

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

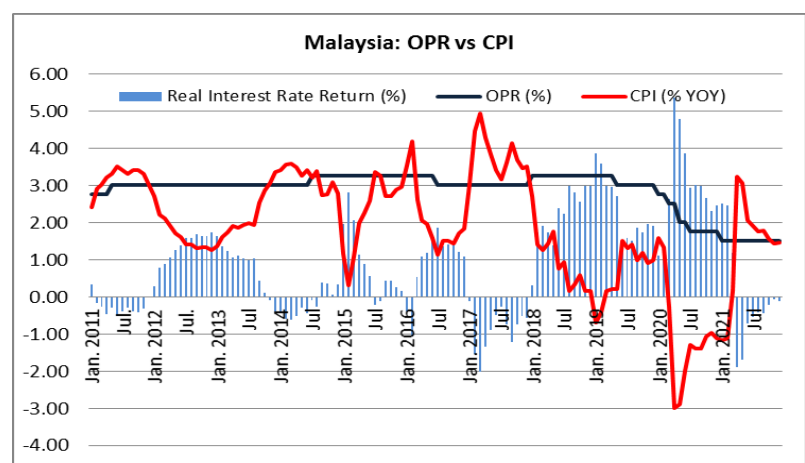
## Unchanged OPR and more neutral policy tone

BNM maintained the Overnight Policy Rate (OPR) at 1.75% for the second straight meeting, wrapping up the year with a total 125bps rate cuts to stimulate growth. While the central bank continues to flash downside risks to both the global as well as domestic economy, the gradual move away from dovishness offers hint that further policy easing is not on the drawing board near term. We therefore believe BNM could leave OPR unchanged at the current level of 1.75% through next year, barring significant reescalation of the pandemic which could pose further downside risks to growth.

*BNM decided to leave OPR unchanged today expecting continuous recovery*

**BNM maintained the Overnight Policy Rate (OPR) at a record low of 1.75%** for a second consecutive meeting today, wrapping up the year with a cumulative 125bps reduction to revitalize growth. This was against our expectation for a cut but in line with market expectation for a pause. We sense from the monetary policy statement that **the central bank has turned a tad more positive on growth assessment despite reiteration of uneven recovery and downside risks from both the global as well as domestic economic front.**

**The MPC reaffirmed that the stance of monetary policy is “appropriate and accommodative”, and will continue to provide stimulus to the economy, suggesting another near term rate cut is not on the table.** BNM seems confident that the recent spikes in new Covid-19 cases and targeted containment measures will still keep full year growth within the targeted range of -3.5% to -5.5%, even as it acknowledges that recovery momentum in 4Q could be somewhat dampened following the Conditional MCO in selected states, which collectively account for about half of the nation’s GDP.



*The global economy continues to recover but downside risk remains*

**BNM assessed that the global economy continues to recover**, with improvement seen in most advanced as well as emerging economies. **China is being singled out for its pronounced recovery**, as can be seen in recent indicators which all solidify its recovery traction. **The recovery prospects will however remain uneven, amid continued downside risks to the global**

