



Federal Reserve raises interest rates for second time in a decade



The Federal Reserve raised its benchmark interest rate on December 3, 2016 for the first time in a year and signaled that rates could continue to rise in 2017 more quickly than officials had expected.

The increase was unanimous and modest, raising the Fed's key interest rate by a quarter point, from a range of 0.25 to 0.5 percent to a range of 0.5 to 0.75 percent. It reflected Fed officials' confidence in the strengthening of the US economy and what officials saw as budding signs of higher inflation.

But unlike corporate executives and stock traders, Fed officials do not appear to be anticipating a massive growth boost next year from economic policies implemented by President-elect Donald Trump, but they appeared set to raise rates faster if those policies are to cause an overheating in the economy.

Janet Yellen, the Federal Reserve's Chairman told reporters that she and the Federal Open Market Committee were "recognizing the considerable progress the economy has made" toward full employment and an inflation target of 2%". She indicated that she did not see

much need for a large, deficit-financed boost from federal fiscal policy, either tax cuts or spending increases. "I would say at this point that fiscal policy is not obviously needed to provide stimulus to help us get back to full employment," Yellen said.



Economic projections released by the central bank indicated that the Fed now expects the economy to grow 1.9% in 2016 and 2.1% in 2017.

The projections showed that the group expects the Fed to increase rates three times in 2017, to a rate of 1.4% by year's end. .

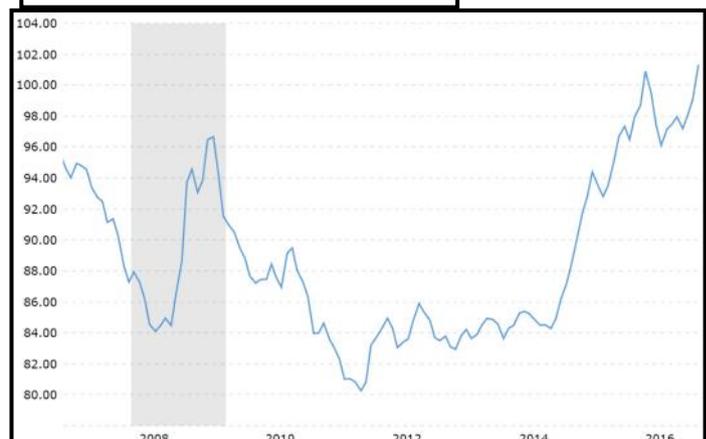
Analysts have warned that if Trump and Congress agree to slash tax rates and increase spending in areas such as infrastructure, the Fed could be forced to raise rates faster than expected to counter rising prices.

Yellen highlighted uncertainty over those policies but said some Fed officials had tried to incorporate expected fiscal changes in their forecasts. Since Trump's election, markets have jumped — with the Dow closing in on a record-breaking 20,000 — and long-term rates and the dollar have increased.

Dow Jones Industrial Average



US Dollar Index



Federal Reserve raises interest rates for second time in a decade (cont.)

Several analysts said the Fed was right to take that approach in light of the uncertainties of the policies under the new administration.

“The Fed will likely be in wait-and-see mode, given this substantial policy uncertainty,” said Doug Duncan, the chief economist at Fannie Mae, “and we view this prudence a virtue.”

Much of the Fed statement released on December 3, 2016 was unchanged from November, when the Fed declined to raise rates, choosing “to wait for some further evidence of continued progress” toward maximum employment in the economy and a target inflation rate of 2%. Officials said, as they said a month ago, that “near-term risks to the economic outlook appear roughly balanced”, meaning growth is as likely to speed up as it is to slow down.

Fed officials now judged the overall inflation rate to be 1.5%, up from 1.3% in September, but still well below target of 2%. They estimated core inflation, which excludes volatile commodities such as gasoline prices, to be 1.7%.

The Fed's decision to increase interest rates drew criticism from some liberal economists who want rates to stay as low as possible to further boost employment while inflation remains below target.

“The Fed's action was unwelcome but not unexpected. There is still huge economic risk and little evidence of an inflation problem” economist and former treasury secretary Larry Summers.

The central bank last raised rates at its December meeting a year ago, its first step toward moving the Fed from what economists call the zero-lower bound — meaning interest rates hovering around zero percent.



