

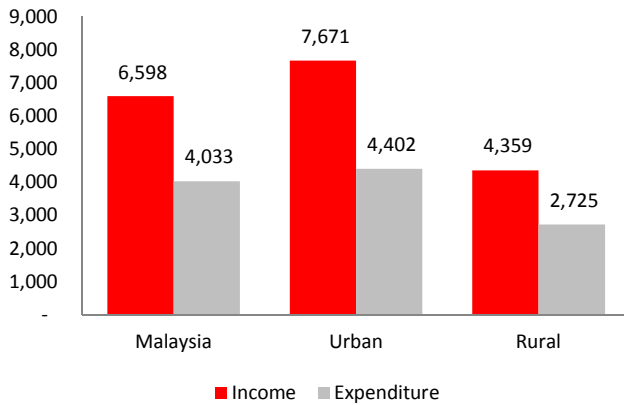
MONTHLY ECONOMIC REVIEW | May 2018**Malaysia's Embraces First Ever Leadership Change amid Improve and Resilient Macroeconomic Conditions**

- *Malaysia experienced its 1st change in the federal government after 6 decades. After 61 years under the reign of Barisan Nasional (BN), the Malaysian government leadership changed to Tun Mahathir-led coalition, Pakatan Harapan (PH).*
- *GDP Growth remains above 5%. Malaysia's GDP growth expanded by 5.4%yoy in 1Q18, slightly below our forecast and market expectations of 5.5%yoy.*
- *Malaysia's current account surplus hit near 4-year high. Current account balance soared to RM15 billion in 1Q18, largest surplus since 2Q14.*

GE14 is just concluded. GE14 dubbed as "mother of all elections" was the most awaited election for Malaysia especially with numerous issues as well as interesting figures involved. The election process went well and the power transition went smooth. The election started off with the dissolution of parliament on 7th April, followed by nomination day on 28th April and polling day on 9th May.

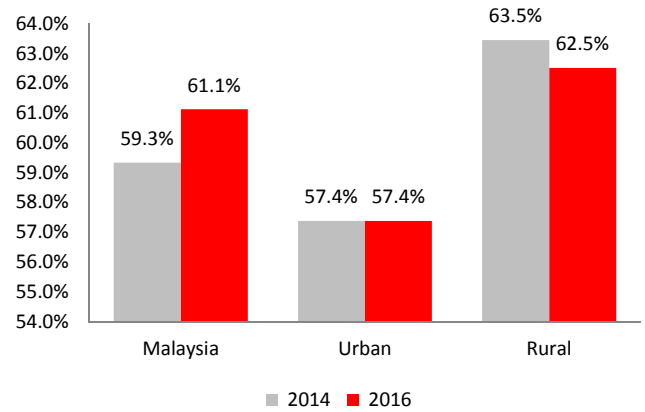
Malaysia experienced its 1st change in the federal government after 6 decades. After 61 years under the reign of Barisan Nasional (BN), the Malaysian government leadership changed to Tun Mahathir-led coalition, Pakatan Harapan (PH). Despite of the election being held on a Wednesday, the turnout ratio was 82.32% or equivalent to 12.3 million voters. PH had won the highest numbers of seats, 122 surpassing the minimum requirement of 112. BN and Islamic Party (PAS) won 79 and 18 seats respectively. For state-level results, PH managed to retain Selangor and Penang while Kelantan remained under PAS. On top of that, PH had also received mandates to govern the states of Kedah, Perak, Negeri Sembilan, Melaka, Johor and Sabah, seeing new chief ministers or menteri besar appointed to lead these state governments. PAS added Terengganu under its administration while Perlis, Pahang and Sarawak remain under BN.

