

Global Markets Research
Economics - Malaysia

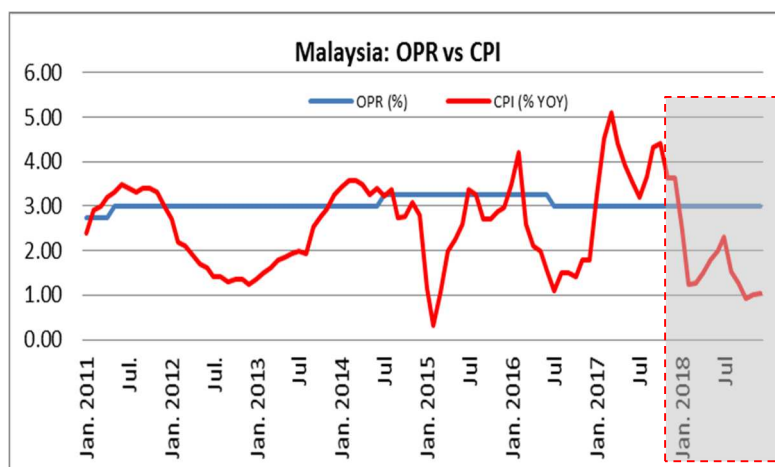
BNM left OPR unchanged and signaled readiness to review policy rate

BNM kept OPR unchanged at 3.00% as expected but shifted to a slightly more hawkish bias signaling its readiness to raise OPR. "Given the strength of the global and domestic macroeconomic conditions, the Monetary Policy Committee may consider reviewing the current degree of monetary accommodation". This followed its more bullish assessment that growth has become more entrenched in Malaysia and comment that growth prospects are expected to remain "strong" in 2018. Given the shift in policy tone to a slightly hawkish bias today, we now expect BNM to raise OPR in 2018, with 1H2018 as a possible window barring any downside surprises in growth.

BNM kept OPR unchanged but turned slightly hawkish

BNM decided to leave OPR unchanged at 3.00% as expected. The central bank also continued to turn more optimistic over global and Malaysian growth prospects, prompting a shift to a **slightly more hawkish tone as it signaled readiness to "consider reviewing the current degree of monetary accommodation"** – the most important takeaway from this policy statement in our view.

Upbeat assessment that growth has become "more entrenched" in Malaysia, and that overall growth is expected to remain "strong" in 2018 also offered strong signals that BNM is prepared to raise OPR next year. Inflation remains a non-issue as headline inflation is expected to moderate while core inflation will likely be sustained. Domestic financial market are also resilient. **Following today's change in policy tone, we now expect BNM to raise OPR by 25bps in 2018, probably in 1H2018, barring any downside surprises in growth.**



BNM maintains that global outlook is expected to stay favourable

There is no change in the central bank assessment on the international economy. BNM maintained that the global economy continues to strengthen, with growth becoming "more entrenched and synchronized across countries". BNM also maintained that "global trade has picked up significantly", and that "the global

economy is projected to experience sustained growth” in 2018. **BNM also foresees lesser downside from global development**, saying global economic prospects are expected to remain favourable despite risks from geopolitical and policy developments in major economies. That said, political and policy developments in major economies and geopolitical risks are lingering risks haunting the global economy.

On the Malaysian economy, BNM highlighted that growth has become more entrenched with continued strong performance from the domestic and external sectors. **Comment that growth will remain strong in 2018 is a very telling statement of the central bank’s confidence, which we view as one of the strong signals of BNM’s readiness to hike.**

There was no change to inflation prospect. **Headline inflation is expected to moderate in anticipation of a smaller effect from global cost factors**, which again, depend much on the movement in global oil prices. Meanwhile, **core inflation will be sustained by robust domestic demand.**

Given the shift in policy tone to a slightly hawkish bias today, premising on more upbeat global and domestic growth outlook, **we now expect BNM to raise OPR in 2018, with 1H2018 as a possible window barring any downside surprises in growth.**

