

Malaysian central bank's upbeat economic outlook

An intensified global trade war will be the main risk to the official optimism on trade and GDP growth this year



Source: Shutterstock

5.5-6%

GDP growth forecast for 2018

BNM Central Bank of Malaysia

Another year of strong GDP growth

Malaysia's trade data for February due on 5 April will be an early indication of risk to the central bank's (Bank Negara Malaysia) projections of sustained improvement in exports supporting GDP growth in 2018. In its annual report released last week, BNM projected GDP growth this year of between 5.5% and 6%. The projection of a second consecutive year of strong GDP growth rests on expectations of better trade performance and sustained strong domestic demand. The economy grew by 5.9% in 2017 on the back of a 19% year-on-year surge in exports even though net exports were a small drag on GDP growth in the last year.

Expectations of February trade data

We are in line with consensus in forecasting an 8% YoY export growth in February but above-consensus on imports with our 11% forecast, for which consensus is 9.7%. At these export and import growth rates, the trade surplus narrows to MYR 7.5bn from MYR 9.7bn in January. However, February data should be read together with January's to remove the Lunar New Year distortion. This implies a slowdown in January-February export growth to about 13% YoY from 20% a year ago. The corresponding figures for imports will be 11% and 22%.

27%

Oil price inflation in March

Year-on-year average

Strong commodity and electronics exports

A sharp slowdown in trade growth coming into 2018 is the result of the high base effect. However, the commodity-dominance of Malaysia's trade cannot be ignored given the rising commodity price trend that's likely to prevail this year (see chart). Add to this continued strong global demand for electronics products. That leaves an intensified global trade war as the main risk to the official optimism on trade and GDP growth this year, though an election spending boost to domestic demand should still offset the impact of any weakness on the external front.

Policy implications

We expect GDP growth in 2018 to be close to the low end of BNM's 5.5-6% forecast range. Following its developed market counterparts, BNM started normalization of monetary policy in January with a 25bp hike in the overnight policy rate to 3.25%. We reiterate our forecast of one more 25bp hike in the third quarter, once the political uncertainty lifts, and our forecast of the Malaysian ringgit remaining among Asia's top performing currencies this year.

Oil price inflation vs. trade growth

