FOZL 福智霖

Malaysia Newsletter

Q1 2024

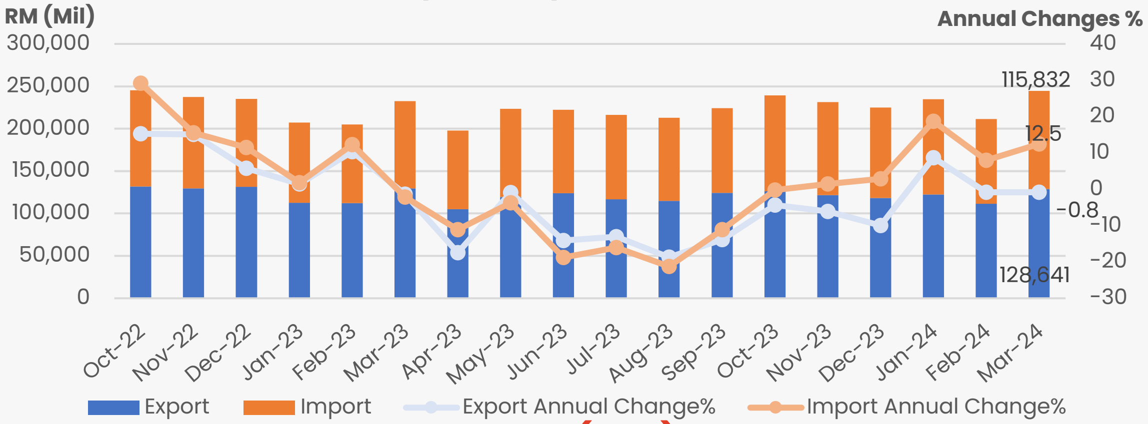
Insight on market information, trends, policies and investments.

Summary

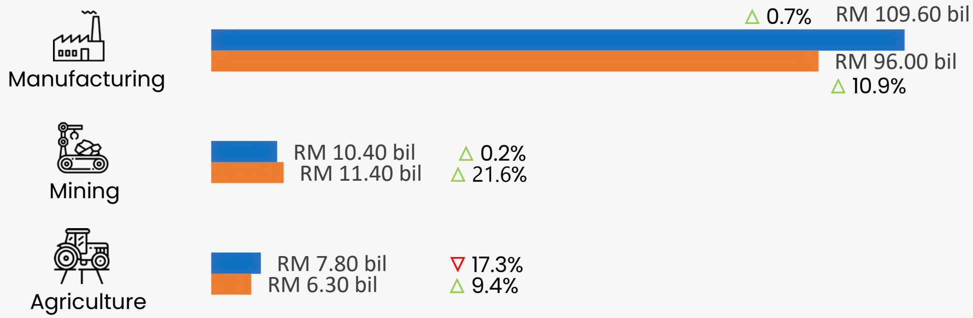
Malaysia' economy is forecast to have grown by **3.9%** year-on-year in the first quarter of 2024, primarily propelled by the services sector, accelerating from a 3.0% growth in the previous period. The **inflation** remained at **1.8%** year-on-year in March 2024. It was mainly driven by housing, water, electricity, gas and other fuels, which climbed 3%; restaurant and accommodation services, also up 3%. Furthermore, Bank Negara Malaysia maintained its monetary policy unchanged in March. The central bank anticipates further economic improvement in 2024, driven by the recovery in exports and resilient domestic expenditure.

KEY DATA

Trade Performance (year-on-year)

