



社会经济研究中心
SOCIO-ECONOMIC
RESEARCH CENTRE

**What Trump's policies mean
to the US economy and
Malaysia?**



- **What is Trump's plan?**

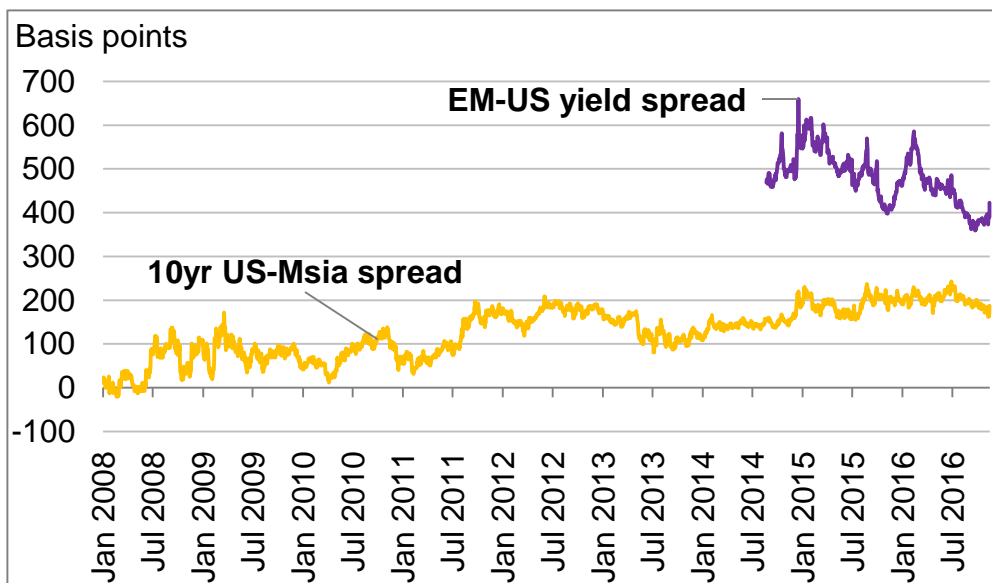
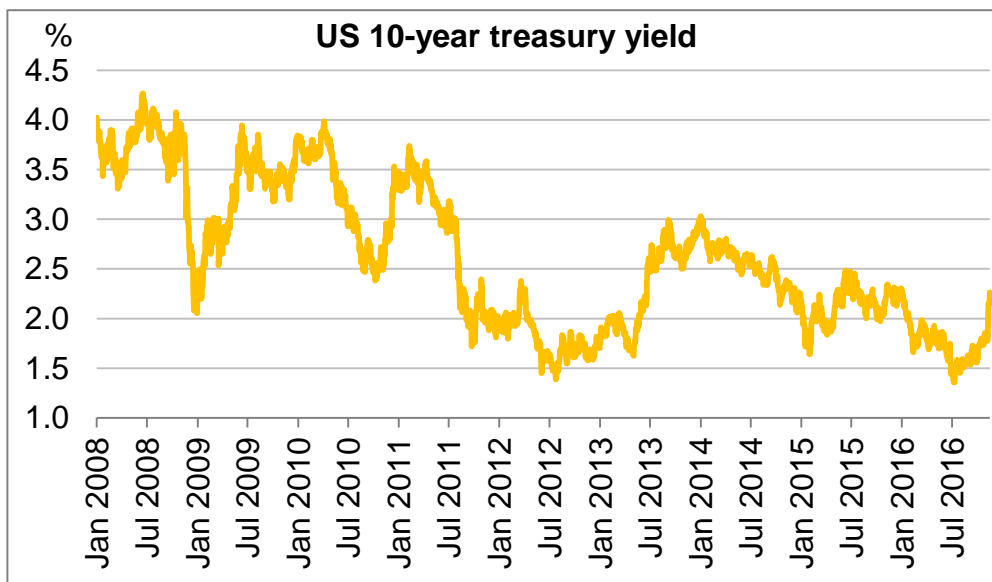
- **How will Trump's policies impact on:**
 - **Global financial markets**
 - **US economy**
 - **Malaysia economy**

