

## home business

# Sustainability remains to be seen

A still-volatile external environment could mean slow and uneven recovery for our exports

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KUALA LUMPUR: The worst may be over for the Malaysian economy but the sustainability of the country's fortunes going forward is another matter altogether.

While policymakers' goal of achieving a higher gross domestic product (GDP) growth is deemed realistic, prompting some economists to consider an upward revision in their GDP forecast, some caution that the road ahead will not necessarily be a walk in the park.

Although domestic fundamentals are gradually improving, the economy will still have to contend with a still-volatile external landscape which will determine how our exports fare in the coming months.

RHB Research Institute Sdn Bhd head of research Lim Chee Sing said the economy had so far performed better than expected. While the government's GDP target of 5% for 2010 seemed to be on the high side, Lim believes it is achievable given the low-base factor.

The forecast is considered to be on the high side due to the continuing excess capacity and the need for the government to curb the budget deficit, amid a slow and uneven recovery in external demand for exports.

AmResearch Sdn Bhd senior economist Manokaran Mottain said the research house would consider a possible upward revision to its 4% growth forecast for 2010 to 4.5%-5%, given the effective stimulus spending, averaging RM1 billion per month since late 2009. The economy rebounded from a recession, expanding by an annual rate of 4.5% in the fourth quarter (4Q)

### Trader's stock picks

	Price# (RM)	FV (RM)	Rec
MRCB	1.39	1.66	TB
KLK	16.82	19.25	OP
Genting	6.36	9.45	OP
Proton^	4.05	5.48	OP
CIMB	12.60	16.24	OP
Adventa	3.54	4.34	OP
HL Bank	8.36	9.07	TB
Sino Hua An	0.49	0.71	OP
HSL	1.20	1.41	OP

# As at Feb 22  
Source: Bloomberg, RHBRI

of 2009, following three consecutive quarters of contraction.

The 4Q GDP growth rate translates into a full-year contraction of 1.7% in 2009. The 4Q figure expanded 2.2% from the preceding third quarter.

The country's GDP contracted by a smaller annual rate of 1.2% in 3Q of 2009 although it grew 5.7% in quarterly terms. In 2Q, the GDP fell 3.9% year-on-year (y-o-y) but grew 4.8% quarter-on-quarter (q-o-q), while 1Q GDP declined 6.2% y-o-y and shrank 7.7% q-o-q. The economy expanded by 4.6% in 2008.

### Sectors to watch

Among sectors to watch, RHB's Lim expects the banking industry to continue performing well as the economy gains further momentum, while the commodity sector is anticipated to attract investments against a landscape of high liquidity and low interest rates.

Cyclical stocks such as semiconductor companies are also seen as beneficiaries from pent-up demand, and new applications in the technology fraternity. Meanwhile, telecommunication entities, according to Lim, will be closely watched for their dividend payouts.

In a note, RHB said the FBM KLCI's

### Trader's stock picks - Stocks with highest beta and rising beta trend

Stock	Price (RM) Feb 22	FV (RM)	6M Adj Beta	2009 Adj Beta	2010 PER (x)	2010 P/BV (x)	YTD Rel Perf (%)	y-o-y Rel Perf (%)	Rec
MRCB	1.39	1.66	1.9	1.8	19.6	2.5	10.0	31.2	TB
KLK	16.82	19.25	1.6	1.1	17.2	2.9	2.4	28.4	OP
Genting	6.36	9.45	1.6	1.5	13.6	1.5	(12.9)	35.3	OP
Proton^	4.05	5.48	1.4	1.2	6.2	0.4	4.1	89.1	OP
CIMB	12.60	16.24	1.4	1.3	14.4	2.3	(1.4)	51.5	OP

Source: Bloomberg, RHBRI

recent decline might be due to investor concern over upcoming policy changes to address the low interest rate environment. Political issues, both domestically and globally, have also dampened sentiment.

"We thus expect the equity market to remain volatile until these concerns are addressed and investors begin to look forward to the next catalyst, that is more consistent 2011 economic recovery.

"In the meantime, investors should be prepared for bumpiness ahead and continue to trade the volatilities," RHB said.

### OPR to rise on Thursday?

TA Securities Holdings Bhd economist Patricia Oh said similar to the steep spike in inflation in the second half of 2008, the current rise in inflation, as measured by the consumer price index (CPI), exhibited a cost-push nature vis-a-vis demand pull.

"Due to the high level of saving deposits within the Malaysian banking system, Bank Negara Malaysia (BNM) plays a crucial role to ensure that depositors gain positive rate of return on savings.

"As such, we believe that the OPR faces upside pressure as inflation rises," said Oh, who foresees a full-year CPI growth of 1.2% this year.

TA foresees policymakers raising the overnight policy rate or OPR by 50 basis points (bps) by May 2010 in anticipation that inflation would es-

calate by an annual pace of over 2% in the second half of this year amid a better economic outlook. One bp is one hundredth of a percentage point or 0.01%.

AmResearch's Manokaran, meanwhile, said the stronger-than-expected GDP growth in the final quarter of last year and rising inflation should justify an interest rate hike when the central bank's Monetary Policy Committee (MPC) meets on Thursday.

AmResearch foresees BNM raising the OPR by 25bps at the meeting, followed by another 25bps hike on July 8, before initiating a pause for the year.

RAM Holdings Bhd group chief economist Dr Yeah Kim Leng said Malaysia's existing managed-float currency system offered its monetary policy a certain degree of independence from interest rate policies in the US. The ultimate factors influencing the direction of Malaysian interest rate movements, according to Yeah, will be the level of inflation besides the pace of economic recovery.

"We see inflation moving to a more normal level," Yeah told *The Edge Financial Daily* in an interview.

US Federal Reserve chairman Ben Bernanke told the United States Congress last week that he foresaw interest rates at very low levels for a long time amid a weak job market and inflation.

"Notwithstanding the positive signs, the job market remains quite

weak," Bernanke said in prepared testimony to the US House of Representatives Financial Services Committee. RAM, which foresees local inflation rising to 2.5% against the backdrop of costlier commodities in 2010, anticipates that BNM would raise the OPR by between 75 bps and 100 bps during the year.

However, higher consumer prices induced by cost-push factors such as costlier crude oil or higher wages do not solely justify lending rate hikes. Yeah said the decision to raise interest rates would also depend on whether demand was excessive.

At its first MPC meeting for the year in January, BNM had maintained the OPR at 2% for the seventh consecutive time since April 2009. The central bank had slashed the OPR by a collective 150 bps since November 2008. Inflation rose by an annual rate of 1.3% in January 2010, mainly due to costlier food and non-alcoholic beverages, besides more expensive housing, water, power and fuel. Transport cost also increased during the period.

The CPI turned positive after rising by an annual pace of 1.1% in December last year, for the first time following six consecutive months of negative consumer price numbers. Full-year inflation grew 0.6% in 2009. Inflation jumped to a 26-year high of 8.5% in July 2008 as crude oil prices hit a historical high of US\$147.27 per barrel.