

# External Reserves

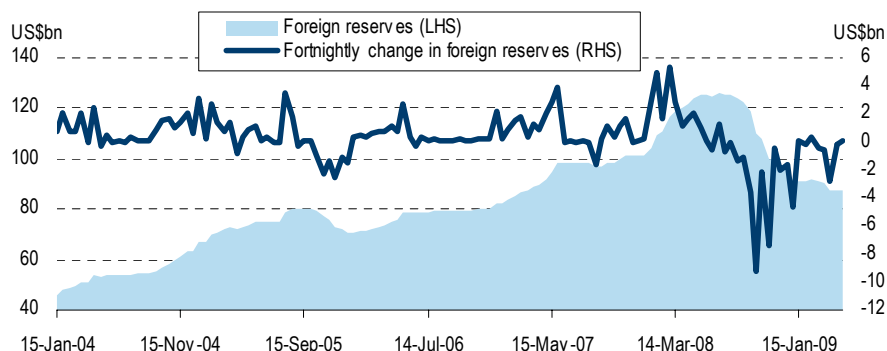
Apr 09: Smaller decline in foreign reserves

Issue: 638

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- Foreign reserves rose marginally by US\$0.1bn in 2H Apr 09.** Bank Negara Malaysia's (BNM) foreign exchange holdings rose slightly by US\$0.1bn in 2H Apr 09 to US\$87.73bn as at end-Apr from US\$87.64bn as at 15 Apr. For the full month, it declined by US\$0.1bn from US\$87.8bn. The current reserves position is sufficient to finance 8.1 months of retained imports and is 4 times the short-term external debt.
- Portfolio outflows subsided while trade surplus remains strong.** The slight uptick in foreign reserves reflects the subsiding net outflows of portfolio investments. The rally in the KLCI in April by 118.19pts to 990.74pts suggests a possible renewal of foreign interest in the stock market. In April, the ringgit appreciated by 2.5% against the US dollar to close at RM3.559/US\$ at end-month. The ringgit also appreciated by 2% against the euro and 2% against the yen in the month. Meanwhile, the continued trade surplus also supported external reserves.
- External reserves to stabilise.** With portfolio outflows easing and possibly reversing direction, while the trade balance remains in surplus, we think foreign reserves will stabilise going forward. We estimate foreign reserves to come in between US\$87bn and US\$90bn by end-2009 (US\$91.4bn at end-2008).
- Ample liquidity in the system.** As at end-Apr 09, the amount of excess liquidity mopped up by BNM rose to RM221.3bn (RM216.8bn as at end-Mar). The large build-up of excess liquidity over the previous years, gives BNM the capacity to recycle the excess liquidity back into the system should domestic liquidity conditions tighten.

Figure 1: Malaysia external reserves



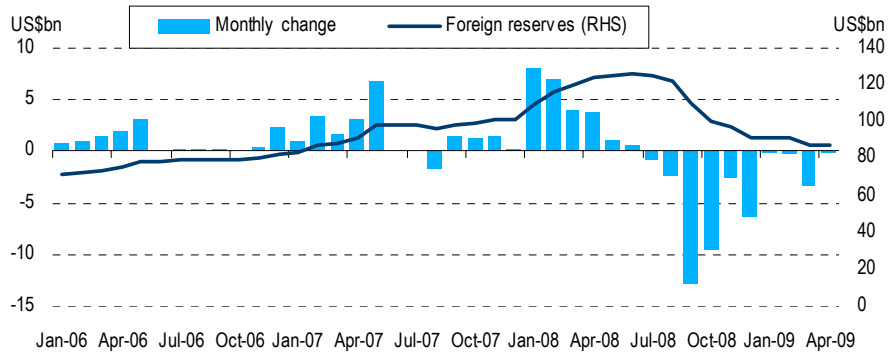
Source: Bank Negara Malaysia (BNM), CIMB/CIMB-GK Research

