

ECONOMIC REVIEW | May 2024 BNM MPC

OPR Left Status Quo, Supportive & Accommodative for Malaysia's Economy

- OPR remains unchanged as expected. BNM has maintained the Overnight Policy Rate (OPR) at 3.00% following its third Monetary Policy Committee meeting in 2024, aligning with our predictions and market consensus. According to the recent Monetary Policy Statement (MPS), the global economic expansion is expected to continue, driven by resilient labour markets, moderating inflation, and recovery in global trade. The MPS foresees sustained global growth, albeit facing headwinds from tight monetary policies and reduced fiscal support, offset by moderating inflation and robust labour market conditions.*
- A more upbeat Malaysian economy in 1QCY24. BNM notes an uptick in Malaysia's economic activity in the first quarter of 2024, underpinned by resilient domestic expenditure and a rebound in exports. The ongoing long-term projects and national strategic initiatives are bolstering investment activity, while continued employment and wage growth support robust household spending.*
- OPR is forecasted to stay status quo throughout 2024. The focus of BNM's monetary policy setting is to ensure a sustainable growth momentum in Malaysia's economy. Even though we expect external trade to recover, external environment stays challenging in 2024 amid ongoing geopolitical tensions and potential slower global growth. Domestic economic outlook is predicted to remain vigilant and resilient underpinned by steady domestic demand. However, we believe the stabilisation of core inflation and challenging external environment may influence BNM to keep OPR at current levels throughout 2024.*

OPR remains unchanged as expected. BNM has maintained the Overnight Policy Rate (OPR) at 3.00% following its third Monetary Policy Committee meeting in 2024, aligning with our predictions and market consensus. According to the recent Monetary Policy Statement (MPS), the global economic expansion is expected to continue, driven by resilient labour markets, moderating inflation, and recovery in global trade. The MPS foresees sustained global growth, albeit facing headwinds from tight monetary policies and reduced fiscal support, offset by moderating inflation and robust labour market conditions. It anticipates a stronger global trade due to the ongoing tech upcycle. Nevertheless, due to a slowdown in disinflation in certain advanced economies, high interest rates might persist, particularly in the US. BNM has also acknowledged ongoing risks including heightened geopolitical tensions, potential unexpected spikes in inflation, and increased volatility in the global financial markets.

A more upbeat Malaysian economy in 1QCY24. BNM notes an uptick in Malaysia's economic activity in the first quarter of 2024, underpinned by resilient domestic expenditure and a rebound in exports. The ongoing long-term projects and national strategic initiatives are bolstering investment activity, while continued employment and wage growth support robust household spending. Export growth is expected to quicken, fuelled by the global tech upcycle and continuous demand for non-electrical goods. Additionally, tourism is poised for growth. However, downside risks remain from weaker-than-expected external demand and larger declines in commodity production.

BNM projects moderate inflation throughout 2024. BNM expects inflation to remain moderate throughout 2024, reflecting stable demand conditions and contained cost pressures. The inflation outlook hinges on domestic policy adjustments, notably subsidies and price controls. BNM anticipates impact of subsidy rationalisation could affect the trajectory of inflation, projecting headline and core inflation to average between 2.0% - 3.5% and 2.0% - 3.0% respectively for the year. On the same note, changes to utility tariffs and targeted subsidies will impact

inflation trajectories, particularly after 2QCY24. Additionally, global commodity prices and financial market trends will influence this year's inflation outlook.

Expecting appreciation of MYR in 2HCY24. Strong US dollar has been the main factor for the depreciation of most currencies since early 2022 due to the aggressive hikes and prolonged elevated interest rate by the Fed. Moreover, contractionary external trade performance dragged the recovery for Ringgit in 2023. BNM stated in the MPS that Ringgit is undervalued, and the recent strengthening of Ringgit was supported by measures to encourage public companies (i.e. GLCs and GLICs) to bring back investment income from abroad. In 2024, we believe Ringgit is in a good position to strengthen, supported by upbeat domestic economy and the country being a net commodity exporter (of oil & gas and palm oil); Ringgit stands to gain from the supportive global commodity prices and sustained trade surplus. Most importantly, the Fed and other major central banks have shifted its monetary stance from hawkish towards dovish, and thus interest differentials would narrow in 2024. We expect USDMYR to average at RM4.53 and reach RM4.43 by year-end 2024.


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

| | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 |
|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Malaysia | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Indonesia | 5.75 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.25 |
| Philippines | 6.25 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 | 6.50 |
| Thailand | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 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 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| UK | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 | 5.25 |
| US | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 | 5.25-5.50 |

Source: Macrobond, MIDFR

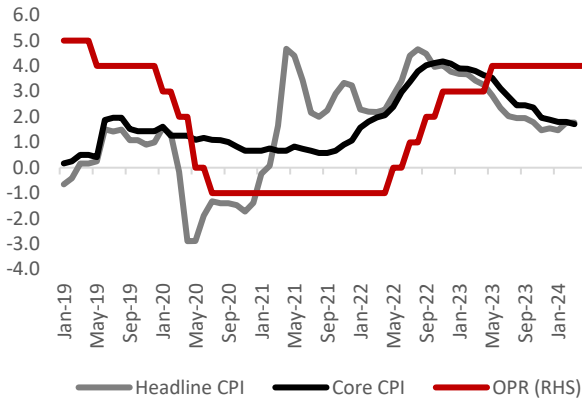
Table 2: Monetary Policy Meeting Schedule for 2024

