Monetary and Financial Developments

HIGHLIGHTS

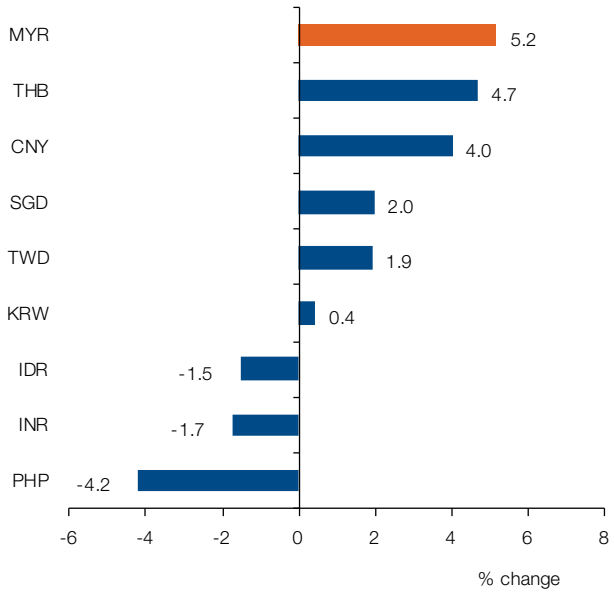
- The ringgit was the best performer in the region during the quarter.
- Despite heightened uncertainties in global financial markets, the performance of domestic financial markets was strong amid non-resident inflows following positive domestic developments.
- Following the OPR increase on 25 January 2018, interest rates in wholesale and retail markets trended higher. The growth of net financing was sustained.

The ringgit outperformed regional currencies in the first quarter of 2018

The ringgit continued to appreciate against the US dollar and regional currencies in the first quarter of the year. The strength of the ringgit was driven mainly by non-resident portfolio inflows as investors viewed adjustment to the degree of monetary accommodation by Bank Negara Malaysia as a sign of a sustained strong growth outlook for the economy. Higher global crude oil prices during the quarter also, to some extent, lent support to the currencies of commodity-exporting countries, including the ringgit. The ringgit and regional currencies experienced higher volatility during the quarter due to uncertainties surrounding the pace of monetary policy normalisation in the US and concerns over rising trade disputes and its repercussions. 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 geopolitical developments, and the domestic economic performance.

Most regional currencies appreciated against the US dollar

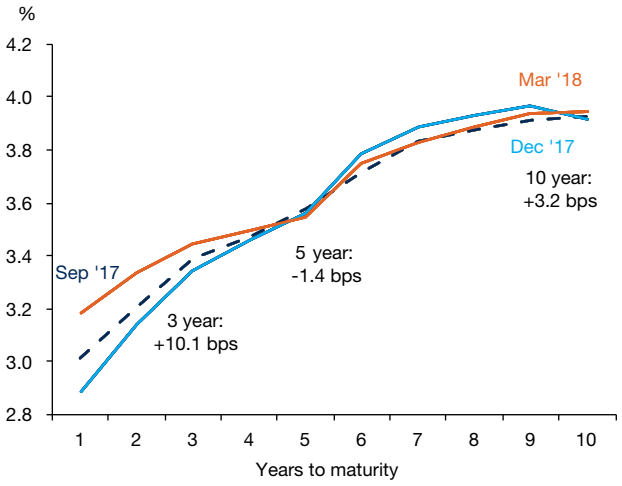
Chart 21: Summary of Performance of Regional Currencies Against the US Dollar (1 January - 30 March 2018)



Source: Bank Negara Malaysia

MGS yield curve flattened during the first quarter

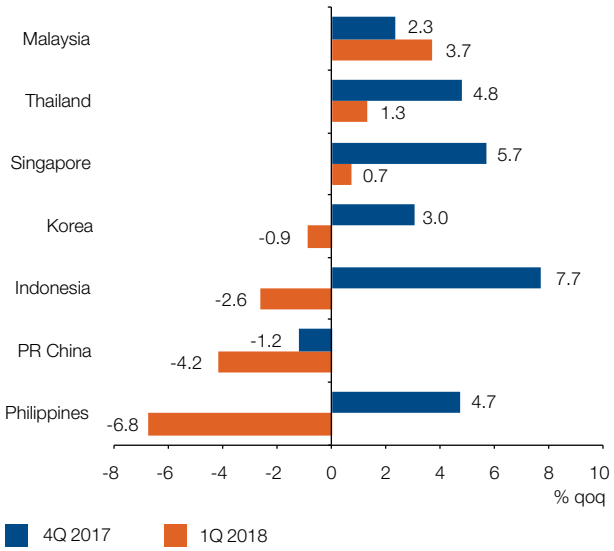
Chart 22: Trend in MGS Yields



Source: Bank Negara Malaysia

Domestic equity market increased during the first quarter

Chart 23: Performance of Regional Markets



Source: Bloomberg and Bank Negara Malaysia calculations

Mixed performance in government bond yields amid volatile global financial markets

