

Global Markets Research
Malaysia - Economics

BNM continued to pause and maintain a neutral tone

BNM held OPR unchanged at 3.00% for the 6th straight meeting as widely expected

Little change in growth and inflation outlook; the pace of disinflation in some majors has slowed

Still neutral policy statement reaffirmed our view for extended OPR pause

Summary

At its MPC meeting today, BNM decided to leave the OPR unchanged at 3.00% for the sixth consecutive meeting as widely expected. The policy statement continued to strike a 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, although *the pace of disinflation in some major economies, notably the US, has slowed, hence, raising the prospect of higher for longer policy stance*. Domestically, economic activities picked up in 1Q24, and inflation is expected to remain moderate even if potential impact of subsidy rationalization is being factored in. *The neutral stance continued to reinforce our view for OPR to stay unchanged for the year*. The central bank also reiterated that the Ringgit is undervalued primarily distorted by external factors and that coordinated efforts between BNM and GLCs/ GLICs as well as the corporate sector is gaining traction and has helped alleviate pressure on the Ringgit.

Continuous moderate expansion in the world economy; slower pace of disinflation points to higher for longer stance in some major economies

We noticed BNM has broadly maintained its assessment on the global economy, citing continuous moderate expansion amid resilient labour markets in some countries and further pick-up in global trade. Global headline and core inflation also stays on an overall downtrend although the pace of disinflation has slowed. There was also no change to its take on downside risks, primarily from further escalation in geopolitical tensions, higher than expected inflation, and volatility in global financial markets.

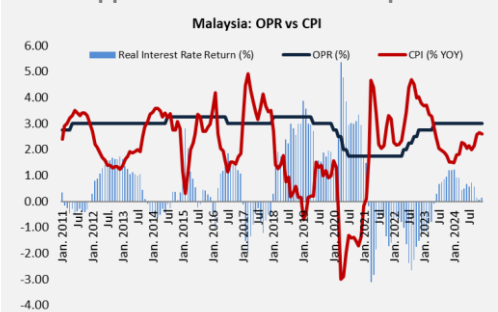
Economic activities gained traction in 1Q; inflation to remain moderate

BNM affirmed that economic activities have picked up in 1Q24, driven by resilient domestic spending and turnaround in exports. On inflation, BNM stopped short of mentioning any potential upside risks to inflation. It reiterated that inflation is expected to remain moderate in 2024 (headline at 2.0-3.5% and core at 2.0-3.0%), even after incorporating potential impact from subsidy rationalization.

Outlook

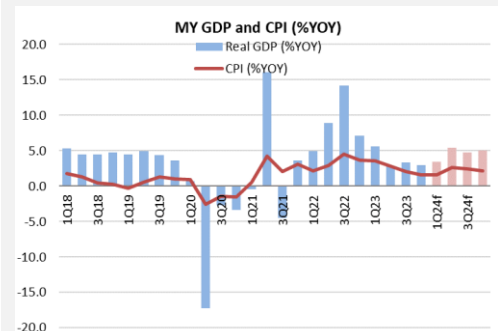
Global monetary policy path appears to be taking on a bumpy pivot. Resilient growth and sticky inflation in some major economies especially the US are pushing back the timing and magnitude of rate cuts, whilst a handful are toying with further tightening. There were occasional chatters on rate hike instead of rate cut in the US but we foresee little odds of this as there are already tentative signs of some moderation in the US labour market, and that inflation is expected to taper off again early next year even if the anticipated re-acceleration in inflation in the second half of 2024 materializes. On the domestic front, we do not expect inflation to spike significant and protracted enough to justify an OPR hike at this juncture, as we expect upcoming subsidy reform including those of diesel and RON95 to be phased in and implemented in a gradual manner beginning in the next few weeks. Premised on our 2024 growth projection of 4.7% and inflation forecast of 2.2-3.2%, we maintain our view for BNM to stay on hold for the rest of the year.

Figure 1: Positive real interest rate returns shall support the case for an OPR pause



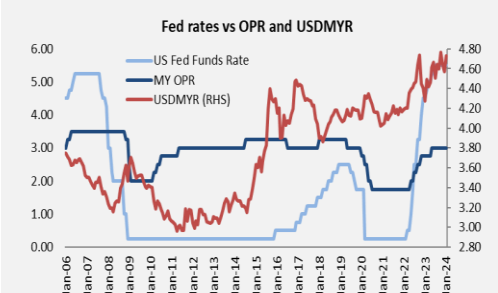
Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: Continued moderate growth and inflation outlook



Source: BNM, HLBB Global Market Research

Figure 3: Yield differential with the Fed is set to narrow as Fed rate cuts remain imminent



Source: Bloomberg, HLBB Global Market Research

Side by Side Comparison of BNM Monetary Policy Statement

7-March-2024	9-May-2024
<p>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.</p> <p>The global economy continues to expand albeit moderately, supported by domestic demand amid improvement in trade activity. Favourable labour market conditions in some countries continue to support consumption activity. Looking ahead, growth in regional economies is expected to improve, while China's growth would likely remain modest given continued weakness in the property market. Global trade is expected to strengthen as the global tech upcycle gains momentum. Global headline and core inflation edged downwards in recent months with prospects of monetary easing in some countries in the second half of the year. Nonetheless, the global monetary policy stance is likely to remain tight in the near term, as inflation remains above average. The growth outlook remains subject to downside risks, mainly from an escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and volatility in global financial markets.</p> <p>The Malaysian economy expanded by 3.7% in 2023. Moving forward, growth is expected to improve in 2024, driven by the recovery in exports and resilient domestic expenditure. Export growth is turning positive after contracting since March 2023 and will continue to be supported by stronger global trade. Tourist arrivals and spending are 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 investments. The growth outlook is 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, more robust tourism activity and faster implementation of existing and new projects.</p> <p>Headline and core inflation stood at 1.5% and 1.8% respectively in January 2024, trending in line with expectations. Inflation in 2024 is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures. However, this outlook continues to be highly dependent on the implementation of domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.</p> <p>The ringgit is currently undervalued, given Malaysia's economic fundamentals and growth prospects. The Government and Bank Negara Malaysia are taking coordinated actions to encourage repatriation and conversion of foreign investment income by Government-Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs). These actions are contributing to greater inflows, lending support to a firmer ringgit. Over the medium term, ongoing structural reforms will provide more enduring support to the ringgit.</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. 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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</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. 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.</p>

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