

Malaysia

Economics Update

May MPC: OPR cut by 25bp

OPR forecast

	Actual	Forecast	
	7-May	CIMB	Cons.*
Overnight Policy Rate (OPR)	3.00%	3.25%	3.00%

*Bloomberg median consensus

MPC meetings in 2019

MPC Meeting schedule	
Date	Rate decision
1 23-24 Jan (Wed-Thu)	3.25% (unchanged)
2 4-5 Mar (Mon-Tue)	3.25% (unchanged)
3 6-7 May (Mon-Tue)	3.00% (easing)
4 8-9 Jul (Mon-Tue)	
5 11-12 Sep (Wed-Thu)	
6 4-5 Nov (Mon-Tue)	

- OPR cut by 25bp to 3.00% against our expectations of a hold in May.
- Tightening domestic financial conditions and concerns over downside risks to the global economy prompted the pre-emptive monetary easing.
- Having deployed policy buffers against downside risks to the economy, we expect BNM to stand pat on the OPR at 3.00% for the rest of 2019.

BNM cuts OPR rate by 25bp to 3.00%...

Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) has cut the Overnight Policy Rate (OPR) by 25bp to 3.00%, the first policy change in eight meetings, against our expectations of a hold. Forecasters were split ahead of the decision, with the Bloomberg consensus marginally skewed towards an OPR cut. The ceiling and floor rates of the OPR corridor were correspondingly reduced to 3.25% and 2.75%, respectively.

... citing tightening domestic financial conditions...

Despite acknowledging the resilience of domestic financial markets to bouts of volatility, the MPC statement pointed out BNM's discomfort with signs of tightening in domestic financial conditions. Inflation undershot expectations again in Mar, keeping real interest rates at elevated levels. Commercial bank lending rates had been creeping higher (+10bp between Sep 2018 and Mar 2019) while loan growth slipped to a 10-month low of 4.9% yoy in Mar. The OPR cut was intended to maintain monetary accommodativeness in line with its price stability mandate, in light of the risks posed to BNM's baseline GDP growth forecast of 4.3-4.8% in 2019 (CIMB: +4.7%).

... and "considerable downside risks" in the global economy

While BNM noted that the external environment turned out better-than-expected in 1Q19 and the squeeze in global financial conditions eased, the central bank placed emphasis on "considerable downside risks" to global growth arising from the trade spats and country-specific weakness. The negative turn of events in the US-China trade negotiations and re-escalation of tariff threats over the weekend may have also nudged policymakers in the direction of easing, as BNM had estimated that the US's imposition of 25% tariffs on its remaining imports from China and blanket auto tariffs could shave 1% pt off Malaysia's projected GDP growth.

One and done

Today's interest rate cut should not be interpreted as the start of an extended cycle of policy easing. Since 2011, BNM has engaged in minor one-step tweaks in monetary policy, and this time should not be any different. We retain our year-end OPR forecast of 3.00%, implying no further policy rate changes in the second half of 2019. A developing risk to our call is the abrupt breakdown in the US-China trade talks and potential intensification of a tariff tit-for-tat.

Economist(s)



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Figure 1: BNM lowered OPR to 3.00%, the first cut since Jul 2016

