19 January 2023

ECONOMIC REVIEW | JANUARY 2023 BNM MPC

BNM Kept OPR at 2.75% as Domestic Economic Performances Remain Intact

- *No rate hike, against market consensus. BNM surprised us and the market as it maintained the Overnight Policy Rate (OPR) at 2.75%, in its first Monetary Policy Meeting of 2023. We opine that BNM is taking a wait-and-see approach to assess the market performances after +100bps increase made last year. However, we believe the possibility for further normalisation of monetary policy remains given that domestic economic data still showing an upbeat momentum.*
- *Inflation to stay at elevated levels. On the price developments, BNM viewed headline inflation has reached its peak in 3QCY22. BNM foresee headline and core inflation to moderate but remain at elevated levels amid demand and cost pressures.*
- *We expect 25bps rate hike in Mar-23 and SRR normalization. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect the central bank to restore its monetary bullets to pre-pandemic levels to 3.00% by Mar-23. In addition, we opine the central bank to normalize its Statutory Reserve Requirement (SRR) from 2.00% to 3.00% this year.*

No rate hike, against market consensus. BNM surprised us and the market as it maintained the Overnight Policy Rate (OPR) at 2.75%, in its first Monetary Policy Meeting of 2023. In the Monetary Policy Statement, BNM highlighted that the global economy continues to be pressured by cost inflation, tighter global financial conditions, and Covid-19 related disruptions in China. Central banks across the globe to continue embarking contractionary monetary policy even though with slower pace as to manage inflationary pressure particularly driven by strong demand and tight labour market. The central bank also highlighted growth in China to improve following the reopening of the country. We opine that BNM is taking a wait-and-see approach to assess the market performances after +100bps increase made last year. However, we believe the possibility for further normalisation of monetary policy remains given that domestic economic data still showing an upbeat momentum.

BNM hinted strong & robust 2022 GDP Growth. BNM pointed that economic data still indicating sound expansionary trend in 4QCY22 particularly driven by resilient domestic demand. The central bank foresee 2022 GDP growth to exceed +7% while 2023 growth is predicted to moderate amid slower global demand. Household spending continue to be supported by improving labour market conditions and steady income growth. BNM also highlighted investment prospects to be supported by the realisation of multi-year and infra projects and further pick-up in tourism-related activities. On downside risks, BNM highlighted on weaker-than-excpected global growth, higher risk aversion in global financial markets, aggressive tightening of monetary policy in major economies, escalation of geopolitical conflicts and supply chain disruptions.

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Inflation to stay at elevated levels. On the price developments, BNM viewed headline inflation has reached its peak in 3QCY22. BNM foresee headline and core inflation to moderate but remain at elevated levels amid demand and cost pressures. We are in the same tune with BNM especially on the stance of the new government on fuel subsidy policy will determine to direction of Malaysia's inflation outlook for 2023. With the existing price controls and fuel subsidies, Malaysia's inflation remain manageable and containable.

USDMYR to reach RM4.23 by end-2023. Strong USD has been the main factor for depreciation of most currencies in 2022, on the back of faster-than-expected pace of interest rate hikes by the Fed. As the central bank indicated signs of slower pace, we notice modest appreciation of other currencies including MYR since Nov-22. Fundamentally, MYR is in good position as domestic economy stays on upbeat momentum and as net exporter of crude petroleum, LNG and palm oil, Malaysia stands to benefit from the elevated global commodity prices. On top of that, lower domestic political temperature post-GE15 improves market confidence and inject political stability to Malaysia's economy as well as MYR. Moving forward, we foresee MYR to average higher at RM4.30 per USD1 and ending the year 2023 at RM4.23.

We expect 25bps rate hike in Mar-23 and SRR normalization. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect the central bank to restore its monetary bullets to pre-pandemic levels to 3.00% by Mar-23. In addition, we opine the central bank to normalize its Statutory Reserve Requirement (SRR) from 2.00% to 3.00% this year. The SRR rate was reduced to 2.00% since Mar-20. 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 normalization 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

	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
Malaysia	2.00	2.00	2.25	2.25	2.50	2.50	2.75	2.75	2.75
Indonesia	3.50	3.50	3.50	3.75	4.25	4.75	5.25	5.50	5.50
Philippines	2.25	2.50	3.25	3.75	4.25	4.25	5.00	5.50	5.50
Thailand	0.50	0.50	0.50	0.75	1.00	1.00	1.00	1.25	1.25
Vietnam	4.00	4.00	4.00	4.00	5.00	6.00	6.00	6.00	6.00
India	4.40	4.90	4.90	5.40	5.90	5.90	5.90	6.25	6.25
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	0.50	0.50	1.25	1.25	2.00	2.50	2.50
UK	1.00	1.25	1.25	1.75	2.25	2.25	3.00	3.50	3.50
US	0.75-1.00	1.50-1.75	2.25-2.50	2.25-2.50	3.00-3.25	3.00-3.25	3.75-4.00	4.25-4.50	4.25-4.50

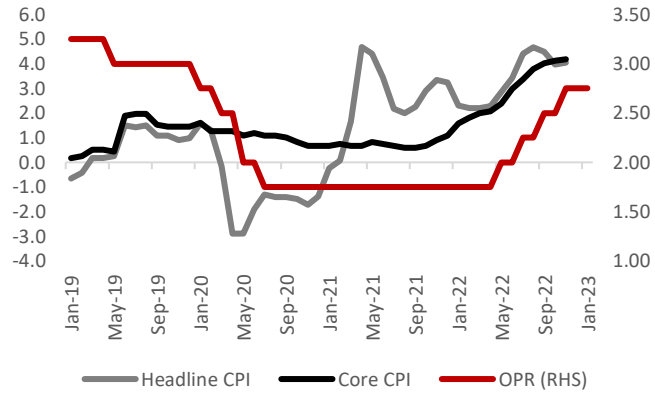
Source: MACROBOND, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2023

