

ECONOMIC REVIEW | November 2018 BNM MPC**OPR Maintains at 3.25% as Signs of Continued Domestic Expansion Remain**

- *Overnight Policy Rate maintained at 3.25%. In line with our expectation, overnight policy rate is left unchanged at 3.25%. The decision is widely expected and timely as macroeconomic indicators are reflecting moderating signs especially at the global front.*
- *Giving space for PH's first-time fiscal policy. Budget 2019 is viewed as expansionary in nature, aiming at facilitating the economy, enhancing the nation's competitiveness through sound fiscal and monetary policies on top of ensuring better and efficient income distribution to cater for specific target groups. Henceforth, we opine change in monetary stance is not required at this juncture as it would affect the trajectory of domestic growth.*
- *OPR to stay at 3.25% in 2018 and 2019. Amid balanced risk, we maintain our baseline view of a single rate hike in 2018 (in January 2018). We expect domestic economy will continue to expand at a moderating pace in 2018. However, future developments in both internal and external fronts will determine the upcoming outlook of Malaysia monetary policy.*

Overnight Policy Rate maintained at 3.25%. In line with our expectation, overnight policy rate is left unchanged at 3.25%. The decision is widely expected and timely as macroeconomic indicators are reflecting moderating signs especially at the global front. We observe slight slowdown in external trade, industrial production and manufacturing sales performances in 3Q18 as compared to the same period last year. Nevertheless, we expect GDP growth to remain solid this year, supported by robust domestic spending, continuous pick-up in global commodity prices, steady business confidence, stable labour market and moderating inflationary pressure. We estimate GDP growth for 2018 at 5.2%.

Moderating trade activities amid global trade war. Malaysia's external trade performance expands at slower rate in 3Q18. During the quarter, exports increase by 5.3%yoy, weakest gain since 4Q16 while imports expand by 6.3%yoy. In fact, the exports growth is mainly generated by re-exports in which grows by 43.9%yoy for the first nine months of 2018 against the same period of last year. Oppositely, domestic exports remain stagnant with zero growth so far this year. In regard to global leading indicator, manufacturing PMI for global and emerging economies remains above expansionary line of 50 points in Oct-18. Nevertheless, the global economic indicators are pointing downwards particularly since early 2018. Among others, escalating trade tension, geopolitical stress in the Middle East and political instability in EU are pressuring global economic confidences. We forecast Malaysia's exports growth at 7.3% in 2018 amid steady global demand and rising energy prices.

Headline inflation to average at 1.3% this year. Consumer price index increased 0.3%yoy in Sep-18, marginally higher than 0.2%yoy recorded in the preceding month and in line with our expectation. The trivial increase was anticipated as SST returns in Sep-18. However, inflation rate still remain below 1% for the fourth consecutive month despite the reintroduction of SST, probably due to the significant impact of RON95 fuel subsidization. Transport prices increased but at a far slower pace of 0.3%yoy (2.1%yoy in Aug-18). Meanwhile, core inflation rebounded to a positive territory of 0.3%yoy after maintaining at deflationary level for the past two consecutive months. Looking ahead, Malaysia's inflation is expected to gradually increase in the upcoming months.

Giving space for PH's first-time fiscal policy. Budget 2019 is viewed as expansionary in nature, aiming at facilitating the economy, enhancing the nation's competitiveness through sound fiscal and monetary policies on top of ensuring better and efficient income distribution to cater for specific target groups. The new government revised up budget deficit to GDP ratio from 2.8% to 3.7% in 2018. As for 2019, the ratio is set at 3.4%. In addition, the government forecast Malaysian economy to expand by 4.9% next year. Henceforth, we opine change in monetary stance is not required at this juncture as it would affect the trajectory of domestic growth.


