



From the Desk
of the
Chief Economist

BANK ISLAM

MONTHLY ECONOMIC & MARKET UPDATES

3 FEBRUARY 2021

ECONOMIC RESEARCH

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GLOBAL ECONOMY

- ✓ **Worldwide Covid-19 confirmed cases have exceeded 100.0 million in January 2021 despite lower number of infection cases daily as compared to December last year** - The total number of people infected with Covid-19 globally was reported at 102.1 million as at 31 January 2021. The highest number of daily cases were reported in the US (31 January 2021: 164,415 vs. 31 December 2020: 199,163), followed by Brazil (31 January: 58,826 vs. 31 December 2020: 58,718) and the UK (31 January 2021: 23,275 vs. 31 December 2020: 50,023).
- ✓ **Global economy is expected to grow by 5.5% in 2021** - The International Monetary Fund (IMF) announced their latest forecast on 20 January 2021. The 2021 forecast is revised up by 0.3 percentage point relative to the previous forecast made in October last year, reflecting expectations of vaccination programs and additional policy support in a few large economies.
- ✓ **Countries have started vaccinating their populations** - Wealthier countries that were able to make advance purchase agreements with vaccine makers have been the first to start Covid-19 vaccinations. China, European Union (EU) states, Israel, Russia, the UK and the US are among the countries where vaccination campaigns are underway. We believe that the vaccination process will likely take years for the majority of the world's population to become immunized against the virus if there is no efficient distribution in place.
- ✓ **Rate of global manufacturing expansion slowed at start of 2021** - J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) stood at 53.5 points in January 2021, down from 53.8 points in December last year as supply chain pressures continue to build. According to the survey, though world manufacturing production and new orders expanded in January, however, the rate of increase eased as growth of new exports orders slipped to near-stagnation.

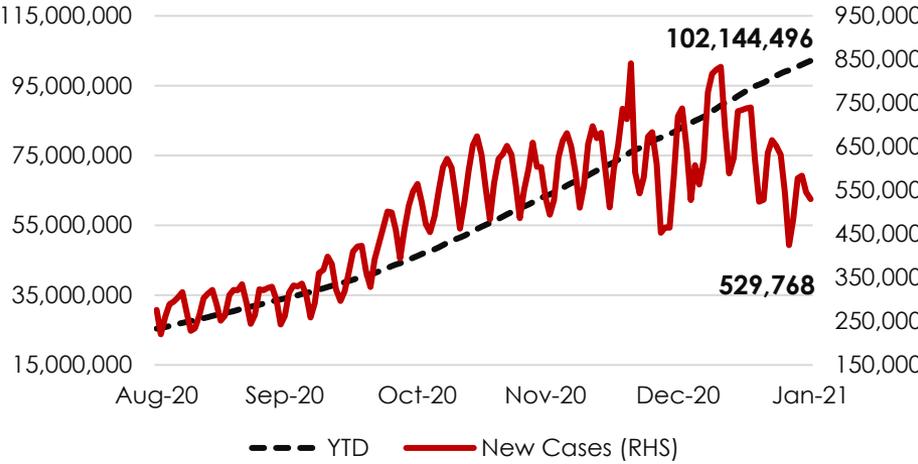
	Year over Year										
	Estimate		Projections		Difference from October 2020		Q4 over Q4 2/				
	2019	2020	2021	2022	WEO Projections 1/	2021	2022	Estimate	Projections	2020	2021	2022
World Output	2.8	-3.5	5.5	4.2	0.3	0.0	-1.4	4.2	3.7		
Advanced Economies	1.6	-4.9	4.3	3.1	0.4	0.2	-3.9	4.6	1.9		
United States	2.2	-3.4	5.1	2.5	2.0	-0.4	-2.1	4.0	2.0		
Euro Area	1.5	-7.2	4.2	3.6	-1.0	0.5	-6.6	3.6	2.0		
Germany	0.6	-5.4	3.5	3.1	-0.7	0.0	-5.3	5.2	1.7		
France	1.5	-9.0	5.5	4.1	-0.5	1.2	-8.2	7.4	2.0		
Italy	0.3	-9.2	3.0	3.6	-2.2	1.0	-8.3	4.2	2.3		
Spain	2.0	-11.1	5.9	4.7	-1.3	0.2	-9.8	7.1	2.0		
Japan	0.3	-5.1	3.1	2.4	0.8	0.7	-2.3	2.7	1.6		
United Kingdom	1.4	-10.0	4.5	5.0	-1.4	1.8	-8.3	6.0	1.9		
Canada	1.9	-5.5	3.6	4.1	-1.6	0.7	-4.0	3.7	2.7		
Other Advanced Economies 3/	1.8	-2.5	3.6	3.1	0.0	0.0	-2.2	4.5	1.9		
Emerging Market and Developing Economies	3.6	-2.4	6.3	5.0	0.3	-0.1	0.9	3.7	5.4		
Emerging and Developing Asia	5.4	-1.1	8.3	5.9	0.3	-0.4	3.2	3.8	6.4		
China	6.0	2.3	8.1	5.6	-0.1	-0.2	6.2	4.2	6.0		
India 4/	4.2	-8.0	11.5	6.8	2.7	-1.2	0.6	1.7	7.8		
ASEAN-5 5/	4.9	-3.7	5.2	6.0	-1.0	0.3	-3.2	5.2	6.1		
Emerging and Developing Europe	2.2	-2.8	4.0	3.9	0.1	0.5	-2.7	4.8	3.0		
Russia	1.3	-3.6	3.0	3.9	0.2	1.6	-4.6	5.3	2.6		
Latin America and the Caribbean	0.2	-7.4	4.1	2.9	0.5	0.2	-4.8	2.3	2.8		
Brazil	1.4	-4.5	3.6	2.6	0.8	0.3	-1.9	1.6	2.6		
Mexico	-0.1	-8.5	4.3	2.5	0.8	0.2	-5.4	2.2	2.4		
Middle East and Central Asia	1.4	-3.2	3.0	4.2	0.0	0.2	...	...	...
Saudi Arabia	0.3	-3.9	2.6	4.0	-0.5	0.6	-3.1	3.5	4.0		
Sub-Saharan Africa	3.2	-2.6	3.2	3.9	0.1	-0.1	...	...	...
Nigeria	2.2	-3.2	1.5	2.5	-0.2	0.0	...	...	...
South Africa	0.2	-7.5	2.8	1.4	-0.2	-0.1	-6.2	2.8	0.6		
<i>Memorandum</i>											
Low-Income Developing Countries	5.3	-0.8	5.1	5.5	0.2	0.0	...	...	...
World Growth Based on Market Exchange Rates	2.4	-3.8	5.1	3.8	0.3	0.0	-2.0	4.3	3.1		
World Trade Volume (goods and services) 6/	1.0	-9.6	8.1	6.3	-0.2	0.9	...	...	...
Advanced Economies	1.4	-10.1	7.5	6.1	0.4	1.0	...	...	...
Emerging Market and Developing Economies	0.3	-8.9	9.2	6.7	-1.0	0.8	...	...	...

Source: IMF

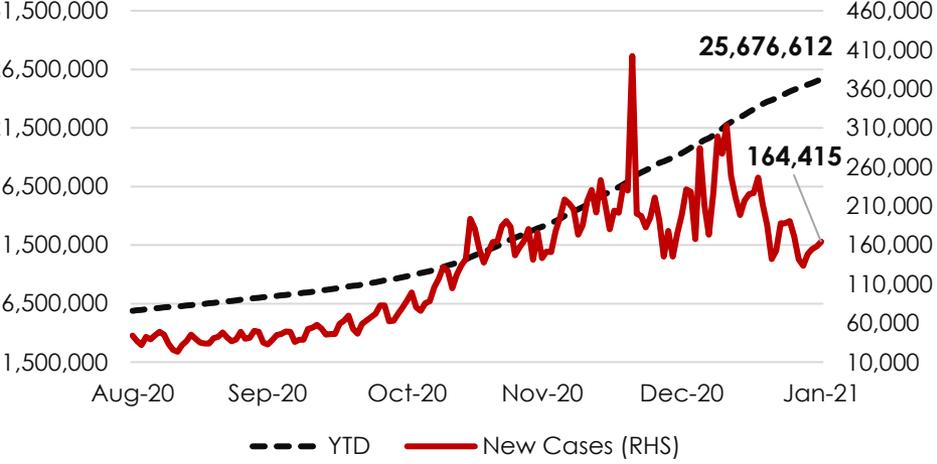
According to the IMF world economic outlook (WEO) report in January 2021, the upward revision of global economic growth was mainly due to the vaccine availability in advanced economies and some emerging economies. Apart from that, sizeable fiscal support will help to lift economic activities in 2021.

