

Malaysia

M3 Hits The Brake; Loan Growth Inched Up

- ◆ Malaysia's M3 growth eased to 5.5% YoY in May (April: +6.2%) as demand for funds from foreign operations and private sector moderated, while public credit demand fell at a slower pace.
- ◆ Loan growth inched up to 4.9% YoY (April: +4.8%) due to an increase in loans extended to corporate sectors.
- ◆ Looking ahead, we envisage M3 growth to pick up to 5% in 2018, (2017: +4.7%). However, this is unlikely to result in any demand-pull price pressure, as core inflation remains subdued. That said, we believe another round of rate hike is still in the cards this year (+25bps to 3.5%).

Economist

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Malaysia's M3 growth eased to 5.5% YoY in May, from +6.2% in April, as demand for funds from foreign operations and private operations moderated. Meanwhile, net demand for funds from government operations contracted at a slower pace. Meanwhile, growth in narrow money (M1) slowed for the fourth consecutive month to 6.7% YoY during the month, from +7.5% in April.

Looking ahead, we envisage M3 to grow 5% in 2018, rising from +4.7% in 2017, backed by resilient demand for credit. However, the higher growth in money supply is unlikely to result in any demand-pull price pressure. We envisage inflation to moderate to 1.9% in 2018, from 3.7% in 2017 (2016: +2.1%), while core inflation should remain manageable.

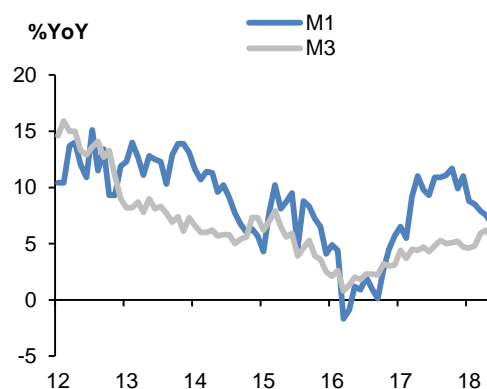
Despite lower expected headline inflation, we believe another round of rate hike is still in Bank Negara Malaysia's (BNM) cards this year (+25bps to 3.5%), in line with the US Federal Reserve's (US Fed) rate hike policy, which is expected to be at a quicker pace than previously expected (4x vs 3x previously). However, there is a risk that the tightening move may be put on hold or delayed, should the country's economic growth slow more than expected this year.

On the same note, loan growth inched up to 4.9% YoY in May from +4.8% in the previous month, driven by an increase in loans extended to the corporate sectors, but partly offset by slower loans extended to household sectors. Corporate loans registered a stronger growth of 4% in May (March: +3.6%) despite a slowdown in loans extended to both the manufacturing, wholesale & retail (including restaurants & hotels) and construction sectors during the month.

By contrast, growth in household sector loans nudged lower to 5.6% YoY in May (April: +5.7%). This comes on a slowdown in loans extended for credit card and a bigger decline in car loans, while loans extended for the purchase of consumer durable goods fell by a smaller margin. These were partly offset by rising loans extended for personal uses.

Likewise, total deposits decelerated for the first time since January to 4.8% YoY in May, from 5.2% in April. This was mainly on slower growth in deposits from the Federal Government and business enterprises, plunging growth in deposits from others, while deposit growth from state governments contracted for the first time since Jun 2017. However, these were partly offset by stronger growth in deposits from state authorities and individuals.

M1 slowed for fourth consecutive month, bringing down M3 growth



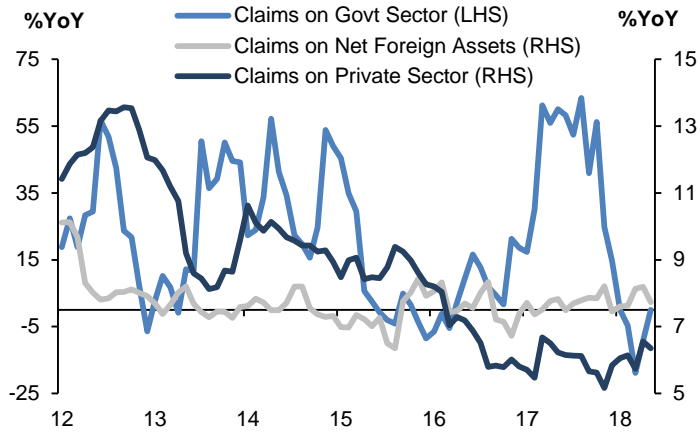
Source: Bank Negara Malaysia (BNM), RHB

Malaysia's financial and monetary indicators

% YoY	2015	2016	2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	Jun 2018
Money supply (M3)	2.6	3.1	4.7	4.6	4.9	5.9	6.2	5.5
- Claims on private sector	8.3	5.7	5.8	6.1	6.1	5.8	6.6	6.4
- Claims on public sector	-8.4	18.4	14.7	0.03	-4.6	-18.9	-9.1	0
- Net foreign assets	4.3	-1.0	-0.4	1.1	1.3	6.4	7.0	2.3
Loan growth	7.9	5.3	4.1	4.2	4.5	4.4	4.8	4.9
Deposits	1.8	1.6	4.0	4.3	4.1	5.2	5.5	4.8

