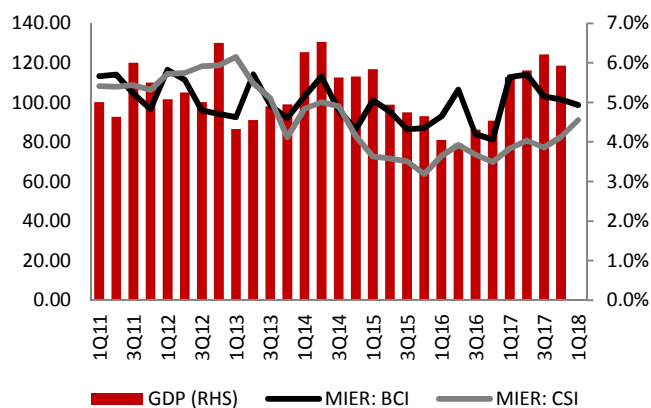


1Q18 GDP Growth Seen Moderating to 5.5% amid Concerns over Escalating Trade Tensions

- *Rosy consumers but gloomy businesses.* Based on the recently released MIER survey results for 1Q18, BCI fell below 100-threshold line at 98.6 points while CSI improved further to 91 points, highest since 4Q14. The drop in business confidence could be a result of concerns over international risks such as the possibility of a trade war.
- *Trade surplus widen further to RM33.4 billion, highest in 8 years.* Thanks to the robust external trade performance, trade surplus registered more than RM30 billion marks in the 1Q18. The large size of trade surplus will translate into higher size of real trade balance and thus supporting GDP growth in the first quarter.
- *Improving industrial activities.* Overall industrial production's average growth for 1Q18 is 3.9%yoy, higher than 3.6% registered in the last quarter. The continuous expansion is driven by sturdy growth in manufacturing and electricity productions by 5.2%yoy and 3.8%yoy respectively.
- *We forecast GDP growth for 1Q18 to slightly moderate at 5.5%.* Malaysia's economic activities maintain on upward trajectory amid of strong domestic spending and continuous surging in external trade performances.

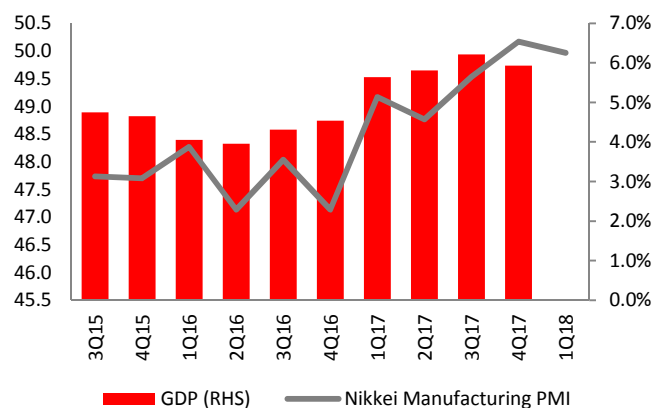
Rosy consumers but gloomy businesses. Based on the recently released MIER survey results for 1Q18, BCI fell below 100-threshold line at 98.6 points while CSI improved further to 91 points, highest since 4Q14. The drop in business confidence could be a result of concerns over international risks such as the possibility of a trade war. Besides that, average Malaysia's Nikkei Manufacturing PMI stood at a border line of 50 points. Despite the growing consumer confidence, the declining business confidence could weigh on better performance in domestic demand in 1Q18.

Chart 1: MIER Survey Results vs GDP (YoY%)



Source: CEIC, MIDFR

Chart 2: Nikkei Manufacturing PMI vs GDP (YoY%)

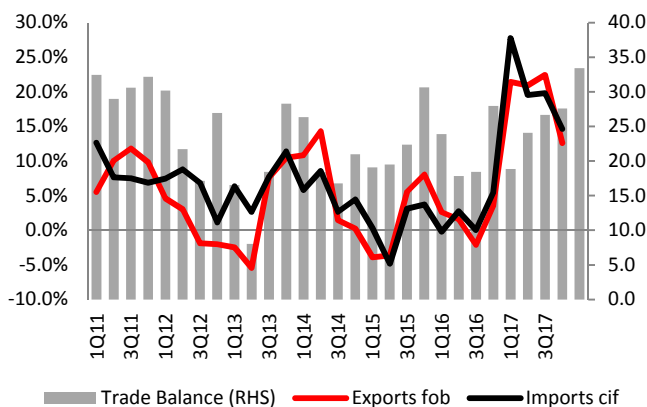


Source: BLOOMBERG, CEIC, MIDFR

*Dotted-Line refers to PMI (Above 50: Expansionary; Below 50: Contractionary)

