

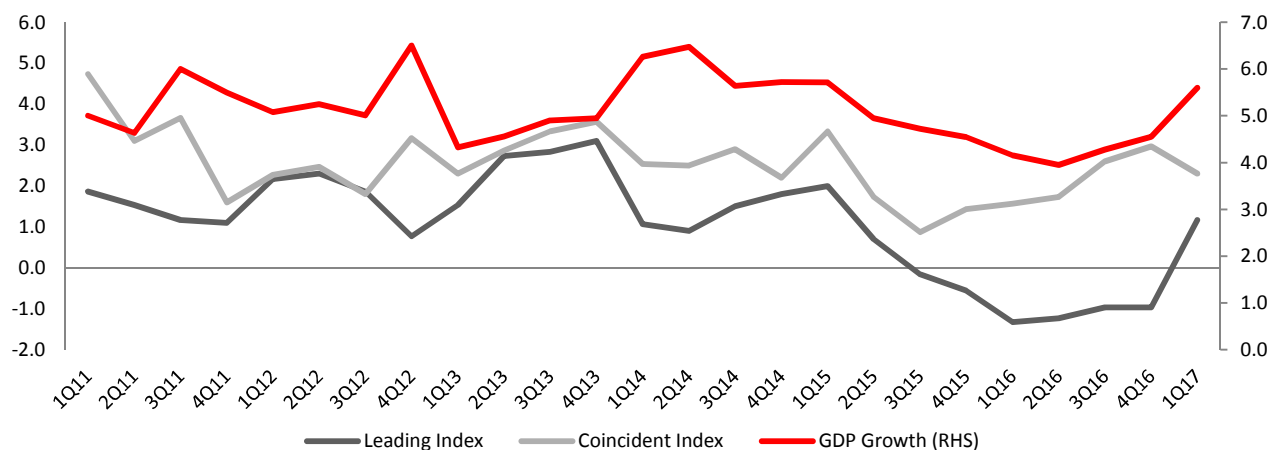
MONTHLY ECONOMIC REVIEW | May 2017

Malaysia Economy Riding High in 1Q17

- *Leading index recorded the highest in two years. In March 2017, leading index grew by 1.8%yoy, the highest since March 2015 at 2.8%yoy. The solid growth was contributed by steady growth in new business registrations, real imports of semiconductor, real money supply M1 and expected sales value in manufacturing sector.*
- *GDP growth is slightly above our expectation of 5.4%yoy. Malaysia GDP reached 5.6%yoy in the first quarter, highest in two years. The strong growth is expected due to better performance in global trade as well as domestic economic activities in the first three months of 2017. This is line with the upward trend in industrial production which grew by 4.3%yoy during the first quarter.*
- *Malaysia's economy on track for 4.9% growth. Moving forward, we opine steady improvement in major economies coupled with modest growth in commodities prices will provide a positive impact on Malaysia's economy via exports demand and increase in industrial production especially in the export-oriented industries. Besides, improving labour market, continued wage growth and moderating inflation will support and spur domestic economy.*

Leading index recorded the highest in two years. In March 2017, leading index grew by 1.8%yoy, the highest since March 2015 at 2.8%yoy. The solid growth was contributed by steady growth in new business registrations, real imports of semiconductor, real money supply M1 and expected sales value in manufacturing sector. As for coincident index, the indicator expanded by 2.9%yoy to 129.1 point. Based on the performances of both indexes, Malaysia economy is expected to expand further between July and September this year.

Chart 1: Leading and Coincident Indexes vs GDP Growth (YoY%)



Source: DOSM; MIDFR

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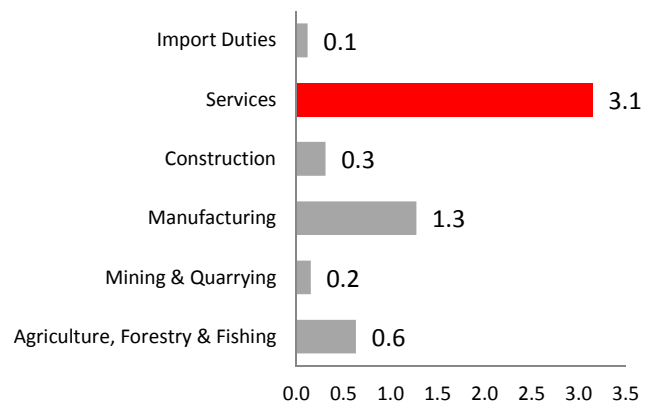
Private sectors remain the main contributor. Economic growth for the first quarter is mainly contributed by private consumption and investment with both grew solidly by 6.6%yoy and 12.9%yoy respectively. Apart from that, total investment rose sharply by 10%yoy, triple than previous year's growth of 3.1%. Improvement in Malaysia's consumption and investment is possibly explained by the optimism in consumer and business confidence during the first quarter. According to Malaysian Institute of Economic Research, business confidence rose significantly from 81.2 point in 4Q2016 to 112.7 point in 1Q17 while consumer confidence grew firmly to 76.6 point. The commendable performance by private sector in the first three months of 2017 validated the rise in both leading indicators.

