

## **BNM Likely To Hike Rates At Next Meeting On 5-6 July**

Bank Negara Malaysia is likely to deliver another 25bp overnight policy rate (OPR) hike at its next scheduled Monetary Policy Committee (MPC) meeting on 5-6 Jul, followed by another 25bp hike in the 7-8 Sep MPC meeting, an economist said today.

Head Economist at CGS-CIMB Securities, Nadzmi Idrus said that it reiterates its end-2022F OPR forecast of 2.50%

Malaysia's headline inflation accelerated to 2.8% yoy in May, above expectations. Core inflation rose to 2.4% yoy, the highest since Jul 2017

Last week, the **Department Of Statistics Malaysia (DOSM)** announced that Malaysia's inflation, as measured by the consumer price index (CPI), increased 2.8% in May 2022 from a year earlier, led by food price rise of 5.2%.

The country's CPI rise accelerated to 2.8% in May 2022 from the 2.3% year-on-year increase in April 2022. Food inflation continued to rise to a new high of 5.2%, the highest since November 2011 with 93% of items in this group recording increases

Nadzmi said that the strong uptick in core inflation in May could be reflective of continued improvements in domestic demand – as reflected in the falling unemployment rate (3.9% in Apr) and strong growth in the distributive trade index (+10.0% yoy in Apr) – and second-round cost pass-through effects, which may prompt Bank Negara Malaysia (BNM) to again pull the trigger on monetary policy normalisation

On inflationary pressure, Nadzmi said that it is poised to build up further, following the government's decision to replace bottled cooking oil subsidies and removal of price caps on chicken and eggs with cash handouts to the B40 group.

He said that Electricity tariffs are due for their semi-annual review in Jul, where elevated coal prices may translate to tariff increases given the elevated subsidy burden on government finances.

"The risk of adjustment to subsidised fuel prices, i.e. RON95 and diesel, present further upside risks, though we think this is a story for 2023F. As such, we project Malaysia's headline inflation to average 3.1% yoy in 2022F and 3.2% yoy in 2023F, " he said

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