MALAYSIA WEEKLY ECONOMIC NEWS

(5 December 2016 – 9 December 2016)

Topics	Highlights
CIMB Research sees new forex measures reducing ringgit speculation	CIMB Economics Research sees the new measures announced by the Financial Markets Committee (FMC) and Bank Negara Malaysia (BNM) will reduce ringgit speculation, minimise erosion of foreign reserves, and address market concerns over foreign currency risk management. The measures, which take effect on 5 December, are to deepen the onshore foreign exchange market. Residents will be allowed to hedge up to a net open position (NOP) of RM6 million of US$ and China renminbi exposures per client, per onshore bank, subject to a one-time declaration of non-participation in speculative activity. CIMB Research said the measure aims to mobilise export proceeds, 99% of which are estimated to be kept in foreign currency, and could create up to RM69bil per annum of additional ringgit demand (17% of foreign reserves), though actual demand is likely to be lower once loan obligations accounted for. *(Source: The Star, 5 December 2016)*
Rubber glove makers seek exemption from Bank Negara's ringgit conversion policy	The Malaysian Rubber Glove Manufacturers Association (Margma) wants BNM to allow rubber glove exporters to convert only 50% of their foreign currency proceeds into ringgit instead of the 75% requirement announced. The association said in a statement that it hoped BNM would review its new policy as it would have a detrimental impact on the industry. The policy means it is now incumbent on the manufacturer to immediately convert three quarters of any foreign currency received to ringgit. The Malaysian rubber glove industry contributes 1.13% to the nation's gross domestic product. Export revenue from the industry in 2016 is projected to be RM14.3 billion. As the leading supplier of medical examination and surgical gloves, Malaysia controls 63% of the world market share compared to 21% by Thailand, 5% by China and 3% by Indonesia. *(Source: The Star, 6 December 2016)*
Tax incentives for global business services in Iskandar	Prime Minister YBhg. Datuk Seri Najib Tun Razak has announced special tax incentives for global business services (GBS) operating in Iskandar Malaysia. Under the tax incentives, companies that qualify can apply for special Medini tax support packages while employees, who qualify, can enjoy a personal income tax rate of 15% in Iskandar Malaysia. The GBS sector is expected to attract some RM6.5 billion in investments and create over 14,000 job opportunities, mostly high-income employments, by 2020. He also singled out Courts Asia Ltd, a new investor under the GBS programme that will be spearheaded by Khazanah Nasional Bhd. *(Source: The Sun, 7 December 2016)*
MIER sees speculative elements pinning ringgit	MIER said speculative elements had caused the ringgit to overshoot its fair value, which once removed, could see the local currency appreciating by about 10% from its current exchange rate against the US dollar. Real factors are the flow of goods and services as well as productivity. The ringgit movement now is more on short-term sentiment, but ultimately it will reach a certain level of equilibrium. Bank Negara on 2 December announced several measures to increase demand for ringgit, including requiring companies to convert three-quarters of their export proceeds to the local currency. On the export earnings repatriate, it's a measure to create demand for ringgit. *(Source: The Star,8 December 2016)*

MAVCAP aims to set up RM2bil investment funds	Malaysia Venture Capital Management Bhd (MAVCAP) has signed memorandum of understanding (MoU) with two international venture capital (VC) firms to set up investment funds of up to US$450mil (RM2 billion). In a statement, the Government-owned venture capital firm said its collaboration with China-based Gobi Partners would see the establishment of the Asean growth fund, targeting up to US$200 million, while its tie-up with Silicon Valley-based Elixir Capital would involve the setting up and operation of the global Islamic economy fund, targeting up to US$250 million. According to MAVCAP, the Asean growth fund would focus on later stage financing for innovation and technology-related growth stage companies in Malaysia and the South-East Asian region. The global Islamic economy fund, on the other hand, would focus on nurturing and supporting the Islamic innovative funding ecosystem. This would be done in partnership with Affinis Labs from the United States. *(Source: The Star, 9 December 2016)*

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