

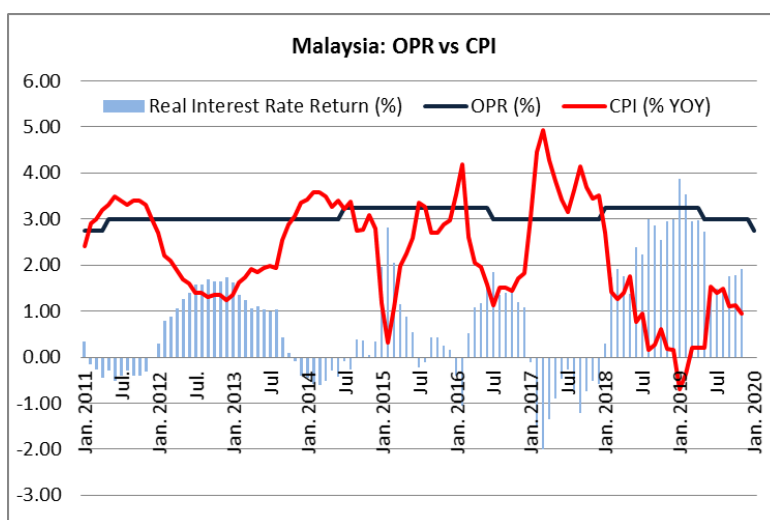
**Global Markets Research**  
**Economics - Malaysia**

## ***BNM delivered another preemptive OPR cut***

*BNM delivered another preemptive 25bps cut in the OPR in a surprise move, in what it meant to “secure the improving growth trajectory amid price stability”, as documented in its latest monetary policy statement. Taking cognizance of still sound macro fundamentals and our projection for resilient growth at 4.3% for this year, we believe BNM would be able to fend off further adjustment in the OPR unless black swan events in the like of geopolitical risks and outbreak of coronavirus evolving into a global pandemic balloon up. Our base view is for no further change in the OPR this year even though we concur with BNM that downside risks to growth remain. We do acknowledge risks of further adjustment may increase should US trade protectionism policy and political risks pose greater risks to the world economy that would ultimately spill over to the domestic economy. Post today’s 25bps cut, BNM reiterates that the stance of monetary policy remains appropriate in sustaining economic growth with price stability.*

*BNM reduced the OPR by 25bps to 2.75%, the lowest since 2011*

**BNM cut the Overnight Policy Rate (OPR) by 25bps to 2.75%, a move that surprised us and markets. BNM highlighted that this is a preemptive cut aimed at securing the improving growth trajectory, based on overall assessment that downside risks remain despite signs of improvement in the macro outlook. The latest policy statement is not dovish in our view, even though it remains cautious and mindful of downside risks, suggesting another rate cut is not imminent.**



*Global economic growth remains moderate...and global trade activity is improving despite lingering downside risks*

On its assessment on the global economy, **BNM reiterated that the global economy continues to expand at a more moderate pace. On an even more positive note, BNM highlighted improving global trade activity** as evident in the latest indicators and abating trade tensions. **The central bank also noted easing financial conditions** following from monetary policy easing in 2H2019 that would continue to support economic activity. **Meanwhile, BNM also maintained that downside risks remain** amid geopolitical tensions and policy

uncertainties that could prompt a resurgence in financial market volatility which would in turn weigh on global growth outlook.

*BNM expects the Malaysian economy to stay in line with expectations and to “gradually improve” in 2020*

**As for the Malaysian economy, we noted little change in its assessment compared to the previous statement. BNM commented that 4Q real GDP would continue to see moderate expansion**, which we are penciling in a 4.2% YOY growth, and that full year growth will stay within BNM projected range of 4.3-4.8%. **BNM expects growth to gradually improve in 2020**, which to us is a much needed comfort and a signal that another OPR cut is not imminent. Continued support from household spending and expectation for better export performance would help cushion still soft investment activities. On a more cautious note, **BNM maintained that there continues to be downside risks stemming from macro and financial market uncertainties globally, in addition to weaknesses in commodity-related sectors.**

