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Ease to Assist

Malaysia cuts policy rate to counter the double trouble

- First, it was the breakout of virus. Then, it was the breakup of the governing coalition with all its ensuing political drama. It does not seem that the Malaysian economy can catch a break at all so far this year.
- The already-dovish BNM, which cut rate in its last meeting, was thus compelled to step into the fray once more. In a rare move, it has decided to adopt a back-to-back rate cut, trimming the OPR once more today, to 2.5%.
- While it tries to play up the potential for H2 rebound, its focus on downside risks is inescapable, from virus outbreak to commodities supply weakness. Even though the political situation was conspicuously absent from the statement, it must have weighed on the MPC members' minds, as well.

Timely Help

With all the outbreak scare afflicting the world, the year 2020 must have already felt like a really long one for you and me. However, perhaps we should spare a thought for Malaysia. Not only does it have to deal with the outbreak like more and more countries now, it has had to experience political plots with twists and turns that are worthy of the next Oscar.

Given the double whammy of potential hits to the economy coming from the virus and the politics, it is hardly surprising then that the central bank has opted to cut its OPR by 25bps to 2.5%, in a rare back-to-back move following January's trim. This is a level last seen a decade ago.

In its accompanying monetary policy statement, BNM has highlighted how "Downside risks to the global growth outlook have increased, particularly in the near term." It further noted greater risk aversion in the market which would result in a "resurgence in financial market volatility."

On the domestic front, the statement further noted a series of downside risks, as well. Growth will be weak, particularly in Q1 due to effects on tourism and manufacturing sectors especially. In what is likely to be a reference to the continued palm oil supply issues, it noted that "The weakness in the agriculture sector is also likely to persist in the first quarter."

While the statement tries to bring up "silver lining" elements in the economic outlook – talking about how growth is "expected to gradually improve" in H2 for instance – the in-your-face presence of the host of downside risks is inescapable.

Perhaps at least equally important to the consideration of the landscape ahead has been the political uncertainties afflicting Malaysia over the last 10 days or so. While the drama has been conspicuously absent from the

statement, it must have featured into today's decision to cut rate as well, given the inadvertent hit to business and consumer confidence when the timing could not have been worse.

While the statement did not offer any update on the central bank's 2020 growth forecast, which had been between 4.3-4.8% previously, our sense is that it would have come down considerably. During the stimulus package announcement by the interim PM Mahathir Mohamad last week, the government's growth forecast has been cut from the admittedly lofty 4.8% to a more realistic 3.2-4.2%. BNM's own calculations would have largely dovetailed with that.

From our end, we had recently shaded down our already-conservative 4.2% forecast to 4.0% in consideration of the virus impact. However, the recent political crisis and the subsequent hit on confidence is likely to hit growth even further. Depending on whether there is a relatively quick resolution to the sense of uncertainty about political leadership, growth is more likely to be between 3.6-3.8% now.

Overall, BNM's statement today – with its repeated focus on near-term downside risks, even if it tries to strike a confident tone on H2 outlook – should signal to the market that it remains open to further rate cuts. We think at least one more rate cut is in the pipeline, potentially coming as soon as the next meeting in May, especially if either or both of the virus and political concerns continue to weigh on growth. Of course, if the Fed cuts rate in the coming weeks, the odds of BNM cutting rate for a third time this year would go up considerably as well.

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