Malaysia 3Q23 & 2H23 Economic Outlook

Slower domestic growth on high base effect and rising external risks

SUMMARY

- Global growth is expected to moderate from 3Q23 onwards as cumulative rate hikes among advanced economies are anticipated to weigh on domestic demand. However, China's economic recovery, and growth from other emerging economies will likely lend some support to the global growth outlook.

- In 2H23, price pressures may continue to ease due to a slowdown in global economic activity, improvements in global supply chains, declining commodity prices and tighter financial conditions.

- The US Federal Reserve (Fed) is expected to keep rates unchanged for the remainder of the year, despite recent hawkish rhetoric. Rate cuts are anticipated to commence in 1Q24. Meanwhile, the Bank of England (BoE) and European Central Bank (ECB) are likely to continue raising rates aggressively due to persistently high inflation. The Bank of Japan (BoJ) may soon adjust its yield curve control, while the People's Bank of China (PBoC) is expected to further cut key interest rates to boost China's struggling economic recovery.

- The projected 10Y US Treasury (UST) yield is expected to remain elevated until the next US Federal Open Market Committee (FOMC) meeting. Following that, a sharp decline in yields is expected as the Fed advances towards rate cuts amid a possible mild recession in the US. We anticipate the 10Y UST yield to reach 3.25% by the end of 2023.

- Our Brent crude oil forecast remains unchanged at USD80.0/barrel (bbl) for 2023 (2022: USD99.0/bbl) as we expect OPEC+ output restraint until 2024, along with a gradual recovery in China's economy and the resumption of international tourism, would provide support to oil prices despite heightened downside risks.

- Malaysia's economic growth is projected to slow to 3.4% in 3Q23 (2Q23F: 6.0%) due to the diminishing lower base effect and expectations of a global economic slowdown that will weigh on the commodity and manufacturing export-oriented sectors. However, we maintain the GDP growth forecast for 2023 at 4.7% (2022: 8.7%) as domestic demand is expected to remain resilient thanks to the higher minimum wage, a lower unemployment rate, and continued government fiscal support measures.

- Headline CPI is expected to gradually decrease to 2.3% - 2.7% in 3Q23, influenced by domestic measures, external factors and a favourable base effect. However, potential upside risks such as the extreme weather conditions and increased inbound tourism activity, leading to a sustainable domestic demand growth, could push prices upwards. Nonetheless, the inflation rate is expected to continue trending lower and average around 2.9% in 2023.

- Due to the domestic disinflationary forces and elevated macro uncertainty, it is anticipated that Bank Negara Malaysia (BNM) will maintain the overnight policy rate (OPR) at its current level of 3.00% for the rest of the year.

- We have revised our end-3Q23 and end-2023 USDMYR forecasts to 4.51 (from 4.27) and 4.29 (from 4.11), respectively. However, our bullish case for the ringgit remains intact, as we anticipate a potential pick-up in China's economy and a dovish pivot by the Fed, coupled with favourable domestic factors, which may support the local currency.

- Domestic bonds are expected to remain relatively resilient, driven by strong foreign demand towards the end of the year, particularly as we anticipate BNM to have concluded its tightening cycle. We expect the 10Y Malaysian Government Securities (MGS) yield to settle at 3.60% by end of 2023.

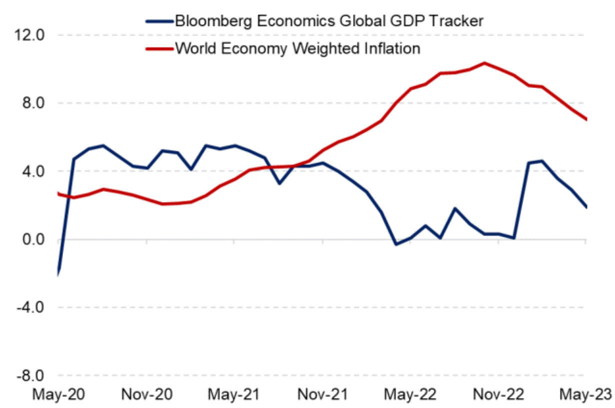
Global Macro Outlook – 3Q23 & 2H23

- **Global central banks in advanced economies are persistently raising interest rates in a mission to tame inflation. However, this poses a potential threat to global growth recovery and raises the risk of a recession.**

  - **Growth:** The global economy is facing an increasingly imminent slowdown, as China's recovery momentum slows.

    - The global economy has displayed greater resilience in the first half of 2023, surpassing expectations. The World Bank recently revised up its global growth forecast to 2.1% from 1.7% (2022: 3.1%). This positive adjustment primarily reflects the anticipated resilience of the US and European economies, despite concerns over the impact of higher interest rates and banking crisis to the economy.

