



12 September 2014

MALAYSIA

July IPI – Slowing Down

The Industrial Production Index (IPI) was unexpectedly lower than expected at + 0.5% YoY for July 2014, (June 2014: +7.0% YoY; Consensus: +4.7% YoY) on deceleration in momentum in all three indices, Mining Manufacturing and Electricity. The slow pace of annualized growth in all three indices, indicate a slowdown in momentum in both external and domestic demand. MoM, the IPI declined by -2.9% MoM after a moderate growth in June at +0.1% MoM (May 2014: of +3.4% MoM). The decline in MOM growth was due to decline in all three indices with the Manufacturing index declining at -7.8% MoM (June 2014: -3.1% MoM); Mining at -1.5% MoM (June 2014: +1.3% MoM) and Electricity at -0.1% MoM (June 2014: 0.1% MoM). On a seasonally-adjusted basis, the IPI in July 2014 receded by -3.8% MoM. The drop was contributed by all indices with Mining Index at -10.2%, Manufacturing Index at -1.4% and the Electricity Index at -1.7%.

During the period of January to July 2014, Malaysia's Industrial Production Index expanded 4.6% YoY compared with the same period in the previous year. The expansion was contributed by the increase in Manufacturing Index and Electricity Index of +6.6% YoY and +4.6% YoY respectively. The Mining index decreased by -0.8% YoY.

Manufacturing output showed a slower pace of growth at +3.1% YoY (June 2014: +9.1% YoY). Except for the *Textiles, Wearing Apparel, Leather Product, Footwear* sub-indices which showed a growth of +13.4% YoY (June: 10.8% YoY), all others showed decline or moderate growth. The decline can be seen in *Food, Beverages & Tobacco Products* dropping by -1.2% YoY (June 2014: 10.7% YoY) and *Petroleum, Chemical, Rubber & Plastic Products* which slumped by -0.6% YoY (+4.8% YoY). The others saw modest expansion: *Wood Products, Furniture, Paper Products & Printing* expanded slightly to +3.7% YoY (June 2014: +4.5% YoY); *Electrical & Electrical products* grew less at +8.1% YoY (June 2014: 13.7% YoY) and *Non-Metallic Mineral, Basic & Fabricated Metal Products* grew modestly to +1.2% YoY (June 2014: +5.4% YoY). The *Transport Equipment & Other Manufacturers* saw the second consecutive month of slowing down at +12.8% YoY (May 2014: +75.5% YoY; June 2014: +25.4% YoY)

The Mining sector saw its output declined by -7.9% in July 2014 as compared to the same month in 2013 (June 2014: +1.4% YoY due to the decline in both in Crude Oil index and Natural Gas index at -7.6% YoY and -15.7% YoY respectively. (June 2014: +1.2% YoY and +0.8% YoY respectively). The Crude Petroleum index did not change at 0.0% YoY (June 2014: +1.6%) but nevertheless, registering the third straight month of deceleration. Export of Crude petroleum rose to +26.2% YoY (June 2014: +24.5% YoY) whilst export of LNG declined by -22.9% YoY (June 2014: +11.2% YoY).

The Electricity output recorded an increase of 4.9% YoY in July 2014 (June 2014: 4.6% YoY). In seasonally adjusted terms, Electricity output decreased by 1.7% YoY in July 2014 compared to the previous month.

The slowdown in the momentum growth of the IPI is also matched by the performance of exports for the month of July which recorded a slight growth of +0.6 YoY (June 2014: +7.9% YoY), the third straight month of deceleration. The slowdown in momentum can be seen in the in the E&E, Chemicals & Chemical Product and the LNG sectors. All these sectors saw a drop in July at -1.0% YoY, -7.0% YoY and -22.9% YoY respectively. The trend in export and IPI moderating, is also in reflected in the slight growth of intermediate goods moderating at +2.6% YoY (June 2014: +2.7% YoY).