Chart 1: Median Household Income & Expenditure per Month (RM)



Source: CEIC, MIDFR

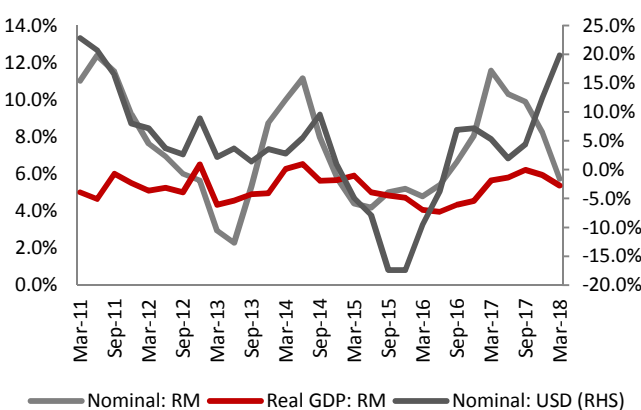
Chart 2: Expenditure-to-Income Ratio of the Latest Household Income Survey (%)



Source: CEIC, MIDFR

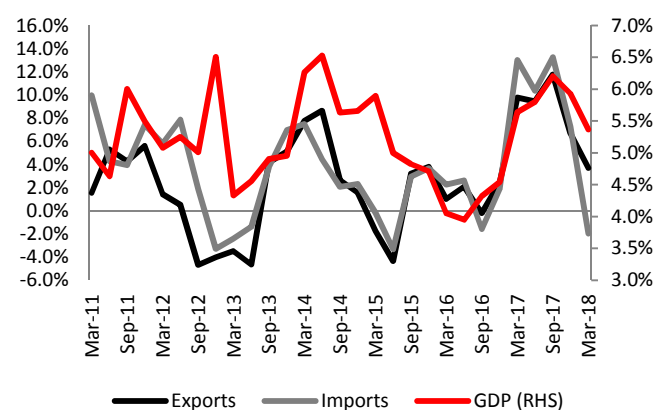
GDP Growth remains above 5%. Malaysia's GDP growth expanded by 5.4%yoy in 1Q18, slightly below our forecast and market expectations of 5.5%yoy. It is the weakest growth in 5-quarters and less than previous year's average of 5.9%. Among others, domestic demand contributes about 3.8% of the total growth during the quarter. From supply side, services and manufacturing sectors contributed significantly by 3.5% and 1.2% respectively. We opine the upbeat momentum in GDP growth was in tandem with steady performances of industrial production, manufacturing sales, distributive trade and external trade during the quarter. Moderating inflationary pressure, strengthening domestic demand and accommodative economic policies as well as sturdy external demand are the expected major anchors driving up GDP performance in the first quarter 2018.

Chart 3: Real vs Nominal GDP (YoY%)



Source: CEIC, MIDFR

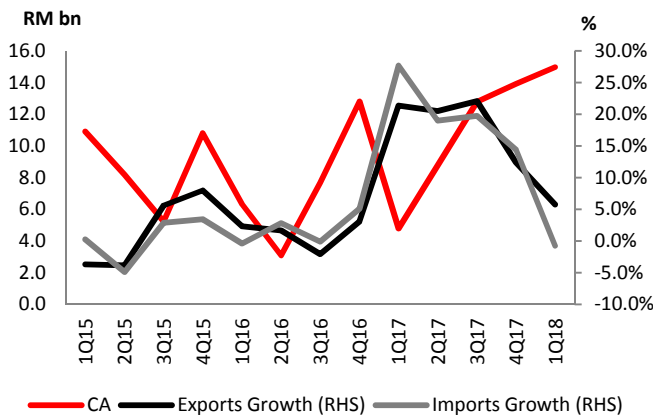
Chart 4: GDP vs External Trade (YoY%)



Source: CEIC, MIDFR

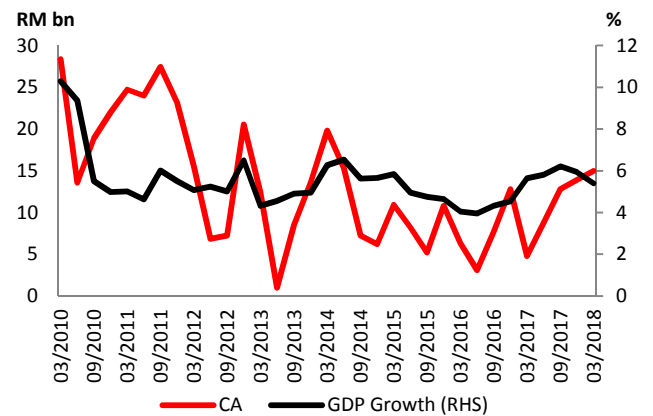
Malaysia's current account surplus hit near 4-year high. Current account balance soared to RM15 billion in 1Q18, largest surplus since 2Q14. The figure is also higher than previous quarter's reading of RM12.9 billion. The surge was mainly due to sharp increase in goods account at RM35.7 billion compared to RM25.3 billion registered in 1Q17. Simultaneously, the services account deficit narrowed to RM5.9 billion from RM6.2 billion in the same comparable period. 8-year highest trade surplus at RM33.4 billion has contributed significantly towards our current account surplus.

