



Suruhanjaya Sekuriti
Securities Commission
Malaysia

Implications of Interest Rate Normalization on Equity Market: Malaysian Experience



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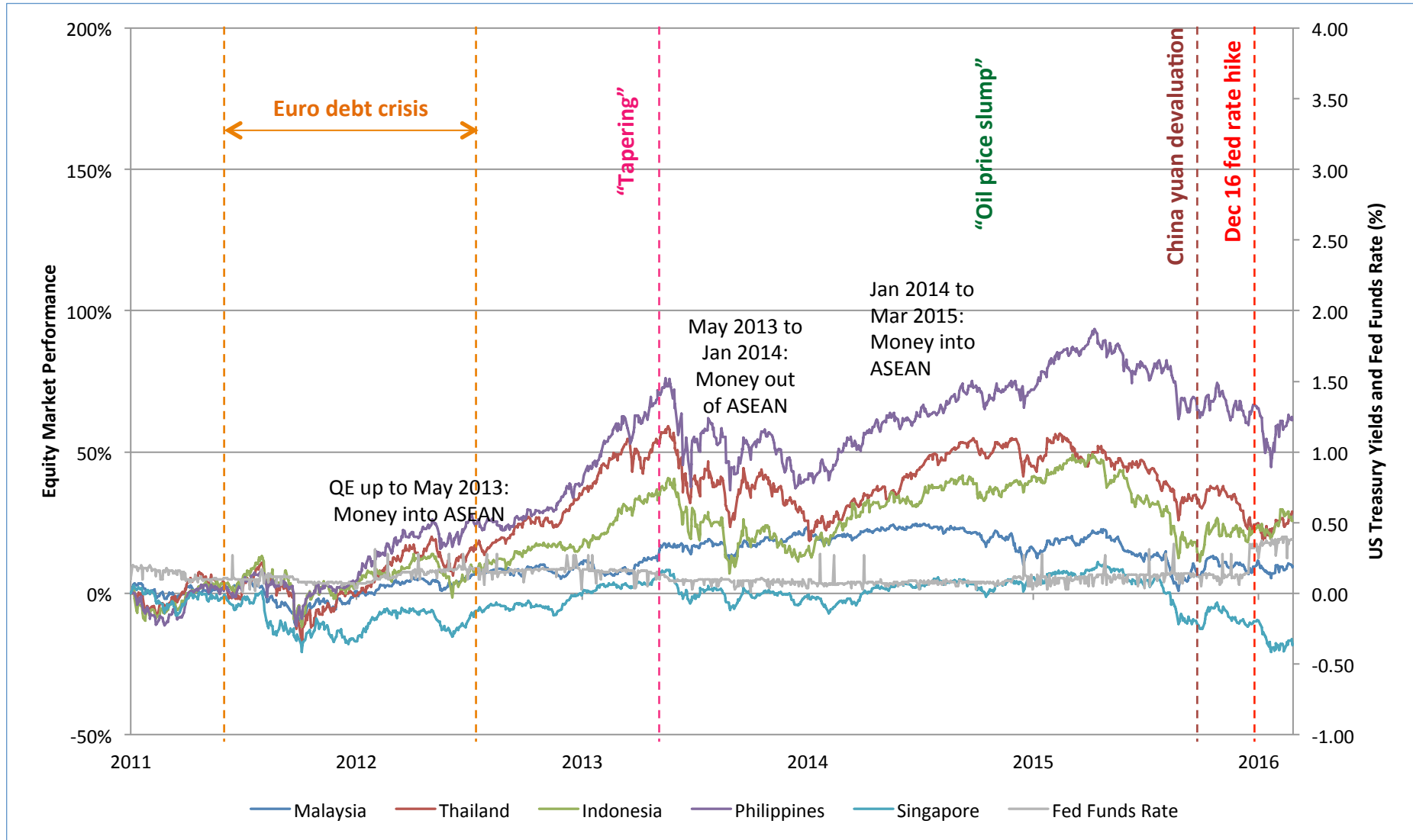
ADBIOECD Roundtable on Capital Market and Financial
Reform in Asia

