

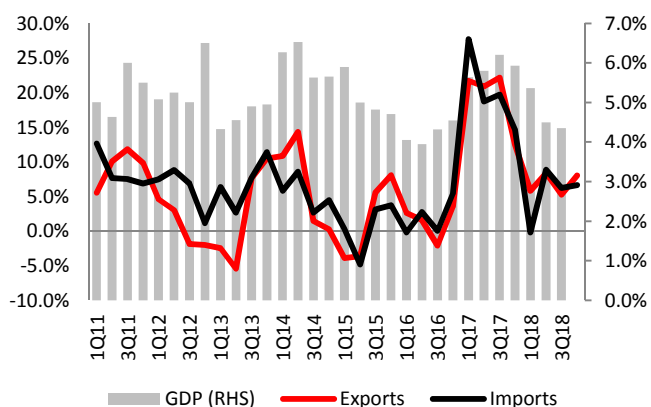
MONTHLY ECONOMIC REVIEW | December 2018

External Sector Remain Resilience Despite Trade Tension As Exports Value Hit New High - RM96.4b

- Exports growth at second highest of the year. Exports growth in Oct-18 accelerated on both annually and monthly basis at 17.7% and 16.2% respectively, reaching a new high above RM90B. The second highest annual exports growth of the year was a result of better sectoral performances.
- IPI growth fastest in 6-month. Malaysia's industrial production expands by 4.2%yoy in Oct-18, above market estimate of 3.3%yoy and slight higher than our forecast of 4%yoy. Rebound in mining output and continuous expansion in manufacturing and electricity productions contribute towards the upward surprise.
- Domestic sales increased gradually despite SST. Distributive trade grew by 8.2%yoy in Oct-18 (7.2%yoy in Sep-18) to RM106B. Retail sales sustained its double digit growth for the fifth consecutive month at 11.2%yoy to RM42B in Oct-18 (10.5%yoy in Sep-18). Similarly, wholesale trade continued to increase by 7.2%yoy to RM51.9B (6.5%yoy in Sep-18).

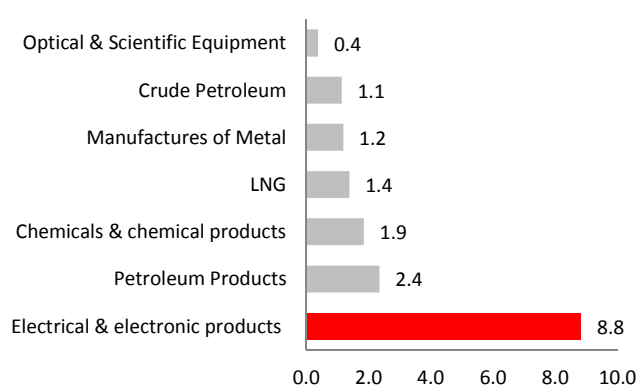
Exports growth at second highest of the year. Exports growth in Oct-18 accelerated on both annually and monthly basis at 17.7% and 16.2% respectively, reaching a new high above RM90B. The second highest annual exports growth of the year was a result of better sectoral performances. Manufactured goods, the largest contributor to exports grew further by a double digit of 19.9%yoy (7.9%yoy in Sep-18). In addition, outbound shipment of mining goods continued climbing by a double digit growth of 29.6%yoy (17%yoy in Sep-18). Meanwhile, October's imports rebounded by 11.4%yoy and 18.2%mom (-2.8%yoy and -15.6%mom in Sep-18), back to RM80B level. As exports outperformed imports, trade surplus widened to RM16.3B, the largest excess in record up to date. For the first ten months, trade surplus (RM102B) has already hit 85% of our full-year target of RM119.9B.

Chart 1: External Trade vs GDP, (YoY%)



Source: CEIC, MIDFR

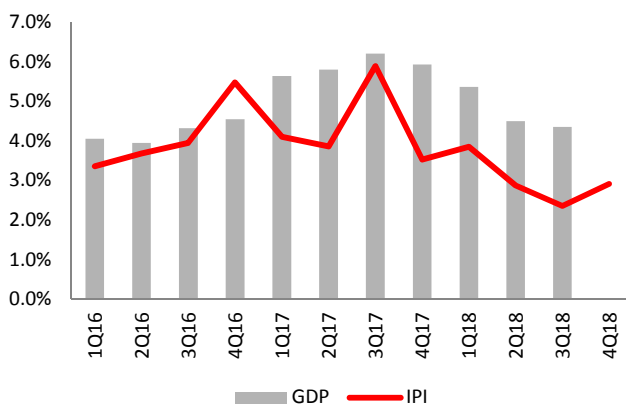
Chart 2: % Contribution to Exports Growth by Products



