



From the Desk
of the
Chief Economist

BANK ISLAM

BNM STOOD PAT ON THE OPR AT 1.75%

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ECONOMIC RESEARCH

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OPR WAS MAINTAINED AT 1.75%

- ✓ The Bank Negara Malaysia (BNM) has decided to keep the Overnight Policy Rate (OPR) untouched at 1.75% during its meeting on 4 March 2021 (Consensus: 1.75%, Bank Islam: 1.75%).
- ✓ According to the accompanying statement, improvement in manufacturing and trade activities have continued to anchor the global economic recovery. In addition, private demand and labour market have gained its momentum underpinned by the roll-out of Covid-19 vaccination campaign coupled with accommodative policy support across the map.
- ✓ On domestic front, the economic recovery is expected to pick-up from 2Q2021 onwards following improvement in external demand, as well as higher public and private sector activities while latest economic indicators signal recovery is underway. On top of that, the economic growth will also be supported by increase in production from existing and new manufacturing facilities, particularly in the E&E and primary-related sub-sectors, as well as oil and gas facilities. Furthermore, Malaysia's National Covid-19 Immunisation Programme which commenced on 24 February 2021 will lift up the sentiment and economic activities moving forward.
- ✓ Be that as it may, the downside risks remain in view of uncertainty over path of the Covid-19 pandemic and the efficacy of the Covid-19 vaccine.
- ✓ On the other hand, the headline inflation is anticipated to average higher this year ascribed to firmer global crude oil prices. In addition, the headline inflation is likely to see a significant increase in 2Q2021 before moderating thereafter. This was largely due to lower base effect from the low domestic retail fuel prices in the same period last year while the underlying inflation is projected to remain subdued in light of continued excess capacity in the economy.
- ✓ The Monetary Policy Committee (MPC) members consider the stance of monetary policy to be appropriate and accommodative. The BNM remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.
- ✓ The next MPC meeting will be on 6 May 2021.

