



Outthink. Outperform.

## Economic Update

## Reserves rose to US\$99.4bn as at end-July

## Reserves sufficient to cover 7.9 months of retained imports

The international reserves of Bank Negara Malaysia (BNM) increased further by US\$0.3bn to US\$99.4bn as at 31<sup>st</sup> July 2017, compared with US\$99.1bn as at 14<sup>th</sup> July 2017. On a month-on-month basis, the country's reserves position was higher by US\$0.5bn in July (US\$98.9bn in June), which marks the seventh consecutive month of increase.

The country's reserves also improved in Ringgit terms, rising from RM424.8bn as at end-June to RM427bn as at end-July 2017. The current level of reserves is sufficient to cover 7.9 months of retained imports, whereas the reserve coverage of short-term external debt remained unchanged at 1.1 times. The reserve level has been on an upward trend since April 2017. Despite some earlier concerns of higher capital outflow due to the selloff in Malaysian Government Securities (MGS) in 1Q17 and global oil price retreating in June, net foreign flows continued to show positive increases in recent weeks, signalling a healthy appetite by foreign investors for Malaysia's capital market.

Foreign investors continued to be net buyers of Malaysia's equity market, with total net buying of RM0.4bn in the month of July (+RM0.3bn in June and +RM2.1bn in May). Foreign investors have been net buyers of Malaysia's equity market since January this year, which is the longest streak of monthly net buying by foreign investors since May 2012, even though it began to moderate in June and July. Year-to-date, the cumulative net buying by foreign investors of the Malaysian equity market is approximately RM11.3bn, which helped offset some of the selling by foreign investors in the Malaysian bond market in early 2017. Furthermore, we believe that BNM's forex measure requiring exporters to convert 75% of their US\$ export proceeds to Ringgit has continued to support reserves. On a cumulative basis, the country's trade surplus widened to RM42.9bn in Jan-June 2017, as compared to RM41.8bn in the corresponding period of 2016.

As a result, the BNM net short forex position continued to improve slightly from US\$16.8bn in May to US\$16.6bn in June (after reaching a high of US\$19.1bn in April). This improvement reflected that the reserves level was being supported by both portfolio flows and the conversion of export proceeds. Moving forward, we believe that the positive sentiment for Malaysia's capital market will continue and that Malaysia's international reserves will likely improve further. However, some pressure on reserves is likely from the MGS maturity in late 2017, especially in September and October.

