Monetary and Financial Developments

HIGHLIGHTS

- The ringgit continued to appreciate during the quarter.
- The performance of domestic financial markets was strong amid non-resident inflows following positive domestic developments.
- Lending rates remained stable and supportive of private sector financing during the quarter.

The ringgit's appreciation continued into the fourth quarter of 2017

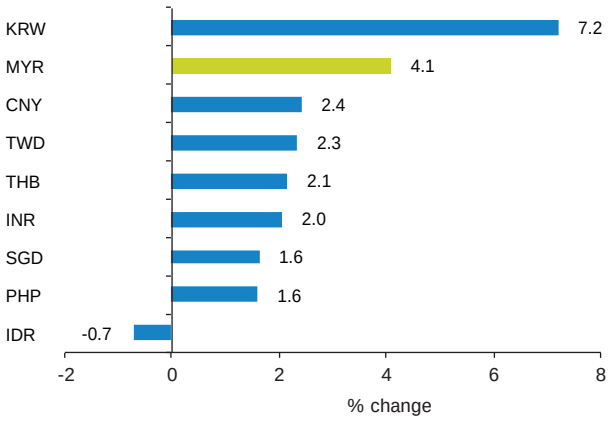
The ringgit continued to appreciate against the US dollar and most regional currencies in the fourth quarter of the year. The ringgit was supported mainly by non-resident portfolio inflows, driven by positive investor sentiments as the Malaysian economy continues to record better-than-expected economic growth, and expectations of monetary policy normalisation by Bank Negara Malaysia. The increased interest in the region's financial assets, including the ringgit, was also supported by subdued US dollar sentiment amid uncertainties over the Federal Reserve longer-term normalisation path. The ringgit ended the year at RM4.0620 against the US dollar. Going forward, however, 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 geopolitical developments, and the 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 quarter. Bond yields declined amid non-resident inflows. Liquidity conditions remained sufficient for continued financial intermediation, while stable retail funding costs continued to provide support to private sector financing.

Most regional currencies appreciated against the US dollar

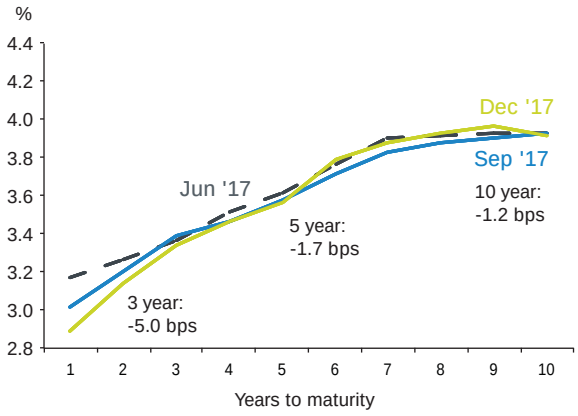
Chart 20: Summary of Performance of Regional Currencies Against the US Dollar (1 Oct - 29 Dec 2017)



