11 July 2024

Global Markets Research
Malaysia - Economics

No change to OPR and neutral policy tone

BNM held OPR unchanged at 3.00% for the 7th straight meeting as widely expected

Little change in growth and inflation outlook; extent of spillover from subsidy reforms poses upside price risk

MYR no longer viewed as not reflective of Malaysia's economic fundamentals and growth prospects

Neutral tone amid moderate and inflation outlook reaffirmed our view for an extended OPR pause

Summary

At its MPC meeting today, BNM decided to leave the OPR unchanged at 3.00% for the seventh consecutive meeting as widely expected. The policy statement remained largely unchanged and continued to strike a very neutral tone, with BNM largely reaffirming its assessment on growth and inflation outlook, both globally and domestically. The global economy continued to expand while global inflation continued to moderate, with some central banks started embarking on policy easing. Domestically, economic data pointed to sustained growth in 2Q24. While inflation is expected to trend higher in the second half of the year in the wake of recent rationalization of diesel subsidies, the increase will remain manageable. ***The neutral stance continued to reinforce our view for OPR to stay unchanged for the year.***

Continuous moderate expansion in the world economy; easing inflation prompted some central banks to begin cutting rates

There were no noticeable changes to BNM's assessment on the global economy, reaffirming continuous moderate expansion amid resilient labour markets and continuous recovery in global trade. On the inflation front, BNM no longer said disinflation has slowed and that rates will stay higher for longer, but instead it highlighted that both headline and core inflation have continued to edge lower, prompting some central banks to begin cutting interest rates. BNM also affirmed that downside risks will primarily stem from further escalation in geopolitical tensions, higher than expected inflation, and volatility in global financial markets.

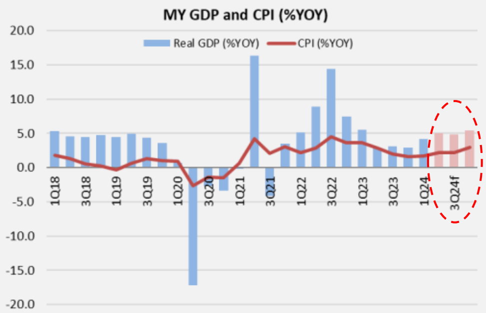
Sustained strength in Malaysian economic activities in 2Q; inflation to trend higher

BNM expect economic activities to register sustained strength in 2Q24, after the pick-up in 1Q, with resilient domestic spending and exports recovery the key growth drivers. Inflation is expected to head higher in the second half of 2024 due to recent rationalisation of diesel subsidies that resulted in a 56% jump in diesel prices to RM3.35/ liter on 10 June. However, BNM expects the increase in inflation to remain manageable given mitigation measures to contain cost impact on businesses but upside risk from spillover effects remains. No change to its headline and core inflation forecasts of 2.0-3.5% and 2.0-3.0% respectively.

Outlook

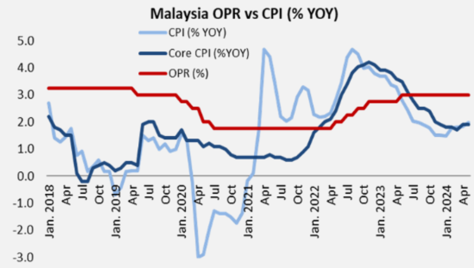
As the world continued edging closer to monetary policy easing, with the Fed and BOE eventually joining the bandwagon later this year, we incline to believe that policy actions will be undertaken in a measured pace in the foreseeable future as inflation in most of the majors (save for the UK), remained above target despite the disinflation progress. This would suggest the shift in rate differential dynamics will most likely than not, be more muted, should there be expectations for tandem easing though with some timing gap between each central bank moves, hence potentially softening the impact on the global financial market. In the case of Malaysia, rate differential is set to narrow as the Fed is on track to cut rates while BNM stands pat amid expectation for continued moderate growth and inflation outlook. Upside inflationary risk from second order effects from subsidy reforms will be the biggest wild card going into next year, but we do not expect inflation to stay protractedly high enough to justify an OPR hike at this juncture, hence our view for an extended pause.

Figure 1: Continued moderate growth and inflation outlook



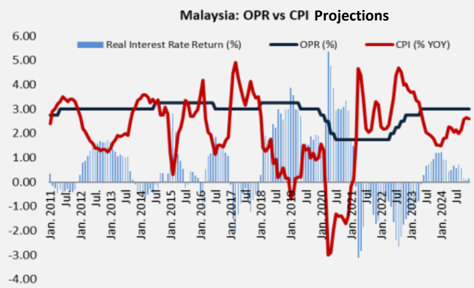
Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: Well-contained inflation trajectory thus far



Source: BNM, DOSM, HLBB Global Markets Research

Figure 3: BNM may continue to stay pat if subsidy-induced surge in inflation proves transitory



Source: BNM, DOSM, HLBB Global Markets Research

Side by Side Comparison of BNM Monetary Policy Statement

9-May-2024	11-July-2024
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.
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.	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.
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. 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.
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.	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.
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 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.
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 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.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.