

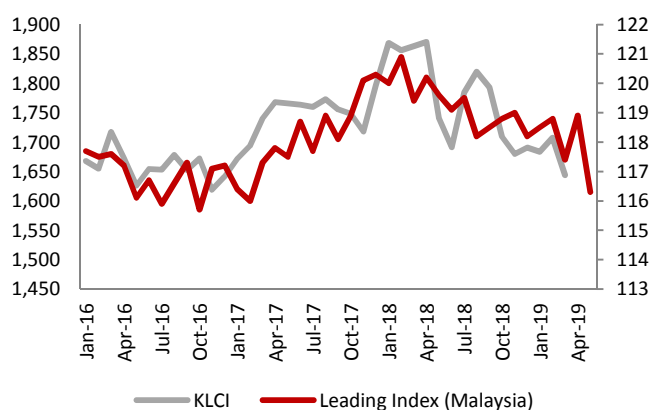
MONTHLY ECONOMIC REVIEW | April 2019

Malaysia's Economy Remains on Expansionary Path as Fundamentals Stay Intact

- *Signs of moderation continue.* Malaysia's economy is likely to continue growing in June to August 2019 however at a moderating pace as indicated by Malaysian Leading Index. We foresee a slight recovery towards 2Q19 and also 2H19 amid gradual pick-up in commodity prices, strong domestic demand and receding fear on trade war.
- *First inflation of the year.* Consumer price index increased 0.2%yoy in Mar-19 as per our forecast, rebounding from deflation recorded in the previous two months. The recovery was mainly driven by an improvement in the transport component besides continuous increase in food & non-alcoholic beverages.
- *Labour market remains strong.* Labour force growth has maintained at 2.1%yoy in Feb-19. Employment growth inched down to 2.1%yoy while jobs added in the economy recorded at 34.0k. Meanwhile, the number of unemployed increased 1.6%yoy. Nevertheless, growth in both labour force and employment continue to outpace unemployment growth for the last 24 months since Mar-17.

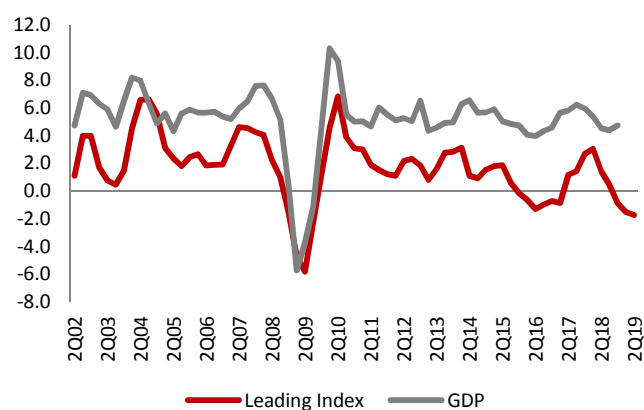
Signs of moderation continue. Malaysia's economy is likely to continue growing in June to August 2019 however at a moderating pace as indicated by Malaysian Leading Index. The monthly change of leading index (LI) fell in Feb-19, registering a negative growth of -2.2%, deviating from a 1.3% rise in the preceding month as five out of seven components recorded decreases. Real imports of semi-conductors and number of housing units approved posted the largest drop at -0.9% and -0.6% respectively. Meanwhile, the annual change of LI continued to be in a negative territory of -2.8% in Feb-19. We foresee a slight recovery towards 2Q19 and also 2H19 amid gradual pick-up in commodity prices, strong domestic demand and receding fear on trade war. Global demand is expected to recover as the US and China is expected to strike a trade deal in early May-19. Brent crude oil price has improved steadily since Jan-19 at an average of \$60.5pbd and latest in Mar-19 at \$66.1. On local front, full-employment condition, rising wages and trivial inflationary pressure are key supporting factors of the domestic demand. For 2019, we expect Malaysian economy to grow slightly better at 4.9%yoy.

