

CARI CAPTURES

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MALAYSIA'S 1MDB SCANDAL DENTS GROWTH

01 INDONESIA

RUPIAH OUTPERFORMS MAJOR CURRENCIES



CURRENCIES OVER TIME

Best Spot Returns (%)

1. Indonesia Rupiah	IDR	5.59
2. Malaysian Ringgit	MYR	4.48
3. Turkish Lira.	TRY	1.63
4. Japanese Yen	JPY	0.98
5. New Zealand Dollar	NZD	0.88
6. Australian Dollar	AUD	0.80
-0.29 7. Singapore Dollar	SGD	
-0.52 8. Hong Kong Dollar	HKD	
-1.15 9. Israeli Shekel	ILS	
-1.59 10. Norwegian Krone	NOK	
-1.61 11. Swedish Krona	SEK	

Worst Spot Returns (%)

-3.97 21. Brazilian Real	BRL	
-4.10 22. Swiss Franc	CHF	
-5.46 23. Canadian Dollar	CAD	
-5.72 24. British Pound	GBP	
-6.68 25. Peruvian New Sol	PEN	
-7.16 26. Polish Zloty	PLN	
-7.95 27. Mexican Peso	MXN	
-7.99 28. Columbian Peso	COP	
-14.92 29. Russian Ruble	RUB	
-15.92 30. South African Rand	ZAR	
-32.11 31. Argentine Peso	ARS	

After falling 35% over the past three years, the Rupiah strengthened 5.6% from October 2015 and January 2016.

- ▶ Indonesia's economy is largely dependent on foreign remittances to finance an external deficit, which meant that a premature cut in interest rates would curb portfolio inflows and further damage the nation's economy; by holding off on interest rate cuts until inflation fell, Indonesia's central bank singled monetary prudence and garnered foreign confidence in its currency
- ▶ Approximately \$4 billion Rupiah was pumped into Indonesia's sovereign debt over the course of four months, helping to rally the currency; however, it should be noted that Indonesia's weak tax collection

and continued reliance on expansionary fiscal policy still causes foreign investors to harbour doubts as to the nation's economic stability

- ▶ According to Ebury Partners Ltd, the most accurate Rupiah forecaster in Bloomberg rankings, the Rupiah was also aided by a strong bond market as well as its undervalued status; in the past, the Rupiah had plunged due to a slowing Chinese economy, the tightening of U.S. monetary policy and falling commodity prices

[Bloomberg \(29 January 2016\)](#)

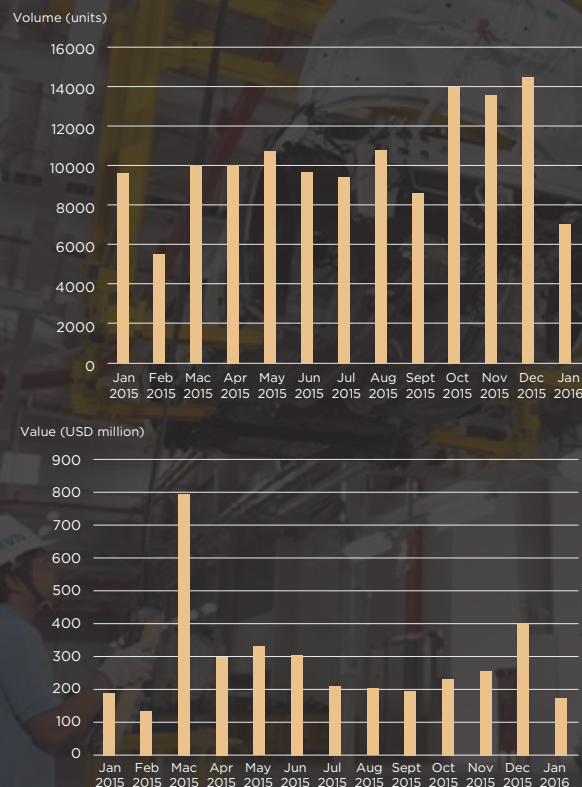
VIETNAM AUTO IMPORT NOSEDIVE FOLLOWS TAX HIKE

Following a 77% increase in imports of complete-built cars in 2015, the General Statistics office of Vietnam has reported that the quantity of cars imported has declined by 50% in January 2016.

