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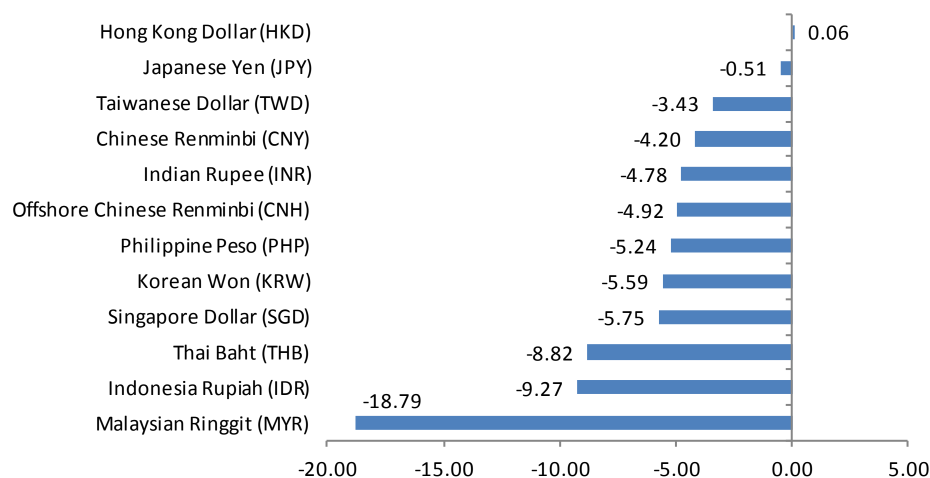
Economic Outlook 2016 – Stay Cautious

The operating environment is anticipated to be more challenging in 2016. The expected slowdown in China's growth, the pace of interest rate hike cycle in US as well as lower crude oil prices are the main concern for the global economy. To some extent, geo political risks should not be totally discarded too in view of the ensuing event in the Middle East and the association to terrorism attack by the extremist group. Needless to say, capital flows were erratic especially in the Emerging Markets (EM) space, leading to volatile movement in the exchange rate (see Chart 1). Meanwhile, major economies have taken the necessary measures to ensure economic growth will not slip further.

In this regard, China's central bank has been cutting down their Reserve Requirement Ratio (RRR) by 350 basis points this year in a bid to provide additional liquidity buffer to support economic activities. Similarly, the European Central Bank (ECB) announced 10 basis points cut in Deposit Facility to -0.30% while extending their Asset Purchase Programme (APP) amounting to €60 billion per month until the end of March 2017. Previously, APP was supposed to expire in September 2016. Fiscal stimulus was also announced in Thailand totaling 2.6% of GDP to spur the economic growth. Likewise, South Korea also indicated a higher fiscal deficits target of 2.3% of GDP in 2016 (2015: 2.1%) in order to provide support to GDP growth.

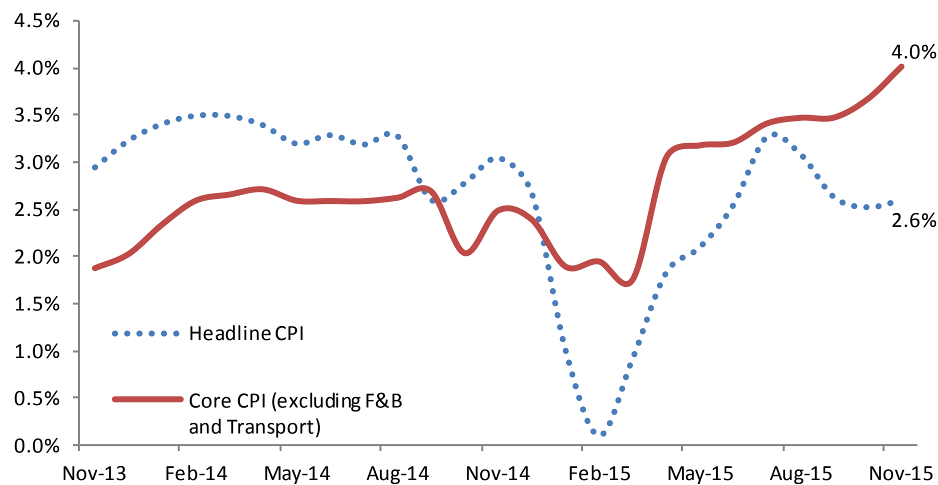
Chart 1: Year-to-Date (YTD) currency performance against US dollar (%)



Source: Bloomberg

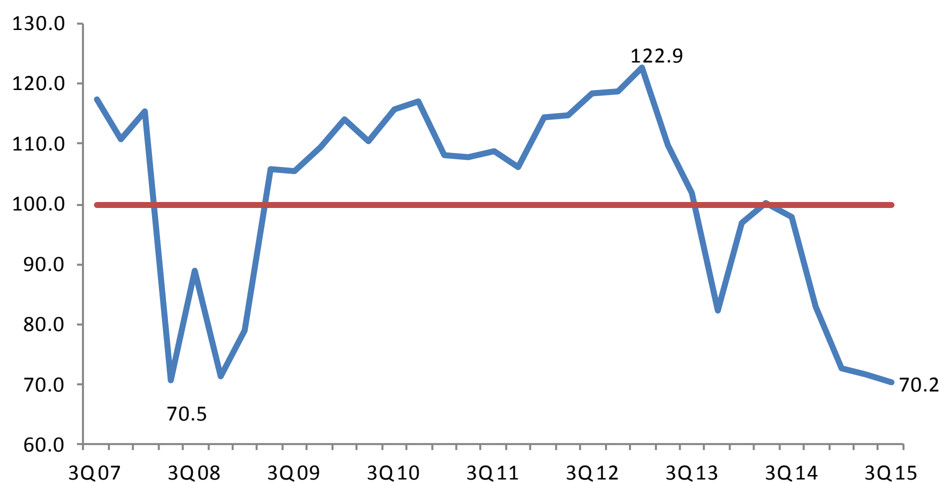
Domestically, rising general prices are the current fear factor among the Malaysian citizen. Core inflation rate, which is excluding Food & Non-Alcoholic Beverages (F&B) and Transport sub indices, progressively rising to 4.0% y-o-y in November 2015 (see Chart 2). Such increases have led Consumer Sentiment Index (CSI) to plunge to 7-year low (see Chart 3). This would have significant implication to consumer spending as households will likely to be more cautious in their spending plans. In addition, elevated levels of household debt at 88.1% of GDP in August (2014: 86.8%) suggest that consumers have not much room to maneuver other than to rationalise their spending plans in order to meet the basic necessities.

