Global Markets Research

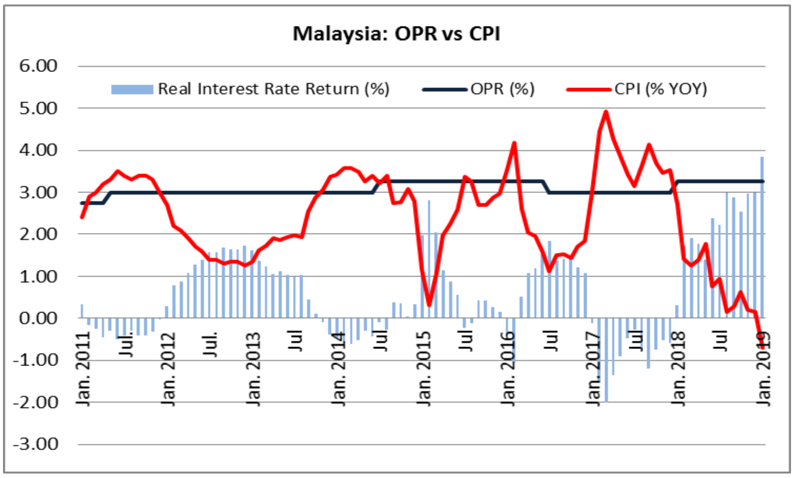
Economics - Malaysia

BNM kept OPR unchanged but struck a more dovish tone

BNM maintained the Overnight Policy Rate (OPR) at 3.25% as expected, but struck a move dovish tone, raising odds of an OPR cut. Materialization of downside risks to growth aside, the shift in the Fed guidance to a more gradual policy normalization path, coupled with recent appreciation in the MYR could be among other key factors providing the window for a shift towards a more dovish policy statement by BNM today. Although BNM reiterated that the current degree of monetary accommodativeness is consistent with the intended policy stance, it recognized that there are downside risks in the economic and financial environment, which to us, is a hint of an impending policy adjustment. We are therefore penciling in a 25bps cut in the OPR as early as the next MPC meeting on 6-7 May, should downside risks continue to pick up.

No change in OPR but BNM turned dovish and signaled readiness to cut

BNM maintained the Overnight Policy Rate (OPR) at 3.25% as expected but we noted a sense of dovishness in its latest policy statement, suggesting BNM is prepared to cut OPR as early as the next MPC meeting in May should downside risks continue to pick up. While its assessment on the slowing global economy and steady growth path of the Malaysian economy did not sway much from the last meeting, **the MPC emphasized there are downside risks in the economic and financial environment.** Indeed, it highlighted the ***"materialization of downside risks"*** from unresolved trade tensions, heightened uncertainties in the global and domestic environment, as well as prolonged weakness in the commodity related sectors, in line with what we have cautioned in our last report post January MPC meeting.



Growth in the world economy moderated with protracted trade tensions the key risk factor

On its assessment on the global economy, BNM acknowledged slower growth in most advanced and emerging economies, citing protracted trade tensions as the key risk factor. This, coupled with tighter global financial conditions and heightened political and policy uncertainty, could led to adjustments and greater volatility in the financial market which would in turn weigh on overall growth outlook.

The base case is for the Malaysian economy to stay on a steady growth path in 2019 although downside risks are materializing

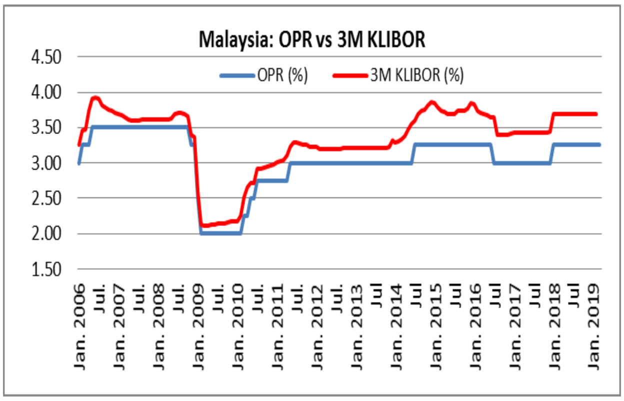
BNM also reiterated that growth in the Malaysian economy will be sustained in 2019 amid continued support from private sector spending even as the external sector is expected to soften in line with the world economy. **Although BNM emphasized that the base case is for the Malaysian economy to stay on a steady growth path, it also highlighted that "materialization of downside risks** from trade tensions, heightened uncertainties in the global and domestic environment, and prolonged weakness in the commodity-related sectors could further weigh on growth". **This, to us, offered a strong hint that BNM is acknowledging the shift in overall economic and financial conditions that potentially warrants an adjustment in its monetary policy.**

