

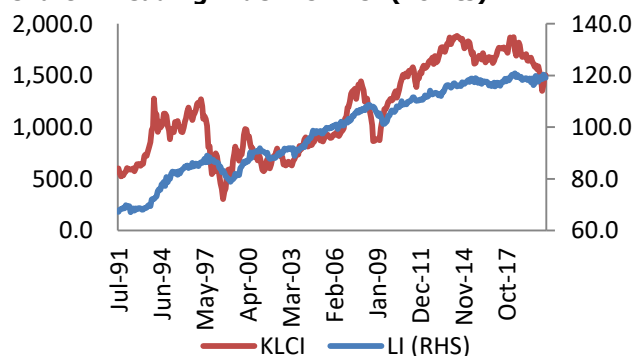
MONTHLY ECONOMIC REVIEW | June 2020

Economic Contraction is Inevitable in 2Q20, But Likely to Start Recover in 3Q20.

- *Leading index drops further.* Malaysia Leading Index (LI) plunged further to -5.5%yoy in Apr-20 from -3.6% in the previous month due to negative contributions from number of housing units approved and number of new companies registered. Weakening performance of the index indicates that the economy will continue to contract in upcoming months.
- *Record decline in IPI.* Overall IPI slumped -32%yoy in Apr-20, the steepest fall on record and worse than market expectation as all sub-indexes recorded double digit drop. Among the sub-indexes, manufacturing sector chalked the largest decline of -37.2%yoy.
- *Record decline in distributive trade.* Malaysia's distributive trade slumped to a record low of -36.6%yoy in Apr-20, manifesting the impact of a full month of MCO. The MCO caused Rakyat to stay home and halted business operations. All three major components contracted by double digit with motor vehicles chalked the hardest drop.

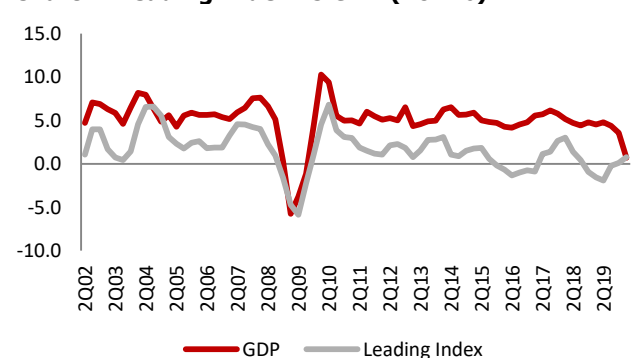
Leading index drops further. Malaysia Leading Index (LI) plunged further to -5.5%yoy in Apr-20 from -3.6% in the previous month due to negative contributions from number of housing units approved and number of new companies registered. Weakening performance of the index indicates that the economy will continue to contract in upcoming months. Similar to LI, coincident index (CI) which measures current economic performance also slumped by -19.3%yoy compared to -3.6%yoy in the preceding month, reflecting the impact of full month of MCO where businesses were closed and demand declined. The latest CI suggest that Feb-20 was the highest point of cyclical turn, reflecting the end of expansion phase or beginning of recession phase for 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.

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

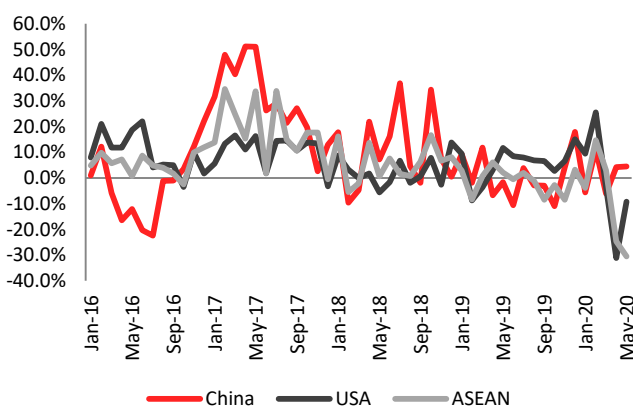
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

