

ECONOMIC REVIEW | March 2019 BNM MPC**BNM Holds Rates at 3.25% as Inflationary Pressure Remain Low**

- *Overnight Policy Rate maintained at 3.25%. In line with our expectation, the overnight policy rate was left unchanged at 3.25% by Bank Negara Malaysia (BNM). The decision was widely expected and timely as macroeconomic indicators are reflecting moderating signs especially at the global front. We had observed a slowdown in external trade, industrial production and manufacturing sales performances in 2018 as compared to 2017.*
- *GDP growth in 4Q18 exceeds market expectation. Malaysia's GDP growth expanded by 4.7%yoy in 4Q18, which was above market expectations of 4.5%yoy. Nevertheless, Malaysia's economy expanded by 4.8% for the full year 2018, meeting our forecast number. The 4Q18 GDP growth was the fastest GDP expansion since 1Q18. The recovery of economic growth in 4Q18 was expected, contributed by the improved performances of external trade, industrial activities and sustained solid domestic demand.*
- *OPR to stay at 3.25% in 2019. As core inflation rate remains low, we opine change in monetary stance is not required at this juncture as it would affect the trajectory of domestic growth. Furthermore, the US has indicate that their interest rate is nearing the neutral rate, suggesting that the central bank is preparing to slow down its normalization exercise. Since there will be less pressure from both domestic and external fronts, we anticipate that Bank Negara will maintain the OPR at 3.25% in 2019 barring any surprises in domestic economic growth.*

Overnight Policy Rate maintained at 3.25%. In line with our expectation, the overnight policy rate was left unchanged at 3.25% by Bank Negara Malaysia (BNM). The decision was widely expected and timely as macroeconomic indicators are reflecting moderating signs especially at the global front. We had observed a slowdown in external trade, industrial production and manufacturing sales performances in 2018 as compared to 2017. The moderating external trend is anticipated to continue into 2019. Nevertheless, we expect Malaysia's GDP growth to remain solid this year, buoyed by robust domestic spending, continuous pick-up in commodity prices and stable labour market. We make no change to our 2019 GDP growth estimate of 4.9%.

GDP growth in 4Q18 exceeds market expectation. Malaysia's GDP growth expanded by 4.7%yoy in 4Q18, which was above market expectations of 4.5%yoy. Nevertheless, Malaysia's economy expanded by 4.8% for the full year 2018, meeting our forecast number. The 4Q18 GDP growth was the fastest GDP expansion since 1Q18. The recovery of economic growth in 4Q18 was expected, contributed by the improved performances of external trade, industrial activities and sustained solid domestic demand. From the supply side, services and manufacturing sectors contributed 3.8% and 1.1% respectively. We opine the solid GDP growth was mainly due to external factors particularly receding trade war effects and modest recovery in mining sector especially crude petroleum and LNG. Moderating inflationary pressure, strengthening domestic demand and accommodative economic policies are expected to be major drivers for GDP performance in the 1Q19.

Moderating trade activities amid global trade spat. Malaysia's trade surplus widened to RM11.5b in Jan-19 (Dec-18: RM10.7B) as exports growth outperformed those of imports. Exports expanded by 3.1%yoy in Jan-19 (Dec-18: 5.1%yoy) higher than 1%yoy growth (Dec-18: 1%yoy) recorded by imports. Exports expansion was mainly led by a double-digit growth of mining goods at 23.5%yoy, compared to a decline of -1.5%yoy in the previous month. The continuous growth of manufactured goods at 2.9%yoy also played a key role, despite slowing down from preceding month's 7.9%yoy rise. However, looking ahead to the first quarter of 2019, we expect exports to perform modestly, in line with the Malaysian Leading Index (LI) for Sep-18 which recorded negative growth on both annual (-1.7%) and monthly (-0.8%) basis, suggesting the economic growth to ease in the 1Q19. In regards to manufacturing condition and activity, global PMI edged down to 50.6 in Feb-19 (Jan-19: 50.8) whilst still maintaining an expansionary trend. Meanwhile, emerging economies manufacturing PMI recovered to 50.6 in Feb-19 after plunging into contractionary level of 49.5 in the preceding month. On a side note, risks resulting from US-China trade spat to the global economy remain as the duo failed to reach an agreement before the March 1 deadline which have now been extended for talks to continue.