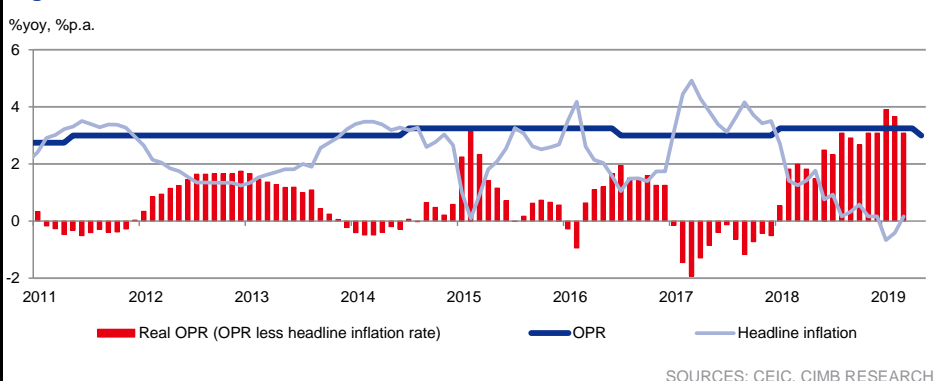
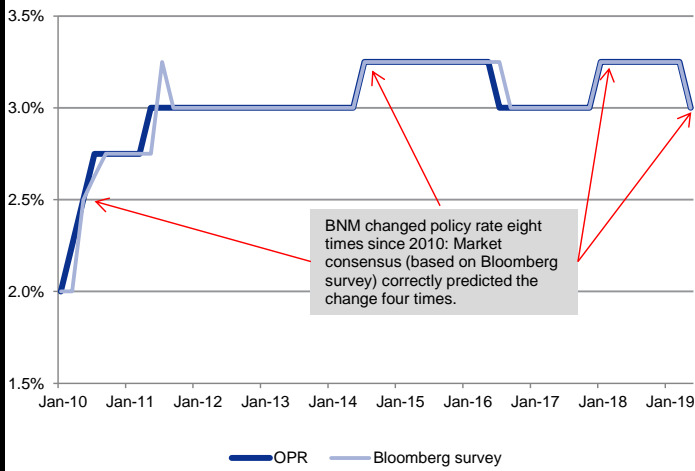
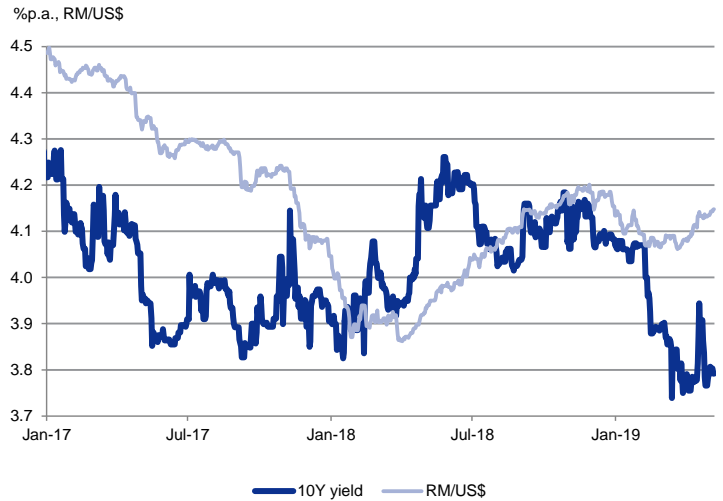