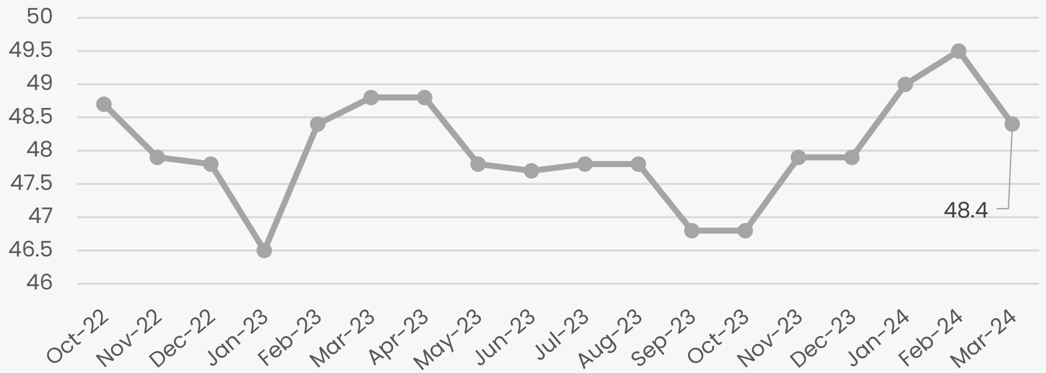


Sectorial Performance



For more information, refer to URL: (dosm.gov.my)

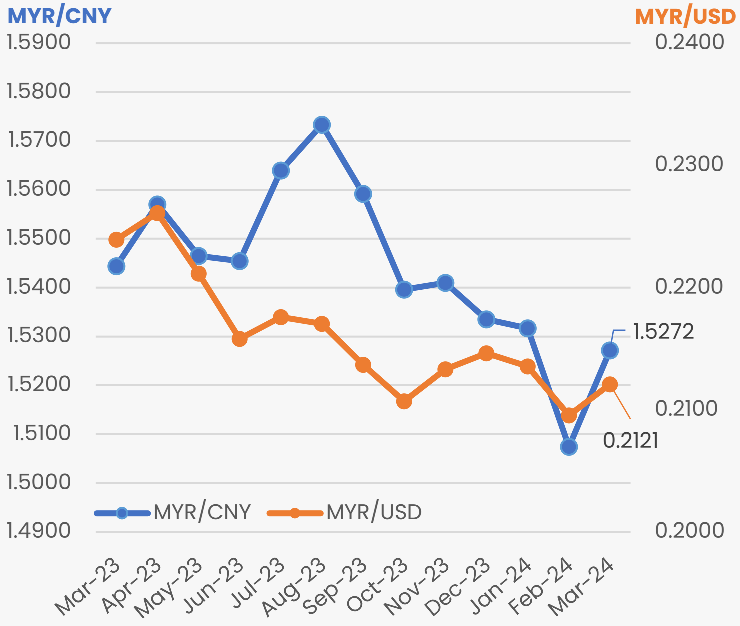
Purchasing Managers Index (PMI)

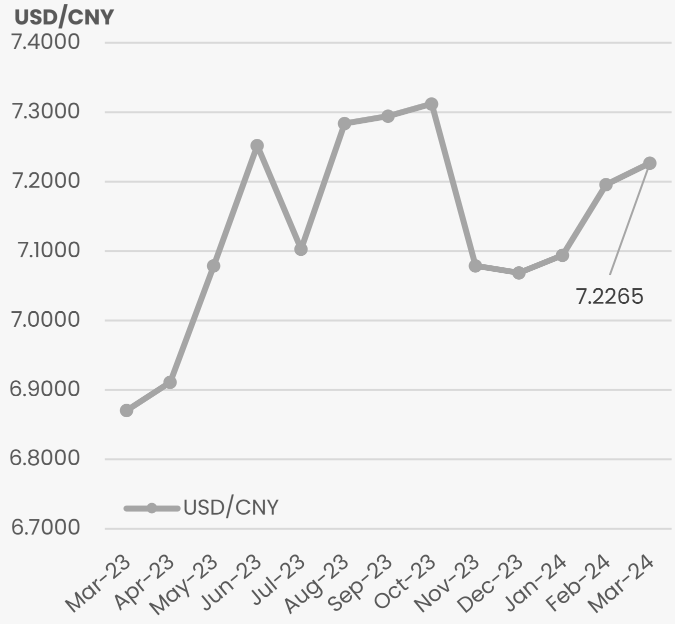


Trend: The Malaysia Manufacturing PMI fell to **48.4** in March 2024 from 49.5 in the prior month. It was the 19th straight month of drop in factory activity and the fastest pace since last December.

