

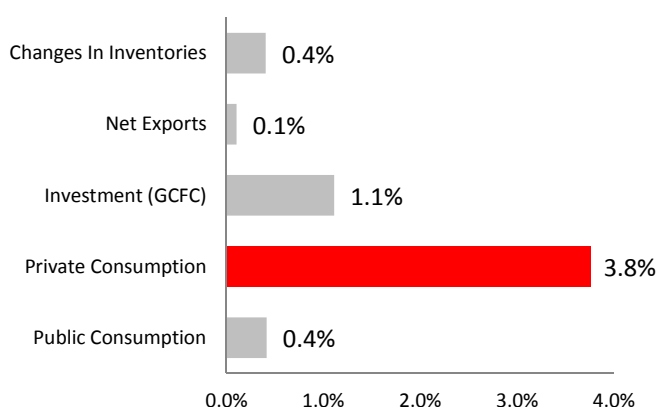
MONTHLY ECONOMIC REVIEW | August 2017

Growth Momentum Continues in 2Q2017

- *GDP Growth 2Q17 beats market expectations. Malaysia’s GDP growth expanded by 5.8%yoy in 2Q17 beats market expectations of 5.4%yoy and it is the fastest pace since 1Q15. The strong growth mainly supported by private consumption which grew by 3.8% and followed by investment at 1.1%.*
- *Slowdown in overall prices as expected. Headline inflation rose by 3.2% in July, the lowest in six months. The decline in headline inflation is mainly due to tepid growth in fuel and transport prices.*
- *Stronger business confidence anticipated in the 3rd Quarter 2017. According to the Business Tendency Survey, overall business performances in the third quarter of 2017 is expected to advance more than triple compared to the same period last year.*

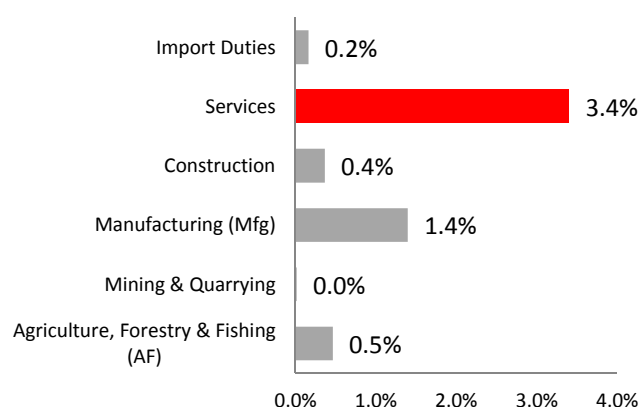
GDP Growth 2Q17 beats market expectations. Malaysia’s GDP growth expanded by 5.8%yoy in 2Q17, beats market expectations of 5.4%yoy and it is the fastest pace since 1Q15. The strong growth mainly supported by private consumption which grew by 3.8% and followed by investment at 1.1%. From supply side, services and manufacturing sectors contributed significantly by 3.4% and 1.4% respectively. We view the upbeat momentum in GDP growth was reflected in the steady performances of industrial production, distributive trade and external trade in the first half of 2017. We opine strengthening domestic demand and upbeat external demand are the major anchors driving up GDP performance in 2Q17.

Chart 1: Contribution by Expenditure Components (%)



Source: DOSM, MIDFR

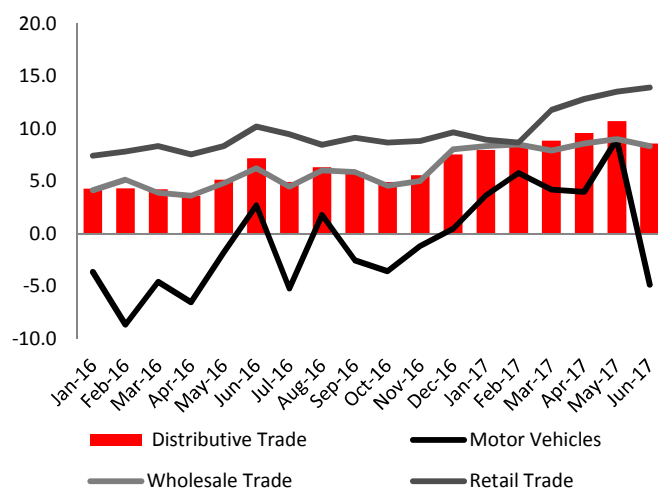
Chart 2: Contribution by Supply-Side Components (%)



