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Market Access

"Right on the Minimum Line"

Key Take Away - GDP Numbers

Detail	2Q16	1Q16	2Q15
Real GDP (y-o-y)	4.0	4.2	4.9
Real GDP (q-o-q)	0.7	1.0	0.9
Domestic Demand Growth	6.3	3.6	4.6
Growth: Y-o-Y			
- Supply Side - Manufacturing	4.1	4.5	4.2
- Supply Side - Services	5.7	5.1	5.0
- Demand Side - Private Consumption	6.3	5.3	6.4
- Demand Side - Private Investment	5.6	2.2	3.9
- Demand Side -Export	1.0	-0.5	-4.0
RM/USD - average	4.00	4.19	3.66

Source: BNM, MOF, M&A Securities

Malaysia Economic Forecast (2012-2015F)

	2013	2014F	2015	2016F
BNM	4.7%	6.0%	5.0%	4.0%-4.5%
MoF				4.0%-4.5%
MIER				4.7%
World Bank				4.5%
Bloomberg Consensus				4.4%
M&A Securities				4.5%

Source: Various, M&A Securities
** In March during the release of 2015 BNM Annual Report*

Overall of 2Q16 GDP Analysis and Economic Outlook

Malaysia made a 2Q16 GDP growth of 4.0%, the level last seen in 3Q13, pushing 1H16 average growth to 4.1%, almost at the low end of Bank Negara Malaysia's (BNM) 2016 expectation. Nonetheless, 2Q16 GDP of 4.0% is spot on with consensus estimates. On q-o-q basis, growth in 2Q16 touched 0.7%, slower than q-o-q growth in 1Q16 of 1.0% and 2Q15 of 0.9%. Malaysia faced considerable challenges in the first half of the year including the uncertainty in US policy direction, China's slower growth and lethargic global commodity prices, not to mention protracted anxiety over Brexit. Thankfully, Ringgit was much calmer, with less volatility, after it ended 2Q16 with an average of RM4.00 per Dollar against 1Q16 average of RM4.19 per Dollar and 2Q15 of RM3.66 per Dollar. Nonetheless, Ringgit is not out of the woods yet given the impending US interest rate adjustment, likely in 4Q16. Therefore, it is not a surprise that it was domestic demand that anchored growth for the year. Domestic demand, benefitting from steady private consumption and investment made a commendable 1H16 growth of 5.0%, lower than 1H16 average growth of 6.3%, a feat considering all the prolonged headwinds.

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Note that services, manufacturing and construction sector drove the Malaysian economy in 2Q16 after belting 1H16 average growth of 5.4% (1H15: 5.7%), 4.3% (1H15: 4.9%) and 8.4% (1H15: 7.6%), offsetting the languishing performance by agriculture that was dented over the incident of El Nino (1H16: -6.0%, 1H15: 0.3%). Indeed, steady wages, full employment, and big ticket civil engineering projects have propelled these three key sector performances in 1H16.

On the demand side, a U-turn made by public investment (1H16: 1.1%, 1H15: -3.7%) and good performance public consumption (1H16: 5.2%, 1H15: 5.6%) boosted growth in 1H16. The government spending on supply and big projects seemed to be making good progress picked up the mild slack left by private investment. Private investment average growth in1H16 slowed down a bit after chalking average growth of 4.0% (1H15: 7.4%) as uncertainty in the economic outlook weighed on performance and business decision. Private consumption, still affected by GST and uncertainty in global economy, made 1H16 growth of 5.8% (1H15: 7.7%), essentially lower than historical standard of about 6% average.

There seems to be rising downside risks to Malaysia's growth in 2H16, given 1) protracted weakness in global commodity prices 2) aftermath impact of Brexit 3) US presidential election 4) China's slower growth and 5) resumption of US policy adjustment. Notwithstanding that, Malaysia's do have steady domestic demand that can support the economy and hence, offset dwindling export, enough policy ammunition and quite comfortable fiscal position now that fiscal consolidation is almost over. In sum, we think that BNM's 2016 growth of 4.0%-4.5% and our projection of 4.3% is achievable and not out of range yet.

