



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **MONTHLY ECONOMIC & MARKET UPDATES**

**6 JANUARY 2021**

**ECONOMIC RESEARCH**

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**NOR JANNAH ABDULLAH**

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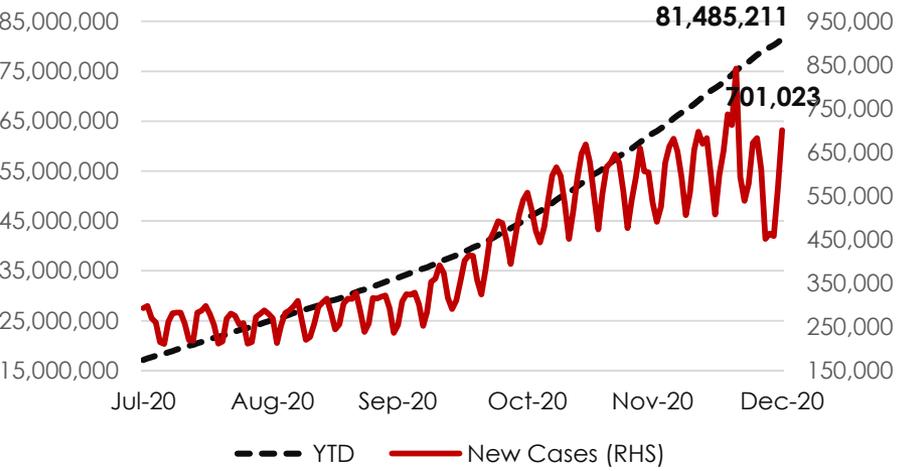


# GLOBAL ECONOMY

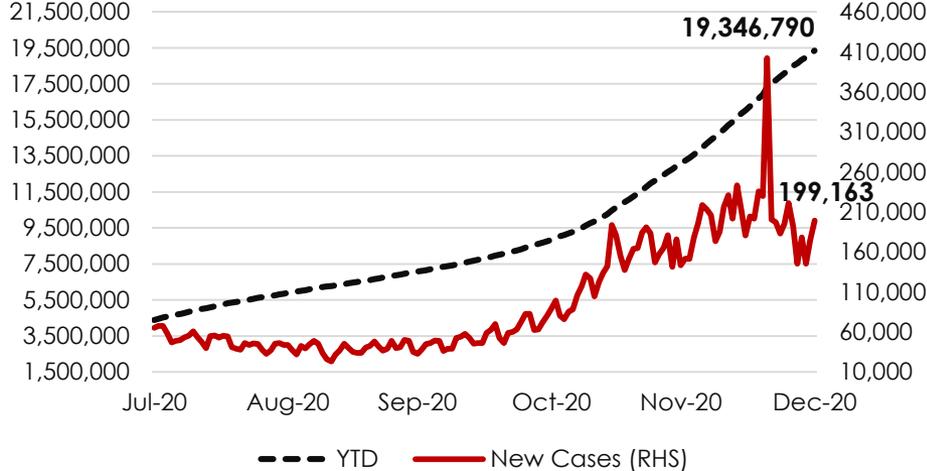
- ✓ **Worldwide Covid-19 confirmed cases have exceeded 80.0 million in December 2020** – The total number of people infected with Covid-19 globally was reported at 81.5 million as at 31 December 2020. The highest number was reported in the US, increasing to 19.3 million on 31 December from 13.1 million on 30 November. This was followed by India (31 December: 10.3 million vs. 30 November: 9.4 million) and Brazil (31 December: 7.6 million vs. 30 November: 6.3 million).
- ✓ **Extension of Recovery Movement Control Order (RMCO)** – Malaysian government has extended the Covid-19 related restrictions until 31 March 2021 following a significant increase in Covid-19 cases, as well as higher rate of infections. New infections soared to a level of above 2,000 new cases in a single day in December 2020, triggering further restrictions to be in placed.
- ✓ **Covid-19 vaccine development** – The Covid-19 vaccine development has seen tremendous progress which should alleviate the cautious sentiment and improve market performance. However, after the vaccine has been authorized and fully licensed, it would face potential challenges when it comes to scale up production and distribution. For instance, the vaccines developed by Pfizer Inc and BioNTech requires a low storage temperature requirement of minus 70 degrees Celsius, as cold as Antarctica in winter.
- ✓ **Manufacturer sentiments continued to improve** – Despite rising concerns over the resurgence of Covid-19 pandemic globally, the J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) stood at 53.8 points in December, unchanged from November's 33-month high of 53.8 points and remained above the 50-point demarcation line for the sixth consecutive month. This suggests that the sector continued to recover from Covid-19 related downturn.

# COVID-19 : THE US, INDIA AND BRAZIL CONTINUED TO RECORD THE HIGHEST NUMBER OF INFECTION CASES DAILY

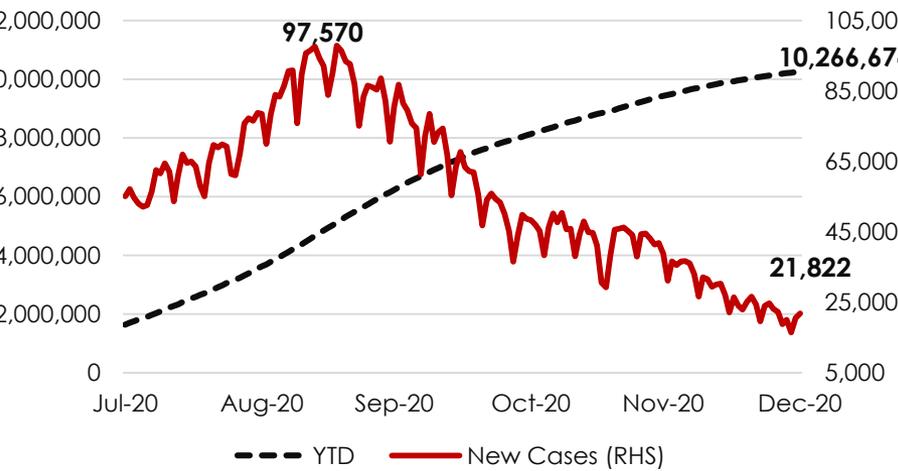
### Global YTD and New Cases



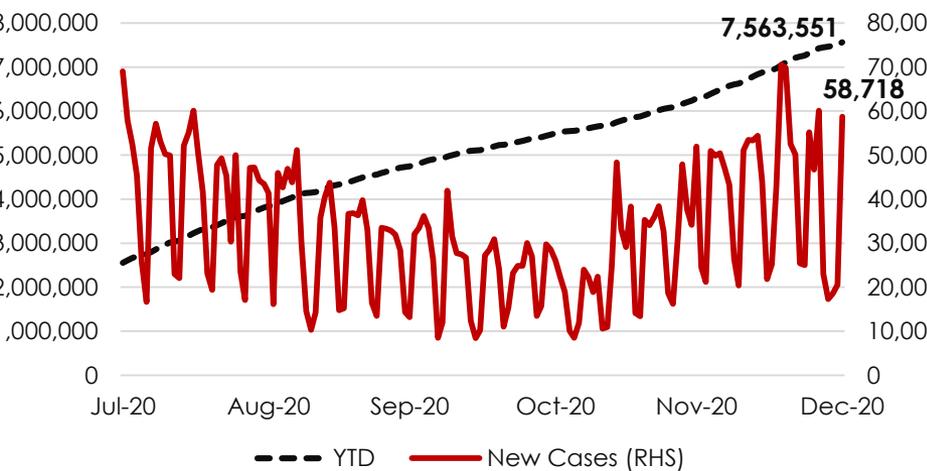
### US YTD and New Cases



### India YTD and New Cases



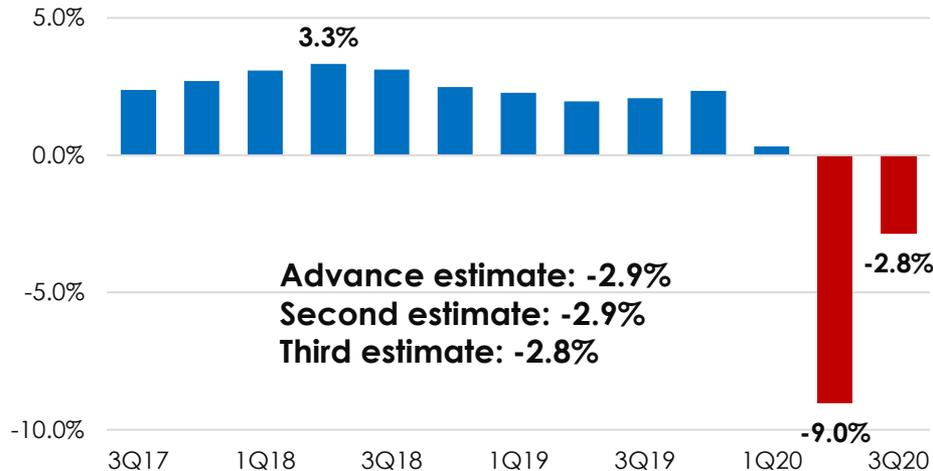
### Brazil YTD and New Cases



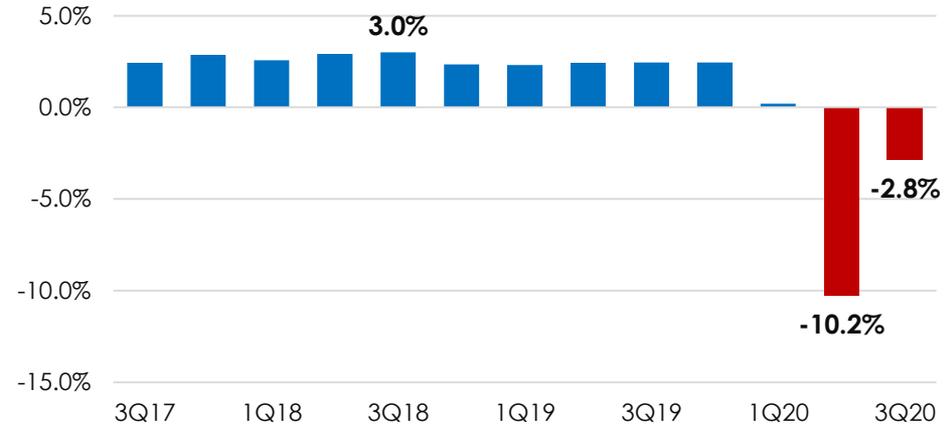
Source: CEIC

# US GDP IS ESTIMATED TO CONTRACT BY 2.8% IN 3Q2020 (THIRD ESTIMATES)

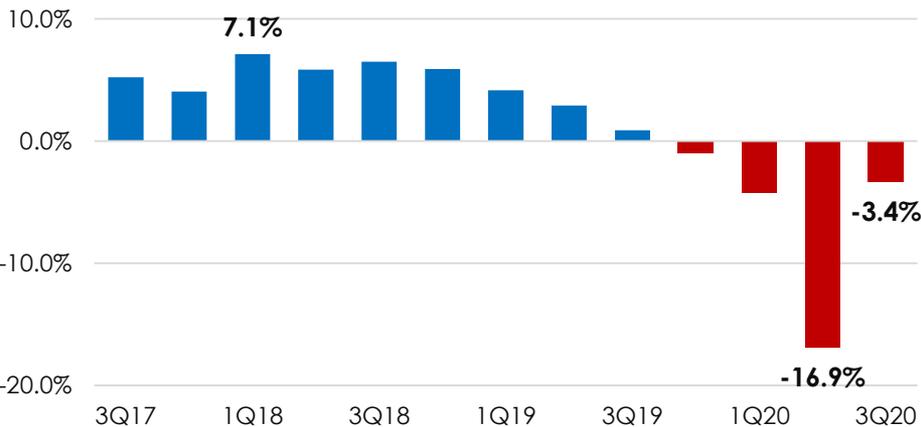
### GDP Growth, y-o-y%



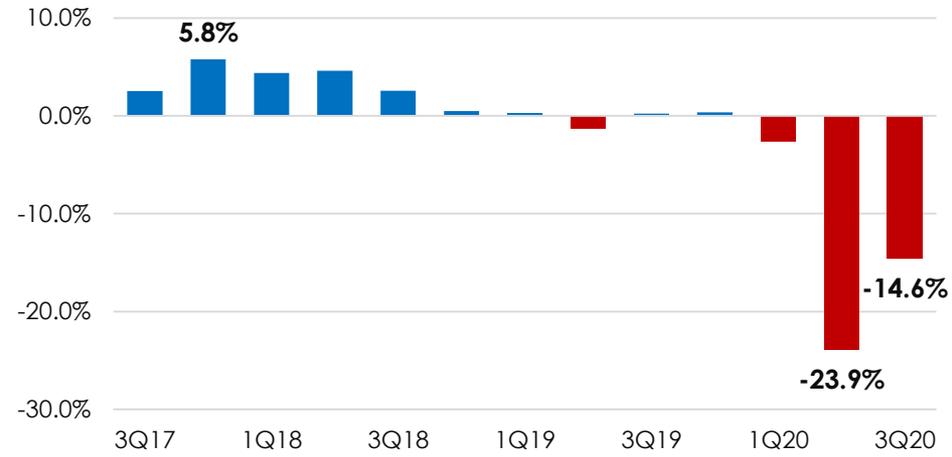
### Personal Consumption Expenditure (PCE), y-o-y%



