Malaysia Chartbook: Slow growth, weak inflation

Economics / Asia / Malaysia / Growth

Group Research

June 25, 2019

Irvin Seah
Senior Economist

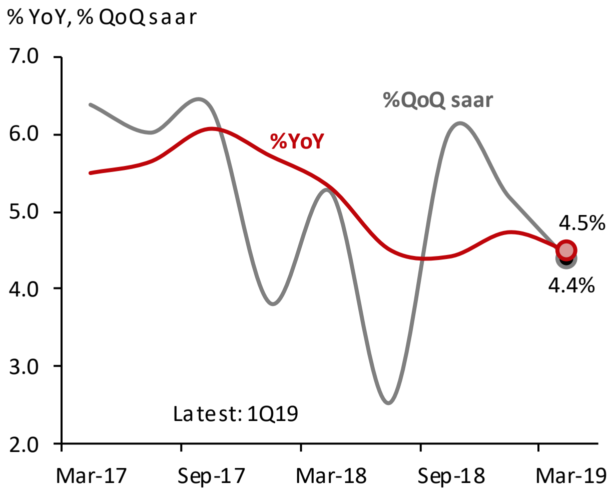
Please direct distribution queries to
Violet Lee +65 68785281 violetleeyh@dbs.com

Charts of the month

- *GDP growth slipped to 4.5% YoY in 1Q19, from 4.7% previously. Investment remained a drag while the boost from net exports and private consumption has eased*
- *External headwinds have picked up, with trade war and electronics down-cycle taking a toll on exports and industrial output*
- *Weak domestic sentiments have translated to an uncertain investment outlook, and potentially weaker private consumption growth*
- *Overall GDP growth is expected to moderate to 4.5% in 2019, from 4.7% in 2018, with downside risk associated with the trade war*
- *Inflation has bottomed but the turnaround has been weaker than expected. We have lowered 2019 inflation forecast to 0.9%*
- *With the rising headwinds on growth and muted inflation, Bank Negara remains on easing bias. We expect another 25bps rate cut in 4Q19*

