Weekly Wander

With or Without You
Global Economy Picks Up Speed

Feb 16, 2017

- **Even as concerns about potential protectionist policies by the Trump administration continue to be dangling out there, the reality is that the global economy has been powering on with an encouraging uptick of late.**
- **Malaysia's Q4 GDP upside surprise today is a case in point. Even as its performance was driven by domestic factors, the fact that global PMIs show sustained improvement bode well for global trade in general in the near term.**
- **Still, it is foolhardy to think that it is going to be smooth-sailing from here. Indeed, cautious policies would remain the flavour of the year, including for Indonesia's central bank which is likely to refrain from easing rates today.**

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Fixed Income & Structured Products

Tel: 6349-1810

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

Wellian Wiranto
Economist
Treasury Research & Strategy,
Global Treasury,
OCBC Bank

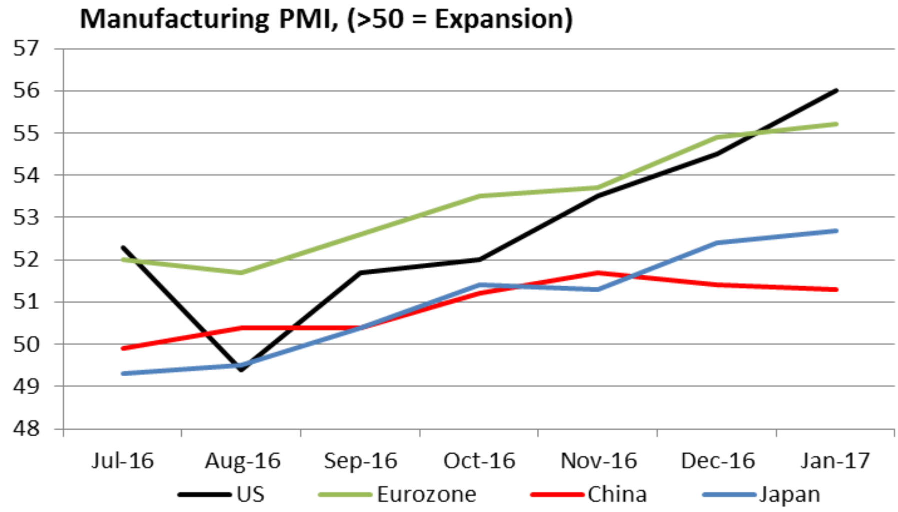
+65 6530-5949
wellianwiranto@ocbc.com

Beyond the Headlines

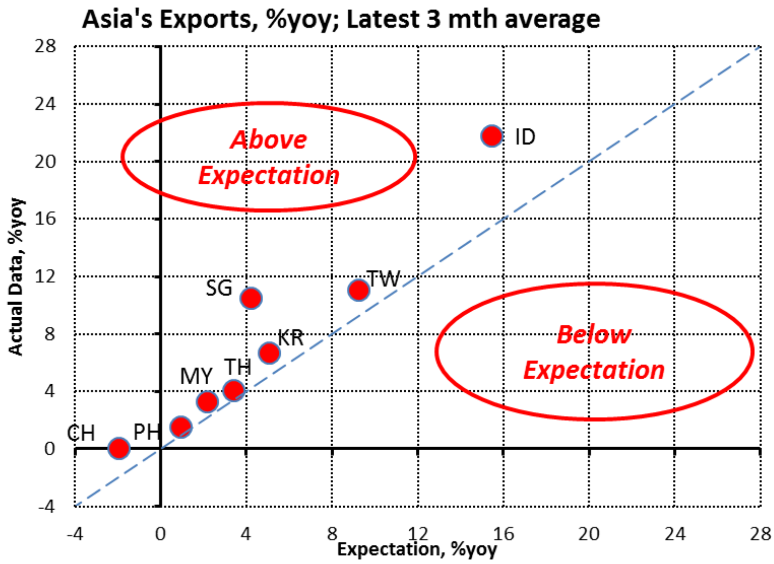
That there are multiple risks on the horizon facing global economy this year, especially from the threat of protectionist policies that could upend trade flows, is something that we have been highlighting for a while.