- ▶ Whilst Vietnam imported a total of 125,600 complete built units last year valued at US\$2.99 billion, January 2016 imports only totaled US\$175 million representing a value decline of nearly 56% from December 2015
- ▶ According to industry insiders reported by the VnExpress, the sharp fall can be attributed to a new tax ruling which was implemented in January 2016, causing imported to increases prices by 2 to 13%; the new rule was implemented following complaints by local manufacturers that foreign importers had unfair tax benefits
- ▶ The new tax rules mandate that luxury taxes on cars are calculated on a car's retail price rather than their cost; this implies that calculations of the luxury car tax would be based of retail prices already marked up by import duties, in effect raising the tax for car importers

[Thanh Nien News \(29 January 2016\)](#)

VIETNAMESE CBU CAR IMPORTS



Source: General Statistics Office of Viet Nam

FREEPORT LOSES EXPORT RIGHTS IN INDONESIA

Freeport McMoRan Inc lost its right to export copper concentrate after its six month permit expired amidst talks with the Indonesian government, which has demanded that the firm pay US\$530 million as a deposit to continue operations.

- ▶ According to an agreement reached between the Indonesian government and Freeport, the U.S. mining giant would need to divest a greater share of the Grasberg mine as well as invest in domestic processing in order to win an extension of its mining contract beyond 2021
- ▶ The US\$530 million deposit would go towards expanding Indonesia's local smelting capacities, in addition to the US\$80 million already set aside by Freeport to obtain a mining permit from Indonesia; currently, Freeport plans to invest a total of US\$18 billion to expand operations in Grasberg, however this has halted due to the company's need for assurances that its mining license will be renewed by the Indonesian government
- ▶ As the Indonesian government has a vested interest in mining revenues from Freeport's operations, it is expected that the two sides will resolve the issue and renew the company's license in the short term future; however, it should be noted that Freeport is also currently facing a class action lawsuit claiming that the company's Indonesian subsidiary violated the Foreign Corrupt Practices Act, which may endanger the company's going concern

[Reuters \(28 January 2016\)](#)

THAILAND RECORDS TRADE SURPLUS

Thailand recorded a trade surplus of US\$11.72 billion in 2015 for the first time in five years despite continued contractions in both the nation's imports and exports.

- ▶ Thai exports contracted 8.73% from a year earlier in December to \$17.1 billion, accelerating from a 7.24% year-over-year drop in the preceding month; In 2015, Thailand's overseas shipment value fell 5.78% from last year--slightly higher than the ministry's latest projection of a 5.5% contraction
- ▶ According to Thailand's Commerce Ministry, the nation's contraction of exports can be attributed to a slowing global economy and falling commodity prices; Moody's Analytics has also stated that the trade surplus belies weakness in Thailand's international trade, believing that exports will continue to be weak in the short term future
- ▶ The Commerce Ministry in a statement said it expects Thai exports to rebound in 2016 when the growth rate is forecast at 5%

[Market Watch \(26 January 2016\)](#)

MALAYSIA'S 1MDB SCANDAL DENTS GROWTH

Amidst the newest claims from Switzerland's Attorney General that US\$4 billion is missing from 1MDB, it has become apparent that the indebted sovereign fund has started to weigh on the economy.

- ▶ According to Christine Shields, a lead economist at Oxford Economics, the long-running scandal has eroded confidence and contributed to risk aversion about the country; this has been reflected within the falling Malaysian stock market and currency, as well as the increase in capital outflows from the nation

- ▶ Most directly, the 1MDB scandal has likely impacted Malaysia's ranking in Transparency International's Corruption Perception Index; Moody's revision in the country's Sovereign situation from positive to stable can also be said to be partially caused by the continual revelation of new issues surrounding 1MDB
- ▶ Whilst 1MDB has sold off about \$9.4 billion ringgit in assets to reduce its levels of debt, Switzerland's recent claims that US\$4 billion is missing from 1MDB and likely has been misappropriated from Malaysian state companies has done little to assuage doubts

[CNBC \(30 January 2016\)](#)

TIMELINE OF MALAYSIA'S 1MDB

Founding

Dec 2008: Terengganu state gets federal backing to set up the Terengganu Investment Authority (TIA) as a sovereign wealth fund
Jul 2009: TIA renamed as 1Malaysia Development Bhd. (1MDB) and Najib Razak becomes Prime Minister

Fundraising

May 2009: TIA sells \$5 billion ringgit in bonds
Mar 2012: 1MDB raises \$1.75 billion ringgit by selling 10 year bonds with a 5.99% yield
Oct 2012: 1MDB raises \$1.75 billion ringgit by selling 10 year bonds with a 5.75% yield
Mar 2013: 1MDB raises \$3 billion ringgit by selling 10 year bonds with 4.4% yield
Apr 2014: 1MDB reports \$36.3 billion ringgit of debt
November 2014: 1MDB reports \$41.9 billion ringgit of debt
Feb 2015: Ananda Krishnan helps 1MDB settle \$2 billion ringgit in bank loans
May 2015: International Petroleum Investment provide \$1 billion ringgit to 1MDB to pay off loans