Source: DOSM, MIDFR

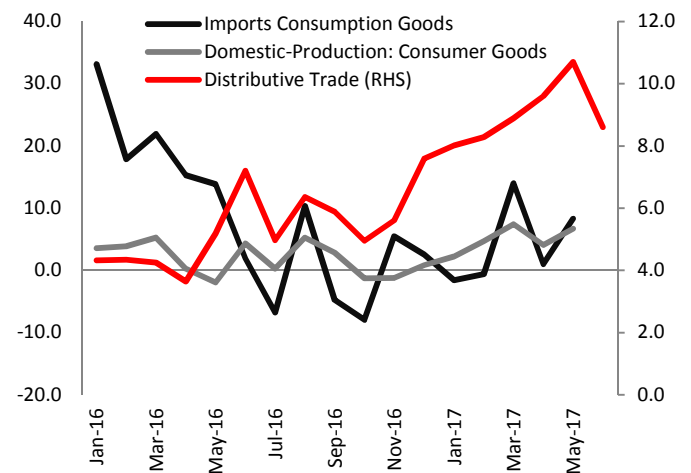
Distributive trade showed sustaining growth. Distributive trade expanded by 8.6%yoy, reflecting a solid growth backed by a surge in retail trade that saw year-on-year growth of up to 13.9%. Due to seasonal demand, retail sales recorded the highest ever growth performance in June. Wholesale trade grew by 8.4%yoy, sustaining its form above the 8.0% level from the beginning of the year. Meanwhile, motor vehicles fell by 4.8%yoy. Overall, this suggests an upward momentum in consumer spending which drive the domestic economy in recent months. In addition, volume index for distributive trade grew by 7.0%yoy, while wholesale trade and retail trade recorded growth at 5.7%yoy and 12.7%yoy respectively during the month.

Chart 3: Distributive Trade, DT (YoY%)



Source: DOSM, MIDFR

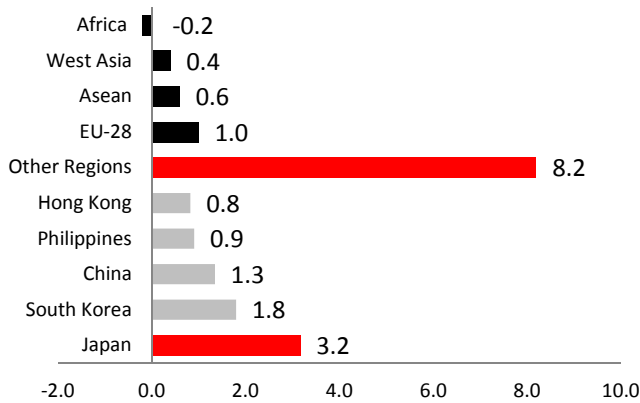
Chart 4: DT vs Consumer Goods (YoY%)



