Monetary and Financial Developments

HIGHLIGHTS

- **The ringgit appreciated amidst a resumption in non-resident portfolio inflows following positive global developments.**
- **The recovery in investor sentiments led to improved performance of domestic bond and equity markets.**

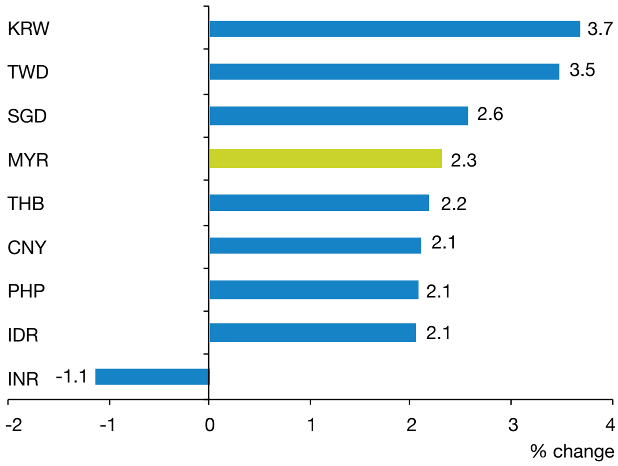
The performance of domestic financial markets improved during the fourth quarter

Conditions in domestic financial markets improved during the quarter contributed mainly by the resumption in non-resident portfolio inflows. This was largely driven by positive developments in global trade negotiations and global monetary policy easing, which led to improved investor sentiments.

While domestic financial markets were affected by intermittent periods of uncertainty on trade tensions during the quarter, investor sentiments were lifted following the announcement of a Phase One trade deal between the US and PR China in December, which was signed on 15 January 2020. Synchronised policy rate cuts by several major central banks during the quarter, including the US, also contributed to the improvement in global investor risk appetite.

Ringgit appreciated against the US dollar in line with most regional currencies

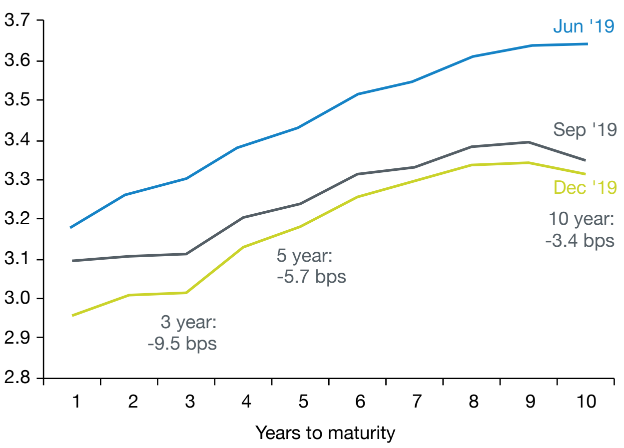
Chart 19: Performance of Regional Currencies Against the US Dollar (1 October - 31 December 2019)



Source: Bank Negara Malaysia

MGS yield curve shifted downwards driven by non-resident portfolio inflows

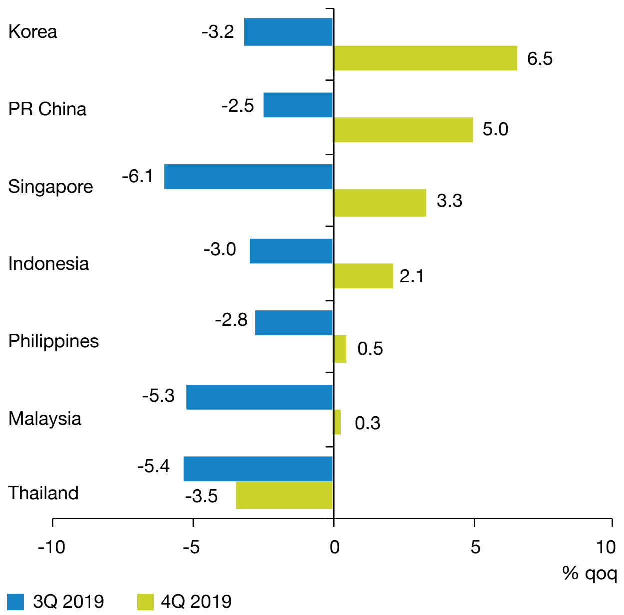
Chart 20: Trend in MGS Yields



Source: Bank Negara Malaysia

Domestic equity market performance improved in line with regional trend

Chart 21: Performance of Regional Equity Markets



Source: Bloomberg

This confluence of risk-on sentiments and lower global interest rates contributed to portfolio inflows to the domestic bond market. As a result, the 3-year, 5-year, and 10-year MGS yields declined by 9.5, 5.7 and 3.4 basis points, respectively.

The domestic equity market also benefitted from the improved investor risk appetite, with the KLCI increasing by 0.3% to close at 1,589 points as at end-December (end-September: 1,584 points).

Consequently, the ringgit also appreciated by 2.3% against the US dollar during the quarter, in line with most regional currencies.

