

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

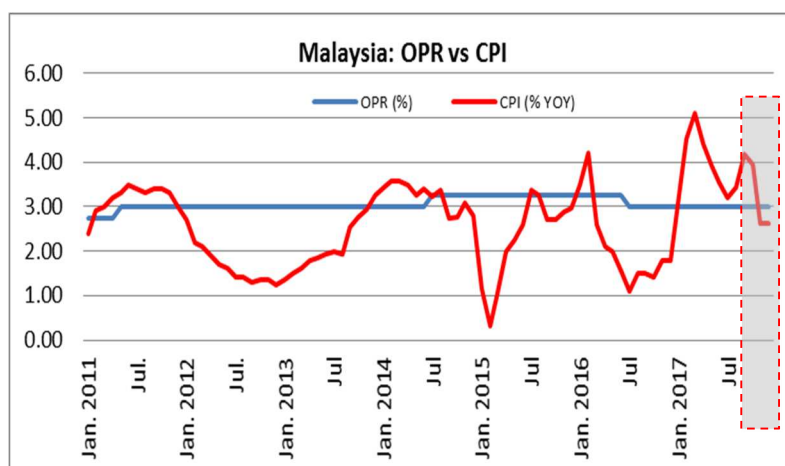
## ***BNM left OPR and policy tone unchanged***

*BNM kept OPR unchanged at 3.00% and policy tone neutral as expected. Assessment on the global economy continues to turn a tad more upbeat with more entrenched and synchronized growth across countries. The Malaysian economy is also expected to turn in stronger than earlier expected, benefiting from the stronger spillovers from the external sector while overall inflation is expected to remain well contained. Resilient growth, contained inflationary pressure coupled with a sound and steady financial markets, are expected to reinforce the case for BNM to keep OPR unchanged at 3.00% through 2017.*

*BNM kept OPR and policy tone unchanged*

**BNM decided to leave OPR unchanged at 3.00% and we noticed no change in the policy tone, both as expected.** That said, BNM continues to paint a more upbeat growth picture of the global economy and commented that overall growth in the Malaysian economy will be “stronger than earlier expected”. The Malaysian economy expanded by 5.7% YOY in 1H17, way above the official forecast of 4.3-4.8% for the full year. We expect this to be revised upwards to 5.0-5.5% (ours 5.4%) when MOF tables 2018 Budget on 27-October.

**BNM also reiterated that inflation continued to stay in a moderating trend and that core inflation is expected to remain contained. There was also no change to BNM’s assessment on financial market conditions,** citing continued resiliency in domestic financial markets, sufficient banking system liquidity, and sustained financing to the private sector. Against this backdrop and the neutral policy statement, **we maintain our view for OPR to stay unchanged this year.**



*BNM sees more entrenched and synchronized growth across countries*

**BNM maintained that the global economy continues to strengthen,** with growth becoming “**more entrenched and synchronized across countries**”. “Global trade has picked up significantly”, which was a more upbeat statement compared to the previous comment of “industrial activity and global trade are exceeding earlier projection”. That said, political and policy developments in major economies and geopolitical risks are lingering risks haunting the global economy.

The domestic economy will grow at a stronger than expected pace...enjoying the spillovers from the external sector

**Turning to the Malaysian economy, BNM commented that growth in 2017 will be stronger than earlier expected.** Growth prospects of the Malaysian economy will be sustained by the more positive global growth outlook and stronger spillovers from the external sector to the domestic economy. However, we noted that assessment on capital spending has turned a tad softer from the previous statement, which is in tandem with softer momentum seen in both private and public investment.

Moderating headline inflation; contained core inflation

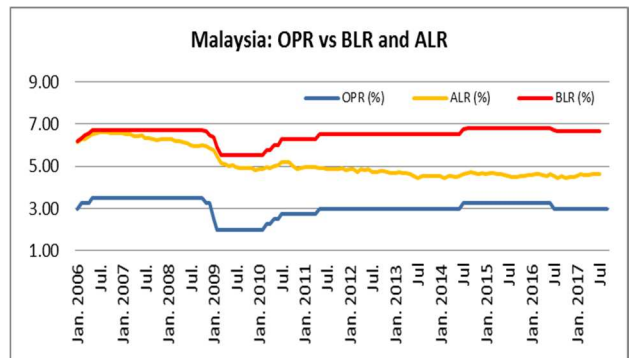
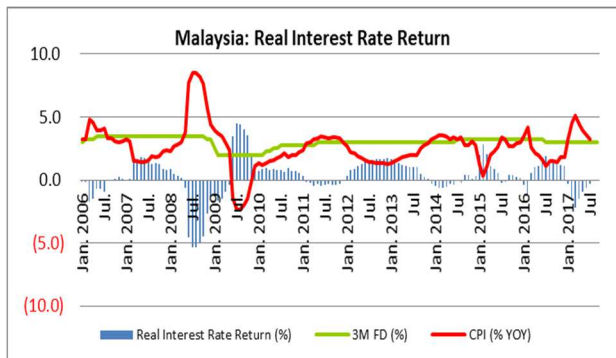
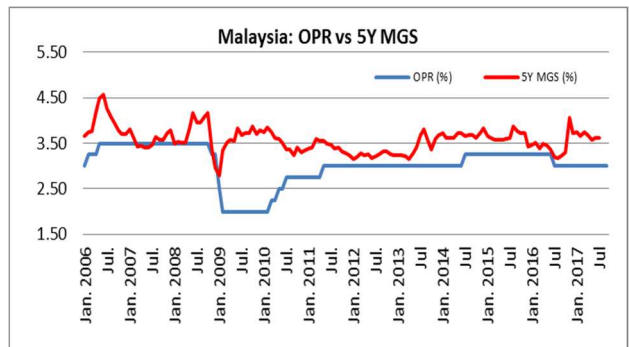
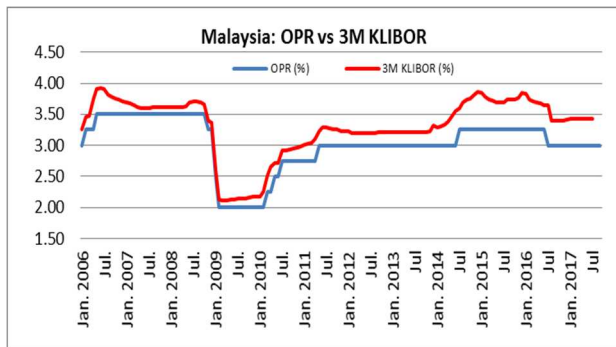
**Headline inflation is expected to extend its moderating trend** mainly reflecting the decline in domestic fuel prices. **Core inflation is expected to remain contained despite more robust domestic demand. We expect headline CPI to moderate from 4.1% in 1H17 to 3.1% in 2H17.**