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

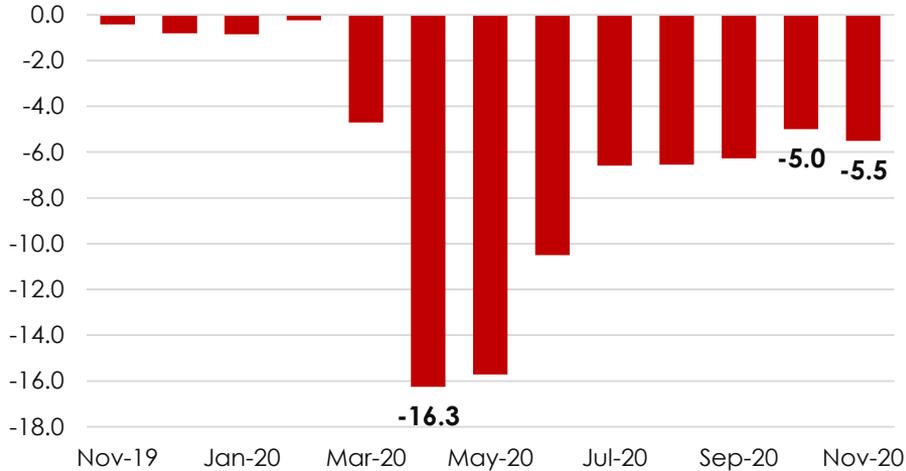


### Export, y-o-y%

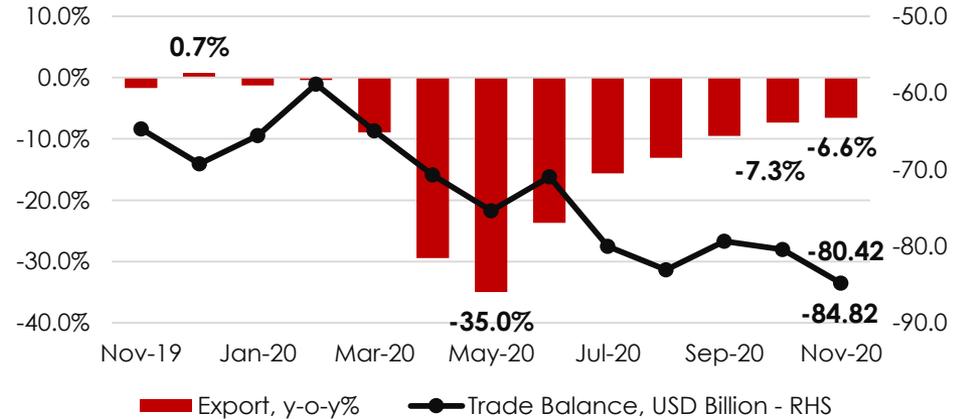


Sources: US Bureau of Economic Analysis (BEA), CEIC

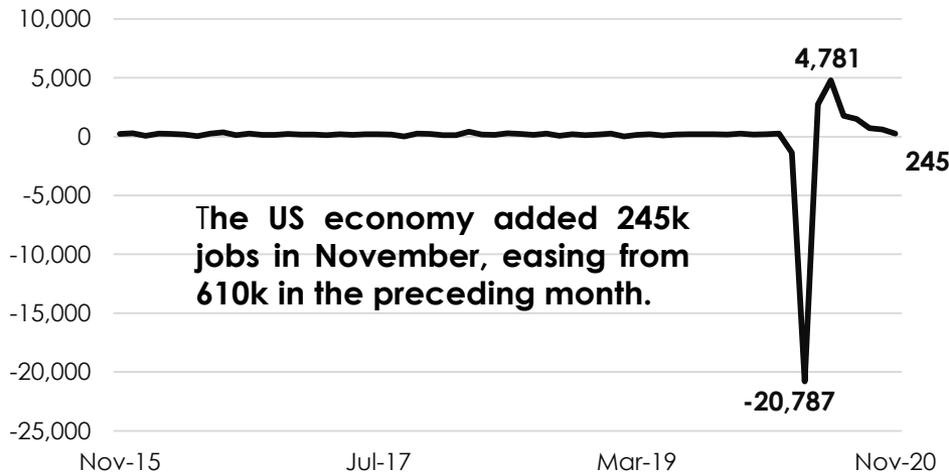
### Industrial Production, y-o-y%



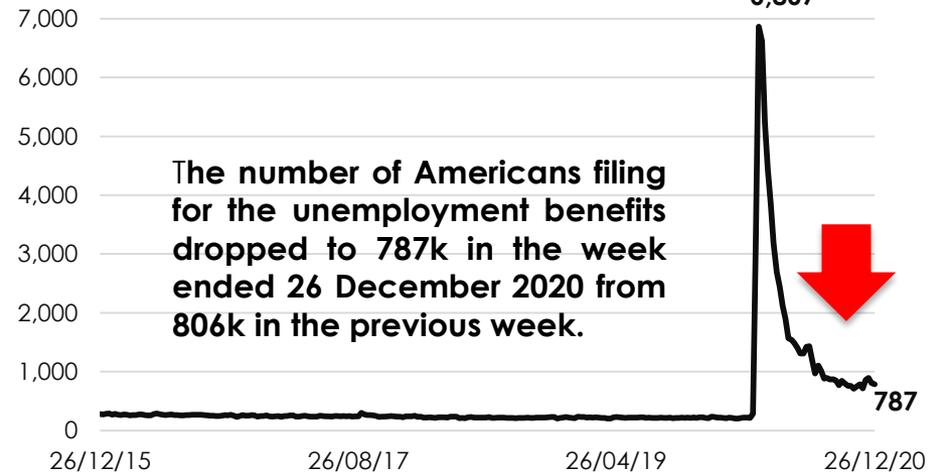
### Exports, y-o-y% vs. Trade Balance (USD Billion)



