

# Malaysia

## Forex Reserves Fall Further

- ◆ **Malaysia's forex reserves fell USD3.8bn to USD104.7bn as at end-June, from USD108.5bn in May. This was likely on the back of portfolio outflows as concerns over government debt weighed on investor sentiment.**
- ◆ **MYR weakened further by 1.1% to USD to MYR4.046 in the first week of July 2018, as the latter currency strengthened. We expect the ringgit to remain rangebound before settling at MYR4.10 by end-2018.**
- ◆ **Meanwhile, the amount of excess liquidity (including repos) mopped up by BNM remained stable at MYR134.8bn as at end-June.**

**Malaysia registered forex reserves of USD104.7bn, as at 29 June.** This was a drop of USD3.8bn from USD108.5bn as at end-May that likely came on the back of capital flight to safety after the US central bank raised rates and its rate hike guidance on 13 Jun. As it stands, the equity and fixed income market suffered monthly outflows of MYR4.9bn and MYR6.7bn respectively in June. For the former, this was lower than the MYR5.6bn recorded in May, also bringing the cumulative outflow in 1H18 to MYR6.8bn, offsetting more than half of last year's total net inflow of MYR10.3bn.

In MYR terms, Malaysia's forex reserves grew MYR4.4bn to MYR423.4bn as at end-June, adding to the MYR4bn gain in May. At the current level, the forex reserves are sufficient to finance 7.5 months of retained imports, which deteriorated from 8.2 months a year earlier. Similarly, the reserves covered 1.0x the short-term external debt of the nation, nudging lower from 1.1x in the same period last year.

**On the currency front,** the MYR weakened further by 1.1% to USD to MYR4.046 in the first week of July, after depreciating 0.9% in June. The weaker MYR was mainly on the back of persistent USD strength after the US Fed raised its dot plot interest rate guidance. Furthermore, the escalation of trade tensions between trade giants, US and China, does not bode well for emerging markets' economic prospects. In addition, foreign investors were adjusting their investment portfolio following the conclusion of Malaysia's general election.

**The MYR is expected to trade to weaker at MYR4.10 by end-2018.** We expect the USD to remain strong for the rest of the year amid faster interest rate hike expectations in the US along with uncertainties on the global trade front.

**Meanwhile, the amount of excess liquidity (including repos) mopped up by BNM remained stable at MYR134.8bn as at end-June, from MYR134.9bn at end-May and compared to MYR131.6bn a year ago.** Liquidity mopped up through interbank borrowing fell but this was offset by higher liquidity mopped up via BNM bills.

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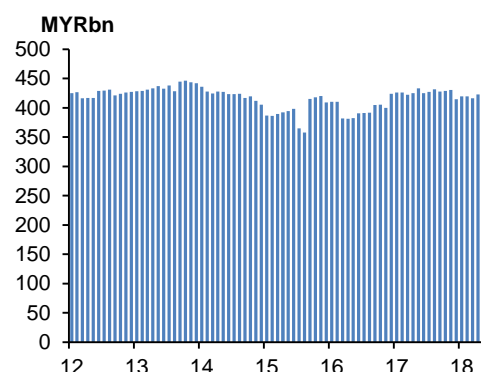


### International reserves and other monetary indicators

|   | 2015  | 2016  | 2017  | Feb 2018 | Mar 2018 | Apr 2018 | May 2018 | Jun 2018 |
|---|-------|-------|-------|----------|----------|----------|----------|----------|
| Forex reserves (MYRbn)                    | 409.1 | 424.2 | 414.6 | 419.5    | 416.4    | 423.0    | 419.0    | 423.4    |
| Forex reserves (USDbn)                    | 95.3  | 94.6  | 102.4 | 103.7    | 107.8    | 109.5    | 108.5    | 104.7    |
| Import cover ratio (months)               | 8.5   | 8.8   | 7.3   | 7.2      | 7.4      | 7.5      | 7.6      | 7.5      |
| Short-term external debt cover ratio (x)  | 1.1   | 1.3   | 1.1   | 1.1      | 1.1      | 1.1      | 1.1      | 1.1      |
| USD/MYR (end of period)*                  | 4.292 | 4.486 | 4.062 | 3.926    | 3.872    | 3.886    | 3.964    | 4.000    |
| Excess liquidity mopped up by BNM (MYRbn) | 146.5 | 140.4 | 136.9 | 122.2    | 145.2    | 144.6    | 134.9    | 134.8    |

