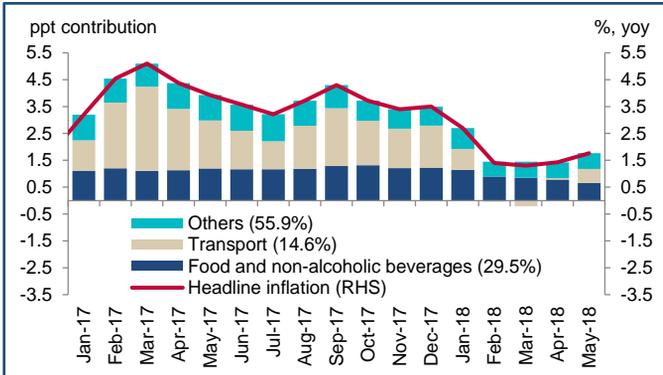


Inflation was higher in May 2018

Contribution to Inflation

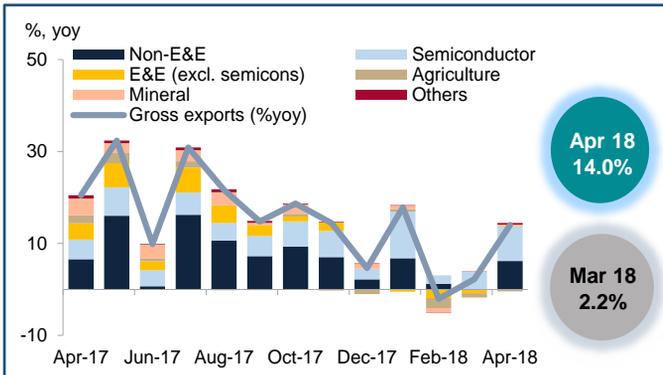


Source: Department of Statistics, Malaysia and staff estimates

- Headline inflation was 1.8% in May.
 - Despite unchanged domestic fuel prices, the *transport* category registered a higher inflation of 3.8%, reflecting the decline in prices in the base period of May 2017.
 - The inflation in the *food and non-alcoholic beverages* category continued its moderating trend to record 2.2% in May, partly due to lower prices of *fresh fish*.

Exports accelerated in April 2018

Malaysia's Exports by Product

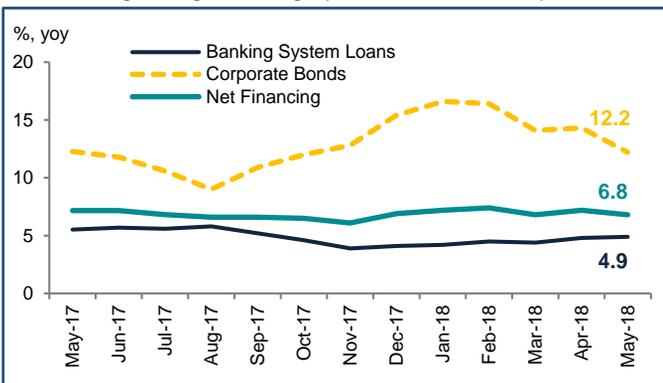


Source: Department of Statistics Malaysia (DOSM), MATRADE

- Exports accelerated to 14.0% in April 2018 (March: 2.2%). The improvement was supported mainly by strong growth in the semiconductor segment and turnaround in non-E&E exports.
- Going forward, export growth will continue to benefit from favourable external demand and commodity prices.

