



From the Desk
of the
Chief Economist

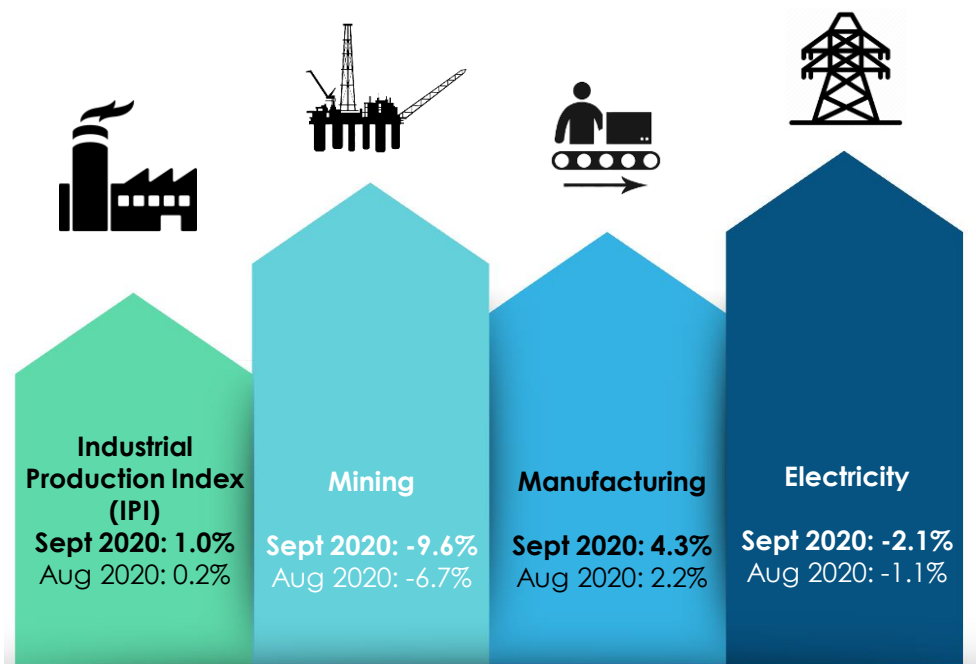
BANK ISLAM

IPI INCHED HIGHER BY 1.0% IN SEPTEMBER

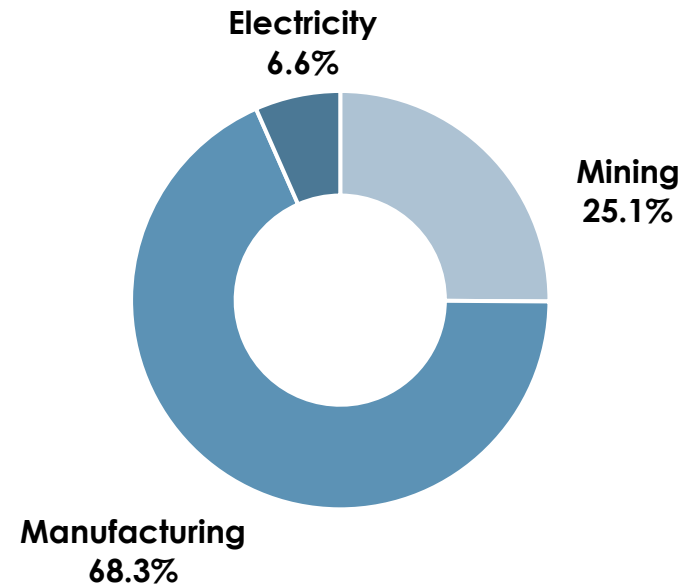
9 NOVEMBER 2020

ECONOMIC RESEARCH

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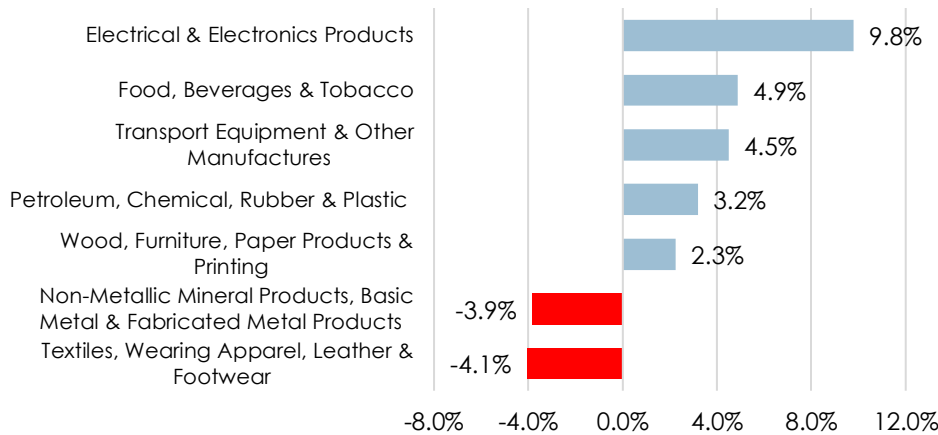
IPI, weightage (%)



