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Global Economics & Market Strategy

Malaysia: OPR to Remain Unchanged at 3.00% for 2024

- **We maintain our view that Overnight Policy Rate (OPR) to remain unchanged at 3.00% for 2024.**
- **The policymakers might hold the OPR rate while assessing the lagged impact of fiscal policy changes on the overall inflationary trajectory and economic momentum.**
- **Bank Negara Malaysia (BNM) held its OPR at 3.00% in July's meeting, in line with our in-house view and market expectations.**

Economist

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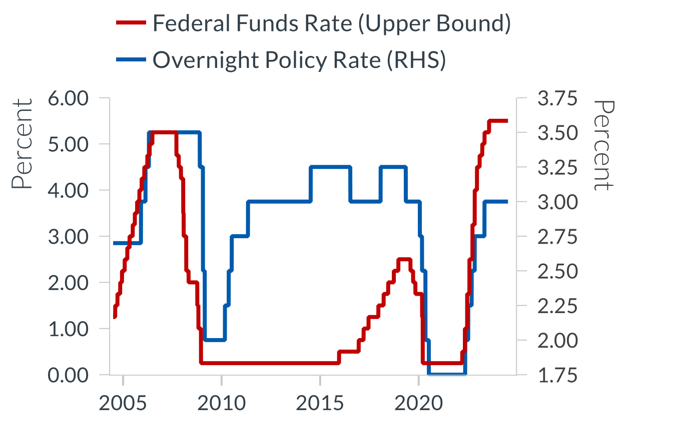
2024 Monetary Policy Committee's (MPC) meeting schedule

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

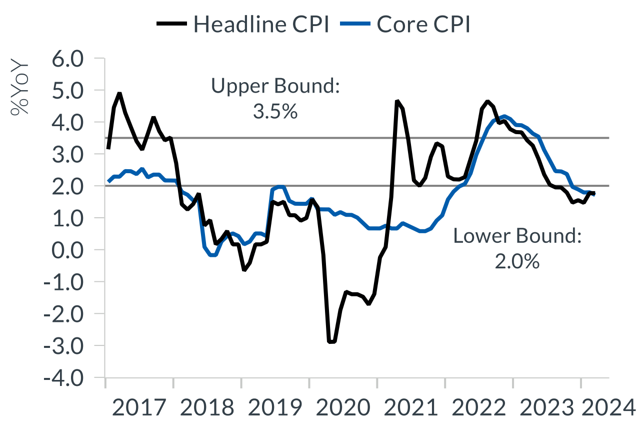
Source: BNM, RHB Economics & Market Strategy

Figure 1: BNM to stay pat at 3.0% into 2024…



Source: Macrobond, RHB Economics & Market Strategy.

Figure 2: …as both headline and core CPI remains tame against BNM's 2024 CPI forecast



Source: Macrobond, RHB Economics & Market Strategy.

OPR Movement would Hinged on Economic and Inflation Outlook

We maintain our view that Overnight Policy Rate (OPR) would remain unchanged at 3.00% for 2024. We see a lack of impetus for Bank Negara Malaysia (BNM) to tweak its policy rate level in 2024, considering the rosier domestic economic prospects amid uncertainties in the inflationary trajectory. The wide official inflation range of 2.0% to 3.5% should provide sufficient room against future price movements. The policymakers might hold the OPR rate while assessing the lagged impact of fiscal policy changes on the overall inflationary trajectory and economic momentum. In our view, three key factors will drive the OPR behaviour: (1) Malaysia's economic momentum, whereby we are expecting growth to expand by 4.6% in 2024 (against 2023's 3.7%), (2) the inflation trajectory, which we think headline CPI will expand by 2.6% in 2024 (from 2023's 2.5%), and (3) to a smaller extent, on how global rates may behave in the foreseeable future.

Recently, we have revised our 2024 headline inflation projection to 2.6% YoY versus our former forecast of 3.3% YoY. Our revision is founded on (1) marginal direct impact of diesel subsidy rationalisation on headline inflation and (2) delay in the implementation of RON95 petrol subsidy to end-2024 (at the earliest), versus our previous view of sometime in mid-year. The direct impact of diesel subsidy float in Peninsular Malaysia would be marginal, with potential upside on the headline inflation less than 0.1%. Furthermore, the subsidies will continue for most of the diesel-powered commercial vehicles and for public transportation. The inflation trajectory going forward would hinge on: (1) lagged impact from services tax revision and implementation of Low Value Goods Tax (LVGT), (2) timeline of RON95 subsidy rationalisation and its quantum, (3) potential demand upsides from partial pension fund withdrawals, and (4) spill-over impact from higher global commodity and food prices. Further, a planned increase in civil servant salaries (effective in December 2024) might potential instil further upsides on the demand-pull inflation pressure as well.

