

Outthink. Outperform.

Reserves rose by US\$0.4bn to US\$96.1bn as at end-April**Economic Update****Reserves coverage to retained imports fell slightly to 7.9 months**

The international reserves of Bank Negara Malaysia (BNM) improved further by US\$0.4bn to US\$96.1bn in the two weeks ending 28th April 2017 (US\$95.7bn as at mid-April), where it was close to the level as at end-November 2016 of US\$96.4bn. Similarly, reserves in Ringgit terms also increased by RM2bn to RM425.2bn in two weeks ending end-April (RM423.3bn as at 14th April). The Malaysia's current reserves level is sufficient to cover 7.9 months of retained imports, whereas reserves coverage of short-term external debt remained unchanged at 1.1 times.

Since beginning of 2017, the stable reserves level reflected some inflows from export earnings. Despite the bond sell-off in foreign holdings of Malaysian Government Securities (MGS) of around RM26.2bn in March, the improvement in reserves in the month of April may also be due to some stabilisation of portfolio outflows as well as healthy current account surplus (supported by some trade and investment inflows). We believe the increase in BNM's short position, which increased to US\$17.68bn as at end of March 2017, approximately US\$4.9bn from the amount in February, was conducted in order to manage the liquidity in the FX market due partly to the bond sell-off in March.

Going forward, we believe the country's international reserves will likely continue to benefit from continued trade and current account surplus position, as well as conversion of exports proceeds. Despite some narrowing, the trade surplus, which fell from RM27.5bn in 4Q16 to RM18.9bn in 1Q17, will likely be sustained at around RM20bn level in 2Q17, supported by healthy growth in export of manufactured goods. The narrower trade surplus in 1Q17 was partly attributed to strong imports of capital goods, which increased from 5.6% yoy in February to 82.4% in March. However, with imports of intermediate goods sustaining its expansion of 36.3% yoy in March (39.9% in February), we believe that the forward indicator for the country's exports is indicating continue healthy growth momentum in the manufacturing sector. In 2017, we believe the country's trade surplus will likely remain substantial at around RM85bn (RM87.3bn in 2016).

Malaysia – Foreign Reserves

Economic Research
(603) 2146 7540
alan.tan@affinhwang.com
izzuddin.yussof@affinhwang.com
maisarah.razali@affinhwang.com

Fig 1: Components of Malaysia's international reserves

	13-Jan	31-Jan	15-Feb	28-Feb	15-Mar	31-Mar	14-Apr	28-Apr
	In US\$bn (unless stated otherwise)							
Gross International Reserves (RMbn)	422.9	426.0	426.2	426.3	425.5	422.2	423.2	425.2
Gross International Reserves	94.3	95.0	95.0	95.0	94.9	95.4	95.7	96.1
Foreign Currency Reserves	87.1	88.0	88.0	87.9	88.3	88.7	88.9	89.5
IMF Reserve Position	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
SDRs	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Gold	1.4	1.4	1.4	1.4	1.4	1.5	1.6	1.6
Other Reserves Assets	3.9	3.7	3.7	3.8	3.3	3.3	3.3	3.1
Reserves to retained imports	8.7	8.6	8.4	8.5	8.3	8.3	8.2	7.9
Reserves to short-term external debt	1.3	1.3	1.1	1.1	1.1	1.1	1.1	1.1

Source: Bank Negara Malaysia (BNM)