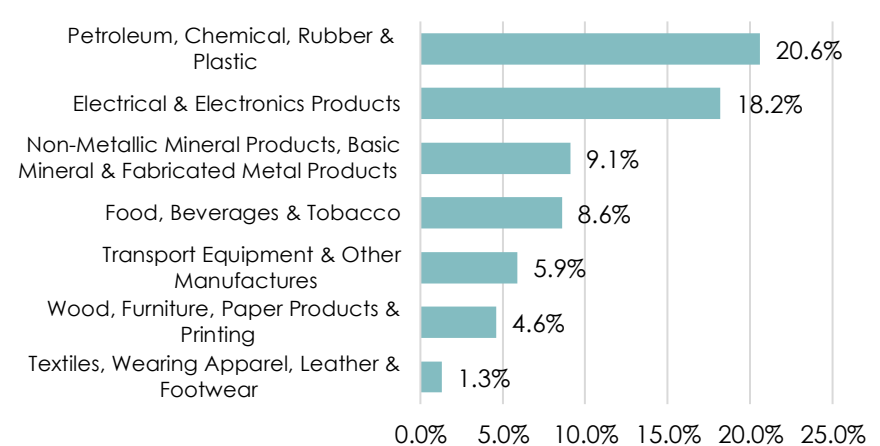
Sources: CEIC, DOSM

- ✓ Malaysia's Industrial Production Index (IPI) increased by 1.0% in year-on-year (y-o-y) in September from a marginal growth of 0.2% recorded in August (Consensus: 2.3%).
- ✓ The increase was largely contributed by Manufacturing sector which grew higher by 4.3% in September (August: 2.2%), forming sizeable share of 68.3% of total IPI.
- ✓ On the contrary, the production activities in Mining and Electricity declined further by 9.6% (August: -6.7%) and 2.1% (August: -1.1%) in September.

Manufacturing Index growth by subsector, y-o-y (%)



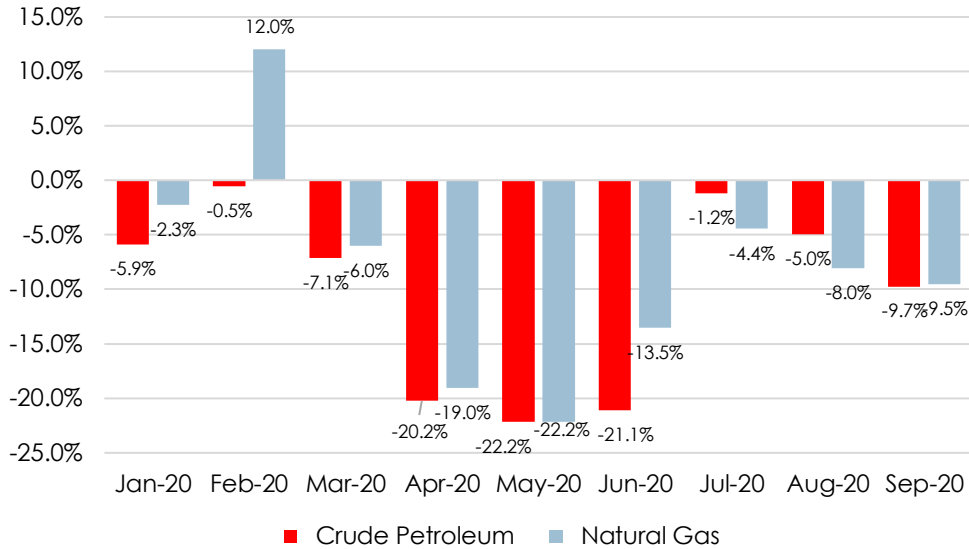
Manufacturing Index by subsector, share (% of total IPI)



