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Dr. Mohd Afzanizam Abdul Rashid | Chief Economist | 03-2088 8075 | afzanizam@bankislam.com.my
Adam Bin Mohamed Rahim | Economic Analyst | 03-2088 8399
Shafiz Jamaluddin | Economic Analyst| 03-2088 8399 | shafiz@bankislam.com.my
Nor Jannah Abdullah | Economic Analyst | 03-2782 1417 | norjannah@bankislam.com.my

# Economic Outlook 2H2020 – Gradual recovery

### Economic review for 1H2020 – MCO has put the economy almost at standstill

The ongoing Covid-19 pandemic has taken a serious toll on Malaysian economy. The government's initiatives to contain the fast-spreading virus via Movement Control Order (MCO) measures have pushed businesses to close their operations and trading activities. Thus far, the government has introduced RM295 billion economic stimulus packages (ESP) to ease the hardships brought by the pandemic. Apart from that, Bank Negara Malaysia (BNM) has decided to reduce the Overnight Policy Rate (OPR) by 50 basis points (bps) to 2.00% on 5 May. The central bank indicated that it has provided additional liquidity into the domestic financial market of about RM42 billion since March this year. As such the BNM will continue to monitor the development of Malaysian economy and will use its policy levers as appropriate to ensure a sustainable economic recovery.

The International Monetary Fund (IMF) had forecasted that Malaysian economy will contract by 3.8% (Previous forecast: -1.7%) in 2020 from 4.3% growth in 2019. In addition, the World Bank Group projected that Malaysia's Gross Domestic Product (GDP) to decline by 3.1% in 2020 due to sharp slowdown in economic activity in 1H2020. In the first three months of 2020, Malaysian GDP was flat at 0.7% year-on-year (y-o-y) from 3.6% expansion in the December quarter last year. Weaker external demand was the main culprit as Malaysia's net exports plunged by 37.0% in the 1Q2020, extending the 12.4% contraction in the previous quarter. Apart from that, investment activities were not forthcoming too with public (1Q2020: -11.3% vs. 4Q2019: -8.0%) and private investment (1Q2020: -2.3% vs. 4Q2019: 4.3%) dropped in the March quarter. On the supply side, services and manufacturing sectors which accounted for about 80.0% of the total GDP have softened during the 1Q2020. Services sector eased by 3.1% in 1Q2020, lower than the 6.2% expansion in 4Q2019. Similarly, manufacturing sector moderated to 1.5% in 1Q2020 after 3.0% previously.

The recent high frequencies data were also on dire straits. Total exports and imports plummeted by 9.7% (5M2019: -0.2%) and 7.5% (5M2019: 0.4%) respectively in the first five months of 2020. Consequently, the trade surplus narrowed from RM56.8 billion in 5M2019 to RM43.7 billion in 5M2020. Likewise, the Industrial Production Index (IPI) contracted by 7.7% in 4M2020 from 3.0% growth in the same period last year. All sectors were down and out led by Manufacturing industry (4M2020: -8.4% vs. 4M2019: 4.1%). On top of that, Mining (4M2020: -6.2% vs. 4M2019: -0.9%) and Electricity (4M2020: -5.3% vs. 4M2019: 5.8%) have also nosedived during that period. Nevertheless, Malaysia's PMI in June 2020 rebounded to above 50, suggesting improvement in industrial activities (June: 51.0 points vs. May: 45.6 points). The last time it stood above 50 points was in December 2019 (50.0 points) and was the highest since September 2018 (51.5 points). Output had accelerated to eight-year high as increasing numbers of firms reopened facilities and have raised factory operating capacity after Covid-19-related disruptions.

Meanwhile, Consumer Price Index (CPI) has been muted during 5M2020 at -0.6% from -0.1% in the same period last year. This was mainly attributed by the continuous decline in costs of Transport (5M2020: -9.1% vs. 5M2019: -4.5%) particularly for Operation of Personal Transport Equipment (5M2020: -11.2% vs. 5M2019: -5.2%). On further scrutiny, Fuels & Lubricating Personal Transport Equipment plunged by 16.9% in 5M2020 from 7.5% fall in 5M2019. This was in tandem with lower fuel prices whereby RON95, RON97 and Diesel which have been selling by an average price of RM1.67 per litre, RM2.01 per litre and RM1.81 per litre during 6M2020 respectively. This represents 18.4% (RM2.05 per litre), 20.0% (RM2.51 per litre) and 16.5% (RM2.17 per litre) lower from 6M2019. Such trend was also aligned with the average Brent crude price of USD42.21 per barrel during 6M2020 (6M2019: USD66.12 per barrel).

Malaysian labour market has been badly affected as the average unemployment rate (UR) increased to 3.9% in 4M2020 (4M2019: 3.4%). The closure of business operations in light of MCO measures starting in March has impacted to loss of employment. Apart from that, the private sector wage growth for manufacturing and service sector have moderated, easing by 2.1% in 1Q2020 from 4.3% growth in the preceding quarter. These suggest weak labour market conditions in the 1H2020 period.

