

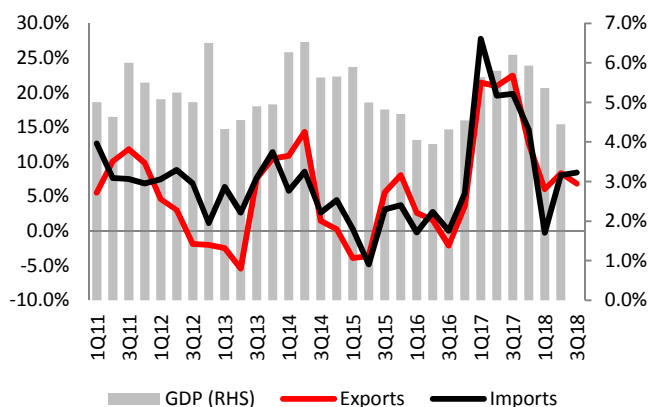
## MONTHLY ECONOMIC REVIEW | September 2018

### Macro Outlooks Remain Resilient Despite Uncertainty over Domestic Policies and Trade Tensions

- Exports growth at 6-month high. Exports expanded by 9.4%yoy in Jul-18 to a new high of RM86.1b, improved further from 7.6%yoy gain registered in the preceding month. The expansion was primarily driven by continuous growth in manufactured goods (12.6%yoy vs 12.7%yoy in Jun-18) and rebound in mining goods (7.1%yoy vs -10.9%yoy).
- Inflation tumbled to near 3-1/2 year low. Consumer price index increased 0.2%yoy in Aug-18, the lowest gain since Mar-15 and missing market expectations of 0.4%yoy. The inflation rate remains far below 1%yoy as it is the last month of the tax holiday period. Inflation of non-food went down to 2-year low of 0.2%yoy and those of food & non-alcoholic beverages continued to soften at 0.4%yoy.
- Overnight Policy Rate maintained at 3.25%. In line with our expectation, overnight policy rate is left unchanged at 3.25%. The decision is widely expected and timely as macroeconomic indicators are reflecting moderating signs. 2Q18 GDP growth registered at 4.5%yoy, weakest gain since 4Q16. In addition, we observe slight slowdown in external trade, industrial production and manufacturing sales performances in 1H18 as compared to previous year.

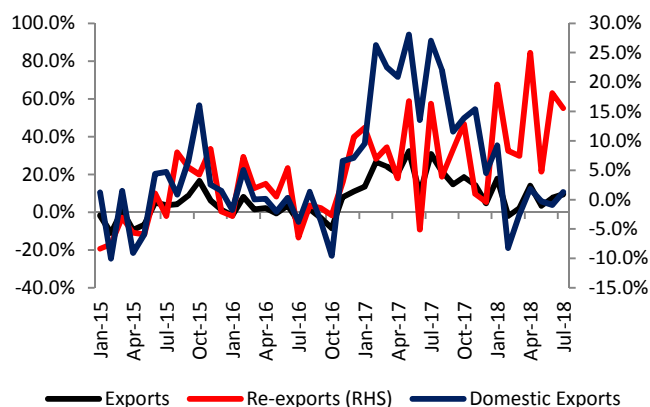
**Exports growth at 6-month high.** Exports expanded by 9.4%yoy in Jul-18 to a new high of RM86.1b, improved further from 7.6%yoy gain registered in the preceding month. The expansion was primarily driven by continuous growth in manufactured goods (12.6%yoy vs 12.7%yoy in Jun-18) and rebound in mining goods (7.1%yoy vs -10.9%yoy). In addition, lesser drop in agriculture goods (-14.5%yoy vs -18.7%yoy) also contributed to the performance. Meanwhile, imports growth moderated to 10.3%yoy in Jul-18 from 14.9%yoy registered in the prior month however still outperformed exports. Trade surplus recorded at RM8.3b, higher than RM6b posted in Jun-18. In upcoming month, we anticipate Malaysia’s exports to remain optimistic on the back of tax holiday period and stable retail fuel price. Nevertheless, concerns on global trade spat remained.

