

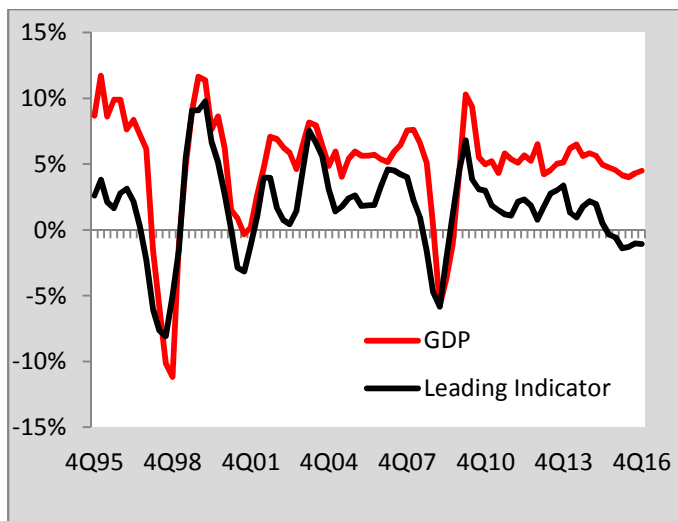
**MONTHLY ECONOMIC REVIEW | February 2017****Trade Rejuvenated, a Tailwind for the Local Economy**

- *Exports expanded at the fastest rate in 15 months, with growth reaching 13.6%yoy during the month. Meanwhile, imports growth surged to the highest rate in almost 5 years after expanding by 16.1%yoy. For exports, the growth was all-encompassing with encouraging demand for manufactured and commodity goods.*
- *Contraction narrows for leading indicators in December. Malaysia leading indicators still fell in December, but narrowed to 0.5%yoy. This was improvement from by sharper contraction recorded in the previous two months at -1.3%yoy and -1.4%yoy in October and November respectively.*
- *We forecast OPR to maintain for the year at 3.00%, revised from one cut projection. Fundamentally, global economic condition has improved only slightly compared from a year ago but the optimism is clearly riding high at the moment.*

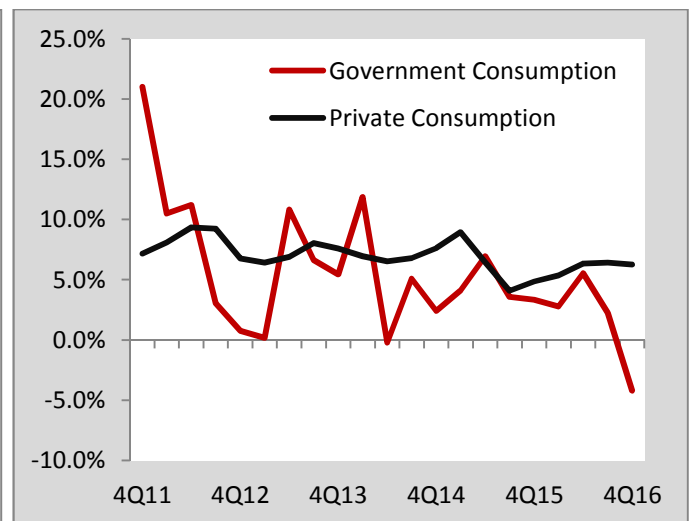
**Double-digits trade growth in January.** Exports expanded at the fastest rate in 15 months, with growth reaching 13.6%yoy during the month. Meanwhile, imports growth surged to the highest rate in almost 5 years after expanding by 16.1%yoy. For exports, the growth was all-encompassing with encouraging demand for manufactured and commodity goods. In particular, LNG was finally in the black with exports value growing by 2.8%yoy. Crude oil and petroleum products also recorded good figures at 48.1%yoy and 81.7%yoy respectively. That was not surprising given the higher Brent crude oil price which currently stabilised at USD56pb+-, up about 40% compared to a year ago. We note the low base effect (Jan 16': exports: -9.4%, imports: -1.8%) had a material impacts on the year-on-year performance yet we think the momentum will hold up in the near-term.

**Headline inflation surged to 3.2%.** Inflation came in within our expectation. Inflation rate jumped to a 1.4% to 3.2%yoy in January from the previous month while core inflation edged higher to 2.3% amid the 20 cents increment in pump price during the month. As a result of the higher pump price, sub-item transport inflation rose by 8.3%yoy – the highest since the consumer price was index was rebased to year 2010. Similarly, the 1.4% surge in inflation was also the steepest increase since the new base.

