

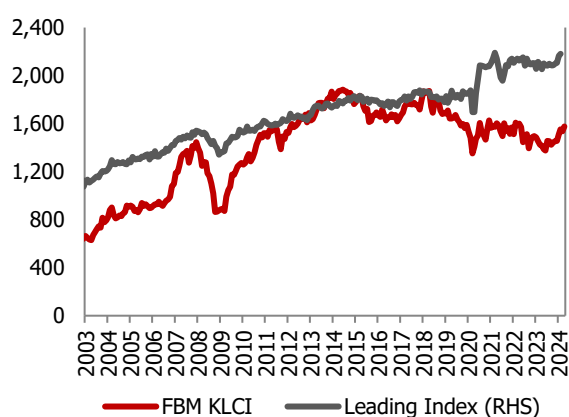
MONTHLY ECONOMIC REVIEW | April 2024

LI Continued to Signal Better Growth Prospects in the Near Term

- LI rose for the 3 straight month in Feb-24. Malaysia's growth prospects remained positive as the Leading Index (LI) rose further by +2.0%yoy in Feb-24 (Jan-24: +3.4%yoy), underpinned by improvements in Bursa Malaysia Industrial Index and real imports of semiconductors.
- Malaysia's economy grew stronger at +3.9% in 1QCY24. In line with the improving LI, Malaysia's economy registered stronger growth of +3.9%yoy in 1QCY24 (4QCY23: +3.0%yoy), with more robust expansion in all major sectors except agriculture.
- Exports fell at the same pace of -0.8%yoy in Mar-24. Exports sustained -0.8%yoy contraction for the second month due to lower exports of palm oil & palm oil products, crude & refined petroleum, and E&E products.
- Malaysia's economy to grow stronger at +4.7% in 2024. We maintain our projection that Malaysia's economy will grow stronger at +4.7% this year (2023: +3.7%), which will be supported by the external trade recovery and growing domestic spending.

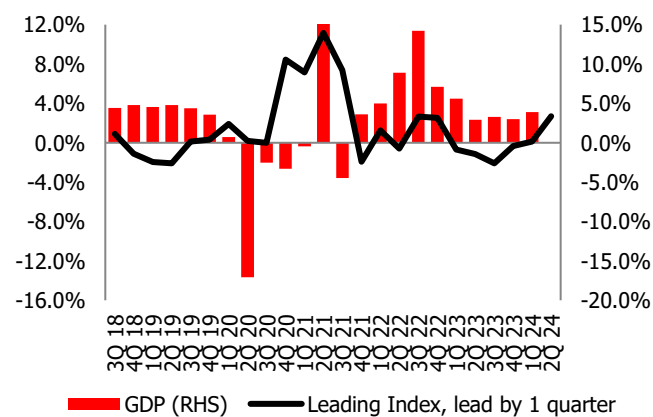
LI rose for the 3 straight month in Feb-24. Malaysia's growth prospects remained positive as the Leading Index (LI) rose further by +2.0%yoy in Feb-24 (Jan-24: +3.4%yoy), growing for the third straight month. The growth was underpinned by improvements in *Bursa Malaysia Industrial Index* and *real imports of semiconductors*. From month-on-month perspective, increases in *number of housing units approved* and *real imports of semiconductors* were the main contributors to the +0.2%mom LI expansion in Feb-24. The current economic growth also remained in positives, with the Coincident Index (CI) rising for the 30th consecutive month by +1.9%yoy (Jan-24: +3.1%yoy) as all CI components increased except *real salaries & wages in the manufacturing sector*. CI also recorded montly increase of +0.2%mom, better than no growth in the previous month. We expect positive growth to continue in the coming quarters as signalled by the sustained rise in LI and CI.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

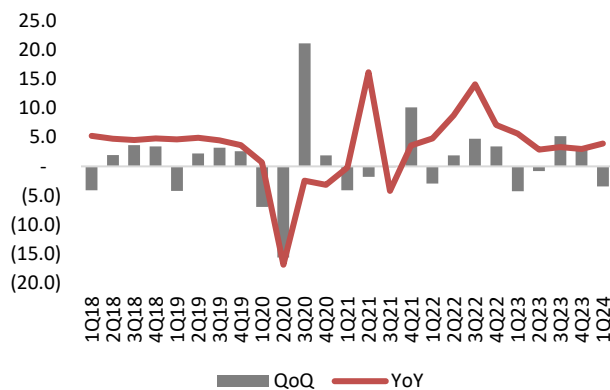
Chart 2: Leading Index vs GDP (YoY%)