Chart 1: KLCI vs Leading Index



Source: CEIC, MIDFR

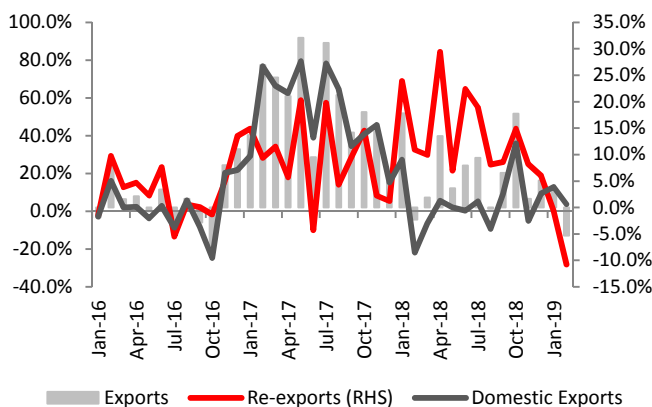
Chart 2: Leading Index vs GDP (YoY%)



Source: CEIC, MIDFR

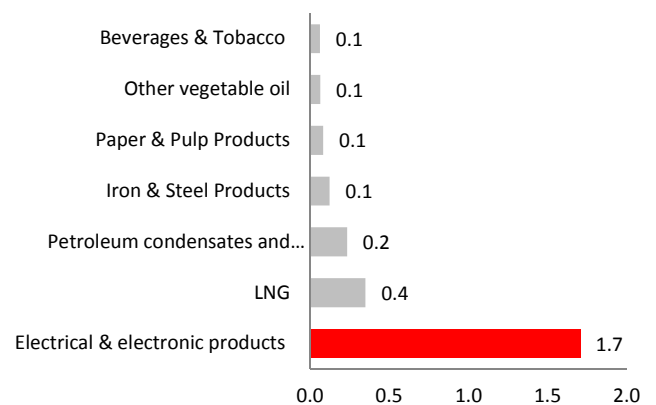
CNY holidays affect trade performances. Exports dropped 5.3%yoy in Feb-19, the lowest in more than 2 years primarily due to a short calendar month on top of long Chinese New Year (CNY) holidays. Meanwhile, imports fell more than exports at 9.4%yoy. During this holiday, all Chinese factories were shut down with most of them closed one or two weeks prior to the festive holidays. As the celebration put a halt to mass production, it disrupted global supply chain resulting in a weak trade performance. All sectors recorded a negative exports growth: agriculture (-13.7%yoy), manufacturing (-4.3%yoy) and mining (-5.5%yoy). Despite the poor exports and imports figures, trade surplus maintain above RM11B in Feb-19. On a monthly basis, both exports and imports contracted by 22% and 24.8% respectively.

Chart 3: Total Exports: Domestic vs Re-exports (YoY%)



Source: CEIC, MIDFR

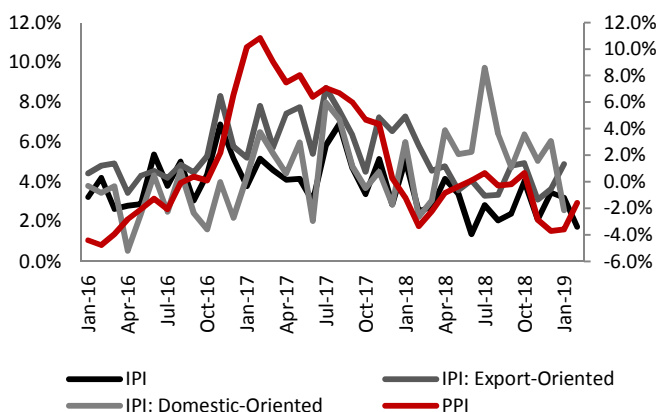
Chart 4: % Contribution to Exports Growth by Products



