

OPR holds but downside risks still highlighted

Thursday, January 24, 2019

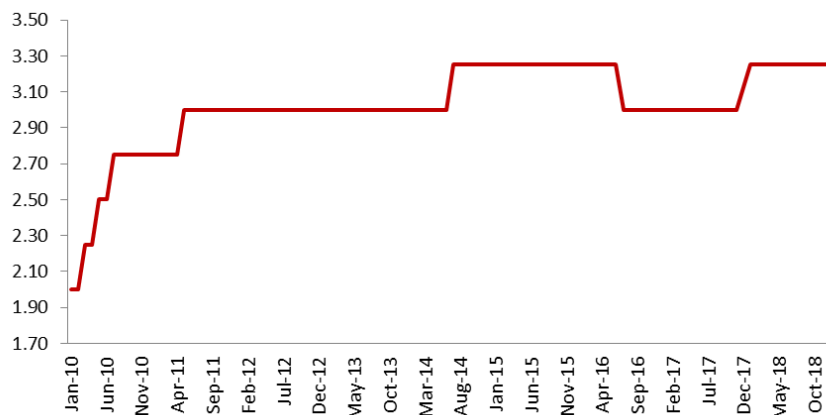
Highlights

- Bank Negara Malaysia (BNM) held the overnight policy rate (OPR) although they did highlight that risks to Malaysia's growth are "titled to the downside".
- It appears that the central bank is adopting a wait and see approach before deciding to take any further action.
- Any future rate cut by BNM would still depend upon a raft of factors such as growth continuing below trend, inflation remaining benign and more clarity on a dovish Fed stance.
- Overall, if there is any rate cut, we see it most likely to come in 2H 2019.

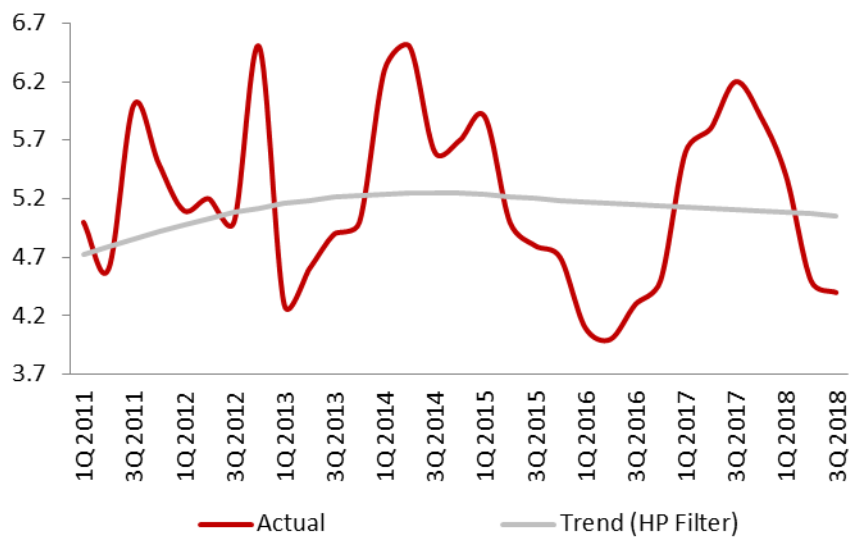
BNM held the overnight policy rate (OPR) at 3.25% although they did highlight that risks to Malaysia's growth are "titled to the downside". The central bank attributes this to a "potential escalation of trade tensions and commodity-related shocks". Regardless, they are still expecting the Malaysian economy "to remain on a steady growth path in 2019". They also believe that inflation in 2019 would "average moderately higher" than 2018 (which average around 1.0%). As for the global economy, BNM sees that "growth momentum is moderating with slower growth in the major economies" and that "trade tensions are beginning to have a material impact on global trade and investments".

For the meantime, it appears that the central bank is adopting a wait and see approach before deciding to take any further action. They currently still believe that "the degree of monetary accommodativeness is consistent with the intended policy stance" aside also stating that they would continue to "assess the balance of risks surrounding the outlook for domestic growth and inflation". It is still early in the year and it is prudent of the central bank for the meantime to see how the situation pans out.

However, the question now is whether the central bank will cut in 2019 and we believe that certain conditions would still have to prevail before they make the decision to do so. The case for a cut is becoming increasingly strong as growth rates fall below trend growth (see chart 2) for 2Q 2018 and 3Q 2018. The entire year 2018 is also likely to be below the trend growth of 5.0% with our forecast being at 4.5% yoy. This is still expected to be the case in 2019 with our forecast at 4.4% yoy. At the same time, inflation is rather benign coming out at around 1.0% yoy for 2018 and our expectations is for it to remain moderate at 2.0% yoy in 2019. There is also now the possibility that inflation may come out lower than 2.0% in 2019 if oil prices are weak. **However, even if growth is below trend and inflation is low, the central bank may still want to wait to get more certainty of the Fed tones and actions this year. More certainty of a dovish Fed stance would create increased room for BNM to undertake a rate cut.** We see though that if BNM does any rate cut, it would only come in the second half of 2019.

Chart 1: BNM OPR, %

Source: BNM, Bloomberg and OCBC

Chart 2: Actual and Trend GDP Growth, % yoy

Source: Department of Statistics Malaysia, CEIC and OCBC

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