

## 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 in May 2010, and a further 25 basis points in July 2010. The upward adjustments of the OPR were undertaken to reflect the improved economic outlook and to normalise monetary conditions. At the new level of 2.75%, the OPR remains accommodative and is considered to be appropriate and consistent with the assessment of growth and inflation.

The daily weighted average overnight interbank rate (AOIR) traded higher in the second quarter to reflect the increase in the OPR. From the period 1 April - 13 May, the AOIR moved within a narrow range of 2.11% - 2.24%. Interbank rates of other maturities were also stable during the period. Following the OPR increase to 2.50% on 13 May, the daily weighted average overnight interbank rate trended higher within the range of 2.37% - 2.49% during the period 14 May – 30 Jun. Interbank rates of other maturities also rose accordingly. Market conditions remained orderly as 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) rates for the 1 month tenure increased by 23 bps, while FD rates for the 12 month tenure was higher by 15 bps. As a result, the average quoted FD rates for tenures between 1 to 12 months were at a higher range of 2.48% and 2.82% respectively as at end-June (previously: 2.25% - 2.48%).

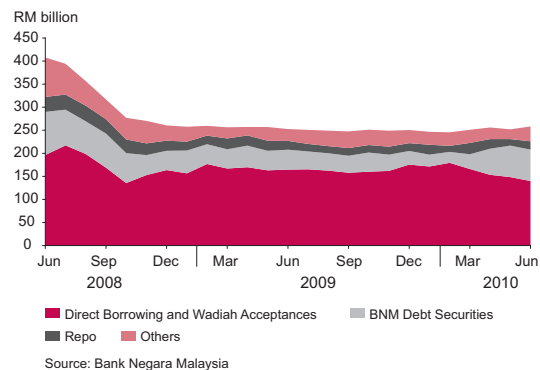
#### Interest Rates

	2009		2010	
	2Q	1Q	2Q	
At end-period (%)				
Overnight Policy Rate (OPR)	2.00	2.25	2.50	
Interbank rates				
Overnight	1.99	2.18	2.43	
1-month	2.09	2.35	2.71	
Base lending rates (BLR)				
Commercial banks	5.53	5.76	6.02	
Average lending rates (ALR)				
Commercial banks	5.04	4.96	5.05	
Fixed deposit rates				
Commercial banks				
3-month	2.05	2.28	2.51	
12-month	2.52	2.67	2.82	

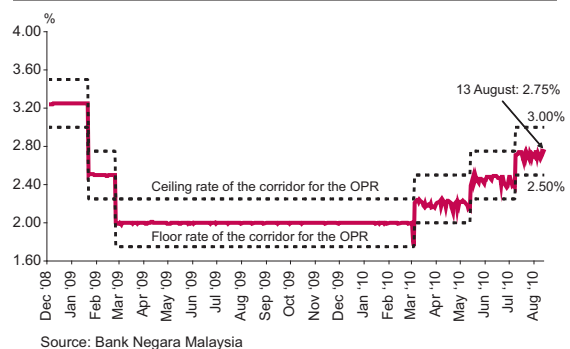
Source: Bank Negara Malaysia

Similarly, retail lending rates were also revised. As at end-June, the average base lending rate (BLR) of commercial banks (CBs) was increased by 26 bps to 6.02%, while the average lending rate (ALR) on loans outstanding trended higher to 5.05%. Despite the increase in interest rates, retail lending rates remained below their pre-crisis levels. As such, the cost of financing to the economy remains relatively low.