Source: DOSM, MIDFR

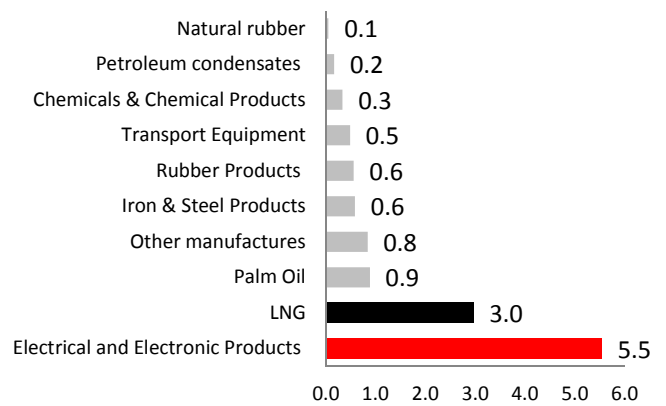
Export growth outpacing import growth for two consecutive months. Despite of slowdown in growth, export beat import in June 2017 by 10%yoy vs 3.7%yoy respectively. In our previous report, we already expect the slowdown in export growth due to high base effect. June's export number is 10%yoy, higher by 1.8% points from our 11.8% estimated export growth. While the consensus estimate for export growth stands at 18.3.%yoy. On monthly basis, both export and import shrank by 8% and 14.5% respectively during the month. In spite of this, trade balance recorded surplus at RM9.87 billion, highest since April 2016. Looking ahead, Malaysia's external trade performance will remain upbeat albeit moderating in the second half of the year due to favourable global market condition and modest recovery in commodity prices.

Chart 5: % Contribution to Exports Growth by Country and Region



Source: DOSM; MIDFR

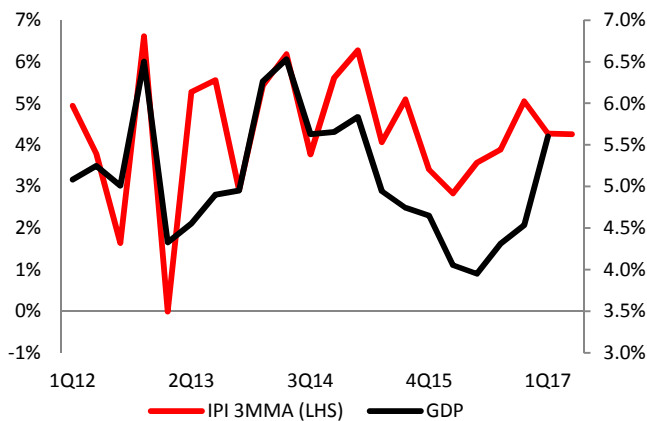
Chart 6: % Contribution to Exports Growth by Products



Source: DOSM; MIDFR

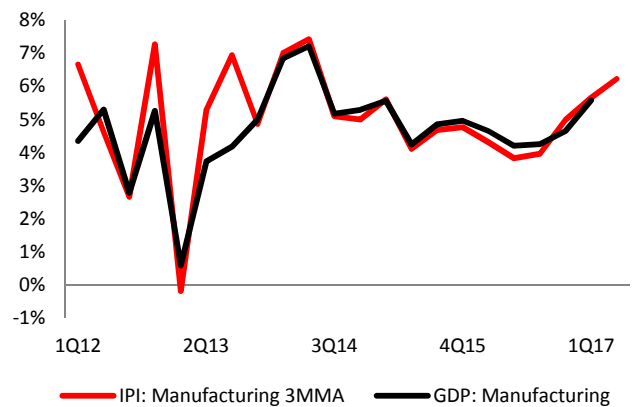
IPI growth slightly higher than our expectation. Industrial production recorded a growth of 4%yoy, slightly higher than our estimate of 3.9%yoy in June 2017. The IPI growth surpassed market consensus of 3%yoy. The slowdown in IPI was mainly driven by decline in manufacturing output to 4.7%yoy from 7.2%yoy in May. Similarly, electricity output rose lower than the previous month, 2.1%yoy in June vs 2.5%yoy in May. In spite of this, after two consecutive months of contractions, mining production increased by 2.3%yoy during the month of June. In fact, on monthly basis, mining output soar by 8.2%yoy. We opine continued robust demand from global trade activities remain in play affecting industrial performance in Malaysia to stay on steady pace.

