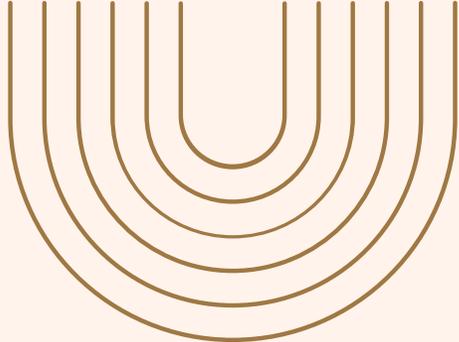


OPUS ASSET MANAGEMENT INVESTMENT TALK

2024 The Year of Reckoning

Lee Heng Guie
Executive Director
22 November 2023



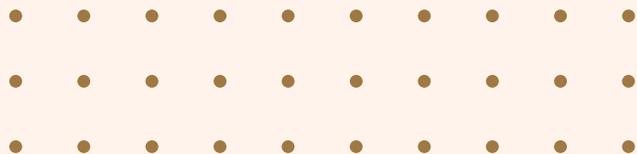


This is What Global Economy Will Look Like in 2024

“High for Longer” Interest Rates in Major Economies Mean Global Growth is Likely to Slow Next Year

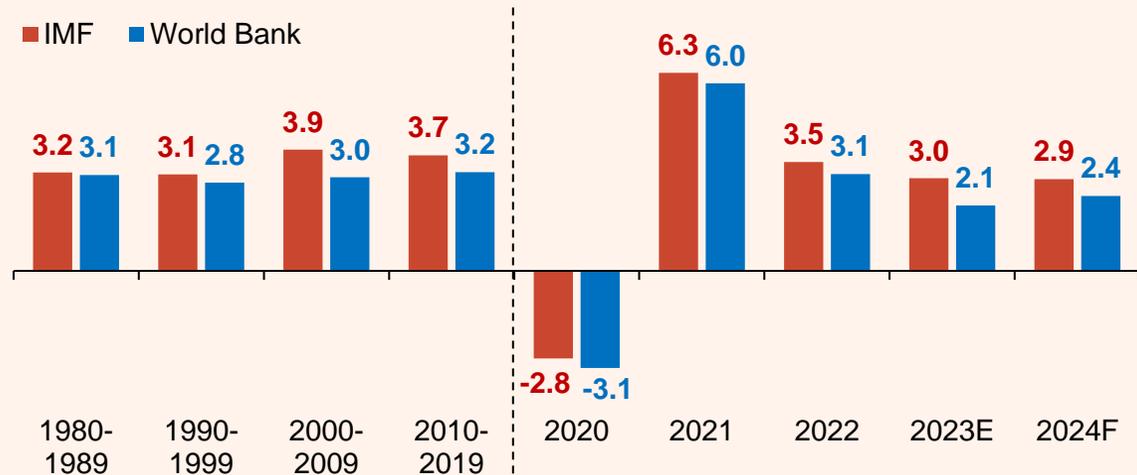
2024 Will Be A Year of Reckoning

- *Will there be a delayed recession in the US?*
- *Will China’s economic risks intensify in 2024?*
- *“Uncertainty” about global monetary stance*
- *Global climate change*
- *Renewed strength in energy and commodity prices*
- *Geo-economic conflicts as well as non-economic shocks*

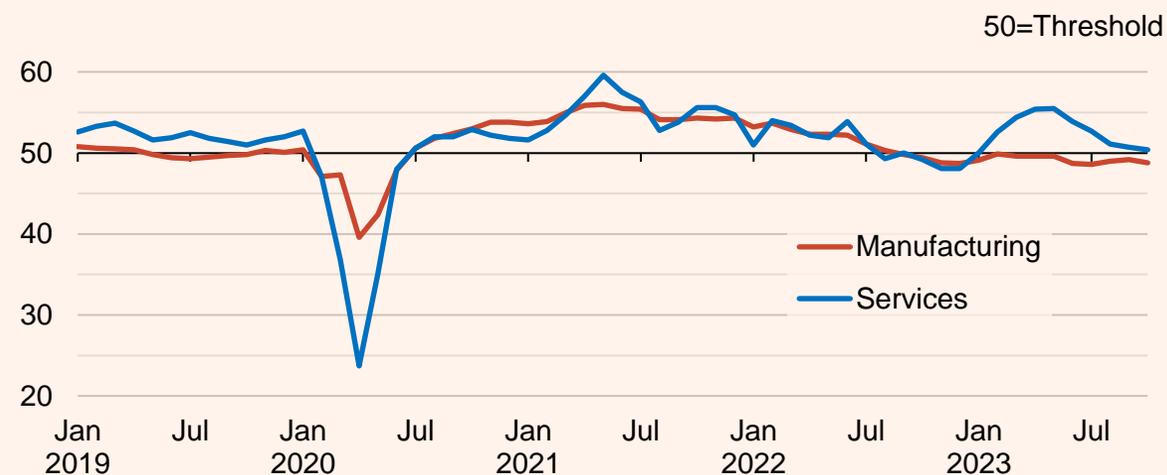


Global growth continues, albeit still weak in 2024

Global real GDP growth (%)



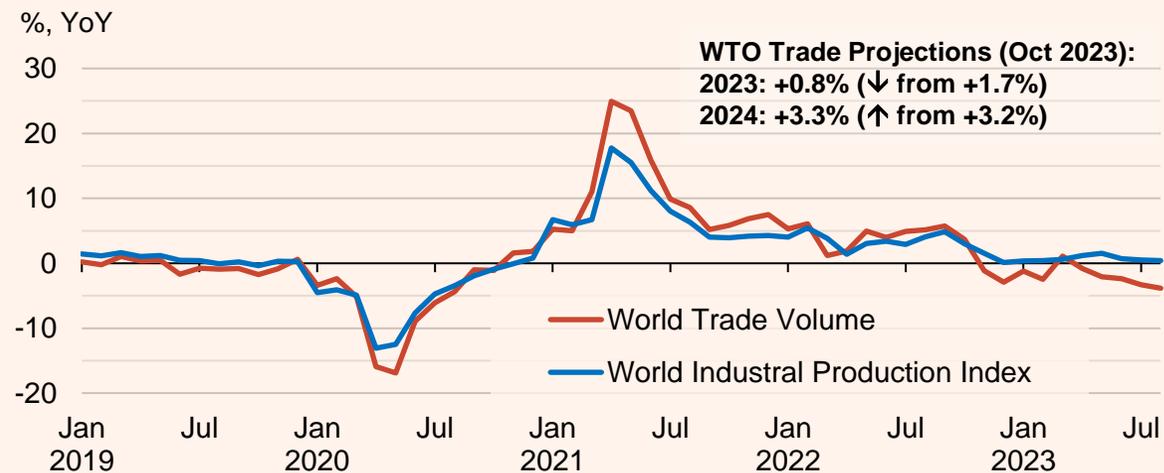
Global PMI: Manufacturing remained subdued; services trending lower



Global semiconductor prolonged downturn has bottomed out



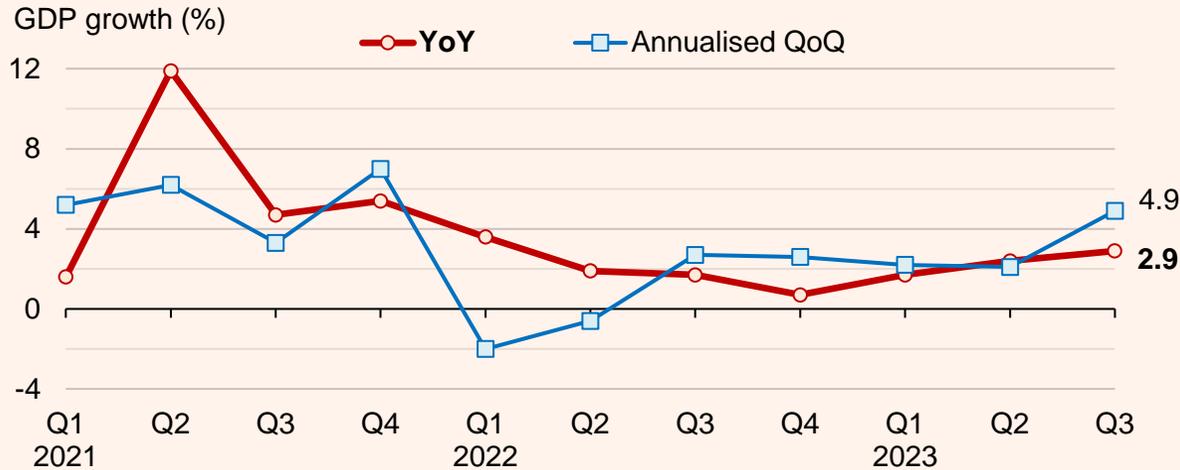
World trade remains sluggish; lacklustre industrial production



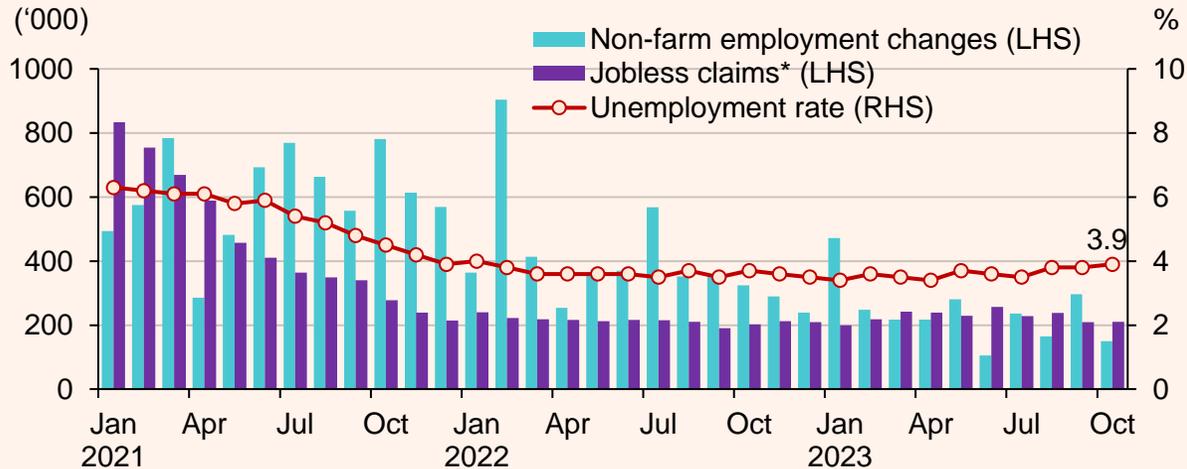
Source: International Monetary Fund (IMF); World Bank (WB); S&P Global; Semiconductor Industry Association; CPB Netherlands

The US economy still motoring along despite higher interest rates

Resilience GDP defies recession fears in 2023; Can it continue in 2024?



