Myanmar

Steady Start to 2017

Friday, March 03, 2017

Highlights

- **Despite the ethnic issues brewing in the border states, the Myanmar economy and investment inflows appear to be chugging along just fine.**
- **Recent momentum in the approving of foreign direct investment (FDI) deals pushed inward investment within a hair's breadth of hitting the US$6b target. The manufacturing sector has also started to expand, after spending most of 2H16 in a contractionary mode.**
- **In the upcoming FY2017-18, we hold hopes that the government will give increased focus to business and economic policies, starting from the consistent implementation of the new Myanmar Investment Law.**

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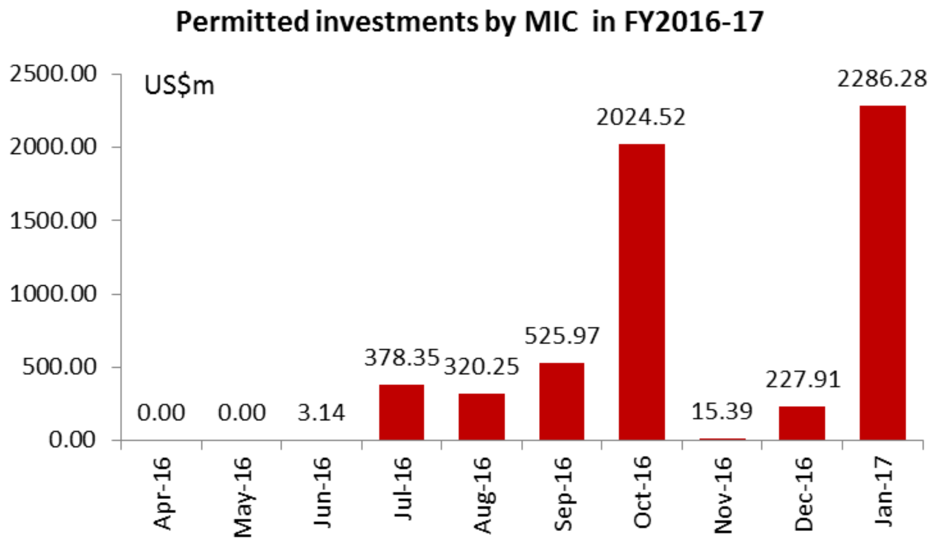
Ethnic issues not slowing down foreign investments

In recent months, Myanmar has been embroiled in ethnic issues that have hogged the headlines in global newswires. A silver lining, perhaps, is that much of the violence is confined to the border states, and has not directly affected the Yangon region.

Nevertheless, some concerns have been raised regarding the impact of these negative headlines on investor sentiments and FDI inflows. Indeed, investment data show a significant drop in November and December. However, we note that FDI into Myanmar has traditionally been lumpy and dependent on major deals. Thus, in the absence of major deals in that period, the fall-off in investment flows may have led observers to overstate the impact of the ethnic issues. Notably, investment figures quickly perked up in January with the approval of a major telecommunications deal.

