From the Desk of the Chief Economist

BANK ISLAM

EXPORTS VALUE HIT A RECORD HIGH IN SEPTEMBER

28 OCTOBER 2021

ECONOMIC RESEARCH

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EXPORTS SURGED BY 24.7% IN SEPTEMBER

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Exports

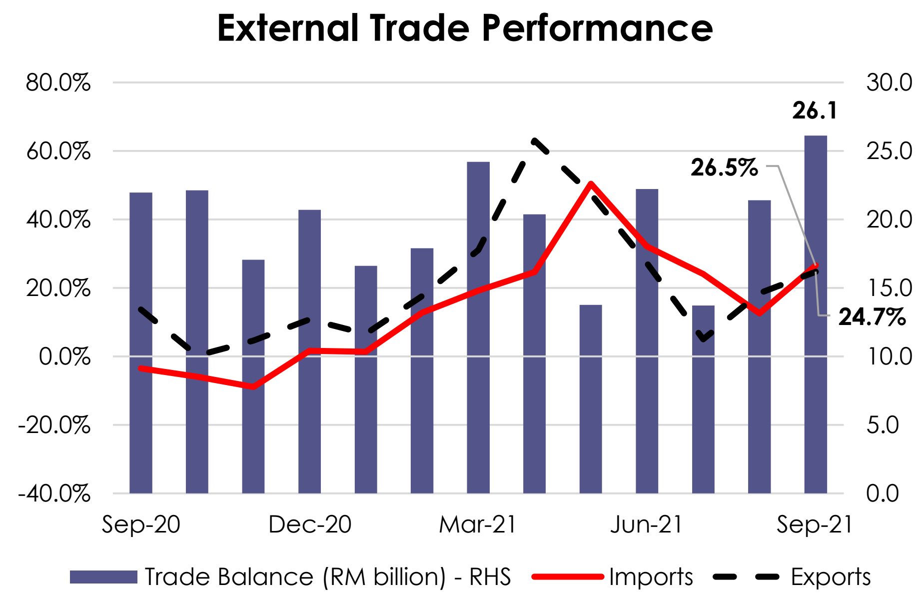
September
24.7%
August
18.4%

Imports

September
26.5%
August
12.5%

Trade Balance

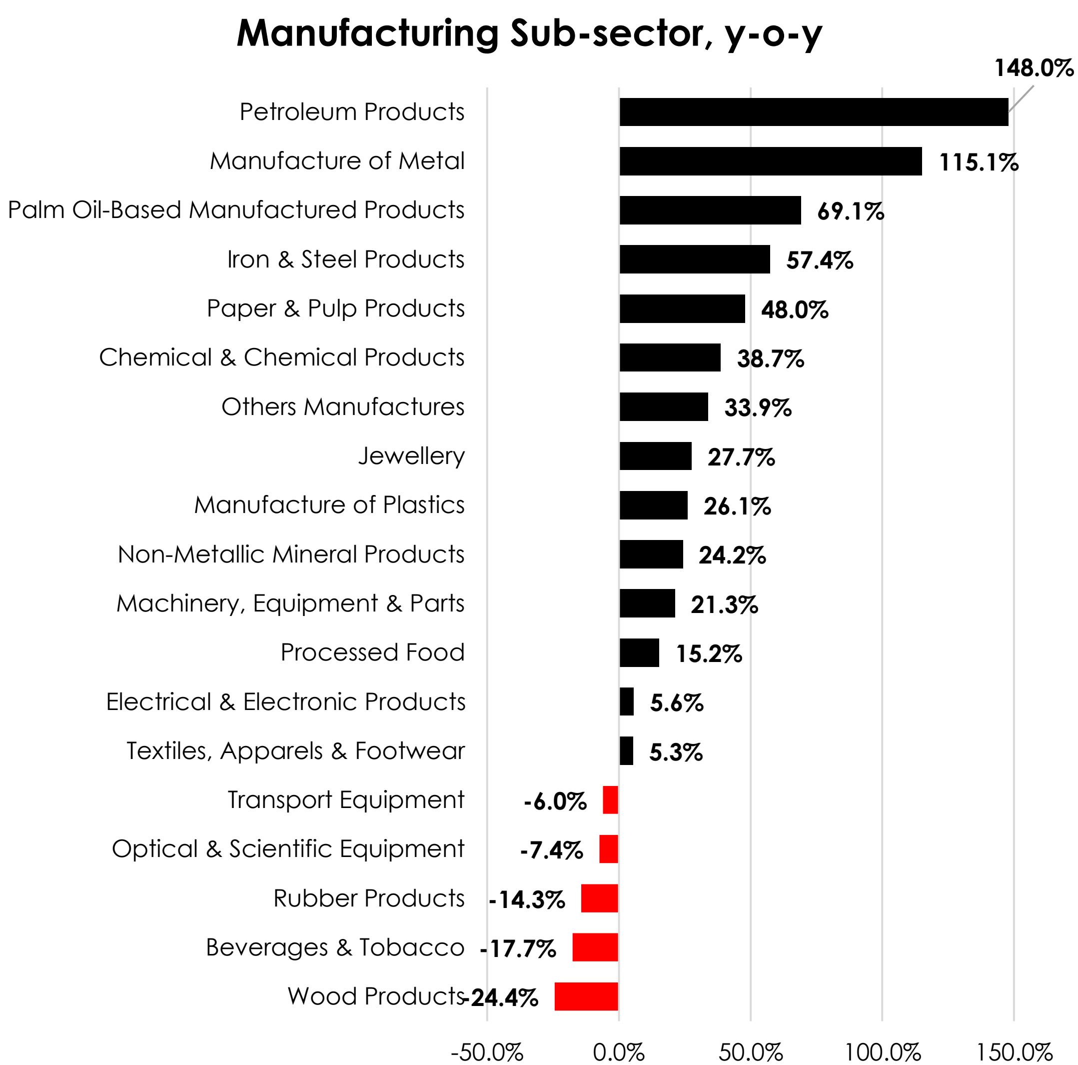
September
RM26.1 billion
August
RM21.4 billion



