



社会经济研究中心  
**SOCIO-ECONOMIC  
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**OPUS Asset Management Chat with Investors**

**Macro-economic Scenario in 2023:  
Between A Rock and Hard Place**

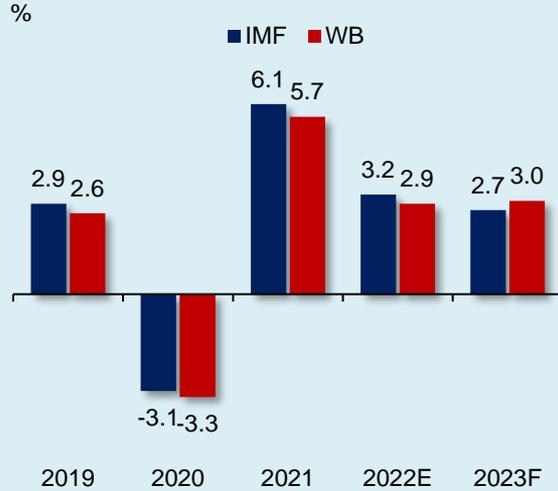
19 October 2022

# Global Economic Outlook

- *Risks of the global recovery being setback persist...*
- *IMF: Global recession in 2023 cannot be ruled out*
- *WB: Global rate hikes could trigger recession in 2023*
- *US: Over two thirds of economists believe a recession is likely to hit in 2023*
- *Europe on the brink*
- *Lingering concerns about China's economic prospects*

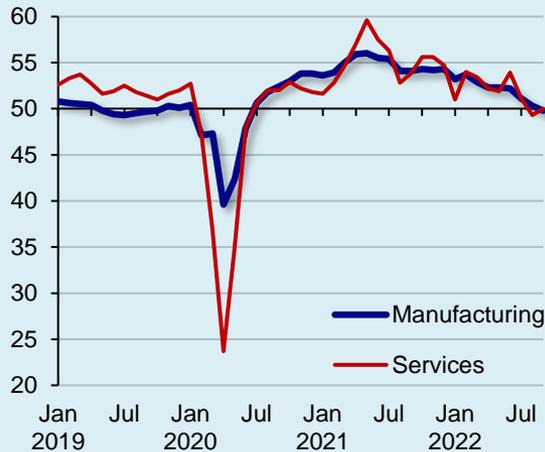
# Sub-par global growth (recessionary) is the most likely outcome

Global growth estimates

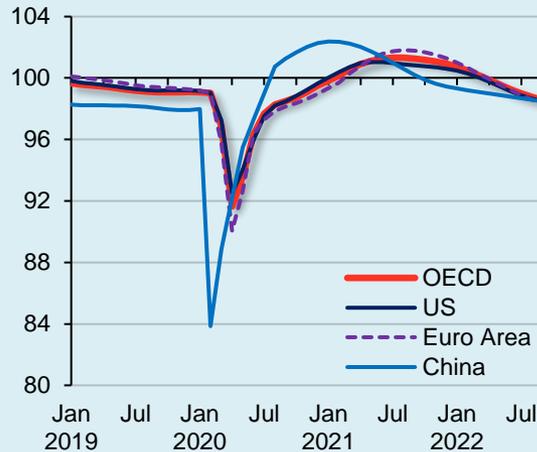


- **Uneven growth across advanced economies** - tempered by high inflation, the acceleration of global monetary tightening, continued military aggression in Eastern Europe, emerging market vulnerabilities as major central banks ramp up QT. A correction of bubbly financial asset markets and emerging market currencies' depreciation against the US dollar.
- Data prints point to **decelerating global growth pace**.
- **Inflation remains high** in major advanced economies though some have eased off from the peak.

Global MPI for manufacturing & services  
50=Threshold



OECD Composite Leading Indicators (CLI)  
100=Long-term average



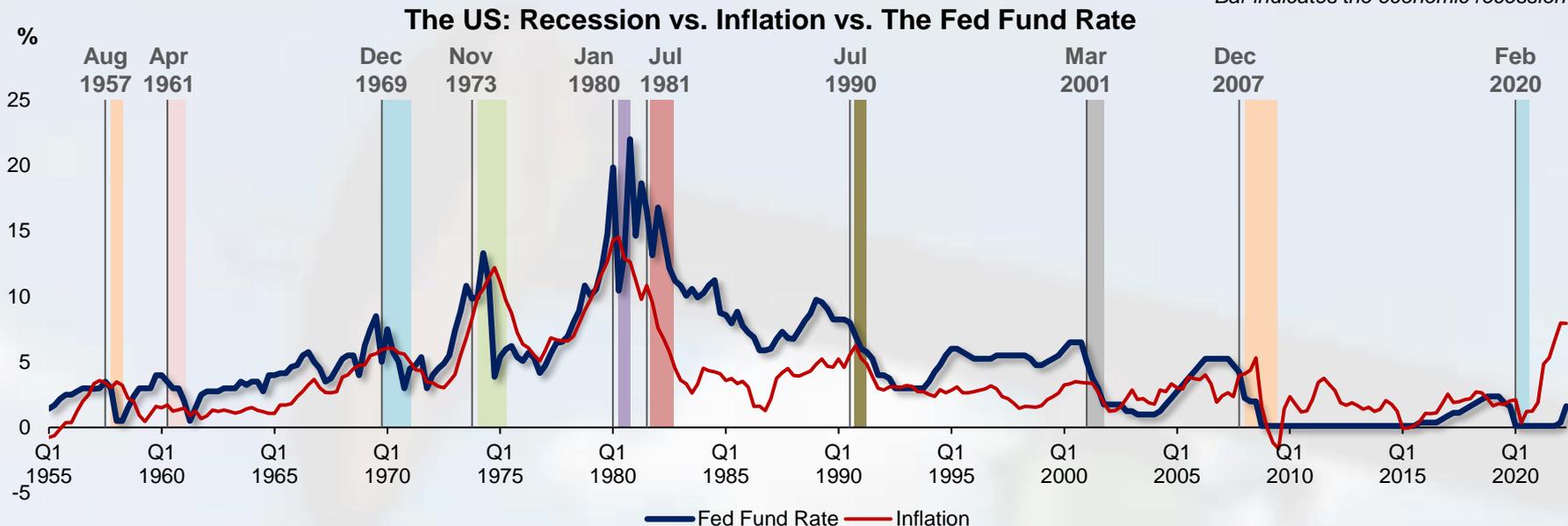
Global semiconductor sales  
%, YoY



Source: International Monetary Fund (IMF); World Bank (WB); Markit; OECD; Semiconductor Industry Association (SIA)

