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PREMIER TAX EVENT OF THE YEAR
NATIONAL TAX CONFERENCE
2020

25 & 26 AUGUST 2020 | TUESDAY & WEDNESDAY
VIA LIVE STREAMING

Panel Member:

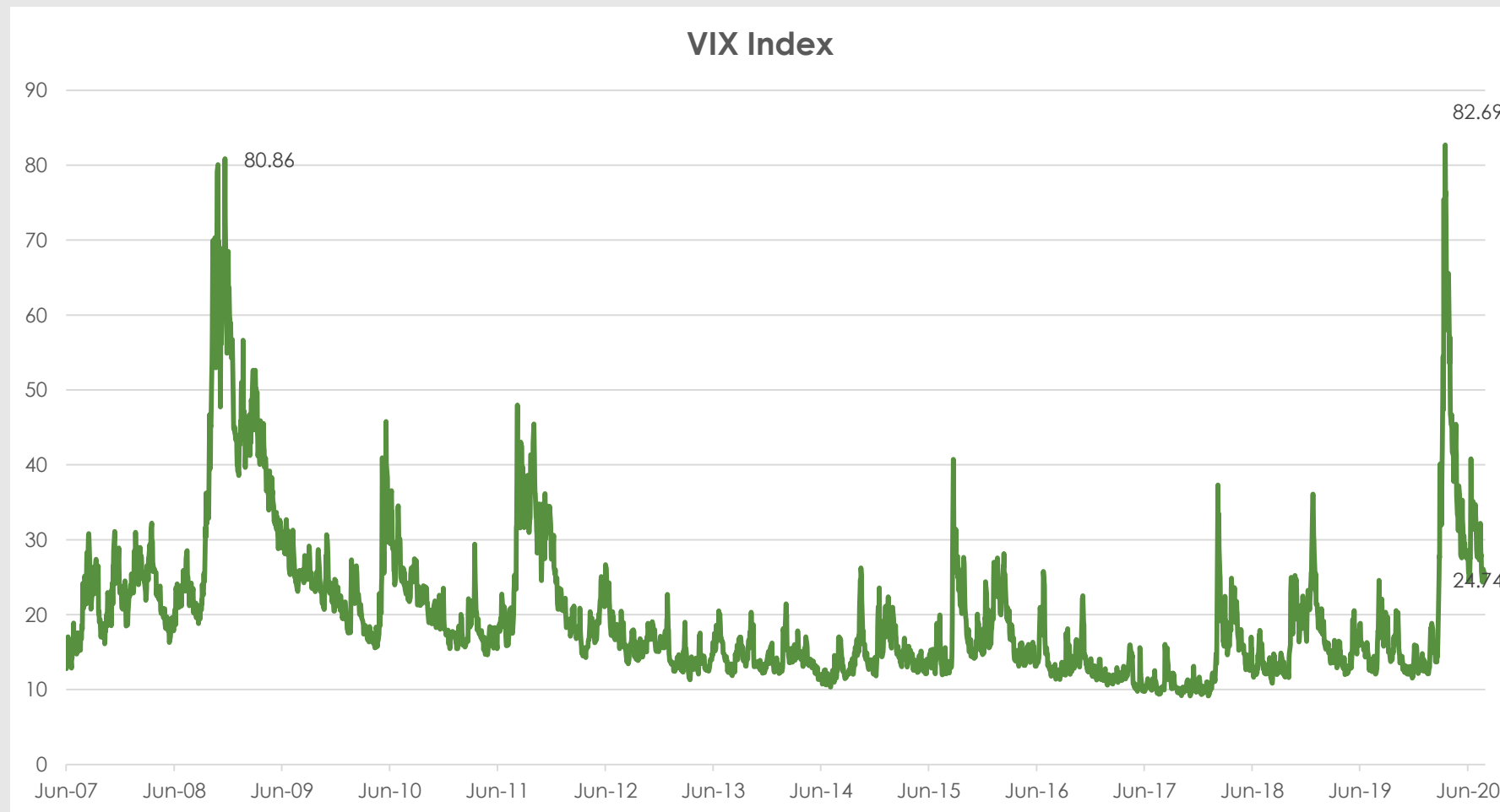
Dr Mohd Afzanizam Abdul Rashid
Chief Economist
Bank Islam Malaysia Berhad

TOPIC 2:
**COVID-19: ECONOMIC
OUTLOOK AND CHALLENGES
—A MALAYSIA PERSPECTIVE**



ECONOMICS AND MARKETS HAVE BEEN VERY VOLATILE

Volatility Index (VIX) has shot up to 82.69 points in March 2020, surpassing the Global Financial Crisis (GFC) in 2008-2009.





HOW'S THE ECONOMIC LOOK? HIGHLY UNCERTAIN

(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	2018	2019	Projections		Difference from April 2020 WEO Projections 1/		2019	Projections	
			2020	2021	2020	2021		2020	2021
World Output	3.6	2.9	-4.9	5.4	-1.9	-0.4	2.8	-3.5	4.6
Advanced Economies	2.2	1.7	-8.0	4.8	-1.9	0.3	1.5	-7.2	5.1
United States	2.9	2.3	-8.0	4.5	-2.1	-0.2	2.3	-8.2	5.4
Euro Area	1.9	1.3	-10.2	6.0	-2.7	1.3	1.0	-8.6	5.8
Germany	1.5	0.6	-7.8	5.4	-0.8	0.2	0.4	-6.7	5.5
France	1.8	1.5	-12.5	7.3	-5.3	2.8	0.9	-8.9	4.2
Italy	0.8	0.3	-12.8	6.3	-3.7	1.5	0.1	-10.9	5.5
Spain	2.4	2.0	-12.8	6.3	-4.8	2.0	1.8	-11.4	6.3
Japan	0.3	0.7	-5.8	2.4	-0.6	-0.6	-0.7	-1.8	0.0
United Kingdom	1.3	1.4	-10.2	6.3	-3.7	2.3	1.1	-9.0	6.9
Canada	2.0	1.7	-8.4	4.9	-2.2	0.7	1.5	-7.5	4.6
Other Advanced Economies 3/	2.7	1.7	-4.8	4.2	-0.2	-0.3	1.9	-5.1	5.5
Emerging Market and Developing Economies	4.5	3.7	-3.0	5.9	-2.0	-0.7	3.9	-0.5	4.2
Emerging and Developing Asia	6.3	5.5	-0.8	7.4	-1.8	-1.1	5.0	2.4	3.9
China	6.7	6.1	1.0	8.2	-0.2	-1.0	6.0	4.4	4.3
India 4/	6.1	4.2	-4.5	6.0	-6.4	-1.4	3.1	0.2	1.2
ASEAN-5 5/	5.3	4.9	-2.0	6.2	-1.4	-1.6	4.6	-1.4	6.1
Emerging and Developing Europe	3.2	2.1	-5.8	4.3	-0.6	0.1	3.4	-7.0	6.6
Russia	2.5	1.3	-6.6	4.1	-1.1	0.6	2.2	-7.5	5.6
Latin America and the Caribbean	1.1	0.1	-9.4	3.7	-4.2	0.3	-0.2	-9.0	4.1
Brazil	1.3	1.1	-9.1	3.6	-3.8	0.7	1.6	-9.3	4.5
Mexico	2.2	-0.3	-10.5	3.3	-3.9	0.3	-0.8	-10.1	4.8
Middle East and Central Asia	1.8	1.0	-4.7	3.3	-1.9	-0.7	...	...	...
Saudi Arabia	2.4	0.3	-6.8	3.1	-4.5	0.2	-0.3	-4.4	4.1
Sub-Saharan Africa	3.2	3.1	-3.2	3.4	-1.6	-0.7	...	...	...
Nigeria	1.9	2.2	-5.4	2.6	-2.0	0.2	...	...	...
South Africa	0.8	0.2	-8.0	3.5	-2.2	-0.5	-0.6	-2.1	-2.8
<i>Memorandum</i>									
Low-Income Developing Countries	5.1	5.2	-1.0	5.2	-1.4	-0.4	...	...	...
World Growth Based on Market Exchange Rates	3.1	2.4	-6.1	5.3	-1.9	-0.1	2.3	-4.9	4.8
World Trade Volume (goods and services) 6/	3.8	0.9	-11.9	8.0	-0.9	-0.4

