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NEWS·INFORMATION·OPPORTUNITIES

ISKANDAR REGIONAL DEVELOPMENT AUTHORITY

Malaysia Escapes Fitch Downgrade on Improvement in Finances

Fitch Ratings maintained Malaysia's credit ranking at the fourth-lowest investment grade after signaling a downgrade earlier this year, saying that the country's finances are improving and growth remains steady.

The outlook on Malaysia's A- grade was revised to stable from negative. A new consumption tax and fuel subsidy reforms are supportive of Malaysia's finances even as federal government debt and explicit guarantees continue to increase.

Concerns that Malaysia could be downgraded for the first time since the Asian financial crisis have hurt sentiment in its asset markets with the currency near the weakest in a decade. Fitch had repeatedly warned that contingent liabilities such as rising debt at a state investment company were weighing on the rating, contributing to investors souring on the country.

According to Fitch, Malaysia's rating remains supported by reasonably strong real GDP growth rates and low inflation volatility.

Fitch views progress on the Goods and Services Tax and fuel subsidy reform as supportive of the fiscal finances.

Fitch had earlier lowered Malaysia's outlook to negative in 2013, citing weaker prospects for public finances. Moody's Investors Service and Standard & Poor's also ranked Malaysia at their fourth-lowest investment grades. Moody's has a positive outlook, while S&P's is stable.

The ratings affirmation gives Prime Minister, Dato Seri Najib Tun Razak more time to improve the country's public finances, which have been weighed down by rising debt at state investment company 1Malaysia Development Bhd ('1MDB') and a decline in oil revenue.

1MDB's borrowings amounted to 41.9 billion ringgit ($11.2 billion) as of March 2014.

	Moody's	S&P	Fitch	Meaning
Investment Grade	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	High Grade
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	
Junk	Ba1	BB+	BB+	Non Investment Grade Speculative
	Ba2	BB	BB	
	Ba3	BB-	BB-	
	B1	B+	B+	Highly Speculative
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC+	Substantial Risks
	Caa2	CCC	CCC	Extremely Speculative
	Caa3	CCC-	CCC-	In Default w/ Little Prospect for Recovery
	Ca	CC	CC+	
		C	CC	In Default
			CC-	
	D	D	DDD	

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The latest revision of Fitch Ratings on Malaysia's outlook from negative to stable is a boon to Malaysia.

As Malaysia's economic health is deteriorating, given the 1MDB debt issues, lower oil revenue arising from the severe dropped in global crude oil prices has resulted the Ringgit to weaken to almost a 10-year low against the USD.

The revision of the outlook to stable has more or less cushioned the Ringgit from declining further. The Ringgit rose 1% to RM3.7365 against the USD as of 8:15 am local time on July 1, 2015, data compiled by Bloomberg show. It was the worst performer in Asia in the first six months of 2015 and traded close to RM3.80 versus the USD on the week of June 29, 2015 until July 2, 2015, the level at which it was pegged from 1998 until 2005.

BizWatch is of the opinion that Malaysia's financial health would improved in the next few months given the continuous subsidy reforms being done by the government. On top of that, the implementation of GST, is expected to strengthen the government financial positions.

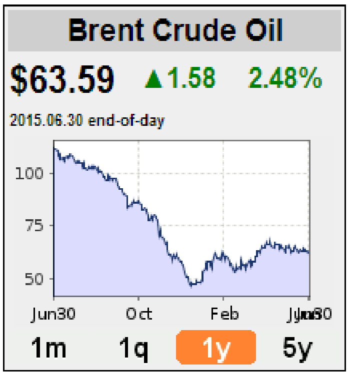
The upgrading to stable outlook is expected to attract more investments coming into Malaysia in general and Iskandar Malaysia in particular as the stable outlook will give investors assurance that Malaysia's financial position is in a manageable situation.

Weakening of Ringgit, how low will it go?

The global crude oil prices as represented by the Brent Crude Oil has declined almost 57% since its high of USD115 per barrel in June 2014 to its lowest level of USD49 per barrel in January 2015.

As at June 30, 2015, the global crude oil prices (Brent) has stabilized hovering around USD64 per barrel.

Brent Crude Oil : 1 Year Price Performance



The drop in the global crude oil prices are believed to be contributed by several factors as follow:

The US Oil Boom

America's oil boom is well documented. Shale oil production has grown by roughly 4 million barrels per day since 2008. Imports from OPEC have been cut in half and for the first time in 30 years, the US has stopped importing crude from Nigeria.

