

## ECONOMIC REVIEW | May 2020 BNM MPC

### Further Utilization of Monetary Policy as Threats to the Domestic Economy Escalates

- *Biggest cut in a decade. BNM has cut again its OPR by 50 basis points to 2.00%. The 2% level is the lowest we have reached so far, previously during GFC. The consecutive cuts are mainly due to intensifying challenges to both global and domestic front resulting from Covid-19 pandemic.*
- *More downside risks to the economy. Malaysian economic performance in 2020 will be largely influenced by the Covid-19 outbreak along with other factors such as threat of protectionism, global financial stability and oil price war. The enforcement of MCO in order to contain the virus halts economic activities as most companies temporarily shut down their operations and consumers stay home.*
- *We expect one more rate cut in 2020. Our initial estimate was OPR to hit 2% level with two cuts, 25bp each in 2020. However, based on the latest 50bp, we are looking at another 25bp cut for this year. The total cut so far for this year is 100bsp. With another 25bp, the total will be 125bp, pushing the interest rate to 1.75%, lower than the level seen during GFC, reflecting the expectation of a worse economic conditions than the previous crisis.*


**Biggest cut in a decade.** BNM has cut again its OPR by 50 basis points to 2.00%. The 2% level is the lowest we have reached so far, previously during GFC. The consecutive cuts are mainly due to intensifying challenges to both global and domestic front resulting from Covid-19 pandemic. Global uncertainties over the pandemic, protectionism threats and volatility in commodity prices remain at large and projected to affect the trajectory of Malaysia's external trade performance. Hence, we believe expansionary monetary policy will provide support to domestic economy via private consumption and investment.

**More downside risks to the economy.** Malaysian economic performance in 2020 will be largely influenced by the Covid-19 outbreak along with other factors such as threat of protectionism, global financial stability and oil price war. The enforcement of MCO in order to contain the virus halts economic activities as most companies temporarily shut down their operations and consumers stay home. Based on the current developments and indicators, we foresee Malaysian economy to fall into recession this year compared to 4.3%yoy growth in 2019. Private consumption & investment along with external trade will be negatively impacted by the pandemic. Nevertheless, utilization of both fiscal and monetary policies will cushion some of the adverse impact of this Covid-19 on the economy.

**Deteriorating confidences.** Malaysia Manufacturing PMI tumbled to 31.3 in Apr-20 from 48.4 in the previous month. It is also the fourth consecutive month of contraction and the steepest on record. The latest plunge was due to the Covid-19 pandemic which has started to affect the economy. Manufacturing sector is among the most affected sectors due to both lower domestic and global demand. Approximately 80% of our exports are manufactured goods hence lockdown and MCO in other countries will be a blow to our exports demand. April's performance in particular will be severe as MCO halt or limit production in most of the companies. Besides that,

the latest available Business Tendency Survey (BTS) as of 1Q20 showed overall business confidence further weakened to -2.1% and we expect further deterioration in BTS for 2Q20.

**Weakening private consumption.** The MCO, surging unemployment rate and pay cuts are curbing households' expenditure. Consumer sentiment is deteriorating and changes in consumption pattern from discretionary to necessity could be observed which pushes purchases of big ticket items significantly lower. Nevertheless, low inflationary pressure, government stimulus package and OPR cuts remain positive to consumption. Year-to-date headline inflation averaged at 0.9%yoy and anticipated to be lower in upcoming months mainly due to declining oil prices. Meanwhile, Rakyat-centric measures announced in the stimulus such as loan moratorium, EPF withdrawal and one-off cash assistances would mean there will be more disposable income for some people to spend, cushioning partial adverse impact of Covid-19 on the consumption.