Figure 2: Malaysia external reserves trend

|                                | 30-Apr-09 | 15-Apr-09 | 31-Mar-09 | 13-Mar-09 | 27-Feb-09 | 13-Feb-09 | 30-Jan-09 | 15-Jan-09 | 31-Dec-08 | 15-Dec-08 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Stock of external reserves:    |           |           |           |           |           |           |           |           |           |           |
| US\$ bn                        | 87.7      | 87.7      | 87.8      | 90.6      | 91.1      | 91.6      | 91.3      | 91.5      | 91.4      | 96.0      |
| RM bn                          | 320.4     | 320.1     | 320.7     | 314.0     | 315.9     | 317.7     | 316.8     | 317.2     | 316.8     | 330.4     |
| Change (US\$ bn)               | 0.1       | -0.1      | -2.8      | -0.5      | -0.5      | 0.3       | -0.2      | 0.1       | -4.6      | -1.7      |
| Months of retained imports     | 8.1       | 8.1       | 7.9       | 7.7       | 7.6       | 7.6       | 7.5       | 7.3       | 7.4       | 7.7       |
| Months of short term ext. debt | 4.0       | 4.0       | 4.0       | 3.9       | 3.9       | 4.0       | 3.3       | 3.3       | 3.3       | 3.4       |

