Malaysia Economic Outlook 2020

Policy shifts and geopolitical risk a speed bump to recovery

OVERVIEW

- **A challenging road to recovery ahead.** Despite the signing of the Phase One agreement, 2020 will be a year of global growth consolidation on risk of continued US-China trade row and its impact on China's economy and its major trading partners. The economic impact of the disorderly Brexit, pro-democracy rally in Hong Kong, rising tension in the Middle East and a US presidential election and possible impeachment would be a drag to any potential growth upside.
- **Global monetary policy shifts lower, fiscal spending up.** While escalating global risk prompts central banks to continue leaning on monetary easing, policy makers are increasingly turning to fiscal spending to support growth. This reflects the concerns of overdependence on monetary policy and its debilitating impact on the global financial system and economy.
- **GDP growth to moderate further.** As global trade war drags on, external demand to remain weak and could largely weigh on Malaysia's 4Q19 GDP growth which is expected to moderate to 4.0% (3Q19: 4.4%), bringing the 2019 growth average to slow further to 4.5% from 4.7% in 2018.
- **Temporary respite.** Phase One US-China trade deal, the pickup in tech spending on 5G-related technology, the continued improvement of the US labour market and Fed's decision to hold rates steady may provide a breather for the volatile global market and to a lesser extent the fragile export-oriented economies.
- **Growth outlook for 2020 to remain uncertain** with the likelihood for the economic slowdown to continue although fiscal and monetary policy efforts may lift domestic demand, underscoring the official forecast of 4.8%. The economy will kick off with a slower start at 3.8% in the 1Q20 with GDP growth to only pick up in the 2H20. However, with the challenging growth trend mixed with uncertainties, we maintain our base case full-year projection of 4.3%.
- **Tug of war between fiscal prudence and pump priming**. Despite the macroeconomic respite, we expect the slightly expansionary fiscal budget to still play a bigger part to support the economy with targeted spending on high value-added projects that would improve productivity, provide higher multiplier impact and improve the welfare of the B40. We expect announcement to be made on the revival of High-Speed Rail project and MRT3 by mid-year.
- **Fiscal constrain to persist**. The slower growth prospect and lower fiscal revenue coupled with the need to be more prudent to fix the burgeoning fiscal debt would impede efforts to reduce the fiscal deficit. Our base case forecast for the fiscal deficit is 3.3% of GDP for 2020 narrowing from an estimated 3.5% of GDP for this year.
- **BNM to lean on easing.** In the absence of demand-pull factor amid lower growth momentum, inflationary pressure is expected to remain benign well into 2020 (1.0-1.5% versus an estimated 0.7% in 2019) reflecting the gradual floating of fuel prices, planned nationwide upward adjustment in water tariffs and low base effects. Combined with a slowing economy, it would provide ample room and policy justification for BNM to embark on at least one rate cut in the near term, possibly in the 1Q20, bringing the overnight policy rate to 2.75% from the current 3.00%.
- **A narrower current account surplus, improving capital flows, a relatively stronger ringgit.** In line with the narrative of moderating export growth trend and relentless macroeconomic uncertainties, we project a lower CA surplus for the year at 2.2% of GDP (2019E: 3.5%). But a change of risk appetite arising from the low interest rate environment is expected to continue to attract funds back to the emerging market, lifting the value of financial assets as well as currencies. Nonetheless, we expect the financial market and the Ringgit to be more volatile and err on the upside with the USDMYR to test 4.00-level in the 1H2020. Nonetheless, our year-end target for USDMYR remains unchanged at 4.10, reflecting a bearish sentiment on domestic issues, weak growth momentum and narrowing CA surplus.

Table 1: Kenanga Research Malaysia Key Forecast Summary

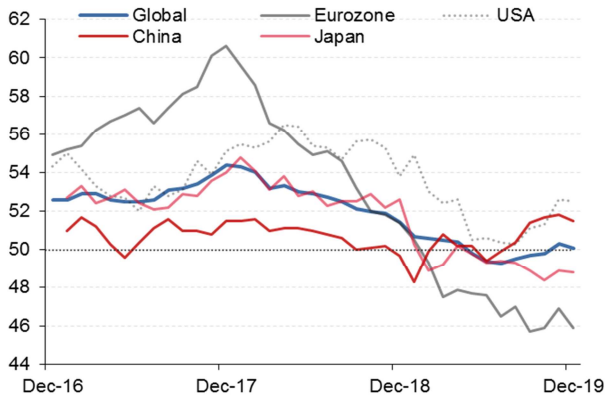
	2018	2019E	2020F	Remarks
GDP (%YoY)	4.7	4.5	4.3	The impact of the US-China trade war would continue to weigh on growth in the 4Q19. Coupled with weak domestic demand, we reckon GDP growth could moderate to 4.0% in 4Q19 (3Q19: 4.4%), bringing the full-year average to 4.5% (MoF forecast: 4.7%). Although both the US and China had agreed on phase one of tariff compromise, we expect the bilateral trade feud would still drag on well into the 1H20. Improving tech orders might mitigate the negative impact of trade war going forward but it is still too early to ascertain whether the momentum would be sustainable. Domestically, the effort to raise fiscal spending and revive key infrastructure projects would be positive on the economy. But the full impact may only be felt in the 2H20 onwards. For now, we expect GDP growth to remain subdued in 2020 at 4.3% (MoF: 4.8%).
CPI (%YoY)	1.0	0.7	1.0-1.5	Inflationary pressure is expected to remain mild well into 2020 (1.0-1.5%; 2019E: 0.7%) in the absence of demand-pull factor amid slow growth momentum. The highly anticipated gradual floating of fuel prices (though recently postponed), planned nationwide upward adjustment in water tariffs and low base effects would add some pressure to inflation.
OPR (%) end of period	3.00	3.00	2.75	With a tentatively mild inflationary and growth outlook, we believe it would provide BNM some room to maneuver and adjust the OPR lower to support the economy. This would provide policy justification for BNM to embark on at least one rate cut in the near term, possibly in the 1Q20.
USDMYR end of period	4.1335	4.0910	4.1000	The low interest rate environment may spur a shift of portfolio funds back to the emerging market, lifting the value of financial assets as well as currencies. Nonetheless, we expect the financial market and the Ringgit to be more volatile and err on the upside with the USDMYR to test the 4.00-level in the 1H2020. Unless structural issues, policy clarity and political certainty are fully addressed, our year-end target for USDMYR remains unchanged at 4.10.

Source: Dept. of Statistics, Bloomberg, Kenanga Research

Global Economic Overview & Outlook

Another bumpy year. Despite the signing of the Phase One agreement, 2020 will be a year of global growth consolidation on risk of continued US-China trade row and its impact on China's economy and its major trading partners. While the Phase One trade deal signing may somewhat de-escalate the risk of further US-China trade row, it does not eradicate the impact of the bigger part of the tarrifs that has been put in place since July 2018. Furthermore, the economic impact of the disorderly Brexit, pro-democracy rally in Hong Kong, rising tension in the Middle East and a US presidential election and possible impeachment would be a drag to any potential growth upside.

Graph 1: Global PMI Trend

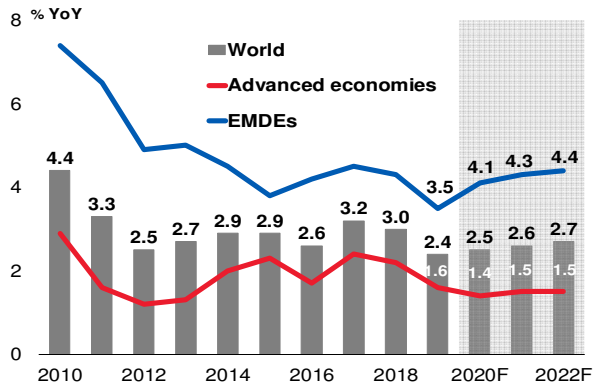


Source: IHS Markit, Kenanga Research,

Recession risk abated. Recession risks, which had been elevated during the middle part of 2019, have diminished in recent months, helped by additional global monetary easing, a trade truce between the US and China, better prospects for an orderly Brexit, and early signs of a rebound in the global purchasing managers' indices (PMIs). As a consequence, we are now more confident in our baseline forecast that the current window of weakness for global growth will give way to a moderate recovery during 2020. But slower growth trend in 2020 may leave the economy more susceptible to shocks or surprises.

