In the KIV Tray

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Malaysia kept its policy rate unchanged, for now

- Malaysia has seen quite a lot of dramas recently, with the re-imposition of MCO restriction orders (on all states except Sarawak now) and the declaration of a state of emergency. Perhaps to counterbalance all that adrenaline rush, today's BNM decision has a decidedly staid air to it.
- Rather than cutting rate to another record-low that we and some in the market had expected, BNM opted to let the OPR stay at 1.75%. Even as it acknowledged the hit from the MCO imposition on growth, it appears to be a keen proponent of the idea that vaccination efforts can lift both economic prints and sentiments up considerably for growth uptick, soon enough.
- To be sure, it has left the door open for rate cut, if such sanguine outlook takes a darker turn. The stance forward will be "*determined by new data and information*" and it "*remains committed to utilise its policy levers as appropriate*". That is central bank-speak for: a rate cut is still an option, but let's leave it in the KIV tray, as we watch how the coming months shape out.

We're not there yet

In our 12 January report, *Echoes of 2020*, we discussed how the re-imposition of MCO restriction orders and the declaration of a state of emergency presented enough drag to the growth outlook for the year for us to shave our growth expectation down from 6.0% to 5.7% yoy. We also argued that the dramatic turn of events could tip the balance and compel Bank Negara to step away from what has a sanguine set of outlooks and reach for another rate cut today.

Alas, the central bank has largely stuck to its guns despite the changing circumstances. Its statement continues to laud the sense that both global and domestic economies are on a rather solid path to recovery, despite the recent speed bumps. The short gist is thus there is little need to adjust its monetary policy setting at this point.

On the global front, its statement notes how improvements in manufacturing and export activity are powering the economic recovery, even if the recent virus resurgence has affected activities in some major players. Even if it has slapped on the caveat of how such an outlook remains subject to downside risks, "*primarily if there is further resurgence in COVID-19 infections and delays in mass inoculation against COVID-19*", the statement suggests a devoted view that "*The expedited roll-out of mass vaccination programmes, together with ongoing policy support, are expected to lift global growth prospects going forward.*"

On the domestic end, a similar view – that, yes, things are not so good now, but don't worry too much because things will get better soon – appears to permeate too. To be sure, the statement notes that the recent resurgence and introduction of stricter containment measures will affect near-term growth, but it also highlights that the impact will be less severe than before. Hence, while growth may be impacted in the near term, things will improve from Q2 onwards, it says.

Interestingly, on the inflation front, while the MPC statement continues to note that the "*Underlying inflation is expected to remain subdued amid continued spare capacity in the economy*," it offers that "*The outlook, however, is subject to global oil and commodity price developments*." This suggests that, even though inflation outlook is still far from being a concern for BNM, it is no longer as easy to just pay cursory attention to it this year due to the recent run-up in the prices of seemingly all commodities.

Against the backdrop of an economic outlook that remains rather upbeat despite the changing circumstances, it does not look like BNM is in a hurry to cut rate just yet. We are less assured than the central bank may be, in how growth rate can pick up all that effortlessly in Q2 on the back of mass vaccination efforts, however. The apparent baseline assumption of a smooth roll-out of vaccines both globally and domestically – and how this might naturally lead to a steady growth uptick may come to be tested, as well.

Such downside risks are well-flagged in the statement, and indeed, the MPC is keen to leave itself some wiggle room for action should the situation turn awry. On that front, the last few sentences are worth quoting in full: "*Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward will be determined by new data and information, and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable recovery.*"

Comparing our baseline outlook and apparent probabilities attached to these downside risks, it appears that we just see things less rosily. A recovery is coming, indeed and in large part driven by the start of vaccination efforts especially in major economies. But we see the ongoing challenges of case resurgence hurting things more – even if a lot less than in 2020 – and we have probably attached a lower probability of a smooth vaccine rollout. Hence, all in all, we still see further easing in the OPR by the BNM, likely in Q2 when economic prints start to shift less decisively upward than anticipated.

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