MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.25% during the first quarter of 2016. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate was relatively stable, trading within a range of 3.01% and 3.24% during the quarter. Interbank rates of longer maturities remained elevated in January, reflecting continued competition for stable funding and the uneven distribution of liquidity among banks. The reduction in the Statutory Reserve Requirement (SRR) effective 1 February 2016 resulted in a broad-based release of liquidity into the banking system. Following this, higher interbank lending activity was observed, which improved the distribution of liquidity in the banking system and alleviated pressure on the Kuala Lumpur Interbank Offered Rates (KLIBOR). For the quarter as a whole, the 3-month KLIBOR decreased from 3.84% to 3.71%. Interest rate swaps continued to trend lower during the quarter, reflecting the lower Malaysian Government Securities (MGS) yields.

Throughout the quarter, the average base rate (BR) of commercial banks increased marginally from 3.86% to 3.89%, reflecting the earlier increase in the KLIBOR towards the end of 2015.

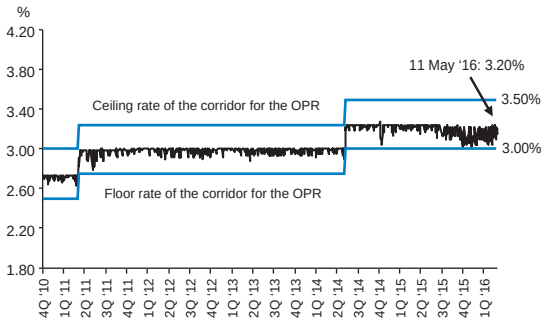
During the quarter as a whole, the weighted average lending rate (ALR) on outstanding loans remained stable (end-March: 5.41%; end-December 2015: 5.40%).

Interest Rates

	2015		2016
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.25	3.25	3.25
Interbank rates			
Overnight	3.24	3.05	3.04
1-month	3.28	3.45	3.25
Base lending rate (BLR)			
Commercial banks	6.79	6.79	6.80
Base rate (BR)			
Commercial banks	3.90	3.86	3.89
Weighted average lending rate			
Commercial banks	5.48	5.40	5.41
Fixed deposit rates			
Commercial banks			
1-month	3.08	3.08	3.08
12-month	3.31	3.31	3.31

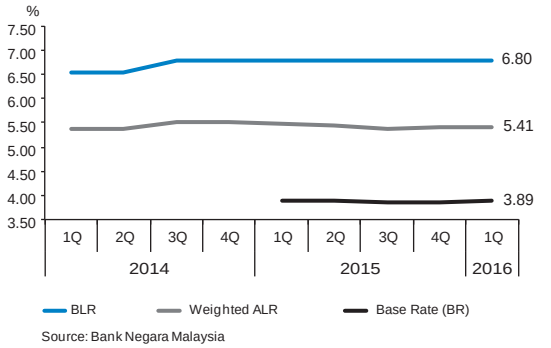
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



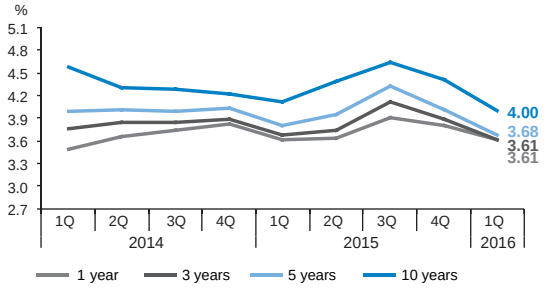
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



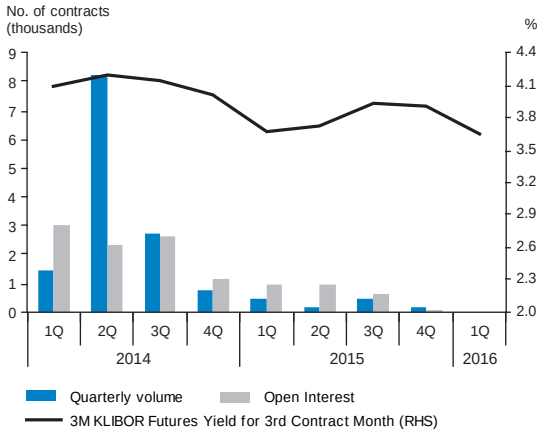
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



