

MONTHLY ECONOMIC REVIEW | May 2016**Malaysia's Exports Performance Steadied in April Despite Sluggish Global Trade**

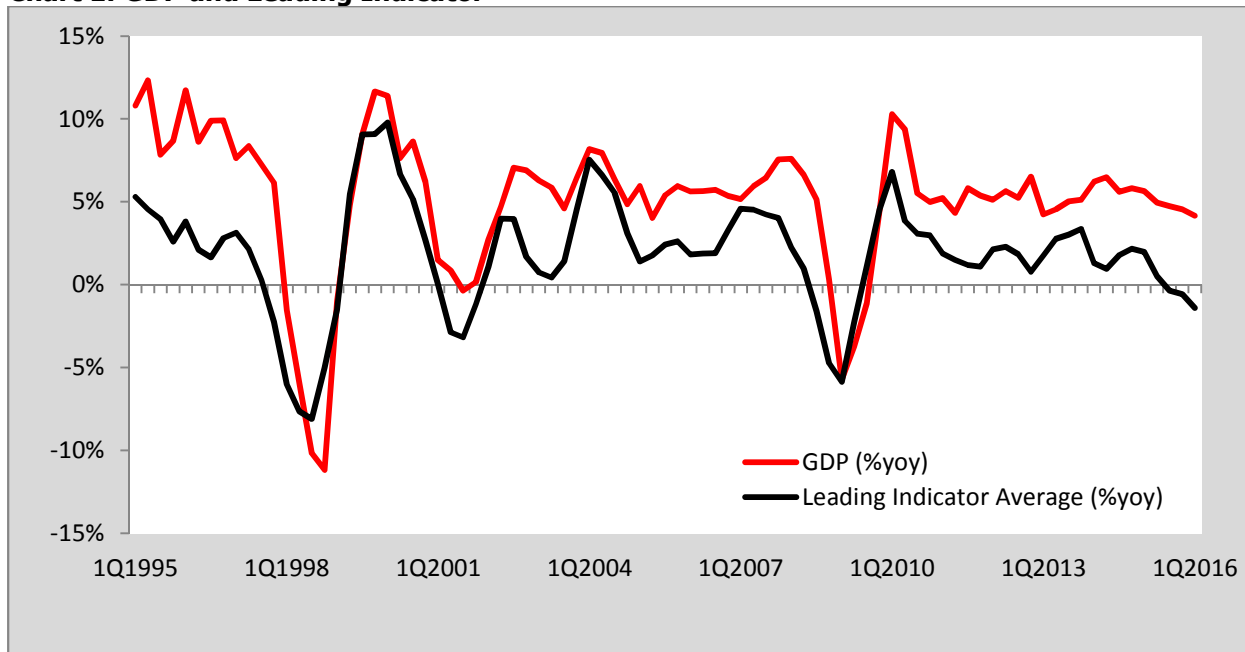
- *Exports were up by 1.6%yoy in April, higher than consensus. This was largely due to increase in petroleum products exports which rose by 34.4%yoy. Leading indicator fell by -2.1%yoy, marking the fifth consecutive months in red.*
- *Fed had turned more hawkish in recent weeks, citing June or July hike a live possibility putting a dent on emerging market currencies. Ringgit remained above RM4.00.*
- *BNM maintained OPR at 3.25% which met our expectation. Money supply contracted for the first time since Asian Financial Crisis in March 2016, fell by 1.7% as demand deposit shrunk by 4.4%yoy. Headline inflation inched lower to 2.1% in April as effect of GST worn off.*
- *GDP moderated to 4.2% in 1Q16, partly due to high base effect and contraction in the agriculture sector. Lower inflation could give room for BNM to apply monetary stimulus in the near term. We believe a 25bp cut is likely in September and maintain our forecast of GDP at 4.4%. However, a downside revision is likely should second quarter data turns for the worst.*

Strong petroleum products trade buttressed April performance. Exports rose by 1.6%yoy to RM61.3 billion from RM60.4 billion in the previous year. Imports still declined but narrowed to only -2.3%yoy at RM52.3 billion and this leads to increase in trade balance to RM9.1, rising by 31.9%yoy. Meanwhile, total trade declined by -0.2%yoy in April to RM113.6.0 billion which brought year-to-date performance up but only marginally by 0.2%yoy. Overall, exports figure exceeded both consensus and our expectation but imports slipped further than anticipated.

