

ECONOMIC REVIEW | September 2017 BNM MPC**OPR Stays at 3% amid Positive Macroeconomic Outlook**

- *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 6-months low in July at 3.2%. The decline in headline inflation reflects the effect of cost-driven mainly by fuel price is tapering off. Transport inflation grew at a slower pace in July by 7.7%yoy as compared to previous month of 10.5%yoy. 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 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 second half of 2017.

Robust global demand resulting into better domestic performances. For three consecutive months, exports outpaced imports in July, 30.9%yoy vs 21.8%yoy respectively. Global as well as regional demand remains on upbeat momentum amid of decaying trade war threat. The surge in exports growth is due to low base effect and expected to moderate in the second half of this year as high base effect comes into play. In fact, slow recovery and volatility in commodity prices will give significant challenge for commodity-based and export-reliance economies such as Malaysia and Australia.

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 first half of 2017.

Headline inflation at 6-months low in July at 3.2%. The decline in headline inflation reflects the effect of cost-driven mainly by fuel price is tapering off. Transport inflation grew at a slower pace in July by 7.7%yoy as compared to previous month of 10.5%yoy. Besides, core inflation remains stable expanding marginally by 2.6%yoy while food and non-food inflation rose by 4.2%yoy and 2.7%yoy respectively. Moving forward, we opine Malaysia's inflation rate to moderate as the effect of fuel prices to wane.


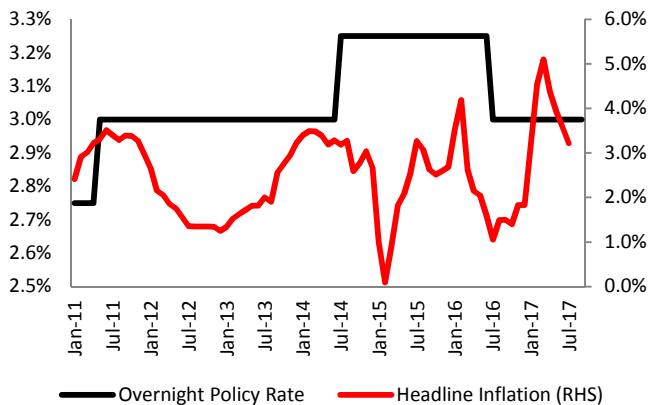
We expect Bank Negara to maintain OPR at 3.00% in 2017. Amid strong economic growth for the first and second quarter of 2017, we opine low base effect is among major factor contributing towards the growth performance. We expect domestic economy will grow moderately the second half this year. Looking at inflation trend, cost-driven factor is tapering off while demand-push stays relax. Therefore, we maintain that Bank Negara will keep the OPR unchanged for the rest of 2017. 

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

Economies	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Malaysia	3.0	3.0	3.0	3.0	3.0	3.00	3.0	3.0
Indonesia	4.75	4.75	4.75	4.75	4.75	4.75	4.50	4.50
Singapore	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
Thailand	1.5	1.5	1.5	1.5	1.5	1.50	1.5	1.5
Vietnam	6.5	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	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	-0.10
United Kingdom	0.25	0.25	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	0.00	0.00
United States	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25

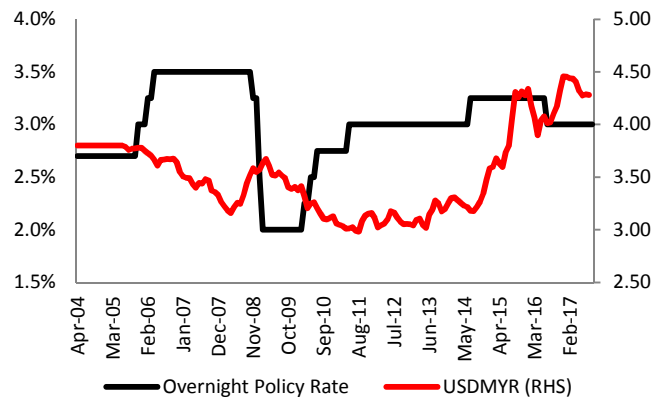
Source: CEIC, MIDFR

Chart 1: OPR vs CPI (%)