Net financing growth continued to support economic activity

Net Financing through Banking System Loans and Corporate Bonds

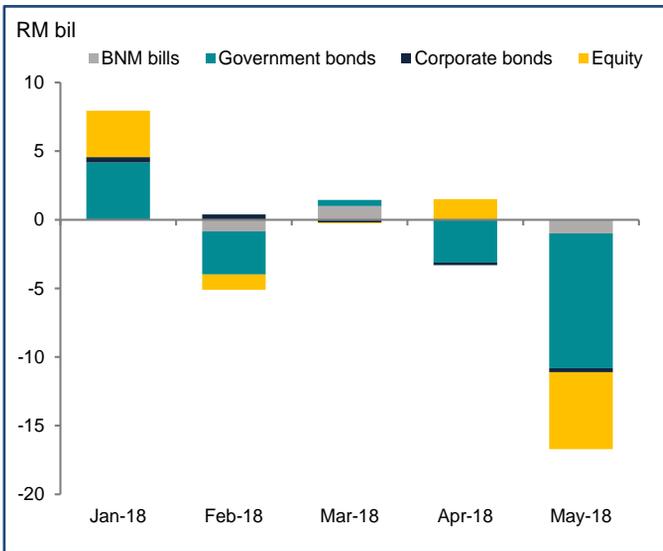


¹ Net financing refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)), and outstanding corporate bonds.
Source: Bank Negara Malaysia

- Net financing¹ growth moderated to 6.8% in May (April: 7.2%). The growth of net outstanding issuances of corporate bonds moderated to 12.2% (April: 14.3%), in part due to the high base in the previous year. The growth of outstanding banking system loans was sustained at 4.9% (April: 4.8%).
- Business loan growth remained steady in May at 3.2% (April: 3.1%), with improvements stemming from businesses other than SMEs (May: 1.8%; April: 0.3%).
- Household loan growth remained stable at 5.6% (April: 5.7%).

Financial markets faced non-resident outflows during the month

Non-Resident Portfolio Flows

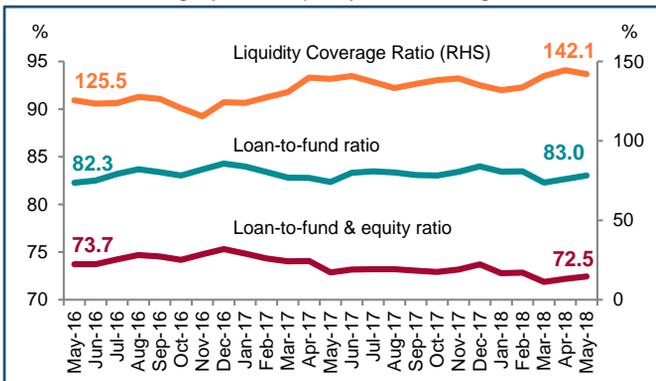


Source: Bank Negara Malaysia, Bursa Malaysia

- In May, the domestic financial markets experienced selling pressure by non-residents due to a confluence of external and domestic factors. The outflows were due mainly to risk-off sentiment in regional markets given expectations of faster-than-expected interest rate increases by the Federal Reserve, stronger US dollar, and continued trade tension. On the domestic front, sentiments remained cautious as investors awaited greater policy clarity post-election.
- As a result, the FBM KLCI declined by 6.9% during the month, weighed by uncertainties which particularly affected the construction sector.
- The 5-year MGS yield increased by 5.8 basis points amid a slight tightening in liquidity as reflected by a widening bid-ask spread to 3.5 basis points (April: 2.8 basis points). Average daily trading volume increased to RM3.1 billion in May (April: RM2.0 billion).
- In the foreign exchange market, the ringgit depreciated by 1.4% against the US dollar, due mainly to net portfolio outflows during the month. The depreciation was, however, in line with regional currencies.

Banks' funding structure supportive of financing activity

Banking System Liquidity and Funding Ratios



- Banks' liquidity and funding positions post-election remained conducive to support financial intermediation.
- The loan-to-fund and the loan-to-fund-and-equity ratios stood at 83.0% and 72.5% respectively.
- Banking system Liquidity Coverage Ratio stood at 142.1%, with all banks recording levels above the transitional¹ minimum regulatory requirement of 90%.

¹ The Basel III LCR has been phased in since June 2015, with initial compliance set at 60% and progressive increments of 10% each year until 100% with effect from 2019. As of 1 January 2018, the minimum requirement is set at 90%.



SIARAN AKHBAR

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MONTHLY HIGHLIGHTS – MAY 2018

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Bank Negara Malaysia 29 June 2018

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