

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates adjusted upwards in response to the increase in the OPR

The Overnight Policy Rate (OPR) was raised by 25 basis points on 4 March 2010. The adjustment reflected the change in the economic outlook as well as the need to normalise monetary conditions to prevent the build-up of financial imbalances that would be detrimental to the long-term sustainable growth of the Malaysian economy. However, the overall stance of monetary policy remains accommodative and supportive of growth.

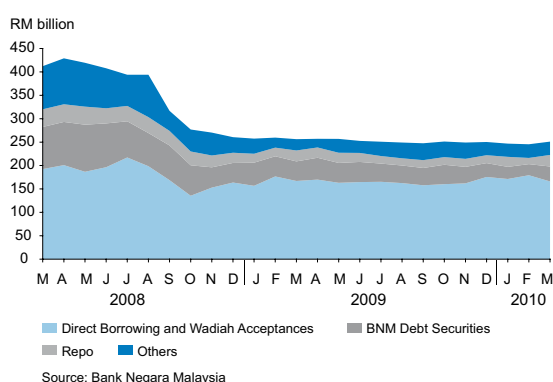
The daily weighted average overnight interbank rate (AOIR) traded higher in the first quarter, to reflect the increase in the OPR. From the period 1 January – 28 February, the AOIR moved within a narrow range of 1.99% - 2.00%. Interbank rates of other maturities were also stable during the period. Subsequently, between 1 and 4 March 2010, the AOIR traded lower and close to the floor rate of the corridor for the Overnight Policy Rate (OPR). This was due mainly to exceptional interest by market participants for overnight placements with the Bank ahead of the March Monetary Policy Committee meeting. Following the increase in the OPR from 2.00% to 2.25% on 4 March, the daily weighted average overnight interbank rate traded higher within a range of 2.16% - 2.24% from 5 to 30 March 2010. Interbank rates of other maturities also rose accordingly. Market conditions remained orderly as the financial institutions transitioned to the new interest rate level.

Retail deposit rates adjusted quickly to the increase in the OPR. The average quoted fixed deposit (FD) rate for the 1 month tenure increased by 25bps, while average FD rate for the 12 month tenure was higher by 17 bps. As a result, the

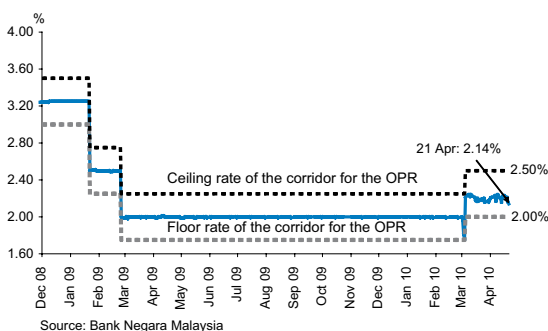
average quoted FD rates for tenures between 1 to 12 months were at a higher range of 2.25% and 2.67% respectively as at end-March.

Similarly, retail lending rates were also revised upwards. As at end-March, the average base lending rate of commercial was increased by 25bps to 5.76%, while the average lending rate on loans outstanding trended higher to 4.96%. Despite the increase in interest rates, retail lending rates remain near historic lows.

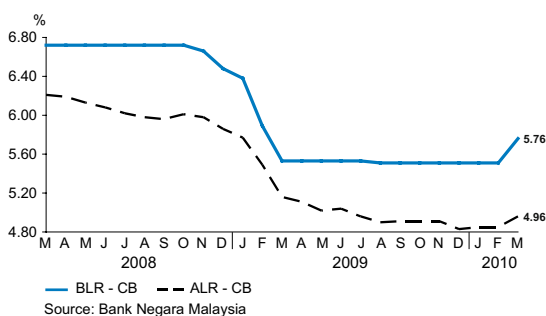
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



Daily Weighted Average Overnight Interbank Rate



Lending Rates of Commercial Banks (Average for the period)



