Monetary and Financial Developments

HIGHLIGHTS

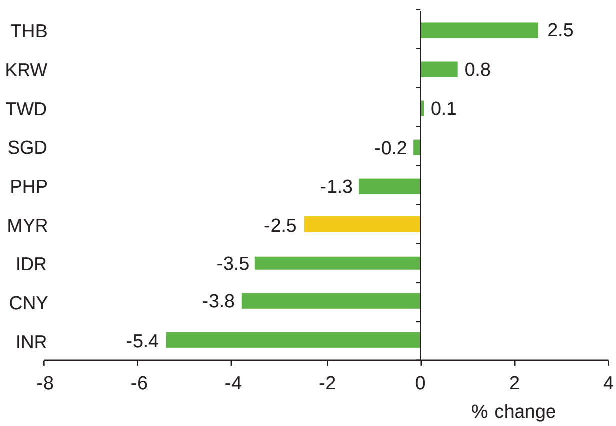
- **The ringgit depreciated along with most regional currencies amid non-resident portfolio outflows and continued strength in the US dollar.**

The ringgit depreciated against the US dollar in the third quarter

In line with most regional currencies, the ringgit depreciated against the US dollar in the third quarter of 2018 as external uncertainties continue to drive non-resident portfolio outflows amid a strengthening US dollar. The continued strength in the US dollar was supported by positive US economic data and outlook. Investor sentiments were also negatively affected by rising trade tensions and concerns over contagion risk from vulnerable emerging market economies. Going forward, the ringgit will continue to be influenced by external uncertainties as well as the trajectory of the US dollar.

Most regional currencies depreciated against the US dollar

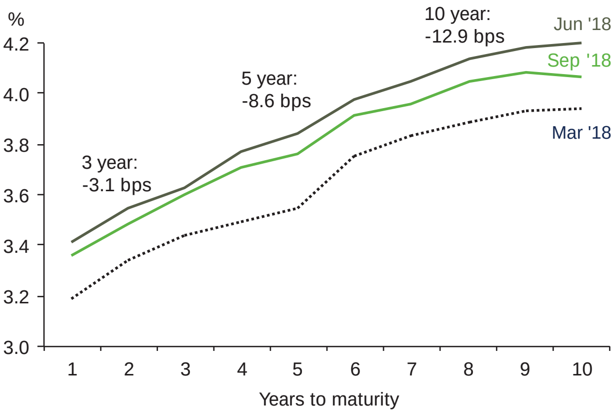
Chart 21: Summary of Performance of Regional Currencies Against the US Dollar (1 July - 28 September 2018)



Source: Bank Negara Malaysia

MGS yield curve shifted downwards during the third quarter

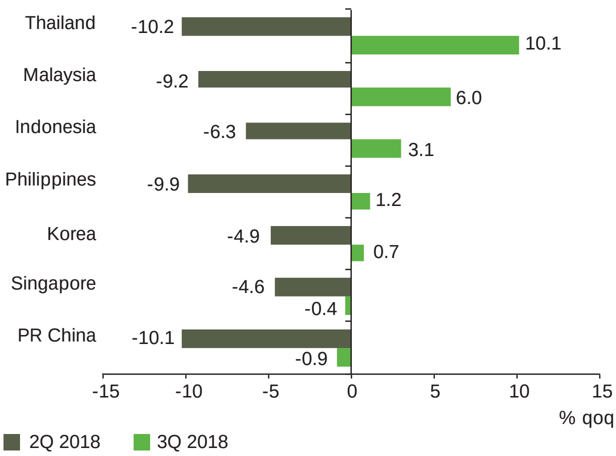
Chart 22: Trend in MGS Yields



Source: Bank Negara Malaysia

Domestic equity market improved during the third quarter

Chart 23: Performance of Regional Equity Markets



Source: Bloomberg

Government bond yields trended lower due to continued demand by domestic institutional investors

Domestic bond yields declined across tenures during the third quarter largely due to sustained demand by domestic institutional investors. This was mainly driven by expectations of supportive economic conditions and greater policy clarity by the Government. In September, however, the trend temporarily reversed, as heightened risk aversion in global financial markets led to further non-resident outflows from regional bond markets, including Malaysia. Total non-resident outflows from the domestic Government bond market during the quarter amounted to RM2.4 billion[5]. Overall, the 3-year, 5-year and 10-year MGS yields declined by 3.1, 8.6 and 12.9 basis points, respectively during the quarter.

FBM KLCI increased in the third quarter driven by positive domestic sentiments

The FBM KLCI recovered strongly in the third quarter, increasing by 6.0% to close at 1,793.2 points as at end-September (end-June 2018: 1,691.5 points). The improved performance during the period was mainly due to active buying from domestic institutional investors, driven by improved clarity on the status of major infrastructure projects, higher crude oil prices and positive earnings results in selected large-cap companies. Externally, however, investor sentiments continued to be affected by lingering downside risks, resulting in non-resident outflows of RM1.7 billion during the period[6].

[5] Source: Bank Negara Malaysia
[6] Source: Bursa Malaysia

Higher real interest rates during the quarter amid lower inflation

Nominal interest rates in the wholesale and retail markets were stable throughout the third quarter. With the 3-month KLIBOR unchanged at 3.69%, interbank rates across other maturities were also broadly stable. In the retail market, both the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans were stable at 3.90% (2Q 2018: 3.89%) and 5.41% (2Q 2018: 5.43%), respectively.

