# Monetary and Financial Developments

## HIGHLIGHTS

- **Ringgit was the best performing currency in the region during the quarter.**
- **The cost of funds raised in the bond market declined amid non-resident inflows and continued support from domestic institutional investors.**
- **Lending rates remained stable during the quarter.**

### The ringgit appreciated the most in the region during the quarter

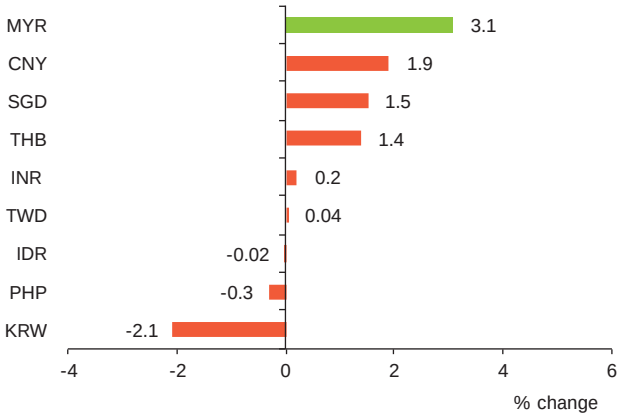
The ringgit and most regional currencies appreciated against the US dollar during the quarter, driven mainly by continued weakness in the US dollar. The weak US dollar was due to policy uncertainties in the US. The ringgit, however, appreciated the most during the quarter amid non-resident inflows into Malaysia's financial markets. This was driven by encouraging domestic macroeconomic conditions, which include the strong GDP growth and exports performance. The positive ringgit sentiments were also supported by the further liberalisation of the bond market and foreign exchange hedging requirements announced by the Financial Markets Committee. Going forward, the ringgit will continue to be driven by a confluence of external and domestic factors. These include the timing and pace of monetary policy normalisation by major central banks, global political development, and domestic economic performance.

### Domestic monetary and financial conditions remained supportive of economic activity

Domestic monetary and financial conditions remained supportive of economic activity during the period. Bond yields declined amid non-resident inflows and ongoing support from domestic institutional investors. Liquidity conditions continued to remain sufficient while stable retail funding costs continued to provide support to private sector financing.

Most Regional Currencies Appreciated Against the US Dollar

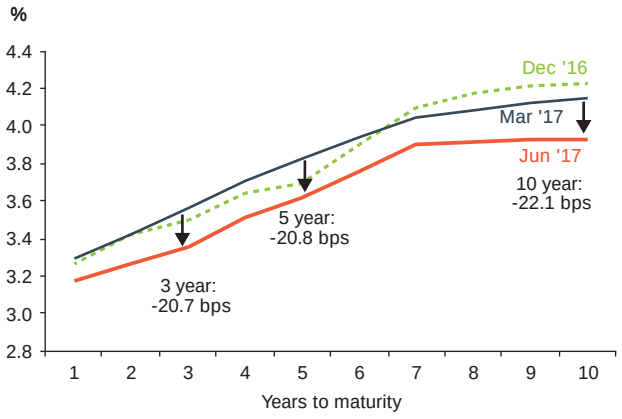
Chart 20: Summary of Performance of Regional Currencies Against USD (1 Apr - 30 June 2017)