Chart 2: Malaysia's inflation rate y-o-y%



Sources: CEIC & Strategic Management, Bank Islam

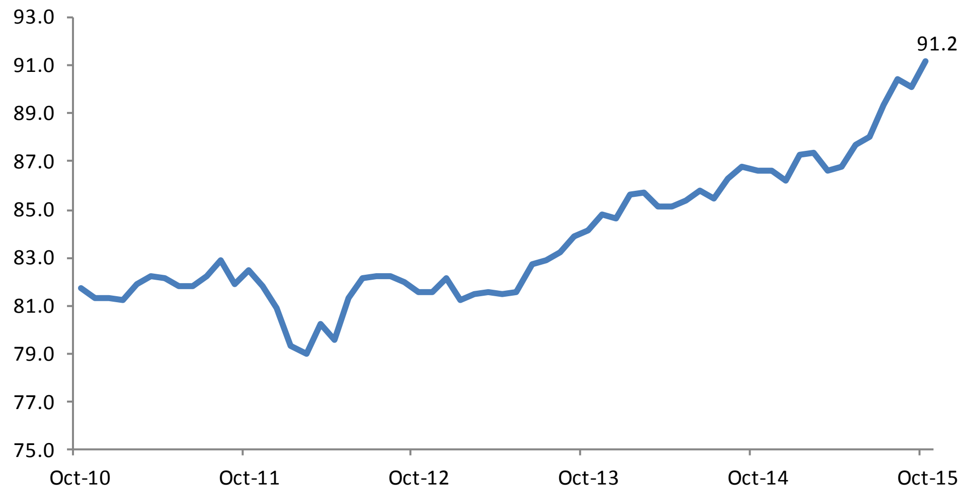
Chart 3: Consumer Sentiment Index (CSI)



Source: CEIC

Apart from that, higher Loans-to-Deposits Ratio (LDR) of 91.2% in October indicates that liquidity in the system is not abundant as before, implying a higher cost of fund (see Chart 4). This could also have an important bearing to the hurdle rate or internal rate of return among the businesses as investment opportunities are becoming more risky. Therefore, it requires higher rates of return in order to compensate such risks.

Chart 4: Loans-to-Deposit (LDR)



Source: CEIC

Notwithstanding that, the Malaysian government has ample resources to ensure the economy will remain stable. For example, the Overnight Policy Rate (OPR), which currently stands at 3.25%, has been normalised by 125 basis points between 2010 and 2014. This suggests monetary authority has the flexibility to provide counter cyclical measures via reduction in the policy rate should the prevailing situation warrants for such respond. Meanwhile, the narrowing of fiscal deficits to 2.4% of GDP for the first nine months of 2015 from 3.4% last year indicates that the government has the financial means to resort to expansionary policy in the event of marked slowdown in growth. In the same vein, higher development expenditure allocated under the 11th Malaysian Plan (11MP) of RM260 billion will ensure that domestic demand will continue to remain resilient as more projects will kick start sometime in 2016. This should benefits construction sector as more infrastructure projects will be rolled out which will result the spillover effects to other industries such as manufacturing and services sector.

Against such backdrop, the economy in **2016 is expected to grow between 4.0% and 4.5% (mid point: 4.3%) from an estimated 5.0% expansion in 2015** (see Table 1 & Table 2). Slower growth is primarily due to moderation in consumer expenditure given that higher cost of living would result in cautious spending among the households. Nonetheless, growth should be supported by investment spending by the public and private sector in view of the implementation of infrastructure projects. In addition, the slight improvement in exports should stimulate activities for export-oriented industries namely the manufacturing and services sector. On currency, **the Malaysian Ringgit (MYR) should trade in the region of RM4.0 to RM4.50 against the greenback** next year since uncertainty in the FFR and lower crude oil prices will continue to affect market sentiments. On prices, the consumer price index **(CPI) is expected to increase from an estimated 2.0% in 2015 to 2.5% in 2016** as prices will remain elevated. This is particularly true when series of price hike such as toll rates, cigarette prices, electricity tariff and public transport fares were announced by the government recently. As such, we foresee OPR to be in the region of 3.00% to 3.25%, implying 25 basis points cut could happen should growth falters more than expected.

We do believe that there is a scope for monetary easing but quite limited as inflation rate is expected to increase next year. The reduction in OPR should, in some way, reduce the cost-of-capital which then would help stimulate investment activities among the private firms. This is particularly important as there are certain industries which have been increasing their capital expenditure in order to increase its productive capacity. Such industries include Electrical & Electronics (E&E), Rubber Glove and Healthcare.

Table 1: Macro forecast

Macro variables	2015	2016
GDP	5.0%	4.0% to 4.5%
Private consumption	6.0%	5.5%
Inflation	2.0%	2.5%
Overnight Policy Rate (OPR)	3.25%	3.00% to 3.25%
Exchange rate (MYR/USD)	3.50 - 4.50	4.00 - 4.50
Current account % of GDP	2.0% - 3.0%	1.0% - 2.0%
Fiscal balance % of GDP	3.2%	3.1%

Source: Strategic Management, Bank Islam

Table 2: GDP growth forecast

Growth	2012	2013	2014	2015F	2016F
GDP	**5.5%**	**4.7%**	**6.0%**	**5.0%**	**4.0% to 4.5%**
Domestic demand	10.7%	7.3%	5.9%	5.2%	5.3%
Consumption	7.7%	7.0%	6.4%	5.7%	4.6%
-Public	5.4%	5.9%	4.4%	4.5%	1.0%
-Private	8.3%	7.2%	7.0%	6.0%	5.5%
Investment	19.0%	8.2%	4.8%	3.9%	7.2%
-Public	15.9%	1.9%	-4.7%	-0.9%	3.8%
-Private	21.4%	12.8%	11.0%	6.7%	9.0%
Real exports	-1.7%	0.3%	5.1%	0.5%	2.0%
Real imports	2.9%	1.7%	4.2%	1.1%	3.5%

Source: Strategic Management, Bank Islam

Sectoral view

Positive

Construction

Catalyst will come from higher allocation for development expenditure (DE) as stipulated in the 11th Malaysia Plan (11MP). Total allocation for DE is set at RM260 billion between 2016 and 2020 which would translate into RM52 billion of DE per year, higher than RM48.5 billion in 2015. Already, mega projects have been announced such as rail related projects and expressways in Sabah and Sarawak along with the construction of affordable houses. In addition, there will be more construction of hospitals and schools under the Budget 2016 which would benefit smaller contractors especially those in the rural areas. Nonetheless, weaker MYR as well as rising input costs such as labour and fuel could undermine profit margins which then could have implication to the commencement of projects. Negative market sentiments could also play a role but this could be offset by the government commitments to swiftly award the projects while the central bank is expected to maintain accommodative monetary policy stance which could reduce the costs of capital among the construction players.

