OCBC Bank

# MEDIA RELEASE

## ECONOMIC OUTLOOK 2012:
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*Global economy may remain soft into next year*

Kuala Lumpur, 31 October 2011 - Signs of further moderation in the global economy have been dominant since the middle of the year and various indications are pointing towards an extension of the soft patch into 2012. The slide in the OECD leading indicator, declining global manufacturing PMIs, and a marked fall in commodity prices paints a gloomy outlook as we approach the year-end. The US economy remains mired in a low employment growth situation despite the various monetary and fiscal stimuli implemented by the authorities. Even the latest “Operation Twist” is unlikely to lift the economy in the near-term, especially with de-leveraging still apparent in the private sector. In the Eurozone, the lingering threat from the sovereign debt crisis and its implications on the stability of the European financial system has led investors to be completely glued to the daily development stemming out of the Eurozone. The absence of a quick-fix has made it unlikely to see a swift turnaround in the global economy.

The IMF has downgraded its global economic growth forecast (including for Asia) for 2011 and 2012, and indicated plenty of downside risks going forward. Asian central banks, including the BNM, have also adopted a less hawkish tone in their growth assessment going forward. Asia will not escape the global slowdown story and, indeed, the large selloff witnessed in regional bourses in September is a timely reminder that Asia has not decoupled from the developed economies. An extended global soft patch would directly hit the more export-oriented economies in the region, and the usual suspects include the likes of Hong Kong, Singapore, Taiwan, Malaysia and South Korea. Yet, it is important to note that even the likes of China, India and Indonesia are also vulnerable to a protracted slowdown in the EU. As it is, we have seen signs of a moderation in the Chinese growth story, although we remain optimistic that China will avoid a hard landing, sustaining at least a 7% yoy GDP growth in the next several years.

For Malaysia, given that export growth is likely to remain weak into the year-end and that there have been signs of further moderation in domestic demand, we have now revised down our 2011 GDP forecast for Malaysia from 5.8% to 4.7% yoy, and see risks for it to slide to as low as 3.8% yoy in 2012, which is well below the 5-6% official growth forecast. Export growth came in higher than expected at 10.9% yoy in August, held up by commodity exports. We, however, do not see this as a reversal of trend, especially with imports of intermediate goods clearly tilted towards the downside. Meanwhile, on the local front, credit growth has eased off in the past couple of months, while the employment situation has also deteriorated. Clearly, the moderation in export earnings has weighed on Malaysia’s domestic demand.

The one-two punch from rising market risks and a weakening global growth momentum has triggered a massive safe haven yield that benefitted, almost solely, the USD. While there has been a string of better-than-expected data from the US, markets are still pre-occupied with the Eurozone situation and thus remains very much sensitive to development on this end. Asian currencies could not escape the slaughter seen in September and with most Asian central banks having shifted their bias towards an accommodative monetary policy, we expect little interim support to their respective currencies from the rate differential front. We refrain from being aggressively short USD-Asia at this juncture with Asian currencies remaining particularly sensitive to any unraveling of risk appetite. In our read, Asia’s fundamentals remain relatively sound beyond the intermediate future and thus any potential of a perceived solution in the Eurozone will trigger a reversal back to the underlying weak USD story.

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