Extended period of growth mediocrity ahead. It seems the challenges that befell the world the past year would likely linger and continue to be a drag to the global economy in 2020. That is why we are adopting a less optimistic view as we are not convinced that the global economy as a whole would fully revover. Concurring with the World Bank's latest annual forecast, the global economy is poised for a modest rebound this year following its weakest performance since the Global Financial Crisis, but outlook is fragile. As trade and investment gradually recover, World Bank projected global growth to rise by 2.5% this year, a tad higher than an estimated 2.4% in 2019. The International Monetary Fund (IMF) latest World Economic Outlook (WEO) report also echoed the World Bank's view, stating that the projected global growth recovery remains uncertain.

Graph 2: Global Growth Trend (Adv Economies Vs EMDE)

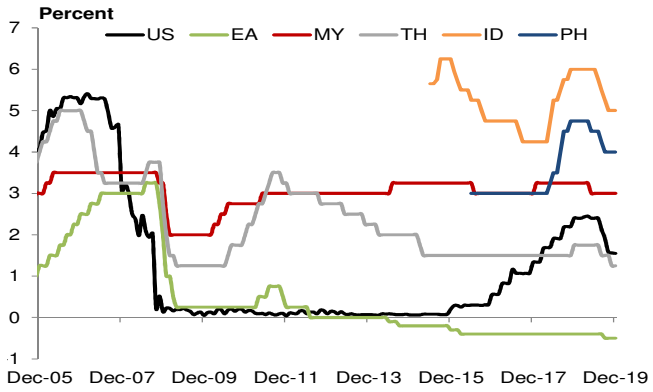


Source: World Bank, Kenanga Research

EMDE growth trend > Advanced Economies. From the World Banks' prognosis, emerging market and developing economies (EMDE) will see growth expanding to 4.1% from an estimated 3.5% last year. However, the pickup is anticipated to come largely from a small number of large emerging economies (India, Russia, Brazil, Turkey, Saudi Arabia, etc.) coming out from an economic malaise or stabilizing after recession or turbulence. For many other EMDEs (China, Indonesia, Poland, etc.) growth is on track to decelerate as exports and investment remain weak. Meanwhile, the advanced economy, led by the United States followed by the Euro Area and Japan, is expected to see growth slowing to 1.4% in 2020 (2019E: 1.6%).

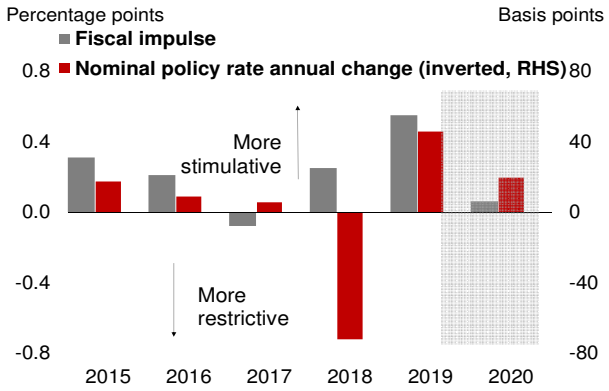
Global monetary policy shifts lower, fiscal spending up. Another factor underpinning a prospective marginal pickup in global growth this year is the supportive stance of fiscal policy in major economies such as China, Europe, and Japan. Yet again, the Fed and other major central banks have helped to extend the global expansion by adding stimulus in response to rising recession risks. While escalating global risk prompts central banks to continue leaning on monetary easing, policy makers are increasingly turning to fiscal spending to support growth. The latter reflects the concerns of overdependence on monetary policy and its debilitating impact on the global financial system and economy. This is especially true, as China and some G7 countries have been increasingly relying on fiscal policies to do the heavy lifting as central banks could potentially run out of monetary policy options to boost the economy. Nonetheless, countries that have limited fiscal space due to lower revenue and higher debt may prefer to be more prudent when it comes to spending for fear of rising budget deficits and risk of credit rating downgrade.

Graph 3: Selected Monetary Policy Rate Trend



Source: CEIC, Kenanga Research

Graph 4: Stance of Global Fiscal and Monetary Policy

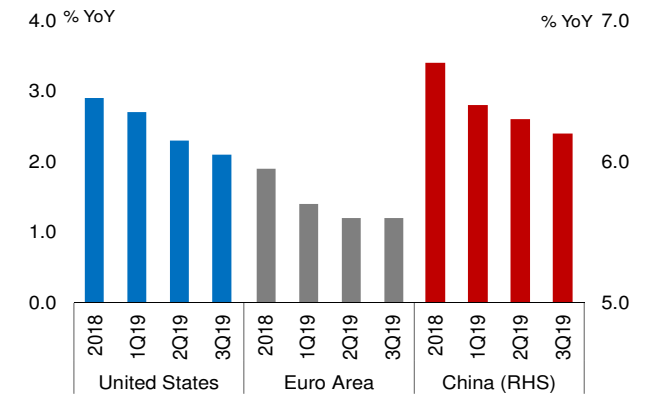


Source: Bank for International Settlements, Consensus Economic, IMF, World Bank

Fiscal policy to dominate in the next decade. The next ten years will likely be about fiscal policy as a renewed attempt to break the deadlock of excessive use of monetary policy. Central banks played a pivotal role in the era of monetary madness in the last decade, and despite their best efforts,

growth and inflation have remained sluggish. As a result, their balance sheets have expanded dramatically, adding a total of about USD13.0t. But rather than creating inflation, the rampant money printing has lowered inflation expectations and helped guide bond yields to lower levels. As balance sheets rose, the velocity of money collapsed as yields fell, which discouraged investment, which in turn lowered long-term expectations. As a result, with low cost of borrowing, capital effectively transferred from central banks to finance, for example, corporate buybacks with very little economic value beyond the wealth effect for the wealthiest. Meanwhile, equity prices outperformed equity profits and valuation has become distorted due to the rise of passive investing, which has created a fundamental structural change in the way people invest and had a huge effect on the markets. The by-product of cheap money is rising debt, rising inequality, demographic cliff, pension shortfalls and extremes in assets across the world, adding to the downside risk on the capital markets and the economy.

Graph 5: US, Euro and China Growth Trend (2018 and 2019)

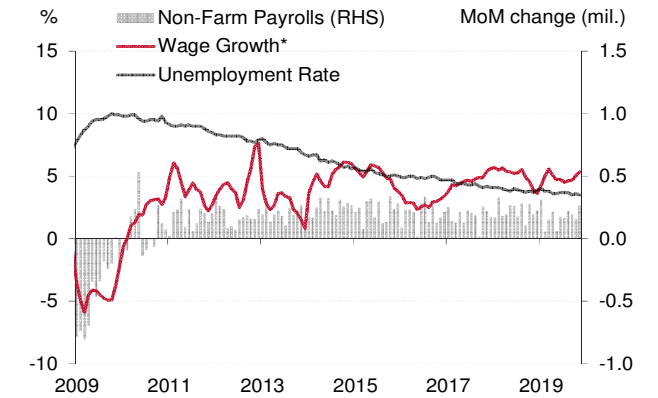


Source: World Bank, Kenanga Research; Note: Data are seasonally-adjusted except China

US economy still chugging along. After a period of above-trend GDP growth, we expect US growth to slow down in 2020. In the last two years, we have seen an economic growth rate that exceeded the productive capacity of the economy - mainly due to the fiscal policy boost from the 2017 Tax Cut and Job Openings Act. The economy has chugged along at roughly 2.0% GDP growth every year for the last 10 years, with no recession. While, the Congressional Budget Office forecasts US growth for 2020 at approximately 2.0%, market consensus and economic observers are looking at lower growth trend of below 2.0% (World Bank: 1.8%; Bloomberg consensus mean: 1.8%).

Signs of imminent slowdown, Fed ready to step in. However, the fiscal stimulus is fading and GDP growth is slowing to trend levels. Alas, for 2020, the US economy will likely be more prone to a recession due to a lowered ability to absorb shocks or surprises. The most common concerns are the ongoing trade war and negative credit surprises that could damage confidence and cause businesses and consumers to retrench. The wildcard is, however, the housing market, which has been uncharacteristically subdued during this 10-year long expansion - some say for structural reasons related to the millennials' reluctance to buy homes, as well as increasing resistance to take on more debt - but has shown signs of life lately and could be a surprise factor in 2020. Meanwhile, despite a tight labour market and some increase in wages, the overall economy has seen very little pass-through of wage inflation into price inflation. What generally kills economic growth is either a sharp change in the cost of financing and/or a sharp increase in the costs of inputs. If we take all this into consideration, the Fed might be forced to reconsider its dovish stance altogether.