Chart 7: IPI vs GDP (YoY%)



Source: DOSM, MIDFR

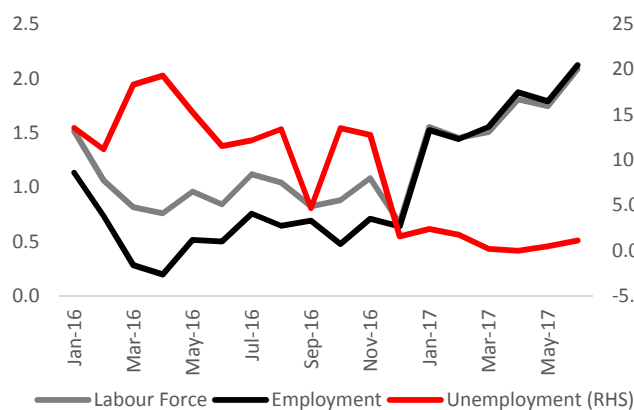
Chart 8: Manufacturing IPI vs Manufacturing GDP (YoY%)



Source: DOSM, MIDFR

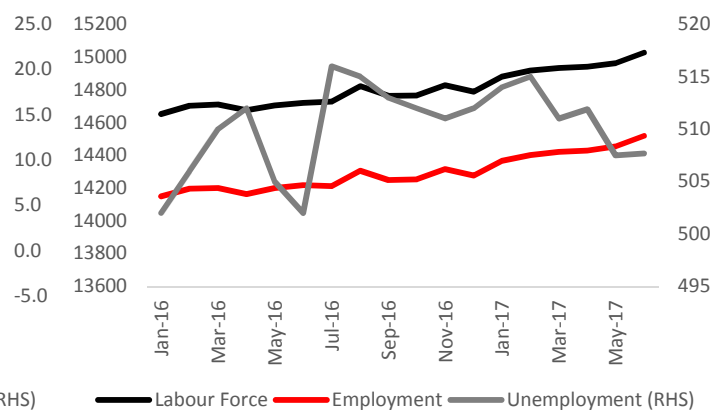
Labour market remains stable. Malaysia's unemployment rate in June stays at 3.4% for four consecutive months. For the first time ever, labour force breached 15 million persons with the support of employment growth by 2.1%yoy. Unemployed persons stands at 0.5 million, unchanged from previous month while labour participation rate registered at 67.8%. Positive development in the labour market is fuelled by upbeat momentum in our economic activities especially in the export-oriented sectors.

Chart 9: Labour Market Key Indicators (YoY%)



Source: DOSM; MIDFR

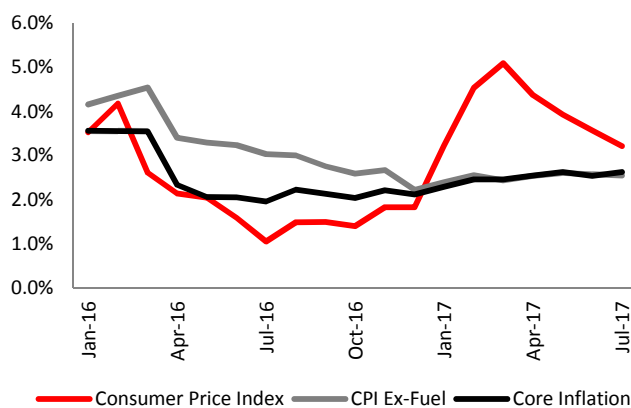
Chart 10: Number of Person ('000)