For more information, refer to URL: https://www.fxempire.com/macro/malaysia/manufacturing-pmi

Foreign Exchange Rate (FX)

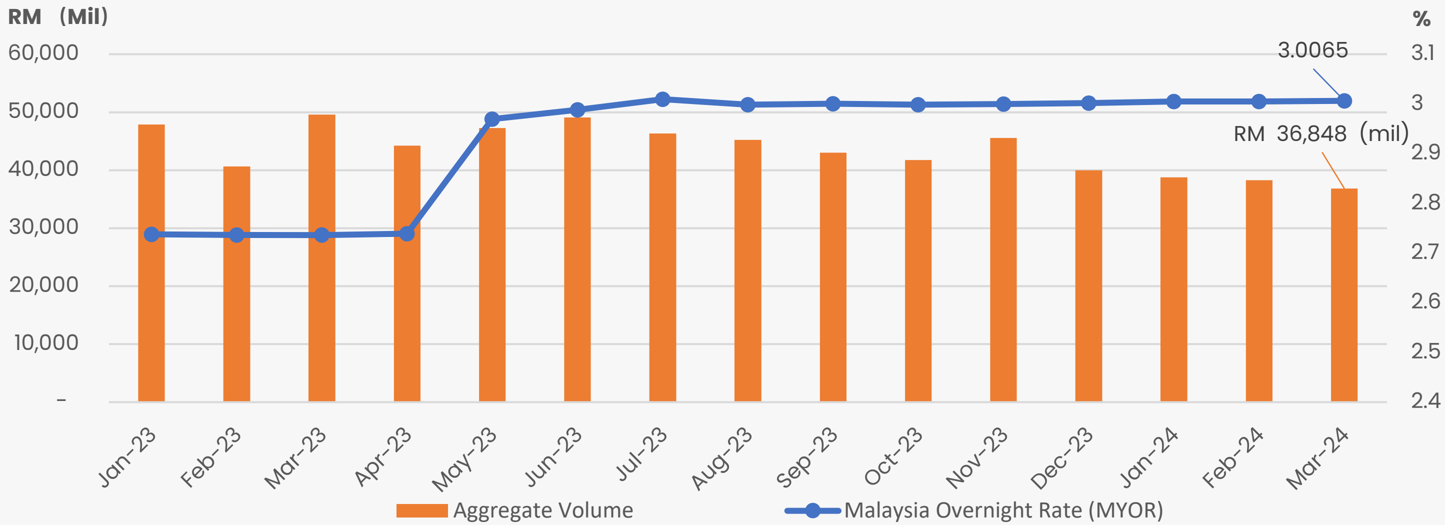




- **MYR/CNY:** MYR appreciated against CNY in Mar 2024 (at a rate of 1.5272).
- **MYR/USD:** MYR appreciated against USD in Mar 2024 (at a rate of 0.2121).
- **USD/CNY:** USD appreciated against CNY in Mar 2024 (at a rate of 7.2265).

For more information, refer to URL:
https://www.bnm.gov.my/exchange-rates

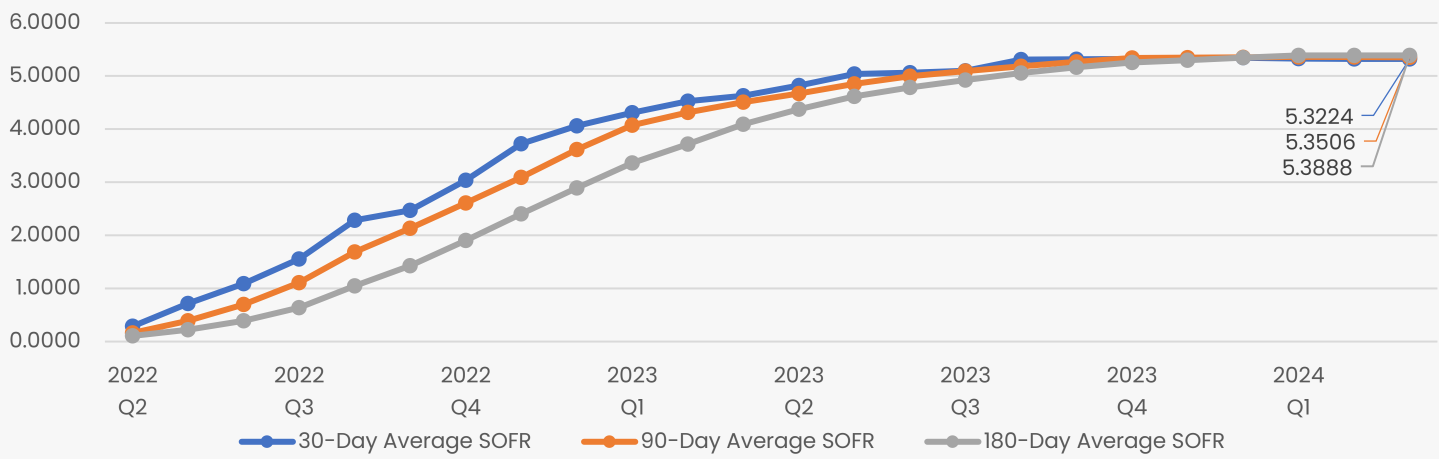
Malaysia Overnight Rate (MYOR)