Figure 2: MPC decision vs. market consensus



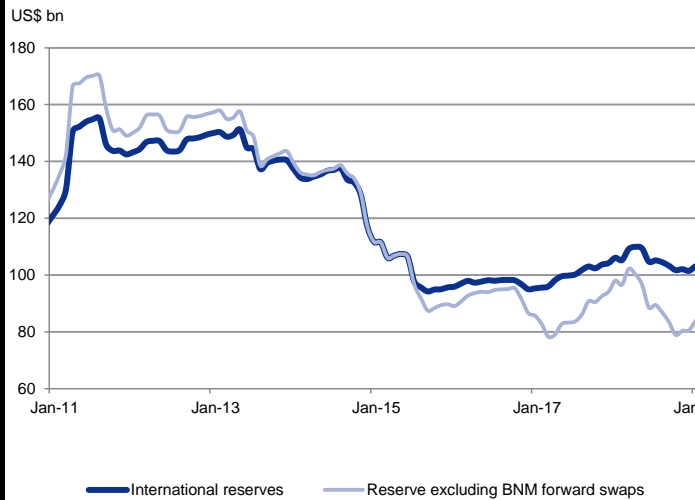
SOURCES: BLOOMBERG, CEIC, CIMB RESEARCH

Figure 3: RM/US\$ weakened recently



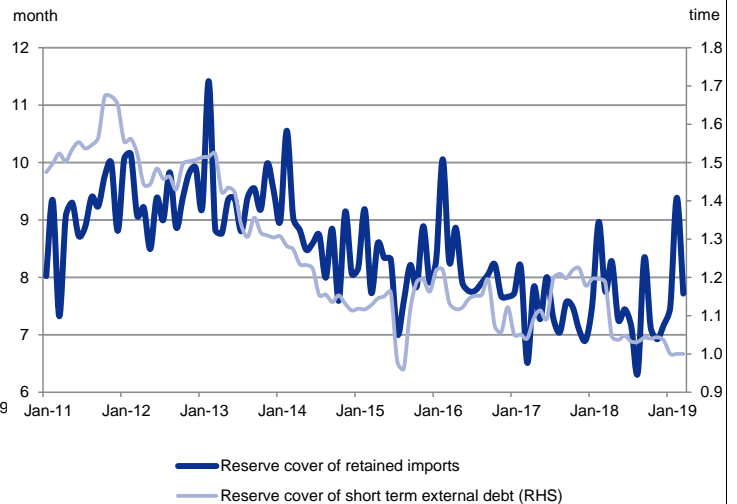
SOURCES: BLOOMBERG, CIMB RESEARCH

Figure 4: International reserves rose to US\$103.5bn as at 15 Apr 2019



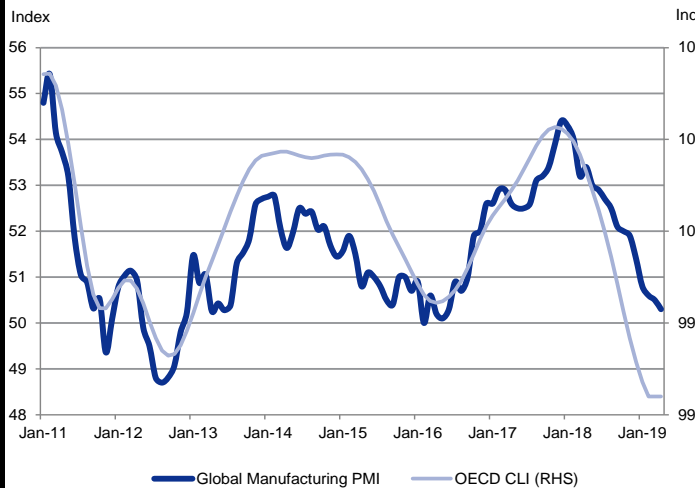
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Figure 5: Reserve cover of retained imports and short-term external debt



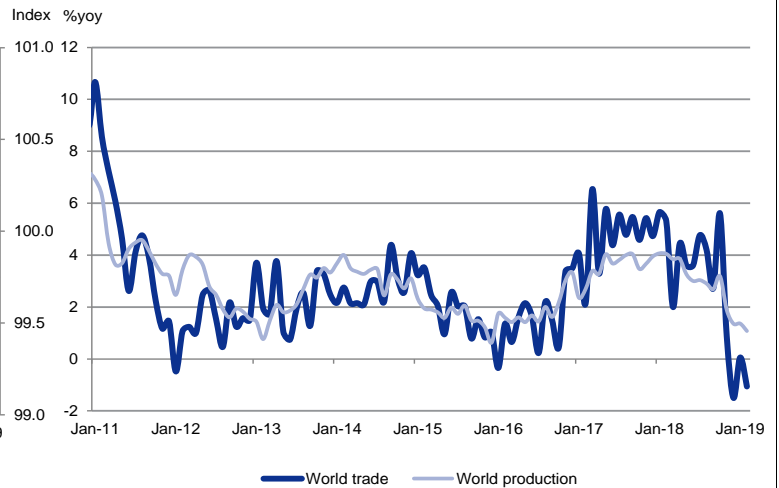
SOURCES: CEIC, CIMB RESEARCH

Figure 6: Global growth momentum moderates



SOURCES: BLOOMBERG, CIMB RESEARCH

Figure 7: Easing global trade and production



SOURCES: CPB, CIMB RESEARCH

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
Description:	Excellent	Very Good	Good	N/A	

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