

Malaysia Remains Aggressive in its Monetary Easing

In line with our prediction, the BNM cut its benchmark OPR by 50bps to 2.0% on Tue, for the third consecutive meeting. The central bank also slashed its statutory reserves requirements to 1% from 2% w.e.f March 1. Market was leaning towards a hiatus after BNM delivered an unprecedented 75bps cut in Jan and following comments from BNM governor Zeti last week that BNM has front-loaded its interest rate cuts and it is not constructive to keep interest rates low. The comments had appeared to be targeted at dampening rate cut expectation ahead of Tue's meeting.

In our opinion, the motive for the continuation of the aggressive monetary policy easing was the further deterioration in the December industrial production and exports data which contracted by double-digit pace. Inflation has also continued to ease by a faster-than-expected clip in January. The move also insures against further weakening in the economic data as the BNM's next meeting will only be held on April 29.

Since November last year, the BNM has cut its OPR by a cumulative 150bps and we expect there is limited room for the interest rate to be lowered much further from here. We are penning down a further 25bps cut to bring the OPR to 1.75% by end-2Q09.