

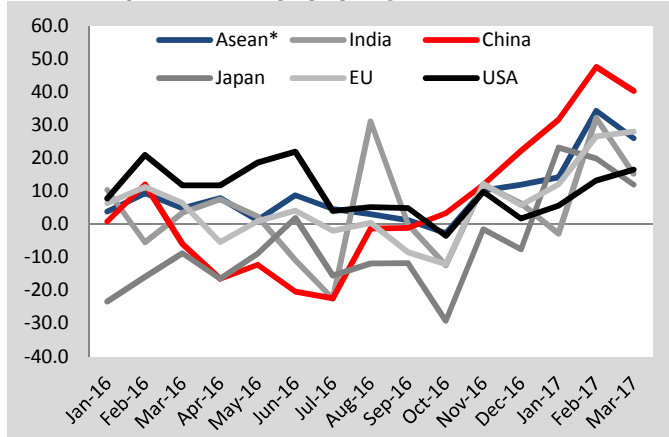
MONTHLY ECONOMIC REVIEW | April 2017**OPR to Maintain at 3% Amid Strong Headline Inflation and Solid External Trade Performance**

- *Exports continued to expand by double-digit growth in March. For the first time, exports value reached the highest value ever recorded at RM82.6 billion. Exports grew by 24.1%yoy, slightly higher than our forecast for March 2017, 23.4%yoy. Since December 2016, exports have been registering double-digit growth on year-on-year basis.*
- *Inflation surged in March to 5.1%. Headline inflation rate was recorded at 5.1% in March. The last time inflation rate reached above 5% was back in November 2008 with 5.7%. Elevated pump price contributed to the surge in inflation while low base accentuated the effect.*
- *Our OPR forecast for 2017 remain unchanged at 3.00%. Despite rise in headline inflation, we are in the opinion that Bank Negara would not conduct a rate hike unless core inflation breached above 3.0% in any quarter as well GDP grow above 5.5% simultaneously during the period.*

Exports continued to expand by double-digit growth in March. For the first time, exports value reached the highest value ever recorded at RM82.6 billion. Exports grew by 24.1%yoy, slightly higher than our forecast for March 2017, 23.4%yoy. Since December 2016, exports have been registering double-digit growth on year-on-year basis. On monthly seasonally adjusted basis, both exports and imports presented positive growth rate, 15.1% and 0.1% respectively. As imports grew faster than exports, trade balance shrank to RM5.4 billion.

Exports growth to major destinations expanded by double-digit. By country, Singapore and China collectively contributed 8.3% to total exports growth of 24.1%yoy recorded in March. Regionally, Asean and EU contributed 2.8% and 7.2% of total export growth in March respectively. Exports to major destinations have rebounded since second half of 2016. Thanks to firmer global commodities prices. The increase in the global commodities prices has contributed towards improvement in Malaysia's external trade performance especially in the commodity-based exports products.

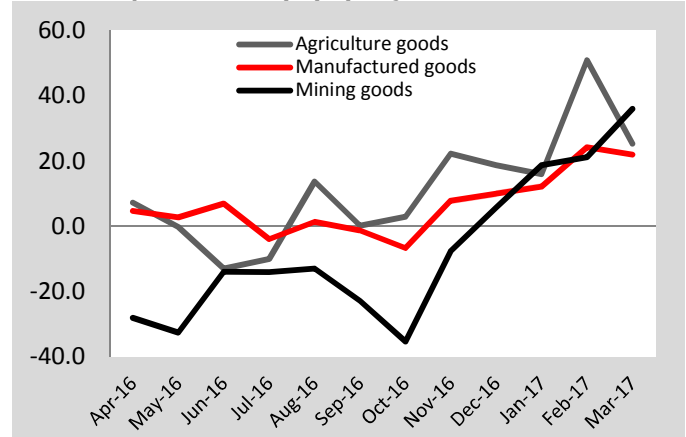
Chart 1: Exports Growth (%) by Major Destinations



Source: DOSM; MIDFR

*Referring to Indonesia, Singapore, Philippines, Thailand & Vietnam

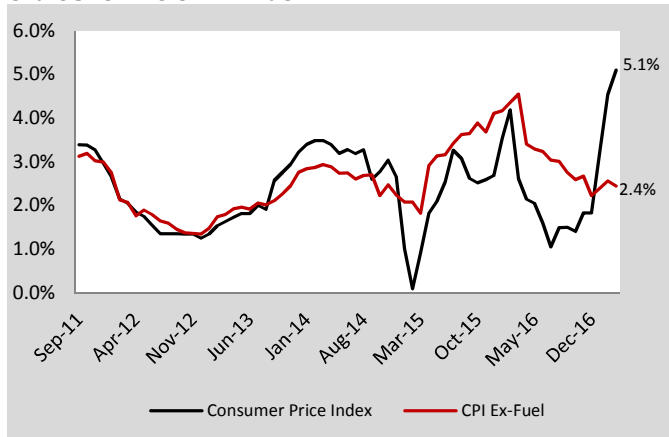
Chart 2: Exports Growth (%) by Major Sectors