Trend: The Bank Negara Malaysia (BNM) remained the key policy rate at **3% for 5th consecutive** month in March 2024. It is expected to maintain the policy rate unchanged through 2024.

For more information, refer to URL:
https://www.bnm.gov.my/myor

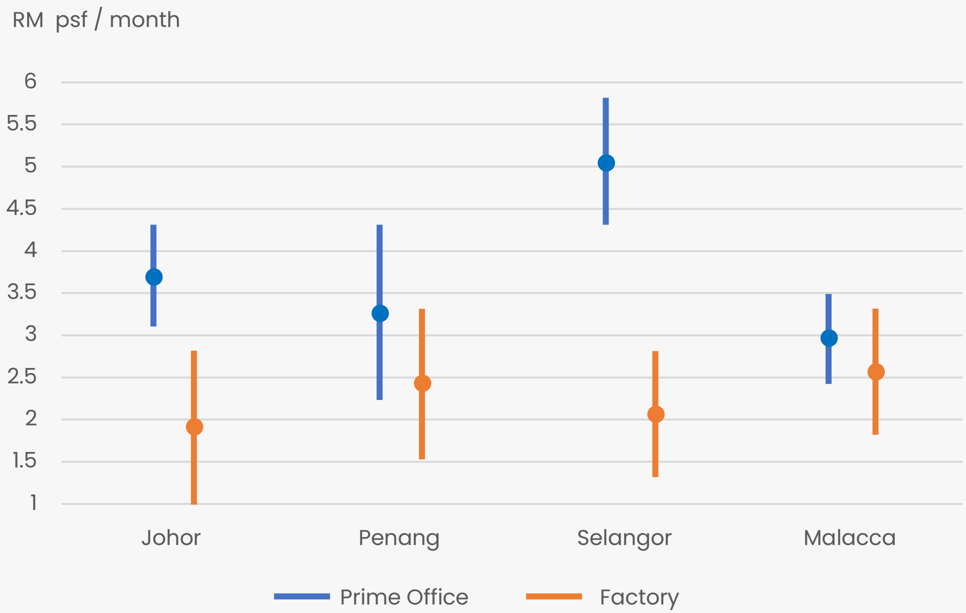
Secured Overnight Rate (SOFR)



Trend: The SOFR remains with 30-day average SOFR at 5.3224, 90-day average SOFR at 5.3506 and 180-day average SOFR at 5.3888 in Mar 2024.

For more information, refer to URL: https://www.newyorkfed.org/markets/reference-rates/sofr

Rentals for Offices and Factory



- **Johor** sees a rising trend in industrial and data centre demand, fuelled by rapid infrastructure development such as the Johor Bahru-Singapore RTS Link. The on-going government negotiations to set up the proposed special economic zone (SEZ) is also fuelling the optimism on the Johor property market.
- **Penang's** is well positioned to contribute towards the growth of the global E&E industry. The major infrastructure projects, especially the Bayan Lepas LRT, Silicon Valley, are set to enhance Penang's appeal as a foreign direct investment (FDI) destination.
- **Selangor**, services and manufacturing as the main anchor. The state government has allocated RM6 million under the Selangor Industrial Broadband initiative to provide high-speed broadband facilities, strengthen the telecommunication infrastructure in Selangor in 2024, especially for facilities in high-tech industries.
- **Malacca** initiate to develop industrial areas to support high-tech industrial ecosystem, innovating and producing products and services with high added value. The government target to develop in new industrial areas such as MCORP Hi-Tech Park, German Industrial Park and Elkay Industrial Park Phase 2.

