

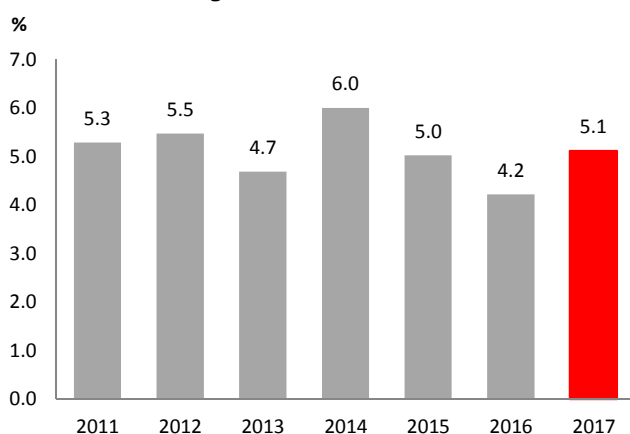
MONTHLY ECONOMIC REVIEW | June 2017

2017 GDP & Exports Growth Revised Upwards

- GDP and exports forecast up to 5.1% and 14.5% respectively in 2017. Strong trade performances from January to April give reasons to believe that the uptrend in global trade activity could sustain for the year. Exports have been recording double digits growth for 5 consecutive months. The windfall from surging trade is a boon especially for exports-oriented industries i.e E&E, chemicals, petroleum products and palm oil.
- Trade balance improved to RM8.75 billion. Trade balance recorded the highest value in 2017, surpassing first quarter average of RM6.3 billion. This is due to steady growth in exports which expanded by 20.6%yoy in April whereas imports grew by 24.7%yoy.
- Inflationary pressure is cooling off. Headline inflation rose by 3.9% in May, the lowest in four months. On monthly basis, headline inflation continued a downward trend for three consecutive months. The decline in headline inflation reflects the effects of cost-driven factors such as fuel price is tapering off.

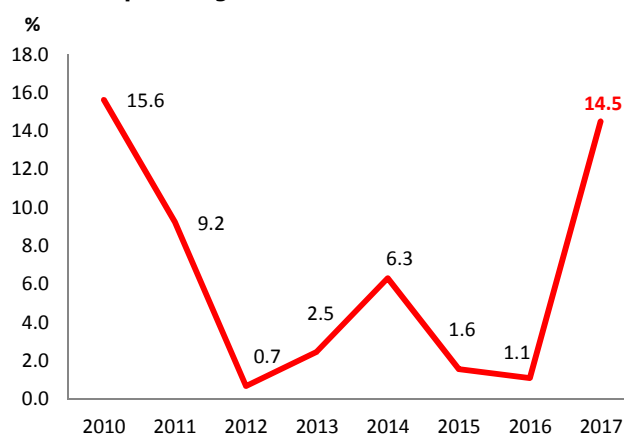
GDP and exports forecast up to 5.1% and 14.5% respectively in 2017. Strong trade performances from January to April give reasons to believe that the uptrend in global trade activity could sustain for the year. Exports have been recording double digits growth for 5 consecutive months. The windfall from surging trade is a boon especially for exports-oriented industries i.e E&E, chemicals, petroleum products and palm oil. Hence, there will be a positive trickle-down effect to domestic economic activities via output production, investment, employment, income and consumption. With all these factors considered, we revise our 2017 GDP growth projection to 5.1%, up 0.2% percentage point from our previous forecast of 4.9% while exports forecast is upgraded to 14.5% from 8.5% previously.

