

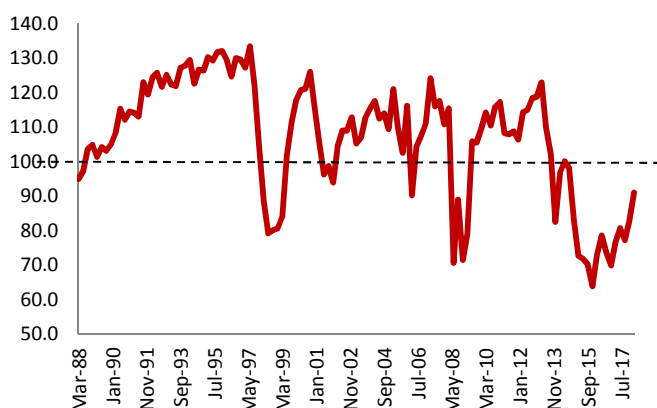
MONTHLY ECONOMIC REVIEW | April 2018

Improved Consumer Sentiment & Labour Market Hint Resilient Macroeconomic Condition

- MIER's CSI rebounded to 3.5-year high. Underpin by strengthening labour market and positive global and Malaysia's 2018 economic outlook, MIER's consumer sentiment index rose firmly to 91 points, highest since 3Q14.
- Trade surplus maintained above RM9 billion. Trade balance was registered at RM9 billion in Feb-18, however lower than RM9.7 billion posted in the preceding month. Both exports and imports fell for the first time since Nov-16 by 2%yoy and 2.8%yoy.
- Inflation fell to 20-month low. Headline inflation rate rose by 1.3%yoy in Mar-18, lowest in 20 months as transport inflation continue to decline from -0.3%yoy in Feb-18 to -1.5%yoy last month.

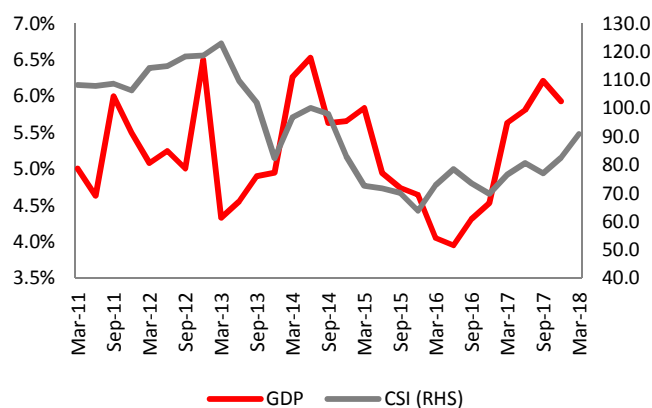
MIER's CSI rebounded to 3.5-year high. Underpin by strengthening labour market and positive global and Malaysia's 2018 economic outlook, MIER's consumer sentiment index rose firmly to 91 points, highest since 3Q14. The CSI has been on the uptrend since plunged to its lowest reading of 63.8 points in 4Q15. Moving forward, we foresee the consumer sentiment will further improve and breach the threshold line of 100 points in the 2nd half of 2018. Among others, better political stability, stable job market and moderating inflationary pressure are factors boosting up the consumer sentiment index.

Chart 1: MIER's Consumer Sentiment Index (Points)



Source: CEIC, MIDFR

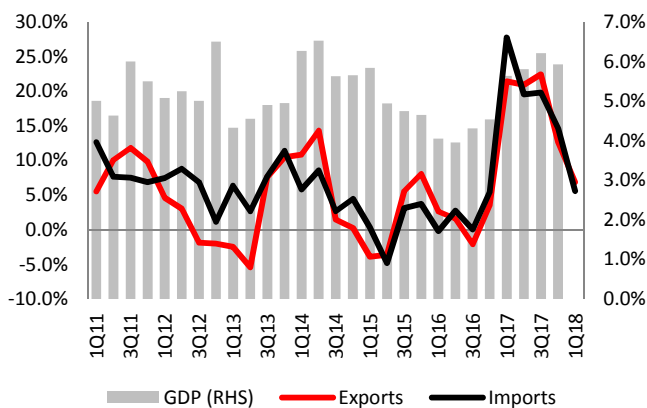
Chart 2: CSI (Points) vs GDP (YoY%)