Source: CEIC

- ✓ Malaysia's exports continued to maintain a double-digit growth by expanding 24.7% year-on-year (y-o-y) in September, extending a gain of 18.4% in the preceding month. **(Consensus: 14.6%)**
- ✓ The exports growth in September also marks the thirteenth consecutive month of expansion in the nation's exports activities since September last year.
- ✓ The strong performance in exports was underpinned by the further expansion seen in the Manufacturing sector (September: 21.6% vs. August: 15.4%), as well as the Agriculture sector (September: 47.7% vs. August: 28.5%) during the said month.
- ✓ Meanwhile, exports growth in the Mining sector slowed down to 48.1% in September from a 50.6% advance in the previous month.

STRONG GROWTH SEEN IN MANUFACTURING SECTOR DURING SEPTEMBER



Source: CEIC

- ✓ Within the Manufacturing sector, the expansion was mainly contributed by higher exports seen in both Petroleum Products (September: 148.0% vs. August: 56.5%) and Manufacture of Metal (September: 115.1% vs. August: 69.8%) which increased by a triple-digit growth during September. This was followed by exports of Palm Oil-Based Manufactured Products (September: 69.1% vs. August: 68.8%) and Iron & Steel Products (September: 57.4% vs. August: 17.4%).
- ✓ On the other hand, Transport Equipment (September: -6.0% vs. August: -22.3%), Optical & Scientific Equipment (September: -7.4% vs. August: -17.7%) and Wood Products (September: -24.4% vs. August: -31.4%) still recorded a negative growth in the month of September albeit at a slower pace.
- ✓ All in all, this sector contributed 85.6% to the total exports during the month.

POSITIVE GROWTH CONTINUED IN BOTH AGRICULTURE AND MINING SECTOR

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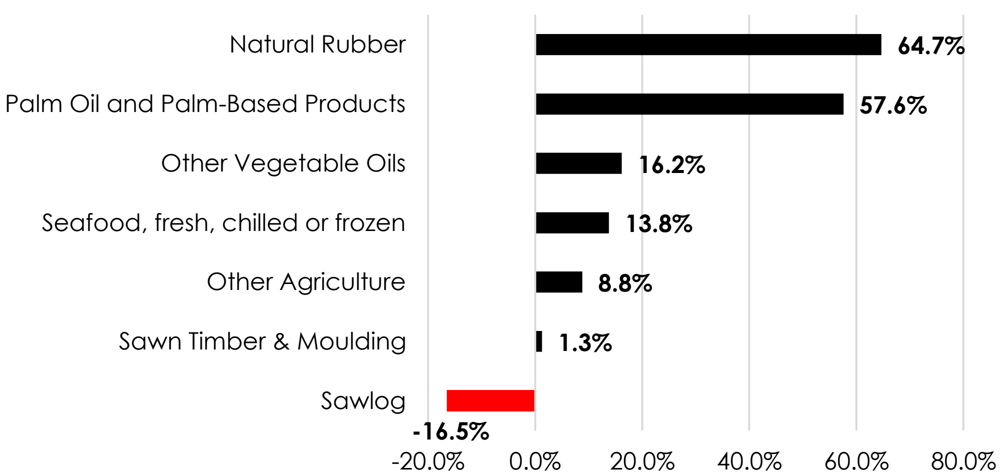
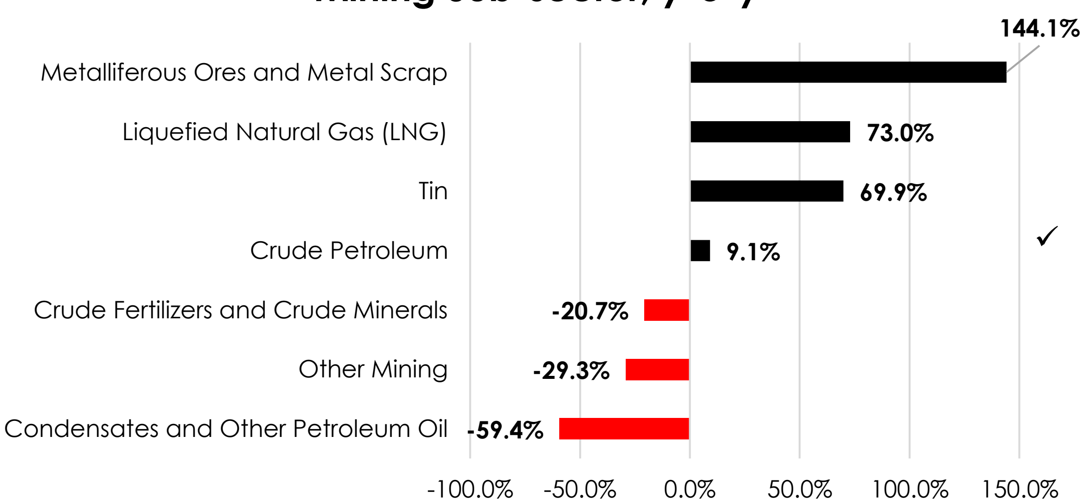
Agriculture Sub-sector, y-o-y