- **Conclusion**

US ELECTIONS: KNEE JERK REACTIONS BUT SHORT-LIVED

- ❑ **Trump's thumping victory.** Donald Trump was voted as the 45th US President on 8 November with 290 votes (vs. 232 for Hillary Clinton). Trump will be sworn into office on 20 Jan 2017. For the first time since 2007, Republicans will control both the Senate (51 vs. Democrats' 48) and House of Representatives (239 vs. Democrats' 192)
- ❑ **American-style Brexit.** Panic selling in global financial markets as nervous investors seek refuge in safe-haven assets (Japanese yen and gold). Global equities tumbled while emerging markets' currencies fell against the US dollar
- ❑ **But recovered faster than Brexit.** The US three indices reversed earlier sharp losses to close higher. Volatility is here to stay as investors will assess what will Trump's policies mean to the US economy and emerging economies
- ❑ **10-year Treasury yield rose above 2%** - the highest level since January on worries about higher fiscal spending and budget deficit could stoke inflation risk
- ❑ **Emerging market currencies under pressure,** triggered by investors' growing expectations that Trump's fiscal boost will be inflationary and could push US rates higher, driving funds out of emerging markets and into dollar-based assets

US YIELDS SPIKE PRESSURISED EMERGING MARKETS



Source: Bloomberg

- The greenback has soared on expectations the Trump administration would increase spending and lift inflation, which prompted an elevation of US Treasury yields
- Yields on US 10-year Treasury notes climbed to their highest since January at 2.21%
- The jump in yields on safe-haven US debt had a negative effect on emerging market assets as foreign investors have cut holdings of sovereign EM bonds
- Surging US bond yields and a stronger dollar have added to the pressure on emerging markets' currencies which are among the hardest-hit

THREE ELEMENTS OF TRUMP'S PLAN - "AMERICA FIRST"

- I. **A big fiscal boost.** Proposed US\$10 trn tax cuts on individuals and businesses
 - Collapse the current seven tax brackets, which range from 10% to 39.6% into three brackets of 12, 25, and 33%
 - Reduce the corporate income tax rate from 35% to 15%
 - Increase standard deduction amounts and curtail many tax expenditures
 - US\$1 trillion over a period of 10 years to rebuild infrastructure
- II. **Renegotiated trade deals.** Is it a threat or is only a negotiation tool? Trade protectionism invites retaliation or even sparks the "beggar-thy-neighbor" currency war.
 - North American Free Trade Agreement (NAFTA) involving the US, Canada and Mexico
 - Trans-Pacific Partnership Agreement (TPPA) is in limbo as Trump is anti-TPPA
 - Higher countervailing duties of 45% on China's imports. Label China as a currency manipulator
 - Hit Mexican imports with a 35% tariff
- III. **Regulatory changes**
 - Additional controls on immigration. Build a wall between Mexico and the US
 - Fewer controls on the banks and on environmental issues
 - Repeal the complex Dodd–Frank Wall Street Reform and Consumer Financial Protection Bureau which imposed new regulations in areas such as mortgage-servicing, foreclosure relief services, debt collection
 - Repeal/amend Obamacare and the Clean Energy Policy

I. Boost to US economic growth amid inflation risk

- Tax cuts on individuals and businesses as well as fiscal stimulus boost spending, investment and increase economic growth
- But, concerns about fiscal stability given the stretched budget deficit and high debt
- Expansionary deficit-financed fiscal spending and domestic demand fuels inflation

II. Trade protectionism mindset hurts global trade

- Negative impact on the US, China and Mexico economy and their trading partners
- China and Mexico are two of the three US's largest trading partners with an export share of 7.4% and 16.0% respectively in the first nine months of 2016. Current concerns about major trade barriers being erected are over stated and not realistic
- Dampening China's growth will have negative spillover on Asia given the deep economic and trade integration
- The TPPA fallout will undermine trade and investment prospects of 12 members countries
- Negative trade developments with US may also push Asia towards regionalization and closer trade ties with China