Labour market conditions remained broadly stable



Source: US Bureau of Economic Analysis; US Bureau of Labor Statistics; US Department of Labor * Jobless claims represents initial claims at seasonally-adjusted 4-week moving average, for the last reporting week of the month

Labor market resilience, slowing inflation

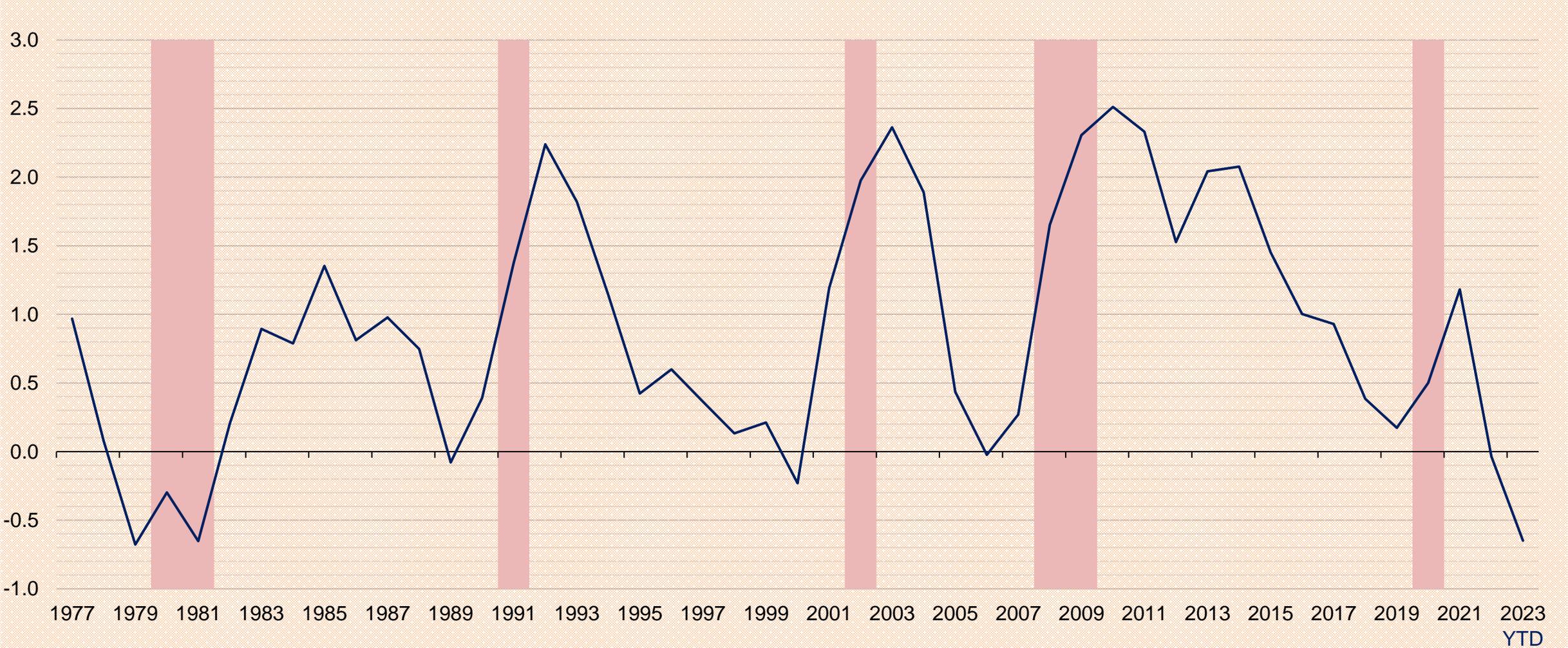
- Better-than-expected GDP growth (4.9% ann.qoq and 2.9% yoy in 3Q 2023 vs. 2.1% ann.qoq and 2.4% yoy in 2Q).
- Increasing labour force participation rate, the jobs market remains strong with a jobless rate of 3.9% in Oct 2023.
- Inflation is gradually nearing target (core PCE inflation at 3.7% in Sep 2023 vs. the Fed's target of 2%).

Risks to economic growth in 2024

- **Certain favourable economic trends to unwind in 2024** – household savings could run out by 1Q; reinstatement of student loans repayment; fiscal largesse may recede in 2024 as major spending programs (the CHIPS and Science Act and the Infrastructure Investment and Jobs Act) have heavily front-loaded.
- Lag impact of higher interest rates will weigh on consumer spending and business activity.
- Mortgage activity continued to stall, with applications dipping to the slowest weekly pace since 1995.

Extended periods of heavily inverted yield curves have been rare

Difference in Treasury Yield between 10-year (T10Y) and 2-year (T2Y)

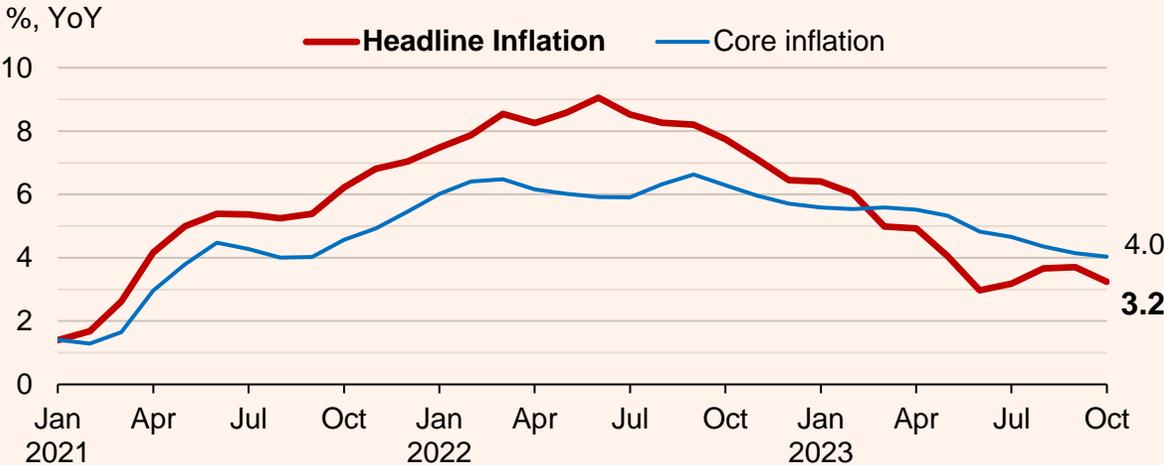


Note: Shaded area indicates crisis years; negative territory indicates T10Y < T2Y
Source: US Treasury Department; Federal Reserve Bank of St. Louis

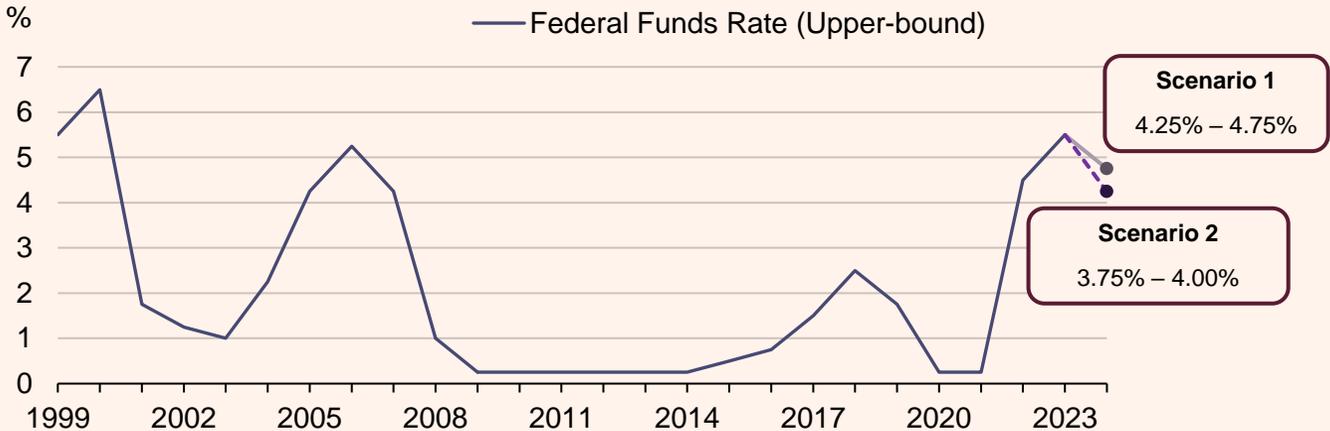
Note: YTD = 1 Jan 2023 to 15 Nov 2023

Stepping out for the Fed pivot

The Fed did not want to take a continued steady slowdown in inflation for granted



Potential Fed funds rate scenarios



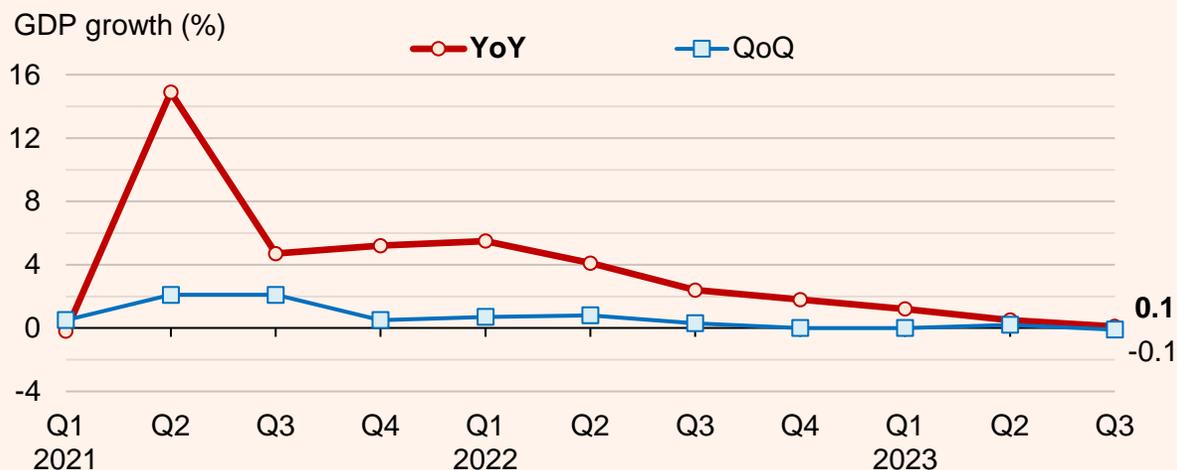
Note: Federal Reserve only started to use the "Interest Rate Corridor" during 2008/09, with a mechanism of upper- and lower-bound targeting. Prior to this, only a single rate was targeted.
 Source: US Bureau of Labor Statistics; Fed

Higher for longer message

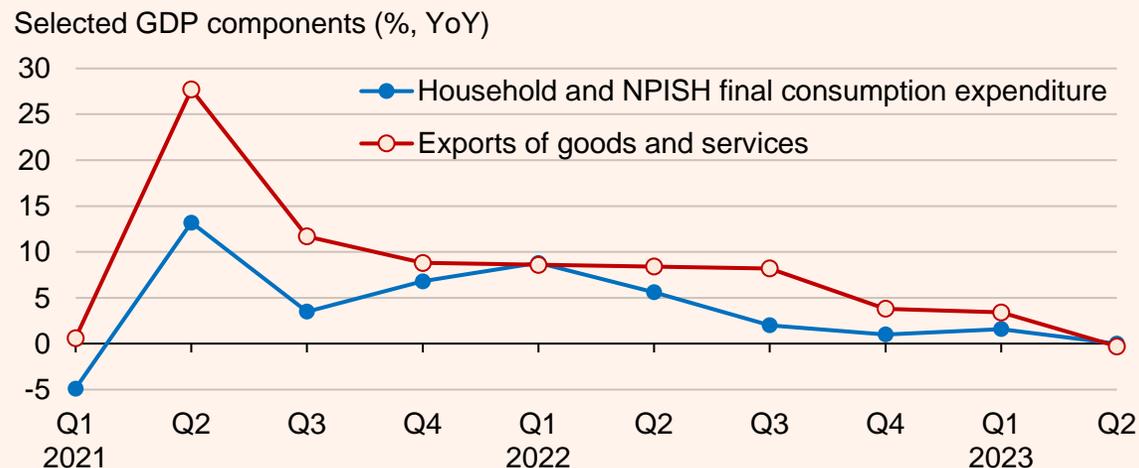
- How the economy, job and price data evolve between now and the next policy meeting in December 2023?
- It remained unclear whether overall financial conditions were yet restrictive enough to tame inflation.
- Inflation has been coming down, but it is still running well above the 2% target.
- The Fed will **start to pivot in the second or third quarter of 2024.**
- Fed Chair Powell has indicated that **the long-run "neutral" policy rate** (the level consistent with stable inflation) **may be higher than previously expected.** This would imply that fewer Fed rate cuts over the long run.

The euro area sinks into recession fears

The euro area economy contracted in 3Q 2023, raising the prospect of a recession



Moderating consumption and external demand



Source: Eurostat

Slowing consumer spending and exports

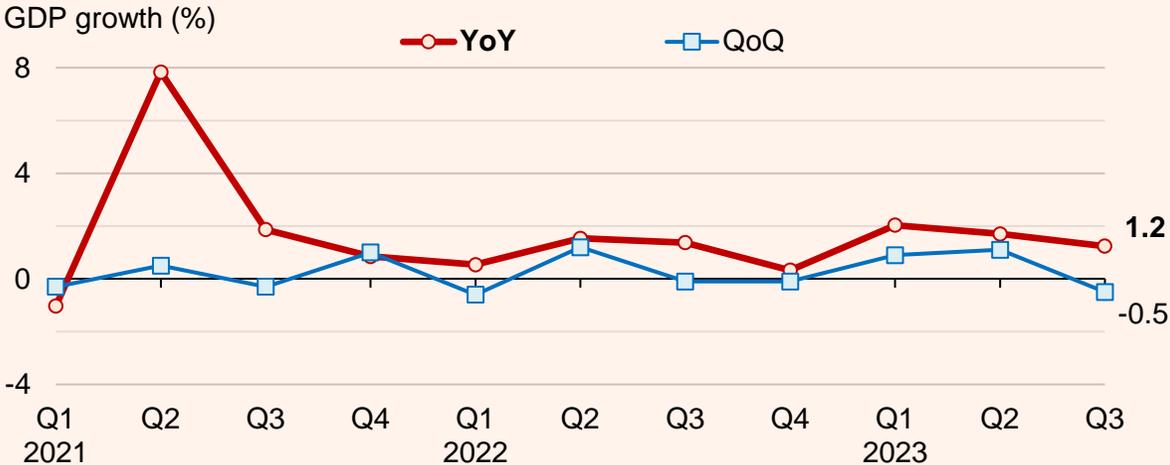
- On the brink of a winter recession (-0.1% qoq in 3Q 2023)
- Manufacturing PMI readings signalled further contraction throughout Q3 and in Oct, while the services sector was mired in contraction in Aug-Oct.
- Business surveys have pointed to further weakness in the months ahead.

