

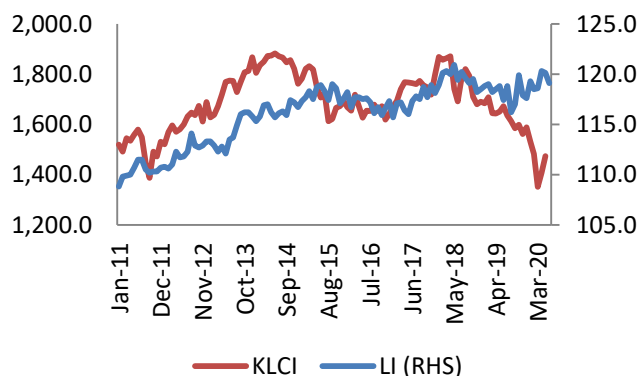
MONTHLY ECONOMIC REVIEW | July 2020

Economy Begins to Recover but Outlook still Shaky with Resurgence of Another Wave

- *Leading index rebounded.* Malaysia Leading Index (LI) rebounded to 0.6%yoy in May-20 from -5.7% in the previous month. This is the highest recorded since Mar-20 due to the reopening of economic activities after the MCO, allowing more businesses to resume operation. The improvement in performance of the index indicates that the economy will begin expanding in the upcoming months.
- *IPI decline slowed in May.* The pace of decline in IPI slowed to -22.1%yoy in May (Apr-20: -32.0%yoy). This was in line with our expectation that the fall in industrial production will be slower in May after the sharp fall the previous month as more businesses reopened and restarted their production activities.
- *Signs of recovery.* Malaysia's distributive trade declined for the second consecutive month in May-20 albeit at softer pace of -23.8%yoy. All three major components recorded lower fall with retail sales chalking the fastest improvement. Retail sales declined by -16.2%yoy, halved than previous month's fall.

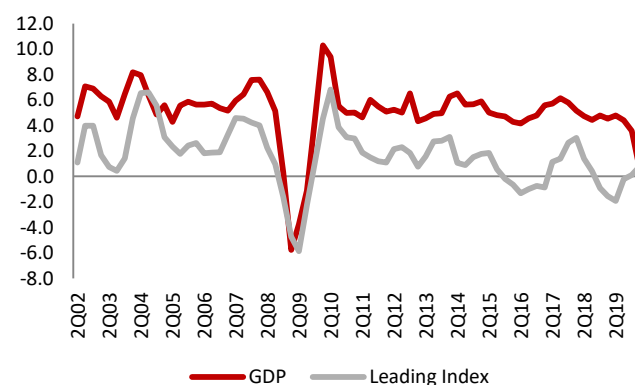
Leading index rebounded. Malaysia Leading Index (LI) rebounded to 0.6%yoy in May-20 from -5.7% in the previous month. This is the highest recorded since Mar-20 due to the reopening of economic activities after the MCO, allowing more businesses to resume operation. The improvement in performance of the index indicates that the economy will begin expanding in the upcoming months. Similar to LI, coincident index (CI) which measures current economic performance also improved by -11.1%yoy compared to -19.3%yoy in the preceding month, reflecting the impact of business resumption effects to the economy. Economic contraction for 2Q20 is largely expected while we opine that there might be gradual recovery starting 3Q20 in line with relaxation of the movement restrictions both domestically and globally. Government stimulus packages including PRIHATIN and PENJANA on top lower interest rates are expected to cushion some of the adverse impacts arising from this pandemic. Several measures announced in the expansionary policies are likely to provide relief to people and businesses and entice consumption, eventually contribute to economic growth.

