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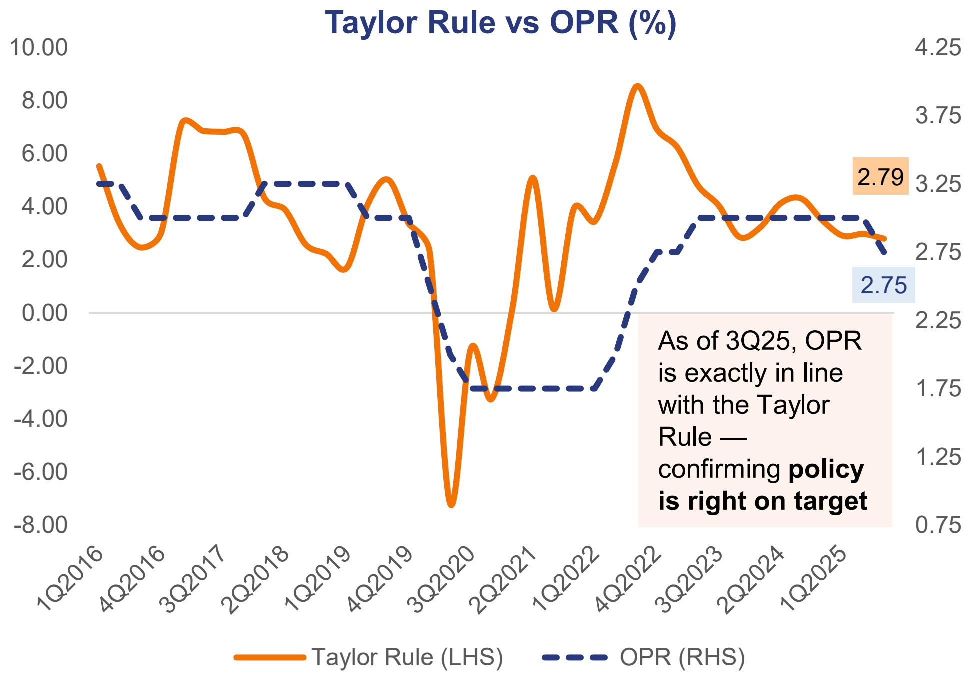
11 SEPTEMBER 2025

Policy Divergence in Focus: BNM Holds, Fed Prepares to Ease

Last week's data flow provided a **sharp snapshot of both domestic and global policy dynamics** in play. Bank Negara Malaysia stood pat on the Overnight Policy Rate (OPR) as expected, signaling a steady hand amid benign inflation and measured growth. Meanwhile, the US labor market data showed clear signs of softening, nudging expectations that the Federal Reserve may begin easing as early as mid-September. Together, these developments shape our assessment of Malaysia's monetary trajectory for the remainder of 2025 and into 1H 2026.

OPR decision (Sept 2025): Holding Steady, For Now

- **BNM on hold**: OPR kept at 2.75% (Sep 2025) after July's cut — a pause to gauge transmission, not a rush to ease further.
- **Policy stance**: Described as *"appropriate and supportive of the economy amid price stability,"* affirming BNM's confidence in current inflation and demand dynamics.
- **Growth context**: Resilient household spending and investment are cushioning Malaysia against external drags; labour market remains firm → no case for pre-emptive cuts.
- **Market reaction**: A modest rise in MGS yields and steady ringgit suggest investors see the easing as already front-loaded, with no sign of policy fatigue.
- **Our take:** BNM's hold at 2.75% signals comfort with current conditions — demand resilient, inflation is tame, and no urgency to tweak policy. With Fed easing momentum building, BNM can afford patience.



Sources: Bloomberg, CEIC, Department of Statistics, BMMB Economics

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Labour Market Weakness Deepens, Fed Cut Bets Strengthen

Meanwhile, the latest US labor data **point to a cooling job market:** payrolls +22k and unemployment up to 4.3%, with earlier months revised lower. A separate BLS benchmark revision suggests the economy added ~911k fewer jobs in Apr-2024–Mar-2025 than first reported, reinforcing the slowdown narrative. This backdrop has amplified Fed-cut expectations ahead of the Sept 17 FOMC, and re-opened debate over whether a strict 2% inflation target remains practical when inflation hovers near 3%—even as officials reiterate the 2% goal. **All eyes now on US CPI tonight**: Sep 11, 8:30pm MYT.

Labour Market Cracks Widen: Payroll Miss, Unemployment Climbs

- **Headline employment:**

Nonfarm payrolls +22k in Aug-2025 (vs ~75k consensus). Prior months: June revised to −13k (first monthly decline since Dec-2020), July revised up to +79k. This pattern signals hiring at stall speed.

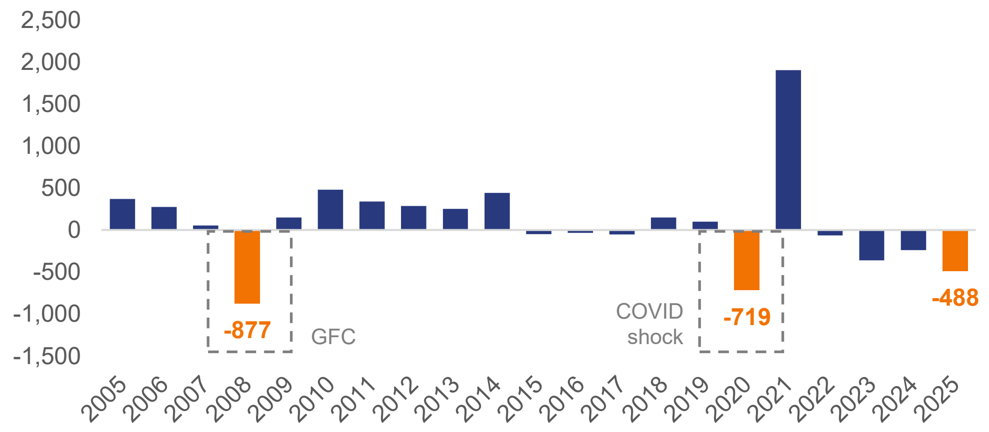
- **Unemployment & wages:**

Unemployment rate 4.3% in August (highest since 2021). Average hourly earnings +0.3% m/m, +3.7% y/y → wage growth easing.

