

## Malaysia – BNM decides to maintain the OPR at 2.75%

### No changes on the OPR

In its first meeting of the year, Bank Negara Malaysia (BNM) kept its OPR unchanged at 2.75%, an outcome that surprises the market. The decision came in after the central bank has raised the OPR by 100 bps over the course of four meetings which started back in May 2022. Due to the lag effects nature of monetary policy, the BNM is taking cautious stance in assessing its effects on the economy.

### BNM now is pessimistic on global growth prospects

From the Monetary Policy Statement, we observed BNM's assessment is that the risk to global growth outlook tilts to the downside due to geopolitical tensions, weaker-than-expected growth in major economies, and sharp tightening in the financial market conditions. The tone was similar to how the central bank viewed the global growth outlook back in November 2022. Despite the reopening of China's economy, we do not observe any significant shift in its tone. According to the statement, the concern on the reopening is more on the wave of Covid-19 infections that have not subsided yet.

### Views on the domestic economy did not change much

Similar to what was said in November 2022, BNM viewed that the economy will be supported by domestic demand, improvement in the tourism sector, and investment activities. Relative strong domestic sector is somewhat in line with our view in the 2023 Economic Outlook Report that we recently published.

While domestic demand is expected to be supportive of the economy, external challenges amidst slower global economic growth anticipated in 2023 is the key moderating factor to the overall outlook. Trade numbers that came out yesterday which showed a slower growth provides an indication on how Malaysia's trade performance might be in 2023. Furthermore, sentiment among manufacturers is already showing signs of global slowdown with the manufacturing Purchasing Managers' Index (PMI) spotted in contractionary region.

### Views on inflation changed

In the previous statement back in November 2022, BNM stated that "...headline and core inflation are expected to remain elevated." Their view in the latest meeting changed, where "...headline and core inflation are expected to moderate but remain at elevated level."

We view that the headline inflation will moderate to 3.0% in 2023 (refer Exhibit 1). However, our view on inflation will change if one of these materialises; i) changes on price cap for RON95 and diesel, ii) higher global food prices, and iii) subsidies on selected food items are removed.

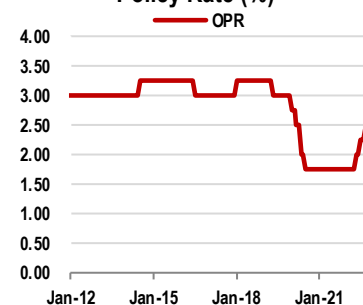
### AmBank Economic Research

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Figure 1: Malaysia – Overnight Policy Rate (%)



Source: CEIC, AmBank Research

Table 1: BNM MPC Meeting Schedule 2023

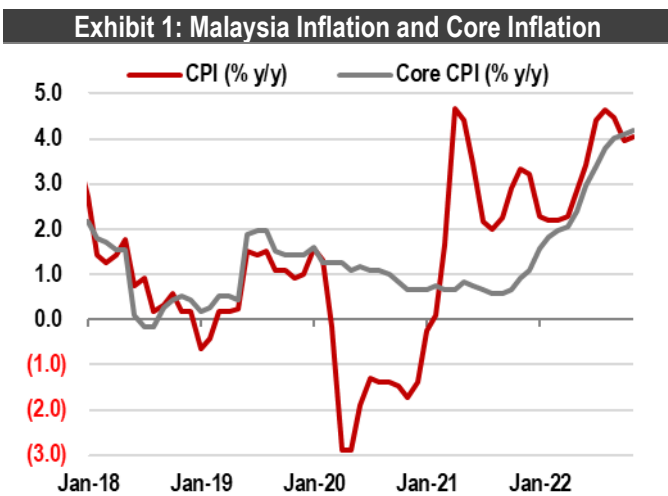
MPC Meeting No	Dates
1st	18 and 19 January 2023
2nd	8 and 9 March 2023
3rd	2 and 3 May 2023
4th	5 and 6 July 2023
5th	6 and 7 September 2023
6th	1 and 2 November 2023