* LI for 1QCY24 refers to data in Jan-24 and Feb-24
Source: Macrobond, MIDFR

Malaysia's economy grew stronger at +3.9% in 1QCY24. In line with the improving LI, Malaysia's economy registered stronger growth of +3.9%yoy in 1QCY24 (4QCY23: +3.0%yoy), according to advance estimate. The pace of growth was the fastest in 4 quarters, with stronger expansion in all major sectors except agriculture. Manufacturing sector rebounded to expand by +1.9%yoy (4QCY23: -0.3%yoy), ending 2 consecutive quarters of contraction. The improvement in manufacturing production was also aligned with the better external trade performance during the quarter. Meanwhile, construction output soared +9.8%yoy (4QCY23: +3.6%yoy), the steepest rise in 6 quarters, with increased activities in civil engineering, specialised construction, and the residential sector. The services sector growth also picked up to +4.4%yoy (4QCY23: +4.2%yoy), growing the 10th straight quarter and backed by increased activities in sub-sectors such as wholesale & retail trade, transportation & storage, and business services. Within the primary sector, agriculture sector growth moderated to +1.3%yoy (4QCY23: +1.9%yoy) while growth for mining and quarrying accelerated to +4.9%yoy, the fastest in 5 quarters. Sustained expansion of the agriculture sector continued to be underpinned by production of oil palm and livestock; while the increased production of natural gas boosted growth for the mining and quarrying industry. We view the stronger growth as an encouraging development as it indicates improving growth momentum.

Chart 3: Real GDP Growth: YoY vs. QoQ (%)



Source: Macrobond, MIDFR

Chart 4: Real GDP Growth by Major Sector (YoY%)

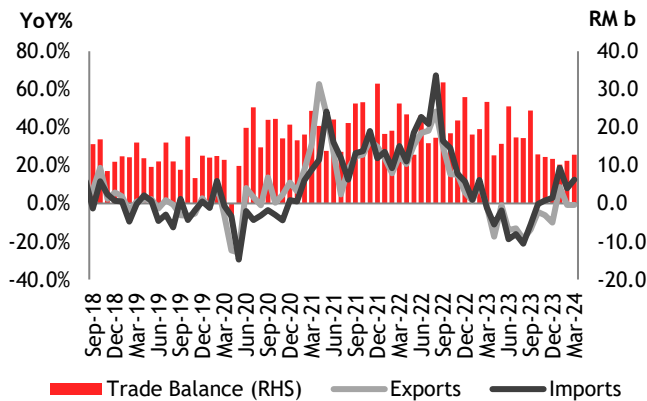


Source: Macrobond, MIDFR

Exports fell at the same pace of -0.8%yoy in Mar-24. Malaysia's total trade grew stronger at +5.1%yoy in Mar-24, sustaining annual expansion for the third straight month, mainly underpinned the strong double-digit growth in imports. Despite the relatively faster monthly increase of +15.7%mom in imports, a strong +15.5% surge in exports resulted in a higher trade surplus of +RM12.8b (Feb-24: +RM11.2b), the highest in 5 months. From the year-on-year perspective, exports sustained -0.8%yoy contraction for the second month. The decline was however not as sharp as our estimate and market consensus. The weaker external trade performance is in line with the sharper fall in manufacturing activities as shown by the decline in the sector's PMI to 48.4 (Feb-24: 49.5). The decline in exports was again linked to continued contraction in re-exports (Mar-24: -20.2%yoy; Feb-24: -20.2%yoy), while domestic exports grew slower at +1.7%yoy (Feb-24: +4.7%yoy). By major products, the decline in overall exports reflected lower exports of palm oil & palm oil products, crude & refined petroleum, and E&E products. From a month-on-month perspective, the strong surge in exports by +15.5%mom was mainly supported by stronger external demand for manufactured goods (+17.8%mom), especially E&E products (+24.3%mom) and machinery, equipment & parts (+23.2%mom). In contrast, imports recorded faster annual growth of +12.5%yoy in Mar-24 (Feb-24: +8.0%yoy), mainly due to higher imports of E&E; crude petroleum &

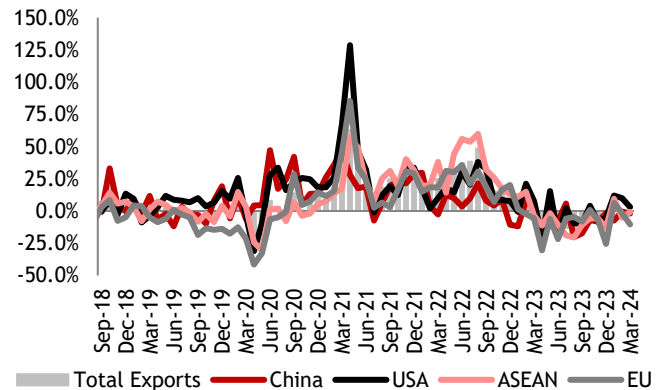
petroleum products; and, machinery, equipment & parts. As expected, external trade experienced strong monthly rebounds after the Chinese New Year holidays, which affected trade activities in Feb-24. Although Feb-24 and Mar-24 performance remained below last year, at least the cumulative 1Q data indicated a continued recovery in Malaysia's external trade since the final quarter last year.