Tokyo, Japan

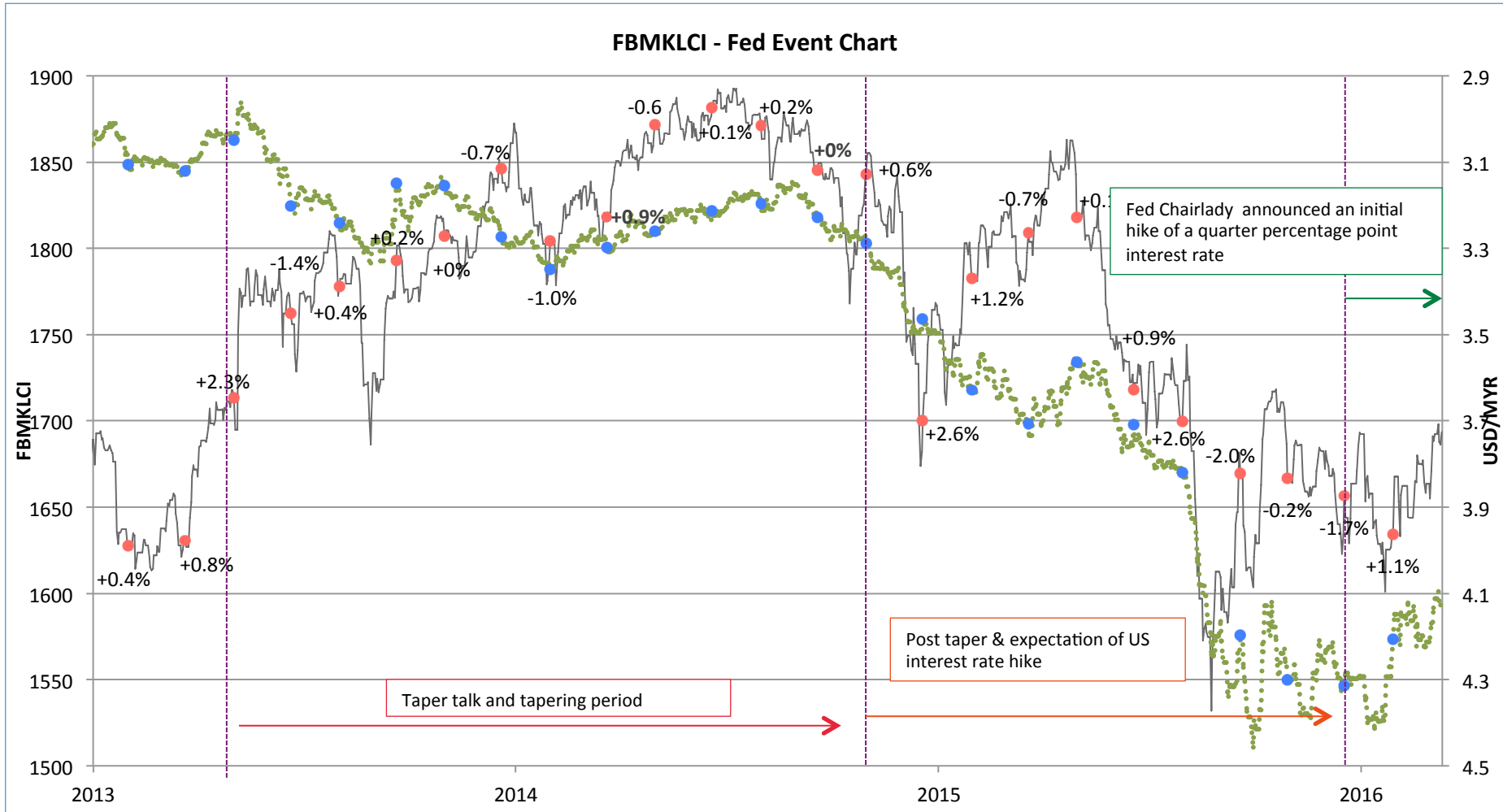
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General trend: Volatility in EM equities partially attributed to short-term hot money flows from ultra-easy DM monetary policies