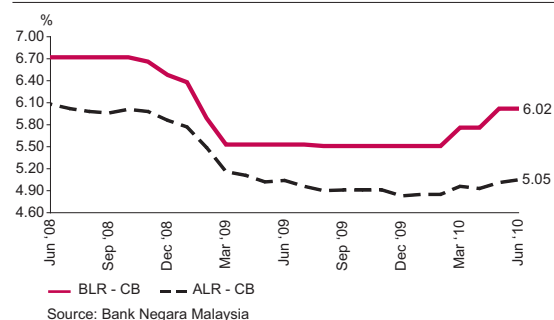
#### Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



#### Daily Weighted Average Overnight Interbank Rate



#### Lending Rates of Commercial Banks (Average for the period)



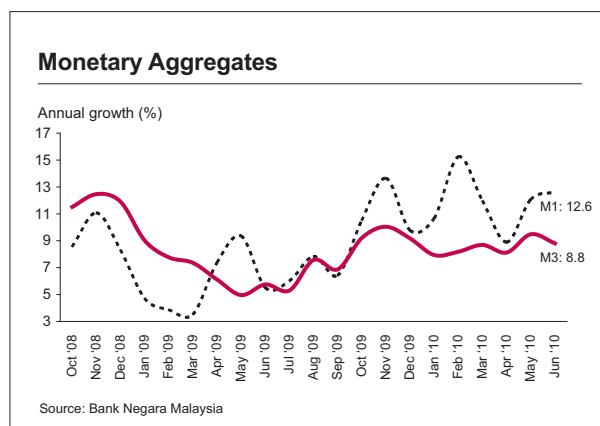
### M3 continued to expand

Monetary aggregates continued to grow at a sustained pace in the second quarter. M1, or narrow money, increased by RM7.9 billion during the quarter. On an annual basis, M1 expanded at a faster annual growth rate of 12.6% as at end-June 2010 (end-March: 12.0%). M3, or broad money, expanded at an annual growth rate of 8.8% as at end-June 2010 (end-March: 8.7%). On a quarter-on-quarter basis, M3 increased by RM2.7 billion.

The main impetus for the increase in broad money was higher credit extension by the banking system to the private sector. Higher credit was underscored by an increase in loans of RM26.9 billion, as well as higher holdings of private debt securities by the banks. In addition, net foreign assets of the banking system also expanded, due mainly to fund raising from abroad by the Government, which was then exchanged for ringgit with Bank Negara Malaysia. The expansionary impact on broad money was, however, offset by the placement of these proceeds by the Government with the Bank.

	Change during the period				
	2009		2010		
	2Q	1H	1Q	2Q	1H
	RM billion				
<b>M3</b>	<b>1.4</b>	<b>19.0</b>	<b>14.6</b>	<b>2.7</b>	<b>17.3</b>
Net claims on Govt	5.9	11.7	-2.4	-5.1	-7.4
Claims on private sector	5.5	10.8	16.7	28.4	45.1
Loans	7.9	12.3	19.7	26.9	46.6
Securities	-2.4	-1.5	-3.0	1.5	-1.5
Net foreign assets <sup>1</sup>	-4.2	-0.4	11.6	6.8	18.5
BNM	-1.7	-6.0	1.3	6.4	7.7
Banking System	-2.5	5.6	10.3	0.4	10.7
Other influences	-5.8	-3.0	-11.3	-27.5	-38.9

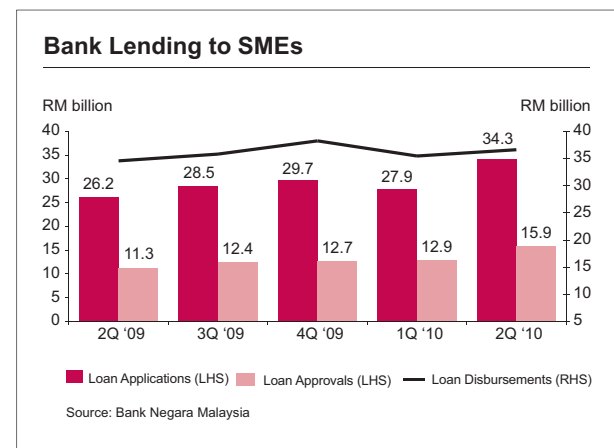
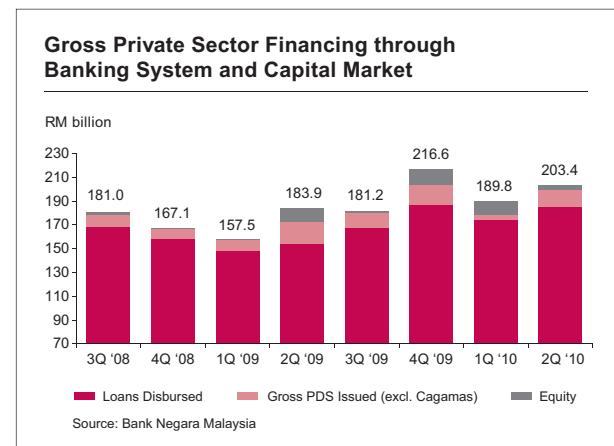
<sup>1</sup>Pre-revaluation  
Source: Bank Negara Malaysia



