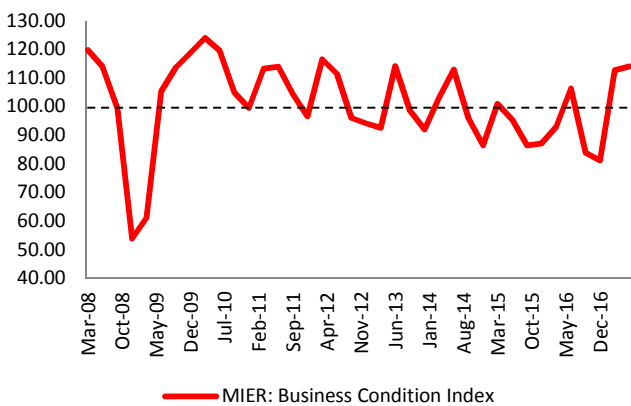


**MONTHLY ECONOMIC REVIEW | July 2017****Business Optimism Remains Strong amid Robust External Demand**

- *Business and consumer sentiment improved for the second quarter of 2017. Both indicators show positive results as BCI hits 114.1 points, the highest in three years while CSI recorded at 80.7 points, peak in ten months. The survey results are in line with the current upbeat momentum in Malaysia's external trade as well as domestic economic activities.*
- *Exports grew faster than imports in May 2017. For the first time in 12 months, exports grew higher than imports, 32.5%yoy vs 30.4%yoy respectively.*
- *Deceleration in overall prices continues. Headline inflation rose by 3.6% in May, the lowest in five months. On monthly basis, headline inflation continued a downward trend for four consecutive months. The decline in headline inflation is mainly due to tepid pace in fuel and transport prices.*

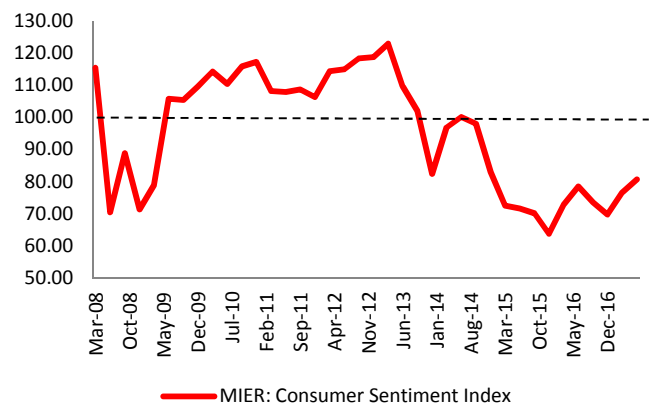
**Business and consumer sentiment improved for the second quarter of 2017.** Both indicators show positive results as BCI hits 114.1 points, the highest in three years while CSI recorded at 80.7 points, peak in ten months. The survey results are in line with the current upbeat momentum in Malaysia's external trade as well as domestic economic activities. For instance, Malaysia's export growth has been surging by double digit for six consecutive months since December 2016. On domestic front, distributive trade which comprise of motor vehicles sales, wholesale and retail trade expanded strongly with five month average growth of 9.1%yoy beating previous year's average growth of 5.4%yoy. We opine the improved performances in both sentiments are the result of spillover effects derived from strong export performance and recovery in commodity prices. Therefore, we firmly believe that Malaysia's economic growth for the second quarter will continue registering above 5% given that rising optimism level in the economy as reflected in MIER's business and consumer survey results.

