



# Maybank

## Kim Eng

## Malaysian Economy

### Easing Pressure Points...

*Chief Economist*

Suhaimi Ilias | +603 2297 8682 | [suhaimi\\_ilias@maybank-ib.com](mailto:suhaimi_ilias@maybank-ib.com)

**MALAYSIA RESEARCH TEAM**



## In summary...

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- *Growth picking up after two years of slowdown with potential upside surprise to growth via external demand from current synchronised global economic pick up, firmer commodity prices, rebound in exports*
- *MYR and external reserves stabilised after measures by BNM in early-Dec 2016 to ban offshore MYR NDF trade & repatriate 75% of export earnings*
- *Firmer ASPs of key commodity exports ease concerns about current account and fiscal balances; fiscal consolidation achieved/delivered despite challenges*
- *Expected earnings recovery after three years of stagnancy is positive for portfolio flows into equity & corporate capex*
- *Remaining pressure point is foreign holdings of Malaysian bonds, although offset by domestic liquidity amid sign of foreign selling bottoming*

# Malaysia - Real GDP Growth

% chg	% Share of GDP	ACTUAL			MAYBANK KE		OFFICIAL	
		2014	2015	2016	2017E	2018E	2017E BNM (Mar 2017)	2017E MOF (Oct 2016)
<b>Real GDP</b>	<b>100.0</b>	<b>6.0</b>	<b>5.0</b>	<b>4.2</b>	<b>4.4</b>	<b>4.5</b>	<b>4.3-4.8</b>	<b>4.0-5.0</b>
Manufacturing	23.3	6.2	4.9	4.4	4.5	4.3	4.3	4.1
Services	55.0	6.6	5.1	5.6	5.6	5.7	4.9	5.7
Agriculture	8.2	2.1	1.2	(5.1)	1.5	1.8	4.0	1.5
Mining	8.9	3.5	4.7	2.7	2.0	1.8	2.7	1.4
Construction	4.6	11.7	8.2	7.4	7.8	7.5	8.0	8.3
Domestic Demand	91.9	5.9	5.1	4.4	4.9	5.0	4.4	4.9
Private Consumption	53.4	7.0	6.0	6.1	5.9	5.8	6.0	6.3
Public Consumption	13.1	4.3	4.4	1.0	2.9	2.5	(0.2)	0.4
Gross Fixed Capital Formation	25.4	4.8	3.7	2.7	3.9	4.5	3.3	4.2
Private Investment	16.9	11.1	6.4	4.4	4.8	5.0	4.1	5.8
Public Investment	8.5	(4.7)	(1.0)	(0.5)	2.3	3.5	1.5	1.1
Net External Demand	8.1	13.2	(3.8)	(1.8)	(0.7)	(0.9)	5.3	1.9
Exports of Goods & Services	70.1	5.0	0.6	0.1	1.3	3.0	2.2	2.5
Imports of Goods & Services	62.0	4.0	1.2	0.4	1.5	3.5	1.8	2.6

Source: Dept. of Statistics, MoF (Economic Report 2016/2017), MKE Economics Research

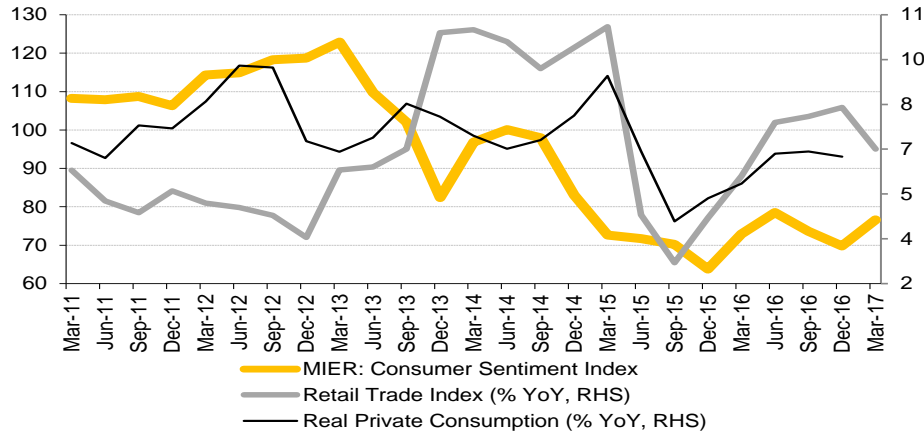
## Malaysia - Other Key Economic Indicators

	ACTUAL				MAYBANK KE		OFFICIAL	
	2014	2015	2016	2017 YTD	2017E	2018E	2017E BNM (Mar 2017)	2017E MOF (Oct 2016)
Gross Exports (% chg)	6.3	1.6	1.1	19.8	8.5	4.0	5.5	2.7
Gross Imports (% chg)	5.3	0.4	1.9	21.5	9.8	7.4	6.4	3.4
Trade Balance (RMb)	82.5	91.6	87.3	13.5	85.5	83.0	86.4	88.3
Current Account Balance (RMb)	47.3	34.7	25.2	-	24.7	23.9	17.4	14.8
Current Account Balance (% of GDP)	4.3	3.0	2.0	-	1.9	1.8	1.4	1.1
Fiscal Balance (% of GDP)	(3.4)	(3.2)	(3.1)	-	(3.0)	(2.8)	(3.0)	(3.0)
Inflation Rate (CPI, %)	3.1	2.1	2.1	4.3	3.5-4.0	2.0-2.5	3.0-4.0	2.0-3.0
Overnight Policy Rate (% p.a., end-period)	3.25	3.25	3.00	3.00	3.00	3.25	-	-
Exchange Rate (RM/USD, end-period)	3.50	4.29	4.49	4.40	4.40	4.25	-	-
Exchange Rate (RM/USD, average)	3.27	3.91	4.14	4.44	4.41	4.35	4.30-4.40	-
Unemployment Rate (%)	2.9	3.2	3.5	3.5	3.4	3.3	3.6-3.8	3.2
Crude Oil (USD/bbl, Brent average)	98.9	52.3	44.1	53.9	55	55	50-55	45
Crude Palm Oil (RM/tonne, average)	2,415	2,168	2,652	3,065	2,400	2,500	2,700	2,500

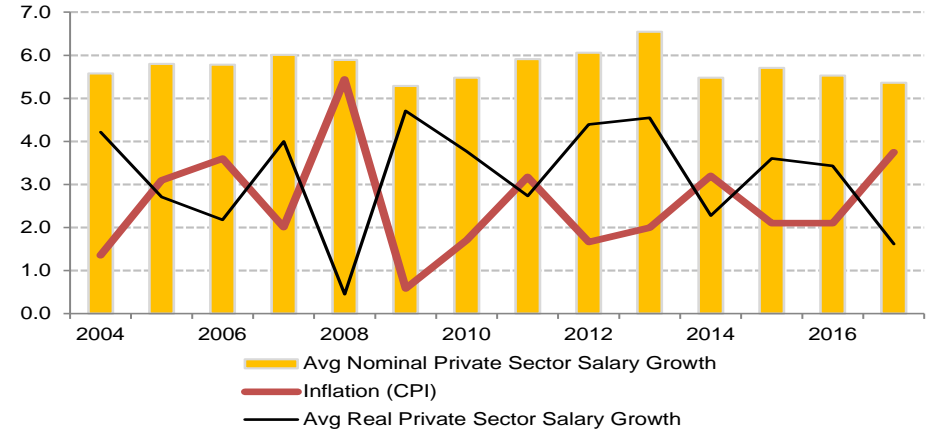
Source: Dept. of Statistics, Bloomberg, MoF (Economic Report 2016/2017), MKE Economics Research, Maybank FX Research

# Consumers spending growth despite weak consumer sentiment: Tapping onto savings amid slowing income growth & de-leveraging

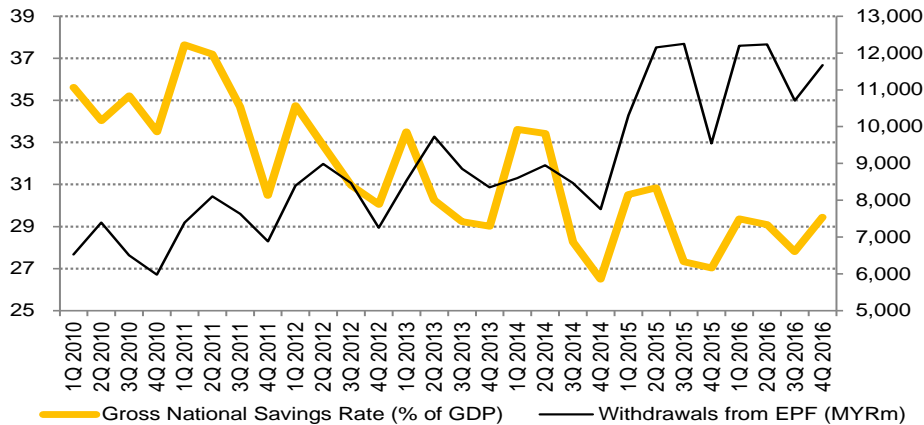
## Consumer sentiment vs consumer spending indicators