Meanwhile, the private sector increased its holdings of Bank Negara Malaysia debt securities in the second quarter, which were purchased from the banking institutions. The drawdown of deposits to finance the purchase of these securities had a contractionary impact on M3, and was captured under the *other influences* category.

### Private sector financing strengthened in the second quarter

Private sector financing activity improved in the second quarter and continued to be available to all segments of the economy. The accommodative monetary condition supported financing activity. The continued improvement in domestic economic activity added further impetus to private sector demand for financing. Total gross financing raised by the private sector through the banking system and the capital market increased to RM203.4 billion in the second quarter (1Q 10: RM189.8 billion). The higher financing reflected increased bank loans disbursements and private debt securities (PDS) issuances during the quarter. On a net basis, banking system loans and PDS outstanding rose by a higher annual rate of 11.3% as at end-June (1Q 10: 9.5%).



### Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2009	2Q 09	1Q 10	2Q 10	2009	1Q 10	2Q 10
<b>Gross total financing</b>	<b>739.1</b>	<b>183.9</b>	<b>189.8</b>	<b>203.4</b>	<b>7.3</b>	<b>20.5</b>	<b>10.6</b>
Loans disbursed*	657.0	154.4	174.3	185.3	2.6	17.6	20.0
Gross PDS (excl. Cagamas and issuances by non-residents)	56.1	18.0	4.4	13.9	30.9	-50.8	-23.0
Equity	26.0	11.5	11.0	4.2	375.5	7,530.8	-63.2
<b>Net total financing (A)+(B)</b>	<b>83.2</b>	<b>20.2</b>	<b>18.5</b>	<b>39.7</b>	<b>8.5</b>	<b>9.5</b>	<b>11.3</b>
Banking system	57.2	6.7	19.3	29.9	7.3	8.5	11.3
Loans outstanding (A)	57.0	8.9	22.2	29.8	7.8	9.8	12.5
Holding of PDS	0.2	-2.2	-2.9	0.2	0.3	-6.5	-2.7
PDS outstanding (B)	26.3	11.3	-3.6	9.9	10.4	8.8	7.9
Memorandum item							
Gross PDS (incl. Cagamas and issuances by non-residents)	58.6	19.3	4.7	14.7	18.0	-46.5	-23.9