**Table 1: Gross Domestic Product (GDP)**

| Y-o-Y% | Share (2019) | 1Q 2018 | 2Q 2018 | 3Q 2018 | 4Q 2018 | 1Q 2019 | 2Q 2019 | 3Q 2019 | 4Q 2019 | 1Q2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GDP** | **100.0%** | **5.2%** | **4.7%** | **4.4%** | **4.8%** | **4.5%** | **4.8%** | **4.4%** | **3.6%** | **0.7%** |
| Domestic Demand (excluding stocks) | 94.0% | 4.0% | 5.5% | 6.8% | 5.7% | 4.5% | 4.5% | 3.5% | 4.8% | 3.7% |
| **Private Sector** | **75.6%** | **5.2%** | **7.3%** | **7.9%** | **7.9%** | **6.0%** | **6.1%** | **5.5%** | **7.4%** | **4.7%** |
| -Consumption | 58.7% | 6.5% | 7.9% | 8.9% | 8.4% | 7.7% | 7.8% | 7.0% | 8.1% | 6.7% |
| -Investment | 16.8% | 1.1% | 5.6% | 5.0% | 5.0% | 0.6% | 1.5% | 0.4% | 4.3% | -2.3% |
| **Public Sector** | **18.5%** | **-0.3%** | **-1.7%** | **2.0%** | **-0.1%** | **-1.6%** | **-2.4%** | **-4.8%** | **-2.3%** | **-0.7%** |
| -Consumption | 12.2% | 0.2% | 2.9% | 5.0% | 3.9% | 6.3% | 0.3% | 1.0% | 1.3% | 5.0% |
| -Investment | 6.3% | -1.2% | -10.0% | -2.7% | -6.0% | -13.7% | -7.8% | -14.6% | -8.0% | -11.3% |
| **Net Exports of Goods and Services** | **7.0%** | **53.6%** | **-13.6%** | **-14.7%** | **12.0%** | **13.0%** | **32.9%** | **12.0%** | **-12.4%** | **-37.0%** |
| -Exports | 63.7% | 2.3% | 2.0% | 0.5% | 2.9% | 0.1% | 0.5% | -2.1% | -3.4% | -7.1% |
| -Imports | 56.7% | -2.0% | 3.7% | 2.3% | 2.0% | -1.6% | -2.3% | -3.5% | -2.4% | -2.5% |

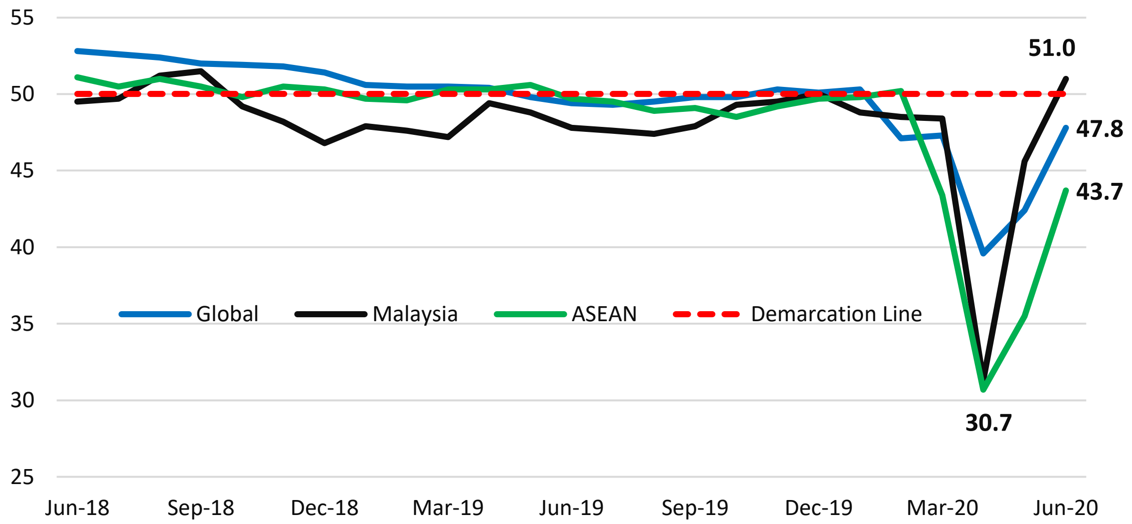
Sources: BNM & CEIC

**Table 2: Gross Domestic Product (GDP) y-o-y% by Industry**

| Y-o-Y % | Share (2019) | 1Q2018 | 2Q2018 | 3Q2018 | 4Q2018 | 1Q2019 | 2Q2019 | 3Q2019 | 4Q2019 | 1Q2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 7.1% | 3.1% | -1.5% | -1.2% | 0.2% | 5.8% | 4.3% | 4.0% | -5.7% | -8.7% |
| Mining & Quarrying | 7.1% | -2.5% | -1.3% | -5.1% | -0.1% | -1.5% | 1.0% | -4.1% | -3.4% | -2.0% |
| Manufacturing | 22.3% | 5.2% | 4.8% | 5.0% | 4.7% | 4.1% | 4.3% | 3.6% | 3.0% | 1.5% |
| Construction | 4.7% | 4.9% | 4.8% | 4.7% | 2.5% | 0.4% | 0.5% | -1.4% | 1.0% | -7.9% |
| Services | 57.7% | 6.5% | 6.6% | 7.3% | 6.9% | 6.4% | 6.1% | 5.8% | 6.2% | 3.1% |