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

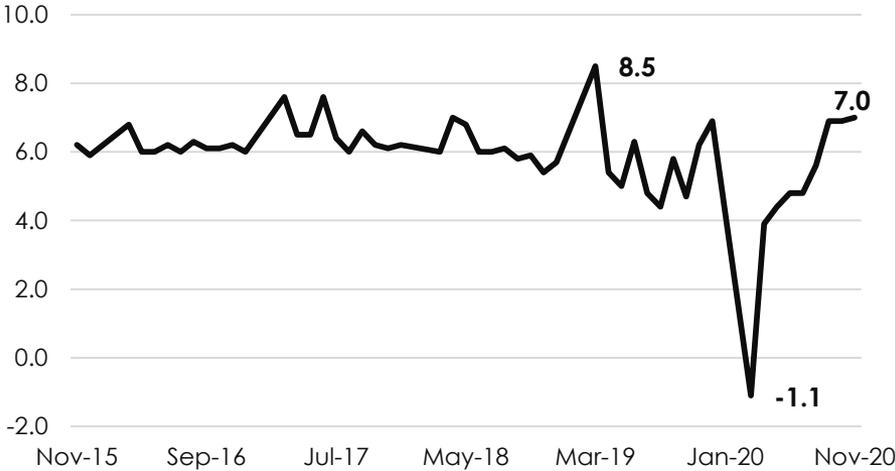


### Initial Jobless Claims (IJC), '000

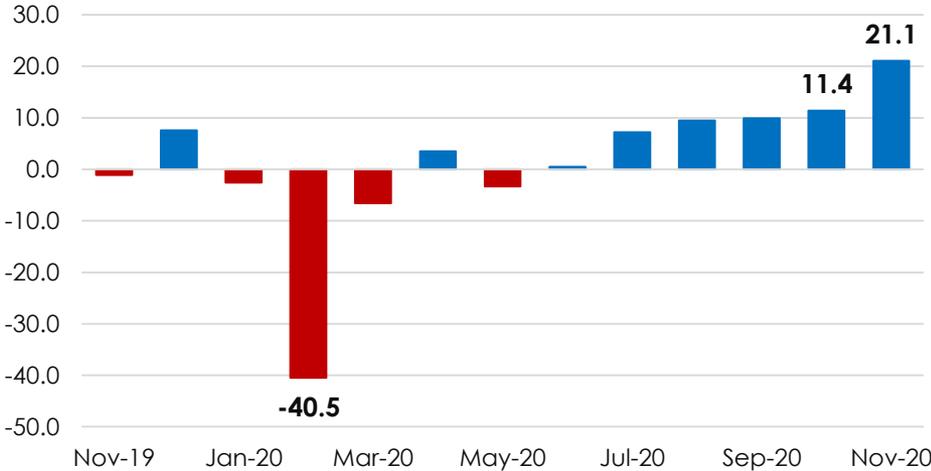


# CHINA ECONOMY – STEADY RECOVERY

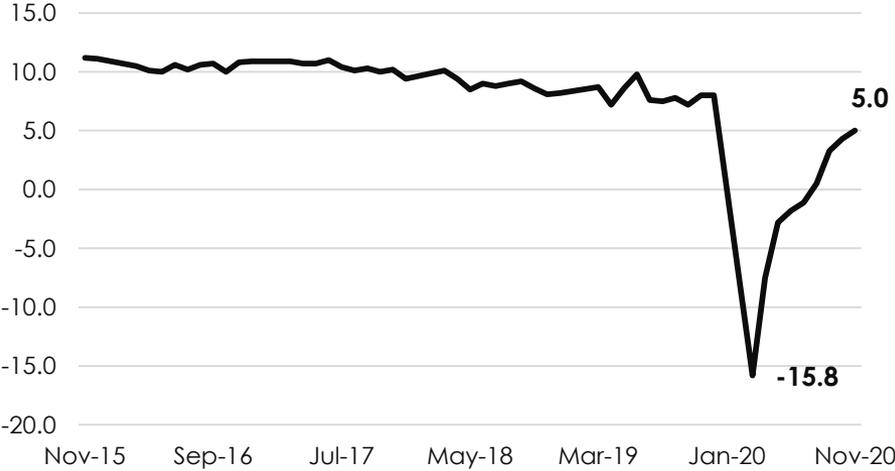
**Industrial Production, y-o-y%**



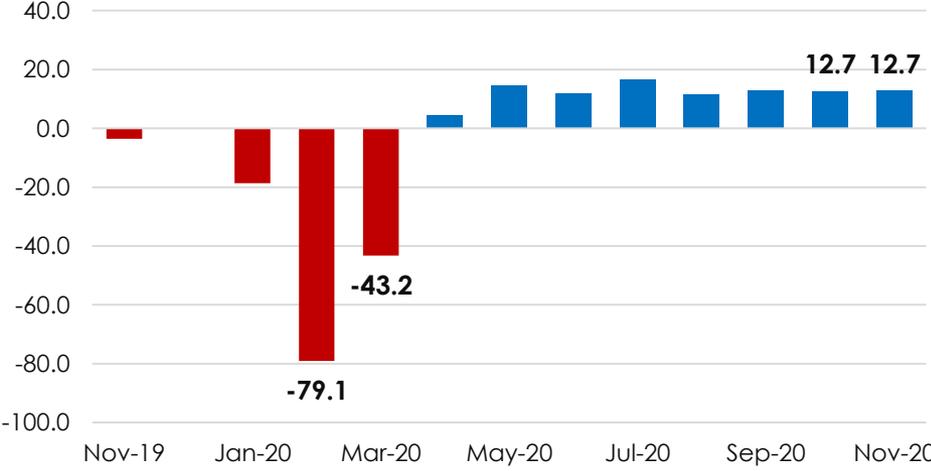
**Exports, y-o-y%**



**Retail Sales, y-o-y%**

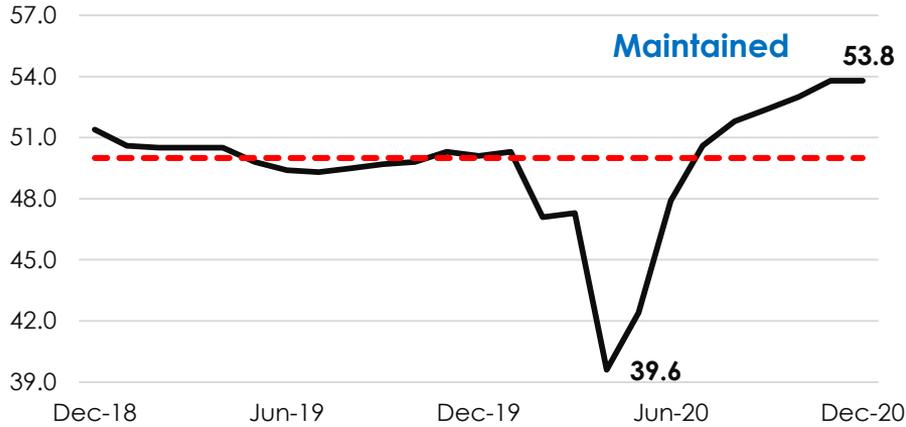


**Vehicle Sales, y-o-y%**

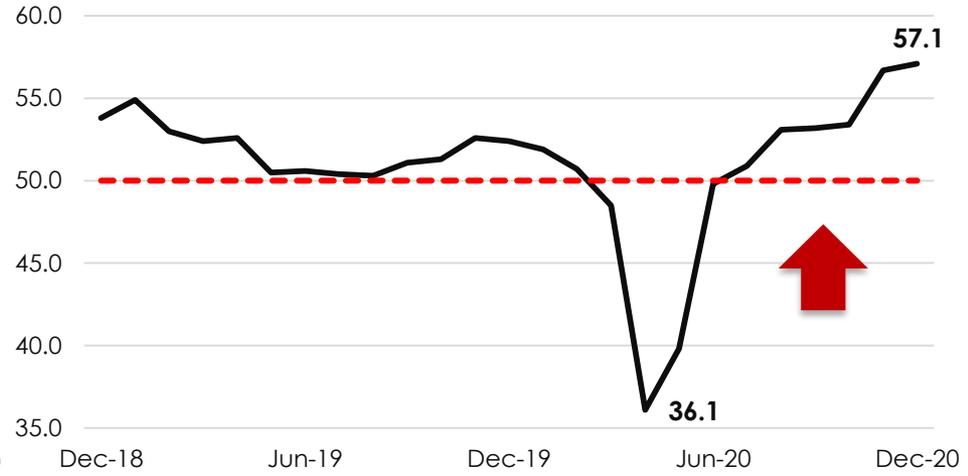


# MANUFACTURER SENTIMENTS ARE IMPROVING

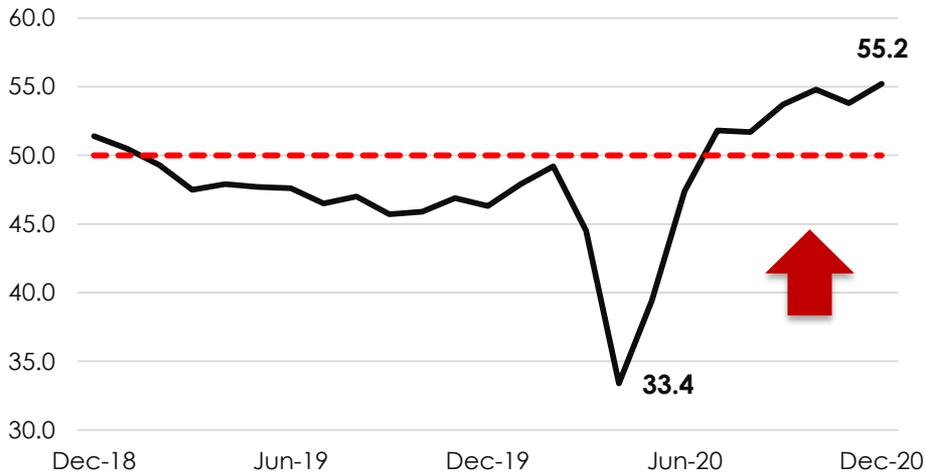
### J.P. Morgan Global Manufacturing PMI, points



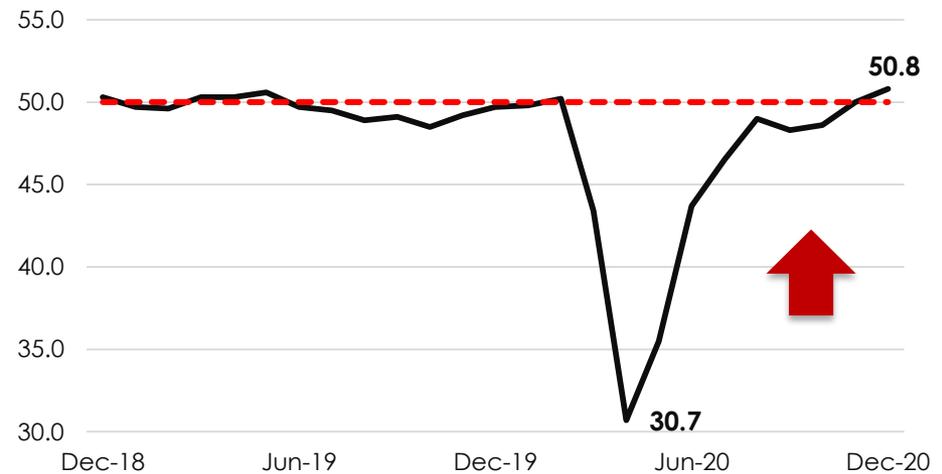
### US Manufacturing PMI, points



### Eurozone Manufacturing PMI, points



### ASEAN Manufacturing PMI, points



# 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*
<b>Advanced countries</b>													
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
<b>Latin America</b>													
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
<b>Eastern Europe</b>													
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	15.00	17.00
<b>Asia</b>													
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 5 January 2021

Source: Bloomberg

Central banks across the globe have played a pivotal role in easing financial conditions in response to the Covid-19 shock. Lower-for-longer interest rate environment is expected until the end of this year amid higher number of Covid-19 infection cases globally.



# DOMESTIC LANDSCAPE

# WORLD BANK - MALAYSIA'S ECONOMY IS EXPECTED TO GROW BY 6.7% IN 2021 FROM PROJECTED CONTRACTION OF 5.8% IN 2020

- ✓ Malaysia's economy is forecasted to expand by 6.7% in 2021 from 5.8% contraction in 2020 according to the World Bank.
- ✓ The recovery can be attributed by lower base in 2020, as well as improvements in exports, private consumption and investments.



## Gross Fixed Capital Formation (GFCF)



**2021F: 7.2%**  
**2020E: -13.4%**

- ✓ Accommodative policy and measures such as investment tax incentives will spur new investments and relocation of operations into Malaysia.

## Private Consumption



**2021F: 7.4%**  
**2020E: -4.8%**

## Exports

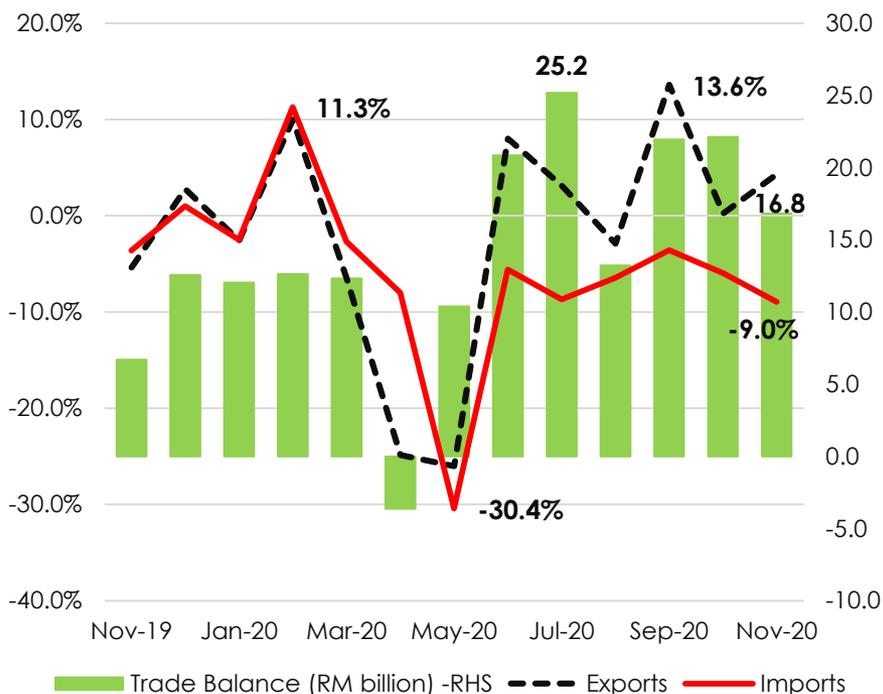


**2021F: 8.9%**  
**2020E: -9.3%**

- ✓ Private consumption would remain the key driver of growth, supporting by the pandemic related stimulus measures including cash transfers and targeted repayment assistance.

- ✓ Recovery in economic activities of main trading partner such as China could contribute to positive growth of export performance.

