Monetary and Financial Developments

HIGHLIGHTS

- The domestic financial markets, including the foreign exchange market, bond market and equity market, were driven mainly by external developments, with movements in line with regional markets.
- Despite non-resident portfolio outflows during the quarter, liquidity conditions remained sufficient to facilitate financial intermediation, with sustained net financing growth.

The ringgit depreciated against the US dollar in the second quarter

The ringgit depreciation against the US dollar was in line with regional currencies, as expectations of a faster pace of monetary policy normalisation in the US, which resulted in higher US Treasury long-term yields and stronger US dollar, led to non-resident portfolio outflows from regional economies. The escalation of global trade tensions also contributed to the negative sentiments during the quarter. Going forward, the ringgit will continue to be influenced by external uncertainties, in particular the pace of monetary policy normalisation in the US and global trade tensions. On the domestic front, the underlying resilience of the economy, together with policy clarity will provide the support for the ringgit.

Regional currencies depreciated against the US dollar

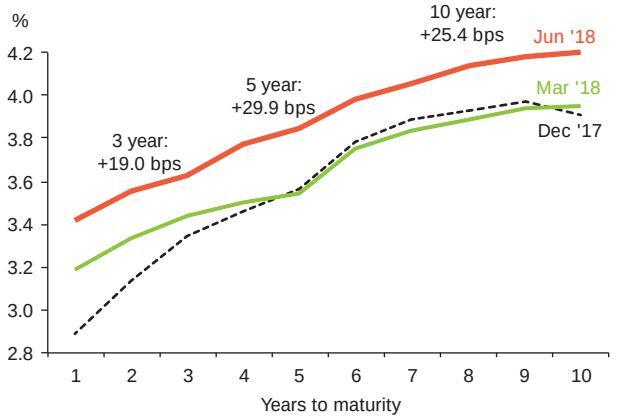
Chart 21: Summary of Performance of Regional Currencies Against the US Dollar (1 April - 29 June 2018)



Source: Bank Negara Malaysia

MGS yield curve shifted upwards during the second quarter

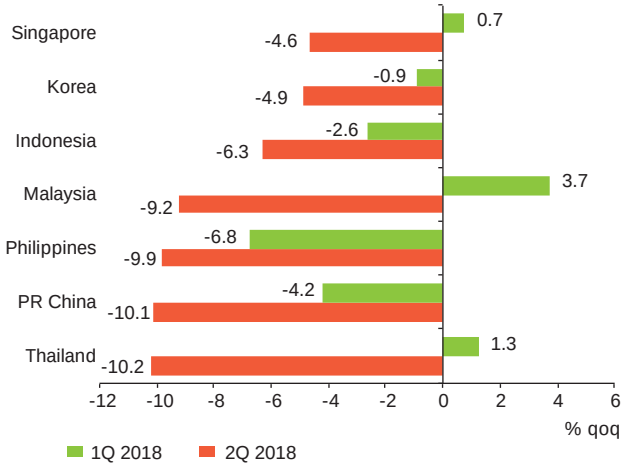
Chart 22: Trend in MGS Yields



Source: Bank Negara Malaysia

Domestic equity market declined during the second quarter

Chart 23: Performance of Regional Equity Markets



Source: Bloomberg

Government bond yields trended higher due to non-resident portfolio outflows amid external developments

During the second quarter, domestic bond yields increased across tenures amid non-resident portfolio outflows. The broad-based sell-off was triggered by risk-off sentiments arising from expectations of a faster pace of monetary policy normalisation in the US and escalating trade tensions. These external developments also led to higher US Treasury yields, which added upward pressure on MGS yields. As a result, the 3-year, 5-year and 10-year MGS yields increased by 19.0, 29.9 and 25.4 basis points, respectively.

The equity market experienced elevated volatility due to a confluence of external and domestic factors

The FBM KLCI continued to be affected by external factors during the second quarter, declining by 9.2% to close at 1,691.5 points as at end-June (end-March 2018: 1,863.5 points). The decline was in line with the downward trend in regional equity markets as non-resident investors shifted funds to safe-haven assets amid uncertainties on the pace of monetary policy normalisation in the US and rising global trade tensions. Domestically, construction counters were affected by reviews on large infrastructure projects, which weighed on the overall index.

Higher real return during the quarter amid lower inflation

Nominal interest rates in the wholesale and retail markets were stable throughout the quarter. With the 3-month KLIBOR unchanged at 3.69%, interbank rates across other maturities were also broadly stable. In the retail market, the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans were stable at 3.89% and 5.43% respectively.

