

26 January 2024

Global Economics & Market Strategy

Malaysia: BNM to Hold OPR at 3.00% through End-2024

- ◆ We opine that the Overnight Policy Rate (OPR) will likely be maintained at 3.00% for 2024. No OPR cuts or hikes is expected at this juncture.
- ◆ Fiscal consolidation measures such as adjustments in fuel prices and utility tariffs, as well as the revision in services tax, could inject upside risks on Malaysia's inflation momentum.
- ◆ Bank Negara Malaysia (BNM) held its OPR at 3.00% in January's meeting, in line with our in-house view and market expectations.

Economist

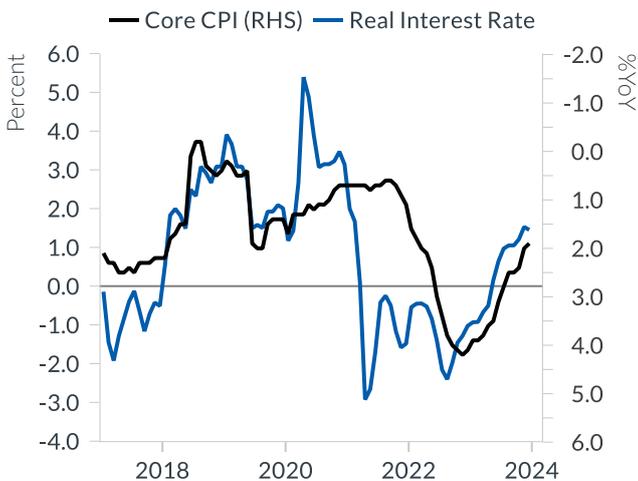
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2024 Monetary Policy Committee's (MPC) meeting schedule

1st	23 and 24 January 2024
2nd	6 and 7 March 2024
3rd	8 and 9 May 2024
4th	10 and 11 July 2024
5th	4 and 5 September 2024
6th	5 and 6 November 2024

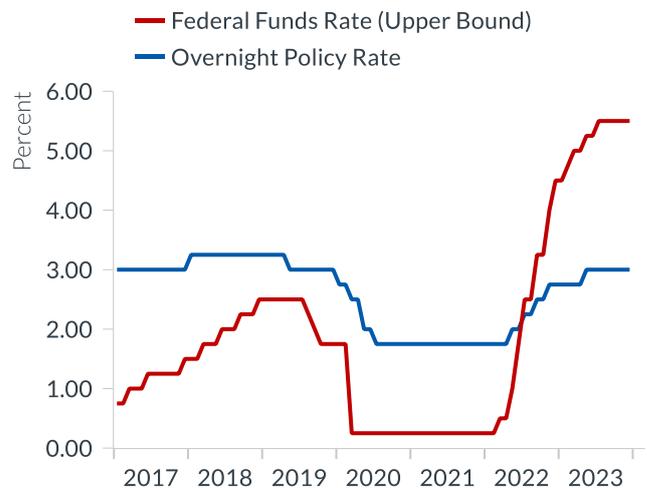
Source: BNM, RHB Economics & Market Strategy

Figure 1: Real interest rate to increase on easing inflation



Source: Macrobond, RHB Economics & Market Strategy.

Figure 2: The FFR and OPR differential is expected to narrow by 2H24



Source: Macrobond, RHB Economics & Market Strategy.

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BNM is Likely to Stay Pat amid Uncertainties in Inflation Trajectory

We opine that the Overnight Policy Rate (OPR) will likely be maintained at 3.00% for 2024. No OPR cuts or hikes is expected at this juncture. In our opinion, the wide official inflation range of 2.1% to 3.6% should provide sufficient room for the potential upside risks from the policy changes. The central bank might hold its benchmark rate until there is greater clarity over the timing and magnitude of fuel subsidy reform, while accessing the lagged impact on overall inflationary trajectory and economic momentum. So far, the inflation risks are cushioned by steady food prices, partially due to the continuation of food subsidies and price controls for staple food items. Furthermore, the USD/MYR is likely to consolidate towards end-2024, following the dissipation of positive carry in holding USD against MYR as well as improvement in macroeconomic backdrop. As the economic momentum is anticipated to remain robust for 2024, there is limited probability to cut the OPR as well.

Fiscal consolidation measures such as adjustments in fuel prices and utility tariffs, as well as the revision in services tax, could inject upside risks on Malaysia's inflation momentum. The actual magnitude of the upside risks would be hinged on a few key factors: (1) the effective date of implementation for the aforementioned policy revisions, (2) the quantum of the prices and tariffs adjustments, (3) the strength of second-round impacts on the household spending and business costs. Based on the latest development, the diesel subsidy rationalisation is planned to be rolled out by 2Q24, followed by RON95 fuel subsidy rationalisation in 2H24. At the point of writing, there is no mention of the effective date for fuel subsidy rationalisation as well as the new retail fuel prices. We expect the headline inflation to trend higher to 3.3% YoY in 2024 versus 2023's print of 2.5% YoY. The inflation momentum is anticipated to rebound in 2Q24, should the aforementioned fiscal measures take form.