## External Trade

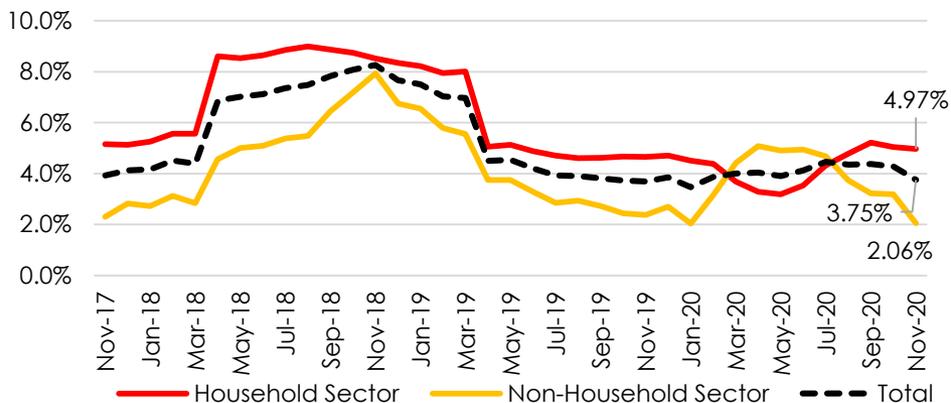


Source: CEIC

- ✓ Malaysia's exports increased by 4.3% year-on-year (y-o-y) in November, higher than 0.2% growth recorded in the previous month.
- ✓ The expansion was largely propelled by exports of Manufacturing sector (November: 8.1% vs. October: 2.5%) which formed a sizeable share of 88.1% of total exports.
- ✓ However, exports of Mining continued to decline by 34.6% in November (October: -47.2%) though at a slower pace while exports of Agriculture softened by 6.0% after registering a double-digit growth of 28.7% in October.
- ✓ Within the Manufacturing sector, sales of rubber products rose by 124.8% in November (October: 127.3%), marking a thirteenth month of growth amid prolonged Covid-19 pandemic which led to the strong demand for rubber gloves.
- ✓ As for imports, it dropped further by 9.0% in November after falling by 6.0% in October. This was due to the decline in imports of capital goods (November: -26.5% vs. October: -14.9%), consumption goods (November: -7.2% vs. October: 3.1%), dual use goods (November: -50.0% vs. October: -9.0%) and intermediate goods (November: -10.6% vs. October: -6.0%) during November.

- ✓ Consequently, the trade balance widened to RM16.8 billion in November 2020 from RM6.7 billion during the same month in 2019.
- ✓ On a cumulative basis, the exports and imports recorded a negative growth of 2.6% (11M2019: -1.2%) and 7.0% (11M2019: -3.9%) respectively during 11M2020. On the other hand, the trade balance increased from RM133.1 billion in 11M2019 to RM163.9 billion in 11M2020.

## Financing Outstanding by Sector, y-o-y%

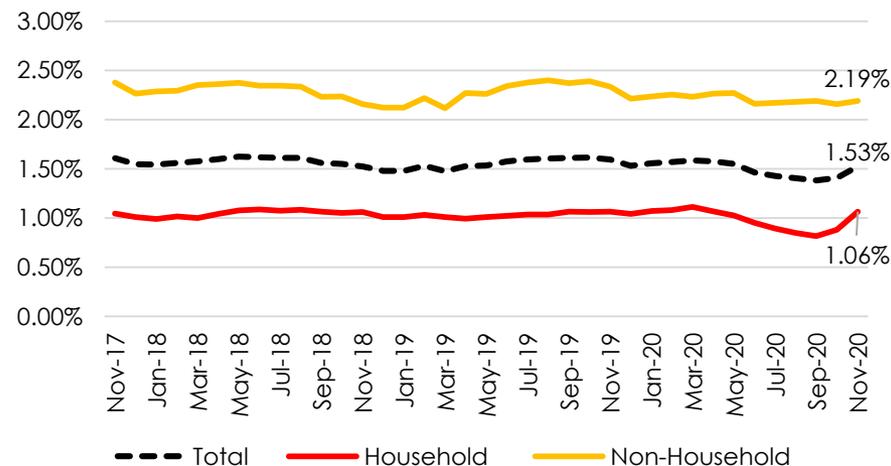


Source: CEIC

- ✓ In relation to impairment, the Gross Impaired Financing Ratio (GIFR) rose higher to 1.53% in November last year (October 2020: 1.41%) as both Household and Non-Household sectors rose to 1.06% (October 2020: 0.88%) and 2.19% (October 2020: 2.16%) respectively during November 2020.
- ✓ The uptick was seen in the purchase of transport vehicles (November 2020: 0.63% vs. October 2020: 0.48%), purchase of residential property (November 2020: 1.17% vs. October 2020: 0.97%), personal use (November 2020: 1.84% vs. October 2020: 1.51%) and credit card (November 2020: 0.98% vs. October 2020: 0.95%).
- ✓ This was largely underpinned by the end of 6-month blanket moratorium on 30 September which led to higher impaired financing.
- ✓ Furthermore, the BNM has projected the overall GIFR to raise above 4.00% by the end of 2021 mainly driven by the business sector.

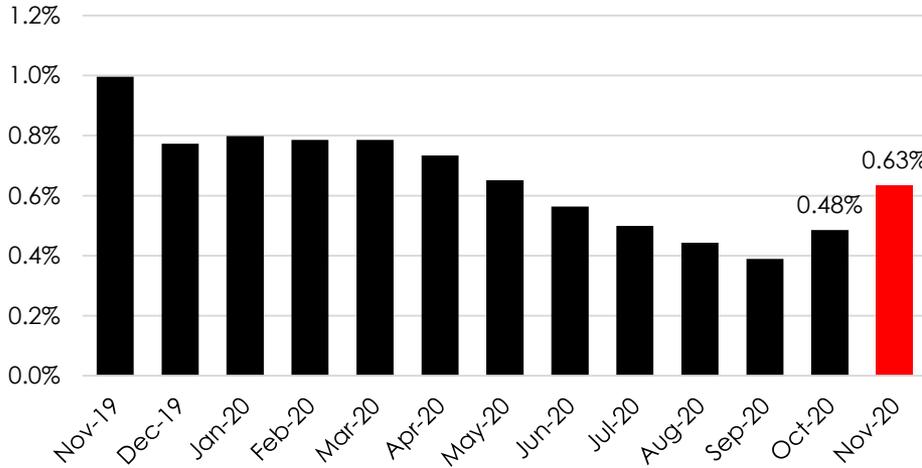
- ✓ The banking system's financing growth moderated by 3.75% y-o-y in November 2020 from a 4.27% increase in October 2020. Within the sector, both Household and Non-Household sectors increased at a slower rate of 4.97% (October 2020: 5.05%) and 2.06% (October 2020: 3.19%) during November 2020.
- ✓ However, purchase of transport vehicles continued to rise since August last year (1.51%) with November 2020 recording a 4.49% growth after the government offered a sales tax relief for buyers following a slump in sales during Movement Control Order (MCO).

## GIFR, %

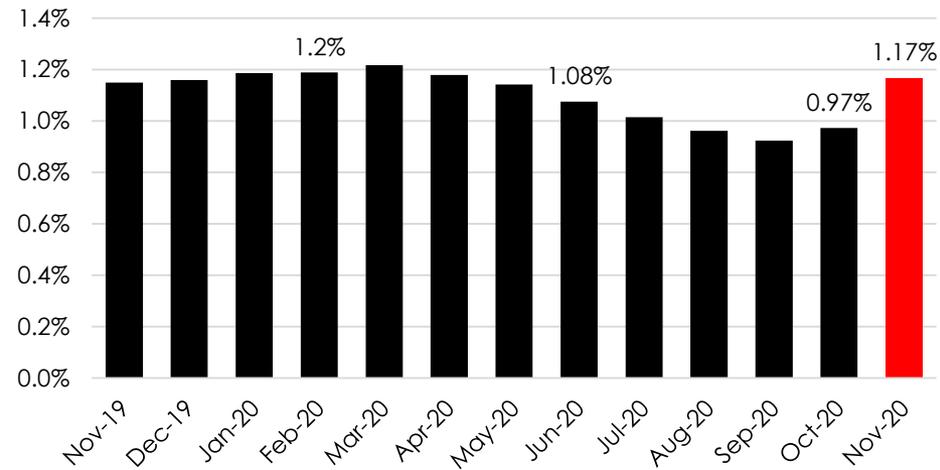


Source: CEIC

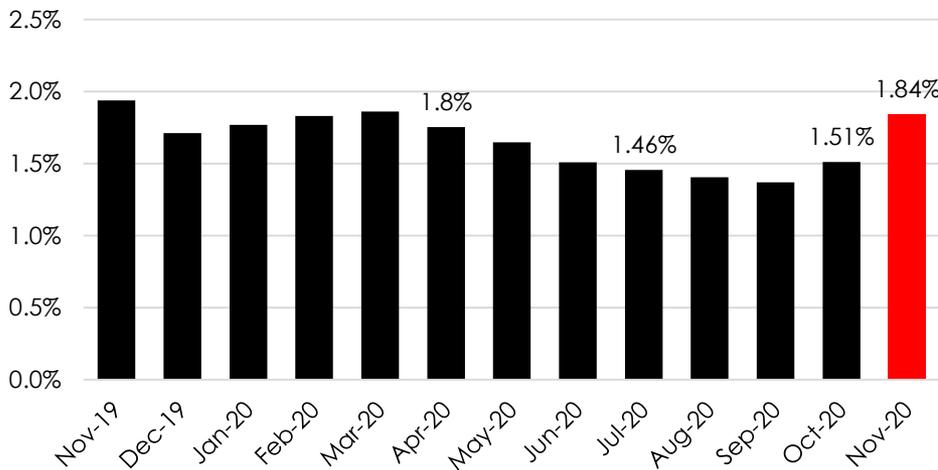
## GIFR- Purchase of Transport Vehicles



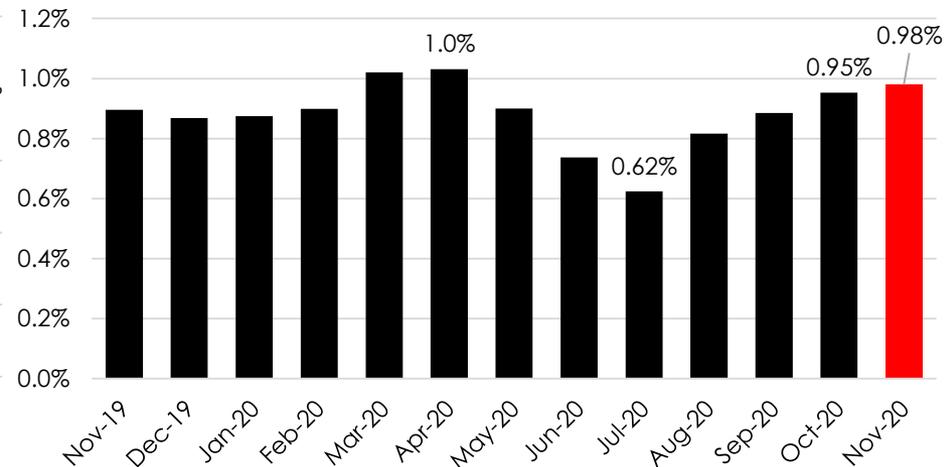
## GIFR- Purchase of Residential Property



