

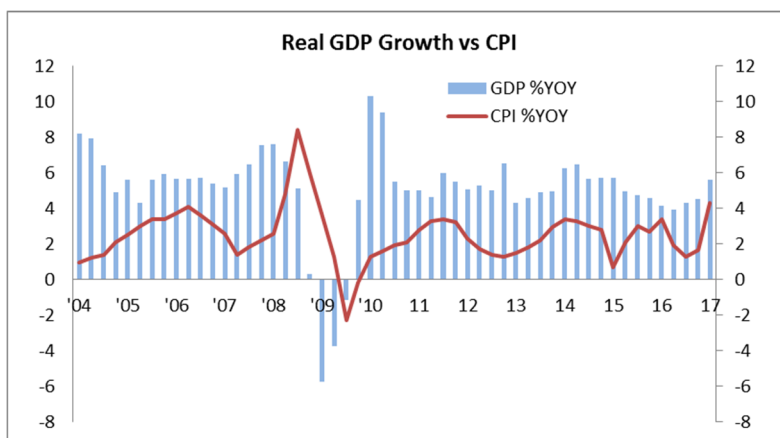
**Global Markets Research**  
**Economics - Malaysia**

## Surprisingly strong 1Q GDP

The Malaysian economy grew at a surprisingly strong pace of 5.6% YOY in 1Q17, marking its best growth in two years led by an impressive pick-up in domestic demand which more than offset the drag from net exports. The upbeat 1Q GDP print reinforced expectations for better growth outlook this year. We are revising our full year forecast up by 0.3ppt to 4.7% to take into account the sharply higher growth in the first quarter. We do not expect growth to pick up significantly from here as the global environment remains fluid plagued by potential policy shifts and geopolitical uncertainties that will have far-reaching implications on the world economy and financial markets. Domestically, continuous adjustments to higher costs of living will continue to pose challenges to consumers although pick-up in investment could help fill some of the slacks. No change to our view that modestly higher growth outlook in 2017 and transitory inflationary pressure shall support the case for OPR to stay unchanged this year.

Real GDP growth surprised on the upside at 5.6% YOY, its best in two years

**The Malaysian economy surprised on the upside with a 5.6% YOY growth in 1Q17.** This marked a 3<sup>rd</sup> consecutive quarter of acceleration, from +4.5% YOY in 4Q16 and its fastest in two years. **A sharp pick-up in domestic demand led by private consumption was the main catalyst pushing up growth during the quarter, offsetting the drag from net exports.** Domestic demand growth more than doubled to 7.7% YOY in 1Q17, bouncing back significantly from preceding quarter's seven-year low growth of 3.2% YOY. As we have cautioned earlier in our commentary on exports, net exports turned negative again as robust exports growth was offset by even quicker gain in imports. On a seasonally adjusted QOQ basis, real GDP increased at a faster pace of 1.8% in 1Q (4Q: +1.3%).

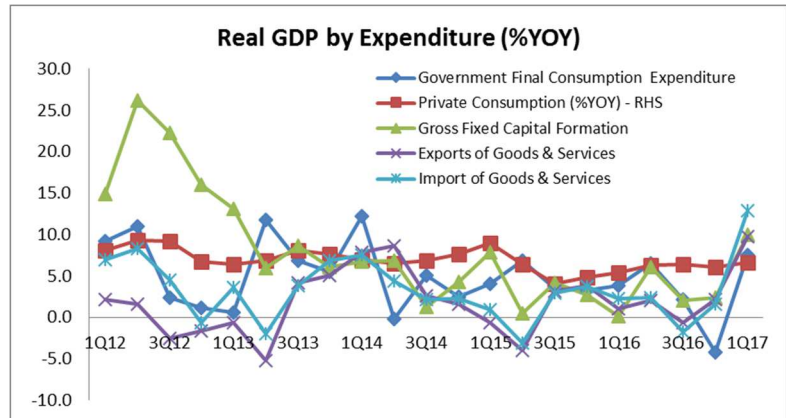


The sharp rebound in domestic demand offered some reprieves...private activities picked up and the public sector turned around

**Domestic demand which accelerated for the first time in three quarters offered some reprieves.** The recovery was broad-based with the private sector firmly in the driving seat and further support from the public sector. **Private consumption expanded at a faster pace of 6.6% YOY in 1Q** (4Q: +6.1%), supported by employment and wage growth as well as higher government cash assistance. **Private investment also gained traction**, rising at double-digit pace of 12.9% YOY in 1Q17 (4Q: +4.9%) driven by continued investment in the manufacturing and services sectors.

