

Global Markets Research

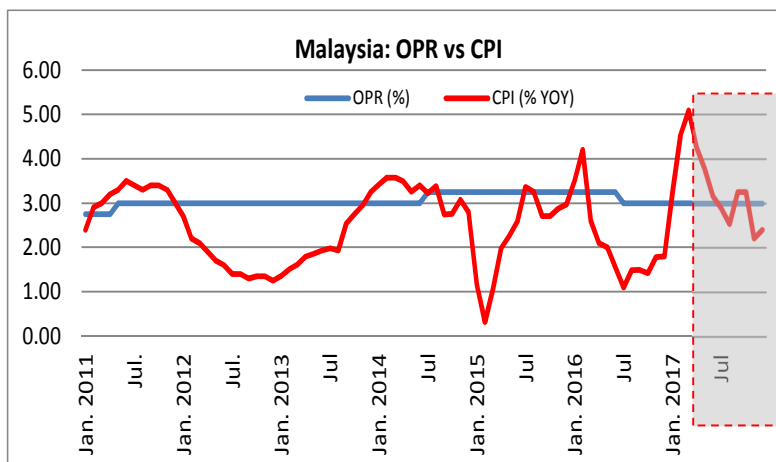
Economics - Malaysia

BNM kept OPR and policy rhetoric unchanged

BNM left OPR unchanged at 3.00% as expected and we noticed little change in the tone of the policy statement. BNM continues to paint a more upbeat growth picture on the global and domestic economy but cautions that risks remain. BNM also downplays inflationary risks saying the increase in underlying inflation is modest and headline inflation is expected to moderate going into 2H17, in line with our projection. Despite the tinge of optimism stemming from a more upbeat growth assessment, we maintain the view that overall tone of the policy statement remains neutral. We continue to hold on to our view that moderately better growth outlook as well as transitory inflationary pressure will allow BNM to keep OPR unchanged at 3.00% through 2017.

BNM kept OPR and policy tone unchanged

BNM maintained OPR at 3.00% as expected and rhetoric of the policy statement was also left largely unchanged from the previous statement. Improving growth outlook, transitory cost push inflation (as shown in the chart below), dissipating financial market volatility, as well as a sound banking system, shall all strengthen the platform for BNM to keep OPR unchanged for the rest of the year.



More synchronized growth across advanced and emerging economies but risks remain

On its assessment on global growth, **BNM commented that growth across advanced and emerging economies is becoming more synchronized. Industrial activity and global trade have picked up and indicators are pointing to continued improvement in the world economy.** While the global economy continues to expand, the central bank reiterated that **there remain risks to global growth** arising from threats such as protectionism, geopolitical developments, and commodity price volatility that could reignite financial market volatility.

Stronger growth momentum in 1Q17

On prospects of the Malaysian economy, BNM expects growth momentum to strengthen in 1Q17, suggesting growth would surpass 4.5% in first quarter of the year. Meanwhile, growth is expected to stay sustained for the rest of the year, driven by domestic demand and robust exports in line with improvement in the global economy. This is in line with our view that net exports will play a pivotal role in driving growth in 2017 as domestic demand takes on a steadier path. We are maintaining our 2017 growth forecast at 4.4% at this juncture. Despite expectations for a stronger 1Q, overall macro conditions remain fluid given uncertainties from both the external and domestic fronts.

Transitory cost-push headline inflation; core inflation modest

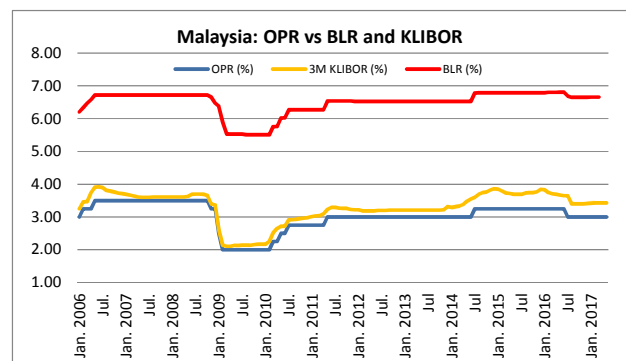
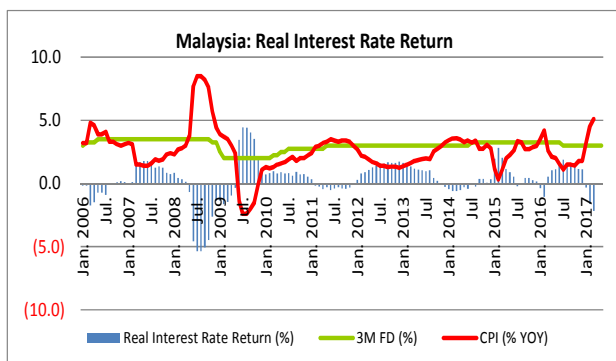
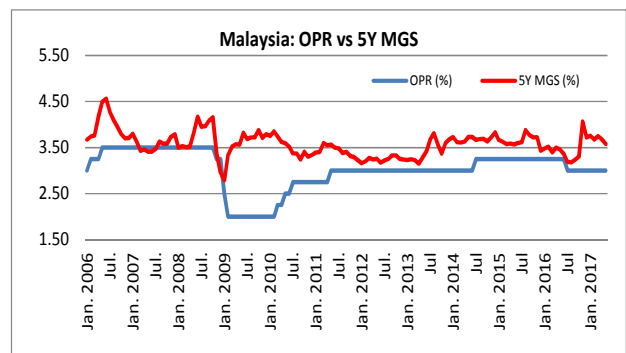
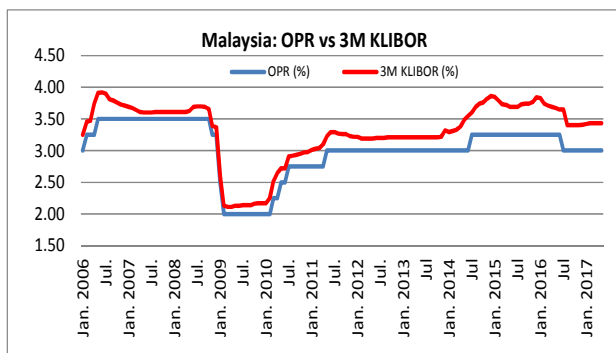
BNM reiterated that headline inflation mainly reflected the pass-through effects of higher global oil prices and higher food prices as a result of temporary supply disruption, and is transitory and cost-push in nature. **BNM maintained its view that headline inflation will moderate in the second half of the year and core inflation is only expected to increase only modestly.**