Libya is Back

Because of internal strife, analysts have until recently assumed that Libya's output would hover around 150k-250k barrels per day. It turns out that Libya has sorted out their disruptions much quicker than anticipated, producing 810k barrels per day in September. Libyan officials told the Wall Street Journal last week that they expect to produce a million barrels per day by the end of October 2014 and 1.2 million barrels a day by early 2015.

OPEC Infighting

There have been numerous reports about the discord between OPEC members, leading many to believe that OPEC will not be able to reign in production like it has done so in the past. The Saudis and Kuwaitis have reportedly been in an oil price war, repeatedly lowering their prices in order to maintain their market share in Asia.

Concern over Greece debt crisis

The concern over the ability of the Greece government to pay back the schedule loan repayment to the lenders such as the ECB & IMF, together with the refusal of these lenders to extend its bailout plan has spooked market sentiment thus lowering the global crude oil prices.

As a result of these few factors, the global crude oil prices has plunged to more than 50% and this has severely affected Malaysia.

How does this affected Malaysia?

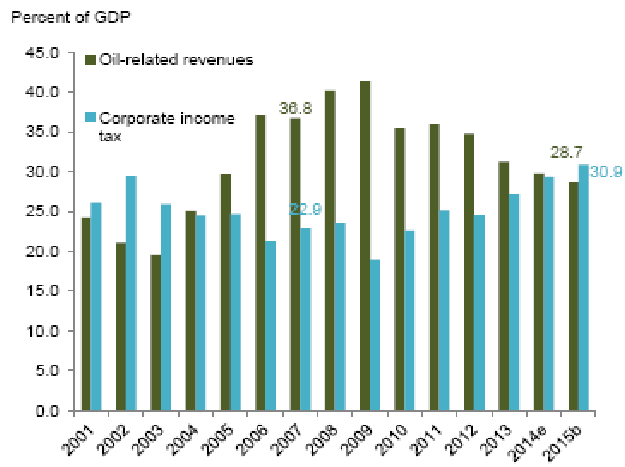
The government of Malaysia basically received income from oil and oil related revenues in the form of dividends, taxes and royalties from the oil players in Malaysia.

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

In view of the weak global crude oil prices, the Malaysian government has been proactive to revise its Budget 2015 and this has led to a cut of RM5.5 billion in terms of its operating expenditure.

The weak global oil prices also contributed to a slower economic growth for Malaysia. Bank Negara had trimmed down the GDP growth for Malaysia from between 5.0% and 6.0% to 4.5% and 5.5% in 2015.

Oil related revenue contribution to Malaysia's GDP



Source: CEIC, MoF and World Bank staff calculations
Note: Oil-related revenues include Petroleum Income Tax, export duties on crude oil, petroleum royalties, the PETRONAS dividend, income from the Joint Malaysia-Thailand Development Area and petroleum permits

Weakening of Ringgit, how low will it go??

This unfavourable situation together with the expectation that the US will be increasing its interest rates soon, which will result hot money to flow back to the US, has seen Ringgit to decline against the USD.

As of June 30, 2015, the Ringgit has weaken against USD by almost 16% since August 2014.

As for now, there is no pressure for the government to peg the Ringgit at a certain level as what the government did in 1998, where Ringgit was pegged at RM3.80 per USD during the Asian Financial Crisis. The Ringgit peg lasted for seven years until July 2005.

The Ringgit has also weaken as a result of possible downgrade of ratings by the Fitch Ratings on the country's economic health which has been deteriorating recently.

Singapore Dollar / Ringgit : 10 Year Price Movement

FitchRatings

Concerns over Malaysia could be downgraded for the first time since the Asian financial crisis have hurt sentiment in its asset markets with the currency at the weakest in a decade.

Fitch had repeatedly warned contingent liabilities such as rising debt at a state investment company were weighing on the rating, contributing to investors souring on the country.

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Malaysia is a net importer of crude oil and low oil price will definitely positive for Malaysia as the cost of importing crude oil will become relatively cheaper at the current traded prices.

On the other hand, the recent reduction in pump prices of RON97 and RON95 has dropped 35 sen from RM2.46 per litre and RM2.26 per litre in December 2014 to RM2.11 per litre and RM1.91 per litre respectively in February 2015 while diesel price dropped by 30 sen from its high of RM2.23 per litre in December 2014 to RM1.93 per litre in February 2015, all of which are expected to increase the overall disposable income of consumers by RM7.5 billion.

Assuming that consumers spend 40% of this amount, it will boost private consumption by RM3 billion, hence benefitting the economy.

