QUARTERLY ECONOMY TRACKER

(JUL-SEP 2018)

Socio-Economic Research Centre (SERC)

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Executive Summary

World Economic Situation and Prospects for 2019

Continued global growth, albeit less synchronised. The global economy continued to expand in the first half-year as firm labour market conditions remained supportive of private consumption. But, the growth is less even in advanced and Asian economies due to patchy pace of growth drivers. Private investment strength in some advanced economies have moderated while domestic demand in Asia has remained resilient. While global growth is expected to continue, albeit moderately in 4Q18 and for 2019 but the outlook is less rosy as the risks have increased.

High frequency indicators point to peaking and moderating growth. Composite leading indicators are pointing tentatively to easing growth momentum in the OECD area as a whole. The rate of global manufacturing expansion slowed again at the start of the third quarter. Global trade contracted in June amid there are early signs that the trade battles have begun to weigh on the global outlook as reflected in slower growth of PMIs in several economies. Strong consumer spending, rising wages and high energy prices have caused headline inflation in some advanced economies to move closer to the central banks' comfort zone.

Solid US economy; weaker growth in euro area; Japan bounces back. The US economy recorded the best quarterly growth of annualised 4.2% qoq in 2Q18 in four years, supported firmly by solid consumer spending, rising wages amid rising inflation risk. But, the strong growth could diminish as fiscal stimulus fades after two years as well as being challenged by the on-going trade spat with China. The eurozone economy's soft start to the year carried through in the third quarter, as rising inflation took a bite out of household spending while the political and trade concerns also likely weighed on momentum. For Japan, available data for the third quarter indicates continued growth. China's economic growth softened further in early third quarter, weighed by continued financial deleveraging, the authorities' crackdown on shadow banking and spillovers from its trade spat with the US.

The Fed will continue to raise interest rates gradually. The strong US economy and rising inflation have strengthened the case for the Federal Reserve (Fed) to continue hiking interest rates in September and December respectively, taking the Fed funds rate to 2.25-2.50% by end-2018 (1.25-1.50% by end-2017). Despite the eurozone growth was now passed its peak, the European Central Bank (ECB) has signalled that it remains on track with plans to halt bond purchases after December. Bank of Japan (BOJ) pledged to keep rates at extremely low levels for an "extended period". Some central banks in Asia have hiked interest rates either in bid to fight inflation or stem capital outflows due to higher US interest rates. Pressures on emerging markets' foreign exchange and equities continue unabated as investors pulled out cash amid concerns that the strong US dollar and rising interest rate will pressure the cost of servicing some of the US$3.7 trillion in debt taken on in the ten years since the 2008-09 Global Financial Crisis.

Global risks have elevated. Alongside the continued economic expansions, downside risks to global growth have also been building up momentum. Investors are concerned that the likely inverted US yield curve could presage a recession in the US economy over next 12 months. Key risks include the intensification of trade war between the US and China as well as with other major economies; increasing geopolitical tensions; the Fed's more aggressive interest rate hikes; higher market volatility and currencies pressure in emerging markets; elevated and rising levels of debt in both developed and developing countries.

Malaysia's Economic and Financial Conditions

Weaker GDP growth in 2Q; moderate improvement expected in 2H18. The Malaysian economy moderated sharply to 4.5% yoy in 2Q from 5.4% in 1Q, taking GDP growth to average 4.9% in 1H18. The slowdown was caused by contractions in public investment, mining and agriculture sectors. Bank Negara Malaysia (BNM) revised 2018's economic growth estimate to 5.0% from 5.5-6.0% previously. SERC remains cautious about growth in 2H18 and prospects for 2019, taking into account the implications of deferment or cancellation of mega infrastructure projects on private investment as well as the spillovers from the on-going escalation of trade war between the US and China. Accordingly, SERC revised this year's GDP growth estimate to 4.8% from 5.2% previously. 2019's real GDP growth was also revised to 4.7% from 4.9% previously. We will review our estimates after the tabling of 2019 Budget on 2 November.

Solid consumer spending. The numbers from consumer side of things continue to show spending buoyancy, with consumer spending rising by 8.0% yoy in 2Q (6.9% in 1Q), the highest since the first quarter of 2015. Will this strong household spending resiliency continue? The 3 months (Jun-Aug) "tax holiday" following the zerorised of the Goods and Services Tax (GST), which helped to boost consumer spending could be a one-off effect and will normalise somewhat in the last quarter of 2018 and in 2019. The record high consumer sentiments index (132.9 in 2Q vs. 91.0 in 1Q) in two decades was largely a reflection of Malaysians' high enthusiasm on New Malaysia post 14th General Election (GE14). Overall, private consumption growth will normalise to 7.2% in 2018 and 6.8% in 2019 (7.0% in 2017).

Private investment growth bounces back but remains cautious. It was a relief that private investment growth has rebounded to 6.1% yoy in 2Q from a trough of 0.5% in 1Q, driven mainly by capital spending in the manufacturing and services sectors. But, there remain challenges to sustain its strength through providing greater clarity on domestic policies, including the status of on-going projects and new projects amid the dampened sentiments from the intensified external headwinds. We now estimate private investment to grow by 3.9% this year and 4.1% in 2019.

Exports fare well but beware of trade tensions risk. Malaysia's exports expanded at a faster pace of 8.2% in the second quarter compared to 5.8% in 1Q18, supported mainly by firm demand of electronics and electrical products. In July, exports grew by 9.4%, bringing the cumulative growth to 7.3% in the first seven months. Amid the heightened risk of trade tensions on the export outlook, it is the high exports value technical base effect averaging RM80.6 billion per month in 2H17 that will challenge the annual growth of export performance in 2H18. We estimate exports to grow by 6.5% this year and 5.9% in 2019 (18.9% in 2017).

Inflation numbers to stay low for quite some time. Inflation rate, as measured by the Consumer Price Index (CPI) has been staying on a subdued trajectory (0.2% yoy in August; 0.9% in July; 1.3% in 2Q vs. 1.8% in 1Q18), reflecting largely the technical impact of high base effect, the zerorisation of GST for three months (June-August) and the stabilisation of fuel price (RON 95) as well as moderated food prices. With the reintroduction of Sales and Service Tax (SST) on 1 September, some pick up in prices are expected and along with higher minimum wage increases between 5.0-14.1% to RM1,050 in 2019 as well as the possible rationalisation of fuel subsidy for targeted groups, headline inflation will trend higher from estimated 1.3% this year to 2.0-2.5% in 2019 (3.7% in 2017).

Policy levers to shrug off weaker growth. Malaysia retains some buffers, including policy space, to cushion against adverse shocks. While the fiscal space is somewhat capped by continued fiscal and debt consolidation, high national savings about 29% of GNP, considerable foreign exchange reserves of US$104.4 billion as at end-Aug, a current account surplus, albeit smaller, a deeper and more developed financial markets should help to absorb as well as contain risks arising from capital flows reversal.

Faced with RM1.0873 trillion debt and liabilities or 80.3% of GDP (comprises RM686.8 billion direct debt and RM400.5 billion liabilities) at end-2017, and had endured unbroken 21 consecutive years of fiscal deficit since 1998 Asian Financial Crisis, this leaves new Government with no choice other than to return to "austerity" to keep the budget deficit and debt under sustainable and comfortable zone.

BNM to keep monetary arsenal for now. It is expected that a rate cut is "off the table" in the foreseeable future, restrained by rising US interest rates and hence, exerting downward pressure on the ringgit. Bank Negara Malaysia is expected to watch economic growth data closely to see whether an expected pick-up in GDP growth materializes in 2H18. Despite the weaker-than-expected second quarter GDP growth, the central bank is convinced the factors dragging down growth will dissipate in 2H18. SERC expects BNM's Overnight Policy Rate (OPR) to hold steady at 3.25% for the rest of the year. The hurdle rate prompting a cut in interest rate is when real GDP growth slipping to around 4.0%.

Bearish outlook for ringgit at least in 1H19. The ringgit continues to trade lower by between RM4.0085 and RM4.1495 against the US dollar between the period July and 14 September, marking a depreciation of 2.5% when compared to end-June (-4.4% in 2Q) and 1.9% year-to-date (as of 14 Sep). Along with the pressures on emerging markets' currencies on large capital reversals induced by the prospects of higher US interest rates and strong US dollar, the outlook for ringgit is expected to remain weak in 4Q18 and most of 1H19 before gathering strength towards 4Q19. Externally, the Fed's interest rate cycle could be peaking in 3Q19 and hence, would take some pressure off the ringgit. Domestically, our economic and financial fundamentals must be kept strong to counteract the external pressures on the ringgit. These include continued surplus in the current account, healthy reserves accumulation, stable fiscal and debt path and the affirmation of Malaysia's sovereign ratings.

GLOBAL EXPANSION CONTINUES; RISKS TO OUTLOOK RISING

Less even global expansion. Global growth has already passed its peak, and the expansion is less even in advanced economies and Asian economies. In the advanced economies, further strengthening of the labour market and a steady increase in wage growth helped to support private consumption though private investment was moderately weak in some countries.

In Asian economies, still supportive monetary and fiscal policies have held up domestic demand for some countries amid continued exports expansion though the monthly growth has somewhat slowed. Foreign exchange markets saw significant downward pressure, particularly Indonesian rupiah, Indian rupee and Philippine peso due to the fear of contagion risks spilling over from the plugging of currencies in Turkey and Argentina. The trigger for the pressures on emerging markets fraught with weak economic and financial imbalances (such as twin deficits in both budget and current account or external payments position; high exposure of the US dollar-denominated debt) are rising US interest rates and strong US dollar. These have caused tighter liquidity conditions and rising cost of funding.

High frequency data showed that global growth has somewhat peaked and the rate of global expansion will remain moderate in 2H18 and in 2019. The OECD leading indicators for the months of June and July signalled easing momentum in OECD areas; the rate of expansion in manufacturing and services sectors as measured by the PMI slowed again at the start of the third quarter.

Global trade activity contracted in June amid there are early signs that the trade battles have begun to weigh on the global outlook as reflected in slower growth of PMIs in several economies. Strong consumer spending, rising wages and high energy prices have caused headline inflation in some advanced economies to move closer to the central banks' comfort zone. High oil prices also lifted consumer inflation in some countries in Asia.

Mixed growth performance in the US, eurozone and Japan. The **US economy** grew solidly in 2Q (an annualised 4.2% qoq vs. 2.2% in 1Q18), the best quarter in almost four years, thanks to strong private spending, especially household consumption and a front-loading of business activity ahead of the implementation of reciprocal tariffs worth US$50 billion with China in early July and another US$200 billion (10% tariffs) with effect from 24 September. The tariffs will increase to 25% at the start of 2019. Early indicators point to some easing momentum heading into the third quarter. The underlying growth momentum is expected to taper over the next two years once the tax stimulus effects diminish. The key risks to the US economy are the intensification of trade war with China and aggressive hikes in interest rate.

After a stellar performance in 2017, the **eurozone economy**'s soft start to the year carried over into the third quarter, with less downbeat economic sentiment and real activities. On the trade disputes front, it was a relief that the European Union and United States have reached a temporary truce in their trade spat on 27 July, pledging to work together to reduce trade barriers and to refrain from issuing any new tariffs while negotiations are ongoing.

The **Japanese economy** rebounded from a contraction of annualised 0.9% qoq in 1Q to 3.0% in 2Q18, thanks to private consumption and investment as well as construction works related to the 2020 Tokyo Olympics. The external sector was seen dampened by the ongoing trade spat between the US and China. The growing risk on the external front poses a downside risk to Japan's economic outlook.

Following easing to 6.7% yoy growth in 2Q (6.8% in 1Q), **China's economic growth** softened further in July-August on the back of continued financial deleveraging, the crackdown on shadow banking and spillovers from the escalation of trade spat with the US. Domestic consumption and manufacturing activities will slow on deeper trade tensions. The current trade spat with the US poses a policy dilemma as China needs to implement relatively tighter monetary policy to force financial deleveraging while at the same time to balance out against the need of easier monetary conditions to support growth. The People's Bank of China has already cut banks' reserve requirements two times this year.

Global risks have elevated, with the intensified US-China's trade war taking the lead. The risks to global growth have shifted further to the downside in the short term. The on-going trade battles between the US and China and increased likelihood of a deeper and sustained trade retaliations not only could temper medium-term economic growth and trade prospects but also weigh on the outlook of both economies. Their trading partners also will be impacted via the disruptions of global supply chains and dampened growth of both China and US. Investors' sentiment will be dampened via the financial market's volatility and the affected profitability of export-oriented industries and companies would take a toll on investment and production.

While the US economy remained strong in the near-term, there are also lingering concerns that the current expansion running into the ninth year of economic cycle since 2008-09 Global Financial Crisis, could hit the speed bump by year-end or in 2019. This is inferred from the flattening US yield curve, which is reflected in the narrowing of yield spread between the short- and long-end yields (22-25 basis points). If the Fed continues along its current interest rates hiking path, the yield curve will invert by the end of this year and an equity market plunge and a recession is sure to follow. The rule of thumb is that an inverted yield curve (short rates above long rates) indicates a recession in about a year, and yield curve inversions have preceded each of the last seven recessions.

Besides that, US economic growth could face a challenging slowdown as the Trump Administration's powerful fiscal stimulus fades after two years. Policy makers could have miscalculated the risk from proliferating trade tensions and investment restrictions as well as the damage to confidence.

Pressures in equities and foreign exchange of emerging market economies (EMEs) associated with the weakest link in Argentina and Turkey continues unabated and have stirred the fear of contagion risks in asset class of other emerging market economies in Asia such as India, Indonesia and Philippines, particularly those fraught with weaker economic fundamentals or higher political risks.

If the Fed tightens interest rates aggressively to tame inflation pressures, leading to more tightening of financial conditions could potentially cause disruptive portfolio adjustments, sharp exchange rate movements and further reductions in capital inflows to emerging markets, particularly those economies that are highly vulnerable to the US tightening cycle and rising bond yields. Higher US borrowing costs and strong US dollar will pressure the cost of servicing some of the US$3.7 trillion in debt taken on in the ten years since the 2008-09 Global Financial Crisis.

Figure 1: Real GDP growth (% YoY)

	2016	2017	2018 1Q	2018 2Q	2018*f* (IMF)	2018*f* (WB)	2019*f* (IMF)	2019*f* (WB)
United States	1.6	2.2	2.6	2.9	2.9	2.7	2.7	2.5
Euro Area	1.9	2.4	2.1	2.2	2.2	2.1	1.9	1.7
China	6.7	6.9	6.8	6.7	6.6	6.5	6.4	6.3
Japan	1.0	1.7	1.0	1.3	1.0	1.0	0.9	0.8
India[1]	7.1	6.7	7.7	8.2	7.3	7.3	7.5	7.5
Malaysia	4.2	5.9	5.4	4.5	5.3	5.4	5.0	5.1
Singapore	2.4	3.6	4.3	3.8	2.9	-	2.7	-
Indonesia	5.0	5.1	5.1	5.3	5.3	5.2	5.5	5.3
Thailand	3.3	3.9	4.9	4.6	3.9	4.1	3.8	3.8
Philippines	6.9	6.7	6.6	6.0	6.7	6.7	6.8	6.7
Vietnam	6.2	6.8	7.5	6.8	6.6	6.8	6.5	6.6

Source: Officials; IMF (World Economic Outlook, April & July 2018); World Bank (Global Economic Prospects, June 2018)

Note 1: Annual GDP for India is on fiscal year basis, as per reporting practice of the country.

A. SNAPSHOT REVIEW OF KEY GLOBAL ECONOMIC INDICATORS

Current and Forward indicators

The International Monetary Fund (IMF) expects global growth to reach 3.9% in 2018 and 2019 respectively, in line with the forecast made during the April 2018 World Economic Outlook (WEO). On a caution note, we observe that the expansion is becoming less even in advanced and developing economies. It is seemingly suggests that growth in some advanced economies have peaked and has become less synchronised. Inevitably, the downside risks to global outlook are mounting, reflecting the combined negative influences of rising oil prices, higher US interest rates and rising US bond yields, sentiment shifts following the escalation of trade tensions, foreign exchange pressures in emerging markets as well as domestic political and policy uncertainties.

The OECD Composite Leading Index (CLI) dipped below the 100-pt to 99.7 in July, with easing sign across most OECD areas, including the US, euro area and Japan. August's PMI readings for both manufacturing and services dropped to 52.5 (July: 52.8) and 53.5 (July: 54.0) respectively, signalling softening of real activities on increasing uncertainties related to the trade war between the US and China.