## GIFR- Personal Use



## GIFR- Credit Card



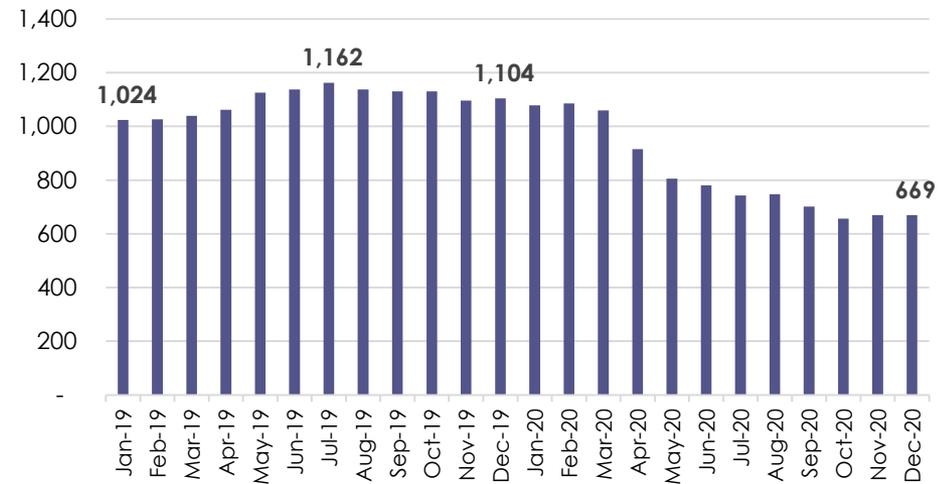
Source: CEIC, BNM

### Brent Price, USD per barrel



Source: Bloomberg

### International Oil Rig Count



- ✓ The positive sentiment brought by the Covid-19 vaccine led to an 8.8% monthly increase in Brent price to USD51.80 per barrel on 31 December 2020 from USD47.60 per barrel on 30 November 2020.
- ✓ Notwithstanding this, Brent price recorded a 21.5% annual decline in 2020 compared to a 22.7% increase in the year before due to weakening demand for oil especially jet fuel since most international borders remained closed for travellers. As such, total international rig counts stood at 669 units as at end of 2020 compared to 1,104 rigs at the end of the preceding year.
- ✓ Back in December 2020, the OPEC+ initially agreed to increase output by 500,000 barrels per day (bpd) and adjust production cuts to 7.2 million bpd from 7.7 million bpd previously. The latest outcome of the OPEC+ meeting on 5 January 2021 indicated that the OPEC+ will now lift oil production by 75,000 bpd over January levels, leading to a smaller output cut of 7.125 million bpd in February. March will also see a further reduction in production cuts to 7.05 million bpd. More importantly, Saudi Arabia voluntarily planned to cut an additional 1.0 million bpd in February and March above its current quota, all while OPEC's allies (Russia and Kazakhstan) get to ramp up production. Therefore, the OPEC+ will reduce output to a tune of 8.125 million bpd and 8.05 million bpd in February and March respectively.

# OIL & GAS- DECOMMISSIONING ACTIVITIES TO BE THE HIGHLIGHT IN THE COMING YEARS

## Petronas Outlook For Decommissioning Of Facilities and Wells

Type of Facilities	2020	2021	2022	2023
Subsea Facilities	5	0	0	0
Floaters	1	0	2	1
Platform	0	0	1	3
Wells	15	18	24	29
Conductor Removal	0	0	51	10
<b>Total</b>	<b>21</b>	<b>18</b>	<b>78</b>	<b>43</b>

Source: Petronas Activity Outlook 2021-2023

## Petronas Outlook Demand For Rigs

Type of Rigs	2020	2021	2022	2023
Jack-up Rigs	23	10	7	10
Tender Assisted Drilling Rigs	5	4	5	4
Hydraulic Workover Units	4	5	4	4
Semi-Submersible and Drillship	5	3	2	1
<b>Total</b>	<b>37</b>	<b>22</b>	<b>18</b>	<b>19</b>

Source: Petronas Activity Outlook 2021-2023

- ✓ According to Petroliaam Nasional Berhad's (Petronas) annual activity outlook report for the year 2021-2023 published on 31 December 2020, Petronas is planning to conduct the decommissioning of wells and facilities with the peak slated to be in 2022 amidst the current challenging operating climate.
- ✓ As for the drilling segment, Petronas expects an average of 22 rigs to be chartered in 2021 (10 jack-up rigs, 4 tender assisted drilling rigs, 5 hydraulic workover units, 3 semi-submersible and drillships) as compared to an average of 37 rigs (23 jack-up rigs, 5 tender assisted drilling rigs, 4 hydraulic workover units, 5 semi-submersible and drill ships) in 2020.
- ✓ There were as many as 23 rigs in total with peak utilization in March before it started to decline due to Covid-19 and plummeting oil prices.
- ✓ While Brent oil prices have breached the USD50.00 per barrel mark from mid-December 2020, Petronas would not have the propensity to materially elevate its capex spending this year due to its dividend obligations to the government as Malaysia thrives to recover from the Covid-19 pandemic. However, capex may start picking-up from 3Q2021 provided that there will be a successful roll-out of vaccines and the dissipation of Covid-19.

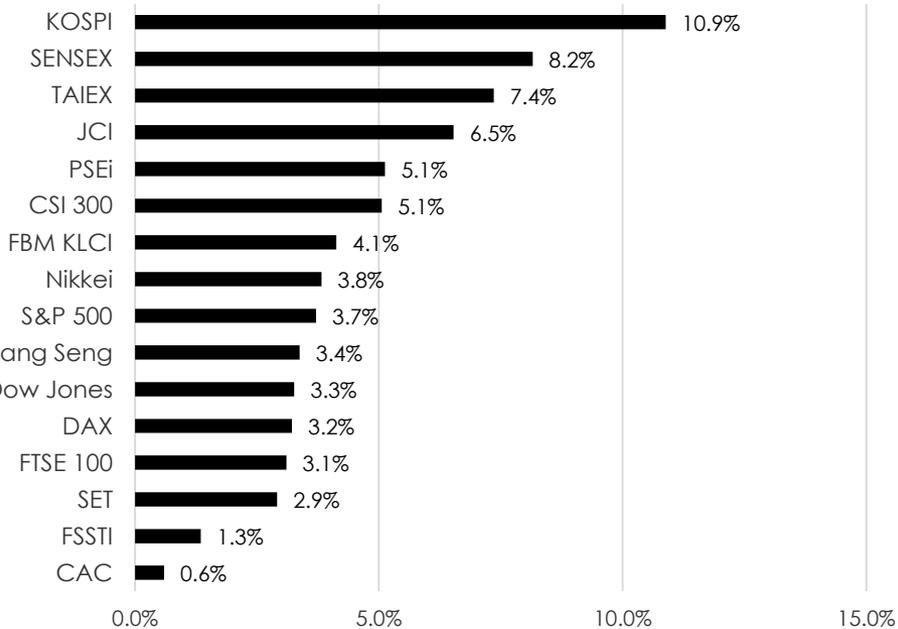


# MALAYSIA'S FINANCIAL MARKET

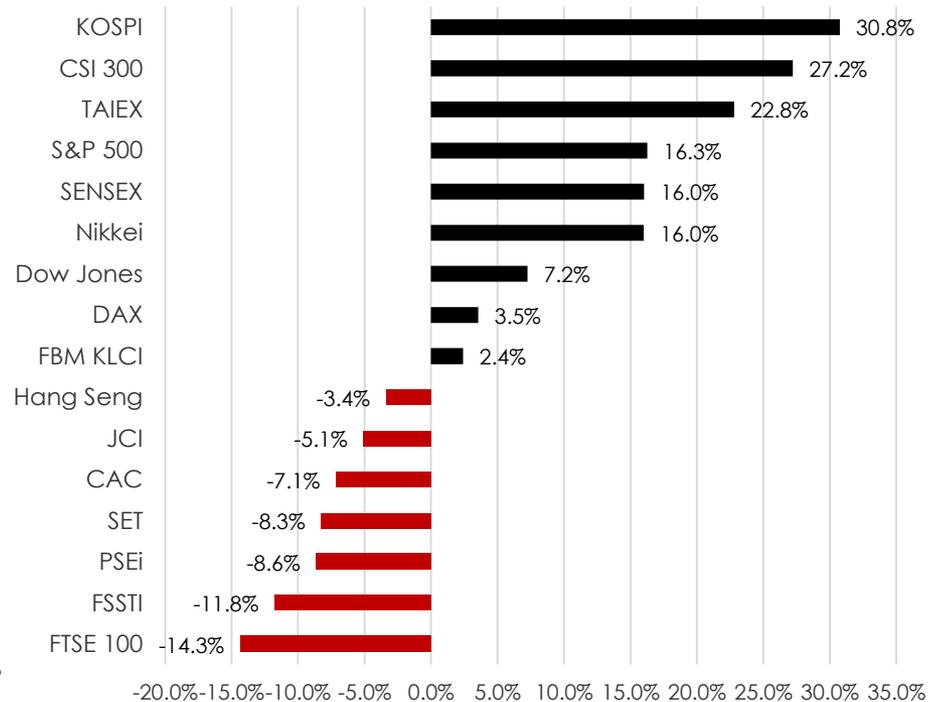
# FBM KLCI WAS THE ONLY GAINER IN ASEAN DURING 2020

- ✓ Majority of regional equity markets ended in the green zone during December 2020. South Korea's KOSPI index recorded the biggest monthly gain of 10.9% as local stocks rallied for a third day in the final trading week of 2020 to hit yet another new record high on the last trading day of the year. The last trading day of the year witnessed firm gains on the back of individual investors' strong buying sentiment as they expect a fast economic recovery from the ongoing pandemic in 2021. Likewise, the KOSPI index was the best performer during 2020 as it saw an annual gain of 30.8%.
- ✓ On the domestic front, the FBM KLCI gained 4.1% in December which then led to an overall gain of 2.4% in 2020 despite the impact from the pandemic and political uncertainty faced by the country. In comparison with its ASEAN peers, the FBM KLCI was the only market which logged an annual gain compared to other peers such as Indonesia's JCI index, Thailand's SET index, Singapore's FSSTI index and the Philippines' PSEi index which recorded losses in 2020.

