



November 2021 Malaysia Manufacturing PMI Index

	2019	2020	2021F
GDP growth (%)	4.3	-5.6	3.9
Unempl. Rate (%)	3.4	4.8	4.5
CPI (%)	0.7	-1.2	2.4
OPR (%)	3.00	1.75	1.75
IPI (%)	2.4	-4.2	4.9
CPO (RM/MT)	2,200	2,780	4,000
Brent (USD/bbl)	64	43	70-75
Exports Growth (%)	-1.7	-1.0	6.3
Imports Growth (%)	-3.4	-5.8	5.7
Trade Surplus (RM bln)	137	184	138
Ringgit per Dollar	RM4.15	RM4.20	RM4.02

Another Impressive Month for ASEAN

OVERVIEW

Table 1: Manufacturing PMI Index (ASEAN, China, Global) 2021

	July	Aug	Sept	Oct	Nov
ASEAN	44.6	44.5	50.0	53.6	52.3
China	50.3	49.2	50.0	50.6	49.9
Global	55.4	54.1	54.1	54.3	54.2
Indonesia	40.1	43.7	52.2	57.2	53.9
Malaysia	40.1	43.4	48.1	52.2	52.3
Philippines	50.4	46.4	50.9	51.0	51.7
Singapore	56.3	44.3	53.4	54.5	52.2
Thailand	48.7	48.3	48.9	50.9	50.6
Vietnam	45.1	40.2	40.2	52.1	52.2

Source: Markit, PublicInvest Research

Malaysia's Manufacturing Purchasing Managers' Index (PMI) was solid in November thanks to full economic openings and further relaxation in the Standard Operating Procedures (SOPs) that pushed output to remain steady. Note that all states have been moved to Phase 4 of the National Recovery Plan (NRP) in November as the nation has successfully achieved a broad COVID-19 vaccination coverage (>95% adult population). This is a precursor for a further normalization in supply and demand conditions especially after a challenging period since May (note: reversion to Movement Control Order – MCO). Further improvement in operating conditions pushed the index to reach 52.2 in November (October: 52.3), the index's back-to-back expansion and its fourth expansionary reading for the year (above 50.0).

We are sanguine on the near-term outlook given a much-improved COVID-19 situation that could push only isolated incidences of lockdown from now on (i.e., circuit breaker). This will underpin the sector's turnaround though the outlook remains cautious given some manufacturing workers that could still be on cue to be vaccinated (i.e., foreign workers) while some others may be waiting to return (note: international borders remain closed), exacerbating the persistent labour-related issues for the sector. The emergence of Variant-of-Concern (VoC), Omicron, which is highly infectious and could be immune to vaccines and treatments, is also a worry which could lead to lockdown measures - in extreme cases. This aside, favourable operating conditions following full economic openings are a precursor for firms to ramp-up output especially with the upcoming festivities (4Q21: Christmas; 1Q22: Chinese New Year). Backlogs and restocking activities will also drive output and therefore, the index's performance in the near term.

Our inspiring PMI manufacturing trend is consistent across the region including Indonesia (November: 53.9; October: 57.2), Thailand (Thailand: 50.6; October: 50.9), Vietnam (November: 52.2; October: 52.1), Singapore (November: 52.2; October: 54.5) and the Philippines (Vietnam: 51.7; October: 51.0), the region's back-to-back expansion in more than three years. Note that Vietnam recorded one of their best performances thanks to an improvement in public health situation and the easing of COVID-19 restriction though the index could have surged higher if not for labour shortages and the still challenging COVID-19 situation in the country.

The bullish PMI manufacturing trajectory across the region is largely expected given improving COVID-19 situation, underpinned by the rapid vaccination drive in the last few months. Authorities are also handling the pandemic better following targeted lockdowns instead of broad-based closures which have led to improving operating conditions for the sector. ASEAN PMI manufacturing may

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remain in expansionary mode in the near term especially when the region is expected to accelerate their efforts in COVID-19 vaccination coverage. Note that Indonesia and Philippines have some catching-up to do given their limited COVID-19 coverage which reached only 35% and 33% of population, trailing others like Thailand (59%), Malaysia (78%), Singapore (88%) and Vietnam (51%).