Source: BNM, AmBank Research

**Maintain our view of OPR at 3.00% in 2023**

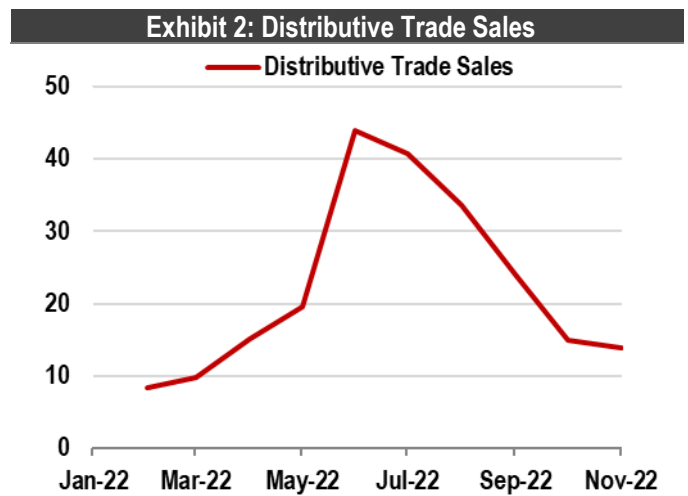
We are maintaining our 2023 OPR forecast at 3.00%. We provide below the dynamics on why we think that another 25 bps rate hike may happen:

- 1) **Private consumption is too strong** - Private consumption indicators are showing that spending is still strong. The distributive retail sales continued to grow by 13.9% y/y in November 2022 (refer Exhibit 2), driven by motor vehicle purchases (+13.9% y/y) and retail trade purchases (+22.8% y/y). Coincidentally, loan growth has been slowing down and household savings is on a declining trend since September 2022, as illustrated in Exhibits 3 and 4. This could mean that households were depleting their savings to spend, although, this is not our final conclusion as there might other factors along the horizon.
- 2) **Core inflation** – The variable which measures how strong demand-pull inflation is stood at 4.2% y/y in November 2022, which is the highest reading since the data for core inflation first collected in 2015. Components within the core inflation, including food & beverages, health, clothing & footwear and health have been on the upward trend, and have not shown any sign of dropping in the near term.
- 3) **Real interest rates** - The real rate was in the negative territory in 2022. Looking at the historical trend, the real rates has never stayed in the negative territory for more than a year, since it could discourage spending (refer Exhibit 5). The case for higher OPR becomes imminent should domestic inflation turns to be higher than what we currently looking at.
- 4) **Tight labour market** – We noticed that labour market in Malaysia is showing some level of tightness although not extreme. We saw there is a strong correlation between employment growth and core inflation. Looking at Exhibit 6, total job vacancy is still 2-3 times higher than the pre-pandemic levels, meaning there is still more room for the labour market to improve in 2023. Furthermore, wage growth in the manufacturing sector increased by 3.3% y/y in November 2022, which is higher than 2021 average of 1.1%.



Malaysia’s core inflation is on the upward trend throughout 2022.

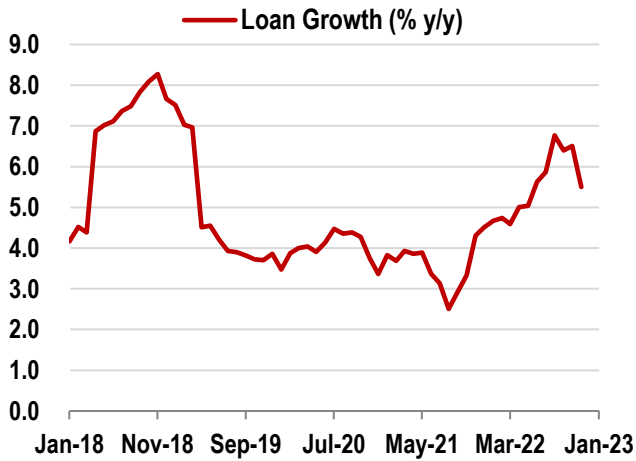
Source: CEIC, AmBank Research



The distributive trade sales grew at a double-digit pace, driven by the higher sales in motor vehicles and retail trade.

