

**ECONOMIC REVIEW | November 2019 BNM MPC****BNM Maintains Rate at 3% despite Moderating Macroeconomic Trends**

- *No cut as expected. In line with our expectation, the overnight policy rate was left unchanged at 3% by BNM. Domestically, the economy remains in stable condition as growth is expected to be driven by domestic demand. We view the first cut in May as sufficient to support growth and offset the dragging external headwinds on Malaysian economy. Nevertheless, we foresee there could be another rate cut in 2020 given that the outlook for next year remains cloudy amid heighten global trade tension and political instability in developed markets.*
- *Macro indicators are hinting at moderation. Most of macro indicators are showing moderating signs in the economy. Most obvious, external trade performance is heading towards contraction this year. Imports of intermediate and capital goods continue on weakening trends, hinting slowdown in the next 3-6 months. IPI and manufacturing sales growths are moderating. Despite OPR cut in May-19, loan growth remains tepid and money supply especially M2 expands at moderate pace, 3.8%yoy in Sep-19 (weakest gain since Dec-16).*
- *We expect one rate cut in 2020. Global economy is projected to grow by 3.4% in 2020, higher than the estimate for 2019 at 3.0%. Hence, we expect one rate cut by BNM is possible in order to stimulate the domestic economy and counteract the external pressure. Heighten global trade tensions, political instability in the EU and the US Presidential Election are among the downside risks to global growth next year.*


**No cut as expected.** In line with our expectation, the overnight policy rate was left unchanged at 3% by BNM. Domestically, the economy remains in stable condition as growth is expected to be driven by domestic demand. We view the first cut in May as sufficient to support growth and offset the dragging external headwinds on Malaysian economy. Nevertheless, we foresee there could be another rate cut in 2020 given that the outlook for next year remains cloudy amid heighten global trade tension and political instability in developed markets.

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**External trade weakens amid global trade war.** Total trade shrank by -2.1%yoy for the first nine months of 2019. Exports continued in contraction for 3-consecutive quarters, pulled down by re-exports which declined by -15.3%yoy for the first nine months. Domestic exports expanded modestly by 2.6%yoy. Imports fell by -3.3%yoy so far. Inbound shipments of capital goods declined by -10.3% while intermediate goods rose slightly by 1.7%yoy. The weakening trend in imports of capital and intermediate goods may signal a slowdown in the next 3-6 months.

**Waning economic confidence.** As guided by manufacturing PMI, global confidence remains in pessimistic zone since May-19. Nonetheless, the PMI of emerging economies remains above the 50-points. Meanwhile, the EU region has been below the 50-points for 9-straight months, the latest at 45.9 points in Oct-19. Despite the ongoing trade war, the US and China remain in expansionary zone. Moreover, ASEAN markets namely Malaysia, Indonesia and Singapore are less optimistic than the Philippines and Thailand. Moving forward, we view economic confidences in developed and emerging markets to improve slightly amid easing monetary policy undertaken by most economies in 2019. Nevertheless, the US-China trade war continues affecting global demand.

**Low inflationary pressure.** We foresee headline inflation rate to average at 0.6%yoy this year, lower than 1%yoy in 2018. For the first nine months of this year, inflation averaged at 0.6%yoy. We expect food component to provide upside pressures on overall inflation in 2019 driven by low base effect, spill over effect from the SST and imported inflation as Malaysia is a net importer of food. Even with the removal of RON95 price cap, the prices are expected to be on the low side in line with global crude oil prices which are affected by multiple headwinds. We anticipate inflationary pressure mainly from fuel-related items to remain weak in line with our expectation of Brent crude oil price at USD65pb for 2020 (2019: USD63pb).