Source: CEIC, MIDFR

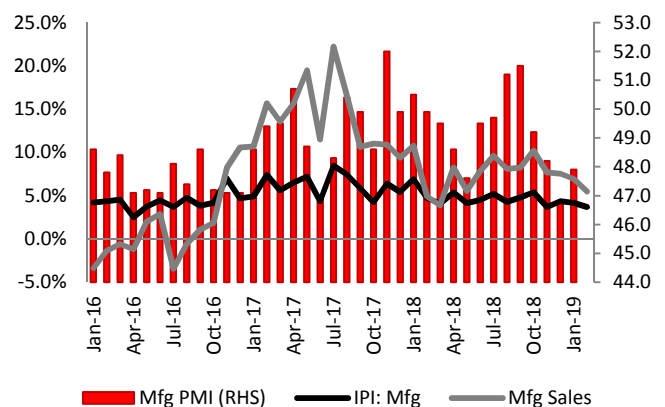
IPI grew the lowest since Jun-18. Malaysia's IPI grew only by 1.7%yoy in Feb-19 as manufacturing and electricity sector index expanded at a softer pace while mining posted larger negative growth. The factory output grew 3.7%yoy, moderated from 4.1%yoy in the prior month. Meanwhile, mining output remained in negative territory for two-straight months at -5.0%yoy in Feb-19 as a result of drop in global oil prices during the month. Moving forward, we foresee IPI performance to expand at a moderate pace in the 1Q19 amid ongoing trade uncertainties and slowing global demand.

Chart 5: IPI vs PPI (YoY%)



Source: CEIC, MIDFR

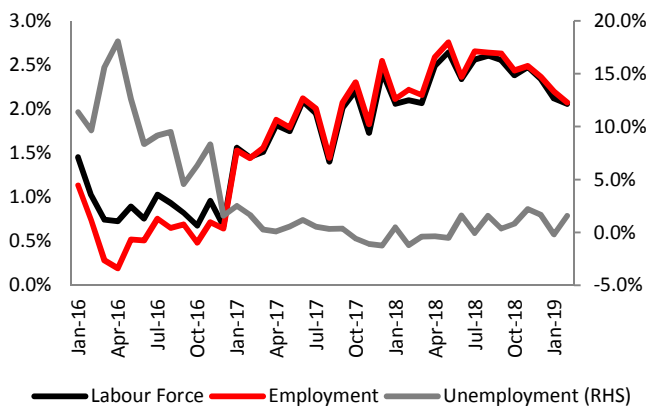
Chart 6: Manufacturing IPI & Sales (YoY%) vs PMI (Points)



Source: CEIC, MIDFR

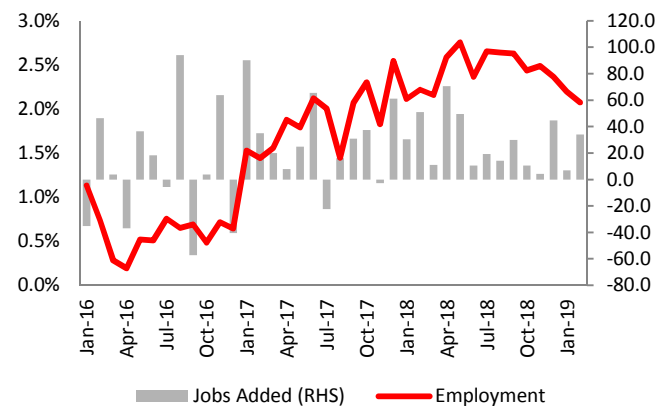
Labour market remains strong. Labour force growth has maintained at 2.1%yoy in Feb-19. Employment growth inched down to 2.1%yoy while jobs added in the economy recorded at 34.0k. Meanwhile, the number of unemployed increased 1.6%yoy. Nevertheless, growth in both labour force and employment continue to outpace unemployment growth for the last 24 months since Mar-17. The stable job market reflects healthy development of Malaysia's economy and provides solid support to domestic demand.

Chart 7: Labour Market Indicators (YoY%)



Source: CEIC, MIDFR

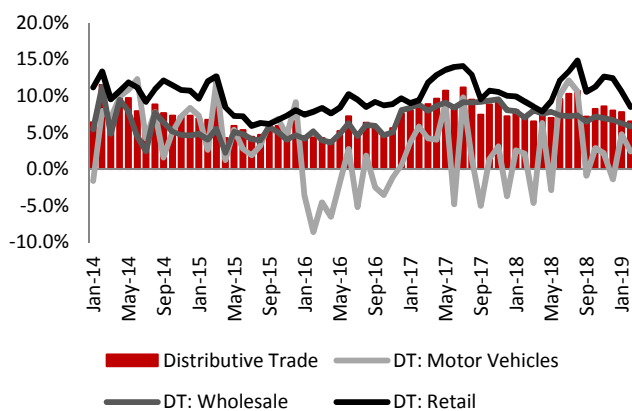
Chart 8: Jobs Added ('000) vs Empl. (YoY%)