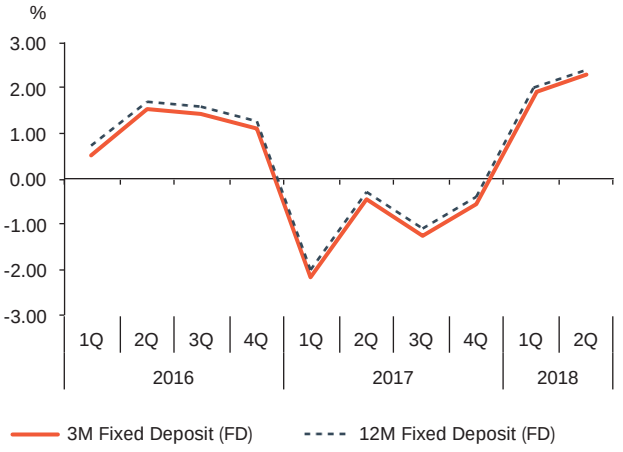
Against moderating inflation, real fixed deposit (FD) rates continued to increase in the second quarter. In particular, the real 12-month FD rate increased to 2.53% from 2.03% in the first quarter.

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 non-resident portfolio outflows during the quarter, the level of surplus liquidity placed with the Bank was lower. Nevertheless, interbank lending and borrowing activities remained orderly. At the institutional level, most banks continued to maintain surplus liquidity positions.

Real deposit rates increased, reflecting lower inflation

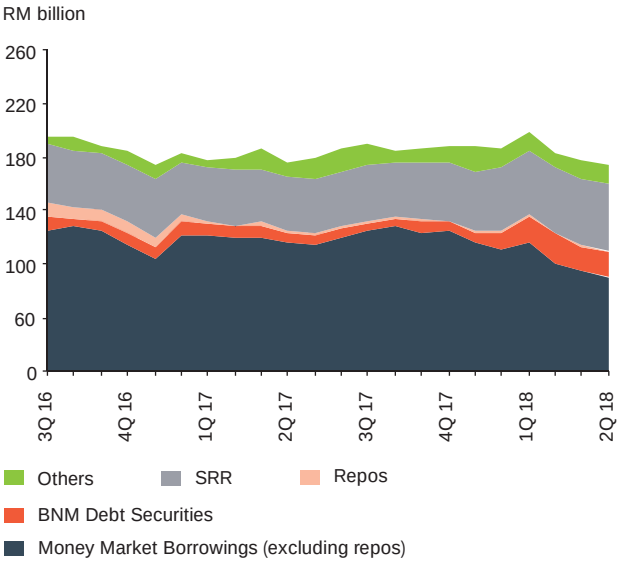
Chart 24: Real Fixed Deposit Rates (by Maturity), as at End-period



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with the Bank declined

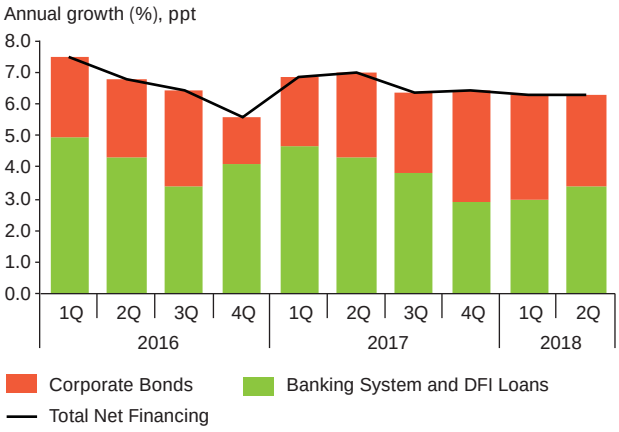
Chart 25: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia, as at End-period



Source: Bank Negara Malaysia

Net financing growth supported by growth of loans and corporate bonds

Chart 26: 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 annual growth of net financing was sustained at 6.3% in the second quarter (1Q 2018: 6.3%). The growth in outstanding loans[6] increased to 4.4% during the quarter (1Q 2018: 3.9%), while the growth of net outstanding issuances of corporate bonds[7] continued to expand at a double-digit rate of 12.4% (1Q 2018: 14.1%). During the quarter, corporate bonds were mainly issued for infrastructure project financing and working capital. Total outstanding business loans increased by 2.2% (1Q 2018: 1.3%), driven mainly by the ***manufacturing; electricity, gas and water supply;*** and ***wholesale and retail trade, restaurants and hotels*** sectors. Loan growth to SMEs was steady at 4.6% (1Q 2018: 4.8%) and the amount of loans disbursed sustained during the quarter (RM73.4 billion; 1Q 2018: RM75.9 billion). The growth of outstanding household loans remained stable at 5.3% during the period (1Q 2018: 5.2%). Of note, the growth of household loan applications and approvals for the ***purchase of passenger cars*** increased significantly in the second quarter to 14.2% and 21.0%, respectively, due mainly to the higher demand for financing amid stronger car sales following the zerorisation of the GST rate (1Q 2018: -6.2% and 0.2%, respectively).

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