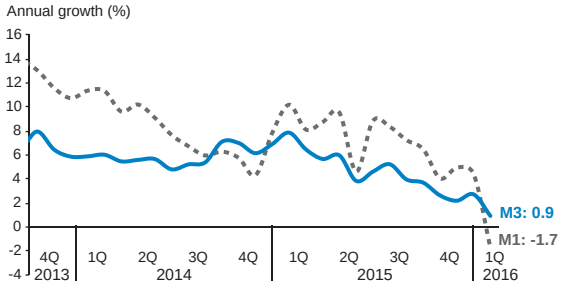
Source: Bloomberg

3 Month KLIBOR Futures



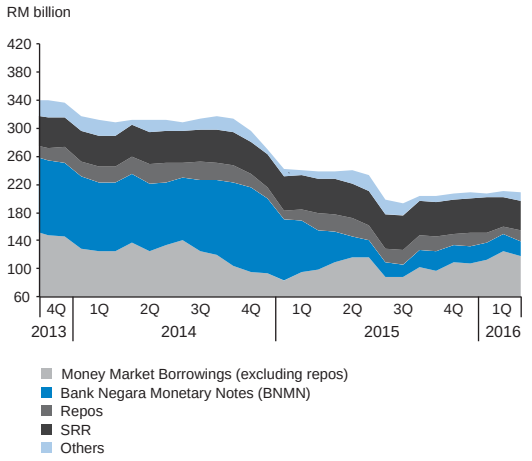
Source: Bursa Malaysia

Monetary Aggregates



Source: Bank Negara Malaysia

Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Source: Bank Negara Malaysia

M3 expanded during the quarter

M1, or narrow money, decreased by RM6.3 billion during the quarter. On an annual basis, M1 contracted by -1.7% at end-March (end-December 2015: 4.1%). The contraction in M1 mainly reflected the drawdown of demand deposits for a large one-off loan repayment by domestic businesses. M3, or broad money, increased by RM9.8 billion on a quarter-on-quarter basis to record an annual growth rate of 0.9% as at end-March (end-December 2015: 2.6%).

The slower increase in M3 during the quarter mainly reflected the moderation in credit extended to the private sector by the banking system. On an annual basis, the moderation in broad money growth also reflected the lower net foreign assets due to external sector outflows.

In the banking system, liquidity conditions remained ample at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was relatively stable during the quarter. The reduction in the statutory reserve requirement (SRR) ratio from 4.00% to 3.50% which took effect from 1 February 2016 resulted in a broad-based release of liquidity into the banking system. Following this, greater interbank lending activity was observed and this partially relieved the demand for BNM's reverse repo operations.

Determinants of Broad Money, M3

	Change during the period			
	2015			2016
	1Q	4Q	Year	1Q
	RM billion			
M3	**35.9**	**12.1**	**40.8**	**9.8**
Net claims on Government	-4.6	5.2	-8.8	-1.0
Claims on private sector	28.3	31.6	120.1	11.0
Loans	*25.2*	*25.7*	*106.1*	*10.6*
Securities	*3.1*	*5.9*	*14.0*	*0.3*
Net foreign assets[1]	-3.4	13.5	-35.6	11.2
BNM	*-26.6*	*8.6*	*-56.3*	*3.0*
Banking System	*23.2*	*5.0*	*20.7*	*8.2*
Other influences	15.6	-38.2	-35.0	-11.4

