

## BNM set the OPR for a pause at 3.00%

### Facts

- The Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.00% during its meeting today. This was in tandem with the market consensus which anticipated that the Bank Negara Malaysia (BNM) would not slash the prevailing OPR. This is also marking the last MPC meeting in 2019.
- The accompanying statement indicates that the economic is growing at a modest pace and weakening global trade has affected the domestic demand. Geopolitical tensions, policy uncertainty and the protracted trade frictions could further impair the global growth outlook in the foreseeable future.
- Domestically, the MPC members are of the view that economic activities are likely to expand moderately. As such, solid private sector expenditure is expected to be the key driver for the nation's economic growth moving forward.
- As such, the BNM maintained its GDP projection between 4.3% and 4.8% in 2019 (Bank Islam – 2020F: 4.3% vs. 2019E: 4.5%). The next MPC will be held on 21 and 22 January 2020.

Chart 1: Malaysia OPR (%)



Source: Bloomberg

**Table 1: Central Bank Policy Rates**

Policy rates	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
<b>Advanced countries</b>						
US (Fed Fund Rate)	2.50	2.25	2.25	2.00	1.75	1.75
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Zone (Main Refinancing Rate)	0.00	0.00	0.00	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.75
Canada (ON Lending Rate)	1.75	1.75	1.75	1.75	1.75	1.75
<b>Latin America</b>						
Mexico (ON Rate)	8.25	8.25	8.00	7.75	7.75	7.75
Brazil (Selic Rate)	6.50	6.00	6.00	5.50	5.00	5.00
Argentina (LELIQ 7D Notes Rate)	62.69	60.40	83.26	78.37	68.00	65.93
<b>Eastern Europe</b>						
Russia (Key Rate)	7.50	7.25	7.25	7.00	6.50	6.50
Ukraine (Discount Rate)	17.50	17.00	17.00	16.50	15.50	15.50
Turkey (1W Repo Rate)	24.00	19.75	19.75	16.50	14.00	14.00
<b>Asia</b>						
China (12M Lending Rate)	4.35	4.35	4.35	4.35	4.35	4.35
India (Repo Rate)	5.75	5.75	5.40	5.40	5.15	5.15
Indonesia (7D Repo Rate)	6.00	5.75	5.50	5.25	5.00	5.00
Thailand (1D Repo Rate)	1.75	1.75	1.50	1.50	1.50	1.50
South Korea (Base Rate)	1.75	1.50	1.50	1.50	1.25	1.25
Philippines (O/N Lending Rate)	4.50	4.50	4.25	4.00	4.00	4.00
Australia (Cash Rate)	1.25	1.00	1.00	1.00	0.75	0.75
New Zealand (Cash Rate)	1.50	1.50	1.00	1.00	1.00	1.00
Malaysia (OPR)	3.00	3.00	3.00	3.00	3.00	3.00

Source: Bloomberg

### Our view

Judging from the statement, the BNM appears to be taking a neutral stand in the immediate terms, saying that the economy will continue to be supported by the private sector spending especially the household expenditure. The recent measures by the government in Budget 2020 could also provide the additional catalyst to growth. In that sense, the BNM is of the view that economic growth will continue to be decent. Having said that, the inflation rate is expected to be low and modest this year and in 2020. This would mean room for the OPR reduction is widely open in 2020. In other words, the BNM is able to prescribe the monetary easing measures with some caveat - the central bank would want to wait for further evidence whether such policy respond is warranted. The way we see it, consumer spending is the key consideration. Should consumer spending is able to maintain its above-trend growth, therefore, the economy would continue to grow at a respectable rate. And higher fiscal deficits next year would also mean that the government is expected to play an active role. Again, that could also help to power the economic growth via the implementation of infrastructure projects. Nonetheless, we have seen consumer sentiment has been quite uneasy of late.

Currently, the Consumer Sentiment Index (CSI) stood at 84 points in the 3Q2019, lower from 93 points in the previous quarter and it has been below than the 100-point threshold for four consecutive quarters. This suggests that consumers are generally feeling less enthusiastic about the future outlook. Given that, it make sense to expect consumer spending momentum would normalize going forward and should that happens, the case for lower OPR is highly likely.

At the current juncture, the International Monetary Fund (IMF) has alluded to another round of downward revision for Global GDP forecast, perhaps sometime in January 2020. Already, the J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) indicates that the manufacturing activities have been in contraction mode for six straight months (October: 49.8 points vs. September: 49.7 points).

As such, central banks across the globe would be inclined to reduce their policy rate further in a bid to resuscitate the domestic economy. In our view, there is no exception to BNM since Malaysia is an open economy and quite susceptible to the external environment. Therefore, we foresee BNM would cut the OPR by 25 basis points in 2020.

## Appendix

### Monetary Policy Statement

At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent.

The global economy is expanding at a more moderate pace, with the slowdown becoming more synchronised across both the advanced and emerging economies. There is also evidence of the weak global trade affecting domestic demand, particularly investment activity. Going forward, geopolitical tensions, policy uncertainty and the unresolved trade disputes could exacerbate financial market volatility and further weigh on the global growth outlook. Monetary easing and other policy measures are expected to provide some support to growth.

For the Malaysian economy, latest indicators are in line with expectations, suggesting moderate expansion of economic activity for the third quarter. Going forward, growth is expected to remain anchored by firm private sector expenditure. While private investment is projected to remain modest, household spending will be supported by continued employment and wage growth. The recent Government measures will provide additional impetus to economic activity. On the external front, while exports will continue to be affected by slower global demand, this will be partly mitigated by its diversified structure. Overall, growth of the Malaysian economy is expected to be within projections in 2019 and the pace sustained going into 2020. This projection remains subject to downside risks, mainly stemming from uncertainties in global economic and financial conditions as well as weakness in commodity-related sectors.

Average headline inflation in 2019 will be low. In 2020, headline inflation is expected to average higher but remain modest. This reflects mainly the lapse in the impact from consumption tax policy changes, the lifting of the domestic retail fuel price ceiling amid the relatively subdued outlook on global oil prices, and measures in place to contain food prices. The trajectory of headline inflation will, however, be dependent on global oil and commodity price developments. Underlying inflation is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.

At the current level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity. The MPC will continue to assess the balance of risks to domestic growth and inflation, to ensure that the monetary policy stance remains conducive to sustainable growth amid price stability.

The meeting also approved the schedule of MPC meetings for 2020. 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.

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