



Stay invested despite hint of tight liquidity

20 March 2025

Tight liquidity increasing the risk in the interbank market. We note data showing that the banking system’s loans to deposit ratio (LDR) increased to 88.2% in January 2025 from 87.8% in December (and from 86.1% in June last year). The higher LDR owed to a faster rise in lending (average growth of 0.52% per month in the six month period August 2024-January 2025) vs. deposits (0.39% per month). We are also wary that deposits fell by 0.6% and 0.4% last July and August, as well as showing almost zero growth in January 2025. We suspect this reflects rising liquidity shortage in the interbank market. We then note that the Klibor rates have stayed elevated for some months vis-a-vis the Overnight Policy Rate (OPR). The 3m Klibor at 3.66% translates into its spread over the OPR at 66 bps, vs 73 bps at the start of the year, and vs 59 bps as of June past year. To make the view of tighter liquidity in the banking system clearer, BNM’s data on daily Liquidity Position (Conventional) we calculate to have averaged around MYR26.3 billion per day in February 2025 vs MYR28.6 billion in January, and down from MYR35.7 billion last June. Nevertheless, the Islamic balance is consistent at MYR19.5 billion average in February vs. MYR21.2 billion in January and MYR17.5 billion last June.

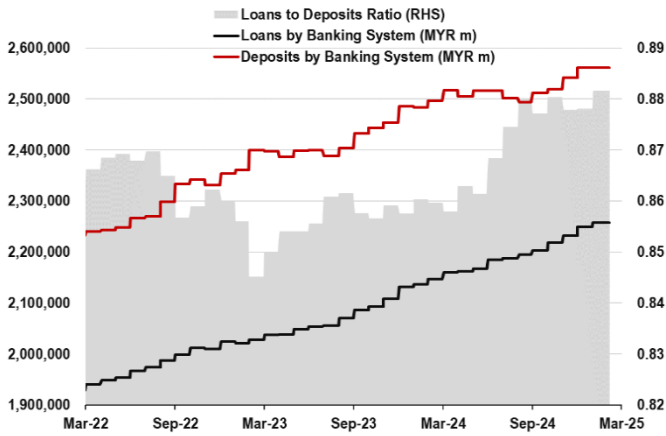
Risk of rising short-term rates ongoing. Despite the past month’s slow burn decline in IRS rates, we note that the importance of the situation is that this could further affect the money market by risk of rising short-term rates. This could also lift MGS yields on very short 1Y-3Y tenors. Short-term borrowing costs for bond investors are likely to be affected.

Conditions should normalise, so we think investors should remain invested. Our take is that normalising liquidity conditions would require policy input and measures on top of market actions to boost liquidity. We have noted remarks from our money market (MM) dealers that authorities have been actively trying to aid liquidity in the system. We also point to ongoing efforts by market participants to alleviate the tight position through an increase in banking system MM and repo initiation (repo tenders) in recent months. The combination of Islamic and Conventional MM and repo tenders has risen to an average of MYR8.2 billion per day in February from MYR4.7 billion per day in January and MYR1.8 billion per day average last June. In the meantime, our suggestions to investors are to 1) stay invested/pick up bonds/bills of shorter tenors — as we expect lower yields when liquidity improves, and 2) Be wary of borrowing costs; thus, keep it simple and venture up the term structure when yields are attractive enough. We have not altered our 3Y and 10Y MGS forecasts, as in the table below.

AmBank’s MGS yield forecasts

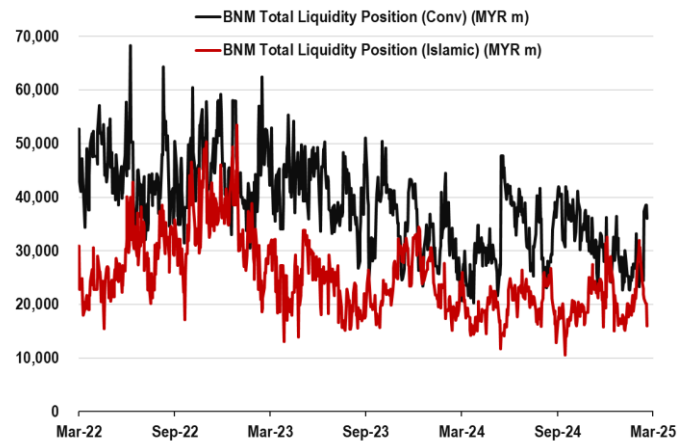
	2Q2025	3Q2025	4Q2025	1Q2026
3Y MGS (%)	3.35	3.35	3.30	3.25
10Y MGS (%)	3.75	3.70	3.70	3.75
10Y-3Y MGS (bps)	40	35	40	50

