

6 March 2018
Article

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

Contents

- Unanimous consensus for on-hold policy
- Nothing changed since January rate hike
- Next BNM rate hike in 3Q18

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).

Prakash Sakpal

Economist, Asia

+65 6232 6181

prakash.sakpal@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.