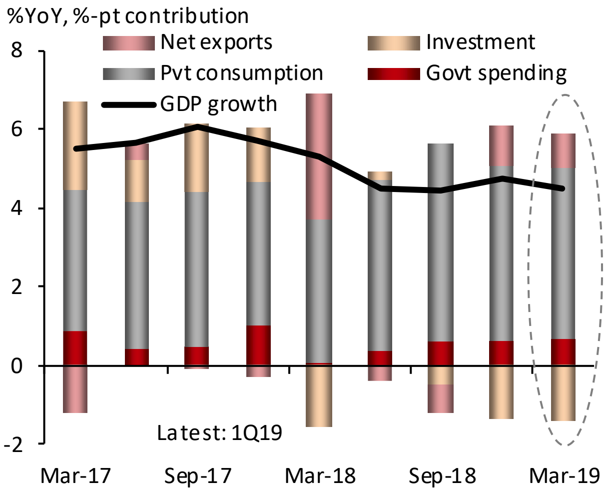
GDP growth

Chart 1: Growth momentum has slowed



GDP breakdown

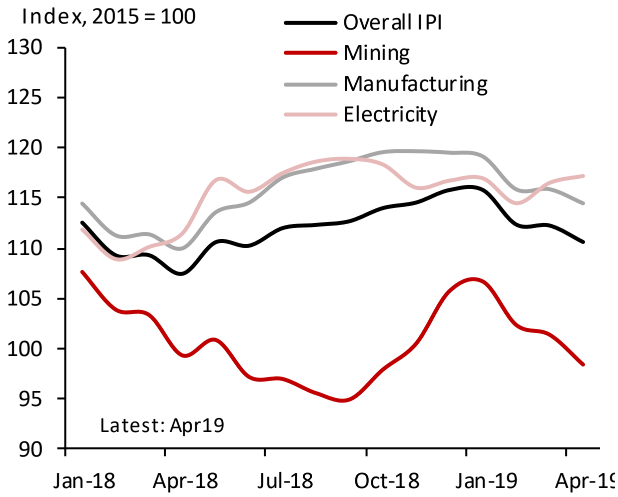
Chart 2: Drag from investment



External demand

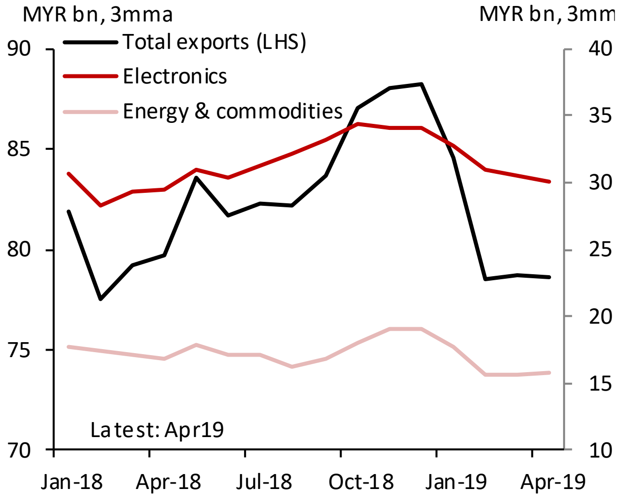
Overall industrial production index has continued ease since Jan19, dragged down mainly by the declines in the manufacturing and mining sectors. With global demand still weak, prospects for industrial output is expected to continue to head south.

Chart 3: Industrial production tapering off



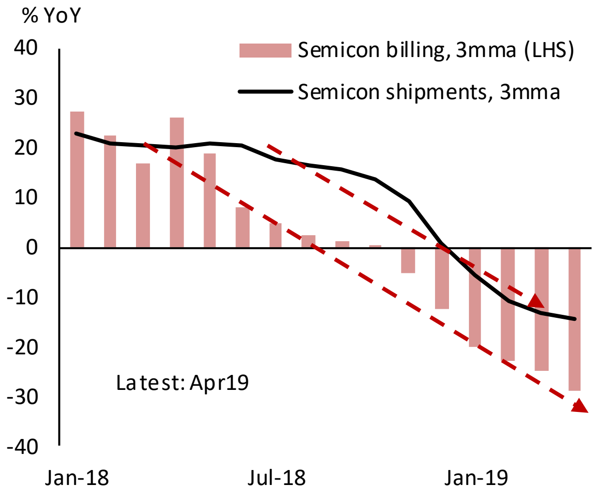
Export performance has weakened. Key products such as electronics, commodities and energy related exports are all on a downward trend. Down-cycle in electronics and trade war are the key reasons behind the slide.

Chart 4: Exports growth easing



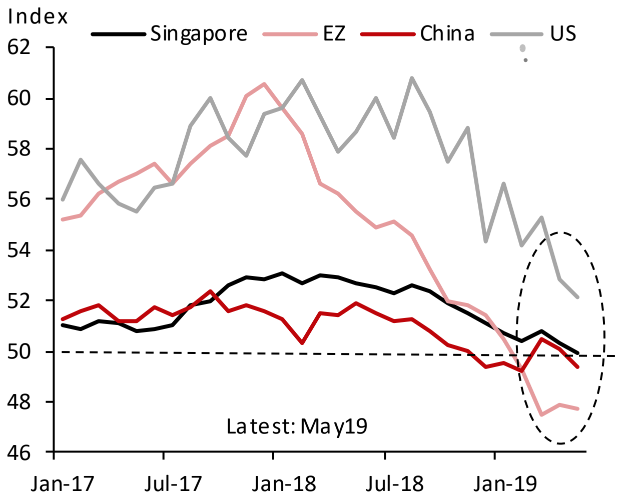
Global electronics demand has continued to decline. Growth in electronics shipments and billings are both in negative territory. The ongoing trade disputes between the US and China will continue to weigh down on the industry.

Chart 5: Global electronics cycle heading south



Except for the US, the PMIs of all other key markets are already in contraction mode. This suggests further slowdown on export and industrial output growth, and that net exports will likely be a drag on growth going forward.

Chart 6: PMIs dipping again



Domestic demand

Ground sentiments have softened. The MIER consumer sentiment and business condition indexes have peaked and headed south since 2H18. This comes on the back of poorer external outlook and domestic political uncertainties.

Higher frequency data such as imports of capital goods and business loan growth seem to suggest that the investment cycle has bottomed. But amid a challenging external environment, investment outlook is expected to remain cloudy.