ECB to hold interest rate steady in 1H 2024

- The ECB held off raising interest rates for the first time in 15 months, keeping it at 4.00% after the Oct's meeting.
- Headline inflation rate has eased from 4.3% yoy in Sep 2023 to 2.9% in Oct.
- The central bank remains committed to bringing inflation down to its 2% target.
- The ECB stands ready to take further action on borrowing costs as inflation is still expected to stay too high for too long.

When will Bank of Japan abandon its negative interest rate policy?

Much of the recovery strength was due to the external sector



External demand wanes, cautious domestic demand

- In the near term, economic growth will likely slow down, as external demand wanes and domestic demand struggles to pick up.
- Slower economic activity will allow the BOJ to maintain its dovish monetary policy stance into 2024 amid inflation has persistently been above target.
- The yen takes a tumble, raising the probability of authorities intervening to support the yen from weakening much further.

High core inflation is challenging the ultra-easy monetary policy



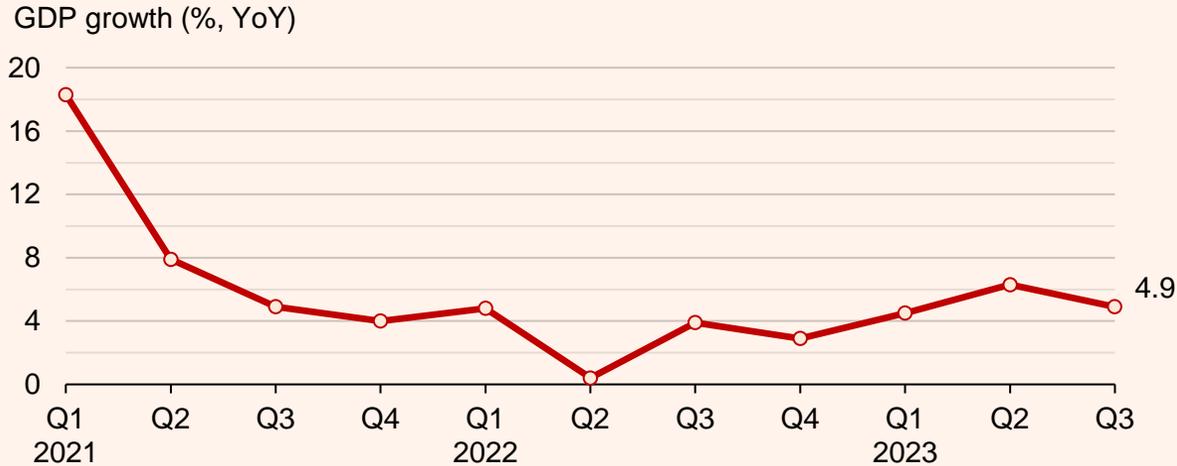
Abandons negative interest rate policy

- However, we expect negative interest rates will keep upward pressure on both prices and wages and allow the BOJ to **finally raise rates in the first half of 2024**.
- The rise in interest rates could unwind the yen carry trade and spark a return of Japanese capital to its domestic bond markets, a move could trigger market volatility.

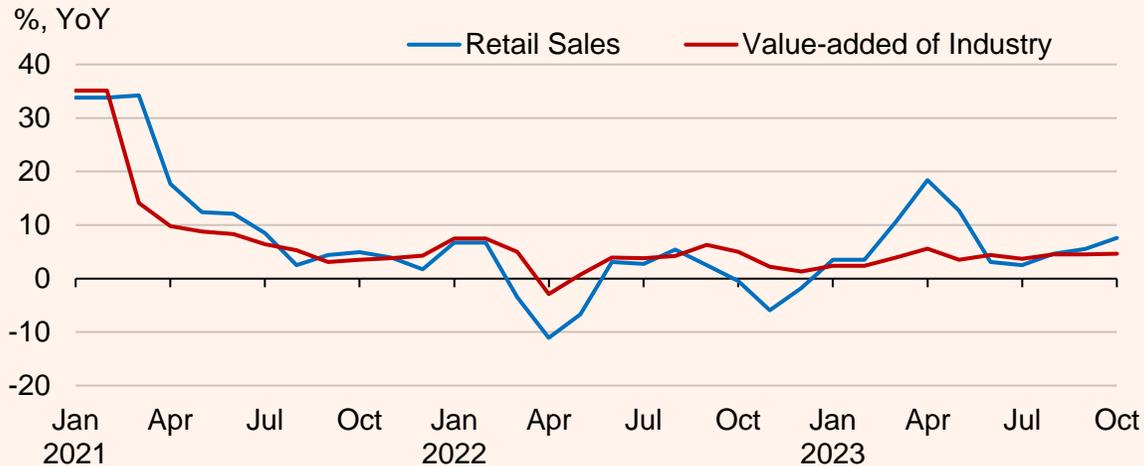
Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Statistics Bureau, Japan

China's economic stabilisation signs seen but downside risks remained

Continued weakness in the property sector and subdued external demand could restrict GDP growth



Key economic activities are generally stabilising



Source: National Bureau of Statistics of China

Economic stabilisation amid stress in property market

- The economy appeared to stabilize later in Q3 amid multiple rounds of policy easing.
- Property market stress continues to drag. Property developers are struggling with their debt restructuring and asset sales.
- China's 1 trillion yuan debt plan would focus on reconstruction of areas hit hard by natural disasters.

Will economic risks intensify in 2024?

- China's economic 'risks will intensify' in 2024, with EVs, property market, local government debts clouding prospects.
- Local government financing vehicles – created to aid off-budget financing, especially for infrastructure spending – collectively owe an estimated about 60 trillion yuan (US\$8.2 trillion) in debt.

Risks scenarios facing the global economy

1



Prolonged High interest rates leading to global recession and financial volatility

Moderate probability

High impact

2



Delayed recession in the US

Moderate probability

High impact

3



Policy failures in China lead to diminished growth prospects

Low probability

High impact

4



Geo-economic Rivalries and conflicts

High probability

High impact

5



Extreme weather events / climate change disrupts global supply chains

High probability

Moderately high impact

6



Green technology and technology disruptions

Moderate probability

High impact

7



The Ukraine-Russia war spirals into a global conflict

Low probability

High impact

8



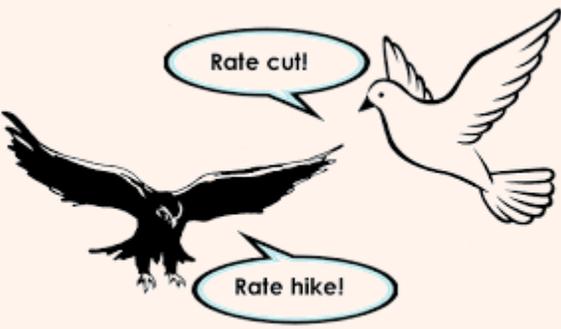
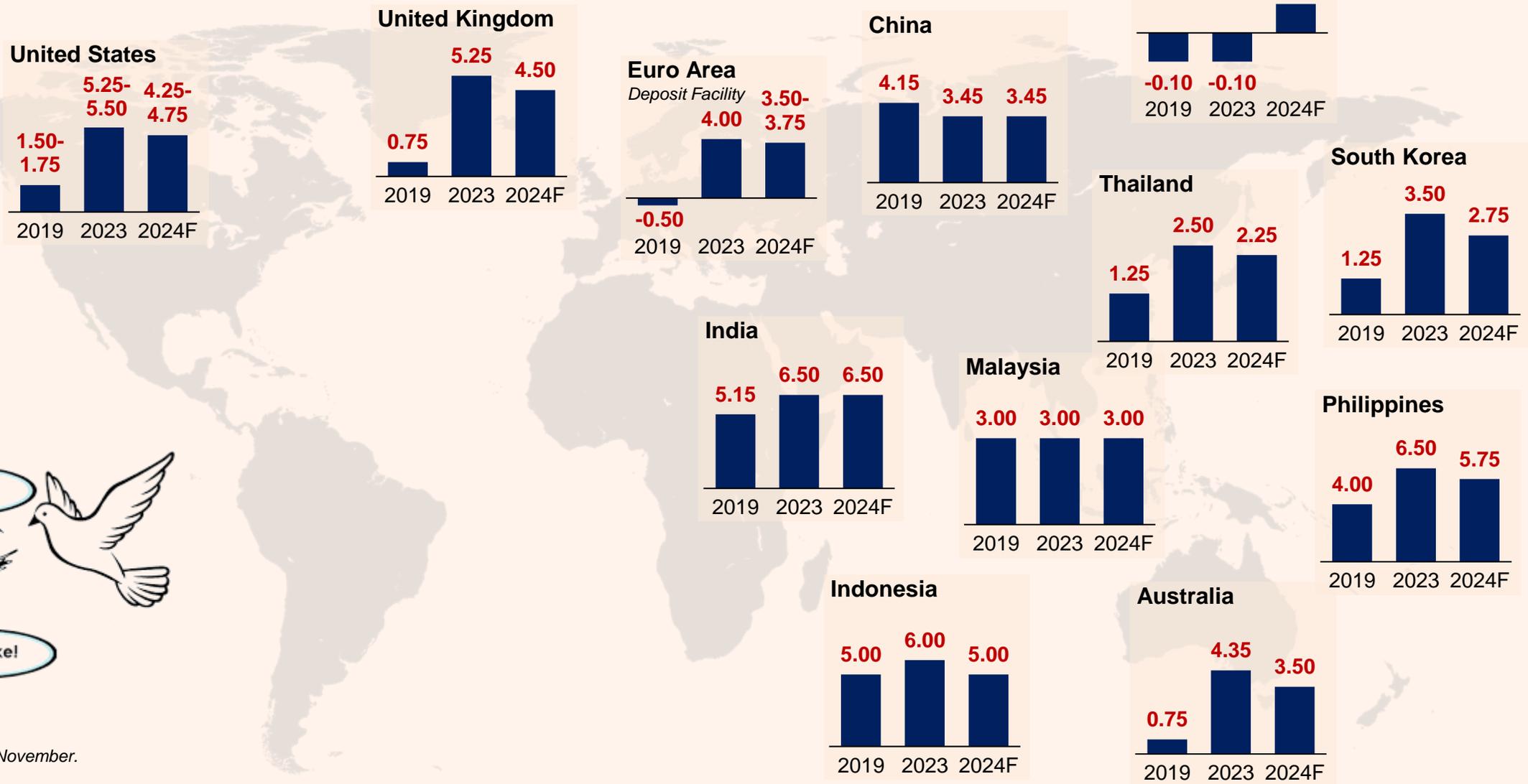
The Israel-Hamas war escalates into a regional conflict

Low probability

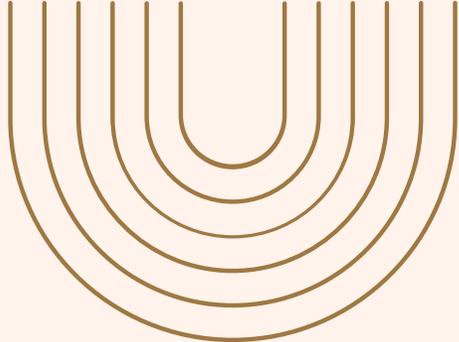
High impact

Higher- for -longer interest rates

Policy rate (% , end-period)



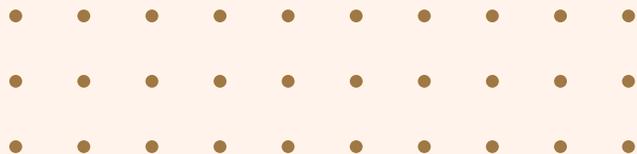
Note: For 2023, up to 20 November.
Source: Various officials