In addition, the USD/MYR is likely strengthen towards a range of 4.30-4.60 by end-2024, with some form of consolidation expected as early as 2Q24. The anticipated normalisation of Federal Funds Rate (FFR) by 2H24 is expected to lend some strength to MYR, where the positive carry seen in the greenback is expected to dissipate gradually. On the domestic front, the USD/MYR would be supported by the improvement in the Malaysia-centric macroeconomic backdrop coupled with better fiscal position. Domestic confidence is expected to improve following greater clarity in fiscal consolidation measures. Separately, current account balance would be bolstered by improvement in exports performance and tourism receipts.

The growth momentum is envisaged to accelerate this year, underpinned by improvement in external demand. The nominal export growth is projected to rebound by 4.3% YoY in 2024 versus a decline of 8.0% in 2023, spurred by resilient global and regional economic growth prospects coupled with re-acceleration in the global technology cycle. On the domestic end, we remain positive on the private consumption growth in Malaysia amid healthy labour market demand conditions. As per November's print, the unemployment rate has returned to a pre-pandemic level of 3.3%, while the job creation remains healthy. We maintain our GDP projection at 4.6% for 2024 versus 3.8% estimated for 2023.

BNM held its OPR at 3.00% in January's meeting, in line with our in-house view and market expectations. The central bank maintained its neutral tone on the monetary policy stance. 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.

On economic assessment, the Bank sounds optimistic on the global and Malaysia's domestic economy. The global economy would continue to expand, driven by domestic demand amid robust labour market conditions, further supported by signs of recovery in electrical and electronics (E&E) sector as well as improvement in China's growth. The monetary policy stance is likely to remain tight in the near term, but the tightening cycle has peaked for most central banks. On domestic economy, growth in 2024 will be underpinned by resilient domestic expenditure and improvement in tourism activities. Investment activity would be buoyed by continued progress of multi-year infrastructure projects, and the implementation of catalytic initiatives under the national master plans. The central bank mentioned that the risks to the inflation outlook would be subjected to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. The Government's intention to review price controls and subsidies in 2024 would affect the outlook for inflation and demand conditions.

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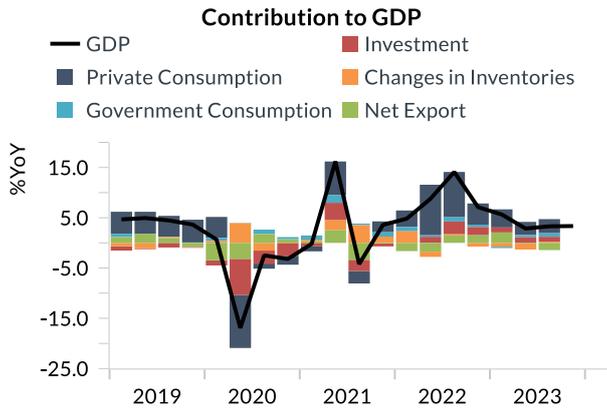
Figure 3: Comparisons of January and November MPC statement

Category	January MPC Statement	November MPC Statement	Key Message Highlighted
MPC Decision	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.	OPR maintain the Overnight Policy Rate (OPR) at 3.00 percent.
Global Outlook	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p>
Domestic Outlook	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>
Inflation View	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p>	<p>In 2024, inflation is expected to remain modest, broadly reflecting stable cost and demand conditions.</p> <p>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.</p>
Financial Market view	<p>The recent ringgit movements are primarily driven by external factors, and not reflective of the current domestic economic performance and prospects.</p> <p>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.</p> <p>Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth.</p>	<p>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.</p> <p>This has affected other major and emerging market currencies, including the ringgit. Nevertheless, these developments are not expected to derail Malaysia's growth prospects.</p> <p>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.</p> <p>Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth.</p>	<p>The recent ringgit movements are primarily driven by external factors, and not reflective of the current domestic economic performance and prospects.</p> <p>Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth.</p>
MPC Stance	<p>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.</p> <p>The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth.</p> <p>The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.</p>	<p>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.</p> <p>The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth.</p> <p>The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.</p>	<p>The monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects.</p>

Source: BNM, RHB Economics & Market Strategy.

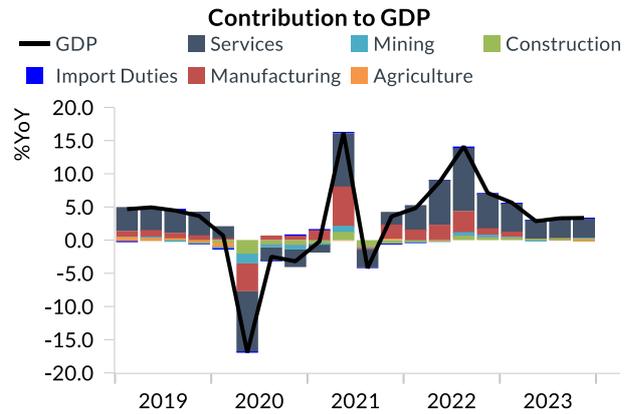
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Figure 4: GDP momentum to accelerate in 2024 amid stronger external demand...



