

## Malaysian central bank on hold

The macro policy mix of tightening monetary and loose fiscal policy is favourable for the Malaysian ringgit, allowing it to sustain its position among Asia's outperformers this year



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# 3.25%

BNM policy rate

No change expected this week

### Unanimous consensus for on-hold policy

Bank Negara Malaysia's (BNM) Monetary Policy Committee meets on Wednesday, March 7. There is a unanimous consensus forecast of no change to the overnight policy rate of 3.25%. BNM started monetary policy normalisation with a 25bp OPR hike at the last meeting on January 25. Nothing has changed in terms of Malaysia's economic dynamics since the last meeting to warrant another change to monetary policy.

## Nothing changed since January rate hike

Two data points since the last meeting are noteworthy:

- First, year-on-year GDP growth (of 5.9%) in the fourth quarter of 2017 was the sixth consecutive quarter with an upside growth surprise ([Read more here](#)).
- Second, a sharp slowdown in consumer price inflation in January to 2.7% YoY was the lowest in a year. This data bears out our view of 2018 shaping up to be a better year for inflation after a decade-high 3.9% average inflation in 2017 ([Read more here](#)).

## Next BNM rate hike in 3Q18

January trade data released yesterday signalled a continuation of the strong trend in Malaysia's exports into 2018. The global trade war will be a threat to exports going forward. We expect strong domestic demand to cushion the impact of a trade shock, if any, and keep the economy on track for another year of 5%-plus growth. And absent a supply shock to food prices or an oil shock to fuel prices, the inflation outlook for this year appears to be more benign. Such an economic backdrop supports expectations of a gradual normalisation of BNM policy going forward. We forecast the next 25bp OPR hike in the third quarter of 2018, once the political uncertainty associated with general elections in August this year lifts.

The macro policy mix of tightening monetary and loose fiscal policy is favourable for the Malaysian ringgit (MYR), allowing it to sustain its position among Asia's outperformers this year. The MYR's 3.3% year-to-date appreciation against the USD is the second-best among Asian currencies. Our end-2018 USD/MYR forecast is 3.72 (spot 3.90, consensus 3.85).