THE BORNEO POST

OPR: Up, up and away into 2023

ALL eyes were on the last Monetary Policy Committee (MPC) meeting for this year as it decides on the country's monetary policy under the shadow of the upcoming General Election and rising inflation brought on by ongoing uncertainties in the global economy.

To navigate through these trying times, on Thursday, Bank Negara Malaysia's (BNM) MPC has decided to increase the overnight policy rate (OPR) by 25 basis points to 2.75 per cent.

The ceiling and floor rates of the corridor of the OPR are correspondingly increased to three percent and 2.5 per cent, respectively.

Based on latest indicators, the MPC explained that Malaysia's economic activity strengthened further in the third quarter, driven primarily by robust domestic demand.

It also pointed out that headline inflation is likely to have peaked in the third quarter of 2022 (3Q22) and is expected to moderate thereafter, albeit remaining elevated.

According to the **Department of Statistics Malaysia (DOSM),** Malaysia's leading index (LI) recorded an increase of four per cent, equivalent of 4.3 points to 111.3 points in August 2022 (August 2021: 107.0 points).

The growth was primarily supported by a gain in the number of housing units approved, real imports of other basic precious & other non-ferrous metals and number of new companies registered and compared to the previous month, the LI returned to a positive growth of 1.6 per cent in August 2022 from a negative two per cent.

In relation to the current economic situation, the Coincident Index (CI) achieved better index at 120.5 points in August 2022. Accordingly, it increased by 9.8 per cent compared to 109.7 points in the same month of the previous year.

"Against the backdrop of continued positive growth prospects for the Malaysian economy, the MPC decided to further adjust the degree of monetary accommodation.

"The adjustment would also pre-emptively manage the risk of excessive demand on price pressures consistent with the recalibration of monetary policy settings that balances the risks to domestic inflation and sustainable growth.

"At the current OPR level, the stance of monetary policy remains accommodative and supportive of economic growth. The MPC is not on any pre-set course, which means that monetary policy decisions will continue to depend on evolving conditions and their implications on the overall outlook to domestic inflation and growth," BNM explained in a statement.

It also pointed out that any adjustments to the monetary policy settings going forward would continue to be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support sustainable economic growth in an environment of price stability.
'Still cautious on performance'

Despite its positive stance on the domestic economy, BNM is cautious on the performance of the global economy as it viewed that it continues to be weighed down by rising cost pressures, tighter global financial conditions, and strict containment measures in China.

"In particular, continued aggressive adjustments in US interest rates and expectations of a higher terminal rate in the US, have contributed to a persistently strong US dollar environment. This has resulted in higher volatility in financial markets, affecting other major and emerging market currencies, including the ringgit.

"Going forward, the global growth outlook will continue to face headwinds from tighter financial conditions amid elevated inflation in major economies and the domestic challenges in China. The growth outlook remains subject to downside risks, including escalation of geopolitical tensions, worsening of domestic headwinds in China and potential energy rationing in Europe," it said.

Meanwhile, analysts viewed the rate hike as a necessary step to keep inflation risks at bay.

"On the domestic front, the front loading of OPR hikes is necessary to keep inflation risks at bay amidst a resilient economic performance till around 3Q22.

"A slow-down in 1H23 is anticipated as low base effects wear out, external conditions weaken, and much of the tailwinds from loose fiscal and monetary policy dissipate.

"Given that monetary policy operates with a lag, the hurdles for policy rate hikes would be lower during a decent economic recovery phase rather than when a slow-down manifest itself in 1H23," an economist at RHB Investment Bank Bhd (RHB Investment) said in a report.

It pointed out that robust domestic demand, coupled with negative real interest rates, would continue to fuel the core inflation pressures in the upcoming months.

It also noted that its proprietary model suggests that consumer spending will remain robust in the next few months (albeit at slower momentum) as we see limited risks of a significant deterioration in labour market conditions in 2H22.

"Hence, the demand side pressures on core CPI inflation will likely stay elevated for the remainder of the year. In view of robust price pressures, we maintain our 2022 CPI forecasts at 3.4 per cent YoY, followed by three per cent y-o-y in 2023.

"The possibility of potential adjustments in fuel and food subsidies implies that the peaking of inflation could be delayed to sometime in 2023," it added.

"The text in BNM's monetary policy statement was modestly hawkish in our view. The central bank maintained its stance that any adjustments to the monetary policy settings going forward would be done in a measured and gradual manner, while depending on the evolving conditions and their implications on the overall outlook for domestic inflation and growth.

"The adjustment of the OPR in November is intended to pre-emptively manage the risk of excessive demand on price pressures amidst continued positive growth prospects for the Malaysian economy.

"On economic assessment, BNM stayed cautious on the global economic assessment, citing that the global economy continues to be weighed down by rising cost pressures, tighter global financial conditions, and strict containment measures in China," RHB Investment said.

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In a separate report, OCBC Bank’s analyst Wellian Wiranto viewed the OPR rate hike as “another notch up in its recalibration drive to normalise the policy rate setting”.

“Even as it tacitly warned of the need to manage the risk of excessive demand, however, we see it coming closer to the end of the tightening cycle than before.

“As much as inflation seems to weigh more than growth on the BNM’s mind now, the balance may well shift to the flip side in the coming months given the global uncertainties,” Wellian added.

“Having raised rates to 2.75 per cent now, the runway to continue ratcheting up the OPR further is getting more limited, naturally.

“To us, it is likely to take just one more hike in early next year to three per cent. Thereafter, we think BNM will perch at that level to survey the global landscape more carefully, to assess any need to move further,” he said.

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