The Zero Lower Bound (ZLB) or Zero Nominal Lower Bound (ZNLB) is a macroeconomic problem that occurs when the short-term nominal interest rate is at or near **zero**, causing a liquidity trap and limiting the capacity

to stimulate economic growth.

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The move by the US Federal Reserve to increase its benchmark interest rates in 2016 had come as a surprise given that the inflation level in the US has yet to surpass the 2% target.

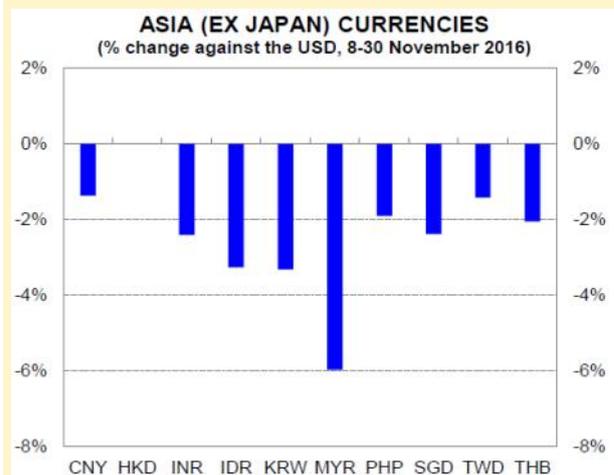
The move has resulted volatility in the financial markets especially in the emerging economies such as Malaysia as more money is flowing back to US on expectation of more interest rate hikes in the pipeline next year, giving a better investment return in the US.

As a result of the hike in the US Fed Rates, Ringgit has decline to its lowest level since the 1998 Financial Crisis as shown in the chart below:

As of December 27, 2016, the Ringgit has declined from RM2.93700 per 1 USD in 2011 to RM4.48550 per 1 USD, a decline of almost 35%. For the period 8Nov to 30 Nov (after Trump's presidential win in the US), Ringgit was the worst performing currency falling 6% compared the an average 3.5% in the basket of ASEAN/Asia currencies. The slide of the Ringgit can be attributed to Malaysia's high holding of external debts and low foreign reserves.

The weak ringgit is expected to continue onto 2017, at least in the first quarter. It will be very challenging for the ringgit will strengthen to below RM4.00 in 2017.

The weak ringgit will impact the economy including the economic growth of Iskandar Malaysia. While we can hope that the current stock of investments especially the on going big development can help mitigate the slowing economy, the outlook for manufacturing and services would remain challenging.



Global Market Research: International Economics 5 Dec 2016

Strengthening of Malaysia-Singapore relations at the 7th Leaders' Retreat Dec 2016



13 Dec 2016— PM Najib and PM Lee Hsien Loong met at the 7th Malaysia-Singapore Leaders' Retreat in Putrajaya and reaffirmed their commitment to further strengthen bilateral relations.

Key highlights of the Retreat include:

- Signing of a legally binding agreement on the Kuala Lumpur – Singapore **High Speed Rail (HSR)** which formalized the technical, safety and security requirements, commercial, financing, procurement and regulatory frameworks, as well as customs, immigration and quarantine (CIQ) arrangements for the HSR. The appointment of a Joint Development Partner is scheduled for early 2017 and the calling of the systems tenders from late 2017. A Bilateral Committee will be established to oversee all aspects of the project with implementation and commencement of the direct Kuala Lumpur-Singapore HSR Express Service by 31 Dec 2026.
- Progress of the Johor Bahru-Singapore **Rapid Transit System (RTS)** under the Transportation Links Work Group with the proposed signing of the bilateral agreement on the RTS Link by end 2017. The RTS will connect Bukit Chagar in Johor Bahru and Woodlands North in Singapore where the passengers can transfer to Singapore's upcoming Thomson East Coast Line. The Thomson East Coast Line is scheduled to open in stages in 2019.
- Progress to reduce current congestions at the Causeway and Second Link with the implementation of Singapore's Biometric Identification of Motorbikers System (BIKES II) and Malaysia's M-BIKE programme. These systems will facilitate faster immigration clearance for motorcycles at the Causeway and the Second Link. The daily train service between Johor Bahru and Woodlands has also increased from 14 services in 2015 to 24 services to date.
- Progress of the Industrial Cooperation Work Group (ICWG) which looks at four areas of collaboration namely Advanced Materials Engineering, Electronics, Food and Creative services. To enhance socio-economic development through a skilled labour force, the Leaders encouraged discussion on possible partnerships to promote Technical and Vocational Education and Training (TVET). In the pipeline is the Training of Trainers' Programme to be held in 2017 by ITE Education Services Pte Ltd Singapore supported by Temasek Foundation International with seven Johor-based institutes.

