

ECONOMIC REVIEW | September 2018 BNM MPC**BNM Maintains OPR at 3.25% as Inflationary Pressure to Remain Subdued**

- *Overnight Policy Rate maintained at 3.25%. In line with our expectation, overnight policy rate is left unchanged at 3.25%. The decision is widely expected and timely as macroeconomic indicators are reflecting moderating signs.*
- *GDP growth slowest to 1½ years. Malaysia's GDP growth expands by 4.5%yoy in 2Q18, below our forecast of 4.9%yoy and market expectations of 5.2%yoy. It is the weakest growth in 6-quarters and less than previous quarter growth of 5.4%. Among others, domestic demand contributes about 4.3% of the total growth during the quarter.*
- *OPR to stay at 3.25% in 2018. Amid balanced risk, we maintain our baseline view of a single rate hike in 2018. We expect domestic economy will continue to expand at a moderating pace in 2018. However, future developments in both internal and external fronts will determine the upcoming outlook of Malaysia monetary policy.*

Overnight Policy Rate maintained at 3.25%. In line with our expectation, overnight policy rate is left unchanged at 3.25%. The decision is widely expected and timely as macroeconomic indicators are reflecting moderating signs. 2Q18 GDP growth registered at 4.5%yoy, weakest gain since 4Q16. In addition, we observe slight slowdown in external trade, industrial production and manufacturing sales performances in 1H18 as compared to previous year. Nevertheless, we expect GDP growth to remain solid this year, supported with robust domestic spending, continuous pick-up in global commodity prices, steady business confidence, stable labour market and moderating inflationary pressure. We estimate GDP growth for 2018 at 5.2%.

Global trade activities remain upbeat despite trade tension. Malaysia's external trade performance in Jul-18 indicates steady regional as well as global demand. Exports growth for 3-consecutive months since May-18 has been on up-trend, similarly with imports expansion rate. Exports and imports jump by 9.4%yoy and 10.3%yoy respectively in Jul-18. Across the globe, despite ongoing trade tension, USA-China trade figures stays resilient given that Chinese exports to USA grew by 14.2%yoy in 1H18, higher than previous year's average of 11%yoy. Additionally, overall China's exports and imports growth for 1H18 are faster than of 2017. In regard to global leading indicator, manufacturing PMI for global and emerging economies remains above expansionary line of 50 points in Aug-18. Both recorded readings of 52.5 and 50.8 points respectively. We maintain our forecast Malaysia's exports growth at 9.3% in 2018 amid steady global demand, rising commodity prices and optimistic business environment.

GDP growth slowest to 1½ years. Malaysia's GDP growth expands by 4.5%yoy in 2Q18, below our forecast of 4.9%yoy and market expectations of 5.2%yoy. It is the weakest growth in 6-quarters and less than previous quarter growth of 5.4%. Among others, domestic demand contributes about 4.3% of the total growth during the quarter. From supply side, services and manufacturing sectors contribute 3.5% and 1.2% respectively. The slowdown in GDP growth was in tandem with moderating performances of industrial production, manufacturing sales, distributive trade and external trade during the quarter. Moderating inflationary pressure, strengthening domestic demand and accommodative economic policies as well as strong exports growth are expected to be major drivers for GDP performance in the second half 2018.

Headline inflation to average at 1.3% this year. Headline inflation up 0.9%yoy in Jul-18, as widely expected. The inflation rate remains below 1% in the second month of tax holiday period. Inflation of food & non-alcoholic beverages further slowdown to 0.7%yoy, lowest ever recorded. Among others, the marginal rise in overall prices is mainly due to slight pick-up in transport inflation, 6.7%yoy. On the other hand, for the first time core inflation went down to deflationary level of -0.2%yoy. Malaysia's inflation is expected to continue to taper down in upcoming months due to high base effects besides other significant policy induced measure such as subsidy on retail fuel price which will reduce business cost.