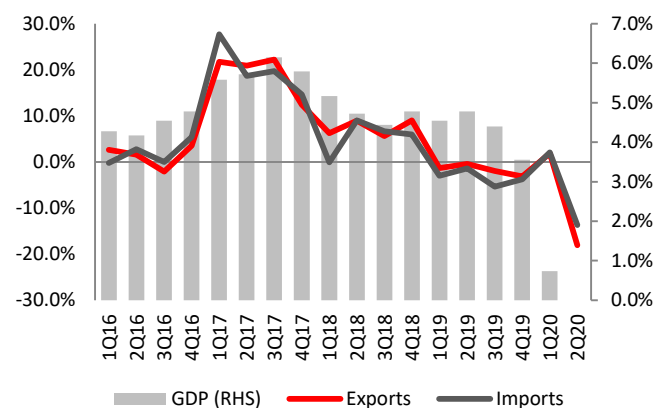
Export performance at 11-year low. Malaysia's exports dived -25.5%yoy in May-20, the hardest fall since May-09, suggesting a prolonged impact of the pandemic on export-reliant economies. Malaysia is not unique as other neighboring countries like Indonesia and Thailand also experienced contraction above -20%yoy in their exports. Similar to exports, Malaysia's imports contracted by -30.4%yoy, the largest drop since Jan-09. Nevertheless, as imports fell harder than exports, trade balance shifted to a surplus of RM10.4b, in line with our expectation. On a monthly basis, both exports and imports contracted by -3.2%mom and -23.6%mom respectively.

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



Source: CEIC, MIDFR

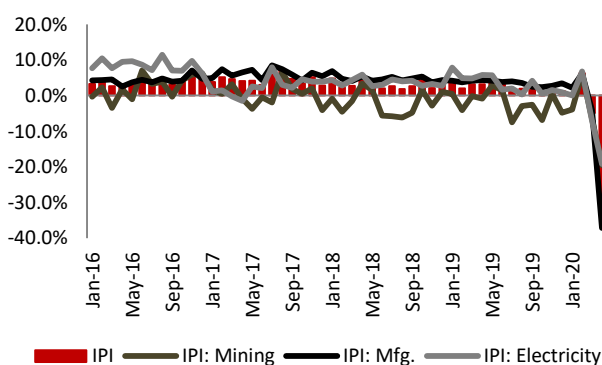
Chart 4: External Trade vs GDP, (YoY%)



Source: CEIC, MIDFR

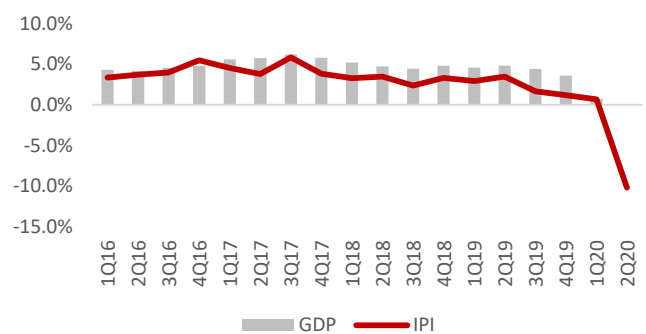
Record decline in IPI. Overall IPI slumped -32%yoy in Apr-20, the steepest fall on record and worse than market expectation as all sub-indexes recorded double digit drop. Among the sub-indexes, manufacturing sector chalked the largest decline of -37.2%yoy. Mining sector in particular contracted by -19.6%yoy mainly due to lower oil prices following oil price war besides the weak demand resulting from movement restrictions worldwide. Severe contraction was largely expected for the month as Malaysia had its full month of Movement Control Order (MCO) where most of the businesses were out of operations and consumers stayed home. Looking ahead, we expect IPI performance to remain weak in upcoming months albeit at improving rate, in line with easing restrictions and opening up of the economy.

Chart 5: IPI Performances (YoY%)



Source: CEIC, MIDFR

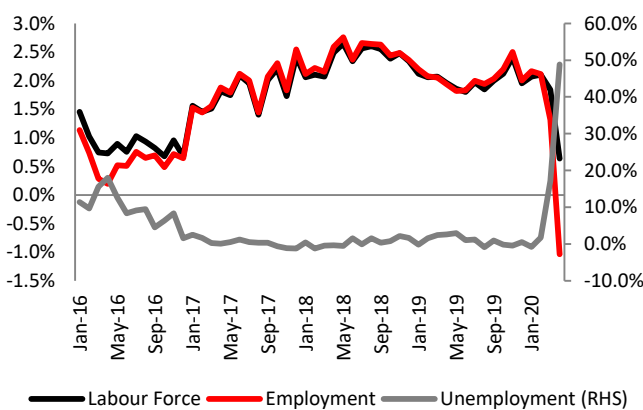
Chart 6: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