Hence, it is especially heartening to see that, despite the downside potential, the economic momentum shown by various major global economies has actually been more encouraging than not. Indeed, amid the understandable concerns about Trump's nativist policies that steal headlines, there has been something bubbling quietly in the background.

That something is none other than the fact that across major economies around the world, sentiments of manufacturers have been consistently improving over the past few months. Indeed, for anyone who thinks that the relative positive sentiment – at least for US – has been driven purely by Trump reflation potential alone, it pays to note that the uptrend appears to be going on for months before that.



Source: Bloomberg, OCBC.

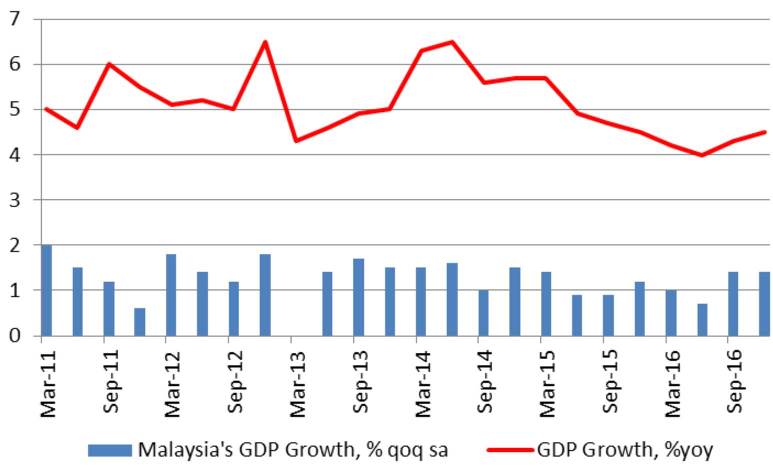


Source: Bloomberg, OCBC

Across Asia, the relative uplift in global spirits has translated into better export prints for pretty much every major economy in the region. Indeed, looking at the last three available exports data, the outturn has been besting market expectations.

In fact, for Indonesia, exports data has shown a large degree of turn-around, besting not only market expectations but also easily exhibiting the greatest growth spurt compared to its peers, helping to curb the current account deficit to 0.8% of GDP in Q4 compared to 1.9% of GDP in the previous quarter. While lumpy exports of oil products may have boosted the numbers sizably, it has nevertheless benefited from the on-going recovery in commodities shipment in both price and volume terms.

Elsewhere, Malaysia has also shown a somewhat under-appreciated degree of robustness. Today's data shows that the economy grew by 4.5% yoy in Q4, better than the 4.4% that market pencilled in, and the 4.3% that we expected. Looking at the components, it should come as little surprise that private consumption has remained a key pillar of support. At 6.2% yoy in Q4, it is a tad lower than 6.4% in Q3, but is nonetheless strong enough to justify the idea that consumption growth will remain supported by labour market strength and fiscal support measures.

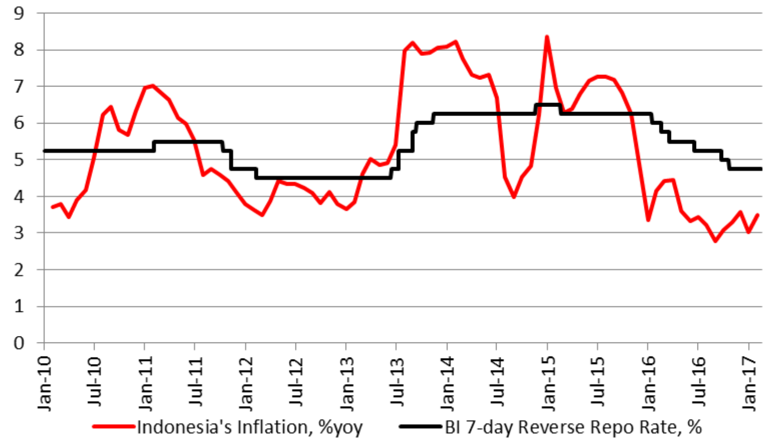


Source: Bloomberg, OCBC

Meanwhile, for the external-oriented sector of manufacturing, things have not looked too shabby either, in line with the improvement in overall global economy as mentioned earlier. Indeed, at 4.8%yoy in Q4, the growth in manufacturing sector shows a pick-up from 4.2% of the prior quarter.