Chart 7: Sentiments heading south

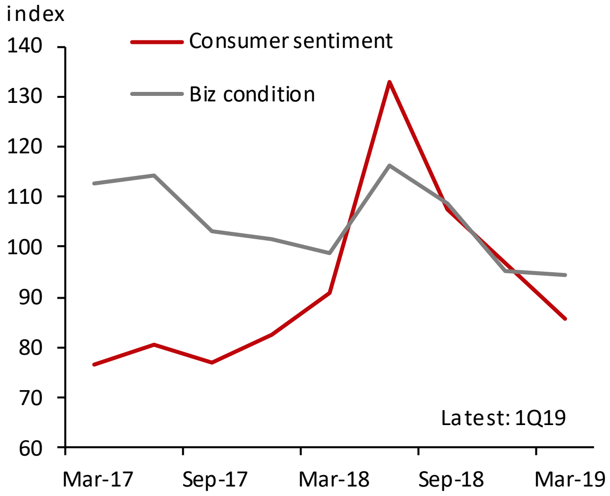
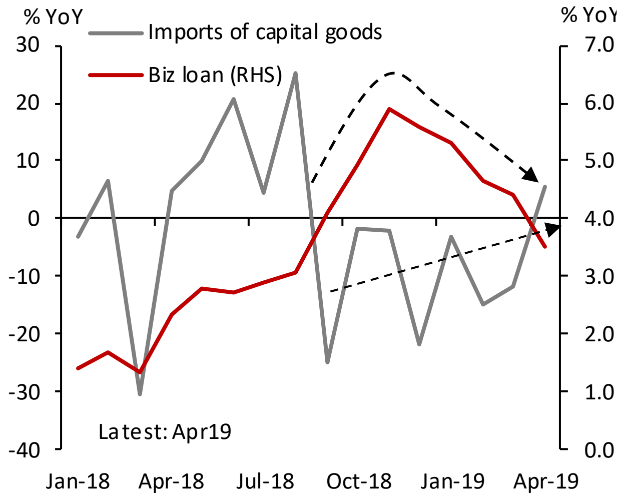


Chart 6: Investment growth to remain uncertain



Employment prospects have softened. Employment growth has dipped while unemployment rate has inched higher. Expect consumers to tighten their purse strings in the coming quarters.

Weaker consumer sentiments are also reflected in the declines in growth for household loans and sales of manufactured products. Expectation is that private consumption will remain weak in the near-term.

Chart 9: Employment prospects softening

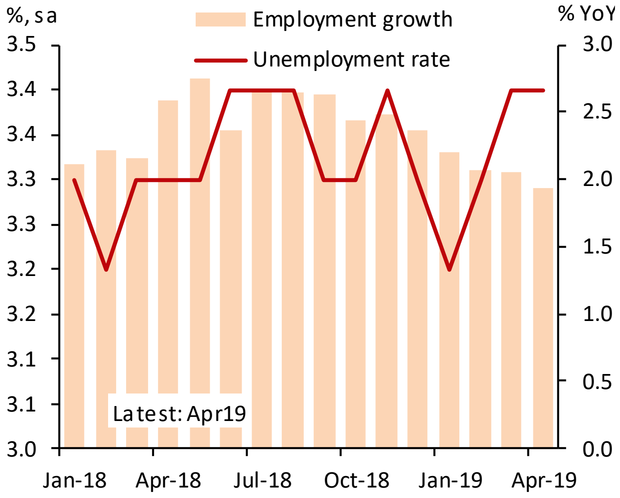
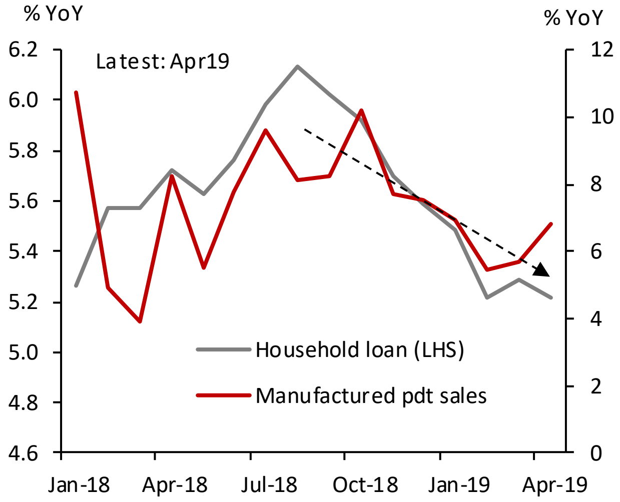


Chart 10: Private consumption to moderate



Growth, inflation and monetary

Growth outlook will remain fragile in the coming quarters amid external headwinds and weaker domestic demand. Ongoing trade disputes between the US and China will remain the key risk. We continue to maintain the view that growth will moderate to 4.5% for 2019, from 4.7% previously.