Graph 6: US Wage and Hiring Trend



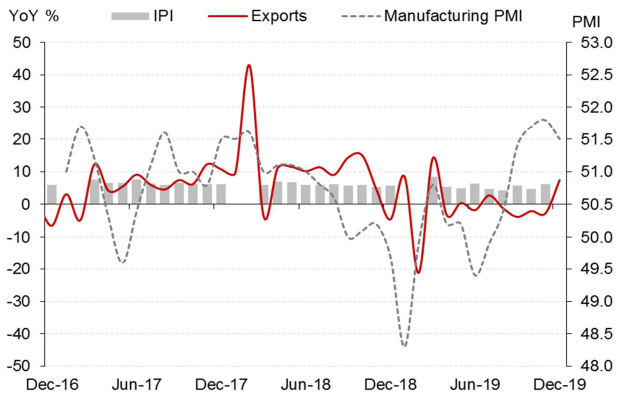
Source: Bureau of Economic Analysis, Kenanga Research
**Personal Income, Wage and Salary Disbursements*

Peak employment trend cometh. The US unemployment rate has been at 50-year low of around 3.5-4.0% for almost a year now, which is partly due to increased labor participation. This has somewhat expanded the productive capacity of the economy. In the absence of more stimulus, such as government spending or tax policy changes to induce additional consumption, we expect economic growth to persist at our projected trend (<2.0%), and the pace of job growth this year is likely to slow down relative to 2019.

Europe: growth to stay weak but to slowly recover in 2020. Manufacturing recession, as it is undergoing in industrial behemoth Germany, risks spilling over into services sector and jobs. While euro area unemployment is at its lowest historical level, employment growth is slowing, particularly in the manufacturing sector, where it is now at 0.7% YoY compared with 1.3% at the beginning of 2019. Meanwhile, euro area core inflation is seen rising gradually over time, but remaining well below the European Central Bank's (ECB) inflation target. Nonetheless, the ECB is expected to remain on hold as survey data improves and underlying measures of inflation slowly grind higher. Meanwhile, the UK economy would remain vulnerable as the tail risks of a Brexit cliff-edge at the end of 2020 remain. However, this might be avoided as a free trade deal with EU is being worked out. While UK growth has been volatile thanks to Brexit uncertainty, a growth recovery in 2020 is anticipated. The Bank of England has revised down its growth and inflation projection materially but still sees inflation modestly above target in three years. An interim BoE rate cut in January is possible if the ongoing weakness in the economic data persists.

China: temporary growth respite. Prior to the recently signed phase one trade deal, China has been employing both monetary and fiscal stimulus to support its slackening economy. The latest being the 50bp cut of the reserve requirement ratio (RRR), as well as the central bank's pre-allocated RMB1.0t in its special bond quota to local governments to boost infrastructure investment and ease restrictions on developers' financing. This may have somewhat spurred a moderate recovery in China's manufacturing sector (official manufacturing PMI rose to 50.2 in both November and December 2019 from a low of 49.3 in October), strong rebound in exports (Dec-19: 7.6% YoY; Nov: -1.3%), new home sales have stabilised and developers have rushed to issue bonds again. This reflects the improvement in the financial markets: the yuan is appreciating following rising stock market, and demand for some credit bond, resulting in falling yields. Given the encouraging results from some improvement in the economic and financial situation in the near term, the markets are justified in taking a respite.

Graph 7: Chinese Economy Showing Signs of Stabilising

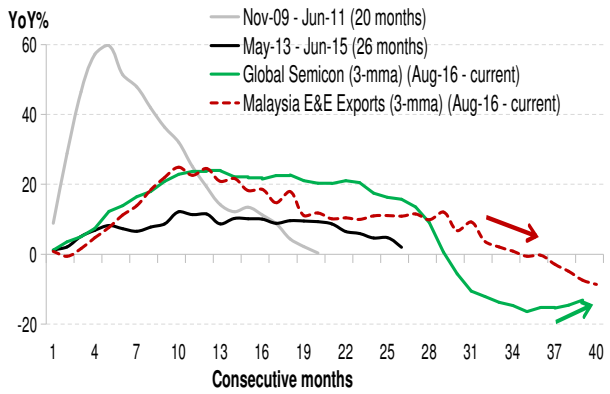


Source: CEIC, Kenanga Research

Make hay when there is sunshine. A possible bottoming out of global tech cycle along with declining inventories to quite low levels in most sectors may boost output and exports given a slight improvement in expectations. Often this proves to be temporary. And adopting a cautious view would be pennywise as downward pressures seemed to remain quite strong, financial risks are still brewing and China's room for policy easing may be limited than generally thought. Assuming the perceived stabilisation could last a couple of months, a trend reversal might occur, defaults would rise, and Beijing may have limited fiscal space for another round of big stimulus. Plus, another round of policy uncertainty awaits post the US presidential election in November followed by Phase 2 trade deal.

5G rollout to spur global tech recovery in 2020. The global semiconductor industry underwent a sharp downturn in 2019, falling an estimated 12.8%, according to IHS Markit Technology. It projects a rebound of 5.9% in 2020 mainly propelled by the deployment of the much anticipated 5G technology. It will also be the main factor driving this recovery, bringing renewed growth to the wireless industry but more importantly the wider benefits to the global businesses and economies. Similarly, SEMI, the global industry association representing the electronics manufacturing and design supply chain, forecasts global

Graph 8: Global Semicon & E&E Export Growth Cycles

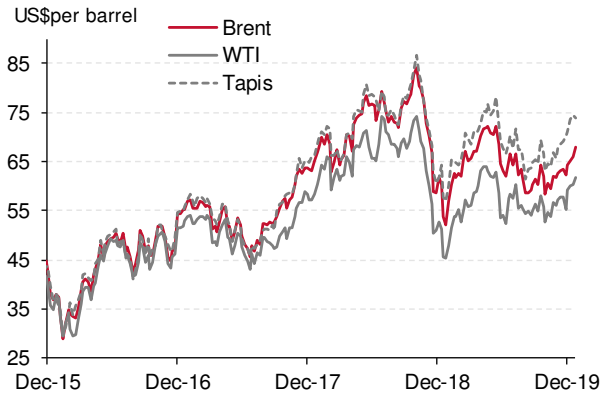


Source: Semiconductor Industry Association, DOS, Kenanga Research

semiconductor manufacturing equipment sales to stage a recovery in 2020, rebounding by 5.5% in 2020 from an estimated -10.5% in 2019 and set a new high in 2021. More upside is likely, SEMI added, if the macroeconomy improves and trade tensions subside in 2020. Generally, this would bode well for global trade, partly mitigating the impact of trade war, while supporting E&E exporting countries.

Crude oil: predictably unpredictable. Oil prices have become increasingly volatile and less predictable thanks to unexpected swings in the factors affecting oil prices. In recent years the oil industry has changed in five fundamental ways: rising US shale oil production, the diminished clout of OPEC, the strength of the US dollar, weakening oil demand/elevated global supply, and climate change. One should also add the uncanny ability of President Donald Trump to create a Black Swan moment by ordering an assassination of Iran's General Qassem Suleimani. Brent crude briefly spiked to above USD70/barrel but subsided to USD64.55 on January 15, lower than before Suleimani's death. Going into 2020, we expect Brent crude would average USD60/barrel (2019: USD64.21/barrel), somewhat below US Energy Information Administration's projection of USD65/barrel for worldwide crude oil prices. Our major concern is on supply issues and increased shale oil production is arguably one of the largest single items affecting oil markets today which is expected to grow by 0.9 million barrels per day (mb/d) going into 2020. It grew from next to nothing in 2010 to more than 7 mb/d in 2019, in many ways transforming global oil markets chiefly contributing to an oversupply condition and supressing any price upside. At the same time, OPEC production cuts and Middle East turmoil are another thing worth paying attention too. OPEC has announced recent production cuts and is expected to continue to keep Brent crude prices at least >USD55-60/barrel. Middle East turmoil has been a perennial issue and growing tensions with Iran and Iraq over US influence in the region has raised price volatility much to the delight of speculators. With the Republicans expected to support Trump's second presidential term, we don't expect it would support an elevated crude oil price for long unless the US is committed to send back more troops and ready to wage another war campaign in the Middle East.

