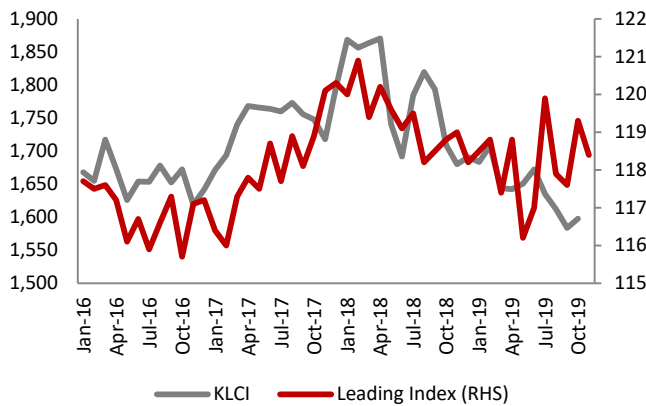


MONTHLY ECONOMIC REVIEW | October 2019**You Can Lead a Horse to Water but You Cannot Force the Horse to Drink**

- *Global demand remains stagnant despite developed and emerging economies are adopting expansionary monetary policy in order to boost economic growth. Nevertheless, concerns and uncertainties over US-China trade war continue to pressuring global growth may limit the efficacy of the easing policy. You can lead a horse to water but you cannot force the horse to drink.*
- *Imports performance is at its worst since GFC. In Aug-19, imports contracted further, this time to the lowest level seen since the Global Financial Crisis while exports growth slipped into negative territory again. Imports fell by -12.5%yoy, the worst performance since Sep-09 and exports declined marginally by -0.8%yoy following a positive growth of 1.7%yoy in the previous month.*
- *Inflation is at 4-month low. Headline inflation slowed to 1.1%yoy in Sep-19 from 1.5%yoy in the previous month as inflation of two biggest components in overall CPI basket moderated. Prices of food & non-alcoholic beverages which account for 29.5% of the CPI weightage increased at a softer pace of 2.2%yoy (Aug-19: 2.6%yoy). Similarly, inflation of housing & utilities which account for 23.8% of the CPI weightage eased to 1.6%yoy (Aug-19: 1.8%yoy).*

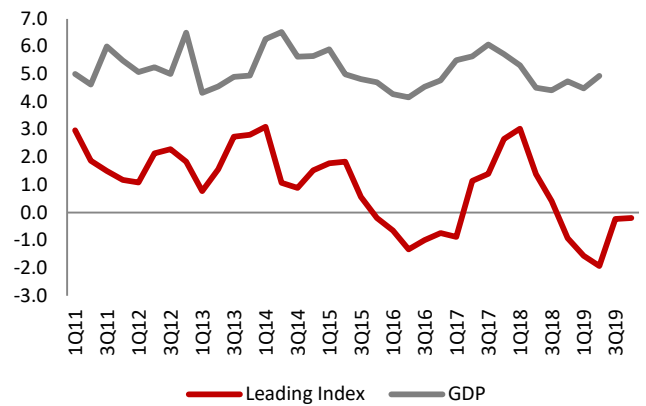
Leading index indicates moderation direction. Malaysia's leading economic index declined by -0.8%yoy and -0.5%mom in Aug-19. The weakening index among others mainly drags by tepid imports of metals, capital and intermediate goods. On external front, global trade outlook remains bleak as US-China trade negotiation leads to nowhere. EU stays in political limbo while commodity prices stay flat due to market uncertainty and oversupply. Global demand remains stagnant despite developed and emerging economies are adopting expansionary monetary policy in order to boost economic growth. Theoretically, global demand should be on a pick-up trend supported by both developed and emerging economies. Nevertheless, concerns and uncertainties over US-China trade war continue to pressuring global growth may limit the efficacy of the easing policy. You can lead a horse to water but you cannot force the horse to drink.