**Chart 1: Business Condition Index**



Source: MIER, MIDFR

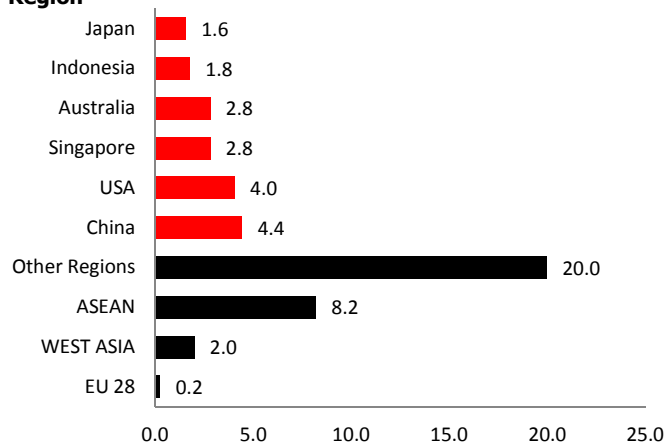
**Chart 2: Consumer Sentiment Index**



Source: MIER, MIDFR

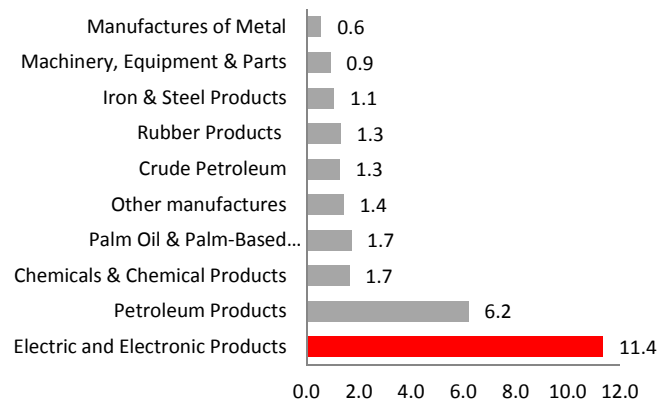
**Exports grew faster than imports in May 2017.** For the first time in 12 months, exports grew higher than imports, 32.5%yoy vs 30.4%yoy respectively. On monthly basis, exports and imports as well as total trade expanded strongly by 7.5%, 13.3% and 10.2% respectively during the month. Based on current momentum, average value of exports for the past five months is at RM75.6 billion while 2016’s monthly average was at RM65.5 billion. We expect exports will continue to perform well in the second half of the year. Continued broad-based recovery in global trade and stable commodities prices are among factors boosting our external trade performance.

**Chart 3: % Contribution to Exports Growth by Country and Region**



Source: DOSM, MIDFR

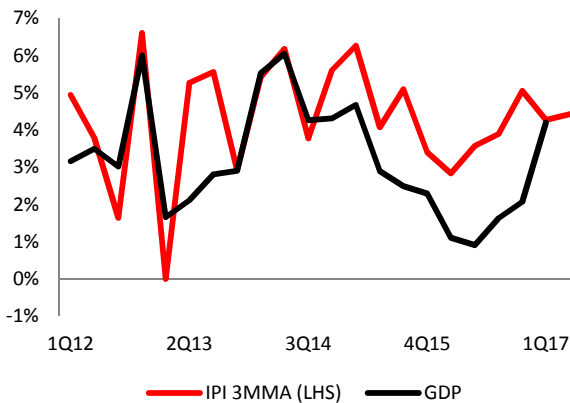
**Chart 4: % Contribution to Exports Growth by Products**



Source: DOSM, MIDFR

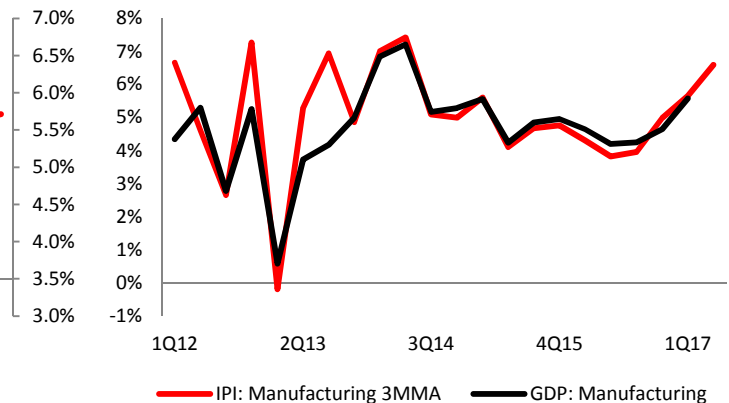
**IPI growth in May improved 4.6%yoy.** Industrial production continued to expand above 4%yoy for four consecutive months. On monthly basis, IPI improved by 0.6%, better than the performance of the previous two months. May’s IPI figures saw an improvement with an exception to the Mining sector falling short from last month’s figure of (2.3%)yoy contraction which mainly due to the decline in crude petroleum production. Manufacturing and Electricity both experienced tremendous growth of 7.2%yoy and 2.5%yoy respectively. Hence forth we expect Malaysia’s industrial production to remain stable with upward bias, maintaining our IPI forecast in 2017 to grow by 5.3%.

