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Economic Update

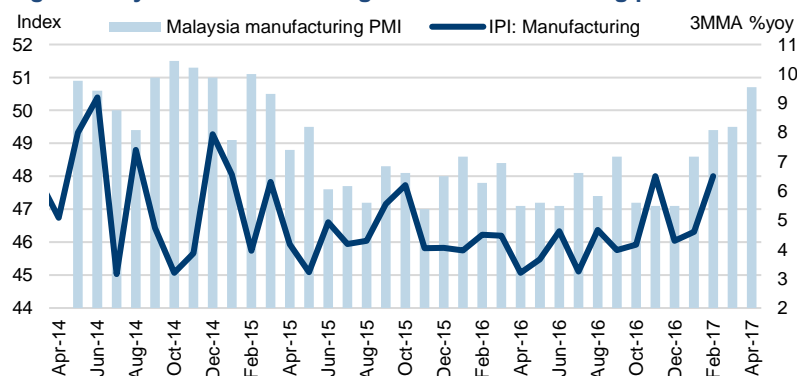
Malaysia's manufacturing PMI expands to 50.7 in April

Real GDP growth likely to recover above 5% for 1Q17F

Malaysia's manufacturing Purchasing Managers' Index (PMI) rose by 1.2 percentage points to 50.7 in April, from 49.5 in March, rising above the 50-level for the first time since March 2015, indicating stronger expansion and growth momentum in Malaysia's manufacturing sector. Since the launch of Malaysia's manufacturing PMI by IHS Markit, first released for June 2015, this short-term leading indicator has been tracking closely the country's performance in the manufacturing sector as well as exports of manufactured goods (see Fig 1). The trends in Malaysia's monthly PMI was also consistent with the country's leading index (LI), an indicator designed by the Department of Statistics (DoS) to predict the direction of the economic activity; it rose from 0.5% yoy in January to 0.8% in February.

Malaysia – Manufacturing PMI

Fig 1: Malaysia's manufacturing PMI vs manufacturing production



Source: CEIC, IHS Markit

According to Markit, the April's PMI manufacturing survey showed production and new orders increasing concurrently for the first time in over two years. This reflected mainly in higher new export orders, as demand from overseas markets for Malaysian-produced goods strengthened during the month to cushion the weakness from domestic-based clients. As a result, we believe growth in Malaysia's exports, which rose sharply from 13.6% yoy in January to 26.5% in February, will likely remain strong in 1H17. Demand from China will likely continue to improve, especially for electrical & electronic (E&E) related products. This has also been reflected in Malaysia's strong imports of intermediate goods, a leading indicator of the performance of future exports, which rose sharply by 39.9% yoy in February (10.4% in January). Apart from output and new orders, all the other major components, namely employment, suppliers' delivery times and stocks of purchases, also improved in April.

In the latest survey by Malaysian Institute Economic Research (MIER), the business condition index (BCI), which is also a leading indicator of economic activity in the manufacturing sector, rose sharply from 81.2 in 4Q16 to 112.7 in 1Q17. This was above the 100-level mark for the first time after seven quarters, reflecting that manufacturers responding to the survey are turning positive on the business outlook in the short term. We expect the country's real GDP growth to recover strongly from 4.5% yoy in 4Q16 to above 5% for 1Q17F, sharply higher than our earlier estimate of 4.7%. However, we are maintaining our GDP growth projection at 4.4% yoy for 2017 (4.2% yoy in 2016), but may revise it after the first quarter GDP growth result, which will be released on 19 May 2017.