# The United States recession: Depth and Duration

Note: Vertical line indicates business cycle peak  
Bar indicates the economic recession period



Cycle Peak	Cycle Trough <sup>^</sup>	Recession Period*	Worst Contraction*	Related Event
Aug 1957	Apr 1958 (8 mths)	Q4 1957 – Q1 1958	-10.0% (Q1 1958)	Asian Flu; Eisenhower Recession
Apr 1960	Feb 1961 (10 mths)	Q2 1960 – Q4 1960	-5.0% (Q4 1960)	Rate Hike
Dec 1969	Nov 1970 (11 mths)	Q4 1969 – Q4 1970	-4.2% (Q4 1970)	Vietnam War; Rate Hike
Nov 1973	Mar 1975 (16 mths)	Q1 1974 – Q1 1975	-4.8% (Q1 1975)	The Oil Embargo; Rate Hike
Jan 1980	Jul 1980 (6 mths)	Q2 1980 – Q3 1980	-8.0% (Q2 1980)	Iranian Revolution; Rate Hike
Jul 1981	Nov 1982 (16 mths)	Q4 1981 – Q3 1982	-6.1% (Q1 1982)	Iran-Iraq War; Rate Hike
Jul 1990	Mar 1991 (8 mths)	Q4 1990 – Q1 1991	-3.6% (Q4 1990)	Persian Gulf War
Mar 2001	Nov 2001 (8 mths)	Q1 2001 – Q3 2001	-1.6% (Q3 2001)	Dot-com Bubble
Dec 2007	Jun 2009 (18 mths)	Q1 2008 – Q2 2009	-8.5% (Q4 2008)	Global Financial Crisis
Feb 2020	Apr 2020 (2 mths)	Q1 2020 – Q2 2020	-31.2% (Q2 2020)	The COVID-19 Pandemic

Source: US BLS; US Federal Reserve; US BEA; National Bureau of Economic Research (Cycle peak & trough)

<sup>^</sup> Number of months in parenthesis indicates months from peak to trough

\* Contraction based on annualised qoq basis, which included growing quarter within the related event

# Has inflation peaked?

**Inflation in advanced economies**

%, YoY



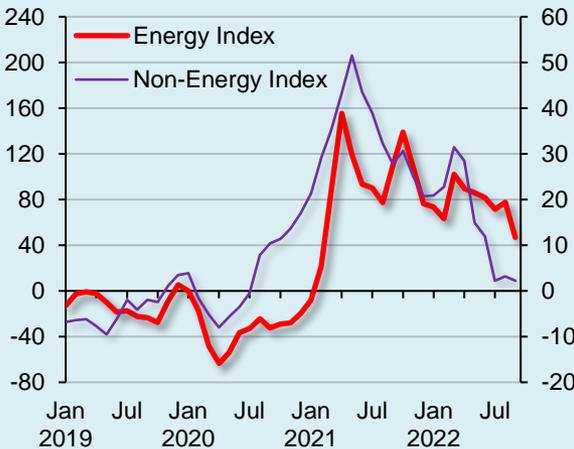
- Mixed monthly inflation data for major advanced economies. While headline inflation in the US indicated a reversal of the surge, core inflation accelerated. In euro area, inflation surged higher.
- It is too early to say if this means that inflation has peaked.
- Assuming that oil prices do not suddenly rebound, headline inflation will continue to decelerate in the months ahead, even if oil prices stabilize rather than decline.