This is What Malaysia's Economy Will Look Like in 2024

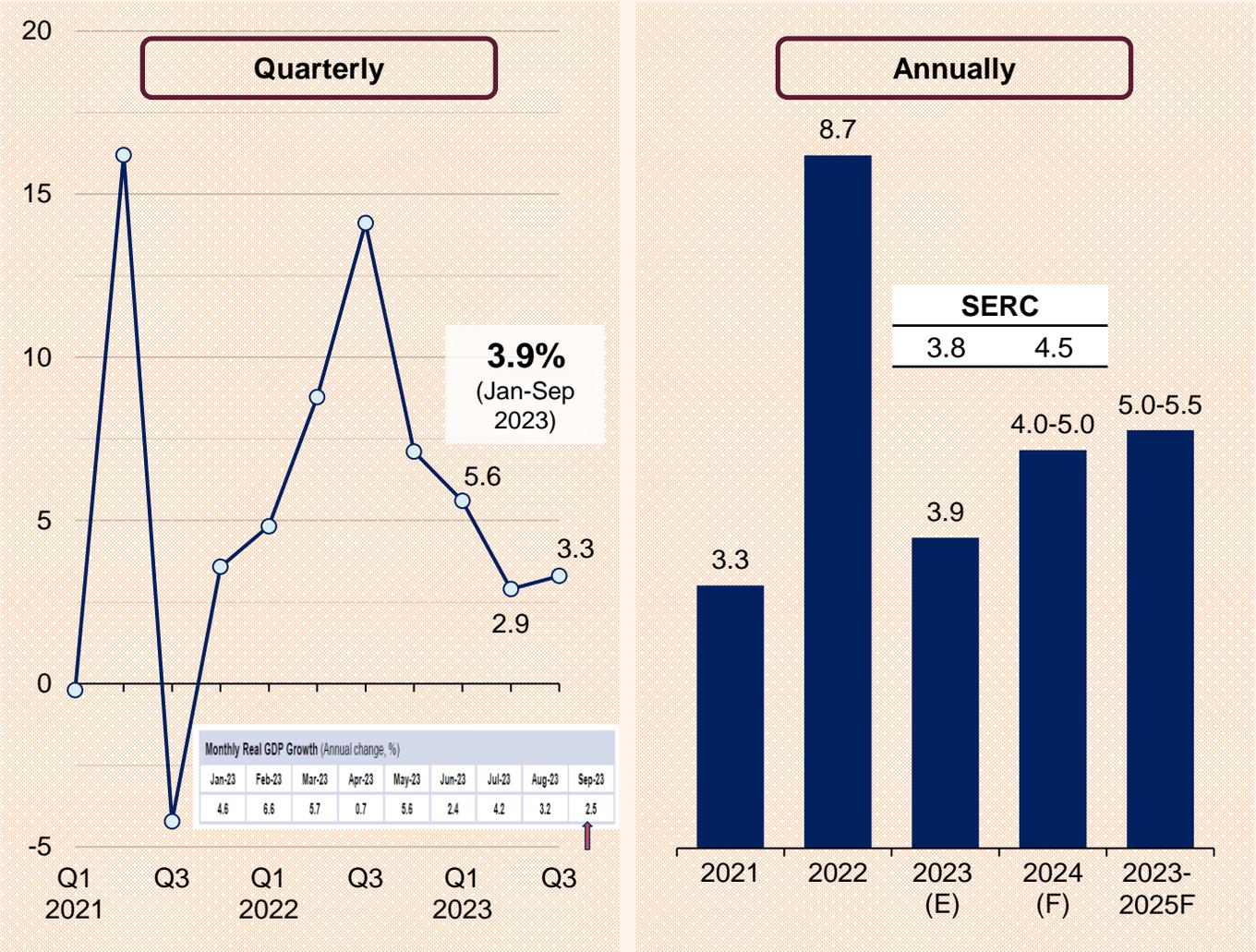
“Levers of change” to Anchor Better Economic Prospects Over Medium-term

- MADANI Economy Framework, New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), Mid-Term Review of 12th Malaysia Plan (MTR 12MP) 2021-2025
- Five key risks:
 - (a) The US and China's economic outlook
 - (b) Geo-economic rivalries
 - (c) Ineffective implementation of Budget 2024
 - (d) Inflationary risk triggered by subsidy rationalisation
 - (e) Still elevating business costs



The Malaysian economy on course, but downside risks remain

Malaysia's real GDP growth (% YoY)



Source: Department of Statistics Malaysia (DOSM); Ministry of Finance (MOF)

Note: 2023-2025F was forecasted in MTR of 12MP

Drivers of Economic Growth in 2024

Positive expansion in all sectors

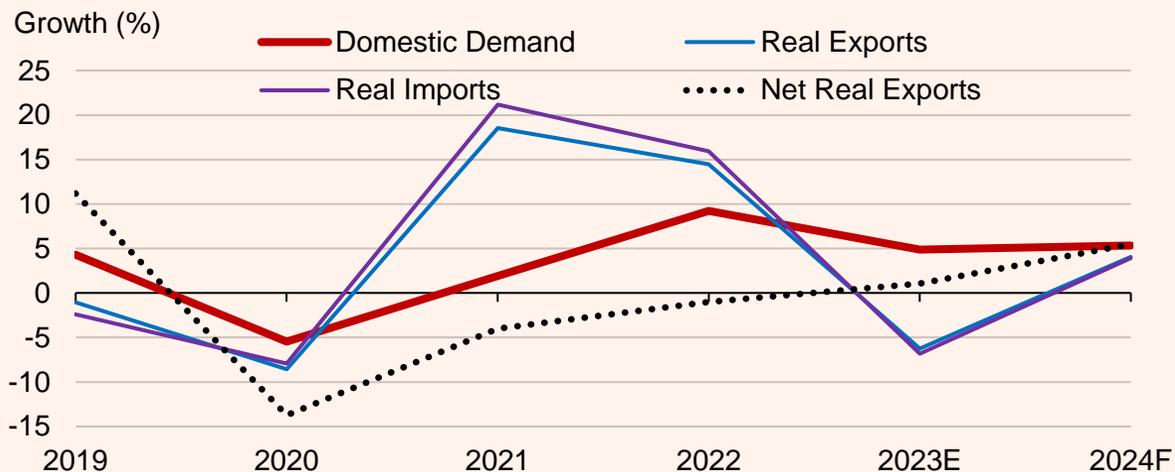
- Broad-based growth, led by the services sector as intermediate and final services groups, are anticipated to rise further, driven by sustained domestic consumption and improved export activities.
- Recovery in the manufacturing sector, thanks to a gradual recovery in exports of electronics and electrical products.
- Improved growth in the agriculture sector and a turnaround in the mining sector.
- All subsectors of the construction sector will expand.

Can domestic demand continue to hold?

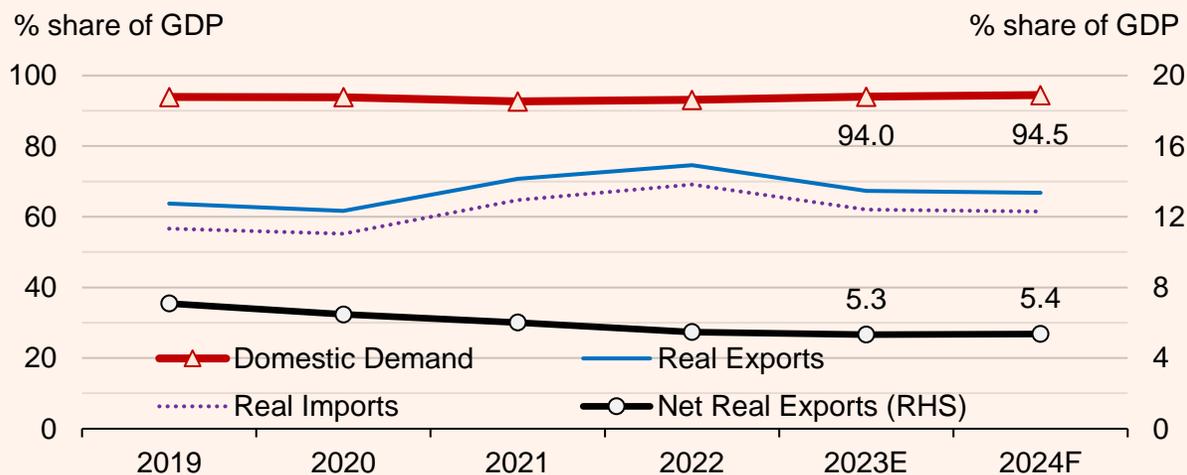
- Private sector expenditure and improving global demand.
- Implementing various business policies and blueprints are expected to provide a conducive business and investment environment.
- Private consumption supported by steady labour market conditions amid subsidy rationalisation and cost of living pressures.

Domestic demand continues to drive the economy

Domestic demand has been driving the economy



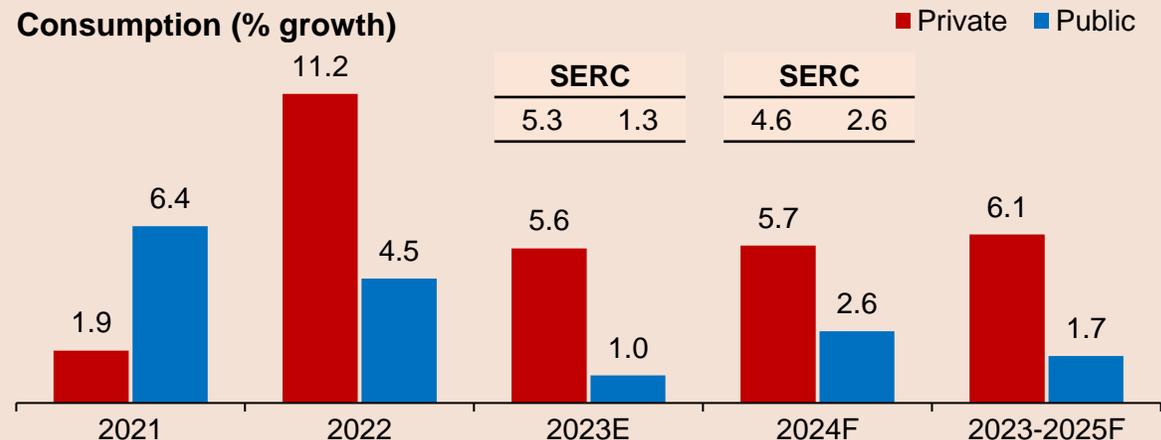
Sustaining contribution of domestic demand to GDP



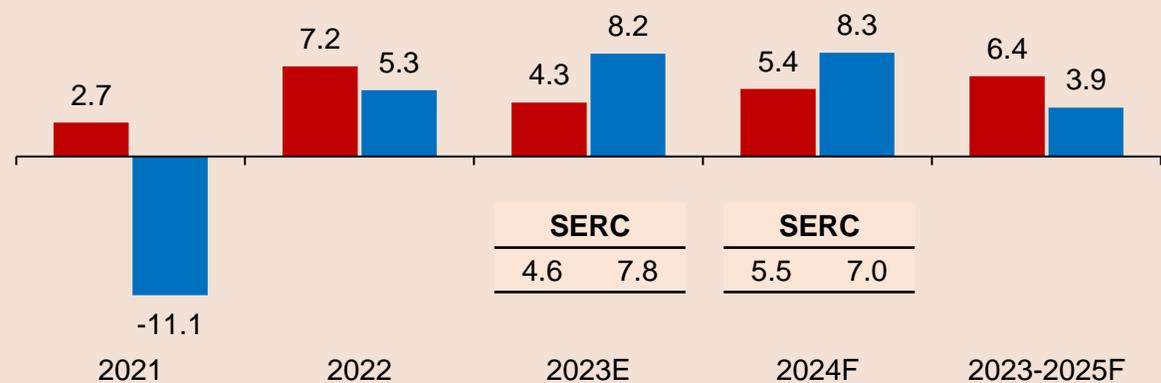
Source: DOSM; MOF

Domestic demand

Consumption (% growth)