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

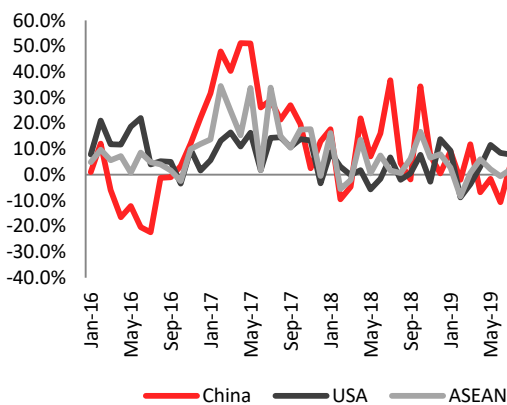
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

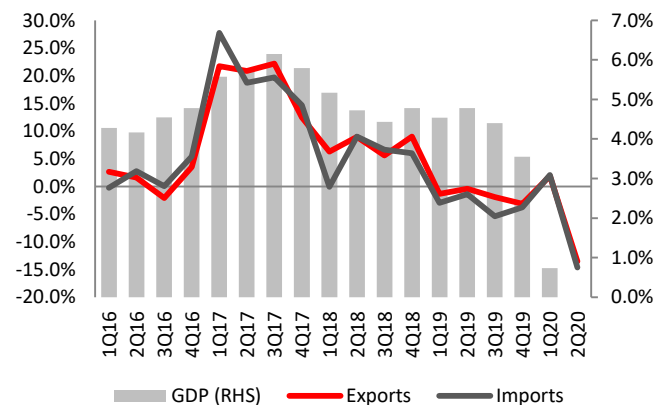
Record high trade surplus. Malaysia recorded trade surplus of RM20.9bil in June-20, the highest ever recorded as exports rebounded to positive territory for the first time since MCO was implemented while imports remained in negative territory. Exports expanded 8.8%yoy whereas imports contracted at a softer pace of -5.6%yoy. Alongside, neighboring countries like Indonesia and Vietnam also experienced a rebound in their exports, in time with easing global restrictions and recovery in China's economy. On a monthly sequential basis, both exports and imports of Malaysia grew by 32.3%mom and 18.6%mom respectively.

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



Source: CEIC, MIDFR

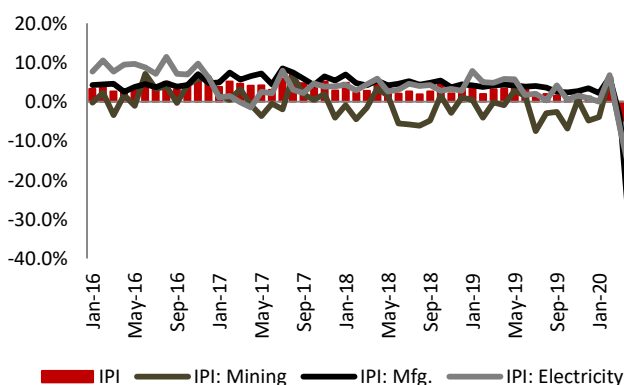
Chart 4: External Trade vs GDP, (YoY%)



Source: CEIC, MIDFR

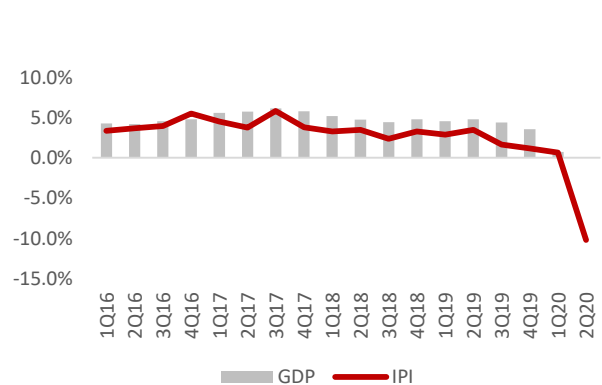
IPI decline slowed in May. The pace of decline in IPI slowed to -22.1%yoy in May (Apr-20: -32.0%yoy). This was in line with our expectation that the fall in industrial production will be slower in May after the sharp fall the previous month as more businesses reopened and restarted their production activities. The slower contraction in the overall IPI mainly reflected slower declines in manufacturing production (May-20: -23.2%yoy; Apr-20: -37.2%yoy) and the electricity output (May-20: -10.3%yoy; Apr-20: -19.3%yoy). The recovery in manufacturing output was supported by improvement in production of electrical & electronics (E&E) products, transport equipment, and non-metallic mineral products. However, the production activities for the mining sector declined at a faster rate during the month (May-20: -22.2%yoy; Apr-20: 19.6%yoy) due to the continued contraction in the production of crude oil and natural gas.

