

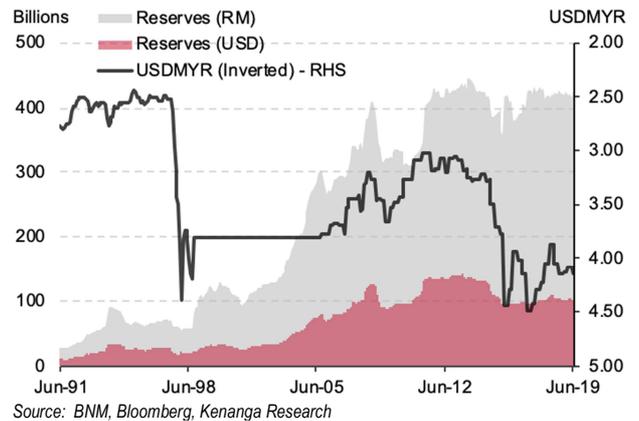
BNM Forex Reserves

Reserves back on an uptrend on net export gains and capital inflows

OVERVIEW

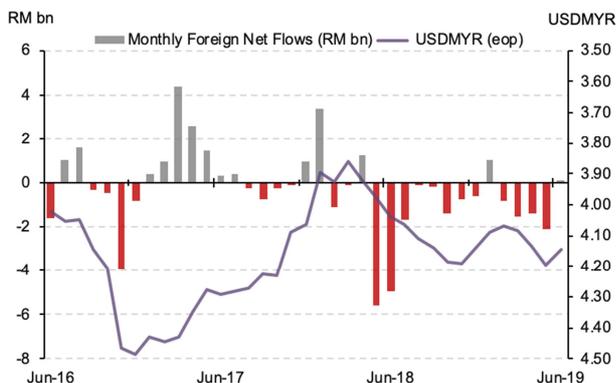
- Bank Negara Malaysia (BNM) international reserves were back on an uptrend, rising by USD0.4b or 0.4% MoM to USD102.7b as at June 28**, after it fell briefly by USD1.1b in May. Prior to May, the reserves were up for four consecutive months since January this year. According to BNM, the reserves position is sufficient to finance 7.3 months of retained imports and is 1.2 times the total short-term external debt. Of note, the reserves have incorporated quarterly adjustment to reflect foreign exchange revaluation changes.
- The increase in foreign reserves was underpinned by a rise in foreign currency reserves and gold.** In particular, foreign currency reserves edged up by USD0.3b or 0.3% MoM (May: -1.0%) to USD96.6b in June, suggesting a larger repatriation of export earnings along with inflows of portfolio capital and gains from the quarterly revaluation exercise, while the gold component marked its first increase in 6 months, rising by USD0.2b or 12.5% MoM to USD1.8b. The aforementioned factors masked a second consecutive drop in other reserve assets by USD0.2b or 4.5% MoM to USD2.1b.
- In Ringgit terms, the value of forex reserves rose at the fastest pace in 25 months by 1.9% MoM** or RM8.1b to RM425.4b as at end-June, marking its highest level in nine months (May: RM417.4b). In June, the USDMYR was traded at an average of RM4.16 versus RM4.17 in the preceding month, strengthening marginally by 0.2% MoM (May: -1.4%), charting its first appreciation after three straight months of depreciation, partly lifted by the release of better-than-expected April's trade figures, as well as May's Purchasing Managers Index which reported multi-year high business optimism. Other regional currencies also performed similarly in June, with the appreciation led by Thai Baht (2.2%), followed by Indonesian Rupiah (1.2%) and Philippine Peso (0.9%).
- Despite ample foreign reserves, uncertainties arising from external factors continue to exert risk to domestic financial market and economic growth.** On the trade war front, while the US and China have recently agreed on a temporary trade truce, deferring new tariffs on USD300b of Chinese goods, uncertainty on whether an actual trade deal could be finalised remains large. Slowdown in key export markets, including in China, the US and Eurozone, in spite of an aggressive fiscal stimulus, may weigh on Malaysia's domestic activity. As the US Federal Reserve and the European Central Bank banks have started to fully adopt a dovish monetary policy stance, with high-likelihood of benchmark rate cuts and liquidity injections, outflow of hot money would likely recede.
- For the rest of the year, we foresee **the Overnight Policy Rate (OPR) to remain at 3.00%** amid subdued inflation. Nonetheless, BNM has scope to further cut the OPR if the economy deteriorates further and if the Fed embarks on more than one rate cut this year. On the Ringgit outlook, **we maintain our USDMYR year-end forecast of 4.10** on strong economic fundamentals, weathering the prospects of softer economic growth.

Graph 1: Malaysia's External Reserves Growth Trend



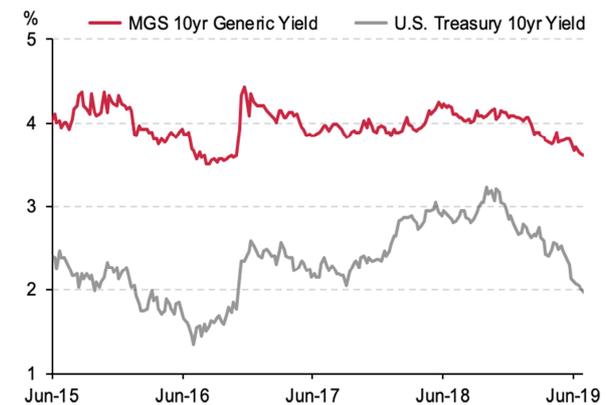
Source: BNM, Bloomberg, Kenanga Research

Graph 2: Capital Flows and USDMYR Trend



Source: Dept. of Statistics, Kenanga Research

Graph 3: 10-Year US Treasury Yield Vs 10-Year MGS Yield



Source: Bloomberg, Kenanga Research

Table 1: Latest Update and Historical Milestone for BNM Reserves

	Month	RM bil O/stand.	Change frm Prev Period RM bil	USDMYR Average	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
End-2016	Dec-16	424.15	24.51	4.4872	94.52	-1.87	8.8	1.3
End-2017	Dec-17	414.60	-15.79	4.0770	102.40	0.58	7.2	1.1
End-2018	Dec-18	419.54	-3.31	4.1729	101.40	-0.58	7.4	1.0
Latest release (end-June 2019)	Jun-19	425.42	8.07	4.1617	102.70	0.41	7.3	1.2

Source: Dept. of Statistics, Kenanga Research, CEIC, Bloomberg

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