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Trump's victory leaves trail of uncertainties

Possible downside risks for Malaysia's export industry

by **NG MIN SHEN**

THE outcome of the US presidential election has left uncertainties on global trade and foreign relations, with possible downside risks to Malaysia's export industry.

Research houses point to President-elect Donald Trump's anti-trade stance and the impact it would have on international trade activity should his policies be implemented, even though the short-term impact is likely to be small.

"We believe the election result presents some downside risk to emerging economies such as Malaysia. It is, however, uncertain how likely his policy proposals can get through the US Congress," RHB Research Institute Sdn Bhd said.

The research house said the near-term impact would likely be small as it is still quite uncertain if Trump's hardline trade policies will be able to get past the Congress hurdle, as the president elect will not be able to act before his inauguration on Jan 20, 2017.

Affin Hwang Investment Bank Bhd said the Trump presidency is likely to throw caution on global trade and global production in the short term as protectionist trade policies are prone to hurt growth.

"Similarly, the short-term volatility in the financial market will create a sense of uncertainty, which may lead to uncertain business and con-

sumer sentiments," it said.

Global markets had reacted swiftly to the unexpected result of the US elections while vote counting was still ongoing.

Hong Leong Investment Bank Bhd said it expects the market to undergo a period of volatility while monitoring the lengths to which Trump will follow through on his extreme policies.

Affin Hwang noted Malaysia's heavy dependence on external demand, especially with regards to the country's export to gross domestic product (GDP) ratio of over 100% and the openness to trade as well as exposure to the global economy.

However, the research house said the country's economic fundamentals continue to remain sound, supported by sustainable current account surpluses, healthy foreign exchange reserves as well as manageable inflationary pressures.

The Trans-Pacific Partnership Agreement (TPPA) remains a point of concern as both Trump and Democrat nominee Hillary Clinton had opposed the trade pact during their presidential campaigns.

In the event that the US decides to pull out of the agreement, the TPPA will be jeopardised as the US is to provide more than 80% of the output needed for the trade deal to continue.

Twelve countries are in the pact, namely the US, Malaysia,

Australia, Brunei, Canada, Chile, Japan, Mexico, New Zealand, Peru, Singapore and Vietnam. Exports to TPPA member countries accounted for 41% of Malaysia's exports last year.

The US is among Malaysia's top five largest trade partners, with 10.7% of Malaysia's total exports and 8.4% of its imports. US companies invest about RM12 billion per annum into the domestic economy, although the amount has gradually diminished in recent years.

"Among Trump's hardline policies that come into focus include pledging to end decades of American orthodoxy on trade policy, charging that past deals have decimated the US manufacturing sector. He also plans to take a protectionist approach with China. Although it is unsure if these positions would receive approval from the Congress, the mere mention would dampen business and consumer confidence including hurting trade relations with Malaysia," RHB Research said.

Trump had also pledged to derail the TPPA, which could have an adverse impact on Malaysia's long-term growth trajectory.

"According to a study by PricewaterhouseCoopers (PwC), Malaysia is the second-largest beneficiary under the TPPA after Vietnam, with export growth projected to rise by 0.54 ppt to 0.90 ppt in 2027 under the TPPA, while


export-oriented firms in the textiles, automotive components and electronics and electrical (E&E) sectors are expected to benefit from greater market access," RHB Research said.

"Perhaps the most damaging to us over the medium to longer term could be his plans to unleash the country's vast oil and natural reserves, which would be a major dampener on prices if more supply is flooded into the market, dealing a possible blow to the nation's income should it fall too low, and potentially impact the industry's support sectors," Public Investment Bank Bhd said.

"Our 2016 year-end target remains at 1,720 points and we see the market likely moving toward the 1,775 and 1,830 point range in 2017 should sentiment take a turn for the better. Our top picks are AMMB Holdings Bhd, SKP Resources Bhd, LBS Bina Group Bhd, Chin Hin Group Bhd, TDM Bhd, Wah Seong Corp Bhd, Kossan Rubber Industries Bhd, SCGM Bhd and Hock Seng Lee Bhd," it said.

Hong Leong Investment Bank Bhd's top picks of big caps were DiGi.Com Bhd, Gamuda Bhd, Sime Darby Bhd, Sunway Bhd and Tenaga Nasional Bhd, while mid and small caps were George Kent (M) Bhd, Matrix Concept Holdings Bhd, MBM Resources Bhd, Sunway Construction Bhd and Tiong Nam Logistics Holdings Bhd.

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