MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

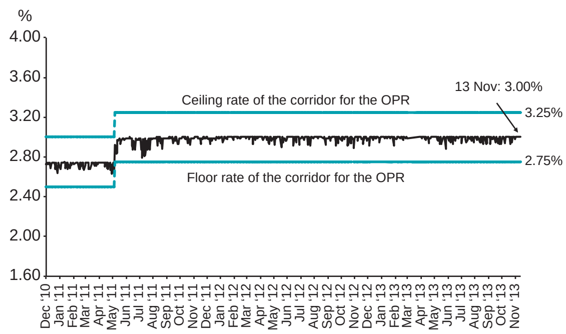
The Overnight Policy Rate (OPR) was maintained at 3.00% during the third quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

The average overnight interbank rate was stable during the quarter, moving within a range of 2.93% to 3.00% between 1 July and 30 September 2013. Interbank rates of other short-term maturities were also relatively stable. The 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures remained stable during the period, reflecting market expectations for the OPR to remain unchanged.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-September 2013, the average quoted FD rates of commercial banks for the tenures of 1 to 12 months ranged between 2.91% to 3.15% respectively.

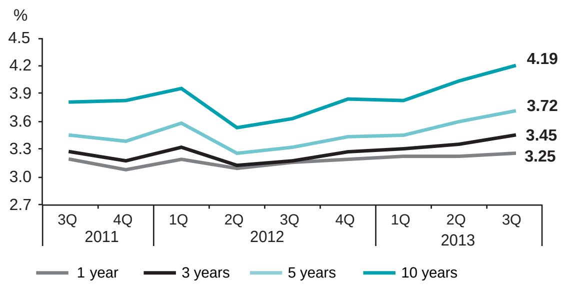
Borrowing costs remained broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-September 2013: 5.40%; end-June 2013: 5.43%), reflecting the maturity of loans that were contracted during the period of higher borrowing costs prior to the OPR reductions in 2008 and 2009, as well as the addition of new loans at relatively lower rates. 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



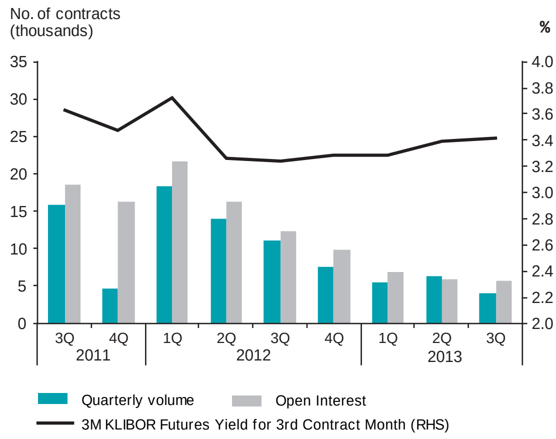
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



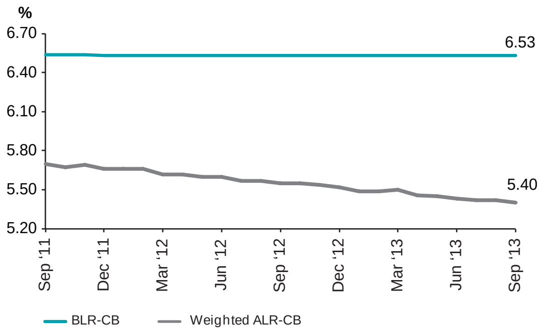
Source: Bursa Malaysia

Interest Rates

	2012	2013	
	3Q	2Q	3Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	2.99	3.00	2.93
1-month	3.08	3.08	3.07
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.55	5.43	5.40
Fixed deposit rates			
Commercial banks			
1-month	2.92	2.91	2.91
12-month	3.16	3.15	3.15