Graph 1: Global Indicators



Source: Bloomberg, Kenanga Research

    - As economies reopen and transition to the endemic phase, the unemployment rate has continued to decline in both advanced and developing countries. Notably, the US unexpectedly experienced substantial job growth in May, with employers adding 339,000 workers - far surpassing consensus estimates - despite the Fed's multiple interest rate hikes, which have brought the Fed funds rate (FFR) to 5.25%.

    - Although there has been some improvement in the supply chain, persistent high demand resulting from previous pandemic support measures, coupled with improving employment and wage growth, have exerted pressure on prices. Additionally, the ongoing Russia-Ukraine war and the uncertainty state of US-China relations have added further strain to the situation.

    - However, the resiliency of the global economy seems to vary across different regions. China, for instance, experienced an unexpected weakening in its growth recovery. This is evident from the official Manufacturing PMI in June, which stood at 49.0 (May: 48.8), remaining below the neutral level of 50.0, signalling continued weakening of factory activity. In addition, retail sales moderated to 12.7% in May (Apr: 18.4%), while youth unemployment reached another record high of 20.8% (Apr: 20.4%). As a response, the People's Bank of China (PBoC) slashed its policy rates to support economic growth, while other global central banks continued on a path of monetary tightening.

    - As major central banks continue to signal their intention to further tighten their monetary policy, we anticipate that the cumulative impact of these rate hikes will become noticeable from the 3Q23 onwards. This is likely to lead to a decrease in both demand and economic growth. However, we expect that any significant global economic slowdown will be mitigated by China's slow but steady economic recovery, as the Chinese government is expected to implement fiscal stimulus measures in the 2H23 to boost growth, as well as growth from other emerging economies like India.

  - **Inflation:** The slowdown in global economic activity, the improvement in supply chains, the decline in commodity prices and tighter global financial conditions, are expected to contribute to a further moderation of price pressures in 2H23.

    - The boost to economic activity from pandemic stimulus and pent up demand from reopening measures are gradually waning, as consumers have nearly depleted their savings and are resorting to debt to deal with the rising cost of living that resulted in stubbornly high inflation. Moreover, the supply bottlenecks that were previously hindering production are mostly resolved, leading to an expected easing of price pressure in the coming months. This, combined with lower energy and commodity prices, should help to further alleviate inflationary pressures.

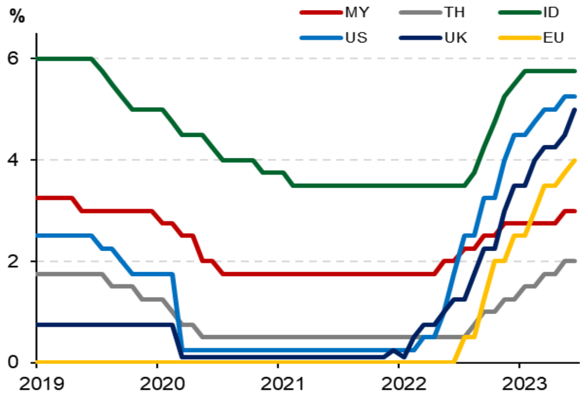
    - However, there are concerns that inflation could be exacerbated by a surge in wage growth, especially in the tight labour market prevalent in the US and other advanced economies. If wage growth continues to rise significantly, it could lead to sustained high inflation that may influence inflation expectations. This poses challenges for effectively managing inflation over the long term. As a result, policymakers must remain vigilant and closely monitor these developments to ensure that inflation remains within their target range and firmly anchored.

- Additionally, tighter global financial conditions have the potential to hinder demand by exerting pressure on credit flow. However, it is worth noting that these conditions could increase the likelihood of a recession occurring in the next 6-12 months.

– **Monetary Policy:** The monetary policies of major central banks have taken a relatively hawkish turn, with the ECB and BoE expected to continue raising interest rates, while the Fed may potentially hold rates higher for longer period. In contrast, most of Emerging Asia has completed its tightening cycle and may now be considering rate cuts, whereas China and Japan are likely to remain outliers in terms of their policy direction.

- The Fed kept the FFR unchanged at 5.25% during its June meeting, after ten consecutive hikes that had raised the rate by five percentage points. The decision was widely regarded as a "hawkish pause", reiterating that it would evaluate additional information and assess the impact of previous hikes in their ongoing fight against inflation.
- Along with the decision, the Fed also released a revised dot plot, showing the median expected FFR to reach 5.6% by end-2023, suggesting the possibility of two more 25 basis points (bps) rate hikes this year. However, we believe the Fed will keep rates at 5.25% for the remainder of the year and expect rate cuts to commence in 1Q24.