The World Trade Outlook Indicator (WTOI) showed a reading of 100.3 in August 2018, which came in below the index of 101.8 in 2Q (1Q18: 102.3), signalling trade momentum softening further at the start of third quarter of 2018. The continued easing momentum reflects weaknesses in export orders and automobile production and sales, which may be reacting to the ratcheting up of trade tensions.

Figure 2: OECD CLI continues to anticipate easing growth momentum

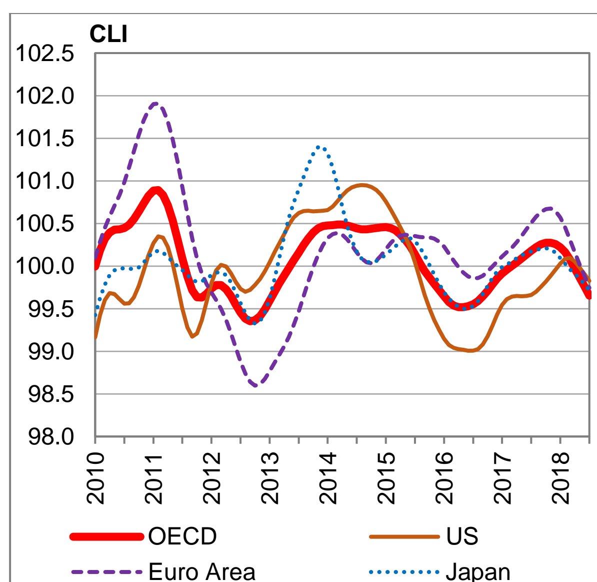


Figure 3: China CLI shows sign of growth gaining momentum

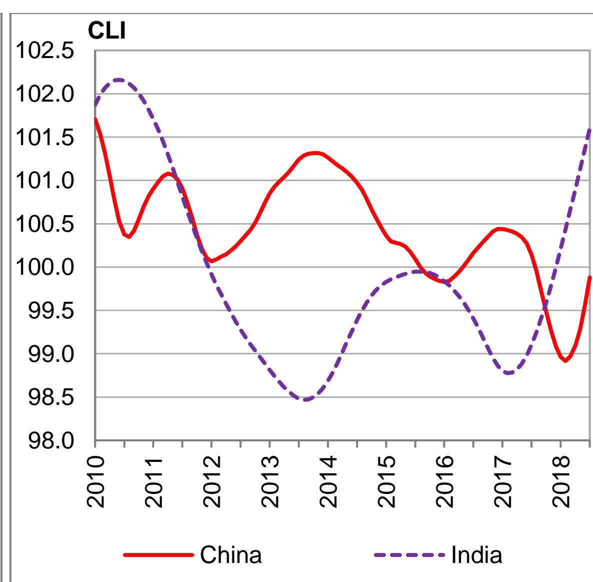


Figure 4: Business confidence firming up in OECD area

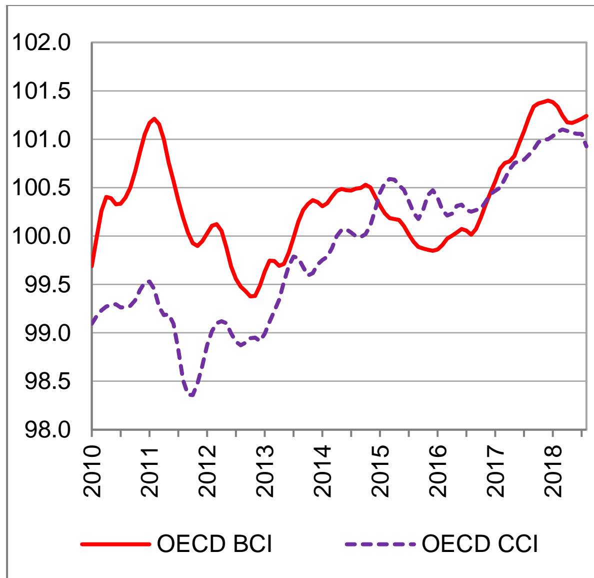


Figure 5: Global PMI for manufacturing and services sectors continue to ease

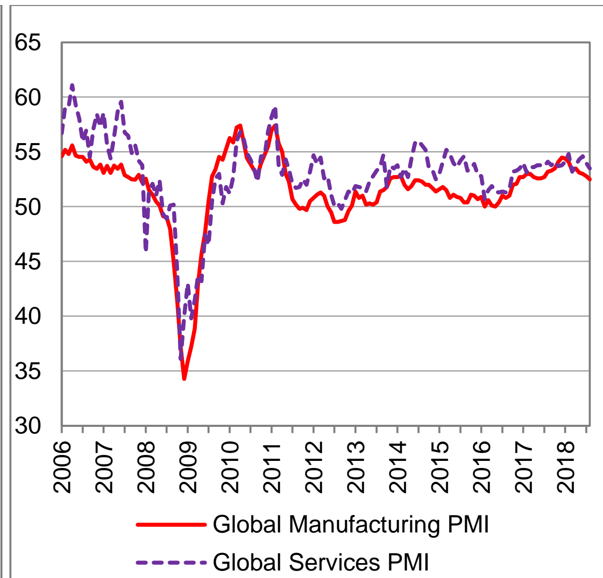
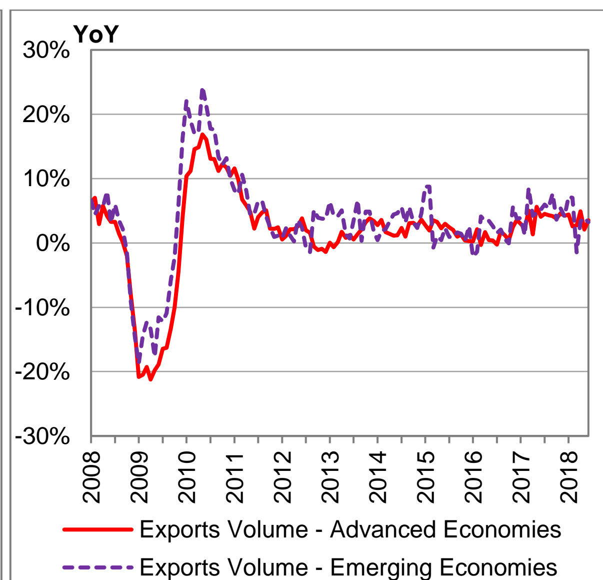


Figure 6: Trade expansion will likely slow further in the third quarter

Figure 7: Exports volume growth in emerging economies may slowdown due to rising trade tensions



Source: OECD; Markit; CPB Netherlands Bureau for Economic Policy Analysis

Industrial production and Semiconductor sales

With the exception of the US and some commodity exporters, industrial production has started to show incipient signs of deceleration across the board in recent months, weighed by pessimism expectations of external demand and increasing uncertainties on protectionism. With the US-China trade spat now in full swing and prolongs, it may hurt industrial production going forward.

Worldwide sales of semiconductors increased by 17.4% to reach US$39.5 billion in July 2018 compared to US$33.6 billion in July 2017. Higher sales were reflected across every major semiconductor products category and regional markets. China and Americas markets were leading the strong expansion with growth of exceeding 20%. China registered buoyant sales growth of 29.7% yoy while other regions also grew markedly between 5.7% and 20.7%. The World Semiconductor Trade Statistics (WSTS) projects sales to increase by 15.7% to US$477.1 billion in 2018, marking the industry's highest-ever annual sales. For 2019, WSTS revised total semiconductor sales growth projection higher to 5.2% from 4.4% previously with higher sales expected across all regions and product categories.

Figure 8: World industrial production growth has moderated in recent months

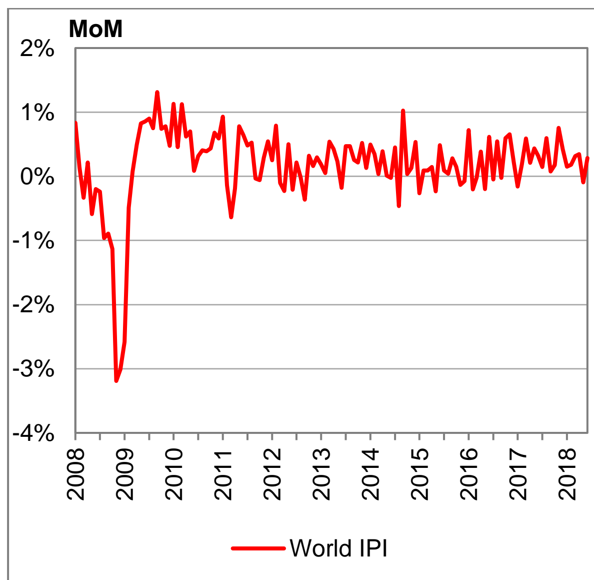


Figure 9: Both regions' rate of growth are weakening

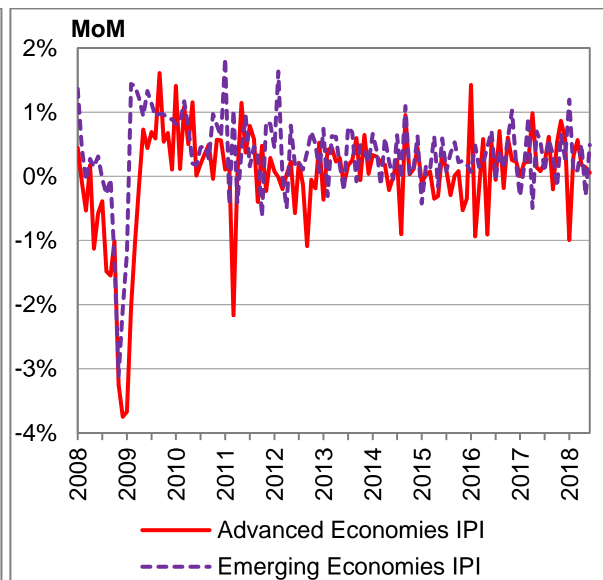


Figure 10: Global semiconductor sales growing strong …

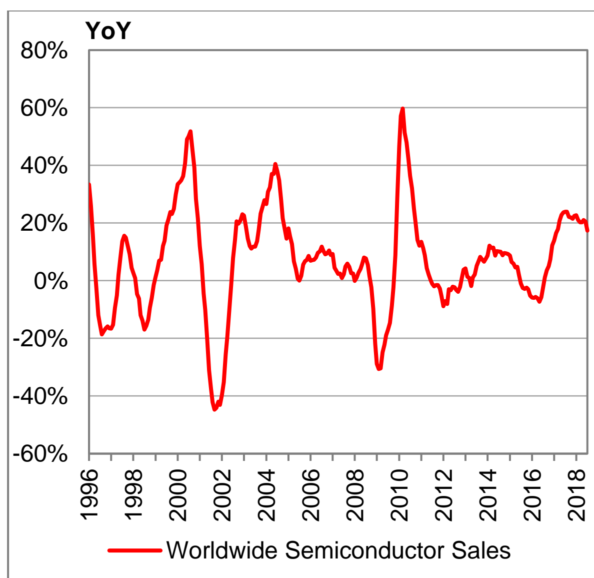
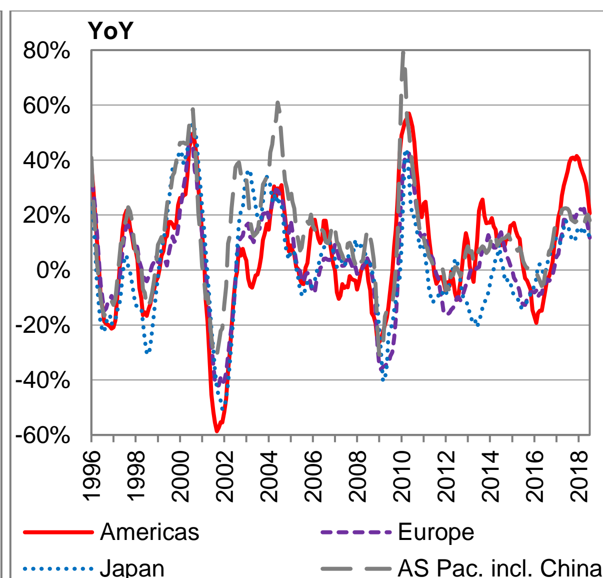


Figure 11: …with increasing sales in all regions



Source: CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association

Commodity prices

Both energy and non-energy prices declined by 1.7% mom each respectively in August (energy: +1.0% in July; non-energy: -4.3% in July) while precious metal prices dropped by 3.2% in August after a contraction of 3.7% in July.

Tighter supply in crude oil market continues to support firming oil prices. Brent crude oil prices rose higher to US$72.44 per barrel in August (US$74.25 in July), bringing prices to an average of US$71.37 per barrel in the first eight months of 2018, markedly higher than US$51.21 per barrel in Jan-Aug 2017. For the period 1-15 September, crude oil prices averaged US$77.38 per barrel.

In early August, crude oil prices were dampened by currencies pressure in some emerging market currencies on increased concerns about global economic growth and its potential effect on oil demand. However, oil prices firmed higher in 2H18 following reports of the US reinstituting sanctions on Iran in November. Oil markets are looking tight in the fourth quarter, with political risk to crude supply remaining high due to concerns over Venezuelan production declines and the potential for disruption in Iraq and Libya. Other supply disruptions include the delay in Canadian production, tropical storm (Hurricane Florence) in the US Gulf of Mexico led to the shutdown of some offshore crude oil platforms.

Reflecting the tighter supply, the US Energy Information Administration (EIA) now expects Brent spot price to average US$73 per barrel in 2018 and US$74 per barrel in 2019.

Crude palm oil (CPO) prices trended lower to average RM2,183.50/metric tonne in August (RM2,215 in July), taking prices to an average of RM2,363/metric tonne in the first eight months this year. This marks a decline of 17.7% from RM2,870/metric tonne in Jan-Aug 2017. For the period 1-15 September, CPO prices averaged RM2,210/metric tonne. The weakening ringgit is expected to help lifting demand for palm oil amid lower exports. Malaysia cut its export tax on crude palm oil for September to 0%, which could encourage demand. Overall, CPO prices are estimated to average RM2,400/metric tonne in 2018 and RM2,450/metric tonne in 2019 (RM2,783/metric tonne in 2017).

