

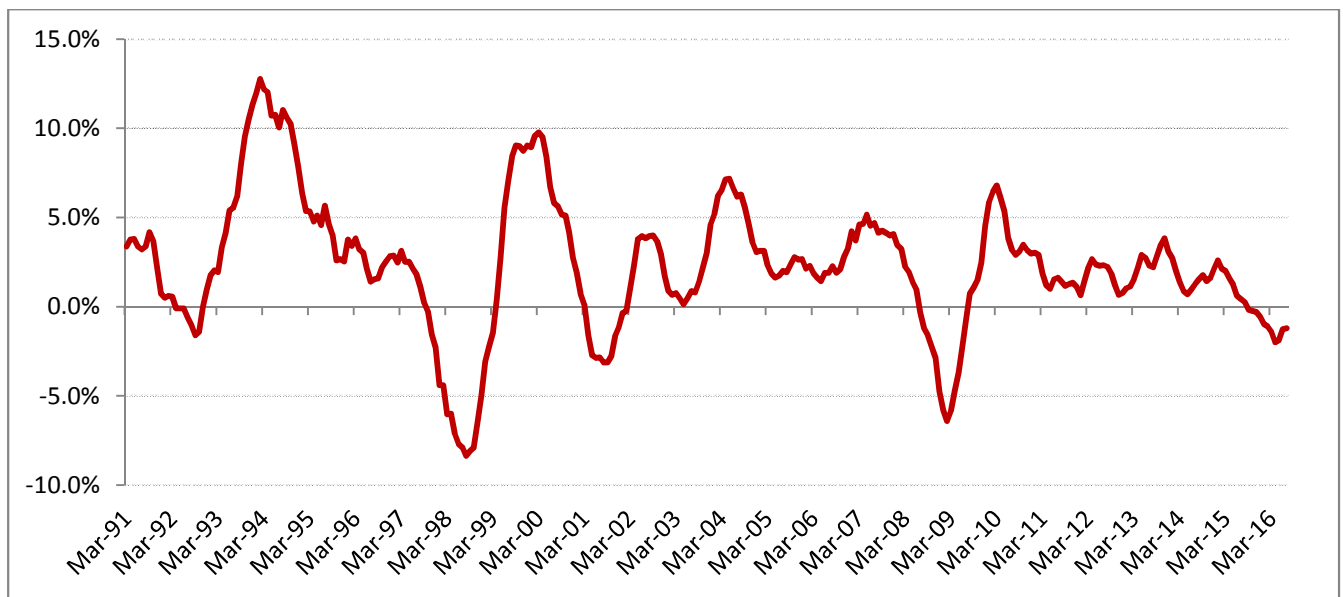
**MONTHLY ECONOMIC REVIEW | September 2016****Malaysia Economy Makes a Comeback in September**

- *After the unexpectedly disappointing numbers in July, exports are now back into positive growth in August with 1.5%yoy, as compared to the decline by 4.6%yoy in July. Due to the high base effect from last year, we may see moderation in the exports performance in the coming months. Despite that, we are optimistic with next year's exports performance, in which we are expecting a 3.5%yoy growth in 2017.*
- *Malaysia leading indicator fell in July, contracting by 2.5%yoy after two-consecutive months of positive improvement by -0.8%yoy and -0.3%yoy in May and June respectively. Despite that, the 3-month moving average was still slightly better, indicating that we could expect a slightly better performance in the coming quarters for the GDP. As such, we are maintaining our GDP forecast at 4.1%yoy in 3Q16 and 4.0%yoy for the whole of 2016.*
- *At the moment, we are maintaining our expectation that there will be another one rate cut by BNM this year, leading the benchmark interest rate to 2.75% by year-end 2016. Despite our optimistic economic outlook for the external factors, the lagged impact of the slowdown in global trade activity since early this year has recently affected the domestic economy, and is likely to continue until first half of 2017. As such, we opine that BNM will take measures to support the domestic economy by conducting easing monetary policy in the coming MPC meeting.*

**Exports rebound into positive growth in August.** After the unexpectedly disappointing numbers in July, exports are now back into positive growth with 1.5%yoy in August, as compared to the decline by 4.6%yoy in July. We have expected the comeback in August, though we cannot help but to worry with the incoming month data. It should be noted that last year, plausibly due to the depreciation of Ringgit there had been surge in exports volume, helping our exports performance despite the continuous decline of the oil price. However, due to the high base effect, we may see moderation in the exports performance in the coming months. Despite that, we are optimistic with next year's exports performance, in which we are expecting a 3.5%yoy growth.

