

UOB Economics Projections	2007	2008	2009F	2010F
GDP	6.2	4.6	-2.2	4.9
CPI (average, y/y)	2.0	5.4	0.6	2.3
Unemployment (end-4Q)	3.0	3.1	3.3	3.1
Current account (% of GDP)	15.7	17.5	15.1	15.2
Fiscal balance (FY, % of GDP)	-3.2	-4.8	-7.4	-5.6

- *The MYR has underperformed other Asian currencies on a trade-weighted basis as it tracked the flat USD/RMB in 2009. Unless we see more actions on the RMB, we are expecting more of the same sideways move in 1Q10 in terms of the domestic currency. Our end-quarter target for USD/MYR is at 3.37.*
- *We are maintaining our expectation for BNM to begin normalising interest rates in 3Q10 (most likely on its fifth meeting on September 2). However, we have pared down our forecast for total rate hike quantum to 50bps from 75bps earlier. There are only three meetings scheduled in 2H10, the last being November 12.*
- *Without more improvement in the external demand, the GDP growth momentum is set to weaken in the next two quarters as the government stimulus effect wanes. Nonetheless, on year GDP growth is on track to turn positive in 4Q09 due to a low base. We are keeping our 2010 GDP growth forecast at 4.9%.*

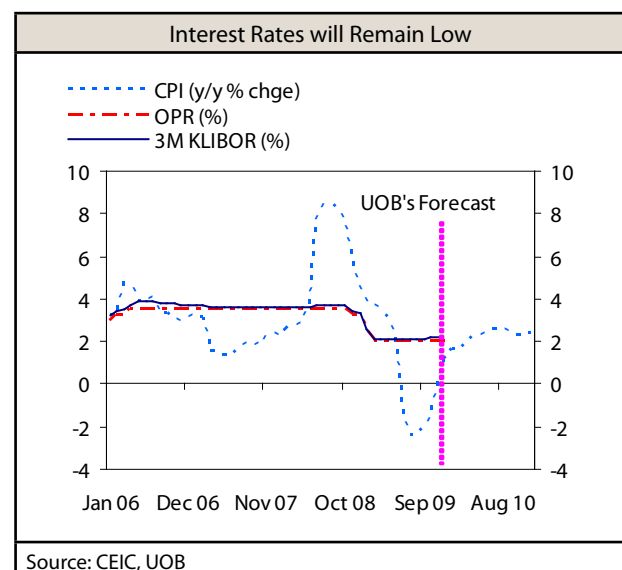
USD/MYR traded lower and stabilised largely within 3.35-3.43 in 4Q09 after much volatility in the earlier part of the year which saw the pair at a high of 3.7260. However, tracking the flat USD/RMB, MYR has lagged the sharper rebound in IDR and KRW since the beginning of the year, with YTD appreciation around 1.0% against USD. On the current account, the surplus has slipped to MYR85.4bn in the first three quarters of 2009, compared with MYR99.9bn in the same period of 2008. We expect the current account surplus to remain flat at around 15% of GDP in 2010 vs 2009, supported by some increase in palm prices which would boost the trade balance in the country. Unless we see more actions on the RMB, we are expecting more of the same sideways move in 1Q10 in terms of the domestic currency. Our end-quarter target for USD/MYR is at 3.37.

