MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the first quarter of 2014. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

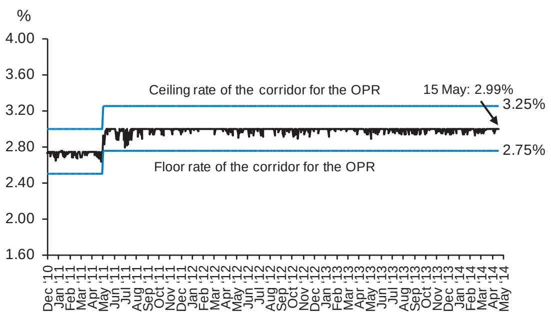
Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a range of 2.92% to 3.00% between 1 January and 31 March 2014. In February 2014, BNM reduced the maximum tenure of its Range Maturity Auction (RMA) operations from 3 to 2 months. The shorter maturity allows banks' surplus liquidity with BNM to mature more frequently, thereby ensuring that it can be drawn upon during periods of anticipated capital outflows. While placements between banks were stable compared to previous months, the absence of trade with BNM at the 3-month maturity resulted in a higher average 3-month interbank rate. Interbank rates of other short-term maturities were relatively stable during the quarter.

Rates on interest rate swaps and the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures during the period were stable but remained elevated amid continued market expectations for the OPR to increase in the second half of 2014.

Retail deposit rates were stable during the period. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-March 2014, the average quoted FD rates of commercial banks for the tenures 1 to 12 months ranged between 2.91% to 3.15%, respectively.

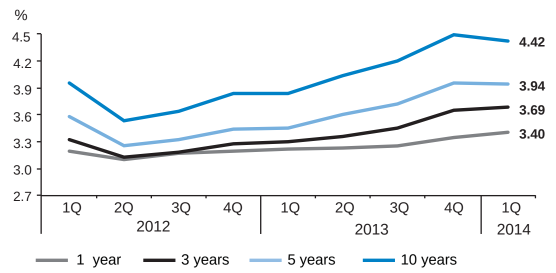
Borrowing costs to the economy were also broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on outstanding loans was stable during the period (end-March 2014: 5.39%; end-December 2013: 5.36%). Borrowing costs for businesses and households remained supportive of economic activity as lending rates continue to be below the levels prior to the Global Financial Crisis.

Daily Weighted Average Overnight Interbank Rate



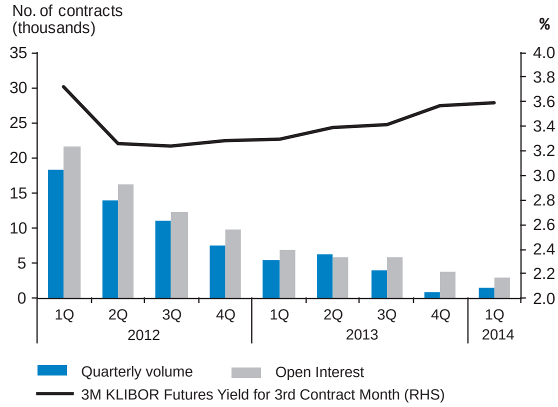
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



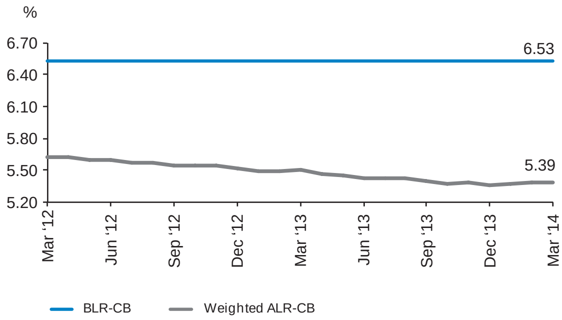
Source: Bursa Malaysia

Interest Rates

	2013		2014
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	3.00	2.99	3.00
1-month	3.10	3.20	3.06
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.50	5.36	5.39
Fixed deposit rates			
Commercial banks			
1-month	2.91	2.91	2.91
12-month	3.15	3.15	3.15