GDP by Expenditure Components (at constant 2010 prices)

	Share 2015 (%)	2015		2016		
		2Q	1H	1Q	2Q	1H
		Annual Change (%)				
Aggregate Domestic Demand (excluding stocks)	91.6	4.6	6.3	3.6	6.3	5.0
Private Sector	69.2	5.7	7.6	4.5	6.1	5.4
Consumption	*52.4*	*6.4*	*7.7*	*5.3*	*6.3*	*5.8*
Investment	*16.9*	*3.9*	*7.4*	*2.2*	*5.6*	*4.0*
Public Sector	22.4	0.9	1.8	0.4	6.9	3.6
Consumption	*13.5*	*6.9*	*5.6*	*3.8*	*6.5*	*5.2*
Investment	*8.9*	*-8.1*	*-3.7*	*-4.5*	*7.5*	*1.1*
Net Exports	8.6	-11.1	-10.5	-12.4	-7.0	-9.8
Exports of Goods and Services	*72.9*	*-4.0*	*-2.4*	*-0.5*	*1.0*	*0.2*
Imports of Goods and Services	*64.3*	*-3.1*	*-1.1*	*1.3*	*2.0*	*1.6*
GDP	**100.0**	**4.9**	**5.3**	**4.2**	**4.0**	**4.1**
GDP (q-o-q growth, seasonally adjusted)	**-**	**0.9**		**1.0**	**0.7**	**-**

Source: Department of statistics, Malaysia

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GDP by Economic Activity (at constant 2010 prices)

	Share 2014 (%)	2015		2016		
		2Q	1H	1Q	2Q	1H
		Annual Change (%)				
Services	53.4	5.0	5.7	5.1	5.7	5.4
Manufacturing	23.0	4.2	4.9	4.5	4.1	4.3
Mining	9.0	6.0	7.8	0.3	2.6	1.4
Agriculture	8.9	4.6	0.3	-3.8	-7.9	-6.0
Construction	4.4	5.6	7.6	7.9	8.8	8.4
Real GDP	**100.0[1]**	**4.9**	**5.3**	**4.2**	**4.0**	**4.1**
Real GDP (q-o-q seasonally adjusted)	**-**	**0.9**	**-**	**1.0**	**0.7**	**-**

[1]Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of statistics, Malaysia

Supply Side Analysis 2Q16

Key sectors namely manufacturing and services hammered commendable performance in 2Q16 after delivering steady growth of 4.3% (1H15: 4.9%) and 5.4% (1H15: 5.7%) in 1H16 despite challenging external and business environment not to mention tight credit market where loans approval were noticeably lower. Of note, loans growth was markedly lower at 6.4% in 2Q16 vs. 2Q15 of 9.3%. On the other side, the stability of Ringgit performance also helped the manufacturing sector where planning is now more conducive. To recap, Ringgit against USD averaged at RM4.00 in 2Q16, RM4.19 in 2Q16 and RM3.66 in 2Q16. Mining sector growth was somewhat commendable performance after making a 1H16 growth of 1.4% (1H15: 7.8%) despite the low oil price environment.

As for construction sector, driven by steady progress of civil infrastructure projects, it coughed a solid 1H16 growth of 8.4% (1H15: 7.6%). The back-end load of MRT1, 2 and LRT extension projects are credited to the solid growth by construction sector. Agriculture, hurt by the happening of El Nino, caused the production of crude palm oil to drop after the sector belted a negative growth of 6.0% in 1H16 compared to 1H15 positive growth of 0.3%.

Demand Side Analysis 2Q16

It was the public sector that stole the show in 1H16 after it made almost a complete U-turn in 1H16 performance. Generally, public sector growth grew by 100% in 1H16 after it made average growth of 3.6% (1H15: 1.8%). Speedier spending was obvious in sub-sector namely public investment (1H16: 1.1%; 1H15: -3.7%) as the government front load its 2016 spending during the last 2 quarters. Public consumption also showed commendable performance, although slightly slower, at 5.2% in 1H16 vs. 5.6% in 1H15, still respectable nonetheless given the cut in budget following the government's 2016 budget recalibration (note: austerity measures). On the other hand, private consumption, supported by steady wages, full employment and governments' assistance, clocked-in average growth of 5.8% in 1H16 vs. 1H15 of 7.7%, steady but lower than historical average of about 6% plus. The surprise would be the private investment side after it made quite poor growth of 4.0% in 1H16 against solid 1H15 of 7.4%. Finally, hampered by worldwide economic slowdown chiefly by China and Eurozone, net exports continued to make poor numbers after it made a negative growth of 9.8% compared to 1H15 of -10.5%.