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	**29.0**	**15.1**	**44.4**	**23.3**	**16.4**
Net claims on Govt	0.3	-5.0	8.4	2.3	15.7
Claims on private sector	27.2	25.3	24.1	30.2	23.7
Loans	*19.5*	*19.2*	*21.6*	*30.8*	*23.9*
Securities	*7.7*	*6.0*	*2.4*	*-0.6*	*-0.2*
Net foreign assets[1]	22.1	-6.6	7.9	2.7	-4.2
BNM	*0.6*	*6.0*	*6.3*	*-2.1*	*-4.6*
Banking System	*21.5*	*-12.6*	*1.7*	*4.8*	*0.4*
Other influences	-20.6	1.5	4.0	-12.0	-18.8

[1] Pre-revaluation

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

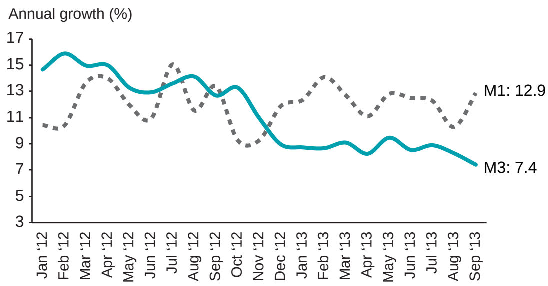
M3 continued to expand

The monetary aggregates continued to experience positive growth during the third quarter. M1, or narrow money, increased by RM10.9 billion. On an annual basis, M1 expanded by 12.9% as at end-September (end-June 2013: 12.5%). M3, or broad money, increased by RM16.4 billion on a quarter-on-quarter basis to record an annual growth rate of 7.4% as at end-September (end-June 2013: 8.5%).

On the domestic side, M3 continued to expand during the quarter on account of credit extended to the private sector by the banking system and higher net claims on the Government. The expansion in broad money, however, was moderated by net outflows due to external developments.

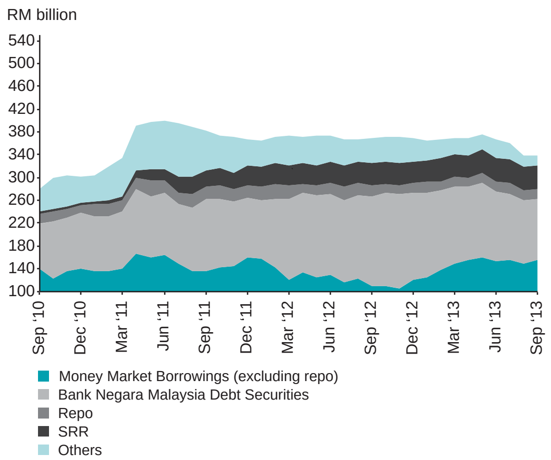
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was marginally lower during the quarter following some unwinding of liquidity to meet outflows.

Monetary Aggregates



Source: Bank Negara Malaysia

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

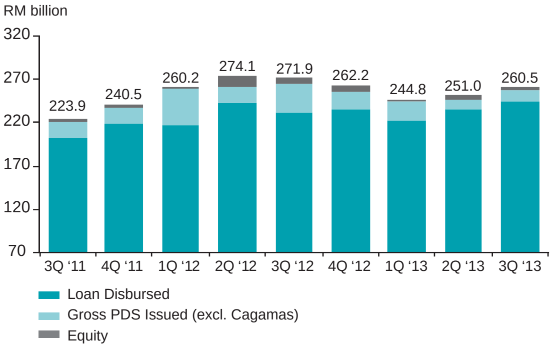


Source: Bank Negara Malaysia

Private sector financing activity was sustained in the third quarter

In the third quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM260.5 billion (2Q 2013: RM251.0 billion). Banking system loans outstanding expanded at an annual growth rate of 9.5% as at end-September (end-June 2013: 9.1%).