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

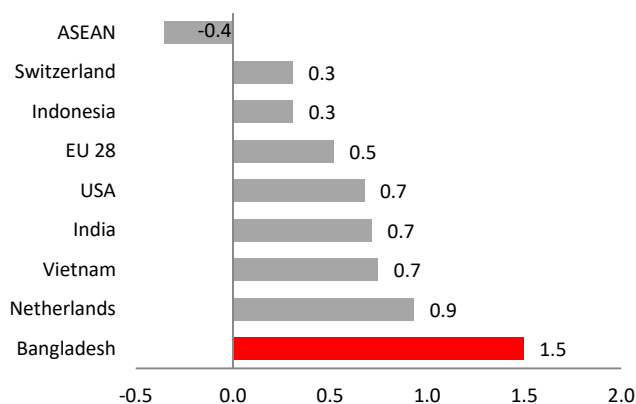
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

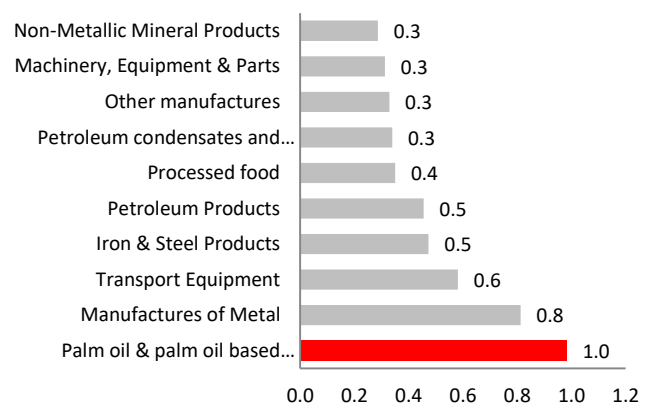
Imports performance is at its worst since GFC. In Aug-19, imports contracted further, this time to the lowest level seen since the Global Financial Crisis while exports growth slipped into negative territory again. Imports fell by -12.5%yoy, the worst performance since Sep-09 and exports declined marginally by -0.8%yoy following a positive growth of 1.7%yoy in the previous month. Hence, trade surplus ended up at RM 10.9b. Sector wise, manufacturing exports which accounted for circa 84% of total exports grew by a tepid pace of 0.1%yoy while agriculture (7.4% share) rose solidly by 13%yoy, rebounding from -9.3%yoy falls in the preceding month. On the other hand, mining exports declined by -20.7%yoy.

Chart 3: % Contribution to Exports Growth by Destination



Source: CEIC; MIDFR

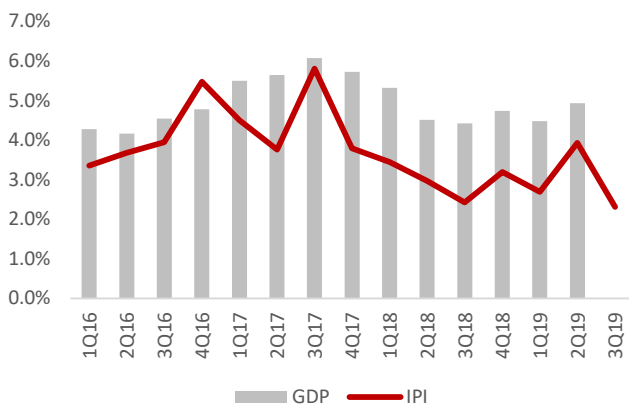
Chart 4: % Contribution to Exports Growth by Products