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

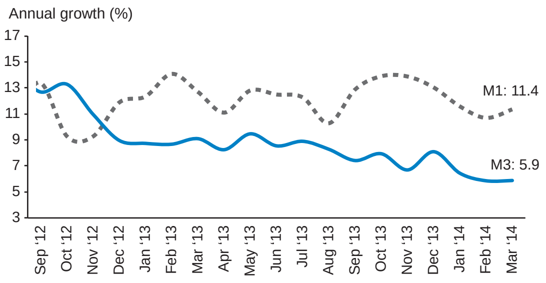
M3 continued to expand

The monetary aggregates expanded at a slower pace in the first quarter of 2014. M1, or narrow money, decreased slightly by RM0.6 billion during the quarter. However, on an annual basis, M1 expanded by 11.4% as at end-March 2014 (end-December 2013: 13%). M3, or broad money, increased by RM19.5 billion on a quarter-on-quarter basis to record an annual growth rate of 5.9% as at end-March 2014 (end-December 2013: 8.1%).

The expansion of M3 during the quarter was mainly on account of credit extended to the private sector by the banking system and higher net claims on the Government. The expansion, however, was partially offset by the decline in net foreign assets following net trade and financial outflows during the quarter.

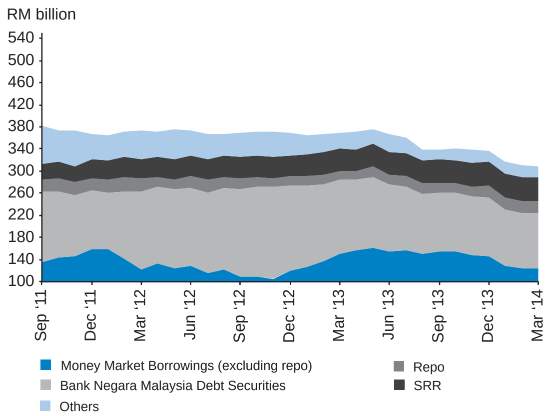
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was marginally lower during the quarter following the release of liquidity to meet the greater demand for funds.

Monetary Aggregates



Source: Bank Negara Malaysia

Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

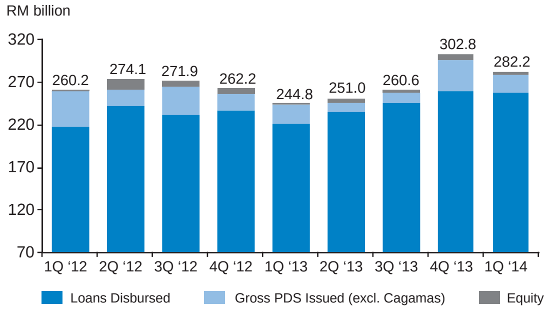
	Change during the period			
	2013			2014
	1Q	4Q	Year	1Q
	RM billion			
M3	**44.4**	**25.4**	**109.5**	**19.5**
Net claims on Govt	8.4	-5.0	21.4	7.0
Claims on private sector	24.1	41.6	119.5	24.2
Loans	*21.6*	*33.2*	*109.4*	*24.4*
Securities	*2.4*	*8.4*	*10.1*	*-0.2*
Net foreign assets[1]	7.6	4.3	-3.7	-4.9
BNM	*6.3*	*-4.0*	*-4.4*	*-18.0*
Banking System	*1.3*	*8.3*	*0.7*	*13.2*
Other influences	4.4	-15.5	-27.7	-6.8

[1] Pre-revaluation
Note: Numbers may not add up due to rounding
Source: Bank Negara Malaysia

Private sector financing activity remained strong in the first quarter

In the first quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM282.2 billion (4Q 2013: RM302.8 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.6% as at end-March 2014 (end-December 2013: 9.8%).

Gross Private Sector Financing through the Banking System and Capital Market

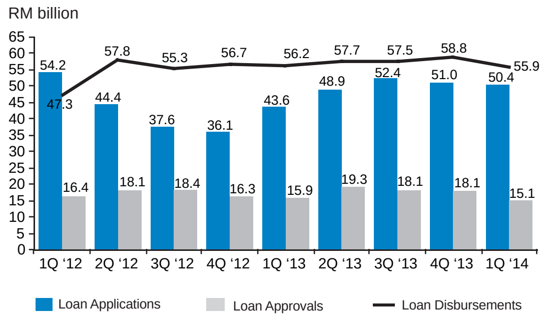


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by a smaller amount of RM8.3 billion (4Q 2013: RM11.1 billion) on account of higher repayments during the quarter. Overall loan disbursements remained steady with more funds channelled to the *wholesale and retail, restaurants and hotels, primary agriculture, manufacturing,* and *real estate* sectors. On an annual basis, outstanding business loans grew at a stable pace of 8.6% during the quarter (end-December 2013: 8.5%). Demand for new financing by businesses remained strong, with loan applications higher by RM1.1 billion compared to the previous quarter. This was mainly observed in the *electricity, gas and water supply* and *transport, storage and communication* sectors.