### Gains/Losses of Benchmark Indices in December 2020



### Benchmark Indices YTD Gain

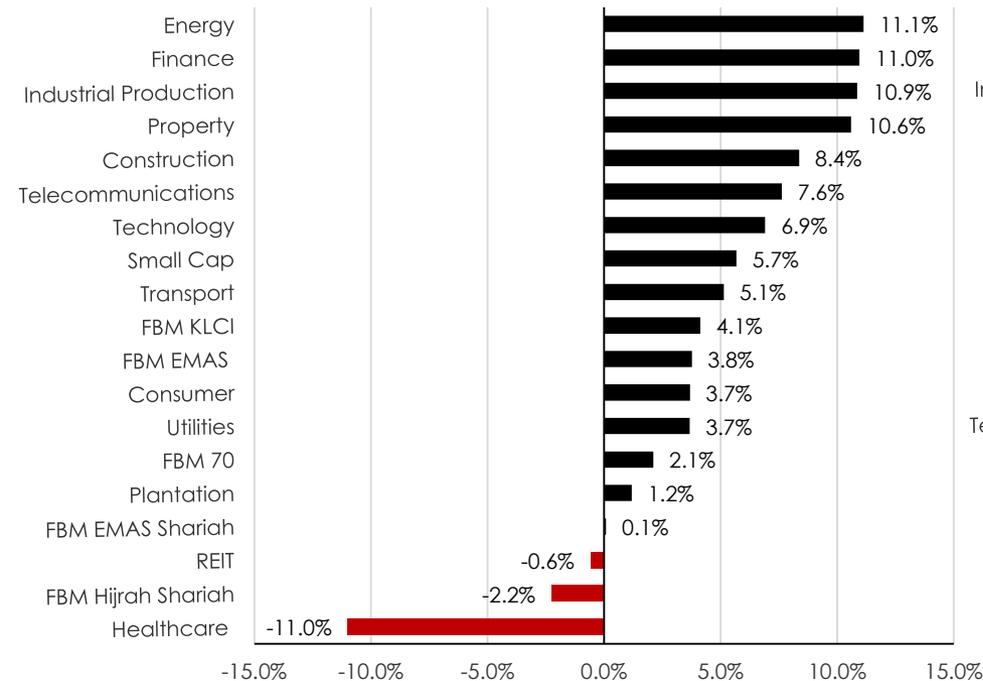


Sources: Bloomberg

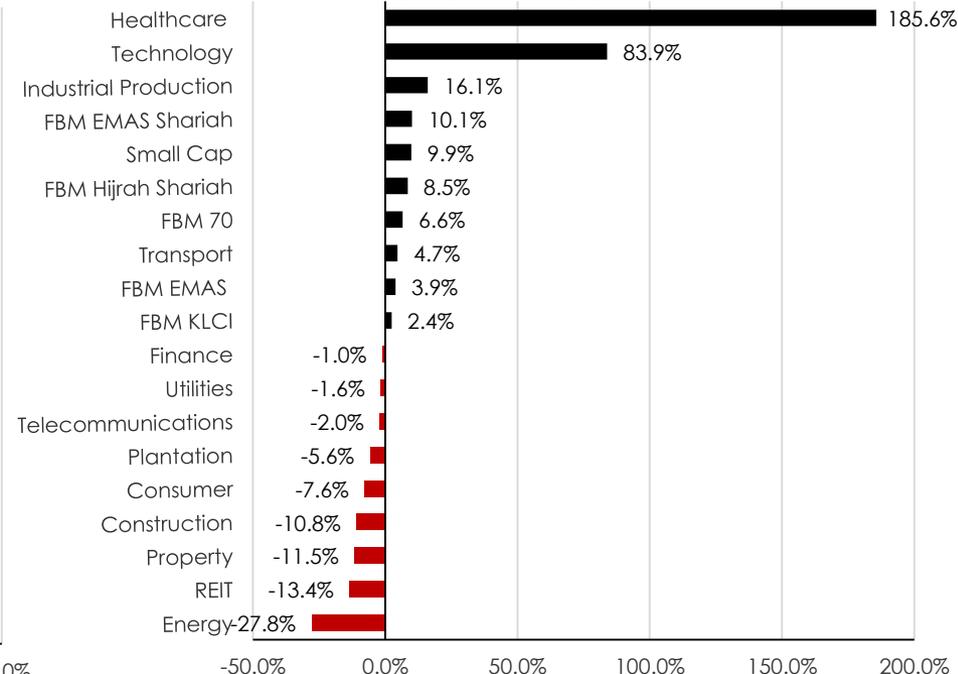
# SECTORAL PERFORMANCE IN MALAYSIA'S MARKET

- ✓ For the month of December 2020, the Bursa Malaysia Energy Index was the biggest gainer after closing 11.1% higher during the month as news of the Covid-19 vaccine rollout increased hopes of higher demand for oil which overshadowed tightening lockdowns in Europe. Meanwhile, the Bursa Malaysia Healthcare Index led laggards with an 11.0% drop amid profit taking activity on rubber glove counters as the positive development regarding the distribution of the Covid-19 vaccine could disrupt the need for rubber gloves.
- ✓ On a yearly basis, it was the inverse whereby the Bursa Malaysia Healthcare Index increased the most by 185.6% while the Bursa Malaysia Energy index recorded the steepest decline of 27.8%. It is no surprise that the Covid-19 pandemic has driven demand for rubber gloves worldwide throughout the year, leading to rubber glove makers such as Top Glove to register record profits. The energy sector on the other hand has been facing downward pressure due to contract deferrals in light of capital expenditure reductions by Petroliam Nasional Berhad (Petronas).

### Bursa Malaysia Sectoral Monthly Performance in December



### Bursa Malaysia Sectoral YTD Performance



- ✓ The local market's earnings turnaround is expected to be anchored by the index heavyweight banking sector, which still has the highest weighting, at 26.8% of the FBM KLCI index in terms of market capitalisation.
- ✓ The banks' subdued earnings deliverance due to rising credit costs from deterioration in asset quality in 2020 should reverse moving into 2021. As we expect the OPR to remain unchanged at 1.75% in 2021, banks will feel less pressure on the net income margins. The reason being is that any downward revision in OPR will lead to a downward revision in financing rates especially those with variable features.
- ✓ Furthermore, we expect that the market earnings in 2021 may be boosted by the inclusion of Supermax into the FBM KLCI index, replacing KLCCP Stapled Group during the latest semi-annual review on its 30 constituents. As such, the rubber gloves sector will be represented by three constituents namely Top Glove, Hartalega and Supermax, increasing the weightage of the sector in terms of market capitalisation of the FBM KLCI to 12.1% from 10.5% previously. With Supermax's entry being represented by a higher number of shares compared to KLCCP Stapled Group (Supermax: 2.6 billion shares vs. KLCCP Stapled Group: 1.8 billion shares), it is highly likely that the estimated FBM KLCI earnings per share (EPS) for the financial year 2021 will be enhanced.

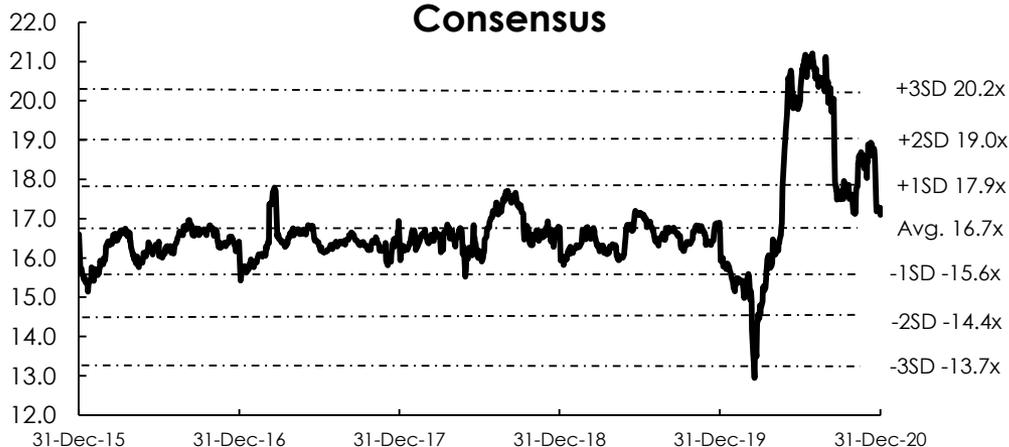
## Sector Market Cap Weightings in the FBM KLCI

Sector	Market Cap (RM Billion) as at 31 Dec 2019	Market Cap Percentage as at 31 Dec 2019	Market Cap (RM Billion) as at 30 Nov 2020	Market Cap Percentage as at 30 Nov 2020	Market Cap (RM Billion) as at 31 Dec 2020	Market Cap Percentage as at 31 Dec 2020
Banks	303.7	30.9%	269.1	26.5%	285.7	26.8%
Consumer Product and Services	114.4	11.6%	97.2	9.6%	101.0	9.5%
Energy	19.5	2.0%	20.3	2.0%	20.3	1.9%
Healthcare	48.0	4.9%	49.3	4.9%	48.3	4.5%
Rubber Gloves	30.5	3.1%	106.6	10.5%	129.5	12.1%
Industrial product and Services	43.6	4.4%	71.9	7.1%	79.5	7.5%
Materials	37.5	3.8%	28.3	2.8%	30.5	2.9%
Plantation	96.4	9.8%	112.9	11.1%	116.0	10.9%
Real Estate	14.3	1.5%	13.9	1.4%	0.0	0.0%
Telecommunication	128.6	13.1%	121.0	11.9%	127.6	12.0%
Transportation	37.3	3.8%	30.3	3.0%	31.1	2.9%
Utilities	108.3	11.0%	93.4	9.2%	97.6	9.1%
<b>Total Market Cap (RM Billion)</b>	<b>982.1</b>	<b>100.0%</b>	<b>1014.2</b>	<b>100.0%</b>	<b>1066.9</b>	<b>100.0%</b>

Sources: Bloomberg

- ✓ Looking into 2021, we think that the risk/reward profile of the market is commendable. Based on Bloomberg consensus, the market is expecting earnings to recover by 62.7% in 2021 compared to a 11.5% estimated growth for the same year prior to the inclusion of Supermax into the FBM KLCI index. The strong earnings rebound is driven by a combination of a low base effect and the return of revenue growth.
- ✓ Admittedly, the euphoria surrounding the vaccine rollouts in countries such as the UK and Singapore have boosted risk sentiment and led to the rally in the global markets in recent weeks. However, the new Covid-19 strain discovered in the UK which is more transmissible may put a lid on further market gains.
- ✓ Based on 2021's earnings, the market's valuation has risen to a forward price to earnings (PE) of 17.1x as at 31 December 2020, less than one standard deviation from the five-year average of 16.7x. Therefore, valuation seems to be reverting towards the mean. Nonetheless, we believe that valuations may remain slightly above the mean throughout 2021 because earnings are at the early stages of a strong upswing, expanding by a projected rate of more than 50.0%.
- ✓ Therefore, we reiterate our year-end target of 1,750 points for the FBM KLCI index in 2021. This is pegged to a forward PE of 15.0x which is -1.5 SD lower than the mean to reflect the expected earnings recovery which may be capped by the threat of the new Covid-19 variant.

**FBM KLCI P/E Band based on 2021 Earnings Consensus**



**Earnings Growth Trajectory of the FBM KLCI**

Year	Earnings Per Share (EPS) of FBM KLCI	Year-on-year (y-o-y) EPS Growth
2021E	114.5	62.7%
2020	70.4	-21.5%
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%

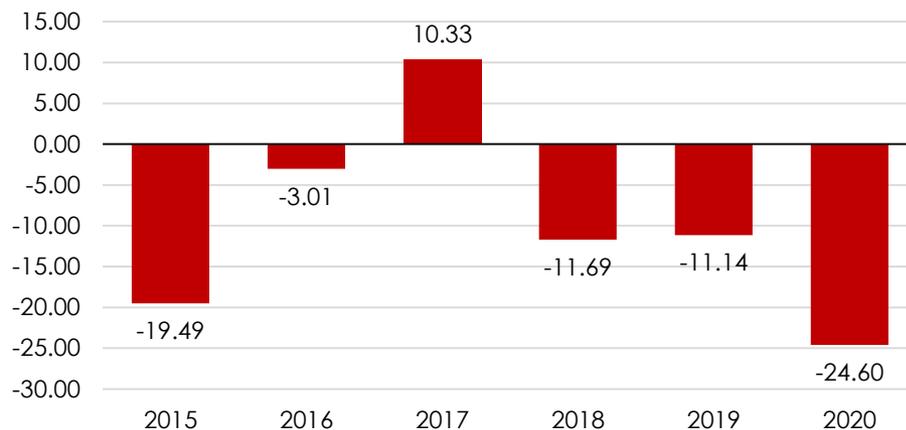
# FOREIGN FUND FLOW-EQUITY

- Foreign fund net outflows in December reached RM595.0 million (November: -RM1.0 billion). Aside from that, local retail investors have posted net inflows of RM1.7 billion (November: RM504.3 million) while local institutions dumped RM1.1 billion in December after buying RM523.1 million of local equities in November.
- Cumulatively, total net outflows from foreign funds for the year 2020 stood at RM24.6 billion. The last time foreign net selling was near such levels was back in 2015 when offshore funds pulled out RM19.5 billion net of local equities. In comparison with its Asian peers, Malaysia recorded the fourth largest foreign net outflow in 2020 with South Korea experiencing the largest foreign net outflow amongst the 7 Asian countries we track at a tune of USD20.1 billion.