Chart 5: Exports & Imports (YoY%) vs Trade Bal. (RM b)



Source: Macrobond, MIDFR

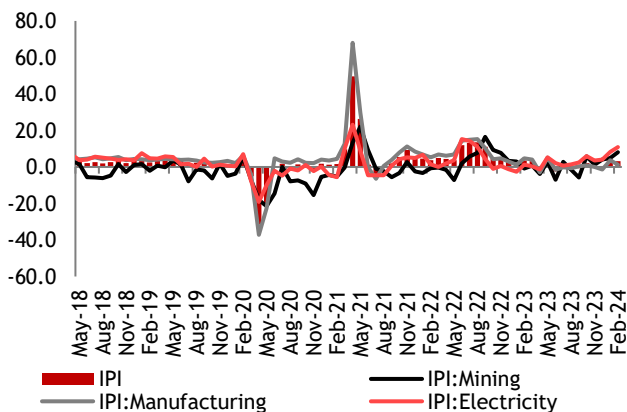
Chart 6: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MATRADE, MIDFR

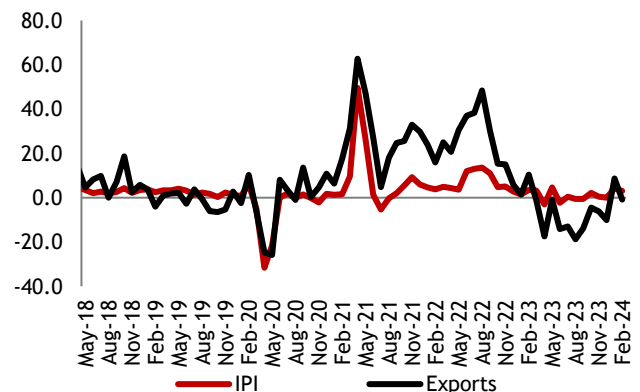
IPI growth moderated to +3.1%yoy in Feb-24. Malaysia's IPI registered a sustained but slower growth of +3.1%yoy in Feb-24 (Jan-24: +4.3%yoy), growing for the second straight month. The pace of growth was stronger anticipated vis-à-vis our expectations of a more moderate expansion given the weaker external trade during the month. All major sectors recorded sustained growth, but the moderation in overall IPI growth closely tracked the slower growth of +1.2%yoy (Jan-24: +3.7%yoy) in manufacturing output. Mining sector output grew faster at +8.1%yoy, which was the strongest growth in 16 months. The growth was mainly underpinned by the +11.9%yoy surge in natural gas output and increased production of crude petroleum. Electricity generation also recorded stronger growth of +10.9%yoy, the fastest growth in 1.5 years which also reflected higher electricity demand and consumption. We continue to expect IPI will grow stronger this year on the back of external demand recovery as well as growing domestic demand.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 8: IPI vs Exports (YoY%)

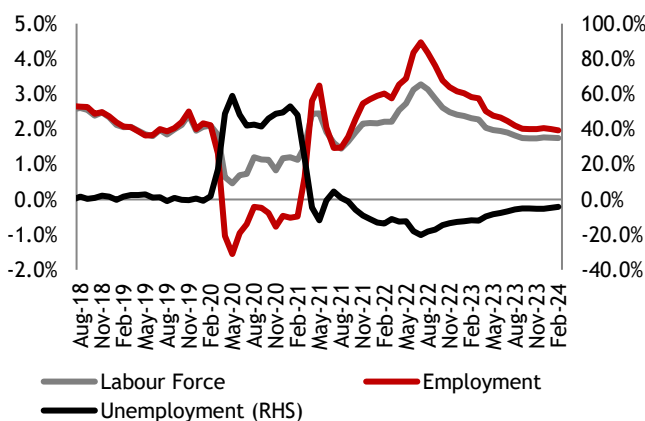


Source: Macrobond, MIDFR

Strong & stable labour market. Malaysia's labour market maintained an improving trend as unemployment rate maintained at post-pandemic low of 3.3% in Feb-24. Labour force and employment grew steadily by +1.8%yoy and +2.0%yoy respectively. The unemployed persons dropped further by -4.2%yoy and -0.1%mom to

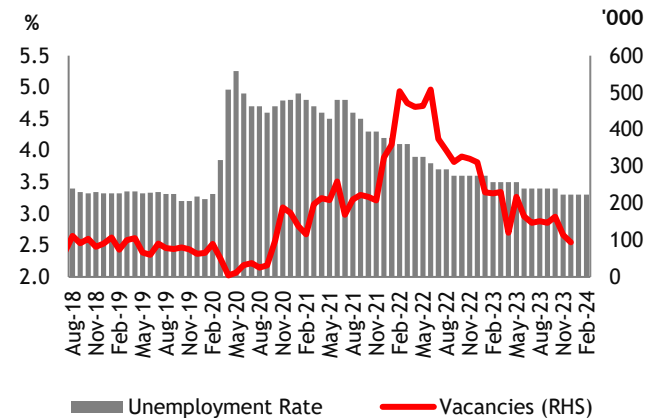
567K in Feb-24, approximately 48K higher than average jobless persons 519K in 2019. For youth aged 15~24, the unemployment rate stayed at post-pandemic low of 10.6% (2019: 10.4%). By employment type, employees which made up about 75.2% of the employment increased steadily by +1.3%yoy while employer (3.5% of employment) and own-account-worker (18.3% of employment) increased by +4.6%yoy and +4.5%yoy respectively in Feb-24. The strengthening and healthier job market in our view will further reinforce consumer consumption and support overall GDP growth for 2024.

