

## ECONOMIC REVIEW | May 2016 BNM MPC

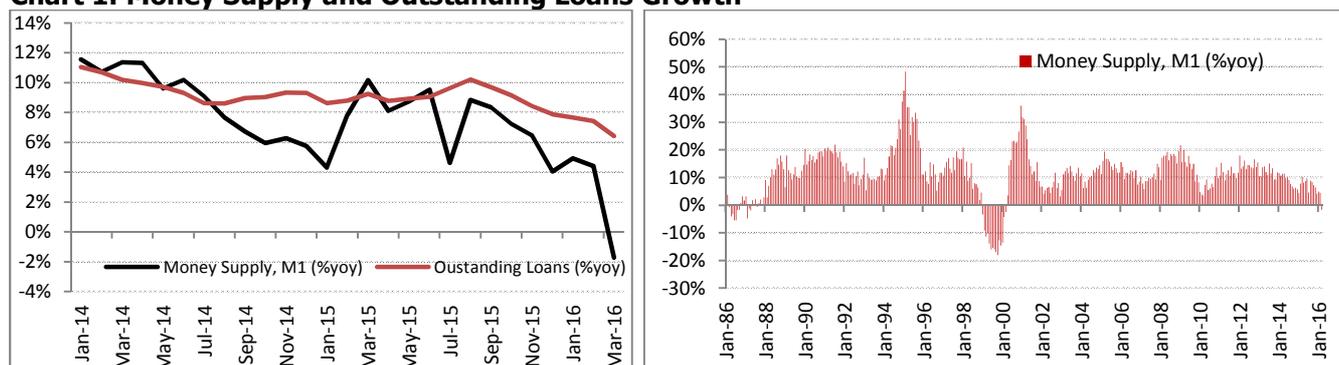
### Money Supply Contract, BNM Keeps OPR at 3.25%

- Monetary Policy Committee decided to maintain OPR at 3.25% yesterday, in line with our expectation. Economy continues to be supported by domestic demand, while external sector remains weak. Money supply contracted for the first time since Asian Financial Crisis in March 2016 by 1.7% while demand deposit shrunk by 4.4%.
- Headline inflation averaged at 3.4% in 1Q16 and BNM is expecting it to moderate moving forward. We expect April inflation rate to come in at 2.1%yoy in April, as the one-off impact of GST wears off. For now, we are maintaining our FY16 inflation forecast at 2.6%.
- We remain with our expectation that BNM is likely to cut OPR by 25 bps in the second half of 2016, which we expect to be in September. This would leave OPR at 3.00% by the end of 2016.

**BNM maintains OPR at 3.25%.** BNM decided to maintain OPR at 3.25% in May Monetary Policy Committee meeting, in line with our expectation. Economy continues to be supported by domestic demand, while external sector remains weak, particularly due to structural issues and geopolitical developments. Investment activity moderated due to global economic uncertainty, soft commodity prices and manufacturing sector slowdown, with the heat wave giving adverse impact to agricultural sector while boosting private consumption.

**Headline surged in 1Q16 and is expected to moderate lower beginning in 2Q16.** Headline inflation averaged at 3.4% in 1Q16 and BNM is expecting it to moderate moving forward. We expect April inflation rate to come in at 2.1%yoy in April, as the one-off impact of GST wears off. The lower inflation figure could provide some room for BNM to ease its monetary policy in the future, particularly if leading indicators such as money supply and loan growth continues to soften.

**Chart 1: Money Supply and Outstanding Loans Growth**



Source: Bank Negara Malaysia, CEIC, MIDFR

**Growth of money supply contracted for the first time since Asian Financial Crisis in March 2016.** Money supply (M1) shrunk for the first time since March 2000 by 1.7% in March 2016, a troubling development as it could potentially lead to economic slowdown as there is less liquidity and transactions in the economy. We believe this could be due to various economic factors, particularly from the external fronts including global manufacturing slowdown and weak trading activity. Growth of demand deposit fell by 4.4% in the same period, potentially lead to lower domestic demand in the future.

**We maintain our expectation that BNM will cut OPR by 25 bps in September 2016.** Due to global economic uncertainty, weak performance of manufacturing sector and softening money supply and deposit growth, we expect BNM will eventually cut OPR by 25 bps in the second half of 2016. The cut would be in line with global monetary policy directions, which are generally heading for an expansionary monetary policy except for the US. We maintain our inflation forecast for year 2016 at 2.6% and OPR forecast to be at 3.00% by year end 2016.

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.