2 November 2023

Global Markets Research

Malaysia - Economics

No change to BNM’s OPR and neutral policy guidance

BNM maintained the OPR at 3.00% for the 3rd straight meeting as expected

Current OPR level is consistent with current assessment of the inflation and growth prospects

Neutral statement reaffirmed our view for OPR to stay pat at 3.00% for an extended period

Summary

At its November MPC meeting today, BNM decided to leave the OPR unchanged at 3.00% as widely expected. This marked its third straight meeting of a rate pause, as BNM assessed that the growth and inflation outlook pens out largely as expected with little change in both upside and downside risks. ***The key takeaway from the statement is BNM’s comment that the persistently stronger US dollar*** arising from expectations for a higher for longer interest rate environment in the US has affected both major as well as emerging market currencies including the Ringgit, but these ***are not expected to derail Malaysia’s growth prospects. The central bank continues to assure that domestic financial conditions remain conducive to sustain credit growth.*** This should quell speculations that BNM would resort to raising interest rates to stem currency weakness. We therefore expect BNM to keep OPR unchanged at 3.00% for an extended period likely through 2024.

Signs of recovery in China and E&E sector; slowdown in several major economies

While BNM assessed that the world economy continues to expand, it no longer said this was driven by “resilient” domestic demand and it noted slowing growth momentum in several major economies. While there are some signs of recovery in the E&E sector, global trade remains soft due partly to shift in spending from goods to services, and ongoing trade restrictions. Assessment on the China economy is a tad more positive despite weakness in its real estate sector. Global headline inflation notched higher on higher commodity prices but core inflation continued to moderate.

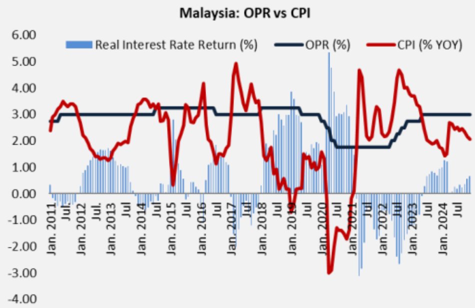
Advance GDP estimate points to a better 3Q for the Malaysian economy

Preliminary data suggests the Malaysian economy has seen its trough in 2Q, and is estimated to have grown 3.3% y/y in 3Q. Continued employment and wage growth, further improvement in tourism activities, anticipated recovery in E&E exports, in addition to implementation of infrastructure projects and initiatives under the master plans and national budget, will be the growth catalysts for 2024. Easing cost pressures have contributed to softer headline and core inflation, and the price outlook going forward will hinge on the government’s subsidy rationalization plan.

Outlook

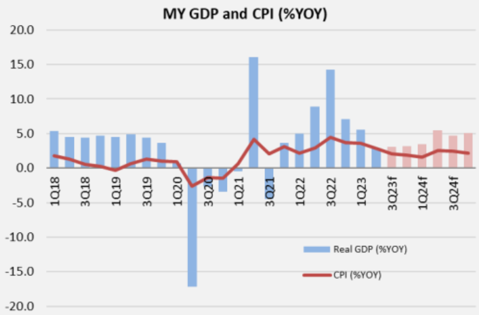
While there are increasing evidence of a soft landing in the US and global economy, the macro landscape remains uncertain and uneven. We noticed growth divergence not only among the major economies, specifically a stronger US economy vis-à-vis its peers in Europe, but also between the major and developing economies. This could lead to some timing differences in the policy path but none is expected to change the broad view that the global policy tightening is near its end. This is despite the fact that many central bankers including the Fed, reiterated that the battle to bring inflation back to target levels is far from over. Given such a backdrop, we expect BNM to keep OPR unchanged at current level through 2024, to help sustain economic growth and ensure price stability, keeping a close monitor on potential upside risks to inflation arising from upcoming subsidy rationalisation plans and prospects of imported inflation should the MYR continue to underperform in a strong USD environment.

