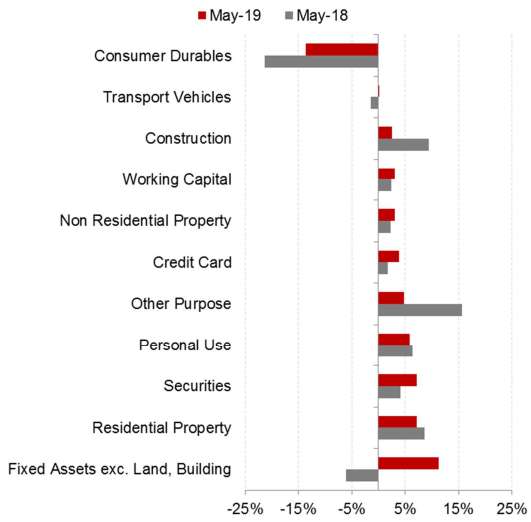
Malaysia Money & Credit

M3 and loan growth edges up in May

OVERVIEW

- **May broad money (M3) grew at a faster pace of 5.2% YoY (Apr: 4.9%), remaining on an uptrend for the second successive month.** This was underpinned by a lower contraction in net foreign assets (-3.9%; Apr: -5.1%), particularly those of the banking system (-15.0%; Apr: -19.5%), reflecting reduced liquidation of foreign assets. Claims on the private sector, especially in the form of securities (11.5%; Apr: 10.4%), also contributed to higher M3 growth, edging up to 5.0% (Apr: 4.8%). Collectively, these have more than outweighed slower growth of net claims on government (32.6%; Apr: 44.6%) and net other influences (3.5%; Apr: 4.3%). In terms of percentage point (ppt) contribution, claims on the private sector remained the key contributor (5.0 ppt), followed by net claims on government (2.7 ppt), while both net other influences (-1.3 ppt) and net foreign assets (-1.2 ppt) remained a drag to overall broad money growth. On a MoM basis, M3 sustained a growth rate of 0.4%.

Graph 1: Loans Growth Trend by Purpose



Source: BNM, CEIC, Kenanga Research

- **Tracking a similar direction, narrow money (M1) growth spiked up to an 8-month high of 4.1% YoY** (Apr: 2.2%). This was attributable to a turnaround in currency in circulation (3.3%; Apr: -0.5%), which charted the fastest expansion in four months, as well as an increase in demand deposits (4.3%; Apr: 3.0%), which grew at the fastest pace in eight months. This could in part be explained by increased transaction demand amid the Eid festivities which began in May. On a MoM basis, M1 growth rebounded to 2.2% (Apr: -0.6%).

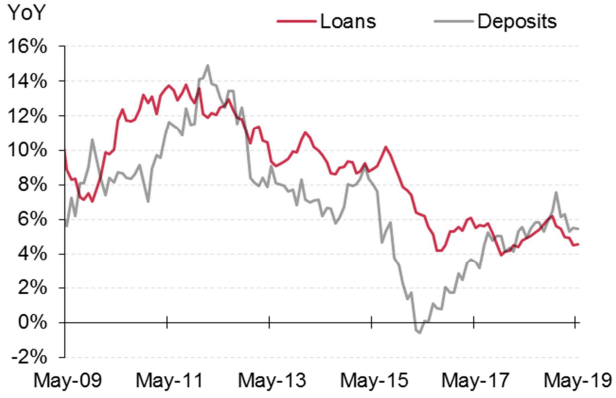
- **Loan growth increased marginally to 4.6% in May (Apr: 4.5%), marking its first uptick after inching down for the past five months.** This was primarily driven by faster growth in loans extended for credit card (3.8%; Apr: 2.2) and purchase of transport vehicles (0.1%; Apr: -0.7%), as well as smaller fall in loans for purchase of consumer durables (-13.6%; Apr: -14.6%). Though this may suggest some sense of optimism among consumers, we view it as temporary as it was mostly driven by festive season purchases, and that the underlying cautious sentiments remain against the backdrop of a slower economic growth. On a sectoral basis, credit growth in construction (8.9%; Mar: 5.2%), real estate (0.7%; Apr: -1.0%) and agriculture (0.0%; Apr: -1.3%) led the improvement observed during the month. On a MoM basis, loan growth edged up by 0.3% (Apr: 0.0%), in line with a decrease in weighted average lending rate of commercial banks to 4.93% (Apr: 5.02%). Meanwhile, **deposit growth was unchanged at 5.5%,** as tapered fixed deposits growth (7.6%; Apr: 8.0%) was zeroed out by increased demand deposits growth (3.5%; Apr: 1.6%).

- Given the ongoing slowdown in the economy, both externally and domestically, **loan growth is projected to ease further to 4.2% in 2019 (2018: 5.6%).** As for the interest rate outlook, **we believe BNM has room to further cut the overnight policy rate if the economy deteriorates and if the Fed embarks on more than one rate cut this year.**

Graph 2: Money Supply Growth Trend

Source: BNM, CEIC, Kenanga Research

Graph 3: Loan and Deposit Growth Trend



Source: BNM, CEIC, Kenanga Research

Table 1: Money Supply, Loan and Deposit Growth Trend

		2016	2017	2018	*May-18*	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
	% MoM				*0.3*	2.2	0.1	-1.4	1.3	-0.6	2.2
M1	Chg (RM b)	20.4	42.0	4.7	*1.4*	9.2	0.6	-5.9	5.3	-2.4	9.2
	% YoY	5.6	11.0	1.1	*6.7*	1.1	1.6	0.5	2.5	2.2	4.1
	% MoM				*0.0*	0.8	-0.5	-0.1	0.6	0.4	0.4
M2	Chg (RM b)	51.4	83.2	135.7	*0.3*	15.7	-9.5	-1.6	10.2	7.4	7.2
	% YoY	3.2	5.1	7.8	*5.7*	7.8	6.5	5.8	4.5	4.9	5.3
	% MoM				*0.2*	0.8	-0.5	-0.1	0.5	0.4	0.4
M3	Chg (RM b)	51.3	81.2	139.2	*3.2*	15.1	-9.2	-1.4	9.5	7.1	8.1
	% YoY	3.2	4.9	8.0	*5.7*	8.0	6.6	6.0	4.6	4.9	5.2
	% MoM				*0.3*	0.6	0.3	-0.2	0.4	0.0	0.3
Loans	Chg (RM b)	76.3	62.9	89.1	*4.9*	9.8	5.0	-2.6	6.4	0.2	5.9
	% YoY	5.3	4.1	5.6	*4.9*	5.6	5.5	5.0	4.9	4.5	4.6
	% MoM				*-0.1*	0.9	-0.7	0.2	1.0	0.2	-0.1
Deposit	Chg (RM b)	28.6	70.6	134.3	*-1.2*	16.3	-13.4	4.6	18.8	3.2	-1.7
	% YoY	1.7	4.1	7.5	*4.9*	7.5	6.2	6.3	5.3	5.5	5.5
LCR*	(%)	124.3	134.9	143.2	*142.1*	143.2	144.3	148.9	143.0	159.9	155.2

Source: Bank Negara Malaysia, Kenanga Research

**Liquidity Coverage Ratio (LCR) is based on Basel III requirement and was adopted since June 2015. As of 1 January 2018, the minimum requirement is set at 90%.*

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