31 January 2020

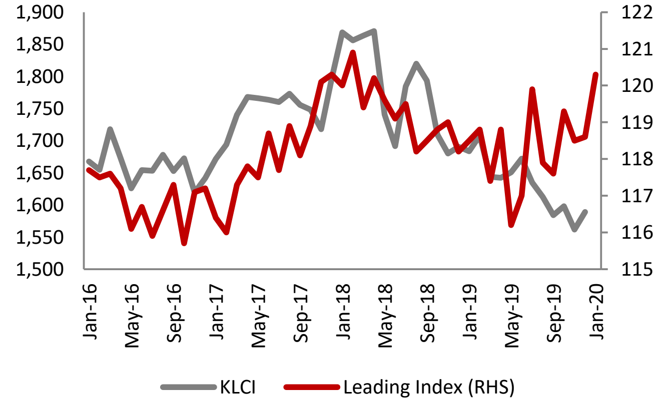
MONTHLY ECONOMIC REVIEW | January 2020

Malaysia Economy Remains Firm despite Global Uncertainties

- *Leading index shows uptrend in 1Q20. Malaysia's leading index points upward for 1Q20. Slight improvement in real imports of other basic precious & other non-ferrous metals provide cue that the economy will expand steadily. Among others, positive development in global trade war between the US and China indirectly affect confidence which is to lift up temporarily. The "Phase One" deal may influence global trade to improve marginally in 1Q20.*
- *IPI growth rebounded to 5-month high. Malaysia's overall industrial production increased by 2%yoy, the strongest gain since Jul-19. The growth was mainly due to the return of mining output which expanded by 0.5%yoy, the first growth after 4-straight months of contractions.*
- *OPR cut as predicted. BNM cut its OPR by 25 basis points to 2.75%, in line with our expectation. Among domestic peer economists, we were the only research house that called for the cut in Jan-20. We believe that the cut is very timely to support domestic economic growth in 2020 especially external front remains cloudy.*

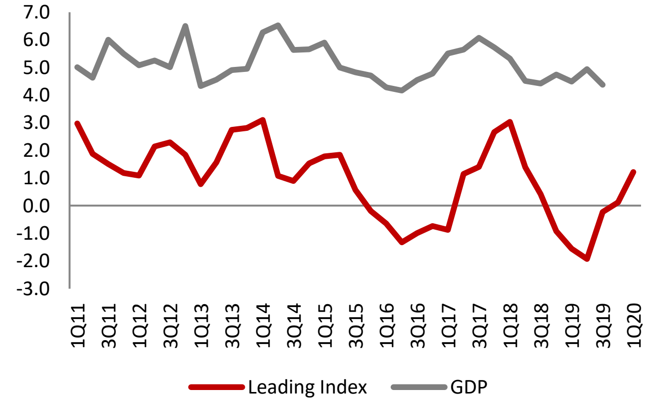
Leading index shows uptrend in 1Q20. Malaysia's leading index points upward for 1Q20. Slight improvement in real imports of other basic precious & other non-ferrous metals provide cue that the economy will expand steadily. Among others, positive development in global trade war between the US and China indirectly affect confidence which is to lift up temporarily. The "Phase One" deal may influence global trade to improve marginally in 1Q20. Nevertheless, we opine the agreement will not provide certainty and stability in the global economy. Particularly with the upcoming US Presidential Elections in Nov-20, we can expect reversal statements and promises to be made by Donald Trump throughout the campaign and hence indirectly affect business confidence globally and trade flows. On the other hand, Malaysian economic growth is expected to stay on the uptrend underpin by recovery in commodity-based sectors and solid domestic demand.