Net financing to the household sector expanded by RM16.1 billion during the quarter (4Q 2013: RM20.9 billion). On an annual basis, outstanding household loan growth moderated to 11.7% as at end-March (end-December 2013: 12%). Household demand for loans moderated during the quarter, with lower loan applications for the *purchase of residential property, non-residential property* and for *personal use*.

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)			
	2013			2014	2013			2014
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Gross total financing	**244.8**	**302.8**	**1,059.2**	**282.2**	**-5.9**	**15.5**	**-0.8**	**15.3**
Loans disbursed*	221.7	259.3	961.2	258.4	2.2	9.8	3.6	16.5
Gross PDS (excl. Cagamas)	22.1	36.0	82.1	19.6	-47.4	81.9	-27.4	-11.1
Equity	1.0	7.4	16.0	4.2	-24.9	21.3	-41.5	320.7
Net total financing (A)+(B)	**33.5**	**49.0**	**146.7**	**32.3**	**11.1**	**9.8**	**9.8**	**9.6**
Banking system	24.7	38.6	121.0	22.2	11.7	10.1	10.1	9.7
Loans outstanding (A)	23.4	*34.3*	*117.7*	*21.0*	10.6	10.6	10.6	10.2
Holding of PDS	1.4	*4.3*	*3.4*	*1.1*	28.2	3.8	3.8	3.4
PDS outstanding (B)	10.1	14.7	29.0	11.3	12.7	7.6	7.6	7.7
Memorandum item								
Gross PDS (incl. Cagamas)	22.6	36.0	83.9	20.5	-49.5	55.9	-30.8	-9.1

*Banking systems loans include loans sold to Cagamas

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed					Loans outstanding
	During the period (RM billion)				Share of total	Share of total
					(%)	
	1Q 13	4Q 13	Year	1Q 14		
Business enterprises	**150.3**	**180.9**	**660.0**	**184.3**	**71.3**	**43.3**
Large corporations	*94.1*	*122.0*	*429.8*	*128.4*	*49.7*	*26.7*
*SMEs**	*56.2*	*58.8*	*230.3*	*55.9*	*21.6*	*16.6*
Selected sectors						
Agriculture, hunting, forestry and fishing	8.7	7.0	31.2	8.6	3.3	2.6
Mining and quarrying	2.1	1.9	8.4	3.5	1.4	0.7
Manufacturing	48.0	54.1	200.5	55.6	21.5	7.8
Construction	14.7	17.2	62.2	17.6	6.8	4.2
Real estate	8.4	10.8	41.6	12.1	4.7	5.8
Electricity, gas and water supply	1.9	2.0	9.5	2.6	1.0	1.1
Wholesale, retail, restaurants and hotels	43.5	51.5	185.4	54.2	21.0	7.2
Transport, storage and communication	3.1	5.8	17.1	5.4	2.1	2.4
Finance, insurance and business services	14.6	23.6	78.3	18.1	7.0	7.0
Households	**71.4**	**78.4**	**301.1**	**74.1**	**28.7**	**56.7**
Purchase of residential properties	16.8	20.4	74.4	19.6	7.6	26.8
Consumption credit	41.9	44.5	174.4	41.1	15.9	18.2
Of which:						
Credit cards	*23.2*	*27.3*	*100.2*	*25.1*	*9.7*	*2.7*
Purchase of passenger cars	*10.9*	*9.5*	*41.8*	*9.0*	*3.5*	*10.9*
Others	12.6	13.5	52.3	13.4	5.2	11.6
Total	**221.7**	**259.3**	**961.2**	**258.4**	**100.0**	**100.0**