**Chart 5: IPI vs GDP (YoY%)**



Source: DOSM, MIDFR

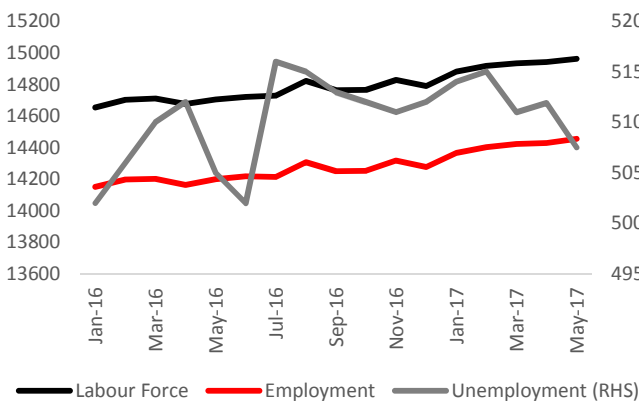
**Chart 6: Manufacturing IPI vs Manufacturing GDP (YoY%)**



Source: DOSM, MIDFR

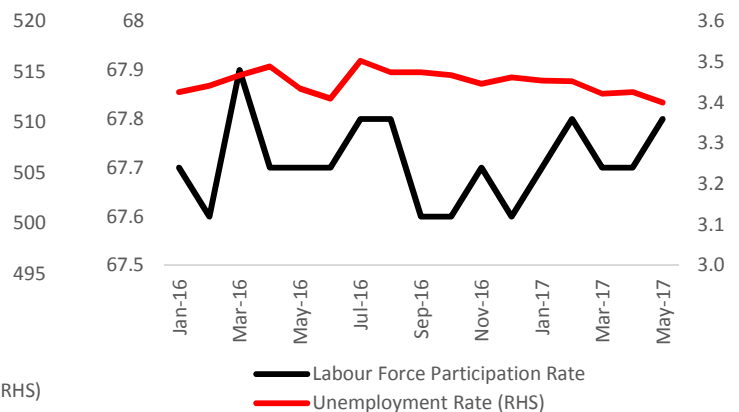
**25,000 jobs added in May.** Labour force and employment surged by 1.7%yoy and 1.8%yoy respectively in May. With the solid growth in employment, new jobs added for the month reached 25,000. As for unemployment, number of unemployed person went down to 508,000 in May, the lowest in eleven months. Overall, we noticed strengthening trends in the labour market since early of this year commensurate with pick-up in economic growth. We believe the improvement in the labour market is due to continuous improvement in external trade activities and steady pace in domestic demand.

**Chart 7: Number of Persons ('000)**



Source: DOSM; MIDFR

**Chart 8: UE Rate vs LFPR (%)**

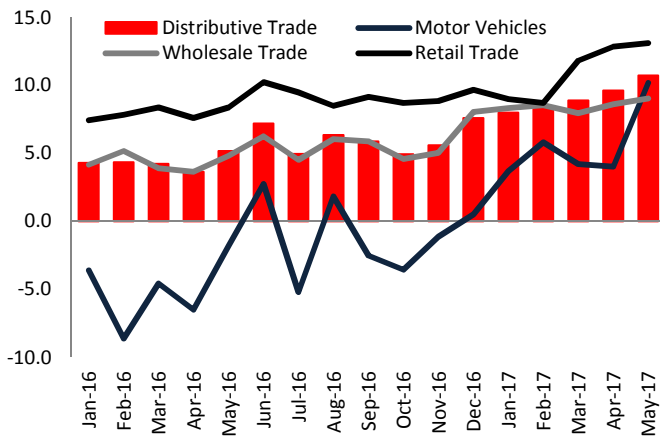


Source: DOSM; MIDFR

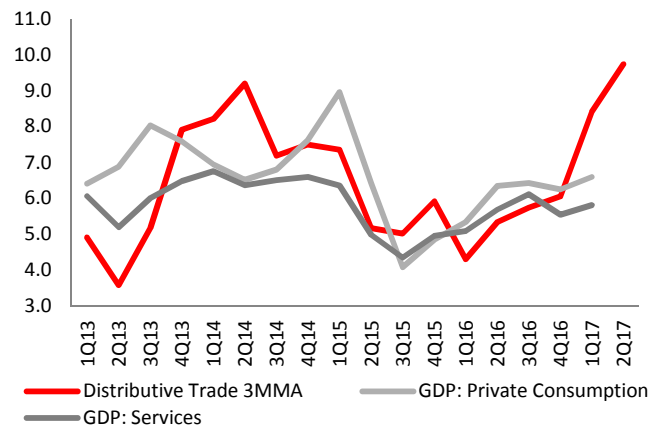
**Distributive trade hits new records again.** Distributive trade and its component - retail trade, expanded by 10.7%yoy and 13.1%yoy respectively in May 2017, the highest since March 2014. As for other components of distributive trade, wholesale trade and motor vehicles increased by 9%yoy and 10.2%yoy respectively, the fastest pace so far in 2017. On monthly seasonally adjusted basis, distributive trade and its components grew steadily and none shown contraction. The continuous solid performances of distributive trade indicate that our domestic economic activities remain upbeat indicating improve sign of domestic spending.