III. Financial and exchange rate markets

- **Bracing for more currency volatility.** Trump's expansionary fiscal spending may stoke inflation risk, prompting the Fed to raise interest rates higher than expected. The prospects of higher UST yield outlook supports a rebalancing of investment portfolio back to the US. Higher US interest rates lend support for a stronger US dollar against Asian currencies
- **Emerging economies with weak economic fundamentals** such as high budget deficit and external debt as well as current account deficit will remain vulnerable to the negative spillovers of capital reversals
- **Asian central banks caught in dilemma.** With growth outweighing inflation concerns, Asian central banks are likely to keep low interest rates for a longer while to mitigate external risks on domestic growth
- **Chinese renminbi (RMB) is under close watch.** The Trump Administration, which labelled China as a currency manipulator will see RMB under revaluation pressure by the US besides facing the threat of imposing higher countervailing duties on all imports of China

HOW WILL THE TRUMP'S VICTORY IMPACT MALAYSIA?

I. Volatility is here to stay

- Global investors will continue to remain cautious until clarify emerges about Trump Administration's economic and trade policies
- With expectations of higher US Treasury yields and US interest rates ahead on concerns the expansionary fiscal spending may stoke inflation, the depressed interest differentials could prompt capital reversals
- Higher US interest rates mean a stronger dollar against the ringgit

