MALAYSIA WEEKLY ECONOMIC NEWS

(20 June 2016 – 25 June 2016)

Topics	Highlights
Ringgit, oil prices spur gold jewellery export sales	While the implementation of the (GST and weaker consumer sentiment have dampened the sales of gold jewellery in the domestic market, it's not all doom and gloom for the industry. Exports of gold jewellery are enjoying a boost from the ringgit's depreciation against the US dollar and the recovery in oil prices, said Ermin Siow (President of Federation of Goldsmiths and Jewellers Association of Malaysia). The Middle East is the main exporter market, accounting for about 90% of the country's gold jewellery exports. As a result of the weaker ringgit, labour charge becomes relatively cheaper compared with other exporters. The price of gold jewellery from Malaysia is therefore more competitive. It was previously reported that the first-quarter export sales number could grow as much as 15% year-on-year. However, the outlook for export sales is still mixed as there are uncertainties due to the likelihood of Brexit. Analysts opined that Brexit will result in a surge in gold prices as the metal is seen as a safe-haven proxy. Demand will decline if the gold price hike. As for the domestic market, the outlook for the gold jewellery industry is still gloomy, but industry players are expecting an improvement in the second half due to surge in sales during Ramadan and Hari Raya season. (Source: The Edge Financial Daily, 20 June 2016)
Malaysian palm oil price at 5-month low on delayed start to biodiesel mandate	Malaysian palm oil futures fell on Monday (20 June 2016) after the Government decided to delay the start of its B10 biodiesel mandate to July 2016 and aimed to complete full implementation of its new standard by August 2016 (initial planned was in June 2016). The B10 programme aims to raise the minimum bio-content of biodiesel to 10% for the transport sector and also to raise the bio-fuel content for the industrial sector to 7%. (Source: The Star, 21 June 2016)
Automotive sector's negative outlook maintained	RAM Rating Services Bhd has maintained its "negative" outlook on the Malaysian automotive sector and expects total industry volume (TIV) to contract up to 10% in 2016, following a 17.6% year-on-year (y-o-y) plunge in vehicle sales to 218,101 units in the first five months of 2016. Poor consumer sentiment, compounded by the front-loading of sales in 2015 had resulted in the severe downtrend in TIV. Consumer confidence is expected to remain weak in 2016, owing to the uncertain economic environment, the rising cost of living and tighter credit conditions. These challenges will pose a severe drag on automotive sales, although a slight uptick is anticipated in the second half, in view of the introduction of significant new models Meanwhile, CIMB Research and MIDR Research maintained its "neutral" stance on the local automotive sector. Given the weak consumer sentiment and higher car prices as a result of increasing input cost, consumers are holding off purchasing big-ticket items. June sales could strengthen further, sequentially driven by pre-festive (*Raya Aidilfitri*) buying and the recent new Proton Perdana. (Source: The Star, 22 June 2016)
Brexit: Impact on Asian economies small, commodity-related impact for Malaysia	According to Credit Suisse, Asian exports do not rely heavily on UK demand hence the direct impact on the regional economies except Japan would likely be small in the event of a possible exit from the EU. However, countries like Singapore, Hong Kong and Vietnam are relatively more exposed. Singapore's exports to the UK account for about 2% of GDP, materially higher than in other economies in the region. Commodity-related sectors and business processing exports could also be more vulnerable. Agricultural and processed food are exported from Malaysia, Thailand and Vietnam while mining products (Malaysia and Vietnam). The macro impact could be larger as Brexit would negatively affect

	the EU economy. In this scenario, the effect on Asian economies' exports could be 2-3 times larger than that of an isolated UK downturn with Singapore and Vietnam standing out as possibly the most vulnerable with shares of exports to the EU as high as 6 to 7% of GDP. Capital flows could be disrupted, but this would be unlikely to change Asian central banks' policy stances. Malaysia's short-term portfolio inflows would likely be affected especially in bonds and equities, while Indonesia could be affected mainly in bonds and Taiwan, mainly equities. (Source: NST, 23 June 2016)
MyEG fined RM2.7mil for harming competition in foreign worker insurance sale	The Malaysia Competition Commission (MyCC) has fined MY E.G. Services Bhd. (MyEG) RM2.272 million for abusing its dominant position in how it manages online foreign workers permit (PLKS) renewals. MyCC said by virtue of their shareholdings and directorships, MyEG and MY E.G. Commerce Sdn. Bhd. (MyEG Commerce) were a single economic unit as defined under the Competition Act 2010. (MyEG Commerce is 100% owned by MyEG.) MyCC said it found that MyEG, together with MyEG Commerce, had infringed the Act by "abusing its dominant position in harming competition in the downstream market in which MyEG Commerce is participating as an insurance agent for online PLKS renewal applications. The competition authority said different conditions were imposed to equivalent transactions with its competitors to the extent that it had harmed competition in the downstream market for the sale of mandatory insurances. (Source: The Star, 24 June 2016)
Impact on Malaysia minimal in the long run	MITI said although there may be some impact in the short term, Brexit's medium-to-long-term effect on Malaysia's trade and investment will be minimal due to our strong fundamentals and economic diversification. Brexit will have minimal impact on FDIs as they are normally long-term in nature and the exchange rate volatility is usually priced into the FDI-related contracts. Malaysia would explore the possibility of having a separate Free Trade Agreement (FTA) with Britain as part of efforts to open up further business opportunities with the country. Britain may no longer be part of the currently negotiated Malaysia-EU FTA. Britain is Malaysia's third largest trading partner in the EU and the fourth largest source of investment. As at 2015, Malaysia has implemented 433 manufacturing projects with British investments valued at RM6.8 billion. Malaysia's trade with Britain stood at RM16.45 billion or 1.1% of Malaysia's total trade in 2015, a growth of 9.5% from RM15.02 billion in 2014. The immediate knee-jerk reaction to the news is the depreciation of the pound. If this continues in the long-term, Britain will be attractive to Malaysians as a destination for property investment and education. (Source: The Star, 25 June 2016)

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27 June 2016