Chart 5: IPI Performances (YoY%)



Source: CEIC, MIDFR

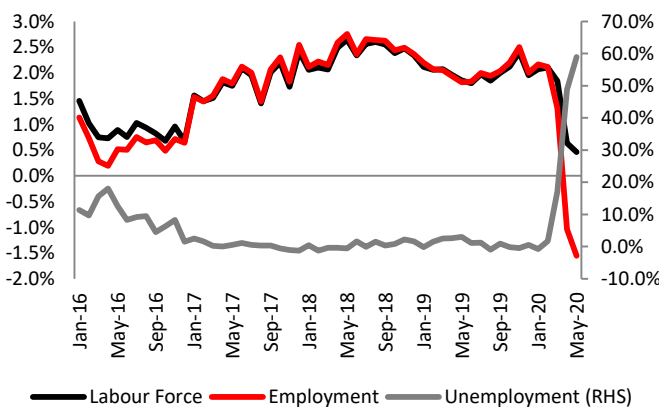
Chart 6: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

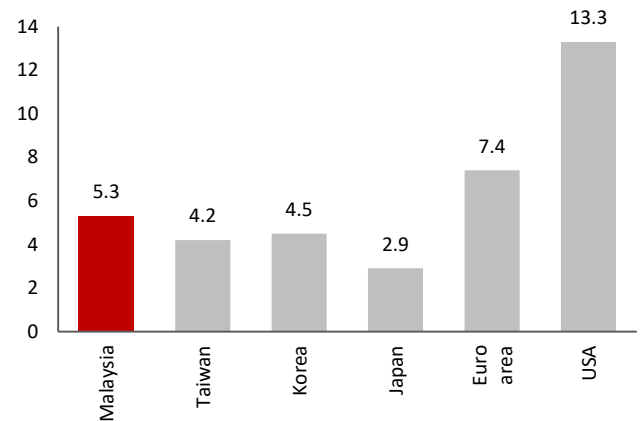
Unemployment climbed higher. Malaysia's unemployment rate climbed further to 5.3% in May-20, despite the government having allowed more businesses to reopen and resume its operations. The higher unemployment reflected continued weakness in the job market as firms adjusting to the new normal, and restarting its business operation after the MCO. During the month, employment fell further at -1.6%yoy (Apr-20: -1%yoy) while unemployment increased at a faster pace of 58.9%yoy (Apr-20: 48.8%yoy). We foresee unemployment rate to stay at the current high level for the next few months before the recovery in economic activities will have a positive impact on the labour market.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

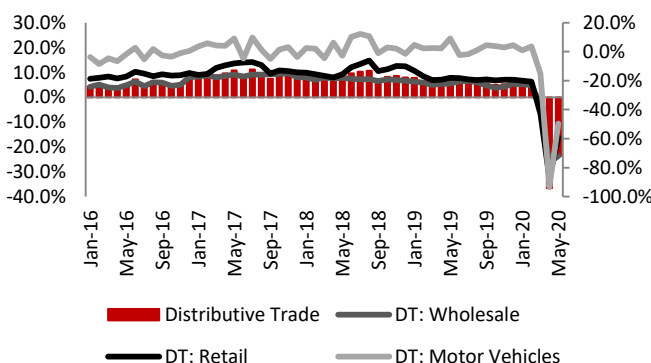
Chart 8: Global Unemployment Rates (%) in Mar-20



