

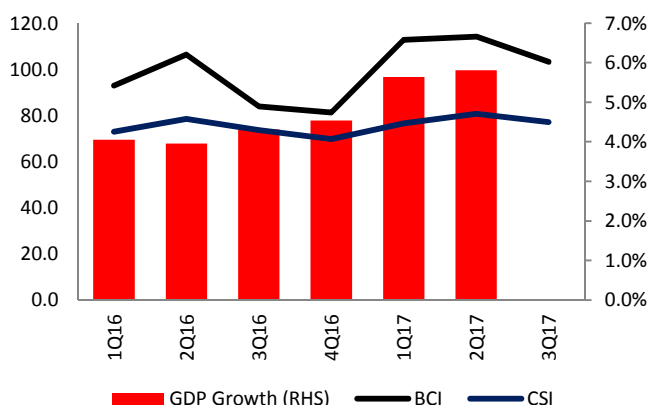
## MONTHLY ECONOMIC REVIEW | October 2017

### Business & Consumer Sentiment Eases in 3Q17 amid Upbeat Macroeconomic Performance

- *Expecting slight slowdown in economic growth for the third quarter of 2017. Based on the recently released MIER survey results, Business Condition Index and Consumer Sentiment Index showed slim downward trends in the third quarter as compared to previous quarters.*
- *Ensuring unity and economic growth, inclusive prudent spending, wellbeing of the Rakyat. Budget 2018 is viewed as expansionary in nature, aiming at supporting Malaysia’s economic growth and at the same time ensuring better and efficient income distribution to cater for specific target groups. In addition, the Government continues on consolidating its fiscal plan in order to achieve its balanced budget by 2020.*
- *Headline inflation up as expected. Headline inflation rose by 4.3% in September, at par with market expectations. So far, the average inflation rate for three quarters in 2017 is 4%, slightly above our yearly forecast of 3.8%. The recent uptick in overall prices was mainly driven by rise in fuel and transport prices.*

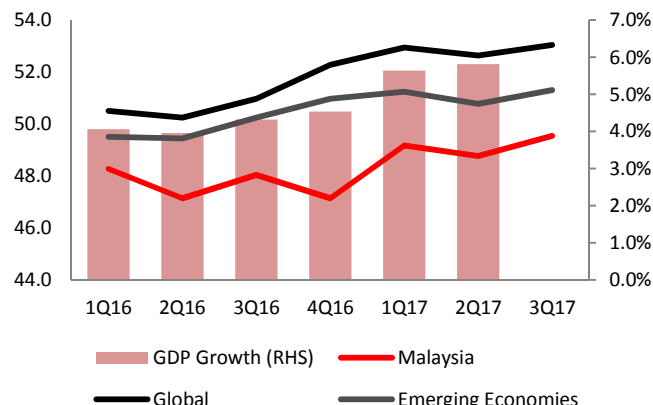
**Expecting slight slowdown in economic growth for the third quarter of 2017.** Based on the recently released MIER survey results, Business Condition Index and Consumer Sentiment Index showed slim downward trends in the third quarter as compared to previous quarters. BCI recorded at 103.1 points, slightly higher than 100-points of threshold line whereas CSI remains below the optimum line, 77.1 points in the quarter. On a flip side, average Malaysia’s Nikkei Manufacturing PMI for the quarter continues to hover below 50 points for ten consecutive quarters. Henceforth, we predict Malaysia’s GDP for the third quarter of 2017 to grow at a slower pace than the previous 2 quarters.

**Chart 1: GDP (YoY%) vs MIER Survey (Points)**



Source: MIER, MIDFR

**Chart 2: GDP (YoY%) vs Manufacturing PMI (Points)**



Source: Bloomberg, MIDFR

**Ensuring unity and economic growth, inclusive prudent spending, wellbeing of the Rakyat.** Budget 2018 is viewed as expansionary in nature, aiming at supporting Malaysia's economic growth and at the same time ensuring better and efficient income distribution to cater for specific target groups. In addition, the Government continues on consolidating its fiscal plan in order to achieve its balanced budget by 2020. We are positive that the budget would help stimulate domestic economy with various measures introduced. Combined with the improving external condition, the Government is expecting the economy to grow stronger next year, with a growth range of GDP between 5.0-5.5%.