Chart 9: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

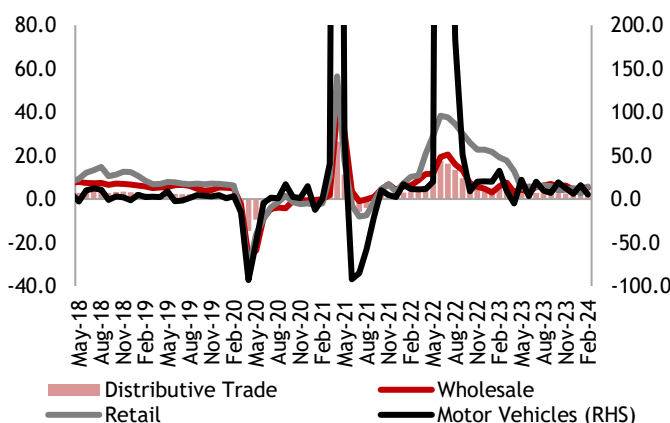
Chart 10: Unemployment Rate (%) vs. Job Vacancies



Source: Macrobond, MIDFR

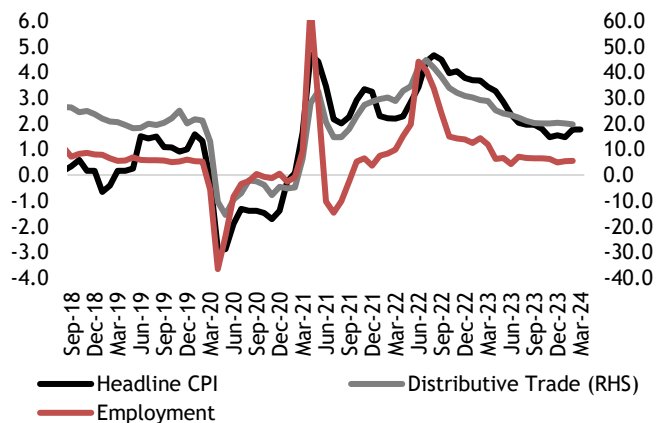
Distributive trade growth at 3-month high. Malaysia's consumer demand remained steady as the overall distributive trade expanded by +5.5%yoy in Feb-24, the fastest pace since Dec-23. Lunar New Year celebration, school holidays and cash bonus to civil servants were among the upside factors contributing to the 5-month high retail trade growth at +5.8%yoy. Sales of motor vehicles and wholesale trade also rose by +5.4%yoy and +5.25%yoy, respectively. In terms of seasonally adjusted volume, distributive trade, wholesale trade and retail trade surged by +3.8%mom, +3.7%mom, and +4.4%mom, respectively; motor vehicles, however, declined by -1.8%mom. Looking ahead, we foresee a sanguine domestic outlook this year amid positive real wage growth, better pick-up in tourism activities and supportive & accommodative economic policies from both fiscal and monetary sides.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

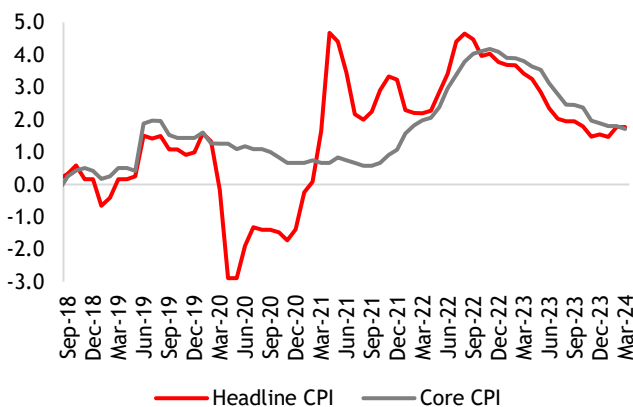
Chart 12: DT vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

