

# Key Developments in the Second Half of 2024

## MARKET RISK

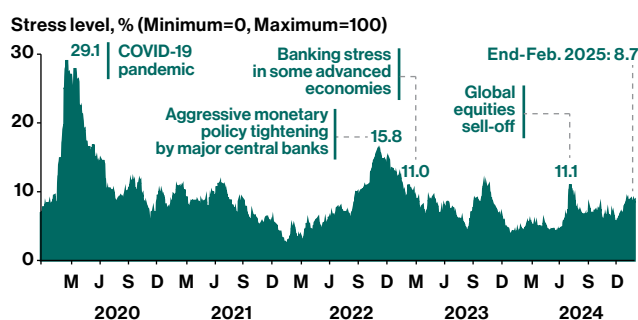
### Domestic financial markets remained orderly despite bouts of volatility

Since the last Financial Stability Review in October 2024, major central banks have continued their respective monetary policy easing cycles as global inflation continued to moderate.<sup>1</sup> While loosening global financial conditions initially provided support to global financial markets, market volatility increased towards the end of 2024. This heightened volatility was fuelled by the uncertainty over the US' new administration policies, investors' expectations of a slowdown in US monetary policy easing and escalating geopolitical tensions in key regions. These factors are expected to continue contributing to heightened volatility of global financial markets in 2025.

As a small and open economy, Malaysia was not insulated from these external developments. Domestic market stress levels, as measured by the Financial Market Stress Index (FMSI), were elevated during the second half of 2024 relative to the first half of the year arising from these external headwinds (Chart 1.1). More recently in 2025, the FMSI increased slightly due to heightened volatility in the foreign exchange (FX) and equity markets. This was driven by market concerns on the possible escalation of global trade tensions and a potentially significant turning point in artificial intelligence (AI) development from China. Nevertheless, spillovers to domestic financial stability are expected to remain broadly contained. Orderly domestic market conditions will continue to be sustained given Malaysia's deep and liquid financial markets and sound banking system, providing sufficient buffer against global volatility.

<sup>1</sup> All data and assessments in the Market Risk section are from 1 October 2024 until 28 February 2025, unless stated otherwise.

Chart 1.1: Financial Market – Financial Market Stress Index (FMSI)



Source: Bloomberg, Reuters and Bank Negara Malaysia estimates

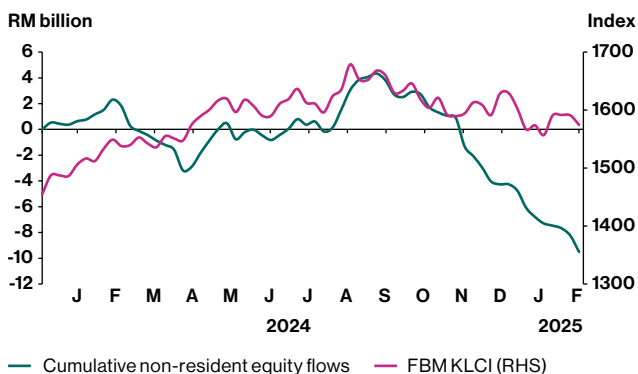
In 2024, the FBM KLCI gained 12.9% amid sustained economic performance, strong domestic corporate earnings and spillovers from data centre-related investments. The construction (+60.7%), utilities (+38.3%) and property (+31.5%) sectors were the top performers during the year, significantly benefitting from positive market sentiment towards equities linked to investments in the data centre space. Furthermore, the continued implementation of public investment initiatives under the various national master plans also contributed to the outperformance of the property and construction sectors. Despite the significant gains in the FBM KLCI, the domestic equity market experienced non-resident outflows amounting to RM4.2 billion in 2024 (2023: -RM2.3 billion, 2015–19 average: -RM7 billion) (Chart 1.2). In line with regional peers, this trend was driven mainly by the risk-off sentiment towards equities from emerging markets, including Malaysia, amid heightened global uncertainties.

Entering 2025, non-residents continued to be net sellers in the domestic equity market (January–February 2025: -RM5.3 billion), bringing the total non-resident investor outflows between October 2024 and February 2025 to RM13 billion (October 2023–February 2024: net inflows of RM1.6 billion). This was largely offset by support from

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domestic institutional<sup>2</sup> and retail investors who remained net buyers of domestic equities, with a total net purchase of RM12.6 billion during the period (October 2023–February 2024: -RM1.1 billion).

