

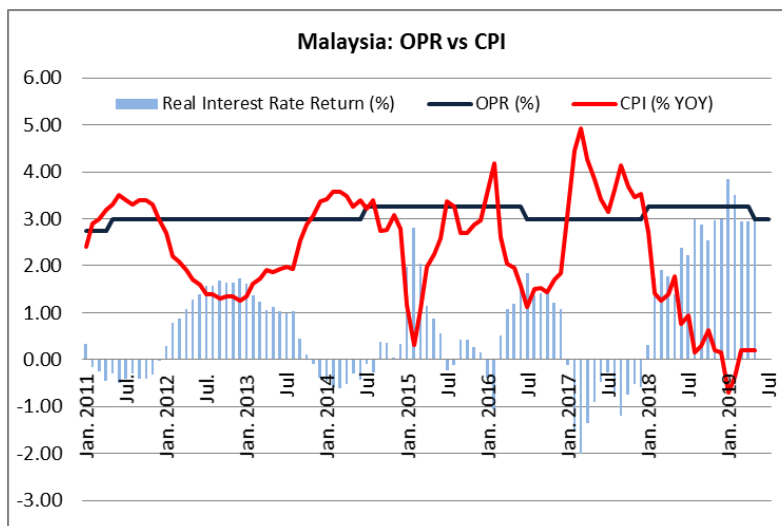
**Global Markets Research**  
**Economics - Malaysia**

***BNM stood pat and maintained a neutral tone***

*BNM left the Overnight Policy Rate (OPR) unchanged at 3.00% as expected, taking cognizant of continuous moderate expansion in both the world as well as Malaysian economy. Today's policy statement remained very much neutral in our view despite reiteration of downside risks to overall growth outlook. This suggests BNM has no plans for another adjustment in the OPR. We therefore maintained our view for BNM to stay pat at 3.00% for the rest of the year, barring escalation in global trade tensions and worse than expected deceleration in global growth.*

*BNM stood pat at 3.00% and offered no hint of any near term easing plan*

**BNM kept the Overnight Policy Rate (OPR) unchanged at 3.00% as expected, and maintained a neutral rhetoric suggesting another near term cut is not on the table** given still decent albeit more moderate economic expansion both globally and domestically. While BNM stays cautious over potential downside risks to overall growth outlook, the neutral statement reaffirmed our view for OPR to stay pat at 3.00% for the remaining of the year.



*Global economic growth remains moderate...downside risks from trade tensions remain*

**BNM assessment on the global economy remains decent**, reiterating continued moderate expansion in the global economy, citing firm labour market conditions in the advanced economies and resilient domestic demand in Asia even though prospects of softening outlook ahead remain valid, emanating mainly from prolonged trade tensions. BNM also recognized that heightened policy uncertainty could lead to excessive market volatility that could infuse greater uncertainties and risks to the global financial markets and economy.

No change to full year growth projection of 4.3-4.8%...with downside risks stemming from the external sector