Graph 9: Crude Oil Price Trend



Source: CEIC, Kenanga Research

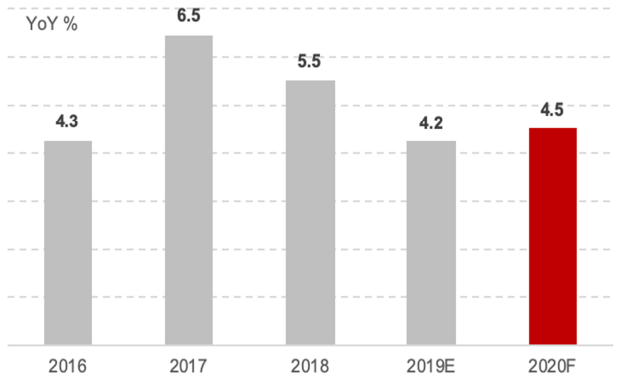
Phase 1 trade peace or truce. Although the US and China had finally signed a phase one agreement on January 15th, setting out the terms of a new economic relationship between the two giants, it is more of a trade truce rather than a trade peace. It seems to focus on President Trump's main desire: to close US's trade deficit with China. While it may gain some mileage for Trump's presidential election campaign, it may cause further problems especially with China's pledge to buy an extra USD200b of American goods and services over the next two years, on top of the baseline USD187b purchases in 2017. As a result, both countries will become more reliant on each other and their other trading partners might be squeezed out. The coming months will demonstrate whether the two countries can establish a friendlier dialogue, and whether their relationship can survive America's more aggressive use of security-related export and investment restrictions. Though this modest trade agreement shows how much the status quo has changed, tariffs on hundreds of billions of dollars' worth of imports into both countries remain in place, with an ever present threat of more. On the flipside, Chinese companies and its suppliers are evolving and racing to build a more robust supply chain of goods and services to minimise risk of being affected by US influence. In the meantime, we expect disruption on the global supply chain to continue and would weigh on global growth.

Malaysia Growth Prospects

Overview 4Q19 and 2019

A further slowdown in 4Q19 growth. Judging by the current trend of slower exports and manufacturing growth, there is a possibility that GDP growth could continue to moderate in the 4Q19. However, the factor that could help mitigate the slide would be domestic spending following the decision by the government to revive several of the infrastructure projects. This would help boost private consumption and soften the impact from the slowdown in external demand. Given that growth had peaked in the 1H19 and a higher base a year ago, our base case estimate for 4Q19 GDP growth is 4.0%, a moderation from 4.4% registered in 3Q19. This is just a tad lower than Bloomberg's median consensus forecast of 4.1%, with forecasts ranging from 3.5% to 4.7% (from ten contributors). The Department of Statistics is expected to release the 4Q19 GDP data in mid-February.

Graph 10: Domestic Demand Growth Trend



Source: CEIC, Kenanga Research

Table 2: Malaysia GDP Growth Trend & Outlook for 2019

% YoY Growth	2016	2017	2018	1Q19	2Q19	3Q19	4Q19E	1H19	2H19E	Kenanga 2019F	MOF 2019F
By Sector											
Agriculture	-3.7	5.7	0.1	5.6	4.2	3.7	3.6	4.9	3.7	4.2	4.3
Mining	2.2	0.4	-2.6	-2.1	2.9	-4.3	-1.2	0.3	-2.7	-1.2	0.6
Manufacturing	4.4	6.0	5.0	4.2	4.3	3.6	2.8	4.2	3.2	3.7	4.0
Construction	7.5	6.7	4.2	0.3	0.5	-1.5	-0.3	0.4	-0.9	-0.3	1.7
Services	5.7	6.2	6.8	6.4	6.1	5.9	5.4	6.3	5.6	5.9	6.1
Real GDP	**4.4**	**5.7**	**4.7**	**4.5**	**4.9**	**4.4**	**4.0**	**4.7**	**4.2**	**4.5**	**4.7**
By Aggregate Demand											
Consumption	4.9	6.6	7.1	7.4	6.5	6.0	5.5	7.0	5.8	6.3	5.9
Public	1.1	5.5	3.3	6.3	0.3	1.0	2.0	3.2	1.6	2.3	2.0
Private	5.9	6.9	8.0	7.6	7.8	7.0	6.5	7.7	6.7	7.2	6.8
Investment	2.6	6.1	1.4	-3.5	-0.6	-3.7	1.1	-2.0	-1.4	-1.7	-1.4
Public	-1.0	0.3	-5.0	-13.2	-9.0	-14.1	1.0	-11.3	-5.3	-7.9	-8.1
Private	4.5	9.0	4.3	0.4	1.8	0.3	1.2	1.2	0.7	0.9	1.5
Public Spending	0.2	3.4	0.1	-1.4	-2.8	-4.6	1.6	-2.1	-1.0	-1.5	-1.8
Private Spending	5.5	7.4	7.1	5.9	6.2	5.4	5.5	6.1	5.4	5.8	5.6
Aggregate Demand	4.3	6.5	5.5	4.4	4.6	3.5	4.5	4.5	4.0	4.2	4.0
Exports	1.3	8.7	2.2	0.1	0.1	-1.4	-0.5	0.1	-0.9	-0.5	-0.4
Imports	1.4	10.2	1.3	-1.4	-2.1	-3.3	-1.5	-1.8	-2.4	-2.1	-2.1
Net exports	0.4	-3.9	11.4	10.9	22.9	15.9	7.7	16.0	11.5	13.7	14.5
Real GDP	**4.4**	**5.7**	**4.7**	**4.5**	**4.9**	**4.4**	**4.0**	**4.7**	**4.2**	**4.5**	**4.7**

Source: Ministry of Finance, BNM, Kenanga Research, E: Estimate F: Forecast

Factors contributing to slower 4Q19 GDP. The profound impact of the US-China trade war is reflected in the continued decline especially in exports of goods and services as well as manufacturing output:

- Exports fell by an estimated 0.5% in 4Q19 (3Q19: -1.4%), resulting in a 0.4 percentage point (ppt) reduction in 4Q19 GDP growth;
- Private consumption is expected to slow to 6.5%, its lowest since 1Q17, lowering its contribution to GDP growth to 3.6 ppt from 4.1 ppt in 3Q19;
- Mining and construction continue to contract albeit at a smaller estimated rate of -1.2% and -0.3% respectively from -4.3% and -1.5% in the 3Q19 respectively;

– Manufacturing and services too are expected to have slowed considerably to 2.8% and 5.4% respectively from 3.6% and 5.9% respectively in the 3Q19.

An expected weaker 2H19 and 2019. The slower estimated 4Q19 performance would mean that the 2H19 growth would come in expectedly slower or at an average of 4.2% from 4.7% in the 1H19. As a result, this brings overall GDP growth for 2019 to an estimated 4.5% from 4.7% in 2018. Meanwhile, the MoF remains confident of achieving its GDP growth target of 4.7% for 2019.

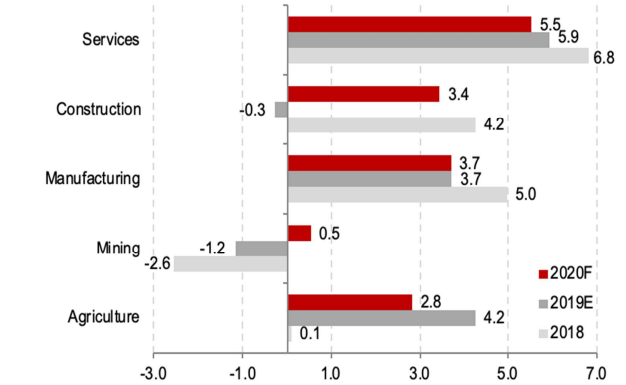
Policy-induced slowdown in 2019. The main drag to Malaysia's economic growth was largely the impact of two surprising political events that triggered policies influenced by popular mandate. Coincidentally, both followed a surprised election victory. One that brought Donald Trump to be the 45th president of the United States, and the other that ended Barisan Nasional's 61-year reign in May last year. Trump started the trade war with China. Meanwhile, Pakatan Harapan (PH), must fulfil its election promise, no matter the ensuing cost that it brought to the economy.

– The impact of the US-China trade war has largely resulted in exports of value-added goods and services to have fallen by an estimated 0.5% (2018: +2.2%), dragging down the 2019 GDP growth by 0.3 ppt.

– The impact of PH's decision to suspend all major infrastructure projects soon after it took reign of the new government has resulted the public spending growth to fall by an estimated 1.3% (2018: 0.1%, 2017: 3.4%), a 0.2 ppt loss to 2019 GDP growth. Meanwhile, the construction sector fell 0.3% (2018: 4.2%), netting off almost 0.1 ppt of GDP growth.

Policy reversal on mega projects, the wise option. It finally dawned upon PH's top brass that sticking rigidly to its promise may turn out to be counterproductive and detrimental to the overall health of the economy. Hence the Government had made amends by lifting the suspension on several infrastructure projects early this year, helping to reverse the trend in the 4Q19 as public spending or expenditure is estimated to have rebounded by 1.6% after four straight quarters of decline (since 4Q18). As a result, the decline in public spending is estimated to have reduced to -1.0% in the 2H19 from -2.1% in the 1H19. However, we believe the move, though better late than never, is not enough to lift growth to reach the official target of 4.7% in 2019.

