Monetary and Financial Developments

HIGHLIGHTS

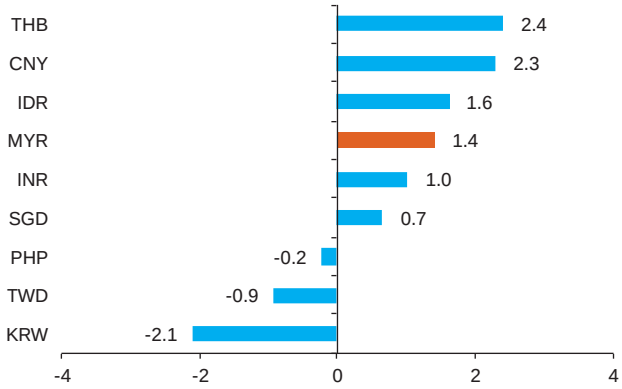
- The ringgit appreciated and domestic bond yields trended downwards in the first quarter following positive global developments. The FBM KLCI, however, declined amid a combination of external and domestic factors.
- Net financing growth moderated during the quarter, with lower growth in outstanding loans and corporate bonds.

The performance of domestic financial markets were mixed during the first quarter

The ringgit appreciated against the US dollar and domestic bond yields trended downwards during the first quarter of 2019, driven mainly by non-resident portfolio inflows to the domestic bond market. In particular, investors' risk appetite towards regional financial assets improved following the Fed's signalling of a pause in interest rate increases for 2019. In addition, progress made on trade talks between the US and PR China contributed towards better financial market sentiments and supported regional financial markets, including Malaysia, during the quarter. As a result, the Government bond market experienced RM7.3 billion of non-resident inflows during the quarter, which led to the decline of 3-year, 5-year and 10-year MGS yields by 24.1, 23.7 and 31.5 basis points, respectively, and the appreciation of the ringgit by 1.4% against the US dollar.

Ringgit appreciated against the US dollar in line with most regional currencies

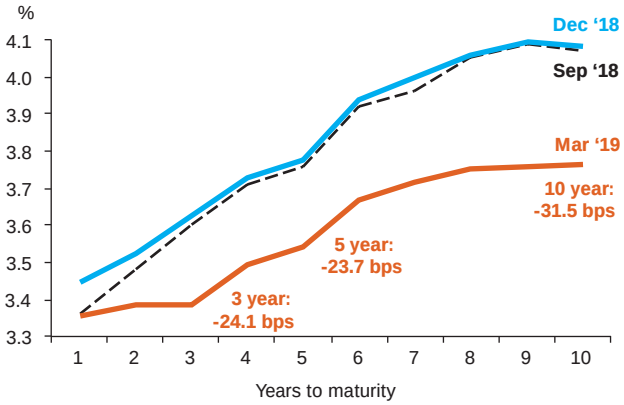
Chart 18: Performance of Regional Currencies Against the US Dollar (2 January - 29 March 2019)



Source: Bank Negara Malaysia

MGS yield curve shifted downwards driven by non-resident portfolio inflows

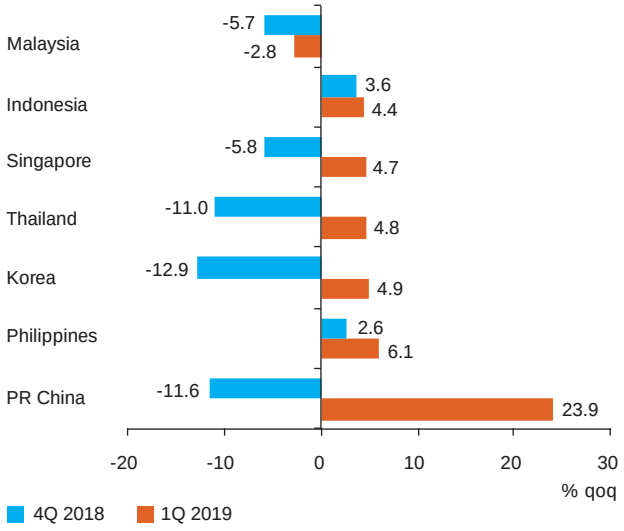
Chart 19: Trend in MGS Yields



Source: Bank Negara Malaysia

Domestic equity market performance remained on a downward trend

Chart 20: Performance of Regional Equity Markets



Source: Bloomberg and Bank Negara Malaysia

The FBM KLCI, however, declined by 2.8% in the first quarter to close at 1,643.6 points as at end-March (end-December 2018: 1,690.6 points). The domestic equity market was affected by a combination of external and domestic factors. In particular, investor sentiments were weighed down by moderating global growth prospects. Domestically, volatile commodity prices and concerns on the outlook for corporate earnings also contributed to the cautious sentiments.

Real interest rates remained stable amid steady headline inflation

Nominal interest rates in the wholesale and retail markets were stable throughout the first quarter. The interbank rates across all maturities 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 3.92% (4Q 2018: 3.91%) and 5.43% (4Q 2018: 5.43%), respectively.