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Source: IMF World Economic Outlook Update, June 2020



THE LATEST GROSS DOMESTIC PRODUCT (GDP) YEAR-ON-YEAR CHANGE (%)

	1Q 19	2Q 19	3Q 19	4Q 19	1Q 20	2Q 20
US	2.3	2.0	2.1	2.3	0.3	(9.5)
UK	2.0	1.4	1.3	1.1	(1.7)	na
Eurozone	1.4	1.3	1.4	1.0	(3.1)	(15.0)
Germany	1.0	0.3	0.7	0.4	(2.3)	(11.7)
France	1.8	1.8	1.6	0.8	(5.7)	(19.0)
Italy	0.3	0.4	0.5	0.1	(5.5)	(17.3)
Brazil	0.6	1.1	1.2	1.7	(0.3)	(0.3)
Argentina	(5.9)	0.4	(1.8)	(1.1)	(5.4)	(5.4)
South Africa	-	0.9	0.1	(0.5)	(0.1)	(0.1)
Japan	0.8	0.9	1.7	(0.7)	(1.7)	na
Turkey	(2.3)	(1.6)	1.0	6.0	4.5	4.5
Russia	0.4	1.1	1.5	2.1	1.6	na
China	6.4	6.2	6.0	6.0	(6.8)	3.2
India	5.7	5.2	4.4	4.1	3.1	na
Australia	1.7	1.6	1.8	2.2	1.4	1.4
Thailand	2.9	2.4	2.6	1.5	(1.8)	na
Philippines	5.7	5.4	6.3	6.7	(0.2)	na
South Korea	1.7	2.0	2.0	2.2	2.2	2.2
Singapore	1.0	0.2	0.7	1.0	(0.3)	(12.6)
Vietnam	6.8	6.7	7.3	7.0	3.8	0.4
Indonesia	5.1	5.1	5.0	5.0	3.0	(5.3)
Malaysia	4.5	4.8	4.4	3.6	0.7	na

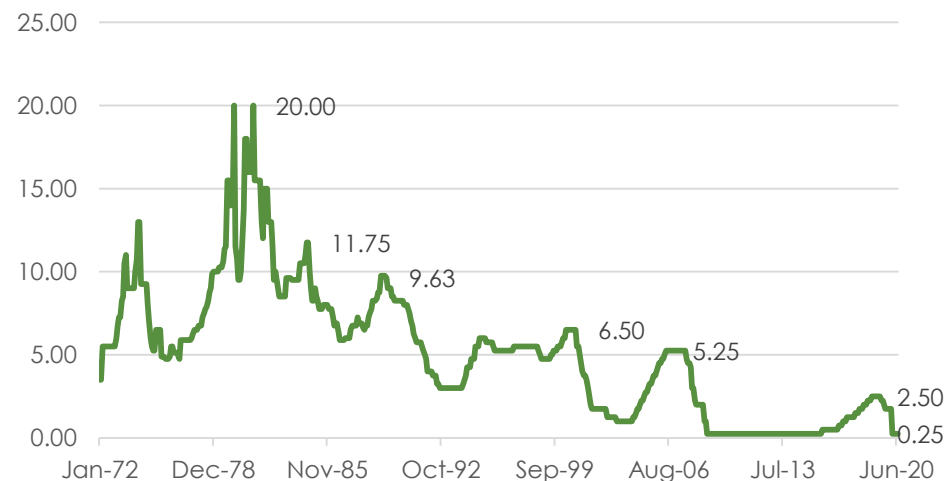
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Source: Bloomberg



BENCHMARK RATES IN THE ADVANCED COUNTRIES

US Fed - Federal Fund Rate



ECB - Main Refinancing Rate



Bank of England - Bank Rate



- Policy rates in the advanced countries have been extremely low.
- Obviously, they have not really recovered from the previous crisis in 2008/2009
- There is also structural problems plaguing the economy – aging population.



CENTRAL BANK BALANCE SHEET CONTINUES TO EXPAND

US Federal Reserve (USD trillion)



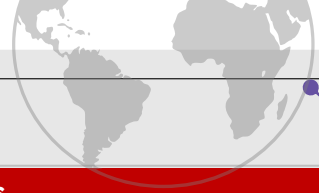
European Central Bank (EUR trillion)



Bank of Japan (Trillion yen)



- The advanced countries have been pumping cash into the global economic system.
- It remain to be seen whether such policy response has tangible effects to their economy
- One thing for sure, it can creates positive or negative externalities. **Fund flows can be a boon or bane.**



