

**Global Markets Research**  
**Economics - Malaysia**

## ***BNM continued to pause and stay neutral***

*BNM left OPR unchanged at 3.25% at its May MPC meeting. Taking cue from today's neutral policy statement, and in anticipation of relatively muted dampening effect from upcoming policy reviews by the new government, as it balances between growth and reforms, we reaffirm our view for OPR to stay unchanged at the current level of 3.25% for the remaining of the year. Economic fundamentals are expected to stay intact despite some possible knee-jerk reactions in the financial markets and teething adjustment as the new government reviews and revisits the viability and appropriateness of some fiscal and economic policies for the long term benefits of the country.*

*No change in OPR and policy tone*

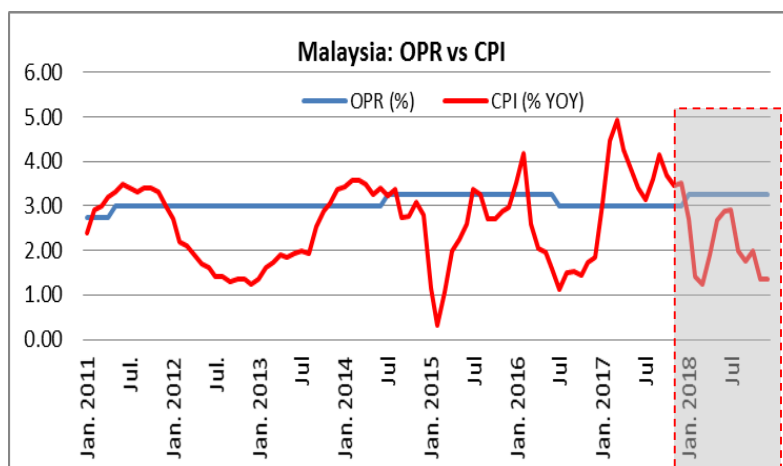
BNM announced its monetary policy decision for May as scheduled despite 10- and 11-May being declared public holidays post-GE14 outcome. **The Overnight Policy Rate (OPR) was left unchanged at 3.25% as expected, and the tone of the monetary policy statement also did not sway from the neutral stance** in the March statement, in our view.

*Expect OPR to remain steady for the rest of the year*

**We are maintaining our view for OPR to remain on a steady course for the rest of the year** as economic fundamentals are expected to stay intact despite some possible knee-jerk reactions in the financial markets and teething adjustment as the new government reviews and revisits the viability and appropriateness of some fiscal and economic policies for the long term benefits of the country.

*GDP growth forecast maintained at 5.0% pending greater policy clarity from the new government*

**No change to our 2018 growth forecasts of 5.0% for now pending greater clarity on policy directions from the new government** even though we estimate that potential delays in some mega infrastructure projects and investment in the transitory period could pare GDP growth by 0.3-0.6ppt over the next two years, depending on the extensiveness of the setback in investment. That said, potential pick-up in private consumption possibly stemming from improving consumer confidence and real purchasing power, as well as balancing act between growth and reforms, are expected to help cushion the fallout in investment in the short to medium term.



*Global growth outlook remained balanced*

**BNM maintained an upbeat assessment of the global economy**, saying "global economy continues to gain strength with growth being more broad-based and

synchronized across regions”, and sustained strong growth momentum in global trade. **The central bank also maintained its view that global growth outlook remains balanced** even though there are downside risks should trade and geopolitical tensions worsen.

