

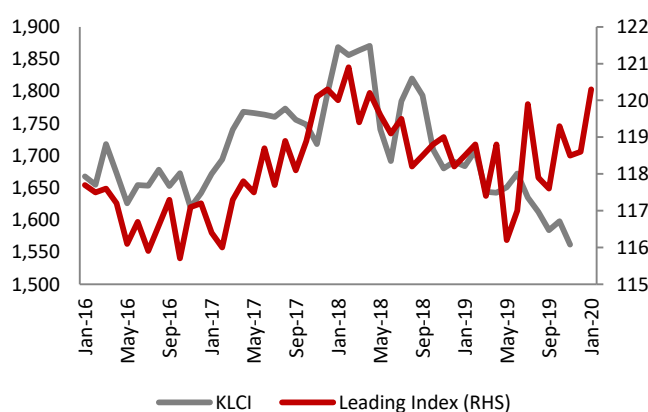
## MONTHLY ECONOMIC REVIEW | December 2019

# Malaysia Economy Remains Firm despite Global Market Uncertainties

- *Leading index shows uptrend in 1Q20. Malaysia’s leading index points upward for 1Q20. Slight improvement in imports of metals and semiconductors provide cue the economy to expand steadily. Among others, positive development in global trade war between the US and China indirectly affect confidence to lift up temporarily.*
- *Record-high trade surplus. In Oct-19, Malaysia’s trade surplus registered at RM 17.3b, the highest monthly surplus ever recorded. This came in despite a -6.7%yoy fall in export during the month with import declining at harder pace of -8.7%yoy. Export marked third consecutive month of negative growth due to weak performance in all major sectors.*
- *Inflation fell below 1%. Headline inflation edged down to 0.9%yoy, the lowest in six months as prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.5%yoy (Oct-19: 1.5%yoy). In addition, inflation of transport fell slightly harder to -2.4%yoy (Oct-19: -2.3%yoy). In contrast the second largest component of CPI basket which is housing & utilities was marginally higher at 1.7%yoy after sustaining at 1.6%yoy in the past two months.*

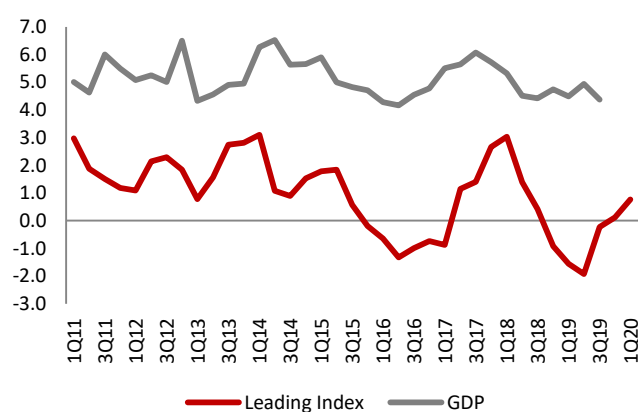
**Leading index shows uptrend in 1Q20.** Malaysia’s leading index points upward for 1Q20. Slight improvement in imports of metals and semiconductors provide cue the economy to expand steadily. Among others, positive development in global trade war between the US and China indirectly affect confidence to lift up temporarily. Trump and Xi agreed to sign the “Phase One” deal may influence global trade to improve marginally in 1Q20. Nevertheless, we opine the agreement would not provide certainty and stability in 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 uptrend underpin by recovery in commodity-based sectors and solid domestic demand.

**Chart 1: Leading Index vs KLCI (Points)**



Source: CEIC, MIDFR

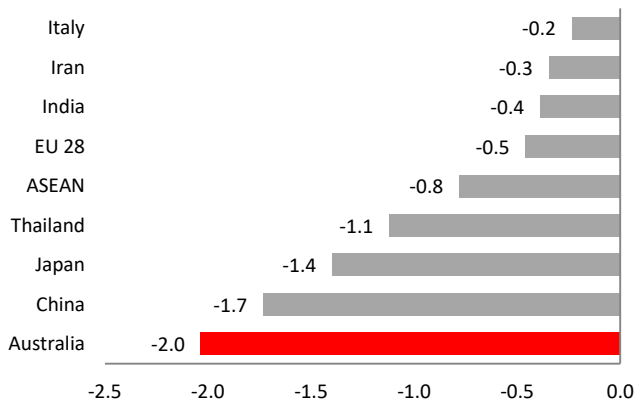
**Chart 2: Leading Index vs GDP (YoY%)**