Interest Rates

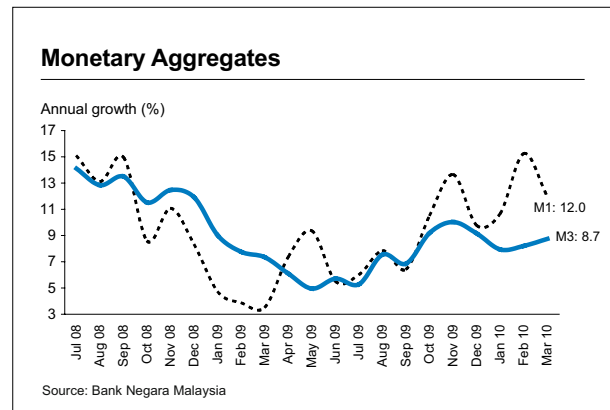
	2009		2010
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.00	2.00	2.25
Interbank rates			
Overnight	2.00	1.99	2.18
1-month	2.06	2.07	2.35
Base lending rates (BLR)			
Commercial banks	5.53	5.51	5.76
Average lending rates (ALR)			
Commercial banks	5.16	4.83	4.96
Fixed deposit rates			
Commercial banks			
3-month	2.04	2.03	2.28
12-month	2.52	2.50	2.67

Source: Bank Negara Malaysia

M3 continued to increase

Monetary aggregates continued to grow at a sustained pace in the first quarter. M1 or narrow money, increased by RM0.3 billion during the quarter. On an annual basis, M1 expanded at a faster annual growth rate of 12.0% as at end-March 2010 (end-December 2009: 9.8%). M3, or broad money, expanded at an annual growth rate of 8.7% at end-March (end-December 2009: 9.2%). On a quarter-on-quarter basis, M3 increased by RM15.1 billion.

Both domestic and external factors contributed to the growth in broad money during the quarter. On the external side, net foreign assets was expansionary on M3 as Malaysia continued to register net foreign inflows, reflecting the external trade surplus and higher portfolio inflows. However, a part of the portfolio inflows was used to purchase Bank Negara Malaysia and Government securities from the banking system, as reflected by the decline in the *net claims on Government and other influences* category. As such, the net impact of the inflows on broad money expansion was smaller. Meanwhile, financing by the banking system to the private sector registered a larger increase in the first quarter. This also contributed to the expansion in broad money.

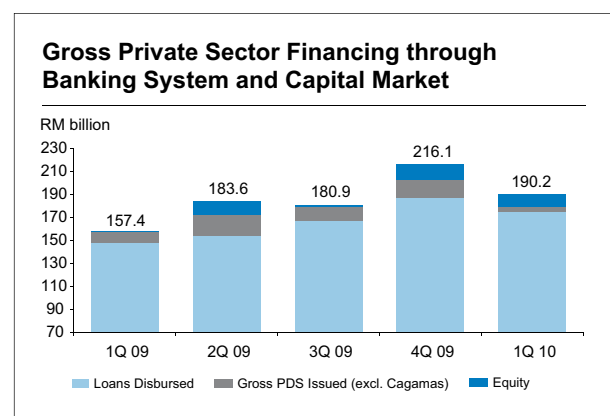


Private sector financing remained robust

Financing conditions remain supportive of economic activity, underpinned by the sound banking system and well-functioning capital markets, as well as the reasonably low cost of borrowing and ample liquidity. Gross financing raised by the private sector through the banking system and the capital market was sustained at RM190.2 billion in the first quarter (4Q 09: RM216.1 billion, 1Q 09: RM157.4 billion). The high level of gross financing was primarily an outcome of steady loan disbursements. On a net basis, banking system loans and PDS outstanding rose at a higher rate of 9.5% as at end-March (end-2009: 8.5%).

	Change during the period			
	2009			2010
	1Q	4Q	Year	1Q
	RM billion			
M3	17.4	41.8	85.3	15.1
Net claims on Govt	5.7	13.5	25.7	-2.0
Claims on private sector	5.3	20.0	51.6	16.9
Loans	4.5	15.4	47.2	20.0
Securities	0.8	4.6	4.5	-3.1
Net foreign assets ¹	3.7	6.6	11.8	11.3
BNM	-4.4	1.7	-3.4	1.3
Banking System	8.1	4.8	15.1	10.0
Other influences	2.7	1.7	-3.8	-11.1