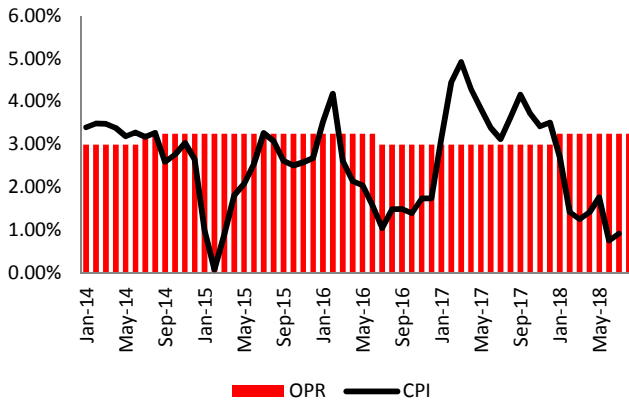
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Table 1: Central Bank Policy Rate (%) by Selected Countries

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Malaysia	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.75	5.25	5.25	5.50
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	4.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	1.50	1.50	1.50	1.75	1.75	1.75	2.00	2.00	2.00

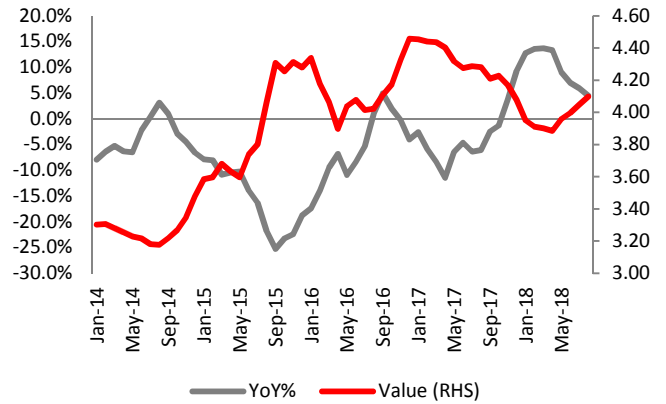
Source: CEIC, MIDFR

Chart 1: Monetary Policy (%) vs CPI (YoY%)



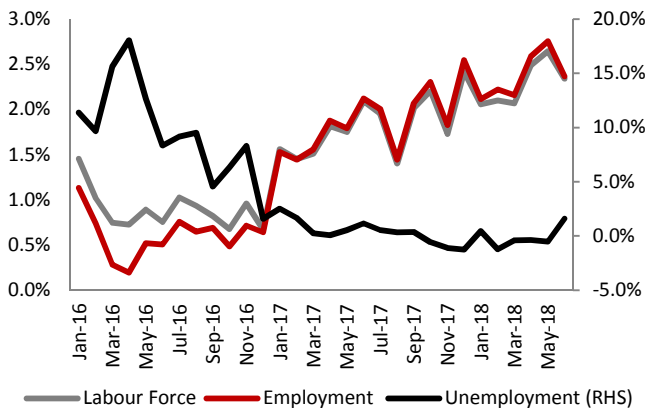
Source: CEIC, MIDFR

Chart 2: MYR Performance



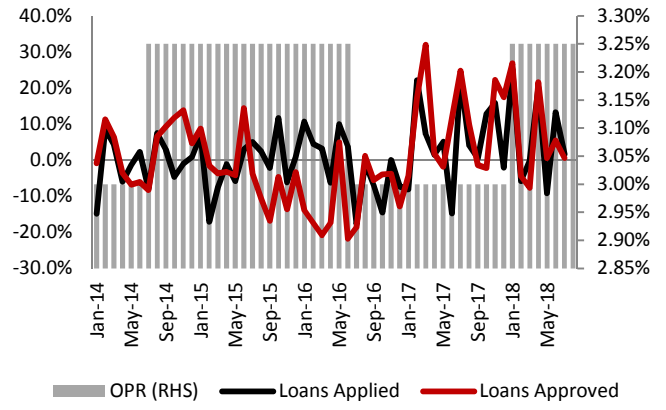
Source: CEIC, MIDFR

Chart 3: Labour Market Performance (YoY%)



