

ECONOMIC REVIEW | November 2023 BNM MPC**BNM Kept OPR at 3.00%, Still Supportive of Growth**

- *OPR maintained at 3.00% for the rest of 2023. BNM kept the Overnight Policy Rate (OPR) at 3.00%, in its final Monetary Policy Meeting of 2023, which is in line with ours and market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remains expanding as countries reported increased domestic demand on the back of strong labour market.*
- *BNM foresees inflation to be "modest" in 2024. On the price developments, BNM indicated easing cost pressures contributed to the moderation in both the headline and core inflation. BNM anticipates inflation will be modest next year, although the price outlook will be influenced by the government's policy changes with regards to subsidies and price controls.*
- *OPR to remain status quo going into 2024. The focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. Given OPR already at the normal rate supportive of sustained growth in Malaysia's economy, we expect BNM will continue to maintain OPR at 3.00% next year.*

OPR maintained at 3.00% for the rest of 2023. BNM kept the Overnight Policy Rate (OPR) at 3.00%, in its final Monetary Policy Meeting of 2023, which is in line with ours and market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remains expanding as countries reported increased domestic demand on the back of strong labour market. While there is improvement in China's economic recovery and the global E&E sector, international trade has been influenced by the shift in consumption patterns from goods to services. While growth prospects may be constrained by tight monetary policy stance, BNM reiterated that the global economic outlook is still surrounded with downside risks such as higher-than-expected inflation pressure, tightening of financial market conditions and escalation of geopolitical tensions.

Steady domestic demand. BNM foresees domestic demand to remain on expansionary and while improvement in the external trade, particularly E&E exports, will contribute to growth next year. Thus far, gross exports continued on contractionary, falling by -8.4%yoy in 9M CY23 (2022: +24.9%) on the back of weak global demand. 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 various master plans such as Madani Economic Framework, New Energy Transition Roadmap (NETR) and New Industrial Master Plan 2030 (NIMP 2030).

BNM foresees inflation to be "modest" in 2024. On the price developments, BNM indicated easing cost pressures contributed to the moderation in both the headline and core inflation. Moreover, the current inflation pressure is also absorbed by government measures such as 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 +5.5%yoy in 9M CY23 (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. BNM anticipates inflation will be modest next year, although the price outlook will be influenced by the government's policy changes with regards to subsidies and price controls.

MYR to regain in 4QCY23. Strong US dollar has been the main factor for the depreciation of most currencies since early 2022 due to the aggressive interest rate hikes by the Fed. MYR stays 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 (12.8% of total exports) fell by -9.8%yoy in 9MCY23 (2022: +9.4%). Although we have revised our forecast and expect MYR to average at RM4.48 per USD and end the year at RM4.30, there is a downside risk to our prediction given the recent strength in the US dollars because of the escalation of geopolitical conflict in the Middle East, in addition to the Fed delaying the ultimate pause from more rate hike. Fundamentally, ringgit is in a good position to strengthen as the domestic economy stays on upbeat momentum and as a net commodity exporter (of petroleum, LNG and palm oil), Ringgit stands to gain from the elevated global commodity prices and sustained trade surplus. We foresee ringgit to appreciate in the latter part of the quarter when the recent safe-haven demand for dollar subsides and the risk appetite improves, which will lead to more funds flowing back to EM economies.


OPR to remain status quo going into 2024. The focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. External environment to stay challenging in 2024 amid geopolitical tensions, elevated price levels and risk of global economic slowdown. Domestic economic outlook is predicted to stay vigilant and resilient underpinned by steady domestic demand. However, stabilisation of core inflation rate and challenging external environment may influence BNM to keep OPR at current levels throughout 2024. The decision will be subjected to the stability of economic growth, the pace of price increases and further improvement in macroeconomic conditions, particularly encouraging labour market and growing domestic demand. From a medium-term perspective, the setting of monetary policy will be able to avert risks that could destabilize the future economic outlook such as persistently high inflation and a further rise in household indebtedness. Given OPR already at the normal rate supportive of sustained growth in Malaysia's economy, we expect BNM will continue to maintain OPR at 3.00% next year. 

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

	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Malaysia	2.75	2.75	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	5.75	5.75	5.75	5.75	5.75	5.75	5.75	6.00
Philippines	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.50
Thailand	1.75	1.75	2.00	2.00	2.00	2.25	2.50	2.50
India	6.50	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	3.50	3.50	3.75	4.00	4.00	4.25	4.50	4.50
UK	4.25	4.25	4.50	5.00	5.00	5.25	5.25	5.25
US	4.75-5.00	4.75-5.00	5.00-5.25	5.00-5.25	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50

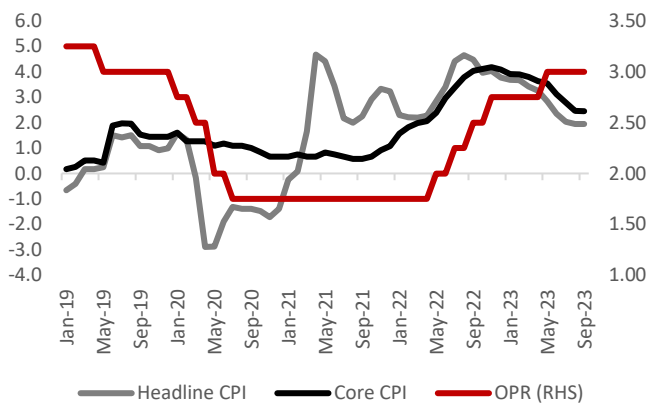
Source: MACROBOND, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2024