*BNM maintains its view on domestic growth and inflation prospects*

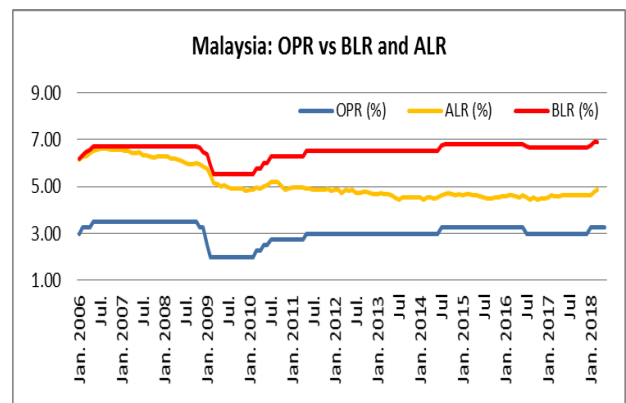
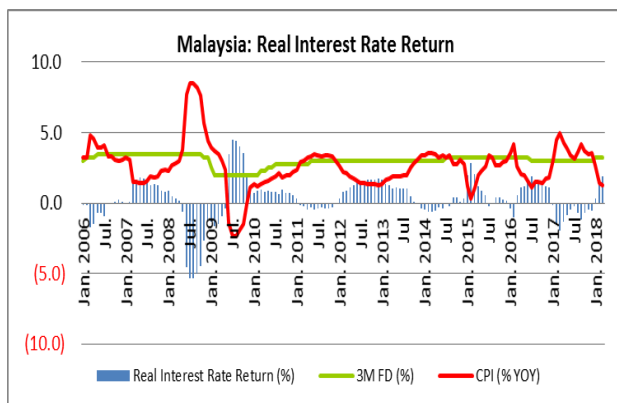
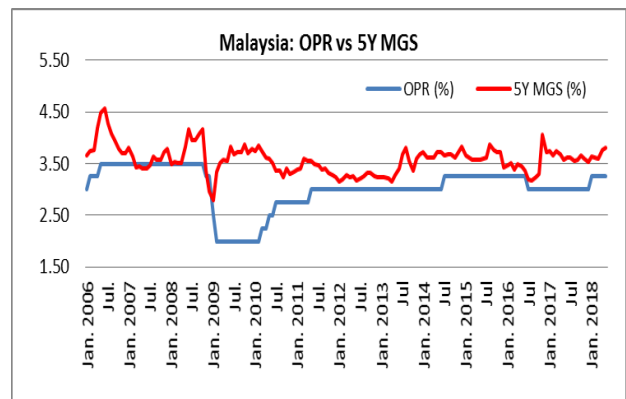
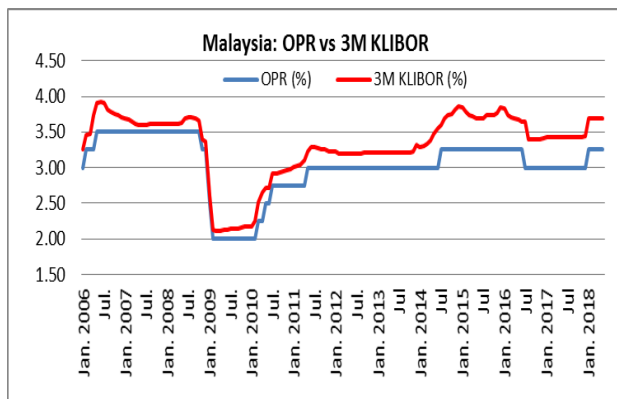
**On the Malaysian economy, BNM reiterated that overall growth prospects remain strong in 2018**, driven by strength in both domestic and external demand. **BNM also continued to reaffirm prospects of lower inflation in 2018**, on expectations of smaller effect from global cost factors and a stronger MYR. We maintain our projection for headline inflation to moderate to 2.0% in 2018, from 2017’s 3.7%. Meanwhile, **core inflation is expected to remain moderate**, amid stable demand conditions.

*No change to our view for OPR to stay unchanged at 3.25% for the rest of the year*

**Taking cue from today’s neutral policy statement, and in anticipation of contained dampening effect from upcoming policy reviews by the new government, we reaffirm our view for OPR to stay unchanged at the current level of 3.25% for the remaining of the year.** BNM reiterated that the current degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid lower inflation.