Chart 5: Current Account Balance vs External Trade



Source: CEIC, MIDFR

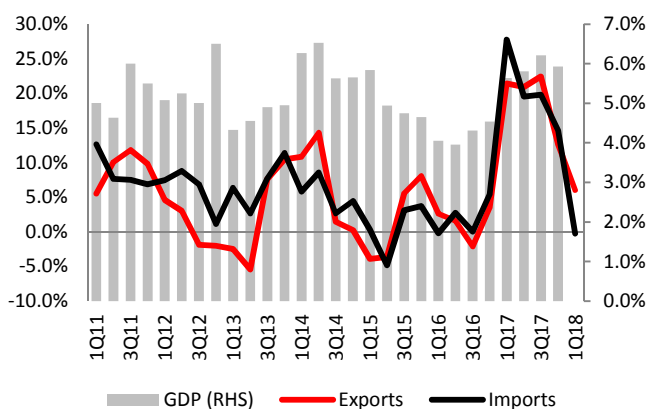
Chart 6: Current Account vs GDP Growth



Source: CEIC; MIDFR

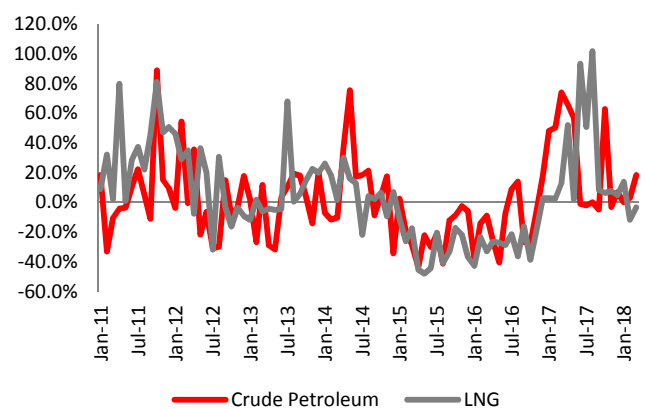
Exports surge to new record high at RM84.5 billion. Exports in Mar-18 rebounded by 2.2%yoy to RM84.5 billion, the highest monthly figure ever recorded driven by higher exports to non-major markets such as Hong Kong and South Africa, among others. In contrast, imports continue to fall by 9.6%yoy to RM69.8 billion which widened the trade balance to RM14.7 billion, highest since Oct-08. Meanwhile, for 1Q18, exports expanded by 5.8% to RM237.6 billion while imports decreased by 0.8% to RM204.3 billion. We foresee Malaysia's external trade performance will continue expanding at a steady pace in 2018, buoyed by gradual rise in commodity prices on top of fading protectionism threat.

Chart 7: External Trade vs GDP (YoY%)



Source: CEIC, MIDFR

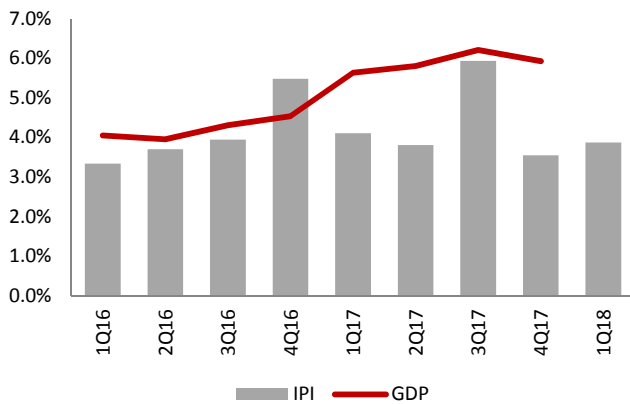
Chart 8: Exports by Commodity Product (YoY%)