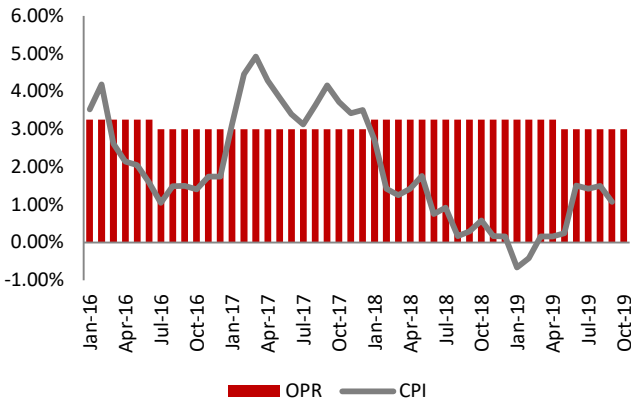
**We expect one rate cut in 2020.** Global economy is projected to grow by 3.4% in 2020, higher than the estimate for 2019 at 3.0%. The growth will mainly be contributed by emerging economies. IMF forecasts the growth for US and China to experience further moderation in 2020 at 2.1% and 5.8% respectively. IMF predicts Malaysia to grow by 4.4% next year. Hence, we expect one rate cut by BNM is possible in order to stimulate the domestic economy and counteract the external pressure. Heighten global trade tensions, political instability in the EU and the US Presidential Election are among the downside risks to global growth next year. 

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

	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Malaysia	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	5.75	5.50	5.25	5.00	5.00
Singapore	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.	Neut.
Philippines	4.75	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00
Thailand	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50
Vietnam	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00	6.00
Korea	1.75	1.75	1.75	1.75	1.50	1.50	1.25	1.25	1.25
China	4.35	4.35	4.35	4.35	4.35	4.25	4.20	4.20	4.20
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	2.50	2.50	2.50	2.50	2.25	2.25	2.00	1.75	1.75