Graph 2: Selected Central Banks Policy Rates



Source: Bloomberg, Kenanga Research

- Although the US economy appears resilient, we anticipate that the cumulative effect of previous rate hikes will lead to a mild recession by 4Q23. US consumer spending, the economy's driving force, continued to slow in May (0.1% MoM; Apr: 0.6%), indicating weaker growth on the horizon, whilst signs of disinflation are emerging, with the Core PCE Price Index showing a slight easing (0.3% MoM; Apr: 0.4%).
- Furthermore, the imminent resumption of student loan repayments in October, following a three-year pause due to the pandemic, is expected to exert additional pressure on consumer spending and accelerate the economic slowdown. Alongside this, US banks have tightened lending standards following the regional banking crisis. When these factors are combined, we believe that they will contribute to a discernible US recession, prompting the Fed to initiate loosening measures in early 2024.
- For Europe, we maintain our expectation that the ECB will raise rates at the next three meetings due to persistently high inflation and concerns over wage growth, especially as Euro Area core inflation rose in June (5.4%; May: 5.3%) for the first time in three months. Therefore, we project the key interest rate to reach a peak of 4.75% in 4Q23, and will stay at that level until 2Q24, as price pressures are expected to ease slowly despite the Eurozone's recession.
- Similarly, we expect the BoE to maintain its aggressively hawkish stance, following its sizeable 50 bps rate hike to 5.00% in June. Given that UK inflation remains notably higher than many of its peers, with the core inflation rate rising in May (7.1%; Apr: 6.8%), we expect the key rate to peak at 5.75% in 4Q23. Although there is potential for the UK to enter a recession, it has not reached that point yet, which provides the BoE with room to further raise rates.
- For Asia, we believe Bank of Indonesia (BI) has concluded its tightening cycle, with the reverse repo rate at 5.75%. We anticipate that rate cuts will begin in 1Q24. This is reinforced by the significant easing of inflationary pressures, as Indonesia's headline inflation is projected to soon fall comfortably within BI's target range of 2.0% – 4.0%. Nevertheless, BI's policy direction remains susceptible to the stability of the Rupiah.
- Meanwhile, the Bank of Thailand is highly likely to raise the repurchase rate by a final 25 bps to 2.25% in August. We expect the rates to remain unchanged for the rest of this year and the next, driven by officials' view that core inflation remains high and inflationary risks are elevated for 2024.
- In the case of the BoJ, it may start adjusting its yield curve control (YCC) in 3Q23, by raising the target band for the long-term interest rate by 25 bps to 0.75% at its meeting this month before abolishing the YCC altogether in October. While the BoJ maintains an overall dovish stance, Governor Ueda stated that changes in Japan's corporate price-setting could lead to higher and more sustained inflation than initially expected. We believe that it is very likely to surpass the BoJ's average inflation forecast of 2.5% for 2023.

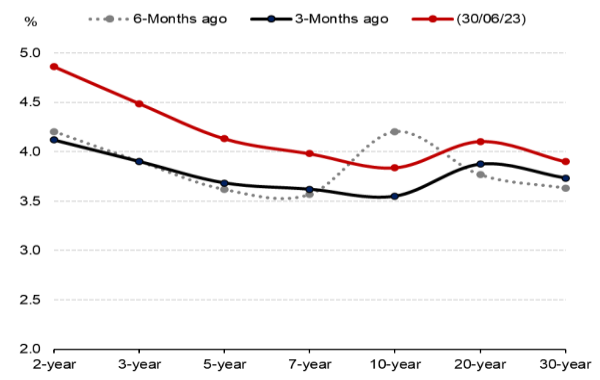
- Finally, as China's reopening recovery continues to struggle, we expect the PBoC to cut the one-year loan prime rate by another 10 bps to 3.45% in 3Q23, following reductions to various interest rates in June and ongoing discussions surrounding new stimulus measures.

– **US Treasuries:** Yields are expected to remain elevated in the near-term ahead of the upcoming US FOMC meeting, before returning to a sharp downtrend by mid-3Q23, in line with our expectation that the Fed will no longer raise rates.

- UST yields turned higher than expected beginning early June, as it became evident that the Fed had a more hawkish stance than the market had anticipated. This shift occurred following a surprisingly robust non-farm payrolls print for May (339.0k; Apr: 294.0k) and comments made by Fed officials indicating the potential for additional rate hikes. As a result of the Fed's "hawkish pause" and revised dot plot, government bonds continued to face downward pressure.

- We expect US yields to remain elevated until the next Fed meeting (July 25 – 26), as markets anticipate the resumption of rate hikes. Currently, Fed Funds Futures indicate a near 90.0% probability of a 25 bps increase to 5.50%. However, based on our expectation that the Fed has completed its tightening cycle and will not raise rates further, we project a significant decline in yields starting in August as market expectations adjust. We expect the Fed to begin hinting at a loosening stance in 4Q23, driven by the delayed impact of tightening measures leading to a mild recession. We then anticipate rate cuts to commence in 1Q24, in line with current market projections.

