

ECONOMIC REVIEW | May 2019 BNM MPC**OPR Cut to Stimulate Investment & Domestic Spending Activities**

- *Bank Negara Malaysia cuts OPR by 25 basis points. In line with market expectations, the overnight policy rate was cut from 3.25% to 3.00% by Bank Negara Malaysia (BNM).*
- *Better outlook for 2Q19 & 2H19. Exports growth for 1Q19 declined by -0.9%yoy following 8.2%yoy recorded in the previous quarter. However, looking ahead to the 2Q19, we expect exports to rebound. Upcoming events including US and China trade deal, steady economic performance in the two largest economies on top of palm oil purchase being including in the ECRL deals are expected to provide support to Malaysia's export performance.*
- *OPR to stay at 3.00% for the remaining of year 2019. As long as GDP growth is more than 4% and core CPI still positive, we opine no further change in monetary stance is required at this juncture. In addition, the Fed had confirmed of their position to maintain its current funds rate till end of the year. Since there will be less pressure from both domestic and external fronts, we anticipate that Bank Negara will maintain the OPR at 3.00% in 2019.*

Bank Negara Malaysia cuts OPR by 25 basis points. In line with market expectations, the overnight policy rate was cut from 3.25% to 3.00% by Bank Negara Malaysia (BNM). We had initially expected that there will no rate cut this year. Nevertheless, we expect no further change in OPR for the remaining of 2019, leaving the rate at 3.00% throughout the year. With the cut, we can expect improvement in investment and domestic consumption activities in 2019 particularly in 2H19. On external front, Malaysia's external trade performance is recovering as both exports and imports rebounded strongly at 26.2%mom and 25.4%mom respectively in Mar-19. Trade tension between the US & China stays uncertain, gradual pick-up in commodity prices and steady rise in business optimism as reflected in PMI figures. Domestically, economic activities remain solid given that current jobless rate reflects full-employment condition, stable IPI and distributive trade performances as well as low inflationary pressure. We make no change to our 2019 GDP growth estimate of 4.9%.

Trade surplus at 5-month high. Trade surplus recorded at RM14.4b in Apr-19, the largest gain since Oct-18. Exports contracted for the second consecutive month in Mar-19 however at a far lower pace of -0.5%yoy compared to -5.3%yoy in the previous month, gaining back the momentum as CNY holidays end. Similarly, imports posted a marginal drop of -0.1%yoy (Feb-19: -9.4%yoy). Sector wise, manufacturing exports rebounded to a positive growth of 1.5%yoy (Feb-19: -4.3%yoy) while agriculture posted smaller negative growth of -10.4%yoy (Feb-19: -13.7%yoy). In contrast, mining sector exports recorded a larger negative growth of -7.4%yoy (Feb-19: -5.5%yoy).

Domestic exports continue growing. In Mar-19, domestic exports grew by 0.7%yoy, four consecutive months of positive growth which indicates a good momentum for this year. With the expected recovery in mining and agriculture goods, we expect domestic exports to continue its upward trend moving forward. In contrast, re-exports which have low domestic value-added contracted for the second consecutive month at -5.4%yoy but better than a double digit drop in the prior month. Meanwhile, the ratio of re-exports to total exports recorded at 18.1% which demonstrates that for every RM1 value of exports, approximately 18sen of it is re-exports. Malaysia exports growth is expected to remain steady with the increasing contribution of re-exports which established the importance of Malaysia in global value chain.

Better outlook for 2Q19 & 2H19. Exports growth for 1Q19 declined by -0.9%yoy following 8.2%yoy recorded in the previous quarter. However, looking ahead to the 2Q19, we expect exports to rebound. Upcoming events including US and China trade deal, steady economic performance in the two largest economies on top of palm oil purchase being including in the ECRL deals are expected to provide support to Malaysia's export performance. Based on our regional partners' trade performance in Apr-19, Vietnam's exports grew 7.5%yoy while South Korea's shrunk -2%yoy however improved from previous month's performance. This could provide cues on what to expect from Malaysia's exports in upcoming month. We forecast exports and imports to increase by 3.6% and 3.0% respectively in 2019.