**Chart 9: Distributive Trade, DT (YoY%)**

**Chart 10: DT-Private Consumption-Services (YoY%)**



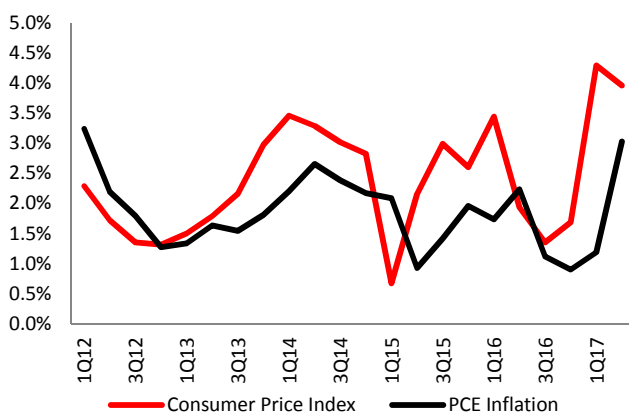
Source: DOSM; MIDFR



Source: DOSM; MIDFR

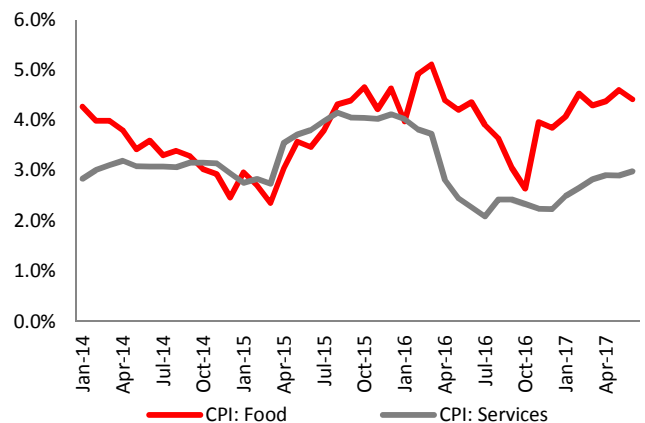
**Deceleration in overall prices continues.** Headline inflation rose by 3.6% in May, the lowest in five months. On monthly basis, headline inflation continued a downward trend for four consecutive months. The decline in headline inflation is mainly due to tepid pace in fuel and transport prices. Transport prices remain on downward trend from peak of 23% in March to 10.5% last month. Apart from that, core inflation stable at 2.5% while food and non-food inflation rose slightly lower than the previous month by 4.3% and 3.2% respectively. Hence, we foresee Malaysia's inflation to grow moderately for the second half of 2017 given that cost-driven factors are tapering off.

**Chart 11: CPI vs PCE Inflation**



Source: DOSM; MIDFR

**Chart 12: Food Price Index vs Services Price Index**



Source: DOSM; MIDFR

**Table 1: Macroeconomic Data Updates**

<b>(YoY%) Unless Stated Otherwise</b>	<b>2015</b>	<b>2016</b>	<b>2017<sup>f</sup></b>	<b>1Q17</b>	<b>2Q17<sup>f</sup></b>	<b>3Q17<sup>f</sup></b>	<b>4Q17<sup>f</sup></b>
Real GDP	5.0	4.2	5.1	5.6	5.1	5.2	4.6
<i>Private Consumption</i>	5.5	6.1	6.3	6.6	5.6	6.4	6.5
<i>Public Consumption</i>	4.7	1.0	2.5	7.5	(4.0)	(1.0)	7.3
<i>Gross Fixed Capital Formation</i>	3.4	2.7	4.0	10.0	(0.5)	2.8	4.3
<i>Exports of goods &amp; services</i>	0.6	0.1	7.9	9.8	10.0	7.6	4.6
<i>Imports of goods &amp; services</i>	1.2	0.4	8.3	12.9	8.3	8.2	4.2
<i>Net Exports</i>	(3.3)	(1.8)	4.9	(14.5)	21.7	3.9	8.8
Exports of Goods (f.o.b)	1.9	1.1	14.5	21.4	17.5	12.4	6.7
Imports of Goods (c.i.f)	0.4	1.9	16.5	27.7	18.7	12.3	7.1
Trade Balance - RMb	94.3	87.2	93.0	18.9	24.2	22.1	27.8
Consumer Price Index	2.1	2.1	3.8	4.3	4.0	3.5	3.3
Current Account - RMb	34.0	25.1	26.8	-	-	-	-
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	-	-	-	-
<b>(End of Period) Unless Stated Otherwise</b>	<b>2015</b>	<b>2016</b>	<b>2017<sup>f</sup></b>	<b>1Q17</b>	<b>2Q17<sup>f</sup></b>	<b>3Q17<sup>f</sup></b>	<b>4Q17<sup>f</sup></b>
Brent Crude Oil (Avg)	53.6	43.6	50.0	54.9	49.0	48.0	48.3
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