Source: CEIC; MIDFR

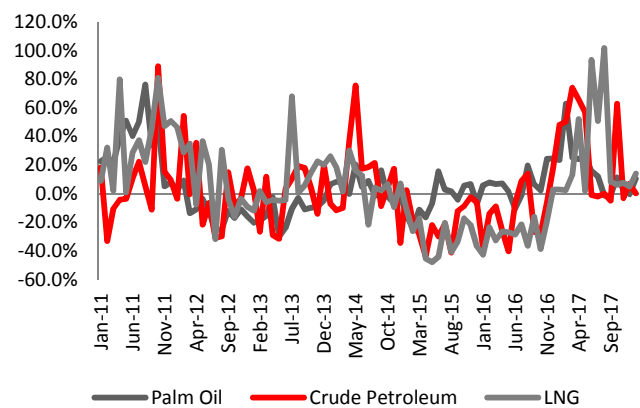
Trade surplus maintained above RM9 billion. Trade balance was registered at RM9 billion in Feb-18, however lower than RM9.7 billion posted in the preceding month. Both exports and imports fell for the first time since Nov-16 by -2%yoy and -2.8%yoy respectively, mainly due to shorter working days and high base effect amid Lunar festival. The exports growth is way lower than market estimates of 8%yoy. Similarly, exports and imports declined by 15.1% and 16.2% on monthly basis. Despite the fall, we opine Malaysia's external trade performance will rebound in upcoming months, leading to an overall easing path in 2018 amid upbeat momentum in global trade activities. However escalating trade tension between US and China could pose a serious trade to global trade.

Chart 3: External Trade vs GDP (YoY%)



Source: CEIC, MIDFR

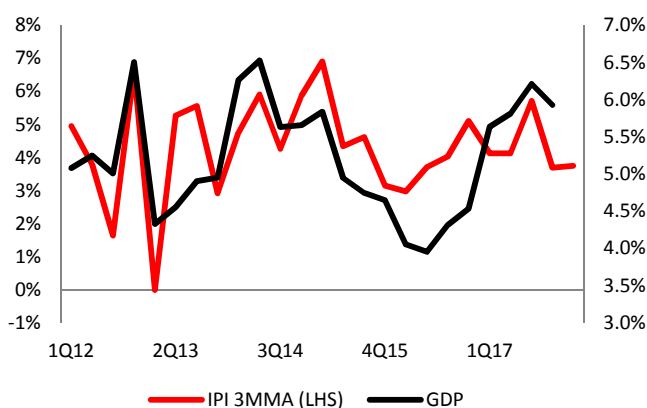
Chart 4: Exports by Commodity Product (YoY%)



Source: CEIC; MIDFR

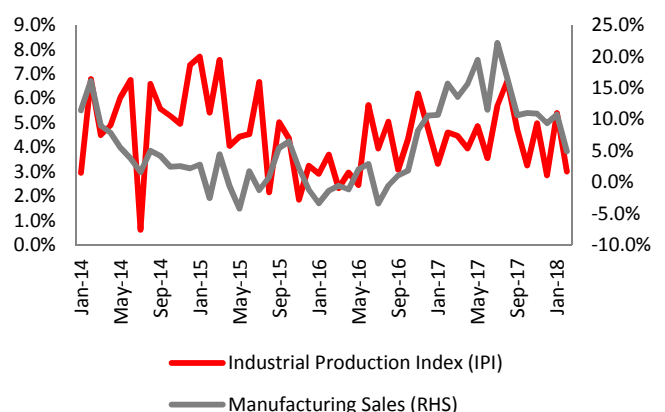
IPI growth below market estimates. Malaysia's industrial production expanded by 3%yoy in Feb-18, lower than market expectations of 3.2%yoy. On monthly basis, IPI shrank by -7.9% which mainly pulled down by manufacturing, mining and electricity productions, contracted by -6.2%, -12.5%yoy and -8.1% respectively. However, IPI growth for Jan-18 was revised upwards from 3%yoy to 5.4%yoy. Moving forward, we foresee IPI performances to expand at moderating pace for the first half of 2018 amid threat of trade war and declining trend of external trade.

