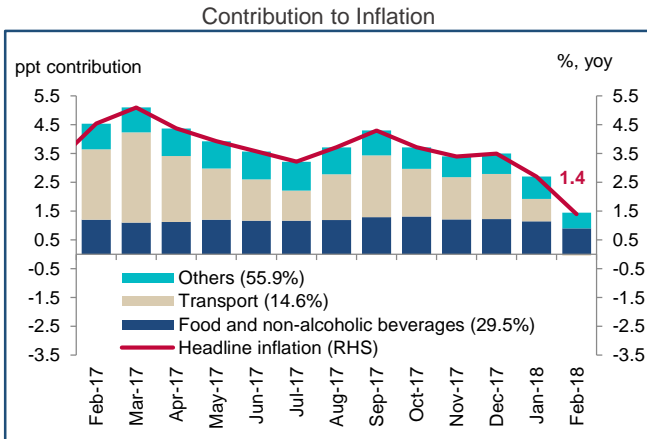


Monthly Highlights

February 2018

Lower headline inflation due mainly to lower domestic fuel prices

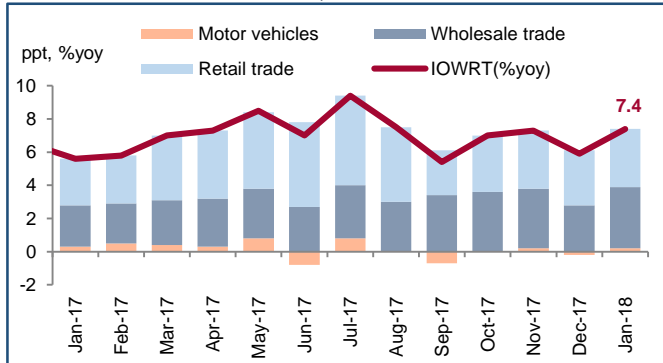


Source: Department of Statistics, Malaysia and staff estimates

- Headline inflation declined to 1.4% in February (January: 2.7%).
 - Inflation in the *transport* category was -0.3% (January: 5.7%) due to lower domestic fuel prices during the month.
 - Inflation in the *food and non-alcoholic beverages* category was at 3.0% (January: 3.8%). This reflects lower prices of some fresh food items following the festive season price control scheme during the Chinese New Year period and better weather conditions thereafter.

Higher wholesale & retail trade growth driven by improvements in all segments

Contribution to Overall IOWRT (Index of Wholesale & Retail Trade)

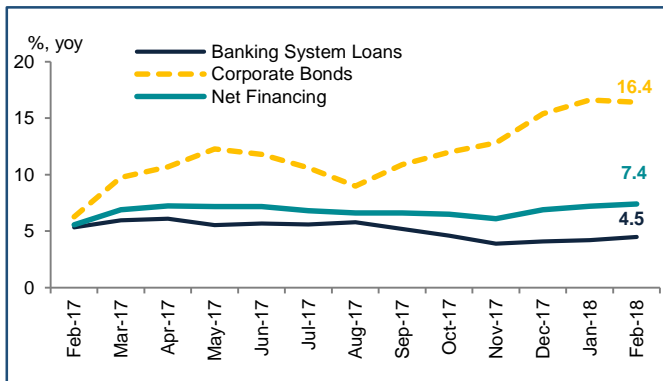


Source: Department of Statistics, Malaysia

- The Index of Wholesale & Retail Trade (IOWRT) registered higher growth in January (7.4%, December 2017: 5.9%), driven by improvements across all segments.
- Of significance, the retail segment recorded higher growth in January (8.5%, December 2017: 7.9%), suggesting continued strength in household spending.

