MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.25% during the third quarter of 2015. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity.

Despite increased volatility in international financial markets and domestic uncertainties, interest rates in the domestic money market remained broadly stable. The average overnight interbank rate traded within a range of 3.10% and 3.25% during the quarter. While interbank rates below the 1-month tenure were steady, rates beyond the 1-month tenure trended higher at the end of the quarter. This reflected the shift in liquidity towards the shorter tenures amid the greater preference of corporates and banks for shorter-term placements. Interest rate swaps (IRS) remained stable, reflecting the market expectations for the OPR to be maintained.

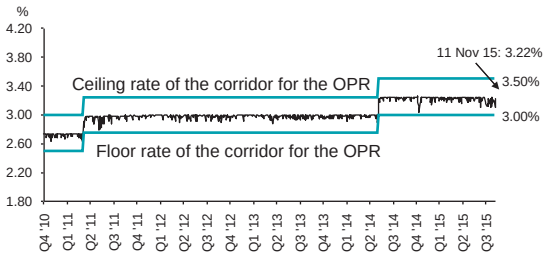
Retail rates in terms of deposit and lending rate were steady throughout the quarter. The average fixed deposit (FD) rates of commercial banks for the tenures 1 to 12 months ranged from 3.08% to 3.31%. The average base rate (BR) of banks at the end of the third quarter was slightly lower at 3.85%. During the quarter as a whole, the weighted average lending rate (ALR) on outstanding loans trended slightly lower (end-September: 5.38%; end-June: 5.44%).

Interest Rates

	2014		2015		
	2Q	3Q	1Q	2Q	3Q
	At end-period (%)				
Overnight Policy Rate (OPR)	3.00	3.25	3.25	3.25	3.25
Interbank rates					
Overnight	3.00	3.20	3.24	3.24	3.12
1-month	3.54	3.41	3.28	3.48	3.60
Base lending rate (BLR)					
Commercial banks	6.53	6.79	6.79	6.79	6.79
Base rate (BR)					
Commercial banks	-	-	3.90	3.88	3.85
Weighted average lending rate					
Commercial banks	5.37	5.52	5.48	5.44	5.38
Fixed deposit rates					
Commercial banks					
1-month	2.91	3.07	3.08	3.08	3.08
12-month	3.15	3.30	3.31	3.31	3.31

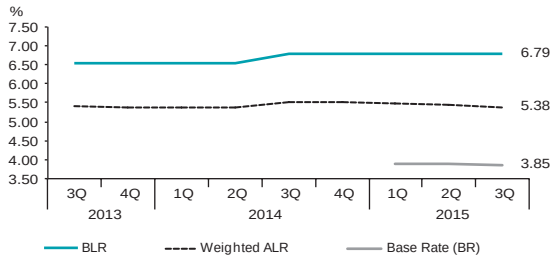
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



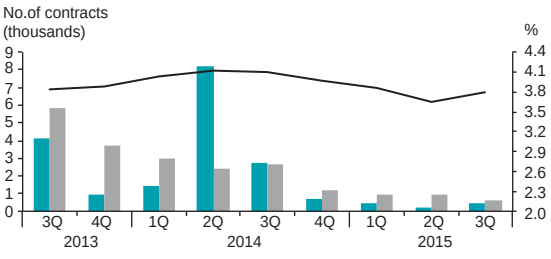
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



