

6 May 2020



ECONOMICS

In this report:

Malaysia – Will there be more rate cuts?

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

Dr. Anthony Dass
Chief Economist/Head
anthony-dass@ambankgroup.com
03-20322972

Munesh Nair Muralidharan
Economist
munesh-nair@ambankgroup.com
03-20362255

Nur Iman Binti Mohamed Azhar
Economist
iman-azhar@ambankgroup.com
03-20363020

Malaysia

Will there be more rate cuts?

The decision to cut the OPR by 50bps fell in line with our as well as the market's expectation. The amount of the OPR reduction is seen as justifiable as we expect the economy to be in the contraction region in the first half of 2020 as it is impacted by the virus attack and the containment measure of the MCO.

Low borrowing costs, added with fiscal stimulus plus the gradual easing of the MCO should see a gradual recovery in 3Q2020 with further improvement in 4Q2020. Hence the possibility of another rate cut although is on the table will depend much on how the economy crafts out in 2H2020. If the downside risk is low, then there is less room for another rate cut.

Meanwhile, the use of MGS and MGIs for SRR is seen as positive. It will help to ease liquidity issues given the current uncertain environment. With the SRR ratio maintained at 2%, and the use of MGS and MGIs as part of SRR compliance, it would release an additional RM16 billion in liquidity into the financial system. It also bodes well for the bond market as we expect more issuances to finance the fiscal stimulus, projected at RM145 billion.

Also, it should help banks as they shoulder the burden of the loan moratorium and face the potential risk of rising NPLs. With the rate cut, banks' NIMs (net interest margins) will be further compressed as well. Hence, the 50bps cut should see both NIMs and earnings to be impacted by 4–8bps and 2–6%, respectively.

- The decision to reduce the OPR by 50 basis points by Bank Negara to 2.00% fell in line with our and the market's expectation. With this cut, the cumulative interest rate reduction thus far in 2020 amounts to 100 basis points. The decision to cut rates is to help cushion the downside risk on growth where a sharp contraction is expected in 1H2020 from the coronavirus that has resulted in the movement control order (MCO).
- Nevertheless, with the fiscal stimulus measures, the easing of the MCO and the gradual improvement on the global front in 2H2020 should see the economy slowly come out of the woods. Lower interest rates would potentially entice consumers to return to the market and purchase items like property and automobiles although the number of transactions may not be significant in 3Q2020. However, as the confidence level improves, pent-up demand is expected to pick up.

- Possibilities for more rate cuts are still on the table. Much will depend on the transmission effects of the latest cut on the economy — how effective it is on spending, containing non-performing loans (NPLs) and supporting loan growth, especially after the moratorium period. Also, any decision on more cuts is possible if the downside risk on the economy remains high. Besides, the inflation outlook for 2020 remains weak, at between 0.3% and -1.5%, suggesting that there is ample room for more rate cuts, if necessary.
- Meanwhile, the use of MGS and MGIs for SRR is seen as positive. It will help to ease liquidity issues given the current uncertain environment. With the SRR ratio maintained at 2%, and the use of MGS and MGIs as part of SRR compliance, it would release an additional RM16 billion in liquidity into the financial system. It also bodes well for the bond market as we expect more issuances to finance the fiscal stimulus, projected at RM145 billion.
- Also, it should help banks as they shoulder the burden of the loan moratorium and face the potential risk of rising NPLs. With the rate cut, banks' NIMs (net interest margins) will be further compressed as well. Hence, the 50bps cut should see both NIMs and earnings to be impacted by 4–8bps and 2–6%, respectively.

Table 1: Malaysia Policy Data (%)

	May'19	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May
OPR (%)	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.0
CPI y/y	0.2	1.5	1.4	1.5	1.1	1.1	0.9	1.0	1.6	1.3	-0.2	nm	nm
Core-CPI y/y	0.4	1.9	2.0	2.0	1.5	1.4	1.4	1.4	1.6	1.3	1.3	nm	nm
Real Returns(%)	2.8	1.5	1.6	1.5	1.9	1.9	2.1	2.0	1.2	1.4	2.7	nm	nm
RM/USD (avg)	4.168	4.160	4.123	4.187	4.182	4.187	4.155	4.146	4.079	4.163	4.3	4.3	nm
RM/USD (y/y%)	5.3	4.1	1.8	2.3	1.0	0.7	-0.7	-0.5	-0.9	2.1	5.4	5.8	nm