Table 3: Lists of construction projects in the pipeline

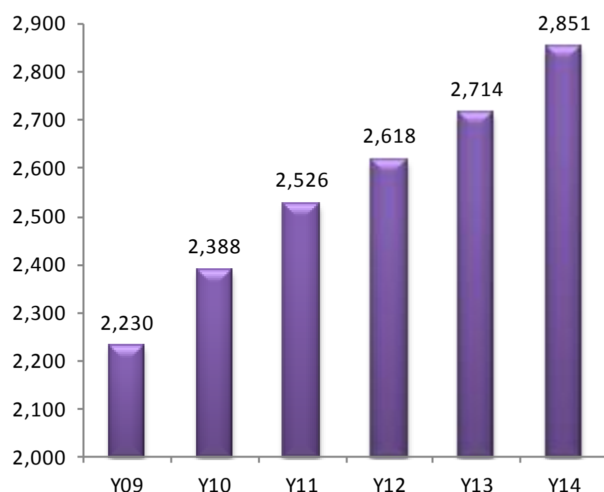
No.	Projects	RM bn	Potential/actual listed company winners
1	The Pengerang Integrated Petroleum Complex project	69.0	WCT, Dialog, Muhibbah Eng
2	KL-Singapore High Speed Rail	40.0	Gamuda, IJM, YTL
3	Klang Valley MRT Line 3 (Circle Line)	30.0	Gamuda, IJM, Sunway
4	Klang Valley MRT Line 2 (Sg Buloh-Selayang-Putrajaya)	28.0	Gamuda, IJM, Sunway
5	Penang Integrated Transport Masterplan	27.0	Gamuda, IJM
6	Pan-Borneo Highway	27.0	CMS, HSL
7	LRT Line 3 (Bandar Utama-Shah Alam-Klang)	9.0	MRC-George Kent, IJM, Sunway
8	Gemas-Johor Bahru Electrified Double-tracking Rail	8.0	Gamuda, IJM
9	West Coast Expressway	5.0	IJM, WZ Satu, WCT
10	Sungai Besi-Ulu Kelang Elevated Expressway (SUKE)	4.3	
11	Damansara-Shah Alam Highway (DASH)	4.2	
12	River of Life	4.0	Ekovest-MRCB
13	Kuantan Deep Water Terminal	3.0	IJM
14	KL118 Tower	3.0	WCT
15	Kota Kinabalu Water Supply Scheme	2.8	WCT
16	Kinrara-Damasara Expressway (KIDEX)	2.5	
17	Kuala Krai-Kota Baru Highway	2.0	
18	East Klang Valley Expressway (EKVE)	1.6	AZRB
19	Duta-Ulu Kelang Expressway (DUKE) extension	1.2	Ekovest
20	Kwasa Damansara infrastructure works	1.0	WCT, Gadang
21	Upgrade East Coast Railway Line	0.2	
		272.8	

Source: Affin Hwang Capital

Healthcare

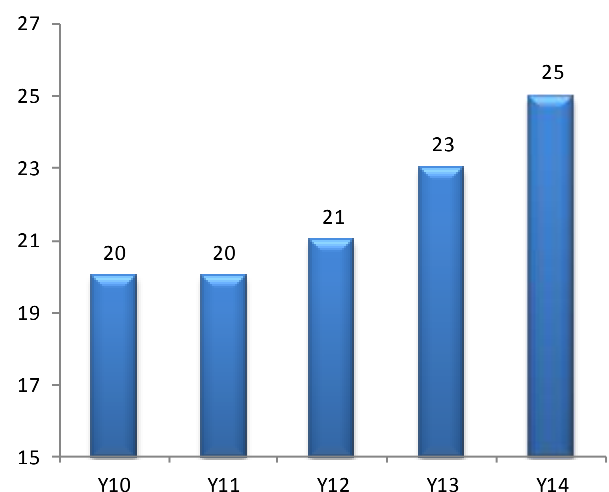
Strong support from the government remain visible with total allocation for the sector stands at RM21.7 billion or 1.7% of GDP in 2016. In addition, private players have been expanding their capacity in order to address future demand for healthcare services. For instance, IHH is currently undertaking expansion projects in four hospitals - Gleneagles KL, Pantai Hospital KL, Pantai Hospital Klang and Pantai Hospital Ayer Keroh. Similarly, KPJ Healthcare is looking to expand its capacity by approximately 1,800 beds with capital expenditure slated to be at RM1.5 billion in the next five years. Medical Tourism (MT) is also deemed to be the growth area and is expected to contribute positively to the revenue stream in view of the state of the art technology offered to the prospective patients. In this regard, KPJ Healthcare has set a target 25% of the total revenue will be contributed from MT by 2020. Currently, MT only contributes between 3% and 4% to their revenue. Meanwhile, rising penetration rate in medical insurance could also boost up demand for medical coverage by the private patients. Additionally, the protracted weak MYR would also increase the appeal of the country's healthcare services regionally.

