

# BNM MPC Decision

OPR maintained at 3.00% as expected, dovish signal rising

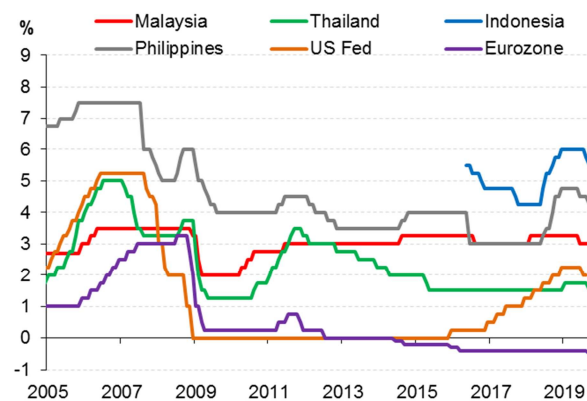
- OPR held steady.** As predicted, Bank Negara Malaysia (BNM) Monetary Policy Committee (MPC) has decided to retain the Overnight Policy Rate (OPR) at 3.00% yesterday. This is the second time the MPC decided to hold the rate steady following a rate cut at May's MPC meeting. The next and the last MPC meeting for the year will take place on 4-5 Nov.
- An expected policy decision but** the consensus seemed to be rather split between locally based economists who mostly had called a hold and their foreign counterparts who seemed eager to see BNM cut rates. According to the latest Bloomberg consensus survey on the OPR, 8 out of 24 economists expected a rate cut and all of them are from foreign-based banks and brokerages.
- BNM reaffirms growing concern on growth.** Nevertheless, we observed there has been a rise of concern by BNM regarding the economic growth in general citing "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." Though BNM reaffirmed that its baseline growth projection for 2019 remains unchanged, within the range of 4.3% - 4.8%, it warned that it still could be subjected "to further downside risks from worsening trade tensions, uncertainties in the global and domestic environment, and extended weakness in commodity-related sectors." On balance, this would suggest that the probability for the official growth forecast to err on the lower end of the range is much higher.
- Leaning closer to another cut.** As in the policy statements prior to May MPC meeting which led to a rate cut decision, the signal by BNM seemed to have a similar pitch and increasingly leaning to a more dovish tone amid a myriad of factors chief of which is the escalation of trade tension between US and China as well as South Korea and Japan. Another reason to nudge BNM to decide on a rate cut would be the Fed being pressured by President Donald Trump to be more aggressive in cutting interest rates. The market is expecting another Fed rate cut at its upcoming FOMC meeting on 17-18 Sep. To hasten the Fed and other central banks to further cut interest rates, the European Central Bank (ECB) yesterday had cut its deposit interest rate further, launching a new round of monthly bond purchases or quantitative easing (QE) to stimulate a flagging eurozone economy. Outgoing ECB President Mario Draghi in its next-to-last meeting expectedly delivered a 10 bps cut to the deposit rate, pushing it to minus 0.5%. Hence, we are putting a 75% probability that BNM would cut the OPR at its last meeting this year in November by another 25 bps to 2.75%.

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
-0.50% (-0.10%)	Eurozone	Deposit Facility	Sep-19
1.00% (-0.50%)	New Zealand	Official Cash Rate	Aug-19
5.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Aug-19
1.50% (-0.25%)	Thailand	Repo Rate	Aug-19
4.25% (-0.25%)	Philippines	Overnight Reverse Repurchase	Aug-19
5.40% (-0.35%)	India	Repo Rate	Aug-19
1.00% (-0.25%)	Australia	Cash Rate	Jul-19
2.20-2.25% (-0.25%)	USA	Funds Rate Target	Jul-19
1.50% (-0.25%)	South Korea	Base Rate	Jul-19
3.00% (-0.25%)	Malaysia	Overnight Policy Rate	May-19
1.375% (-0.125%)	Taiwan	Discount Rate	Jul-16
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Feb-16
4.35% (-0.25%)	China	Lending Rate	Oct-15

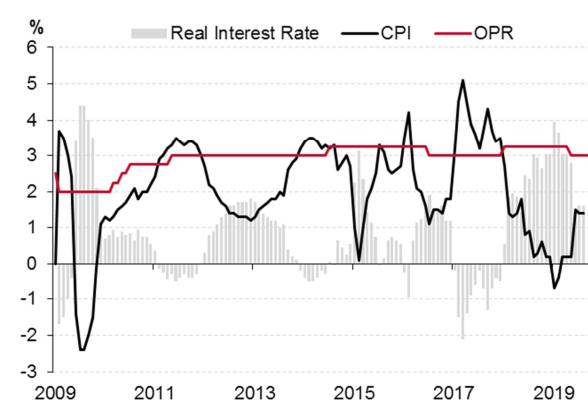
Source: Bloomberg, CEIC, Kenanga Research

**Graph 1: Global Policy Rate Trend**



Source: Bloomberg, CEIC, Kenanga Research

**Graph 2: Inflationary Trend and the OPR**



Source: BNM, Department of Statistics, Kenanga Research

**Table 2: MPC Meeting Schedule for 2019/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BNM Decision
1st	23 and 24 January (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
2nd	4 and 5 March (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
3rd	6 and 7 May (Mon and Tue)	<input checked="" type="checkbox"/>	25 bps cut	25 bps cut
4th	8 and 9 July (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
5th	11 and 12 September (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
6th	4 and 5 November (Mon and Tue)	<input type="checkbox"/>	25 bps cut (75% probability)	

Source: Bank Negara Malaysia, Kenanga Research

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