¹Pre-revaluation
Source: Bank Negara Malaysia



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2009	1Q 09	4Q 09	1Q 10	2009	4Q 09	1Q 10
Gross total financing	738.0	157.4	216.1	190.2	7.2	29.3	20.8
Loans disbursed*	655.8	148.2	186.4	174.7	2.4	18.1	17.9
Gross PDS (excl. Cagamas)	56.1	9.0	16.4	4.4	30.9	83.7	-50.8
Equity	26.0	0.1	13.2	11.0	375.5	5,818.5	7,530.8
Net total financing (A)+(B)	83.5	7.8	30.4	18.5	8.5	8.5	9.5
Banking system	57.2	8.7	19.8	19.4	7.3	7.3	8.5
Loans outstanding (A)	57.0	7.3	19.8	22.4	7.8	7.8	9.8
Holding of PDS	0.2	1.4	0.0	-3.0	0.4	0.4	-6.5
PDS outstanding (B)	26.5	0.5	10.6	-3.9	10.5	10.5	8.8
Memorandum item							
Gross PDS (incl. Cagamas)	58.6	9.3	16.4	4.7	20.4	106.8	-49.5

*Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2009	1Q 09	4Q 09	1Q 10	2009	1Q 09	4Q 09	1Q 10
Total								
Loan applications	518.7	107.5	138.6	130.0	9.3	-3.4	36.5	20.8
Loan approvals	286.8	58.0	80.4	70.0	-1.5	-19.3	32.0	20.6
Loan disbursements	655.8	148.2	186.4	174.7	2.4	-2.2	18.1	17.9
Loan repayments	593.8	138.0	161.8	154.9	4.5	-0.6	12.8	12.2
Change in loans outstanding*	57.0	7.3	19.8	22.4	7.8	10.9	7.8	9.8
Of which:								
Business enterprises**								
Loan applications	237.7	52.0	61.2	60.0	-2.8	-6.3	19.2	15.3
Loan approvals	127.6	26.1	37.1	29.2	-13.8	-31.8	25.8	11.7
Loan disbursements	439.3	100.9	125.8	117.3	-3.6	-5.2	11.7	16.3
Loan repayments	406.9	93.6	112.4	105.4	0.9	-4.0	10.3	12.6
Change in loans outstanding*	7.9	-1.2	4.9	4.7	2.7	9.5	2.7	4.7
SMEs**								
Loan applications	104.5	20.2	29.7	27.9	4.1	-16.3	49.2	38.1
Loan approvals	45.3	8.9	12.7	12.9	-16.3	-31.0	10.3	45.7
Loan disbursements	143.4	34.7	38.3	35.5	-12.0	-11.7	-3.2	2.4
Loan repayments	132.2	32.3	34.8	33.5	-9.1	-9.4	-3.7	3.7
Change in loans outstanding*	-5.5	-6.8	-0.1	2.5	-4.4	-0.4	-4.4	3.2
Large corporations								
Loan applications	133.2	31.8	31.5	32.1	-7.5	1.4	0.2	0.8
Loan approvals	82.3	17.2	24.4	16.3	-12.3	-32.2	35.7	-5.7
Loan disbursements	295.9	66.2	87.5	81.8	1.1	-1.4	19.8	23.6
Loan repayments	274.7	61.3	77.6	71.9	6.5	-0.9	18.0	17.2
Change in loans outstanding*	13.4	5.6	5.1	2.2	7.8	17.3	7.8	5.7
Households								
Loan applications	281.0	55.5	77.4	69.9	22.0	-0.5	54.2	26.0
Loan approvals	159.2	32.0	43.3	40.8	11.3	-5.2	37.9	27.8
Loan disbursements	216.5	47.3	60.7	57.4	17.3	4.9	33.8	21.3
Loan repayments	187.0	44.4	49.4	49.5	13.4	7.2	19.0	11.4
Change in loans outstanding*	38.6	5.8	12.1	14.1	9.8	9.3	9.8	11.8

* The annual growth is for end-period.

