

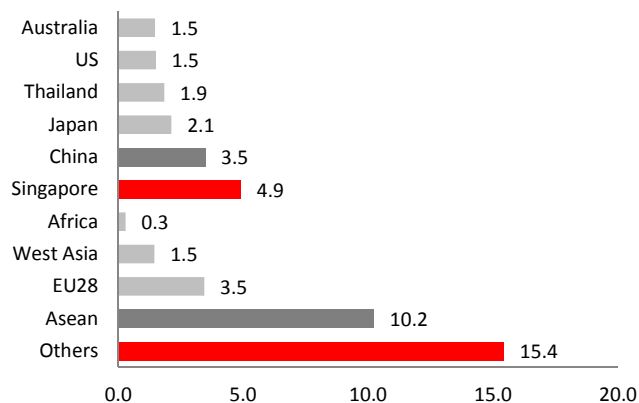
## MONTHLY ECONOMIC REVIEW | September 2017

### Sustained Global Demand Boost Domestic Economy

- *Export growth rebounded to 30.9%yoy in July. The rebound in exports and imports growths is expected due to low base effect. Apart from that, robust external trade activities are reflected during the month as proven by the strong month-on-month expansion, exports and imports grew by 7.6% and 11.7% respectively. For three consecutive months, exports outpaced imports and bring trade balance surplus to RM8billion in July 2017.*
- *IPI growth surprised market. Malaysia's industrial production rose by 6.1%yoy in July 2017, beating market expectations of 5.1%. The soaring IPI growth is supported by sharp increase in manufacturing and electricity productions, 8%yoy and 7.9%yoy during the month. Manufacturing growth recorded the highest in three years.*
- *Distributive trade hits three-year high. Distributive trade rose strongly by 11.1%yoy in July 2017, fastest growth since March 2014. The solid growth in distributive trade was contributed by robust expansion in sales of motor vehicles, wholesale trade and retail trade.*

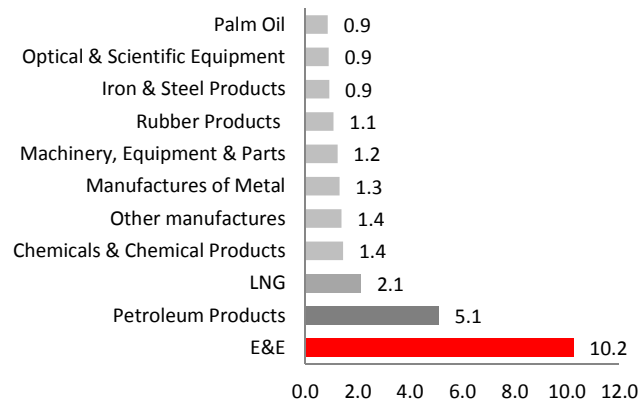
**Export growth rebounded to 30.9%yoy in July.** The rebound in exports and imports growths is expected due to low base effect. Apart from that, robust external trade activities are reflected during the month as proven by the strong month-on-month expansion, exports and imports grew by 7.6% and 11.7% respectively. For three consecutive months, exports outpaced imports and bring trade balance surplus to RM8billion in July 2017. Continuous uptick in global demand in particular manufactured goods and optimistic market environment are major factors contributing towards upbeat momentum in Malaysia's external trade performance.

**Chart 1: % Contribution to Exports Growth by Country and Region**



Source: DOSM, MIDFR

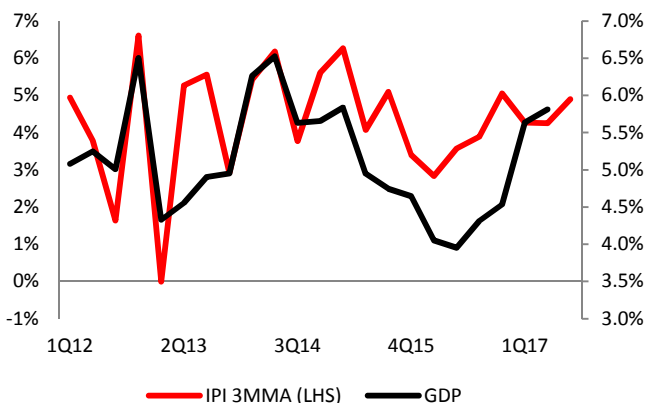
**Chart 2: % Contribution to Exports Growth by Products**