Source: DOSM; MIDFR

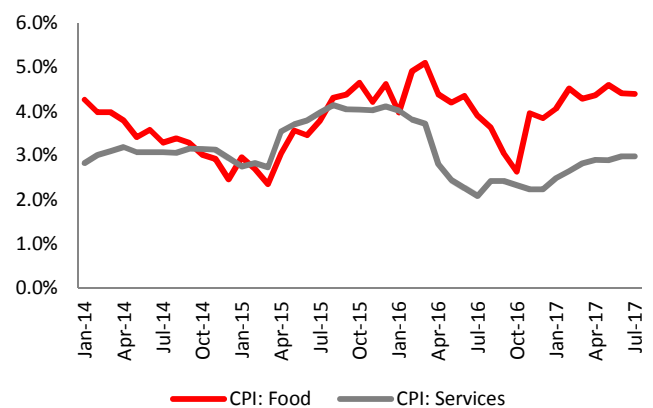
Slowdown in overall prices as expected. Headline inflation rose by 3.2% in July, the lowest in six months. On monthly basis, headline inflation continued a downward trend for fifth consecutive months. The decline in headline inflation is mainly due to tepid growth in fuel and transport prices. Transport prices remain on downward trend from a peak of 23% in March to 7.7% in July. Apart from that, core inflation inched up slightly 2.6% while food and non-food inflation rose slightly lower than the previous month by 4.2% and 2.7% respectively. We opine Malaysia's inflation to grow moderately for the second half of 2017 given that cost-driven factors are tapering off.

Chart 11: CPI vs Core CPI



Source: DOSM, MIDFR

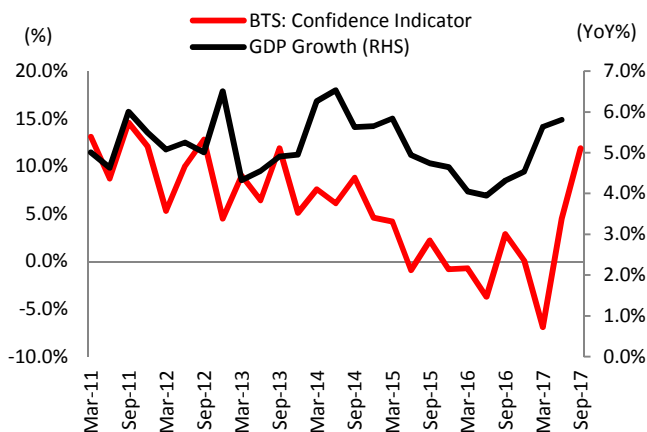
Chart 12: Food Price Index vs Services Price Index



Source: DOSM, MIDFR

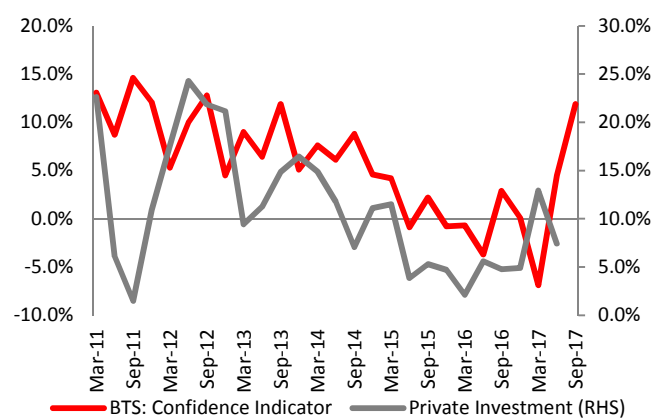
Stronger business confidence anticipated in the 3rd Quarter 2017. According to the Business Tendency Survey, overall business performances in the third quarter of 2017 is expected to advance more than triple compared to the same period last year. Based on the confidence indicator, third quarter performances was forecasted to increase by 11.9%, an improvement since the first quarter this year which saw one of the worst negative growth at 6.9%. The upbeat momentum from first half is expected to carry on into the second half of the year indicating favourable investment climate for businesses.

Chart 13: Improved business confidence drives up GDP



Source: DOSM, MIDFR

Chart 14: BTS (%) vs Private Investment (YoY%)



Source: DOSM, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2015	2016	2017^f	1Q17	2Q17	3Q17^f	4Q17^f
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 & services</i>	0.6	0.1	8.0	9.8	9.6	7.8	4.7
<i>Imports of goods & 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	-	-	-	-
End of Unless States Otherwise	2015	2016	2017^f	1Q17	2Q17	3Q17^f	4Q17^f
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

August 2017 Key Economic Events

1 August: Venezuela energy sanctions could still be coming. Here's how they would affect the market.

The U.S. government held its fire against Venezuela on Monday, choosing not to slap sanctions on the oil-dependent nation's energy sector, but analysts say those penalties could still be coming. The U.S. Treasury Department instead sanctioned embattled President Nicolas Maduro after he held a vote over the weekend to overhaul the nation's legislative body and sweep away the political opposition. The vote was a prelude to rewriting Venezuela's constitution, which would fortify Maduro's grip on power as his nation remains mired in economic crisis and rocked by deadly street clashes.