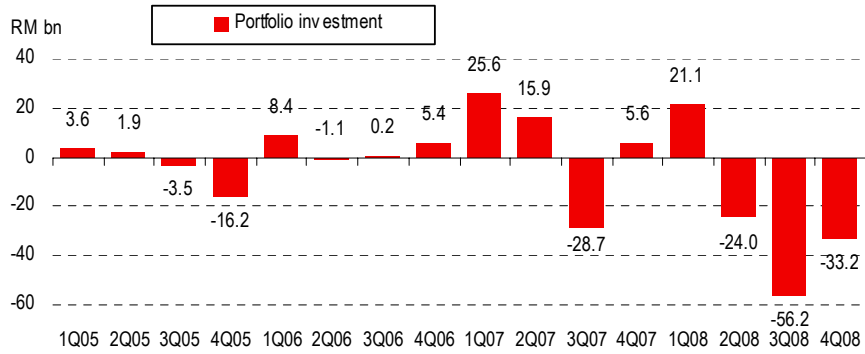
Source: BNM, CIMB/CIMB-GK Research

**Figure 3: Malaysia external reserves (monthly)**



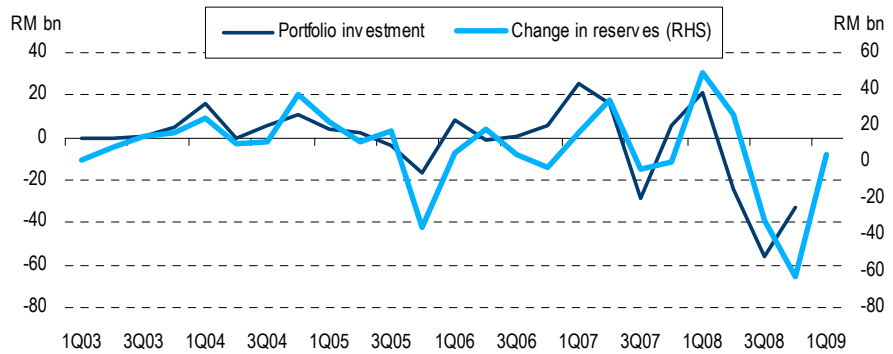
Source: BNM, CIMB/CIMB-GK Research

**Figure 4: Malaysia's portfolio investment trend**



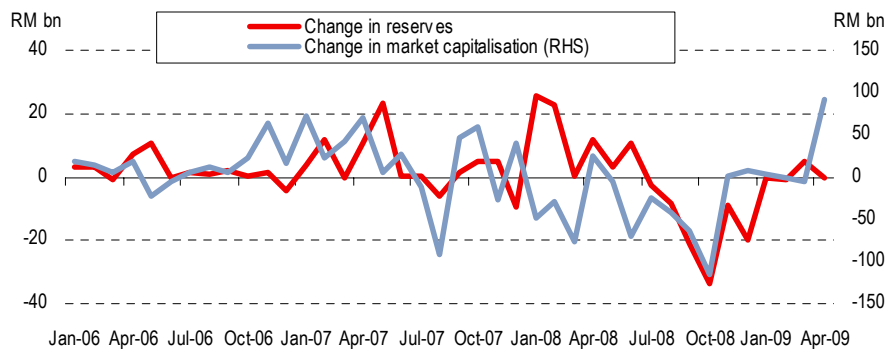
Source: DOS, BNM, CIMB/CIMB-GK Research

**Figure 5: Net portfolio investment flow vs. change in external reserves**



Source: DOS, BNM, CIMB/CIMB-GK Research

**Figure 6: Change in market capitalisation vs change in external reserves**



Source: DOS, BNM, CIMB/CIMB-GK Research

**Figure 7: Portfolio investment by type**

|                                 | 2007        |              | 2008         |              | 1Q08       |              | 2Q08         |              | 3Q08         |              | 4Q08         |              |
|---------------------------------|-------------|--------------|--------------|--------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 | RM bn       | % share      | RM bn        | % share      | RM bn      | % share      | RM bn        | % share      | RM bn        | % share      | RM bn        | % share      |
| Shares & corporate securities   | 6.7         | 28.5         | -51.5        | 57.9         | -6.5       | -169.3       | -14.6        | 48.0         | -12.3        | 32.2         | -18.2        | 74.5         |
| Malaysian government securities | 8.5         | 36.3         | -0.8         | 0.9          | 9.9        | 258.4        | -1.0         | 3.2          | -5.7         | 15.0         | -4.0         | 16.5         |
| Foreign government securities   | 0.4         | 1.6          | 0.1          | -0.1         | -0.2       | -6.2         | 0.4          | -1.3         | 0.0          | 0.0          | 0.0          | 0.1          |
| Private debt securities         | -2.6        | -11.3        | -5.2         | 5.9          | -2.6       | -67.7        | -1.3         | 4.2          | -1.2         | 3.1          | -0.2         | 0.6          |
| Money market instruments        | 12.1        | 51.7         | -29.3        | 32.9         | 3.5        | 90.1         | -13.2        | 43.6         | -18.2        | 47.8         | -1.3         | 5.5          |
| Financial derivatives           | -1.6        | -6.8         | -2.3         | 2.6          | -0.2       | -5.2         | -0.7         | 2.3          | -0.7         | 1.8          | -0.7         | 2.8          |
| <b>Total</b>                    | <b>23.4</b> | <b>100.0</b> | <b>-88.9</b> | <b>100.0</b> | <b>3.8</b> | <b>100.0</b> | <b>-30.3</b> | <b>100.0</b> | <b>-38.1</b> | <b>100.0</b> | <b>-24.4</b> | <b>100.0</b> |