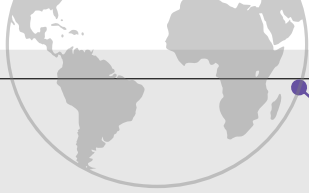
CENTRAL BANK POLICY RATES

Policy rates	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20*
Advanced countries											
US (Fed Fund Rate)	1.75	1.75	1.75	1.75	1.75	0.25	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	-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	0.00	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.75	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10
Canada (ON Lending Rate)	1.75	1.75	1.75	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25
Latin America											
Mexico (ON Rate)	7.75	7.50	7.25	7.25	7.00	6.50	6.00	5.50	5.00	5.00	5.00
Brazil (Selic Rate)	5.00	5.00	4.50	4.50	4.25	3.75	3.75	3.00	2.25	2.25	2.25
Argentina (LELIQ 7D Notes Rate)	68.00	63.00	55.00	50.00	40.00	38.00	38.00	38.00	38.00	38.00	38.00
Eastern Europe											
Russia (Key Rate)	6.50	6.50	6.25	6.25	6.00	6.00	5.50	5.50	4.50	4.25	4.25
Ukraine (Discount Rate)	15.50	15.50	13.50	11.00	11.00	10.00	8.00	8.00	6.00	6.00	6.00
Turkey (1W Repo Rate)	14.00	14.00	12.00	11.25	10.75	9.75	8.75	8.25	8.25	8.25	8.25
Asia											
China (1Y Loan Prime Rate)	4.20	4.15	4.15	4.15	4.05	4.05	3.85	3.85	3.85	3.85	3.85
India (Repo Rate)	5.15	5.15	5.15	5.15	5.15	4.40	4.40	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	5.00	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25	4.00	4.00
Thailand (1D Repo Rate)	1.50	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.50
South Korea (Base Rate)	1.25	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	4.00	4.00	4.00	4.00	3.75	3.25	2.75	2.75	2.25	2.25	2.25
Australia (Cash Rate)	0.75	0.75	0.75	0.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25
New Zealand (Cash Rate)	1.00	1.00	1.00	1.00	1.00	0.25	0.25	0.25	0.25	0.25	0.25
Malaysia (OPR)	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00	1.75	1.75



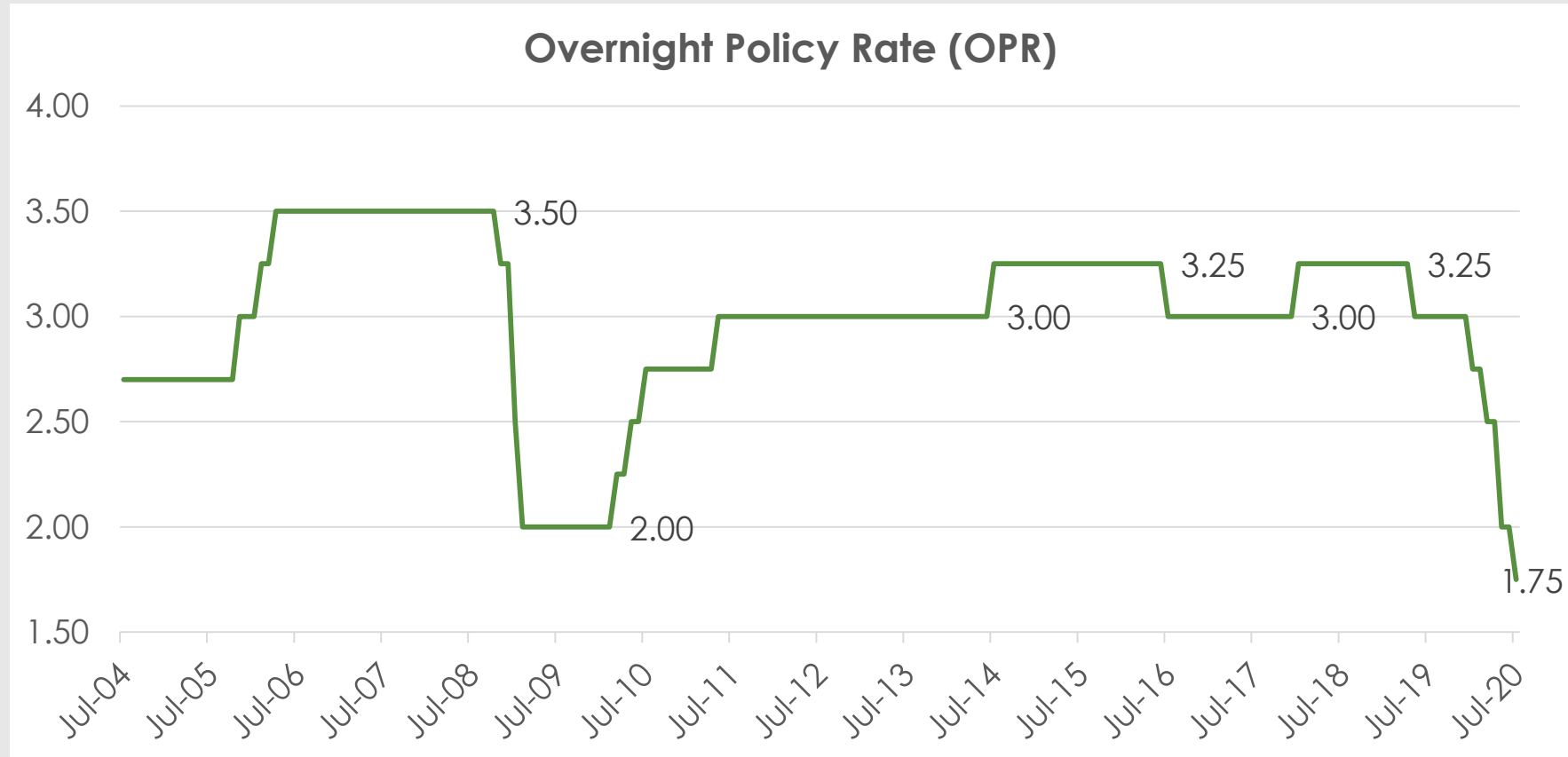
***As at 5 August 2020**

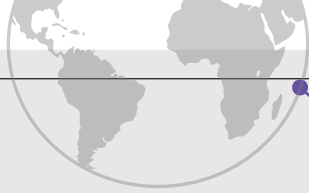
Central banks across the globe remained accommodative and supportive to economic growth. Thus far, the target range for the federal funds rate (FFR) was expected to remain at its Effective Lower Bound (ELB) for at least the next couple of years.



MALAYSIA'S OVERNIGHT POLICY RATE (OPR)

- Will BNM follows their counterpart in the advanced countries?
- Let's hope not
- But no one can guarantee that