\*Banking system loans include loans sold to Cagamas

Source: Bank Negara Malaysia

### Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2009	2Q 09	1Q 10	2Q 10	2009	2Q 09	1Q 10	2Q 10
<b>Total</b>								
Loan applications	521.3	137.1	132.9	158.7	9.8	7.4	23.5	15.8
Loan approvals	286.9	75.8	70.1	90.5	-1.4	-5.7	20.8	19.5
Loan disbursements	657.0	154.4	174.3	185.3	2.6	-5.0	17.6	20.0
Loan repayments	595.2	148.8	154.5	161.8	4.8	6.4	11.8	8.7
Change in loans outstanding*	57.0	8.9	22.2	29.8	7.8	8.3	9.8	12.5
<b>Of which:</b>								
<b>Business enterprises**</b>								
Loan applications	237.8	64.3	60.0	71.6	-2.7	0.1	15.3	11.4
Loan approvals	127.7	34.9	29.3	43.0	-13.7	-14.8	12.2	23.3
Loan disbursements	439.7	103.0	117.2	125.0	-3.5	-10.9	16.1	21.3
Loan repayments	407.4	102.8	105.3	111.3	1.0	3.5	12.4	8.3
Change in loans outstanding*	6.3	-1.0	4.6	7.9	2.1	3.7	4.1	7.2
<b>SMEs**</b>								
Loan applications	104.6	26.2	27.9	34.3	4.2	-6.2	38.1	30.9
Loan approvals	45.3	11.3	12.9	15.9	-16.3	-29.0	45.6	39.9
Loan disbursements	143.4	34.6	35.5	36.6	-12.0	-15.6	2.3	5.9
Loan repayments	132.3	32.1	33.4	32.4	-9.0	-9.6	3.6	0.8
Change in loans outstanding*	-5.5	0.5	2.5	-3.7	-4.4	-2.9	3.2	-0.3
<b>Large corporations</b>								
Loan applications	133.2	38.1	32.1	37.4	-7.5	4.9	0.8	-2.0
Loan approvals	82.4	23.5	16.4	27.2	-12.2	-5.8	-5.0	15.3
Loan disbursements	296.4	68.4	81.7	88.3	1.2	-8.4	23.4	29.1
Loan repayments	275.2	70.6	71.8	78.9	6.7	10.8	17.1	11.7
Change in loans outstanding*	11.8	-1.5	2.1	11.6	6.9	8.7	4.7	12.2
<b>Households</b>								
Loan applications	283.5	72.8	72.8	87.1	23.1	14.8	31.3	19.6
Loan approvals	159.2	40.9	40.8	47.5	11.3	3.8	27.8	16.2
Loan disbursements	217.2	51.4	57.2	60.3	17.7	9.7	20.6	17.4
Loan repayments	187.8	46.1	49.3	50.5	13.9	13.7	10.6	9.6
Change in loans outstanding*	38.6	9.4	13.8	15.2	9.8	9.1	11.7	12.9

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

Source: Bank Negara Malaysia

All major loan indicators improved further in the second quarter. In the business sector, the increase in demand for new financing was mainly from the *manufacturing; finance, insurance and business services; wholesale and retail, restaurants and hotels and real estate sectors*. The bulk of the loans were to finance working capital requirements. Loan

disbursements were higher, supporting further expansion in business loans outstanding of RM7.9 billion in the second quarter (1Q 10: +RM4.6 billion). On an annual basis, business loans outstanding rose at a higher rate of 7.2% as at end-June (1Q 10: 4.1%). 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	2Q 09	1Q 10	2Q 10		
	(RM billion)			(%)		
<b>Business enterprises</b>	<b>439.7</b>	<b>103.0</b>	<b>117.2</b>	<b>125.0</b>	<b>67.4</b>	<b>44.9</b>
<i>Large corporations</i>	296.4	68.4	81.7	88.3	47.7	30.7
<i>SMEs*</i>	143.4	34.6	35.5	36.6	19.8	14.1
<i>Selected sectors</i>						
Agriculture, hunting, forestry and fishing	20.9	4.5	9.2	5.4	2.9	2.4
Mining and quarrying	2.3	0.7	0.8	0.6	0.3	0.3
Manufacturing	128.5	31.0	33.4	37.6	20.3	9.6
Construction	40.5	9.2	9.2	10.5	5.6	4.4
Real estate	20.6	4.8	5.2	4.1	2.2	4.2
Electricity, gas and water supply	7.9	0.9	0.8	1.0	0.6	1.0
Wholesale, retail, restaurants and hotels	105.5	25.5	28.0	33.2	17.9	7.8
Transport, storage and communication	22.6	5.9	5.4	5.9	3.2	3.4
Finance, insurance and business services	45.3	11.3	13.5	15.1	8.2	6.6
<b>Households</b>	<b>217.2</b>	<b>51.4</b>	<b>57.2</b>	<b>60.3</b>	<b>32.6</b>	<b>55.1</b>
Purchase of residential properties	55.6	12.7	14.9	14.1	7.6	25.4
Consumption credit	132.6	31.4	33.4	37.9	20.5	21.0
Of which:						
<i>Credit cards</i>	70.5	16.6	18.4	20.1	10.9	3.3
<i>Purchase of passenger cars</i>	32.8	8.0	8.8	9.8	5.3	12.9
Others	29.0	7.3	8.9	8.2	4.4	8.7
<b>Total</b>	<b>657.0</b>	<b>154.4</b>	<b>174.3</b>	<b>185.3</b>	<b>100.0</b>	<b>100.0</b>

\*Include loans to individual businesses.