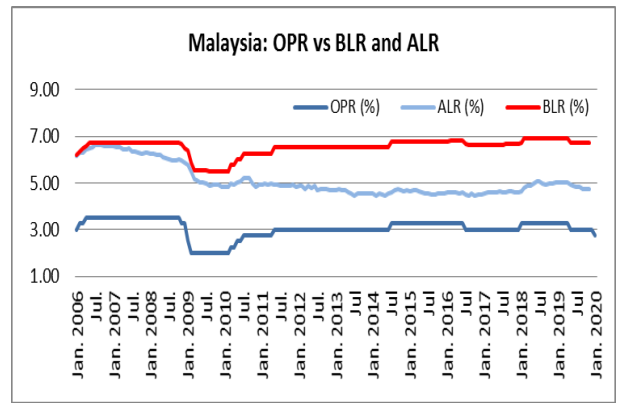
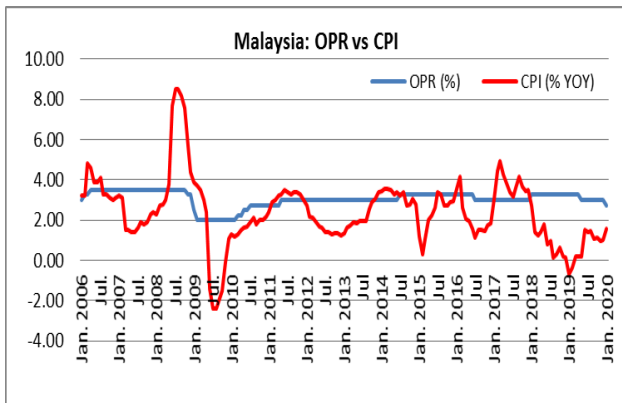
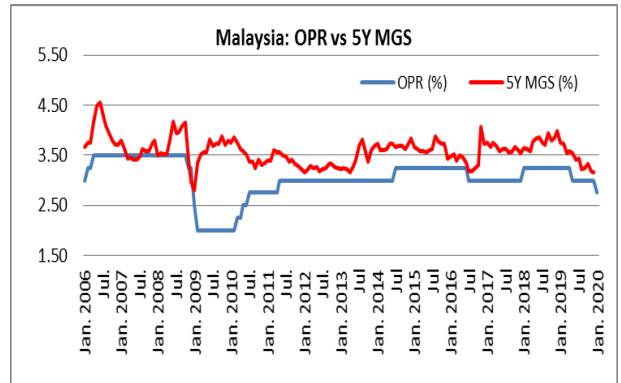
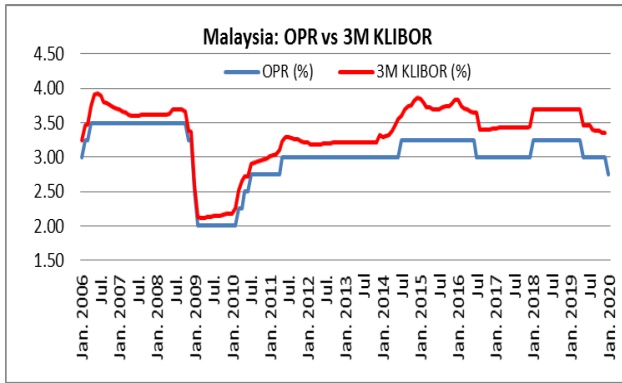
*No change in modest inflation outlook*

**We also noted no change in its assessment on inflationary outlook. Headline inflation is expected to “average higher but remained modest”**, reflecting mainly the lapse in the impact from consumption tax policy changes, removal of price ceiling for RON95 and expectations for subdued global crude oil prices. We are expecting full year CPI to average 1.4% YOY in 2020, doubling from the 0.7% YOY increase in 2019, and below MOF’s forecast of 2.0%.

*Maintain our view for no change in OPR going forward barring escalation in growth risks*

**Taking cognizance of still sound macro fundamentals and our projection for resilient growth at 4.3% for this year, we believe BNM would be able to fend off further adjustment in the OPR** unless black swan events in the like of geopolitical risks and outbreak of coronavirus evolving into a global pandemic balloon up. **Our base view is for no further change in the OPR this year** even though we concur with BNM that downside risks to growth remain. We also do acknowledge risks of further adjustment may increase should US trade protectionism policy and political risks pose greater risks to the world economy that would ultimately spill over to the domestic economy. Post today’s 25bps cut, BNM reiterates that the stance of monetary policy remains appropriate in sustaining economic growth with price stability.

