

# Malaysia Macro Flash

## BNM Stands Pat, Omits “Appropriate” Language

- **BNM keeps OPR unchanged at 3.25% as widely expected** — This move was expected by all the 19 economists surveyed on Bloomberg.
- **MPC re-assures market participants on the health of the financial system** — As with the Jan MPC, perhaps to bolster confidence, BNM noted that there remains “*ample liquidity*” in the domestic financial system and “*orderly functioning*” in financial markets, with the additional statement that there has been “*no disruption to financial intermediation*”.
- **Marginally more positive assessment on growth** — Similar to Jan, the MPC continues to expect the global economy to “expand at a moderate pace” with “increasing divergence in the growth momentum among the major economies”. That said, the MPC noted that downside risks have “remained”, a tad better than the Jan assessment that they have “increased”. On the domestic economy, the MPC omitted the Jan assessment that consumption will “moderate”, noting that despite the impact from GST and lower commodity prices, spending will be supported by steady increases in income, employment and boost to disposable income from lower oil prices. The assessment on investments was similar to Jan – while acknowledging lower oil and gas investments, investments would be “*resilient*” with sustained support from public and private sectors. As in Jan, the statement also emphasized that the improvement in manufacturing exports will offset the impact of lower commodity exports to keep Malaysia on a “*steady growth path*.”
- **Somewhat ambiguous assessment on inflation** — Similar to Jan, the MPC noted that the outlook for headline inflation will be subject to the volatility in global oil prices and lower fuel prices will partially offset other domestic factors. However, the MPC took a more ambiguous assessment on the trajectory – while there was a clearer directional bias with inflation expected to trend higher from 2Q15 after remaining low in 1Q15, the MPC emphasized that it will “*be below its historical average*” – and with historical average around 2.5%, this could suggest some undershooting of the current inflation forecast of 2.5-3.5%. Underlying inflation is now expected to be “contained” vs. “relatively stable” in Jan.
- **Absence of “appropriate” language but policy still “accommodative”**— We suspect the statement was designed to be ambiguous, giving the MPC maximum flexibility and moderating rate expectations on both sides. While some could place greater weight on below average inflation and interpret the absence of “appropriate” language as dovish, the positive assessment on growth suggests no imminent need to cut rates. We place greater weight on assessment that policy is “accommodative and supportive of economic activity” – suggesting that the next move is skewed towards a hike, perhaps an attempt to support the MYR. We maintain our view of no rate changes in 2015, barring significant changes in the growth outlook.

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## Monetary Policy Statements

Figure 1. MPC Statement (28 Jan 2015)

At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.25 percent.

While the global economy continues to expand at a moderate pace, there has been increasing divergence in the growth momentum among the major economies. For most of Asia, growth is supported by the continued expansion in both domestic and external demand. Looking ahead, despite the varying impacts of the significantly lower oil prices on economies, the overall global economy is expected to benefit from this development. **Nevertheless, the downside risk to the global economic outlook has increased following the weakening growth momentum in a number of major economies due to external and domestic specific factors.**

Volatility in the international financial markets has increased amid shifts in global liquidity and heightened uncertainty particularly with regard to global growth prospects and the decline in commodity prices. While the Malaysian financial markets have been affected by these global developments, there has been no disruption to financial intermediation. There remains ample liquidity in the domestic financial system with continued orderly functioning of the financial markets. The banking institutions are operating with strong capital and liquidity buffers, and continue to provide financing to the economy.

For Malaysia, economic activity continues to be supported by growth in domestic demand amid a moderation in exports in the fourth quarter of 2014. Going forward, domestic demand will remain as the key driver of growth. **While private consumption is expected to moderate, it will remain supported by the steady rise in income and employment, and the additional disposable income from the lower oil prices.** Investment activity is projected to remain resilient, with broad-based capital spending by both the private and public sectors cushioning the lower oil and gas-related investment activity. While export growth will be affected by lower commodity prices, the performance of manufactured exports is expected to improve. The prospects are therefore for the Malaysian economy to still remain on a steady growth path.