Source: CEIC, MIDFR

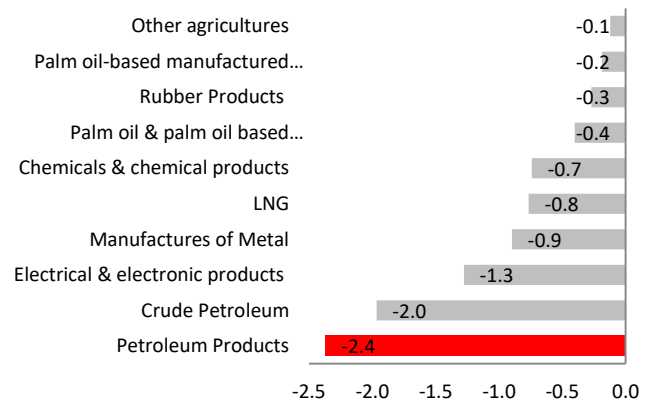
**Record-high trade surplus.** In Oct-19, Malaysia's trade surplus registered at RM 17.3b, the highest monthly surplus ever recorded. This came in despite a -6.7%yoy fall in export during the month with import declining at harder pace of -8.7%yoy. Export marked third consecutive month of negative growth due to weak performance in all major sectors. Manufacturing export which accounted for circa 85% of total exports contracted by 4.5%yoy. Similarly, export of mining and agriculture products declined by 24.6%yoy and 8.9%yoy respectively.

**Chart 3: % Contribution to Exports Growth by Destination**



Source: CEIC; MIDFR

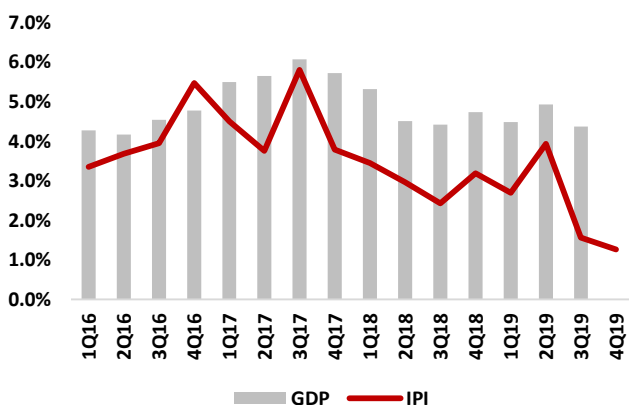
**Chart 4: % Contribution to Exports Growth by Products**



Source: CEIC; MIDFR

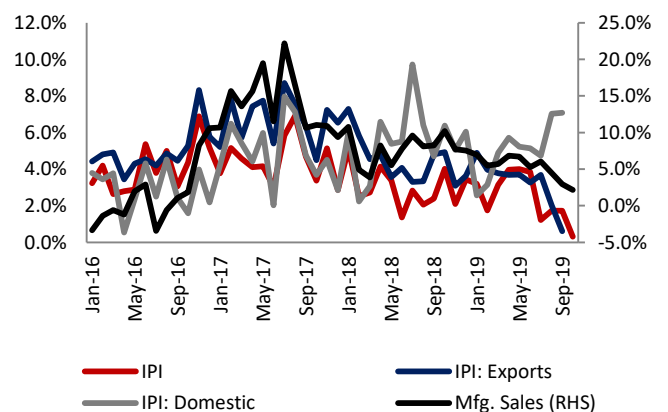
**IPI growth at 4-year low.** Malaysia's IPI grew marginally by 0.3%yoy in Oct-19, slowest since Dec-15 and below market estimates of 1.6%yoy. The slowdown is mainly due to further contraction in mining output and moderation in factory and electricity productions. Moving forward, we foresee IPI performance to continue expanding at modest pace in 2020 as trade war remains a major downside risk to global trade activities and especially manufacturing production in particular, which has the highest weightage in the overall IPI index. Nevertheless, firm domestic demand and slight betterment of commodity prices would support domestic-oriented industries and rebound in mining output next year.