Exhibit 1: Malaysia's Loans to Deposits Ratio has surged



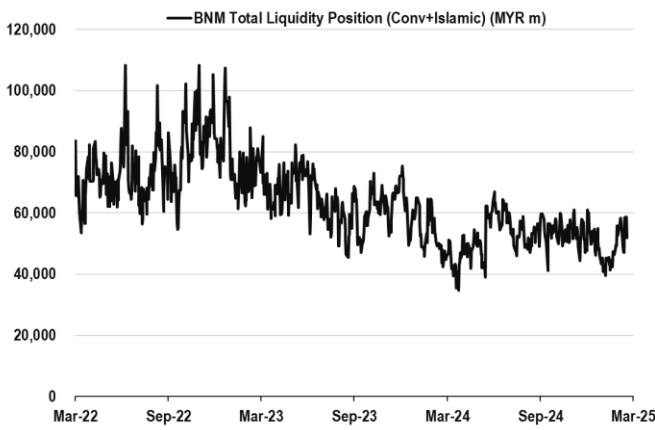
Sources: BNM, Bloomberg, AmBank Economics

Exhibit 2: BNM data shows Liquidity Position has declined



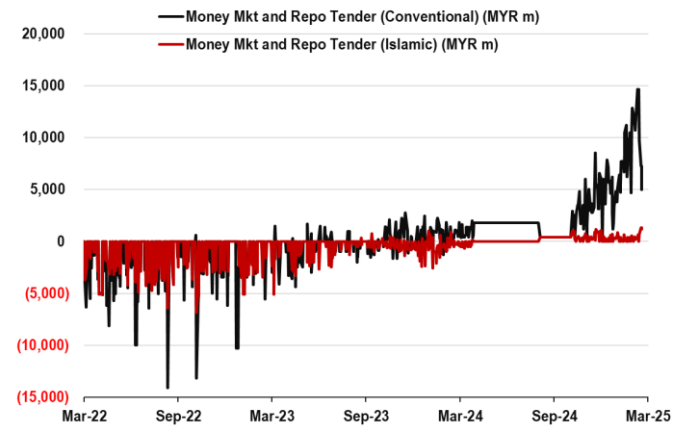
Sources: BNM, Bloomberg, AmBank Economics

Exhibit 3: BNM data shows Liquidity Position has declined



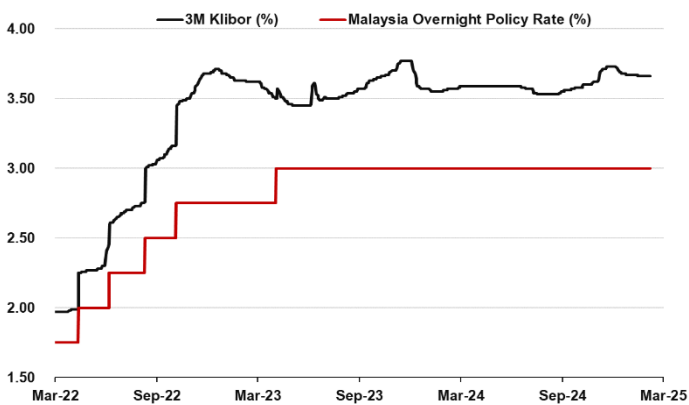
Sources: BNM, Bloomberg, AmBank Economics

Exhibit 4: More active MM and Repo tenders recently



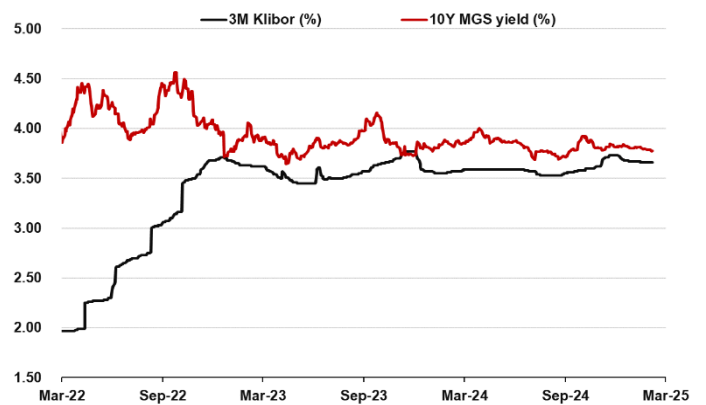
Sources: BNM, Bloomberg, AmBank Economics

Exhibit 5: Short-term interest rates have increased



Sources: Bloomberg, AmBank Economics

Exhibit 6: Short-term interest rates have increased



Sources: Bloomberg, AmBank Economics

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