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ECONOMICS

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Malaysia – An early signal for policy normalisation?

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AmBank Research

Friday, 05 March 2021

Dr. Anthony Dass

Chief Economist/Head
anthony-dass@ambankgroup.com
03-20322972

Munesh Nair Muralidharan

Economist
munesh-nair@ambankgroup.com
03-20362255

Nur Iman Binti Mohamed Azhar

Economist
iman-azhar@ambankgroup.com
03-20363020

Malaysia

An early signal for policy normalisation?

The latest decision by BNM to hold the policy rate unchanged is mostly within expectations. This decision indicates that the outlook of the OPR going forward will continue to be evidence based. This would mean for the next two quarters, the 1.75% level is likely to be kept intact.

With the global and domestic economic outlook's solid rebound on the plate, while acknowledging downside risk, this points to the question of inflation expectations. Evidence of upwards pressure on potential inflation coming from demand and cost will open the door for talks on policy normalisation. It is more likely to happen in 4Q2021. Extrapolating the current set of data, the preliminary indication points to a 30% chance of a rate hike in 4Q2021 with a 70% probability of the rate remaining at 1.75%. But this assessment could change as more actual data is factored in as we go forward.

- Apart from a 25bps cut by Bank of Indonesia in February to 3.50%, most central banks left their policy rate unchanged thus far this year. On that note, BNM, as expected, left their policy rate unchanged for the second consecutive MPC meeting at 1.75%, where 18 economists out of 23 predicted no rate cut.
- The decision to leave the OPR unchanged is supported by improving optimism over the global and domestic economic recovery. The deployment of vaccines, expectations of better management of the pandemic virus spread, improving global trade, firmer commodity prices, a pick-up in global semiconductors, contribution from primary-related exports, stimulus measures and improving consumer sentiment and business confidence are all pointing towards a rebound. The outlook for Malaysia's GDP for 2021 is be around 5.2%–5.9%, as 1Q2021 would be weighed down by the MCO 2.0.
- The potential direction of the OPR will continue to be evidence-based i.e. data driven. That would mean the monetary policy will remain accommodative for the rest of the year. With downside risk still remains, both external and domestic, the OPR is more likely to remain at 1.75% for the next two quarters.
- Talks on policy rate normalisation could start to creep up in the final quarter of 2021. Much will now depend on the potential inflow of the macro data. Should the data points to an upward potential inflationary pressures driven by both demand and cost, it will put BNM in the spot light with little room to continue holding the current 1.75%.

- Extrapolating the current set of data, the preliminary indication points to a 30% chance of a rate hike in 4Q2021 with 70% probability of the rate remaining at 1.75%. But this assessment could change as more actual data is factored in as we go forward.

Table 1: Malaysia Policy Data (%)

	Feb'20	Mar'20	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar
OPR (%)	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CPI y/y	1.3	-0.2	-2.9	-2.9	-1.9	-1.3	-1.4	-1.4	-1.5	-1.7	-1.4	-0.2	nm	nm
Core-CPI y/y	1.3	1.3	1.3	1.1	1.2	1.1	1.1	1.0	0.8	0.7	0.7	0.7	nm	nm
Real Returns(%)	1.4	2.7	5.4	4.9	3.9	3.1	3.1	3.1	3.2	3.5	3.1	2.0	nm	nm
RM/USD (avg)	4.163	4.296	4.349	4.336	4.273	4.261	4.184	4.148	4.150	4.113	4.055	4.036	4.045	nm
RM/USD (y/y%)	2.1	5.4	5.8	4.0	2.7	3.4	-0.1	-0.8	-0.9	-1.0	-2.2	-1.049	-2.8	nm

Source: CEIC/AmBank Research

Table 2: Policy Rate Movement (%)

	Mar'20	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Cumulative rate cut in 2020 (bps)
Australia	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10	65
EU	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	0
China	4.05	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	25
India	4.40	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	115
Indonesia	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50	125
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0
Malaysia	2.50	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	125
New Zealand	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	75
Philippines	3.75	3.25	3.25	2.75	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50	200
S.Korea	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	75
Thailand	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	75
Turkey	9.75	8.75	8.25	8.25	8.25	8.25	10.25	10.25	15.00	17.00	17.00	17.00	17.00	-500
UK	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	65
US	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	150

Source: CEIC/AmBank Research

Table 3: Reserve Requirement Ratio (% , End Period)