Source: CEIC, AmBank Research

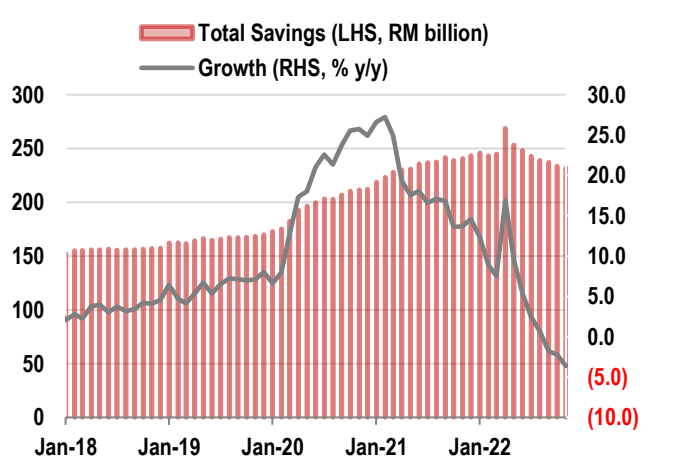
**Exhibit 3: Loan Growth**



Loan growth was slower since September 22

Source: CEIC, AmBank Research

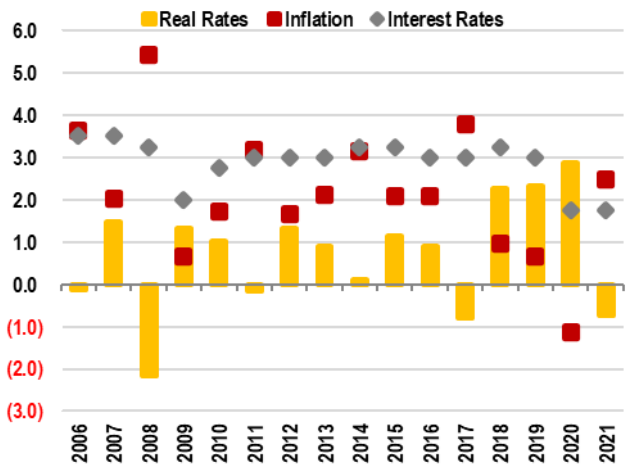
**Exhibit 4: Savings Growth**



Savings growth declined since September 22

Source: CEIC, AmBank Research

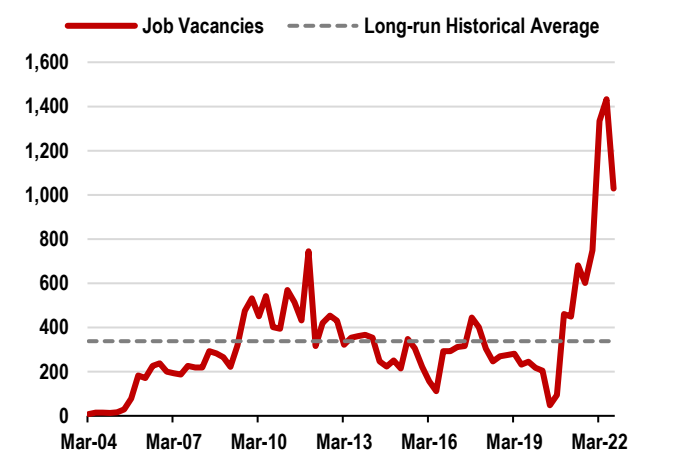
**Exhibit 5: Malaysia Real Rates**



Malaysia's real rates was in the negative territory in 2022.

Source: CEIC, AmBank Research

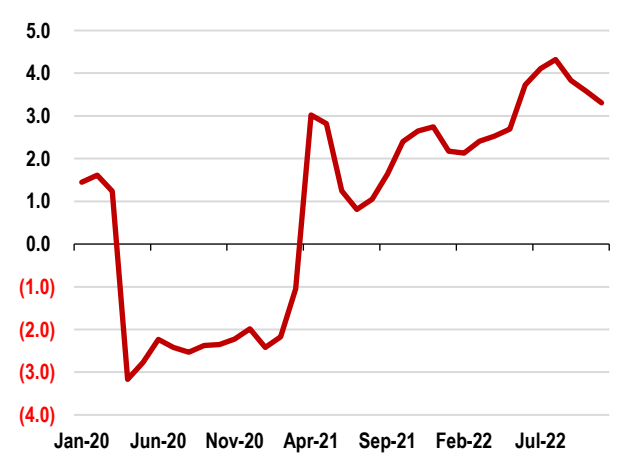
**Exhibit 6: Job Vacancies ('000)**



Total job vacancy is still 2-3 times higher than the pre-pandemic levels

Source: BNM, CEIC, AmBank Research

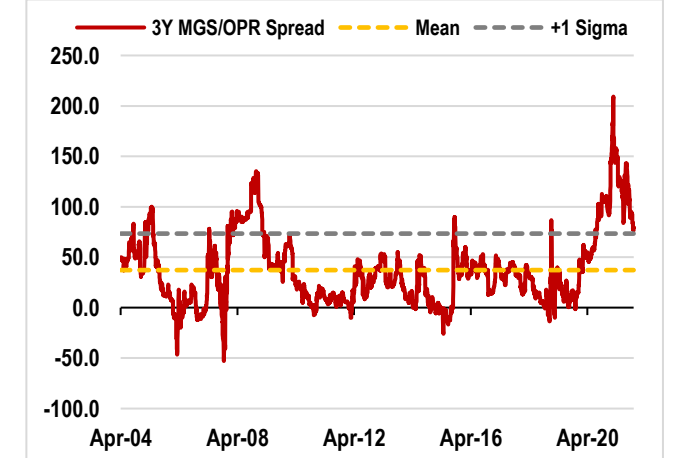
**Exhibit 7: Manufacturing Payroll Growth (% y/y)**