Graph 11: Growth Trend by Sector



Source: CEIC, Kenanga Research

Growth Outlook – 1Q20 & 2020

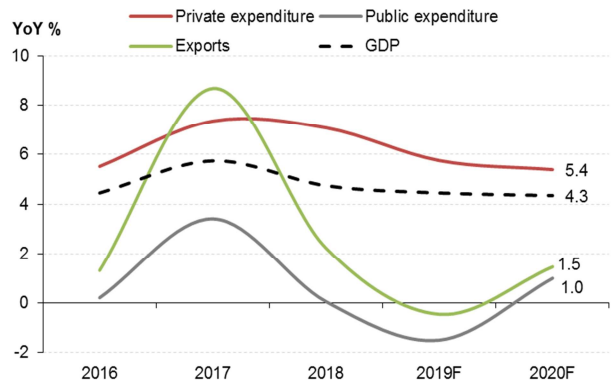
A slow start. Given the slow growth momentum in the 4Q19, we expect the economy to register a slow start for the year. Headwinds remain despite the positive developments surrounding the US-China phase-1 trade deal as well as sluggish pace of economic expansion of key trading partners, namely China, Eurozone and the US as reflected in the latest PMI numbers. This would impact the already slowing exports growth. Unless the fiscal multiplier impact kicks in along with a strong pick up in private consumption, our base case 1Q20 GDP growth projection is 3.8%, a further slowdown from an estimated 4.0% in the preceding quarter.

A gradual pick up ahead. As we move closer into 2H20, we will likely see some improvement in economic growth barring unforeseen supply shock, major policy shift, or rising geopolitical tension. With growth mainly stemming from domestic demand through increased and targeted fiscal spending, we might see GDP growth expand to 4.1% in the 2Q20 from a projected 3.8% in 1Q20. This would bring the average growth for the 1H20 to 4.0% (1H19: 4.7%; 2H19: 4.2%).

Factors to spur recovery. Factors that may contribute to the gradual and sustain growth in 2020 are:

- A **possible BNM interest rate cut** in the 1Q20;
- Steady **pick up of revived infrastructure projects**, especially, the East Coast Rail Link (ECRL), Mass Rail Transit 2 (MRT2), Klang Valley Double Track (KVDT), Pan Borneo Highway, Johor Rapid Transit System (RTS), Bandar Malaysia, Penang Transport Masterplan, expansion of airports in Sandakan and Kota Bharu as well as maintenance and upgrades of roads, bridges, ports and railways;
- Disbursement of **cash assistance (RM300 per household) to the B40** under Cost of Living Aid or Bantuan Sara Hidup (BSH), involving a total allocation of RM1.0b to 3.8m registered recipients;
- The government has allocated a budget of RM450m to distribute a one-off RM30 digital incentive or **e-Tunai Rakyat** programme to 15m eligible Malaysians which can be used at any participating merchants;
- **A receptive Visit Malaysia 2020** campaign might give a boost to tourism income in 2020 which may exceed government's 2019 expected tourist arrivals of 28.1m, with total receipts of RM92.2b of 6.1% of GDP;
- **Higher commodity prices**, namely palm oil due to the lagged impact of the dry weather (especially in Indonesia during the 2Q19 and 3Q19) reducing output in 2020, rise in China's palm oil consumption due to the outbreak of swine flu, and an expected rise in consumption as Indonesia and Malaysia raise the percentage of CPO blend in their respective biofuel policies. Rising tension in the Middle East, between Iran and US may elevate the oil price trend in 2020;
- **Trade diversion** may gain momentum following the conclusion of phase-1 US-China trade deal and would further benefit Malaysia's exports, especially, petrochemicals and E&E. Supply chain relocations resulting from trade diversion will continue to benefit manufacturers of electronics, plastics and furniture.

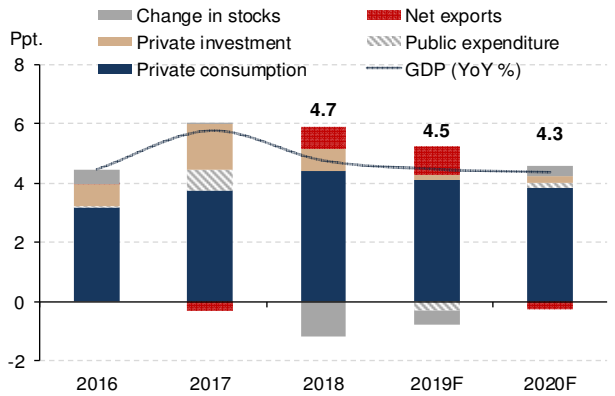
Graph 12: Malaysia Annual GDP Forecast



Source: CEIC, Kenanga Research

Domestic demand to take up slack of weak exports. As the global economy remains uncertain and global growth is expected to slow, both monetary and fiscal policy are expected to work hand in hand to support economic growth in 2020. This would help boost if not sustain domestic demand growth in 2020 to take up the slack in external demand. We project aggregate demand to expand by 4.5% from an estimated 4.2% in 2019, contributing 4.2 ppt to GDP growth (2019E: 4.0 ppt), primarily attributable to the recovery in investment which is projected to have rebounded to 1.0% from an estimated decline of 1.7% in 2019. This is due to the lesser growth drag from government investment which is forecasted to fall marginally by 0.1% (2019E: -7.9%; 2018: -5.0%). All in all, public spending is projected to turn net contributor to GDP growth in 2020, contributing 0.2 ppt versus an estimated -0.3 ppt in 2019.

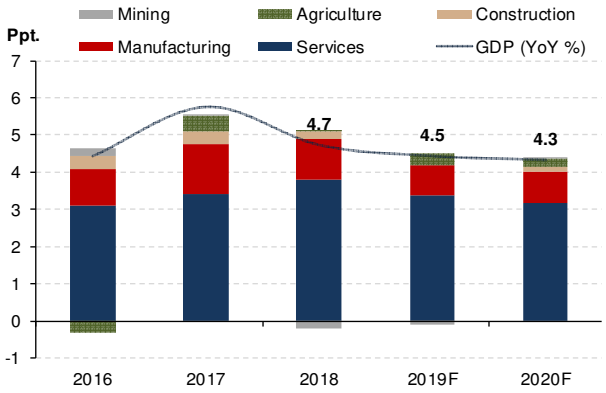
Graph 13: Domestic Demand Contribution to GDP Growth



Source: CEIC, Kenanga Research

External demand to improve. Meanwhile, we expect there would be some improvement in exports as the impact of trade war would have relatively stabilised. To some degree the improvement in crude palm oil and crude oil price as well as the impact of trade diversion would help to push up value-added exports to 1.5% after an estimated mild contraction of 0.5% last year. This is expected to add 0.9 ppt to headline GDP growth (2019E: -0.3 ppt).

Graph 14: Supply Side Contribution to GDP Growth



Source: CEIC, Kenanga Research

…for 2020, a trend reversal is expected: while the suspension of big infrastructure projects and the tech cyclical slowdown, as well as a weaker ringgit in 2019 had expectedly cause a decline in imports (-2.1%), it helped to boost net exports to an estimated 13.7%, contributing 1.0 ppt to headline GDP growth in 2019. For 2020, however, value-added imports are projected to rebound to 2.1% on the back of the revival of mega projects, tech rebound on 5G related-spending, and a relatively firmer ringgit, resulting in net exports turning negative (-3.3%), reversing its contribution to GDP growth to -0.3 ppt (2019E: +1.0 ppt).

Supply side growth outlook – a mixed bag. With the exception of the construction and mining sectors, the supply side of the economy is expected to slow or sustain its growth trend in 2020.

- The revival of major infrastructure projects is expected to boost the construction sector and help it register a projected growth rebound of 3.4% from an estimated decline of 0.3%;
- For mining, the combined OPEC output cut and rising geopolitical tension between Iran and the US is expected to elevate the oil price trend lending support for a projected growth turnaround of 0.5% (2019E: -1.2%; 2018: -2.6%);
- Manufacturing is forecasted to sustain its projected growth of 3.7% on the back of cyclical rebound in tech spending related to 5G related spending and partly being a beneficiary of trade war's diversion and relocation of production of goods;
- Services is projected to slow further to 5.5% (2019E: 5.9%), on the back overall weak domestic demand growth resulting in its contribution to headline GDP growth to lower to 3.2 ppt (2019E: 3.4 ppt);
- Agriculture growth performance is projected to slow to 2.8% (2019E: 4.2%), primarily because it is coming from a higher base as well as a slower global growth trend in spite of improvement in the price of CPO.