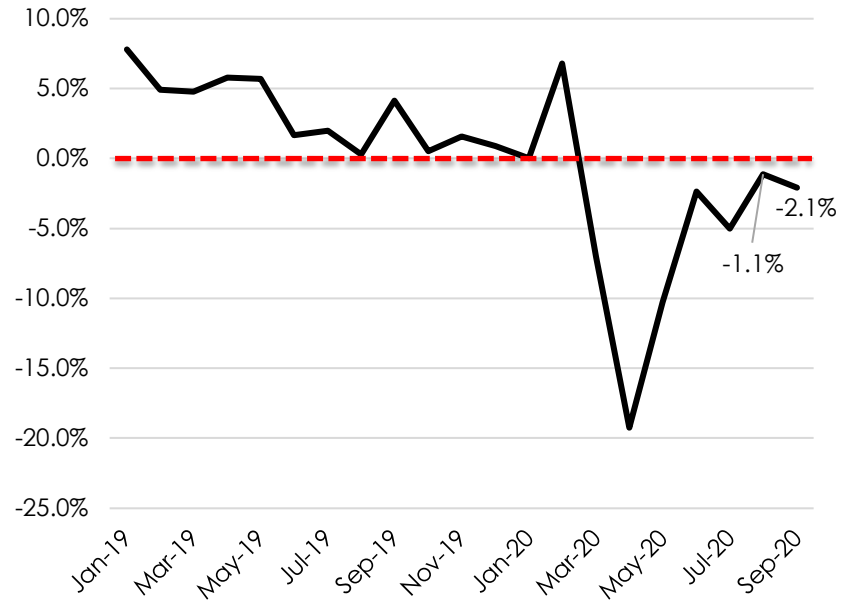
Sources: CEIC, DOSM

- ✓ Within the Manufacturing sector, the Electrical & Electronic (E&E) sector recorded the largest increase in production among other sectors, increasing by 9.8% in September from 7.1% in the previous month.
- ✓ This was followed by Food, Beverages & Tobacco, Transport Equipment & Other Manufacturers and Petroleum, Chemical, Rubber & Plastic, rising by 4.9% (August: 4.8%), 4.5% (August: 3.5%) and 3.2% (August: 1.7%) respectively in September. These products accounted for 53.3% of the total IPI. The upturn suggests that the demand from business and customers have picked up gradually thanks to the reopening of the economy.
- ✓ Nonetheless, the production for Non-Metallic Mineral Products, Basic Metal & Fabricated Metal Products (September: -3.9% vs. August: -6.3%) and Textiles, Wearing Apparel, Leather & Footwear (September: -4.1% vs. August: -11.0%) continued to drop albeit at a slower pace.

Mining Index growth by subsector, y-o-y (%)



Electricity Index growth, y-o-y (%)



Sources: CEIC, DOSM

- ✓ As for Mining, the production of Crude Petroleum has been declining for 21 consecutive months in September, falling by 9.7% from -5.0% in the preceding month. In addition, Natural Gas has also deepened further by 9.5% in September as compared to -8.0% in August.

THE INDUSTRIAL PRODUCTION WAS IN CONTRACTIONARY LEVEL

	Weight	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	2Q2020	3Q2020	9M2019	9M2020
IPI	100.0%	-32.0%	-21.6%	-0.4%	1.2%	0.2%	1.0%	-17.9%	0.8%	2.7%	-5.6%
Mining	25.1%	-19.6%	-22.2%	-17.1%	-3.0%	-6.7%	-9.6%	-19.6%	-6.5%	-1.4%	-9.4%
Crude Petroleum	12.2%	-20.2%	-22.2%	-21.1%	-1.2%	-5.0%	-9.7%	-21.2%	-5.4%	-7.5%	-10.6%
Natural Gas	12.9%	-19.0%	-22.2%	-13.5%	-4.4%	-8.0%	-9.5%	-18.3%	-7.3%	4.4%	-8.4%
Manufacturing	68.3%	-37.2%	-22.6%	4.7%	2.9%	2.2%	4.3%	-18.1%	3.1%	3.8%	-4.5%
Food, Beverages & Tobacco	8.6%	-9.0%	-2.5%	10.5%	6.3%	4.8%	4.9%	-0.5%	5.3%	3.6%	0.4%
Textiles, Wearing Apparel, Leather & Footwear	1.3%	-73.8%	-45.3%	-9.6%	-12.9%	-11.0%	-4.1%	-42.7%	-9.3%	5.2%	-16.8%
Wood, Furniture, Paper Products & Printing	4.6%	-68.4%	-39.2%	7.3%	0.8%	-2.5%	2.3%	-33.1%	0.2%	5.5%	-10.5%
Petroleum, Chemical, Rubber & Plastic	20.6%	-21.4%	-22.2%	1.5%	1.5%	1.7%	3.2%	-13.9%	2.1%	3.1%	-2.4%
Non-Metallic Mineral Products, Basic Metal & Fabricated Metal Products	9.1%	-62.7%	-45.1%	-14.2%	-9.8%	-6.3%	-3.9%	-40.3%	-6.7%	4.2%	-15.9%
Electrical & Electronics Products	18.2%	-34.1%	-11.2%	13.2%	9.8%	7.1%	9.8%	-10.0%	8.9%	3.3%	0.2%
Transport Equipment & Other Manufactures	5.9%	-69.3%	-38.5%	10.7%	4.8%	3.5%	4.5%	-32.7%	4.3%	6.3%	-9.5%
Electricity	6.6%	-19.3%	-10.3%	-2.4%	-5.0%	-1.1%	-2.1%	-10.8%	-2.8%	4.1%	-4.7%