Sources: CEIC, Strategic Management, Bank Islam

**Chart 1: Global Manufacturing PMI, points**

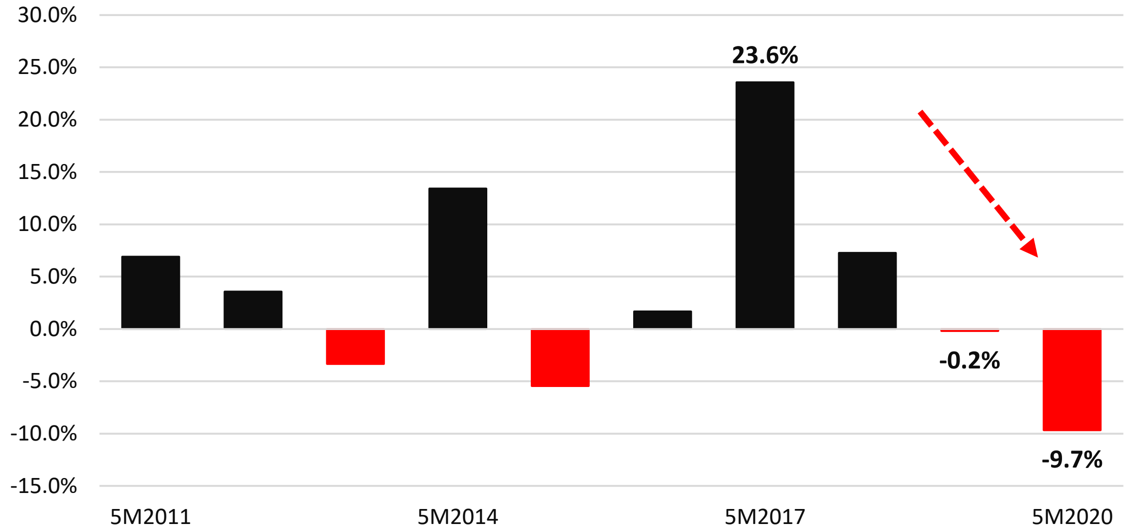



Source: Bloomberg

**Chart 2: Brent Price, USD per barrel**

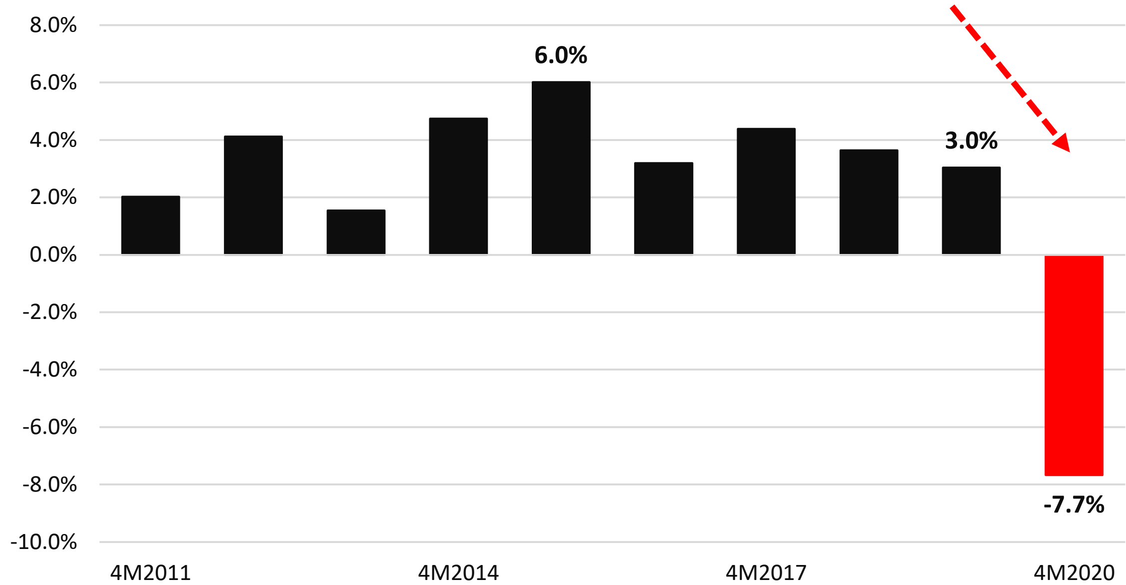

Source: Bloomberg

**Chart 3: Exports, y-o-y%**




Source: Bloomberg

**Chart 4: Industrial Production Index (IPI), y-o-y%**




Source: Bloomberg

**Financial markets were volatile**

It has been a topsy-turvy ride for the market participants in light of snowballing impacts from Covid-19 coupled with weak crude oil prices. Meanwhile, the central banks have pulled out all the stops to keep money flowing and governments are pushing out stimulus measures. Despite the gradual lifts of lockdown across the map, the uncertainty remains prevalent. The latest figure by the World Health Organisation (WHO), the global new confirmed cases have spiked up to 163,865 cases on 30 June from 122,917 cases on 1 June. As such, this would weigh on the investors' sentiments and delay economic recovery.

On local front, the USDMYR depreciated by 4.6% to RM4.286 as at 30 June from RM4.091 on 1 January this year as downside risks have elevated amid Covid-19 outbreak which has halted business activities across the globe. Similarly, foreign funds have been net sellers in the equities market with total net outflows standing at RM16.1 billion for period between January and June this year (6M2020) as compared to RM4.6 billion of net outflows recorded in 6M2019. Meanwhile, the FBMKLCI reached its lowest at 1,219.72 points on 19 March amid major sell-off on the back of enforcement of MCO on 18 March and the crash in crude oil prices. However, it hit its highest close at 1,575.27 points on 10 June as the government has eased the preventive measures with the index currently hovering at 1,500.00 points. The market's earnings momentum is still expected to be weak with the exception of the gloves sector. Rising earnings estimates in the gloves sector would be insufficient to give traction to the market earnings revision cycle. For now, only Top Glove and Hartalega are in the benchmark FBM KLCI-30 index with a combined weighting of 9.0%. The market's earnings are anchored by the index heavyweight banking sector, which has the highest weighting at 26.0%. After a disappointing 1Q2020, the banks' subdued earning deliverance may extend into the next few quarters because of rising credit costs from deterioration in asset quality. Earnings wise, 2020 will be an exceptional year where many corporates are expected to take a one-time extreme hit to earnings because of the economic impact from the Covid-19 restrictions. Our sense is that the corporates may take the opportunity to embark on kitchen sinking exercises this year. We may see a front loading of provisions or write-offs, which would further depress the earnings base this year. As such, the market is projecting a -14.7% decline in earnings for 2020. From a valuation perspective at the current level of 1,500 points, the market is trading at a PE of 19.8x (based on 2020 earnings consensus) or more than three standard deviations above its mean.Therefore, the valuation is unattractive if one were to look at the current year's earnings which is understandably going to be very bad due to the impact from the Covid-19 lockdowns in 1H2020. Moreover, the rally in glove makers in particular have inflated somewhat the market's forward PE. On the flipside, the earnings turnaround should be significant moving into 2021. The earnings rebound will be driven by a combination of a low base effect and a gradual recovery in revenue. When compared to the previous earnings recovery phase in 2019 at a tune of +12.9%, earnings turnaround is expected to be stronger in 2021 at 20.2% based on Bloomberg consensus for 2021.

