Malaysia cuts reserve requirement by 50 basis points

Bank Negara Malaysia's move to ease via a reserve requirement cut comes amid deteriorating economic conditions. And we expect it to go further with overnight policy rate cuts

Governor of the Central Bank of Malaysia Nor Shamsiah Mohd Yunus

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3.0% Statutory Reserve Requirement

After 50 bps cut today

A surprise SRR cut of 50 bps

Just days after leaving the main policy rate (overnight policy rate or OPR) unchanged at the meeting earlier this week, the Bank Negara Malaysia announced a surprise reduction in the bank's Statutory Reserve Requirement (SRR) rate from 3.5% to 3.0%.

The BNM statement said the move was to maintain sufficient liquidity in the domestic financial system and it expected it to support the efficient functioning of the domestic financial markets and facilitate effective liquidity management by the banking institutions.

A precursor to weak growth

We view the SRR cut as a clear precursor to the deteriorating growth outlook. We should get confirmation of this next week when third-quarter GDP numbers are released on 15 November.

Indeed, we have revised our growth forecast for the third quarter down to 4.4% year-on-year from 4.8%. Full-year 2019 GDP should come in at 4.5% rather than the 4.7% we had expected. That said, it's still within the central bank's 4.3-4.8% forecasts range.

Easing cycle has further to go

The BNM statement also noted that the SRR cut wasn't a signal on its monetary policy stance and we need to look at the overnight policy rate as the 'sole indicator' for that. However, we believe the central bank will be prepared to provide further policy accommodation through more OPR cuts ahead, as continued low inflation and a stable-to-strong currency provide scope for such a policy and should a prevent significant deterioration in the economic outlook.

The BNM cut the OPR by 25bp at this year's May meeting. Today's move raises confidence in our forecasts of an additional 50bp OPR cut in the current easing cycle, and we're looking for that to happen in the first quarter of 2020.