COVID-19 : THE US, BRAZIL AND UK RECORDED THE HIGHEST NUMBER OF INFECTION CASES DAILY IN JANUARY 2021

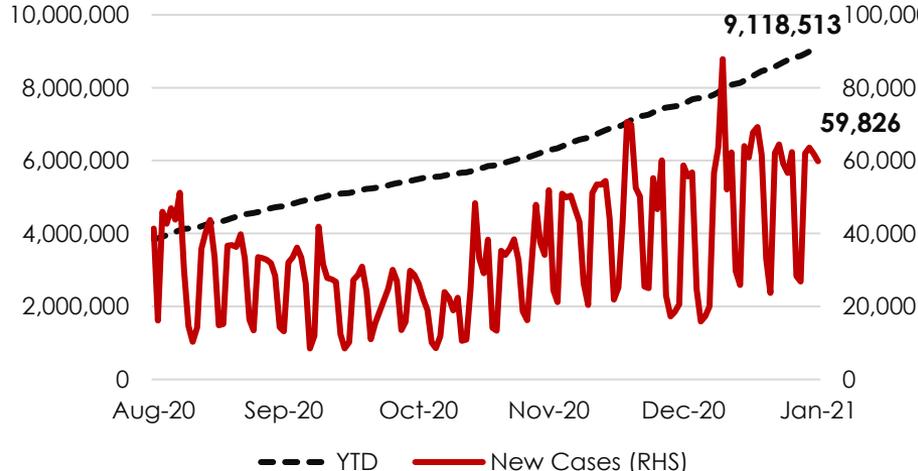
Global YTD and New Cases



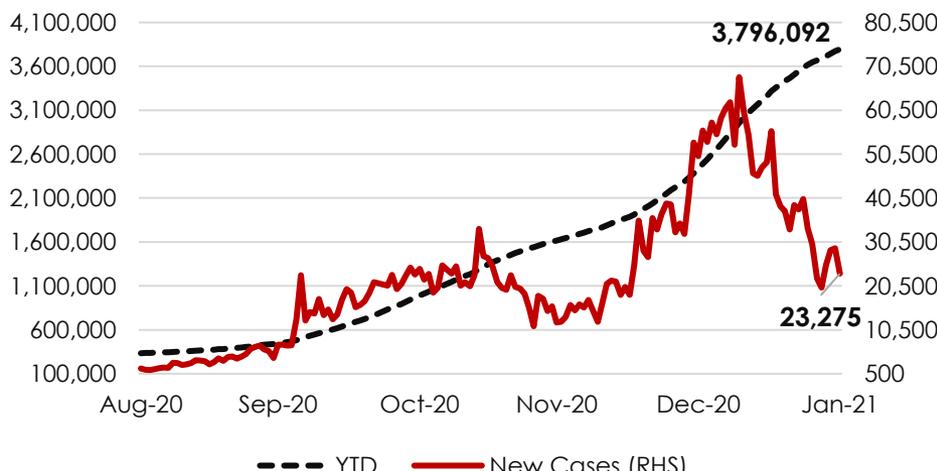
US YTD and New Cases



Brazil YTD and New Cases



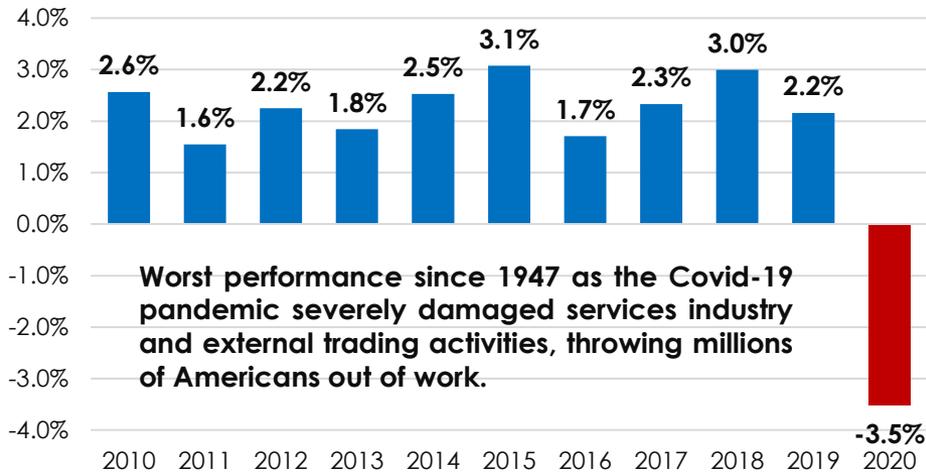
UK YTD and New Cases



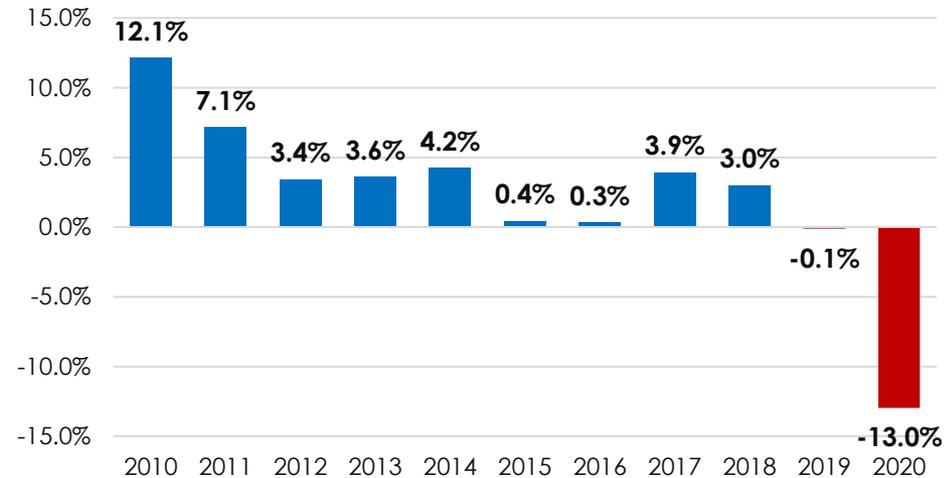
Source: CEIC

US ECONOMY IS EXPECTED TO CONTRACT BY 3.5% IN 2020 – ADVANCE ESTIMATES BY THE US BUREAU OF ECONOMIC ANALYSIS

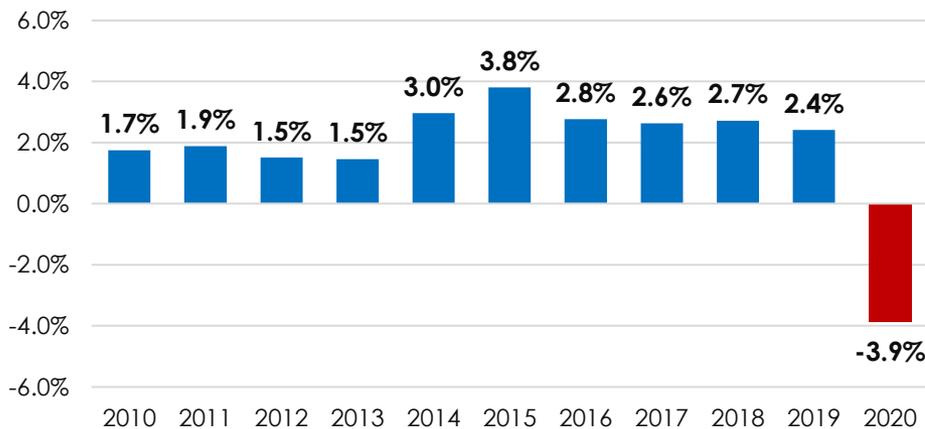
GDP, y-o-y%



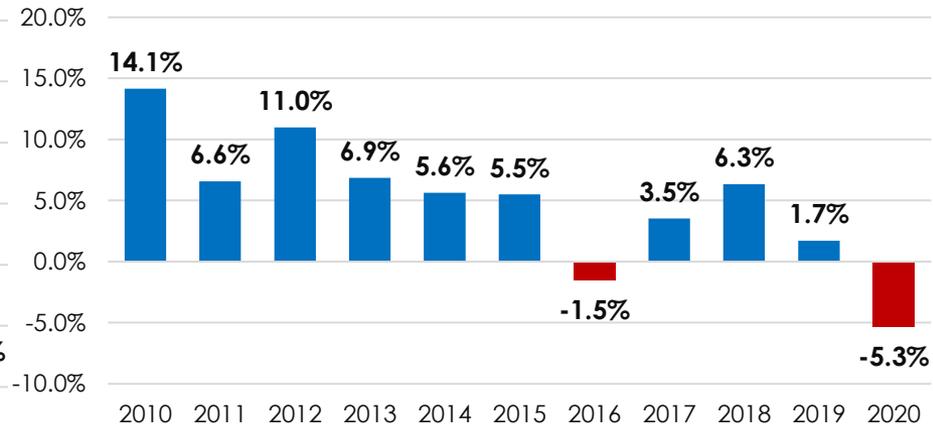
Exports, y-o-y%



Personal Consumption Expenditure (PCE), y-o-y%



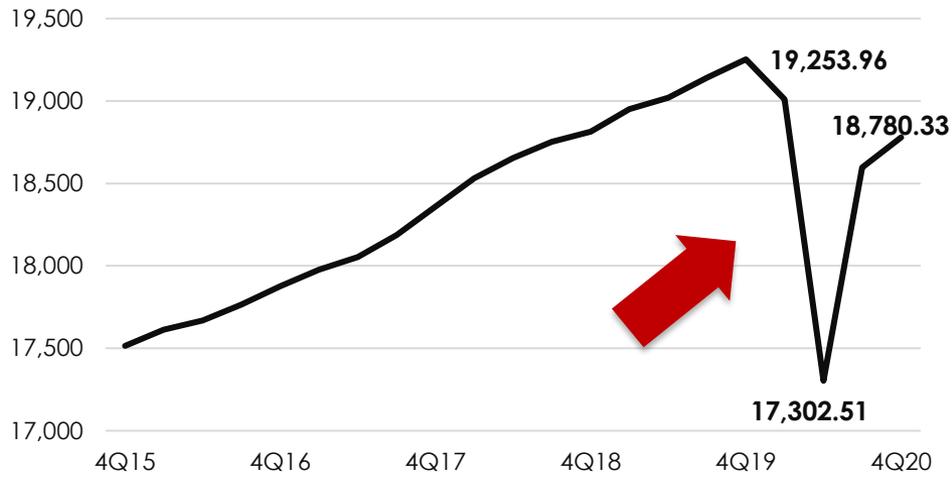
Gross Private Domestic Investment (GPDI), y-o-y%



