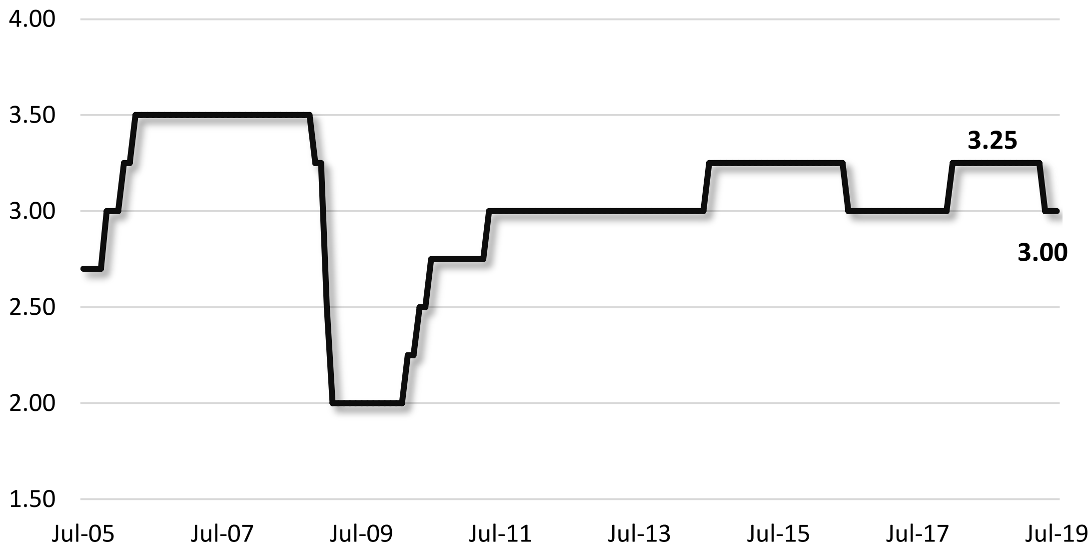
Dr. Mohd Afzanizam Abdul Rashid | Chief Economist | 03-2088 8075 | afzanizam@bankislam.com.my
Shafiz Jamaluddin | Economic Analyst| 03-2088 8399 | shafiz@bankislam.com.my
Nor Jannah Abdullah | Economic Analyst| 03-2782 1417 | norjannah@bankislam.com.my

OPR left at 3.00% but the accompanying statement is cautious

Facts

- The Monetary Policy Committee (MPC) opted to maintain the Overnight Policy Rate (OPR) at 3.00% during meeting convened today. This was in tandem with the market consensus which anticipated that the Bank Negara Malaysia (BNM) would not budge the OPR after the 25 basis points (bps) cut on 7 May 2019.
- The accompanying statements indicate that the economic growth look soggier globally while the downside risk is undoubtedly has heightened. Additionally, prolonged trade dispute between the US and China remain as the key source of risk.
- The MPC member is of the view that the Malaysian economic activities are likely to grow moderately. Stable labour market environment and capacity expansion in the manufacturing and services sector would nonetheless drive the domestic demand and potentially mitigate the incoming risks. On the whole, the MPC committee is leaning on the softer side amid gloomy picture of global growth.
- As such, the BNM maintained its GDP projection between 4.3% and 4.8% in 2019 (Bank Islam: 4.5%). The next MPC will be held on 12 September 2019.

Chart 1: Malaysia OPR (%)