** Include loans to individual businesses.

Source: Bank Negara Malaysia

The major loan indicators remained strong in the first quarter. Although loan applications and approvals moderated in February due to fewer working days on account of the Chinese New Year festivities, there was a significant rebound in March. Reflecting the continued improvement in economic activity, loan demand from the business sector remained high, with loan applications coming mainly from the *construction, wholesale and retail, restaurants*

and hotels and manufacturing sectors. The bulk of the loans was to finance working capital requirements. With steady loan disbursements, business loans outstanding expanded by RM4.7 billion in the first quarter (4Q 2009: +RM4.9 billion). On an annual basis, business loans outstanding rose at a higher rate of 4.7% as at end-March (end-2009: 2.7%). The increase in business loans outstanding was broad-based across all major sectors.

Loans by Sector

	Loans disbursed				Loans out-standing	
	During the period			Share of total	Share of total	
	2009	1Q 09	4Q 09	1Q 10		
	(RM billion)			(%)		
Business enterprises	439.3	100.9	125.8	117.3	67.1	44.7
<i>Large corporations</i>	295.9	66.2	87.5	81.8	46.8	29.6
<i>SMEs*</i>	143.4	34.7	38.3	35.5	20.3	15.1
<i>Selected sectors</i>						
Agriculture, hunting, forestry and fishing	20.8	4.2	7.0	9.2	5.3	2.4
Mining and quarrying	2.3	0.7	0.5	0.8	0.4	0.3
Manufacturing	128.4	30.2	34.9	33.4	19.1	9.7
Construction	40.5	8.7	12.2	9.3	5.3	4.4
Real estate	20.6	5.2	6.5	5.2	3.0	4.2
Electricity, gas and water supply	8.5	1.0	3.3	0.8	0.5	1.1
Wholesale, retail, restaurants and hotels	105.5	24.5	28.4	28.1	16.1	7.7
Transport, storage and communication	22.5	5.6	6.7	5.4	3.1	3.5
Finance, insurance and business services	44.5	11.4	12.1	13.4	7.7	6.5
Households	216.5	47.3	60.7	57.4	32.9	55.3
Purchase of residential properties	55.6	11.7	16.8	15.0	8.6	25.6
Consumption credit	132.6	29.7	36.1	33.6	19.2	21.2
Of which:						
<i>Credit cards</i>	70.5	16.2	19.5	18.4	10.5	3.3
<i>Purchase of passenger cars</i>	32.8	7.6	8.2	8.8	5.0	13.2
Others	28.4	6.0	7.8	8.9	5.1	8.5
Total	655.8	148.2	186.4	174.7	100.0	100.0

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Similarly, financing to the household sector remained robust. Applications, approvals and disbursement expanded strongly on an annual basis. Demand for loans was mainly for the purchase of residential property and passenger cars. Accordingly, household loans outstanding expanded by RM14.1 billion to increase at a higher annual growth rate of 11.8% as at end-March (end-2009: 9.8%).

Fund-raising activity in the capital market remained strong

Net funds raised in the capital market during the quarter remained high amounting to RM22.6 billion (4Q 09: RM29.6 billion). The bulk of funds was raised by the public sector through the issuances of the 3.5-year and 5.5-year Government Investment Issues (GII), the 5.5-year and 7.5-year Malaysian Government Securities (MGS), as well as the re-opening of the 10-year MGS. After adjusting for redemptions, net funds raised by the public sector amounted to RM15.5 billion.

In the private sector, fund-raising activity was concentrated mainly in the equity market (70% of gross funds raised by the private sector). This was due mainly to two large rights issues by firms involved in the transport industry and a large initial public offering by a firm in the technology industry.

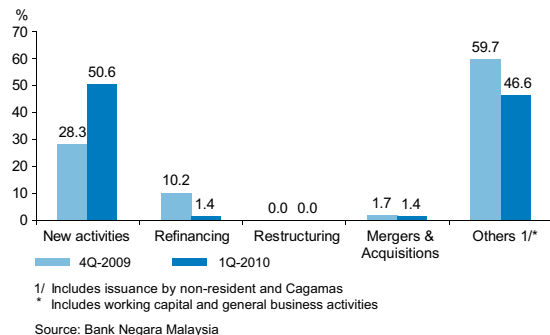
Meanwhile, gross funds raised through private debt securities (PDS) amounted to RM4.7 billion (4Q 09: RM16.4 billion). About half of the funds raised through PDS were to finance new activity, and the other half were to fund working capital and for general purpose use. Overall, net funds raised by the private sector totalled RM7.1 billion for the quarter. The amount raised by the private sector had been larger in the previous quarter as a very large initial public offering and several substantial PDS issuances were recorded during that quarter.