Wage growth in manufacturing sector is still above 2021's average

Source: CEIC, AmBank Research

**Exhibit 8: 3-year MGS-to-OPR Spread (bps)**



The 3-year MGS/OPR spread is now at around 76.6bps

Source: CEIC, AmBank Research

## Indicator calendar

Monday January 09 2023			Consensus	Previous
8:30 AM	AU	Building Permits MoM Prel NOV		-6%
8:30 AM	AU	Building Permits YoY Prel NOV		-6.40%
8:30 AM	AU	Private House Approvals MoM Prel NOV		-2.20%
5:00 PM	SG	Foreign Exchange Reserves DEC		S\$399.1B
6:00 PM	EA	Unemployment Rate NOV		6.50%
7:00 PM	GB	BBA Mortgage Rate DEC		5.88%
Tuesday January 10 2023			Consensus	Previous
12:00 AM	US	Consumer Inflation Expectations DEC		5.20%
12:30 AM	US	3-Month Bill Auction		
12:30 AM	US	6-Month Bill Auction		
4:00 AM	US	Consumer Credit Change NOV	\$25B	\$27.08B
7:00 AM	KR	Current Account NOV		\$0.88B
7:30 AM	JP	Household Spending YoY NOV		1.20%
7:30 AM	JP	Household Spending MoM NOV		1.10%
7:30 AM	JP	Tokyo Core CPI YoY DEC		3.60%
7:30 AM	JP	Tokyo CPI YoY DEC		3.80%
7:30 AM	JP	Tokyo CPI Ex Food and Energy YoY DEC		1.20%
8:01 AM	GB	BRC Retail Sales Monitor YoY DEC		4.10%
12:00 PM	MY	Unemployment Rate NOV		3.60%
7:00 PM	US	NFIB Business Optimism Index DEC		91.9
9:55 PM	US	Redbook YoY JAN/07		
11:00 PM	US	IBD/TIPP Economic Optimism JAN		42.9
11:00 PM	US	Wholesale Inventories MoM NOV		0.50%
Wednesday January 11 2023			Consensus	Previous
2:00 AM	US	3-Year Note Auction		4.09%
5:30 AM	US	API Crude Oil Stock Change JAN/06		
7:00 AM	KR	Unemployment Rate DEC		2.90%
7:50 AM	JP	Foreign Exchange Reserves DEC		\$1226.3B
8:30 AM	AU	Monthly CPI Indicator NOV		6.90%
8:30 AM	AU	Retail Sales MoM NOV		-0.20%
11:35 AM	JP	30-Year JGB Auction		1.48%
12:00 PM	MY	Industrial Production YoY NOV		4.60%
12:00 PM	MY	Retail Sales YoY NOV		26.00%
1:00 PM	JP	Coincident Index Prel NOV		99.6
1:00 PM	JP	Leading Economic Index Prel NOV		98.6
8:00 PM	US	MBA 30-Year Mortgage Rate JAN/06		
8:00 PM	US	MBA Mortgage Refinance Index JAN/06		
8:00 PM	US	MBA Mortgage Market Index JAN/06		
8:00 PM	US	MBA Purchase Index JAN/06		
8:00 PM	US	MBA Mortgage Applications JAN/06		
11:30 PM	US	EIA Gasoline Stocks Change JAN/06		
11:30 PM	US	EIA Crude Oil Stocks Change JAN/06		
11:30 PM	US	EIA Crude Oil Imports Change JAN/06		
11:30 PM	US	EIA Refinery Crude Runs Change JAN/06		
11:30 PM	US	EIA Distillate Stocks Change JAN/06		
11:30 PM	US	EIA Heating Oil Stocks Change JAN/06		
11:30 PM	US	EIA Gasoline Production Change JAN/06		
11:30 PM	US	EIA Cushing Crude Oil Stocks Change JAN/06		
11:30 PM	US	EIA Distillate Fuel Production Change JAN/06		