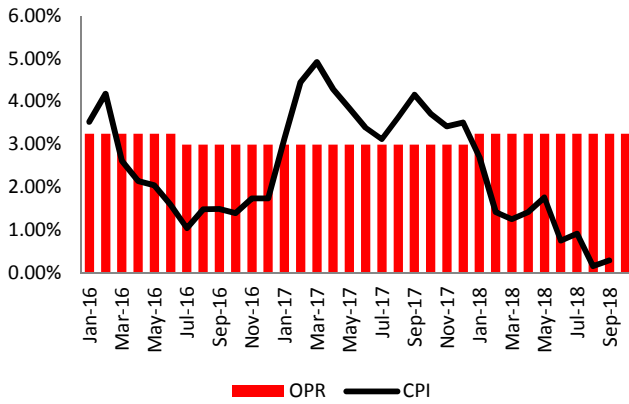
OPR to stay at 3.25% in 2018 and 2019. Amid balanced risk, we maintain our baseline view of a single rate hike in 2018 (in January 2018). We expect domestic economy will continue to expand at a moderating pace in 2018. However, future developments in both internal and external fronts will determine the upcoming outlook of Malaysia monetary policy. 

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

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	4.25	4.25	4.25	4.75	5.25	5.25	5.50	5.50	5.75
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.00	3.00	3.00	3.00	3.25	3.25	4.00	4.50	4.50
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Korea	1.50	1.50	1.50	1.50	1.50	1.50	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
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	1.50	1.75	1.75	1.75	2.00	2.00	2.00	2.25	2.25

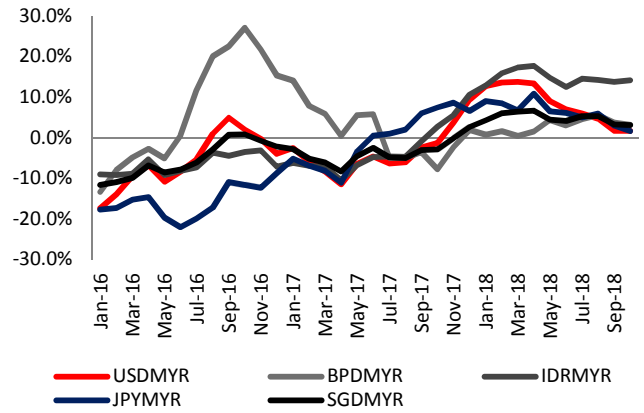
Source: CEIC, MIDFR

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



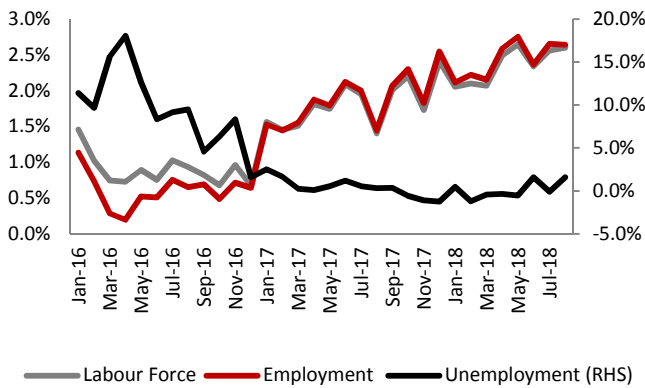
Source: CEIC, MIDFR

Chart 2: MYR Performance (YoY%)



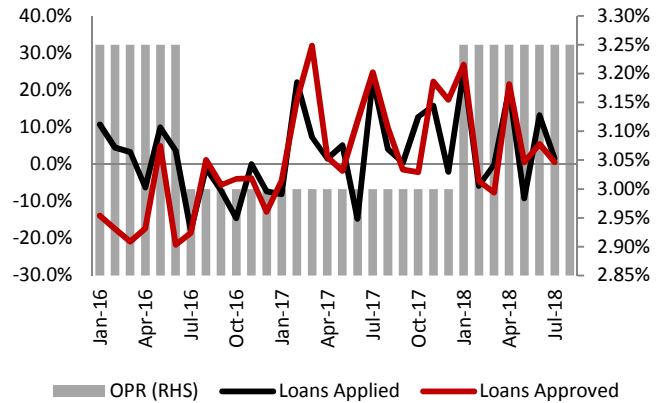
Source: CEIC, MIDFR

Chart 3: Labour Market Performance (YoY%)