[1] Pre-revaluation
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

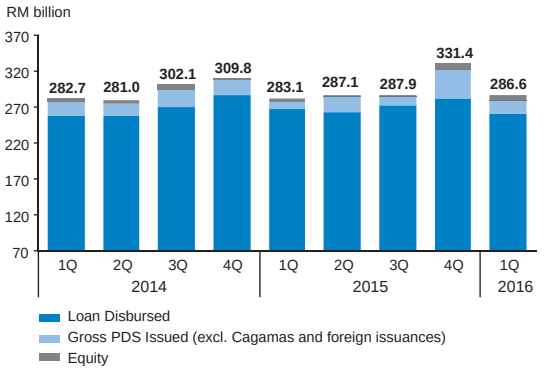
Private sector financing moderated in the first quarter

In the first quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM286.6 billion (4Q 2015: RM331.4 billion). On a net basis, outstanding banking system loans and PDS expanded by 7.6% as at end-March (end-December 2015: 8.6%).

Net lending to businesses by the banking system was lower by RM3.6 billion during the quarter (4Q 2015: RM4.9 billion). On an annual basis, outstanding business loans also grew at a slower pace of 5.2% as at end-March (end-December 2015: 8.0%) due to the stronger growth in loan repayments relative to disbursements. The level of loans disbursed to overall businesses grew by 1.1% on an annual basis to RM191 billion during the quarter (1Q 2015: RM189 billion). Nevertheless, loans disbursed to large corporations increased to RM130 billion (1Q 2015: RM123 billion).

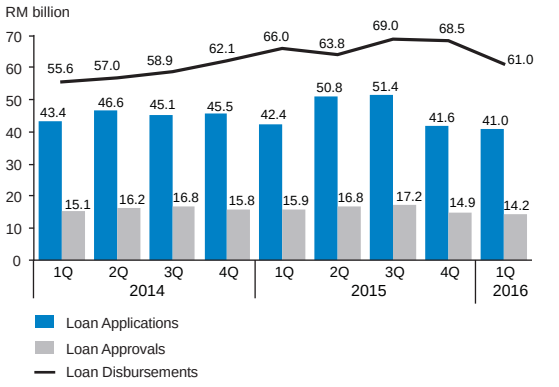
Net financing to the household sector expanded by RM7.1 billion during the quarter (4Q 2015: RM16.9 billion). On an annual basis, outstanding household loans growth moderated to 6.4% as at end-March (end-December 2015: 7.7%), reflecting mainly the moderation in loans for the *purchase of securities, purchase of non-residential property and credit card spending*.

Gross Private Sector Financing through the Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)			
	2015			2016	2015			2016
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Gross total financing	**283.1**	**331.4**	**1,189.5**	**286.6**	**0.2**	**6.9**	**1.2**	**1.2**
Loans disbursed	267.4	283.3	1,088.1	262.0	3.5	-1.5	1.3	-2.0
Gross PDS[1]	11.0	40.6	83.5	17.9	-45.2	91.4	1.1	63.0
Equity	4.7	7.5	17.9	6.7	11.3	681.5	-6.5	42.8
Net total financing (A)+(B)	**26.0**	**53.3**	**152.8**	**11.3**	**8.3**	**8.6**	**8.6**	**7.6**
Banking system	23.7	24.0	113.4	5.6	9.2	7.9	7.9	6.5
*Loans outstanding (A)**	*22.2*	*21.1*	*105.4*	*4.3*	*9.2*	*7.9*	*7.9*	*6.4*
Holding of PDS	*1.5*	*2.9*	*8.0*	*1.3*	*8.2*	*8.0*	*8.0*	*7.7*
PDS outstanding (B)	3.8	32.2	47.4	7.0	5.4	10.7	10.7	11.4
Memorandum item								
Gross PDS[2]	11.4	40.6	85.6	40.6	-44.3	87.9	0.2	60.5