Source: CEIC/AmBank Research

Table 2: Policy Rate Movement (%)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	5-May-20	Cumulative rate cut in 2020 (bps)
Australia	0.75	0.75	0.75	0.25	0.25	0.25	50
China	2.25	2.25	2.25	2.25	2.25	2.25	-
ECB	-0.50	-0.50	-0.50	-0.50	-0.50	-	-
India	5.15	5.15	5.15	4.40	4.40	-	75
Indonesia	5.00	5.00	4.75	4.50	4.50	-	50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-	-
Malaysia	3.00	2.75	2.75	2.50	2.50	2.00	100
New Zealand	1.00	1.00	1.00	0.25	0.25	-	75
Philippines	4.50	4.50	4.25	3.75	3.25	-	125
South Korea	1.25	1.25	1.25	0.75	0.75	-	50
Thailand	1.25	1.25	1.00	0.75	0.75	-	50
Turkey	12.00	11.25	10.75	9.75	8.75	-	325
UK	0.75	0.75	0.75	0.10	0.10	-	65
US	1.50 - 1.75	1.50 - 1.75	1.50 - 1.75	0.00-0.25	0.00-0.25	-	150

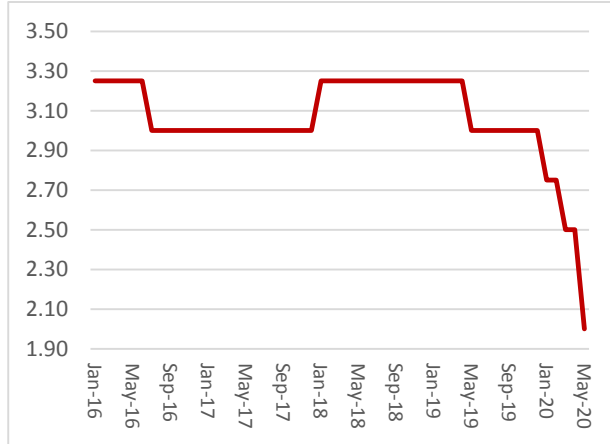
Source: CEIC/AmBank Research; Note: ECB = Deposit Facility Rate

Table 3: Reserve Requirement Ratio (% End Period)

	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	5 May-20	Cumulative Cuts (bps)
China	10.50	10.50	10.00	10.00	10.00	9.40	-	110
India	4.00	4.00	4.00	4.00	3.00	3.00	-	100
Indonesia	6.00	5.50	5.50	5.50	5.50	5.50	-	50
Japan	0.79	0.79	0.79	0.79	0.79	0.79	-	-
Malaysia	3.00	3.00	3.00	3.00	2.00	2.00	2.00	100
Philippines	15.00	14.00	14.00	14.00	12.00	12.00	-	300
South Korea	7.00	7.00	7.00	7.00	7.00	7.00	-	-
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	-	-
Turkey	7.00	7.00	7.00	7.00	7.00	7.00	-	-
US	10.00	10.00	10.00	10.00	0.00	0.00	-	1000

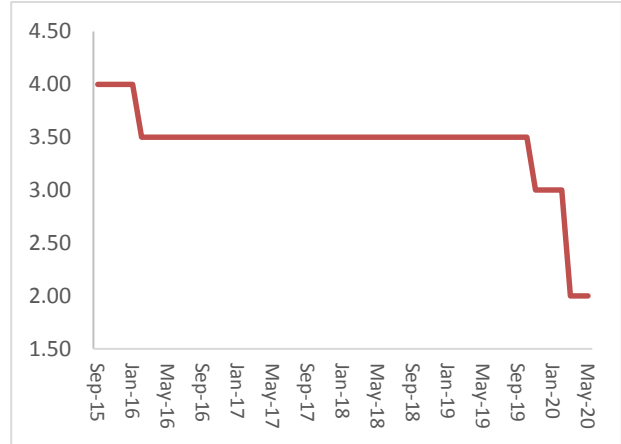
Source: CEIC/AmBank Research; Note: For China RRR = In view of the fact that the cut of the RRR effective from 15 Oct 2018 was not for all depository institutions, it could not be updated accordingly. Afterwards, if the official has disclosed the exact data of the ratio, it will be updated accordingly.