Source: Bloomberg

Table 1: Central Bank Policy Rates

Policy rates	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Y-o-Y
Advanced countries							
US (Fed Fund Rate)	2.50	2.50	2.50	2.50	2.50	2.50	0.50
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00
Euro Zone (Main Refinancing Rate)	0.00	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	0.25
Canada (ON Lending Rate)	1.75	1.75	1.75	1.75	1.75	1.75	0.25
Latin America							
Mexico (ON Rate)	8.25	8.25	8.25	8.25	8.25	8.25	0.50
Brazil (Selic Rate)	6.50	6.50	6.50	6.50	6.50	6.50	0.00
Argentina (LELIQ 7D Notes Rate)	50.13	68.16	73.93	70.73	62.69	59.90	19.90
Eastern Europe							
Russia (Key Rate)	7.75	7.75	7.75	7.75	7.50	7.50	0.25
Ukraine (Discount Rate)	18.00	18.00	17.50	17.50	17.50	17.50	0.50
Turkey (1W Repo Rate)	24.00	24.00	24.00	24.00	24.00	24.00	6.25
Asia							
China (12M Lending Rate)	4.35	4.35	4.35	4.35	4.35	4.35	0.00
India (Repo Rate)	6.25	6.25	6.00	6.00	5.75	5.75	-0.50
Indonesia (7D Repo Rate)	6.00	6.00	6.00	6.00	6.00	6.00	0.75
Thailand (1D Repo Rate)	1.75	1.75	1.75	1.75	1.75	1.75	0.25
South Korea (Base Rate)	1.75	1.75	1.75	1.75	1.75	1.75	0.25
Philippines (O/N Lending Rate)	4.75	4.75	4.75	4.50	4.50	4.50	1.25
Australia (Cash Rate)	1.50	1.50	1.50	1.50	1.25	1.00	-0.50
New Zealand (Cash Rate)	1.75	1.75	1.75	1.50	1.50	1.50	-0.25
Malaysia (OPR)	3.25	3.25	3.25	3.00	3.00	3.00	-0.25

Source: Bloomberg

Our view

The decision was very much in line with what the market expect. Nonetheless, the tone in the accompanying statement was very cautious especially on the global growth outlook. Apart from that, the inflation rate is likely to be contained this year although this is hinges upon the roll out of the new targeted fuel subsidy. So all in all, the window to prescribe additional OPR cut is widely open as growth prospect has been gradually challenging and inflation rate is likely to be well below its trend level. Nonetheless, the recent data point on export growth which surpassed the median estimates suggests that there is no hurry to reduce the OPR. Plus, the central bank would want to wait for the outcome of FTSE Russell review on World Government Bond Index in September, whether our govvies would remain in the index. So for now, its status quo.

Thus far, the Reserve Bank of Australia (RBA) has been at the forefront as they decided to slash its Cash Rate in by 25bps to 1.0% at its meeting on 2 July 2019. This indicates that the slowdown in the global trade has contributed to a slower growth especially in China. Similarly, the Bank of Russia cut its key rate by 25bps to 7.50% on 14 June 2019 as its economic growth in the first half of 2019 was lower than expected.

As of now, we believe the current OPR is sufficient to accommodate our economic growth. This is essentially true in the face of global uncertainties brought mainly by the trade tensions. Lower OPR would reduce the cost of funds which can stimulate investment activities among the various companies. In addition, it would also mean slightly lower in monthly commitment for the existing mortgages or any financing contract that has variable rate features.

All in all, **we maintain our OPR call at 3.00% throughout 2019** in anticipating of moderate economic growth in 2019**.**

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 continues to expand moderately. Labour conditions in the advanced economies remain firm, while domestic demand continues to support growth in Asia. Leading indicators, however, point to a softening of the near term global economic outlook, with considerable downside risks remaining primarily from prolonged trade tensions. While the prospects of monetary easing in the major economies have somewhat eased global financial conditions, heightened policy uncertainty could lead to excessive financial market volatility.

The Malaysian economy grew within expectations in the first quarter of the year, supported by both domestic and external factors. Looking ahead, while the external sector performance is likely to be weighed down by slower global growth and trade tensions, economic growth will be supported by domestic demand. Household and capital spending will continue to be driven by stable labour market conditions and capacity expansion in key sectors such as manufacturing and services. The baseline projection remains within the range of 4.3% - 4.8%. This projection, however, is subject to downside risks from ongoing uncertainties in the global and domestic environment, worsening trade tensions and extended weakness in commodity-related sectors.

While headline inflation has remained low in the recent period, it is projected to rise in the coming months as the impact of the changes in consumption tax policy lapses. For 2019 as a whole, average headline inflation is expected to be broadly stable compared to 2018. The trajectory of headline inflation will be dependent on global oil prices and policy measures such as the timing of the lifting of the price ceiling on domestic retail fuel prices. 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.