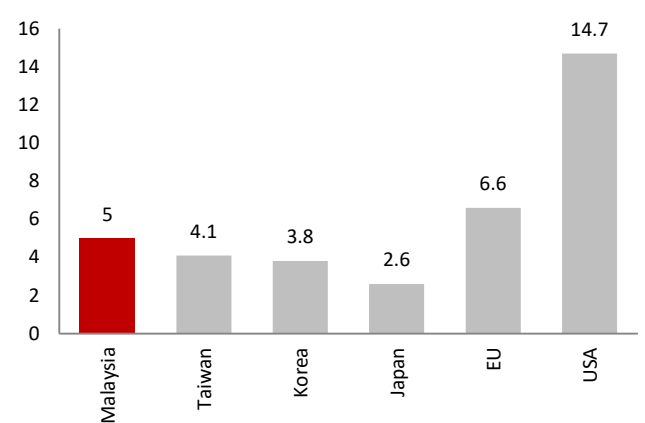
A breach of full employment condition. Malaysia's unemployment rate spiked to 5% in Apr-20, breaking the full employment condition of below 4% for first time since GFC. This is a manifest of the repercussion of full month of MCO where the effort to protect public health have induced decline in economic activities that resulted in retrenchment of employees. Employment fell -1%yoy while unemployment growth soared further to 48.8%yoy. Employees in the manufacturing and services sectors are observed to be mostly affected. We foresee unemployment rate to stay at the high side for upcoming month as most of the businesses have not fully resumed their operations.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

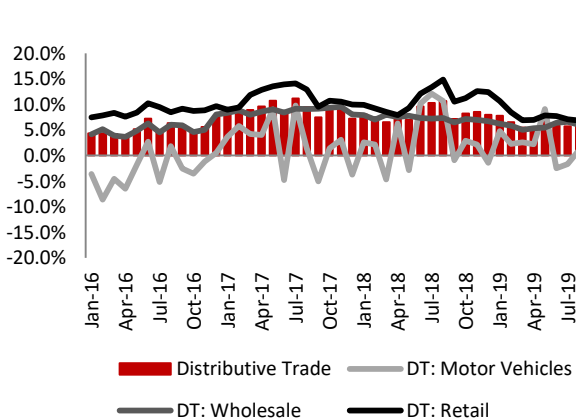
Chart 8: Global Unemployment Rates (%) in Mar-20



Source: CEIC, MIDFR

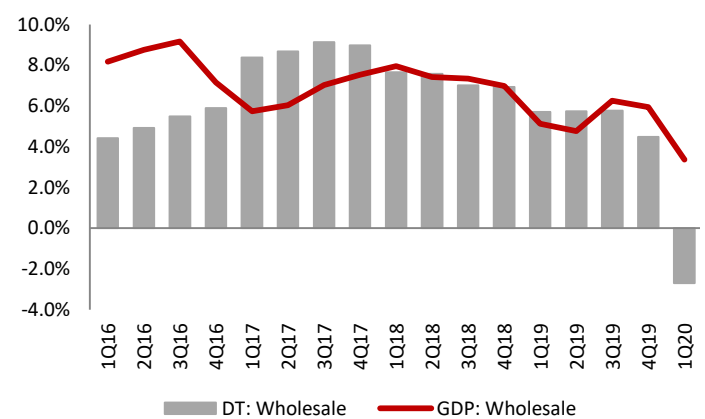
Record decline in distributive trade. Malaysia's distributive trade slumped to a record low of -36.6%yoy in Apr-20, manifesting the impact of a full month of MCO. The MCO caused Rakyat to stay home and halted business operations. All three major components contracted by double digit with motor vehicles chalked the hardest drop. Wholesale which accounted for the largest share of total distributive trade fell -26.3%yoy. Similarly, retail sales and motor vehicles declined -32.4%yoy and -93.2%yoy respectively. Large drop in motor vehicles sales was largely expected as consumers avoid purchases of big ticket items amid ongoing crisis. Moving forward, we foresee better performance in distributive trade as MCO have been relaxed in phases.