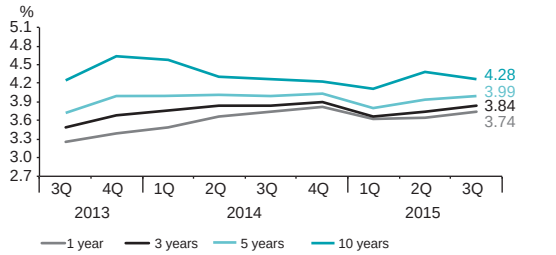
Source: Bank Negara Malaysia

3 Month KLIBOR Futures



Source: Bursa Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

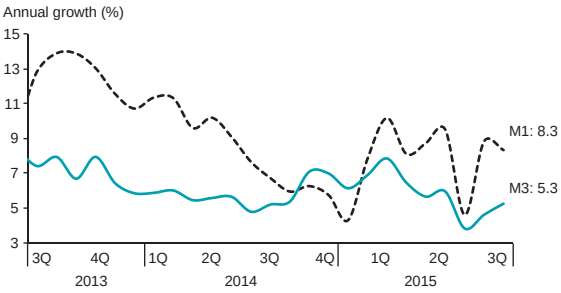
M3 expanded during the quarter

M1, or narrow money, moderated by RM2.6 billion during the quarter. On an annual basis, M1 continued to grow at a rate of 8.3% as at end-September (end-June: 9.5%). M3, or broad money, increased marginally by RM0.5 billion on a quarter-on-quarter basis to record an annual growth rate of 5.3% as at end-September (end-June: 6.0%).

The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system. The expansion was also on account of lower net claims on the Government, reflecting the redemption of Government bonds during the quarter. The expansion in broad money, however, was partially offset by the lower net foreign assets due to external sector outflows during the quarter.

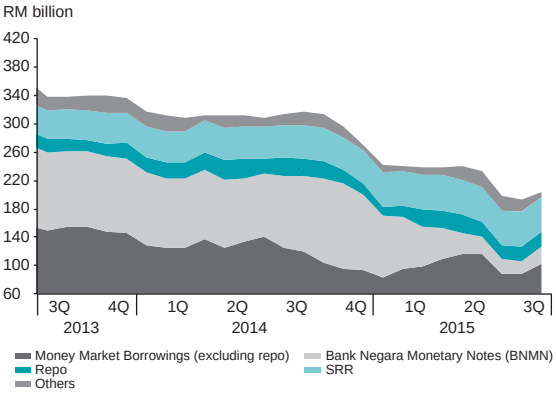
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. While the level of surplus liquidity placed with BNM was lower arising from external sector outflows, it remained high at above RM200 billion as at end-September.

Monetary Aggregates



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	**10.4**	**49.9**	**35.9**	**-7.2**	**0.5**
Net claims on Government	6.3	18.2	-4.6	-20.4	12.0
Claims on private sector	23.8	40.8	28.3	23.2	37.0
Loans	*21.9*	*38.4*	*25.2*	*22.3*	*32.9*
Securities	*1.9*	*2.4*	*3.1*	*0.9*	*4.1*
Net foreign assets[1]	0.4	-28.1	-1.5	-13.8	-43.8
BNM	*-0.6*	*-28.5*	*-25.0*	*-2.1*	*-36.2*
Banking System	*1.0*	*0.4*	*23.5*	*-11.7*	*-7.6*
Other influences	-20.0	19.0	13.8	3.9	-4.7

[1] Pre-revaluation

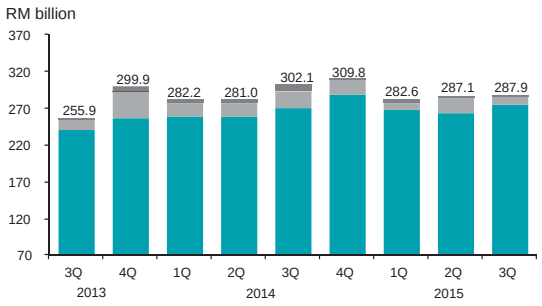
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing activity was sustained in the third quarter

In the third quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM287.9 billion (2Q 2015: RM287.1 billion). On a net basis, outstanding banking system loans and PDS expanded at a higher growth rate of 8.8% as at end-September (end-June 2015: 8.3%).