Source: DOSM; MIDFR

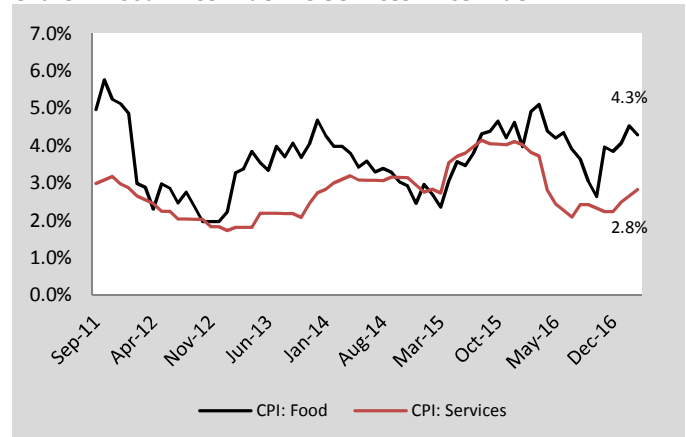
Inflation surged in March to 5.1%. Headline inflation rate was recorded at 5.1% in March. The last time inflation rate reached above 5% was back in November 2008 with 5.7%. Elevated pump price contributed to the surge in inflation while low base accentuated the effect. Core inflation maintained at 2.5%, unchanged from February. Food inflation moderated to 4.1% from 4.3% while non-food inflation rose to 5.6% from 4.7% during the month. Transport prices continued to grow at rapid pace – surging by 23.0% as fuels & lubricant items prices were up by more than 40%, compared to the year earlier. We note the lower base accentuated the inflation rate as on average, consumer items price decline on month-on-month basis.

Chart 3: CPI vs CPI Ex-Fuel



Source: DOSM; MIDFR

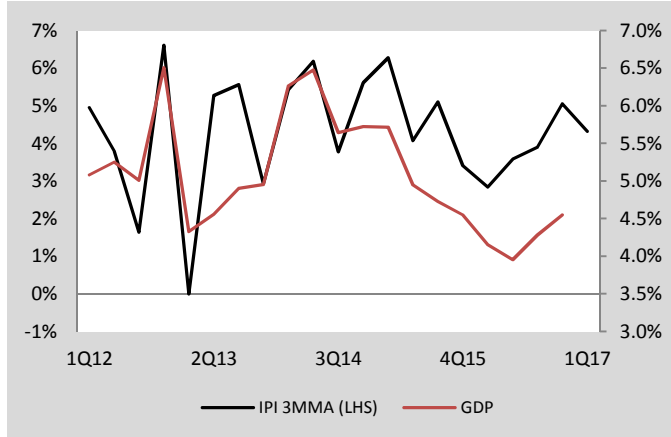
Chart 4: Food Price Index vs Services Price Index



Source: DOSM; MIDFR

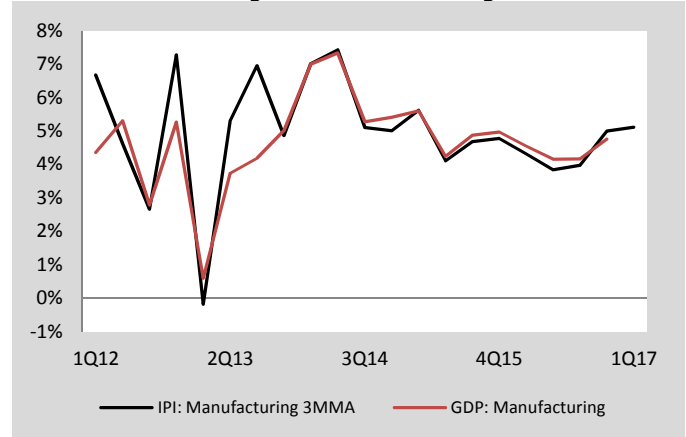
February factory output accelerated to 4.7% - backed by strong manufacturing activity. Industrial output in February rose by 4.7%yoy better than corresponding period last year of 3.8%. Manufacturing production is the main contributor by expanding at 6.5% and followed by electricity and mining at 1.5% and 0.4% respectively. Despite slowdown in electricity and mining productions, overall industrial production performance reflects modest recovery in the overall economy. With commendable performance in IPI, we believe 2017 GDP growth is on course to achieve 4.9% this year.

