Malaysia Monitor

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.**

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

Looking out, looking in

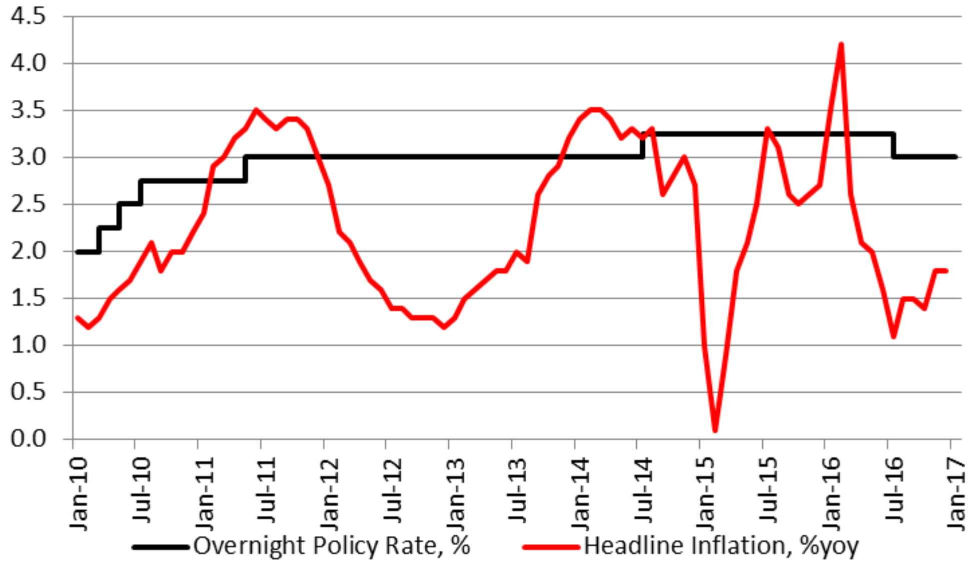
Perhaps in view that not much new global set of information has really transpired since it last met in November, some parts of the monetary policy statement today appear to be a carbon copy of the previous one.

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.



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.

Co.Reg.no.:193200032W