*Include loans to individual businesses.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2013			2014	2013			2014
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	187.3	209.9	820.1	189.1	-4.7	22.0	6.3	1.0
Loan approvals	87.4	98.0	392.5	91.1	-2.8	2.8	0.4	4.2
Loan disbursements	221.7	259.3	961.2	258.4	2.2	9.8	3.6	16.5
Loan repayments	210.4	233.7	880.7	249.3	2.3	2.9	1.6	18.5
Change in loans outstanding*	23.4	34.3	117.7	21.0	10.6	10.6	10.6	10.2
Of which:								
Business enterprises**								
Loan applications	84.6	88.6	358.5	89.7	-19.6	26.1	-3.7	6.0
Loan approvals	34.5	37.0	154.8	34.8	-23.8	-11.3	-16.9	0.7
Loan disbursements	150.3	180.9	660.0	184.3	-1.7	9.7	0.4	22.6
Loan repayments	145.7	167.6	619.2	181.1	-0.3	2.0	-0.9	24.3
Change in loans outstanding*	7.0	11.1	35.4	8.3	11.7	8.5	8.5	8.6
SMEs**								
Loan applications	43.6	51.0	196.0	50.4	-19.4	41.4	13.8	15.5
Loan approvals	15.9	18.1	71.4	15.1	-2.8	10.8	-7.9	-5.3
Loan disbursements	56.2	58.8	230.3	55.9	18.8	3.7	6.0	-0.6
Loan repayments	52.5	54.0	214.2	53.5	14.3	-1.2	7.6	1.8
Change in loans outstanding*	5.7	6.9	22.6	7.2	15.6	12.8	12.8	13.2
Large corporations								
Loan applications	41.0	37.6	162.4	39.3	-19.8	10.0	-18.7	-4.1
Loan approvals	18.6	19.0	83.4	19.7	-35.7	-25.5	-23.3	5.9
Loan disbursements	94.1	122.0	429.8	128.4	-10.9	12.8	-2.4	36.4
Loan repayments	93.2	113.5	405.0	127.7	-7.0	3.6	-4.9	37.1
Change in loans outstanding*	1.3	4.2	12.8	1.1	8.9	5.3	5.3	5.2
Households								
Loan applications	102.6	121.3	461.6	99.4	12.5	19.1	15.5	-3.1
Loan approvals	52.9	60.9	237.7	56.3	18.6	13.8	16.1	6.5
Loan disbursements	71.4	78.4	301.1	74.1	11.6	9.9	11.4	3.8
Loan repayments	64.7	66.1	261.5	68.2	8.6	5.2	8.0	5.4
Change in loans outstanding*	16.2	20.9	74.1	16.1	12.1	12.0	12.0	11.7

* The annual growth is for end-period.
** Include loans to individual businesses.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Financing activity in the capital market remain healthy

Net funds raised in the capital market were higher at RM39.4 billion in the first quarter (4Q 2013: RM33.7 billion). The bulk of funds was raised by the public sector, amounting to RM24 billion (4Q 2013: RM14.3 billion).

In the private sector, new issuances of private debt securities (PDS) amounted to RM20.5 billion (4Q 2013: RM36.0 billion). Funds raised were mainly for working capital and general corporate purposes. Meanwhile, equity issuances during the quarter amounted to RM4.2 billion (4Q 2013: RM7.4 billion). After adjusting for redemptions, net funds raised by the private sector amounted to RM15.4 billion (4Q 2013: RM19.5 billion).

In the public sector, gross funds raised increased to RM27.5 billion (4Q 2013: RM20.4 billion). Funds were raised through new issuances of 3-year, 7-year and 10-year Malaysian Government Security (MGS), as well as the re-opening of a 15-year MGS and 5-year, 7-year and 10-year Government Investment Issue (GII). In addition, funds were raised via a RM4 billion issuance of the Government Housing Sukuk.

