



Economic Highlights

- BNM makes 25bps OPR hike, pushing interest rates to 2.75%

Malaysia – OPR lifted by 25bps

BNM hiked for the fourth time this year.

In line with our expectation and consensus, Bank Negara Malaysia (BNM) increased the OPR by 25bps to 2.75%. This will be the fourth OPR hike this year, a cumulative of 100bps rate hike throughout the year.

Inflation was the reason.

From BNM’s point of view, the OPR hike was due to the inflationary concerns coming from domestic recovery itself. Latest core inflation stood at 4.0% y/y in September (2.7% ytd average), which is in the upper bound of BNM’s forecast of 2.0 – 3.0%.

From the supply side, global supply-chain pressure has cooled since April this year, thus pushing down some pressure from input cost.

However, the weakening of the ringgit (13.9% ytd) was the reason for inflation to remain elevated.

Pressure from the demand side could have reached its peak in our view. Spending indicators such as retail trade stood at 34.5% y/y in August, after peaking at 38.4% y/y in June. Payments via credit card have also cooled down to 26.8% y/y in September, after peaking at 63.1% y/y in June.

Growth to be supported by domestic factors, but external headwinds persist.

The recovery of the domestic economy will support growth, primarily from the improving labour market, investment realisation, recovery in the tourism sector.

Downside risks to growth remain, especially coming from the external front. This includes tighter financial conditions in major economies, China’s insistence on the stringent Covid-19 policy which will worsen supply chain, and escalation of geopolitical conflicts.

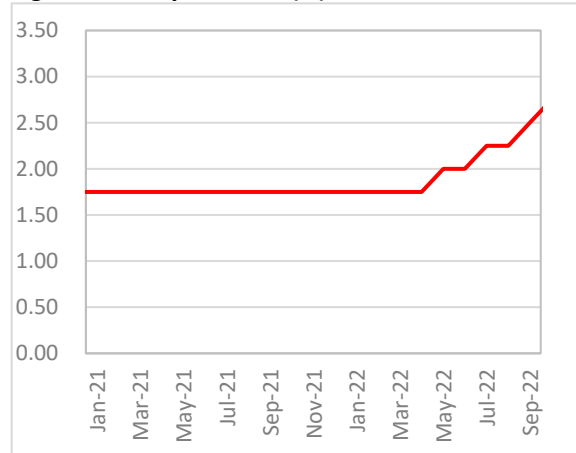
Ringgit depreciated after announcement

After the announcement, the ringgit depreciated by 0.17% to 4.7460 (relative to yesterday’s closing rate).

External headwinds plus domestic noises remain major drawback to the ringgit. Also, the interest rates differentials between the fed funds rate and the OPR remain wide at 100bps, favouring the dollar. We project the USDMYR in 4Q22 would be at 4.70 against the dollar.

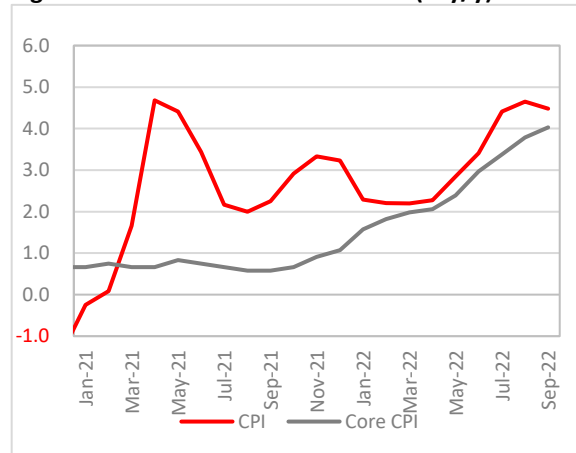
We view that another 25bps will likely take place in the next meeting in January 2023, pushing the OPR to 3.00%. This will bring the interest rates to the pre-pandemic level.

Figure 1: Malaysia – OPR (%)



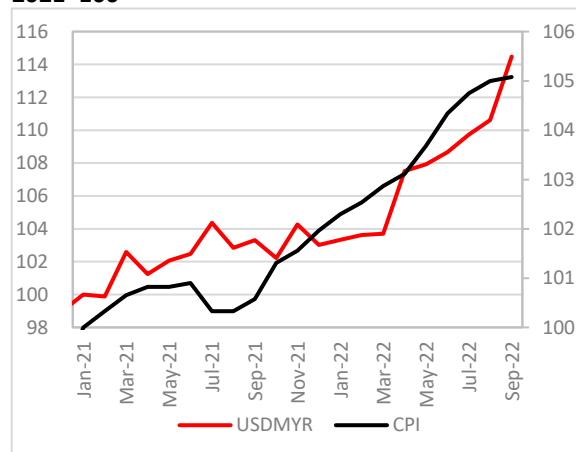
Source: CEIC, AmBank Research

Figure 2: Inflation and core inflation (% y/y)