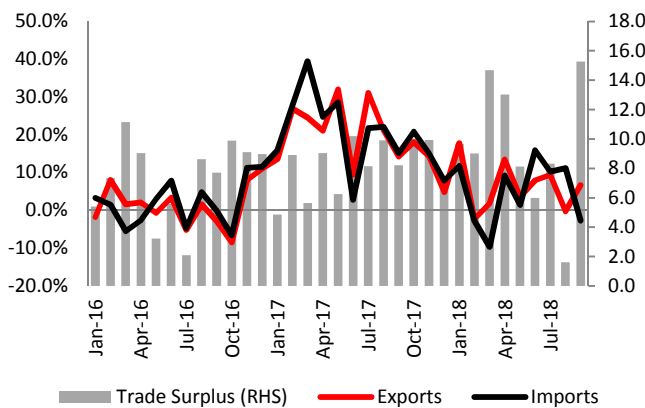
Source: CEIC, MIDFR

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



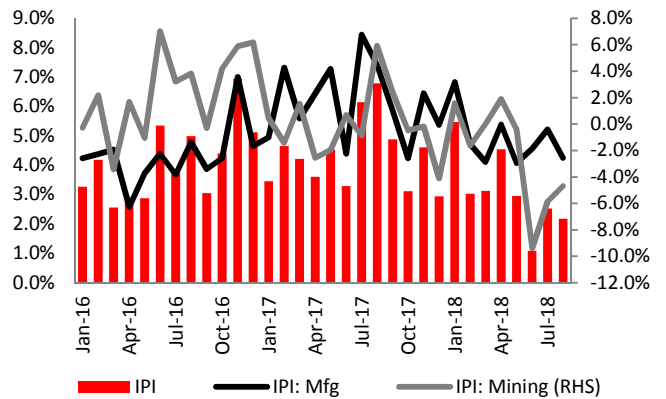
Source: CEIC, MIDFR

Chart 5: External Trade Performance (YoY% & RMB)



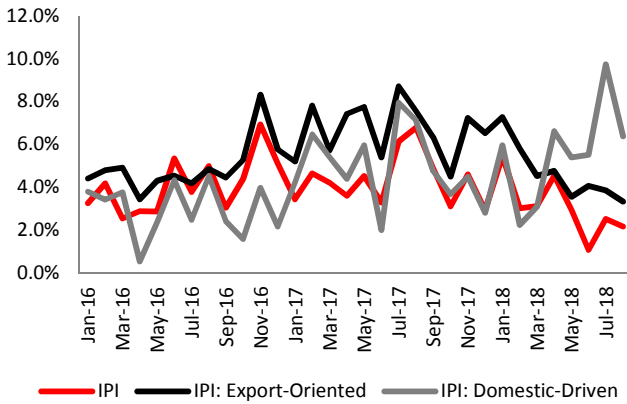
Source: CEIC, MIDFR

Chart 6: Industrial Productions Performance (YoY%)



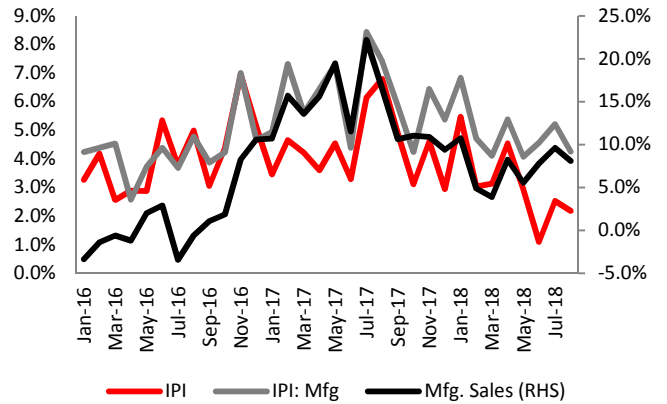
Source: CEIC, MIDFR

Chart 7: IPI Performance (YoY%)