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

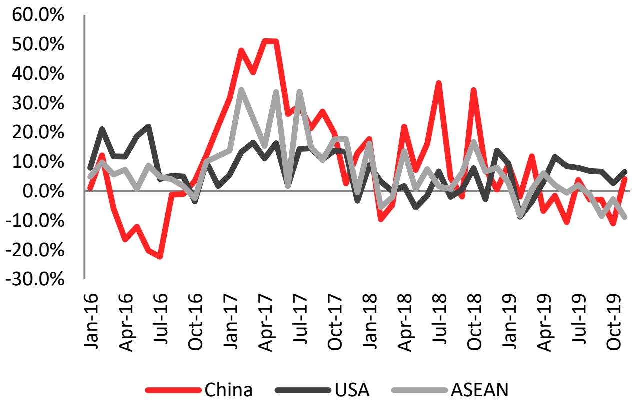
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

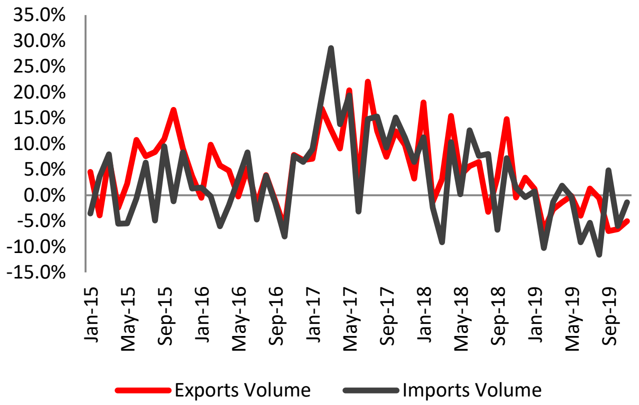
Continuous decline in total trade. Malaysia's total trade declined for the sixth consecutive month with the latest drop in Nov-19 at -4.6%yoy amid slowing global demand and trade spats. Similarly, both exports and imports continued trending downward, contracted by -5.5%yoy and -3.6%yoy respectively. Export marked a streak of four straight falls due to weak performance in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by -2.8%yoy. Similarly, export of mining and agriculture products declined by -28.7%yoy and -4.2%yoy respectively. Trade surplus during the month narrowed to RM6.5b, the lowest since Aug-18. On monthly basis, export fell by -10.8%yoy, the hardest fall in nine months while import grew marginally by +1.4%yoy.

Chart 3: Exports Growth (YoY%) by Major Destination



Source: CEIC; MIDFR

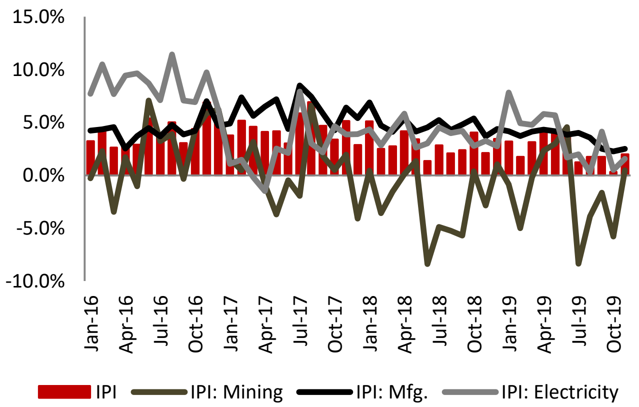
Chart 4: Exports vs Imports Volume (YoY%)



Source: CEIC; MIDFR

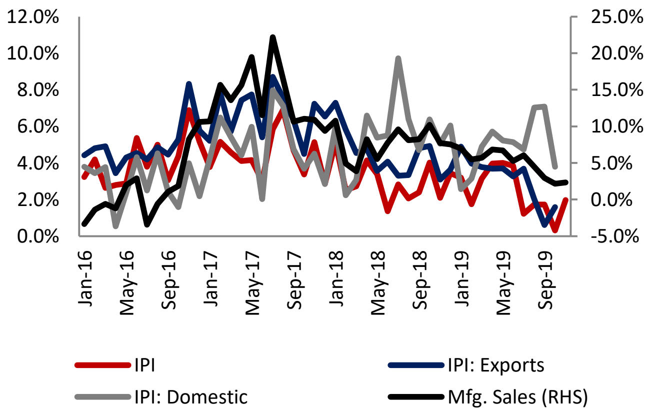
IPI growth rebounded to 5-month high. Malaysia's overall industrial production increased by 2%yoy, the strongest gain since Jul-19. The growth was mainly due to the return of mining output which expanded by 0.5%yoy, the first growth after 4-straight months of contractions. Manufacturing and electricity outputs rose at moderate pace amid global trade war concerns. We expect IPI to continue expanding at better pace in the final month of 2019 due to stronger pick-up in commodity prices.