Malaysia –  
Foreign  
Reserves

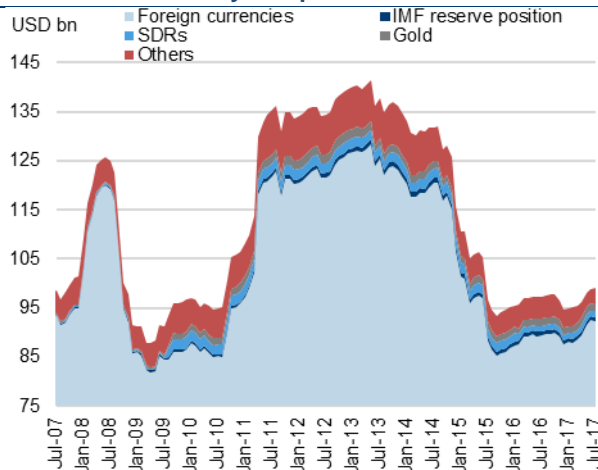
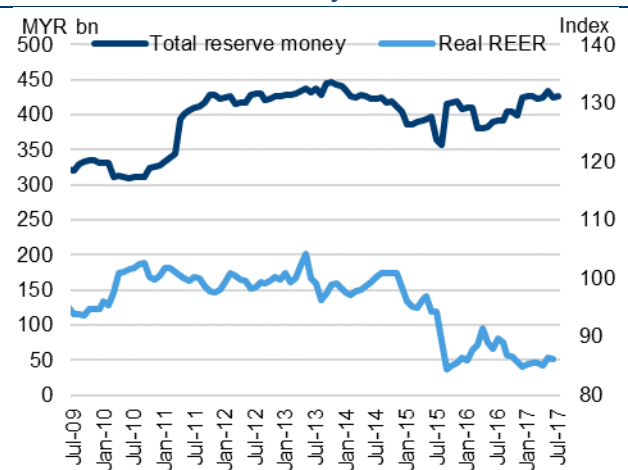
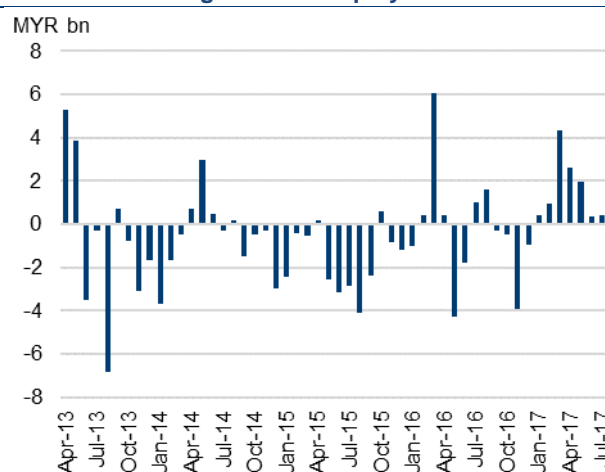
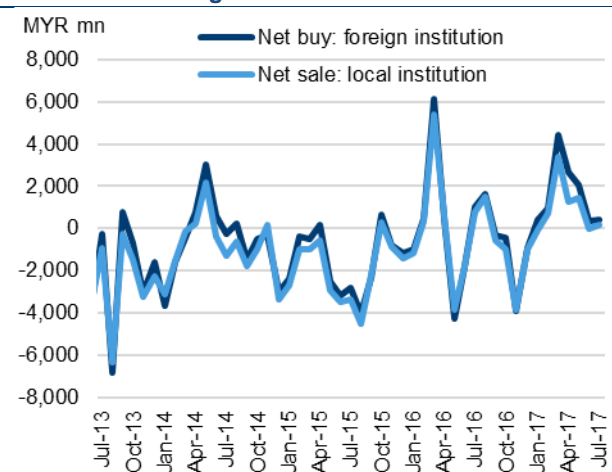
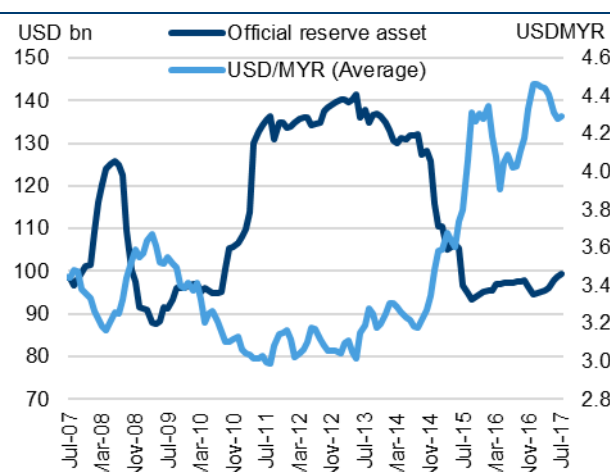
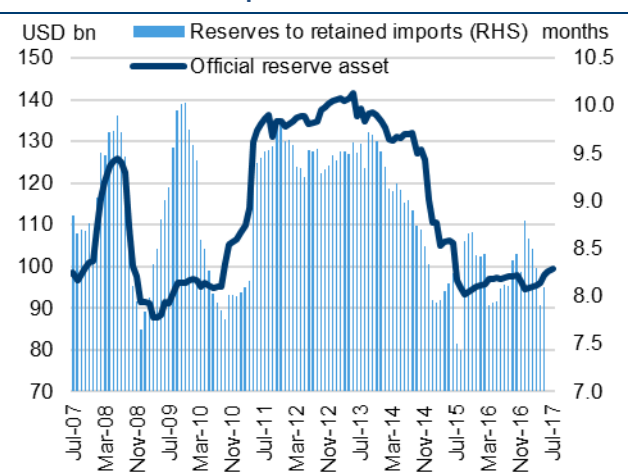
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Fig 1: Components of Malaysia's international reserves

	14-Apr	28-Apr	15-May	31-May	15-Jun	30-Jun	14-Jul	31-Jul
	In US\$bn (unless stated otherwise)							
Gross International Reserves (RMbn)	423.2	425.2	430.5	433.3	436.1	424.8	425.4	427.0
Gross International Reserves	95.7	96.1	97.3	98.0	98.7	98.9	99.1	99.4
Foreign Currency Reserves	88.9	89.5	90.7	91.6	92.3	92.5	92.4	93.0
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	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5
Other Reserves Assets	3.3	3.1	3.1	2.9	3.0	3.0	3.3	3.0
Reserves to retained imports	8.2	7.9	7.8	8.1	8.2	7.9	7.9	7.9
Reserves to short-term external debt	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1

Source: Bank Negara Malaysia (BNM)

## Focus Charts

**Chart 1: Reserves by components**

**Chart 2: Total reserve money vs real REER**

**Chart 3: Net foreign flows in equity market**

**Chart 4: Net foreign flows**

**Chart 5: Reserves vs USD/MYR**

**Chart 6: Retained imports vs official reserve**


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

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
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*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.*

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