SINGAPORE

OCBC Bank

Bank loans continued its losing streak

Wednesday, 31 August 2016

- **Bank loans declined for ten straight months by 2.2% yoy in July, but unexpectedly rose 1.1% mom** in due to a bounce in loans to financial institutions (+7.0% yoy) and business services (+1.6% yoy after falling for three straight months). This data point suggests that on-year bank loans growth is stabilizing somewhat since June, which was the lowest since January 2000. Given low base effects from 2H15, we expect a stabilization in the negative bank loan prints from September onwards.

- **Business loans fell for the 8th consecutive month by a less severe 5.0% yoy in July (June: -6.2% yoy), but rose 1.9% mom compared to June**. A surprise improvement in loans to financial institutions (+7.0% yoy and +11.9% mom) offset weakness in manufacturing (-12.0% yoy), general commerce (-22.1% yoy) and others (-12.6%). There could have been some initial post-Brexit concerns weighing on corporate loan demand in early July, and placements to financial institutions rose in response to the hunt for yield. Interestingly, business loans to the transport, storage and communications sector also expanded for the third straight month and actually picked up speed to grow by 1.2% yoy (+0.4% mom). However, loans for building and construction industry continued to slow to +1.2% yoy (-1.7% mom), down from +3.7% in June and the double-digit yoy growth earlier this year – essentially the domestic construction companies face many headwinds including oversupply, cooling measures and the tight foreign manpower situation.

- **Consumer loans moderated from 2.8% yoy (+0.5% mom) in June to 2.2% yoy (flat mom) in July**, as housing/bridging loans (+3.4% yoy) and credit card loans (+2.9% yoy) continued to ease in momentum. Auto loans also continued to decline by 2.9% yoy in July, which is the smallest yoy contraction since March 2012, likely reflecting the gradual turnaround after the car loan rules were loosened. Given the domestic labour market is also softening, consumer loans growth may also plod rather than race along.

- **Looking forward,** there are some green shoots that business loans may be gradually bottoming out. We expect 3Q16 bank loans growth to fall by 2.9% yoy, largely due to an anticipated August drag due to a high base in August15, but bank loans may decline a more benign 1.5% yoy for the full year of 2016.

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