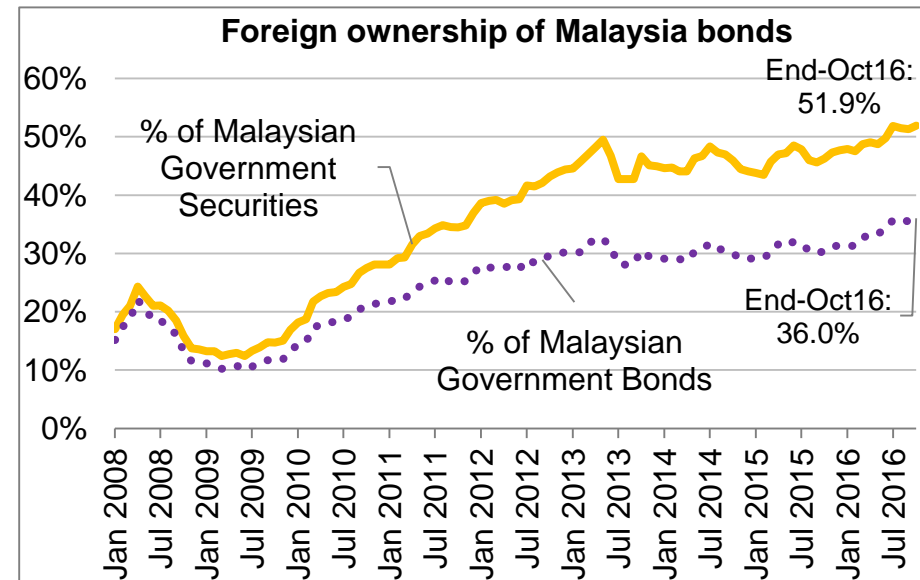
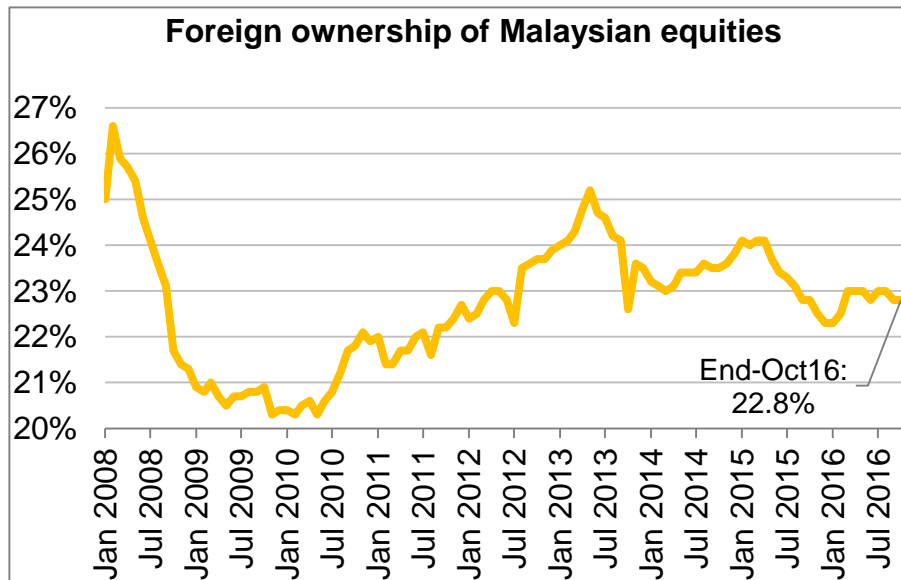
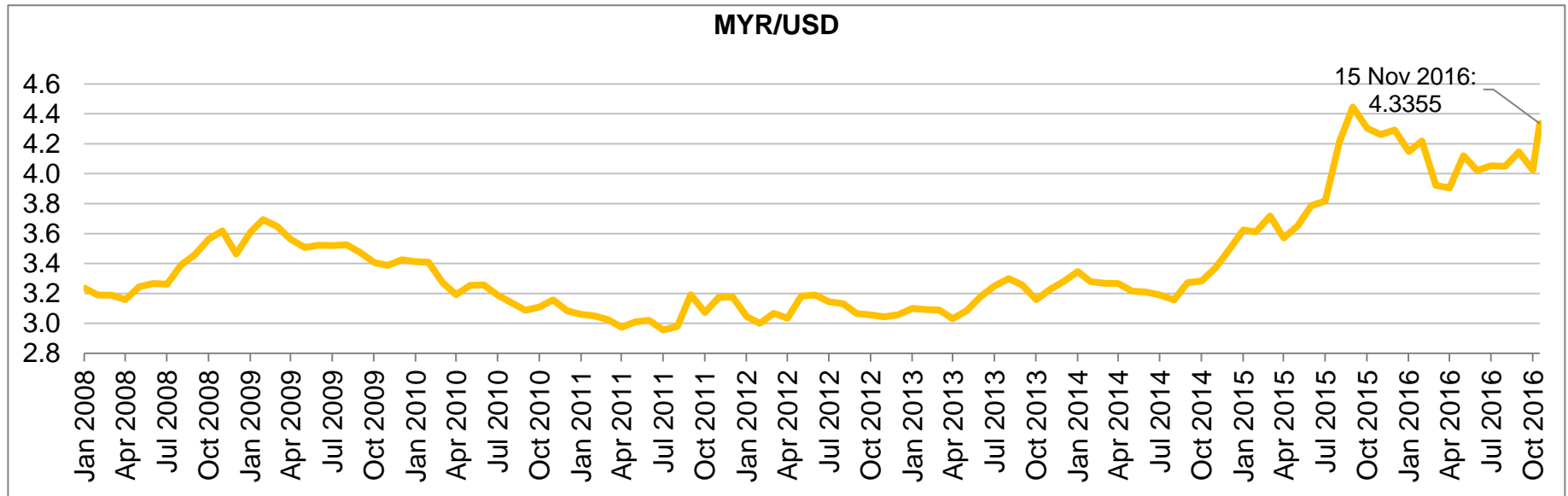
II. TPPA fallout

- The main concern is on the fallout of TPPA and its ramifications on our trade growth with the US and other TPPA members
- Currently, the US is Malaysia's third largest trading partner, contributing to 9.3% of Malaysia's total trade in 9M16. Of this total, our exports share to the US is 10.4% of total exports and that of imports share is 8.1%
- Higher import tariffs on China goods entering into the US market would have an indirect impact on Malaysia as it supplies intermediate goods to China for processing into final goods for exports to the US