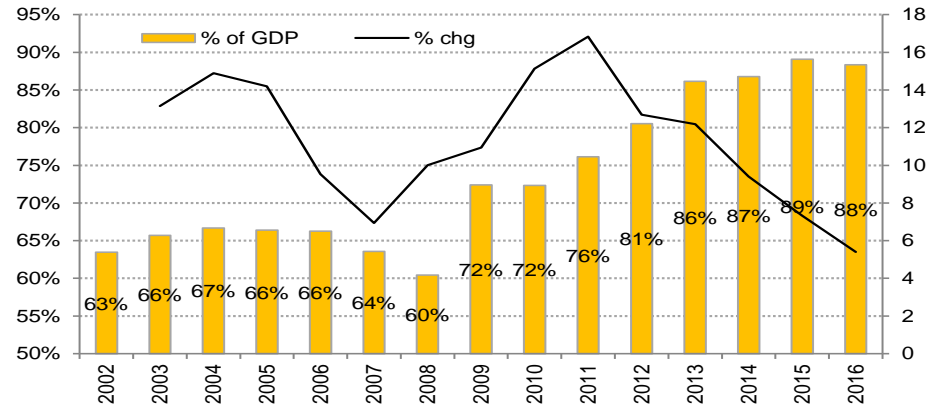
## Slowing income growth amid pick in inflation



## Gross national savings down, EPF withdrawals up



## Household Debt



Source: BNM, DoS, EPF, MEF

# Consumers spending growth despite weak consumer sentiment: Disposable income-boosting measures & higher commodity prices negate rising inflation

## BR1M

- Up +25.9% in Budget 2017 to MYR6.8b (2016: +1.5% to MYR5.4b). Without BR1M, real private consumption expenditure growth would be 0.4ppt lower in 2012-2016

## Lower Workers' Contribution to EPF

- Option for 8% vs 11% for period Mar 2016 - Dec 2017
- 50% workers opted, boosting disposable income by MYR4b

## Minimum Wage Increase; Civil Service Salary & Pension Revisions (both w.e.f. 1 July 2016)

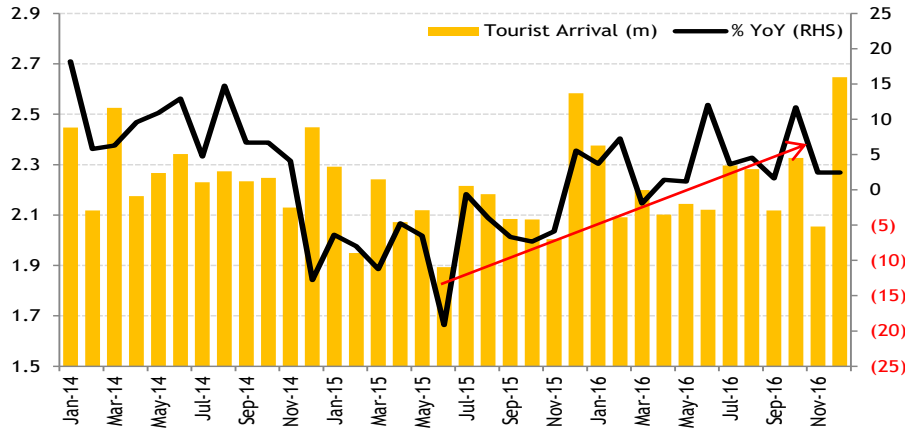
- Minimum Wage: +11% in Peninsula Malaysia to MYR1,000/month & +15% in East Malaysia to MYR920/month; benefit 27% of workers

## Firmer ASPs of Agriculture Commodity Prices

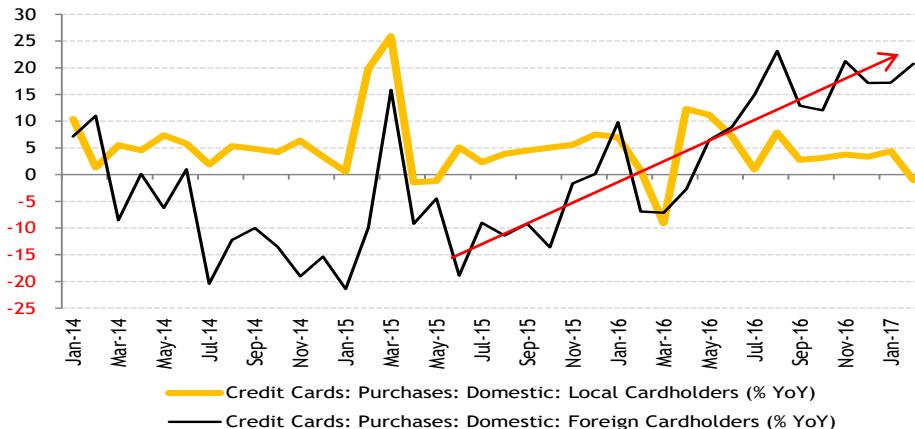
- CPO, Rubber
- Positive for rural household income

# Consumers spending growth despite weak consumer sentiment: Tourism adds to measures to boost disposable income & higher commodity prices

## Tourist arrivals



## Spending in Malaysia by local & foreign credit card holders (% YoY)



## TOURISM SATELLITE ACCOUNT MALAYSIA 2015

### Gross Value Added of Tourism Industries

Mainly contributed by :

● 43.6% Retail trade

● 15.7% Food & beverage

● 13.3% Accommodation



Total Gross Value Added of Tourism Industries

RM166b

Share to GDP  
14.4%

### Domestic Tourism Expenditure

Mainly contributed by :

● 38.3% Shopping

● 19.0% Automotive fuel

● 15.4% Food & beverage



Total Domestic Tourism Expenditure

RM61b

Growth  
9.0%

Inbound Tourism Expenditure, 2015: MYR74.1b

- 12% of consumer spending; 6% of GDP

Domestic Tourism Expenditure, 2015: MYR61b

- 10% of consumer spending, 5% of GDP

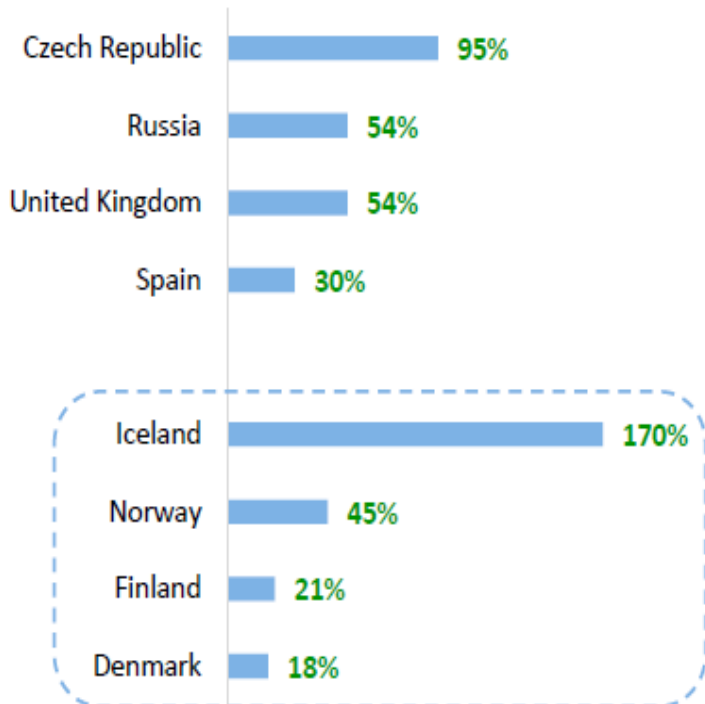
# Consumers spending growth despite weak consumer sentiment: Tourism adds to measures to boost disposable income & higher commodity prices

Popular destinations for Chinese travellers in 2017

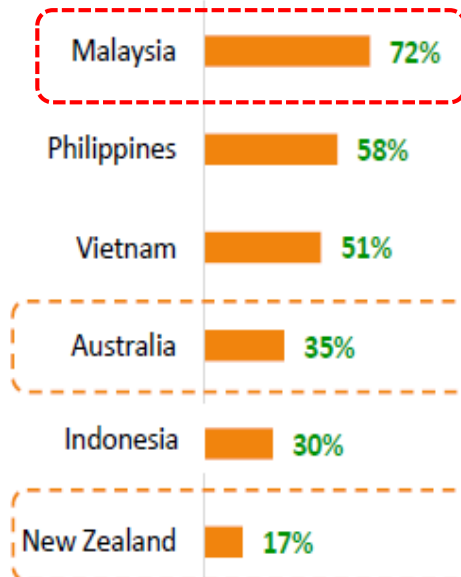
Based on travel bookings between 16 March - 31 Aug 2017 (spring & summer seasons)

