MEDIA STATEMENT
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Kuala Lumpur, 7 February 2017 – This time last year, we would have talked about the mischievous and unpredictable nature of the Monkey. True to its nature, what a tumultuous year 2016 turned out to be!

Surprises in the global scene have had an adverse impact on Asia and presented businesses in the region with a challenging operating environment. To recap, through 2016, we experienced two major global political events: Brexit and the election of Donald Trump, both of which were unexpected.


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On his campaign trail, President Donald Trump presented a protectionist, America-first platform. It remains to be seen if he will fully act on his unorthodox campaign promises, although early signs suggest that he may be more of a man of his word than global markets realise. Across the Atlantic, a vote for Brexit in the middle of 2016 also represented the disdain for the global system by a significant portion of the UK's population.

These political developments appear to reflect a rejection by the US and UK voters of an open, integrated global economy, in favour of a more inward-looking stance. The implication of this shift on the economic scene has been well discussed. Protectionism seems to be in vogue again, and deepening trade ties can no longer be taken for granted.

Indeed, the Trans-Pacific Partnership (TPP) may well have been the first victim of this shift. The impact on the traditionally export-driven Asian economies cannot be understated. Therefore, the pressure is on for such Asian economies to undertake structural reforms, find new sources of growth and reinvent themselves. In this context, finding common ground and exploring new avenues for closer economic cooperation, such as the formation of Regional Comprehensive Economic Partnership (RCEP), have become even more important for ASEAN economies and their regional partners as well.

Given this global backdrop, as we look forward into the New Year of the Rooster and hopeful that it will be a much less mischievous year, it is most likely that policymakers in the region will remain prudent and vigilant for sources of uncertainty.

For one, political uncertainties remain a bugbear for global sentiment. As and when the UK triggers the Article 50, the form of its exit negotiations with the European Union will remain a considerable uncertainty. Furthermore, we will see elections in the Netherlands, France and Germany. The risk of anti-establishment and populist parties winning, and changing the face of the European Union, cannot be discounted. On top of that, we would of course have to watch developments in the US closely, especially as the new administration appears partial to protectionist trade policies.

Furthermore, we may now need to contend with reflationary concerns after years of disinflation. This gives rise to a new playbook. This playbook includes the possibility of a hawkish Fed implementing a faster pace of rate hikes, a stronger US Dollar and a steeper and higher US yield curve. The relative attractiveness of holding USD-denominated assets has increased under this new environment. Thus, the search-for-yield theme that resulted in Asia receiving significant capital inflows over the last few years may have run its course. How Asian economies cope with this new set of rules will be closely watched.

Within Asia, China remains a key area of market focus. While growth has thankfully stabilised in recent months, we are still likely to see some form of slowdown in the coming years. Fundamentally, we should remember that the Chinese economy is undergoing a challenging process of restructuring away from the traditional growth drivers in manufacturing and industry, to focus on services and domestic consumption. As long as this transition is not complete, we will potentially see slower growth in China and that is not necessarily a bad thing from a sustainability perspective.

On a more positive note, crude oil price has finally arrested its free-fall, and is moving towards gradual rebalancing following the OPEC production cuts. Other commodity prices have also moved higher in tandem. This should provide added stability for Asia.

In Malaysia, for instance, the recovering commodity prices have been offering the economy some support. It also occurs at a time when domestic consumption has stayed encouragingly robust due to helpful employment and wage trajectories. On the external front, we have also seen an uptick in export numbers that are helped by the commodity rebound as well as a pick-up in electronics exports.

Taking all these factors together, it is fair to say that as much as we are unlikely to put elements of global uncertainties behind us, we should also take heart that there are enough pockets of strength in the fundamentals of domestic economies in the region – including that of Malaysia – for us to be hopeful of a peaceful year ahead.

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