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ECONOMICS

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Malaysia – Has BNM put a stop to rate cut?

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Malaysia

Has BNM put a stop to rate cut?

BNM decided to leave the policy rate unchanged in the latest MPC meeting, holding the OPR at 1.75%. Does this mean that BNM has put the brakes on rate cutting following a cumulative 125bps in 2020 to bring the OPR to a record low of 1.75%?

It remains relatively premature to conclude that there will not be further rate cuts. As pointed out by BNM, the downside risk remains although the economic activity continues to recover from the trough in April supported by stimulus measures.

Hence it is vital at this point in time to realize that just because we are seeing some good economic numbers, it does not mean the worst is over. Thus, we cannot totally discount that rate cuts have come to a total halt.

- The Monetary Policy Committee (MPC) of Bank Negara Malaysia (BNM) has decided to maintain the overnight policy rate (OPR) at 1.75%, the lowest level since it was implemented in 2004. The decision to hold rates was expected by 12 while 10 were anticipating a 25bps cut and we were in this group.
- In the latest MPC statement, BNM was less dovish compared to in July. This time around, BNM cited the “economic activity continues to recover from the trough in April this year and the economic recovery is being supported by the fiscal packages, monetary and financial measures”.
- Nonetheless, BNM recognised that the downside risk remains. The risk of the pandemic plus ongoing uncertainties will continue to weigh on both the global and domestic economy. And recovery will remain uneven across the sectors.
- Does this mean that BNM has put on the brakes on rate cutting following a cumulative 125bps in 2020 to bring the OPR to a record low of 1.75%? It remains relatively premature to conclude that there will not be further rate cuts. As pointed out by BNM, the downside risk remains.
- Hence it is vital at this point in time to realize that just because we are seeing some good economic numbers, it does not mean the worst is over. We still need to focus on the developments around us and the world.
- Besides, we need to recognise that we still have a long way to go before this pandemic is really over. Thus, we cannot totally discount that rate cuts have come to a total halt.

Table 1: Malaysia Policy Data (%)

	Sep'19	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
OPR (%)	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75
CPI y/y	1.1	1.1	0.9	1.0	1.6	1.3	-0.2	-2.9	-2.9	-1.9	-1.3	nm	nm
Core-CPI y/y	1.5	1.4	1.4	1.4	1.6	1.3	1.3	1.3	1.1	1.2	1.1	nm	nm
Real Returns(%)	1.9	1.9	2.1	2.0	1.2	1.4	2.7	5.4	4.9	3.9	3.1	nm	nm
RM/USD (avg)	4.182	4.187	4.155	4.146	4.079	4.163	4.296	4.349	4.336	4.273	4.261	4.185	nm
RM/USD (y/y%)	1.0	0.7	-0.7	-0.5	-0.9	2.1	5.4	5.8	4.0	2.7	3.4	0.0	nm

Source: CEIC/AmBank Research

Table 2: Policy Rate Movement (%)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	10-Sep-20	Cumulative rate cut in 2020 (bps)
Australia	0.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25	-	50
China	2.25	2.25	2.25	2.25	2.25	2.25	2.00	2.00	-	25
India	5.15	5.15	4.40	4.40	4.00	4.00	4.00	4.00	-	115
Indonesia	5.00	4.75	4.50	4.50	4.50	4.25	4.00	4.00	-	75
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-	0
Malaysia	2.75	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75	125
New Zealand	1.00	1.00	0.25	0.25	0.25	0.25	0.25	0.25	-	75
Philippines	4.50	4.25	3.75	3.25	3.25	2.75	2.75	2.75	-	175
South Korea	1.25	1.25	0.75	0.75	0.50	0.50	0.50	0.50	-	75
Thailand	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.50	-	75
Turkey	11.25	10.75	9.75	8.75	8.25	8.25	8.25	8.25	-	375
UK	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	-	65
US	1.50 - 1.75	1.50 - 1.75	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	-	150-150

