

Malaysia Money & Credit

M3 slowed in October, loan growth hits 16-year low

- **M3 growth moderated to a 34-month low (3.4%; Sep: 3.9%)...**

- MoM: 1.0% (Sep: 0.4%).
- Softer growth in narrow quasi-money (2.8%; Sep: 3.5%) while M1 growth pace unchanged (4.8%; Sep: 4.8%) and deposits placed with other banking institutions surged (36.7%; Sep: 19.6%).

- **...due to slower growth in public and private spending**

- Net claims on government slowed (12.3%; Sep: 12.7%); on lower credit extended to the government (17.0%; Sep: 19.3%).
- Claims on private sector (4.2%; Sep: 4.5%) eased after a short uptick in the preceding month, mainly due to growth moderation in securities (5.4%; Sep: 7.2%).
- Net external reserves (-2.2%; Sep: -3.6%); remained in a contraction for two straight months albeit lesser, steered by the banking system (-19.8%; Sep: -21.5%), reflecting, to a large extent less liquidation of foreign assets.

- **Loan growth moderated (3.7%; Sep: 3.8%) to a record 16-year low**

- By purpose: due to weak loan growth for working capital (1.3%; Sep: 1.6%) and other purposes (4.9%; Sep: 6.7%).
- By sector: slower credit growth in the manufacturing sector (3.9%; Sep: 5.7%) and construction sector (7.1%; Sep: 8.7%) while wholesale, retail trade, hotel & restaurant sector posted a 7-month high growth (7.5%; Sep: 5.8%).

- MoM: grew by 0.2% (Sep: 0.5%) amid lower average lending rate of commercial banks at 4.76% for two straight months.

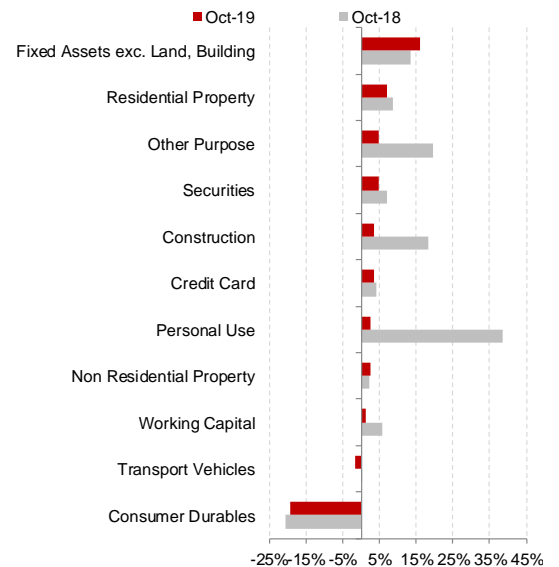
- **Deposit growth in the banking system extended its downtrend for eight straight months (3.5%; Sep: 4.2%)**

- Weighed by substantially lower growth in demand deposits (4.8%; Sep: 6.1%) and fixed deposits (5.3%; Sep: 5.9%).

- **Loan growth forecast maintained on the back of a growth slowdown in 2019 (4.2%; 2018: 7.7%)**

- Growth outlook: we reiterate our view of a growth slowdown underpinned by uncertainties brought about by the US-China trade feud though there have been some positive developments recently in a bid to reach a first-phase trade deal.
- BNM OPR outlook: While the BNM has decided to maintain the policy rate at 3.00% for the rest of the year, we believe BNM still has ample room to lean towards a rate cut to lend support to domestic demand next year if the economy continues its downtrend in 2020.

Graph 1: Loans Growth by Purpose



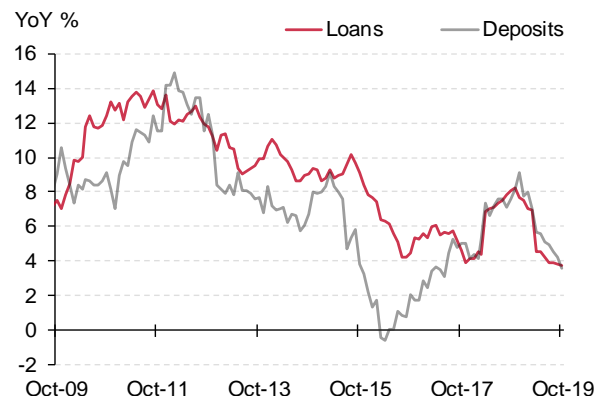
Source: BNM, CEIC, Kenanga Research

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	Oct-18	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
M1	% MoM				0.3	2.2	-0.6	-0.5	-0.7	1.8	0.3
	Chg (RM b)	20.4	42.0	4.9	1.4	9.2	-2.8	-2.2	-3.0	7.7	1.5
	% YoY	5.6	11.0	1.2	3.2	4.1	3.7	4.5	3.8	4.8	4.8
M2	% MoM				1.5	0.4	-0.4	0.0	-0.2	0.5	0.9
	Chg (RM b)	51.4	83.2	154.6	27.4	6.7	-8.2	0.8	-3.9	8.7	17.7
	% YoY	3.2	5.1	8.9	8.3	5.6	5.0	4.7	4.1	3.8	3.2
M3	% MoM				1.4	0.4	-0.3	0.1	-0.2	0.4	1.0
	Chg (RM b)	51.3	81.2	158.1	26.6	7.6	-5.0	1.2	-4.7	7.7	18.4
	% YoY	3.2	4.9	9.1	8.4	5.6	5.1	4.9	4.2	3.9	3.4
Loans	% MoM				0.3	0.4	0.4	0.0	0.6	0.5	0.2
	Chg (RM b)	76.3	62.9	121.4	5.5	6.1	6.6	0.3	10.2	8.5	4.2
	% YoY	5.3	4.1	7.7	8.1	4.5	4.2	3.9	3.9	3.8	3.7
Deposit	% MoM				1.1	-0.1	-0.1	0.3	0.4	0.1	0.5
	Chg (RM b)	28.6	70.6	163.2	21.5	-2.1	-2.2	5.4	7.2	1.9	9.4
	% YoY	1.7	4.1	9.2	7.6	5.6	5.1	4.9	4.6	4.2	3.5
LCR*	(%)	124.3	134.9	143.2	147.1	155.2	153.0	155.4	151.7	143.6	#N/A

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