Net financing growth continued to support economic activity

Net Financing through Banking System Loans and Corporate Bonds



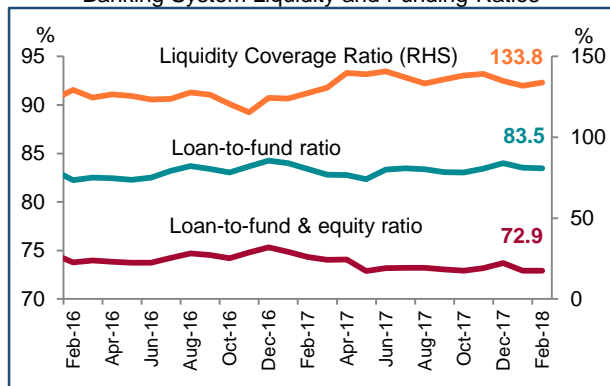
¹ Net financing refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)), and outstanding corporate bonds.

Source: Bank Negara Malaysia

- Net financing¹ growth increased to 7.4% in February (January: 7.2%). The growth of outstanding loans of the banking system increased to 4.5% (January: 4.2%) while net outstanding issuances of corporate bonds continued to expand at 16.4% (January: 16.6%).
- The increase in loan growth was due mainly to household loans (February: 5.6%; January: 5.3%), driven by loans for the purpose of *residential property*; *securities*; and *personal financing*.

Banks' funding structure supportive of financing activity

Banking System Liquidity and Funding Ratios



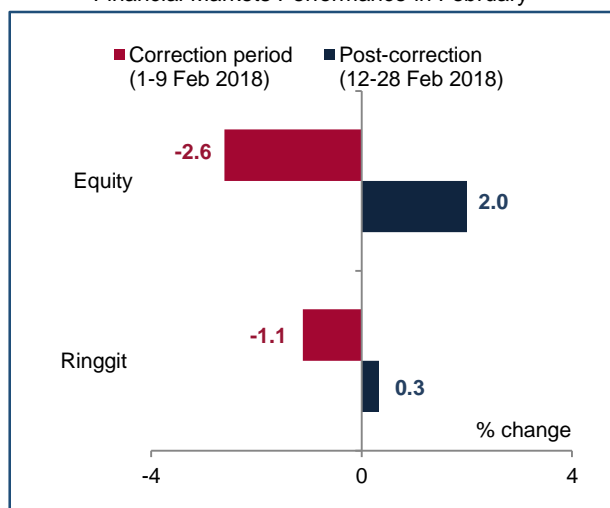
- Banks' diversified funding sources have enabled them to better manage currency and maturity mismatches.
- Reflective of banks' broader funding base, the loan-to-fund and the loan-to-fund-and-equity ratios stood at 83.5% and 72.9% respectively.
- The banking system Liquidity Coverage Ratio stood at 133.8%, well above the transitional¹ minimum regulatory requirement of 90%.

¹ The Basel III LCR has been phased in since June 2015, with initial compliance set at 60% and progressive increments of 10% each year until 100% with effect from 2019. As of 1 January 2018, the minimum requirement is set at 90%.

Source: Bank Negara Malaysia

Domestic financial markets were affected by volatile global conditions

Financial Markets Performance in February



Source: Bank Negara Malaysia, Bursa Malaysia

- In February, domestic financial markets were affected by the spike in global financial market volatility following the sharp correction in the US equity market. The correction was triggered by expectations of a faster pace of normalisation by the Federal Reserve following the release of strong US wage and employment growth data.
- The domestic equity market declined in early-February, tracking the decline in the US equity market before retracing some of the losses later in the month, following positive sentiments from the release of better-than-expected fourth quarter 2017 GDP growth.
- The ringgit depreciated by 0.8% against the US dollar, due mainly by net portfolio outflows. FX swap volume decreased by USD9.2 billion to USD102.9 billion due mainly to a decline in interbank swap activity. Net outflows in February led to a higher dollar demand, pushing the average 1-month USD/MYR swap points lower by 7 points to 43 points. As a result, the 1-month implied dollar funding cost via FX swaps increased to 2.29% as at end-February (end-January: 1.76%).



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Bank Negara Malaysia
30 March 2018

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