Gross Private Sector Financing through the Banking System and Capital Market

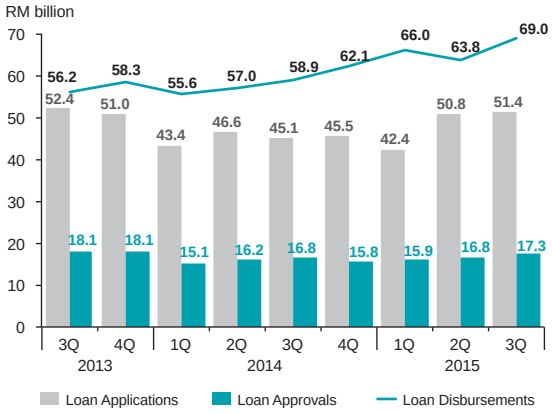


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by RM16.7 billion during the quarter (2Q 2015: RM8.2 billion). On an annual basis, outstanding business loans grew at a stronger pace of 11.0% as at end-September (end-June 2015: 8.7%), with the higher level of credit extended mainly to the *manufacturing; wholesale and retail trade, and restaurants and hotels; real estate* and *finance, insurance, and business services* sectors. Financing for SMEs continued to be robust, with outstanding SME loans growing at 17.6% as at end-September (end-June 2015: 17.1%). Demand for new financing by businesses increased compared to the previous quarter, with higher loan applications by both large corporates and SMEs. This was matched by higher loan approvals to businesses, in particular to SMEs.

Net financing to the household sector expanded at a stable amount of RM12.8 billion during the quarter (2Q 2015: RM12.9 billion). On an annual basis, outstanding household loans growth moderated to 8.1% as at end-September (end-June 2015: 8.7%). Demand for new financing by household sector was also sustained during the quarter, with higher household loan applications matched by stable loan approvals.

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 (%)				
	2014		2015			2014		2015		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Gross total financing	**302.1**	**309.8**	**282.6**	**287.1**	**287.9**	**18.1**	**3.3**	**0.1**	**2.2**	**-4.7**
Loans disbursed	269.7	287.7	267.4	263.8	273.6	12.3	12.2	3.5	2.2	1.5
Gross PDS[1]	23.6	21.2	10.5	20.1	11.8	83.0	-41.2	-46.5	13.4	-49.8
Equity	8.8	1.0	4.7	3.3	2.5	217.7	-87.1	11.3	-36.4	-72.0
Net total financing (A)+(B)	**30.8**	**52.4**	**26.0**	**32.2**	**41.3**	**8.9**	**8.8**	**8.3**	**8.3**	**8.8**
Banking system	27.2	44.3	23.7	27.1	38.6	9.0	9.2	9.2	8.9	9.6
*Loans outstanding (A)**	*25.7*	*41.6*	*22.2*	*25.8*	*36.4*	*9.0*	*9.3*	*9.2*	*9.1*	*9.7*
Holding of PDS	*1.5*	*2.7*	*1.5*	*1.3*	2.2	*10.0*	*7.9*	*8.2*	*7.4*	*8.0*
PDS outstanding (B)	5.1	10.8	3.8	6.4	5.0	8.6	7.3	5.4	6.1	6.0
Memorandum item										
Gross PDS[2]	24.9	21.6	10.9	20.5	13.1	85.7	-40.1	-46.8	10.8	-47.1

