

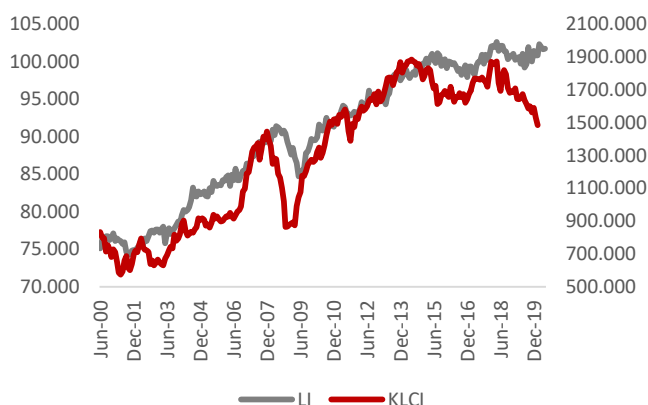
MONTHLY ECONOMIC REVIEW | April 2020

Economic Recession Looming Amid Covid-19 Effects

- *Leading index moderates further. Malaysia's leading economic index declined -0.8%mom in Feb-20 following a 0.1% gain in the prior month, providing cues on what to expect for economic performance in the June-Aug 2020 period. The hardest fall since May-19 was mainly due to expected sales value in manufacturing and number of housing unit approved sector which dropped -1.2% and -0.8% respectively.*
- *IPI growth hit 2.5 year high. Overall IPI grew by 5.8%yoy in Feb-20, biggest gain since Aug-17 and way above market estimates of 0.7%yoy. The sudden pick-up is not unexpected as it is due to low-base effect factor. Previous year's CNY was celebrated in February while this year's was in January.*
- *Retail trade growth maintain above 6%. Malaysia's retail sales expanded by 6.4%yoy in Feb-20, the lowest growth since Sep-15 but still considered solid in comparison to other key countries such as Singapore and Indonesia which experienced contraction.*

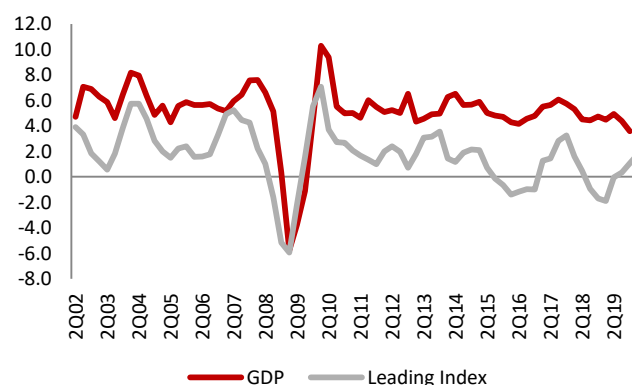
Leading index moderates further. Malaysia's leading economic index declined -0.8%mom in Feb-20 following a 0.1% gain in the prior month, providing cues on what to expect for economic performance in the June-Aug 2020 period. The hardest fall since May-19 was mainly due to expected sales value in manufacturing and number of housing unit approved sector which dropped -1.2% and -0.8% respectively. Annually, the index increased 1.7% after a 0.7% rise in Jan-20 due to lower base effect. However, the economic direction portrayed is compiled based on selected economic indicators irrespective of shocks in the economy. Hence, the current Covid-19 pandemic is expected to take a toll on economic growth. Economic contraction for 2Q20 is largely expected while we opine that there might be a gradual recovery starting 3Q20, depending on Malaysia's progress in containing the outbreak. It would also depend on how the rest of the world particularly our key trading partners are combating the spreading virus as it will affect global demand for our products. The economic stimulus package is anticipated to provide some cushions to the adverse impact resulting from Covid-19.