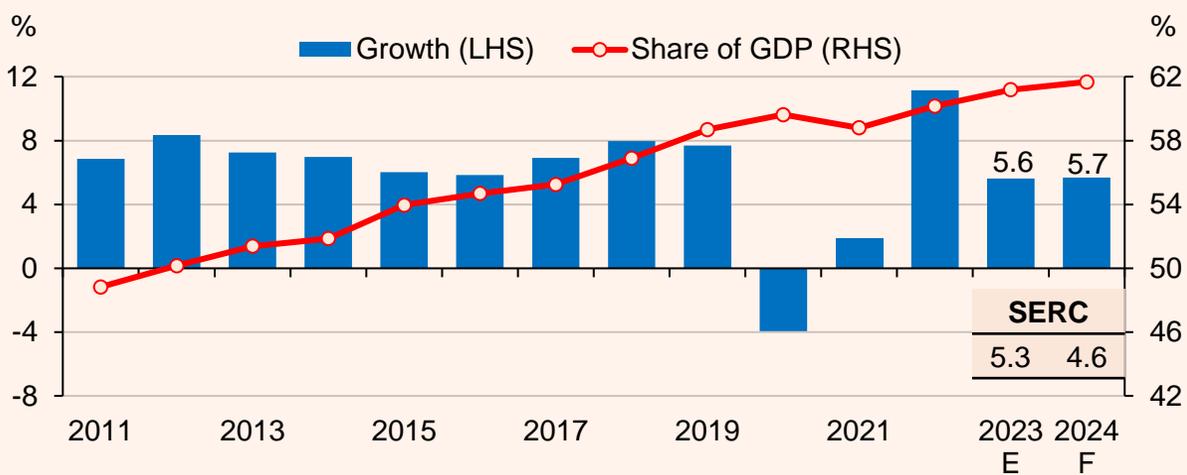
Investment (% growth)



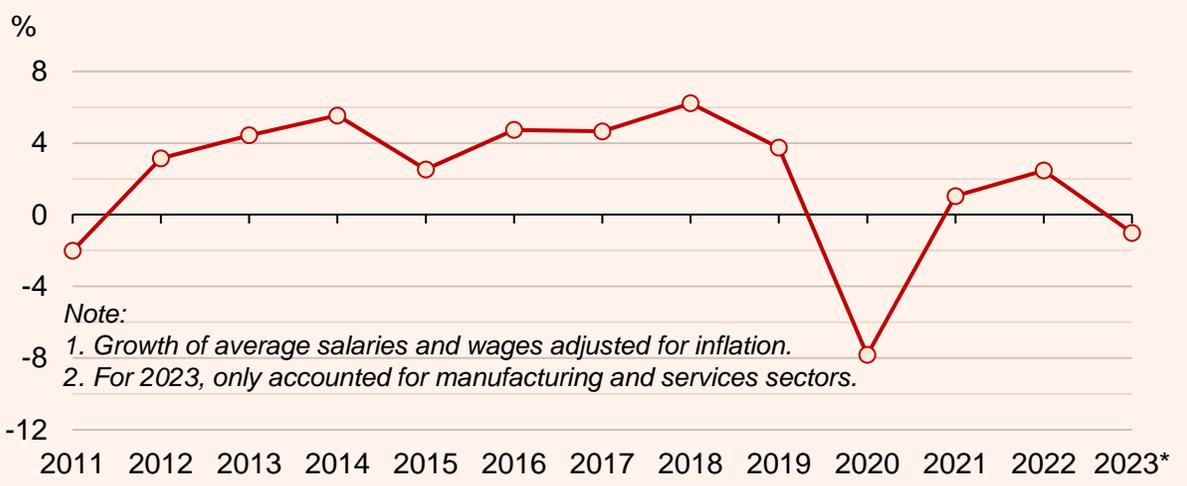
Note: 2023-2025F was forecasted in MTR of 12MP

Consumers more cautious with discretionary spending

Private consumption (61.2% of GDP in 2023E)



Real wage growth



Note:
 1. Growth of average salaries and wages adjusted for inflation.
 2. For 2023, only accounted for manufacturing and services sectors.

Source: DOSM; MOF * Jan-Sep 2023

Supporting factors

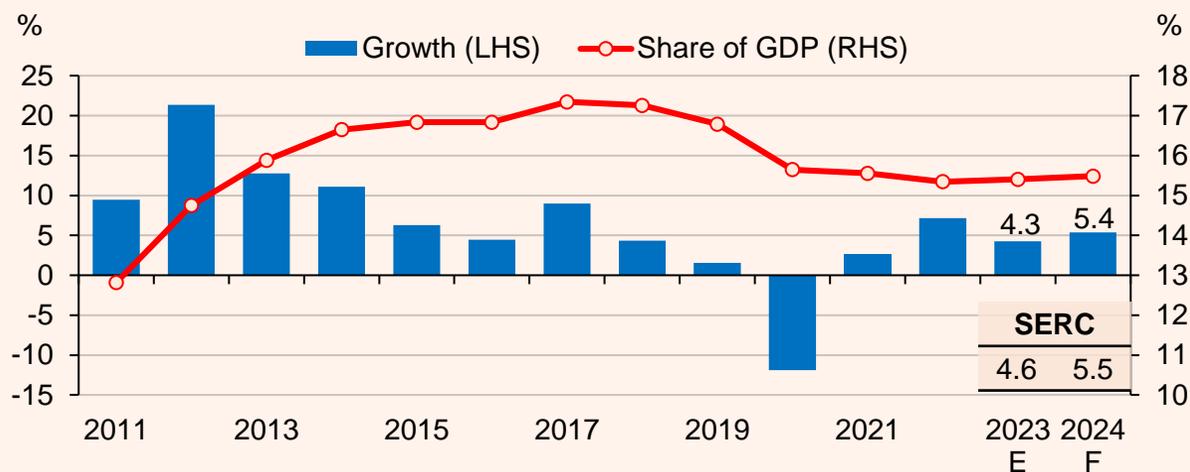
- Stable labour market conditions (Jobless rate: 3.4% at end-2024).
- Improved income growth.
- Sumbangan Tunai Rahmah (RM10.0 billion for almost 9 million recipients).
- Special cash incentives of RM2,000 for 1.7 million civil servants and RM1,000 for 971,000 pensioners.

Dampening factors

- Increasing cost of living and inflation risk.
- Service tax scope expanded (includes logistic, brokerage, underwriting and karaoke services) with rate increase to 8% from 6% (excluding food and beverages, telecommunication services, parking and logistic services).
- Targeted subsidy rationalisation in phases, e.g. diesel.
- High-Value Goods tax of 5% to 10%, starting 1 May 2024.

Navigating private investment with increasing costs pressure

Private investment (15.4% of GDP in 2023E)



Outstanding loans to the business sector*



Source: DOSM; MOF; Bank Negara Malaysia (BNM)

Supporting factors

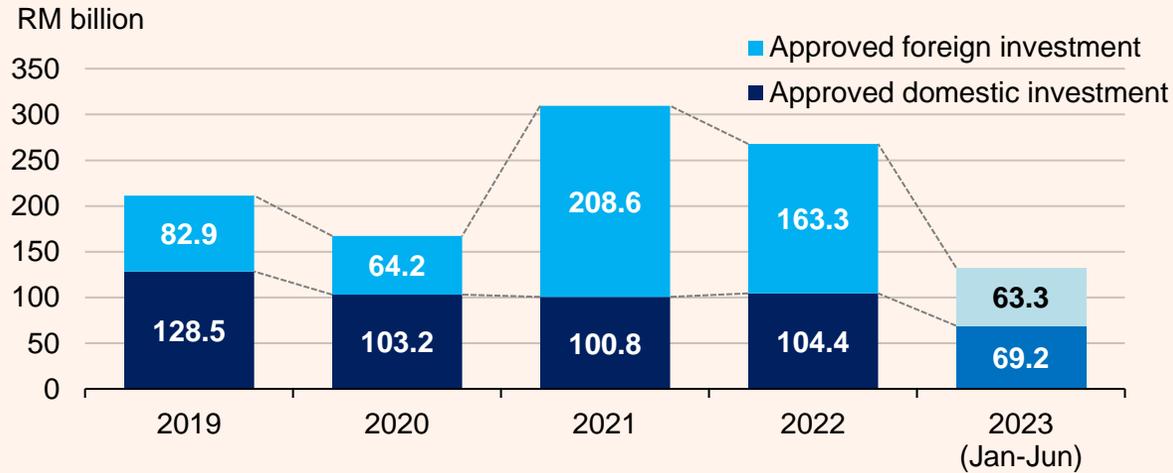
- Favourable business sentiments and improved external environment.
- Realisation of approved investments, mainly in the electronics and electrical products, transport equipment, and information and communications subsectors.
- New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR) and the Mid-Term Review of the 12th Malaysia Plan (2021-2025).

Dampening factors

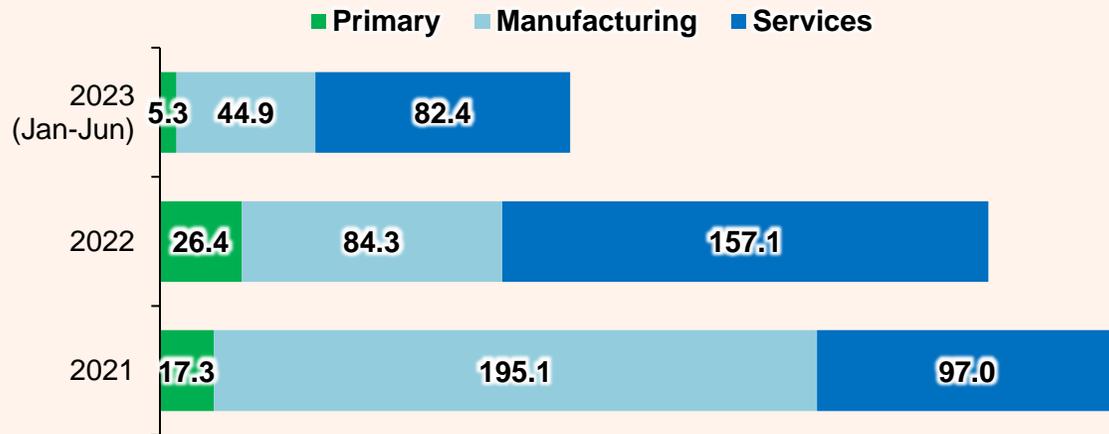
- Continued weak global economic growth.
- Concerns about business costs pressure; ESG compliance and climate change-induced disruptions.
- Targeted subsidy rationalisation in phases, e.g. diesel.
- Weak Ringgit caused higher imported value of machinery and equipment.

Catalysts to private investment

MIDA's approved DDI and FDI



MIDA's approved Investment by major sector



Source: Malaysian Investment Development Authority (MIDA)

Some notable approved investment projects



US\$8 billion for up to 10GW of renewable energy projects



RM2 billion in the next 7 years on state-of-the-art facility



Setting up a vast network of fast-charging and regular-charging stations; establish its state-of-the-art head office and service center; and experience centers



Amazon Web Services (AWS) **RM25.5 billion (USD6 billion)** by 2037 to open a Cloud Computing Infrastructure



US\$7 billion expansion for its chip assembly and testing factory.



To build the world's largest 200mm SiC (silicon carbide) Power Fab and invest additionally up to **€5 billion** over the next 5 years



Potential investment of up to **RM9.6 billion** to expand manufacturing operations



Partnering with xFusion partner to invest **RM1.7 billion** to open new facility

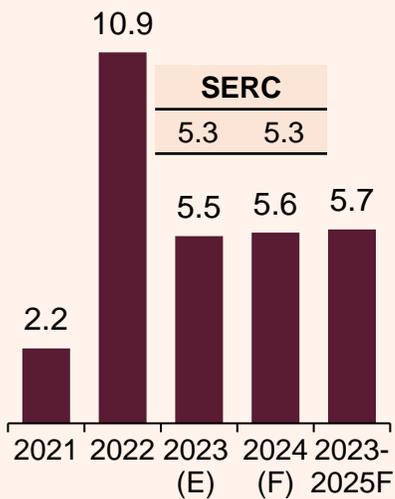


Invest **RM1.62 billion** to open semiconductor backend

Elna PCB Deepens Root In Penang With RM1 Billion Expansion Plan

All economic sectors to register positive growth in 2024

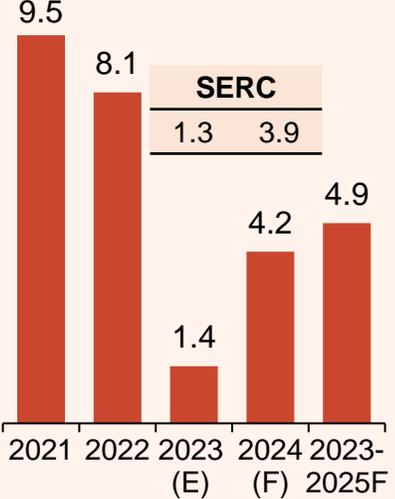
Services (%)



- Factors:**
- Sustained domestic consumption supports retailing, restaurants, accommodation and communication segments
 - Higher trade-related activities help the wholesale trade, transport and storage subsectors