Graph 3: UST Yield Curves



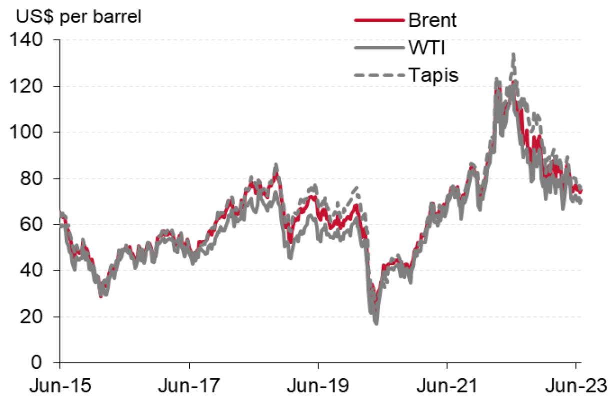
Source: Bloomberg, Kenanga Research

- Therefore, we have revised our 10Y UST yield forecast for end-3Q23 to 3.55% from 3.35% previously, whilst our end-2023 forecast has been adjusted to 3.25% from 3.20%. However, our projections carry certain key risks, including the possibility of the Fed proceeding with further rate hikes as indicated by the revised dot plot. Another risk is the potential for the Fed to delay its dovish shift to 2H24, which could result in a slower pace of rate cuts. These risks are contingent upon the resilience of the US economy and the persistence of higher core inflation.

– **Crude Oil:** Heightened risk of global economic slowdown to limit the upside for oil prices.

- Brent crude oil price have been on a downward trend in the first half of 2023. Brent was traded at an average of USD77.7/bbl in 2Q23, lower than USD82.2/bbl recorded in 1Q23, and significantly lower than the average price of USD112.2/bbl in 2Q22. The decline in prices can be attributed to growing concerns about a global economic slowdown, as central banks worldwide continued to raise interest rates to fight inflation. Additionally, the situation was worsened by tighter financial conditions following the banking crisis in the US and Europe. However, it is worth noting that year-to-date prices remained at USD80.0/bbl, which aligns with our average forecast for 2023.

Graph 4: Crude Oil Price Trend (USD/bbl)



Source: Bloomberg, Kenanga Research

- Moving forward, we maintain a cautious outlook on the oil price, expecting it to average around USD80.0/bbl in the remaining quarters. This view is primarily driven by increasing risk of a global economic slowdown, particularly in the US and Europe, as they experience higher interest rates as well as the potential risk from rising US crude oil output. However, there are some upside factors to consider. China's economic recovery, supported by potential government stimulus measures, is expected to contribute positively to the oil price. Additionally, emerging and developing economies will likely generate demand as international tourism continues to recover. Moreover, the OPEC+ decision to extend the output cut through 2024 will provide further support to the oil price throughout the year. Against this backdrop, our average forecast for Brent crude oil price remains at USD80.0/bbl for 2023. In comparison, the US Energy Information Administration revised its forecast to USD79.5/bbl for 2023 from USD78.7/bbl.

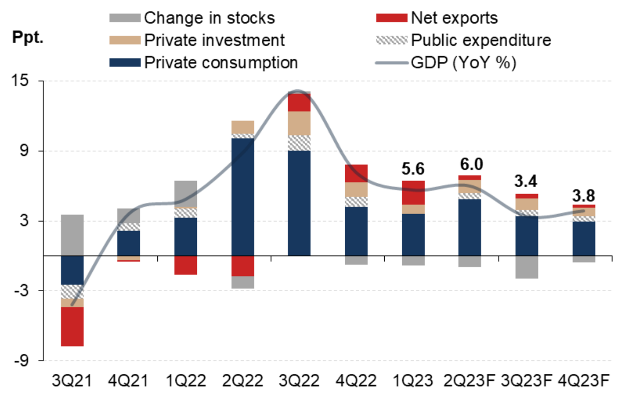
Domestic Macro Outlook – 3Q23 & 2H23

- **The domestic economy and headline inflation are expected to moderate further due to the high base effect from last year and the anticipation of a slowing global economy, thereby lending essential support for BNM to hold interest rate steady at 3.00% for the rest of the year.**

  – **GDP:** 3Q23 growth is expected to moderate sharply to the lowest since 3Q21.

    ▪ The domestic economy is expected to grow at a slower pace in 3Q23 (3.4%; 2Q23F: 6.0%) and throughout 2H23 (3.6%; 1H23F: 5.8%) mainly due to the waning lower base effect and the absence of pandemic stimulus as the economy returns to normalcy. On a QoQ basis, we project GDP to grow by 2.2% (2Q23F: 2.2%) as the momentum is expected to slow amid the global economic slowdown resulting from global monetary policy tightening aimed at combating inflation.