	Date
1st Meeting	23 – 24 January 2024
2nd Meeting	6 – 7 March 2024
3rd Meeting	8 – 9 May 2024
4th Meeting	10 – 11 July 2024
5th Meeting	4 – 5 September 2024
6th Meeting	5 – 6 November 2024

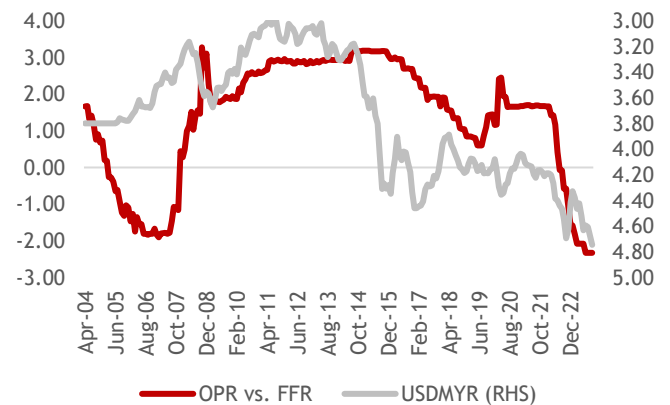
Source: BNM, MIDFR

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



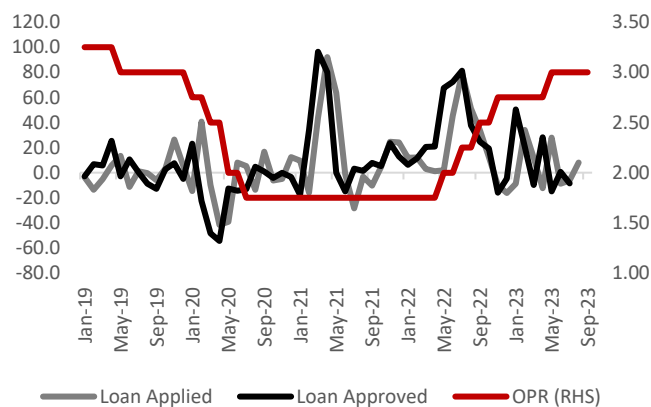
Source: MACROBOND, MIDFR

Chart 2: OPR-FFR Differentials & USDMYR



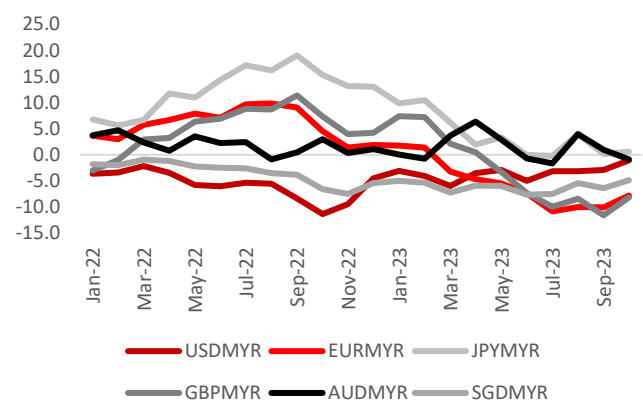
Source: MACROBOND, MIDFR

Chart 3: OPR (%) vs Loan Growth (YoY%)



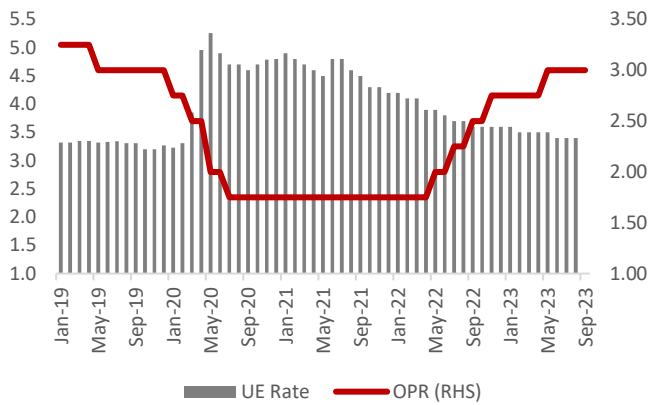
Source: MACROBOND, MIDFR

Chart 4: MYR against selected currencies (YoY%)



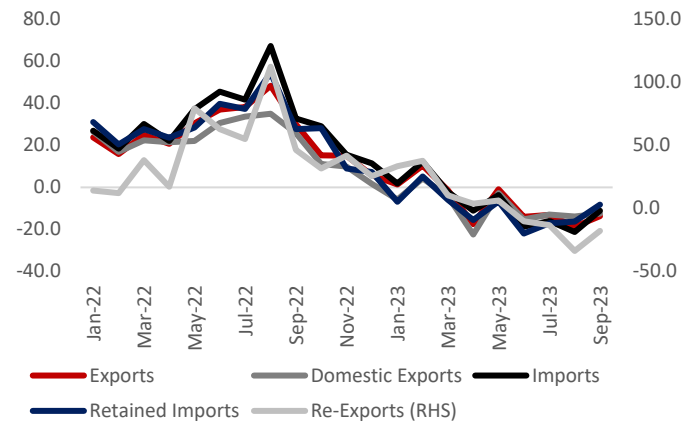
Source: MACROBOND, MIDFR

Chart 5: OPR vs Unemployment Rate (%)



Source: MACROBOND, MIDFR

Chart 2: External Trade Performances (YoY%)



Source: MACROBOND, MIDFR

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