...net exports turned negative again

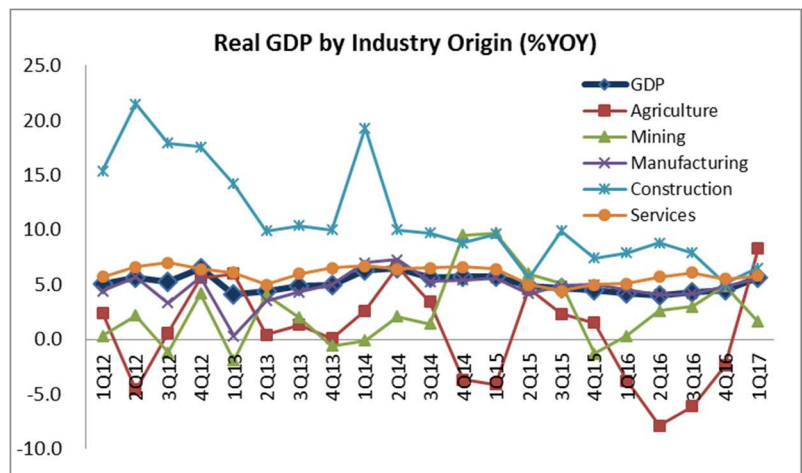
**Public sector expenditure also showed better performance** with turnarounds seen in government consumption (+7.5% vs -4.2% YOY) and investment (+3.2% vs -0.4%). Aggregate investment as measured by gross fixed capital formation jumped 10.0% YOY in 1Q, its fastest pace in four years. Meanwhile, **net exports turned negative again**. Even though growth in exports of goods and services quickened to 9.8% YOY in 1Q (4Q: +2.2%), imports expanded at an even quicker pace of 12.9% YOY (4Q: +1.6%), erasing all contribution from exports.



Improvement in all sectors except mining

**On the supply side, growth picked up across all sectors except the deceleration in mining. The services and manufacturing sectors remained the top two growth contributors followed by a turnaround in agriculture** as CPO production recovered from the adverse effect of El Nino. Growth in the agriculture sector rebounded strongly to 8.3% YOY in 1Q (4Q: -2.4%), its best performance since 3Q11. The services sector expanded 5.8% YOY in 1Q (4Q: +5.5%), thanks to higher growth in wholesale & retail trade subsector, and finance & insurance as reflected in higher loans growth and capital market activities.

Growth in the manufacturing sector also quickened to 5.6% YOY (4Q: +4.7%), driven mainly by the E&E sector and supported by continued growth in domestic-oriented sectors. Civil engineering activities in the oil & gas and transportation sector spurred growth in the construction sector to 6.5% YOY in 1Q (4Q: +5.1%). The deceleration in mining sector value-added did not come as a surprise given the oil production cut beginning January in line with global effort to curb oil production.