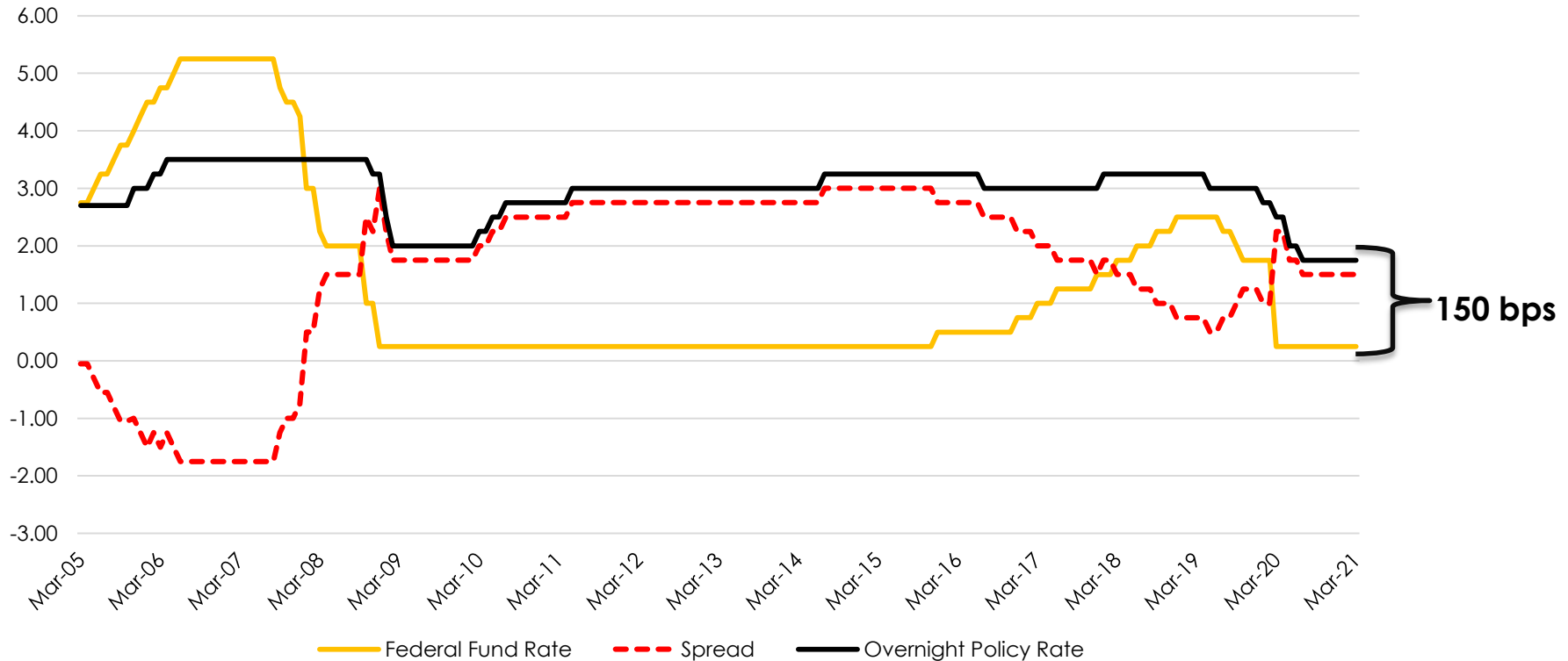
CENTRAL BANK POLICY RATES

Policy rates	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21*
Advanced countries														
US (Fed Fund Rate)	1.75	0.25	0.25	0.25	0.25	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	-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	0.00	0.00
UK (Bank Rate)	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Canada (ON Lending Rate)	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Latin America														
Mexico (ON Rate)	7.00	6.50	6.00	5.50	5.00	5.00	4.50	4.25	4.25	4.25	4.25	4.25	4.00	4.00
Brazil (Selic Rate)	4.25	3.75	3.75	3.00	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Argentina (LELIQ 7D Notes Rate)	40.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	36.00	38.00	38.00	38.00	38.00	38.00
Eastern Europe														
Russia (Key Rate)	6.00	6.00	5.50	5.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ukraine (Discount Rate)	11.00	10.00	8.00	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Turkey (1W Repo Rate)	10.75	9.75	8.75	8.25	8.25	8.25	8.25	10.25	10.25	15.00	17.00	17.00	17.00	17.00
Asia														
China (1Y Loan Prime Rate)	4.05	4.05	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
India (Repo Rate)	5.15	4.40	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50
Thailand (1D Repo Rate)	1.00	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea (Base Rate)	1.25	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00
Australia (Cash Rate)	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10
New Zealand (Cash Rate)	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Malaysia (OPR)	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75

* As at 4 March 2021
Source: Bloomberg

- ✓ The Central Bank of Sri Lanka (CBSL) in today's meeting has decided to keep the Standing Deposit Facility Rate and the Standing Lending Facility Rate unchanged at 4.50% and 5.50% respectively, while holding on to its accommodative monetary policy stance. Furthermore, the CBSL re-affirmed its commitment to maintain a low interest rate structure until the economy shows signs of a sustained recovery.
- ✓ Apart from that, the Reserve Bank of Australia (RBA) has kept interest rates at 0.1% on 2 March 2021 which is historic low level in order to support the economic recovery from the Covid-19 pandemic. On top of that, the RBA has purchased AUD4.0 billion of long-dated government bonds which is double their usual amount to support smooth functioning in the bond market.

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



Source: CEIC

- ✓ The spread between Malaysia's OPR and US's FFR stood at 150 basis points (bps) (1.75% minus 0.25%). This demonstrates that the BNM still has some policy space to loosen the monetary policy alongside subdued inflationary rate (January 2021: -0.2% vs. December 2020: -1.4%) in the event that the Covid-19 crisis exerts further downward pressure on economic activities.

- ✓ Pressure for another cut has somewhat been reduced with the number of daily Covid-19 cases in the country trending downward. For instance, the number of daily Covid-19 cases recorded in Malaysia was only at 1,745 cases on 3 March 2021 compared to a record high of 5,728 cases on 30 January 2021.
- ✓ At the same time, Malaysia has started the national vaccination programme on 24 February 2021 with the first phase covering front liners. Thus far, the Ministry of Health has revealed that a total of 53,287 front liners in Malaysia have received their first dose of the Covid-19 vaccine as at 2 March 2021.
- ✓ Compared to other countries that have started before Malaysia, Malaysia is doing pretty well so far. Based on data from 'Our World in Data' website and the Special Committee on Covid-19 Vaccine Supply, Malaysia has vaccinated more people than Australia and Japan which started their vaccination program a few days earlier before Malaysia as at 2 March 2021. This signals Malaysia's efficiency in carrying out the vaccination program.