Source: CEIC, MIDFR

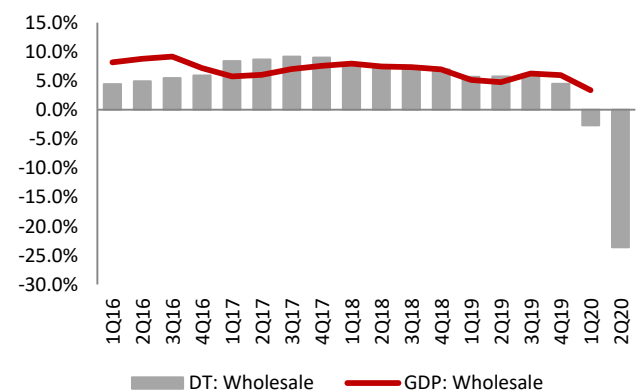
Signs of recovery. Malaysia's distributive trade declined for the second consecutive month in May-20 albeit at softer pace of -23.8%yoy. All three major components recorded lower fall with retail sales chalking the fastest improvement. Retail sales declined by -16.2%yoy, halved than previous month's fall. Similarly, motor vehicles contracted -49.5%yoy, a significant improvement compared to Apr-20. Meanwhile, wholesale which accounted for the largest share of total distributive trade continued recording fall above -20%. Better performances for the month were in line with relaxation of MCO in Malaysia starting May-20. We foresee the figures to get even better in upcoming months as most of the economic activities have resumed. Motor vehicle sales in particular will be buoyed by sales tax exemption for both locally assembled and imported passenger cars as highlighted in PENJANA.

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



Source: CEIC; MIDFR

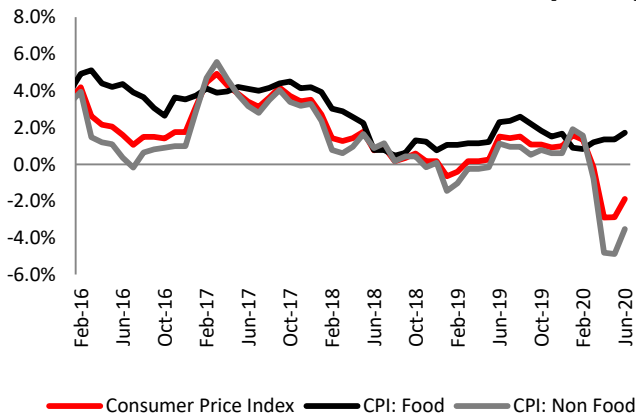
Chart 10: Wholesale Trade: GDP vs DT (YoY%)



Source: CEIC; MIDFR

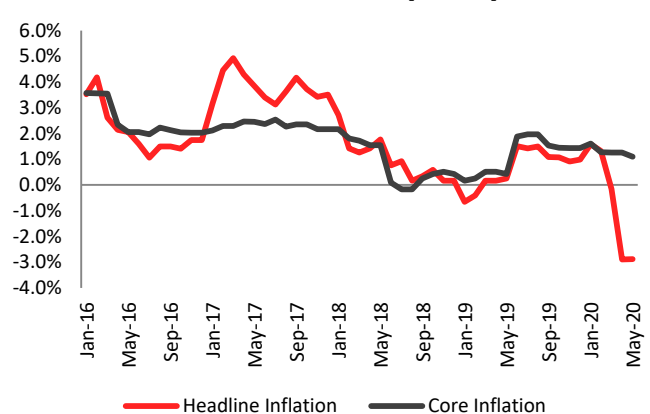
CPI declined at slower pace. The decline in Malaysia's consumer price index slowed to -1.9%yoy in Jun-20 (May-20: -2.9%yoy), but slightly faster than our forecast of -1.7%yoy. During the month, prices of transport-related components registered a smaller deflation of -14.3%yoy (May-20: -20.3%yoy), and housing and utility charges continued to fall by -2.6%yoy (May-20: -2.6%yoy). In particular, the charges for electricity fell further by -33.3%yoy (May-20: -33.3%yoy) benefiting from the rebates under government's stimulus package which had been extended until end of the year. On another note, food prices registered a higher inflation of +1.6%yoy (May-20: +1.4%yoy), primarily due to higher prices of meat and fruits. Meanwhile, core inflation inched slightly higher to +1.2%yoy (May-20: +1.1%yoy). On month-on-month basis, the CPI inflation accelerated to +1.0%mom (May-20: +0.3%mom), following higher inflation of transport-related prices (Jun-20: +7.8%mom; May-20: +1.0%mom) which largely reflected the upward adjustment of domestic fuel prices.

