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BNM MPC Meeting

Deflation and improvement in economy gives BNM flexibility, OPR unchanged

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HIGHLIGHTS

- In line with market expectation **Bank Negara Malaysia's (BNM) left the Overnight Policy Rate (OPR) unchanged at 2.00%.** The committee sees stronger evidence that the economy is gaining strength and is more broad-based. It expects the trend to continue in 2010 to be supported by existing policy measures and the growing confidence in the private sector.

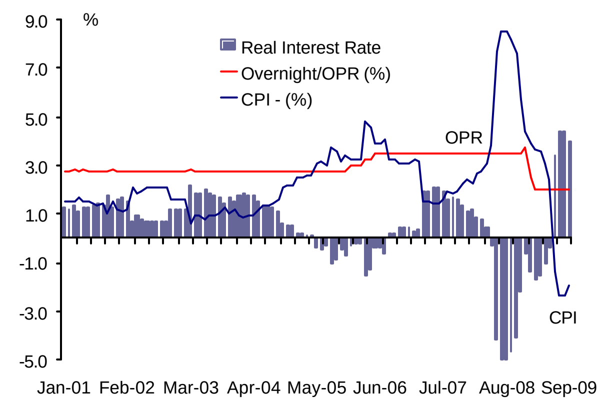
- Looking forward, the short-term deflationary period still provides BNM with policy flexibility. However, **we don't see any reason for the central bank to change its current stance for the next six months as there are still pockets of weakness in the economy. However, that might change once the US Fed starts to raise interest rates, the soonest probably in the 2Q10. Any policy changes in China would also be closely monitored.**

Staying pat. In line with market expectation **Bank Negara Malaysia's (BNM) left the Overnight Policy Rate (OPR) at 2.00%.** This will be the fifth straight time or since its February meeting that the Monetary Policy Committee (MPC) BNM left rates unchanged citing further improvement in the economy reiterating that that the current assessment of its policy stance is "appropriate and will continue to provide support to economic activity."

Economy on the mend. From the statement, BNM expressed growing confidence of the current recovery trend in both global and domestic economy. The committee sees stronger evidence that the economy is gaining strength and more broad-based. It expects the trend to continue in 2010 to be supported by existing policy measures and the growing confidence in the private sector.

At the tail-end of recessionary cycle. Overall, we believe the worst of the recessionary cycle is over with the economy contracting 5.1% in 1H09. However, following adjustment to our over estimation of exports recovery trend, we have revised our 2H09 growth to 0.9% from 2.1%. Hence, **for the whole of 2009, we have revised our forecast to -2.1% from -1.3%.** However, we maintain our 2010 growth projection of 3.0%-4.0% which would remain below its long term growth potential as we remain cautious of the sustainability of a strong global economic recovery going forward.

OPR, CPI and Real Interest Rate Trend



Source: BNM, Kenanga Research

Deflationary trend subsiding. As expected, the deflationary trend is subsiding with September data showed a smaller contraction of 2.0% compared with a decline of 2.4% in the preceding two months. Hence, BNM expects the deflationary trend to be temporary and for next year it sees that "excluding further unanticipated price adjustments and external influences," inflation is projected to be "positive but remain subdued." **For this year, we forecast inflation to decelerate sharply to 0.6% from 5.4% in 2008, and it may expand to 2.2% in 2010.**

Policy outlook – change depends on US and China. Looking forward, the short-term deflationary period still provides BNM with policy flexibility. However, **we don't see any reason for the central bank to change its current stance for the next six months as there are still pockets of weakness in the economy. However, that might change once the US Fed starts to raise interest rates, the soonest probably in the 2Q10. Any policy changes in China would also be closely monitored.**

MPC Meeting Schedule for 2008 / KIB Outlook

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

Source: Bank Negara Malaysia, Kenanga Research

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