At the beginning of the quarter, bond yields trended upward in line with the increase in the OPR and volatile global financial markets amid expectations of a faster pace of monetary policy normalisation by the Federal Reserve. The upward pressure eased in March 2018. Non-resident demand increased as concerns on a faster pace of policy rate increases by the Federal Reserve eased following slower US jobs growth. For the quarter as a whole, the 3-year and 10-year MGS yields increased by 10.1 and 3.2 basis points, respectively, while the 5-year MGS yield declined by 1.4 basis points.

Despite heightened uncertainties in global financial markets, the FBM KLCI increased during the quarter

During the first quarter, the FBM KLCI increased by 3.7% to close at 1,863.5 points as at end-March 2018 (end-December 2017: 1,796.8 points). The domestic equity market experienced strong buying activities from non-resident investors driven mainly by positive sentiments in the domestic market following higher global crude oil prices and stronger ringgit performance. Sentiments in the domestic market were further supported by the release of better-than-expected Malaysian 4Q 2017 GDP growth. The gains, however, were partially offset following heightened volatility in the US equity market amid uncertainties surrounding the pace of US policy normalisation and concerns over trade disputes.

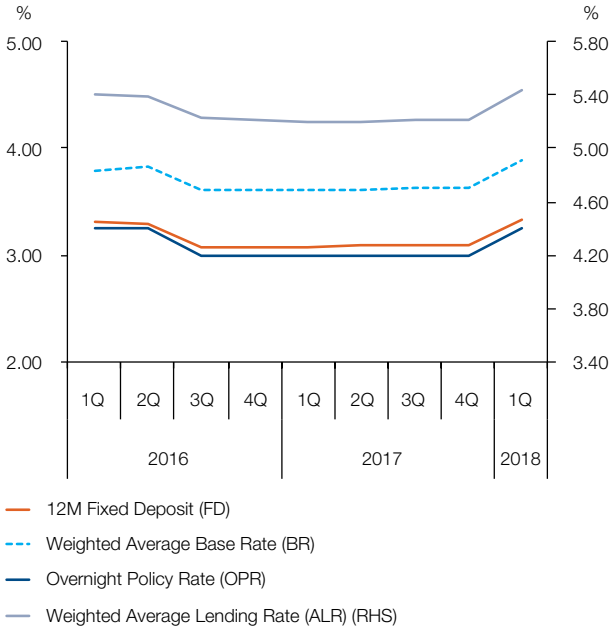
Interest rates increased during the quarter due to the increase in the OPR

Following the OPR increase on 25 January 2018, interest rates in wholesale and retail markets trended higher. In the interbank market, strong and immediate pass-through was observed, with the 3-month KLIBOR increasing by 25 basis points to 3.69% (4Q 2017: 3.44%). Similarly, nominal fixed deposit (FD) rates also increased following the OPR adjustment. The increase ranged from 21 basis points to 23 basis points across tenures of 1 to 12 months. Correspondingly, real FD rates turned positive given the increase in nominal rates and lower inflation during the quarter.

For the retail segment, the transmission of OPR to base rate (BR) was strong, with most banks revising their BRs upwards by 25 basis points to reach the current weighted average of 3.89% (4Q 2017: 3.64%). By end-quarter, the weighted average lending rate (ALR) on outstanding loans was also higher by 22 bps to 5.43% (4Q 2017: 5.22%).

Interest rates increased following the increase in the OPR

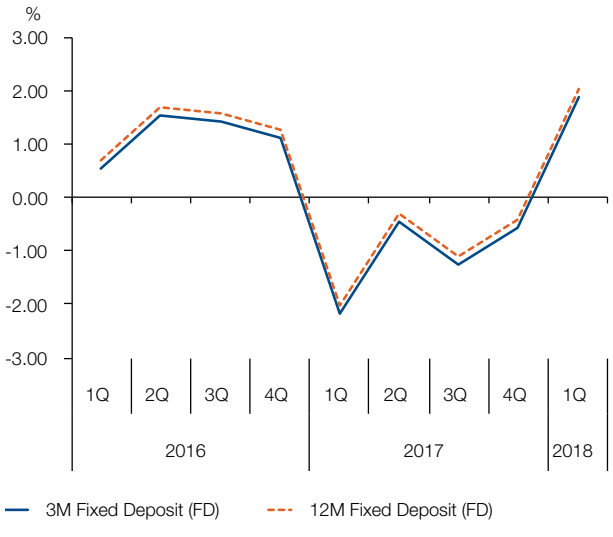
Chart 24: Fixed Deposit Rate, Base Rate and Average Lending Rate, as at End-period