Gross Private Sector Financing through the Banking System and Capital Market

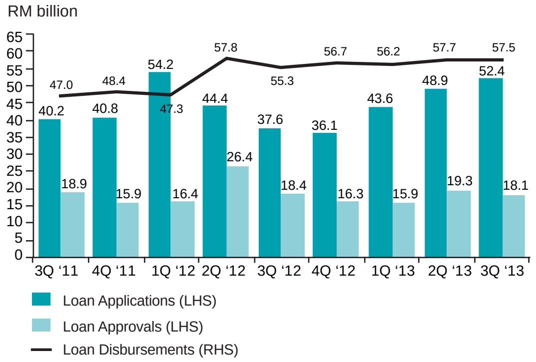


Source: Bank Negara Malaysia

In the business sector, outstanding banking system loans during the quarter expanded by a lower amount of RM3.8 billion compared to the previous quarter (2Q 2013: RM13.8 billion). This contributed to the slower growth of 7.2% on an annual basis (end-June 2013: 8.2%). Nevertheless, the level of loans disbursed to businesses remained high compared to previous periods with higher loans disbursed to the *finance, insurance and business services*, *real estate, construction* and *agriculture* sectors during the quarter. Demand for new financing by businesses also increased with higher loan applications recorded from most major sectors.

Financing to the household sector from the banking system expanded by RM19.7 billion during the quarter (2Q 2013: RM17.3 billion). On an annual basis, household loans outstanding grew at a stable pace of 11.9% as at end-September (end-June 2013: 11.8%). Household demand for loans during the quarter came mainly from the *purchase of residential property, passenger cars, securities* 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 (%)				
	2012		2013			2012		2013		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Gross total financing	**271.9**	**262.2**	**244.8**	**251.0**	**260.5**	**21.4**	**9.0**	**-5.9**	**-8.4**	**-4.2**
Loans disbursed*	232.2	236.2	221.7	235.1	244.8	14.9	7.6	2.2	-3.0	5.4
Gross PDS (excl. Cagamas)	31.8	19.8	22.1	11.1	12.9	76.4	16.2	-47.4	-43.5	-59.4
Equity	7.9	6.1	1.0	4.8	2.8	106.1	59.6	-24.9	-60.0	-64.9
Net total financing (A)+(B)	**33.3**	**31.1**	**32.5**	**32.1**	**31.7**	**12.8**	**12.4**	**11.0**	**9.1**	**8.7**
Banking system	28.5	26.0	24.7	31.2	26.5	12.9	12.0	11.7	9.7	9.3
Loans outstanding (A)	*20.9*	*19.8*	*23.4*	*32.8*	*27.2*	*11.9*	*10.4*	*10.6*	*9.1*	*9.5*
Holding of PDS	*7.6*	*6.2*	*1.4*	*-1.6*	*-0.7*	*28.0*	*36.6*	*28.2*	*18.1*	*6.4*
PDS outstanding (B)	12.4	11.4	9.1	-0.8	4.5	15.5	18.7	12.4	9.0	6.5
Memorandum item										
Gross PDS (incl. Cagamas)	32.6	23.1	22.6	11.8	13.4	71.0	33.1	-49.5	-42.6	-58.9