* 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 (%)				
	2014		2015			2014		2015		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Total										
Loan applications	219.1	210.1	178.5	208.2	224.8	2.3	-0.2	-3.9	0.5	2.6
Loan approvals	105.7	106.4	94.0	102.5	96.5	2.5	8.6	3.1	4.5	-8.7
Loan disbursements	269.7	287.7	267.4	263.8	273.6	12.3	12.2	3.5	2.2	1.5
Loan repayments	252.4	258.5	255.6	243.4	255.3	15.8	12.8	4.0	1.5	1.1
Change in loans outstanding*	25.7	41.6	22.2	25.8	36.3	9.0	9.3	9.2	9.1	9.7
Of which:										
Business enterprises[1,2]										
Loan applications	108.3	100.4	78.4	97.8	112.9	15.7	12.7	-9.1	7.2	4.2
Loan approvals	44.0	46.1	39.9	47.0	44.0	8.8	24.5	14.5	33.8	0.1
Loan disbursements	195.5	209.9	189.0	190.3	201.4	19.7	17.6	2.7	5.2	3.0
Loan repayments	187.8	192.3	187.8	178.0	190.5	22.5	16.7	4.6	1.2	1.5
Change in loans outstanding*	5.3	17.7	9.8	8.2	16.7	7.9	9.4	8.9	8.7	11.0
SMEs[1]										
Loan applications	45.1	45.5	42.4	50.8	51.4	-13.9	-10.8	-2.4	9.0	13.9
Loan approvals	16.8	15.8	15.9	16.8	17.2	-7.4	-12.8	5.5	3.7	2.8
Loan disbursements	58.9	62.1	66.0	63.8	69.0	4.9	6.5	18.9	11.9	17.1
Loan repayments	58.4	57.5	60.3	61.4	66.0	9.0	7.7	14.4	14.0	13.0
Change in loans outstanding*	5.3	10.0	14.5	6.3	7.3	12.5	14.0	17.2	17.1	17.6
Large corporations[2]										
Loan applications	63.2	54.9	36.1	47.0	61.5	53.3	44.1	-15.8	5.4	-2.6
Loan approvals	27.2	30.4	24.0	30.2	26.8	22.0	60.2	21.3	59.7	-1.5
Loan disbursements	136.6	147.8	123.0	126.4	132.4	27.5	23.0	-4.2	2.1	-3.0
Loan repayments	129.4	134.8	127.5	116.6	124.6	29.7	20.9	0.6	-4.4	-3.7
Change in loans outstanding*	0.0	7.6	-4.7	1.9	9.4	4.3	5.7	2.3	1.9	5.5
Households										
Loan applications	110.8	109.7	100.1	110.4	111.9	-8.1	-9.6	0.7	-4.8	1.0
Loan approvals	61.8	60.3	54.1	55.5	52.5	-1.6	-1.1	-3.9	-11.9	-15.1
Loan disbursements	74.2	77.8	78.4	73.5	72.2	-3.6	-0.3	5.4	-4.9	-2.7
Loan repayments	64.6	66.2	67.8	65.4	64.7	0.1	2.9	2.2	2.3	0.1
Change in loans outstanding*	16.5	17.9	16.3	12.9	12.8	10.7	9.9	9.8	8.7	8.1

* 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 (%)
	3Q 2014	4Q 2014	1Q 2015	2Q 2015	3Q 2015		
Business enterprises[1,*]	**195.5**	**209.9**	**189.0**	**190.3**	**201.4**	**73.6**	**43.5**
Large corporations[1]	*136.6*	*147.8*	*123.0*	*126.4*	*132.4*	*48.4*	*25.2*
*SMEs**	*58.9*	*62.1*	*66.0*	*63.8*	*69.0*	*25.2*	*17.8*
Selected sectors[1]							
Agriculture, hunting, forestry and fishing	7.0	8.4	8.8	10.7	10.1	3.7	2.6
Mining and quarrying	1.8	2.9	7.0	3.9	3.6	1.3	0.9
Manufacturing	51.5	54.7	50.4	51.8	54.4	19.9	7.3
Construction	15.0	19.2	17.4	15.3	15.8	5.8	4.2
Real estate	12.7	14.3	13.3	12.1	14.8	5.4	6.4
Electricity, gas and water supply	7.2	2.1	1.8	2.5	1.9	0.7	0.8
Wholesale and retail trade, restaurants and hotels	54.9	59.8	47.0	49.0	50.7	18.5	7.4
Transport, storage and communication	6.7	7.2	6.1	6.7	5.7	2.1	2.5
Finance, insurance and business services	27.1	29.0	24.9	23.2	24.4	8.9	6.9
Households	**74.2**	**77.8**	**78.4**	**73.5**	**72.2**	**26.4**	**57.0**
Purchase of residential properties	20.0	21.7	21.0	21.7	20.2	7.4	28.1
Consumption credit	41.4	43.9	44.4	40.8	42.4	15.5	17.2
Of which:							
Credit cards	*24.3*	*26.3*	*26.3*	*24.0*	*25.0*	*9.1*	*2.5*
Purchase of passenger cars	*9.4*	*9.8*	*10.8*	*9.3*	*10.2*	*3.7*	*10.3*
Others	12.8	12.1	13.0	11.0	9.6	3.5	11.7
Total	**269.7**	**287.7**	**267.4**	**263.8**	**273.6**	**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