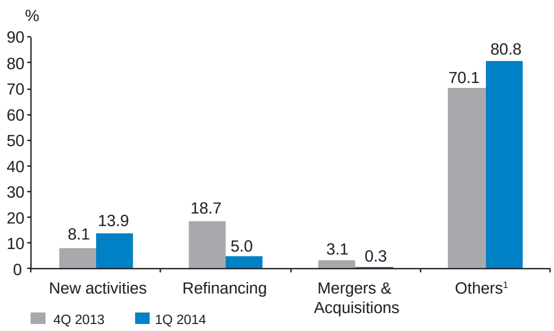
Net Funds Raised in the Capital Market

	2013			2014
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	**8.0**	**14.3**	**43.9**	**24.0**
Government securities, *net*	6.3	14.3	41.9	20.0
Malaysian Government Securities	*13.5*	*11.4*	*51.4*	*14.5*
Government Investment Issues	*10.1*	*9.0*	*41.0*	*9.0*
Less: Redemptions	*17.2*	*6.1*	50.6	3.5
Savings Bonds, *net*	-	-	(2.4)	-
Government Housing Sukuk, *net*	1.7	-	4.4	4.0
By Private Sector	**8.7**	**19.5**	**38.3**	**15.4**
Shares	1.0	7.4	16.0	4.2
Debt securities, *net*	7.7	12.0	22.2	11.2
Private Debt Securities	*22.6*	*36.0*	*83.9*	*20.5*
Less: Redemptions	*14.9*	*24.0*	*61.6*	*9.4*
Total	**16.7**	**33.7**	**82.1**	**39.4**

Note: Numbers may not add up to total due to rounding

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-residents & Cagamas and for the purpose of working capital and general business activities

Source: Bank Negara Malaysia

Bond yields were largely stable

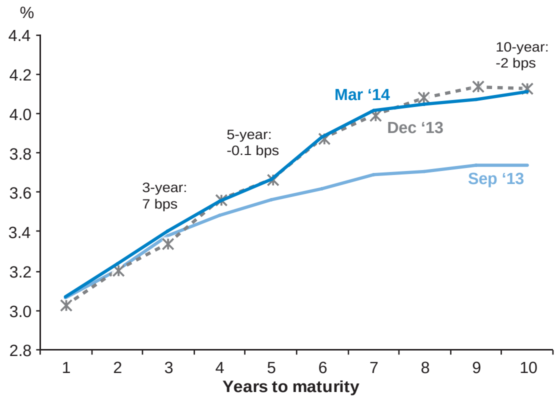
Despite the increased volatility in the global financial markets and rising risk aversion in regional financial markets, MGS yields remained relatively unchanged in the first quarter of 2014. Demand for MGS from domestic institutions, and expectations of continued accommodative monetary policy stance in the US provided support for yields during the period. As a result, yields on 5-year and 10-year MGS recorded small declines of 0.1 and 2 basis points, respectively while the 3-year MGS recorded an increase of 7 basis points.

In general, corporate bond yields increased in the first quarter. The 5-year AAA and AA-rated yields increased by 18 and 14 basis points, respectively while the A-rated yields declined by 9 basis points.

Secondary trading in the bond market decreased

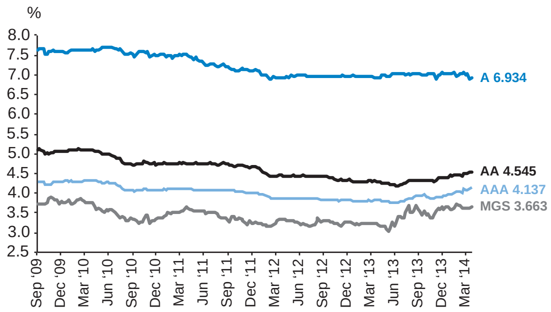
Total trading in the secondary market decreased marginally to RM137 billion during the quarter (4Q 2013: RM139 billion). Compared to the previous quarter, the MGS segment registered a lower liquidity ratio of 0.26, GII segment registered a higher liquidity ratio of 0.18, while the PDS segment remained relatively unchanged at 0.06.

