

# Monetary and Financial Developments

## Highlights

- Substantial non-resident portfolio outflows amid heightened risk aversion, reflecting uncertainties surrounding the impact of the COVID-19 pandemic.
- Weak investor sentiments and increased demand for safe haven assets caused non-resident portfolio outflows from the domestic equity and bond markets, and depreciation of ringgit.

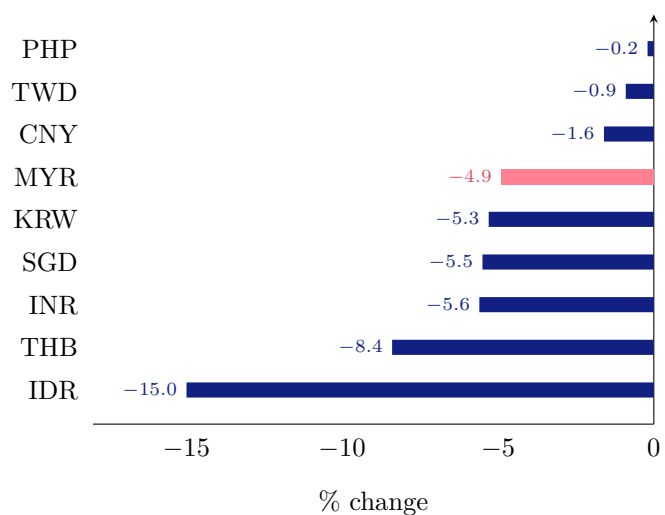
### Performance of domestic financial markets was affected by significant global risk aversion

Performance of domestic financial markets trended downwards during the quarter following substantial non-resident portfolio outflows amid heightened global risk aversion. The global risk aversion was driven mainly by uncertainties surrounding the duration and severity of COVID-19 pandemic, and its impact on the global economy.

While investor sentiments were supported by the Phase One trade deal between the US and PR China in early January, it deteriorated rapidly as concerns over the potential economic impact of COVID-19 pandemic intensified, particularly towards the end of January. Additionally, the substantial decline in global oil prices also exacerbated the already weak investor sentiment.

### Ringgit depreciated against the US dollar in line with regional currencies

Chart 19: Performance of Regional Currencies against the US Dollar (1 January - 31 March 2020)



Source: Bank Negara Malaysia

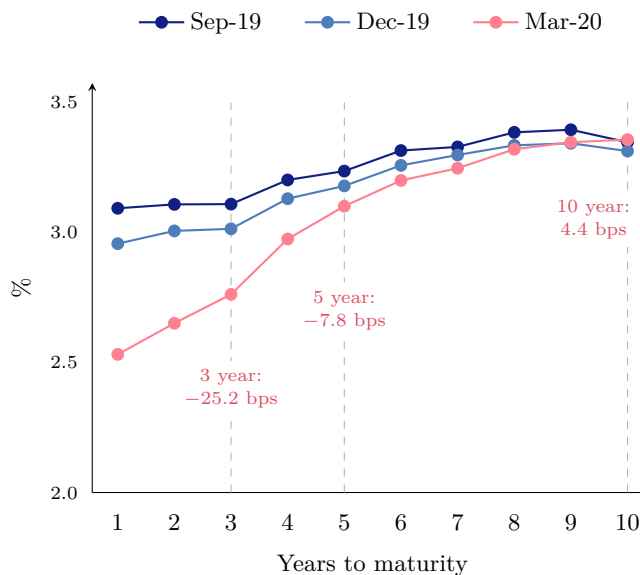
These factors amplified risk aversion in global financial markets, leading to increased demand for highly liquid assets such as cash, and safe haven assets such as US Treasury securities.

As a result, the domestic equity and bond market registered non-resident outflows for the quarter, in line with regional economies. The FBM KLCI declined by 15% to close at 1,350.9 points as at end-March (end-December: 1,588.8 points). While domestic bond yields at the longer-end of the yield curve increased marginally, shorter-term bond yields declined amid sustained demand from domestic institutional investors and expectations for a reduction in the overnight policy rate. During the quarter, the 3-year and 5-year MGS yields declined by 25.2 and 7.8 basis points respectively, while the 10-year MGS yield increased marginally by 4.4 basis points.

Consequently, the ringgit depreciated by 4.9% against the US dollar during the quarter, in line with regional currencies. The depreciation of ringgit against the US dollar was also driven by the strengthening US dollar amid increased demand for US dollar-denominated assets.