**Chart 1: External Trade vs GDP (YoY%)**



Source: CEIC; MIDFR

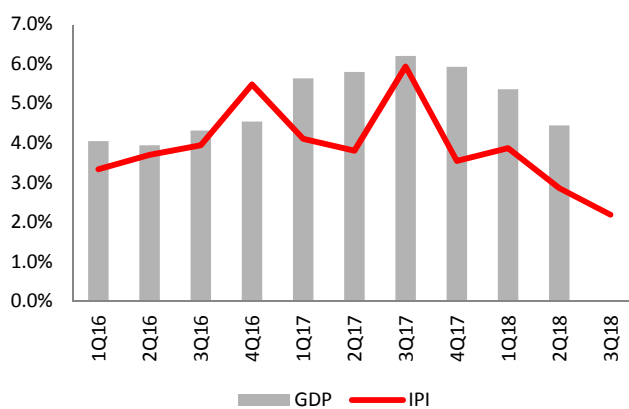
**Chart 2: Exports: Domestic vs Re-exports (YoY%)**



Source: CEIC; MIDFR

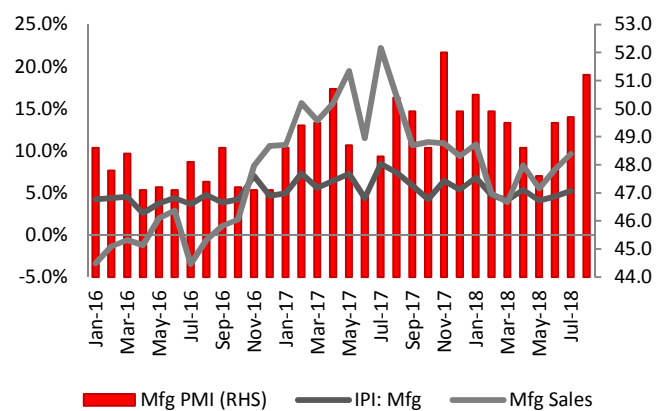
**IPI growth slightly above our estimate.** Malaysia's industrial production expands by 2.6%yoy in Jul-18, above our forecast of 2.5%yoy and beating market estimates of 1.4%yoy. By major components, manufacturing and electricity outputs up by 5.2%yoy and 4.5%yoy respectively while mining contracted sharply by -5.9%yoy. On monthly basis, all components expand at healthy pace during the month. Solid expansion in IPI performance is in tandem with the latest external trade and distributive trade performances. Moving forward, we foresee IPI performance to expand at steady pace for the second half of 2018 amid escalating trade tension, easing inflationary pressure and volatility risks in global commodity prices & currencies.

**Chart 3: IPI vs GDP (YoY%)**



Source: CEIC; MIDFR

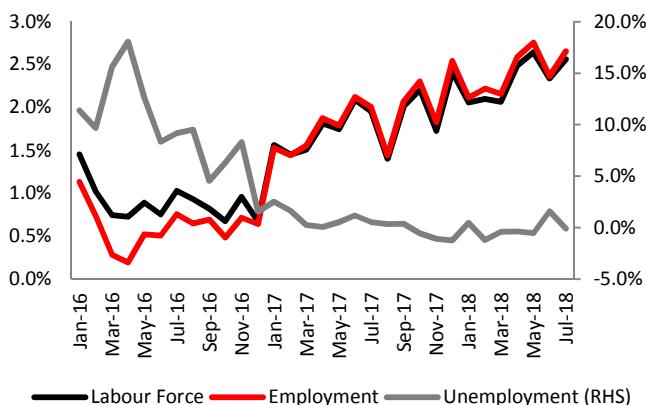
**Chart 4: Manufacturing IPI & Sales (YoY%) vs PMI (Points)**



Source: CEIC; MIDFR

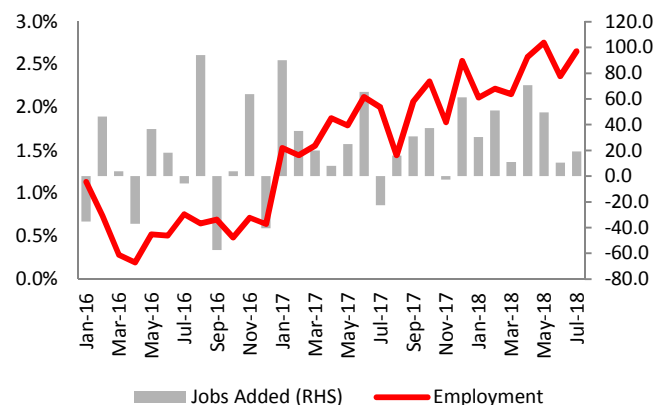
**Labour market remains strong.** Labour force expanded by 2.6%yoy to 15.4 million in Jul-18, better performance than the previous month. Similarly, labour force grew by 2.7%yoy to 14.9 million and jobs added in the economy registered at 19.2K during the month. Unemployment rate maintains at full-employment condition of 3.4%. In addition, unemployment and outside labour force reduced by -0.1%yoy and -1.5%yoy respectively. As both domestic and external economic activities are on upbeat momentum, growths in both labour force and employment have been outpacing unemployment growth for the last 17-month since Feb-17.

