

Global Markets Research
Economics - Malaysia

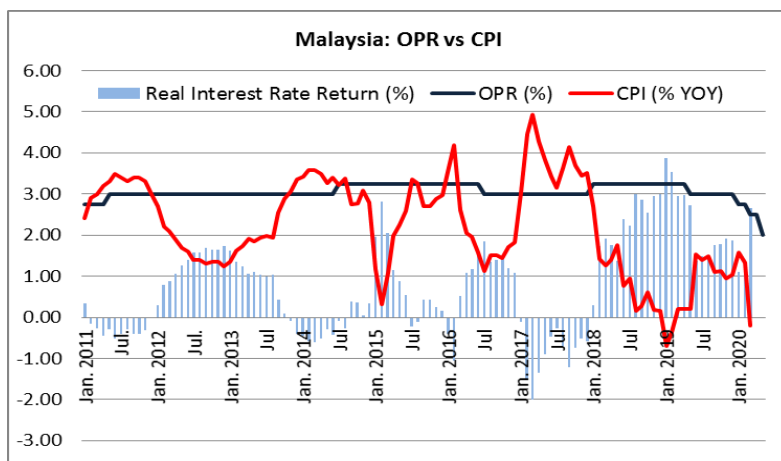
Third consecutive cut by BNM...and the biggest since 2009

BNM cut the OPR for the third straight meeting, by 50bps to 2.00% today, but SRR was maintained at 2.00% after being reduced by 100bps on 20th March. After a cumulative 100bps reduction in the OPR within a span of five months, and taking cue from a rather neutral but still cautious policy statement, we are of the view that BNM is not in a hurry to deliver further OPR cut in the near term, at least not in the next meeting in July, unless policy introduced encompassing both fiscal and monetary todate, prove insufficient to shore up the weakening growth prospect. Assuming reasonable containment of the pandemic and resumption of economic activities, we expect growth to recover, though remain weak, from its 2Q slump towards the later part of the year. This should provide some breathing space for BNM to hold rates steady at 2.00% going forward, barring escalation in downside growth risks, whilst assessing the effectiveness of stimulus measures implemented so far. BNM also reiterated that OPR will be used along other policy tools in supporting improvement in economic activity, hence odds of a pause ahead.

BNM cut the OPR by 50bps to 2.00%, the lowest since 2009 to bolster growth

BNM delivered another cut to its Overnight Policy Rate (OPR) today, reducing the benchmark policy rate by 50bps to 2.00%. This marked its 3rd consecutive cut over three meetings, bringing rates down to its lowest since 2009. The quantum of the cut was also the biggest since Feb-2009. **However, cumulatively, BNM appears to be responding less aggressively this time given that the economic downturn is expected to be more severe than the 1.5% contraction seen in 2009.** To date, BNM reduced the OPR by a cumulative 100bps within a span of five months while the OPR saw a bigger 150bps reduction within the same time span back in the 2008/09 crisis.

We believe this could be BNM’s conscious decision to safeguard the interest of depositors at times where income are becoming a growing concern. Therefore, coupled with the rather neutral statement, save for the tinge of cautiousness on the domestic economy, **we are of the view that BNM may refrain from cutting the OPR in July, barring escalation of downside growth risks.**



Global economic conditions have weakened significantly

Today's decision probably stemmed from assessment that the world economy has weakened significantly. Economic condition is already contracting and full year global growth will be negative. It was nonetheless acknowledged that stimuli measures introduced globally will help mitigate the economic fallout, hence paving the way for a recovery in 2021 on expectation the pandemic is under control.

Cautious tone on the domestic economy

On the domestic economy, BNM highlighted that economic condition will be particularly challenging in the first half of the year, due to pandemic related economic fallout and containment measures, including weaker external demand, border closure and months-long Movement Control Order. **BNM reiterated that consumer spending will be hit as labour market weakened considerably.** BNM also sounded cautious, foreseeing high degree of uncertainties to growth outlook, subject to the development of the pandemic.