Source: CEIC, MIDFR

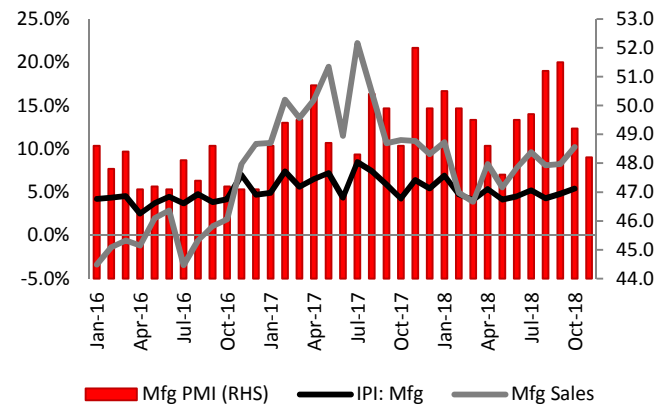
IPI growth fastest in 6-month. Malaysia's industrial production expands by 4.2%yoy in Oct-18, above market estimate of 3.3%yoy and slight higher than our forecast of 4%yoy. Rebound in mining output and continuous expansion in manufacturing and electricity productions contribute towards the upward surprise. Mining output turns to positive growth rate after 5-consecutive months of contractions while factory output expansion rate jumped to 9-month high. The solid pick-up in IPI performance is in tandem with the robust pace of Malaysia's external trade in Oct-18. Moving forward, we foresee IPI performance to expand at steady pace in the fourth quarter of 2018 and in 2019 amid tapering trade tension effects, strong global demand, optimistic business environment and volatility risks in global commodity prices & currencies.

Chart 3: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

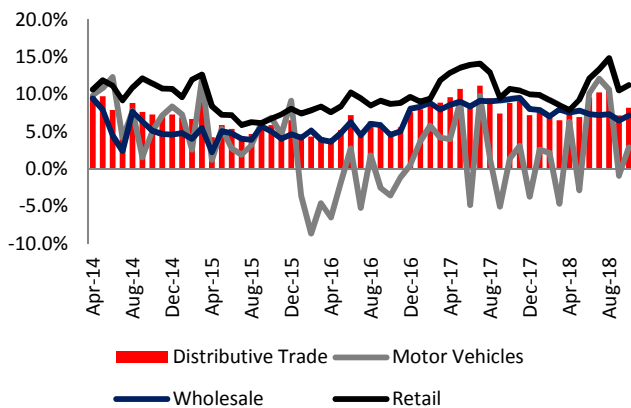
Chart 4: Manufacturing IPI & Sales (YoY%) vs PMI (Points)



Source: CEIC, MIDFR

Domestic sales increased gradually despite SST. Distributive trade grew by 8.2%yoy in Oct-18 (7.2%yoy in Sep-18) to RM106B. Retail sales sustained its double digit growth for the fifth consecutive month at 11.2%yoy to RM42B in Oct-18 (10.5%yoy in Sep-18). Similarly, wholesale trade continued to increase by 7.2%yoy to RM51.9B (6.5%yoy in Sep-18). Meanwhile, motor vehicles growth rebounded to a positive territory of 2.9%yoy in Oct-18 from -0.9%yoy posted in the previous month. On monthly basis, distributive trade rebounded by 1.2% from a 2.9% contraction recorded last month. The performances are expected as consumers adapting to the SST and such gradual increases are likely to continue in upcoming months.