As the economic prospect is anticipated to remain robust for 2024, there is limited probability to cut the OPR as well. Our composite leading indicators – RHB-LEI (MY) – suggest that Malaysia's economic growth will accelerate to 5% YoY in 2Q24 and likely persist into 3Q24. The economic growth momentum is envisaged to remain resilient, driven by both external and internal drivers. The export's momentum (MoM, 3MMA) has picked up in recent months amid higher outbound shipments of E&E and petroleum-based products. Meanwhile, the private consumption growth in Malaysia is expected to be buoyed by healthy labour market demand conditions. We maintain our GDP projection at 4.6% for 2024 versus 3.7% for 2023.

We expected the USD/MYR to consolidate towards 4.65 by end-2024 following the anticipated Federal Funds Rates (FFR) reduction by December and improvement in macroeconomic backdrop. On the domestic front, the MYR would be supported by an improved fiscal position, following the measured implementation of subsidy rationalisation and broadening of tax base. Separately, the current account balance would be bolstered by improvement in exports performance and tourism receipts.

BNM held its OPR at 3.00% in July's meeting, in line with our in-house view and market expectations. Policymakers 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 central bank maintained its sanguine view Malaysia's domestic economy. Policymakers cited that growth would be underpinned by resilient domestic expenditure, robust export performance and improvement in tourism activities. On domestic front, consumer spending would be supported by healthy labour market conditions and policy measures. Meanwhile, investment activity would be buoyed by the continued progress of multi-year projects, the implementation of catalytic initiatives under the national master plans, and higher realisation of approved investments. The central bank expected higher inflation in 2H24 (5M2024: 1.8% YoY) following the recent rationalisation of fuel subsidies. Despite that, the increase in inflation would remain manageable given the mitigation measures to contain the impact on businesses costs and the headline inflation is expected to average within the official forecasted range of 2.0%-3.5% YoY. On the global front, the economy would continue to expand amid continued recovery in global trade and robust labour market conditions. The policymakers highlighted that the headwinds from tight monetary policy and reduced fiscal support would be cushioned by robust labour market conditions and moderating inflation.

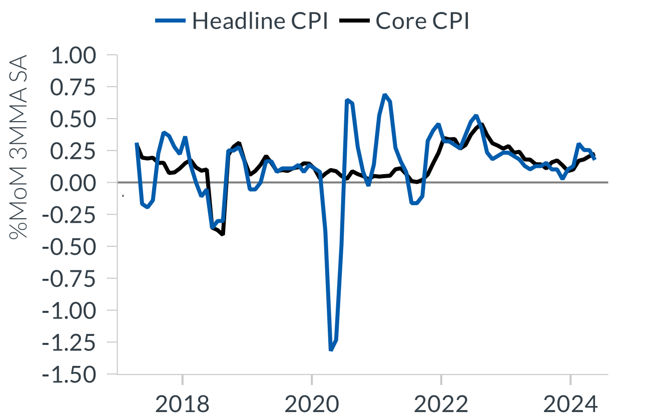
On MYR, the bank commented that the MYR continued to be affected by external influence such as adjustments in expectation for major economies' monetary policies and ongoing geopolitical tensions. The bank highlighted that ti would continue to manage the risks arising from heightened financial market volatility. The positive impact of coordinated initiatives by the Government and BNM with Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs), and corporate engagements have continued to cushion the pressures on MYR. Over the medium term, ongoing structural reforms will provide more enduring support to the Ringgit as well.