A tenuous growth outlook for 2020. The economic growth in 2020 is likely to lean on the downside and growth would continue to slow although fiscal and monetary policy efforts may lift domestic demand, underscoring the official forecast of 4.8%. However, with the challenging global growth trend mixed with geopolitical uncertainties, we maintain our base case projection of 4.3% for now. To achieve a growth higher than 4.5% portend the economy growing above trend, which we believe would be rather challenging given the global economic outlook.

Beyond 2020 – Planning for the long term. After admitting that Malaysia did not fully achieve the goal of becoming a developed nation by 2020 as expounded in Vision 2020, its architect Prime Minister Tun Dr. Mahathir Mohamad said Malaysia has made a lot of progress since the launch of the vision in 1991. But Malaysia still needs to plan ahead to ensure sustainable and equitable growth. Introducing Shared Prosperity Vision 2030 (SPV), launched by the PM himself on 5th October last year, reflects an overarching goal in a new era post Vision 2020, as the country transitions towards the 12th Malaysia Plan (12MP) and eventually 13MP (2026-2030). The economic size goal for SPV set by the government is to achieve RM3.4t (nominal) by 2030 or from an estimated RM1.6t in 2020. Based on our calculations, that translates to an average growth of 4.5-4.7% annually in real terms which is slightly above Malaysia's potential output growth. Realistically, that would be a challenging feat

given that the global economy is facing growing uncertainties brought about by the impact of higher trade barrier, technology, climate change, changes in demography, geopolitics and political change.

Table 3: Malaysia GDP Growth Trend & Outlook for 2020

% YoY Growth	2017	2018	1Q20F	2Q20	3Q20	4Q20	1H20F	2H20F	Kenanga 2020F	MoF 2020F
By Sector										
Agriculture	5.7	0.1	1.9	2.0	3.1	4.2	1.9	3.6	2.8	3.4
Mining	0.4	-2.6	0.0	0.1	0.9	1.2	0.0	1.1	0.5	0.3
Manufacturing	6.0	5.0	2.4	3.4	4.1	4.7	2.9	4.4	3.7	4.1
Construction	6.7	4.2	2.0	2.7	4.2	4.9	2.3	4.5	3.4	3.7
Services	6.2	6.8	5.2	5.2	5.5	6.1	5.2	5.8	5.5	6.2
Real GDP	**5.7**	**4.7**	**3.8**	**4.1**	**4.4**	**5.0**	**4.0**	**4.7**	**4.3**	**4.8**
Percentage Contribution to GDP Growth										
Agriculture	0.4	0.0	0.1	0.1	0.2	0.3	0.1	0.3	0.2	0.2
Mining	0.0	-0.2	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.0
Manufacturing	1.3	1.1	0.5	0.8	0.9	1.0	0.7	1.0	0.8	0.9
Construction	0.3	0.2	0.1	0.1	0.2	0.2	0.1	0.2	0.2	0.2
Services	3.4	3.8	2.9	3.0	3.2	3.6	3.0	3.4	3.2	3.6
Real GDP	**5.7**	**4.7**	**3.8**	**4.1**	**4.4**	**5.0**	**4.0**	**4.7**	**4.3**	**4.8**
By Aggregate Demand										
Consumption	6.6	7.1	4.8	5.7	6.5	5.6	5.3	6.0	5.7	5.9
Public	5.5	3.3	0.5	1.1	1.7	2.1	1.4	1.7	1.6	1.5
Private	6.9	8.0	5.5	6.5	7.3	6.7	6.0	7.0	6.5	6.9
Investment	6.1	1.4	-0.1	0.9	1.7	1.5	0.4	1.6	1.0	1.3
Public	0.3	-5.0	-1.1	-0.7	0.3	0.7	-0.9	0.5	-0.1	-0.6
Private	9.0	4.3	0.3	1.3	2.2	2.0	0.8	2.1	1.4	2.1
Public Spending	3.4	0.1	0.3	0.9	1.5	1.1	0.6	1.3	1.0	0.8
Private Spending	7.4	7.1	4.3	5.2	6.2	5.8	4.8	6.0	5.4	5.8
Aggregate Demand	6.5	5.5	3.6	4.5	5.3	4.6	4.0	5.0	4.5	4.8
Exports	8.7	2.2	0.7	1.1	1.7	2.3	0.9	2.0	1.5	1.4
Imports	10.2	1.3	1.7	2.0	2.2	2.5	1.9	2.4	2.1	1.9
Net exports	-3.9	11.4	-5.8	-6.3	-2.2	0.8	-6.1	-0.6	-3.3	-2.7
Real GDP	**5.7**	**4.7**	**3.8**	**4.1**	**4.4**	**5.0**	**4.0**	**4.7**	**4.3**	**4.8**
Percentage Contribution to GDP Growth										
Consumption	4.4	4.8	3.3	4.0	4.7	4.0	3.7	4.3	4.0	4.2
Public	0.7	0.4	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Private	3.7	4.4	3.2	3.8	4.4	3.8	3.5	4.1	3.8	4.0
Investment	1.5	0.3	0.0	0.2	0.4	0.3	0.1	0.4	0.2	0.3
Public	0.0	-0.4	-0.1	0.0	0.0	0.1	-0.1	0.0	0.0	0.0
Private	1.5	0.7	0.1	0.3	0.4	0.3	0.2	0.3	0.2	0.3
Public Spending	0.7	0.0	0.1	0.2	0.3	0.3	0.1	0.3	0.2	0.1
Private Spending	5.3	5.1	3.3	4.0	4.8	4.1	3.7	4.4	4.1	4.3
Aggregate Demand	6.0	5.2	3.3	4.2	5.0	4.3	3.8	4.7	4.2	4.5
Exports	5.8	1.5	0.5	0.7	1.1	1.5	0.6	1.3	0.9	0.9
Imports	6.1	0.8	1.0	1.1	1.2	1.4	1.1	1.3	1.2	1.1
Net exports	-0.3	0.8	-0.5	-0.4	-0.2	0.1	-0.5	0.0	-0.3	-0.2
Real GDP	**5.7**	**4.7**	**3.8**	**4.1**	**4.4**	**5.0**	**4.0**	**4.7**	**4.3**	**4.8**

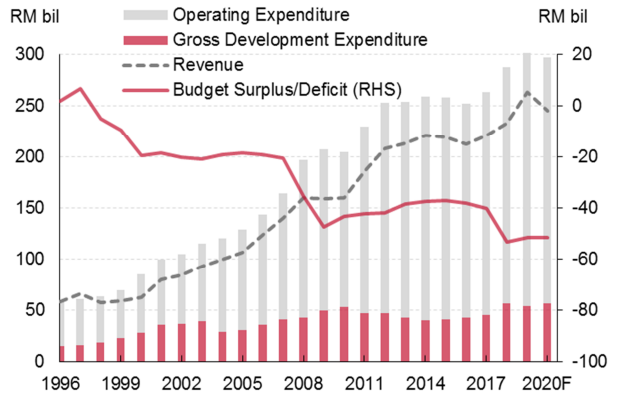
Source: Ministry of Finance, BNM, Kenanga Research. E: Estimate F: Forecast

Fiscal Policy

A better mindset on fiscal management. After sticking to a strict fiscal and debt consolidation approach in its maiden budget for 2019, the new PH government has loosened its policy stance, becoming slightly more expansionary in its 2020 Budget. A big shift from being overly concerned and paranoid after discovering the previous government left the coffers with a huge debt as well as a system that is prone to corruption and abuse. It seems they're getting a better handle of managing the fiscal balance sheet though the impact after the removal of the Goods and Service Tax would still haunt them, leaving a huge revenue shortfall (c. RM20b-25b).

Fiscal constrain to persist. Along with the slower growth prospect, the need to further rationalise expenditure and fix the burgeoning fiscal debt would hinder efforts to reduce the fiscal deficit. Our base case forecast for the fiscal deficit is 3.3% of GDP for 2020, slightly higher than the official target of 3.2% of GDP but narrowing from an estimated 3.5% of GDP for this year (MoF 2019 target: 3.4% of GDP). This is despite a steady rise in the allocation of development expenditure to RM56.0b in 2020 from an estimated RM53.7b in 2019 amid expected decline in revenues (2020: -7.1%). To remain expansionary while setting a narrower deficit target the government has little choice but to reduce expenditure. Part of its new approach to better manage spending is to adopt zero-based budgeting and to make sure public spending is channeled towards projects with high-multiplier impact on the economy. But such measures may only be truly effective in a base case scenario as the fiscal balance sheet may be subjected to stress in an economic slowdown or a shortfall in the collection of revenue especially when it is still highly dependent on oil revenue.