Chart 5: IPI Performances (YoY%)



Source: CEIC, MIDFR

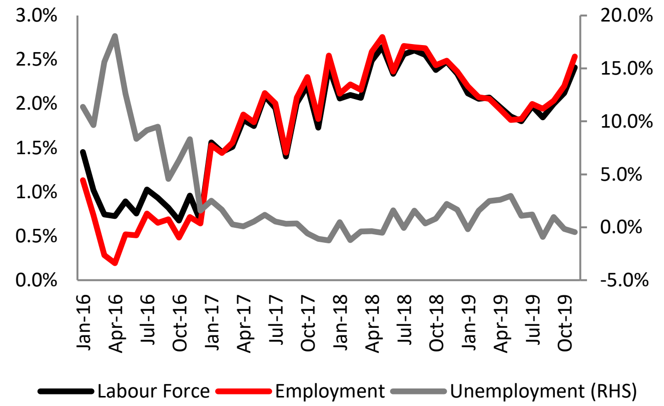
Chart 6: IPI & Mfg. Sales (YoY%)



Source: CEIC, MIDFR

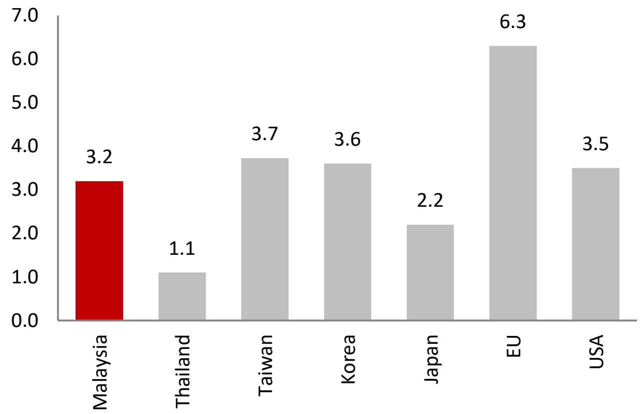
Employment growth rebounded to 1-year high. Malaysia's labour market and employment expanded strongly by 2.4%yoy and 2.5%yoy respectively in Nov-19, the fastest pace in 12-month. Unemployment contracted further by -0.4%yoy, maintaining jobless rate at 9-month low of 3.2%. Despite deterioration in external trade performance, improvement in job market was possibly due to stable expansion of IPI particularly domestic-oriented industries and commodity-based sectors. We opine the stable job market will provide solid foundation for Malaysia's domestic demand to grow at solid pace in 2020.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

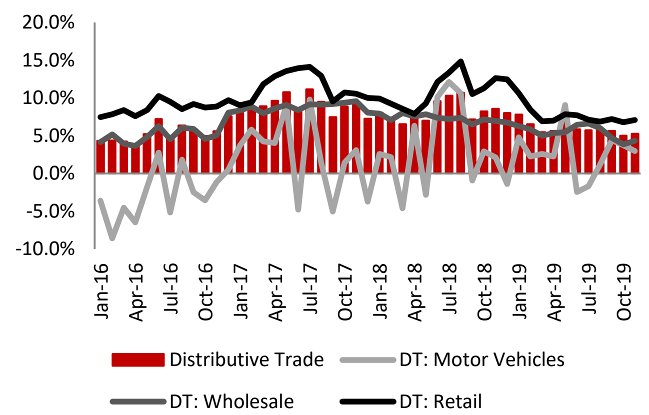
Chart 8: Global Unemployment Rates (%) in Nov-19