	Date
1st Meeting	18 – 19 January
2nd Meeting	8 – 9 March
3rd Meeting	2 – 3 May
4th Meeting	5 – 6 July
5th Meeting	6 – 7 September
6th Meeting	1 – 2 November

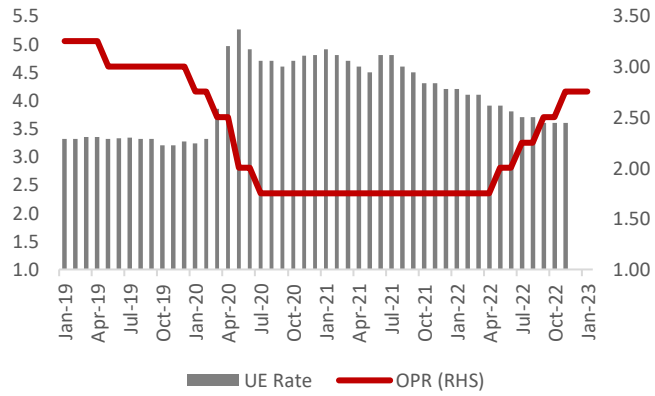
Source: BNM, MIDFR

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



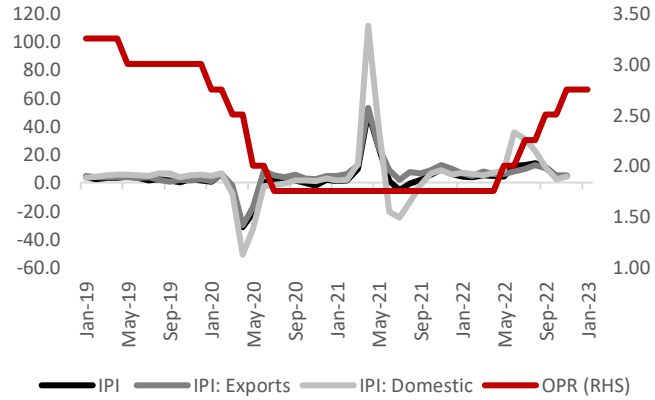
Source: MACROBOND, MIDFR

Chart 2: OPR (%) vs. Unemployment Rate (%)



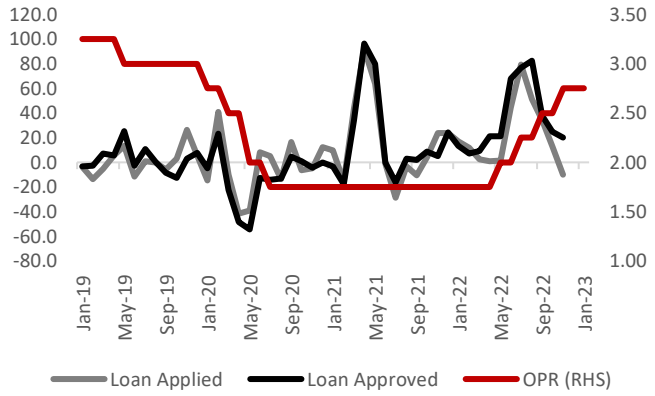
Source: MACROBOND, MIDFR

Chart 3: OPR (%) vs. IPI (%



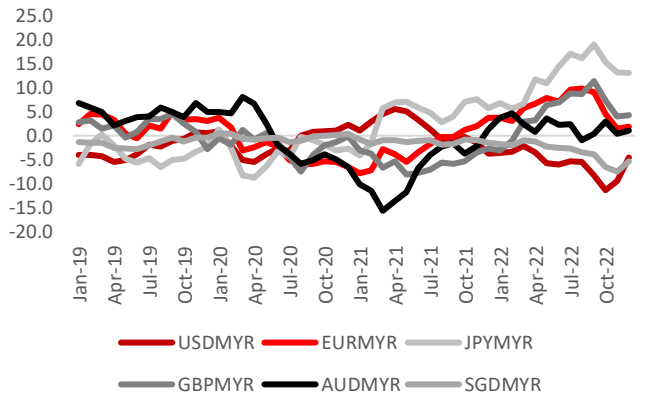
Source: BLOOMBERG, MIDFR

Chart 4: OPR (%) vs Loan Growth (YoY%)



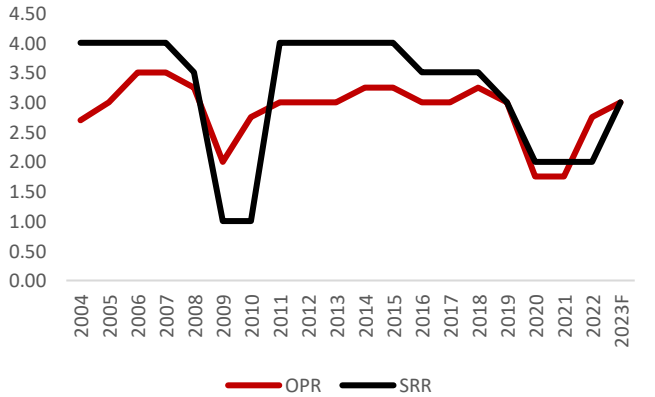
Source: MACROBOND, MIDFR

Chart 5: MYR against selected currencies (YoY%)



Source: MACROBOND, MIDFR

Chart 6: OPR & SRR forecasted at 3.00% & 3.00%



Source: BLOOMBERG, MIDFR

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