### MGS yields declined across shorter tenures during the quarter

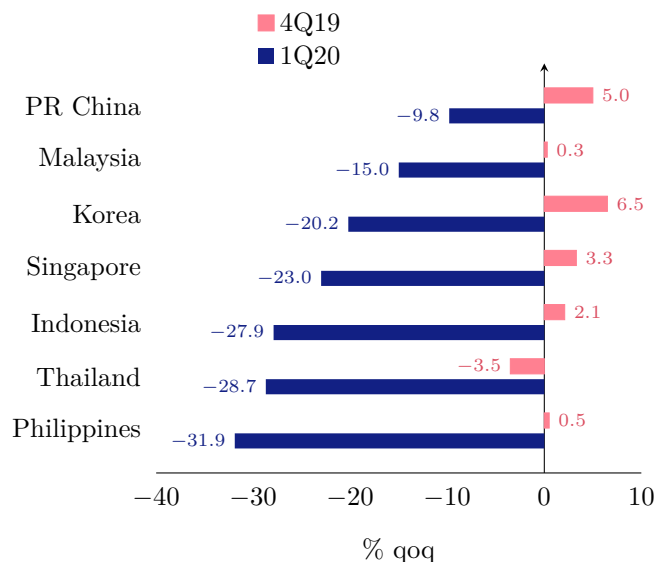
Chart 20: Trend in MGS Yields



Source: Bank Negara Malaysia

### Domestic equity market performance declined in line with regional trend

Chart 21: Performance of Regional Equity Markets



Source: Bloomberg

## Interest rates declined during the quarter following the reductions in the Overnight Policy Rate (OPR) in January and March 2020

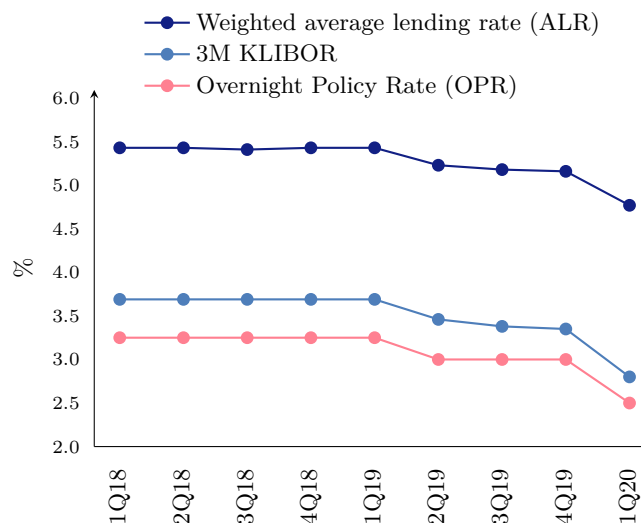
Following the reductions in the OPR by 25 bps in January and March 2020 respectively, interest rates in the wholesale and retail markets trended lower. In the interbank market, strong and immediate pass-through to rates was observed across all tenures after both reductions, with the KLIBOR decreasing by 23 to 25 bps across tenures within one day of the respective OPR adjustments. The longer-maturity KLIBOR continued to decline after the March OPR reduction amid market expectations of further monetary easing. The 3-month and 12-month KLIBOR ended the quarter at 2.80% and 3.05% respectively (4Q 2019: 3.35% and 3.64%).

Similarly, nominal fixed deposit (FD) rates also decreased following the OPR adjustments. The decline during the quarter ranged from 49 to 53 basis points across tenures of 1 to 12 months. Real FD rates increased despite the decline in nominal rates given the lower inflation in March.

The transmission of OPR to base rate (BR) was also strong, with all banks revising their BRs downwards by 50 basis points to the current weighted average of 3.18% (4Q 2019: 3.68%). Correspondingly, the weighted average lending rate (ALR) on outstanding loans declined by 39 basis points to 4.77% in March (4Q 2019: 5.16%).

## Lower interest rates in the retail and interbank market

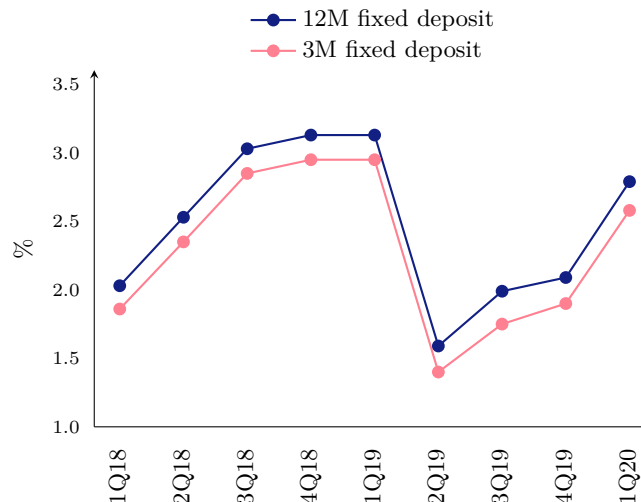
Chart 22: Policy, Interbank and Lending Rates (at end-period)



Source: Bank Negara Malaysia and Bloomberg

## Real deposit rates increased, driven by the lower inflation in March

Chart 23: Real Fixed Deposit Rates by Maturity (at end-period)