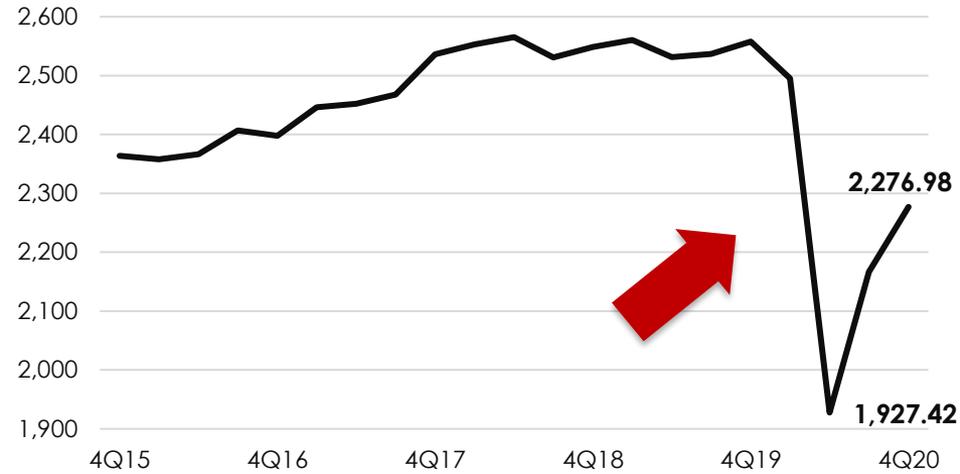
Sources: US BEA, CEIC

IMPROVEMENT IN THE US ECONOMIC ACTIVITIES DURING 4Q2020

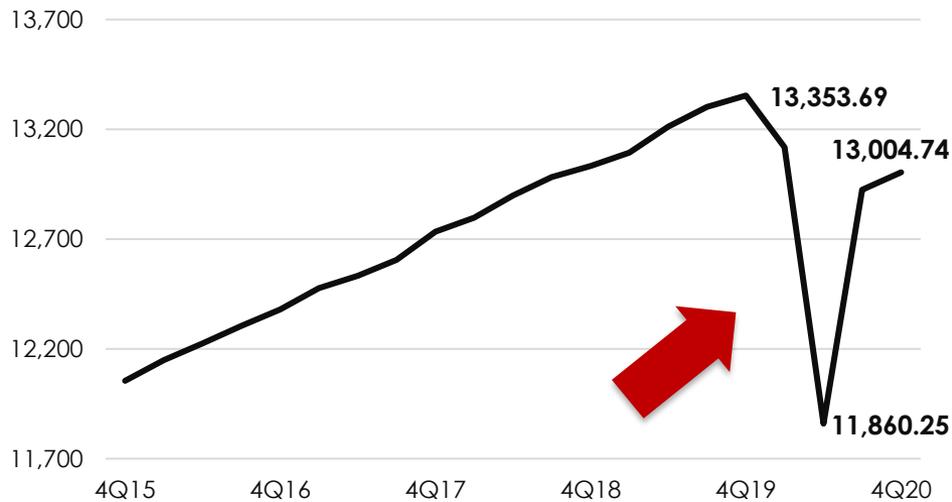
GDP, USD Billion



Export, USD Billion



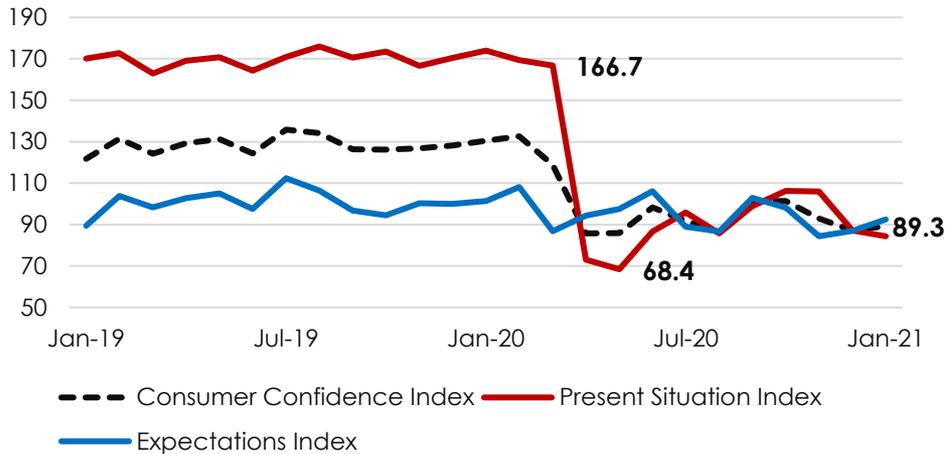
PCE, USD Billion



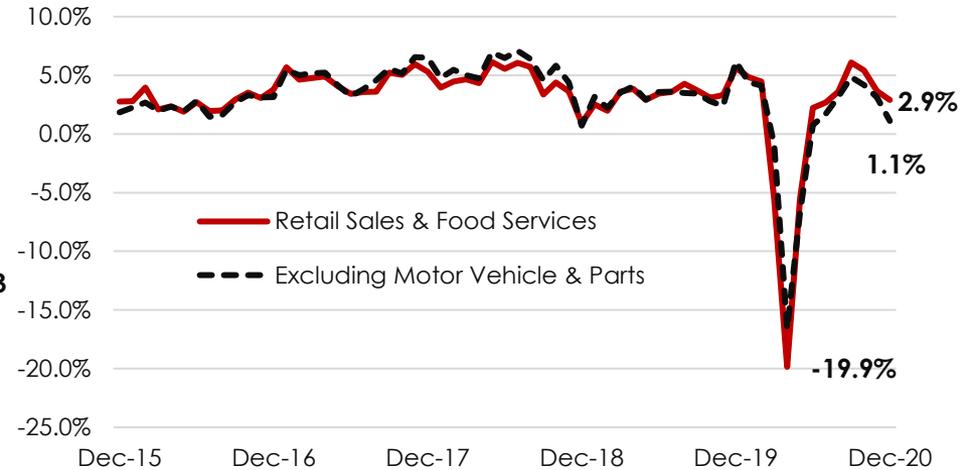
GPDI, USD Billion



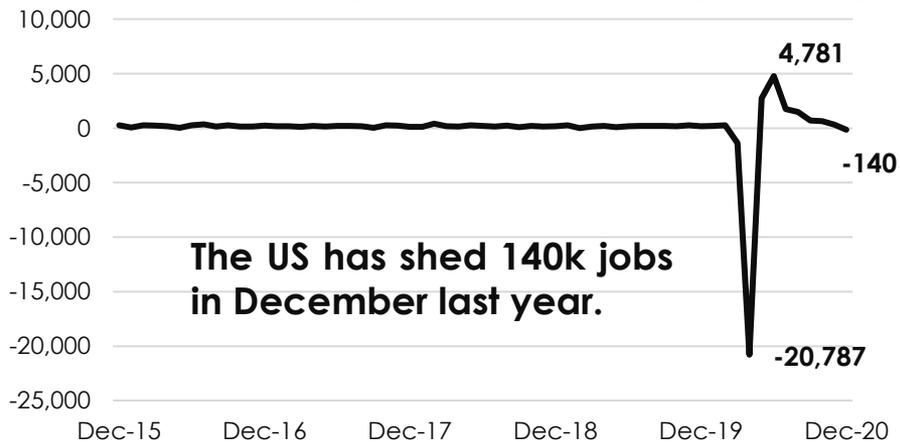
Conference Board Consumer Confidence Index, points



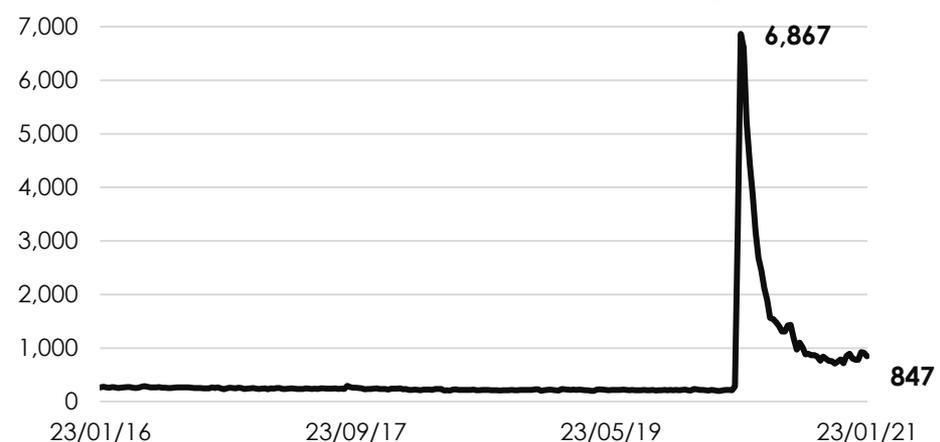
Retail Sales & Food Services, y-o-y%



Nonfarm Payrolls, m-o-m changes ('000)

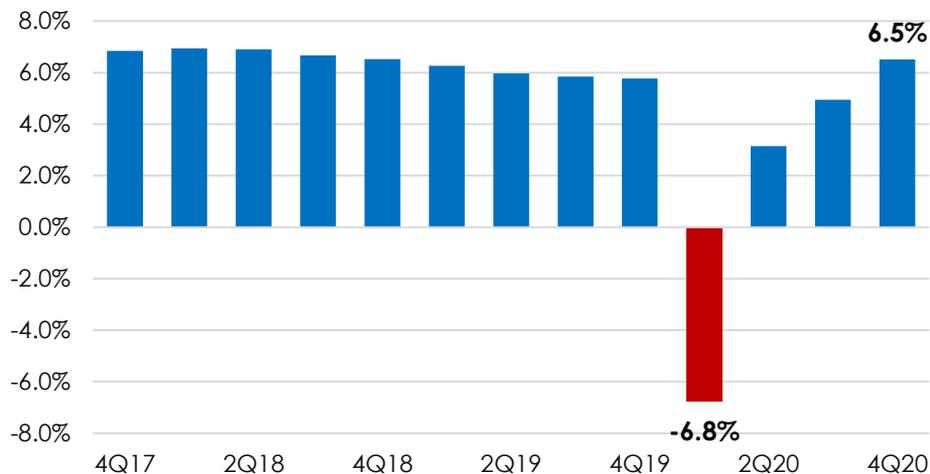


Initial Jobless Claims ('000)