Source: CEIC, AmBank Research

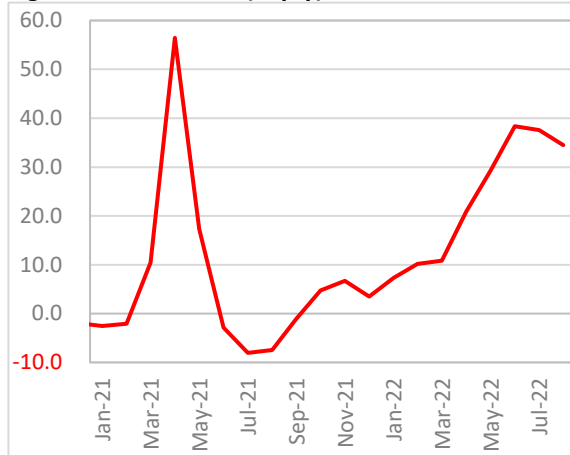
Figure 3: Ringgit (LHS) and CPI (RHS), indexed to Jan 2021=100



Source: CEIC, AmBank Research

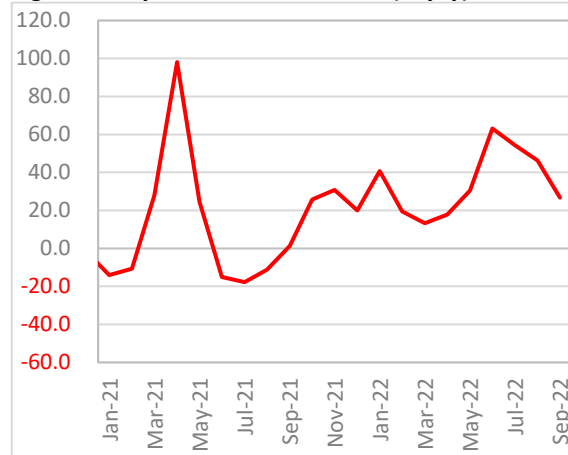


Figure 4: Retail trade (% y/y)



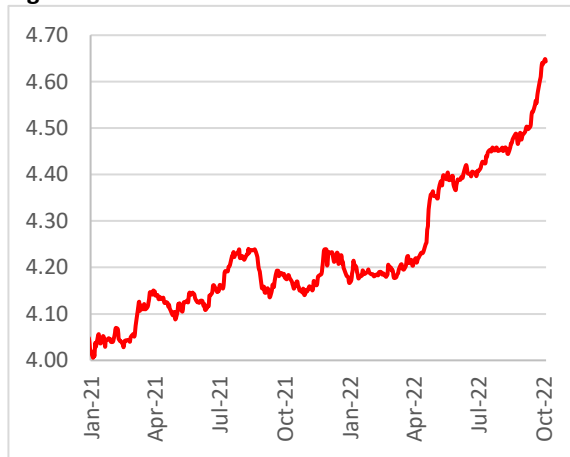
Source: CEIC, AmBank Research

Figure 5: Payments via credit card (% y/y)



Source: CEIC, AmBank Research

Figure 6: USDMYR



Source: CEIC, AmBank Research

Table 1: BNM MPC Meeting 2022

No	Date	Decision	Final OPR
1	19–20 Jan	No change	1.75%
2	2–3 Mar	No change	1.75%
3	10–11 May	+25bps	2.00%
4	5–6 July	+25bps	2.25%
5	7–8 Sep	+25bps	2.50%
6	2–3 Nov	+25bps	2.75%

Source: BNM

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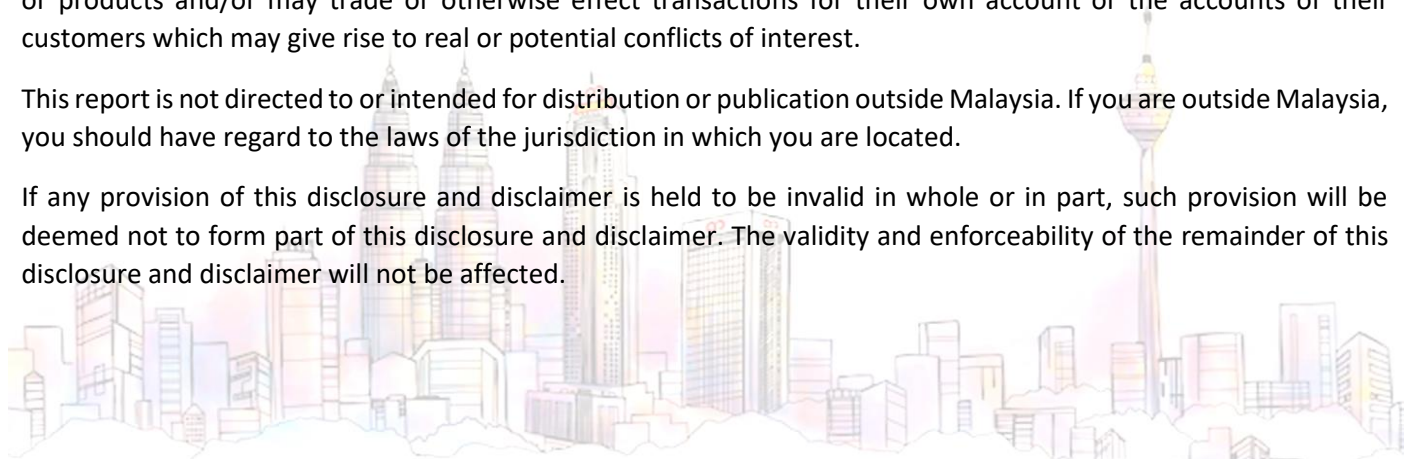
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