

30 October 2020



# THEMATIC

**In this report:**

**Malaysia – Door still open for further OPR cut**

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## Malaysia

### Door still open for further OPR cut

Following the 25bps cut in July to 1.75%, BNM left the policy rate unchanged during the September MPC meeting. This is partly due to the economic activity continuing to recover from the trough in April, supported by the fiscal packages, monetary and financial measures.

The question now is whether BNM will hold or reduce the OPR in November. Here, we lay out several scenarios. In scenario 1, the OPR remains at 1.75% supported by the recent set of incoming economic data that points to an economic recovery in 3Q2020 and should hold well in 4Q2020 despite the number of rising Covid-19 cases in October. It is because measures taken to contain the virus spread will not impact the economy as severely compared to the previous period as business are allowed to continue operating.

Under scenario 2, the OPR is reduced by 25bps to 1.50% due to the downside risk on the economy. There will be impact from Covid-19 as the containment measures to affect states that make up close to 50% of national GDP and around 47% of the country's establishment of SMEs. While there are some early signs of stabilisation from manufacturing, the virus spread containment measures will impact services. There are also serious issues in areas like the job market, income reduction, post-moratorium impact, bankruptcies, non-performing loans, external headwinds and domestic non-economy. Johor, which accounts for 9.4% of national GDP and 10.8% of the country's establishment of SMEs, remains badly affected from the Singapore border closure.

Budget 2021 that will be unveiled on 6 November plays a crucial role. With the recovery being uneven across the sectors, the budget is expected to be big. The deficit is likely to be around 5.5%—6.0% of the GDP. Its aim is to continue supporting the economic recovery from the adverse impact of the pandemic virus. Hence, the monetary policy will also need to play a crucial role. A 25bps cut during the 3 November MPC meeting with a high of 50bps from the current OPR of 1.75% would augur well for the economic recovery.

- Bank Negara Malaysia (BNM) reduced its overnight policy rate (OPR) by a cumulative 125 basis points (bps) this year to 1.75%, which is the lowest level since it was implemented in 2004. Such significant reduction was to provide support the economy that is being severely impacted by the Covid-19 pandemic.
- Following the 25bps cut in July to 1.75%, BNM left the policy rate unchanged during the September MPC meeting. This is partly due to the economic activity continuing to recover from the trough in April, supported by the fiscal packages, monetary and financial measures.
- Furthermore, the unprecedented measures to contain the virus spread i.e. lockdown and the movement control order (MCO) that almost immediately disrupted the global supply chain, labour market and global demand causing the loss in income were relaxed. This follows the drop in the number of Covid-19 cases. As a result, several key macro indicators started to improve.

## **Will BNM hold or reduce OPR in November?**

### **Scenario 1: OPR remains at 1.75%**

- Based on the recent set of incoming economic data, it clearly suggests that the domestic economy should recover and rebound in 3Q2020. Besides, the number of Covid-19 cases was low until September. It was only in October that the cases began rising.
- While the number of cases is high in October, the impact from the CMCO is unlikely to hurt the economy as severely as in the previous period. At the same time, the economy will be supported by the stimulus measures, added with Budget 2021 that will continue to focus on the economic recovery.
- Preliminary estimation suggests that the 3Q2020 GDP is most likely to contract at a slower pace. It is expected to fall between 2% and 3% y/y following a very steep 17% contraction in 2Q2020, the worst since 1997 Asian financial crisis. And the domestic economy should continue to hold on well in 4Q2020. This would provide some breathing space for BNM to maintain its current 1.75% OPR during the 3 November MPC meeting.

### **Scenario 2: OPR reduced by 25bps to 1.50%**

- Although the recent set of data points to a positive outlook with a targeted CMCO following the rise in Covid-19 cases, the downside risk on the economy has somewhat picked up. Selangor, Kuala Lumpur and Putrajaya were placed under the CMCO with effect from 14 October. They account for slightly more than 40% of the national GDP and around 35% of the country's establishment of SMEs should impact the national economy. Kedah and Sabah came under the TEMCO from 11 and 28 September respectively. These two states make up 9.3% of national GDP and 11.5% of the country's SMEs. Meanwhile, Nilai is hit with the EMCO from 28 October.
- Although there are some early signs of stabilisation from the manufacturing sector, output has been easing and new orders turning flat. And the current measures to contain the virus spread would have some knock-on effects on the services sector.
- Challenges remain on job security, income reduction, post-moratorium impact, bankruptcies, non-performing loans, restructuring, external headwinds and domestic non-economy. Johor, which accounts for 9.4% of national GDP and 10.8% of the country's SMEs is badly affected from the Singapore boarder closure.
- Budget 2021 that will be unveiled on 6 November plays a crucial role. With the recovery being uneven across the sectors, the budget is expected to be big. The deficit is likely to be around 5.5%—6.0% of the GDP. Its aim is to continue supporting the economic recovery from the adverse impact of the pandemic virus. Hence, the monetary policy will also need to play a crucial role. A 25bps cut during the 3 November MPC meeting with a high of 50bps from the current OPR of 1.75% would augur well for the economy recovery.



