Up to Them

Wellian Wiranto
+65 6530 6818
WellianWiranto@ocbc.com

Malaysia signals how rate path depends heavily on global outturn

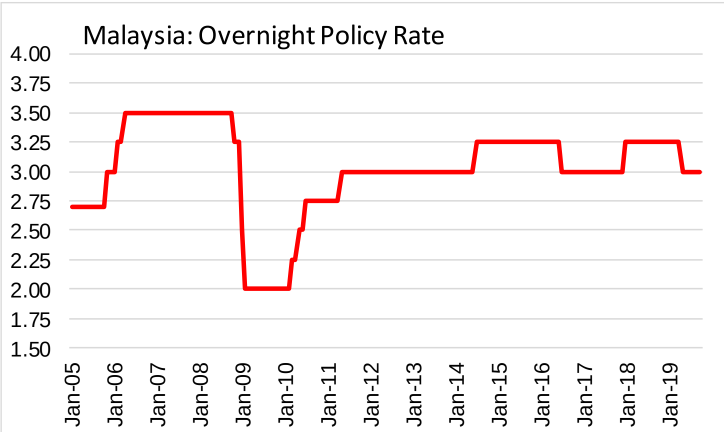
- **The chances have declined over the past few weeks, but we thought that, on balance, they might still cut rate in the name of safety. Too bad for us; BNM decided there is enough juice in the economy to hold for now.**
- **Their statement today betrays no sense of urgency for any easing in the immediate future too. Talks of how growth remains anchored by private consumption and additional boost from the government abound.**
- **Any lingering dovishness stems primarily from global uncertainty. Exports are hurt, but increasingly, so is investment activity. BNM's rate path ahead – like a lot of others – depends on US and China more than anything else.**

Vision 2020

Going into the meeting, there was a growing sense that BNM might not be in an immediate hurry to cut rate. For one, while it was not anything close to what might be termed a largesse, the fiscal support to be expected from the 2020 budget was still sizable, given that the overall deficit was not going to be shrunk as sharply as expected.

Still, on balance, we thought that the tame-side surprise in September inflation and a sharp decline in latest exports data would prompt them to ease, in what is the last MPC meeting for the year.

As it turns out, those factors did not prove to be enough to tip the balance, and BNM opted to hold its overnight policy rate at 3.0% for the third meeting in a row. Given that this is the last meeting for the year, it has also effectively pushed back any expectation of rate cut into 2020.



Source: OCBC, Bloomberg

Going through the statement today, the decision to hold appears to be primarily driven by BNM's confidence that the domestic engines of growth will be powering up enough to compensate for sputtering external ones.

In the near term, a "*moderate expansion of economic activity for the third quarter*" is expected, while "*Going forward, growth is expected to remain anchored by firm private sector expenditure*," which is in turn supported by "*continued employment and wage growth*." For good measure, suggesting an extra helping hand from fiscal support that was an unknown factor before, the statement added that "*The recent Government measures will provide additional impetus to economic activity.*"

The same sanguine confidence is missing when it comes to the discussions on external drivers of growth, however and rightly so.

From the broadest point, while slowing global growth has been pointed out before, today's statement notes how the slowdown has become "*more synchronized across both the advanced and emerging economies,*" suggesting BNM's concern about the ripple effect of slower growth in advanced economies on Malaysia's own shores. Specifically, it added that on the global front, "*There is also evidence of the weak global trade affecting domestic demand, particularly investment activity*" and that, domestically, "*private investment is projected to remain modest.*"

Meanwhile, on exports, it expects to see continued impact from slower global demand, even as the statement tries to play up the mitigating effect of the "*diversified structure*" of Malaysia's export business community.

To us, the call on whether BNM will cut anytime soon or not, including in its next MPC announcement on 22 Jan 2020 has ultimately become a call on whether there is going to be a Phase 1 deal between US and China in the coming weeks. This is especially so given that BNM's statement suggests that, even as it is still comforted by domestic growth drivers, it remains cautious of how global development has affected not just exports but also investment activities.

With our baseline expectation that there is going to be a deal, we would have to push back our call on any OPR rate cut to mid-2020. If – for whatever reason – the deal falls through and trade disputes escalate once again, then expect BNM to be one of the first central banks in the region to react quickly to it with easing.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W