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Focus Charts

Chart 1: Reserves by components

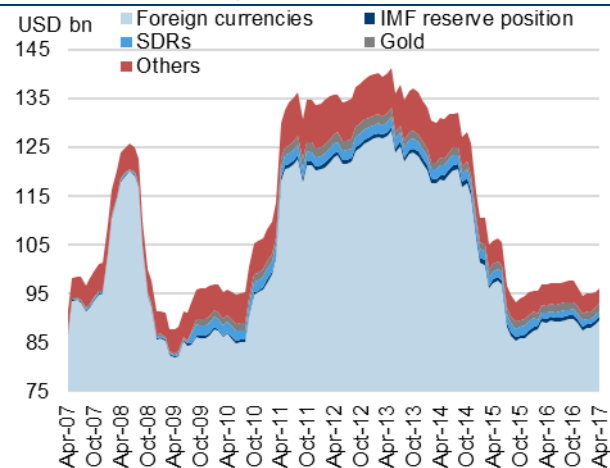


Chart 2: Reserves as months of retained imports

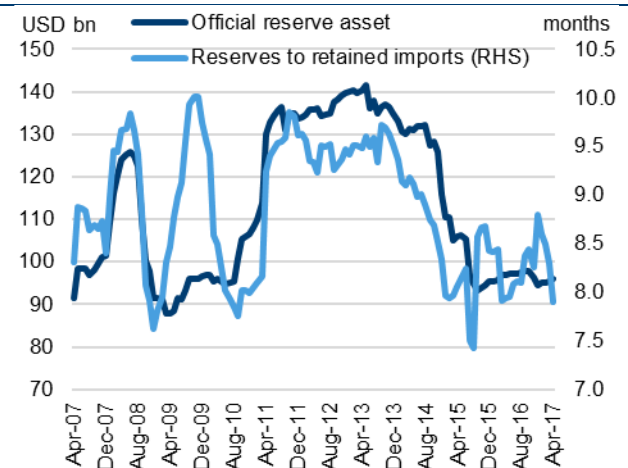


Chart 3: Foreign holding of MGS

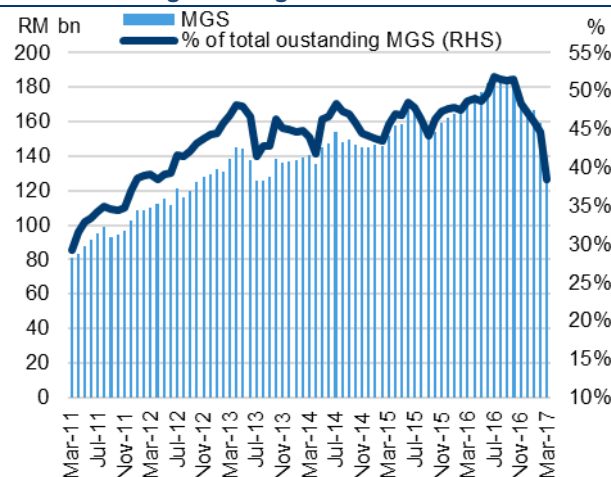


Chart 4: Net foreign selling/buying in equity market

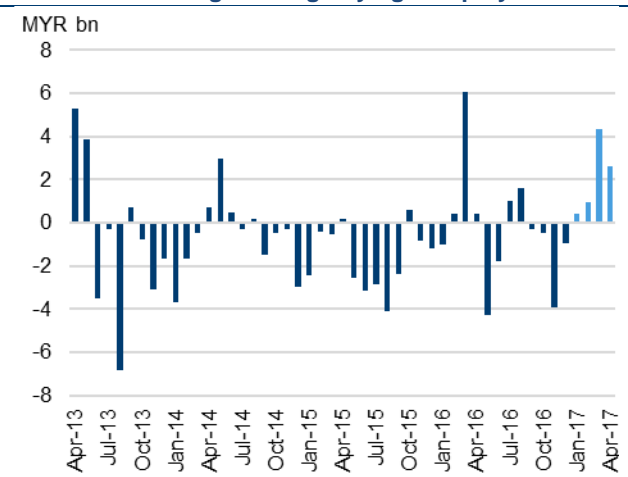


Chart 5: BNM currency swap position

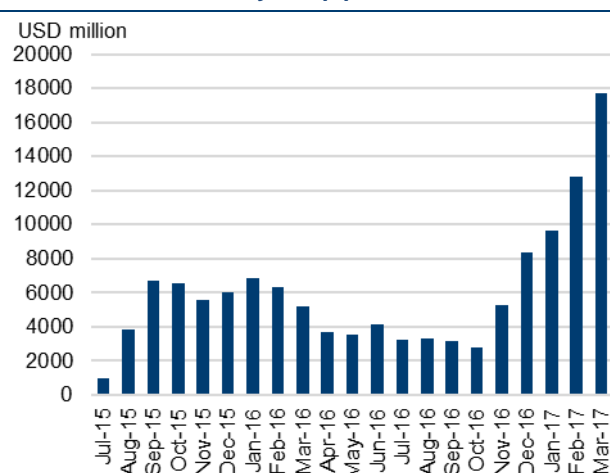
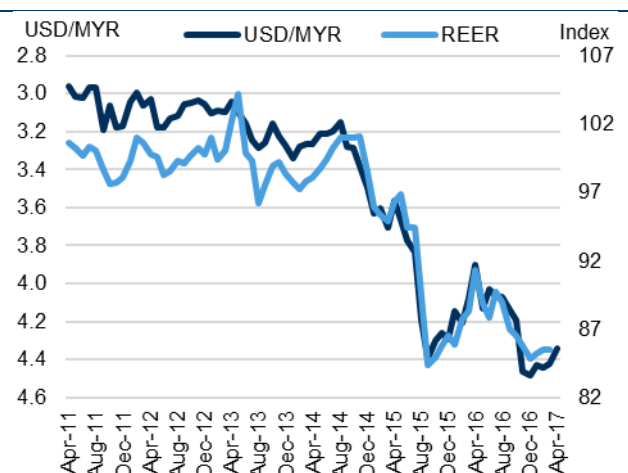


Chart 6: USD/MYR vs REER



Source: All data for charts sourced from BNM, CEIC and Bloomberg

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BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2146 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com