Graph 5: GDP Growth Trend (Expenditure side)



Source: DOSM, Kenanga Research

    ▪ Consequently, Malaysia's export performance registered a third consecutive month of growth contraction in May (-0.7%; Apr: -17.6%) due to persistent weakness in commodity-related products, despite optimism surrounding China's economic reopening. The weakness in external demand is expected to continue in 3Q23 and potentially spill over into 4Q23. Hence, we forecast a 4.2% decline in gross exports (2022: 25.0%). However, the diversification in Malaysia's export products is expected to provide some support from any sharp slowdown in external demand.

    ▪ Nonetheless, we see limited downside risk to domestic growth during this quarter mainly due to our expectation that domestic demand will continue to support growth, supported mainly by a further expansion in the services sector, specifically tourism and transport-related subsectors, as the economy reopens. Therefore, we revised our inbound tourist arrivals target to 20.0m from 16.0m projected earlier, about 80.0% of the pre-pandemic level.

    ▪ Furthermore, we expect a lower average unemployment rate of 3.5% in 2023 (2022: 3.8%) and increased household income, driven by higher minimum wage and improved income prospects, which will continue supporting private consumption. This will also be complemented by the realisation of investments following the higher approved investments recorded last year (2022: RM264.6b; 2021: RM306.5b). In addition, we expect the federal government to accelerate public infrastructure spending while maintaining supportive policy measures, including the continuation of subsidies and cash transfer programmes for the B40 group.

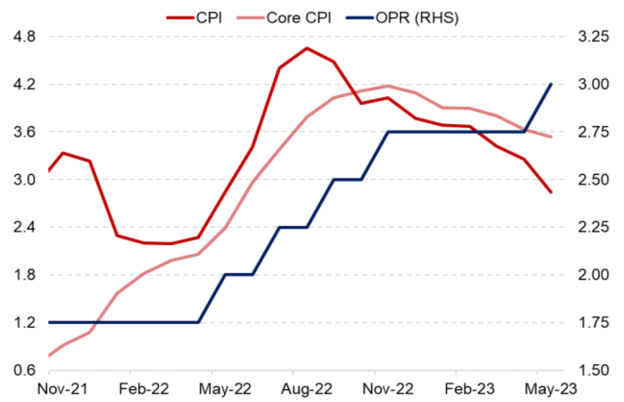
    ▪ **Against this backdrop, we maintain the overall 2023 GDP growth forecast of 4.7%, compared to the government (4.5%), BNM (4.0% - 5.0%) and consensus (4.2%) forecasts.**

  – **Inflation:** The disinflationary process may help to bring consumer prices lower and drive headline inflation to average around 2.5% in 3Q23, supported by a combination of domestic measures and external factors, as well as favourable base effect.

    ▪ Headline inflation is expected to continue its deceleration, averaging around the 2.3% - 2.7% range in 3Q23. This downward trend is influenced by a combination of factors, encompassing both domestic and external aspects, along with a favorable base effect. Domestically, the government's persistent efforts to reduce the cost of living, expectations of a stronger ringgit, the extension of chicken and egg subsidies beyond June 30, and a lower-than-expected increase in electricity tariffs are factors that may help maintain inflation below the 3.0% threshold in 2H23. Externally, factors such as slowing global demand, tighter lending conditions, falling commodity prices, and improving US-China relations are expected to contribute to the disinflationary process.

- However, despite these favorable conditions, we remain cautious due to some risks that could exert upward pressure on domestic inflation rates. One notable risk is the impending period of extreme weather conditions, namely El Niño and haze, which are anticipated to result in lower crop yields and drive up food inflation. Another potential risk stems from increased tourism activity, which could stimulate demand and lead to higher prices for goods and services. Despite these upside risks, the overall expectation is for inflation to continue its downward trajectory in the coming months, potentially averaging around 2.9% in 2023. Core inflation is also expected to trend lower, ranging between 2.4% - 3.0% in 2H23 and average around 3.1% in 2023.

Graph 6: Malaysia Inflation Rates and BNM OPR



Source: Kenanga Research

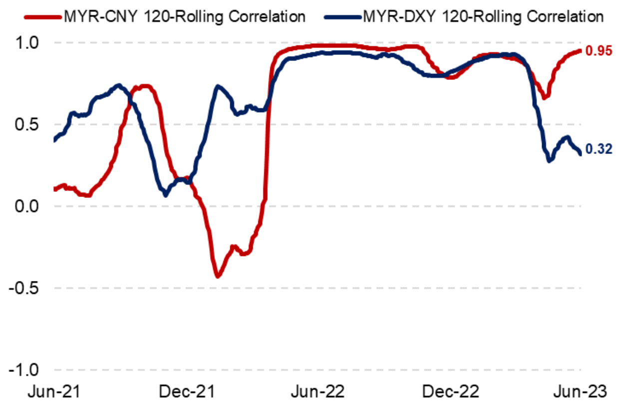
– **Monetary Policy:** BNM is expected to maintain status quo on policy rate for the rest of 2023 as inflation rates are expected to decelerate while economic growth momentum may falter in 2H23.

