MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates were stable

The OPR was left unchanged at 2.00% in the third quarter, in line with the assessment that the accumulated monetary policy easing would provide sufficient support to economic activity over the medium term.

Reflecting the unchanged OPR, the average overnight interbank interest rate was stable, moving within a narrow range of 1.99% to 2.01% during the period 1 July – 13 November 2009. Similarly, interbank interest rates of other maturities were also stable.

In terms of the retail lending rates, the average base lending rate (BLR) of commercial banks (CBs) was relatively unchanged at 5.51%. The average lending rate (ALR) on loans outstanding, however, continued to decrease in the third quarter to a historic low of 4.91% in September 2009. The continued downward trend in the ALR on loans outstanding reflected new loans being contracted at lower rates after the reduction in the OPR, while existing more expensive loans were repaid.

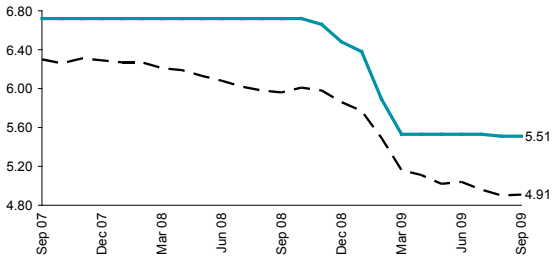
In terms of the retail deposit rates, the average quoted fixed deposit (FD) rates of CBs were relatively unchanged. As at end-September, the average quoted FD rates for tenures of between 1 to 12 months ranged between 2.00% to 2.50% respectively. With the inflation rate being negative since June 2009, real FD rates remained positive across all tenures.

Interest Rates

	2008	2009	
	3Q	2Q	3Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.50	2.00	2.00
Interbank rates			
Overnight	3.49	1.99	1.99
1-month	3.57	2.09	2.07
Base lending rates (BLR)			
Commercial banks	6.72	5.53	5.51
Average lending rates (ALR)			
Commercial banks	5.96	5.04	4.91
Fixed deposit rates			
Commercial banks			
3-month	3.14	2.05	2.03
12-month	3.70	2.52	2.50

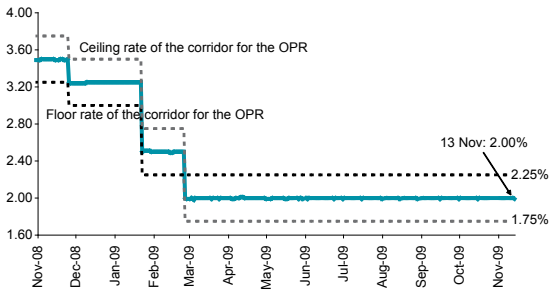
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



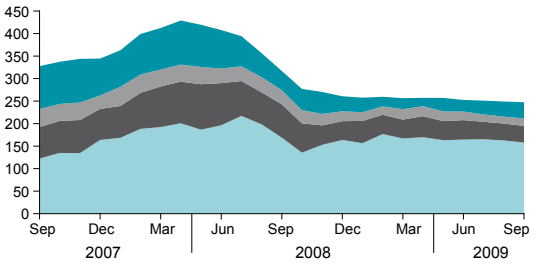
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

M3 rose at a faster pace

Monetary aggregates registered a faster annual increase in the third quarter, consistent with the pick-up in economic activity. M1, or narrow money, increased by RM5.8 billion during the quarter. On an annual basis, M1 expanded at a faster annual growth rate of 6.5% as at end-September 2009 (end-June 2009: 5.5%). M3, or broad money, also expanded at a faster annual growth rate of 6.8% at end-September 2009 (end-June 2009: 5.8%). On a quarter-on-quarter basis, M3 increased by RM24.7 billion.

The M3 aggregate, which had been moderating for the past 15 months, rebounded in the third quarter due mainly to the strong expansion of credit. This included higher financing by the banking system to the private sector and the Government. Growth in broad money was also supported by an increase in the net foreign assets of the banking system, reflecting mainly inflows from Malaysia's trade surplus, as well as the external fund raising activity by one large *Non-Financial Public Enterprise*. This is a turnaround from the net outflows since the second quarter of 2008.

