Economic Research

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MALAYSIAN RATING CORPORATION BERHAD
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2H2012 Economic Outlook – A Chill From Europe

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In a nutshell

- Apart from crisis-hit Europe, growth in advanced economies has shown some signs of life. The United States' (US) gross domestic product (GDP) grew at the fastest rate in a year, while Japan's economy showed some strength after contracting in 2011. Europe, however, is perilously close to recession, with growth barely above zero for two quarters running. Policy measures such as commitment to debt reduction, a European bailout fund, the slow movement towards fiscal union and structural reforms, and the recent European bailout of Spanish banks, have not calmed markets or restored confidence.

- Where hitherto emerging markets have been able to sustain growth despite the woes in advanced economies, the cracks in the armour are beginning to show. China grew at the slowest pace since 1Q2009. Industrial sales are running at about half the pace of last year while export growth has fallen off considerably, despite an encouraging rebound in May. Other countries in the region – India, Singapore, Thailand, and South Korea – have also shown weakening growth momentum.

- As a trade-dependent country, Malaysia's external sector was largely affected by declining global demand. Despite these challenges, GDP growth reached a respectable 4.7%, albeit slowing from 5.2% in 4Q2011. Growth was broad based, with increases in both private and public consumption and a strong contribution from investment. The main drag on growth was net exports which were affected by both the troubles in Europe and the attendant slowdown in the rest of the region.

- Going forward, we expect Malaysia's GDP growth to moderate amidst renewed weaknesses in European and regional economies. However, with support from a sustained albeit below trend growth of the US economy, external trade is unlikely to collapse as it did in 2009. In addition, domestic demand will once again be a saviour for the economy, with private consumption and investments becoming the pillars of support. After taking these factors into account, we are sticking to our December 2011 forecast of GDP growth at 4.4% for 2012 and 5.0% for 2013.

- Although speculation over interest rate cuts have re-emerged, we do not foresee Bank Negara Malaysia (BNM) undertaking such a step in the near term due to the following reasons: (1) the respectable growth performance in 1Q2012; (2) an estimated small positive output gap expected for the year that argues against an overly accommodative monetary stance; (3) an overly accommodative monetary policy that is inconsistent with BNM's efforts to contain expansion in already overstretched household balance sheets in the economy; and (4) the relatively high level of capacity utilisation rate in the manufacturing sector.

- With global commodity and especially food prices trending downward, we expect to see further softening in headline inflation over the coming months. In our view, the headline inflation will likely be around 1.5% in 2H2012, pulling the whole year's average down to 1.8% from 3.2% in 2011. However, going forward, the number and scale of public and private works projects might have an impact on producer price inflation, which is far more volatile than the Consumer Price Index (CPI). In addition, while some softening in local building materials prices has been seen in recent months, they have remained at elevated levels and could conceivably climb higher as raw materials and components demand increases.

- The federal government's budget deficit which stood at a revised 4.8% of GDP in 2011 is anticipated to improve further in 2012. Although the government is targeting only a minuscule reduction in the deficit level to 4.7% of GDP, we feel that such a target can be surpassed, at least if the government does not undertake any other major unplanned spending in the next one year. Thus far, federal government revenue has been stronger than expected, expanding by 20.4%, a stark contrast with the 1.9% growth target set for the whole of 2012. This has come on the back of stronger-than expected economic growth in the first three months of 2012, which should enable the government to trim the deficit more than expected if the amount of spending is not being increased from the level planned during last year's Budget.

- As for the ringgit, its recent depreciation against the US dollar (USD) has been due to, amongst others: (1) the anxiety over the future performance of the equity market; (2) weaker prospects for the economy in the next few quarters as the external sector bears the brunt of the global economic slowdown; (3) concerns about the high level of foreign holdings of government bonds which raises fears about the possibility of a quick exit; and (4) political developments in the wake of speculation over the timing of the general election. Going forward, we feel that the upside for the ringgit against the greenback is rather limited.

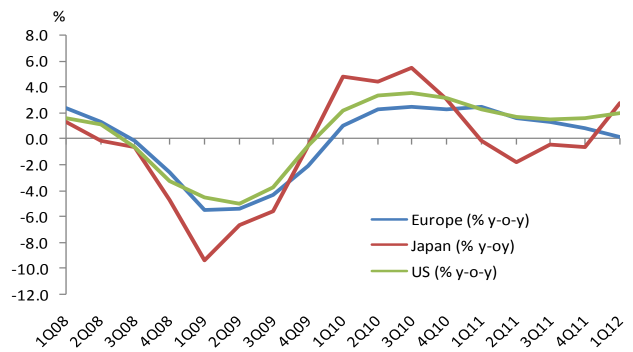
First half 2012 review

Advanced economies

- Apart from crisis-hit Europe, growth in advanced economies has shown some signs of life. Although incoming data show slowing momentum, US GDP growth reached 2.1% year-on-year (y-o-y) in 1Q2012, the fastest pace in a year. Japan's economy also showed some strength, with 1Q2012 growth reaching 2.7%, after a full year of contraction largely due to the Tohoku earthquake in March 2011.

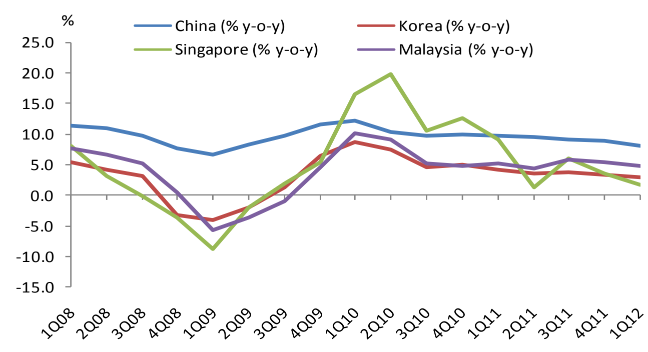
- Europe, however, is perilously close to recession, with growth barely above zero for two quarters running. Despite avoiding recession on an aggregate basis, the numbers hide a great deal of heterogeneity, with many of the southern states in deep recession only somewhat counterbalanced by stronger growth in the industrial north. Nevertheless, even Germany is showing signs of slowing down – 1Q2012 GDP y-o-y growth fell to 1.2%, the slowest pace since the recession of 2009.