Funds Raised in the Capital Market

	2009			2010
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	10.8	5.6	57.8	15.5
Government securities, <i>net</i>	8.8	5.7	53.3	15.6
<i>Malaysian Government Securities</i>	20.5	13.5	61.3	12.6
<i>Government Investment Issues</i>	6.0	3.5	28.5	6.5
<i>Less: Redemptions</i>	17.7	11.4	36.5	3.5
Khazanah Bonds, <i>net</i>	-	-	(2.4)	-
Savings Bonds, <i>net</i>	2.0	(0.1)	6.9	(0.1)
By Private Sector	0.8	24.0	52.6	7.1
Shares	0.1	13.2	26.0	11.0
Debt securities, <i>net</i>	0.7	10.8	26.5	(3.9)
<i>Private Debt Securities</i>	9.3	16.4	58.6	4.7
<i>Cagamas</i>	-	-	-	-
<i>Less: Redemptions</i>	8.6	5.6	32.0	8.6
Total	11.6	29.6	110.3	22.6

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)

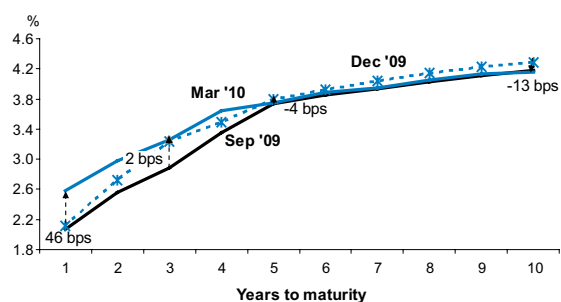


Long-term yields remained stable

MGS yields recorded mixed trends in the first quarter. Yields of shorter maturities began to increase at end-January on expectations of adjustments to the policy rate, following the release of the Monetary Policy Statement in January. The 1-year MGS rose by 46 basis points during the quarter. Meanwhile, benign inflationary expectations kept long-term yields stable. Increased demand by non-residents for long-term securities also contributed to lower yields. As a result, the 5-year and 10-year MGS yields declined by 4 and 13 basis points respectively. This led to a flattening of the yield curve at the longer maturities.

In the PDS market, the 5-year corporate bond yields recorded a marginal increase in the first quarter of 2010. Increases in PDS yields were offset by the reduction in risk premiums following improved credit conditions as prospects for economic recovery strengthened.

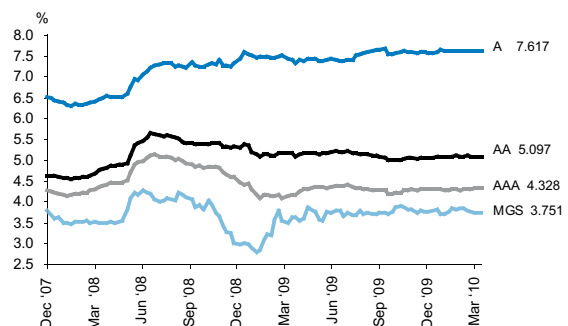
Trend in MGS Yields



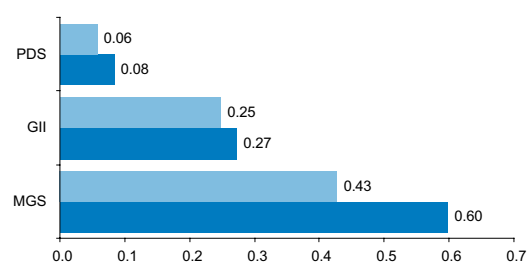
Secondary trading in the bond market increased

Total trading in the secondary market increased to RM188 billion during the quarter (4Q 09: RM134 billion). The presence of fresh market drivers, such as expectations of an increase in interest rates and increased demand from non-residents contributed to the increase in trading during the quarter. Government securities (MGS and GII) accounted for 90% of the total trade. The improvement in liquidity was across the board, with MGS, GII and PDS securities recording higher liquidity ratios. MGS remained the most liquid paper, registering a liquidity ratio of 0.60.