Number of Daily Covid-19 Cases In Malaysia



Sources: CEIC, World Health Organisation

Number of Cumulative Vaccination Doses Administered

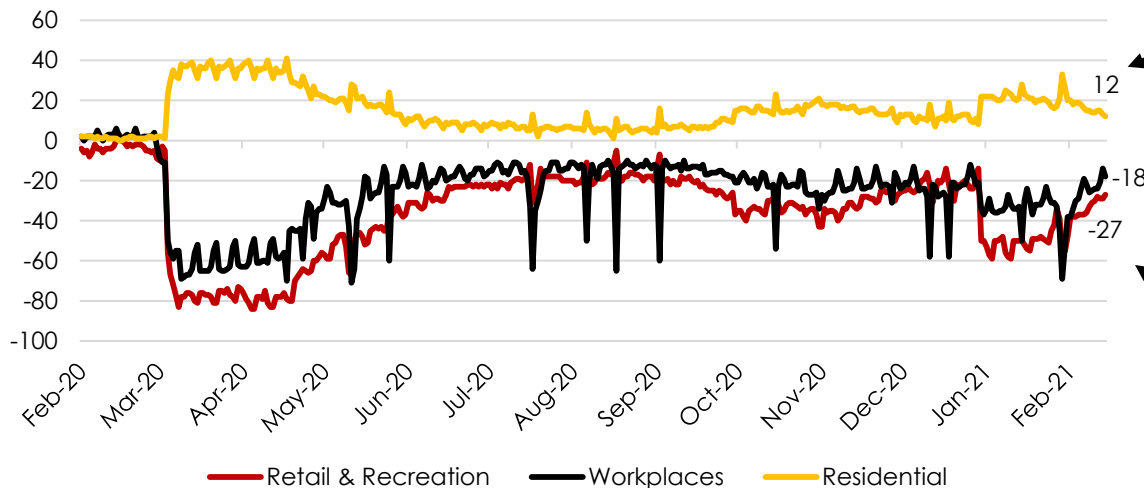
Country	Start Date of Vaccination Program	Cumulative Number of Vaccination Doses Administered
Malaysia	24 February 2021	53,287
Australia	22 February 2021	41,907
Japan	17 February 2021	34,772

Sources: Our World in Data, Special Committee on Covid-19 Vaccine Supply
Note: As at 2 March 2021

OUR VIEW - MOBILITY TRENDS ARE IMPROVING

- ✓ BNM's move to keep the OPR unchanged also tied well with the recent relaxation of restrictions under the Movement Control Order 2.0. For instance, the conditional MCO will take effect from 5 March 2021 and prior to this many restrictions such as dine-in at restaurants have been allowed.
- ✓ Judging from the Google Mobility Trend in Malaysia, the trend of people going to retail and recreation areas have shown a smaller decline of 27.0% compared to the baseline as at 28 February 2021 (31 January 2021: -52.0%.) Likewise, mobility trends at the workplace showed a smaller drop of 18.0% compared to the baseline as at 28 February 2021 (31 January 2021: -30.0%) as more employers started returning to offices. Henceforth, the number of hours spent at residential areas showed a smaller change of 12.0% compared to the baseline as at 28 February 2021 (31 January 2021: 22.0%).
- ✓ Therefore, this bodes well for the ease of economic activities to be carried out in the country.

Google Mobility Trends for Malaysia, % change from baseline



The number of hours spent at home for the residential category increased by 12.0% as at 28 February 2021 compared to the baseline.