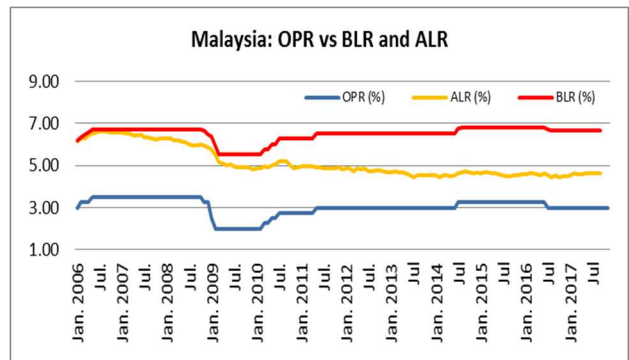
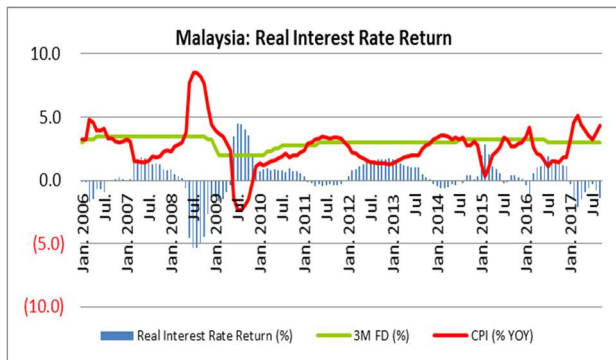
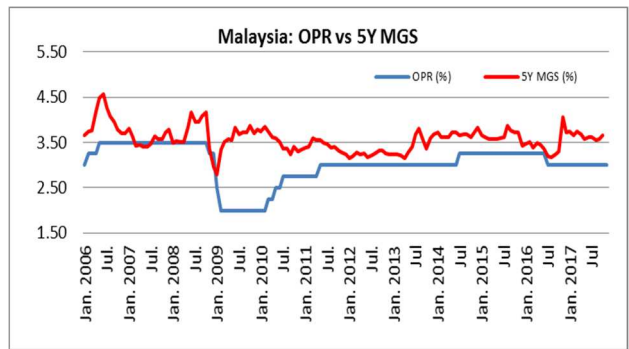
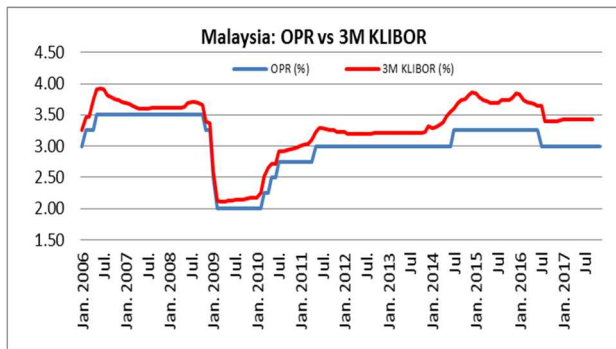
Schedule of BNM MPC meetings for 2018

MPC Meeting No.	Dates (2018)
1 st	24 and 25 January (Wed and Thurs)
2 nd	6 and 7 March (Tues and Wed)
3 rd	9 and 10 May (Wed and Thurs)
4 th	10 and 11 July (Tues and Wed)
5 th	4 and 5 September (Tues and Wed)
6 th	7 and 8 November (Wed and Thurs)

Assessment on the Malaysian economy is turning more bullish...