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Focus Charts

Chart 1: Malaysia's manufacturing PMI vs exports

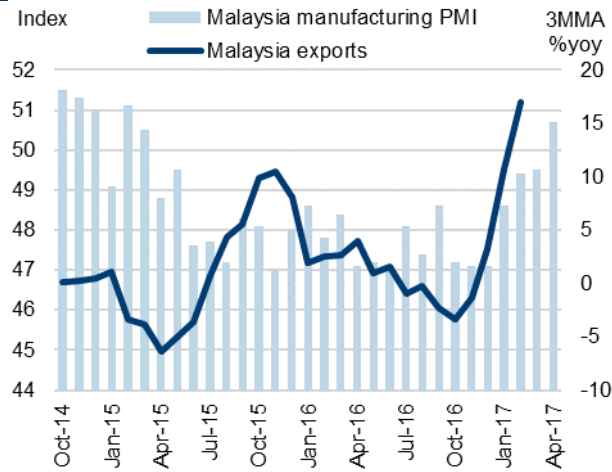


Chart 2: Regional PMI performance

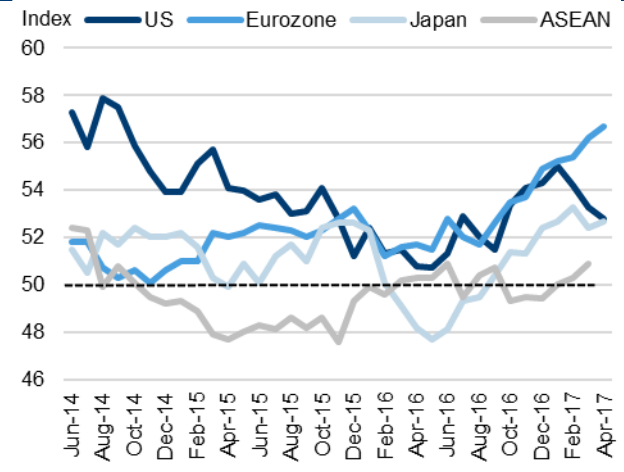


Chart 3: Malaysia's production

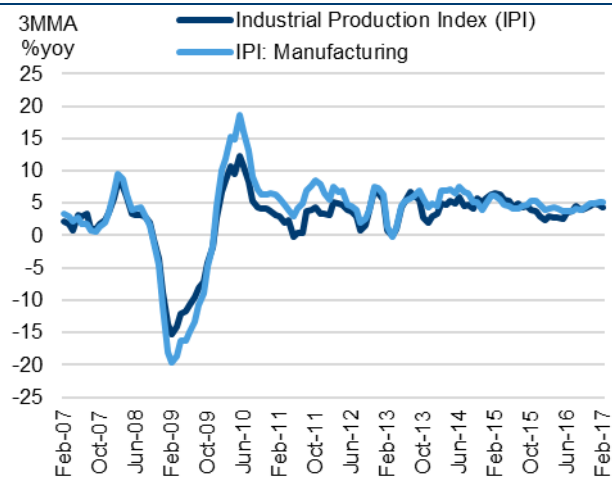


Chart 4: Malaysia's E&E products growth

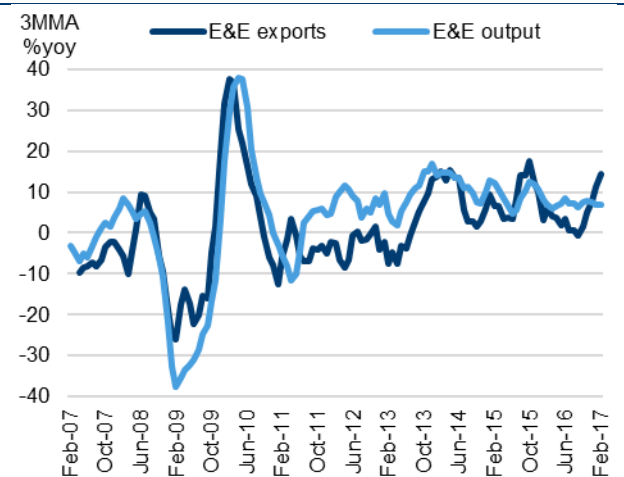


Chart 5: MIER survey

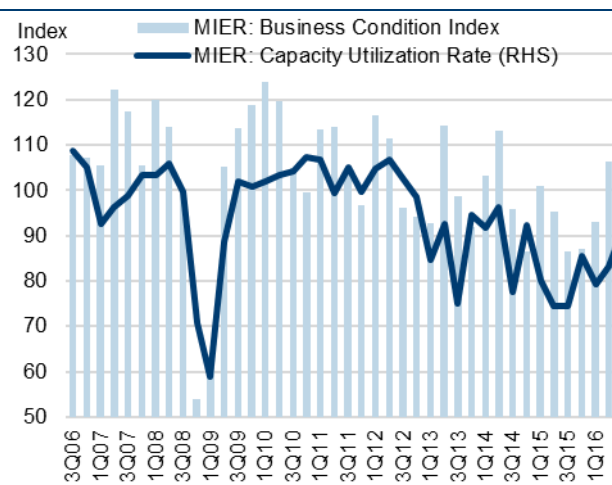
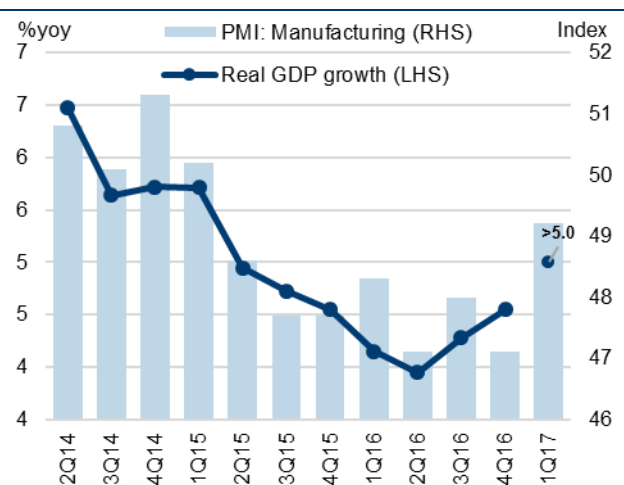


Chart 6: Malaysia's GDP vs manufacturing PMI



Source: All data for charts sourced from CEIC and Bloomberg

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BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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