

ECONOMIC REVIEW | March 2018 BNM MPC**BNM Maintains OPR at 3.25%, Hawkish About Economic Outlook**

- *Overnight Policy Rate maintained at 3.25%. In line with our expectation, overnight policy rate, OPR left unchanged at 3.25%. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory.*
- *Economy continues to expand above 5% in 1Q18. We forecast Malaysia's economy to grow slightly lower in 1Q18 as compared to 4Q17's growth of 5.9%. In regards to full year of 2018, we forecast an economic growth of 5.5%.*
- *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, OPR left unchanged at 3.25%. The decision is expected as industrial and trade activities across major as well as emerging economies remain on upward trajectory. Robust external trade on top of upbeat domestic economic activities 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, further market integration, stronger business confidence, stable labour market and contained inflationary pressure.

Global trade has yet to lose its momentum amid protectionism threat. Recent Jan-18's trade figures in which exports grew by 17.9%yoy indicated that global trade activities are still robust, resulting into better domestic performances. In addition, business environment as reflected in global and emerging economies PMI remain indicating expansionary direction. Both PMI for global and emerging economies recorded at 54.2 and 52.0 points respectively in Feb-18. However, continuous tariffs imposition by the US government provides negative signs in the market as protectionism threat evolves. Recently, US announced tariffs of 25% for foreign-made steel and 10% for aluminium.

Economy continues to expand above 5% in 1Q18. We forecast Malaysia's economy to grow slightly lower in 1Q18 as compared to 4Q17's growth of 5.9%. In regards to full year of 2018, we forecast an economic growth of 5.5%. Among others, domestic demand will continue to drive growth supported by favourable income and labour market conditions, spending on new and ongoing infrastructure projects and sustained capital investment by firms in the manufacturing and services sectors. On top of that, external trade is expected to remain on upbeat momentum underpinned by sanguine business environment and gradual rise in commodity prices. Moreover, business and consumer confidence in Malaysia have been on steady recovery path since mid-16. However, overall business performance for 1H18 is expected to experience slight slowdown in tandem with our initial expectations of moderating economic growth in 2018 partly due to unfavorable base effects.

Headline Inflation at 13-month low. Headline inflation rose by 2.7%yoy in Jan-18, lowest in 13 months and in line with slowing inflation trend of most of the goods and services. Among these, transport inflation contributed the highest decline from 11.5%yoy in Dec-17 to 5.7%yoy last month. Meanwhile, core inflation maintained at 11-month low at 2.2%yoy in Jan-18. As for 2018, we foresee inflation to slow down to 2.6%yoy amid of unfavourable base effects.


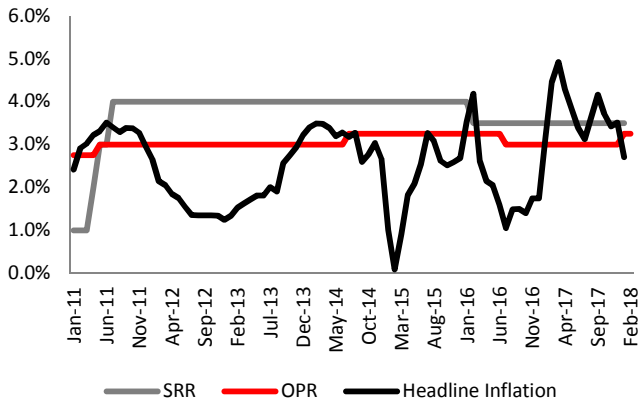
OPR stays at 3.25% in 2018. Amid positive direction of economic indicators, we maintain our baseline view of one rate hike in 2018. We expect domestic economy will continue to expand at a moderating pace this year. Hence, we maintain that Bank Negara will keep the OPR unchanged for the rest of 2018. 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

Economies	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25
Indonesia	4.75	4.75	4.50	4.25	4.25	4.25	4.25	4.25	4.25
Singapore	Neut.	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	3.00
Thailand	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Vietnam	6.5	6.25	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	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
United Kingdom	0.25	0.25	0.25	0.25	0.25	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
United States	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25