Expect no change in OPR in 2017

Despite the tinge of optimism stemming from a more upbeat growth assessment, we maintain the view that overall tone of the policy statement remains neutral. We continue to hold on to our view that moderately better growth outlook as well as transitory inflationary pressure will allow BNM to keep OPR unchanged at 3.00% through 2017.

Schedule of BNM MPC meetings for 2017

MPC Meeting No.	Dates (2017)
1 st	18 and 19 January (Wed and Thurs)
2 nd	1 and 2 March (Wed and Thurs)
3 rd	11 and 12 May (Thurs and Fri)
4 th	12 and 13 July (Wed and Thurs)
5 th	6 and 7 September (Wed and Thurs)
6 th	8 and 9 November (Wed and Thurs)



Side by Side Comparison of BNM Monetary Policy Statement

2-March-2017	12-May-2017
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent.</p> <p>Economic activity in the advanced and emerging economies has continued to improve. Global trade is also showing a recovery. In this environment, the Asian economies are benefiting from stronger external demand amid sustained domestic activity. For 2017, the global economy is projected to expand at a slightly faster pace. Nevertheless, there remain risks to global growth arising from threats such as protectionism, geopolitical developments, heightened volatility of financial markets and negative developments in the prices of key commodities.</p> <p>Despite the challenging global and domestic environment, the Malaysian economy expanded by 4.2% in 2016. Growth was underpinned by private sector activity, with additional support from the turnaround in net exports. The growth momentum is expected to be sustained in 2017. With the growth of domestic demand being sustained, the more positive contribution from the external sector will lead to a better performance of the Malaysian economy.</p> <p>Headline inflation is projected to be higher in 2017, reflecting primarily the pass-through impact of the increase in global oil prices on domestic retail fuel prices. Headline inflation would remain relatively high in the first half of the year before moderating thereafter. However, the projected trajectory of domestic headline inflation will be dependent on the future trend in global oil prices which remains highly uncertain. The cost-driven inflation is not expected to have a significant impact on the broader price trends given the stable domestic demand conditions. Core inflation is expected to increase modestly.</p> <p>The ringgit, along with other emerging market currencies, has continued to stabilise. The implementation of financial market development measures has had a positive impact on the domestic financial markets. Banking system liquidity remains sufficient. Financial institutions continue to operate with strong capital and liquidity buffers and the growth of financing to the private sector is consistent with the pace of economic activity.</p> <p>At the current level of the OPR, the stance of monetary policy is accommodative and supportive of economic activity. 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 3.00 percent.</p> <p>The global economy continues to expand. Industrial activity and global trade have picked up. Growth is also becoming more synchronised across the advanced and emerging economies. Indicators suggest that the outlook for the global economy will continue to improve. In the advanced economies, the revival in investment is expected to provide additional impetus to economic activity. In the emerging economies, growth is projected to be supported by sustained domestic activity and stronger external demand. Nevertheless, there remain risks to global growth arising from threats such as protectionism, geopolitical developments, and commodity price volatility. These risks could also reignite financial market volatility.</p> <p>For Malaysia, the growth momentum since the second half of 2016 is expected to strengthen in the first quarter of 2017, and to be sustained for the rest of the year. Growth will be mainly driven by domestic demand amid continued wage and employment growth, and the implementation of new and on-going investment projects. On the external front, given the improvement in global growth, exports are expected to perform more strongly and contribute positively to Malaysia's economic performance.</p> <p>Headline inflation increased to 4.3% in the first quarter of the year, in line with the MPC's expectations. The increase in inflation reflected mainly the pass-through impact of higher global oil prices and temporary supply disruptions that led to higher food prices. The higher headline inflation is expected to moderate in the second half of the year. However, the trend of domestic headline inflation will be dependent on future global oil prices which remain highly uncertain. The cost-push inflation is not expected to have a significant impact on the broader price trends given the stable domestic demand conditions. Underlying inflation, as measured by core inflation, is expected to increase only modestly.</p> <p>The ringgit has continued to stabilise. Banking system liquidity remains sufficient. Financial institutions continue to operate with strong capital and liquidity buffers and the growth of financing to the private sector is consistent with the pace of economic activity.</p> <p>At the current level of the OPR, the stance of monetary policy is accommodative and supportive of economic activity. The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.</p>

Source: BNM

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