Chart 1: GDP growth of advanced economies



Source: CEIC, Eurostat

Chart 2: GDP growth of regional economies



Source: CEIC

- Economic weakness and financial market uncertainty are combining to make boosting business and consumer confidence challenging, both being necessary ingredients for making fiscal austerity work, sustaining growth, and preserving the Eurozone as a going concern. As Europe goes, so does the rest of the world – a prolonged European crisis has heightened market and business uncertainty globally. Policy measures such as commitment to debt reduction, a European bailout fund, the slow movement towards fiscal union and structural reforms, and the recent European bailout of Spanish banks, have not calmed markets or restored confidence.

Asia Pacific

- Where hitherto emerging markets have been able to sustain growth despite the woes in advanced economies, the cracks in the armour are beginning to show. China, which has been the linchpin of growth in the East Asian region, reported 1Q2012 GDP at 8.1%, the slowest increase since 1Q2009. Industrial sales, both total and export-related, are running at about half the pace of last year's while export growth has fallen off considerably, despite an encouraging rebound to 15.3% y-o-y growth in May.

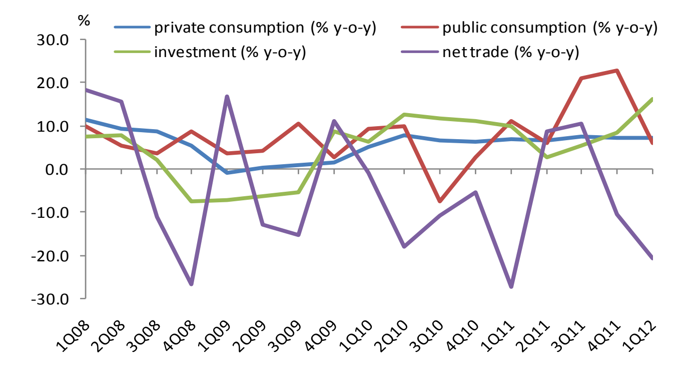
- The Chinese government has been wary of over-applying fiscal and monetary stimulus as a policy response, largely due to a perception of reduced ability to do so as well as the desire not to repeat the excesses arising from the massive 2009 stimulus measures. Moreover, China's growth is fundamentally set to slow from structural factors such as higher labour costs and a work force that is set to begin shrinking from 2015, with the result that China's government has set a lower growth path for the economy going forward.

- Other countries in the region have also shown weakening growth momentum. Singapore reported 1Q2012 GDP expanding at 1.6% and has forecast growth this year at between 1%-3%, while South Korea saw growth dropping to 2.8% and is also expecting the economy to slow this year, as both countries are highly exposed to Europe. In Thailand, the economy nearly screeched to a halt with a 0.3% expansion following the impact of massive floods in 4Q2011.

The Malaysian economy in 1H2012

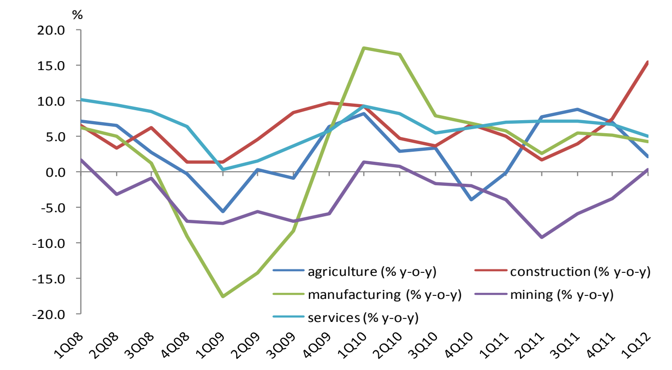
- The Malaysian economy in 1H2012 met some considerable challenges. As a trade-dependent country, Malaysia's external sector was largely affected by the ongoing crisis in Europe which has taken a toll in both the core and the periphery of the Eurozone. Compounding these troubles has been the impact worldwide, with export orders falling off throughout much of the developing world, and helping to slow recovery in the US which had previously demonstrated some strength.

Chart 3: Real GDP by expenditure



Source: CEIC, BNM, MARC Economic Research

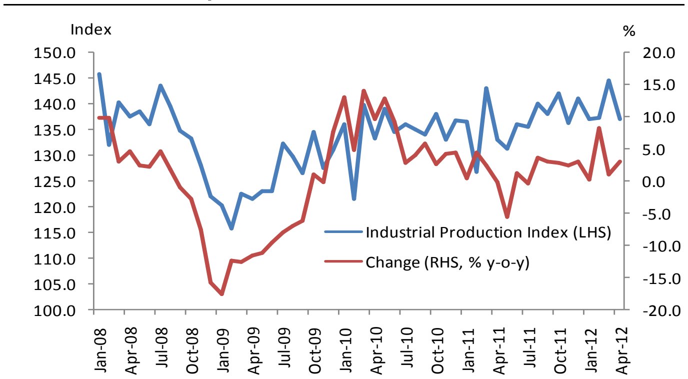
Chart 4: Real GDP by industry



Source: CEIC, BNM, MARC Economic Research

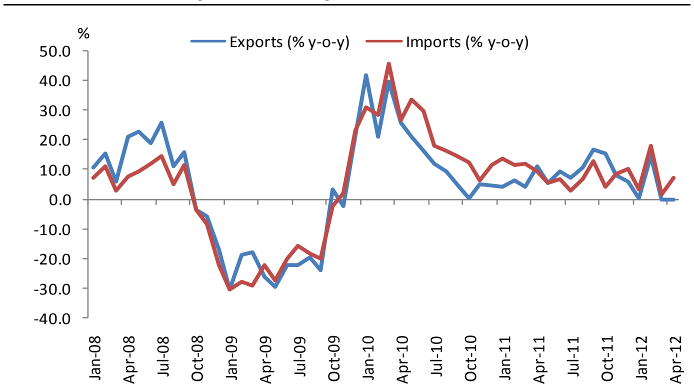
- Despite these challenges, growth in the Malaysian economy reached a respectable 4.7% albeit slowing from 5.2% in 4Q2011. On the demand side, growth was broad based, with increases in both private and public consumption and a strong contribution from investment. Much of the increase in investment came from added structures, which was confirmed on the supply side by strong growth in the construction sector and substantial contributions from manufacturing and services. The main drag on growth was the net exports which were affected by both the troubles in Europe and the attendant slowdown in the rest of the region.

