

ECONOMIC REVIEW | July 2024 BNM MPC

OPR Kept at 3.00% While BNM Expects Higher Inflation Trend in 2HCY24

- *OPR remains status quo as predicted. BNM kept the Overnight Policy Rate (OPR) at 3.00% following its fourth 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 and recovery in global trade.*
- *Sustained strength of Malaysia's GDP in 2QCY24. BNM notes an uptick in Malaysia's economic activity in 2QCY24, underpinned by resilient domestic expenditure and improving export performance. The ongoing long-term projects and implementation of catalytic initiatives under the national master plans are bolstering investment activity, while continued employment and wage growth support robust household spending.*
- *BNM projects higher inflation trend in 2HCY24. BNM expects inflation to trend higher in 2HCY24 following the recent rationalisation of diesel subsidies. However, the increase in price pressure remain manageable thanks to mitigation measures to minimise cost impact on businesses. The inflation outlook hinges on domestic policy adjustments, notably subsidies and price controls. BNM maintains its inflation forecast, projecting headline and core inflation to average in the range of 2.0% - 3.5% and 2.0% - 3.0% respectively for 2024.*

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Sustained strength of Malaysia's GDP in 2QCY24. BNM notes an uptick in Malaysia's economic activity in 2QCY24, underpinned by resilient domestic expenditure and improving export performance. The ongoing long-term projects and implementation of catalytic initiatives under the national master plans are bolstering investment activity, while continued employment and wage growth support robust household spending. Export growth is expected to quicken, fueled by the global tech upcycle and continuous demand for non-electrical goods. Additionally, tourism activity continues on an upside trajectory. However, downside risks remain from weaker-than-expected external demand and larger declines in commodity production.

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USDMYR to turnaround once the Fed does its first cut. The US dollar continued to outperform all currencies as of Jun-24 with all currencies continued to depreciate year-to-date against the greenback in 1HCY24. Despite depreciating by -2.6% against the US dollar, Malaysian ringgit was the best performing regional currency registering the least depreciation against the greenback in 1HCY24. The ringgit has also been outperforming currencies of Malaysia’s major trading partners as our MIDF Trade Weighted Ringgit Index (TWRI) surged +1.1% in 1HCY24 despite the drag from the USD. Fundamentally, the ringgit is well-positioned to strengthen in 2024 and 2025. We maintain our projection for the ringgit to close 2024 higher at RM4.43 (end-2023: RM4.59). However, due to the persistent inflation environment in the US, we foresee elevated demand for USD at least until there is a clearer outlook on its interest rate direction. Hence, the earlier revision of our 2024 ringgit average, lower to RM4.64 (2023: RM4.56). We remain cautious of downside risks that might hinder the ringgit's rally in 2024, such as delays in the Fed’s interest rate easing and further geopolitical tensions between China and the US, as well as in the Middle East.


OPR is projected to remain 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. 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 post-pandemic policy rate normalization provides room for BNM to better manage 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-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.25
Philippines	6.50	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	4.25
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