Figure 12: Commodity prices still trending higher

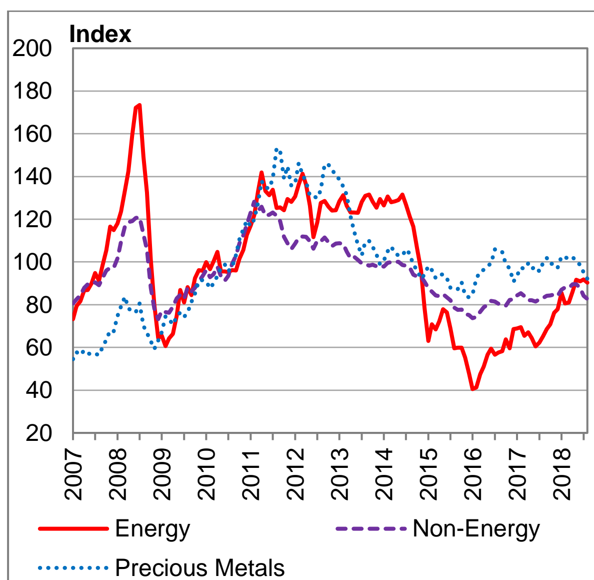


Figure 13: Crude oil prices likely to remain firm in the months ahead

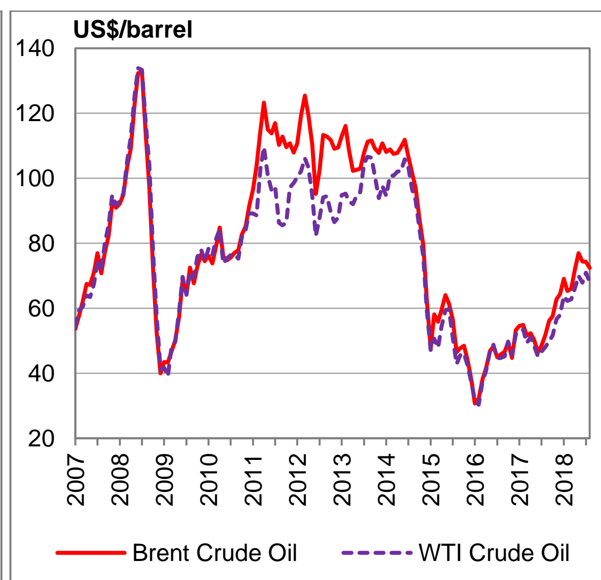


Figure 14: Crude palm oil prices remain volatile

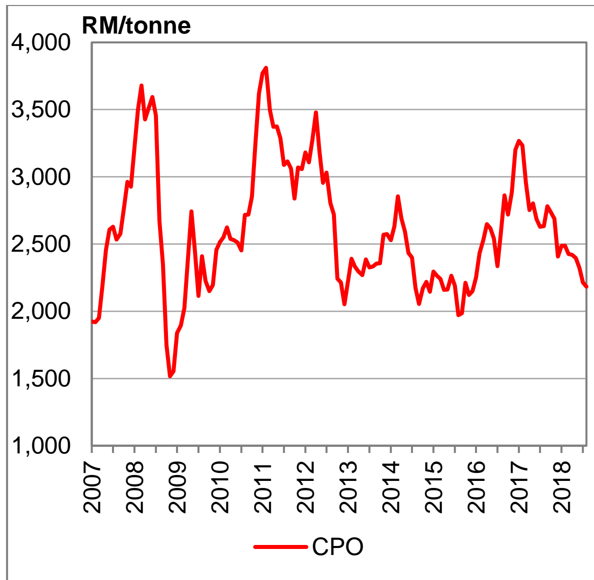
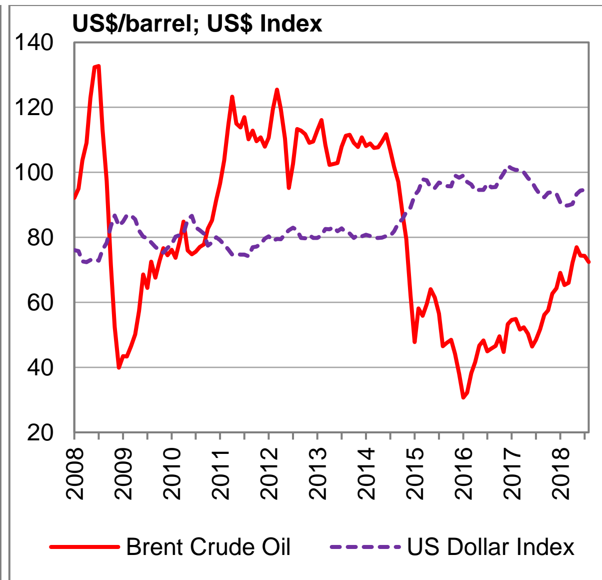


Figure 15: Brent crude oil price vs. US dollar index



Source: World Bank; US Energy Information Administration; Malaysian Palm Oil Board; The Wall Street Journal

US – FIRING ON ALL CYLINDERS BUT BEWARE OF TAIL RISKS

The US economy grew by annualized 4.2% qoq in 2Q18 (2.2% in 1Q18), fastest in 4 year, underpinned by buoyant consumer spending and sustained investment. For the first time since 2007, the US economy is operating at a positive output gap (which means that actual output is higher than potential output). Historically, the prevalence of the positive gap had signalled that the expansion was about to end. But, it does not mean a recession is imminent though it is in the late stage of expansion cycle. It must be noted that the US expansion is now in its tenth year of expansion. The economy is expected to grow by around 3% this year and to slow back to around 2% over 2019 and 2020 as the stimulative impact of the recent tax cuts wears off.

Signs point to continued growth buoyancy amid slightly easing momentum heading into the third quarter. Year-on-year retail sales and industrial production growth grew by 6.9% and 4.9% respectively in August. The employment report shows continued strong payroll gains, which are poised to support consumption. Non-farm payrolls increased by 201,000 in August (147,000 jobs in July), the longest streak on record. Jobless rate held near a generational low of 3.9% in August while average hourly earnings rose by 2.9% yoy, the highest since May 2009. The ISM manufacturing index unexpectedly rose stronger than expected, soaring from 58.1 in July to 61.3 in August. By component, inventories of inputs and raw materials increased at a faster pace, reflecting partly uncertainties related to the ongoing and rapidly escalating trade feud between the US and China, which is forcing manufacturers to stockpile raw materials. Core inflation increased slower by 2.2% yoy in August (2.4% in July) while headline CPI inflation eased to 2.7% in August from 2.9% in July, as increases in gas prices and rents were offset by declines in healthcare and apparel costs.

Figure 16: Robust US growth in 2Q18

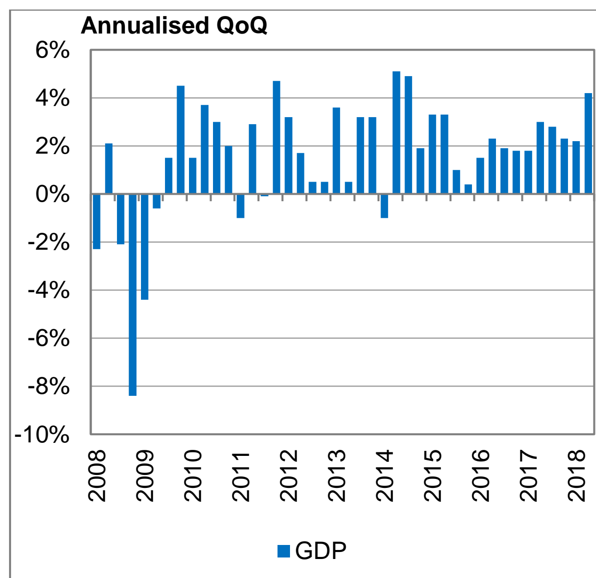


Figure 17: Business investment and consumption activities still strong

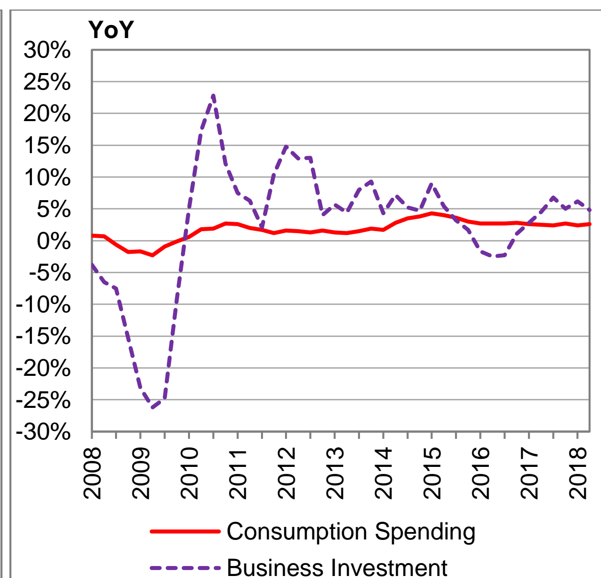


Figure 18: PMI indicates strong expansion of manufacturing ahead

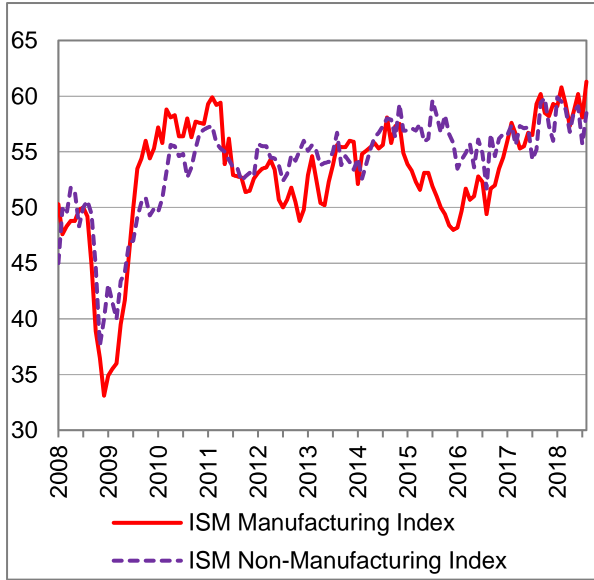


Figure 19: Consumer and industrial activity accelerating

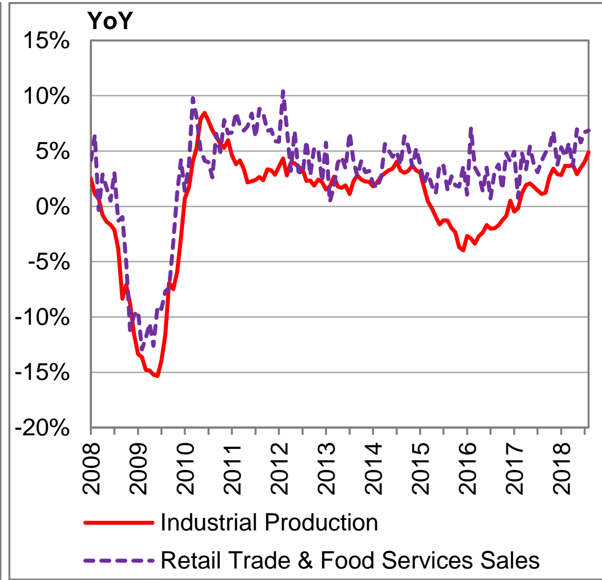


Figure 20: Unemployment rate held steady at 3.9% in Jul-Aug

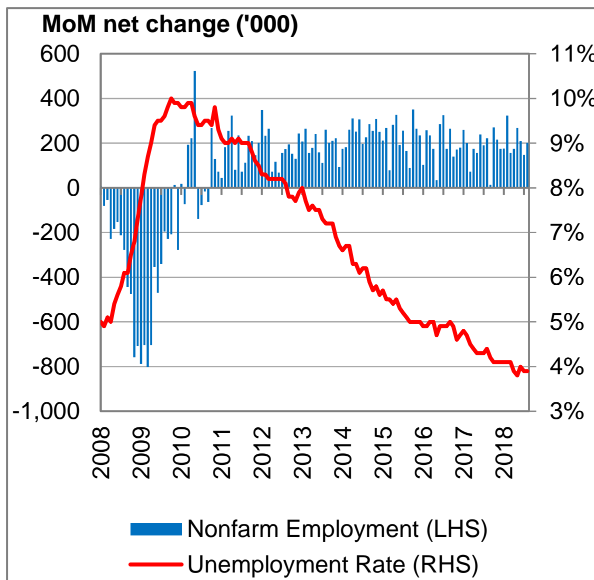
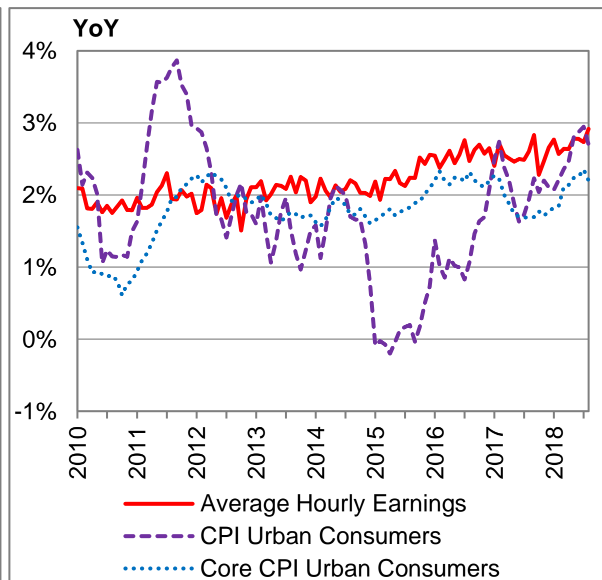


Figure 21: Headline CPI slowed to 2.7% yoy in August



Source: US Bureau of Economic Analysis; Institute for Supply Management; Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

EUROZONE – OUTLOOK WEAKENS

The euro area's subdued GDP growth carried into the second quarter (0.4% qoq), the same rate as in 1Q and the slowest pace since 3Q16. The Economic Sentiment Indicators (ESI) continues its declining trend since beginning of the year. Retail trade volume growth eased slightly. Industrial production growth declined marginally by 0.1% yoy in July after rising by 2.3% in June. Job market remains stable with unemployment rate remains at 8.2% since May. Headline inflation has been above the ECB's target since June and stood at 2.1% in July. Its rise since May reflects a much bigger contribution of energy prices while core inflation rate excluding energy prices did not increase much at 1.4% in July.

Trade wars, Brexit and potential capacity restraints that would limit growth are the main risks to the eurozone economy.