Source: Bank Negara Malaysia

Financing to the household sector also increased. Higher demand for loans was mainly for the *purchase of residential and non-residential properties; personal use, credit card and passenger cars*. Accordingly, household loans outstanding expanded by RM15.2 billion during the quarter to increase at a higher annual growth rate of 12.9% as at end-June (1Q 10: 11.7%).

### Fund raising activity driven by the private sector

Gross funds raised in the capital market during the quarter amounted to RM35.5 billion (1Q 10: RM34.8 billion). In the private sector, fund raising activity picked up in the bond market. Gross funds raised through PDS increased to RM14.7 billion in the second quarter (1Q 10: RM4.7 billion). This was due mainly to several large issuances by firms in the finance sector in the month of April. There were also issuances by two non-resident firms in June. Funds were utilised mainly for the funding of working capital and general purposes. Meanwhile, a total of RM4.2 billion was raised in the equity market. A significant portion of the amount was raised through eight initial public offerings (RM3 billion), while the remaining through rights issues.

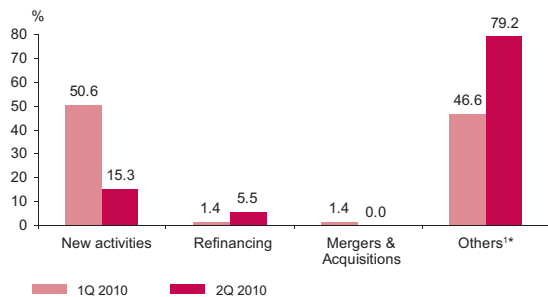
In the public sector, gross funds of RM16.5 billion were raised through issuances of the 20-year Malaysian Government Securities (MGS), the 10-year Government Investment Issues (GI), as well as the re-opening of the 3-year and 5-year MGS. Additionally, funds were raised via issuances of Sukuk 1Malaysia as part of the Government's fund raising activity. After adjusting for large redemptions, net funds raised by the public sector in the second quarter amounted to RM5.5 billion (1Q 10: RM15.5 billion).

### Funds Raised in the Capital Market

	2009		2010		
	2Q	1H	1Q	2Q	1H
	RM billion				
<b>By Public Sector</b>	<b>24.7</b>	<b>35.5</b>	<b>15.5</b>	<b>5.5</b>	<b>21.0</b>
Government securities, <i>net</i>	19.7	28.5	15.6	3.2	18.8
<i>Malaysian Government Securities</i>	12.7	33.2	12.6	8.6	21.1
<i>Government Investment Issues</i>	10.5	16.5	6.5	5.5	12.0
<i>Less: Redemptions</i>	3.5	21.2	3.5	10.9	14.4
Khazanah Bonds, <i>net</i>	-	-	-	-	-
Savings Bonds, <i>net</i>	5.0	7.0	(0.1)	2.3	2.3
<b>By Private Sector</b>	<b>21.0</b>	<b>21.9</b>	<b>7.1</b>	<b>12.1</b>	<b>19.2</b>
Shares	11.5	11.7	11.0	4.2	15.3
Debt securities, <i>net</i>	9.5	10.2	(3.9)	7.8	3.9
<i>Private Debt Securities</i>	19.3	28.6	4.7	14.7	19.4
<i>Cagamas</i>	-	-	-	-	-
<i>Less: Redemptions</i>	9.8	18.4	8.6	6.9	15.5
<b>Total</b>	<b>45.7</b>	<b>57.4</b>	<b>22.6</b>	<b>17.6</b>	<b>40.2</b>