**Energy index**

%, YoY

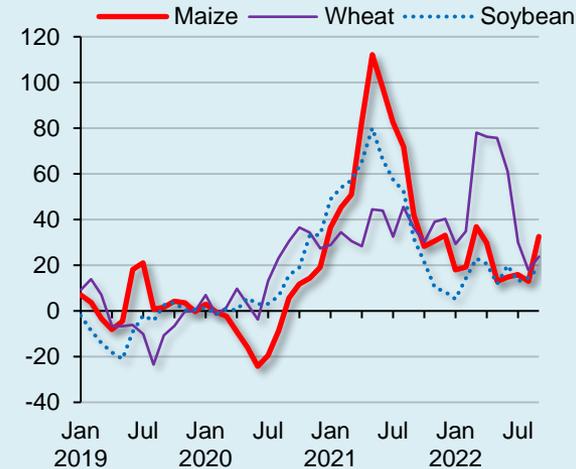
**Non-energy index**

%, YoY



**Selected global food prices**

%, YoY



**Inflation in selected ASEAN economies**

%, YoY



Source: World Bank; Various official for inflation data

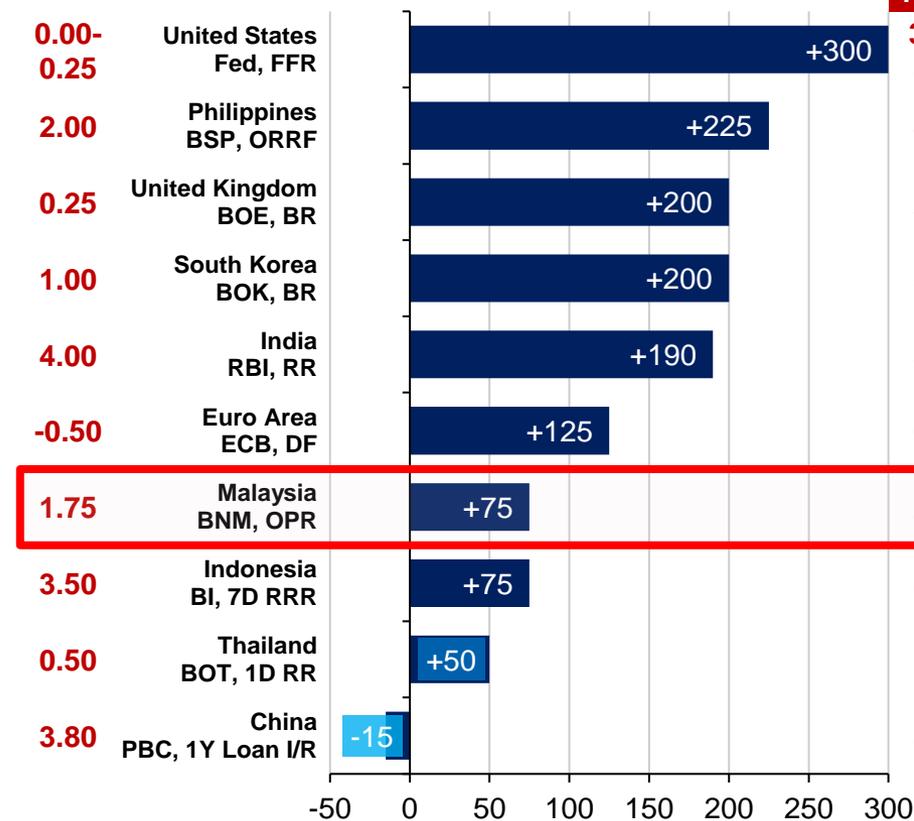
# Central banks take forceful & rapid steps in raising interest rate

- Most central banks see the compelling need to move interest rate higher to avoid entrenched unanchored inflation expectations and damaging their credibility.
- Policymakers must resolute to control inflation to avoid potentially more painful and disruptive adjustments later.

Policy rate (%)

The pace of rate hike is accelerating and more broadly ...

End-2021 Increase (decrease) of basis points since end-2021



As of 14 Oct	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
3.00-3.25			+0.25		+0.50	+0.75	+0.75		+0.75	
4.25					+0.25	+0.25	+0.75*	+0.50	+0.50	
2.25		+0.25	+0.25		+0.25	+0.25		+0.50	+0.50	
3.00	+0.25			+0.25	+0.25		+0.50	+0.25		+0.50
5.90					+0.40*	+0.50		+0.50	+0.50	
0.75							+0.50		+0.75	27/10
2.50					+0.25		+0.25		+0.25	
4.25								+0.25	+0.50	20/10
1.00								+0.25	+0.25	
3.65	-0.10							-0.05		20/10