Figure 22: Eurozone's economic growth shows signs of moderating

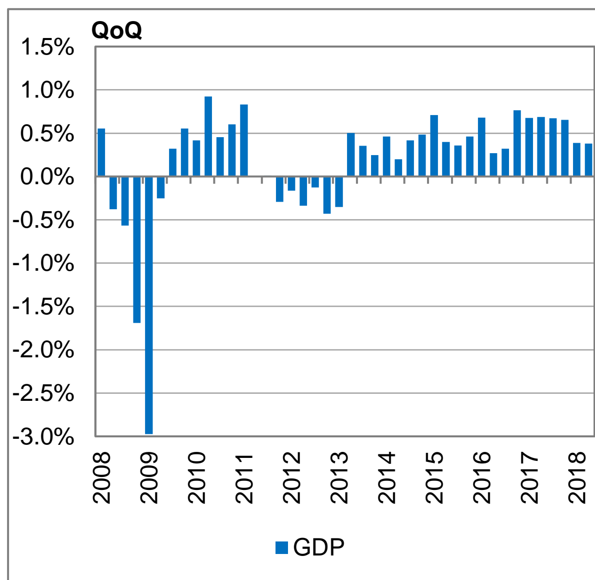


Figure 23: Domestic demand continues to remain soft

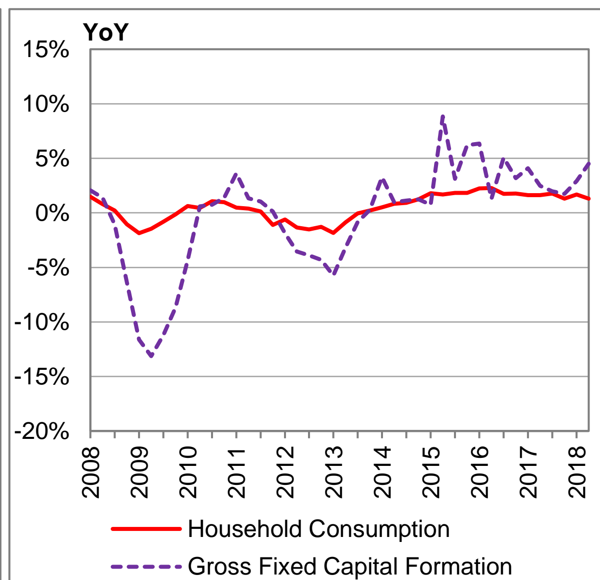


Figure 24: PMI manufacturing signalled a further softening ahead

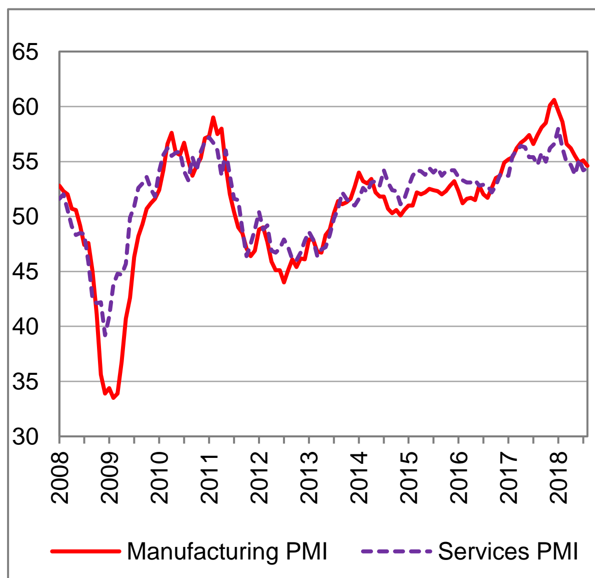


Figure 25: Industrial production growth slowing down

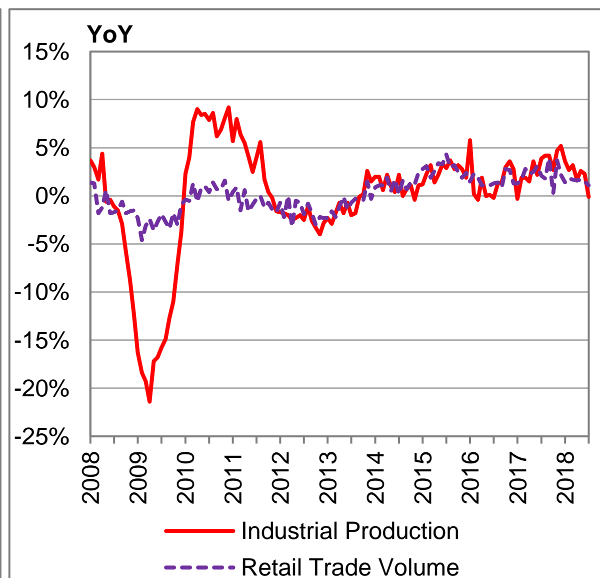


Figure 26: Unemployment rate remained unchanged at 8.2% since May

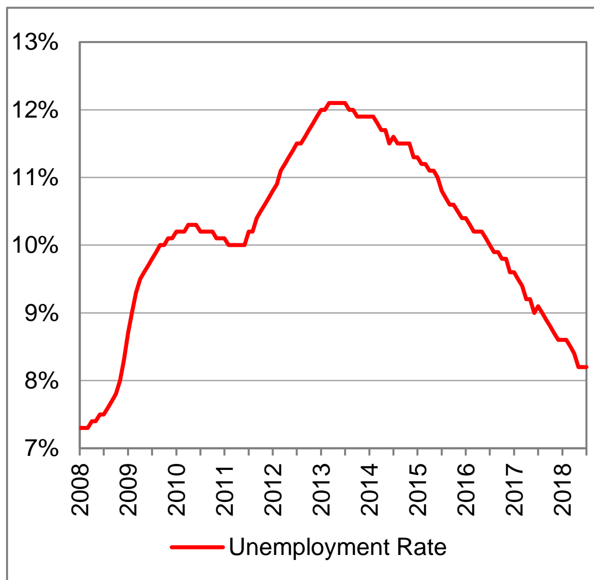
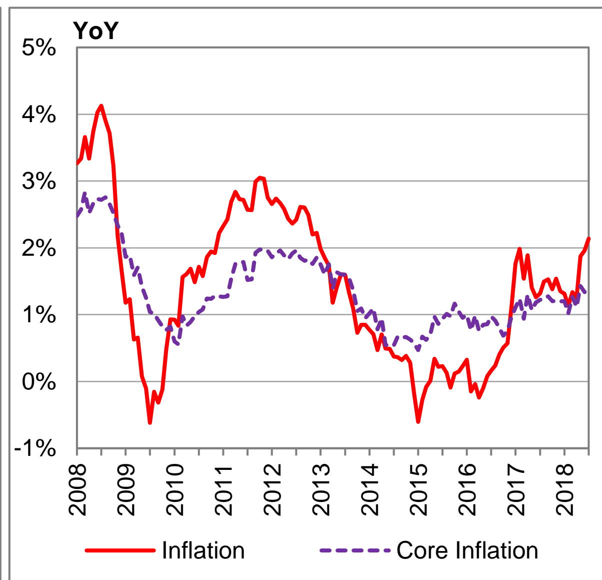


Figure 27: Headline inflation increased by 2.1% in July due to surging energy prices



Source: Eurostat; Markit

JAPAN – GROWTH REBOUNDED

Japan's economy rebounded at a faster-than-expected in the second quarter (annualised qoq of 3.0%) after shrinking by 0.9% in 1Q for the first time in two years. The rebound was supported by private consumption, which benefits from stable labour market and increases in wages. Retail sales growth slowed to 1.5% yoy basis in July (1.7% in June). Exports weakened to 3.9% in July from 6.7% in June amid growing global trade tensions. Industrial production rose by 2.2% in July, contrasting to 0.9% decrease in June. The PMI increased slightly from 52.3 in July to 52.5 in August. Annual inflation also increased marginally to 0.9% in August (0.7% in July).

Figure 28: Japan's economic growth returns to expansion as spending picks up

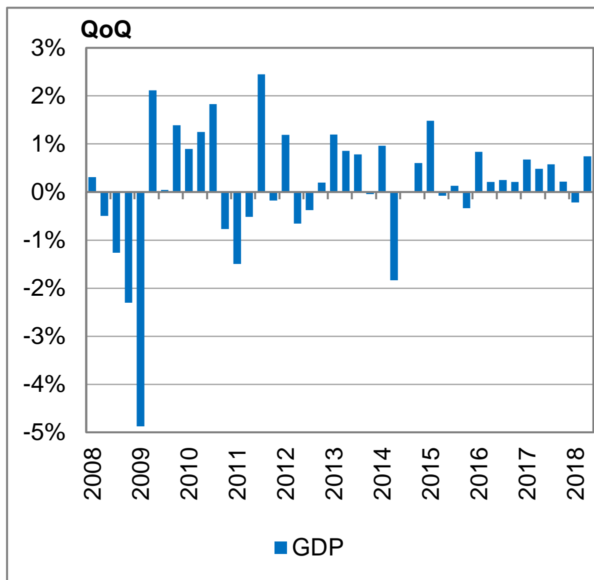


Figure 29: Strong business spending

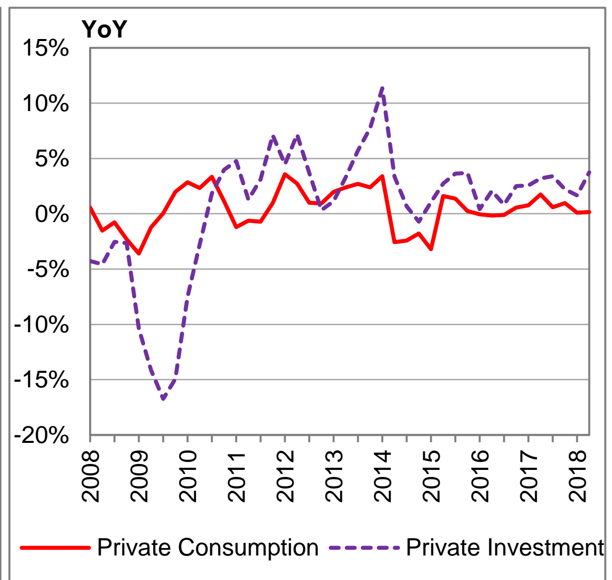


Figure 30: Retail sales rose for a ninth straight month in July

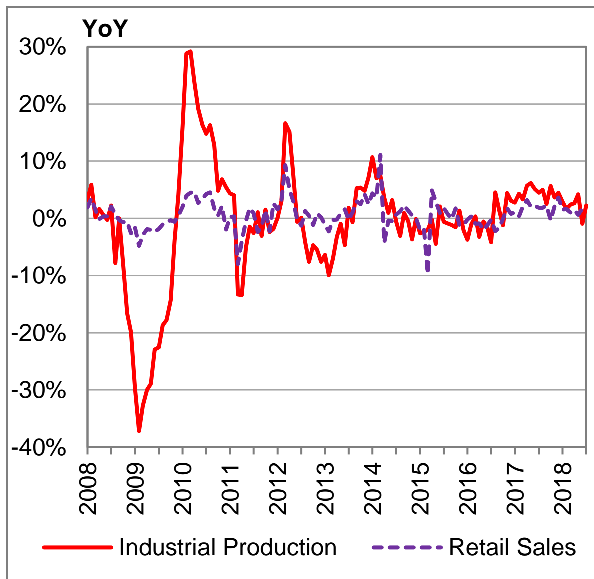


Figure 31: Exports moderating but imports surging

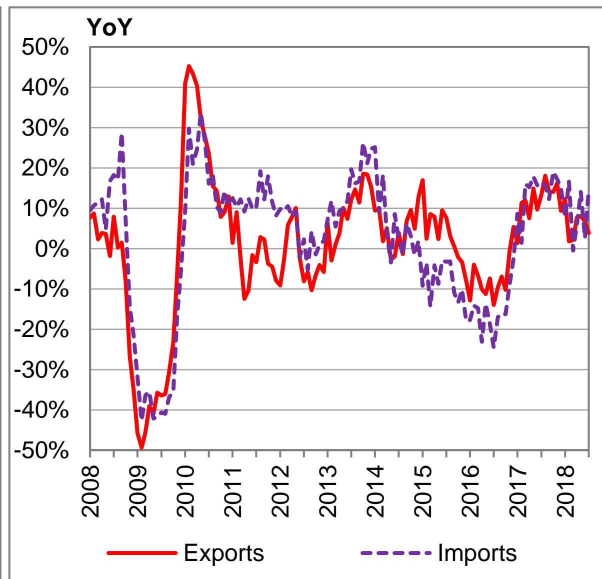
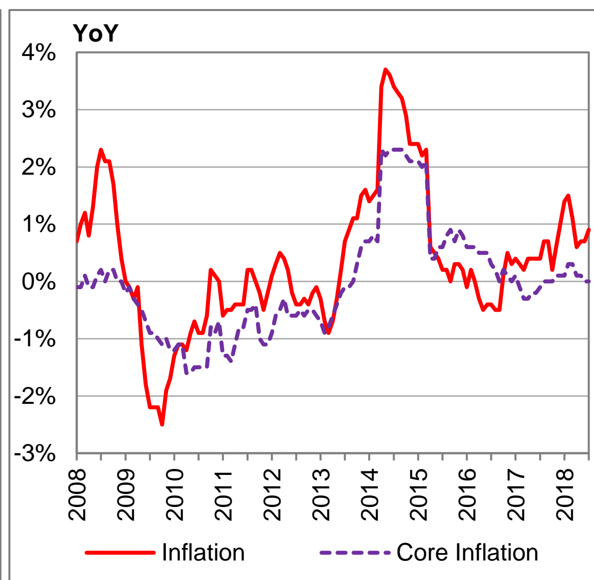


Figure 32: July's unemployment rate still low

Figure 33: July's inflation rate still below 1%



Source: Economic and Social Research Institute; Ministry of Economy, Trade and Industry, Japan; Japan Customs; Statistics Bureau, Japan

CHINA – CONTINUED COOLING AMID RISING TRADE TENSIONS

China's economy cooled further to 6.7% yoy in 2Q from 6.8% in 1Q as continued financial deleveraging weighed on investment and property lending. Data for July and August further points to softer economic activities as the government's multi-year efforts to tighten property lending and contain leveraging have started to weigh on growth amid facing the negative spillovers from the escalation of trade spat with the US.

Industrial output rose marginally by 6.1% yoy in August (6.0% in Jun-July) while retail sales rose 9.0% (8.8% in July). Fixed-asset investment growth slowed to a record low of 5.3% yoy in January-August, dragged by slowing infrastructure growth. The PMI manufacturing inched a little to 51.3% in August from 51.2% in July. Export growth slowed to 9.8% yoy in August (July: 12.2%), reflecting the moderate impact of the trade spat with the US.

Figure 34: China's economy eased marginally to 6.7% in 2Q

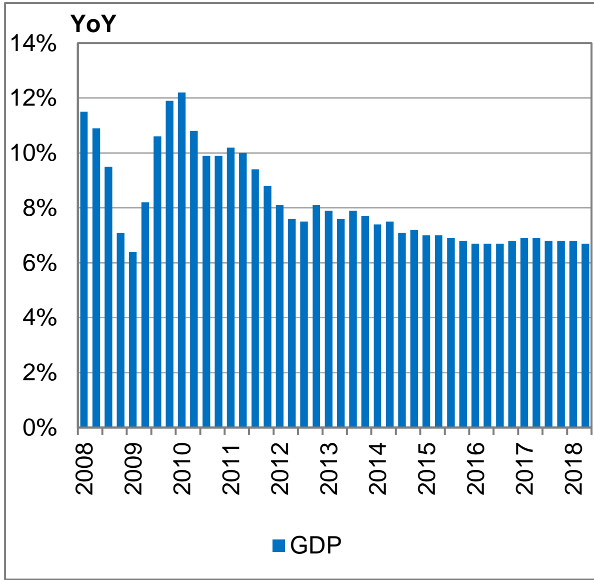


Figure 35: PMI for manufacturing and services ease a little

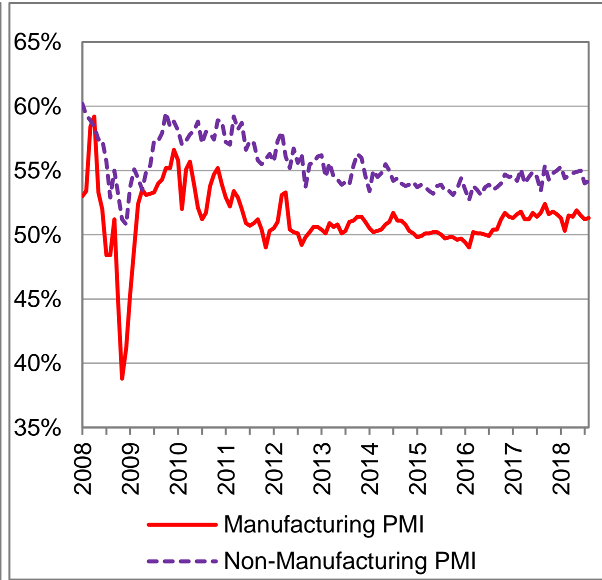


Figure 36: Industrial production growth improved marginally in August

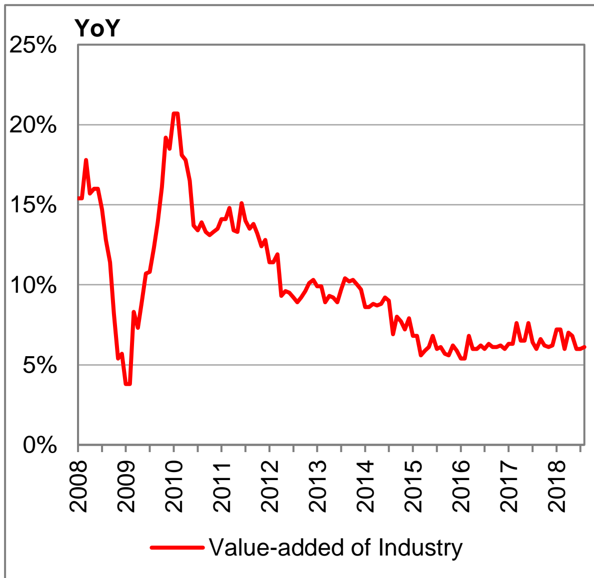


Figure 37: Retail sales growth inched up a little in August

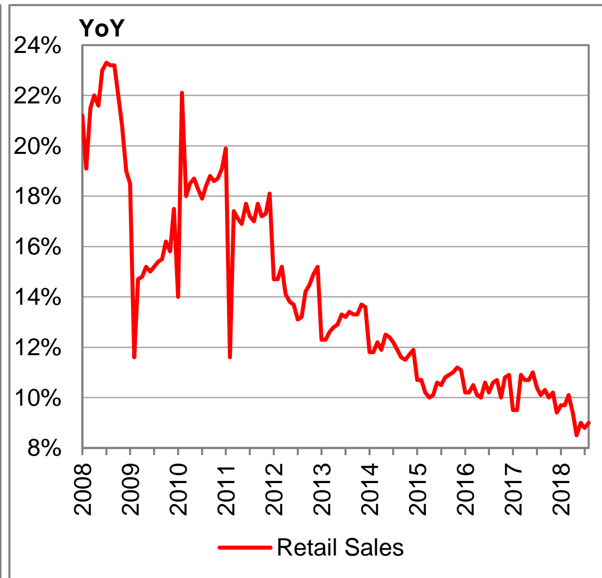


Figure 38: Fixed assets investment growth contracted to a record low of 5.3% in Jan-Aug