- Even though core inflation remained elevated at 3.5% in May (5-year average: 1.5%), signaling that demand is still relatively strong, we still expect BNM to keep the OPR unchanged at 3.00% for the rest of the year due to heightened macro uncertainty and slower global growth outlook. Our expectations of a continued downward trend in both headline and core prices further reinforce our view that BNM has completed its policy normalisation cycle. To note, headline inflation eased to below 3.0% for the first time in 12 months in May, prompting real interest rate to turn positive for the first time in 26 months. That being said, there are still risks and uncertainties that could affect the central bank's decisions. Going forward, we expect BNM will continue to remain vigilant in monitoring external factors (i.e. increasing geopolitical tensions) and take appropriate action if needed.

– **Ringgit:** A potential pick-up in China's economy and Fed's dovish pivot create a bullish case for risky assets. However, we maintain caution due to the presence of potential downside risks.

- In the past few weeks, the ringgit has displayed a strong positive correlation with the yuan, while its correlation with the USD index has continued to decline and is now hovering below the 0.5 mark. As such, in 3Q23, the direction of the local currency is expected to be mainly influenced by the movement of the yuan. While we maintain a neutral-to-bearish stance on the USDCNY in the short term, we continue to support the potential appreciation of the yuan in the medium to long term. The yuan is expected to gain ground against the USD in the coming months as China's consumer-led recovery remains on track. Also, growing expectations that China's policymakers may roll out additional monetary and fiscal stimulus to boost its sputtering economy may also help to prop up the Chinese currency.

Graph 7: Ringgit's Correlation with CNY and DXY



Source: Bloomberg, Kenanga Research

- That being said, the Fed's monetary policy outlook still remains one of the main drivers for the ringgit. We expect the Fed to pivot to a more dovish stance in 4Q23 due to a potential slowdown in US economic growth. This slowdown is expected to be caused by two major factors: (1) the resumption of US student loan payments in October and (2) tighter lending standards for small businesses and consumers. In the coming months, the market is likely to continue to look for signs of US disinflation and slowing economic activity before buying risk assets.

- On the domestic front, we do not see any apparent risks from the upcoming state elections, and we expect more tax and policy reforms (such as the implementation of a value-added tax and further rationalisation of subsidies) will be introduced during the tabling of Budget 2024 in October. Solid tax reform by the government could boost investor confidence and encourage more investment in Malaysia, while generating more revenue for the government, ultimately increasing the economic growth potential and benefitting the ringgit. Additionally, higher tourism activity, driven by a potential surge in Chinese tourists during the high season starting in October, may also help support the domestic economy and bolster the ringgit.

- Taking into account both domestic and external factors, we have revised our USDMYR forecast for end-3Q23 and end-2023 to 4.51 (from 4.27) and 4.29 (from 4.11), respectively. In summary, we are still relatively bullish on the ringgit's outlook in 2H23, however, we acknowledge several downside risks to our forecast, including: (1) hotter-than-expected US inflation readings and a stronger-than-expected labor market, which may prompt the Fed to maintain its "higher-for-longer" mantra, (2) weaker-than-expected economic recovery in China due to the lack of policy support from the Chinese government and (3) worsening geopolitical tensions (i.e. Russia-Ukraine, US-China and China-Taiwan).

– **Bond Market:** Domestic bonds are expected to be relatively resilient compared to the heightened volatility of developed market bonds, especially given our expectation that BNM has finished raising the OPR.

- We expect sovereign bond yields to gradually decline for the remainder of 2023, on sustained domestic demand and even stronger foreign demand towards the end of the year. Current yields continue to be attractive, and investors may be prompted to secure peak yields, particularly as we expect BNM to keep the OPR unchanged and to signal the end of tightening. From August onwards, domestic yields will likely fall at a faster pace, aligning with our expectations of a sharp decline in UST yields. Overall, we have adjusted our 10Y MGS yield forecast for end-3Q23 to 3.70% from 3.65% previously but maintain our end-2023 target at 3.60%.