* Banking systems loans include loans sold to Cagamas
[1] Excluding Cagamas and foreign issuances
[2] Including Cagamas and foreign issuances
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2015			2016	2015			2016
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	178.5	215.6	827.2	187.7	-3.9	2.6	0.6	5.1
Loan approvals	94.0	100.2	393.2	76.7	3.1	-5.8	-2.0	-18.4
Loan disbursements	267.4	283.3	1,088.1	262.0	3.5	-1.5	1.3	-2.0
Loan repayments	255.6	266.9	1,021.1	264.7	4.0	3.2	2.5	3.6
Change in loans outstanding*	22.2	21.1	105.4	4.3	9.2	7.9	7.9	6.4
Of which:								
Business enterprises[1,2]								
Loan applications	78.4	107.6	396.8	87.8	-9.1	7.2	2.7	11.9
Loan approvals	39.9	49.0	179.9	35.7	14.5	6.2	12.4	-10.4
Loan disbursements	189.0	206.5	787.2	191.0	2.7	-1.6	2.2	1.1
Loan repayments	187.8	201.1	757.5	194.9	4.6	4.6	3.0	3.8
Change in loans outstanding*	9.8	4.9	39.6	-3.6	8.9	8.0	8.0	5.2
SMEs[1]								
Loan applications	42.4	41.6	186.2	41.0	-2.4	-8.6	3.0	-3.3
Loan approvals	15.9	14.9	64.8	14.2	5.5	-5.6	1.6	-10.9
Loan disbursements	66.0	68.5	267.4	61.0	18.9	10.2	14.4	-7.6
Loan repayments	60.3	66.4	254.1	60.8	14.4	15.4	14.2	0.8
Change in loans outstanding*	14.5	5.7	33.8	2.4	17.2	15.0	15.0	9.0
Large corporations[2]								
Loan applications	36.1	66.0	210.6	46.8	-15.8	20.3	2.5	29.8
Loan approvals	24.0	34.1	115.0	21.6	21.3	12.3	19.6	-10.0
Loan disbursements	123.0	138.1	519.9	130.0	-4.2	-6.6	-3.1	5.7
Loan repayments	127.5	134.7	503.4	134.1	0.6	-0.1	-1.9	5.2
Change in loans outstanding*	-4.7	-0.8	5.8	-6.0	2.3	2.2	2.2	1.7
Households								
Loan applications	100.1	108.0	430.4	99.9	0.7	-1.5	-1.3	-0.2
Loan approvals	54.1	51.2	213.4	41.0	-3.9	-15.0	-11.6	-24.3
Loan disbursements	78.4	76.8	300.9	70.9	5.4	-1.3	-0.9	-9.6
Loan repayments	67.8	65.8	263.7	69.8	2.2	-0.6	1.0	3.0
Change in loans outstanding*	16.3	16.9	59.0	7.1	9.8	7.7	7.7	6.4

* The annual growth is for end-period.
[1] Include loans to individual businesses.
[2] Include domestic financial institutions, government, domestic other entities and foreign entities, except for loan outstanding which refers to businesses only.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period (RM billion)				Share of total (%)	Share of total (%)
	1Q 2015	4Q 2015	2015	1Q 2016		
Business enterprises[1,*]	**189.0**	**206.5**	**787.2**	**191.0**	**72.9**	**42.9**
Large corporations[1]	*123.0*	*138.1*	*519.9*	*130.0*	*49.6*	*24.8*
*SMEs**	*66.0*	*68.5*	*267.4*	*61.0*	*23.3*	*18.1*
Selected sectors[1]						
Agriculture, hunting, forestry and fishing	8.8	10.2	39.9	11.2	4.3	2.5
Mining and quarrying	7.0	5.9	20.4	1.8	0.7	0.9
Manufacturing	50.4	53.4	209.9	48.9	18.7	6.9
Construction	17.4	16.7	65.1	16.9	6.4	4.4
Real estate	13.3	13.3	53.3	12.6	4.8	7.0
Electricity, gas and water supply	1.8	2.7	8.9	2.3	0.9	0.6
Wholesale and retail trade, restaurants and hotels	47.0	52.7	199.4	47.4	18.1	7.4
Transport, storage and communication	6.1	4.0	22.5	5.4	2.1	2.3
Finance, insurance and business services	24.9	31.6	104.1	28.3	10.8	6.9
Households	**78.4**	**76.8**	**300.9**	**70.9**	**27.1**	**57.1**
Purchase of residential properties	21.0	21.7	84.7	20.1	7.7	28.9
Consumption credit	44.4	44.9	172.5	41.1	15.7	16.8
Of which:						
Credit cards	*26.3*	*27.2*	*102.4*	*26.0*	*9.9*	*2.4*
Purchase of passenger cars	*10.8*	*10.1*	*40.4*	*8.5*	*3.3*	*10.0*
Others	13.0	10.1	43.7	9.7	3.7	11.5
Total	**267.4**	**283.3**	**1,088.1**	**262.0**	**100.0**	**100.0**

