



## Media Release

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### **Investors watchful amid central banks' more hawkish stance**

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Foreign investors reduced their holdings of Malaysian bonds by 0.6% in June, following 2 consecutive months of strong net foreign fund inflows. Foreign holdings declined RM1.3 billion after the June rate hike and more concrete plans to pare down the US Federal Reserve's (Fed) balance sheet, despite inflation remaining below expectations. As a result, the ringgit weakened against the USD in the second half of June, against expectations of strengthening US Treasury yields and some risk aversion amid ongoing geopolitical tension.

The more hawkish stance of major central banks such as the Fed and the European Central Bank (ECB) will be key to investors in 2H 2017 in terms of portfolio allocations. That said, some inertia in tightening monetary policy may be apparent after years of "easy money". This uncertainty over the timing of policy changes may lead to continued market volatility. Even as economic conditions in the US appear to be staging a more steady recovery, Fed officials still have mixed opinions vis-a-vis the start of balance-sheet normalisation and the pace of rate hikes. As another round of BREXIT talks commences in mid-July, the ECB will also have to grapple with the risk of weakening investment momentum amid intentions to end quantitative easing.

On the domestic front, BNM decided to hold the OPR steady at 3.00% during its recent policy meeting on 13 July. That said, Malaysia is experiencing stronger-than-expected growth and greater inflationary pressure, thereby giving BNM more impetus to raise the OPR this year. We have revised our GDP growth projection to 5.2% for 2017, with an inflation rate of 3.8%; this incorporates a potential 25 bp OPR hike towards the end of the year.

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