**Chart 1: GDP and Leading Indicator YoY**



**Chart 2: Private and Government Consumption**



Source: DoS, CEIC, MIDF Research

**Contraction narrows for leading indicators in December.** Malaysia leading indicators still fell in December, but narrowed to 0.5%yoy. This was improvement from by sharper contraction recorded in the previous two months at -1.3%yoy and -1.4%yoy in October and November respectively. Nonetheless, we have noted that in our IPI report we have anticipated higher growth for 4Q16 GDP growth due to broad-based recovery in both demand and supply side. Agriculture continued to make notable recovery while manufacturing strengthening was in line with the uptick in trade activity.

**We forecast OPR to maintain for the year at 3.00%, revised from one cut projection.** Fundamentally, global economic condition has improved only slightly compared from a year ago but the optimism is clearly riding high at the moment. US equity market is notching new record by the day while Asian equity markets are also in the green. In part, to the former, a 'lagged QE' seems to be on effect with much of the liquidity that 'leak' to EM countries during the QE period are returning to the US. Fed appears to be certain in raising rate in the next week FOMC meeting. Notwithstanding, we think the non-farm payroll data to be released by this Friday will be crucial for Fed to the make the final decision. However, we opine a figure below 100,000 jobs will only deter Fed from making the hike. 🇲🇾

<b>(YoY%) unless stated otherwise</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>1Q17f</b>	<b>2Q17f</b>	<b>3Q17f</b>	<b>4Q17f</b>
Real GDP	5.0	4.2	4.3	5.2	4.1	4.4	3.8
Private consumption expenditure	5.5	6.1	5.2	4.6	5.5	7.7	7.2
Government expenditure	4.7	1.0	1.7	-2.5	-0.2	0.8	9.3
Gross fixed capital formation	3.4	2.7	2.7	1.2	2.8	4.2	4.0
Exports of goods and services	0.6	0.1	2.2	4.0	4.8	2.9	-1.1
Imports of goods and services	1.2	0.4	2.4	3.2	5.5	3.3	-2.1
Net exports	-3.3	-1.8	19.8	10.8	-0.9	0.2	6.3
Nominal GDP	4.5	6.2	6.9	7.7	6.6	6.5	5.8
Exports of Goods (f.o.b)	1.9	1.1	3.0	5.0	5.8	3.9	-0.1
Imports of Goods (c.i.f)	0.4	1.9	3.5	2.2	6.5	4.3	-1.1
Trade Balance – Rmb	94.3	87.2	93.0	28.0	17.7	18.0	29.4
Consumer price index	2.1	2.1	4.5	4.3	4.7	4.6	4.4
Current account – Rmb	34	25.1	17.5	-	-	-	-
Current account - % of GNI	2.8	2.0	1.5	-	-	-	-
Fiscal balance - % of GDP	-3.2	-3.1	-3.0	-	-	-	-
Federal government debt - % of GDP	54.3	53.8	53.0	-	-	-	-
<b>End of Unless Stated Otherwise</b>	<b>2015</b>	<b>2016</b>	<b>2017f</b>	<b>1Q17f</b>	<b>2Q17f</b>	<b>3Q17f</b>	<b>4Q17f</b>
Brent Crude Oil (Avg)	53.6	45.0	50.0	56.0	47.0	50.0	50.0
Crude Palm Oil (Avg)	2,168	2,652	2,725	-	-	-	-
USD/MYR (Avg)	3.90	4.14	4.30	4.45	4.20	4.30	4.35
EUR/MYR (Avg)	4.33	4.58	4.50	4.72	4.50	4.75	4.65
JPY/MYR (Avg)	3.22	3.81	3.85	3.92	3.75	3.85	4.00
SGD/MYR (Avg)	2.84	3.00	3.25	3.35	3.10	3.25	3.35
Brent Crude Oil	37.3	56.8	50.0	-	-	-	-
Crude Palm Oil	2,200	3,218	2,725	-	-	-	-
USD/MYR	4.29	4.48	4.35	-	-	-	-
EUR/MYR	4.69	4.72	4.65	-	-	-	-
JPY/MYR	3.57	3.83	4.00	-	-	-	-
SGD/MYR	3.04	3.10	3.35	-	-	-	-
Yield on generic 10-year MGS (%)	4.19	4.22	4.30	4.10	4.05	4.35	4.65
3-month KLIBOR (%)	3.84	3.41	3.45	3.65	3.60	3.90	4.20
Overnight policy rate (%)	3.25	3.00	3.00	3.00	3.00	3.00	3.00

