

Macro Note

Malaysia: BNM Cuts OPR By 25bps To Record Low At 1.75%

Tuesday, 07 July 2020

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- Bank Negara Malaysia (BNM) cut the policy rate for the fourth time to-date. The Overnight Policy Rate (OPR) was reduced by 25bps to 1.75%. A Bloomberg poll was mixed with 14 expecting 25bps rate cut, four expecting 50bps cut, and seven (including us) expecting no change.
- Today's decision was closely watched in view of the ongoing pandemic and growth risks, as well as recent political developments. The latest cut aims to provide additional policy stimulus to accelerate the pace of economic recovery. This follows three successive reductions and a sizeable fiscal package of MYR295bn (or 20% of GDP) announced in 1H 2020.
- Given that BNM is keeping the door open for further rate cuts amid projected deflation this year, we are now pencilling in another 25bps cut to end the year at an unprecedented low of 1.50%. There are two more monetary policy meetings this year on 10 Sep and 3 Nov.

BNM Brings OPR To New Record Low Of 1.75%

Bank Negara Malaysia (BNM) cut the Overnight Policy Rate (OPR) by 25bps to 1.75% today (7 Jul). A Bloomberg poll was mixed with 14 expecting 25bps rate cut, four expecting 50bps cut, and seven (including us) expecting no change. BNM kept the Statutory Reserve Requirement (SRR) unchanged at 2.00%. Today's OPR cut marks the fourth straight meeting that BNM has reduced the benchmark policy rate. The OPR has been cut by 125bps to-date, bringing Malaysia's interest rates to record lows.

The overall [monetary policy statement](#) was deemed dovish. BNM expects the impact of the pandemic on the global economy to be severe. Several major economies have begun relaxing measures to contain the COVID-19 pandemic that leads to the gradual resumption of economic activity. However, downside risks persist especially if a resurgence of the pandemic necessitates the reintroduction of containment measures.

BNM sees Malaysia's economic activity contracting sharply in 2Q due to the measures introduced to contain the pandemic globally and domestically. The gradual and progressive reopening of the economy since early May has helped economic activity recover from the trough in 2Q. The fiscal stimulus packages, alongside monetary and financial measures help underpin the improving economic outlook. This will also be supported by a gradual recovery in global growth conditions. However, BNM sees the pace and strength of the recovery subject to downside risks including prospects of further outbreaks of the pandemic leading to reinstatement of containment measures, persistent weakness in the labour market, and weaker-than-expected recovery in global growth.

A point of note is that Malaysia has managed to keep the infection curve flat despite the relaxation of the movement control order since early May. This is key to sustaining the pace of recovery amid lingering pandemic risks. BNM's 2020 growth projection is -2.0% to +0.5% (UOB forecast: -3.5%), which was based on assumptions that global GDP could contract 1.0%. The latest IMF projection is for global GDP to contract 4.9% in 2020 (vs. previous projection of -3.0%) which infers further downside risk for BNM's economic forecast. IMF projects Malaysia's economy to contract 3.8% in 2020 before rebounding +6.3% in 2021.

BNM expects negative inflation or deflation this year primarily reflecting lower global oil prices. With headline CPI declining 2.9% in May, real interest rates (OPR less CPI) spiked up to 4.9% implying further room to loosen monetary policy. BNM noted that risks of a broad-based and persistent decline in prices are likely limited as economic activity resumes and demand improves. Volatile global oil and commodity prices are also potential risks. Generally underlying inflation is expected to be subdued.

Keeping Door Open Amid Lingering Uncertainties

The latest OPR cut follows three successive reductions and a sizeable fiscal package of MYR295bn (or 20% of GDP) announced in 1H 2020. BNM stated that today's cut aims to provide additional policy stimulus to accelerate the pace of recovery. As BNM leaves the door open alongside projected deflation this year, we are now pencilling in another 25bps cut. However, we are cautious about the effectiveness of further rate cuts after four successive cuts. Interest rates are already at record lows which makes it more challenging to manoeuvre if a second wave hits or other negative surprises materialise. Malaysia's 2Q GDP will be released on 12 Aug. Based on our preliminary estimates, we project 2Q GDP to contract 12% y/y (1Q20: +0.7% y/y) with the impact of COVID-19 and the movement control order felt mostly in 2Q.

Schedule of BNM And FOMC Meetings In 2020

Source: BNM, Federal Reserve, UOB Global Economics & Markets Research

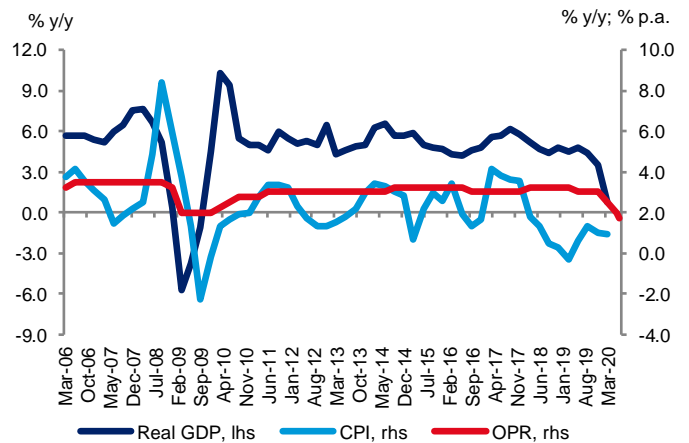
BNM		FOMC	
Jan 21 - 22	2.75% (-25bps)	Jan 28 - 29	1.50%-1.75% (unchanged)
Mar 2 - 3	2.50% (-25bps)	Mar 3 [^]	1.00%-1.25% (-50bps)
May 4 - 5	2.00% (-50bps)	Mar 15 [^]	0.00%-0.25% (-100bps)
Jul 6 - 7	1.75% (-25bps)	Mar 17 - 18*	0.00%-0.25% (unchanged)
Sep 9 - 10		Apr 28 - 29	0.00%-0.25% (unchanged)
Nov 2 - 3		Jun 9 - 10*	0.00%-0.25% (unchanged)
		Jul 28 - 29	
		Sep 15 - 16*	
		Nov 4 - 5	
		Dec 15 - 16*	

[^]Emergency meeting.