Sustained private sector financing amid net redemptions in the public sector

Fund raising activity in the capital market in the third quarter continued to be supported by gross funds raised by both private and public sectors. However, large redemptions of Government debt securities which more than offset net funds raised in the private sector resulted in net redemptions of RM2.6 billion in the third quarter (net funds raised in the 2Q 2015: +RM39.3 billion).

In the private sector, net funds raised amounted to RM7.4 billion (2Q 2015: RM9.1 billion) with the bulk of financing used to finance new activity. The funds were mainly raised through the issuances of private debt securities.

In the public sector, lower gross funds raised were further offset by large redemptions, resulting in net redemptions of RM10.0 billion in the third quarter (net funds raised in the 2Q 2015: +RM30.1 billion). The funds were raised through new issuances of a 3-year Malaysian Government Security (MGS), as well as the re-opening of a 5-year, 10-year, 15-year and 30-year MGS and 7-year and 10-year Government Investment Issues (GII). Additionally, RM0.5 billion was raised via an issuance of the Government Housing Sukuk.

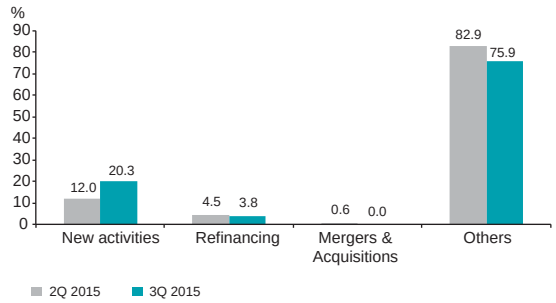
Net Funds Raised in the Capital Market

	2014		2015		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
By Public Sector	**2.1**	**15.3**	**13.2**	**30.1**	**-10.0**
Government Securities, *Gross*	22.0	22.8	27.0	30.1	21.5
Malaysian Government Securities	12.3	12.7	13.5	12.5	14.5
Government Investment Issues	8.2	6.6	9.5	14.1	6.5
Sukuk Pinjaman Perumahan Kerajaan	1.5	3.4	4.0	3.5	0.5
Less: Redemptions	19.9	7.5	13.8	-	31.5
Malaysian Government Securities	8.4	2.0	11.8	-	21.0
Government Investment Issues	11.5	5.5	2.0	-	10.5
Sukuk Pinjaman Perumahan Kerajaan	-	-	-	-	-
By Private Sector	**15.0**	**11.2**	**7.8**	**9.1**	**7.4**
Shares	8.8	1.0	4.7	3.3	2.5
Private Debt Securities, *Net*	6.2	10.2	3.1	5.8	4.9
Private Debt Securities, Gross	*24.9*	*21.6*	*10.9*	*20.5*	*13.1*
Less: Redemptions	*18.7*	*11.4*	*7.8*	*14.7*	*8.2*
Total	**17.1**	**26.4**	**21.0**	**39.3**	**-2.6**