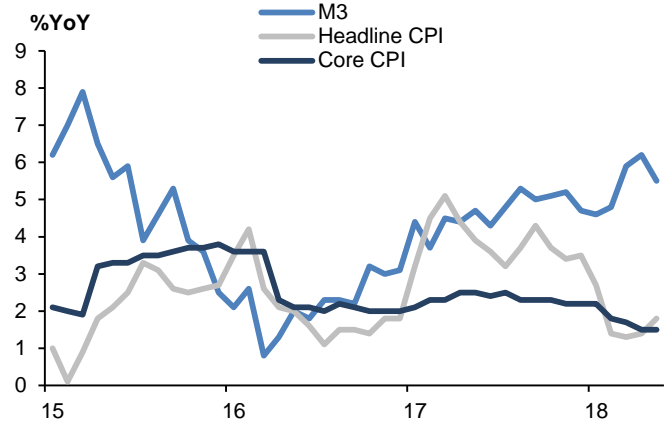
Source: BNM, RHB

Figure 1: Demand for funds from private and foreign operations moderated, while demand for government operations rebounded



Source: BNM, RHB

Figure 2: Inflation rate picked up even as M3 growth slowed



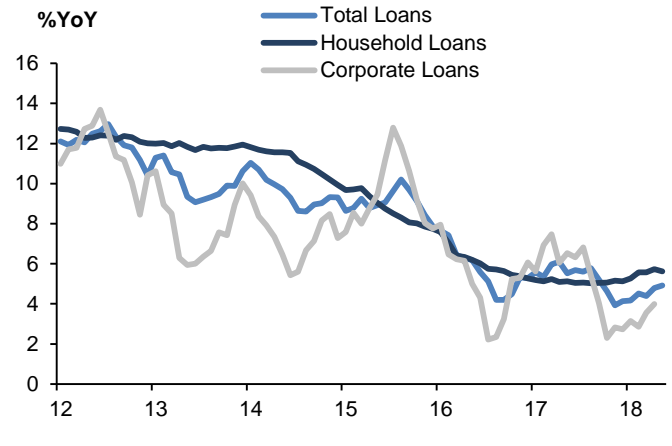
Source: BNM, RHB

Figure 3: Loans by sector: construction and wholesale, retail, hotels & restaurants moderated



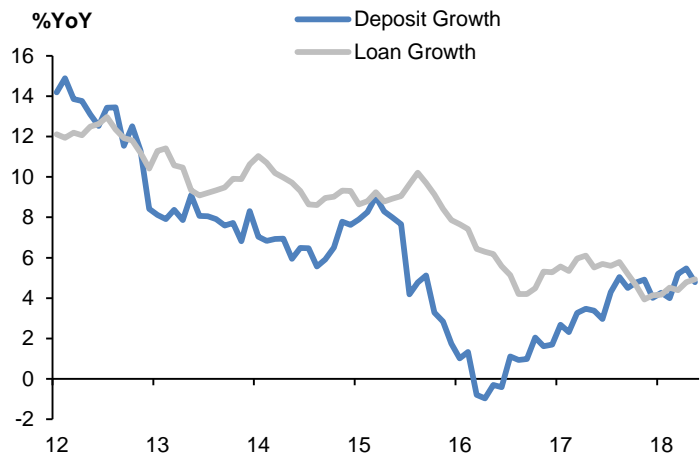
Source: BNM, RHB

Figure 4: Slower loans growth came on easing of corporate loans, partly offset by increasing household loans



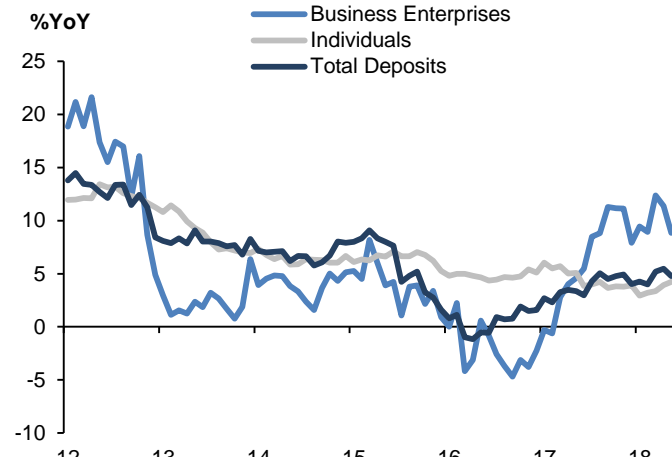
Source: BNM, RHB

Figure 5: Deposit growth eased...