Source: DOSM, MIDFR

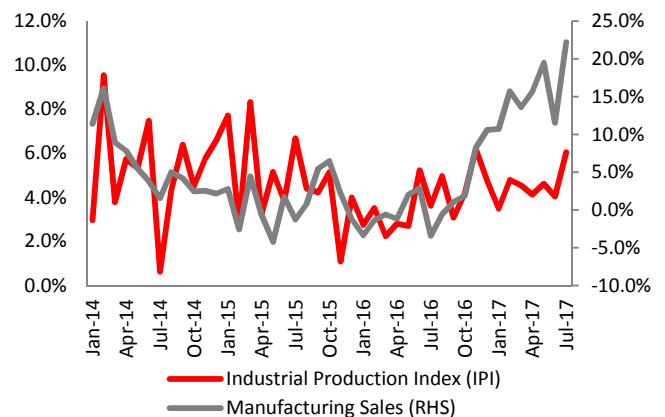
**IPI growth surprised market.** Malaysia's industrial production rose by 6.1%yoy in July 2017, beating market expectations of 5.1%. The soaring IPI growth is supported by sharp increase in manufacturing and electricity productions, 8%yoy and 7.9%yoy during the month. Manufacturing growth recorded the highest in three years. Mining production grew marginally by 0.2%yoy but continues to register positive growth for two consecutive months. The upward trend in overall IPI performance is in tandem with upbeat performance of external trade activities which seen exports expanded by 30.9%yoy in July. The growth trend was also in line with the uptick manufacturing PMI figure in July. We opine continuous upbeat momentum in global demand remains as key driver boosting up Malaysia's industrial activity.

**Chart 3: IPI vs GDP (YoY%)**



Source: DOSM, MIDFR

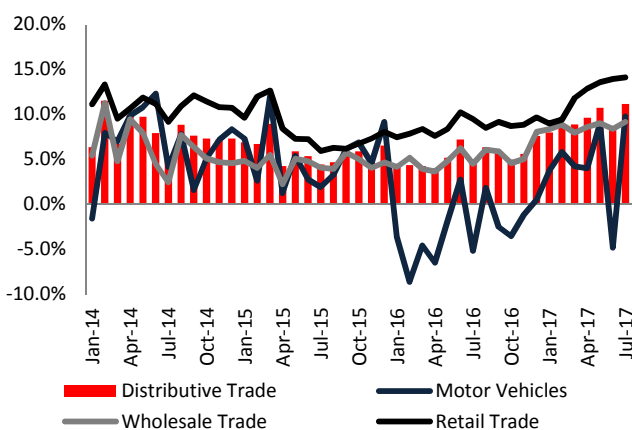
**Chart 4: IPI vs Manufacturing Sales (YoY%)**



Source: DOSM, MIDFR

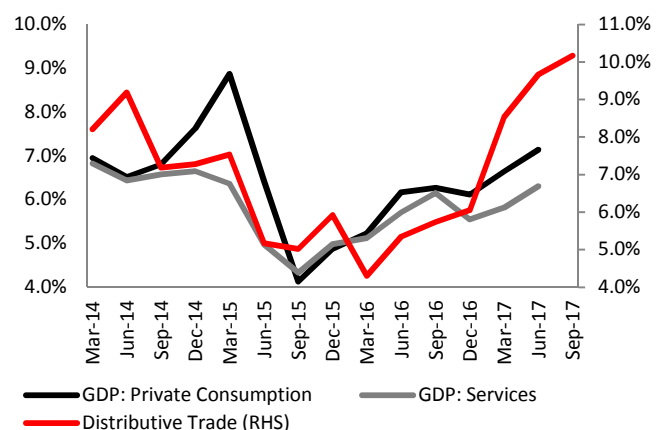
**Distributive trade hits three-year high.** Distributive trade rose strongly by 11.1%yoy in July 2017, fastest growth since March 2014. The solid growth in distributive trade was contributed by robust expansion in sales of motor vehicles, wholesale trade and retail trade. For instance, sales of motor vehicles soar up by 9.8%yoy during the month, fastest expansion in two years. As for retail trade, the sub-component of distributive trade registered a new record with growth momentum stood at 14.1%yoy. We opine the robust expansion was partly due to softening inflation, sanguine business environment and improved labor market.