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 & Cagamas

Source: Bank Negara Malaysia

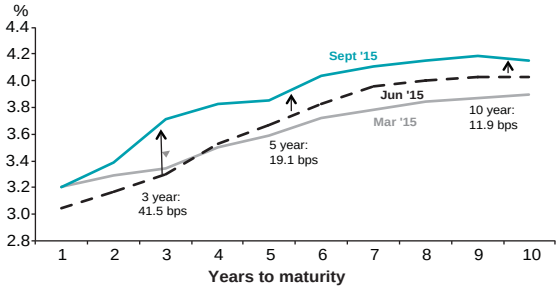
Bond yields across all tenures increased in the third quarter

MGS yields trended upward in the third quarter due to liquidations by non-resident investors amid increased expectations of an interest rate increase by the Fed and concerns over the impact of the continued sharp decline in global oil prices and ringgit depreciation on the domestic economy. Non-resident investors reduced MGS holdings by RM13.0 billion during the quarter. As a result, yield on the 3-year, 5-year and 10-year MGS increased by 41.5, 19.1 and 11.9 basis points respectively. Higher-rated corporate bond yields also edged higher in tandem with the rise in MGS yields. The yields on the 5-year AAA and AA-rated corporate bonds increased by 18.7 and 14.5 basis points, respectively.

Lower secondary trading in the bond market

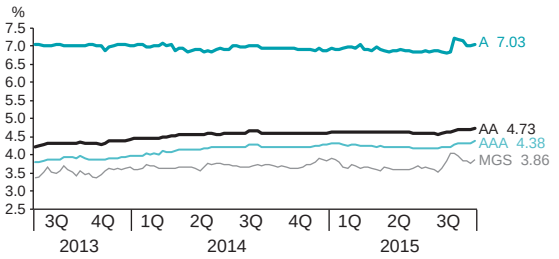
Total trading in the secondary market moderated to RM215.7 billion during the quarter (2Q 2015: RM218.5 billion), following increased volatility in the global and domestic financial markets. The decline in turnover was mainly concentrated in the trading of GII and PDS which registered lower liquidity ratios of 0.23 and 0.05 respectively. Higher turnover in the trading of MGS mostly reflected selling activities by non-resident investors.

Trend in MGS Yields



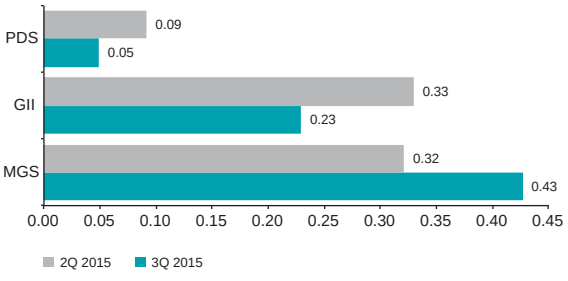
Source: Bank Negara Malaysia

5 year MGS and 5 year PDS Yields



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding

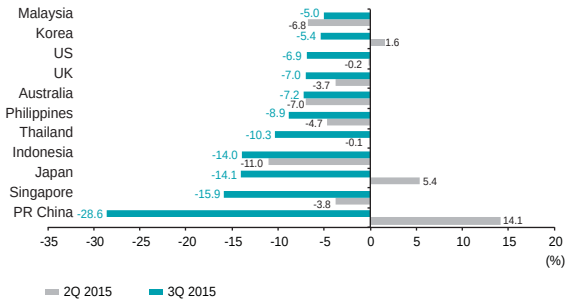


Source: Bank Negara Malaysia

FBM KLCI declined during the quarter

In the third quarter, the FBM (FTSE Bursa Malaysia) KLCI declined by 5.0% to close at 1,621.0 points (end-June 2015: 1,706.6 points). The decline was broadly consistent with trends in the regional stock markets amid weak global market sentiments following concerns over China's growth outlook. The index was also weighed down by concerns on the impact of decline in crude oil prices and weakening exchange rate on the domestic economy.

Performance of Selected Global and Regional Markets in 2015 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Overall, market capitalisation declined to RM1.60 trillion as at end-September 2015 (end-June 2015: RM1.66 trillion), while the daily average turnover declined to 1.90 billion units (2Q 2015: 1.92 billion units) during the quarter.

