

## No Need to Cut Malaysia refrains from easing

Jan 19, 2017

- As expected, Bank Negara opted to keep its Overnight Policy Rate unchanged at 3.0% today. While it has subsided somewhat, the potential of renewed global currency volatility would have been taken into account.
- Even as it continues to highlight downside risks to growth due to global uncertainties, a recent upturn in some indicators including exports has allowed the central bank to breathe more easily, as well.
- Indeed, combined with the facts that domestic inflation is bound to head up and that currency stability is a key focus in the near term, it is looking more likely now than before that BNM would keep its policy rate on hold this year.

### Looking out, looking in

Perhaps in view that not much new global set of information has really transpired since it last met in November, some parts of the monetary policy statement today appear to be a carbon copy of the previous one.

For instance, with a nod towards the possibility of Trump's reflationary policy, the statement "The prospect of a shift towards progressive use of fiscal policy in the developed economies could lead to a more balanced policy environment that would support growth" has reappeared.

Similarly, the flipside reminder that global markets can't quite belt out that everything is awesome is a feature today, as well. The statement notes that "heightened uncertainty and downside risks to global growth remain, arising from risks of protectionism, geopolitical developments and commodity price volatility," and that "These risks could also lead to episodes of increased financial market volatility."

All rather humdrum, relatively speaking. Slightly more interesting bits take place in its discussion on the domestic economy. The laudable strength in private consumption continues to deserve a prominent mention in this space, with an expectation that it will remain sustained by wages and "various policy measures to raise disposable income." But it is with regard to exports that a relative uptick in optimism can be sensed, with mentions about how "expected improvement in exports will provide some support to growth." Given that electronics shipment has stayed supported and there has been, of late, commodity prices have been robust, that should not come as a surprise.

Meanwhile, on the inflation front, even as BNM is keen to emphasize – rightly – that underlying core inflation will remain stable in 2017, it has nonetheless noted that, due to higher global oil prices, headline inflation is likely to head up, compared to the 2.1% achieved in the whole of 2016. Our sense is that a combination of pass-through effect from weaker currency and higher domestic fuel prices – not to mention the inescapable base effect – would push inflation to around 2.7%, close to the top end of the 2-3% expected by the central bank.

### **Treasury Advisory**

### **Corporate FX &**

### **Structured Products**

Tel: 6349-1888 / 1881

### **Fixed Income &**

### **Structured Products**

Tel: 6349-1810

### **Interest Rate**

### **Derivatives**

Tel: 6349-1899

### **Investments &**

### **Structured Products**

Tel: 6349-1886

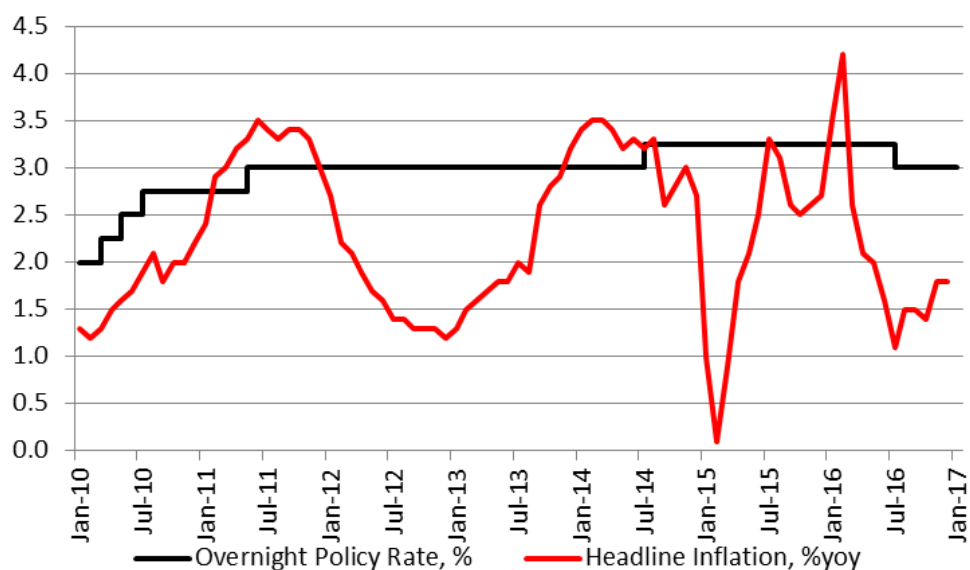
### **Wellian Wiranto**

*Economist*

Treasury Research &  
Strategy,  
Global Treasury,  
OCBC Bank

+65 6530-5949

[wellianwiranto@ocbc.com](mailto:wellianwiranto@ocbc.com)



Source: Bloomberg, OCBC.

Overall, combining the fact that BNM appears to be slightly more relaxed about growth prospects and also more watchful of inflation uptick this year, we believe that it is likely to shy away from making tweaks to its overnight policy rate in the near term. Thus, the likelihood of the OPR staying unchanged at 3.0% for the whole of 2017 has risen, unless the global trade growth gets seriously derailed enough for the central bank to consider easing again.

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

---

Co.Reg.no.:193200032W