Financial Markets Committee (FMC) Meeting
7 August 2023
Bank Negara Malaysia

Summary

The meeting discussed recent developments related to the ringgit foreign exchange market and updates from the Sustainability Working Group.

1. Ringgit market developments and outlook

1.1 The meeting noted key market developments and movement of the ringgit since the last meeting. The ringgit has strengthened by 2.5% against the US dollar and is trading firmer against other regional currencies. Market sentiment surrounding the ringgit has generally improved. Market participants expect the US Federal Reserve to be approaching the end of its rate hike cycle on signs of moderating inflation, as well as for authorities in China to continue with various measures to spur economic recovery.

1.2 The rebound in market sentiment was observable from robust foreign interest in the domestic financial markets. Non-residents continued their purchases of Malaysian government bonds with a year-to-date increase in holdings of RM22.5 billion as at end-June. In the equity market, non-resident investors recorded inflows of RM1.4 billion in July, reversing 10 consecutive months of outflows and contributing to the KLCI's strong performance of a 6.0% gain.

1.3 The meeting took note of market participants' positive feedback on the FMC statement in June, as well as the reaffirmation from BNM to continue to curb excessive volatility or depreciation by carrying out intervention in the foreign exchange market. To this end, the meeting also reaffirmed the importance of the ringgit to be determined by market forces to allow for adjustments to occur in line with global developments as well as domestic fundamentals.

1.4 Looking ahead, members expect that further clarity on the path of interest rates by major central banks will provide support to the ringgit and emerging market currencies in general.

1.5 In light of the recent strengthening of the ringgit, the meeting noted that some exporters were observed to have increased conversion of export proceeds. Importers continue to manage purchases and hedging of the US dollar for their business requirements.

1.6 Nonetheless, members noted the ongoing efforts by onshore banks in engaging with their corporate clients on strategies to better manage their

foreign currency balances, in light of shifts in global interest rates, as well as the extent of the US dollar forward discount on hedging cost.

2. Economic growth prospects

2.1 The meeting discussed the latest developments in Malaysia's economic growth prospects. Growth in 2023 continues to be supported by domestic investments and a gradual recovery in tourism.

2.2 Members positively viewed the recent announcements of the MADANI Economy Framework and National Energy Transition Roadmap (NETR), which underscore the Government's commitment to structural reforms. These initiatives could potentially improve economic competitiveness, facilitate the transition to a more sustainable economy and provide a measure of support for the long-term outlook of the ringgit. The meeting thus emphasised the need for continued commitment and an effective implementation to ensure the success of these initiatives.

3. Updates from the Sustainability Working Group[1] (SWG)

3.1 The meeting was briefed on the SWG's inaugural meeting which discussed membership and deliverables. The meeting endorsed the addition of two new members to the SWG, with the current list of members as follows:

i. (Chairperson) Adoni Idris, Managing Director, Global Markets, Malayan Banking Berhad
ii. Endran Fadzil, Deputy Director, Investment Operations and Financial Market Department, Bank Negara Malaysia
iii. Latifah Mohamed Yusof, Head of Corporate Finance and Treasury, Malaysia Airlines Berhad
iv. Raymond Tang, Chief Executive Officer, Eastspring Investments Berhad
v. (New) Reza Ridzuan, Managing Director, Head of Global Markets Malaysia, BNP Paribas Malaysia Berhad
vi. (New) Ahmad Siddiq Ahmad Hasbullah, Partner, Ernst & Young PLT

[1] The SWG serves as a platform for the collaboration between financial market players and industry to i) identify opportunities and gaps, and ii) recommend appropriate plans and initiatives for the development of the domestic sustainability market. Please refer to the FMC meeting summary on 19 June 2023 for further details: https://www.bnm.gov.my/documents/20124/11285645/FMC-Minutes-20230619.pdf