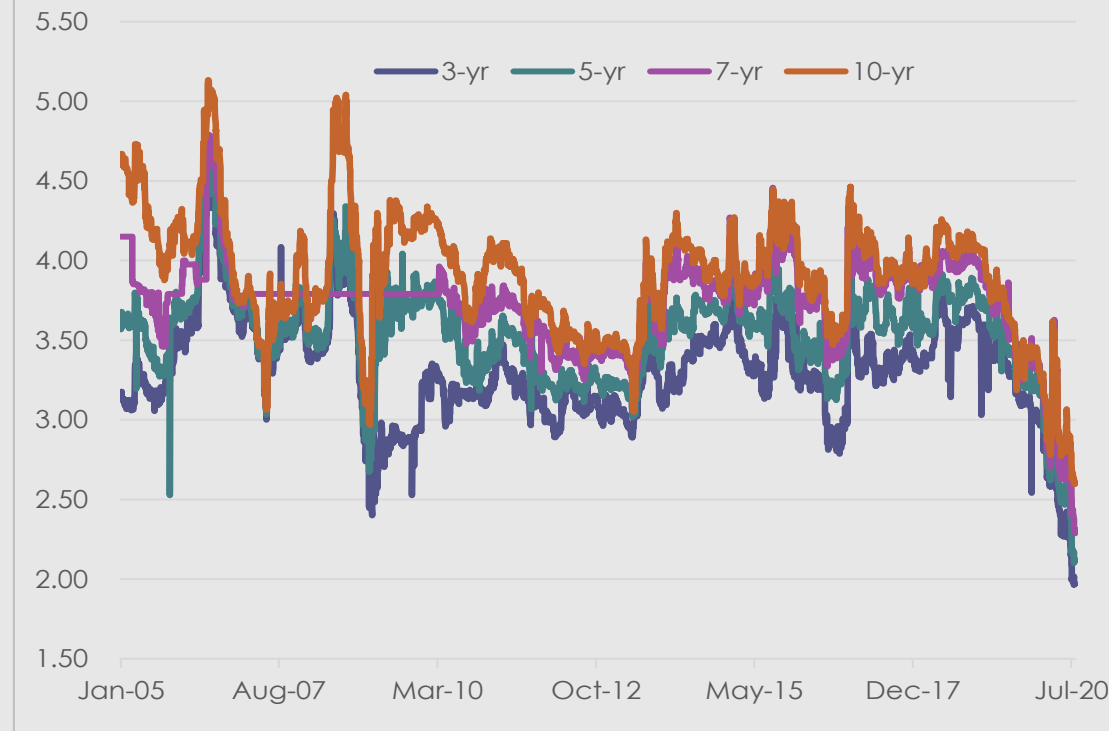




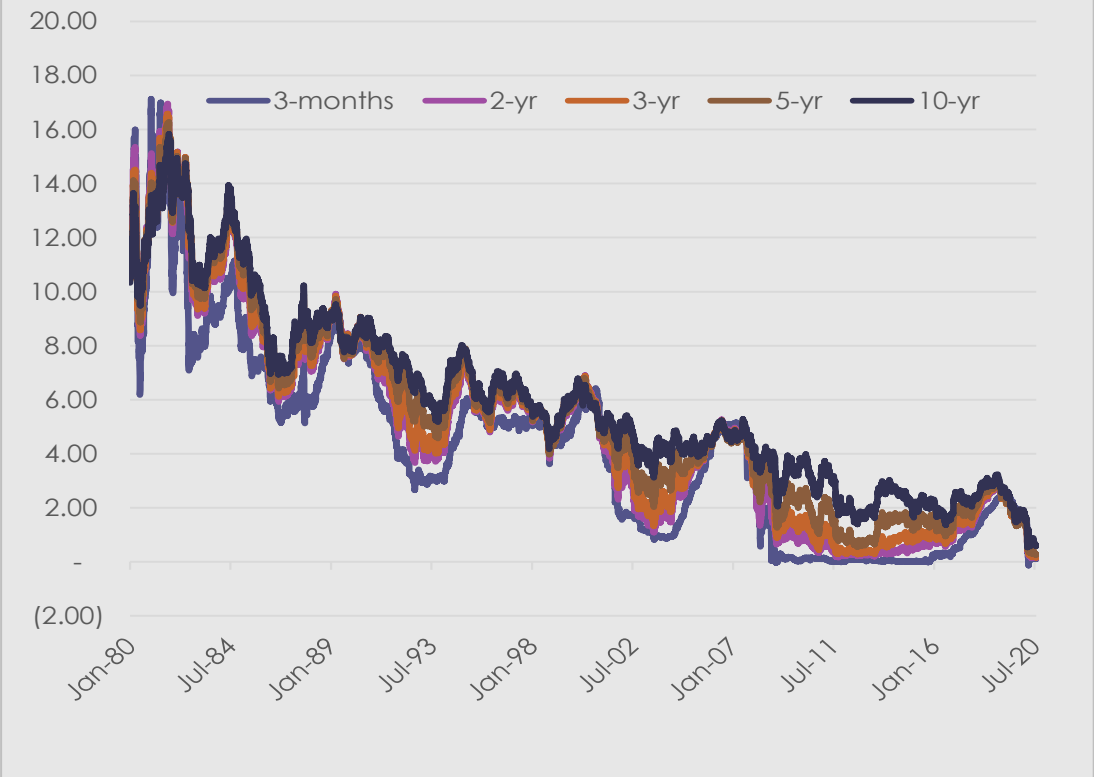
BOND YIELDS HAVE BEEN TRENDING DOWN

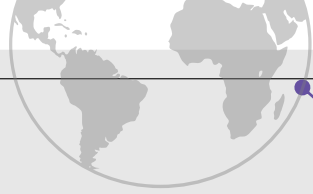
Government bond yields are generally on declining trend. Investment returns are low for this asset class.

