Monetary and Financial Developments

HIGHLIGHTS

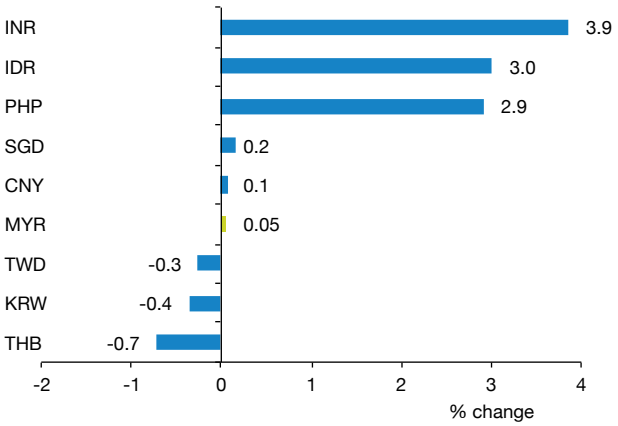
- The ringgit appreciated marginally in the fourth quarter despite non-resident portfolio outflows.

The ringgit appreciated marginally against the US dollar in the fourth quarter

The ringgit appreciated marginally against the US dollar during the fourth quarter of 2018, despite cautious investor sentiments in global financial markets and non-resident portfolio outflows from the domestic bond and equity markets. These outflows were driven mainly by expectations for a faster pace of US monetary policy normalisation, prior to the US Federal Reserve's (Fed) downward revision of its policy rate projection for 2019 in December 2018. In addition, uncertainties surrounding the moderating momentum of global growth and global trade also led to the unwinding of non-resident investments from regional financial markets, including Malaysia. However, these outflows were offset by resident inflows, mainly from goods and services, leading to the marginal appreciation of the ringgit. Going forward, lingering uncertainties on global trade and the trajectory of monetary policy normalisation in the US will continue to influence the performance of regional currencies, including the ringgit.

Ringgit appreciated marginally against the US dollar

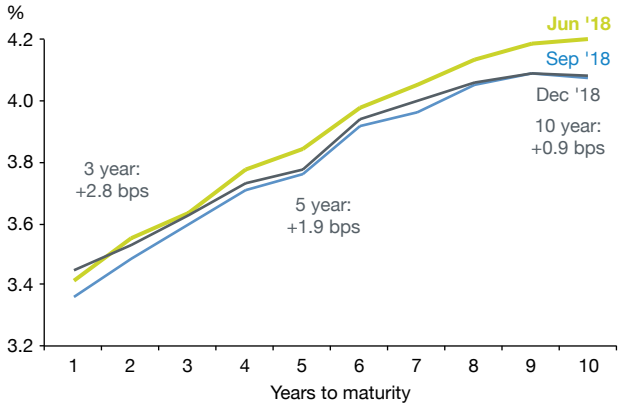
Chart 18: Summary of Performance of Regional Currencies Against the US Dollar (1 October - 31 December 2018)



Source: Bank Negara Malaysia

MGS yield curve remained broadly stable

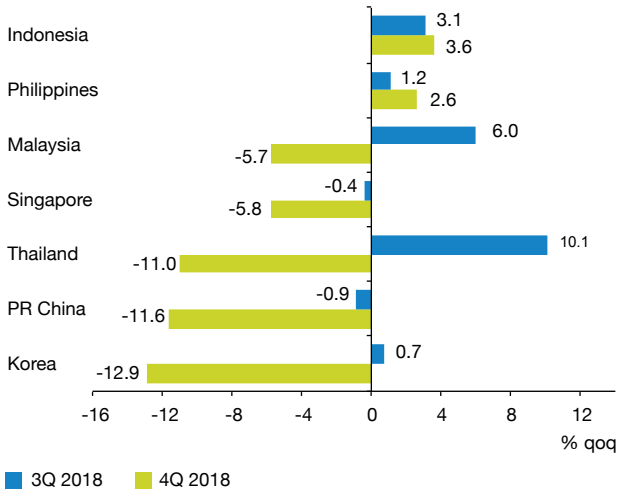
Chart 19: Trend in MGS Yields



Source: Bank Negara Malaysia

Decline in the domestic equity market was in line with the performance of most regional equities

Chart 20: Performance of Regional Equity Markets



Source: Bloomberg

Government bond yields were broadly stable despite non-resident outflows during the fourth quarter

Domestic bond yields increased only marginally during the quarter despite non-resident outflows due to continued support from domestic institutional investors. Non-resident outflows from the MGS market were driven mainly by expectations for a faster pace of US monetary policy normalisation. This led to international investors rebalancing their portfolio investments in EMEs towards US financial assets. During the period, the 3-year, 5-year and 10-year MGS yields increased by 2.8, 1.9 and 0.9 basis points, respectively.

FBM KLCI declined in the fourth quarter due to external uncertainties

The FBM KLCI reversed its gain in the third quarter, declining by 5.7% in the fourth quarter to close at 1,690.6 points as at end-December (end-September 2018: 1793.2 points). During the period, heightened risk-off sentiments in global financial markets were driven by concerns on the pace of monetary policy normalisation in the US, expectations of moderating global growth and lower corporate earnings. This led to the unwinding of non-resident holdings from global equity markets, including Malaysia.