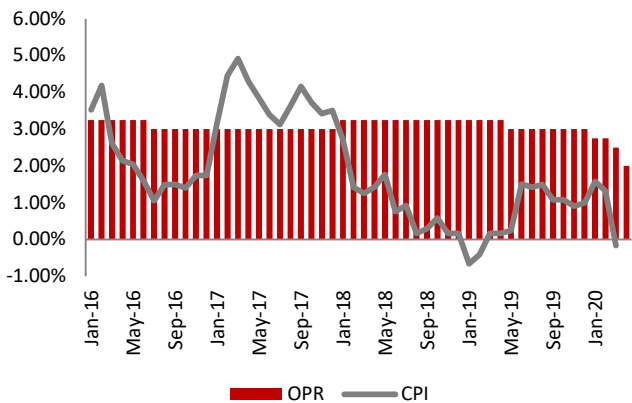
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**Table 1: Central Bank Policy Rate (%) by Selected Countries**

	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20
Malaysia	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50	2.00
Indonesia	5.50	5.25	5.00	5.00	5.00	5.00	4.75	4.50	4.50
Philippines	4.75	4.50	4.50	4.50	4.50	4.50	4.25	3.75	3.25
Thailand	1.50	1.50	1.50	1.25	1.25	1.25	1.00	0.75	0.75
Vietnam	6.25	6.00	6.00	6.00	6.00	6.00	6.00	5.00	5.00
South Korea	1.50	1.50	1.25	1.25	1.25	1.25	1.25	0.75	0.75
India	5.40	5.40	5.15	5.15	5.15	5.15	5.15	4.40	4.40
China	4.25	4.20	4.20	4.15	4.15	4.15	4.05	4.05	3.85
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.10	0.10
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	2.13	2.05	1.83	1.55	1.55	1.55	1.58	0.63	0.05