Inflation has bottomed but the rebound has been significantly weaker than expected due to slower growth impetus. BNM has cut policy rate by 25bps in May as a result. We now expect inflation to average 0.9% in 2019, and that BNM could potentially ease further in 4Q19, pending possible US Fed rate cut.

Chart 11: Slowdown in 2019 and 2020

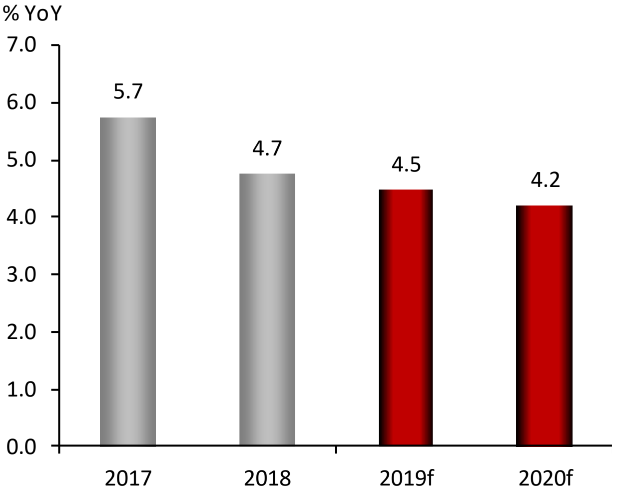
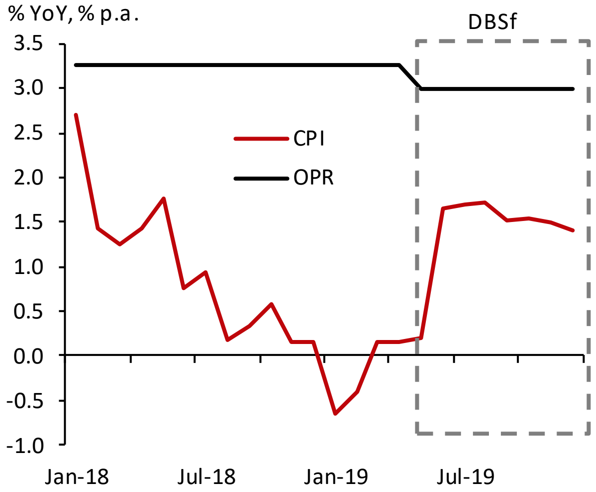


Chart 12: Inflation and the monetary policy



Fiscal and external balances

All eyes will be on oil prices, as for most part of this year, oil prices have continuously stay below the budget assumption of USD 70/bbl. The rising tension in the Middle East could drive oil prices higher. Else there is a risk that the fiscal budget could fall short of target.

Trade balance has improved in recent months due to weaker import demand. This has helped to lift foreign reserves position. Despite the tentative signs of improvement in external balances, risk remains given the uncertain external environment.

Chart 13: Oil prices crucial to Malaysia budget

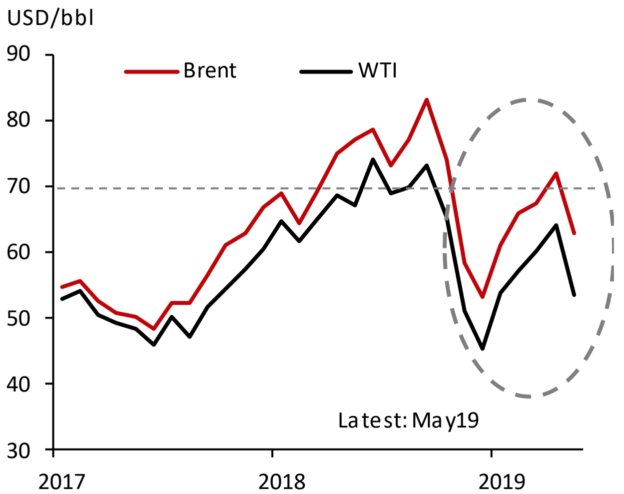
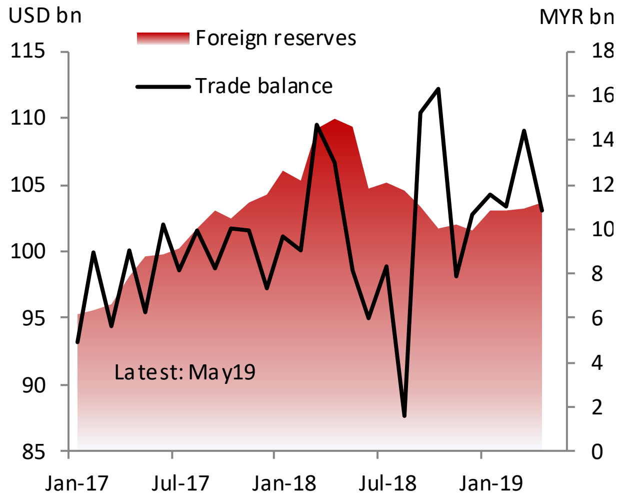