Projects and Acquisitions

Sept 2009: 1MDB sets up \$2.5 billion ringgit joint venture with PetroSaudi International
Mar 2012: 1MDB acquires Tanjong Energy Holdings \$8.5 billion ringgit, reports released show 1MDB has \$7.8 billion of debt
Aug 2012: 1MDB buys Genting's domestic power generation assets for \$2.3 billion ringgit
July 2013: 1MDB agrees to pay \$1.2 billion ringgit for a 75% stake in a coal fired power plant
Aug 2013: 1MDB obtains six month extension on \$6.17 billion bridge loan
Feb 2014: 1MDB enters a joint venture to build a coal fired power plant

2015 - Present

1MDB's foreign assets are frozen several nations pending investigations
1MDB sells of \$9.4 billion ringgit in debt is recovered through the sale of assets
Prime Minister Najib Razak is found innocent of any wrongdoing concerning the misappropriation of funds by the Malaysian Attorney General

[Source: Bloomberg](#)

MALAYSIA BUDGETARY CUTS SAVE US\$2.1 BILLION

In response to slumping oil prices, weaker commodity markets, and a slowing global economy, Malaysia has announced a revised budget refocused on promoting domestic consumption and fiscal consolidation.

- ▶ First tabled in October 2015, the 2016 economic budget was based on the assumption that oil would be priced at US\$48 a barrel, but oil is currently at US\$30 a barrel; as state owned oil company Petronas contributes a third of all government revenue and loses US\$70 million in revenue for every US\$1 drop in oil prices, the shortfall in revenue needed to be factored into the budget
- ▶ The revised budget includes a US\$1.2 billion and a US\$952 million cut from development expenditure and operating expenses respectively, additionally, worker contributions to a national provident fund will be slashed by 3%, whilst further tax relief will be provided to two million tax payers; tax cuts will total to US\$83 million in lost government revenue and taxpayer savings of US\$113 million
- ▶ Despite the revisions however, economics are skeptical that this year's budget gap can be kept to 3.1%; OCBC economists have predicted that further budgetary revisions will occur to reflect reality whilst ANZ economists have stated that chances of fiscal slippage remain high

[Channel News Asia \(28 January 2016\)](#)

SINGAPORE PM PROPOSES ELECTORAL REFORM

In an address to the Singaporean Parliament, Prime Minister Lee Hsien Loong proposed electoral reforms with the goal of stability, and greater inclusion in the political system.

- ▶ The proposed reforms spanned various areas across the electoral system, from the Members of Parliament (MPs), to constituencies, and qualifying criteria for presidential candidates; if passed, the proposed reforms would offer greater inclusion in the system by providing more MP seats to non-constituency groups
- ▶ MPs from non constituency MPs would be granted voting powers, with their number of seats increasing to 21; furthermore, group representation constituencies will be reduced or merged to provide more individual constituency seats, thus providing access to minorities
- ▶ The PM also called for mechanisms to be put in place to allow minorities to be elected to the presidency, whilst also emphasising the need for candidates with management experience as well as a firm grounding in financial expertise in order to guide the nation

[The Malay Mail Online \(24 January 2016\)](#)

POLITICS

▶ Myanmar's politicians have seen out the final session of their parliament - and with it the end of decades of military-only rule - with karaoke and dancing. MPs took to the stage to belt out farewell songs; outgoing parliament speaker Shwe Mann urged the audience to join him as he sang "dreams may come true", the AFP news agency reports.

[BBC News \(29 January 2016\)](#)

▶ A proposal to suspend Article 59(f) of Burma's Constitution to allow Aung San Suu Kyi to assume the presidency may be put before the Parliament as soon as the first session of the Union Parliament scheduled on 8 February, according to anonymous NLD lawmakers.

[The Irrawaddy \(3 February 2016\)](#)

▶ Aung San Suu Kyi pushed the message of national reconciliation on 3 February, lauding the choice of representatives from ethnic minorities and the army-backed party as parliamentary speakers in a chamber dominated by her allies. The first sitting of parliament took place this week, as Myanmar goes through a drawn-out transition until the NLD government officially begins its term in April.

[Reuters \(3 February 2016\)](#)

ECONOMY

▶ Myanmar's infrastructure development push continues to gain momentum and radiate out from Yangon, with industrial parks are cropping up with increasing frequency in core regional cities, where lower labour costs are likely to attract foreign investors. In Kyaukpkyu, in the western state of Rakhine, a project to build a 1,000-hectare industrial complex is about to kick off. A consortium including Chinese state conglomerate Citic Group won the development rights at the end of last year. The doors are slated to open by 2025.

[Nikkei Asian Review \(3 February 2016\)](#)

▶ Myanmar hopes to import electricity from Laos at an installed capacity of about 300 megawatts (MW) in the near future. "Currently we are studying the greater detail of the project, including the transmission lines and where the electricity will be used," Deputy Minister of Energy and Mines Viraphonh Viravong told media on 2 February.