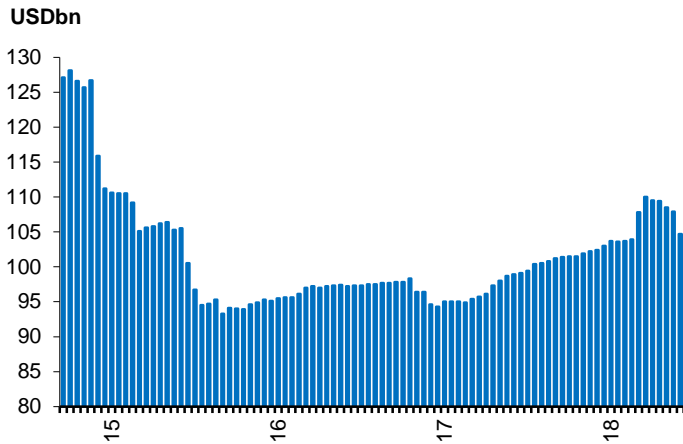
Source: Bank Negara Malaysia (BNM), RHB

### Malaysia's forex reserves (in MYR terms) rebounded in June



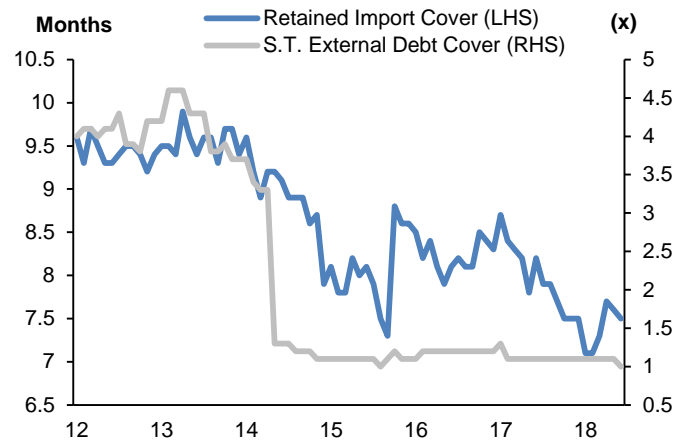
Source: Bank Negara Malaysia (BNM), RHB

**Figure 1: In USD terms, Malaysia's forex reserves have continued to dwindle since mid-April**



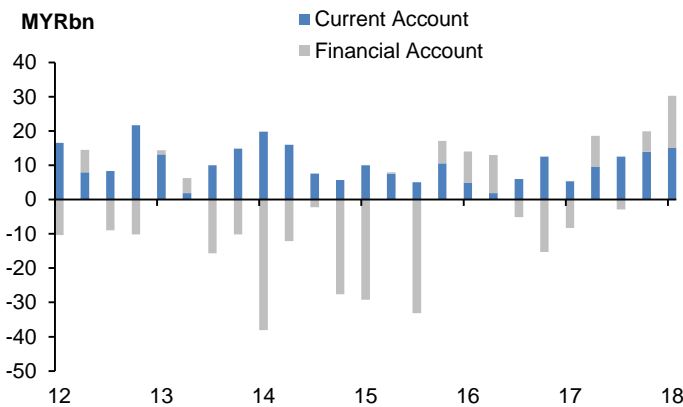
Source: BNM, RHB

**Figure 2: Reserves cover on retained imports (7.5 months) and the short-term (ST) external debt cover (1.1x) inched lower**



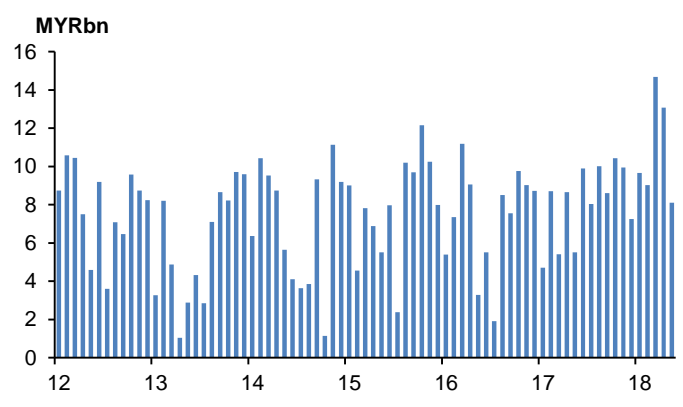
Source: BNM, RHB

**Figure 3: Surpluses were recorded in both the current and financial accounts in 1Q18 but the latter will likely reverse into a deficit in 2Q**