Chart 5: Industrial production index



Source: CEIC, BNM

Chart 6: Gross imports and exports



Source: CEIC, BNM, MARC Economic Research

Volatility in industrial production and trade

- Both industrial production and trade turned in volatile performances in 1H2012. Part of the reason for the volatility was the proximity of Chinese New Year to the year-end holidays, which displaced output, shipments, and trade in the first couple of months of the year. Somewhat surprisingly, average growth in industrial production for the first four months of the year have been somewhat higher than in the same period last year, helped by strong investment activities.

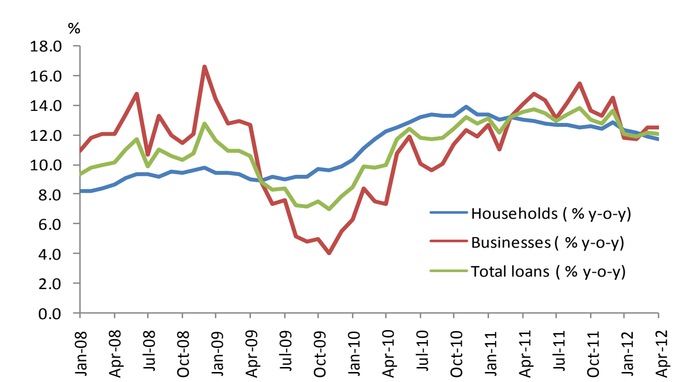
- Trade on the other hand underscored weaknesses in the external sector, barely holding above levels seen in the same period in 2011. Much of the stagnation was driven by continued reduction in 1Q2012's exports of electronics and electricals (E&E) as well as weaker palm oil products. Offsetting this weakness was stronger shipments of crude oil and condensates and natural gas.

Monetary developments

- Seemingly at odds with developments in the real sector, the financial side of the economy has not missed a beat. The banking system was hit by new prudential regulations on lending from January 1 onwards, designed to limit excessive credit lending to overextended households. Thus far, overall loan growth has held up remarkably well, averaging just a percentage point less than in 2011 and still at a double-digit pace. While household borrowing has indeed fallen off, the slack has been taken up by stronger business borrowing.

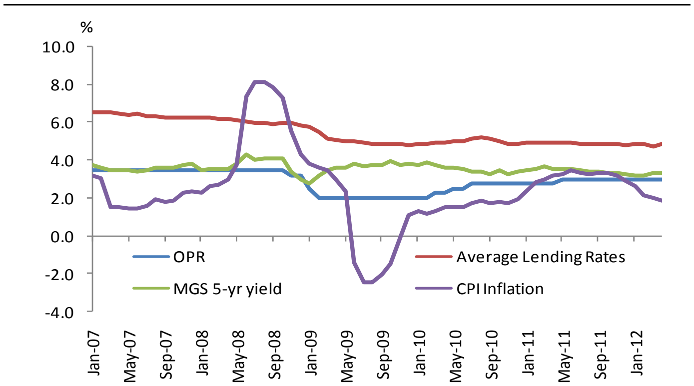
- Capital flows indicate a greater level of risk aversion among investors with the FBM KLCI hovering around the 1,520-1,600-point range, and the pace of accumulation of debt securities by foreign investors slowing. Nevertheless, the economy recorded net inflows of MYR25.3 billion in portfolio investment in 1Q2012 (4Q2011: -MYR3.0 billion) and new outflows of MYR9.4 billion in direct investment (4Q2011: -MYR8.2 billion). Foreign interest in debt securities and ample liquidity in the banking system are keeping lending rates near historical lows which in turn is helping to sustain loan demand.

Chart 7: Credit growth by sector



Source: BNM, MARC Economic Research

Chart 8: Interest rates



Source: BNM

Fiscal developments

- Government finances continued to stay in the red in 1Q2012, with the deficit for the quarter reaching MYR5.8 billion. Be that as it may, that represents a sharp narrowing over 4Q2011's MYR25.4 billion, largely due to a strong pickup in revenue growth of 20.4% y-o-y relative to slower total expenditure growth of 19.4% y-o-y. The deficit-to-GDP ratio fell to 2.6% compared with the 11.1% recorded in the earlier quarter, while the debt-to-GDP ratio rose marginally to 52.6% after taking into account the larger economy after the rebasing of GDP exercise conducted recently.

- The stronger-than-expected revenue growth in 1Q2012 provided the government the excuse to table a supplemental budget to Parliament in 1Q2012 worth around MYR13.8 billion, which would take projected total expenditures this year to MYR243.9 billion. Nevertheless, we do not expect a worsening in the overall deficit as revenue growth is also likely to surprise on the upside.

- On the debt front, outstanding government borrowings rose to MYR475.1 billion up to April from MYR456.1 billion at the end of 2011, with gross issuance reaching MYR34.7 billion against redemptions of MYR14.3 billion. Yields on government borrowings crept up 10-20 basis points in January and February, but have remained stable since then. Foreign holdings of government securities (ex-Bank Negara Malaysia Bills) reached MYR113.2 billion, or about 23.8% of outstanding federal government debt.

Outlook for 2012

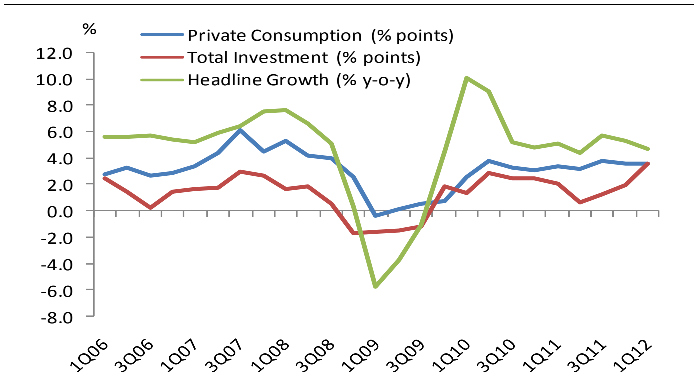
Growth to moderate, not collapse

- We expect GDP growth to moderate in the next few quarters amidst renewed weaknesses in global trade following the crisis in Europe. In 1Q2012, net trade subtracted 3 percentage points from growth (4Q: -1.3 percentage points), largely on account of weaker global demand for Malaysia's E&E as well as for palm oil products. Going forward, however, with support from a sustained albeit below trend growth of the US economy, Malaysia's trade is unlikely to collapse as it did in 2009.

