24 January 2024

Global Markets Research

Malaysia - Economics

BNM paused and maintained a neutral stance

BNM maintained the OPR at 3.00% for the 4th straight meeting as widely expected

Current OPR level is consistent with current assessment of the inflation and growth prospects

Neutral statement reaffirmed our view for OPR to stay pat at 3.00% in 2024

Summary

At its first MPC meeting for 2024 today, BNM decided to leave the OPR unchanged at 3.00% as widely expected. This marked its fourth straight meeting of a rate pause, as BNM assessed that the growth and inflation outlook pens out largely as expected with no surprises since the last meeting. ***The policy statement today also closely mirrored the previous statement in November, probably 90% verbatim, hence did nothing but reaffirmed our view for OPR to stay pat for the rest of the year.*** BNM highlighted that the tightening cycle has peaked for most central banks, but the monetary policy stance will likely remain tight in the near term. The central bank also continued to reassure that the recent MYR performance is primarily driven by external factors, and that the central bank will continue to ensure sufficient liquidity to support the orderly functioning of the domestic foreign exchange market.

Continuous expansion in the world economy; heightened geopolitical risks

BNM opined that the world economy continues to expand, driven by domestic demand amid strong labour market conditions, which was evident in the most recent US job data. Although there are added signs of recovery in the E&E sector, global trade is expected to remain soft, and is susceptible to risk from ongoing trade restrictions, not forgetting the potential disruption from Middle-east tension and Red Sea rerouting. In its listing of downside risks to growth outlook, escalation of geopolitical tensions appeared to have outranked concerns over higher than expected inflation. Both headline and core inflation edged lower in recent months, compared to previous assessment for higher headline but moderating core inflation.

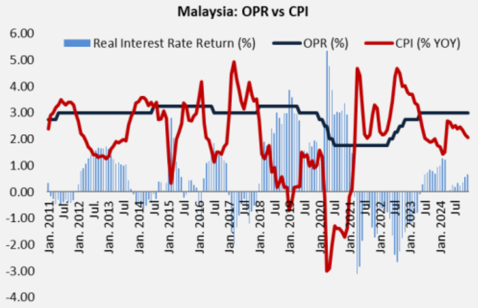
The Malaysian economy expanded as expected in 2023; set to improve in 2024

Preliminary 4Q GDP estimate suggests the Malaysian economy expanded as expected close to the 4.0% level (our estimate 3.8%) for 2023. Continued employment and wage growth, further improvement in tourism activities, anticipated recovery in E&E exports, in addition to implementation of infrastructure projects and initiatives under the master plans and national budget, will be the growth catalysts for 2024, where we expect growth to pick up to 4.7% (MOF forecast 4.0-5.0%). Easing cost pressures have contributed to softer headline and core inflation, and the price outlook going forward will be highly dependable on the government's subsidy rationalization plan.

Outlook

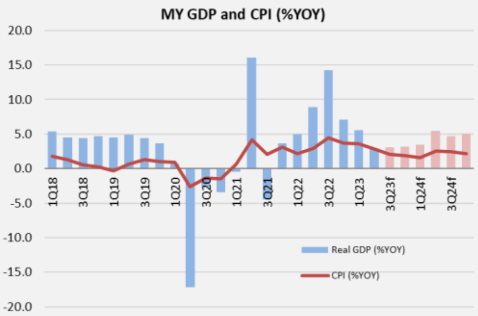
Added signs of a soft landing in the world economy coupled with potential reemergence of upside risk to inflation imply global monetary policy path will likely stay tight for a longer than initially estimated period i.e. the cut may be later and the quantum of the cut will be smaller. We maintain our view for policy easing to kick in towards the middle of the year with the ECB likely frontrunning the Fed and the BOE given its relatively weaker growth prospects. Domestically, no change to our view for BNM to keep OPR steady for the year, to ensure growth and price stability. We will however keep a close tab on potential upside risks to inflation stemming from upcoming subsidy rationalisation plans.