Be that as it may, the uncertainties remained persisted and safe haven assets would be in demand as risk aversion creeps in. This has caused the 3-Y, 5-Y and 10-Y Malaysian Government Securities (MGS) yielded lower to 2.23% (2 January: 3.01%), 2.44% (2 January: 3.18%) and 2.85% (2 January: 3.13%) as at 30 June 2020. Nonetheless, the foreign holders continued to off load local bond market, registering net outflows of RM17.4 billion during the first five months this year as opposed to net outflows of RM8.9 billion in 5M2019. In addition, the gross issuance of local govvies (MGS and GII) have accelerated to RM65.7 billion during 5M2020 from RM59.7 billion in the same period last year. The Ministry of Finance (MOF) has indicated the fiscal deficits would go as high as 5.8% to 6.0% of GDP this year (2019: -3.4%). Widening fiscal deficit would mean more issuance of government securities.

**Table 3 : Sector Weightings in the FBM KLCI**

| Sector Weightings in the FBM KLCI | | |
|---|---|---|
| **Sector** | **Market Cap (RM Billion) as at 30 June 2020** | **Percentage** |
| Banks | 248.5 | 25.5% |
| Consumer Product and Services | 98.0 | 10.1% |
| Energy | 20.4 | 2.1% |
| Healthcare and Rubber Gloves | 135.7 | 13.9% |
| Industrial product and Services | 71.5 | 7.3% |
| Materials | 18.3 | 1.9% |
| Plantation | 110.3 | 11.3% |
| Real Estate | 14.4 | 1.5% |
| Telecommunication | 123.7 | 12.7% |
| Transportation | 34.2 | 3.5% |
| Utilities | 99.7 | 10.2% |
| **Total Market Cap (RM Billion)** | **974.6** | **100.00%** |

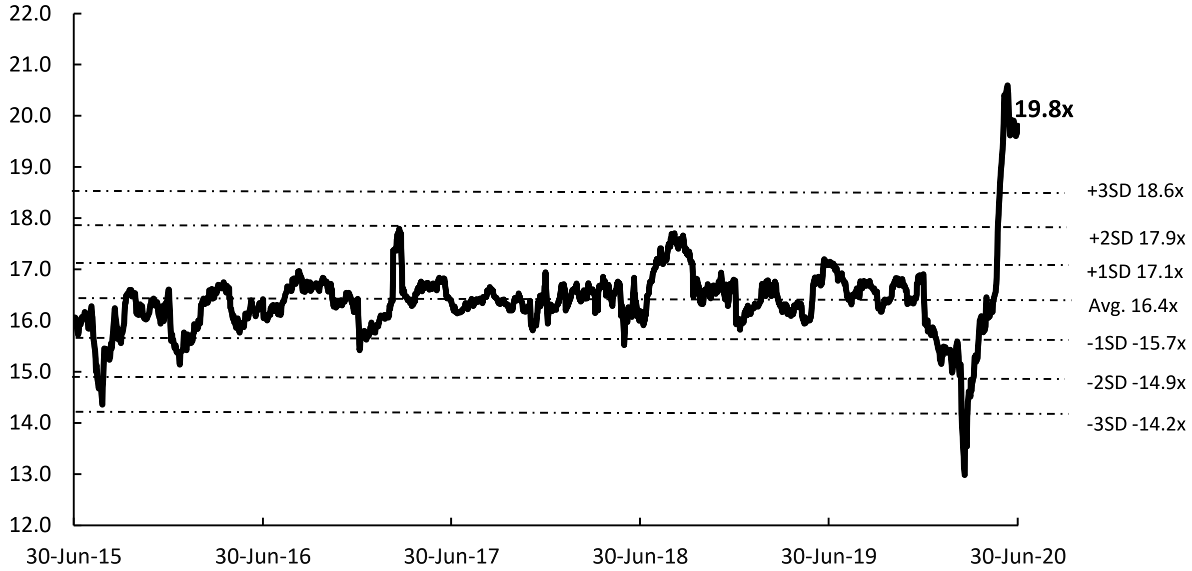
Source: Bloomberg

**Table 4 : Earnings Growth Trajectory of the FBM KLCI**

| Year | Earnings Per Share (EPS) of FBM KLCI | EPS Growth, y-o-y% |
|---|---|---|
| 2021F | 91.7 | 20.2% |
| 2020F | 76.3 | -14.7% |
| 2019 | 89.5 | 12.9% |
| 2018 | 79.3 | -26.5% |
| 2017 | 107.9 | 9.8% |
| 2016 | 98.3 | 4.4% |
| 2015 | 94.2 | -13.0% |

Source: Bloomberg

**Chart 5 : FBM KLCI P/E(x) Band based on 2020 Earnings Consensus**




Source: Bloomberg

**Chart 6: USDMYR**


Source: Bloomberg

**Chart 7: FBMKLCI, points**


Source: CEIC

**Table 5: Foreign Fund Flows for Equities (RM million)**

| | Foreign Institutional | Foreign Retail | Local Institutional | Local Nominees | Local PDT | Local Retail |
|---|---|---|---|---|---|---|
| 2010 | 15,226 | (236) | (7,576) | (4,647) | (2) | (2,765) |
| 2011 | 2,236 | (207) | 5,688 | (4,935) | (71) | (2,711) |
| 2012 | 13,817 | (180) | (4,152) | (5,143) | (74) | (4,269) |
| 2013 | 2,995 | (423) | 10,278 | (6,326) | (68) | (6,455) |
| 2014 | (6,611) | (270) | 10,694 | (2,484) | (51) | (1,278) |
| 2015 | (19,380) | (282) | 23,829 | (2,352) | (53) | (1,762) |
| 2016 | (2,938) | (225) | 4,520 | (1,413) | (26) | 82 |
| 2017 | 11,117 | (353) | (5,794) | (3,835) | (39) | (1,096) |
| 2018 | (11,544) | (155) | 10,496 | (2,740) | (51) | 3,994 |
| 2019 | (10,996) | (148) | 7,682 | 891 | (34) | 2,605 |
| 6M2020 | (16,147) | (151) | 9,073 | 923 | (17) | 6,418 |