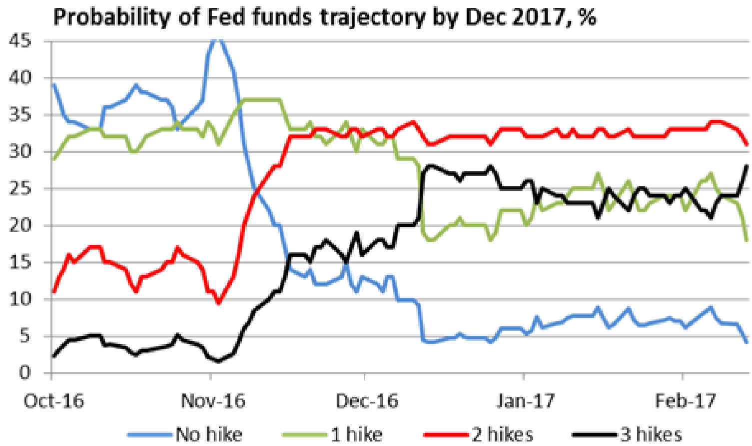
This also jives with a generally more optimistic global picture that Bank Negara appeared to have painted in its last MPC meeting on January 19th. Overall, our baseline continues to be for the Malaysian economy to coast along without too much drama at 4.2% yoy this year, without the need for Bank Negara to step in with rate cuts. (For details, click here).

A similar holding pattern is expected for Bank Indonesia, which is due to announce the result of its second monetary policy meeting for the year later today. To us, the central bank is most likely not only going to keep its 7-day reverse repo policy rate flat at 4.75% for today, but plausibly for the rest of this year.



Source: Bloomberg, OCBC

One factor of consideration that will recur will be the fact that domestic inflation has been picking up and is likely to head above 4% by mid-year due to effects from electricity subsidy cuts and increases in other administered prices. Outside of such domestic concerns, a heavy weight would be placed on global factors, specifically the risk of global markets volatility. For one, the lingering uncertainty about the Federal Reserve's tightening path is a bugbear that will continue to bother not only Bank Indonesia but other central banks in the region, as well.



Source: Bloomberg, OCBC

With inflation uptick of its own to contend with, amid robust labour market and economic outlooks, the Fed has of late been ramping up on hawkish talks once more. As a result, the market assumption that the Fed will most likely just deliver two hikes this year has come to be tested. Indeed, the probability of 3 hikes – as telegraphed by the Fed's dot plot circa December 2016 – has picked up in recent days.

Altogether, this makes it prudent for central banks like Indonesia's to be vigilant for risk of resurgent current volatility should USD strengthen again in tandem with expectation for more hawkish Fed moves.

Policymaking is inherently a balancing game. For BI, it has been all about trying to balance the need to juice up credit growth while staying cautious on domestic factor (of inflation) and global factor (of currency volatility). As we have highlighted before, there does not to be any serious need for it to cut rate further beyond the 150bps it already delivered last year, especially if it leaves the economy more vulnerable to global bouts of volatility.

Indeed, if BI's intention is to see more robust economic growth, especially in investment activities, it is interesting to see that a recent IMF report noted that interest rate level does not appear to play a significant role in driving investment. Indeed, preserving overall rupiah stability matters more, together with financial deepening that allows firms more avenues for raising funds, as well as addressing costly structural impediments such as infrastructure.

In short, against an uncertain global backdrop – even as things have picked up of late – there is no silver bullet for ensuring sustained economic growth, apart from a tenacious pursuit of structural reforms.

.

Co.Reg.no.:193200032W