[The Nation \(3 February 2016\)](#)

▶ Industry sources have confirmed the names of seven companies that sent in non-binding expressions of interest to become Myanmar's fourth mobile operator. The seven companies are Singapore's Singtel, Hanoi-based Viettel, China Telecom, France's Free, MTN out of South Africa, Hong Kong's 1COM and telecoms firm Beijing Xinwei.

[Myanmar Times \(3 February 2016\)](#)

MOODY'S LOWERS MALAYSIA'S MACRO PROFILE

Malaysia's profile was lowered from "Strong" to "Strong-" in recognition that the operating environment for Malaysian banks has changed due to domestic and external challenges.

- ▶ Moody's cited the weakening ringgit, coupled with political tensions, and prospects for higher prices as the main reasons for dampening consumer sentiment; the lack of confidence in domestic consumers was thus reflected in the deterioration of the current account surplus and volatile capital flows which pose risks towards Malaysia's macro profile
- ▶ However, whilst Moody's did downgrade Malaysia's macro outlook, the ratings agency also found that the baseline credit assessment of rated financial institutions was not affected by its profile change; this was largely due to the fact that banks largely rely on deposit funding rather than wholesale funding, as well as the moderately competitive banking environment
- ▶ Other things highlighted in the report include a rise in domestic political risks, which have not adversely affected policy reform but has eroded investor confidence, and the softening oil prices which may further impact the Malaysian government's expenditures

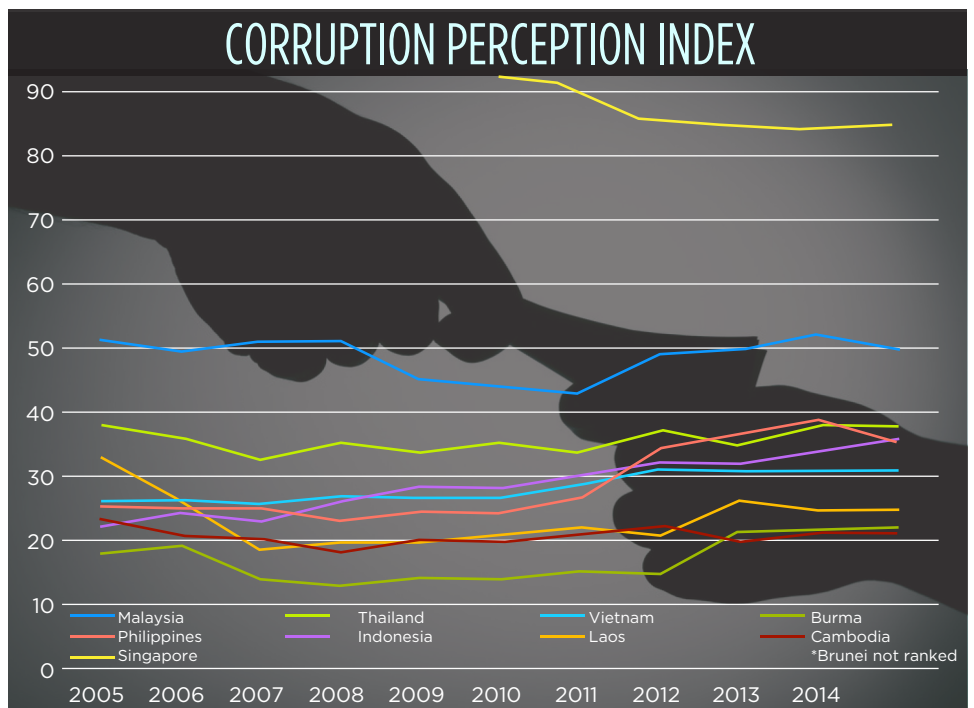
[News Straits Times \(29 January 2016\)](#)

CAMBODIA PERCEIVED AS MOST CORRUPT IN REGION

According to Transparency International's 2015 Corruption Perceptions Index (CPI), Cambodia scored a 21 out of 100 points placing it dead last amongst ASEAN nations in terms of combatting corruption.

- ▶ According to the report, Cambodia's judicial system and rule of law has fundamental issues which have yet to be resolved, the foremost of which would be the fact that the judiciary system was not impartial; as put by Pech Pisey, T.I. Cambodia's director of programs, the political and commercial elites have entrenched influence within the judiciary system in Cambodia
- ▶ However, whilst Cambodia saw no change in its CPI score in 2015, the report cited the education and commerce ministries as areas where reform momentum was present
- ▶ The report was promptly dismissed by the country's anti-graft chief

[Cambodia Daily \(28 January 2016\)](#)



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