

UBS : M'sian GDP growth to slow this year
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KUALA LUMPUR (Jan 8, 2012): UBS Investment Research has projected a 3% gross domestic product (GDP) growth for Malaysia this year, lower than the government's forecast of 5%.

UBS Securities Malaysia Sdn Bhd executive director and head of Malaysia research Chris Oh said it expects the Malaysian economy to slow in response to weaker world export demand and challenging global financial markets.

Speaking at a briefing on Friday, he said markets will remain volatile and difficult before recovering towards the end of the year, supported by global inventory cycle and some easing of domestic policy, with a projected GDP growth of 5.5% next year.

"For 2012, markets believe a lot of government spending will take place before general election...the risk is the uncertainty of the election results," he said, adding that the uncertainty may prompt investors to hold back until the results are out.

He added that the MRT packages will be awarded while budget incentives announced last year will come through, moving the market up.

"We forecast Consumer Price Index to ease from 3.3% in 2011 to 2.5% in 2012, giving scope for a policy cut this year. Bank Negara Malaysia is also likely to ease interest rates by 50 basis points (bps) and up to 100bps in the later part of H1 2012," said Oh.

As for the ringgit, UBS expects downward pressure on the local unit as a result of capital flows as Malaysia is a small open economy, with a forecast of RM3/US\$1 this year and RM2.80/US\$1 next year.

Oh said this will be mitigated by BNM's substantial foreign exchange reserves which will keep the currency relatively stable, but not prevent the downside. However, the ringgit is expected to strengthen over the long term when conditions normalise.

He also said the KLCI could face earnings risk, but would still hold up due to the resilient domestic sector and ongoing economic reform, with an end-2012 KLCI target of 1,700 based on earnings growth of 9%/13% for 2012/2013 and forward PE target of 14 times.

"We have an underweight on Malaysia on a regional portfolio basis alongside the rest of Asean only because these markets have been relatively defensive in 2011 and valuations are no longer attractive.

"The KLCI is likely to prove defensive should global equity markets fall further due to low foreign ownership levels and stable funds of the dominant domestic institutional investor base," he said.

Oh said over a five-year view, Malaysia has a good chance of seeing increase in foreign ownership if the government's economic reforms come through.

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