**Chart 5: Distributive Trade, DT (YoY%)**



Source: DOSM; MIDFR

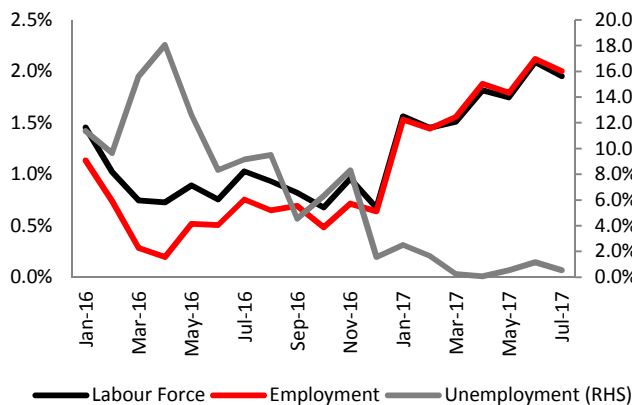
**Chart 6: DT vs Private Consumption vs Services (YoY%)**



Source: DOSM; MIDFR

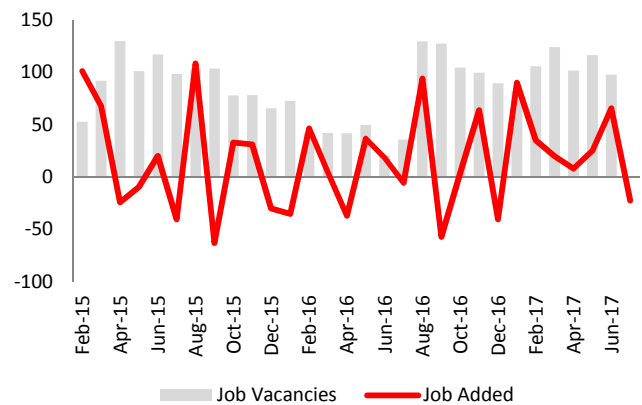
**Labour market remains steady despite slight increase in jobless rate.** Malaysia's unemployment rate returned to 3.5% in July after five months hovering below the current rate. The slight rise in the unemployment rate was due to lower labour participation rate. Moreover, number of people in the employment declined by 23 thousand compared to a month earlier. Despite of this, labour force and employment remain growing at healthy pace, 2%yoy respectively. In fact, growths in both labour force and employment have been outpacing unemployment growth for fifth consecutive months.

**Chart 7: Labour Market Key Indicators (YoY%)**



Source: DOSM; MIDFR

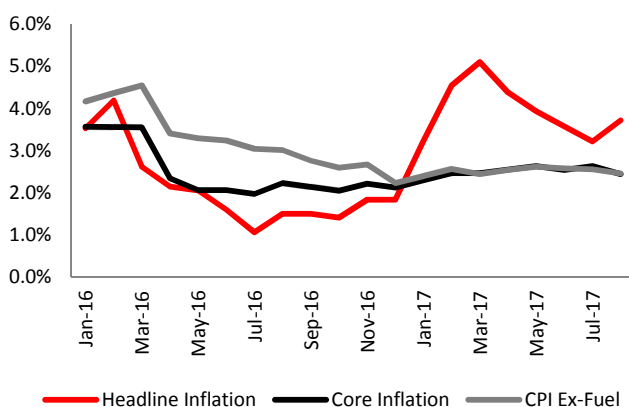
**Chart 8: Jobs Added vs Vacancies ('000)**