Chart 5: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

Chart 6: IPI vs Manufacturing Sales (YoY%)



Source: CEIC, MIDFR

Distributive trade sales returned to below RM100bn value. Distributive trade rose by 7.5%yoy to RM97.3 billion in Feb-18 lifted by retail trade. However, the figure was slightly lower than previous month's reading of 8%yoy, in line with our expectation on a trivial slowdown in Feb-18 following short working days due to the Chinese New Year festive holidays. Retail trade expanded by 9.2%yoy to RM39.2 billion, followed by wholesale trade which grew by 7.5%yoy to RM47.6 billion. Meanwhile, motor vehicles businesses rose by 1.9%yoy to RM10.5 billion. We opine the overall slowdown is only temporary. Hence, we foresee distributive trade sales to remain on steady momentum underpin by stable job market, strengthening Ringgit, decelerating inflationary pressure, tourism activities and accommodative economic policies.

Chart 7: Distributive Trade, DT (YoY%)

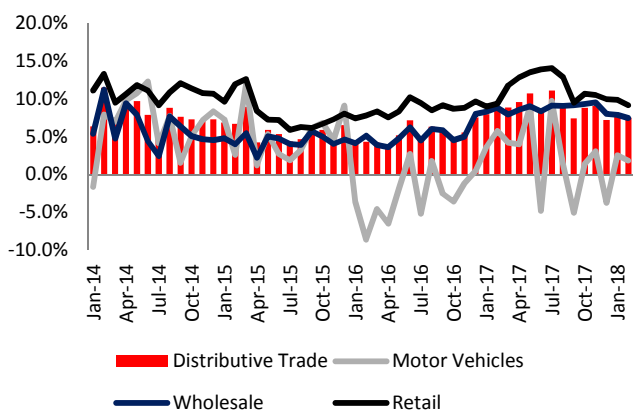
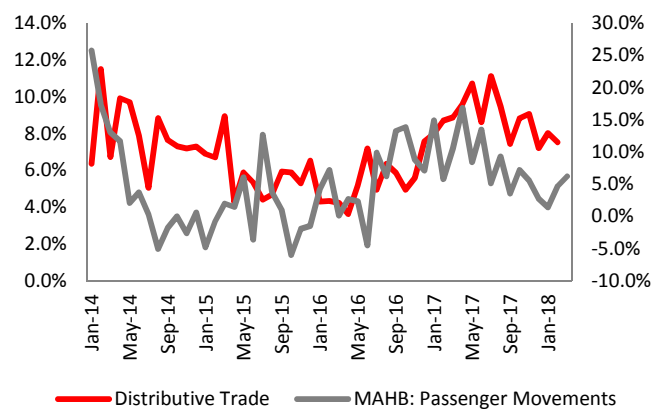


Chart 8: DT vs Passenger Movements (YoY%)