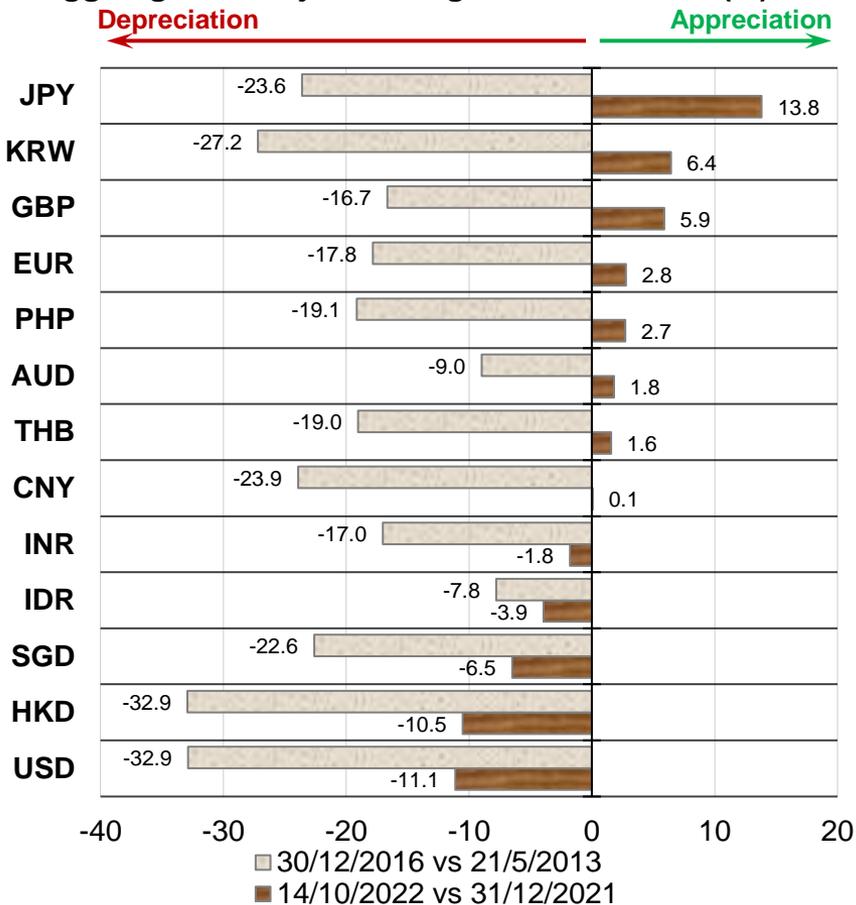
\* Policy made in off-cycle meeting

Upcoming meeting conclusion date

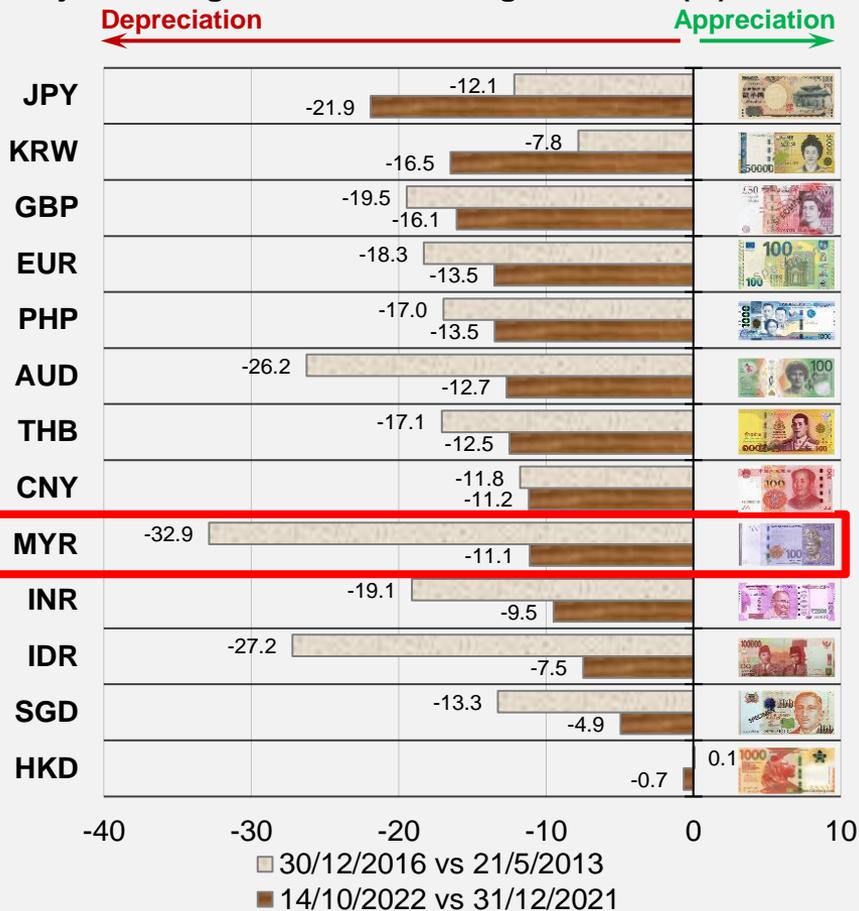
Source: Various officials

# Most regional currencies' depreciation against the USD milder compared to the Fed's tapering in 2013-2016

Ringgit against major and regional currencies (%)



Major and regional currencies against USD (%)



Remarks: Malaysia also suffered from oil price crashed since 2014.

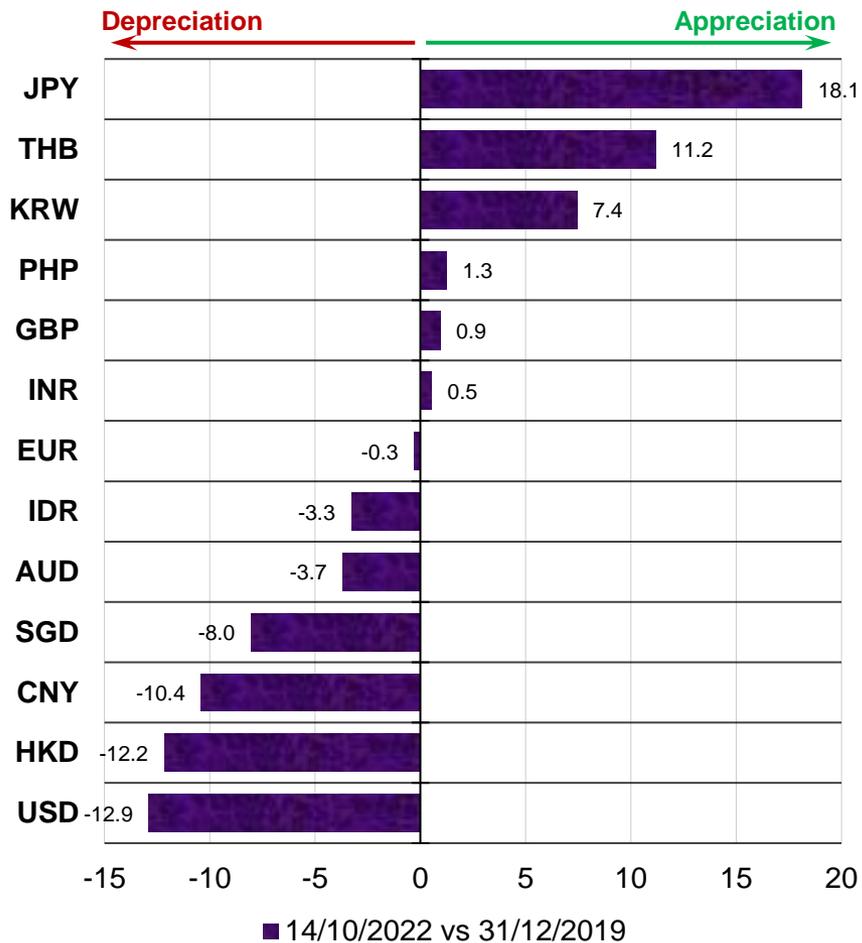
Note: For currency other than Ringgit against USD, cross rate applied.

Source: Bank Negara Malaysia (BNM)

