

Overview on Malaysia Macro-Economy in Recent Quarters of the Year

The Malaysian economy grew by 5.8% in the second quarter of 2017

In the second quarter of 2017, the Malaysian economy recorded a stronger growth of 5.8% (1Q 2017: 5.6%). Private sector spending continued to be the main driver of growth. On the external front, growth was further supported by the robust expansion in real exports of goods and services (9.6%; 1Q 2017: 9.8%) following strong demand for manufactured and commodity products. Real imports moderated slightly to 10.7% (1Q 2017: 12.9%) following more moderate expansion in investment.

Headline inflation declined due to lower transport prices

In the second quarter of 2017, headline inflation moderated to 4.0% (1Q 2017: 4.3%) due mainly to lower transport inflation of 13.4% (1Q 2017: 16.2%). During the quarter, prices of RON95 petrol averaged RM2.07 per litre, lower than the average of RM2.23 per litre in 1Q 2017. The lower domestic fuel prices were due mainly to the lower global oil prices amid a stronger ringgit exchange rate during the quarter. However, inflation in the food and non-alcoholic beverages category was slightly higher at 4.3% (1Q 2017: 4.2%) reflecting the stronger demand during the festive season. Inflation during the quarter was not pervasive. The percentage of items in the CPI basket registering inflation of more than 2% remained unchanged at 33%. However, the sustained increase in the prices of food away from home and rental led to the slightly higher core inflation of 2.5% in second quarter of 2017 (1Q 2017: 2.4%).

The Malaysian economy is expected to register higher growth in 2017

Due to the continued strong performance in the second quarter of 2017, the Malaysian economy recorded a strong growth of 5.7% in first half of 2017. At this point, compared to the beginning of the year, there are considerable improvements in the operating environment of the economy.

It is likely for the Malaysian economy to expand by more than 4.8% for the whole year of 2017.

Private consumption will be underpinned by continued wage and employment growth, with support from various policy measures to raise disposable income. Investments will be driven by the implementation of new and ongoing infrastructure projects, and higher capacity expansion in the manufacturing and services sectors. The stabilisation of commodity prices is also expected to lend support to investments in the mining sector. On the external front, exports are expected to benefit from the improvement in global growth, especially among Malaysia's key trading partners. Overall, the economy is expected to record a stronger growth in 2017.

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On the supply side, the improvement in both external and domestic demand conditions will benefit the manufacturing and services sectors. The agriculture sector's growth will be underpinned by a recovery in CPO yields post-El Niño. Growth in the mining sector is projected to be mainly supported by output from the ramping up of production in new gas facilities. In the construction sector, new and existing civil engineering projects will drive the sector going forward.

Headline inflation for 2017 will average within the forecast range of 3.0% - 4.0%

Looking ahead, headline inflation is expected to moderate further in the second half of 2017 due mainly to lower contribution from fuel products. The stronger recovery in the production of US shale oil is expected to contain the upward pressures on global oil prices. In addition, the base effect from lower fuel prices in 2016 will diminish given the relatively higher fuel prices in the fourth quarter of 2016. Headline inflation is expected to average within the forecasted range of 3% - 4% for 2017 as a whole.

[Source: Central Bank of Malaysia]

Challenges Facing Malaysia Capital Market

From the perspective of an association representing the stockbroking fraternity in Malaysia, we identify two main challenges impacting the Malaysia capital market which are:

- Era of Digitization
- Cost of doing business

Era of Digitization

Digitization creates business opportunities to the industry but conversely, the industry will face new challenges such as requiring new investments in capex, retraining human resources etc, amid an environment of intense competition and margin compression. We will see less of face to face relationship and more of digital interactions.

Financial intermediaries will move towards digitization in the way they do business. They need to cater for their clients' digitized way of living as well as to stay competitive both locally and regionally. A new pool of investors will be replacing the existing ageing pools of retail investors.

The sales agent model will not be relevant as more clients embrace online trading. Competition from comprehensive financial portals such as the likes of Interactive Brokers offered by foreign brokers, provide services on equities, derivatives, commodities, currencies, wealth management etc. via a single portal and it can cover multiple markets.

Fully automated algorithmic trading will continue to flourish and will further reduce the relevancy of sales agent model. The industry has entered a new phase characterized by fully automated algorithmic systems that operate on a streamlined ultra-low latency network and hence, the cost of human interaction is greatly minimized. Emerging trends in the industry show that, traders are focused on speed of execution competing for the fastest trade execution and greatest volumes.

Cost of doing business

Over the years, the brokers' commissions in Malaysia have been steadily declining whilst the industry costs that we incurred have been sharply increased in terms of amounts and variation.

After the demutualization of Bursa Malaysia in 2014, Bursa had shifted its business model to be more commercially focused. Consequentially, the brokers have been imposed with additional infrastructure costs over the time, such as:

- Market data fee
- FTSE Licensing Fee
- Admin fee on Equities Margining
- Network equipment rental

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Further to the after effect of Bursa's demutualization, in 2012, Bursa had retired its broker front end (BFE) system and this resulted in brokers had to resource their BFE system to external vendors. Brokers have to incur additional costs such as the system Maintenance Fee Trading terminal fee, trading OMS server maintenance fee and Bursa Access Fees.

On top of Bursa's related infrastructure costs, there are other significant costs that burdening the brokers like the transactions levy imposed by regulators, Goods and Services Tax (GST) on foreign trade and co-existence of GST and stamp duty.

In near future, we foresee the stockbrokers will incur more costs in implementation of front office monitoring and Cyber Security systems.