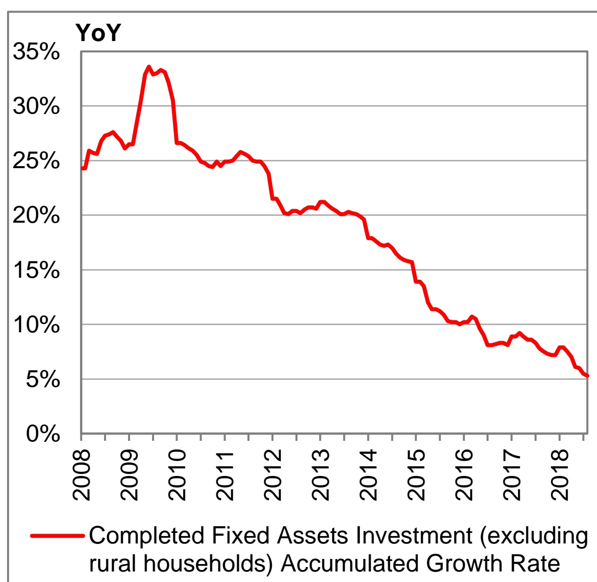
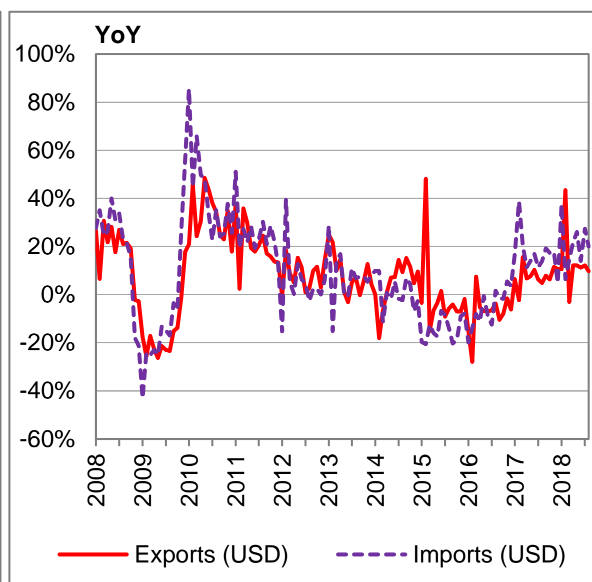


Figure 39: Exports slowed while imports remained strong



Source: National Bureau of Statistics of China; General Administration of Customs, China

ASEAN-5 ECONOMIES' KEY ECONOMIC DATA TRACKER

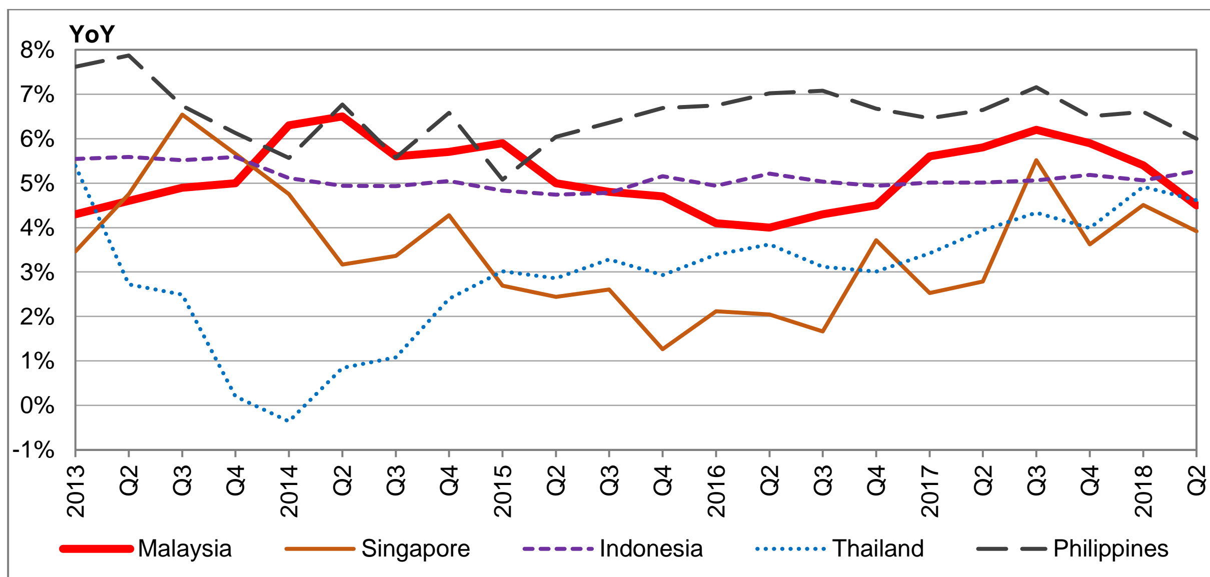
ASEAN-5 economies' GDP growth indicated that moderating momentum in the second quarter. Real GDP growth slowed in Malaysia, Thailand, Singapore and Philippines while that of Indonesian economy still steadying higher amid facing the foreign exchange pressures due to the capital outflows reversal.

Export growth still growing though there remain heightened risks to outlook due to a protracted and deeper trade battles between the US and China as Asian economies are integrating with these two giant trading nations via the global supply chains. Industrial production showed mixed performance.

Philippines' inflation pressures accelerating to a near-decade high of 6.4% in August on strong price increases in major items. Inflation in Singapore and Thailand also moving higher in recent months. Malaysia's inflation remains subdued due to policy measure while that of Indonesia remained stable and within the target of Bank Indonesia.

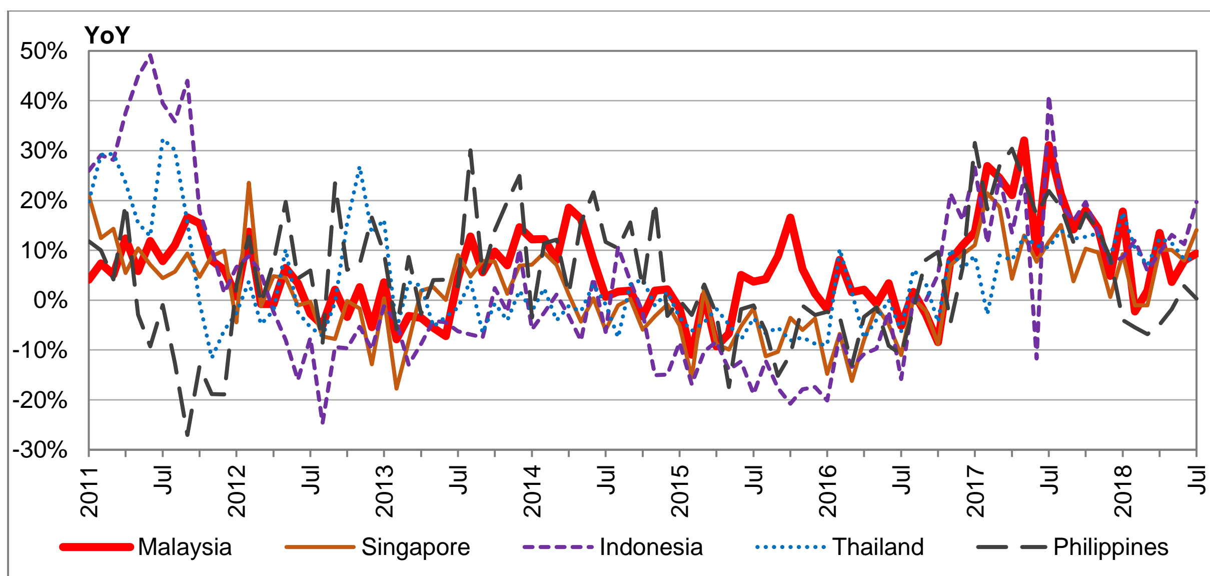
In the quarters ahead, ASEAN-5 economies are expected to remain challenging given the spillover risks from the ongoing escalation of trade spat between the US and China and the damaging impact on the global economy and trade; lingering concerns about the contagion risk in some emerging economies and tighter financial conditions in the region could drag on domestic demand.

Figure 40: Real GDP growth trend



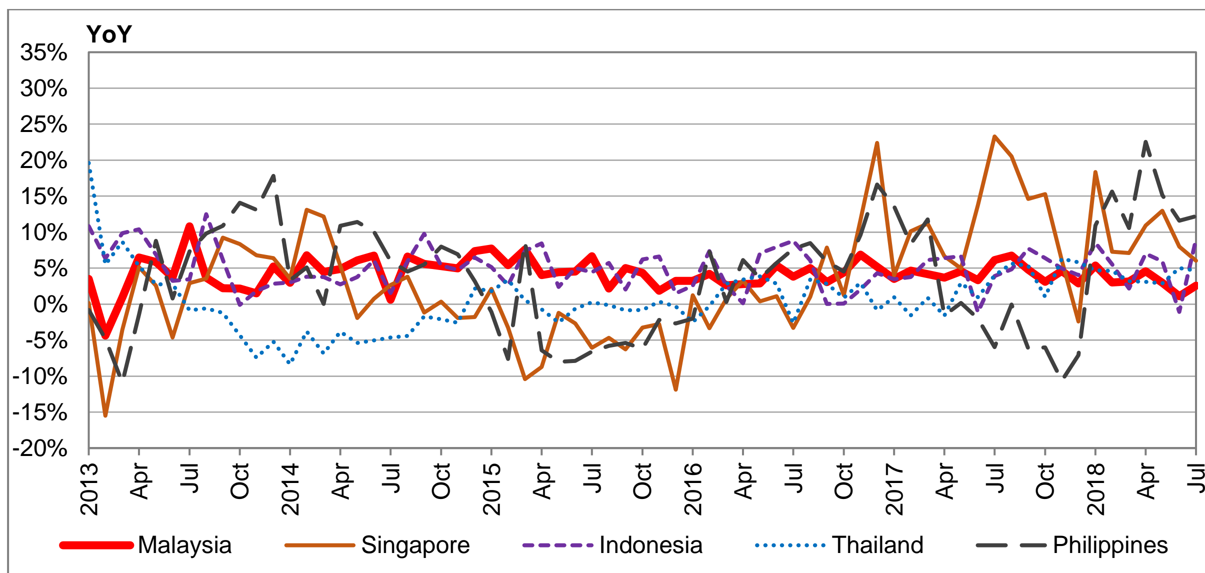
Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; National Economic and Social Development Board, Thailand; Philippine Statistics Authority

Figure 41: Export growth trend



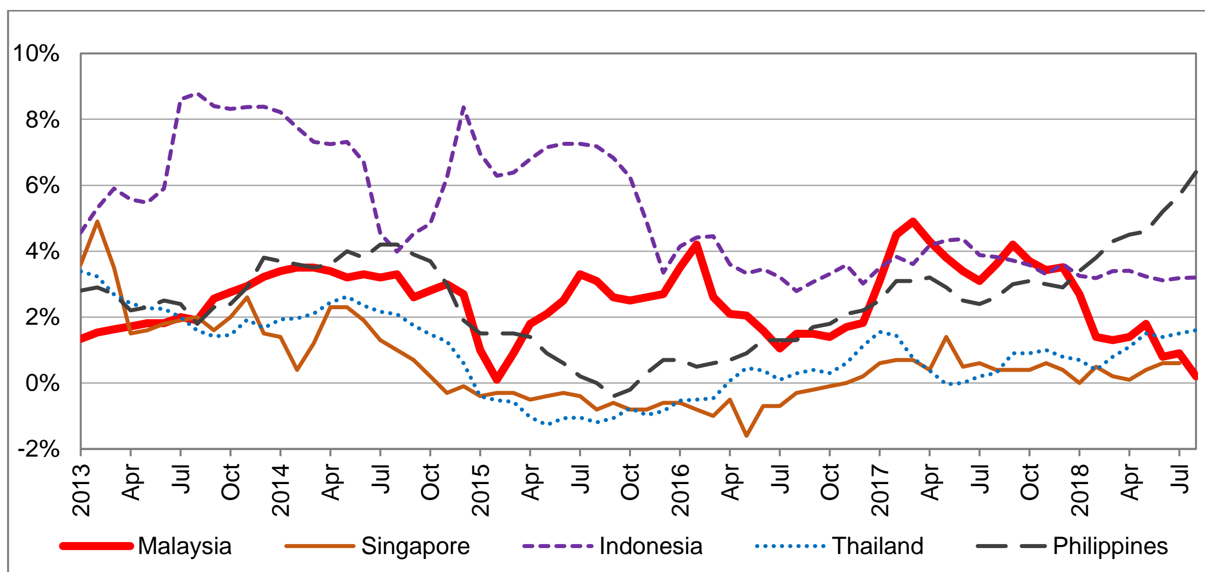
Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank of Thailand; Philippine Statistics Authority

Figure 42: Industrial production growth trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Office of Industrial Economics, Thailand; Philippine Statistics Authority

Figure 43: Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Bank Indonesia; Ministry of Commerce, Thailand; Philippine Statistics Authority

B. GLOBAL MONETARY POLICY TRACKER

Barring any significant impact of the US-China trade war on the US economy, the Fed should stay on course to end the year with two more interest rate increases, taking the Fed's fund target rate to 2.25-2.50% at end-2018 from 1.75-2.00% currently. The Fed's Open Market Committee has now projected that it will raise the federal funds rate to 2.4% by end-2018, to 3.1% by end-2019, and to 3.4% by end-2020.

The conditions are deemed appropriately justified for continued interest rate hikes: a) an upbeat assessment of the US economy can absorb a gradual hike in interest rate; and b) inflationary pressures have been picking up on solid gains in employment and improved wage growth. Headline and core inflation stood at 2.7% and 2.2% respectively in August.

The ECB is expected to keep the monetary stimulus (its marginal lending facility and the deposit facility will remain unchanged at zero, 0.25 and -0.40% respectively) for an extended period at least till 2Q-3Q 2019 to support growth amid the build-up of domestic price pressures. It remains on track to end its €2.5tn quantitative easing program by the end of 2018. The council is still expected to cut the amount of bonds it buys each month under the QE program from €30bn to €15bn from October, before halting the expansion of its balance sheet for good at the end of the year.

The stubbornly weak inflation forces Bank of Japan (BOJ) to make its massive stimulus program more flexible and pledged to keep interest rates low for the time being.

In Asia, a number of central banks raised their policy rate in August. Bank Indonesia (BI) took the market by surprise when it hiked the seven-day reverse repo rate by 25 basis points to 5.50% in August, marking the fourth rate hike so far in 2018. It also increased the deposit facility rate and lending facility rate by 25 basis points each to 4.75% and 6.25%, respectively. BI has been forced to tighten monetary policy to buttress the rupiah from sliding rapidly against the US dollar to the low of 14,820 hit during 1997-98 Asian Financial Crisis.

Driven by high inflation (5.0% in June) and a weak rupee, Reserve Bank of India (RBI) raised interest rates by 0.25 percentage points for the second time in three months in August to 6.50% for repo rate; the marginal standing facility (Bank Rate) at 6.75% and the reverse repurchase rate at 6.25%. With August's inflation returning to 3.7% and meets the RBI's medium-term target of 4%, this helps to relief inflationary pressures amid the weakening rupee.

On 9 August, the Central Bank of the Philippines (BSP) upped the overnight reverse repurchase facility (RRP) by 50 basis points, from 3.50% to 4.00%, representing the third interest rate hike since September 2014 and the steepest increase so far this year. The rate decision came against a backdrop of elevated inflationary pressures. The weakening peso along with increasing price level induced by higher global energy prices would compel BSP to raise its policy rate again.

Figure 44: Policy rate (%)

End-period of	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (Aug/ Sep)	2018*F*
US, Fed Federal Funds Rate	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.25-0.50	0.50-0.75	1.25-1.50	1.75-2.00	2.25-2.50
Euro Area, ECB Deposit Facility	2.00	0.25	0.25	0.25	0.00	0.00	-0.20	-0.30	-0.40	-0.40	-0.40	-0.40
Japan, BOJ Policy Rate	0.10	0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	0.00-0.10	-0.10	-0.10	-0.10	-0.10
China, PBOC 1-yr Benchmark Loan I/R	5.31	5.31	5.81	6.56	6.00	6.00	5.60	4.35	4.35	4.35	4.35	4.35
India, RBI Policy Repo Rate	6.50	4.75	6.25	8.50	8.00	7.75	8.00	6.75	6.25	6.00	6.50	6.50
Korea, BOK Base Rate	3.00	2.00	2.50	3.25	2.75	2.50	2.00	1.50	1.25	1.50	1.50	1.50
Malaysia, BNM O/N Policy Rate	3.25	2.00	2.75	3.00	3.00	3.00	3.25	3.25	3.00	3.00	3.25	3.25
Indonesia, BI 7-Day RR Rate	9.25	6.50	6.50	6.50	5.75	7.50	7.75	7.50	4.75	4.25	5.50	5.75
Thailand, BOT 1-Day Repurchase Rate	2.75	1.25	2.00	3.25	2.75	2.25	2.00	1.50	1.50	1.50	1.50	1.75
Philippines, BSP O/N RR Rate	5.50	4.00	4.00	4.50	3.50	3.50	4.00	4.00	3.00	3.00	4.00	4.50

Source: Officials; SERC

C. MALAYSIA: POLICY LEVERS TO SHRUG OFF WEAK GROWTH

Weaker GDP growth in 2Q; moderately higher in 2H18. The Malaysian economy slowed to 4.5% yoy in 2Q18 (5.4% in 1Q) for the third consecutive quarter, dragged by contractions in mining and agriculture sectors as well as a sharp decline in public investment. Real GDP growth expanded by 4.9% in 1H18. With increasing downside risks to global growth and the continued drag from public spending, we now estimate real GDP to grow by 4.8% this year (5.2% previously) and 4.7% in 2019 (4.9% previously). We will review our estimates after the tabling of 2019 Budget on 2 November.