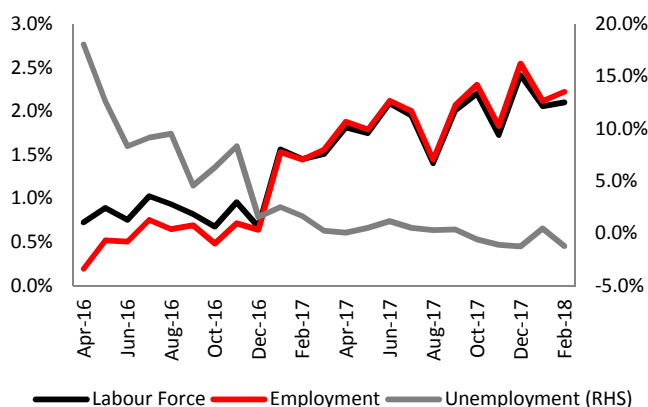


Source: CEIC; MIDFR

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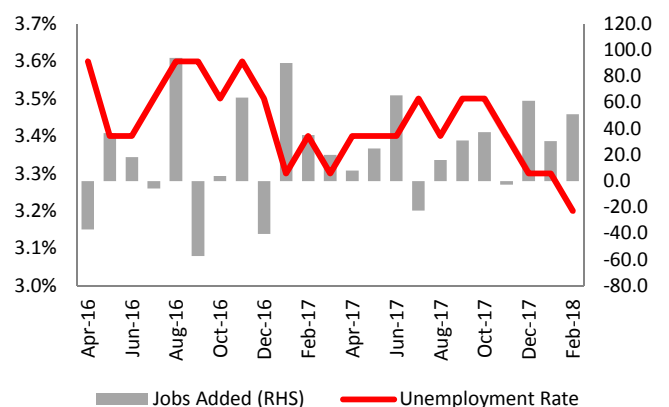
Employment grew at a steady pace. Employment increased by 2.2%yoy in Feb-18, higher than 2.1%yoy recorded in the previous month. Besides that, labour force maintained at 2.1%yoy to 15.2 million, whilst jobs added in the economy registered at 51K, significantly higher than 2017's monthly average of 30.3K. Thus, unemployment rate went down to 3.3% in the second month of 2018. As both domestic and external economic activities are on upbeat momentum, growths in both labour force and employment have been outpacing unemployment growth for 12-consecutive months since Mar-17.

Chart 9: Labour Market Key Indicators (YoY%)



Source: CEIC; MIDFR

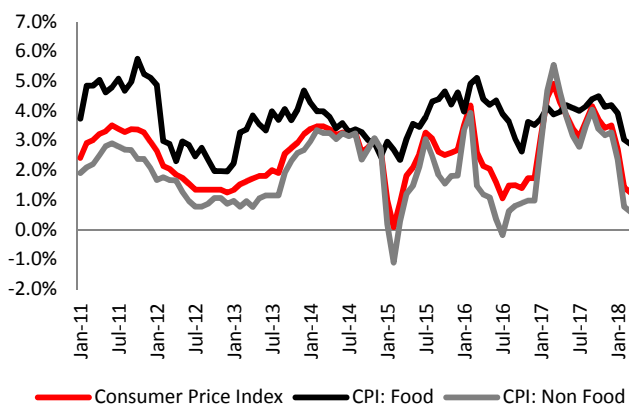
Chart 10: Jobs Added ('000) vs Unemployment Rate



Source: CEIC; MIDFR

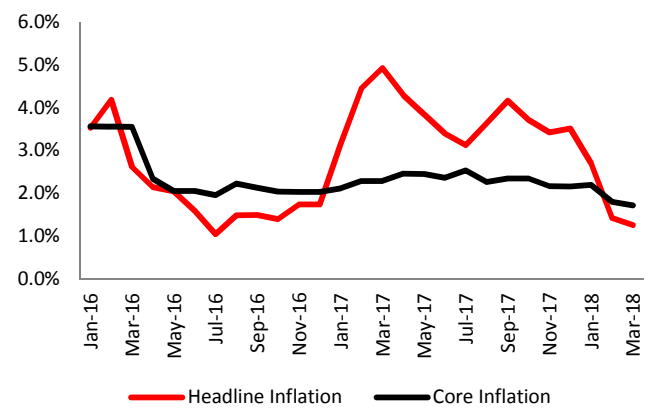
Inflation fell to 20-month low. Headline inflation rate rose by 1.3%yoy in Mar-18, lowest in 20 months as transport inflation continue to decline from -0.3%yoy in Feb-18 to -1.5%yoy last month. In addition, inflation eased for food & non-alcoholic beverages while maintained for a number of major groups such as education and housing, water, electricity, gas & other fuels, among others. On a monthly basis, inflation decreased by -0.3% in Mar-18. Meanwhile, core inflation still on its record-low as it went down further to 1.7%yoy in the same month from 1.8%yoy registered in Feb-18.