CNTA bans Chinese travel agencies from selling tour packages to South Korea

## Europe



## APAC



## Africa & Middle East



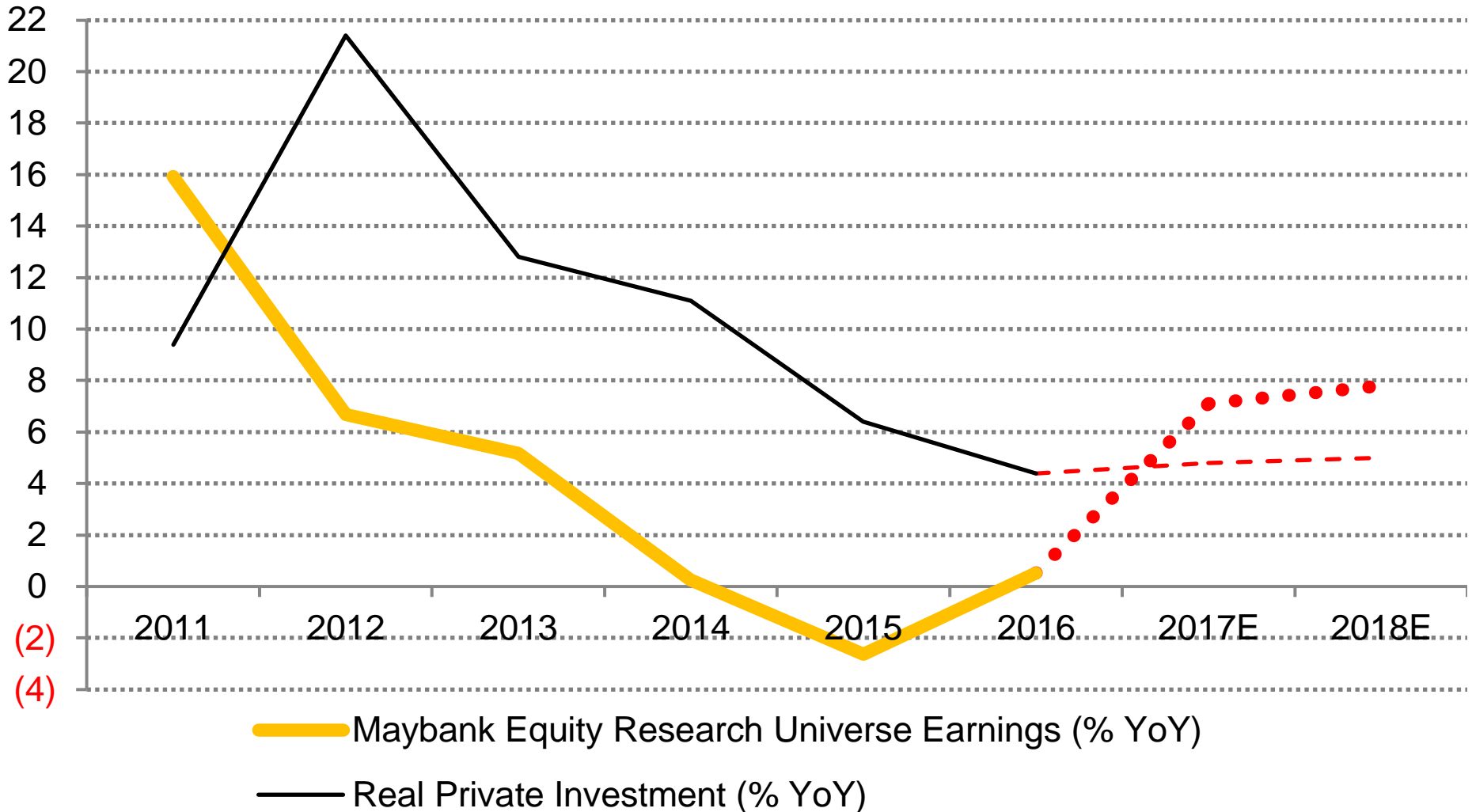
## The Americas





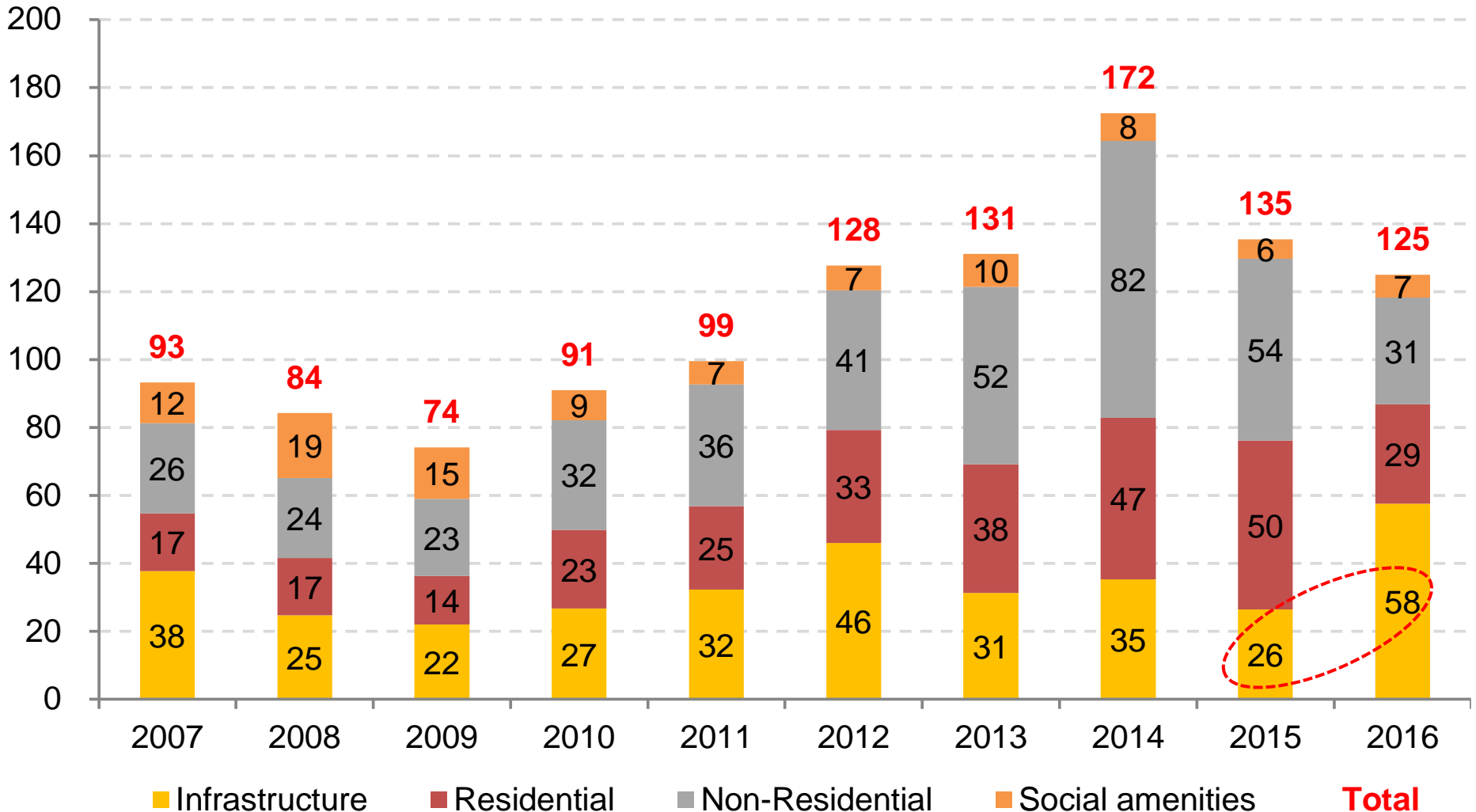
# Better outlook for investment: Earnings recovery