III. US FDI and portfolio investment

- US investors still favor Malaysia though the pace of investment has dwindled
- Gross FDI inflows from the US into Malaysia, which averaged RM11.3 billion per year during 2008-2015, have slipped to RM6.4 billion in 1H16 with a share of 9.4% of total net inflows compared to a high of 17.1% in 2010
- US portfolio investors generally were net sellers as they recorded net cumulative portfolio outflows totaling RM30.8 billion during the period 2008-2015 and net outflows of RM15.6 billion in 1H16
- Trump's proposed reduction of corporate tax rate to 15% from 35% currently as well as a one-time tax rate of 10% for repatriated corporate profits would encourage the retention of US investors at home as well as entice the repatriation of US corporations' profits back to the US. This could result in lower reinvestment in Malaysia as well as less investment in domestic equities and bonds
- As at end-October 2016, foreign investors owned 51.9% or RM184 billion of Malaysian Government Securities and they invested RM214.8 billion worth of total government bonds or 36% of total

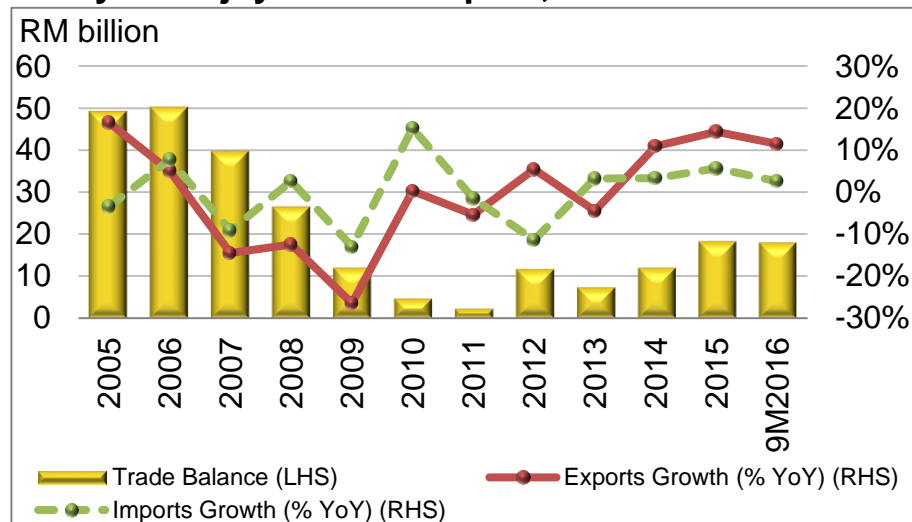
HIGH FOREIGN-OWNED OF MALAYSIA DEBT REMAINS A RISK



