



From the Desk
of the
Chief Economist

BANK ISLAM

BNM MAINTAINED OPR AT 1.75% DURING ITS FIRST MEETING IN 2022

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ECONOMIC RESEARCH

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BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Schedule of MPC Meetings in 2022

MPC Meeting No	Date
1 st	19 & 20 January 2022
2 nd	2 & 3 March 2022
3 rd	10 & 11 May 2022
4 th	5 & 6 July 2022
5 th	7 & 8 September 2022
6 th	2 & 3 November 2022

Bank Negara Malaysia (BNM) decided to maintain the Overnight Policy Rate (OPR) at 1.75% during the Monetary Policy Committee (MPC) meeting on 19 and 20 January 2022 (Consensus: 1.75%, Bank Islam: 1.75%).

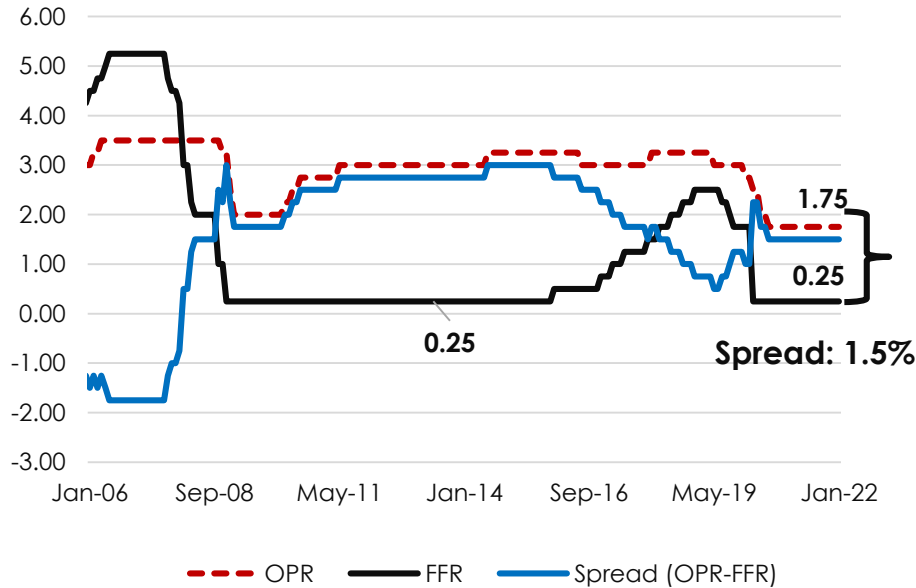
Global

- ✓ According to the accompanying statement, the global economy continued to recover underpinned by the manufacturing and trade activities, as well as improving in labour market conditions.
- ✓ However, the reimposition of restrictive human mobility measures in some countries following the spread of Covid-19 have caused moderation in the pace of economic recovery while inflation woes continued due to both supply and demand factors.
- ✓ Progress in vaccination coverage, advancements in vaccine efficacy and the availability of anti-viral treatments are expected to support global growth prospects moving forward.
- ✓ Be that as it may, uncertainties over the emergence of new variants of Covid-19, risks of prolonged global supply disruptions together with the risks of heightened financial market volatility would continue to affect the global growth outlook.

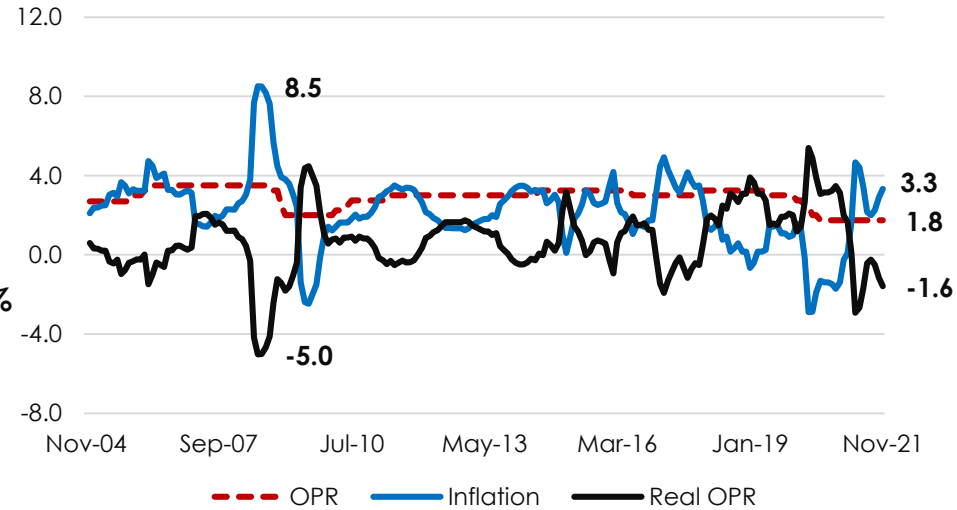
Domestic

- ✓ On domestic front, latest economic data pointed that economic activities rebounded which is in tandem with relaxation of containment measures.
- ✓ Following this, the BNM is expected that the economy would grow within the projected range of between 3.0% and 4.0% in 2021 and to gain further momentum this year, supported by expansion in global demand and higher private sector expenditure.
- ✓ Meanwhile, headline inflation is expected to be moderated this year as the base effect from fuel inflation dissipates.
- ✓ Apart from that, risks to growth outlook remain, arising from a weaker-than-expected global growth, a worsening in supply chain disruptions, together with the emergence of severe and vaccine-resistant Covid-19 variants of concern.