Source: BNM, RHB

Figure 6: ...on lower deposits from business enterprises



Source: BNM, RHB

Figure 7: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	5.0	5.1	5.3	5.5	3.5	3.8	3.6	3.5	4.75	4.25	5.00	5.00	13540	13588	14400	14500
Malaysia	4.2	5.9	5.2	5.0	2.1	3.7	1.9	2.5	3.00	3.00	3.50	3.75	4.49	4.06	3.98	4.00
Philippines	6.8	6.7	6.5	6.6	1.8	3.2	4.0	3.5	3.00	3.00	3.25	3.25	49.62	49.83	49.79	50.00
Singapore	2.4	3.6	3.0	2.8	-0.5	0.6	1.6	1.6	-	-	-	-	1.45	1.34	1.33	1.34
Thailand	3.2	3.9	4.2	3.7	0.2	0.7	1.2	1.4	1.50	1.50	1.50	1.50	35.85	32.57	32.20	32.50
Vietnam*	6.2	6.8	6.3	6.2	2.7	3.5	3.4	3.6	6.50	6.00	6.00	6.00	22770	22709	22700	22700
China**	6.7	6.9	6.6	6.4	2.0	1.6	2.5	2.6	4.35	4.35	4.35	4.35	6.95	6.51	6.45	6.50

*prime rate; **1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	-3.9	16.2	10.0	11.0	-4.9	15.6	11.0	12.0	5.0	5.1	5.3	5.6	5.6	5.5	5.4	5.3
Malaysia	1.1	18.9	6.5	4.7	1.9	19.9	6.2	5.1	3.8	5.2	4.5	3.8	3.5	3.4	3.3	3.2
Philippines	-2.4	9.5	8.0	9.0	18.3	10.2	9.0	10.0	6.4	6.2	3.6	6.2	5.5	5.7	5.6	5.5
Singapore	-4.4	8.5	6.7	5.2	-4.2	10.6	10.9	6.5	3.7	10.1	7.6	5.0	2.2	2.1	2.0	2.0
Thailand	0.5	9.9	7.0	5.4	-3.9	14.7	8.6	6.1	1.6	1.6	2.9	2.0	0.9	1.0	0.9	0.9
Vietnam	9.2	21.4	9.5	9.1	5.6	21.4	8.7	8.2	6.9	10.0	8.1	7.8	3.3	3.5	3.6	3.1
China	1.8	6.8	5.2	5.0	3.8	7.3	5.6	5.5	6.1	6.5	5.5	5.2	4.1	4.1	4.1	4.2

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				Forex Reserves (USD bn)				External Debt (USD bn)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018	2019F	2016	2017E	2018F	2019F
Indonesia	-2.5	-2.5	-2.7	-2.5	-1.8	-1.7	-1.9	-2.0	116	130	137	142	320	353	380	400
Malaysia	-3.1	-3.0	-2.8	-2.7	2.4	3.0	2.7	2.9	95	102	114	112	201	213	222	231
Philippines	-2.4	-2.2	-2.8	-2.8	-0.4	-0.8	-0.7	-0.6	81	82	81	80	75	73	71	70
Singapore	1.3	0.5	0.8	0.2	19.0	18.8	17.8	16.7	247	280	265	312	-	-	-	-
Thailand	-2.6	-1.8	-2.9	-3.0	11.4	10.8	7.7	6.9	172	203	208	227	152	155	159	164
Vietnam	-5.0	-5.3	-5.2	-4.8	2.7	1.9	2.1	2.2	43	40	45	49	76	79	83	84
China	-3.5	-3.6	-3.3	-2.6	1.8	1.3	1.1	1.3	3010	3140	3000	3000	1400	1450	1400	1380

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply* (%)			
	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F	2016	2017	2018F	2019F
Indonesia	9.6	8.3	9.9	11.0	7.8	10.0	12.8	12.0	92.7	91.9	94.3	93.5	10.0	11.0	12.4	12.4
Malaysia	1.5	5.7	4.6	5.0	5.3	4.1	5.2	5.5	89.8	90.5	90.9	92.2	3.0	4.7	5.0	5.2
Philippines	14.3	11.9	11.8	12.0	16.1	18.1	18.0	18.5	70.7	74.1	74.1	78.7	12.8	11.9	10.0	11.0
Singapore	2.7	3.2	5.4	5.0	0.5	8.0	5.8	5.2	107.9	104.5	104.9	105.0	8.1	4.1	4.5	4.2
Thailand	3.8	4.1	5.3	5.0	3.6	4.1	5.1	4.8	93.3	93.1	92.9	93.0	4.2	5.2	5.3	5.0
Vietnam	15.0	10.0	11.2	10.8	18.0	15.0	13.5	12.9	79.6	81.0	83.0	83.5	16.0	17.0	18.0	17.2
China	11.0	10.7	9.6	8.5	13.5	12.1	10.5	9.5	70.8	71.7	72.2	73.0	11.3	8.2	8.0	7.5

Note: As at 30 May 2018

Note 2: *M2 is used for all countries except for Thailand M1 is used and Philippines M3 is used instead.

Note 3: **Starting 3 Jun 2016, the Philippines' policy rate was changed to purely 'Bangko Sentral ng Pilipinas' overnight reverse repurchase (RRP) facility at 3%

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, RHB

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