Source: Bank Negara Malaysia

MGS yields declined during the fourth quarter

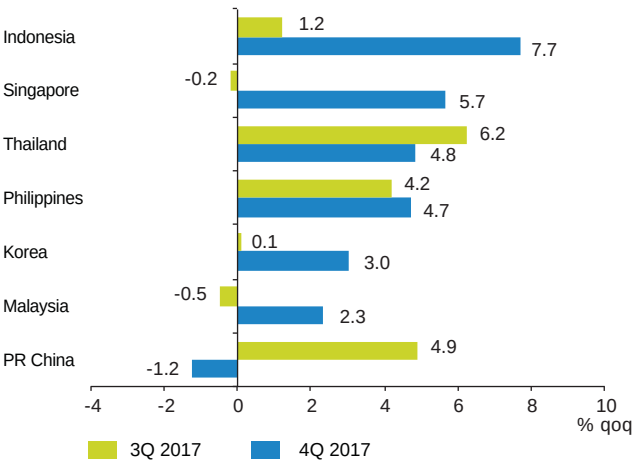
Chart 21: Trend in MGS Yields



Source: Bank Negara Malaysia

Domestic equity market increased during the fourth quarter

Chart 22: Performance of Regional Markets



Source: Bloomberg

Bond yields declined amid non-resident inflows

The bond market experienced some upward pressure in yields earlier in the quarter, due to cautious investor sentiments arising from uncertain external developments. Since November, however, bond yields declined, especially for the medium-tenured papers. This reflected mainly increased demand by non-resident investors following the better-than-expected GDP growth in the third quarter of 2017 and a stronger ringgit. Non-resident investors increased MGS holdings by RM7.7 billion during the quarter. As a result, the 3-year, 5-year and 10-year MGS yields declined by 5.0, 1.7 and 1.2 basis points, respectively.

The domestic equity market recovered firmly amid improved sentiments

During the fourth quarter, the FBM KLCI increased by 2.3% to close at 1,796.8 points as at end-December (end-September 2017: 1,755.6 points), in line with most regional indices. While the domestic equity market declined initially amid uncertainties surrounding policy developments in the US, the index recovered towards the end of the quarter, supported by the resumption of non-resident inflows. Improved investor sentiments were triggered by the upward revisions to Malaysia's growth outlook by the IMF and World Bank, and an improvement in third quarter corporate earnings. Sentiments in the domestic market were further supported by an increase in global oil prices during the quarter.

Interest rates remained stable during the quarter

Both nominal wholesale and retail borrowing costs were broadly stable throughout the quarter. The 3-month KLIBOR was steady at 3.44% (3Q 2017: 3.43%). In the retail market, both the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans were stable at 3.64% (3Q 2017: 3.63%) and 5.22% (3Q 2017: 5.22%), respectively.

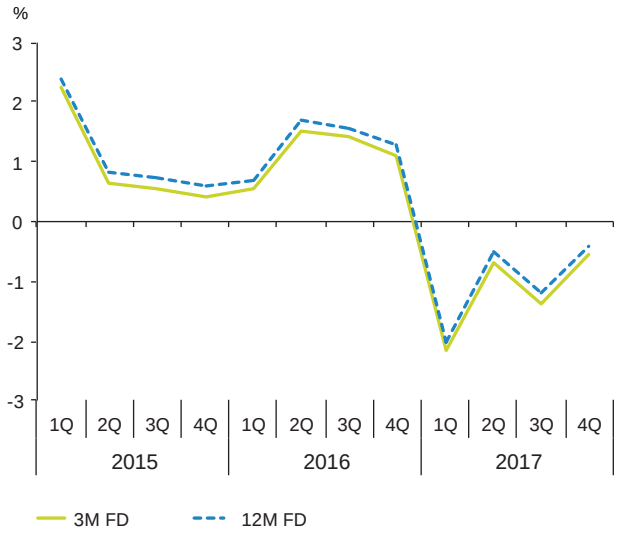
Reflecting the moderation in headline inflation, real fixed deposit (FD) rates turned less negative in the fourth quarter. In particular, the real 12-month FD rate increased to -0.40% compared to -1.20% in September.

Liquidity conditions remained sufficient to facilitate financial intermediation

In the banking system, liquidity conditions remained sufficient at both the institutional and system-wide levels. With the continued resumption of net inflows, the level of surplus liquidity placed with BNM remained relatively stable. At the institutional level, most banks continued to maintain surplus liquidity positions.

