

**ECONOMIC REVIEW | July 2018 BNM MPC****BNM Maintains OPR at 3.25% as Solid Economic Growth Momentum Remains Intact**

- *Overnight Policy Rate maintained at 3.25%. In line with our expectation, overnight policy rate is left unchanged at 3.25% during the first interest-rate meeting for the Malaysia's new central bank governor, Datuk Nor Shamsiah Mohd Yunus who took the helm earlier this month. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory.*
- *GDP Growth remains above 5%. Malaysia's GDP growth expanded by 5.4%yoy in 1Q18, slightly below our forecast and market expectations of 5.5%yoy, marked the weakest growth in 5-quarters. Among others, domestic demand contributes about 3.8% of the total growth during the quarter.*
- *OPR stays at 3.25% in 2018. Amid positive direction of economic indicators, we maintain our baseline view of one rate hike in 2018.*


**Overnight Policy Rate maintained at 3.25%.** In line with our expectation, overnight policy rate is left unchanged at 3.25% during the first interest-rate meeting for the Malaysia's new central bank governor, Datuk Nor Shamsiah Mohd Yunus who took the helm earlier this month. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory. Robust domestic economic activities on top of upbeat external trade performances have contributed towards Malaysia's strong economic expansion. Looking ahead, we expect GDP growth to remain solid this year, supported with gradual rise in global commodity prices, steady business confidence, stable labour market and moderating inflationary pressure.

**Global trade has yet to lose its momentum amid protectionism threat.** Recent May-18's trade figures in which exports slowed to single digit of 3.4%yoy in which indicate global trade momentum has yet to lose its steam. In addition, business environment as reflected in global and emerging economies PMI remain indicating expansionary direction. Both PMI for global and emerging economies recorded 54.5 and 51.9 points respectively in Jun-18. Nevertheless, the various external uncertainties of the ongoing geopolitical concerns and trade disputes are weighing on growth, thus the risks remain skewed to the downside as wider protectionist measures would curb Malaysia's steady expansionary path. We maintain our forecast Malaysia's exports growth at 9.3% in 2018.

**GDP Growth remains above 5%.** Malaysia's GDP growth expanded by 5.4%yoy in 1Q18, slightly below our forecast and market expectations of 5.5%yoy, marked the weakest growth in 5-quarters. We opine the upbeat momentum in GDP growth was in tandem with steady performances of industrial production, manufacturing sales, distributive trade and external trade during the quarter. Among others, strong domestic demand amid of zero-rated GST & stable retail fuel prices as well as sturdy external demand is major anchors driving up GDP performance in the near term. On a flip side, we foresee the review of mega infrastructure projects significant impacts on overall business confidence and investment flows. We predict business confidence will come back

strong in 4Q18 once the National Budget 2019 tabled in Oct-18 and followed with the Mid-Term Review of the 11th Malaysia Plan: New Direction 2018-2020 by year-end.

**Headline inflation rate to average at 2.6% this year.** Headline inflation rate touched 1.8%yoy in May-18, higher than 1.4%yoy registered in the preceding month and the highest since Feb-18 due to strong recovery in transport prices. Amid higher base effects, we foresee headline inflation rate to average at 2.6% this year compared to 3.8% in 2017. We expect inflationary pressure mainly from fuel-related items to calm, consistent with gradual rise in global commodity prices, stable retail fuel prices and zero-rated GST.

