

**ECONOMIC REVIEW | May 2017 BNM MPC****Upbeat Views on Economic Outlook, OPR Maintain at 3.0%**


- *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 the encouraging growth momentum for the first quarter 2017 is likely to be sustained for the rest of the year.*
- *Domestic and global trade activities are on upward trajectory. Malaysia's industrial production and distributive trade expanded firmly by 4.6%yoy and 8.9%yoy respectively in March. On external front, exports breached RM80bn in March. Exports growth expanded by double digit rate for the fifth consecutive months.*
- *We expect Bank Negara to maintain OPR at 3.00% in 2017. Solid performance in domestic economy coupled with strengthening global demand should bode well for domestic economic growth. We are in the opinion that Bank Negara will continue with its accommodative monetary stance to support domestic economic activity.*

**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 the encouraging growth momentum for the first quarter 2017 is likely to be sustained for the rest of the year. In addition, global trade activities are on firm recovery despite threat of protectionism in developed economies. For the first three months of 2017, most major economies registered double digit growth in both exports and imports, indicating stronger global demand in 2017 as compared to 2016.

**Domestic and global trade activities are on upward trajectory.** Malaysia's industrial production and distributive trade expanded firmly by 4.6%yoy and 8.9%yoy respectively in March. On external front, exports breached RM80bn in March. Exports growth expanded by double digit rate for the fifth consecutive months. Among major trading partners, China and Taiwan recorded exports growth of 8%yoy and 9.4%yoy in April. This indicates high probability of another commendable exports performance in April for Malaysia. Despite threat of protectionism, China's exports to United States surged by double digit growth at 11.7%yoy in April.

**BNM highlighted protectionism threat and commodity price volatility remain as global risks.** Even though protectionism remain as a risk factor, we feel the threat of protectionism is receding. This is reflected in the results of Dutch and French elections which saw anti-EU leaders Geert Wilders and Le Pen defeated at a significant margin. This show majority of Europeans are not supporting the idea of protectionism. On the other hand, we opine the volatility of commodity price to continue but at the lower range. We believe gradual improvement in global demand and further extension of production limit among OPEC and non-OPEC countries will support and stabilize the oil price.

**Headline inflation reached 8-years high in March.** The steep rise in inflation was mainly due to cost-driven factors rather than demand-push. For instance, price of transports rose by 23%yoy during the month which was due to the rise in retail fuel prices in January and February this year. We opine the effect of fuel prices will lapse off in the coming months as weekly fuel price mechanism may reduce volatility in consumer's price expectations. Core inflation stays below 3%, registering 2.5% in March. We forecast headline inflation for 2017 to be at 4.5% reflecting higher global oil prices.

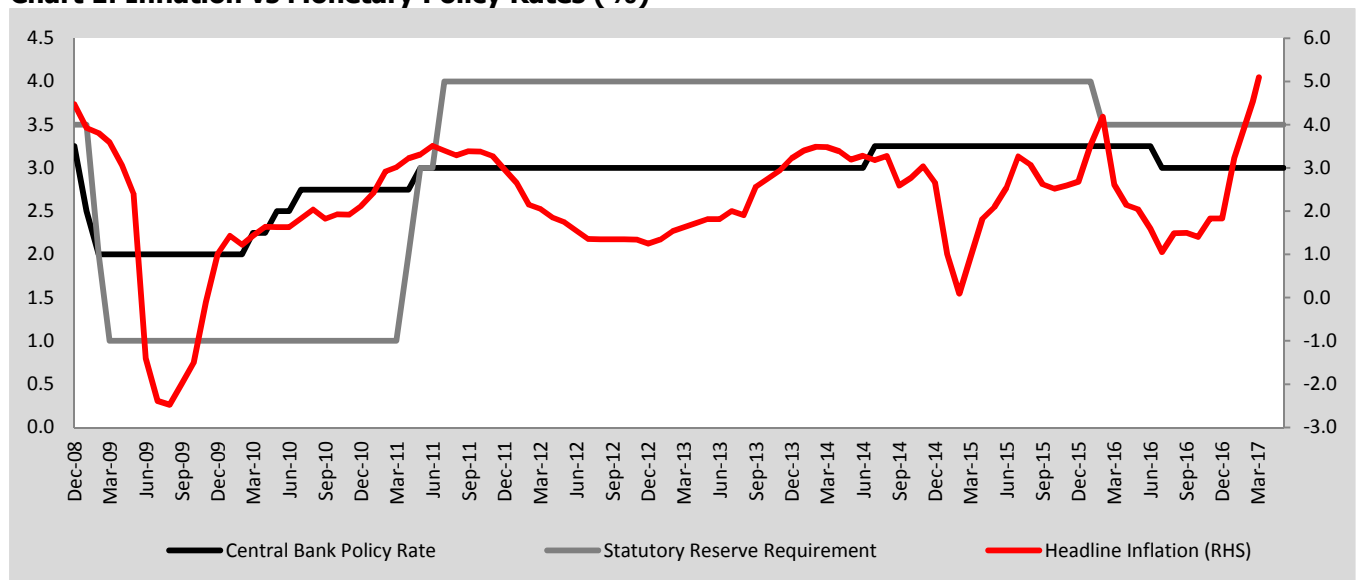
**We expect Bank Negara to maintain OPR at 3.00% in 2017.** Solid performance in domestic economy coupled with strengthening global demand should bode well for domestic economic growth. We are in the opinion that Bank Negara will continue with its accommodative monetary stance to support domestic economic activity. 

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

	16-Oct	16-Nov	16-Dec	17-Jan	17-Feb	17-Mar	17-Apr	17-May
<b>Australia</b>	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
<b>China</b>	4.35	4.35	4.35	4.35	4.35	4.35		
<b>EU</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
<b>India</b>	6.25	6.25	6.25	6.25	6.25	6.25	6.25	
<b>Indonesia</b>	4.75	4.750	4.75	4.75	4.75	4.75	4.75	
<b>Japan</b>	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	
<b>Korea</b>	1.25	1.250	1.25	1.25	1.25	1.25	1.25	
<b>Malaysia</b>	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
<b>Philippines</b>	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
<b>Singapore</b>	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
<b>Taiwan</b>	1.375	1.375	1.375	1.375	1.375	1.375		
<b>Thailand</b>	1.50	1.50	1.50	1.50	1.50	1.50		
<b>United Kingdom</b>	0.25	0.250	0.25	0.25	0.25	0.25	0.25	0.25
<b>United States</b>	0.50	0.500	0.75	0.75	0.75	1.0	1.0	1.0
<b>Vietnam</b>	6.50	6.50	6.50	6.50	6.50	6.50	6.50	

Source: MIDFR

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



Source: BNM, CEIC, MIDFR

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