*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					Share of total	Share of total
	3Q 12	4Q 12	1Q 13	2Q 13	3Q 13		
	During this period (RM billion)					(%)	
Business enterprises	**162.0**	**164.9**	**150.3**	**161.5**	**167.3**	**68.3**	**43.8**
Large corporations	*106.7*	*108.2*	*94.1*	*103.7*	*109.8*	*44.9*	*27.6*
*SMEs**	*55.3*	*56.7*	*56.2*	*57.7*	*57.5*	*23.5*	*16.2*
Selected sectors							
Agriculture, hunting, forestry and fishing	7.0	8.1	8.7	7.6	7.9	3.2	2.7
Mining and quarrying	1.7	1.9	2.1	2.3	2.1	0.9	0.7
Manufacturing	52.1	51.0	48.0	49.3	49.1	20.1	8.0
Construction	16.1	14.6	14.7	14.9	15.4	6.3	4.0
Real estate	7.8	9.5	8.4	10.6	11.7	4.8	5.8
Electricity, gas and water supply	2.2	3.1	1.9	3.5	2.1	0.9	0.8
Wholesale, retail, restaurants and hotels	42.5	46.1	43.5	45.2	45.2	18.5	7.5
Transport, storage and communication	4.5	3.7	3.1	3.8	4.3	1.8	2.3
Finance, insurance and business services	20.7	18.3	14.6	17.3	22.8	9.3	6.7
Households	**70.1**	**71.4**	**71.4**	**73.7**	**77.5**	**31.7**	**56.2**
Purchase of residential properties	16.2	16.9	16.8	18.4	18.7	7.7	26.4
Consumption credit	42.7	43.3	41.9	42.2	45.7	18.7	18.9
Of which:							
Credit cards	*23.0*	*24.2*	*23.2*	*23.8*	*25.8*	*10.5*	*2.8*
Purchase of passenger cars	*10.8*	*10.6*	*10.9*	*10.1*	*11.2*	*4.6*	*11.2*
Others	11.2	11.1	12.6	13.0	13.1	5.3	10.9
Total	**232.2**	**236.2**	**221.7**	**235.1**	**244.8**	**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 (%)				
	2012		2013			2012		2013		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Total										
Loan applications	181.5	172.1	187.3	208.7	214.2	-2.8	-11.4	-4.7	-5.8	18.0
Loan approvals	94.3	95.3	87.4	103.9	103.2	-4.5	-8.5	-2.8	-6.8	9.4
Loan disbursements	232.2	236.2	221.7	235.1	244.8	14.9	7.6	2.2	-3.0	5.4
Loan repayments	223.2	227.1	210.4	212.3	224.2	18.6	15.8	2.3	0.6	0.4
Change in loans outstanding*	20.9	19.8	23.4	32.8	27.2	11.9	10.4	10.6	9.1	9.5
Of which:										
Business enterprises**										
Loan applications	81.4	70.3	84.6	91.6	93.6	-5.3	-26.5	-19.6	-20.5	15.0
Loan approvals	41.4	41.8	34.5	42.9	40.4	-10.9	-20.4	-23.8	-25.9	-2.5
Loan disbursements	162.0	164.9	150.3	161.5	167.3	19.2	9.4	-1.7	-9.1	3.3
Loan repayments	161.1	164.3	145.7	148.1	157.9	23.8	18.6	-0.3	-3.4	-2.0
Change in loans outstanding*	7.6	5.0	7.0	13.8	3.8	13.6	10.9	11.7	8.2	7.2
SMEs**										
Loan applications	37.6	36.1	43.6	48.9	52.4	-6.3	-11.4	-19.4	10.2	39.3
Loan approvals	18.4	16.3	15.9	19.3	18.1	-2.6	2.3	-2.8	-27.0	-1.5
Loan disbursements	55.3	56.7	56.2	57.7	57.5	17.6	17.2	18.8	-0.2	4.0
Loan repayments	51.5	54.7	52.5	52.6	55.0	23.0	25.0	14.3	12.4	6.8
Change in loans outstanding*	4.7	2.5	5.7	7.6	2.4	20.3	15.5	15.6	12.1	10.5
Large corporations										
Loan applications	43.8	34.2	41.0	42.7	41.2	-4.4	-37.7	-19.8	-39.7	-5.9
Loan approvals	23.0	25.5	18.6	23.6	22.3	-16.5	-30.3	-35.7	-24.9	-3.2
Loan disbursements	106.7	108.2	94.1	103.7	109.8	20.1	5.7	-10.9	-13.4	2.9
Loan repayments	109.6	109.6	93.2	95.5	102.9	24.2	15.7	-7.0	-10.3	-6.1
Change in loans outstanding*	2.9	2.5	1.3	6.2	1.4	9.1	7.8	8.9	5.4	4.7
Households										
Loan applications	100.1	101.8	102.6	117.1	120.6	-0.7	3.2	12.5	10.1	20.4
Loan approvals	52.9	53.5	52.9	61.0	62.8	1.1	3.5	18.6	13.8	18.7
Loan disbursements	70.1	71.4	71.4	73.7	77.5	6.0	3.6	11.6	13.8	10.5
Loan repayments	62.1	62.9	64.7	64.2	66.3	7.0	8.9	8.6	11.2	6.8
Change in loans outstanding*	17.2	18.2	16.2	17.3	19.7	11.9	11.6	12.1	11.8	11.9

