

**ECONOMIC REVIEW | JULY 2023 BNM MPC****BNM Kept OPR Status Quo at 3.00% Amid Concerning External Front**


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- *Resilient domestic demand. BNM foresee domestic growth speed to moderate mainly due to slowdown in external trade activities. Annual average growth rate for goods exports for 5MCY23 is -1.7%yoy against +23.3%yoy in 5MCY22. Household spending continue to be supported by improving labour market conditions and steady income growth. BNM also highlighted investment prospects to be supported by the realisation of multi-year and infra projects and further pick-up in tourism-related activities.*
- *OPR to reach 3.25% by year-end following strong domestic demand. The current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. Malaysia's domestic economy continues to surprise market expectations especially the distributive trade sales performances, tight job market and sticky core inflation (5MCY23: +3.8% vs. 2022: +3%). We believe BNM will consider another 25bps rate hike in 2HCY23 following the stronger-than-expected domestic economy.*

**OPR remained status quo.** BNM kept the Overnight Policy Rate (OPR) at 3.00%, in its fourth Monetary Policy Meeting of 2023. The OPR hike is in line with market expectations of zero change. In the Monetary Policy Statement, BNM highlighted that the global economy remains firm underpin by resilient domestic demand amid strong labour market conditions. Even though China's reopening seen supportive for global growth, yet the macro momentum in the second largest economy still below expectations. The global economy is still surrounded with downside risks, among others elevated cost pressures and higher interest rates. Central banks across the globe still embarking contractionary monetary policy as core inflation rate remains at elevated levels. We do not discount the possibility of another 25bps rate hike by BNM in 2HCY23 given that domestic economic figures still pointing upbeat momentum.

**Resilient domestic demand.** BNM foresee domestic growth speed to moderate mainly due to slowdown in external trade activities. Annual average growth rate for goods exports for 5MCY23 is -1.7%yoy against +23.3%yoy in 5MCY22. Household spending continue to be supported by improving labour market conditions and steady income growth. BNM also highlighted investment prospects to be supported by the realisation of multi-year and infra projects and further pick-up in tourism-related activities. Average jobless rate for 4MCY23 is 3.5%, much lower than 4.1% recorded in 4MCY22. Approved loan growth remains expanding at double-digit pace of +16.6%yoy in 5MCY23 (5MCY22: +14.8%yoy). Similarly distributive trade sales expanded by +11.2%yoy in 4MCY23 (4MCY22: +10.2%yoy), which mainly supported by the sales of motor vehicles and retail trade. On downside risks, BNM highlighted on weaker-than-expected global growth.

**BNM expect further moderation in inflation pressure.** On the price developments, BNM foresee headline and core inflation to moderate in 2HCY23. However, solid domestic demand conditions will keep core inflation at elevated levels. For instance, core inflation rate averaged at +3.8% in 5MCY23, much higher 2022 average of +3%. Services inflation rate of +3.5%yoy remained above pre-pandemic average of +2.6%yoy. The current inflation pressure is partly absorbed by existing price controls and fuel subsidies. The risks to inflation are much dependent on domestic policy on subsidies and global commodity price developments.

**OPR-FFR differential at the lowest ever recorded.** The last time OPR<FFR was between Mar-05 until Nov-07. The interest rate differential was less than -2.00%. As the Fed actively raised its FFR since middle of last year, OPR-FFR returned to negative differential rate territory at -0.25% in Jul-22. At this current juncture, OPR-FFR at -2.25%. We opine the widening OPR-FFR differential is one of the major factors contributing to the strong USD. As of 1HCY23, MYR performed better than JPY by +5.3%yoy, IDN by +3.4yoy, TWD by +2%yoy, AUD by +1.9%yoy and CAD by +1.5%yoy. Fundamentally, MYR is in good position as domestic economy stays on upbeat momentum and as net exporter of crude petroleum, LNG and palm oil, Malaysia stands to benefit from the elevated global commodity prices. MYR to stay on depreciation path as the Fed keep on delaying its interest rate pause. Also, weaker-than-expected China's performances indirectly disappoint MYR given that exports to China (13.2% of total exports) fell by -8.8%yoy in 5MCY23 (2022: +9.4%). For 2023, we revise lower MYR average to RM4.43 per USD1 and year-end at RM4.20.