Starting the year with deflation. Consumer price index (CPI) contracted 0.7%yoy in the first month of 2019, the first drop in over nine years after hovering below 1%yoy in the previous seven months. The lowest CPI figure since Oct-09 was mainly attributed to deflationary pressures from the transport component. Transport prices continued to drop by 7.8%yoy in Jan-19, the lowest since Jul-16 following the switch to the weekly fuel price mechanism based on the Automatic Price Mechanism (APM) in order to reflect movements in global crude oil prices more quickly. Meanwhile, core inflation went down to 0.2%yoy (Dec-18: 0.4%yoy). For the full year of 2019, we foresee headline inflation rate to average at 2.2% compared to 1.0% in 2018 due to lower base effects. We anticipate inflationary pressure mainly from fuel-related items to increase, consistent with our expectation on crude oil price to average at \$75pb for 2019 (2018: \$72pb) and given that RON95 subsidy will be targeted to only B40 group. However, core inflation rate is expected to remain steady in 2019, hovering around 2018's level of 1.0%yoy.


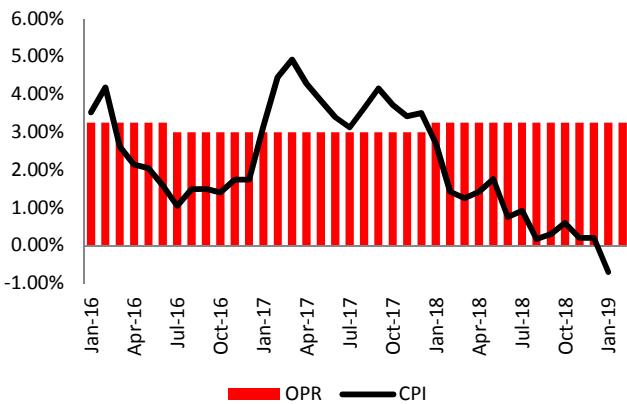
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Table 1: Central Bank Policy Rate (%) by Selected Countries

	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	5.25	5.25	5.50	5.75	5.75	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.25	3.25	4.00	4.50	4.50	4.75	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.50	1.75	1.75	1.75
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	1.75	1.75	1.75	1.75
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	0.50	0.50	0.75	0.75	0.75	0.75	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
United States	2.00	2.00	2.00	2.25	2.25	2.25	2.50	2.50	2.50

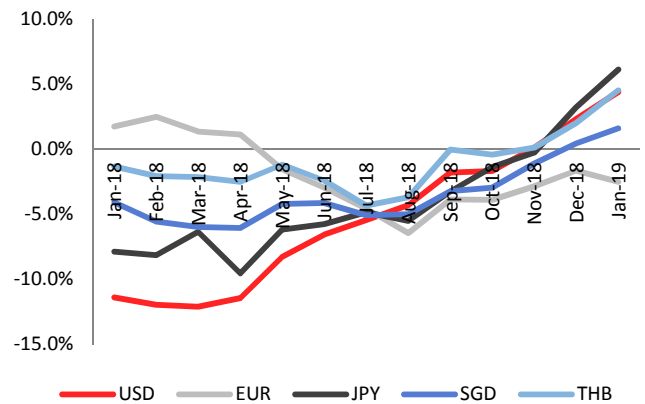
Source: CEIC, MIDFR

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



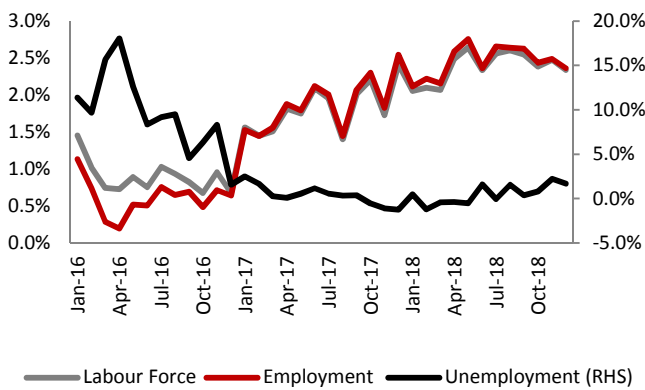
Source: CEIC, MIDFR

Chart 2: MYR Against Selected Currencies (YoY%)