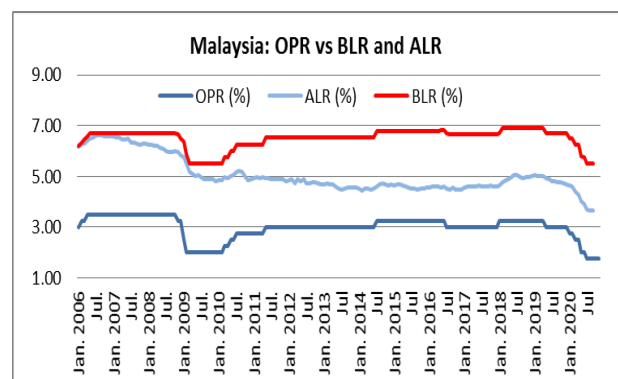
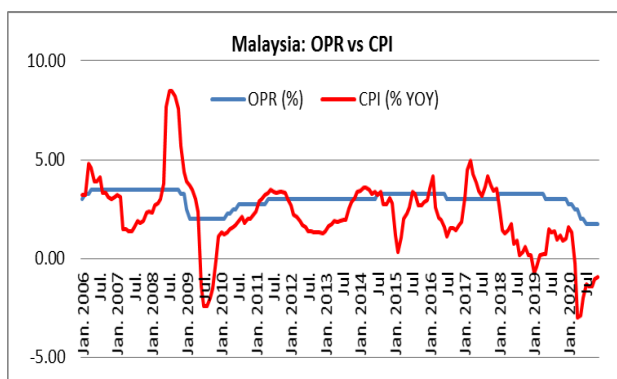
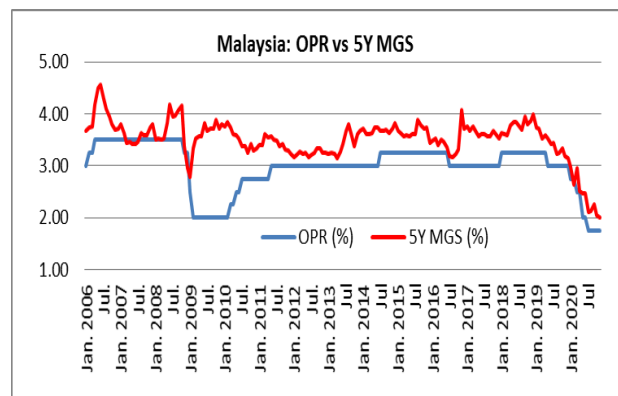
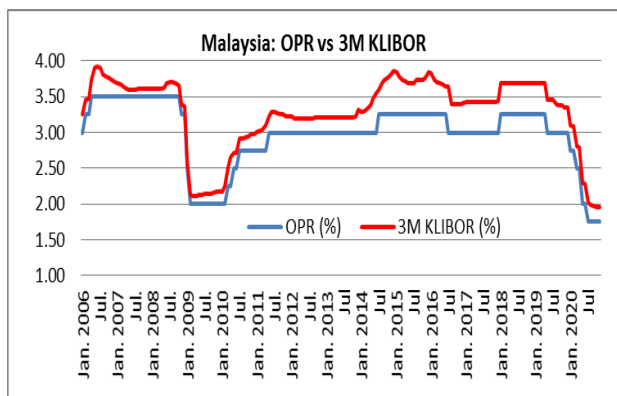
**economy** given the resurgence of Covid-19 cases globally especially in the US and Europe. The economic impact would however likely be less damaging in view of the less restrictive containment measures.

*The Malaysian economy improved significantly in 3Q but 4Q recovery momentum will be dented by spikes in new virus cases and targeted containment measures*

Moving on to the local front, **BNM highlighted that economic activities improved significantly in 3Q but acknowledged that the recent resurgence of Covid-19 cases and reintroduction of movement restriction measures could derail the recovery momentum in 4Q.** The central bank meanwhile is confident that full year 2020 growth will still fall within its earlier expected range of -3.5% to -5.5%, and that economic activity is expected to improve further going into 2021. Growth will be driven by exports recovery, turnaround in public and private sector expenditure amid continued support from policy measures, and higher production from existing and new facilities. Mirroring the global economy, downside risks to the domestic economy remain depending on the development of the pandemic globally as well as domestically. **Recovery will be uneven across sectors and slow improvement in the labour market remains a concern.**

*Expect OPR to stay pat barring escalation of significant downside risks to growth*

While the central bank continues to flash downside risks to both the global as well as domestic economy, **the gradual move away from dovishness offers hint that further policy easing is not on the drawing board near term.** We therefore believe **BNM could leave OPR unchanged at the current level of 1.75% through next year, barring significant reescalation of the pandemic which could pose further downside risks to growth.**



