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UOB Economics Projections	2007	2008	2009F	2010F
GDP	6.2	4.6	-3.0	4.9
CPI (average, y/y)	2.0	5.4	0.6	2.3
Unemployment Rate (end-4Q)	3.0	3.1	3.5	3.2
Current account (% of GDP)	15.7	17.5	15.3	13.6
Fiscal balance (% of GDP)	-3.2	-4.8	-7.6	-7.0

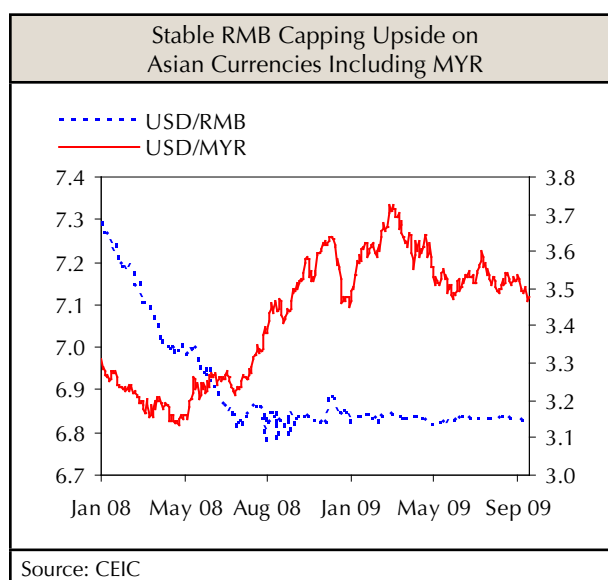
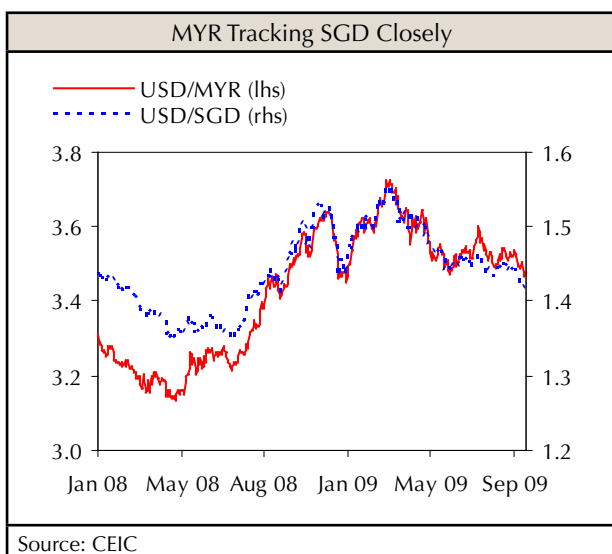
A stable USD/RMB policy and MAS expected to maintain its monetary policy in October suggest little reason for USD/MYR to trade significantly lower from here. Our year-end target for USD/MYR is at 3.46, as we factor in marginal MYR appreciation from end-2008.

We expect the BNM to start normalising interest rates only in 3Q10 in line with our Fed funds target rate forecast, delivering a total of 75bps rate increase next year to bring the OPR to 2.75% by end-2010.

Consumer prices will likely remain weak in the next couple of months before rising above 2% by the beginning of 2Q10. We have reduced our inflation forecast for this year slightly to 0.6% from 0.9% and expect prices to rise by 2.3% in 2010.

We expect the GDP to contract in 3Q before turning positive in the last quarter of the year, probably growing by slightly more than 1%. As a result of basis effect, economic growth will continue to strengthen in 1H10. We have upgraded our growth forecast for the country to -3.0% for the full-year from -4.0% previously and moved our growth forecast for 2010 to 4.9% from 4.5% previously.

