

BNM MPC Meeting (8 - 9 March)

Left the OPR unchanged and signal a possible long policy pause

- Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) maintained the overnight policy rate (OPR) at 2.75%, matching house and market expectations

- Its reason for the decision is to "continue to assess the impact of the cumulative OPR adjustments, given the lag effects of monetary policy on the economy."

- Policy statement: it emphasised on the positive development of China's reopening, better-than-expected growth in major economies, and upside risk to the domestic growth outlook amid downside risks**

- Global:** The MPC is positive on China's reopening, while growth outturns in major economies amid strong domestic demand. However, the MPC reiterates downside risks to the growth outlook: "an escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and a sharp tightening in financial market conditions."

- Domestic economy:** Following strong GDP growth of 8.7% in 2022, the MPC expects growth to moderate in 2023, surrounded by a slower global economy and downside risk associated with global developments. For reference, the Ministry of Finance recently revised the GDP growth target to 4.5% from 4.0% - 5.0% announced by the previous administration. This is likely to be supported by resilient domestic demand, increased tourist arrivals, the progress of infrastructure projects and new projects under the revised Budget 2023. In comparison, we project GDP growth of 4.7% versus consensus' 4.0%.

- Inflation:** The MPC expect headline and core inflation to moderate in 2023 (KIBB: 2.5%; 2022: 3.3%). Nevertheless, BNM added that "the balance of risk to the inflation outlook is tilted to the upside and continues to be highly subject to any changes to domestic policy on subsidies and price controls, as well as global commodity price developments." This invariably supports our view, as the government may implement targeted subsidies in the 2H23. However, we believe the impact on inflation would not be severe as the government will provide measures to minimise the adverse effect.

- BNM OPR outlook: may signal a longer-than-expected pause on policy direction**

- Following a pause in January and March MPC meeting, we believe there is a possibility that BNM's monetary policy would now shift into a long pause mode. This view is further backed by the MPC's primary aim to "calibrate the monetary policy settings that balance the risks to domestic inflation and sustainable growth," and that "further normalisation to the degree of monetary policy accommodation would be informed by the evolving conditions and their implications to the domestic inflation and growth outlook."

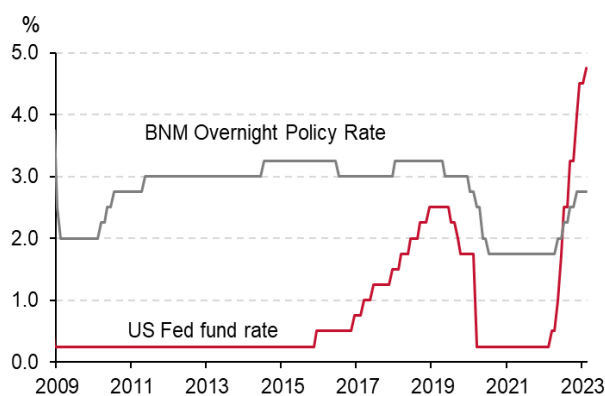
- Given that growth and inflation outlook are expected to moderate this year amid downside risk from the external front, we foresee a small probability that BNM will resume its rate hike in the near term. Therefore, barring unforeseen external and domestic shocks on growth and inflation outlook, we expect the OPR to remain unchanged at 2.75% for the rest of the year.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.75% (+0.50%)	New Zealand	Official Cash Rate	Feb-23
6.00% (+0.50%)	Philippines	Overnight Reverse Repurchase	Feb-23
3.35% (+0.25%)	Australia	Cash Rate	Feb-23
4.00% (+0.50%)	UK	Base Rate	Feb-23
4.50% - 4.75% (+0.25%)	USA	Funds Rate Target	Feb-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
1.50% (+0.25%)	Thailand	Repo Rate	Jan-23
2.50% (+0.50%)	Euro Area	Fixed Rate	Dec-22
1.75% (+0.125%)	Taiwan	Discount Rate	Dec-22
2.75% (+0.25%)	Malaysia	Overnight Policy Rate	Nov-22
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

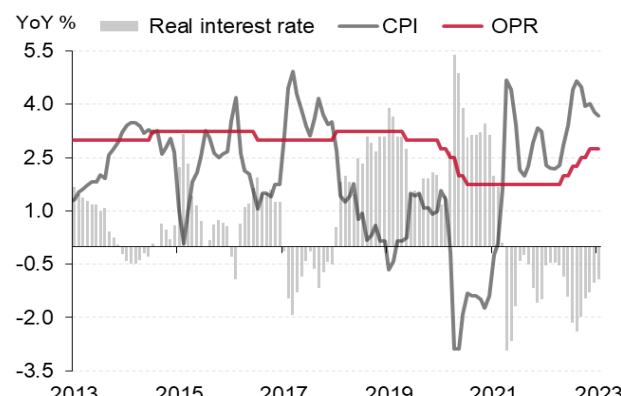
Source: Bloomberg, CEIC, Kenanga Research

Graph 1: US Fed Funds Rate and BNM OPR



Source: Bloomberg, Kenanga Research

Graph 2: Malaysia Real Interest Rate and BNM OPR



Source: Bloomberg, Kenanga Research

10 March 2023

Table 3: MPC Meeting Schedule for 2023 / KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	18 and 19 January (Wed and Thu)	<input checked="" type="checkbox"/>	+25 bps	No change
2nd	8 and 9 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	2 and 3 May (Tue and Wed)	<input type="checkbox"/>	No change	-
4th	5 and 6 July (Wed and Thu)	<input type="checkbox"/>	No change	-
5th	6 and 7 September (Wed and Thu)	<input type="checkbox"/>	No change	-
6th	1 and 2 November (Wed and Thu)	<input type="checkbox"/>	No change	-

Source: Bank Negara Malaysia, Kenanga Research

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