Consumer spending holds strong. Buoyed by three months of zerorised GST between June and August, the stabilisation of fuel prices, continued payment of cost of living aid along with strengthening consumer sentiment, private consumption ratcheted higher to 8.0% in 2Q (6.9% in 1Q18 vs. an average of 6.5% in 2016-17).

The fundamental drivers to support household spending will have to be sustained. These include continued strength in income and employment growth as well as stable prices of goods and services when the Sales and Service Tax (SST) kicks in in September. It must be noted that private sector's wage growth has moderated to 5.7% in 2Q from 6.6% in 1Q. Unemployment rate has inched a little to 3.4% in June and July from 3.3% in May. The support for consumer spending is higher minimum wage increases between 5.0-14.1% to RM1,050 starting 1 Jan 2019 in Peninsular Malaysia and East Malaysia (Sabah and Sarawak). Another wild card on consumer spending is the possibility of reviewing the cost of living aid to the well-deserved households. Overall, private consumption is estimated to increase by 7.2% this year and 6.8% in 2019 (7.0% in 2017).

Private investment growth bounces back but remains cautious. It was a relief that private investment growth has rebounded to 6.1% yoy in 2Q from a trough of 0.5% in 1Q, driven mainly by capital spending in the manufacturing and services sectors. But, there remain challenges to sustain its strength through providing greater clarity on domestic policies, including the status of on-going projects and new projects amid the dampened sentiments from the intensified external headwinds. We now estimate private investment to grow by 3.9% this year and 4.1% in 2019.

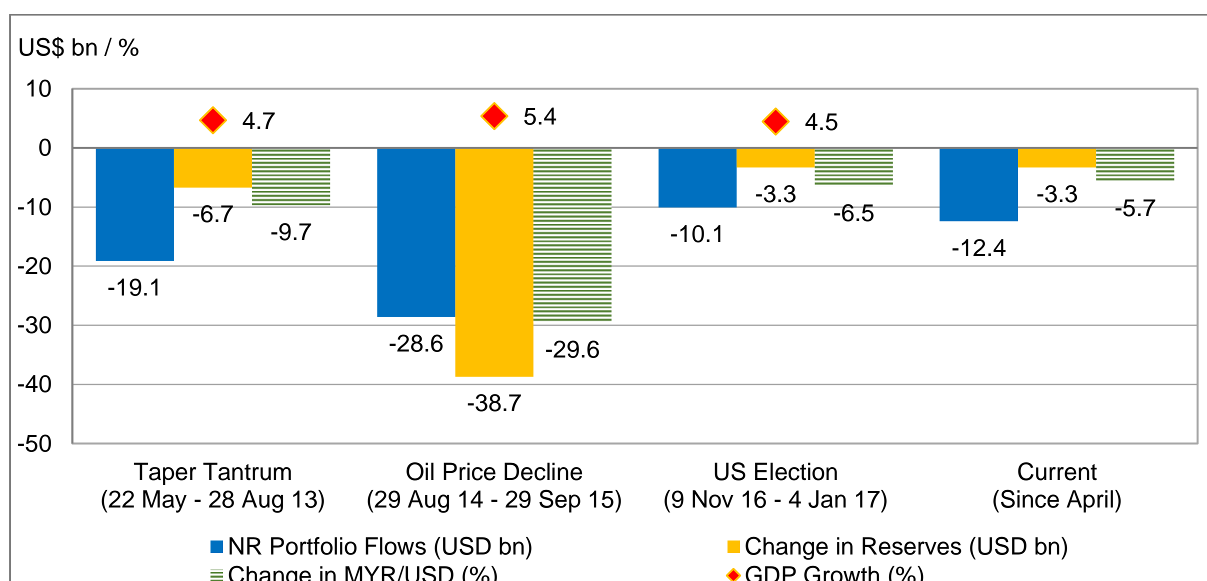
Exports fare well but beware of trade tensions risk. Malaysia's exports expanded at a faster pace of 8.2% in the second quarter compared to 5.8% in 1Q18, supported mainly by firm demand of electronics and electrical products. In July, exports grew by 9.4%, bringing the cumulative growth to 7.3% in the first seven months. Amid the heightened risk of trade tensions on the export outlook, it is the high exports value technical base effect averaging RM80.6 billion per month in 2H17 that will challenge the annual growth of export performance in 2H18. There are anecdote evidence that the trade tensions have resulted in higher inputs cost and supply disruption. We estimate exports to grow by 6.5% this year and 5.9% in 2019 (18.9% in 2017).

Inflation numbers to stay low for quite some time. Inflation rate, as measured by the Consumer Price Index (CPI) has been staying on a subdued trajectory (0.2% yoy in August; 0.9% in July and 1.3% in 2Q vs. 1.8% in 1Q18), reflecting largely the technical impact of high base effect, the zerorisation of GST for three months (June-August), and the stabilisation of fuel price (RON 95) as well as moderated food prices. With the reintroduction of Sales and Service Tax (SST) on 1 September, some pick up in prices are expected and along with higher minimum wage increases between 5.0-14.1% in 2019 as well as the possible rationalisation of fuel subsidy for targeted groups, headline inflation will trend higher from estimated 1.3% this year to 2.0-2.5% in 2019 (3.7% in 2017).

Policy levers to shrug off weaker domestic growth and fan off contagion risk. Malaysia is not spared from the sentiment spillovers of financial reverberations in some high risks rated emerging economies in the region. The ringgit also downbeat against the US dollar on capital outflows. However, financial conditions have remained relatively stable despite sizeable capital outflows in recent months, which recorded an outflows of RM38.3 billion in 2Q18, the largest outflows since third quarter of 2008.

In retrospect, Malaysia had suffered a few episodes of sizeable capital reversals in recent years, which had dented the foreign reserves and weighed down the ringgit.

Figure 45: Non-resident portfolio flows, reserves, ringgit performance and GDP growth during outflow periods



Note: Current data for reserves is at end-July 2018; MYR/USD as at 14 August 2018; NR portfolio flows as at 13 August 2018
Source: Bank Negara Malaysia

Malaysia has shown the ability to manage financial shocks backed by its flexible exchange rate, unencumbered foreign reserves, deep capital markets and resilient banking system.

The policy makers need to safeguard financial stability and economic resilience through an appropriate mix of fiscal, monetary, exchange rate and prudential policies. More importantly, the ringgit flexibility helps to absorb the shocks from capital reversals though the effect of exchange rate depreciation is disruptive on businesses (via high imported cost of raw materials) and households (domestic inflation).

The central bank must provide ample liquidity to support credit growth and stable funding cost. Growth friendly measures to protect the vulnerable groups while preserving some monetary and fiscal buffer to counter extended external shocks.

Malaysia retains some buffers, including policy space, to cushion against adverse shocks. While the fiscal space is somewhat capped by continued fiscal and debt consolidation, high national savings about 29% of GNP, considerable foreign exchange reserves of US$104.4 billion as at end-Aug, a current account surplus, albeit smaller, a deeper and more developed financial markets should help to absorb as well as contain risks arising from capital flows reversal.

BNM to keep monetary arsenal for now. It is expected that a rate cut is "off the table" in the foreseeable future, restrained by rising US interest rates and hence, the downward pressure on the ringgit. Bank Negara Malaysia is expected to watch growth data closely to see whether an expected pick-up in GDP growth materialises in 2H18. Despite the weaker-than-expected second quarter GDP growth, the central bank is convinced the factors dragging down growth will dissipate in 2H18. SERC expects BNM's Overnight Policy Rate (OPR) to hold steady at 3.25% for the rest of the year. The hurdle rate prompting a cut in interest rate is when real GDP growth slipping to around 4.0%.

Bearish outlook for ringgit at least in 1H19. The ringgit continues to trade lower by between RM4.0085 and RM4.1495 against the US dollar in July-14 September, marking a depreciation of 2.5% when compared to end-June (-4.4% in 2Q) and 1.9% year-to-date (as of 14 Sep). Along with the pressure on emerging markets' currencies on capital reversals induced by the prospects of higher US interest rates and strong US dollar, the outlook for ringgit is expected to remain weak in 4Q18 and most of 1H19 before gathering strength towards 4Q19. Externally, the Fed's interest rate cycle could be peaking in 3Q19 and hence, would take some pressure off the ringgit. Domestically, our economic and financial fundamentals must be kept strong to counteract the external pressures on the ringgit. These include continued surplus in the current account, healthy reserves accumulation, stable fiscal and debt path and the affirmation of Malaysia's sovereign ratings.

Figure 46: Real GDP by economic sector (% YoY)

Economic Sector [% share to GDP in 2017]	**2016**	**2017**	**2018 1Q**	**2018 2Q**	**2018 1H**	**2018*E* (SERC)**
Agriculture [8.2%]	-5.2	7.2	2.8	-2.5	0.1	-0.4
Mining & Quarrying [8.4%]	2.1	1.0	0.1	-2.2	-1.0	-1.0
Manufacturing [23.0%]	4.4	6.0	5.3	4.9	5.1	4.8
Construction [4.6%]	7.4	6.7	4.9	4.7	4.8	4.5
Services [54.5%]	5.7	6.2	6.5	6.5	6.5	6.4
Overall GDP	**4.2**	**5.9**	**5.4**	**4.5**	**4.9**	**4.8**

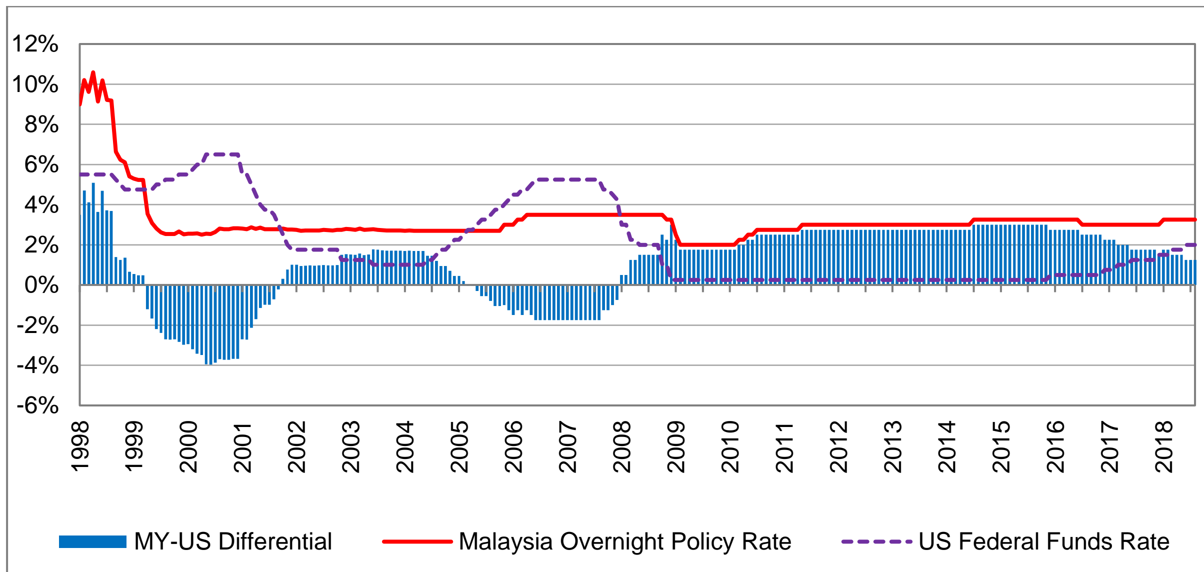
Source: Department of Statistics, Malaysia; Bank Negara Malaysia; SERC

Figure 47: Real GDP by demand component (% YoY)

Demand Component [% share to GDP in 2017]	**2016**	**2017**	**2018 1Q**	**2018 2Q**	**2018 1H**	**2018*E* (SERC)**
Private Consumption [53.7%]	6.0	7.0	6.9	8.0	7.4	7.2
Public Consumption [13.0%]	0.9	5.4	0.4	3.1	1.8	1.8
Private Investment [17.4%]	4.3	9.3	0.5	6.1	3.4	3.9
Public Investment [8.0%]	-0.5	0.1	-1.0	-9.8	-5.2	-4.4
Exports of Goods and Services [72.8%]	1.3	9.4	3.7	2.0	2.9	2.7
Imports of Goods and Services [65.1%]	1.3	10.9	-2.0	2.1	0.0	2.0
Overall GDP	**4.2**	**5.9**	**5.4**	**4.5**	**4.9**	**4.8**

Source: Department of Statistics, Malaysia; Bank Negara Malaysia; SERC

Figure 48: Malaysia-US's interest rate differentials



Source: Bank Negara Malaysia; Federal Reserve

REVIEW OF KEY ECONOMIC AND FINANCIAL INDICATORS

Leading indicators and Industrial production

Leading index (LI), which designed to indicate the direction of economy over the next four to six months ahead anticipates the economy will continue to expand but at a slower pace between October and December.

Industrial production growth picked up to 2.6% yoy in July after hitting a 47-month low of 1.1% growth in June. Manufacturing activities remained healthy. However, mining output remained sluggish, dragged by low output of liquefied natural gas (LNG), which contracted by high double-digit rate for two straight months (-15.2% in July and -15.7% in June). The declining LNG output since February was due to the gas leak incident happened in January while PETRONAS is still waiting for approval from the authority to resume operations despite the pipeline has been repaired.

Figure 49: Leading index suggests economy will be expanding at a slower pace in 4Q

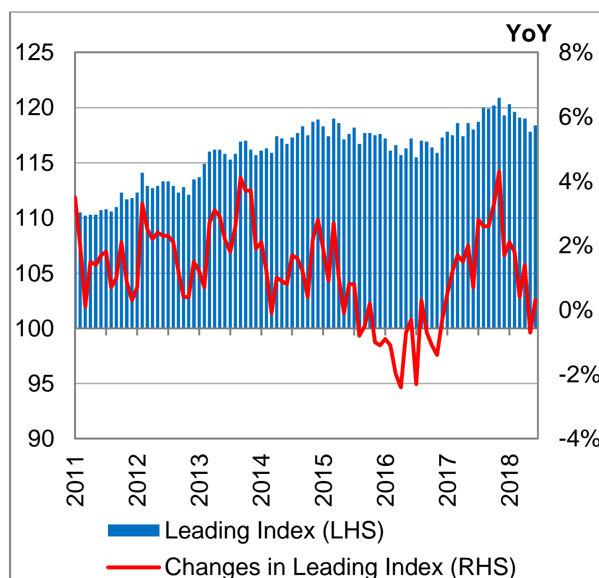
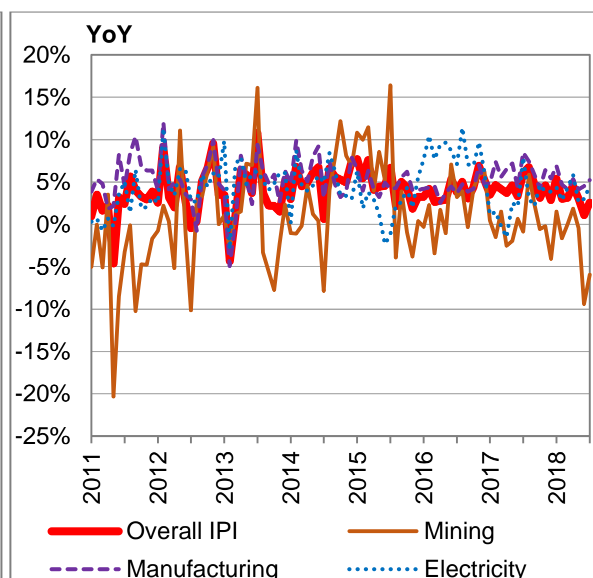


Figure 50: Contraction in mining production



Source: Department of Statistics, Malaysia

Exports, Manufacturing sales and Services

Amid facing potential disruptions from the US-China's trade tensions, **exports** still remain on expansion track to increase higher by 9.4% yoy in July after a 6.9% expansion in 1H18. The main exports contributor was electrical and electronic products, which registered a 23.6% growth in July. However, palm oil and LNG exports declined by 14.0% and 10.2% respectively in the first seven month of 2018. Challenged by the high exports base (average RM80.6 million per month) in 2H17, prolonged sluggishness in palm oil prices and operational issues in the production of LNG, exports are expected to grow by 6.5% in 2018 (18.9% in 2017).