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Fastrack Iskandar Malaysia—unveiling of Fastrackcity (adapted from www.paultan.org)



The design of Fastrack Iskandar circuit was unveiled at Pinewood Iskandar Malaysia Studios on 6th Dec 2016 and officiated by Dato Seri Najib Razak. At the ceremony were HRH Tunku Ismail ibni Sultan Ibrahim, Johor Prince of Johor and Chairman of Fastrack Iskandar and Dato Seri Mohamed Khaled Nordin, Chief Minister of Johor.

Part of Fastrackcity located at Gerbang Nusajaya within Iskandar Puteri, the circuit will have a 4.45 km track that is FIA Grade 1 and FIM Grade A certified, capable of hosting top tier Formula 1 and MotoGP races. Designed by Herman Tilke, the man behind the F1 track in Sepang, Bahrain, Shanghai, Istanbul and Yas Marina in Abu Dhabi as well as the street circuits in Valencia and Singapore, the track takes advantage of the site's natural 60m elevation differential.

"This is one of the most exciting motorsports concepts I have ever been invited to work with. I truly believe we can build a unique track for motorsports entertainment," Tilke said.

According to Fastrackcity, the circuit will have seven different configurations—3 full tracks, 3 north tracks and one south track with different terrains and high possible speed straights that will see machines clocking up to 313 km/h.

Other components include 1.5km Grade A kart circuit, 4x4 park, motorcycle park and Advanced Handling Park. Fastrack circuit will also have a duty free area for vehicles and high security 'Auto Vault' to park the expensive vehicles, complemented with expo space, galleries, F&B outlets, lake park and motorsports themed hotel.

IM10 Celebration - December 6, 2016

BizWatch

the three key areas which are economy, social inclusion and environment conservation. This, he added was the result of the strategic, comprehensive and meticulous planning of the Comprehensive Development Plan Iskandar Malaysia (CDP).

“Iskandar Malaysia is on track to realize its long term goals and we are optimistic that the region will continue to attract a steady flow of investments with projects which benefit the community in Iskandar Malaysia.” he added.

YAB Dato’ Sri Mohd Najib then launched the IM10 celebration by unveiling the Iskandar Malaysia 10 Year Progress Report which documented the journey of Iskandar Malaysia for the past decade followed by presentation of the Iskarnival books by Tan Sri Azman Mokhtar to the Prime Minister.

For the community of Iskandar Malaysia, the village head of the five villages involved in the recent *Kenduri Rakyat Iskandar Malaysia* were invited on stage to receive their certificate of appreciation from the Prime Minister.

The Prime Minister also presented a memento to YABhg Tun Abdullah and YABhg Tan Sri Ghani as token of appreciation for their contribution.

During this event, the latest committed investments for Iskandar Malaysia (up to November 2016) was announced as well as the incentives for Global Business Services (GBS), a new promoted sector to attract businesses to locate their GBS operations in Iskandar Puteri.



The much anticipated Iskandar Malaysia’s 10th Year anniversary celebration was officially launched by Prime Minister of Malaysia, YAB Dato’ Sri Mohd Najib Tun Razak at the EduCity Sports Complex, Iskandar Puteri.

The celebration was attended by approximately 1,000 guests represented by our key stakeholders as well as personalities instrumental to pave the success of our achievements to date. They were YABhg Tun Abdullah Badawi, our former Prime Minister who was also the founder of Iskandar Malaysia, YABhg Tan Sri Ghani Othman, former Menteri Besar Johor and Tan Sri Azman Mokhtar, Managing Director of Khazanah Nasional Berhad which had first developed the Masterplan for Iskandar Malaysia.

The celebration kicked off with the speeches from the Chief Executive of IRDA, Datuk Ismail Ibrahim, followed by YAB Dato’ Sri Mohd Najib, both proudly spoke about the development of Iskandar Malaysia and how it quickly grew into a success economic region to-date.

Datuk Ismail Ibrahim, Chief Executive of IRDA said that throughout the 10 years of Iskandar Malaysia’s development, significant changes could be seen in the region in



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