MALAYSIA WEEKLY ECONOMIC NEWS

(3 October 2016 – 7 October 2016)

Topics	Highlights
Oil prices, US Fed rate hike to affect ringgit performance	The Malaysian ringgit is likely to be affected by fluctuating oil prices, a survey by foreign exchange executives has revealed. The Bloomberg survey also found that the US Federal Reserve rate hike is a secondary challenge. The oil, gas and energy sector accounts for a fifth of Malaysia's GDP and movements in the ringgit have largely tracked that of oil price fluctuations in 2016. Some 71% of those polled in a Bloomberg FX16 symposium, which was attended by FX bankers, traders, brokers and corporate treasurers, expected the ringgit to hover between RM4.00 and RM4.20 levels versus the US dollar. Half the respondents expect the BNM to cut the Overnight Policy Rate (OPR). In terms of forex challenges for Malaysian firms, one third of respondents listed managing currency exposure as the greatest challenge, while 34% described the domestic political instability as the greatest risk to economic growth. *Source: NST, 4 October 2016*
Banks' YTD loan growth behind target	The August 2016 loan growth (+1.9% year to date [YTD], +4.2% year-on-year [y-o-y], +0.3% month-on-month [m-o-m]) remains subdued as business loan growth has been weak (+0.4% YTD due to increased repayments in sectors such as manufacturing and retail / trade), while the pace for household loans has also been moderating (+3% YTD). Despite BNM's 25-basis-point (bps) cut in the OPR on 13 July 13 2016, new loan applications, approvals and disbursements are seen reverting to the pre-OPR cut levels. On the other hand, the robust issuance of infrastructure project-related corporate bonds has also partly been the cause for weakness in the business loan segment. *Source: The Edge Financial Daily, 5 October 2016*
Bank Negara may need to cut OPR in Nov, says HSBC	Bank lending growth has slowed sharply in recent months to levels lower than during the global financial crisis which may make the BNM cut interest rates further in November 2016, said HSBC Bank. Economist Lim Su Sian said the largest sources of drag are property loans (both residential and non-residential) and working capital loans, all of which are now at multi-year lows. BNM had already trimmed its OPR for the first times since 2009 by 25 basis points to 3.00%. She expected another 25 basis points cut during the last monetary policy committee meeting on 23 November 2016. With activity continuing to slow and loan growth at multi-year lows, there is a pressing need for BNM to deliver meaningful policy accommodation in this easing cycle. Although low inflation does provide room for easing, overly aggressive cuts could result in capital outflows. Capital outflow risks have also become all the more pertinent because the current account surplus has narrowed much more significantly than expected, coming to just 1.2% of GDP in the first half of 2016. *Source: NST, 6 October 2016*
World Bank revises Malaysia GDP forecast	The World Bank has slashed its growth forecast for Malaysia from 2016 through 2018 due to the subdued global economy weighing on the country's prospects. In the latest forecasts, the World Bank predicted Malaysia's GDP would slow to 4.2% in 2016 from 5% in 2015 because of the weak global demand for oil and manufactured exports. This contrasted with its April forecast of a 4.4% growth for the country for 2016. According to the World Bank, Malaysia's GDP growth would likely rebound to 4.3% in 2017 before accelerating further to 4.5% in 2018. This compared with its earlier forecast of 4.5% and 4.7% GDP growth for the country for 2017 and 2018, respectively. The slowing in growth but still at a reasonable pace is largely because of the impact of subdued global demand on its open economy as well as compounded by low commodity prices. However, 2017 and 2018 would present better prospects for Malaysia due to the anticipated recovery in the export of manufactured goods and commodity prices. *Source: The Star, 6 October 2016*

Budget to focus on making Malaysia a digital economy	Stressing that the digital economy is expected to contribute 20% to the country's GDP by 2020, the Government said Budget 2017 will place more emphasis on propelling Malaysia towards becoming a digital economy. The digital economy can uplift the B40 group (bottom 40% household income group) earning less than RM30,000 on how they can improve their income level. *(Source: The Edge Financial Daily, 7 October 2016)*
August exports exceed survey, boost from palm oil and semiconductors	Malaysia's exports rose 1.5% to RM67.58 billion in August 2016 from a year ago, exceeding economists' expectations of a decline of 2.3%, underpinned by higher exports of palm oil, and electrical and electronic (E&E) products including semiconductors. MITI said when compared to July's exports of RM59.85 billion, exports rose 12.9% to RM67.58 billion in August 2016 as exports to Singapore, China and the US increased. MITI said imports grew RM2.7 billion or 4.9% to RM59.07 billion from RM56.33 billion a year ago, mainly due to intermediate goods, capital goods and consumption goods. Imports of intermediate goods rose RM2 billion (+6.1%) from RM32.5billion. The main components which contributed to the increase were industrial supplies, processed (+16.9%) and parts & accessories of capital goods (except transport equipment) (+2.1%). In August 2016, the country recorded a trade surplus of RM8.5 billion which was a jump of 346% or RM6.6 billion in July. However, the trade surplus fell RM1.7 billion or 16.9% on-year. *(Source: The Star, 7 October 2016)*

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