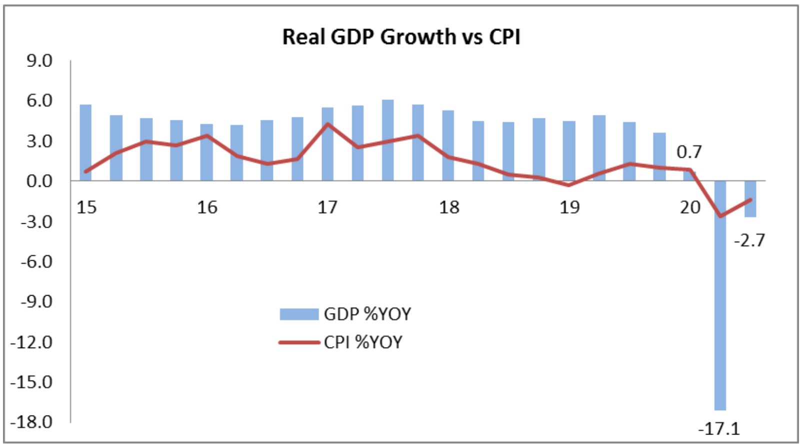
Stronger than expected rebound in 3Q GDP

The Malaysian economy rebounded strongly in 3Q20, registering a much smaller contraction of 2.7% YOY (2Q: -17.1% YOY) spurred by a hefty turnaround in net exports and encouraging improvement in domestic demand. There was noticeable improvement across the board even though the pace of recovery was uneven. Manufacturing supported by both domestic and export-oriented sectors rebounded to positive growth while the services sector was still plagued by the pandemic.

Despite the upside surprises in 3Q GDP, we are revising our full year GDP projection to between -5.3% to -5.8% (YTD: -6.4% YOY), foreseeing a derail in the recovery momentum in 4Q in the wake of another round of virus outbreak since the end of September that has prompted reintroduction of Conditional MCO in most states of Malaysia, which collectively account for about 85% of the country GDP. We however expect the economic impact to be less severe this time around compared to the daily loss of RM0.9-1.5bn during last March/ April, given that economic sectors are still allowed to operate subject to certain physical distancing rules and policies. While our base case do not expect further OPR cut by BNM, we believe the door is not completely close for a move should downside risks materialize. The current state of the recovery remains uneven and fragile and could be complicated by labour market weakness and soft consumer and business sentiments.

3Q bounced back more than expected by 18.2% QOQ, narrowing the annual decline to 2.7% YOY

The Malaysian economy rebounded strongly in 3Q20, registering a much smaller contraction of 2.7% YOY (2Q: -17.1% YOY) spurred by a hefty turnaround in net exports and encouraging improvement in domestic demand. This came in better than market consensus estimate of -4.0% and our expectation for a 5.7% decline. On a QOQ basis, economic activities bounced back strongly by 18.2%, after falling 16.5% in 2Q20. **Net exports and manufacturing joined government spending in registering positive gains in 3Q while the agriculture sector failed to sustain its gain.**



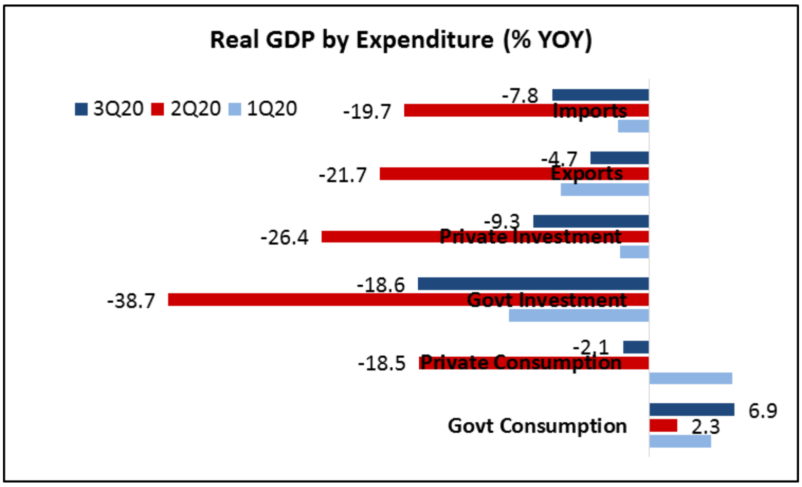
Much smaller contraction in domestic demand lifted by recovery in both consumption and investment

