

Bank Negara said to take interbank US dollar deposits

KINIBIZ ONLINE

October 29, 2015

STORY BY BLOOMBERG

Bank Negara Malaysia started to take interbank US dollar deposits for the first time in September, according to people familiar with the matter.

Bank Negara Malaysia is accepting deposits in small amounts, according to a person familiar, who asked not to be identified because of company policy.

The move will help build up the country's currency reserves, two other people said.

The monetary authority said in response to questions that it's encouraging financial institutions, including branches of overseas banks, to keep foreign currency earnings and deposits of Malaysian-based companies in the domestic market.

Falling reserves in the Southeast Asian nation have fuelled speculation the central bank has been intervening by selling dollars to help prop up the ringgit.

The holdings dropped below the US\$100 billion (RM426.6 billion) mark in July for the first time since 2010, a blow to investor confidence. They have since recovered slightly but are still down 19% this year at US\$94.1 billion.

"The move will take the pressure off the ringgit," said Nizam Idris, head of currencies and fixed income strategy at Macquarie Bank Ltd in Singapore. "It will also help to stabilise foreign-exchange reserves as it reduces the need for the central bank to intervene."

The ringgit dropped to a 17-year low in September as Brent crude prices fell by more than half from a 2014 peak, crimping government revenue for the region's only major net oil exporter.

Rising debt at state investment company 1Malaysia Development Bhd, slowing growth in China and prospects of higher US interest rates have also spurred capital outflows, weighing on the currency. It has fallen almost 19% this year.

BNM statement

The central bank said its move is to ensure there's sufficient US dollar liquidity in the "financial system to meet the needs of businesses and households".

“To achieve this, financial institutions including the foreign banks are encouraged to recycle the foreign currency earnings and deposits of local corporations in the domestic markets to ensure continuous and sufficient level of liquidity,” the emailed statement said.

Overseas investors were net buyers of the nation’s stocks for a third week through Oct 23, purchasing RM230.4 million and reducing outflows this year to RM16.9 billion, according to a report from MIDF Amanah Investment Bank on Monday. That still exceeds the RM6.9 billion for the whole of last year.

Central bank governor Zeti Akhtar Aziz pledged in August to rebuild the reserves. She has, along with Prime Minister Najib Abdul Razak, said there’s no plan to revisit capital controls imposed during the Asian financial crisis, when the ringgit was pegged at 3.8 a US dollar in 1997 through to July 2005.

The ringgit declined 0.6% to close at 4.2980 a US dollar in Kuala Lumpur on Thursday, according to prices from local banks compiled by Bloomberg. While it has appreciated 2.2% this month it has fallen almost 19% in 2015.

— **By Elffie Chew**

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