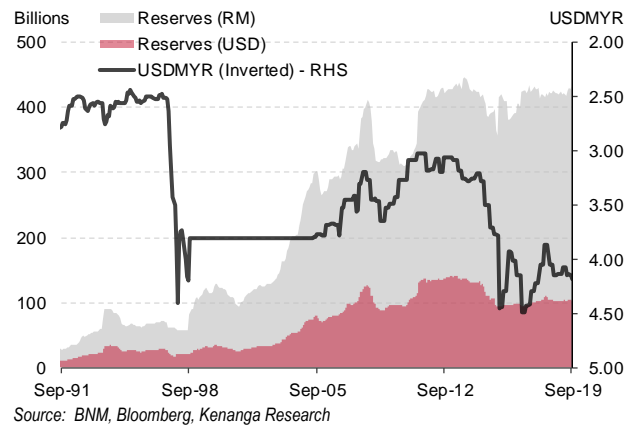


BNM Forex Reserves

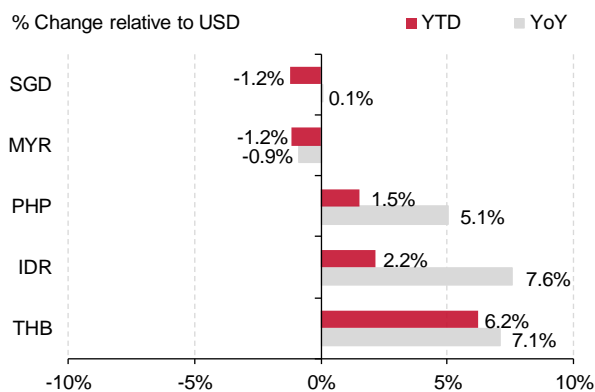
Edged down in September on continued capital outflows

- Bank Negara Malaysia (BNM) international reserves fell by USD0.5b or 0.5% MoM to USD103.0b** as at September 30, its second straight month of decline. 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 reserves level also has taken into account the quarterly adjustment for foreign exchange revaluation changes.
- The decline in foreign reserves was due to a drop in foreign currency (FX) reserves, IMF reserve position, and other reserve assets.** FX reserves declined by USD0.4b or 0.4% MoM (Aug: -0.6%) to USD96.7b in September, suggesting smaller repatriation of export earnings which was offset by a large portfolio capital outflows compared to the preceding month. Similarly, the IMF reserve position and other reserve assets fell by 8.3% and 4.3% MoM respectively. Bucking the trend, gold assets increased by USD0.1b or 5.6% MoM to USD1.9b.
- In Ringgit terms, the value of FX reserves increased by 0.6% MoM or RM2.6b to RM431.3b** as at end-September (Aug: RM428.7b). In September, the USDMYR was traded at an average of RM4.1819 versus RM4.1865 in the preceding month, appreciating a mere 0.1% MoM (Aug: -1.5%). Other regional currencies performed better in September, led by the Indonesian Rupiah (+0.9%), followed by Thai Baht (+0.6%) and Singapore Dollar (+0.4%). The gains in Asian currencies against the US Dollar during the month was spurred by positive developments in the US-China trade talks as both countries agreed to resume high-level talks in Washington in October. However, the Ringgit remained under pressure. Against the USD it depreciated 1.2% and 0.9% YTD and YoY respectively.
- Despite ample FX reserves, uncertainties arising from external factors continue to exert risk to domestic financial market and economic growth.** This is largely due to growth slowdown in major key markets including China and the EU and rising trade protectionism triggered by the US-China trade war.
- Overall, we maintain our view that BNM may still have scope to cut the overnight policy rate by another 25 basis points to 2.75% at its last Monetary Policy Committee meeting in November this year.** This is premised upon the prospect of softer economic growth going forward, relatively subdued and controlled inflation steered by government policy measures, and the ongoing easing cycle by major and regional central banks, giving more wiggle room for BNM's policy decision. On the Ringgit outlook, **we maintain our USDMYR year-end forecast of 4.20 (2018: RM4.13)**, amid continued portfolio capital outflow, a weaker oil price (average Brent price 2019: USD64.6/barrel vs USD71.6/barrel in 2018), the negative impact of prolonged and protracted trade dispute between the US and China. The prospect of PBoC allowing further weakening of its currency to shore up the flagging economy would add to the Ringgit volatility and downside bias in the near term.

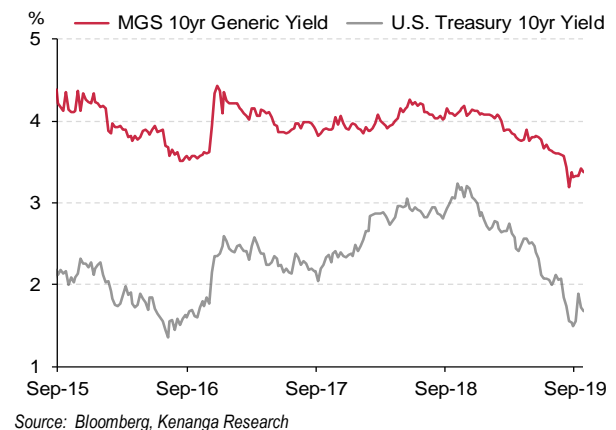
Graph 1: Malaysia's External Reserves Growth Trend



Graph 2: ASEAN-5 Currencies Performance



Graph 3: 10-Year US Treasury Vs MGS Yield



08 October 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-Sep 2019)	Sep-19	431.27	2.57	4.1855	103.00	-0.50	7.6	1.1

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

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