USD bearish trend saw USD/MYR pulling back to the 3.46-level in September, after trading as high as 3.60 in 3Q09. Malaysia's current account surplus has remained strong in 1H09 at US\$60.2bn compared with US\$61.3bn in 1H08. Despite some narrowing in the surplus resulting from the goods account, the overall position will likely remain supportive of the MYR in 4Q09. Nonetheless, we



do not expect the MYR to outperform in trade-weighted terms especially given concerns raised over the government's large fiscal deficit in these two years. As such, a stable USD/RMB policy and MAS expected to maintain its monetary policy in October suggest little reason for USD/MYR to trade significantly lower from here. Our year-end target for USD/MYR is at 3.46, as we factor in

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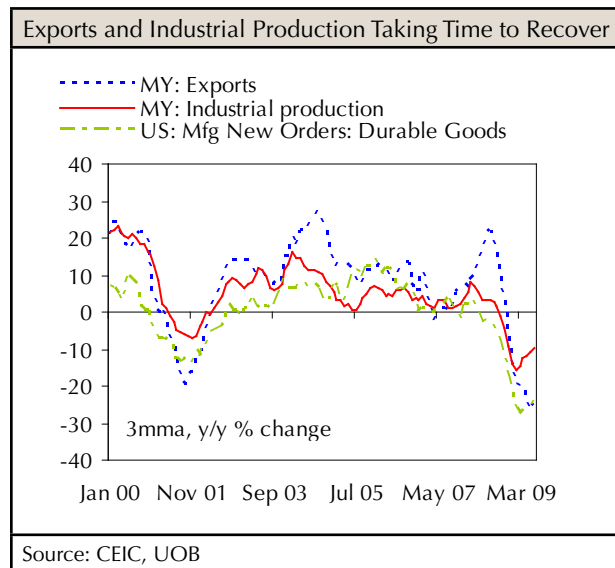
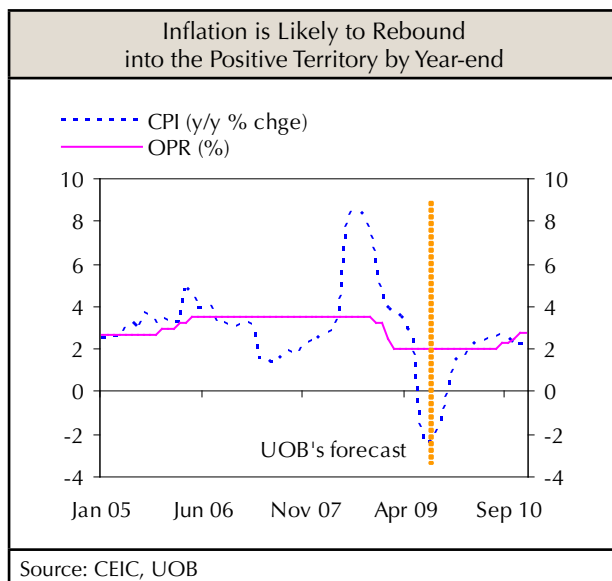
marginal MYR appreciation from end-2008.

Interest Rate: Remaining on Hold

The BNM kept its benchmark OPR unchanged at 2.0% in August for the fourth consecutive meeting and said there is increasing evidence of improvements in the global economy. Although the worst is over, the modest pace of recovery in the Malaysian economy means that the BNM is inclined to maintain its policy rate at 2.0% for the rest of this year and most part of 2010 until probably around 3Q10. There are two more meetings this year, in October and November. We expect the BNM to start normalising interest rates only in 3Q10 in line with our Fed funds target rate forecast, delivering a total of 75bps rate increase next year to bring the OPR to 2.75% by end-2010. The BNM was the most cautious central bank in Asia, having cut rates by only 150bps in the monetary easing cycle. This suggests that any move from the BNM will likely lag those by the other Asian central banks.

Consumer Prices to Remain Subdued Near-Term

Consumer prices started to fall in June 2009 with the August inflation slipping to -2.4%/y/y. Consumer prices will likely remain weak in the next couple of months before rising above 2% by the beginning of 2Q10. We have reduced our inflation forecast for this year slightly to 0.6% from 0.9% and expect prices to rise by 2.3% in 2010. With most of the key Asian economies in deflation currently, pressure to hike interest rates in Asia is likely to emerge probably some time in 2Q10 as real interest rates start to dip into the negative territory as prices rise amid a firmer growth outlook and low base effect.