On 11 November 2015, the KLCI ended higher at 1,665.3 points (since end-September 2015: +2.7%), with market capitalisation of RM1.67 trillion (since end-September 2015: +4.3%).

Bursa Malaysia: Selected Market Indicators

	2014		2015		
	As at end				
	Sept	Dec	Mar	June	Sept
Price Indices					
Composite	1,846.3	1,761.3	1,830.8	1,706.6	1,621.0
FBMEMAS[1]	12,924.7	12,066.3	12,563.4	11,771.9	11,201.6
ACE Market[2]	7,278.9	5,653.4	7,120.2	6,220.3	5,567.6
Market capitalisation (RM billion)	1,774.1	1,651.2	1,737.5	1,659.0	1,597.4
No. of companies listed	906	906	903	905	904
	During the period				
	3Q	4Q	1Q	2Q	3Q
Average daily turnover					
Volume (million units)	2,773.9	1,944.4	2,107.4	1,918.0	1,899.2
Value (RM million)	2,300.3	1,999.9	2,177.4	2,002.1	2,005.6

[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

	2014				2015					
	3Q		4Q		1Q		2Q		3Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	169.2	140.3	122.5	126.0	124.3	128.5	120.8	126.1	117.8	124.3
Of which:										
Main Board	128.9	132.3	85.5	117.3	75.8	117.7	72.7	114.1	68.0	111.4
Of which										
Consumer Products	9.7	7.9	5.3	5.2	7.4	6.4	6.2	6.2	6.3	6.2
Industrial Products	23.6	15.4	13.3	11.2	12.8	11.1	14.3	12.4	12.9	14.7
Construction	6.5	7.7	3.4	5.7	3.7	5.9	4.6	7.0	4.2	5.4
Trading/Services	59.6	55.6	42.0	56.7	32.7	55.4	31.2	52.1	28.4	45.5
Finance	3.5	20.4	3.1	18.7	3.5	21.3	3.0	18.3	3.5	22.3
Properties	12.6	10.7	6.1	6.3	5.4	4.8	5.3	4.9	5.5	4.1
Plantations	1.9	5.3	1.2	3.6	1.0	3.5	1.0	3.4	1.3	3.7
Infrastructure	1.1	3.7	1.3	4.4	1.0	4.4	1.1	5.3	1.1	4.7
ACE Market[1]	35.5	7.2	30.3	7.3	41.2	8.7	40.3	9.9	21.0	5.1

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

Source: Bursa Malaysia

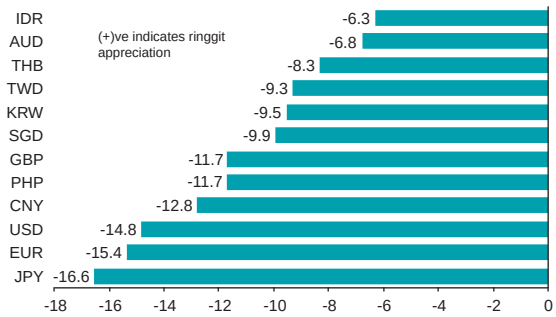
Ringgit depreciation driven by external and domestic factors

The ringgit and other regional currencies continued to face volatility during the quarter. Uncertainties surrounding the interest rate normalisation in the U.S. and concerns on the momentum of global growth remain the main factors for the outflows of portfolio investments from emerging markets. The ringgit, however, faced larger depreciation pressure following the continued decline in global crude oil prices and negative sentiments driven by domestic factors.

Overall, the ringgit depreciated by 14.8% against the US dollar during the quarter. The ringgit also depreciated against the Australian dollar (-6.8%), the pound sterling (-11.7%), the euro (-15.4%), and the Japanese yen (-16.6%). Against all regional currencies, the ringgit depreciated by between 6.3% and 12.8%.

