

**ECONOMIC REVIEW | July 2017 BNM MPC****Status Quo in Policy Rate as Growth Remain Steady**


- *Overnight Policy Rate maintain at 3.0%. In line with our expectation, overnight policy rate is left unchanged at 3.0%. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory.*
- *Robust global demand resulting into better domestic performances. For the first time in 12 months, exports grew higher than imports at 32.5%yoy vs 30.4%yoy respectively in May 2017. The recent surged in exports were mainly driven by Electrical & Electronics product, crude petroleum and palm oil. Industrial production continued to expand above 4%yoy for four consecutive months, thanks to strong global demand and robust export performance.*
- *We expect Bank Negara to maintain OPR at 3.00% in 2017. Amid upbeat momentum in the domestic economy, inflation remain manageable and contained. Nevertheless, external factor such as drastic shift in monetary policy in the US as well faster than expected economic growth could put an upward pressure to OPR.*

**Overnight Policy Rate maintain at 3.0%.** In line with our expectation, overnight policy rate is left unchanged at 3.0%. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory. Stout trade performance added with stronger domestic demand put domestic economy on higher growth in 2017. Positive spill over effects from the surging exports is expected to continue into the second half of 2017.

**Robust global demand resulting into better domestic performances.** For the first time in 12 months, exports grew higher than imports at 32.5%yoy vs 30.4%yoy respectively in May 2017. Exports to China increased by 51.5%yoy in May, highest in 7 years. The recent surged in exports were mainly driven by Electrical & Electronics product, crude petroleum and palm oil. Industrial production continued to expand above 4%yoy for four consecutive months, thanks to strong global demand and robust export performance. Surge in manufacturing output continue to drive up Malaysia's industrial production despite of contraction in mining output since second half of 2016.

**Political, policy uncertainties and commodity price volatility remain as threat to growth.** In the recent development, global leaders are inclining towards market liberalisation and globalization. Last week, Japan and EU reached agreement on a free trade pact between the two economies. The agreement mark a significant milestone on international trade with protectionism threat waning. On the other hand, we view volatility in commodity prices would be a challenge for global growth in the near term.

**Headline inflation at 4-months low in May at 3.9%.** The decline in headline inflation reflects the effects of cost-driven mainly fuel price is tapering off. Transport inflation grew at a slower pace in May by 13.1%yoy as compared to previous months of 16.7%yoy. Besides, core inflation remains stable expanding marginally by 2.6%yoy while food and non-food inflation rose by 4.4%yoy and 3.7%yoy respectively. Moving forward, we opine Malaysia's inflation rate to moderate as the effect of fuel prices to wane.

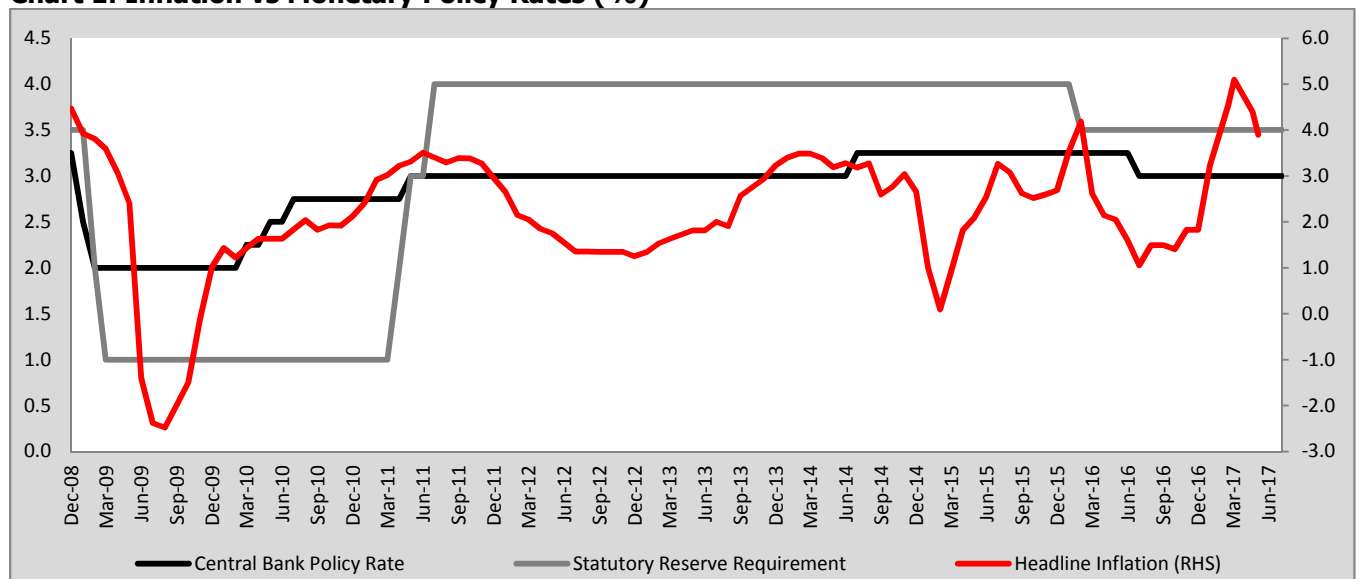
**We expect Bank Negara to maintain OPR at 3.00% in 2017.** Amid upbeat momentum in the domestic economy, inflation remain manageable and contained. Nevertheless, external factor such as drastic shift in monetary policy in the US as well faster than expected economic growth could put an upward pressure to OPR. In the short term, we are in the opinion that Bank Negara will continue with its accommodative monetary stance to support domestic economic activity. 