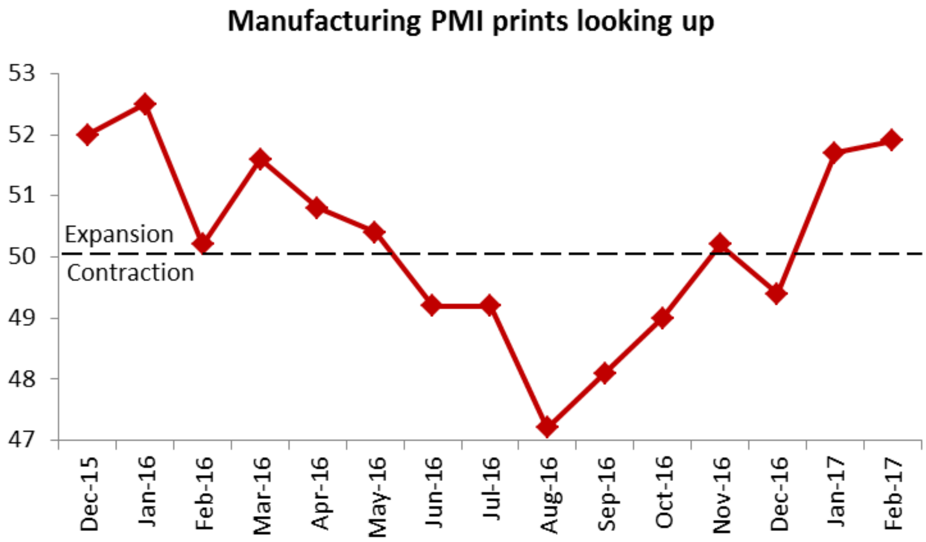


Source: DICA, OCBC

Overall, these concerns seem unfounded as the main FDI contributors to Myanmar, such as Singapore, appear unfazed. The FDI target of US$6b for the fiscal year was effectively met with time to spare. We believe FDI will not be significantly impacted by ethnic issues so long as the conflict does not spread to the Yangon region.

Purchasing Managers Index (PMI) prints point to expanding manufacturing sector

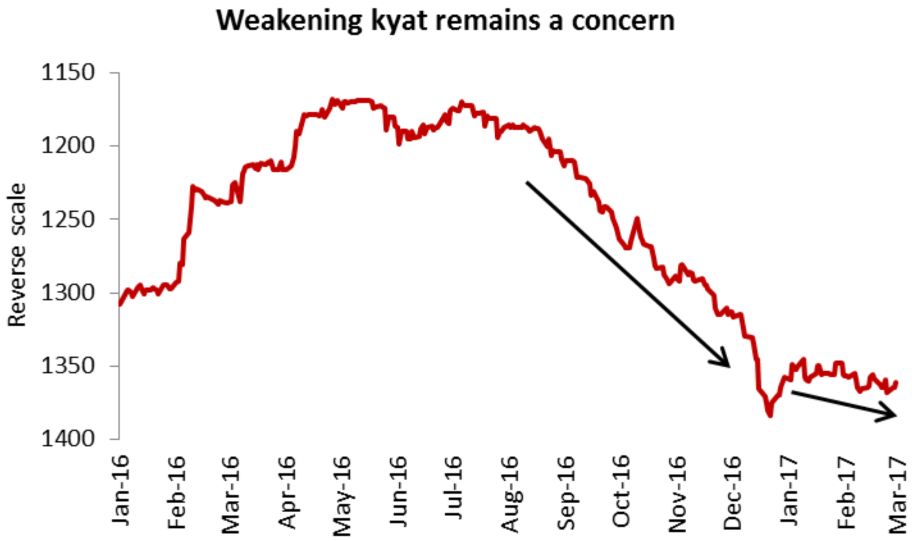
An upturn in business conditions has also been noted since the start of 2017. Headline manufacturing PMI printed 51.9 in February, up marginally from 51.7 in January, signaling an accelerating expansion for the Myanmar manufacturing sector in 2017. Such performance is in marked contrast to 2H2016, where PMI consistently languished in the contraction zone.



Source: Markit, OCBC

Diving deeper, we are pleased to find that the headline PMI figure was driven largely by strong prints for output and new orders. This suggests that the manufacturing sector is picking up new contracts. Anecdotally, it appears that public investment and foreign businesses are driving underlying demand. However, the manufacturing sector still has room to expand much furthur, considering that most of the new demand was easily absorbed by spare capacity without significant strain to operations.

Looking forward, the weakening kyat will continue to generate input price pressures and depress margins for businesses. Despite a moderating pace of depreciation since the start of the year, economic fundamentals continue point to a downward trajectory for the kyat. Moreover, with spare capacity still significant across board, the ability of businesses to pass on the higher cost pressures will be limited.



Source: Bloomberg, OCBC

Hope for FY2017-18

The first year in office has not been completely smooth-sailing for the new government. In our previous reports, we noted that the government had rightfully chosen to focus on political stability at the slight expense of economic policy in the first year. In FY2017-18, we believe that attention can shift towards the formulation and execution of business and economic policies. The new Myanmar Investment Law is a unique opportunity to develop a new level of trust between the government and foreign corporates. Consistent implementation and execution of the by-laws will be crucial in winning over new corporates to the Myanmar growth story.