

Malaysia: Bank Negara On Hold

In line with market's expectation, Bank Negara kept its OPR steady at 3.00% at its last meeting for the year today, mirroring a similar move by the Bank of Korea earlier this morning. The central bank said it expects inflation to "remain stable for the rest of the year and moderate in 2012", contributed by the slowing global demand. We expect the headline inflation to stay above 3.0% y/y for the rest of the year (Sep: 3.4% y/y) before easing to an average of 2.6% in 2012. This will allow Bank Negara to begin cutting interest rates in 1H12 should the external risks intensify. On the growth prospects, it raised concerns about the global developments which could "affect the overall growth prospects of the Malaysian economy". It sees domestic demand as the key growth driver next year. Overall, we expect Malaysia to sustain a growth rate of around 4.9% in 2012, supported by the government's infrastructure projects and consumer spending.

Since the global financial crisis, Malaysia has hiked its OPR by 100 bps (but still 50 bps from pre-crisis level) and brought the Statutory Reserve Requirement (SRR) back to pre-crisis 4%. The next monetary policy meeting is scheduled on 31 Jan 2012.

FX Impact

There is unlikely to be much impact on the USD/MYR from the monetary policy decision today. Market will continue to take cues from sentiment in the broader market, particularly in relation to the European debt situation. We are maintaining our USD/MYR forecast at 3.17 end-4Q11 and 3.15 end-1Q12.