

BNM International Reserves

Weak USD fuels USD1.2b increase in December following Fed’s dovish pivot

- Bank Negara Malaysia (BNM) international reserves increased by USD1.2b or 1.1% MoM to an eight-month high of USD113.5b as of 29 December 2023**

- Sufficient to finance 5.4 months of imports of goods and services (previously retained imports: 7.0 months) and is 1.0 time total short-term external debt.

- The gains are mainly due to the improved market conditions, as seen in the rise of foreign currency reserves and gold holdings.**

- Foreign currency reserves (+USD0.7b or 0.7% MoM to USD100.9b): increased marginally despite experiencing net portfolio capital outflows of -USD1.9b in December. This increase is typically due to a higher converted value of non-USD assets and FX revaluation gains.
- Gold (+USD0.3b or 12.2% MoM to USD2.6b): largest holdings on record as gold price increased by 1.2% MoM to USD2063.0/troy ounce due to a weaker USD.
- Meanwhile, special drawing rights, other reserve assets and IMF reserve position rose marginally by USD0.05-0.10b.

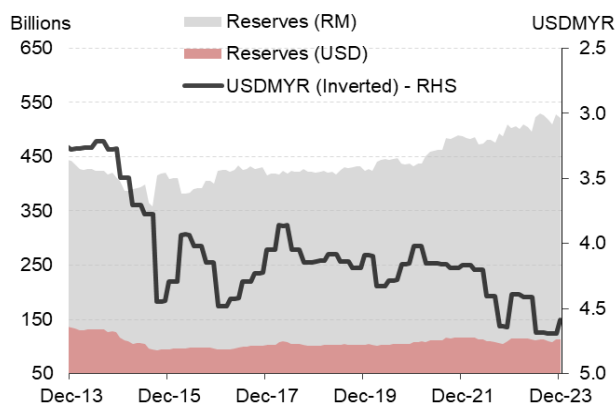
- In ringgit terms, the value of BNM reserves declined by RM6.4b or -1.2% MoM to RM520.8b**

- USDMYR monthly average (4.66; Nov: 4.69): the persistent decline in both the USD index (DXY) and the 10-year US Treasury yield, fuelled by the Fed's dovish narrative, has contributed to the ringgit's gains in December. The local note received an additional boost from the softer-than-expected US core PCE reading and the narrowing of the MY-US government bond yield differential. However, China's lacklustre economic outlook and the dearth of domestic catalysts have persistently kept the ringgit weak, remaining above the 4.60/USD level.
- Regional currencies: all ASEAN-5 currencies charted a similar trend of appreciation against the USD, led by THB (1.3%), followed by SGD (1.2%), MYR (0.6%), IDR (0.5%), and PHP (0.4%). The DXY averaged around 102.7 in December (Nov: 104.5), reflecting a 1.7% weakening. This decline is mainly attributed to market expectations of at least six rate cuts by the Fed in 2024 and partially to the USD's seasonal weakness.

- BNM to maintain policy rate in 2024 due to favourable growth outlook and manageable inflation expectations.**

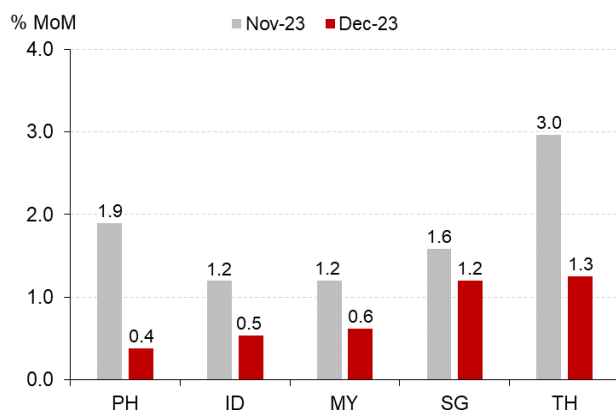
- Although 2024 may see rising prices due to domestic policies, reduced external demand and continued supply chain normalisation could keep the average inflation rate below the 3.00% overnight policy rate (OPR). This, coupled with a projected higher GDP growth of 4.9%, may remove any consideration of monetary easing by the BNM, leading to an expectation of an unchanged OPR throughout all six scheduled monetary policy committee meetings in 2024.
- USDMYR year-end forecast (4.25; 2023: 4.59): continued divergence in US macro data, exemplified by the enduring tightness in the labour market but a weakness in the services ISM, may push forward the expected start of the Fed easing cycle. Though it may favour the USD in the short term as a safe haven, the prospect of multiple Fed rate cuts this year, coupled with a potential erosion of market confidence in the US due to its ballooning debt and persistent fiscal deficit, could adversely impact the USD in the long run. The long-awaited recovery in China, along with a shift in portfolio allocation toward emerging markets, has the potential to bolster risk assets. These external factors, together with Malaysia's ongoing efforts toward fiscal consolidation through subsidy rationalisation may propel the ringgit to appreciate to around the 4.25/USD level by the end of 2024.

Graph 1: BNM's International Reserves



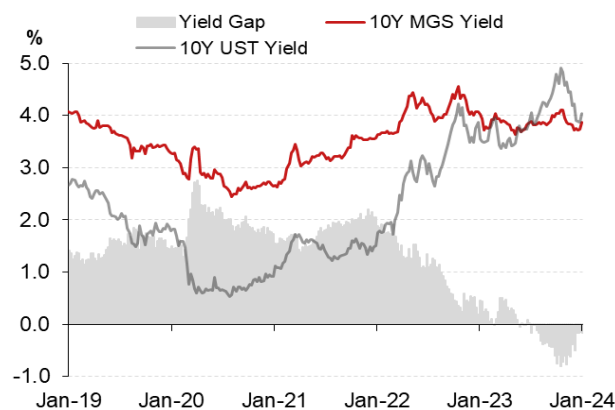
Source: BNM, Bloomberg, Kenanga Research

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

09 January 2024

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	Dec-23	520.75	-6.40	4.5881	113.50	1.20	5.4**	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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