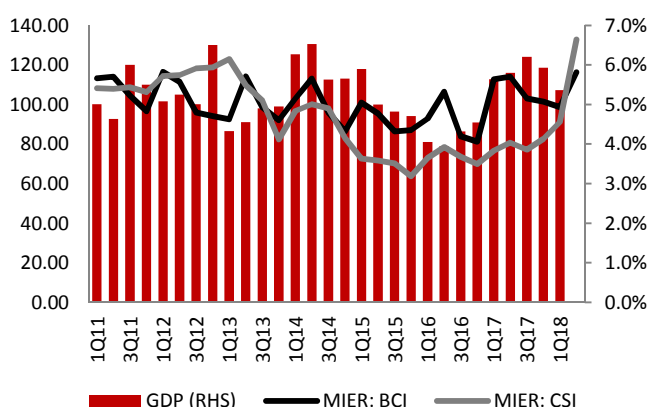


2Q18 GDP Growth to Ease to 4.9% amid Moderating Agricultural and Industrial Output

- *Buoyant business and consumer confidences in 2Q18. Based on the recently released MIER survey results for 2Q18, BCI surged to 116.3 points, highest since 2Q12 while CSI hit 21-year high at 132.9 points. This is also the first time in 4 years that CSI positioned above 100-threshold level.*
- *Trade surplus narrowed to RM27.2b, lowest in 3 quarters. Trade surplus fell back below RM30b in 2Q18 after a robust RM33.4b recorded in the previous quarter. The drop was mainly driven by surging imports at 8.1%yoy compared to a contraction of 0.3%yoy in 1Q18. Meanwhile, exports rose by 8.4%yoy in 2Q18 (6%yoy in 1Q18). The moderating size of trade surplus will translate into lower size of real trade balance.*
- *Easing industrial activities. Overall industrial production’s average growth for 2Q18 is 2.9%yoy, lower than 3.9%yoy registered in preceding quarter. The moderating pace was largely driven by contraction in mining outputs at -2.6%yoy, the largest drop since 1Q12. In addition, slower growth in manufacturing productions at 4.7%yoy compared to 5.2%yoy in 1Q18 also contributed to overall IPI performance during the quarter.*
- *We forecast GDP growth for 2Q18 to moderate at 4.9%. Malaysia’s economic activities sustain on upward trajectory amid of resilient domestic spending and stable external trade performances.*

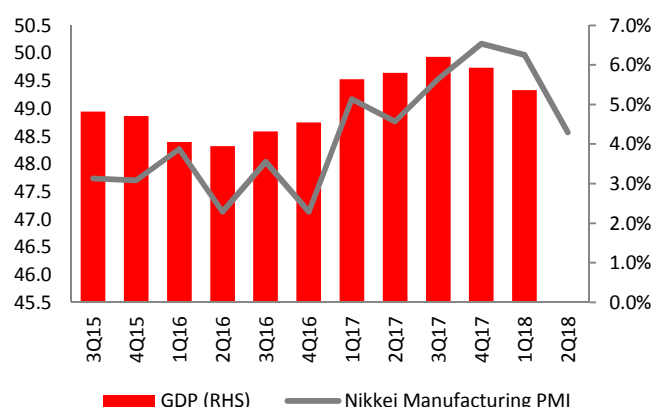
Buoyant business and consumer confidences in 2Q18. Based on the recently released MIER survey results for 2Q18, BCI surged to 116.3 points, highest since 2Q12 while CSI hit 21-year high at 132.9 points. This is also the first time in 4 years that CSI positioned above 100-threshold level. On a flip side, average Malaysia’s Nikkei Manufacturing PMI for 2Q18 dropped to 48.6 points following 50 points in the previous quarter. The positive performance of BCI and CSI indicate businesses and consumers are optimistic on current as well as future economic outlook. However, the declining PMI could weigh on better performance in domestic demand in 2Q18.