**Towards a balanced budget in 2020.** The Government targets fiscal deficits in 2018 to hit -2.8%. Malaysia Government is still steadfast with the fiscal consolidation plan and our budget deficit has been in a gradual decline since 2009, from the height of 6.7% to a targeted 3.0% this year. It should be noted that as long as we are able to keep our fiscal deficit at less than 3.1% to GDP, we should not be seeing an increase in our debt to GDP level so long as there is no economic slowdown which caused the nominal GDP to grow less than 6.0%. Moving forward, the economic prospect should be getting brighter as the global economy should be in a much better position in 2020. Nevertheless, the prospect of achieving a balanced budget is indeed very challenging but probable.

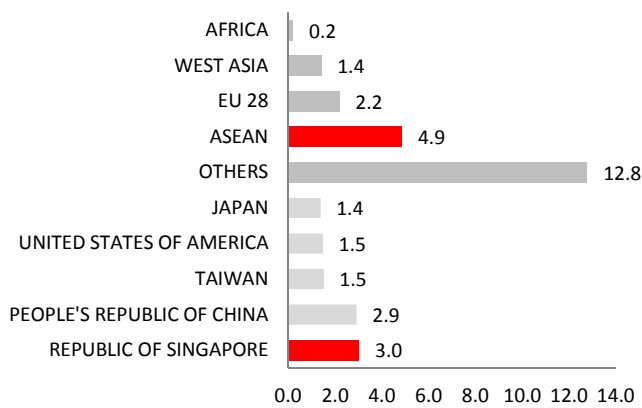
**Table 1: Federal Government Finance**

|                             | RM Million |          |                   |                   | YoY%  |       |                   |                   |
|-----------------------------|------------|----------|-------------------|-------------------|-------|-------|-------------------|-------------------|
|                             | 2015       | 2016     | 2017 <sup>e</sup> | 2018 <sup>f</sup> | 2015  | 2016  | 2017 <sup>e</sup> | 2018 <sup>f</sup> |
| Revenue                     | 219,089    | 212,421  | 225,337           | 239,860           | (0.7) | (3.0) | 6.1               | 6.4               |
| Total Expenditure           | 256,283    | 250,822  | 265,224           | 279,650           | (0.7) | (2.1) | 5.7               | 5.4               |
| Operating Expenditure       | 216,998    | 210,173  | 219,910           | 234,250           | (1.2) | (3.1) | 4.6               | 6.5               |
| Current Balance             | 2,092      | 2,248    | 5,427             | 5,610             | 71.3  | 7.5   | 141.4             | 3.4               |
| Net Development Expenditure | 39,285     | 40,649   | 45,314            | 45,400            | 3.2   | 3.5   | 11.5              | 0.2               |
| Overall Balance             | (37,194)   | (38,401) | (39,887)          | (39,790)          | (0.6) | 3.2   | 3.9               | (0.2)             |
| Overall Balance as % of GDP | -3.2%      | -3.1%    | -3.0%             | -2.8%             | N/A   | N/A   | N/A               | N/A               |