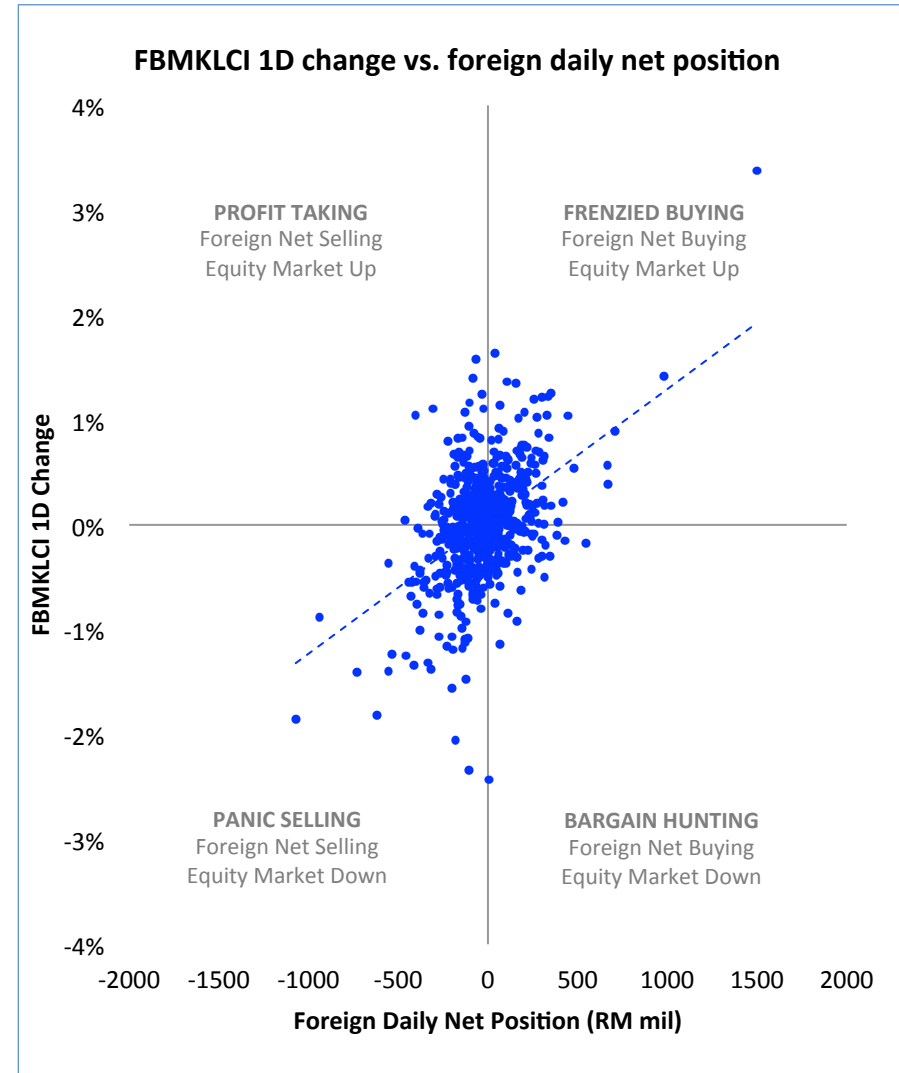
