

ECONOMIC REVIEW | SEPTEMBER 2023 BNM MPC**OPR Left Unchanged at 3.00% as Inflation Moderated while Challenging External Environment Remains**

- *OPR kept at 3.00%. BNM maintained the Overnight Policy Rate (OPR) at 3.00%, in its fifth Monetary Policy Meeting of 2023, which is in line with market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remains expanding underpin by resilient domestic demand amid strong labour market conditions. China's recovery still weaker than expected.*
- *BNM foresee domestic demand to remain on expansionary while external front continues to be in challenging environment. Household spending to stay on expansionary momentum, 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, further pick-up in tourism-related activities and implementation of catalytic initiatives as announced in master plans such as Madani Economic Framework, New Energy Transition Roadmap (NETR) and New Industrial Master Plan 2030 (NIMP 2030).*
- *OPR to remain status quo until year-end following external demand weakness. The current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. Even though core inflation still sticky, weakening external trade performances is seen as dragging factor on overall GDP growth. For the last MPC meeting in Nov-23, we foresee BNM to keep OPR status quo at least until the end of this year.*

OPR kept at 3.00%. BNM maintained the Overnight Policy Rate (OPR) at 3.00%, in its fifth Monetary Policy Meeting of 2023, which is in line with market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remains expanding underpin by resilient domestic demand amid strong labour market conditions. China's recovery still weaker than expected. Plus, global trade is affected from the rotation shift from goods to services and downcycle of E&E sector. The global economy is still surrounded with downside risks, slower growth in major economies, higher-than-expected inflation pressure, tightening of financial market conditions and escalation of geopolitical tensions.

Steady domestic demand. BNM foresee domestic demand to remain on expansionary while external front continues to be in challenging environment. Gross exports continued on contractionary, -5.9%yoy in 7MCY23 (2022: +24.9%). Household spending to stay on expansionary momentum, 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, further pick-up in tourism-related activities and implementation of catalytic initiatives as announced in master plans such as Madani Economic Framework, New Energy Transition Roadmap (NETR) and New Industrial Master Plan 2030 (NIMP 2030).

BNM foresee further moderation in inflation pressure in 2HCY23. On the price developments, BNM foresee headline and core inflation to moderate in 2HCY23, due to high base effects. 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. Nonetheless, food inflation remains at

elevated levels, averaging +6%yoy in 7MCY23 (2022: +5.7%). Pre-pandemic average for food inflation was +3.3%. Sudden spike of global commodity prices and shortage of food supplies will translate into persistence high food inflation and overall price growth in Malaysia.

OPR-FFR differential at the lowest ever recorded. The last time OPR was lower than 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 8MCY23, MYR performed better than JPY by +4.3%yoy, , IDN by +2.6yoy, TWD by +1.9%yoy, AUD by +1.7%yoy and CAD by +1.1%yoy. Fundamentally, MYR is in good position as domestic economy stays on upbeat momentum and as net exporter of 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.


OPR to remain status quo until year-end following external demand weakness. The current focus of BNM’s monetary policy setting is to ensure a sustainable growth momentum of Malaysia’s economy. Even though core inflation still sticky, weakening external trade performances is seen as dragging factor on overall GDP growth. For the last MPC meeting in Nov-23, we foresee BNM to keep OPR status quo at least until the end of this year. 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

	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Malaysia	2.75	2.75	2.75	2.75	3.00	3.00	3.00	3.00
Indonesia	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.75
Philippines	5.50	6.00	6.25	6.25	6.25	6.25	6.25	6.25
Thailand	1.50	1.50	1.75	1.75	2.00	2.00	2.00	2.00
India	6.25	6.50	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
Euro area	2.50	3.00	3.50	3.50	3.75	4.00	4.00	4.25
UK	3.50	4.00	4.25	4.25	4.50	5.00	5.00	5.25
US	4.25-4.50	4.50-4.75	4.75-5.00	4.75-5.00	5.00-5.25	5.00-5.25	5.25-5.50	5.25-5.50

Source: MACROBOND, MIDFR

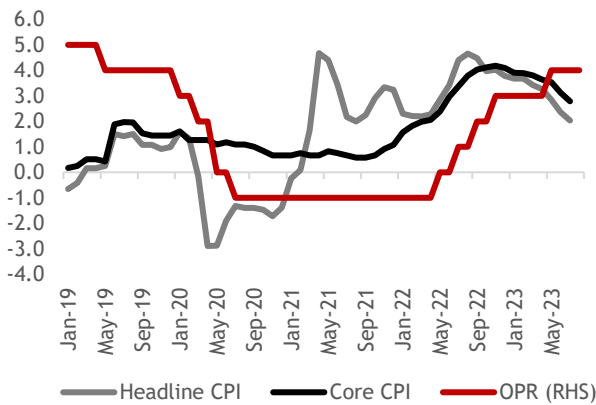
Table 2: Monetary Policy Meeting Schedule for 2023