For more information, refer to URL: https://www.mida.gov.my/

Utilities: Electricity Tariffs and Water Rates

Electricity Rate

Tariff Category	Current Rate (RM)
TARIFF D - LOW VOLTAGE INDUSTRIAL TARIFF (≤ 1, 000V)	
For the first 200 kWh (1 -200 kWh) per month	38.00 sen/kWh
For the next kWh (201 kWh onwards) per month	44.10 sen/kWh
The minimum monthly charge is RM7.20	
TARIFF E1 - MEDIUM VOLTAGE GENERAL INDUSTRIAL TARIFF (≤ 50, 000V)	
For each kilowatt of maximum demand per month	29.60 RM/kW
For all kWh	33.70 sen/kWh
The minimum monthly charge is RM600.00	
TARIFF E2 - MEDIUM VOLTAGE PEAK/OFF-PEAK INDUSTRIAL TARIFF	
For each kilowatt of maximum demand per month during the peak period	37.00 RM/kW
For all kWh during the peak period	35.50 sen/kWh
For all kWh during the off-peak period	21.90 sen/kWh
The minimum monthly charge is RM600.00	
TARIFF E3 - HIGH VOLTAGE PEAK/OFF-PEAK INDUSTRIAL TARIFF (≤ 230, 000V)	
For each kilowatt of maximum demand per month during the peak period	35.50 RM/kW
For all kWh during the peak period	33.70 sen/kWh
For all kWh during the off-peak period	20.20 sen/kWh
The minimum monthly charge is RM600.00	

Water Rates

Industrial/Commercial	**State**	
	Johor (SAJ)	**Selangor / Federal Territory of Kuala Lumpur & Putrajaya** (Air Selangor)
Effective Date	Feb 2024	Feb 2024
0 - 35 m³	RM 3.15	RM 2.70
More than 35 m³	RM 3.55	RM 2.94
Minimum charge	RM 31.50	RM 36

Malaysia water supply services are provided by the respective state water operator with exception to the state of Sarawak where it is provided by regional water operators.

Tenaga Nasional Berhad (TNB) is the main electricity power generator and supplier in Peninsular Malaysia. This tariff is effective from January 2017.

For more information, refer to URLs:
Water tarif 2024 (span.gov.my)
https://www.airselangor.com/wp-content/uploads/2022/07/Appendix-A.pdf
https://www.tnb.com.my/assets/files/Tariff_Rate_Final_01.Jan.2014.pdf

Finance: GDP expected to register 4.7% growth in 2024

MIDF Research expects Malaysia's gross domestic product (GDP) to grow by 4.7% in 2024 helped by a recovery in external trade, especially demand for electrical and electronic products from markets like China and the United States and restocking activities.

The research house stated in a report that the growth projection for the GDP will continue to be anchored by a sustained rise in domestic spending, helped by a healthy labour market, rising income and continued recovery in inbound tourist numbers. However, the report maintains a cautious stance that external developments like slower growth in China, possible recession risk in the US and disruption to global trade from intensified geopolitical tensions could be the downside risks to Malaysia's growth prospects in 2024.

On the domestic front, the report warned that the possible upward price pressures may result in constraining consumers' purchasing power and their spending. The country's fourth-quarter (4Q23) GDP grew at a slower pace of 3% which was below the 3.4% forecast by economists, taking the full-year growth rate to 3.7% in 2023.

The weakness in the 4Q23 growth was primarily due to steeper contraction in external demand. Net exports plunged 35.6% year-on-year in 4Q23, dragged down by a relatively sharper fall in exports and resulted in the larger full-year contraction in trade surplus.