Source: MOF, MIDFR

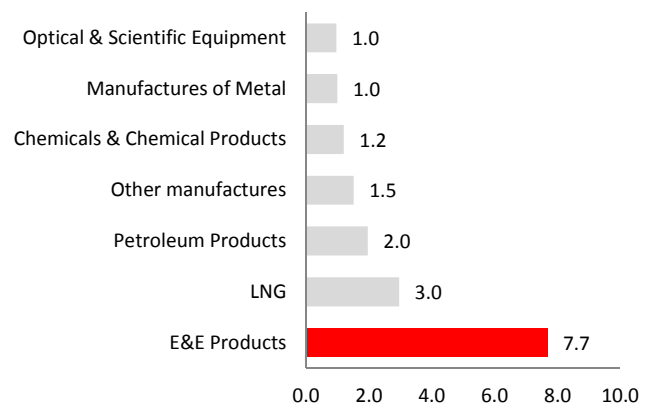
**Exports performance beat market expectations.** Exports expanded by 21.5%yoy in August, outpacing market expectations of 20%. It is the ninth consecutive months of double digit expansion in exports since December 2016. Imports grew 22.6%yoy in August, the first time outpacing exports growth in 3 months. Trade surplus widen close to RM10 billion, underpinned by strong exports sales and improving commodity prices. We view the continuous upbeat momentum in global as well as regional demands are still in play sustaining global trade activities to remain robust.

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



Source: DOSM, MIDFR

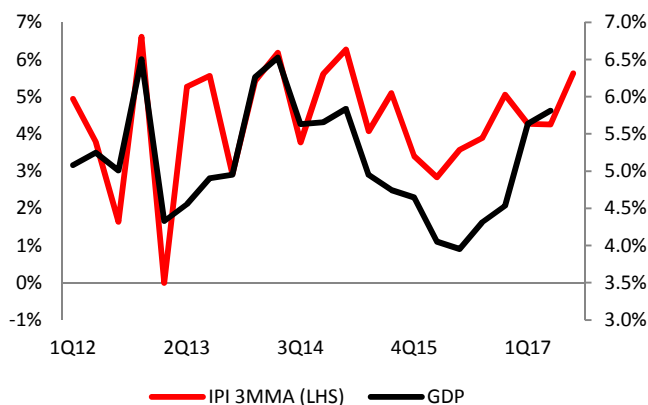
**Chart 4: % Contribution to Exports Growth by Products**



Source: DOSM, MIDFR

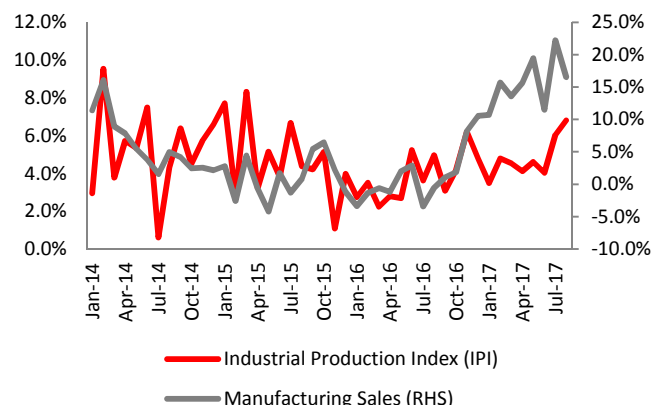
**IPI expanded above market expectations.** Malaysia's industrial production rose by 6.8%yoy in August 2017, beating market expectations of 5.8%. The soaring IPI growth was supported by surged in mining production by 5.4%yoy during the month. Plus, manufacturing and electricity productions grew at sustainable pace of 7.6%yoy and 3%yoy respectively. The upward trend in overall IPI performance is in tandem with upbeat performance of external trade activities which seen exports expanded by 21.5%yoy in August. The growth trend was also in line with the uptick manufacturing PMI figure in August which surpasses the 50 points expansion line. We opine continuous upbeat momentum in global demand remains as key driver in boosting up Malaysia's industrial activities.