Low inflationary pressure. We foresee headline inflation rate to average at 1.1% this year due to lower cap of domestic Ron95 fuel prices at RM2.08. Furthermore, we believe government is unlikely to remove the cap in the nearest time as the proper subsidy mechanism limiting it to the recipients of the Bantuan Sara Hidup (BSH) have yet comes to effect. We anticipate inflationary pressure mainly from fuel-related items to remain weak despite higher expectation of Brent crude oil price at \$75pb for 2019 (2018: \$72pb). Nevertheless, we expect food component to provide upside pressures for overall inflation in 2019 driven by low-base effects, spill over effects from the SST and imported inflation as Malaysia is net importer of food. Meanwhile, core inflation rate is expected to remain steady in 2019, hovering around 2018's level of 1.0%yoy. As we expect core inflation rate and other major macroeconomic indicators to remain stable and that low headline figures are not broad-based or demand-driven, we opine that a change in monetary stance is not required at this juncture.


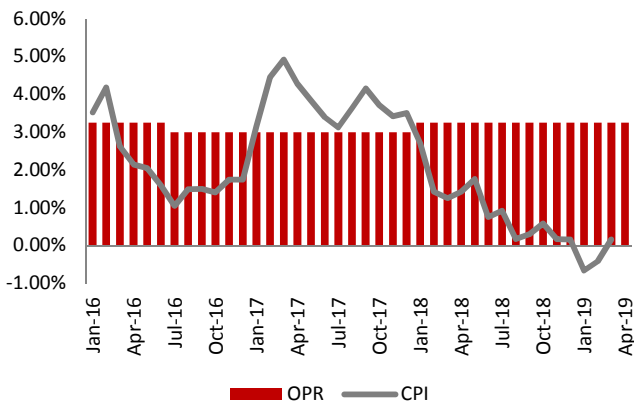
OPR to stay at 3.00% for the remaining of year 2019. As long as GDP growth is more than 4% and core CPI still positive, we opine no further change in monetary stance is required at this juncture. In addition, the Fed had confirmed of their position to maintain its current funds rate till end of the year. Since there will be less pressure from both domestic and external fronts, we anticipate that Bank Negara will maintain the OPR at 3.00% in 2019. 

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

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
Malaysia	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Indonesia	5.50	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	3.25	4.00	4.50	4.50	4.75	4.75	4.75	4.75	4.75
Thailand	1.50	1.50	1.50	1.50	1.50	1.75	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	1.75	1.75	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	0.75	0.75	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	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50

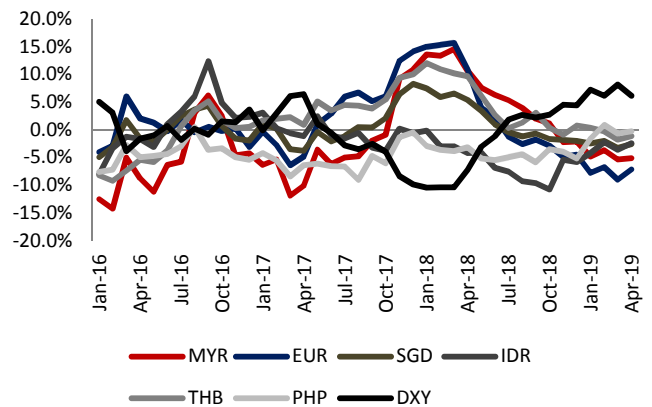
Source: CEIC, MIDFR

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



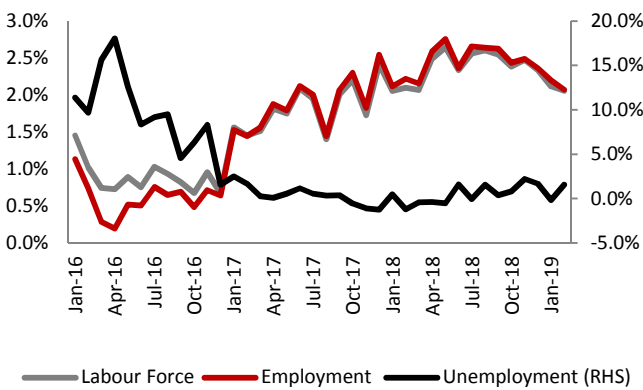
Source: CEIC, MIDFR

Chart 2: MYR Against Selected Currencies (YoY%)



