

BNM MPC Meeting (10 -11 May)

A surprise 25 bps hike, sees domestic economy on firmer footing

- **Bank Negara Malaysia (BNM) Monetary Policy Committee (MPC) decided to raise the overnight policy rate (OPR) by 25 basis points (bps) to 2.00%**, taking the house and market by surprise.

- Based on Bloomberg consensus of 19 respondents, 14 expected no change while five made a call for a 25 bps hike.
- The last rate hike was in January 2018. Since the start of the COVID-19 crisis, the OPR was reduced by a cumulative 125 bps to a historic low of 1.75%.
- The ceiling and floor rates of the corridor of the OPR are correspondingly increased to 2.25% and 1.75%, respectively.

- **Policy statement: Sees domestic economy on firmer footing but remained cautious on external risk factors**

- It appears that BNM's view on the economy has improved by a notch with the absence of a frequently repeated phrase: "risks to the growth outlook remain tilted to the downside."
- BNM highlighted that "the sustained reopening of the global economy and the improvement in labour market conditions continue to support the recovery of economic activity," adding that "these have partly cushioned the impact of the military conflict in Ukraine and the strict containment measures in China."
- Domestically, based on the latest indicators, the MPC stated that "growth is on a firmer footing, driven by strengthening domestic demand amid sustained export growth." This is backed by an improvement in the labour market as reflected in the lower unemployment rate, higher labour participation and higher wages.
- On the growth prospects, the MPC acknowledged that the transition to endemicity with further easing of restrictions, along with the reopening of international borders to visitors on 1 April, "would strengthen economic activity." The realisation of multi-year projects and improving growth outlook has spurred investment activities, the MPC added.
- However, the MPC cautioned that risks to growth remain, highlighting "a weaker-than-expected global growth, further escalation of geopolitical conflicts, worsening supply chain disruptions, and adverse developments surrounding COVID-19."
- On inflation, BNM sees core inflation to trend higher, averaging between 2.0% - 3.0% this year with headline inflation projected between 2.2% and 3.2% (KIBB: 2.9%). This is a shift from its previous stance that core inflation is expected to remain modest on continued slack in the economy and labour market. But it maintains that "existing price controls and the continued spare capacity in the economy" would contain the upward pressure on prices.

- **BNM OPR outlook: More hawkish with a possibility of another 50 to 75 bps hike for the year**

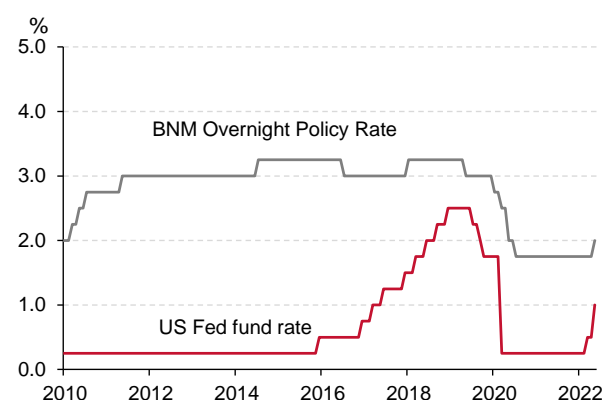
- It was a surprise that BNM would jump on the interest rate hike bandwagon this soon, given that the economic recovery remains relatively fragile and average headline inflation remains within a manageable level (YTD: 2.2%).
- Hence, we suspect that the other underlying reason for the rate hike would be due to the disposition of the state of the ringgit which has been depreciating sharply against the USD (about 4.8% since the start of the year), as well as with other major and regional currencies. The strong selling pressure is largely attributed to the rising market volatility mainly due to the US Fed's hawkish stance and the impact of China's zero-COVID-19 policy.
- A rate hike would send a signal that may stem further capital outflow. The concern is especially of the large foreign holdings of Malaysia Government Securities, which account for 38.8% share of the total.
- A stronger domestic growth recovery would further support BNM's hawkish stance and perhaps justify another 50 to 75 bps rate hike in the remaining three MPC meetings for the year.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-22
0.75%-1.00% (+0.50%)	USA	Funds Rate Target	May-22
4.40% (+0.40%)	India	Repo Rate	May-22
0.35% (+0.25%)	Australia	Cash Rate	May-22
1.50% (+0.25%)	South Korea	Base Rate	Apr-22
1.50% (+0.50%)	New Zealand	Official Cash Rate	Apr-22
1.375% (+0.25%)	Taiwan	Discount Rate	Mar-22
3.70% (-0.10%)	China	Loan Prime Rate	Jan-22
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
2.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Nov-20
0.50% (-0.25%)	Thailand	Repo Rate	May-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

12 May 2022

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 checked="" type="checkbox"/>	No change	No change
3rd	10 and 11 May (Tue and Wed)	<input checked="" type="checkbox"/>	No change	+25 bps
4th	5 and 6 July (Tue and Wed)	<input type="checkbox"/>	+25 bps	
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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