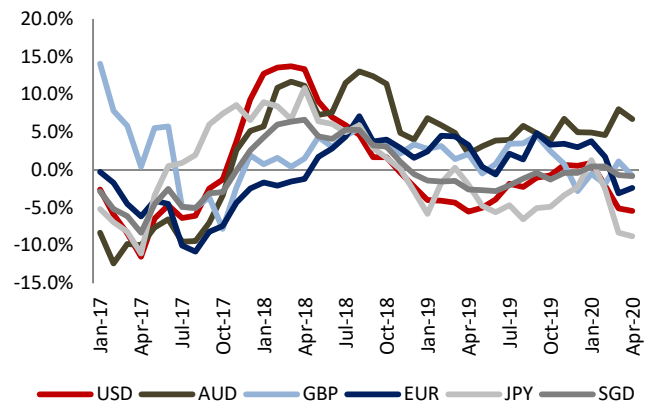
Source: CEIC, MIDFR

**Chart 1: Monetary Policy (%) vs CPI (YoY%)**



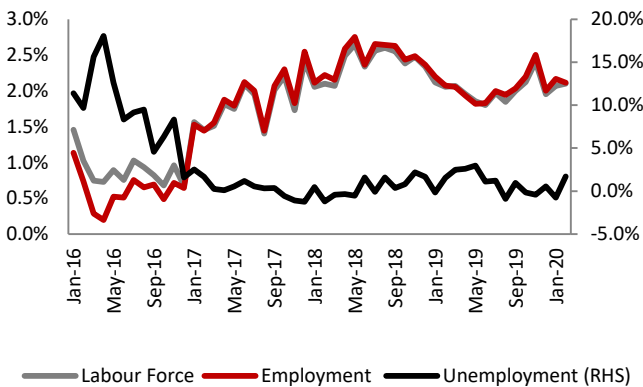
Source: CEIC, MIDFR

**Chart 2: MYR Against Selected Currencies (YoY%)**



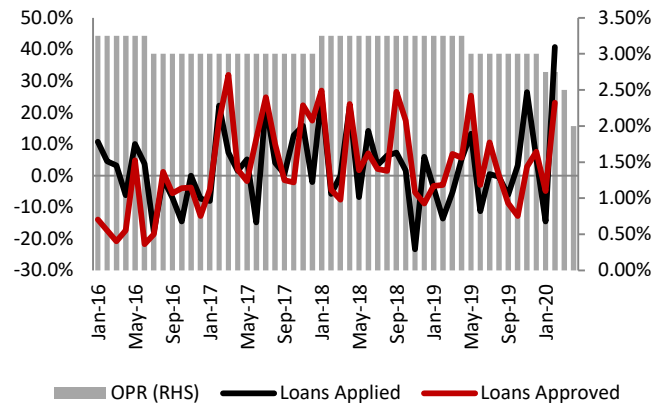
Source: CEIC, MIDFR

**Chart 3: Labour Market Performance (YoY%)**



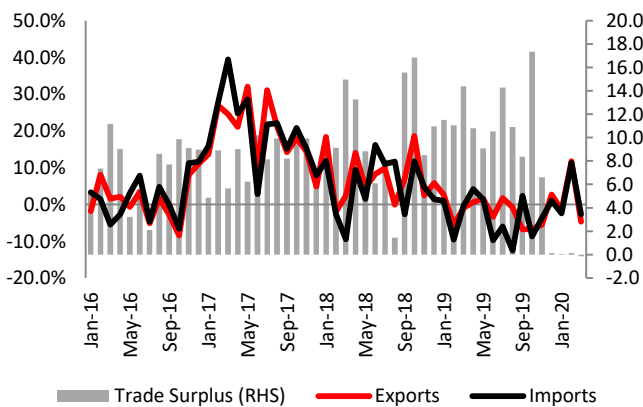
Source: CEIC, MIDFR

**Chart 4: OPR (%) vs Loans Growth (YoY%)**



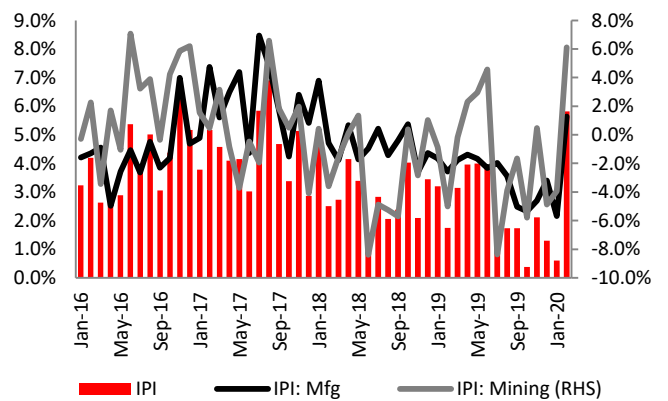
Source: CEIC, MIDFR

**Chart 5: External Trade Performance (YoY% & Rmb)**



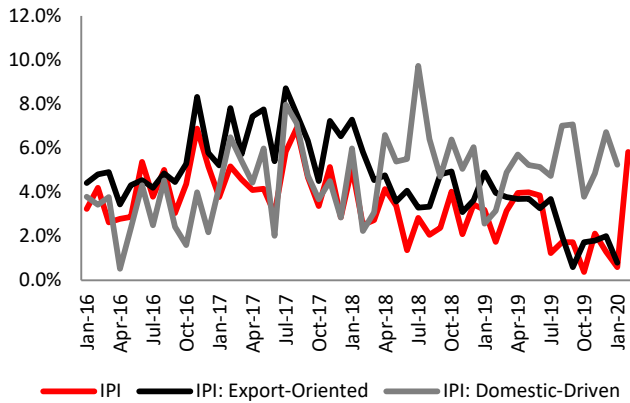
Source: CEIC, MIDFR

**Chart 6: Industrial Productions Performance (YoY%)**



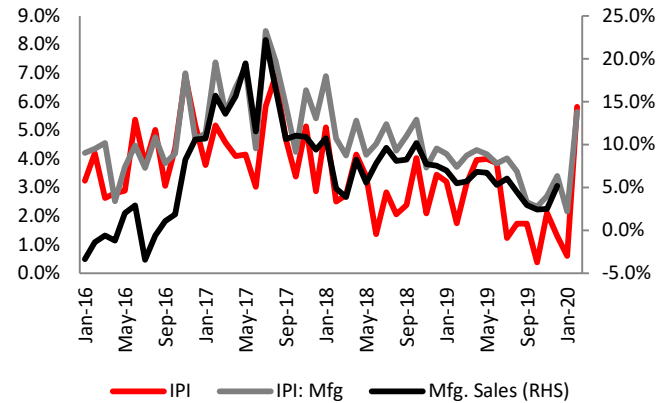
