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MALAYSIA

Nov IPI inching up on continued recovery in the Manufacturing sector

The Industrial Production Index (IPI) rebounded from the doldrums in the last 3 months on stronger growth in all components. Most notably, the Manufacturing production index has continued to edge up, as manufacturers geared up for the improved export demand. The leading indicators showed that the IPI may rebound further in the next few months but beyond the 3-month outlook we expect IPI growth to ease and stabilize at 5 – 7%. That is in line with our expectation of slightly faster growth in GDP as the recovery in the external demand helps to offset the pullback in domestic demand.


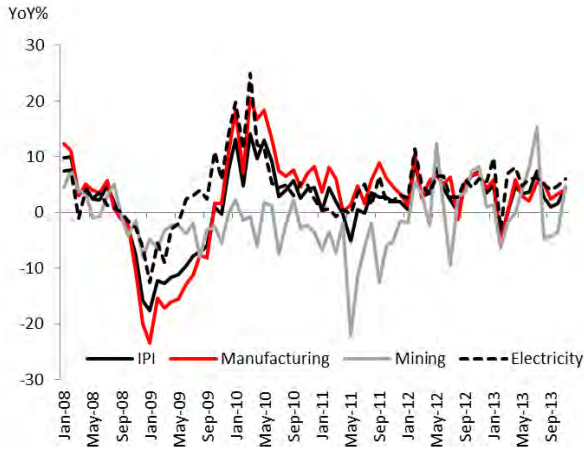
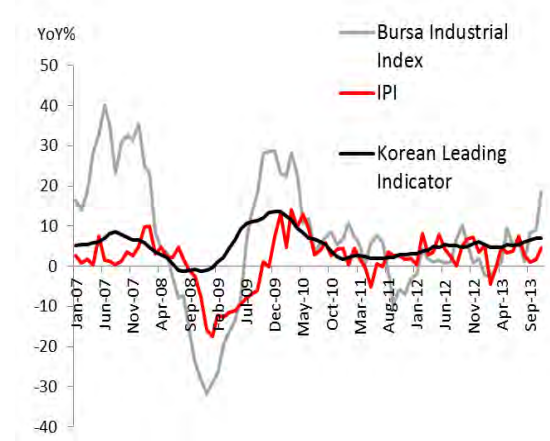
- **IPI growth rebounded to 4.4% YoY in November after posting meagre performance in the preceding 3 months (average Aug-Oct: 1.8%) driven by the stronger performance in all components.** Growth in the Manufacturing Production Index edged up to 4.1% during the month from 3.3% in October, in line with the recovery trend in the global manufacturing cycle. Meanwhile the Mining index growth rebounded to 4.8% from 3 consecutive months of contraction, but given the nature of exports and production from this sector which has turned rather volatile, we are not too excited about this. The Electricity index rose 6.1% YoY in November against 4.8% previously.
- **The leading indicators showed that the IPI may rebound further in the next few months, led by the Manufacturing sector, particularly the E & E.** The sub-index for E&E production showed that while production growth eased to 7.8% during the month (Oct: 14.3%), we believe that is a more healthy pace to ensure sustained expansion going forward. The upward in production trend reflects the continued improvement in external demand. Exports of electrical & electronics goods (E&E) continued to pick up, growing by 14.5% in November (Oct: 12.7%) as manufacturing activities in the US and hence, Asia improved further. The Korean leading indicator – our preferred external forward-looking indicator eased slightly but hovered at 3 ½ year high in November. Meanwhile, the US ISM index for manufacturing in December eased slightly but remained at close to 3-year high, On the domestic front, the Bursa Industrial index posted an exceptionally strong growth of 13.9% in the 4Q 13 (3Q 13: 5.2%).
- **4Q 13 GDP to be marginally higher as the slowdown in domestic demand will temper the strong export-oriented sector's performance.** The Novembers showed that the export-oriented sectors is likely to show better performance in the 4Q 13, particularly the Manufacturing sector. We also expect Change in Inventories to turn positive during the quarter. These numbers would help to arrest any possible slide in the domestic demand, particularly the Public spending numbers. We continue to expect real GDP growth to be at around 5.0 – 5.2% in the 4Q 13 and average the year at 4.6%. 

Chart 1: Industrial Production Index (IPI) – Main indices



Source: DoS

Chart 2: Leading indicator signalling further upside in the E&E sector.



Source: Bloomberg, CEIC

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.