

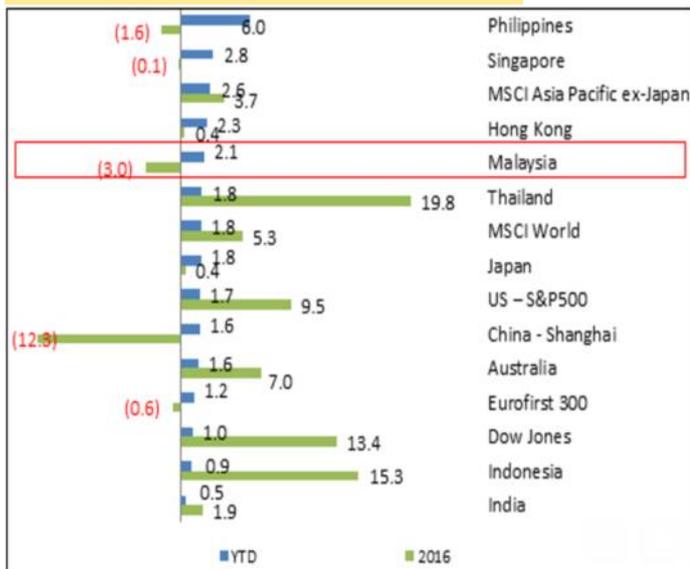
Economic and Market Outlook 2017

2016 Economic and Market Review

The Malaysian stock market ended the year 2016 with negative return as compared with major markets around the world as a result of many uncertainties impacting the market in the year under review.

Nonetheless, the degree of the negative return for the Malaysian market is very much better when compared with other markets such as the China—Shanghai market which recorded negative return of more than 12%.

Major Indices Performance in 2016



Source: Securities Commission of Malaysia

The US markets, represented by the Dow Jones and S&P500 gained in 2016 with market returns of 13.4% and 9.5% respectively as a result of investors buying US denominated assets (perceived as 'safe' assets) in view of the global uncertainties in the market in 2016.

Nevertheless, there will always be investors who are risk takers during the uncertain times. Emerging markets such as Thailand and Indonesia recorded good returns in 2016.

Market such as Indonesia had gained because of the rise in the middle income population. It is expected that the middle income population in Indonesia will double by 2020 to 141 million people based on a study conducted

by the Boston Consulting Group. This will in turn drive the economy especially in private consumption and spending thus boosting the economy at large.

For Thailand, the huge gains for 2016 can be attributed to positive market sentiments (and attractive market valuations) following two years of losses due to political uncertainties/ coups. On top of that, investors welcomed the public spending on infrastructure (current extension of MRT) as catalyst for private investments.

For Malaysia, besides the global uncertainties that we are facing such as the Brexit issue, US increasing its Fed rate, China economy slowing down, strong US dollar and low commodity prices, the Malaysian market is also facing trust issues on 1Malaysia Development Berhad debacle that had gained worldwide attention, thus shying away the foreign investors to invest in Malaysia.

At the same time, emerging ASEAN countries such as Vietnam, Indonesia and Thailand are getting their act together to attract foreign investments.

FBMKLCI & Ringgit Movement

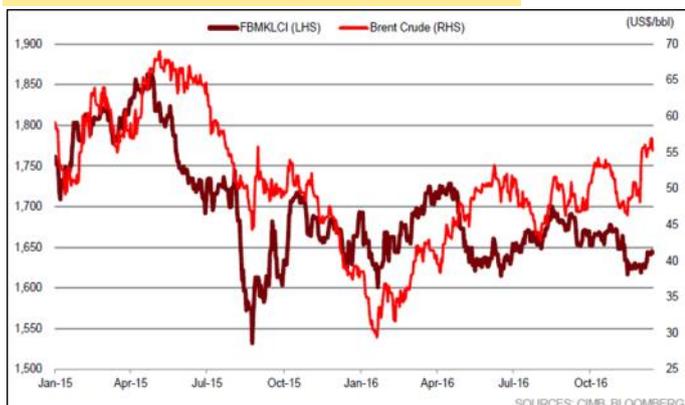


Source: CIMB, Bloomberg

On the movement of Ringgit vs. USD, the ringgit had been weakening since May 2015. As at December 2016, the Ringgit was traded at RM4.43 per USD, which represent a decline of approximately 20% from RM3.58 recorded in April / May 2015. It is interesting to note the downward trend of the ringgit almost mirrored the movement of the KLCI.

