

**Financial Markets Committee Meeting**  
**Thursday, 09 April 2020**  
**Bank Negara Malaysia**

## **Summary of Discussion**

The meeting discussed developments in financial markets and deliberated on the outlook as well as identifying issues, challenges and solutions.

### **1. Ringgit liquidity in the onshore market**

BNM reaffirmed its commitment to ensure sufficient ringgit liquidity in the onshore market:

- a. The meeting acknowledged that the recent measures by BNM, particularly the reverse repo operations, Statutory Reserve Requirement (SRR) adjustments, Principal Dealer facilities and the purchase of government bonds, have ensured sufficient ringgit and bond market liquidity. It is noted that the recent pick up in interbank repo market activities have enabled banks to better manage liquidity.
- b. Financial Markets Association Malaysia (FMAM) will continue to work with insurance and asset management associations, corporates and other financial entities to increase the operational readiness on liquidity management including ensuring that Global Master Repurchase Agreements (GMRA) are in place among market participants. Meanwhile, three banks will spearhead initiatives to encourage participation in Sell and Buy Back Agreements (SBBA) among Islamic market players.
- c. The meeting further discussed efforts to expand participants in the repo market including active participation from Development Financial Institutions (DFIs).

### **2. US dollar liquidity in the onshore market**

BNM has access to the US Federal Reserve's FIMA repo facility which can be used to channel US dollar liquidity into the onshore market:

- a. The meeting noted that onshore US dollar liquidity conditions remained manageable and had improved over the past weeks following a period of heightened global risk aversion. However, the meeting acknowledged that financial markets globally continue to be susceptible to shifts in investor sentiment and thus, US dollar liquidity remains a key factor to be closely monitored.

- b. BNM informed that it has access to the Federal Reserve's FIMA repo facility which can be utilised to alleviate US dollar funding needs as and when necessary.

### **3. Ongoing market developments**

- a. On the issue of pre-funding asset purchase raised by Japanese investors, BNM, in collaboration with Custodian Bank Working Group (CBWG), will issue a broadcast to global custodians and clients to reiterate that pre-funding is not a regulatory requirement for settlement of ringgit bonds.
- b. The pilot programme for Appointed Overseas Office (AOO) of licensed onshore banks (LOBs) has transitioned into a permanent arrangement. Eight banks will act as primary market makers and provide continuous reference pricing after KL trading hours to facilitate access to the ringgit market for FX risk management and hedging.
- c. BNM informed that Bloomberg's FXGO and Refinitiv's Matching are currently available as intermediaries, while several additional Electronic Trading Platform (ETP) applications are currently being processed.
- d. The meeting also deliberated on forthcoming flexibilities under the foreign exchange rules to improve business efficiency for corporates in the areas of corporate hedging, financial guarantees and relaxation of conversion of export proceeds below a certain threshold.
- e. The meeting was also informed that the project delivery for physical settlement of Malaysian Government Securities (MGS) futures is on track for its target launch date in September 2020 following a series of industry-wide testing set to take place beginning June 2020.

### **4. Challenges ahead**

- a. The meeting deliberated on the challenges in addressing the economic impact of the Covid-19 pandemic and the implications for financial markets:
  - i. Members acknowledged that the global economy will be in recession in 2020, but expects a strong recovery in 2021.
  - ii. Against the backdrop of a weak growth, members also acknowledged the role of financial markets in providing liquidity and facilitating corporate funding requirements in supporting economic activities.
  - iii. Members agreed that financial institutions have an important role to identify risks pre-emptively and conduct financial intermediation activities efficiently.

- iv. The meeting discussed how rating actions could lead to knee-jerk reactions and increase volatility in financial markets, despite the global nature of this pandemic and the importance of fiscal spending to avoid long term damage to the economy. Thus, it is important to put the one-off and transitory fiscal stimulus spending into this broader context in assessing potential ratings actions.
- v. On the part of BNM, the Bank reiterated its commitment to provide sufficient liquidity to the wholesale interbank market in order to ensure uninterrupted financial intermediation which will support households and viable businesses through the current Covid-19 crisis. The Bank will continue to engage market participants to pre-emptively identify and manage such risks.
- vi. On the part of fiscal policy, the Government's fiscal stimulus measures have demonstrated its commitment to support economic growth. The Government remains committed to fiscal discipline and expects to resume fiscal consolidation efforts once economic conditions stabilise.