After registering a 6.8% growth in the 1H18, **manufacturing sales** continue to expand by 9.6% in July, supported by strong sales of electrical and electronic products (12.0%), petroleum, chemical, rubber and plastic products (7.3%) as well as transport equipment & other manufactures products (17.3%). As expected, retail and motor vehicle sales have been boosted by the zero-rated consumption tax in June-August. With prices of certain marques cheaper by RM2,000 to RM3,000 (compared with prices under GST regime) after the new SST on 1 September, this would help to keep buying interests at bay.

Figure 51: Exports growth remained strong despite the fear of trade war …

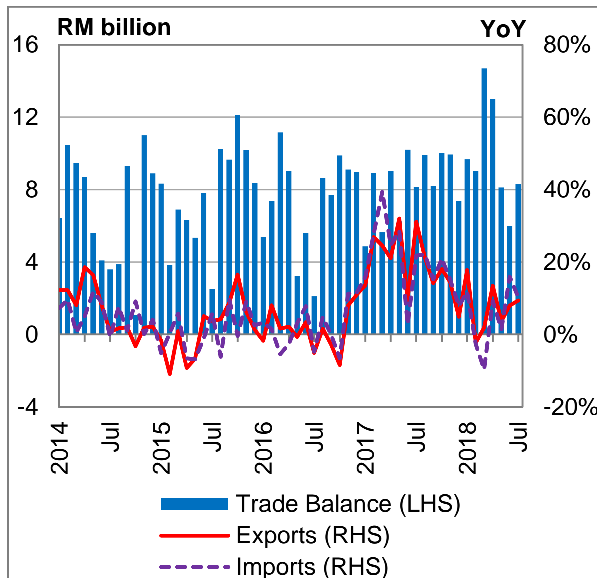


Figure 52: … led by strong demand for E&E products

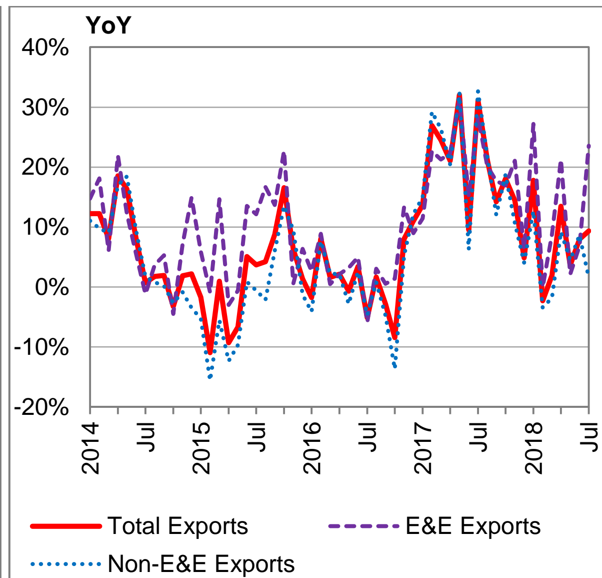


Figure 53: Manufacturing sales growth has a good start in 3Q

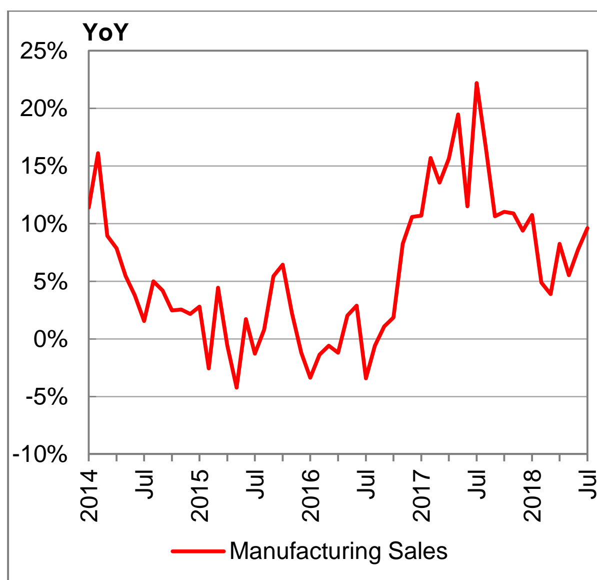
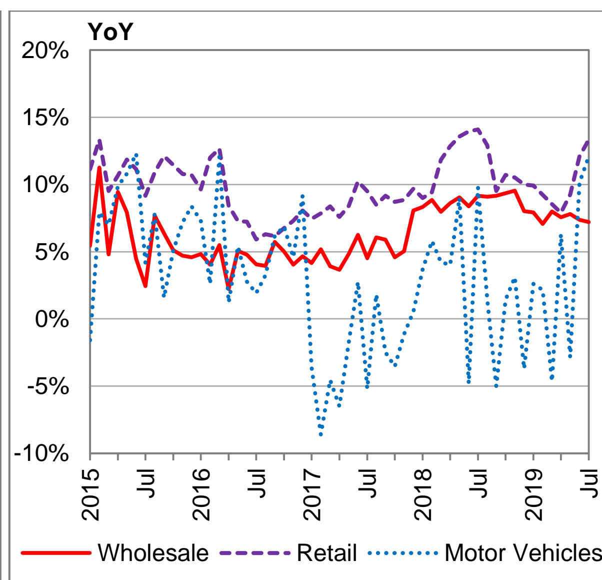


Figure 54: Retail and motor vehicle sales benefitted from the 3-month tax holiday



Source: Department of Statistics, Malaysia

Private consumption indicators

MIER's Consumer Sentiment Index (CSI) soared up to 21-year high at 132.9 points in 2Q18 (91.0 in 1Q) due to better shape in current household finances, higher expectations in hiring and incomes, low price levels as well as favourable spending plans. Unemployment rate remained healthy and hovering between 3.3-3.5% since December 2015. Sales and Service Tax (SST) that came into effect on 1 September may hinder some spending plans. With the coverage of SST is much smaller compared to the GST regime, overall private consumption will still be in good shape, albeit slower as the big one-off spending during the 3-month tax holiday normalises. We estimate private consumption to expand by 7.2% this year and 6.8% in 2019 (7.0% in 2017).

Figure 55: Passenger car sales soared in June and July in the absence of consumption tax

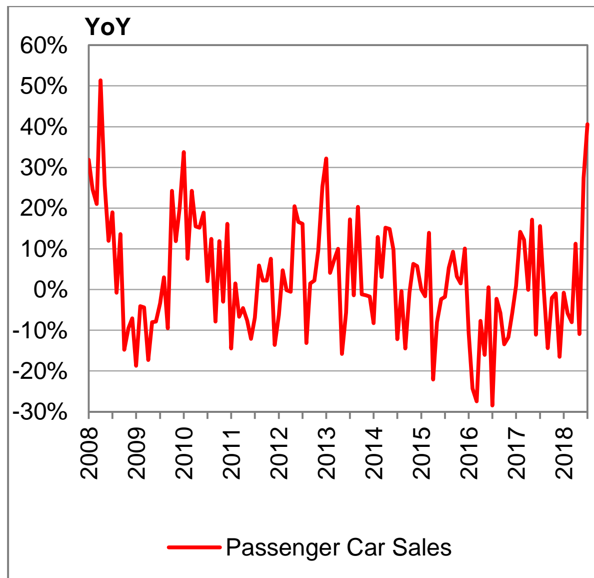


Figure 56: Narrow money growth is moderating

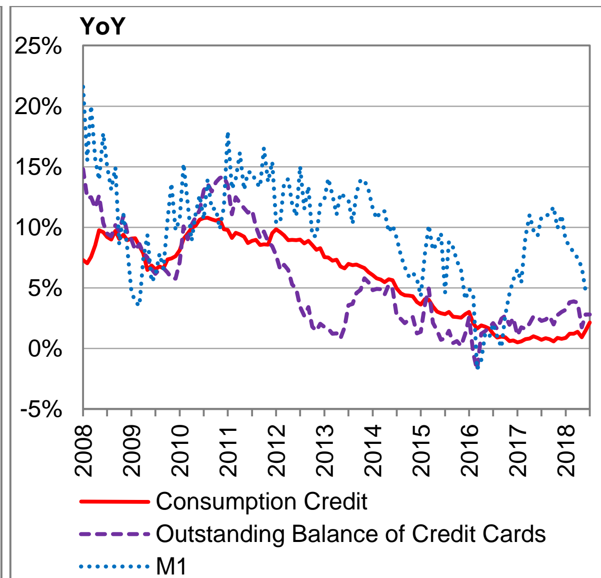


Figure 57: Low pay-out growth in services sector

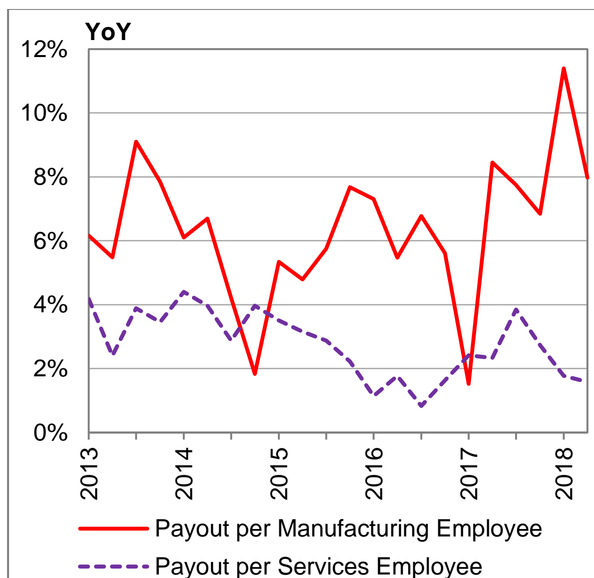
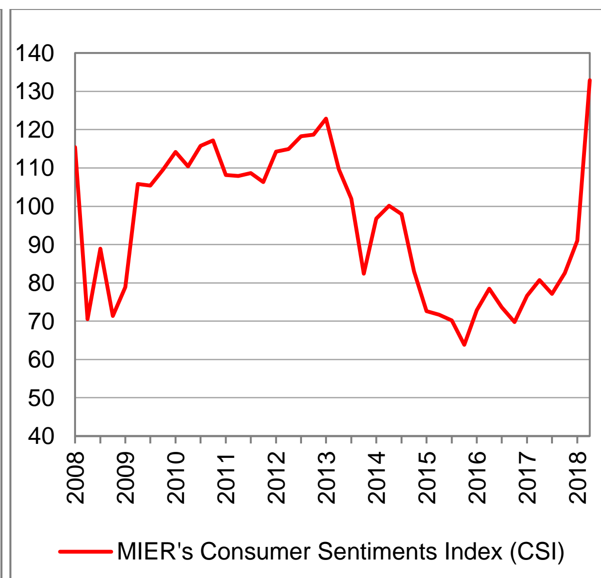


Figure 58: Consumers' confidence at all-time high with the birth of New Malaysia



Source: Department of Statistics, Malaysia; Malaysian Institute of Economic Research

Private investment indicators

Businesses' confidence shot up on higher expected production and export sales in 3Q as well as stronger investments in new plant and equipment. 38% of the manufacturers in MIER's survey reported that their production were close to full capacity while another 46% reported high capacity utilisation rate of 61-80%. Overall, MIER Business Condition Index (BCI) jumped up 17.7 points to 116.3, in line with the bouncing back of real private investment growth in 2Q. With New Government's policy transition and direction remains uncertain as well as increasing external headwinds, we expect private investment growth to expand moderately by 3.9% this year (3.0% previously) despite gaining traction to 6.1% in 2Q from 0.5% in 1Q18.

Figure 59: Selected private investment indicators

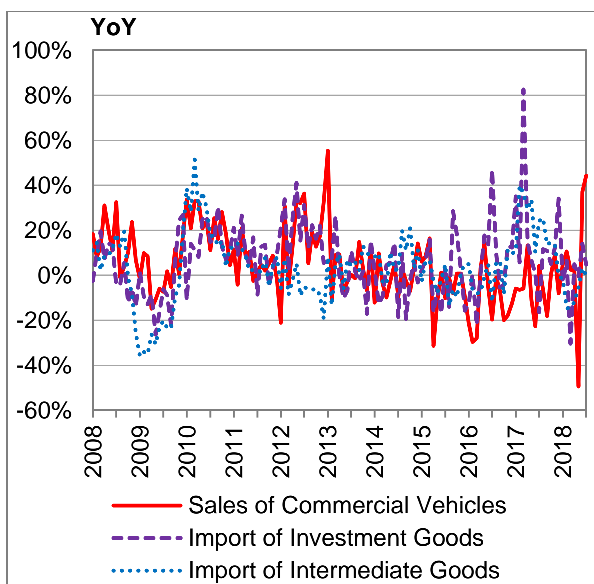


Figure 60: Real private investment growth recouped some lost ground in 2Q

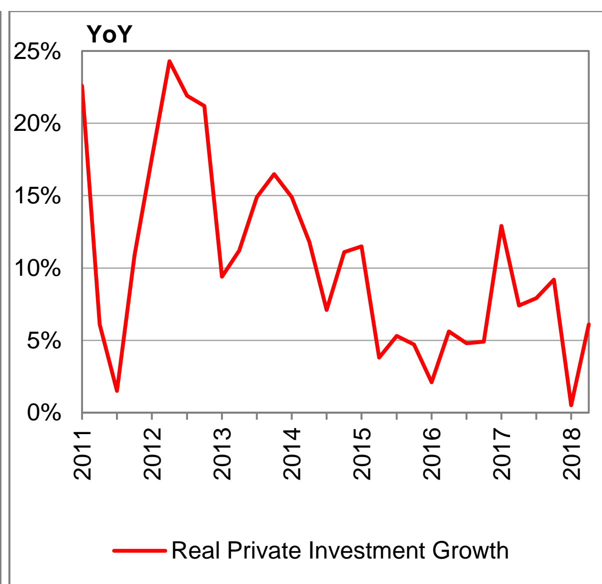


Figure 61: Higher businesses' expectations in 3Q

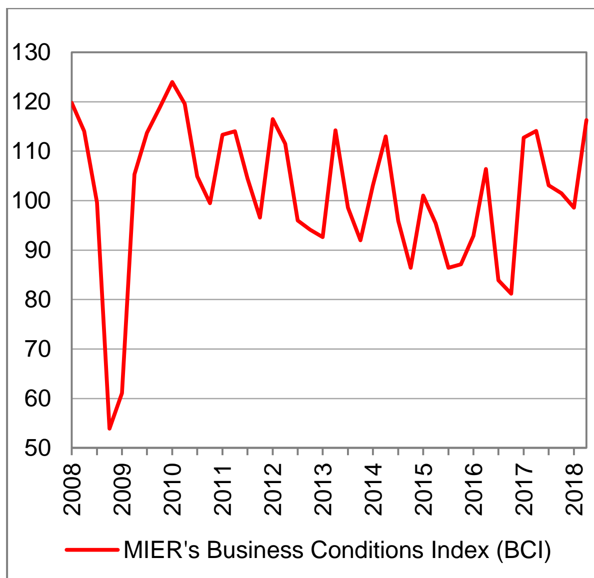
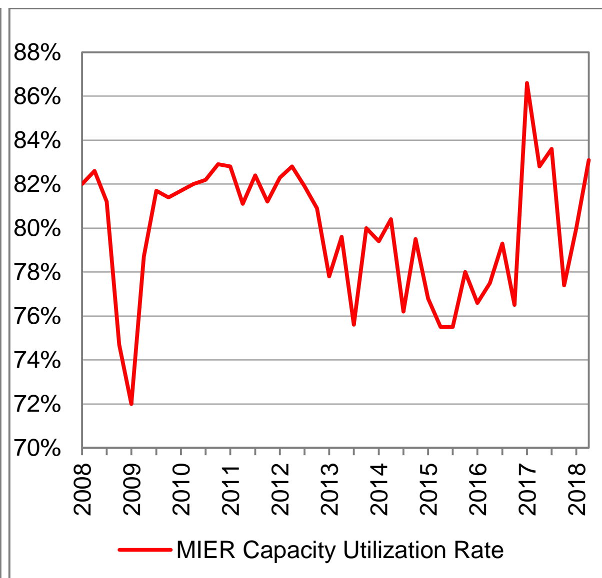


Figure 62: Capacity utilisation rate continued to improve



Source: Department of Statistics, Malaysia; Bank Negara Malaysia; Malaysian Institute of Economic Research

Price indicators

Inflation rate fell below 1% in June, July and August, reflecting the impact of zero-rated GST. Core inflation declined by 0.2% yoy in July and August (+0.1% in June) as prices of many non-volatile items have gone down significantly, particularly communication and clothing & footwear categories. The subsidized and stabilisation of petrol price (RON 95) at RM2.20 coupled with the zerorised GST rate in Jun-Aug have played a part in contributing to slowing inflation. The technical base effect from retail fuel price will be somewhat neutralised in September and October as the average retail price of RM2.19/litre in September and RM2.18/litre in October will be closer to the current price of RM2.20/litre. Food prices remained soft, registering a smaller rise of 0.4% in August (0.7% in July and 0.8% in June). If excluding the impact of zero-rated GST, core inflation remained stable at 1.5% in both June and July.

