

BNM MPC Decision

Cuts OPR by 50 bps, okays banks use of MGS+MGII to meet SRR compliance

- **Bank Negara Malaysia (BNM) lowered the overnight policy rate (OPR) by 50 basis points (bps), its biggest cut since the 2008-09 Global Financial Crisis, to 2.00% in line with market expectation.**

- Market (Bloomberg consensus survey) was leaning towards a 50-bps cut (12 respondents), a 25-bps cut (5) and status quo (3).
- In retrospect, the house was of the view that BNM would have paused its tightening mode to observe the impact of its aggressive monetary policy moves appended by the massive fiscal stimulus. This is premised on the high degree of uncertainty of the impact of COVID-19 pandemic and on the assumption that BNM would want to have ample room to cut interest rates in view that it might be a protracted economic downturn.

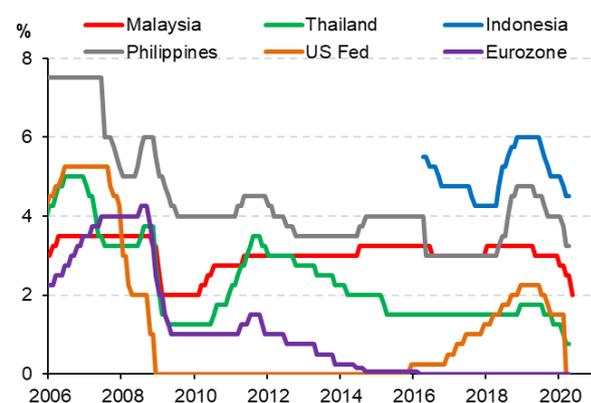
Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.00% (-0.50%)	Malaysia	Overnight Policy Rate	May-20
4.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Mar-20
4.40% (-0.75%)	India	Repo Rate	Mar-20
0.75% (-0.25%)	Thailand	Repo Rate	Mar-20
3.25% (-0.50%)	Philippines	Overnight Reverse Repurchase	Mar-20
0.25% (-0.75%)	New Zealand	Official Cash Rate	Mar-20
0.25% (-0.50%)	Australia	Cash Rate	Mar-20
1.125% (-0.25%)	Taiwan	Discount Rate	Mar-20
0.75% (-0.50%)	South Korea	Base Rate	Mar-20
0-0.25% (-1.50%)	USA	Funds Rate Target	Mar-20
4.05% (-0.10%)	China	Loan Prime Rate	Feb-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Feb-16

Source: Bloomberg, CEIC, Kenanga Research

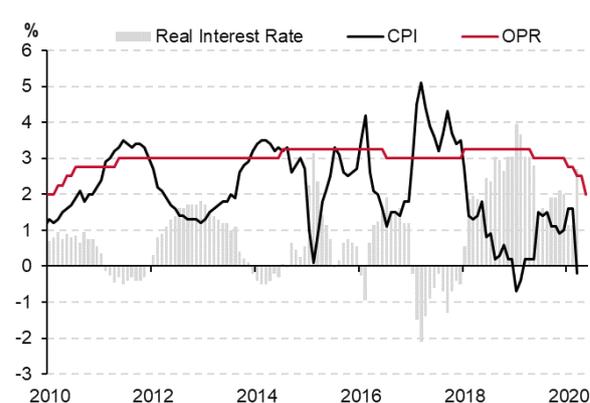
- **MPC statement: Hopeful that substantial policy stimuli globally to limit impact of COVID-19 and recession**
 - It reaffirmed that “global economic conditions have weakened significantly” as “measures to contain the COVID-19 pandemic have disrupted economic activity across most economies”, resulting in “projected global growth to be negative.”
 - However, MPC expects “substantial policy stimuli,” both fiscal and monetary, “introduced by many economies, coupled with the gradual easing of containment measures globally, would partially mitigate the economic impact of COVID-19.”
- **Growth outlook: A Challenging 1H2020, but sees gradual improvement in 2H2020 as businesses are allowed to operate under partial reopening amidst high degree of uncertainty**
 - BNM expects economic conditions would be particularly challenging in the first half of the year amidst widespread containment measures globally, international border closures and the consequent weak external demand environment. It admits that while the Movement Control Order (MCO) is necessary to contain the spread of the virus, it has also constrained production capacity and spending as well as weakened labour market conditions.
 - On balance, however, the fiscal stimulus measures, alongside monetary and financial measures will offer some support to the economy. It is optimistic that by allowing more businesses to operate under the Conditional MCO (CMCO), economic activity is projected to gradually improve. However, it cautioned that the outlook for growth would continue to be subjected to a high degree of uncertainty, particularly with respect to developments