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



Source: CEIC; MIDFR

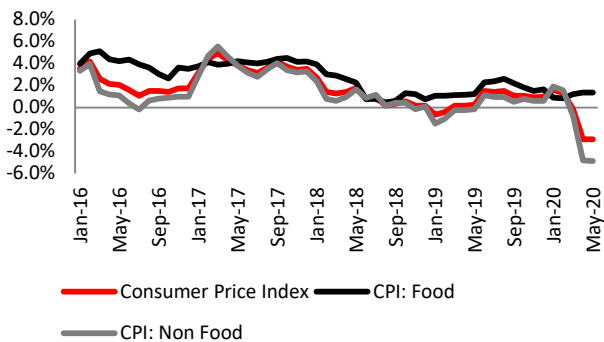
Chart 10: Wholesale Trade: GDP vs DT (YoY%)



Source: CEIC; MIDFR

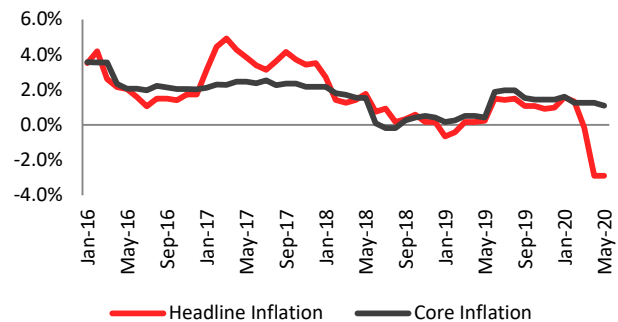
CPI rate maintained at record low. Malaysia's consumer price recorded a deflation of -2.9%yoy in May-20 which was unchanged from the previous month. The all-time low rate was mainly due to declining prices of housing & utilities by -2.6%yoy (Apr-20: -2.2%yoy) and transport by -20.8%yoy (Apr-20: -21.5%yoy). Prices of electricity in particular continued dropping by -33.3%yoy, attributed to electricity rebates under government's stimulus package and likely to post similar declines until Sep-20. On the other hand, inflation of food & non-alcoholic beverages, the biggest component of CPI remained at +1.2%yoy for the third consecutive months. Core inflation edged down to +1.1%yoy. On monthly basis however CPI increased marginally by 0.3%mom, mainly due to improving global oil prices as reflected in the rebound of transport prices (1%mom vs -13.5%mom in Apr-20).

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



Source: CEIC, MIDFR

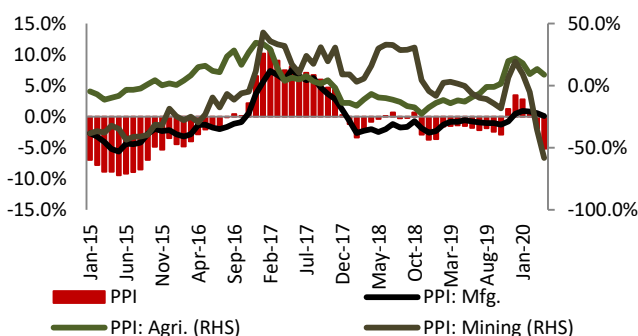
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

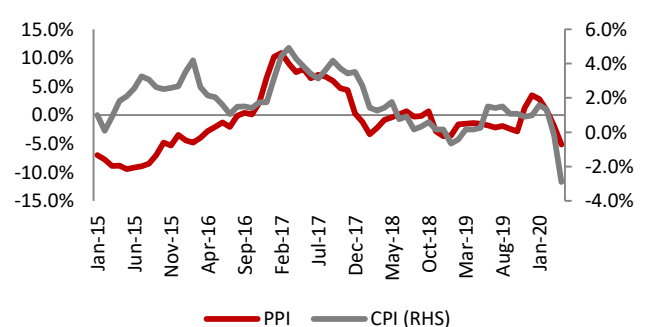
PPI drop further. Malaysia's producer price index (PPI) declined further to -5.5%yoy in May-20 from -5.1%yoy in Apr-20, the lowest since Sep-15. The input prices of manufacturing which around 81% of the total PPI fell marginally by -0.8%yoy compared to 0.1%yoy increase in the preceding month, mainly dragged down by declining prices of coke & refined petroleum products (-7.6%yoy vs -5.4% in Apr-20), rubber & plastic products (-2.1%yoy vs -1.8%yoy) and machinery & equipment (-1.9%yoy vs -0.6%yoy), among others. It was also influenced by prices of manufacturing of food products and computer, electronic & optical products which increased at a softer pace of 2.9%yoy and 2.7%yoy (Apr-20: 4.4%yoy and 3.6%yoy) respectively. Besides that, PPI of mining and electricity recorded deflation of -52.7%yoy and -0.2%yoy respectively while those of agriculture, forestry & fishing moderated further to 5.5%yoy. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's inflationary pressure will remain low throughout 2020.