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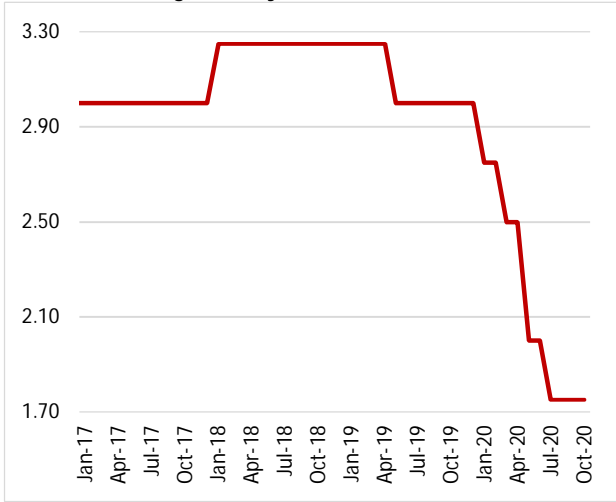
Table 1: Interest Rate (%)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Cumulative Rate Cut (bps)
Australia	0.75	<b>0.75</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	-50
China	<b>4.15</b>	<b>4.05</b>	<b>4.05</b>	<b>3.85</b>	<b>3.85</b>	<b>3.85</b>	<b>3.85</b>	<b>3.85</b>	<b>3.85</b>	3.85	-30
EU	<b>-0.50</b>	-0.50	<b>-0.50</b>	<b>-0.50</b>	-0.50	-0.50	<b>-0.50</b>	-0.50	<b>-0.50</b>	-0.50	0
India	5.15	<b>5.15</b>	<b>4.40</b>	4.40	<b>4.40</b>	<b>4.00</b>	4.00	<b>4.00</b>	4.00	<b>4.00</b>	-115
Indonesia	<b>5.00</b>	<b>5.00</b>	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>	<b>4.25</b>	<b>4.00</b>	<b>4.00</b>	<b>4.00</b>	<b>4.00</b>	-100
Japan	<b>-0.10</b>	-0.10	-0.10	-0.10	<b>-0.10</b>	<b>-0.10</b>	<b>-0.10</b>	-0.10	-0.10	-0.10	0
Malaysia	<b>2.75</b>	2.75	<b>2.50</b>	2.50	<b>2.00</b>	2.00	<b>1.75</b>	1.75	<b>1.75</b>	1.75	-125
New Zealand	1.00	<b>1.00</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	<b>0.25</b>	0.25	<b>0.25</b>	<b>0.25</b>	0.25	-75
Philippines	<b>4.50</b>	<b>4.25</b>	<b>3.75</b>	<b>2.75</b>	2.75	<b>2.75</b>	2.75	<b>2.25</b>	2.25	<b>2.25</b>	-225
South Korea	<b>1.25</b>	<b>1.25</b>	<b>0.75</b>	<b>0.75</b>	<b>0.50</b>	0.50	<b>0.50</b>	<b>0.50</b>	0.50	<b>0.50</b>	-75
Thailand	1.25	<b>1.00</b>	<b>0.75</b>	0.75	<b>0.50</b>	<b>0.50</b>	0.50	<b>0.50</b>	<b>0.50</b>	0.50	-75
Turkey	<b>11.25</b>	<b>10.75</b>	<b>9.75</b>	<b>8.75</b>	<b>8.25</b>	<b>8.25</b>	<b>8.25</b>	<b>8.25</b>	<b>8.25</b>	<b>8.25</b>	-375
UK	<b>0.75</b>	0.75	<b>0.10</b>	0.10	<b>0.10</b>	<b>0.10</b>	0.10	<b>0.10</b>	<b>0.10</b>	0.10	-65
US	<b>1.50 – 1.75</b>	1.50 – 1.75	<b>0.00 – 0.25</b>	<b>0.00 – 0.25</b>	0.00 – 0.25	<b>0.00 – 0.25</b>	<b>0.00 – 0.25</b>	0.00 – 0.25	<b>0.00 – 0.25</b>	0.00 – 0.25	-150
Vietnam	6.00	6.00	<b>5.00</b>	5.00	<b>4.50</b>	4.50	4.50	4.50	4.50	<b>4.00</b>	-200

