



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **MONTHLY ECONOMIC & MARKET UPDATES**

**2 MARCH 2021**

**ECONOMIC RESEARCH**

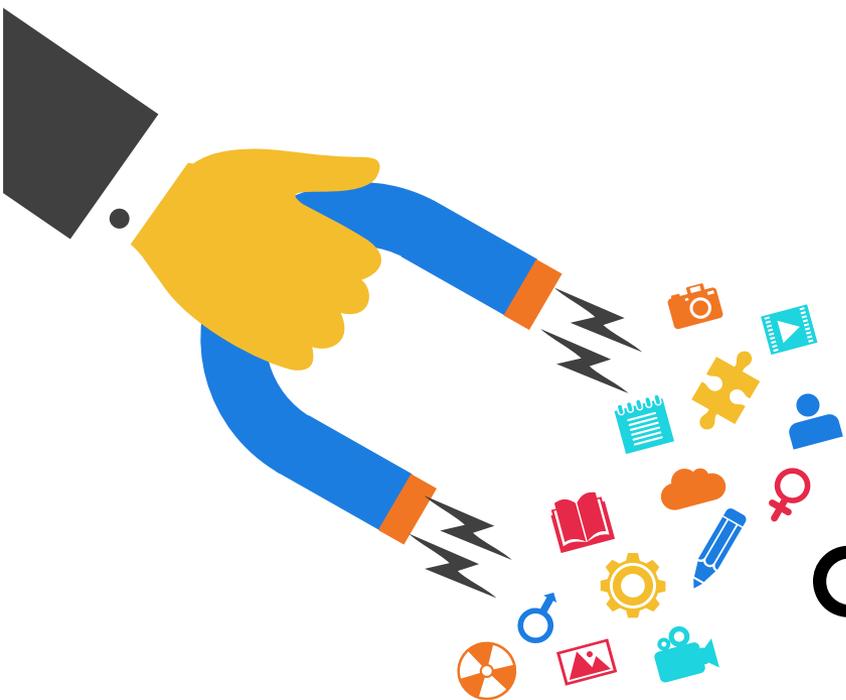
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**ADAM MOHAMED RAHIM**

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**NOR JANNAH ABDULLAH**

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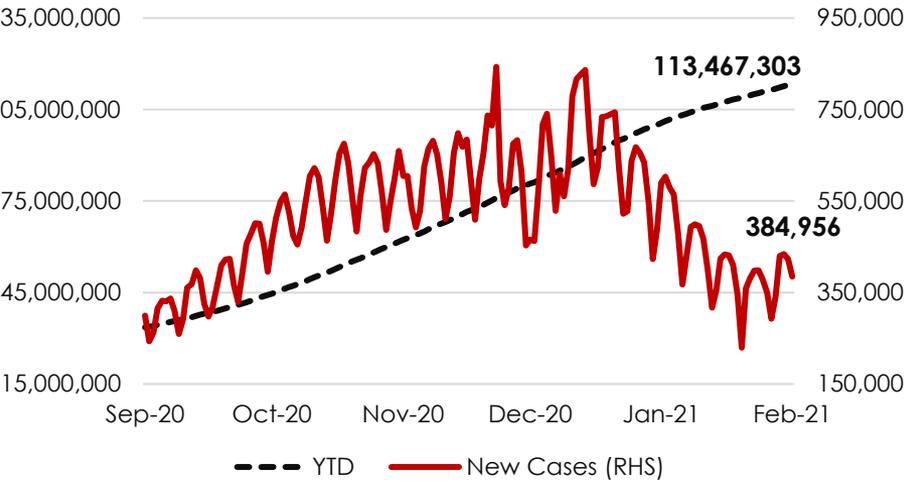


# GLOBAL ECONOMY

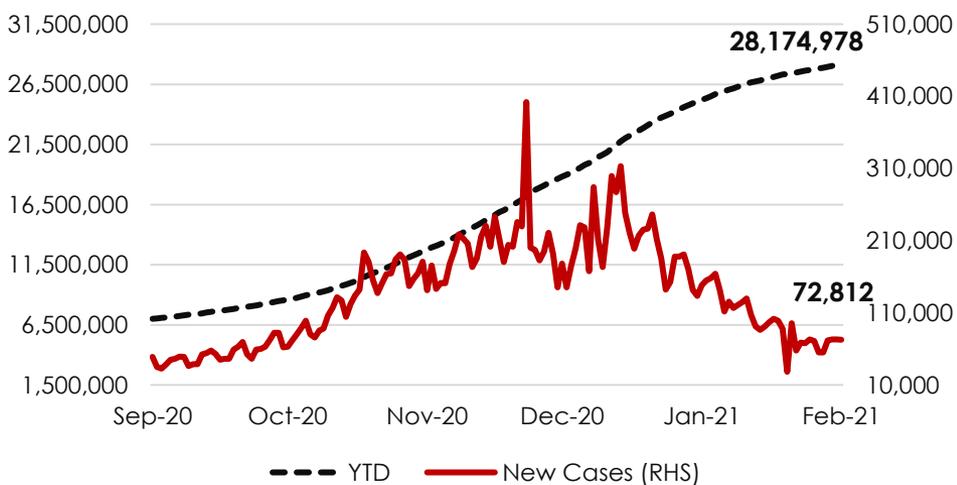
- ✓ **Worldwide Covid-19 confirmed cases have exceeded 113.0 million in February 2021 despite lower number of infection cases daily reported as compared to January 2021** – The total number of people infected with Covid-19 globally was at 113.5 million as at 28 February 2021. The highest number of daily cases were reported in the US (28 February 2021: 72,812 vs. 31 January 2021: 164,415), followed by Brazil (28 February 2021: 65,169 vs. 31 January 2021: 59,826) and France (28 February 2021: 23,996 vs. 31 January 2021: 24,136).
- ✓ **Vaccine rollouts are accelerating** – According to Bloomberg, more than 241.0 million doses have been administered across 103 countries or about 6.7 million doses a day. At the current pace, we believe that it would take few years to achieve a significant level of global immunity. Notwithstanding this, the rate is steadily increasing and we expect new vaccines by additional manufacturers to be available and introduced soon.
- ✓ **Global manufacturing activities expanded for the eight straight month** – The J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) increased to 53.9 points in February 2021 from 53.6 points previously amid higher output and new export orders. According to the survey, although the trend in international trade remained relatively subdued, the rate of expansion in new export business however gathered pace.
- ✓ **Global benchmark interest rates are expected to remain steady in 2021 and more quantitative easing (QE) measures are anticipated** - Central banks are expected to maintain their ultra-easy monetary policies even with the global economy is estimated to recover from last year's coronavirus-inflicted recession. Apart from that, we believe many central banks would employ a quantitative easing strategy to stimulate the economy and to achieve their inflation target.

# COVID-19 : THE US, BRAZIL AND FRANCE RECORDED THE HIGHEST NUMBER OF INFECTION CASES DAILY IN FEBRUARY 2021

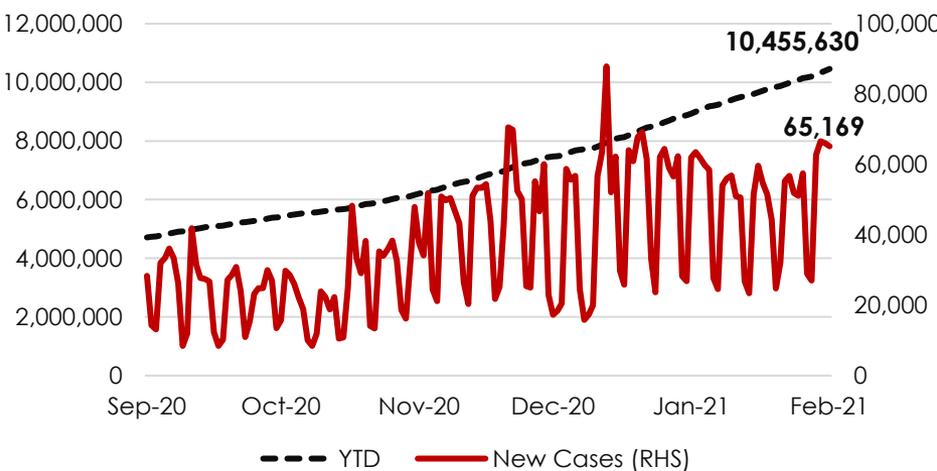
**Global YTD and New Cases**



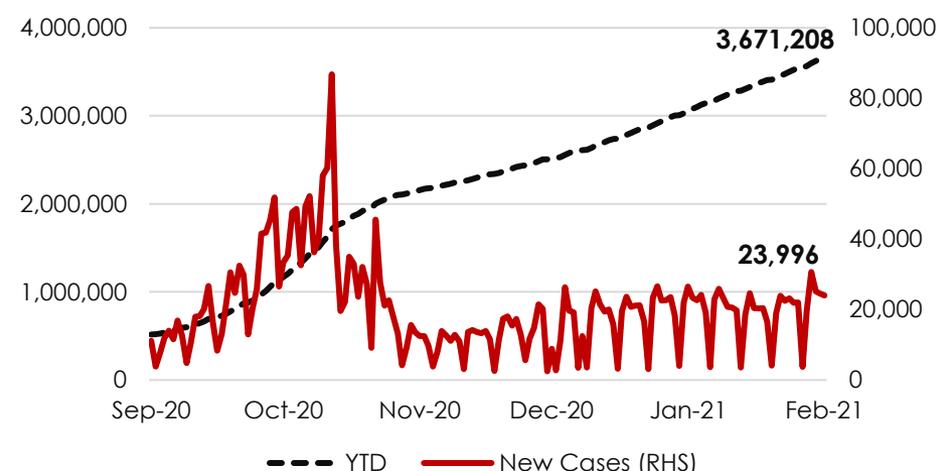
**US YTD and New Cases**



**Brazil YTD and New Cases**



**France YTD and New Cases**



Source: CEIC

# MOST OF COUNTRIES ACROSS THE MAP RECORDED A NEGATIVE GROWTH RATE IN 2020 DUE TO THE COVID-19 PANDEMIC

## GDP performances based on selected countries, %:

Countries	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
US	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.5
UK	2.1	1.3	1.4	2.2	2.9	2.4	1.7	1.7	1.3	1.4	-9.9
Eurozone	2.1	1.6	-0.9	-0.2	1.4	2.0	1.9	2.6	1.9	1.3	-6.8
Japan	4.2	-0.1	1.6	2.0	0.3	1.6	0.8	1.7	0.6	0.3	-4.8
Germany	4.1	3.7	0.4	0.4	2.2	1.5	2.2	2.6	1.3	0.6	-4.9
France	2.0	2.2	0.3	0.6	1.0	1.1	1.1	2.3	1.8	1.5	-8.2
China	10.6	9.6	7.9	7.8	7.4	7.0	6.8	6.9	6.7	6.0	2.3
Thailand	7.5	0.8	7.2	2.7	1.0	3.1	3.4	4.2	4.2	2.3	-6.1
Philippines	7.6	3.7	6.7	7.1	6.2	6.1	6.9	6.7	6.3	6.0	-9.5
South Korea	6.8	3.7	2.4	3.2	3.2	2.8	2.9	3.2	2.9	2.0	-1.0
Singapore	14.5	6.3	4.5	4.8	3.9	3.0	3.3	4.5	3.5	1.3	-5.8
Indonesia	6.2	6.2	6.0	5.6	5.0	4.9	5.0	5.1	5.2	5.0	-2.1
Malaysia	7.5	5.3	5.5	4.7	6.0	5.0	4.4	5.8	4.8	4.3	-5.6