Global manufacturing activities continues its moderate expansion in July 2014, with global purchasing managers index (PMI) coming at 52.5 (June 2014: 52.6). This was bolstered by expansions in manufacturing activities from the US (July 2014: 57.1; June: 55.3), China (July 2014: 51.7; June 2014: 51.0) and India (July 2014: 53.0; June 2014: 51.5). Nevertheless the recovery in global manufacturing activities is constraint by weakness in other major economies like Eurozone (July 2014: 51.8; June: 51.8), Brazil (July 2014: 49.1; June 2014: 48.1) and Japan (July 2014: 50.5; June 2014: 51.5). Going forward looking at the August PMI data, the momentum in most global economies is decelerating except for US, Japan, Brazil, Taiwan and Korea.

Table 1: Malaysia: Monthly Industrial Production Index

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	July-14	YTD 2014	2013
Industrial Production	111.7	105.2	116.0	113.3	117.1	117.2	113.8	113.5	110.2
% YoY	3.5	6.8	4.3	4.7	5.9	7.0	0.5	4.6	3.3
% MoM	(3.1)	(5.8)	10.3	(2.3)	3.4	0.1	(2.9)		
Mining	102.0	91.5	101.2	97.3	99.6	96.5	89.0	120.5	96.7
% YoY	0.7	(1.7)	(0.9)	3.8	0.4	1.4	(7.9)	6.6	4.2
% MoM	(0.4)	(10.3)	10.6	(3.9)	2.4	(3.1)	(7.8)		
Manufacturing	115.9	111.1	122.1	119.9	124.3	125.9	124.0	96.7	116.0
% YoY	4.8	9.9	6.4	5.1	8.0	9.2	3.1	(0.8)	0.5
% MoM	(4.2)	(4.1)	9.9	(1.8)	3.7	1.3	(1.5)		
Electricity	111.8	105.6	121.6	119.1	122.9	123.0	122.9	118.1	113.1
% YoY	0.2	8.8	4.6	3.9	4.6	5.8	5.0	4.6	5.5
% MoM	(2.3)	(5.5)	15.2	(2.1)	3.2	0.1	(0.1)		

Source: DOS, MIDFR

Table 2: Breakdown of Manufacturing Sector Output by Industries (% YoY)

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
Total	4.8	9.9	6.4	5.1	8.0	9.1	3.1
Food, Beverages & Tobacco	(3.2)	10.7	5.7	12.0	20.9	10.7	(1.2)
Textiles, Wearing Apparel, Leather Product, Footwear	0.0	11.2	10.2	12.4	22.7	10.8	13.4
Wood Products, Furniture, Paper Products, Printing	(7.7)	1.3	(0.4)	10.6	3.2	4.5	3.7
Petroleum, Chemical, Rubber & Plastic Products	6.6	3.5	1.9	(3.9)	(3.7)	4.8	(0.6)
Non-Metalic Mineral, Basic & Fabricated Metal Prod	(4.2)	10.1	4.4	3.9	4.5	5.4	1.2
Electrical & Electronic Products	15.1	14.7	14.3	15.2	10.7	13.7	8.1
Transport Equipment & Other Manufactures	3.5	47.3	14.1	3.3	75.5	25.4	12.8

Source: DOS, MIDFR

Table 3: Global Manufacturing PMI

	Dis-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Global	52.9	53	53.2	52.4	51.9	52.2	52.6	52.5	52.6
US*	56.5	51.3	53.2	53.7	54.9	56.4	57.3	55.8	57.9
US	56.5	51.3	53.2	53.7	54.9	55.4	55.3	57.1	59.0
Eurozone*	53.3	54.4	53.8	53.5	53.9	52.2	51.8	51.8	50.7
Japan*	55.2	56.6	55.5	53.9	49.4	49.9	51.5	50.5	52.2
China*	50.5	49.5	48.5	48	48.1	49.4	50.7	51.7	50.2
China	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1
Brazil*	50.5	50.8	50.4	50.6	49.3	48.8	48.7	49.1	50.2
India*	50.7	51.4	52.5	51.3	51.3	51.4	51.5	53	52.4
Russia*	48.8	48	48.5	48.3	48.5	48.9	49.1	51.0	51.0
S.Korea*	50.8	50.9	49.8	50.4	50.2	49.5	48.4	49.3	50.3
Taiwan*	55.2	55.5	54.7	52.7	52.3	52.4	54	55.8	56.1
Singapore	49.7	50.5	50.9	50.8	51.1	50.8	50.5	51.5	49.7
Indonesia*	50.9	51	50.5	50.1	51.1	52.4	52.7	52.7	49.5