Source: CEIC; MIDFR

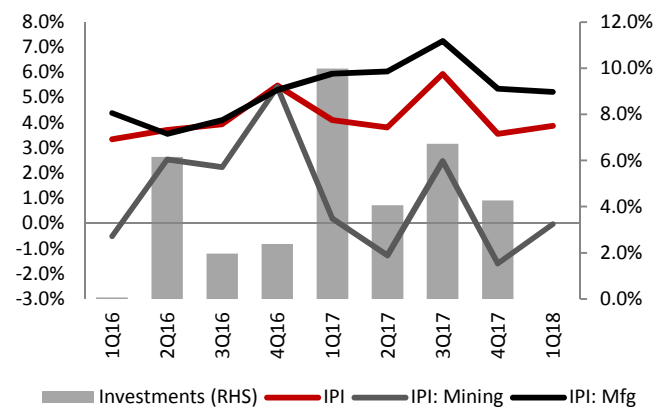
IPI growth below market estimates. Malaysia's industrial production expands by 3.1%yoy in Mar-18, slightly lower than our forecast of 3.2%yoy. By major components, manufacturing and electricity outputs up by 4.1%yoy and 4.4%yoy respectively. On monthly basis, overall IPI as well as all components rebound strongly especially mining and electricity productions of 10.7%mom and 14.2%mom respectively. As for the average 1Q18, overall IPI rose by 3.9%yoy, pointing towards steady GDP expansion. 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 9: IPI vs GDP (YoY%)



Source: CEIC, MIDFR

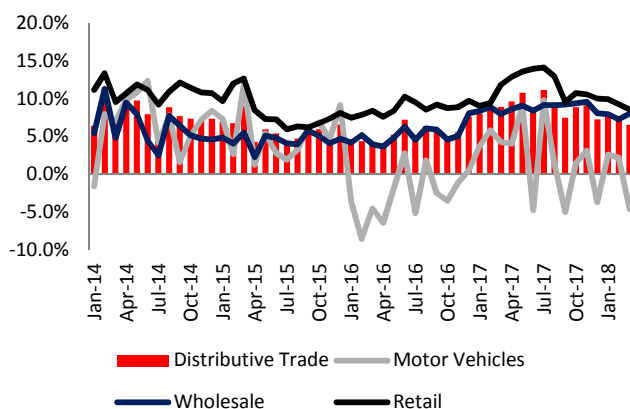
Chart 10: IPI vs Investments Performances (YoY%)



Source: CEIC, MIDFR

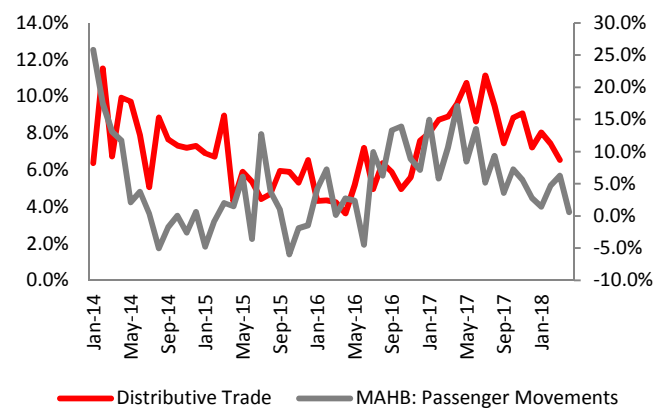
Distributive trade sales hit record high. Distributive trade rose by 6.5%yoy to a record high of RM103.8 billion in Mar-18 driven by strong retail and wholesale trade. Retail trade expands by 8.6%yoy to RM40.8 billion, followed by wholesale trade which grew by 8%yoy to RM50.7 billion. In contrast, motor vehicles businesses decreased by 4.6%yoy to RM12.3 billion. On monthly basis, all three sectors recovered from a negative growth recorded in the preceding month, in line with our expectations as we opine Feb's slowdown is only provisional. Moving forward, we anticipate distributive trade sales to remain on steady momentum shore up by stable job market, strengthening Ringgit, decelerating inflationary pressure, tourism activities and accommodative economic policies.