Figure 3: Comparisons of July and May MPC statement

Category	July MPC Statement	May 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	**The global economy continues to expand amid resilient labour markets and continued recovery in global trade.** **Looking ahead, global growth is expected to be sustained, as headwinds from tight monetary policy and reduced fiscal support will be cushioned by positive labour market conditions and moderating inflation.** Global trade continues to strengthen as the global tech upcycle gains momentum. **Global headline and core inflation continued to edge downwards in recent months with some central banks commencing monetary policy easing.** The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and volatility in global financial markets.	**The global economy continues to expand amid resilient labour markets in some countries and continued recovery in global trade.** **Looking ahead, global growth is expected to be sustained, as headwinds from tight monetary policy and reduced fiscal support will be cushioned by positive labour market conditions and moderating inflation.** Global trade is expected to strengthen further as the global tech upcycle gains momentum. **While global headline and core inflation continued to edge downwards in recent months, the pace for disinflation has slowed in some advanced economies.** This increases the prospect of interest rates to remain high for longer, particularly in the US. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and volatility in global financial markets.	**Looking ahead, global growth is expected to be sustained, as headwinds from tight monetary policy and reduced fiscal support will be cushioned by positive labour market conditions and moderating inflation.** **Global headline and core inflation continued to edge downwards in recent months with some central banks commencing monetary policy easing.**
Domestic Outlook	**For the Malaysian economy, the latest indicators point towards sustained strength in economic activity in the second quarter of 2024, driven by resilient domestic expenditure and better export performance.** **Going forward, exports are expected to be further lifted by the global tech upcycle given Malaysia's position in the semiconductor supply chain, as well as continued strength in non-electrical and electronics goods.** Tourist arrivals and spending are also poised to rise further. Continued employment and wage growth, as well as policy measures, will continue to support household spending. Investment activity would be supported by the ongoing progress of multi-year projects in both the private and public sectors, the implementation of catalytic initiatives under the national master plans, as well as the higher realisation of approved investments. The growth outlook is subject to downside risks 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, more robust tourism activity, and faster implementation of existing and new projects.	**For the Malaysian economy, the latest indicators point towards higher economic activity in the first quarter of 2024, driven by resilient domestic expenditure and a positive turnaround in exports.** **Going forward, the recovery in exports is expected to gather momentum supported by the global tech upcycle and continued strength in non-electrical and electronics goods.** Tourist arrivals and spending are also poised to rise further. Continued employment and wage growth remain supportive of household spending. Investment activity would be supported by the ongoing progress of multi-year projects in both the private and public sectors, the implementation of catalytic initiatives under the national master plans, as well as the higher realisation of approved investments. The growth outlook is subject to downside risks 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, more robust tourism activity, and faster implementation of existing and new projects.	**For the Malaysian economy, the latest indicators point towards sustained strength in economic activity in the second quarter of 2024, driven by resilient domestic expenditure and better export performance.** **Going forward, exports are expected to be further lifted by the global tech upcycle given Malaysia's position in the semiconductor supply chain, as well as continued strength in non-electrical and electronics goods.**
Inflation View	Both headline and core inflation averaged 1.8% in the first five months of the year. **As expected, inflation will trend higher in the second half of 2024, amid the recent rationalisation of diesel subsidies.** Nevertheless, the increase in inflation will remain manageable given the mitigation measures to minimise the cost impact on businesses. **Going forward, the upside risk to inflation would be dependent on the extent of spillover effects of further domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments.** For the year as a whole, headline and core inflation are expected to average within the earlier projected ranges of 2.0% - 3.5% and 2.0% - 3.0% respectively.	Headline and core inflation averaged 1.7% and 1.8% in the first quarter of 2024 respectively. **Looking forward, inflation in 2024 is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures.** **The outlook for the rest of the year is dependent on the implementation of domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.** After incorporating the potential impact of subsidy rationalisation, headline and core inflation are projected to average between 2.0% - 3.5% and 2.0% - 3.0% for the year respectively.	**As expected, inflation will trend higher in the second half of 2024, amid the recent rationalisation of diesel subsidies. Nevertheless, the increase in inflation will remain manageable given the mitigation measures to minimise the cost impact on businesses.** **Going forward, the upside risk to inflation would be dependent on the extent of spillover effects of further domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments.**
Financial Market view	**The ringgit continues to be primarily driven by external factors, namely expectations of major economies' monetary policy paths and ongoing geopolitical tensions.** **The positive impact of the coordinated initiatives by the Government and Bank Negara Malaysia (BNM) with the Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs), and corporate engagements have continued to cushion the pressure on the ringgit.** **BNM will continue to manage risks arising from heightened financial market volatility.** Over the medium term, domestic structural reforms will provide more enduring support to the ringgit.	**The ringgit currently does not reflect Malaysia's economic fundamentals and growth prospects. External factors, namely shifting expectations of major economies' monetary policy paths and ongoing geopolitical tensions, have led to heightened volatility in both capital flows and exchange rates across the region, including the ringgit.** The coordinated initiatives by the Government and Bank Negara Malaysia (BNM) with the Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs), and corporate engagements have gained further traction, cushioning the pressure on the ringgit. BNM will continue to manage risks arising from heightened financial market volatility. Over the medium term, domestic structural reforms will provide more enduring support to the ringgit.	**The ringgit continues to be primarily by external factors, namely expectations of major economies' monetary policy paths and ongoing geopolitical tensions.** **BNM will continue to manage risks arising from heightened financial market volatility.**
MPC Stance	**At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects.** The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.	**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.** The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability	**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.**

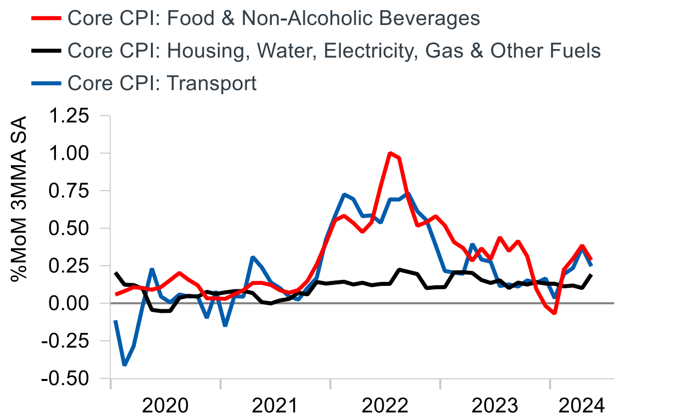
Source: BNM, RHB Economics & Market Strategy.