Source: Bank Negara Malaysia

Bond Yields Declined During the Second Quarter

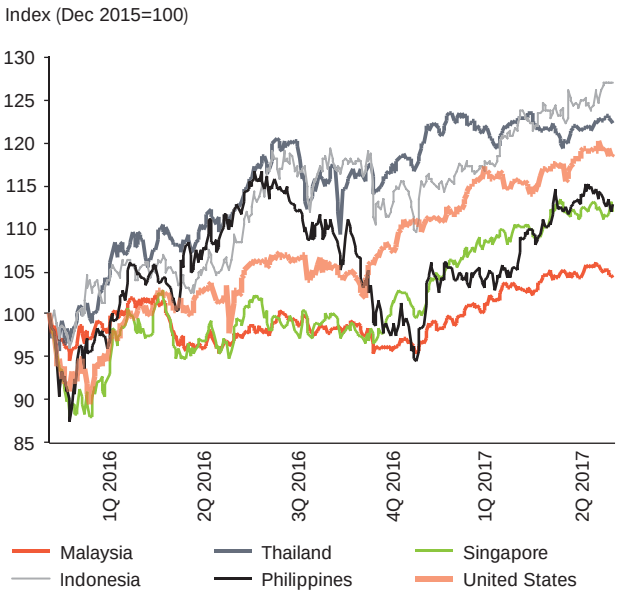
Chart 21: Trend in MGS Yields




Source: Bank Negara Malaysia

Increase in Domestic Equity Market was in line with Global Equity Markets

Chart 22: Regional Equity Indices




Source: Bloomberg

## Bond yields declined amid the resumption of non-resident inflows

Bond yields declined in the second quarter amid the resumption of non-resident inflows into the MGS market amounting to RM13.7 billion. The inflows partly reflected positive developments arising from the further financial market development measures. Continued demand from domestic institutional investors also put further downward pressure on yields. As a result, the 3-year, 5-year and 10-year yields declined by 21, 21 and 22 basis points respectively. Yields in the corporate bond market were also driven down by sustained demand from domestic institutional investors.

## Continued upward momentum in the domestic equity market

During the second quarter, the FBM KLCI increased by 1.4% to close at 1,763.7 points at end-June 2017 (end-March 2017: 1,740.1 points). The domestic equity market continued to be supported by non-resident inflows, albeit at a slower pace compared to the previous quarter. Sentiments in the domestic market were supported by the stronger-than-expected GDP growth in the first quarter of 2017 and an improved ringgit outlook. Towards the end of the quarter, however, sentiments turned cautious amid concerns over stock market overvaluation in the US and a decline in global oil prices.

## Lending rates were stable during the quarter

Both nominal wholesale and retail borrowing costs remained stable throughout the quarter. The 3-month KLIBOR was unchanged at 3.43%. In the retail market, the weighted average base rate (BR) was steady at 3.61% and correspondingly, the weighted average lending rates (ALR) on outstanding loans remained stable throughout the quarter (end-June: 5.20%).

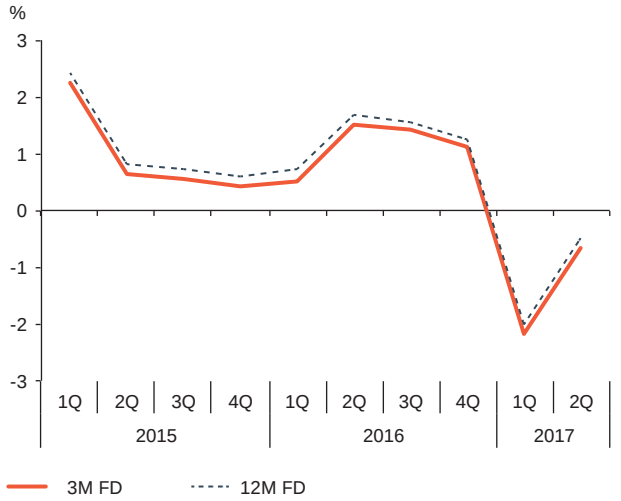
Reflecting the moderation in headline inflation, real fixed deposit (FD) rates have turned less negative in the second quarter. In particular, the real 12-month FD rate increased to -0.50% in June, compared to -2.03% in March. Going forward, given that inflation is projected to moderate further in 2017, real deposit rates are expected to turn positive towards the end of the year.

## Liquidity conditions remained sufficient for 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 BNM moderated slightly, reflecting the lower use of liquidity injection operations amid net inflows during the quarter. At the institutional level, most banks continued to maintain surplus liquidity positions.