Following the reintroduction of SST in September, it is expected that overall price levels will be moderately higher amid the smaller coverage of goods and services in the CPI basket (38% are taxable in SST vis-à-vis 60% in GST). We expect headline inflation to average at 1.3% in 2018, a mark down from 1.0-2.0% previously.

Figure 63: Inflation rates fell below 1% for three straight months since June

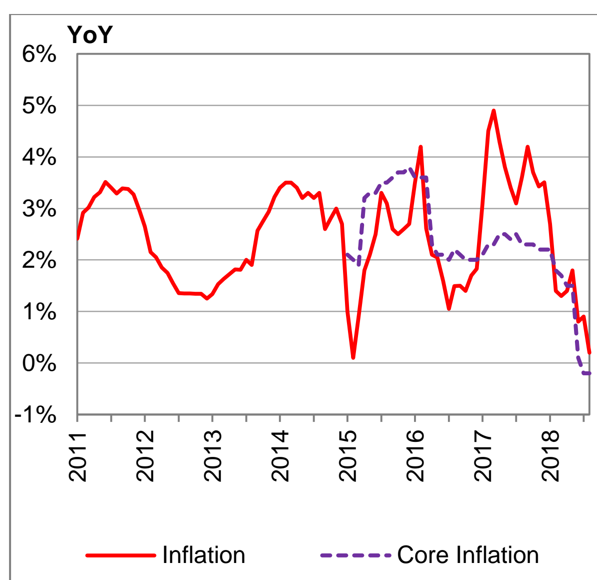
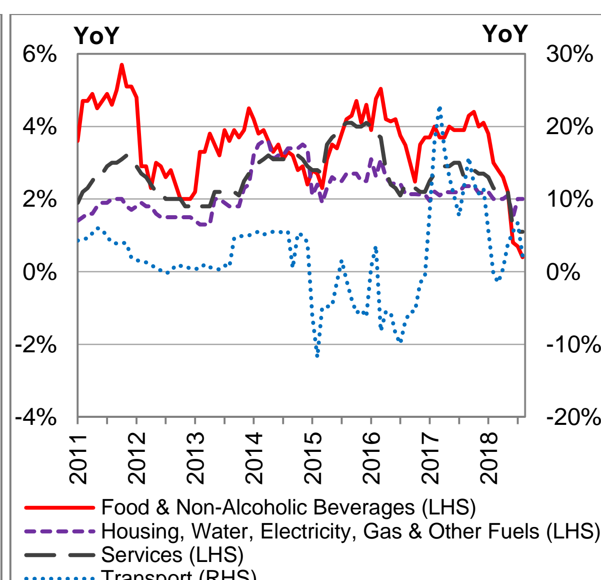


Figure 64: Food prices moderated sharply



Source: Department of Statistics, Malaysia

Banking loan indicators

Total loans extended by banking system continued to expand in July (5.3% vs. 5.0% in June), lifted by both household and business sectors. Loan disbursements jumped by 16.0% and 17.1% in June and July respectively, mainly backed by the purchase of passenger cars and working capital. Despite banks are providing more loans, the banking system's liquidity coverage ratio (LCR) still stood high at 141.6%, with all banks met the 100% level, which is required comes 2019. The funding profile of the banks was stable as the loan-to-fund ratio stood at 83.4%. Hence, BNM reported that our banks have maintained sufficient liquidity to support loans intermediation and meet exigent needs.

Figure 65: Outstanding loan growth increased steadily

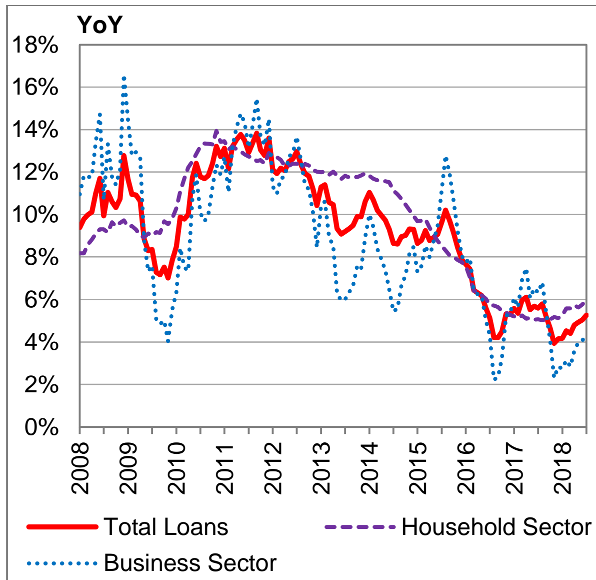


Figure 66: Loan applications growth

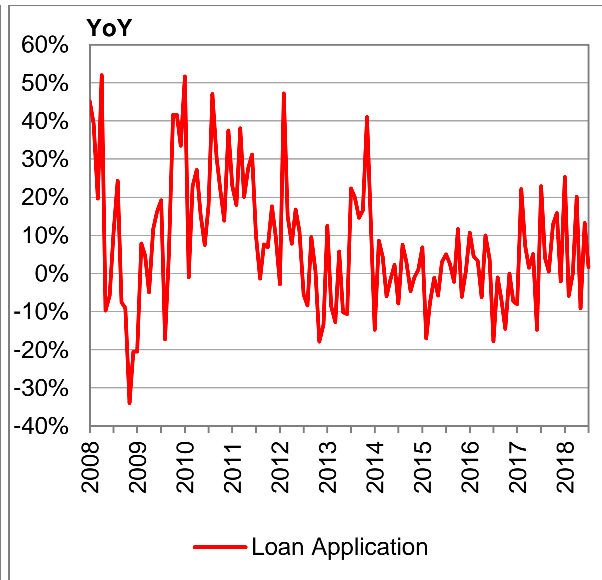


Figure 67: Loan approvals growth

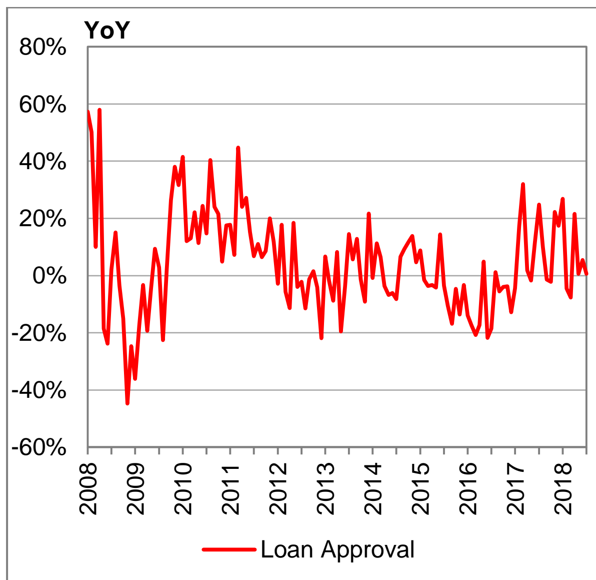
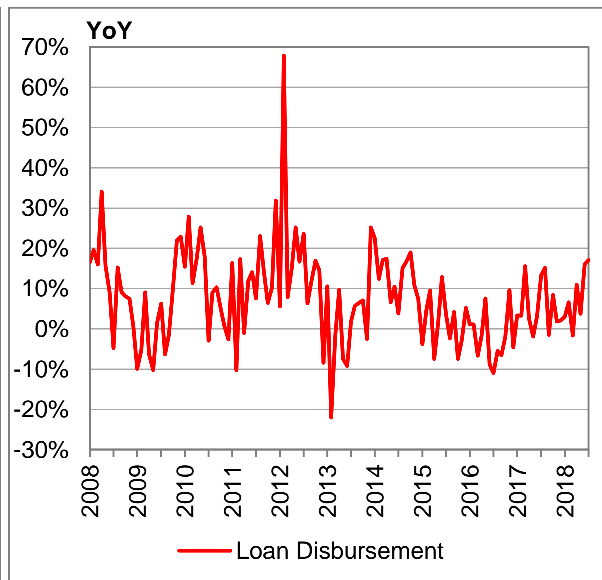


Figure 68: Loan disbursements growth



Source: Bank Negara Malaysia

Financial indicators

Post GE14's new political landscape uncertainty and policy transition as well as disruptive external forces threatening global growth (rising global crude oil prices, higher US interest rate and rising bond yields, strong US dollar's appreciation, uncertainties on the US-China trade spat, substantial pressures on foreign exchange markets), Malaysia is not spared from the negative sentiment spillovers as investors undertook portfolio investment rebalancing until greater clarity about the country's macro picture and policy directions. Accordingly, Malaysia experienced a sizable capital outflows of RM38.3 billion in 2Q18, the highest outflows since third quarter of 2008.

Foreign investors have net sold RM15.0 billion of Malaysia Government Securities (MGS) or RM24.3 billion of ringgit-denominated debt securities in the second quarter of 2018. After making a comeback in July (net purchases of RM3.5 billion of MGS or RM4.0 billion of ringgit-denominated debt securities), foreigners reverted to sell RM2.4 billion worth of Malaysia bonds and investment papers (comprised RM0.6 billion each in MGS, T-bills and Government Investment Issues (GII), RM0.5 billion in corporate bonds and RM0.1 billion in others). As a result, foreign holding of MGS dropped to 40.0% as of end-August, lowest since April 2017. In equity market, net selling has been moderating from RM5.6 billion in May to a mere RM0.1 billion in August (net selling of RM4.9 billion in June and RM1.7 billion in July).

The ringgit is trading at RM4.1415 per US dollar on 14 Sep, a depreciation of 1.9% compared to RM4.0620 per US dollar as at end-December 2017. Despite the ringgit has been depreciating against the US dollar since April, it is still one of the best-performing currencies in the region year-to-date. Its depreciation rate of 1.9% against the US dollar year-to-date (as of 14 September) was significantly milder when compared to Indian rupee (-10.9%), Indonesian Rupiah (-8.8%), Philippine peso (-7.5%), Chinese renminbi (-4.9%), South Korean won (-4.6%), and Singapore dollar (-2.5%).

As at 14 Sep, ringgit strengthened against the Indian rupee (10.1%), Indonesian rupiah (7.5%), Australian dollar (6.3%), Philippine peso (6.0%), Chinese renminbi (3.1%), South Korean won (2.8%), Taiwan new dollar (1.7%), pound sterling (+0.6%), Singapore dollar (+0.5%) and euro (+0.2%) when compared to end-December 2017. In the current subdued environment, the ringgit will be remained weak in 4Q18 and most of the 1H19 before gaining some lost ground in 4Q19.

Figure 69: Foreign reserves declined marginally in July and August

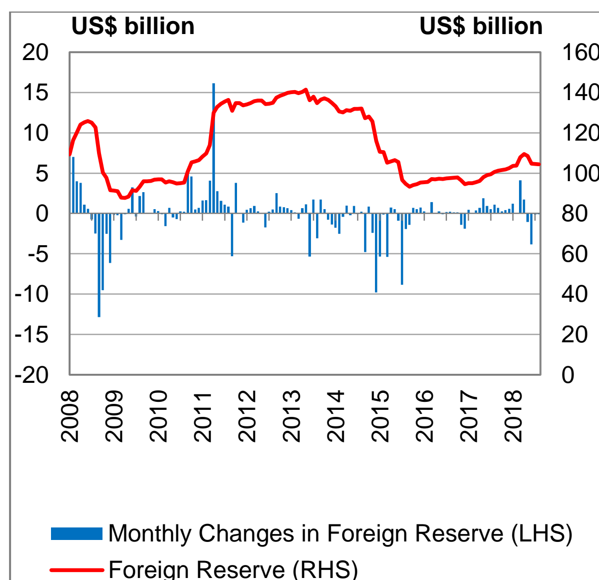


Figure 70: Ringgit continues to depreciate against greenback since April

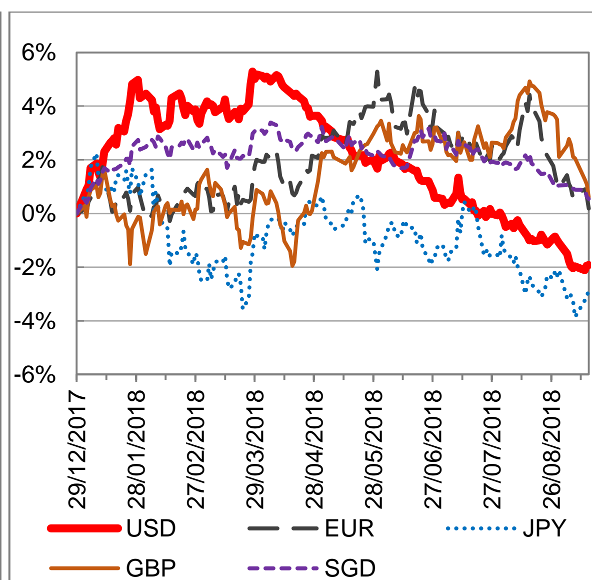


Figure 71: Year to date, the ringgit strengthened against Renmibi, albeit moderately

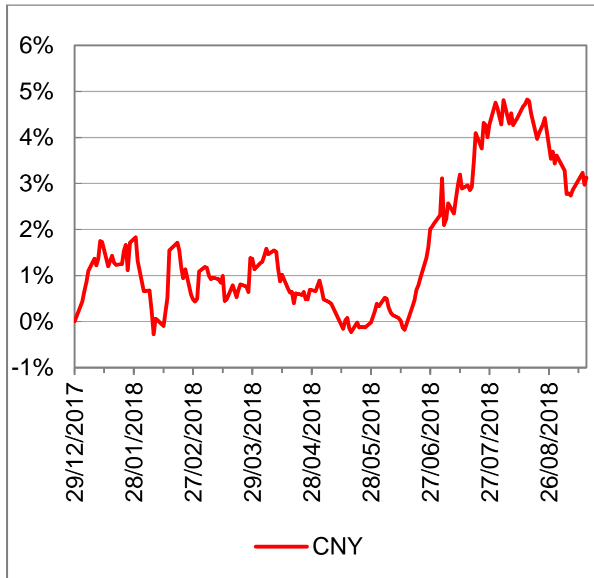
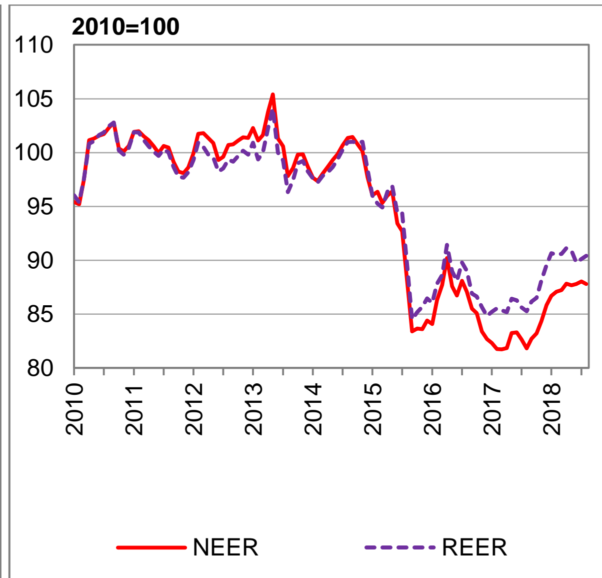


Figure 72: Ringgit seems losing momentum against the currency basket in 2H18



Source: Bank Negara Malaysia; Bank for International Settlements

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