Mining Sub-sector, y-o-y



Source: CEIC

- ✓ As for the Agriculture sector, Natural Rubber grew moderately by 64.7% in September after increasing by 84.9% in the previous month. Meanwhile, Palm Oil and Palm-Based Products increased further by 57.6% in September, extending a gain of 35.1% in the previous month. During the month, this sector constituted 8.7% of the total exports.
- ✓ In the Mining sector, the robust growth was seen in Metalliferous Ores and Metal Scrap which recorded a triple digit growth at 144.1% in September from a 65.0% advance recorded in the previous month.
- ✓ As for imports, it increased by 26.5% in September (August: 12.5%), mainly supported by Intermediate Goods (September: 29.7% vs. August: 13.4%) and Consumption Goods (September: 3.7% vs. August: -0.6%) in September. Nevertheless, growth in Capital Goods softened by 20.3% in September after increasing by 22.9% in the previous month. Consequently, the trade surplus balance expanded to RM26.1 billion in September from a RM21.4 billion in August.
- ✓ On a quarterly basis, both exports and imports grew moderately by 15.8% (2Q2021: 44.0%) and 21.0% (2Q2021: 33.3%) in 3Q2021. As such, the trade surplus widened to RM61.3 billion in 3Q2021 (2Q2021: RM56.4 billion). As for 9M2021, both exports and imports rebounded by 24.9% (9M2020: -3.4%) and 21.1% (9M2020: -6.2%) respectively thus, the trade surplus widened to RM176.3 billion (9M2020: RM123.3 billion) during the said period.

EXTERNAL TRADE PERFORMANCE

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Y-o-Y%	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	2Q2021	3Q2021	9M2020	9M2021
Exports	6.3%	17.4%	30.9%	62.7%	47.0%	27.2%	5.0%	18.4%	24.7%	44.0%	15.8%	-3.4%	24.9%
Imports	1.1%	12.1%	17.5%	22.9%	48.4%	32.1%	24.0%	12.5%	26.5%	33.3%	21.0%	-6.2%	21.1%
Trade balance (RM billion)	16.6	17.9	24.2	20.4	13.8	22.2	13.7	21.4	26.1	56.4	61.3	123.3	176.3
Export by sector													
Manufacturing	**11.7%**	**20.9%**	**35.9%**	**65.4%**	**45.4%**	**25.8%**	**2.3%**	**15.4%**	**21.6%**	**43.7%**	**12.9%**	**-1.3%**	**25.3%**
Electrical & Electronic Products	13.1%	25.5%	48.0%	43.1%	34.3%	14.1%	-12.1%	6.8%	5.6%	29.0%	-0.4%	0.0%	16.9%
Chemical & Chemical Products	10.6%	20.3%	32.3%	39.4%	42.5%	53.3%	40.3%	59.1%	38.7%	45.4%	45.5%	-13.3%	36.8%
Machinery, Equipment & Parts	-1.5%	-0.4%	49.7%	172.7%	36.8%	-1.4%	-8.8%	27.9%	21.3%	44.1%	12.2%	-7.1%	22.4%
Petroleum Products	-32.4%	32.1%	-38.3%	87.8%	75.1%	113.6%	72.7%	56.5%	148.0%	92.6%	87.3%	-9.3%	45.7%
Manufacture of Metal	19.9%	27.0%	88.4%	180.7%	81.6%	34.0%	19.6%	69.8%	115.1%	80.3%	66.8%	-16.7%	63.2%
Transport Equipment	4.9%	-8.7%	-55.2%	-19.4%	38.5%	-26.9%	-21.2%	-22.3%	-6.0%	-9.5%	-16.8%	4.5%	-21.3%
Optical & Scientific Equipment	9.9%	-0.2%	30.8%	85.6%	29.2%	7.6%	-9.7%	-17.7%	-7.4%	34.1%	-11.6%	7.9%	8.9%
Processed Food	9.2%	1.5%	29.5%	33.4%	14.2%	5.5%	1.8%	13.9%	15.2%	16.7%	10.1%	-1.9%	13.2%
Textiles, Apparels & Footwear	-5.9%	-0.5%	30.4%	102.7%	51.1%	9.2%	-6.7%	4.8%	5.3%	46.1%	1.1%	-14.2%	14.7%
Iron & Steel Products	3.9%	-20.4%	34.6%	18.3%	35.4%	3.9%	-0.2%	17.4%	57.4%	18.5%	24.4%	10.6%	15.6%
Manufacture of Plastics	7.5%	-1.1%	29.6%	57.3%	33.0%	18.7%	8.1%	24.7%	26.1%	34.2%	19.3%	-13.5%	21.3%
Paper & Pulp Products	16.3%	9.5%	21.4%	57.1%	40.6%	20.4%	33.0%	44.9%	48.0%	37.4%	41.7%	0.6%	31.2%
Rubber Products	187.4%	188.7%	210.6%	207.2%	133.2%	103.5%	13.3%	4.0%	-14.3%	141.8%	0.5%	51.2%	90.8%
Palm Oil-Based Manufactured Products	6.0%	9.8%	42.0%	51.5%	32.8%	71.1%	78.9%	68.8%	69.1%	52.6%	72.3%	-12.9%	47.3%
Non-Metallic Mineral Products	14.2%	-0.4%	46.5%	116.8%	85.1%	26.9%	20.8%	19.8%	24.2%	69.2%	21.7%	-10.4%	32.4%
Beverages & Tobacco	-8.2%	-31.6%	48.3%	43.7%	8.6%	-27.0%	-37.6%	2.5%	-17.7%	5.8%	-18.2%	-27.1%	-5.1%
Jewellery	-6.5%	-22.3%	90.3%	544.6%	434.0%	140.6%	10.4%	-2.3%	27.7%	342.7%	13.0%	-48.6%	49.2%
Wood Products	2.2%	-3.7%	64.6%	147.2%	53.4%	-29.1%	-45.4%	-31.4%	-24.4%	34.8%	-34.0%	-0.6%	1.4%
Others Manufactures	8.0%	-7.5%	25.9%	59.8%	22.4%	2.0%	-8.9%	0.9%	33.9%	23.1%	8.4%	25.3%	13.1%
Agriculture	**-7.3%**	**9.7%**	**43.8%**	**66.9%**	**51.7%**	**40.0%**	**29.2%**	**28.5%**	**47.7%**	**51.5%**	**35.4%**	**2.3%**	**34.2%**
Natural Rubber	9.6%	14.5%	43.9%	58.6%	71.3%	60.8%	42.0%	84.9%	64.7%	63.2%	63.5%	-22.0%	47.8%
Saw log	-62.8%	2.6%	-50.8%	202.9%	-45.1%	85.7%	9.6%	-25.7%	-16.5%	104.4%	-10.9%	-33.4%	2.2%
Sawn Timber & Mouldings	-15.6%	-25.2%	15.8%	255.0%	57.2%	-47.6%	-36.5%	-19.0%	1.3%	36.4%	-17.9%	-29.6%	-1.1%
Mining	**-31.0%**	**-7.8%**	**-24.1%**	**24.5%**	**76.0%**	**32.9%**	**18.3%**	**50.6%**	**48.1%**	**41.6%**	**38.4%**	**-27.0%**	**12.6%**
Tin	78.2%	50.1%	206.2%	88.5%	59.9%	40.5%	29.8%	-15.9%	69.9%	62.2%	24.5%	-26.8%	60.9%
Crude Petroleum	-31.9%	-24.3%	-27.2%	37.1%	141.0%	109.5%	-6.8%	-3.9%	9.1%	86.8%	-0.9%	-25.0%	5.1%
Liquefied Natural Gas	-40.0%	-17.0%	-24.3%	-1.3%	45.2%	12.4%	69.9%	110.2%	73.0%	16.4%	84.2%	-28.4%	10.7%
Others	**-38.1%**	**-30.2%**	**-7.3%**	**202.0%**	**17.2%**	**39.4%**	**6.3%**	**15.3%**	**3.2%**	**64.3%**	**8.0%**	**-41.3%**	**5.2%**
Import by End-Use													
Capital Goods	-5.4%	38.3%	93.3%	-38.2%	33.9%	14.9%	25.6%	22.9%	20.3%	-7.9%	22.8%	-7.7%	12.2%
Intermediate Goods	1.4%	-0.1%	12.4%	64.4%	52.4%	25.3%	42.7%	13.4%	29.7%	46.0%	27.9%	-9.6%	24.7%
Consumption Goods	1.3%	17.6%	13.0%	29.9%	37.6%	19.3%	0.2%	-0.6%	3.7%	28.3%	1.1%	-0.2%	12.6%

