MALAYSIA WEEKLY ECONOMIC NEWS

(11 July 2016 – 15 July 2016)

Topics	Highlights
StanChart: Bank Negara may cut rates only in September	Standard Chartered Global Research is expecting the Bank Negara Malaysia (BNM) to maintain its overnight policy rate (OPR) in its Monetary Policy Committee (MPC) Meeting on 13 July 2016 unchanged at 3.25% and cut rates only in September 2016. StanChart said the case for a rate cut in 2016 remains valid, despite BNM's largely neutral monetary policy tone. It said the outlook for external and domestic growth is poor, while inflation was unlikely to hold back any easing impetus. Private consumption is the key growth support however, worsening labour-market conditions are likely to depress consumer sentiment. Private consumption eased to 5.3% year-on-year in the first quarter 2016 versus the first quarter average of 7.4% in 2011-2015. Furthermore, it said the labour market was weakening as the unemployment rate rose to 3.5% in March 2016 (the highest since June 2010). Slower property price increases and financial-market volatility may also dampen spending sentiment. In its view, pressure on BNM to ease further this year had increased significantly. (Source: The Star, 11 July 2016)
Bright outlook seen for bond market	With the strong prospect of an OPR rate cut this year, coupled with Brexit, the outlook of the Malaysian bond market looks bright with yields expected to slide further. Market analysts are expecting at least a 25-basis point (bps) cut for the OPR in 2016, which currently at 3.25%. Post-Brexit local bond yields have been trending lower and this is attractive for issuers to raise funds for expansion due to the lower cost of borrowing. Maybank Investment Bank fixed income analyst Winson Phoon said that the downside risks to global economic growth might cause the US Federal Reserve to delay a rate hike and other major central banks could expand monetary easing to cushion the Brexit shocks which is positive for the bond market. He expects bond yields to receive good support in the near term and that he is maintaining the bank's issuance forecast for government bonds (Malaysian Government Securities (MGS) and Government Investment Issue (GII)) at RM87 billion and private debt securities (PDS) at between RM80 billion and RM85 billion in 2016. However, he is revising the 10-year MGS yield target down to 3.65% by the end of the third quarter as the uncertainty caused by Brexit has strengthened the case for an OPR cut in 2016. (Source: The Star, 11 July 2016)
Malaysia's May industrial output expanded at slower pace	Malaysia's industrial production index (IPI) in May 2016 rose at slower pace of 2.7% from May 2015 but the growth did exceed a survey of 2.5% growth. The growth was also slower than April's year on-year growth of 3.0% due to the decline in the mining output by 1.1%. However, the manufacturing and electricity sectors expanded 3.6% and 9.6% respectively. Major manufacturing sub-sectors which expanded were electrical and electronics products (8.3%); petroleum, chemical, rubber and plastic products (5.1%) and non-metallic mineral products, basic metal and fabricated metal products (5.8%). In seasonally adjusted terms, the IPI in May 2016 grew 0.9% month-on-month following an increase in the mining index (1.3%) and manufacturing index (0.4%). Meanwhile, the electricity index decreased by 0.8%. (Source: The Star, 12 July 2016)
MAHB: June passenger traffic down 4.2% to 9.05 mil	Malaysia Airports Holdings Bhd (MAHB) said passenger movements at its airports, including Istanbul's Sabiha Gocken International Airport (SGIA), fell 4.2% to 9.05 million in June 2016, compared with 9.45 million a year ago. This was due mainly to the seasonally-lesser travelling during the Ramadhan period which affected both Malaysia and Turkey. MAHB disclosed that total passengers in June 2016, excluding SGIA, was 4.9% lower at 6.65 million compared with 7 million last

	year. International passengers dropped 1.5% to 3.24 million, while domestic passengers declined 7.9% to 3.42 million. Overall aircraft movements decreased 6.7% with a reduction in international and domestic movements by 1.7% and 9.6% respectively compared to June 2015. SGIA's passenger traffic was negatively affected by the bombing at neighbouring Ataturk Airport, visa restrictions as well as lesser travel during Ramadhan month. Meanwhile, Malaysia Airlines registered a double-digit decline in international passenger movements and a single-digit decline in domestic passenger movements. The vacuum, however, has largely been filled by AirAsia group, Malindo and other airlines, all of which registered double-digit growth. (Source: The Edge Financial Daily, 13 July 2016)
BSN to revise base rates following OPR cut	Bank Simpanan Nasional (BSN) will be revising its base rates in line with BNM's reduction in OPR to 3.0%. As it adjusts its interest rate strategy, BSN will closely look at what the industry is doing as this will affect more of the floating rate loans which they will have to relook at in terms of the pricing, specifically helping the B40 and the lower income group (Source: NST, 14 July 2016)
Maybank lowers interest rates to 3%	Malayan Banking Bhd. is lowering the interest rates for loans and savings by 20 basis points, effective 15 July 2016. It said the BR will be lowered by 20 basis points from 3.2% per annum to 3% per annum while its BLR will also be revised from 6.85% to 6.65% per annum. The Islamic base rate and base financing rate will be reduced by 20 basis points to 3% per annum and 6.65% per annum respectively from 3.20% and 6.85% previously. BNM said the ceiling and floor rates of the corridor for the OPR were correspondingly reduced to 3.25% and 2.75% respectively. Datuk Abdul Farid Alias (Maybank's group president & CEO) said the revision in Maybank's rates will benefit borrowers as all loans / financing pegged to the base rates or BLR / BFR would also be adjusted accordingly. This revision will assist existing and potential borrowers contend with the current challenging environment and help spur economic and business growth in the country. (Source: The Star, 15 July 2016)
Over 3,000 job cuts likely as Seagate, Western Digital leave Penang	Malaysia is likely to experience job cuts in the wake of a move by two American investors who are pulling out a major portion of their operations. Penang is set to be the largest casualty as hard disk maker Seagate Technology PLC and computer data storage firm Western Digital Corp (WD) will be relocating the bulk of their operations to Thailand. Seagate will exit from Penang and Negeri Sembilan whereby the Penang facility is said to have over 3,000 Malaysian staff. The company is also said to be putting up its Bayan Lepas facility for sale, along with a 16.4 ha land in Batu Kawan on mainland Penang where it had announced two years of its expansion. Meanwhile, WD is expected to lay off 400 Malaysian staff and 800 foreign workers from its Penang manufacturing site. Nevertheless, Seagate’s operations in Senai, Johor will remain for now. Seagate’s investment history in Malaysia dates to 1988 and the largest layoff the company underwent in Penang was over a decade ago when some 4,000 people were laid off. (Source: NST, 15 July 2016)

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