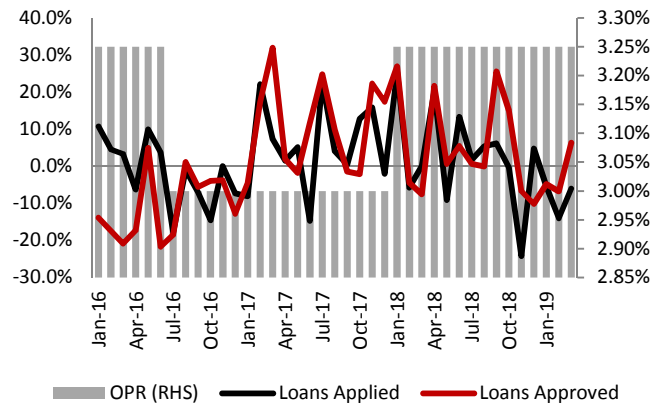
Source: CEIC, MIDFR

Chart 3: Labour Market Performance (YoY%)



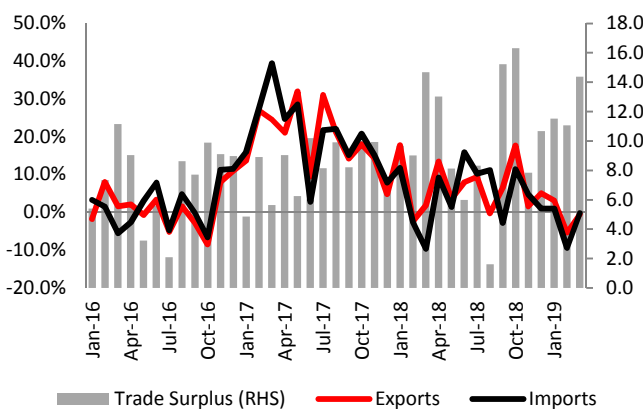
Source: CEIC, MIDFR

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



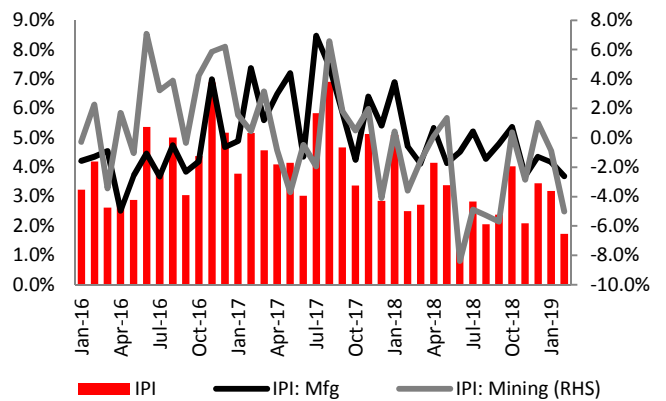
Source: CEIC, MIDFR

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



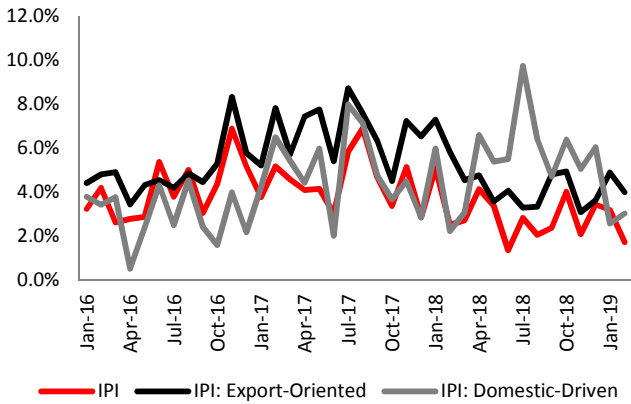
Source: CEIC, MIDFR

Chart 6: Industrial Productions Performance (YoY%)



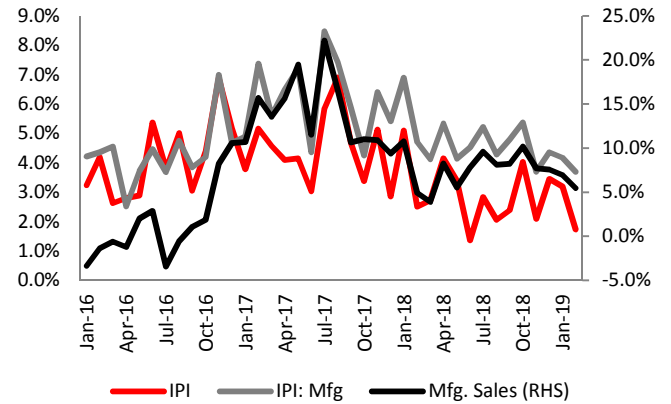
Source: CEIC, MIDFR

Chart 7: IPI Performance (YoY%)