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Monetary Outlook 2016

The outlook of monetary policy hinges on 2 developments, namely 1) the direction and pace of US monetary adjustment and 2) the aftermath impact of Brexit. So far, the former would pose bigger risks to the domestic economy as financial headwinds could ensue especially if it is abrupt and sharp. So far, the risks towards that is moderate-to-low given the mix signals of US key economic indicators, chiefly the sticky US unemployment level that stuck at 4.9% in June and July. Furthermore, the lethargic oil price (WTI) should give a reprieve as it is currently languishing at USD40 plus per barrel, quite a distance compared to the year high of USD50 plus per barrel.

As for Brexit, the impact is still being assessed and the separation scheme between Britain and EU is still being carved out, putting the global economy in comfortable space to adjust any untoward separation mechanism. Hence, we rule out further cut in OPR for now but remain cautious on the probability of further adjustment, if any.

Inflation Outlook 2016

At this stage, given 2Q16 inflation average of 1.9% against 1Q16 of 3.4% and 2Q15 of 1.2%, we think that the risks for run way inflation are almost muted. Tepid oil price along with lethargic global commodity price would ensure imported or demand inflation to be almost nil. So far, inflationary pressure is almost non-existence and should be in line with BNM's expectation of 3%-4%. Of note, Malaysia's 1H16 inflation average touched 2.7%, essentially off the mark that of the central bank, thanks to lukewarm global commodity prices.

Ringgit Outlook 2016

Ringgit may trade near or within the current level of RM4.00 per Dollar as long as the US remains coy of their policy direction. Of note, Ringgit had averaged at RM4.00 per Dollar in 2Q16 against 1Q16 of RM4.19 per Dollar and 2Q15 of RM3.66 per Dollar. The good news is that Ringgit volatility against USD had dissipated in line with reducing political risks in Malaysia and the receding systematic risks from 1MDB saga and this should be positive for businesses planning and risk taking. This is the most important factor. To reiterate, we think that Ringgit may trade near the current level unless and until the US finalizes their policy direction. So far, it is fluid, murky and uncertain.

What to Expect Equity Market in 2H16

The global equity market is waiting in bated breath over the US policy direction. Damn if you do, damn if you don't. For one, global financial headwinds could spark should the US resumes it policy adjustment but then again we do know that an adjustment is inevitable given the recovery of US economy. Hence, the waiting game that we see that pushes the global equity market especially the emerging economies to trade within some range only, with lack of big bets and huge risks taking. Nonetheless, the resumption of US policy adjustment is good as we at least would know the finishing line. Recall that the US current benchmark rate or the Federal Funds rate is currently at 0.50% whilst their normalize rate is about 5%. It's a long way to go. With that we believe foreign investors may avoid coming in throve into the emerging economies equity market. However, the fundamentals of FBMKLCI suggest that it should end 2016 at 1,700 plus range. With that, we reiterate of 2016 FBMKLCI year-end target of 1,790 that is pegged to a PER of 17.1x.

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BNM MPC Meeting Schedule (2016)

Schedule of Monetary Policy Committee Meetings for 2016	
MPC Meeting No.	**Dates**
4th	13 July (Wednesday)
5th	7 September (Wednesday)
6th	23 November (Wednesday)

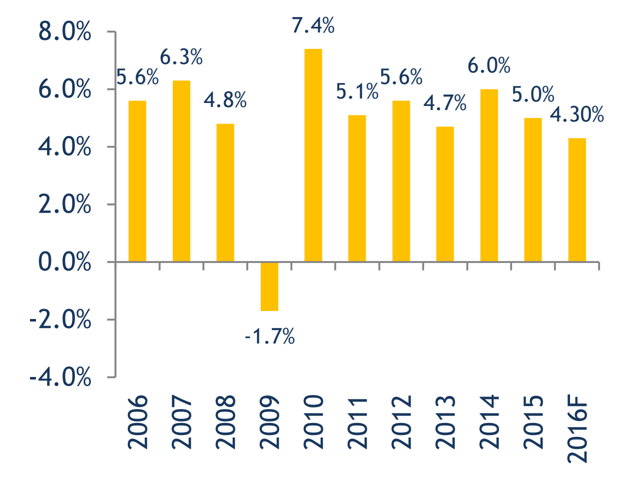
Source: BNM, M&A Securities

US Federal Reserve FOMC Meeting Schedule (2016)

