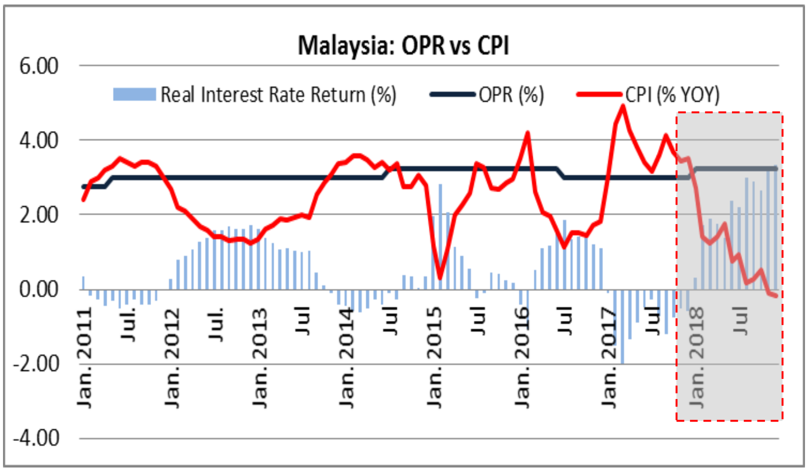
OPR stayed unchanged; statement suggests no plans for any policy shift

BNM maintained the Overnight Policy Rate (OPR) at 3.25% as expected, and we noticed vast similarity between the latest statement and the September policy rhetoric, including assessment on growth outlook, suggesting there are no plans for any near term adjustment in the OPR. Taking cue from the neutral statement and against a backdrop of modest growth outlook, we expect OPR to stay unchanged going into 2019. However, downside risk to growth outlook, if materialize, could prompt BNM to reduce the level of OPR next year. At this juncture, BNM reiterates that the current degree of monetary accommodativeness is consistent with the intended policy stance.

No change in OPR and policy stance

BNM maintained the **Overnight Policy Rate (OPR) at 3.25% as expected,** and we noticed vast similarity between the latest statement and the September policy rhetoric, including assessment on growth outlook, suggesting there are no plans for any near term adjustment in the OPR. **Acknowledging that there are no new development that has significantly altered the macro and financial landscape since the last meeting with BNM reiterating a steady growth path for the Malaysian economy, we maintain our view for OPR to stay unchanged going into next year, barring increased downside growth risks.**



Slower momentum in the world economy; risks tilted to the downside

BNM maintained its view of continuous expansion in the world economy, albeit at more moderate pace along with protracted downside risks stemming mainly from trade tensions. Growth in the advanced economies will continue to be driven by positive labour market and policy support while growth in the Asian economy will be domestic-driven against a backdrop of weaker external demand.

The Malaysian economy to remain on a steady growth path in 2018 and 2019

BNM also reiterated that the Malaysian economy will remain on a steady growth path, underpinned by the private sector led by private consumption. Tracking recent development, the momentum in exports is expected to lose some steam in line with softening global growth momentum. There is also no change in BNM's view on downside risks stemming from heightened trade tensions, as well as prolonged weakness in mining and agriculture sectors. Meanwhile, BNM opined that recent announcement by the government on midterm review of the 11th

Malaysian Plan and 2019 Budget proposals have provided more clarity on fiscal and economic development policies.