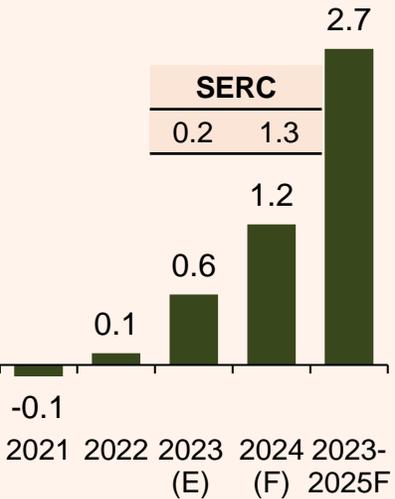
Source: DOSM; MOF

Manufacturing (%)



- Factors:**
- Recovering external demand helps export-oriented industries, particularly E&E products
 - Favorable domestic-oriented industries, backed by higher output in transport equipment and construction related segments, in line with continued growth in consumption and investment

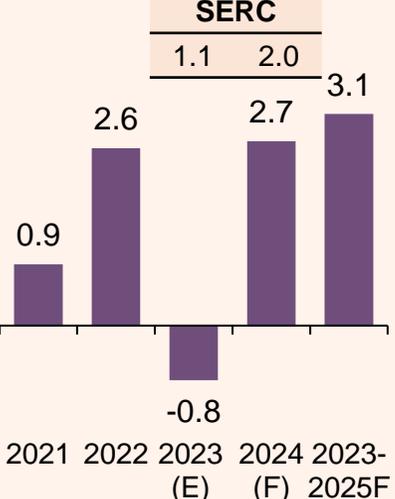
Agriculture (%)



- Factors:**
- Higher production of crude palm oil (CPO), other agriculture and livestock
 - CPO production supported by minimal impact expected from the El Nino, better labour supply, increased matured areas and higher oil extraction rate

CPO price: RM4,000-RM4,500/tonne (RM3,500-RM4,000/tonne in 2023)

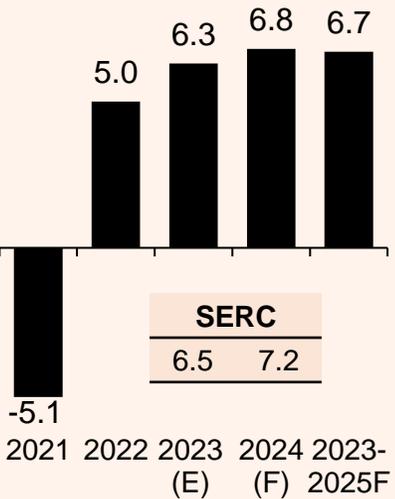
Mining and Quarrying (%)



- Factors:**
- Recovery in production of natural gas from new and existing gas fields, and crude oil and condensates
 - Anticipation of higher demand on positive global outlook

Brent crude oil price: US\$85/barrel (US\$80/barrel in 2023)

Construction (%)



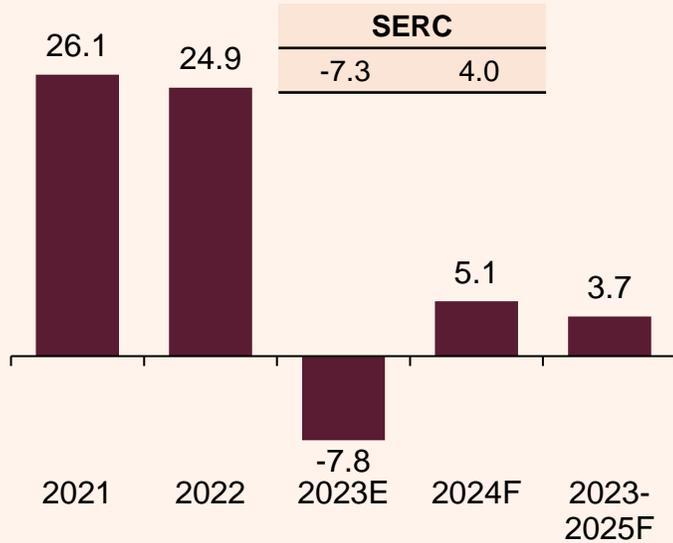
- Factors:**
- Expansion across all sub-sectors
 - Strategic infrastructure and utilities projects

Note: 2023-2025F was forecasted in MTR of 12MP

Exports recovery; inflationary risk; solid job market



Gross exports (%)

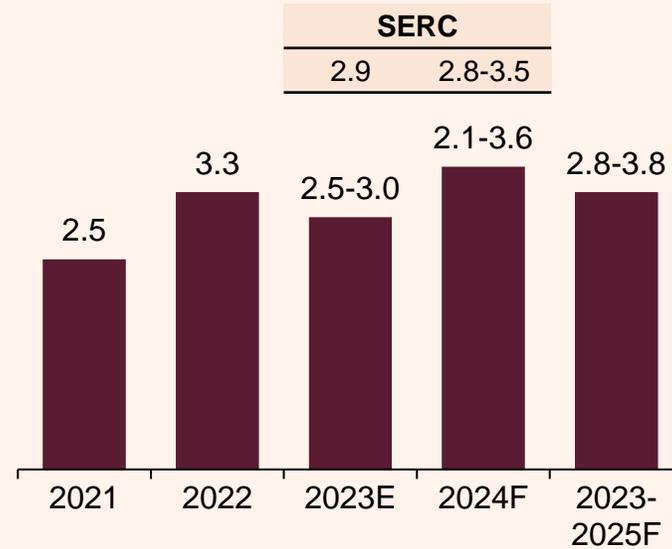


- Anticipate better performance in global trade and improved prospects in the commodity sector
- The trade expansion effects from RCEP and CPTPP
- Steady demand for semiconductor and upcycle trend in E&E
- Higher demand for petroleum products, chemicals and chemical products, manufactures of metal, palm oil and mining goods

Source: DOSM; MOF



Inflation (%)

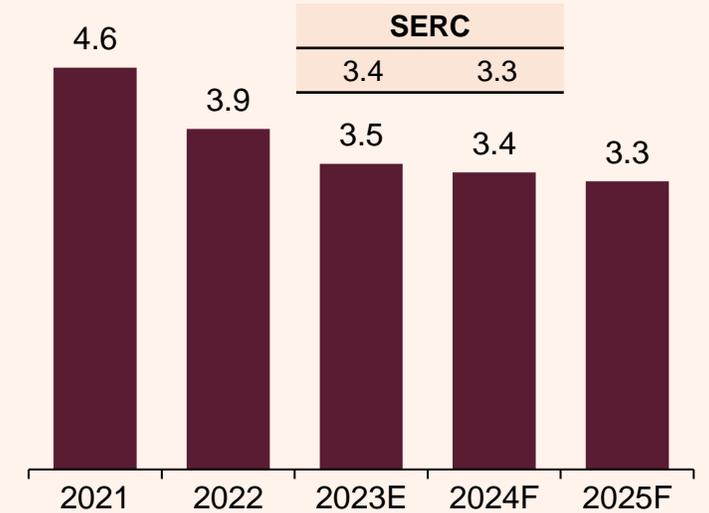


- Gradual shift towards targeted subsidy mechanism
- Risks come from fluctuation in exchange rates and supply-related factors, such as global commodity prices, geopolitical uncertainties and climatic conditions

Note: 2023-2025F was forecasted in MTR of 12MP



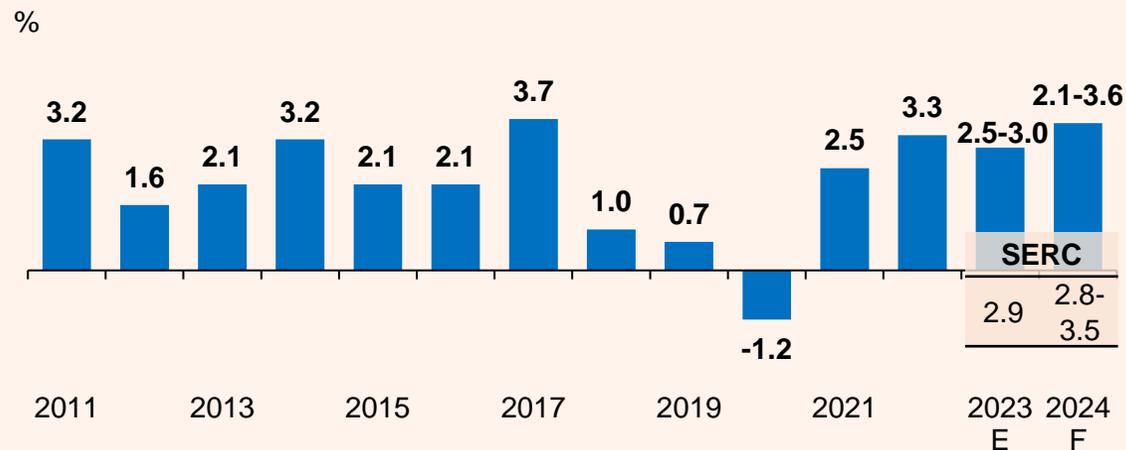
Unemployment rate (%)



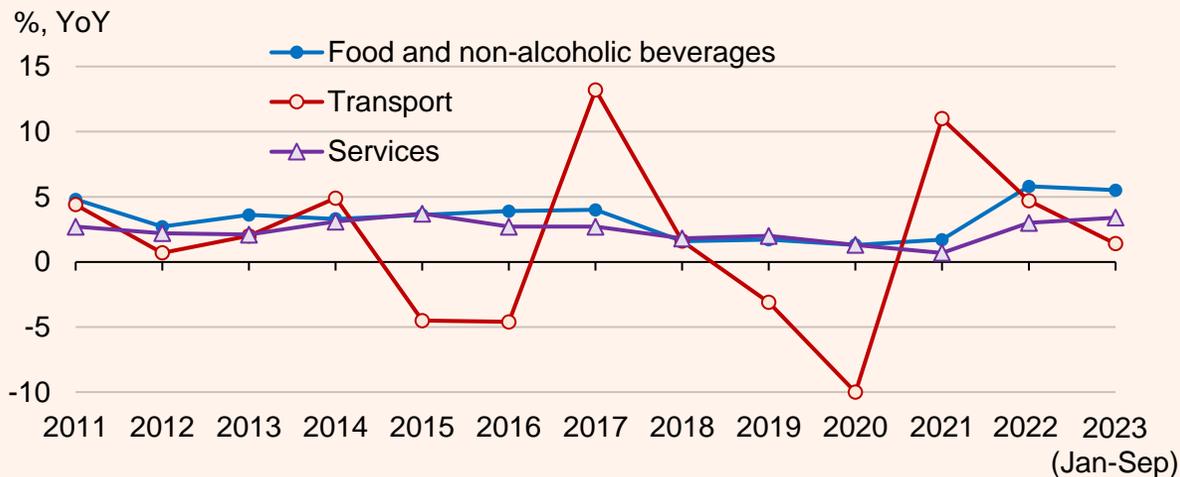
- Stable domestic and external economy
- More demand-driven skill training programmes
- More conducive working environment for women
- Expanding social protection coverage to all workers

Inflation may re-emerge on review of price controls and subsidies

Headline inflation



Inflation for selected categories



Source: DOSM; MOF; SERC

Inflation is cooling, but prices are high

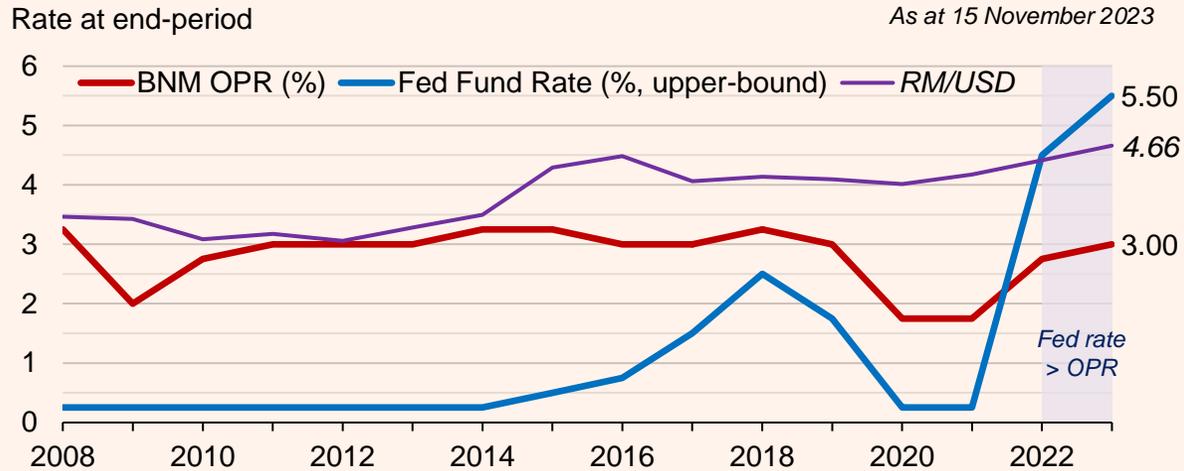
- Both headline and core inflation have moderated, mainly due to easing cost pressures.
- Inflation is expected to rise higher to 2.8%-3.5% in 2024 (2.9% in 2023).
- The Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.