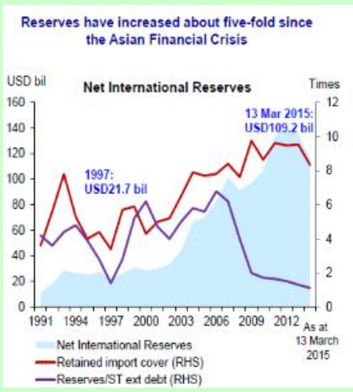
Nonetheless, the amount disposable income of RM7.5 billion might be reduced gradually in the event of the global crude oil price recovers. This is evidence by the increase of petrol prices of RON97 and RON95 of RM2.55 (plus GST) and RM2.15 (GST free) respectively in July 2015 as a result of recovery in the global crude oil price (Brent) from below USD50 per barrel in December 2014 to above USD60 per barrel in July 2015

The World Bank estimates that lower crude oil prices will have a positive impact on world GDP. In fact, a 30% decline in oil prices could boost global GDP of up to 0.5%.

On the issue of weakening of Ringgit, it should be viewed positively as weakening Ringgit would basically boost our export numbers when goods produced in Malaysia will be relatively more cheaper compared to other strong currencies such as the US Dollar and Singapore Dollar.

This bodes well for Malaysia's manufactured products. Further, with the US economy strengthening, there will be sustained demand for our exports, in particular electrical and electronics (E&E) products.

Further, with our ample international reserves, it will provide an important buffer to the weakening of Ringgit. The reserves has increased to about five fold since the Asian Financial Crisis and this will definitely stabilize the volatility of Ringgit in the international market.



As such, there should not be undue worries that the Malaysian economy will collapse as the fundamentals in Malaysia remains intact.

With GST in implementation, the government fiscal situation is expected to improve further, laying a strong foundation for the country.

Asia oil pricing change to benefit oil storage companies in Iskandar Malaysia

Oil pricing agency, Platts is changing how it assesses oil product values in the Asian trade from July 1, 2015 in a move traders expect to boost volumes and encourage the use of regional oil storage facilities built at a cost of billions of dollars in the region.

The change in how fuel oil, diesel, jet fuel and gasoline are assessed for loadings out of Singapore and Malaysia takes a borderless approach similar to that in the world's largest oil storage hub Amsterdam-Rotterdam-Antwerp (ARA).

From July in the Platts' free-on-board (FOB) Singapore price assessments (the basis for most contracts and spot deals done in Asia), traders at the time of making a bid or offer for a cargo will no longer need to specify a loading point in Singapore or southern Malaysia.

Daily trade activity will instead be classified as FOB Straits - although price assessments will still be published as FOB Singapore - and buyers and sellers will decide on loading terminals only after a deal is done.

This change makes the Singapore market effectively move to an ARA-style system, although with some significant differences. In some ways, it was already being practised, with Platts 'approving' certain locations in Malaysia previously.

Many traders say the change to a system where loading points are not pre-determined will expand the use of storage sites in Malaysia. It will also increase liquidity in Platts' price assessment process known as Market-on-Close as more regional storage terminals are approved as loading points for FOB Straits bids and offers, including possibly in Indonesia, traders said.

However, the combined capacity of some 16.1-million-cubic-metre Singapore-Malaysia storage hub is still running a distant second to ARA, where storage capacity is 38 million cubic metres, as per storage advisory Ratio Group's estimates.

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Malaysia complements Singapore to create an Amsterdam-Rotterdam-Antwerp (ARA) hub for Asia Pacific region

Key success factors	Amsterdam-Rotterdam-Antwerp(ARA)	Malaysia-Singapore
Export refining capacity	» Rotterdam: 1,300 kbpd » Antwerp: 770 kbpd » Amsterdam: negligible refining capacity[1]	» Malaysia: 560 kbpd (although a net importer of gasoline) » Singapore: 1,300 kbpd
Independent storage and blending capacity	» Rotterdam: 28million m^3 » Capacity for Antwerp and Amsterdam is not available	» Malaysia: 10million m^3 by 2017 » Singapore: 10million m^3 with limits on future expansion due to lack of coastal land
Access to markets	» Amsterdam is the centre for the gasoline export trade, imports the product mainly from Europe and North Africa to blend and meet US specifications	» Singapore is the third largest global oil trading hub and bunker port, with more than USD300 billion in physical oil trades and USD600 billion in derivative trade in 2007

Source: MPRC website

Besides 20 terminals in Singapore, Platts now includes four Malaysian terminals in its price assessments, namely, Pasir Gudang, Tanjung Langsat, Tanjung Bin and Pengerang.

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