

Monetary and Financial Developments

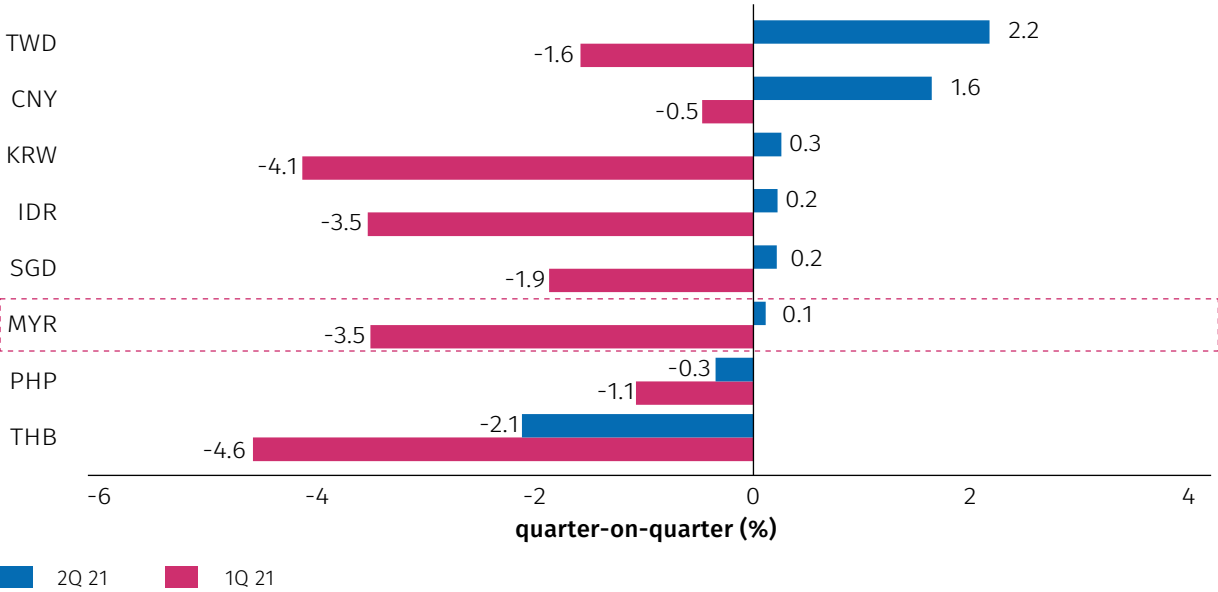
Highlights

- The ringgit appreciated marginally against the US dollar while the equity and bond markets broadly declined.
- Nominal interest rates remained broadly stable during the quarter.
- Net financing continued to expand.

Domestic financial markets were influenced by external and domestic factors

Conditions in the domestic financial markets were affected by both global and domestic developments in the second quarter of 2021. On the external front, the US Treasury yield curve flattened as yields on short-term US Treasuries rose due to increased expectations of earlier-than-expected monetary policy normalisation following the Federal Open Market Committee

C20 Performance of Regional Currencies Against the US Dollar



Source: Bank Negara Malaysia and Reuters

(FOMC) meeting in June. Meanwhile, medium- and long-term yields declined due to continued asset purchases by the US Federal Reserve and corrections from the over-adjustments experienced in the first quarter of 2021 (1Q 2021 change in 10-year US Treasury: yield +82.7 basis points).