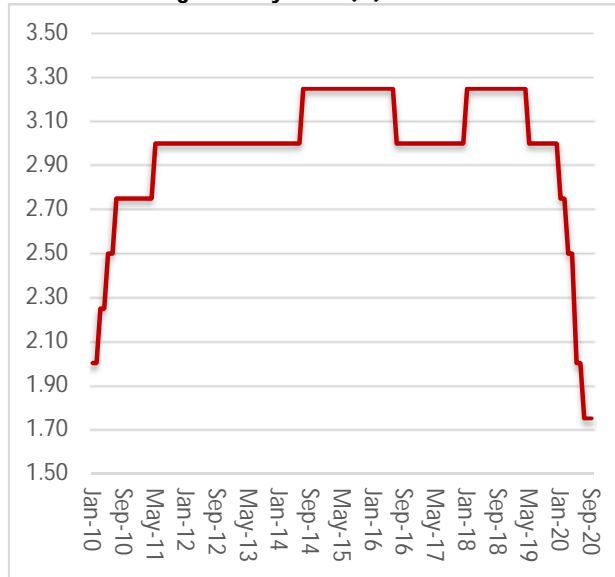
Source: CEIC/AmBank Research; Note: ECB = Deposit Facility Rate

Table 3: Reserve Requirement Ratio (% , End Period)

	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Cumulative Cuts (bps)
China	10.40	9.90	9.90	9.50	9.40	9.40	9.40	9.40	9.40	100
India	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	100
Indonesia	5.50	5.50	5.50	5.50	5.50	3.50	3.50	3.50	3.50	250
Japan	0.79	0.79	0.79	0.79	0.80	0.81	0.81	0.81	0.81	-1
Malaysia	3.00	3.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	100
Philippines	14.00	14.00	14.00	14.00	12.00	12.00	12.00	12.00	12.00	300
South Korea	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	0
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	0
Turkey	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	0
US	10.00	10.00	10.00	0.00	0.00	0.00	0.00	0.00	0.00	1000

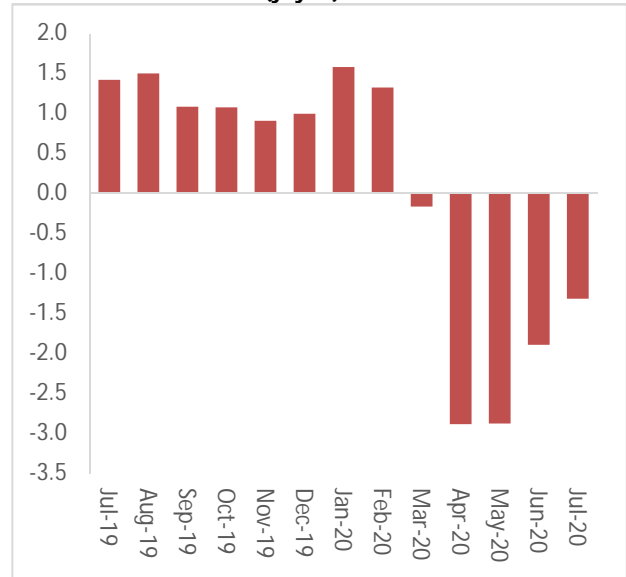
Source: CEIC/AmBank Research; Note: For China RRR = In view of the fact that the cut of the RRR effective from 15 Oct 2018 was not for all depository institutions, it could not be updated accordingly. Afterwards, if the official has disclosed the exact data of the ratio, it will be updated accordingly.

Chart 1: Overnight Policy Rate (%)



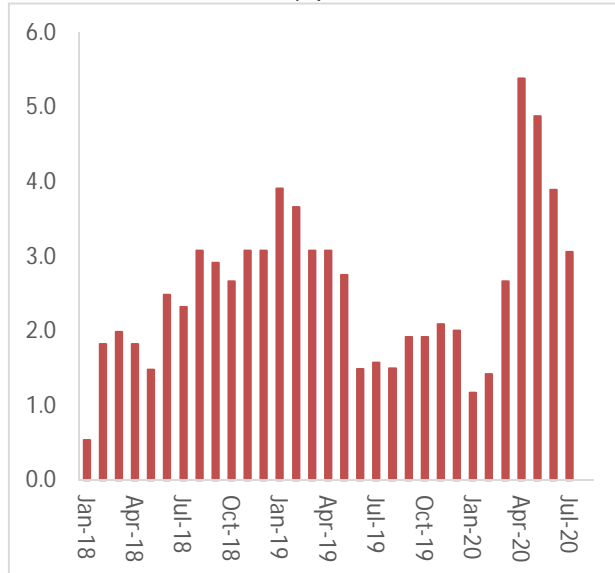
Source: CEIC/AmBank Research

Chart 2: Inflation Rate (y/y %)