Dampening factors

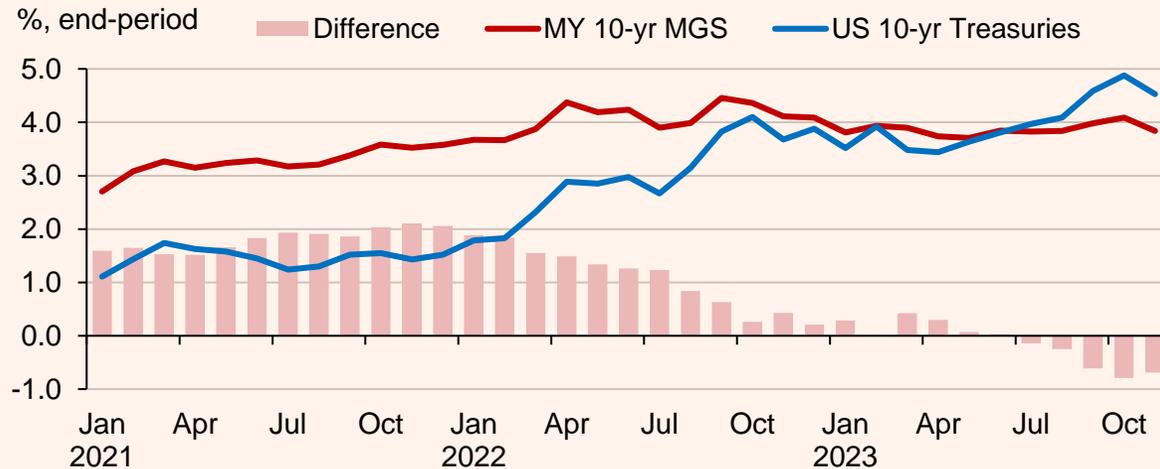
- Gradual shift towards targeted subsidy mechanism.
- Risks come from fluctuation in exchange rates and supply-related factors, such as global commodity prices, geopolitical uncertainties and climatic conditions.

BNM's OPR to hold steady at 3.00% in 1H 2024; the Ringgit is undervalued

BNM OPR vs. Fed Funds Rate vs. RM/USD



Yields: MY 10-year MGS vs. US 10-year Treasuries

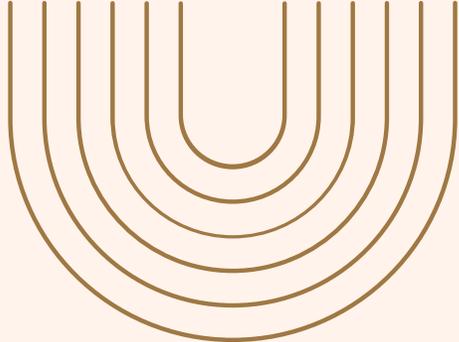


Source: Fed; BNM; US Treasury Department

As at 15 November 2023

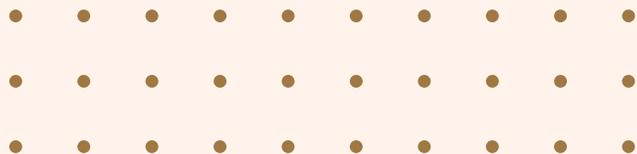
OPR set to stay put at 3.00%

- Growth supporting remains the policy priority.
- Subsidy rationalisation-induced inflation will restrain demand.
- MY-US interest rate differentials would cap the Ringgit's appreciation against the US dollar.
- BOJ's abandon of negative interest rate policy could induce financial volatility.
- RM/USD scenarios:
 - Scenario 1:
No cut in the Fed funds rate (1H 2024): RM4.55-RM4.60
 - Scenario 2:
Cut in the Fed funds rate (2H 2024): RM4.35-RM4.40



Addressing Structural Weaknesses, Issues and Challenges to “Raise the Ceiling” and “Raise the Floor”

- We know what went wrong and what needs to change. We have to endure the painful transition costs and adjustments when making radical reforms and overhauling the system.
- It is a call to action to move the agenda forward; to address a broad spectrum of critical issues that we collectively face; and aim to shed light on what future we face, what future we want and what must be done to get there



Issues and challenges hindering Malaysia's growth path

1



Economic Complexity

Improved marginally

2



Labour Productivity

Stagnated

3



Talent

Shortage and skills mismatch

4



Product & Market diversification

Improved marginally

5



Ease of Doing Business

Need to improve

6



Private Investment

FDI hampering; DDI decreasing

7



Fiscal Space

Limited

8

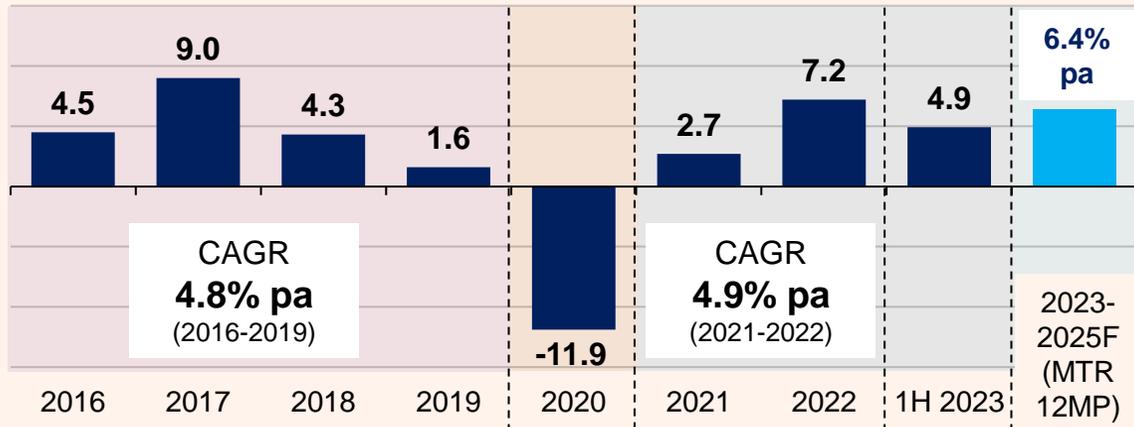


Demographic Trend

Aged society

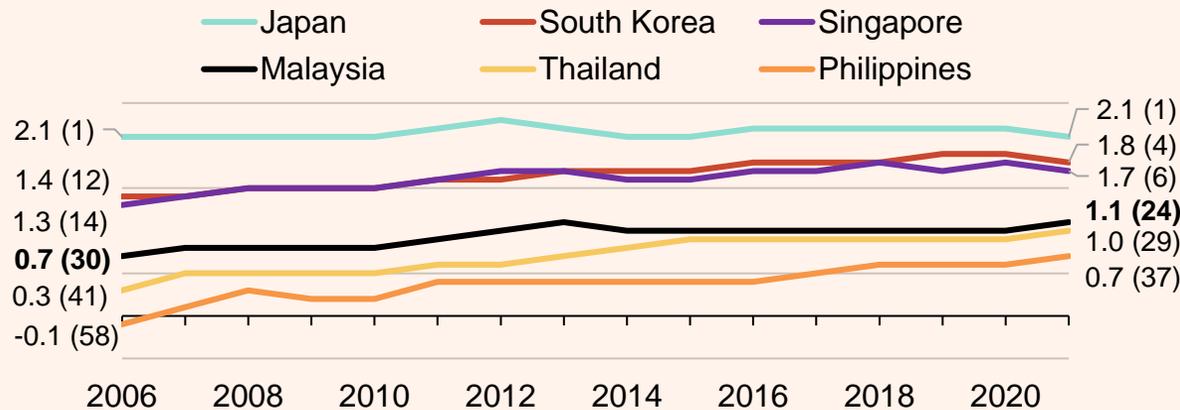
Lack of catalytic investment drivers

Private Investment Growth (%)



Malaysia's ECI is improving, but others are catching up rapidly

Economic Complexity Index (Ranking)

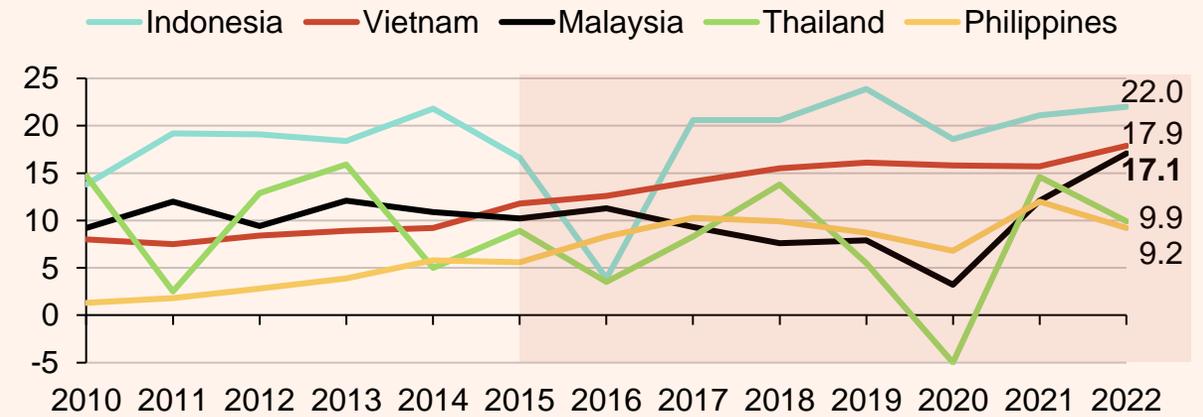


Note: Figure in parenthesis denotes ranking.

Source: DOSM; ASEAN Secretariat, The Observatory of Economic Complexity (ECI Trade)

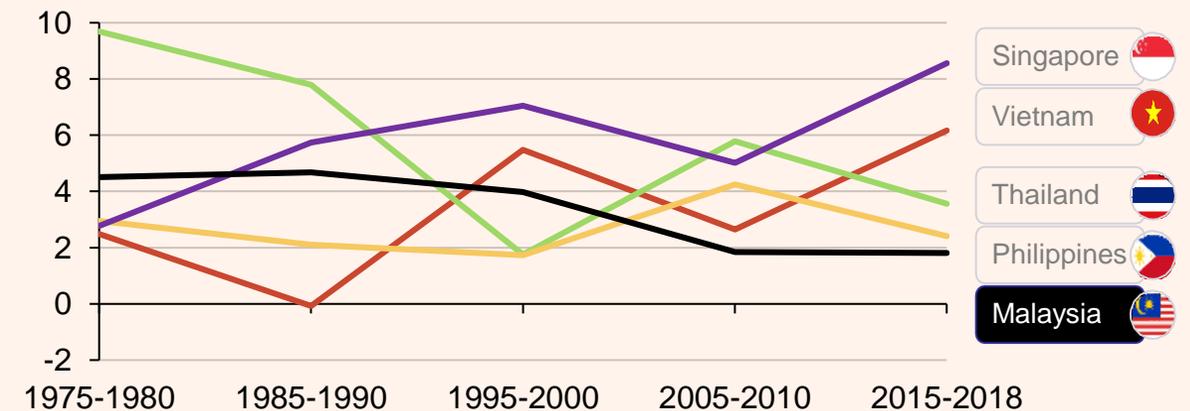
Malaysia's FDI is falling behind Vietnam and Indonesia

Inward FDI (USD billion)



Malaysia's labour productivity is lagging behind peers

Labour Productivity Growth in Manufacturing Sector (%)



Levers of change for the transformation of Malaysia

Malaysia MADANI Economy

Whole-of-Malaysia approach

Raise the Ceiling Leading Asian Economy

- Competitive & World Class Investment Destination
- Digital & Innovation-led Industry
- Global Leader in Islamic Finance
- MSMEs as Regional Champions
- Security & Sustainability of Economy

Raise the Floor Quality & Just Life for All

- Respectable Jobs & Decent Standard of Living
- Equality & Inclusive Opportunities
- Universal Access to Quality Education & Healthcare Services
- World-Class Basic Infrastructure & Public Services
- Social & Protection for All

7 intermediate indicators:



Top 25 in Corruption Perception Index
2022: Ranked #61



Top 30 largest economy
2022: Ranked #35



45% in labour share of income
2022: 32.4%



Top 12 in global competitiveness
2023: Ranked #27



≤ 3% of fiscal deficit
2022: -5.6%



Top 25 in Human Development Index
2021: Ranked #62



60% of female labour force participation rate
2023-Q1: 56.1%

Source: World Bank, IMD Business School; United Nations Development Programme; Transparency International; DOSM; MOF