Chart 5: Number of beds (KPJ Healthcare)



Source: KPJ's Annual Report

Chart 6: Number of hospitals (KPJ Healthcare)



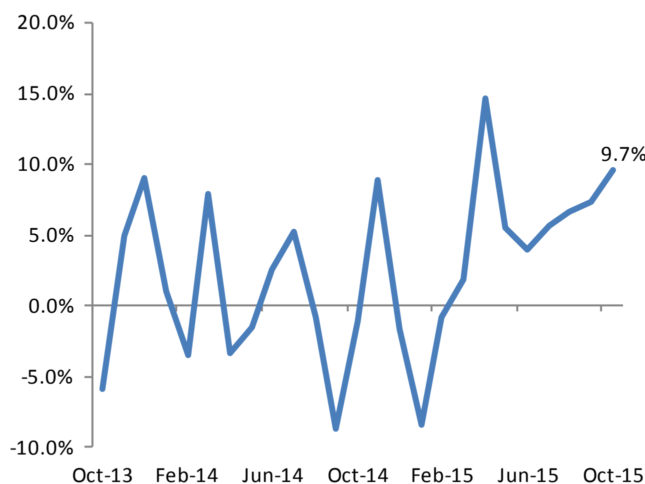
Source: KPJ's Annual Report

Manufacturing – rubber gloves

The sector appears to be the direct beneficiaries from healthcare industries as demand for nitrile gloves have been on the rise. Meanwhile, weaker MYR have also resulted a strong surge in rubber gloves exports, leading to better performance among the key players. The latest figure showed rubber gloves export growth rose 33.7% y-o-y in September from 25.0% in the preceding month. Consequently, companies such as Top Glove, Hartalega and Supermax have been expanding their production capacity by investing more in machineries and equipment in order to cater for the future demand as well as to increase production efficiencies. Top Glove, for instance, have been upgrading their production lines in FY14 and FY15 by increasing automation in their packaging and stripping process. As a result, the overall utilization rate is estimated to have increased to around 80% - 85% from 70% - 75% previously, leading to higher productivity.

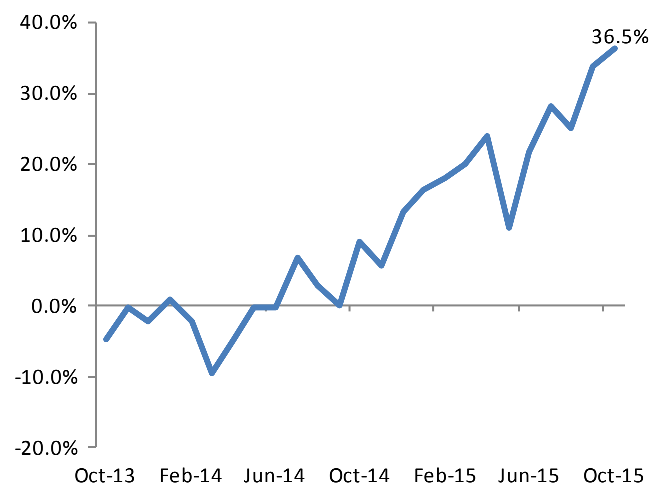
Production per employee has risen to 3.78 million pieces in FY15 from 3.4 million pieces in FY14. The latest Budget 2016 measures on Special Reinvestment Allowance also bodes well for the sector as the incentive will allow companies to reinvest in machinery and equipment and at the same time, reducing their tax burden.

Chart 7: Industrial production index (IPI): Rubber gloves (y-o-y%)



Source: CEIC

Chart 8: Export of rubber gloves (y-o-y%)



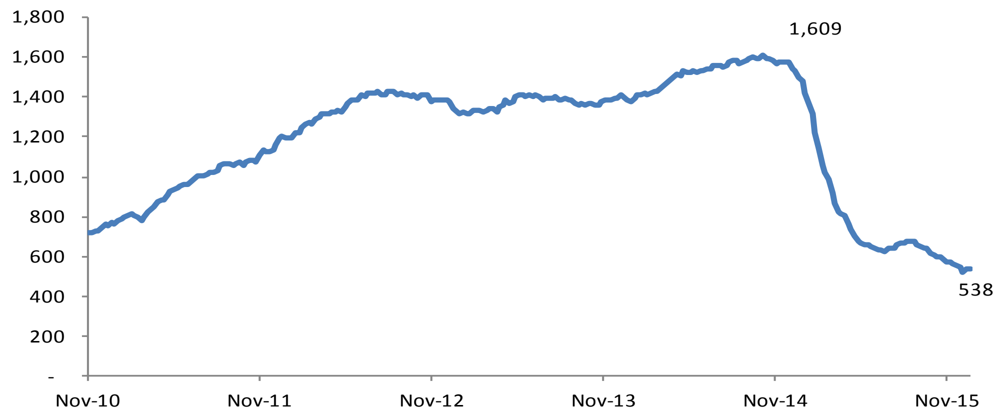
Source: CEIC

Neutral

Oil & Gas

The supply glut in the global crude oil market is unlikely to be cleared in the immediate terms. This is especially true when the OPEC members have recently abandoned their production quota of 30 million barrels per day (MBPD). Currently, crude oil production by OPEC stands at 32.1 MBPD as of November, representing an increase of 5.8% y-o-y (October: 3.8%). Meanwhile, Non-OPEC produced a total of 57 MBPD as of November, higher 0.3% compared to the previous year's level. This have caused significant adjustment especially in the upstream sector. For instance, the number of oil rigs in US has fallen from 1,609 in October 2014 to 538 on December 25, 2015. Similar dynamics are also found in Malaysia. Petronas has indicated that it will bring down the number of oil rigs from 30 to about 15 to 19 by year end 2015 in order to ensure that there will not be excessive oil production in view of the prevailing market condition. As a result, the number of retrenched workers in the sector rose 330% for the first nine months of 2015 to 826 workers from 192 in the same corresponding period last year. Nonetheless, the downstream sector could offer some hope especially with the commencement of deepwater oil production in Gumusut Kakap oilfield in Sabah since October last year. In addition, the construction of infrastructure and storage capacity in RAPID Pengerang Johor would provide some benefit to the local players.