Sources: DOSM, CEIC

COMPARISON WITH REGIONAL PEERS

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Countries	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	2Q2021	3Q2021	9M2020	9M2021
U.S.	-0.5%	-3.8%	13.2%	52.3%	59.5%	40.4%	28.0%	25.7%	16.8%	50.3%	23.4%	-15.7%	23.0%
China	24.6%	154.7%	30.5%	32.1%	27.8%	32.2%	19.3%	25.6%	28.1%	30.7%	24.4%	-1.2%	33.0%
Japan	6.4%	-4.5%	16.1%	38.0%	49.6%	48.6%	37.0%	26.2%	13.0%	45.0%	24.9%	-14.6%	23.8%
Singapore	-6.6%	-7.4%	12.7%	18.4%	27.7%	31.7%	19.4%	15.3%	22.1%	25.8%	18.8%	-5.6%	14.0%
India	6.4%	-0.5%	61.5%	202.6%	68.3%	48.0%	49.8%	45.8%	22.6%	86.2%	38.4%	-18.2%	43.6%
Indonesia	12.2%	8.6%	30.8%	52.1%	62.0%	54.4%	41.6%	64.1%	47.6%	55.9%	50.9%	-5.9%	40.4%
Thailand	0.2%	-2.7%	8.3%	13.1%	41.6%	43.8%	20.3%	8.9%	17.1%	31.8%	15.3%	-7.2%	15.5%
South Korea	11.4%	9.3%	16.3%	41.2%	45.6%	39.7%	29.7%	34.8%	16.7%	42.1%	26.5%	-8.7%	26.2%
Taiwan	36.8%	9.7%	27.1%	38.4%	38.6%	35.1%	34.7%	26.9%	29.2%	37.4%	30.1%	13.2%	30.7%
Malaysia	6.3%	17.4%	30.9%	62.7%	47.0%	27.2%	5.0%	18.4%	24.7%	44.0%	15.8%	-3.4%	24.9%

Sources: CEIC, Official websites

- ✓ Most of the regional peers continued to record a double-digit exports growth in September. Indonesia has taken the lead with its exports increasing by 47.6% y-o-y in September (August: 64.1%) though at a slower pace as compared to the previous month amid slowing demand for its commodities. On further scrutiny, Indonesia's non-oil and gas export which accounted more than 95.0% of total exports moderated by 48.0% in September from a 63.5% expansion in the preceding month.
- ✓ Meanwhile, Taiwan also recorded higher export sales, rising by 29.2% in September (August: 26.9%), driven by a sustained demand for tech products including parts of electronic products (September: 26.8% vs. August: 21.9%), as well as information, communication and audio video products (September: 22.8% vs. August: 17.2%).
- ✓ Be that as it may, the persisting Covid-led global supply chain disruptions has created shortages of key manufacturing components, order backlogs, delivery delays, as well as a spike in transportation costs and consumer prices.