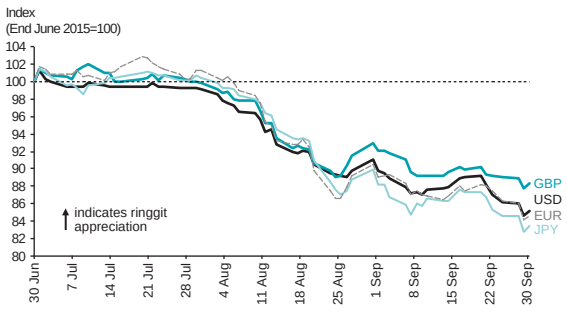
Between 1 October and 11 November 2015, the ringgit appreciated against all major currencies. The ringgit appreciated against the US dollar (1.8%), the euro (6.5%), the Japanese yen (4.4%), the pound sterling (1.8%), and the Australian dollar (0.9%). The ringgit also appreciated against most regional currencies, except for the Korean won (-1.2%) and the Indonesian rupiah (-5.7%).

Summary of Ringgit Performance against Selected Currencies Percent Change (1 July - 30 September 2015)



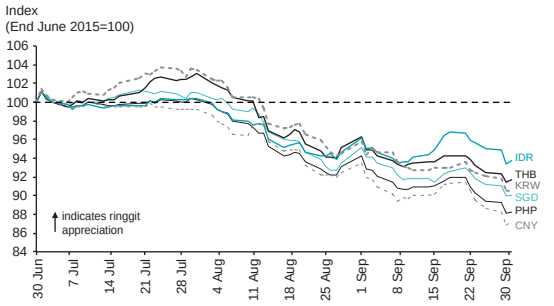
Source: Bank Negara Malaysia

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*		
	21 Jul 2005	3Q 2014	2Q 2015	3Q 2015	21 Jul 2005	3Q 2014	2Q 2015
US dollar	3.8000	3.2715	3.7855	4.4455	-14.5	-26.4	-14.8
Euro	4.6212	4.1527	4.2364	5.0052	-7.7	-17.0	-15.4
Pound sterling	6.6270	5.3193	5.9527	6.7412	-1.7	-21.1	-11.7
Australian dollar	2.8823	2.8632	2.9059	3.1176	-7.5	-8.2	-6.8
100 Japanese yen	3.3745	2.9922	3.0946	3.7084	-9.0	-19.3	-16.6
Singapore dollar	2.2570	2.5702	2.8096	3.1191	-27.6	-17.6	-9.9
100 Thai baht	9.0681	10.107	11.205	12.223	-25.8	-17.3	-8.3
100 Philippine peso	6.8131	7.2959	8.3899	9.5050	-28.3	-23.2	-11.7
100 Indonesian rupiah	0.0386	0.0269	0.0284	0.0303	27.4	-11.4	-6.3
100 Korean won	0.3665	0.3106	0.3384	0.3740	-2.0	-17.0	-9.5
100 New Taiwan dollar	11.890	10.743	12.257	13.516	-12.0	-20.5	-9.3
Chinese renminbi	0.4591	0.5323	0.6099	0.6994	-34.4	-23.9	-12.8

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

Source: Bank Negara Malaysia

Volume of foreign exchange derivatives rose in the third quarter of 2015

Volume of foreign exchange derivatives, mainly in cross-currency swap transactions, rose by 4.3% in the third quarter of 2015 (2Q 2015: +1.5%). During the quarter, the implied cost of borrowing US dollar through the cross-currency swap was higher and within a wider range of 83 to 150 bps, compared to 2Q 2015 (range between 75 to 83 bps). This reflected the pressure on the ringgit and higher volatility following heightened anxiety in financial markets awaiting the decision on Fed's impending rate hike.

Despite the rise in overall derivatives volume, volume of forward transactions by residents contracted by 24.4% on a year-on-year basis contributed mainly by the decline in exporters selling forward. The reduction in hedging activities was due to the expectations of further strengthening in the US dollar that was prevalent during the quarter.