- Domestic demand will once again be a saviour for the economy. The strength in private consumption is set to become the pillar that sustains the economy this year judging by its momentum in 1Q2012 (contributing around 78.4% of headline growth). This is despite BNM's efforts to rein in household debt, which has escalated to 76.6% of GDP in 2011, through its prudent lending guidelines introduced in January this year. The relatively strong prices of crude palm oil and elevated level of the equity market will to some extent be responsible for supporting rural household incomes and buoying consumer sentiment.

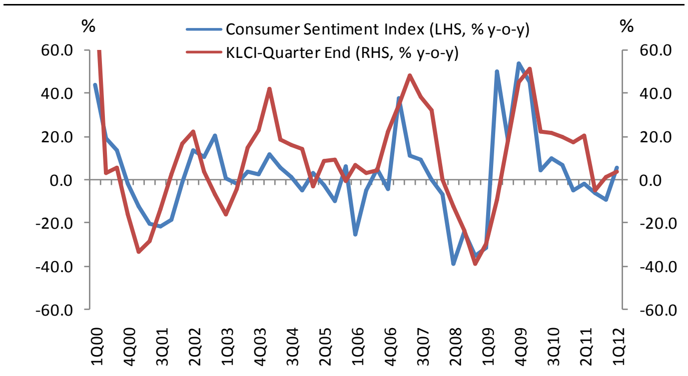
- High frequency indicators suggest that GDP growth, while likely moderate in the next few quarters, will not collapse this year. The benchmark FBM KLCI, which normally leads the economy by approximately four months, indicates that the economy is not at the edge of a cliff. Nonetheless, our estimation of the market Equity Risk Premium (ERP) suggests that a softer equity market is on the way, and GDP growth momentum will likely soften in the next few quarters. In addition, the leading index is also emitting a slightly negative signal, again, suggesting a moderation in the coming quarters.

Chart 9: Contribution to GDP and GDP growth



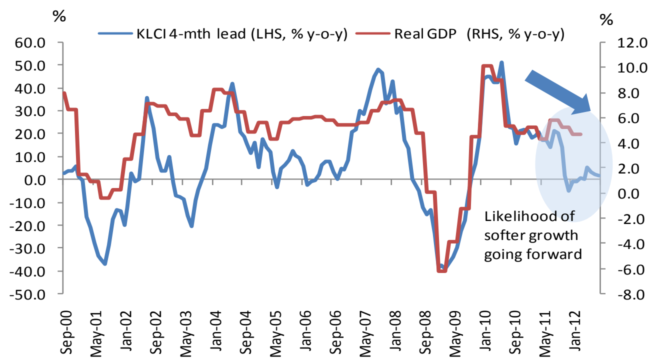
Source: BNM, CEIC, MARC Economic Research

Chart 10: FBM KLCI and Consumer Sentiment Index



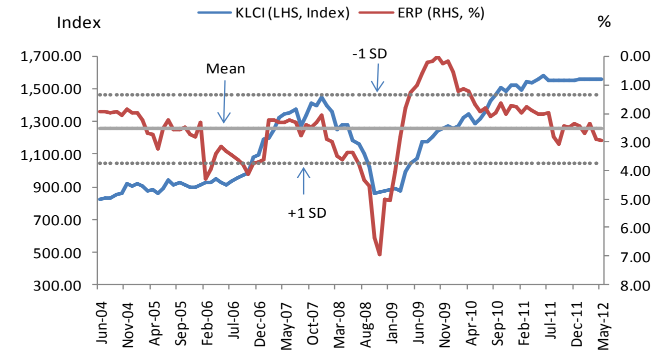
Source: CEIC, Bloomberg, MARC Economic Research

Chart 11: GDP growth and FBM KLCI



Source: BNM, Bloomberg, MARC Economic Research

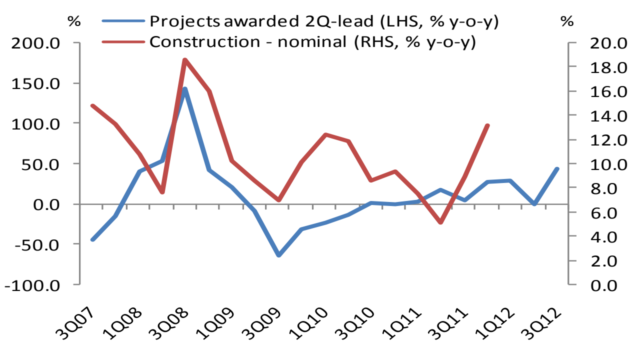
Chart 12: FBM KLCI and ERP



Source: Bloomberg, MARC Economic Research

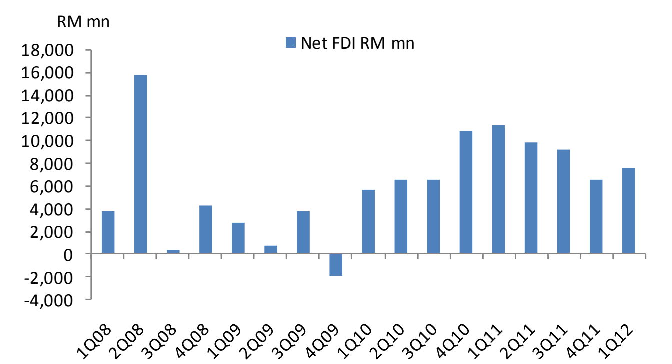
- The resurgence of investment has provided a new pillar of support for the economy. Although still representing just 25.0% of GDP in 1Q2012, down from a peak of 49.2% during the heydays of the 1990s, a jump in total investment by 16.2% in 1Q2012 may not be a one-off incident. The improved sentiment as a result of efforts by the Performance Management & Delivery Unit (PEMANDU) has sparked hopes that Malaysia's investment recovery will last for quite some time. Not surprisingly, the construction sector managed to post a strong 15.5% growth in 1Q2012, the fastest pace since 2001. After taking into account all these, we are sticking to our December 2011 forecast of Malaysia's GDP growth at 4.4% for 2012 and 5.0% for 2013.