EXCESS DEMAND FOR E&E PRODUCTS ARE LIKELY TO PERSIST WHICH HAS CAUSED SUPPLY SHORTAGES

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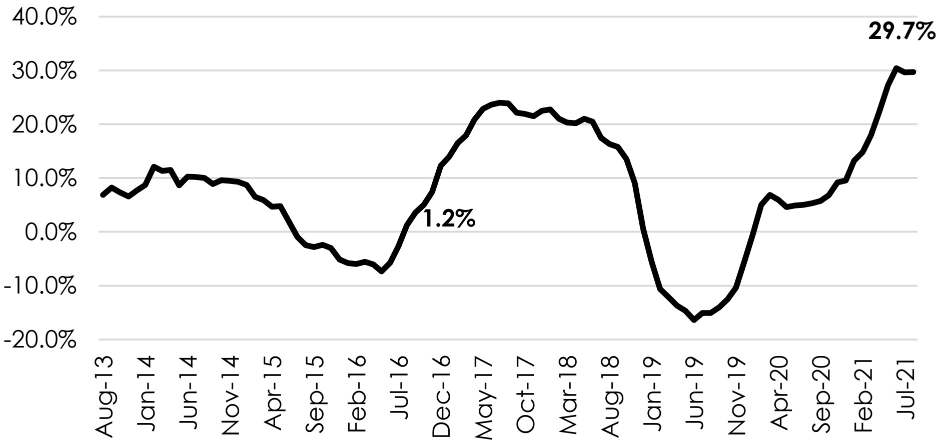
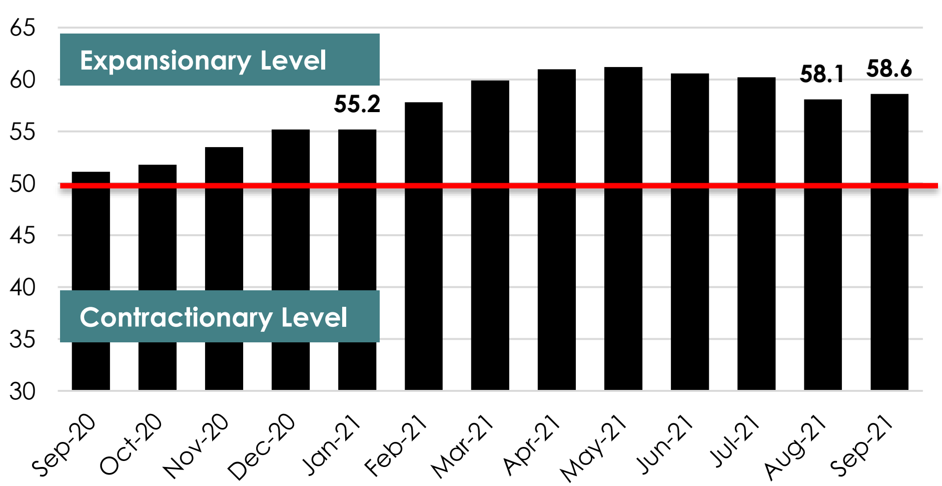
Global Semiconductor Sales (GSS), y-o-y%



Source: Semiconductor Industry Association (SIA)

IHS Markit Global Electronics PMI, points



Source: IHS Markit

- ✓ Malaysia's exports of E&E products continued to record a positive growth. This was in tandem with significant growth in Global Semiconductor Sales (GSS), increasing by 29.7% y-o-y in August (July: 29.6%) amid robust demand for chips across a wide range of market.
- ✓ According to the IHS Markit, the Global Electronics Purchasing Manager's Index (PMI) remained at an expansionary level (September: 58.6 points vs. July: 58.1 points) since September last year, predominantly spurred by accelerated increases in output and new orders for chips.
- ✓ Nevertheless, the sudden surge in demand for electronics has caused manufacturers to be held back by supply-side issues.
- ✓ Furthermore, firms were reporting shortages of key materials as a major hindrance to their production schedules and in some cases it has led the orders being postponed.
- ✓ Meanwhile, restoring the supply and demand imbalance would take some time as lead times to produce a finished chip could take up to 26 weeks.
- ✓ Therefore, we believe that the local industrial players could benefit if they move up the value chain through the lens of long-term development.