Source: CEIC, MIDFR

**Chart 7: IPI Performance (YoY%)**



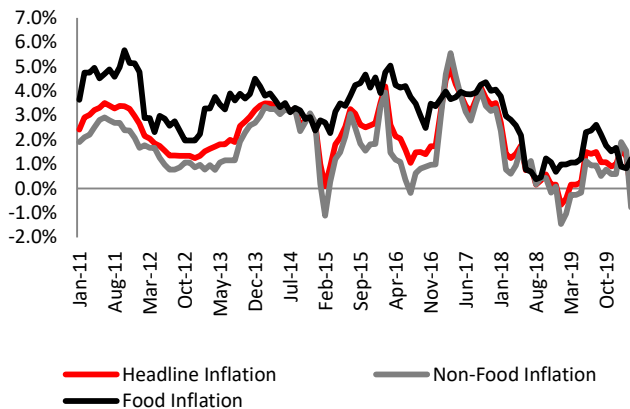
Source: CEIC, MIDFR

**Chart 8: IPI vs Manufacturing Performances (YoY%)**



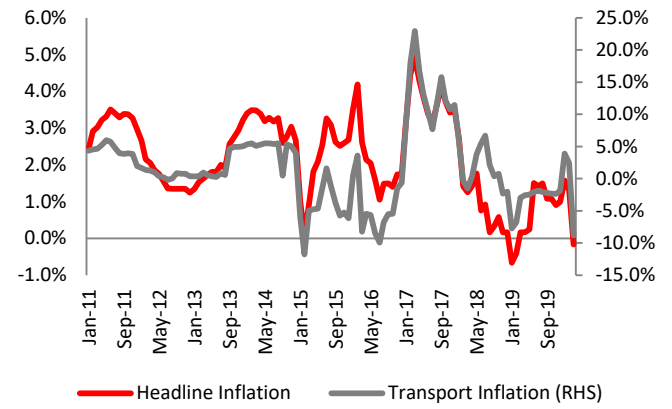
Source: CEIC, MIDFR

**Chart 9: Headline vs Food & Non Food Inflation (YoY%)**



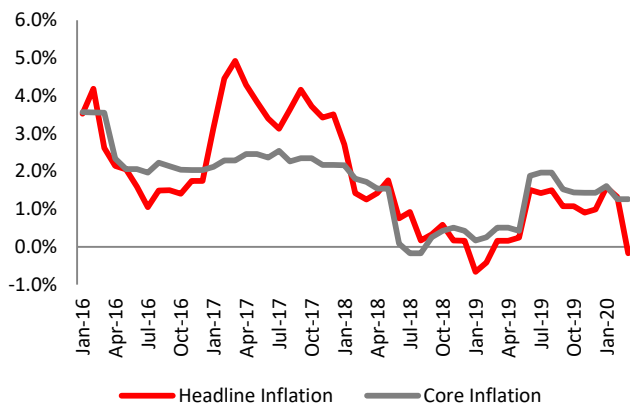
Source: CEIC, MIDFR

**Chart 10: Headline vs Transport Inflation (YoY%)**



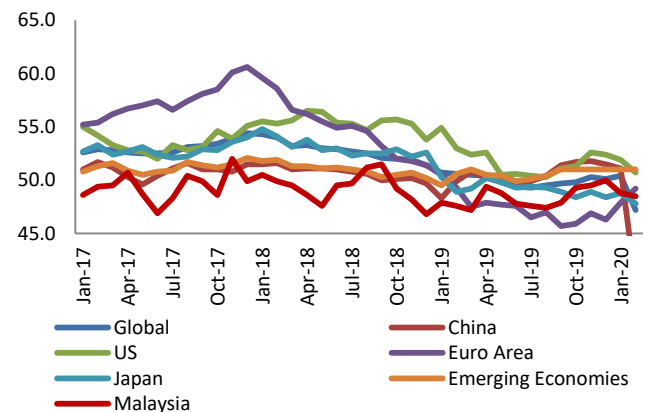
Source: CEIC, MIDFR

**Chart 11: Headline vs Core Inflation (YoY%)**



Source: BLOOMBERG, MIDFR

**Chart 12: Manufacturing PMI (Points)**



Source: CEIC, MIDFR  
 \*(>50:Expansionary, <50: Contractionary)

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