- **Broader labor-market weakness:**

Preliminary BLS benchmark indicates −911k jobs for Apr-2024 to Mar-2025 versus earlier estimates — among the **largest downward adjustments in recent decades**; implies the labor market was weaker than real-time data suggested.

Nonfarm Payroll: 3rd – 1st revision (person th)



*The scale of the latest NFP revision is troubling — historically seen only in deep downturns. With the **adjustment already two-thirds the size of COVID's labour shock and half of GFC's**, it flags significant hidden fragility in the current cycle*

Sources: Bloomberg, CEIC, US Bureau of Labor Statistics, BMMB Economics

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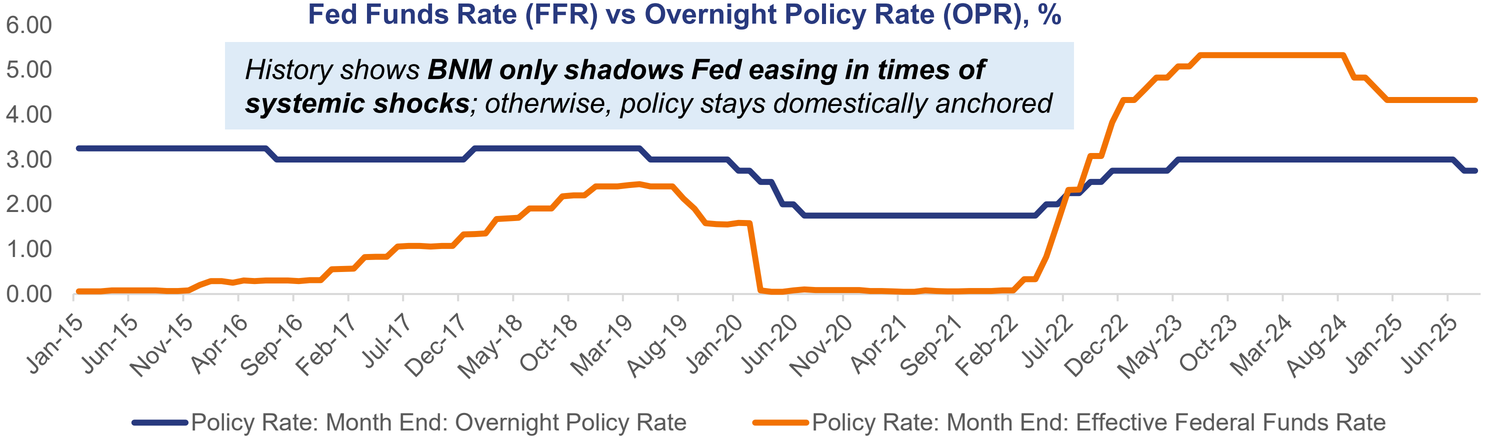
BNM's Next Move: No Rush to Ease Further, Policy Hold Likely Through 1H2026

Fed Funds Rate (FFR) vs Overnight Policy Rate (OPR), %



Sources: CEIC, BNM, US Federal reserve, BMMB Economics

We expect Bank Negara Malaysia to **keep the OPR unchanged at 2.75% through 2025 and into 1H2026.** Inflation remains subdued, averaging at 1.4% YTD, domestic demand continues to anchor growth, and the output gap is close to neutral — all of which reduce the case for pre-emptive action. While the Fed has shifted into easing mode, history shows BNM only shadows Fed moves in times of systemic shocks. Otherwise, **policy decisions remain domestically anchored**, with monetary space calibrated to local inflation and growth dynamics rather than global cycles. **Fed cuts do lower external pressure on the ringgit and create scope for BNM to ease if required**, but this is not the base case for now. Nevertheless, downside risks remain from external shocks, which could widen the output gap and tilt policy more accommodative. We will continue to monitor how these risks evolve and assess their implications for Malaysia's macro trajectory and, ultimately, BNM's policy path.

Period	Fed vs BNM action
1H 2016	*Fed liftoff underway; BNM held at 3.25% before a single calibration cut* • **Fed:** First hike Dec-2015; tightening bias communicated. • **BNM:** Held at 3.25% through 1H-2016 despite ringgit pressure, then cut once to 3.00% in Jul-2016 on domestic growth/inflation grounds
1H 2019	*Insurance/pre-emptive cuts by Fed* • **Fed:** Fed's July 2019 rate cut explicitly described as intended to insure against downside risks from weak global growth and trade policy uncertainty; • Following its 25bps cut in May, **BNM** kept the OPR steady at 3.00% for the remainder of 2019, even as the Fed eased three times in Jul, Sep, and Oct.
2020 (COVID shock)	*BNM followed global easing aggressively — but the domestic shock was equally severe.* • **Fed:** Slashed rates aggressively in Mar 2020 (to near zero). • **BNM (OPR)**: Cut in Jan 2020 (−25bps to 2.75%), then multiple rounds to 1.75% by Jul 2020.