Source: Bank Negara Malaysia and Bursa Malaysia

### Private Debt Securities Issued by Purpose (% of total)



<sup>1</sup> Includes issuance by non-residents and Cagamas  
\* Includes working capital and general business activities

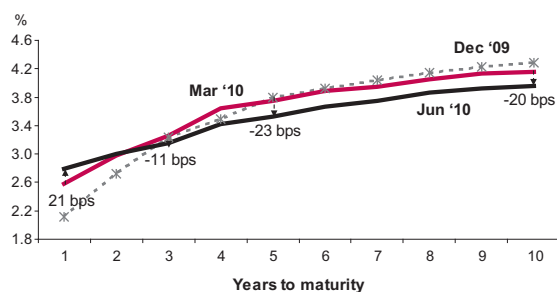
Source: Bank Negara Malaysia

### Long-term yields declined

Yields of shorter maturities continued to increase in response to upward adjustments to the overnight policy rate. The 1-year MGS rose by 21 basis points during the quarter. Meanwhile, uncertainties in the global financial markets over the European sovereign debt problems caused an increase in demand for less risky assets, including long-term Government papers. This, coupled with benign inflationary expectations amidst improving domestic economic prospects, caused a decline in long-term yields. The 5-year and 10-year MGS yields declined by 23 basis points and 20 basis points respectively.

In the PDS market, the 5-year corporate bond yields rated AAA and AA recorded a decline

### Trend in MGS Yields



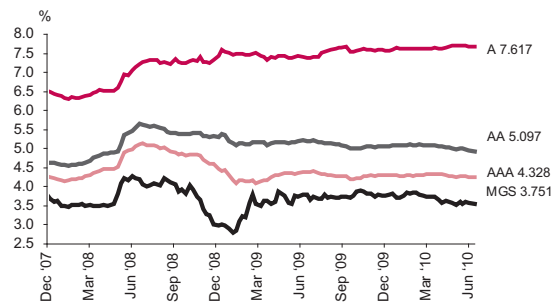
Source: Bank Negara Malaysia

in the second quarter of 2010, in line with the 5-year MGS yields. However, PDS yields in the lower-rated segment rose marginally by 5 basis points, possibly reflecting the perceived increase in risk arising from the uncertain global conditions.

### Slight decline in secondary trading in the bond market

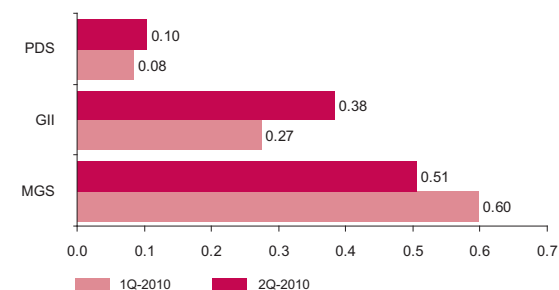
Total trading in the secondary market declined slightly to RM182 billion during the quarter (1Q 10: RM188 billion). The fall was due to decreased trading in the MGS segment, which registered a lower liquidity ratio of 0.51. This was due to the lack of fresh issuances by the Government in May. Elsewhere, the GII and PDS segments registered higher liquidity ratios of 0.38 and 0.10 respectively, compared to the preceding quarter.

