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## Conditional Hold

### Malaysia to keep rates unchanged unless downside risks snowball

- Bank Negara opted to hold its OPR unchanged at 1.75% today, as widely expected. Even though the country is experiencing another bout of Covid-19 resurgence, it continues to take the view that any restriction orders – including those that were just announced for the KL capital city area – would be less restrictive than before, and hence impact growth less forcefully.
- BNM appears to remain broadly sanguine on the outlook for both global and domestic economies. Its statement is replete with how one particular economic segment will strengthen there or another would continue to be strong here. In short, it does not look like a central bank that is worried of a sharp downward lurch that warrants any forceful policy easing anytime soon.
- Nonetheless, it has wisely left itself some wiggle room should things turn sour. It signalled the need to watch downside risks stemming from the pandemic, including the potential for slow vaccination drive. However, as full of caveats as it may be, it would take a considerable pronounced slowing in growth momentum for BNM to shift away from its holding stance.

### Don't worry, be steady

As [we noted earlier this week](#), Malaysia may be going through a rough patch in terms of its tortuous fight against the pandemic, but BNM would most likely see past it even if there is always a small tail risk of a cut.

As it turns out, the potential for a cut today might have looked smaller than small. Not only did BNM keep its OPR unchanged at 1.75% as widely expected, it did not appear to be thinking of any rate cut in the immediate horizon to boot, as well.

The steadyhanded approach comes despite the ongoing virus resurgence which has prompted the government to announce the re-instituting of MCO restriction orders for parts of the country, including the KL capital region, just yesterday.

BNM's stance today is similar to what it adopted in the January MPC meeting which took place in the last Covid-19 wave that Malaysia went through which resulted in the application of MCO too. It argued then and it continues to reason now that, while such restriction orders do have some impact on the economy, the damage will be less severe given that the bulk of economic activities can continue apace.

Much would thus ride on the success of the current MCO framework in tackling the virus, and that there will not be any significant escalation in measures that that authorities would have to undertake to battle the resurgence.

As it stands, from BNM's perspective, there remains solid grounding for its growth rebound expectations in the months ahead. On the global front, improvements in manufacturing and trade activity continue to power the economic recovery, even if the pace may be unevenly spread and that there is potential for disruption due to "re-tightening of containment measures to curb Covid-19 resurgences."

On the domestic front, BNM noted how "latest indicators point to continued improvements in economic activity in the first quarter and into April." As we alluded to earlier, the statement did offer that "the recent re-imposition of containment measures in select locations will affect economic activity in the short term," it was just as quick in emphasizing that "the impact will be less severe as almost all economic sectors are allowed to operate." It did not forget to point out that "higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related sub-sectors, as well as oil and gas facilities" will be supportive of growth.

Still, BNM did highlight the continued overhang of some downside risks. In their words, these would be "stemming mainly from ongoing uncertainties in the developments related to the pandemic, and potential challenges that might affect the roll-out of vaccines both globally and domestically."

Putting the various pieces together, the picture that we see BNM painting is this: "Don't worry too much about the MCO. It will hit us but it's not going to hurt as much as before. Our growth is going to be okay, partly because exports of electronic products are soaring, and end-demand is good. So, we would just hang tight on our monetary policy for now on if you don't mind. If things somehow turn sour, don't worry too much as well because we would act accordingly. Otherwise, OPR is just going to be at 1.75% for some time to come."

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