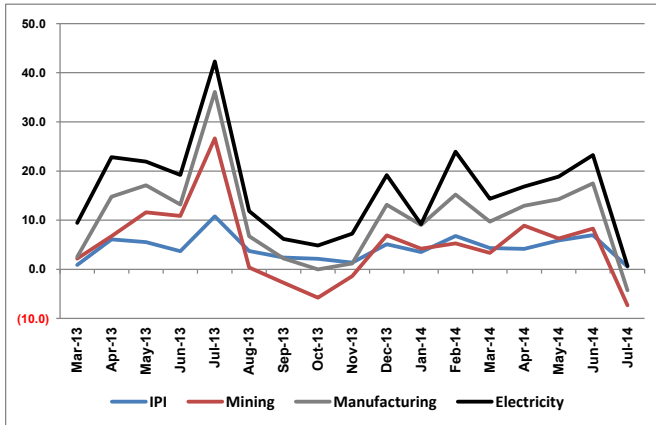
Source: Bloomberg, Markit*

Table 4: Global Industrial Production (% YoY)

	Dis-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
US	3.3	2.9	3.2	3.7	3.9	4.3	4.3	5.0
Japan	7.2	10.6	7.0	7.4	3.8	1.0	3.1	(0.9)
France	0.5	0.3	(0.6)	(0.6)	(2.1)	(3.4)	(0.6)	0.1
Germany	3.8	4.9	4.4	2.7	1.3	1.1	(0.4)	2.5
Italy	(1.2)	1.3	0.4	(0.1)	1.5	(1.7)	0.4	-
China	9.7	-	-	8.8	8.7	8.8	9.2	9.0
Russia	0.4	(0.2)	2.1	1.4	2.4	2.8	0.4	1.5
Brazil	(2.4)	(2.1)	4.4	(0.8)	(5.8)	(3.4)	(7.1)	(3.6)
India	0.1	1.1	(2.0)	(0.5)	3.4	4.7	5.0	3.4
S.Korea	2.4	(4.3)	3.9	2.8	2.5	(2.1)	0.4	3.4
Taiwan	5.5	(1.8)	6.8	3.2	5.3	5.4	8.6	6.1
Singapore	6.4	4.2	13.3	12.3	5.9	(1.9)	0.8	3.3
Malaysia	5.1	3.5	6.7	4.3	4.9	6.0	7.0	0.5

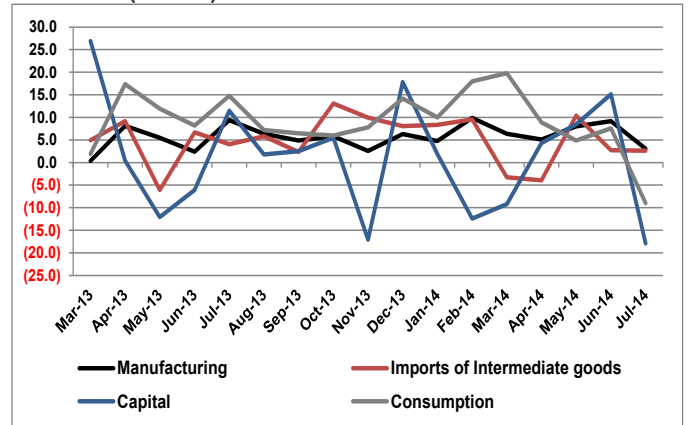
Source: Bloomberg

Chart 1: Malaysia-IPI (% YoY)



Source: DOS, MIDFR

Chart 2: Malaysia-Mnfg Output v Imports of Intermediate Goods (% YoY)



Source: DOS, MIDFR

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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.