Source: CEIC; MIDFR

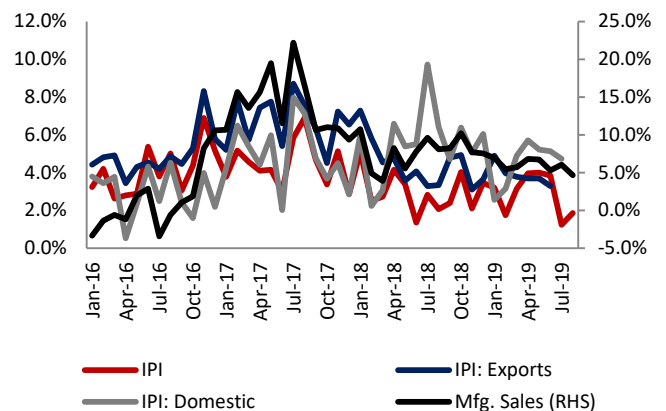
IPI continued on expansion. Malaysia's IPI growth recorded at 1.9%yoy in Aug-19, higher than the previous month, and slightly lower than market estimates of 2.0%yoy. The slowdown is mainly due to further contraction in mining output and moderation in factory and electricity productions. Moving forward, we foresee IPI performance to continue expanding steady pace in 2H19 as trade war factor remains a major downside risk to global trade activities and manufacturing production in particular which has the highest weightage in the overall IPI index. Nevertheless, effects of OPR cut, easing monetary measures globally, low inflationary pressure, positive progression in construction activities and stable domestic demand would provide support to the industrial production performance.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

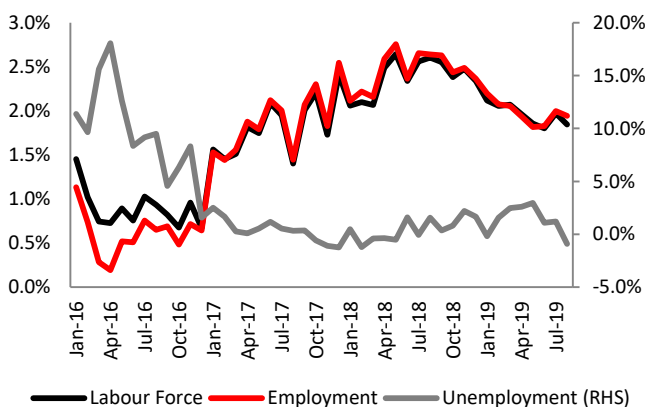
Chart 6: IPI & Mfg. Sales (YoY%)



Source: CEIC, MIDFR

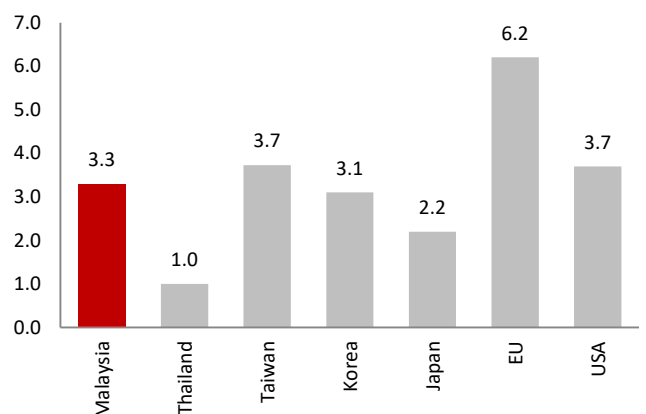
Labour market relaxes. Labour force moderated by 1.8%yoy while the employment growth eased to 1.9%yoy, highest pace in 3-month with 45.2K jobs added in Aug-19. On the other hand, number of unemployed persons fell -0.9%yoy, and those outside of labour force softened to 0.5%yoy during the month. Nevertheless, Malaysia's economy remains operating at full-employment condition as jobless rate remains at low level of 3.3%. Stable labour market is crucial for Malaysian economy as it provides solid support to the domestic demand.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

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

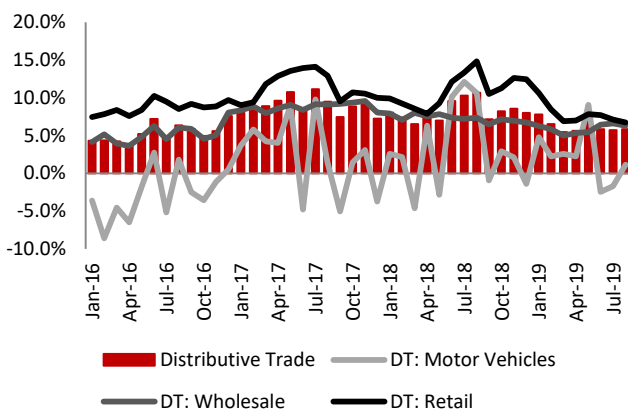


Source: CEIC, MIDFR

Distributive trade hit yet another new record high. Distributive trade continues to hit new record high at RM 114.2b in Aug-19. Wholesale and retail trade which accounted for the largest share of total distributive sales