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

10-September-2020	3-November-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 1.75 percent.</b></p> <p><b>The global economy continues to improve,</b> with the easing of containment measures across more economies and strong policy support. The re-opening of production facilities has led to a resumption of manufacturing and trade activity. However, the recovery in the services sector has been slower. <b>Financial conditions have improved,</b> although risk aversion remains elevated. <b>The outlook is still subject to downside risks and uncertainty,</b> primarily due to the risk of a resurgence of the pandemic and weaker labour market conditions.</p> <p><b>For Malaysia, economic activity continues to recover</b> from the trough in April this year. <b>Latest high frequency indicators show that labour market conditions, household spending and trade activity have continued to improve.</b> Also supporting the economic recovery are the fiscal stimulus packages, alongside monetary and financial measures. Looking ahead, the improvement is expected to continue into 2021, supported by the recovery in external demand and expansion in private sector expenditure. However, the pace of recovery will be uneven across sectors, with economic activity in some industries remaining below pre-pandemic levels, and a slower improvement in the labour market. <b>This outlook is still subject to downside risks,</b> particularly from ongoing uncertainties surrounding the course of the pandemic domestically and globally.</p> <p>Inflationary pressures are expected to remain muted in 2020. Headline inflation is likely to average negative in 2020 given the substantially lower global oil prices, and average higher in 2021, within the earlier projected ranges. The outlook, however, will continue to be significantly affected by global oil and commodity prices. <b>Underlying inflation is expected to be subdued amid spare capacity in the economy.</b></p> <p>The cumulative 125 basis points reduction in the OPR this year will continue to provide stimulus to the economy. Given the outlook for growth and inflation, <b>the MPC considers the stance of monetary policy to be appropriate and accommodative.</b> The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.</p>	<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to <b>maintain the Overnight Policy Rate (OPR) at 1.75 percent.</b></p> <p><b>The global economy continues to recover, led by improvements in manufacturing and export activity.</b> Latest indicators show that economic activity picked up in most advanced and regional economies, with a more pronounced recovery momentum in PR China. However, recent resurgences in COVID-19 cases have caused some major economies to re-introduce containment measures, although generally less restrictive than earlier measures. This suggests that <b>the global economic recovery will likely remain uneven in the near-term.</b> Financial conditions have improved, although risk aversion remains elevated. The overall outlook remains subject to downside risks, primarily due to the risk of further resurgence of COVID-19 infections which could lead to weaker business, employment and income conditions.</p> <p>For Malaysia, the latest indicators point towards <b>significant improvement in economic activity in the third quarter.</b> The introduction of targeted measures to contain COVID-19 in several states could affect the momentum of the recovery in the fourth quarter. <b>Nonetheless, growth for the year 2020 is expected to be within the earlier forecasted range. For 2021, economic activity is projected to improve further.</b> This will be underpinned by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures, and higher production from existing and new facilities. Nevertheless, the pace of recovery will be uneven across sectors, with economic activity in some industries remaining below pre-pandemic levels, and a slower improvement in the labour market. <b>Downside risks to the outlook remain,</b> stemming mainly from ongoing uncertainties surrounding the pandemic globally and domestically.</p> <p>In line with earlier assessments, headline inflation is likely to average negative this year given the substantially lower global oil prices. For 2021, headline inflation is projected to average higher. The outlook, however, will continue to be significantly affected by global oil and commodity prices. <b>Underlying inflation is expected to remain subdued in 2021 amid continued spare capacity in the economy.</b></p> <p><b>The MPC considers the stance of monetary policy to be appropriate and accommodative.</b> The cumulative 125 basis points reduction in the OPR this year will continue to provide stimulus to the economy. The MPC will continue to assess evolving conditions and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.</p> <p>The meeting also approved the schedule of MPC meetings for 2021. In accordance with the Central Bank of Malaysia Act 2009, the MPC will convene six times during the year. The meetings will be held over two days, with the Monetary Policy Statement released at 3 p.m. on the second day of the MPC meeting.</p> <table border="1" data-bbox="823 1637 1509 1845"> <thead> <tr> <th>MPC Meeting No.</th> <th>Dates of Monetary Policy Committee Meetings for 2021</th> </tr> </thead> <tbody> <tr> <td>1<sup>st</sup></td> <td>19 and 20 January 2021</td> </tr> <tr> <td>2<sup>nd</sup></td> <td>3 and 4 March 2021</td> </tr> <tr> <td>3<sup>rd</sup></td> <td>5 and 6 May 2021</td> </tr> <tr> <td>4<sup>th</sup></td> <td>7 and 8 July 2021</td> </tr> <tr> <td>5<sup>th</sup></td> <td>8 and 9 September 2021</td> </tr> <tr> <td>6<sup>th</sup></td> <td>2 and 3 November 2021</td> </tr> </tbody> </table>	MPC Meeting No.	Dates of Monetary Policy Committee Meetings for 2021	1 <sup>st</sup>	19 and 20 January 2021	2 <sup>nd</sup>	3 and 4 March 2021	3 <sup>rd</sup>	5 and 6 May 2021	4 <sup>th</sup>	7 and 8 July 2021	5 <sup>th</sup>	8 and 9 September 2021	6 <sup>th</sup>	2 and 3 November 2021
MPC Meeting No.	Dates of Monetary Policy Committee Meetings for 2021														
1 <sup>st</sup>	19 and 20 January 2021														
2 <sup>nd</sup>	3 and 4 March 2021														
3 <sup>rd</sup>	5 and 6 May 2021														
4 <sup>th</sup>	7 and 8 July 2021														
5 <sup>th</sup>	8 and 9 September 2021														
6 <sup>th</sup>	2 and 3 November 2021														

**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

**DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.