Inflation for 2015 is expected to be lower than earlier anticipated due to the lower energy and commodity prices. The projected lower energy prices will partially offset other domestic cost factors. With the implementation of the managed float pricing mechanism for fuel, the outlook for headline inflation would be subjected to the volatility of oil prices. **Nevertheless, the expectation is for underlying inflation to remain relatively stable, amid the more moderate demand conditions.**

At the current level, the stance of monetary policy remains accommodative and is assessed to be appropriate given the developments in monetary and financial conditions. The MPC will continue to carefully assess the external developments and their implications on the Malaysian economy. The MPC will also continue to monitor the risks of destabilising financial imbalances. This is to ensure that the monetary policy stance is consistent with the sustainability of the growth prospects of the Malaysian economy.

Source: Bank Negara Malaysia

Figure 2. MPC Statement (5 Mar 2015)

At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.25 percent.

While the global economy continues to expand at a moderate pace, there has been increasing divergence in the growth momentum among the major economies. For most of Asia, growth is supported by the continued expansion of domestic demand. Looking ahead, the global economy is expected to continue on a moderate recovery path. **Nevertheless, the downside risks to the global economic outlook remain given the weak growth momentum in a number of major economies.** The uncertainties in the policy environment are also contributing to the shift in sentiments in the international financial markets.

While the Malaysian financial markets have been affected by these global developments, there remains ample liquidity in the domestic financial system with continued orderly functioning of the financial markets. The banking institutions are also operating with strong capital and liquidity buffers, and continue to provide financing to the economy. There has, therefore, been no disruption to financial intermediation.

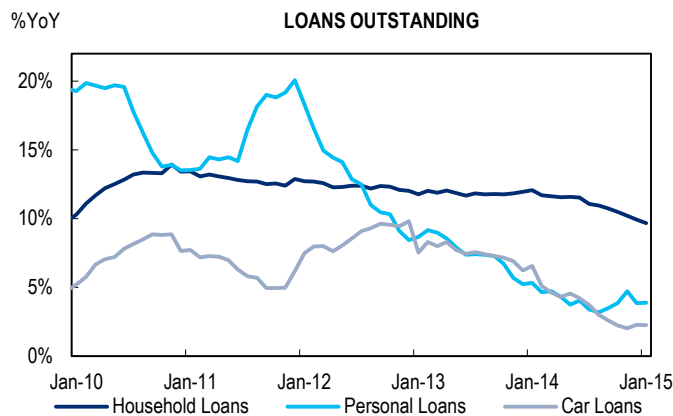
In the Malaysian economy, domestic demand has continued to support growth amid a moderation in exports in the fourth quarter of 2014. Going forward, domestic demand will remain as a key driver of growth. **While the introduction of the Goods and Services Tax and the lower earnings in the commodity sector are expected to have some impact on private consumption, household spending will continue to be supported by the steady increase in income and employment.** Additionally, the lower fuel prices are contributing to higher disposable income. Investment activity is also expected to remain resilient, with broad-based capital spending by both the private and public sectors, thus cushioning the lower investment in the oil and gas sector. While export growth will be affected by the lower commodity prices, the performance of manufactured exports is expected to improve. The prospects are therefore for the Malaysian economy to still remain on a steady growth path.

Headline inflation declined in January and is expected to remain low in the first quarter of 2015. For the rest of the year, headline inflation is expected to trend higher, but to be below its historical average. The lower fuel prices will partially offset other domestic cost factors. **While the monthly headline inflation would be subjected to the volatility in global oil prices, underlying inflation is expected to remain contained amid the stable domestic demand conditions.**

At the current level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity. The MPC will continue to carefully assess external and domestic developments and their implications on the risks to inflation and on the Malaysian economy. The MPC will also continue to monitor the risks of destabilising financial imbalances to ensure the sustainability of the overall growth prospects.