Trend in MGS Yields



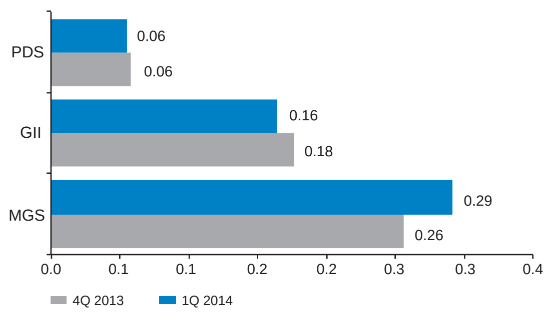
Source: Bank Negara Malaysia

5-year MGS and 5-year PDF Yields



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding



Source: Bank Negara Malaysia

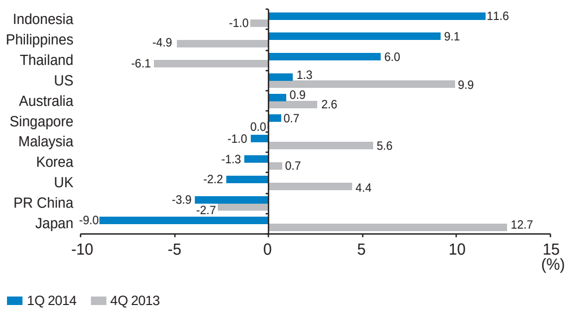
FBM KLCI declined slightly

In the first quarter, the FBM (FTSE Bursa Malaysia) KLCI declined by 17.8 points, to close at 1,849.2 points (end-December 2013: 1,867 points). The decline was mainly driven by investors' concerns over further scale-back in the asset purchase programme by the Fed, the growth prospects in several emerging economies and geopolitical developments in Eastern Europe. The decline, however, was mitigated by positive sentiments in the market following favourable data releases for the domestic economy and the US labour market.

Overall, market capitalisation increased to RM1.72 trillion as at end-March 2014 (end-December 2013: RM1.70 trillion) while the daily average turnover increased to 2.05 billion units (4Q 2013: 1.70 billion units) during the quarter.

On 14 May 2014, the KLCI ended higher at 1,879.2 points (since end-March 2014: 1.6%), with market capitalisation of RM1.75 trillion (since end-March 2014: 1.6%).

Performance of Selected Global and Regional Markets in 2014 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Bursa Malaysia: Selected Market Indicators

	2013			2014
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,671.6	1,867.0	1,867.0	1,849.2
FBMEMAS[1]	11,420.5	12,853.6	12,853.6	12,797.6
ACE Market[2]	4,008.3	5,675.8	5,675.8	6,661.3
Market capitalisation (RM billion)	1,472.5	1,702.2	1,702.2	1,719.1
No. of companies listed	915	911	911	907
	During the period			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	1,070.6	1,704.7	1,567.3	2,046.4
Value (RM million)	1,716.1	2,330.2	2,157.2	2,158.8

[1] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[2] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2013						2014	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	62.1	99.5	107.4	146.8	386.9	527.8	120.7	127.4
Of which:								
Main Board	48.9	97.9	80.0	140.7	305.2	512.3	91.3	119.7
Of which								
Consumer Products	3.1	5.3	7.3	5.5	20.9	22.6	8.4	7.1
Industrial Products	8.7	7.0	9.6	9.7	51.5	40.4	18.9	13.1
Construction	2.4	3.9	2.8	4.6	15.1	25.0	4.0	5.9
Trading/Services	16.6	42.3	34.6	81.0	111.4	229.1	33.9	51.9
Finance	3.5	21.9	4.0	18.2	17.2	103.2	3.4	18.8
Properties	5.1	5.7	8.8	6.7	34.0	35.6	10.5	7.8
Plantations	1.2	4.8	1.7	5.6	5.5	19.6	1.7	5.4
Infrastructure	1.2	4.1	1.9	5.0	6.5	19.1	1.5	4.7
ACE Market[1]	10.5	1.3	24.4	5.5	69.7	13.5	26.8	7.0

[1] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Ringgit continued to be affected by external uncertainties

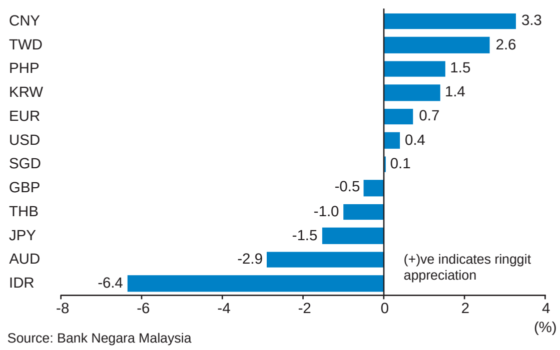
The ringgit and most other regional currencies continued to be affected by global developments in the first quarter of the year. The commencement of the scale-back of the Fed's asset purchase programme, concerns over the growth outlook for several emerging economies and geopolitical developments led to heightened risk aversion and an outflow of funds from regional financial markets. Nevertheless, expectations of stimulus measures in PR China and the continued accommodative monetary policy in the US provided support for the ringgit during the quarter.