**Chart 5: IPI vs GDP (YoY%)**



Source: CEIC, MIDFR

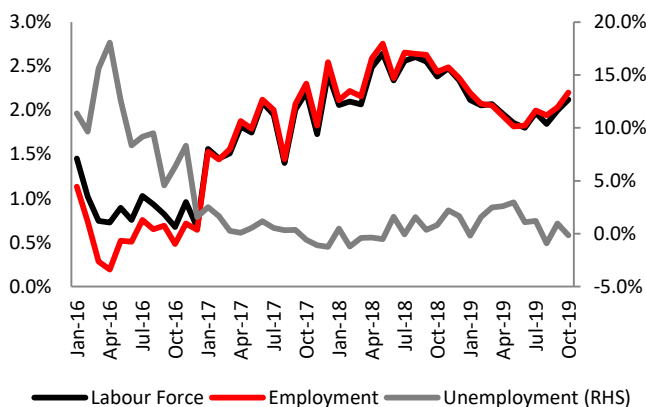
**Chart 6: IPI & Mfg. Sales (YoY%)**



Source: CEIC, MIDFR

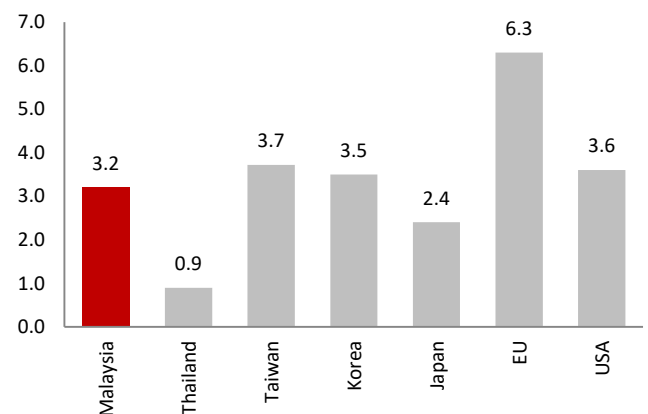
**Jobless rate at 9-month low.** Malaysia's labour market strengthens as labour force expanded at 7-month high by 2.1%yoy while employment grew 2.2%yoy, its fastest rate since Feb-19. Unemployment contracted by -0.2%yoy, sending down jobless rate to 9-month low at 3.2% in the first month of 4Q19. Despite deterioration in external trade performance, improvement in job market is possibly due to stable expansion of IPI particularly domestic-oriented industries and commodity-based sectors. We opine the stable job market would provide solid foundation for Malaysia's domestic demand to grow at solid pace in 4Q19 and 2020.

**Chart 7: Labour Market Key Indicators (YoY%)**



Source: CEIC, MIDFR

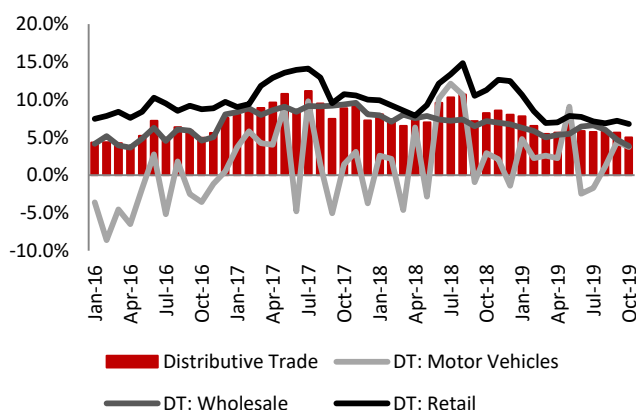
**Chart 8: Global Unemployment Rates (%) in Oct-19**



Source: CEIC, MIDFR

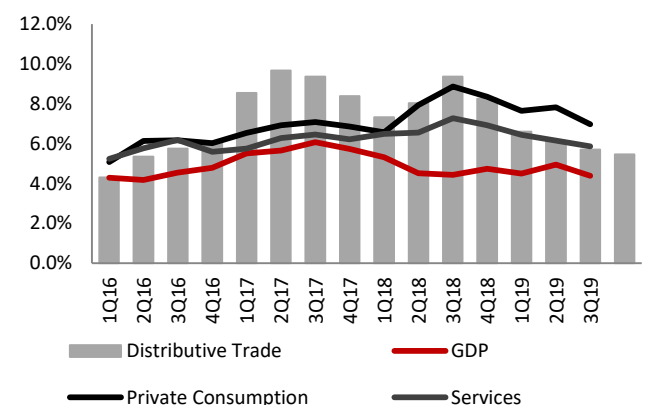
**Retail trade growth rate at multi year low.** Distributive trade increased by 5%yoy in Oct-19 but at the slowest pace since Oct-16 due to softer growth in all major components. Wholesale trade, the biggest contributor to the total distributive sales registered three-and-a-half year low growth of 3.9%yoy. Similarly, retail trade growth fell back to below 7%yoy, the lowest yoy expansion since Oct-15 while motor vehicle sales increased at a moderating pace of 3.7%yoy. The easing pattern of distributive trade being observed since Jun-19, provide early evidence on weakening domestic demand. The moderation in the period of Jun-19 to Aug-19 could be attributed to the high base effect from tax holiday period last year. However, the latest two months figures continued the gradual moderating trend.

