

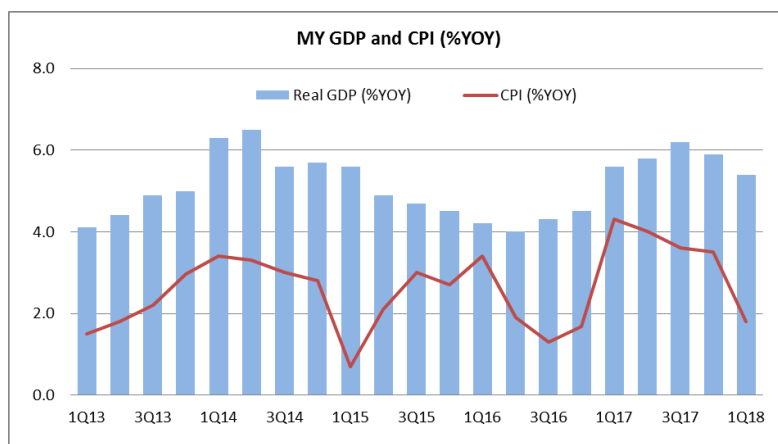
Global Markets Research
Economics - Malaysia

1Q18 GDP growth moderated to 5.4%

The Malaysian economy expanded more moderately for the 2nd straight quarter, by 5.4% YOY in 1Q as a big boost from net exports failed to fully offset easier growth in domestic demand. Looking ahead, while the change in government is expected to prompt some reviews and reprioritization of fiscal and macroeconomic policies, we believe the impact on this year's growth forecasts could be relatively muted as we are already into mid-2Q and any policy changes will require some time as it needs to go through due processes. The biggest downside risks are expected to stem from potential delay in investment as businesses adopt a wait and see approach pending greater policy clarity while public sector projects are being reviewed. We are also hopeful that private consumption could be sustained as consumer sentiments improve in lieu of the resetting of GST and the introduction of targeted petrol subsidy even though we doubt prices of goods and services can be reduced significantly in the immediate future. Pending greater policy clarity of which some of the announcements are targeted to be made within the first 100 days under the new government, i.e. by mid-August, we are maintaining our 2018 growth forecast at 5.0% for now.

Real GDP growth pulled back for the 2nd straight quarter, to 5.4% YOY in 1Q, dampened by moderation in domestic demand

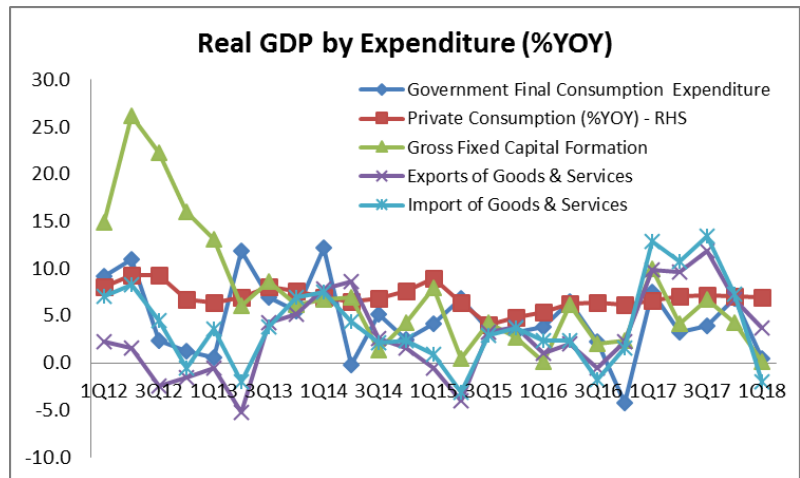
Growth in the Malaysian economy **tapered off for the second consecutive quarters, pulling back more than expected to 5.4% YOY in 1Q18** (4Q17: +5.9%) its slowest since 4Q16. The softer expansion in 1Q was **dampened by much slower growth in domestic demand which far outweighed the hefty gain in net exports**. Domestic demand pulled back sharply to grow at its slowest pace in five quarters, by 4.1% YOY in 1Q (4Q: +6.2%), a stark contrast to the jump in net exports to 62.4% in 1Q (4Q: +2.3%) despite slower growth in exports as imports posted its first decline since 3Q16 dragged by capital and intermediate goods imports. On a seasonally adjusted QOQ basis, real GDP increased at a faster pace of 1.4% in 1Q (4Q: +1.0%).