Domestic demand witnessed commendable recovery, with both the private and public sectors expanded QOQ. This **narrowed the YOY decline in aggregate domestic demand to only 3.3% YOY in 3Q** (2Q: -18.7%). **Private consumption fell at a much slower pace** of 2.1% YOY in 3Q (2Q: -18.5%) **while public consumption**

continued to increase, with gains picking up to +6.9% YOY (2Q: +2.3%) as the government continued its pump-priming spree. **Smaller declines in both private and government investment** also helped narrow the decline in gross fixed capital formation to 11.6% YOY during the quarter (2Q: -28.9% YOY). Private sector investment fell 9.3% YOY in 3Q (2Q: -26.4%) while the decline in public sector investment halved to 18.6% YOY (2Q: -38.7%).

Weakness in services exports negate gains in goods exports

Net exports made a comeback after three consecutive quarters of massive declines, contributing positively to GDP in 3Q. Net exports grew 21.9% YOY in 3Q (2Q: -38.6%), lifted by bigger declines in imports (-7.8%) vs exports (-4.7%). Despite the robust performance in goods exports, overall exports still fell 4.7% YOY in 3Q (2Q: -21.7%) dragged by services exports. Meanwhile, the decline in overall imports (-7.8% vs -19.7% YOY) was impeded by declines in both goods and services imports.



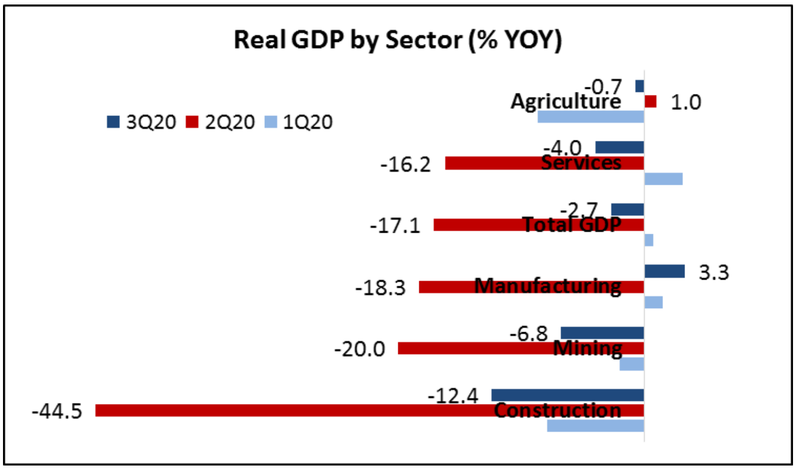
Manufacturing turned around with a 3.3% YOY gain; other sectors reported smaller declines

By economic sectors on the supply side, we noticed marked improvement across all sectors except for the slip in agriculture value-added from +1.0%(2Q) to -0.7% YOY (3Q). Contraction in fishery (-10.6%) and rubber (-24.0%) as well as more moderate growth in the oil palm sector (+2.6%) contributed to the drop. Meanwhile, **the mining sector continued to decline** (-6.8% vs-20.0% YOY) due to continuous albeit smaller contraction in both natural gas (-7.7% vs -18.7% YOY) and crude oil (-5.4% vs -21.5% YOY).