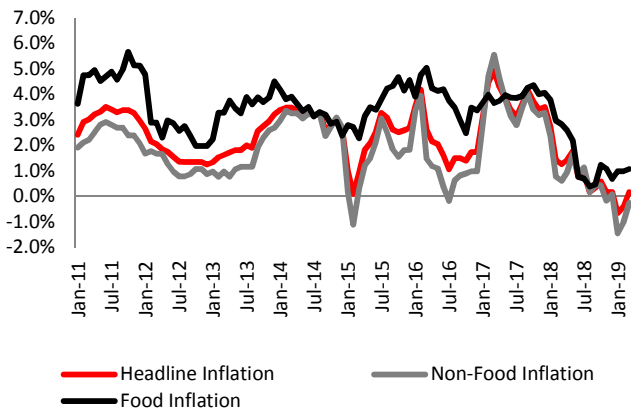
Source: CEIC, MIDFR

Chart 8: IPI vs Manufacturing Performances (YoY%)



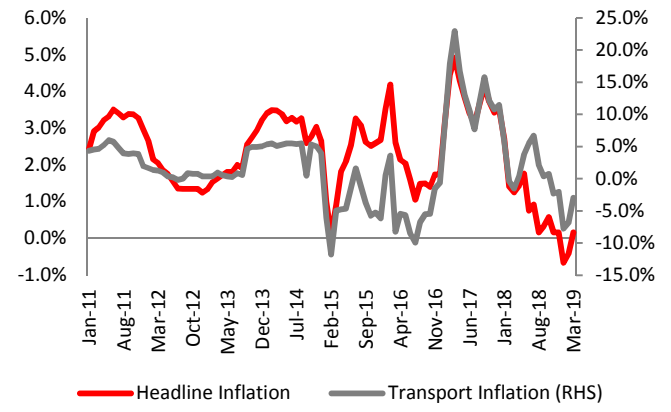
Source: CEIC, MIDFR

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



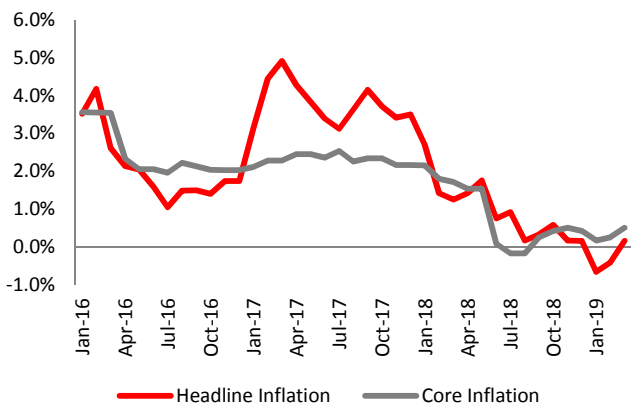
Source: CEIC, MIDFR

Chart 10: Headline vs Transport Inflation (YoY%)



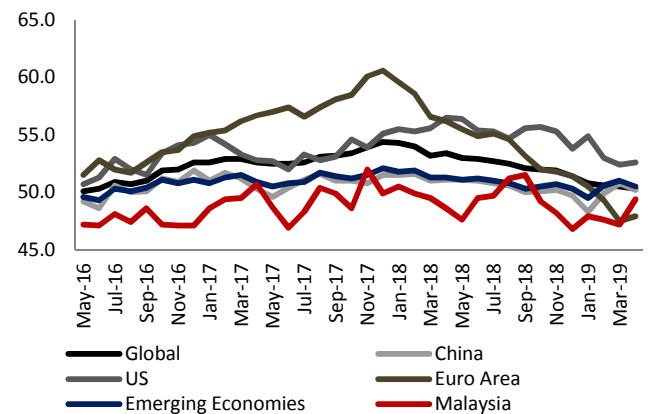
Source: CEIC, MIDFR

Chart 11: Headline vs Core Inflation (YoY%)



Source: BLOOMBERG, MIDFR

Chart 12: Manufacturing PMI (Points)



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

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