

**ECONOMIC REVIEW | January 2018 BNM MPC****25bps OPR Hike - A Timely Move by BNM**


- *Bank Negara Malaysia raises interest rate by 25 basis points. In line with our expectation, overnight policy rate, OPR was increase from 3.00% to 3.25%. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory.*
- *GDP growth to sustain above 5% in 2018. We forecast Malaysia's economy to grow by 5.5% in 2018, slower than previous year's forecasted growth of 5.9%. Among others, external trade and industrial activities are expected to remain on upbeat momentum underpinned by sanguine business environment and gradual rise in commodity prices.*
- *OPR to remain at 3.25% in 2018. Our baseline view is for one rate in 2018. Even though economic indicators are moving into positive direction, we concur the timing of the hike could not be better. The hike is seen as a step to normalise the degree of monetary accommodation rather than the beginning of tightening cycle.*

**Bank Negara Malaysia raises interest rate by 25 basis points.** In line with our expectation, overnight policy rate, OPR was increase from 3.00% to 3.25%. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory. Domestically, positive spill-over effects from external demand and upbeat local economic activities have contributed towards Malaysia's robust economic expansion. Looking ahead, we forecast GDP growth to remain strong this year, supported with gradual rise in global commodity prices, further market integration, stable labour market and contained inflationary pressure.

**Global trade activities to remain on upward trend amid protectionism threat.** Malaysia's external front is expected to still enjoy upbeat momentum in global demand and further recovery in commodity prices. Business environment as reflected in global and emerging economies PMI remain indicating expansionary direction. Both PMI for global and emerging economies recorded at 54.5 and 52.2 points respectively in December 2017. However, recent imposition of steep tariffs on washers and solar panels by the US government provide negative signs in the market as protectionism threat evolves. Next industries that may face similar increase in tariffs in the US are steel and aluminium.

**GDP growth to sustain above 5% in 2018.** We forecast Malaysia's economy to grow by 5.5% in 2018, slower than previous year's forecasted growth of 5.9%. Among others, external trade and industrial activities are expected to remain on upbeat momentum underpinned by sanguine business environment and gradual rise in commodity prices. Plus, Malaysia's labour market is expected to stay on healthy condition, as unemployment rate to average at 3.2% this year. Moreover, business and consumer confidence in Malaysia have been on steady recovery path since mid-2016. For instance, MIER's business confidence remains above 100-threshold line for four consecutive quarters whereas the consumer sentiment improves but yet stubbornly below the threshold line in 4Q17.

**Inflation rate averaged at 3.7% in 2017.** Headline inflation recorded at 3.5%yoy in December 2017, continuously underpinned by fuel-related cost pressure. Transport and food inflation up by 11.5%yoy and 4.1%yoy while core inflation stays at 12-months low level of 2.2%yoy. As for 2018, we foresee inflation to slow down to 2.6%yoy amid of unfavourable base effects. The gradual rise in commodity prices will continue influencing Malaysia's overall prices trend this year, partly thanks to the joining efforts by the OPEC and Non-OPEC to control oil supply globally.

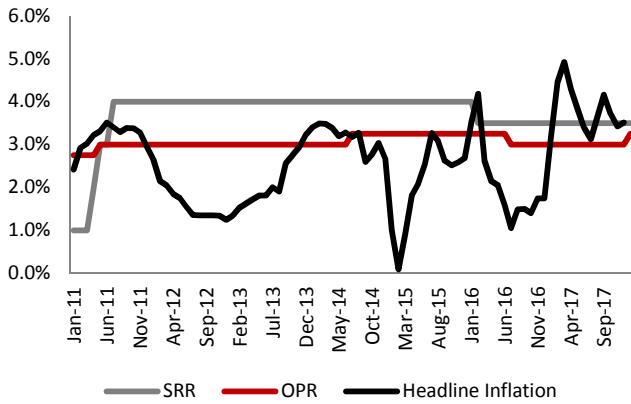
**OPR to remain at 3.25% in 2018.** Our baseline view is for one rate in 2018. Even though economic indicators are moving into positive direction, we concur the timing of the hike could not be better. The hike is seen as a step to normalise the degree of monetary accommodation rather than the beginning of tightening cycle. Nevertheless, future developments in both internal and external fronts will determine the outlook of Malaysia monetary stance in months to come. 