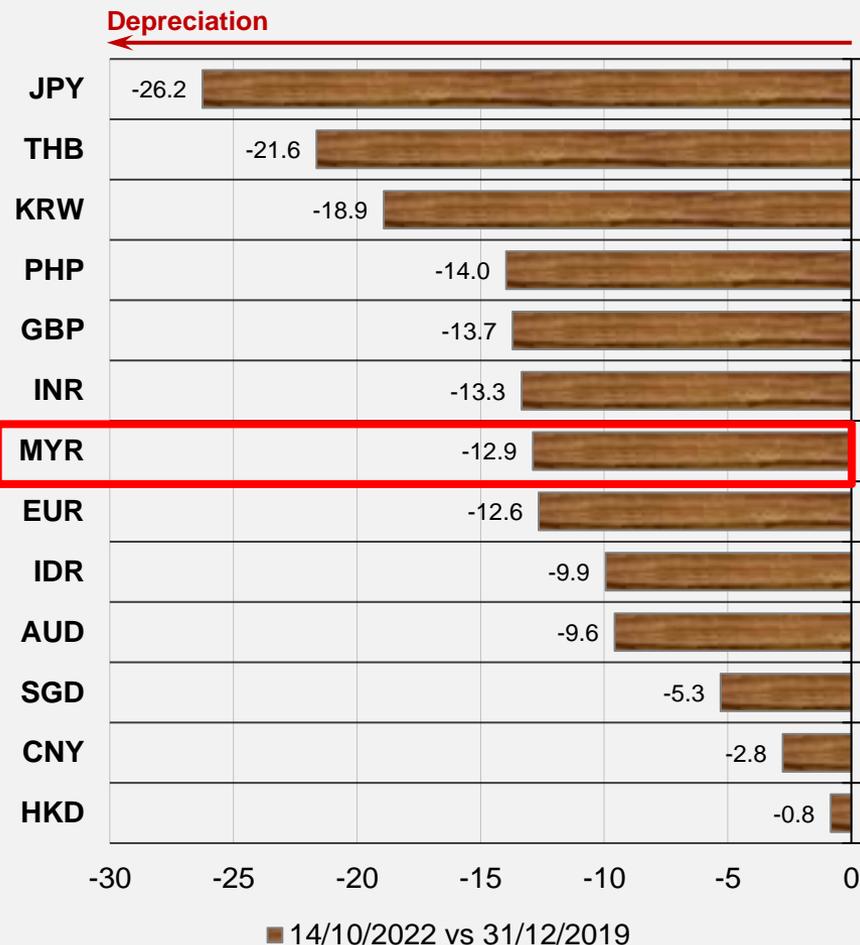
The US Fed announced the tapering plan on 22 May 2013. The tapering started from Jan-Oct 2014

# The performance of Ringgit from pre-pandemic 2019

Ringgit against major and regional currencies (%)



Major and regional currencies against USD (%)



Note: For currency other than Ringgit against USD, cross rate applied.

Source: Bank Negara Malaysia (BNM)

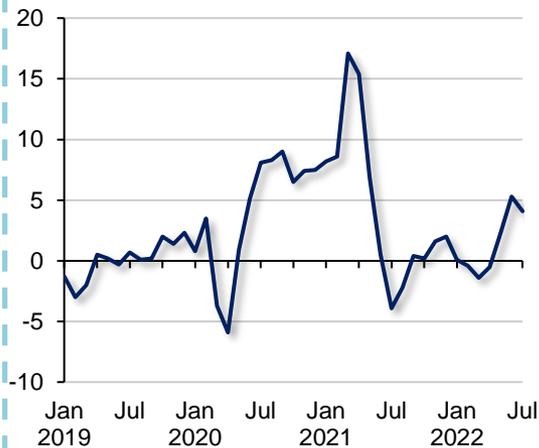
# Can Malaysia Sustain A Resilient Recovery?

- *Slowing global growth prospects (IMF: 2.7% in 2023F vs. 3.2% in 2022)*
- *Inflation, rising cost of living and higher interest rate weigh on consumer spending*
- *Cost pressures, worker shortages and external uncertainties affect demand productivity, output and profit margin*
- *Almost synchronised global monetary tightening induced capital flows and the Ringgit's volatility*

# Malaysia: Leading and current economic indicators

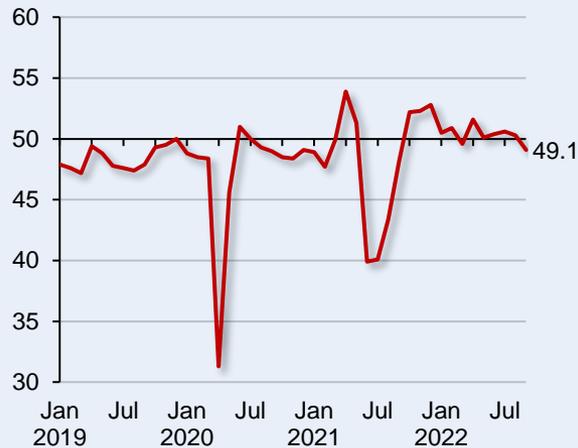
## Leading indicators

%, YoY



## Purchasing Managers' Index (PMI)

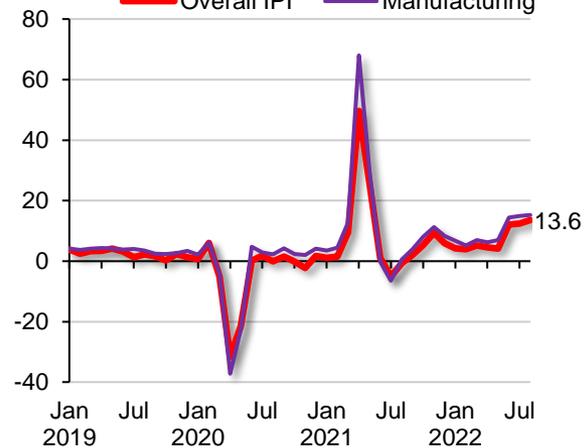
50=Threshold



## Industrial production index (IPI)

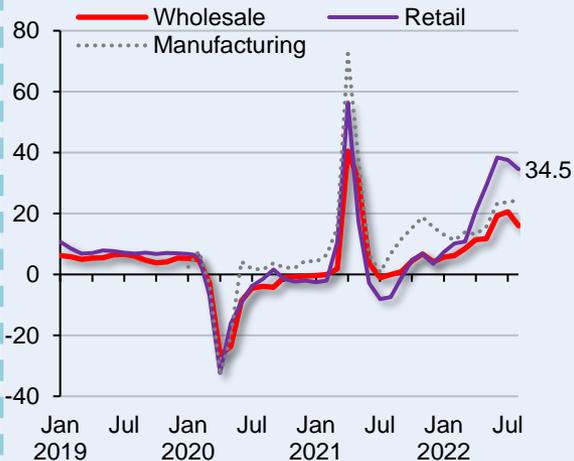
%, YoY

— Overall IPI — Manufacturing



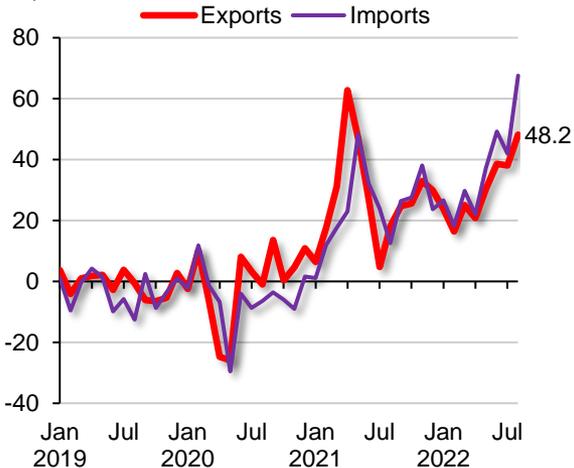
## Wholesale, retail & manufacturing sales