Chart 9: Number of oil rigs in US

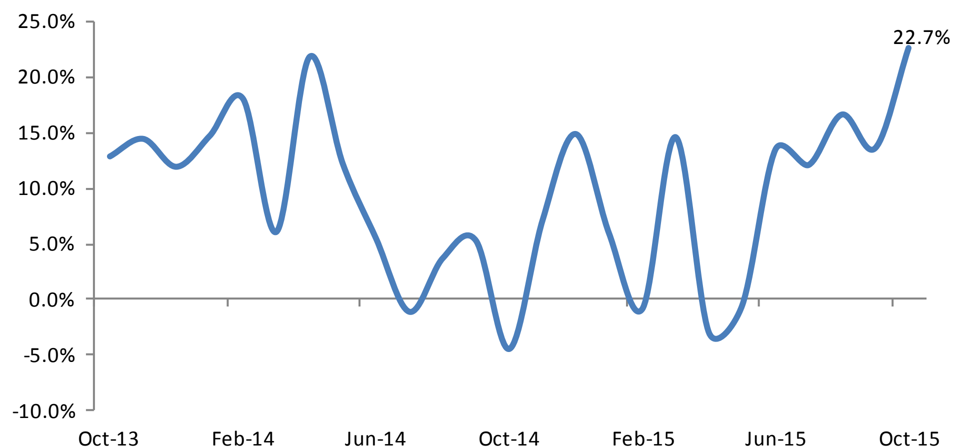


Source: Bloomberg

Manufacturing – E&E

The prevailing trend has been favourable and demand growth for semiconductor is expected to remain steady in the region of 1.4% to 3.1% between 2016 and 2017 based on the recent World Semiconductor Trade Statistics (WSTS) forecast in November. The industry dynamics have changed in recent years as demand from automotive industries and smart devices have created a niche for the local players. However, given the nature of the products which is highly cyclical and the uncertainly in the global economy, it would be best to treat the sector with a neutral stance. Already, the global Book-To-Bill (B-T-B) ratio has fallen below the unitary value for two consecutive months. The latest B-T-B showed a reading of 0.96 in November (October: 0.98) which suggests that for every USD96 worth of orders received is equivalent to USD100 of product billed for the month. If the ratio keeps on falling, it suggests that orders for semiconductor products are not forthcoming and it will soon hit the company's revenue. Thus far, Malaysia's E&E export has been favourable. The latest figure showed E&E export grew by 22.7% y-o-y in October after rising by 13.6% in the preceding month.

Chart 10: Malaysia's Electrical & Electronics export growth (y-o-y%)



Source: CEIC

Automotive

Vehicle sales were lower for the most part of 2015. The Total Industry Volume (TIV) was at 541,142 units for the first ten months of 2015. This represent 1.0% decline over the same period last year. Rising costs of living following the implementation of Goods and Services Tax (GST) in April, weaker MYR as well as heightened uncertainty over economic prospect appears dampening consumers' sentiment. This has significant implication to their decision for car purchases which was reflected in the vehicle financing growth which was generally flat this year. Average growth for vehicle financing growth stands at 2.6% for the first ten month of 2015 compared to 4.1% in the same period last year. Despite that, sales of certain luxury brands as well as selective Japanese made cars performed favourably this year. Brands such as Porche, Mercedez, Lexus and Mini recorded 10M2015 sales growth of 94.6%, 64.8%, 17.7% and 15.9% respectively. Similarly, Japanese cars such as Honda, Mazda and Nissan posted 10M2015 sales growth of 19.0%, 28.4% and 9.6% respectively. As such, the critical success factor hinges on market segmentation in view of rising High Net Worth Individuals (HNWI) as well as middle class consumers given that demand from this particular income cohort is expected to remain stable. The Malaysian Automotive Association (MAA) have recently revised their 2015 TIV forecast from 680,000 units to 670,000, reflecting challenges faced by the industry under the prevailing economic condition. Thereafter, TIV is expected to reach 683,400 units, 697,500 units, 713,000 units and 729,500 units for 2016, 2017, 2018 and 2019 respectively.

Table 4: Market share for selected brand

	Market Share					
	Perodua	Proton	Honda	Nissan	Mazda	Toyota
Y07	33.3%	24.1%	5.8%	2.2%	0.1%	14.4%
Y08	30.5%	25.9%	5.9%	4.3%	0.1%	15.9%
Y09	31.1%	27.5%	7.2%	4.3%	0.2%	12.2%
Y10	31.2%	25.9%	7.4%	4.3%	0.7%	11.7%
Y11	30.0%	26.4%	5.4%	4.2%	1.0%	10.6%
Y12	30.1%	22.5%	5.6%	4.5%	1.0%	11.8%
Y13	29.9%	21.2%	7.9%	7.0%	1.2%	9.4%
Y14	29.3%	17.4%	11.6%	6.0%	1.5%	11.1%
10M2015	32.3%	16.1%	13.8%	6.3%	2.0%	9.1%

Source: CEIC

Power

Electricity demand growth is the main concern now as the economy is expected to moderate further in 2016. The recent announcement on Tenaga Nasional Berhad (TNB) 4QFY15 results showed that electricity demand is expected to grow at 2.2% for FY16, which is similar to the FY15. Nonetheless, the implementation Imbalance Cost Pass Through (ICPT) will allow the cost structure to reflect the current generation mix and subsequently, can be passed on to the end-users. Currently, the Base Tariff is set at 38.53 sen/kWh. However, ICPT's rebate is now reduced from 2.25 sen /kWh to 1.52 sen/kWh which will be effective between 1 January 2016 and 30 June 2016.

As such, consumers will have to pay 2% higher on the average tariff based on the latest revision to the tariff rebate. Such decision came as the gas price for the power sector was also raised from RM16.70 per mmbtu to RM18.20 per mmbtu.

Plantation

Crude Palm Oil (CPO) prices have been quite volatile this year when it touches 52 week low of RM1,806 per MT on 31 August. Nonetheless, it has now rebounded and remained steady at above RM2,100 per MT. Fundamentally speaking, the inventory level continue stay above 2 million MT mark since April while narrowing discount between CPO and Soyben Oil would pose a threat to export demand due to substitution effect. However, weaker MYR may have contributed the product appeal. This is reflected in the latest statistical releases which showed 4.4% expansion in export growth after suffering two consecutive month of contraction. Additionally, demand from major importing countries such as India, European Union (EU) and Viet Nam suggests a healthy trend when export growth for 9M2015 stands at 9.4%, 1.4% and 9.7% respectively. Going forward, prospects for global economy, weather condition (El-Nino), weak MYR, discount with Soybean oil and to some extent, biodiesels are likely to be the key consideration for CPO prices. We are projecting CPO prices in the region of RM2,100 and RM2,200 per MT. As such, margins among the planters should be relatively stable in view of lower cost. The recent increase in Minimum Wage should also has minimal impact to the sector given that 80% of the harvester are already earning RM1,500 per month.