Chart 11: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

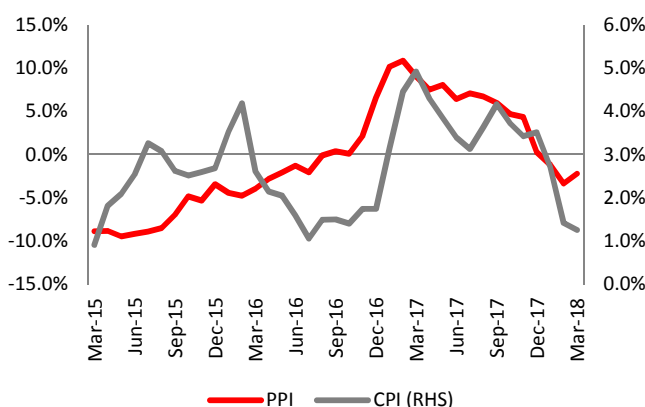
Chart 12: CPI: Headline vs Core (YoY%)



Source: CEIC, MIDFR

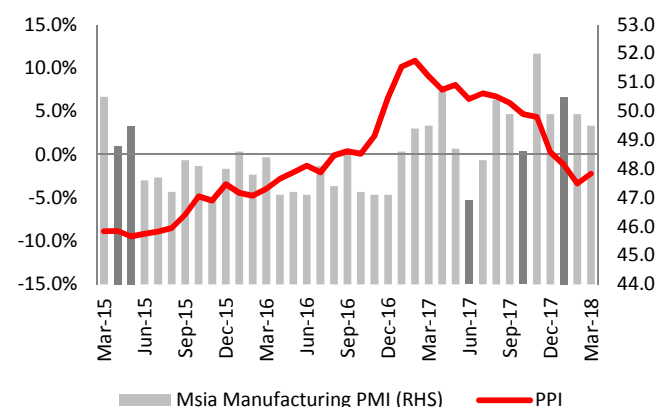
Producer prices continued to fall for 3-consecutive months. On yearly basis, Malaysia's producer prices contracted by -2.2%yoy in Mar-18, marking -2.3%yoy declines for 1Q18. Input inflation declined to negative reading of -0.4%mom during the month. The fall was mainly due to the cost for manufacturing, agriculture, forestry & fishing and food products which continued to shrink since Jan-18. In contrast, we noticed index registered for mining and electricity & gas supply went up at a softer pace. Moving forward, we foresee the producer's inflation data to rebound in the second half of 2018 at a slower pace amid of unfavourable base effect and gradual rise in global commodity prices.

Chart 13: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Chart 14: PPI (YoY%) vs Manufacturing PMI (Points)



Source: CEIC, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2016	2017^e	2018^f	1Q18^f	2Q18^f	3Q18^f	4Q18^f
Real GDP	4.2	5.8	5.5	5.8	5.4	5.5	5.3
Private Consumption	6.1	7.0	6.5	5.9	6.1	6.9	7.0
Public Consumption	1.0	5.0	3.3	(2.0)	0.5	3.7	11.2
Gross Fixed Capital Formation	2.7	5.7	3.9	(2.9)	3.5	4.2	10.8
Exports of goods & services	0.1	9.2	5.0	5.6	6.7	2.3	5.5
Imports of goods & services	0.4	10.3	4.8	0.6	6.4	3.7	8.5
Net Exports - RMb	92.6	93.4	99.6	27.5	23.1	24.5	24.5
Exports of Goods (f.o.b)	1.1	14.5	9.3	10.3	12.1	5.8	9.0
Imports of Goods (c.i.f)	1.9	15.5	8.9	6.0	12.4	6.6	10.8
Trade Balance - RMb	87.2	97.5	112.1	29.9	27.1	26.4	28.7
Consumer Price Index	2.1	3.8	2.6	3.5	2.4	2.6	2.0
Current Account - RMb	29.0	36.6	39.6	-	-	-	-
Current Account - % of GNI	2.7	3.2	3.2	-	-	-	-
Fiscal Balance - % of GDP	(3.1)	(3.0)	(2.9)	-	-	-	-
Federal Government Debt - % of GDP	53.8	53.0	52.5	-	-	-	-
Nominal GDP	6.2	7.2		-	-	-	-
Year-End of Unless States Otherwise	2016	2017^e	2018^f	1Q18	2Q18^f	3Q18^f	4Q18^f
Brent Crude Oil (Avg)	43.6	53.0	60.0	67.3	-	-	-
Crude Palm Oil (Avg)	2,652	2,825	2,900	2,480	-	-	-
USD/MYR (Avg)	4.15	4.32	4.00	3.92			
USD/MYR	4.46	4.05	3.95	-	-	-	-
Yield on generic 10-year MGS (%)	3.85	4.00	4.10	3.95	4.10	4.00	4.05
3-month KLIBOR (%)	3.54	3.43	3.60	3.60	3.50	3.50	3.70
Overnight Policy Rate (%)	3.00	3.00	3.25	3.25	3.25	3.25	3.25