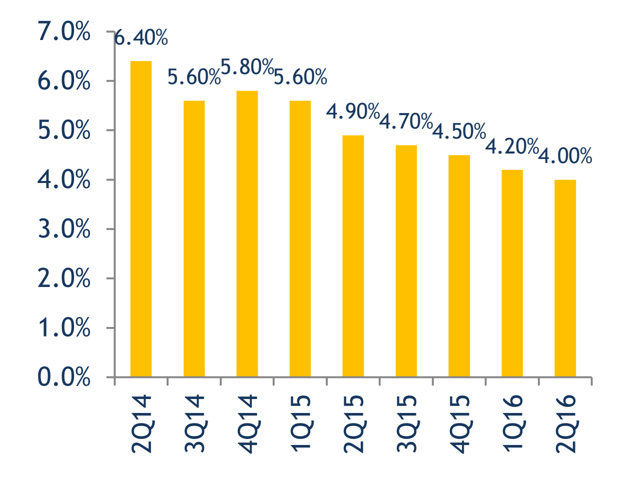
US Federal Reserve FOMC Policy Meetings for 2016	
FOMC Meeting No.	**Dates**
6th	20-21 September (Tuesday & Wednesday)
7th	1-2 November(Tuesday & Wednesday)
8th	13-14 December

Source: FOMC, M&A Securities

Malaysia Annual GDP Growth (2006-2015)

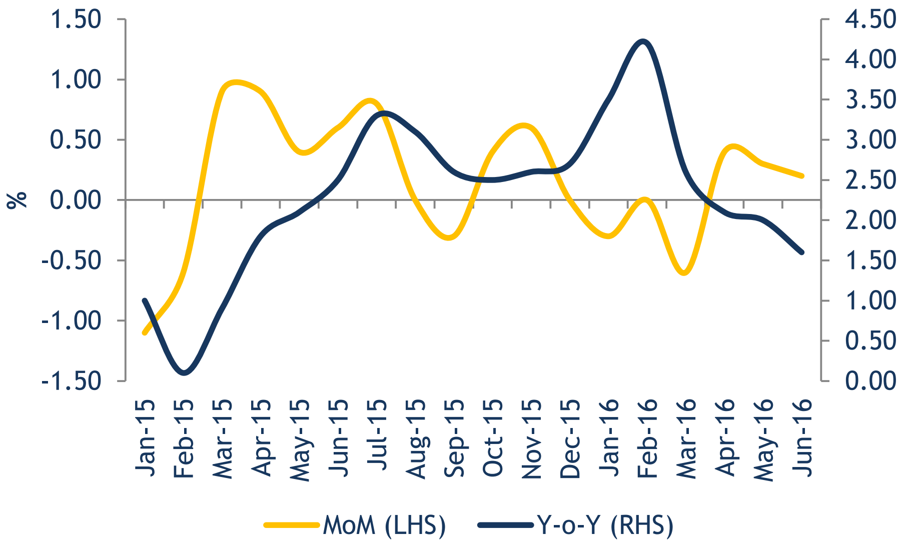


Malaysia Quarterly GDP Growth (4Q13-2Q16)



Source: BNM, MOF, M&A Securities

Malaysia: Inflation Trend (January 2015 - July 2016)