Table 5: Crude Palm Oil (CPO) statistic

000 metric tonne	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Opening stocks	**2,016**	**1,762**	**1,733**	**1,859**	**2,182**	**2,240**	**2,142**	**2,258**	**2,492**	**2,642**	**2,836**
Production	**1,161**	**1,122**	**1,495**	**1,693**	**1,811**	**1,764**	**1,816**	**2,051**	**1,959**	**2,037**	**1,653**
Y-o-Y	-23.1%	-12.1%	-0.1%	8.8%	9.3%	12.4%	9.0%	1.0%	3.3%	7.6%	-5.6%
M-o-M	-15.0%	-3.4%	33.3%	13.3%	6.9%	-2.6%	2.9%	13.0%	-4.5%	4.0%	-18.9%
Exports	**1,192**	**973**	**1,182**	**1,178**	**1,615**	**1,697**	**1,610**	**1,608**	**1,681**	**1,712**	**1,499**
Y-o-Y	-12.9%	-28.0%	-5.1%	-7.2%	14.8%	14.5%	11.3%	11.9%	3.2%	6.2%	-0.9%
M-o-M	-21.6%	-18.4%	21.5%	-0.4%	37.1%	5.1%	-5.1%	-0.1%	4.5%	1.9%	-12.4%
Imports	**90**	**64**	**42**	**65**	**101**	**103**	**143**	**66**	**76**	**73**	**122**
Y-o-Y	469.7%	669.0%	174.6%	51.0%	99.4%	841.5%	973.4%	275.6%	97.4%	-11.5%	23.1%
M-o-M	-0.5%	-29.4%	-34.5%	56.4%	55.5%	2.4%	38.0%	-53.8%	15.1%	-3.3%	65.9%
Consumption	**313**	**241**	**229**	**257**	**239**	**268**	**233**	**275**	**205**	**205**	**203**
Y-o-Y	49.8%	14.3%	-2.6%	2.0%	5.9%	-5.6%	13.5%	13.0%	-24.0%	-29.0%	-8.7%
M-o-M	56.0%	-22.9%	-4.9%	12.1%	-7.1%	12.1%	-13.1%	18.2%	-25.4%	-0.1%	-1.0%
Closing stocks	**1,762**	**1,733**	**1,859**	**2,182**	**2,240**	**2,142**	**2,258**	**2,492**	**2,642**	**2,836**	**2,908**
Y-o-Y	-9.0%	4.6%	10.1%	23.6%	21.6%	29.3%	34.0%	21.4%	26.4%	30.9%	27.5%
M-o-M	-12.6%	-1.6%	7.2%	17.4%	2.6%	-4.4%	5.4%	10.4%	6.0%	7.3%	2.6%
Stock-to-usage	**5.6**	**7.2**	**8.1**	**8.5**	**9.4**	**8.0**	**9.7**	**9.1**	**12.9**	**13.8**	**14.3**

Sources: CEIC & MPOB

Telecommunication

The Mobile Virtual Network Operator (MVNO) such as U Mobile, Tune Talk, redONE Network and others continue to post significant challenges to the already highly competitive landscape in the industry. This is particularly apparent in the case of post paid industry whereby the MVNOs players have gained higher market share to 11.6% in the 2Q 2015 from 11.4% in the preceding quarter (1Q 2013: 3.5%). Nonetheless, the main three players – Digi, Celcom and Maxis – managed to defend their respective market share in the prepaid segment at 28.1%, 26.5% and 25.4% while MVNO command 20% market share. The recent Budget 2016 announcement indicates that consumers will receive rebates equivalent to the amount GST paid, which will be credited directly to their prepaid accounts. This essentially should ease the burden especially for students and low income citizen in 2016. All in all, the competitive landscape is likely to remain significant in the foreseeable future, leading to further erosion of profit margins. There are indications disruptive competition is about to make its way. The case in point is MyRepublic, a start-up fibre broadband provider in Singapore has indicated their interest to take its 'disruptive' business model to Malaysia by the end of 2015 or in early 2016. A brief description gathered from Internet indicated that MyRepublic is pretty much a disruptive fibre broadband player in South-East Asia and has offered a disruptive price of S$49 a month for 1Gpbs (vs. S$395.90 for the same service) when it rolled out its services in Singapore in May 2014. By February 2015, every fibre broadband player in Singapore has followed suit by offering the service at prices ranging from S$49 to S$70 a month. The group intends to duplicate its disruptive business model to Malaysia by offering 100Mpbs at between RM60 to RM70 a month. This is a huge discount as compared to the country's dominated fixed broadband operator – TM, which offered RM116.60/month package for 1Mbps and voice. Press has earlier reported that MyRepublic is waiting for the government to require that TM open up its networks to other operators via full local-loop unbundling (LLU), which is the physical wire connection between the local exchange and the customer. Without LLU, MyRepublic may need to sign-up wholesale agreements with the incumbent to provide services, according to press.

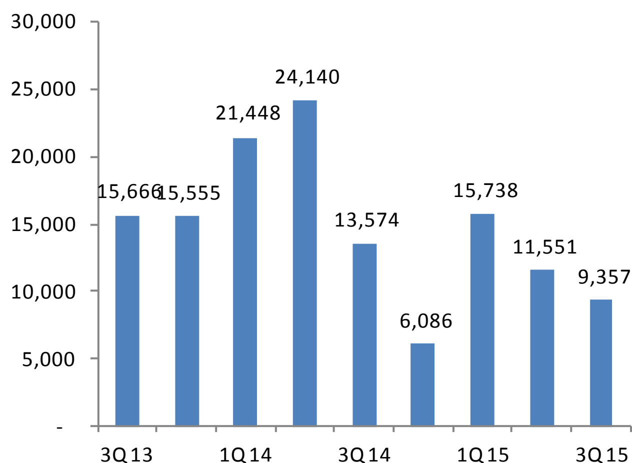
Education

Public Higher Education Institution (IPTA) is expected to face challenging prospects as the federal government will continue to rationalise its expenditure in bid to narrow the budget gap. In addition, the move towards autonomous universities since 2012 will allow the IPTA to manage their own academic, administrative and financial matters. As such, IPTA is anticipated to be more pro active to generate more revenues whilst at the same time, keeping a close watch on their budgetary position. Undoubtedly, the demand for higher learning is rising as the country aspires to be the high income nation by 2020. Nonetheless, it remains to be seen whether the IPTA has the flexibility to amend the students fees especially when Malaysian households have been severely affected by higher cost of living. Another important development is the listing of PTPTN borrowers into BNM's Central Credit Reference Information System (CCRIS) since January 2015. This could be a catalyst for better repayments among the graduates which subsequently will help increase the recovery rate for PTPTN's loan portfolio. This, in turn, will allow new students to get financing from PTPTN in order to pursue higher learning at local universities.