**Schedule of BNM MPC meetings for 2018**

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



**Side by Side Comparison of BNM Monetary Policy Statement**

7-March-2017	10-May-2018
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to <b>maintain the Overnight Policy Rate (OPR) at 3.25 percent.</b></p> <p><b>The global economy continues to strengthen. Global trade is showing strong growth momentum.</b> In the advanced economies, rising wages and policy support will provide further impetus to growth. In Asia, growth will be driven by sustained domestic activity and strong external demand. <b>Recent adjustments in the financial markets, though short-lived, indicate that volatility may reemerge. Trade tensions have also risen in the recent period.</b> At this point, risks to the <b>global growth outlook remain balanced,</b> pointing towards continuity in global economic expansion.</p> <p>For Malaysia, the strong growth performance in the fourth quarter of 2017 continued to be anchored by private sector spending. Looking ahead, growth prospects will be sustained by the positive global growth outlook and spillovers from the external sector to the domestic economy. Domestic demand will remain the key driver of growth, underpinned by favourable income and labour market conditions, spending on new and ongoing infrastructure projects and sustained capital investment by firms in the manufacturing and services sectors. <b>With additional impetus from the external sector, growth is expected to remain strong in 2018.</b></p> <p><b>Inflation is projected to average lower in 2018,</b> on expectations of a smaller effect from global cost factors. A stronger ringgit exchange rate compared to 2017 will mitigate import costs. Global energy and commodity prices are expected to trend higher in 2018, but at a more moderate pace relative to the previous year. However, the trajectory of headline inflation will be dependent on future global oil prices which remain highly uncertain. <b>Underlying inflation, as measured by core inflation, is also projected to moderate</b> due to improving labour productivity and ongoing investments for capacity expansion.</p> <p>The domestic financial markets have been resilient. The broad appreciation of the ringgit in the past year better reflects 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><b>At the current level of the OPR, the degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid lower inflation.</b> The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.</p>	<p>At its Monetary Policy Committee (MPC) meeting today, the MPC of Bank Negara Malaysia decided to <b>maintain the Overnight Policy Rate (OPR) at 3.25 percent.</b></p> <p><b>The global economy continues to gain strength with growth being more broad based and synchronised across regions.</b> Global trade sustained its strong momentum. In the advanced economies, higher wages and diminishing labour market slack remain supportive of growth. Additional policy support, particularly in the US, is expected to lift growth further. In Asia, growth will be driven by sustained domestic activity and strong external demand. Financial markets continue to face intermittent volatility amid rising trade tensions. <b>Global growth prospects remain balanced although there are risks should trade and geopolitical tensions worsen.</b></p> <p><b>For the Malaysian economy, latest indicators point towards continued expansion in private sector activity and exports. Going forward, the positive growth momentum is expected to be sustained,</b> driven by the strength in both domestic and external demand. Private consumption will be supported by favourable income and labour market conditions. Investment activity is projected to be sustained by implementation of ongoing infrastructure projects and capacity expansion by firms. On the external front, exports are expected to continue benefitting from the positive momentum in global growth and trade in advanced and regional economies. <b>Overall, the prospects for the Malaysian economy remain strong.</b></p> <p><b>Headline inflation is expected to remain moderate for the year</b> as a whole on expectations of a smaller effect from global cost factors. A stronger ringgit exchange rate compared to 2017 will mitigate import costs. However, the trajectory of headline inflation will be dependent on future global oil prices which remain highly uncertain. <b>Underlying inflation, as measured by core inflation, is projected to remain moderate</b> amid stable demand conditions.</p> <p>Despite financial market volatility due to external developments, domestic financial markets have remained resilient. Malaysia's economic fundamentals are strongly anchored. <b>The domestic economic outlook remains positive, the financial sector is strong and monetary and financial conditions are supportive of economic growth in the post-election environment.</b></p> <p><b>At the current level of the OPR, the degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid lower inflation.</b> The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.</p>

Source: BNM

**Hong Leong Bank Berhad**

Fixed Income &amp; 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

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