MALAYSIA WEEKLY ECONOMIC NEWS

(16 January 2017 – 20 January 2017)

Topics	Highlights
CIMB Research retains Underweight on auto sector, favours Bermaz	CIMB Equities Research is maintaining its Underweight call on the auto sector due to persistent weakness in consumer sentiment and potential margin erosion from higher operating expenditure (opex) and intense competition. CIMB Research said total industry volume (TIV) for January-November 2016 fell 12.5% on-year to 515,000 units due to weaker consumer sentiment and tightening credit from financial institutions. The total hire purchase loans approval lost 3.5 percentage points on-year to 52.9% while the total loans applied amount also dropped 9.4% or RM7.7bil in 2016. The lower TIV was also attributable to higher car prices as several auto companies raised their prices in 2016. As a result of lower sales volume, sector revenue fell 13.8% in 2016. It also took a big hit from the depreciation of the ringgit against the US dollar and yen, given most of the cost components such as the imported Complete Built Up (CBU) model and Complete Knock Down (CKD) kit components are derived in foreign currency. *(Source: The Star, 16 January 2017)*
Demand for medical gloves has reached critical level - Margma	The demand for medical gloves is not only growing but has reached a critical situation as some countries are badly hit by the bird flu and are running out of stock. In a statement, the Malaysian Rubber Glove Manufacturers Association (Margma) said it was optimistic of the usual 8% to 10% annual growth for medical gloves and forecast a higher revenue due to higher selling prices. The incessant heavy rains and flooding in some areas had badly affected natural rubber (NR) producers. There is limited stock of raw materials and it is only a matter of time before shortages will be severely felt, and if prolonged, may cause natural rubber prices to rise further. In September 2016, the NR latex average price was RM4.56 per wet kilo (kg) and today, it stood at RM7.15 per wet kg. *(Source: The Star, 17 January 2017)*
Bank Negara seen standing pat to stabilise ringgit	Malaysia's central bank is expected to keep its benchmark rate steady as policymakers work to stabilise a fragile ringgit currency and support an economy that is just starting to pull ahead after well over a year of slowing growth. The ringgit tumbled to almost a 20-year low of 4.4980 on 4 January 2017 as capital was sucked out of emerging countries on bets US interest rates will rise faster to match an expected boost to fiscal spending under incoming US President Donald Trump. All 11 economists polled by Reuters forecast Bank Negara to hold its key rate at 3% tomorrow, as a cut to follow its July easing would expose the ringgit to more pressure. HSBC analysts said in a research note the weak ringgit had tied the central bank's hands, even if an "accomodative" monetary policy could help bolster the economy. Bank Negara was widely expected to deliver a second interest rate cut before the end of last year in 2016, but the sell-off in the ringgit appeared to have put paid to such a move. *(Source: The Star, 18 January 2017)*

MIER lowers M'sia's growth outlook to 4.5% in 2017	The Malaysian Institute of Economic Research (MIER) has lowered its growth outlook this year to 4.5%, saying external demand is not likely to be as strong as expected. While commodity prices are showing signs of recovery, the slowdown in global trade and investment flows is expected to prolong, warned the think tank's executive director Dr Zakariah Abdul Rashid. Oil prices are expected to be sticky upwards, as the production agreement is believed to be fragile and may fail to bring down the supply glut. Growth in China and Japan are also possibly slower. Dr Zakariah also highlighted that a rise in protectionist sentiment in developed economies, thanks to recent political developments across the world, will affect growth. Domestic demand continues to be the engine of growth for this year, but growing at a slower rate of 4.6%, as both private consumption and investment are expected to grow moderately. Export demand has been downgraded to 1.3% from an initial forecast of 3.0% a year. Stronger commodity prices are expected to strengthen the current account balance for the year. On inflation, he said the level is anticipated to be higher at 2.7%. MIER has maintained its GDP growth projection for 2016 at 4.2%, led by domestic demand. For 2018, the economy is expected to grow at a faster clip of between 4.7% and 5.3%, as the think tank expects both domestic and export demand to improve further. *(Source: New Straits Times, 19 January 2017)*
Bank Negara maintains OPR at 3%	Bank Negara has kept the overnight policy rate (OPR) at 3% at its Monetary Policy Committee (MPC) meeting held 19 Janaury 2017. This was in line with the recent views from economists that predicted the central bank would maintain its key benchmark rate at the current level after a 25-basis points cut in July 2016. At the current level of the OPR, the central bank said the degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid a stable core inflation, supported by sustained financial intermediation in the economy. For Malaysia, the central bank said the latest indicators point to continued expansion in the fourth quarter of 2016. “Going forward, private sector activity will remain the key driver of growth. Private consumption is expected to be sustained by continued wage and employment growth, with support from various policy measures to raise disposable income. *(Source: The Star, 20 January 2017)*

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