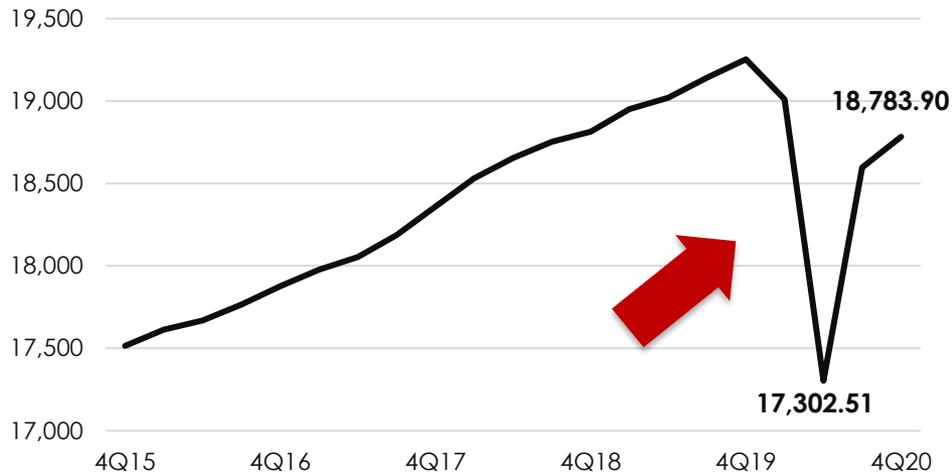
Sources: Bloomberg, CEIC

- ✓ China was the only economy that bounced back from its coronavirus losses, recording a 2.3% growth in 2020 (2019: 6.0%).
- ✓ On quarterly basis, the China economy expanded by 6.5% in the December quarter last year following 4.9% and 3.2% growth in 3Q2020 and 2Q2020 respectively. However, the nation's economy contracted by 6.8% in 1Q2020 due to the pandemic.

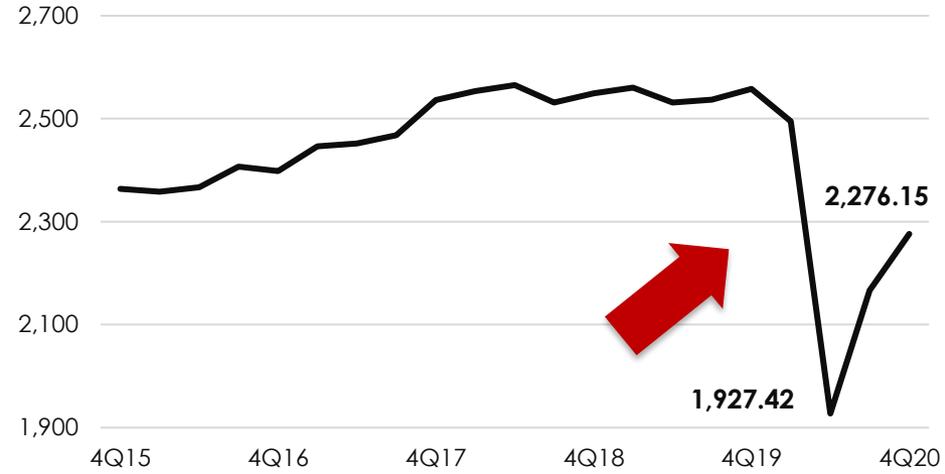
# IMPROVEMENT IN THE US ECONOMIC ACTIVITIES DURING 4Q2020

## – US BEA SECOND ESTIMATES

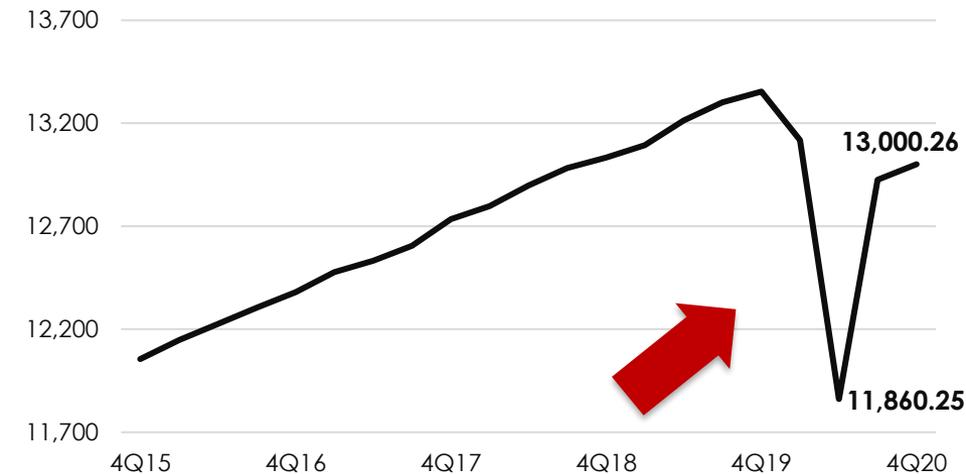
**GDP, USD Billion**



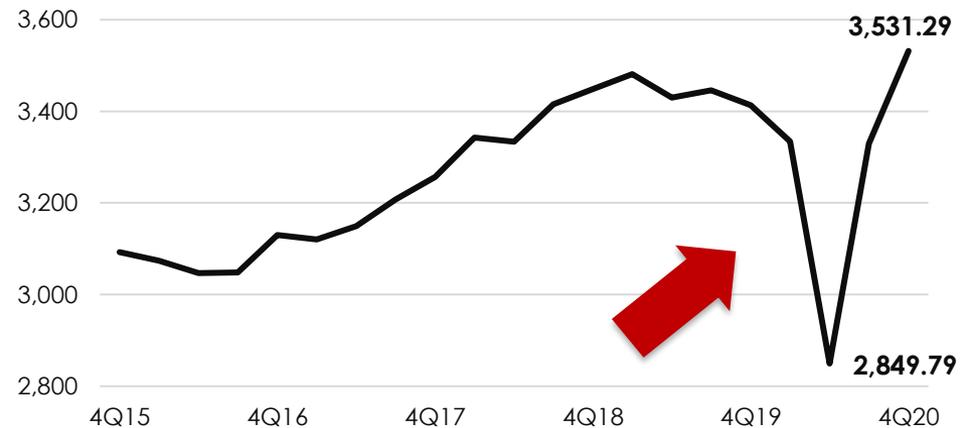
**Export, USD Billion**



**PCE, USD Billion**

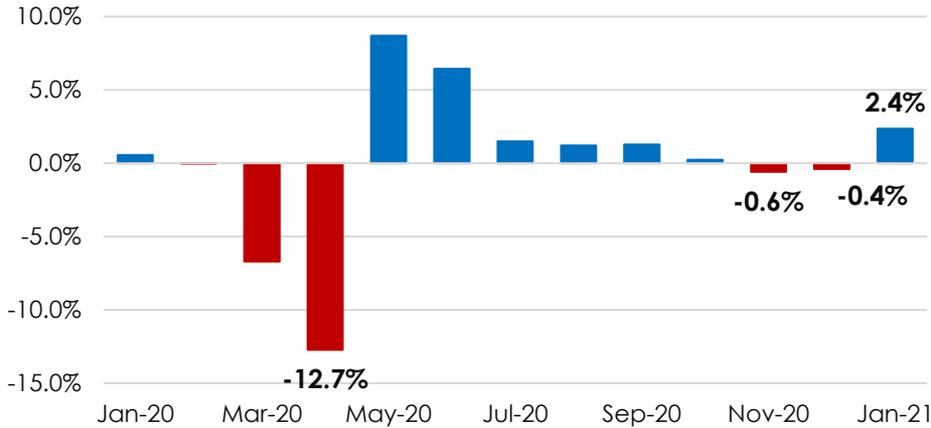


**Gross Private Domestic Investment (GPDI), USD Billion**

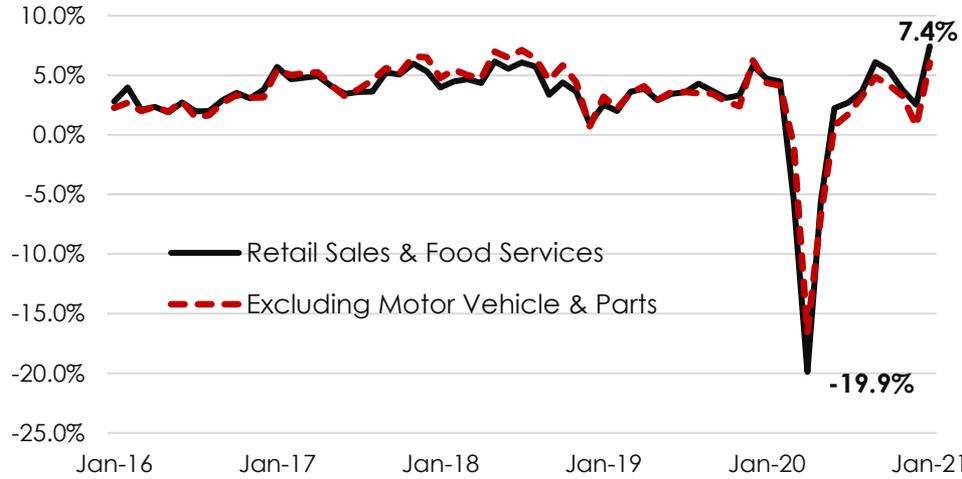


Sources: US BEA, CEIC

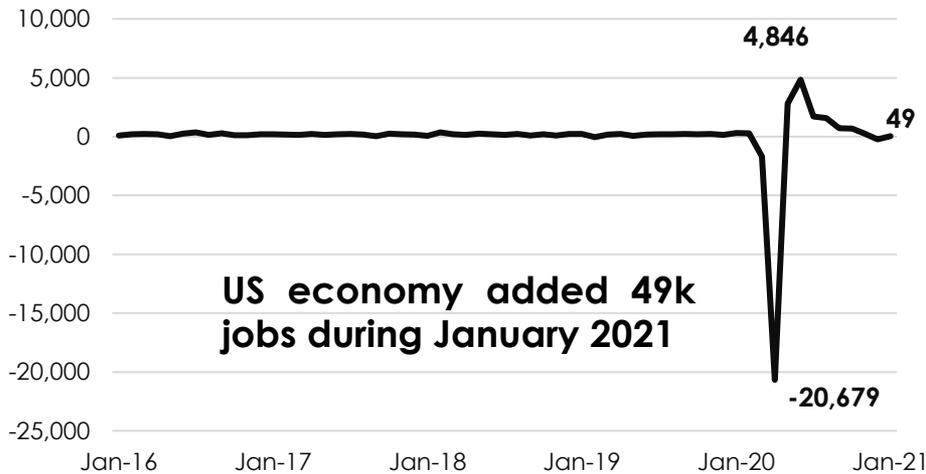
### Personal Consumption Expenditure (PCE), m-o-m%