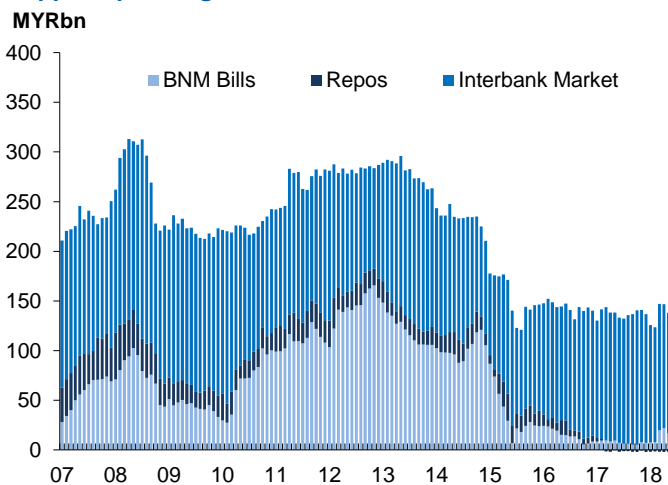
Source: DOSM, BNM, RHB

**Figure 4: Trade surplus narrowed to MYR8.1bn in May on the back of lower export and higher import growth on a monthly basis**



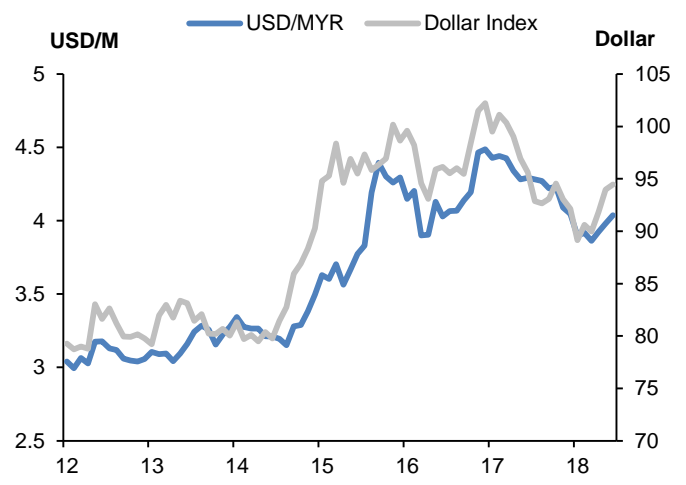
Source: DOSM, RHB

**Figure 5: Liquidity mopped up by BNM (including repos) slumped to a negative, but offset by a rising liquidity mopped up through BNM bills**