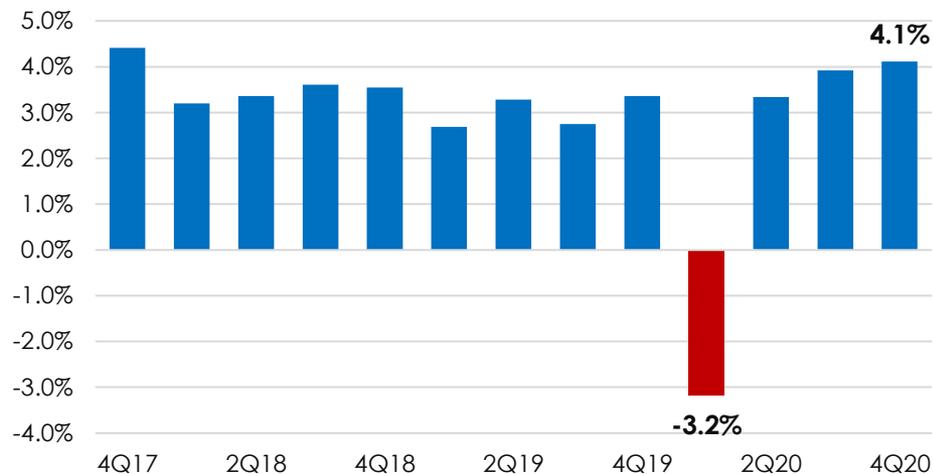


CHINA ECONOMY – IS EXPECTED TO RECORD POSITIVE GROWTH IN 2020

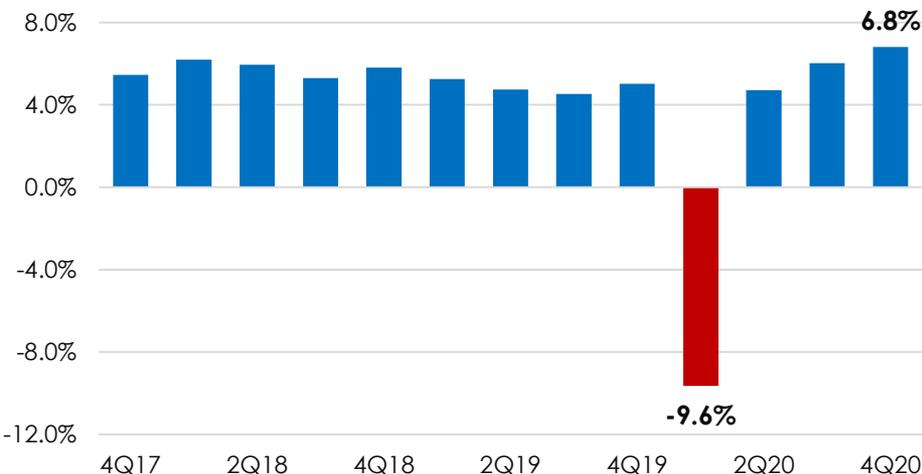
GDP, y-o-y%



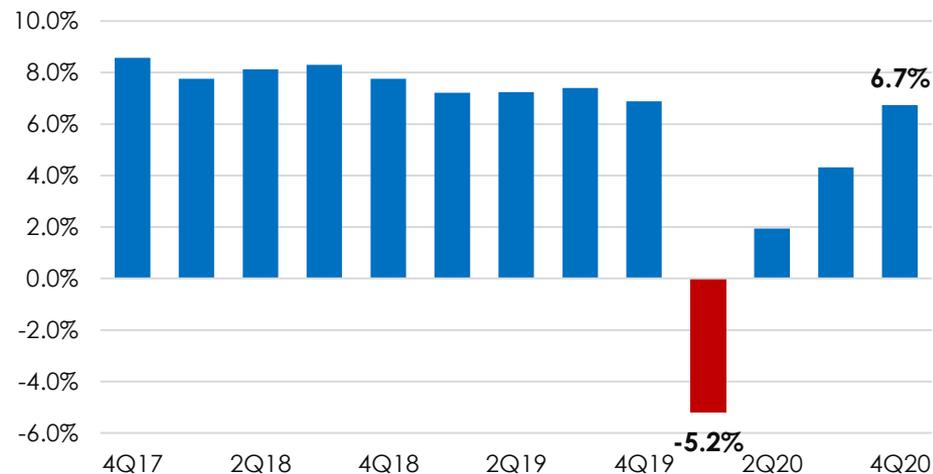
Primary Industry, y-o-y%



Secondary Industry, y-o-y%

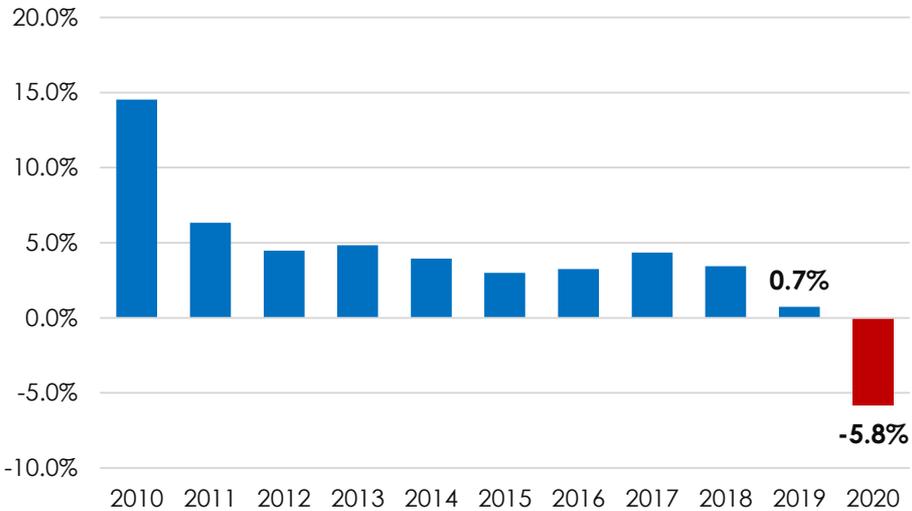


Tertiary Industry, y-o-y%

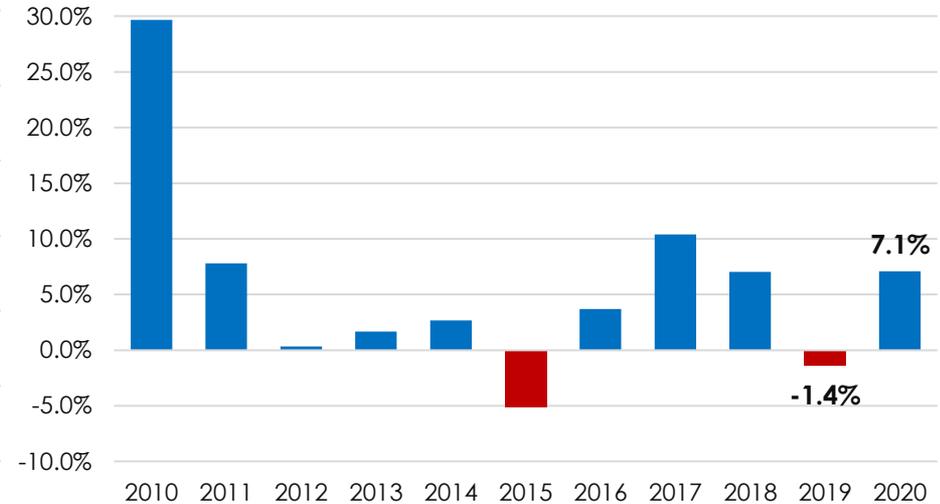


SINGAPORE ECONOMY – MANUFACTURING SECTOR REBOUNDED BY 7.1% IN 2020

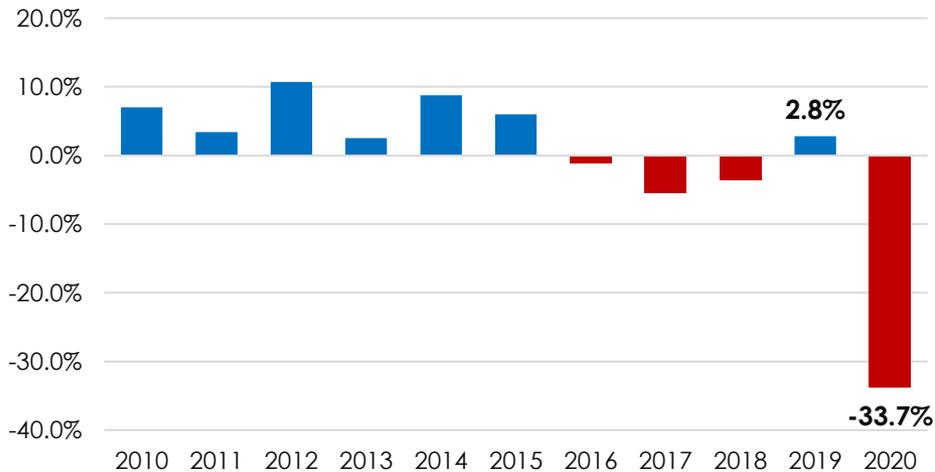
GDP, y-o-y%



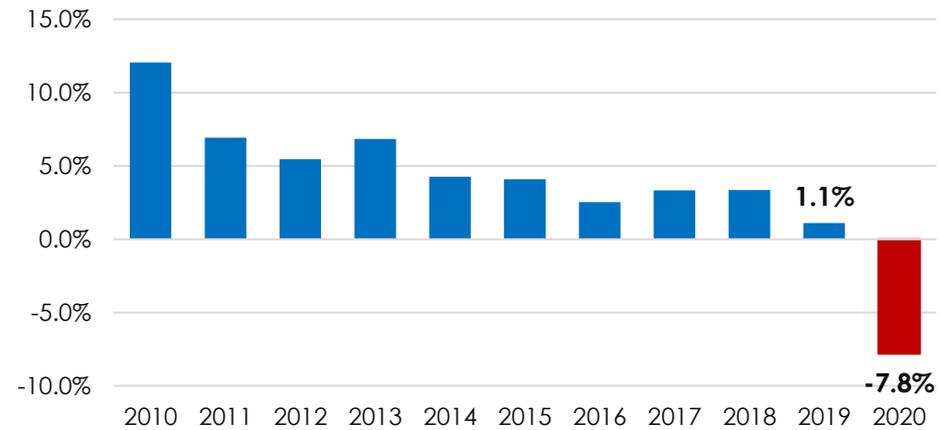
Manufacturing, y-o-y%



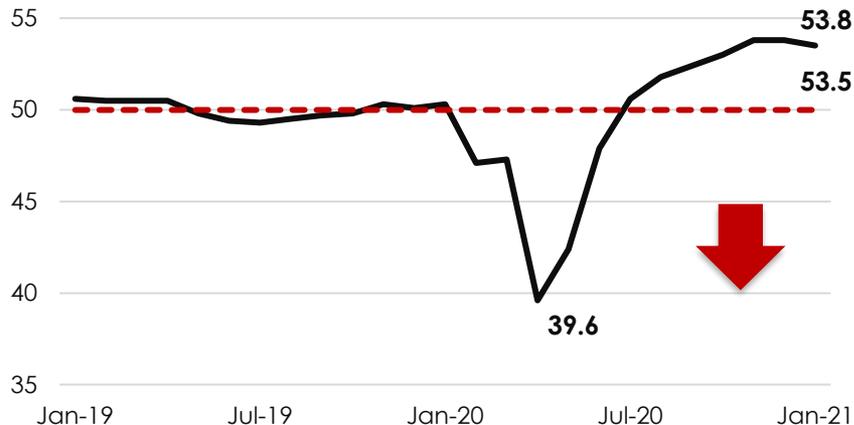
Construction, y-o-y%



Services Producing Industries (SPI), y-o-y%



J.P. Morgan Global Manufacturing PMI, points

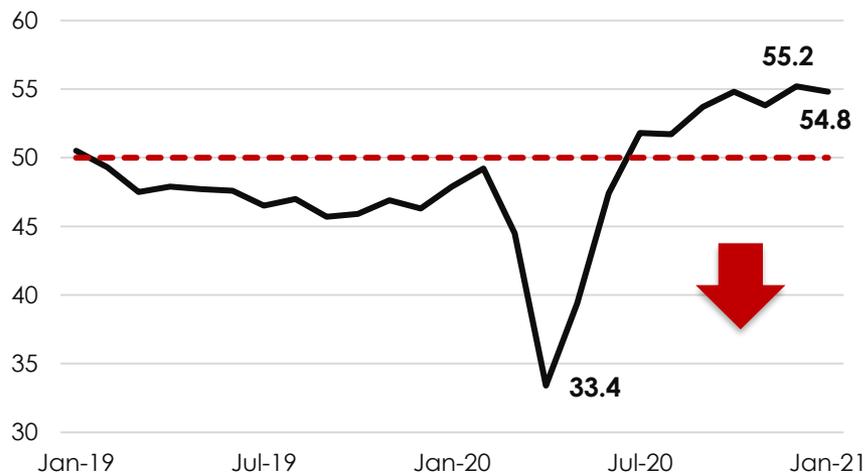


Index Summary:

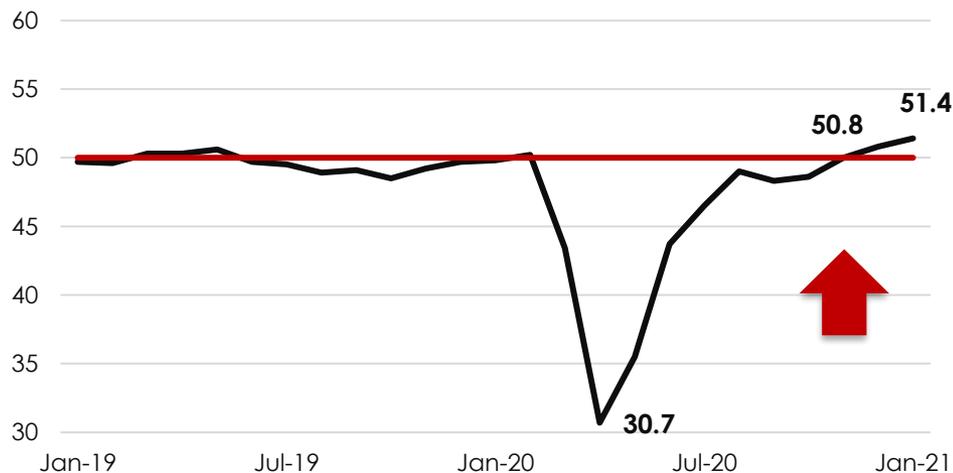
Index	Dec-20	Jan-21	Interpretation
PMI	53.8	53.5	Improvement, slower rate
Output	54.9	54.0	Growth, slower rate
New Orders	54.4	54.1	Growth, slower rate
New Export Orders	51.1	50.1	Growth, slower rate
Future Output	64.7	64.4	Growth expected, weaker sentiment
Employment	50.1	50.2	Growth, faster rate
Input Prices	61.0	62.3	Inflation, faster rate
Output prices	54.4	55.0	Inflation, faster rate

Source: IHS Markit

Eurozone Manufacturing PMI, points



ASEAN Manufacturing PMI



US MANUFACTURING SECTOR EXPANDED – 8 MONTHS IN A ROW

Index	Series Index January 2021	Series Index December 2020	Percentage Point Change	Direction	Rate of Change	Trend (Months)
PMI	58.7	60.5	-1.8	Growing	Slower	8
New Orders	61.1	67.5	-6.4	Growing	Slower	8
Production	60.7	64.7	-4.0	Growing	Slower	8
Employment	52.6	51.7	0.9	Growing	Faster	2
Supplier Deliveries	68.2	67.7	0.5	Slowing	Faster	59
Inventories	50.8	51.0	-0.2	Growing	Slower	4
Customers' Inventories	33.1	37.9	-4.8	Too Low	Faster	54
Prices	82.1	77.6	4.5	Increasing	Faster	8
Backlog of Orders	59.7	59.1	0.6	Growing	Faster	7
New Export Orders	54.9	57.5	-2.6	Growing	Slower	7
Imports	56.8	54.6	2.2	Growing	Faster	7
OVERALL ECONOMY				Growing	Slower	8
Manufacturing Sector				Growing	Slower	8

US ISM Manufacturing PMI, points



Sources: Bloomberg, US ISM
ECONOMIC RESEARCH

- ✓ The US Institute for Supply Management (ISM) Manufacturing Purchasing Manager's Index (PMI) slipped to 58.7 points in January 2021 from 60.5 points in the preceding month.
- ✓ However, the figure indicates expansion in the overall economy for the eighth month in a row after enduring series of contraction starting March last year.
- ✓ According to the survey, manufacturing sector continued its recovery in January despite short-term shutdowns to sanitize facilities, as well as difficulties in returning and hiring workers.

CENTRAL BANK POLICY RATES

Policy rates	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21*
Advanced countries													
US (Fed Fund Rate)	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Zone (Main Refinancing Rate)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
UK (Bank Rate)	0.75	0.75	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Canada (ON Lending Rate)	1.75	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Latin America													
Mexico (ON Rate)	7.25	7.00	6.50	6.00	5.50	5.00	5.00	4.50	4.25	4.25	4.25	4.25	4.25
Brazil (Selic Rate)	4.50	4.25	3.75	3.75	3.00	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00
Argentina (LELIQ 7D Notes Rate)	50.00	40.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	36.00	38.00	38.00	38.00
Eastern Europe													
Russia (Key Rate)	6.25	6.00	6.00	5.50	5.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ukraine (Discount Rate)	11.00	11.00	10.00	8.00	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Turkey (1W Repo Rate)	11.25	10.75	9.75	8.75	8.25	8.25	8.25	8.25	10.25	10.25	15.00	17.00	17.00
Asia													
China (1Y Loan Prime Rate)	4.15	4.05	4.05	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
India (Repo Rate)	5.15	5.15	4.40	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	5.00	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75
Thailand (1D Repo Rate)	1.25	1.00	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea (Base Rate)	1.25	1.25	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	4.00	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25	2.25	2.00	2.00	2.00
Australia (Cash Rate)	0.75	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10
New Zealand (Cash Rate)	1.00	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Malaysia (OPR)	2.75	2.75	2.50	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75