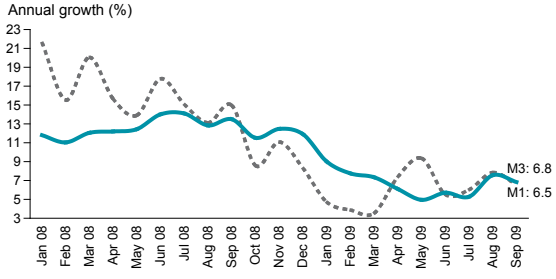
Determinants of Broad Money, M3

	Change during the period				
	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	**13.7**	**19.1**	**17.4**	**1.1**	**24.7**
Net claims on Govt	14.5	23.3	5.7	5.8	0.7
Claims on private sector	32.7	18.3	5.3	5.5	20.8
Loans	*25.6*	*11.2*	*4.5*	*7.9*	*19.4*
Securities	*7.1*	*7.1*	*0.8*	*-2.4*	*1.4*
Net foreign assets[1]	-57.3	-37.6	3.7	-4.2	9.8
BNM	*-32.2*	*-48.6*	*-4.3*	*-1.7*	*1.5*
Banking System	*-25.0*	*11.0*	*8.1*	*-2.5*	*8.3*
Other influences	23.8	15.1	2.7	-6.0	-6.6

[1]Pre-revaluation

Source: Bank Negara Malaysia

Monetary Aggregates

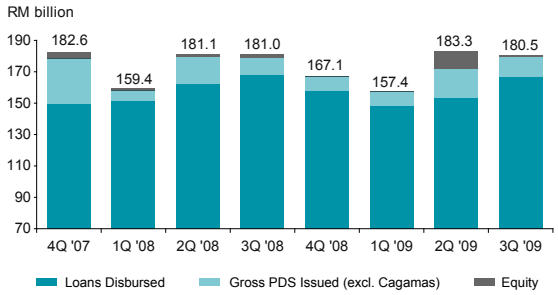


Source: Bank Negara Malaysia

Private sector financing activity improved

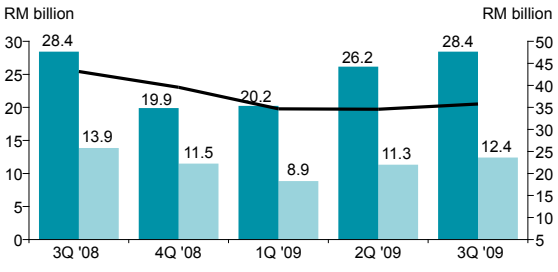
The accommodative monetary conditions continued to provide support to domestic economic activity. In an environment of low interest rates and the ample liquidity in the banking system, coupled with targeted measures to ensure continued flow of financing to the economy, total gross financing raised by the private sector through the banking system and the capital market remained high at RM180.5 billion during the quarter. Notably, net banking system loans outstanding expanded by RM21 billion reflecting higher loans extended to the business and household sectors. On an annual basis, total financing through banking system loans and PDS expanded by 7.2% as at end-September (end-June: 8%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

As economic conditions improved in the third quarter, loan disbursements to the business sector increased due mainly to higher drawdown of working capital for the *wholesale, retail, restaurants and hotels; construction;* and *manufacturing* sectors. As a result, business loans outstanding expanded by RM5.2 billion

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2008	3Q 08	2Q 09	3Q 09	2008	2Q 09	3Q 09
Gross total financing	**688.6**	**181.0**	**183.3**	**180.5**	**6.1**	**1.2**	**-0.3**
Loans disbursed*	640.3	168.3	153.8	166.7	11.3	-5.3	-1.0
Gross PDS (excl. Cagamas)	42.9	10.5	18.0	12.6	-35.5	6.6	20.1
Equity	5.5	2.2	11.5	1.2	-23.1	578.2	-43.9
Net total financing (A)+(B)	**110.1**	**30.4**	**20.3**	**25.2**	**12.7**	**8.0**	**7.2**
Banking system	87.2	28.8	6.7	22.1	12.4	7.9	6.8
Loans outstanding (A)	82.3	26.8	8.9	21.0	12.8	8.3	7.2
Holding of PDS	4.9	1.9	-2.2	1.1	8.6	3.7	2.2
PDS outstanding (B)	27.8	3.5	11.4	4.2	12.4	7.2	7.4
Memorandum item							
Gross PDS (incl. Cagamas)	49.7	11.0	19.3	5.8	-28.4	-1.9	-47.3

*Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2008	3Q 08	2Q 09	3Q 09	2008	3Q 08	2Q 09	3Q 09
Total								
Loan applications	475.7	134.5	137.8	135.6	4.0	9.2	8.1	0.8
Loan approvals	291.9	78.1	77.1	73.5	-2.2	5.1	-4.1	-6.0
Loan disbursements	640.3	168.3	153.8	166.7	11.3	5.7	-5.3	-1.0
Loan repayments	568.1	145.9	148.2	145.1	9.5	17.8	6.0	-0.6
Change in loan outstanding*	82.3	26.8	8.9	21.0	12.8	10.6	8.3	7.2
Of which:								
Business enterprises**								
Loan applications	244.4	73.3	64.2	60.2	-6.9	7.4	0.0	-17.9
Loan approvals	148.0	39.4	34.8	29.6	-18.5	-4.2	-15.0	-24.8
Loan disbursements	455.7	121.1	102.7	109.3	12.3	6.3	-11.2	-9.7
Loan repayments	403.2	104.6	102.4	97.7	8.9	21.3	3.1	-6.5
Change in loan outstanding*	34.4	14.1	-1.0	5.2	13.2	9.5	3.7	0.5
SMEs**								
Loan applications	100.4	28.4	26.2	28.4	1.4	-1.0	-6.2	-0.2
Loan approvals	54.1	13.9	11.3	12.4	-1.8	-14.7	-29.0	-10.4
Loan disbursements	162.9	43.1	34.6	35.8	15.0	19.6	-15.6	-17.1
Loan repayments	145.4	38.1	32.0	32.7	14.7	22.8	-9.9	-14.3
Change in loan outstanding*	10.6	2.7	0.5	1.0	9.3	11.0	-2.9	-4.3
Large corporations								
Loan applications	144.0	44.9	38.0	31.8	-11.9	13.6	4.7	-29.1
Loan approvals	93.9	25.5	23.5	17.2	-25.7	2.7	-6.1	-32.6
Loan disbursements	292.8	77.9	68.1	73.5	10.8	0.1	-8.8	-5.7
Loan repayments	257.8	66.4	70.4	65.0	5.9	20.4	10.4	-2.1
Change in loan outstanding*	23.8	11.4	-1.5	4.3	16.2	8.4	8.7	4.0
Households								
Loan applications	231.2	61.2	73.5	75.4	18.6	11.4	16.2	23.2
Loan approvals	143.9	38.8	42.3	43.9	22.9	16.5	7.2	13.1
Loan disbursements	184.6	47.3	51.1	57.4	8.9	4.2	9.1	21.4
Loan repayments	164.9	41.4	45.8	47.4	11.1	9.8	13.1	14.6
Change in loan outstanding*	34.8	10.3	9.4	11.3	9.7	9.6	9.1	9.1

* The annual growth is for end-period.
** Include loans to individual businesses.

Source: Bank Negara Malaysia

during the quarter. Demand for new financing, however, moderated slightly compared to the second quarter, reflecting mainly lower applications from the finance, insurance and business services; and *transport, storage and communication* sub-sectors.

Financing to the household sector remained favourable. Key household loan indicators increased for the third consecutive quarter, supported by low interest rates and improved consumer sentiments. Households' loan applications continued to expand, particularly for the purchase of residential and non-residential properties, credit cards as well as purchase of cars. Loan disbursements rose substantially by 21.4% (2Q 09: 9.1%), supported mainly by higher loans disbursed for housing and credit cards. Accordingly, household loans outstanding expanded by RM11.3 billion during the quarter to increase at an annual rate of 9.1% as at end-September (end-June: 9.1%).