%, YoY



## External trade

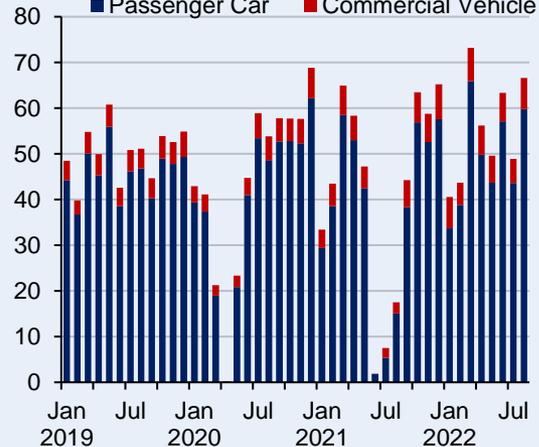
%, YoY



## Sale of passenger & commercial vehicles

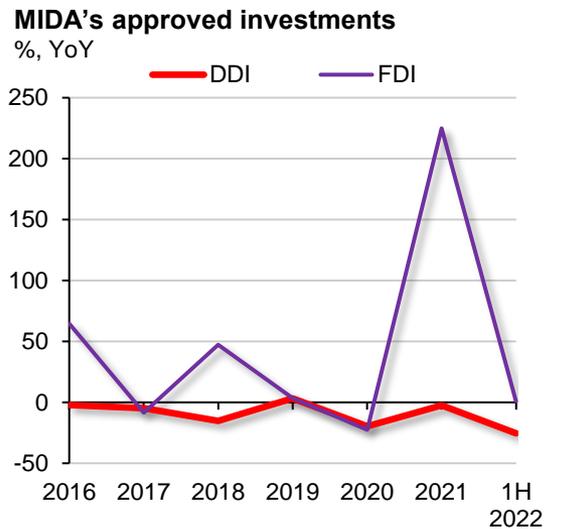
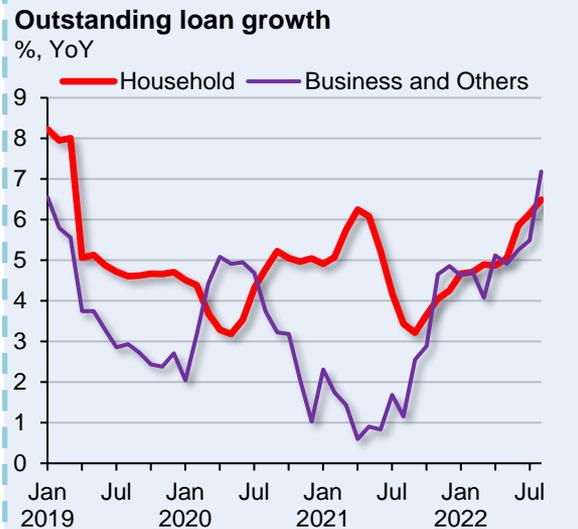
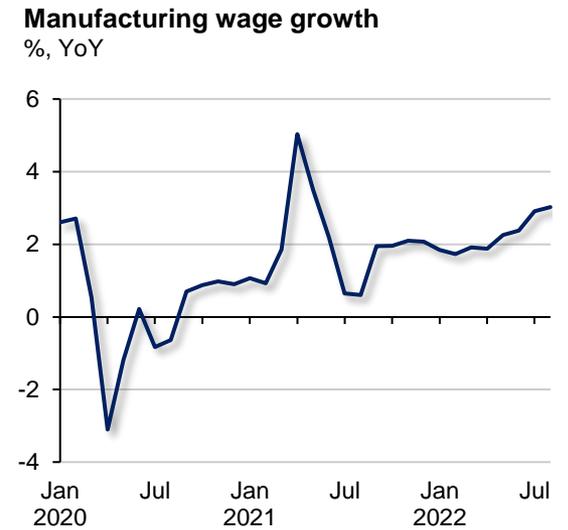
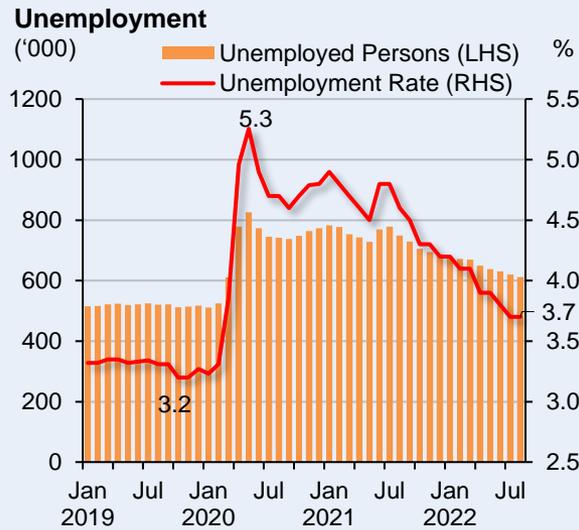
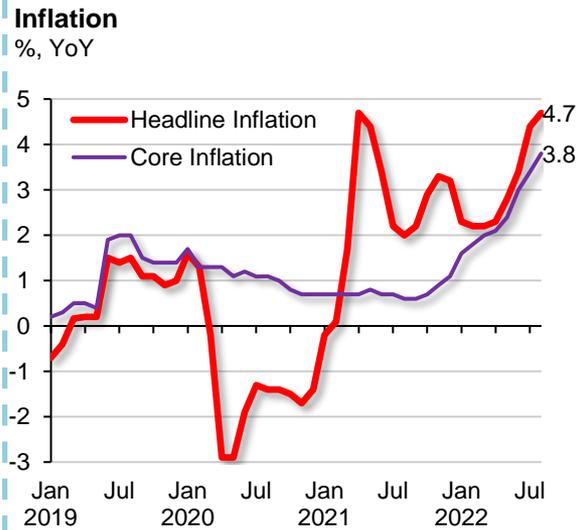
Thousand units