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

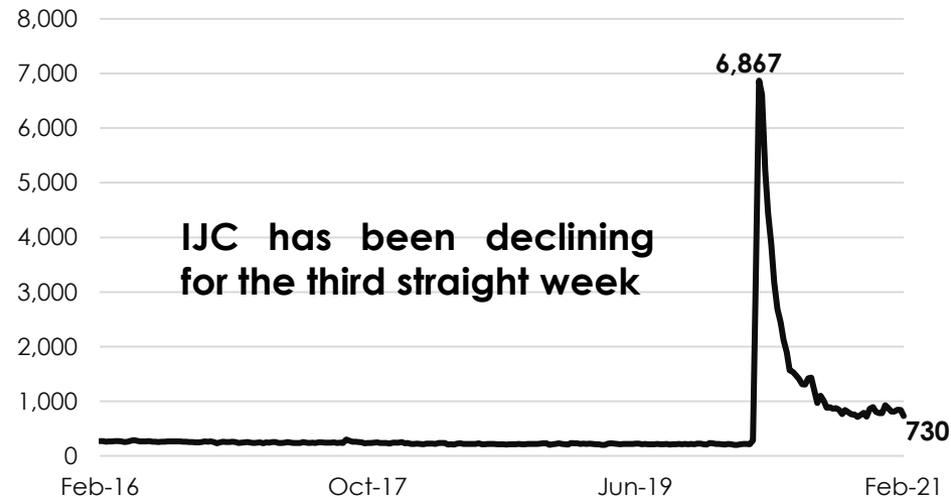


### Nonfarm Payrolls, m-o-m changes ('000)



**US economy added 49k jobs during January 2021**

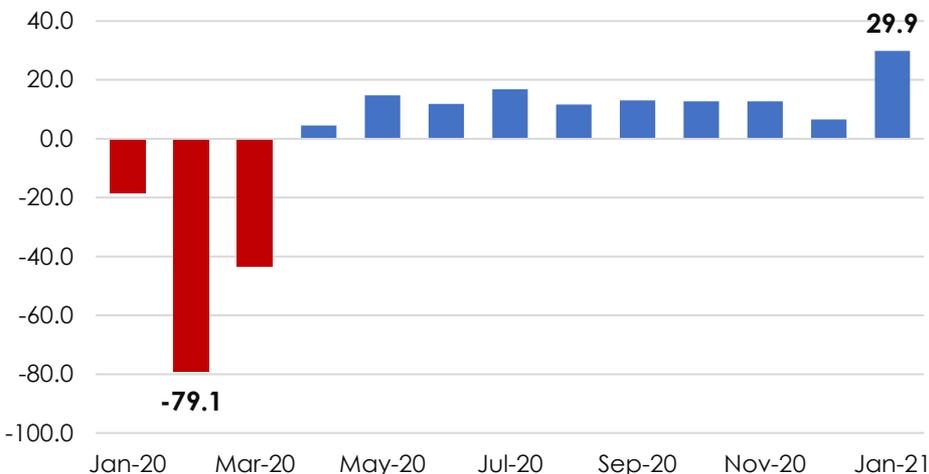
### Initial Jobless Claims (IJC), 000



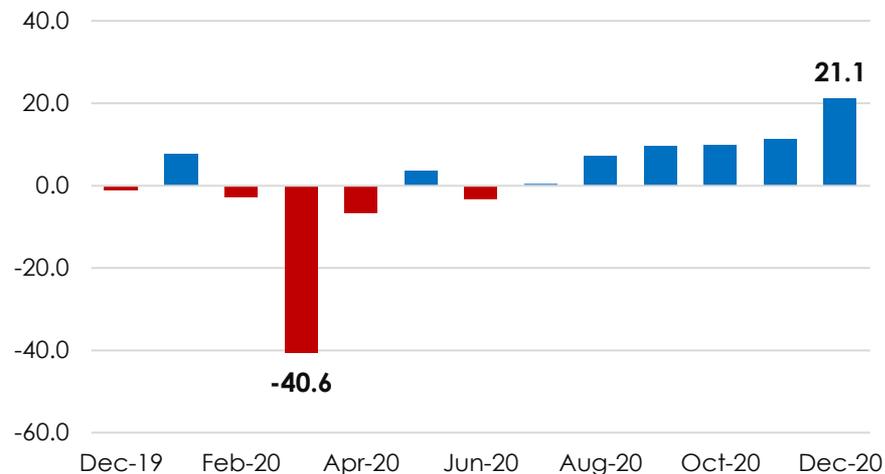
**IJC has been declining for the third straight week**

Sources: Bloomberg, CEIC

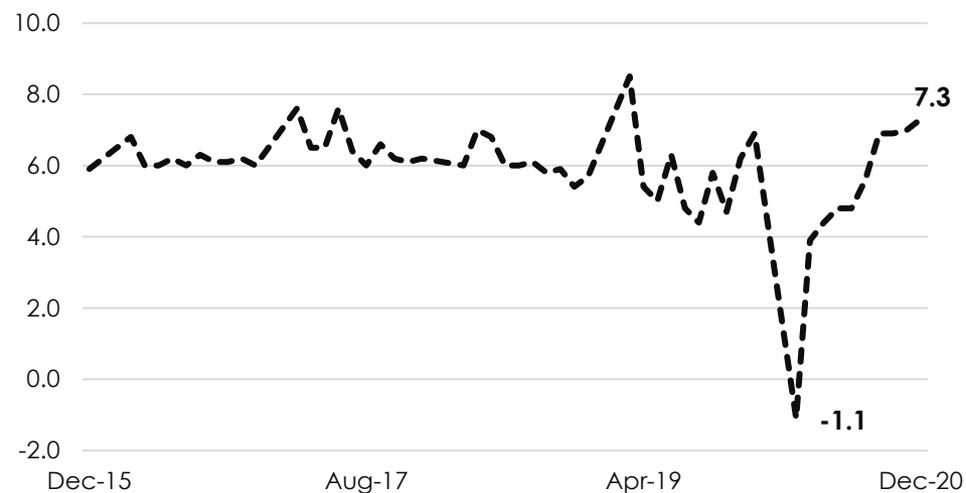
### Vehicle Sales, y-o-y%



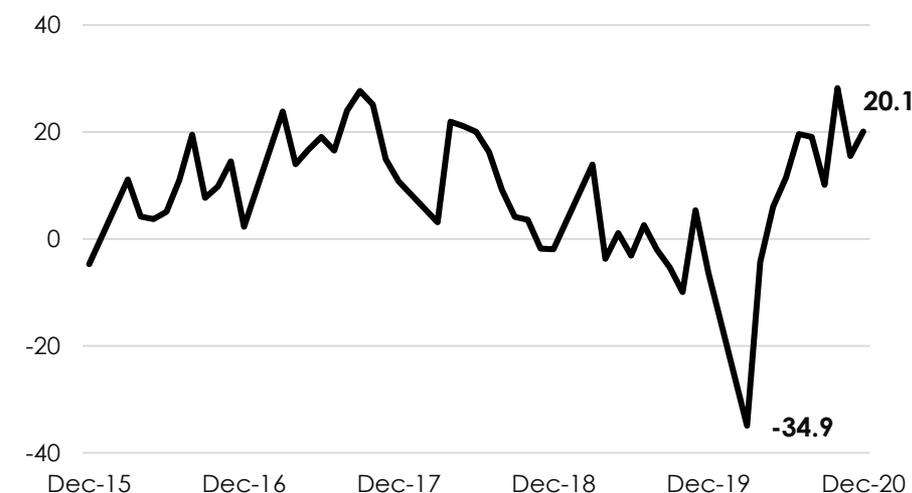
### Exports, y-o-y%



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



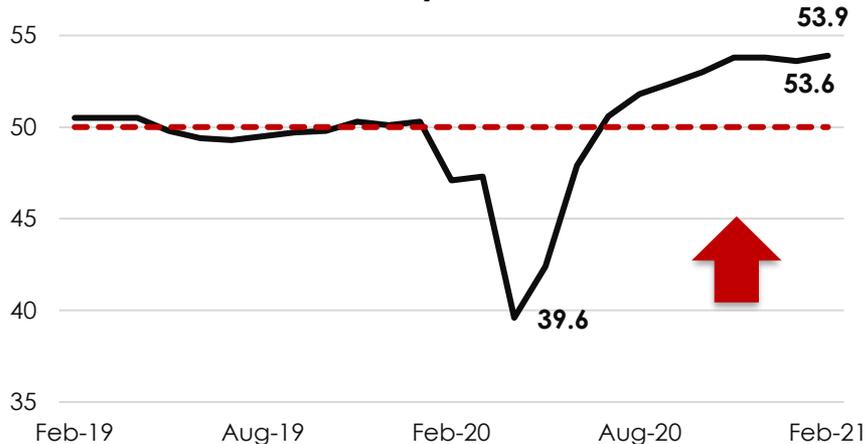
### Industrial Profits, y-o-y%



Sources: Bloomberg, CEIC

ECONOMIC RESEARCH

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

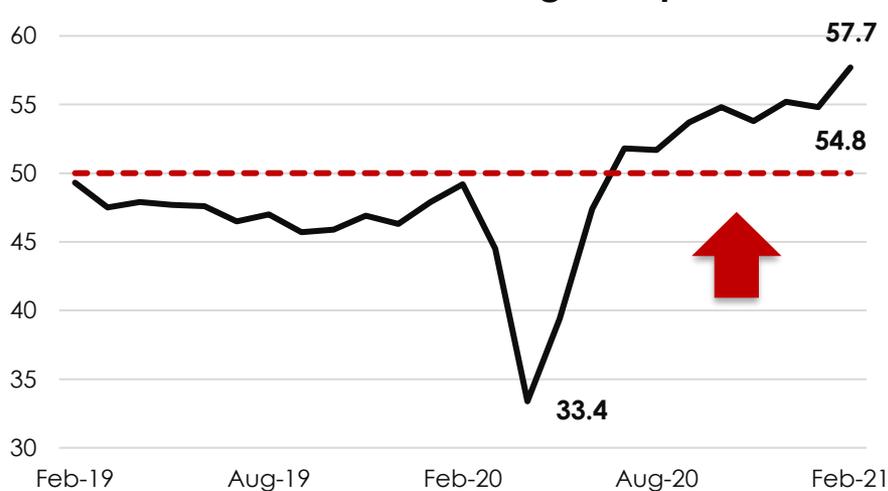


## Index Summary:

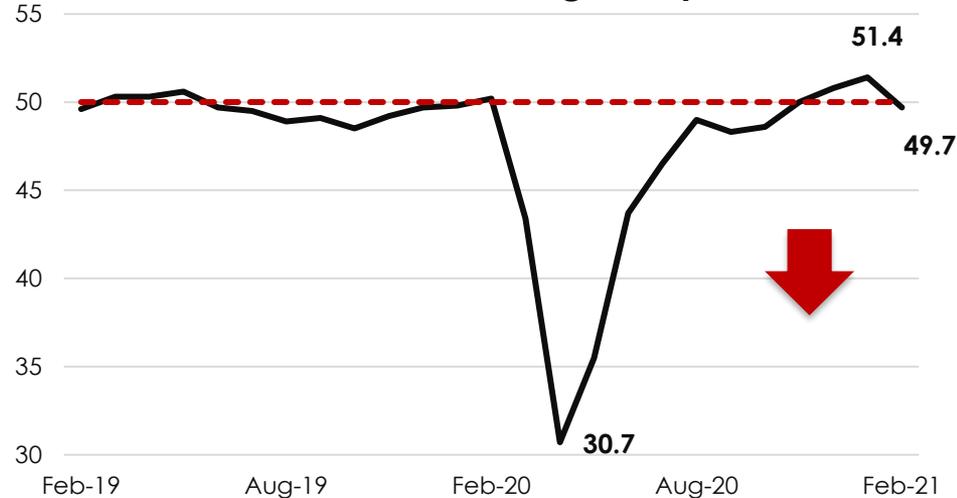
Index	Jan-21	Feb-21	Interpretation
PMI	53.6	53.9	Improvement, faster rate
Output	54.1	54.2	Growth, faster rate
New Orders	54.2	53.8	Growth, slower rate
New Export Orders	50.2	51.1	Growth, faster rate
Future Output	64.4	67.2	Growth expected, better sentiment
Employment	50.3	50.6	Growth, faster rate
Input Prices	62.5	64.9	Inflation, faster rate
Output prices	55.0	55.6	Inflation, faster rate