Sources: CEIC, DOSM

- ✓ On a quarterly basis, the IPI expanded by 0.8% in 3Q2020, reversing its negative growth of 17.9% in 2Q2020 thanks to the ease in lockdown measures.
- ✓ Be that as it may, the IPI remained in the contractionary level, declining by 5.6% during 9M2020 as compared to a 2.7% growth in the same period last year, largely affected by the Covid-19 pandemic amid the implementation of MCO and CMCO.

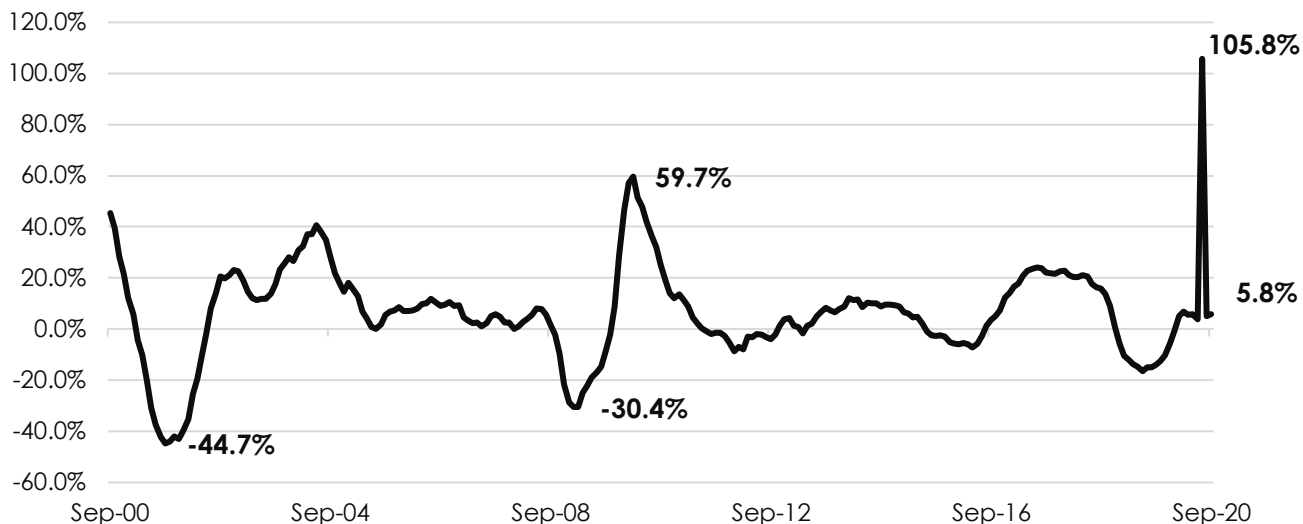
Top 5 Smartphone Companies, Worldwide Shipments, Market Share, and Year-on-Year (y-o-y), 3Q2020:

Companies	3Q2020 Shipment Volumes (million units)	3Q2020 Market Share (%)	3Q2019 Shipment Volumes (million units)	3Q2019 Market Share (%)	y-o-y (%)
Samsung	80.4	22.7%	78.2	21.8%	2.9%
Huawei	51.9	14.7%	66.6	18.6%	-22.0%
Xiaomi	46.5	13.1%	32.7	9.1%	42.0%
Apple	41.6	11.8%	46.6	13.0%	-10.6%
Vivo	31.5	8.9%	30.2	8.4%	4.2%
Others	101.7	28.8%	104.2	29.1%	-2.4%
Total	353.6	100.0%	358.5	100.0%	-1.3%

Source: IDC Quarterly Mobile Phone Tracker, 29 October 2020

- ✓ According to the preliminary data from the International Data Corporation (IDC), about 353.6 million units of smartphones were shipped in 3Q2020 (2Q2020: 278.4 million units). It dropped by 1.3% y-o-y in 3Q2020 from a 16.0% contraction in the preceding quarter. Though still in the negative territory, it was better than the IDC's previous forecast of a 9.0% decline, suggesting better demand conditions during 3Q2020.
- ✓ This was largely underpinned by the reopening of economies globally as Covid-19 related restrictions have been gradually relaxed.
- ✓ Despite challenging economic environment and heightened uncertainties in 2020, Xiaomi posted a good performance in 3Q2020, jumping by 42.0% in 3Q2020 from -11.8% previously. In addition, its market share also increased to 13.1% in 3Q2020 from 10.2% in 2Q2020.