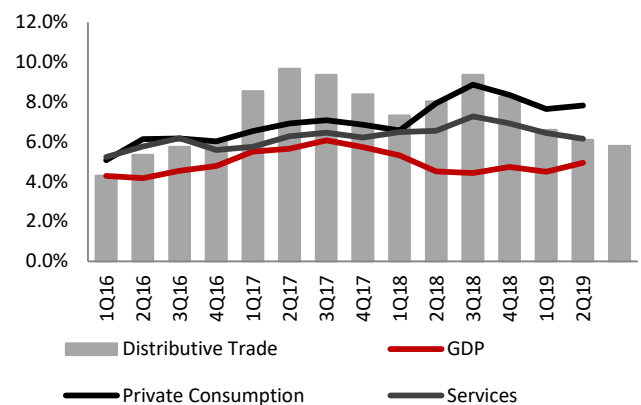
continue expanding but at moderating pace of 6.3%yoy and 6.7%yoy respectively. Nevertheless, the 6.7%yoy growth in retail sales was the smallest gain in almost 4 years. However, rebounding motor vehicles sales resulted in a positive growth of 1.1%yoy following two consecutive months of negative growth. This offsets the slight moderations observed in wholesale and retail hence causing the total distributive trade growth to inch upward to 5.8%yoy. Moving ahead, we foresee distributive trade growth to continue trending upward as the high base effect from tax holiday period last year fades.

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



Source: CEIC; MIDFR

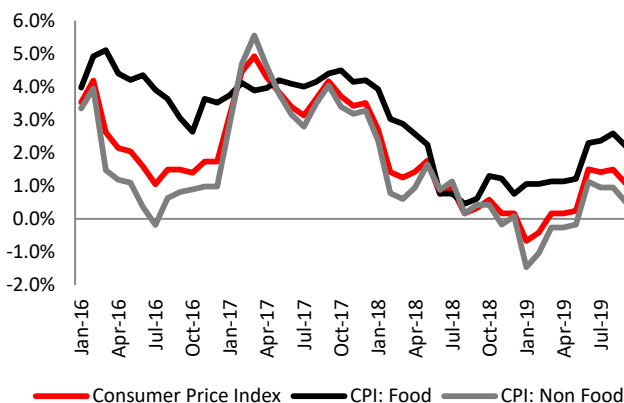
Chart 10: DT vs Private Consumption vs Services (YoY%)



Source: CEIC; MIDFR

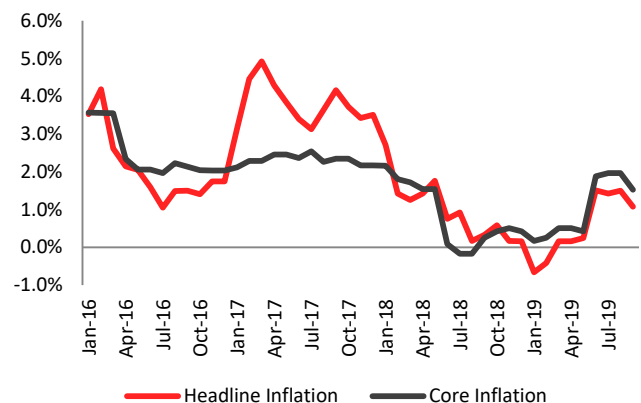
Inflation is at 4-month low. Headline inflation slowed to 1.1%yoy in Sep-19 from 1.5%yoy in the previous month as inflation of two biggest components in overall CPI basket moderated. Prices of food & non-alcoholic beverages which account for 29.5% of the CPI weightage increased at a softer pace of 2.2%yoy (Aug-19: 2.6%yoy). Similarly, inflation of housing & utilities which account for 23.8% of the CPI weightage eased to 1.6%yoy (Aug-19: 1.8%yoy). In addition, transport inflation, third largest contributor to overall CPI, fell slightly harder to -2.2%yoy (Aug-19: -2.1%yoy). Similar to headline figure, core inflation went down to 4-month low of 1.5%yoy as the lower base effect resulting from the tax holiday period last year has ended.