EXPORT SALES FOR RUBBER PRODUCTS CONTRACTED IN SEPTEMBER

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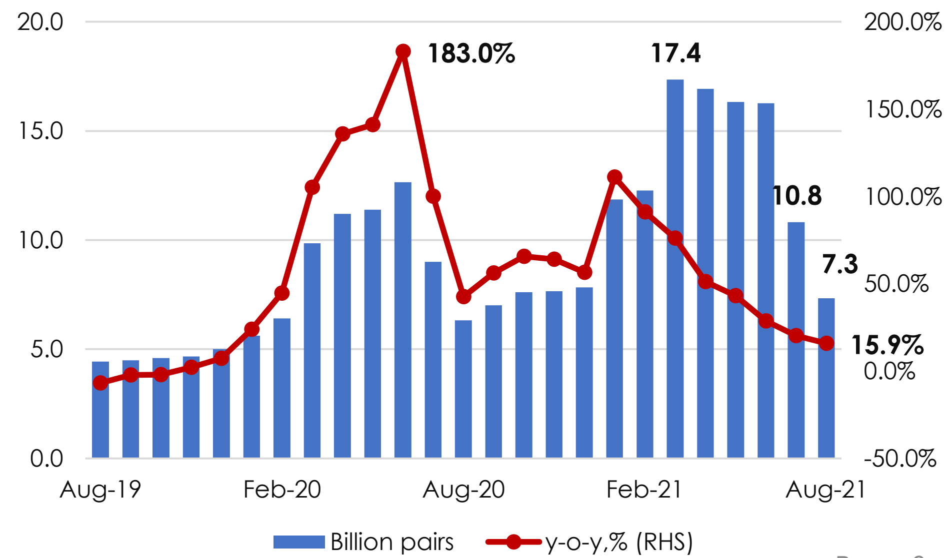
- ✓ Market for rubber gloves is currently going through an inventory adjustment phase after encountering higher demand since last year in light of Covid-19 pandemic.
- ✓ This can be seen from Malaysia's rubber glove production which has been showing a declining trend since June this year (August: 7.3 billion pairs vs. July: 10.8 billion pairs).
- ✓ Moreover, as Malaysia is considered as a major supplier of rubber gloves worldwide, the allegation of the mistreatment of workers in Malaysia by the U.S. Customs and Border Protection (CBP) has also affected the industry.
- ✓ Recently, Malaysian rubber glove company, Supermax which is a supplier of rubber gloves to Britain's National Health Service (NHS), has been hit by the U.S. customs order, banning its products from the American market over accusation of using forced labour.
- ✓ Thus far, Malaysia's exports for rubber products plunged by 14.3% in September (August: 4.0%), a first contraction since November 2019, suggesting slower demand condition.
- ✓ All in all, we opine that the demand for rubber gloves is expected to normalize moving forward. Nevertheless, the demand would still be higher than the pre-pandemic level amid higher awareness of personal hygiene and healthy practices globally.

Rubber Products' Export Growth, y-o-y%

Malaysian Rubber Glove Production



Sources: CEIC, DOSM

PALM OIL EXPORT VOLUMES DROPPED AT A SOFTER PACE

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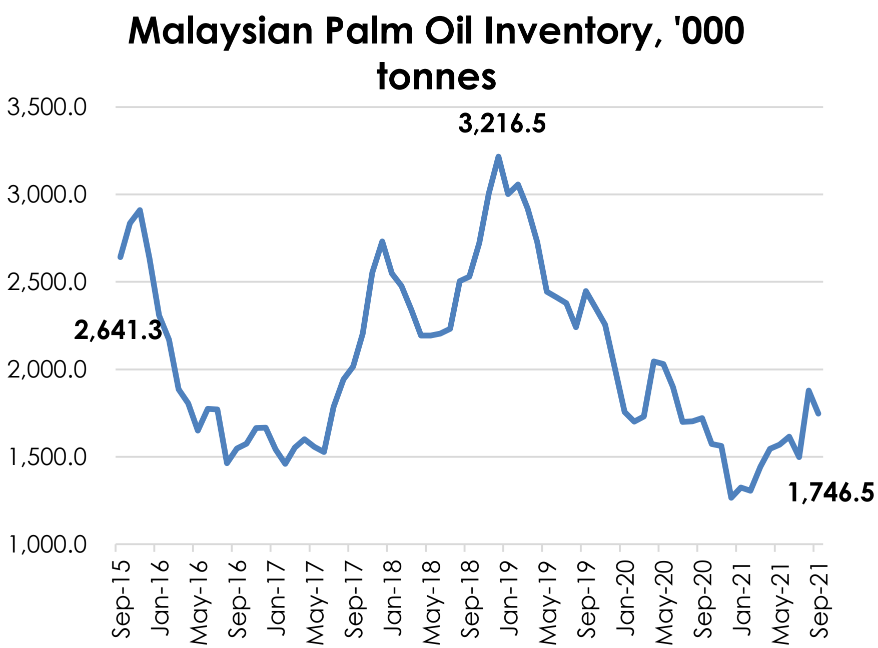

Source: Malaysian Palm Oil Board

- ✓ Malaysia's palm oil inventory recorded a smaller growth of 1.4% y-o-y in September (August: 10.3%).
- ✓ The smaller growth in palm oil inventory was in line with the softer contraction in the volume of palm oil exports of 0.9% in September (August: -26.0%) and also the 57.6% y-o-y growth in the exports value for palm oil and palm-based products in the same month (August: 35.1%).
- ✓ On a month-on-month (m-o-m) basis, we also observed that the volume of palm oil exports rebounded by 36.8% in September after slowing down by 16.7% in the previous month.
- ✓ In further detail, we observed that the volume of palm oil exports to India saw a narrower decline of 0.3% y-o-y in September (August: -6.7%). Taking into account the upcoming Diwali festivities taking place in early November, we foresee exports growth to India to be positive for the month of October.
- ✓ While demand prospects look optimistic in light of the reopening of economies, the uncertainties in weather patterns could affect crop production. Moreover, Malaysia's palm oil production is still not gaining traction partly attributable to the labour shortage.