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2008	3Q 08	2Q 09	3Q 09		
	(RM billion)				(%)	
Business enterprises	**455.7**	**121.1**	**102.7**	**109.3**	**65.6**	**45.1**
Large corporations	*292.6*	*77.9*	*68.1*	*73.5*	*44.1*	*29.5*
*SMEs**	*162.9*	*43.1*	*34.6*	*35.8*	*21.5*	*15.6*
Selected sectors						
Agriculture, hunting, forestry and fishing	16.1	4.2	4.4	5.1	3.1	2.3
Mining and quarrying	2.3	0.5	0.7	0.5	0.3	0.3
Manufacturing	151.6	40.6	30.9	32.2	19.3	9.8
Construction	34.8	8.8	9.1	10.3	6.2	4.6
Real estate	16.5	4.0	4.8	4.2	2.5	3.9
Electricity, gas and water supply	2.6	0.3	0.9	3.4	2.0	1.0
Wholesale, retail, restaurants and hotels	114.0	31.6	25.5	27.1	16.3	7.9
Transport, storage and communication	17.8	7.9	5.8	4.3	2.6	3.2
Finance, insurance and business services	57.7	13.4	11.2	9.7	5.8	6.6
Households	**184.6**	**47.3**	**51.1**	**57.4**	**34.4**	**54.9**
Purchase of residential properties	47.1	12.2	12.7	14.4	8.7	25.7
Consumption credit	117.2	29.9	31.4	35.4	21.2	21.4
Of which:						
Credit cards	*59.1*	*14.8*	*16.6*	*18.2*	*10.9*	*3.3*
Purchase of passenger cars	*33.8*	*9.0*	*7.9*	*9.1*	*5.4*	*13.5*
Others	*20.4*	*5.2*	*7.0*	*7.6*	*4.5*	*7.8*
Total	**640.3**	**168.3**	**153.8**	**166.7**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Fund raising activity in the capital market remained healthy

Net funds raised in the capital market during the quarter amounted to RM23.4 billion (2Q 09: RM45.7 billion). The bulk of funds was raised by the public sector through the issuances of the 2.5-year and 5.5-year Malaysian Government Securities (MGS), the 3.5-year and 5-year Government Investment Issues (GII), as well as the re-opening of the 10-year MGS. After adjusting for redemptions, net funds raised by the public sector amounted to RM16.6 billion.

In the private sector, there was active fund raising in the third quarter. The amount raised, however, was lower than the second quarter which witnessed increased fund raising due to a large PDS issuance by a new federal-owned sovereign wealth fund and two large rights issues. During the quarter, gross funds raised in the PDS market totalled RM13.5 billion (2Q 09: RM19.3 billion). Issuances of PDS during the quarter were mainly by government-linked entities and companies in the finance, insurance, real estate and business sub-sector. There were also two issuances by non-resident firms amounting to RM675 million during the period. Most of the funds were raised for working capital and general business activities (85%) and for financing new activity (14%).

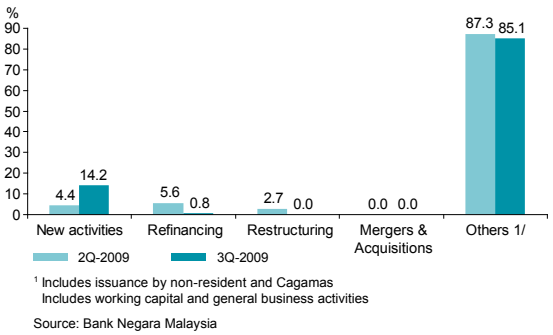
Funds raised in the equity market amounted to RM1.2 billion during the quarter, raised mainly through rights issues by firms in the plantation and technology sectors.