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

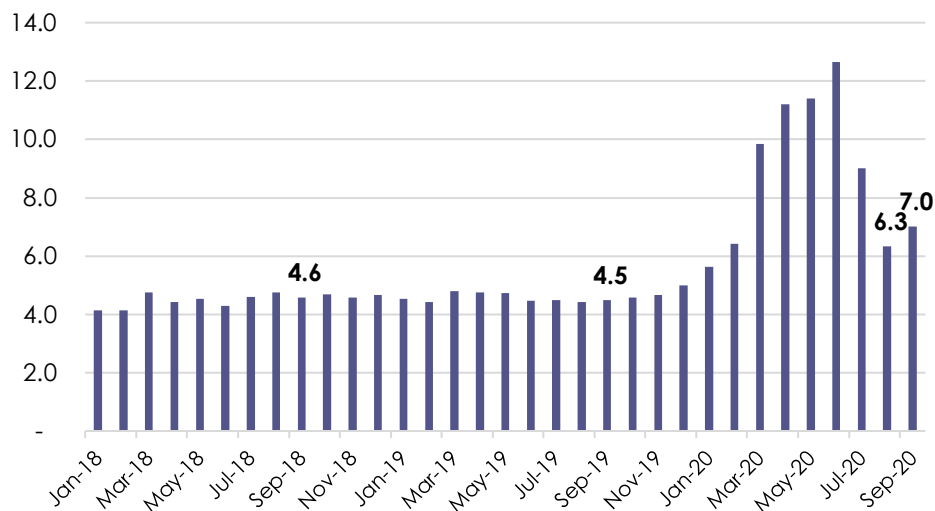


Sources: Semiconductor Industry Association (SIA), CEIC

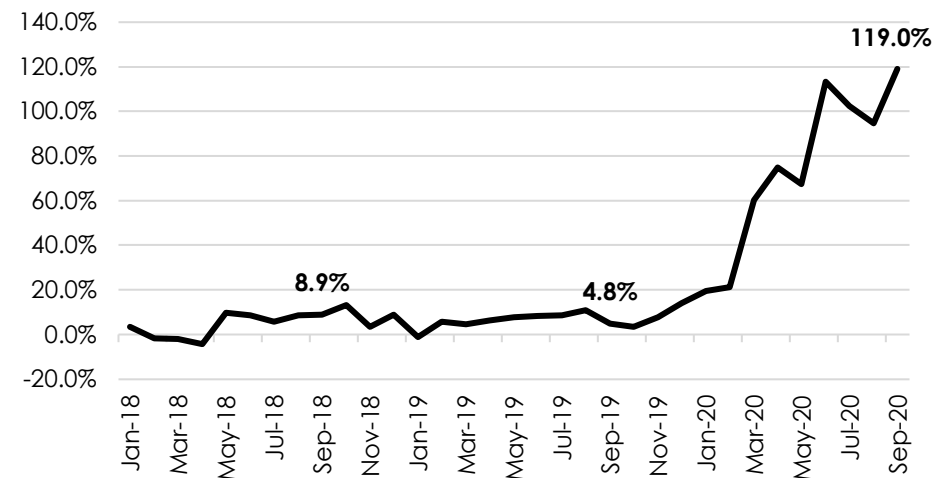
- ✓ Better production in the E&E sector could be explained by the current GSS performance.
- ✓ The GSS rose by 5.8% y-o-y in September, extending the 4.9% increase in the preceding month. It has been the eighth consecutive month of expansion, suggesting better prospects for semiconductor players.
- ✓ As such, we anticipate that the industry would continue to grow due to emerging technologies such as 5G, Artificial Intelligence (AI) and Internet of Things (IoT) in order to support the Industrial Revolution 4.0 (IR 4.0).