Real deposit rates have turned less negative amid moderating inflation

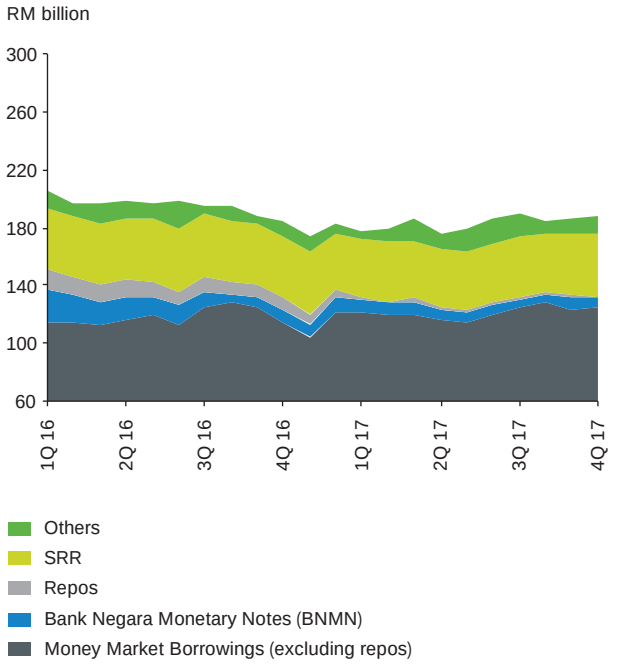
Chart 23: Real FD Rates (by Maturity), as at End-period



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with BNM remained stable during the quarter

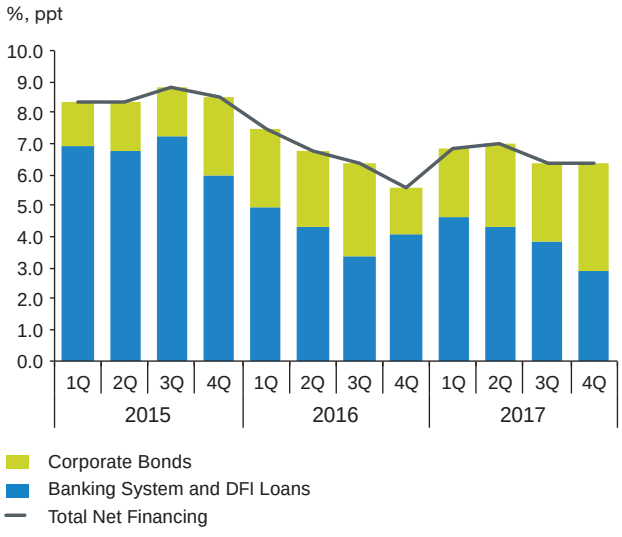
Chart 24: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia, as at End-period



Source: Bank Negara Malaysia

Net financing growth supported by continued growth of corporate bonds

Chart 25: Contribution to Net Financing Growth



* Net financing comprises outstanding banking system and DFI loans, and outstanding corporate bonds

Source: Bank Negara Malaysia

Net financing sustained during the quarter

The growth of net financing sustained at 6.4% in the fourth quarter of 2017 (3Q 2017: 6.4%), reflecting mainly the continued strong double-digit growth in net outstanding issuances of corporate bonds[5] (4Q 2017: 15.4%; 3Q 2017: 10.9%) amid a moderation in the growth of outstanding loans[6] (4Q 2017: 3.8%; 3Q 2017: 5.0%). The lower loan growth was mainly due to the slower growth in outstanding business loans (4Q 2017: 1.3%; 3Q 2017: 5.4%), which was broad-based across most sectors. During the quarter, the growth and level of total business repayments outpaced disbursements, especially for businesses other than SMEs. The increase in repayments was mainly due to scheduled repayments, and higher prepayments amid stronger business earnings. Despite some moderation in loan growth to SMEs (4Q 2017: 5.3%; 3Q 2017: 7.0%), the amount of loans disbursed increased during the quarter (4Q 2017: RM 78.4 billion; 3Q 2017: RM 76.8 billion). Household loans remained stable at 4.9% (3Q 2017: 4.9%). Overall, the growth in financing remained supportive of the expansion of the economy during the quarter.

[5] Corporate bonds exclude issuances by Cagamas, Danaharta, Danamodal and non-residents.
[6] Loans extended by both banking system and development financial institutions (DFIs).