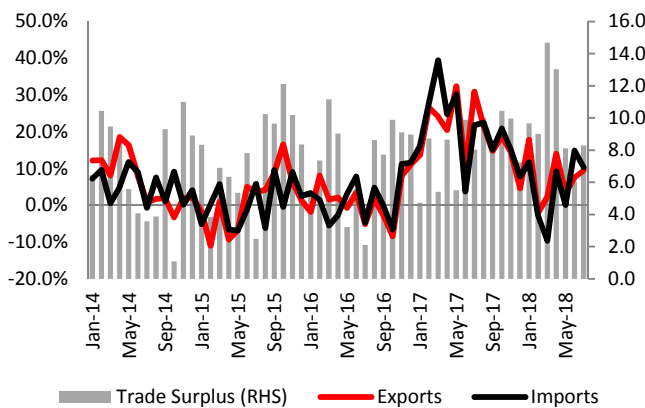
Source: CEIC, MIDFR

Chart 4: OPR (%) vs Loans Growth (YoY%)



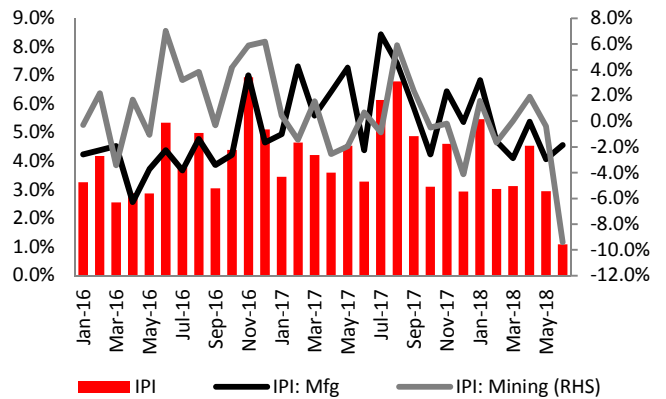
Source: CEIC, MIDFR

Chart 5: External Trade Performance (YoY% & RMB)



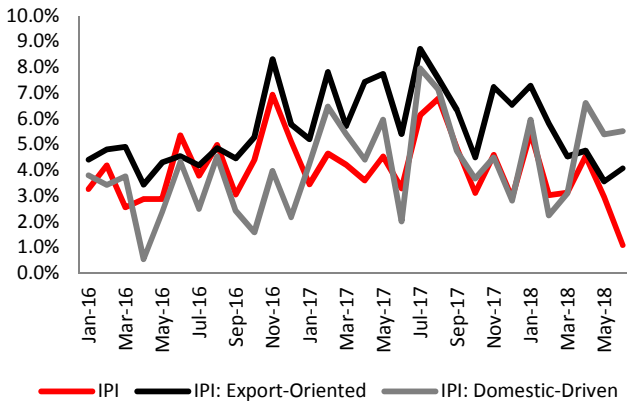
Source: CEIC, MIDFR

Chart 6: Industrial Productions Performance (YoY%)



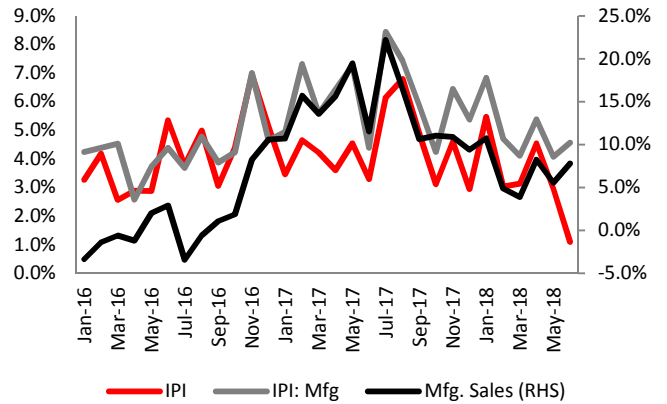
Source: CEIC, MIDFR

Chart 7: IPI Performance (YoY%)