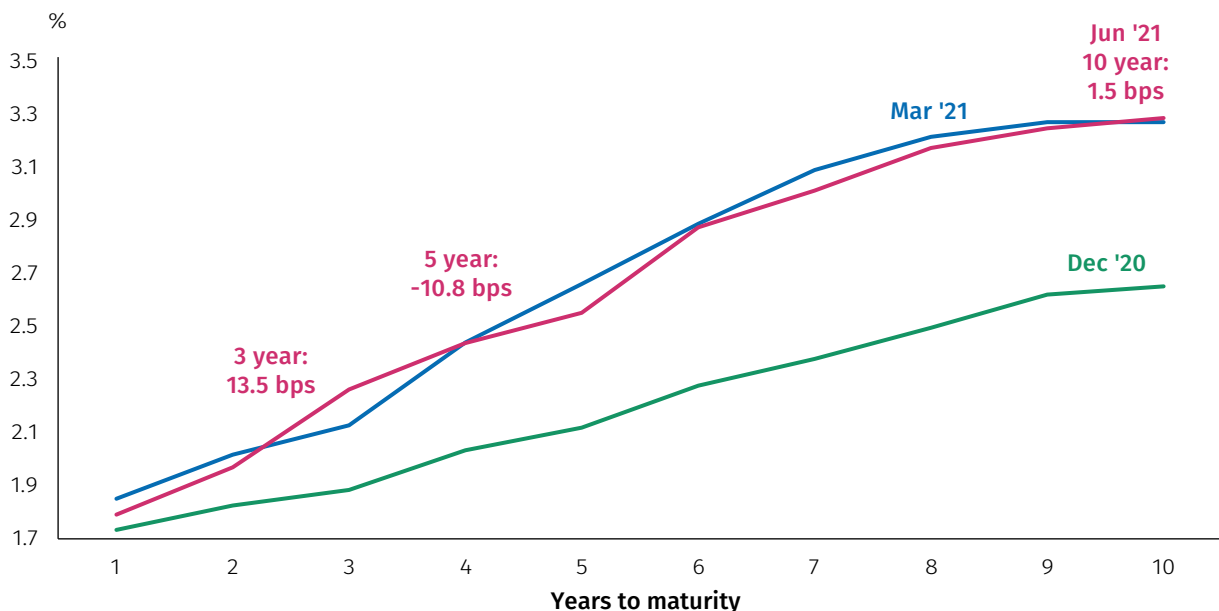
Movements in the domestic bond market followed a broadly similar trend. The 3-year Malaysian Government Securities (MGS) yield increased by 13.5 basis points (3-year US Treasury yield: +11.5 basis points) while the 5-year MGS yield declined by 10.8 basis points (5-year US Treasury yield: -5.0 basis points). Despite the decline in 10-year US Treasury yields by 27.2 basis points, 10-year MGS yields, however, recorded a marginal increase of 1.5 basis points due partly to increased expectations of higher domestic bond issuances following the announcement of additional fiscal support in June 2021.

In the foreign exchange market, the ringgit appreciated marginally against the US dollar

(2Q 2021: +0.1%), in line with most other regional currencies. The US dollar was negatively impacted in the earlier part of the quarter by rising US inflation, as declining real bond yields led investors towards higher yielding assets; while weaker-than-expected economic data, such as unemployment data, drew concerns over the pace of US recovery. However, expectations for a faster pace in monetary policy normalisation following the June FOMC meeting led to a slight rebalancing of investors' portfolios towards US dollar-denominated assets at the end of the quarter.

The domestic equity market declined following concerns over the economic outlook due to the imposition of stricter containment measures amid rising COVID-19 cases. The FBM KLCI declined by 2.6% to close at 1,532.6 points as at end-June 2021 (end-March: 1,573.5 points). The most affected sectors in the domestic equity market were energy (-14.6%), plantations (-8.7%) and construction (-7.3%).