- ✓ Malaysia's rubber glove production in September increased by 56.2% year-on-year (y-o-y), marking the eighth consecutive month of y-o-y gains of above 40.0%. This brings the 9M2020 rubber glove production to 79.5 billion pairs which is 93.2% y-o-y higher than the 41.1 billion pairs produced in the same period last year.
- ✓ Therefore, it was no surprise that the IPI for manufacturing rubber gloves jumped by 119.0% y-o-y in September 2020.
- ✓ On the corporate level, Top Glove's annual rubber glove production capacity had reached 90.0 billion pieces as at October 2020 compared to 63.9 billion pieces during the same period last year. The Covid-19 pandemic led to robust demand for its products to curb the spread of the outbreak.
- ✓ With the covid-19 infections seeing no signs of slowdown, we expect production of rubber gloves to continue to increase. While a successful development for the Covid-19 vaccine may pose a downward threat to global demand in rubber gloves, we believe that a post-pandemic situation will see a stronger hygiene awareness. This would then translate into a sustained demand for rubber gloves, preserving the positive trajectory of the IPI.

Malaysian Rubber Glove Production (Billion Pairs)



IPI: Manufacturing Rubber Gloves, y-o-y growth (%)



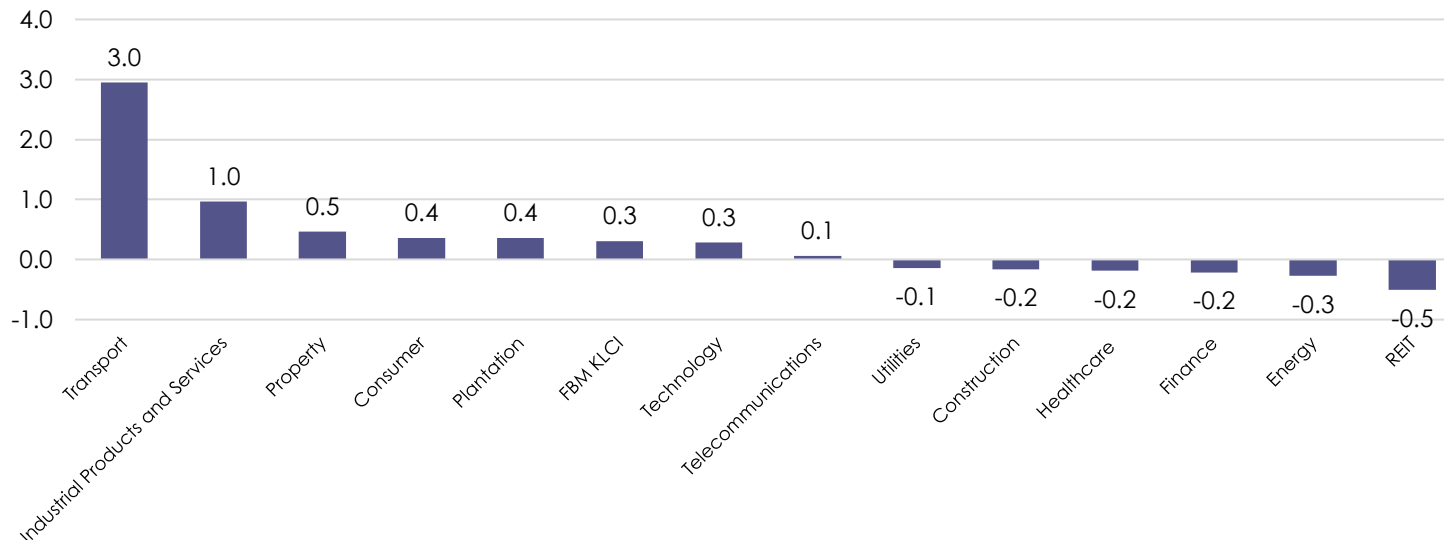
Sources: DOSM, CEIC

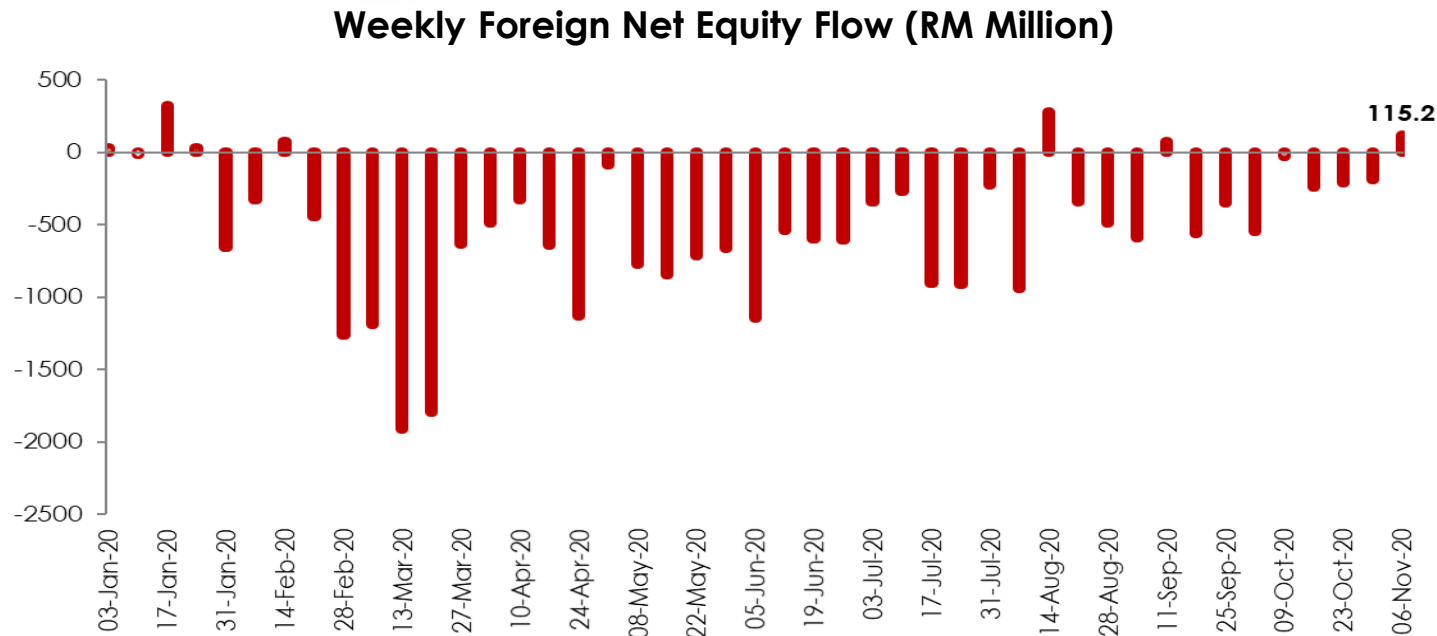
- ✓ Taking note that the manufacturing sector contributes more than 60.0% of the IPI's weight, manufacturing sales gained momentum with a 3.7% y-o-y increase in September from a 1.6% y-o-y growth in the previous month, indicating improving demand conditions. This was also in tandem with exports performance in the manufacturing industry which rebounded 16.3% y-o-y in September from a 0.1% contraction in the previous month.