| MPC Meeting No. | Dates of Monetary Policy Committee Meetings for 2020 |
|-----------------|--|
| 1st             | 21 and 22 January 2020 (Tuesday and Wednesday)       |
| 2nd             | 2 and 3 March 2020 (Monday and Tuesday)              |
| 3rd             | 4 and 5 May 2020 (Monday and Tuesday)                |
| 4th             | 6 and 7 July 2020 (Monday and Tuesday)               |
| 5th             | 9 and 10 September 2020 (Wednesday and Thursday)     |
| 6th             | 2 and 3 November 2020 (Monday and Tuesday)           |



**Side by Side Comparison of BNM Monetary Policy Statement**

| 5-Novembr-2019   | 22-January-2020   |
|--|---|
| <p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to <b>maintain the Overnight Policy Rate (OPR) at 3.00 percent.</b></p> <p><b>The global economy is expanding at a more moderate pace, with the slowdown becoming more synchronised across both the advanced and emerging economies.</b> There is also evidence of the weak global trade affecting domestic demand, particularly investment activity. Going forward, geopolitical tensions, policy uncertainty and the unresolved trade disputes could exacerbate financial market volatility and further weigh on the global growth outlook. Monetary easing and other policy measures are expected to provide some support to growth.</p> <p><b>For the Malaysian economy, latest indicators are in line with expectations,</b> suggesting moderate expansion of economic activity for the third quarter. Going forward, growth is expected to remain anchored by firm private sector expenditure. While private investment is projected to remain modest, household spending will be supported by continued employment and wage growth. The recent Government measures will provide additional impetus to economic activity. On the external front, while exports will continue to be affected by slower global demand, this will be partly mitigated by its diversified structure. <b>Overall, growth of the Malaysian economy is expected to be within projections in 2019 and the pace sustained going into 2020. This projection remains subject to downside risks, mainly stemming from uncertainties in global economic and financial conditions as well as weakness in commodity-related sectors.</b></p> <p>Average headline inflation in 2019 will be low. In 2020, headline inflation is expected to average higher but remain modest. This reflects mainly the lapse in the impact from consumption tax policy changes, the lifting of the domestic retail fuel price ceiling amid the relatively subdued outlook on global oil prices, and measures in place to contain food prices. The trajectory of headline inflation will, however, be dependent on global oil and commodity price developments. Underlying inflation is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.</p> <p>At the current level of the OPR, <b>the stance of monetary policy remains accommodative and supportive of economic activity.</b> The MPC will continue to assess the balance of risks to domestic growth and inflation, to ensure that the monetary policy stance remains conducive to sustainable growth amid price stability.</p> | <p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to <b>reduce the Overnight Policy Rate (OPR) to 2.75 percent.</b> The ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 3.00 percent and 2.50 percent, respectively.</p> <p><b>The global economy continues to expand at a moderate pace. Latest indicators and the recent dissipation of trade tensions point to improving global trade activity.</b> Monetary easing across major economies in the second half of 2019 has helped ease financial conditions, and is expected to continue to support economic activity. However, <b>downside risks remain due to geopolitical tensions and policy uncertainties in a number of countries.</b> This could cause a resurgence of financial market volatility and weigh on the global growth outlook.</p> <p>For the Malaysian economy, latest indicators and supply disruptions in commodity-related sectors point to <b>moderate expansion of economic activity in the fourth quarter.</b> For 2019, growth will be within the projected range. <b>For 2020, growth is expected to gradually improve,</b> with continued support from household spending and better export performance. Overall investment activity is expected to record a modest recovery, underpinned by ongoing and new projects, both in the public and private sectors. However, <b>downside risks to growth remain.</b> These <b>include uncertainty from various trade negotiations, geopolitical risks, weaker-than-expected growth of major trade partners, heightened volatility in financial markets, and domestic factors that include weakness in commodity-related sectors and delays in the implementation of projects.</b></p> <p>Headline inflation averaged at 0.7% in 2019. <b>In 2020, headline inflation is expected to average higher but remain modest.</b> The trajectory of headline inflation will be dependent on global oil and commodity price developments and the timing of the lifting of the domestic retail fuel price ceilings. <b>Underlying inflation is expected to remain broadly stable,</b> reflecting the continued expansion in economic activity and the absence of strong demand pressures.</p> <p><b>The adjustment to the OPR is a pre-emptive measure to secure the improving growth trajectory amid price stability.</b> At this current level of the OPR, the MPC considers the stance of monetary policy to be appropriate in sustaining economic growth with price stability.</p> |

**Hong Leong Bank Berhad**

Fixed Income &amp; Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hbb.hongleong.com.my

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