Source: Bank Negara Malaysia

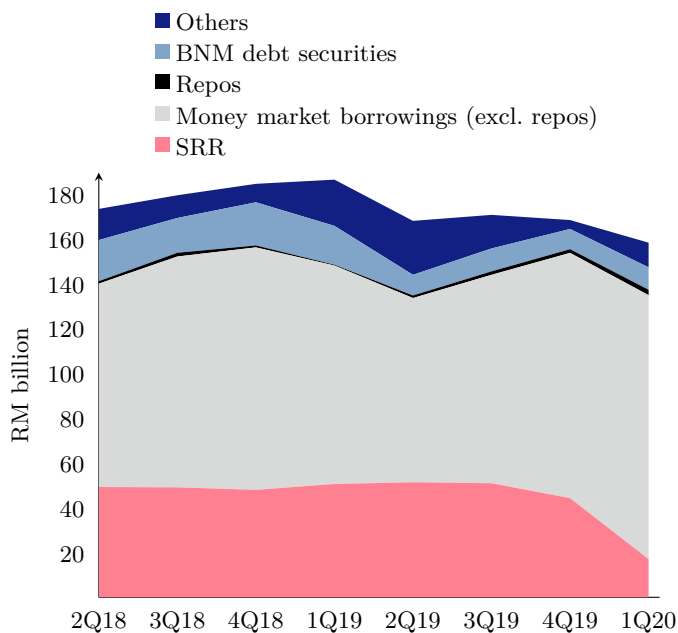
## Banking system liquidity remained sufficient to facilitate financial intermediation

The level of surplus liquidity placed with the Bank declined, reflecting the net outflows during the quarter. Nevertheless, banking system liquidity remained sufficient to facilitate financial intermediation and this would continue to be supported by the Bank's liquidity-injecting operations. At the institutional level, most banks continued to maintain surplus liquidity positions with the Bank.

The Statutory Reserve Requirement (SRR) ratio was reduced from 3.00% to 2.00% in March, with additional flexibility provided to Principal Dealers (PDs) to recognise MGS and MGII as part of the SRR compliance. These combined SRR measures have released approximately RM30 billion worth of liquidity into the banking system. The higher liquidity available to banks has provided greater flexibility for banks in their liquidity management, and was reflected in the higher level of money market placements with the Bank by the end of the first quarter. In addition, the flexibility provided to the PDs has also supported the continued smooth functioning of the domestic bond market.

## Outstanding surplus ringgit liquidity placed with the Bank declined during the quarter

Chart 24: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



Source: Bank Negara Malaysia

## Sustained net financing expansion

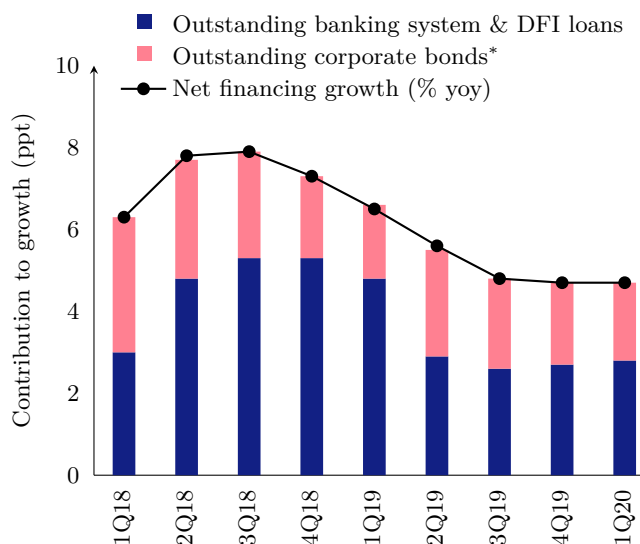
In the first quarter, net financing expanded at a sustained pace of 4.7% on an annual basis (4Q 2019: 4.7%), supported by higher growth in outstanding loans<sup>4</sup> of 3.8% (4Q 2019: 3.5%). Growth in outstanding corporate bonds<sup>5</sup> moderated to 7.6% during the quarter (4Q 2019: 8.0%). Corporate bond issuances were lower, amid seasonally slow issuance in January and a sharp increase in yields in March following the escalation of COVID-19.

Growth in outstanding business loans increased (3.4%; 4Q 2019: 2.4%), contributed mainly by the electricity, gas and water, and education, health and others sectors. Disbursements significantly outpaced repayments in these sectors. For the household segment, growth in outstanding loans moderated (3.8%; 4Q 2019: 4.7%), mainly due to high repayments on loans for the purchase of securities.

Demand for business financing, as indicated by loan applications<sup>6</sup>, slowed during the quarter, mainly in the primary agriculture and manufacturing sectors. However, loan applications for working capital increased to levels significantly higher than recent average. Demand for household loans was also lower, particularly for housing loans, amid the expiration of the Home Ownership Campaign in 2019, and the MCO in mid-March.

## Expansion supported by higher loan growth amid lower growth in corporate bonds

Chart 25: Contribution to Net Financing Growth



\*Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

<sup>4</sup> Loans from the banking system and development financial institutions (DFIs).

<sup>5</sup> Excludes issuances by Cagamas and non-residents.

<sup>6</sup> Loan applications in the banking system only.