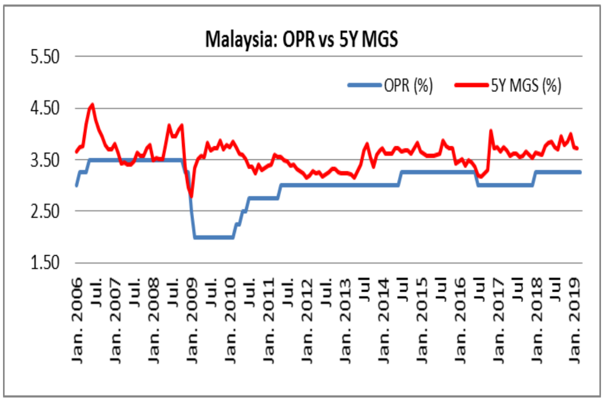
Inflationary outlook turning less upbeat…to be broadly stable compared to 2018

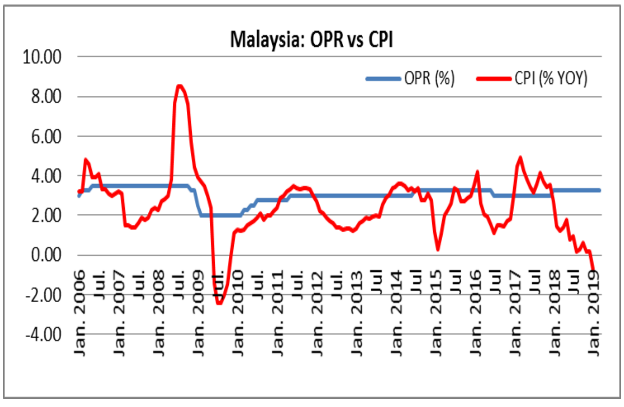
BNM is also turning less upbeat on inflation, commenting that average headline inflation is expected to be broadly stable compared to 2018, vs previous assessment that inflation is expected to trend moderately higher in 2019. This ties with our view that inflation is expected to remain flat at 1.0% YOY this year (2018: +1.0% YOY).

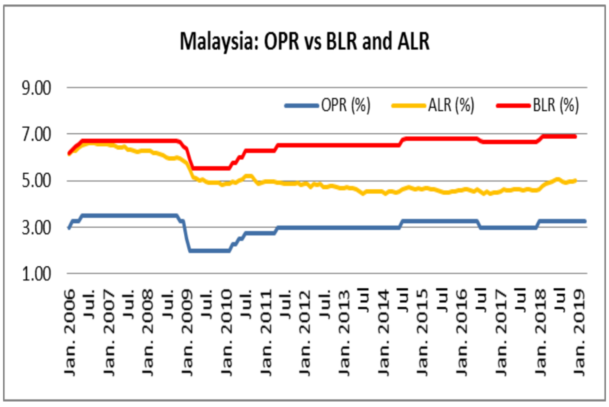
The dovish statement increased odds of a 25bps cut in the OPR this year

Taking cue from the more dovish tone in today's monetary policy statement stemming from heightened downside risks to growth, we are seeing increasing odds of a 25bps OPR cut as early as the May MPC meeting. The shift in the Fed guidance to a more gradual policy normalization path to probably just one hike at its very best this year (and probably none at all), **coupled with recent appreciation in the MYR could be among other key factors considered by BNM** in deciding its monetary policy direction. Although BNM reiterated that the current degree of monetary accommodativeness is consistent with the intended policy stance, it recognized that there are downside risks in the economic and financial environment.