Source: IHS Markit

## Eurozone Manufacturing PMI, points



## ASEAN Manufacturing PMI, points



# CENTRAL BANK POLICY RATES

Policy rates	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21*
<b>Advanced countries</b>														
US (Fed Fund Rate)	1.75	0.25	0.25	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	-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	0.00
UK (Bank Rate)	0.75	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
Canada (ON Lending Rate)	1.75	0.25	0.25	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)	7.00	6.50	6.00	5.50	5.00	5.00	4.50	4.25	4.25	4.25	4.25	4.25	4.00	4.00
Brazil (Selic Rate)	4.25	3.75	3.75	3.00	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Argentina (LELIQ 7D Notes Rate)	40.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	36.00	38.00	38.00	38.00	38.00	38.00
<b>Eastern Europe</b>														
Russia (Key Rate)	6.00	6.00	5.50	5.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Ukraine (Discount Rate)	11.00	10.00	8.00	8.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Turkey (1W Repo Rate)	10.75	9.75	8.75	8.25	8.25	8.25	8.25	10.25	10.25	15.00	17.00	17.00	17.00	17.00
<b>Asia</b>														
China (1Y Loan Prime Rate)	4.05	4.05	3.85	3.85	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	4.40	4.40	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Indonesia (7D Repo Rate)	4.75	4.50	4.50	4.50	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50
Thailand (1D Repo Rate)	1.00	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
South Korea (Base Rate)	1.25	0.75	0.75	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Philippines (O/N Lending Rate)	3.75	3.25	2.75	2.75	2.25	2.25	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00
Australia (Cash Rate)	0.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10
New Zealand (Cash Rate)	1.00	0.25	0.25	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	2.50	2.50	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75

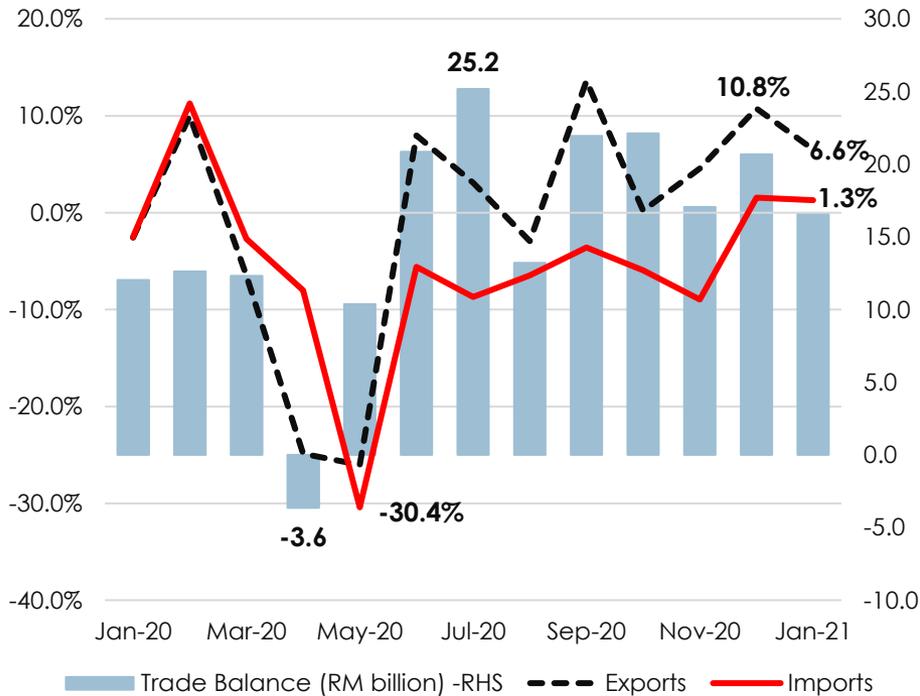
\* As at 1 March 2021  
Source: Bloomberg

✓ In February 2021, Mexico's Central Bank and Bank of Indonesia have decided to cut their benchmark interest rate further by 25 basis points (bps) amid lower prospects for inflation, as well as risks from economic activities and financial markets. Apart from that, policy makers mentioned that the decision is consistent with an effort to support national economic recovery momentum in 2021. Meanwhile, the Bank of Korea has announced a bond buying program of KRW5.0 trillion to KRW7.0 trillion with a pledge to take further measures to stabilise bond markets.



# DOMESTIC LANDSCAPE

## External Trade Performance



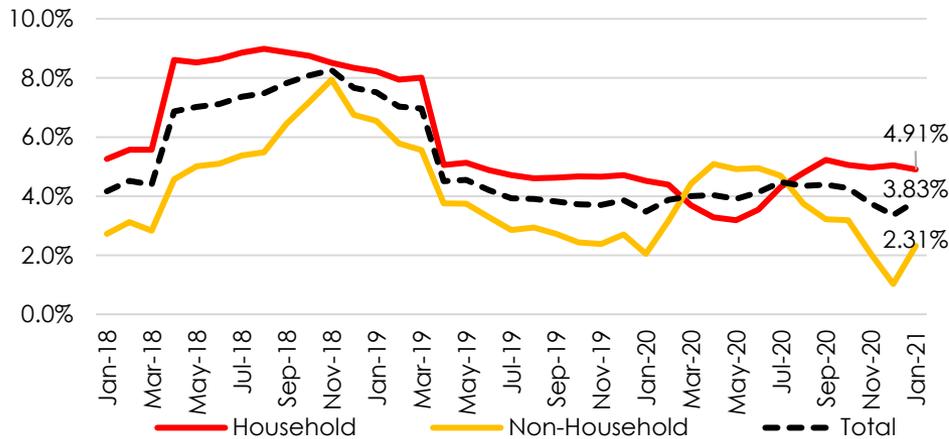
- ✓ Malaysia's exports increased by 6.6% year-on-year (y-o-y) in January 2021, moderating from a 10.8% growth in December last year (Consensus: 7.1%, Bank Islam: 3.4%).
- ✓ The expansion was mainly contributed by exports of the Manufacturing sector which increased by 11.7% in January 2021 (December 2020: 12.4%). Manufacturing sector exports accounted for about 88.5% of total exports in January 2021, higher than the 85.6% recorded in December 2020.
- ✓ Nevertheless, exports of the Mining sector continued to wane, marking the nineteenth consecutive month of decline since July 2019 (January 2021: -31.0% vs. December 2020: -31.0%) while exports of Agriculture contracted by 7.2% in January 2021 from a strong growth of 47.1% in the previous month.

Source: CEIC

- ✓ On imports, it increased by 1.3% in January 2021, easing from 1.6% growth previously. On further scrutiny, imports of Intermediate Goods rebounded by 1.4% in January 2021 from a 5.0% contraction in the previous month, while imports of Consumption Goods moderated by 1.3% in January 2021 (December 2020: 3.3%). On the other hand, imports of Capital Goods plummeted by 5.4% in January 2021, extending the 2.1% fall in the preceding month.
- ✓ Consequently, the trade surplus balance narrowed from RM20.7 billion in December last year to RM16.6 billion in January 2021.

# BANKING SECTOR- FINANCING GROWTH INCHED UP IN JANUARY 2021

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



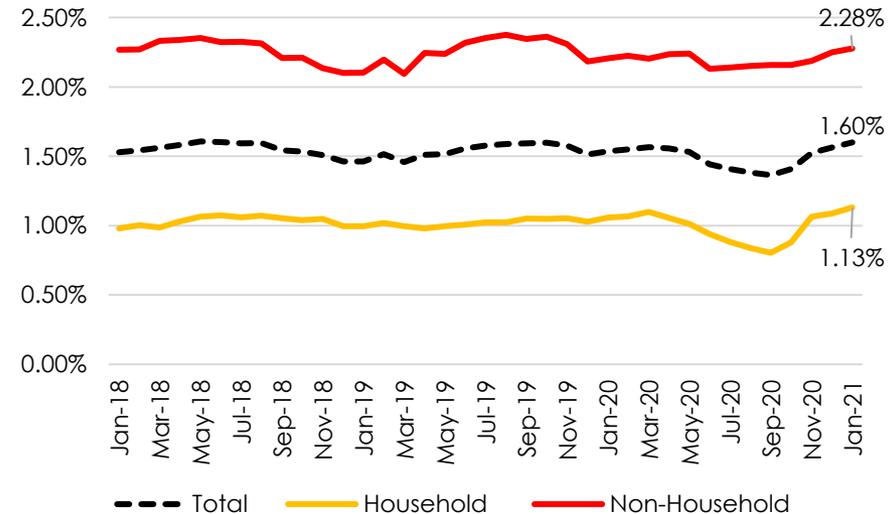
✓ The banking system's financing activities went up by 3.83% y-o-y in January 2021 from 3.36% in the preceding month. The upturn was propelled by the Non-Household sector which saw higher financing growth of 2.31% in January 2021 from 1.03% previously as Construction and Working Capital increased by 3.29% (December 2020: 1.10%) and 2.77% (December 2020: 0.46%) respectively. On the other hand, Household sector softened by 4.91% in January 2021 after rising by 5.04% in December last year.

Source: CEIC

✓ As for the Gross Impaired Financing Ratio (GIFR), it continued to see an upward trend from 1.56% in December 2020 to 1.60% in January 2021 as both Household and Non-Household were higher at 1.13% (December 2020: 1.09%) and 2.28% (December 2020: 2.25%) respectively.

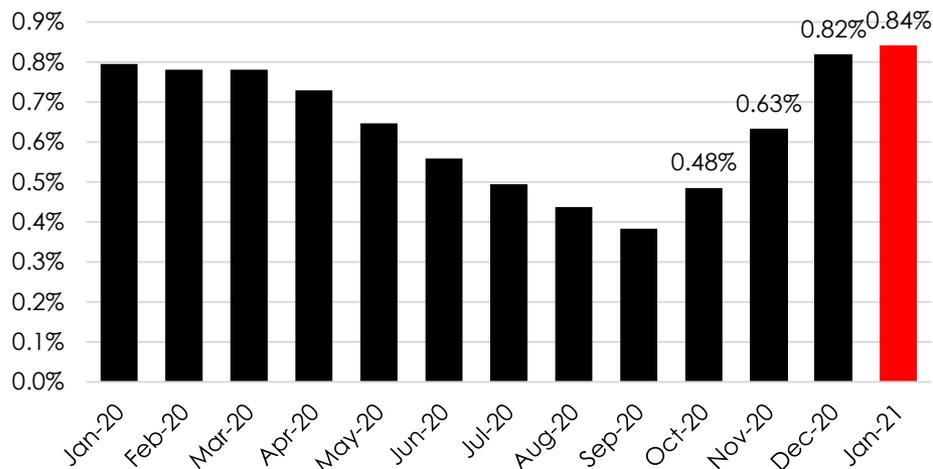
✓ Within the Household sector, impairment for purchase of transport vehicles (January 2021: 0.84% vs. December 2020: 0.82%), purchase of residential property (January 2021: 1.23% vs. December 2020: 1.18%), personal use (January 2021: 2.11% vs. December 2020: 1.89%) and credit card (January 2021: 1.04% vs. December 2020: 1.00%) continued to climb up during January 2021 after the 6-month blanket loan moratorium ended in September last year.