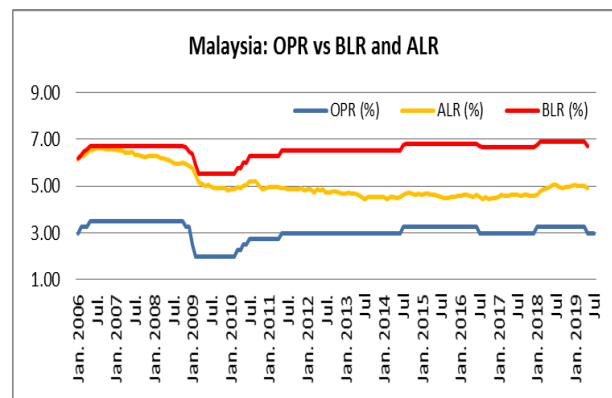
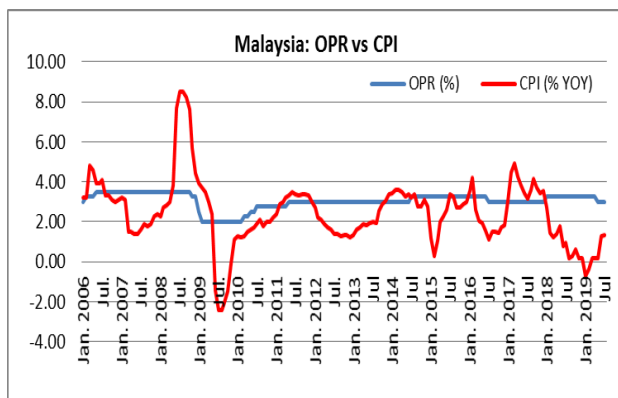
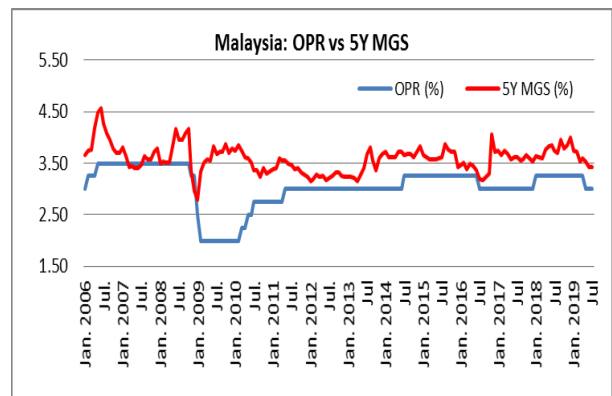
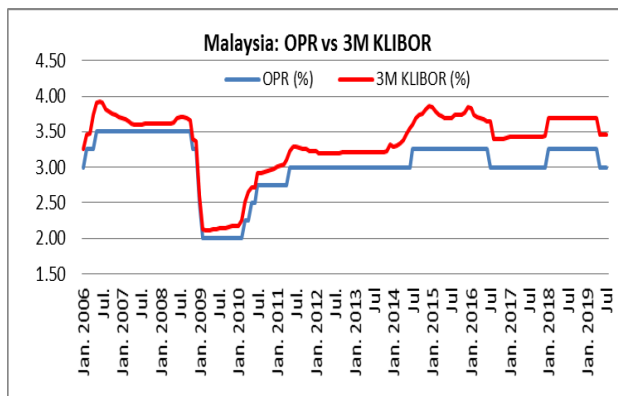
On its assessment on the Malaysian economy, **BNM remained optimistic that domestic demand will continue supporting growth in the Malaysian economy** as slower global demand and longstanding trade conflicts weighed on the external sector. **BNM also maintained its baseline growth projection of 4.3-4.8% for 2019**, and reiterated potential downside risks to this forecast despite earlier whispers that growth could achieve close to 5.0% this year. **We are maintaining our house view for the Malaysian economy to expand by 4.7% YOY this year, with a downward bias towards 4.3-4.4%** should the external sector worsen more than expected.

Inflation outlook remains stable...with downside risks as well

**Moving on to inflation, BNM reiterated that average headline inflation is expected to be broadly stable compared to 2018.** Headline inflation is expected to pick up in the coming months as the impact of the changes in consumption tax policy lapses, in line with our projection but we foresee downside risk to our CPI forecast of 1.0% YOY for 2019 given the overall subdued global crude oil prices and absence of demand-pull inflation.

The neutral statement reaffirmed our view that there is no plan for further adjustment in OPR in the foreseeable future

**In a nutshell, today's policy statement remained very much neutral in our view, and suggest BNM has no plans for another adjustment in the OPR. We therefore maintained our view for BNM to stay pat at 3.00% for the rest of the year.** At the current level of OPR, the stance of monetary policy remains accommodative and supportive of economic activity.