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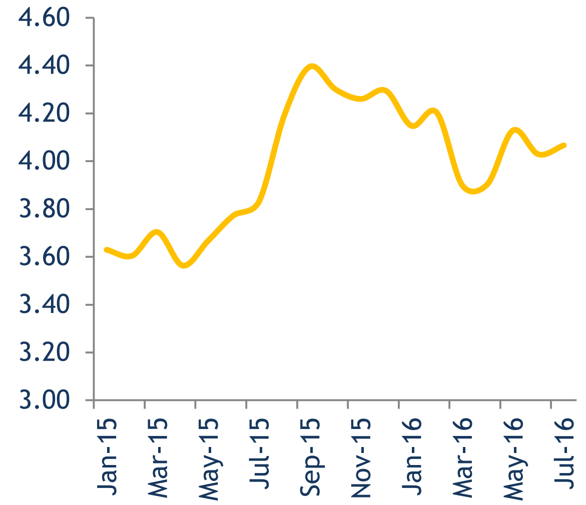
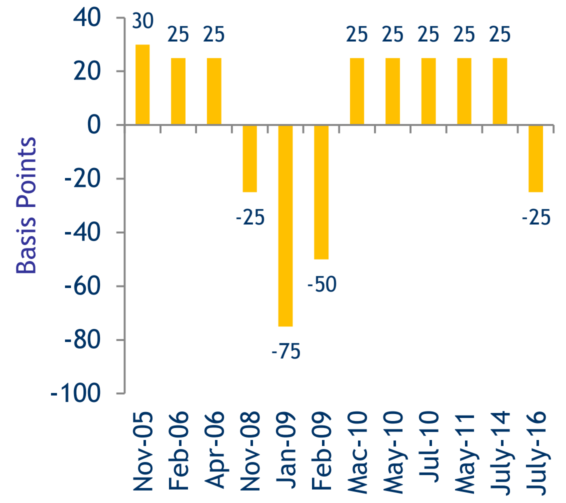
Ringgit per Dollar
(January 2015 - July 2016)

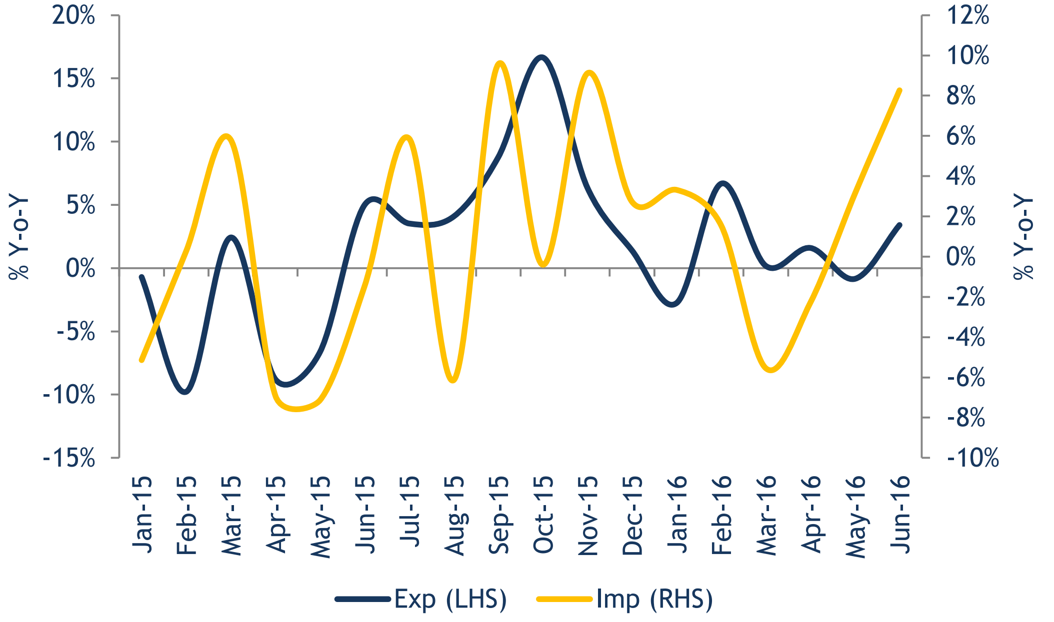


BNM Quantum of Policy Adjustment
(November 2005 - July 2016)



Source: BNM, Bloomberg, MOF, M&A Securities

Malaysia Trade
(January 2015 - June 2016)



Source: Bloomberg, M&A Securities

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M&A Securities

STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+10% within 3-months due to positive newsflow.*
HOLD	*Share price is expected to be between -10% and +10% over the next 12 months.*
SELL	*Share price is expected to be ≥-10% over the next 12 months.*

SECTOR RECOMMENDATIONS

OVERWEIGHT	*The sector is expected to outperform the FBM KLCI over the next 12 months.*
NEUTRAL	*The sector is expected to perform in line with the FBM KLCI over the next 12 months.*
UNDERWEIGHT	*The sector is expected to underperform the FBM KLCI over the next 12 months.*

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