5-year MGS and 5-year Corporate Bond Yield



Liquidity Ratio: Turnover / Outstanding

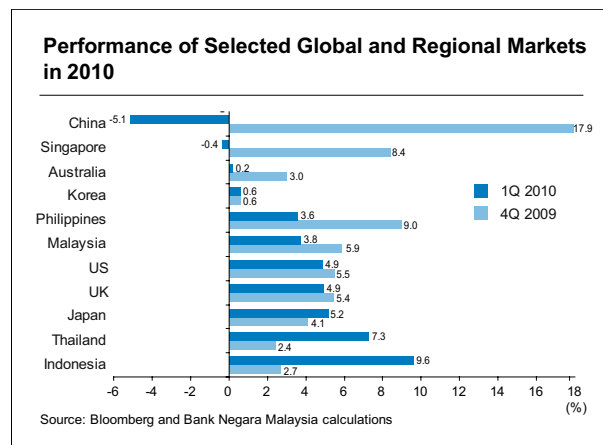


KLCI continued to strengthen in the first quarter

The FBM KLCI ended the first quarter higher at 1,320.6 (since 4Q 09: +3.8%), driven mainly by the finance and construction sectors. The index was supported by announcements of good corporate earnings for 4Q 2009 and stronger economic growth prospects. Improved fundamentals also attracted foreign participation, providing further impetus to the market. Market capitalisation rose to RM1.06 trillion at end-March 2010 (4Q 09: RM999.5

billion) and the daily average turnover was higher at 1.05 billion units (4Q 09: 915.2 million units) during the quarter.

On 11 May 2010, the KLCI closed higher at 1,340.7 points (since end-2009: +5.3%) with market capitalisation of RM1.06 trillion (since end-2009: + 6.5%).



Bursa Malaysia: Selected Market Indicators

	As at end			
	2009			2010
	1Q	4Q	Year	1Q
Price Indices				
Composite	872.6	1,272.8	1,272.8	1,320.6
FBM30 ¹	5,598.5	-	-	-
FBMEMAS ²	5,701.1	8,507.6	8,507.6	8,957.2
FTSE Second Board ³	3,872.4	-	-	-
FTSE Mesdaq ⁴	2,942.7	4,299.6	4,299.6	4,209.0
Average daily turnover				
Volume (million units)	454.5	915.2	1,000.2	1,046.6
Value (RM million)	688.4	1,210.3	1,220.9	1,532.4
Market capitalisation (RM billion)	662.1	999.5	999.5	1,061.1
No. of companies listed	969	960	960	961

¹FBM30 stands for FTSE Bursa Malaysia 30 Index

²FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

³From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

⁴From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2009						2010	
	1Q		4Q		Year		1Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	26,360	39,927	57,655	76,246	248,061	302,788	61,749	90,410
Of which:								
Main Board	22,657	39,075	48,324	73,719	210,327	292,600	52,363	88,115
Of which								
Consumer Products	675	2,096	3,821	3,786	11,316	14,527	2,815	3,740
Industrial Products	3,798	2,401	10,147	9,462	44,521	35,975	12,365	14,055
Construction	2,508	2,936	2,458	4,663	15,744	22,354	3,146	4,933
Trading/Services	8,261	14,423	15,367	27,694	70,507	105,636	16,101	28,833
Finance	1,903	8,095	4,207	15,090	17,057	56,559	4,203	20,839
Properties	2,984	1,895	4,596	3,491	29,349	19,418	6,449	3,863
Plantations	1,085	4,332	1,118	4,411	5,888	21,543	1,454	6,448
Infrastructure	629	2,405	1,608	1,783	5,659	10,319	1,058	1,736
Second Board ¹	1,647	498	-	-	10,823	4,040	-	-
Mesdaq ²	798	193	5,592	1,406	16,696	3,426	5,446	1,152