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



Source: CEIC; MIDFR

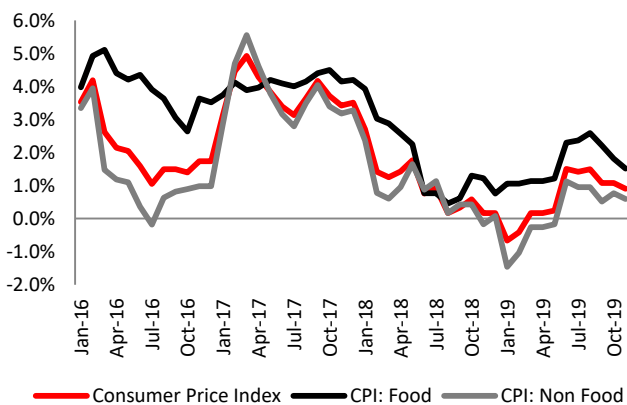
**Chart 10: DT vs Private Consumption vs Services (YoY%)**



Source: CEIC; MIDFR

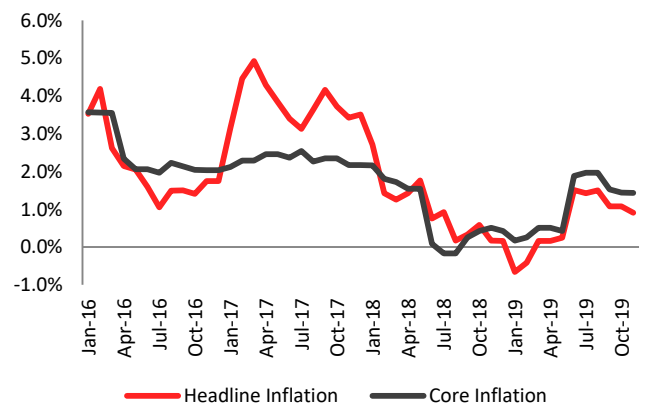
**Inflation fell below 1%.** Headline inflation edged down to 0.9%yoy, the lowest in six months as prices of food & non-alcoholic beverages, the biggest component of CPI increased at a softer pace of 1.5%yoy (Oct-19: 1.5%yoy). In addition, inflation of transport fell slightly harder to -2.4%yoy (Oct-19: -2.3%yoy). In contrast the second largest component of CPI basket which is housing & utilities was marginally higher at 1.7%yoy after sustaining at 1.6%yoy in the past two months. On monthly basis, inflation rose 0.1% compared to 0.2% in Oct-19. Meanwhile, core inflation maintained at 1.4%yoy, unchanged from the preceding month.

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



Source: CEIC, MIDFR

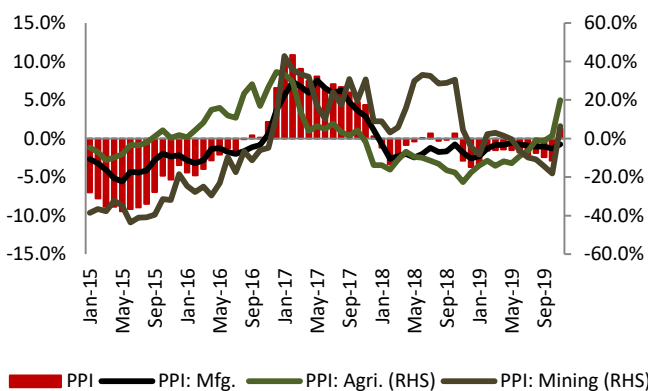
**Chart 12: CPI: Headline vs Core (YoY%)**



