MALAYSIA WEEKLY ECONOMIC NEWS

(28 March 2016 – 1 April 2016)

Topics	Highlights
El Nino seen cutting Malaysia palm oil output by 2 million tonnes	Palm oil output in Malaysia, the world's second-largest producer, is estimated to fall by 2 million tonnes from a year earlier in the oil year ending September 2016 due to the effects of El Nino, leading industry analyst Dorab Mistry said. The decline in production, its sharpest in at least seven years, could bring stronger rallies to benchmark palm oil prices, which have risen 5% in the last two weeks to a two-year high of 2,726 ringgit (USD676) a tonne on Friday (25 Mar 2016). Malaysian output is expected to decline by a million tonnes in the first half 2016 due to severe dry weather in Sabah since the second half of January 2016 and that is likely to continue until the first half of April 2016. (Source: NST, 28 March 2016)
Aerospace industry to contribute RM55.2 billion to Malaysian economy by 2030	The aerospace industry in Malaysia is projected to contribute a total revenue of RM55.2 billion to the economy by 2030. From the total revenue, maintenance, repair and overhaul (MRO) would contribute RM20.4 billion, RM13.6 billion for aero-manufacturing and RM13.6 billion for engineering and design services. Dato' Seri Mustapa Mohamed (MITI) said the aerospace industry is a high-value industry in Malaysia's diversified economy. He said the total revenue generated by the sector currently stood at RM11.8 billion. Meanwhile, the export of the country's aerospace products recorded a significant increase of 44.7% from RM2.9 billion in 2014 to RM4.2 billion in 2015. The export items include composite parts and components (RM4.07 billion), aerospace communication system and parts and avionics (RM86.8 million), and aircraft propellers and rotors (RM3.1 million). (Source: NST, 28 March 2016)
S&P reaffirms Malaysia's sovereign ratings	Standard & Poor's (S&P) Ratings Services has reaffirmed Malaysia's rating at 'A-' with a 'stable' outlook reflecting their view that Malaysia's strong external asset position and high monetary flexibility would reduce the likelihood of a downgrade to less than one-in-three over the next 24 months. Factors that contributed to the rating were (i) expectations that the 1MDB issues and the upcoming change in Bank Negara Malaysia leadership will not diminish the effectiveness of policymaking either in the executive branch or at the central bank; and (ii) Malaysia's strong external position (a result of years of current account surpluses) and fairly diverse economy can absorb some weakness in the oil and gas sector. Factors that may lower the rating (i) weakening of Malaysia's public finance or institutional settings; (ii) if the Government dilute its recent fiscal measures or the incoming BNM leadership that could lead in conduct of monetary policy to be less effective than it has been in the past; and (iii) if contingent liabilities crystalise on the Government's balance sheet materially. S&P Ratings do not expect to raise the sovereign ratings on Malaysia in 2016 or 2017. (Source: The Star, 29 March 2016)
Local banks' liquidity still healthy — RAM	The liquidity of the Malaysian banking system remains healthy despite some tightening, said RAM Rating Services Bhd. It said the sector's Basel III liquidity coverage ratio (LCR) stood at 125% at end-January 2016 which is higher than the final requirement of 100% (effective 1 January 2019). Based on the RM50billion of statutory deposits as at end-January 2016, the recent 50-basis point cut in the statutory reserve requirement (SRR) ratio to 3.5% from 4% will provide a RM6 billion boost to the system's liquidity, while BNM will establish a committed liquidity facility. BNM still has room to further lower the SRR ratio which descended to a historical low of 1% between March 2009 and March 2011. The Malaysian banking sector's deposit growth dropped to 1.1% in 2015 from 7.7% in 2014 mainly due to the capital outflows and partly due to the reclassification of certain Islamic deposits to investment accounts. (Source: The Edge Financial Daily, 30 March 2016)
Rising prices limiting palm oil exports from Malaysia	Malaysia's palm oil exports to predominately Muslim countries have been falling as rising prices for the tropical oil and weak domestic currencies are limiting imports, and the high-consumption period of Ramadan is unlikely to turn the trend. This could limit gains for benchmark palm oil prices that have rallied to a two-year high on concerns that output from the main South-East Asian growers will fall this year because of drought caused by

	the El Nino weather pattern. According to Aurelia Britsch (BMI Research), the Middle East and Northern African countries are currently seeing a challenging macroeconomic environment amidst low oil prices. The economic growth is slowing down and the governments in those countries are cutting public spending due to the deterioration in their fiscal position. Hence, these two factors have weakened the consumer's spending power and demand for palm oil. US Department of Agriculture data showed that the combined 2015 imports from Bangladesh, Pakistan, Egypt and Middle East countries were among the top 10 global importers which rose to 6.1 million tonnes, surpassing China for the first time. (Source: The Star, 30 March 2016)
Shortage of workers costs Sarawak palm oil industry RM1b per year	Sarawak suffered estimated losses of RM1billion a year in the oil palm industry due to uncollected fresh fruit bunches arising from a workforce shortage said Tan Sri James Jemut Masing (Minister of State Land Development). The industry is facing a shortage of more than 30,000 workers, especially for harvesting and collection of fresh fruit bunches as the locals preferred maintenance work such as pruning and weeding. Sarawak has about 1.4 million hectares of oil palm plantation, offering jobs in various categories to 103,095 workers in 2015. However, about 78% of the workers are foreigners while 22% are Malaysians, including locals and those from the Peninsula Malaysia and Sabah. Among the reasons given on why the locals do not want to work in the industry include the fact that it is a 3D job (dirty, dangerous and difficult), long working hour and unattractive salaries. (Source: The Star, 31 March 2016)
Malaysian banks to see 'strategic opportunities' from TPP	The Trans-Pacific Partnership (TPP) agreement will improve global market access for local banks, and will bring with it strategic opportunities to the players, said RAM Rating Services Bhd. (RAM Rating). The more sizeable trade flows among TPP member countries will result in demand for trade finance services, such as letters of credit or guarantees and hedging products. This would provide Malaysian banks with avenues to expand their customer bases and grow their interest- and fee-based revenues. (Source: The Edge Financial Daily, 31 March 2016)
RAM sees subdued insurance and takaful sectors growth in 2016	RAM Rating Services Bhd. is expecting growth in the Malaysian insurance and takaful sectors to moderate in 2016 amid the challenging landscape and uncertainties in the financial markets. RAM Rating said the gross premiums were projected to expand about 5% for life insurance (2015: 5.4%), 2.0-3.0% for general insurance (2015:1.7%) and 4.0-5.0% for takaful contributions (2015: 6.0%). Despite the likelihood of slower momentum in the near term, the industry's mid to long-term outlook remains favourable given the low insurance penetration rate, rising consumer awareness and greater efforts in product innovation and distribution. RAM Ratings said insurers and takaful operators' capitalisation levels and reserves remained robust and the industry is supported by a sound and prudent regulatory framework. (Source: The Edge Financial Daily, 1 April 2016)

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