Economic and Market Outlook 2017 (cont.)

FBMKLCI & Brent Crude Oil Price



Source: CIMB, Bloomberg

On crude oil price represented by the Brent Crude, the crude oil price had declined to its lowest level at USD30 per barrel in January 2016 before rebounding to above USD50 per barrel as of December 2016. This situation has much affected the government income from the oil and oil related revenues. It is estimated that the Malaysian government lost about RM40 billion of income from oil and oil related revenues in 2016.

Nonetheless, with the introduction of the Goods & Service Tax ('GST') in April 2015 and the rationalization of subsidies especially the fuel subsidies (since Dec 2014), the federal government had been able to mitigate the loss of revenue from oil and oil related resources. Since April 2015 to Oct 2016, the government had collected more than RM59 billion of GST. Selected subsidy on RON95 and diesel and no subsidy for RON97 would have helped Government to reallocate the money saved to other more important social programmes.

The GST and the subsidy rationalization programme had been perceived as the savior to the Malaysian

| DATE | RON97 | RON95 |
|-------------|-----------|-----------|
| 01-Jan-2016 | 225 (-20) | 185 (-10) |
| 01-Feb-2016 | 205 (-20) | 175 (-10) |
| 01-Mar-2016 | 195 (-10) | 160 (-15) |
| 01-Apr-2016 | 205 (+10) | 170 (+10) |
| 01-May-2016 | 205 (+10) | 170 (+10) |
| 01-Jun-2016 | 205 (+10) | 170 (+10) |
| 01-Jul-2016 | 210 (+5) | 175 (+5) |
| 01-Aug-2016 | 210 (+5) | 175 (+5) |
| 01-Sep-2016 | 205 (-5) | 170 (-5) |
| 01-Oct-2016 | 215 (+10) | 180 (+10) |
| 01-Nov-2016 | 230 (+15) | 195 (+15) |
| 01-Dec-2016 | 225 (-5) | 190 (-5) |
| 01-Jan-2017 | 240 (+15) | 210 (+20) |

economy as without them, the Malaysian economy may not be able to weather the economic uncertainties in 2016 and beyond.

Source: blog.galvintan.com/Malaysia-fuel-price-history

BizWatch

2017 Economic and Market Outlook

For 2017, BizWatch expected that the economic conditions would still subject to the uncertainties that happened in 2016 plus with few new factors that are likely to happen in 2017.

According to the IMF, the global growth is expected to grow moderately at 3.4%, driven largely by the US economy which is predicted to grow at 2.3% in 2017 as compared with 1.6% in 2016.

GDP growth: World and Advanced economies

| Economy | 2015 | 2016E | 2017F |
|--------------------|------------|------------|------------|
| World | 3.2 | 3.1 | 3.4 |
| Advanced economies | 2.1 | 1.6 | 1.9 |
| US | 2.6 | 1.6 | 2.3 |
| Euro area | 2.0 | 1.7 | 1.6 |
| Japan | 1.2 | 0.9 | 0.8 |
| Singapore | 2.0 | 1.7 | 2.2 |

Source: IMF

This growth is expected to be supported by growth in the emerging and developing markets. These markets is expected to grow by 4.6% in 2017 as compared with 4.2% in 2015. Except for China, which growth is expected to further normalize in the next few years, other economies such as India, Thailand, Indonesia are expected to register steady and moderate growth in 2017.

For Malaysia, growth is expected to be between 4% and 5% in 2017 as compared with 4% and 4.5% in 2016.

The growth for Malaysia is expected to be driven by the private sector and private consumption together with the recovery in the net exports.