Chart 11: Distributive Trade, DT (YoY%)



Source: CEIC; MIDFR

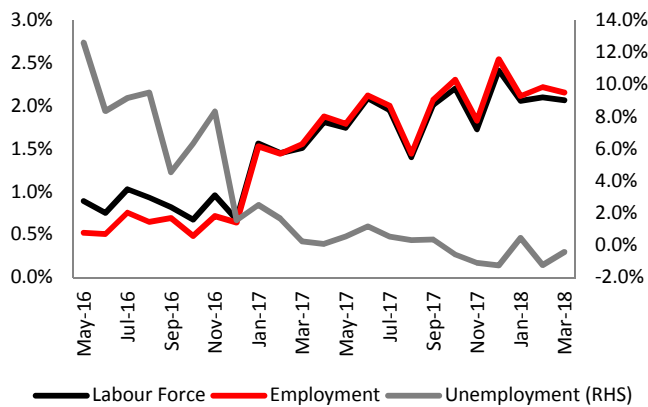
Chart 12: DT vs Passenger Movements (YoY%)



Source: CEIC; MIDFR

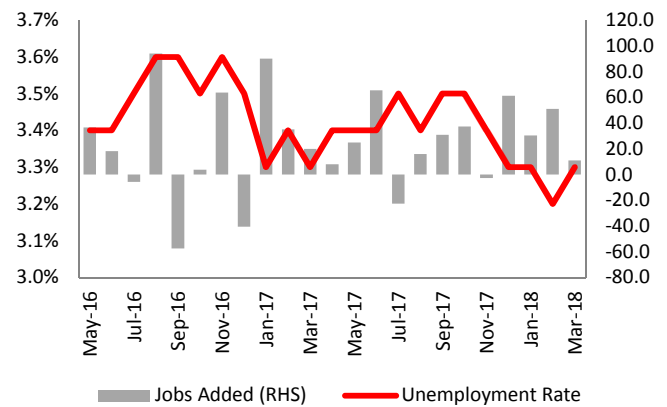
Employment grew at a steady pace. Employment maintained at 2.2%yoy in Mar-18, while labour force maintained at 2.1%yoy to 15.2 million. Jobs added in the economy registered at 11K, significantly lower than previous month reading of 51K. Thus, unemployment rate maintained at 3.3% in the third month of 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 13-consecutive months since Mar-17.

Chart 13: Labour Market Key Indicators (YoY%)



Source: CEIC; MIDFR

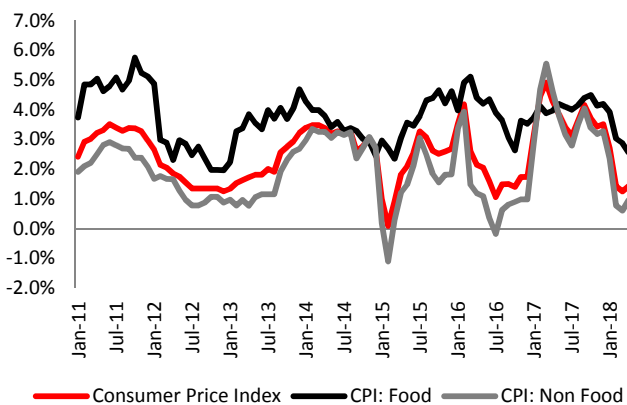
Chart 14: Jobs Added ('000) vs Unemployment Rate



Source: CEIC; MIDFR

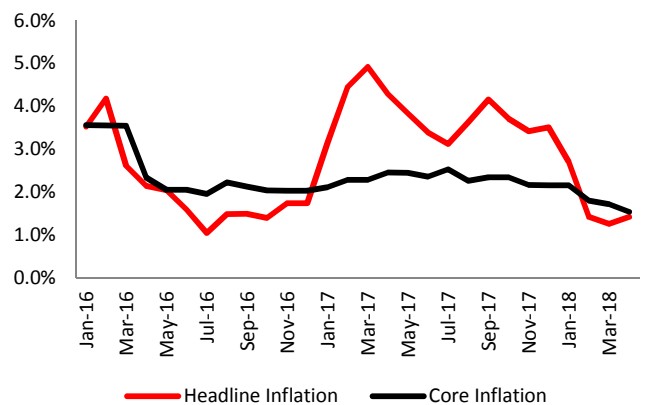
Inflation increased marginally. Headline inflation rate rose by 1.4%yoy in Apr-18, slightly higher than 1.3%yoy registered in the preceding month as transport inflation rebounded from a negative territory logged for two months to positive at 0.4%yoy. In addition, inflation increased for a number of major groups such as health, recreation & culture, and restaurant & hotels. On a monthly basis, inflation neutralized in Apr-18 as CPI remained unchanged at 120.9 compared to Mar-18. Meanwhile, core inflation still on its record-low as it went down even further to 1.5%yoy in the same month from 1.7%yoy registered in Mar-18.