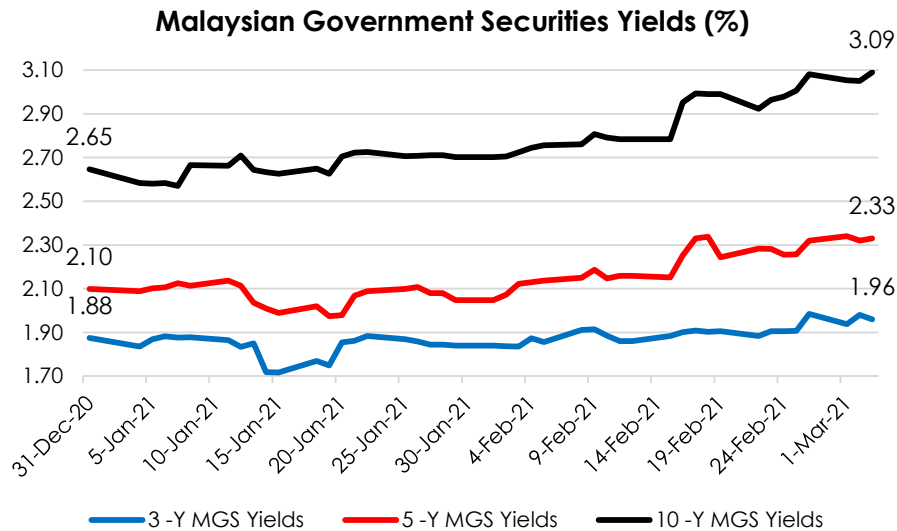
The number of visits to the workplace declined by 18.0% as at 28 February 2021 compared to the baseline.

The number of visits for the retail and recreation category declined by 27.0% as at 28 February 2021 compared to the baseline.

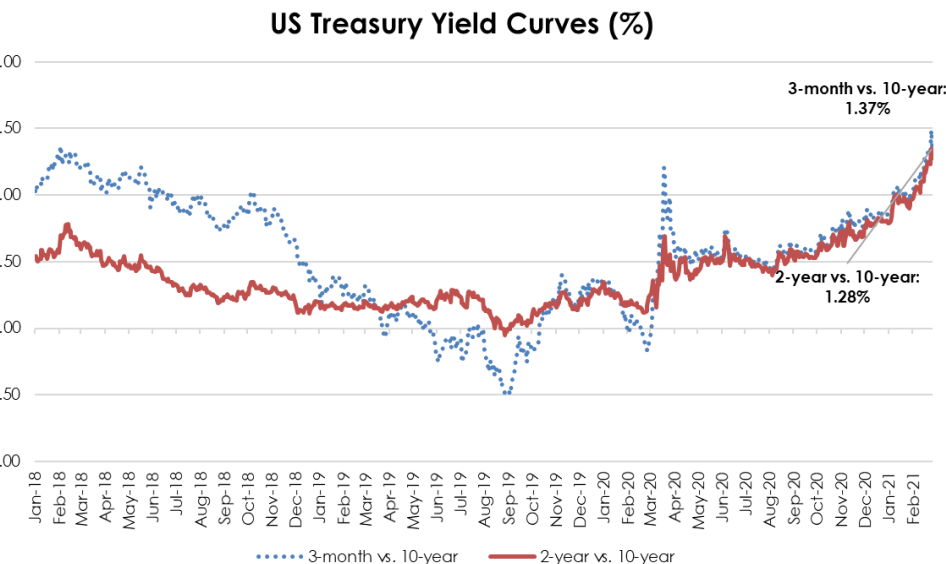
The baseline of 0 indicates no movement, while any percentage change above and below from 0 means that people are at specific places (workplaces, residential areas)

Source: Google Mobility Report as at 28 February 2021

OUR VIEW – SIGNS OF ECONOMIC RECOVERY ARE TAKING HOLD



- ✓ On a broader scale, there were many signs that global economic recovery was taking hold which provided grounds to maintain the OPR.
- ✓ For example, Malaysia's exports grew by 6.6% year-on-year in January 2021 despite the MCO 2.0 being reimposed. Moreover, data from the US has also been encouraging, with the Institute of Supply Management's Manufacturing Purchasing Managers' Index (PMI) rising last month to 60.8 points (January 2021: 58.7 points), signalling economic activities are picking up at a healthy pace.