Source: Bank Negara Malaysia

Real deposit rates turned positive, reflecting the higher OPR and lower inflation

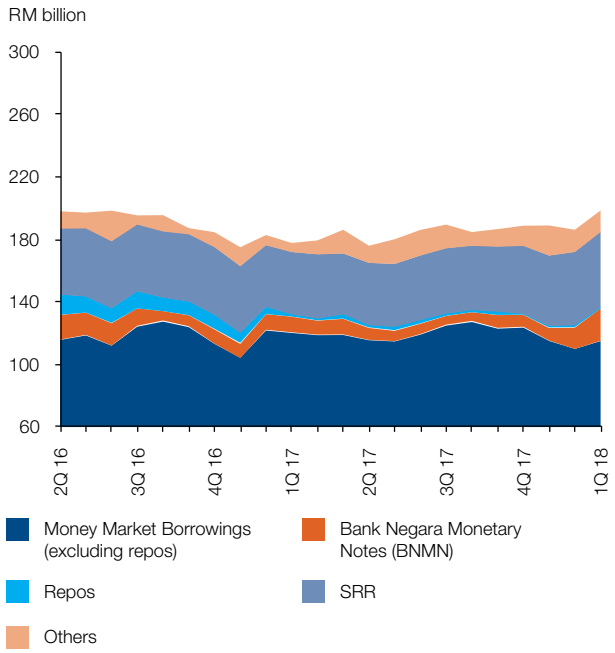
Chart 25: Real Fixed Deposit Rates (by Maturity), as at End-period



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with Bank Negara Malaysia increased during the quarter

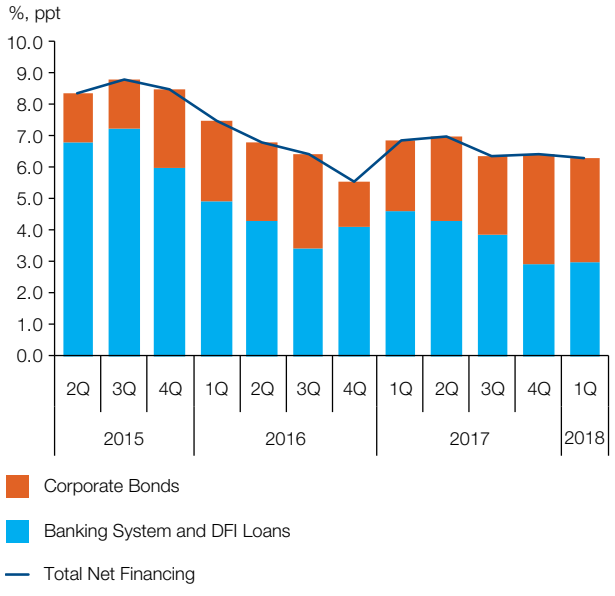
Chart 26: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia, as at End-period



Source: Bank Negara Malaysia

Net financing growth supported by growth of loans and corporate bonds

Chart 27: Contribution to Net Financing Growth



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

Source: Bank Negara Malaysia

Liquidity conditions remained sufficient to facilitate financial intermediation

In the banking system, liquidity conditions remained sufficient at both the institutional and system-wide levels. Reflecting the overall net capital inflows during the quarter, the level of surplus liquidity placed with the Bank also increased. At the institutional level, most banks continued to maintain surplus liquidity positions.

Net financing sustained during the quarter

The growth of net financing was sustained at 6.3% in the first quarter of 2018 (4Q 2017: 6.4%), reflecting the steady growth of outstanding loans[7] (1Q 2018: 3.9%; 4Q 2017: 3.8%). The growth of net outstanding issuances of corporate bonds[8] continued at a double-digit rate during the quarter of 14.2% (4Q 2017: 15.4%). The growth of outstanding business loans was stable at 1.3% (4Q 2017: 1.3%), mainly supported by the *real estate; construction;* and *finance, insurance and business services* sectors. During the quarter, the growth and level of total business disbursements were higher relative to repayments, especially for businesses other than SMEs, reversing the trend from the previous quarter. Loan growth to SMEs moderated to 5.1% (4Q 2017: 5.3%) and the amount of loans disbursed sustained during the quarter (1Q 2018: RM75.9 billion; 4Q 2017: RM 78.4 billion). The growth of household loans increased to 5.2% during the period (4Q 2017: 4.9%), mainly driven by loans for the *purchase of residential properties* and *securities.*

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