Fed was seemingly more hawkish in recent weeks. In its series of speech by different Fed personnels, most were hawkish citing that June or July rate hike is a possibility. Bond traders were obviously spooked, increasing their odds for a rate hike in June as high as 32% in mid-May from almost non-existent prior to that. However, the odds have gradually come down to 22% as of today as global economy and trade remains weak. We maintain our expectation of a rate hike in September as Fed will have more data to analyse while avoiding a probably high volatility period due to possible Brexit.

GDP moderated to 4.2% 1Q16, weighed by high base and contracting agriculture. GDP grew by 4.2% in the first quarter. While the consensus predicted slower growth at 4.1%, our forecast for the GDP was on right the dot. High base effect and negative net exports weighed on first quarter performance. Recall that GST was implemented on 1 April 2015 and there was a rush of investments and consumptions prior to the implementation


Chart 1: GDP and Leading Indicator



Source: DoS, CEIC, MIDF Research

The 3-month average of leading indicator has been in negative for seven consecutive months since September 2015. The leading indicator has performed well in predicting the economy two quarters ahead. Malaysia's official leading indicator entered into negative territory for the first time in the third quarter of last year and had dive deeper into the red in 4Q15. The past two quarters have been in negative while the latest reading in March registered -2.1% year-on-year decline. Therefore, we expect moderate GDP growth in the first half and there exists a possible downward revision should data turns for the worst in this quarter.

Waning effect of GST lead to drop in inflation, mostly on services item. Inflation in April edged lower to 2.1% following higher figures of 2.6% and 4.2% in March and February respectively. Services item slipped to 2.8%yoy from 3.7% after increasing by only 0.1%mom in April. This was significantly lower compared to the first 6 months of GST implementation which averaged higher at 0.5%mom. Sub-items under services were mostly trending down on year-on-year basis such as garments (-0.7%), communication (-2.1%), recreation and culture (1.6%), and restaurants and hotels (2.7%).

BNM maintains OPR at 3.25% in May – we expect a rate cut in September by 25bp. BNM decided to maintain OPR at 3.25% in May MPC meeting, in line with our expectation. Economy continues to be supported by domestic demand, while external sector remains weak. Money supply contracted for the first time since Asian Financial Crisis in March 2016 by 1.7% as demand deposit shrunk by 4.4%. As the global economic uncertainty persists, impacting the manufacturing sector and domestic demand, we expect BNM will eventually cut OPR by 25 bps in the second half of 2016. 

(YoY%) unless stated otherwise	2014	2015	2016f	1Q16	2Q16f	3Q16f	4Q16
Real GDP	6.0	5.0	4.4	4.2	4.2	4.7	4.7
Private consumption expenditure	7.1	5.5	4.9	4.3	5.4	5.7	4.2
Government expenditure	4.4	4.7	2.7	1.7	1.7	2.6	4.9
Gross fixed capital formation	4.8	3.4	4.2	1.4	9.0	4.7	1.7
Exports of goods and services	5.1	0.6	2.2	2.0	5.8	1.0	0.0
Imports of goods and services	4.2	1.2	2.0	2.3	6.4	0.5	-1.3
Net exports	12.8	-3.3	3.8	-0.3	1.2	4.4	9.8
Nominal GDP	8.6	4.5	4.1	4.7	4.5	3.8	3.5
Exports of Goods (f.o.b)	6.3	1.9	3.9	2.2	5.9	6.2	1.6
Imports of Goods (c.i.f)	5.3	0.4	3.2	2.3	5.3	3.7	1.8
Trade Balance – RMb	82.5	94.3	102.9	21.7	22.7	27.9	30.6
Consumer price index	3.2	2.2	2.6	3.5	2.0	2.5	2.9
Current account – RMb	47.3	34.0	25.0	-	-	-	
Current account - % of GNI	4.8	2.8	2.5	-	-	-	
Fiscal balance - % of GDP	-3.5	-3.2	-3.1	-	-	-	
Federal government debt - % of GDP	52.7	54.3	53.8	-	-	-	
	2014	2015	2016f	1Q16	2Q16f	3Q16f	4Q16
Brent Crude Oil (Avg)	99.4	53.6	40.0	-	-	-	
Crude Palm Oil (Avg)	2,415	2,168	2,450	-	-	-	
USD/MYR (Avg)	3.273	3.907	4.000	-	-	-	
EUR/MYR (Avg)	4.347	4.336	4.400	-	-	-	
JPY/MYR (Avg)	3.096	3.228	3.350	-	-	-	
SGD/MYR (Avg)	2.583	2.840	2.800	-	-	-	
Brent Crude Oil (End of)	57.3	37.3	40.0	39.0	40.0	40.0	40.0
Crude Palm Oil (End of)	2,297	2,200	2,250	2,600	2,800	2,250	2,250
USD/MYR (End of)	3.497	4.294	3.850	3.900	4.000	3.950	3.850
EUR/MYR (End of)	4.251	4.691	4.350	4.446	4.500	4.450	4.300
JPY/MYR (End of)	2.922	3.572	3.150	3.464	3.300	3.200	3.150
SGD/MYR (End of)	2.647	3.040	2.850	2.895	2.950	2.850	2.850
Yield on generic 10-year MGS (%)	4.15	4.19	3.65	3.77	3.85	3.70	3.65
3-month KLIBOR (%)	3.86	3.84	3.40	3.71	3.65	3.40	3.40
Overnight policy rate (%)	3.25	3.25	3.00	3.25	3.25	3.00	3.00