### Real Deposit Rates have Turned Less Negative Amid Moderating Inflation

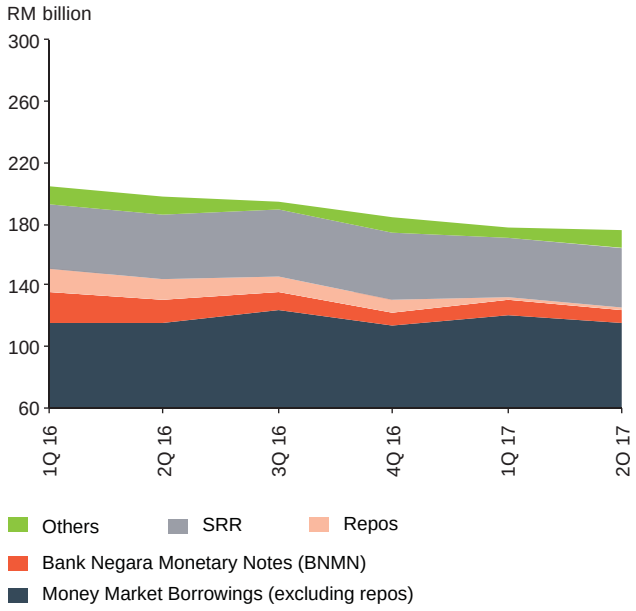
Chart 23: Real FD Rates (by Maturity), as at end-period




Source: Bank Negara Malaysia

### Outstanding Surplus Liquidity Placed with BNM Moderated Slightly

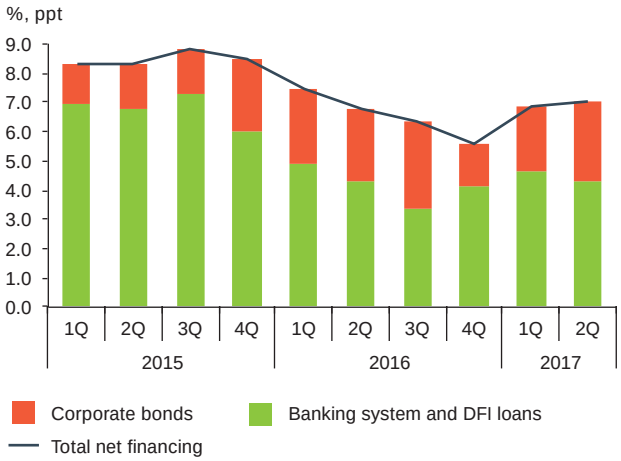
Chart 24: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period, RM billion)




Source: Bank Negara Malaysia

Improvement in Net Financing Growth Driven by Stronger Growth in Outstanding Corporate Bonds

Chart 25: Contribution to Net Financing* Growth




* Net financing is comprised of outstanding banking system and DFI loans and oustanding corporate bonds

Source: Bank Negara Malaysia

## Net financing improved during the quarter

The growth of net financing increased to 7.0% in the second quarter of 2017 (1Q 2017: 6.8%), mainly reflecting the improvement in the growth of net outstanding issuances of corporate bonds (2Q 2017: 11.8%; 1Q 2017: 9.8%) amid a moderation in the growth of loans extended by the banking system and development financial institutions (DFIs) (2Q 2017: 5.6%; 1Q 2017: 6.0%). The growth of outstanding business loans extended by the banking system and DFIs moderated to 6.6% (1Q 2017: 7.1%) during the quarter. Loans to SMEs recorded an annual growth of 7.0% (1Q 2017: 9.3%), with the level of loan disbursed sustained at RM69.3 billion (1Q 2017: RM71.8 billion). The growth of outstanding household loans extended by the banking system and DFIs continued to moderate to 5.1% (1Q 2017: 5.4%), mainly reflecting the moderation in loans for the *purchase of non-residential property; purchase of residential property* and *personal financing*.