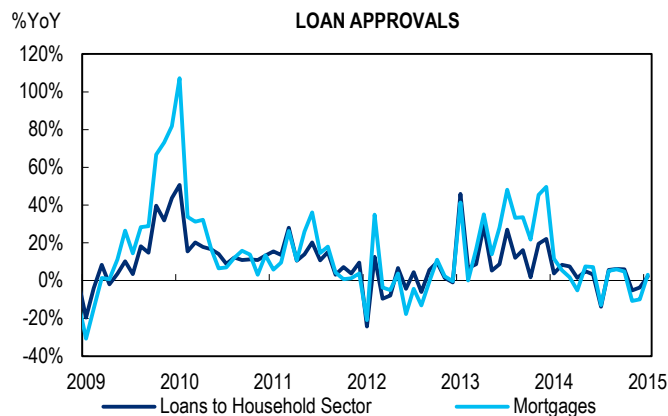
Source: Bank Negara Malaysia

Figure 3. Household loans growth continues to decelerate



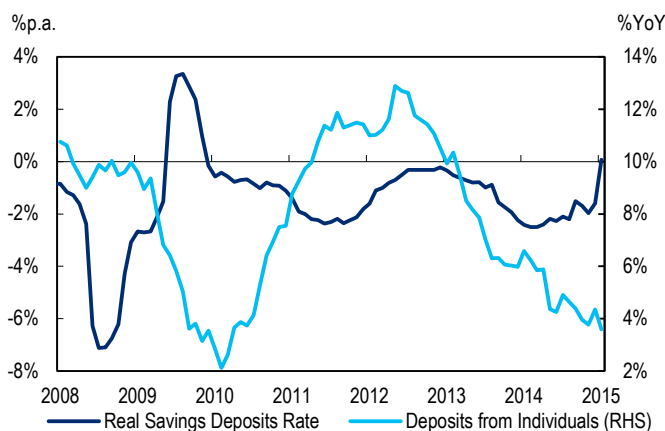
Source: CEIC, Citi Research

Figure 4. Household loan approvals growth edged up in Jan



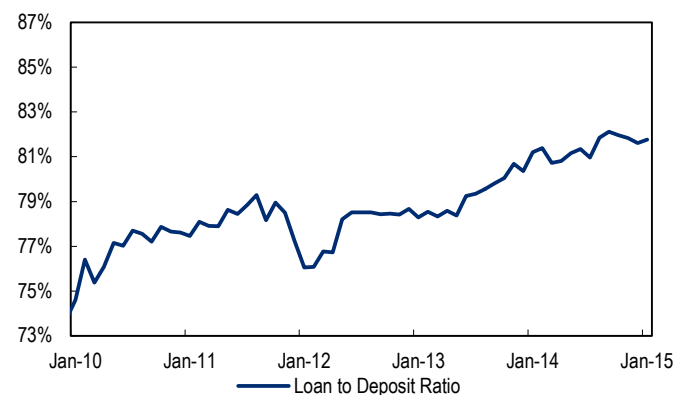
Source: CEIC, Citi Research

Figure 5. Deposit growth has recently fallen along with the fall in the real deposits rate in 2014