Malaysian Government Securities (MGS) yields



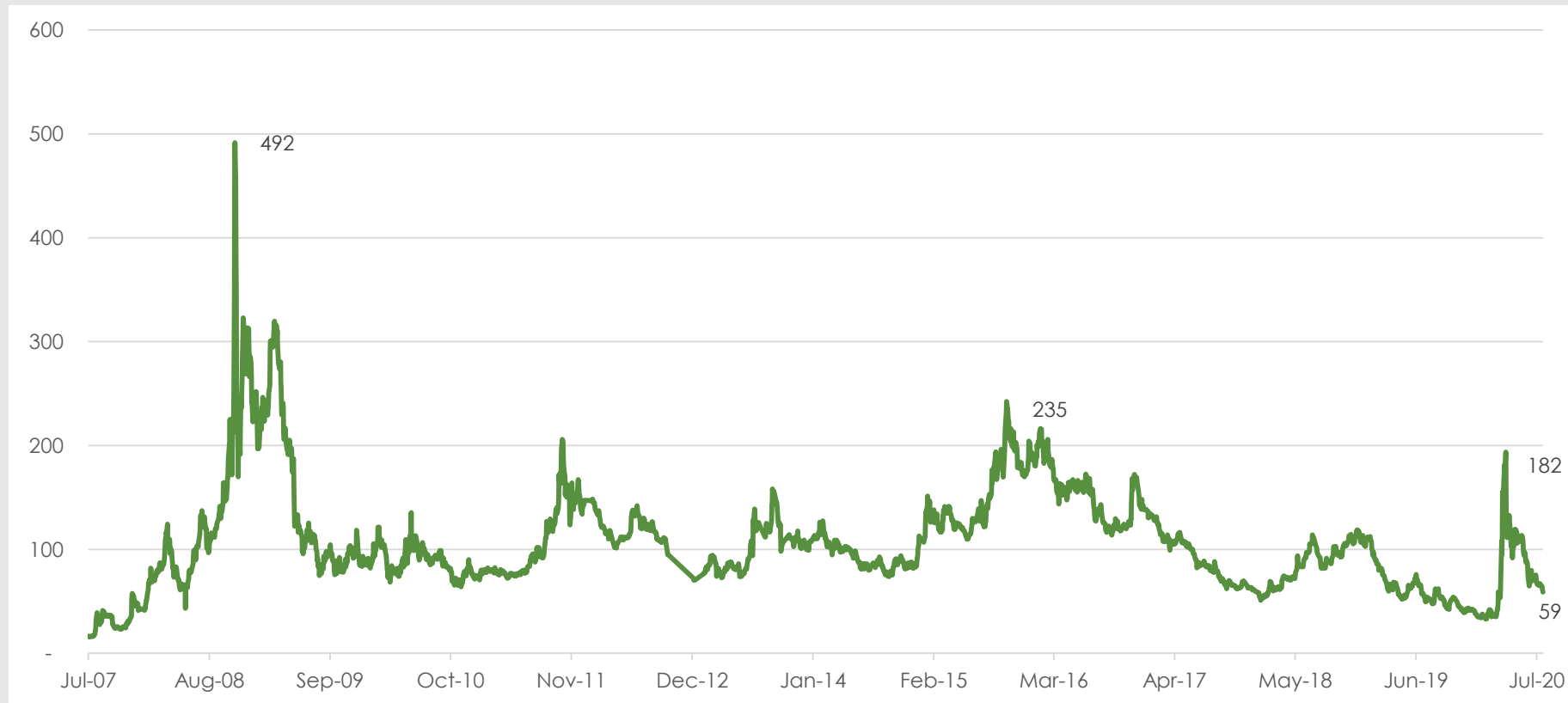
US Treasury yields





THE 5-YEAR CREDIT DEFAULT SWAP (CDS) SPREAD FOR GOVERNMENT OF MALAYSIA (GOM)

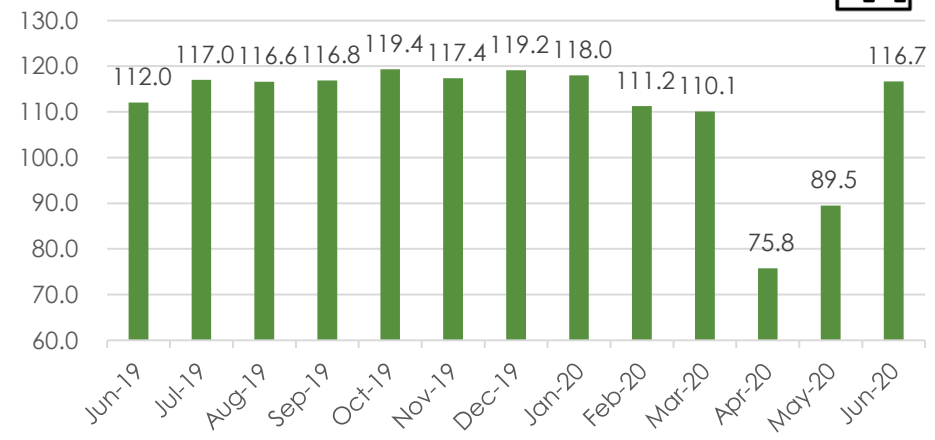
The 5-year CDS spread narrowed significantly from 182 basis points in March 2020 to 59 basis points presently. This clearly shows fixed income investors are comfortable with GOM's credit. **The government can actually spend more.**



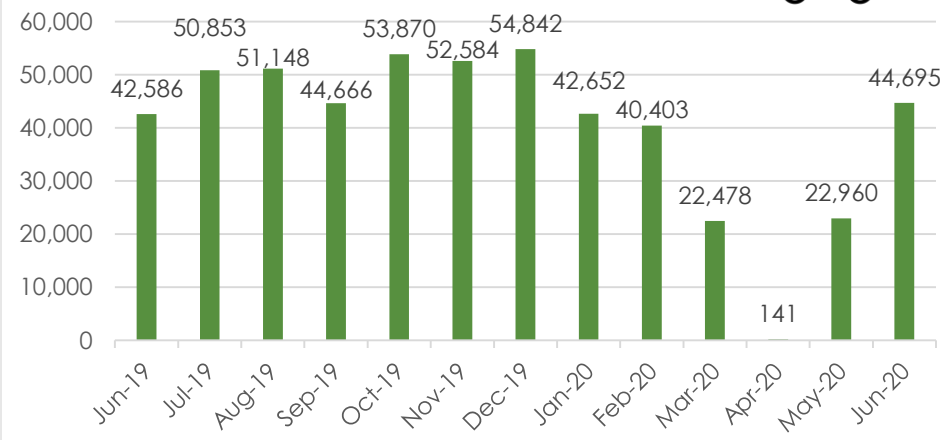


SIGNS OF RECOVERY

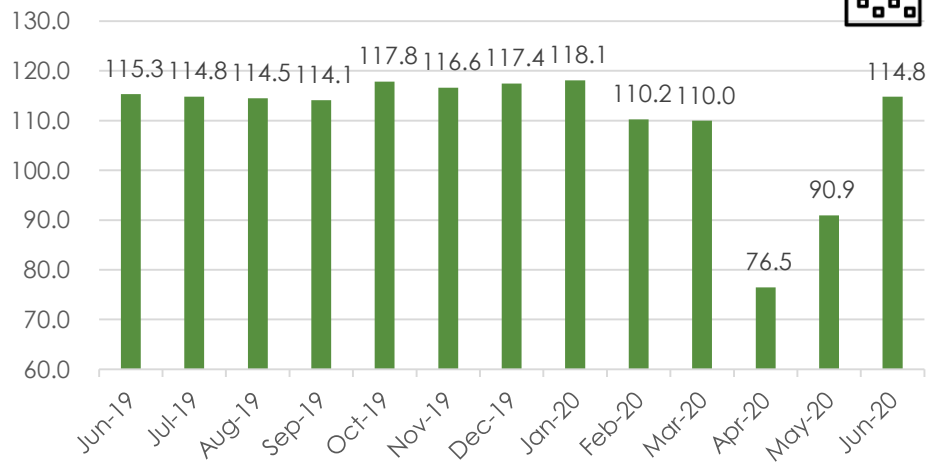
Manufacturing sales (RM billion)



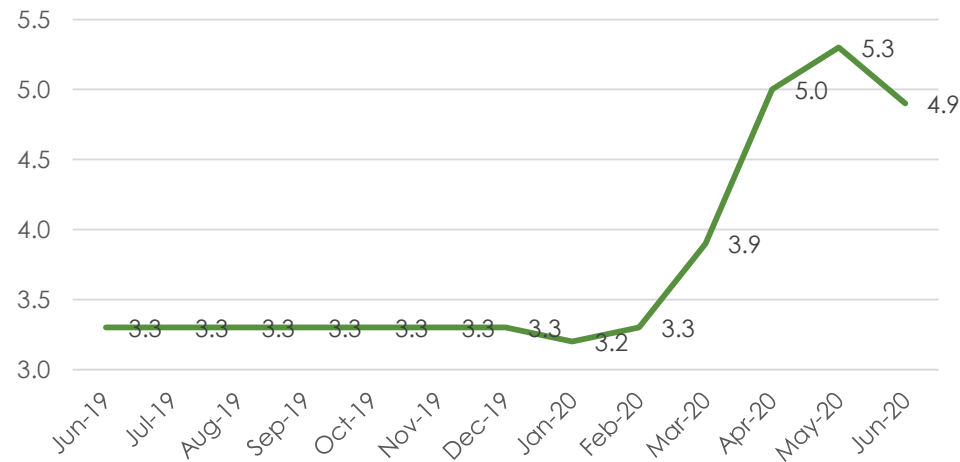
Total Industry Volume (TIV)