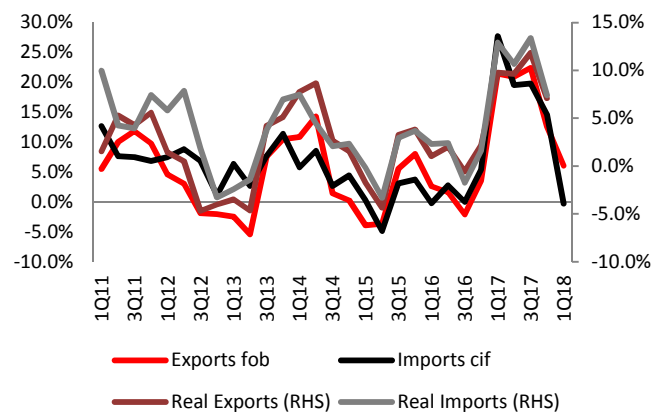
Trade surplus widen further to RM33.4 billion, highest in 8 years. Thanks to the robust external trade performance, trade surplus registered more than RM30 billion marks in the 1Q18. The large size of trade surplus will translate into higher size of real trade balance and thus supporting GDP growth in the first quarter. Albeit of unfavourable base effect, exports growths slowed to 6%yoy while imports growth contracted to 0.3%yoy respectively in 1Q18. We foresee the deceleration in external trade performance would drag economic growth in the 1Q18.

Chart 3: Trade Balance (RMbn) vs External Trade (YoY%)



Source: CEIC, MIDFR

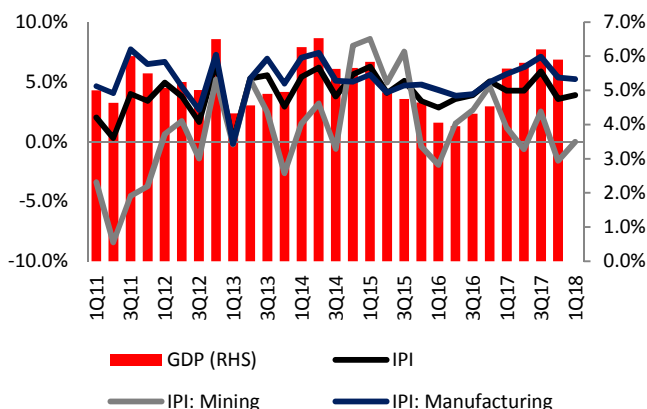
Chart 4: External Trade; Nominal vs Real (YoY%)



Source: CEIC, MIDFR

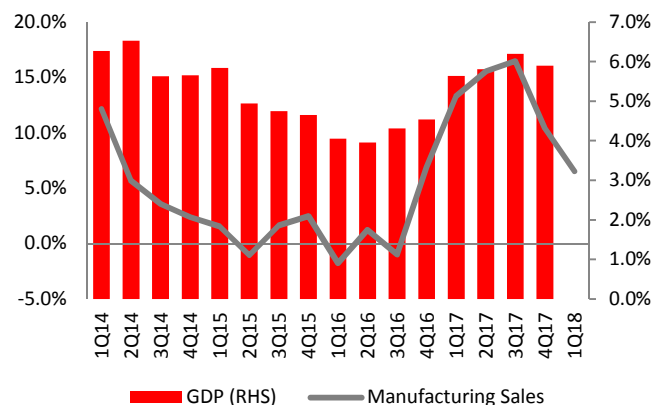
Improving industrial activities. Overall industrial production's average growth for 1Q18 is 3.9%yoy, higher than 3.6% registered in the last quarter. The continuous expansion is driven by sturdy growth in manufacturing and electricity productions by 5.2%yoy and 3.8%yoy respectively. Meanwhile, recovery in mining production from negative growth in the previous quarter to neutral figure in 1Q18 has helped to improve overall IPI performance during the quarter. On a flip side, manufacturing sales growth continued to tone down to 6.5%yoy. Nevertheless, regional and global macro indicators are still indicating optimistic signs and therefore reflecting upbeat demand remains in global trade radar. Plus, we believe the gradual rise in commodity prices will further progress commodity-related industries in 1Q18.

Chart 5: GDP vs Industrial Production, IPI (YoY%)



Source: CEIC, MIDFR

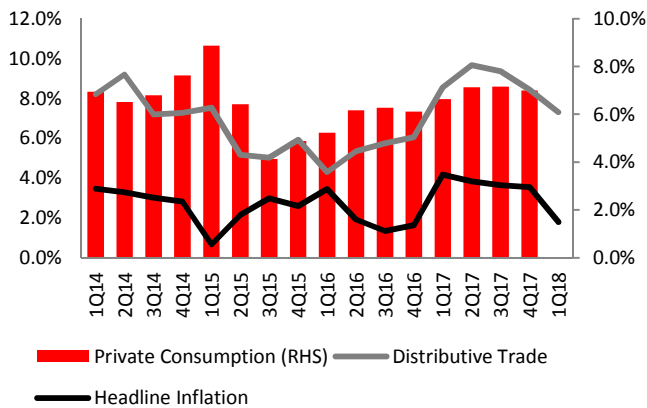
Chart 6: GDP vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

