

Malaysia's central bank should be slashing rates

We expect a 50 basis point rate cut on Tuesday, taking the policy rate to the 2% low reached during the 2009 global financial crisis. But this won't be enough. A greater hit to growth in the current quarter and protracted deflation ahead lead us to add another 50 basis point cut to our BNM policy forecast



Governor of the Central Bank of Malaysia Nor Shamsiah Mohd Yunus

Source: Shutterstock

2.00%

ING forecast of BNM policy rate

After 50 basis point cut

BNM policy rate to fall to GFC low

Malaysia's central bank, the Bank Negara Malaysia (BNM) has begun its two-day monetary policy meeting today. The policy decision will be unveiled on Tuesday (5 May), at 3.00 pm local time.

The deepening economic slump due to the Covid-19 pandemic suggests that the BNM is unlikely to stick to the conventional 25 basis point policy rate cut this time. Instead, we have long been calling for a 50bp cut in the overnight policy rate at this meeting. And now the consensus has also converged on this view. This would push the rate to the previous low of 2.00% reached during the 2009 global financial crisis (GFC).

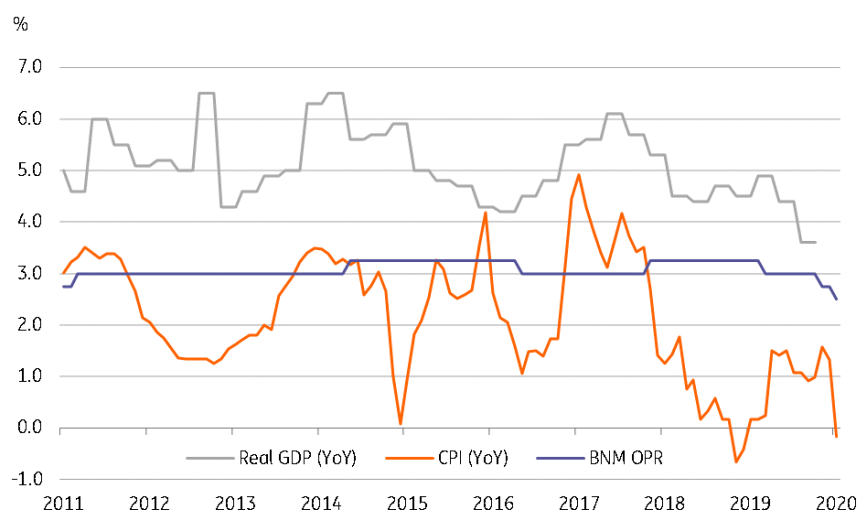
That won't be enough

However, given a far bigger scale of the current crisis than the GFC, we would anticipate a much bigger response. The 50bp rate cut over two meetings so far this year compares with a 150bp cut in the span of less than three months at the height of the GFC.

Lower global oil prices come as an added drag on Asia's net oil exporter economy already suffering from the Covid-19 pain. Nearly two months of lockdown to combat the disease has hit the economy hard. We don't think the BNM can afford to wait much longer, as GDP is heading for the steepest fall this quarter since the 1998 Asian crisis. Inflation has already moved into negative territory and is likely to stay there for a long time to come.

We don't think the BNM will stop at a 50bp cut at this meeting, especially with protracted deflation ahead keeping real interest rates high. We add another 50bp rate cut to our BNM policy forecast and expect this to come in at the next meeting on 6-7 July.

Growth, inflation and BNM policy rate (%)



Source: Bloomberg, ING

Latest data warrants rapid easing

Released today, Malaysia's Markit manufacturing PMI posted a sharp fall in April to 31.3 from 48.4 in March. This was the worst reading since the series began in 2012. The movement restrictions at home and in main trading partners dented both demand and supply, as underscored by the plunge in PMI subcomponents of output and new export orders. Supply chain delays severely impacted delivery times. Jobs were spared from a big hit for now, while downward price pressure intensified with falling input prices. On the flip side, the business expectation PMI component showed some improvement in the coming months.

Meanwhile, other data today showed Malaysia's trade contracted in March, albeit with a slower rate than expected. Exports were down 4.7% year-on-year and imports fell by 2.7%, against the consensus of -9.4% and -6.6%, respectively. Still, these were sharp negative swings from over 11% growth in February. And, in fact, exports bucked the strength observed in most other Asian countries in March. Electrical and electronics were at the core of the export weakness, while weak demand from the US, China and Japan also weighed.