Property (residential)

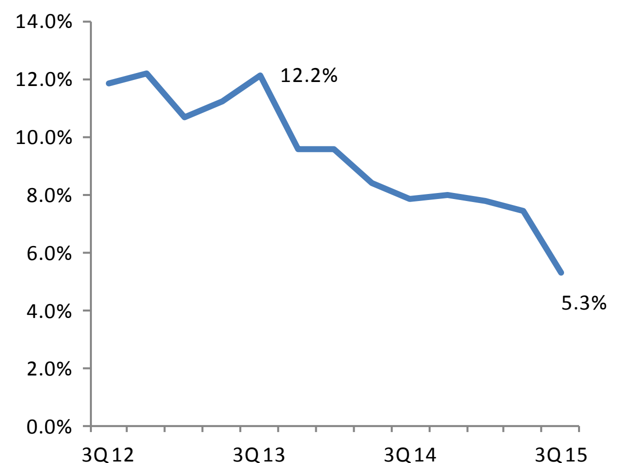
Property launches are shifting into lower gear with newly launched residential property fell to 9,357 units in the 3Q2015 from 11,551 units in the preceding quarter. Similarly, the House Price Index (HPI) continues to decelerate in the 3Q2015 to 5.3% y-o-y compared to 7.5% growth in the previous quarter. This suggests that house prices continue to rise but at a slower pace. Property developers become increasingly cautious to launch new township as demand may not be forthcoming. House buyers are facing multiple challenges ranging from rising cost of living as well as difficulties in securing financing facility. The government is pushing for the provision of affordable houses especially those in the rural areas. In Budget 2016, the government announced a total of 5,000 units of PR1MA and PPA1M houses in 10 locations in the vicinity of LRT and Monorail stations including in Pandan Jaya, Sentul and Titiwangsa will be built. Additionally, GLCs will build affordable houses in the vicinity of MRT station in Bandar Kwasa Damansara. Kwasa Land, which owned by EPF, will build 800 units of houses and Sime Darby Property will build 4,600 units. Some of the property developers are taking pre emptive measures by selling their land bank to the government agencies for the purposes of building affordable houses. For instance, Glomac Bhd is selling 16.9 ha freehold land in Cheras, Selangor to Perbadanan PR1MA Malaysia for RM145.6 million in October. The company was said making a net profit of RMRM83.9 million.

Chart 11: Newly launched residential property (units)



Source: CEIC

Chart 12: House Price Index (HPI) y-o-y%



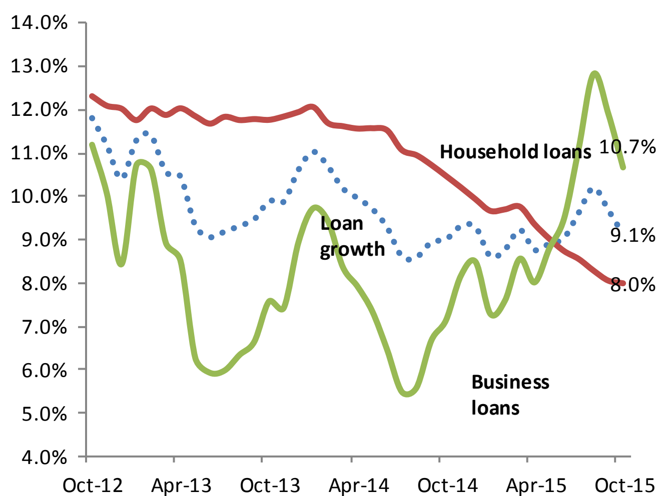
Source: CEIC

Banking

Margin compression as well as slower financing growth is expected to shape the sector performance in 2016. Already measures such as reduction in the number of headcount have been announced in a bid to maintain cost reasonably low in view of lower top line growth. In addition, liquidity is increasingly scarce with loan-to-deposit ratio remaining above 90 percent in October. As a result, promotion to attract deposits becomes more intense in order to ensure sufficient liquidity condition especially in the face of higher Liquidity Coverage Ratio (LCR) in 2016. Asset quality remain fairly resilient, however, higher impairment ratio in certain months suggests financial institutions (FI) should be more vigilant in monitoring possible delinquencies.

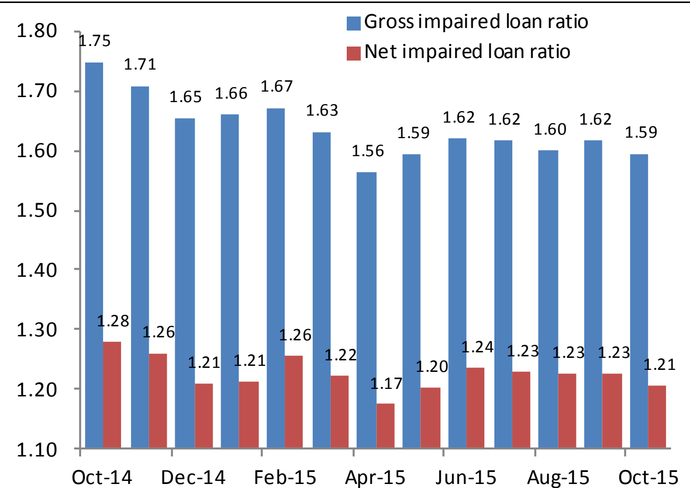
Gross Impairment Ratio (GIR) rose from 1.56% in April to 1.59% and 1.62% during May and June and sustained at 1.62% in July before went down to 1.60% in August. Nonetheless, GIR edged up again in September to 1.62% and went down to 1.59% in October. Rising number of retrenched workers during 2015 would also give more reason for FIs to keep a close watch on asset quality. The total number of retrenched workers for the first nine month of this year rose to 8,690 employees from 7,516 employees in the same corresponding period last year. This represent 15.6% growth with almost all sectors recorded higher number of retrenched workers except for manufacturing sector. All in all, we are projecting loan growth of **between 8.0% - 9.0% in 2016 from 9.0% - 10% in 2015.**