Chart 1: 2017 GDP growth revised to 5.1% from 4.9%



Source: CEIC; MIDFR

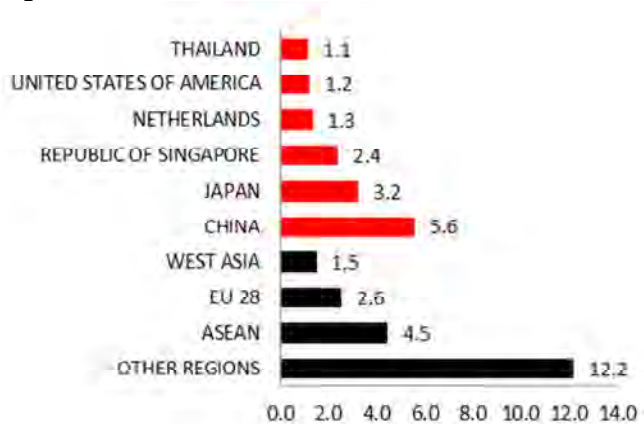
Chart 2: Exports to grow 14.5% in 2017



Source: CEIC; MIDFR

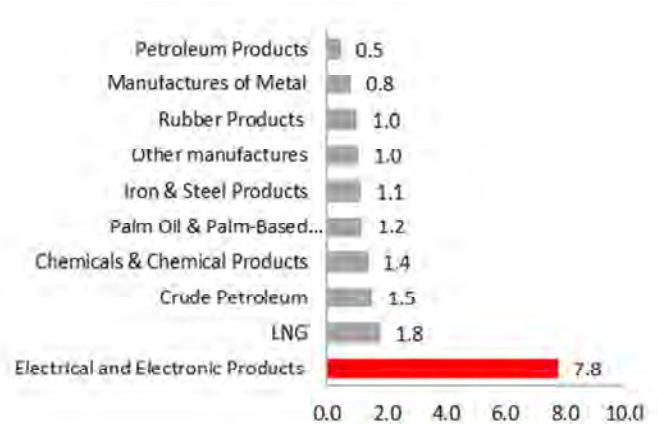
Trade balance improved to RM8.75 billion. Trade balance recorded the highest value in 2017, surpassing first quarter average of RM6.3 billion. This is due to steady growth in exports which expanded by 20.6%yoy in April whereas imports grew by 24.7%yoy. Continuing previous months' trend, imports grew relatively faster than exports with deceleration in momentum. Imports slowed down by 14.7% while exports grew less 3.5% compared to March's. Despite the deceleration in month-on-month growth, April's trade figures still indicate the upbeat momentum of Malaysia's external sector as well as sustained global demand.

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



Source: DOSM; MIDFR

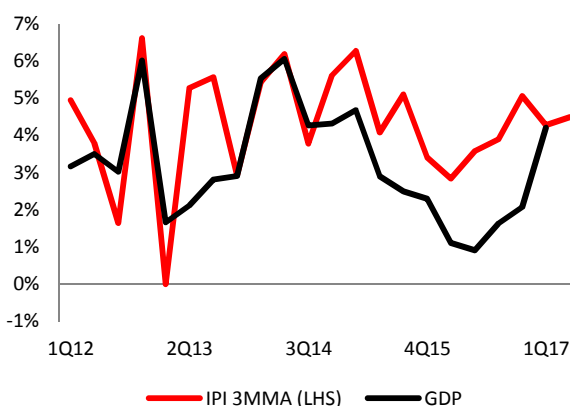
Chart 4: % Contribution to Exports Growth by Products



Source: DOSM; MIDFR

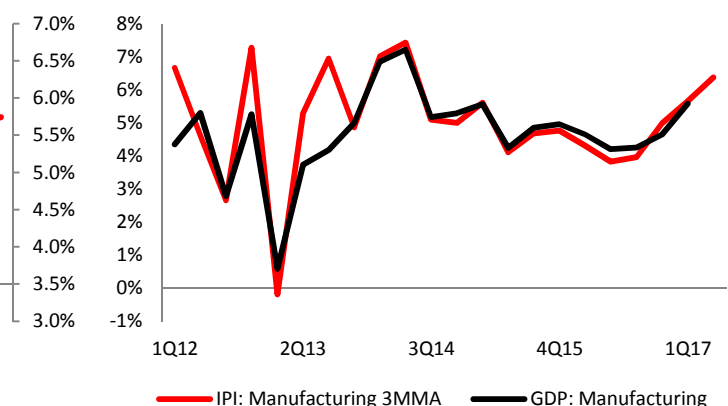
IPI growth in April stables at 4.2%yoy. Industrial production continued to expand above 4%yoy range with April saw IPI growth recorded higher than previous year average of 3.8%. IPI April figure was slightly lower than March's, mainly due to contraction in mining and electricity output at 2%yoy and 1.5%yoy respectively. Manufacturing output grew by 6.7%yoy, highest in more than 2-years. Stellar performance in Malaysia's trade activities is the factor which pushing up manufacturing production. Overall, we opine the performance of Malaysia's industrial production remain stable with upward bias. Hence, we forecast IPI to grow by 5.3% in 2017.