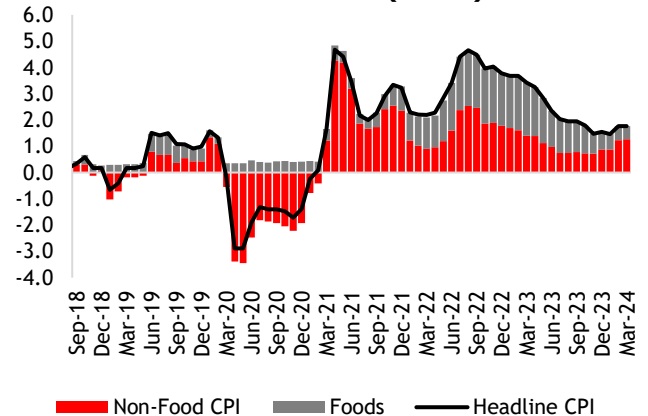
Malaysia's inflation remained below +2.0% level for 7-straight months. Headline inflation rate kept at +1.8%yoy in Mar-24, registering 7-straight months below +2.0% level. Non-food inflation rate edged up slightly at +1.7%yoy, the highest in 11-month while food price growth at +1.7%yoy, the softest pace in more than 2-year. The slight uptick of non-food prices among others due to readjustment of utility tariff rates as inflation rate of "Housing, Water, Electricity, Gas & Other Fuels" recorded at 18-month high. Water supply inflation rate hit +31.4%yoy while electricity up by +2.0%yoy. Looking ahead, non-food inflation is likely to stay on an uptrend following the implementation of +2.0% hike of SST on selected items. Even though food inflation moderated further, prices of food away from home maintained at 3-month high at +3.5%yoy. This food segment is expected to see a continuous pick-up amid a rise in logistics and operating charges. The core inflation rate skid to more than 2-year low at +1.7%yoy, indirectly reducing the possibility of potential OPR hike. Looking into 2QCY24, we should expect a gradual pick-up in overall prices following an increase in utility charges, implementation of a higher SST rate to 8.0% on selected items and 10% for low value goods tax (LVGT). In the later half, we opine that it is possible that the roll-out of fuel targeted-subsidy may see higher retail fuel prices of both RON95 and Diesel.

Chart 13: Headline vs. Core CPI (YoY%)



Source: Macrobond, MIDFR

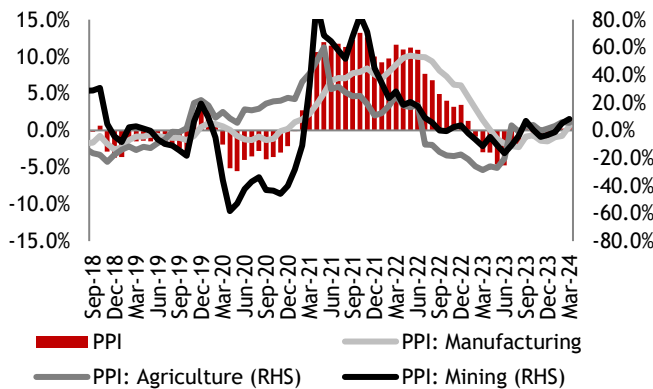
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

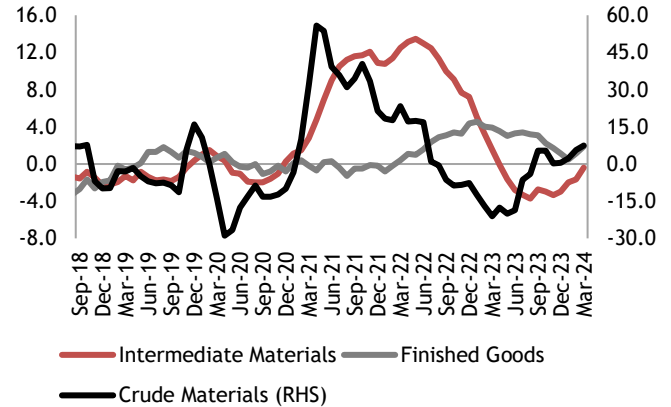
PPI rose faster in Mar-24. Malaysia's producer prices index (PPI) rose faster at +1.6%yoy (Feb-24: +0.3%yoy), marking the second month of inflation and the highest reading since Jan-23. By sector, the higher inflation was attributable to the sustained inflation in the mining (+8.3%yoy) and agriculture (+5.5%yoy) sectors as well as rebound in the cost pressures for the manufacturing industry (+0.6%yoy). By stage of production, nearly 76% of the the PPI inflation during the month was due to higher prices of crude materials (+7.4%yoy) and followed by higher prices of finished goods (+1.9%yoy). Against the previous month, the monthly PPI inflation more than doubled to +1.6%mom (Feb-24: +0.7%yoy) driven by increased prices in the agriculture (+4.3%mom), mining (+2.3%mom) and manufacturing (+1.3%mom) industries. Although the sustained rise in PPI inflation signalled renewed rise in cost pressures, the rate of increase was still below CPI inflation. Therefore, we expect limited pressures for local business to raise prices. If cost pressures continue to increase, this could lead to higher CPI inflation, in addition to the effect of government's planned subsidy rationalization.