OPR vs. FFR, %



OPR, Real OPR, % and Inflation Rate, y-o-y%



Sources: CEIC, Bank Islam

- ✓ At the moment, the difference between Malaysia's OPR and the U.S. Federal Fund Rate (FFR) stood at 150 basis points (bps) (1.75% minus 0.25%).
- ✓ This suggests the BNM has a comfortable buffer against the U.S. rate. Nonetheless, such policy space is expected to be gradually diminished when the U.S. Fed starts to embark their rate hike campaign as soon as in March this year.
- ✓ From our discussion with BNM, there are wide range of factors that they are looking at in order to arrive at their monetary policy decision. Predominantly, the factors would range from inflation dynamics such as the second round effect especially to the wages, the output gap (Actual GDP – Potential GDP/ Potential GDP) and hosts of other variables which can be qualitative, based on input from their regional offices scattered around the country.
- ✓ Having said that, we believe the benefits of keeping the interest rates too low for too long could wears off in particular when the economy starts to normalize. Therefore, we believe the business case of higher OPR is building up should the recovery momentum can be retained.

CENTRAL BANK POLICY RATES

Policy rates	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-22	Jan-22
Advanced countries													
US (Fed Fund Rate)	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
Japan (Policy Balance Rate)	-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
Euro Zone (Main Refinancing Rate)	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
UK (Bank Rate)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25
Canada (ON Lending Rate)	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
Latin America													
Mexico (ON Rate)	4.25	4.00	4.00	4.00	4.00	4.25	4.25	4.50	4.75	4.75	5.00	5.50	5.50
Brazil (Selic Rate)	2.00	2.00	2.75	2.75	3.50	4.25	4.25	5.25	6.25	7.75	7.75	9.25	9.25
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	40.00
Eastern Europe													
Russia (Key Rate)	4.25	4.25	4.50	5.00	5.00	5.50	6.50	6.50	6.75	7.50	7.50	8.50	8.50
Ukraine (Discount Rate)	6.00	6.00	6.50	7.50	7.50	7.50	8.00	8.00	8.50	8.50	8.50	9.00	9.00
Turkey (1W Repo Rate)	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	18.00	16.00	15.00	14.00	14.00
Asia													
China (1Y Loan Prime Rate)	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.80	3.70
India (Repo Rate)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Thailand (1D Repo Rate)	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
South Korea (Base Rate)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.25
Philippines (O/N Lending Rate)	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
Australia (Cash Rate)	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
New Zealand (Cash Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	0.75	0.75
Malaysia (OPR)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75



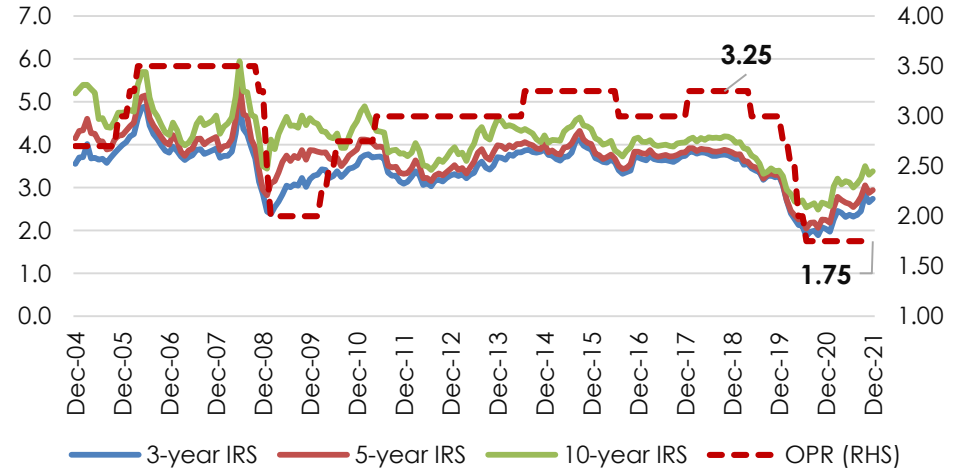
* As at 20 January 2022

Source: Bloomberg

- ✓ Other jurisdictions have increased their benchmark interest rate in order to contain the surge in inflation. Most recently, the South Korea's central bank delivered back-to-back rate hike since November last year to stem the risks of inflation in the economy. Meanwhile, most of emerging market central banks have kept their key rate steady in order to provide monetary policy accommodation amid ongoing uncertainties due to new strains of Covid-19.
- ✓ On the contrary, the People's Bank of China (PBOC) slashed its 1-year Loan Prime Rate for a second straight month today amid concerns over an economic slowdown alongside with sporadic Covid-19 cases and soaring cost of raw materials. Last Monday, the PBOC had reduced the 1-year Medium Term Facility (MTF) by 10 bps to 2.85%. As such, global monetary policy does not necessarily moves in unison.