The manufacturing sector stood out by being the only sector with positive gains (+3.3% vs -18.3% YOY). The rapid turnaround was driven by both the domestic as well as export-oriented sectors, including the electronics cluster, optical products, food, petroleum, chemicals, rubber & plastics. QOQ, the manufacturing sector expanded 26.7%, recouping more than what was lost in 2Q (-17.9%) believed to be attributable to catch-up in production and pent-up demand.

The services sector also showed commendable improvement (+16.8% vs -17.5% QOQ), resulting in a smaller YOY decline of 4.0% (2Q: -16.2% YOY). Growth was driven by information & communication (+5.4%), and finance & insurance (+5.5%). Meanwhile, other tourism related services subsectors namely food & beverages, hotel & restaurants & accommodation, as well as transport & storage, and even wholesale & retail trade continued to see negative growth.

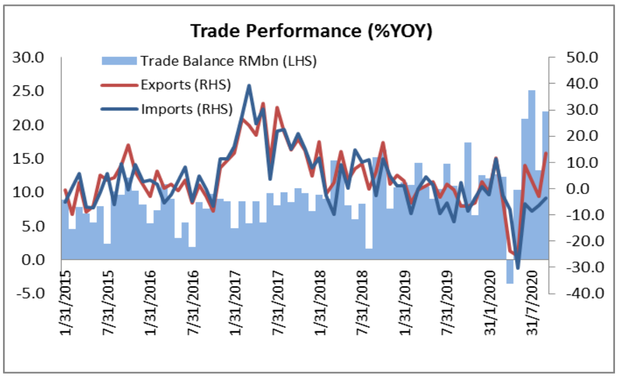
The construction sector managed to register a smaller decline of 12.4% YOY in 3Q (2Q: -44.5%), thanks to broad-based improvement in all key segments including residential buildings, non-residential buildings, civil engineering, and specialized construction activities.

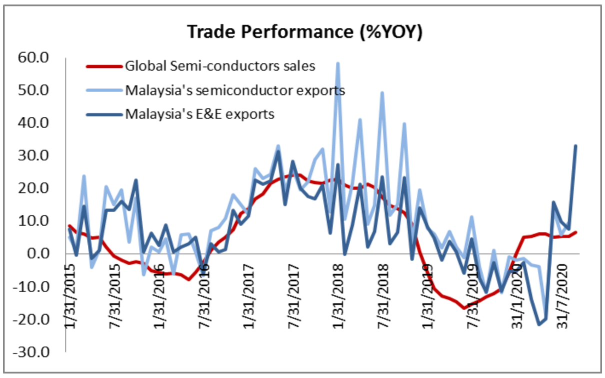


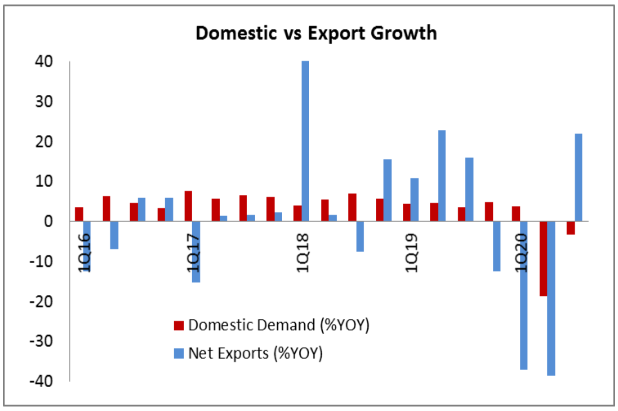
Surprisingly strong rebound in 3Q GDP offset by downside risks in 4Q