Chart 14: External balances have improved



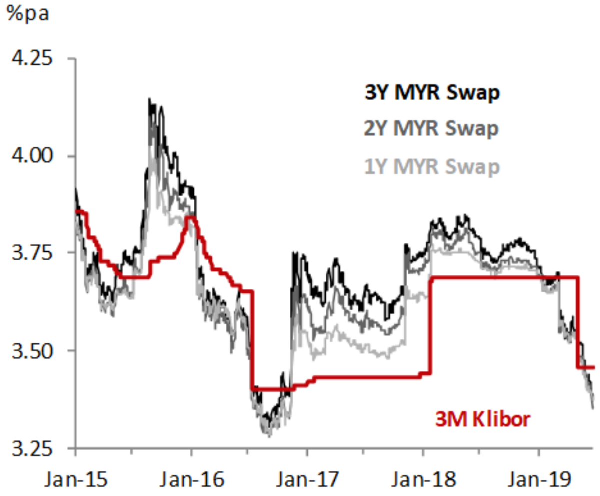
FX and interest rates

The Malaysian ringgit remains vulnerable to global trade tensions, lower domestic interest rates, a disappointing stock market and potential capital outflows from its bond market.

Against a backdrop of slowing growth and low inflation, MYR swaps are factoring in rate cuts over the coming few quarters. Risks to our yield forecasts are tilted to the downside

Chart 15: MYR is vulnerable to a weak global outlook

Chart 16: MYR swaps have factored in rate cut risks



Forecasts on major indicators

	GDP				CPI inflation			
	2017	2018f	2019f	2020f	2017	2018f	2019f	2020f
Annual change (%, YoY)	5.9	4.7	4.5	4.2	3.8	1.0	0.9	1.6

Exchange rate and interest rates forecasts									
		1Q19f	2Q19f	3Q19f	4Q19f	1Q20f	2Q20f	3Q20f	4Q20f
USD/MYR	**(eop)**	4.08	4.20	4.25	4.23	4.21	4.19	4.17	4.15
Policy Rate	**(%, eop)**	3.25	3.00	3.00	2.75	2.75	2.75	2.75	2.75
3M KLIBOR	**(%, eop)**	3.69	3.44	3.44	3.44	3.44	3.44	3.44	3.44
Government bond yields	**2Y (%, eop)**	3.38	3.40	3.40	3.40	3.40	3.40	3.40	3.40
	10Y (%, eop)	3.77	3.85	3.90	3.95	4.00	4.00	4.10	4.10
	10Y-2Y (bps)	39	45	50	55	60	60	70	70

Group Research

Economics & Strategy

Taimur Baig, Ph.D.
Chief Economist - G3 & Asia
+65 6878-9548 taimurbaig@dbs.com

Nathan Chow
Strategist - China & Hong Kong
+852 3668-5693 nathanchow@dbs.com

Joanne Goh
Regional equity strategist
+65 6878-5233 joannegohsc@dbs.com

Eugene Leow
Rates Strategist - G3 & Asia
+65 6878-2842 eugeneleow@dbs.com

Chris Leung
Economist - China & Hong Kong
+852 3668-5694 chrisleung@dbs.com

Ma Tieying
Economist - Japan, South Korea, & Taiwan
+65 6878-2408 matieying@dbs.com

Radhika Rao
Economist - Eurozone & India
+65 6878-5282 radhikarao@dbs.com

Irvin Seah
Economist - Singapore, Malaysia, & Vietnam
+65 6878-6727 irvinseah@dbs.com

Duncan Tan
FX & Rates Strategist - ASEAN
+65 6878-2140 duncantan@dbs.com

Samuel Tse
Economist - China & Hong Kong
+852 3668-5694 samueltse@dbs.com

Philip Wee
FX Strategist - G3 & Asia
+65 6878-4033 philipwee@dbs.com

Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).