* Include loans to individual businesses.
[1] Include domestic financial institutions, government, domestic other entities and foreign entities.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Lower net funds raised in the capital market

Net funds raised in the capital market moderated to RM25.4 billion in the first quarter of 2016 (4Q 2015: RM51.4 billion). While fundraising activity was mainly supported by higher public sector issuances, the increase was mostly offset by lower private sector financing in both the debt and equity markets.

In the public sector, net funds raised by the public sector increased to RM18.7 billion during the first quarter (4Q 2015: RM13.5 billion). Gross issuances were higher at RM25.7 billion (4Q 2015: RM21.7 billion), with funds mainly raised through new issuances of 5-year, 7-year and 10-year Malaysian Government Investment Issue (MGII), as well as the re-opening of a 3-year and 15-year Malaysian Government Security (MGS) and 20-year MGII. Government debt redemptions were also lower at RM7.0 billion (4Q 2015: RM8.2 billion) during the period, contributing further to the increase of net funds raised by the public sector.

In the private sector, net financing in the capital market moderated largely due to lower gross issuances and higher redemptions in the private debt securities (PDS) market. Following the significantly larger PDS issuances in the previous quarter, gross funds raised in the PDS market were lower in the first quarter of 2016, amounting to RM18.4 billion (4Q 2015: RM40.6 billion). Funds raised in the PDS market were primarily from the *Finance, Insurance, Real Estate and Business Services* sector and were mainly used for the purpose of working capital.

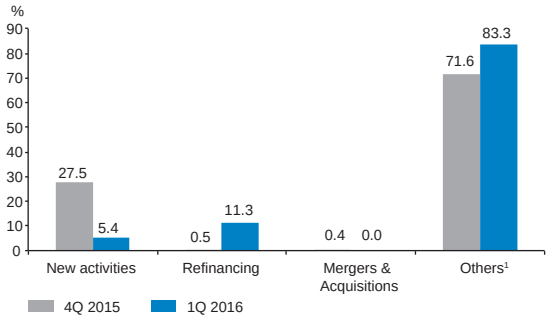
Net Funds Raised in the Capital Market

	2015			2016
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	**13.2**	**13.5**	**46.8**	**18.7**
Government securities, Gross	27.0	21.7	100.4	25.7
Malaysian Government Securities	13.5	10.9	51.3	12.1
Government Investment Issues	9.5	10.9	41.1	13.6
Sukuk Pinjaman Perumahan Kerajaan	4.0	-	8.0	-
Less: Redemptions	13.8	8.2	53.6	7.0
Malaysian Government Securities	11.8	8.2	41.1	-
Government Investment Issues	2.0	-	12.5	7.0
Sukuk Pinjaman Perumahan Kerajaan	-	-	-	-
By Private Sector	**8.3**	**37.9**	**62.8**	**6.7**
Shares	4.7	7.5	17.9	1.1
Private Debt Securities, Net	3.6	30.5	44.9	5.6
Private Debt Securities, Gross	*11.4*	*40.6*	*85.6*	*18.4*
Less: Redemptions	*7.8*	*10.1*	*40.8*	*12.7*
Total	**21.5**	**51.4**	**109.6**	**25.4**