May Key Economic Events

3 May 2016: Dollar Reaches 1-Year Low as Fed Rate Increase Speculation Cools. The dollar fell to the lowest level in almost a year amid speculation that the U.S. won't raise interest rates any time soon. The U.S. currency lost ground versus most of its major peers as traders lowered expectations for a rate increase by the Federal Reserve in June to 12 percent. The greenback slumped against Europe's shared currency for a sixth day, the longest run of losses since September, after a report showed manufacturing in the U.S. expanded less than forecast.

4 May 2016: 2016 Fiscal Target Achievable as Oil Prices Hold Hover Above USD40. Brent reached as high as USD48.5 per barrel on intraday trading last week. Year-to-date, oil price averaged USD37.4 and since 1st April, oil price averaged higher at USD43.4 per barrel. This was higher than optimistic scenario projected in the recalibrated Budget 2016 of USD35 per barrel, giving rise to better probability for oil price to average higher than projected for the year.

9 May 2016: US Soft Jobs Market Clouds Outlook. Companies slowed the pace of hiring in April while paying workers only slightly more, signaling a softening of the labor market that knocked down economists' expectations for a Federal Reserve interest-rate increase next month. Nonfarm payrolls rose by a seasonally adjusted 160,000 in April, the weakest gain since September, the Labor Department said Friday. The unemployment rate held steady at 5%, but the share of Americans participating in the labor force dipped after earlier signs of stabilization.

19 May 2016: Japan Dodges Recession Thanks to Consumers, Public Spending. Japan's economy dodged a recession last quarter as gains in government and consumer spending compensated for a slide in business investment. Gross domestic product expanded by an annualized 1.7 percent in the three months ended March 31, a Cabinet Office report showed on Wednesday.

4 May 2016: Australia Employed Double Stimulus Package to Boost Economy. Reserve Bank of Australia (RBA) cuts its interest rate by 25 bps on Tuesday, leading its benchmark interest rate to a historical low level of 1.75%. The rate cut was the first since in a year, where the last cut was conducted on May 2015 by 25 bps. On the same day, Australia announced its Budget 2016 which shows a number of fiscal stimulus in order to boost the economy and improve consumer and business sentiment. Individuals with income of more than AUD80,000 will experience an income tax cut while companies with turnover of more than AUD10 million will have a reduced tax from 30.0% to 27.5%.

6 May 2016: ECB to stop issuing 500 euro note but keep it legal tender. The European Central Bank has decided to stop producing €500 notes, in a move it depicts as a crackdown on crime but which critics in German-speaking countries say is part of an onslaught on cash and savings. Top eurozone officials argue that the €500 bill, the euro's highest denomination note, is the banknote of choice for the darkest parts of the black economy, because it allows drug dealers and terrorists to carry large amounts of cash.

10 May 2016: China Reserves, Exports Show Stabilization as Growth Slows. China reported a modest stabilization in exports this weekend as the value of the currency decreased, as well as the first back-to-back gain in foreign reserves in almost two years, suggesting the economy is steadying amid slowing growth. The world's largest currency hoard rose \$7.089 billion to \$3.22 trillion in April, the People's Bank of China said Saturday. Overseas shipments rose 4.1 percent in yuan terms from a year earlier yet fell 1.8 percent in dollar terms, the customs administration said Sunday.

20 May 2016: Indonesia's Central Bank Leaves Key Rate Unchanged. Indonesia's central bank kept its benchmark interest rate unchanged for the second straight month, signaling it's in no hurry to adjust policy until it adopts a new framework in August. The seven-day reverse repo rate, which becomes the new benchmark rate in three months' time, was kept at 5.5 percent. With exports and commodity prices under pressure, the government has been urging Bank Indonesia to join its regional and global counterparts to add more monetary stimulus.

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.