Chart 13: Jobs awarded and growth of construction sector



Source: CEIC, CIDB, MARC Economic Research

Chart 14: Foreign Direct Investment (FDI) inflows



Source: CEIC, BNM

US to support global trade

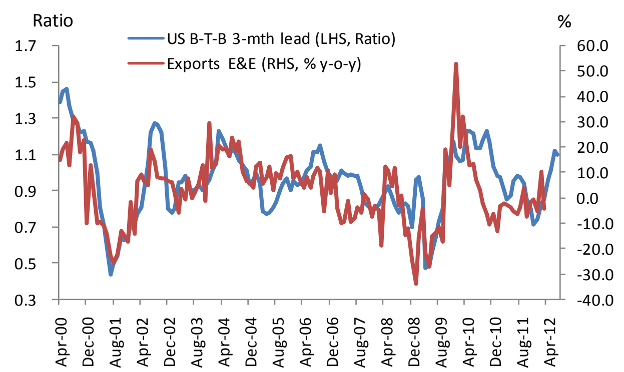
- Malaysia's E&E sector has borne the brunt of weakening global demand as evidenced by its exports which continued to post a negative growth of 0.3% in 1Q2012 after a 4.1% contraction in 2011. The decline was in tandem with global chip sales which has posted negative growth since July 2011. The US book-to-bill (B-T-B) ratio also fell from as high as 1.23 in July 2010 to a cycle low of 0.71 in September 2011. Another primary export product – palm oil – has also seen growth declining by 3.0% in the first four months of 2012 (Jan-Apr 2011: +26.3%) due to slower demand from major importers such as China and Pakistan (by -1.2% and -29.9% respectively in the first four months). Indeed, the overall trade outlook does not augur well for an export-dependent country like Malaysia for the rest of 2012.

- Not all is gloom. While we concur with the view that the macro picture of the US economy has somewhat weakened, we think that the overall foundation remains solid for further recovery in the medium term. Most notable is the strength of the US manufacturing sector as reflected in the Institute for Supply Management (ISM) New Orders Index in recent months which has provided some comfort to the global trade picture. Despite the chaos in the European economies, the ISM New Orders Index seems to suggest that global trade is not heading into a perfect storm. As for Malaysia, the average reading of 57.1 for the ISM New Orders Index in the first five months of 2012 is consistent with gross export growth of 3%-6%. This should be in line with real export growth of between 1%-2% for 2012.

- There is also a consensus among industry observers that the prospects for the E&E sector are more encouraging, evidenced from some upward revisions by industry experts. For instance, Taiwan Semiconductor Manufacturing Company (TSMC) and United Microelectronics Corporation (UMC) are expecting strong growth in their businesses in 2Q2012 following a pickup in demand since 1Q2012. The US B-T-B ratio has also climbed from its cyclical low of 0.71 to 1.10 in April 2012, indicating better demand for global semiconductors going forward.

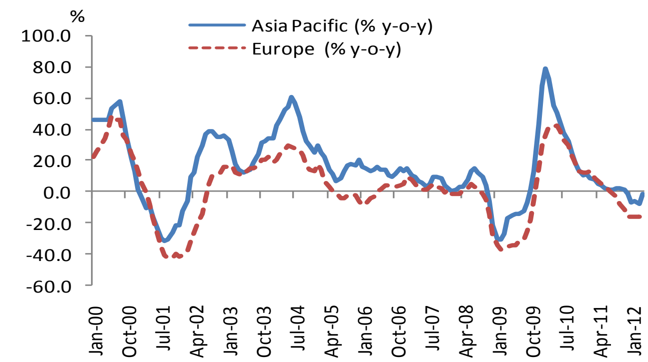
- As for palm oil exports, economic slowdowns in China and India have raised some doubt over whether prices of palm oil can be sustained above MYR3,000 per tonne this year, especially when prices of other commodities such as crude oil and iron ores have declined significantly from their recent highs. However, as the production of soybean in South America is expected to be down by 3%-5% this year due to adverse weather conditions, demand and prices of palm oil may be somewhat supported in the near term.

Chart 15: Malaysia's E&E exports growth and US B-T-B ratio



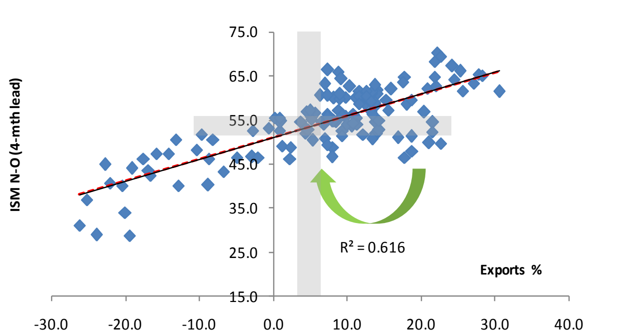
Source: CEIC,SIA, MARC Economic Research