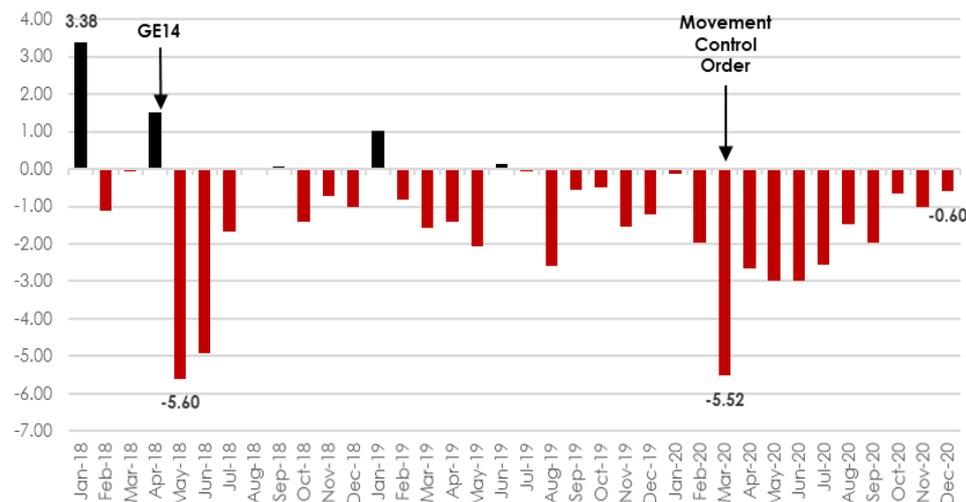
Regional Foreign Fund Flow (Equity) (USD Billion)						
Country	2015	2016	2017	2018	2019	2020
Korea	-3.6	10.5	8.3	-5.7	0.9	-20.1
Thailand	-4.4	2.2	-0.8	-8.9	-1.5	-8.3
Indonesia	-1.6	1.3	-3.0	-3.7	3.5	-3.2
Phillipines	-1.2	0.1	1.1	-1.1	-0.2	-2.5
India	3.3	3.0	8.0	-4.6	14.2	23.4
Taiwan	3.4	11.0	5.7	-12.2	9.5	-16.0
Malaysia	-5.0	-0.6	2.4	-2.9	-2.7	-5.8

Source: Bloomberg

### Annual Foreign Fund Flow (Equity) in Malaysia (RM Billion)



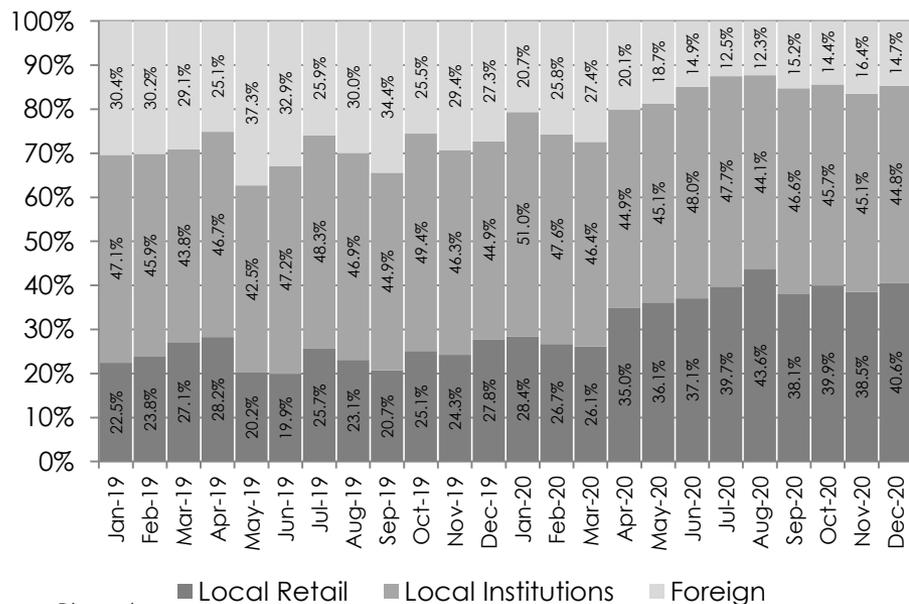
### Monthly Foreign Net Inflow/Outflow (RM billion)



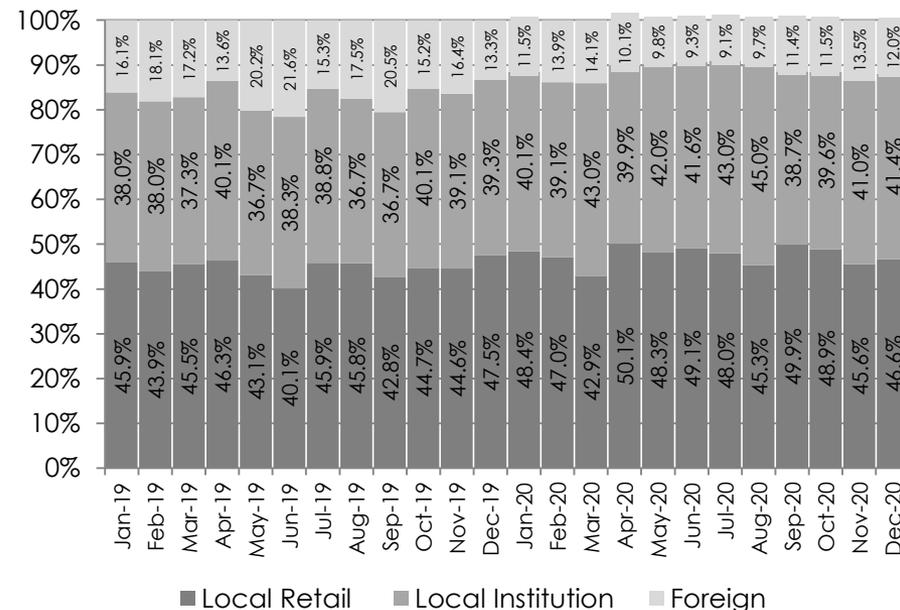
Source: Bloomberg

- ✓ We observed that the participation of retail investors remained robust in December 2020, evident from the increase in retail investors' share of value traded on Bursa Malaysia which increased to 40.6% in December compared to 38.5% in November 2020.
- ✓ This was despite the resumption of loan commitments from 1 October 2020 following the expiry of the loan repayment moratorium.
- ✓ Meanwhile, foreign investors who have been constantly selling local equity saw their trading participation based on value traded decline to 14.7% in December (November: 16.4%). We also noted participation from local institutions was fairly stable at 44.8% in December (November: 45.1%).
- ✓ Overall, the trading value of retail investors increased by a whopping 242.6% y-o-y to RM782.1 billion in 2020 (2019: RM228.3 billion) due to the movement restrictions which led to more people trading at home. The total trading value in 2020 for local institutions and foreign investors were also up albeit by a smaller magnitude of 122.1% (2019: -26.3%) and 23.9% (2019: -11.3%).

### Trading Participation (%) based on value traded amongst investor types



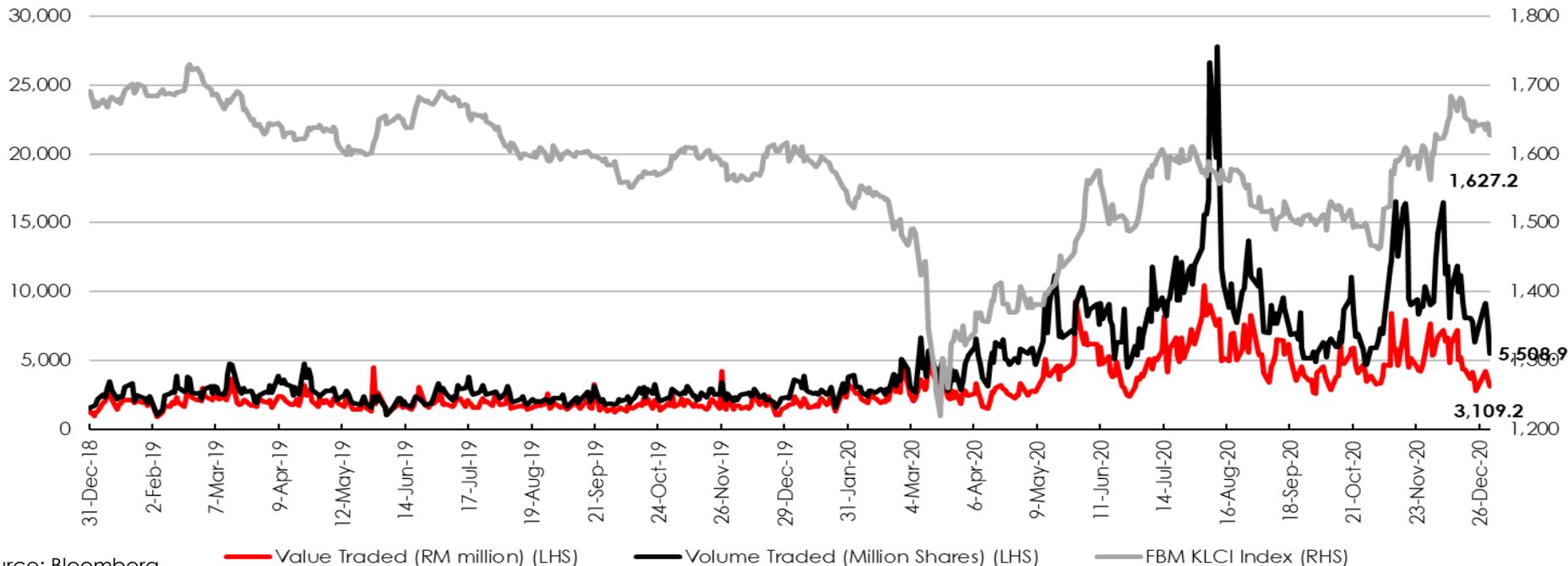
### Trading Participation (%) based on Volume Traded amongst investor types



# OVERALL TRADING PARTICIPATION IN EQUITIES

- ✓ The average daily traded value for Bursa in 2020 rose by 121.1% to RM4.2 billion (2019: RM1.9 billion). Likewise, the average daily traded volume on Bursa for 2020 surged by 192.0% to 7.3 billion shares (2019: 2.5 billion shares).
- ✓ The year 2020 could have possibly been the year with highest ever average daily traded value and volume on Bursa.
- ✓ During 2020, Bursa Malaysia's trading value surged to a record high of RM10.5 billion on 4 August 2020. A week later, on 11 August 2020, its trading volume reached an all-time high of 27.8 billion shares.
- ✓ All in all, a higher level of volume of shares traded relative to the value of shares traded in the overall market indicates investors (mainly retail investors) were actively trading small and mid cap stocks.