Chart 5: IPI vs GDP



Source: DOSM; MIDFR

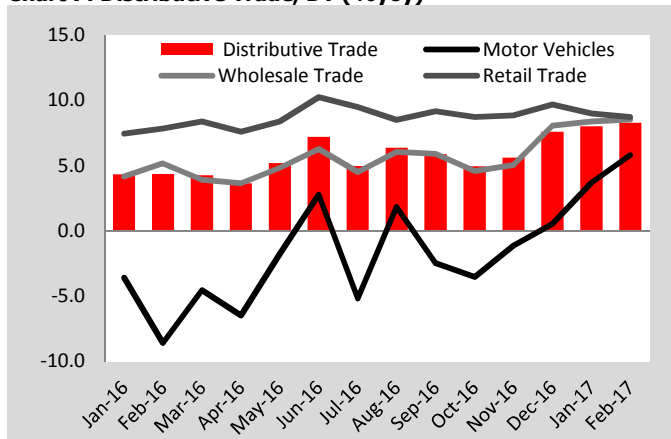
Chart 6: Manufacturing IPI vs Manufacturing GDP



Source: DOSM; MIDFR

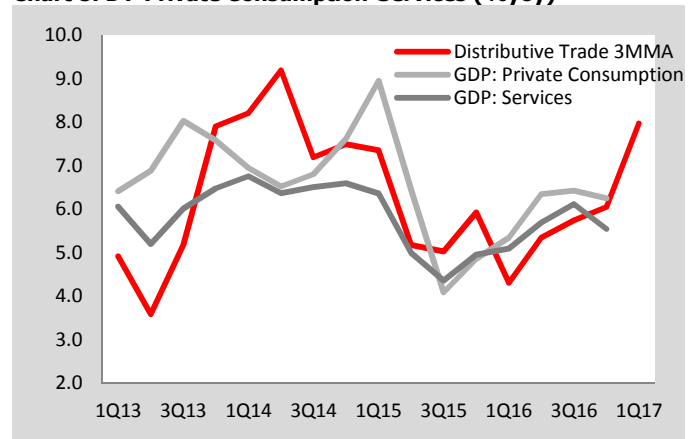
Distributive trade hits highest growth in 22 months. Distributive trade expanded by 8.3%yoy in February, the highest since March 2015. Distributive trade performance is contributed by three components, sales value of motor vehicles, wholesale and retail trades. The biggest contributors are wholesale and retail trades which make up almost 85% of the total distributive trade value. Motor vehicles registered growth rates in January and February of 3.7% and 5.8% respectively, reflecting robust rebound from poor performance in 2016. Both wholesale and retail trades grew steadily at 8.5% and 8.7% respectively.

Chart 7: Distributive Trade, DT (%yoy)




Source: DOSM; MIDFR

Chart 8: DT-Private Consumption-Services (%yoy)



Source: DOSM; MIDFR

Our OPR forecast for 2017 remain unchanged at 3.00%. Fundamentally, global economic condition has improved compared from a year ago given Malaysia's external trade performance as well as other economies' are reflecting arising trends. Despite rise in headline inflation, we are in the opinion that Bank Negara would not conduct a rate hike unless core inflation breached above 3.0% in any quarter as well GDP grow above 5.5% simultaneously during the period. At the moment, we maintain our expectation of no change in BNM's monetary stance for 2017. 