Current account surplus narrowed on smaller surplus in the goods account

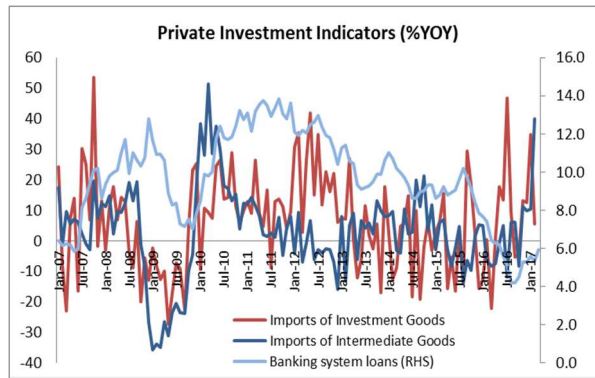
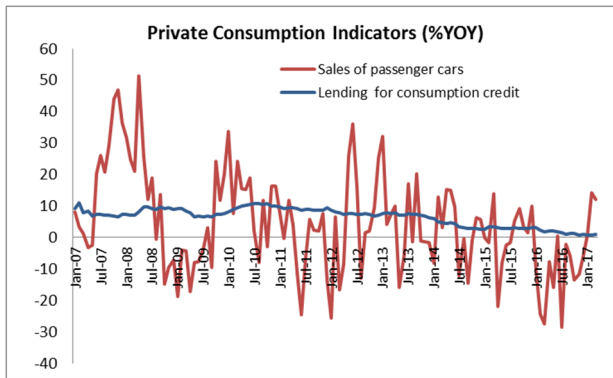
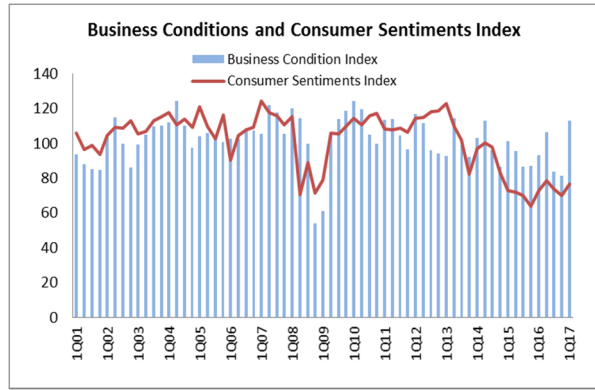
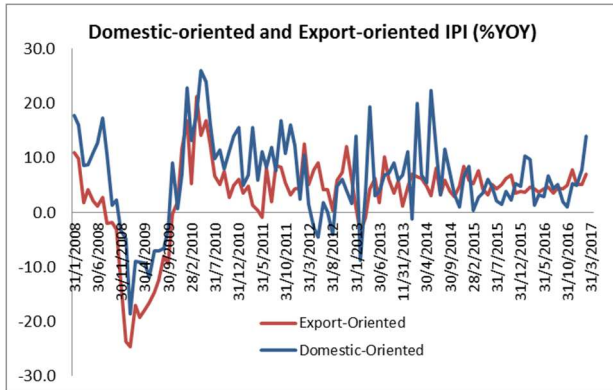
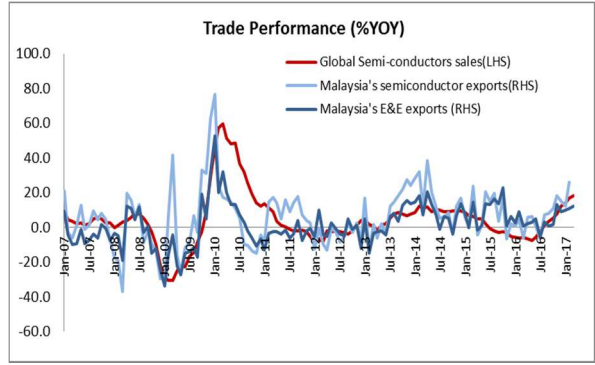
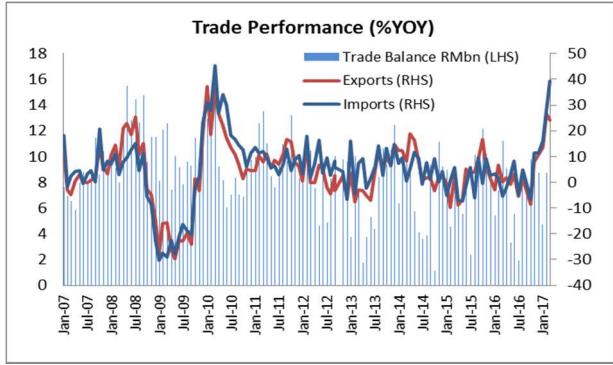
In a separate release, Malaysia's current account surplus narrowed for the first time in three quarters. **The surplus position in the current account narrowed to RM5.3bn in 1Q17**, after a hefty increase to RM12.5bn in 4Q, but still above the low

of RM3.1bn seen in 2Q16. The smaller surplus was due to **lower surplus in the goods account** (RM25.3bn vs RM31.2bn) **as well as a slightly higher deficits in the services account** (-RM6.2bn vs -RM5.4bn) **and income account** (-RM13.8bn vs -RM13.3bn). **Deficit in the financial account however narrowed to RM8.8bn in 1Q (4Q: -RM14.2bn) as a result of smaller net outflow in portfolio investment** as the markets normalized from Trump aftershocks.

*Revising full year growth forecast higher to 4.7%*

The upbeat 1Q GDP print reinforced expectations for better growth outlook this year. **We are revising our full year forecast up by 0.3ppt to 4.7% to take into account the sharply higher growth in the first quarter.** We do not expect growth to pick up significantly from here as the global environment remains fluid plagued by potential policy shifts and geopolitical uncertainties that will have far-reaching implications on the world economy and financial markets.

**Domestically, continuous adjustments to higher costs of living will continue to pose challenges to consumers although pick-up in private investment could help fill the slack.** MIER business condition index rallied above the 100-demarcation level again to 112.7, signaling renewed optimism in 1Q17, bolstering hopes for a pick-up in business activities going forward. Consumer sentiments index also rebounded to 76.6 in 1Q17 but remained subdued near record low. **In anticipation of modestly higher growth outlook in 2017 and transitory inflationary pressure, we maintain our view for OPR to stay unchanged this year.**



**Hong Leong Bank Berhad**

Fixed Income &amp; Economic Research, Global Markets

Level 6, Wisma Hong Leong

18, Jalan Perak

50450 Kuala Lumpur

Tel: 603-2773 0469

Fax: 603-2164 9305

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.