Source: CEIC, MIDFR

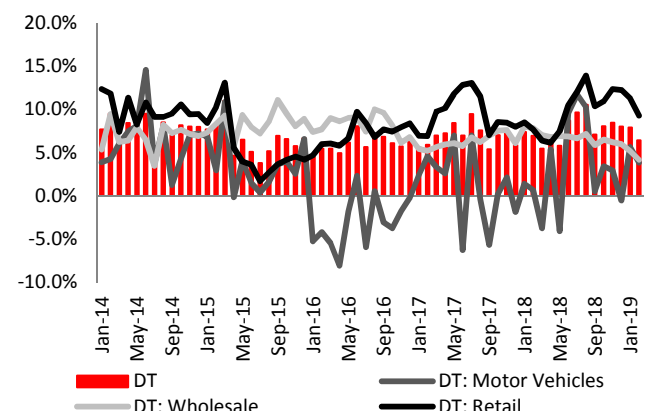
Domestic spending remains on strong tide. Distributive trade increased 6.5%yoy in Feb-19, moderating from 7.8%yoy in the previous month as all the components grew at a softer pace. Retail sales growth eased to a single digit of 8.5%yoy in Feb-19 after eight continuous months growing at double digit. Similarly, wholesale and motor vehicles sales growth eased to 5.8%yoy and 2.4%yoy respectively. Looking ahead, we view continuous solid domestic demand in 2019 to be underpinned by stable job market, wage growth, low inflationary pressure and steady economic growth.

Chart 9: Distributive Trade, DT (YoY%)



Source: CEIC; MIDFR

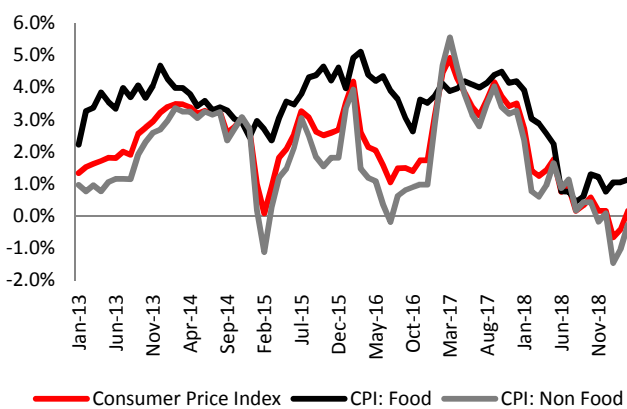
Chart 10: Distributive Trade Volume, DT (YoY%)



Source: CEIC; MAHB; MIDFR

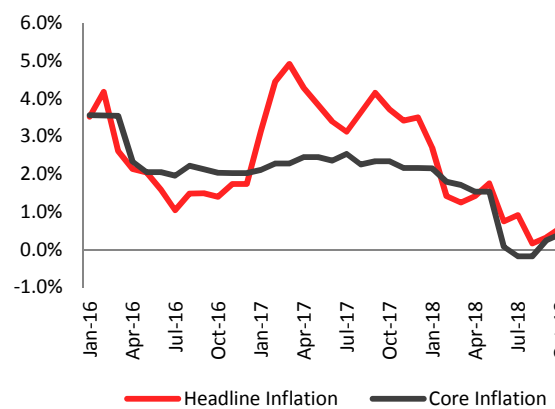
First inflation of the year. Consumer price index increased 0.2%yoy in Mar-19 as per our forecast, rebounding from deflation recorded in the previous two months. The recovery was mainly driven by an improvement in the transport component besides continuous increase in food & non-alcoholic beverages. Transport prices continued to drop but at a softer pace of -3%yoy in Mar-19, registering five-consecutive months of negative growth. Meanwhile, core inflation edged up to 0.5%yoy. Looking ahead, Malaysia's consumer inflation is likely to stay low following the lower capped prices of RON95 and Diesel at RM2.08 and RM2.18 per litre respectively. Nevertheless, demand-push factor remains firm amid stable job market and steady wage growth.

