Financial Markets Committee (FMC) Meeting
28 October 2025
Bank Negara Malaysia

Summary

The meeting discussed the latest financial market developments, followed by progress updates on domestic initiatives including the dynamic hedging programme, central counterparty (CCP) and KLIBOR Transition to MYOR/MYOR-i. The meeting was also briefed on the Islamic Financial Market Subcommittee (IFMC) Roundtable at the Global Islamic Finance Forum (GIFF).

1. Financial market developments

1.1 Since the last FMC meeting in July, the ringgit has outperformed most other regional currencies with a 0.5% gain against the US dollar (between 21 July and 27 October), supported by solid economic fundamentals on the back of a strong 3Q2025 advance GDP estimate of 5.2% as well as the government's continued commitment to fiscal consolidation.

1.2 Conditions in the domestic interbank market remain orderly, with overnight interbank rates closely tracking the Overnight Policy Rate (OPR) amid sufficient liquidity. However, members observed some persistence in the level of deposit rates despite an OPR cut in July, which was attributed to funding volatility from large corporate depositors and banks' internal targets for high Liquidity Coverage Ratio (LCR) buffers. The meeting recommended for an engagement between BNM and bank treasurers to explore solutions in addressing corporate deposit competition, including efficient LCR management.

1.3 Malaysian government bond yields have gradually adjusted as the market pared back expectations for further domestic rate cuts, while longer-dated auctions recorded relatively weaker demand due to seasonally higher corporate bond supply in Q4 2025. Despite this, yield differentials with the US continued to narrow with the 10Y UST-MGS spread declining to 50 bps (YTD average: 74 bps) on the back of expectations for continued Fed rate cuts. The meeting noted that the realisation of these cuts may translate into positive foreign portfolio impact.

1.4 Regional equity performance has been positive following conclusion of key tariff negotiations with the US, though the KLCI recorded more modest movements against the backdrop of foreign outflows. Members attributed the KLCI performance to limited representation by companies in high growth sectors as

well as broad historical preference of domestic investors for dividend stocks and aversion to buybacks, which dampens price action.

2. Enhancement to the Dynamic Hedging programme

2.1 Members positively noted ongoing efforts to enhance the Dynamic Hedging programme to facilitate a wider range of currency hedging methodologies and agreed to support investor outreach efforts upon completion.

3. Central Counterparty (CCP)

3.1 The meeting discussed the clearing of Malaysian Ringgit-denominated non-deliverable interest rate swaps (MYR NDIRS) by the London Clearing House (LCH). Members discussed benefits of undertaking central clearing, including the improved capacity of domestic market makers to hedge their IRS positions from lower capital charges. This has also enhanced their ability to service domestic clients, as evidenced by the rapid growth in the average daily onshore IRS volume of around 50% since 2024 amid tight offshore-onshore IRS spreads. On strategies to further develop the onshore IRS market, members recommended to promote greater participation by other market players.

3.2 The meeting was briefed on a survey among Financial Market Association Malaysia (FMAM) members on the benefits and feasibility of a CCP for onshore OTC products. Respondents were generally supportive, citing benefits of counterparty credit risk reduction and standardisation of transactions despite limited concerns on concentration risk and cost, while recommending for IRS, cross-currency swaps (CCS) and repos to be prioritised for clearing.

3.3 The meeting discussed the potential CCP models, where members highlighted the challenges of developing a domestic CCP based on regional observations and emphasised the importance of economies of scale and alignment with established global conventions. In terms of instruments, members agreed that repurchase agreements (repo) should be considered alongside derivatives given the potential benefits to the operational efficiency and settlement risk.

4. KLIBOR Transition to MYOR/MYOR-i

4.1 The meeting was briefed on the progress updates for the KLIBOR Transition to MYOR/MYOR-i, including the publication of the national transition roadmap, establishment of the four KLIBOR Transition Working and the launch of a

dedicated webpage[1] to disseminate relevant information and updates. Members also positively noted the fixing of the spread adjustments[2] for KLIBOR derivatives fallbacks on 16 October 2025 which provides certainty to the market and facilitates the pricing of MYOR overnight index swaps (OIS) and KLIBOR-MYOR basis swaps.

4.2 Subsequently, the leads of the KLIBOR Transition Working Groups shared their key priorities and deliverables, which included building liquidity in MYOR and MYOR-i markets, addressing fallbacks for cash products and Islamic derivatives as well as intensifying client education efforts.

5. Islamic Financial Market Subcommittee (IFMC) Roundtable at the Global Islamic Finance Forum (GIFF) and Membership Changes

5.1 The meeting was briefed on the highlights from the IFMC Roundtable, which discussed strategies to broaden the domestic sukuk investor base via improved education and visibility. Industry proposals included the pricing of corporate sukuk based on MGII rather than MGS and the issuance of government-guaranteed corporate sukuk on the Fully Automated System for Issuing/Tendering (FAST).

5.2 The meeting also approved the appointment of Nik Azhar Abdullah, Managing Director and Head of Global Markets Malaysia of MUFG as the newest member of the IFMC.

[1] https://financialmarkets.bnm.gov.my/myor-myori-overview

[2] 1 month: 0.21799%, 3 months: 0.49066%, 6 months: 0.57663%. Please refer to the relevant publications by Bloomberg (https://assets.bbhub.io/professional/sites/27/IBOR-Fallbacks_MYR_KLIBOR_Cessation_Technical-Note_251024.pdf) and ISDA (https://www.isda.org/a/rzBgE/ISDA-KLIBOR_cessation-guidance_final_102325.pdf) for more details