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All Signal, No Noise

MARKET ANALYSIS

MNI Bank Negara Malaysia Preview – June 2025.

Meeting Date: Wednesday July 09.

Announcement Time: 08:00 GMT/15:00 MYT/ 17:00 AEDT

Link To Prior Statement: https://www.bnm.gov.my/-/monetary-policy-statement-08052025

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MNI POV (Point Of View): On Hold But Only Just.

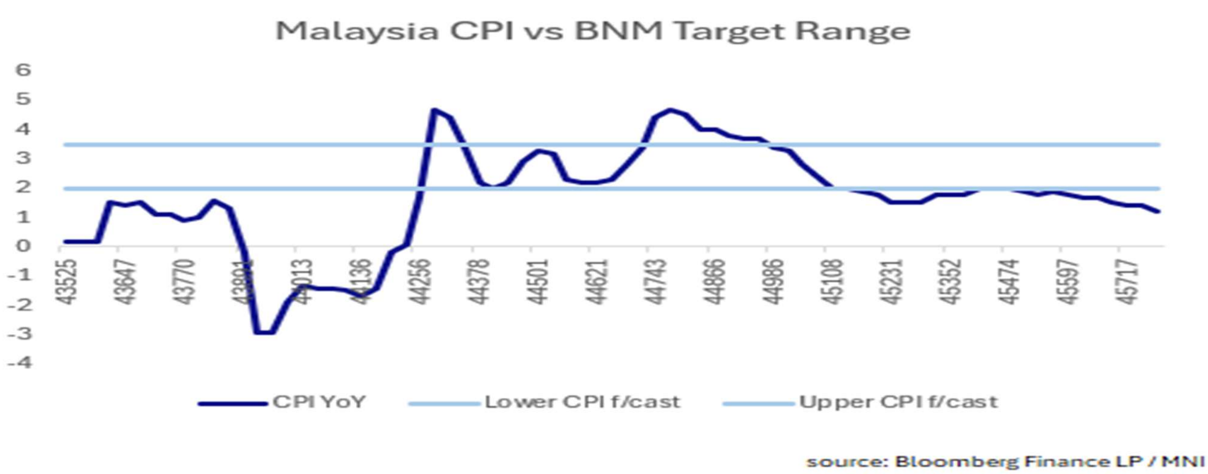
When the Bank Negara Malaysia ("BNM") meets tomorrow to decide on its Overnight Policy Rate it seems a close call whether they will cut when we consider the statement from the last meeting. "*The balance of risks to the growth outlook is tilted to the downside, stemming mainly from a deeper economic slowdown in major trading partners, weaker sentiment amid higher uncertainties affecting spending and investments, as well as lower-than-expected commodity production. Meanwhile, favourable trade negotiation outcomes and pro-growth policies in major economies, as well as more robust tourism activity could raise Malaysia's growth prospects.*"

As we write, tariff headlines are evolving rapidly with the US sending letters to countries and announcing tariffs for Japan and Korea as the US Secretary of State Marco Rubio heads to Malaysia for a regional summit where matters involving tariffs will be discussed.

Since the last BNM meeting some data has been directly impacted by the tariff threat, specifically exports. Exports for April rose a staggering +16.4%, well above the 5-year average of +11.4%. However, the following month saw a contraction in what is most likely, a reaction to the overreach in April. Evidence suggests that exporters rushed to get out orders ahead of the imposition of tariffs in early April and that with so much stock already shipped, it was not possible for May's results to echo that of May. This can be evidenced by percentage increase of exports to the US in April YoY being +45.6%, yet in May that was a mere +16.1% whilst at the same time shipments to Japan in May contracted -25.7%.

Malaysia's GDP outlook remains robust with the BNM's forecast remaining in the +4.5%-5.5% region for 2025 from +5.1% in 2024. The BNM expects the growth to be underpinned by robust domestic demand, strong investment activity and household expenditure. Inflation has remained subdued and below the BNM's expected range. A recent BBG survey of economists sees Q2 2025 GDP forecast at +4.2% YoY versus prior survey +4.5% and Q3 GDP forecast at +3.8% YoY versus prior survey +4.4%. Investment activity appears robust with the PM announcing various deals with Europe and China in areas such as data services over the last few months.

The issue at hand for the economy is inflation. Headline CPI was at +1.5% for Q1, with core at +1.9%. This is against an expected range of +2.0% -3.5%. This moderation of inflation is symptomatic of what is occurring throughout the region.



The BNM's optimistic outlook for the Malaysian economy remains, projecting the economy to grow between +4.5% and +5.5% this year to follow on from +5.1% in 2024. The BNM expects the growth to be underpinned by robust domestic demand, strong investment activity and household expenditure. As a measure for domestic demand, imports have exhibited the same volatility profile as exports with April's release jumping +20.02% whilst the May release was +6.58%, exceeding the 3-year average of +5.10%.

The BNM has been on hold since May 2023 at 3.00% with the only key change in that time being the reduction in the statutory reserve requirement ratio by 100bps in May, which caught markets by surprise. Estimates are that this released approximately MYR19bn of liquidity into the system, a move seen as a strong signal of the BNM's support. There are two schools of thought from economists at present, the first being the reduction in the RRR paves way for the next move which is a cut at the upcoming meeting. The other school of thought is that the BNM will remain on hold to allow the liquidity impact to flow through the system. For the first time in a long time, the BBG survey is balanced with approximately 50/50 cut versus hold.