- ✓ In addition, the J.P. Morgan Global Manufacturing PMI rose from 52.4 points in September to 53.0 points in October, its highest since May 2018. Expansion was seen across the world's major markets, led by the Eurozone, with the exception of a decline in Japan, though even here the downturn eased. Of particular note, Asia excluding China and Japan which has lagged the global recovery saw output growth hit the highest since April 2011.
- ✓ Therefore, there is still hope for Malaysian labour market to continue improving. The Unemployment Rate (UR) dropped to 4.6% in September from 4.7% in the previous month. Meanwhile, Loss of Employment (LOE) statistics reported by the Social Security Organisation (SOCSO) recorded a decrease of 20.2% to 7,388 persons in September as compared to the previous month of 9,261 persons.
- ✓ All in all, **IPI is projected to fall by 7.5% this year from positive growth of 2.4% in 2019** due to the detrimental impacts from the Covid-19 particularly in 1H2020. However, we anticipate that the IPI will grow by 0.7% in 2021 underpinned by the broad economic recovery next year.

HOW DID THE EQUITY MARKET REACT?

- ✓ The FBM KLCI marked its fourth straight day of gains after closing 0.3% higher at 1,524.3 points on 9 November. In fact, the local bourse hit a three-month high last Friday boosted by tabling of the Budget 2021.
- ✓ On a sectoral basis, we observed that the Bursa Malaysia Industrial Production and Services index was the second largest gainer amongst the 13 sectoral indices. This partially could have been influenced by the release of the IPI data for September 2020 which increased by 1.0% y-o-y (September 2019: 1.5% y-o-y).
- ✓ With manufacturing sector contributing a large share to IPI, we believe that the measures announced during the tabling of Budget 2021 to be positive for the sector. For example, the government plans to provide an additional RM150.0 million to SME Digitalization Grant Scheme and the Automation Grant. The eligibility condition for these grants have also been relaxed for micro SMEs and start-ups that have been operating for at least six months. Henceforth, we view that the IPI should remain fairly stable moving forward.