Funds Raised in the Capital Market

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
By Public Sector	**0.7**	**13.9**	**10.8**	**24.7**	**16.6**
Government securities, *net*	1.7	14.9	8.8	19.7	19.1
Malaysian Government Securities	*11.3*	*12.0*	*20.5*	*12.7*	*14.6*
Government Investment Issues	*3.5*	*7.5*	*6.0*	*10.5*	*8.5*
Less: Redemptions	*13.1*	*4.6*	*17.7*	*3.5*	*4.0*
Khazanah Bonds, *net*	(1.0)	(1.0)	-	-	(2.4)
Savings Bonds, *net*	(0.0)	(0.0)	2.0	5.0	(0.1)
By Private Sector	**5.9**	**(0.5)**	**0.8**	**21.0**	**6.7**
Shares	2.2	0.2	0.1	11.5	1.2
Debt securities, *net*	3.7	(0.8)	0.7	9.5	5.5
Private Debt Securities	*11.0*	*8.0*	*9.3*	*19.3*	*13.5*
Less: Redemptions	*7.3*	*8.7*	*8.6*	*9.8*	*8.0*
Total	**6.6**	**13.3**	**11.6**	**45.7**	**23.4**

Source: Bank Negara Malaysia and Bursa Malaysia

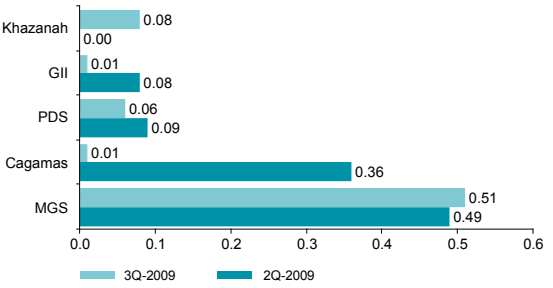
Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-resident and Cagamas
Includes working capital and general business activities

Source: Bank Negara Malaysia

Liquidity Ratio: Turnover / Outstanding



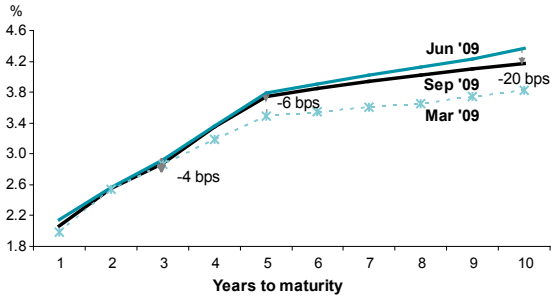
Source: Bank Negara Malaysia

Secondary trading in the bond market increased

Total trading in the secondary market increased to RM155.9 billion during the quarter (2Q 09: RM139.6 billion). Government securities (MGS and GII) accounted for 88% of the total trade. In terms of liquidity, MGS was the most liquid paper, registering a liquidity ratio of 0.49. Liquidity in the PDS market was also higher due to improved investor sentiments.

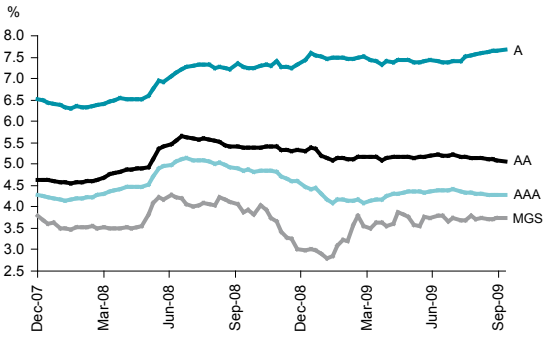
Throughout the third quarter of 2009, MGS yields were relatively stable. There were, however, some signs of improved market sentiments following the easing of concerns over the large supply of government securities. As a result, the 3-year, 5-year and 10-year MGS yields were marginally lower by 4, 6 and 20 basis points respectively during the quarter. The improvement in investors' sentiments was also seen in the PDS market, resulting in some easing of PDS yields, especially in higher-rated securities. Nevertheless, risk premium remains with lower-rated securities, driven largely by concerns over credit risk.