Chart 1: Leading Index vs KLCI (Points)



Source: CEIC, MIDFR

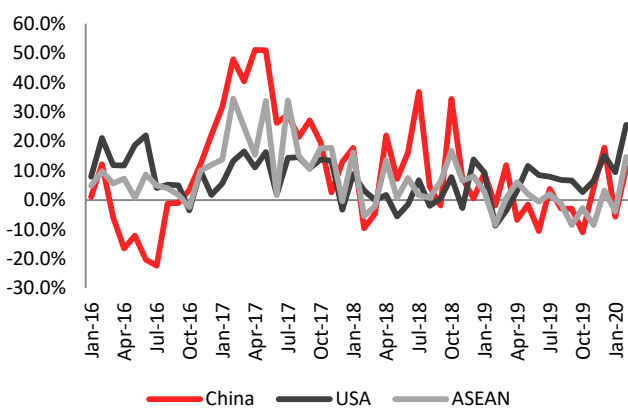
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

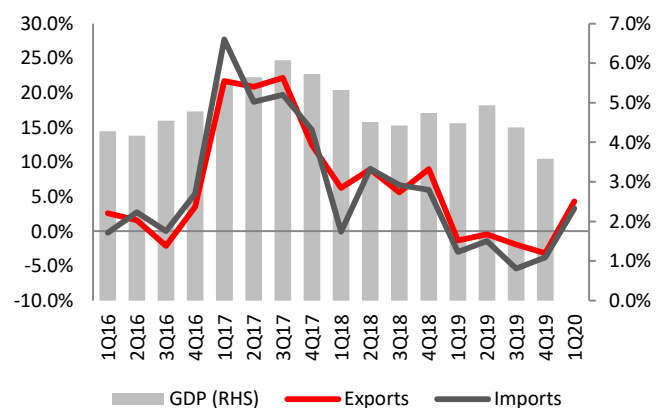
Exports growth at 14-month high. Exports and imports in Feb-20 soared by double digit growth of 11.8%yoy and 11.3%yoy respectively, the fastest pace since Oct-18. Trade surplus continued to record above RM 12b for three straight months. The rebound in exports was contributed by manufacturing and agriculture sectors. Exports of manufactured goods, which hold circa 85% of total export, grew by 13.1%yoy compared to tepid expansion of 1.1%yoy in the previous month. In addition, exports of agriculture goods rebounded by 15.8%yoy from -4.2%yoy in Jan-20. Meanwhile, mining exports continued to be in negative territory but at a way softer pace of -3%yoy (-20.1%yoy).

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



Source: CEIC, MIDFR

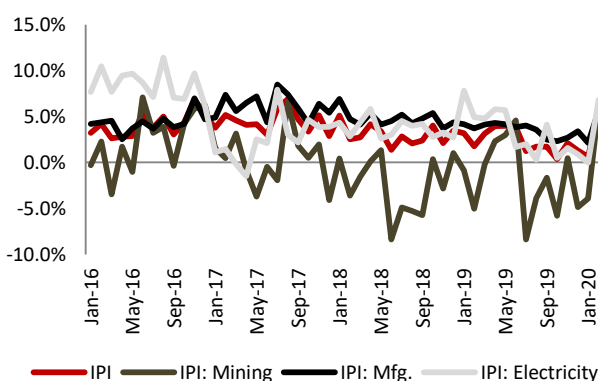
Chart 4: External Trade vs GDP, (YoY%)



Source: CEIC, MIDFR

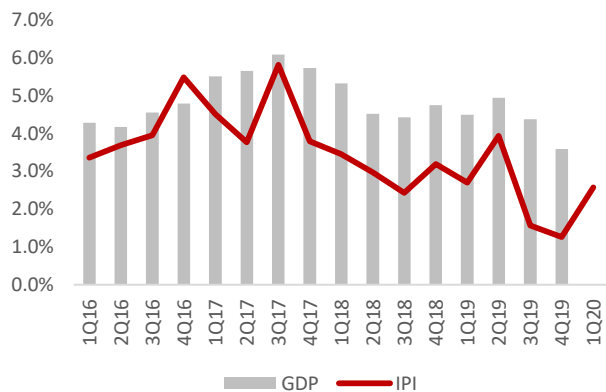
IPI growth hit 2.5 year high. Overall IPI grew by 5.8%yoy in Feb-20, biggest gain since Aug-17 and way above market estimates of 0.7%yoy. The sudden pick-up was not unexpected as it is due to low-base effect factor. Previous year's CNY was celebrated in February while this year's was in January. In addition, Covid-19 fear effects have not taken place yet during the month and global trade was on optimism path amid the Phase One trade deal agreement between USA and China. Moving ahead, we expect IPI performance in 1Q20 and 2Q20 to contract, thanks to 1.5 months Movement Control Order (MCO) and the collapse of global crude oil prices.