### Gross Impaired Financing Ratio (%)

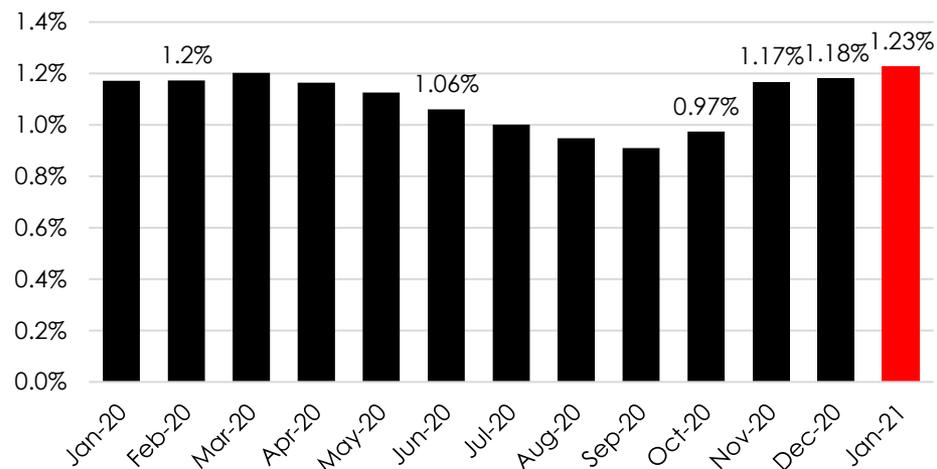


Source: CEIC

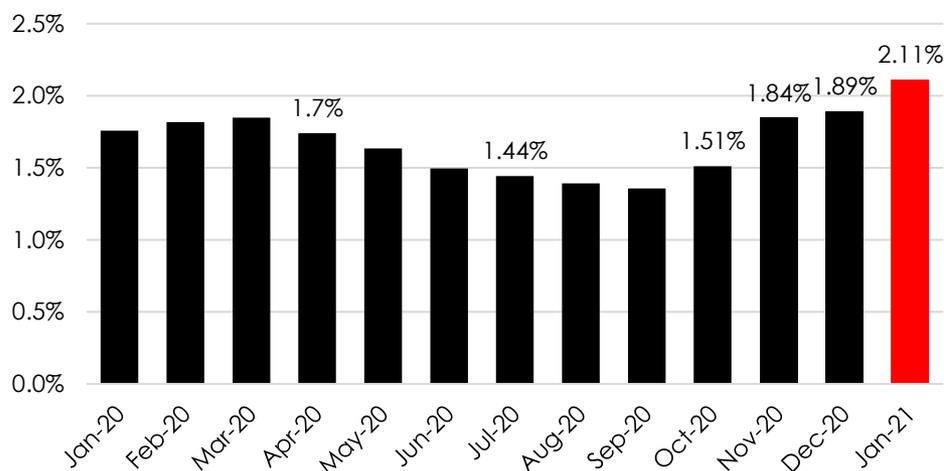
### GIFR-Purchase of Transport Vehicles



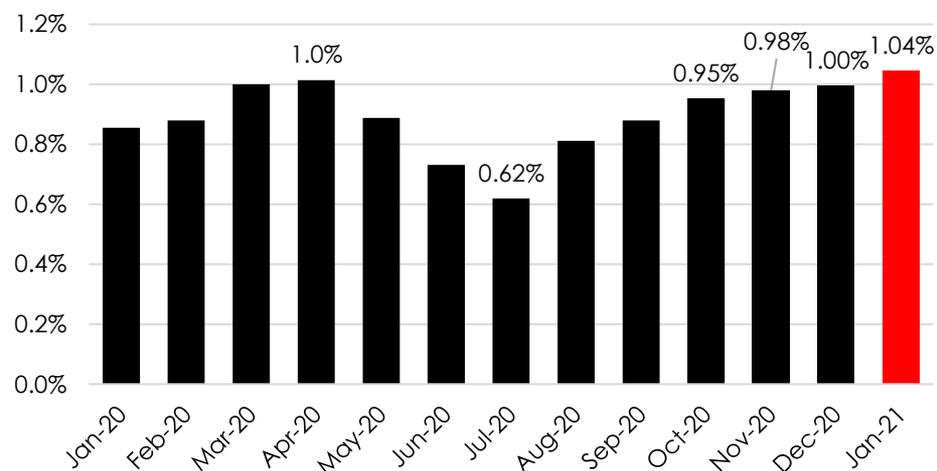
### GIFR-Purchase of Residential Property



### GIFR-Personal Use

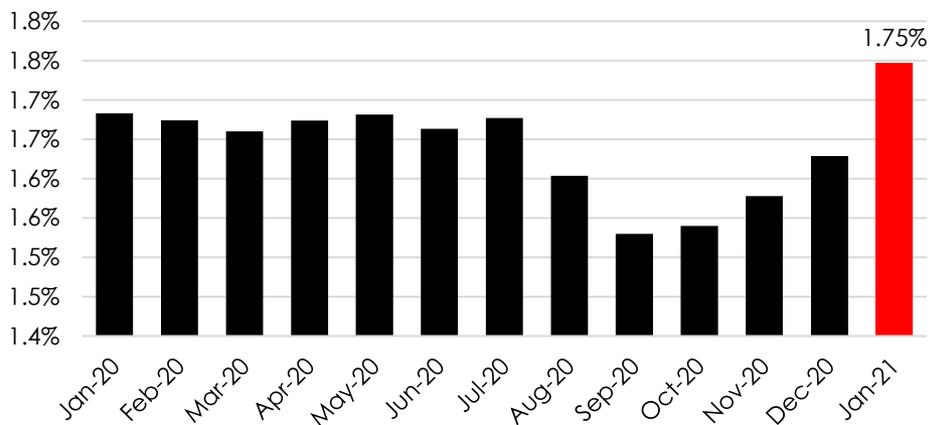


### GIFR-Credit Card

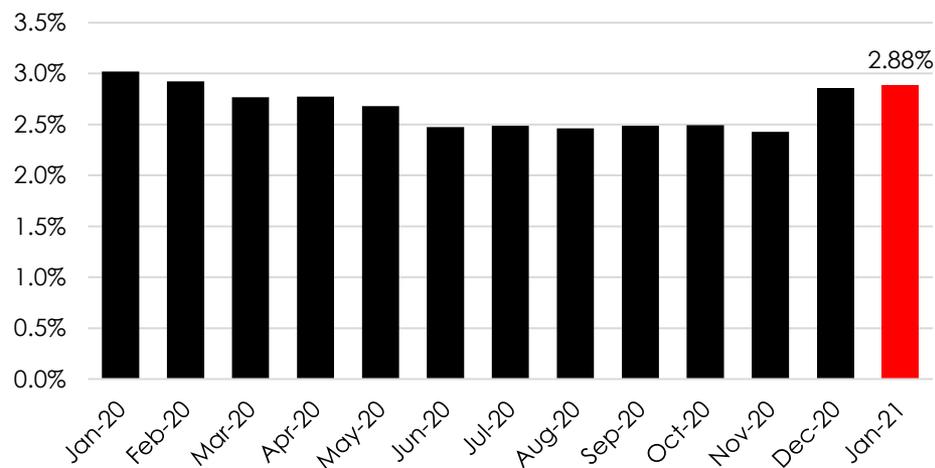


Sources: CEIC, BNM

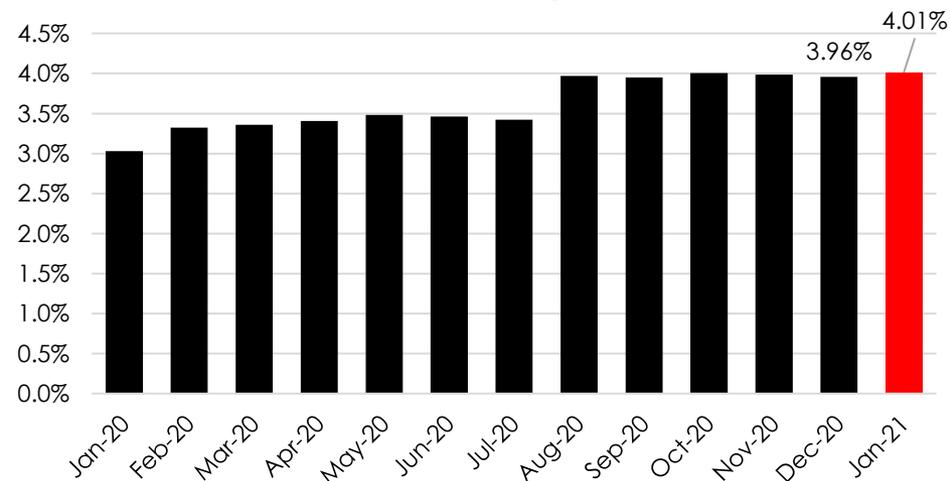
## GIFR-Wholesale, Retail, Restaurant & Hotel



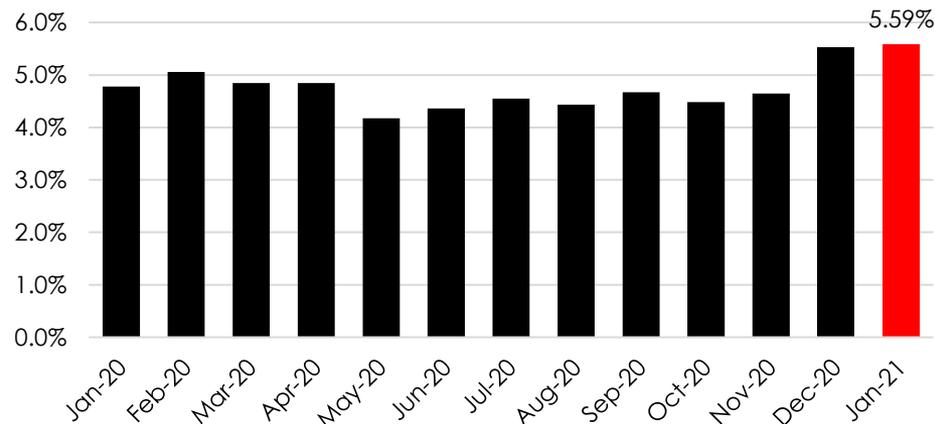
## GIFR-Construction



## GIFR-Primary Agriculture



## GIFR-Transport, Storage & Communication



# RUBBER GLOVES SECTOR-JOURNEY TO REACH HERD IMMUNITY WILL CONTINUE TO PUSH THE NEED FOR RUBBER GLOVES USAGE

- ✓ As highlighted under the sectoral performance of the FBM KLCI index, it seems that there is a perception that the global demand for rubber gloves will decline in light of the Covid-19 vaccine rollout as it is expected to reduce risks of infections and subsequently reduce the need for rubber gloves.
- ✓ Looking at countries with the highest populations and other selected first world nations, gloves are currently being used for vaccinations. For example, in the case of the US (which is estimated to account for 35% of the world's glove demand), the "National Strategy for the Covid-19 response and pandemic preparedness" document published by the White House in January 2021, it mentioned that the US is taking immediate action to fill supply shortfalls for vaccination supplies, which include nitrile gloves.
- ✓ According to Dr. Anthony Fauci (chief medical advisor to the US government), 70.0% to 85.0% of the US population is required to be vaccinated in order for the herd immunity to be achieved.
- ✓ On a wider scale, current estimates indicate that **global herd immunity could take as long as 4.6 years\*** even after considering that vaccinations happening more rapidly in affluent Western countries than the rest of the globe.
- ✓ Henceforth, the lengthy journey for the globe to reach herd immunity will support the demand for rubber gloves in the next four years at least.