Trend in MGS Yields



Source: Bank Negara Malaysia

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Bursa Malaysia: Market Turnover

	2008				2009					
	3Q		4Q		1Q		2Q		3Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	27,965	57,172	36,605	54,438	26,360	39,927	107,802	99,818	56,208	86,785
Of which:										
Main Board	23,195	55,867	31,273	53,316	22,657	39,075	90,513	95,128	48,805	84,666
Of which										
Consumer Products	903	2,874	946	2,478	675	2,096	3,685	4,158	3,115	4,484
Industrial Products	3,507	4,981	7,609	5,450	3,798	2,401	19,188	13,950	11,387	10,161
Construction	2,995	5,855	3,076	3,967	2,508	2,936	7,252	8,709	3,526	6,047
Trading/Services	6,950	19,311	9,327	20,377	8,261	14,423	30,596	33,378	16,284	30,141
Finance	1,812	9,155	2,652	10,190	1,903	8,095	7,158	14,424	3,789	18,946
Properties	2,500	1,802	3,044	1,805	2,984	1,895	15,248	9,134	6,521	4,898
Plantations	1,723	9,166	2,011	6,284	1,085	4,332	2,176	6,843	1,508	5,954
Infrastructure	511	1,912	787	2,170	629	2,405	2,316	3,068	1,106	3,062
Second Board[1]	1,983	919	2,276	739	1,647	498	7,480	2,754	1,696	788
Mesdaq[2]	1,412	331	1,686	294	798	193	6,969	1,220	3,337	607

[1]From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market
[2]From 3 August 2009, Mesdaq market was replaced with ACE Market

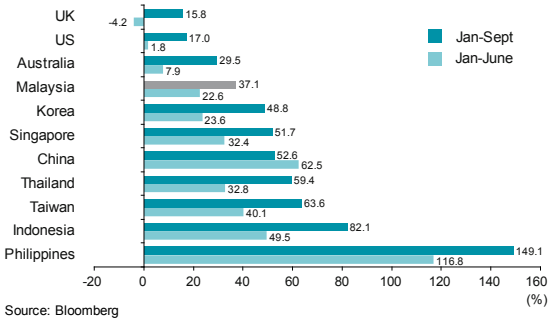
Source: Bursa Malaysia

KLCI strengthened further

The FBM KLCI ended the third quarter higher at 1,202.1 (2Q 09: 1,075.2), in line with other regional markets. The continued improvement in market sentiments was supported by firmer signs of global economic recovery. The increase in investors' risk appetite towards emerging markets, including Malaysia, also contributed to the gain. Market capitalisation rose to RM910.5 billion (2Q 09: RM817.9 billion), while the daily average turnover declined to 892.2 million units (2Q 09: 1,684.4 million units).

On 19 November 2009, the KLCI closed higher at 1,276.7 (since end-2008: +45.6%), with market capitalisation increasing to RM995.8 billion (since end-2008: +50%).

Performance of Selected Global and Regional Markets in 2009



Source: Bloomberg

Bursa Malaysia: Selected Market Indicators

	As at end				
	2008		2009		
	3Q	4Q	1Q	2Q	3Q
Price Indices					
Composite	1,018.7	876.8	872.6	1,075.2	1,202.1
FBM30[1]	6,577.7	5,637.7	5,598.5	6,910.0	-
FBMEMAS[2]	6,755.9	5,726.5	5,701.1	7,206.8	8,097.9
FTSE Second Board[3]	4,978.8	4,007.3	3,872.4	4,754.5	-
FTSE Mesdaq[4]	3,968.3	3,333.6	2,942.7	4,096.3	4,067.7
Average daily turnover					
Volume (million units)	437.0	610.1	454.5	1,684.4	892.2
Value (RM million)	893.3	907.3	688.4	1,559.7	1,377.5
Market capitalisation (RM billion)	770.5	663.8	662.1	817.9	910.5
No. of companies listed	981	977	969	960	957

[1] FBM30 stands for FTSE Bursa Malaysia 30 Index
[2] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[3] From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market
[4] From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