Chart 11: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

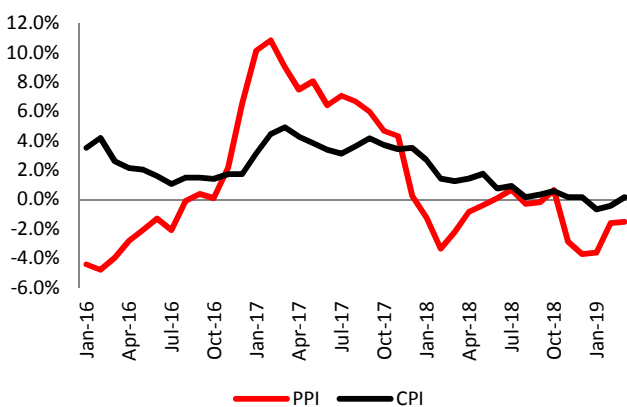
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

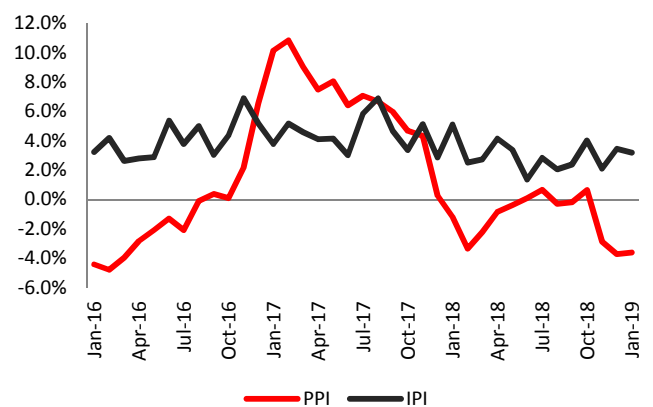
PPI stays on contractionary path. Malaysia's producer cost remains deflationary as PPI shrank by -1.5%yoy in Mar-19. This is mainly due to continuous falling input prices of agriculture and manufacturing sectors. Factory input price has been on negative growth for 15-consecutive months. Manufacturing sector still held the largest share at 81.6% in determining the producers' inflation. We expect the of PPI to remain low given that retail fuel prices of RON95 and Diesel are capped at lower levels than 2018's average prices.

Chart 13: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI vs IPI (YoY%)



Source: CEIC, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2013	2014	2015	2016	2017	2018	2019^f
Real GDP	4.7	6.0	5.1	4.2	5.9	4.7	4.9
Private Consumption	7.2	7.0	6.0	6.0	7.0	8.1	7.5
Public Consumption	5.8	4.4	4.5	0.9	5.4	3.3	1.3
Gross Fixed Capital Formation	8.1	4.8	3.6	2.7	6.2	1.4	1.6
Exports of goods & services	0.3	5.0	0.3	1.3	9.4	1.5	2.0
Imports of goods & services	1.7	4.0	0.8	1.3	10.9	0.1	1.9
Net Exports (Rmb)	83.6	94.7	91.2	92.8	91.0	103.2	106.0
Agriculture etc.	2.0	2.0	1.4	(5.2)	7.2	(0.4)	1.1
Mining & Quarrying	1.2	3.3	5.3	2.1	1.0	(1.5)	1.3
Manufacturing	3.4	6.1	4.8	4.4	6.0	5.0	4.9
Construction	10.6	11.7	8.4	7.4	6.7	4.2	2.1
Services	5.9	6.6	5.3	5.7	6.2	6.8	6.2
Exports of Goods (f.o.b)	2.5	6.7	1.5	1.4	19.3	7.3	3.6
Imports of Goods (c.i.f)	7.0	5.4	0.6	2.0	20.2	5.6	3.0
Trade Balance - Rmb	71.3	82.5	91.6	88.1	98.5	119.8	126.3
Consumer Price Index	2.1	3.1	2.1	2.1	3.8	1.0	2.2
End of Unless States Otherwise	2013	2014	2015	2016	2017	2018^e	2019^f
Brent Crude Oil (Avg)	108.4	97.5	54.4	46.0	55.7	71.6	75.0
Crude Palm Oil (Avg)	2,435	2,384	2,237	2,642	2,659	2,293	2,280
USD/MYR (Avg)	3.15	3.27	3.90	4.14	4.30	4.00	4.05
USD/MYR	3.25	3.48	4.28	4.46	4.08	4.10	4.00
Overnight Policy Rate (%)	3.00	3.25	3.25	3.00	3.00	3.25	3.25