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

Economies	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25
Indonesia	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50
China	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
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
United States	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25

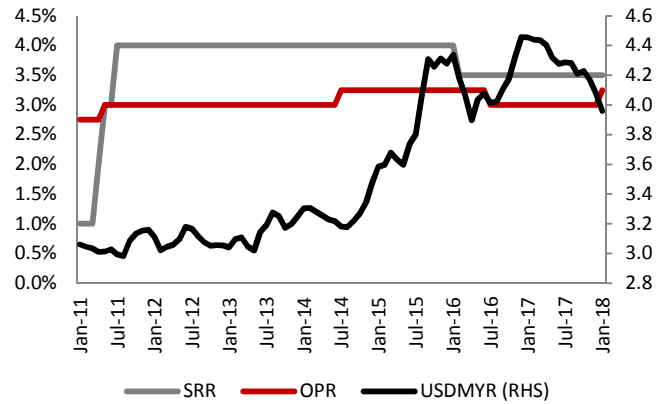
Source: CEIC, MIDFR

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



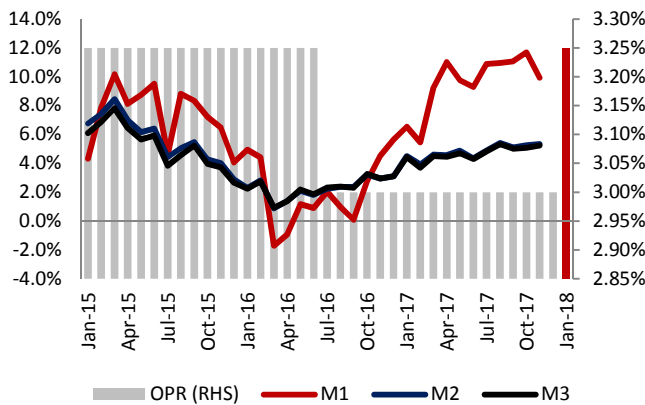
Source: CEIC, MIDFR

**Chart 2: Monetary Policy (%) vs USDMYR**



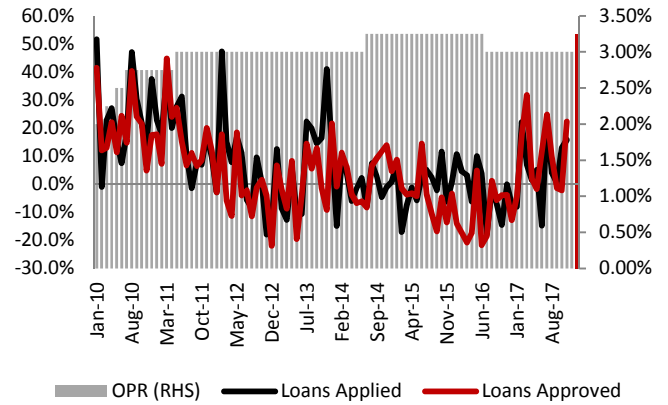
