

BNM MPC Meeting

Leaves rate at 2.00%, sees economy stabilising

Wan Suhaimie
Economist
wansuhaimi@kenanga.com.my
Tel: 603-2161 9657

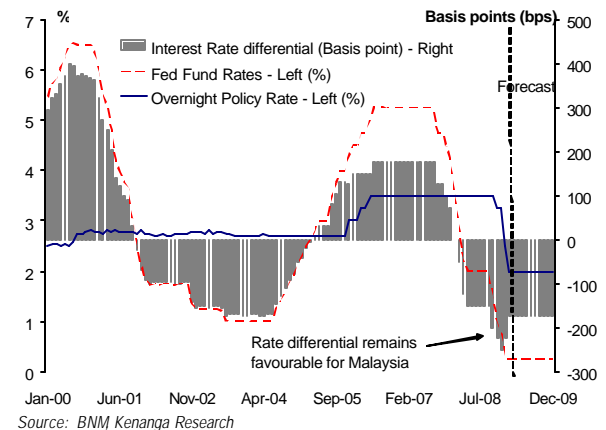
HIGHLIGHTS

- In line with market expectation **Bank Negara Malaysia's (BNM) left the Overnight Policy Rate (OPR) at 2.00%**. For the first time the Monetary Policy Committee (MPC) acknowledged that signs of stabilization of the global economy have emerged. It sees improvement in labor market condition, business and consumer confidence along with speedy implementation of fiscal stimulus to contribute to economic recovery in 2H09 and 2010.
- As the economy improves the deflationary trend is expected to be temporary. Nonetheless, we reiterate our view that **BNM may still have room to further reduce the OPR if need be**. However, we agree with BNM's assessment that the current low interest rates coupled with the impact of fiscal stimulus, the prevailing monetary policy stance is about right. **Barring unforeseen circumstance, we expect rates to remain unchanged for the next 12 months.**

Holding steady. In line with market expectation **Bank Negara Malaysia's (BNM) left the Overnight Policy Rate (OPR) at 2.00%**. This will be the third time BNM left the rates unchanged an indication that the economic conditions have stabilized and recovery is in the offing. For the first time, the Monetary Policy Committee (MPC) acknowledged that signs of stabilization of the global economy have emerged.

Economy to turnaround 2H09 onwards. BNM sees improvement in labour market condition, business and consumer confidence along with speedy implementation of fiscal stimulus to contribute to economic recovery in 2H09 and 2010. We believe the worst of the recessionary cycle is over with the economy contracting by at least 5.0% in the 1H09. On the expectation that the economy is expected to expand by an average of about 2.3% in 2H09 we maintain our forecast of -1.3% for the whole of 2009. Our main concern is whether the global economic recovery would be sustainable going forward. This

OPR, CPI and Real Interest Rate Trend



would weigh on the economy and impede growth upside for 2010. Hence, we expect the economy to grow below its potential or around 3.0% to 4.0% next year.

A temporary deflation. BNM dismiss the decline in inflation as a "statistical outcome reflecting sharp rise in inflation in June 2008, when fuel prices increased." Hence, it sees the deflationary trend to be temporary and is projected to turn positive as domestic conditions improve. Nonetheless, **the consumer price index (CPI) is expected to decline by 1.1% in 2H09 which is projected to bring down the whole year average to 0.6% this year from 5.4% in 2008.**

Policy stance to hold till next year. Nonetheless, we reiterate our view that **BNM may still have room to reduce the Overnight Policy Rate (OPR) of up to 50 basis points to 1.50% if the economic prospect worsens**. However, we agree with BNM's assessment that the current low interest rates coupled with the impact of fiscal stimulus, the prevailing monetary policy stance is about right. **Barring unforeseen circumstance, we expect rates to remain unchanged for the next 12 months.**

Table 1 : MPC Meeting Schedule for 2008

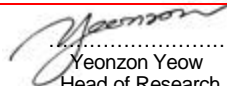
No.	Date		KIB Outlook	BNM Decision
1st	21 January 2009 (Wednesday)	<input checked="" type="checkbox"/>	Expect -50 bps	-75 bps
2nd	24 February 2009 (Tuesday)	<input checked="" type="checkbox"/>	Expect -50 bps	-50 bps
3rd	29 April 2009 (Wednesday)	<input checked="" type="checkbox"/>	Expect -25 bps	No change
4th	26 May 2009 (Tuesday)	<input checked="" type="checkbox"/>	Expect no change	No change
5th	29 July 2009 (Wednesday)	<input checked="" type="checkbox"/>	Expect no change	No change
6th	25 August 2009 (Tuesday)	<input type="checkbox"/>	Expect no change	
7th	28 October 2009 (Wednesday)	<input type="checkbox"/>	Expect no change	
8th	24 November 2009 (Tuesday)	<input type="checkbox"/>	Expect no change	

Source: Bank Negara Malaysia, Kenanga Research

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KENANGA INVESTMENT BANK BERHAD (15678-H)
 8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
 Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



 Yeonzon Yeow
 Head of Research