**Chart 5: Labour Market Key Indicators (YoY%)**



Source: CEIC; MIDFR

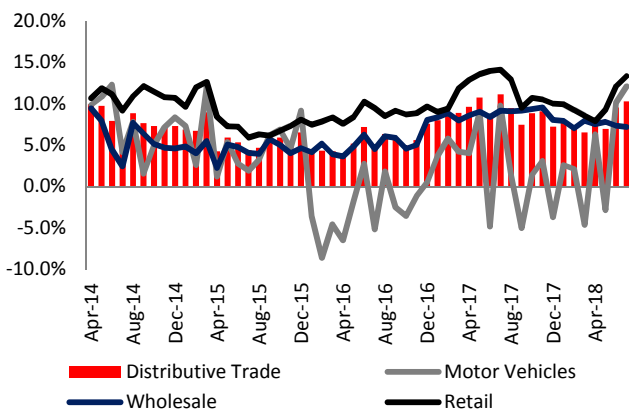
**Chart 6: Jobs Added ('000) vs Empl. (YoY%)**



Source: CEIC; MIDFR

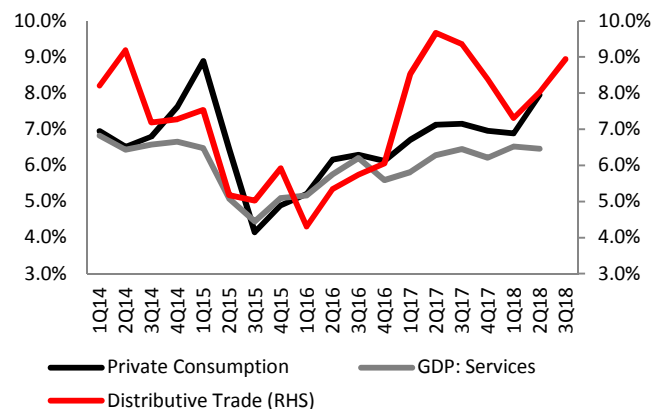
**Retail and motor vehicles sales at new record high.** Distributive trade rose by 10.3%yoy to a fresh record high of RM106.5b in Jul-18 as both retail and motor vehicles sales reached a new all-time high of RM43.4b and RM13.9b respectively. In addition, wholesale trade continued to expand by 7.2%yoy to RM49.2b. On monthly basis, both retail and motor vehicles sales grew by 1.7%mom and 6.5%mom respectively while wholesale trade dipped further by 2.5%mom. As anticipated, consumers continued to spend especially on big-ticket items such as motor vehicles in order to reap benefits of the 3-month tax holiday period started on 1<sup>st</sup> June. Looking ahead, we foresee distributive trade to keep increasing significantly in upcoming month as consumers will opt to fully utilize the last month of tax holiday period.

**Chart 7: Distributive Trade, DT (YoY%)**



Source: CEIC, MIDFR

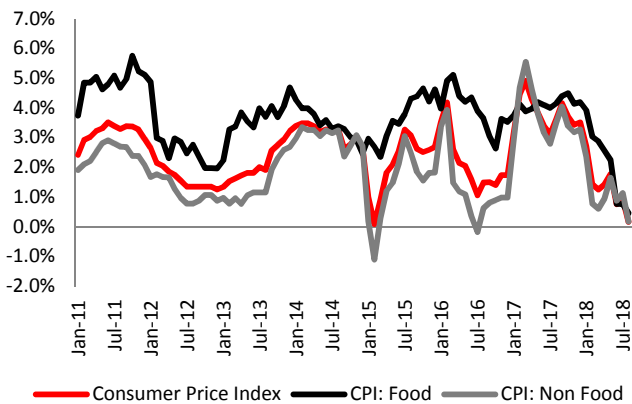
**Chart 8: DT vs GDP Selected Components (YoY%)**