	Mar'20	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'21	Feb	Mar	Cumulative Cuts (bps)
China	9.50	9.40	9.40	9.40	9.40	9.40	9.40	9.40	9.40	9.40	9.40	9.40	nm	100
India	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	100
Indonesia	5.50	5.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	200
Japan	0.79	0.80	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.82	0.82	0.82	0.82	79
Malaysia	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	100
Philippines	14.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	200
S Korea	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	0
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0
Turkey	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.00	6.00	8.00	nm	100
US	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1000

Source: CEIC/AmBank Research; Note: For China RRR = In view of the fact that the cut of the RRR effective from 15 Oct 2018 was not for all depository institutions, it could not be updated accordingly. Afterwards, if the official has disclosed the exact data of the ratio, it will be updated accordingly.



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Table 4: BNM MPC Meeting Key Highlights

MPC Meeting (20 Jan 2021)	MPC Meeting (04 Mar 2021)
<ul style="list-style-type: none"> The global economy continues to recover, led by improvements in manufacturing and export activity. However, the recent resurgences of COVID-19 cases and the subsequent containment measures have affected economic activity in several major economies. The expedited roll-out of mass vaccination programmes, together with ongoing policy support, are expected to lift global growth prospects going forward. Financial conditions also remain supportive. The overall outlook remains subject to downside risks, primarily if there is further resurgence of COVID-19 infections and delays in mass inoculation against COVID-19. For Malaysia, the resurgence in COVID-19 cases and the introduction of targeted containment measures has affected the recovery momentum in the fourth quarter of 2020. As a result, growth for 2020 is expected to be near the lower end of the earlier forecasted range. For 2021, while near-term growth will be affected by the re-introduction of stricter containment measures, the impact will be less severe than that experienced in 2020. The growth trajectory is projected to improve from the second quarter onwards. The improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures, and higher production from existing and new manufacturing and mining facilities. The roll-out of vaccines in the coming months will also lift sentiments. Downside risks to the outlook remain, stemming mainly from ongoing uncertainties surrounding the dynamics of the pandemic and potential challenges that might affect the roll-out of vaccines both globally and domestically. In line with earlier assessments, the average headline inflation is expected to be negative in 2020 due mainly to the substantially lower global oil prices. For 2021, headline inflation is projected to average higher, primarily due to higher global oil prices. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments. The MPC considers the stance of monetary policy to be appropriate and accommodative. Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward will be determined by new data and information, and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery. 	<ul style="list-style-type: none"> The global economic recovery, while uneven, is gaining momentum, supported by steady improvements in manufacturing and trade activity. The ongoing roll-out of vaccination programmes in many economies, together with policy support, will further facilitate an improvement in private demand and labour market conditions. While financial markets have experienced bouts of volatility, financial conditions remain supportive of economic activity. Risks to the growth outlook have abated slightly, but remain tilted to the downside, primarily due to uncertainty over the path of the COVID-19 pandemic and effectiveness of the vaccination programmes. For Malaysia, latest indicators point to improvements in external demand and continued consumer spending. While the re-imposition of containment measures will affect growth in the first quarter, the impact is expected to be less severe than that experienced in the second quarter of 2020. Going forward, growth is projected to improve from the second quarter onwards, driven by the recovery in global demand, increased public and private sector expenditure amid continued support from policy measures and more targeted containment measures. Growth will also be supported by higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related sub-sectors, as well as oil and gas facilities. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and economic activity. The growth outlook, however, remains subject to downside risks, stemming mainly from ongoing uncertainties in developments related to the pandemic, and potential challenges that might affect the roll-out of vaccines both globally and domestically. Headline inflation in 2021 is projected to average higher, primarily due to higher global oil prices. In terms of trajectory, headline inflation is anticipated to temporarily spike in the second quarter of 2021 due to the lower base from the low domestic retail fuel prices in the corresponding quarter of 2020, before moderating thereafter. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments. The MPC considers the stance of monetary policy to be appropriate and accommodative. Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward will continue to be determined by new data and information, and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.