Industrial Production Index (IPI)

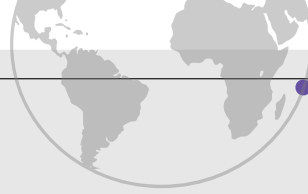


Unemployment Rate (%)



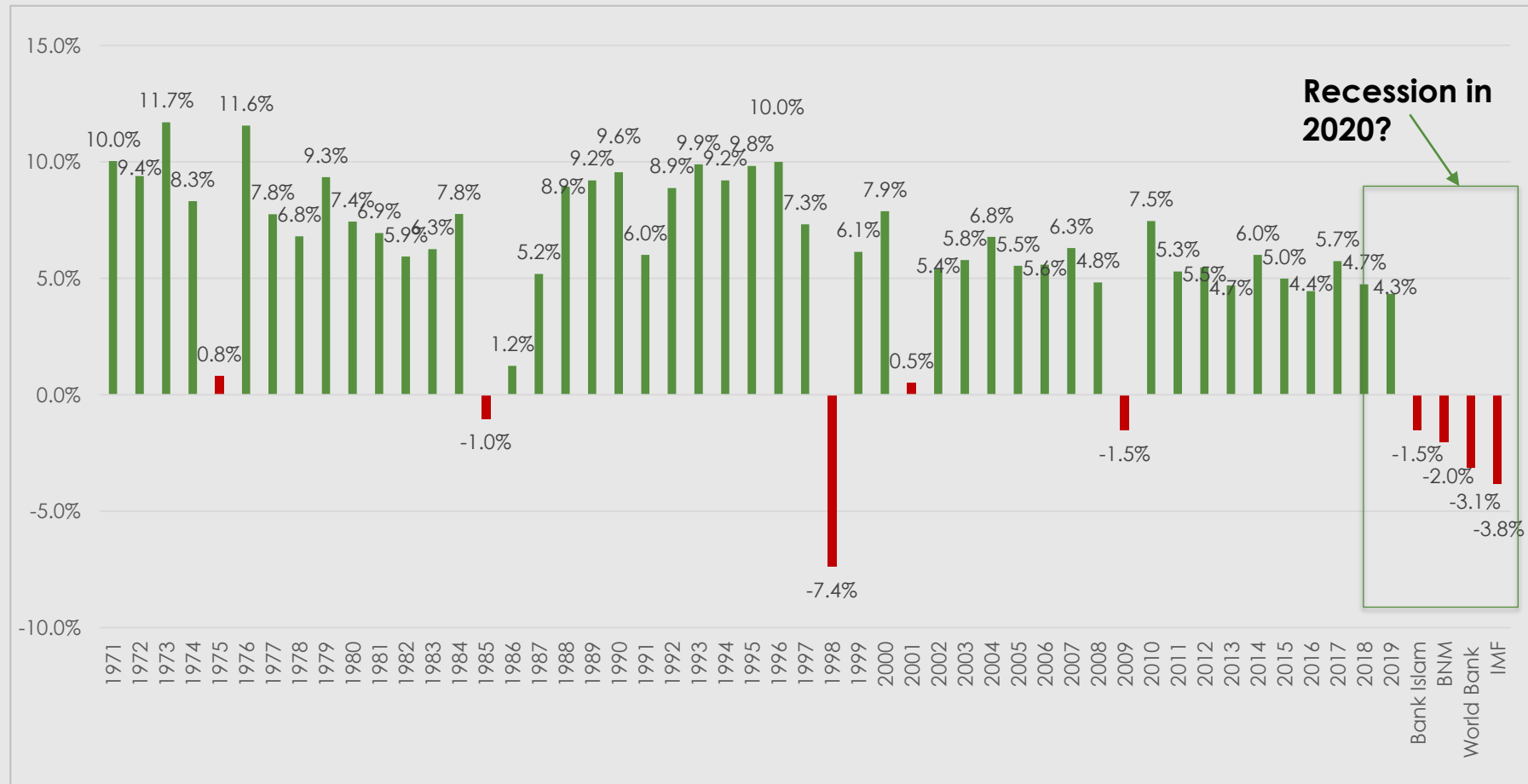
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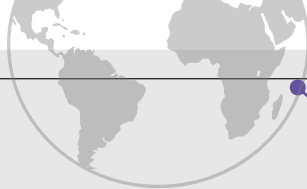
Source: Bloomberg, CEIC



THE ECONOMY MOVES IN CYCLE

- Malaysia's GDP since 1971
- Three GDP contractions
- There seems to be a 10-year cycle
- Important for strategic planning