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



Source: CEIC, MIDFR

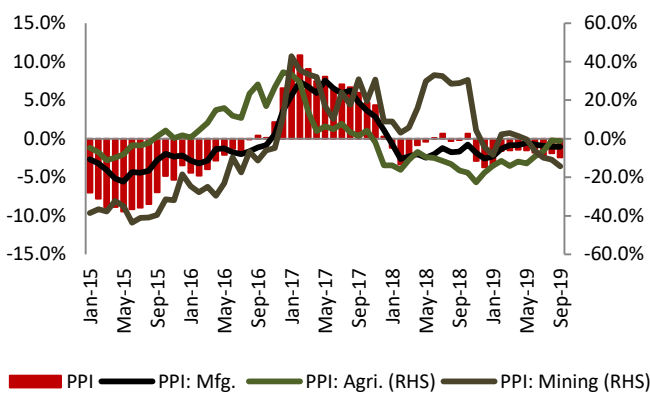
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

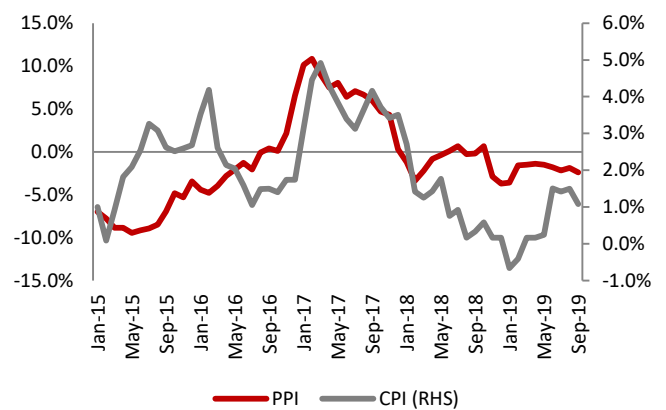
PPI contracted for eleventh straight months. Malaysia's producer cost remains deflationary for the eleventh consecutive months at -2.4%yoy in Sep-19. The largest drop since Feb-19 was mainly due to higher decline in input prices of agriculture and mining. Meanwhile, manufacturing input prices maintain at -1%yoy drop. Moving forward, we foresee mining PPI to remain in negative territory given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average prices. This will eventually put a downward pressure on the overall PPI despite mining's relatively small share of total PPI at circa 8% as lower oil prices would have spill over effects to manufacturing sector in particular. Manufacturing PPI held 81.6% of the total PPI.

Chart 13: PPI Performance by Sector (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Table 2: MIDF Research Macroeconomic Forecast Figures for 2019 (%)