	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

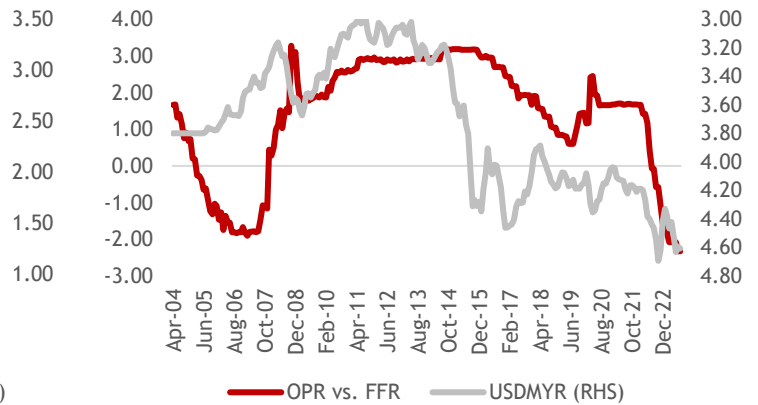
Source: BNM, MIDFR

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



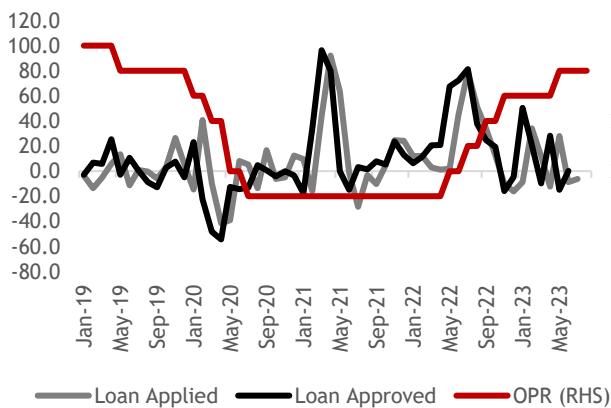
Source: MACROBOND, MIDFR

Chart 4: OPR-FFR Differentials & USDMYR



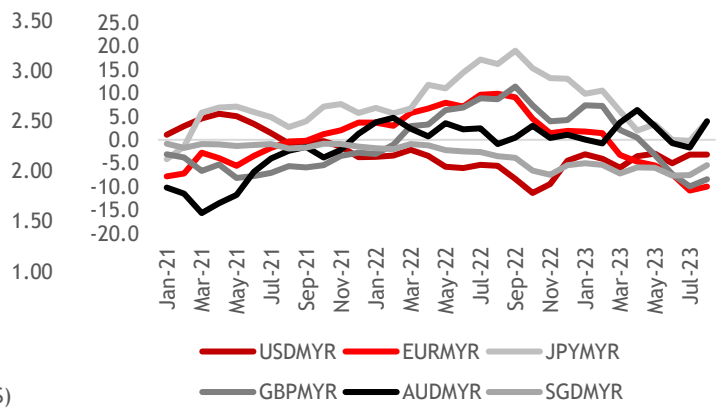
Source: MACROBOND, MIDFR

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



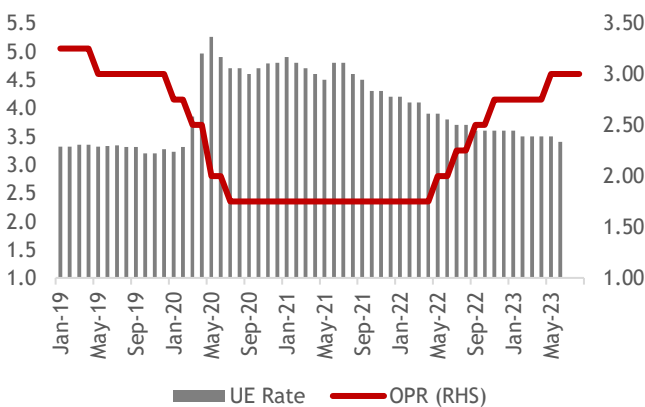
Source: MACROBOND, MIDFR

Chart 5: MYR against selected currencies (YoY%)



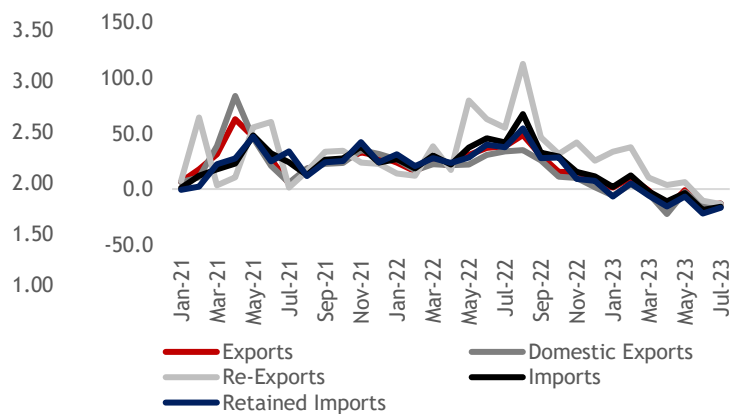
Source: MACROBOND, MIDFR

Chart 3: OPR vs Unemployment Rate (%)



Source: MACROBOND, MIDFR

Chart 6: External Trade Performances (YoY%)



Source: MACROBOND, MIDFR

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