Note: Numbers may not add up to total due to rounding

Source: Bank Negara Malaysia and Bursa Malaysia

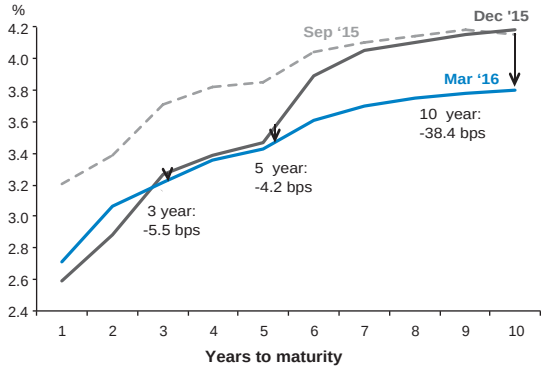
Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance for the purpose of working capital and general business activities as well as issuance by non-residents and Cagamas

Source: Bank Negara Malaysia

Trend in MGS Yields

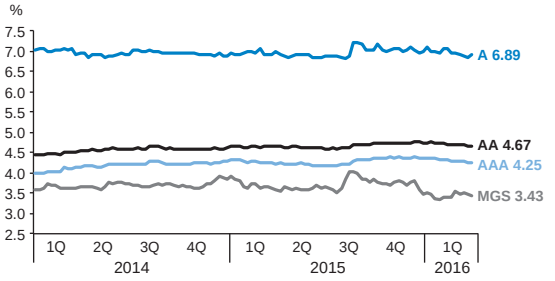


Source: Bank Negara Malaysia

Bond yields declined, especially at the longer end of the yield curve

MGS yields continued to decline in the first quarter of 2016, reflecting sustained non-resident demand for Malaysian sovereign bonds. Non-resident investors increased MGS holdings by RM9.4 billion during the quarter, of which RM5.7 billion was allocated towards papers with tenures longer than 5 years. As a result, yields on the 3-year, 5-year and 10-year declined by 5.5, 4.2 and 38.4 basis points, respectively. In the PDS market, yields remained stable on account of sustained demand by domestic investors.

5 year MGS and 5 year PDS Yields

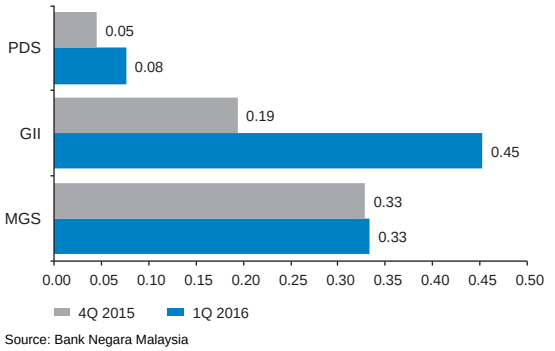


Source: Bank Negara Malaysia

Higher trading in the bond market

Total trading in the secondary market was higher at RM254.1 billion during the quarter (4Q 2015: RM173.9 billion) reflecting more active trading activity between non-residents and financial institutions. In particular, trading liquidity in the MGII market more than doubled to 0.45 (4Q 2015: 0.19), reflecting stronger investor demand for the new issuances during the quarter. The liquidity ratios in the MGS and PDS markets were, however, relatively unchanged at 0.33 and 0.08, respectively (4Q 2015: 0.33, 0.05).

Liquidity Ratio: Value of Bonds Traded / Outstanding



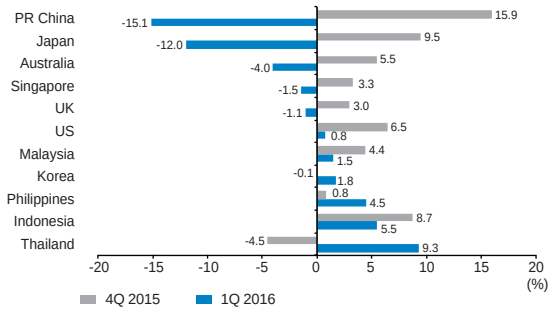
Source: Bank Negara Malaysia

Further increase in FBM KLCI

During the first quarter of 2016, the FBM (FTSE Bursa Malaysia) KLCI increased by 1.5% to close at 1,717.6 points at end-March (end-December 2015: 1,692.5 points).