Source: MIDFR

April 2018 Key Economic Events

2 Apr: China hits U.S. goods with tariffs as 'sparks' of trade war fly. China has increased tariffs by up to 25 percent on 128 U.S. products, from frozen pork and wine to certain fruits and nuts, escalating a dispute between the world's biggest economies in response to U.S. duties on imports of aluminium and steel. The tariffs, which take effect on Monday, were announced late on Sunday by China's finance ministry and matched a list of possible tariffs on up to \$3 billion in U.S. goods published by China on March 23.

6 Apr: Speculation rife that PM will announce Parliament's dissolution. The federal administrative capital is a picture of calm that belies the rising political temperature, with politicians and pundits preparing for Parliament to be dissolved to pave the way for the 14th General Election. Putrajaya will be the focus of the nation today as speculation is rife that Prime Minister Datuk Seri Najib Tun Razak will make the much-awaited call for polls. But before he does that, Najib will chair the Cabinet meeting at 8.30am.

16 Apr: Aluminum prices surge to highest level since 2011 as US sanctions on Russia take out big producer. Aluminum prices surged to their highest level in six years on Monday, extending a recent rally that follows the U.S. sanctioning of Russian aluminum giant Rusal. The metal traded as high as \$2,403 per ton on the London Metal Exchange, before holding more than 4 percent higher at 2,379. On April 6, the U.S. slapped sanctions on several Russian oligarchs, officials, businesses and agencies, including Rusal. The sanctions freeze all of Rusal's assets that are under U.S. jurisdiction.

26 Apr: European Central Bank holds rates steady and reaffirms ultra-easy monetary policy. The European Central Bank (ECB) held interest rates steady on Thursday, amid signs the euro area's growth outlook may have softened. The ECB's interest rate on its main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at zero, 0.25 and -0.40 percent respectively. Speaking from Frankfurt, ECB President Mario Draghi said "underlying strength" in the euro zone's economy continued to underpin the bank's confidence despite signs of "moderation" in recent weeks.

5 Apr: Kudlow Says Trump's China Tariffs Are Just Proposals Right Now. White House economic adviser Larry Kudlow stressed U.S. tariffs announced on Chinese goods are still only proposals that might never take effect as the Trump administration sought to tamp down fears of a trade war. "None of the tariffs have been put in place yet, these are all proposals," Kudlow said in an interview Wednesday with Bloomberg News. "We're putting it out for comment. There's at least two months before any actions are taken."

9 Apr: Palm registers sharpest fall in five weeks on profit-taking. Malaysian palm oil futures fell on profit-taking on Monday evening, snapping three previous sessions of gains, while a stronger ringgit currency and overnight losses in U.S. soy oil on the Chicago Board of Trade also weighed. The benchmark palm oil contract for June delivery on the Bursa Malaysia Derivatives Exchange fell by 1.6% to 2,464 ringgit (US\$636.86) a tonne at the end of the trading day, its sharpest daily fall in five weeks.

17 Apr: Sterling soars to its highest level since the Brexit vote. Sterling saw some strong buying on international currency markets Tuesday, reaching its highest level since the country voted to leave the European Union in June 2016. The pound had gained 0.2 percent by 9:00 a.m. London against the dollar, hitting 1.4363. This broke the most recent high seen back in January. The currency has risen 6 percent since 2018 began, making it the best-performing currency among the G-10 economies.

29 Apr: Bank Negara adds IPG Capital, Spot Gold Scheme to alert list. Bank Negara Malaysia has added IPG Capital and Spot Gold Scheme to its Financial Consumer Alert list. It announced these two companies and the websites were among the latest list of 418 companies which were neither authorised nor approved under the relevant laws and regulations administered by the central bank. Bank Negara said the list was not exhaustive and only serves as a guide to members of the public based on information and queries received.

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