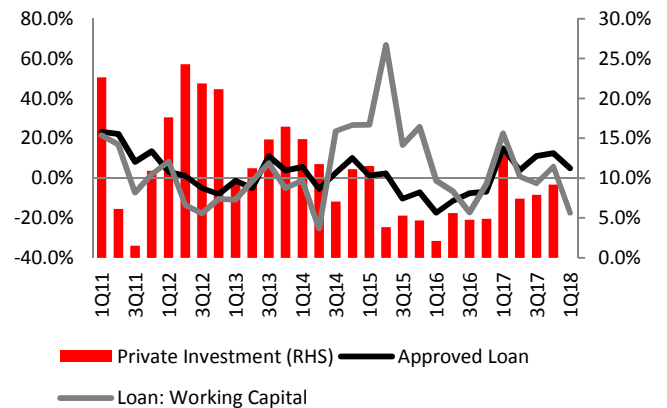
Expecting a slight slowdown for private expenditures in 1Q18. Distributive trade continued to expand at a slower pace of 7.3%yoy in 1Q18 as compared to 8.4%yoy in 4Q17. Main dragging factor is dipped motor vehicles sales as consumers slowed back their ramp-up spending during year-end sales in the final quarter of last year. Similarly, we foresee a decelerating pace in private investment given that key indicators such as working capital loan shrank by 17%yoy whereas imports of capital goods slowed to 3.3%yoy during the quarter.

Chart 7: Private Consumption vs Distributive Trade (YoY%)



Source: CEIC, MIDFR

Chart 8: Private Investment vs Loan (YoY%)



Source: CEIC, MIDFR

We forecast GDP growth for 1Q18 to slightly moderate at 5.5%. Malaysia's economic activities maintain on upward trajectory amid of strong domestic spending and continuous surging in external trade performances. However, unfavourable base effects, inflationary pressure and slight deceleration in private spending will be among dragging factors in economic growth for the first quarter. As for the whole year, we remain firmly on our call of GDP to record growth of 5.5% in 2018. 📈

Table 1: Selected-Macroeconomic Data Updates

YoY% Unless Stated Otherwise	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
MIER: BCI (Points)	106.4	83.9	81.2	112.7	114.1	103.1	92.1	98.6
MIER: CSI (Points)	78.5	73.6	69.8	76.6	80.7	77.1	73.5	91.0
Nikkei Manufacturing PMI (Points)	47.1	48.0	47.1	49.2	48.8	49.5	50.3	50.0
Trade Balance (RM Billion)	17.8	18.4	28.0	18.9	24.1	26.7	27.6	6.0
Exports fob	1.6	(2.1)	3.5	21.4	20.9	22.4	12.6	(0.3)
Imports cif	2.8	0.0	5.4	27.7	19.5	19.8	14.6	33.4
IPI:	3.6	3.9	5.1	4.3	4.3	5.9	3.7	3.9
<i>IPI: Mining</i>	1.5	2.6	4.6	1.2	(0.6)	2.5	(1.0)	(0.0)
<i>IPI: Manufacturing</i>	3.8	4.0	5.0	5.7	6.2	7.1	5.4	5.2
<i>IPI: Electricity</i>	9.3	8.5	7.6	0.7	1.0	4.4	4.1	3.8
Manufacturing Sales	1.2	(1.0)	6.9	13.3	15.5	16.5	10.4	6.5
Approved Loan	(11.4)	(7.7)	(6.8)	14.9	3.9	11.0	11.8	4.9
Working Capital Loan	(6.6)	(17.3)	(3.0)	22.5	0.8	(3.0)	3.7	(17.4)
Imports of Intermediate Goods	(1.1)	0.1	4.2	28.9	24.4	21.0	9.3	(10.3)
Imports of Capital Goods	10.7	16.9	7.1	41.1	7.4	1.9	17.5	(9.1)
Imports of Consumption Goods	10.3	(0.4)	(0.2)	3.9	1.4	15.1	5.1	3.3
Distributive Trade:	5.3	5.7	6.1	8.5	9.7	9.4	8.4	7.3
<i>Motor Vehicles</i>	(1.8)	(2.0)	(1.4)	4.6	2.7	2.1	0.4	0.0
<i>Wholesale Trade</i>	4.9	5.5	5.9	8.4	8.7	9.2	9.0	7.7
<i>Retail Trade</i>	8.7	9.1	9.1	10.1	13.5	12.2	10.4	9.2
Employment	0.4	0.7	0.6	1.5	1.9	1.8	2.2	2.2
Headline Inflation	1.9	1.3	1.7	4.3	4.0	3.8	3.6	1.8
Brent Oil (USD per barrel)	46.9	47.2	50.9	54.9	51.0	52.3	61.8	67.5
Brent Oil Growth	(25.9)	(7.0)	15.7	54.9	9.3	10.6	22.0	23.0

Source: CEIC, MIDFR

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