Source: CEIC

**Table 6: Foreign Fund Flows for Bonds (RM million)**

| RM Million | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Total | BNM Bills | BNNN/BNMN-I | Tbills | MITB | MGS | PDS & Others | GII |
| 2009 | 22,304 | 7,114 | 644 | 432 | 25 | 12,035 | 2,032 | 21 |
| 2010 | 51,742 | 19,337 | 363 | 19 | (60) | 32,777 | (847) | 153 |
| 2011 | 43,511 | 13,440 | (70) | 258 | (23) | 28,770 | (4,232) | 253 |
| 2012 | 60,928 | 30,768 | 3,447 | (288) | (67) | 27,164 | (800) | 1,331 |
| 2013 | 8,031 | (17,048) | 15,155 | 333 | 110 | 7,407 | 166 | 1,409 |
| 2014 | (8,313) | (7,601) | (9,127) | (878) | (88) | 8,207 | (1,764) | 1,857 |
| 2015 | (11,270) | (26,006) | (10,872) | 2,495 | 534 | 16,834 | (425) | 6,480 |
| 2016 | 825 | (15,557) | (79) | (1,107) | (452) | 6,334 | 1,000 | 9,899 |
| 2017 | (7,975) | (3,724) | - | 753 | 802 | (4,041) | 922 | (3,032) |
| 2018 | (21,865) | 650 | - | 325 | 76 | (18,287) | (2,517) | (2,603) |
| 2019 | 19,852 | - | - | (1,930) | (291) | 17,735 | 327 | 5,202 |
| 5M2020 | (17,352) | - | - | 604 | 53 | (14,783) | (1,018) | (2,966) |

Source: CEIC

## Economic outlook 2H2020

Global economic prospects are expected to improve in 2H2020 though at a slower pace as many countries have started to lift up their economy from coronavirus-related lockdowns and strict containment measures. Be that as it may, global recession is still expected in 2020 as the alarming virus has put the economy in a survival mode particularly in the 1H2020. As such, it takes some times for the economy to regain its momentum and gradually recover in 2H2020. Thus far, the International Monetary Fund (IMF) has downgraded its projection for global economic growth by 1.9 percentage points in 2020 from its previous estimate made in April this year. As such, global Gross Domestic Product (GDP) is envisaged to contract by 4.9% in 2020 (Previous forecast: -3.0%) from 2.9% expansion in the previous year. The changes were made following deeper downturn and severe economic fallout than anticipated in light of Covid-19 pandemic. In a similar move, the Organization for Economic Cooperation and Development (OECD) anticipates that the global economy to contract by 7.6% in 2020 (2021: +2.8%) in the absence of vaccines and if the second outbreak occurs by the end of the year. However, in another scenario, where the second wave is avoided, global GDP is expected to fall by 6.0% in 2020 (2021: 5.2%). On top of that, the World Trade Organisation (WTO) is predicting a sharp decline in international commerce this year where global merchandise trade is projected to nosedive between 13.0% and 32.0% in 2020 (2019: -0.1%). Again, this was ascribed to the unprecedented nature of the Global Health Crisis (GHC).

Taking cue from recent development, central banks across the globe have been actively reducing their benchmark interest rate and continue their accommodative stands in order to support the slowing economic activities. At the same time, governments have also provided their fiscal stimulus to spur the economy by assisting businesses and citizens. Apart from that, the Covid-19 has also taken a toll on the unemployment around the world. UR in the US remained high at 14.7% in April and 13.3% in May while Malaysia's UR increased to 5.0% in April (March: 3.9%) as MCO which was put in place for full month. We foresee the UR could rise to between 4.5% and 5.0% during May and June before the jobless rate starts to decline to around 4.0% to 4.5% in the 2H2020. As such, rising in jobless rate would result in lower consumption and impinge the GDP growth. Despite the virus has been brought under control, the fears of second wave of Covid-19 has risen as Beijing faced an outbreak after 50 virus-free days while New Zealand has its first cases after 24 days. As such, this could delay the economic recovery in 2H2020.

In light of this, the government has broadened the fiscal responses to RM295 billion in order to mitigate the severe effects post MCO, as well as to alleviate economic recovery in the near future. Meanwhile, we envisage the BNM would keep the OPR at 2.0% during its meeting on 7 July, complementing the fiscal measures. However, we do not discount the interest rate cut as the BNM still have more room to prescribe if the economic activities worsen. This is especially true when the headline CPI is expected to contract by -0.5% this year as fuel prices are likely to remain low. All in all, we are maintaining our Malaysia's GDP forecast **at -1.5% for 2020 (2019: 4.3%). This would mean that the economy will register a negative growth of 7.0% and 2.8% in 2Q2020 and 3Q2020 before recovering to 2.7% in the final quarter this year.** Similarly, we are keeping our year-end FBMKLCI target at 1,500 points as corporate earnings growth would remain lethargic especially the key sectors such as Banks and Oil & Gas. Moving into 2H2020, we expect 3-Y, 5-Y and 10-Y MGS yields to be fairly low at 2.41%, 2.59% and 2.89% respectively in light of risk aversion among the investors. As for Brent crude, we bumped up slightly our year-end forecast from USD35 per barrel to USD42 per barrel. This was premised on the gradual reopening of the global economy and strong commitment among the OPEC+ countries to cut the oil production.