* As at 3 February 2021

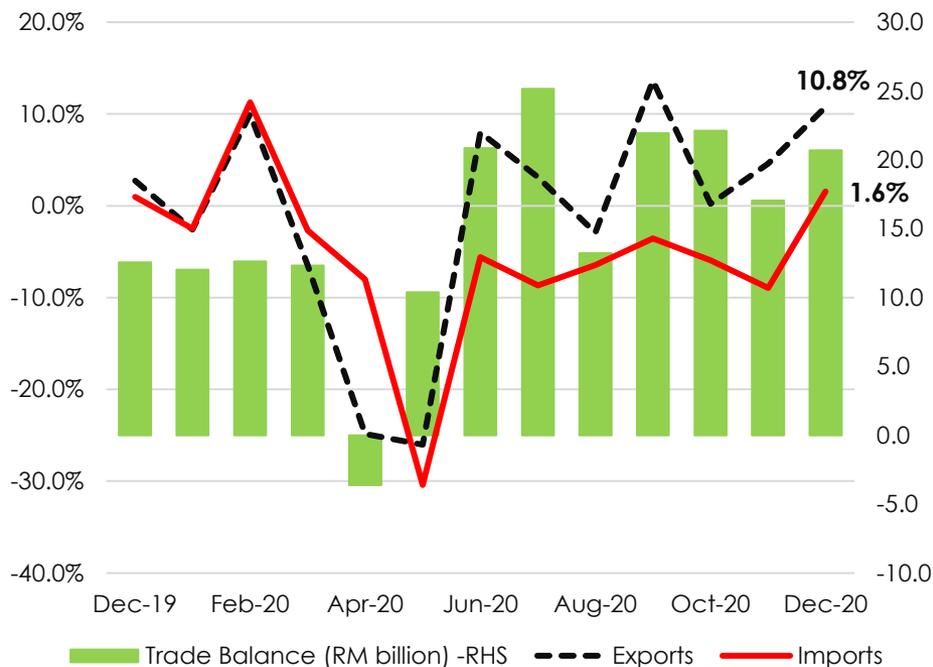
Source: Bloomberg

Central banks are expected to maintain their ultra-easy monetary policies even with the global economy is anticipated to recover from last year's coronavirus-inflicted recession. Continued uncertainty over the path of the virus along with elevated unemployment and weak inflation are the main reasons for accommodative monetary policies.



DOMESTIC LANDSCAPE

External Trade

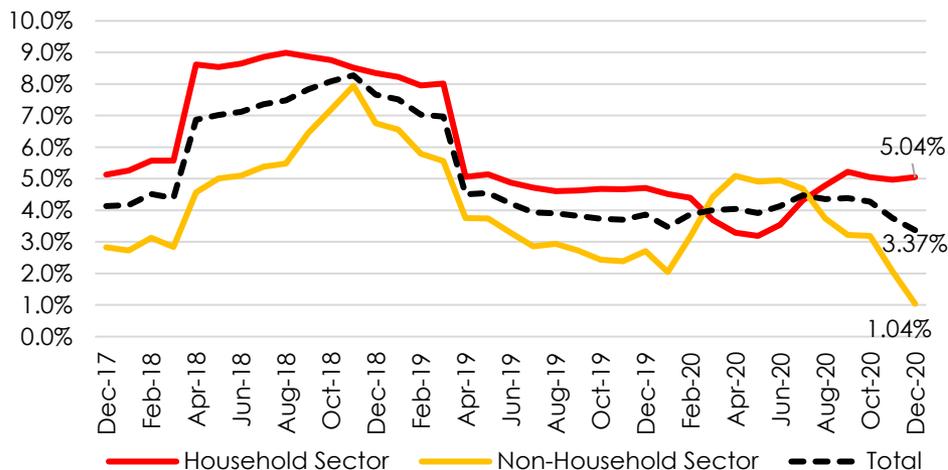


Source: CEIC

- ✓ Malaysia's exports recorded double-digit growth of 10.8% year-on-year (y-o-y) in December last year from 4.6% in the previous month.
- ✓ The significant increase was boosted by exports in agriculture and manufacturing which went up by 47.1% (November 2020: 6.0%) and 12.4% (November 2020: 8.2%) during December 2020. These sectors formed a sizeable share of 94.3% of total exports.
- ✓ Nevertheless, exports of mining continued to wane though at a slower pace, marking the eighteenth consecutive month of decline since July 2019 (December 2020: -31.0% vs. November 2020: -32.1%).
- ✓ Within the agriculture sector, exports of palm oil & palm-based products soared by 66.9% in December 2020 (November 2020: 12.1%) while sawlog rebounded by 40.5% in December 2020 from -68.8% previously. In addition, natural rubber continued to gain its momentum, reaching higher by 27.9% in December 2020 (November 2020: 23.2%).
- ✓ As for manufacturing, exports of rubber products (December 2020: 126.9% vs. November 2020: 124.8%) and electrical & electronic (E&E) products (December 2020: 18.1% vs. November 2020: 23.6%) anchored the upturn, contributing for 51.3% of total exports.
- ✓ On imports, the capital goods (December 2020: -2.0% vs. November 2020: -26.6%), intermediate goods (December 2020: -5.0% vs. November 2020: -10.6%) and dual use goods (December 2020: -7.6% vs. November 2020: -50.0%) continued to decline albeit at a softer pace in December last year.
- ✓ On a cumulative basis, exports fell by 1.4% in 2020 from -0.8% seen in 2019 while imports declined further by 6.3% in 2020 (2019: -3.5%). Consequently, the trade surplus widened from RM145.7 billion in 2019 to RM184.8 billion last year.

BANKING SECTOR- IMPAIRED FINANCING SAW AN UPWARD TREND

Financing Outstanding by Sector, y-o-y%

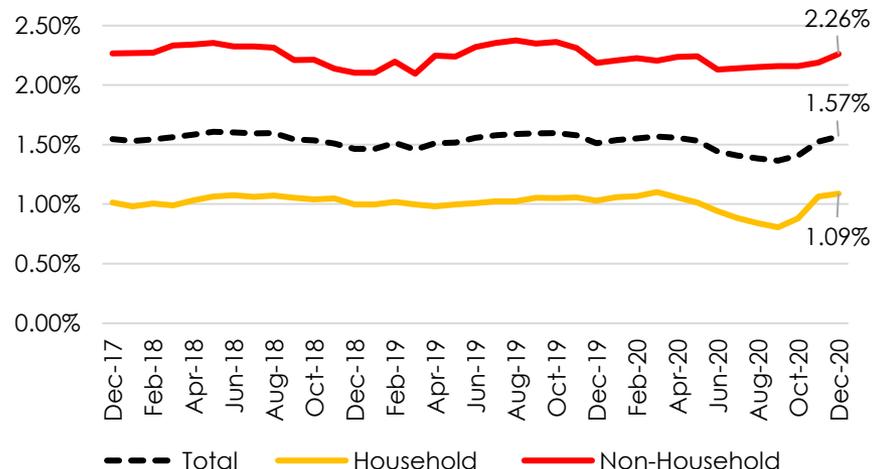


Source: CEIC

- ✓ Turning to the financing's impairment, the Gross Impaired Financing Ratio (GIFR) went up to 1.57% in December last year (November 2020: 1.53%), marking the third straight month of increase as 6-month blanket loan moratorium ended in September 2020. The deterioration in asset quality was due to Household and Non-Household sectors which saw higher impairment at 1.09% (November 2020: 1.06%) and 2.26% (November 2020: 2.19%) in December 2020.
- ✓ Be that as it may, the banking system GIFR remained low compared to BNM's stress test forecast of 3.10% in 2020, suggesting the banks were resilience despite the Covid-19 crisis.
- ✓ As for 2021, the BNM has projected the overall GIFR to raise above 4.00% by the end of the year, mainly driven by the business sector.

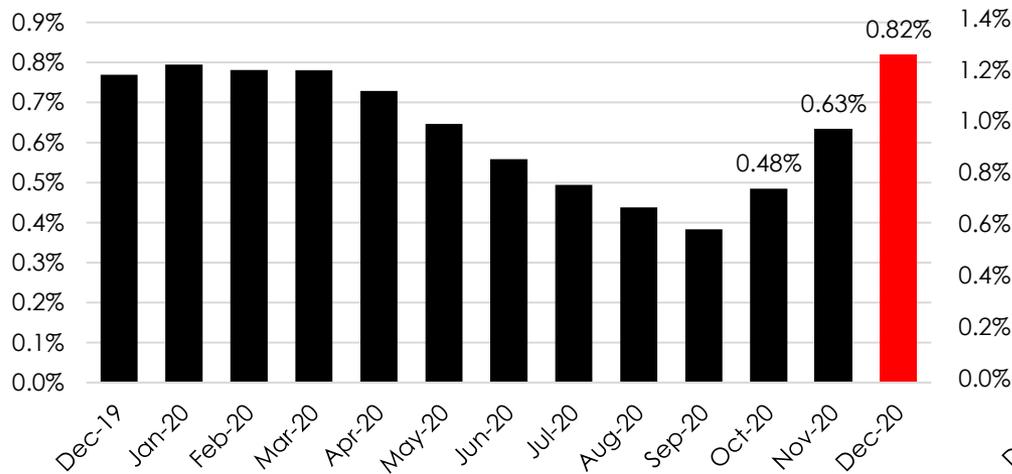
- ✓ The banking system's financing activities continued to record slower growth in December last year at 3.37% y-o-y (November 2020: 3.75%), largely weighed by Non-Household sector which moderated by 1.04% in December 2020 (November 2020: 2.06%).
- ✓ Nonetheless, the Household sector rose by 5.04% in December 2020 from 4.97% previously, lifted by purchase of transport vehicles (December 2020: 5.00% vs. November 2020: 4.49%) and purchase of securities (December 2020: 2.12% vs. November 2020: 1.45%).

GIFR (%)