ASEAN Manufacturing PMI remained steady in November (52.3, October: 53.6), consistent with broad turnaround across the region. This is a contrast to China's November numbers that slipped slightly to just below the neutral level (49.4; October: 50.6). Global Manufacturing PMI was inspiring in November (54.2; October: 54.2) thanks to output expansion in 26 countries though offset by contraction in four (China, Brazil, Mexico, Myanmar).

ANALYSIS: MALAYSIA NOVEMBER MANUFACTURING PMI

Malaysia's manufacturing sector operating conditions remained solid in November (52.2, October: 52.3), recording a first back-to-back expansion since May 2021, thanks to full economic openings following all states that have been moved to Phase 4 of NRP since early November. There was an improvement in production and new orders consistent with the easing of COVID-19 restrictions though it could have been much higher if not for shortages in raw materials and containers. This favourable condition pushed firms to increase capacity in order to fulfil incoming orders, though some commented on difficulty to hire workers from abroad. Firms highlighted production pressures following returning demand which pushed employment to increase. Firms also noted sustained optimism about the year-ahead outlook, citing end of the pandemic would boost demand further which pushed confidence to the highest since April.

Survey on output and new orders signaled further expansions thanks to the lifting of COVID-19 restrictions that boosted demand and client confidence in domestic and international markets. There were pockets of demand improvement notably from Asia Pacific which could get better once orders from others regions improve. Raw material shortages and higher freight costs remained a dampener which also caused the vendors' performance to deteriorate. On the bright side, firms have increased their stockpiles and stocks of finished goods as a measure to protect against disruption. Firms displayed a stronger sense of optimism regarding the outlook for output in the coming year amid hopes that national and international pandemic restrictions would lift and aid a recovery in production and sales.

OUTLOOK

The ASEAN manufacturing sector is expected to remain in expansionary mode now that COVID-19 is under better control. This will be further boosted by efforts to ramp-up vaccination in low coverage countries like the Philippines and Indonesia amid both countries that aim to vaccinate 3mn and 2mn people daily. Authorities' better handling of the COVID-19 situation with much-improved SOPs and the resolve to implement a targeted lockdown for an outbreak incidence will deter any prolonged interruption to supply chains. Full economic openings in most regions will also be the driver that will push demand for manufacturing products. This will be added by steady demand for computer and hand-held devices thanks to the continuation of hybrid learning and working arrangements. Favourable landscape following the rapid transition towards 5G network for global telecommunication sector will also push demand for mobile phones and smart devices.

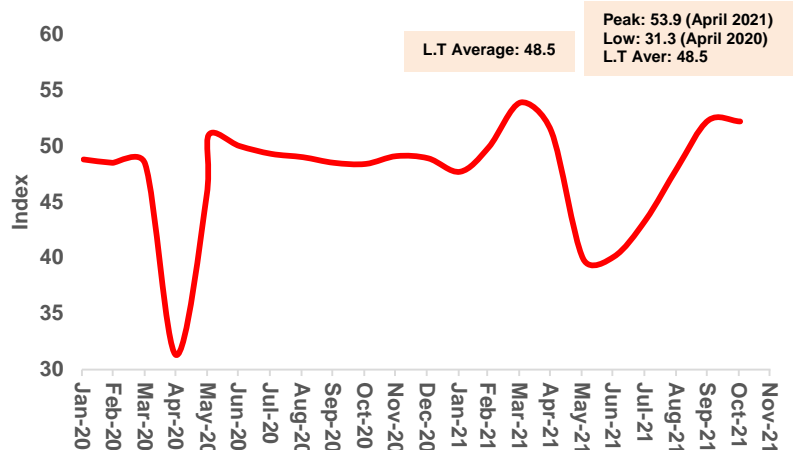
The sector remains susceptible to several challenges however given the long overdue US-China 2nd trade talk which could begin in 2022. Pockets of shutdown in manufacturing production facilities due to fresh COVID-19 outbreaks and emergence of VoC (Omicron) remain a risk. Strict SOPs for returning foreign workers may present manpower challenges for the sector apart from international borders that could be slow to open. The persistent raw material and container shortages, which may improve only gradually, may also dampen the sector's full recovery.