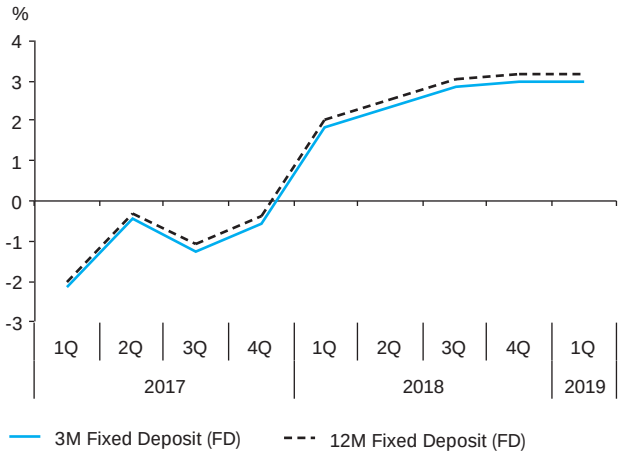
Real fixed deposit (FD) rates were also stable in the first quarter, due to the steady headline inflation. In particular, the real 3-month and 12-month FD rate remained unchanged at 2.95% (4Q 2018: 2.95%) and 3.13% (4Q 2018: 3.13%), respectively.

Liquidity conditions remained sufficient to facilitate financial intermediation

In the banking system, liquidity conditions remained sufficient at both the institutional and system-wide levels. Reflecting the net inflows during the quarter, the level of surplus liquidity placed with the Bank increased marginally by RM1.9 billion. At the institutional level, most banks continued to maintain surplus liquidity positions.

Real deposit rates remained stable

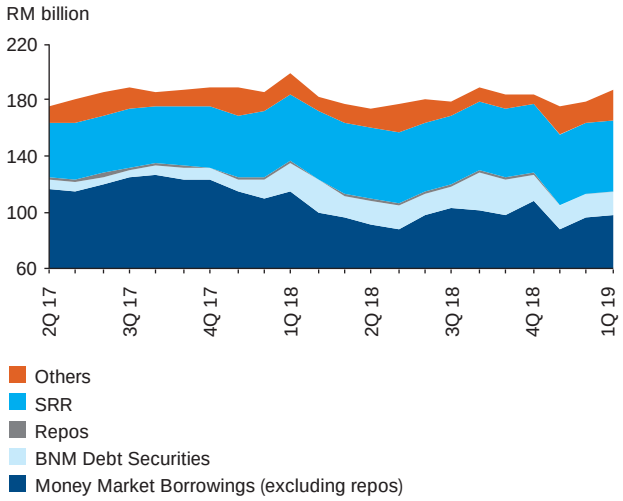
Chart 21: Real Fixed Deposit Rates (by Maturity) as at end-period



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with the Bank increased marginally during the quarter

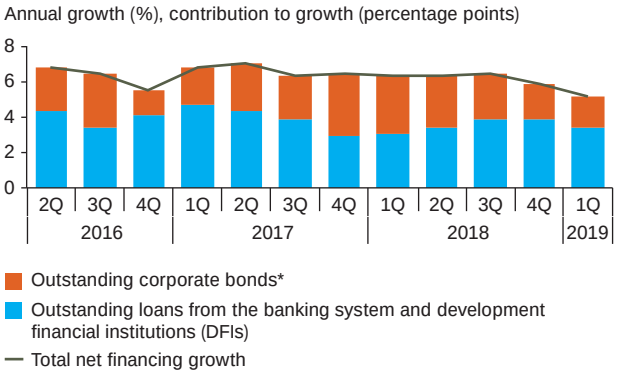
Chart 22: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia as at end-period



Source: Bank Negara Malaysia

Moderation in net financing growth, with lower growth in outstanding loans and corporate bonds

Chart 23: Contribution to Net Financing Growth



* Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

Net financing moderated during the quarter

In the first quarter, net financing expanded by 5.1% on an annual basis (4Q 2018: 5.8%). The moderation reflected lower growth in both outstanding loans (4.5%; 4Q 2018: 5.1%)[3] and corporate bonds (7.1%; 4Q 2018: 8.0%)[4]. The growth in outstanding business loans moderated to 3.3% (4Q 2018: 4.6%), due mainly to the lower loan growth in the real estate and construction sectors amid continued weakness in the property segment, near-completion of large scale projects, and smaller size of new projects. However, loan growth was higher in the wholesale and retail trade, restaurants and hotels (WRRH), and manufacturing sectors, in line with continued expansion of economic activity in those sectors. Outstanding household loan growth during the period was broadly sustained at 5.0% (4Q 2018: 5.2%). Residential property loans continued to be the primary driver of household loan expansion (3.8 percentage points; 4Q 2018: 4.0 percentage points).

[3] Loans extended by both the banking system and development financial institutions (DFIs).

[4] Corporate bonds exclude issuances by Cagamas and non-residents.