

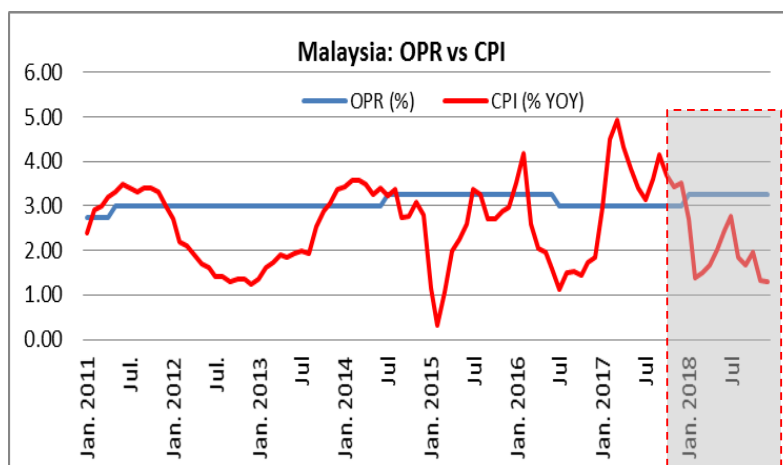
Global Markets Research
Economics - Malaysia

BNM paused and stayed neutral

BNM kept OPR unchanged at 3.25% at its MPC meeting today as expected. There was also no change in its policy tone and this reaffirmed our view for OPR to stay pat for the remaining of 2018. Assessment on the global and domestic economy remained positive despite concerns over trade tensions and possible return of financial markets volatility. No change to our view for growth to moderate to 5.0% and for inflation to soften to 2.0% this year. Amid a backdrop of moderate growth and softer inflation, and with real interest rates returning to positive territory, we believe further policy normalization is not necessary.

BNM kept OPR and policy tone unchanged

At its monetary policy meeting today, **BNM left OPR unchanged at 3.25% as widely expected.** There was also **practically no change in its policy statement, maintaining a neutral stance hence reaffirming our view for OPR to stay pat for the rest of the year.**



BNM stays positive on global growth outlook while acknowledging concerns over trade protectionism and increased market volatility

BNM remained positive on prospects of the global economy, saying “global economy continues to strengthen” and “global trade is showing strong growth momentum”. **The central bank also acknowledged risks of potential return of market volatility** stemming from recent financial markets turmoil. “Recent adjustments in financial markets, though short-lived, indicate that volatility may re-emerge”. **BNM also took note of concerns over potential trade war** should the US go ahead with its trade protectionism measures. That said, the central maintained its view that risks to global growth outlook remain balanced.

The Malaysian economy is expected to remain strong in 2018

On the Malaysian economy, BNM reiterated that growth is expected to remain strong in 2018, with domestic demand as the key growth driver further supported by the external sector. Positive global growth outlook is expected to spill over to the domestic economy and domestic investment will be supported by capital investments in the manufacturing and services sectors.