Chart 5: IPI vs GDP (YoY%)



Source: DOSM, MIDFR

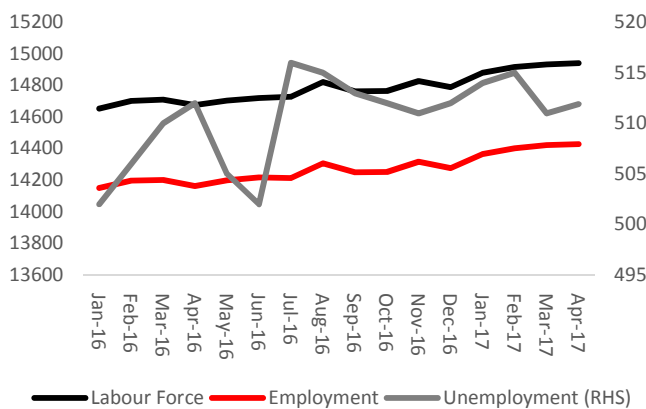
Chart 6: Manufacturing IPI vs Manufacturing GDP (YoY%)



Source: DOSM, MIDFR

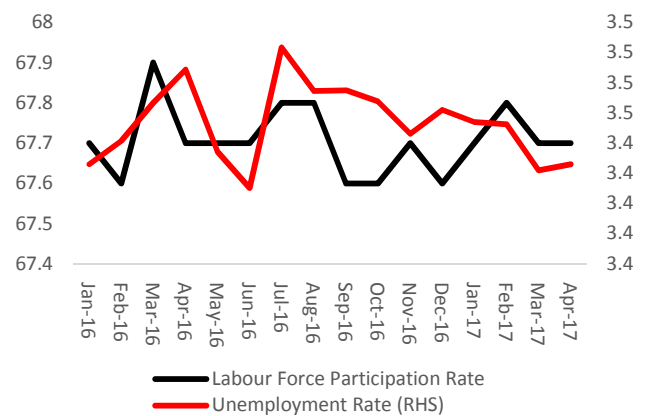
Labour market continues to expand. Malaysia's employment expanded in April to 14.4 million while labour force grew closer to 15 million persons. The expansion in employment means 7,600 new jobs have been added as compared to previous month. As for unemployed persons, the unemployment numbers increase slightly by 900 to 0.52 million. With labour force participation rate remain unchanged at 67.7%, Malaysia's unemployment rate stays at 3.4% after three consecutive months of sticking at 3.5%. In comparison with the same month of 2016, total labour force and employment grew steadily by 1.8%yoy and 1.9%yoy, both records are the highest in 16-months. The firm growth in both total labour force and employment reflects solid momentum in Malaysia's economic activity.

Chart 7: Number of Persons ('000)



Source: DOSM; MIDFR

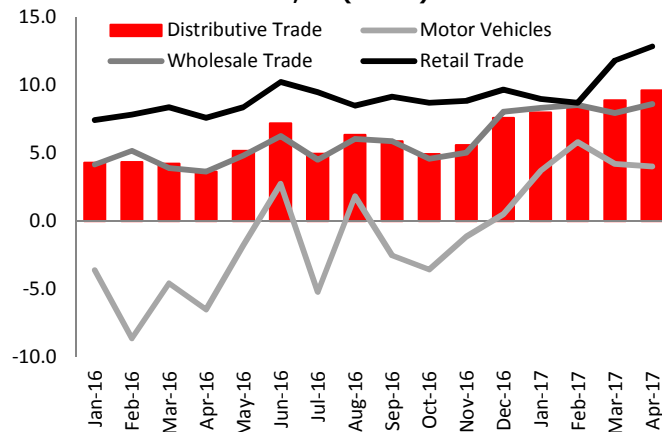
Chart 8: UE Rate vs LFPR (%)