### 5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

### Liquidity Ratio: Turnover / Outstanding



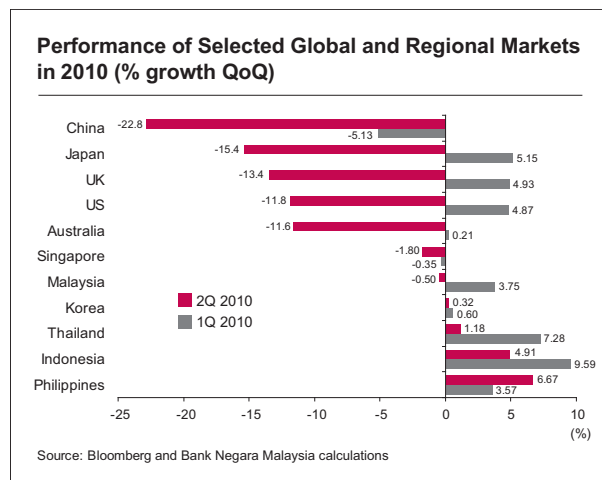
Source: Bank Negara Malaysia

## KLCI declined marginally in the second quarter

The FBM KLCI ended the second quarter slightly lower at 1,314.0 (since 1Q 10: -0.46%). The index declined in May due mainly to concerns over European sovereign debt, but rose in June following positive global economic data, as well as China's announcement that it would allow greater flexibility in the renminbi exchange rate. Market capitalisation declined to RM1.04 trillion as at end-June 2010 (1Q 10:

RM1.06 trillion) and the daily average turnover was lower at 849 million units (1Q 10: 1.05 billion units) during the quarter.

On 13 August 2010, the KLCI closed higher at 1,360.2 points (since end-2009: +6.9%) with market capitalisation of RM1.1 trillion (since end-2009: +9.7%).



## Bursa Malaysia: Selected Market Indicators

	2009		2010	
	As at end			
	June	March	June	
Price Indices				
Composite	1,075.2	1,320.6	1,314.0	
FBMEMAS <sup>1</sup>	7,206.8	8,957.2	8,863.4	
FTSE Second Board <sup>2</sup>	4,754.5	-	-	
ACE Market <sup>3</sup>	4,096.3	4,209.0	3,801.4	
Market capitalisation (RM billion)	817.9	1,061.1	1,044.4	
No. of companies listed	960	961	962	
	During the quarter			
	2Q	1Q	2Q	
Average daily turnover				
Volume (million units)	1,684.4	1,046.6	849.1	
Value (RM million)	1,559.7	1,532.4	1,287.6	

<sup>1</sup>FBM30 stands for FTSE Bursa Malaysia 30 Index

<sup>2</sup>From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

<sup>3</sup>From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

## Bursa Malaysia: Market Turnover

	2009				2010					
	2Q		1H		1Q		2Q		1H	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM Billion
Turnover	107.8	99.8	134.2	139.7	61.7	90.4	54.3	82.4	116.1	172.8
Of which:										
Main Board	90.6	95.2	113.2	134.2	52.4	88.1	45.3	80.2	97.7	168.3
Of which										
Consumer Products	3.7	4.2	4.4	6.3	2.8	3.7	3.1	3.9	5.9	7.6
Industrial Products	19.2	13.9	23.0	16.4	12.4	14.1	9.0	9.8	21.4	23.9
Construction	7.3	8.7	9.8	11.6	3.1	4.9	3.0	5.0	6.1	9.9
Trading/Services	30.6	33.4	38.9	47.8	16.1	28.8	13.9	28.9	3.0	57.7
Finance	7.2	14.4	9.1	22.5	4.2	20.8	4.4	18.7	0.9	39.5
Properties	15.2	9.1	18.2	11.0	6.4	3.9	6.6	3.5	13.0	7.3
Plantations	2.2	6.8	3.3	11.2	1.5	6.4	1.1	4.8	2.5	11.3
Infrastructure	2.3	3.1	2.9	5.5	1.1	1.7	1.0	1.9	2.1	3.6
Second Board <sup>1</sup>	7.5	2.8	9.1	3.3	-	-	-	-	-	-
Mesdaq <sup>2</sup>	7.0	1.2	7.8	1.4	5.4	1.2	4.1	0.7	9.5	1.8

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

<sup>2</sup>From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

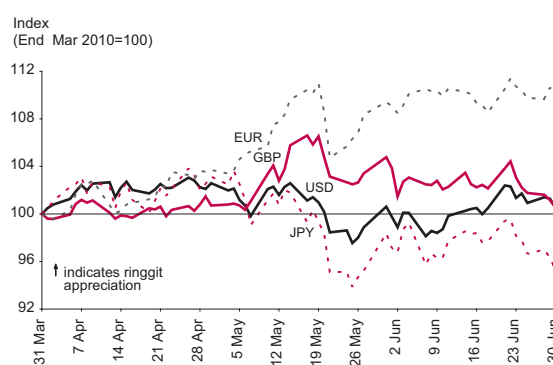
## The ringgit appreciated against most major and regional currencies

