

## Malaysia: Strong July trade growth, stable monetary policy

The strong trade data should be some relief for the Malaysian ringgit (MYR), which has been battered in the current emerging market currency sell-off. We continue to forecast an on-hold central bank (BNM) policy through the end of the year, but revise our end-2018 forecast of USD/MYR exchange rate to 4.25 from 4.35



Source: shutterstock

**9.4%** Export growth in July

Better than expected

### July trade beats expectations

Consistent with continued export strength observed in much of Asia despite the ongoing global trade war, Malaysia's exports held on to a strong performance in July. The local currency (MYR)-

denominated export growth of 9.4% year-on-year was a nice upside surprise given the consensus of a slowdown to 4.7% from 7.6% in June. Electronics exports (semiconductors surged 72%!) were standouts, while commodities exports contracted for the second consecutive month.

July import growth slowed to 10.3% YoY from 14.9% in June but was still ahead of the consensus forecast of 5.3%. This resulted in a wider trade surplus of MYR 8.3 billion from MYR 6 billion in June, taking the year-to-date surplus to MYR 69 billion, or MYR 19 billion wider on the year.

For a regional comparison, the 18.7% YoY USD-denominated growth in Malaysian exports in the first seven months of this year was the fastest in the region. The credit goes to the positive terms of trade from higher global oil prices, although this support has started to fade in recent months.

**3.25%** BNM policy rate  
No change

## BNM signal a downside growth bias

The Bank Negara Malaysia (BNM) also concluded its two-day monetary policy meeting today, leaving the policy rate unchanged at 3.25% as widely expected. However, the policy statement noted increased downside to growth due to domestic policy uncertainty as “the Government embarks on prioritisation of expenditure”, which was a marked shift from the July statement claiming greater policy certainty. Among other risks cited were trade tensions and weakness in the mining and manufacturing sectors. The statement showed no concern about inflation until the end of 2019.

Another contrast with the July statement was the removal of the reference to the MYR exchange rate to be “more reflective of the underlying fundamentals of the economy when the external and domestic uncertainties recede”. This possibly signals the BNM accommodating the MYR depreciation pressure in the ongoing emerging market sell-off.

### What all this means for the Malaysian ringgit?

The MYR's 1% depreciation against the US dollar this week shifted this currency from an Asian outperformer to underperformer. However, unlike other underperforming Asian currencies (Indian rupee, Indonesian rupiah or Philippine peso), the MYR enjoys a better external payments support with widening trade and current account surpluses. The trade data clearly underpins this view, obviating any need for a policy response to support the currency.

We continue to forecast no change to the BNM policy rate of 3.25% in the remainder of the end of the year. We expect the MYR to reacquire its status as an Asian outperformer once the ongoing uncertainty from the US-China trade war and the US dollar strength lifts. But for now, we see the USD/MYR rate going up to 4.25 by end-2018, a lesser depreciation than our previous forecast of 4.35 (spot rate 4.15).

