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ECONOMIC REVIEW | MAY 2023 BNM MPC

OPR Returned to Pre-Pandemic Levels as Firm Domestic Demand Continues

- *BNM restored its monetary bullets to 3.00%. BNM raised the Overnight Policy Rate (OPR) by 25bps to 3.00%, in its third Monetary Policy Meeting of 2023. The OPR hike is against ours and market expectations of zero change as we initially believed that BNM may have missed the boat to frontload its normalization.*
- *Signs of stronger than expected 1QCY23 GDP growth. BNM foresee positive developments which will lead to steady expansion in the first quarter of this year. 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. The retabling of Budget 2023 especially with elevated DE levels may provide upside risks to domestic growth outlook.*
- *OPR to remain status quo at least until end of 2023. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. With OPR restored to pre-pandemic levels, we believe BNM will shift to wait-and-see approach especially monitoring the major central banks development. If Malaysia's domestic economy were to improve better than expected, we foresee BNM may optimise its monetary arms through normalizing its Statutory Reserve Requirement (SRR) from 2.00% to 3.00% this year.*

BNM restored its monetary bullets to 3.00%. BNM raised the Overnight Policy Rate (OPR) by 25bps to 3.00%, in its third Monetary Policy Meeting of 2023. The OPR hike is against ours and market expectations of zero change as we initially believed that BNM may have missed the boat to frontload its normalization. However, it is possible that this could signal that Malaysia's economic growth may be more resilient than first expected. In the Monetary Policy Statement, BNM highlighted that the global economy remains firm underpin by resilient domestic demand, strong labour marker conditions and stronger-than-expected China's economic recovery. However, the global economy is still surrounded with downside risks, among others elevated cost pressures and higher interest rates. Central banks across the globe still embarking contractionary monetary policy even though with slower pace as to manage inflationary pressure particularly driven by resilient domestic demand. We opine BNM is grabbing the opportunity to restore its monetary bullets to pre-pandemic levels as domestic economic figures still indicating strong and sound performances.

Signs of stronger than expected 1QCY23 GDP growth. BNM foresee positive developments which will lead to steady expansion in the first quarter of this year. 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. The retabling of Budget 2023 especially with elevated DE levels may provide upside risks to domestic growth outlook. On downside risks, BNM highlighted on weaker-than-expected global growth and volatile financial market conditions.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Firm demand conditions keep core inflation elevated. On the price developments, BNM foresee headline and core inflation to moderate. However, firm demand conditions will keep core inflation at elevated levels. For instance, core inflation rate remained sticky lingering above +3.5%yoy since Aug-22 (pre-pandemic average: +1.7%yoy). Services inflation remained above +4%yoy for 7-straight months since Sep-22 (pre-pandemic average: +2.6%yoy). The current inflation pressure is partly absorbed by existing price controls and fuel subsidies. The risks to inflation are much dependent on domestic policy on subsidies and global commodity price developments.

MYR performed better than other currencies. 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 of 4MCY23, MYR performed better than JPY by +7.1%yoy, GBP by +4.3%yoy, IDN by +4.3%yoy and TWD by +3.1%yoy and AUD by +2.3%yoy. 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, the retabling of Budget 2023 provided a clearer fiscal direction of the country especially under the new coalition government. Once the Fed hit the pause button, we are optimistic that MYR will appreciate faster. We keep our USDMYR forecast to average at RM4.20 per USD1 and ending the year 2023 at RM4.00.

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Table 1: Central Bank Policy Rate (%) for Selected Countries

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Malaysia	2.50	2.50	2.75	2.75	2.75	2.75	2.75	2.75	3.00
Indonesia	4.25	4.75	5.25	5.50	5.75	5.75	5.75	5.75	5.75
Philippines	4.25	4.25	5.00	5.50	5.50	6.00	6.25	6.25	6.25
Thailand	1.00	1.00	1.00	1.25	1.50	1.50	1.75	1.75	1.75
Vietnam	5.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
India	5.90	5.90	5.90	6.25	6.25	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	-0.10
Euro area	1.25	1.25	2.00	2.50	2.50	3.00	3.50	3.50	3.50
UK	2.25	2.25	3.00	3.50	3.50	4.00	4.25	4.25	4.25
US	3.00-3.25	3.00-3.25	3.75-4.00	4.25-4.50	4.25-4.50	4.50-4.75	4.75-5.00	4.75-5.00	5.00-5.25

