



From the Desk
of the
Chief Economist

BANK ISLAM

OPR MAINTAINED AT 1.75%

3 NOVEMBER 2020

ECONOMIC RESEARCH

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- ✓ The Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 1.75% (Consensus: 1.75%, Bank Islam: 1.75%) during its final meeting for the year.
- ✓ According to the Monetary Policy Statement (MPS), the global economy has gained its momentum anchored by recovery in manufacturing and export sector with significant growth seen in China. Nevertheless, more countries are grappling with a new wave of Covid-19 which led to tighter restrictions that will weigh more on the economic prospects.
- ✓ On the local front, Monetary Policy Committee (MPC) members are of the view that the domestic economy has performed favourably during September quarter while targeted measures instituted in several states would have an impact to the recovery momentum in final quarter of the year.
- ✓ As such, the recovery pace will remain uneven and the downside risks will be visible in the foreseeable future. As for inflation, it will continue to record negative print this year mainly on account of lower global crude oil prices with 2021 would likely to be higher. Again, this will be predicated on the state of crude oil and commodity prices.
- ✓ In a nutshell, the BNM is of the view that the monetary stance is appropriate and accommodative. In addition, the central bank is committed to utilise its policy levers as it deemed fit in order to create enabling conditions for a sustainable economic recovery.
- ✓ The upcoming meeting will be on 19 January 2021. For now, the OPR could remain unchanged in January.

CENTRAL BANK POLICY RATES

Policy rates	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20*
Advanced countries												
US (Fed Fund Rate)	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Zone (Main Refinancing Rate)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Canada (ON Lending Rate)	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Latin America												
Mexico (ON Rate)	7.25	7.25	7.00	6.50	6.00	5.50	5.00	5.00	4.50	4.25	4.25	4.25
Brazil (Selic Rate)	4.50	4.50	4.25	3.75	3.75	3.00	2.25	2.25	2.00	2.00	2.00	2.00
Argentina (LELIQ 7D Notes Rate)	55.00	50.00	40.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	36.00	36.00
Eastern Europe												
Russia (Key Rate)	6.25	6.25	6.00	6.00	5.50	5.50	4.50	4.25	4.25	4.25	4.25	4.25
Ukraine (Discount Rate)	13.50	11.00	11.00	10.00	8.00	8.00	6.00	6.00	6.00	6.00	6.00	6.00
Turkey (1W Repo Rate)	12.00	11.25	10.75	9.75	8.75	8.25	8.25	8.25	8.25	10.25	10.25	10.25
Asia												
China (1Y Loan Prime Rate)	4.15	4.15	4.05	4.05	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
India (Repo Rate)	5.15	5.15	5.15	4.40	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	4.00
Thailand (1D Repo Rate)	1.25	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea (Base Rate)	1.25	1.25	1.25	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	4.00	4.00	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25	2.25	2.25
Australia (Cash Rate)	0.75	0.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.10
New Zealand (Cash Rate)	1.00	1.00	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Malaysia (OPR)	3.00	2.75	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75

