



## US Federal Reserve announced historic rate increase, first since 2006



The Federal Reserve of US, announced on December 16, 2015, its first interest rate increase in more than nine years in a landmark move signaling the US has finally moved beyond the 2008 crisis.

The Fed raised the benchmark federal funds rate, locked near zero since 2008, by a quarter point to 0.25-0.50%, saying the economy is growing at a moderate pace and should accelerate next year.

The move was widely expected but nevertheless marked the end of an era in which the Fed pumped trillions of cheap dollars into the US economy to fuel what turned out to be a very long recovery.

The move initiated what will be a series of slow rate increases which the Federal Open Market Committee (FOMC), the Fed's policy board, promised would be "gradual" and follow the pace of the economy.

At the same time, the median projection by the FOMC foresees that rate at about 1.4% at the end of 2016, suggesting three or four more increases through next year.

The announcement put a stop on the market uncertainty which has impacted emerging economies since beginning of 2015.

## BizWatch

The Federal Reserve move to increase the Fed rate on December 16, 2015 after more than 9 years of new zero rate suggested confidence of the continued improvement of the US economy in the coming years. The announcement also put to rest market uncertainties of proposed increase in interest rates.

The announcement has resulted major US stock indices to close higher and the Malaysian market was also taking cues from the US market on the next day of trading. As at noon, December 17, 2015, the FBMKLCI was up by 14.29 points to 1,648.42 points.

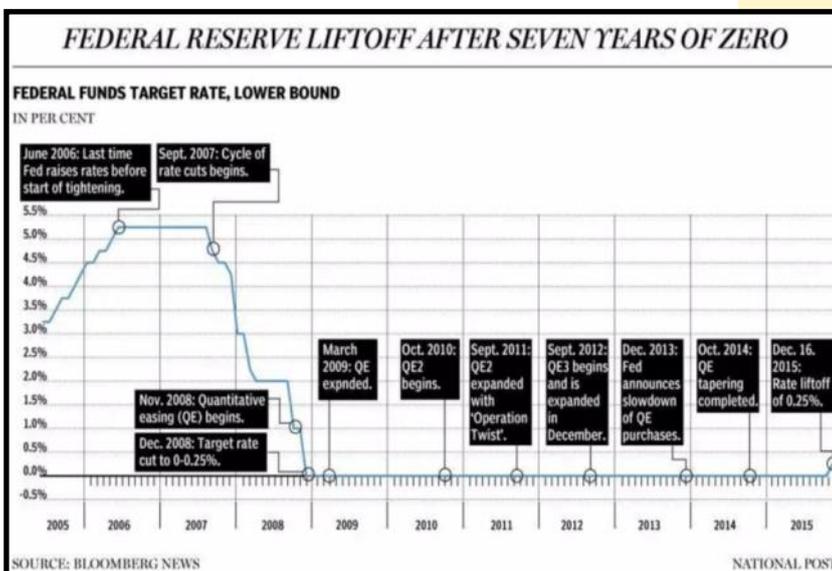
In terms of trade, US is Malaysia's fourth largest export destinations in 2015 (January till October) which represented 9.4% or RM60.54 billion from the total export of RM644 billion. In 2014, US was also ranked fourth accounted for 8.41% or RM64.4 billion from the total export of RM766.10 billion.

It is expected that the exports to US will increase in the next few months in view of the improving US economy.

As the US economy is mainly driven by its domestic spending to spur the growth of the economy, improvement in the US economy and increased market confidence in the economy is likely to result in the improvement in job markets in the US. This in turn will benefit the retail industries as people has more money to spend and thereon create the upward economic demand for goods.

Based on IMF earlier projection, US economy is expected to grow by 2.8% in 2016 vs. 2.6% in 2015, an improvement of 0.2% year on year basis. This maybe adjusted upwards with the announcement of the interest hike.

Therefore, BizWatch is expecting that Malaysian exports to the US will increase in tandem with the improvement in the US economy.



On the other hand, the increase in interest rate in the US will attract overseas funds which may have been invested in emerging economies to return to the US. And this will in turn necessitate increase in interest rate in the emerging countries in order to remain attractive to foreign funds. Increase in interest rate will increase the cost of doing business and will further impact the economic environment.

Today, Bank Negara has maintained the Overnight Policy Rate (OPR) at 3.25% (since July 2014) and prior to July 2014, the OPR had been at 3.00% since July 2011. We may be expecting a further increase in the OPR in the next Monetary Policy Committee meeting in January 2016.

## Fed announces historic rate increase, first since 2006 (cont.)

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For Malaysia, the economic outlook for 2016 is projected to be between 4.0% to 5.0% (below the expected growth for 2015 (4.5% - 5.5%). The rising cost of living arising from the implementation of the Goods and Service Tax and withdrawal of subsidies on petrol and diesel will be further aggravated if there is an increase in interest rate. The increase in interest rate will also dampen the current soft property market as buyers have to pay more to service their housing loans.