■ Passenger Car ■ Commercial Vehicle



Source: Bank Negara Malaysia (BNM); Markit; DOSM; Malaysian Automotive Association (MAA)

# Malaysia: Leading and current economic indicators (cont.)



Source: DOSM; BNM; MIDA

# Weaker economic growth in 4Q 2022 and 2023

GDP still strong estimated at around 8.0%-9.0% in 3Q, partly aided by low-base effect before easing to 4.0%-5.0% in 4Q.  
**Full-year 2022 GDP growth estimated at 6.5%.**

**For 2023, real GDP is forecast to grow at a more moderate pace of 4.1% (base case)** on the weakening global growth, the normalization of domestic demand and also the high-base effect

## 4Q 2022 and 2023



**Weakening global growth** – Global stagflation risk, continued Russia-Ukraine military conflicts, more aggressive monetary tightening, rising recession risk in the US and Europe economy



**Domestic demand** – Continued higher inflation and cost of living as well as interest rate increases crimp consumer spending power

Private investment remains cautious on increased costs, shortage of workers; external uncertainties and domestic political uncertainty



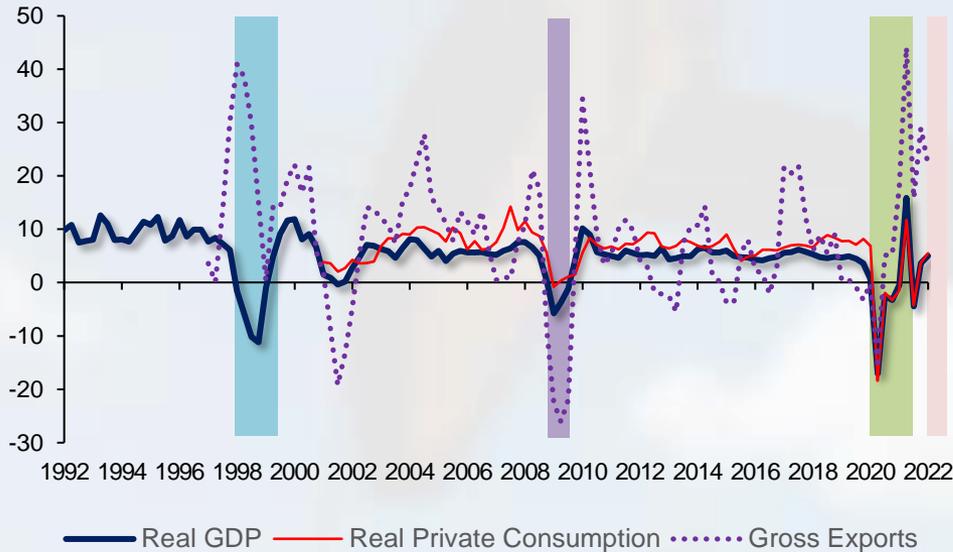
**External sector** – Moderate due to weakening global demand; easing prices of energy and commodities

# Malaysia is not immune to a deep global recession

## Growth

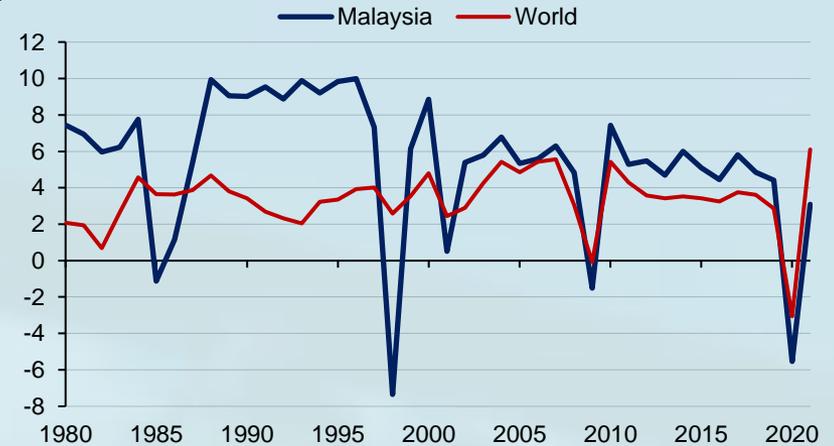
%, YoY

Note: Bar indicates the economic recession period



## Malaysia vs. World

%



Recession Period*	Worst Contraction*	Related Event
Q1 1998 - Q1 1999 (5 quarters)	-11.2% (Q4 1998)	Asian Financial Crisis
Q1 2009 - Q3 2009 (3 quarters)	-5.8% (Q1 2009)	Global Financial Crisis
Q2 2020 – Q3 2021 (6 quarters)	-17.1% (Q2 2020)	COVID-19 Pandemic
2H 2022 - 2023?		War in Ukraine; Energy and commodity shocks; Recession risk in the US; the Fed's aggressive rate hikes