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



Source: CEIC, MIDFR

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

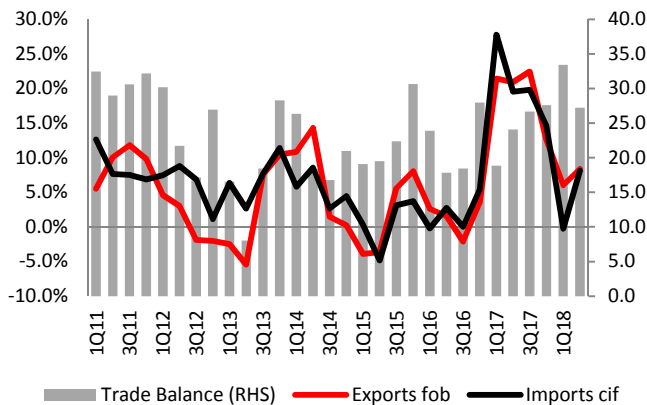


Source: BLOOMBERG, CEIC, MIDFR

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

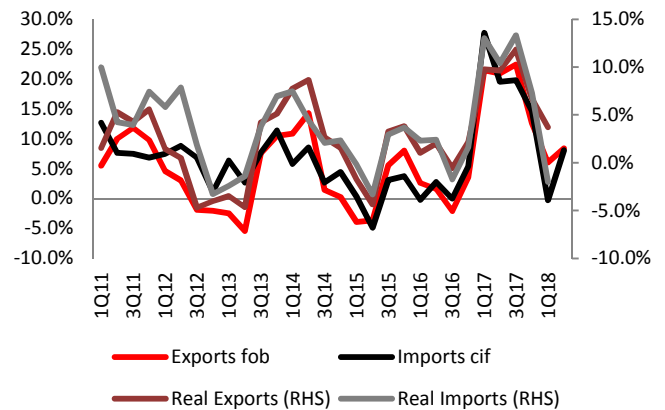
Trade surplus narrowed to RM27.2b, lowest in 3 quarters. Trade surplus fell back below RM30b in 2Q18 after a robust RM33.4b recorded in the previous quarter. The drop was mainly driven by surging imports at 8.1%yoy compared to a contraction of 0.3%yoy in 1Q18. Meanwhile, exports rose by 8.4%yoy in 2Q18 (6%yoy in 1Q18). The moderating size of trade surplus will translate into lower size of real trade balance. Hence, we foresee the deceleration in external trade performance would drag economic growth in the 2Q18.

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



Source: CEIC, MIDFR

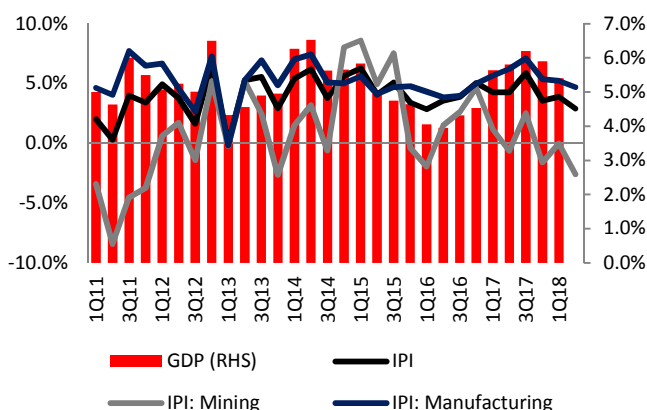
Chart 4: External Trade; Nominal vs Real (YoY%)



Source: CEIC, MIDFR

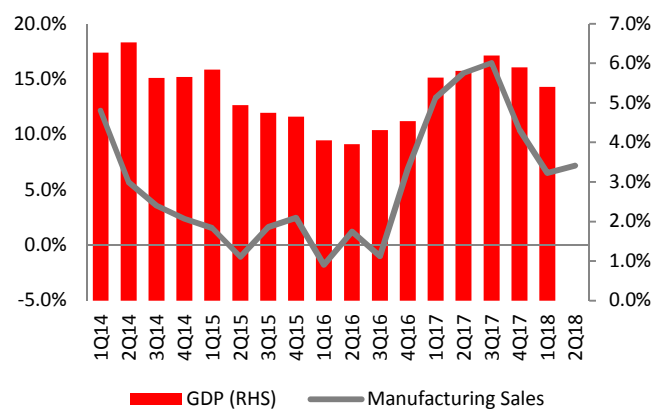
Easing industrial activities. Overall industrial production's average growth for 2Q18 is 2.9%yoy, lower than 3.9%yoy registered in preceding quarter. The moderating pace was largely driven by contraction in mining outputs at -2.6%yoy, the largest drop since 1Q12. In addition, slower growth in manufacturing productions at 4.7%yoy compared to 5.2%yoy in 1Q18 also contributed to overall IPI performance during the quarter. Meanwhile, electricity productions growth maintained at 3.8%yoy. On a different note, manufacturing sales growth improved to 7.2%yoy. Nevertheless, regional and global macro indicators are still sanguine therefore reflecting upbeat demand remains in global trade radar. Furthermore, we believe the gradual rise in commodity prices will aid performance of commodity-related industries in 2Q18.

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



Source: CEIC, MIDFR

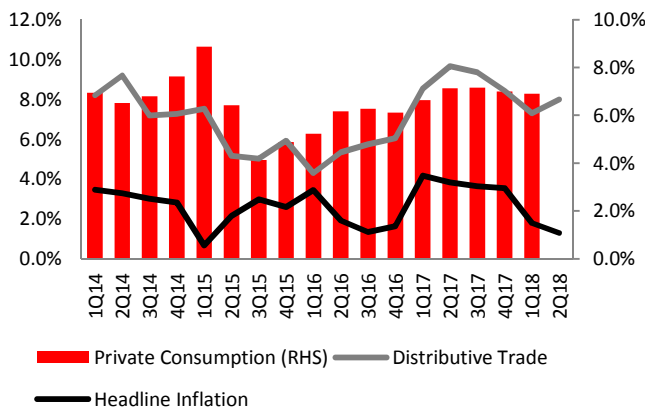
Chart 6: GDP vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

