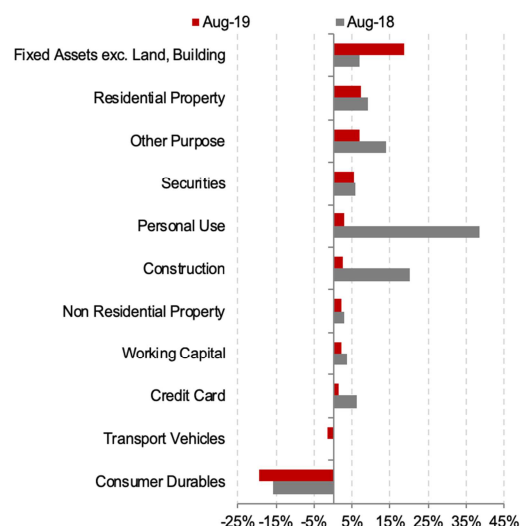


Malaysia Money & Credit

M3 edges further down, while loan growth sustains in August

- August broad money (M3) growth edged further down to 4.2% YoY (Jul: 4.9%), a 30-month low** on moderating domestic demand activities. On a MoM basis, M3 declined by 0.2% (Jul: +0.1%).
- Private and public spending eased.** The softer M3 growth was attributable to a lower expansion in claims on the private sector (3.7%; Jul: 4.3%), especially in the form of securities (5.3%; Jul: 10.1%). This was followed by a moderation in growth of net claims on government (19.9%; Jul: 20.9%) arising from higher government deposits (19.0%; Jul: 14.1%). Collectively, these have more than outweighed faster growth of net external reserves (1.8%; Jul: 1.0%), particularly those of the banking system (2.9%; Jul: -2.1%), reflecting heightened liquidation of foreign assets. In terms of percentage point (ppt) contribution, claims on the private sector remained the key contributor (3.8 ppt), followed by net claims on government (1.6 ppt) and net external reserves (0.5ppt). Meanwhile, net other influences (-1.6 ppt) remained a drag to overall broad money growth probably due to a large outflow of portfolio capital.
- Tracking a similar direction, narrow money (M1) growth slowed to 3.8% YoY (Jul: 4.5%),** due to a decrease in demand deposits growth (3.6%; Jul: 4.6%). This has outweighed the seven-month high growth in currency in circulation (4.4%; Jul: 3.3%). On a MoM basis, M1 growth lessened its decline to 0.1% (Jul: -1.3%).
- Loan growth was sustained at a 21-month low of 3.9% in August,** as faster growth in loans extended for working capital (2.1%; Jul: 1.6) was negated by a steeper drop in loans for purchase of transport vehicles (-1.6%; Jul: -0.8%). On a sectoral basis, improvement in credit growth in the transport, storage & communication sectors (-0.1%; Jul: -1.0%) zeroed out the deterioration in the real estate sector (-3.0; Jul: -1.4%). On a MoM basis, loan growth edged up by 0.6% (Jul: 0.0%), against the backdrop of unchanged weighted average lending rate of commercial banks (4.82%). Meanwhile, **deposit growth extended its downtrend for three successive months (4.6%; Jul: 4.9%),** weighed primarily by tapered fixed deposits growth (5.9%; Jul: 6.6%).
- Overall, we maintain our forecast of slowdown in loan growth in 2019 (4.2%; 2018: 7.7%), amid moderating economic growth** 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 at its last policy meeting for the year in November premised on a weakening growth outlook beyond 4Q19.**

Graph 1: Loans Growth by Purpose



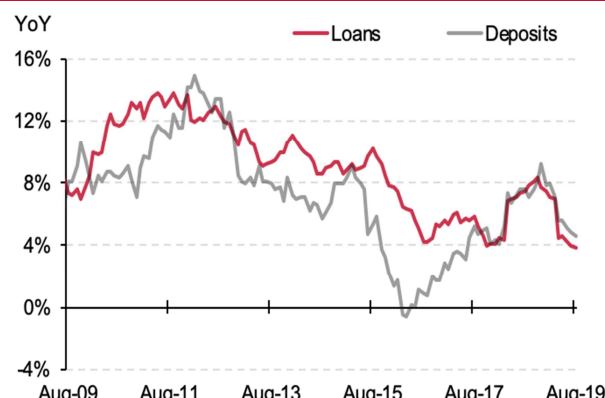
Source: BNM, CEIC, Kenanga Research

Graph 2: Money Supply Growth



Source: BNM, CEIC, Kenanga Research

Graph 3: Loan and Deposit Growth



Source: BNM, CEIC, Kenanga Research

Table 1: Money Supply, Loan and Deposit Growth Trend

		2016	2017	2018	Aug-18	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
M1	% MoM				-0.1	1.3	-0.6	2.2	-0.6	-0.5	-0.7
	Chg (RM b)	20.4	42.0	4.9	-0.2	5.3	-2.4	9.2	-2.8	-2.2	-3.0
	% YoY	5.6	11.0	1.2	4.4	2.5	2.2	4.1	3.7	4.5	3.8
M2	% MoM				0.4	0.6	0.6	0.4	-0.4	0.0	-0.2
	Chg (RM b)	51.4	83.2	154.6	8.0	11.1	10.8	6.7	-8.2	0.8	-3.9
	% YoY	3.2	5.1	8.9	7.8	5.9	5.2	5.6	5.0	4.7	4.1
M3	% MoM				0.4	0.5	0.6	0.4	-0.3	0.1	-0.2
	Chg (RM b)	51.3	81.2	158.1	7.8	10.3	10.6	7.6	-5.0	1.2	-4.7
	% YoY	3.2	4.9	9.1	7.8	6.0	5.3	5.6	5.1	4.9	4.2
Loans	% MoM				0.6	0.4	0.0	0.4	0.4	0.0	0.6
	Chg (RM b)	76.3	62.9	121.4	10.3	6.5	0.7	6.1	6.6	0.3	10.2
	% YoY	5.3	4.1	7.7	7.5	7.0	4.5	4.5	4.2	3.9	3.9
Deposit	% MoM				0.7	1.0	0.3	-0.1	-0.1	0.3	0.4
	Chg (RM b)	28.6	70.6	163.2	13.3	19.9	6.7	-2.1	-2.2	5.4	7.2
	% YoY	1.7	4.1	9.2	7.6	7.0	5.6	5.6	5.1	4.9	4.6
LCR*	(%)	124.3	134.9	143.2	143.5	143.0	159.9	155.2	153.0	155.4	152.2

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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