Overall, the ringgit appreciated by 0.4% against the US dollar. The ringgit also appreciated against the euro (0.7%), but depreciated against the pound sterling (-0.5%) and Japanese yen (-1.5%).

Performance of the ringgit against regional currencies was mixed.

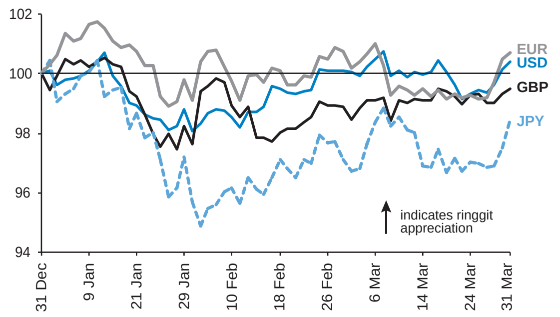
Between 1 April and 14 May 2014, the ringgit appreciated against the US dollar by 1.4%. The ringgit also appreciated against the euro (1.6%), Japanese yen (0.7%), pound sterling (0.1%) and most regional currencies.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 January - 31 March 2014)



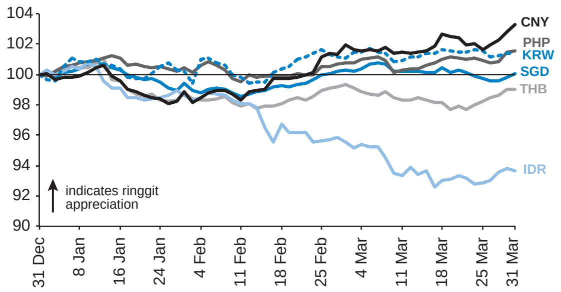
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 13	4Q 13	1Q 14	21 Jul 05	1Q 13	4Q 13
US dollar	3.8000	3.0885	3.2815	3.2685	16.3	-5.5	0.4
Euro	4.6212	3.9618	4.5263	4.4934	2.8	-11.8	0.7
Pound sterling	6.6270	4.6971	5.4076	5.4354	21.9	-13.6	-0.5
Australian dollar	2.8823	3.2174	2.9299	3.0173	-4.5	6.6	-2.9
100 Japanese yen	3.3745	3.2811	3.1281	3.1770	6.2	3.3	-1.5
Singapore dollar	2.2570	2.4911	2.5943	2.5927	-12.9	-3.9	0.1
100 Thai baht	9.0681	10.545	9.9757	10.077	-10.0	4.6	-1.0
100 Philippine peso	6.8131	7.5606	7.3908	7.2795	-6.4	3.9	1.5
100 Indonesian rupiah	0.0386	0.0318	0.0269	0.0288	34.3	10.5	-6.4
100 Korean won	0.3665	0.2773	0.3108	0.3065	19.6	-9.5	1.4
100 New Taiwan dollar	11.890	10.342	11.009	10.727	10.8	-3.6	2.6
Chinese renminbi	0.4591	0.4973	0.5422	0.5251	-12.6	-5.3	3.3

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia

Market activity for foreign exchange derivatives rose in the first quarter

The volume of foreign exchange swaps, forwards and options grew by 37.2% from the fourth quarter of 2013. The rise was mainly driven by foreign exchange swap activities which expanded by 43% from the fourth quarter of 2013 as interbank players facilitated increased trading and hedging activities in a more volatile market environment. There was also increased activity in the USD/CNY currency pair as markets reacted to the PBoC's decision to widen the yuan trading band to +/- 2% from +/- 1%.

Meanwhile, the cost of borrowing US dollar through the cross-currency swap markets had initially increased throughout January and February, with the 5-year USD/MYR cross-currency swaps rising by 15 basis points to a high of 85 basis points during the period. This, however, decreased to 78 basis points in March following greater clarity on the pace and consistency of the Fed's scale-back of its asset purchase programme.