Chart 1: Overnight Policy Rate (%)



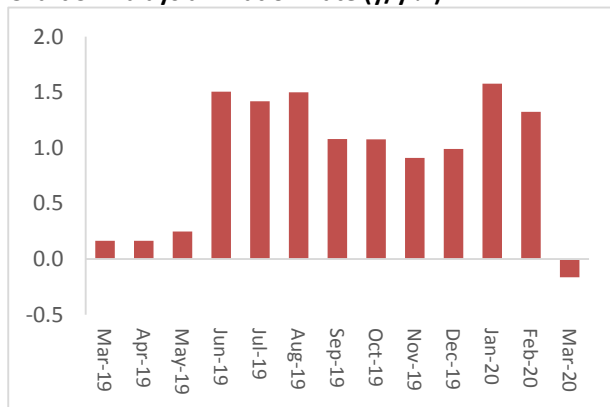
Source: CEIC/AmBank Research

Chart 2: Statutory Reserve Requirement (%)



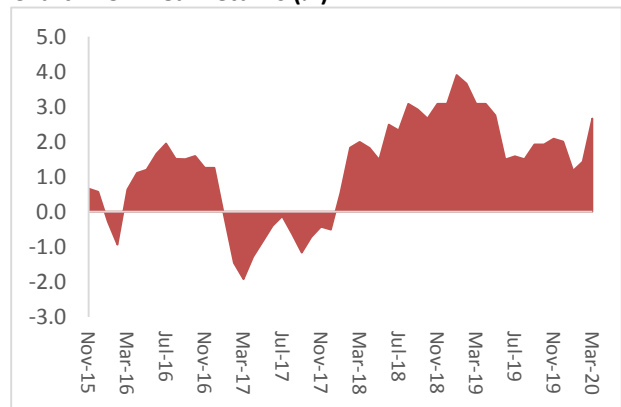
Source: CEIC/AmBank Research

Chart 3: Malaysia Inflation Rate (y/y %)



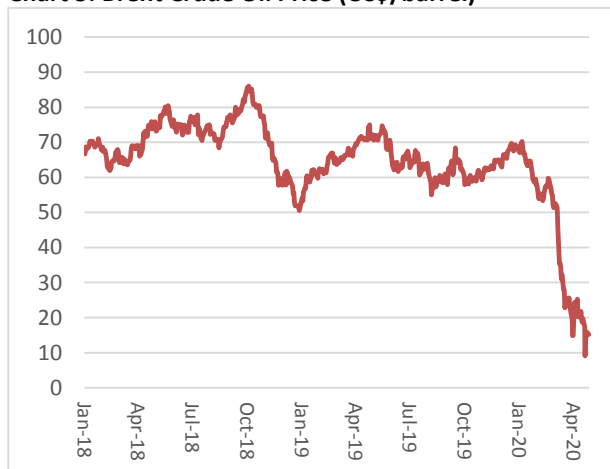
Source: CEIC/AmBank Research

Chart 4: CPI Real Returns (%)



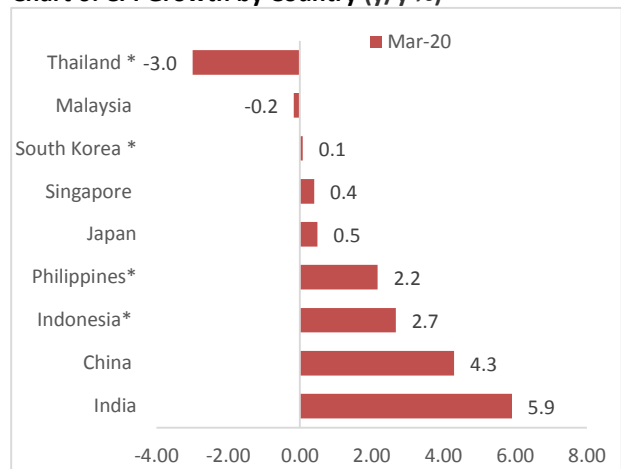
Source: CEIC/AmBank Research

Chart 5: Brent Crude Oil Price (US\$/barrel)



Source: CEIC/AmBank Research

Chart 6: CPI Growth by Country (y/y %)



Source: CEIC/AmBank Research **Data as at April 2020

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmBank (M) Berhad (“AmBank”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures, investment or other products. AmBank recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmBank believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmBank has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmBank’s views as of this date and are subject to change without notice. Notwithstanding that, AmBank has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmBank’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmBank’s prior written consent. AmBank, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmBank is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.