On the plus side for growth, MIDF Research foresees investment to remain on an expansionary trend in 2024 backed by progress in various infrastructure projects on the back of still encouraging domestic economic conditions.

It added that in anticipation of recovering external demand, companies might also increase spending on capital and rebuilding of inventories. The research firm said it remains cautious that consumption spending may be constrained by concerns over inflationary pressures, as the government has voiced its plan to revise its bloated subsidies this year.

For more information, refer to URL: https://www.thestar.com.my/business/business-news/2024/02/19/gdp-expected-to-register-47-growth-in-2024#:~:text=PETALING%20JAYA%3A%20MIDF%20Research%20expects,United%20States%20and%20restocking%20activities.

Key policy update: Johor theme forecast to be on upward trajectory

The Johor investment theme is seen gaining traction among investors as the state accelerates its plan to be a new economic powerhouse through high-impact business opportunities. Among the sectors under the radar are power utilities, construction, property and logistics.

In its report, MIDF Research noted that the power utilities sector was a spillover beneficiary of Johor's data centre development as data centres are huge consumers of energy. It added that the solar engineering, procurement, construction and commissioning (EPCC) companies, in particular, are potential immediate-term beneficiaries of the data centre-driven demand for renewable energy (RE) EPCC services.

MIDF Research mentioned that in its recent visit to Johor, one of the highlights was the development of data centre hubs in Johor. It is primarily led by the Sedenak Tech Park (STeP) data hub development which is part of the larger Ibrahim Technopolis township development by JLand Group, a subsidiary of state-owned Johor Corp.

STeP entailed a land area of 1,400 acres located in the Kulai district of Johor which is designed specifically for the data centre ecosystem. The power utilities sector is a spillover beneficiary of Johor's data centre development as data centres are huge consumers of energy. Data centres generate an immense amount of heat, hence significant power is required for cooling systems, on top of energy requirements to power servers and hard drives. Additionally, the energy consumed by data centres is constant throughout its 24-hour operations.

MIDF Research also believe that while these data centres are still expected to be heavily reliant on more reliable conventional power sources given their constant demand, there will be increasing demand for cleaner energy sources given environmental, social and governance requirements by predominantly multinational corporation-owned facilities at STeP. JLand Group was exploring options to construct a solar farm within the STeP development to complement the power supply to the area.

MIDF Research pointed out that under Johor's development plan, called Rancangan Struktur Negeri Johor (RSNJ) 2030, the vision is to turn the state into a national and regional economic power. The blueprint, it noted, consisted of four thrusts, 32 high-impact-projects, and 432 implementation initiatives.

For more information, refer to URL: https://www.thestar.com.my/business/business-news/2024/02/01/johor-theme-forecast-to-be-on-upward-trajectory

Key policy update: Johor's one-stop investment centre to be ready in 2024

Johor Menteri Besar Datuk Onn Hafiz Ghazi mentioned that the one-stop centre to facilitate investment in Johor is expected to be completed in 2024.

The Menteri Besar said the centre, among the initiatives in the Johor-Singapore special economic zone (JS-SEZ), will be the first of its kind in the country. He emphasised that the investment facilitation centre in Johor will see the collaboration of all Federal and state agencies related to investment. The centre will be the first of its kind in Malaysia. There is one in Kuala Lumpur but it does not have the special state and Federal government collaboration like the one here.

He stated in a press conference on Feb 12 that Johor Government target to have the centre ready by 2024. He said the centre will make it easier for investors to set up businesses here as they will only need to go to one place for all their investment needs.

During the JS-SEZ memorandum of understanding (MoU) signing between Malaysia and Singapore last month, the two countries outlined several initiatives in building up the economic zone.

Other initiatives aside from the one-stop centre include passport-free QR code clearance system on both sides, and adopting digitalised processes for cargo clearance at land checkpoints.

On another matter, Onn Hafiz also said the Johor Fast Lane concept, which aims to reduce red tape in council matters, also made Johor appear more attractive to investors. The concept started with the Kulai Municipal Council (MPKu) before it was extended to other local councils.

