MEDIA STATEMENT
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Kuala Lumpur, 15 January 2020 – Looking back at 2019, it appears to have been a year of eventful two halves. While the first half was dominated by concerns about global growth prospects – in part driven by US-China trade war escalation and yield curve inversion in the US – the second half proved to be a lot friendlier to market sentiment. Here, forceful monetary policy accommodation by major central banks played a crucial role and staved off the most dire downside growth risks of a recession.

The US Federal Reserve started the party rolling with the first of its three rate cuts in August, followed by September and October of 2019 as part of its mid-cycle adjustments before taking a breather on "insurance" easing. The European Central Bank (ECB) launched its bazooka package of cutting its deposit rate to -0.5% on 12 September and resumed its quantitative easing with EUR20bn monthly asset purchases, but even as it had also attracted some dissension among members.

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Standing where we are now into 2020, the hurdle to further global monetary policy easing has been raised. For one, the Fed is now in a wait-and-see mode, which remains warranted given the relative strength of the US economy. To be sure, the US manufacturing sector has exhibited signs of impact from US-China trade conflicts. At the latest reading of 47.2 as of Dec 2019, not only is it worse than expected, it is lingering in contractionary zone. However, thus far, there has not been any significant ripple effect on the more important services sector of the US economy. Tellingly, the last print of 55 came better than expected and is well within expansionary zone. This bodes well for Fed's guidance that the US economy is "in a good place" and does not require further accommodation. On the flipside, the hurdle to a more hawkish stance is also relatively high as inflation prints remain disappointingly soft at this juncture.

Moreover, the overall global policy tilt has also increasingly shifted from being centred on monetary accommodation to fiscal support. Gone are the talks of fiscal austerity of yester-years. Indeed, in his parting words, outgoing ECB president Mario Draghi had called for fiscal policy "to do its part". The new ECB president Christine Lagarde has also called for a "concerted fiscal stimulus at the euro-area level" to help speed up growth as the "biggest threat is a downturn in trade resulting from a range of uncertainties, primarily affecting manufacturing and hampering investment". It remains to be seen, however, whether major Eurozone governments, especially the locomotive economy of Germany, will play ball given the latter's historical allergy to a huge uptick in fiscal spending.

Thus far, the year 2020 has obviously started on a dramatic tone from market perspective, with the threat of escalating tensions between US and Iran raising concerns about oil supply from the Middle East in general and the distribution channel around the Straits of Hormuz bottle neck, in particular. Our sense is that while the immediate tensions may have thankfully abated, the risk of re-escalation would remain. This would continue to be one of the major drivers of global oil price going forward.

Closer to home, the supportive oil price will be positive for Malaysia. For one, it helps to ensure that the Malaysian government can maintain a relatively loose fiscal purse-strings. The government had not tightened its 2020 budget expenditure as forcefully as it had planned before. By targeting a fiscal deficit of 3.2% of GDP, instead of 3.0% that was originally planned, the government has struck the fine balance between fiscal consolidation and the need to boost growth. This should help to anchor positive market sentiment towards Malaysia.

As we venture further in 2020, it is worth noting as well that there are some signs of support for the Malaysian economy. While the latest exports print of November 2019 was a bit of a let-down at a 5.5% year-on-year contraction versus market expectation of flat growth, we hold out the hope that with the détente between US and China on trade conflicts, global trade flows may pick up in 2020 and help Malaysia's exporters. Indeed, after months of languishing in contractionary territory, Malaysia's manufacturing sector PMI has finally broken even, printing at 50-flat level for December 2019 reading. If the improvement sustains itself, this should bode well for exports sector overall.

On a relative basis, not much support might be expected from the palm oil sector to the overall exports, however. While palm oil prices have benefited from shortage of soyoil in China and lower output due to poor weather thus far, we expect some price consolidation going forward as the spread between palm oil prices against gasoil and soyoil starts to narrow.

In terms of broader asset markets, global market sentiment has been encouragingly supportive towards emerging markets overall and Malaysia more specifically. The global low rates environment, anchored by a relatively dovish Fed, still supports flows into sovereign bonds. Foreign holdings of MGS now stand at 41.6%, the highest since mid-2018. Overall, the supportive environment has also contributed to the recent strengthening of MYR against USD. We expect USDMYR to reach around 4.04 level by end of 2020.

All in all, we expect and hope for a global environment that will remain relatively supportive of Malaysia's economy in 2020 – a year for Malaysia to shine on the global stage as it plays hosts to as many as 20 other fellow APEC member economies throughout the Pacific Rim.

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