Source: DOSM; MIDFR

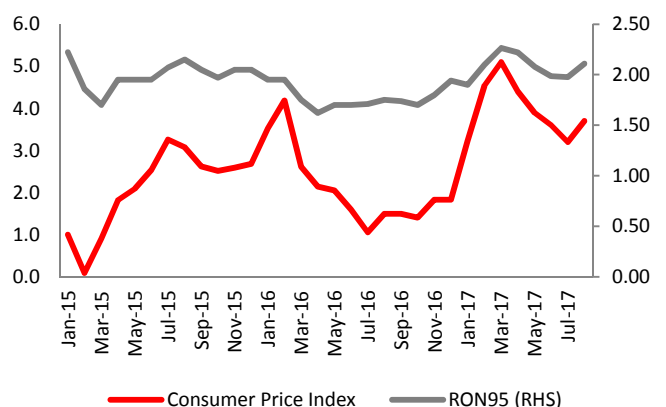
**Headline inflation rebounded amid rise in pump price.** Headline inflation rose by 3.7% in August, surged after five consecutive months of moderated. On monthly basis, the inflation increased close to 1%. The recent uptick in overall prices was driven by rise in fuel and transport prices. Increase in global commodity prices due to hurricane Harvey and Irma gave positive knock-on effects on Malaysia's overall prices especially fuel-related items. In spite of this, we view the shock in prices is only temporary. Core inflation drops to 2.4%, lowest in seven months.

**Chart 9: CPI vs Core CPI (YoY%)**



Source: DOSM, MIDFR

**Chart 10: CPI (YoY%) vs RON95 (RM per litre)**



Source: DOSM, MIDFR

**Table 1: Macroeconomic Data Updates**

<b>(YoY%) Unless Stated Otherwise</b>	<b>2015</b>	<b>2016</b>	<b>2017<sup>f</sup></b>	<b>1Q17</b>	<b>2Q17</b>	<b>3Q17<sup>f</sup></b>	<b>4Q17<sup>f</sup></b>
Real GDP	5.0	4.2	5.1	5.6	5.8	4.7	4.2
<i>Private Consumption</i>	5.5	6.1	6.3	6.6	7.1	5.7	5.8
<i>Public Consumption</i>	4.7	1.0	2.5	7.5	3.3	(4.4)	3.7
<i>Gross Fixed Capital Formation</i>	3.4	2.7	4.1	10.0	4.1	0.3	1.8
<i>Exports of goods &amp; services</i>	0.6	0.1	8.0	9.8	9.6	7.8	4.7
<i>Imports of goods &amp; services</i>	1.2	0.4	8.5	12.9	10.7	7.1	3.1
<i>Net Exports</i>	(3.3)	(1.8)	4.1	(14.5)	1.4	12.1	17.4
Exports of Goods (f.o.b)	1.9	1.1	14.5	21.4	21.0	11.2	4.5
Imports of Goods (c.i.f)	0.4	1.9	15.5	27.7	19.6	11.0	3.7
Trade Balance - RMb	94.3	87.2	90.6	18.9	24.1	19.8	27.8
Consumer Price Index	2.1	2.1	3.8	4.3	4.0	3.4	3.3
Current Account - RMb	35.2	29.0	32.3	-	-	-	-
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	-	-	-	-
Nominal GDP	4.5	6.2	7.2	-	-	-	-
<b>End of Unless States Otherwise</b>	<b>2015</b>	<b>2016</b>	<b>2017<sup>f</sup></b>	<b>1Q17</b>	<b>2Q17</b>	<b>3Q17<sup>f</sup></b>	<b>4Q17<sup>f</sup></b>
Brent Crude Oil (Avg)	53.6	43.6	50.0	54.7	51.0	47.9	46.5
Crude Palm Oil (Avg)	2,168	2,652	2,725	-	-	-	-
USD/MYR (Avg)	3.90	4.14	4.30	4.40	4.30	4.30	4.20
EUR/MYR (Avg)	4.33	4.58	4.65	4.70	4.50	4.75	4.65
JPY/MYR (Avg)	3.22	3.81	3.88	3.90	3.75	3.85	4.00
SGD/MYR (Avg)	2.84	3.00	3.23	3.10	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	4.20	-	-	-	-
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	4.29	4.10	4.05	4.35	4.65
3-month KLIBOR (%)	3.84	3.41	3.78	3.40	3.60	3.90	4.20
Overnight Policy Rate (%)	3.25	3.00	3.00	3.00	3.00	3.00	3.00

Source: MIDFR

## September 2017 Key Economic Events

**5 September: Nikkei Malaysia Manufacturing PMI up at 50.4 in August.** The Nikkei Malaysia Manufacturing Purchasing Managers' Index (PMI) rose to 50.4 in August from 48.3 in July as output increased on higher exports. A reading above 50 indicates manufacturing output growth while a figure below 50 shows a contraction. IHS Markit owns the Nikkei Malaysia Manufacturing PMI while Nikkei is the sponsor. IHS Markit said in a statement today that firms surveyed highlighted growing demand from China besides South East Asia and Middle East countries.