Source: BNM/AmBank Research



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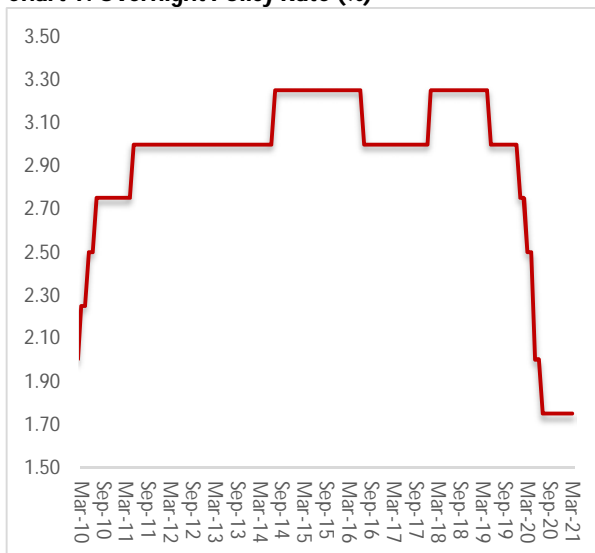
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Table 5: BNM MPC Meeting Schedule 2021

MPC Meeting No	Date(s)	OPR Decision
1st	19 – 20 January	Unchanged at 1.75%
2nd	3 – 4 March	Unchanged at 1.75%
3rd	5 – 6 May	-
4th	7 – 8 July	-
5th	8 – 9 September	-
6th	2 – 3 November	-

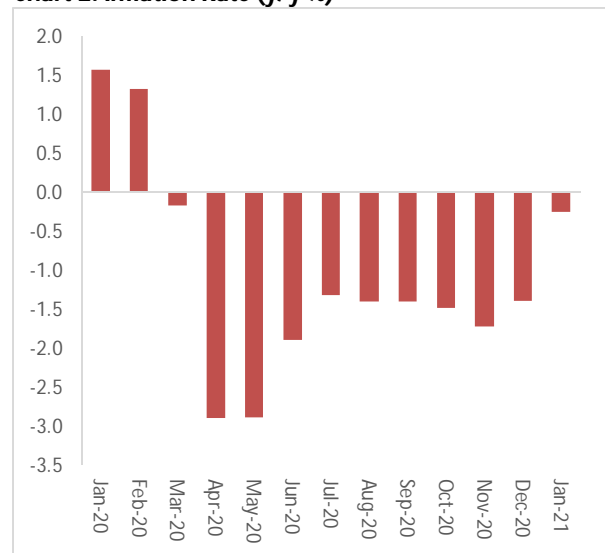
Source: BNM/AmBank Research

Chart 1: Overnight Policy Rate (%)



Source: CEIC/AmBank Research

Chart 2: Inflation Rate (y/y %)



Source: CEIC/AmBank Research



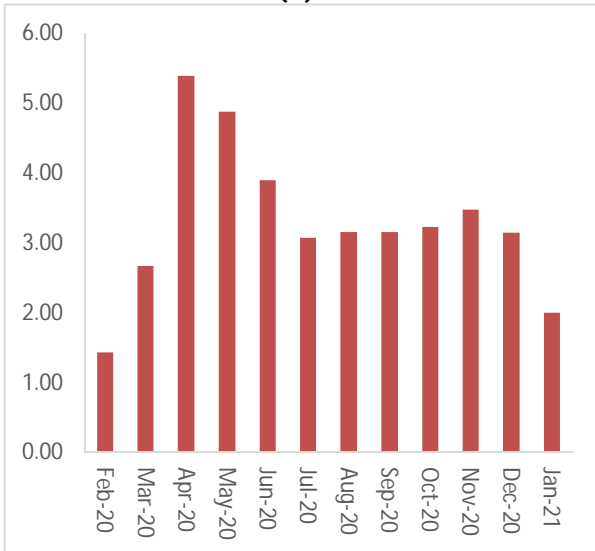
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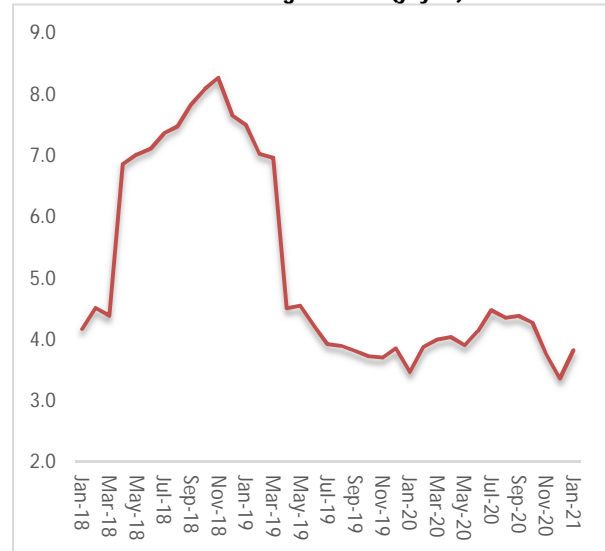
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Chart 3: CPI Real Returns (%)



