AmBank Group

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Economics

#WhatWeThink

January MPC is neutral, with concerns about global headwind

22 January 2025

In a nutshell…

Malaysia's overnight policy rate (OPR) remains unchanged at 3.00% for the 10th consecutive meeting, or 21 months, with unchanged interest rates. The decision mirrors our assessment as we believe that BNM will maintain the OPR as long as the labour market conditions and inflation levels are manageable and stable.

While the overall tone is neutral and the length of the statement remains largely unchanged, we noticed some lines that suggest the central bank is concerned about how the global dynamics would impact the domestic economy. The additional line about "*trade and investment restrictions*" is hinting at the impact of Trump tariffs 2.0 and other disruptive policies concerning investments. Additionally, the lines about "*global commodity prices are expected to continue to trend lower*" and "*the recently announced domestic policy reforms"* signal that BNM believes that the inflationary impact of RON95 subsidy rationalisation, slated in 2H2025, is manageable.

"The growth outlook is subject to downside risks from an economic slowdown in major trading partners amid heightened risk of trade and investment restrictions, and lower-than-expected commodity production. Meanwhile, growth could potentially be higher from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects."

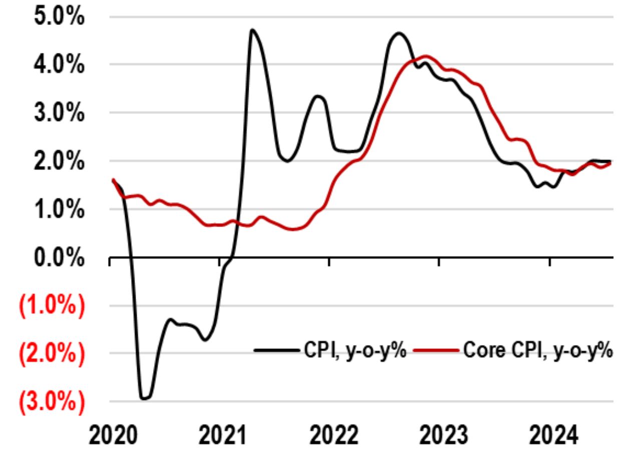
BNM MPC Statement
22 January 2025

BNM Interest Rate decisions 2022-2024

	2023	
	Date	OPR level & Change
1	18-19 January	2.75% (unchanged)
2	8-9 March	2.75% (unchanged)
3	2-3 May	3.00% (+25 bps)
4	5-6 July	3.00% (unchanged)
5	6-7 September	3.00% (unchanged)
6	1-2 November	3.00% (unchanged)
	2024	
	Date	**OPR level & Change**
1	23-24 January	3.00% (unchanged)
2	6-7 March	3.00% (unchanged)
3	8-9 May	3.00% (unchanged)
4	10-11 July	3.00% (unchanged)
5	4-5 September	3.00% (unchanged)
6	5-6 November	3.00% (unchanged)
	2025	
	Date	**OPR level & Change**
1	22 January	3.00% (unchanged)
2	6 March	-
3	8 May	-
4	9 July	-
5	4 September	-
6	6 November	-

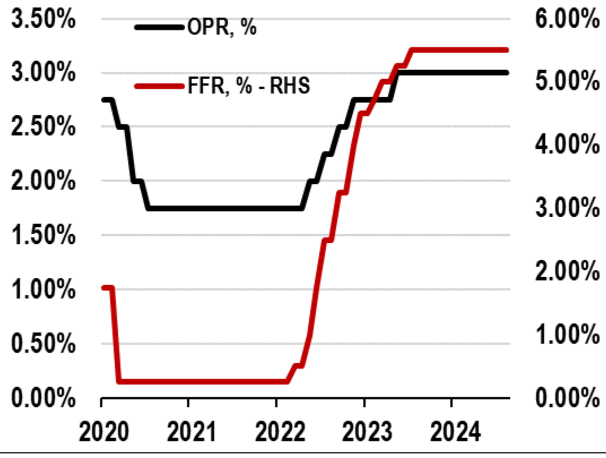
Sources: BNM, AmBank Economics

Exhibit 1: Malaysia's Inflation Rate, y/y%



Sources: DOSM, AmBank Economics

Exhibit 2: The US Fed vs. BNM Interest Rate, %



Sources: Federal Reserve Board, BNM, AmBank Economics

BNM concludes its first meeting of the year with status-quo as expected

The status quo decision was no surprise to the markets.