Source: CEIC, MIDFR

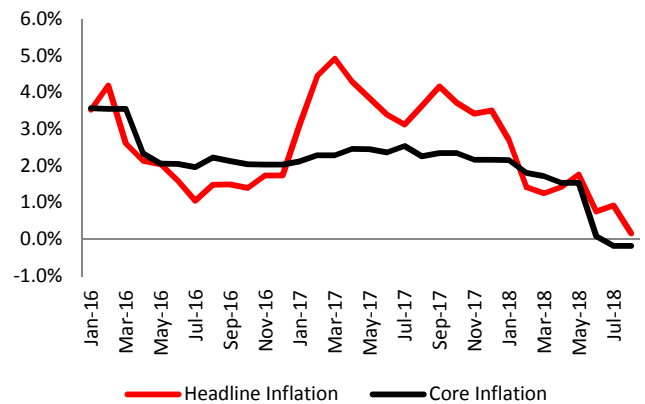
**Inflation tumbled to near 3-1/2 year low.** Consumer price index increased 0.2%yoy in Aug-18, the lowest gain since Mar-15 and missing market expectations of 0.4%yoy. The inflation rate remains far below 1%yoy as it is the last month of the tax holiday period. Inflation of non-food went down to 2-year low of 0.2%yoy and those of food & non-alcoholic beverages continued to soften at 0.4%yoy. The lower-than-expected figure was mainly driven by a large slowdown in transport inflation which recorded at 2.1%yoy compared to 6.7%yoy in Jul-18. Meanwhile, core inflation maintained at deflationary level of 0.2%yoy as in the preceding month. Malaysia's inflation is expected to inch up in upcoming month buoyed by the reintroduction of SST in Sep-18.

**Chart 9: CPI: Headline vs Food & Non-food (YoY%)**



Source: CEIC, MIDFR

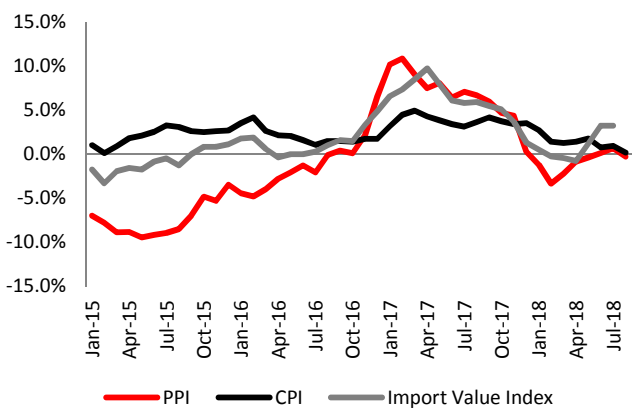
**Chart 10: CPI: Headline vs Core (YoY%)**



Source: CEIC, MIDFR

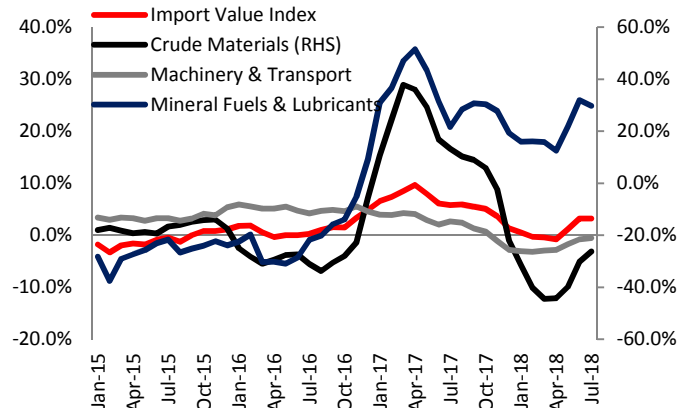
**PPI dipped by -0.3%yoy after 2-consecutive months of modest expansion.** Malaysia's producer inflation contracted by -0.3%yoy in Aug-18. The largest pulling factor is declining in manufacturing input prices of -1.7% and followed by agriculture input prices of -13.2%yoy. Manufacturing and agriculture sectors hold weightage size of 81.6% and 6.7% of total PPI basket. On the other hand, mining input prices remain strong, surging by 28.6%yoy, recording 5-consecutive months of double digit rate since Apr-18. In upcoming month, we foresee overall PPI will rise modestly underpinned by strong pick-up in global crude oil prices and implementation of SST.