Source: CEIC, MIDFR

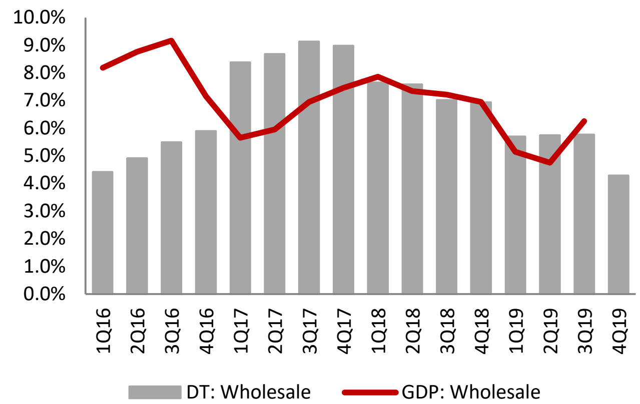
Retail trade growth returned to 7%. Distributive trade growth inched higher to +5.3%yoy in Nov-19 backed by better gain in both retail and wholesale trade. Retail and wholesale sales advanced at higher pace of +7%yoy and +4.3%yoy respectively partly attributed to Single Day and Black Friday sales. In contrast, motor vehicle sales continued increasing but at softer pace of +3%yoy. Looking ahead into the final month of the year, we could expect sales of motor vehicles to improve, propelled by year-end promotions and offers. On monthly basis, wholesale trade continued falling, motor vehicle recorded tepid growth while retail sales grew to the highest in five months.

Chart 9: Distributive Trade Sales, DT (YoY%)



Source: CEIC; MIDFR

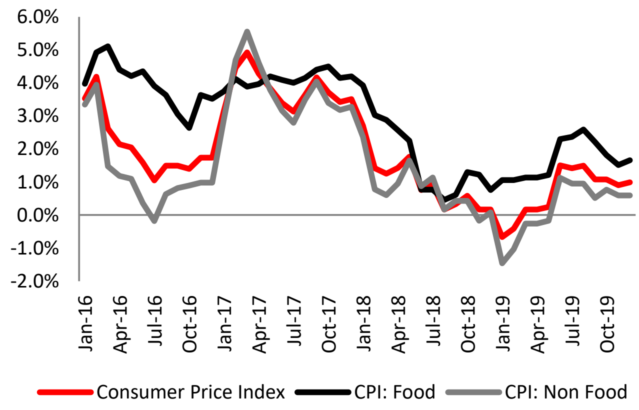
Chart 10: Wholesale Trade: GDP vs DT (YoY%)



Source: CEIC; MIDFR

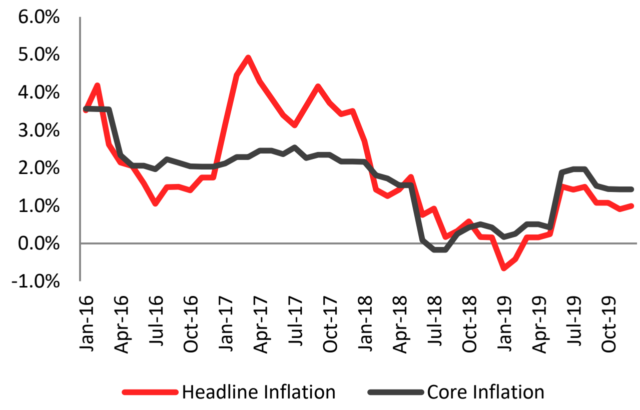
Inflation returned to 1%. Headline inflation edged up to 1%yoy from 0.9%yoy in the preceding month following upward movement in prices of food & non-alcoholic beverages, the biggest component of CPI which increased at a faster pace of 1.7%yoy (Nov-19: 1.5%yoy). In addition, inflation of transport fell slower to -1.9%yoy (Nov-19: -2.4%yoy). Meanwhile, price growth for housing & utilities maintained at 1.7%yoy. Core inflation steadied at 1.4%yoy, unchanged from the previous two months. On monthly basis, headline inflation edged up to 0.2% compared to 0.1% in Nov-19. For the full year of 2019, headline inflation recorded at 0.7%yoy, lower than 1%yoy in 2018 but slightly above MIDF's forecast of 0.6%yoy. In contrast, core inflation climbed to 1.1%yoy from 0.8%yoy registered in 2018.