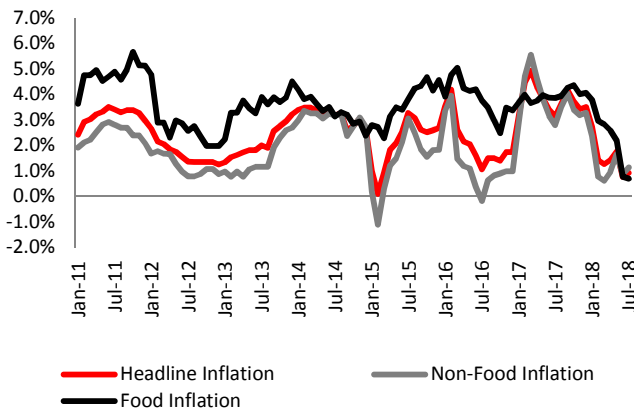
Source: CEIC, MIDFR

Chart 8: IPI vs Manufacturing Performances (YoY%)



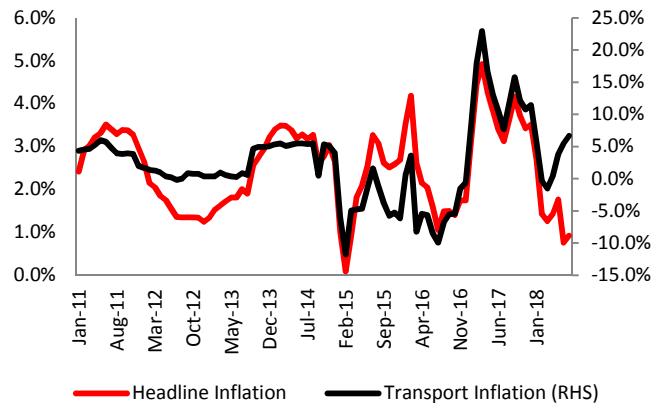
Source: CEIC, MIDFR

Chart 9: Headline vs Food Inflation (YoY%)



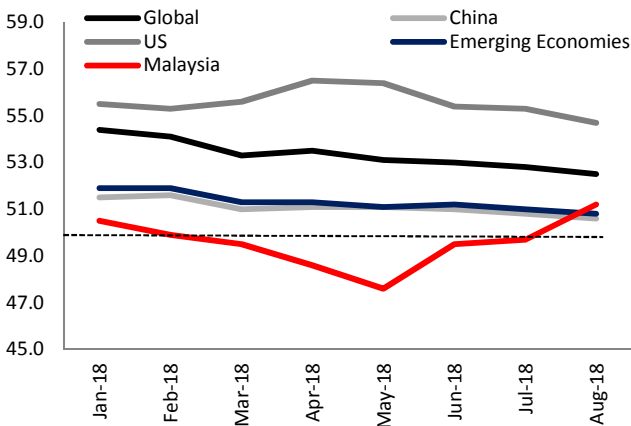
Source: CEIC, MIDFR

Chart 10: Headline vs Transport Inflation (YoY%)



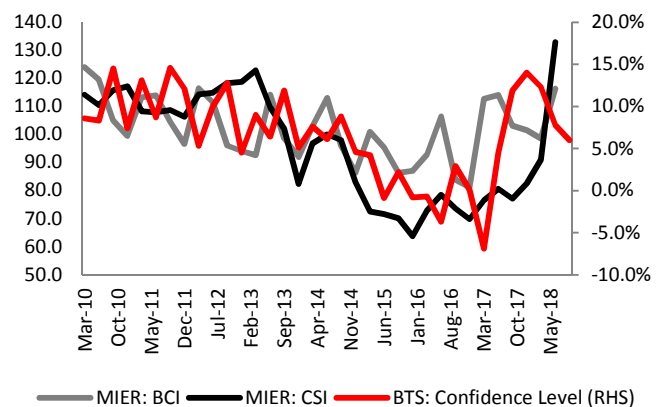
Source: CEIC, MIDFR

Chart 11: Manufacturing PMI Performance (Points)



Source: BLOOMBERG, MIDFR
 *(>50:Expansionary, <50: Contractionary)

Chart 12: Economic Confidence Level



Source: CEIC, MIDFR

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