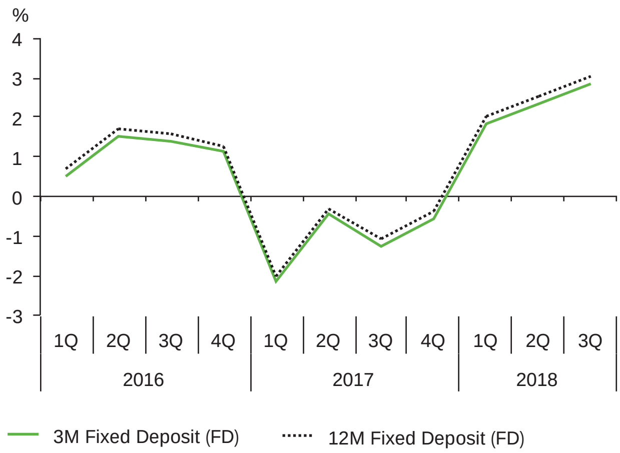
Against moderating inflation, real fixed deposit (FD) rates continued to increase in the third quarter. In particular, the real 12-month FD rate increased to 3.03% from 2.53% in the second quarter.

Liquidity conditions remained sufficient to facilitate financial intermediation

Liquidity conditions In the banking system remained sufficient at both the institutional and system-wide levels. The level of surplus liquidity placed with the Bank remained relatively stable during the quarter, reflecting the moderation of net outflows. At the institutional level, most banks continued to maintain surplus liquidity positions.

Real deposit rates increased, reflecting lower inflation

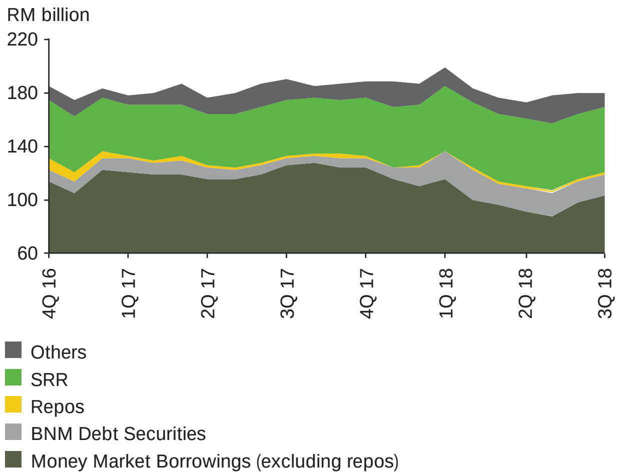
Chart 24: Real Fixed Deposit Rates (by Maturity), as at End-period



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with the Bank remained stable

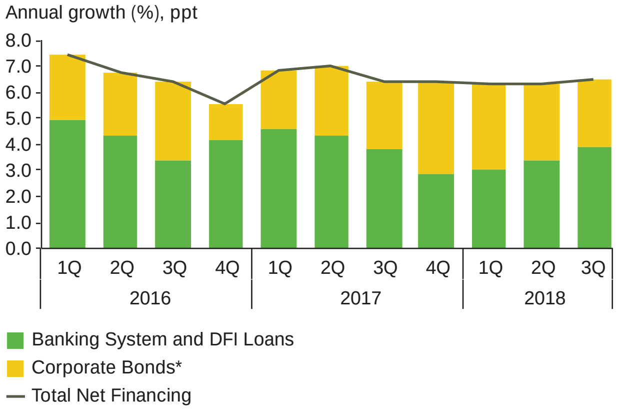
Chart 25: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia, as at End-period



Source: Bank Negara Malaysia

Net financing growth driven by growth of loans and corporate bonds

Chart 26: Contribution to Net Financing Growth



Note: Net financing comprises outstanding banking system and DFI loans, and outstanding corporate bonds
*Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

Net financing increased during the quarter

The annual growth of net financing increased to 6.5% in the third quarter (2Q 2018: 6.3%), mainly reflecting the higher growth in outstanding loans[7] of 5.1% during the quarter (2Q 2018: 4.4%). Net outstanding issuances of corporate bonds[8] continued to expand at a double-digit rate of 10.8% (2Q 2018: 12.4%) despite some moderation due to the high base for the same period in previous year. During the quarter, corporate bonds were mainly issued to finance capital expenditure and operating expenses. Total outstanding business loans increased by 3.6% (2Q 2018: 2.2%), driven mainly by the *construction; wholesale and retail trade, restaurants and hotels;* and *manufacturing* sectors. Despite the lower outstanding loan growth for SMEs of 2.4% (2Q 2018: 4.6%), the amount of loans disbursed to SMEs was higher during the quarter (RM77.2 billion; 2Q 2018: RM73.4 billion). The growth of outstanding household loans increased to 5.5% during the period (2Q 2018: 5.3%), driven partly by higher growth of loans for the *purchase of passenger cars,* amid stronger car sales following the zerorisation of the GST rate.

[7] Loans extended by both banking system and development financial institutions (DFIs).
[8] Corporate bonds exclude issuances by Cagamas and non-residents.