Source: BNM, RHB

**Figure 6: Recent USD strength drove losses in MYR (and its regional peers)**



Source: BNM, Bloomberg, RHB

Figure 7: Regional economic indicators

## ASEAN &amp; CHINA ECONOMIC INDICATORS

| Country     | GDP growth (%) |      |       |       | Inflation (%) |      |       |       | Policy rate (end period,%) |      |       |       | Exchange rate (end period, vs. USD) |       |       |       |
|-------------|----------------|------|-------|-------|---------------|------|-------|-------|----------------------------|------|-------|-------|-------------------------------------|-------|-------|-------|
|             | 2016           | 2017 | 2018F | 2019F | 2016          | 2017 | 2018F | 2019F | 2016                       | 2017 | 2018F | 2019F | 2016                                | 2017  | 2018F | 2019F |
| Indonesia   | 5.0            | 5.1  | 5.3   | 5.3   | 3.5           | 3.8  | 3.4   | 3.5   | 4.75                       | 4.25 | 5.75  | 5.75  | 13540                               | 13588 | 14500 | 14200 |
| Malaysia    | 4.2            | 5.9  | 5.2   | 5.0   | 2.1           | 3.7  | 1.9   | 2.0   | 3.00                       | 3.00 | 3.50  | 3.50  | 4.49                                | 4.06  | 4.10  | 4.02  |
| Philippines | 6.8            | 6.7  | 6.5   | 6.6   | 1.8           | 3.2  | 4.0   | 3.5   | 3.00                       | 3.00 | 3.50  | 3.50  | 49.62                               | 49.83 | 49.79 | 50.00 |
| Singapore   | 2.4            | 3.6  | 3.0   | 2.8   | -0.5          | 0.6  | 1.3   | 1.6   | -                          | -    | -     | -     | 1.45                                | 1.34  | 1.33  | 1.34  |
| Thailand    | 3.2            | 3.9  | 4.2   | 3.7   | 0.2           | 0.7  | 1.2   | 1.4   | 1.50                       | 1.50 | 1.50  | 1.50  | 35.85                               | 32.57 | 32.20 | 32.50 |
| Vietnam*    | 6.2            | 6.8  | 6.7   | 6.2   | 2.7           | 3.5  | 3.6   | 3.6   | 6.50                       | 6.00 | 6.00  | 6.00  | 22770                               | 22709 | 22700 | 22700 |
| China**     | 6.7            | 6.9  | 6.6   | 6.4   | 2.0           | 1.6  | 2.5   | 2.6   | 4.35                       | 4.35 | 4.35  | 4.35  | 6.95                                | 6.51  | 6.45  | 6.50  |

\*prime rate; \*\*1-yr lending rate

| Country     | Exports growth (%) |      |       |       | Imports growth (%) |      |       |       | Industrial Production growth (%) |      |       |       | Unemployment rate (% labour force) |      |       |       |
|-------------|--------------------|------|-------|-------|--------------------|------|-------|-------|----------------------------------|------|-------|-------|------------------------------------|------|-------|-------|
|             | 2016               | 2017 | 2018F | 2019F | 2016               | 2017 | 2018F | 2019F | 2016                             | 2017 | 2018F | 2019F | 2016                               | 2017 | 2018F | 2019F |
| Indonesia   | -3.9               | 16.2 | 10.0  | 11.0  | -4.9               | 15.6 | 11.0  | 12.0  | 5.0                              | 5.1  | 5.3   | 5.6   | 5.6                                | 5.5  | 5.4   | 5.3   |
| Malaysia    | 1.1                | 18.9 | 6.5   | 4.7   | 1.9                | 19.9 | 6.2   | 5.1   | 3.8                              | 5.2  | 4.5   | 3.8   | 3.5                                | 3.4  | 3.3   | 3.2   |
| Philippines | -2.4               | 9.5  | 8.0   | 9.0   | 18.3               | 10.2 | 9.0   | 10.0  | 6.4                              | 6.2  | 3.6   | 6.2   | 5.5                                | 5.7  | 5.6   | 5.5   |
| Singapore   | -4.4               | 8.5  | 6.7   | 5.2   | -4.2               | 10.6 | 10.9  | 6.5   | 3.7                              | 10.1 | 7.6   | 5.0   | 2.2                                | 2.1  | 2.0   | 2.0   |
| Thailand    | 0.5                | 9.9  | 7.0   | 5.4   | -3.9               | 14.7 | 8.6   | 6.1   | 1.6                              | 1.6  | 2.9   | 2.0   | 0.9                                | 1.0  | 0.9   | 0.9   |
| Vietnam     | 9.2                | 21.4 | 9.5   | 9.1   | 5.6                | 21.4 | 8.7   | 8.2   | 6.9                              | 10.0 | 8.1   | 7.8   | 3.3                                | 3.5  | 3.6   | 3.1   |
| China       | 1.8                | 6.8  | 5.2   | 5.0   | 3.8                | 7.3  | 5.6   | 5.5   | 6.1                              | 6.5  | 5.5   | 5.2   | 4.1                                | 4.1  | 4.1   | 4.2   |