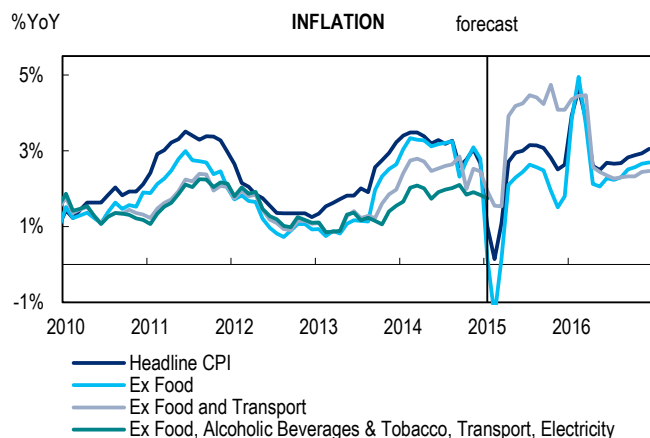
Source: CEIC, Citi Research

Figure 6. Loan-to-deposit ratio edged up in Jan



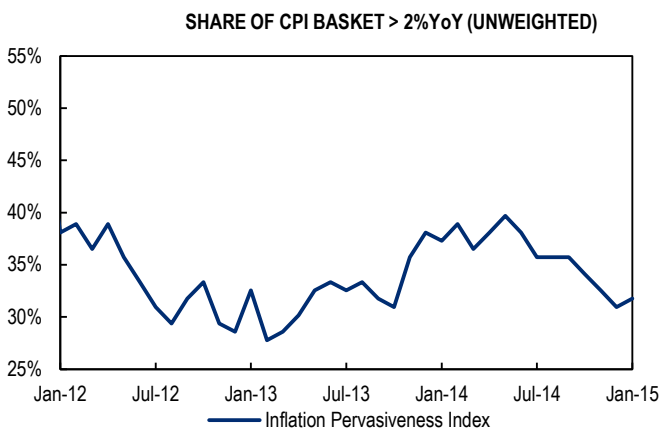
Source: Haver, CEIC, Citi Research

Figure 7. Headline CPI moderated on lower oil prices



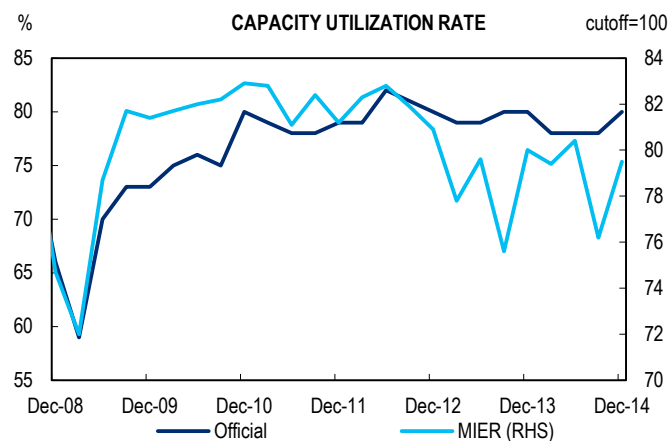
Source: CEIC, Citi Research

Figure 8. BNM's inflation pervasiveness index edged up in Jan



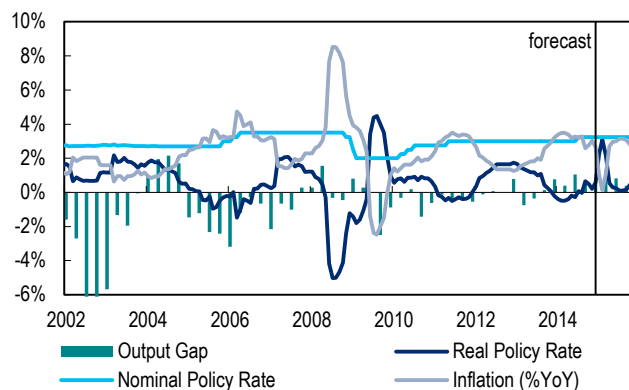
Source: Department of Statistics, Haver, Citi Research

Figure 9. Capacity utilization rate edged up in Dec according to MIER, suggesting a wider positive output gap



