

## Malaysia activity data point to 4Q17 GDP slowdown

We reiterate our forecasts of Bank Negara Malaysia beginning its tightening cycle in the first quarter of 2018



Source: istock

**3.4%** October IP growth

Worse than expected

### Strong exports but weak manufacturing in October

Malaysia industrial production grew by 3.4% YoY in October, slower than 4.1% consensus and down from 4.7% in September. The slowest reading in more than a year is at odds with exports showing 19% YoY growth in October.

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*2017 the best year for growth since 2010*

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Strong exports and domestic spending supported manufacturing and GDP growth in 2017, making it the best year for growth since 2010. GDP growth accelerated to a three-year high of 6.2% YoY in the third quarter. Weak IP growth in October is a prelude to GDP slowdown in the final quarter of the year, although strong export growth suggest otherwise. We forecast 5.5% GDP growth in the fourth quarter, yielding full-year 2017 growth of 5.8%.

## Positive IMF assessment of the Malaysian economy

Yesterday the International Monetary Fund (IMF) concluded its Article IV Consultation on Malaysia in which the Fund assessed the near-term risks to the economy as balanced, with sustained strong global electronics demand imparting upside risk and policy uncertainty in advanced economies and tighter financial conditions on the downside. The report also advised readiness for monetary tightening on signs of any overheating pressures. The IMF forecasts a moderation in Malaysia's GDP growth from 5.5-6.0% in 2017 to 5.0-5.5% in 2018 (INGF: 5.3% for 2018).

**7%** ING forecast of MYR appreciation in 2018

## Expect BNM to begin tightening in 1Q18

We reiterate our forecast of Bank Negara Malaysia beginning its tightening cycle in the first quarter of 2018, with a 25bp hike in the overnight policy rate to 3.25%.

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*Monetary tightening will be positive for the MYR*

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The Malaysian ringgit is one of three best performing Asian currencies this year with 10% year-to-date appreciation against the US dollar (Korean won and Thai baht are other two with about 10% appreciation). We expect BNM monetary tightening to sustain the MYR outperformance into 2018, with our forecast of another 7% appreciation against the US dollar to 3.80 by the end of next year.