## Earnings recovery positive for capex



# Better outlook for investment: Surge in infrastructure activities

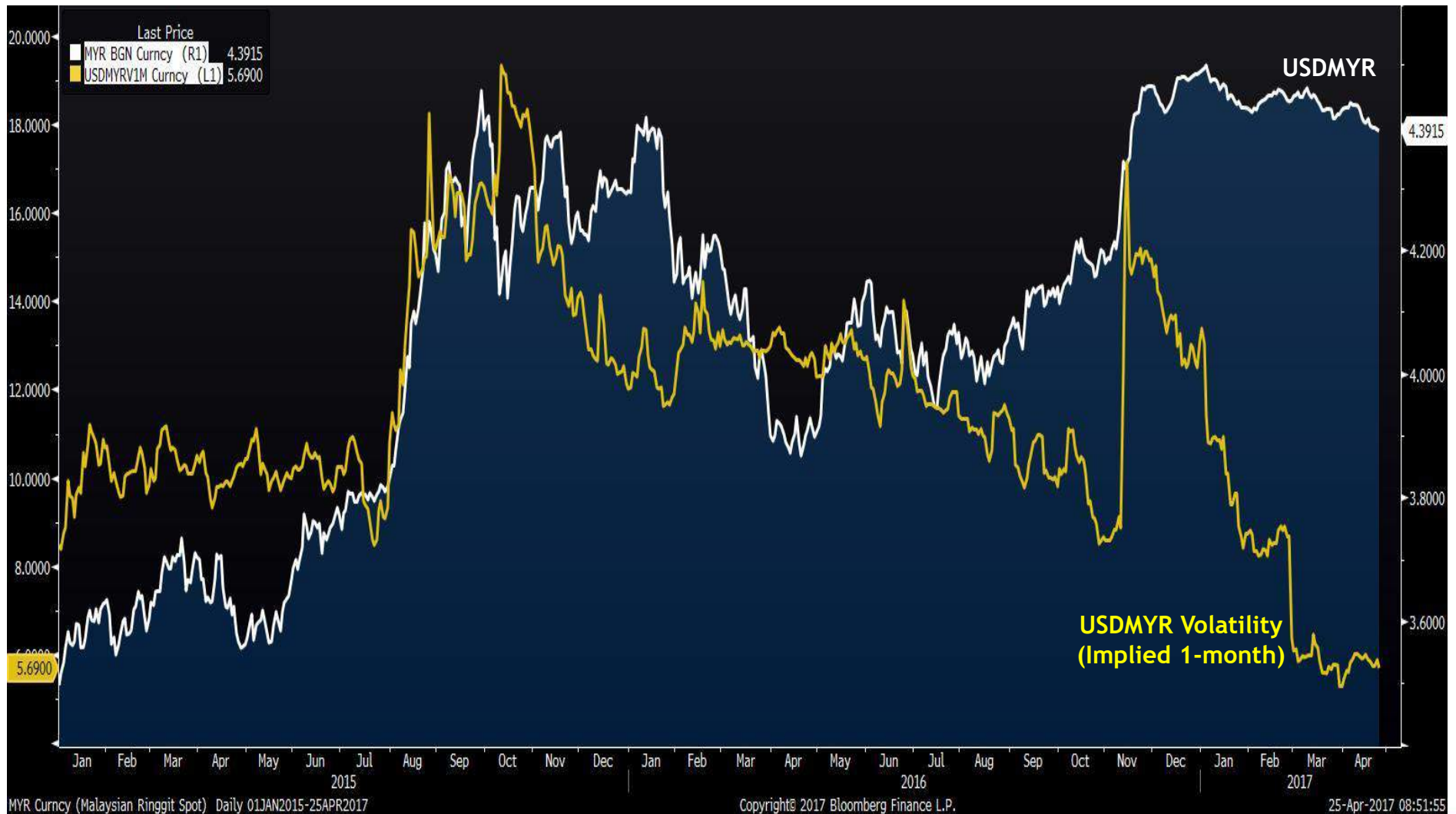
Construction Jobs Awarded - Record High for Infrastructure in 2016 (MYRb)



Source: CIDB

# BNM's measures in early-Dec 2016 to ban offshore NDF & repatriate export earnings have stabilised MYR & external reserves

## USDMYR: Exchange Rate & Volatility

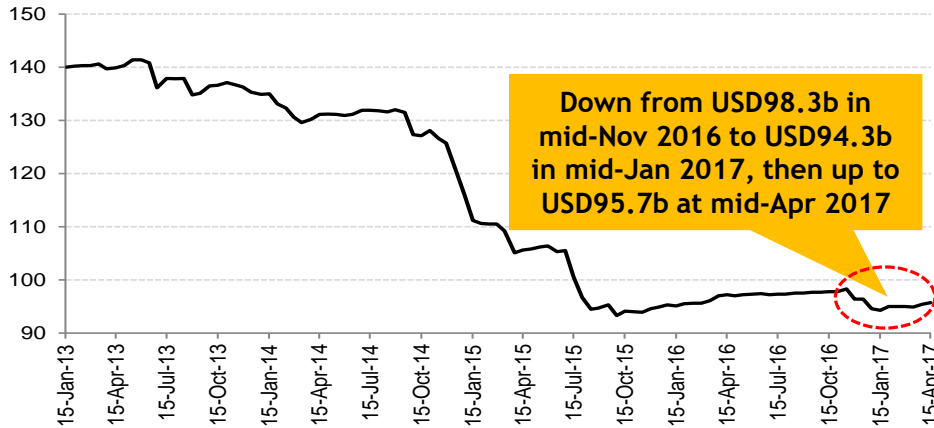


Source: Bloomberg

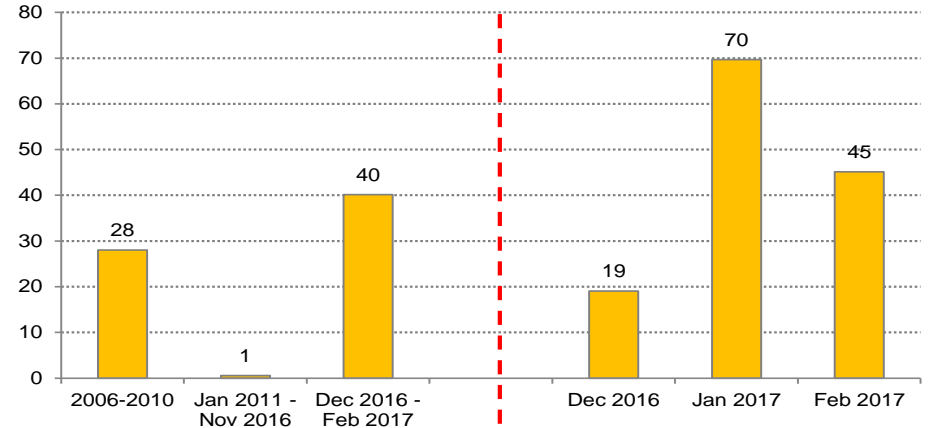
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# BNM's measures in early-Dec 2016 to ban offshore NDF & repatriate export earnings have stabilised MYR & external reserves

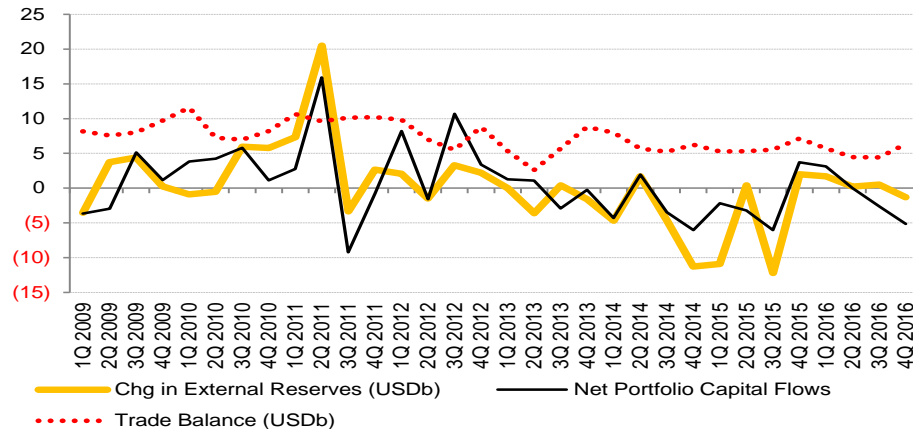
Malaysia's External Reserves (USDb)



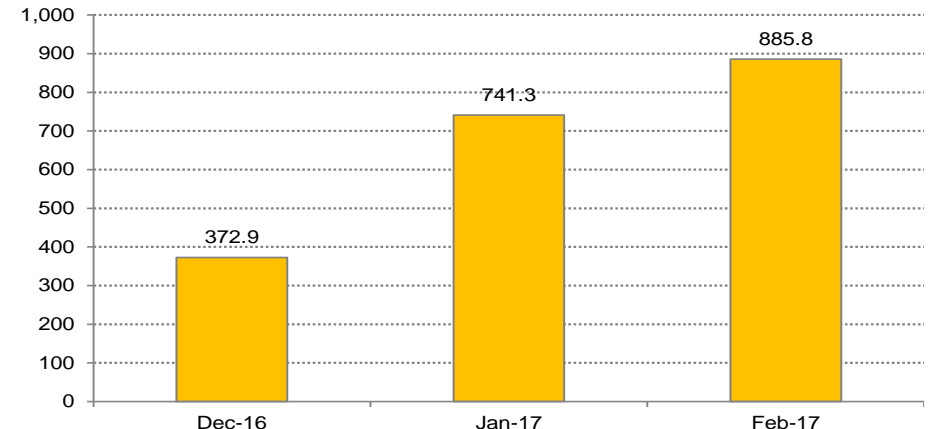
Repatriation of Net Export Earnings (% of Trade Surplus)



External Reserves, Net Portfolio Capital Flows, Trade Surplus (Quarterly Change in USDb)