## Vaccination rate in countries

Country	Daily Vaccination Rate (Doses administered per day '000)	Estimated time to cover 75% of the population at current vaccination rate or reach herd immunity
US	1,735	8.0 months
China	1,550	2.6 years
India	459	8.4 years
United Kingdom	384	6.0 months
Brazil	216	2.7 years
Germany	160	1.5 years
France	119	1.5 years
Indonesia	112	6.8 years
Israel	95	3.0 months
United Arab Emirates	67	4.9 months
<b>Total</b>	<b>6,730</b>	<b>4.6 years</b>

Sources: Bloomberg Covid-19 Vaccine Tracker, Johns Hopkins University, Our World In Data

\* <https://www.bloomberg.com/graphics/covid-vaccine-tracker-global-distribution/>

# RUBBER GLOVES SECTOR-DEMAND FOR RUBBER GLOVES IS EXPECTED TO REMAIN STRONG

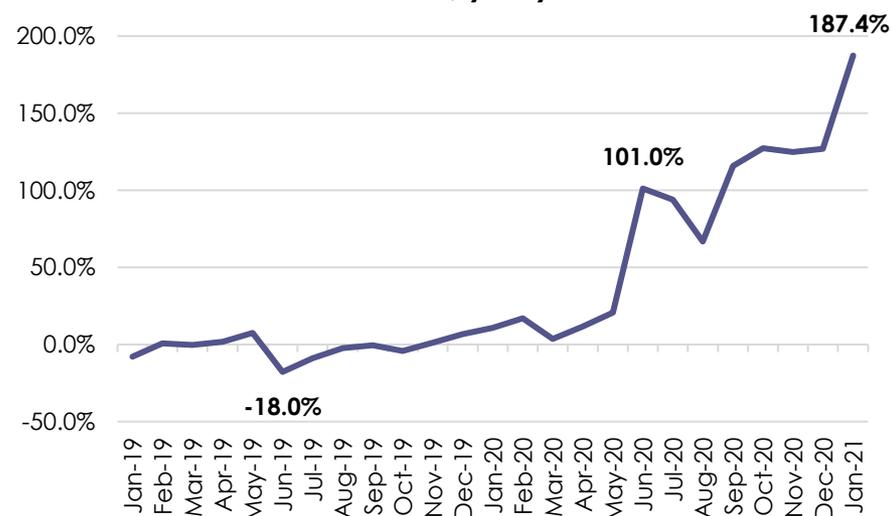
- ✓ Even with global supply expected to rise by 19.9% this year (2020: 19.3%) due to existing players ramping up production capacities and newer players entering the market, a supply shortage of 12.4 billion pieces of rubber gloves is expected to occur in 2021.
- ✓ Such anticipated trends of production bodes well in terms of average selling prices of rubber gloves.
- ✓ On further scrutiny, Malaysia's exports for rubber products increased by 187.4% y-o-y in January 2021 (December 2020: 126.9%), indirectly indicating a robust demand for the country's rubber glove products amid the pandemic.
- ✓ Upside risks to the demand of rubber gloves would be the new variants of the virus are expected to occur over time according the Centers for Disease Control and Prevention (CDC). While it is still unknown how these variants affect existing vaccines, there is a possibility that existing vaccines prove ineffective against newer variants been found to spread more easily and quickly.
- ✓ Therefore, we are maintaining our positive stance on the manufacturing sector for rubber gloves.

## Global Demand and Supply For Rubber Gloves

Capacity (billion pieces of gloves)	2020	2021	2022
Top Glove	90.0	108.0	129.0
Hartalega	40.5	43.7	48.5
Kossan	32.0	35.5	42.5
Supermax	26.2	36.4	48.4
Sri Trang	33.0	36.0	49.0
Others	122.4	153.0	172.1
Total estimated manufacturing capacity	344.1	412.6	489.5
Change in global supply	19.3%	19.9%	18.6%
Global Demand	360.0	425.0	489.0
<b>Global Surplus/ (Shortage)</b>	<b>-15.9</b>	<b>-12.4</b>	<b>0.5</b>

Sources: Malaysian Rubber Glove Manufacturers Association, Respective Company Data

## Malaysia's Exports Growth of Rubber Products, y-o-y%



Sources: DOSM, CEIC



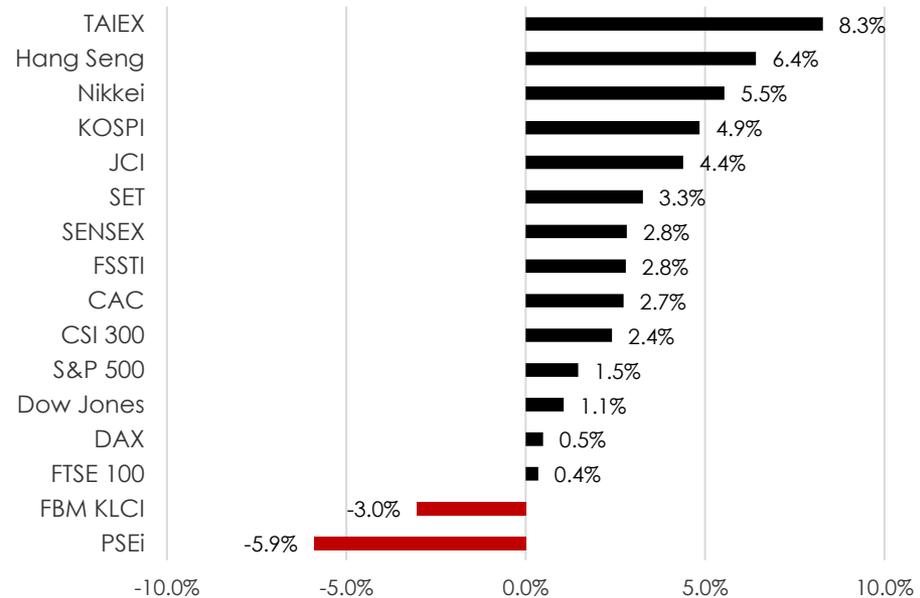
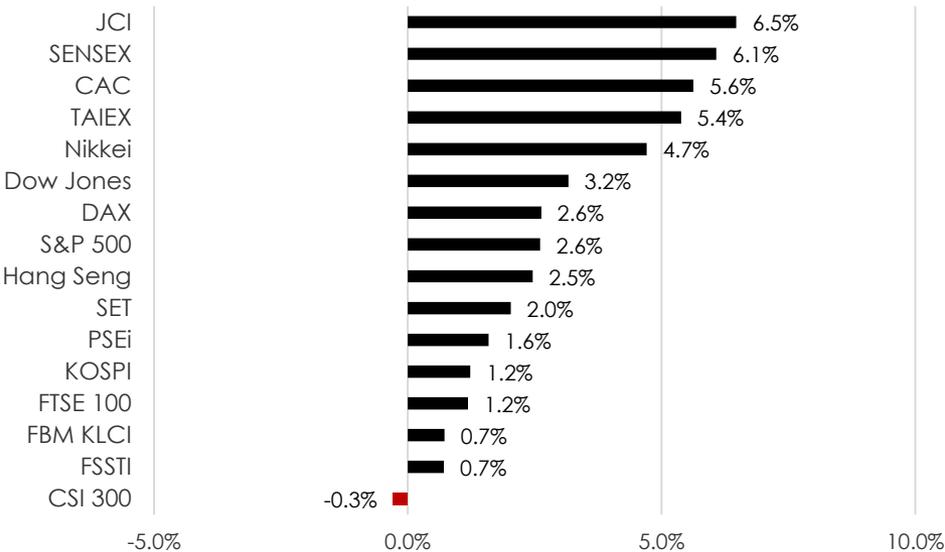
# MALAYSIA'S FINANCIAL MARKET

# FBM KLCI RECORDED A 0.7% GAIN IN FEBRUARY 2021

- ✓ In February, most major benchmark indices recorded gains with Jakarta's JCI recording the largest monthly gain of 6.5%. Optimism came from Indonesia's plan to expand its Covid-19 recovery budget this year from an earlier target of IDR553.1 trillion in January 2021 to IDR619.0 trillion rupiah to provide better support for the health sector and businesses.
- ✓ Meanwhile, the China's CSI 300 index was the only laggard with a 0.3% monthly decline in February 2021. The monthly drop in the CSI 300 index was partly due to the People's Bank of China's (PBOC) decision to keep the one-year loan prime rate unchanged at 3.85%. The PBOC also mopped up a net RMB260.0 billion (USD40.2 billion) of liquidity from the financial system on 18 February 2021, stoking concerns that policymakers may have started dialling back their accommodative stance after getting the pandemic under control.
- ✓ On the domestic front, the FBM KLCI index recorded a 0.7% monthly gain while declining by 3.0% on a year-to-date (YTD) basis. Other YTD decliners include the Philippines' PSEI which lost 5.9% in February 2021.

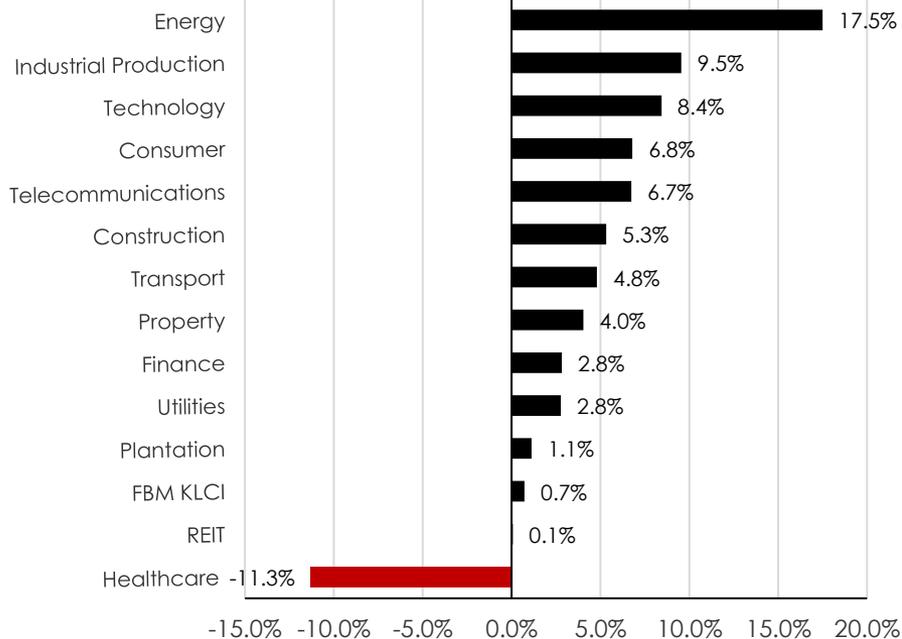
### Gains/Losses of Benchmark Indices in February 2021

### YTD Gain/Losses of Benchmark Indices

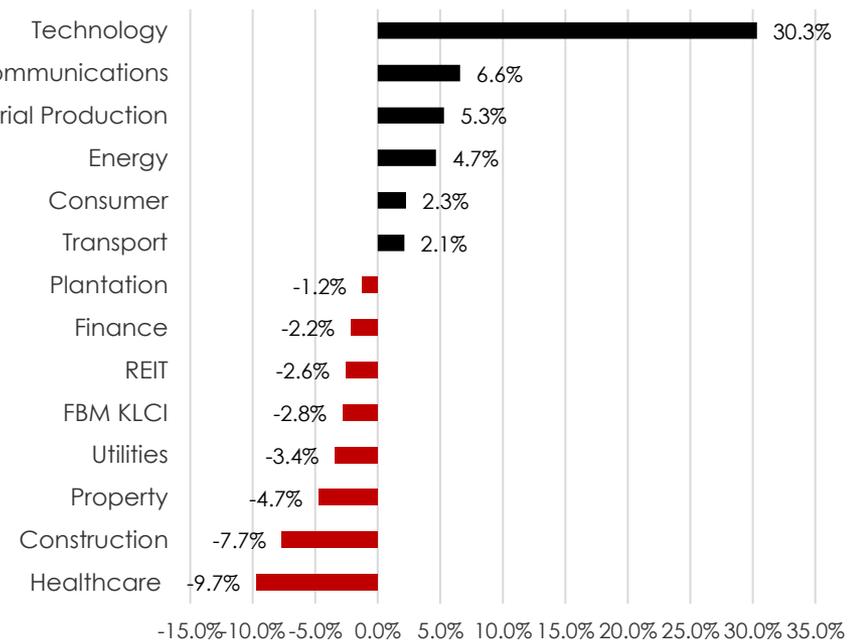


- ✓ The Bursa Malaysia Energy Index was the biggest gainer for February 2021 after recording a 17.5% monthly increase. The gain in the index was in line with the 18.3% monthly jump in Brent crude oil prices, marking its fourth straight month of gains partly due to the huge snowstorm in Texas which severely disrupted production in the heartland of US energy. Aside from that, optimism on the Covid-19 vaccine played a part in supporting the oil price.
- ✓ Meanwhile, the Bursa Malaysia Healthcare Index was not just the biggest loser in February 2021 but was also the largest decliner on a YTD basis. It seems that the start of the Malaysia's vaccination program has dented sentiment in rubber glove counters (which are part of the Bursa Malaysia Healthcare Index) in terms of the global prospects on rubber glove demand. Nevertheless, the increased hygiene awareness worldwide is likely to sustain the global demand moving forward even after vaccinations have been implemented worldwide.

