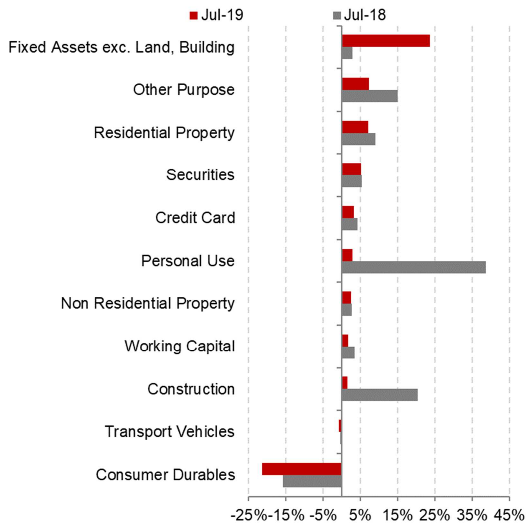
Malaysia Money & Credit

M3 and loan growth extends its slowdown in July on weak domestic demand

OVERVIEW

- **July broad money (M3) grew at a slower pace of 4.9% YoY (Jun: 5.1%), an 18-month low** on slower domestic demand activities. On a MoM basis, M3 rebounded marginally by 0.1% (Jun: -0.3%).
- **Private and public spending moderated.** The cause for slower M3 growth was due to slower growth in claims on the private sector (4.3% YoY; Jun: 4.6%) primarily attributed to slower growth in loans (3.5% YoY; Jun: 3.9%). This is followed by slower growth in claims on government (20.9% YoY; Jun: 22.1%) as both claims on government, and government deposits slowed to 18.4% and 14.1% YoY respectively (Jun: 23.3% and 25.8% YoY respectively). Collectively, its percentage point (ppt) contribution to overall M3 YoY growth decreased to 6.0 ppt (Jun: 6.5 ppt).
- **Meanwhile, narrow money (M1) accelerated to 4.5% YoY after a brief moderation in Jun (3.7% YoY).** This was driven by a sharp increased in both component, namely currency in circulation (3.9% YoY vs. Jun: 2.0%) and demand deposits (4.6% vs. Jun: 4.2%). On a MoM basis, M1 growth fell by 0.5% (Jun: -0.6%).