*Meeting associated with a Summary of Economic Projections and a press conference by the Fed Chair.

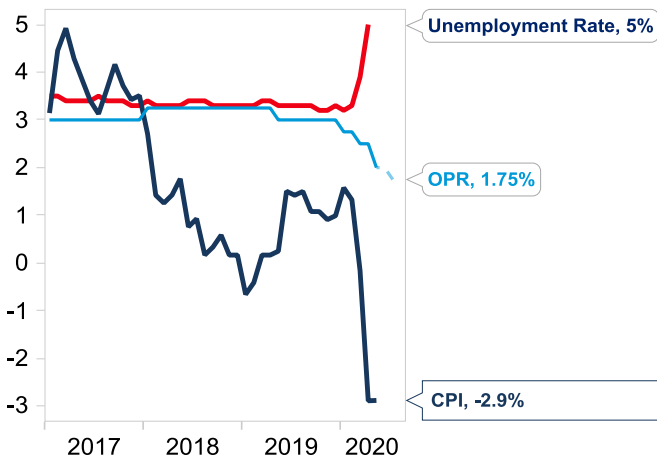
Fourth Rate Cut In 2020 To Mitigate The Impact Of COVID-19

Source: CEIC, UOB Global Economics & Markets Research



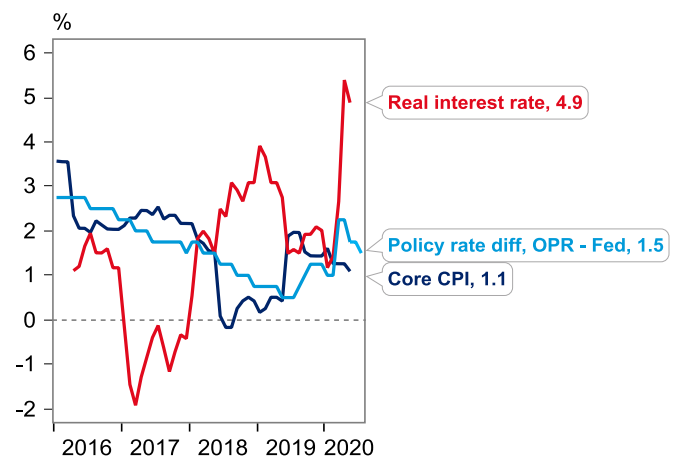
Unemployment Rate Spikes, Deflation Persists

Source: Macrobond, UOB Global Economics & Markets Research



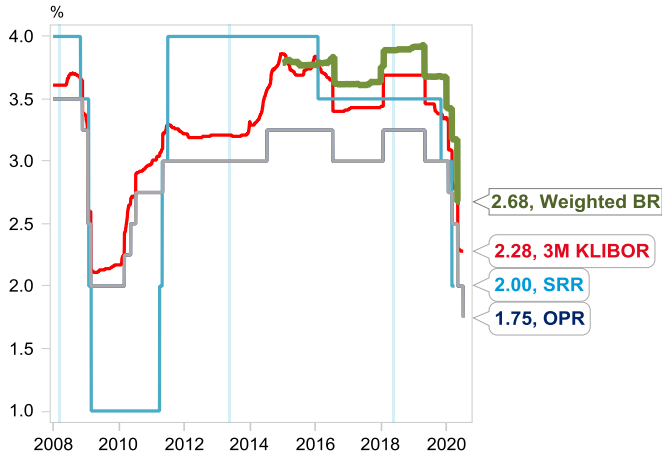
Real Interest Rate, Policy Rate Differential

Source: Macrobond, UOB Global Economics & Markets Research



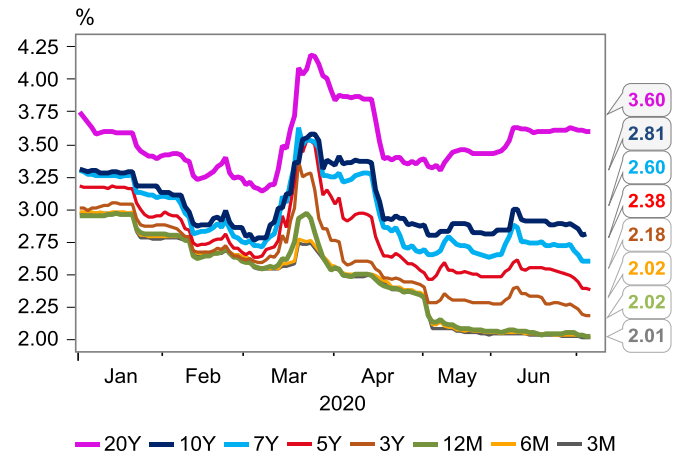
Interest Rates At Record Low

Source: Macrobond, UOB Global Economics & Markets Research



Government Bond Yields

Source: Macrobond, UOB Global Economics & Markets Research



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