In its first meeting of the year, BNM's MPC decided to hold the OPR steady at its current level of 3.00%, as widely expected. This marked the tenth consecutive meeting with a status quo decision on the rate as economic growth remains robust and inflationary pressures are well contained.

BNM showed increased concerns about external challenges.

Upon a closer look into the monetary policy statement (MPS), BNM's growth assessment was largely unchanged from its previous meeting on November 6. According to the advance estimate of GDP for 4Q2024 by DOSM, despite the economy expanding at a slower pace of 4.8% in the said quarter, the 2024 full-year GDP growth is set to meet the official projection of 4.8% to 5.3%. Looking ahead, BNM opines that Malaysia's economic growth will be sustained but shows increased concerns about external challenges arising from rising protectionism, which could impact trade and investments. We concur with the BNM's view that Malaysia's growth will be primarily driven by robust domestic demand in 2025, but risks to growth are weighted somewhat to the downside due to external risks. On balance, we expect the 2025 full-year GDP growth to come in at 4.6%, which aligns with the lower bound of the official projection range of 4.5% to 5.5%.

Inflation is anticipated to trend higher in 2025 but remains manageable.

Stable inflation reading in 2024 as expected.

Today, the December inflation data is out, registering a 1.7% y/y growth (1.8%), the lowest reading in 11 months, as the rise in prices is slowing across most categories. We posit that low and stable inflation for 2024 is expected as there is no major shock to supply chains and the global economy, aside from the high base effect.

Inflation to gradually pick up starting 2H2025 amid domestic policy implementations

In the near term, the price pressure is expected to remain well contained given the easing of production costs, as reflected by the latest three consecutive months of producer deflation since September 2024. Inflation could increase gradually, particularly in the 2H this year, as the high base dissipates and cost-push factors intensify. Key upside risks include the anticipated implementation of RON95 subsidy rationalisation in mid-2025 and a potential hike in electricity tariff starting in July 2025. As such, we maintain that inflation will likely trend in the range of 2.5% to 3.0% this year (2024: 1.8%), aligning with the official forecast of 2% to 3.5%.

Neutral stance to persist, but easing bias seen for OPR

BNM will keep its monetary stance accommodative

We view the current OPR level as neutral, aligning with the BNM's assessment that the prevailing monetary policy stance supports economic growth. With growth expected to remain solid and inflation relatively stable, we anticipate BNM will maintain its accommodative stance and keep the OPR steady through at least 1H2025. However, as global central banks proceed with monetary easing, we believe BNM will retain ample policy space to manoeuvre if downside risks to growth intensify.

BNM continue to be optimistic about the Ringgit

Malaysia's central bank is optimistic about the ringgit, citing external factors and narrowing interest rate differentials as beneficial despite potential market volatility.

Malaysia's central bank maintains its optimistic stance on local currency. We noted that the BNM is no longer concerned with the current ringgit's level and argues that external factors are swaying the currency's performance. The statement notes that the narrowing interest rate differentials between Malaysia and advanced economies benefit the ringgit. Despite potential market volatility from global policy uncertainties, Malaysia's strong economic outlook and structural reforms are expected to support the ringgit. Our views are broadly similar to BNM's, thus explaining our baseline forecast for dollar-ringgit to be vulnerable in 1H2025 before recovering some gains in 2H2025.

