

Malaysia: Unchanged OPR - growing optimism

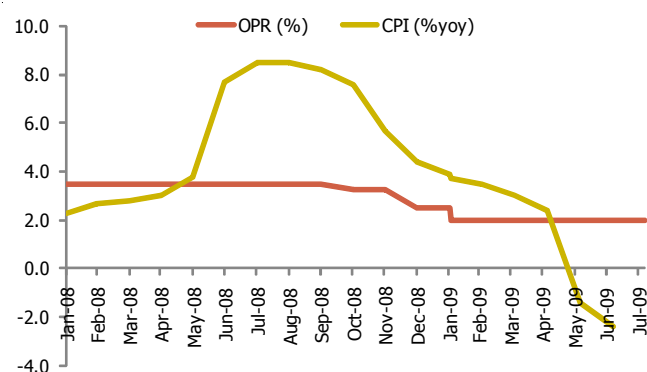
26 AUGUST 2009
2009/0043

BNM MONETARY POLICY MEETINGS 2009

No.	Date	OPR (%)
1st	21-Jan-2009	2.50
2nd	24-Feb-2009	2.00
3rd	29-Apr-2009	2.00
4th	26-May-2009	2.00
5th	29-Jul-2009	2.00
6th	25-Aug-2009	2.00
7th	28-Oct-2009	2.00f
8th	24-Nov-2009	2.00f

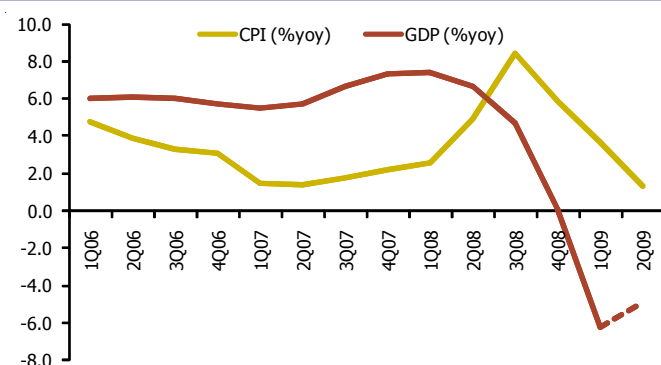
Source : Department of Statistics Malaysia, Bank Negara Malaysia
f: Research Division forecast

MALAYSIA CPI (% YOY) VS OPR (%)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

MALAYSIA CPI VS GDP (% YOY)



Source : Department of Statistics Malaysia, Bank Negara Malaysia
Dotted lines: Research Division forecasts

- Bank Negara Malaysia (BNM) left the Official Policy Rates (OPR) unchanged for the fifth straight meeting on August 25, in line with our and consensus expectation. The recent Monetary Policy Statement announced by BNM clearly indicates the growing optimism of the central bank on the future economic growth.
- In fact, signs of improvement have been showed by the turnaround in the macroeconomic variables. Of significance were exports and industrial production, which have been growing (on m-o-m basis) for the second consecutive month in June.
- Sentiments have also improved as evidenced by the rally in the equity market, the upturn in commodity prices and the appreciation of Ringgit against the US dollar.
- Positive developments can also be seen in the global economy where most countries posted slower pace of contractions (or even some have make a turnaround) in 2Q GDP. Of an important note is that governments around the globe have revised up their economic growth forecast for this year on expectation of further improvement in economic activities during 2H09.
- Countries which already recorded better GDP growth in 2Q09 were the US, Germany, France, China, Hong Kong, Japan, Singapore, South Korea, Indonesia and Thailand.
- In line with the global economic development, Malaysia's economy for the second quarter is also expected to emerge from its worst contraction since 1997/98 crisis. We estimate the 2Q GDP (to be released today) to contract by 4.9% as against the steep decline of -6.2% registered in 1Q.
- As far as inflation is concerned, it is not a prior concern for Bank Negara given the two consecutive monthly declines in the Consumer Price Index in July. Indeed, the yearly CPI growth will remain in a negative territory before turning around to record positive growth by end of this year.
- As such, we retain our view that interest rate will stay at 2.00% for the rest of 2009. Monetary policy adjustment will possibly be made during the 2H10 when domestic demand shows commendable recovery alongside with a gradual pickup in the inflation rate end of next year. **PNB**