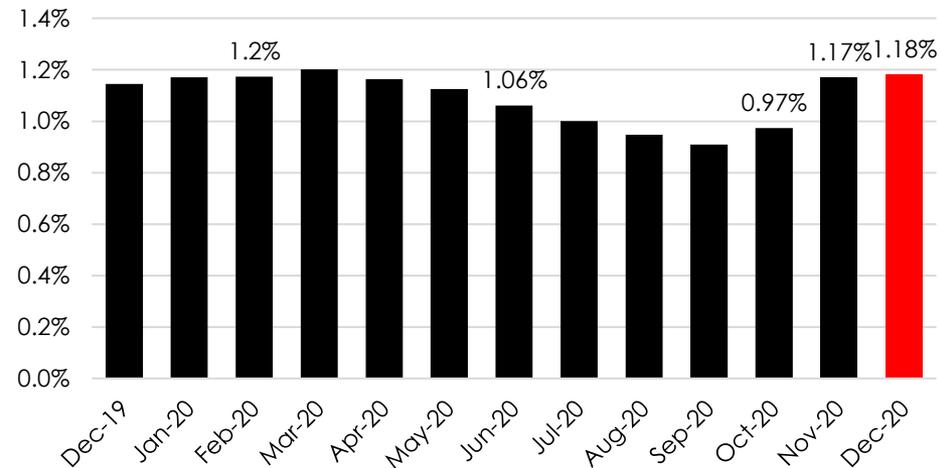


Source: CEIC

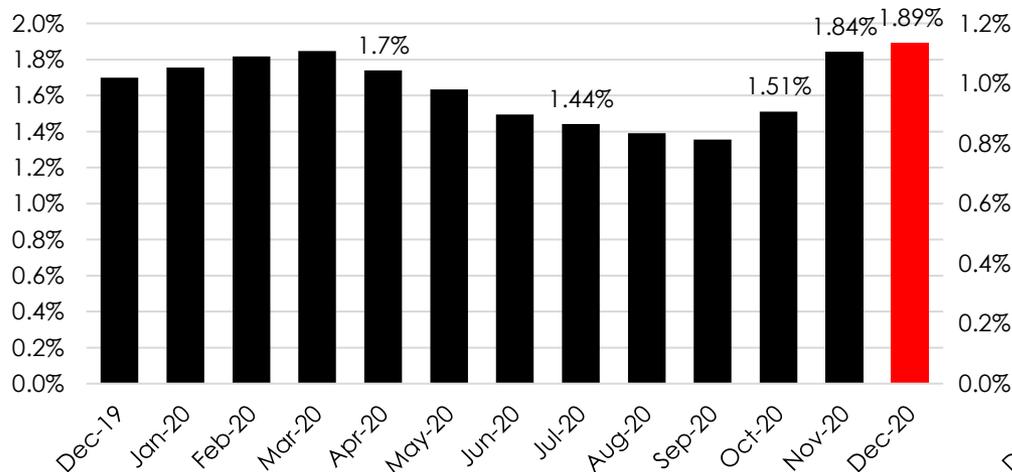
GIFR-Purchase of Transport Vehicles



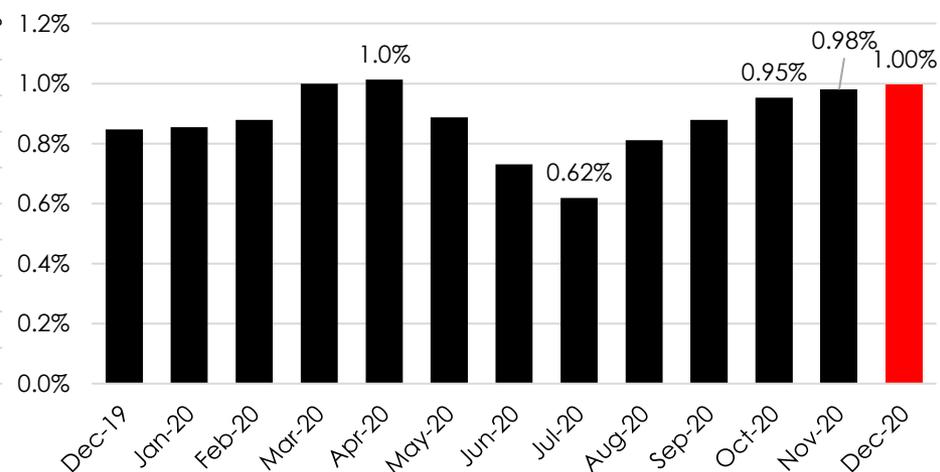
GIFR-Purchase of Residential Property



GIFR-Personal Use

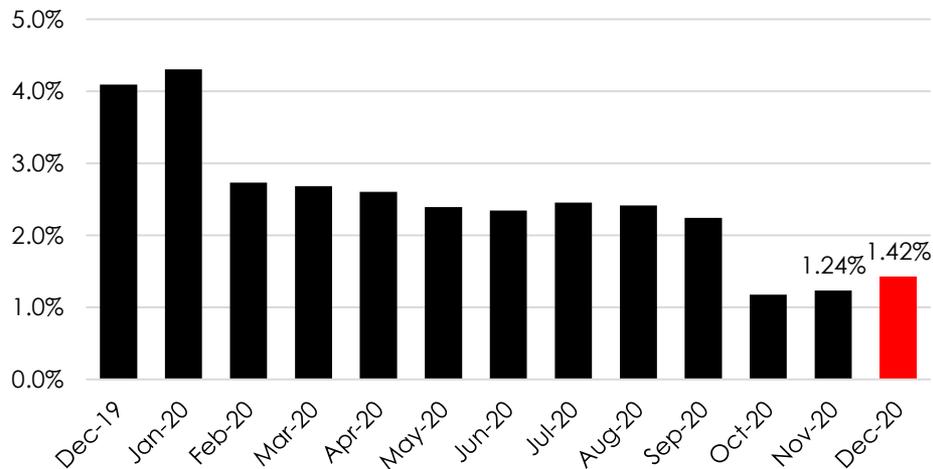


GIFR-Credit Card

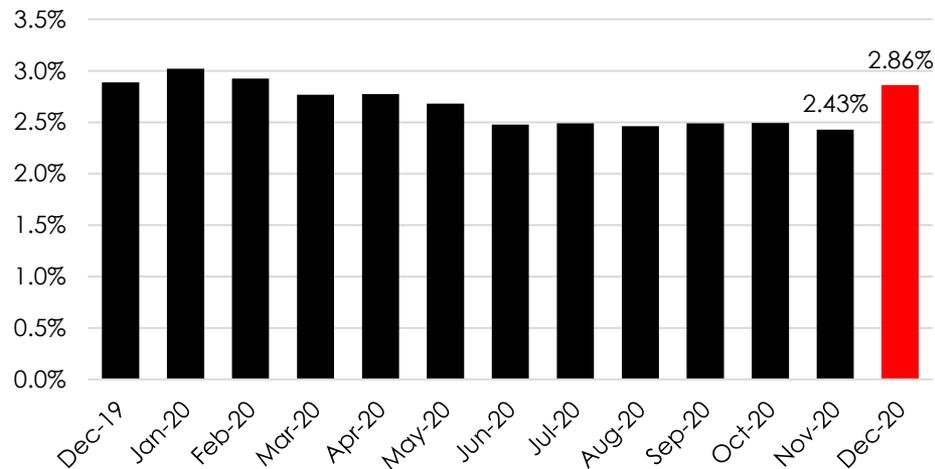


Sources: CEIC, BNM

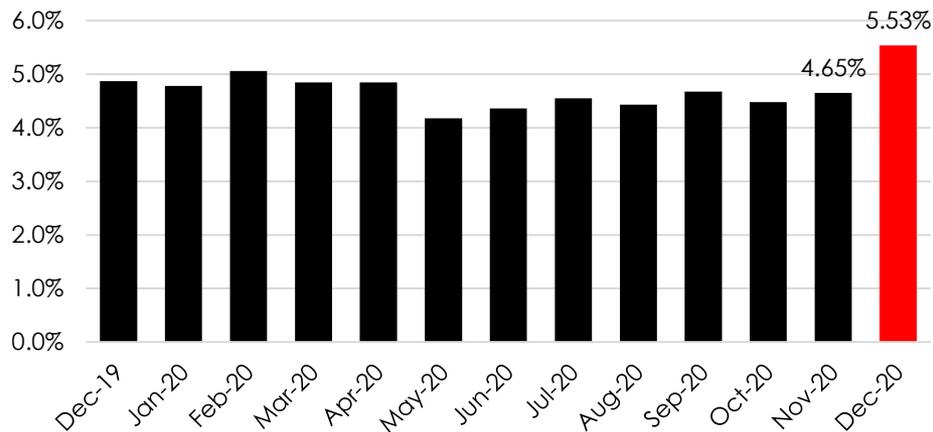
GIFR-Mining & Quarrying



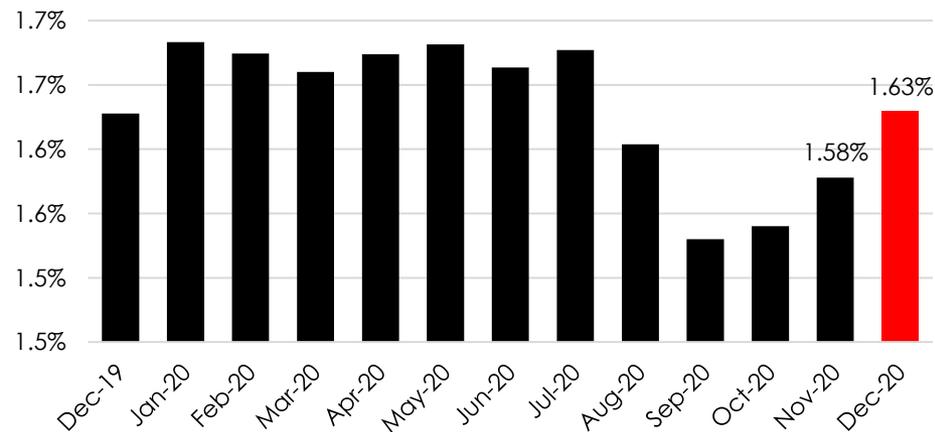
GIFR-Construction



GIFR-Transport, Storage & Communication



GIFR-Wholesale, Retail, Restaurant & Hotel

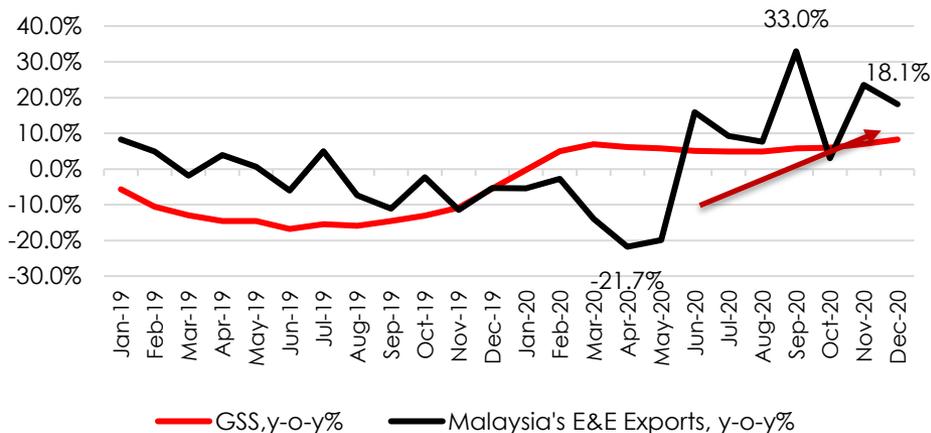


Sources: CEIC, BNM

TECHNOLOGY SECTOR - E&E EXPORTS CONTINUED TO DRIVE MANUFACTURING SECTOR

- ✓ Exports of E&E products marked its seventh consecutive month of expansion, growing by 18.1% in December 2020 from a 23.6% growth in the previous month. It constitutes the largest share (44.7%) out of total exports from the manufacturing sector. This was in conformity with the Global Semiconductor Sales (GSS) which grew higher by 8.3% y-o-y in December 2020 (November 2020: 7.0%). In the short run, the global chip shortage will have a positive impact on Malaysian semiconductor and semiconductor-related companies as strong demand has increased capacity utilisation in general.
- ✓ As for the long run, China's 14th Five-Year-Plan (2021-2025) could provide the right catalyst for Malaysia's E&E sector given that exports to China accounted for 16.3% of the total of manufacturing exports. This is especially true as the world's second largest economy is expected to emphasize on technological innovation which includes digital infrastructure, including 5G, smart cities and Internet of Things (IoT) applications for the manufacturing sector.
- ✓ In addition, the latest forecast from the International Data Corporation (IDC) on worldwide shipments of used smartphones indicates that the shipment would reach 351.6 million units in 2024 with a 5-year compound annual growth rate (CAGR) of 11.2% from 2019 to 2024. This is in contrast to the recent decline in the new smartphone market by 5.9% y-o-y in 2020. The higher usage of used smartphones would entail higher demand for batteries and spare parts which may be required for refurbishing the smartphones before sale.

