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ECONOMIC REVIEW | JULY 2022 BNM MPC

BNM Hiked OPR Again as Macroeconomic Condition Improves Further

- *Another +25bps as expected. BNM opted to increase the Overnight Policy Rate (OPR) from 2.00% to 2.25% in its fourth Monetary Policy Meeting of 2022, matching with our and market's expectations. In the Monetary Policy Statement, BNM highlighted that the continuous expansion in global economy and improvement in Malaysia's labour market conditions continue to support the improvement in domestic economic activity.*
- *Sanguine economic prospects. In terms of growth outlook, BNM foresees growth momentum is on a firmer footing, driven by strengthening domestic demand and strong exports growth. The transition to endemicity and international borders reopening will result in stronger economic activitiy, lower unemployment rate, with more people entering the job market rate and better income outlook.*
- *50bps hike in 2HCY22 amid stronger-than-expected domestic demand. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable recovery of Malaysia's economy. With the rise in core inflation trend and stronger-than-expected domestic demand, we believe BNM will raise its OPR by 50bps in 2HCY22. At this point, we expect further policy normalisation will likely be carried out in the Sep-22 MPC meeting with another +25bps hike.*

Another +25bps as expected. BNM opted to increase the Overnight Policy Rate (OPR) from 2.00% to 2.25% in its fourth Monetary Policy Meeting of 2022, matching with our and market's expectations. In the Monetary Policy Statement, BNM highlighted that the continuous expansion in global economy and improvement in Malaysia's labour market conditions continue to support the improvement in domestic economic activity. While there have been improvements in the global supply chain, the central bank also highlighted global inflation risk was due to the high commodity prices and strong demand. We view the decision to raise OPR by another +25bps as timely and appropriate with domestic economy improved steadily as reflected in recent macroeconomic data and core inflation trends.

Sanguine economic prospects. In terms of growth outlook, BNM foresees growth momentum is on a firmer footing, driven by strengthening domestic demand and strong exports growth. The transition to endemicity and international borders reopening will result in stronger economic activitiy, lower unemployment rate, with more people entering the job market rate and better income outlook. We believe the latest assessment indicates continued confidence that Malaysia's macroeconomic condition will continue to improve. On the other hand, BNM points out that risks to growth remain in radar particularly possible slowdown in global growth, growing geopolitical tension, and more disruptions to the supply chain.

Inflationary pressure under control. On the price developments, BNM views inflation to be manageable as the latest inflation reading remained within the BNM's 2.2-3.2% inflation forecast range. In May-22, the headline inflation rate rose to 5-month high at +2.8%yoy, boosted by food inflation at +5.2%yoy (10-year high) while non-food inflation remained below +2.0%yoy levels since Jan-22. As domestic demand strengthening, May-22 core inflation surged to nearly 5-year high at +2.4%yoy. BNM expects upward price pressures to continue on the

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back of growing demand and rising costs, but it will be limited by ongoing excess capacity in the economy. BNM also highlights that policy measures such as price control and subsidies will help to limit upward price pressures. On ringgit concerns, we opine the depreciation against USD is purely due to the strong appreciation of the US dollar as the Fed opts for aggressive tightening of monetary policy. Comparing to other major currencies, MYR performed better than EUR, GBP, JPY and AUD. On yearly basis, 1HCY22 average change of USDMYR was at -4.1%yoy, whereas EURMYR at +5.7%yoy, GBPMYR at +2.6%yoy, JPYMYR at +9.4%yoy and AUDMYR at +2.9%yoy.

Total +50bps hike in 2HCY22 amid stronger-than-expected domestic demand. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable recovery of Malaysia's economy. With the rise in core inflation trend and stronger-than-expected domestic demand, we believe BNM will raise its OPR by +50bps in 2HCY22. At this point, we expect further policy normalisation will likely be carried out in the Sep-22 MPC meeting with another +25bps hike. However, the decision will be subject 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 normalisation 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

	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Malaysia	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00	2.25
Indonesia	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Philippines	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25	2.50
Thailand	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Vietnam	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
India	4.00	4.00	4.00	4.00	4.00	4.00	4.40	4.90	4.90
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UK	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25
US	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	0.25-0.50	0.75-1.00	1.25-1.50	1.25-1.50

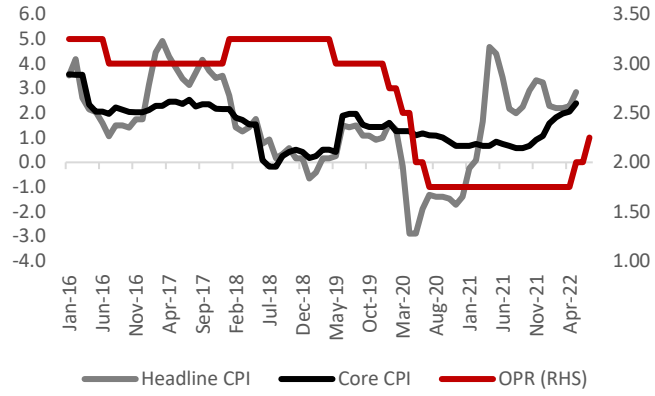
Source: CEIC, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2022