Chart 15: CPI: Headline vs Food & Non-food (YoY%)



Source: CEIC, MIDFR

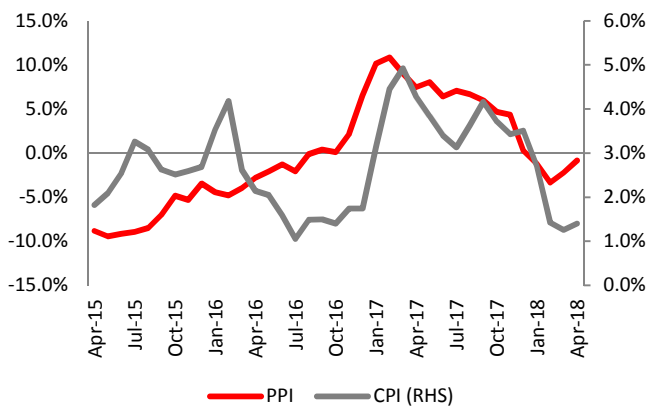
Chart 16: CPI: Headline vs Core (YoY%)



Source: CEIC; MIDFR

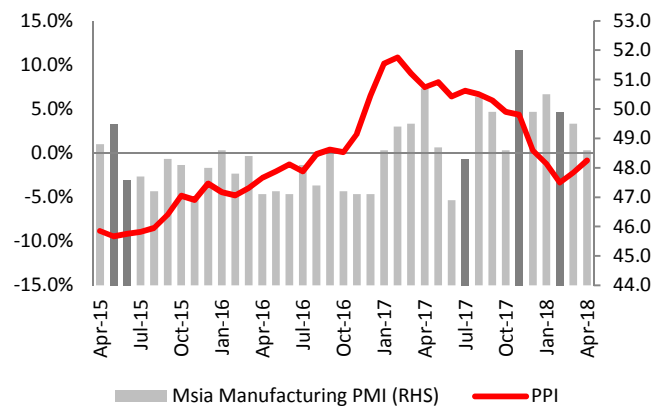
Producer prices continued to fall for 4-consecutive months. On yearly basis, Malaysia's producer prices contracted by -0.8%yoy in Apr-18, mainly due to unfavourable base effects. Nevertheless, on a monthly basis, input prices rebounded to positive reading as compared to a month earlier. The decline is offset by the manufacturing, agriculture, forestry & fishing and food product which continued to shrink since Jan-18. In contrast, we noticed other sectors experienced a steady growth in input price change in April. Moving forward, we foresee the slowdown in inflationary pressure will stay throughout the year amid the new economic policies to benefit across stages despite the gradual rise in global commodity prices.

Chart 17: PPI vs CPI (YoY%)



Source: CEIC, MIDFR

Chart 18: PPI (YoY%) vs Manufacturing PMI (Points)