Source: DOSM; MIDFR

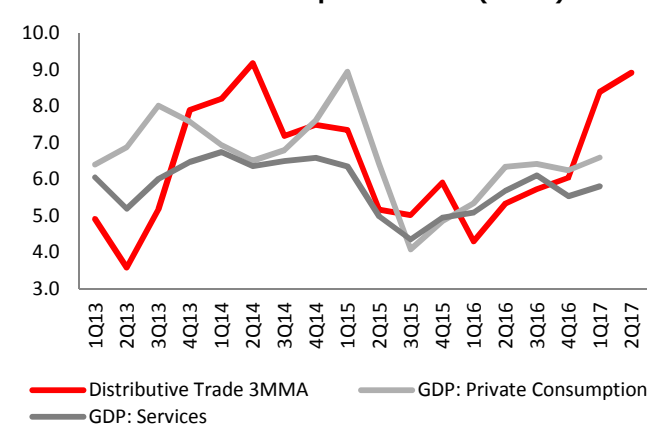
Distributive trade hits new records. Distributive trade and retail trade expanded by 9.6%yoy and 12.9%yoy respectively in April 2017, the highest since May 2014. As for other components of distributive trade, wholesale trade and motor vehicles increased by 8.6%yoy and 4%yoy respectively, significantly better than previous year average. On monthly seasonally adjusted, distributive trade and its components shrank except for retail trade which grew by 0.2%.

Chart 9: Distributive Trade, DT (YoY%)



Source: DOSM; MIDFR

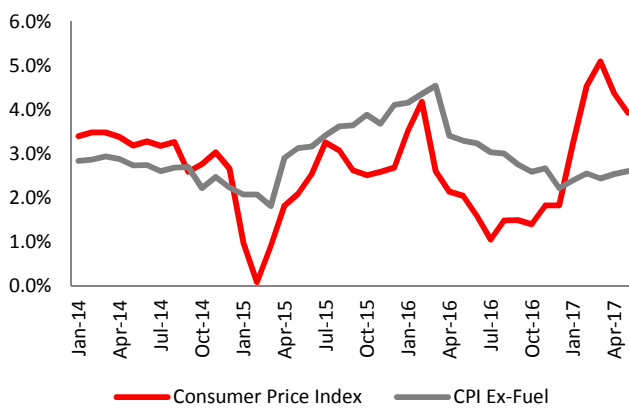
Chart 10: DT-Private Consumption-Services (YoY%)



Source: DOSM; MIDFR

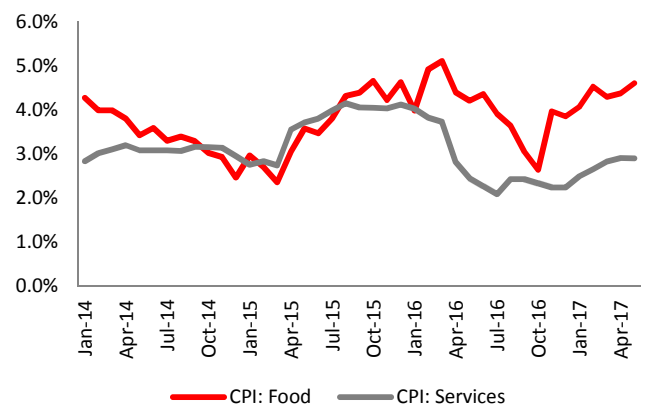
Inflationary pressure is cooling off. Headline inflation rose by 3.9% in May, the lowest in four months. On monthly basis, headline inflation continued a downward trend for three consecutive months. The decline in headline inflation reflects the effects of cost-driven factors such as fuel price is tapering off. Transport inflation grew at a slower pace in May by 13.1%yoy as compared to previous months of 16.7%yoy. Besides, core inflation remains stable expanding marginally by 2.6%yoy while food and non-food inflation rose by 4.4%yoy and 3.7%yoy respectively. Moving forward, we opine Malaysia’s inflation rate to moderate but uncertainty in global oil prices would have substantial impacts on the direction of broader price trends.