Chart 16: Chip sales – Europe and Asia Pacific region



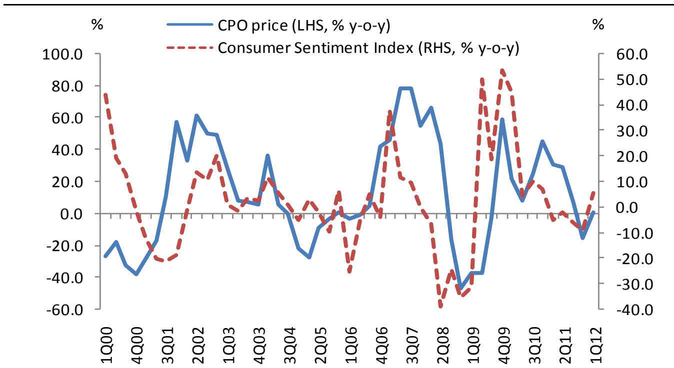
Source: SIA, MARC Economic Research

Chart 17: Scatter diagram of ISM new orders and Malaysia's export growth



Source: CEIC, MARC Economic Research

Chart 18: Consumer Sentiment Index and crude palm oil prices



Source: CEIC, BNM, MARC Economic Research

Interest rates will not likely budge unless…

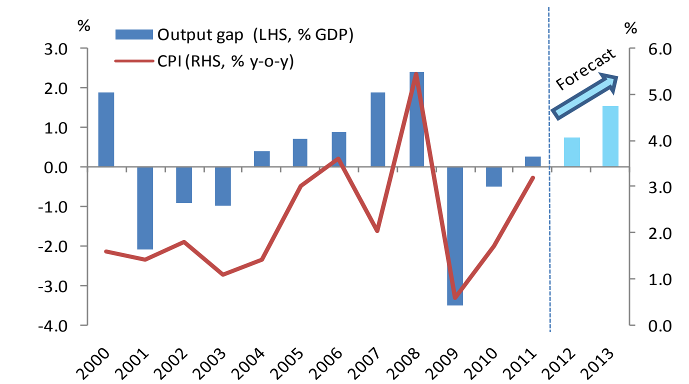
- There is speculation that regional central banks will resort to a more accommodative stance in the near term following renewed concerns over growth prospects as a result of the ongoing crisis in Europe. China and Australia are the latest major countries which have lowered their benchmark policy rates as growth prospects dimmed following weaker macro indicators. Indonesia maintained its key rate at a historical low level while South Korea kept its seven-day repurchase rate at 3.25% during the last meeting in June 2012.

- The 1Q2012 GDP growth numbers recently released by some countries added to the downward pressure on regional interest rates. In India for instance, 1Q2012 GDP growth skidded to 5.3%, the slowest pace since 2003, while Singapore, South Korea and Thailand registered weaker growth rates which were below trend (1.6%, 2.8% and 0.3% y-o-y respectively).

- As for Malaysia, although speculation over interest rate cuts have re-emerged, we do not foresee BNM undertaking such a step in the near term due to the following reasons (1) the respectable growth performance in 1Q2012 which, although it may continue to moderate in the near term, should not be sufficient to induce the central bank to rush into a more accommodative stance; (2) an estimated small positive output gap expected for the year argues against an overly accommodative monetary stance. In addition, policymakers will likely be extra cautious about fiddling with the Overnight Policy Rate (OPR) as there is limited pass-through from short-term rates to longer-term borrowing rates and thus overall economic activity; (3) an overly accommodative monetary policy is inconsistent with BNM's efforts to contain expansion in already overstretched household balance sheets in the economy; and (4) the capacity utilisation rate in the manufacturing sector has continued to be above its median level.

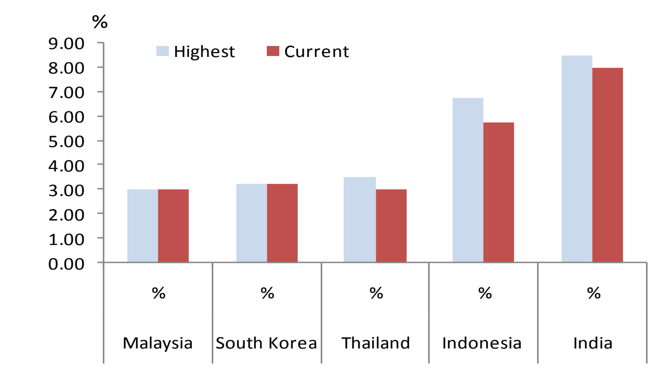
- There are of course some risks to this view. If the deterioration in the global economy accelerates and starts to affect the domestic pillars of the Malaysian economy, then some degree of policy accommodation may be undertaken by the BNM to ensure macro stability can be preserved. We think that growth dropping to 3% is the threshold level where the monetary stance will be used to fine tune the economy.

Chart 19: Malaysia's output gap and inflation



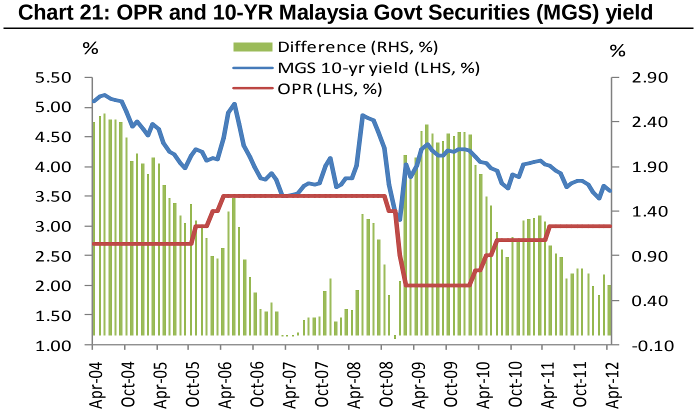
Source: BNM, MARC Economic Research

Chart 20: Policy rates in selected countries post Great Recession and in 2012



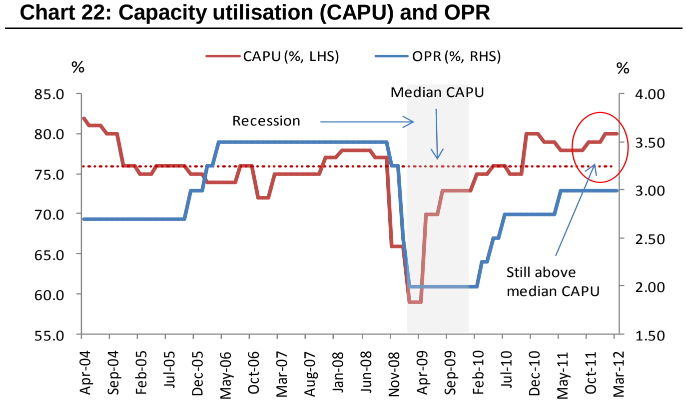
Source: CEIC, MARC Economic Research

Chart 21: OPR and 10-YR Malaysia Govt Securities (MGS) yield



Source: CEIC, Bloomberg, MARC Economic Research

Chart 22: Capacity utilisation (CAPU) and OPR



Source: CEIC, MARC Economic Research

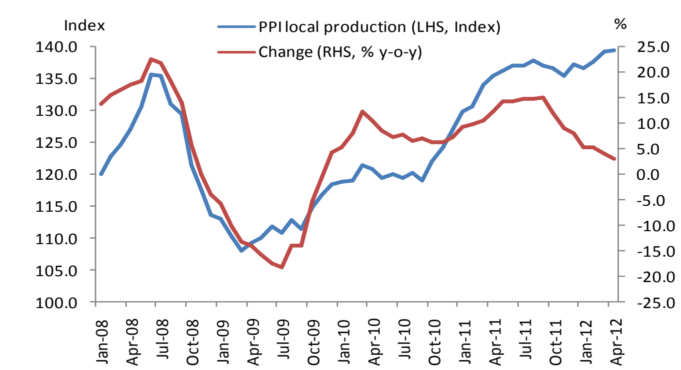
Benign headline CPI but upward pressure on producer prices

- With global commodity and especially food prices trending downward, we expect to see further softening in headline inflation over the coming months. The CPI has been flat for nearly every month so far in 2012, and lower food prices will offset higher prices in other categories such as education and healthcare. We therefore foresee headline inflation averaging around 1.5% for the second half of the year, and 1.8% for the year as a whole, considerably lower than our initial forecast of 2.5%.