Graph 1: Global & Regional Rates - Trending South



Source: Bloomberg, Kenanga Research

Graph 2: Inflationary Trend and the OPR



Source: BNM, Department of Statistics, Kenanga Research



surrounding COVID-19. This suggest that GDP growth for the year could hit the lower end of its projection of -2.0% to 0.5% (KIBB forecast: -1.9%) or even lower dependent on the severity of the impact of COVID-19 pandemic. For 2021, it adds, “growth prospects should improve with the expected containment of the pandemic.”

- **Rate outlook: still has room for another rate cut depends on the effectiveness of policy stimuli and CMCO**
 - BNM expect inflationary pressures to be muted in 2020, in line with market and house (-0.5%) expectation, with “average headline inflation likely to be negative this year mainly due to sharply lower projected global oil prices.” Furthermore, underlying inflation is expected to remain subdued on weaker domestic growth prospects and labour market conditions.
 - Combined with continued weakness in external demand, the effectiveness of the economic stimuli as well as the uncertainty on the impact of conditional reopening of the economy under CMCO, we expect BNM could still cut the OPR by another 25 bps, settling it at an all-time low of 1.75%. The likelihood of another rate cut seems higher given the tone of its conviction at the end of its statement pointing out that it will “utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.”
- **In a separate statement, BNM announced that financial institutions would be allowed to use government debt instruments to meet SRR compliance to boost liquidity in the banking system**
 - While the Monetary Policy Committee (MPC) left the statutory reserve requirement (SRR) rate at 2.00%, it permits banking institutions the use of Malaysia Government Securities (MGS) and Malaysia Government Investment Instrument (MGII) “to fully meet the SRR compliance” effective 16 May 2020 until 31 May 2021.
 - This follows a similar measure introduced on 19 March when BNM cut the SRR by 100 bps to 2.00%, by allowing each principal dealer until 31 March to recognise MGS and MGII of up to RM1.0b as part of the SRR compliance. Combined with the SRR cut, it estimated to have released RM30.0b (1.9%-2.0% of GDP) worth of liquidity into the banking system. The latest scheme, it estimates, would release RM16.0b worth of liquidity into the banking system.
 - BNM continued to reassure that “liquidity remains ample” and “stands ready to provide liquidity in the interbank market to ensure orderly market conditions, conducive to support financial intermediation activity.” Since March 2020, it has injected additional liquidity of about RM42.0b into the domestic financial markets, via various tools including outright purchase of government securities, reverse repos and the reduction in SRR.

06 May 2020

Table 2: MPC Meeting Schedule for 2020/ KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	21 and 22 January (Tue and Wed)	<input checked="" type="checkbox"/>	20% probability of 25bps cut	25bps cut
2nd	2 and 3 March (Mon and Tue)	<input checked="" type="checkbox"/>	100% probability of 25bps cut	25bps cut
3rd	4 and 5 May (Mon and Tue)	<input checked="" type="checkbox"/>	50/50 (Pause) - 25bps cut (provisional on severity of COVID-19 impact)	50bps cut
4th	6 and 7 July (Mon and Tue)	<input type="checkbox"/>	75% probability of 25bps cut	
5th	9 and 10 September (Wed and Thu)	<input type="checkbox"/>	No change	
6th	2 and 3 November (Mon and Tue)	<input type="checkbox"/>	No change	

Source: Bank Negara Malaysia, Kenanga Research

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