Source: CEIC, MIDFR

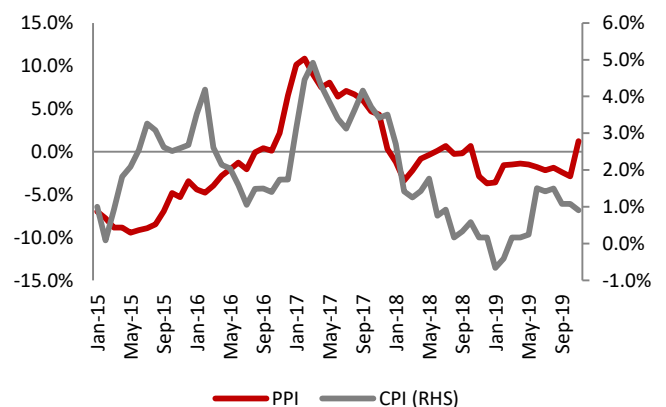
**PPI rebounded after a year.** Malaysia's producer cost rebounded to positive territory in Nov-19 at 1.2%yoy after one solid year of deflation. Input prices of manufacturing which held around 80% of the total PPI remain deflationary but at a smaller decline of -0.7%yoy. The fall was offset by agriculture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

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

<b>(YoY%) Unless Stated Otherwise</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019<sup>e</sup></b>	<b>2020<sup>f</sup></b>
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
<b>Year-End of Unless States Otherwise</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019<sup>e</sup></b>	<b>2020<sup>f</sup></b>
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

## December 2019 Key Economic Events

**6 December: All States agree to implement water tariff adjustments next year.** All States have agreed in principle to implement water tariff adjustments expected by next year, said Water, Lands and Natural Resource Minister Datuk Dr A. Xavier Jayakumar. The Ministry is still negotiating on a number of matters before it is finalised, Dr Xavier said, adding that he would hold full discussions with the relevant States on the new water tariffs, soon.

**10 December: U.S., Canada and Mexico sign agreement - again - to replace NAFTA.** Top officials from Canada, Mexico and the United States signed a fresh overhaul of a quarter-century-old trade pact on Tuesday that aims to improve enforcement of worker rights and hold down prices for biologic drugs by eliminating a patent provision. The signing ceremony in Mexico City launched what may be the final approval effort for U.S. President Donald Trump's three-year quest to revamp the 1994 North American Free Trade Agreement (NAFTA), a deal he has blamed for the loss of millions of U.S. manufacturing jobs.

**13 December: Election results 2019: Boris Johnson returns to power with big majority.** Boris Johnson will return to Downing Street with a big majority after the Conservatives swept aside Labour in its traditional heartlands. With just a handful of seats left to declare in the general election, the BBC forecasts a Tory majority of 78. The prime minister said it would give him a mandate to "get Brexit done" and take the UK out of the EU next month.

**18 December: Govt revives Bandar Malaysia project.** The government has revived the previously suspended and controversial Bandar Malaysia project as Putrajaya seeks to kick-start the massive project with a gross development value (GDV) of more than RM140 billion. The project on the former airbase site just on the outskirts of Kuala Lumpur (KL) was mooted by the previous government, but issues about financing and getting the correct developer had bungled its progress. Yesterday, the government agreed to restart the project with new conditions after worries that local contractors and resources would not participate in the multibillion project.

**9 December: PKR Congress fails to heal rift.** It was an arduous day for PKR president Datuk Seri Anwar Ibrahim. He had the unenviable task of pacifying delegates who were incensed with PKR deputy president Datuk Seri Azmin Ali's walkout during the party's national congress on Saturday. The mere mention of Azmin's name was enough to rile up the 3,500-odd attendees at the Melaka International Trade Centre, as seen during PKR vice-president Tian Chua's effort to remind the audience of the Gombak parliamentarian's contributions to the party.

**12 December: Trump Signs Off on Trade Deal With China to Avert December Tariffs.** President Donald Trump signed off on a so-called phase-one trade deal with China, averting the Dec. 15 introduction of a new wave of U.S. tariffs on about \$160 billion of consumer goods from the Asian nation, according to people familiar with the matter. The deal presented to Trump by trade advisers Thursday included a promise by the Chinese to buy more U.S. agricultural goods, according to the people.

**18 December: Kuala Lumpur Summit: Five major issues facing Muslim world.** Leaders from some of the world's most populous Muslim-majority countries are set to meet in Malaysia's capital on Thursday to address issues such as Islamophobia and poverty, with the organisers insisting the event is not meant to rival the Organisation of Islamic Cooperation (OIC).

**26 December: BNM to issue up to 5 digital banking licences.** Bank Negara Malaysia will issue up to five licences to establish digital banks to conduct either conventional or Islamic banking business in the country. It has issued an Exposure Draft on Licensing Framework for digital banks that form part of the series of measures adopted by BNM to enable innovative application of technology in the financial sector. In a statement today, BNM said the exposure draft outlines the proposed framework for the licensing of digital banks to offer banking products and services to address market gaps in the underserved and unserved segments.

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