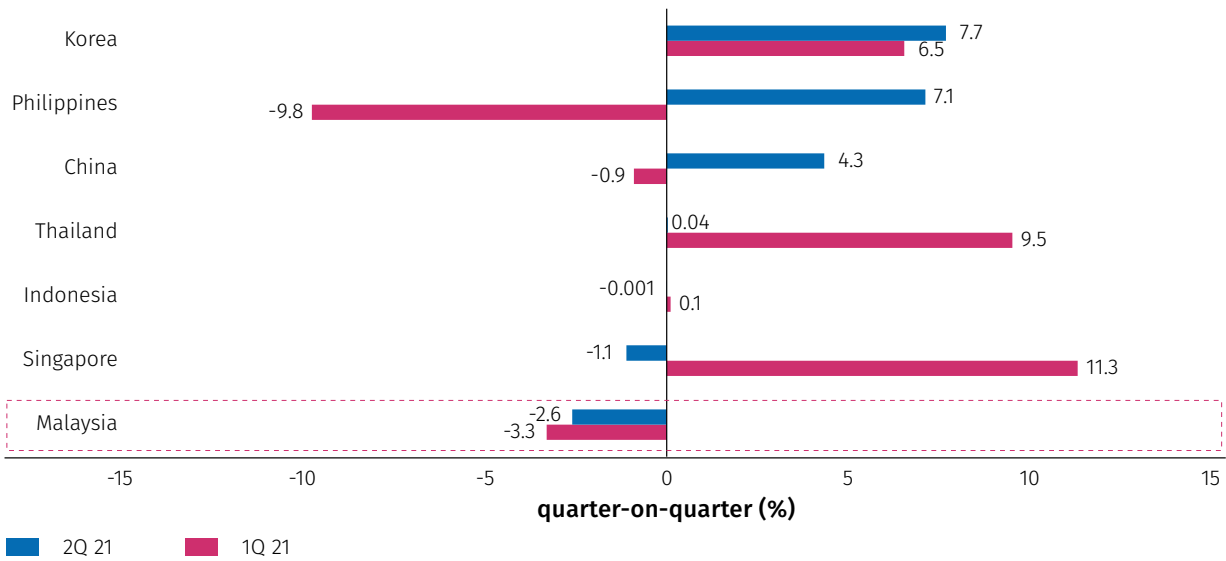
C21 Trend in MGS Yields



Source: Bank Negara Malaysia

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Performance of Regional Equity Markets



Source: Bloomberg

Nominal interest rates remained broadly stable during the quarter

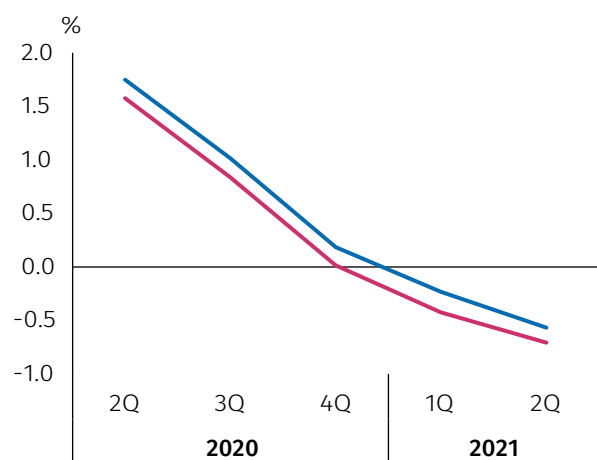
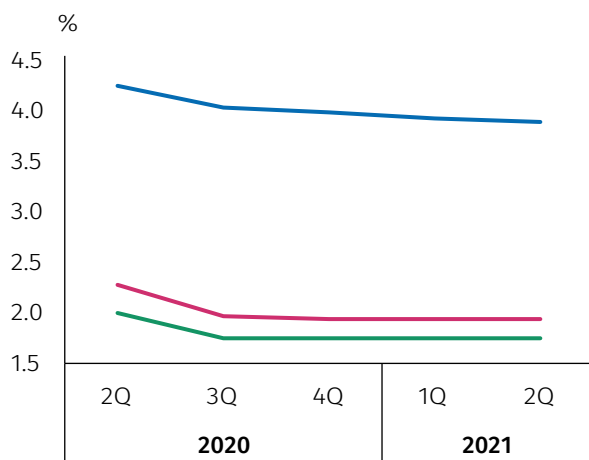
Nominal interest rates in the wholesale and retail markets were stable throughout the quarter. The benchmark 3-month KLIBOR remained unchanged at 1.94% (1Q 2021: 1.94%), while in the retail market, the weighted average base rate (BR) was also unchanged at 2.43% (1Q 2021: 2.43%). More broadly, the weighted average lending rate (ALR) on outstanding loans declined slightly to 3.89%

(1Q 2021: 3.93%), reflecting the reduced usage of revolving credit with higher rates, such as credit cards, amid the slower economic activity in June 2021.