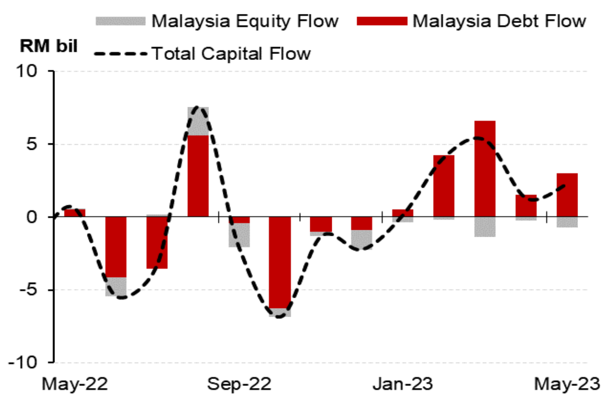
Table 1: 10Y MGS and UST Forecasts*

	Q3-23F	Q4-23F	Q1-24F	Q2-24F
MGS	3.70%	3.60%	3.55%	3.50%
UST	3.55%	3.25%	3.05%	2.85%

*Source: Kenanga Research, *End of period*

- The domestic bond market has experienced surprisingly strong foreign demand year-to-date, recording net foreign inflows of RM15.9b as of end-May, despite the prevailing global risk aversion stemming from banking crises in the US and Europe, along with the US debt ceiling impasse. Local bonds may have benefitted from foreign investors seeking to diversify portfolios away from the banking crises, and their appeal was likely bolstered by relatively high yield differentials against developed market bonds at the time, with the 10Y MGS-UST yield spread averaging 24.9 bps between Jan-May.

Graph 8: Monthly Capital Flows



Source: BNM, Kenanga Research

- However, yield differentials have significantly narrowed since then, with the 10Y MGS-UST spread averaging just 1.2 bps in June, and global risk sentiment has become more subdued amid concerns over the Fed's seemingly hawkish stance. As such, we think that foreign demand for bonds may taper in June and July. Nonetheless, we believe this will be temporary, as we expect the Fed to keep rates unchanged and to signal a dovish stance by 4Q23. Consequently, we project foreign inflows to strengthen considerably towards the end of the year, particularly as we anticipate UST yields to decline at a significantly faster pace than their Malaysian counterparts, thereby re-establishing more attractive spreads. While there are minor risks that could deter foreign investors, such as the possibility of weaker-than-expected domestic growth due to subdued external demand, or an increase in political risk with the upcoming state elections, we consider it highly unlikely for either of these risks to materialise significantly.

Table 2: Forecast and Assumptions

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
Real GDP (% YoY)	6.0	5.0	4.4	5.8	4.8	4.4	-5.5	3.3	8.7	**4.7**	**4.9**
Consumer Price Index (avg.)	3.2	2.1	2.1	3.7	1.0	0.7	-1.2	2.5	3.3	**2.9**	**3.1**
Current Account Balance (% of GDP)	4.4	3.0	2.4	2.8	2.1	3.4	4.4	3.8	3.1	**1.6**	**2.3**
Fiscal Balance (% of GDP)	-3.4	-3.2	-3.1	-3.0	-3.4	-3.4	-6.2	-6.5	-5.5	**-5.0**	**-4.3**
Unemployment Rate	2.9	3.2	3.3	3.4	3.4	3.3	4.5	4.6	3.8	**3.5**	**3.4**
Manufacturing Output (% YoY)	6.1	4.8	4.4	6.0	5.0	3.8	-2.6	9.5	8.2	**2.4**	**6.2**
Exports of Goods (%YoY)	6.4	1.6	1.2	18.8	7.3	-0.8	-1.1	26.1	25.0	**-4.2**	**9.4**
Overnight Policy Rate (end-period)	3.25	3.25	3.00	3.00	3.25	3.00	1.75	1.75	2.75	**3.00**	**3.00**
Exchange rate: USDMYR (end-period)	3.50	4.29	4.49	4.05	4.13	4.09	4.02	4.17	4.40	**4.29**	**4.13**
Loan growth (%)	9.3	7.9	5.3	4.1	7.7	3.9	3.4	4.6	5.7	**4.0 – 4.5**	**4.3**
Palm oil: RM/tonne (avg.)	2,384	2,166	2,649	2,791	2,235	2,244	2,767	4,407	4,500	**3,700**	**3,700**
Crude oil (Brent)-USD/bbl (avg.)	99.5	53.6	45.1	54.8	71.6	64.1	41.7	70.9	99.0	**80.0**	**80.0**

Source: MoF, BNM, Bloomberg, Kenanga Research, F = Forecast

Table 3: Malaysia GDP Growth (constant 2015 prices) and Contribution to Growth By Sector (Supply) and Expenditure (Demand)