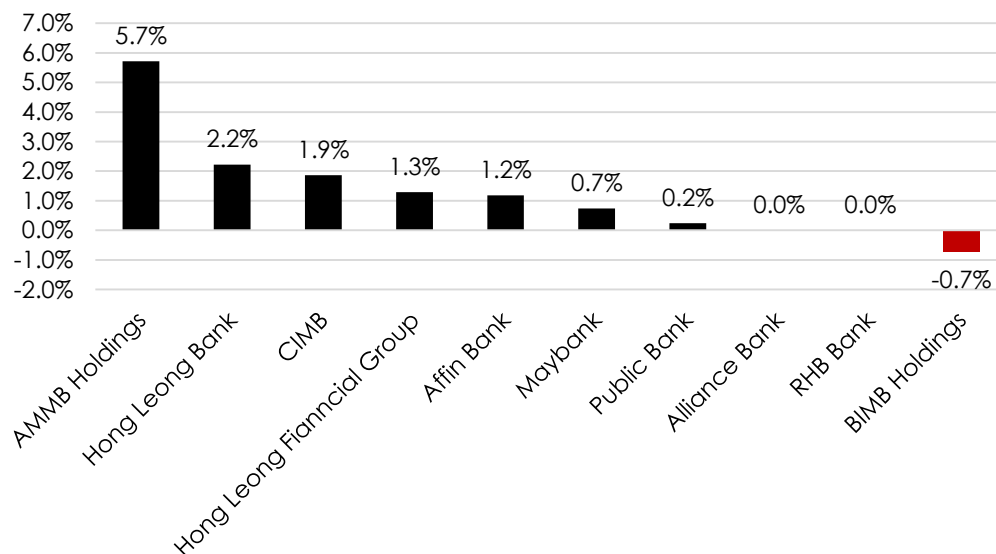
- ✓ With investors having a bullish view on equities in line with the anticipated economic rebound, yields on US government debt have passed another set of closely watched levels. For instance, yields on 10-Y US Treasuries touched 1.61%, the highest in a year on 25 February 2021 before settling at 1.52% on the same day. As a result, the US treasury yield curve too has steepened as of late.
- ✓ In the same vein, the 10-Y MGS yield has been hovering at more than 3.00% as of late compared to 2.65% seen on 31 December 2020.

Sector Weightings in the FBM KLCI

Sector	Market Cap (RM Billion) as at 28 February 2021	Percentage
Banks	295.5	28.9%
Consumer Product and Services	101.7	9.9%
Energy	18.2	1.8%
Healthcare	44.6	4.4%
Rubber Gloves	88.1	8.6%
Industrial product and Services	80.6	7.9%
Materials	39.1	3.8%
Plantation	112.7	11.0%
Real Estate	0.0	0.0%
Telecommunication	121.6	11.9%
Transportation	30.3	3.0%
Utilities	90.1	8.8%
Total Market Cap (RM Billion)	1022.6	100.0%