Fiscal Policy to Remain Expansionary

The government's fiscal policy is likely to remain expansionary in 2010 given that the March's MYR60bn stimulus package will stretch for two years. Despite concerns over the persistent fiscal deficits since the Asian Financial Crisis (particularly given the surge in 2009), the government is unlikely to cut spending in a major way until the economy is firmly on a recovery path. Nonetheless, in the upcoming Budget 2010 scheduled for announcement on October 23, the government will likely address some measures to control expenditure and increase the revenue. There could be some focus on subsidies, particularly on fuel and food which accounted for the bulk of Malaysia's subsidy programme. Subsidies took up around a fifth of the government's total expenditure in 2008. On the revenue side, broad-based consumption tax – the Goods and Services Tax – has been much discussed as a means to boost the revenue but the timing is highly unfavourable given that the economy is only beginning to recover from the global financial crisis. Overall, we are expecting the fiscal deficit to remain high at around 7% of GDP in 2010 given the subdued oil prices – one of the key source of revenue for the government – compared with an estimated 7.6% of GDP in 2009 (highest on record).

Coming Out of "technical" Recession

Malaysia's GDP contracted by 3.9%/y/y in 2Q09, improving from 6.2% decline in 1Q09. On a q/q basis, GDP surged by 4.8% in 2Q which partially reversed the 10.9% loss in the two preceding quarters and ended the "technical" recession in Malaysia. The services and agricultural sectors outperformed our expectation but the

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manufacturing sector continued to contract at double-digit pace as external demand remained anaemic in the quarter.

With the exception of consumption, all the major segments contributed negatively to growth in 2Q. The drop in the fixed investment and stocks reflected the economic uncertainty as capacity utilisation in the country remained weak (1Q09: 59%). Fixed investment will likely remain in y/y contraction until 4Q and so far the industrial production numbers have not indicated significant inventory rebuilding despite stocks falling since 3Q07. Nonetheless, private consumption which accounts for half of the country's GDP will likely continue to improve alongside pick-up in sentiment (MIER's consumer sentiment index rose above 100 in 2Q), government's initia-

tives to stabilise the jobs market and the recovery in the assets markets.

We expect the GDP to contract in 3Q before turning positive in the last quarter of the year, probably growing by slightly more than 1%/y/y. As a result of basis effect, economic growth will continue to strengthen in 1H10. Given the better-than-expected 2Q GDP data, we have upgraded our growth forecast for the country to -3.0% for the full-year from -4.0% previously and moved our growth forecast for 2010 higher to 4.9% from 4.5% previously. The government is expected to revise up its GDP growth forecast during its 2010 Budget announcement. Its estimate of -4% to -5% for 2009 appears too bearish given that the economy contracted by a better-than-expected 5.1% in 1H09.

2Q09 GDP: Surprising on the Upside						
	2008	3Q08	4Q08	1Q09	2Q09	2Q09
	y/y % change					Ppt Cont
GDP	4.6	4.8	0.1	-6.2	-3.9	-3.9
Consumption	9.0	7.9	7.1	-0.2	0.6	0.4
Public	10.9	6.4	12.7	2.1	1.0	0.1
Private	8.5	8.2	5.3	-0.7	0.5	0.3
GFCF	0.8	3.1	-10.2	-10.8	-9.8	-2.3
Change in stocks (as % of GDP)	-1.3	-1.8	-0.9	-12.3	-3.5	-1.9
Net Exports	-3.5	-15.9	-39.5	39.1	-0.7	-0.1
Exports	1.3	4.5	-13.3	-15.2	-17.3	-21.4
Imports	1.9	7.7	-10.2	-23.5	-19.7	21.3
Source: CEIC, UOB						