During the quarter, the ringgit appreciated by 0.5% against the US dollar as further signs of economic recovery in the region contributed to favourable investor sentiments towards regional financial markets. The ringgit also appreciated against the euro (10.2%) and pound sterling (0.5%), but depreciated against the Japanese yen (-4.8%). The euro depreciated against most currencies due to concerns over sovereign debt in several euro area economies. Against regional currencies, the ringgit appreciated against the Korean won (8.8%), Philippine peso (3.0%), Thai baht (0.7%), Singapore dollar (0.5%) and Indonesian rupiah (0.1%). The Korean won weakened against most regional currencies amid heightened geopolitical tensions in East Asia and concerns over the country's external sector.

Between 1 July and 13 August 2010, the ringgit appreciated against the US dollar (3.0%) and Japanese yen (0.1%) but depreciated against

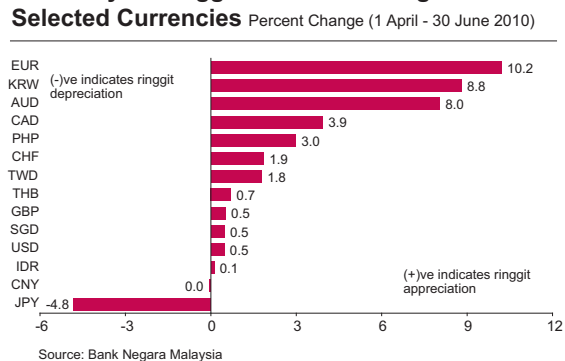
the euro (-2.2%) and pound sterling (-0.8%). Within the region, the ringgit appreciated against Chinese renminbi (2.9%), Thai baht (2.1%) and Indonesian rupiah (1.9%) and Philippine peso (0.3%) but depreciated against the Korean won (-0.6%), Singapore dollar (-0.2%).

### Ringgit Performance Against Major Currencies



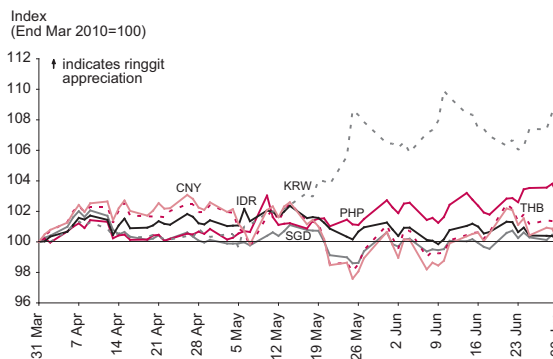
Source: Bank Negara Malaysia

### Summary of Ringgit Performance Against Selected 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	2Q 09	1Q 10	2Q 10	21 Jul 05	2Q 09	1Q 10
US dollar	3.8000	3.5225	3.2730	3.2575	16.7	8.1	0.5
Euro	4.6212	4.9699	4.3850	3.9785	16.2	24.9	10.2
Pound sterling	6.6270	5.8592	4.9326	4.9069	35.1	19.4	0.5
100 Japanese yen	3.3745	3.6729	3.5017	3.6787	-8.3	-0.2	-4.8
Singapore dollar	2.2570	2.4302	2.3354	2.3242	-2.9	4.6	0.5
100 Thai baht	9.0681	10.354	10.111	10.040	-9.7	3.1	0.7
100 Philippine peso	6.8131	7.3111	7.2236	7.0144	-2.9	4.2	3.0
100 Indonesian rupiah	0.0386	0.0345	0.0359	0.0359	7.7	-4.0	0.1
100 Korean won	0.3665	0.2754	0.2889	0.2655	38.0	3.7	8.8
Chinese renminbi	0.4591	0.5155	0.4795	0.4797	-4.3	7.5	0.0

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

Source: Bank Negara Malaysia