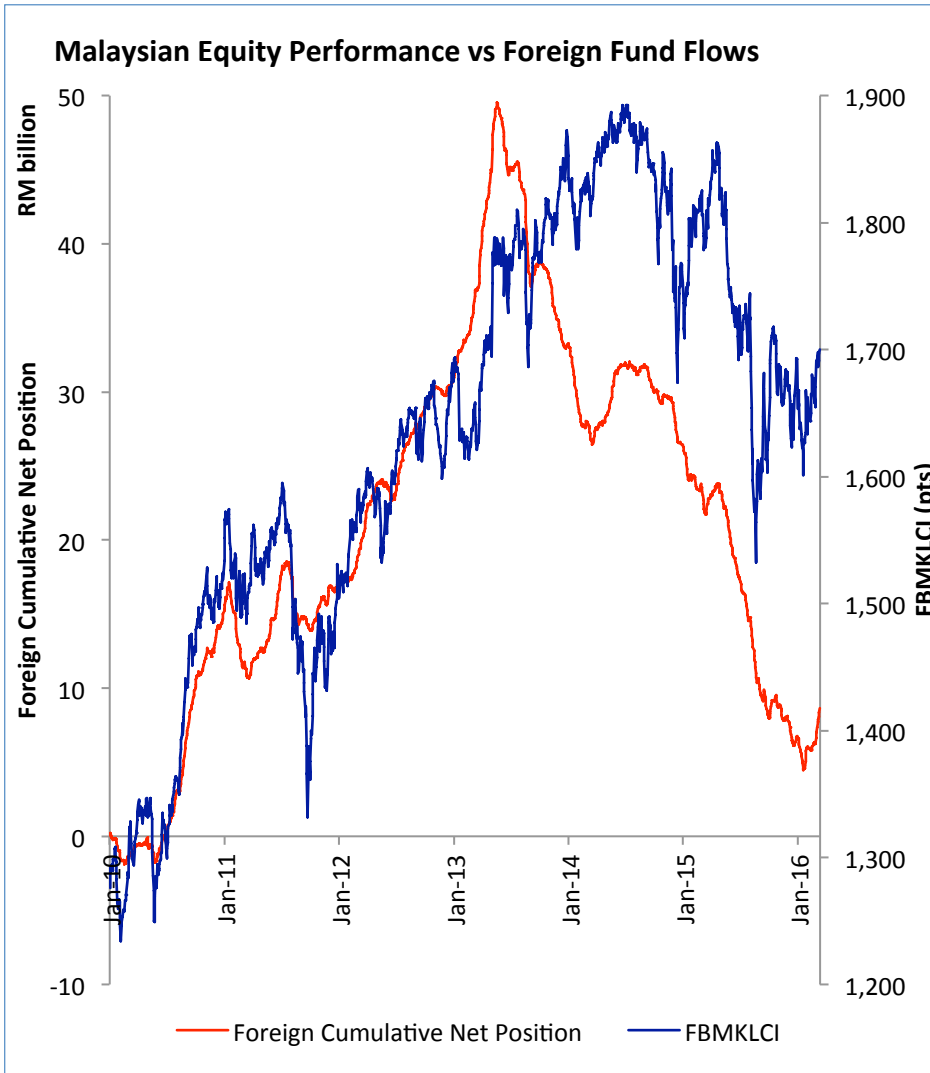