## February 2017 Key Economic Events

**2 February: Fed Hints the US Economy Gains Further Traction but Leave Rate Unchanged.** Officially this is the first interest meeting in the Trump Era. 10 voting members voted to leave fed funds at target range of 0.5% to 0.75% during the February meeting, as have been widely expected by economists and market alike. The fed officials pencilled three rate hikes for this year in last December but the market expects the Fed to raise only twice i.e in June and December respectively.

**3 February: Bank of England sharply raises 2017 growth outlook. Theresa May wins Article 50 Commons vote** The Bank of England has made another dramatic rise in its growth forecast for this year. It expects the economy to grow 2% in 2017, up from a November forecast of 1.4%, which was itself an upgrade from the 0.8% forecast made in August. Theresa May on Wednesday night comfortably won a historic House of Commons mandate to start Britain's divorce from the EU amid warnings that the looming exit negotiations could descend into a diplomatic "fist fight"

**6 February: China and Japan set for another high-speed railway fight.** Thailand and Malaysia are set to start talks on the construction of a 1,500km high-speed railway that would connect the two countries' capitals and enhance regional connectivity. Arkhom Termpittayapaisith, Thailand's transport minister, told the Nikkei Asian Review that he hopes to meet with his Malaysian counterpart soon. "We will discuss how we can get foreign countries involved in the project like 'China or Japan' or 'China and Japan,'" he said.

**8 February: China Reserves Edge Below \$3 Trillion.** China's foreign-currency reserves edged just below \$3 trillion in January, falling to the lowest since early 2011 after the yuan capped its steepest annual decline in two decades. Reserves fell \$12.3 billion to \$2.998 trillion, the People's Bank of China said Tuesday. That compares with the \$3.004 trillion estimate in a Bloomberg survey of economists. The central bank's intervention in foreign-exchange markets drove the drop, as did seasonal factors such as high demand for other currencies during the week-long Lunar New Year holiday..

**15 February: Hawkish Fed Talk Refuels Dollar Rally; March Rate Hike Odds Rise.** Federal Reserve Chair Janet Yellen's comments that every central bank meeting is "live" for a possible rate hike and that waiting too long to remove accommodation would be "unwise" added fresh fuel to a dollar rally that's been gaining traction for the past week. The greenback was supported by the 10-year Treasury yield, which rose to as high as 2.5 percent after trading under 2.43 percent at the start of the day, as investors boosted the probability of a March rate increase to about 34%.

**20 February: Singapore Budget 2017 : Moving Forward Together.** Minister for Finance Heng Swee Keat delivered the Singapore Government's Budget Statement for Financial Year 2017 in Parliament on Mon, 20 February 2017. Economic growth was 2% in 2016, similar to that in 2015, with some sectors doing better while others faced headwinds. Similarly, labour market performance was mixed, with jobs created in some sectors and lost in others. The overall unemployment rate remained low. The outlook for 2017 is largely similar to 2016.

**24 February: China Is Developing its Own Digital Currency.** China's central bank is going digital. After assembling a research team in 2014, the People's Bank of China has done trial runs of its prototype cryptocurrency. That's taking it a step closer to becoming one of the first major central banks to issue digital money that can be used. For users, a PBOC-backed cryptocurrency probably wouldn't seem much different to existing payment methods such as Alipay or WeChat. But for sellers, they would get digital payments directly from the buyer, lowering transaction costs.

**27 February: Solar Squabble Shows How a Trump Trade War With China Could Backfire.** For a cautionary tale on how a trade war with China could backfire against the U.S. under President Donald Trump, talk to REC Silicon ASA Chief Executive Officer Tore Torvund. After the U.S. slapped duties on Chinese solar panel exports in 2011, China shot back about a year later with measures against the American polysilicon exports. Along with other producers in the U.S., REC Silicon, a Norwegian company which produces the material at factories in Moses Lake, Washington and Butte, Montana, was clobbered.

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