Nominal fixed deposit (FD) rates were also stable during the quarter, across tenures of 1 to 12 months. Real 3-month and 12-month FD rates remained negative given expectations of higher inflation, which was due, in part, to the base effect from the low and negative inflation last year.

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Interest Rates (at end-period)



— Weighted average lending rate (ALR)
 — Overnight Policy Rate (OPR)
 — 3M KLIBOR

— 3M real fixed deposit rate
 — 12M real fixed deposit rate

Source: Bank Negara Malaysia, Bloomberg and Consensus Economics

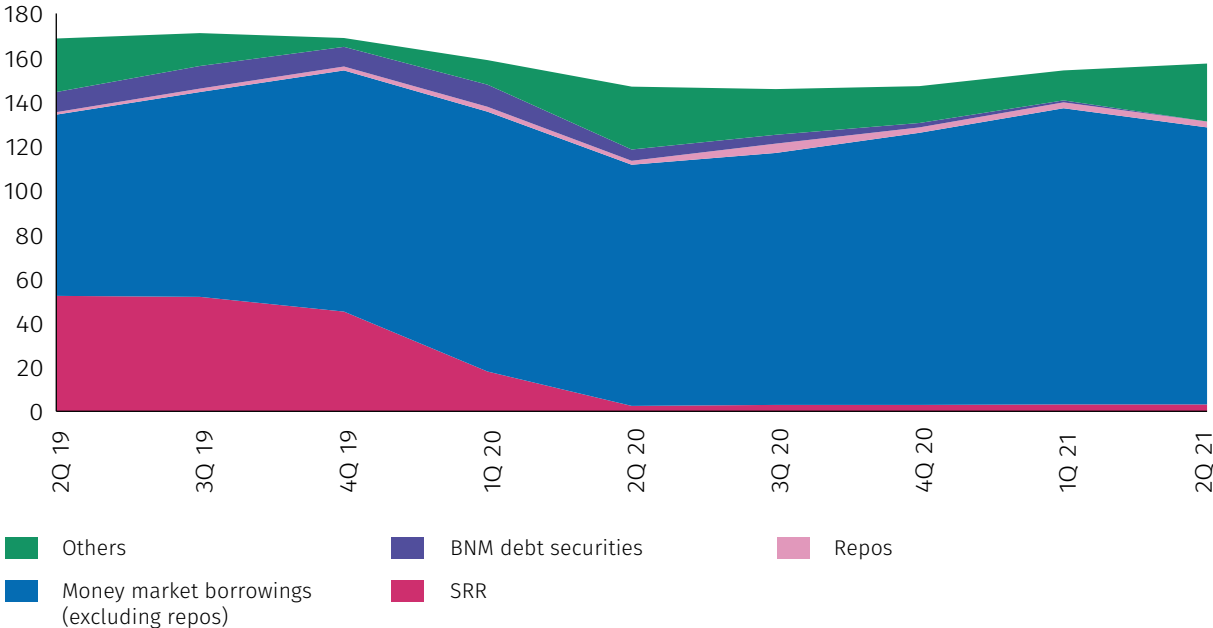
Banking system liquidity remained sufficient to facilitate financial intermediation

Banking system liquidity remained sufficient at both the institutional and system-wide levels to facilitate financial intermediation activity.

The level of surplus liquidity placed with the Bank increased by RM3.0 billion, partly reflecting inflows from government global USD sukuk issuance during the quarter. At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-June 2021.