The increase was in line with trends observed in regional equity markets amid increased risk appetite among global investors for emerging market financial assets. The improvement in global investor sentiments was attributable to expectations of a slower pace of interest rate normalisation in the US and the recovery in Brent crude oil prices. The announcement of the 2016 Budget Recalibration and positive domestic economic data also provided support to the domestic stock market during the quarter.

Performance of Selected Global and Regional Equity Markets in 2016 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Consequently, non-resident inflows into the domestic equity market amounted to RM5.5 billion during the quarter.

Overall, market capitalisation was sustained at RM1.71 trillion as at end-March 2016 (end-December 2015: RM1.70 trillion) while the daily average turnover moderated to 1.88 billion units (4Q 2015: 2.23 billion units) during the quarter.

On 11 May 2016, the KLCI ended lower at 1644.6 points (since end-March 2016: -4.3%), with a market capitalisation of RM1.65 trillion (since end-March 2016: -3.1%).

Bursa Malaysia: Selected Market Indicators

	2015			2016
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,830.8	1,692.5	1,692.5	1,717.6
FBMEMAS[1]	12,563.4	11,793.7	11,793.7	11,920.8
ACE Market[2]	7,120.2	6,389.2	6,389.2	5,637.0
Market capitalisation (RM billion)	1,737.5	1,695.2	1,695.2	1,707.4
No. of companies listed	903	903	903	904
	During the period			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	2,107.4	2,234.0	2,038.3	1,875.8
Value (RM million)	2,177.4	2,149.7	2,082.2	2,052.2

[1] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[2] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2015						2016	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	124.3	128.5	138.5	133.3	501.4	512.2	112.5	124.1
Of which:								
Main Board	75.8	117.7	82.5	121.4	299.1	464.6	76.3	117.0
Of which								
Consumer Products	7.4	6.4	7.0	6.8	26.9	25.6	8.8	7.3
Industrial Products	12.8	11.1	19.1	21.8	59.0	60.0	14.6	19.3
Construction	3.7	5.9	3.9	4.6	16.5	22.9	4.1	5.3
Trading/Services	32.7	55.4	32.4	51.3	124.7	204.3	30.7	48.0
Finance	3.5	21.3	2.9	17.7	12.8	79.6	3.1	20.1
Properties	5.4	4.8	7.5	5.0	23.7	18.9	6.4	3.4
Plantations	1.0	3.5	1.7	5.0	5.0	15.6	1.6	5.9
Infrastructure	1.0	4.4	1.0	4.3	4.2	18.8	0.8	3.2
ACE Market[1]	41.2	8.7	36.7	8.3	139.2	32.2	20.5	4.1

[1] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

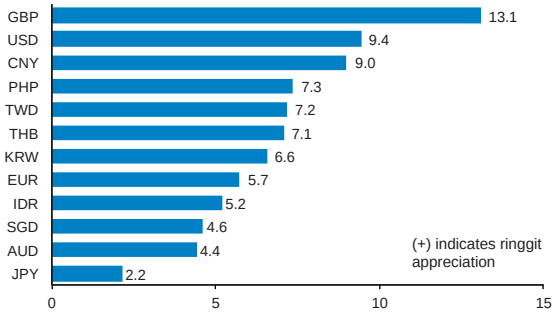
Ringgit strength driven by both domestic and external factors

The ringgit and other regional currencies appreciated against the US dollar during the quarter, due to weaker-than-expected economic performance in the US, resulting in expectations of a slower pace of interest rate normalisation by the Federal Reserve. The ringgit, however, appreciated significantly more compared to other major and regional currencies. This is attributable to the release of positive domestic economic data, the recovery of Brent crude oil prices and the 2016 Budget Recalibration announcement. These factors lifted investor sentiments on the Malaysian economy and led to increased demand for ringgit financial assets.