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



Source: DOSM; MIDFR

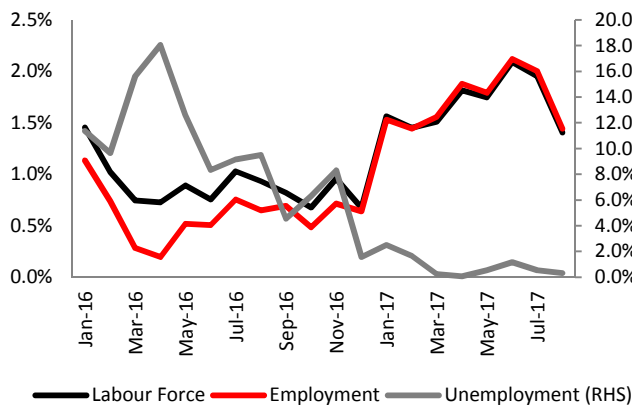
**Chart 6: IPI vs Manufacturing Sales (YoY%)**



Source: DOSM; MIDFR

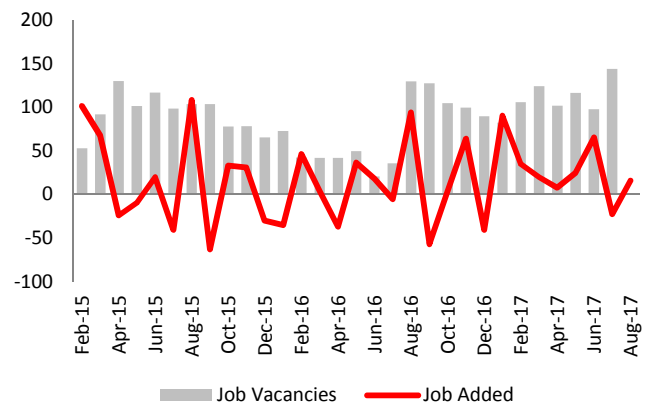
**Malaysia's jobless rate went down to 3.4%.** Better performance in the labour market was due to healthy expansions in both labour force and employment by 1.4%yoy accordingly. Plus, unemployed persons reduced from 519 thousands in July to 517 thousands in August. Moreover, labour force participation rate inched up to 67.8% and thus improved Malaysia's unemployment rate back to 3.4% in August. As domestic economic activities are on upbeat momentum, growths in both labour force and employment have been outpacing unemployment growth for six consecutive months since March 2017.

**Chart 7: Labour Market Key Indicators (YoY%)**



Source: DOSM; MIDFR

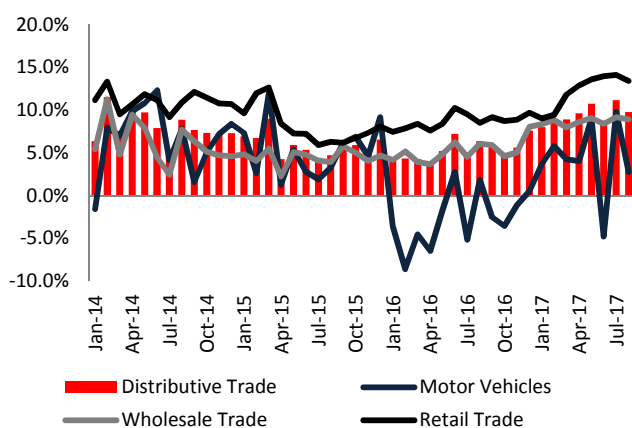
**Chart 8: Jobs Added vs Vacancies ('000)**