- Going forward, the number and scale of public and private works projects might have an impact on producer price inflation, which is far more volatile than the CPI. Among the projects kicking off this year are the MYR70 billion MY Rapid Transit (MRT) project, the MYR120 billion Refinery and Petrochemical Integrated Development (RAPID) project, the MYR26 billion Kuala Lumpur International Financial District project and the MYR5 billion Warisan Merdeka, among others. These are on top of ongoing private residential and non-residential projects that have already made an impact on GDP growth and investment.

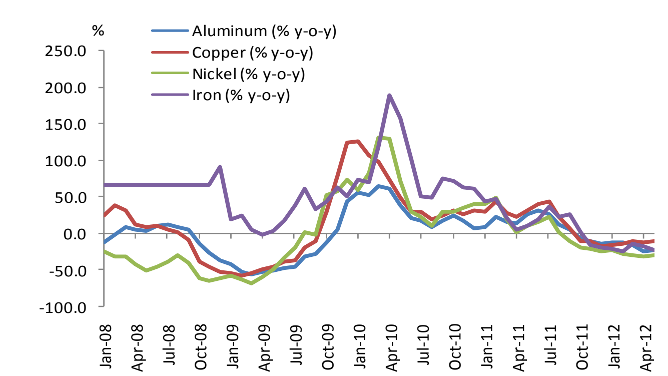
- The confluence of so many large property development projects will continue to sustain construction and investment activities, but will put considerable pressure on raw materials and component prices. While some softening in prices has been seen in recent months, local building materials prices have remained at elevated levels and could conceivably climb higher as raw materials and components demand increases. As such, certain segments of the economy will continue to feel the effects of price increases, circumstances that should be met with supply-side policy measures rather than a blanket monetary response.

Chart 23: Producer Price Index (PPI) for local production



Source: CEIC, MARC Economic Research

Chart 24: Prices of major hard commodities



Source: IMF, MARC Economic Research

Federal government financial and debt positions

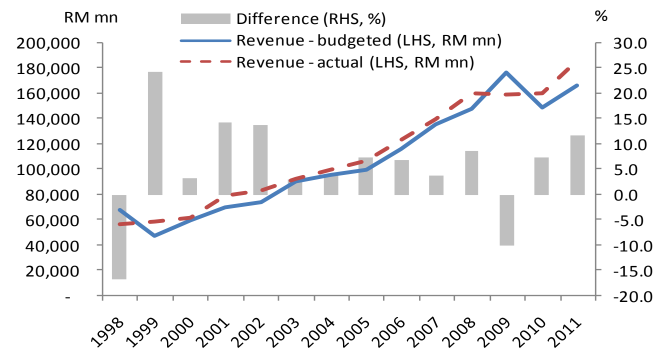
- The federal government's budget deficit which stood at a revised 4.8% of GDP in 2011 is anticipated to improve further in 2012. Although the government is targeting only a minuscule reduction in the deficit level to 4.7% of GDP, we feel that such a target can be surpassed, at least if the government does not undertake any other major unplanned spending in the next one year. Although a supplemental budget of MYR13.8 billion has been tabled in Parliament in 1Q2012, we do not anticipate any other significant increases in spending in the near term.

- Thus far, federal government revenue has been stronger than expected. In 1Q2012, revenue rose by 20.4%, a stark contrast with the 1.9% target set for the whole of 2012. This has come on the back of stronger-than-expected economic growth in the first three months of 2012, which should enable the government to trim the deficit more than expected if the amount of spending is not being increased from the level planned during last year's Budget. However, past experience suggests that spending is normally higher during election years as the government tries to sustain respectable economic growth. As such, assuming that the general election will take place in 2012, we anticipate that extra revenue will be channeled towards creating more favourable economic conditions and to support the overall economy.

- Contrary to the views of financial market players, we take a slightly different perspective on this issue. While we note that deficits have existed for a relatively long period (since 1998), one has to remember that Malaysia was on a steady path to balancing its budgetary position until the global economy fell into a deep recession in 2009. Up until 2007, Malaysia managed to slash its deficit from 5.5% of GDP to 3.1% of GDP. If the Great Recession had not interrupted, the downtrend in the deficit would have continued in our view.

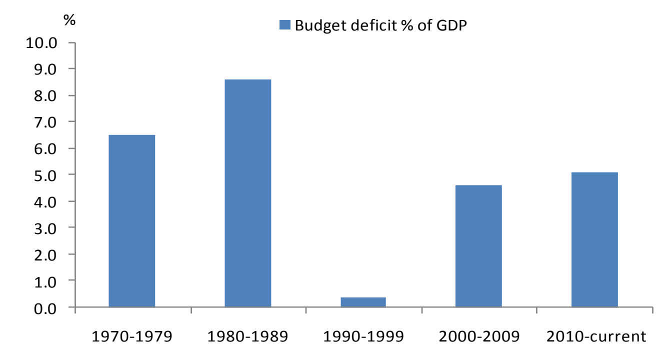
- More importantly, Malaysia's fiscal deficits are largely financed by domestic sources, which have not required recourse to foreign financing. Another positive development is that policymakers are now showing a more serious commitment towards ensuring the fiscal position will continue to improve in the future. We also sense that the country has the capacity to address the problem more aggressively as government revenue normally exceeds forecast revenue, making it possible to trim deficits faster by holding expenditures at Budget levels.

