

**ECONOMIC REVIEW | November 2017 BNM MPC****BNM Left OPR Unchanged at 3.00% for 2017**


- *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.*
- *Headline inflation at 5-months high in September at 4.3%. Our headline inflation shifted up since July amid of increase in global and local fuel prices. Transport inflation grew by 15.8% in September, fastest since May. Indirectly, food and non-food prices went up by 4.6% and 4.2% respectively.*
- *OPR stays at 3.00% in 2017. Amid strong economic growth for the first and second quarter of 2017, we opine low base effect is among major factor contributing towards the growth performance. We expect domestic economy will grow moderately the second half this year*

**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 last quarter of 2017.

**Robust global demand resulting into better domestic performances.** Recent trade figures in September which exports grew by 14.8% indicate global trade momentum has yet to lose its steam. Global as well as regional demand remains on upbeat momentum amid of decaying trade war threat. The surge in exports growth is expected to moderate in the fourth quarter of this year as high base effect comes into play. Surged in commodities prices especially crude oil seen in the last few weeks is a boon for petroleum based exports products.

**Domestic economy in high gear.** Underpinned by strong external trade performance, Malaysia's industrial production has been on upward trajectory since late 2016. Production of manufacturing in particular boost the IPI growth while mining production hampered by the oil production limit agreed upon previous year's global oil producers meeting, OPEC and non-OPEC. Hence, the upward trends in IPI translated into more jobs creation, thus improvise domestic spending as reflected in the robust distributive trade and private consumption performances for the third quarter of 2017.

**Headline inflation at 5-months high in September at 4.3%.** Our headline inflation shifted up since July amid of increase in global and local fuel prices. Transport inflation grew by 15.8% in September, fastest since May. Indirectly, food and non-food prices went up by 4.6% and 4.2% respectively. However, core inflation remains stable 2.4%. Current uptick in inflation is mainly due to cost-driven factor rather than demand push side. Hence, we do not see inflationary reason for BNM to raise OPR at the moment.

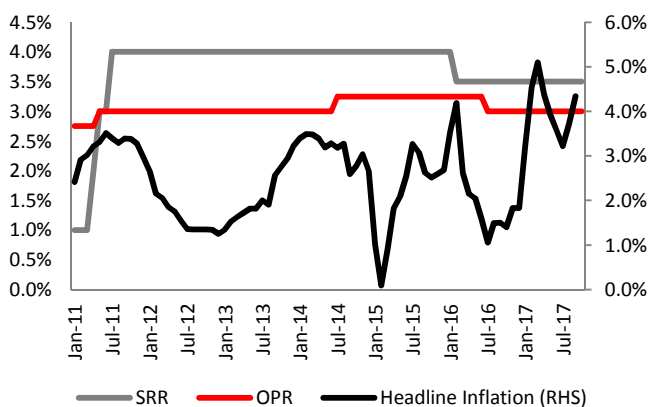
**OPR stays at 3.00% in 2017.** Amid strong economic growth for the first and second quarter of 2017, we opine low base effect is among major factor contributing towards the growth performance. We expect domestic economy will grow moderately the second half this year. Therefore, we concurred with Bank Negara stance of keeping the OPR unchanged for the rest of 2017. 

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

Economies	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	4.75	4.75	4.75	4.75	4.50	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	6.50	6.50	6.25	6.25	6.25	6.25	6.25
Korea	1.25	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	4.35
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.100
United Kingdom	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
EU	0.0	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