Chart 5: IPI Performances (YoY%)



Source: CEIC; MIDFR

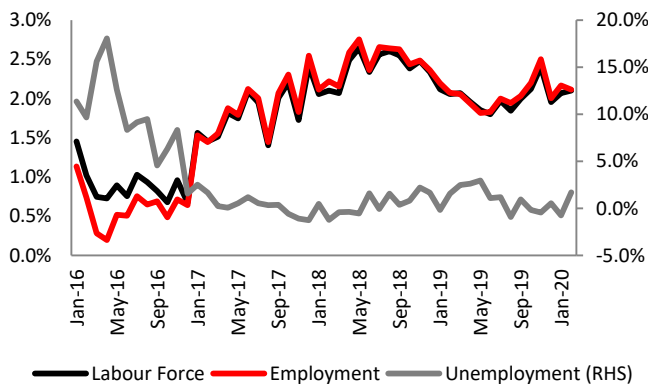
Chart 6: IPI vs GDP (YoY%)



Source: CEIC; MIDFR

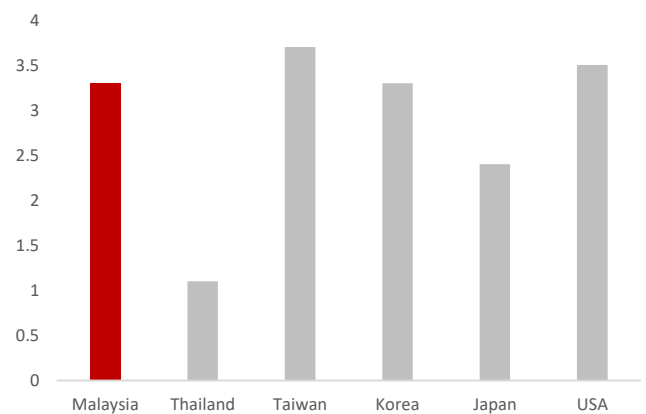
Mild moderation in employment growth. Malaysia's employment growth in Feb-20 decelerated to 2.1%yoy as compared to 2.2%yoy in Jan-20 while the labour force remained at 2.1%yoy. Unemployment increased from a negative rate to 1.7%yoy, maintaining its jobless rate below 3.5% for the 28th months at 3.3%. We opine the stable job market will provide solid foundation for Malaysia's domestic demand to grow at solid pace in 2020. In addition, we view Malaysia's labour market to remain stable despite the Covid-19 pandemic and weak external demand in 1H20.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

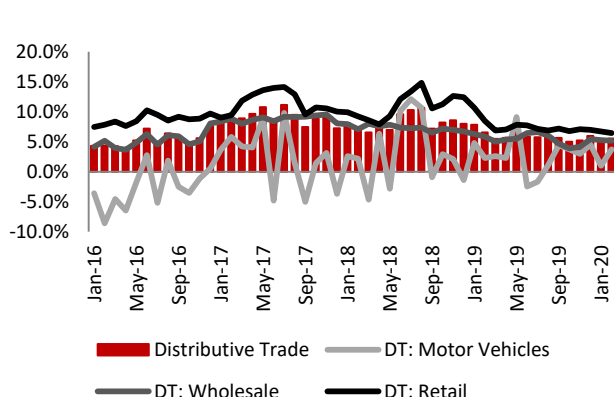
Chart 8: Global Unemployment Rates (%) in Feb-19



