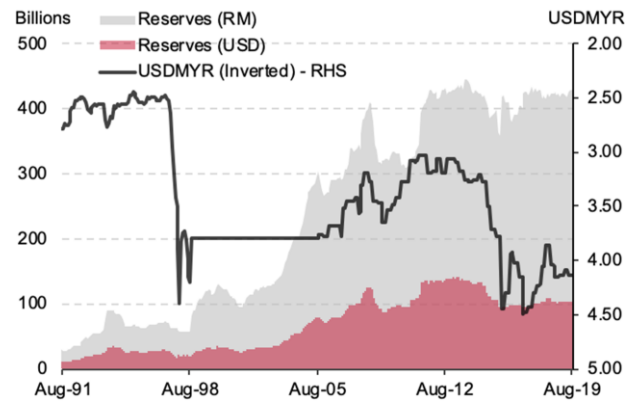


BNM Forex Reserves

Down 0.4% in August on lower foreign currency reserves

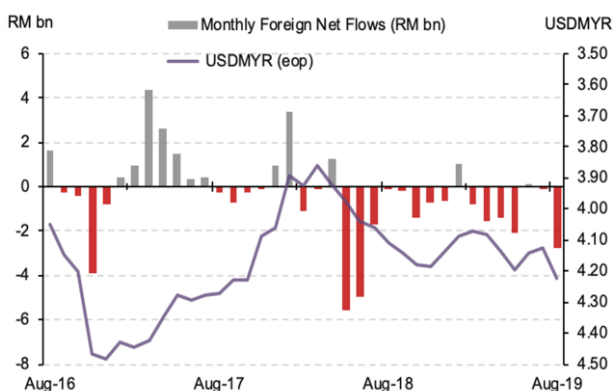
- Bank Negara Malaysia (BNM) international reserves fell by USD0.4b or 0.4% MoM to USD103.5b** as at August 30, after remaining on an uptrend for the past two successive months. According to BNM, the reserves position is sufficient to finance 7.6 months of retained imports and is 1.1 times the total short-term external debt.
- The drop in foreign reserves was attributable to a decrease in foreign currency reserves, outpacing an increase in other reserve assets.** In particular, foreign currency reserves edged down by USD0.6b or 0.6% MoM (Jul: +1.1%) to USD97.1b in August, suggesting a smaller repatriation of export earnings along with outflows of portfolio capital. This has masked a second consecutive increase in other reserve assets (Gold and SDRs) by USD0.2b or 9.5% MoM to USD2.3b.
- In Ringgit terms, the value of forex reserves declined by 0.4% MoM or RM1.6b to RM428.7b** as at end-August (Jul: RM417.4b). In August, the USDMYR was traded at an average of RM4.19 versus RM4.12 in the preceding month, depreciating by 1.5% MoM (Jul: +0.9%), charting the steepest rate of weakening in 32 months, primarily weighed by the escalation of US-China trade feud, whereby both parties announced additional tariff hikes on each other's goods. This triggered a risk off mode, leading investors to shift away from risky emerging market assets, as evidenced by the capital outflows recorded during the month. Other regional currencies also performed similarly in August, with the depreciation led by the Philippine Peso (-1.8%), followed by Singapore Dollar (-1.7%) and Indonesian Rupiah (-1.4%). Of note, Thai Baht bucked the overall trend, appreciating by 0.2%, likely lifted by the unveiling of USD10.0b stimulus package (2.2%) to prop up its economy.
- 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, the continued oscillation between escalation and de-escalation of tension proves that a substantive US-China trade deal remains far from sight. Faltering growth in major export markets, including in China and Eurozone, may weigh on Malaysia's domestic activity. More recently, the escalating Japan-South Korea trade war could also jeopardise the global supply chain for smartphones and electronic devices, which Malaysia is a part of.
- Overall, we expect the BNM to embark on another round of rate cut, with the OPR settling at 2.75% by year end.** The prospect of softer economic growth, relatively subdued inflation and the ongoing easing cycle by major central banks provide more wiggle room for the BNM to enhance its policy accommodativeness. On the Ringgit outlook, **we maintain our USDMYR year-end forecast of 4.20 (2018: RM4.13)**, amid a steady fall in oil price and as the PBoC is expected to allow further weakening of the renminbi.

Graph 1: Malaysia's External Reserves Growth Trend



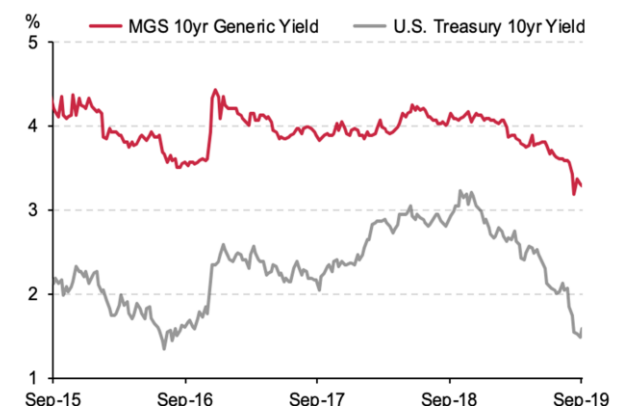
Source: BNM, Bloomberg, Kenanga Research

Graph 2: Capital Flows



Source: Dept. of Statistics, Bloomberg, Kenanga Research

Graph 3: US Treasury Yield Vs MGS Yield



Source: Bloomberg, Kenanga Research

10 September 2019

Table 1: Latest Update and Historical Milestone for BNM Reserves

	Month	RM bil O/stand.	Change frm Prev Mth 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-15	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-Aug 2019)	Aug-19	428.70	-1.63	4.1881	103.50	-0.41	7.6	1.1

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

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