Maintaining our view for OPR to stay unchanged in 2017

Although the monetary policy statement continued to paint a rosier picture of the global and Malaysian growth prospects, **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 <sup>st</sup>	18 and 19 January (Wed and Thurs)
2 <sup>nd</sup>	1 and 2 March (Wed and Thurs)
3 <sup>rd</sup>	11 and 12 May (Thurs and Fri)
4 <sup>th</sup>	12 and 13 July (Wed and Thurs)
5 <sup>th</sup>	6 and 7 September (Wed and Thurs)
6 <sup>th</sup>	8 and 9 November (Wed and Thurs)



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

13-July-2017	7-September-2017
<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 continues to strengthen</b> with growth becoming more synchronised across countries. <b>Industrial activity and global trade are exceeding earlier projections.</b> In the advanced economies, the broad-based increase in investment amid the steady growth in consumption is raising growth prospects. In Asia, growth is expected to be driven by domestic activity and stronger external demand. <b>Risks to the global growth outlook arise mainly from political and policy uncertainties in the major economies, geopolitical and financial market developments, and volatility of commodity prices.</b></p> <p>The Malaysian economy performed better than expected in the first quarter of 2017. Growth was lifted by stronger domestic demand with additional impetus from exports. <b>Going forward, the more favourable global growth prospects will lead to sustained export performance and generate positive spillovers to the domestic economy.</b> Private consumption will be underpinned by higher wages and employment. The improved investment outlook is being driven by new and ongoing infrastructure projects, and stronger capacity expansion in the manufacturing and services sectors. <b>Overall, the economy is expected to register higher growth in 2017.</b></p> <p>Headline inflation moderated to 3.9% in May, due mainly to the decline in domestic fuel prices during the month. <b>Headline inflation is expected to moderate in the second half of the year</b> mainly reflecting the waning effect of global cost factors. Underlying inflation, as measured by <b>core inflation, will be sustained by the more robust domestic demand but is expected to remain contained.</b></p> <p><b>The domestic financial markets have been resilient. The ringgit has remained stable with a more balanced demand and supply of foreign currencies following the implementation of the two financial market development measures. Banking system liquidity remains sufficient</b> with financial institutions continuing to operate with strong capital and liquidity buffers. <b>The growth of financing to the private sector has improved,</b> consistent with the pace of economic activity.</p> <p>At the current level of the OPR, <b>the stance of monetary policy is accommodative and supportive of economic activity.</b> 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 <b>maintain the Overnight Policy Rate (OPR) at 3.00 percent.</b></p> <p><b>The global economy continues to strengthen</b> with growth becoming more entrenched and synchronised across countries. <b>Global trade has picked up significantly.</b> In the advanced economies, both consumption and investment continue to improve. In Asia, growth is driven by sustained domestic activity and strong external demand. These developments point to <b>sustained momentum in global growth. This outlook nevertheless may be affected by political and policy developments in major economies and geopolitical risks.</b></p> <p>The Malaysian economy recorded a higher growth in the second quarter of 2017, driven by firmer domestic activity and exports. <b>Looking ahead, growth prospects will be sustained by the more positive global growth outlook and stronger spillovers from the external sector to the domestic economy.</b> Domestic demand will remain the key driver of growth, supported by improving incomes and overall labour market conditions, new and ongoing infrastructure projects and sustained capital investment by firms in the manufacturing and services sectors. <b>Overall, growth in 2017 will be stronger than earlier expected.</b></p> <p>Headline inflation continued its moderating trend, declining to 3.2% in July, due mainly to the decline in domestic fuel prices. Going forward, <b>headline inflation is projected to moderate</b> on expectations of a smaller effect from global cost factors. Underlying inflation, as measured by <b>core inflation, will be sustained by the more robust domestic demand but is expected to remain contained.</b></p> <p><b>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.</b></p> <p>At the current level of the OPR, <b>the stance of monetary policy remains accommodative.</b> 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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