**OPR to reach 3.25% by year-end following strong domestic demand.** The current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. Malaysia's domestic economy continues to surprise market expectations especially the distributive trade sales performances, tight job market and sticky core inflation (5MCY23: +3.8% vs. 2022: +3%). We believe BNM will consider another 25bps rate hike in 2HCY23 following the stronger-than-expected domestic economy. In addition, BNM may optimise its monetary arms through normalizing its Statutory Reserve Requirement (SRR) from 2.00% to 3.00% this year. The SRR rate was reduced to 2.00% since Mar-20. However, the decision will be subjected to the stability of economic growth, the pace of price increases and further improvement in macroeconomic conditions, particularly a continued recovery in the labour market and growing domestic demand. From a medium-term perspective, the policy rate normalization is needed to avert risks that could destabilize the future economic outlook such as persistently high inflation and a further rise in household indebtedness. 

**Table 1: Central Bank Policy Rate (%) for Selected Countries**

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	3.00	3.00	3.00
Indonesia	5.25	5.50	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Philippines	5.00	5.50	5.50	6.00	6.25	6.25	6.25	6.25	6.25
Thailand	1.00	1.25	1.50	1.50	1.75	1.75	2.00	2.00	2.00
India	5.90	6.25	6.25	6.50	6.50	6.50	6.50	6.50	6.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	2.00	2.50	2.50	3.00	3.50	3.50	3.75	4.00	4.00

UK	3.00	3.50	3.50	4.00	4.25	4.25	4.50	5.00	5.00
US	3.75-4.00	4.25-4.50	4.25-4.50	4.50-4.75	4.75-5.00	4.75-5.00	5.00-5.25	5.00-5.25	5.00-5.25

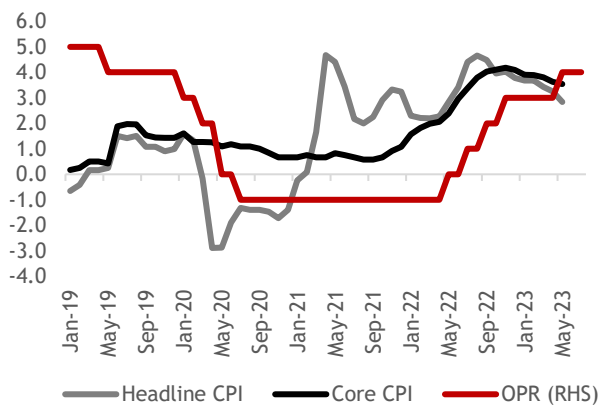
Source: MACROBOND, MIDFR

**Table 2: Monetary Policy Meeting Schedule for 2023**

	Date
1st Meeting	18 – 19 January
2nd Meeting	8 – 9 March
3rd Meeting	2 – 3 May
4th Meeting	5 – 6 July
5th Meeting	6 – 7 September
6th Meeting	1 – 2 November