Figure 1: Positive real interest rate returns shall support the case for an OPR pause



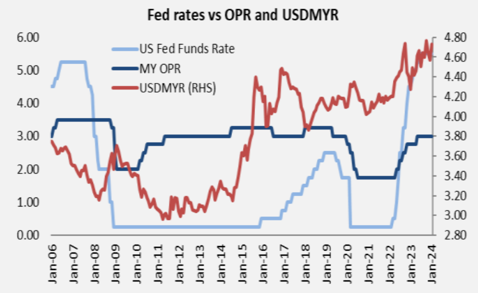
Source: BNM, Bloomberg

Figure 2: Continued moderate growth and inflation outlook



Source: BNM, HLBB Global Market Research

Figure 3: Record high Fed-OPR rate differential sets to narrow as the Fed starts easing; likely positive for the MYR



Source: Bloomberg, HLBB Global Market Research

Side by Side Comparison of BNM Monetary Policy Statement

2-November-2023	24-January-2024
At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent.	At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent.
The global economy continues to expand, driven by domestic demand amid strong labour market conditions. Some signs of recovery are emerging in the electrical and electronics (E&E) sector, but global trade remains soft partly due to the shift in spending from goods to services, and ongoing trade restrictions. Global growth remains weighed down by persistently elevated inflation and higher interest rates, with several major economies experiencing slowing growth momentum. There are early signs of improvement in China's growth, though its property market remained weak. Global headline inflation edged up partly due to higher commodity prices, while core inflation continued to moderate. For most central banks, the monetary policy stance is likely to remain tight. The growth outlook remains subject to downside risks, mainly from higher-than-anticipated inflation outturns, an escalation of geopolitical tensions, and a sharp tightening in financial market conditions.	The global economy continues to expand, driven by domestic demand amid strong labour market conditions. There are further signs of recovery in the electrical and electronics (E&E) sector, but global trade remains soft partly due to the continued shift in spending from goods to services, and ongoing trade restrictions. While China's economy continues to show signs of improvement, its recovery remains modest given the weakness in the property market. Global headline and core inflation edged downwards in recent months but continue to be above average. On the global front, while the monetary policy stance is likely to remain tight in the near term, the tightening cycle has peaked for most central banks. The growth outlook remains subject to downside risks, mainly from an escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and heightened volatility in global financial markets.
For the Malaysian economy, the advance GDP estimate points to an improvement in economic activity in the third quarter. Growth in 2024 will be driven mainly by resilient domestic expenditure, with some support emanating from the expected recovery in E&E exports. Continued employment and wage growth remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be supported by continued progress of multi-year infrastructure projects, and implementation of catalytic initiatives under the national master plans. Measures under Budget 2024 will also provide additional impetus to economic activity. The growth outlook remains subject to downside risks stemming from weaker-than-expected external demand and larger and protracted declines in commodity production. Meanwhile, upside risks to growth mainly emanate from stronger-than-expected tourism activity, a stronger recovery from the E&E downcycle, and faster implementation of existing and new projects.	For the Malaysian economy, the fourth quarter advance estimates for GDP affirmed that the overall growth for 2023 expanded within expectations. Moving forward, growth is expected to improve in 2024, supported by the recovery in exports and resilient domestic expenditure. Continued employment and wage growth remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be supported by continued progress of multi-year projects in both the private and public sectors, and implementation of catalytic initiatives under the national master plans. The growth outlook remains subject to downside risks stemming from weaker-than-expected external demand and larger declines in commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, stronger-than-expected tourism activity and faster implementation of existing and new projects.
As expected, both headline and core inflation have moderated, mainly due to easing cost pressures. In the third quarter, headline and core inflation averaged at 2.0% and 2.5%, respectively. Going into 2024, inflation is expected to remain modest. Risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. Of note, the Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.	As expected, both headline and core inflation continued to moderate in the fourth quarter, mainly due to lower cost pressures amid stabilising demand conditions. Overall, both headline and core inflation for 2023 are within expectations, averaging for the year at 2.5% and 3.0%, respectively. In 2024, inflation is expected to remain modest, broadly reflecting stable cost and demand conditions. Risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. Of note, the Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.
The expectations of a higher-for-longer interest rate environment in the US, and increased concerns over the escalation of geopolitical tensions have contributed to a persistently strong US dollar. This has affected other major and emerging market currencies, including the ringgit. Nevertheless, these developments are not expected to derail Malaysia's growth prospects. Bank Negara Malaysia will continue to manage risks of heightened volatility, including to provide liquidity, to ensure the orderly functioning of the domestic foreign exchange market. Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth.	The recent ringgit movements are primarily driven by external factors, and not reflective of the current domestic economic performance and prospects. As the risk of heightened volatility in the global financial and foreign exchange markets remains, Bank Negara Malaysia will continue to ensure sufficient liquidity to support the orderly functioning of the domestic foreign exchange market. Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth.
At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.	At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

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