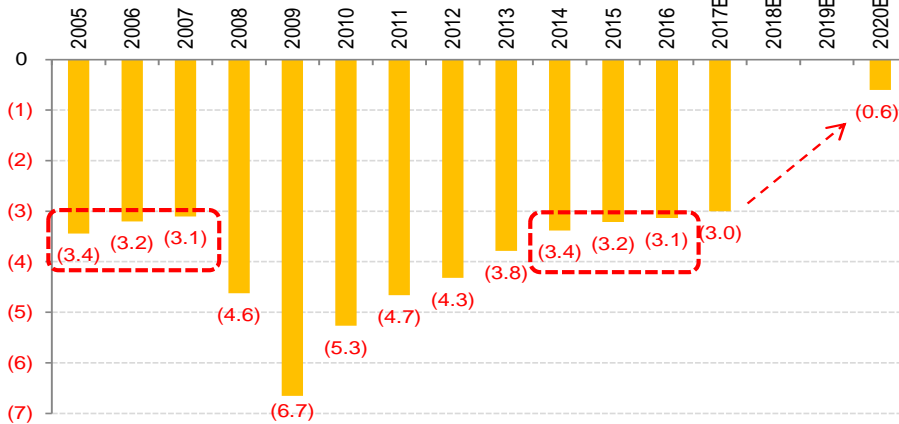
Repatriation of Net Export Earnings (USDm)



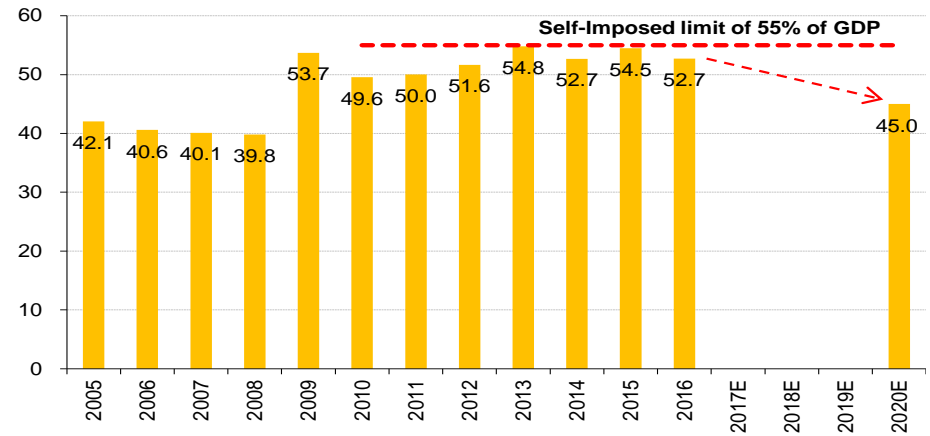
Source: BNM, CEIC

# Fiscal consolidation target achieved / delivered despite challenges; Government debt & contingent liabilities contained

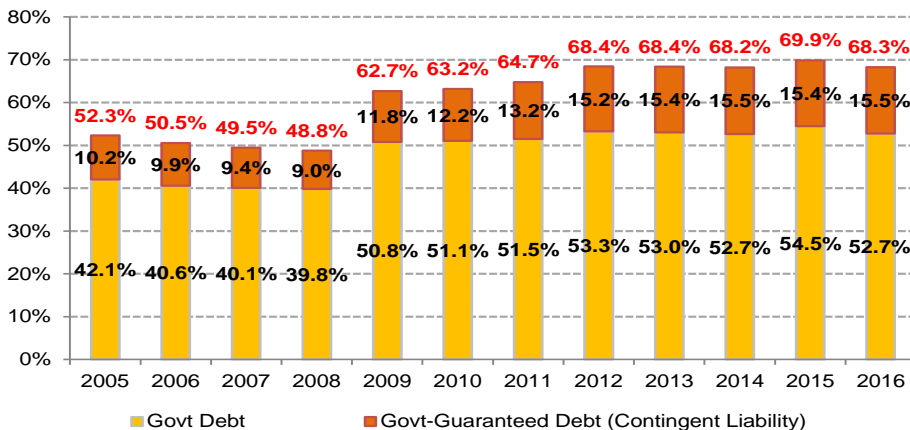
Fiscal deficit cut since 2010 and at pre-GFC levels since 2014



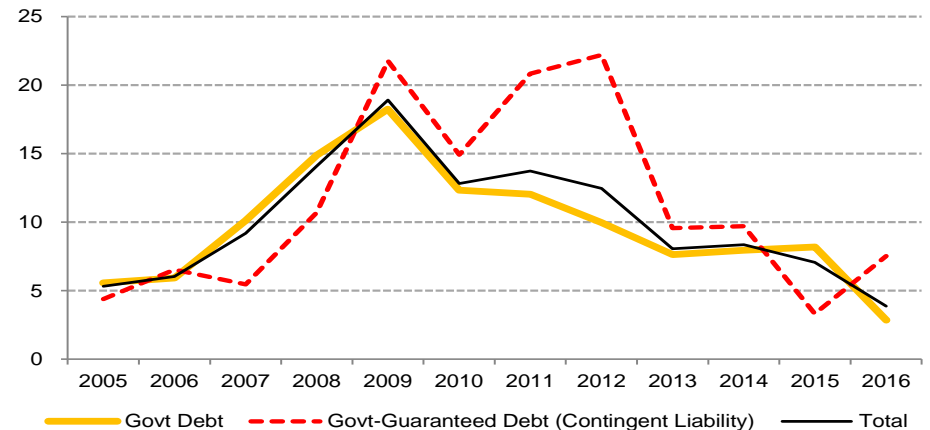
Government debt capped below 55% of GDP



Government Debt & Contingent Liabilities (% of GDP)



Government Debt & Contingent Liabilities (% chg)



Source: BNM, MoF

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# Firmer crude oil price ease concerns about current account & fiscal balances

***Impact of USD10/bbl rise in annual average crude oil price...***

**Government O&G  
Related Revenues  
(ex Petronas  
Dividend):  
+MYR4.1b**

**Fiscal Balance:  
+0.3% of GDP  
Current Account  
Balance:  
+0.4% of GDP**

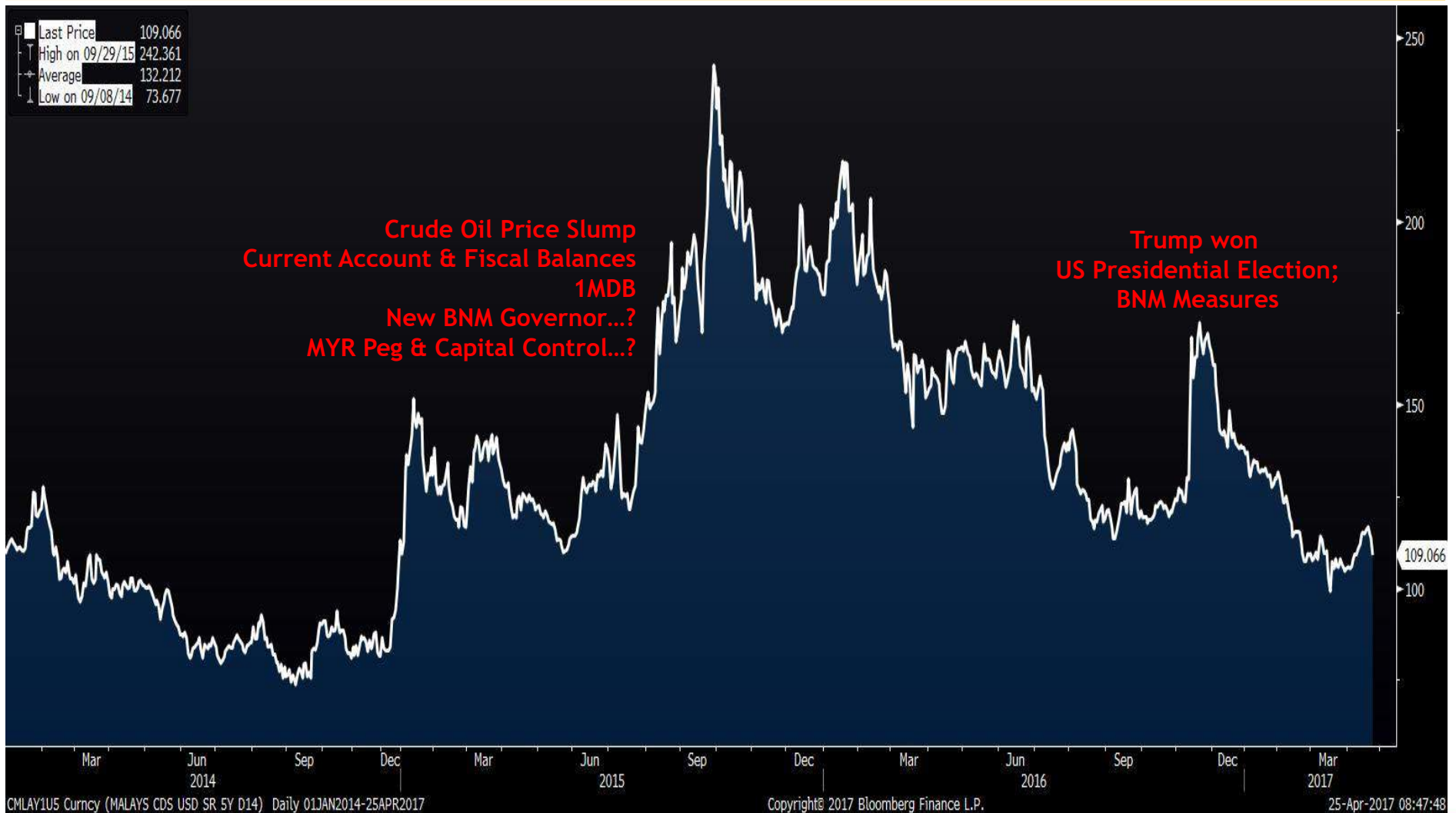
***Impact of a 10%  
rise in crude oil  
price...***