The risks to the outlook for growth are influenced by the outcome of the talks with the US on tariffs. Until the outcome of the trade talks is concluded, the cut in RRR seems sufficient support for the economy and as such we see the BNM on hold at its meeting on July 09.

Monetary Policy Statement

8 May 2025

At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%.

The latest indicators point towards continued global growth and trade, supported by domestic demand and front-loading activities. Global growth outlook would remain supported by positive labour market conditions, less restrictive monetary policy and fiscal stimulus. However, the tariff measures announced by the US and retaliations have weakened the outlook on global growth and trade. This outlook remains subject to considerable uncertainties, which include outcomes of trade negotiations and geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets.

For Malaysia, economic activity expanded further in the first quarter, driven by sustained domestic demand and continued export growth. Moving forward, the escalation in trade tensions and heightened global policy uncertainties will weigh on the external sector. The continued demand for electrical and electronic goods and higher tourist spending, however, will provide some cushion to exports. Overall, growth is expected to be anchored by resilient domestic demand. Employment and wage growth, particularly within domestic-oriented sectors, as well as income-related policy measures, will support household spending. The 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. Overall, the balance of risks to the growth outlook is tilted to the downside, stemming mainly from a deeper economic slowdown in major trading partners, weaker sentiment amid higher uncertainties affecting spending and investments, as well as lower-than-expected commodity production. Meanwhile, favourable trade negotiation outcomes and pro-growth policies in major economies, as well as more robust tourism activity could raise Malaysia’s growth prospects.

Headline and core inflation averaged 1.5% and 1.9% in the first quarter of 2025 respectively. Overall, inflation in 2025 is expected to remain manageable, amid moderate 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 this environment, the overall impact of the announced domestic policy reforms on inflation is expected to be contained. Risks to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as external developments surrounding global commodity prices, financial markets and trade policies.

The ringgit performance will continue to be primarily driven by external factors. 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 is consistent with the current assessment of inflation and growth prospects. Recognising that there are downside risks in the economic environment, 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.

Sell-Side Analyst Views

BNY (cut): "Bank Negara Malaysia is expected to cut its Overnight Policy Rate by 25bp to 2.75%, marking its first adjustment in over a year. Headline inflation slowed to 1.2% y/y in May – the lowest level since late 2020 – while core inflation also eased to 1.8%, both well within the 1–3% target range. The central bank has not signalled concern over inflation risks and has indicated that policy remains data-driven. With domestic demand softening and external conditions remaining weak, markets are positioned for an initial cut in July. BNM is likely to emphasize its commitment to price stability while supporting growth in a challenging global environment."

DBS(cut): " The upcoming BNM meeting will see a close decision between a 25bps overnight policy rate (OPR) cut and a dovish hold. With BNM's dovish hold in May 2025 opening the door for looser monetary policy, we think the macroeconomic conditions are increasingly ripe for the OPR to be reduced to 2.75% in 2H25, with July an increasing possibility. Malaysia's economic growth faces downside risks from increased global trade frictions. While US tariffs are likely to be less severe than those announced on Liberation Day, continued elevated uncertainty surrounding US tariff policy (e.g. sectoral import levies) poses a significant threat. The boost from front-loading goods exports started to fade in May 2025, after real GDP growth slowed to 4.4% YoY in 1Q25. Meanwhile, Malaysia's inflation remains contained, while the currency is well behaved, with headline inflation in the first five months of 2025 averaging below BNM's 2025 forecast range of 2.0-3.5%. Price pressures look likely to be manageable in 2H25, despite potential domestic policy shifts (e.g. RON95 subsidy rationalisation), due to contained global commodity prices and a lack of excessive domestic demand pressures. **"**

Goldman Sachs (hold) : "We expect the Bank Negara Malaysia (BNM) to keep its overnight policy rate (OPR) on hold at 3.00% at its meeting next week (Bloomberg consensus: 2.75%). On the US tariff front, Malaysia's finance minister said that the government received positive feedback from its US counterparts ahead of the July 8th deadline of the 90-day delay in imposing the previously announced 'reciprocal tariff'. Meanwhile, on the domestic front, both headline and core CPI inflation remain subdued year to date, and we expect inflation to remain low for the rest of the year notwithstanding a recent SST hike. High frequency data on the economy is mixed, with manufacturing industrial production expanding in April despite contraction in manufacturing PMI. Labor markets remain strong with the unemployment rate edging down amid a record-high labour participation rate in April. Overall, we think the BNM will take a 'wait-and-see' approach while reiterating downside risks to growth from the potential tariff headwinds, similar to the May meeting.

Morgan Stanley (cut) : "We expect BNM to cut rates by 25bp against a backdrop of subdued inflation and a softer growth outlook."

UOB: **(cut)** "The Bank Negara Malaysia (BNM, Wed 9 Jul 3pm SGT). Based on the latest Bloomberg survey (4 Jul), 8 of the 15 economists polled expect BNM to cut its overnight policy rate by 25-bps to 2.75% but there is a sizeable minority (7) expecting another pause from BNM at 3.00%. Our economists, Julia Goh and Jasrine Loke, are with the majority policy and expect a 25bps cut in the OPR given recent downbeat economic data and heightened external uncertainties including geopolitical tensions that could weigh on domestic demand. An expected adjustment to the OPR is intended to ensure that the domestic economy continues a steady growth path amid stable inflation and supportive of financial intermediation for the Malaysian economy."

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