

BNM MPC Decision

Policy rate unchanged, cautious growth outlook douse early tightening signal

- **Bank Negara Malaysia’s (BNM) Monetary Policy Committee (MPC) kept the overnight policy rate (OPR) at 1.75%.** It was within consensus and house expectation.

- **Policy statement: Maintained cautious view on global and domestic growth outlook.**

- As in the previous MPC statement, it reiterated that risks to the growth outlook “remain tilted to the downside,” adding that “risks may arise from a weaker-than-expected global growth, a worsening in supply chain disruptions, and the emergence of severe and vaccine-resistant COVID-19 variants of concern.”
- Meanwhile, it acknowledged that manufacturing and trade have been a key in supporting the global growth recovery, along with improved labour market conditions in many countries.

- While the MPC sees the ongoing COVID-19 resurgence weighing on growth recovery, it is sanguine on the continued “progress in vaccination coverage, advancements in vaccine efficacy, and the availability of anti-viral treatments” to allow for better management of the pandemic and supporting growth recovery.
- On economic growth, it sees Malaysia’s 2021 GDP growth to be within the projected range of 3.0% – 4.0% (KIBB forecast: 3.5% - 4.0%) based on the latest high-frequency indicators, indicating a growth turnaround in the 4Q21. We are projecting 4Q21 GDP growth to rebound by about 5.0% (3Q21: -4.5%).
- The MPC expects growth to gain further momentum in 2022 “driven by the expansion in global demand and higher private sector expenditure amid improvements in the labour market and continued policy support.”
- CPI outlook: MPC sees a pick up in underlying inflation, as measured by core inflation, “as economic activity normalises” amid “high input cost.” But this is expected to be modest with “upside risk contained by the slack in the economy and labour market.” Prolong supply chain disruption leading to sustainably higher global commodity prices may have an adverse effect on its moderate inflation outlook for 2022.

- **BNM OPR outlook: Focus on the Fed accelerated monetary tightening timetable and durability of the domestic economy**

- From the market and policy perspective, the main focus now is on the impact of the Federal Reserve raising interest rates as many as three times this year at an earlier than expected timeline. This is on top of the Fed’s intention to shrink its balance sheet. All this could happen as early as March this year. This would definitely pose a challenge for the emerging market to manage the downside risk, given that many countries are still grappling with the impact of the pandemic. Case in point is China, whereby it is on an easing monetary policy mode to support economic growth.
- Though we think that Bank Negara may not adopt a divergent policy mode like China, there seems to be no urgency for it to jump on the convergence bandwagon just yet. Moreover, BNM continued to note that its monetary policy stance is “appropriate and accommodative” and that growth risks “remain tilted to the downside.”

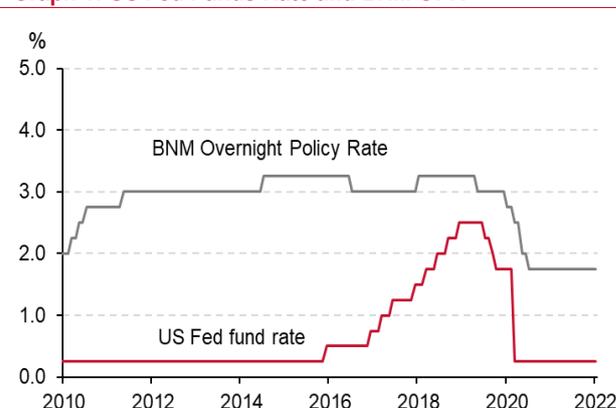
- Nonetheless, we reiterate our view that the probability of BNM to raise the OPR would be higher going into the 2H22 by as much as 50 basis points on the expectation of firmer domestic demand driven growth.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.70% (-0.10%)	China	Loan Prime Rate	Jan-22
1.25% (+0.25%)	South Korea	Base Rate	Jan-22
0.75% (+0.25%)	New Zealand	Official Cash Rate	Nov-21
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
2.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Nov-20
0.10% (-0.15%)	Australia	Cash Rate	Nov-20
1.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-20
4.00% (-0.40%)	India	Repo Rate	May-20
0.50% (-0.25%)	Thailand	Repo Rate	May-20
1.125% (-0.25%)	Taiwan	Discount Rate	Mar-20
0.00-0.25% (-1.00%)	USA	Funds Rate Target	Mar-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

Source: Bloomberg, CEIC, Kenanga Research

Graph 1: US Fed Funds Rate and BNM OPR



Source: Bloomberg, Kenanga Research

Table 2: MPC Meeting Schedule for 2022/ KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	19 and 20 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	2 and 3 March (Wed and Thu)	<input type="checkbox"/>	No change	
3rd	10 and 11 May (Tue and Wed)	<input type="checkbox"/>	No change	
4th	5 and 6 July (Tue and Wed)	<input type="checkbox"/>	No change	
5th	7 and 8 September (Wed and Thu)	<input type="checkbox"/>	50% probability of 25 bps hike	
6th	2 and 3 November (Wed and Thu)	<input type="checkbox"/>	>50% probability 25 bps hike	

Source: Bank Negara Malaysia, Kenanga Research

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