**11 September: UN passes fresh sanctions on North Korea.** The United Nations Security Council unanimously adopted a US-drafted resolution to impose new sanctions on North Korea on Monday -- a move that comes just one week after the rogue nation carried out its sixth and largest nuclear test. The resolution is designed to accomplish six major goals: cap North Korea's oil imports, ban textile exports, end additional overseas labourer contracts, suppress smuggling efforts, stop joint ventures with other nations and sanction designated North Korean government entities, according to a US official familiar with negotiations.

**15 September: North Korea launches missile over Japan.** In a major show of defiance to the international community, North Korea fired a ballistic missile over the northern Japanese island of Hokkaido Friday. The launch is the second to fly over Japan in less than a month, and the first since North Korea's sixth nuclear test and new United Nations sanctions on the country. North Korean state media has yet to reference the launch, but a commentary published in the Rodong Sinmun newspaper Friday said "no matter how strong the pressure is, it doesn't work on us."

**25 September: Japanese Prime Minister Shinzo Abe calls snap election.** Japanese leader Shinzo Abe has called an early election to take advantage of higher opinion polls to secure a stronger mandate as the country prepares to respond to increasing threats from North Korea. In a national address Monday, Abe said he'll dissolve parliament's lower house on Thursday to "seek the mandate of the people immediately." The move comes one year before scheduled elections and amid a stronger showing in opinion polls for Abe who's seen gains for his response so far to North Korea.

**7 September: BNM keeps overnight policy rate at 3%.** The Monetary Policy Committee of Bank Negara Malaysia (BNM) decided at its meeting today to maintain its overnight policy rate (OPR) at 3%. The decision came amid expectations of stronger-than-anticipated growth in the Malaysian economy this year, driven by "positive global growth outlook and stronger spillovers from the external sector to the domestic economy," BNM said. "At the current level of the OPR, the stance of monetary policy remains accommodative. BNM however noted the outlook may be affected by political and policy developments in major economies, as well as geopolitical risks.

**13 September: Malaysia Airlines Agrees to \$3 Billion Boeing Plane Deal.** Malaysia Airlines Bhd. agreed to buy Boeing Co.'s 787-9 Dreamliners and 737 Max jets as the Southeast Asian nation's flag carrier looks to boost services on its busiest routes. The airline signed a memorandum of understanding for eight of the carbon-composite Dreamliners, and eight 737 Max 8s, Boeing said in an e-mailed statement late Tuesday. The planes are worth \$3.06 billion at list prices that exclude customary discounts. The agreement marks a victory for Boeing in a competition that had been viewed as favouring rival Airbus SE.

**24 September: German election: A hollow victory for Angela Merkel.** Emerging from her car she arranged her face into a smile first for the cameras and then for the party faithful who'd gathered at CDU headquarters. The chancellor knew she would most likely win this election. But it is not the victory she or her party had hoped for. It is the conservatives' worst election result under her leadership. A verdict, perhaps, on her decision to open Germany's doors to one million refugees. Addressing her party, Mrs Merkel acknowledged the past four years had been hard. Nevertheless the party had still achieved its aim - to finish first.

**29 September: Trump promotes 'giant, beautiful, massive' tax plan.** President Donald Trump said Friday that the centrepiece of his plan to help American businesses and workers "thrive, compete and grow" is a "giant, beautiful, massive, the biggest ever in our country, tax cut." Trump and congressional Republicans unveiled the broad outlines of the tax plan earlier this week. "My administration is working every day to lift the burden on companies and workers so you can thrive, compete and grow," Trump said in a speech to the National Association of Manufacturers. He said the tax cut plan was a core element.

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