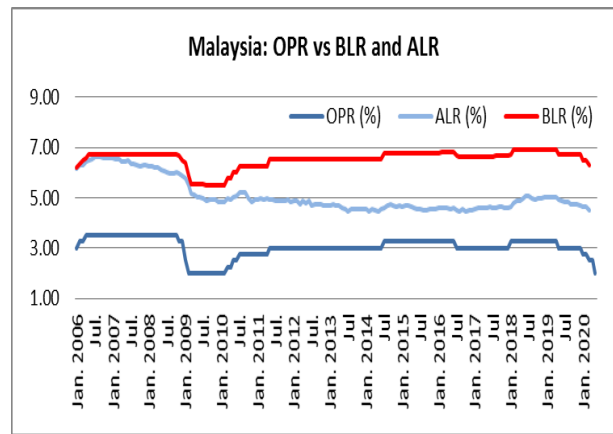
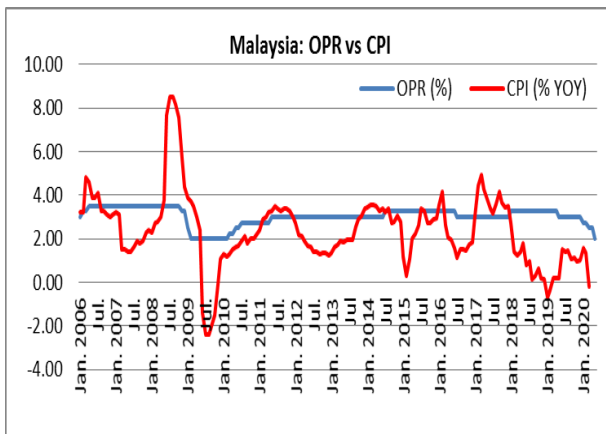
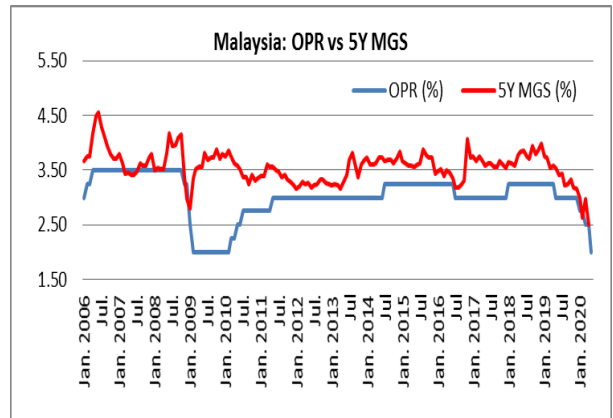
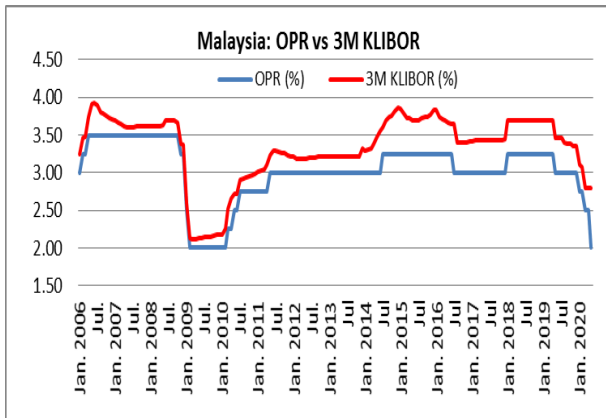
Twist in inflation outlook from subdued inflation to a deflation this year

There is a twist in the inflation outlook, where inflation is expected to turn negative this year, broadly in line with our view (-0.7%) in the wake of weak global crude oil prices and demand condition. Underlying inflation is expected to be subdued given the prospects of weaker growth condition and labour market.

BNM in no hurry to cut further...barring escalation in downside growth risks

After a cumulative 100bps reduction in the OPR within a span of five months, and taking cue from a rather neutral policy statement, **we are of the view that BNM is not in a hurry to deliver further OPR cut in the near term,** at least not in the next meeting in July, unless policy introduced encompassing both fiscal and monetary to date, prove insufficient to shore up the weakening growth prospect. Assuming reasonable containment of the pandemic and resumption of economic activities, we expect growth to recover, though remains weak, from its 2Q slump towards the later part of the year. This should provide some breathing space for BNM to **hold rates steady at 2.00%, probably for the remaining of the year, barring escalation in downside growth risks.**