**Value Traded vs. Volume Traded in Malaysia's Equity Market vs. FBM KLCI**

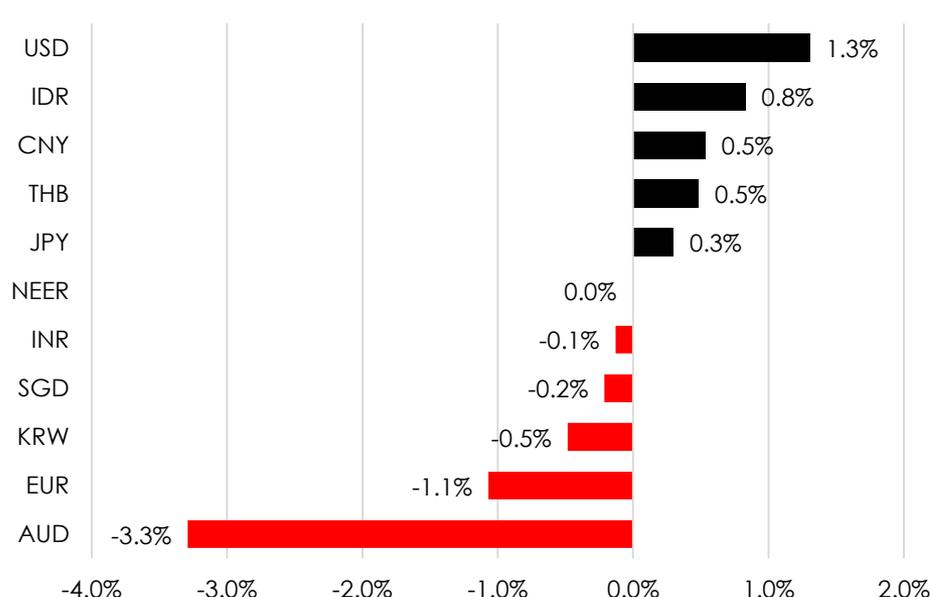


Source: Bloomberg

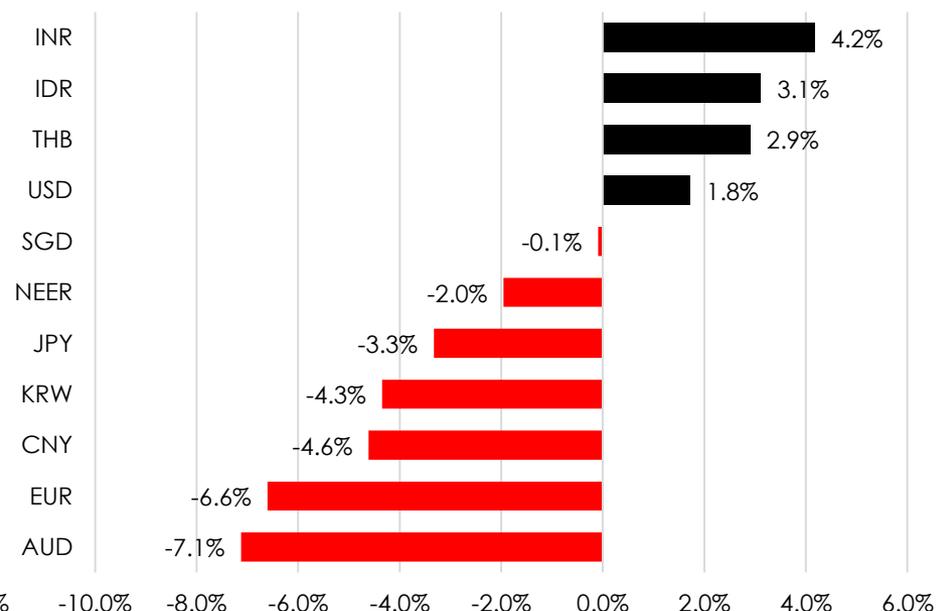
# STRONGER RINGGIT IN DECEMBER LAST YEAR

- ✓ The Ringgit traded higher against the US greenback during December to close at RM4.0203 compared to RM4.0738 at the end on November 2020, translating into a 1.3% monthly gain. Apart from that, the gain in Brent crude oil price from USD47.59 per barrel on 30 November to USD51.15 per barrel on 31 December has strengthened the Ringgit as Brent crude price has unidirectional causality to USDMYR.
- ✓ On an annual basis, the Ringgit registered a 1.8% appreciation against the US greenback in 2020 (2019: 1.0%) amid concerns over surging Covid-19 cases which have killed more than 350,000 people in the US. Moreover, the new Covid-19 variant has now spread to the US and other countries such as Turkey and Australia. The GBP was also under pressure as Prime Minister Boris Johnson has ordered a nationwide lockdown to curb the Covid-19 infections.
- ✓ On the domestic front, the cancellation of High Speed Rail (HSR) project coupled with political jittery would undermine foreign investors' confidence moving forward.
- ✓ Nevertheless, the Ringgit still managed to appreciate 0.4% against the US greenback to touch RM4.0040 on the first trading day of 2021. This was in conformity with other emerging Asian currencies that started the year on a firm note amid a flurry of robust manufacturing data across the region.
- ✓ Looking ahead, the Ringgit may remain in a range of RM4.00 to RM4.05 per US Dollar in the immediate term as markets are yet to assess the efficacy of the Covid-19 vaccine.

**December 2020, m-o-m%**



**YTD, %**



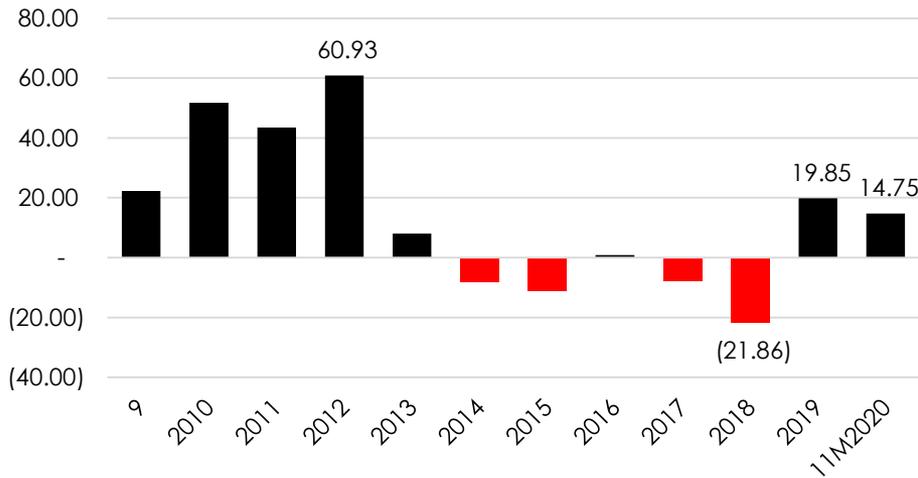
- ✓ The total trading value of 10 most actively traded government bonds was lower at 19.4% out of the overall Government Bonds traded compared to 22.5% in the November 2020.
- ✓ In absolute terms, the bond market saw muted reaction as the total trading value for 10 most actively traded Government Bonds declined to RM8.4 billion from RM12.1 billion in the preceding month ahead of new-year holidays.
- ✓ However, 9 out of 10 most actively traded bonds saw lower yields hence higher prices during the month under review.

## Trading Value and Changes in Yield of Government Bonds

Name	Coupon	Maturity	30-Nov	31-Dec	Monthly Change in basis points (bps)	Trading Value (RM Billion)
			Yield	Yield		
Malaysia Government Securities	4.392	04/15/26	2.368	2.279	-8.9	0.1
Malaysia Government Securities	4.181	07/15/24	2.104	2.046	-5.8	0.3
Malaysia Government Securities	3.906	07/15/26	2.505	2.295	-21.0	1.0
Malaysia Government Securities	3.899	11/16/27	2.602	2.425	-17.7	0.6
Malaysia Investment Issue	3.422	09/30/27	2.700	2.505	-19.5	1.1
Malaysia Government Securities	3.892	03/15/27	2.518	2.423	-9.5	0.1
Malaysia Government Securities	3.882	03/10/22	1.801	1.827	2.6	0.5
Malaysia Government Securities	3.828	07/05/34	3.493	3.193	-30.0	3.9
Malaysia Investment Issue	3.795	09/30/22	1.830	1.819	-1.1	0.6
Malaysia Government Securities	3.800	08/17/23	1.960	1.911	-4.9	0.3
<b>Total Trading Value (Top 10)</b>						<b>8.4</b>
<b>Total Trading Value (Overall)</b>						<b>43.4</b>

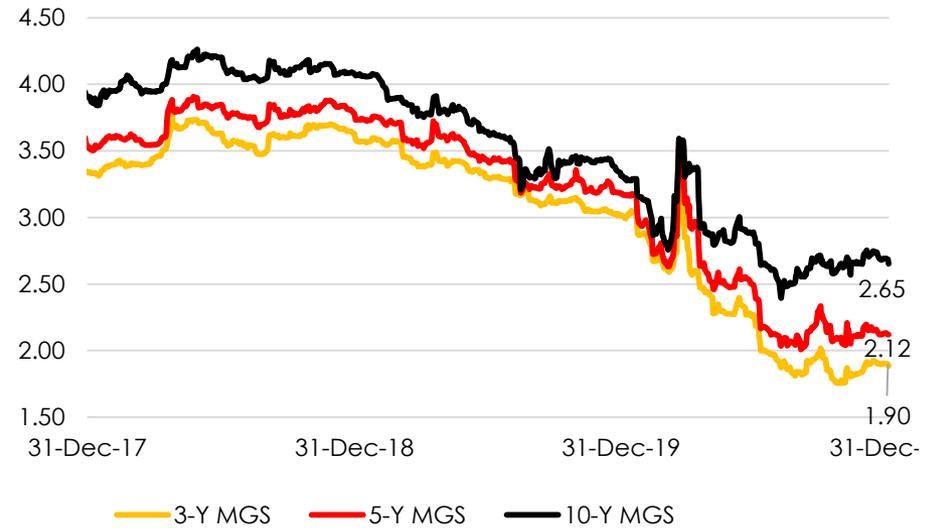
Sources: Bloomberg

### Foreign Fund Flows in Bond Market, RM billion



Source: CEIC

### MGS Yields (%)



Source: CEIC

- ✓ The foreign investors turned net buyers since May 2020 (RM1.5 billion) amid relaxation of Movement Control Order (MCO) with latest inflows of RM1.9 billion recorded in November last year.
- ✓ On a cumulative basis, the net inflows stood at RM14.8 billion in 11M2020 which was higher from RM11.8 billion in the same period during 2019.
- ✓ The buying momentum of MYR bond is anticipated to persist for now reiterated by the series of positive foreign inflows in recent months amid risk-off mode in view of high daily Covid-19 cases reported worldwide.
- ✓ In addition, lower bond yields were seen in 3-Y, 5-Y and 10-Y MGS, closing at 1.88% at the end of December 2020 (November 2020: 1.91%), 2.10% (November 2020: 2.20%) and 2.65% (November 2020: 2.75%) respectively as investors shifted to safe-haven assets. On a yearly basis, yields of 3-Y, 5-Y and 10-Y MGS declined by more than 15 basis points in 2020.

- ✓ **Further improvement in leading index** – Malaysia is expected to continue to chart a decent economic recovery based on the smooth growth rate of the Leading Index (LI). Malaysia's Leading Index (LI) rose for the sixth straight month after recording a 6.3% y-o-y growth in October 2020 (September 2020: 8.6%) due to improved sentiment and increased business activities. Aside from that, Malaysia's IHS Markit Manufacturing Purchasing Manager's Index (PMI) improved marginally to 49.1 points in December 2020 from 48.4 points in November.
- ✓ **Keeping the OPR unchanged in 2021 will likely be the case** – The latest 1.7% y-o-y decline in Malaysia's Consumer Price Index (CPI) in November 2020 indicates that inflationary pressures were almost non-existent during the year. This would mean that Bank Negara Malaysia (BNM) has the means to keep the state of monetary policy highly accommodative. That said, we believe that the prevailing OPR level of 1.75% is sufficient to provide the right support to the overall economy. Understandably, the thought for a possible OPR hike could also emerge especially when the inflation rate is likely to be higher this year. However, we opine that this could be a premature move. The reason being is that the recent surge in Covid-19 cases in the country and worldwide could limit the economic growth in 2021. Therefore, a rate hike by BNM may not be so soon in this volatile environment especially with the new strain of Covid-19 which is 70.0% more transmissible. Downside risks may intensify if the vaccine that is currently being rolled out in some countries such as Singapore is found to be no match to withstand the latest variant of Covid-19. Taking all of these into consideration, BNM is likely to maintain the OPR at the current level of 1.75% throughout 2021.
- ✓ **Shift to bond markets is inevitable** – With news of the mutated virus sending jitters across markets worldwide, investors may decide to increase their exposure in safe haven assets such as bonds compared to equities which are riskier. Henceforth, a shift of investors from the equity market to the bond market will likely put downward pressure on bond yields.

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