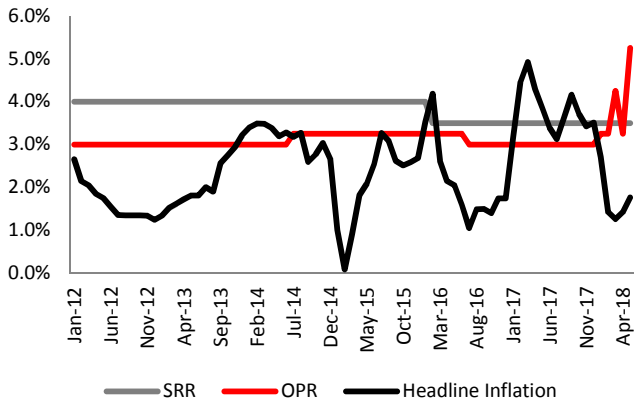
**OPR to stay at 3.25% in 2018.** Amid positive direction of economic indicators, we maintain our baseline view of one rate hike in 2018. We expect domestic economy will continue to expand at a moderating pace this year. Hence, we maintain that Bank Negara will keep the OPR unchanged for the rest of 2018. However, future developments in both internal and external fronts will determine the upcoming outlook of Malaysia monetary stance. 

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

	17-Oct	17-Nov	17-Dec	18-Jan	18-Feb	18-Mar	18-Apr	18-May	18-Jun
Malaysia	3.0	3.0	3.0	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.75	5.25
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.25
Thailand	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.25	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Japan	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
United Kingdom	0.25	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
EU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
United States	1.25	1.25	1.5	1.5	1.5	1.75	1.75	1.75	2.0