10 August: US-North Korea standoff could spark economic war with China.

The escalating saber rattling between the U.S. and North Korea has raised the prospects of an economic confrontation between America and China. At issue are a series of sanctions against Pyongyang designed to convince North Korean leader Kim Jong Un to curb his ambitions to develop a nuclear missile capable of striking the U.S. mainland. But those measures have had little impact on the increasingly bellicose stand-off, and on Thursday President Donald Trump repeated his complaint that Beijing needs to lean harder on Pyongyang to defuse rising tensions.

24 August: 'Measuring GDP in USD not relevant or appropriate'.

Measuring the gross domestic product (GDP) in US dollars is not relevant or appropriate for a matured and sophisticated economy like Malaysia, said Second Finance Minister Datuk Seri Johari Abdul Ghani. "Economic activity in Malaysia is measured primarily through activities transacted by households, businesses and governments in ringgit. Hence, measurement in ringgit terms is more reflective of our economy," he said in a statement.

26 August 2017: Yellen and Draghi Both Defend Post-Crisis Financial Regulation.

The world's two most powerful central bankers on Friday delivered back-to-back warnings against dismantling tough post-crisis financial rules that the Trump administration blames for stifling U.S. growth. European Central Bank President Mario Draghi, speaking at the Federal Reserve's annual retreat in Jackson Hole, Wyoming, said it was a particularly dangerous time to loosen regulation given that central banks are still supporting their economies with accommodative monetary policies.

6 August: UN Security Council imposes new sanctions on North Korea.

The United Nations Security Council on Saturday passed a resolution imposing new sanctions on North Korea for its continued intercontinental ballistic missile (ICBM) testing and violations of UN resolutions. With 15 votes in favor, Resolution 2371 was passed unanimously. The resolution targets North Korea's primary exports, including coal, iron, iron ore, lead, lead ore and seafood. The sanctions also target other revenue streams, such as banks and joint ventures with foreign companies.

14 August: Trump to ramp up trade pressure on China with call for probe on Monday.

President Donald Trump on Monday will order his top trade adviser to determine whether to investigate Chinese trade practices that force U.S. firms operating in China to turn over intellectual property, senior administration officials said on Saturday. The move, which could eventually lead to steep tariffs on Chinese goods, comes at a time when Trump has asked China to do more to crack down on North Korea's nuclear missile program as he threatens possible military action against Pyongyang.

24 August: Samsung chief Jay Y. Lee sentenced to a 5-year jail term, convicted of bribery and embezzlement.

A court in South Korea on Friday sentenced Samsung's de-facto chief Jay Y. Lee to a five-year jail term, according to local media reports. The sentencing followed a trial where he was accused of paying bribes to gain government favors for the conglomerate. Local news agency, Yonhap, said the court found Samsung Electronics vice chairman Lee guilty of giving bribes to get support from ousted President Park Geun-hye. It also convicted him of embezzlement, hiding assets overseas and perjury, Yonhap reported.

28 August 2017: May Under Pressure From Labour and EU as Brexit Talks Resume.

Brexit talks resume on Monday with Prime Minister Theresa May under pressure on two fronts: European negotiators are pushing her to reveal her hand, while the opposition Labour Party has made a bid to lure May's critics to their side. Labour's announcement on Sunday that it wants Britain to stay in the European Union's single market and customs union for up to four years after it leaves the bloc a proposal that will delight business means it's now worthwhile for Conservative lawmakers who want to maintain ties with Europe to rebel and seek cross-party deals. May, who wants to leave the single market in 2019, lacks a parliamentary majority.

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