Chart 11: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

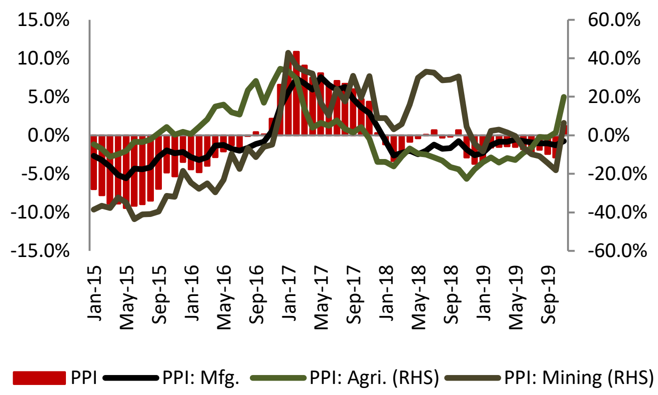
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

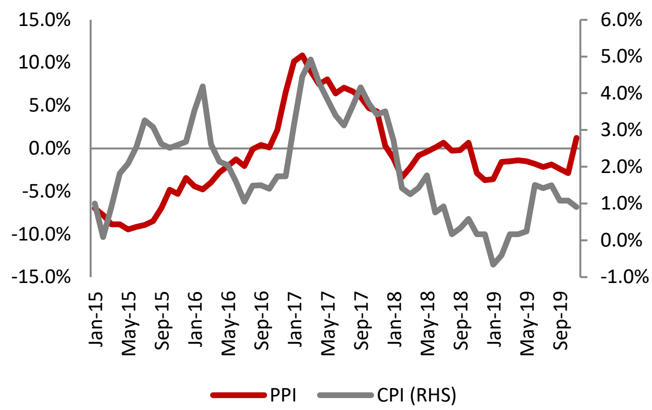
PPI rebounded after a year. Malaysia's producer cost rebounded to positive territory in Nov-19 at 1.2%yoy after one solid year of deflation. Input prices of manufacturing which held around 80% of the total PPI remain deflationary but at a smaller decline of -0.7%yoy. The fall was offset by agriculture and mining components. PPI of agriculture continued on an uptrend by recording double digit growth of almost 20%yoy, the highest pace since Feb-17. Meanwhile, those of mining recorded at 13-month high of 6.4%yoy, partially attributed to higher crude oil prices globally.

Chart 13: PPI Performance by Sector (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

OPR cut as predicted. BNM cut its OPR by 25 basis points to 2.75%, in line with our expectation. Among domestic peer economists, we were the only research house that called for the cut in Jan-20. We believe that the cut is very timely to support domestic economic growth in 2020 especially external front remains cloudy. Global uncertainties over trade war, geopolitical risks and volatility commodity prices may affect the trajectory of Malaysia's external trade performance. Hence, expansionary monetary policy would boost private consumption and investment activities in 2020.

Chart 15: Labour Market Performance (YoY%)

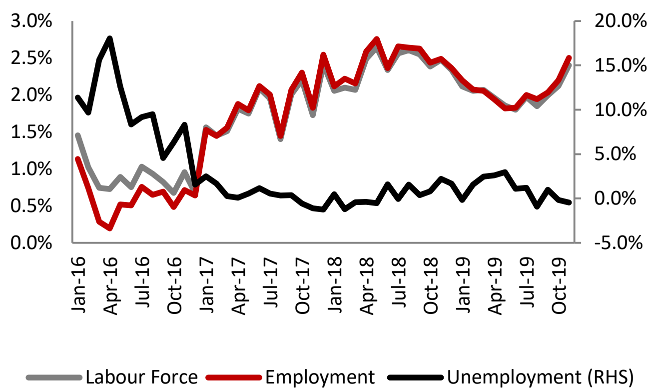
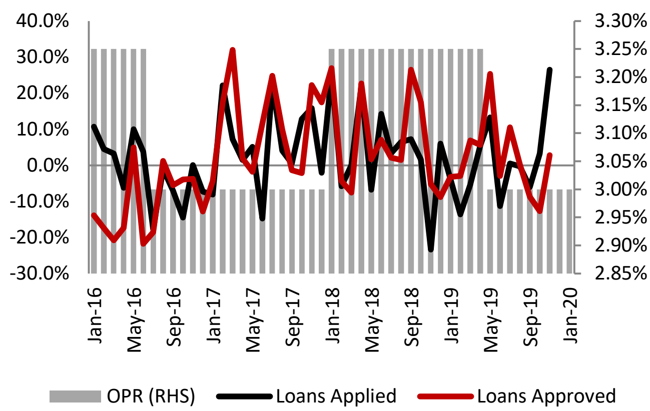