Private consumption continues to underpin growth

At the domestic front, the private sector, specifically private consumption, remained the main growth pillar. Private consumption managed to sustain a 6.9% YOY increase in 1Q (4Q: +7.0%) supported by continued wage and employment growth, but near stagnant growth in private investment (+0.5% vs +9.2%) suppressed overall growth in private sector activities, to 5.2% YOY in 1Q (4Q: +5.2%)

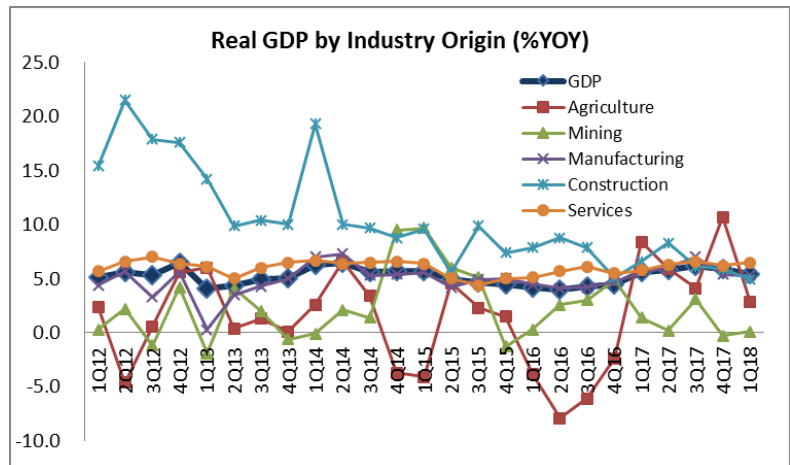
+7.4%). Despite the moderation, performance of the private sector was commendable compared to **the public sector**, which **witnessed a 0.1% YOY contraction in 1Q**, a reversal from the 3.4% YOY increase registered in the preceding quarter. Government spending grew a meager 0.4% YOY while public investment extended its decline, falling 1.0% YOY in 1Q (4Q: +6.8% and -1.4% respectively) as a number of large-scale projects are approaching tail-end.



Services and manufacturing remained the biggest growth contributor

On the supply side, all sectors registered positive growth but only the services sector saw a pick-up in growth momentum while the mining value-added registered a turnaround. The services sector grew at a faster pace of 6.5% YOY in 1Q (4Q: +6.2%), mainly led by higher growth in the finance and insurance subsector as a result of higher household lending activity, as well as quicker growth in the information and communication subsector. **The mining sector rebounded** to increase 0.1% YOY in 1Q (4Q: -0.3%) thanks to higher oil production.

In the manufacturing sector, growth moderated slightly to 5.3% YOY in 1Q (4Q: +5.4%), supported by the export-oriented sectors (E&E) and construction-related industries. Meanwhile, growth in the construction and agriculture sectors also reported softer increases, by 4.9% and 2.8% YOY respectively (4Q: +5.9% and +10.7%), amid weaker activities in the residential and non-residential sectors (construction) and lower rubber tapping activities (agriculture).



Continuous widening in current account surplus amid higher surplus in goods account and smaller deficits in services account

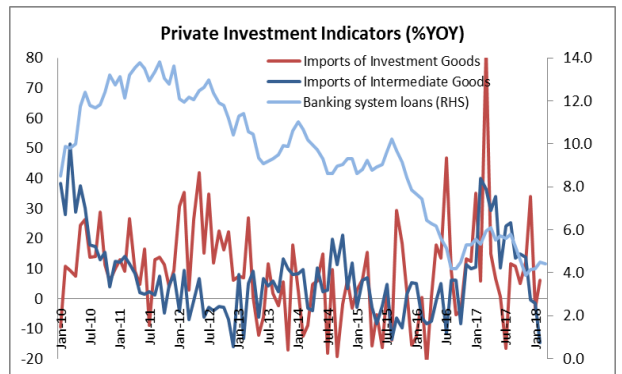
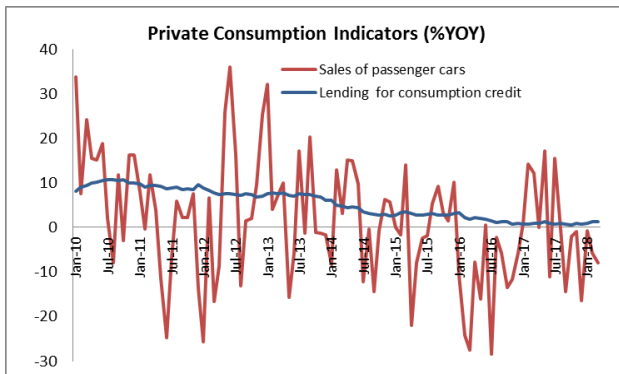
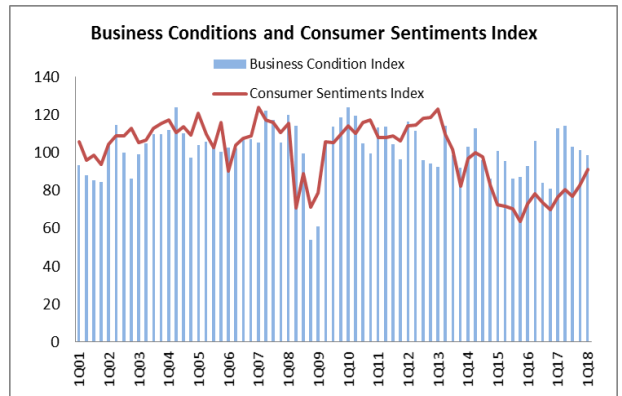
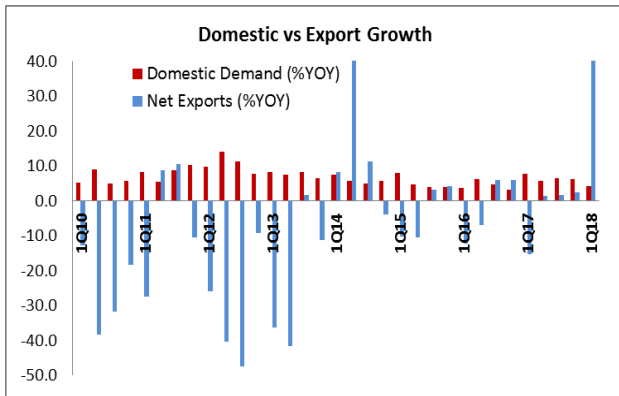
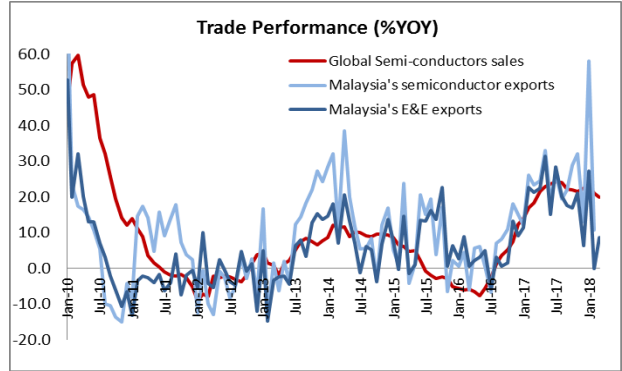
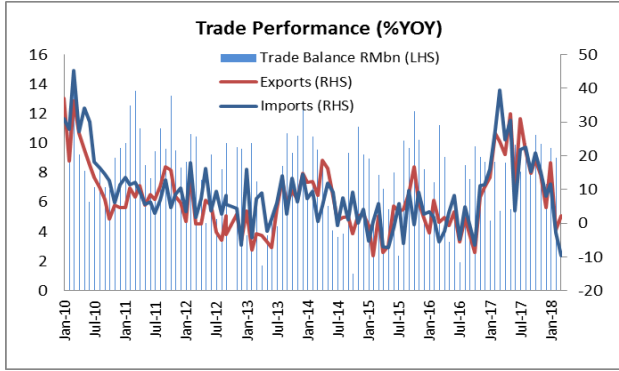
In a separate release, **Malaysia's current account surplus widened for the 4th straight quarter, to RM15.0bn in 1Q** (4Q: RM13.9bn). **Higher surplus in the goods account** (RM35.7bn vs RM34.1bn) as a result of continued strength in