Currently, four local councils – Johor Baru City Council (MBJB), Iskandar Puteri City Council (MBIP), Pasir Gudang City Council (MBPG) and MPKu - have implemented the concept.

He added that last year, the Johor Fast Lane helped the four local councils attract 30 investors in total.

For more information, refer to URL: https://www.thestar.com.my/news/nation/2024/02/12/johor039s-one-stop-investment-centre-to-be-ready-this-year-says-mb

Manufacturing: Malaysia rises as crucial link in chip supply chain

AT&S is just one of a flood of European and American companies that have recently decided to move to or expand operations in Malaysia's electrical and electronics manufacturing mecca. US chip giant Intel and German corporation Infineon are each investing US$7bil (RM32.81bil). Nvidia, the world's leading maker of chips powering artificial intelligence, is teaming up with the country's utilities conglomerate to develop a US$4.3bil (RM20.15bil) artificial intelligence cloud and supercomputer centre. Texas Instruments, Ericsson, Bosch and Lam Research are all expanding in Malaysia.

The boom is evidence of how much geopolitical friction and competition are reshaping the globe's economic landscape and driving multibillion-dollar investment decisions. As rivalries between the United States and China over cutting-edge technology simmer and trade restrictions pile up, companies – particularly those in crucial sectors like semiconductors and electric vehicles – are looking to strengthen their supply chains and production capabilities.

AT&S CEO Andreas Gerstenmayer mentioned that it was clear after 20 years of investment in China, the company needed to diversify its footprint. The company manufactures high-end printed circuit boards and substrates, which serve as the foundation for advanced electronic components that power artificial intelligence and supercomputers. AT&S had production sites in Austria, India, South Korea and China – its largest plant – when it started hunting for a new location. The company's site search started in early 2020, just as warnings began to spread about a dangerous new coronavirus in China. AT&S scouted 30 countries on three continents before settling on Malaysia.

South-East Asia's strategic position in the South China Sea and long-standing economic ties to China and the United States make the region an attractive place to set up a base. Nations like Thailand and Vietnam, AT&S' second choice, are also aggressively courting semiconductor firms to expand, offering tax incentives and other lures.

But Malaysia has the advantage of a head start. The country has been riding the tech wave since the 1970s when it energetically courted some of the world's electrical and electronic superstars, like Intel and Litronix (now ams Osram, with headquarters in Austria and Germany). It created a free-trade zone on the island of Penang, offered tax holidays, and built industrial parks, warehouses and roads. Cheap labour was an additional draw, as was its large English-speaking population and stable government.

Manufacturing: (Continue) Malaysia rises as crucial link in chip supply chain

Mr Gerstenmayer added that Malaysia's history in the back end of making semiconductors was one of the primary draws. Malaysia is quite aware of what the needs of the semiconductor industry are, as well as having a well-developed ecosystem in the universities, in education, labour force, supply chain and more. He emphasised that support from the Malaysia government was another attraction.

Malaysia's Minister of Investment, Trade, and Industry, Tengku Zafrul Aziz, highlighted that foreign investment started to rise in 2019 due to the expanding utilization of semiconductors across various sectors, including automobiles and medical devices. He emphasized that there are 5,000 chips in one car.

The Covid-19 pandemic exposed significant vulnerabilities in global supply chains, sparking increased interest in Malaysia as an alternative source. This trend gained momentum amidst escalating tensions between major powers. Both China and the United States embarked on initiatives to establish reliable semiconductor supply chains, alongside support for critical sectors such as renewable energy and electric vehicles. US and European companies and even Chinese companies wanted to diversify out of China. China, too, is locating production facilities outside the mainland, in part, some say, to sidestep US sanctions. It's a "China plus one" strategy.

Tengku Zafrul mentioned that concerns regarding Taiwan, the world's largest semiconductor producer, have additionally spurred investment in Malaysia. The island has become a point of increasing tension between China, which asserts Taiwan as part of its territory, and the United States, which offers political support to Taiwan.

Malaysia is already the world's sixth largest exporter of semiconductors, and packages 23% of all American chips.