* 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

Higher net financing from the capital market

Fund raising activity in the capital market remained robust, with total net funds raised amounting to RM20.1 billion in the third quarter (2Q 2013: RM13.9 billion).

In the private sector, issuances of private debt securities were higher at RM13.4 billion in the third quarter (2Q 2013: RM11.8 billion), while equity issuances amounted to RM2.8 billion (2Q 2013: RM4.8 billion). Funds raised were mainly used for working capital and general corporate purposes.

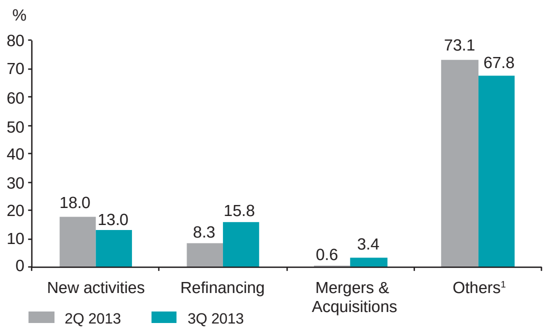
In the public sector, net funds raised increased by RM13.7 billion in the third quarter (2Q 2013: RM10.2 billion). Of significance, the third quarter saw the inaugural issuance of the 30-year Malaysian Government Securities (MGS), which reflected the continued development of the Malaysian bond market. As a sign of confidence in the fundamentals of the Malaysian economy, the RM2.5 billion issuance attracted RM6.1 billion of orders, or a bid-to-cover ratio of 2.44 times. Funds were also raised through new issuances of a 7-year MGS, a 3-year, 7.5-year and 20-year Government Investment Issue (GII) and a 7-year Housing Sukuk, as well as the re-opening of a 5-year and 10-year MGS.

Net Funds Raised in the Capital Market

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
By Public Sector	**10.4**	**17.6**	**8.0**	**10.2**	**13.7**
Government securities, *net*	7.8	15.7	6.3	12.6	11.0
Malaysian Government Securities	*14.2*	*11.6*	*13.5*	*12.6*	*16.3*
Government Investment Issues	*11.1*	*8.0*	*10.1*	*12.0*	*10.0*
Less: Redemptions	*17.5*	*4.0*	*17.2*	*12.0*	15.3
Savings Bonds, *net*	-	-	-	(2.4)	-
Government Housing Sukuk, *net*	2.6	1.9	1.7	-	2.7
By Private Sector	**18.3**	**20.1**	**8.7**	**3.7**	**6.4**
Shares	7.9	6.1	1.0	4.8	2.8
Debt securities, *net*	10.3	14.0	7.7	(1.1)	3.6
Private Debt Securities	*32.6*	*23.1*	*22.6*	*11.8*	*13.4*
Less: Redemptions	*22.3*	*9.1*	*14.9*	*12.9*	*9.7*
Total	**28.7**	**37.7**	**16.7**	**13.9**	**20.1**

Note: Numbers may not add up to total due to rounding
Source: Bank Negara Malaysia and Bursa Malaysia