**Chart 1.2: Financial Market – Cumulative Non-resident Equity Flows and Performance of the Domestic Equity Market**



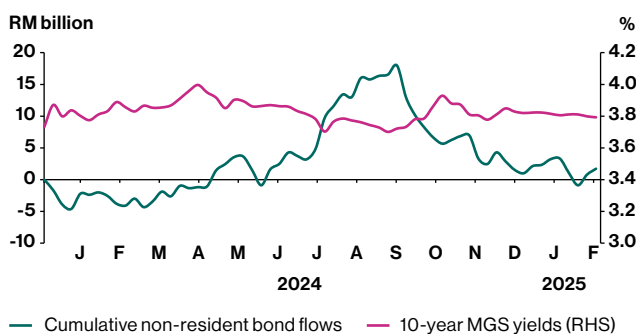
Source: Bloomberg

## Non-resident flows in the government bond market remained largely influenced by external factors.

The 10-year Malaysian Government Securities (MGS) yields remained relatively stable, averaging at 3.8% between October 2024 and February 2025, despite higher non-resident outflows of RM13.9 billion during the period (October 2023–February 2024: -RM2.6 billion; 2024: RM1.3 billion) (Chart 1.3). The outflows followed a rise in 10-year US Treasuries (UST) yields, driven by market expectations of delayed and fewer interest rate reductions in the US and global uncertainties on potential trade restrictions. Consequently, yield differentials between 10-year MGS and 10-year UST widened to -41.5 basis points (bps) as at end-February 2025 (end-September 2024: -7 bps). Throughout this period, MGS yields continued to remain stable amid sustained market liquidity as demand by domestic institutional investors remained strong (October 2024–February 2025: net purchase of RM41.2 billion; October 2023–February 2024: RM36.6 billion; 2024: RM57.4 billion). This was also reflected in the healthy average bid-to-cover ratio of 2.5 times for government bonds in the primary market (2015–19 average: 2.3 times).

<sup>2</sup> Domestic institutional investors include banks, non-bank financial institutions (NBFIs) and insurers and takaful operators (ITOs).

**Chart 1.3: Financial Market – Cumulative Non-resident Government Bond Flows and Performance of the Domestic Government Bond Market**



Source: Bank Negara Malaysia and Bloomberg

Funding conditions in the corporate bond market remained conducive for fundraising, with RM37.6 billion raised between October 2024 and January 2025 (October 2023–January 2024: RM37.7 billion). Credit spreads between 10-year AAA-rated papers and 10-year MGS continued to narrow to 16 bps on average during the period (2024 average: 20 bps; 2023 average: 44.1 bps), reflecting sustained demand for corporate bonds by yield-seeking investors. Gross corporate bond issuances were sustained in 2024, amounting to RM121.6 billion (2023: RM117 billion). Issuances remained concentrated in high-quality papers, with government-guaranteed (GG) and AAA-rated papers accounting for more than half of the outstanding corporate bonds.

Total banking system liquidity declined in the second half of 2024, ranging between RM89 billion and RM108 billion (1H 2024: between RM97 billion and RM127 billion) amid increased festive demand for banknotes, particularly towards the year-end. Liquidity conditions however remained supportive of intermediation activity. This was supported by BNM's overnight reverse repo lending operations to ensure that overnight rates remain stable. The Malaysia Overnight Rate (MYOR) benchmark traded between 3.00% and 3.01% while the average overnight interbank rate (AOIR) ranged between 3.00% and 3.05%, both trading close to the Overnight Policy Rate (OPR) between October 2024 and February 2025. In addition to the existing regular 1-month and 3-month reverse repo facilities, BNM started offering the 7-day reverse repo facility daily since September 2024, with a standard issuance size of RM2 billion. The shorter borrowing tenure provides additional flexibility to banks in managing the maturity profile of their short-term funding. BNM's reverse repo lending facilities are done through auctions, ensuring that transactions are conducted at market rates.

In the unsecured term interbank market, rates generally trended higher between October 2024 and February 2025. Notably, the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) rose to a high of 3.73% in December 2024, corresponding to movements in the more sparsely traded 3-month rate as banks shored up their buffers to meet seasonal year-end demands for liquidity. Since then, the 3-month KLIBOR has fallen back to 3.66% as at end-February. There were no significant changes in the more liquid 1-month unsecured rate during the period, with 1-month KLIBOR ranging between 3.27% and 3.29%. Meanwhile, in the term secured lending segment, trading volumes increased by 64% in 2024 to RM280 billion (2023: RM170 billion). This was driven by increased participation and interest of onshore banks to borrow and lend in the repo market. The 3-month secured interbank rates remained stable within the range of 3.37% to 3.52% (1H 2024: 3.37%–3.52%). BNM continues to monitor developments that may influence liquidity conditions, with a primary focus of maintaining an appropriate level of domestic liquidity to facilitate efficient intermediation in the interbank money market. As in the past, BNM stands ready to provide liquidity to banks via the reverse repo facility.

For 2024 as a whole, the ringgit appreciated by 2.7% to 4.4722 against the US dollar. The ringgit's positive performance was mainly driven by realisation of interest rate cuts by the US Federal Reserve, coordinated efforts between the Government and BNM to encourage repatriation and conversion of foreign currency income from resident entities, engagements with exporters and importers, as well as positive prospects of the Malaysian economy and policy reforms introduced by the Government. Liquidity improved further, with the daily onshore trading volume in the domestic FX market rising to USD17.6 billion in 2024 (2023: USD15.5 billion). While average ringgit volatility was higher between August and December 2024 at 5.7%, it remained below recent peaks (December 2022: 6.6%; March 2020: 8.1%). Year-to-date,<sup>3</sup> the ringgit has strengthened by 1.1% against the US dollar. Looking ahead, ringgit movement will continue to be largely driven by external developments. While financial markets could experience episodes of volatility due to global policy uncertainties, Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.

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<sup>3</sup> Data as of 10 March 2025.