The index was pushed by the reopening of the economy

Global Manufacturing PMI was steady in November.

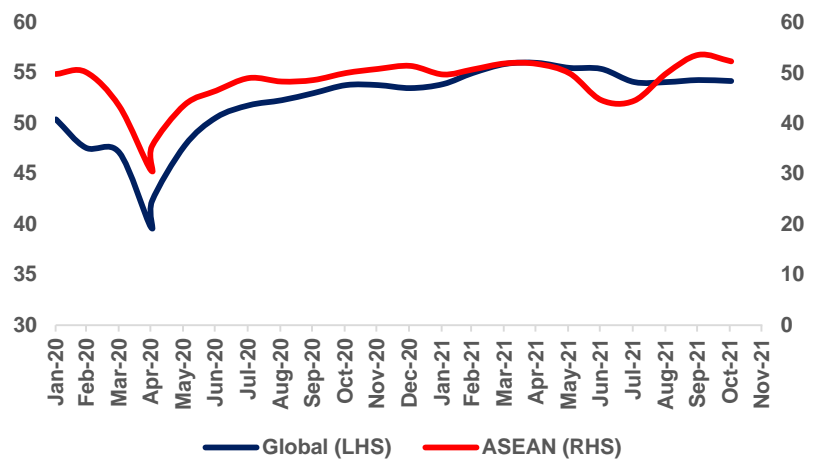
A solid month for ASEAN.

Figure 1: Malaysia Manufacturing PMI (Jan 2020 – Nov 2021)



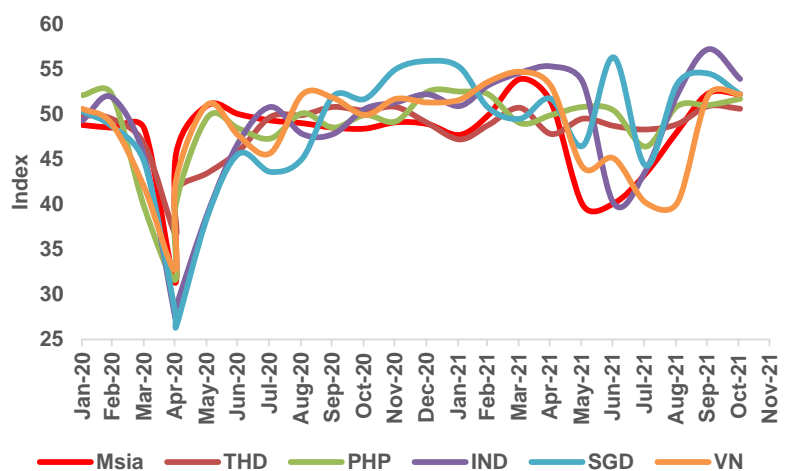
Source: Markit, PublicInvest Research

Figure 2: Manufact. PMI – Global vs. ASEAN (Jan 2020 – Nov 2021)



Source: Markit, PublicInvest Research

Figure 3: ASEAN PMI Index (Jan 2020 – Nov 2021)



