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Snap

Malaysia - Manufacturing slowed toward end-2017

We reiterate our forecast of normalization of BNM policy with two 25bp rate hikes in 2018 and our view of the MYR remaining among Asian top performers this year

Above-expected November manufacturing

Malaysia's industrial production surprised on the upside in November with 5% year-on-year growth against the consensus expectation for growth of 4.6%. Acceleration from 3.4% October growth happened despite a slowdown in export growth over the same months (14.4% from 18.7%).

5.5% ING's GDP growth forecast for Malaysia in 4Q17

What does this mean for 4Q17 GDP growth?

After a strong run in the first three quarters of 2017 the export-led manufacturing recovery appears to have taken a breather in the final quarter of the year. Average October-November IP growth of 4.2% YoY was a slowdown from 5.9% growth in the third quarter. The corresponding figures for export growth are 16.5% and 22.1%. The activity data supports our forecast of a slower 4Q17 GDP growth rate of 5.5% YoY compared to 6.2% in the previous quarter. That was the fastest pace of growth in three years. Our full-year 2017 growth forecast is 5.8%.

Policy implications

Strong GDP growth has put upwards pressure on inflation and this has prepared markets for Bank Negara Malaysia monetary policy normalization earlier than most other Asian central banks. We forecast two 25bp BNM rate hikes in the first and third quarters of 2018, taking the overnight policy rate to 3.50%. The Malaysian ringgit's 11% appreciation in 2017 was the second-best among Asian currencies. The tighter BNM policy bias will likely sustain the MYR outperformance in 2018. Our end-2018 USD/MYR forecast is 3.80 (consensus 3.95).

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