Source: CEIC, MIDFR

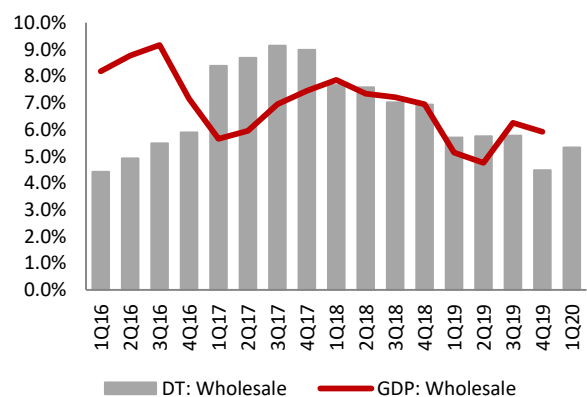
Retail trade growth maintain above 6%. Malaysia's retail sales expanded by 6.4%yoy in Feb-20, the lowest growth since Sep-15 but still considered solid in comparison to other key countries such as Singapore and Indonesia which experienced contraction. In fact, Vietnam's retail sales recorded sharp slowdown to 4%yoy in the same month after 13 months of double-digit growth. In a similar note, wholesale trade recorded slightly slower growth of 5.1%yoy. In contrast, motor vehicles sales increased at a higher pace of 3.7%yoy partially due to low base effect. Distributive trade in overall grew 5.5%yoy. On monthly basis, wholesale and retail trade registered tepid negative growth while those of motor vehicles increased. Moving forward, we foresee quite significant moderation in distributive trade growth as consumers change spending pattern from discretionary to necessity. Significant slowdown could be observed in Mar-20 and Apr-20 as consumers stay home due to RMO. Motor vehicles sales are likely to be affected the most as consumers hold purchases for big ticket items.

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



Source: CEIC; MIDFR

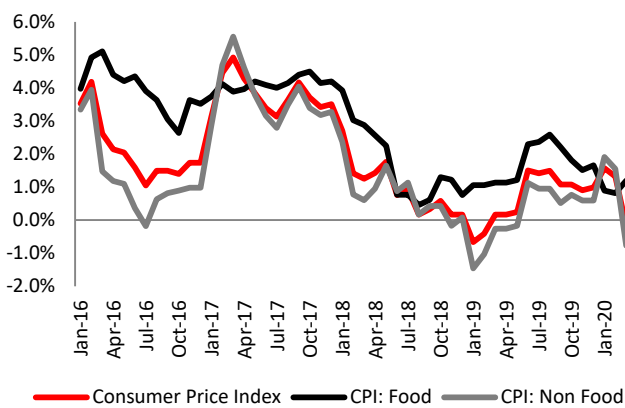
Chart 10: Wholesale Trade: GDP vs DT (YoY%)



Source: CEIC; MIDFR

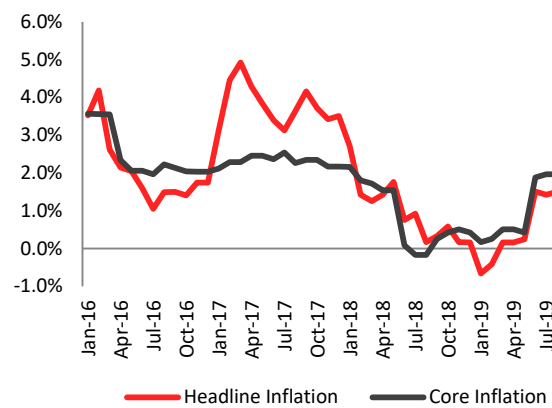
Inflationary pressure eased to a 14-month low. As our forecast, the pace of headline inflation went down to -0.2%yoy in Mar-20 from 1.3%yoy in Feb-20, which was primarily due to slowing prices of transport. Transport, the third largest component of CPI shifted to negative growth in prices of -8.9%yoy (Feb-20: 2.4%yoy). On the other hand, prices of food & non-alcoholic beverages, the biggest component of CPI increases at a softer pace of 1.2%yoy and price growth for housing & utilities inched down to 1.6%yoy after three consecutive months at 1.7%yoy. Meanwhile, core inflation also moderated to 10-month low of 1.3%yoy.