## Table 7: GDP Forecast-Demand Side, y-o-y%

| Y-o-Y% | Share (2019) | 1Q 2019 | 2Q 2019 | 3Q 2019 | 4Q 2019 | 1Q2020 | 2Q2020F | 3Q2020F | 4Q2020F |
|---|---|---|---|---|---|---|---|---|---|
| **GDP** | **100.0%** | **4.5%** | **4.8%** | **4.4%** | **3.6%** | **0.7%** | **-7.0%** | **-2.8%** | **2.7%** |
| Domestic Demand (excluding stocks) | 94.0% | 4.5% | 4.5% | 3.5% | 4.8% | 3.7% | -1.7% | 2.7% | 3.2% |
| **Private Sector** | **75.6%** | **6.0%** | **6.1%** | **5.5%** | **7.4%** | **4.7%** | **-1.7%** | **3.5%** | **5.2%** |
| -Consumption | 58.7% | 7.7% | 7.8% | 7.0% | 8.1% | 6.7% | 3.3% | 5.4% | 6.0% |
| -Investment | 16.8% | 0.6% | 1.5% | 0.4% | 4.3% | -2.3% | -16.5% | -3.1% | 2.0% |
| **Public Sector** | **18.5%** | **-1.6%** | **-2.4%** | **-4.8%** | **-2.3%** | **-0.7%** | **-1.8%** | **-1.3%** | **-3.2%** |
| -Consumption | 12.2% | 6.3% | 0.3% | 1.0% | 1.3% | 5.0% | 5.2% | 3.5% | 0.1% |
| -Investment | 6.3% | -13.7% | -7.8% | -14.6% | -8.0% | -11.3% | -16.9% | -11.0% | -8.9% |
| **Net Exports of Goods and Services** | **7.0%** | **13.0%** | **32.9%** | **12.0%** | **-12.4%** | **-37.0%** | **-80.5%** | **-83.3%** | **4.2%** |
| -Exports | 63.7% | 0.1% | 0.5% | -2.1% | -3.4% | -7.1% | -13.1% | -8.2% | 2.1% |
| -Imports | 56.7% | -1.6% | -2.3% | -3.5% | -2.4% | -2.5% | -5.0% | 0.7% | 1.8% |

## Table 8: GDP Forecast-Supply Side, y-o-y%

| Y-o-Y % | Share (2019) | 1Q2019 | 2Q2019 | 3Q2019 | 4Q2019 | 1Q2020 | 2Q2020F | 3Q2020F | 4Q2020F |
|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 7.1% | 0.4% | 4.3% | 4.0% | -5.7% | -8.7% | -9.2% | -3.7% | 1.2% |
| Mining & Quarrying | 7.1% | 4.1% | 1.0% | -4.1% | -3.4% | -2.0% | -6.2% | -2.0% | 0.6% |
| Manufacturing | 22.3% | -1.5% | 4.3% | 3.6% | 3.0% | 1.5% | -9.7% | -4.9% | 3.4% |
| Construction | 4.7% | 6.4% | 0.5% | -1.4% | 1.0% | -6.0% | -9.3% | 1.6% | 4.0% |
| Services | 57.7% | 5.8% | 6.1% | 5.8% | 6.2% | 3.1% | -6.4% | -2.8% | 3.3% |

Source: Bank Islam, CEIC

## Table 9: Global Policy Rate, %

| Policy rates | Jan-20 | Feb-20 | Mar-20 | Apr-20 | May-20 | Jun-20 | July-20* |
|---|---|---|---|---|---|---|---|
| **Advanced countries** | | | | | | | |
| US (Fed Fund Rate) | 1.75 | 1.75 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Japan (Policy Balance Rate) | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| Euro Zone (Main Refinancing Rate) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| UK (Bank Rate) | 0.75 | 0.75 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Canada (ON Lending Rate) | 1.75 | 1.75 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| **Latin America** | | | | | | | |
| Mexico (ON Rate) | 7.25 | 7.00 | 6.50 | 6.00 | 5.50 | 5.00 | 5.00 |
| Brazil (Selic Rate) | 4.50 | 4.25 | 3.75 | 3.75 | 3.00 | 2.25 | 2.25 |
| Argentina (LELIQ 7D Notes Rate) | 50.00 | 40.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 |
| **Eastern Europe** | | | | | | | |
| Russia (Key Rate) | 6.25 | 6.00 | 6.00 | 5.50 | 5.50 | 4.50 | 4.50 |
| Ukraine (Discount Rate) | 11.00 | 11.00 | 10.00 | 8.00 | 8.00 | 6.00 | 6.00 |
| Turkey (1W Repo Rate) | 11.25 | 10.75 | 9.75 | 8.75 | 8.25 | 8.25 | 8.25 |
| **Asia** | | | | | | | |
| China (1Y Loan Prime Rate) | 4.15 | 4.05 | 4.05 | 3.85 | 3.85 | 3.85 | 3.85 |
| India (Repo Rate) | 5.15 | 5.15 | 4.40 | 4.40 | 4.00 | 4.00 | 4.00 |
| Indonesia (7D Repo Rate) | 5.00 | 4.75 | 4.50 | 4.50 | 4.50 | 4.25 | 4.25 |
| Thailand (1D Repo Rate) | 1.25 | 1.00 | 0.75 | 0.75 | 0.50 | 0.50 | 0.50 |
| South Korea (Base Rate) | 1.25 | 1.25 | 0.75 | 0.75 | 0.50 | 0.50 | 0.50 |
| Philippines (O/N Lending Rate) | 4.00 | 3.75 | 3.25 | 2.75 | 2.75 | 2.25 | 2.25 |
| Australia (Cash Rate) | 0.75 | 0.75 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| New Zealand (Cash Rate) | 1.00 | 1.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Malaysia (OPR) | 2.75 | 2.75 | 2.50 | 2.50 | 2.00 | 2.00 | 2.00 |

Source: Bank Islam, CEIC

*As at 3 July 2020

## Sector view

Economic outlook remains highly uncertain as the Covid-19 situation is very fluid. This would mean strict adherence to Standard Operating Procedure (SOP) and health protocols will continue to be observed. This would entail cost which then will impede the economies of scale. As such, cash preservation is the immediate priority as revenue stream is very unstable. There seems to be a glimmer of hope when key sectors have seen a more lively activities. For one, the automotive Total Industry Volumes (TIV) has shot up to 22,960 units in May from an all-time low of 141 units in April. Crude Palm Oil (CPO) production stood at 1.65 million metric tonne (MT) for the month of April and May which is higher than the 1Q2020 average of 1.3 million MT. In that sense, MCO has not severely affected the CPO production. It is also heartening to see the Malaysia's PMI index has surpassed the 50-point demarcation line in June. This would mean rehiring activities are expected to happen as companies are getting ready to ramp up their production.