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

7-May-2019	9-July-2019
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to <b>reduce the Overnight Policy Rate (OPR) to 3.00 percent</b>. The ceiling and floor rates of the corridor for the OPR are correspondingly reduced to 3.25 percent and 2.75 percent respectively.</p> <p>The global economy continues to expand moderately. While growth outcomes for several major economies were better than expected during the first quarter, <b>underlying economic conditions continue to suggest moderation going forward. Considerable downside risks to global growth remain</b>, stemming from unresolved trade tensions and prolonged country-specific weaknesses in the major economies, further dampening global trade and investment activities. Although the tightening in global financial conditions has eased somewhat, <b>heightened policy uncertainties could lead to sharp financial market adjustments, further weighing on the overall outlook</b>.</p> <p>For Malaysia, <b>latest developments point towards moderate economic activity in the first quarter of 2019</b>. Looking ahead, <b>slowing global demand conditions and subdued growth of key trading partners will continue to weigh on the external sector</b>. Domestically, stable labour market conditions and capacity expansion in key sectors will continue to drive household and capital spending. The baseline projection is for the Malaysian economy to grow within the projected range of 4.3% - 4.8%. However, <b>there are downside risks to growth from heightened uncertainties in the global and domestic environment, trade tensions and extended weakness in commodity-related sectors</b>.</p> <p>Headline inflation increased to 0.2% in March 2019 (February: -0.4%), due mainly to the less negative transport inflation at -3.0% (February: -6.8%). Underlying inflation, as measured by core inflation<sup>(1)</sup>, remained stable at 1.6% in March 2019. <b>In the immediate term, inflation is expected to remain low mainly due to policy measures</b>. These include the price ceiling on domestic retail fuel prices until mid-2019 and the impact of the changes in consumption tax policy on headline inflation. <b>For 2019 as a whole, average headline inflation is expected to be broadly stable compared to 2018</b>. The trajectory of headline inflation will continue to be dependent on global oil prices. Underlying inflation is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.</p> <p><b>The domestic financial markets have remained resilient</b>, despite periods of volatility primarily due to global developments. While domestic monetary and financial conditions remain supportive of economic growth, there are some signs of tightening of financial conditions. <b>The adjustment to the OPR is therefore intended to preserve the degree of monetary accommodativeness</b>. This is consistent with the monetary policy stance of supporting a steady growth path amid price stability. The MPC will continue to monitor and 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 <b>maintain the Overnight Policy Rate (OPR) at 3.00 percent</b>.</p> <p>The global economy continues to expand moderately. Labour conditions in the advanced economies remain firm, while domestic demand continues to support growth in Asia. <b>Leading indicators, however, point to a softening of the near term global economic outlook, with considerable downside risks remaining primarily from prolonged trade tensions</b>. While the prospects of monetary easing in the major economies have somewhat eased global financial conditions, <b>heightened policy uncertainty could lead to excessive financial market volatility</b>.</p> <p>The Malaysian economy grew within expectations in the first quarter of the year, supported by both domestic and external factors. Looking ahead, while <b>the external sector performance is likely to be weighed down by slower global growth and trade tensions, economic growth will be supported by domestic demand</b>. Household and capital spending will continue to be driven by stable labour market conditions and capacity expansion in key sectors such as manufacturing and services. <b>The baseline projection remains within the range of 4.3% - 4.8%</b>. This projection, however, is subject to downside risks from <b>ongoing uncertainties in the global and domestic environment, worsening trade tensions and extended weakness in commodity-related sectors</b>.</p> <p>While headline inflation has remained low in the recent period, it is projected to rise in the coming months as the impact of the changes in consumption tax policy lapses. <b>For 2019 as a whole, average headline inflation is expected to be broadly stable compared to 2018</b>. The trajectory of headline inflation will be dependent on global oil prices and policy measures such as the timing of the lifting of the price ceiling on domestic retail fuel prices. Underlying inflation is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.</p> <p>At the current level of the OPR, <b>the stance of monetary policy remains accommodative and supportive of economic activity</b>. The MPC will continue to assess the balance of risks to domestic growth and inflation, to ensure that the monetary policy stance remains conducive to sustainable growth amid price stability.</p>

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