Chart 15: PPI by Sector (YoY%)



Source: Macrobond, MIDFR

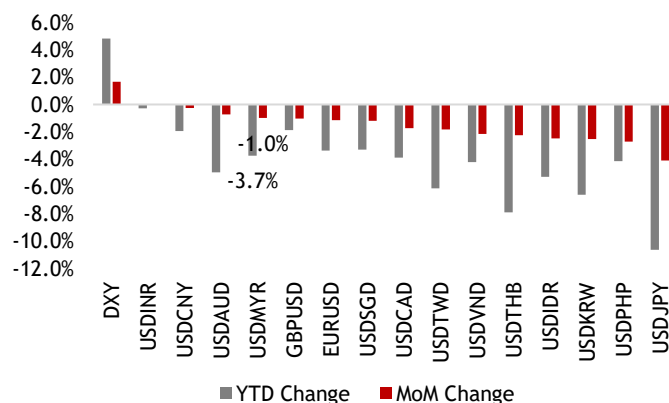
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

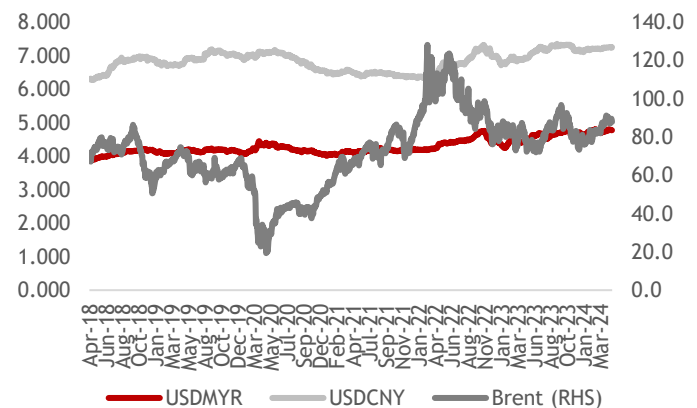
Ringgit depreciated in Apr-24. The Malaysian ringgit depreciated in Apr-24, falling by -1.0%mom to RM4.773 by end-month, reversing the gains in the previous month. On average, the ringgit also depreciated by -1.0%mom to RM4.766. The intra-month movement saw the ringgit plunging from its strongest closing on the 1st day of the month at RM4.731 towards the intra-month low at RM4.796 on 16 April 2024, as data releases signalled continued strength in the US domestic demand. Despite the depreciating pressure, the ringgit was yet to close at 26-year lows of RM4.805, recorded in Feb-24. The ringgit recovered some losses, broadly appreciating towards the month's end albeit still hovering near the same level. On another note, commodity price movement failed to support the ringgit despite the Brent crude oil prices rising by +0.4%mom to USD87.86pb. Despite Malaysia's robust growth fundamentals supporting the ringgit with domestic demand continuing to expand, expectations of the Fed's future policy direction remained the main factor influencing fluctuations in the ringgit's exchange rate against the dollar.

Chart 15: Monthly and Year to Date Changes in FX Rates for Selected Currencies Against US Dollar (%)



Source: Bloomberg, MIDFR

Chart 16: USDMYR vs. USDCNY vs. Brent Crude Oil Price (USD pb)

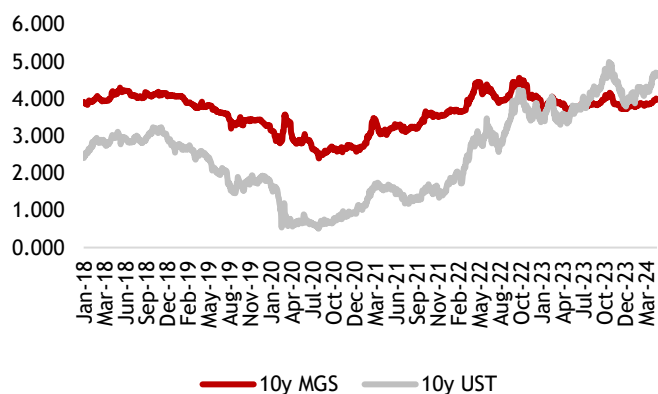


Source: Bloomberg, MIDFR

10-year MGS yield jumped in Apr-24. The 10-year MGS yield soared by +12bps to 3.98% in Apr-24 (Mar-24: 3.85%). With the weakening of the ringgit, the higher yield indicated the possibility of outflow from the domestic bond market. On another note, foreign holding of Malaysian bonds rebounded to increase to RM265.8b in Mar-24