Monetary Policy: Not Much Impetus for Earlier Move

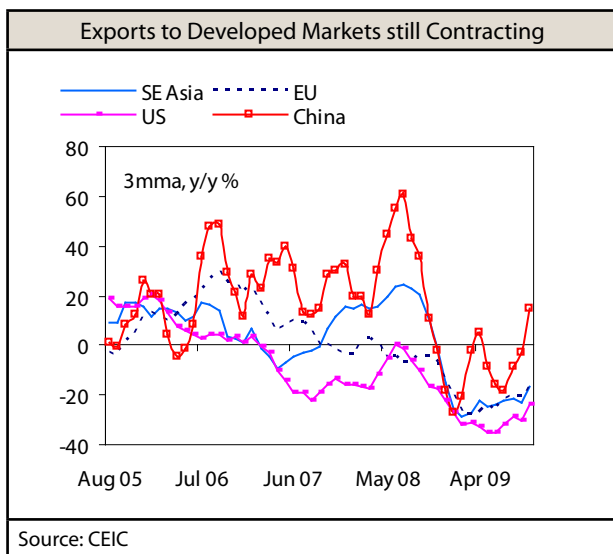
Bank Negara is expected to be a laggard in normalising interest rates among the Asian central banks as governor Zeti has repeatedly said current interest rate level is 'appropriate' while inflation risks remain manageable even as other central banks are already discussing plans for an exit from the loose monetary policy. This is partly due to more moderate asset price increase in Malaysia. The comments suggest that BNM is inclined to keep its Overnight Policy Rate (OPR) at 2.0% for most part of 2010 following the 125bps cut between November 2008 and February 2009.

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Consumer prices in Malaysia fell for the fifth straight month in October due to basis effect with full year average inflation rate expected at only 0.6%. While headline inflation rates could turn positive by the next two months,



Malaysia



prices will remain manageable in 2010 unless we see a surge in global commodities prices, which is fairly unlikely on the prospects of a modest recovery in global demand. We expect monthly inflation rate to head above the OPR by 2Q10 and full-year inflation to average 2.3% in 2010. Domestically, the movements of the gas and electricity prices will be closely watched but the government is unlikely to lower electricity prices as suggested.

Growth Momentum Strengthened Further in 3Q09

Malaysia's GDP growth contraction eased to -1.2%/y in 3Q09 from -3.9%/y in 2Q09. The strong growth momentum was sustained for two consecutive quarters as the Malaysian economy emerges out of its 'technical' recession. The main drivers in 3Q09 was consumption

with private and public spending accounting for 2.2ppt of growth in the quarter, boosted by the accelerated roll-out of the government stimulus measures. After falling for ninth consecutive quarters in 3Q09, we expect inventory building to set in as the global economy stabilises further. This should provide greater contribution to growth in the coming quarters. The drag in 3Q09 came from net exports and fixed investments. The synchronised upturn in the industrial production and exports growth into the positive territory in October signalled the brightening outlook in Malaysia. So far, the export recovery has been led by China while demand in US and EU has been anaemic. Stronger demand from the developed economies is necessary to sustain the manufacturing and export recovery in Malaysia next year. Despite that, we are likely to see stronger exports and GDP growth numbers ahead in 1H10 as a result of low basis effect.

Better-than-expected 3Q09 GDP data suggests that the full-year growth contraction could be around 2.2%. Bank Negara is keeping its forecast for GDP contraction of 3% this year. This was assuming 12.1% contraction in the manufacturing sector and growth of 2.1% in services and 3.5% in construction. Without more improvement in the external demand, the GDP growth momentum is set to weaken in the next two quarters as the government stimulus effect wanes. The Malaysian government announced a less expansionary-than-expected budget for 2010 with the budget deficit expected to narrow sharply to around 5.6% of GDP next year from an estimated 7.4% in 2009. Nonetheless, on year GDP growth is on track to turn positive in 4Q09 due to a low base. We are keeping our 2010 GDP growth forecast at 4.9%.

3Q09 GDP: Consumption was the Main Growth Driver						
	2008	4Q08	1Q09	2Q09	3Q09	3Q09
	y/y % change					Ppt Cont
GDP	4.6	0.1	-6.2	-3.9	-1.2	-1.2
Consumption	9.0	7.1	-0.2	0.6	3.3	2.2
Public	10.9	12.7	2.1	1.0	10.9	1.4
Private	8.5	5.3	-0.7	0.5	1.5	0.8
GFCF	0.8	-10.2	-10.8	-9.6	-7.9	-1.8
Change in stocks (as % of GDP)	-1.5	-0.9	-12.3	-3.5	-1.1	0.7
Net Exports	-3.5	-39.5	39.1	-0.7	-16.9	-2.3
Exports	1.3	-13.3	-15.2	-17.3	-13.4	-16.6
Imports	1.9	-10.2	-23.5	-19.7	-12.9	-14.3

Source: CEIC, UOB