Source: CEIC, MIDFR

**Chart 3: OPR (%) vs Money Supply (YoY%)**



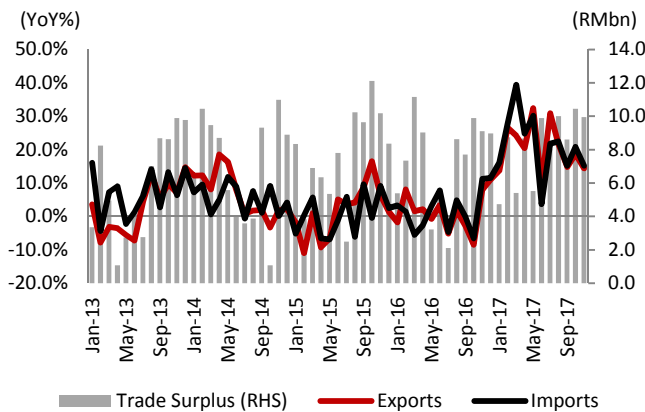
Source: CEIC, MIDFR

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



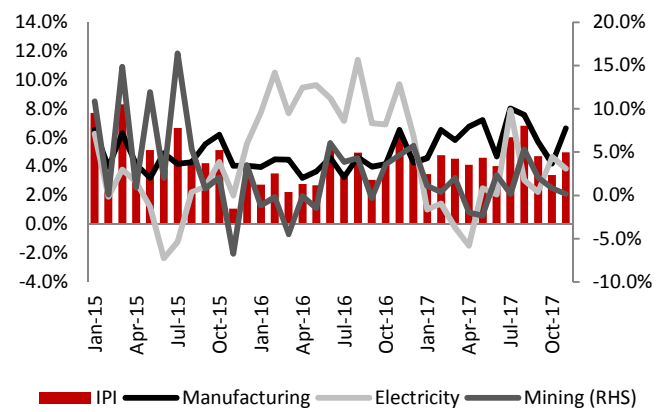
Source: CEIC, MIDFR

**Chart 5: Upward Trend in External Trade**



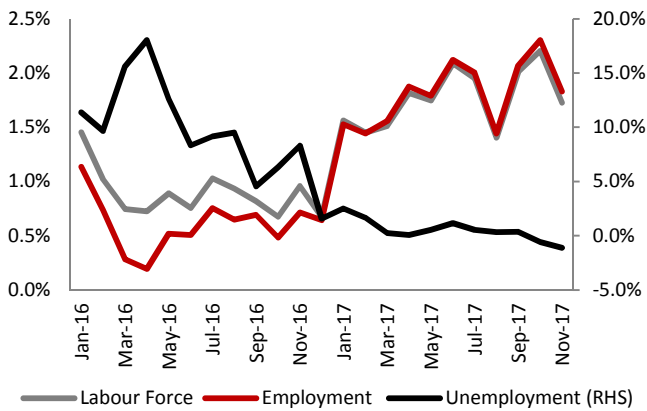
Source: CEIC, MIDFR

**Chart 6: Industrial Productions Performance (YoY%)**



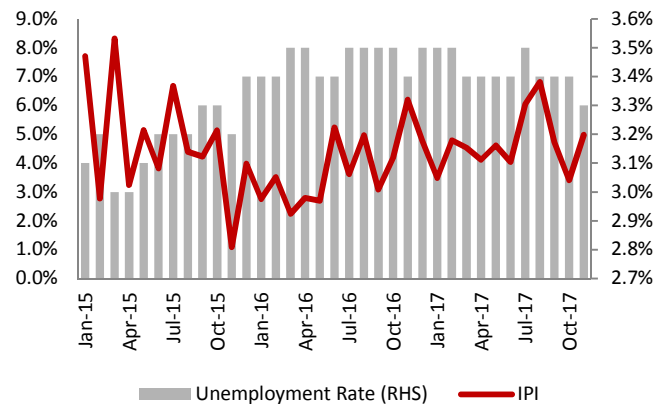
Source: CEIC, MIDFR

**Chart 7: Labour Market Performance (YoY%)**



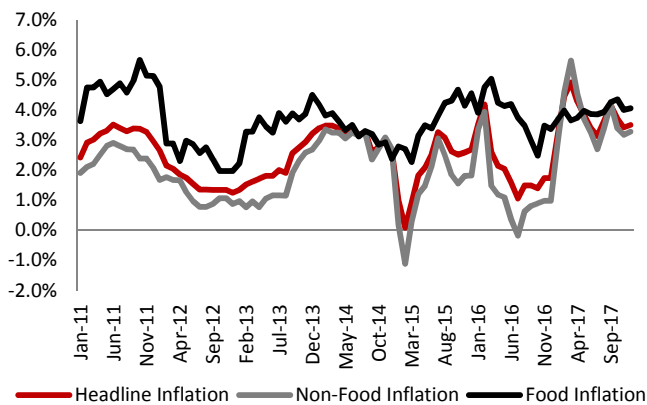
