due to China's weak macro readings and a surprise rate cut by the PBoC. However, despite unfavourable external factors, Malaysia's sharper-than-expected slowdown in GDP and negative MY-US yield differentials, the ringgit fared better than all of its ASEAN-5 peers, partly due to the political status quo achieved in pivotal state elections recently.
  - Regional currencies: all ASEAN-5 currencies weakened against the greenback as the USD index (DXY) soared to an average of 103.10 in August (Jul: 101.41) This was driven by increased safe-haven demand following Fitch's downgrade of US debt credit rating from AAA to AA+ and the Fed's openness to further rate hikes. The depreciation was led by PHP (-2.6%), followed by IDR (-1.4%), THB (-1.3%), SGD (-1.3%) and MYR (-0.3%).
- **BNM to maintain the overnight policy rate at 3.00% until 2024 amid slowing inflation and economic uncertainty**
  - The ongoing disinflation momentum as evidenced by the persistent slowdown in both headline and core inflation, corroborated by the deflationary trend in the producer prices is expected to keep the BNM on pause. This coupled with the slowing external demand and a growing sense of pessimism in the domestic economy, as indicated by the negative trend in MIER business optimism and consumer sentiment indices in 2Q23 may continue to exert downward pressure on prices. However, growing market uncertainties may continue to pose upside risks to inflation and complicate BNM's monetary policy direction.
  - USDMYR year-end forecast (4.29; 2022: 4.40): the ringgit's ongoing depreciation (above the 4.65/USD level) is expected to be short-lived as the DXY may soon return back to its downward trajectory and hover around the 100.0 - 101.0 zone. This is due to the house's expectation of a further slowdown in US core CPI, which could in turn sway the Fed to officially stop its hiking cycle at 5.50%. The weakening macro picture in the US is also seen to pressure the USD and benefit the local note. However, China's uncertainty may continue to pose headwind to the ringgit.

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)	Jul-23	**529.26**	7.20	4.6860	112.94	1.54	5.1**	1.1
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-23**	**526.84**	**-2.42**	**4.6830**	**112.50**	**-0.44**	**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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