Mizuho Flash: BNM & BI

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Bank Negara Malaysia & Bank Indonesia: Of Surprises, Holds & Hikes

In a nutshell: BNM surprised markets, and us, by keeping its policy rate unchanged at 2.75%. BNM's focus has clearly shifted from inflation to growth, even while admitting that inflationary pressures "remain at elevated levels". This, however, does not necessarily mean that BNM is done with its rate hiking cycle. Our sense is that it has still kept the door open for another (final) 25bp hike should inflation and/or external pressures build by its 9 March meeting. Conversely, downside surprises to inflation and growth could keep BNM from further rate hikes this year.

By contrast, BI stayed the course and hiked its policy rate by 25bp, in line with consensus and our expectations, taking its policy rate to 5.75%. That said, BI stopped short of signalling that this is the end of the road in terms of incremental rate hikes. It stated that rate hikes so far have been "adequate" to contain inflationary pressures, which it stated has slowed earlier than expected. Even so, we are sticking to our forecast for another 25bp hike by BI in Q1 to buffer against external volatilities, namely continued hawkishness by the US Federal Reserve. The risk is that BI holds steady instead.

BNM: A Surprise Hold…

BNM surprised markets, and us, by keeping its policy rate unchanged at 2.75%. BNM's focus has clearly shifted to growth from inflation, even while admitting that inflationary pressures "remain at elevated levels". Specifically, it noted that "coming off a strong performance in 2022, growth in 2023 is expected to moderate amid a slower global economy" but supported by domestic demand. While we expect 2023 GDP growth to slow to 4.7%YoY from ~8.6% in 2022, the risks are skewed to the downside as underscored by December trade data (see *Mizuho Flash: 18 Jan 2023: Indonesia & Malaysia: December Trade Portends a Growth Slowdown*).

…But Not Necessarily the End of the Hiking Road

Even so, this does not necessarily mean that BNM is done with its rate hiking cycle. The data releases ahead of the next meeting on 9 March will be crucial inputs for BNM, particularly the release of Q4 GDP and January CPI (Figure 1). **Our sense is that it has still kept the door open for another (final) 25bp hike should inflation and/or external pressures build by its 9 March meeting.** Conversely, downside surprises to inflation and activity data will preclude further rate hikes this year.

Important data releases that BNM will be watching closely ahead of its 9 March meeting	
20-Jan	Dec CPI
01-Feb	US Federal Reserve Meeting
07-Feb	Dec IP
10-Feb	Q4 GDP growth
20-Feb	Jan Trade Data
24-Feb	Jan CPI

Source: Bloomberg; Mizuho Bank

BI: Staying the Course…

By contrast, **BI stayed the course and hiked its policy rate by 25bp, in line with consensus and our expectations, taking its policy rate to 5.75%.** BI maintained that its policy was "front-loaded and pre-emptive", aimed at addressing inflation and external pressures. **Furthermore, BI continued to adopt a multi-pronged approach to policy** – it stated it will continue to buy bonds in the secondary market and that it expects higher short-term rates with stable longer-end rates (implicitly referring to its ‘operation twist’ policy[1]), intervene in the FX markets as required and maintain accommodative macro prudential policies[2].

…But The Road Is Closing Out

That said, BI stopped short of signalling that this is the end of the road in terms of incremental rate hikes. It stated that rate hikes so far have been “adequate” to contain inflationary pressures. Specifically, it mentioned that inflation slowed earlier than expected and that headline inflation would be below 4% in H2 with core inflation no higher than 3.7% in H1.

Even so, for now, we are sticking to our forecast for another 25bp hike by BI in Q1 to buffer against external risks, namely continued hawkishness by the US Federal Reserve. To that extent, the US Fed meeting on 1 February will have notable implications for BI in terms of incremental rate hikes. In the event, the Fed sounds more dovish and/or more sanguine on inflation, BI will call it a day on further rate hikes.

[1] BI’s specified on ‘operation twist’ that it would limit intervention to short-end bonds as it halts buying of long-term bonds.

[2] BI announced that it will issue a document imminently with plans to offer exporters with a new instrument to park their earnings; the intention of this policy would be to keep export earnings onshore and bolster the BoP.

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