Chart 5: Distributive Trade, DT (YoY%)



Source: CEIC, MIDFR

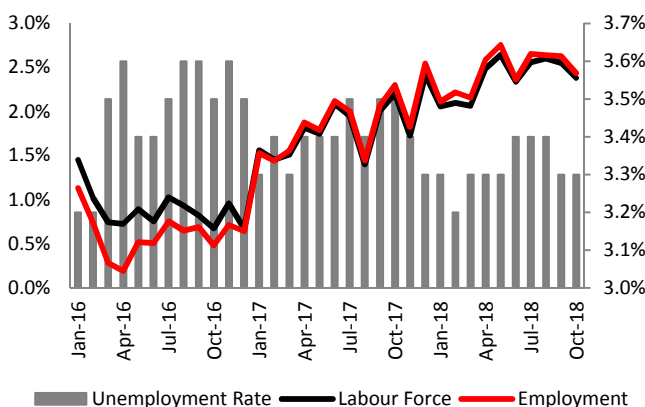
Chart 6: Retail Trade: GDP vs DT (YoY%)



Source: CEIC, MIDFR

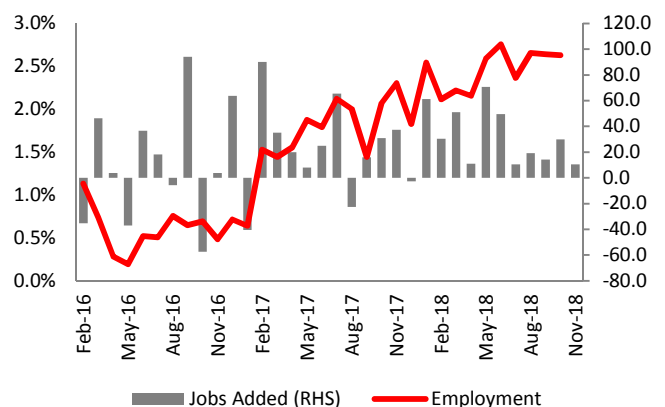
Labour market remains strong. Labour force expanded by 2.4%yoy to 15.5 million in Oct-18. Employment growth moderated to 2.4%yoy to 14.9 million in Oct-18 while jobs added in the economy registered at 10.6K during the month Sep-18 (30K in Aug-18), in line with external trade performances. Unemployment rate maintained at 3.3%, similar to last month after three consecutive months maintaining at 3.4% from Jun-18 to Aug-18. The number of unemployed increased 0.8% in Oct-18 higher than 0.4% recorded in the previous month. In addition, growths in both labour force and employment have been outpacing unemployment growth for the last 20-month since Mar-17.

Chart 7: Labour Market Key Indicators (YoY%)



Source: CEIC, MIDFR

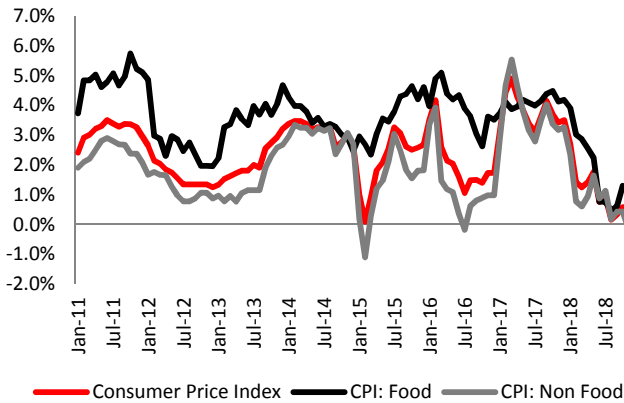
Chart 8: Jobs Added ('000) vs Empl. (YoY%)



Source: CEIC, MIDFR

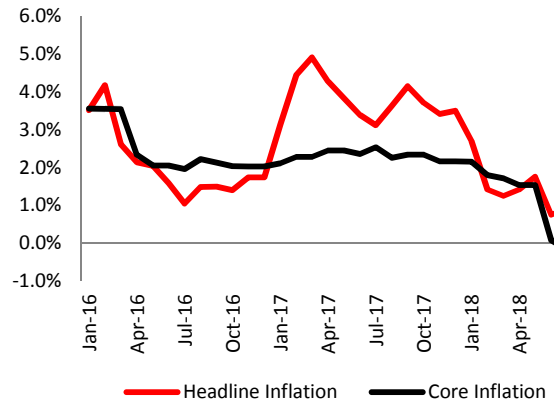
Headline inflation back to near 4-year low. Consumer price index increased 0.2%yoy in Nov-18, same as in Aug-18 which is the lowest since Mar-15. The figure went down slightly more than our forecast of 0.3%yoy while market expected it to maintain at previous month's rate of 0.6%yoy. The moderation mainly attributed to transport prices which dropped by 2.3%yoy (+0.8%yoy in Oct-18). Despite the slowdown in headline prices, core inflation rate increased further to 0.5%yoy (0.4%yoy in Oct-18). Looking ahead, Malaysia's inflation is likely to remain low in upcoming month as average Brent oil price for the first two weeks of Dec-18 registered low at \$61 on oversupply concerns, on top of subsidization of domestic fuel price.