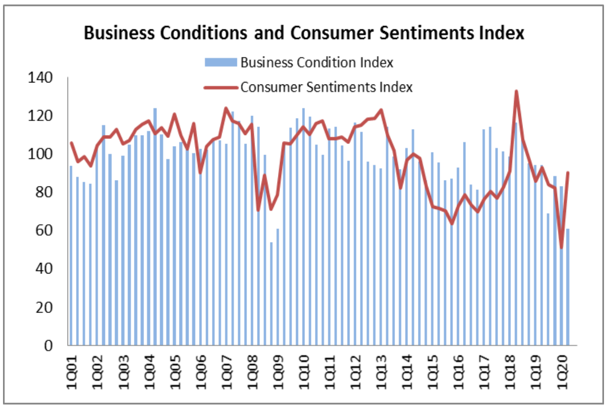
Today's upside surprises showed economic activities have bounced back nicely in 3Q, with noticeable improvement across the board even though the pace of recovery was uneven. Manufacturing supported by both domestic and export-oriented sectors rebounded to positive growth while the services sector was still plagued by the pandemic with numerous physical distancing and other rulings still in place.

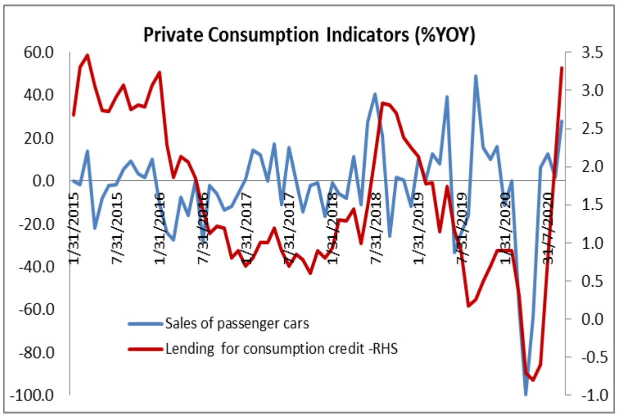
Despite encouraging recovery as confirmed by today's report, **we are revising our full year GDP projection to between -5.3% to -5.8% (YTD: -6.4% YOY), foreseeing a derail in the recovery momentum in 4Q** in the wake of another round of virus outbreak since the end of September that has prompted reintroduction of Conditional MCO in most states of Malaysia, and Enhanced MCO in a handful of localities which collectively account for about 85% of the country GDP. **We however expect the economic impact to be less severe this time around** compared to the daily loss of RM0.9-1.5bn during last March/ April, given that economic sectors are still allowed to operate subject to certain physical distancing rules and policies. **While our base case do not expect further OPR cut by BNM, we believe the door is not completely close for a move should downside risks materialize.** The current state of the recovery remains uneven and fragile and could be complicated by labour market weakness and soft consumer and business sentiments.

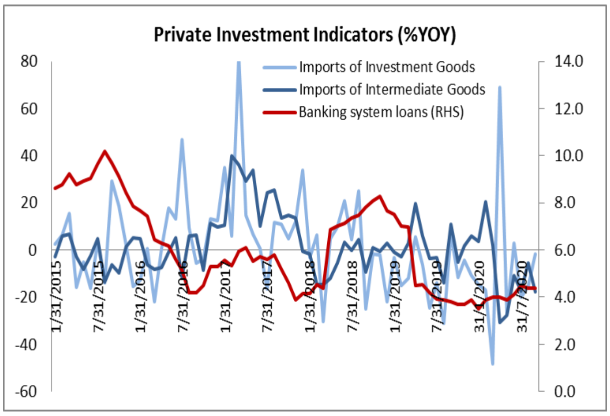

Trade Performance (%YOY)
Trade Balance RMbn (LHS)
Exports (RHS)
Imports (RHS)


Trade Performance (%YOY)
Global Semi-conductors sales
Malaysia's semiconductor exports
Malaysia's E&E exports


Domestic vs Export Growth
Domestic Demand (%YOY)
Net Exports (%YOY)


Business Conditions and Consumer Sentiments Index
Business Condition Index
Consumer Sentiments Index


Private Consumption Indicators (%YOY)
Sales of passenger cars
Lending for consumption credit -RHS


Private Investment Indicators (%YOY)
Imports of Investment Goods
Imports of Intermediate Goods
Banking system loans (RHS)

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