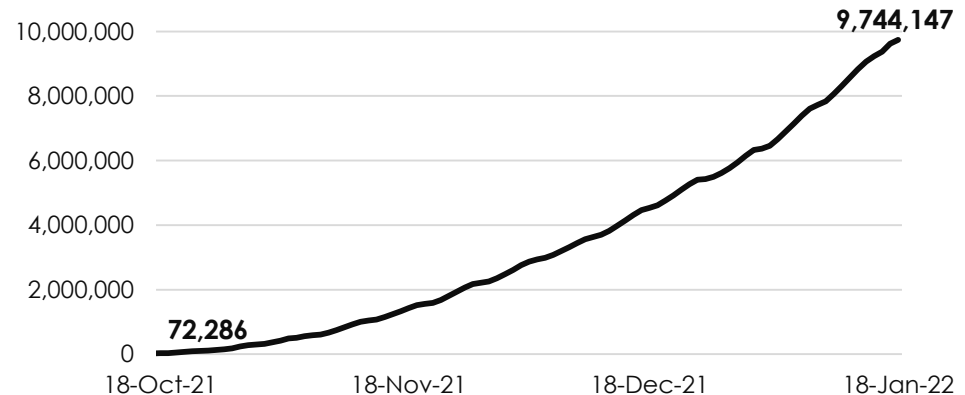
- ✓ **Interest rate swaps (IRS) is signaling an OPR hike going forward** – The IRS has indicated that derivative market is pricing in rate hike this year, possibly due to expectations of earlier FFR increase and higher inflation risks in light of the economic recovery. Be that as it may, BNM has mentioned that it will be patient in adjusting monetary policy given the lingering risks to growth.
- ✓ **25 bps hike in OPR would likely be imminent in the 2H2022** – Judging from the latest statement, the BNM appears to be comfortable with the state of the economy as the reopening activities will continue to occur amidst effective vaccination rollout. Having said that, the BNM continues to put caveat in their assessment by saying the downside risks remain clearly visible and policy decision will hinge upon the incoming data. Catalysts for higher inflation would be from supply disruption and improving demand condition but the resource slack in the economy in particular the labour market would put a lid on the inflationary pressures. In a nutshell, its neutral-to-positive assessment based on today's communique. **As such, we are maintaining our call that the OPR would be raised by 25 bps in the 2H2022.**

OPR vs. Interest Rate Swap (IRS), %



Source: Bloomberg

Total Cumulative Booster Doses Administered



Source: CEIC

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Thank You

- ✓ At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 1.75 percent.
- ✓ The global economy continues to recover, supported by manufacturing and trade activity. Labour market conditions have also improved in many countries. However, several countries reintroduced measures to curb ongoing COVID-19 resurgences, causing some moderation in the pace of recovery in domestic activity, especially services. Inflation remains elevated in a number of countries, driven by both supply and demand factors. Going forward, continued progress in vaccination coverage, advancements in vaccine efficacy, and the availability of anti-viral treatments will allow for better management of the pandemic, hence supporting global growth prospects. The global growth outlook will continue to be affected by uncertainties over the emergence of new variants of concern, risks of prolonged global supply disruptions, and risks of heightened financial market volatility amid adjustments in monetary policy in major economies.
- ✓ For Malaysia, the latest high-frequency indicators show that economic activity rebounded in the fourth quarter, in line with the relaxation of containment measures. For 2021, growth will be within the projected range of 3% - 4%. Looking ahead, growth is expected to gain further momentum in 2022. This will be driven by the expansion in global demand and higher private sector expenditure amid improvements in the labour market and continued policy support. Risks to the growth outlook, however, remain tilted to the downside. Such risks may arise from a weaker-than-expected global growth, a worsening in supply chain disruptions, and the emergence of severe and vaccine-resistant COVID-19 variants of concern.
- ✓ Headline inflation has averaged 2.3% for the period January-November 2021. For 2022, average headline inflation is likely to remain moderate as the base effect from fuel inflation dissipates. Underlying inflation, as measured by core inflation, is expected to edge upwards as economic activity normalises amid the environment of high input costs. Nevertheless, core inflation is expected to be modest, with upside risk contained by the continued slack in the economy and labour market. The outlook, however, continues to be subject to global commodity price developments amid risks from prolonged supply-related disruptions.
- ✓ The MPC considers the current stance of monetary policy to be appropriate and accommodative. Fiscal and financial measures will continue to cushion the economic impact on businesses and households and provide support to economic activity. The stance of monetary policy will continue to be determined by new data and their implications on the overall outlook for inflation and domestic growth.