AmFunds Management Market Update

10 July 2025

Overnight Policy Rate Cut of 25bps by Bank Negara Malaysia to 2.75%

On 9 July 2025, Bank Negara Malaysia ("BNM") lowered the Overnight Policy Rate ("OPR") by 25 basis points to 2.75%, marking the first rate cut since 2020. This move comes amid signs of slowing domestic growth, heightened global trade uncertainty and moderating inflation. In the Monetary Policy Statement, it was stated that the rate cut was a "pre-emptive" move aimed at "preserving Malaysia's steady growth path amid moderate inflation prospects". BNM stated that any other action in the future will be data dependant.

Economists were split, with 13 of 23 economists in the Bloomberg survey calling for a 25bps cut. 10 economists had called for the policy rate to remain unchanged at 3.00%. However, the market had mostly priced in the rate cut.

Language in the Monetary Policy Statement highlighted that, "While the domestic economy remained on strong footing, uncertainties in the external sector could impact the country's growth prospects." On inflation, BNM expects it to "remain moderate" amid contained global cost conditions and the absence of excessive domestic demand pressures. It was reiterated that the overall impact of the announced and upcoming policy reform (on subsidy rationalisation) on inflation is "expected to be contained".

BNM reiterated that going forward, growth is expected to be supported by resilient domestic demand, with household spending underpinned by employment and wage particularly in domestic-oriented sectors as well as income-related policy measures.

At the post-MPC analysts briefing, BNM officials stated that Malaysia's growth path remained intact and inflation is expected to remain under control given that SST increase only affected 3% of CPI basket item. The BNM officials guided that the rate cut is to "secure" the country's growth path rather than "rescue" it.

Bond Market Outlook

Post-MPC announcement, the bond market saw some initial profit taking, followed by some mild rally on 10th July 2025. Reaction was somewhat muted as the market had already positioned for the OPR following US President Trump's announcement of higher tariff levels on 14 countries including Malaysia, on the extended deadline of 1 August.

The OPR cut reinforces a dovish monetary cycle, favouring fixed income assets particularly high-grade bonds. Investors search for yield has resulted in strong flows into Malaysian debt markets which is supported by improving fundamentals and moderating rate risk.

BNM's OPR cut reflects growing downside risks to GDP growth (Q2 slowdown expected), weak private investment, and external pressures from global trade dynamics. Inflation remains subdued, giving BNM policy room to ease further if necessary.

The Ringgit ("MYR") may remain volatile in the near term due to a narrowing rate differential with the U.S. Federal Reserve but may stabilize if the Fed begins its own easing cycle later in 2025. The OPR cut narrows Malaysia–US rates differential, potentially weakening the ringgit short-term. Still, with the US Federal Reserve eyeing rate cuts later this year, MYR may find support at 4.20.

The OPR cut confirms BNM's dovish stance and presents a window of opportunity for fixed income investors to optimize yield and credit quality in a softening rate environment. High-grade bonds remain core holdings, with tactical exposure to selected A-rated names. We will stay vigilant on macro drivers, especially FX and trade and will manage risks and rebalance as needed.

Bond Market Strategy

As the OPR cut signals the start of a dovish cycle, likely pushing longer term Malaysian Government Securities ("MGS") yields lower. Analysts expect the 10-year MGS yield to decline from 3.5% to around 3.3% by year end.

Foreign capital continues to flow in, reflecting investor confidence in Malaysia's stable yields and easing cycle.

Lower interest rates improve funding conditions for domestic-focused issuers. Infrastructure and utilities may benefit from tighter spreads. However, export-heavy or USD-denominated corporates could face challenges from a weakening ringgit and wider credit spreads.

Overall, the bond market is positioned for lower yields and potential curve flattening. We maintain our overweight duration strategy for all portfolios.

Malaysian Equity Market Outlook

Interest rate cuts are positive for equity markets mainly due to:

1) Interest savings of corporates, which would boost EPS. Corporates with high gearing or debt-to-equity levels would benefit more. Excluding financial institutions, companies with gearing of 100% or more account for 17% of the FBM Emas Index; and

2) Improved valuations e.g. DCF valuations go up when a lower discount rate is applied.

Impact on Specific Sectors

REITs (Positive)

Lower interest rates may enhance attractiveness of high dividend yielders like REITs. The rate cut will also reduce the financing costs of REITs which will boost earnings. For retail REITs, rate cuts may boost consumer discretionary spending at retail malls, leading to better tenant sales and turnover rent.

Property: (Marginally Positive)

Lower interest rates mean lower mortgage payments and may make house ownership more affordable. However, the impact is slight. Assuming a loan principal of RM400,000 and a 30-year loan, we estimate the interest savings to be circa RM83 per month—unlikely to stir a buying frenzy among potential house buyers but every bit helps.

Consumer Discretionary (Marginally Positive)

Aside from housing, lower interest rates may spur credit card spending and spending on big ticket items such as cars and furniture. However, the automotive industry is still besieged by competition from Chinese marques, resulting in 5% decline in Total Industry Volume ("TIV") YTD, with Japanese marques the worst hit.

Banks: (Marginally Negative)

We see slight negative impact on banks as interest rate cuts dampen net interest margins. This is because banks' cost of funds (which include fixed deposits with longer maturities) reprice more slowly than their assets (i.e. their loans, most of which are on "floating" basis and are re-priced immediately). However, the impact is marginal at circa 1% hit to full year earnings for most banks. The impact to banks with higher proportion of variable/floating rate loans, such as Bank Islam and Alliance Bank is higher (2-4% hit to full-year earnings). Yet, many analysts have factored in a 25bps rate cut in their earnings projections earlier hence we see marginal impact to share prices.

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