

BNM MPC Meeting

OPR unchanged, BNM tone turns cautious

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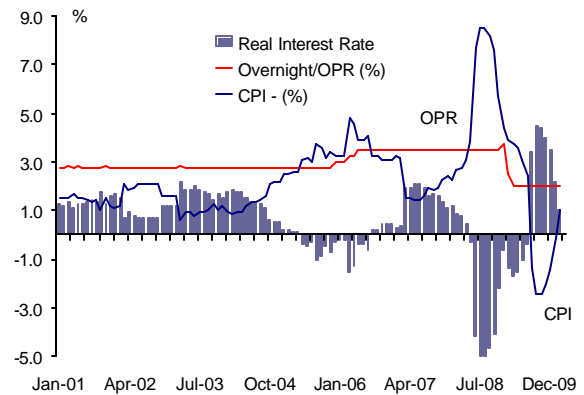
HIGHLIGHTS

- As expected, **BNM's Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 2.00%**. Its language has change somewhat to that of concern of the "financial imbalance" that could arise from a prolong low interest rate environment.
- Though the change in BNM's tone would likely be interpreted as a signal that it may act soon to raise rates, we believe that it generally reflect BNM's genuine concern and partially its way of managing market expectations. Nonetheless, the current unsettling global financial environment as well as the modest recovery trend outweighs any inflationary concern or unchecked asset bubble at the moment. Hence, **we expect that OPR would be raised incrementally from mid-2010, between 25 to 50bps to 2.5% by year-end.**

No change as expected. In line with market and our expectation **Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) left the Overnight Policy Rate (OPR) unchanged at 2.00%**. Since the last rate cut in February last year, BNM has left the OPR unchanged primarily to support the economy amidst the worst global downturn in seven decades.

Change of tone. While previous policy statements were mainly laced with hints that rates are likely to remain unchanged as the domestic economy is still vulnerable to the global economic uncertainty this time we note a sudden change in tone. Though assuring that its accommodative monetary policy would stay to ensure that the economic recovery is well entrenched, it expressed concern of the financial imbalance that could arise from a prolong low interest rate environment. As preventive measure, it said that it would hand out an appropriate monetary policy stance without elaborating further. This would inevitably leave a big room for the market to interpret.

Real interest rates narrowing



Source: BNM, Kenanga Research

Better growth and inflation outlook. BNM projects the pace of price increase for 2010 to be gradual, "reflecting the prevailing economic conditions and taking into account some adjustments in administered prices." In the absence of further price revisions and external influences, a positive but modest inflation rate is expected in 2010, it added. Our projection for the CPI this year is 2.1% from 0.6% last year. Meanwhile, BNM expect the economy to expand further in 2010, with "growth being supported by strengthening domestic demand, particularly private consumption, and further improvements in external demand." It is likely that the Government would revise its GDP growth projection to close to 5.0% this year from 2.0%-3.0%. At this juncture, we are maintaining our growth projection at 3.0%-4.0%, as external risk would continue to weigh on recovery.

Policy outlook – rate hike 2H10 onwards. Though the sudden change in BNM's tone would likely be interpreted as a signal that it may act soon to raise rates, we believe that it generally reflect BNM's genuine concern and partially its way of managing market expectations. Nonetheless, the current unsettling global financial environment as well as the modest recovery trend outweighs any inflationary concern or unchecked asset bubble at the moment. Hence, **we expect that the overnight policy rate would be raised incrementally from mid-2010, between 25 to 50bps to 2.5% by year-end.**

MPC Meeting Schedule for 2009 / KIB Outlook

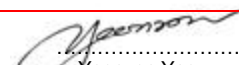
| No. | Date | | KIB Outlook | BNM Decision |
|-----|-----------------------------|-------------------------------------|------------------|--------------|
| 1st | 26 January 2010 (Tuesday) | <input checked="" type="checkbox"/> | Expect no change | No change |
| 2nd | 4 March 2010 (Thursday) | <input type="checkbox"/> | Expect no change | |
| 3rd | 13 May 2010 (Thursday) | <input type="checkbox"/> | Expect no change | |
| 4th | 8 July 2010 (Thursday) | <input type="checkbox"/> | +25 bps | |
| 5th | 2 September 2010 (Thursday) | <input type="checkbox"/> | +25 bps | |
| 6th | 12 November 2010 (Friday) | <input type="checkbox"/> | Expect no change | |

Source: Bank Negara Malaysia, Kenanga Research, bps= basis points or 0.01 percentage point

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