Graph 15: Federal Government Finances



Source: Ministry of Finance, Kenanga Research

Targeted spending. Despite the macroeconomic respite, we expect the slightly higher fiscal spending to still play a bigger part to support the economy with greater targeted spending on value-added projects that improve productivity, provide higher multiplier impact and improve the welfare and employability of the B40. We expect the government would revive and speed up the implementation of key projects namely the MRT3, the Penang Transport Masterplan and perhaps even revive the High Speed Rail under the 12MP. Though these projects may start from 2021, but a mid-year announcement of the 12MP is good enough to spur preparation for tender and stocking up of construction equipment inventory as well as hiring.

Monetary Policy

Global monetary policy skewed towards easing. As we step into 2020, the global monetary policy stance has changed dramatically, driven by a plethora of geopolitical issues that appeared to slow down major developed markets. Advanced economies led by the US Federal Reserve have now adopted a dovish stance, which also has translated into emerging markets as well. By and large, we agree that the Fed is on hold and we still see risks to the US economy as well as the global economy tilted to the downside in 2020. For that reason, we do not entirely dismiss the possibility of the Fed cutting interest rates given that its 11-year unimpeded growth trend seemed increasingly fragile.

Table 4: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.15% (-0.05%)	China	Loan Prime Rate	Nov-19
1.25% (-0.25%)	Thailand	Repo Rate	Nov-19
1.50-1.75% (-0.25%)	USA	Funds Rate Target	Oct-19
5.00% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Oct-19
1.25% (-0.25%)	S. Korea	Base Rate	Oct-19
5.15% (-0.25%)	India	Repo Rate	Oct-19
0.75% (-0.25%)	Australia	Cash Rate	Oct-19
4.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Sep-19
1.00% (-0.50%)	N. Zealand	Official Cash Rate	Aug-19
3.00% (-0.25%)	Malaysia	Overnight Policy Rate	May-19
1.375% (-0.125%)	Taiwan	Discount Rate	Jun-16
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

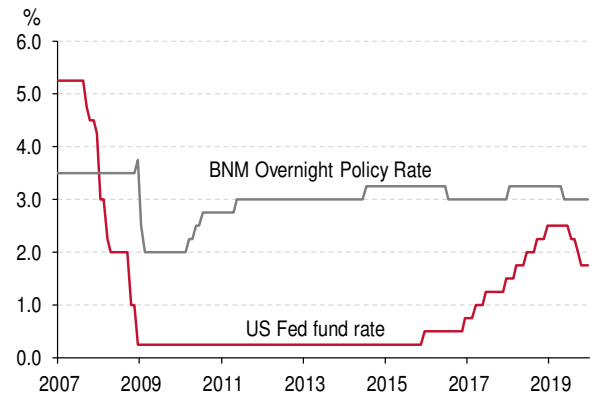
Source: Bloomberg, CEIC, Kenanga Research

Follow the lead. The market seemed to have abruptly switched to a more upbeat sentiment following progress in US-China trade talks, and the global rate cut movement led by the US appears to have shown some positive outcome on the economy and financial markets. This have culminated in the US Fed to signal it would refrain from further reductions unless the economy slowed sharply after it expectedly cut rates, its third since July, in November last year. As the Fed's next move

appear to be clearer, signaling no further cuts in the near term, it has prompted a shift towards a less dovish sentiment among other central banks in the region.

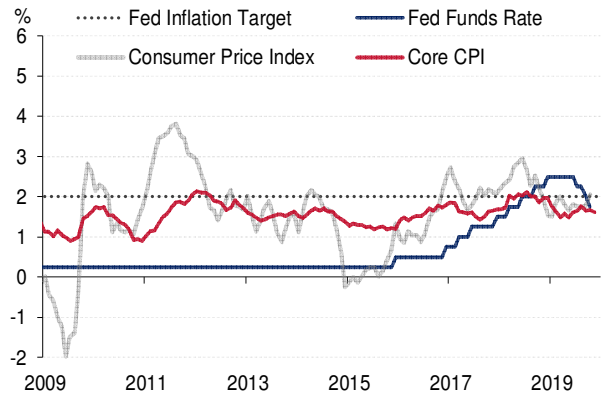
BNM has room to cut. However, given the prevalent state of uncertainty in both the global and domestic economy, we expect BNM to still lean towards a rate cut to lend support to growth as it has stated in its last policy statement that "monetary easing and other policy measures are expected to provide some support to growth." For the next 6-12 months, we reckon BNM still has room for two more rate cuts or up to 50 basis points till the OPR hits 2.50%. The OPR hits its lowest at 2.00% during the Global Financial Crisis in 2009. We foresee the trend in the ringgit to be a crucial factor in determining BNM's future moves. This is in view of continuing capital outflows especially from the domestic equity market. An aggressive reduction in the OPR (akin to the one during the GFC) is viewed not only to be less effective in supporting growth but will add pressure to the ringgit at a time when there is already rising concern of capital outflows. Coupled with further weakness in domestic activities, we reckon that the BNM may decide to slash the OPR by 25 basis points to 2.75% the soonest in 1Q20.

Graph 16: Fed Fund Rate Vs. BNM OPR



Source: BNM, Bloomberg, Kenanga Research

Graph 17: US Fed on a More Aggressive Tightening Pace

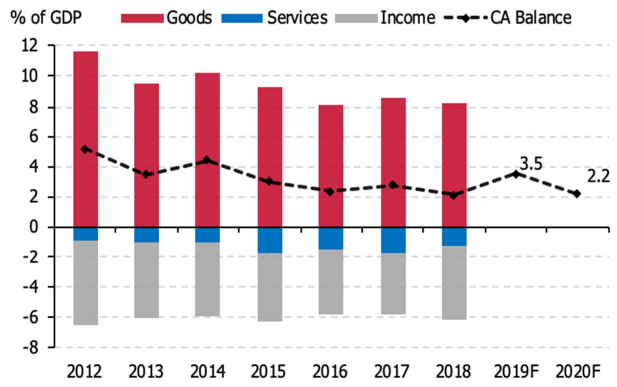


Source: BNM, Bloomberg, Kenanga Research

Current Account Position

Pick up in exports on rebound in chip demand. Two factors that got us slightly upbeat on exports' trend in the beginning of the year: pick up demand for E&E products and the signing of the phase one of US-China trade agreement. Both factors would help to lift the lackluster export growth in the coming months amid slower global demand for commodities. The signal of a possible sustained uptick in global exports of E&E goods especially in the region is South Korea's semiconductor shipments. South Korea is pivotal to Asia's supply chain as its shipments of semicon chips generally help predict exports in the region. After a sharp drop since early 2018, there are signs that export demand for DRAMS, a memory chip used to store data on servers and PCs, are beginning to improve. This is also in line with SIA's prediction that global semiconductor sales are to pick up in 2020 largely on whatever that drives demand for cloud computing, electrification of cars, wearable gadgetry and gaming. And all this coincides with the 5G service rollout of major telco's worldwide. International Data Corporation (IDC) also forecast an expansion for smartphone sales in 2020 (+1.5% vs. 2019: -1.4%) as it expects more users to upgrade to 5G enable smartphones and gadgets.

Graph 18: Decomposition of Current Account Balance



Source: CEIC, Kenanga Research

… but narrower current account surplus. We believe Malaysia's exports of E&E had bottomed in the 4Q19 (estimate: -8.5%) and would resume growth expansion in the 1H20. Having said that imports are also expected to improve as firms involved in the revived infrastructure projects are expected to accumulate capital goods and E&E manufacturers stocking up inventories of intermediate goods in anticipation of increase in orders. As a result, the trade balance of goods is likely to be reduced. Against an estimated merchandise goods balance of RM125.0b in 2019, the surplus in 2020 is expected to shrink to RM115.9b. Hence, the current account balance of payment is projected to narrow to 2.2% of GDP from an estimated 3.5% of GDP in 2019. This is one of the factors that might weigh on the underlying value of the ringgit.

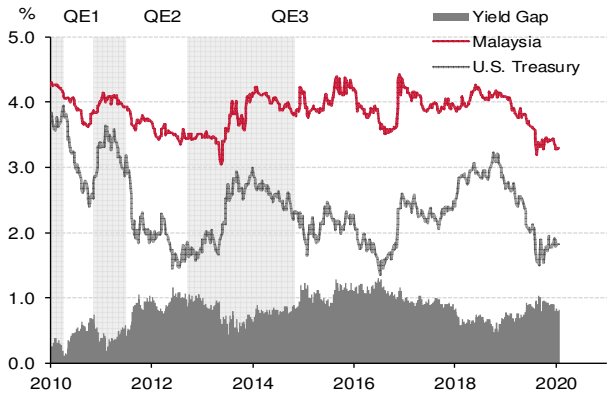
Capital Flows and Ringgit Outlook

Fed dovish stance triggers reversal in capital flows. Monetary policy easing will not only help robust credit growth but will also lead to strong currencies (sans USD) as well, if the Fed continues to stay dovish. Since August 2019, the dollar has weakened against some emerging market currencies, including the Russian ruble, Thai baht, Indonesian rupiah, Mexican peso and even the ringgit. The trend is likely to continue in 2020.