Moderating headline inflation; sustained core inflation

Revising our view for a 25bps increase in OPR in 2018



Side by Side Comparison of BNM Monetary Policy Statement

7-September-2017	9-November-2017
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent.</p> <p>The global economy continues to strengthen with growth becoming more entrenched and synchronised across countries. Global trade has picked up significantly. In the advanced economies, both consumption and investment continue to improve. In Asia, growth is driven by sustained domestic activity and strong external demand. These developments point to sustained momentum in global growth. This outlook nevertheless may be affected by political and policy developments in major economies and geopolitical risks.</p> <p>The Malaysian economy recorded a higher growth in the second quarter of 2017, driven by firmer domestic activity and exports. Looking ahead, growth prospects will be sustained by the more positive global growth outlook and stronger spillovers from the external sector to the domestic economy. Domestic demand will remain the key driver of growth, supported by improving incomes and overall labour market conditions, new and ongoing infrastructure projects and sustained capital investment by firms in the manufacturing and services sectors. Overall, growth in 2017 will be stronger than earlier expected.</p> <p>Headline inflation continued its moderating trend, declining to 3.2% in July, due mainly to the decline in domestic fuel prices. Going forward, headline inflation is projected to moderate on expectations of a smaller effect from global cost factors. Underlying inflation, as measured by core inflation, will be sustained by the more robust domestic demand but is expected to remain contained.</p> <p>The domestic financial markets have been resilient. The ringgit has strengthened to better reflect the economic fundamentals. Banking system liquidity remains sufficient with financial institutions continuing to operate with strong capital and liquidity buffers. The growth of financing to the private sector has been sustained and is supportive of economic activity.</p> <p>At the current level of the OPR, the stance of monetary policy remains accommodative. The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.</p>	<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent.</p> <p>The global economy continues to strengthen. Growth has become more entrenched and synchronised across regions. Global trade has picked up significantly. Amid the sustained growth performance, economic slack is diminishing in the advanced economies. In Asia, growth is driven by sustained domestic activity and strong external demand. Financial markets have also been relatively calm in the recent period. For 2018, the global economy is projected to experience sustained growth. While there are risks arising from geopolitical and policy developments in major economies, economic prospects are expected to remain favourable.</p> <p>For Malaysia, economic growth has become more entrenched. Both the domestic and external sectors continue to register strong performance. Growth momentum has been lifted by stronger spillovers from the external sector to the domestic economy as firms invest in productive capacity, raise wages and hire more workers. For 2018, domestic demand is expected to remain the key source of growth. Private consumption will remain the largest driver of growth, supported by continued improvements in income and overall labour market conditions. Investment will be sustained by infrastructure projects and higher capital investment in the manufacturing and services sectors. The external sector will provide additional impetus to the economy. Overall, the assessment is for growth to remain strong in 2018.</p> <p>Domestic inflation has been driven mostly by movements in global oil prices. Consequently, headline inflation increased to 4.3% in September, arising from higher global prices of refined oil caused by disruptions in the global supply. For 2017 as a whole, headline inflation is expected to be at the upper end of the forecast range. Moving into 2018, headline inflation is projected to moderate on expectations of a smaller effect from global cost factors. Nevertheless, the trend of headline inflation will be dependent on future global oil prices which remain highly uncertain. Underlying inflation, as measured by core inflation, will be sustained by robust domestic demand.</p> <p>The domestic financial markets have been resilient. The ringgit has strengthened to better reflect the economic fundamentals. Banking system liquidity remains sufficient with financial institutions continuing to operate with strong capital and liquidity buffers. The growth of financing to the private sector has been sustained and is supportive of economic activity.</p> <p>At the current level of the OPR, the stance of monetary policy remains accommodative. Given the strength of the global and domestic macroeconomic conditions, the Monetary Policy Committee may consider reviewing the current degree of monetary accommodation. This is to ensure the sustainability of the growth prospects of the Malaysian economy.</p> <p>The meeting also approved the schedule of MPC meetings for 2018. In accordance with the Central Bank of Malaysia Act 2009, the MPC will convene six times during the year. The meetings will be held over two days, with the Monetary Policy Statement released at 3 p.m. on the second day of the MPC meeting.</p>

Source: BNM

Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Menara Hong Leong

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.