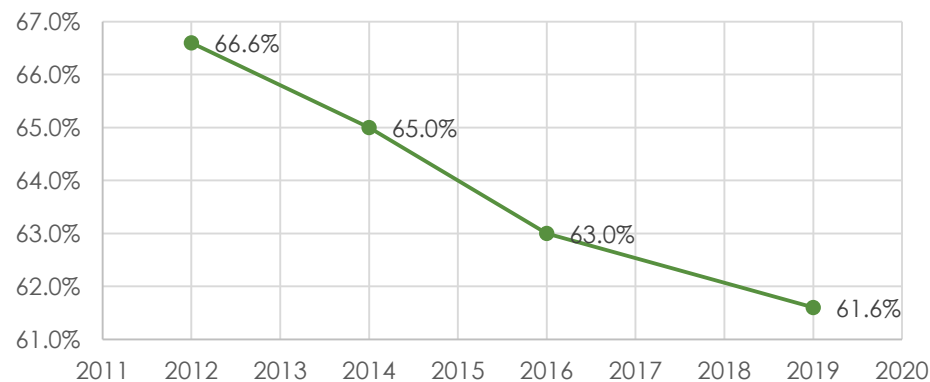




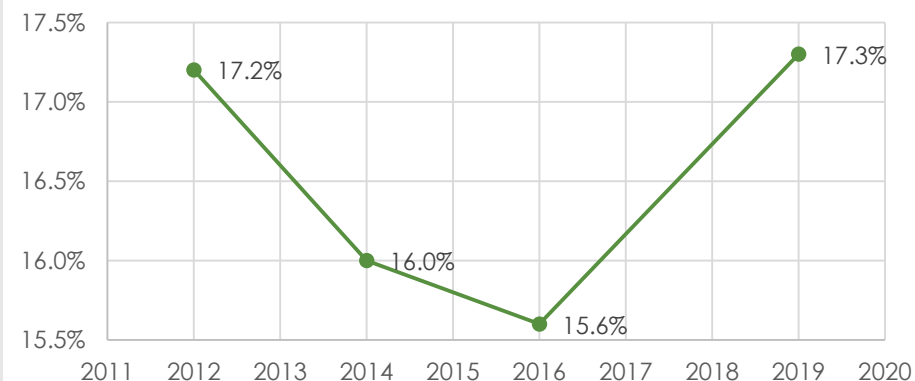
COMPOSITION OF HOUSEHOLD INCOME

Self-employment and Property & Investment are gaining their share of income

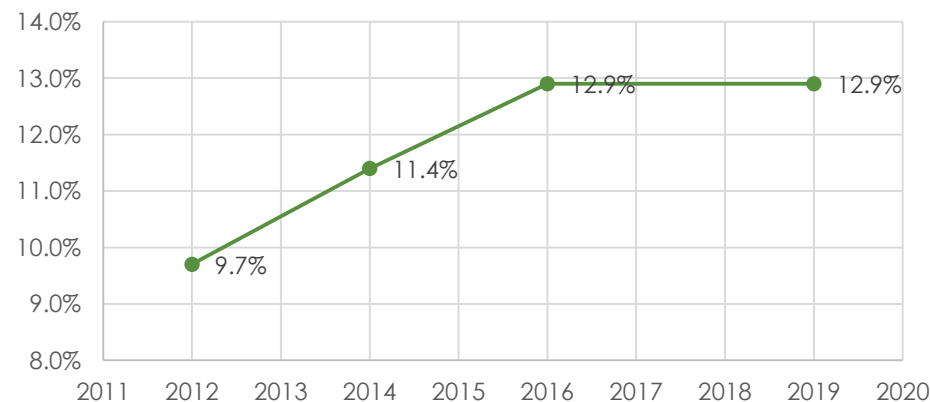
Paid employment



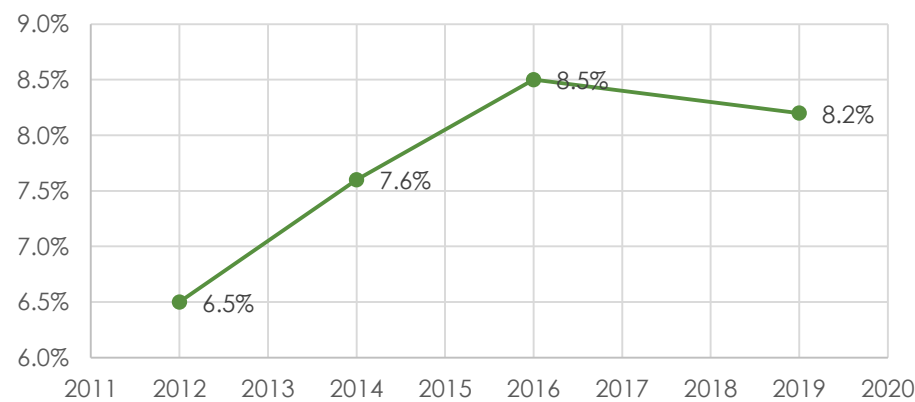
Self-employment

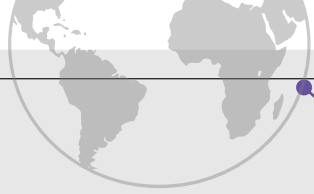


Property & Investment



Current transfer received





WEALTH GURUS / SOCIAL MEDIA INFLUENCER



KC Lau



Fred Tam



leza



Faizul Ridzuan

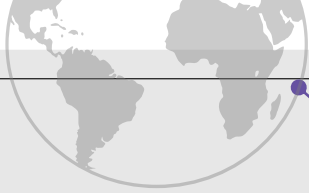


DDNK



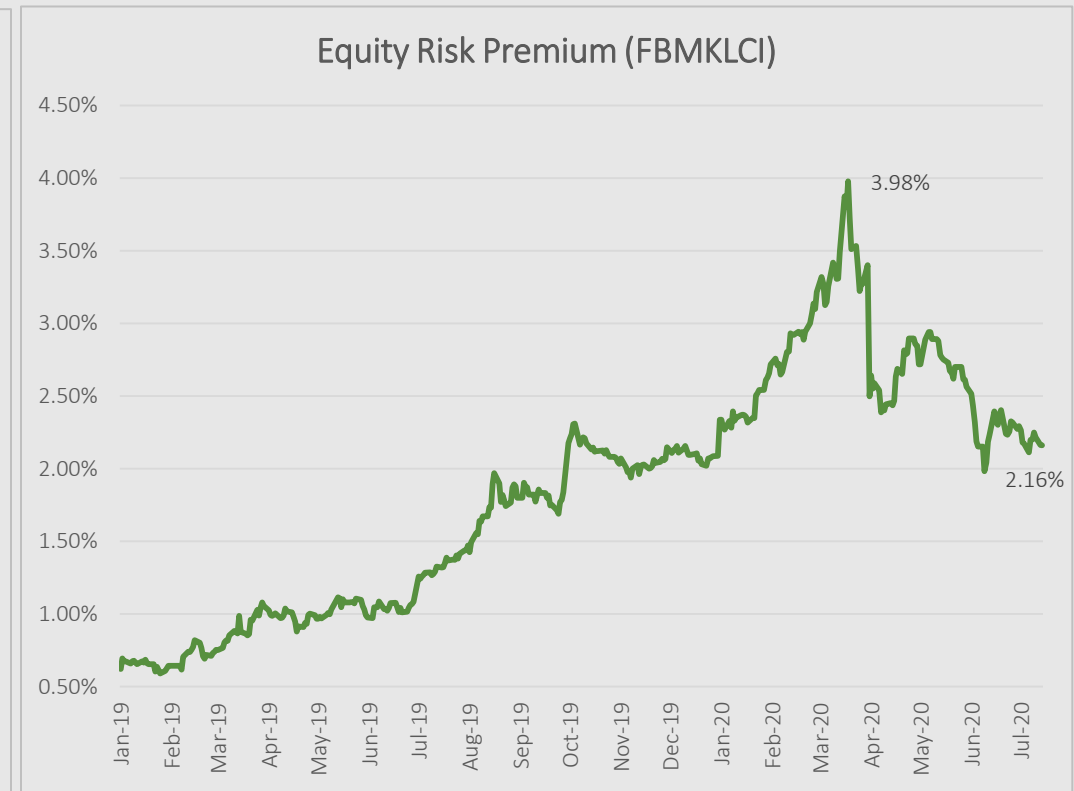
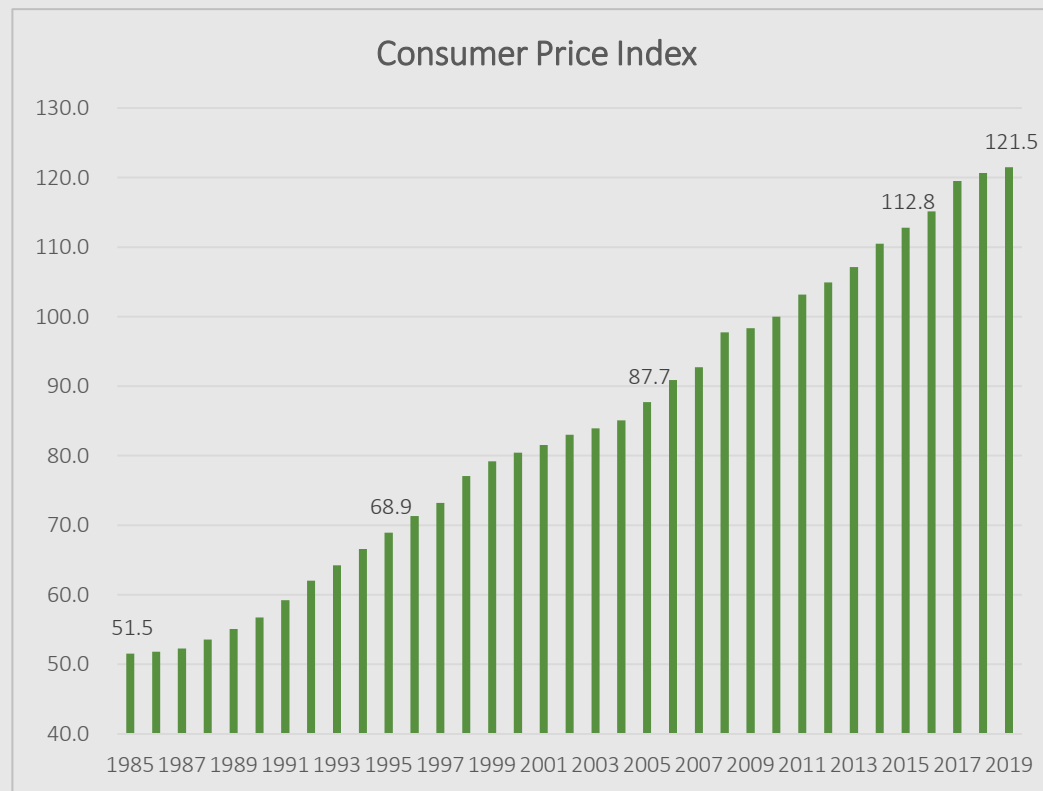
Asri Ahmad