National Energy Transition Roadmap (NETR)

6 Energy Transition Levers



Energy Efficiency (EE)



Renewable Energy (RE)



Hydrogen



Bioenergy



Green Mobility



Carbon Capture, Utilisation and Storage (CCUS)

10 Flagship Catalyst Project

Efficient Switch

Renewable Energy Zone (RE Zone)

Energy Storage

Energy Secure

Green Hydrogen

Hydrogen for Power

Biomass Demand Creation

Future Mobility

Future Fuel

CCS for Industry

Selected targets by 2030:



23% in industry and commercial energy efficiency savings



0% in coal share of installed capacity



70% in renewable energy share of installed capacity



3-6 units in CCUS cluster

New Industrial Master Plan (NIMP) 2030

Goals (supported by 4 missions + enablers)



Increase economic complexity



Create high-value job opportunity



Extend domestic linkages



Develop new & existing clusters

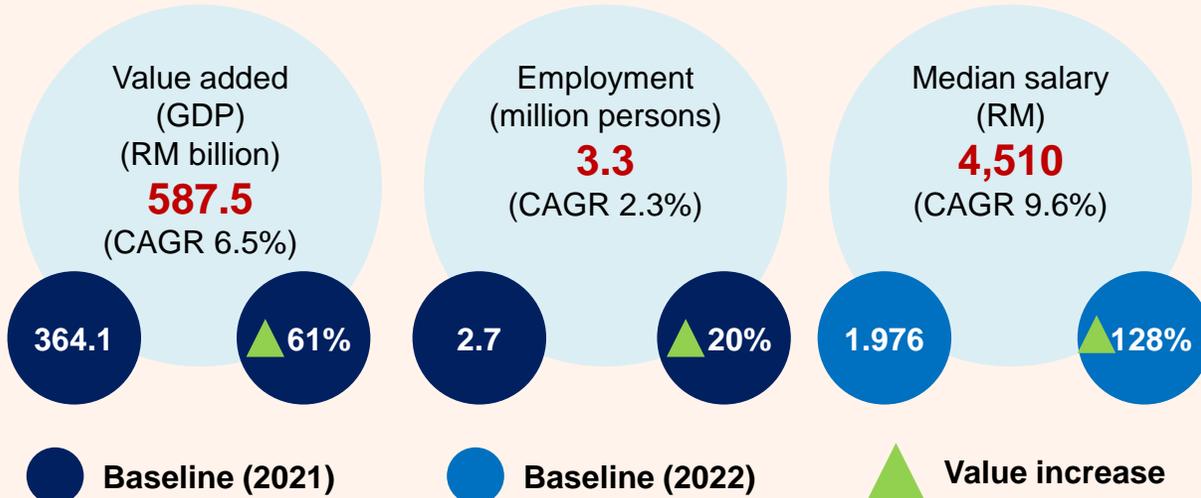


Improve inclusivity



Enhance ESG practices

Top-line Targets for Manufacturing Sector by 2030:



The Mid-Term Review of 12th Malaysia Plan (MTR of 12MP)

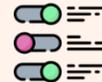
17 Big Bolds to Catalyse Socio-economic Development



Focus Area

- Strengthening sustainability (3 Big Bolds)
- Building prosperous society (5 Big Bolds)
- Achieving high-income nation (7 Big Bolds)

3 Focus Areas
1 Enabler
17 Big Bolds
71 Initiatives



Enabler

- Strengthening efficiency of the public service delivery (2 Big Bolds)

Selected Multidimensional Goals 2021-2025:



5%-6% in GDP growth per annum



RM61,000 in GNI per capita



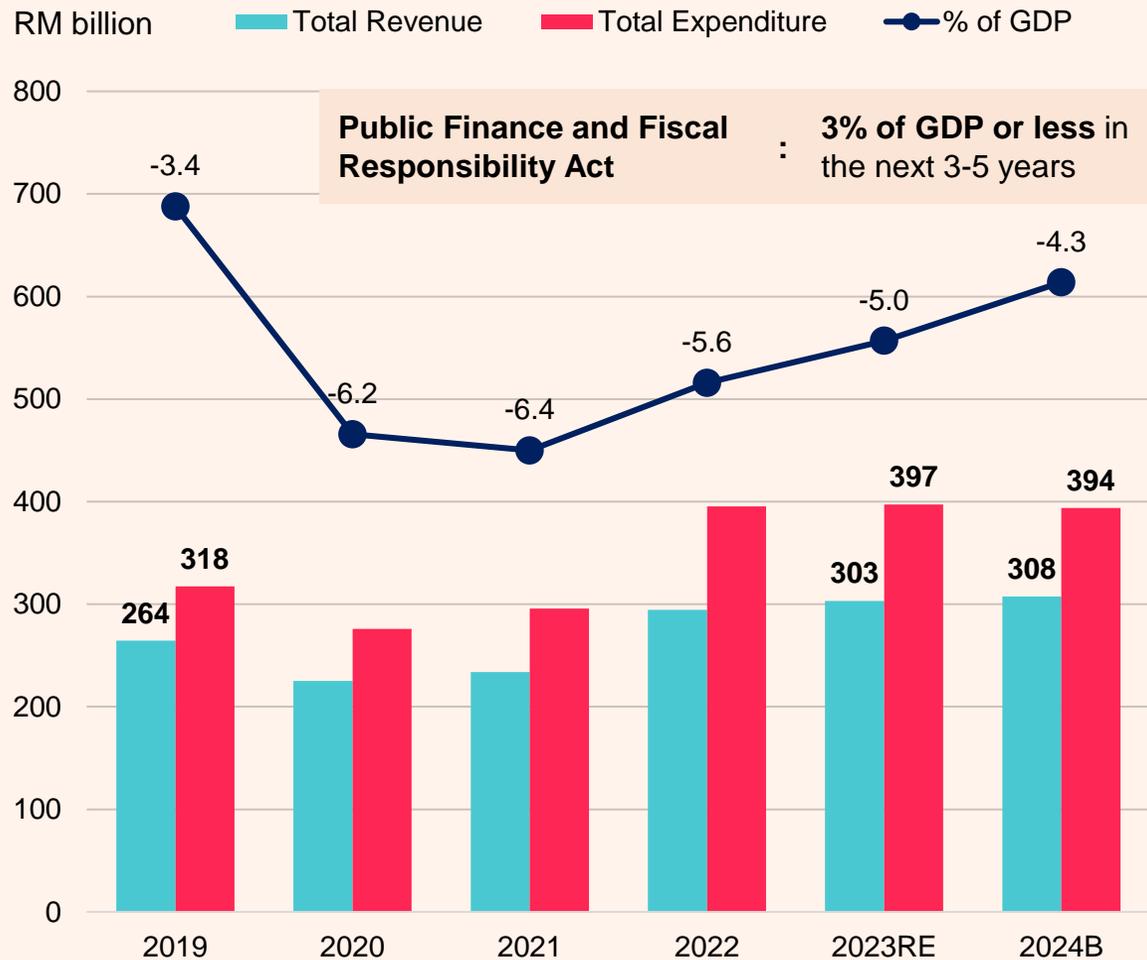
40% in compensation of employees of GDP



45% reduction in GHG emissions intensity to GDP

A look at the 2024 Budget

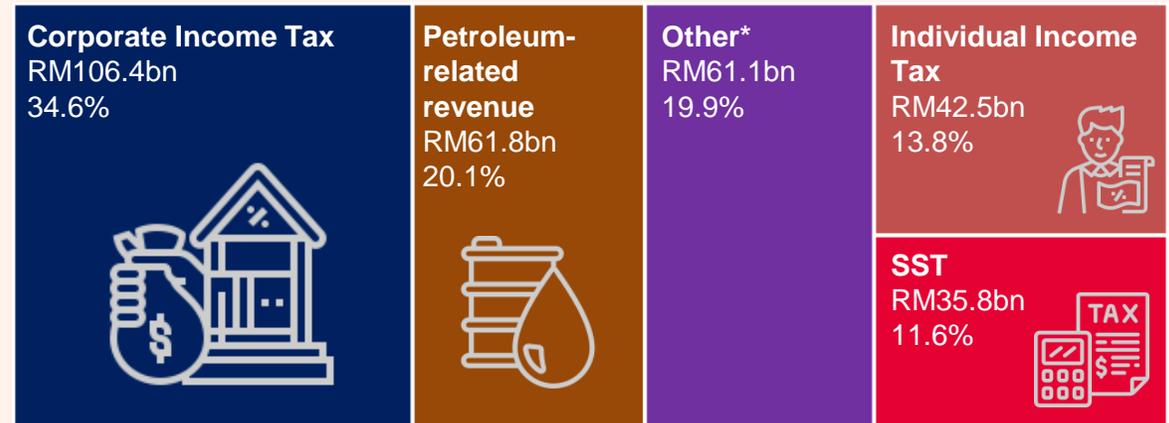
What is the Government's Budget stance?



Source: MOF RE=Revised Estimate; B=Budget Estimate

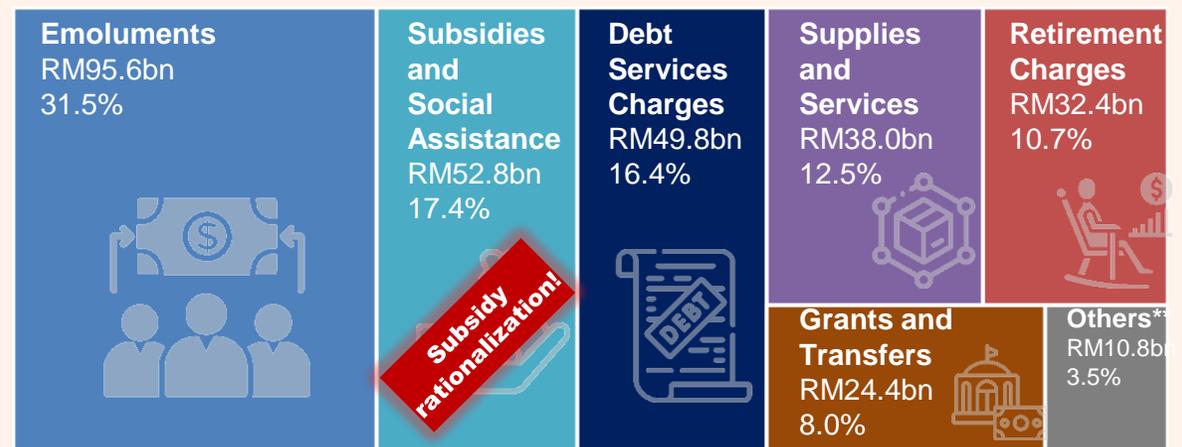
Note: Excludes budget measures

Where are the sources of Government's revenue in 2024B?



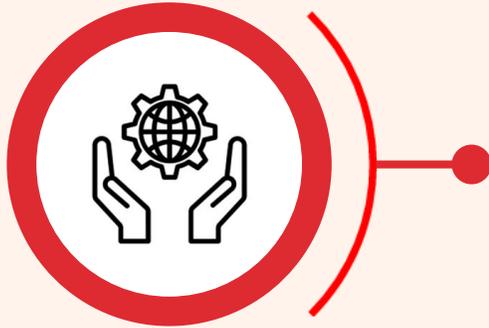
* Include non-tax revenue, excise duty, stamp duty, etc.

How does Government manage its operating expenditure in 2024B?



** Includes asset acquisition, refunds and write-offs, grants to statutory funds, etc.

The 2024 Budget focuses on three areas:



Focus Area 1 Good Governance for Service Agility



Focus Area 2 Restructuring of the Economy to Boost Growth



Focus Area 3 Raising Rakyat's Standard of Living

Key measures



Increase Service Tax rate to 8% from 6%, with some exemptions e.g. food and drink, telcos services, etc. It widens the scope of service tax to include logistics services, brokerage, underwriting and karaoke services.



Capital Gains Tax (CGT) on the disposal of unlisted shares (10% on the net gain of share disposal; with option of 2% on the gross sales value for shares acquired before 1 Jan 2024).



High-Value Goods tax (5% to 10%), starting 1 May 2024.



Table the **Government Procurement Act in 2024**.



RM44bn of loan facilities and financing guarantees for MSMEs.



MIDA is tasked to facilitate FDI and DDI from the investment applications until the realisation of approved investment.



Tax deduction on Environmental, Social and Governance (ESG)-related expenses up to RM50,000/year in YA 2024-YA 2027.

THANK YOU

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