MEDIA STATEMENT
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Demystifying the Top Market Concerns of 2016

Kuala Lumpur, 22 January 2016 – Looking back, 2015 has been truly an eventful year, with the plunge in crude oil prices, currency volatility in both major currencies and emerging markets, as well as the Fed's historic lift-off in December.

So far in 2016, these factors continue to be at play and remain areas of concern for investors and businesses across the world, including in Asia. From what we can see, oil price will continue to be volatile for a while more. As OPEC appears to have relinquished its role as an automatic stabiliser – for cutting supply when there is a global oil glut – oil price is likely to remain in the doldrums in the near term. Apart from the concern about over-supply, renewed murmurs of concerns about global growth have also added to worries that there will be less demand for oil to power the world economy as well.

Outside of oil, China is another important factor that has weighed on market sentiment since the start of 2016. With all the excitement surrounding China's stock market rollercoaster ride and also its daily currency fixings against the USD at 9.15am, it is easy to get carried away and forget all about the fact that China continues to be well on the path of economic reform. From interest rate liberalization to removal of the decades-old One Child Policy, we think that China's leadership will continue to place tremendous focus on rebalancing the economy away from one that is investment-led to one with a bigger role by domestic consumption. To be sure, in the near term, we will continue to see market volatility that is coupled with slower growth in China, but these are short-term pains that are worth it at the end of the day because it puts the economy on a more even keel.

Elsewhere, we continue to see fairly respectable growth prospects in the US economy. While there may be some impact from a stronger US dollar and weaker global demand in the near term, the domestic engines appear to be resilient enough. All in all, we think that the condition in the US economy is such that the Federal Reserve will remain careful and extremely dependent on data in judging how quickly it should raise interest rates.

Meanwhile, turning our attention to the outlook for the Malaysian economy in 2016, we see a good chance that things would at least stabilise, even if there is always the risk that the same factors which plagued the economy in 2015 may well rear their ugly heads again.

In terms of headline growth, Malaysia will likely be printing a growth rate of 4.7% y-o-y in 2016. That is broadly in line with what the economy is on course to achieving in 2015, which is a growth rate of 4.8%. This ‘sameness’ could be seen as a source of comfort in and of its own, but it should be noted here that it is predicated on a number of factors going right for Malaysia – none more important than the price of oil.

Malaysia’s dependence on oil-related revenues to fund its fiscal expenses will continue to come under pressure, with the government already announcing a plan to further cut its expenditure as the slump in oil prices look more protracted than expected earlier.

Outside of oil, two global factors which have negatively affected Malaysia are uncertainties about China’s growth and its policy responses, and the Fed rate path. While both factors may seem less acute this year, they are nonetheless going to be high on the watch-list of investors who look at Malaysia.

On China, a growth stabilisation would be much welcomed, given that China is the top end-destination for its exports. However, the relatively capricious policy responses that China had pursued in 2015 meant that there is a risk, however slight, of more shocks of the same nature this year. In that regard, any currency depreciation move by China – however low the probability is – would be one of those factors that would hit Malaysia significantly.

Similarly, while the Fed’s lift-off had taken place in December 2015 without too much disturbance, there is still the rest of the rate hike trajectory to go through. Given the high foreign ownership of Malaysia’s sovereign bonds, any upsetting of global market sentiment is still going to affect the country adversely.

Meanwhile, in terms of monetary policy direction, we expect Bank Negara to remain an anchor of stability and leave its policy rate unchanged at 3.25% for the rest of the year. Even though the urge to cut the rate to bolster growth is always there, we believe the priority for the central bank will remain that of stability. If nothing else, it would want to preserve as much room for manoeuvre as possible. Should growth threaten to go below the 4-5% range that it has projected for 2016, there is every chance that it will start to nudge rates lower. Barring that, however, it would rather sit tight at the current level for a while more.

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