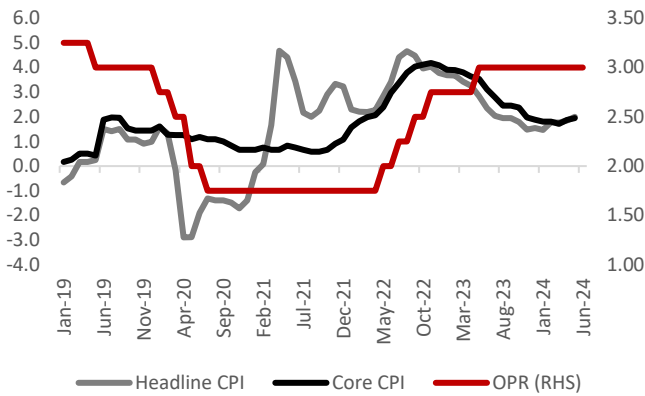
Source: Macrobond, MIDFR

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

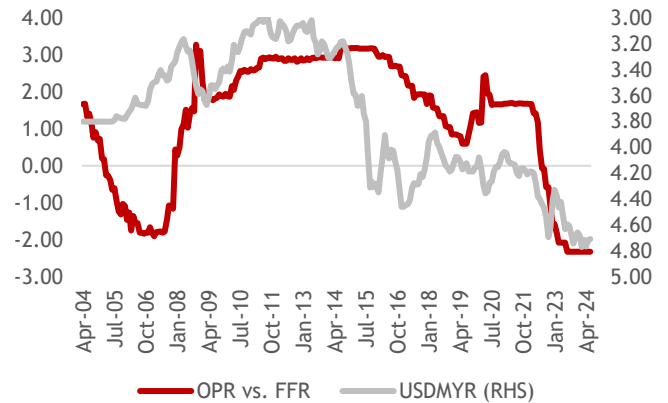
Source: BNM, MIDFR

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



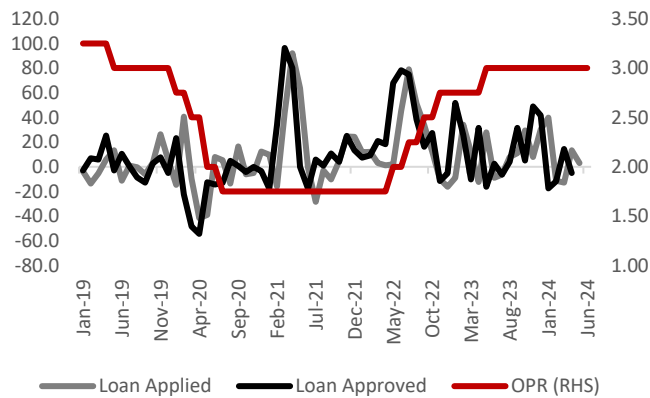
Source: Macrobond, MIDFR

Chart 4: OPR-FFR Differentials & USDMYR



Source: Macrobond, MIDFR

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



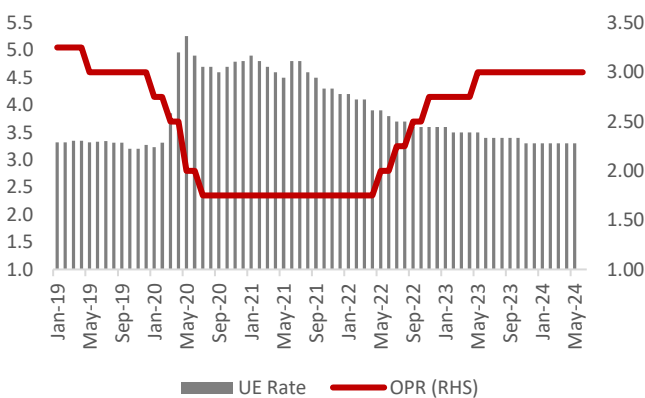
Source: Macrobond, MIDFR

Chart 5: MYR against selected currencies (YoY%)



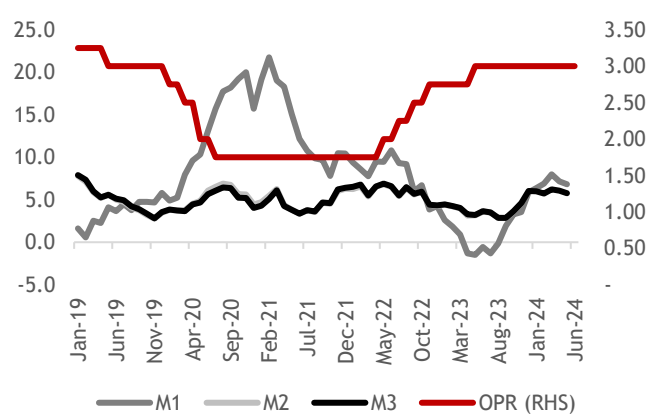
Source: Macrobond, MIDFR

Chart 3: OPR vs Unemployment Rate (%)



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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