

Malaysia GDP reaches three-year high

On the back of today's strong GDP numbers, we think Bank Negara Malaysia will now hike in 1Q18 rather than 3Q18



Source: shutterstock

6.2% 3Q17 GDP growth
(year-on-year)

Better than expected

GDP growth accelerated to a three-year high of 6.2% year-on-year in 3Q17 from 5.8% in the second quarter. ING forecast and consensus was 5.7%.

Strong domestic demand led by private consumption continued to support GDP growth. Manufacturing was the industry-side driver. This data lifts our full-year 2017 growth forecast to 5.7% from 5.6%, putting it at the top end of the official forecast range of 5.2 - 5.7 with consensus at 5.2%.

Can this be sustained?

Accommodative financial policies will sustain the economy on a strong growth path in 2018, though high base effects are likely to result in some moderation in growth.

We forecast 5.3% GDP growth in 2018 while consensus is 4.8%. We believe the balance of economic risks has shifted from growth to inflation. Inflation re-accelerated above 4% in September and we expect it to remain there in October, for which data will be released on November 22. With recent floods in some parts of the country adding food price pressure and rising global oil prices doing the same to domestic fuel prices, inflation is likely to overshoot Bank Negara Malaysia's (BNM) 3-4% target in 2017.

What does this mean for the Bank Negara Malaysia and MYR?

We saw hints of an early policy rate hike in the latest central bank MPC statement and following today's strong GDP report we are revising our forecast timing of the first BNM rate hike to 1Q18 from 3Q18. This macro policy mix – tighter monetary policy and easier fiscal policy – is bullish for the MYR. We remain of the view that MYR will be one of Asia's top performing currencies in 2018. We are reviewing our end-2018 USD/MYR forecast of 4.00 for downward revision (spot 4.16, cons: 4.10).

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