Well-contained underlying inflation

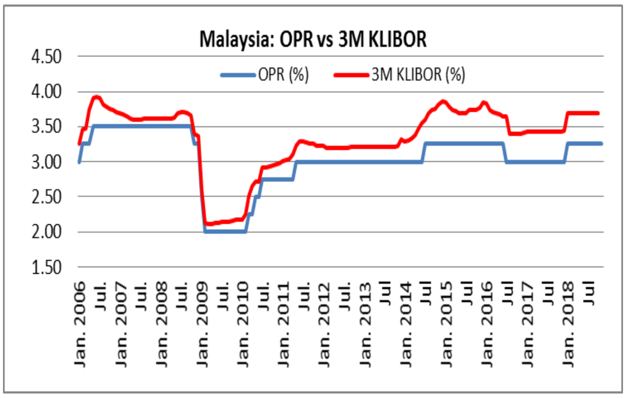
On inflation, BNM acknowledged that inflation will remain low in 2018. While CPI is expected to edge up going into 2019 taking into consideration higher projected global oil prices and the floating of domestic fuel prices starting in 2Q19, the upward trajectory is expected to dissipate towards end 2019. **Underlying inflation is also expected to remain contained in the absence of strong demand pressure.**

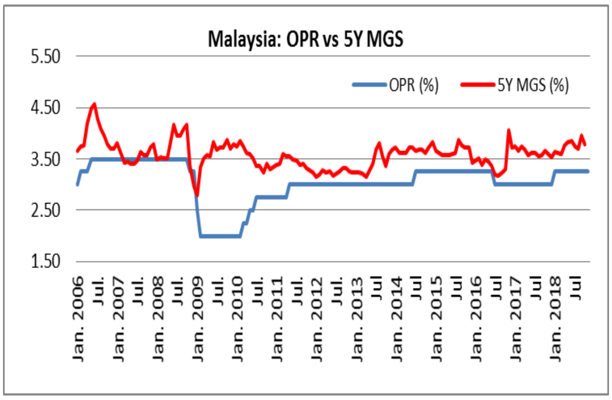
Expect OPR to stay unchanged at 3.25% next year

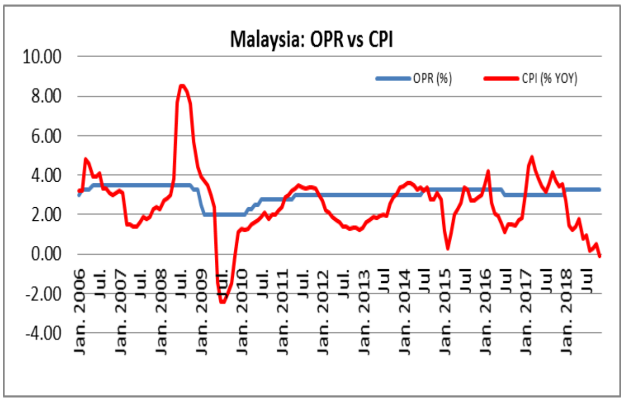
We notice there is little change in the latest BNM policy rhetoric, which is neutral, hence our view for OPR to stay unchanged going into 2019. However, downside risk to growth outlook, if materialize, could prompt BNM to reduce the level of OPR next year. At this juncture, BNM continued to assess that the current degree of monetary accommodativeness is consistent with the intended policy stance.

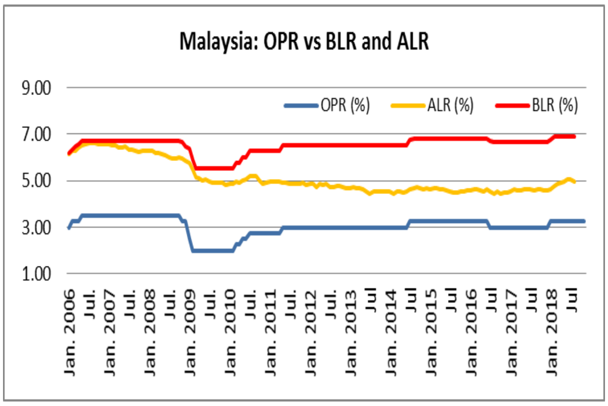
Schedule of BNM MPC meetings for 2019

MPC Meeting No.	Dates (2019)
1st	23 and 24 January (Wed and Thurs)
2nd	4 and 5 March (Mon and Tues)
3rd	6 and 7 May (Mon and Tues)
4th	8 and 9 July (Mon and Tues)
5th	11 and 12 September (Wed and Thurs)
6th	4 and 5 November (Mon and Tues)









