



Malaysia

Bank Negara Malaysia (BNM) has a dual responsibility of conducting monetary policy and fostering financial stability, including the FX market. The main policy instrument is the Overnight Policy Rate (OPR).

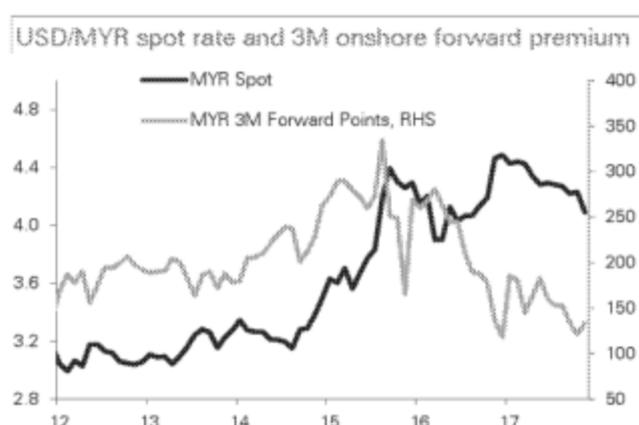
On July 14 1997, during the Asian Financial Crisis, the ringgit was allowed to float. After falling by about 60%, the government on September 2, 1998, announced extensive capital controls and the country's reversion to a fixed exchange rate. MYR was pegged at 3.80 to the USD. Seven years later, Bank Negara announced the end of Malaysia's peg to the US dollar within 30 minutes of China's de-pegging announcement on July 21, 2005, and reverted to a managed float.

Most capital account restrictions were progressively dismantled after 2005, mostly the area of outward investment and fund raising activity. Government initiatives focused on boosting inward FDI and revitalizing domestic markets. BNM announced several liberalization measures, including scrapping caps on inter-company loans, caps on FX hedging by residents, rules governing issuance of securities onshore and offshore, and importantly, freeing up the currency offshore for trade settlement. The MYR is traded in the inter-bank market in China directly versus RMB.

After a long period of progressive liberalization, BNM was forced to defend the currency over 2014-16, drawing down reserves sharply due to broad-based USD strength, a decline in oil prices, domestic credit concerns, external debt liabilities, and foreign outflows. Authorities also began to actively discourage overseas investment by government-linked asset managers.

In Nov 2016, after renewed USD strength and outflows, BNM adopted stronger regulatory defense of the MYR. Banks were reminded of the prohibition on facilitating NDFs, with many global banks attesting to non-participation in offshore MYR trading. Liquidity in the NDF market has significantly declined. BNM has focused efforts on deepening onshore FX markets, to provide hedging capacity and liquidity. Beginning December 2016, BNM imposed a requirement on exporters to convert 75% of their proceeds into MYR. Resident and non-resident investors were given access to a dynamic hedging facility, wherein 25% of their AUM could be actively hedged and cancelled without documentation. This was liberalized to 100% in May 2017. Corporates with MYR assets, borrowings or current account flows can also freely hedge and

unwind 100% of their exposure via forwards. Liquidity in onshore forwards has been picking up slowly.



Source: DB Global Markets Research, BNM