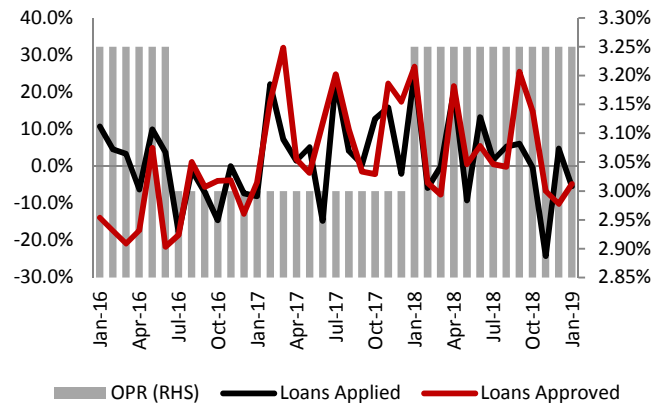
Source: CEIC, MIDFR

Chart 3: Labour Market Performance (YoY%)



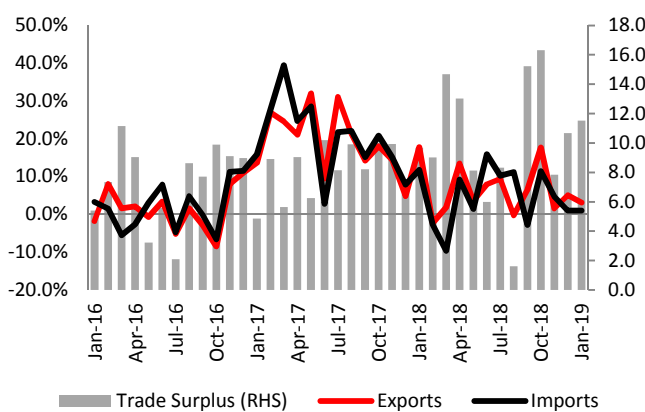
Source: CEIC, MIDFR

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



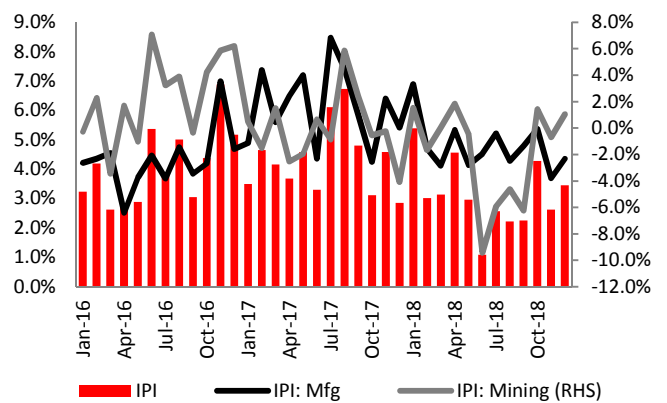
Source: CEIC, MIDFR

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



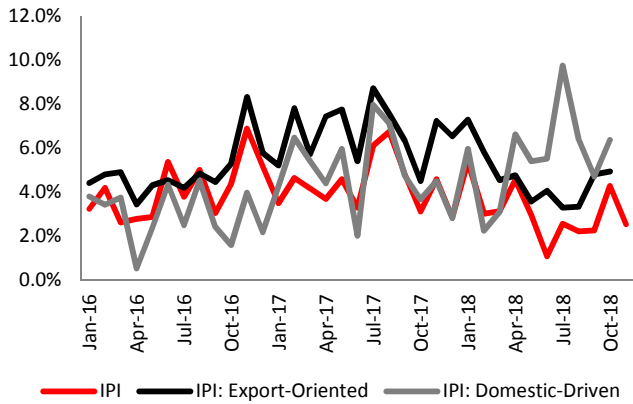
Source: CEIC, MIDFR

Chart 6: Industrial Productions Performance (YoY%)



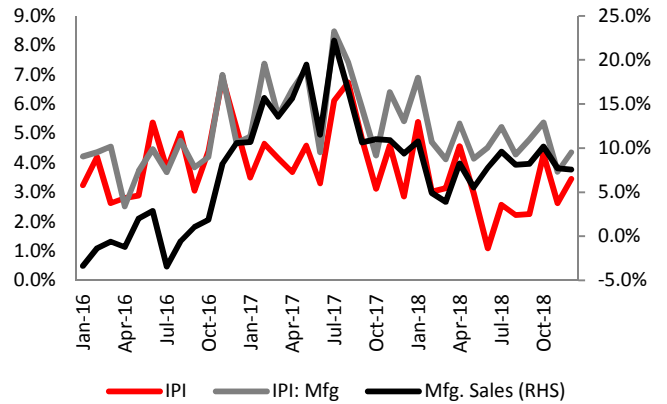
Source: CEIC, MIDFR

Chart 7: IPI Performance (YoY%)