Source: DOSM; MIDFR

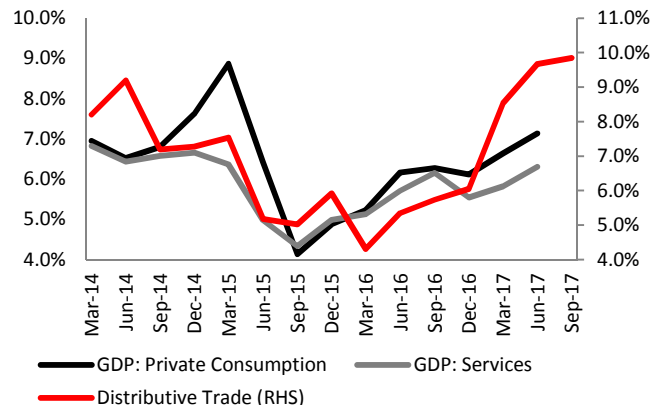
**Distributive trade sustains robust momentum.** Distributive trade rose strongly by 9.8%yoy in August 2017. The solid growth in distributive trade was contributed by continuous robust expansion in sales of wholesale trade and retail trade, grew by 8.9%yoy and 13.4%yoy respectively. However, sales of motor vehicles decelerate from 9.8%yoy in July to 2.8%yoy in August and indirectly drag down the overall sales growth of distributive trade. Apart from that, we notice uptick in inflation rate at 3.7%yoy possibly put trivial pressure on domestic spending during the month. Nevertheless, the latest distributive trade figures indicate that Malaysia's domestic demand remains on upbeat trajectory and we expect the trend will stay on until end of the year.

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



Source: DOSM, MIDFR

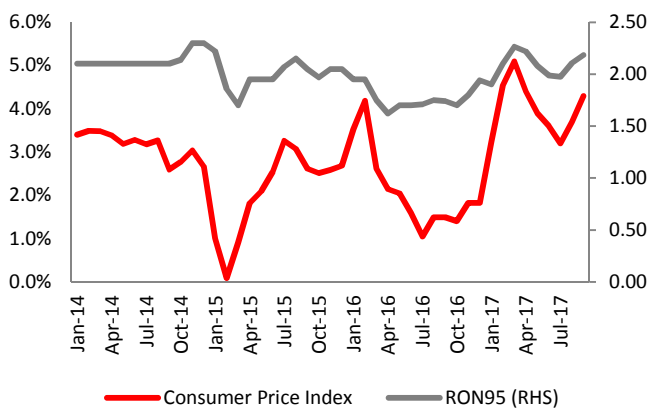
**Chart 10: DT vs Private Consumption vs Services (YoY%)**



Source: DOSM, MIDFR

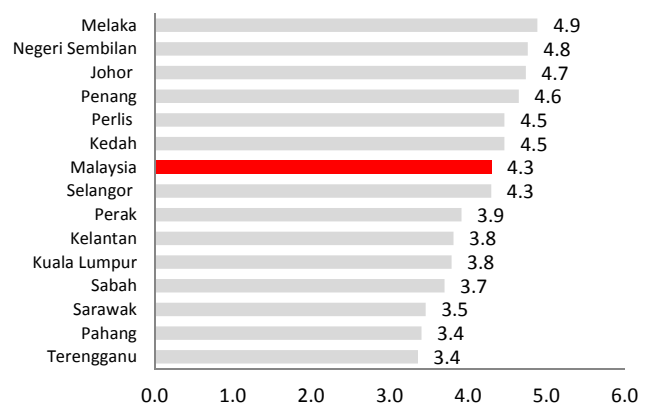
**Headline inflation up as expected.** Headline inflation rose by 4.3% in September, at par with market expectations. So far, the average inflation rate for three quarters in 2017 is 4%, slightly above our yearly forecast of 3.8%. The recent uptick in overall prices was mainly driven by rise in fuel and transport prices. Among others, increase in global commodity prices due to hurricane Harvey and Irma gave positive knock-on effects on Malaysia's overall prices especially fuel-related items. In spite of this, we view the shock in prices is only temporary. Core inflation stays at 2.4% similar to August's, lowest in eight months.

**Chart 11: CPI (YoY%) vs RON95 (RM per litre)**



Source: DOSM, MIDFR

**Chart 12: Inflation by States in September (YoY%)**



Source: DOSM, MIDFR

**Table 2: Macroeconomic Data Updates**

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

## October 2017 Key Economic Events

**1 Oct: Catalan government says 90 percent voted to leave Spain.** Catalonia's regional leader opened the door to a unilateral declaration of independence from Spain on Sunday after voters defied a violent police crackdown and, according to regional officials, voted 90 percent in favour of breaking away. Despite Spanish police using batons and rubber bullets to disrupt the banned referendum, which was declared unconstitutional by Madrid, the Catalan government said 2.26 million people had cast ballots, a turnout of about 42 percent.

