

Global Markets Research
Malaysia - Economics

No change in OPR and neutral policy tone

BNM left OPR unchanged at 3.00% for the 9th straight meeting and maintained a neutral policy tone
Maintain our view for an extended OPR pause amid moderate growth and well-contained inflation outlook
MYR to be supported by favourable fundamentals and narrowing rate gaps; despite near term volatility

Summary

BNM maintained OPR unchanged at 3.00% for the ninth consecutive meeting today as widely expected. Today’s policy statement is almost identical to the statement in September, suggesting there is literally no change to the BNM’s policy stance in keeping the OPR unchanged in the foreseeable future. BNM continued to expect sustained strength in the Malaysian economy and foresee manageable inflation going into 2025. This reinforced our views for an extended pause in the OPR probably through next year, despite the tide of policy easing among major central banks and some regional economies. On the MYR, imminent narrowing in rate differentials, favourable economic prospects and domestic reforms, ongoing initiatives to encourage flows, will continue to support the MYR, notwithstanding near term volatility caused by the US election outcome.

The global economy continues to expand; “heightened” volatility in global financial markets

In its assessment on the global economy, BNM maintained that the world economy continues to expand amid resilient labour markets and further recovery in global trade. BNM also does not foresee any additional downside risks to growth, other than those highlighted in the statement, namely further escalation in geopolitical conflicts, and slower growth momentum in major economies. BNM however cited “heightened volatility”, instead of “volatility”, in global financial markets, as one of the downside risks.

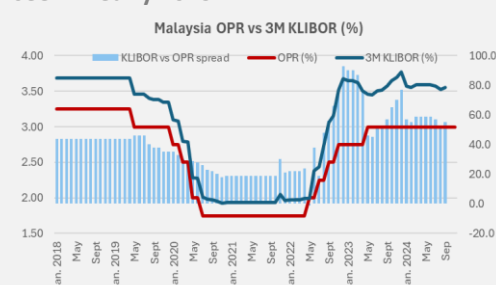
Sustained strength in the Malaysian economy; inflation to remain manageable going into 2025

Latest indicators suggest sustained strength in economic activities underpinned by resilient domestic demand and higher export activity. BNM also expects additional support from Budget 2025 measures. Meanwhile, inflation remains modest so far averaging 1.8% y/y year-to-date, and is expected to remain manageable going into 2025, in the wake of easing global cost conditions and absence of excessive domestic demand pressures. Upside risks however prevail, subject to the extent of spillover effects of domestic policy measures, global commodity prices, and financial market developments.

Outlook

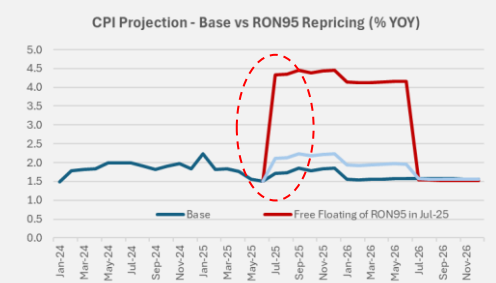
We continue to expect policy divergence globally given the differences in economic fundamentals and policy needs of each countries. Even within the easing camp, the pace and depth of the policy easing will be varied. We expect the Fed to undertake a less aggressive rate cut path now taking cue from the exceptionally resilient US economy and that inflationary risks remain skewed to the upside, more so if Trump’s inflationary policies materialize. Meanwhile, the Malaysian economy is expected to maintain its moderate growth trajectory, while inflationary pressure is expected to stay well-contained despite ongoing plans for subsidy reforms. Delay in the implementation of RON95 subsidy retargeting to mid-2025 as indicated by the Prime Minister during the 2025 Budget tabling will further push back upside risks to inflation. We therefore reaffirmed our view for an extended pause in the OPR probably through next year, barring any substantial external shocks.

Figure 1: Spread between KLIBOR and OPR above historical averages but off the highs seen in early 2023



Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: Expect manageable inflation outlook even if RON95 subsidy reform is to be rolled out in mid-2025



Source: BNM, DOSM, HLBB Global Markets Research

Figure 3: Schedule of BNM MPC meetings for 2025

No.	Dates
1st	22 January 2025 (Wednesday)
2nd	6 March 2025 (Thursday)
3rd	8 May 2025 (Thursday)
4th	9 July 2025 (Wednesday)
5th	4 September 2025 (Thursday)
6th	6 November 2025 (Thursday)

Side by Side Comparison of BNM Monetary Policy Statement

5-September-2024	6-November-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%.</p> <p>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 by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade recovery is expected to continue, supported by both electrical and electronics (E&E) as well as non-E&E products. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, volatility in global financial markets, and slower growth momentum in major economies.</p> <p>The Malaysian economy expanded by 5.1% in the first half of 2024. The latest indicators point towards sustained strength in economic activity driven by resilient domestic expenditure and higher export activity. 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-E&E goods. Tourist spending is expected to continue to increase. Employment and wage growth, as well as policy measures, remaining supportive of household spending. The robust expansion in investment activity would be sustained by the 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 higher intermediate and capital imports will further support export and investment activity. The growth outlook is subject to downside risks from lower-than-expected external demand and commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects.</p> <p>Both headline and core inflation averaged 1.8% in the first half of 2024. The spillovers from the diesel price adjustment to broader prices have been contained, given effective mitigation and enforcement measures to minimise the cost impact on businesses. For the year as a whole, average headline and core inflation are expected to remain within the earlier projected ranges and are unlikely to exceed 3%. Nevertheless, the inflation outlook remains highly subject to the implementation of further domestic policy measures. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments.</p> <p>The recent recovery in the ringgit is driven by the shift in expectations of lower interest rates in major economies, particularly the US, as well as Malaysia's strong economic performance. Looking ahead, Malaysia's positive economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide 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 inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories going into 2025. 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%.</p> <p>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 by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade recovery is expected to continue, supported by both electrical and electronics (E&E) as well as non-E&E products. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, heightened volatility in global financial markets, and slower growth momentum in major economies.</p> <p>For the Malaysian economy, the latest indicators point towards sustained strength in economic activity driven by resilient domestic expenditure and higher export activity. Going forward, exports are expected to be supported by the global tech upcycle, continued strength in non-E&E goods, and higher tourist spending. Employment and wage growth, as well as policy measures, remain supportive of household spending. The robust expansion in investment activity would be sustained by the progress of multi-year projects in both the private and public sectors, the higher realisation of approved investments, as well as the implementation of catalytic initiatives under the national master plans. These investments, supported by higher capital imports, will raise exports and expand the productive capacity of the economy. Budget 2025 measures will provide additional support to growth. The growth outlook is subject to downside risks from lower-than-expected external demand and commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects.</p> <p>Headline and core inflation remain modest, averaging 1.8% year-to-date. Going into 2025, inflation is expected to remain manageable, amid the easing global cost conditions and the absence of excessive domestic demand pressures. Nevertheless, the inflation outlook remains subject to the details of the implementation of announced domestic policy measures. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as global commodity prices and financial market developments.</p> <p>Ringgit performance continues to be primarily driven by external factors. The outcome of the US elections could heighten volatility in the near term. Looking ahead, the narrowing interest rate differentials between Malaysia and the advanced economies is positive for the ringgit. Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide 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 inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories going into 2025. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.</p> <p>The meeting also approved the schedule of MPC meetings for 2025. In accordance with the Central Bank of Malaysia Act 2009, the MPC will convene six times during the year. The Monetary Policy Statement will be released at 3:00 p.m. after each MPC meeting.</p>

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