

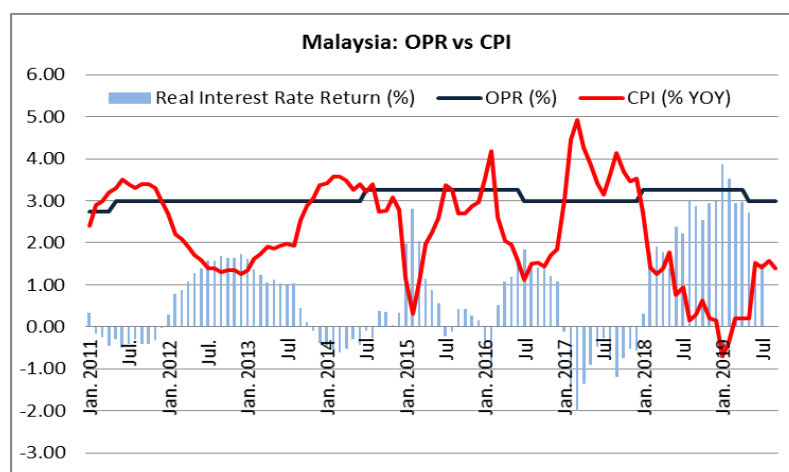
**Global Markets Research**
**Economics - Malaysia**

## ***BNM continued to pause and maintain a neutral tone***

*BNM left the Overnight Policy Rate (OPR) unchanged at 3.00% as expected, taking cue from still modest growth in the global economy and stronger economic performance in the domestic economy in 2Q. Overall, the still neutral statement suggests BNM has no plan to revise its monetary policy in the near future, hence no change to our house view for OPR to stay unchanged at the current level of 3.00% this year. While we do not see a strong case for an OPR cut given resiliency in the domestic economy, with support from the earlier preemptive 25bps cut in May and tentative signs of gain from trade diversion, the rapidly evolving global landscape and ongoing uncertainties stemming from protracted trade disputes and geopolitical development could still exert downside risks to the world economy and financial stability. We believe BNM would stand ready to act should such risks materialize and spill over to the home front. At this juncture, BNM reiterated that the stance of monetary policy remains accommodative and supportive of economic activity.*

*BNM stood pat at 3.00% and offered no hint of a rate cut*

**BNM kept the Overnight Policy Rate (OPR) unchanged at 3.00% as expected, and maintained a neutral policy tone suggesting a near term rate cut is not on the table** given still resilient growth domestically. We also noted that there was **practically no shift in its policy rhetoric compared to the July statement**. While BNM remains mindful on potential downside risks to overall growth outlook given ongoing external uncertainties, **the neutral statement reaffirmed our view that BNM will keep OPR unchanged at 3.00% for the remaining of the year.**



*Global economic growth remains moderate...market volatility to prevail*

On its assessment on the global economy, **BNM commented that the global economy is expanding at a more modest pace**. Recent escalation in trade tensions suggests weaker global trade going forward, and there are growing signs such fallout is spilling over to domestic economies of some countries. BNM also maintained that excessive market volatility may prevail amid heightened policy uncertainty.