Despite initial market fears of immediate trade tariffs, US President Trump's early executive orders focused on immigration, boosting market sentiment, but …

Trump's gradual approach to trade barriers defies market expectations. As Trump swore into the presidency, markets were jittering in anticipation that he would immediately sign a series of executive orders on tariffs, with China being the biggest target. Some also anticipated that a universal tariff would be the earliest to be signed by US President Trump soon after he takes office. However, in contrast to the executive orders he signed right after his inauguration, none of them are related to global trade but are more towards immigration.

This results in improvements in risk sentiment, with the MSCI EM Currency index shooting higher by more than 5% this week and stock indices among developed and emerging markets posting daily gains over the past few days. The ringgit also took advantage of this, reaching its more than one-month high. During the pre-MPC meeting, it was trading around the sub-4.45 level.

… potential future tariffs on Mexico, Canada, and China goods remain a concern.

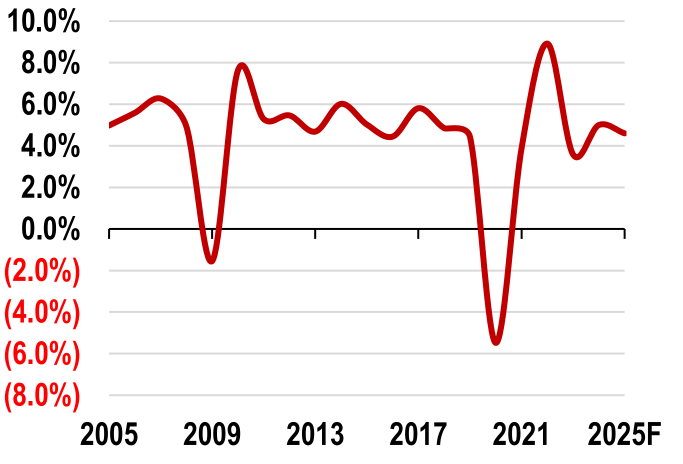
But the caveat here is that US President Trump is mulling a possible 25% tariff on Mexico's and Canada's goods as soon as 1st February, and this morning, he said he is considering putting a 10% tariff on China's goods slated to begin on the same month as well. These signals that investors should not take a breath of relief yet as there is potential for similar trade barriers to be unveiled in the coming weeks, and the ringgit's potential vulnerabilities are still on the table.

Despite solid domestic data, the ringgit's movement is more influenced by US policy and economic indicators…

The focus of global markets continues to hinge on US policy developments and data. While we did see some good domestic news regarding better-than-expected economic data, the ringgit is still brushing off what happened domestically and is more focused on US policy developments. We acknowledge that Malaysia's exports in December 2024 performed better than consensus, and the 4Q2024 advance GDP beat our in-house forecasts. These factors may not immediately come into the picture to push the ringgit higher, but they support our view for healthy ringgit fundamentals rather nicely. It is important to note that aside from US President Trump's incoming policy announcements, the US inflation and labour market data remained the critical factor for the Fed to act on its monetary policy. Recent softer core CPI and slower growth in retail spending points toward FFR's downward path, regardless of the pace, is still in play.

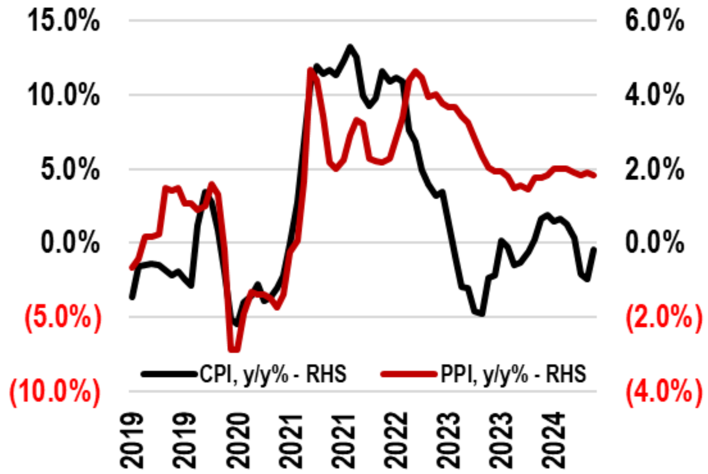
…. with US inflation and labour market data being key for the Fed's decisions in 2025.