While the increase of the Fed rate is likely to ease the movement of hot money flowing back to the US, BizWatch expects that the Ringgit movement going forward will likely be influenced by the global oil prices and political stability rather than the Fed interest rates factor.



Minister in the Prime Minister's Department Datuk Seri Abdul Wahid Omar said the US central bank's decision was long anticipated and within expectations.

"In terms of the currency exchange rates, we expect it to be around the current levels, I don't think there will be much change," he told reporters, after delivering his speech entitled 'Economic Outlook: The Way Forward For Malaysia' at Universiti Teknologi Malaysia.

For Iskandar Malaysia, US has been Iskandar Malaysia's third largest foreign investment with a total investment amounted to RM6.33 billion as at November 2015. The improvement in the US economy will likely to strengthen further the US dollar thus making investment in Malaysia relatively cheap for the US investors.

### US Companies in Iskandar Malaysia

**FLEXTRONICS**



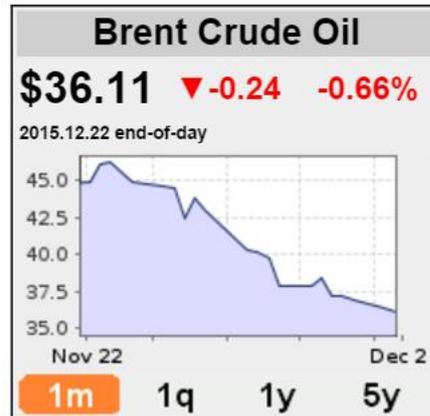
**Kimberly-Clark**

**HERSHEY'S**

**Seagate**

## Global Oil Price Slipped Below USD40...The Consequences to Malaysia.....

The IMF had forecasted that the oil price has a lot further to fall yet and that it could go as low as USD20 a barrel. As at December 22, 2015, the oil price (Brent Crude) stood at USD36.11 a barrel.



This is the extreme low "cost price" predicted since the autumn by Goldman Sachs for early next year.

Now the International Monetary Fund has hinted

that global prices could fall this low when Iran increases its oil exports in the wake of the lifting of international sanctions.

Iran reckons it could increase its output by around one million barrels a day. The oil would enter a global market that is already oversupplied by up to two million barrels a day. The IMF says this will bring renewed downward pressure on the beleaguered oil industry that will cause prices to fall from their current levels by between \$5 and \$15 a barrel, The Guardian reports.

Given prices are currently in the mid USD30's per barrel, this implies a fall back to the early 2000 level of around or below USD30, or as low as USD20. At this price it's likely there will be a sharp decrease in investment and production that should see a sustained and perhaps rapid recovery. Western oil companies have already announced cutback in investments which has contributed to weakness of stock markets worldwide.

As for the consequences of falling oil prices, the International Monetary Fund says it reckons the slump would mean a 0.3% boost to the global economy next year. This would be the net effect of higher consumer spending as a result of fuel and energy bills falling, minus the drag of job losses and reduced investment.

We can expect a reduction in fuel prices in 2016 which will help to reduce cost of living and in turn, accelerate economic growth.

## Global Oil Price Slipped Below USD40...The Consequences to Malaysia.....(cont.)

### BizWatch

**Four factors** that are fueling this down trend – all in one way or another related to the persistent global supply glut – are being cited as reasons for the latest dip.

**Top of the list of concerns is excess production.**

With oil having fallen 70% in the past year, global production was expected to fall as a ferocious turf war claimed swathes of



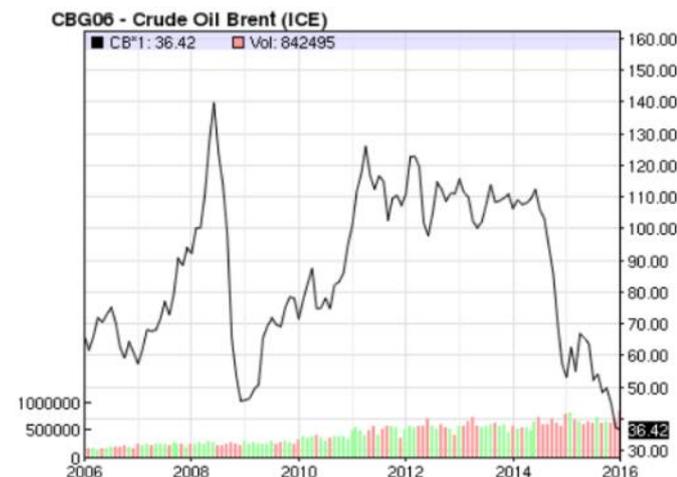
victims, notably in the expensive American shale oil industry. But the sector's unexpected resilience was underlined when the US

energy watchdog revealed an increase of 17 in the number of active rigs drilling for oil last week, according to the Wall Street Journal reports.

