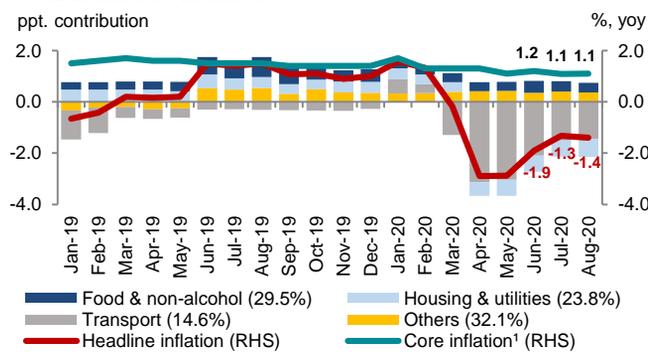


Headline inflation edged downwards to -1.4% in August

Contribution to Inflation



- The slight decline in headline inflation to -1.4% (July: -1.3%) was due mainly to lower fresh meat and fuel inflation during the month.
- Underlying inflation, as measured by core inflation, remained stable at 1.1%.
- The stable core inflation reflected higher prices for food away from home and jewellery, which were offset by lower rental inflation.

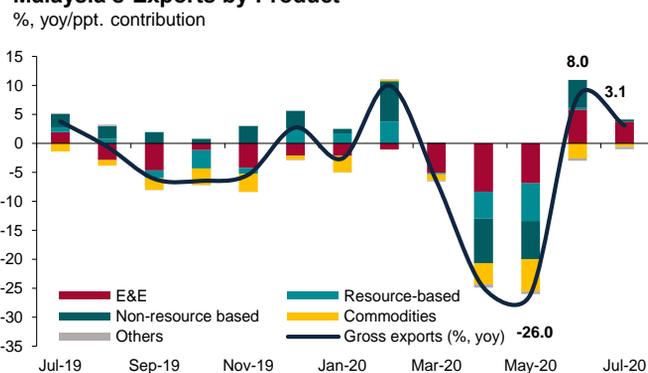
¹ Core inflation is computed by excluding price-volatile and price-administered items.

It also excludes the estimated direct impact of tax policy changes.

Source: Department of Statistics Malaysia (DOSM), Bank Negara Malaysia estimates

Export growth moderated in July

Malaysia's Exports by Product

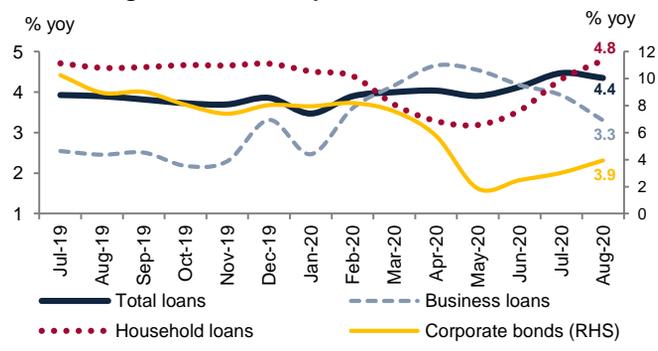


- Exports grew by 3.1% in July (June: 8.0%). The more moderate growth was due to lower non-E&E manufactured exports, particularly products such as machinery, equipment & parts, and optical & scientific equipment.
- Looking ahead, exports are expected to be supported by the improvement in external demand amid the easing of containment measures in most economies.

Source: Department of Statistics, Malaysia (DOSM), MATRADE

Sustained expansion in net financing

Outstanding Loans² and Corporate Bonds



- Net financing expanded by 4.2% in August (July: 4.1%³), supported by both outstanding corporate bonds (August: 3.9%, July: 3.0%³) and loans (August: 4.4%, July: 4.5%)
- Household loan growth increased to 4.8% (July: 4.3%). Disbursements remained steady despite moderating slightly from the high level in July, mainly in loans for the purchase of residential property.
- However, outstanding business loan growth moderated to 3.3% (July: 3.9%) amid lower disbursements for working capital financing.