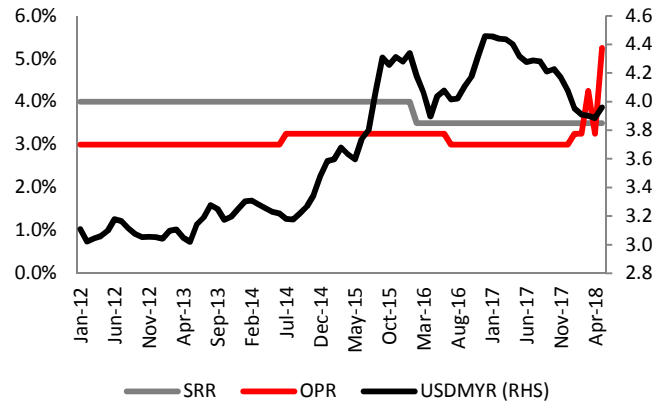
Source: CEIC, MIDFR

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



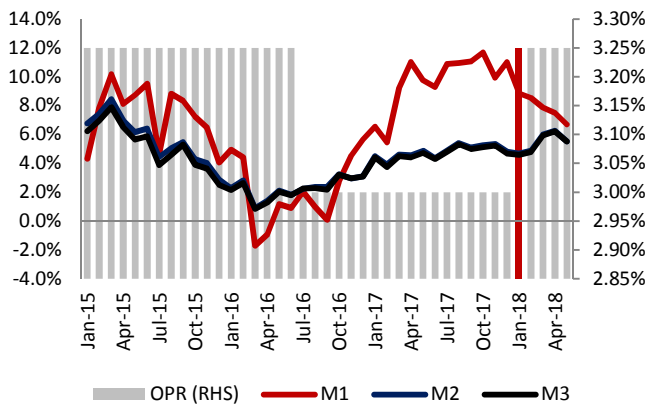
Source: CEIC, MIDFR

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



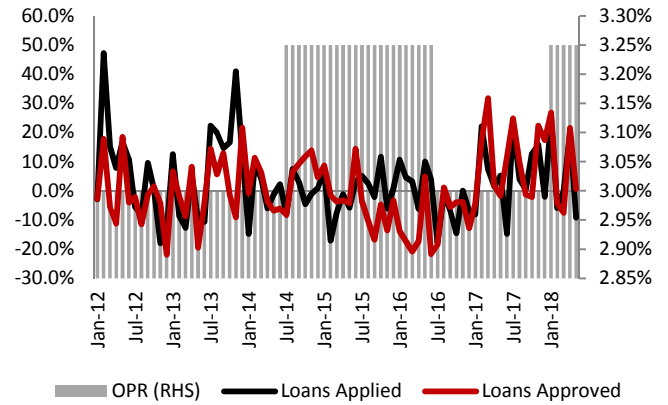
Source: CEIC, MIDFR

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



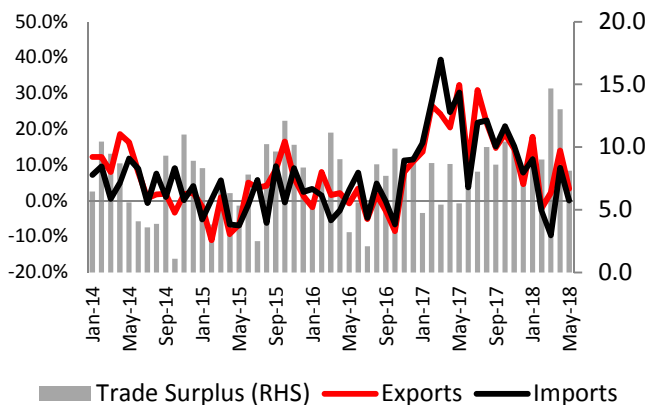
Source: CEIC, MIDFR

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



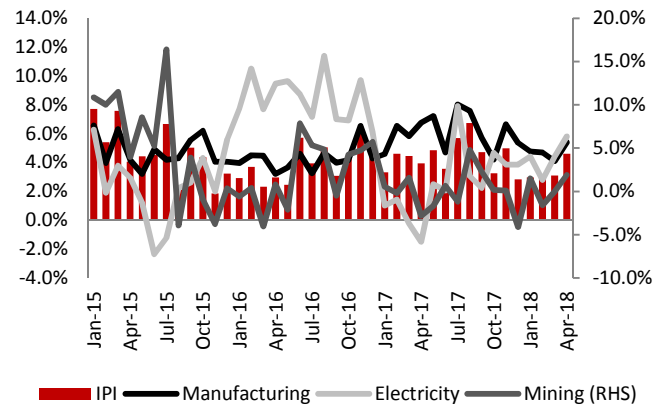
Source: CEIC, MIDFR

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



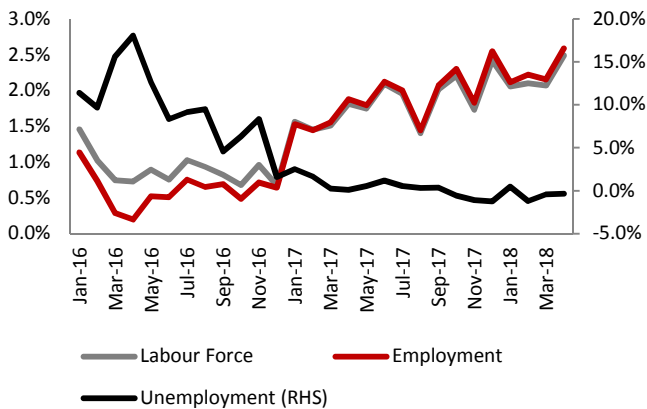
Source: CEIC, MIDFR