Note: Figures in bold indicate MPC meeting; Yellow highlight indicates rate cut

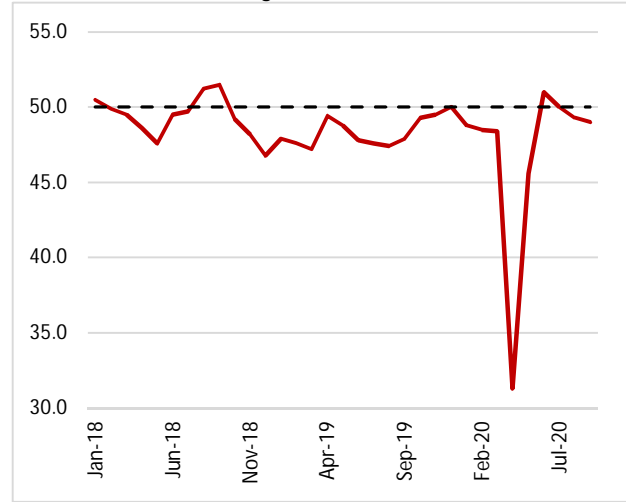
Source: CEIC/ AmBank Research

**Chart 1: Overnight Policy Rate (%)**



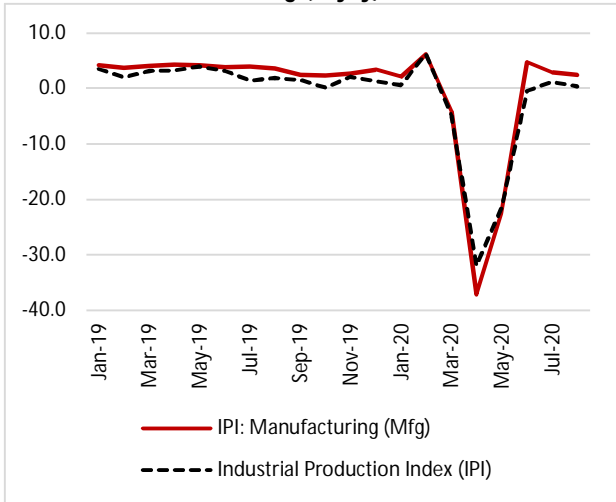
Source: CEIC/AmBank Research

**Chart 2: Manufacturing PMI**



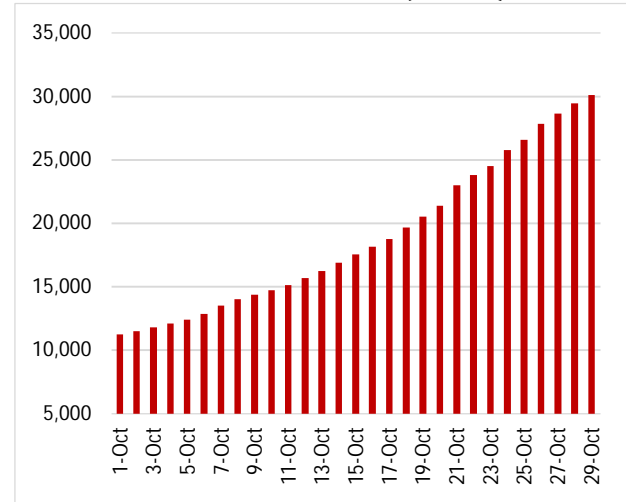
Source: CEIC/AmBank Research

**Chart 3: IPI Manufacturing (% y/y)**



Source: CEIC/AmBank Research

**Chart 4: Covid-19 Confirmed Cases (To-Date)**



Source: CPRC/MoH/AmBank Research



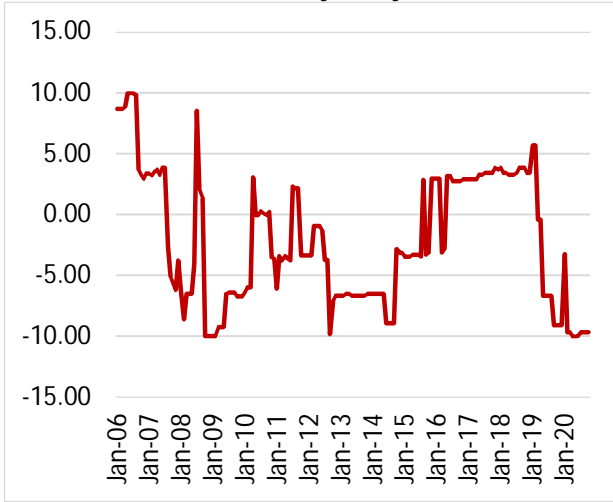
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**Chart 5: CFR Global Monetary Policy Tracker**



Source: CFR/ AmBank Research

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