Headline inflation to average lower in 2018; core inflation to remain moderate

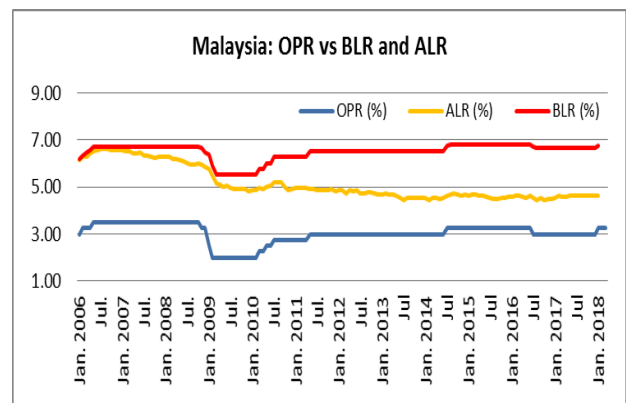
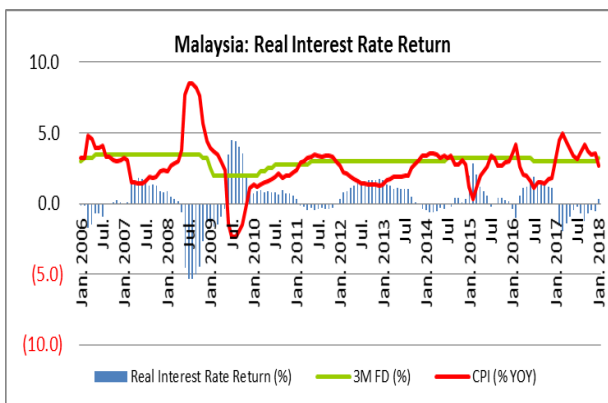
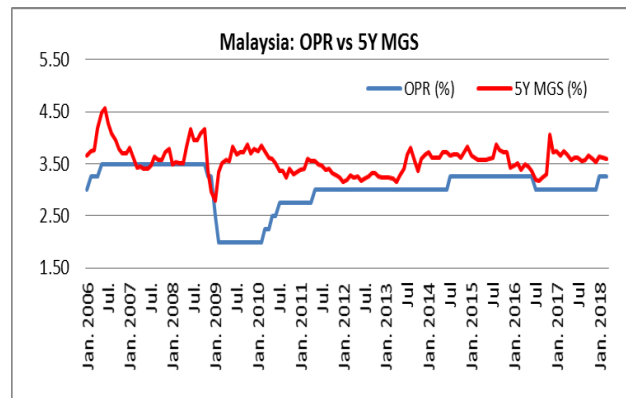
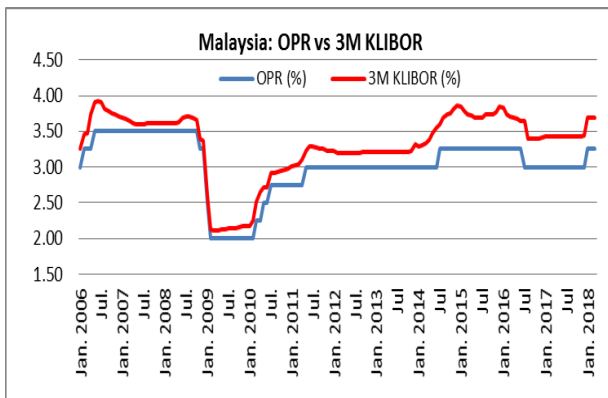
No change to our view for OPR to stay unchanged at 3.25% for the rest of the year

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 moderate**, as a result of improving labour productivity and ongoing investments for capacity expansion.

Taking cue from today's neutral policy statement, 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. This is in tandem with our view for the Malaysian economy to continue expand at a healthy pace of 5.0% in 2018, albeit more moderate than 2017's 5.9% growth with inflation moderating to 2.0% this year (2017: 3.7%). **Amid a backdrop of moderate growth and softer inflation, and with real interest rates returning to positive territory, we believe further policy normalization is not necessary.**

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)



Side by Side Comparison of BNM Monetary Policy Statement

25-January-2017	7-March-2018
<p>At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to increase the Overnight Policy Rate (OPR) by 25 basis points to 3.25 percent. The floor and ceiling rates of the corridor for the OPR are correspondingly raised to 3.00 percent and 3.50 percent respectively.</p> <p>The global economy has strengthened further, with growth becoming more entrenched and synchronised across regions. Global trade continues to sustain strong growth performance. In the advanced economies, diminishing labour market slack and additional policy support will provide further impetus to growth. In Asia, growth is driven by sustained domestic activity and strong external demand. Globally, financial markets have remained stable. Global growth is projected to experience a faster expansion in 2018. In this environment, risks to the global growth outlook are more balanced, pointing towards continuity in the current phase of global economic expansion.</p> <p>For the Malaysian economy, latest indicators reaffirm the strength in exports and domestic activity. Looking ahead, the strong growth momentum is expected to continue in 2018, sustained by the stronger global growth and positive 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. The outlook for investment activity is also positive, driven by new and on-going infrastructure projects and capital spending by both export- and domestic-oriented firms. The external sector will provide additional impetus to the economy. Overall, growth is expected to remain strong in 2018.</p> <p>Headline inflation averaged at 3.7% in 2017. Inflation is expected to average lower in 2018, 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. However, the trajectory of headline inflation will be dependent on future global oil prices which remain highly uncertain. Underlying inflation, as measured by core inflation, remains moderate.</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>With the economy firmly on a steady growth path, the MPC decided to normalise the degree of monetary accommodation. At the same time, the MPC recognises the need to pre-emptively ensure that the stance of monetary policy is appropriate to prevent the build-up of risks that could arise from interest rates being too low for a prolonged period of time. 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 3.25 percent.</p> <p>The global economy continues to strengthen. Global trade is showing strong growth momentum. 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. Recent adjustments in the financial markets, though short-lived, indicate that volatility may reemerge. Trade tensions have also risen in the recent period. At this point, risks to the global growth outlook remain balanced, 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. With additional impetus from the external sector, growth is expected to remain strong in 2018.</p> <p>Inflation is projected to average lower in 2018, 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. Underlying inflation, as measured by core inflation, is also projected to moderate 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>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. The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.</p>

Source: BNM

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