¹From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

²From 3 August 2009, Mesdaq market was replaced with ACE Market

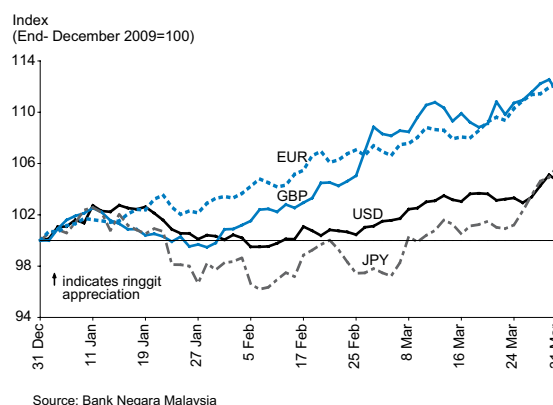
Source: Bursa Malaysia

The ringgit appreciated against major and regional currencies

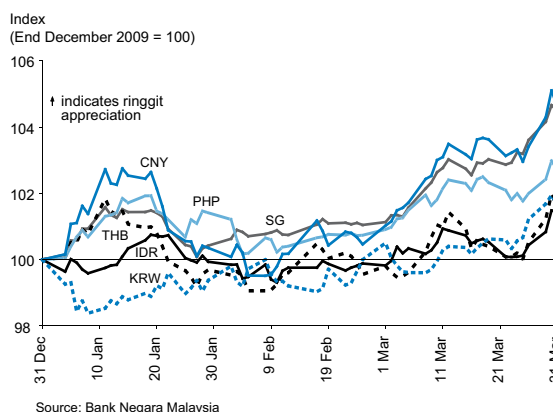
During the quarter, the ringgit appreciated by 4.6% against the US dollar, broadly in tandem with regional currencies. This was due mainly to the prospect of the regional economies leading the global economic recovery contributing to a favourable investor outlook for the regional financial markets. Regional currencies were also supported by expectations of an appreciation of the Chinese renminbi that could potentially lead to the strengthening of regional currencies. However, these developments were periodically counterbalanced by market risk aversion among investors following concerns over China's liquidity management measures and sovereign credit issues in several countries in the euro area. The ringgit also appreciated against the euro (12.2%), pound sterling (11.5%) and Japanese yen (5.9%). Against regional currencies, the ringgit appreciated within the range of 1.4% to 4.6%.

Between 1 April and 12 May 2010, the ringgit appreciated against the US dollar (1.6%), euro (7.7%), pound sterling (2.8%) and Japanese yen (0.8%). Against regional currencies, the ringgit appreciated between 0.4% and 2.1%.

Ringgit Performance Against Major Currencies

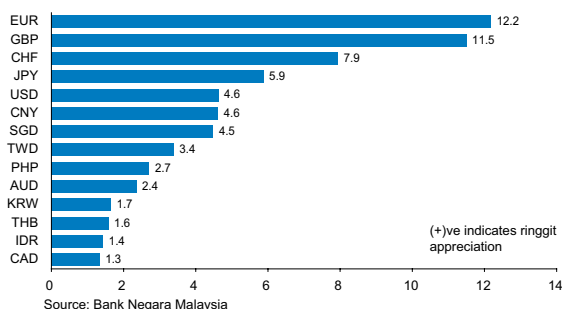


Ringgit Performance Against Regional Currencies



Summary of Ringgit Performance Against Selected Currencies

Percent Change (1 January- 31 March 2010)



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 09	4Q 09	1Q 10	21 Jul 05	1Q 09	4Q 09
US dollar	3.8000	3.6470	3.4245	3.2730	16.1	11.4	4.6
Euro	4.6212	4.8348	4.9191	4.3850	5.4	10.3	12.2
Pound sterling	6.6270	5.2203	5.5001	4.9326	34.4	5.8	11.5
100 Japanese yen	3.3745	3.7091	3.7076	3.5017	-3.6	5.9	5.9
Singapore dollar	2.2570	2.4008	2.4401	2.3354	-3.4	2.8	4.5
100 Thai baht	9.0681	10.266	10.271	10.111	-10.3	1.5	1.6
100 Philippine peso	6.8131	7.5343	7.4196	7.2236	-5.7	4.3	2.7
100 Indonesian rupiah	0.0386	0.0315	0.0364	0.0359	7.6	-12.4	1.4
100 Korean won	0.3665	0.2630	0.2937	0.2889	26.9	-9.0	1.7
Chinese renminbi	0.4591	0.5335	0.5016	0.4795	-4.2	11.3	4.6

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

Source: Bank Negara Malaysia