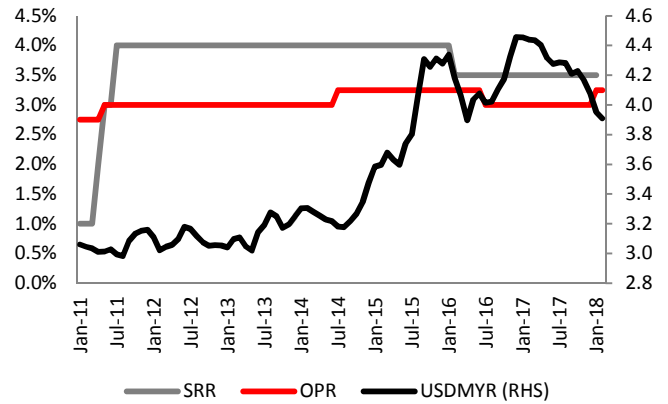
Source: CEIC, MIDFR

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



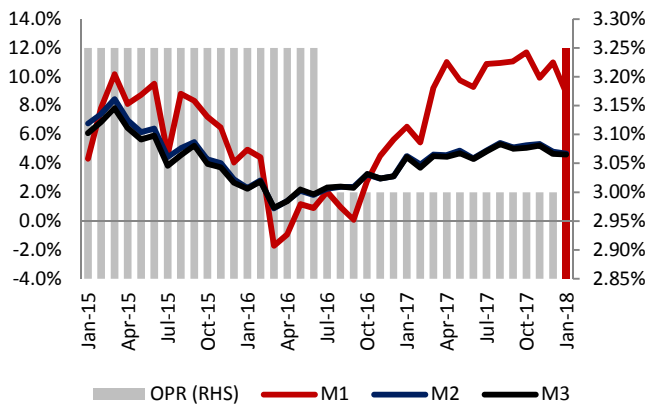
Source: CEIC, MIDFR

Chart 2: Monetary Policy (%) vs USDMYR



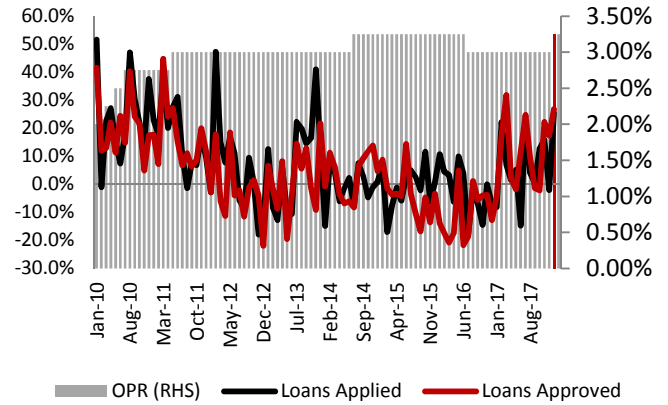
Source: CEIC, MIDFR

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



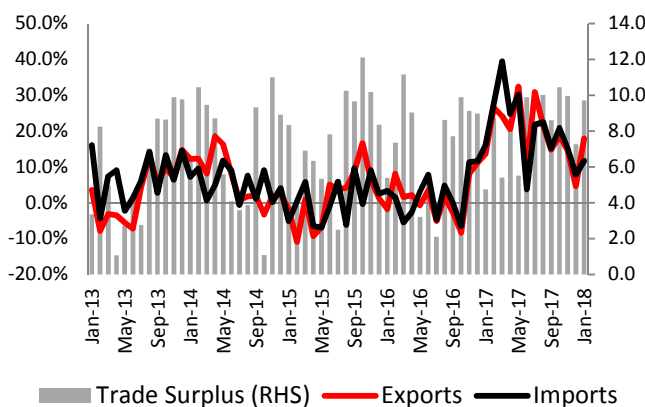
Source: CEIC, MIDFR

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



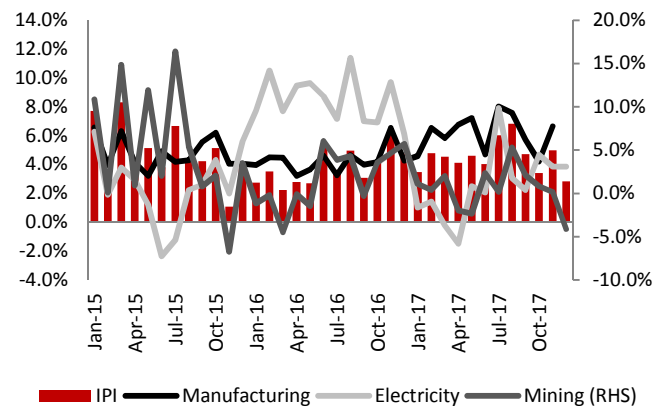
Source: CEIC, MIDFR

Chart 5: Upward Trend in External Trade



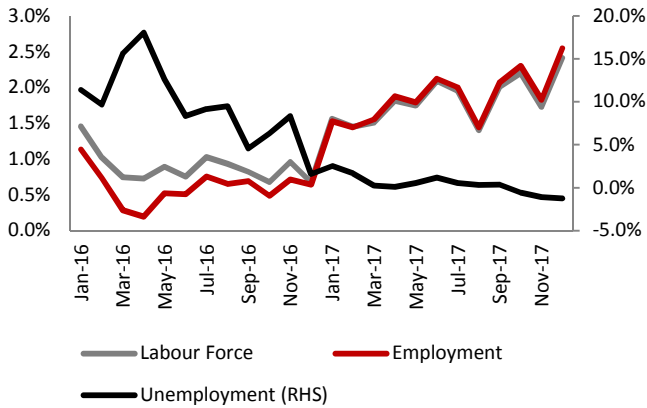
Source: CEIC, MIDFR

Chart 6: Industrial Productions Performance (YoY%)