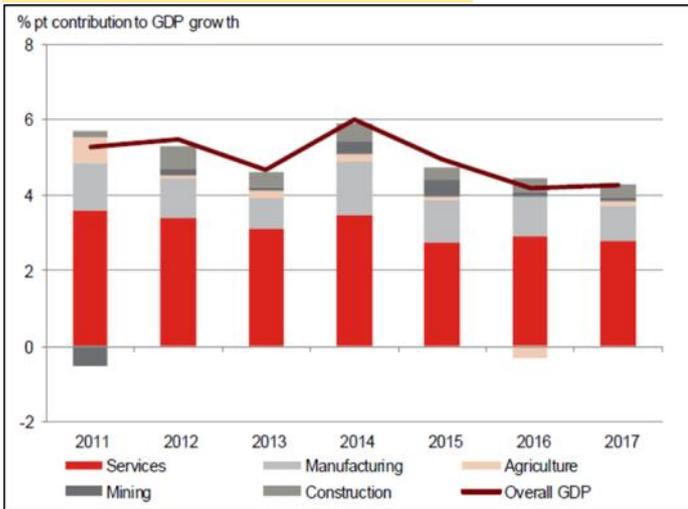
GDP growth: Emerging and Developing economies

| Economy | 2015 | 2016E | 2017F |
|--------------------------------|------------|------------|------------|
| Emerging and developing | 4.0 | 4.2 | 4.6 |
| China | 6.9 | 6.6 | 6.2 |
| India | 7.6 | 7.6 | 7.6 |
| Malaysia | 5.0 | 4.0 – 4.5 | 4.0 – 5.0 |
| Thailand | 2.8 | 3.2 | 3.3 |
| Indonesia | 4.8 | 4.9 | 5.3 |
| Philippines | 5.9 | 6.4 | 6.7 |

Source: IMF

Economic and Market Outlook 2017 (cont.)

Contribution to overall GDP by sector



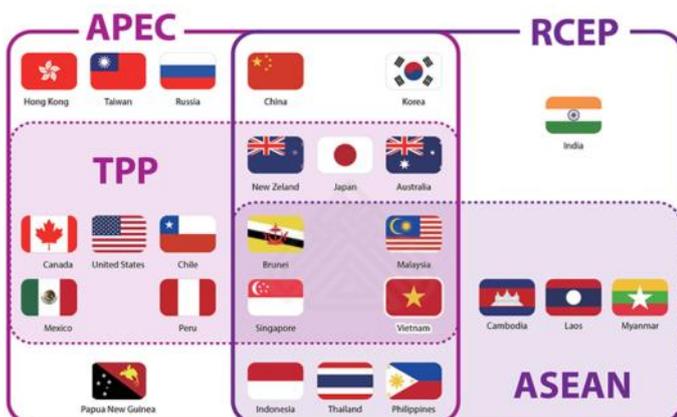
Source: CIMB, Bloomberg

Services sectors will continue to contribute to the growth.

The Ringgit is expected to be still subject to volatility in 2017 as a result of the current market uncertainties. Nonetheless, we expect the level of volatility would be minimal as a result of Bank Negara Malaysia's active measures to overcome the Ringgit volatility. One such measure was the requirement for foreign exporters to convert up to 75% of its exports proceeds into Ringgit.

However, the projections for the global, regional as well as Malaysia growth are subject to the risks highlighted earlier together with the new risks identified in 2017 such as:

- * Changes of US policies under President Trump
- * Trade protectionism and impact of USA's withdrawal from TPPA)
- * Upcoming elections in Europe (France, Netherlands and Germany)
- * Possibility of snap election in Malaysia



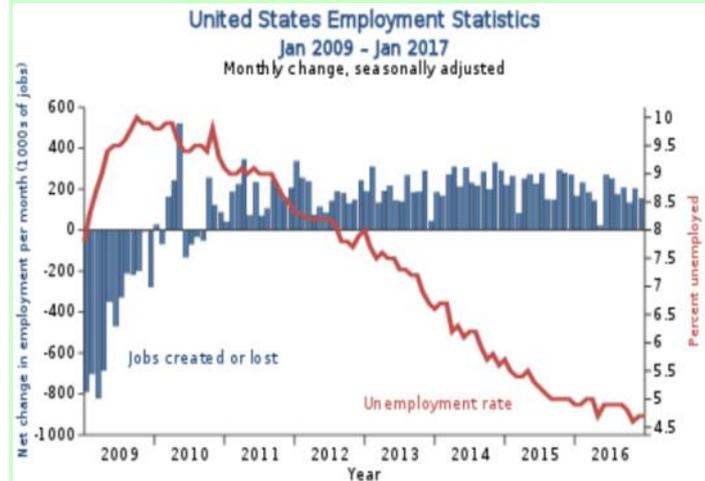
APEC (Asia-Pacific Economic Cooperation); TPP (Trans-Pacific Partnership); RCEP (Regional Comprehensive Economic Partnership); ASEAN (Association of Southeast Asian Nations).