Figure 4: Core inflation momentum trended higher…



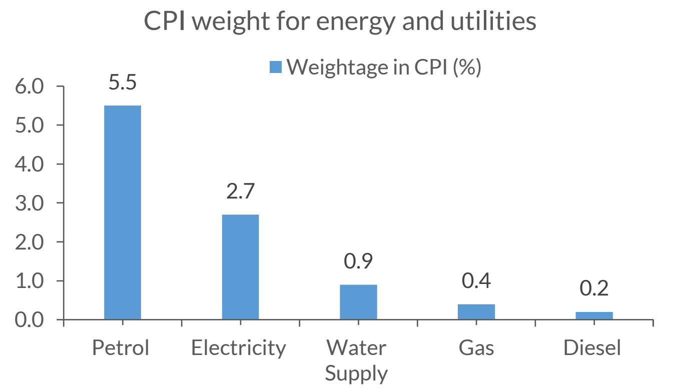
Source: Macrobond, RHB Economics & Market Strategy.

Figure 5: …on higher utility costs



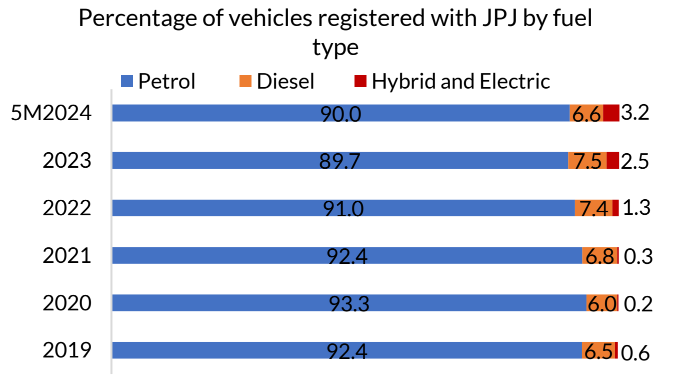
Source: Macrobond, RHB Economics & Market Strategy.

Figure 6: Diesel has low weightage in CPI basket



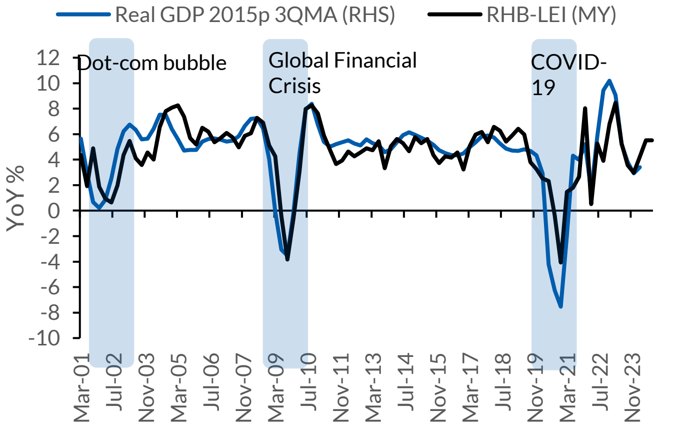
Source: CEIC, RHB Economics & Market Strategy .

Figure 7: The diesel powered vehicles is relatively low



Source: data.gov.my , RHB Economics & Market Strategy.

Figure 8: Malaysia growth momentum is envisaged to trend up in 2Q24 and 3Q24



Source: RHB Economics & Market Strategy .

Figure 9: MYR is a reflection of the current and fiscal account balances as well as US-MY real rates

Dependent Variable: USD-MYR	
Regression Statistics	
Multiple R	0.867
R Square	0.751
Adjusted R Square	0.727
Standard Error	0.256
Observations	70

	Coeff	*Std Error*	*t Stat*	*P-value*
Intercept	6.96	0.40	17.38	0.00
Current Account % GDP (-1)	-0.10	0.02	-6.40	0.00
Fiscal Account % GDP (-4)	-0.07	0.04	-1.89	0.05
Public Debt YoY (3QMA) (-2)	-0.04	0.01	-2.81	0.01
KLCI (x100) (-1)	-0.13	0.00	-5.72	0.00
Brent (x100) (-1)	-0.48	0.00	-2.82	0.01
US-MY Real Rates (-4)	0.02	0.03	0.91	0.36

Source: RHB Economics & Market Strategy.

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