Source: Bloomberg

Performance of Banking Stocks on 4 March 2021



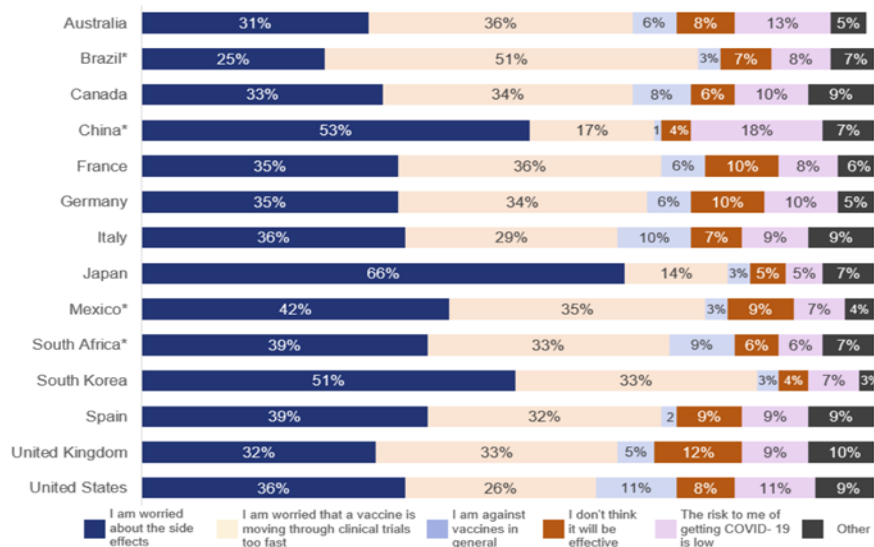
Source: Bursa Malaysia

- ✓ **How did the local bourse react?** – An unchanged OPR compared to a cut in it is a positive for the banking sector as less pressure will be exerted on the net income margins. Otherwise, an OPR cut will lead to a downward revision in financing rates especially for those with variable features. Henceforth, keeping the OPR unchanged in general was good for the FBM KLCI index by virtue of the banking sector being an index heavyweight, contributing 28.9% of the index's total market capitalisation. The Bursa Malaysia Financial Services Index was up by 1.0% on Thursday with AMMB Holdings leading gainers with a 5.7% advance while BIMB Holdings recorded the biggest decline of 0.7%. Overall, the banking sector helped to prevent the FBM KLCI from recording higher losses today due to rubber glove counters as the local bourse only declined by 0.5% to settle at 1,581.3 points today.

OUR VIEW – CURRENT OPR TO PROVIDE AMMO IN UNEXPECTED CIRCUMSTANCES

- ✓ While the economic growth prospects look bright, the current OPR level serves as a buffer for BNM to slash rates to 1.50% in the event that the pandemic worsens due unforeseen headwinds in various forms.
- ✓ One of the underlying risks to economic growth at this juncture include vaccine scepticism which may be a hurdle for countries to administer vaccines on citizens. This could dent the containment efforts (Covid-19) in the coming months as anti-vaxxers outright refuse to take the vaccine over concerns of the side effects, effectiveness and other unfounded myths.
- ✓ Apart from that, new variants of the virus are expected to occur over time according to the Centers for Disease Control and Prevention (CDC). While it is still unknown how these variants affect the existing vaccines, there is a possibility that existing vaccines may prove to be ineffective against newer variants that tend to spread more easily and quickly.

Reasons for vaccine scepticism



- ✓ We are more skewed towards the opinion that BNM will maintain the OPR at 1.75% throughout 2021, encouraged by the vaccination programme and the gradual relaxation of movement restrictions. But on the other hand, **global herd immunity could take as long as five years to materialise*** and along the way, events could take on a different turn and sway market sentiment. Therefore, the option for BNM to cut the OPR is still open as the economic situation is still highly fluid.

* <https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution/>

Source: Ipsos

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A cityscape at sunset with a pink banner at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright horizon. A multi-lane highway with traffic is visible in the foreground. At the bottom of the image, there is a solid pink horizontal bar.

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Thank You

- ✓ 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 economic recovery, while uneven, is gaining momentum, supported by steady improvements in manufacturing and trade activity. The ongoing roll-out of vaccination programmes in many economies, together with policy support, will further facilitate an improvement in private demand and labour market conditions. While financial markets have experienced bouts of volatility, financial conditions remain supportive of economic activity. Risks to the growth outlook have abated slightly, but remain tilted to the downside, primarily due to uncertainty over the path of the COVID-19 pandemic and effectiveness of the vaccination programmes.
- ✓ For Malaysia, latest indicators point to improvements in external demand and continued consumer spending. While the re-imposition of containment measures will affect growth in the first quarter, the impact is expected to be less severe than that experienced in the second quarter of 2020. Going forward, growth is projected to improve from the second quarter onwards, driven by the recovery in global demand, increased public and private sector expenditure amid continued support from policy measures and more targeted containment measures. Growth will also be supported by higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related sub-sectors, as well as oil and gas facilities. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and economic activity. The growth outlook, however, remains subject to downside risks, stemming mainly from ongoing uncertainties in developments related to the pandemic, and potential challenges that might affect the roll-out of vaccines both globally and domestically.
- ✓ Headline inflation in 2021 is projected to average higher, primarily due to higher global oil prices. In terms of trajectory, headline inflation is anticipated to temporarily spike in the second quarter of 2021 due to the lower base from the low domestic retail fuel prices in the corresponding quarter of 2020, before moderating thereafter. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.
- ✓ The MPC considers the stance of monetary policy to be appropriate and accommodative. Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward will continue to be determined by new data and information, and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.