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

3-March-2020	5-May-2020
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to reduce the Overnight Policy Rate (OPR) by 25 basis points to 2.50 percent. The ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 2.75 percent and 2.25 percent, respectively.</p> <p>Global economic conditions have weakened in the recent period. The ongoing COVID-19 outbreak has disrupted production and travel activity, especially within the region. This has also led to greater risk aversion, resulting in tighter financial conditions and a resurgence in financial market volatility. Downside risks to the global growth outlook have increased, particularly in the near term. However, a number of countries have implemented policy responses. With further anticipated policy measures, these actions are expected to mitigate the economic impact of COVID-19.</p> <p>The Malaysian economy grew at a moderate pace of 4.3% in 2019. Looking ahead, growth, particularly in the first quarter, will be affected by the COVID-19 outbreak primarily in the tourism-related and manufacturing sectors. The weakness in the agriculture sector is also likely to persist in the first quarter. For 2020, private and public sector activities will be supportive of growth. Household spending is expected to grow at a slower pace amid moderate employment and income growth. Investment activity is projected to record a modest recovery, underpinned by ongoing and new projects, both in the public and private sectors. The 2020 economic stimulus package will also provide some support to economic activity. Although domestic growth is expected to gradually improve in the second half of the year, there are key downside risks, mainly stemming from the evolving nature and prolonged impact of the COVID-19 outbreak, and continued weakness in commodity-related sectors.</p> <p>In 2020, headline inflation is expected to average higher but remain modest. 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. Underlying inflation is expected to be more moderate, amid limited demand pressures despite the continued expansion in economic activity.</p> <p>The reduction in the OPR is intended to provide a more accommodative monetary environment to support the projected improvement in economic growth amid price stability. The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.</p>	<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to reduce the Overnight Policy Rate (OPR) by 50 basis points to 2.00 percent. The ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 2.25 percent and 1.75 percent, respectively.</p> <p>Global economic conditions have weakened significantly. Measures to contain the COVID-19 pandemic have disrupted economic activity across most economies. Recent indicators show that the global economy is already contracting, with global growth projected to be negative for the year. Financial conditions have also tightened amid elevated risk aversion and uncertainty. Substantial policy stimuli introduced by many economies, coupled with the gradual easing of containment measures globally, would partially mitigate the economic impact of COVID-19. Growth prospects should improve in 2021 with the expected containment of the pandemic.</p> <p>For Malaysia, domestic economic conditions have similarly been affected by the pandemic. Widespread containment measures globally, international border closures and the consequent weak external demand environment will exert a larger drag on domestic economic activity. The Movement Control Order, while necessary to contain the spread of the virus, has also constrained production capacity and spending. Labour market conditions are also expected to weaken considerably. Economic conditions would be particularly challenging in the first half of the year. The fiscal stimulus measures, alongside monetary and financial measures will, however, offer some support to the economy. With more businesses allowed to operate under the Conditional Movement Control Order, economic activity is projected to gradually improve. The outlook for growth continues to be subject to a high degree of uncertainty, particularly with respect to developments surrounding the pandemic.</p> <p>Inflationary pressures are expected to be muted in 2020, with average headline inflation likely to be negative this year, due mainly to projections for substantially lower global oil prices. Nevertheless, the outlook remains significantly affected by global oil and commodity prices, as well as evolving demand conditions. Underlying inflation is expected to be subdued given the projections of weaker domestic growth prospects and labour market conditions.</p> <p>The financial sector is sound, with financial institutions operating with strong capital and liquidity buffers. Liquidity remains ample, augmented by liquidity injections by Bank Negara Malaysia. Since March 2020, Bank Negara Malaysia has provided additional liquidity of approximately RM42 billion into the domestic financial markets, via various tools including outright purchase of government securities, reverse repos and the reduction in Statutory Reserve Requirement. Bank Negara Malaysia stands ready to provide liquidity in the interbank market to ensure orderly market conditions, conducive to support financial intermediation activity.</p> <p>With the decision today, the OPR has been reduced by a total of 100 basis points, complementing other monetary and financial measures by Bank Negara Malaysia as well as fiscal measures this year. Together, these measures will cushion the economic impact on businesses and households and support the improvement in economic activity. The MPC will continue to monitor the outlook for domestic growth and inflation. The Bank will utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.</p>

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