

Strong growth and moderating inflation

Thursday, 7 September 2017

Highlights:

- **Bank Negara Malaysia (BNM) kept its benchmark rate unchanged at 3.0% at its latest MPC meeting**, in line with our view. This marks policy-makers reluctance to move rates since its surprise cut in July last year. In the MPC statement, BNM highlighted that the strengthening global growth and pick up in trade is still being observed, and Malaysia's future growth prospects "will be sustained by the more positive global growth outlook and stronger spillovers from the external sector to the domestic economy".
- **Indeed, growth so far this year has been encouraging to begin with.** Note that 2Q GDP printed 5.8% yoy, bringing 1H17 growth print to 5.7% (clocking its fastest pace since 1H14). More recently, July trade numbers also surprised higher with exports growth touching 30.9% yoy, suggesting that Malaysia's external environment remains supportive for overall growth. Elsewhere, inflation continued to moderate further (CPI July at 3.2% yoy versus March's peak at 5.1%) given the decline in domestic fuel prices, and is expected to moderate further into the year given diminishing cost-push drivers.
- **With the healthy growth prints and tame inflation, there is likely little motivation for policy-makers to move rates anytime soon.** Malaysia's growth fundamentals have been healthy so far, led by strong external factors and resilience in its domestic demand. Inflation has also been decelerating since March 2017. However, there are risks to the growth trajectory, especially from any unexpected negative developments from political and/or policy developments in major economies and geopolitical risks. Furthermore, Malaysia's household debt is one of the highest in the region at 86.7% in 1Q17, which could dissuade policy-makers in cutting rates further unless necessary. In all, we keep our year-end growth outlook at 4.9% while inflation is pencilled at 2.9%. In regards to the relatively rosier economic environment, we expect policy-makers to keep their benchmark rate unchanged at 3.0% for the rest of the year.

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