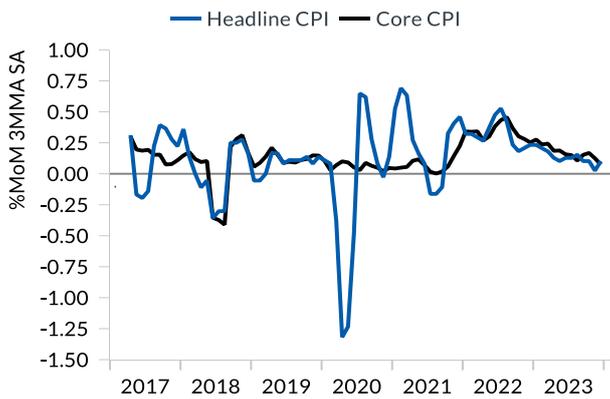
Source: Macrobond, RHB Economics & Market Strategy.

Figure 5: ...and manufacturing sector activities



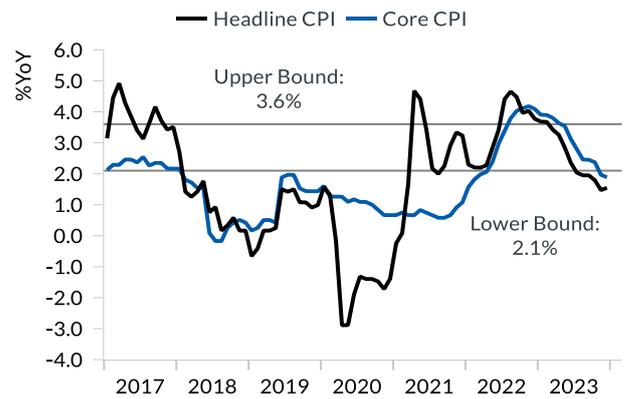
Source: Macrobond, RHB Economics & Market Strategy.

Figure 6: The inflation momentum remains stable



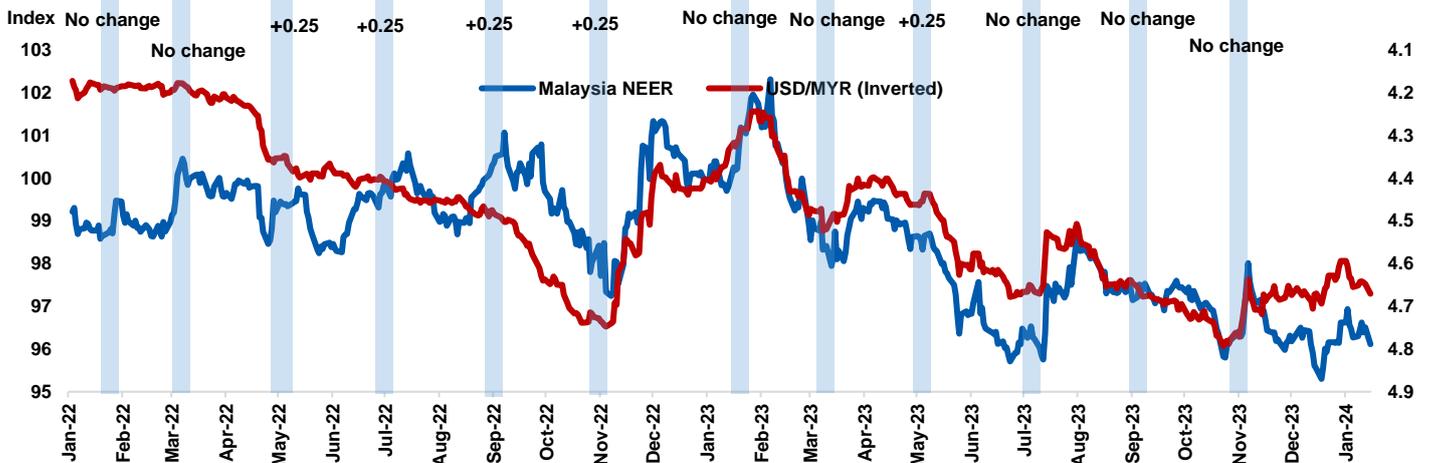
Source: Macrobond, RHB Economics & Market Strategy.

Figure 7: BNM is likely to stay pat at 3.0% if the headline inflation fall within the projected range



Source: Macrobond, RHB Economics & Market Strategy.

Figure 8: USD/MYR to consolidate to 4.30-4.60 by end-2024



Source: Bloomberg, RHB Economics & Market Strategy.

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