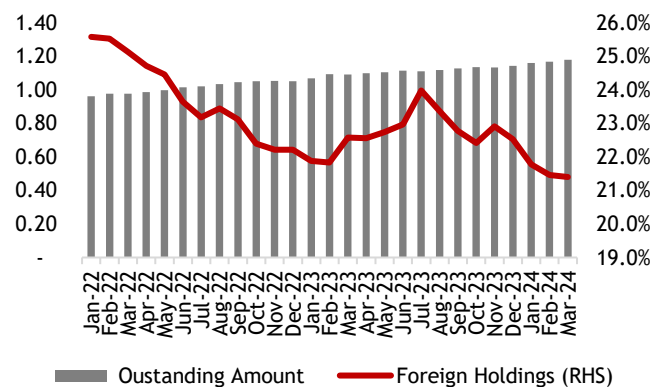
(Feb-24: RM264.1b). Foreign holdings of govies made up 21.4% or RM252.3b of the total outstanding government bonds in Mar-24, declining from 21.5% in the previous month and well under the pre-pandemic level (2019 average: 23.1%). Relative to last year, we continue to anticipate a decline in the MGS's 10-year yield in 2024, as we priced in the assumptions of more foreign funds will flow into domestic financial market in response to Fed's rate reduction. However, aligning our projection to a smaller reduction in the fed funds rates and the FFR-OPR differentials this year as we push the timing for Fed's rate cuts to the latter part of 2HCY24, we tweaked our year-end forecast for 10-year MGS yield higher. We now foresee the 10-year MGS yield would end the year at 3.68% (end-2023: 3.73%) and averaging at 3.84% this year (2023 average: 3.86%).

Chart 17: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 18: Share of Foreign Holding (%) vs Outstanding MGS/MGII/Treasury Bills (RM t)



Source: Macrobond, MIDFR

Malaysia's economy to grow stronger at +4.7% in 2024. We maintain our projection that Malaysia's economy will grow stronger at +4.7% this year (2023: +3.7%), which will be supported by the external trade recovery and growing domestic spending. Domestic demand is expected to grow backed by among others positive labour market conditions, rising income and further recovery in the tourism sector. Being part of the international trade and regional production network, Malaysia will benefit from increased global demand for commodities and the recovery in the global E&E market. Nevertheless, Malaysia's growth outlook may be adversely impacted by several downside risks such as economic slowdown in major trading partners (e.g. China and the US) as well as renewed escalation in geopolitical tensions which could disrupt international trade and production activities. On the domestic front, we are wary of the possible inflationary effects from the government's planned policy changes, which could hurt consumer sentiment and their purchasing power. 

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024_f
Real GDP	(5.5)	3.3	8.7	3.7	4.7
Govt. Consumption	4.1	6.4	4.5	3.9	2.5
Private Consumption	(3.9)	1.9	11.2	5.0	4.8
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	5.5	5.3
Govt. Investment	(21.2)	(11.1)	5.3	8.6	4.5
Private Investment	(11.9)	2.7	7.2	7.0	5.5
Exports of goods & services;	(8.6)	18.5	14.5	(7.9)	3.1
Goods Exports	(0.7)	21.4	11.1	(12.8)	3.1
Services Exports	(47.8)	(8.2)	56.9	38.0	11.0
Imports of goods & services;	(7.9)	21.2	15.9	(7.6)	3.6
Goods Imports	(3.6)	23.8	14.6	(13.0)	2.9
Services Imports	(25.3)	7.7	23.9	18.0	6.4
Net Exports	(13.7)	(4.0)	(1.0)	(11.3)	13.8
Agriculture etc.	(2.4)	(0.1)	0.1	0.3	1.5
Mining & Quarrying	(9.7)	0.9	2.6	0.5	3.5
Manufacturing	(2.7)	9.5	8.1	1.3	4.0
Construction	(19.3)	(5.1)	5.0	7.0	5.2
Services	(5.2)	2.2	10.9	6.0	5.4
Exports of Goods (f.o.b)	(1.1)	26.1	24.9	(8.0)	5.2
Imports of Goods (c.i.f)	(5.8)	23.3	31.0	(6.4)	4.4
Headline CPI Inflation (%)	(1.1)	2.5	3.4	2.5	3.2
Current Account, % of GDP	4.1	3.9	3.0	1.2	3.7
Fiscal Balance, % of GDP	(6.2)	(6.4)	(5.6)	(5.2)	(4.7)
Federal Government Debt, % of GDP	62.0	63.2	60.3	61.9	62.3
Unemployment Rate (%)	4.48	4.58	3.82	3.50	3.30
Brent Crude Oil (Avg), USD per barrel	41.6	71.5	102.0	82.2	84.0
Crude Palm Oil (Avg), MYR per tonne	2,775	4,486	5,262	3,813	3,600
USD/MYR (Avg)	4.20	4.14	4.40	4.56	4.38
USD/MYR (End-period)	4.02	4.17	4.35	4.59	4.20
MGS 10-Yr Yield (Avg)	2.84	3.23	4.07	3.86	3.68
MGS 10-Yr Yield (End-period)	2.65	3.59	4.04	3.77	3.60
Overnight Policy Rate (%)	1.75	1.75	2.75	3.00	3.00

Source: Macrobond, DOSM, MIDFR

April 2024 Key Economic Events

1 Apr: Anwar: 80-85% of Malaysians stand to benefit from targeted subsidies Prime Minister Datuk Seri Anwar Ibrahim said the government's move to implement targeted subsidies is aimed at ensuring that the benefits are truly enjoyed by 80 to 85% of the population.