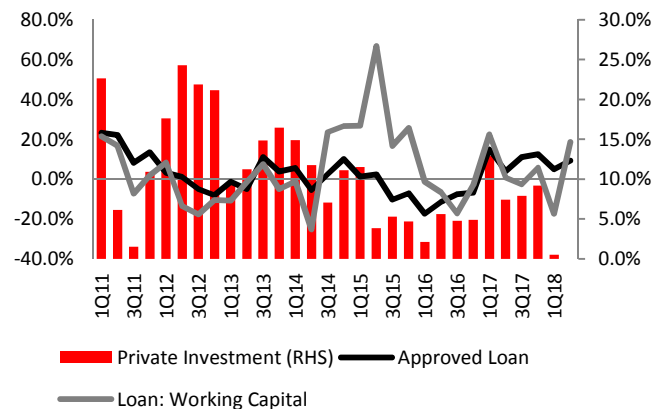
Domestic demand remains steady. Distributive trade expanded at a higher rate of 8%yoy in 2Q18 as compared to 7.3%yoy in 1Q18. Main contributing factor is convex motor vehicles sales (4.5%yoy) as consumers ramped up their spending particularly in Jun-18 (10.1%yoy) after a cautious spending earlier in order to benefit from the 3-month tax holiday period started on 1st June which also coincided with Eid celebration. The June's figure contributed largely to 2Q18 motor vehicles sales performance. Similarly, private investment is predicted to pick-up higher in the 2Q18 amid of robust increase in approved loans by 9.2%yoy (4.9%yoy in 1Q18) and a rebound in working capital loans growth to 18.6%yoy from -17.4%yoy in the prior quarter. On the other hand, imports of consumption goods declined by 2.4%yoy during the quarter which suggest a shift in demand for more domestic products.

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 2Q18 to moderate at 4.9%. Malaysia's economic activities sustain on upward trajectory amid of resilient domestic spending and stable external trade performances. However, higher base effects, slowdown in industrial activities and lingering political uncertainties will be among dragging factors in economic growth for the second quarter. We opine the economy to expand by 4.9%yoy in 2Q18, the lowest in six quarters. As for the whole year, we revised our GDP estimate to 5.2% in 2018. 📈

Table 1: Selected-Macroeconomic Data Updates

YoY% Unless Stated Otherwise	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
MIER: BCI (Points)	83.9	81.2	112.7	114.1	103.1	92.1	98.6	116.3
MIER: CSI (Points)	73.6	69.8	76.6	80.7	77.1	73.5	91.0	132.9
Nikkei Manufacturing PMI (Points)	48.0	47.1	49.2	48.8	49.5	50.3	50.0	48.6
Trade Balance (RM Billion)	18.4	28.0	18.9	24.1	26.7	27.6	6.0	8.4
Exports fob	(2.1)	3.5	21.4	20.9	22.4	12.6	(0.3)	8.1
Imports cif	0.0	5.4	27.7	19.5	19.8	14.6	33.4	27.2
IPI:	3.9	5.1	4.3	4.3	5.9	3.7	3.9	2.9
<i>IPI: Mining</i>	2.6	4.6	1.2	(0.6)	2.5	(1.0)	(0.0)	(2.6)
<i>IPI: Manufacturing</i>	4.0	5.0	5.7	6.2	7.1	5.4	5.2	4.7
<i>IPI: Electricity</i>	8.5	7.6	0.7	1.0	4.4	4.1	3.8	3.8
Manufacturing Sales	(1.0)	6.9	13.3	15.5	16.5	10.4	6.5	7.2
Approved Loan	(7.7)	(6.8)	14.9	3.9	11.0	11.8	4.9	9.2
Working Capital Loan	(17.3)	(3.0)	22.5	0.8	(3.0)	3.7	(17.4)	8.0
Imports of Intermediate Goods	0.1	4.2	28.9	24.4	21.0	9.3	(10.3)	(4.7)
Imports of Capital Goods	16.9	7.1	41.1	7.4	1.9	17.5	(9.1)	6.1
Imports of Consumption Goods	(0.4)	(0.2)	3.9	1.4	15.1	5.1	3.3	(2.4)
Distributive Trade:	5.7	6.1	8.5	9.7	9.4	8.4	7.3	8.0
<i>Motor Vehicles</i>	(2.0)	(1.4)	4.6	2.7	2.1	0.4	0.0	4.5
<i>Wholesale Trade</i>	5.5	5.9	8.4	8.7	9.2	9.0	7.7	7.6
<i>Retail Trade</i>	9.1	9.1	10.1	13.5	12.2	10.4	9.2	9.8
Employment	0.7	0.6	1.5	1.9	1.8	2.2	2.2	2.6
Headline Inflation	1.3	1.7	4.3	4.0	3.8	3.6	1.8	1.3
Brent Oil (USD per barrel)	47.2	50.9	54.9	51.0	52.3	61.8	67.5	75.1
Brent Oil Growth	(7.0)	15.7	54.9	9.3	10.6	22.0	23.0	47.7

Source: CEIC, MIDFR

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