KERATAN AKHBAR

TARIKH : 31 OKTOBER 2023

AKHBAR : NEW STRAITS TIMES

MUKA SURAT : 4

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Bank Negara unlikely to shift stance amid mounting pressure

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BANK Negara Malaysia will likely keep the Overnight Policy Rate (OPR) at its monetary policy meeting this week and through next year, despite mounting pressures to tighten further.

Slowing economy and a "tamed" inflation could be firm enough reasons to keep the OPR steady at 3.0 per cent in the sixth and final meeting of the central bank's Monetary Policy Committee (MPC) on Thursday.

Malaysia University of Science and Technology economist Dr Geoffrey Williams expects the OPR to be unchanged in the face of mounting pressures for further tightening.

He said the headline inflation of 1.9 per cent was in line with historical averages, while core inflation stood at a slightly elevated 2.5 per cent but considerably lower compared to previous periods.

"In addition, economic growth is slower due largely to external factors, so support for the domestic economy is necessary from stable interest rates," he told Business Times.

On whether there are risks to the inflation outlook amid government plans to introduce targeted subsidies for electricity and diesel, Williams said there might be some small effects on certain items in the Consumer Price Index.

Nonetheless, he emphasised that, on the whole, prices remained relatively steady, making it a good time for subsidy rationalisation.

Williams added the government's latest decision to lift the subsidy on chicken would have little impact on inflation.

"The inflationary pressure comes from the higher oil price and the effect on supply-chain costs as well as some pressure from higher import prices due to a weaker exchange rate, but these are expected to be moderate."

Tradeview Capital Sdn Bhd vice-president Tan Cheng Wen agreed with the consensus view that Bank Negara would likely keep the OPR at 3.0 per cent.

While the depreciation of the ringgit might be viewed as a source of pressure for Bank Negara to hike rates, the currency weakness is a common phenomenon across emerging markets due to the aggressive rate hikes of the United States Federal Reserve (Fed).

"Also, with the market not anticipating any further rate hikes in the US, we believe that Bank Negara will likely adopt a wait-and-see approach amid a moderating inflationary environment domestically," he said.

Nevertheless, Tan said there were rising risks to the domestic inflation outlook, but he expects the government to be cautious about the potential inflation resulting from subsidy rationalisation.

Hence, he sees the government implementing a more delicate and measured approach to targeted subsidies.

Tan said it was unlikely that chicken prices would fluctuate as the production cost of chicken had come down in tandem with the decline in feed costs.

He noted that global corn prices had declined close to 30 per cent year to date.

UOB's Global Economics & Markets Research also expects Bank Negara to keep the OPR unchanged.

In a recent note, the firm said another 25 basis points (bps) hike in the OPR would not be sufficient to close the interest rate gap with the US and spur market confidence on the ringgit.

It added that the global landscape was highly uncertain, triggered by scepticism of the Fed's future rate path, China's real estate woes and new geopolitical tensions that tilted growth risks on the downside.

UOB noted that the pressures of hiking rates intensified after strong US economic data repriced the odds for higher-for-longer Fed rates, ringgit declining to its lowest level since the Asian financial crisis and a surprise rate hike by Bank Indonesia on Oct 19 to arrest the rupiah's decline.

"In addition, the government has just unveiled an expansionary budget for next year to boost growth momentum.

"This infers that future monetary policy moves would need to be synchronised in order to attain the same goal for the country," it said.