						KIBB					BNM
YoY %	**3Q22**	**4Q22**	**2022**	**1Q23**	**2Q23F**	**3Q23F**	**4Q23F**	**1H23F**	**2H23F**	**2023F**	**2023F**
By Sector											
Agriculture	1.2	1.1	0.1	0.9	2.0	1.1	-0.5	1.5	0.3	0.9	0.7
Mining	9.1	6.3	2.6	2.4	2.7	1.3	1.3	2.6	1.5	2.0	2.0
Manufacturing	13.1	3.9	8.1	3.2	7.1	2.5	3.1	5.2	2.8	4.0	4.0
Construction	15.3	10.1	5.0	7.4	7.9	6.3	4.9	7.7	5.6	6.6	6.3
Services	16.7	9.1	10.9	7.3	5.9	3.8	4.5	6.6	4.2	5.3	5.0
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**3.4**	**3.8**	**5.8**	**3.6**	**4.7**	**4.0-5.0**
Ppt. Contribution											
Agriculture	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0
Mining	0.6	0.4	0.2	-0.1	0.5	0.2	0.2	0.2	0.1	0.1	0.1
Manufacturing	3.2	1.0	2.0	0.8	1.7	0.6	0.7	1.3	0.7	1.0	1.0
Construction	0.5	0.3	0.2	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2
Services	9.5	5.2	6.2	4.2	3.5	2.2	2.7	3.8	2.4	3.1	2.9
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**3.4**	**3.8**	**5.8**	**3.6**	**4.7**	**4.0-5.0**
By Expenditure											
Consumption	13.3	6.3	9.9	4.5	7.1	4.9	4.1	5.8	4.5	5.1	5.3
Public	6.5	3.0	4.5	-2.2	3.7	2.5	2.1	0.1	1.0	0.6	1.3
Private	14.8	7.3	11.2	5.9	8.1	5.5	5.1	7.0	5.3	6.1	6.1
Investment	13.1	8.8	6.8	4.9	6.6	6.7	6.1	5.8	6.4	6.1	6.0
Public	13.1	6.0	5.3	5.7	7.3	8.5	6.5	6.4	7.2	6.9	7.0
Private	13.2	10.3	7.2	4.7	6.5	6.3	5.9	5.6	6.1	5.9	5.8
Public Spending	7.9	3.9	4.7	-0.3	3.5	3.6	2.0	1.6	2.7	2.2	2.7
Private Spending	14.4	7.8	10.3	5.6	7.7	5.7	5.2	6.7	5.5	6.1	6.1
Domestic Demand	13.2	6.8	9.2	4.6	7.0	5.3	4.5	5.8	4.9	5.3	5.4
Exports	21.5	10.1	14.5	5.3	3.1	1.9	1.3	0.0	1.6	0.8	2.7
Imports	21.1	11.5	15.9	4.7	2.7	1.5	1.1	-1.7	1.3	-0.2	2.1
Net exports	26.1	23.0	-1.0	54.4	10.4	6.4	3.0	31.9	4.5	13.8	9.7
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**3.4**	**3.8**	**5.8**	**3.6**	**4.7**	**4.0-5.0**
Ppt. Contribution											
Consumption	9.9	4.7	7.2	3.3	5.2	3.6	3.0	4.2	3.3	3.8	3.9
Public	0.9	0.5	0.6	-0.3	0.3	0.3	0.0	0.0	0.1	0.1	0.2
Private	9.0	4.2	6.6	3.6	4.8	3.4	3.0	4.2	3.2	3.7	3.7
Investment	2.5	1.6	1.4	1.0	1.4	1.3	1.1	1.2	1.2	1.2	1.2
Public	0.5	0.4	0.2	0.2	0.2	0.3	0.4	0.2	0.4	0.3	0.3
Private	2.0	1.3	1.1	0.8	1.1	1.0	0.7	0.9	0.9	0.9	0.9
Public Spending	1.4	0.9	0.9	-0.1	0.6	0.6	0.4	0.3	0.5	0.4	0.5
Private Spending	11.0	5.5	7.7	4.4	6.0	4.3	3.7	5.2	4.0	4.6	4.6
Domestic Demand	12.4	6.3	8.5	4.3	6.5	4.9	4.1	5.4	4.5	5.0	5.1
Exports	15.5	6.2	10.3	-2.4	2.4	1.5	0.9	0.0	1.2	0.6	1.9
Imports	14.1	4.7	10.3	-4.5	1.9	1.1	0.7	-1.2	0.9	-0.1	1.4
Net exports	1.5	1.5	-0.1	2.1	0.4	0.4	0.2	1.2	0.3	0.8	0.5
Real GDP	**14.1**	**7.1**	**8.7**	**5.6**	**6.0**	**3.4**	**3.8**	**5.8**	**3.6**	**4.7**	**4.0-5.0**

Source: DoSM, Kenanga Research, F: forecast, PPT: percentage point

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