Chart 25: Projected and actual Fed government revenue



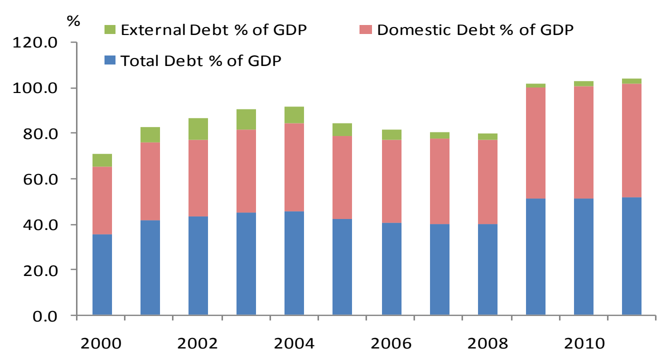
Source: CEIC, MOF, MARC Economic Research

Chart 26: Average budget deficits since 1970s



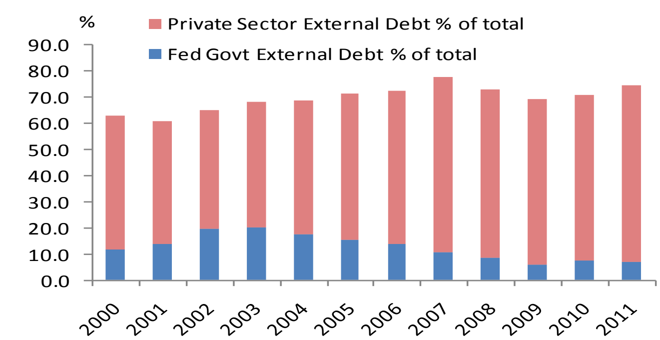
Source: CEIC, BNM, MARC Economic Research

Chart 27: Breakdown of Malaysia's Fed government debt to GDP



Source: CEIC, BNM, MARC Economic Research

Chart 28: Breakdown of Malaysia's external debt



Source: CEIC, BNM, MARC Economic Research

- Finally, it is worth mentioning that a budget deficit is not an end by itself but only a means to an end. In other words, deficits will normally cause serious macro problems if the way they are being financed leads to hyperinflation, high interest rates and capital flight. Malaysia, as well as many other countries in the world, had gone through a period of higher fiscal deficits in 1980s. The only difference is that during those years, the pressure from the financial markets to quickly undertake measures to address such imbalances was not as intense as it is now. Rapid global financial integration has, to some extent, led policymakers to think that they have to dance to the tune of the financial markets in order to avoid economic catastrophes like capital flight and currency depreciations. From a broad macro perspective, we feel that such a pressure should be delicately balanced against other macro objectives. In fact, the experience in the Eurozone clearly indicates that measures meant to quickly diffuse pressure from the financial markets through austerity measures have backfired and caused greater economic malaise.

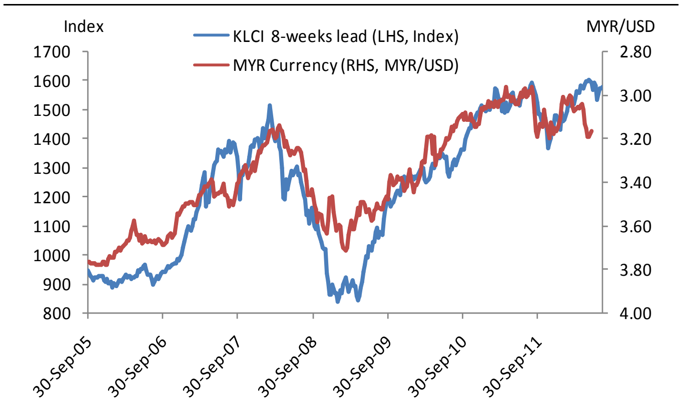
Ringgit will sail through a rough sea

- As we have mentioned in our Outlook 2012 in January this year, the prospects for the ringgit may not be as rosy as some quarters have portrayed. We still believe that the ringgit will – as we put it in our January 2012 report – "sail through a rough sea due to market volatility". In fact, with the resurgence of anxiety in the financial markets following the fate of Greece and other countries in the Euro region, several Asian currencies have been battered.

- The recent depreciation of the ringgit to MYR3.20 per USD is not surprising as the focus on the greenback as a safe haven instrument has re-emerged. There are other reasons for the weakness of the ringgit: (1) the anxiety over the future performance of the equity market; (2) weaker prospects for the economy in the next few quarters as the external sector bears the brunt of the global economic slowdown; (3) concerns about the high level of foreign holdings of government bonds which raises fears about the possibility of a quick exit; and (4) political developments in the wake of speculation over the timing of the general election.

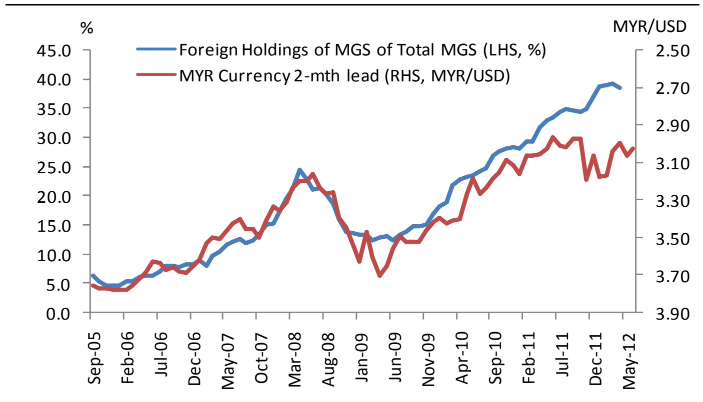
- Based on the strong correlation between the FBM KLCI and the ringgit and judging by the prospects of the equity market which will likely soften until the end of 3Q2012, we feel that it is rather challenging for the ringgit to re-test its strong resistance level of MYR3.00 per USD. In the final quarter however, the ringgit may regain some of its strength, especially if the equity market starts to bottom as in previous years. Judging by all these, we are sticking to our view that the ringgit will trade between MYR3.10 per USD and MYR3.30 per USD for the rest of the year.

Chart 29: Ringgit and FBM KLCI



Source: Bloomberg, MARC Economic Research

Chart 30: Foreign holdings of MGS and Ringgit



Source: CEIC, Bloomberg, MARC Economic Research

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