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



Source: CEIC, MIDFR

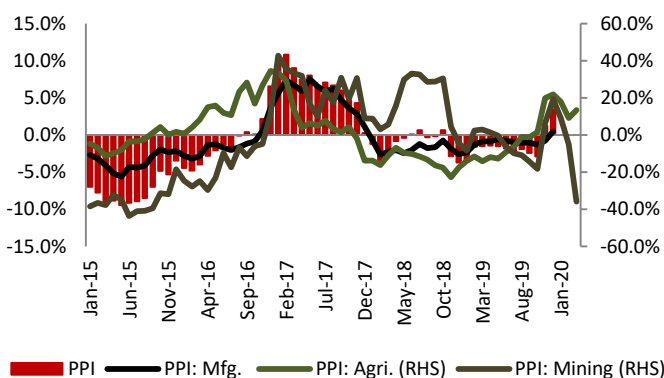
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

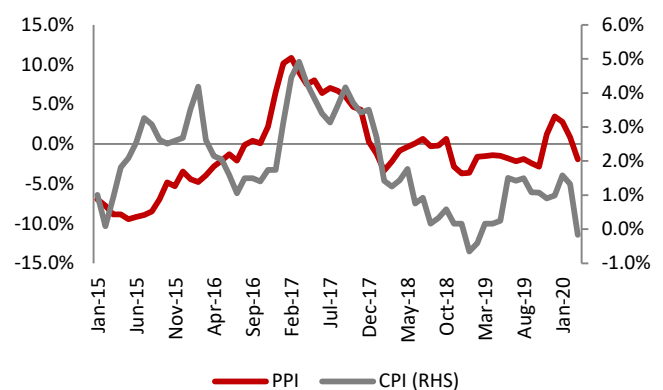
PPI ticked down. Malaysia's producer cost declined further to -1.9%yoy in Mar-20, the lowest since Oct-19. The input prices of manufacturing which held around 80% of the total PPI recorded lower growth of 0.6%yoy from 0.8%yoy in Feb-20. All other main components of PPI such as mining and electricity and gas recorded lower producer inflation compared to previous month, contributing to lower overall PPI except for agriculture that recorded a higher growth of 13.4%yoy from 9.2%yoy in Feb-20. This could be due to a combination two factors; ringgit depreciation and our position as net food importer. As a leading indicator of price changes at the consumer level, the latest PPI number suggests that Malaysia's headline inflation will remain contained in 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
Real GDP	4.4	5.7	4.7	4.3
Govt. Consumption	1.6	5.5	3.2	2.0
Private Consumption	5.8	6.8	7.9	7.6
Gross Fixed Capital Formation	2.5	6.1	1.3	(2.1)
Govt. Investment	(0.8)	0.5	(5.0)	(10.8)
Private Investment	4.4	9.1	4.4	1.5
Exports of goods & services	1.3	8.8	2.2	(1.1)
Imports of goods & services	1.5	10.3	1.3	(2.3)
Net Exports	0.3	(3.9)	14.6	8.9
Agriculture etc.	(3.6)	5.8	0.2	1.8
Mining & Quarrying	2.3	0.5	(2.6)	(1.5)
Manufacturing	4.4	6.1	5.0	3.8
Construction	7.5	6.8	4.3	0.0
Services	5.7	6.2	6.8	6.1
Exports of Goods (f.o.b)	1.2	18.8	7.3	(1.7)
Imports of Goods (c.i.f)	1.9	19.7	5.2	(3.5)
Trade Balance - RMB	88.1	98.5	123.8	137.4
Consumer Price Index	2.1	3.8	1.0	0.7
Current Account - % of GDP	2.4	2.8	2.1	3.6
Fiscal Balance - % of GDP	(3.2)	(3.1)	(3.8)	(3.4)
Federal Government Debt - % of GDP	51.9	50.1	51.2	52.5
Year-End of Unless States Otherwise	2016	2017	2018	2019
Brent Crude Oil (Avg)	46.0	55.7	70.0	64.3
Crude Palm Oil (Avg)	2,630	2,690	2,320	2,079
USD/MYR (Avg)	4.14	4.30	4.00	4.14
USD/MYR	4.46	4.08	4.10	4.09
Overnight Policy Rate (%)	3.00	3.00	3.25	3.00