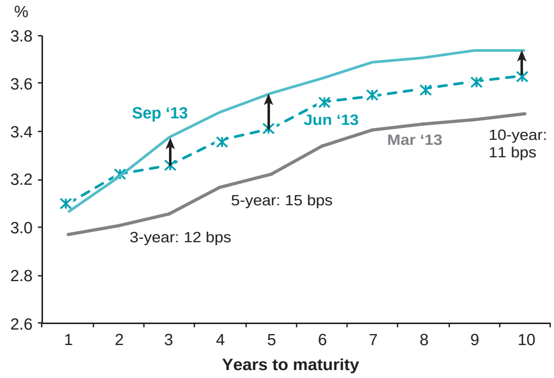
Private Debt Securities Issued by Purpose (% of total)



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

Source: Bank Negara Malaysia

Trend in MGS Yields

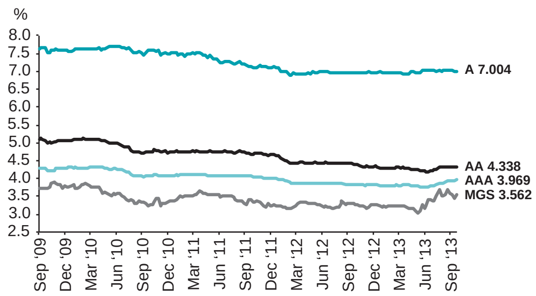


Source: Bank Negara Malaysia

Bond yields increased marginally

MGS yields remained on an upward trend for most of the quarter. This mainly reflected market expectations for a scale-back in the US Federal Reserve's asset purchase program. The trend partially reversed when the US Federal Reserve decided to maintain its asset purchase program in September. Overall, yields on the 3-year, 5-year and 10-year MGS recorded increases of 12, 15 and 11 basis points respectively. Higher rated corporate bond yields also moved in tandem with the increase in MGS yields. The yields on the 5-year AAA and AA-rated corporate bonds recorded an increase of 18 and 12 basis points during the period. The interest rate swap (IRS) rates, particularly for the longer term maturity, also increased in July and August.

5 year MGS and 5 year Corporate Bond Yield

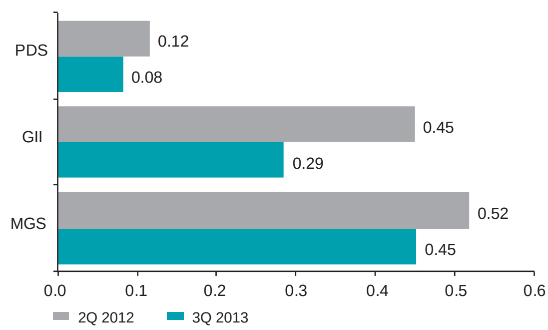


Source: Bank Negara Malaysia

Secondary trading in the bond market declined

Total trading in the secondary market decreased to RM214 billion during the quarter (2Q 2013: RM270 billion). The decline in turnover was broad-based, with the MGS, GII and PDS segments registering lower liquidity ratios of 0.45, 0.29 and 0.08 respectively.

Liquidity Ratio: Value of Bond Traded / Outstanding



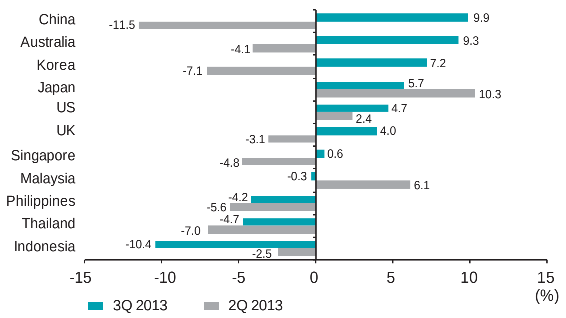
Source: Bank Negara Malaysia

FBM KLCI declined slightly during the quarter

In the third quarter, the FBM (FTSE Bursa Malaysia) KLCI declined slightly by 4.9 points to 1768.6 points at end-September (end-June 2013: 1773.5 points). Market sentiment during the quarter were driven mainly by expectations for a scale-back in the US Federal Reserve's asset purchase program. This exerted downward pressure on regional equities, including the FBM KLCI. The pressure was partially relieved in September when the US Federal Reserve decided to maintain its asset purchase program. Overall, market capitalisation remained at RM1.61 trillion as at end-September 2013 (end-June 2013: RM1.60 trillion) while the daily average turnover increased to 1.74 billion units (2Q 2013: 1.71 billion units) during the quarter.