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



Source: CEIC, MIDFR

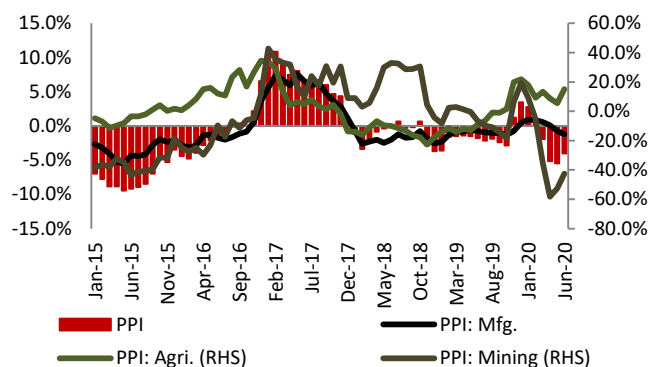
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

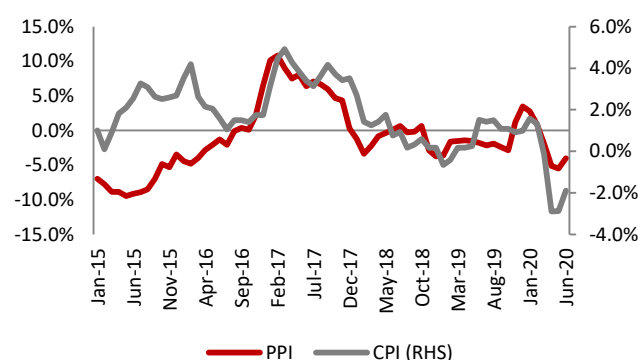
PPI drops further. Producer prices continued to fall in Jun-20, albeit at a slower rate of -4.0%yoy (May-20: -5.5%yoy). The moderate decline was mainly attributable to the slower fall in the mining sector (Jun-20: -42.5%yoy; May-20: -52.7%yoy). Although domestic fuel prices had been revised higher during the month due to the gradual rise in the international crude oil benchmark, the negative PPI indicated that the level of prices incurred by producers was still below the level in June last year. Meanwhile, PPI for other sectors like manufacturing, electricity & gas, and water supply continued to fall at faster rates during the month. Going forward, any upward adjustment to the domestic fuel prices will translate into a more moderate decline in transport cost and fuel-related charges. The overall price pressure on producers is expected to be benign this year and will therefore limit any risk of cost-push inflationary pressure on consumer prices. While recent signs of recovery suggest the current level of economic activities was still below the pre-crisis level, a gradual and sustained recovery in demand would eventually exert some price pressures to local suppliers and consumers. However, the pace of recovery continued to be constrained by concerns over the persistent rise in Covid-19 cases as well as escalated tension between the US and China.

Chart 13: PPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Table 1: Macroeconomic Forecasts (%)

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019	2020 _f
Real GDP	4.4	5.7	4.7	4.3	(2.1)
Govt. Consumption	1.6	5.5	3.2	2.0	4.7
Private Consumption	5.8	6.8	7.9	7.6	(0.5)
Govt. Investment	(0.8)	0.5	(5.0)	(10.9)	(9.0)
Private Investment	4.4	9.1	4.4	1.6	(6.5)
Exports of goods & services	1.3	8.8	2.2	(1.3)	(10.2)
Imports of goods & services	1.5	10.3	1.3	(2.5)	(8.7)
Net Exports	0.3	(3.9)	14.6	9.7	(22.4)
Agriculture etc.	(3.6)	5.8	0.2	2.0	(3.0)
Mining & Quarrying	2.3	0.5	(2.6)	(2.0)	(2.6)
Manufacturing	4.4	6.1	5.0	3.8	(3.0)
Construction	7.5	6.8	4.3	0.1	(2.7)
Services	5.7	6.2	6.8	6.1	(1.6)
Exports of Goods (f.o.b)	1.2	18.8	7.3	(1.7)	(8.3)
Imports of Goods (c.i.f)	1.9	19.7	5.2	(3.5)	(7.8)
Trade Balance - RMB	88.1	98.5	123.8	137.4	121.7
Consumer Price Index	2.1	3.8	1.0	0.7	(0.5)
Current Account - % of GDP	2.4	2.8	2.1	3.6	2.0
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.8)	(3.4)	(6.4)
Federal Government Debt - % of GDP	51.9	50.1	51.2	52.5	57.2
Year-End of Unless States Otherwise	2016	2017	2018	2019	2020_f
Brent Crude Oil (Avg)	46.0	55.7	70.0	64.3	41.0
Crude Palm Oil (Avg)	2,630	2,690	2,320	2,079	2,300
USD/MYR (Avg)	4.14	4.30	4.00	4.14	4.26
USD/MYR	4.46	4.08	4.10	4.09	4.25
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00	1.75