Source: CEIC, Citi Research

Figure 10. We do not expect real OPR to turn negative post GST in Apr 2015



Source: CEIC, Citi Research

Figure 11. Monthly indicators for consumption and investment

%YoY	2014							2015
	1Q14	2Q14	3Q14	Oct	Nov	Dec	4Q14	Jan
<b>PRIVATE CONSUMPTION</b>	<b>7.1</b>	<b>6.5</b>	<b>6.7</b>				<b>7.8</b>	
Passenger Vehicle Sales	2.0	13.2	-9.5	-0.8	5.8	5.8	3.8	0.0
Consumption Credit Outstanding	5.3	4.5	3.2	2.8	2.7	2.7	2.8	2.7
Car Loans Outstanding	5.4	4.4	3.1	2.2	2.3	2.3	2.2	2.3
Personal Use Loans Outstanding	4.9	4.0	3.4	3.9	3.9	3.9	4.1	3.9
Credit Card Loans Outstanding	4.9	4.9	2.1	2.4	1.2	1.2	2.1	1.4
Loans for Consumer Durables Outstanding	209.1	271.0	273.5	222.8	179.8	179.8	199.4	167.9
Loans Outstanding to Household Sector	11.8	11.6	10.9	10.5	9.9	9.9	10.2	9.7
Imports of Consumption Goods	15.6	7.1	-1.0	5.9	4.7	4.7	3.0	
No of Credit Card Transactions	5.7	4.4	3.4	2.8	3.3	3.3	2.8	-2.0
Domestic Credit Card Purchases by Local Cardholders	5.0	6.6	4.0	3.7	4.5	4.5	4.9	1.3
Current Outstanding Balances on Credit Cards	3.5	3.3	2.0	2.1	1.3	1.3	1.8	1.9
<b>INVESTMENT</b>	<b>6.3</b>	<b>7.2</b>	<b>1.1</b>		<b>5.8</b>	<b>5.8</b>	<b>4.3</b>	
Commercial Vehicle Sales	-3.3	-2.8	-3.5	-7.1	2.7	2.7	3.8	6.0
Imports of Capital Goods	-6.6	8.8	-10.2	-5.2	2.3	2.3	-1.0	
Imports of Intermediate Goods	4.4	2.7	11.1	20.9	3.9	3.9	12.4	
Loans Outstanding to Non-Household Sector	9.2	7.2	5.9	7.1	1.2	1.2	7.9	7.3
Loans Outstanding to Manufacturing Sector	1.8	1.8	2.7	5.4	179.8	179.8	4.9	4.6
Loans Outstanding to Real Estate Sector	16.4	16.6	15.4	17.0	9.9	9.9	19.9	21.2
Loans Outstanding to Construction Sector	12.9	11.6	11.2	13.7	4.7	4.7	14.9	12.3
Gross Funds Raised by Private Sector in Capital Markets	4.9	42.2	108.4	-64.7	3.3	3.3	-48.2	-72.1
New Registered Local Companies	2.2	8.7	-4.2	5.2	4.5	4.5	18.3	
Bursa Malaysia Market Capitalization	17.5	11.4	11.4	6.9	1.3	1.3	2.5	1.2