Source: MIDFR

April 2019 Key Economic Events

1 April: Erdogan loses control of Turkish capital in local elections setback. Turkey's President Recep Tayyip Erdogan is facing a major political setback after his party lost control of the capital, Ankara, in a keenly fought local elections battle. Preliminary results also showed the opposition narrowly ahead of the President's Justice and Development Party (AKP) in Istanbul, the country's largest city. The results, if confirmed, will be a blow to Erdogan, who has dominated Turkish politics since becoming Prime Minister in 2003.

10 April: Govt to allocate financial assistance to address Felda's cash flow issues. To address the Federal Land Authority's (Felda) cash flow issues, the federal government has decided to provide immediate financial assistance to ensure the sustainability of the operations and development of sustainable lands. In the Felda white paper presented in Parliament today, it was revealed that Felda needed to address the shortage of cash flows to ensure it can continue its operations. "The shortage of cash flows causes Felda to not be able to cover operating expenses, replanting costs, borrowing costs and outstanding payments to creditors," it said.

19 April: ECRL to boost China investments. Malaysia can expect an influx of investments from China and higher sales of palm oil to China this year following the revival of the East Coast Rail Link (ECRL) project, according to Chinese Ambassador Bai Tian. At a media roundtable yesterday, he said reviving the mega ECRL project has instilled greater investor confidence in Malaysia from the Chinese. "Greater confidence in Malaysia will attract more Chinese to come here for economic and infrastructure development.

29 Mar: US-China trade talks are in the 'final laps,' Treasury Secretary Mnuchin says. Trade talks between the U.S. and China are now in the final stages, said U.S. Treasury Secretary Steven Mnuchin, ahead of this week's meeting in Beijing between negotiators from both sides, according to a New York Times report. "We're getting into the final laps," the report quoted Mnuchin as saying, in an interview at the Milken Institute Global Conference in Los Angeles. "I think both sides have a desire to reach an agreement," Mnuchin said, according to the New York Times report. "We've made a lot of progress."

5 April: Four Asean central banks agree to pursue local-currency settlements. Governors of the central banks of four Southeast Asian nations signed letters of intent on Friday outlining a framework for local-currency settlements. At the Asean Finance Ministers and Central Bank Governors Meeting in Chiang Rai on Friday, Benjamin Diokno of Bangko Sentral ng Pilipinas signed separate letters with Perry Warjiyo of Bank Indonesia, Nor Shamsiah Yunus of Bank Negara Malaysia and Veerathai Santiprabhob of the Bank of Thailand.

17 April: Boring prospects for Malaysian stock market. Hopes of luring back global investors to a battered stock market are dimming by the day for Malaysia. The benchmark FBM KLCI is down 14% from a record in May 2018 and it's the worst major market in the world so far this year, having slipped 3.4%. That's even amid a rally in global equities spurred by the Federal Reserve's dovish pivot and a potential trade deal between the United States and China. The gloomy outlook for Malaysian stocks isn't likely to end anytime soon, says Samsung Asset Management Co.

20 April: Bandar Malaysia revival should be in line with Malaysia's socio-economic growth. Revival of the Bandar Malaysia mega-project should be thoroughly planned and studied to ensure it is in line with Malaysia's socio-economic growth, said economists. Economic expert Professor Dr Barjoyai Bardai proposed for the 196-hectare land, located on the old Sungai Besi Air Force Base site, to be owned by government-linked companies (GLCs).

30 April: Brexit: UK to ask EU for citizens' rights assurance. Tory MP Alberto Costa and campaign groups met the Brexit Secretary on Monday, calling for protections to be ring-fenced whatever Brexit's outcome. MPs supported an amendment to the PM's Brexit deal in February to secure citizens' rights. But the EU has rejected the plan. European Commission spokeswoman, Mina Andreeva said they would "not negotiate mini-deals", and the best way to protect citizens' rights was through the deal negotiated between the EU and UK. Around 1.3m UK citizens live in one of the other 27 EU member states, while the UK hosts about 3.2m EU nationals.

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