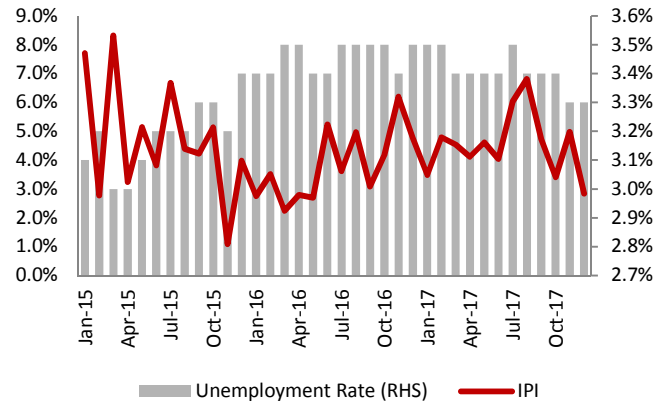
Source: CEIC, MIDFR

Chart 7: Labour Market Performance (YoY%)



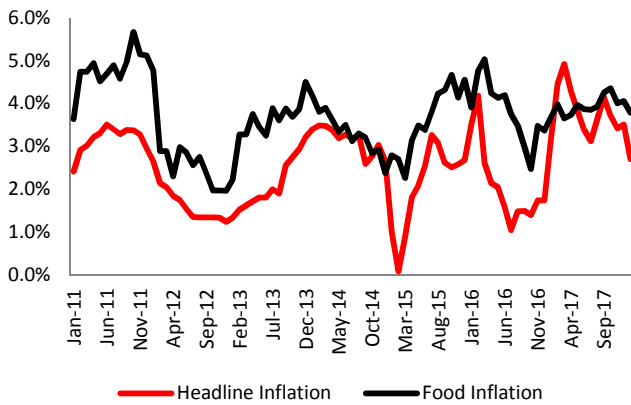
Source: CEIC, MIDFR

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



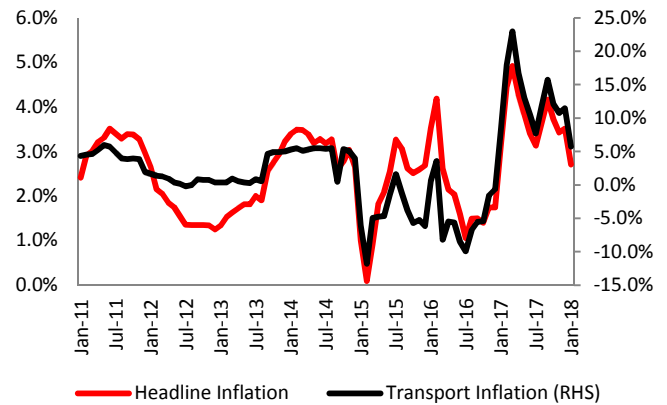
Source: CEIC, MIDFR

Chart 9: Headline vs Food Inflation (YoY%)



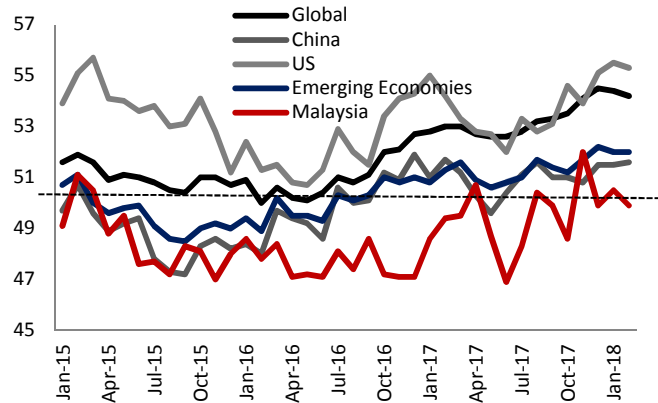
Source: CEIC, MIDFR

Chart 10: Headline vs Transport Inflation (YoY%)



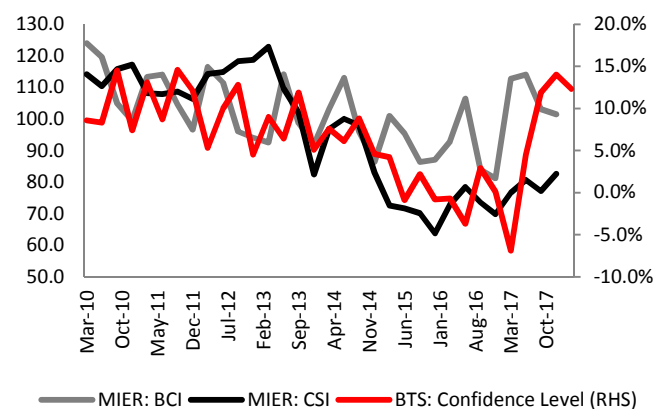
Source: CEIC, MIDFR

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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