

# BNM Forex Reserves

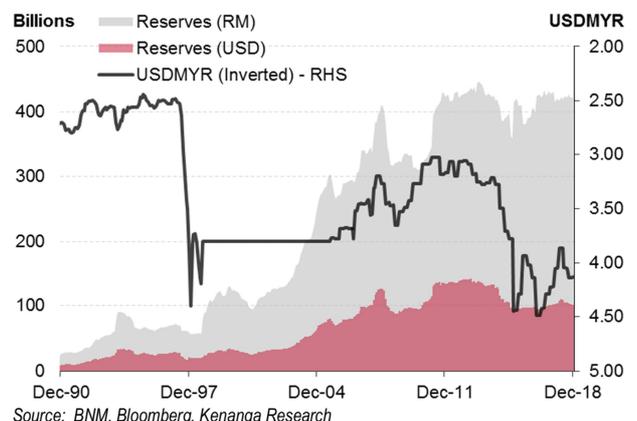
Reserves returned to declining mode in December

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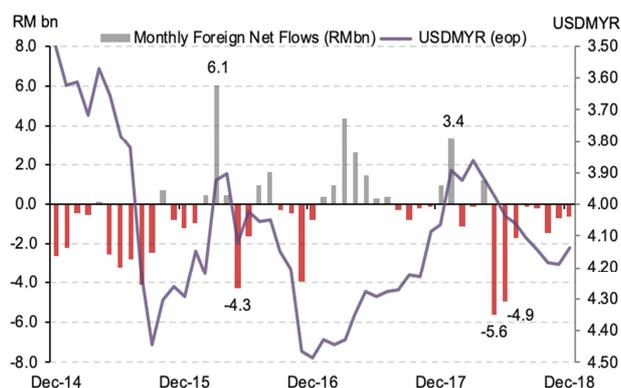
## OVERVIEW

- Bank Negara Malaysia (BNM) foreign international reserves fell by USD0.6b** or 0.6% MoM to USD101.4b as at December 31, falling back into a declining mode after a brief rebound to USD102.0b as at end of November. Contraction in foreign reserves was observed during majority of the months in 2018, propelled largely by the unprecedented 14<sup>th</sup> general election result in May, ongoing trade war concerns and monetary policy tightening in the US and other advanced economies. According BNM, the month's reserves position remains adequate to finance 7.4 months of retained imports and is 1.0 time the short-term external debt.
- Tracking a similar path, Ringgit value of reserves dipped by 0.8% MoM** or RM3.3b to RM419.5b from RM422.8b in November. In December, the Ringgit was traded at an average of RM4.1729 against the USD, gaining 0.3% MoM (Nov: -0.7%), marking its first month of appreciation, after depreciating for the past seven consecutive months. For the whole year of 2018, the Ringgit depreciated by 2.1% against the USD while other Asian currencies, such as Indonesian Rupiah, Philippines Peso and Singapore Dollar fell by 5.8%, 5.1% and 1.9%, respectively. Thailand Baht was the best performer within the region, up by 0.6% against the greenback.
- The ease in foreign reserves was mainly attributable to a decrease in foreign currency reserves**, which edged lower by USD0.6b or -0.6% MoM (Nov: +0.3%) to USD95.7b in December. Of note, the movement in gold reserves contradicted the majority declining trend observed in other reserves components, increasing by 8.6% MoM or USD0.1b (Nov: 0.0%).
- Despite ample foreign reserves, uncertainties arising from external factors could weigh on domestic growth** in the short to medium term. On the trade war front, tensions persist, though we remain cautiously optimistic on the outcome following the conclusion of the 90-day trade war truce between the US and China, given efforts shown from both parties, including by withholding new tariff hikes and increasing agricultural imports. Negative impacts from the trade war observed thus far, such as through recent moderation in trade activities of regional and advanced economies, Apple's revenue forecast downgrade in relation to lower sales in China and manufacturing PMI figures which pointed towards slowdown of the sector in both the US and China, may influence them to conclude the ongoing trade talks with a positive note. Against this backdrop, **we expect continued outflow of hot money, albeit by a smaller degree, as Fed will be taking a less hawkish stance for this year, with less rate hikes expected.**
- As domestic indicators are pointing towards growth moderation and as inflation is expected to remain benign on the back of subdued global oil prices, we believe BNM will hold the OPR unchanged at 3.25% in 2019.** We are not surprised if BNM is slowly turning dovish right now and may not hesitate to cut interest rates if external uncertainty turned for the worse. The probability for that to happen is low for now. As for ringgit's performance, **the dovish tone conveyed by the US Fed is expected to dominate the outlook signalling a weaker dollar. This would reflect a firmer Ringgit, supporting our year-end forecast of USDMYR at RM4.10 (end-2018: 4.13).**

Graph 1: Malaysia's External Reserves Growth Trend



Graph 2: Portfolio Capital Sell-Off Cooling Down



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



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	<b>17.50</b>	-0.50	3.4	na
Ringgit at its weakest during AFC (Monthly Average)	Jan-98	56.61	-2.5	<b>4.3990</b>	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	<b>-12.84</b>	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	<b>141.43</b>	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	0.53	7.2	1.1
<b>Latest release (end-December 2018)</b>	<b>Dec-18</b>	<b>419.54</b>	<b>-3.31</b>	<b>4.1729</b>	<b>101.40</b>	<b>-0.63</b>	<b>7.4</b>	<b>1.0</b>

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

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Published and printed by:

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