Source: MIDFR

July 2020 Key Economic Events

July 1 - Malaysia to file WTO legal action against EU over palm oil. Malaysia, the world's second-largest palm oil producer, said it will take legal action with the World Trade Organisation against the European Union's "anti-palm oil campaign" via a dispute settlement mechanism. EU policies under its Delegation Regulation restricts free trade practices, Malaysian Plantation Industries and Commodities Minister Mohd Khairuddin Aman Razali said in a statement on Wednesday (July 1).

July 6 - U.S. trade groups urge China to increase purchases of U.S. goods, services. The U.S. Chamber of Commerce and over 40 trade associations on Monday urged top American and Chinese officials to redouble efforts to implement a Phase 1 trade agreement signed by the world's two largest economies in January despite pandemic-related strains. In a letter to U.S. Treasury Secretary Steven Mnuchin, U.S. Trade Representative Robert Lighthizer and Chinese Vice Premier Liu He, the groups said they were encouraged by the progress so far, but urged a significant increase in China's purchases of U.S. goods and services.

July 15 - Malaysia-S'pore border to reopen. News about the reopening of the Malaysia and Singapore border beginning Aug 10 has been received with sighs of relief from citizens of both countries. However, many have expressed concern about the imposition of a three-month stay in Singapore during each trip for those holding long-term immigration passes for business and work. The people are also hoping that both sides will implement clear and practical standard operating procedure (SOP) to avoid issues at the two border crossings of the Johor Causeway and Second Link.

July 20 - Economic stimulus packages saved 2.75 mil jobs. The implementation of the Economic Stimulus Packages (ESPs) worth RM295 billion by the government has managed to save more than 2.75 million jobs and more than 800,000 businesses including micro and small and medium-sized enterprises (SMEs). Prime Minister Tan Sri Muhyiddin Yassin said the measures introduced under the PRIHATIN ESP, Additional PRIHATIN and the Short-term Economic Recovery Plan (PENJANA) aims to address the impact from the Covid-19 crisis, while simultaneously ensuring business continuity.

July 4- 2021 Budget to revitalise the economy, restore confidence — Zafrul. The 2021 Budget, to be tabled in Parliament on Nov 6, is designed to revitalise the economy as well as to restore investors and consumers' confidence to drive the economy, says Finance Minister Tengku Datuk Seri Zafrul Aziz. "The main focus will be to drive new sources of growth and future-proofing Malaysia, because 2021 will be the year where we want to sustain the growth that we hope to achieve in the third quarter and fourth quarter of this year.

July 8 - Malaysia faces distinct challenges towards achieving WKB 2030 — Redzuan. Malaysia faces distinct challenges going forward in its march towards the Share Prosperity Vision (WKB) 2030, which among others, constitute enhancing economic growth, encouraging the use of technology in the manufacturing and services industry, and bridging development gaps. Minister in the Prime Minister's Department (Special Functions) Datuk Seri Mohd Redzuan Md Yusof said the use of technology is still low in the manufacturing and services industry.

July 17 - Hong Kong reverts to China tariffs under Trump order, impact limited: trade lawyers. President Donald Trump's executive order ending Hong Kong's special status under U.S. law effectively ends the territory's separate customs treatment from China - but the immediate impact on trade is likely to be limited, trade law experts say. Trump's order here issued late on Tuesday to punish China over a new national security law imposed on Hong Kong, does not explicitly mention tariffs nor Hong Kong's separate customs status.

July 22 - Economy recovering, 83.5% of employees have returned to work – Tengku Zafrul. THE Department of Statistics Malaysia Report which says that about 12.7 million or 83.5 per cent of employees as of June 2, 2020 have returned to work, evidently shows that economic activities and services are recovering, said Tengku Datuk Seri Zafrul Tengku Abdul Aziz. The Finance Minister noted that the figure on May 17, 2020 was 10.2 million or 67.2 per cent.

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