**August inflation marched higher than market consensus, prices gained 1.5% vs 1.3% expectation.** Inflation in August rebounded to 1.5%, ending the stretch of moderating inflation for five straights which began in February this year. The reading this month came in slightly higher than the consensus and our expectation at 1.3% as non-food item particularly cultural services saw inflation surging from a mere 1.0%yoy in July to 6.1%yoy in August. Inflation in food item decreases to 3.5% from 3.8% from July which reflects less pressure on supply while deflation in transport component narrows sharply during the month from 9.9%yoy to 6.7%.


**Chart 1: Malaysia Leading Indicator (3-Month Moving Average)**



Source: DoS, CEIC, MIDF Research

**Malaysia 3Q16 GDP is expected to rebound higher to 4.1% as compared to 4.0% in 2Q16.** Malaysia leading indicator fell in July, contracting by 2.5%yoy after two-consecutive months of positive improvement by -0.8%yoy and -0.3%yoy in May and June respectively. Despite that, the 3-month moving average was still slightly better, indicating that we could expect a slightly better performance in the coming quarters for the GDP. As such, we are maintaining our GDP forecast at 4.1%yoy in 3Q16 and 4.0%yoy for the whole of 2016.

**We are maintaining our expectation of another one rate cut this year.** At the moment, we are maintaining our expectation that there will be another one rate cut by BNM this year, leading the benchmark interest rate to 2.75% by year-end 2016. Despite our optimistic economic outlook for the external factors, the lagged impact of the slowdown in global trade activity since early this year has recently affected the domestic economy, and is likely to continue until first half of 2017. As such, we opine that BNM will take measures to support the domestic economy by conducting easing monetary policy in the coming MPC meeting.

**OPEC agrees on oil output cut at Algiers meeting.** Some of the world's biggest oil producers have agreed to cut production for the first time in eight years on the 29<sup>th</sup> September, sending crude prices higher by more than 6 per cent and sparking big gains for energy stocks. After more than four hours of talks in Algeria on Wednesday OPEC committed itself to reducing output to between 32.5m barrels a day and 33m b/d, according to ministers. The OPEC push marks the first co-ordinated action to bolster crude prices that have battered the finances of producer economies since the oil collapse began two years ago. The last time the cartel cut production was during the financial crisis in 2008. While the news have been positive to the oil prices, we believe the gain could be offset in the long-term as other producers in the world particularly from the US to start pumping more to fill the gap left by OPEC. 

<b>(YoY%) unless stated otherwise</b>	<b>2014</b>	<b>2015</b>	<b>2016f</b>	<b>1Q16</b>	<b>2Q16f</b>	<b>3Q16f</b>	<b>4Q16</b>
Real GDP	6.0	5.0	4.0	4.2	3.9	4.1	3.9
Private consumption expenditure	7.1	5.5	4.5	5.3	5.0	4.8	2.7
Government expenditure	4.4	4.7	4.5	3.8	3.3	4.2	6.6
Gross fixed capital formation	4.8	3.4	0.2	0.1	4.7	-0.3	-3.6
Exports of goods and services	5.1	0.6	-1.8	-0.5	1.3	-3.6	-4.6
Imports of goods and services	4.2	1.2	-2.0	1.3	2.2	-4.6	-6.7
Net exports	12.8	-3.3	-0.5	-12.4	-5.5	3.6	12.2
Nominal GDP	8.6	4.5	4.1	4.7	4.4	4.3	4.2
Exports of Goods (f.o.b)	6.3	1.9	-0.5	2.2	-1.6	-2.3	0.9
Imports of Goods (c.i.f)	5.3	0.4	1.3	2.3	0.6	1.7	3.1
Trade Balance – RMb	82.5	94.3	81.9	23.9	16.4	14.4	27.1
Consumer price index	3.2	2.2	2.6	3.4	2.0	2.3	2.4
Current account – RMb	47.3	34.0	25.0	-	-	-	-
Current account - % of GNI	4.8	2.8	2.5	-	-	-	-
Fiscal balance - % of GDP	-3.5	-3.2	-3.1	-	-	-	-
Federal government debt - % of GDP	52.7	54.3	53.8	-	-	-	-
	<b>2014</b>	<b>2015</b>	<b>2016f</b>	<b>1Q16</b>	<b>2Q16f</b>	<b>3Q16f</b>	<b>4Q16</b>
Brent Crude Oil (Avg)	99.4	53.6	45.0	-	-	-	-
Crude Palm Oil (Avg)	2,415	2,168	2,450	-	-	-	-
USD/MYR (Avg)	3.273	3.907	4.050	-	-	-	-
EUR/MYR (Avg)	4.347	4.336	4.400	-	-	-	-
JPY/MYR (Avg)	3.096	3.228	3.500	-	-	-	-
SGD/MYR (Avg)	2.583	2.840	2.950	-	-	-	-
Brent Crude Oil (End of)	57.3	37.3	50.0	39.0	49.0	50.0	50.0
Crude Palm Oil (End of)	2,297	2,200	2,500	2,600	2,378	2,500	2,500
USD/MYR (End of)	3.497	4.294	4.100	3.900	4.000	3.970	3.950
EUR/MYR (End of)	4.251	4.691	4.300	4.446	4.500	4.400	4.300
JPY/MYR (End of)	2.922	3.572	4.000	3.464	3.970	4.000	4.000
SGD/MYR (End of)	2.647	3.040	2.950	2.895	3.000	2.950	2.950
Yield on generic 10-year MGS (%)	4.15	4.19	3.65	3.77	3.85	3.70	3.65
3-month KLIBOR (%)	3.86	3.84	3.20	3.71	3.65	3.40	3.20
Overnight policy rate (%)	3.25	3.25	3.00	3.25	3.25	3.00	3.00