exports remained the key contributor to higher current account surplus, further augmented by narrower deficits of RM5.8bn in the services account (4Q: deficit of RM7.0bn) as a result of lower net payments in the construction and transportation accounts. **The income account however registered a higher deficit** of RM14.9bn in 1Q (4Q: deficit of RM13.2bn), as a result of higher profits accrued to foreign investors in Malaysia and continuous net outward remittances by foreign workers. On a positive note, **net inflows in the financial account widened to RM15.2bn in 1Q**, from the net inflow of RM6.0bn in the preceding quarter, supported by FDIs, portfolio investment by non-residents, and other investment flows.

Maintaining 2018 growth forecast at 5.0% pending greater policy clarity

Looking ahead, while the change in government is expected to prompt some reviews and reprioritization of fiscal and macroeconomic policies, we believe the impact on this year's growth forecasts could be relatively muted as we are already into mid-2Q and any policy changes will require some time as it needs to go through due processes. The biggest downside risks are expected to stem from potential delay in investment as businesses adopt a wait and see approach pending greater policy clarity while public sector projects are being reviewed. We are also hopeful that private consumption could be sustained as consumer sentiments improve in lieu of the resetting of GST and the introduction of targeted petrol subsidy even though we doubt prices of goods and services can be reduced significantly in the immediate future.

Pending greater policy clarity of which some of the announcements are targeted to be made within the first 100 days under the new government, i.e. by mid-August, we are maintaining our 2018 growth forecast at 5.0% for now. Growth is expected to taper off from last year's 3-year high, supported by more moderate expansion in both domestic demand and exports. To recap, in 2017, gross exports increased at its fastest pace in 13 years, by 19.4% (1Q18: +6.0%), while domestic demand growth was at a 4-year high of 6.5% (1Q18: +4.1%). In addition to the high base effect, a stronger currency and potentially lower CPO prices are also among key dampening factors that would keep a lid on growth performance this year, not forgetting softer growth outlook of our major trading partners save for the US.



Hong Leong Bank Berhad

Fixed Income & Economic Research, Global Markets

Level 8, Hong Leong Tower

6, Jalan Damanlela

Bukit Damansara

50490 Kuala Lumpur

Tel: 603-2081 1221

Fax: 603-2081 8936

Email: HLMarkets@hlbb.hongleong.com.my

DISCLAIMER

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter. HLBB may, to the extent permitted by law, buy, sell or hold significantly long or short positions; act as investment and/or commercial bankers; be represented on the board of the issuers; and/or engage in 'market making' of securities mentioned herein. The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.