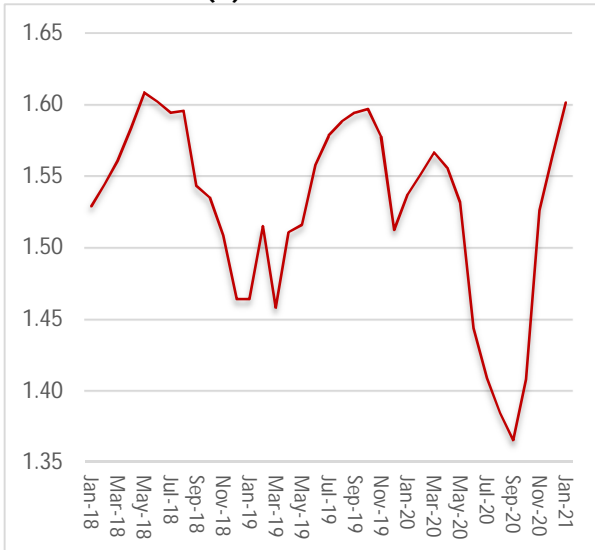
Source: CEIC/AmBank Research

Chart 4: Loan Outstanding Growth (y/y %)



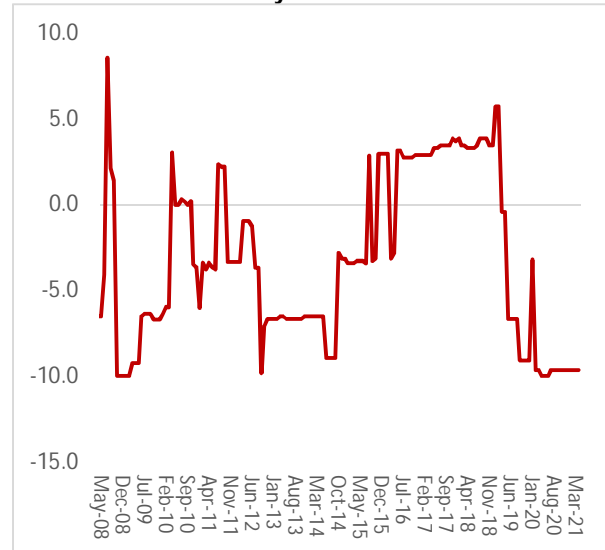
Source: CEIC/AmBank Research

Chart 5: NPL Ratio (%)



Source: CEIC/AmBank Research

Chart 6: Global Monetary Tracker



Source: CFR/AmBank Research



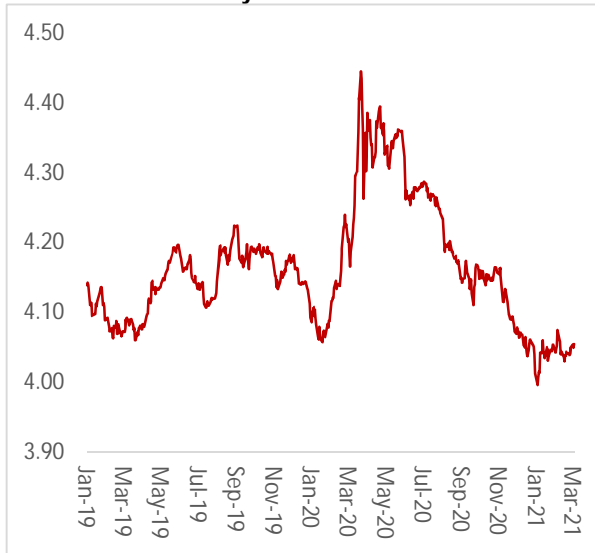
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Chart 7: USDMYR Daily Performance



Source: CEIC/AmBank Research

Chart 8: KLCI Daily Performance



Source: CEIC/AmBank Research

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