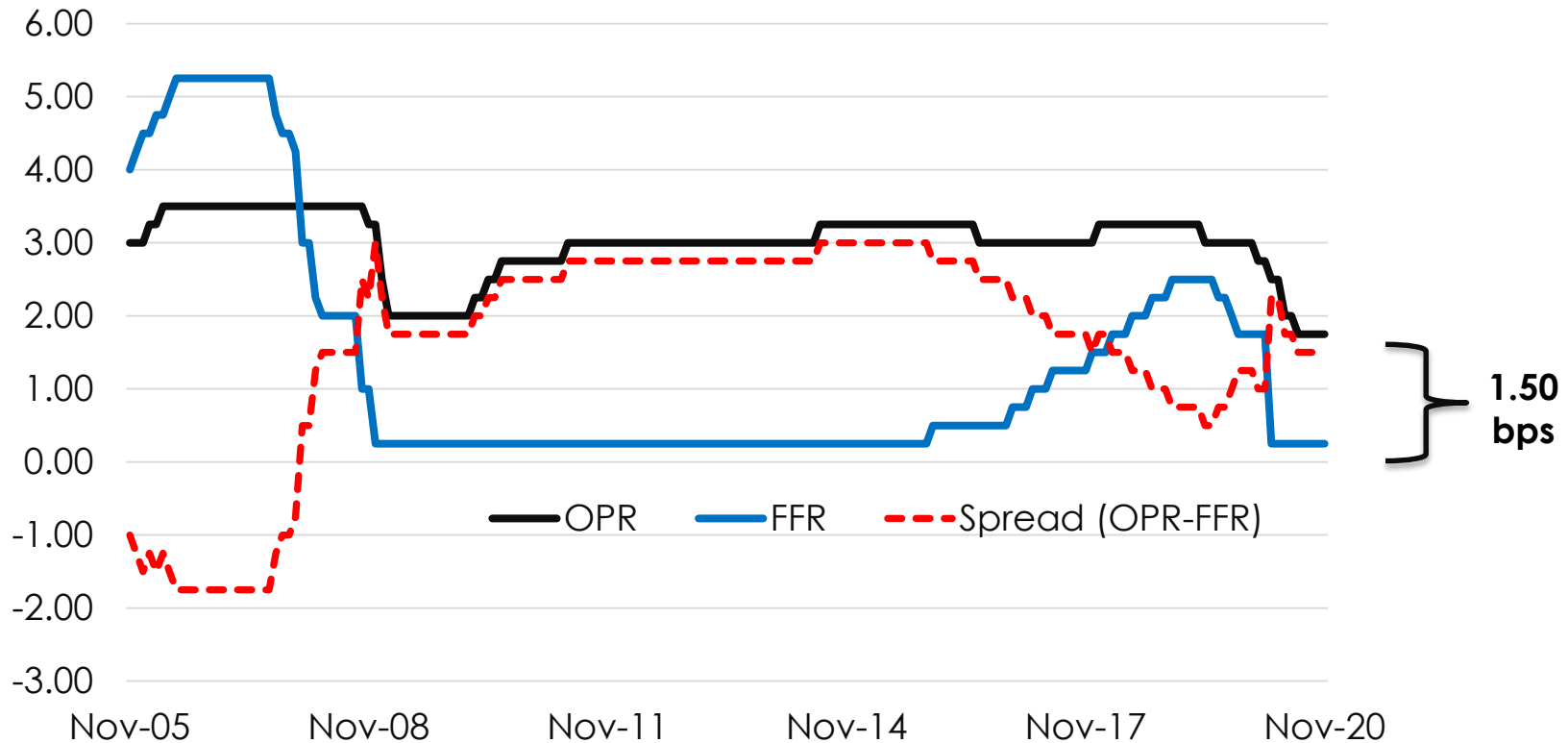


***As at 3 November 2020**

Source: Bloomberg

Central banks continue to prescribe additional monetary easing as further measure to prop up economic activities. Today, the Reserve Bank of Australia (RBA) has taken the lead to slash its official cash rate by 15 basis points (bps) to 0.10%, aiming to support job creation and the recovery of the Australian economy from the pandemic.

OVERNIGHT POLICY RATE (OPR) VS. FEDERAL FUND RATE (FFR)



Source: Bloomberg

- ✓ As of today, Malaysia's OPR spread against the FFR stood at 150 bps (1.75% minus 0.25%). This would mean the BNM still has some policy space to ease the monetary policy from the interest rate differentials point of view.
- ✓ Notwithstanding that, the BNM would be inclined to keep the OPR at the current level, perhaps throughout the whole of next year. The central bank would want to conserve its ammo in the event of any adversaries (downside risks to the outlook).

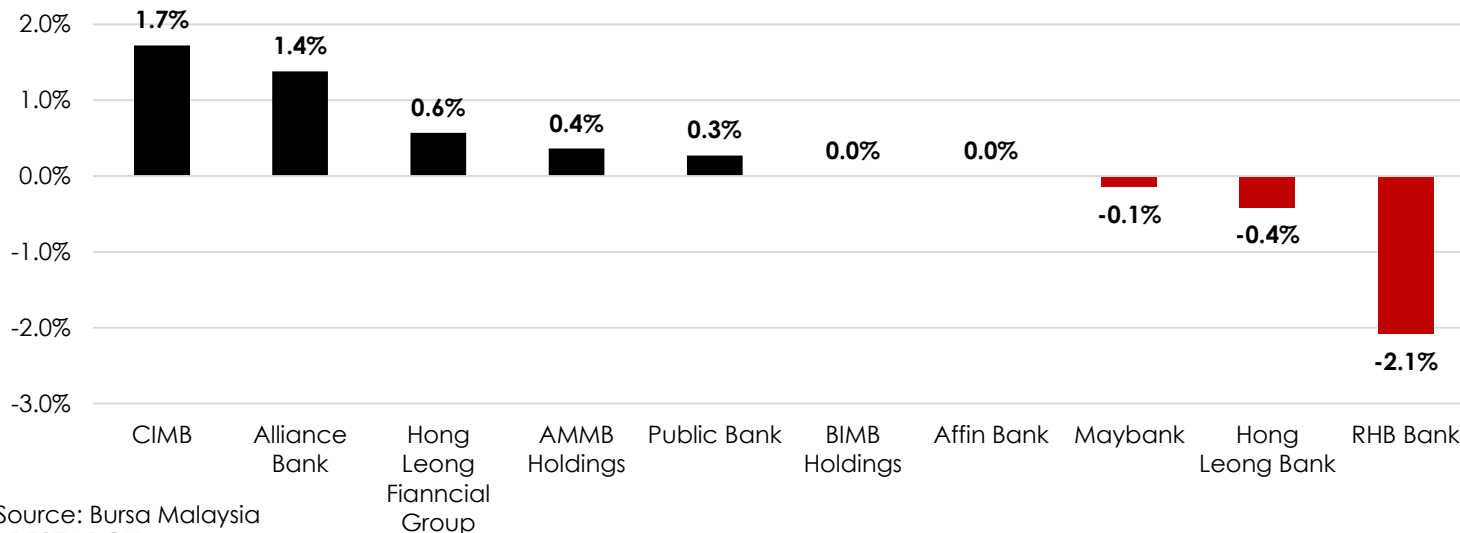
- ✓ **Economic data have been encouraging** - In particular, the latest Leading Index grew by 7.6% year-on-year (y-o-y) in August 2020, indicating that the economic recovery will continue in the coming months. Moreover, the consumer sentiment index (CSI) remains robust at 91.5 points during 3Q2020 as compared to 84.0 points in 3Q2019, pointing out that consumers are generally feeling more upbeat about the future outlook. However, it remains a wishful thinking at the current juncture given that Conditional Movement Control Order (CMCO) has been reemployed in key states which could undermine the recovery momentum.
- ✓ **One should not discard the OPR cut** – The BNM has enough room to reduce the OPR if the economic recovery face any pitfalls and/or slows down in the future. Inflationary pressures remaining subdued at an average of -1.0% y-o-y in 9M2020 (9M2019: 0.6%) which primarily driven by the lower crude oil prices. Next year the recovery will remain highly uncertain and demand condition will continue to be soft. Therefore, options to cut the OPR will remain on the table.
- ✓ **How did the local bourse react?** – Keeping the OPR is definitely a plus points to the banking sector as less pressure will be exerted on the net income margins (NIM). Otherwise, an OPR cut will lead to NIM compression especially for banks with high composition of variable. Henceforth, the latest move by BNM should be positive for FBM KLCI index by virtue of the banking sector being an index heavyweight, contributing more than 20.0% of the index's total market capitalisation. The Bursa Malaysia Financial Services Index was up by 0.2% on Tuesday with CIMB leading gainers with a 1.7% advance while RHB Bank recorded the biggest decline of 2.1%. However, the FBM KLCI closed 0.3% lower at 1,461.5 points today as investors moved to the side lines amid the US presidential election.