Our society has been trying to better themselves. This is good.



IS THERE A UNIVERSAL INTERNAL RATE OF RETURN?

- The 35-year Compound Annual Growth Rate (CAGR) showed prices have been rising at a rate of 2.5% per annum.
- The average Equity Risk Premium (ERP) stood at around 2.2%.
- Perhaps, there is universal internal rate of return (IRR).
- **$2\% + 2.5\% = 4.5\%$ -----(Universal IRR)?**
- **This should help you decide on your asset allocation.**



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Source: CEIC & Economic Research, Bank Islam

DISCOVERY OF VACCINE LOOKS PROMISING NOW – A REASON TO BE OPTIMISTIC

THE NEW ENGLAND JOURNAL OF MEDICINE

ORIGINAL ARTICLE

An mRNA Vaccine against SARS-CoV-2 — Preliminary Report

L.A. Jackson, E.J. Anderson, N.G. Rouphael, P.C. Roberts, M. Makhene, R.N. Coler, M.P. McCullough, J.D. Chappell, M.R. Denison, L.J. Stevens, A.J. Pruijsers, A. McDermott, B. Flach, N.A. Doria-Rose, K.S. Corbett, K.M. Morabito, S. O'Dell, S.D. Schmidt, P.A. Swanson II, M. Padilla, J.R. Mascola, K.M. Neuzil, H. Bennett, W. Sun, E. Peters, M. Makowski, J. Albert, K. Cross, W. Buchanan, R. Pikaart-Tautges, J.E. Ledgerwood, B.S. Graham, and J.H. Beigel, for the mRNA-1273 Study Group*

ABSTRACT

BACKGROUND

The severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) emerged in late 2019 and spread globally, prompting an international effort to accelerate development of a vaccine. The candidate vaccine mRNA-1273 encodes the stabilized prefusion SARS-CoV-2 spike protein.

METHODS

We conducted a phase 1, dose-escalation, open-label trial including 45 healthy adults, 18 to 55 years of age, who received two vaccinations, 28 days apart, with mRNA-1273 in a dose of 25 μ g, 100 μ g, or 250 μ g. There were 15 participants in each dose group.

RESULTS

After the first vaccination, antibody responses were higher with higher dose (day 29 enzyme-linked immunosorbent assay anti-S-2P antibody geometric mean titer [GMT], 40,227 in the 25- μ g group, 109,209 in the 100- μ g group, and 213,526 in the 250- μ g group). After the second vaccination, the titers increased (day 57 GMT, 299,751, 782,719, and 1,192,154, respectively). After the second vaccination, serum-neutralizing activity was detected by two methods in all participants evaluated, with values generally similar to those in the upper half of the distribution of a panel of control convalescent serum specimens. Solicited adverse events that occurred in more than half the participants included fatigue, chills, headache, myalgia, and pain at the injection site. Systemic adverse events were more common after the second vaccination, particularly with the highest dose, and three participants (21%) in the 250- μ g dose group reported one or more severe adverse events.

CONCLUSIONS

The mRNA-1273 vaccine induced anti-SARS-CoV-2 immune responses in all participants, and no trial-limiting safety concerns were identified. These findings support further development of this vaccine. (Funded by the National Institute of Allergy and Infectious Diseases and others; mRNA-1273 ClinicalTrials.gov number, NCT04283461).

The authors' full names, academic degrees, and affiliations are listed in the Appendix. Address reprint requests to Dr. Jackson at Kaiser Permanente Washington Health Research Institute, 1730 Minor Ave., Suite 1600, Seattle, WA 98101, or at lisa.a.jackson@kp.org.

*The mRNA-1273 Study Group members are listed in the Supplementary Appendix, available at NEJM.org.

Drs. Graham and Beigel contributed equally to this article.

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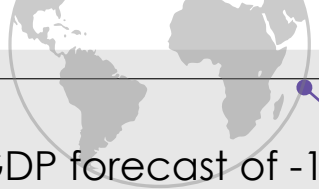
DOI: 10.1056/NEJMoa2022483
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The New England Journal of Medicine

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MACROECONOMIC FORECAST

- ✓ We maintain our GDP forecast of -1.5% for 2020.
- ✓ 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.
- ✓ In spite of the gradual economic recovery, we believe that ample opportunities are still available out there for businesses.

Macroeconomic variable	2019	2020F	2021F
GDP	4.3%	-1.5%	3.5%
FBM KLCI year-end target	1,589 points	1,500 points	1,750 points
CPI	0.7%	-0.5%	2.00%
OPR	3.00%	1.75%	1.75%
USDMYR	RM4.12	RM4.25	RM4.14
Brent crude USD per barrel	USD65.43/bbl.	USD42.15/bbl.	USD58.28/bbl.
CPO	RM3,025/MT	RM2,407/MT	RM2,485/MT



THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.



Assuring Trust. Delivering Value