Overall, the ringgit appreciated by 9.4% against the US dollar during the quarter. The ringgit also appreciated against the pound sterling (13.1%), the euro (5.7%), the Australian dollar (4.4%), and the Japanese yen (2.2%). Against all regional currencies, the ringgit also appreciated by between 4.6% and 9.0%.

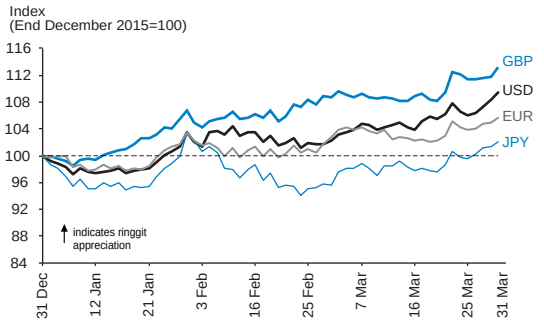
Between 1 April and 11 May 2016, the ringgit depreciated against the US dollar (-3.3%). The ringgit also depreciated against the euro (-3.9%), the pound sterling (-4.0%), and the Japanese yen (-6.4%). The ringgit, however, appreciated against the Australian dollar (0.7%). The ringgit depreciated against regional currencies.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 January - 31 March 2016)



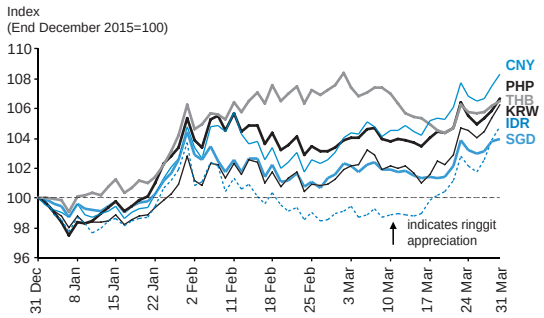
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end			% change since*	
	1Q 2015	4Q 2015	1Q 2016	1Q 2015	4Q 2015
US dollar	3.7165	4.2920	3.9220	-5.2	9.4
Euro	4.0153	4.6918	4.4377	-9.5	5.7
Pound sterling	5.4935	6.3607	5.6234	-2.3	13.1
Australian dollar	2.8329	3.1338	3.0009	-5.6	4.4
100 Japanese yen	3.0903	3.5645	3.4892	-11.4	2.2
Singapore dollar	2.6997	3.0356	2.9023	-7.0	4.6
100 Thai baht	11.423	11.922	11.134	2.6	7.1
100 Philippine peso	8.3111	9.1494	8.5233	-2.5	7.3
100 Indonesian rupiah	0.0284	0.0311	0.0295	-3.9	5.2
100 Korean won	0.3342	0.3651	0.3427	-2.5	6.6
100 New Taiwan dollar	11.874	13.056	12.180	-2.5	7.2
Chinese renminbi	0.5993	0.6610	0.6064	-1.2	9.0

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia

Activity in the foreign exchange derivatives market was subdued as market volatility stabilised

In the first quarter of 2016, the foreign exchange derivatives market recorded a lower volume of USD240.9 billion (4Q 2015: USD268.6 billion) consistent with the decline in the foreign exchange spot market. Swap transactions, which account for 84% of total derivatives market activities, declined by 13.0% as non-residents who were the most active participants have less domestic exposure and hedging needs following last year's capital outflows. Residents on the other hand, continued to be active in managing their foreign currency exposure in anticipation of a stronger ringgit via outright forwards, which increased by USD3.8 billion or 18.4% in terms of y-o-y growth.

As at end first quarter of 2016, the cost of borrowing US dollars through cross-currency swap market was 73 bps, which was in the range of previous quarter closing levels (75 bps). In February 2016, the cost was temporarily lowered to 65 bps following improvement in domestic US dollar liquidity from net capital inflows during that period, before stabilizing above 70 bps in March 2016.