Chart 16: OPR (%) vs Loans Growth (YoY%)



Interest rate maintained. The Fed maintained its policy rate at 1.5-1.75% during the FOMC meeting in its first 2020 meeting. The decision was widely expected by market analysts and economists. The economic outlook for the economy next year is expected to be affected by external challenges. Global trade tension, political instability and volatility of commodity prices remain as key downside risks in 2020. We expect the Fed to pursue easing monetary policy this year in order to spur household spending and business investment.

Chart 17: Headline vs Core PCE Inflation (%)

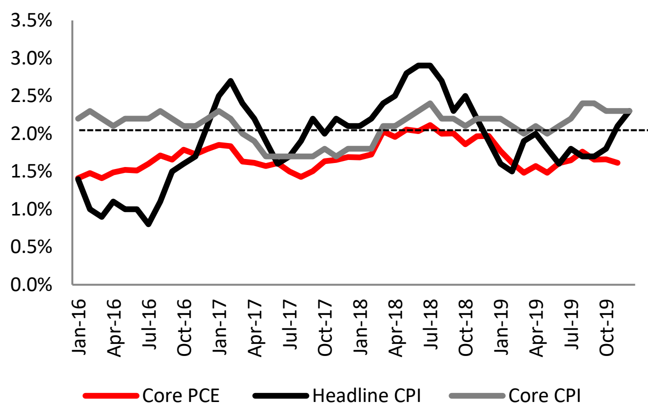


Chart 18: IPI Performances (YoY%)

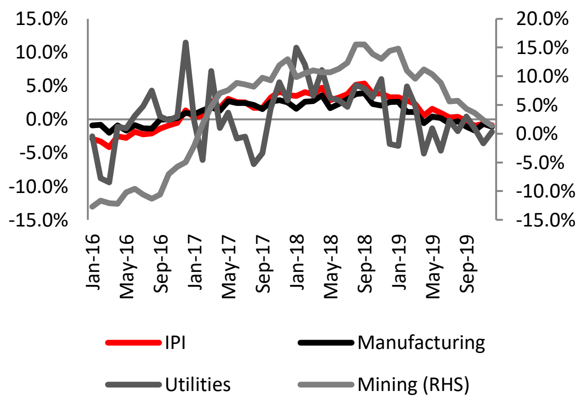


Table 1: MIDF Research Macroeconomic Forecast Figures for 2020 (%)

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019e	2020f
Real GDP	4.4	5.7	4.7	4.6	4.5
Govt. Consumption	1.6	5.5	3.2	3.0	2.7
Private Consumption	5.8	6.8	7.9	7.5	6.5
Gross Fixed Capital Formation	2.5	6.1	1.3	(1.7)	3.4
Govt. Investment	(0.8)	0.5	(5.0)	(9.2)	1.4
Private Investment	4.4	9.1	4.4	1.5	4.1
Exports of goods & services	1.3	8.8	2.2	(0.2)	1.4
Imports of goods & services	1.5	10.3	1.3	(2.1)	0.9
Net Exports	0.3	(3.9)	14.6	16.7	5.2
Agriculture etc.	(3.6)	5.8	0.2	4.5	3.6
Mining & Quarrying	2.3	0.5	(2.6)	(1.0)	2.5
Manufacturing	4.4	6.1	5.0	4.0	2.8
Construction	7.5	6.8	4.3	0.2	1.5
Services	5.7	6.2	6.8	6.3	5.8
Exports of Goods (f.o.b)	1.2	18.8	7.3	(1.1)	1.5
Imports of Goods (c.i.f)	1.9	19.7	5.2	(4.6)	0.8
Trade Balance - RMb	88.1	98.5	123.8	142.2	147.6
Consumer Price Index	2.1	3.8	1.0	0.6	2.4
Current Account - % of GDP	2.4	2.8	2.1	3.6	3.1
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.8)	(3.4)	(3.2)
Federal Government Debt - % of GDP	52.7	50.7	51.8	58.2	61.4
Year-End of Unless States Otherwise	**2016**	**2017**	**2018**	**2019e**	**2020f**
Brent Crude Oil (Avg)	46.0	55.7	70.0	64.3	65.0
Crude Palm Oil (Avg)	2,667	2,731	2,214	2,144	2,450
USD/MYR (Avg)	4.15	4.30	4.03	4.14	4.18
USD/MYR	4.49	4.05	4.15	4.09	4.20
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00	2.75