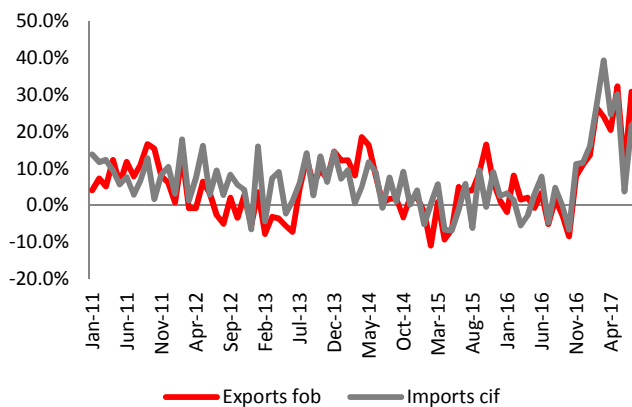
Source: DOSM, MIDFR

Chart 2: OPR vs USDMYR



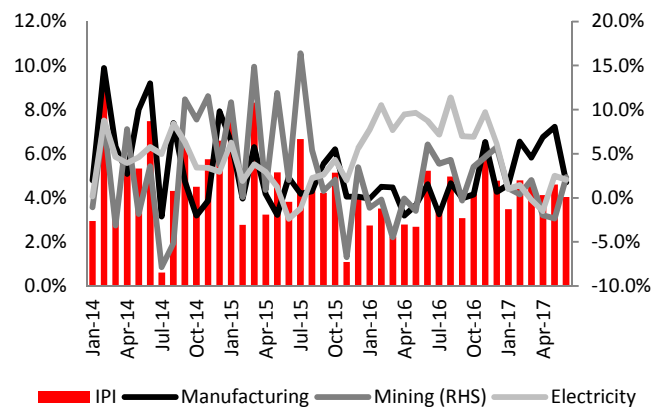
Source: DOSM, MIDFR

Chart 3: Upward Trend in Export & Import (YoY%)



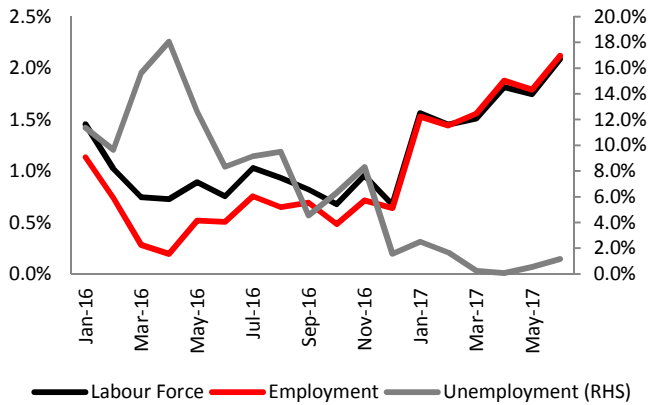
Source: DOSM, MIDFR

Chart 4: Industrial Productions Performance (YoY%)



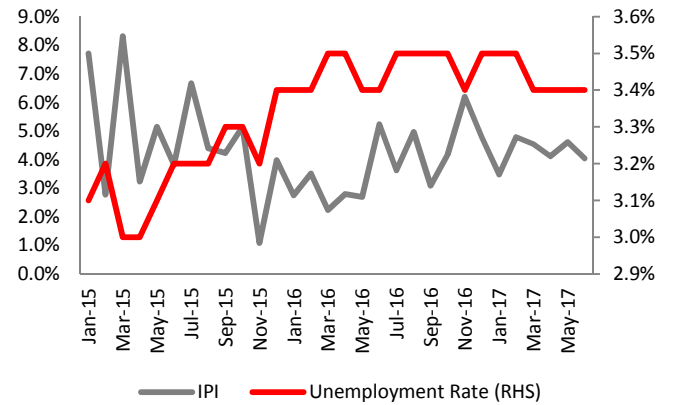
Source: DOSM, MIDFR

Chart 5: Labour Market Performance (YoY%)



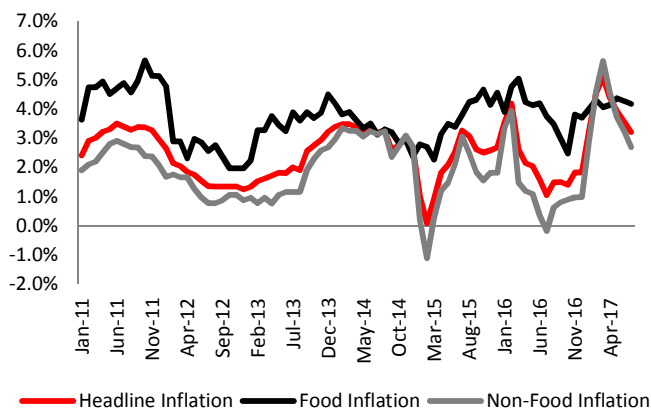
Source: DOSM, MIDFR

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



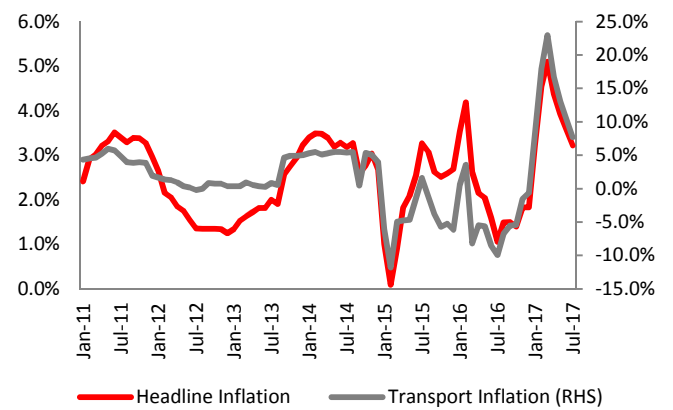
Source: DOSM, MIDFR

Chart 7: Slowdown in Inflation Trends (%)



Source: DOSM, MIDFR

Chart 8: Cost-Driven Factor Tapering Down



Source: DOSM, MIDFR

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