### Bursa Malaysia Sectoral Monthly Performance in February 2021



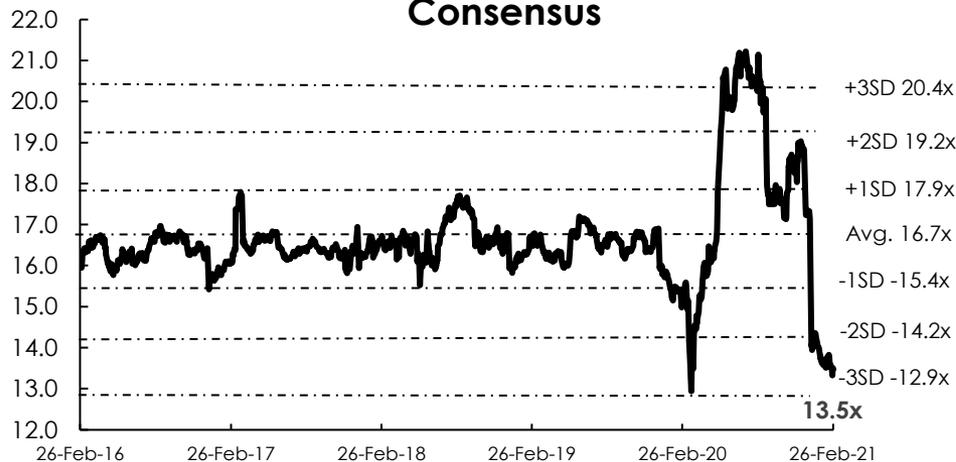
### Bursa Malaysia Sectoral YTD Gain/Losses



Source: Bloomberg

- ✓ 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 63.7% in 2021 after declining by 20.6% in 2020. The earnings rebound will be driven by a combination of a low base effect and the return of revenue growth.
- ✓ Due to the robust earnings growth forecasted this year, and the lack of buying interest from foreign funds, the forward valuations have been rendered very attractive. The FBM KLCI index's forward price to earnings (PE) ratio stood at 13.5x as at 26 February 2021, slightly more than two standard deviations below the five-year average of 16.7x.
- ✓ Therefore, we reiterate our year-end target of 1,715 points for the FBM KLCI index in 2021. This is derived by multiplying the 2021 FBM KLCI EPS integer of 116.6 with a forward PE target of 14.7x 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.

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



Source: Bloomberg

**Earnings Growth Trajectory of the FBM KLCI**

Year	Earnings Per Share (EPS) Integer of FBM KLCI	Year-on-year (y-o-y) EPS Growth
2022F	113.9	-2.3%
2021E	116.6	63.7%
2020	71.2	-20.6%
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%

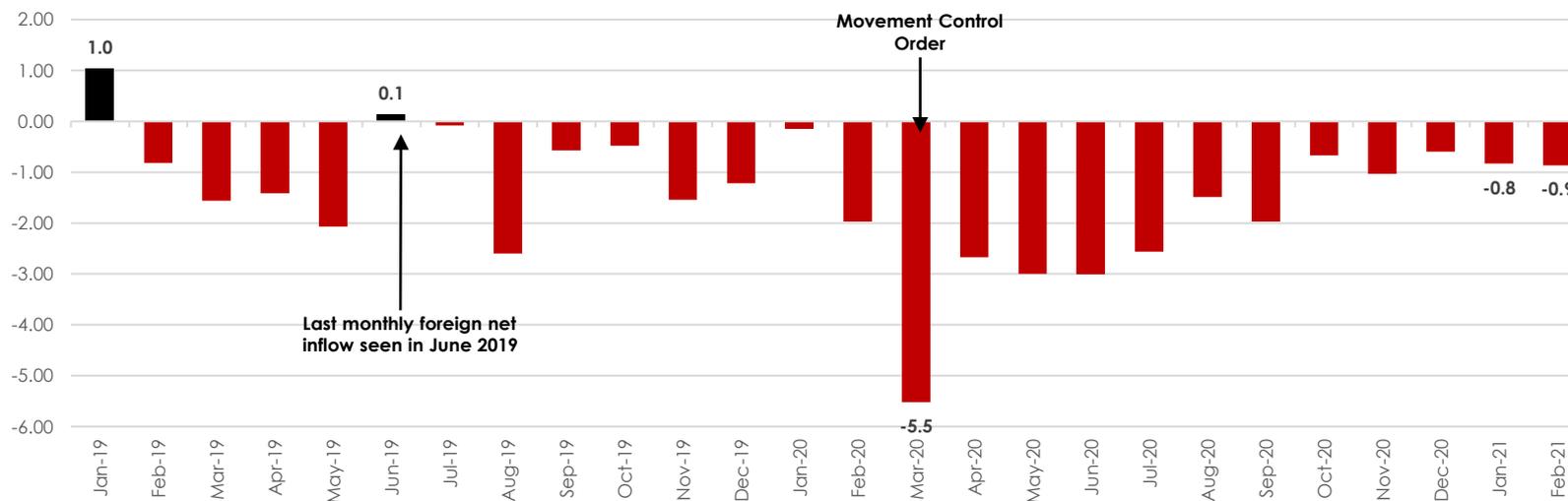
# FOREIGN FUND FLOWS-EQUITY

- Foreign fund net outflows in February 2021 reached RM866.7 million (January 2021: -RM834.7 million), marking the 20<sup>th</sup> consecutive month of foreign net selling on Bursa Malaysia. Aside from that, local retail investors have recorded net inflows of RM2.0 billion in February 2021 (January 2021: RM1.8 billion) while local institutions disposed RM1.1 billion net last month after selling RM920.2 million net of local equities in the month before.
- In comparison with other regional peers under our coverage, Malaysia has the smallest YTD foreign net outflow of USD0.4 billion while South Korea recorded the largest YTD foreign net outflow of USD7.0 billion net. Meanwhile, India is the country with the largest foreign net inflow at USD4.9 billion net during February 2021.

## YTD Regional Foreign Net Inflow/Outflow in as at 26 February 2021

Country	USD Billion
India	4.9
Indonesia	1.0
Malaysia	-0.4
Phillipines	-0.5
Thailand	-1.0
Taiwan	-6.6
South Korea	-7.0

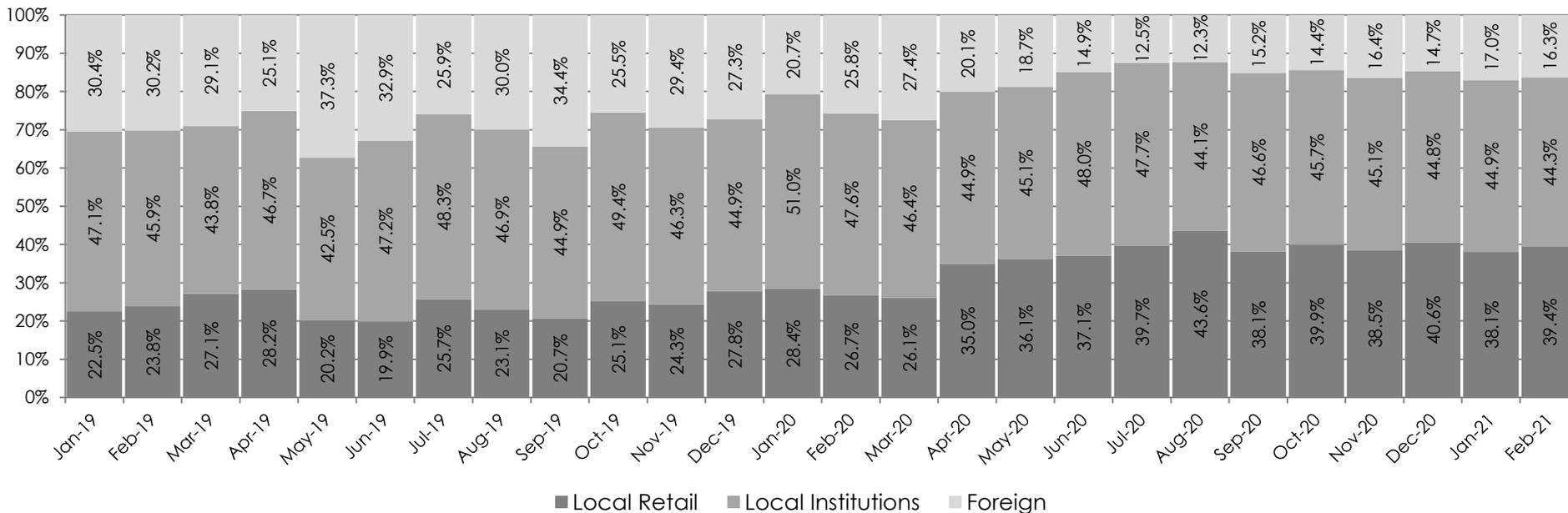
Monthly Foreign Net Inflow/Outflow (RM billion) in Malaysia's Equity Market



Source: Bloomberg

- ✓ We observed that the participation of retail investors remained robust, evident from the increase in retail investors' share of value traded on Bursa Malaysia in February 2021 which stood at 39.4% in February 2021 (January 2021: 38.1%)
- ✓ 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 decline slightly to 16.3% in February 2021 (January 2021: 17.0%).
- ✓ We also noted that participation from local institutions was fairly stable at 44.3% in February 2021: (January 2021: 44.9%).