Source: MIDFR

January 2020 Key Economic Events

1 January: China cuts banks' reserve ratios again, frees up $115 billion to spur economy. China's central bank said on Wednesday it was cutting the amount of cash that all banks must hold as reserves, releasing around 800 billion yuan ($114.91 billion) in funds to shore up the slowing economy. The People's Bank of China (PBOC) said on its website it will cut banks' reserve requirement ratio (RRR) by 50 basis points, effective Jan. 6. The move would bring the level for big banks down to 12.5%.

2 January: Malaysia's Dec manufacturing PMI at 15-month high. Malaysia's manufacturing purchasing managers index (PMI) rose to a 15-month high in December, the fastest pace since September 2018 amid reports of stronger demand pressures, according to a release by IHS Markit. The headline IHS Markit Malaysia Manufacturing PMI – a composite single-figure indicator of manufacturing performance – increased to 50.0, from 49.5 in November.

8 January: India bans imports of refined palm oil, most of which are from Malaysia. The Indian government has banned imports of refined palm oil into the country, according to a government notification sighted by theedgemarkets.com. According to the notification, the import policy for refined bleached deodorised palm oil and refined bleached deodorised palmolein has been amended from 'Free' to 'Restricted'. The new policy is believed to be in response to Prime Minister Tun Dr Mahathir Mohamad's criticism on India's actions in the Kashmir region and its new citizenship law.

16 January: U.S. and China Sign Phase One of Trade Deal. The U.S. and China signed what they billed as the first phase of a broader trade pact on Wednesday amid persistent questions over whether President Donald Trump's efforts to rewrite the economic relationship with Beijing will ever go any further. The deal commits China to do more to crack down on the theft of American technology and corporate secrets by its companies and state entities, while outlining a $200 billion spending spree to try to close its trade imbalance with the U.S. It also binds Beijing to avoiding currency manipulation to gain an advantage and includes an enforcement system to ensure promises are kept.

17 January: Toll rates reduction at PLUS highways starting Feb 1. The 18 per cent toll rates cut at all PLUS highways for passenger vehicles will start as early as Feb 1. The Prime Minister's Office (PMO) in a statement today said the Cabinet had on Wednesday made the decision, and it was as announced during the 2020 Budget last year. "The government will implement the 18 per cent reduction in toll rates for passenger vehicles at all highways owned by PLUS as early as Feb 1.

24 January: Ringgit remains stable after OPR cut. The ringgit held its ground after Bank Negara Malaysia's (BNM) 25-basis-point cut in the overnight policy rate (OPR). Economists do not expect the rate cut to weaken the local currency. At the time of writing, the ringgit depreciated 0.08% to 4.0688 against the greenback. The local currency has gained 0.53% since the start of the new year.

27 January: China's Coronavirus Has Revived Global Economic Fears. The spread of the dangerous virus has spooked global markets and threatened prospects for economic growth. Before a mysterious respiratory illness emerged in the center of China, spreading with lethal effect through the world's most populous nation, concerns about the health of the global economy had been easing, replaced by a measure of optimism.

30 January: EU parliament gives final approval to Brexit deal. The European Parliament on Wednesday gave its final approval to Britain's divorce deal from the bloc, paving the way for Brexit to take place on Friday. The chamber broke into singing Auld Lang Syne, a traditional Scottish song to bid farewell, after voting 621 for versus 49 against the Brexit deal, with 13 abstentions.

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