**A second factor is that supplies are already at record levels** and stockpiles in the US surged by 4.8 million barrels last week, at a time of year when reserves typically fall, according to the investment bank, ANZ.

On the other side of the equation, a **third issue** is that demand is expected to be hit by a post-interest rate rise jump in the dollar, which makes oil more expensive for overseas buyers.

**Finally**, Brent is under particular pressure after the recent US budget deal that lifted a ban on US oil exports and is expected to reduce the international benchmark's premium compared its US counterpart West Texas Intermediate. This latter fell to \$34.37 overnight – a new seven-year low but still around \$2 above its 2008 nadir.

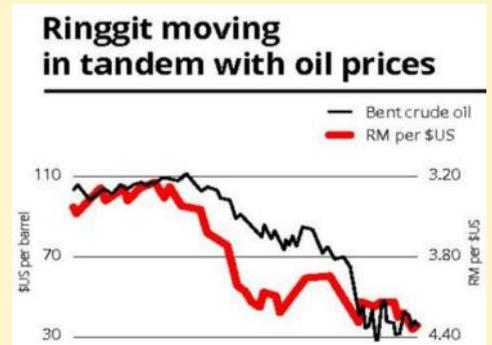


Source: Nasdaq.com

The government of Malaysia basically received income or revenue from oil and oil related revenues in the form of dividends, taxes and royalties from the oil players in Malaysia.

It is believed that based on rough calculations, the Malaysian government has been enjoying about 30% of income from the oil and oil related revenues in the form of dividends, taxes and royalties.

The dropped in the global crude oil price has resulted of lower income to the Malaysian government and this has resulted the Ringgit to decline. This can be seen in the chart below:



In view of the above, the Malaysian government has lowered its 2016 growth of between 4% and 5% to reflect the above factor.

Based on the Ucapan Bajet Malaysia 2016, the income from oil related products in 2015 has dropped from RM62 billion to RM44 billion as a result of oil price declining from US100 per barrel to USD50 per barrel in 2015. In 2016, the government has forecasted that income from oil related products to dip to RM31.7 billion on continuous low oil prices in 2016.

In November 2015, Petronas also announced that dividend payment to the government would be lower next year at RM16 billion compared with RM26 billion in 2015. Petronas remained committed in its capital expenditure investments especially in the refinery and petrochemical integrated development project in Pengerang, Johor.

BizWatch is of the opinion that the lower income contribution from oil related products will be offset by the GST that been introduced last April 2015.

According to PM, it is expected that the government to receive a total income of RM39 billion from GST. The amount received can be used to mitigate the lower income from the oil related products.

Based on the 10 year review of oil prices, taking a positive stand, it would appear that the oil price is now at the lowest and we can only expect the price to adjust upwards in 2016 and beyond as the supply of oil moderates with possible better demand from countries like India (to offset the possible demand slowdown from China) and other ASEAN countries.



**Invest Iskandar Malaysia  
Investment Mission to  
Japan  
Tokyo—Nagaoka—  
Toyama  
19—23 Oct 2015**

Following the success of Invest Iskandar Malaysia 2015 conference in Johor on 29th

Sept, 2015, IRDA organized the Invest Iskandar Malaysia seminars in Japan, covering Tokyo and Toyama city. The seminars were organized together with JETRO, Toyama City, Toyama Chamber of Commerce and Industry, Nikkan Kogyo Shimbun Group and MIDA and attracted more than 250 participants.

From Malaysia together with IRDA were representatives from our key stakeholders: Johor Biotech, Johor Corporation, Medini Iskandar Malaysia, UM Land, i2M Ventures, Forest City, Nusajaya Techpark and Dualtap.

Besides the seminars, roundtable sessions with potential investors were also organized as well as individual meetings.



Seminar in Tokyo



Seminar in Toyama City



Delegation from Iskandar Malaysia

# BizWatch



Toyama City

Datuk Ismail Ibrahim, Chief Executive Officer of IRDA represented Iskandar Malaysia in the Future Cities Initiative held in Toyama city on 27th October and shared his views in the panel discussion 'Global InterCity Cooperation towards Regional Revitalisation'. IRDA also took part in the Sustainable Energy for All conferences held in Toyama city and Tokyo (28th—29th October)



In continuing Iskandar Malaysia's commitment to ensure Iskandar Malaysia is developed in a sustainable manner, Iskandar Malaysia represented the Asia Pacific region in sharing its commitment on Energy Efficiency under the Lima Paris Action Agenda during the 21st Conference of Parties (COP) in Paris, early December 2015. IRDA shared its action plans to improve energy efficiency in two important green agenda namely Building Efficiency Accelerator and District Energy Accelerator.



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