MEDIA STATEMENT
BY GUNDY CAHYADI, ECONOMIST, OCBC BANK

H2 Outlook: Investment Growth is Still the Key


OCBC Bank economist Mr Gundy Cahyadi

Kuala Lumpur, 6 July 2011 – Signs that Malaysia's export growth has moderated again in Q2 have led to some concerns regarding Malaysia's growth momentum going forward. This is despite the fact that private consumption growth has accelerated in Q1 after the rather sluggish performance in H2 2010. For the most part, the moderation in export growth should be hardly surprising given that the global economy is in a soft patch for the best part of Q2. Upon a closer look though, it should be noted that while export of electronics and electrical products (E&E) have recovered back near the pre-crisis level, Malaysia has largely benefitted from the surge in global commodity prices in the early part of this year. We remain of the view that Malaysia is likely to chalk a 5.7% yoy expansion for the year but meeting the 6% target (under the ETP - Economic Transformation Program) maybe a bit of a stretch.

Certainly, there is little doubt that export growth has continued to shoulder the economy in H1 and as we have mentioned previously, the nominal values of Malaysia's main export components (namely E&E, oil&gas and palm oil) have rebounded back to the pre-crisis level.

Yet, volumes of both palm oil and oil&gas exports have remained relatively flat since late 2008, indicating that the robust growth especially seen in Q1 has been almost solely driven by higher prices alone. On this front, the recent downtrend in global commodity prices is disheartening. Concerns over the state of the global economy, risks of excessive supply in some base metals, and recent actions by the Saudi government and the IEA to increase crude oil supply have all led to a sharp unwinding of net long positions of global commodities. Should there be further selloff in global commodities, we see risks of Malaysia's overall growth slipping to the low 5% levels in H2, down from our current estimate for Q2 GDP growth at 5.6% yoy. Given our view that the global economy will regain its momentum in H2, a deep slump in commodity prices is not within our baseline scenario. Nonetheless, we are unlikely to see excessive, and perhaps speculative, positions that will boost commodity prices at the kind of pace seen earlier this year.

In any case, it is crucial that we see domestic consumption growth continuing to gain traction in H2. Domestic consumption growth is likely to sustain its support to the overall economy, especially having benefited not only from improved export earnings but also currency and stock market gains throughout H1. Recent import data still shows an upward trend in consumption goods purchase and this typically indicates that private consumption growth will remain supported going forward. Other encouraging signs include manufacturing sales growth and payroll in the manufacturing sector, both of which has inched up rather steadily in recent months.

On the investment front, progress on the ETP is worthy to monitor and definitely put a positive twist on Malaysia’s longer-term growth outlook. Some of the bigger projects are important to note. Petronas is currently at the detailed feasibility study stage of spearheading Project RAPID (Refinery and Petrochemical Integrated Development), estimated at MYR60 billion, which will include a major downstream oil, gas and petrochemical project. Still in the oil&gas sector, Exxon Mobil has recently announced its plan to invest up MYR10 billion to rejuvenate mature facilities and undertake enhanced oil recovery activities in offshore Peninsular Malaysia, expected to start in 2013. Nevertheless, it should be noted that most of these projects tend to be still in the planning stage, and that the amount of investment in the near-term is still likely to be limited. For the near-term perspective then, we are less bullish, especially noting that imports of capital goods have somewhat stalled at around the 6-9% yoy in H1, unlikely to lead private investment growth returning to the double-digit territory, which is essential for the government’s medium-term growth target. Additionally, growth of loans for working capital has also continued to be lackluster, presumably suggesting that most businesses still prefer to be on the cautious side. Private investment growth is the key for Malaysia to build its momentum for the next 5 years or so, and without a stronger rebound in H2, we are unlikely to see GDP growth soaring above 6% yoy for 2011.

From the policy perspective, while the government prefers to continue with its fiscal consolidation phase, recent attempt to reduce fuel subsidies has so far failed to materialise, and thus, it is unlikely that we are going to see the government reducing its budgeted spending at this juncture. We maintain our budget deficit estimate at 5.7% of GDP for 2011. Meanwhile, we think that the

BNM is very close to the end of its monetary tightening phase, especially given the fact that we are seeing the recent upward inflation trend to peak in early-Q3. With softening commodity prices (including food), we don't expect a steep acceleration in inflation for the best part of Q3, with a good chance of some easing towards the year-end. We maintain our 2011 average inflation forecast at 3.3% and expect the BNM to leave the OPR at 3.25% by the year-end.

Overall, we look for H2 2011 to be an important barometer of the strength in the domestic economy. Development in the global economy will continue to affect the recovery in Malaysia, given that external demand has remained as an important component in Malaysia's current growth momentum. Support from private consumption growth, however, is likely to continue shouldering the economy in 2011, with a modest 5.7% yoy expansion still in the offing.

About OCBC Bank

OCBC Bank is the longest established Singapore bank, formed in 1932 from the merger of three local banks, the oldest of which was founded in 1912. It is now the second largest financial services group in Southeast Asia by assets and one of the world's most highly-rated banks, with an Aa1 rating from Moody's. It is also ranked by Bloomberg Markets as the world's strongest bank.

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 over 500 branches and representative offices in 15 countries and territories, including more than 400 branches and offices in Indonesia that are 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. Its asset management subsidiary, Lion Global Investors, is one of the largest private sector asset management companies in Southeast Asia. Private banking services are provided by subsidiary Bank of Singapore, which has been ranked among the top five global private banks in 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