**Chart 11: PPI vs CPI vs Import Unit Value Index (YoY%)**



Source: CEIC, MIDFR

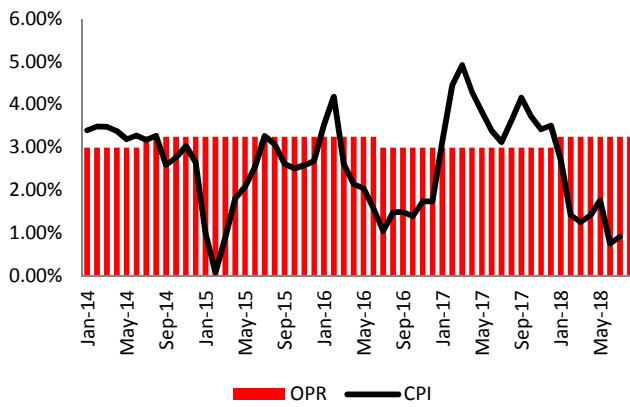
**Chart 12: IUVI by Major Component (YoY%)**



Source: CEIC, MIDFR

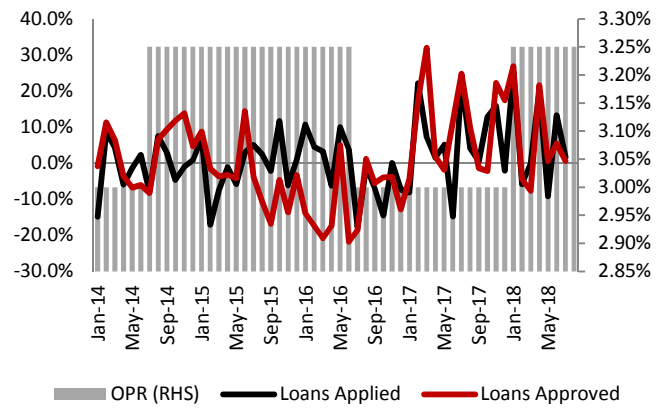
**Overnight Policy Rate maintained at 3.25%.** In line with our expectation, overnight policy rate is left unchanged at 3.25%. The decision is widely expected and timely as macroeconomic indicators are reflecting moderating signs. 2Q18 GDP growth registered at 4.5%yoy, weakest gain since 4Q16. In addition, we observe slight slowdown in external trade, industrial production and manufacturing sales performances in 1H18 as compared to previous year. Nevertheless, we expect GDP growth to remain solid this year, supported with robust domestic spending, continuous pick-up in global commodity prices, steady business confidence, stable labour market and moderating inflationary pressure. We estimate GDP growth for 2018 at 5.2%.

**Chart 13: OPR (%) vs CPI (YoY%)**



Source: CEIC, MIDFR

**Chart 14: OPR (%) vs Loans Growth (YoY%)**



Source: CEIC, MIDFR

**Table 1: Macroeconomic Data Updates**

<b>(YoY%) Unless Stated Otherwise</b>	<b>2016</b>	<b>2017</b>	<b>2018<sup>f</sup></b>	<b>1Q18</b>	<b>2Q18</b>	<b>3Q18<sup>f</sup></b>	<b>4Q18<sup>f</sup></b>
Real GDP	4.2	5.9	5.1	5.4	4.5	5.2	5.4
Private Consumption	6.0	7.0	7.2	6.9	8.0	7.1	6.9
Public Consumption	0.9	5.4	1.5	0.4	3.1	(1.5)	3.2
Gross Fixed Capital Formation	2.7	6.2	0.5	0.1	2.2	(1.7)	1.5
Exports of goods & services	1.3	9.4	3.0	3.7	2.0	2.3	4.0
Imports of goods & services	1.3	10.9	2.0	(2.0)	2.1	3.2	4.6
Net Exports	92.8	91.0	101.3	29.5	21.3	25.3	25.2
Agriculture etc.	(5.2)	7.2	0.5	2.8	(2.5)	3.6	(1.8)
Mining & Quarrying	2.1	1.0	1.0	0.1	(2.2)	2.5	3.5
Manufacturing	4.4	6.0	5.1	5.4	4.9	4.9	5.0
Construction	7.4	6.7	4.0	4.9	4.7	1.3	5.2
Services	5.7	6.2	6.5	6.5	6.5	6.4	6.7
Exports of Goods (f.o.b)	1.1	14.5	9.3	6.0	8.4	15.0	7.9
Imports of Goods (c.i.f)	1.9	15.5	8.2	(0.3)	8.1	16.0	8.0
Trade Balance - RMb	87.2	97.5	119.9	33.4	27.2	35.0	24.3
Consumer Price Index	2.1	3.8	1.3	1.8	1.3	1.0	1.1
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	6.3	9.9		-	-	-	-
<b>End of Unless States Otherwise</b>	<b>2016</b>	<b>2017</b>	<b>2018<sup>f</sup></b>	<b>1Q18</b>	<b>2Q18</b>	<b>3Q18</b>	<b>4Q18<sup>f</sup></b>
Brent Crude Oil (Avg)	46.0	55.7	70.0	67.3	75.1	76.1	
Crude Palm Oil (Avg)	2,677	2,733	2,400	2,480	2,350	2,150	
USD/MYR (Avg)	4.15	4.30	4.00	3.92	3.95	4.10	
USD/MYR	4.48	4.15	3.95	-	-	-	-
Yield on generic 10-year MGS (%)	3.85	4.00	4.10	-	-	-	-
3-month KLIBOR (%)	3.54	3.43	3.60	-	-	-	-
Overnight Policy Rate (%)	3.00	3.00	3.25	3.25	3.25	3.25	3.25