Source: MIDFR

April 2020 Key Economic Events

April 1 - World Bank cuts Malaysia 2020 GDP target to -0.1%. The World Bank is projecting a negative economic growth for Malaysia this year amid the Covid-19 crisis, but said the country is likely to recover in the fourth quarter (4Q) of the year before bouncing back into smoother momentum in 2021. Citing the growing uncertainty over the duration and overall impact of the outbreak, the bank cut its 2020 gross domestic product (GDP) target for Malaysia to -0.1%, a significant drop from its earlier target of 4.5%.

April 8 - Coronavirus: 'Drop in global trade to be worse than 2008 crisis'. The World Trade Organization (WTO) is predicting a severe decline in international commerce this year. In a new report the WTO forecasts a contraction of between 13% and 32% this year. The wide range of possibilities reflects the uncertainties about the health crisis. It says the impact on trade is likely to exceed the slump caused by the financial crisis just over a decade ago. The more pessimistic case would amount to a decline in global trade similar to what happened in the great depression 90 years ago but in shorter period of time.

April 15 - IMF sees Malaysia's GDP growing 9pc in 2021, fastest among Asean-5 nations. The International Monetary Fund (IMF) has projected Malaysia's real gross domestic product (GDP) to grow at a rate of nine per cent next year, the fastest among the Asean-5 countries which are expected to see a combined GDP growth of 7.8 per cent. Besides Malaysia, Asean-5 includes Indonesia, Thailand, the Philippines and Vietnam which are set to expand by 8.2 per cent, 6.1 per cent, 7.6 per cent and seven per cent, respectively.

April 23 - The US economy has wiped out all the job gains since the Great Recession. It took only five weeks for the U.S. economy to wipe out all the job gains it added over the last 11 years. Coronavirus-induced business closures throughout the U.S. have fuelled the number of Americans applying for state unemployment benefits. Last week, new jobless claims totalled 4.427 million, the Labor Department reported Thursday. Combined with the four prior jobless claims reports, the number of Americans who have filed for unemployment over the previous five weeks is 26.45 million. That number exceeds the 22.442 million positions added to nonfarm payrolls since November 2009, when the U.S. economy began to add jobs back to the economy after the Great Recession.

April 7 - Govt's fiscal injection rises to RM35 bil — Tengku Zafrul. The government's direct fiscal injection to stimulate the economy has increased to RM35 billion, after the announcement of the RM10 billion PRIHATIN Package for SMEs (Additional Measures) made by Prime Minister Tan Sri Muhyiddin Yassin on Monday. Finance Minister Tengku Datuk Seri Zafrul Aziz said the injection would be funded through government funds and domestic borrowings.

April 13 - Record oil output cuts fail to make waves in coronavirus-hit market. The minimal impact on oil prices from a global deal for record output cuts showed that oil producers have a mountain to climb if they are to restore market balance as the coronavirus shreds demand and sends stockpiles soaring, industry watchers said. After several days of discussions, oil producing and consuming countries aim to remove nearly 20 million barrels per day (bpd) or 20% of global supply from the market, Saudi Arabia's Energy Minister Prince Abdulaziz bin Salman said on Monday.

April 23 -PM announces MCO extension to May 12 in Ramadan address. Prime Minister Tan Sri Muhyiddin Yassin announced tonight that the movement control order (MCO) will be extended for a third time to May 12. In the prime minister's address on the eve of Ramadan, however, Muhyiddin also did not discount that the MCO could be extended again after May 12 to effectively flatten the Covid-19 infection curve. "Therefore, I want to announce that the MCO that is expected to end on April 28, 2020 will be extended for another two-week period, that is until May 12, 2020.

April 28 - Prices largely stable despite MCO. Some Malaysians may have rushed to stock up on essential items due to the movement control order (MCO) but the average prices of many goods have remained stable so far, according to figures from the Statistics Department. Each month, the department releases Consumer Price Index (CPI) figures and related data which includes among others a list of the average prices of 100 items ranging from raw food to household appliances.

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