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FUNDAMENTAL FLASH

Macro & Fixed Income Insights | Malaysia 2Q'2020 GDP

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Malaysia's economy shrank 17.1% in the 2Q'2020 which was its deepest contraction in over 20 years. Is the worst over for the economy yet? Ahmad Raziq Ab Rahman, Senior Portfolio Manager of Affin Hwang AM shares his thoughts on the latest GDP print and where bond yields are headed

1. What are our thoughts on today's Q2 GDP announcement?

The Q2'20 GDP contraction was deeper than concensus estimate of -10.9%. QoQ growth also showed a sharp decline at -15.9%. Looking at the expenditure side, a sharp decline was seen in private consumption, investment and net exports. However, this was offset by positive government consumption during the period. Due to the weaker than expected GDP numbers, Bank Negara Malaysia (BNM) has revised its expectations for full year 2020 GDP growth to -5.5% to -3.5% from -2% to 0.5%. However, BNM is expecting a sharp rebound in 2021 with growth of 5.5% to 8%.

2. Is the worst over for the economy? What's your outlook for the rest of the year and do you expect growth to pick up?

The worst is expected to be over now since the lockdown measures have eased. We expect growth to gradually improve although GDP growth could remain in contraction in the 3Q'20 given that the economy is still running below its capacity. Risk of a second wave of COVID-19 cases and a return of lockdown measures could also disrupt economic recovery going forward.

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3. Do we expect further rate cuts by BNM and easing measures to shore up growth?

It's a close call with BNM already cutting 125bps on a YTD basis, while the government has introduced 2 large fiscal measures under Penjana and Prihatin to stimulate the economy. In addition, BNM is expecting a sharp recovery in 2021.

However, negative inflation provides room for further easing with BNM cutting the OPR by 150bps during 2008/09 GFC to 2.0%. As such, a rate cut during the upcoming September meeting is likely and would be the last for the year.

4. Against a low interest rate environment, are bond yields looking attractive and where do you expect it to range?

Bonds continue to attract investors due to an uncertain economic outlook and ample liquidity. We continue to expect interest from local investors looking for higher returns versus deposit rates. In addition, foreign flows have returned. Malaysia bond yields are still relatively attractive amidst a backdrop of global low to negative yielding bonds. We expect the benchmark MGS 10Y to range 2.35 - 2.65 in the near term.