Financial Markets Committee (FMC) Meeting
1st October 2024
Bank Negara Malaysia

Summary

The meeting discussed the latest ringgit market developments, followed by updates on market development initiatives including KLIBOR transition and strategies to enhance the domestic bond and sukuk market.

1. Changes in FMC and Islamic Financial Market Subcommittee (IFMC) membership

1.1 Sylvia Wong and Aida Mastura have left the FMC following their departures from their respective institutions. FMC Chairman Adnan Zaylani expressed his gratitude and appreciation for their valuable contributions during their tenure.

1.2 Shahredza Minhat will be joining the IFMC as a new member and assuming the responsibilities of co-chair from Bilal bin Mohd Parid. Bilal will continue to serve as a member of the IFMC.

2. Ringgit market developments

2.1 The ringgit was one of the best performing currencies globally, strengthening 14.4% against the dollar in Q3 2024 and 11.4% on a YTD basis. This was primarily driven by the US Fed's 50 bps policy rate cut and greater clarity on the trajectory for further reductions. Notwithstanding the stronger performance, the meeting noted the following key developments that support sustained positive performance of the ringgit:

(i) FMC noted that the ongoing coordinated efforts by the Government and BNM to encourage repatriation and conversion of foreign income proceeds by Government-linked Companies (GLCs), Government-linked Investment Companies (GLICs) and corporates have contributed to ample domestic FX market liquidity, which recorded an average daily volume of USD17.6 billion. FMC members noted that the current arrangement can be sustained to ensure better liquidity in the onshore FX market.

(ii) Investor confidence in Malaysia has improved following Malaysia's robust economic growth and the Government's continued commitment to structural reforms. Significant foreign portfolio inflows were observed in

Q3 2024 amidst the strong KLCI performance and normalising MGS-UST spread. Members also viewed that the frequent investor engagements by the authorities were beneficial in raising awareness of Malaysia as an attractive investment destination and reaffirmed the importance of continued policy coherence and consistency.

(iii) Members shared observations of corporate behavioural changes amidst the recovery of the ringgit. Among exporters, there was a shift in sentiment that led to more interest for conversion of export proceeds, while importers have also reduced their front-loading tendencies by purchasing only required quantities for their business activities.

3. KLIBOR transition to MYOR/MYOR-i

3.1 The meeting was briefed on the publication of a discussion paper on the proposed full transition to MYOR/MYOR-i and permanent cessation of KLIBOR on 27 September 2024. The proposal was developed following an assessment on interbank liquidity which was increasingly concentrated on the overnight tenor, as well as the slow adoption of MYOR/MYOR-i given the coexistence of KLIBOR. Broad support for the proposal was received from member institutions of the Financial Markets Association Malaysia (FMAM).

3.2 The meeting noted that the consultation period would last for one month (until 27 October), during which BNM would seek to engage relevant associations and organisations to request for feedback and ensure comprehensive coverage of all key stakeholders. Members also agreed to assist in raising awareness of the consultation among clients and counterparties.

4. Strategies to enhance the domestic bond and sukuk market

4.1 The meeting discussed measures to enhance liquidity and widen the investor base in the corporate bond and sukuk market. In the near term, key initiatives include:

(i) introduction of corporate bond and sukuk trading as part of the assessment on market development efforts in the Principal Dealers' (PD) framework

(ii) investor engagement sessions with key industry stakeholders to familiarise non-residents with Malaysian corporate names and sukuk structures in addition to Malaysian government bonds

4.2 Members were supportive of plans for the FMC to collaborate with the Malaysian Investment Banking Association (MIBA) on an investor-issuer forum scheduled

for 2025. This forum aims to showcase and promote awareness of green and sustainable investment opportunities within the corporate sector.

4.3 Members also noted the ongoing engagements with major bond index providers and foreign investors to promote the inclusion of Malaysian Government Investment Issues (MGII) in global bond indices.