Bursa Malaysia Sectoral Performance on 9 November 2020 (%)

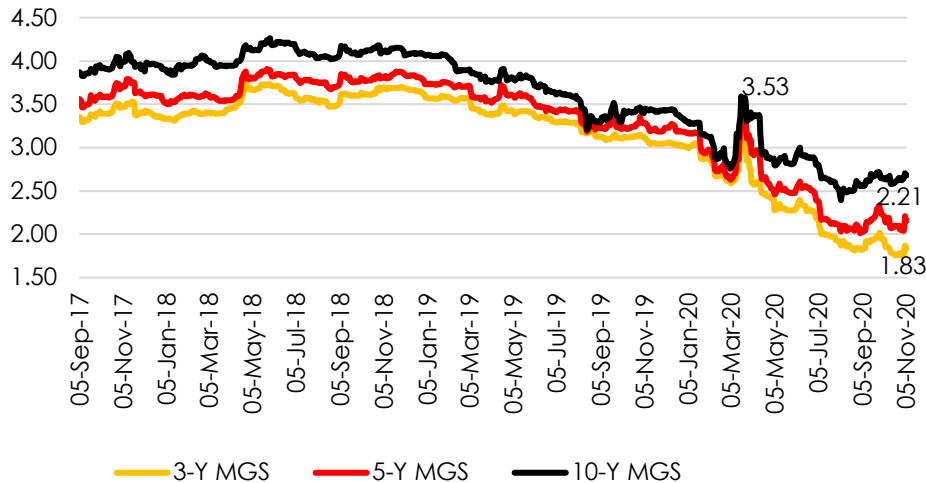




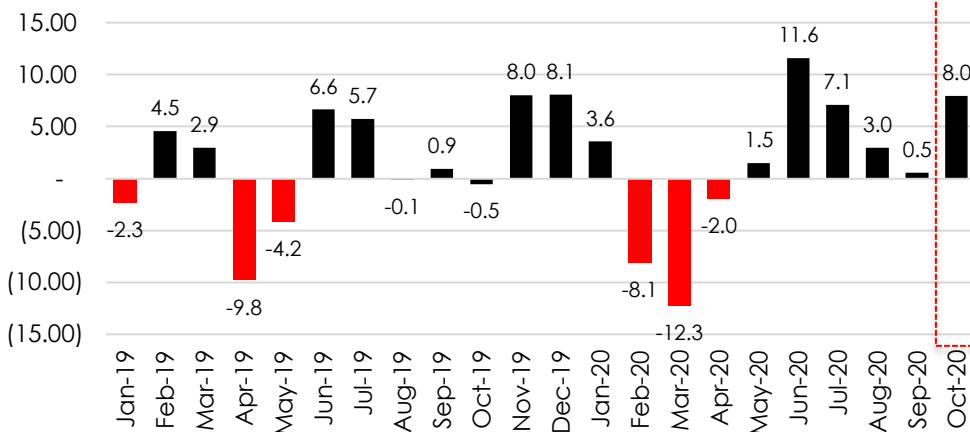
Source: Bursa Malaysia

- ✓ As the recovery in the IPI is expected to continue in the coming months with a lot more businesses allowed to operate during the Conditional Movement Control Order (CMCO) compared to the first Movement Control Order (MCO) in March, business sentiment is likely improve. Recall that the Business Condition Index (BCI) increased to 86.3 points in 3Q2020 from 61.0 points in the previous quarter.
- ✓ The improvement in the IPI should serve as a buffer in times of lingering political uncertainty and perhaps attract foreign funds to re-enter the Malaysian market.
- ✓ Last week, international funds acquired RM115.2 million net of local equities last week compared to -RM190.1 sold in the preceding week. This was the first weekly foreign net inflow seen in 8 weeks as risk-on appetite gained traction following the tabling of the expansionary Budget 2021 while Joe Biden was leading polls during the US presidential election and later won to be the 46th president of the US.

MGS Yields (%)



Foreign Holdings in Fixed Income (RM billion)



- ✓ The increased risk appetite of investors for equities led to an increase in yields for the local bond market. The benchmark yields closed higher on last Friday. The 3-Y, 5-Y and 10-Y MGS yielded higher to 1.84% (30 October: 1.76%), 2.16% (30 October: 2.05%) and 2.69% (30 October: 2.62%).
- ✓ We expect the govies yields to go higher on account of ongoing economic recovery and higher issuance of MGS and GII to fund the expansionary fiscal policies.
- ✓ Nevertheless, it is worthwhile noting that foreign investors have been purchasing local govies for sixth straight month, with net inflows increased by RM8.0 billion in October from RM0.5 billion in September. This is mainly attributable to the ongoing political uncertainty in Malaysia.
- ✓ This was mainly supported by higher holdings of MGS which stood at 40.3% of total debt outstanding in October compared to 38.8% in September.

THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.

Assuring Trust. Delivering Value