Figure 1: Expectation for continuous positive real interest rate return shall support the case for extended OPR pause



Source: BNM, Bloomberg

Figure 2: Modest growth and inflation outlook barring massive external shocks and abrupt subsidy reform plans



Source: BNM, HLBB Global Market Research

Figure 3: BNM MPC meeting schedule 2024

No	MPC meeting dates
1	23 & 24 January 2024 (Tues & Wed)
2	6 & 7 March 2024 (Wed & Thurs)
3	8 & 9 May 2024 (Wed & Thurs)
4	10 & 11 July 2024 (Wed & Thurs)
5	4 & 5 September 2024 (Wed & Thurs)
6	5 & 6 November 2024 (Tues & Wed)

Source: BNM

Side by Side Comparison of BNM Monetary Policy Statement

7-September-2023	2-November-2023
At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent. The global economy continues to expand, driven by resilient domestic demand supported by strong labour market conditions. Global growth, however, remains weighed down by persistently elevated core inflation and higher interest rates. Global trade is also affected by rotation of spending from goods to services, and the ongoing electrical and electronics (E&E) downcycle. The slower-than-expected growth in China also weighed on the global economy. Globally, headline inflation continued to moderate. While core inflation in advanced economies is slowing down, it remains above historical averages. For most central banks, the monetary policy stance is likely to remain tight. The growth outlook remains subject to downside risks, mainly from a slower momentum in major economies, higher-than-anticipated inflation outturns, an escalation of geopolitical tensions, and a sharp tightening in financial market conditions. In the second quarter of the year, growth of the Malaysian economy was affected by slower external demand and a decline in commodity production. Moving forward, growth will continue to be driven by resilient domestic expenditure amid the challenging external environment. Continued employment and wage growth, particularly in the domestic-oriented sectors, remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be supported by continued progress of multi-year infrastructure projects, and implementation of catalytic initiatives under the recently announced national master plans. Domestic financial conditions also remain conducive to financial intermediation amid sustained credit growth. These factors will continue to underpin the growth momentum going into 2024. While the growth outlook is subject to downside risks stemming from weaker-than-expected external demand and larger and protracted declines in commodity production, upside risks mainly emanate from stronger-than-expected tourism activity, a stronger recovery from the E&E downcycle, and faster implementation of existing and new projects. In line with expectations, headline and core inflation have continued to ease amid the more moderate cost conditions. This moderating trend would likely continue in the second half of 2023, partly reflecting the higher base from the second half of 2022 and continued easing momentum of price increases. Risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, global commodity prices and financial market developments, as well as the degree of persistence in core inflation. At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.	At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent. The global economy continues to expand, driven by domestic demand amid strong labour market conditions. Some signs of recovery are emerging in the electrical and electronics (E&E) sector, but global trade remains soft partly due to the shift in spending from goods to services, and ongoing trade restrictions. Global growth remains weighed down by persistently elevated inflation and higher interest rates, with several major economies experiencing slowing growth momentum. There are early signs of improvement in China's growth, though its property market remained weak. Global headline inflation edged up partly due to higher commodity prices, while core inflation continued to moderate. For most central banks, the monetary policy stance is likely to remain tight. The growth outlook remains subject to downside risks, mainly from higher-than-anticipated inflation outturns, an escalation of geopolitical tensions, and a sharp tightening in financial market conditions. For the Malaysian economy, the advance GDP estimate points to an improvement in economic activity in the third quarter. Growth in 2024 will be driven mainly by resilient domestic expenditure, with some support emanating from the expected recovery in E&E exports. Continued employment and wage growth remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be supported by continued progress of multi-year infrastructure projects, and implementation of catalytic initiatives under the national master plans. Measures under Budget 2024 will also provide additional impetus to economic activity. The growth outlook remains subject to downside risks stemming from weaker-than-expected external demand and larger and protracted declines in commodity production. Meanwhile, upside risks to growth mainly emanate from stronger-than-expected tourism activity, a stronger recovery from the E&E downcycle, and faster implementation of existing and new projects. As expected, both headline and core inflation have moderated, mainly due to easing cost pressures. In the third quarter, headline and core inflation averaged at 2.0% and 2.5%, respectively. Going into 2024, inflation is expected to remain modest. Risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. Of note, the Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions. The expectations of a higher-for-longer interest rate environment in the US, and increased concerns over the escalation of geopolitical tensions have contributed to a persistently strong US dollar. This has affected other major and emerging market currencies, including the ringgit. Nevertheless, these developments are not expected to derail Malaysia's growth prospects. Bank Negara Malaysia will continue to manage risks of heightened volatility, including to provide liquidity, to ensure the orderly functioning of the domestic foreign exchange market. Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth. At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

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