Chart 13: Loan growth y-o-y%



Source: CEIC

Chart 14: Gross and Net Impaired Ratio



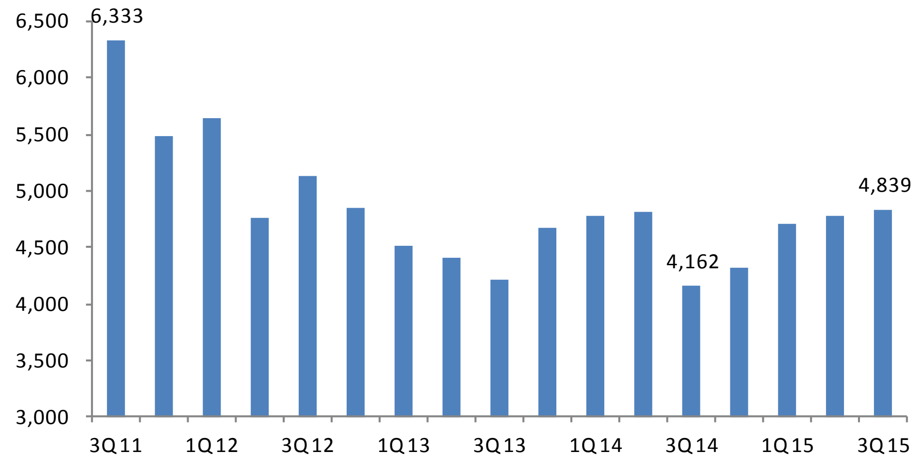
Source: CEIC

Cautious

Property (Shop Units)

Unsold units for shop houses are on the rise between 3Q 2014 (4,162 units) and 3Q 2015 (4,839 units). Johor state remained the highest number of unsold units at 1,830 units followed by Perak (837 units), Negeri Sembilan (450 units), Malacca (414 units) and Selangor (356 units). It remain to be seen on how the excess supply of shop units can be cleared by the market forces in view of slowing economy in the immediate terms. However, federal government commitment to ensure sustainable economic development among the states should translate into more urbanise population outside the Klang Valley. This was reflected during the announcement of Budget 2016 whereby the development of the Malaysian Vision Valley covering an area of 108,000 hectares from Nilai to Port Dickson with an initial investment of RM5 billion in 2016. This would serve as a catalyst for a township along with the development of infrastructure projects such as rail-related construction which will improve the connectivity outside the Klang Valley. Nonetheless, such measures are long-term in nature and therefore, it will take some time before it can have material effect to the sector.

Chart 15: Unsold units in shop houses (units)

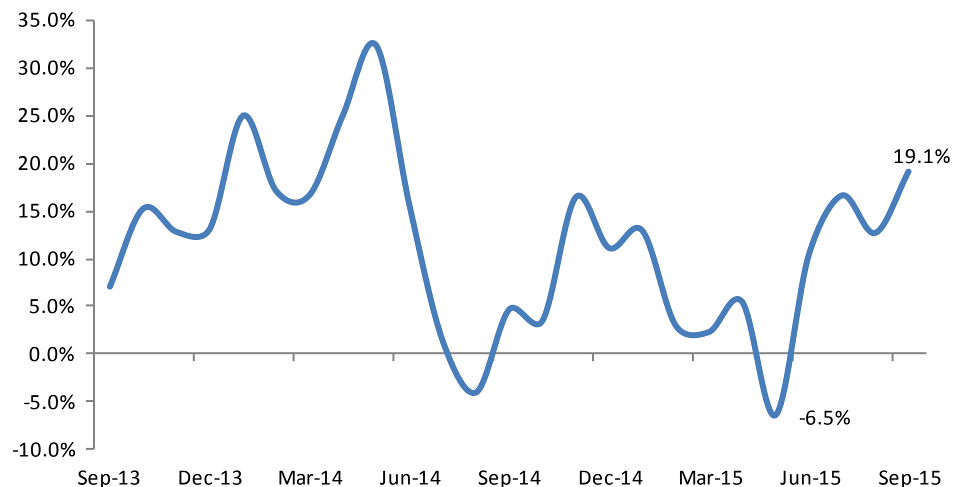


Source: NAPIC

Textile

Weaker MYR has clearly provided the needed boost for textile export. For the first nine months, total export increased by 8.4% from the same period last year. The impending Trans Pacific Partnership (TPP) agreement is expected to have positive spillovers to the industry. According to MITI, 72.9% of textiles tariff lines constituting 36.4% of total exports to US will get duty elimination upon entry into force. Otherwise, only 11% of tariffs or 0.9% of total exports is duty free. As such, the industry is envisaged to experience rapid changes with the implementation of TPP as there will be more market access to North American countries.

Chart 16: Export growth in textile, clothing & footwear (y-o-y%)



Source: CEIC

Avoid

Trading/Retail

The Retail Group Malaysia (RGM) has recently downgraded their 2015 Retail Sales forecast to 3.1% from the previous call of 4.0% expansion. The independent retail research firm highlighted weak consumer sentiment, depreciating value of Malaysian Ringgit against major currencies as well as political uncertainty, which according to their findings are affecting consumer decision to shop. For the 2Q2015, retail sales plummeted by 11.9% y-o-y, the worst sales performance since 1997/98. The RGM attributed that such steep fall was mainly due to consumers are delaying purchases in view of the implementation of GST since April this year.

Steel

The industry is still plagued with an oversupply of steel. The industries overcapacity globally have resulted higher importation of steel especially from China. For the first nine months of 2015, total import for Iron and Steel Bars, Rod increased by 18.6% albeit slower compared to 23.5% in the same corresponding period last year. Additionally, global capacity utilization declined to 69.5% in September from 73.3% in the same period last year. This will lead into a cut in steel production especially when steel prices continue to remain low. Apart from that, measures from the government seem to have minimal impact in discouraging importation of steel from China. Earlier, the government has announced the reinstatement of the 5% import duties on carbon rebars and wires rods effective 11 June 2015 as well as the enforcement of CIDB (Amendment) Act 2011, on 1st July 2015. However, there were no signs of significant decline in steel import.

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