**Table 10: Sector View**

| Sector | Rating | Remarks |
|---|---|---|
| 1. Healthcare | Positive | - Maintain positive call.<br>- Pockets of opportunity have emerged during Covid-19 crisis.<br>- Plenty of infrastructure investments and technological advancement especially for life-saving protective equipment and vaccinations are expected to evolve moving forward.<br>- Expanding and aging population.<br>- Increasing number of people with chronic and long-term conditions, as well as Non Communicable Disease (NCD) such as cardiovascular, cancer and diabetes would result in higher demand for healthcare services.<br>- Medical tourism is also seen as the driver of growth for the healthcare industries. |
| 2. Manufacturing - Rubber Gloves | Positive | - Maintain positive call.<br>- The demand for rubber gloves have skyrocketed due to the Global Health Crisis (GHC) while the customer base has been diversified.<br>- According to Top Glove, rubber glove demand is expected to grow from a pre-Covid level of 8% to 10% per annum, to 12% to 15% per annum post-Covid, on the back of increased usage in both the medical and non-medical sectors, as well as adhering to personal hygiene protocols.<br>- Past capacity expansions have served the industry well. Players are able to meet huge demand from customers. |
| 3. Manufacturing-Semiconductor | Neutral | - Maintain neutral call.<br>- Global Semiconductor Sales (GSS) moderated by 5.8% in May (April: 6.1%) due to economic turmoil caused by Covid-19.<br>- However, the uncertainty has escalated due to the disruption in global supply chains amid Covid-19 pandemic. This was aligned with the contraction of worldwide smartphone shipment which has plummeted by 11.7% in 1Q2020.<br>- Be that as it may, PENJANA's tax incentives for companies to relocate to Malaysia could have positive impacts for the long term.<br>- The new 5G product launches and higher demand for E&E related product would lift up this sector moving forward. |

| Sector | Rating | Remarks |
|---|---|---|
| 4. Construction | Neutral | - Maintain neutral call.<br>- China Communications Construction East Coast Rail Link (CCC-ECRL) has received approval to resume work on some of the sites involving tunnels and viaducts.<br>- Be that as it may, social distancing measures and stringent standard operating procedure (SOP) at work site will bring down productivity.<br>- High Speed Rail (HSR) project with Singapore is deferred to December 2020.<br>- Discussion on Rapid Transit System (RTS) Link project with Singapore is still ongoing with deadline for signing agreements have been extended to end of July this year.<br>- In addition, persistent property overhang will negatively affect property related construction. |
| 5. Automotive | Neutral | - Maintain neutral call.<br>- Total Industry Volume (TIV) slumped by 49.3% y-o-y in 5M2020 (5M2019: 12.7%). Consumers' sentiments have deteriorated, following negative impacts of Covid-19.<br>- Sales volume for 2H2020 is expected to be lower as reflected by the latest forecast from the Malaysian Automotive Association (MAA). TIV forecast has been revised down from the 607,000 units (projection made in January 2020) to 400,000 units in 2020 (2019: 604,287 units).<br>- However, sales tax incentives for purchase of passenger cars could increase vehicles sales in 2H2020. Previous 10% sales tax will be reduced to 0% for completely knocked down (CKD) model and 5% for completely build-up (CBU).<br>- National Automotive Policy (NAP) 2020 that integrates technology by developing Next Generation Vehicle (NxGV) technology ecosystem and Mobility as a service (Maas) transportation ecosystem will likely to spark a better prospect for the industry. |
| 6. Power | Neutral | - Downgrade to neutral.<br>- Following the recent Economic Stimulus Package (ESP) announcement, the Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) will open for bids quota of 1,400 megawatt (MW) for solar power generation. This is expected to involve RM5 billion of private investments. Therefore, the Renewable Energy (RE) would continue to gain traction.<br>- In addition, the government has extended Green Investment Tax Allowance (GITA) and Green Investment Tax Exemption (GITE) to 2023 in order to achieve 20% RE Capacity Mix by 2025.<br>- On the other hand, the Electricity Commission has reduced the electricity tariff surcharge from 2.00sen/kWh to 0.00sen/kWh for non-domestic users (i.e. commercial and industrial users) for 2H20. This is part of the ICPT (Imbalance-Cost-Past-Through) mechanism. Meanwhile, zero surcharge was maintained for domestic users<br>- With no surcharge for domestic users and cheaper tariffs for non-domestic users, Tenaga Nasional Berhad's revenue base could face some reduction. |

| Sector | Rating | Remarks |
|---|---|---|
| 7. Plantation | Neutral | - Maintain neutral call.<br>- Total exports for palm oil has contracted by 23.9% during 5M2020 (5M2019: 12.6%) while exports to India have fallen significantly by 93.0% the first five months of 2020 (5M2019: 75.8%) while exports to China has moderated by 0.8% in 5M2020 (5M2019: 26.7%) amid weak demand due to Covid-19.<br>- We foresee an upside potential for Malaysia's CPO export moving forward as Malaysia has lowered its export duty on CPO to 0.0% for June from 4.5% in May (April: 5.0%). |
| 8. Telecommunication | Neutral | - Maintain neutral call.<br>- The ESP has allocated RM3 billion for the rollout of National Fiberisation and Connectivity Plan (NFCP) initiatives throughout 2020 which could boost up the sector.<br>- Malaysian Communications and Multimedia Commission (MCMC) will accelerate the implementation of the infrastructure-based projects which is in line with the ESP, with a particular focus on Strategy III: Promoting Quality Investment.<br>- In addition, the telcos are also committed to invest an additional RM400 million until the 2Q2020 to increase network coverage and capacity to maintain a high and sustainability telecommunications network availability and quality.<br>- On top of that, internet connectivity would be upgraded in order to support e-learning as well as to provide accessibility for activities post Covid-19. |
| 9. Education | Neutral | - Downgrade to neutral.<br>- The National Security Council has approved the ministry's proposal to reopen the both private higher educational institutions and public higher educational institutions.<br>-The proposal also includes allowing international students to return.<br>-Notwithstanding this, new enrolments from international students' fare may take a breather.<br>-Higher education institutions could continue to increase promotional activities to attract international students to enroll. However, the fear of a re-occurring pandemic would deter overseas study plans and students may prefer to further studies in their home country.<br>- As international student fees are approximately 20% higher compared to local students fees, higher education institutions will face financial pressure if enrollment of international students remain on the downtrend. |

