19 September 2014

MALAYSIA

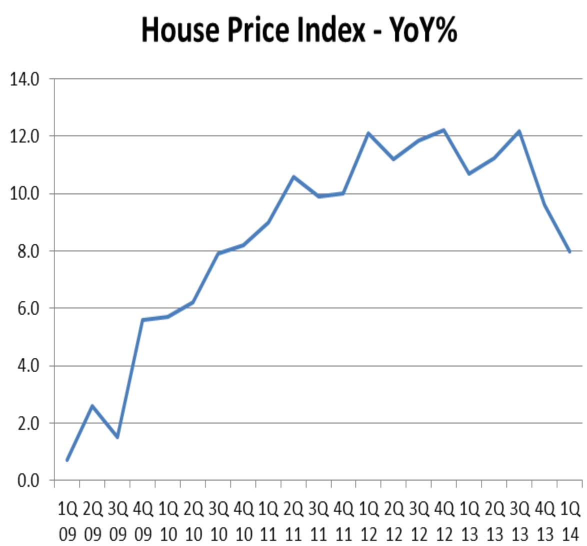
BNM left the OPR unchanged as it waits for firmer signs of risks tilting the balance between growth, inflation and domestic financial stability.

The central bank decided to keep the OPR at 3.25% at the end of its 2-day Monetary Policy Committee (MPC) meeting yesterday, in line with our expectation held since the last we changed our view in July. There was a clear shift in the consensus expectation on the rate decision, with a 25bps hike following the release of strong 2Q 14 real GDP data, to no change in September meeting just a few days before the MPC took place as shown in the recent Bloomberg survey.

While the weakness in the IPI and exports numbers for July can be considered as a blip due to its drastic deceleration, the overall trend for the economy is set to moderate in the coming months relative to the strong performance in the first-half of the year.

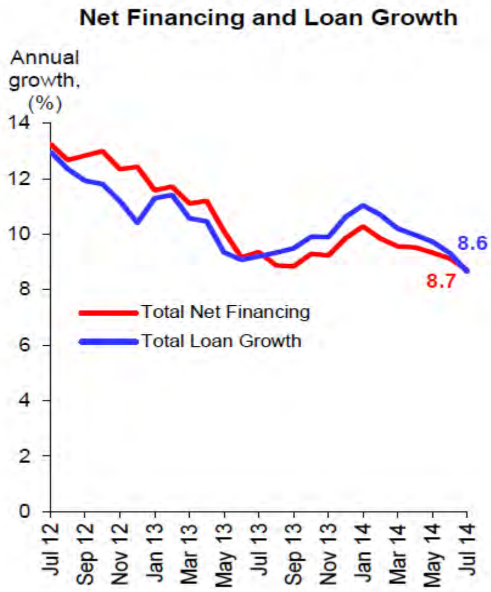
Sources of instability as indicated by house price index and loans to the household by the banking system had shown signs of slowdown in response to the micro and macro-prudential measures that the central bank and the government had put in place since 2010.

Chart 1: Home prices dipped further



Source: NAPIC, BNM

Chart 2: Credit expansion slowing down



Source: BNM Monetary and Financial Developments – Juy 2014

Higher interest rates – both domestically and in the US, the structural changes that we have to undertake to raise our potential growth as well as the deleveraging process – would all lead to growth staying close to potential instead (4.5 – 5.0).

Inflation ticked up again in August to 3.3% from 3.2% in July possibly due to the Hari Raya celebrations although the change was rather marginal. The high base effect will see the CPI decelerating markedly in September; however, the coming Budget 2015 may include further upward adjustments in prices of controlled items and that may see CPI rebounding again but still within the 3.00 – 3.5%. We continue to expect CPI to average at 3.00 – 3.50% in 2014.

Inflation is certain to rise next year but demand-pull factors may not be as strong. CPI is set to resume its upward trend on further price adjustments in 2015 but BNM expects it is likely to fall back towards long-term trend rate of

3.0% by 2016. As such, the upward pressure in 2015 is likely to be temporary and demand-pull factors may not be as strong as that seen in 2H 2013 – 1H 2014.

In its statement, BNM "The absence of external price pressures and more moderate demand conditions are expected to mitigate the impact of these cost factors on the underlying inflation" although inflation is projected to be above its long-term average due to domestic cost factors.

As we had mentioned in our recently released reports, if the tightening is meant to contain financial instability risks, the central bank can wait longer in between meetings and save the bullets for next year when the US Fed starts tightening. Our view is now strengthened based on BNM statement that ".. the MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation" and ".. risks of destabilising financial imbalances. Further adjustment to the degree of monetary accommodation may be taken depending on how new information will affect the assessment on the balance of risks." We believe another rate hike before year-end when the rest of EM are likely to stay put, would only invite speculative flows.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.