Chart 2: Contribution by Expenditure Components (%)



Source: DOSM; MIDFR

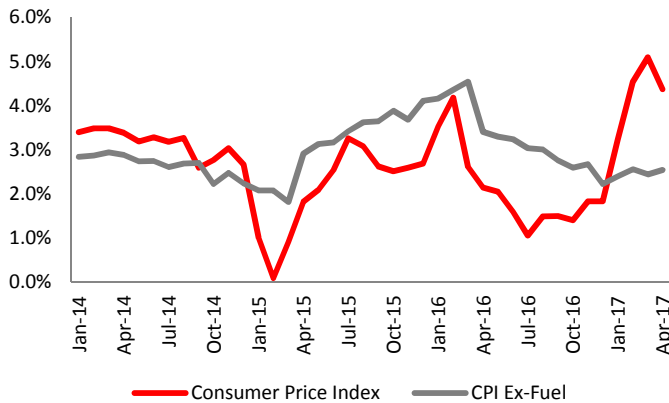
Chart 3: Contribution by Supply-Side Components (%)



Source: DOSM; MIDFR

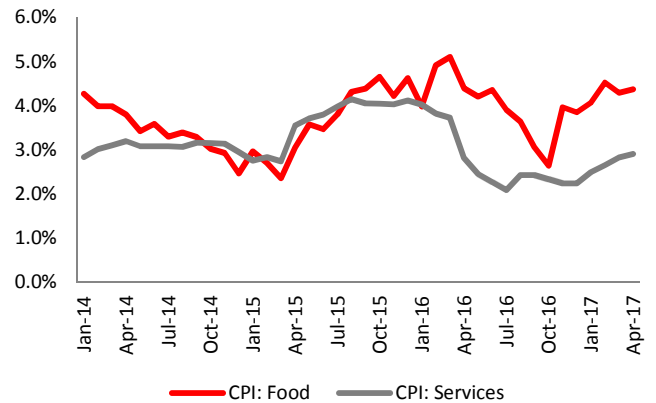
Inflation rate soften in April. Headline inflation recorded a 4.4%yoy while core inflation maintain stable at 2.5% in April. Non-food inflation grew lower than March's by 1.1% but on a flip side, food inflation expanded steadily by 4.1% in April. On monthly basis, headline inflation recorded negative growth. The drop in headline inflation is explained by the steep contraction in transport prices. Transport inflation rose by 16.7%yoy, lower than the previous two months. This indicates that cost-driven factors are cooling off as retail year-on-year fuel price differential gradually converge in April. Moving forward, we opine Malaysia's inflation rate to moderate but uncertainty in global oil prices will have a substantial impacts on a broader prices trends.

Chart 4: CPI vs CPI Ex-Fuel



Source: DOSM; MIDFR

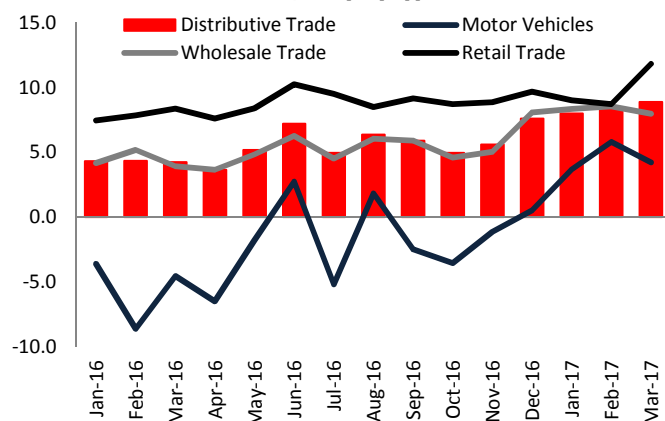
Chart 5: Food Price Index vs Services Price Index