(YoY%) Unless Stated Otherwise	2016	2017	2018	2019^f
Real GDP	4.4	5.7	4.7	4.9
Public Consumption	1.6	5.5	3.2	3.7
Private Consumption	5.8	6.8	7.9	7.5
Public Investment	(0.8)	0.5	(5.0)	(6.3)
Private Investment	4.4	9.1	4.4	3.8
Exports of goods & services	1.3	8.8	2.2	1.0
Imports of goods & services	1.5	10.3	1.3	(0.2)
Net Exports	0.3	(3.9)	14.6	11.4
Agriculture etc.	(3.6)	5.8	0.2	3.5
Mining & Quarrying	2.3	0.5	(2.6)	2.0
Manufacturing	4.4	6.1	5.0	4.3
Construction	7.5	6.8	4.3	1.1
Services	5.7	6.2	6.8	6.5
Exports of Goods (f.o.b)	1.4	19.3	7.3	1.7
Imports of Goods (c.i.f)	2.0	20.2	5.2	0.4
Trade Balance - RMb	88.1	98.5	123.8	137.3
Consumer Price Index	2.1	3.8	1.0	0.6
End of Unless States Otherwise	2016	2017	2018	2019^f
Brent Crude Oil (Avg)	46.0	55.7	71.6	63.0
Crude Palm Oil (Avg)	2642.0	2659.0	2293.0	2090.0
USD/MYR (Avg)	4.14	4.30	4.00	4.15
USD/MYR	4.46	4.08	4.10	4.15
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00

Source: MIDFR

October 2019 Key Economic Events

2 October: US to impose tariffs on EU aircraft and agricultural products. The U.S. will impose tariffs on European Union goods after a victory at the World Trade Organization, according to senior officials from the Office of the U.S. Trade Representative. The USTR released a list Wednesday of products it plans to target, intensifying the Trump administration's global trade battles. The duties would take effect Oct. 18. Earlier, the WTO gave the Trump administration the right to put tariffs on \$7.5 billion in European goods.

11 October: Budget 2020: Pushing new frontiers for growth and prosperity. The 2020 Budget is answering the clarion call of youths, as it is aimed at attracting more investments to push the country into the next frontiers of growth, create new jobs with better wages, while being prudent with the nation's coffer and ensuring wealth is well distributed in the spirit of shared prosperity.

17 October: Only 15% foreign workers in nation's work force by 2020. The Government has fixed the number of foreign workers in the country's work force at 15 percent by 2020, said the Ministry of Human Resources. In a written response posted on Parliament website here, the Ministry said the target was in line with the Government's objective of creating citizens with skills and high income.

24 October: Malaysia's Mahathir Dares Trade War with India Over Kashmir. Malaysia's Prime Minister Mahathir Mohamad has refused to back away from criticism of New Delhi's Kashmir policy at the UN General Assembly, daring a trade war that could have serious implications for his country's economy. In a September 28 speech to the United Nations, the 94-year-old Mahathir accused India of having "invaded and occupied" the disputed Jammu & Kashmir region.

8 October: U.S. Blacklists Eight Chinese Tech Companies on Rights Violations. The Trump administration placed eight Chinese technology giants on a U.S. blacklist on Monday, accusing them of being implicated in human rights violations against Muslim minorities in the country's far-western region of Xinjiang. The companies include two video surveillance companies -- Hangzhou Hikvision Digital Technology Co. and Zhejiang Dahua Technology Co. -- that by some accounts control as much as a third of the global market for video surveillance and have cameras all over the world.

15 October: U.S. Urges Immediate Cease-Fire in Syria as It Sanctions Turkey. The Trump administration called for "an immediate cease-fire" in Syria on Monday as it announced sanctions in response to the military offensive launched by Turkey last week. Vice President Mike Pence said he would lead a delegation to Turkey at President Donald Trump's request in an effort to stop the advance. Pence said the U.S. wanted the two sides to negotiate a long-term peace, but he didn't call for Turkey to pull out of Syria.

19 October: Britain asks EU to postpone Brexit for third time after UK lawmakers delay vote on withdrawal deal. Britain has requested an extension of the Oct. 31 deadline to leave the European Union after U.K. lawmakers delayed a vote Saturday on the withdrawal agreement negotiated by Prime Minister Boris Johnson. EU Council President Donald Tusk said he received the extension letter and that he would begin consulting with EU leaders on how to respond to Britain's request.

30 October: Fed cuts rates for the third time as US economy slows. The Federal Reserve cut interest rates for the third time this year as the US economy continued slowing amid ongoing trade disputes and weak global growth. The federal funds rate, which affects the cost of mortgages, credit cards and other borrowing, will now hover between 1.5% and 1.75%.

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