Source: MIDFR

## September 2018 Key Economic Events

**1 Sep: SST to be implemented on Sept 1 after five Bills to abolish GST passed in Senate.** Dewan Negara has passed five Bills to abolish the Goods and Services Tax (GST) to pave the way for the implementation of the Sales and Service Tax (SST) on Sept 1. The Sales Tax Bill, Service Tax Bill, Goods and Services Tax (Repeal) Bill, Customs (Amendment) Bill and Free Zones (Amendment) Bill were passed without much objection from Opposition senators. Despite fears that Barisan Nasional senators would block the Bills, they sailed through the Dewan Negara after seven hours of debates.

**13 Sep: Super Typhoon Mangkhut: Hong Kong ramps up preparations, with clearer picture of storm's direction possible by Friday.** As of Thursday night, forecasters in the city and around the region were watching the storm's every change of direction for signs of the impact it might have. For Hong Kong, much depended on how Mangkhut made its way across the Philippines and its most populous island, Luzon.

**22 Sep: PKR elections begin Saturday (Sept 22).** The elections for various posts in PKR began Saturday (Sept 22), with members in Kedah and Penang being the first to go to the polls as early as 9am. The focus will definitely be on the post of deputy president after Datuk Seri Anwar Ibrahim was returned unopposed as president on Aug 5. The contest for the post of deputy president is a straight fight between Gombak MP and Economic Affairs Minister Datuk Seri Mohamed Azmin Ali and former Pandan MP Rafizi Ramli.

**27 Sep: US gasoline prices at seasonal 4-yr high ahead of midterm elections.** US gasoline prices are sitting at four-year seasonal highs headed into the November midterm elections, even as President Donald Trump has called repeatedly for OPEC to push prices lower. While gasoline prices typically drop following peak summer demand season, they have not fallen as fast as expected, said Jeanette Casselano, spokeswoman for the American Automobile Association.

**5 Sep: BNM maintains OPR at 3.25%.** Bank Negara Malaysia has maintained the overnight policy rate (OPR) at 3.25%. Following its monetary policy meeting today, the central bank said the current level of the OPR is consistent with the intended policy stance. "The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation," it said. Bank Negara said supply disruption in the mining and agriculture sectors led to more moderate growth the second quarter of 2018.

**18 Sep: Trump hits China with \$200bn of new tariffs as trade war escalates.** Donald Trump has intensified his trade war with China by imposing new tariffs of \$200bn on Chinese goods arriving in the US from next week. The US president announced the tariffs in a statement, saying: "If China takes retaliatory action against our farmers or other industries, we will immediately pursue phase three, which is tariffs on approximately \$267bn of additional imports."

**26 Sep: Fed raises interest rates and signals its 'accommodative' era is over.** The Federal Reserve announced Wednesday, after a two-day policy meeting, that it would raise interest rates for the third time this year. The decision, which had been widely expected, raised the federal funds rate by 25 basis points, to a range of 2% to 2.25%. It was the eighth time the Federal Open Market Committee has raised borrowing costs since late 2015. It held rates near zero after the Great Recession to speed up the economic recovery.

**29 Sep: Dr M addresses UN General Assembly.** Prime Minister Tun Dr Mahathir Mohamad addressed the UN General Assembly here on Friday (Sept 28) for the first time since he re-assumed the premiership following the May 9 general election.

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