*Assessment on the domestic economy turns a tad more positive*

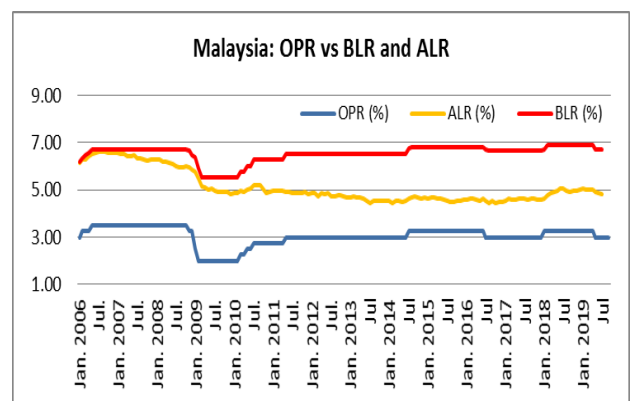
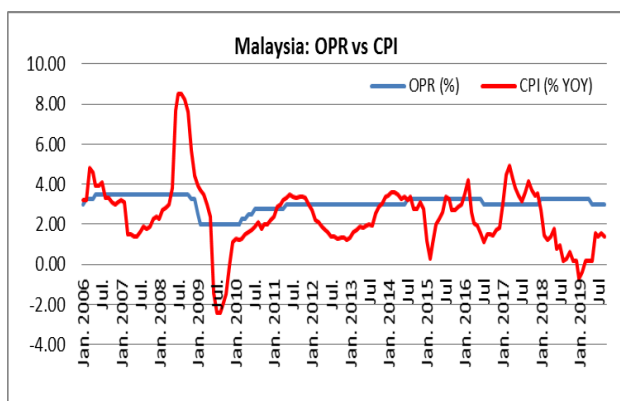
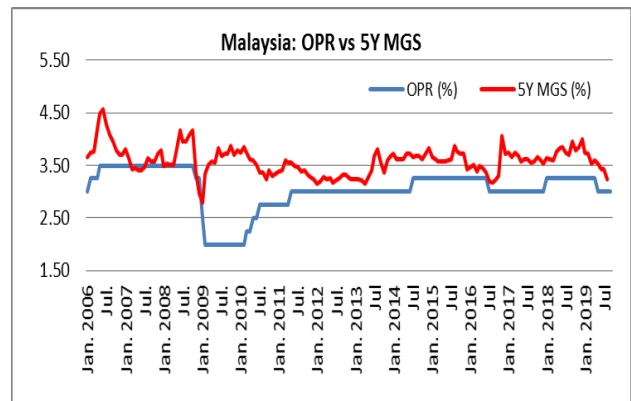
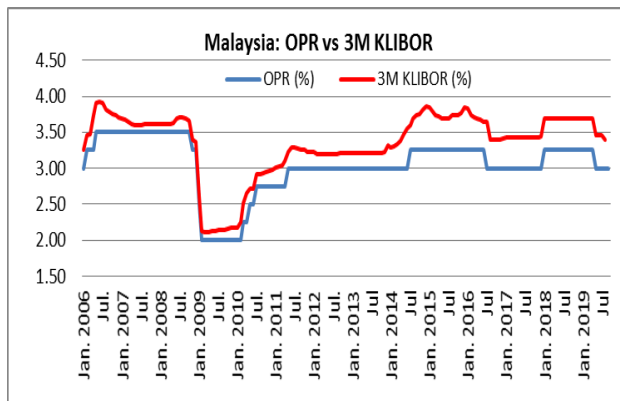
**Assessment on the Malaysian economy is a tad more positive in our view**, citing the stronger GDP performance in 2Q. **BNM remained optimistic that the resiliency in private spending** supported by a stable labour market and wage growth **will continue to support growth in the Malaysian economy going forward. Again, BNM reaffirmed that its baseline growth projection of 4.3-4.8% for 2019 remained unchanged**, even though there exists downside risks to its growth projection. **We are maintaining our house view for the Malaysian economy to expand by 4.7% YOY this year**, following a stronger 2Q GDP growth.

*Inflation outlook remains stable*

**Moving on to inflation, BNM reiterated that average headline inflation is expected to be broadly stable compared to 2018.** Headline inflation is expected to average higher around the current level in the coming months as the impact of the changes in consumption tax policy lapses. No change to our full year CPI forecast of 0.8% YOY although much would depend on the movement of global crude oil prices.

*The still neutral statement reaffirmed our view for no change in OPR this year*

**Overall, the still neutral statement suggests BNM has no plan to revise its monetary policy in the near future, hence no change to our house view for OPR to stay unchanged at the current level of 3.00% this year.** While we do not see a strong case for an OPR cut given resiliency in the domestic economy, with support from the earlier preemptive 25bps cut in May and tentative signs of gain from trade diversion, the rapidly evolving global landscape and ongoing uncertainties stemming from protracted trade disputes and geopolitical development could still exert downside risks to the world economy and financial stability. We believe BNM would stand ready to act should such risks materialize and spill over to the home front. At this juncture, BNM reiterated that the stance of monetary policy remains accommodative and supportive of economic activity.



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

9-July-2019	12-September-2019
<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%. This projection, however, is subject to downside risks from 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>	<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><b>The global economy is expanding at a more modest pace amid slower growth in most major advanced and emerging economies.</b> The recent escalation of trade tensions point to weaker global trade going forward, with increasing signs of spillovers to domestic economic activity in a number of countries. Monetary policy easing in several major economies has eased global financial conditions, but uncertainty from the prolonged trade disputes and geopolitical developments could lead to excessive financial market volatility.</p> <p><b>For Malaysia, the stronger economic growth performance in the second quarter of 2019</b> was underpinned by the resilience of private spending amid broad-based expansion in key economic sectors. Going forward, these domestic drivers of growth, alongside stable labour market and wage growth, are expected to remain supportive of economic activity. On the external front, Malaysia's diversified exports will partly mitigate the impact of softening global demand. <b>Overall, the baseline growth projection for 2019 remains unchanged, within the range of 4.3% - 4.8%. This projection, however, is subject to further downside risks from worsening trade tensions, uncertainties in the global and domestic environment, and extended weakness in commodity-related sectors.</b></p> <p>Average headline inflation year-to-date is 0.3%. <b>Headline inflation is projected to average higher for the remaining months of the year and into 2020.</b> However, headline inflation is expected to remain low. This reflects the lapse in the impact of consumption tax policy changes, the relatively subdued outlook on global oil prices, and policy measures in place to contain food prices. The trajectory of headline inflation will, however, be dependent on global oil and commodity price developments. 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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