Source: DOSM; MIDFR

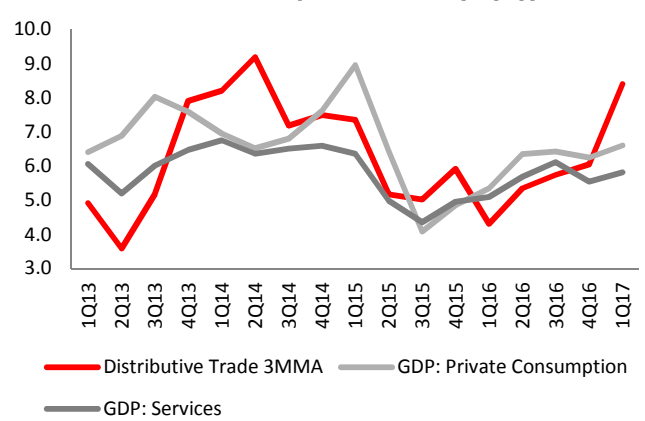
Distributive trade hits highest growth in almost two years. Distributive trade and retail trade expanded by 8.9%yoy and 11.8%yoy respectively in March this year, the highest since March 2015. As for other components of distributive trade, wholesale trade and motor vehicles increased by 8%yoy and 4.2%yoy respectively in March. On monthly seasonally adjusted, distributive trade and its components grew at positive rate surpassing 1% level. Solid performance of the distributive trade signals robust domestic spending in our economy. We expect Malaysia's private consumption and services sector to grow by 6.3% and 5% respectively in 2017.

Chart 6: Distributive Trade, DT (%yoy)



Source: DOSM; MIDFR

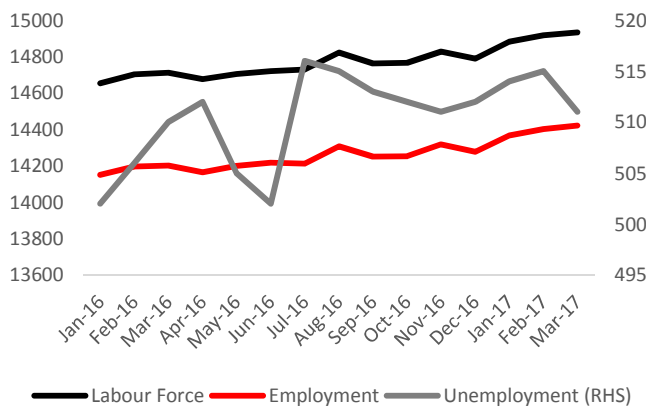
Chart 7: DT-Private Consumption-Services (%yoy)



Source: DOSM; MIDFR

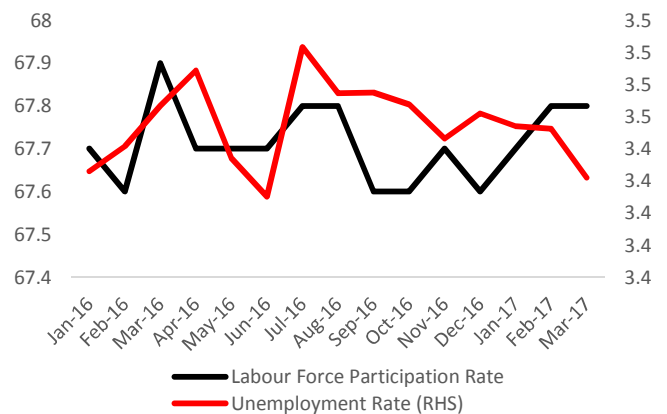
20,000 new jobs added in March. Malaysia's employment expanded in March to 14.42 million while labour force grew closer to 15 million persons. The expansion in employment means 20,000 new jobs been added as compared to previous month. As for unemployed persons, the unemployment numbers went down by 4,000 to 0.51 million. Added with slightly higher labour force participation rate, Malaysia's unemployment rate decreased to 3.4% after three consecutive months of sticking at 3.5%. In comparison with the same month of 2016, labour force and employment grew steadily by 1.5%yoy and 1.6%yoy while unemployed persons only increased by 0.2%. The firm growth in both labour force and employment explain the slight drop in unemployment rate.

Chart 8: Number of Persons ('000)



Source: DOSM; MIDFR

Chart 9: UE Rate vs LFPR (%)



Source: DOSM; MIDFR

Geopolitical risk remain as a threat. Despite improvement in global market, geopolitical risk in developed economies remain a challenge to the global economic growth. North Korea's missile test invites conflicts among major powers in particular the US, South Korea, Japan, China and Europe to intervene in which could cause instability in the global market.

Malaysia's economy on track for 4.9% growth. Based on the current indicators, we are optimistic that Malaysia's economy to expand by 4.9% this year given the upbeat performance of domestic and global economy. Moving forward, we opine steady improvement in major economies coupled with modest growth in commodities prices will provide a positive impact on Malaysia's economy via exports demand and increase in industrial production especially in the export-oriented industries. Besides, improving labour market, continued wage growth and moderating inflation will support and spur domestic economy. 