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



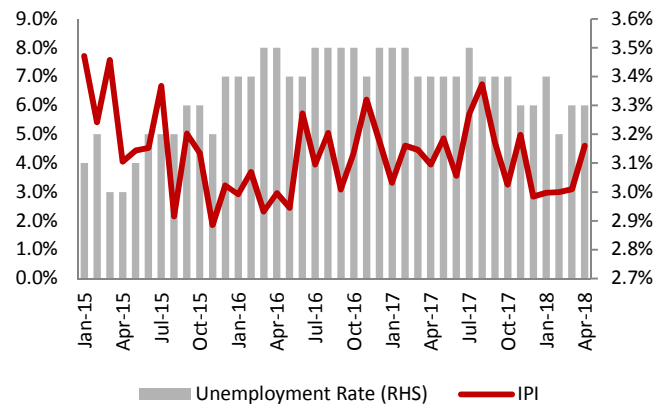
Source: CEIC, MIDFR

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



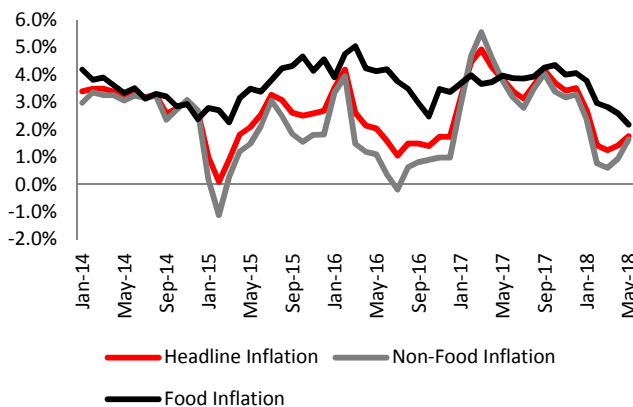
Source: CEIC, MIDFR

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



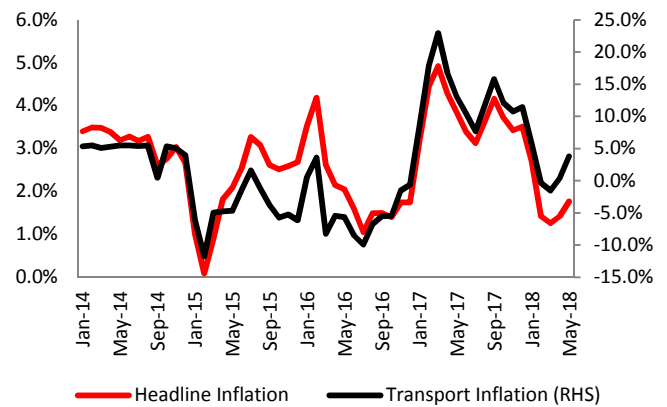
Source: CEIC, MIDFR

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



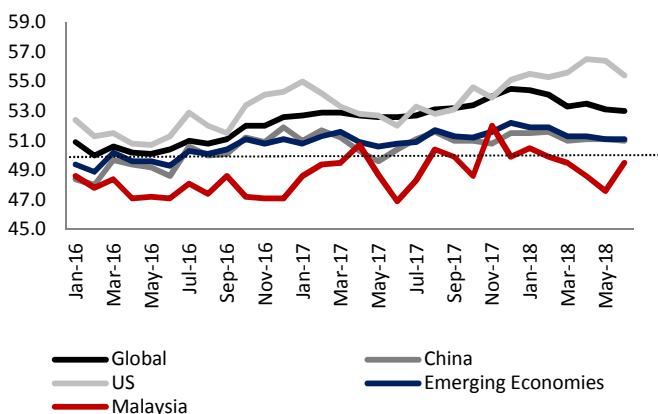
Source: CEIC, MIDFR

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



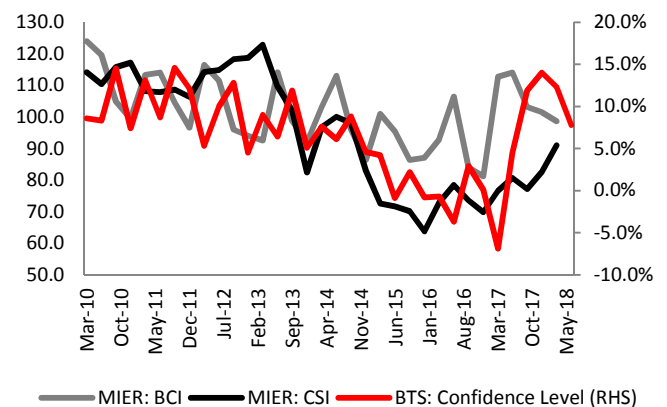
Source: CEIC, MIDFR

**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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