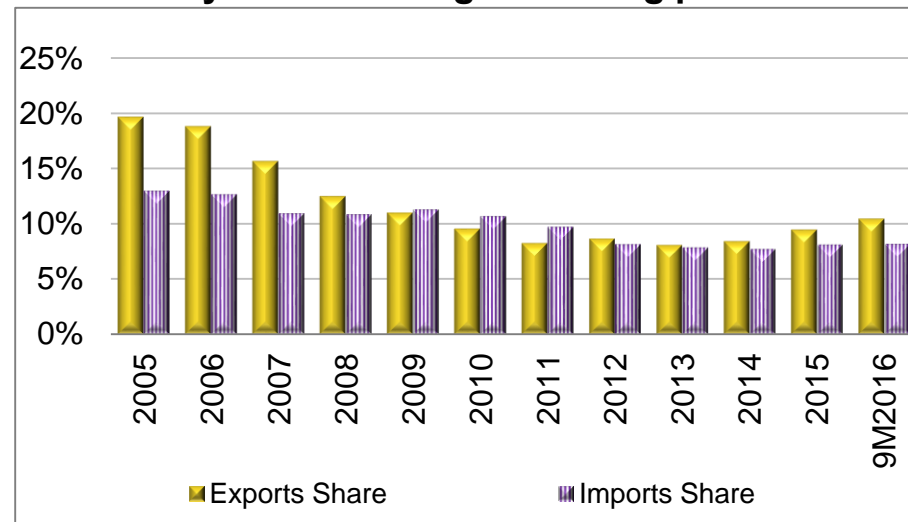
Source: Bank Negara Malaysia

MALAYSIA – US BILATERAL TRADE TRENDS

Malaysia enjoys trade surplus, albeit smaller



US is Malaysia's third largest trading partner



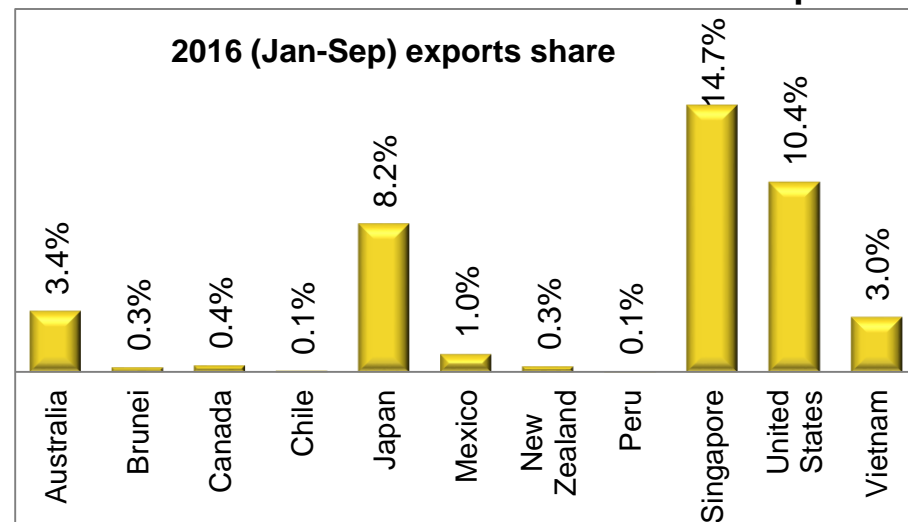
Major exports

- Electrical and Electronics
- Machinery
- Medical instruments
- Rubber gloves
- Furniture

Major imports

- Electrical and electronics
- Machinery
- Medical instruments
- Aircraft and parts
- Plastic products

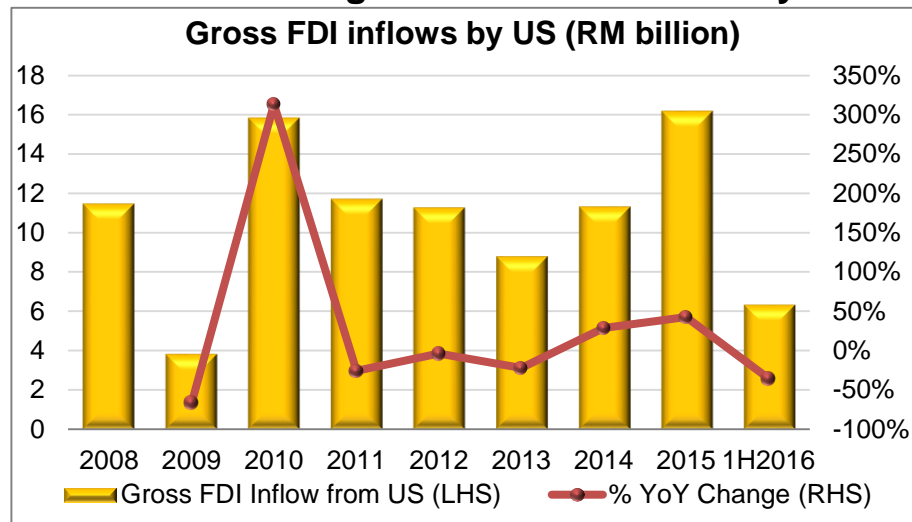
TPP members contributed 41.8% of Mal's exports