**MYR per USD:  
+0.40% to +0.45%**

*Note: Above sensitivity analysis is based on historical data & ceteris paribus assumption  
Source: MKE Economics Research*

# Easing macroeconomic pressures → diminishing sovereign stress, default risk

## Malaysia: Sovereign Credit Default Swap (CDS) Spread (5-Year, bps)



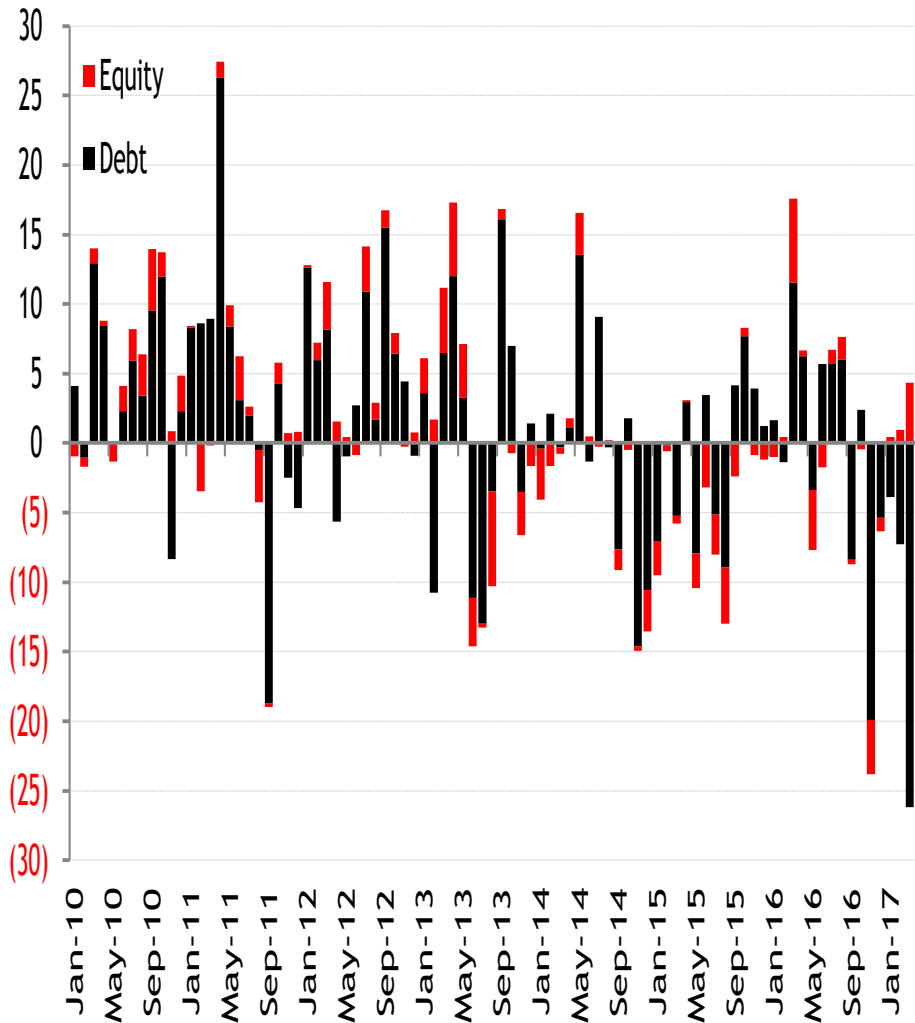
Source: Bloomberg

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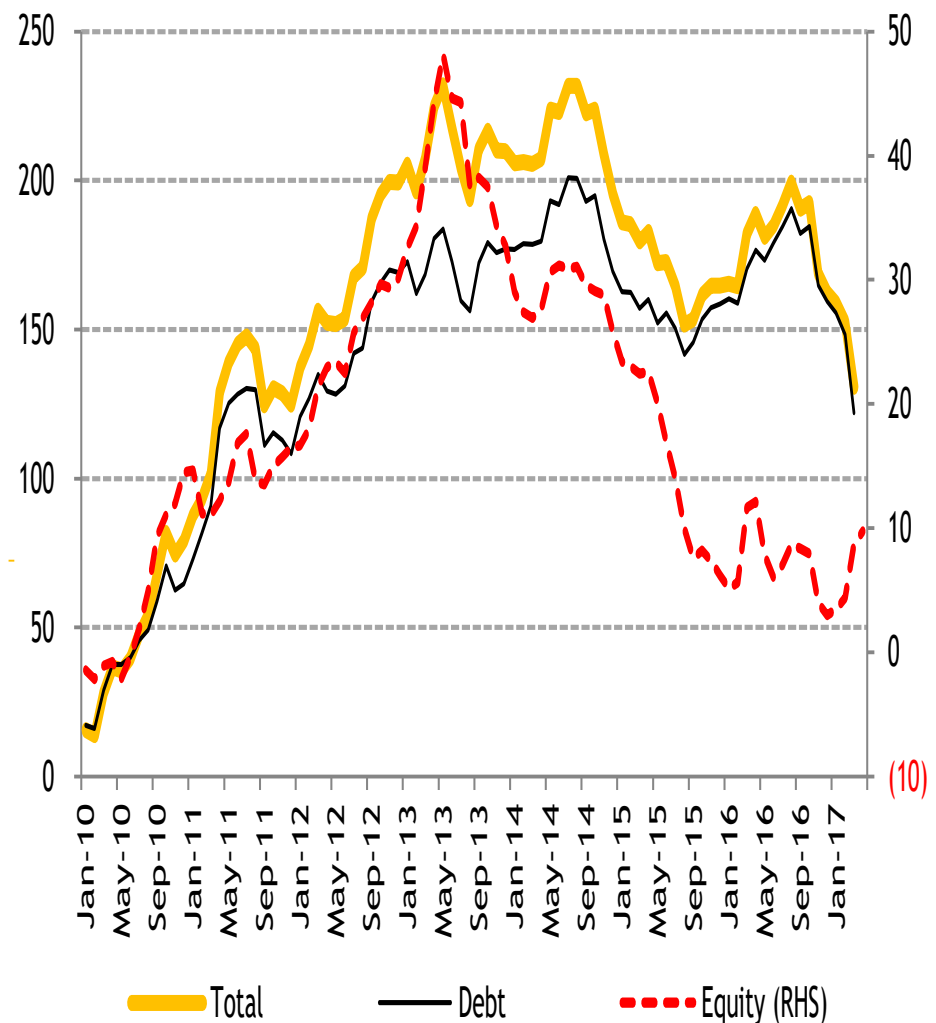
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# Remaining key pressure point now is declining foreign holdings of Malaysian bonds, mainly on sell down in Government bonds

Monthly Net Foreign Flows: Equity & Bonds (MYRb)



Cumulative Net Foreign Flows: Equity & Bonds (MYRb)