Source: Trading Economics

Thursday January 12 2023			Consensus	Previous
2:00 AM	US	10-Year Note Auction		3.63%
5:45 AM	NZ	Building Permits MoM NOV		-10.70%
7:50 AM	JP	Current Account NOV		¥-64.1B
7:50 AM	JP	Bank Lending YoY DEC		2.70%
8:30 AM	AU	Balance of Trade NOV		A\$12.217B
8:30 AM	AU	Exports MoM NOV		-1%
8:30 AM	AU	Imports MoM NOV		-1%
9:30 AM	CN	Inflation Rate YoY DEC		1.60%
9:30 AM	CN	Inflation Rate MoM DEC		-0.20%
9:30 AM	CN	PPI YoY DEC		-1.30%
1:00 PM	JP	Eco Watchers Survey Current DEC		48.1
1:00 PM	JP	Eco Watchers Survey Outlook DEC		45.1
9:30 PM	US	Core Inflation Rate YoY DEC		6%
9:30 PM	US	Inflation Rate YoY DEC		7.10%
9:30 PM	US	Inflation Rate MoM DEC	0.10%	0.10%
9:30 PM	US	Initial Jobless Claims JAN/07		
9:30 PM	US	Core Inflation Rate MoM DEC	0.30%	0.20%
9:30 PM	US	CPI DEC		297.711
9:30 PM	US	Continuing Jobless Claims DEC/31		
9:30 PM	US	Jobless Claims 4-week Average JAN/07		
11:30 PM	US	EIA Natural Gas Stocks Change JAN/06		
	CN	Vehicle Sales YoY DEC		-7.90%
	CN	New Yuan Loans DEC		CNY1210B
	CN	Outstanding Loan Growth YoY DEC		11%
	CN	Total Social Financing DEC		CNY1990B
	CN	M2 Money Supply YoY DEC		12.40%
Friday January 13 2023			Consensus	Previous
12:30 AM	US	4-Week Bill Auction		
12:30 AM	US	8-Week Bill Auction		
1:00 AM	US	WASDE Report		
1:00 AM	US	Quarterly Grain Stocks - Corn DEC		1.377B
1:00 AM	US	Quarterly Grain Stocks - Soy DEC		0.274B
1:00 AM	US	Quarterly Grain Stocks - Wheat DEC		1.776B
2:00 AM	US	30-Year Bond Auction		3.51%
3:00 AM	US	Monthly Budget Statement DEC		\$-249B
5:00 AM	KR	Export Prices YoY DEC		8.60%
5:00 AM	KR	Import Prices YoY DEC		14.20%
7:50 AM	JP	Foreign Bond Investment DEC/31		
7:50 AM	JP	Foreign Bond Investment JAN/07		
7:50 AM	JP	Stock Investment by Foreigners DEC/31		
7:50 AM	JP	Stock Investment by Foreigners JAN/07		
8:30 AM	AU	Home Loans MoM NOV		-2.90%
8:30 AM	AU	Investment Lending for Homes NOV		-2.20%
9:00 AM	KR	Interest Rate Decision		3.25%
11:35 AM	JP	3-Month Bill Auction		
11:35 AM	JP	5-Year JGB Auction		0.12%
3:00 PM	GB	GDP MoM NOV		0.50%
3:00 PM	GB	Industrial Production MoM NOV		0%
3:00 PM	GB	GDP 3-Month Avg NOV		-0.30%
3:00 PM	GB	Manufacturing Production MoM NOV		0.70%
3:00 PM	GB	Goods Trade Balance NOV		£-14.476B
3:00 PM	GB	Goods Trade Balance Non-EU NOV		£-4.823B
3:00 PM	GB	Industrial Production YoY NOV		-2.40%
3:00 PM	GB	Balance of Trade NOV		£-1.785B
3:00 PM	GB	Construction Output YoY NOV		7.40%
3:00 PM	GB	Manufacturing Production YoY NOV		-4.60%
3:00 PM	GB	GDP YoY NOV		1.50%
6:00 PM	EA	Industrial Production MoM NOV		-2%
6:00 PM	EA	Balance of Trade NOV		€-26.5B
6:00 PM	EA	Industrial Production YoY NOV		3.40%
9:00 PM	GB	NIESR Monthly GDP Tracker DEC		-0.30%
9:30 PM	US	Export Prices MoM DEC		-0.30%
9:30 PM	US	Import Prices MoM DEC		-0.60%
9:30 PM	US	Import Prices YoY DEC		2.70%
9:30 PM	US	Export Prices YoY DEC		6.30%
11:00 PM	US	Michigan Consumer Sentiment Prel JAN		59.7
11:00 PM	US	Michigan 5 Year Inflation Expectations Prel JAN		2.90%
11:00 PM	US	Michigan Consumer Expectations Prel JAN		59.9
11:00 PM	US	Michigan Current Conditions Prel JAN		59.4
11:00 PM	US	Michigan Inflation Expectations Prel JAN		4.40%
	CN	FDI (YTD) YoY DEC		9.90%

Source: Trading Economics

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