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## Until Then, This Is Now

### Malaysia kept rate unchanged while flagging downside risks

- Malaysia has undergone more than a month of tight restriction orders, but Covid-19 cases continued to pick up. We had thought that the extension and tightening of such measures would have dented growth momentum enough for Bank Negara to cut rate today. Alas, it opted to stand pat today, adopting a wait-and-see attitude for now, and retaining a broadly sanguine outlook, predicated on external growth drivers.
- However, as much as the bar is high for easing – as evidenced by today's inaction despite the festering challenges – BNM has left the door open for such remedial action should the situation worsen further. It noted that the balance of risks remains tilted to the downside, due to the pandemic uncertainties. The easing of restrictions might be delayed, or even tightened further, undermining the recovery, it noted.
- Hence, predicting whether BNM would ease in the months ahead has essentially become a case of gauging the path of virus resurgence. With the daily cases jumping up to 8868 today, inching closer to the all-time high of 9020, there remains a distinct risk for the downside scenario to manifest. Therefore, ignoring the idiom of "once bitten, twice shy", we retain our view that BNM's next move will be that of easing still.

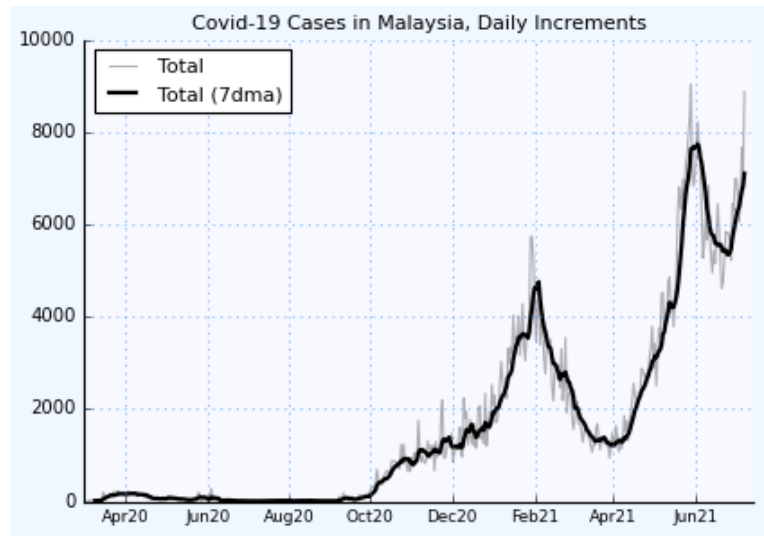
### Still okay for now

As we had noted in [our report on July 2<sup>nd</sup>](#), the ramping up of restrictions in the economic heavyweight state of Selangor marked one reason why we thought that Bank Negara might opt to cut its Overnight Policy Rate by 25bps to 1.50% today.

While some essential sectors, such as the electrical and electronics manufacturers, have just been allowed to reopen again overnight, the very fact that business operations can come under such sudden and severe restrictions because of the uptick in Covid-19 cases would continue to weigh on business confidence.

It does not help too that, despite more than a month of tighter restrictions, the nationwide case tally has continued to creep up stubbornly.

Indeed, minutes after Bank Negara's MPC statement was released, news that Malaysia recorded 8,868 new cases hit the wire. That marks a sharp uptick from the 7,097 cases of the day before and not too distant from the all-time high of 9,020 on May 29<sup>th</sup> just before the Phase 1 tight restriction orders came into the picture.



Source: OCBC, Bloomberg.

Hence, even though the number of cases has gone down enough in some states such as Perak and Pahang for the government to ease restrictions there, the fate of the Malaysian economy remains rather too firmly in the grasp of the pandemic's tentacles for now, unfortunately.

Given that the government has laid out in its [National Recovery Plan](#) that the total number cases would need to fall to below 4,000 per day before a firm move towards a nationwide reopening, it would remain rather hard to be overly optimistic about reaching that goal anytime soon, not least because the daily tally is staring at us at more than double that level now.

Without a fundamental improvement in the Covid-19 situation, the growth outlook will inadvertently remain unclear. Indeed, Bank Negara noted in its MPC statement today that growth remains "subject to significant downside risks, due mainly to factors that could lead to delay in the easing of containment measures or imposition of tighter containment measures."

Hence, even though it continued to portray a certain level of confidence in a sanguine growth outlook – noting supportive factors such as allowances for some essential economic sectors to operate, for instance – we cannot help but notice a less upbeat tone compared to the [May MPC statement](#).

This is largely because the restriction measures have gotten tighter and last for longer since May.

Previously, BNM statement could note that the impact of such restrictions "will be less severe as almost all economic sectors are allowed to operate." Now, however, it has acknowledged that growth momentum has been dampened by the re-imposition of such measures, adding that "The degree of impact to the economy is highly dependent on the stringency and duration of containment measures."

## Malaysia

8 July 2021

To us, the risk that the containment measures might well last significantly longer than originally expected or ramped up in some 'hotspot' areas as Selangor remains a distinctly real one, given the still-unchecked increase in daily cases. Hence, as much as we hope the situation will improve itself over the next few weeks such that Malaysia can step into a recovery mode forcefully without any hiccup again, the reality is unlikely to be so straightforward.

Hence, we continue to see the potential for Bank Negara to do what it can to help growth along by easing its OPR by 25bps.

With the next MPC meeting scheduled to take place on September 9<sup>th</sup> just weeks after the Aug 26-28 Jackson Hole meeting and weeks before the Sep 23 FOMC meeting, the timing is going to be a tad tricky.

Hence, any cut can only come with the presumption global markets remain relatively unperturbed by any hawkish whiff from the Fed during that period, as well. Indeed, we had thought that cutting rate today instead of waiting it out would have circumvented that issue.

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