3 Apr: Deputy finance minister: Not the right time to impose capital gains tax on disposal of shares the government does not consider it suitable to impose capital gains tax on the disposal of shares of listed companies at this time, said Deputy Finance Minister Lim Hui Ying.

8 Apr: Physical stocks of local rice exceed a million tonnes, can meet demand — ministry The country's physical stocks of rice to date is 1,096,964 tonnes, including 290,000 tonnes of buffer stocks, signifying a stable quantity, able to cover the people's needs for 5.48 months, said the Ministry of Agriculture and Food Security (KPKM).

14 Apr: Zafrul: Plans in place to enhance Malaysia's E&E ecosystem, prepare for global minimum tax implementation Investment, Trade and Industry Minister Tengku Datuk Seri Zafrul Abdul Aziz said the recent report by the Asean+3 Macroeconomic Research Office (Amro) on Malaysia's growth underscores its potential to become a high-income nation by 2030, driven by significant foreign direct investment (FDI) inflows.

16 Apr: Miti to draw up comprehensive strategic semiconductor plan, says PM Anwar The Investment, Trade, and Industry Ministry (Miti) will draw up a comprehensive Strategic Semiconductor Plan to ensure that Malaysia remains the chosen investment destination for this strategic industry, says Datuk Seri Anwar Ibrahim.

21 Apr: Miti sees South Korea being among main sources of FDI into Malaysia — Zafrul The Ministry of Investment, Trade and Industry (Miti) is optimistic that South Korea will climb the ranks as among the main sources of foreign direct investments (FDI) into Malaysia soon.

22 Apr: Johor-Singapore SEZ seen creating 100,000 high-paying jobs, says MB The high-impact Johor-Singapore Special Economic Zone (JS-SEZ) project is expected to create up to 100,000 quality and high-paying job opportunities. Menteri Besar Datuk Onn Hafiz Ghazi said that the project is poised to further catalyse economic growth within Johor.

25 Apr: Miti to finalise comprehensive strategic semiconductor plan by next month The Ministry of Investment, Trade and Industry (Miti) will finalise a comprehensive strategic plan for the semiconductor industry to ensure Malaysia remains competitive in the sector.

28 Apr: Key Fed inflation measure rose 2.8% in March from a year ago, more than expected The core personal consumption expenditures price index excluding food and energy increased 2.8% from a year ago in March, unchanged from February and slightly higher than expected.

2 Apr: Loke: ECRL to be completed by end-2026, operational Jan 2027 The Transport Ministry is confident that the East Coast Rail Link (ECRL) will be completed on schedule in December 2026 and will be operational from January 2027, with a four-hour travel time between Kota Bharu and Kuala Lumpur as compared to a seven-hour car journey.

7 Apr: Johor MB wants Forest City integrated into JSSEZ Johor Menteri Besar Datuk Onn Hafiz Ghazi aims to integrate Forest City into the Johor-Singapore Special Economic Zone (JSSEZ) to boost its economy and revival.

13 Apr: Iran launches retaliatory attack on Israel with hundreds of drones, missiles Iran launched explosive drones and fired missiles at Israel late on Saturday in its first direct attack on Israeli territory, a retaliatory strike that raised the threat of a wider regional conflict, as the U.S pledged "ironclad" backing for Israel.

16 Apr: IMF Lifts Growth Forecast for Global Economy, Warns of Risks The International Monetary Fund inched up its expectations for global economic growth this year, citing strength in the US and some emerging markets, while warning the outlook remains cautious amid persistent inflation and geopolitical risks. Global economic activity will expand 3.2% this year, it said Tuesday in its World Economic Outlook, up 0.1 percentage point from its January estimate.

18 Apr: PJD Link cut off for good The project has been discontinued as the developer failed to meet conditions set by the government and there will be no more discussions on the proposed highway, says Fahmi Fadzil.

21 Apr: China's US envoy urges cooperation, cites 'severe' challenges China's ambassador to the United States urged the two superpowers to cooperate on improving relations even as they "face severe challenges" on a range of issues.

23 Apr: US business activity cools in April; inflation measures mixed Manufacturing entered contraction territory, with the survey's flash manufacturing PMI slipping to 49.9 this month from 51.9 in March. New orders shrank slightly while growth in employment slowed, albeit modestly, and supply chains showed signs of spare capacity. The survey's flash services sector PMI dipped to 50.9 in April from 51.7 in the prior month.

25 Apr: Housing and Local Government Ministry: Council approves land use planning for food source areas master plan The National Physical Planning Council (MPFN) approved the main policy related to urban and rural planning, namely the Master Plan for Land Use Planning for Food Source Areas, aimed at reducing dependence on imported food products.

29 Apr: Asean-Gulf Cooperation Council should find mechanisms to advance trade, investment — Anwar As Southeast Asia becomes one of the fastest growing regions, Anwar noted that Asean member states have taken a more pragmatic approach in discussing both bilateral and multilateral relations among their neighbours.

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