(YoY%) unless stated otherwise	2015	2016	2017	1Q17f	2Q17f	3Q17f	4Q17f
Real GDP	5.0	4.2	4.9	5.4	5.1	4.9	4.2
Private consumption expenditure	5.5	6.1	6.3	4.6	5.5	7.7	7.2
Government expenditure	4.7	1.0	2.5	-2.5	-0.2	0.8	9.3
Gross fixed capital formation	3.4	2.7	3.1	1.2	2.8	4.2	4.0
Exports of goods and services	0.6	0.1	2.6	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	4.1	10.8	-0.9	0.2	6.3
Nominal GDP	4.5	6.2	8.2	8.4	8.1	7.9	7.2
Exports of Goods (f.o.b)	1.9	1.1	8.5	19.8	12.5	3.5	4.5
Imports of Goods (c.i.f)	0.4	1.9	8.3	20.2	14.5	7.5	3.5
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	34.0	25.1	17.5	-	-	-	-
Current account - % of GNI	2.8	2.1	2.2	-	-	-	-
Fiscal balance - % of GDP	-3.2	-3.1	-3.0	-	-	-	-
Federal government debt - % of GDP	54.3	53.8	53.0	-	-	-	-
End of Unless Stated Otherwise	2015	2016	2017f	1Q17f	2Q17f	3Q17f	4Q17f
Brent Crude Oil (Avg)	53.6	43.6	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	4.35	4.45	4.20	4.43	4.30
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	3.45
Brent Crude Oil	37.3	56.8	50.0	-	-	-	-
Crude Palm Oil	2,200	3,218	2,725	-	-	-	-
USD/MYR	4.29	4.48	4.30	-	-	-	-
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

April 2017 Key Economic Events

3 May: TPP nations meet to discuss future without US. Negotiators from the remaining members of the Trans-Pacific Partnership (TPP) gathered in Canada on Tuesday seeking ways to boost free trade in the region after the United States pulled out of the 12-nation pact. The withdrawal killed off years of negotiations and left the region looking for ways to deepen economic ties without a United States that appears increasingly suspicious of multilateral deals.

8 May: Petronas' first floating LNG facility to start operating next month. Petroliam Nasional Bhd (Petronas) is ramping up its liquefied natural gas (LNG) capacity with its first floating liquefied natural gas (LNG) facility, PFLNG Satu, expected to go into commercial operation next month. The facility, which marked the world first innovation in the LNG industry, is expected to boost Malaysia's total LNG production capacity to 32 million tonnes per annum (mtpa).

17 May: UK inflation rate at highest level since September 2013. The UK's inflation rate rose last month to its highest since September 2013, official figures show. Inflation now stands at 2.7% - up from 2.3% in March - and above the Bank of England's 2% target. The main reason was higher air fares, which rose because of the later date of Easter this year compared with 2016. Rising prices for clothing, vehicle excise duty and electricity also played a part, but a fall in the price of petrol and diesel slightly offset this.

25 May: OPEC, non-OPEC extend oil output cut by nine months to fight glut. OPEC and non-members led by Russia decided on Thursday to extend cuts in oil output by nine months to March 2018 as they battle a global glut of crude after seeing prices halve and revenues drop sharply in the past three years. Oil prices dropped more than 4 percent as the market had been hoping oil producers could reach a last-minute deal to deepen the cuts or extend them further, until mid-2018.

4 May: Fed Left Interest Rate Unchanged, Views Slowdown in First Quarter as Transitory The Fed decided to leave the federal funds rate in a range of 0.75% to 1.00%. First quarter of 2017 saw GDP grew at annualized rate of 0.7%, indicating a slowdown in the US economy. Consensus of traders and analysts expect a solid growth especially in the second half of 2017. We think that case is likely given that the first quarter data often suffer from seasonality adjustment problem hence a pickup during spring and summer are expected.

12 May: Upbeat Views on Economic Outlook, OPR Maintain at 3.0%. Overnight Policy Rate maintain at 3.0%. The decision is expected as the encouraging growth momentum for the first quarter 2017 is likely to be sustained for the rest of the year. Domestic and global trade activities are on upward trajectory. Malaysia's industrial production and distributive trade expanded firmly by 4.6%yoy and 8.9%yoy respectively in March. On external front, exports breached RM80bn in March. Exports growth expanded by double digit rate for the fifth consecutive months.

25 May: Fed sets process to wind down \$4.5 trillion balance sheet. Federal Reserve officials appear to be in sync on how they plan to unravel the mammoth stimulus implemented during the financial crisis. The Fed is holding a \$4.5 trillion portfolio, known as its "balance sheet," of mostly government debt it accumulated in the years after the crisis. Until now, the central bank has been taking the proceeds it receives from maturing debt and reinvesting them in more bonds.

29 May: UK GDP growth weaker than expected as inflation hits spending. The UK economy slowed even more sharply than first thought in the opening months of this year as rising prices in the wake of the Brexit vote took their toll on consumer spending. The Office for National Statistics said GDP grew just 0.2% in the first quarter of 2017, a marked change of pace from the 0.7% growth in the final three months of 2016. Statisticians had previously estimated the economy grew 0.3% in the first quarter.

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