

Malaysian Economy

BNM Stands Pat: No Change in OPR

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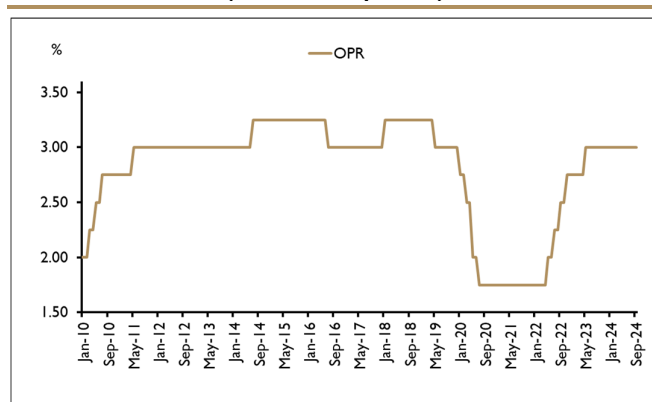
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The Decision

- During its fifth Monetary Policy Committee (MPC) meeting on 5 September 2024, **Bank Negara Malaysia (BNM) kept its key interest rate at 3.00%**. This move, which aligns with both our own and market expectations, was supported by BNM's reasoning that the current monetary policy stance continues to aid economic growth and aligns with the present outlook for inflation and growth.

Figure 1: OPR
(Jan 2010 – Sept 2024)



Source: BNM, Bloomberg, TA Securities

- Bank Negara sounded optimistic about the economic growth developments both domestically and globally.
 - Domestically, the Malaysian economy grew by 5.1% YoY in the first half of 2024.** Recent indicators suggest that economic activities remain steady, driven by resilient domestic spending and increased exports. The Malaysian Leading Index (LI), a composite indicator designed to forecast the future trajectory of economic activity several months ahead, has been on an upward trend since its contraction in December 2023 (June24: +3.5% YoY). Moreover, exports are expected to benefit further from the global tech upcycle, given Malaysia's role in the semiconductor supply chain, along with continued strength in non-E&E goods. Additionally, increased intermediate and capital imports will further reinforce export and investment activities.
 - Tourist spending is anticipated to keep rising, supported by employment and wage growth, alongside policy measures that bolster household spending. The robust expansion in investment activity is expected to continue, fueled by ongoing progress in multi-year projects across both the private and public sectors, the execution of key initiatives under national master plans, and a higher realisation of approved investments.
 - However, the growth outlook faces downside risks from weaker-than-expected external demand and commodity production. On the other hand, growth could exceed expectations if there are stronger spillover effects from the tech upcycle, more vibrant tourism activity, and quicker implementation of investment projects.

- **The global economy continues to expand, supported by resilient labor markets and the ongoing recovery in global trade.** Looking ahead, global growth is expected to be sustained by favorable labour market conditions, moderating inflation, and a less restrictive monetary policy environment. The recovery in global trade is projected to persist, bolstered by both electrical and electronics (E&E) products as well as non-E&E goods. However, the growth outlook faces downside risks, primarily from escalating geopolitical tensions, volatility in global financial markets, and a potential slowdown in growth momentum in major economies.
- **Touching on prices, 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% (TA forecast: 2.5%-3.0%). Upside risks 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.

Our Thoughts

- **Our current projection suggests that BNM is likely to keep the OPR at 3.00% throughout 2024.** This forecast is based on the view that Malaysia's economy is still in the process of regaining strong momentum and faces potential downside risks. The current monetary policy stance continues to support economic growth while aligning with the existing outlook on inflation and growth prospects. The MPC remains attentive to ongoing developments to guide its assessment of inflation and growth trajectories as we move towards 2025. The MPC will ensure that monetary policy remains conducive to sustainable economic growth while maintaining price stability. **There is a possibility that the central bank could maintain its policy rate for next year,** especially with the narrowing spread between the Fed Fund Rate and OPR — indicating little pressure for the central bank to ease unless the economy overheats.
- On top of that, 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. As of yesterday, the Malaysian Ringgit concluded trading at RM4.336/USD, reflecting an improvement from the previous day's closing rate of RM4.3505/USD. The ringgit has also been trending upwards since its recent low of RM4.7957/USD on April 16, 2024. Year-to-date, the ringgit has improved by more than 6%.
- **The next MPC meeting is scheduled for 5 - 6 November 2024.**

Figure 2: Schedule of Monetary Policy Committee Meetings for 2024

MPC	Dates
1st	23 and 24 January 2024 (Tuesday and Wednesday)
2nd	6 and 7 March 2024 (Wednesday and Thursday)
3rd	8 and 9 May 2024 (Wednesday and Thursday)
4th	10 and 11 July 2024 (Wednesday and Thursday)
5th	4 and 5 September 2024 (Wednesday and Thursday)
6th	5 and 6 November 2024 (Tuesday and Wednesday)

Source: BNM

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