**Malaysia**

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# Waiting It Out

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**Malaysia kept rates unchanged on recovery hopes**

- If, somehow, Bank Negara could only use a maximum of three words to detail its decision to keep its policy rate unchanged at 1.75% today, they would be "Wait and see": Waiting for the much-vaunted recovery to come through, and seeing if the vaccination drive that underpins it all goes well.
- While the central bank is still largely sanguine, it did not forget to note that it is paying attention to downside risks as well. Apart from the pandemic and vaccination as input variables to BNM's decision, another key aspect going forward would be the unsettled global yield environment.
- Even though its statement noted that global financial markets have turned more volatile, financial conditions are deemed to remain supportive of economic activity. Still, nothing can be taken for granted and the BNM would probably find the most comfort in keeping its OPR unchanged for a while, even if it would continue to telegraph the potential for easing if necessary.

**Decidedly Unexciting**

Given the broad market expectation including from ourselves for the BNM to hold rate unchanged at 1.75% today, the fact that it did so would naturally not cause any undue market excitement.

The final decision aside, the central bank's MPC statement is decidedly staid too, with no significant deviation from what it said in January when it left rate unchanged as well.

If we were to really focus on teasing out some of minute differences, however, one might note that the statement this time round highlights how global economic recovery is "gaining momentum" due to support from "steady improvements in manufacturing and trade activity. This would be a slightly more sustained pace of economic recovery compared to its January's characterization. Another notable change might be on its description surrounding downside risks. The latest pointed out how these risks have "abated slightly" even as they "remain tilted to the downside." Back in January, it simply said that "The overall outlook remains subjected to downside risks."

On the domestic front, a similar net increment in positive vibes can be garnered as well from the statement today. It noted how Malaysia's "latest indicators point to improvements in external demand and continued consumer spending." It spoke about how, while the re-imposition of MCO restriction orders did hurt the economy, the impact is a lot less than what transpired last year due to the less-stringent measures. No less importantly, BNM's sanguine domestic outlook has also been bolstered by the initiation of the vaccination efforts – something that was merely a prospect two months ago.

Outside of that, another notable addition to the statement is the mention of the financial market volatility. Even if the BNM understandably did not detail it out of courtesy, it is clear that it had the recent bouts of US Treasury volatility in mind. Importantly, however, BNM notes that "financial conditions remain supportive of economic activity."

Overall, when it comes to BNM's growth outlook and assessment of downside risks, today's statement really does not depart significantly from its previous guidance before. Indeed, the very last paragraph on monetary policy outlook – where it had used to hint at any potential shift in policy stance at all – is decidedly unchanged.

Hence, we no longer expect BNM to cut rate anytime soon, and the baseline scenario of some recovery coming through would indeed point towards the high possibility that the OPR would stay unchanged for the rest of the year. To us, the BNM's thinking at this point appears to be: Growth is ticking up enough and hence there is less need for more easing, and the potential of global financial market volatility has gone up – even if only slightly – so why risk it?

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