Global Semiconductor Sales (GSS) vs. Malaysia's E&E Exports



Worldwide Used Smartphone Shipments Forecasts (millions of units)

Region	2020 Shipments	2020 Market Share	2024 Shipments	2024 Market Share	2019-2024 CAGR
North America	55.0	24.4%	94.9	27.0%	14.90%
Rest of World	170.4	75.6%	256.7	73.0%	10.10%
Total	225.5	100.0%	351.6	100.0%	11.20%

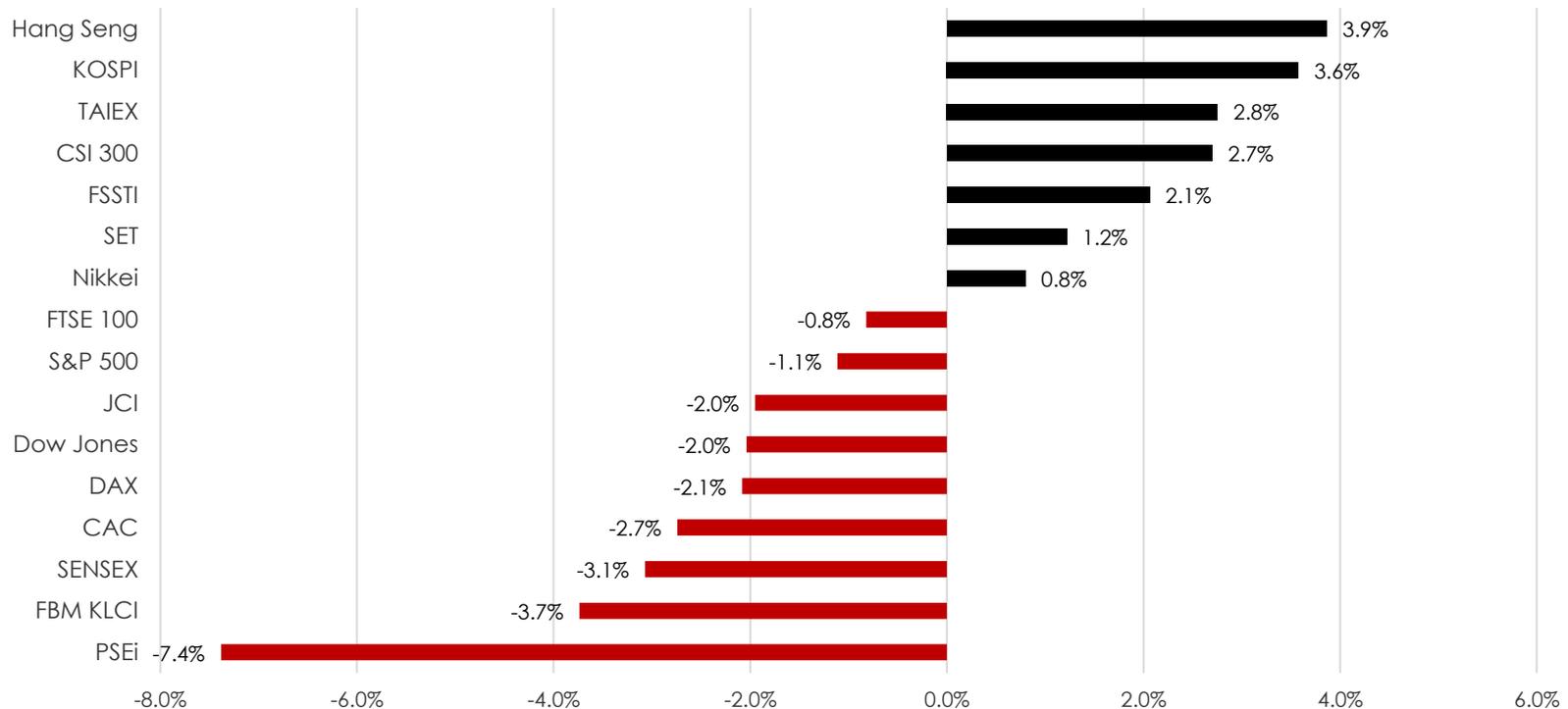
Source: Worldwide Used Smartphone Forecast, 2020–2024, Dec 2020



MALAYSIA'S FINANCIAL MARKET

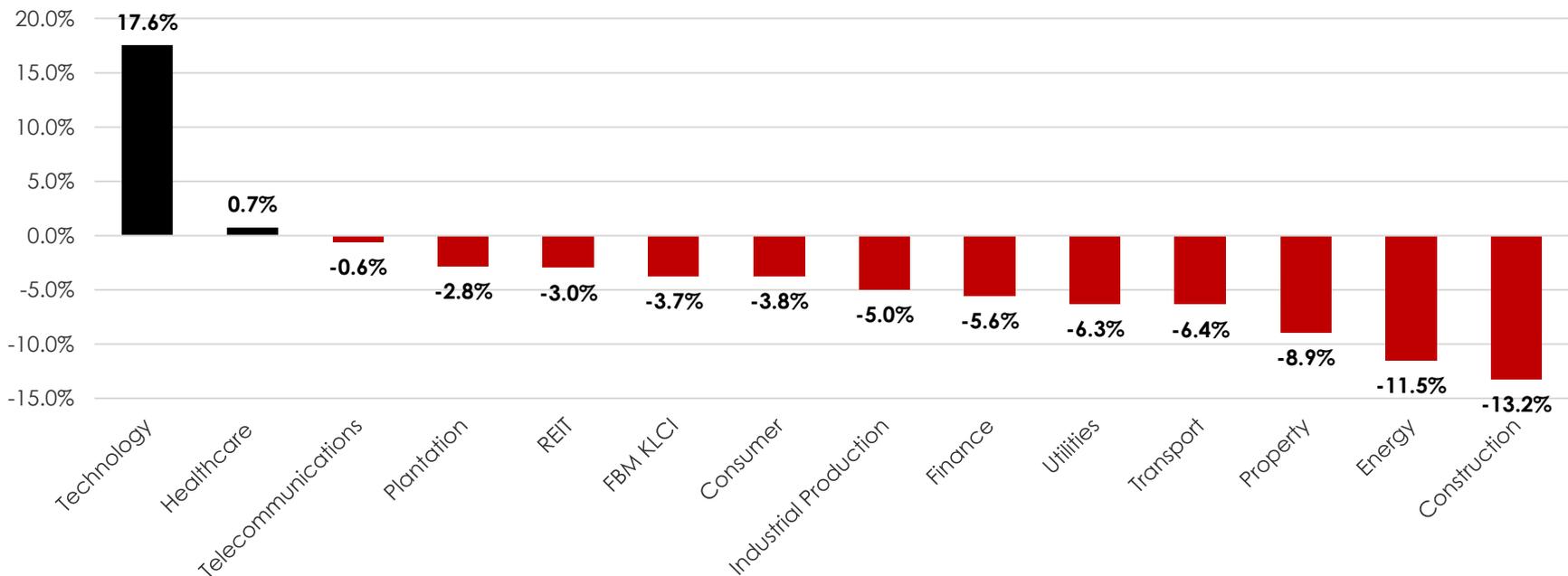
- ✓ Major equity markets worldwide ended mixed in January 2021. Gainers were led by Hong Kong's Hang Seng index which rose 3.9%, marking its fourth consecutive monthly gain. The rally was mainly attributable to the buying activity by mainland China investors which hit a monthly record via the Stock Connect linking it and Hong Kong. In January 2021, mainland investors purchased around HKD300 billion worth of Hong Kong stocks via the Stock Connect which reached a monthly record.
- ✓ The Philippines' PSEi was the world's worst performers in January 2021, after recording a 7.4% loss amid an exodus of foreign investors on pessimism over the local economy and efforts to contain the Covid-19 pandemic. In fact, the PSEi tumbled 3.5% on the last trading day of the month, the worst drop since August 2020 as overseas traders were net sellers for an 11th straight day.

Monthly Gains/Losses of Major Equity Markets in January 2021



- ✓ For the month of January 2021, the Bursa Malaysia Technology Index was the biggest gainer after closing 17.6% higher. The main driver for the rally was the global chip shortage which has become a boon to local semiconductor players as lockdowns and travel restrictions are prompting consumers to buy more smartphones, computers and laptops. Aside from that, the growth in electric vehicles has increased the automotive demand for semiconductor components.
- ✓ Meanwhile, the Bursa Malaysia Construction Index was the biggest loser, recording a 13.2% drop in January 2021. Sentiment for the sector was badly affected by the cancellation of the Kuala Lumpur-Singapore High Speed Railway project. The cancellation is expected to cause earnings prospects to be dim for construction players as local contractors that are in need of new projects will have to face intense competition to get new contracts which are limited in the market.

Bursa Malaysia Sectoral YTD Performance



- ✓ Looking into 2021, we think that the risk/reward profile of the market will be commendable. Based on the Bloomberg consensus, the market is expecting earnings to recover by 55.8% in 2021 after declining by -18.0% in 2020. The earnings rebound will be driven by a combination of a low base effect and the return of revenue growth.
- ✓ The market's valuation has risen to a price to earnings (PE) ratio of 21.4x as at 29 January 2021, slightly one standard deviation above the five-year average of 18.8x. Therefore, valuation seems to be reverting towards the mean. Nonetheless, we believe that valuations may remain slightly above the mean throughout 2021 amid expectations that earnings may recover at a stronger pace once the vaccination campaign has started in Malaysia.
- ✓ Therefore, we reiterate our year-end target of 1,715 points for the FBM KLCI index in 2021. This is pegged to a forward PE of 15.0x which is roughly -1.5 SD lower than the mean to reflect the expected earnings recovery which may be capped by a slower-than-expected vaccine distribution.

P/E Ratio of FBM KLCI



Earnings Growth Trajectory of the FBM KLCI

Year	Earnings Per Share (EPS) of FBM KLCI	Year-on-year (y-o-y) EPS Growth
2022F	111.8	-2.4%
2021E	114.5	55.8%
2020	73.5	-18.0%
2019	89.7	13.0%
2018	79.3	-26.5%
2017	107.9	9.8%
2016	98.3	4.4%
2015	94.2	-13.0%

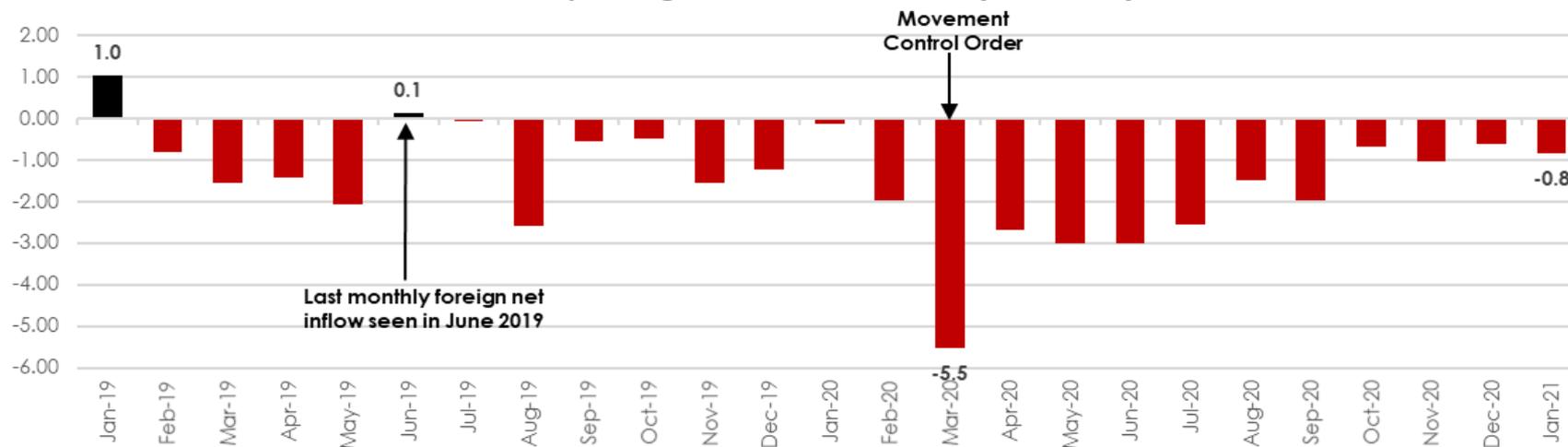
FOREIGN FUND FLOW-EQUITY

- ✓ Foreign fund net outflows in January 2021 reached RM834.7 million (December 2020: -RM595.0 million), marking the 19th consecutive month of foreign net selling on Bursa Malaysia. Aside from that, local retail investors have posted net inflows of RM1.8 billion (December 2020: RM1.6 billion) while local institutions dumped RM920.1 million in January 2021 after selling RM1.1 billion of local equities in December 2020.
- ✓ In comparison with other regional peers under our coverage, Malaysia recorded the smallest foreign net outflow in January 2021 while South Korea recorded the largest foreign net outflow during the same month at USD5.3 billion net. Meanwhile, India is the country with the largest foreign net inflow at USD2.0 billion net during January 2021.