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The global growth is expected to grow moderately in 2017 with forecast of 3.4% as compared with 3.1% in 2016 according to the analysis done by the IMF.

In the developed economies, the US market is expected to lead with growth at 2.3% in 2017. Unemployment rate now is at its lowest post US subprime crisis in 2008/09.



Together with Trump's policy of 'USA first' and increase in interest rate, there will be renewed interest to bring back investments back to the USA.

In Asia, with slowdown in the Chinese economy (slower growth but still strong growth compared to other countries) and emergence of India and other ASEAN countries such as Thailand, Indonesia and Vietnam, Malaysia will face stiffer competition to attract foreign investments especially in the manufacturing sector. However, Malaysia which had laid a strong foundation in bilateral relationship with ASEAN countries and China can continue to draw on support and investment interests coming within this region.

Malaysia as an open economy is expected to benefit from the positive development of the overall economic growth.

Nonetheless, the positive development above is still subject to the risks identified especially the full impact of Brexit and US policies under the Trump presidency.

What we can do is to **work on our own resources and capabilities and to improve our value propositions in order to continue attracting investments into Iskandar Malaysia.**

Iskandar Malaysia Draws The Crowd

(source: the Star, 27 Jan 2017)



Hotels in the Johor Bahru district, especially those located within the central business area, have recorded 80% bookings for their rooms ahead of the Lunar New Year holiday season.

State Tourism, Trade and Consumerism committee chairman Datuk Tee Siew Kiong said that an increase in room bookings would create a positive spillover effect on the retail business sector.

He said the sector, especially in Iskandar Malaysia, was expected to experience between 25% and 30% hike in business transactions despite uncertainties in the global economic growth.

“During last year’s Chinese New Year period, the star-rated hotels here registered between 65% and 70% in room bookings,” Tee said.

He said many domestic tourists from other parts of the country have shown strong interest to visit Johor, especially Iskandar Malaysia.

Tee said Singaporeans were also attracted to cross over to shop and dine in Johor Bahru as well as to visit places of interest in the State due to the strong Singapore currency.

He said there were 111 hotels in Johor rated from one to five-star..

“We are banking on our theme parks and shopping complexes to continue attracting local and foreign tourists,” he said.

Editorial

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BizWatch

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2017 started well with good tourism arrivals and we hope this will herald an exciting 2017 for the tourism industry.

Tourism had been identified under the enhanced Comprehensive Development Plan (2014-2025) as one of the 5 Big Moves to propel economic growth. Projects under Big Move 3 Destination Iskandar Malaysia expected to complete by 2020 will attract up to 23 million tourists arrivals (including excursionists), create 9.400 jobs and contribute to more than RM5 bil in tourist receipts.

The vibrant tourism sector will build on the foundation of existing tourism offerings as well as new tourism products to be in place by 2020.

Key themes under Big Move 3 include:

1. Ramsar Eco-Discovery with the rejuvenation of Pulau Kukup to be completed in early 2017 besides new eco tourism products in Sg Pulai.
2. Family, Fun and Leisure Destination where the existing theme parks such as LEGOLAND, Puteri Harbour Family Theme Park, Angry Bird Theme Park as well as premium shopping malls and centers such as Johor Premium Outlets and JBCC, City Square will complement new attractions including the new water theme park and marine park at Desaru and new shopping malls within Johor Bahru City Centre.
3. Iskandar Malaysia Heritage, Cultural and Arts Trail
4. Sungai Johor Exploration
5. Tourism Infrastructure Improvement

With the recent announcement by the Ministry of Tourism and Culture on the closure of Tourism offices in different states to reduce duplication of roles with State Tourism, we hope that this will bring up a more focused and energised platform at State level to further drive the tourism sector in Johor and Iskandar Malaysia.

IRDA will continue to work closely with all stakeholders (Federal, State and private investors) to bring in the right tourism products and to facilitate these investments to ensure a vibrant tourism sector which will bring in the added economic benefits through jobs and higher income level.