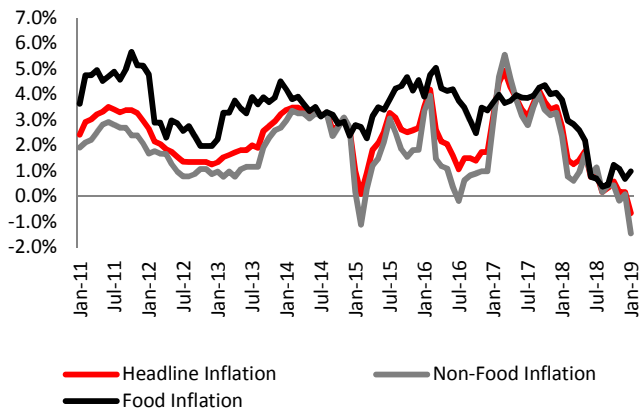
Source: CEIC, MIDFR

Chart 8: IPI vs Manufacturing Performances (YoY%)



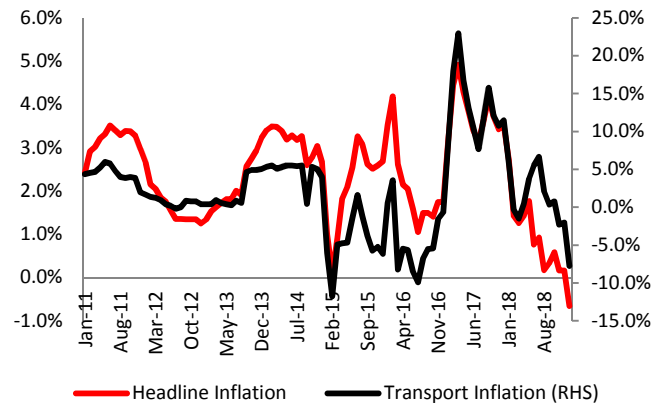
Source: CEIC, MIDFR

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



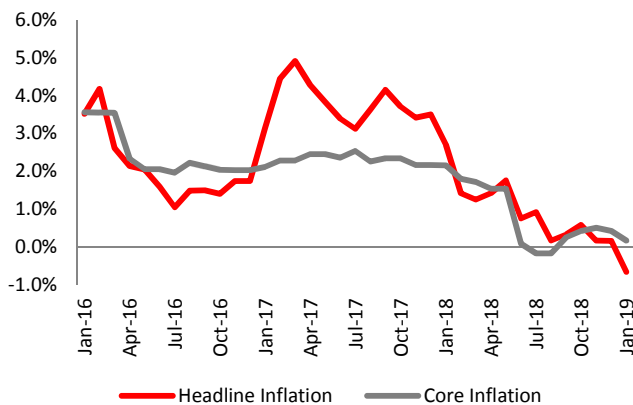
Source: CEIC, MIDFR

Chart 10: Headline vs Transport Inflation (YoY%)



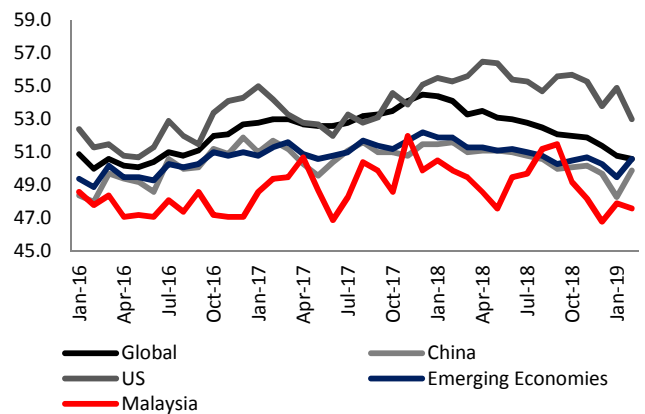
Source: CEIC, MIDFR

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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