Chart 9: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

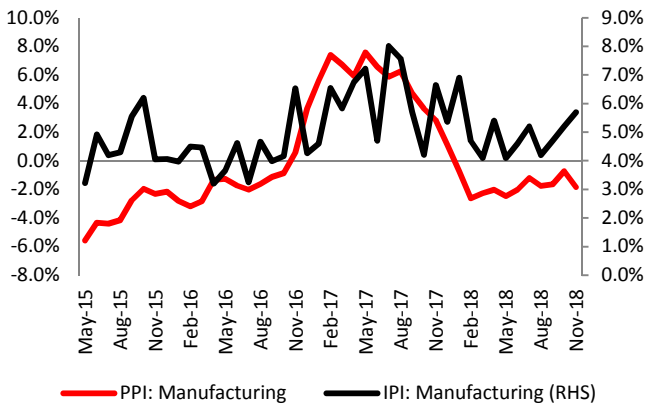
Chart 10: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

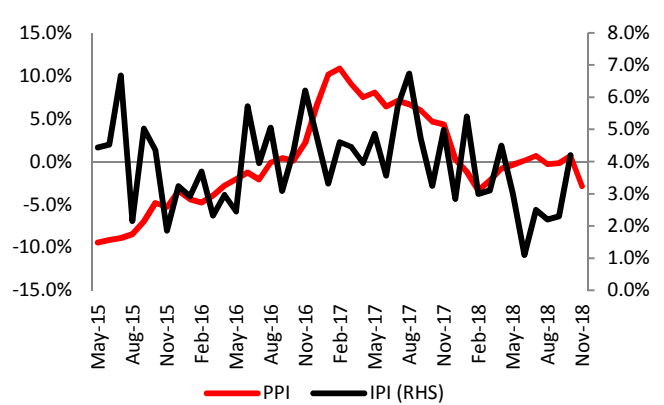
PPI returned to negative territory. Malaysia's producer inflation dipped back to negative territory of -2.9%yoy in Nov-18 once again after last month's expansion of 0.7%yoy. The decline was the highest recorded since early February this year of -3.4%yoy, which is led by a drastic fall in price of agriculture, forestry & fishing by -22.7%yoy in Nov-18 (-17.6%yoy Oct-18). Manufacturing sector, which held the largest weightage of total PPI basket at 81.6%, recorded a fall of -1.8%yoy in Nov-18, more than twice of the fall compared to last month's -0.7%. The plummet of PPI is aligned to our expectations as global crude oil prices declined to \$65.5pb in Nov-18.

Chart 11: Manufacturing: PPI vs IPI (YoY%)



Source: CEIC, MIDFR

Chart 12: PPI vs IPI (YoY%)



Source: CEIC, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2013	2014	2015	2016	2017	2018^e	2019^f
Real GDP	4.7	6.0	5.1	4.2	5.9	4.8	4.9
<i>Private Consumption</i>	7.2	7.0	6.0	6.0	7.0	7.7	7.5
<i>Public Consumption</i>	5.8	4.4	4.5	0.9	5.4	3.0	1.3
<i>Gross Fixed Capital Formation</i>	8.1	4.8	3.6	2.7	6.2	1.7	1.6
<i>Exports of goods & services</i>	0.3	5.0	0.3	1.3	9.4	2.2	2.0
<i>Imports of goods & services</i>	1.7	4.0	0.8	1.3	10.9	1.2	1.9
<i>Net Exports (RMb)</i>	83.6	94.7	91.2	92.8	91.0	100.6	102.0
<i>Agriculture etc.</i>	2.0	2.0	1.4	(5.2)	7.2	0.0	1.0
<i>Mining & Quarrying</i>	1.2	3.3	5.3	2.1	1.0	(2.2)	1.1
<i>Manufacturing</i>	3.4	6.1	4.8	4.4	6.0	5.1	4.9
<i>Construction</i>	10.6	11.7	8.4	7.4	6.7	4.8	2.1
<i>Services</i>	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	129.5
Consumer Price Index	2.1	3.1	2.1	2.1	3.8	1.2	2.2
Current Account - RMb	35.5	48.6	35.2	29.9	40.3	32.7	31.5
Current Account Surplus - %of GDP	3.5	4.4	3.0	2.4	3.0	2.4	2.2
Fiscal Balance - % of GDP	(3.9)	(3.5)	(3.3)	(3.2)	(3.1)	(3.7)	(3.4)
Federal Government Debt - % of GDP	53.0	52.7	54.5	52.7	50.8	51.6	50.0
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	70	75.0
Crude Palm Oil (Avg)	2,435	2,384	2,237	2,642	2,659	2,309	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