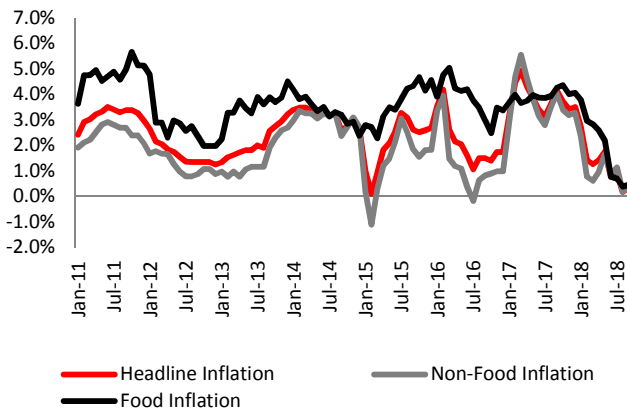
Source: CEIC, MIDFR

Chart 8: IPI vs Manufacturing Performances (YoY%)



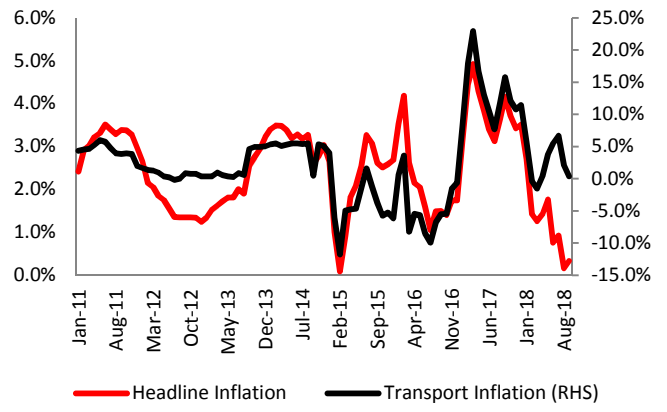
Source: CEIC, MIDFR

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



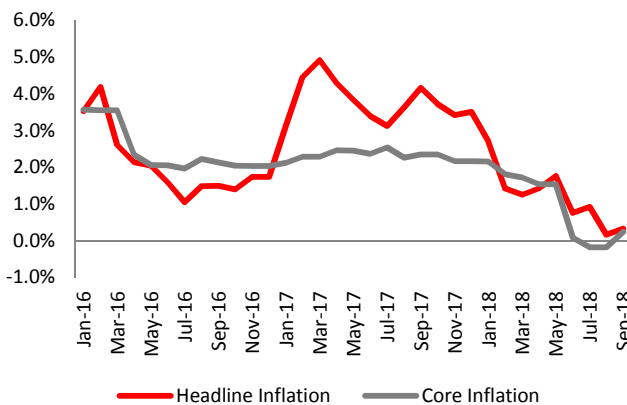
Source: CEIC, MIDFR

Chart 10: Headline vs Transport Inflation (YoY%)



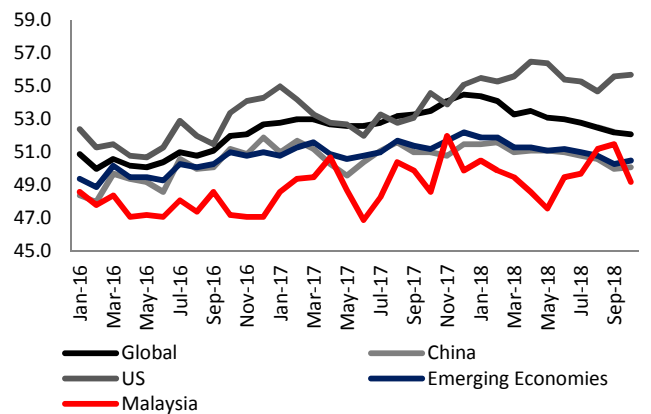
Source: CEIC, MIDFR

Chart 11: Headline vs Core Inflation (YoY%)



Source: BLOOMBERG, MIDFR

Chart 12: Economic Confidence Level



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

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