Source: CEIC, Citi Research

Figure 12. Monthly sectorial indicators

% YoY	2014							2015
	1Q14	2Q14	3Q14	Oct	Nov	Dec	4Q14	Jan
<b>SERVICES</b>	<b>6.6</b>	<b>6.0</b>	<b>6.1</b>				<b>6.4</b>	
<b>Electricity, Gas and Water</b>	<b>3.2</b>	<b>2.7</b>	<b>4.4</b>				<b>3.7</b>	
Electricity IP	4.3	4.8	6.5	3.4	3.4	3.0	3.3	
<b>Wholesale and Retail Trade, Motor Vehicles</b>	<b>8.6</b>	<b>9.1</b>	<b>8.2</b>				<b>9.3</b>	
Motorcycle Sales	-17.7	-19.1	-18.7	-22.3				
Motor Vehicle Sales	1.4	11.2	-8.8	-1.6	5.9	6.9	3.8	0.7
Motor Vehicle Production	5.0	11.6	-8.3	-16.1	-12.2	-3.6	-10.7	2.1
<b>Transport and Storage</b>	<b>4.8</b>	<b>4.6</b>	<b>4.8</b>				<b>5.9</b>	
Vehicles Traffic on Tolloed Highways	3.7	5.1	2.9	2.7	2.4			
Railway Cargo Revenue			-0.8	0.0	16.5			
Air Passengers	-9.5							
Port Cargo Traffic	9.3	8.0	14.0	-3.1				
<b>Finance and Insurance</b>	<b>2.4</b>	<b>0.6</b>	<b>2.6</b>				<b>2.0</b>	
Loans Outstanding in Banking System	10.6	9.7	8.7	9.0	9.3	9.3	9.2	8.6
Loans Disbursed in Banking System	17.4	11.5	12.3	19.0	10.8	7.5	12.2	-3.8
Bursa Malaysia Turnover Volumes	94.5	9.4	54.6	12.2	8.3	23.7	14.1	22.0
Gross Funds Raised in Capital Markets	7.0	17.1	30.1	-22.6	-24.6	-36.8	-29.1	-32.8
<b>AGRICULTURE, FORESTRY AND FISHING</b>	<b>2.3</b>	<b>7.1</b>	<b>4.0</b>				<b>-2.8</b>	
Crude Palm Kernel Oil Production	-3.7	10.9	4.9	-5.6	-1.2	-18.0	-8.2	-19.5
Processed Palm Oil Production	-1.9	-1.4	-5.7	-9.0	-3.7	-12.6	-8.5	-21.2
Palm Oil Export Volumes	-6.1	-6.7	7.3	-3.9	-10.0	0.5	-4.4	
Palm Kernel Oil Export Volumes	-9.2	-42.8	-4.4	16.1	13.3	29.2	19.6	
Rubber: Production	-12.5	-15.1	-24.2	-22.3	-21.9	-32.0	-25.8	
Rubber Export Volumes	5.4	-6.1	-27.1	-30.6	-37.0	-16.6	-27.7	
Cocoa Bean Export Volumes	119.4	246.6	127.5	21.1	102.1	-4.7	27.4	
Pepper Export Volumes	31.5	14.5	25.2	10.3	-15.5	-30.4	-11.0	
Saw Log Production	-2.9	4.7						
Saw Log Export Volumes	-9.7	29.6	6.5	-23.3	-4.4	-7.2	-12.3	
Sawn Timber Export Volumes	-10.0	4.1	1.7	-9.7	11.5	14.4	4.7	
<b>MINING AND QUARRYING</b>	<b>-0.8</b>	<b>2.1</b>	<b>1.4</b>				<b>9.6</b>	
Mining IP	-1.0	3.3	0.8	11.5	7.6	6.9	8.6	
Crude Oil Production	-3.6	2.5	1.9	16.7	13.9	13.3	14.6	
Crude Petroleum Export Volumes	-11.6	29.9	12.9	16.9	35.4	-11.6	10.6	
Petroleum Product Export Volumes	-1.7	22.1	0.5	-13.6	-8.1	-32.3	-19.4	
Natural Gas Production	1.2	1.6	-1.1	6.1	0.9	1.4	2.8	
Liquefied Natural Gas Export Volumes	1.0	7.7	-5.1	6.1	-10.2	5.1	0.2	
Tin Export Volumes	45.9	-21.4	-25.0	-27.2	16.6	3.6	-1.4	
<b>MANUFACTURING</b>	<b>6.8</b>	<b>7.3</b>	<b>5.3</b>				<b>5.2</b>	
Manufacturing IP	6.9	7.4	5.1	3.2	3.9	7.9	5.0	
Manufacturing Sales	12.0	5.7	3.6	2.5	2.6	2.1	2.4	
Manufactured Good Exports	12.6	14.0	2.0	-3.8	4.6	5.5	1.9	
<b>CONSTRUCTION</b>	<b>18.9</b>	<b>9.9</b>	<b>9.7</b>				<b>8.7</b>	
Loans Approved to Construction Sector	-32.8	-16.7	25.9	42.8	10.8	24.5	24.9	49.4
Loans Outstanding to Construction Sector	12.9	11.6	11.2	13.7	14.6	16.5	14.9	12.3

Source: CEIC, Citi Research

## Appendix A-1

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