MALAYSIA WEEKLY ECONOMIC NEWS

(27 June 2016 – 1 July 2016)

Topics	Highlights
Fewer auctions despite softer property market	Auctioneers are seeing a decline in the number of properties being auctioned off, despite the expectation or more houses and shop lots going under the hammer in the current challenging economic environment. However, the drop in the number of properties being auctioned off is not a sign of recovery in the domestic property market. Ng Chan Mau & Co Sdn. Bhd., a licensed auctioneer had noticed that auction cases have been lesser than before with the average number of cases the company gets per month has declined about 30% year-on-year. The decline in the number of auction cases are due to (i) greater leniency provided by banks to individuals facing problems servicing their mortgages; (ii) promotion of Credit Counselling and Debt Management Agency (AKPK) which provides debt counselling servicing thus reducing default rates; (iii) AKPK also helps to restructure the mortgages if financially stressed mortgage holders with i.e. lower monthly payments by extending the loan tenure; (iv) individuals are also able to withdraw their savings with EPF to pay off their mortgages; and (v) tighter lending policies imposed by Bank Negara Malaysia (BNM) had managed to reduce the number of default cases. (Source: The Edge Financial Daily, 27 June 2016)
Odds to cut OPR have risen: UOB	The odds for BNM to ease its monetary policy have increased following the near-term risks from United Kingdom's exit from the European Union (EU). There is room to cut rates given real policy rates of 0.5% (nominal Overnight Policy Rate at 3.25% less estimated 2016 inflation). Economist Julia Goh (UOB Bank), however said the timing of a cut is uncertain as it is hard to assess the immediate and long term effects on Malaysia. The case for a cut is stronger if broader contagion risks arise. Given that exposure to UK is small, the direct effects on trade is minimal while slower EU growth will have more meaningful impact on Malaysia's trade. Businesses could hold back investment decisions, weighing on growth. Reversal of capital flows, liquidity tightness and ringgit weakness is another key risk but these are yet to be seen. Downside risks to growth would stem from a potential recession in UK and derailed recovery in EU. The most affected sectors are banking and financial sectors as UK banks have sizeable claims counterparties in Malaysia and they have up to 25% of total claim by foreign banks in Malaysia. (Source: NST, 28 June 2016)
Gas Malaysia hikes tariffs for non-power sector by nearly 6%	Gas Malaysia Bhd is raising the natural gas tariffs for the non-power sector in Peninsular Malaysia by 5.95% with effect from 15 July 2016. The average gas tariff will be revised upwards by RM1.52 per one million British terminal unit (MMBtu) or 5.95% from RM25.53 per MMBtu to RM27.05 per MMBtu. The tariff revision is in line with the national rationalisation plan and gas cost pass through (GCPT) mechanism that will see the revision of piped gas price taking place every six months. Gas Malaysia said there would be no change to the selling prices for residential customers, which is under category A, at RM19.52. While the tariff revision has no material impact on Gas Malaysia’s business operations, it is expected to contribute positively towards the financial position of the company for the financial year ending 31 December 2016. (Source: The Star, 29 June 2016)
Malaysian economy resilient to headwinds: World Bank	The World Bank says Malaysia's economy has remained resilient to external headwinds. It maintained the 4.4% GDP growth forecast for 2016. The 0.1% decrease in its projection versus that made in December 2015 was due to the slowing in private consumption growth. Private investment growth is expected to be moderate as commodity prices and global economy growth remain subdued.

	The World Bank, in its latest Malaysia Economic Monitor, also described Malaysia's fiscal consolidation as on track despite lower oil-related revenues. Overall export growth is expected to remain stagnant amid low commodity prices and weak global growth. However, a well-diversified export base, mainly in manufacturing goods, continues to provide support for exports. Import growth will also moderate in line with lower export and investment growth and its expectation is for the current account surplus to moderate to 2.1% of GDP in 2016 (from 3.0% in 2015 and 4.4% in 2014). While macroeconomic management has been solid, Malaysia's main challenge and opportunity lies in accelerating structural reforms. (Source: NST, 30 June 2016)
MARGMA: Higher glove prices due to gas price hike	Glove prices must be adjusted by USD0.40 – USD0.60 higher per 1,000 pieces considering higher gas tariff and the minimum wage factors, said the Malaysian Rubber Glove Manufacturers Association (MARGMA). President Denis Low Jau Foo said the natural gas price hike of 5.95%, effective 15 July 2016 would translate into additional cost of USD0.20 – USD0.30 per 1,000 pieces for nitrile gloves and USD0.20 – USD0.50 for latex gloves. Despite a longer notice period of 16 days this time around, a notice period of two months is needed as orders were placed months ahead. The quantum of the increase cannot be factored in until glove manufactures are notified by Gas Malaysia. The industry would still have to absorb the increase when it could be easily passed on to buyers, he added. (Source: The Star, 30 June 2016)
No change in power tariff rates	Electricity tariffs in Peninsular Malaysia, Sabah and Labuan remain unchanged until year-end. This followed the Government's decision to maintain power tariff rebate of 1.52 sen per kiloWatt hour (kWh) in the peninsula, said Energy, Green Technology and Water Minister Datuk Seri Dr Maximus Ongkili. The Government would absorb RM1.2 billion in electricity rebate for the next six months to keep tariffs at the current level. The decision was due to the decline in the global liquefied natural gas and coal prices and better efficiency at coal power plants which had led to lower generation cost. Another major factor was the review of the Imbalance Cost Pass-Through (ICPT) mechanism, in line with the government's efforts to reduce fuel subsidy by revising piped natural gas prices. The commercial and industrial users with electricity costs of at least 5% of total operating costs are eligible for Special Industrial Tariff. These consumers will receive discounts ranging from 3 – 10%. (Source: NST, 30 June 2016)
Malaysia PMI records 47.1 in June 2016	The headline Purchasing Manufacturing Purchasing Managers' Index posted 47.1 in June 2016, marginally lower than the reading in May 2016. It signals worsening operating conditions in the manufacturing sector. According to the Nikkei Malaysia PMI, production declined at the sharpest rate in over three-and-a half years, led by marked fall in total new orders. Production decreased for the fifteenth consecutive month in June 2016 and at the quickest rate since October 2012. Underpinning the contraction in total new orders was a drop in international demand, with new export orders declining for the first time in five months. As a result, employment stagnated and manufacturers cut back on buying activity for the 13th consecutive month. (Source: NST, 1 July 2016)

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