Regional Foreign Net Inflow/Outflow in January 2021

Country	USD Billion
India	2.0
Indonesia	0.8
Malaysia	-0.2
Phillipines	-0.3
Thailand	-0.4
Taiwan	-3.4
South Korea	-5.3

Monthly Foreign Net Inflow/Outflow (RM billion)

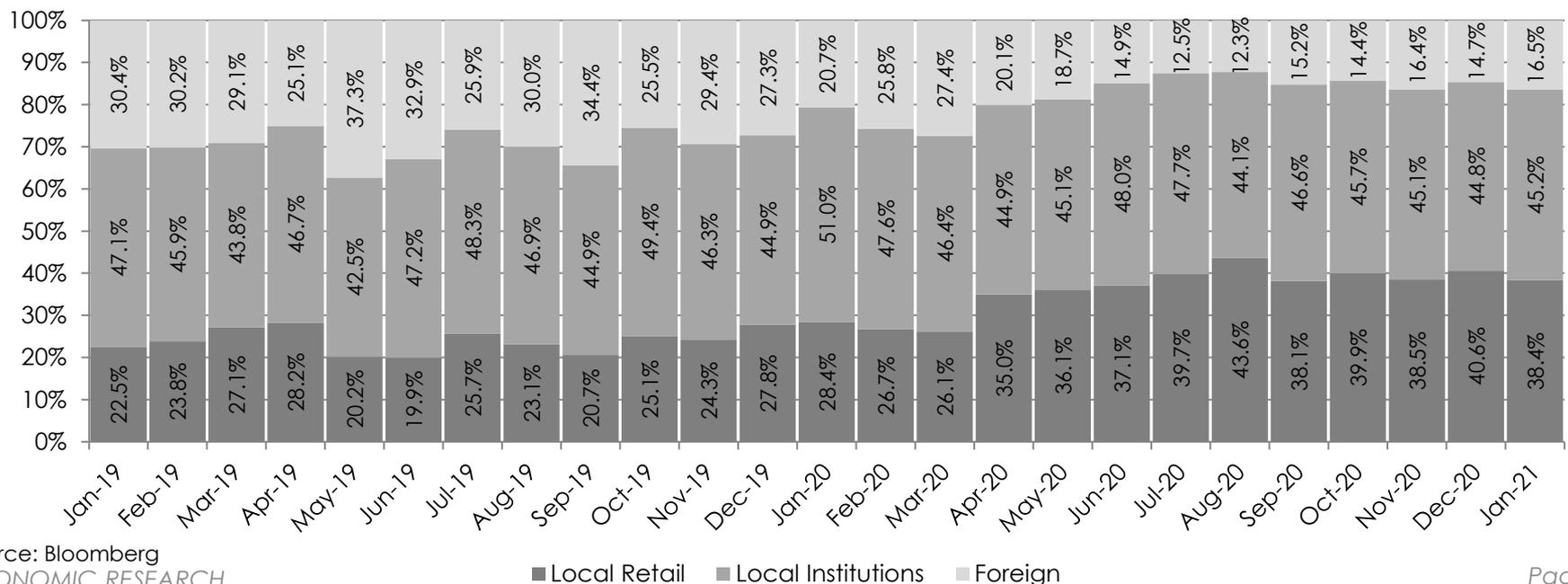


Source: Bloomberg

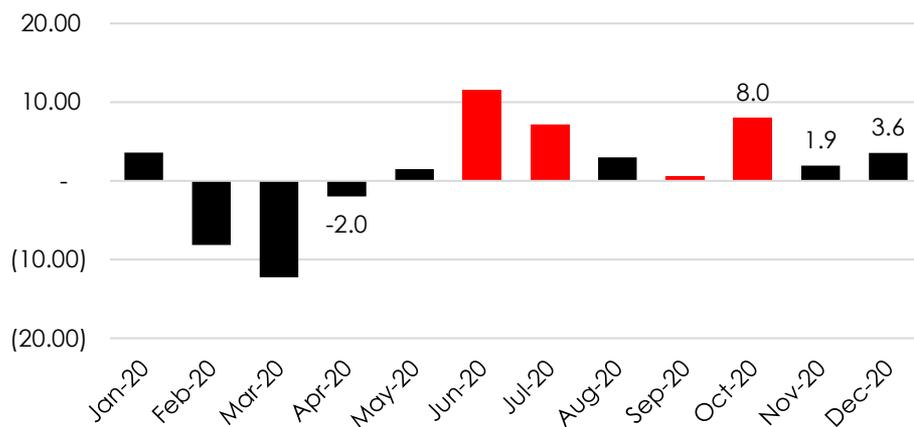
TRADING PARTICIPATION BASED ON VALUE TRADED

- ✓ We observed that the participation of retail investors remained robust, evident from the increase in retail investors' share of value traded on Bursa Malaysia which stood at 38.4% in January 2021 (December 2020: 40.6%).
- ✓ Recall that the retail investors' share of value traded on Bursa Malaysia has remained above 30.0% since April 2020.
- ✓ Meanwhile, foreign investors who have been constantly selling local equity saw their trading participation based on value traded on Bursa Malaysia increase to 16.5% in January 2021 (December 2020: 14.7%). We also noted that participation from local institutions was fairly stable at 45.2% in January 2021 (December 2020: 44.8%).
- ✓ Overall, the trading value of retail investors increased by a whopping 198.8% y-o-y to RM72.9 billion in January 2021 (January 2020: RM24.4 billion) due to the movement restrictions which led to more people trading at home. The total trading value in January 2021 for local institutions and foreign investors were also up albeit by a smaller magnitude of 96.0% (January 2020: 15.0%) and 76.2% (January 2020: -27.7%).

Trading Participation (%) Based On Value Traded Amongst Investor Types



Foreign Fund Flows in Bond Market, RM billion



Source: CEIC

Year	RM Million							
	Total	BNM Bills	BNNN/BNMN-I	Tbills	MITB	MGS	PDS & Others	GII
2009	22,304	7,114	644	432	25	12,035	2,032	21
2010	51,742	19,337	363	19	(60)	32,777	(847)	153
2011	43,511	13,440	(70)	258	(23)	28,770	(4,232)	253
2012	60,928	30,768	3,447	(288)	(67)	27,164	(800)	1,331
2013	8,031	(17,048)	15,155	333	110	7,407	166	1,409
2014	(8,313)	(7,601)	(9,127)	(878)	(88)	8,207	(1,764)	1,857
2015	(11,270)	(26,006)	(10,872)	2,495	534	16,834	(425)	6,480
2016	825	(15,557)	(79)	(1,107)	(452)	6,334	1,000	9,899
2017	(7,975)	(3,724)	-	753	802	(4,041)	922	(3,032)
2018	(21,865)	650	-	325	76	(18,287)	(2,517)	(2,603)
2019	19,852	-	-	(1,930)	(291)	17,735	327	5,202
2020	18,303	(3,000)	-	3,837	697	13,442	(784)	3,721

Source: CEIC

- ✓ Malaysia's bond market saw the eighth straight month of net foreign inflow in December last year at RM3.6 billion, rising from RM1.9 billion in November 2020.
- ✓ In addition, the foreign holdings ratio rose to 40.6% in December 2020 (November 2020: 40.1%); the highest level since February 2020 (39.6%).
- ✓ On a cumulative basis, the net inflows stood at RM18.3 billion in 2020 which was slightly lower compared to RM19.9 billion recorded in 2019.
- ✓ Apart from that, the 3-Y, 5-Y and 10-Y MGS remained low at 1.84% (31 December 2020: 1.88%), 2.07% (31 December 2020: 2.10%) and 2.71% (31 December 2020: 2.65%) as at 29 January 2021 amid risk-off mode among the investors.
- ✓ The buying momentum of local govies are expected to persist for now amid solid foreign appetite reiterated by the series of positive foreign inflows, as well as yield hunting amid low global interest rates.

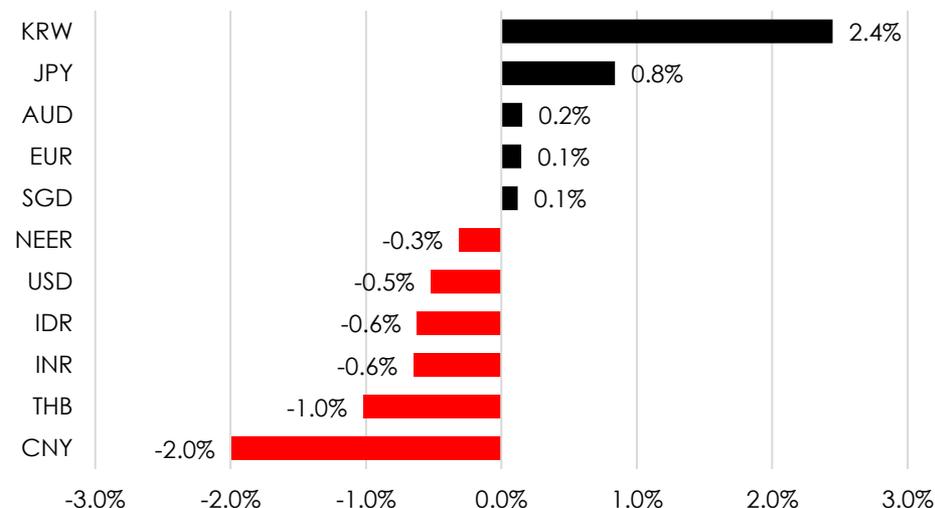
RINGGIT SLIPPED DURING JANUARY 2021

- ✓ The Ringgit traded lower by 0.5% against the US greenback during January to close at RM4.0400 compared to RM4.0203 at the end of December 2020. This was largely due to stronger USD as the US has proposed a USD1.9 trillion coronavirus relief package to ease the economic fallout from Covid-19 while the vaccination campaign roll-out could speed up the nation's economic recovery.
- ✓ On the local front, the extension of the Movement Control Order 2.0 (MCO 2.0) by another two weeks until 18 February, as well as anticipation of another rate cut during MPC meeting in March have stalled Ringgit upward price momentum.
- ✓ Be that as it may, the weakness could be cushioned by stronger Brent price which saw its third straight day of gains on 2 February, touching USD58.05 per barrel, the highest levels since January last year. The rally began as OPEC production increases were less than expected whilst the voluntary cuts of 1 million barrel per day (mbdp) by OPEC's de facto leader, Saudi Arabia, is set to be implemented from the beginning of February through March this year.
- ✓ All in all, the Ringgit may remain in a range of RM4.00 to RM4.05 per USD in the near term weighed by the efficacy of vaccine and high daily Covid-19 which has remained above 3,000 cases per day.

USDMYR



YTD Performance of MYR Against Other Currencies, %



- ✓ **Manufacturing activity has felt the brunt of MCO 2.0** - Following the reimposition of MCO 2.0 from 13 January 2021 to 18 February 2021, we opine that the GDP in 1Q2021 is set to face a contraction. The impact of the MCO 2.0 can already be seen in the manufacturing sector, evident from Malaysia's manufacturing PMI which slipped to 48.9 points in January 2021 from 49.1 points in December 2020. Both output and new orders were scaled back in January as the pandemic undermined demand, while export sales also lost further momentum as some external markets also battled a resurgence in infections.
- ✓ **Overall GDP to grow by 4.0% in 2021** - As we have previously anticipated an extension of the MCO and incorporated it into our estimates, we reiterate our 4.0% GDP growth forecast for 2021. As mentioned earlier, the economic growth in 1Q2021 will face downward pressure from MCO 2.0. Notwithstanding this, the second half of 2021 is expected to see a brighter business sentiment should the vaccination campaign be implemented accordingly.
- ✓ **Accommodative monetary policy is inevitable** - On the monetary policy front, a highly accommodative monetary policy via another overnight policy rate (OPR) cut is warranted in order to supplement the expansionary fiscal policies so that a decent economic growth could be sustained in light of the uncertainties posed by the pandemic. Plus, the Credit Rating Agencies (CRAs) have grown a "little" uncomfortable with the elevated levels of government debt and narrowing tax base. As such, we opine the BNM may need to chip in by reducing the OPR by 25 basis points to 1.50% in the March meeting.
- ✓ **Social media-driven retail frenzy not sustainable in the long run** - The big four rubber glove companies, particularly Top Glove, surged by 4.6% on 2 February 2021 as retail investors piled into the stock in a bid to emulate the short squeeze seen with US video game retailer, GameStop. However, the share price of Top Glove slumped by more than 3.0% the next day signalling the issue of sustained buying from retail investors. Institutional investors tend to have "deeper pockets", which may lead to an issue of who has the stamina to sustain their initiatives.

A cityscape at sunset with a pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright horizon. A prominent road with traffic is visible in the foreground.

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