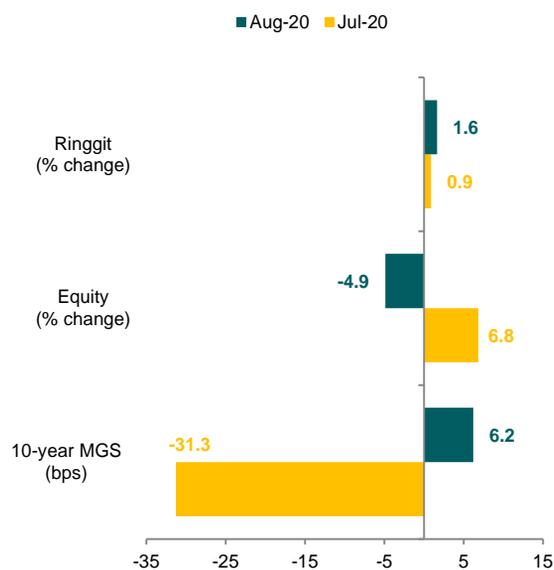
² Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)).

³ Reflects a data revision since the Monthly Highlights for July 2020 was released on 28 August 2020.

Source: Bank Negara Malaysia

Performance of domestic financial markets was mixed

Financial Markets Performance in Aug

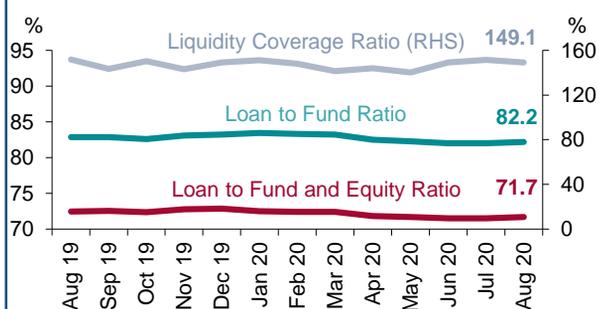


Source: Bank Negara Malaysia, Bursa Malaysia

- The mixed performance of domestic financial markets in August was driven by a confluence of global and domestic factors.
- Globally, investor risk appetite improved following the US Federal Reserve's changes to its longer-run goals and monetary policy strategy. Consequently, this led to non-resident inflows and the ringgit exchange rate to appreciate by 1.6% against the US dollar during the month.
- While the government bond market was supported by these inflows, the 10-year MGS yield increased marginally by 6.2 basis points. This trend was consistent with other longer-end bond yields in regional financial markets, which tracked the steepening of the US yield curve towards the end of the month. This reflected higher long-run inflation expectations following the US Federal Reserve's announcement that it would tolerate higher inflation to make up for periods of inflation undershooting under the new framework of average inflation targeting.
- The FBM KLCI declined by 4.9% during the month following announcements of subdued second quarter corporate earnings in selected heavyweight sectors.

Banking system liquidity remained sufficient to support financial intermediation

Banking System Liquidity and Funding Ratios



- The banking system continues to record a strong Liquidity Coverage Ratio (LCR) with excess liquidity buffers⁴ standing at RM220 billion. Ample liquidity in the banking system is supportive of lending activities and for banks to meet exigent needs.
- Loan-to-fund and the loan-to-fund-and-equity ratios remained stable at 82.2% and 71.7% respectively, on the back of sustained growth in deposits.

⁴ Computed as over and above LCR level of 100%. Beginning 25 March 2020, banking institutions may temporarily operate below minimum requirement of 100%.

Source: Bank Negara Malaysia



SIARAN AKHBAR

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EMBARGO: Not for publication or broadcast before 1500 hours on Wednesday, 30 September 2020

MONTHLY HIGHLIGHTS – AUGUST 2020

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Bank Negara Malaysia 30 September 2020

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