

BNM MPC Meeting (6 - 7 September)

No change to policy rate, reiterates risk to growth outlook

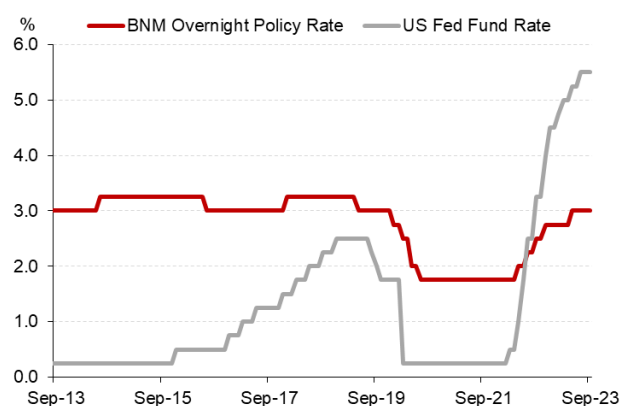
- Bank Negara Malaysia (BNM) continues to maintain the overnight policy rate (OPR) at 3.00%, in line with expectations.** All 21 respondents surveyed by Bloomberg news called for no change on the OPR.
- Policy statement: Monetary Policy Committee (MPC) reaffirmed that its monetary policy stance remains supportive of the economy, but omit the phrase “slightly accommodative”**
 - Global:** Though the global economy continues to expand, driven by resilient domestic demand and favourable labour market conditions, the MPC sees global growth “weighed down by persistently elevated core inflation and higher interest rates.” Apart from repeating its concern about China’s growth recovery, the MPC freshly mentioned the growing weakness in global trade due to “rotation of spending from goods and services, and the ongoing electrical and electronics downcycle.”
 - Meanwhile, BNM’s outlook on the global economy remained unchanged and it continues to emphasised that it is subjected to downside risks: slower growth momentum in major economies, unexpectedly higher inflation outturns, escalating geopolitical tensions, and a sharp tightening in financial market conditions.
 - Domestic economy:** Following the slower-than expected 2Q23 GDP growth, BNM sees growth “will continue to be driven by resilient domestic expenditure amid the challenging external environment.” With healthy employment and wage growth supportive of household spending, improving tourist arrivals and spending, continued progress of multi-year infrastructure projects, and the implementation of catalytic initiatives under the recently announced New Industrial Master Plan 2030, growth momentum is expected to continue going into 2024.
 - Inflation:** BNM continues to expect inflation, both headline and core, to ease “amid the more moderate cost conditions” in the 2H23. Domestic policy on subsidies and price controls, global commodity prices and financial market developments, as well as the degree of persistence in core inflation are factors that could determine the inflation outlook, it adds.
- BNM OPR outlook: Status quo for longer amid slower growth outlook and uncertainty**
 - Heightened macro uncertainty and slower global growth are largely the main reasons for BNM to continue its “no change” stance for a longer period. Furthermore, there is limited reasons for BNM to change its policy stance as we believe it has completed its rate normalisation cycle following signs that inflationary pressures are easing. This would keep the hawkish bias in check and allow BNM to focus on financial stability and dealing with external risks.
 - Also by dropping the phrase “slightly accommodative” after “At the current OPR level,” it somewhat removes any expectation of further tightening by BNM and also signals that the current monetary cycle has reached its peak and the next move would likely be a rate cut. However, it would not be anytime soon.
 - Along with the expectation that the Fed and major central banks will maintain their current policy rate for longer in view of the stubbornly high inflation, we expect this would give BNM ample reason to maintain the OPR at 3.00% well into 2024 and beyond, barring any unforeseen shocks.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.45% (-0.10%)	China	Loan Prime Rate (1Y)	Aug-23
5.25% (+0.25%)	UK	Base Rate	Aug-23
4.25% (+0.25%)	Euro Area	Fixed Rate	Aug-23
2.25% (+0.25%)	Thailand	Repo Rate	Aug-23
5.25% - 5.50% (+0.25%)	USA	Funds Rate Target	Jul-23
4.10% (+0.25%)	Australia	Cash Rate	Jun-23
5.50% (+0.25%)	New Zealand	Official Cash Rate	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.25%)	Philippines	Overnight Reverse Repurchase	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

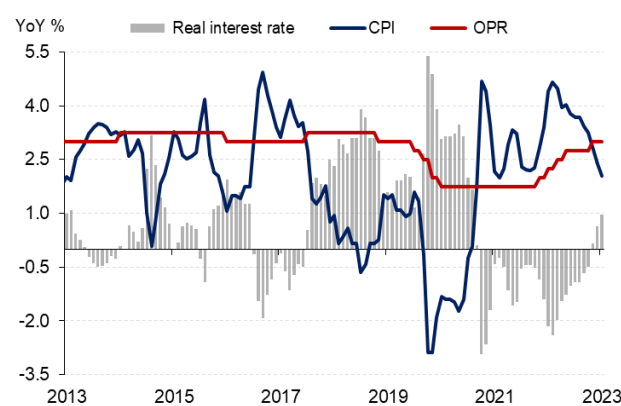
Source: Bloomberg, Kenanga Research

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

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 checked="" type="checkbox"/>	No change	+25 bps
4th	5 and 6 July (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
5th	6 and 7 September (Wed and Thu)	<input checked="" type="checkbox"/>	No change	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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