MEDIA RELEASE

Economic Outlook
by Ms Selena Ling, Economist, OCBC Ltd
14 May 2010

Penang, 14 May 2010 – Global economic activity has continued to improve in early 2010 and risks of a double-dip recession have clearly faded. A more positive assessment of the US economy, coupled with further improvement seen across Emerging Markets, especially in Asia, has led to growth forecast upgrades in both private and public sectors globally. US-China trade tensions have also abated somewhat. However, the recent intensification of the sovereign debt crisis in the peripheral European economies, namely PIIGS (Portugal, Italy, Ireland, Greece, and Spain), had contributed to global market contagion, and serves as a timely reminder that tail risks still remain. The deleveraging risks are perceived to have shifted somewhat from the institutional level to the sovereign level in the wake of the global financial and economic crisis of 2008-2009 where governments intervened and provided significant support to their domestic economies. Even after this week's announcement of the €500bn rescue package prepared by the EU and ECB, coupled with an additional €250bn standby fund from the IMF, helped stave off an imminent liquidity crunch for Greece and the other vulnerable PIIGS, dark clouds remain over their medium-term fiscal consolidation trajectory and depressed growth prospects for the Eurozone economy as a whole.


Ms Selena Ling, Economist, OCBC Ltd

Beyond the short-term market volatility, we believe that medium-term economic fundamentals remain attractive for Asia. Q1 GDP growth cues have been generally stronger than expected for many Asian economies such as China, India, Singapore, and Hong Kong, buoyed by both continued external demand recovery and domestic demand resilience. As the global demand outlook improves, this has help to lift the sails of the more trade-dependent economies, including Singapore and Malaysia. Nevertheless, market players remain cognisant of the risk of aggressive monetary policy tightening to tackle the overheating Chinese economy, which could in turn slow China and hence Asian growth. To-date there have been three reserve requirement ratio hikes this year and selected strong measures to curb property speculation and excessive loans growth in China, but nothing interpreted as destabilising - China is forecast to achieve very healthy GDP growth for this year (+9.8% yoy). Across Asia, the gradual normalisation of monetary policy and the fiscal stimulus withdrawal is also expected to proceed in the second half of this year, notwithstanding recent European debt uncertainties. Singapore, for instance, has re-centered and shifted the slope of its SGD NEER (Nominal Effective Exchange Rate) to a gradual and modest appreciation bias in April.

The Malaysian economy is expected to rebound strongly in 2010, driven by the robust recovery in export growth and a pick-up in domestic demand. The government has suggested that growth would exceed 5% this year and might even hit 6-7%, while Bank Negara Malaysia (BNM) is also expected to revise its current 4.5-5.5% growth forecast upwards in June. Exports are now growing at their fastest pace since 1998, and exports of major commodities have almost returned to the levels seen before the collapse of global demand at the end of 2008. Anticipation of a further rise in commodity prices would continue to benefit Malaysia, as export earnings from the likes of oil & gas and palm oil are likely to surge even higher going into the remainder of the year. At the same time, private consumption has sustained the improvement seen towards the end of last year, while the stronger Ringgit and a better global growth outlook may spur a double-digit expansion in private investment. We have revised upwards our 2010 GDP growth forecast for Malaysia to 6.7% on-year, up from our previous forecast of 5.4%, and versus the 1.7% contraction seen in 2009. Nevertheless, inflation should remain modest around 2.6% on-year in 2010 given that both the fuel price subsidy cut and the GST implementation have been postponed for now. The labour market should also continue to improve, with the unemployment rate expected to improve to around 3.3% at the end of the year.

BNM is expected to further normalise its interest rate after kicking-off its rate hiking cycle back on March 3, 2010. Against the backdrop of a benign inflationary environment, this rate hike cycle is aimed at normalising monetary conditions and preventing imbalances in the financial markets rather than an outright monetary tightening per se. Ringgit liquidity conditions remain ample, and the stronger-than-expected economic recovery should provide sufficient headroom for BNM to proceed with further rate hikes. We expect the overnight policy rate (OPR) to reach 2.75% by end-2010, and probably return to its pre-crisis level of 3.5% only further down the road.

Looking ahead, any structural/fundamental fiscal reform that may be adopted and implemented in June under the “New Economic Model” is eagerly awaited. Any foreign investment-friendly incentives, especially for high-technology industries, could aid government efforts to woo potential investors. These potential measures, coupled with the healthy rebound in the economy, should help improve the 2010 budget deficit to around 3.5-5.5% of GDP for this year, and help to mitigate any lingering concerns about Malaysia’s budgetary health.

About OCBC Bank

OCBC Bank, established in 1912, is the second largest financial services group in Southeast Asia by assets. It is among the world's highest rated banks, with a long term credit rating of Aa1 from Moody's. OCBC Bank and its subsidiaries offer a broad array of specialist financial services, ranging from consumer, corporate, investment, private and transaction banking to treasury, insurance, asset management and stockbroking services.

OCBC Bank’s key markets are Singapore, Malaysia, Indonesia and Greater China. It has a network of more than 500 branches and representative offices in 15 countries and territories, including 382 branches and offices in Indonesia operated by its subsidiary, Bank OCBC NISP.

OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the largest insurance group in Singapore and Malaysia by assets, and its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia.

OCBC Bank offers Islamic banking products and services in Malaysia through its wholly-owned subsidiary, OCBC Al-Amin Bank Berhad.

For more information, please visit www.ocbc.com.my