midf RESEARCH

20 January 2017

ECONOMIC REVIEW | January 2017 BNM MPC

BNM Sees a Stronger Economy in 2017, Maintain OPR at 3.00%

- *As has been expected by many, BNM maintained their benchmark interest rate at 3.00% level in January MPC meeting. The rebound in global economic condition caused by a revival of China's economy and commodity prices has improved the global trade activity and helped to lift Malaysia's economy.*
- *At the moment, the Ringgit has indeed stabilized. The fund flow has recently reversed from US to emerging market economies, with Malaysia receiving a positive net inflow of approximately RM406.7 million year-to-date. However, there remain a lot of uncertainties that could be affecting the financial market, from the new US president's economic policy to the elections in the European countries.*
- *We are maintaining our view of a possible one rate cut of OPR in the interquartile of 2017 with caveat. The one rate cut is in order to slightly support Malaysia's domestic economy – particularly on the investment front, in order to boost employment level should the domestic economy deteriorated. This will lead to Malaysia's benchmark interest rate to 2.75% by year-end 2017.*

BNM maintained their benchmark interest rate at 3.00%. As has been expected by many, BNM maintained their benchmark interest rate at 3.00% level in January MPC meeting. The rebound in global economic condition caused by a revival of China's economy and commodity prices has improved the global trade activity and helped to lift Malaysia's economy. Moving forward, should the condition remain, Malaysia's economy is definitely going to benefit from it with higher employment level and income growth.

Despite the positive setup, the risk remains. BNM mentioned that the downside risk to global growth remains, mostly due to the risk of protectionism policy, geopolitical developments and commodity price volatility. We opine that between the three, the one risk that has the highest possibility of materialising is on protectionism bias. All this while, among president-elect Trump's manifesto we have always reiterated that his protectionism bias is one of the things that he is likely to do the most. Though the main question is to what extent – will he actually increases import tariff to 35% or will he settle at imports substitution. We think that the latter is more likely, which should lead to a slight slowdown in global trade activity.

On the domestic economy, BNM opine that the economy remains on track. Private consumption will remain the main driver of the economy while investment, albeit weakening, should remain supported by the public investment on infrastructure. We agree with BNM's call of a stronger export this year, in which we are maintaining our forecast of exports growth for year 2017 at 3.0%. However, the one that will really push Malaysia's GDP numbers will be net exports, rather than exports alone. We are expecting a widening of net exports in 2017, mostly due to the recent weakening of Ringgit. Moving forward, the slower imports activity should be substituted by a stronger domestic production.

Ringgit has been improving, BNM measures has stabilised domestic foreign exchange market. At the moment, the Ringgit has indeed stabilised. The fund flow has recently reversed from US to emerging market economies, with Malaysia receiving a positive net inflow of approximately RM406.7 million year-to-date. However, there remain a lot of uncertainties that could be affecting the financial market, from the new US president's economic policy to the elections in the European countries. However, we are of the view that currently BNM possess enough bullets to continue supporting Malaysia's financial market condition.

We are maintaining our view of a possible one rate cut in the interquartile of 2017 with caveat. We are maintaining our view for a possible single rate cut of OPR in the interquartile of 2017. The one rate cut is in order to support Malaysia's domestic economy – particularly on the investment front, in order to boost employment level should the growth of domestic sector deteriorated. This will lead to Malaysia's benchmark interest rate to 2.75% by year-end 2017. At the same time, we are maintaining our GDP forecast of 4.3% and inflation at 2.8% for the year.

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.