Sector Weightings in the FBM KLCI

Sector	Market Cap (RM Billion) as at 30 Oct 2020	Market Cap Percentage as at 30 Oct 2020
Banks	231.7	24.3%
Consumer Product and Services	88.9	9.3%
Energy	20.9	2.2%
Healthcare and Rubber Gloves	175.1	18.4%
Industrial product and Services	65.0	6.8%
Materials	22.2	2.3%
Plantation	109.9	11.5%
Real Estate	13.7	1.4%
Telecommunication	109.5	11.5%
Transportation	29.4	3.1%
Utilities	85.6	9.0%
Total Market Cap (RM Billion)	951.9	100.0%

Source: Bloomberg

Performance of Banking Stocks on 3 November 2020



Source: Bursa Malaysia

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Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.

Assuring Trust. Delivering Value



- ✓ At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 1.75 percent.
- ✓ The global economy continues to recover, led by improvements in manufacturing and export activity. Latest indicators show that economic activity picked up in most advanced and regional economies, with a more pronounced recovery momentum in PR China. However, recent resurgences in COVID-19 cases have caused some major economies to re-introduce containment measures, although generally less restrictive than earlier measures. This suggests that the global economic recovery will likely remain uneven in the near-term. Financial conditions have improved, although risk aversion remains elevated. The overall outlook remains subject to downside risks, primarily due to the risk of further resurgence of COVID-19 infections which could lead to weaker business, employment and income conditions.
- ✓ For Malaysia, the latest indicators point towards significant improvement in economic activity in the third quarter. The introduction of targeted measures to contain COVID-19 in several states could affect the momentum of the recovery in the fourth quarter. Nonetheless, growth for the year 2020 is expected to be within the earlier forecasted range. For 2021, economic activity is projected to improve further. This will be underpinned by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures, and higher production from existing and new facilities. Nevertheless, the pace of recovery will be uneven across sectors, with economic activity in some industries remaining below pre-pandemic levels, and a slower improvement in the labour market. Downside risks to the outlook remain, stemming mainly from ongoing uncertainties surrounding the pandemic globally and domestically.

- ✓ In line with earlier assessments, headline inflation is likely to average negative this year given the substantially lower global oil prices. For 2021, headline inflation is projected to average higher. The outlook, however, will continue to be significantly affected by global oil and commodity prices. Underlying inflation is expected to remain subdued in 2021 amid continued spare capacity in the economy.
- ✓ The MPC considers the stance of monetary policy to be appropriate and accommodative. The cumulative 125 basis points reduction in the OPR this year will continue to provide stimulus to the economy. The MPC will continue to assess evolving conditions and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.
- ✓ The meeting also approved the schedule of MPC meetings for 2021. In accordance with the Central Bank of Malaysia Act 2009, the MPC will convene six times during the year. The meetings will be held over two days, with the Monetary Policy Statement released at 3 p.m. on the second day of the MPC meeting.