US FOMC Meeting Event Chart: Tracking the impact of the recent Fed decisions

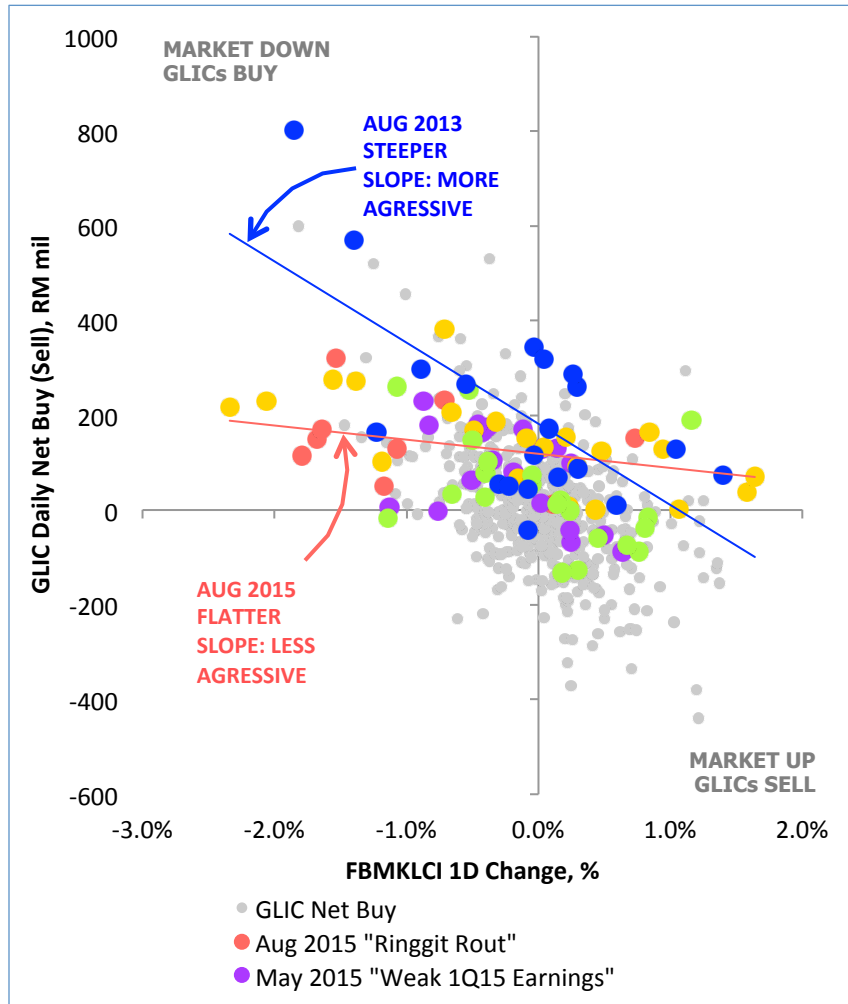


- Market turned volatile in 2015 as investors positioned their investments on bets of US interest rate movement and carry trade reversal.
- Other emerging factors such as unfavorable China's data, geopolitical uncertainty, weak oil prices and sluggish corporate earnings add to the volatility.

Fund flow impact: Equity market performance is positively correlated with foreign fund flows



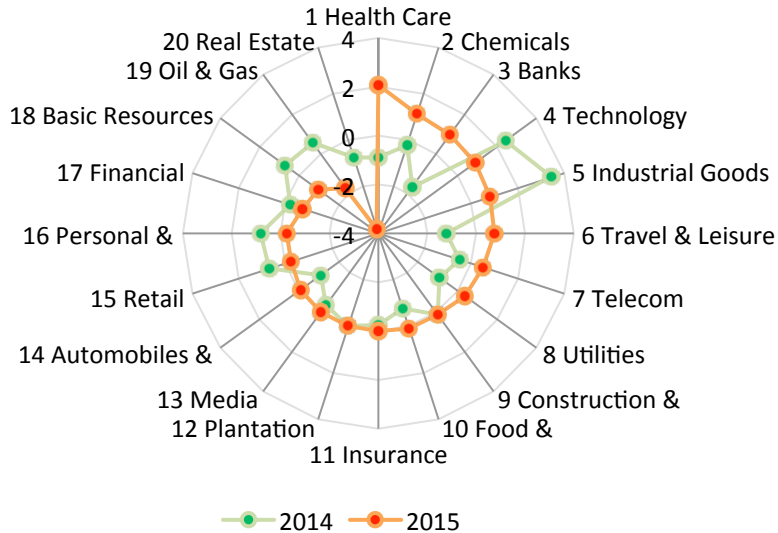
Strong domestic liquidity from Malaysian GLICs