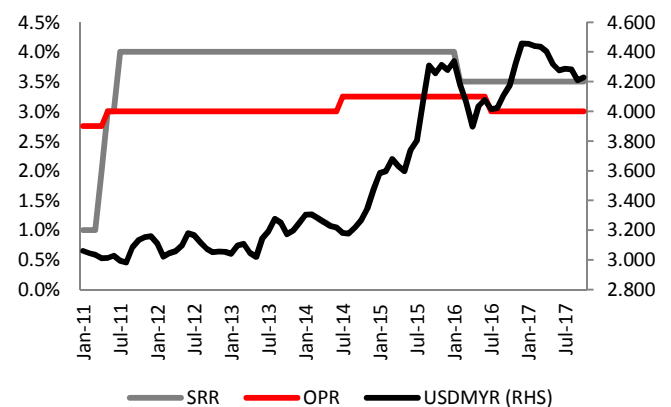
Source: CEIC, MIDFR

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



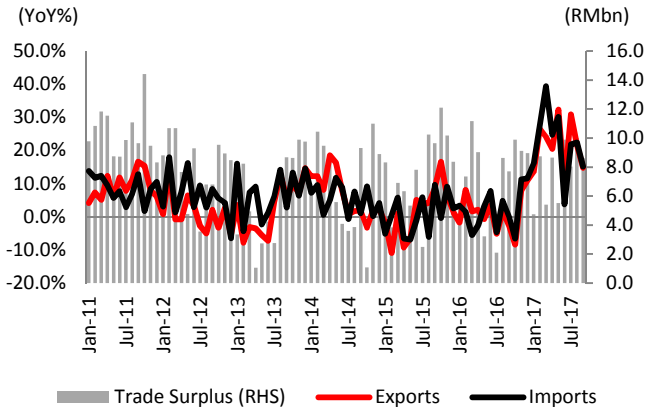
Source: CEIC, MIDFR

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



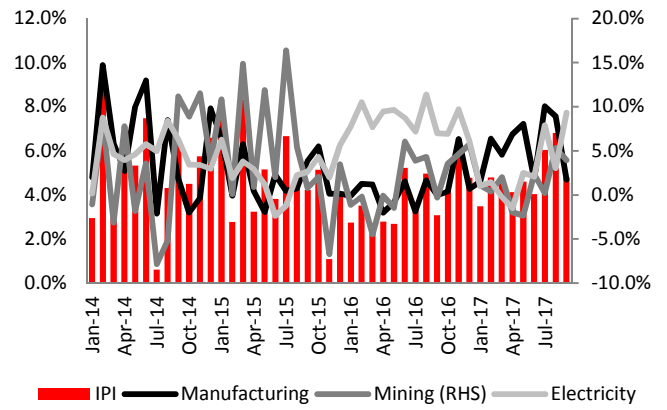
Source: CEIC, MIDFR

**Chart 3: Upward Trend in External Trade**



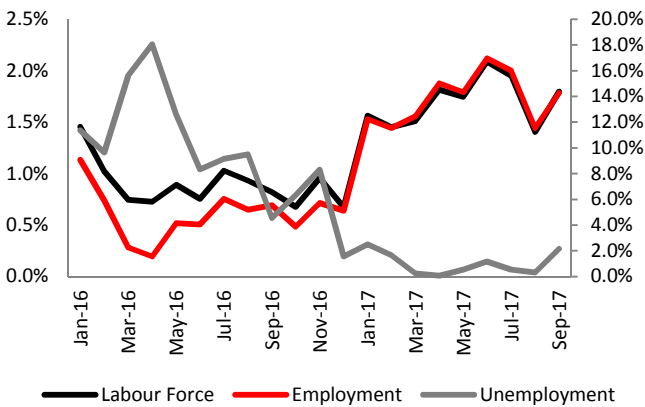
Source: DOSM, MIDFR

**Chart 4: Industrial Productions Performance (YoY%)**



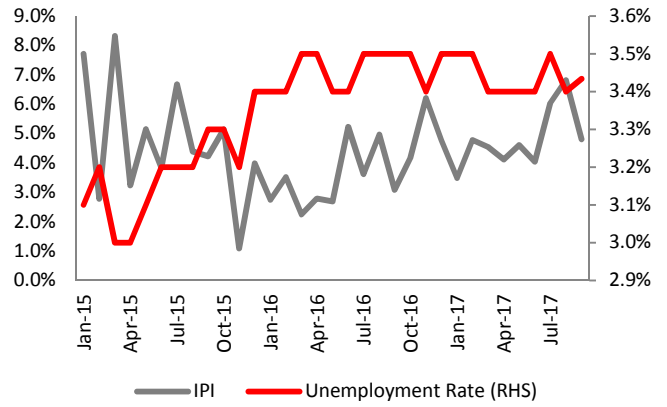
Source: DOSM, MIDFR

**Chart 5: Labour Market Performance (YoY%)**



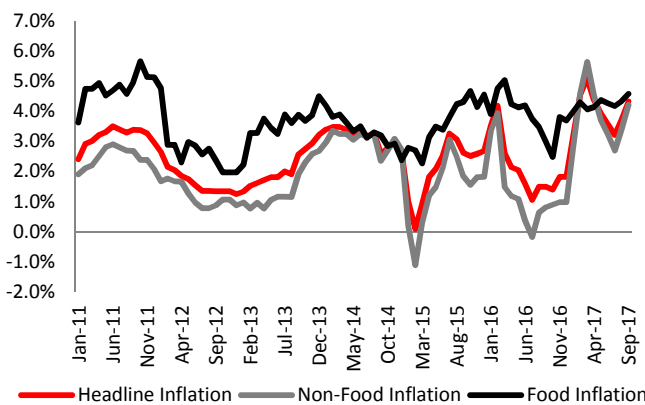
Source: DOSM, MIDFR

**Chart 6: IPI (YoY%) vs Unemployment Rate (%)**



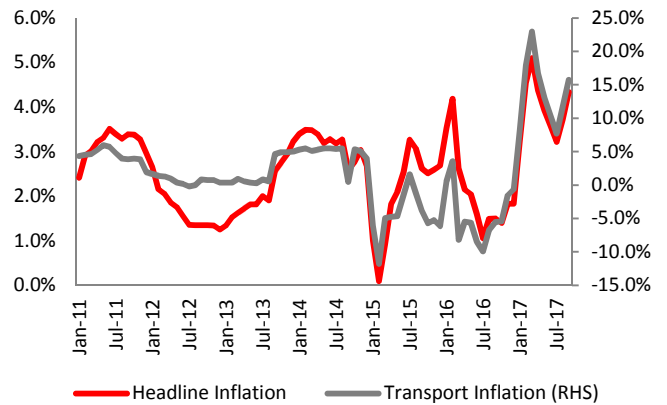
Source: DOSM, MIDFR

**Chart 7: Headline vs Food & Non-Food Inflation (YoY%)**



Source: DOSM, MIDFR

**Chart 8: Cost-Driven Factor Driving-Up Inflation**



Source: DOSM, MIDFR

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