On 13 November 2013, the FBM KLCI ended higher at 1,782.5 points (since end-September 2013: 0.8%), with market capitalisation of RM1.65 trillion (since end-September 2013: 2.6%).

Performance of Selected Global and Regional Markets in 2013 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Bursa Malaysia: Selected Market Indicators

	2012	2013			
	As at end				
	Sept	Dec	Mar	June	Sept
Price Indices					
Composite	1,636.7	1,689.0	1,671.6	1,773.5	1,768.6
FBMEMAS[1]	11,106.6	11,438.1	11,420.5	12,304.9	12,289.7
ACE Market[2]	4,304.7	4,214.2	4,008.3	4,684.5	5,537.2
Market capitalisation (RM billion)	1,417.3	1,465.7	1,472.5	1,598.8	1,611.2
No. of companies listed	931	921	915	910	910
	During the quarter				
	3Q	4Q	1Q	2Q	3Q
Average daily turnover					
Volume (million units)	1,197.8	1,053.6	1,070.6	1,714.8	1,739.8
Value (RM million)	1,683.8	1,509.0	1,716.1	2,464.4	2,083.1

[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

	2012				2013					
	3Q		4Q		1Q		2Q		3Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	73.1	102.7	65.3	93.6	62.1	99.5	108.0	150.3	109.4	131.2
Of which:										
Main Board	49.1	98.7	50.8	91.3	48.9	97.9	91.4	147.3	85.0	126.4
Of which										
Consumer Products	4.5	5.5	4.6	5.0	3.1	5.3	4.5	6.3	6.1	5.4
Industrial Products	10.0	8.9	10.6	8.5	8.7	7.0	19.6	13.3	13.6	10.3
Construction	1.9	3.4	2.1	3.1	2.4	3.9	5.0	9.3	4.9	7.2
Trading/Services	18.6	42.0	20.8	42.1	16.6	42.3	28.7	55.0	31.5	50.8
Finance	3.6	20.2	2.6	17.6	3.5	21.9	5.4	34.6	4.3	28.4
Properties	4.1	5.0	3.7	3.6	5.1	5.7	11.5	13.8	8.6	9.4
Plantations	1.8	7.8	1.1	4.7	1.2	4.8	1.2	4.9	1.4	4.4
Infrastructure	0.9	3.1	1.1	3.9	1.2	4.1	1.6	5.1	1.7	4.9
ACE Market[1]	18.5	3.3	10.0	1.8	10.5	1.3	13.7	2.4	21.2	4.4

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

Source: Bursa Malaysia

The foreign exchange market was volatile during the quarter

The ringgit weakened against major and most regional currencies in the third quarter. The ringgit, alongside most regional currencies, depreciated against the US dollar as market expectations for a scale-back in the US Federal Reserve's asset purchase program prompted a reversal of capital flows from most regional financial markets. This depreciation trend, however, was partially reversed from end-August to mid-September as the US Federal Reserve's decision to maintain its asset purchase program led to increased interest for regional financial assets.

Overall, the ringgit depreciated by 2.4% against the US dollar during the quarter. The ringgit also depreciated against the pound sterling (7.8%), euro (5.6%) and Japanese yen (3.3%), as well as against most regional currencies, by between 1.7% and 8.5%. The ringgit, however, strengthened against the Indonesian rupiah by 14.6%.