## September 2016 Key Economic Events

**15 September: Thailand's Benchmark Interest Rate Left Unchanged as Widely Expected.** The central bank Monetary Policy Committee (MPC) yesterday decided unanimously to keep the benchmark rate unchanged following a steady recovery on its economy. Thailand's 2Q16 GDP grew at the fastest pace in 13 months at 3.5%yoy following a 3.2%yoy in the previous quarter. Private consumption has also gained momentum, expanding at the fastest pace in more than 3 years at 3.8%yoy in the 2Q16.

**21 September: The Fed left interest rate unchanged.** The Fed decided to maintain the benchmark interest rate at 0.5% in September but possibly pointing towards a December move. The decision met our expectation and traders but it is interesting to note that three of the 10 member-policy-making committees have voted for an increase in the interest rates. The three were Esther L George, Loretta J. Mester and Eric S. Rosengren whose statements in recent months have been suggesting that the Fed need to act faster on raising the interest rate. Fed dials down on 2016 projection and long-run economic growth. The Committee toned down its forecast for economic growth in 2016 for the third time this year to 1.8%.

**27 September: Malaysia Unemployment Rate Rose to 3.5% in July.** The unemployment rate rose by 0.1% to 3.5% in July. It was the highest jobless rate since June 2010. 516.2 thousand people were unemployed compared to 501.8 thousand people in the month before while employed persons stood at 14,212.8 thousand, down from 14,218.4 thousands in June.

**29 September: OPEC agrees on oil output cut at Algiers meeting.** Some of the world's biggest oil producers have agreed to cut production for the first time in eight years, sending crude prices higher by more than 6 per cent and sparking big gains for energy stocks. After more than four hours of talks in Algeria on Wednesday Opec committed itself to reducing output to between 32.5m barrels a day and 33m b/d, according to ministers.

**19 September: China's Failing Property Curbs Risk Bubble That May Hurt Economy.** China's attempts to slow runaway home-price growth in major cities are showing little sign of success, stoking the threat of a housing bubble that could destabilize the economy. New home prices rose the most in six years in August, jumping 1.2 percent from July, according to Bloomberg calculations based on government data. Home prices rose in 64 of 70 cities tracked by the government, up from 51 the previous month.

**22 September: Indonesia cuts interest rate to 5%, as inflation stays low.** Indonesia's central bank slashed interest rates by another 25 basis points to 5.0% on Thursday, a day after the U.S. Federal Reserve said it would leave its reference rate unchanged. Bank Indonesia announced the cut for its seven-day reverse repurchase rate, introduced in August as a new policy rate, as credit growth has been slower than expected. It is the bank's fifth cut this year. Bank Indonesia also cut the deposit facility rate and the lending facility rate by 25 basis points each, to 4.25% and 5.75%, respectively. Martowardojo said monetary easing may continue through early 2017.

**28 September: WTO cuts 2016 world trade growth forecast to 1.7%.** The figure should be a wake-up call for governments after the World Trade Organization cut its forecast for global trade growth this year by more than a third. The new figure of 1.7%, down from the WTO's previous estimate of 2.8% in April, marked the first time in 15 years international commerce was seen lagging behind the growth of the world economy.

**29 September: Falling long rates put BOJ on the spot.** Japanese long-term interest rates continue to sink into negative territory after the Bank of Japan said last week that it aims to keep them around zero, raising the question of if and when the central bank will act to halt the slide. The benchmark yield on newly issued 10-year Japanese government bonds dropped 1 basis point Wednesday to minus 0.09% -- the lowest since Aug. 24. BOJ watchers envision two potential responses: reducing JGB purchases to create upward pressure on rates, or setting a lower bound on yields at which it buys.

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