Source: CEIC, MIDFR

Table 1: Macroeconomic Data Updates

(YoY%) Unless Stated Otherwise	2016	2017 ^e	2018 ^f	1Q18	2Q18 ^f	3Q18 ^f	4Q18 ^f
Real GDP	4.2	5.8	5.5	5.4	5.8	5.4	5.2
Private Consumption	6.1	7.0	6.5	6.9	5.8	6.5	6.8
Public Consumption	1.0	5.0	3.5	0.6	0.4	3.5	9.4
Gross Fixed Capital Formation	2.7	5.7	3.8	0.1	3.3	4.0	8.0
Exports of goods & services	0.1	9.2	5.0	3.7	7.9	3.5	5.0
Imports of goods & services	0.4	10.3	4.8	(1.9)	8.3	5.5	7.3
Net Exports - RMb	92.6	93.4	99.6	29.5	23.8	23.1	23.2
Exports of Goods (f.o.b)	1.1	14.5	9.3	6.0	12.1	8.9	10.1
Imports of Goods (c.i.f)	1.9	15.5	8.2	(0.3)	12.4	9.5	11.4
Trade Balance - RMb	87.2	97.5	119.9	33.4	27.0	29.0	30.5
Consumer Price Index	2.1	3.8	2.6	1.8	2.5	3.0	2.9
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	4.00	4.05	4.00
USD/MYR	4.48	4.15	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

May 2018 Key Economic Events

3 May: Fed Leaves Rates Unchanged, Says Inflation Close to Target. Federal Reserve officials left interest rates unchanged, acknowledging inflation is close to target without indicating any intention to veer from their gradual tightening of monetary policy. "Inflation on a 12-month basis is expected to run near the committee's symmetric 2 percent objective over the medium term," the policy-setting Federal Open Market Committee said in a statement Wednesday in Washington.

14 May: Malaysia Finance Minister Seen as Safe Pick as Budget Risks Rise. Malaysia's new finance minister is seen as a safe pair of hands as he takes on the immense task of bringing down debt while scrapping a consumption tax that was key to Prime Minister Mahathir Mohamad's unexpected election win last week.

15 May: No need for capital controls unless there is 'fiddling', says Dr Mahathir. Malaysia may consider imposing capital controls again if there are signs of currency manipulation, says Prime Minister Tun Dr Mahathir Mohamad. "Currently, there is no need for capital control (measures) unless some people start fiddling with the currency value, depressing it and impoverishing countries. These things are not really business. Currency is not commodity. It is just a method of exchange," he said in an interview with

28 May: Bank Indonesia's New Governor Is Wasting No Time on Rate Hikes. Indonesia's new central bank governor is putting his stamp of authority on his role, calling an unscheduled policy meeting for Wednesday and setting the stage for a second interest rate increase in two weeks to stem a rout in the currency. A day after Governor Perry Warjiyo was sworn into office, Bank Indonesia announced the monetary policy board will meet this week, about a month before its next regular monthly scheduled one. The quick action reflects his pledge to be pre-emptive and ahead of the curve when it comes to policy.

7 May: U.S. oil surges past \$70, dollar hits fresh 2018 high. The dollar rose to fresh 2018 highs on Monday while oil prices climbed to their highest since late 2014, driven by declining Venezuelan crude production and worries the United States could re-impose sanctions on Iran. The crude surge lifted energy stocks in Europe and on Wall Street, with European shares supported by strong results and gains in Nestle after the Swiss company agreed to pay \$7.15 billion to Starbucks in a global coffee alliance.

15 May: Hard work to restore country's financial health, says Lim. Finance Minister-designate Lim Guan Eng said the Ministry needs to work hard to restore the financial health of the country. "It is indeed a heavy responsibility but we will make the effort because of the people's support. I promise and pledge to commit myself to fighting for the people in Penang and Malaysia every day," he said at a gathering, 'Sekalung Budi Membina Harapan' at Padang Kota here tonight.

22 May: Trump's demand that China cut its US trade deficit by \$200 billion defies the laws of economics. President Donald Trump's demand that China cut its trade deficit with the U.S. by \$200 billion in two years is tall order politically. It also defies the laws of economics. On Tuesday, the president walked back comments over the weekend from Treasury Secretary Steven Mnuchin essentially calling a "truce" in the emerging trade war with China.

29 May: 'Brexit is a disaster' – experts debate the latest economic data. The Office for National Statistics has now confirmed that GDP growth in the UK in the first quarter of 2018 was 0.1%. We have comparable data for 19 other EU countries, all of which – other than Romania – grew a lot faster. Austria grew at 0.7%, Belgium 0.4%, Denmark 0.3%, Finland 1.1%, France 0.3%, Germany 0.3%, Italy 0.3%, the Netherlands 0.5% and Spain 0.7%, many of which also had bad weather.

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