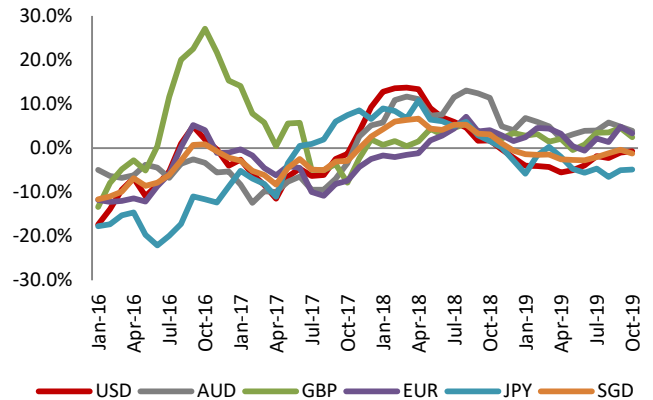
Source: CEIC, MIDFR

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



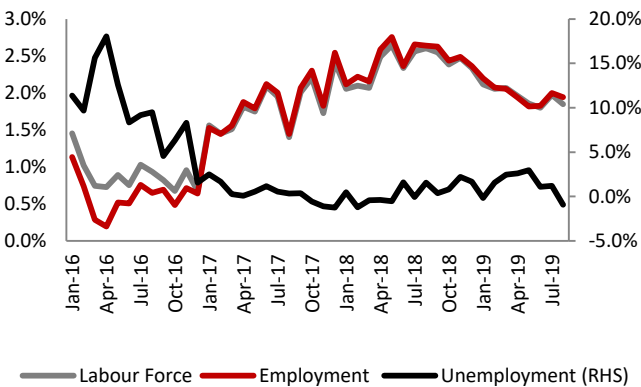
Source: CEIC, MIDFR

**Chart 2: MYR Against Selected Currencies (YoY%)**



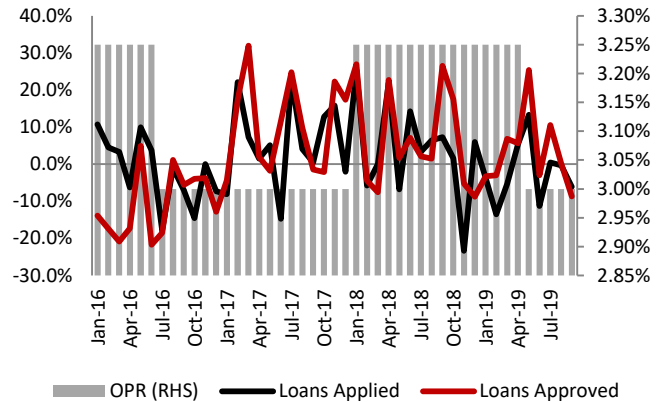
Source: CEIC, MIDFR

**Chart 3: Labour Market Performance (YoY%)**



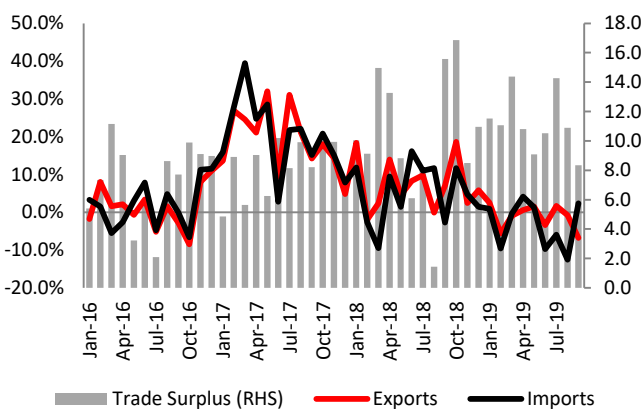
Source: CEIC, MIDFR

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



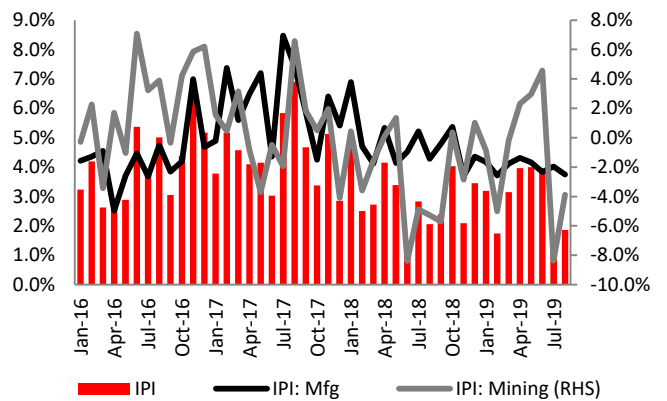
Source: CEIC, MIDFR

**Chart 5: External Trade Performance (YoY% & Rmb)**



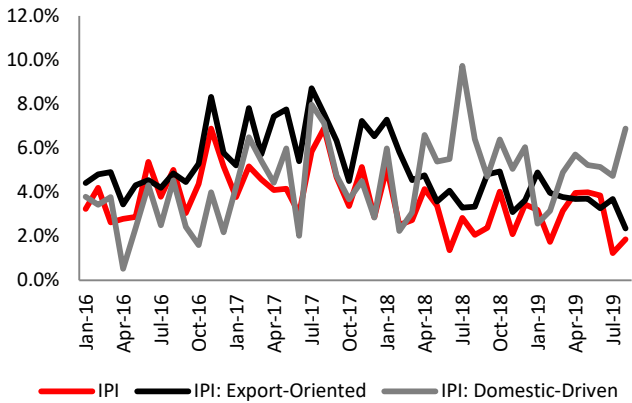
Source: CEIC, MIDFR