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

Economies	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Malaysia	3.0	3.0	3.0	3.0	3.0	3.00	3.0
Indonesia	4.75	4.75	4.75	4.75	4.75	4.75	
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Thailand	1.5	1.5	1.5	1.5	1.5	1.50	1.5
Vietnam	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Korea	1.25	1.25	1.25	1.25	1.25	1.25	1.25
China	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	
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	
EU	0.0	0.0	0.0	0.0	0.00	0.00	
United States	0.75	0.75	1.00	1.00	1.00	1.25	

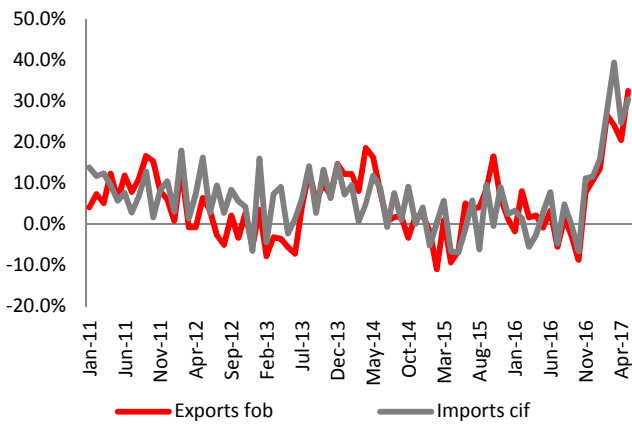
Source: CEIC, MIDFR

**Chart 1: Inflation vs Monetary Policy Rates (%)**



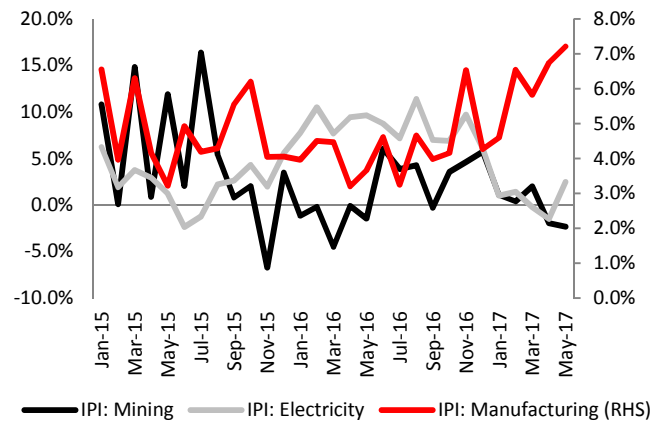
Source: BNM, CEIC, MIDFR

**Chart 2: Upward Trend in Export & Import (YoY%)**



Source: DOSM, MIDFR

**Chart 3: Industrial Production Components (YoY%)**



Source: DOSM, MIDFR

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