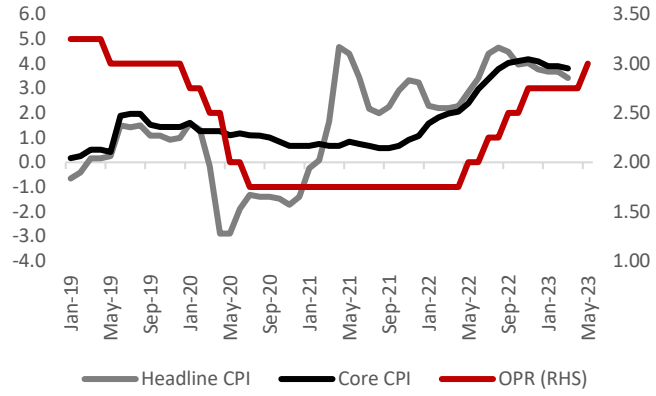
Source: MACROBOND, MIDFR

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

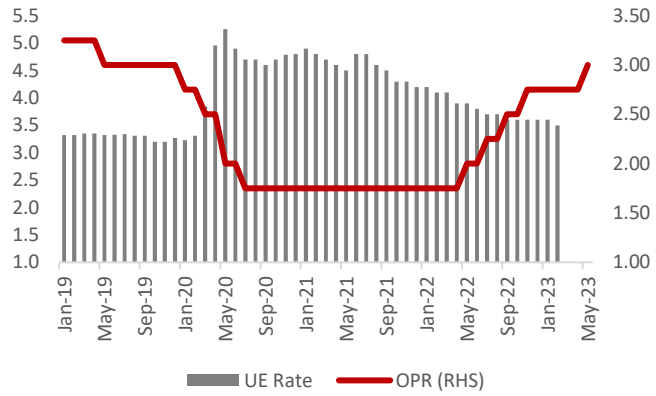
Source: BNM, MIDFR

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



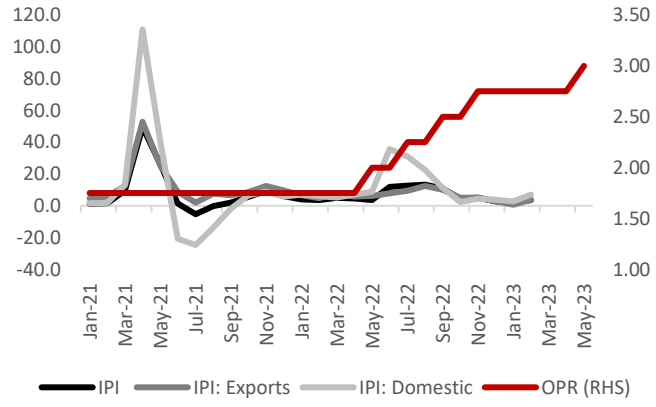
Source: MACROBOND, MIDFR

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



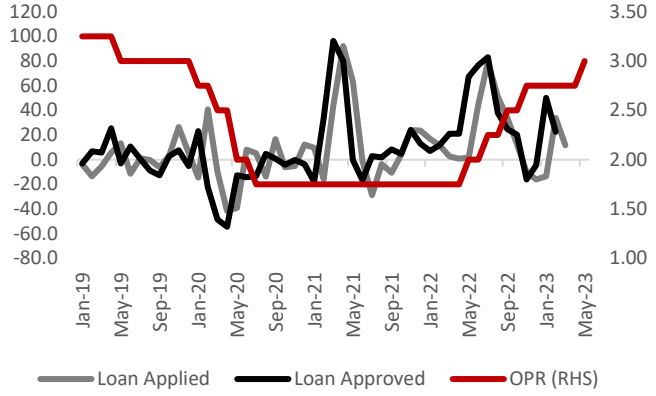
Source: MACROBOND, MIDFR

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



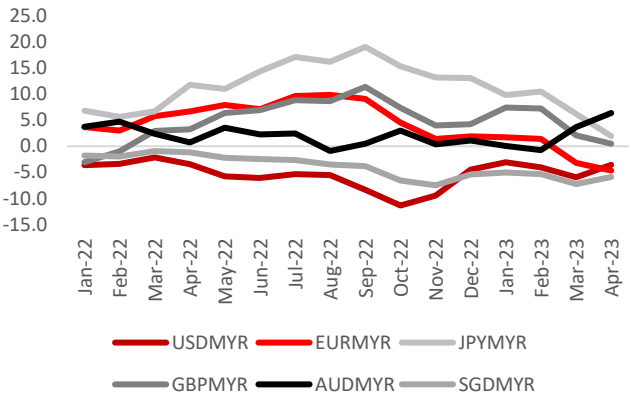
Source: MACROBOND, MIDFR

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



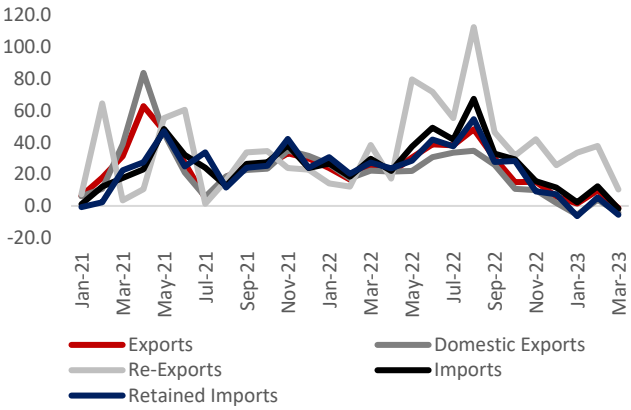
Source: MACROBOND, MIDFR

Chart 5: MYR against selected currencies (YoY%)



Source: MACROBOND, MIDFR

Chart 6: External Trade Performances (YoY%)



Source: MACROBOND, MIDFR

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