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



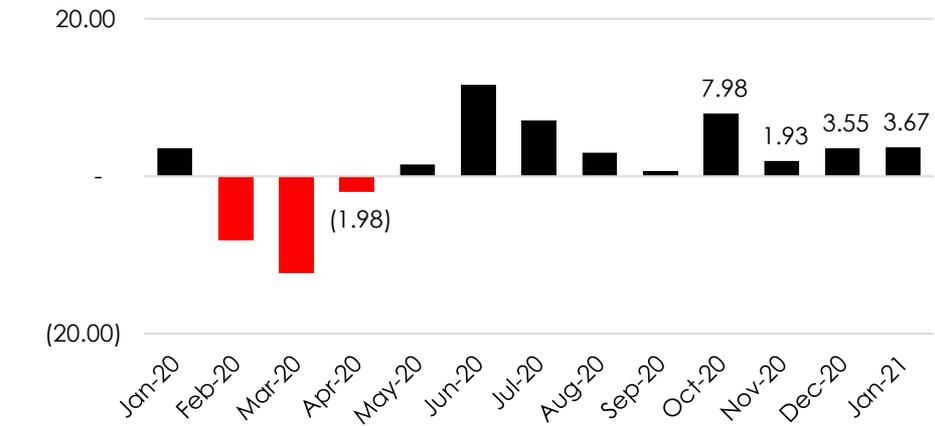
Source: Bloomberg

## Change in MGS Yields

MGS Benchmark	Coupon (%)	Yields (%) Feb-21	Yields (%) Jan-21	Monthly Change (bps)
3-Y03/23 MGS	3.480%	1.98%	1.84%	14
5-Y09/25 MGS	3.955%	2.32%	2.05%	27
7-Y06/28 MGS	3.733%	2.85%	2.46%	39
10-Y04/31 MGS	2.632%	3.08%	2.70%	38

Source: BNM

## Foreign Fund Flows in Bond Market, RM billion



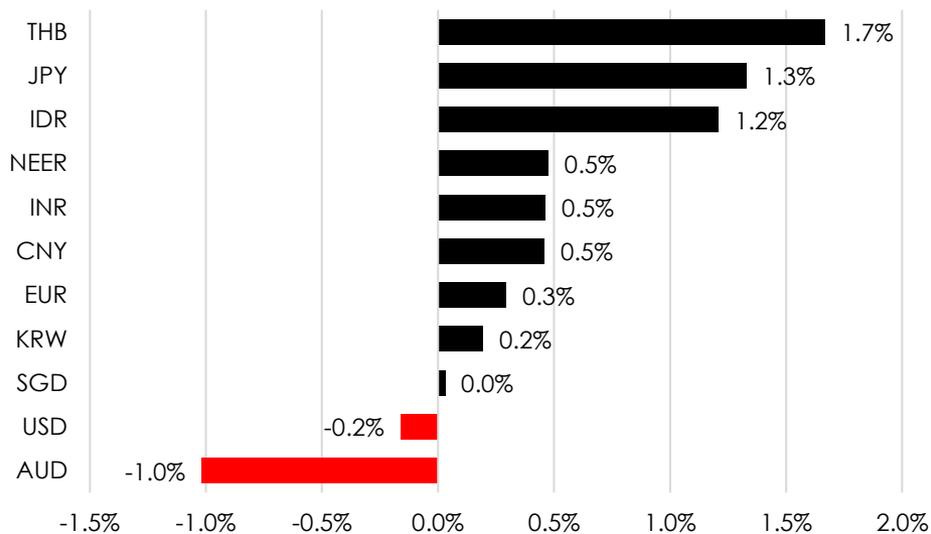
Source: CEIC

- ✓ Overall, MGS benchmark yields were higher during February this year with the 7-Y 06/28 MGS and 10-Y 04/31 MGS rising up by 39 bps and 38 bps to close at 2.85% and 3.08% on 26 February 2021. The uptick was largely due to recent spill overs from the rise in 10-Y US-Treasury yield accompanied by higher Brent price in light of the reopening of the economies across the globe following the roll-out of Covid-19 vaccination campaign.
- ✓ Turning to the fund flows, foreign investors continued to purchase local govies as Malaysia's bond market saw the ninth straight month of net foreign inflow in January 2021 at RM3.7 billion, increasing from RM3.6 billion in December 2020.
- ✓ In addition, the reopening of the 7-Y GII maturing in September 2027 has garnered a strong Bid-To-Cover (BTC) of 2.20x while the previous auction of MGS and GII saw the BTC ratio reach more than 2.00x, indicating solid demand for Malaysia's bonds.

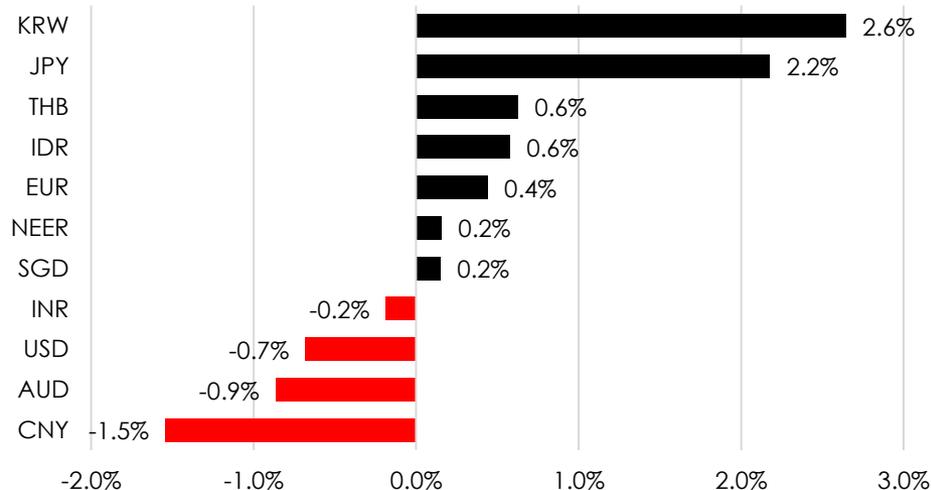
# RINGGIT SLIPPED DURING FEBRUARY 2021

- ✓ The Ringgit slightly weakened by 0.2% against the US greenback during February 2021 to close at RM4.0498 compared to RM4.0400 at the end of January 2021. The Ringgit was experiencing some pressure as investors were shifting their focus to bonds amid the rise in US Treasury yields.
- ✓ In addition, the USD gained its momentum after the House of Representatives passed Biden's USD1.9 trillion relief package that Americans needed following the economic fallout due to the Covid-19 crisis.
- ✓ Be that as it may, improving oil prices buoyed the local note and capped it below RM4.0500 against the USD as the Brent price has unidirectional causality to Malaysian Ringgit.
- ✓ Apart from that, nationwide vaccination program which began on 24 February 2021 has propelled further optimism in the local market. Malaysia has also received the first batch of China's Sinovac on 27 February 2021 which allows more people to be vaccinated.
- ✓ At the same time, the new cases are beginning to show signs of flattening with the latest 1,828 cases recorded on 1 March 2021 which was lower compared to 3,545 cases on 24 February 2021.

### MYR Against Other Currencies, m-o-m%



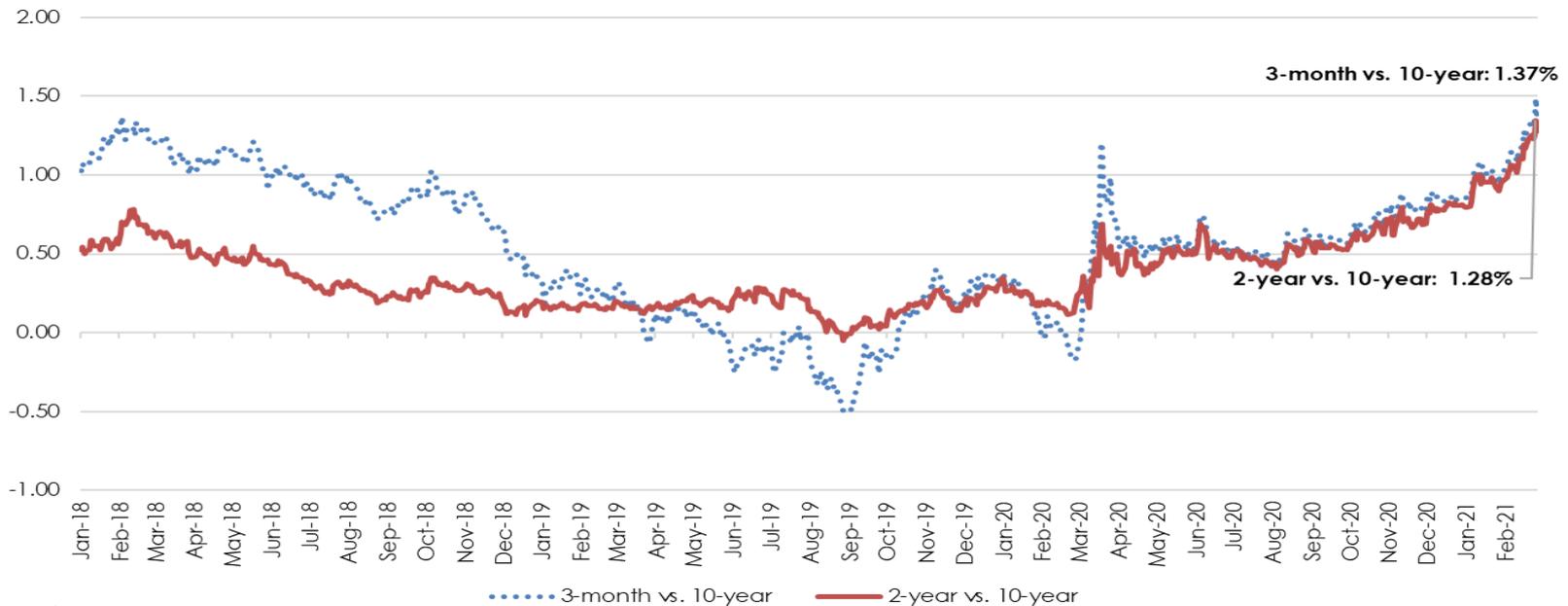
### YTD Performance MYR Against Other Currencies, %



Sources: Bloomberg, Bank Islam

- ✓ **Overall situation seems mixed** - The global situation now appears somewhat mixed. China's factory activity grew at the slowest pace in nine months in February 2021 while Japan figures showed growth at the fastest pace in over two years. Consumer spending in the US jumped 2.4% in January 2021, the largest gain since June last year and ended two straight months of decline. Such upbeat economic data signals that the US economy is on its way to recovery and thus, increases the appetite for risky assets namely equities.
- ✓ **Risk-on mode has bolstered bond yields** - With investors having a bullish view on equities in line with the anticipated economic rebound, yields on US government debt have passed another set of closely watched levels. For instance, yields on 10-Y US Treasuries touched 1.61%, the highest in a year on 25 February 2021 before settling at 1.52% on the same day. As a result, the US treasury yield curve too has steepened as of late.

**US Treasury Yield Curves (%)**



Source: Bloomberg

- ✓ **Risk of higher inflation make investors feel uneasy** - Although higher yields indicate that growth is gaining traction, investors are becoming uneasy over the sustainability of the path to recovery combined with prospects of higher inflation. Furthermore, new Covid-19 variants have been detected in locations such as New York and a possible inefficiency of the current developed vaccines to handle these new variants may pose a threat to the growth trajectory.
- ✓ **BNM to keep current OPR unchanged in upcoming meeting** - That being said, we believe that Bank Negara will stay pat on the current overnight policy rate (OPR) of 1.75% during its upcoming policy meeting on 4 March 2021. The positive economic impact of the vaccine is likely to materialise in the second half of 2021 and businesses are still feeling the brunt of the MCO 2.0 imposed albeit at a softer pace as many restrictions have been gradually relaxed. Notwithstanding this, BNM will still have some space to cut the OPR in the event that the virus exerts further downward pressure on economic growth.
- ✓ **Possibility of higher oil supply in the market** - On the commodities front, the Organization of Petroleum Exporting Countries and its allies (OPEC+) will be meeting on 4 March 2021 and could discuss allowing as much as 1.5 million barrels per day (bpd) of crude back into the market. Previously, the OPEC oil output fell in February as a voluntary cut by Saudi Arabia added to reductions agreed to under the previous OPEC+ pact. A consequence of higher production will be weaker oil prices.
- ✓ **Gauging risk tolerance is crucial at this point of time** - All in all, the overall situation is highly fluid at the moment and investors and businesses should assess their risk tolerance thoroughly before engaging in any major business decision.

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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