Side by Side Comparison of BNM Monetary Policy Statement

5-September-2017	8-November-2018
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 economic expansion is continuing, albeit with increasing divergence across economies and signs of a slower momentum. In the advanced economies, growth will remain underpinned by strong labour market conditions and policy support. In Asia, growth will be supported by sustained domestic activity and external demand. Although global growth is currently sustained, risks to growth have increased. Trade tensions continue to be a key source of downside risk. Greater volatility in the international financial markets and monetary policy normalisation in the advanced economies could lead to further capital outflows and financial market adjustments in emerging economies.	The global economic expansion continues, although with signs of moderating momentum. In the advanced economies, growth will continue to be mainly driven by positive labour market conditions and policy support. Growth in Asia will be supported by domestic activity amid weaker external demand. Risks to the global growth outlook remain tilted to the downside, with trade tensions continuing to be a key source of downside risk. Continued volatility in international financial markets and monetary policy normalisation in some advanced economies could lead to further capital outflows and financial market adjustments in emerging economies.
For Malaysia, supply disruptions in the mining and agriculture sectors led to more moderate growth in the second quarter of 2018. On the demand side, growth remained supported by private sector activity with further impetus from net exports. Looking ahead, private consumption, which was boosted by the tax holiday, will continue to be driven by steady wage and employment growth. Investment activity is projected to be underpinned by continued capacity expansion in key sectors, particularly in the export-oriented industries, driven by favourable demand and efforts to enhance automation. Public sector spending however is expected to weigh on growth as the Government embarks on reprioritisation of expenditure. The external sector will continue to benefit from the sustained global growth momentum. In the immediate term, the economy faces downside risks stemming from heightened trade tensions, prolonged weakness in the mining and agriculture sectors and some domestic policy uncertainty. On balance, the Malaysian economy is expected to remain on a steady growth path.	For the Malaysian economy, latest indicators point towards continued expansion in private sector activity. Private consumption will remain the main driver of growth, supported by conducive labour market conditions. Investment activity is projected to be sustained by continued capacity expansion in key sectors, driven by positive demand and efforts to enhance automation. Public sector spending, however, is likely to weigh on growth, amid continued reprioritisation of expenditure by the Government. The recent announcements by the Government have provided more clarity on fiscal and economic development policies. On the external front, exports are projected to provide an additional lift to growth, albeit to a lesser extent, due to moderating global growth momentum. The domestic economy continues to face downside risks stemming from any further escalation in trade tensions and prolonged weakness in the mining and agriculture sectors. Nevertheless, on balance, the Malaysian economy is expected to remain on a steady growth path in 2018 and 2019.
Headline inflation was at 0.9% in July 2018. Going forward and continuing into 2019, headline inflation is expected to edge upwards taking into consideration the impact of policy measures on domestic cost factors. The impact of the changes in the consumption tax policy on headline inflation will be transitory and lapse towards the end of 2019. Underlying inflation is nevertheless expected to remain relatively stable.	The annual average headline inflation will be low in 2018. Moving into 2019, headline inflation is projected to increase primarily due to higher projected global oil prices and the floating of domestic fuel prices. While the impact of the consumption tax policy will contribute to higher headline inflation in 2019, it will lapse towards the end of 2019. Underlying inflation is expected to remain contained in the absence of strong demand pressures.
In line with regional economies, the domestic financial markets continue to experience non-resident portfolio outflows due to ongoing global developments. Despite these adjustments, domestic financial markets remain resilient with domestic monetary and financial conditions supportive of economic growth. The financial sector remains sound, with financial institutions continuing to operate with strong capital and liquidity buffers. In addition, the domestic economy maintains its underlying fundamental strength, with steady economic growth, low unemployment and current account surplus 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.	In line with regional economies, the domestic financial markets continue to experience non-resident portfolio outflows due to global developments. Nevertheless, the financial markets remain orderly with domestic monetary and financial conditions 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. The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.

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