Real interest rates edged upwards amid lower inflation in the fourth quarter

Nominal interest rates in the wholesale and retail markets were stable throughout the fourth quarter of 2018. The benchmark 3-month KLIBOR remained unchanged at 3.69%, while interbank rates across other maturities also remained unchanged. In the retail market, both the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans were stable at 3.91% (3Q 2018: 3.90%) and 5.42% (3Q 2018: 5.43%) respectively.

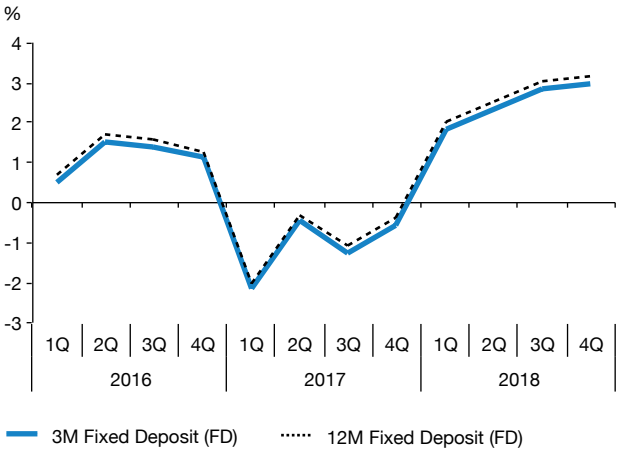
Real fixed deposit (FD) rates continued to increase in the fourth quarter of 2018, albeit at a moderating pace due to the marginally lower headline inflation. In particular, the real 3-month and 12-month FD rate increased by 10 basis points to 2.95% (3Q 2018: 2.85%) and 3.13% (3Q 2018: 3.03%), respectively.

Liquidity conditions remained sufficient to facilitate financial intermediation

In the banking system, liquidity conditions 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 a moderation of net outflows. At the institutional level, most banks continued to maintain surplus liquidity positions.

Real deposit rates increased at a moderating pace

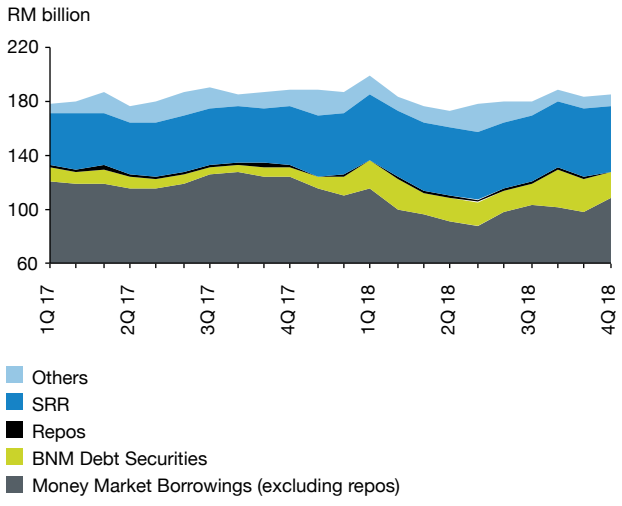
Chart 21: Real Fixed Deposit Rates (by Maturity) as at end-period



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with the Bank remained stable

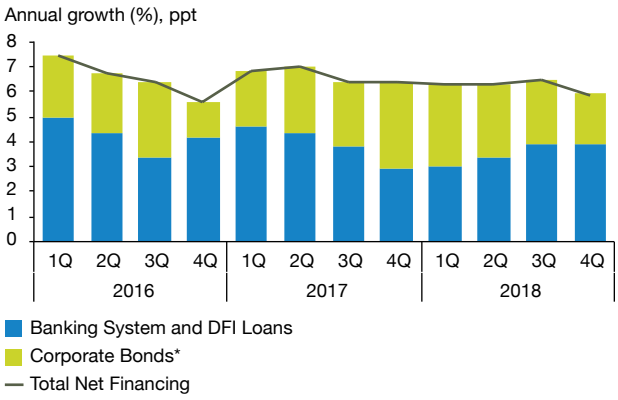
Chart 22: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia as at end-period



Source: Bank Negara Malaysia

Moderation in net financing growth due mainly to lower growth in outstanding corporate bonds

Chart 23: 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 moderated during the quarter

In the fourth quarter, net financing expanded by 5.8% on an annual basis (3Q 2018: 6.5%). The moderation mainly reflected the lower growth in outstanding corporate bonds[4] of 8.0% (3Q 2018: 10.8%), in part due to the high base effect during the same period in 2017. Outstanding loan[5] growth was stable during the quarter at 5.1% (3Q 2018: 5.1%). Outstanding business loans continued increasing steadily to 4.6% (3Q 2018: 3.6%), driven mainly by the higher loan growth for the *wholesale and retail trade, restaurants and hotels; manufacturing;* and *finance, insurance and business services* sectors. Despite a lower growth in outstanding loans for SMEs[6] (4Q 2018: 0.6%; 3Q 2018: 2.4%), the amount of loans disbursed was higher during the quarter (4Q 2018: RM80.8 billion; 3Q 2018: RM77.2 billion). Outstanding household loans during the period grew by 5.2% (3Q 2018: 5.5%), supported mainly by loans for the *purchase of residential properties; purchase of securities;* and *personal use*.

[4] Corporate bonds exclude issuances by Cagamas and non-residents.
[5] Loans extended by the banking system and development financial institutions (DFIs).
[6] Partly reflects an ongoing reclassification exercise of SMEs to non-SMEs by financial institutions.