Growth in the Volume of Malaysia's Palm Oil Exports to Other Countries, y-o-y%

Exports Destination	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	2Q2021	3Q2021	9M2020	9M2021
China	-35.7%	-46.5%	-50.8%	-44.3%	-36.0%	-38.7%	-42.3%	-53.4%	-6.2%	-39.3%	-35.4%	29.3%	-38.8%
India	205.6%	684.0%	2559.8%	1997.0%	607.7%	16.0%	-48.6%	-6.7%	-0.3%	228.7%	-21.1%	-60.3%	60.6%
Pakistan	-75.6%	-49.5%	-8.6%	0.9%	-48.3%	-49.6%	-55.5%	-12.3%	10.0%	-38.4%	-28.0%	-1.4%	-41.4%
European Union	-46.3%	-27.2%	-16.7%	-54.9%	-3.3%	16.3%	23.9%	-31.6%	-13.1%	-20.2%	-6.1%	-4.6%	-19.0%
U.S.	-16.2%	-64.6%	-79.0%	-47.5%	-51.0%	-75.0%	-36.8%	-42.7%	-35.0%	-58.4%	-38.0%	-6.9%	-49.9%
Others	-13.2%	-23.3%	-9.3%	-1.4%	-35.1%	-13.7%	0.6%	-22.4%	4.5%	-17.3%	-5.6%	13.1%	-12.7%
Total	**-21.9%**	**-16.8%**	**0.5%**	**9.3%**	**-7.4%**	**-16.9%**	**-21.4%**	**-26.0%**	**-0.9%**	**-6.3%**	**-16.2%**	**-8.9%**	**-12.0%**

Source: Malaysian Palm Oil Board

AIRBORNE TRADE – AIR CARGO VOLUME CONTINUES TO GROW AMID E-COMMERCE EXPANSION

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Asia Pacific Air Freight Traffic Statistics

Air Freight Metrics	Sep-20	Aug-21	Sep-21	Year-on-year % change	Month-on-month % change	9M2020	9M2021	Year-on-year % change
Freight Tonne Kilometers (million tkm)	4,941.0	5,980.0	6,093.0	23.3%	1.9%	43,312.0	52,407.0	21.0%
Freight Available Tonne Kilometers (million tkm)	6,976.0	7,870.0	8,008.0	14.8%	1.8%	66,481.0	70,340.0	5.8%
Freight Load Factor (%)	70.8%	76.0%	76.1%	+5.3 ppts	+0.1 ppts	65.1%	74.5%	+9.4 ppts

Source: Association of Asia Pacific Airlines
Note: tkm-tonne-kilometers

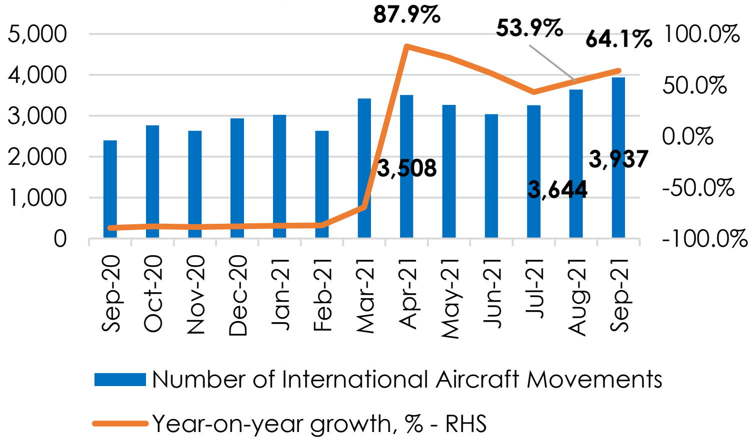
Freight Tonne Kilometers (FTK): Measure of the actual freight carried by a flight. It is calculated by multiplying the number of tonnes of actual freight carried on an aircraft by the distance travelled in kilometers.

Freight Available Tonne Kilometers (FATK): Measure of a flight's freight carrying capacity. It is calculated by multiplying the number of tonnes of freight capacity available on an aircraft by the distance travelled in kilometers.

Freight Load Factor: The ratio of the average load carried to total available freight capacity obtained by dividing FTK with FATK.

- ✓ International air cargo markets remained robust, propelled by strong consumer and business sentiment which boosted trading activity. Asia Pacific airlines recorded a 23.3% y-o-y increase in international air cargo demand as measured in freight tonne-kilometres (FTK) to 6,093 million tkm in September (August: 5,980 million tkm) which exceeded the volumes recorded in September 2019 of 5,921 million tkm .
- ✓ The average international freight load factor climbed by 5.3 percentage points to 76.1% in September (August: 76.2%) from a year ago, after accounting for a 14.8% y-o-y increase in offered freight capacity in the same month (August: 17.8% y-o-y).
- ✓ Similarly, the international aircraft movements at Kuala Lumpur International Airport (KLIA) increased by 64.1% y-o-y in September (August: 53.9%) to 3,937 aircrafts. As international travel was only being allowed starting from 11 October onwards, the bulk of international aircraft movements in September was still likely attributable to air freighter jets transporting goods.
- ✓ In the medium term, the gradual reopening of borders may begin limit belly capacity for cargo for normal airlines in order to accommodate luggage of passengers.