Side by Side Comparison of BNM Monetary Policy Statement

24-January 2019	5-March-2019
At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.25 percent.	At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.25 percent.
The global economy continues to expand. Employment remains firm in the advanced economies, while in Asia, domestic demand is sustained. However, global growth momentum is moderating with slower growth in the major economies. Trade tensions are beginning to have a material impact on global trade and investments. Tightening financial conditions and heightened volatility in financial markets, coupled with country-specific factors ranging from heightened political and policy uncertainty and elevated debt levels, could further weigh on growth prospects.	Global growth momentum is showing signs of moderation amid slowing growth in most major advanced and emerging economies. Going forward, unresolved trade tensions remain a key source of risk, affecting global trade and investment activities. Tighter global financial conditions and elevated political and policy uncertainty could lead to financial market adjustments, further weighing on the overall outlook.
For Malaysia, latest indicators point towards sustained economic expansion. For 2019, domestic demand will remain the key driver of growth. Private consumption will continue to be underpinned by stable employment and wage growth, while private investment will be supported by on-going multi-year projects in both export- and domestic-oriented industries. Sustained growth in private sector activity is expected to offset lower public spending arising from the ongoing fiscal consolidation by the Government. With moderating global growth, the external sector is likely to soften. Risks to growth are tilted to the downside, primarily from potential escalation of trade tensions and commodity-related shocks. On balance, the Malaysian economy is expected to remain on a steady growth path in 2019.	The Malaysian economy grew at a more moderate pace of 4.7% in 2018. Looking ahead, growth is expected to be sustained in 2019 with continued support from private sector spending. Stable labour market conditions and capacity expansion in key sectors will continue to drive household and capital spending. Support from the external sector is expected to soften, in tandem with the moderating global growth momentum. On balance, the baseline forecast is for the Malaysian economy to remain on a steady growth path. However, materialisation of downside risks from unresolved trade tensions, heightened uncertainties in the global and domestic environment, and prolonged weakness in the commodity-related sectors could further weigh on growth.
Headline inflation averaged at 1.0% in 2018. In 2019, inflation is expected to average moderately higher. The impact of the consumption tax policy on headline inflation in 2019 will start to lapse towards the end of the year. However, the trajectory of headline inflation will be dependent on global oil prices. Underlying inflation is expected to remain contained in the absence of strong demand pressures.	Headline inflation in January 2019 was at -0.7%, due mainly to negative transport inflation at -7.8% arising from lower global oil prices. Underlying inflation, as measured by core inflation[1] remained stable at 1.5% in January 2019 reflecting sustained demand conditions. In the immediate term, inflation is expected to remain low mainly due to policy measures. These include the lower price ceiling on domestic retail fuel prices until mid-2019 and the impact of the changes in consumption tax policy on headline inflation. For 2019 as a whole, average headline inflation is expected to be broadly stable compared to 2018. The trajectory of headline inflation will continue to be dependent on global oil prices. Underlying inflation is expected to be sustained, supported by the steady expansion in economic activity and in the absence of strong demand pressures.
The domestic financial markets have remained resilient, despite bouts of volatility due to global developments. Domestic monetary and financial conditions remain orderly and supportive of economic growth. The financial sector is sound, with financial institutions operating with strong capital and liquidity buffers. Importantly, the domestic economy maintains its underlying fundamental strength, with steady economic growth, low unemployment and surplus in the current account of the balance of payments. Bank Negara Malaysia's monetary operations will continue to ensure sufficient liquidity to support the orderly functioning of money and foreign exchange markets and intermediation activity.	
At the current level of the OPR, the degree of monetary accommodativeness is consistent with the intended policy stance. The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.	At the current level of the OPR, the degree of monetary accommodativeness is consistent with the intended policy stance. Recognising that there are downside risks in the economic and financial environment, the MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.

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