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Bank Negara Makes Pre-Emptive Cut

At its meeting yesterday, Bank Negara's Monetary Policy Committee (MPC) cut the OPR by 25bps to 2.75%.

The cut was somewhat unexpected. The majority of economists and investors were expecting that an interest rate cut will only take place the earliest in March 2020. The MPC highlighted that the latest economic data point to a moderate GDP growth in the 4Q'19.

However, downside risks remain. These include geopolitical risks, heightened financial market volatility as well as domestic factors, such as the weakness in commodity-related sectors and delays in the implementation of projects.

According to Bank Negara, the adjustment to the OPR "is a pre-emptive measure to secure the improving growth trajectory amid price stability".

Based on the aforesaid statement and the gradually improving economic outlook, we expect the OPR to remain at 2.75% for the rest of the year. We expect the GDP growth for 2020 to fall between 4% to 4.5% (9M2019 : 4.6%) and inflation to fall between 1.5% to 2% (2019: 0.7%).

We believe the rate cut is positive for domestic bonds, especially the corporate bond space. The decline in yields on a YTD basis has been lagging behind government bonds which have somewhat priced in the OPR cut.

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