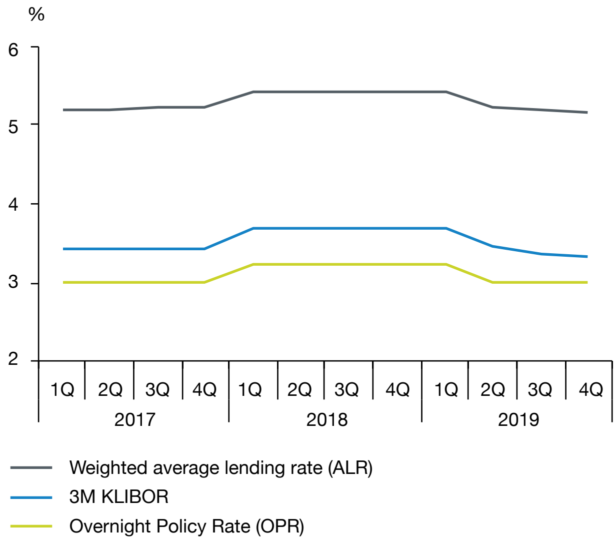
Interest rates remained stable during the quarter

Nominal interbank interest rates were broadly stable in the fourth quarter. The 3-month KLIBOR, however, declined slightly after the announcement of the reduction in the Statutory Reserve Requirement (SRR) ratio in November 2019 and ended the quarter at 3.35% (3Q 2019: 3.38%). In addition, retail lending rates remained stable, with the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans at 3.68% (3Q 2019: 3.68%) and 5.16% (3Q 2019: 5.18%), respectively.

Real fixed deposit (FD) rates increased in the fourth quarter amid lower headline inflation. In particular, the real 3-month and 12-month FD rates increased to 1.90% (3Q 2019: 1.75%) and 2.09% (3Q 2019: 1.99%), respectively.

Broadly stable interest rates in the interbank and retail markets

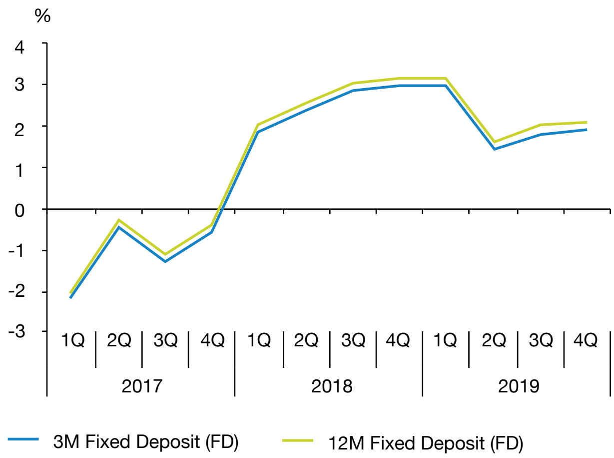
Chart 22: Policy, Interbank and Lending Rates (at end-period)



Source: Bank Negara Malaysia and Bloomberg

Real deposit rates increased, reflecting lower inflation during the quarter

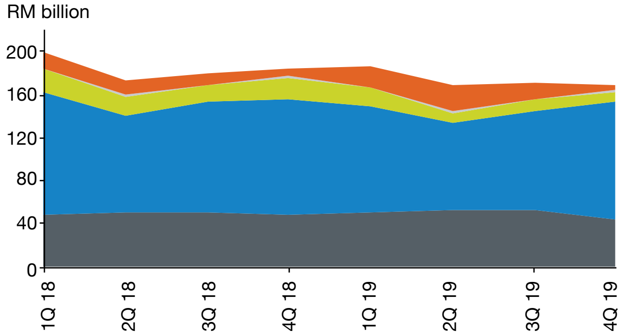
Chart 23: Real Fixed Deposit Rates by Maturity (at end-period)



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with the Bank remained stable

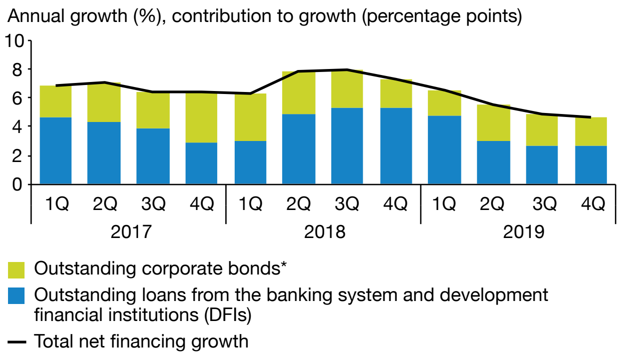
Chart 24: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



Source: Bank Negara Malaysia

Sustained expansion of net financing, supported by sustained growth in loans

Chart 25: Contribution to Net Financing Growth



* Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

Banking system liquidity remained sufficient to facilitate financial intermediation

The level of surplus liquidity placed with the Bank remained relatively stable, reflecting the marginal net inflows during the quarter. At the institutional level, most banks continued to maintain surplus liquidity positions with the Bank.

The reduction in the SRR ratio has led to higher liquidity available to banks, providing greater flexibility for banks in their liquidity management. This was reflected in the higher level of money market placements with the Bank by the end of the fourth quarter.

Sustained expansion of net financing

In the fourth quarter, net financing expanded by 4.7% on an annual basis (3Q 2019: 4.8%), supported by sustained growth in outstanding loans[3] (3Q 2019: 3.5%, 4Q 2019: 3.5%). Nonetheless, growth in outstanding corporate bonds[4] moderated slightly to 8.0% during the quarter (3Q 2019: 9.0%) amid higher redemptions. Corporate bond issuances, however, were higher across most sectors. Growth in outstanding business loans improved to 2.4% (3Q 2019: 1.6%), driven by higher loan growth in the manufacturing sector and improvements across most sectors. For the household segment, growth in outstanding loans was stable at 4.7% during the same period (3Q 2019: 4.6%), with higher loans disbursed for purchase of residential property, credit card and personal use. Demand for both business and household loans, as indicated by loan applications[5], was broadly stable.

[3] Loans from the banking system and development financial institutions (DFIs).
[4] Excludes issuances by Cagamas and non-residents.
[5] Loan applications in the banking system only.