08 September 2022

## ECONOMIC REVIEW | SEPTEMBER 2022 BNM MPC

# OPR Raised to 2.50% amid Continued Improvements in Domestic Economy

- *Another 25bps as widely-expected. BNM increased again the Overnight Policy Rate (OPR), from 2.25% to 2.50%, in its fifth Monetary Policy Meeting of 2022, in-line with market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remain on expansion path despite at a slower pace and improvement in Malaysia's labour market conditions and domestic spending continue to support the recovery in local economic activity.*
- *BNM expects inflation to peak in 3QCY22. On the price developments, BNM views inflation to be manageable as 7MCY22 average inflation rate remained within the BNM's 2.2-3.2% inflation forecast range. In Jul-22, the headline inflation rate rose to more than 1-year high at +4.4%yoy, boosted by food inflation at +6.9%yoy (13-year high) while non-food inflation rose to 7-month high at +3.2%yoy.*
- *Ending the year with OPR at 2.75%. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable recovery of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect further policy normalisation will likely be carried out in Nov-22 MPC meeting (the final meeting this year) with another +25bps hike.*

**Another 25bps as widely-expected.** BNM increased again the Overnight Policy Rate (OPR), from 2.25% to 2.50%, in its fifth Monetary Policy Meeting of 2022, in-line with market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remain on expansion path despite at a slower pace and improvement in Malaysia's labour market conditions and domestic spending continue to support the recovery in local economic activity. The central bank also highlighted global growth to face challenges from tightening monetary policy in many economies, elevated inflationary pressure and pandemic management measures in China. We view the decision to raise OPR by another +25bps is timely with steady expansion of the domestic economy as reflected in macroeconomic data and core inflation trends.

**Positive economic outlook despite external headwinds**. In terms of growth outlook, BNM foresees growth momentum is on strong footing, driven by strengthening domestic demand and transition to endemicity and international borders reopening will lift tourism-related sectors. Further improvement in the labour market with lower unemployment rate, higher labour participation rate and better income outlook has supported domestic demand. On a flip side, BNM points out that risks to growth remain in radar particularly weaker-than-expected global growth, further escalation of geopolitical tension and deteriorating supply chain disruptions.

**BNM expects inflation to peak in 3QCY22**. On the price developments, BNM views inflation to be manageable as 7MCY22 average inflation rate remained within the BNM's 2.2-3.2% inflation forecast range. In Jul-22, the headline inflation rate rose to more than 1-year high at +4.4%yoy, boosted by food inflation at +6.9%yoy (13-year high) while non-food inflation rose to 7-month high at +3.2%yoy. As domestic demand strengthening, core inflation surged +3.4%yoy, the highest level since Mar-16. BNM expects inflation to stay

moderate in 2022 as base effects from fuel inflation dissipates, easing global commodity prices and slight betterment in global and domestic supply chains. Core inflation to increase but remains benign due to ongoing excess capacity in the economy as well as slack in Malaysia's job market.

**Ringgit gained againsts EUR, GBP and JPY**. On Ringgit concerns, we opine the depreciation against USD is purely due to the strong appreciation of the US currency as the Fed is expected to continue opting for an aggressive tightening of monetary policy. Comparing to other major currencies, MYR performed better than EUR, GBP, JPY and AUD. On yearly basis, 8MCY22 average depreciation of USDMYR at -4.4%yoy whereas EURMYR at +6.7%yoy, GBRMYR at +4.1%yoy, JPYMYR at +11.2%yoy and AUDMYR at +2.4%yoy.

**Ending the year with OPR at 2.75%.** We believe the current focus of BNM's monetary policy setting is to ensure a sustainable recovery of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect further policy normalisation will likely be carried out in Nov-22 MPC meeting (the final meeting this year) with another +25bps hike. However, 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 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**

| | Jan-22 | Feb-22 | Mar-22 | Apr-22 | May-22 | Jun-22 | Jul-22 | Aug-22 | Sep-22 |
|---|---|---|---|---|---|---|---|---|---|
| Malaysia | 1.75 | 1.75 | 1.75 | 1.75 | 2.00 | 2.00 | 2.25 | 2.25 | 2.50 |
| Indonesia | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.75 | 3.75 |
| Philippines | 2.00 | 2.00 | 2.00 | 2.00 | 2.25 | 2.50 | 3.25 | 3.75 | 3.75 |
| Thailand | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 |
| Vietnam | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.90 | 4.00 | 4.00 | 4.00 |
| India | 4.00 | 4.00 | 4.00 | 4.00 | 4.40 | 4.90 | 4.90 | 5.40 | 5.40 |
| 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 | 0.50 | 0.50 | 0.50 |
| UK | 0.25 | 0.50 | 0.75 | 0.75 | 1.00 | 1.25 | 1.25 | 1.75 | 1.75 |
| US | 0.00-0.25 | 0.00-0.25 | 0.25-0.50 | 0.25-0.50 | 0.75-1.00 | 1.50-1.75 | 2.25-2.50 | 2.25-2.50 | 2.25-2.50 |