(YoY%) unless stated otherwise	2015	2016	2017	1Q17f	2Q17f	3Q17f	4Q17f
Real GDP	5.0	4.2	4.9	5.4	5.1	4.9	4.2
Private consumption expenditure	5.5	6.1	6.3	4.6	5.5	7.7	7.2
Government expenditure	4.7	1.0	2.5	-2.5	-0.2	0.8	9.3
Gross fixed capital formation	3.4	2.7	3.1	1.2	2.8	4.2	4.0
Exports of goods and services	0.6	0.1	2.6	4.0	4.8	2.9	-1.1
Imports of goods and services	1.2	0.4	2.4	3.2	5.5	3.3	-2.1
Net exports	-3.3	-1.8	4.1	10.8	-0.9	0.2	6.3
Nominal GDP	4.5	6.2	8.2	8.4	8.1	7.9	7.2
Exports of Goods (f.o.b)	1.9	1.1	8.5	19.8	12.5	3.5	4.5
Imports of Goods (c.i.f)	0.4	1.9	8.3	20.2	14.5	7.5	3.5
Trade Balance – RMb	94.3	87.2	93.0	28.0	17.7	18.0	29.4
Consumer price index	2.1	2.1	4.5	4.3	4.7	4.6	4.4
Current account – RMb	34.0	25.1	17.5	-	-	-	-
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	-	-	-	-
End of Unless Stated Otherwise	2015	2016	2017f	1Q17f	2Q17f	3Q17f	4Q17f
Brent Crude Oil (Avg)	53.6	43.6	50.0	56.0	47.0	50.0	50.0
Crude Palm Oil (Avg)	2,168	2,652	2,725	-	-	-	-
USD/MYR (Avg)	3.90	4.14	4.35	4.45	4.20	4.43	4.30
EUR/MYR (Avg)	4.33	4.58	4.50	4.72	4.50	4.75	4.65
JPY/MYR (Avg)	3.22	3.81	3.85	3.92	3.75	3.85	4.00
SGD/MYR (Avg)	2.84	3.00	3.25	3.35	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	4.30	-	-	-	-
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	4.30	4.10	4.05	4.35	4.65
3-month KLIBOR (%)	3.84	3.41	3.45	3.65	3.60	3.90	4.20
Overnight policy rate (%)	3.25	3.00	3.00	3.00	3.00	3.00	3.00

April 2017 Key Economic Events

4 April: Historic day as Malaysia and India ink pacts worth RM158.68bil. Indian and Malaysian business leaders have signed one of the biggest trade deals in Malaysian history, amounting to US\$36bil (RM158.68bil). The amount is even higher than the RM144bil worth of deals signed by Malaysia in China just four months ago.

17 April: Turkey's Erdogan declares referendum victory. President Tayyip Erdogan declared victory in a referendum to grant him sweeping powers in the biggest overhaul of modern Turkish politics, but opponents said the vote was marred by irregularities and they would challenge its result. Turkey's mainly Kurdish southeast and its three main cities, including the capital Ankara and the largest city Istanbul, looked set to vote "No" after a bitter and divisive campaign.

19 April: IMF raises 2017 global growth forecast to 3.5%. The International Monetary Fund (IMF) raised its forecast for global economic growth in 2017, saying buoyant financial markets and a long-awaited cyclical recovery in manufacturing and trade supported the improved outlook. The IMF said the global economy will grow by 3.5 percent, acceleration from 3.1 percent growth last year and an upgrade of 0.1 percentage point from its January projection. But it kept the forecast for growth in 2018 unchanged at 3.6 percent.

25 April: Trump calls for new U.N. sanctions against North Korea. The U.N. Security Council must be prepared to impose new sanctions on North Korea as concerns mount that it may test a sixth nuclear bomb as early as Tuesday. Trump told a meeting with the 15 U.N. Security Council ambassadors, including China and Russia, at the White House. "The council must be prepared to impose additional and stronger sanctions on North Korean nuclear and ballistic missile programs." "This is a real threat to the world, whether we want to talk about it or not. North Korea is a big world problem and it's a problem that we have to finally solve," Trump said.

10 April: US unemployment rate falls to 10-year low. The unemployment rate fell from 4.7% in February to just 4.5% - the lowest since May 2007. Employers added 98,000 jobs last month. Anything under 5% is considered to indicate "full employment". The economy needs to create 75,000 to 100,000 jobs a month to keep pace with growth in the working-age population.

18 April: China Q1 GDP growth accelerates faster than expected - 6.9% annual pace. China's economy grew 6.9 percent in the first quarter from a year earlier, slightly faster than expected, supported by a government infrastructure spending spree and a frenzied housing market that is showing signs of overheating. The first-quarter growth pace was the fastest since the third quarter of 2015. The government is aiming for growth of around 6.5 percent in 2017.

23 April: Macron leads in the first round. Macron won the first round of voting on 23 April with 23.8 per cent of the vote, while Le Pen came in second place with 21.5 per cent. Macron and Le Pen both progressed from the first round in the race for the French presidency, after securing 45.3 per cent of the vote between them. Macron was widely tipped to win before the vote. In the Telegraph's poll tracker, the final polling average predicted that he would take 62 per cent of the vote in the second-round run-off against Le Pen.

27 April: White House unveils dramatic plan to overhaul tax code in major test for Trump. President Trump's call for a dramatic overhaul of the tax code sets in motion his most ambitious legislative initiative to date, testing whether he can cut the deal of his life on an issue that has long bedevilled Washington. Trump issued a one-page outline for changes to the tax code, pinpointing numerous changes he would make that would affect almost every American. He wants to replace the seven income tax brackets with three new ones, cut the corporate tax rate by more than 50 percent, abolish the alternative-minimum tax and estate tax, and create new incentives to simplify filing returns.

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