	Date
1st Meeting	19 – 20 January 2022
2nd Meeting	2 – 3 March 2022
3rd Meeting	10 – 11 May 2022
4th Meeting	5 – 6 July 2022
5th Meeting	7 – 8 September 2022
6th Meeting	2 – 3 November 2022

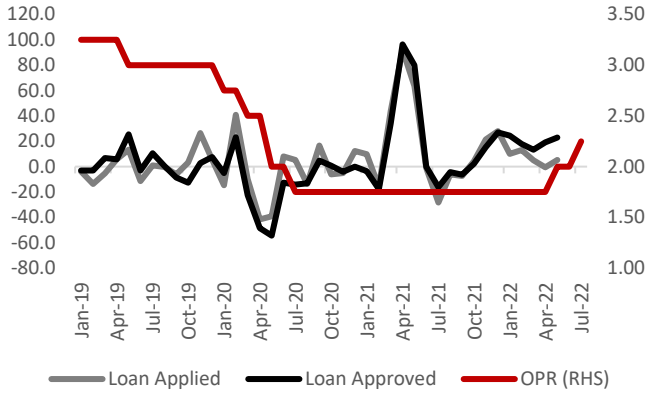
Source: BNM, MIDFR

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



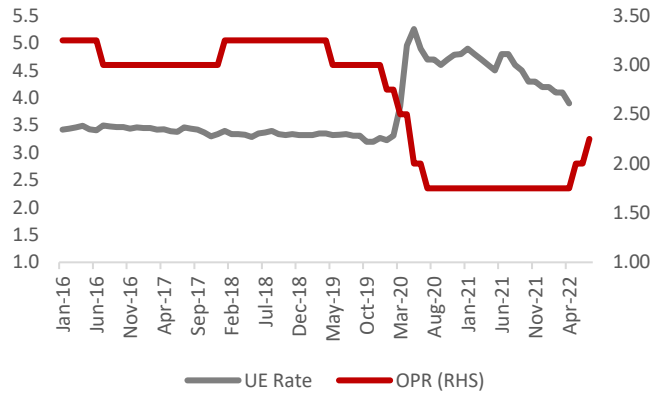
Source: CEIC, MIDFR

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



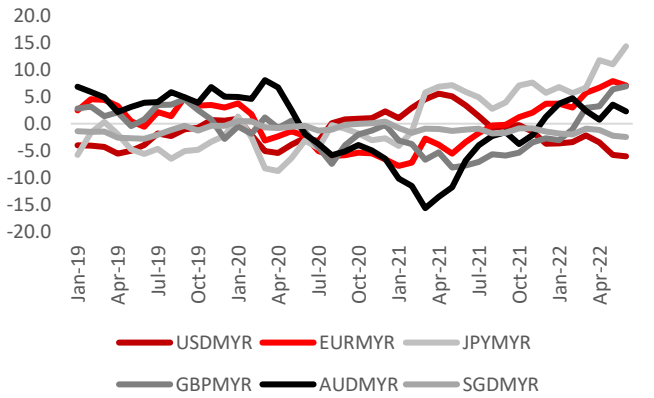
Source: CEIC, MIDFR

Chart 3: OPR (%) vs. Unemployment Rate (%)



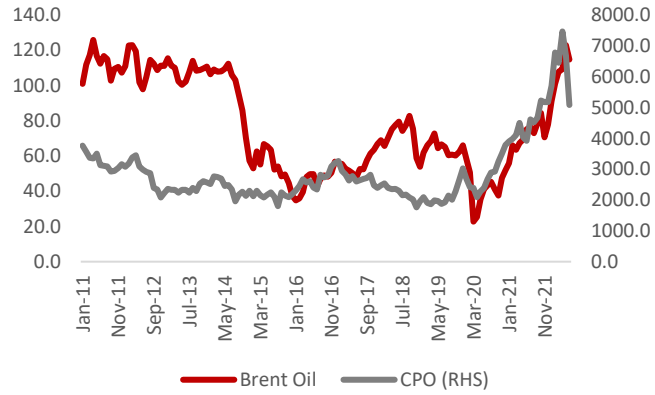
Source: CEIC, MIDFR

Chart 4: MYR against selected currencies (YoY%)



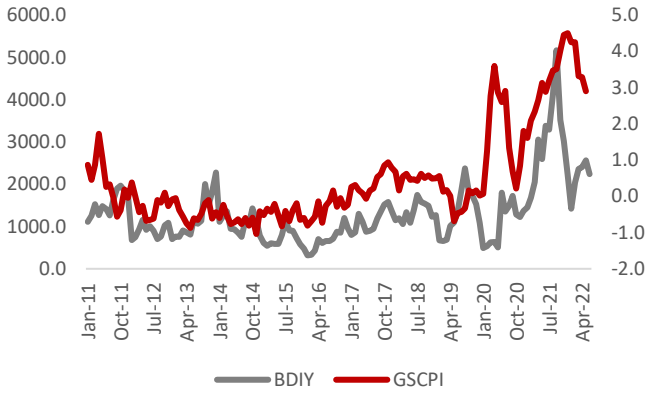
Source: CEIC, MIDFR

Chart 5: Brent Oil (USDpbd) vs. CPO (RM per tonne)



Source: Bloomberg, MIDFR

Chart 6: Global supply chain pressure cooling down



Source: Bloomberg, MIDFR

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