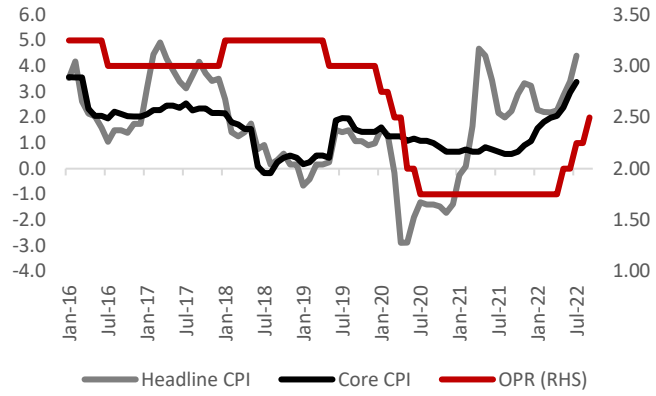
Source: CEIC, MIDFR

**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 |

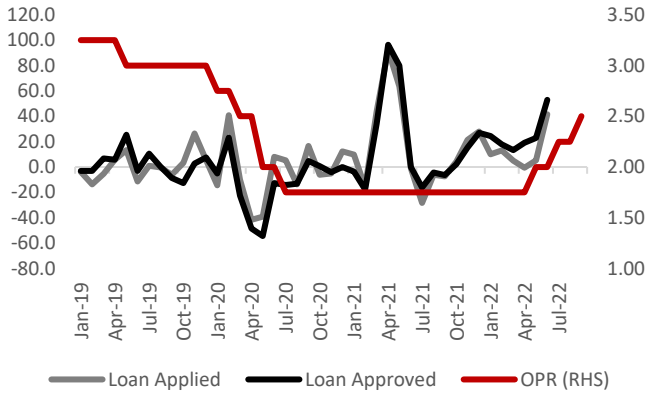
Source: BNM, MIDFR

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



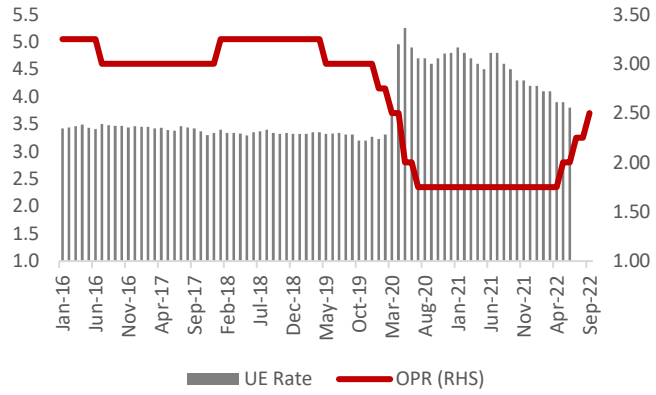

Source: CEIC, MIDFR

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



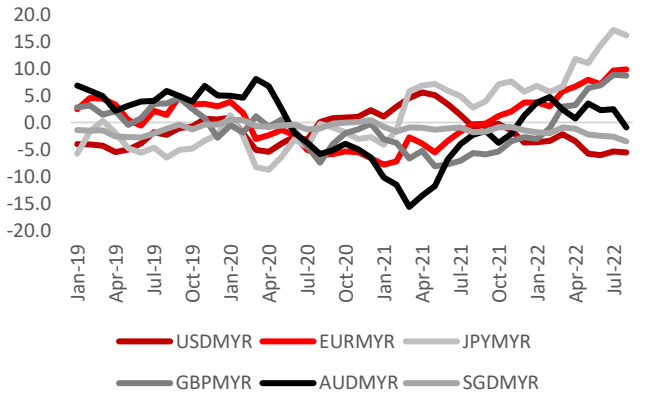

Source: CEIC, MIDFR

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



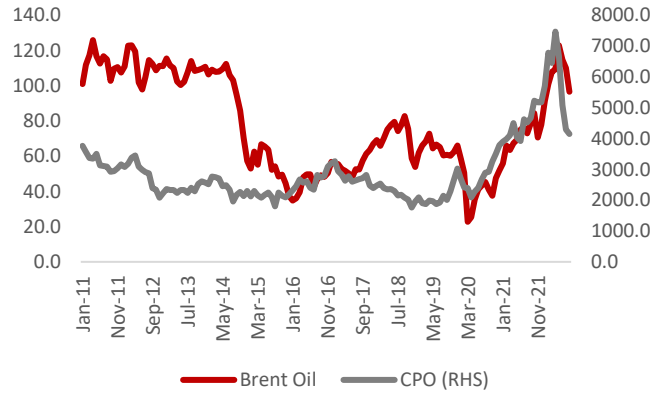

Source: CEIC, MIDFR

**Chart 4: MYR against selected currencies (YoY%)**



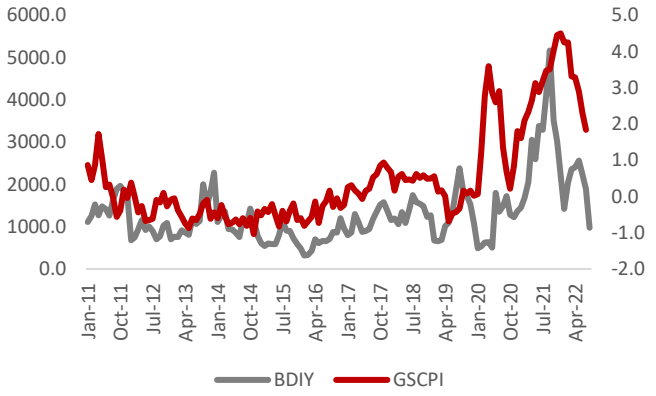

Source: CEIC, MIDFR

**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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