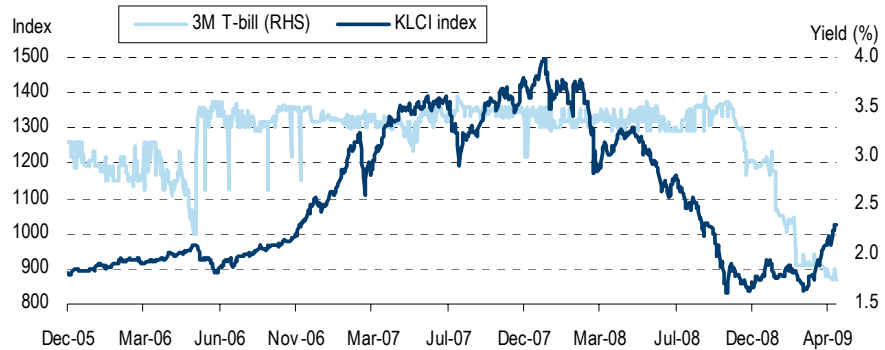
Source: BNM, CIMB/CIMB-GK Research

**Figure 8: Foreign holdings of Malaysia's debt securities**

|                                     | 2007        |              | 2008        |              | 2Q08         |              | 3Q08        |              | 4Q08        |              | Feb-09      |              |
|-------------------------------------|-------------|--------------|-------------|--------------|--------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|
|                                     | RM bn       | % share      | RM bn       | % share      | RM bn        | % share      | RM bn       | % share      | RM bn       | % share      | RM bn       | % share      |
| Bank Negara Monetary Note           | 28.1        | 34.2         | 3.6         | 7.7          | 32.1         | 30.6         | 8.4         | 13.0         | 3.6         | 7.7          | 0.7         | 1.7          |
| Bank Negara Monetary Note - Islamic | 8.0         | 9.7          | 0.5         | 1.1          | 10.2         | 9.7          | 1.8         | 2.8          | 0.5         | 1.1          | 0.0         | 0.1          |
| Malaysian Treasury Bills            | 1.5         | 1.8          | 0.4         | 0.8          | 1.1          | 1.1          | 0.5         | 0.8          | 0.4         | 0.8          | 0.2         | 0.5          |
| Malaysian Islamic Treasury Bills    | 0.6         | 0.8          | 0.2         | 0.3          | 1.2          | 1.1          | 0.4         | 0.7          | 0.2         | 0.3          | 0.2         | 0.4          |
| Government Investment Issues        | 0.6         | 0.7          | 0.2         | 0.3          | 0.6          | 0.6          | 0.6         | 1.0          | 0.2         | 0.3          | 0.1         | 0.3          |
| Malaysian Government Securities     | 29.1        | 35.4         | 29.0        | 61.7         | 44.0         | 42.0         | 38.3        | 59.2         | 29.0        | 61.7         | 28.0        | 65.9         |
| Private Debt Securities and others  | 14.3        | 17.5         | 13.1        | 28.0         | 15.6         | 14.9         | 14.7        | 22.6         | 13.1        | 28.0         | 13.2        | 31.2         |
| <b>Total</b>                        | <b>82.2</b> | <b>100.0</b> | <b>46.9</b> | <b>100.0</b> | <b>104.8</b> | <b>100.0</b> | <b>64.7</b> | <b>100.0</b> | <b>46.9</b> | <b>100.0</b> | <b>42.4</b> | <b>100.0</b> |

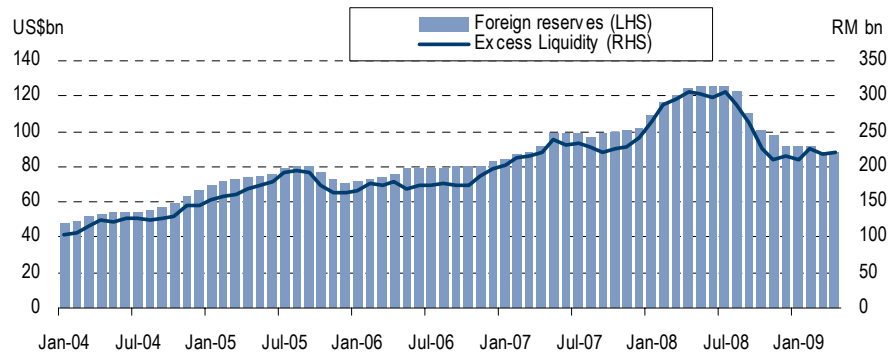
Source: BNM, CIMB/CIMB-GK Research

**Figure 9: KLCI index vs. 3M T-bill**



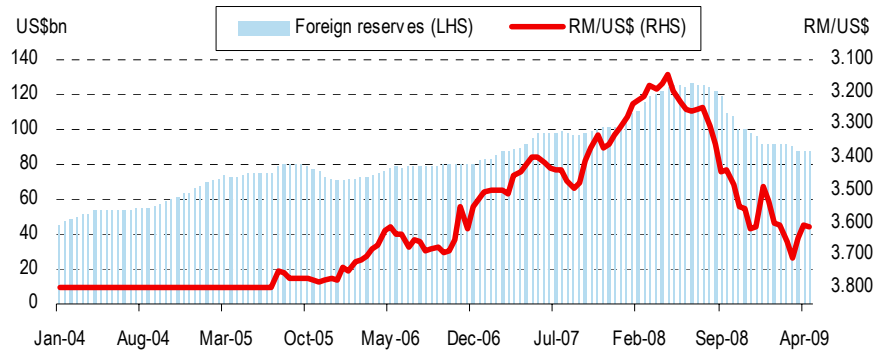
Source: Bloomberg, CIMB/CIMB-GK Research

**Figure 10: BNM foreign reserves vs. excess liquidity**



Source: BNM, Bloomberg, CIMB/CIMB-GK Research

**Figure 11: BNM foreign reserves vs. RM/US\$**



Source: BNM, Bloomberg, CIMB/CIMB-GK Research

**CIMB Economic Research Team**

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**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand and Jakarta Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

## RECOMMENDATION FRAMEWORK #2 \*\*

### STOCK RECOMMENDATIONS

**OUTPERFORM:** Expected positive total returns of 15% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -15% and +15% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +15% (or better) or -15% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +15% to -15%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +15% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -15% or worse over the next 3 months.

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