In search of higher yields. The channel to which the EM currencies are strengthening is largely via the capital market. And EM government bonds are a staple for portfolio managers looking for stable higher returns relative to secular low bond yields in the advanced economies. In December, foreign investors retained as net buyers of Malaysia's debt securities for the second successive month (+RM8.1b; Nov: +RM8.0b), hitting a 20-month high (RM204.7b; Nov: RM196.6b) raising foreign share of total Malaysia's debt to 13.8%, a 14-month high. For the whole of 2019, the total net foreign flow into government paper reached RM19.9b (2018: -RM21.9b), the highest in seven years, observed mostly in the 2H19 as investors chased higher-yielding emerging markets bonds following slew of policy rate cuts by the central banks in the advanced economies and amid positive developments surrounding the US-China trade negotiation. Meanwhile, foreign investors remained as net sellers of Malaysian equities for six straight months ending December with a net outflow of RM1.2b (Nov: -RM1.4b), bringing total net outflow to RM11.2b for 2019 (2018: -RM11.8b). Overall, capital market registered a larger inflow of foreign funds at RM6.9b in December (Nov: RM6.6b), bringing whole year total to RM8.7b (2018: -RM33.6b), the largest net inflow in six years.

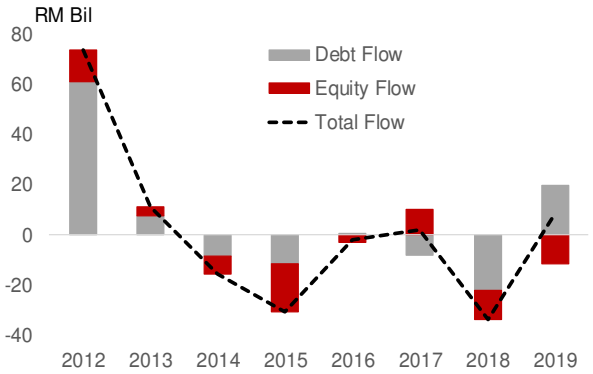
Phase one trade deal to boost "risk on". The Phase One trade deal has temporarily put an end to the US-China trade war. While the details and the eventual beneficiaries, if at all, are up for debate, the relative middle ground reached by these two economic giants has already given a boost to investor sentiment.

Graph 19: US Treasury vs. MGS (10-Year Yield)



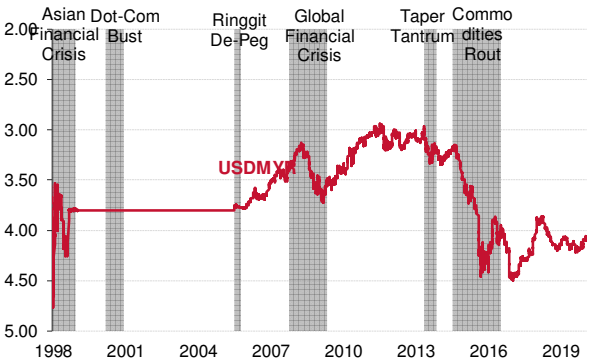
Source: BNM, Kenanga Research

Graph 20: Annual Net Foreign Capital Flows (RM Billion)



Source: BNM, Kenanga Research

Graph 21: USDMYR Trend



Source: Bloomberg, Kenanga Research

As geopolitical tensions subside, multinational corporations and money managers would once again feel comfortable investing in EM to pursue potentially attractive growth opportunities available in these regions. Though the US-China trade tension seemed to have subsided it doesn't mean there would not be any more flare up or dispute going forward. Nonetheless, we are hopeful that the honeymoon would at least last for another six months to one year or after the US presidential election when probably Phase Two would be up for discussion.

Ringgit 1H20 outlook: USDMYR to test 4.00. The enlarged capital flows in the last quarter of last year led to upward gyrations in most EM currencies which saw the ringgit appreciated by almost 1.0% to 4.09 against the USD in 2019, trailing behind the Thai baht (+8.4% against USD), Indonesian rupiah (+4.5%), Philippine peso (+3.8%) and Singapore dollar (+1.4%). We expect inflows to sustain particularly in the 1H20 amid a low interest rate environment brought about by the global accommodative monetary stance and a risk-on mode following the US-China trade truce. Hence, we expect the financial market and the ringgit to be more volatile and err on the upside with the USDMYR to test the 4.00-handle in the 1H2020.

USDMYR end-2020 outlook. However, we forecast the USDMYR to settle at around 4.10 by year-end. This is primarily because we still believe there are a number of key risk factors that might weigh on the ringgit namely:

- a bearish sentiment on domestic political issues;
- the expectation of a weak economic growth;
- the central bank likely to be biased towards monetary easing mode to support the slowing economy;
- a narrowing CA balance of payments surplus;
- inability to achieve fiscal targets against a backdrop of weaker growth;
- a relatively high government debt level;
- a further reduction in the OPR to support the slowing economy;
- concerns over the decisions by FTSE Russell on the possible exclusion of Malaysian government bonds from its global index.

On the flipside, the upside risk to the ringgit, which may partly explain its current gyrations and bias towards appreciation vis-à-vis the US dollar, would primarily be due to the:

- continued underlying weakness of the USD on the back of a weaker economy in 2020;
- which would trigger expectations that the Fed may further cut interest rates;
- a continued and sustainable risk on mode as investors seek higher yields;
- a steady and gradual appreciation of the Yuan;
- a widening US current account and budget deficits;
- PH government's ability to carry out its development plans and fix the fiscal balance sheet.

Table 5: Kenanga Macroeconomic Forecast

	2012	2013	2014	2015	2016	2017	2018	2019E	2020F
Real GDP (%YoY)	**5.5**	**4.7**	**6.0**	**5.0**	**4.2**	**5.9**	**4.7**	**4.5**	**4.3**
Consumer Price Index (avg.)	1.7	2.1	3.2	2.1	2.1	3.7	1.0	0.7	1.0-1.5
Current Account Balance (% of GDP)	**5.2**	**3.5**	**4.4**	**3.0**	**2.4**	**2.8**	**2.1**	**3.5**	**2.2**
Fiscal Balance (% of GDP)	-4.3	-3.8	-3.4	-3.2	-3.1	-3.0	-3.4	-3.5	-3.3
Unemployment rate (%)	**3.0**	**3.1**	**2.9**	**3.2**	**3.3**	**3.4**	**3.4**	**3.3**	**3.4**
Manufacturing output (%YoY)	5.2	4.2	6.1	4.8	4.3	6.1	4.8	3.5	3.1
Exports of goods (%YoY)	**0.7**	**2.5**	**6.4**	**1.6**	**1.2**	**18.9**	**6.8**	**-1.0 - -2.0**	**1.0-4.0**
Overnight Policy Rate (end period)	3.00	3.00	3.25	3.25	3.00	3.00	3.25	3.00	2.75
Exchange rate: Ringgit/US$ (avg.)	**3.0886**	**3.1501**	**3.2729**	**3.9074**	**4.1424**	**4.2996**	**4.0352**	**4.1427**	**4.1000**
Exchange rate: Ringgit/US$ (end period)	3.058	3.2757	3.4973	4.2943	4.4862	4.0465	4.1335	4.0910	4.1000
Palm oil: RM/tonne (avg.)	**2,764**	**2,371**	**2,384**	**2,166**	**2,649**	**2,791**	**2,235**	**2,244**	**2,700**
Palm oil: RM/tonne (end-period)	2,231	2,573	2,283	2,198	3,203	2,390	2,121	3,085	2,700
Crude Oil (Brent)- US$/barrel (avg.)	**111.68**	**108.7**	**99.45**	**53.56**	**45.1**	**54.75**	**71.57**	**64.21**	**60.00**
Crude Oil (Brent)- US$/barrel (end-perioc	111.11	110.8	57.33	37.28	56.82	66.87	53.80	66.00	60.00

Source: BNM, Ministry of Finance, Dept of Statistics, Bloomberg, CEIC, PORIM, Kenanga Research, F=Forecast, P=Preliminary for Fiscal Blance

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Published and printed by:

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