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BNM may cut interest rates within 3-6 months amid trade uncertainties, says economist

Slowing global growth and the Fed's dovish stance continue to strengthen the case for a reduction

by NG MIN SHEN

MALAYSIA could see another interest rate cut within six months as trade uncertainties, slowing global growth and the US Federal Reserve's (Fed) dovish stance continue to strengthen the case for a reduction.

CIMB Group Holdings Bhd group chief economist Dr Donald Hanna opined that Bank Negara Malaysia (BNM) would lower the Overnight Policy Rate (OPR) again within the next three to six months, after the central bank cut the OPR by 25 basis points (bps) to 3% in May this year amid signs of tightening financial conditions.

Pic by Muhd Amin Naharul

BNM cut the OPR by 25bps to 3% in May this year amid signs of tightening financial conditions

"I think we'll probably get another cut by BNM because the world has worsened, unfortunately, on the back of the likely increase in tariffs by the US come September, which is an external blow to an open economy like Malaysia," he told reporters at the Asean+3 Macroeconomic Research Office's (AMRO) regional economic outlook 2019 in Kuala Lumpur yesterday.

Hanna said a rate cut would also depend on whether the Fed slashes its interest rates at its next meeting in September, which "now looks pretty likely".

Last Wednesday, the Fed reduced its key benchmark interest rate by 25bps to a range of 2% to 2.25% — the first cut since October 2008, when the US monetary authority cut the rate by 50bps to 1.5% following the global financial crisis.

The Fed is expected to lower rates again next month in support of growth, after the US-China trade tensions kicked up several notches further, causing the US equities to post their worst day of 2019 last Monday.

"Because of the imposition of 10% tariffs (on another US$300 billion [RM1.25 trillion] worth of Chinese imports) at the beginning of September, (and) given the complications we've already seen from financial markets — one of the most powerful and quickest transmission mechanisms from these policy changes — it makes it more likely that the rate reduction will come from the Fed and the Asian banks will follow suit," Hanna said.

He added that while inflation has risen year-on-year due to the low base effect, underlying inflation on a month-on-month basis doesn't look difficult, while external interest rates are also being decreased.

"So, there's unlikely to be much pressure on the ringgit associated with a BNM rate reduction, which is another element of concern. So, the likelihood that we'll get that reduction is greater than the market is pricing," Hanna said.

The economist said he does not foresee a recession on the cards, although domestic and global growth next year will be lower than before.

"Another thing that will occur over the course of 2020, is that some of the trade diversions that are going to come in as companies rebase activity into Malaysia, will begin to be shown in the numbers on investment and activity.

"That would create some upside, whereas all we get from this environment is downside because financial market effects are being overlaid on a general backdrop of decelerating global trade," he said.

Hanna also said Malaysia's GDP growth for the second quarter of 2019 is expected to come in "quite high" at over 5%, while the consensus forecast of analysts surveyed by *Bloomberg* stands at 4.6%. CIMB has projected 4.4% growth in Malaysia's economy for the full year 2019.

Meanwhile, AMRO expects economic growth for the Asean+3 region — comprising Asean countries plus Japan, China and South Korea — to come in at around 4.7% for 2019 and 2020.

Its chief economist Dr Khor Hoe Ee said the research firm had lowered its forecast from 5.1% to 4.9%, then to 4.7% following further escalation of US-China trade tensions and gradual slowing in global growth.

For Malaysia, AMRO is projecting a 4.5% GDP growth this year, a number Khor called "relatively strong" given the country's softer public expenditure and slower exports.

"Given the external headwinds from the US-China trade conflict, countries in the region should be more supportive by adopting more expansionary fiscal and monetary policies.

"Most countries are in the middle of the business cycle, which means growth is about potential. They don't need to do a lot to keep the economy going but they do need to provide a bit more support because of the headwinds," he said.