



UOBAM Malaysia view on the recent Bank Negara Malaysia (BNM) 25bps interest rate cut on 7th July 2020:

Bank Negara Malaysia (BMM) reduced the Overnight Policy Rate (OPR) by another 25bps to a record low of 1.75% on 7 July, 2020. This brings the cumulative rate cuts to 125 bps since January 2020.

The latest move by the central bank is to provide additional policy stimulus to support the economic recovery as downside risks to the growth outlook remain, especially if there is a resurgence of COVID-19 infections.

Domestic economic activity has begun to improve following the gradual reopening of the economy since May. Malaysia's manufacturing PMI rose sharply to 51.0 in June from a low of 31.3 in April.

With the accumulative rate cut of 125 bps, economic stimulus packages of RM295 billion coupled with other financial measures, we expect the central bank to stay put for now to preserve policy flexibility.

Bond yields are likely to fall in the immediate term as market has not fully priced in the rate cut. We expect market to consolidate subsequently.

In term of asset allocation, we are overweight fixed income especially on investment grade credits. The low interest rate environment is expected to stay for longer which would be supportive of fixed income securities.

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