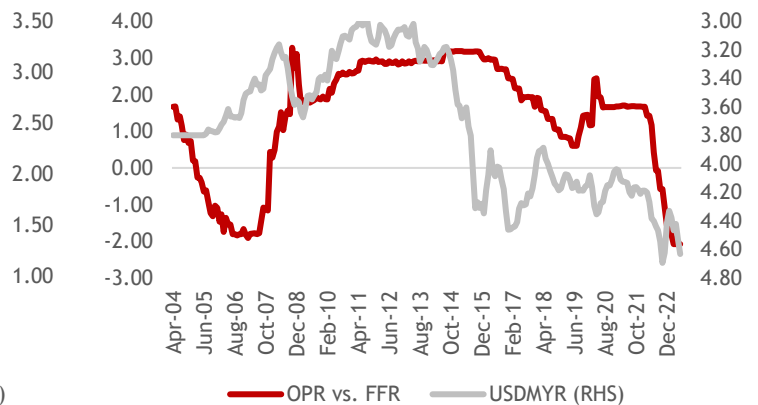
Source: BNM, MIDFR

**Chart 1: Monetary Policy (%) vs Inflation (YoY%)**



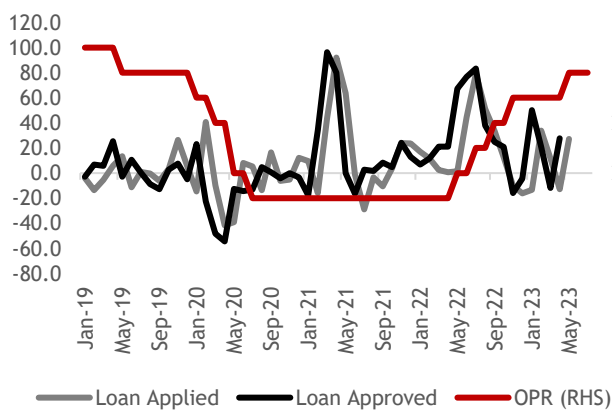
Source: MACROBOND, MIDFR

**Chart 4: OPR-FFR Differentials & USDMYR**



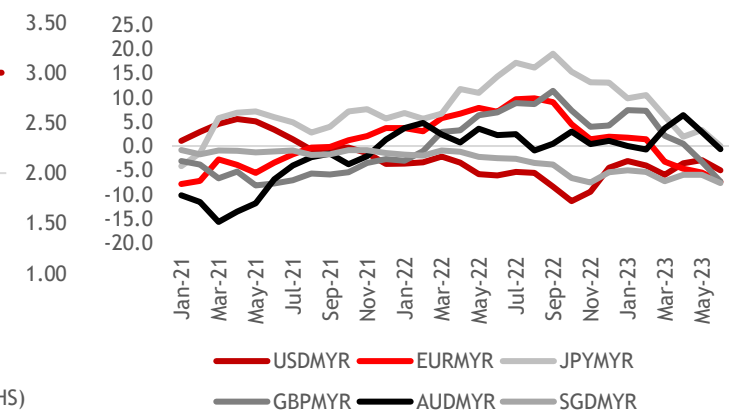
Source: MACROBOND, MIDFR

**Chart 2: OPR (%) vs Loan Growth (YoY%)**



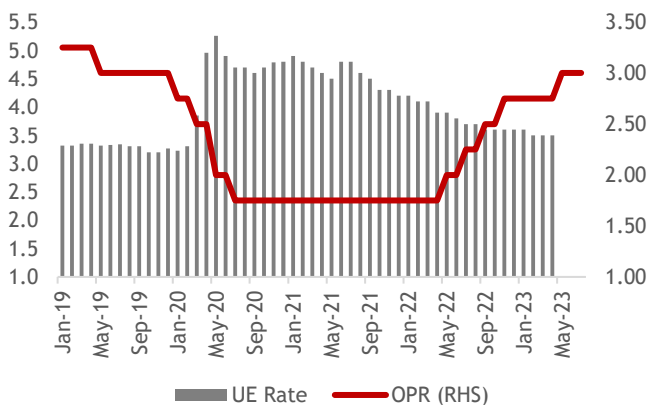
Source: MACROBOND, MIDFR

**Chart 5: MYR against selected currencies (YoY%)**



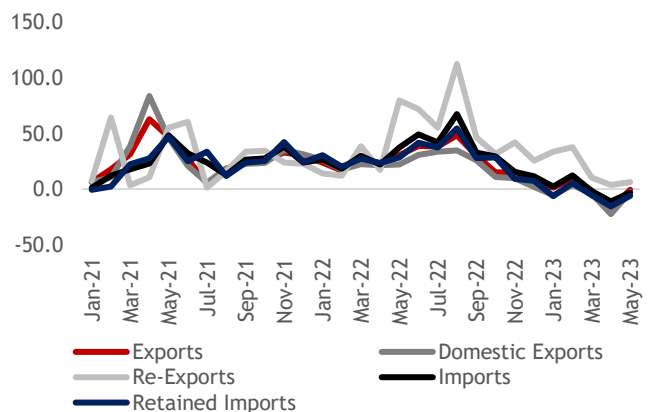
Source: MACROBOND, MIDFR

**Chart 3: OPR vs Unemployment Rate (%)**



Source: MACROBOND, MIDFR

**Chart 6: External Trade Performances (YoY%)**



Source: MACROBOND, MIDFR

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