

Update: Not surprisingly, BNM keeps the OPR on hold

Wednesday, July 11, 2018

Highlights

- **BNM has kept the OPR at 3.25% as expected.** In the monetary policy statement, the central bank made mention that it expects a positive growth performance to be sustained and “driven by both domestic and external demand”. BNM also said that “the growth outlook will be further supported with greater certainty in domestic policy in the coming months”. They believe that “overall, the Malaysian economy is expected to remain on a steady growth path”. They also mention that headline inflation may turn negative in some months and remain low in the first half of 2019 but that this is due to transitory effects. BNM did also say that “the ringgit exchange rate would be more reflective of the underlying fundamentals of the economy when the external and domestic uncertainties recede”.
- **As a whole, there was limited reaction to the central bank’s decision and statement.** The value of the MYR also did not move much against the USD following the decision. At this point, it was probably prudent for the central bank not to move rates and continue to monitor the situation instead. Inflation has been benign and it was at 1.8% yoy as of May 2018. The current account surplus also widened in the 1Q 2018 to 4.36% of GDP (4Q 2017: 3.61%). Our growth forecast stands at 5.5% yoy for 2018 whilst BNM had forecasted growth to be in the range of 5.5 – 6.0% with the 1Q 2018 growth coming in below expectations at 5.4% yoy. Even if there are downside risks, the 2018 growth forecasts is well above the estimated trend growth rate of around 5.0 – 5.5%. The MYR has also hovered around 4.00 against the USD in the last few weeks.
- **Going forward, we continue to expect that BNM would hold the rate for the rest of this year.** The central bank doesn’t face the need to raise rates as inflation has been low nor the need to cut rates given that growth is still above trend. We also still believe that BNM will probably be cautious and rather stay on monitoring mode for this year despite the central bank’s confidence that growth will be “supported with greater certainty in domestic policy in the coming months”. It would though still be crucial to keep a close watch on any domestic uncertainties especially regarding the fiscal situation and the effects it can have on growth and investor sentiment towards the economy.

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