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

6th Meeting 5 – 6 November

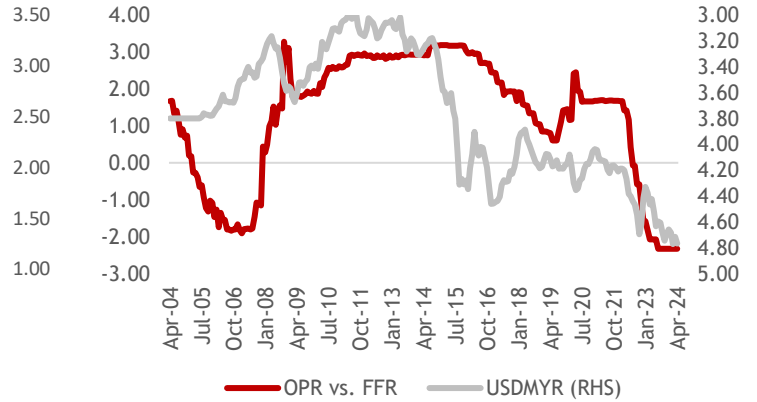
Source: BNM, MIDFR

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



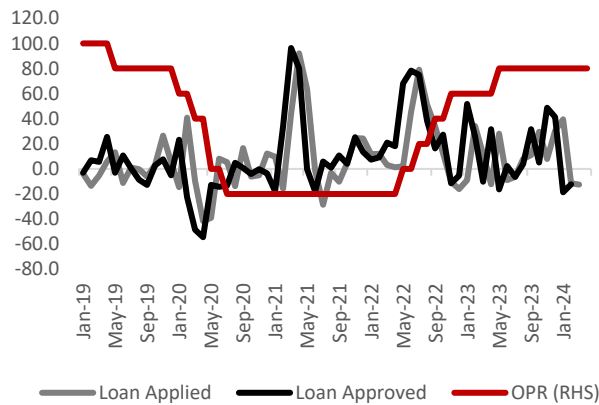
Source: Macrobond, MIDFR

Chart 4: OPR-FFR Differentials & USDMYR



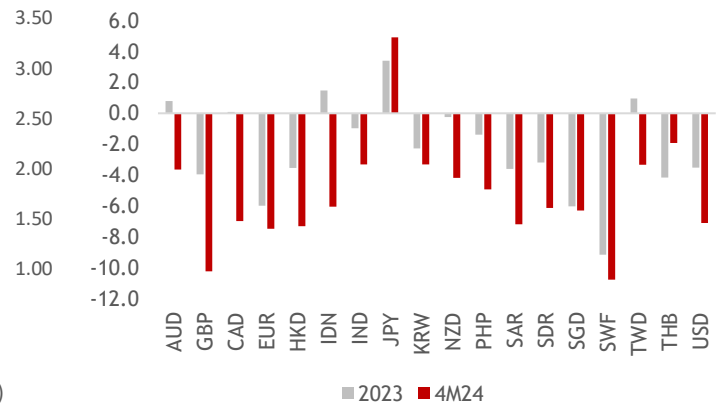
Source: Macrobond, MIDFR

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



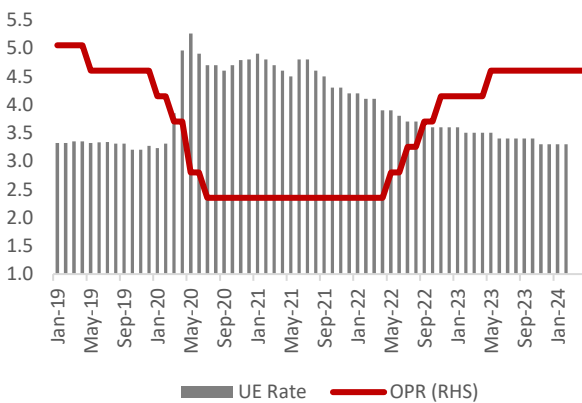
Source: Macrobond, MIDFR

Chart 5: MYR against selected currencies (YoY%)



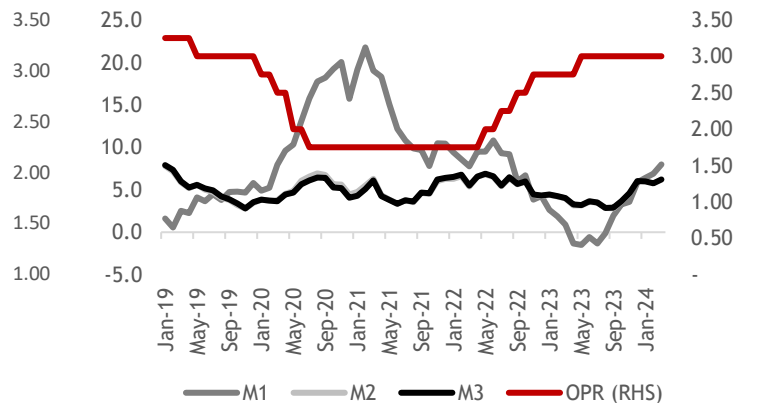
Source: Macrobond, MIDFR

Chart 3: OPR vs Unemployment Rate (%)



Source: Macrobond, MIDFR

Chart 6: Money Supply (YoY%) vs OPR (%)



Source: Macrobond, MIDFR

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