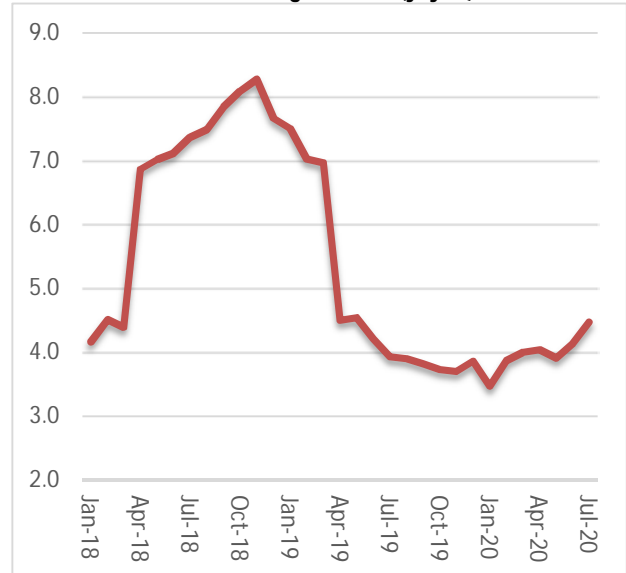
Source: CEIC/AmBank Research

Chart 3: CPI Real Returns (%)



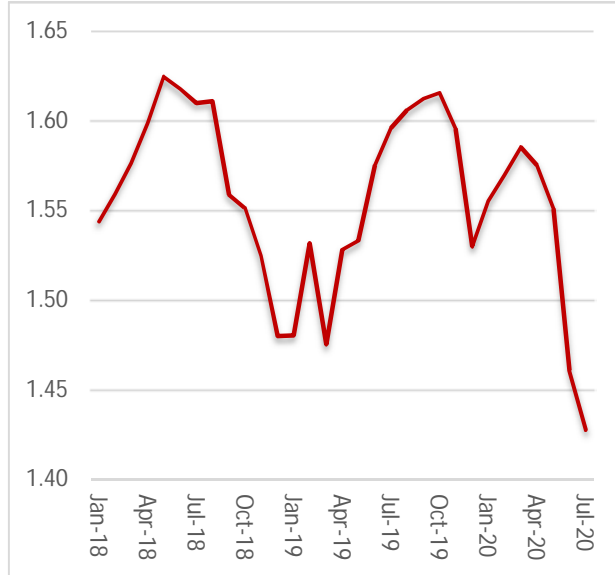
Source: CEIC/AmBank Research

Chart 4: Loan Outstanding Growth (y/y %)



Source: CEIC/AmBank Research

Chart 5: NPL Ratio (%)



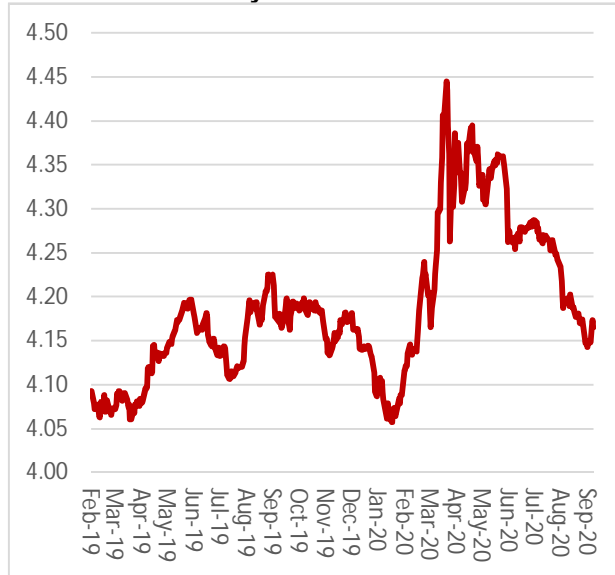
Source: CEIC/AmBank Research

Chart 6: M1, M2, M3 (y/y %)



Source: CFR/AmBank Research

Chart 7: USDMYR Daily Performance



Source: CEIC/AmBank Research

Chart 8: KLCI Daily Performance



Source: CEIC/AmBank Research

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