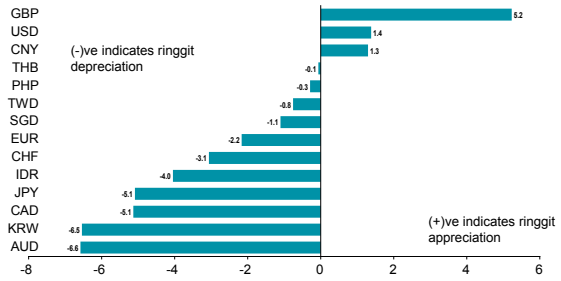
The ringgit appreciated against the US dollar

The ringgit appreciated by 1.4% against the US dollar during the quarter, and was generally stable against other regional currencies. The ringgit was supported by favourable investor sentiments and improved risk appetites towards the region following the stronger recovery in the Asian economies.

The ringgit also appreciated against the pound sterling (5.2%), but depreciated against the Japanese yen (-5.1%) and euro (-2.2%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (1.3%), but depreciated against other regional currencies by between 0.1% and 6.4%. The Indonesian rupiah and the Korean won sustained their strong performance against other regional currencies.

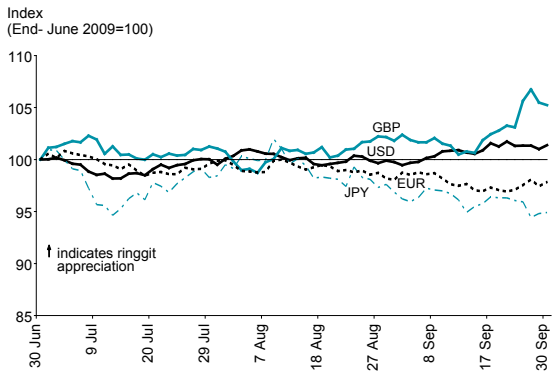
From 1 October to 19 November 2009, the ringgit appreciated against the US dollar by 2.8%, Japanese yen (2%) and euro (0.7%), but depreciated against the pound sterling (-1.3%). Against regional currencies, ringgit appreciated by between 0.8% and 2.8%.

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 July - 30 September 2009)



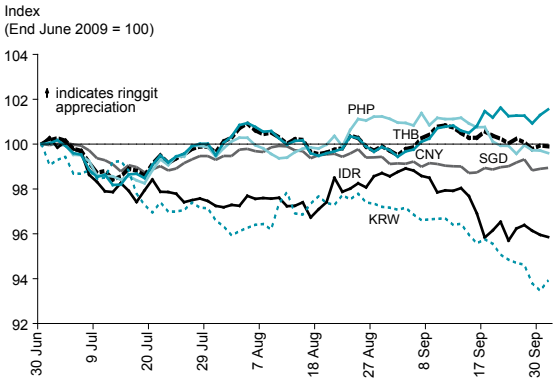
Source: Bank Negara Malaysia

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 08	2Q 09	3Q 09	21 Jul 05	3Q 08	2Q 09
US dollar	3.8000	3.4575	3.5225	3.4745	9.4	-0.5	1.4
Euro	4.6212	4.9636	4.9699	5.0799	-9.0	-2.3	-2.2
Pound sterling	6.6270	6.2254	5.8592	5.5679	19.0	11.8	5.2
100 Japanese yen	3.3745	3.3154	3.6729	3.8698	-12.8	-14.3	-5.1
Singapore dollar	2.2570	2.4153	2.4302	2.4573	-8.2	-1.7	-1.1
100 Thai baht	9.0681	10.154	10.354	10.361	-12.5	-2.0	-0.1
100 Philippine peso	6.8131	7.3159	7.3111	7.3325	-7.1	-0.2	-0.3
100 Indonesian rupiah	0.0386	0.0367	0.0345	0.0359	7.5	2.1	-4.0
100 Korean won	0.3665	0.2846	0.2754	0.2946	24.4	-3.4	-6.5
Chinese renminbi	0.4591	0.5051	0.5155	0.5089	-9.8	-0.7	1.3

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

Source: Bank Negara Malaysia