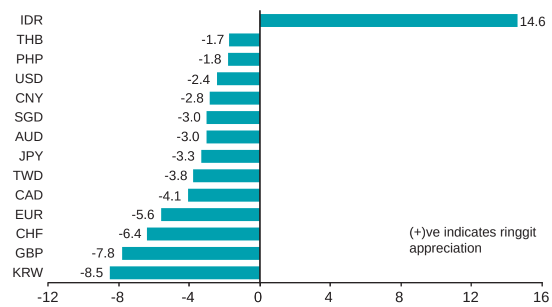
Between 1 October and 13 November, the ringgit appreciated against the US dollar by 1.5%. The ringgit also appreciated against the pound sterling (3.3%), Japanese yen (3.1%) and euro (2.0%). Against regional currencies, the ringgit strengthened by between 0.9% and 2.2% during the period.

Volume of foreign exchange derivatives rose moderately in the third quarter

The volume of foreign exchange derivatives grew by 4.3% in the third quarter (2Q 2013: 18.5%). The rise was primarily driven by foreign exchange swap activities, which expanded by almost 8% from the second quarter as interbank players facilitated increased trading and hedging activities in a more volatile market environment. There was also an increase in forward buying activities by non-residents, particularly in July and August 2013, to hedge their ringgit asset exposure following the strengthening of the US dollar against regional currencies.

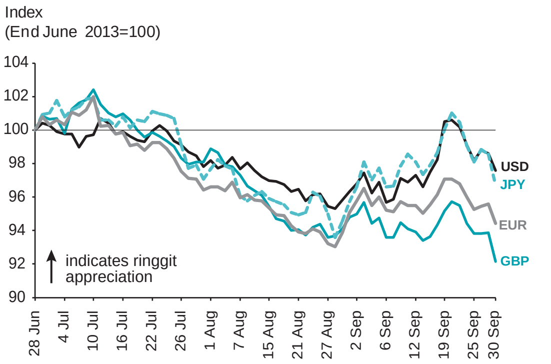
Meanwhile, the cost of borrowing US dollars through the cross-currency swap market declined substantially throughout the third quarter, with the 5-year USD/MYR cross-currency swaps narrowing from 140bps in July to 89bps in September. The decline was mainly due to easing concerns over the potential tapering of quantitative easing by the Federal Reserve following the September's FOMC meeting.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 July - 30 September 2013)



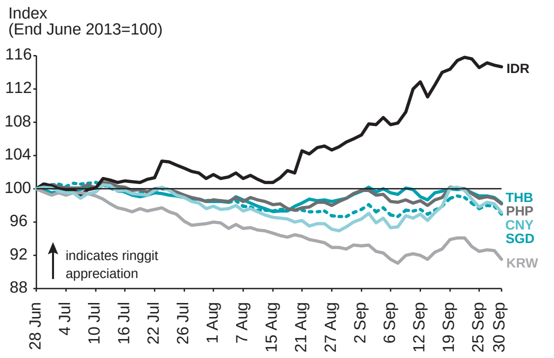
Source: Bank Negara Malaysia

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	3Q 12	2Q 13	3Q 13	21 Jul 05	3Q 12	2Q 13
US dollar	3.8000	3.0660	3.1785	3.2575	16.7	-5.9	-2.4
Euro	4.6212	3.9639	4.1535	4.3988	5.1	-9.9	-5.6
Pound sterling	6.6270	4.9829	4.8537	5.2666	25.8	-5.4	-7.8
100 Japanese yen	3.3745	3.9536	3.2160	3.3255	1.5	18.9	-3.3
Singapore dollar	2.2570	2.5018	2.5130	2.5912	-12.9	-3.4	-3.0
100 Thai baht	9.0681	9.9481	10.197	10.378	-12.6	-4.1	-1.7
100 Philippine peso	6.8131	7.3402	7.3491	7.4825	-8.9	-1.9	-1.8
100 Indonesian rupiah	0.0386	0.0320	0.0320	0.0279	38.3	14.6	14.6
100 Korean won	0.3665	0.2754	0.2774	0.3031	20.9	-9.1	-8.5
Chinese renminbi	0.4591	0.4871	0.5172	0.5324	-13.8	-8.5	-2.8

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

Source: Bank Negara Malaysia