Malaysia's track record has been mostly in the back end of the semiconductor supply chain – which includes packing, assembling and testing components – activities that traditionally have been considered less complex and of lower value. But now the industry's focus on packaging smaller chips – chiplets – more tightly together to increase computing power is increasing the value and technical complexity of those activities.

For more information on the report, refer to URL: https://www.thestar.com.my/tech/tech-news/2024/03/14/chipmakers-searching-for-china-plus-1-are-finding-malaysia

Manufacturing: China-based GDS Holdings set to expand business in Johor

China-based information technology company, GDS Holdings Ltd is set to expand its business in Johor.

Johor Menteri Besar Datuk Onn Hafiz Ghazi said GDS Holdings which is a leading data centre operator has invested RM14.33 billion in Johor with the opening of two data centres in Nusajaya Tech Park and Kempas Tech Park.

He mentioned on his Facebook that he is happy GDS Holdings stated its readiness to expand its business in Johor and is confident Johor is capable of becoming a competitive artificial intelligence (AI) hub.

Onn Hafiz who is currently on a working visit to the Shenzhen Special Economic Zone, China, from March 2-7, said the Johor state government's delegation held a meeting with GDS Holdings and has gained valuable insights about the company's business framework.

He is amazed to learn about their vision and business model in developing data centres which has successfully contributed to making China a smart nation and digital economy powerhouse.

He added that as a global giant company, GDS Holdings now has more than 100 data centre projects across Asia and is ranked 9th out of the top 250 data centre companies in the world in 2024. He also stated that with the establishment of the Johor-Singapore Special Economic Zone (JS-SEZ), he is confident that Johor can attract more investors to the state and create high-impact investment packages, besides emulating Shenzhen as a leading global investment hub.

Johor has become the new focal point for investors in data centres. Developers and providers of data storage facilities such as Bridge Data Centres, Yondr Group, Equinix and ByteDance System have either set up shop or are making a beeline for the state.

It has been estimated that in 2024 alone, Johor will see RM17 billion worth of new investment in data centres.

For more information on the news, refer to URL: https://www.thestar.com.my/business/business-news/2024/03/04/china-based-gds-holdings-set-to-expand-business-in-johor

Manufacturing: Over 85% of approved manufacturing projects implemented

More than 85 per cent of the manufacturing projects approved in 2021-2023 have been implemented to date, led by the Investment, Trade and Industry Ministry (MITI) and its agency the Malaysian Investment Development Authority (MIDA).

MITI Minister Tengku Datuk Seri Zafrul Abdul Aziz said a total 2,386 manufacturing projects were approved during that period, and generally these projects would require 18 to 24 months to be completed, depending on their complexity. In a statement on 23 February, Tengku Zafrul mentioned that MITI will ensure a full implementation rate (nearly 100%) in the years to come. MITI also would like to recognise the contributions from various parties at all levels, including the various ministries, agencies and private sector that have assisted in expediting the investment commitments' implementation process.

Tengku Zafrul said the total approved investment of RM329.5 billion recorded for 2023 reflects the recovery and revival of the national economy. The 35.1% jump in domestic investments also reflects the confidence in the MADANI Government's policies. He cited several projects that succeeded to be implemented in a short duration - less than 18 months - that includes silicon battery company Enovix Corporation's unit Enovix Malaysia Sdn Bhd which was able to implement its project in less than 6 months.

Other companies mentioned were Ferrotec Manufaturing Malaysia Sdn Bhd, which established Ferrotec Holdings' first manufacturing facility for electromechanical assembly and advanced material fabrication for semiconductor equipment in Southeast Asia, and Ultra Clean Technology (Malaysia) Sdn Bhd, which invested in a capacity expansion project in Penang.

He added that the rapid and thorough implementation to realise the approved investments has been executed via platforms such as the National Investment Council (MPN), Investment and Trade Coordination Action Committee (JTPPP) and Investment Coordination Committee Meeting (ICCM). MIDA, through the Project Implementation and Facilitation Office (TRACK), is also committed in ensuring the approved manufacturing projects can be implemented immediately.

For more information, refer to URL: https://www.thestar.com.my/business/business-news/2024/02/23/over-85-of-approved-manufacturing-projects-implemented---tengku-zafrul

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