Source: CEIC, MIDFR

**Chart 8: IPI (YoY%) vs Unemployment Rate (%)**



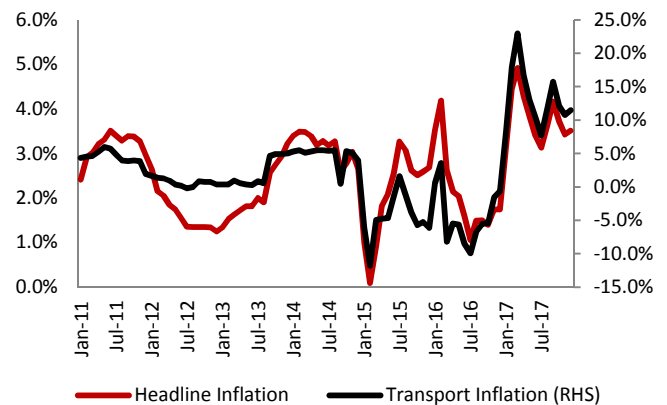
Source: CEIC, MIDFR

**Chart 9: Headline vs Food & Non-Food Inflation (YoY%)**



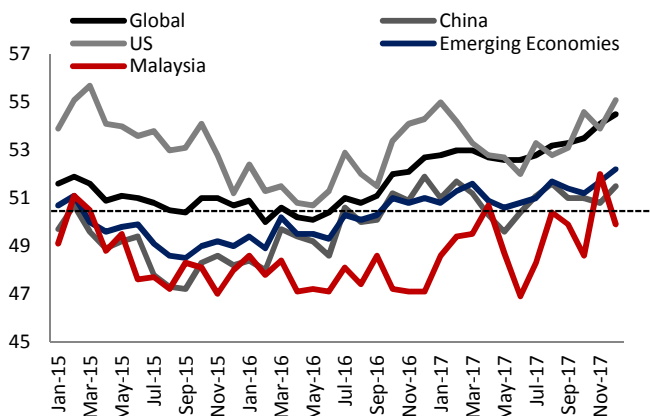
Source: CEIC, MIDFR

**Chart 10: Headline vs Transport Inflation (YoY%)**



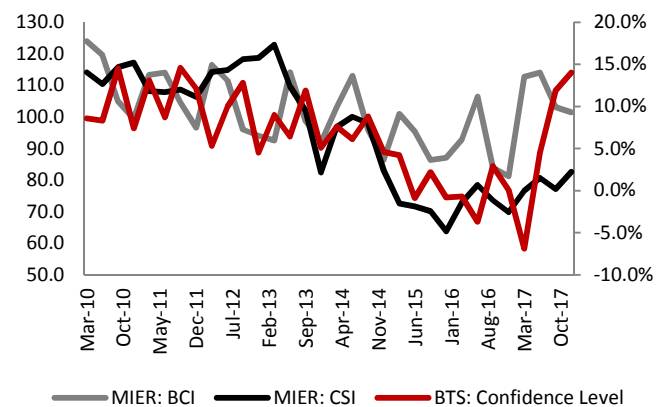
Source: CEIC, MIDFR

**Chart 11: Manufacturing PMI Performance (Points)**



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

**Chart 12: Economic Confidence Level**



Source: CEIC, MIDFR

**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.