Exhibit 3: Annual GDP growth, y/y%



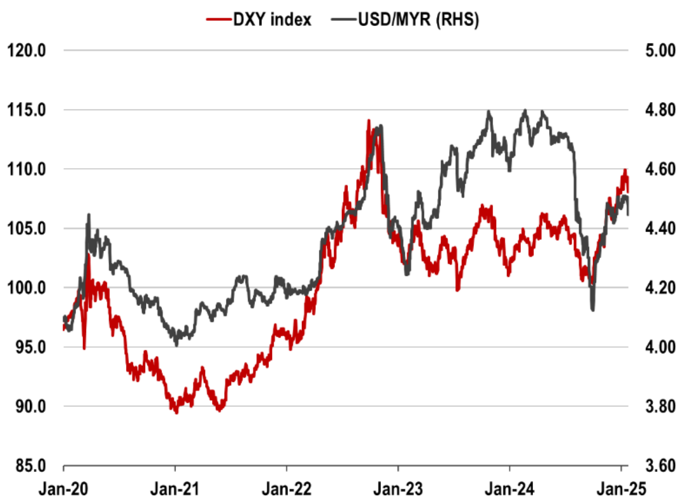
Sources: DOSM, AmBank Economics

Exhibit 4: CPI vs. PPI, y/y%



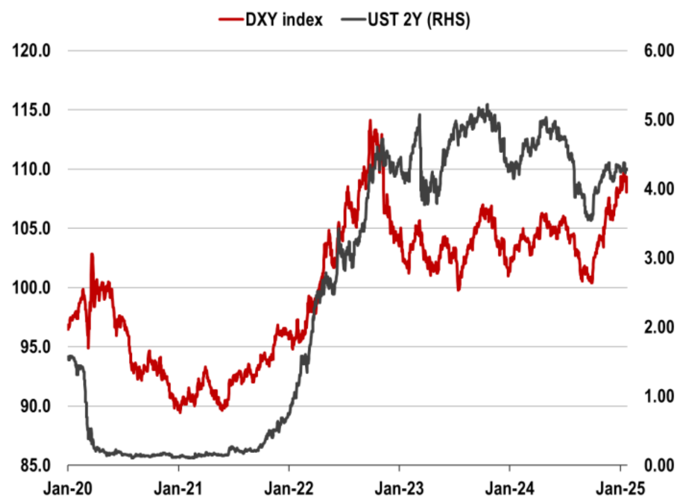
Sources: DOSM, AmBank Economics

Exhibit 5: DXY Index vs. USDMYR



Source: Bloomberg, AmBank Economics

Exhibit 6: DXY vs. UST10Y (%)

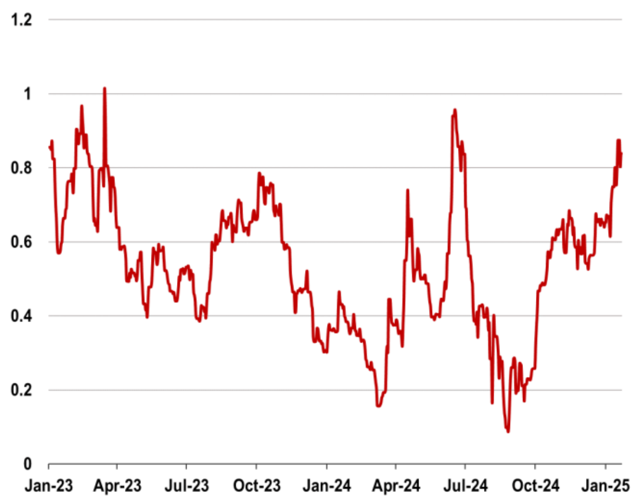


Source: Bloomberg, AmBank Economics

Exhibit 7: Market Implied Policy Rates (MYR 1Y Vanilla Swaps) (%)

