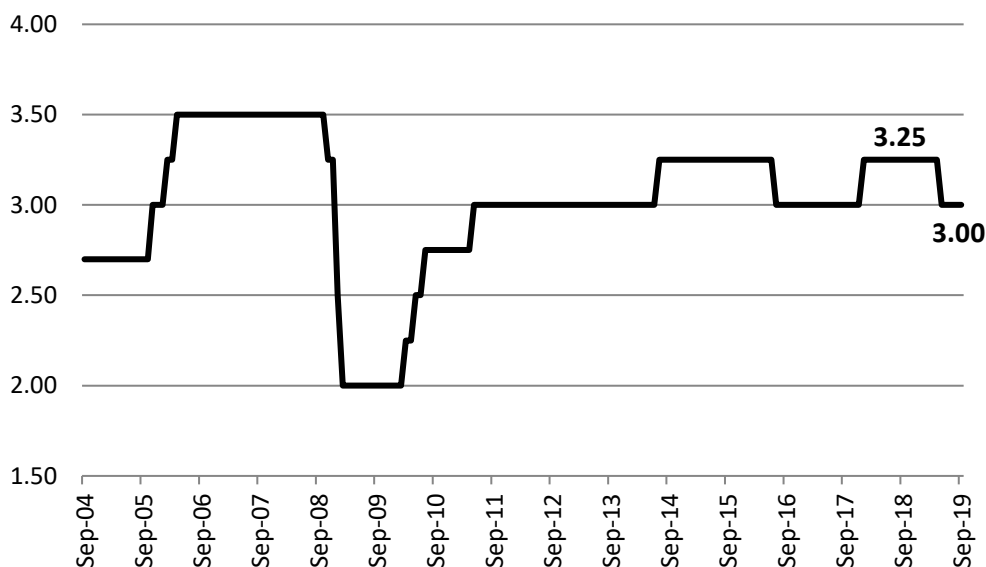


OPR stays at 3.00%. BNM is not in a hurry to cut rates

Facts

- The Monetary Policy Committee (MPC) of Bank Negara Malaysia (BNM) decided to maintain the Overnight Policy Rate (OPR) at 3.00%. This was in line with the market consensus and therefore, today's outcome was pretty much a non-event.
- The accompanying statement indicates that the global activity is growing at a slower pace in most major advanced and emerging economies. Such nuance was predicated by the escalating trade tension, uncertainties in the global and domestic environment as well as the extended weaknesses in the commodity-related sectors.
- The MPC members are of the view that the Malaysian economic activities are likely to grow modestly. Nevertheless, private spending is expected to be the main pillar of growth following stable labor market (Unemployment Rate - 2Q2019: 3.3% vs. 2Q2018: 3.3%) and wage growth. In addition, Malaysia's diversified exports are projected to alleviate the impact of deterioration in global demand.
- Average headline inflation year-to-date is 0.3% and is expected to remain low. This was underpinned by the lapse in the impact of consumption tax policy changes, the muted outlook on global oil prices, and policy measures in containing food prices.
- That said, the BNM has maintained its GDP growth projection between 4.3% and 4.8% in 2019 (Bank Islam: 4.5%). The next MPC will be held on 5 November 2019.

Chart 1: Malaysia OPR (%)



Source: Bloomberg

Table 1: Central Bank Policy Rates

Policy rates	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19 (as of 12/9/19)
Advanced countries									
US (Fed Fund Rate)	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25	2.25
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-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	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.75	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	1.75	1.75	1.75
Latin America									
Mexico (ON Rate)	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.00	8.00
Brazil (Selic Rate)	6.50	6.50	6.50	6.50	6.50	6.50	6.00	6.00	6.00
Argentina (LELIQ 7D Notes Rate)	53.69	50.13	68.16	73.93	70.73	62.69	60.40	83.26	85.99
Eastern Europe									
Russia (Key Rate)	7.75	7.75	7.75	7.75	7.75	7.50	7.25	7.25	7.25
Ukraine (Discount Rate)	18.00	18.00	18.00	17.50	17.50	17.50	17.00	17.00	17.00
Turkey (1W Repo Rate)	24.00	24.00	24.00	24.00	24.00	24.00	19.75	19.75	19.75
Asia									
China (12M Lending Rate)	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India (Repo Rate)	6.50	6.25	6.25	6.00	6.00	5.75	5.75	5.40	5.40
Indonesia (7D Repo Rate)	6.00	6.00	6.00	6.00	6.00	6.00	5.75	5.50	5.50
Thailand (1D Repo Rate)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.50
South Korea (Base Rate)	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50
Philippines (O/N Lending Rate)	4.75	4.75	4.75	4.75	4.50	4.50	4.50	4.25	4.25
Australia (Cash Rate)	1.50	1.50	1.50	1.50	1.50	1.25	1.00	1.00	1.00
New Zealand (Cash Rate)	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.00	1.00
Malaysia (OPR)	3.25	3.25	3.25	3.25	3.00	3.00	3.00	3.00	3.00

Source: Bloomberg

Our view

The overall tone was guarded although intermittently there is also a sense of optimism that consumer spending will continue to hold the fort. Meanwhile, diversified export products would mitigate the external risks with weaker exchange rate will act as the automatic stabiliser. Notwithstanding that, the room to prescribe additional OPR cut is widely open as challenging outlook for growth has persisted and inflation rate is expected to be low throughout the year (7M2019: 0.3% vs. 7M2019: 1.5%).

In our view, the FTSE Russell's decision on Malaysia's status in the World Government Bond Index (WGBI) on 27 September 2019 (Source: Maybank), carries a huge weight. Malaysia is currently assigned with a rating "2" and the country has been included in the WGBI since 2004. In the last review in March, Malaysian government securities (govvies) have been considered for a potential downgrade to "1" which renders the country to be ineligible for inclusion in the WGBI. Passive foreign funds would be inclined to rebalance their portfolio should our govvies be excluded from the index. In other words, ringgit would weaken following the selling of foreign holdings in local govvies. **At the moment, we maintain our call for 2019 OPR at 3.00%.**

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 modest pace amid slower growth in most major advanced and emerging economies. The recent escalation of trade tensions points to weaker global trade going forward, with increasing signs of spillovers to domestic economic activity in a number of countries. Monetary policy easing in several major economies has eased global financial conditions, but uncertainty from the prolonged trade disputes and geopolitical developments could lead to excessive financial market volatility.

For Malaysia, the stronger economic growth performance in the second quarter of 2019 was underpinned by the resilience of private spending amid broad-based expansion in key economic sectors. Going forward, these domestic drivers of growth, alongside stable labour market and wage growth, are expected to remain supportive of economic activity. On the external front, Malaysia's diversified exports will partly mitigate the impact of softening global demand. Overall, the baseline growth projection for 2019 remains unchanged, within the range of 4.3% - 4.8%. This projection, however, is subject to further downside risks from worsening trade tensions, uncertainties in the global and domestic environment, and extended weakness in commodity-related sectors.

Average headline inflation year-to-date is 0.3%. Headline inflation is projected to average higher for the remaining months of the year and into 2020. However, headline inflation is expected to remain low. This reflects the lapse in the impact of consumption tax policy changes, the relatively subdued outlook on global oil prices, and policy 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.

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