| Sector | Rating | Remarks |
|---|---|---|
| 10. Property - Residential | Neutral | - Maintain neutral call.<br>- Not so much improvement in residential property market as it continued to be affected by the affordability issues and higher level of unsold stock amid weaker economic growth.<br>- Malaysians generally cannot afford to buy a house in view of higher average house price (4Q2019: RM424,901 vs. 4Q2018: RM421,363).<br>- The unsold units (1Q2020: 123,157 units vs. 4Q2019: 120,130 units) will continue to be the mainstay for the industries and therefore, it's a buyers' market. The breakdown - Overhang (1Q2020: 29,698 units vs. 4Q2019: 30,664 units), Under construction (1Q2020: 73,971 units vs. 4Q2019: 72,692 units) and Not constructed (1Q2020: 19,488 units vs. 4Q2019: 16,774 units).<br>- However, policy easing measures such as stamp duty and Real Property Gain Tax (RPGT) exemptions plus the lifting of 70% financing margin limit on third property onward should reduce the number of overhang properties.<br>- House Ownership Campaign (HOC) is back. This will encourage home ownership among Malaysians and directly will decrease the number of overhang stocks. |
| 11. Banking | Neutral | - Maintain Neutral.<br>- The asset quality continued to deteriorate as reflected in Gross Impaired Ratio (GIR) which has increased gradually from 1.53% in December to 1.55% in May this year.<br>- Meanwhile, the total financing growth remained soft at 3.9% in May as compared to 4.0% in April.<br>- The banking industry's profitability will be weighed by the NIM compression as OPR was already reduced by 100 bps to 2.0% as at 18 June.<br>- Apart from that, the loan moratorium initiatives will negatively affect the bank's profitability especially for hire purchase and Islamic fixed rate financing.<br>- Despite that, Total Capital Ratio of 18% which is higher than the minimum level of 10.5% and Liquidity Coverage Ratio (LCR) of 140% as of May (minimum = 100%) would mean banks have the resources to grow their assets. Apart from that, the decline in bond yields should help improve banks non fund based income. |

| Sector | Rating | Remarks |
|---|---|---|
| 12. Oil & Gas | Neutral | - Maintain neutral call.<br>- The Covid-19 pandemic outbreak has exerted further pressure on crude oil prices amid deterioration in demand due to enforcement of preventive measures across the globe.<br>- In this respect, the International Energy Agency (IEA) has forecasted global oil demand to decline by 8.6 million barrels per day (mbpd) in 2020.<br>- As such, the OPEC+ and other oil producing countries have agreed to cut the crude oil production by 9.7 million barrels per day (mbpd) starting on 1 May until 30 June, representing 10% of global supply. Thereafter, such pact will last for 22 months whereby the extent of production reduction will be gradually reduced.<br>- However, we are remain wary whether the reduction would have material impact on prices as steady increase in US shale oil production while increase in US crude oil stocks would undermine OPEC's move.<br>- As such, crude oil prices are expected to remain fairly low this year at around USD35 per barrel. Oil majors are expected to revise their capex plans as a result. This would have significant impact on the services companies.<br>- Despite that, downstream activities especially in the RAPID Pengerang projects will benefit the oil storage activities. PETRONAS is not expected to cut their capex for domestic projects. As such, there should be a decent activities in the sector.<br>- Not to mention the commitment by the OPEC+ countries to cut oil production in order to stabilise the crude oil prices. |
| 13. Property- Shop units | Negative | - Maintain negative call.<br>- The unsold units increased by 2.9% q-o-q to 12,952 units in 1Q2020 from 12,592 units in 4Q2019.<br>- E-Commerce is expected to gain prominence following the Covid-19. This would affect the demand for the shop units. |
| 14. Textile | Neutral | - Maintain neutral call.<br>- Textiles exports slumped by 39.6% y-o-y in May 2020 from 47.2% fall in the preceding month (5M2020: -19.8% vs. 5M2019: 2.3%). This was among the lowest reading in record, suggesting lower demand for Malaysian textile industry. |

| Sector | Rating | Remarks |
|---|---|---|
| 15. Retail Space | Avoid | - Maintain avoid for this sector.<br>- Overall occupancy rate for shopping complex has inched up to 79.4% in 1Q2020 from 4Q2019 at 79.2%.<br>- Brick and mortar outlets have gradually shifted to online platforms, driven by rapid changes in the retail trends.<br>- On top of that, Covid-19 crisis and the preventive measures have caused higher demand for online purchases. As such, we envisage the occupancy rate should remain flat. |
| 16. Steel | Negative | - Maintain negative call.<br>- A drastic decline in steel demand due to Covid-19 pandemic crisis, as customers hit by shutdown and disrupted supply chains.<br>- According to South East Asia Iron and Steel Institute (SEAISI) e-Conference, steel demand is expected to decline by 8.0% in Malaysia.<br>- Lower average price of mild steel round bars 10mm (Central) at RM2,385.51 per metric tonnes in 5M2020 as compared to RM2,451.62 in 5M2018 (5M2019: RM2,383.02). |