| Country     | Fiscal Balance (% GDP) |      |       |       | Current Acc. (% GDP) |      |       |       | Forex Reserves (USD bn) |      |      |       | External Debt (USD bn) |       |       |       |
|-------------|------------------------|------|-------|-------|----------------------|------|-------|-------|-------------------------|------|------|-------|------------------------|-------|-------|-------|
|             | 2016                   | 2017 | 2018F | 2019F | 2016                 | 2017 | 2018F | 2019F | 2016                    | 2017 | 2018 | 2019F | 2016                   | 2017E | 2018F | 2019F |
| Indonesia   | -2.5                   | -2.5 | -2.5  | -2.5  | -1.8                 | -1.7 | -2.3  | -2.0  | 116                     | 130  | 127  | 134   | 320                    | 353   | 380   | 400   |
| Malaysia    | -3.1                   | -3.0 | -2.8  | -2.7  | 2.4                  | 3.0  | 2.7   | 2.9   | 95                      | 102  | 112  | 124   | 201                    | 213   | 222   | 231   |
| Philippines | -2.4                   | -2.2 | -2.8  | -2.8  | -0.4                 | -0.8 | -1.0  | -0.7  | 81                      | 82   | 83   | 83    | 75                     | 73    | 71    | 70    |
| Singapore   | 1.3                    | 0.5  | 2.4   | -0.1  | 19.0                 | 18.8 | 17.8  | 16.7  | 247                     | 280  | 265  | 312   | -                      | -     | -     | -     |
| Thailand    | -2.6                   | -1.8 | -2.9  | -3.0  | 11.4                 | 10.8 | 7.7   | 6.9   | 172                     | 203  | 208  | 227   | 152                    | 155   | 159   | 164   |
| Vietnam     | -5.0                   | -5.3 | -5.2  | -4.8  | 2.7                  | 1.9  | 2.1   | 2.2   | 43                      | 40   | 45   | 49    | 76                     | 79    | 83    | 84    |
| China       | -3.5                   | -3.6 | -3.3  | -2.6  | 1.8                  | 1.3  | 1.1   | 1.3   | 3010                    | 3140 | 3000 | 3000  | 1400                   | 1450  | 1400  | 1380  |

| Country     | Deposit Growth (%) |      |       |       | Loan Growth (%) |      |       |       | L/D Ratio (%) |       |       |       | Money Supply* (%) |      |       |       |
|-------------|--------------------|------|-------|-------|-----------------|------|-------|-------|---------------|-------|-------|-------|-------------------|------|-------|-------|
|             | 2016               | 2017 | 2018F | 2019F | 2016            | 2017 | 2018F | 2019F | 2016          | 2017  | 2018F | 2019F | 2016              | 2017 | 2018F | 2019F |
| Indonesia   | 9.6                | 8.3  | 9.9   | 11.0  | 7.8             | 10.0 | 12.8  | 12.0  | 92.7          | 91.9  | 94.3  | 93.5  | 10.0              | 11.0 | 8.0   | 8.0   |
| Malaysia    | 1.5                | 5.7  | 4.6   | 5.0   | 5.3             | 4.1  | 5.2   | 5.5   | 89.8          | 90.5  | 90.9  | 92.2  | 3.0               | 4.7  | 5.0   | 5.2   |
| Philippines | 14.3               | 11.9 | 11.8  | 12.0  | 16.1            | 18.1 | 18.0  | 18.5  | 70.7          | 74.1  | 74.1  | 78.7  | 12.8              | 11.9 | 10.0  | 11.0  |
| Singapore   | 2.7                | 3.2  | 5.4   | 5.0   | 0.5             | 8.0  | 8.5   | 7.2   | 107.9         | 104.5 | 104.9 | 105.0 | 8.1               | 4.1  | 6.2   | 5.5   |
| Thailand    | 3.8                | 4.1  | 5.3   | 5.0   | 3.6             | 4.1  | 5.1   | 4.8   | 93.3          | 93.1  | 92.9  | 93.0  | 4.2               | 5.2  | 5.3   | 5.0   |
| Vietnam     | 15.0               | 10.0 | 11.2  | 10.8  | 18.0            | 15.0 | 13.5  | 12.9  | 79.6          | 81.0  | 83.0  | 83.5  | 16.0              | 17.0 | 18.0  | 17.2  |
| China       | 11.0               | 10.7 | 9.6   | 8.5   | 13.5            | 12.1 | 10.5  | 9.5   | 70.8          | 71.7  | 72.2  | 73.0  | 11.3              | 8.2  | 8.0   | 7.5   |

Note: As at 3 July 2018

Note 2: \*M2 is used for all countries except for Thailand, where M1 is used, and the Philippines, where M3 is used instead.

Note 3: \*\*Starting 3 Jun 2016, the Philippines' policy rate was changed to purely Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

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