Malaysia Outlook

BNM, the first in ASEAN in 2019 to cut rates

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Treasury Research
Tel: 6530-8384

Highlights

- **Bank Negara Malaysia (BNM) cut the benchmark rate by 25bps from 3.25% to 3.00%.**
- **They highlighted that the latest developments point to a moderate 1Q 2019.**
- **BNM again mentioned that it sees 2019 growth in the range of 4.3 – 4.8% and noted of downside risks.**
- **They expect 2019 headline inflation to be broadly stable compared to 2018.**
- **In terms of financial market reactions so far, the USD – MYR is slightly higher and the FBM KLCI only erased some of its gains from earlier.**
- **Going forward, based on the tone of their statement, we expect BNM to stay pat for the rest of 2019 although this is barring any significant major downturn in global growth.**

Bank Negara Malaysia (BNM) today cut their benchmark rate by 25bps from 3.25% to 3.00%, becoming the first central bank in ASEAN to undertake an easing. This was contrary to our expectations as we had expected for a cut to come as early as July 2019 instead.

The central bank also mentioned that the latest developments were pointing towards moderate economic activity for 1Q 2019. They highlighted that “slowing global demand conditions and subdued growth of key trading partners” would weigh down on the external sector although they did see that “domestically, stable labour market conditions and capacity expansion in key sectors will continue to drive household and capital spending”. BNM again mentioned that they see the entire 2019 growth rate coming out in the range of 4.3 – 4.8% whilst also noting of downside risks. The central bank did point out that there appears “some signs of tightening of financial conditions”. We are similarly expecting moderate growth for Malaysia with our forecast for 1Q 2019 being at 4.4% yoy whilst we see the entire 2019 growth may come out too at 4.4% yoy.

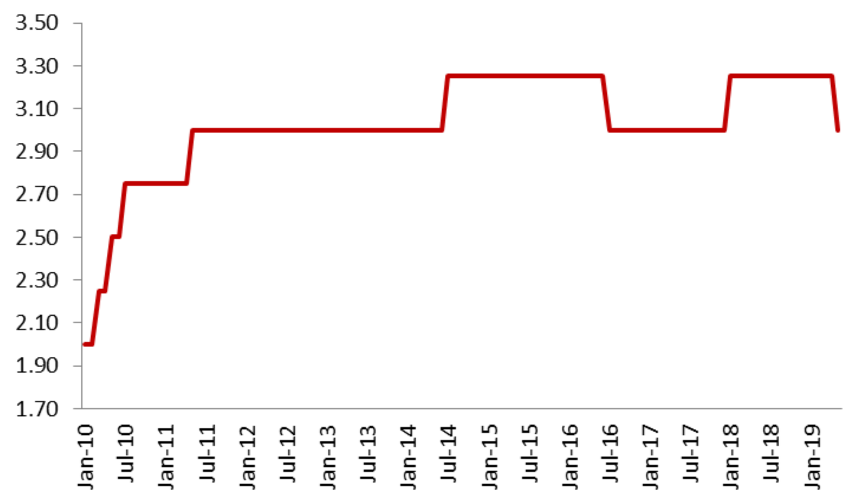
BNM expects that headline inflation for 2019 would be broadly stable compared to 2018 (1.0% yoy). **They also made note that inflation is expected to remain low in the intermediate term due to policy measures such as “the price ceiling on domestic retail fuel prices until mid-2019”**. Currently, our forecast for headline inflation in 2019 stands at 1.3% yoy but if the current price ceiling on domestic retail fuel prices stays in place for the rest of the year, we see that headline inflation may drop below 1.0% yoy.

Alan Lau
Tel: 6530-5949
AlanLau@ocbc.com

In terms of financial market reactions so far, the USD - MYR only moved slightly higher whilst the FBM KLCI had also only slightly erased some of its earlier gains.

Overall, from the tone of the monetary policy statement, we are expecting BNM to stay pat for the rest of 2019 although this is barring any significant major downturn in global growth. The central bank said that "the adjustment" was "intended to preserve the degree of monetary accommodativeness" and gave no further hints of future movements except to state that "the MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation".

Chart 1: Bank Negara Malaysia OPR, %



Source: CEIC, Bloomberg and OCBC