\* Y-o-Y contraction

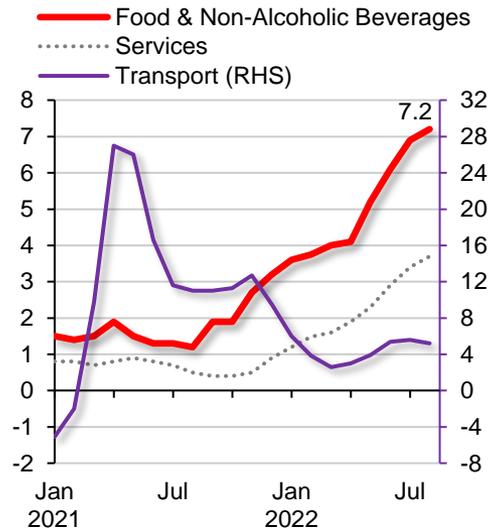
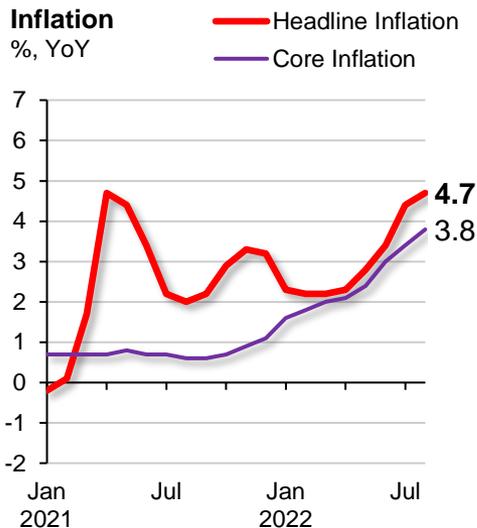
Source: Economic Planning Unit (EPU); BNM

# Selected economic indicators during the ringgit's depreciation and capital outflows episodes

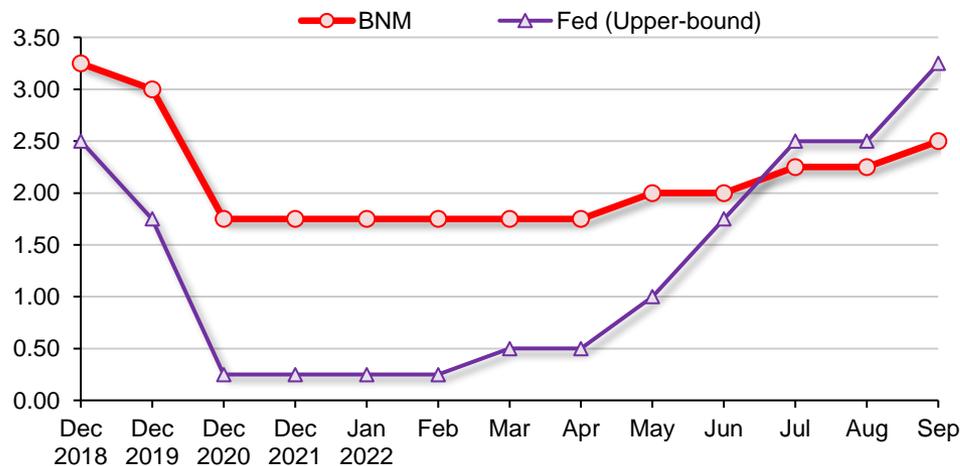
	Asian Financial Crisis (AFC) (1997-1998)	Global Financial Crisis (GFC) (2008-2009)	Oil price crash + Fed's tapering (2014-2016)	Prolonged COVID-19 + Ukraine War + Fed rate hike
<b>RM/USD</b>	-43.7% (10M: Apr 1998-Jan 1999)	-28.0% (11M: May 2008-Mar 2009)	-27.2% (36M: Jan 2014-Dec 2016)	-14.6% (21.5M: Jan 2021-14Oct2022)
<b>Real Effective Exchange Rate (REER)</b>	-3.5% (10M: Apr 1998-Jan 1999)	-1.8% (11M: May 2008-Mar 2009)	-13.8% (36M: Jan 2014-Dec 2016)	-2.0% (20M: Jan 2021-Aug 2022)
<b>Gross Domestic Product (GDP) Growth</b>	-7.4% (1998)	-1.5% (2009)	+5.2% pa	2021: +3.1% 1H 2022: +6.9% yoy
<b>Inflation</b>	+5.3% (1998)	+0.6% (2009)	+2.5% pa	2021: +2.5% Jan-Aug 2022: +3.1% yoy
<b>Gross exports</b>	+29.7% (1998)	-16.7% (2009)	+3.0% pa	2021: +26.1% Jan-Aug 2022: +30.3% yoy
<b>Gross imports</b>	+3.3% (1998)	-16.4% (2009)	+2.5% pa	2021: +23.3% Jan-Aug 2022: +55.0% yoy
<b>Net FDI flow</b>	RM8.5 billion (-41.2%)	RM5.0 billion (-79.1%)	Avg. RM42.9 billion pa (+20.2% vs. 2013)	2021: +RM77.4 bn 1H 2022: +RM15.7 bn
<b>Net portfolio investment</b>	-RM20.6 billion (1998)	-RM83.2 billion (2008)	-RM26.6 billion pa	2021: +RM18.8 bn 1H 2022: -RM24.8 bn
<b>Foreign reserves</b>	-US\$6.0 billion (1997)	-US\$34.6 billion (13M: Jul 2008-Jul 2009)	-US\$37.5 billion (28M: Sep 2014-Dec 2016)	-US\$10.8 billion (9M: Jan 2022-Sep 2022)

Source: DOSM; BNM

# Inflation moves higher; interest rate rises further



**BNM OPR vs. Fed Funds Rate**  
%



Source: DOSM; BNM; Fed

## Price pressures continued: 4.6% in Jul-Aug vs. 2.5% in 1H 2022

- Increased prices of necessities
- Cost pass-through effect
- Lapse of low base effect (electricity tariff)
- CPI growth estimates at 3.5% in 2022

## BNM will raise interest rate further: 3.00% in 1H 2023

- We believe that Bank Negara Malaysia will take into consideration the impact of its gradual and measured pace of interest rate hiking trajectory due to growth risks while anchoring inflation under her radar.
- Bank Negara Malaysia has been raising interest rates over three successive meetings since May to 2.50% currently. We expect the terminal rate at 3.00% in 2023.





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**谢谢**  
**THANK YOU**

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