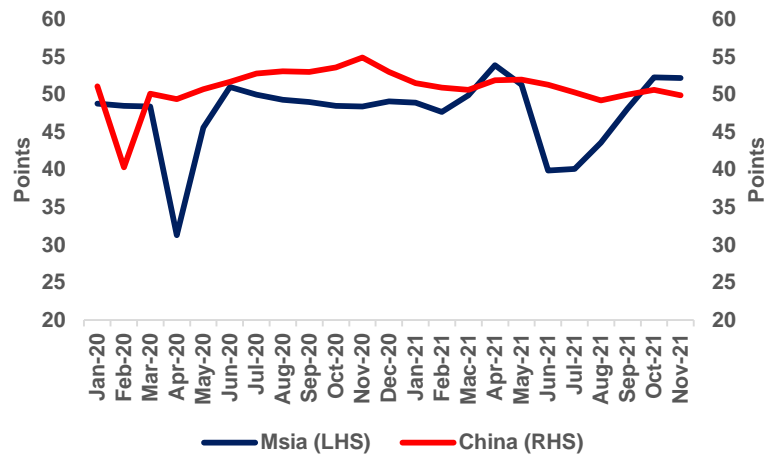
Source: Markit, PublicInvest Research

Malaysia's Manufacturing PMI trend was ahead of China in November.

It was a challenging 3Q for manufacturing sector.

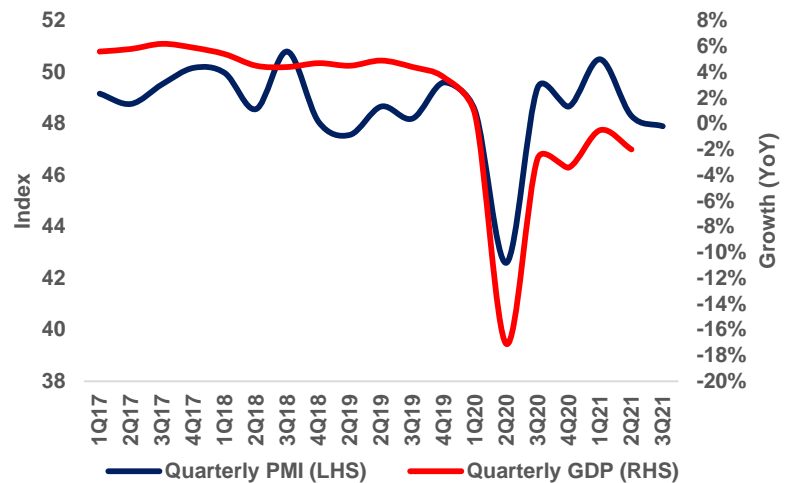
A steady turnaround since August.

Figure 4: Malaysia vs. China PMI Index (Jan 2020 – Nov 2021)



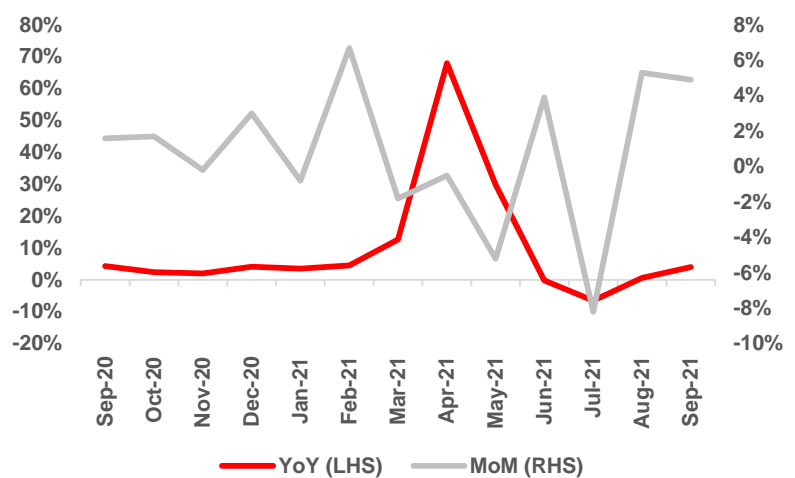
Source: Markit, PublicInvest Research

Figure 5: Malaysia PMI Index vs. Quarterly GDP (1Q17 – 3Q21)



Source: Markit, DoS, PublicInvest Research

Figure 6: IPI - Manufacturing (Sept 2020 – Sept 2021)



Source: Markit, PublicInvest Research

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OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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