International Aircraft Movements at Kuala Lumpur International Airport



Source: Malaysia Airports Holdings Berhad

SEABORNE TRADE – PREFERENCE TOWARDS AIR CARGO HAS STARTED TO TAKE A TOLL ON CONTAINER THROUGHPUT AT LOCAL PORTS

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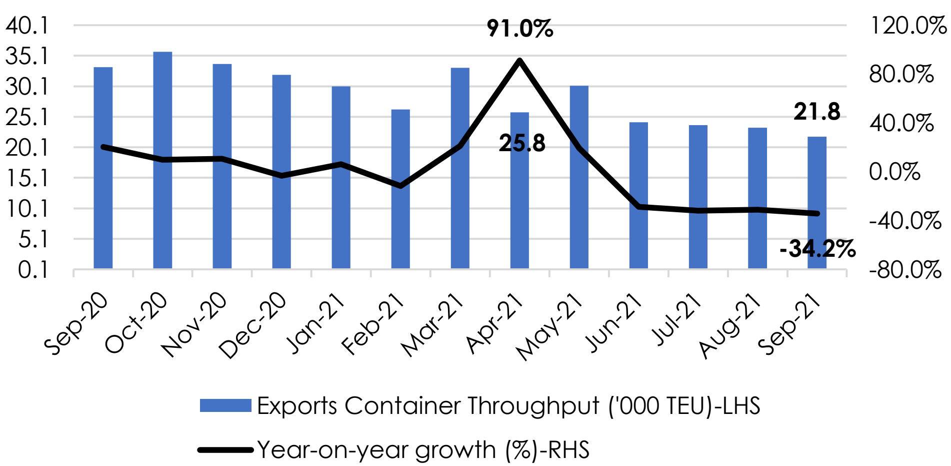
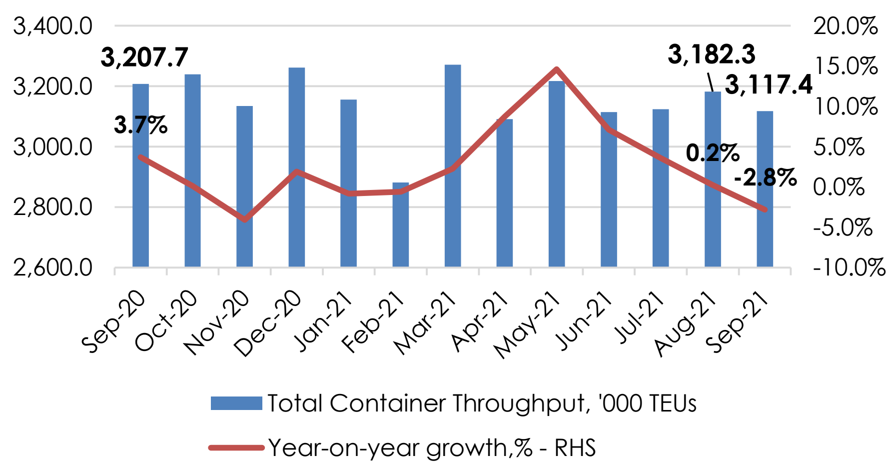
- ✓ With international air cargo markets remaining attractive at the moment in light of port congestions, it seems that major port operators in Malaysia such as Port of Tanjung Pelepas (PTP) is bearing the brunt.
- ✓ During the month of September, the export container throughput at PTP declined by 34.2% y-o-y (August: -31.1%), marking the fourth straight month of contraction. Moreover, the number of export container throughput handled at PTP stood at 21.8k Twenty-foot equivalent units (TEUs) in September (August: 23.3k TEUs), a level not seen since April 2020 which saw only 13.5k TEUs of container throughput managed by the port amid lockdown measures following the pandemic outbreak.
- ✓ Other ports were not spared from the impact of higher preference towards air cargo as the Port of Singapore recorded a 2.8% y-o-y drop in the container throughput handled during September (August: 0.2%).
- ✓ In order to tackle the issue of port congestion, Singapore's new mega-port that is just months away from full operations, has now opened its storage area early to accommodate containers.
- ✓ Therefore, local port authorities in Malaysia should think of opening temporary additional storage space at ports to alleviate the supply chain bottlenecks plaguing container shipping.

Monthly Export Container Throughput at Port of Tanjung Pelepas, '000 TEUs



Source: Johor Port Authority

Port of Singapore's Monthly Container Throughput, '000 TEUs



Source: Maritime and Port Authority of Singapore

- ✓ The growing external demand has strained supply chain ecosystems, bringing into question the sustainability of local producers and manufactures in meeting orders. As such, local producers and manufacturers will have to prioritise in either fulfilling orders for the domestic or the international market. If the international market is given a stronger focus compared to the domestic market, the shortage of goods available locally may lead to stronger inflationary pressures, causing prices of goods for consumer to rise.
- ✓ Therefore, local manufacturers should assess the overall market and strike a balance between accommodating orders locally and internationally.
- ✓ Another issue for manufacturers if we assume external demand continues to grow is whether they should invest in larger manufacturing capacity. However, a concern would arise if demand normalises later on, leaving the extra capacity to be underutilised. Henceforth, manufacturers must not rush in expanding capacity for the sake of meeting demand in the short run unless the prospects for a prolonged increase in demand is there.
- ✓ **All in all, we are revising our exports growth forecast for 2021 to 17.8% (previously 13.8%) following the 1.1% contraction in 2020**. This is after considering the solid growth in the manufacturing sector that is expected to continue until January next year before Chinese New Year in February. We believe that our latest forecast is rather conservative as we have also incorporated risks from the ongoing supply chain bottle neck.
- ✓ As the world transitions into an endemic from a pandemic, nations around the globe will have to continue living with the virus and gradually revert back to normal operating conditions for businesses with standard operating procedures (SOPs) in place. With that in mind, the case for external demand to gradually grow is there.

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