Chart 13: PPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Table 1: Macroeconomic Past Performances (%)

| (YoY%) Unless Stated Otherwise | 2016 | 2017 | 2018 | 2019 | 2020r |
|--|-------------|-------------|-------------|-------------|--------------|
| 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 | (1.0) |
| Mining & Quarrying | 2.3 | 0.5 | (2.6) | (2.0) | (3.6) |
| Manufacturing | 4.4 | 6.1 | 5.0 | 3.8 | (4.0) |
| Construction | 7.5 | 6.8 | 4.3 | 0.1 | (0.7) |
| 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) | (5.9) |
| Federal Government Debt - % of GDP | 51.9 | 50.1 | 51.2 | 52.5 | 56.1 |
| Year-End of Unless States Otherwise | 2016 | 2017 | 2018 | 2019 | 2020r |
| 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 | 4.22 |
| 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

June 2020 Key Economic Events

June 2 - Nearly 70% of workforce back at work as of May 17 — Tengku Zafrul. Some 10.25 million people or 67.2% of the workforce had returned to work as of May 17, up from 6.64 million people or 43.6% a week earlier (May 10), said Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz. Citing data from the Statistics Department, he said these figures took into account those working from home and covered various economic sectors such as services, agriculture, manufacturing and mining and quarrying.

June 9 - RM35bil Penjana to generate short-term recovery. The RM35 billion Penjana economic recovery plan announced last Friday boasts tax-related incentives to spur the moribund automotive and property sectors, Kenanga Research said. It also provides generous incentives to attract foreign direct investments, the firm said, adding that a good number of other measures extensions of what have been announced before.

June 17 - Malaysia's palm oil market expected to rebound — Khairuddin. The nation's palm oil industry is expected to rebound on the back of increasing demand for crude palm oil (CPO) and refined palm oil from several countries including Turkey. Plantation Industries and Commodities Minister Datuk Dr Mohd Khairuddin Aman Razali said the ministry is confident that the country's current palm oil supply is sufficient to meet the external demand.

June 25 - India Plans to Impose Strict Rules and Tariffs on Chinese Imports. India plans to impose stringent quality control measures and higher tariffs on imports from China, people with the knowledge of the matter said, as a military standoff between the neighbors threaten economic ties. The state-run Bureau of Indian Standards is finalizing tougher norms for at least 370 products to ensure items that can be locally produced aren't imported, the people said, asking not to be identified citing rules.

June 4 - Job losses increase by 42% in 1Q – SOCSO. Due to the COVID-19 pandemic, job losses in the country has increased by 42 percent year-on-year in the first quarter (1Q 2020), according to the Social Security Organisation's (Socso) Employment Insurance System (EIS). In a report on 'Employment Outlook, the 1st Quarter of 2020, Volume 4/2020, The Impact of COVID-19 on Loss of Employment (LOE)', EIS said the pandemic has impacted many businesses, to experience a drop in demand at 37 percent or being unable to operate as usual at 42 percent.

June 15 - Govt policies, economic, social systems key in driving digital economy — Saifuddin. The newly-formed Malaysian Digital Economy Task Force will be focusing on three key components namely government policies, economic and social systems in efforts to promote the country's digital economy, Communications and Multimedia Minister Datuk Saifuddin Abdullah said. "Where the government is concerned, we will have a closer look at e-government because this is a big issue and it is here, that the government should come out with strong policies such as cloud security policies.

June 24 - IMF slashes its forecasts for the global economy and warns of soaring debt levels. The International Monetary Fund slashed its economic forecasts once again on Wednesday and warned that public finances will deteriorate significantly as governments attempt to combat the fallout from the coronavirus crisis. The IMF now estimates a contraction of 4.9% in global gross domestic product in 2020, lower than the 3% fall it predicted in April.

June 29 - U.S.-China Feud Gets Nasty With Red Tape as Stealth Weapon. The U.S. and China are moving beyond bellicose trade threats to exchanging regulatory punches that threaten a wide range of industries including technology, energy and air travel. The two countries have blacklisted each other's companies, barred flights and expelled journalists. The unfolding skirmish is starting to make companies nervous the trading landscape could shift out from under them.

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad
197501002077 (23878-X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.