Chart 11: CPI vs CPI Ex-Fuel



Source: DOSM; MIDFR

Chart 12: Food Price Index vs Services Price Index



Source: DOSM; MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2015	2016	2017^f	1Q17	2Q17^f	3Q17^f	4Q17^f
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	3.1	10.0	(1.7)	1.4	2.7
<i>Exports of goods & services</i>	0.6	0.1	19.2	9.8	25.2	22.5	19.1
<i>Imports of goods & services</i>	1.2	0.4	20.7	12.9	24.9	24.7	20.1
<i>Net Exports</i>	(3.3)	(1.8)	8.2	(14.5)	26.3	7.9	13.0
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	4.5	4.3	4.7	4.6	4.4
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	-	-	-	-
(End of Period) Unless Stated Otherwise	2015	2016	2017^f	1Q17	2Q17^f	3Q17^f	4Q17^f
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

June 2017 Key Economic Events

1 Jun: EU Leaders Turn to China After Trump Visit Clouds U.S. Relations. After a tumultuous week hosting U.S. President Donald Trump, European leaders will look to fare better when Chinese Premier Li Keqiang visits Brussels on Thursday. The two-day summit presents an opportunity for China to demonstrate its leadership on global issues from free trade to climate change at a time when the U.S. is turning inward.

5 Jun: Trump set to make first moves at completely revamping the Federal Reserve. President Donald Trump appears ready to remake the Federal Reserve in an image that will be considerably different than what investors have known for many years. The president is prepared to nominate Randal Quarles and Marvin Goodfriend to two of three vacancies at the central bank, according to multiple press accounts that have not been disputed by the administration.

15 Jun: Fed Raises Rates, Maintains Forecast for One More Hike. Federal Reserve officials forged ahead with an interest-rate increase and additional plans to tighten monetary policy despite growing concerns over weak inflation. Policy makers agreed to raise their benchmark lending rate for the third time in six months, maintained their outlook for one more hike in 2017 and set out some details for how they intend to shrink their \$4.5 trillion balance sheet this year. In a press conference after the decision was announced, Fed Chair Janet Yellen said the unwinding plan could be put into effect "relatively soon" if the economy evolves as the central bank expects..

22 Jun: Brexit: May unveils 'fair and serious' offer on EU citizens. About three million EU citizens living in the UK would be allowed to stay after Brexit, Theresa May has proposed. A new "UK settled status" would grant EU migrants who had lived in the UK for five years rights to stay and access health, education and other benefits. Proposals were unveiled at a Brussels summit but are dependent on EU states guaranteeing Britons the same rights.

2 Jun: South Korea Q1 GDP growth revised up to 1.1% q-o-q on construction boost. The Fed decided to leave the federal funds rate in a range of 0.75% to 1.00%. First quarter of 2017 saw GDP grew at annualized rate of 0.7%, indicating a slowdown in the US economy. Consensus of traders and analysts expect a solid growth especially in the second half of 2017.

9 Jun: May's Future in Doubt After Brexit Election Gamble Backfires. Theresa May's future as Britain's prime minister was thrown into doubt after her gamble to call an early election backfired spectacularly, casting uncertainty over the government's make-up as well as the direction and timing of negotiations on leaving the European Union. May opted for a snap election to boost her parliamentary majority and strengthen her hand in the Brexit talks due to begin in just 10 days.

19 Jun: Sterling slips as Brexit talks get underway. Sterling edged down against the dollar on Monday, with demand for the currency weakened by uncertainty over domestic politics and over Britain's economic future, as formal Brexit negotiations got under way. Britain and the European Union's chief negotiators began talks by stressing the need to quickly tackle uncertainties in the process and underlining their constructive attitude to reach a deal that is good for all. The EU's Michel Barnier said he hoped the talks - starting almost a year to the day after a British referendum vote to leave the EU - would establish a timetable for the negotiations.

22 Jun: Obama attacks Republican health bill as 'massive transfer of wealth' to the rich. Barack Obama sharply condemned the healthcare plan unveiled by Senate Republicans on Thursday as a "massive transfer of wealth" to the rich, at the expense of poor and middle-class Americans. In a Facebook post hours after the Republican bill was made public, the former president made some of his most pointed comments since leaving office in defence of what remains the most signature accomplishment of his two terms.

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