Source: Bloomberg, AmBank Economics

Exhibit 8: BBDXY 3M Risk Reversals (%)



Source: Bloomberg, AmBank Economics

Appendix 1: BNM Monetary Policy Statement Comparison Side by Side (November 2024 vs. January 2025)

September 2024 MPC Statement	January 2025 MPC Statement
At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%. The global economy continues to expand amid resilient labour markets and continued recovery in global trade. Looking ahead, global growth is expected to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade recovery is expected to continue, supported by both electrical and electronics (E&E) as well as non-E&E products. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, heightened volatility in global financial markets, and slower growth momentum in major economies. For the Malaysian economy, the latest indicators point towards sustained strength in economic activity driven by resilient domestic expenditure and higher export activity. Going forward, exports are expected to be supported by the global tech upcycle, continued strength in non-E&E goods, and higher tourist spending. Employment and wage growth, as well as policy measures, remain supportive of household spending. The robust expansion in investment activity would be sustained by the progress of multi-year projects in both the private and public sectors, the higher realisation of approved investments, as well as the implementation of catalytic initiatives under the national master plans. These investments, supported by higher capital imports, will raise exports and expand the productive capacity of the economy. Budget 2025 measures will provide additional support to growth. The growth outlook is subject to downside risks from lower-than-expected external demand and commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects. Headline and core inflation remain modest, averaging 1.8% year-to-date. Going into 2025, inflation is expected to remain manageable, amid the easing global cost conditions and the absence of excessive domestic demand pressures. Nevertheless, the inflation outlook remains subject to the details of the implementation of announced domestic policy measures. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as global commodity prices and financial market developments. Ringgit performance continues to be primarily driven by external factors. The outcome of the US elections could heighten volatility in the near term. Looking ahead, the narrowing interest rate differentials between Malaysia and the advanced economies is positive for the ringgit. Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit. At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories going into 2025. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.	At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%. The global growth for 2024 turned out higher than expected, reflecting better outturns in the major economies and stronger global trade. For 2025, the global economy is anticipated to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade is expected to remain broadly sustained, supported by the continued tech upcycle. However, this outlook could be affected by the uncertainty surrounding more trade and investment restrictions. The elevated policy uncertainties could also lead to greater volatility in the global financial markets. For the Malaysian economy, the overall growth for 2024 was within expectations. Moving forward, the strength in economic activity is expected to be sustained in 2025, driven by resilient domestic expenditure. Employment and wage growth, as well as policy measures, including the upward revision of the minimum wage and civil servant salaries, will support household spending. The robust expansion in investment activity will be sustained by the progress of multi-year projects in both the private and public sectors, the continued high realisation of approved investments, as well as the ongoing implementation of catalytic initiatives under the national master plans. These investments, supported by higher capital imports, will raise exports and expand the productive capacity of the economy. Exports are expected to be supported by the global tech upcycle, continued growth in non-electrical and electronics goods and higher tourist spending. The growth outlook is subject to downside risks from an economic slowdown in major trading partners amid heightened risk of trade and investment restrictions, and lower-than-expected commodity production. Meanwhile, growth could potentially be higher from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects. Headline and core inflation averaged 1.8% in 2024. Going into 2025, inflation is expected to remain manageable, amid the easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to trend lower, contributing to moderate cost conditions in the near term. In this environment, the overall impact of the recently announced domestic policy reforms on inflation is expected to be contained. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as global commodity prices and financial market developments. Ringgit performance continues to be primarily driven by external factors. The narrowing interest rate differentials between Malaysia and the advanced economies is positive for the ringgit. While financial markets could experience bouts of volatility due to global policy uncertainties, Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit. At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

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