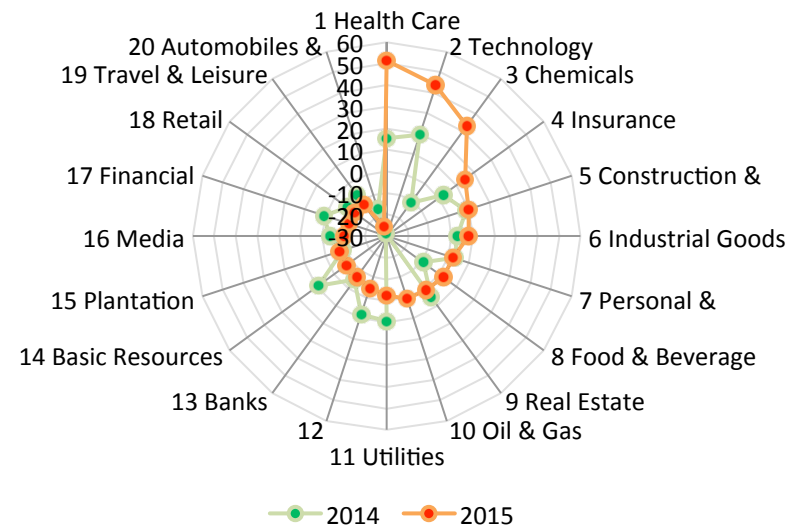
- GLICs continued to buffer equity market selloffs.
- GLICs were net buyers every single trading day in Aug 2015.
- However, GLICs appeared to be less aggressive buyers compared to 2 years ago (ie. Aug 2013 Emerging Market Taper Tantrum).
- While GLICs continue have strong buying interest on Malaysian equities, they also consider market fundamentals more cautious on Malaysian equities than they were two years ago.
- GLICs were more selective on Malaysian equities in 2015, given headwinds to earnings growth (ie. moderating loan growth/NIM compression, weak commodity prices, softening property sector).

Broad sectors makes diversification possible within equity space

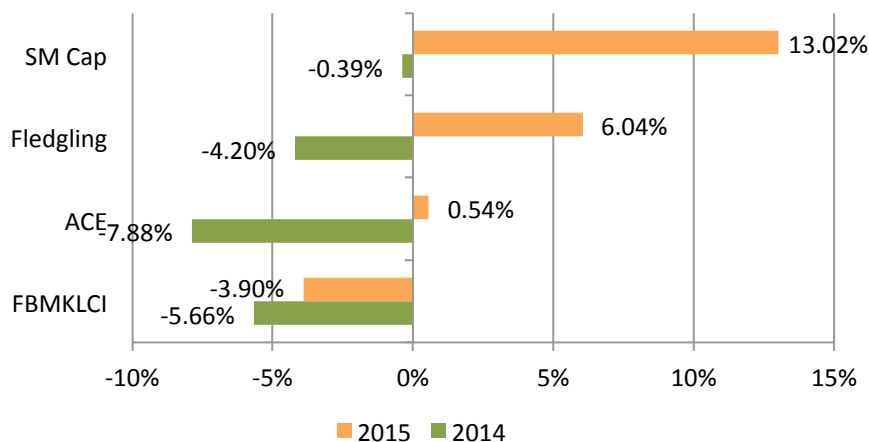
Sector Trading Interest (%)



Sector Market Cap Changes (%)



Major Indices Performance (%)



- FBMKLCI saw losses in 2015, while lower liners continued strong upward momentum.
- Trading interest revolved around weaker ringgit beneficiaries like rubber-glove makers, furniture companies, chemicals exporters and defensive natured healthcare.
- Selling on banking stocks was elevated as analysts continued to downgrade banking stocks on weaker loan growth outlook and higher credit costs.

- The process towards normalization of interest rate in the US creates an additional volatility to the equity market. However, other major factors such as (i) sluggish oil prices, (ii) weak China's economic growth, (iii) currency challenges in the emerging economies, (iv) uncertainties in the Eurozone area, (vi) geopolitical instability, etc. contributed to the volatility of the global capital markets.
- Different degrees of reaction towards the normalization of interest rate within ASEAN markets was partly due to different architectural design of the market.
- Malaysia has provided investors with opportunities to hedge and reshape their portfolio dynamically due to its broad based assets availability and deep domestic liquidity.
- Despite volatility in the global equity markets, Malaysian equity market continues to grow and remain resilient.

Thank You