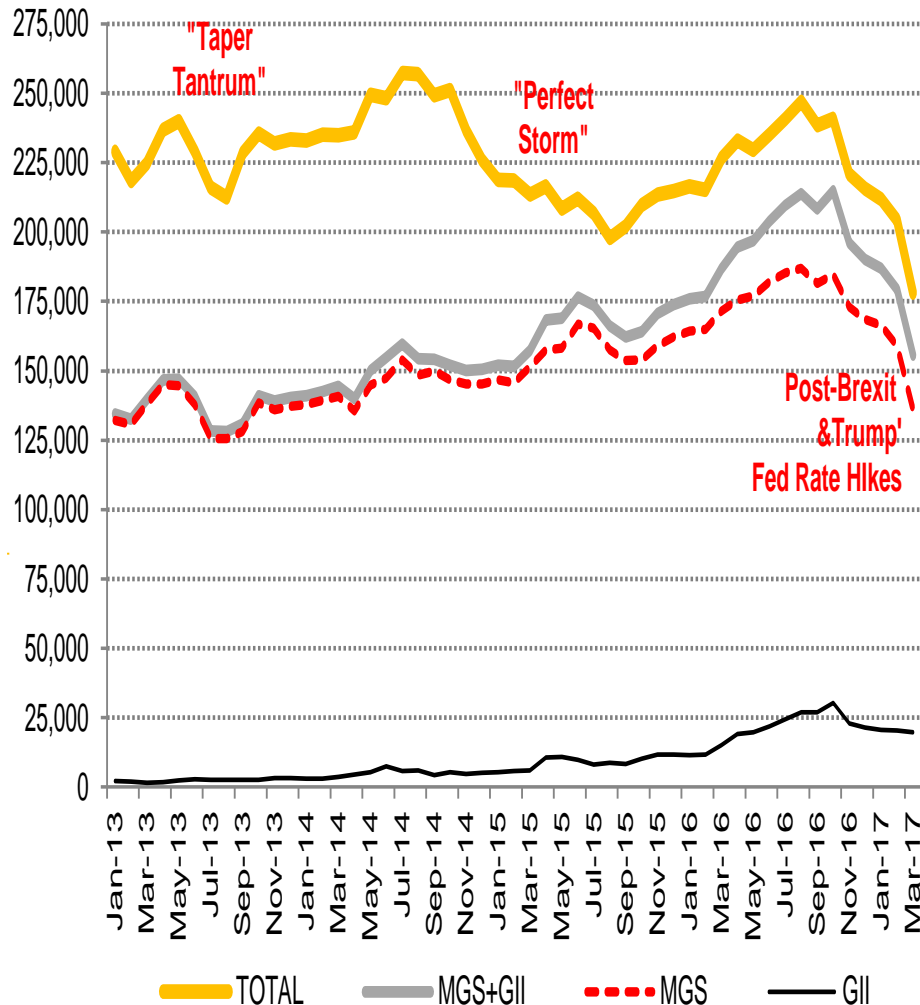


Source: Bloomberg, CEIC

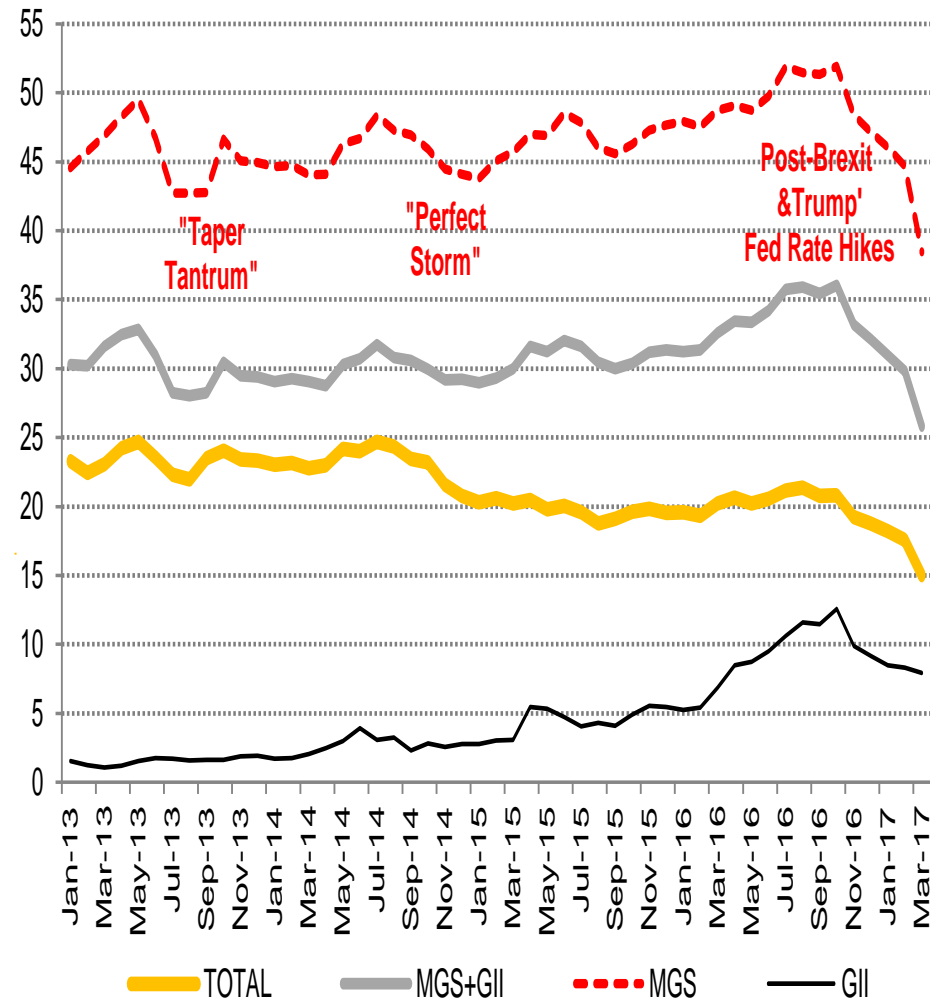


# Remaining key pressure point now is declining foreign holdings of Malaysian bonds, mainly on sell down in Government bonds

Foreign Holdings of Malaysian Bonds (MYRm)



Foreign Holdings of Malaysian Bonds (% Share of Total)



Source: CEIC

# Remaining key pressure point now is declining foreign holdings of Malaysian bonds, mainly on sell down in Government bonds - maturity-driven as well

## MGS & GII Maturity in 2017

Maturity Dates	MGS/GII	MYRb
15 Feb	MGS 2/2007 3.814% 15.02.2017	8.8
15 Mar	MGS 2/2014 3.394% 15.03.2017	10.5
15 June	Profit-Based GII 2/2007 15.06.2017	3.0
30 Aug	Profit-Based GII 2/2012 30.08.2017	9.5
15 Sep	MGS 2/2010 4.012% 15.09.2017	14.0
31 Oct	MGS 2/2012 3.314% 31.10.2017	13.5
23 Nov	GII MURABAHAH 1/2014 3.678% 23.11.2017	7.5
	MGS Sub-Total	46.8
	GII Sub-Total	20.0
	<b>TOTAL</b>	<b>66.8</b>
	<b>Estimated Foreign Holdings</b>	<b>30-35</b>

## 3Y & 10Y MGS Yields, USDMYR



Source: BPAM, Maybank Fixed Income Research

# Remaining key pressure point now is declining foreign holdings of Malaysian bonds, mainly on sell down in Government bonds - but not broad-based

## Composition of Foreign Holders of Malaysian Government Bonds

	end-Dec 2015	end-Mar 2016	end-June 2016	end-Sep 2016	end-Dec 2016	end-Mar 2017
<b>Asset Management</b>						
MYRb	76.5	76.5	75.4	79.1	79.8	62.3
% Share of Total Foreign Holdings	44	41	37	38	42	40
<b>Central Banks / Governments</b>						
MYRb	50.4	50.4	55.0	58.3	57.0	56.1
% Share of Total Foreign Holdings	29	27	27	28	30	36
<b>Pension Funds</b>						
MYRb	20.9	24.3	30.6	31.2	32.3	32.7
% Share of Total Foreign Holdings	12	13	15	15	17	21
<b>Banks</b>						
MYRb	15.6	28.0	36.7	31.2	15.2	0.0
% Share of Total Foreign Holdings	9	15	18	15	8	0
<b>Insurance Companies</b>						
MYRb	1.7	1.9	4.1	4.2	3.8	3.1
% Share of Total Foreign Holdings	1	1	2	2	2	2
<b>Nominees / Custodians</b>						
MYRb	7.0	3.7	2.0	4.2	1.9	0.0
% Share of Total Foreign Holdings	4	2	1	2	1	0
<b>Others</b>						
MYRb	1.7	1.9	2.0	2.1	0.0	0.0
% Share of Total Foreign Holdings	1	1	1	1	0	0
<b>TOTAL</b>						
MYRb	173.8	186.7	203.9	208.3	190.0	155.7
% Share of Total Foreign Holdings	100	100	100	100	100	100

Source: BNM, Maybank Fixed Income Research (estimates for end-Mar 2017)

# Externally, the main issue is US trade policy: “Shifting sands...”



**TRADE WAR;  
PROTECTIONISM...?**

**TRADE DEALS;  
NEW WORLD TRADE ORDER  
(BILATERALISM; FAIR TRADE)...?**



US out of TPP (done via Executive Order signed on 23 Jan 2017); US review or quit NAFTA; Border Tax / Border Adjustment Tax; Punitive import tariffs on China, Mexico

Pres. Trump’s First 100-Day plan that included decision to review or quit NAFTA has lapsed

Appointment of China critics & free-trade skeptics in Pres. Trump’s Administration e.g. Wilbur Ross (Commerce Secretary), Peter Navarro (Director of National Trade Council). Accused China, Japan, Germany of currency manipulations; unfair trade practices.