**Chart 6: Industrial Productions Performance (YoY%)**



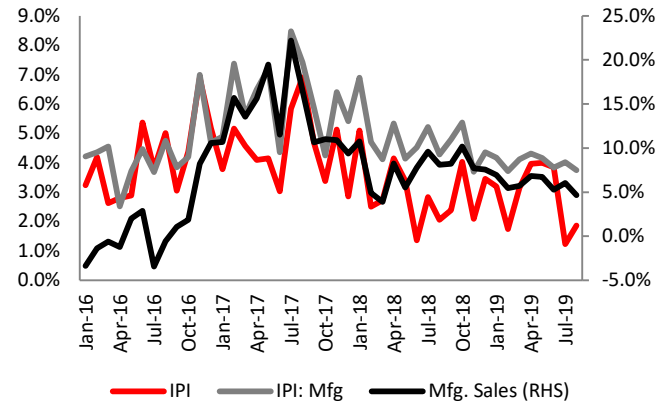
Source: CEIC, MIDFR

**Chart 7: IPI Performance (YoY%)**



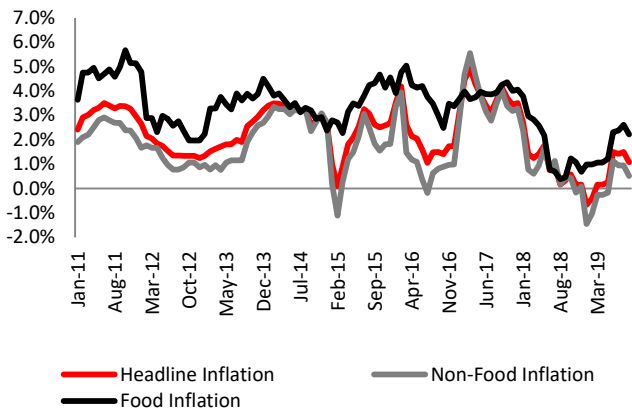
Source: CEIC, MIDFR

**Chart 8: IPI vs Manufacturing Performances (YoY%)**



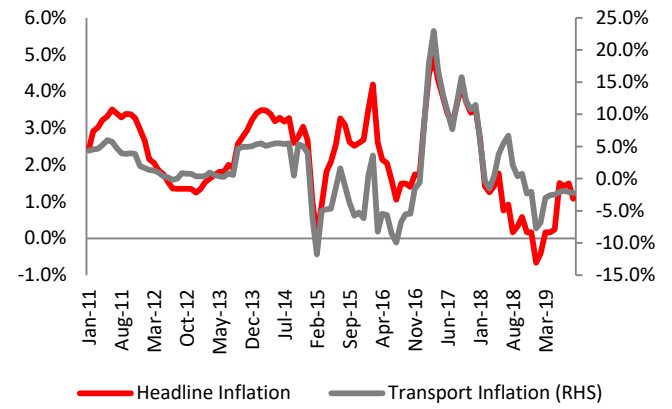
Source: CEIC, MIDFR

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



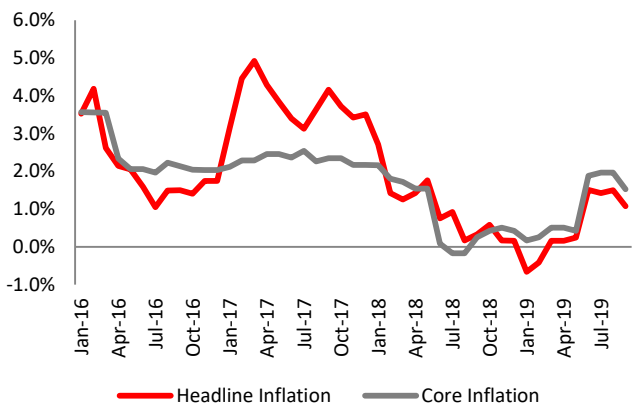
Source: CEIC, MIDFR

**Chart 10: Headline vs Transport Inflation (YoY%)**



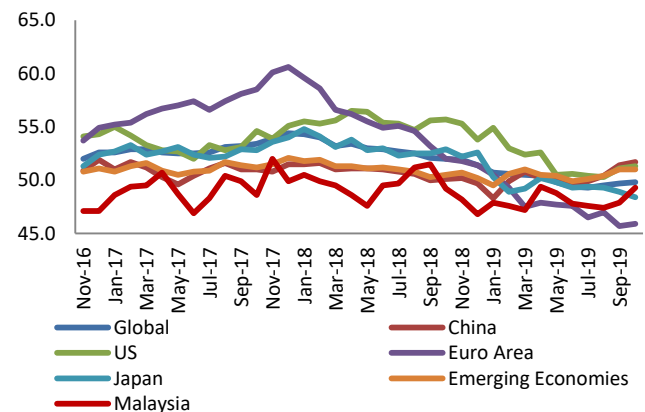
Source: CEIC, MIDFR

**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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