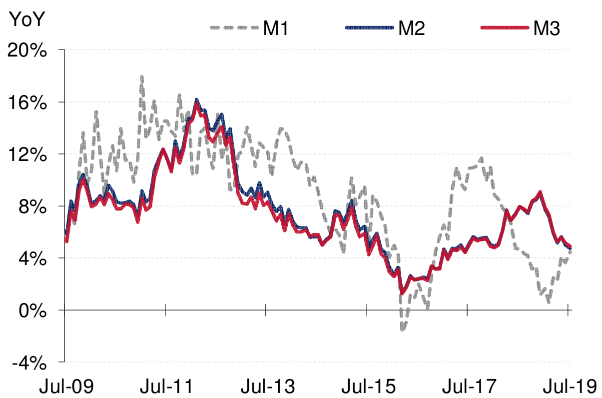
Graph 1: Loans Growth Trend by Purpose



Source: BNM, CEIC, Kenanga Research

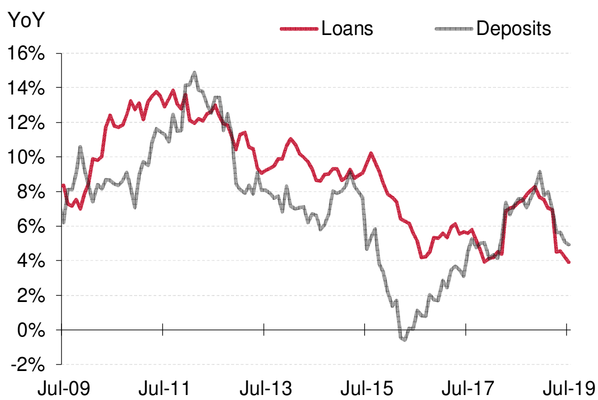
- **Loan growth continued to moderate in July to 3.9% YoY (Jun: 4.2%)**. This was due to growth moderation in the purchase of securities (5.2% YoY: Jun: 6.5%), purchase of non-residential property (2.5% YoY; Jun: 2.7%) and working capital (1.6% YoY; Jun: 2.3%). Collectively, its contribution to overall loan growth was reduced to 1.0 ppt (Jun: 1.2 ppt). On a sectoral basis, the slower credit growth was associated with a moderation in manufacturing (6.9% YoY; Jun: 7.0%), construction (8.0 YoY; Jun: 10.4%), education, health & others (6.5% YoY; Jun: 8.9%), as well as the household sector (4.7% YoY: Jun: 4.9%). Meanwhile, mining & quarrying, as well as finance, insurance & business activities growth continued to fall by 18.5% and 1.0% YoY respectively (Jun: -22.1% and -2.5% respectively). On a MoM basis, loan growth was unchanged, though the weighted average lending rate of commercial banks decreased to 4.82% (Jun: 4.89%).
- **Deposit growth extends its downtrend for two consecutive months, it moderated to 4.9% YoY** (Jun: 5.1%), weighed down by slower growth in fixed deposits and repurchase agreement at 6.6% and 16.6% YoY respectively (Jun: 7.7% and 49.4% YoY respectively). Besides, other deposits accepted fell sharply by 4.7% YoY (Jun: -1.8%). Of note, the savings deposit rate of commercial banks edged up marginally to 1.00% per annum from 0.99% in June, but a tad lower than 1.05% a year ago.
- Overall**, we maintained our loan growth forecast to average around 4.2% in 2019 (2018: 7.7%) as the economy slows** brought about by both external and domestic factors. As for the interest rate outlook, **we believe BNM has room to cut the overnight policy rate by another 25 basis points by year-end** should there be more indicators of pointing towards further deterioration to the economy in 4Q19 as well as a clear signal that the US Fed would embark on more than one rate cut this year. Of note, BNM will decide its OPR on Sep 12 ahead of Fed meeting on Sep 18.

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	*Jul-18*	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19
	% MoM				*-1.3*	-1.4	1.3	-0.6	2.2	-0.6	-0.5
M1	Chg (RM b)	20.4	42.0	4.9	*-5.3*	-5.9	5.3	-2.4	9.2	-2.8	-2.2
	% YoY	5.6	11.0	1.2	*4.7*	0.6	2.5	2.2	4.1	3.7	4.5
	% MoM				*0.3*	0.0	0.6	0.6	0.4	-0.4	0.0
M2	Chg (RM b)	51.4	83.2	154.6	*5.8*	-0.3	11.1	10.8	6.7	-8.2	0.8
	% YoY	3.2	5.1	8.9	*8.0*	7.1	5.9	5.2	5.6	5.0	4.7
	% MoM				*0.3*	0.0	0.5	0.6	0.4	-0.3	0.1
M3	Chg (RM b)	51.3	81.2	158.1	*5.0*	-0.1	10.3	10.6	7.6	-5.0	1.2
	% YoY	3.2	4.9	9.1	*8.0*	7.3	6.0	5.3	5.6	5.1	4.9
	% MoM				*0.3*	-0.2	0.4	0.0	0.4	0.4	0.0
Loans	Chg (RM b)	76.3	62.9	121.4	*4.8*	-2.6	6.5	0.7	6.1	6.6	0.3
	% YoY	5.3	4.1	7.7	*7.4*	7.0	7.0	4.5	4.5	4.2	3.9
	% MoM				*0.5*	0.3	1.0	0.3	-0.1	-0.1	0.3
Deposit	Chg (RM b)	28.6	70.6	163.2	*8.5*	6.3	19.9	6.7	-2.1	-2.2	5.4
	% YoY	1.7	4.1	9.2	*7.6*	8.0	7.0	5.6	5.6	5.1	4.9
LCR*	(%)	124.3	134.9	143.2	*141.5*	148.9	143.0	159.9	155.2	153.0	155.4

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%.*

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my