Financial Markets Committee (FMC) Meeting
5 October 2023
Bank Negara Malaysia

Summary

The meeting discussed recent domestic financial market developments with a focus on the ringgit foreign exchange market.

1. Financial market developments and outlook

1.1 The meeting noted that the performance of the ringgit continues to be driven by external factors, including expectations for the US federal funds rate to remain higher for longer on the back of persistent inflation and a relatively resilient economy as well as China's slowing economic growth. This challenging environment was not limited to the ringgit, with the ringgit's year-to-date decline of 6.9% against the US dollar in line with regional currencies such as the South Korean won (-7.2%), Thai baht (-6.7%) and Chinese yuan (-5.5%).

1.2 The meeting acknowledged that the ringgit and bond market may continue to face near-term headwinds on the back of the widening spread between US and domestic yields. This has contributed to foreign portfolio outflows and upwards pressure on MGS yields, with the 10-year MGS yield rising 11 bps on 4 October to 4.12%, closely tracking the 12 bps increase in the 10-year UST. However, members expect further flows to be gradual as most foreign investors are currently in an underweight position for emerging markets, with the domestic market also benefitting from a stable base of index-tracking investors.

1.3 Members shared observations of better two-way corporate flows recently while foreign direct investment (FDI) has improved on the back of successful efforts by government ministries such as the Ministry of Investment, Trade and Industry (MITI) to attract new investments. While there were concerns on the ringgit's direction by corporates ahead of year-end budgeting activities, members positively noted the engagement between corporates and banks to manage their foreign currency risk via a variety of hedging instruments.

1.4 The meeting reaffirmed that the onshore financial markets remain supportive for intermediation, with the daily average FX turnover volume reaching a record high of USD15.4 billion per day and USD/MYR volatility hovering close to its 5-year average of 5.0%. Bank Negara Malaysia (BNM) continues to closely monitor developments on the ringgit and remains committed in containing excessive volatility through market intervention. Members agreed on the importance of collective responsibility by domestic market participants, including commercial banks, investors and corporates to avoid exacerbating existing pressures and ensure the orderly functioning of the foreign exchange market.

1.5 Looking ahead, the meeting agreed that Malaysia's fundamentals remain strong with supporting factors for the ringgit including the direction of subsidy rationalization, tabling of the Fiscal Responsibility Bill and implementation of domestic projects under the recently announced New Industrial Master Plan 2030 (NIMP) and National Energy Transition Roadmap (NETR), which are expected to improve Malaysia’s fiscal position and competitiveness over the medium- to long-term.