December 2018 Key Economic Events

5 Dec: Malaysia records highest trade surplus as exports surge in October. Malaysia posted its largest trade surplus ever in October as exports surged, while imports also rebounded, government data showed on Wednesday. Total exports in October jumped 17.7% from a year earlier, beating economists' estimates of a 6.2% rise, amid strong demand from China and higher shipments of manufactured and mining goods. In September, exports had risen 6.7%. Exports to China, a major trading partner, rebounded strongly in October, rising 33% year-on-year after a drop in the previous month, the International Trade and Industry Ministry said in a statement.

13 Dec: Beijing offers to cut auto tariffs, buy soy: US Commerce Secretary. China has agreed to cut tariffs on autos imported from the United States and resume soybean purchases, Commerce Secretary Wilbur Ross said on Wednesday (Dec 12), confirming the reports that delighted investors. Mr Ross told CNBC the moves by Beijing will "prove that President (Donald) Trump was right when he announced his summary of the talks" held recently with China's President Xi Jinping.

19 Dec: Beijing offers to cut auto tariffs, buy soy: US Commerce Secretary. The Federal Reserve has raised interest rates again, in spite of warnings from Donald Trump against the move. Officials at the US central bank voted to lift the Fed's key interest rate by 0.25%, to a target range of 2.25%-2.5%. But they also said future increases could come at a slower pace amid concerns about global growth. It comes after the US president on Tuesday warned the Fed against making "yet another mistake" in raising rates, urging it instead to "feel the market".

27 Dec: Vietnam records highest GDP growth in decade. Vietnam achieved gross domestic product (GDP) growth of 7.08 percent in 2018, the highest rate over the past 10 years, up from the annualized target of 6.5-6.7 percent, its General Statistics Office said on Thursday. In the fourth quarter alone, the GDP expanded 7.31 percent against the same period last year. Vietnam's top legislature has set a target of attaining GDP growth of 6.6-6.8 percent next year. In October, the World Bank predicted Vietnam's economy would expand 6.6 percent in 2019 and 6.5 percent in 2020.

6 Dec: U.S. becomes a net oil exporter for the first time in 75 years. The United States turned into a net oil exporter last week, breaking 75 years of continued dependence on foreign oil and marking a pivotal — though likely brief — moment toward what President Trump has branded as "energy independence." The shift to net exports is the dramatic result of an unprecedented boom in U.S. oil production, with thousands of wells pumping from the Permian region of Texas and New Mexico to the Bakken in North Dakota to the Marcellus in Pennsylvania.

17 Dec: Indonesia Nov trade deficit reaches widest since July 2013. Indonesia posted its widest monthly trade deficit in over five years in November as exports slumped, data from the statistics bureau showed on Monday. The deficit in November was US\$2.05 billion, bigger than October's revised deficit of US\$1.77 billion and the biggest trade gap since July 2013, according to Refinitiv data. A Reuters poll had expected a deficit of US\$830 million.

22 Dec: US Federal Government Begins Partial Shutdown. The U.S. federal government has begun a partial shutdown of its operations. About a quarter of the government ran out of funds at 12:01 a.m. Saturday, Washington time. The U.S. Senate and House of Representatives adjourned late Friday without passing a federal spending bill that provides President Donald Trump with the \$5 billion that he insists is needed to build a wall along the U.S.-Mexico border in addition to appropriations for government agencies.

27 Dec: How the arrest of Huawei's Meng Wanzhou may mark the start of the great China-US technology decoupling. It is natural to assume that the detentions and restrictions on Huawei's use in core infrastructure are due to the rupture in US-China trade relations. However, these actions can best be understood through the prism of two clashing meta-trends: hi-tech's strategic importance across the realms of defence, commerce and social organisation under the leadership of the United States, and China's emergence as a rising military power under the auspices of the Communist Party.

**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.