**9 Oct: Hurricane Nate shuts down about 90% of Gulf of Mexico oil production.** Oil production slowed to a trickle in the Gulf of Mexico this weekend as energy companies turned off the taps and evacuated workers in preparation for Hurricane Nate. More than 92 percent of crude output was offline in the nation's offshore production hub as of Sunday morning, according to the U.S. Bureau of Safety and Environmental Enforcement. Energy companies also "shut in" nearly 78 percent of natural gas production, the bureau estimated, based on reports from companies.

**19 Oct: Xi's Grand Vision for China Prioritizes Party Power Over Reform.** President Xi Jinping laid out a sweeping vision to transform China into a strong global power while guaranteeing Communist Party rule for decades. Those looking for details on major economic reforms didn't find much. In a speech to party cadres that went on for more than three hours, Xi on Wednesday outlined a three-decade road map to entrench China's great power status. By 2050, Xi said the country would be a global leader in innovation, influence and military might.

**30 Oct: Malaysia Budget 2018: Why SMEs cannot afford to be left behind.** Prime Minister Datuk Seri Najib Tun Razak (pictured) has announced that a sum of RM280.25 billion will be allocated for the 2018 Budget, according to The Star. Moreover, RM83.5 million is being set aside to construct infrastructure for the first phase of the Digital Free Trade Zone (DFTZ) in Aeropolis, Kuala Lumpur International Airport (KLIA). In his Budget 2018 speech, Prime Minister Najib said that Malaysia will be the first country outside China to form a DFTZ comprising a logistic e-fulfilment hub, a satellite services hub and an e-service platform.

**5 Oct: World Bank raises Malaysia's GDP growth forecast.** The World Bank has revised Malaysia's 2017 gross domestic product (GDP) growth forecast upwards for the second time this year to 5.2%, primarily attributed to stronger investments and the recovery in world trade. In its latest October 2017 edition of the East Asia and Pacific Economic Update, the World Bank raised its GDP forecast from 4.9% in June as domestic economic activities accelerated by 5.7% year-on-year during the first half of 2017. Earlier in April this year, the institution had predicted the Malaysian economy to grow by 4.3% in 2017.

**16 Oct: Indonesia's central bank allows ringgit, baht in trade.** Indonesia's central bank said on Monday it will allow transaction settlement for bilateral trade between Indonesia, Malaysia and Thailand to be conducted in local currencies. The new regulation is aimed at reducing dependency on the US dollar and limiting exposure to volatile foreign exchange rates. The rule, which goes into effect on Jan. 2 next year, allows Indonesian exporters or importers to settle payments with their Malaysian or Thai counterparts using rupiah, ringgit or baht. The three currencies are among the most volatile in the region.

**20 Oct: China reports 6.8% third-quarter GDP growth, meeting expectations.** China reported third-quarter growth data Thursday that met expectations, but was a tad lower than the second quarter's 6.9 percent expansion. The country's National Bureau of Statistics said its third-quarter GDP growth was 6.8 percent compared to the same period last year, a day after President Xi Jinping made big promises for the country's economic future during a pivotal leadership meeting.

**31 Oct: Fraud losses in Malaysia reach almost RM5b, says Nur Jazlan.** Individuals lost RM4.92 billion to fraud in the Malaysia since 2013, according to Deputy Home Minister Datuk Nur Jazlan Mohamed. Between 2013 and Oct 11, 2017, a total of 2,590 complaints related to fraud were received, with more than 1.73 million individuals — locals and foreigners — who fell victim to scams, Nur Jazlan revealed in Parliament today. These fraud cases include online purchase frauds (e-commerce), 'African scam' (love scams), online gambling and investment scams (get-rich-quick schemes), he added.

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