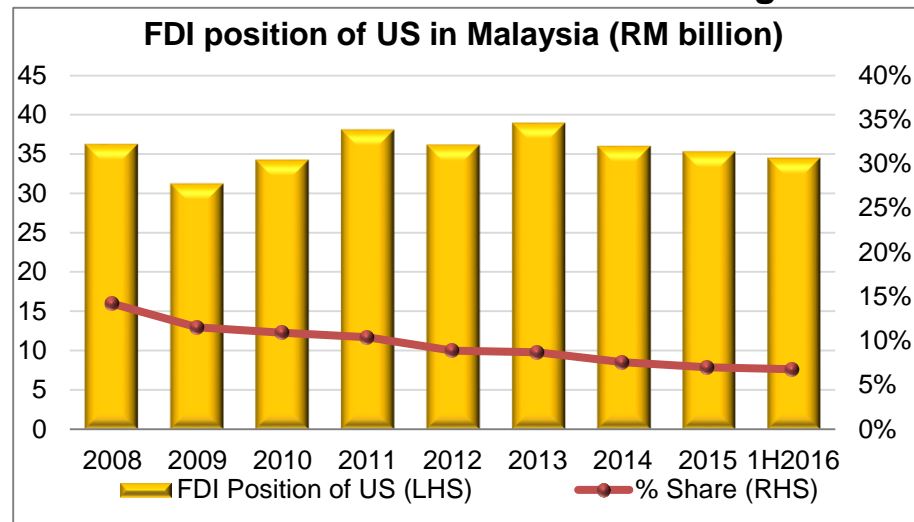
Source: Bank Negara Malaysia; Department of Statistics, Malaysia

MALAYSIA – US INVESTMENT TRENDS

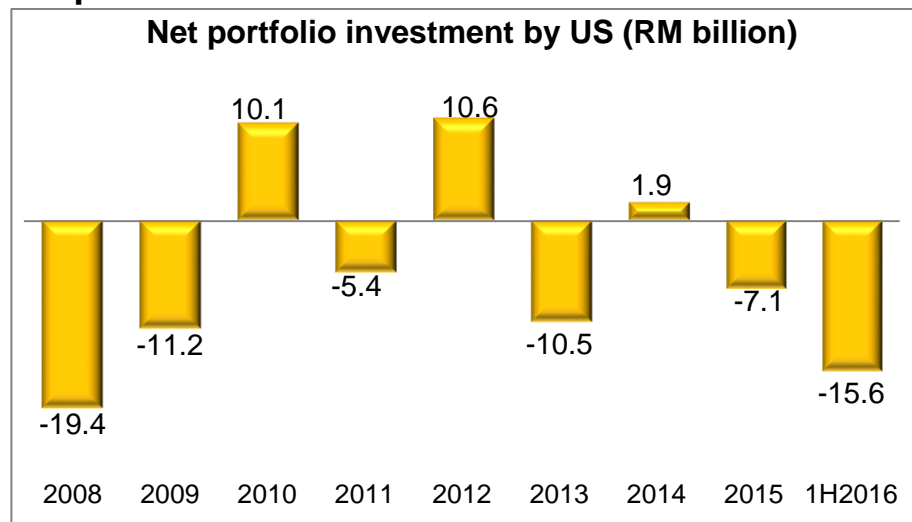
US is the fourth largest FDI source for Malaysia



The share of US FDI stock is on a declining trend



US portfolio investors were net seller



Source: Bank Negara Malaysia; MIDA

US manufacturing projects

2010		2016 (Jan-Aug)	
Industry	RM mn	Industry	RM mn
E&E products	10,226 (87.1%)	Scientific & measuring equipment	312 (67.2%)
Machinery & equipment	469 (4.0%)	E&E products	84 (18.2%)
Others	1,043 (8.9%)	Others	68 (14.6%)
Total	11,739	Total	464

Parenthesis denotes % share of total US manufacturing investment

CONCLUSION

- We must have more clarity on Trump's policies direction to give a better assessment
- While President-elect Trump's rhetoric campaign pledges may be watered down when governing, history suggests that presidents tend to carry out their major campaign promises. What is needed is to ensure "checks and balances" in Congress
- The focus will be on who he will appoint to the Trump cabinet and those picked as adviser in his economic think-tank
- Financial markets will keenly watch any leadership change in the Federal Reserve as the terms of Fed chairman Janet Yellen will expire in February 2018. Trump has been critical of her performance
- Pending the extent of policy changes, trade tensions and fiscal stimulus have offsetting impacts on the US economic growth in the medium term
- The impact of shaken trade deals on Malaysia should be manageable as counteracted by domestic growth drivers, including the planned mega public infrastructure spending. Malaysia may consider to establish Free Trade Agreements (FTA) with the US, Canada and Peru



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谢谢
THANK YOU

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