C24 Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)

RM billion



Source: Bank Negara Malaysia

Net financing continued to expand

As at end-2Q 2021, net financing expanded by 4.4% on an annual basis (1Q 2021: 4.7%). Outstanding loan⁸ growth moderated to 3.6% (1Q 2021: 4.3%), while outstanding corporate bond¹⁰ growth increased to 6.9% (1Q 2021: 5.9%).

Outstanding business loans recorded an annual growth of 1.3% as at end-2Q 2021 (1Q 2021: 1.6%) amid slower outstanding investment-related⁹ loan growth (2Q 2021: 0.4%, 1Q 2021: 1.1%). Meanwhile, outstanding working capital¹⁰ loan growth increased (2Q 2021: 1.6%, 1Q 2021: 1.4%) in line with higher working capital loan disbursements growth (2Q 2021: 31.1%, 1Q 2021: 18.1%) during the quarter. Total business loan disbursements increased from

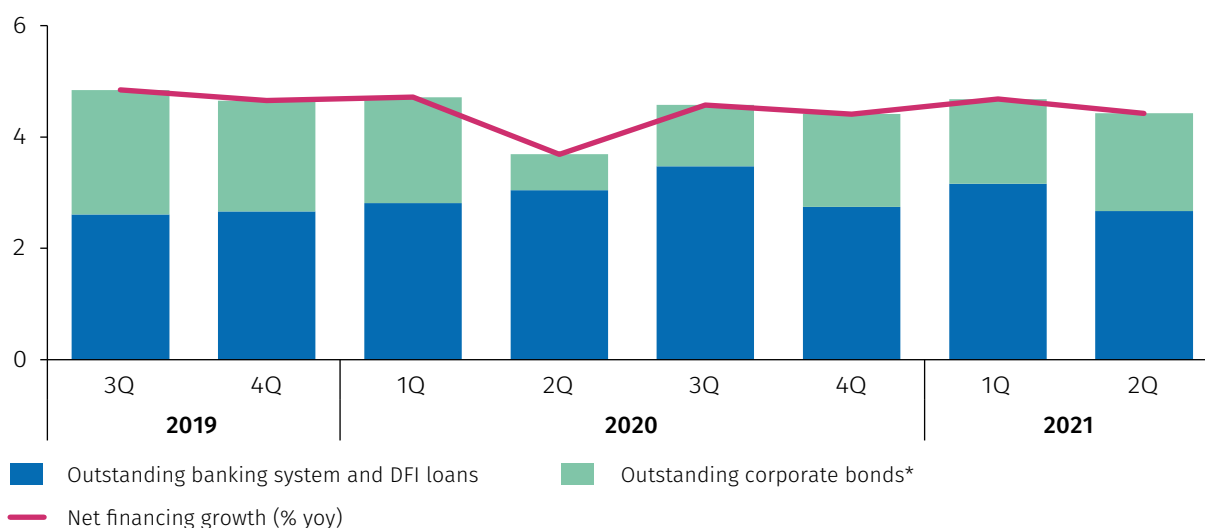
the previous quarter (2Q 2021: RM234.4 bn, 1Q 2021: RM228.1 bn). Demand for business loans also increased but remained below 2017-19 average (RM82.2 bn, 1Q 2021: RM73.5 bn, 2017-19 quarterly average: RM87.8 bn), with the increase coming mainly from the SME segment.

For households, outstanding loan growth moderated to 5.3% (1Q 2021: 6.0%) as repayments growth outpaced that of disbursements. The moderation in outstanding loan growth was observed across most loan purposes, with the exception of loans for the purchase of passenger cars. However, demand for household loans continued to be forthcoming (RM151.8 bn, 1Q 2021: RM139.9 bn; 2017-19 quarterly average: RM119.2 bn), particularly for the purchase of residential property.

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Contribution to Net Financing Growth

Contribution to growth (ppt)



* Excludes issuances by Cagamas and non-residents
Source: Bank Negara Malaysia

⁸ Loans from the banking system and development financial institutions (DFIs).
⁹ Excludes issuances by Cagamas and non-residents.
¹⁰ Classification of business loans by purpose is only available for the banking system.

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