## July 2017 Key Economic Events

**3 July: OPEC's Output Rose to the Highest This Year.** OPEC's crude production rose to the highest this year in June as member nations exempt from output curbs pumped more. Members of the Organization of Petroleum Exporting Countries boosted their output by 260,000 barrels a day compared with May, according to a Bloomberg News survey of analysts, oil companies and ship-tracking data. Half of the increase came from Libya and Nigeria, which are exempt from making cuts under the deal agreed between OPEC and its allies.

**10 July: Trump's First G-20 Ends With Few Prizes, Little Consensus on Goals.** Ahead of his first G-20 summit, Donald Trump took to Twitter to weigh in on his concerns. From bad trade deals ("the worst") to North Korea's nuclear ambitions ("this nonsense") to steel dumping ("don't like"), Trump highlighted what he'd hit head-on in Hamburg. The problem for the U.S. president: he comes home from the Group-of-20 summit with little concrete progress on those issues, while the differences between himself and the rest of the world are greater than ever.

**13 July: Fed's Yellen says rate and portfolio plans on track, cautions on inflation.** The U.S. economy is healthy enough for the Fed to raise rates and begin winding down its massive bond portfolio, though low inflation and a low neutral rate may leave the central bank with diminished leeway, Fed Chair Janet Yellen said on Wednesday. In what may be one of her last appearances before Congress, Yellen depicted an economy that, while growing slowly, continued to add jobs, benefited from steady household consumption and a recent jump in business investment, and was now being supported by stronger economic conditions abroad.

**24 July: Britain launches fund to boost electric battery technology.** Britain launched a 246 million-pound (\$320 million) fund on Monday to boost the development and manufacturing of electric batteries, a major growth area for the car and energy sectors. The scheme, which allows those in business and academia to apply for government funds to work on a range of possible electric battery schemes, is part of Britain's industrial strategy which Prime Minister Theresa May published in January.

**5 July: Nervous Markets Await Next Move After North Korea Claims ICBM Test.** North Korea's announcement that it had successfully test-fired an inter-continental ballistic missile sent the South Korean won 0.3 percent lower to its weakest level against the dollar in more than three months, with further losses in store, according to Bank of Singapore Ltd. The benchmark Kospi stock index dropped 0.6 percent, while yields on South Korea's 10-year bonds rose four basis points to 2.28 percent.

**12 July: Global energy investment fell by 12% in 2016, says IEA annual energy report.** Global energy investment fell by 12% in 2016, the second consecutive year of decline, as increased spending on energy efficiency and electricity networks was more than offset by a continued drop in upstream oil and gas spending, according to the International Energy Agency's (IEA) annual World Energy Investment report. The report released yesterday said that global energy investment amounted to US\$1.7 trillion in 2016, or 2.2% of global GDP.

**18 July: China GDP beat expectations, but its markets are rattled — here's why.** China's second-quarter GDP growth beat analyst expectations on Monday, but markets stayed in the red, with little sign of strength even after the numbers surprised. Mainland markets traded in negative territory for the first half of the day, with the Shanghai Composite down almost 2.5 percent at one point and the Shenzhen Composite down more than 3 percent. After the GDP data release, however, some of those losses were recovered and the Shenzhen Composite was down 2.2 percent and the Shanghai Composite was down only 0.11 percent at 11:51 a.m. HK/SIN.

**26 July: Dollar hits 13-month low after Fed adjusts statement** The dollar fell on Wednesday, touching its lowest level in more than a year against a basket of currencies after the release of the Federal Reserve's policy statement following its July meeting. The Federal Open Market Committee announced no changes to monetary policy, as expected. Policymakers said, however, that the U.S. central bank would begin implementing balance sheet normalization "relatively soon." That marked a change from the committee's previous statement that it would begin to reduce its \$4.5 trillion bond holdings "this year."

**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.