China, Japan, Germany leaders’ visits to US & talks with Pres. Trump

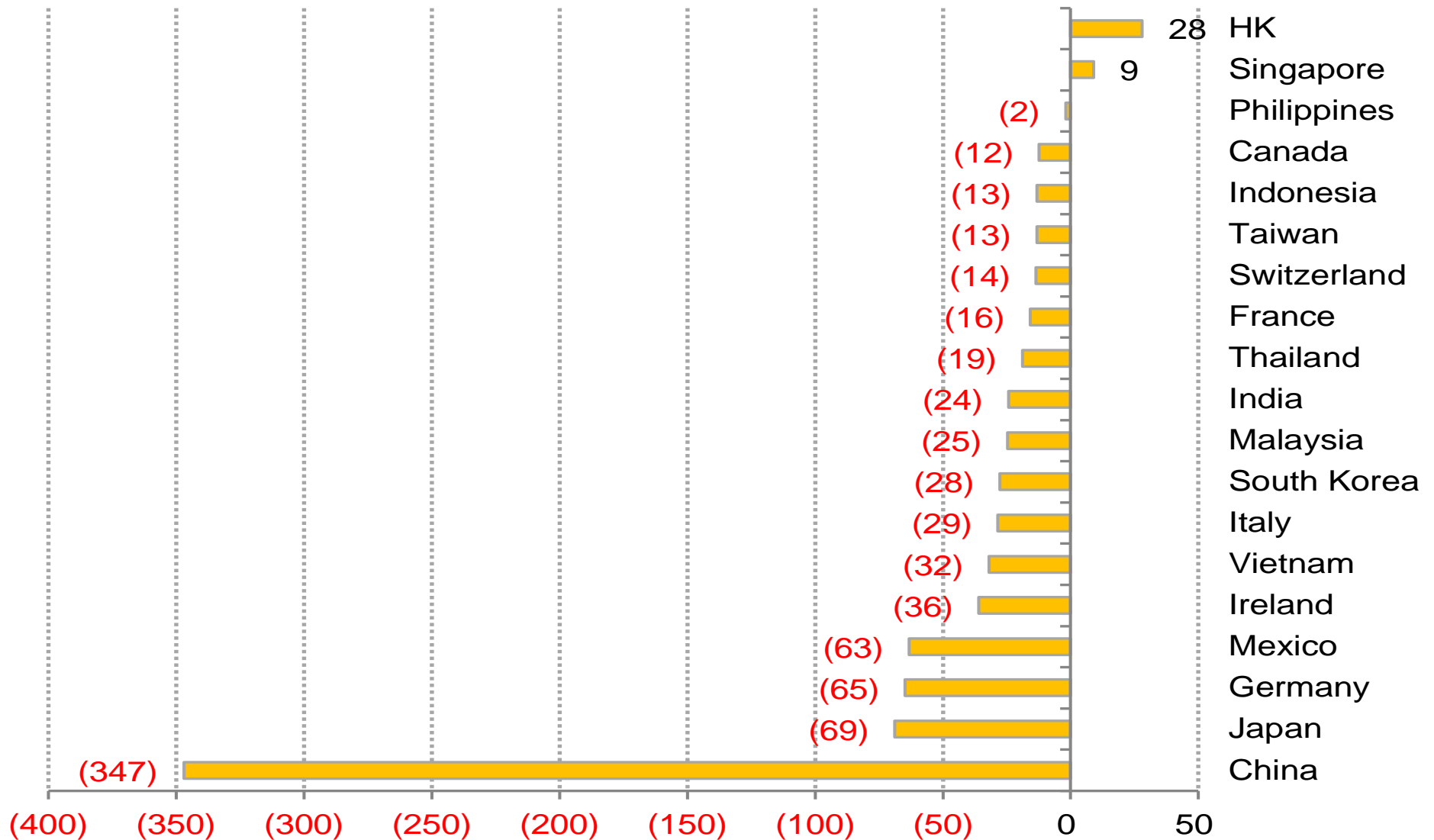
Executive Order on 31 Mar 2017 to investigate “trade abuses” targeting countries that are top sources of US trade deficit

US did not label China a “currency manipulator” (in exchange for China’s 100-day plan to address trade imbalance with US after Pres. Xi Jinping visit to meet Pres. Trump, and help in dealing with North Korea ...???)

China, Japan, Germany, South Korea, Taiwan, Switzerland in “watch list” of US Treasury’s 14 Apr 2017 report on major trading partners’ FX policies



# Externally, the main issue is US trade policy: US-China trade relationship is key - Bilateral trade balance (USD\$b, 2016)



Source: CEIC

Externally, the main issue is US trade policy: US-China trade relationship is key - North East Asia & Vietnam more vulnerable than rest of ASEAN

Country	Share of Exports to China to Total Exports	Share of Exports to US to Total Exports	Share of Exports to China & US to Total Exports
Japan	18%	20%	38%
South Korea	25%	13%	38%
Taiwan	26%	12%	38%
Hong Kong	54%	9%	63%
Singapore	13%	7%	20%
Malaysia	13%	10%	23%
Thailand	11%	11%	22%
Indonesia	11%	11%	22%
Philippines	11%	15%	26%
Vietnam	11%	21%	32%

Source: CEIC, MKE Economics Research

## Externally, the main issue is US trade policy: Asia's Top-3 Exports to US

Country	Products & Commodities	% of Total Exports to US
China	<ul style="list-style-type: none"> <li>• Electrical Machinery &amp; Equipment</li> <li>• Machinery</li> <li>• Miscellaneous Manufacturing Article</li> </ul>	<ul style="list-style-type: none"> <li>• 24%</li> <li>• 20%</li> <li>• 12%</li> </ul>
Japan	<ul style="list-style-type: none"> <li>• Motor Vehicles</li> <li>• Electrical Machinery</li> <li>• Parts of Motor Vehicles</li> </ul>	<ul style="list-style-type: none"> <li>• 31%</li> <li>• 14%</li> <li>• 6%</li> </ul>
HK	<ul style="list-style-type: none"> <li>• Telecommunication &amp; Sound Recording &amp; Reproducing Equipment</li> <li>• Electrical Machinery, Apparatus &amp; Appliances</li> <li>• Articles of Apparel &amp; Clothing Accessories</li> </ul>	<ul style="list-style-type: none"> <li>• 20%</li> <li>• 16%</li> <li>• 14%</li> </ul>
South Korea	<ul style="list-style-type: none"> <li>• Road Vehicles</li> <li>• Telecommunication &amp; Sound Recording Apparatus</li> <li>• Electrical Machinery</li> </ul>	<ul style="list-style-type: none"> <li>• 32%</li> <li>• 13%</li> <li>• 19%</li> </ul>
Taiwan	<ul style="list-style-type: none"> <li>• Information, Communications &amp; Audio Video Products</li> <li>• Chemicals &amp; Related Products</li> <li>• Iron &amp; Steel</li> </ul>	<ul style="list-style-type: none"> <li>• 24%</li> <li>• 11%</li> <li>• 10%</li> </ul>
Singapore	<ul style="list-style-type: none"> <li>• Machinery &amp; Transport Equipment</li> <li>• Electronics &amp; Electrical</li> <li>• Miscellaneous Manufacturing Article</li> </ul>	<ul style="list-style-type: none"> <li>• 34%</li> <li>• 32%</li> <li>• 16%</li> </ul>

Source: CEIC, MKE Economics Research

## Externally, the main issue is US trade policy: Asia's Top-3 Exports to US

Country	Products & Commodities	% of Total Exports to US
Indonesia	<ul style="list-style-type: none"> <li>Miscellaneous Manufacturing Article</li> <li>Machinery &amp; Transport Equipment</li> <li>Food &amp; Live Animals</li> </ul>	<ul style="list-style-type: none"> <li>44%</li> <li>14%</li> <li>12%</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>Electrical Machinery, Apparatus &amp; Appliances</li> <li>Telecommunication &amp; Sound Recording &amp; Reproducing Equipment</li> <li>Office Machinery &amp; Automatic Data Processing</li> </ul>	<ul style="list-style-type: none"> <li>46%</li> <li>19%</li> <li>9%</li> </ul>
Thailand	<ul style="list-style-type: none"> <li>Machinery</li> <li>Electrical Machinery &amp; Equipment</li> <li>Rubber &amp; Related Products</li> </ul>	<ul style="list-style-type: none"> <li>26%</li> <li>21%</li> <li>9%</li> </ul>
Philippines	<ul style="list-style-type: none"> <li>Electrical Machinery &amp; Equipment</li> <li>Boilers &amp; Machinery</li> <li>Photographic &amp; Medical Equipment &amp; Instruments</li> </ul>	<ul style="list-style-type: none"> <li>38%</li> <li>13%</li> <li>6%</li> </ul>
Vietnam	<ul style="list-style-type: none"> <li>Articles of Apparel &amp; Clothing Accessories</li> <li>Footwear</li> <li>Wood Products</li> </ul>	<ul style="list-style-type: none"> <li>42%</li> <li>14%</li> <li>9%</li> </ul>

*Note: E&E & ICT-related products are “common feature”; auto key for Japan & Korea; commodity-based exports also important for Indonesia, Thailand & Vietnam; “Clothing & Footwear” unique to HK & Vietnam*



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# Thank You

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