



From the Desk
of the
Chief Economist

BANK ISLAM

MONTHLY ECONOMIC & MARKET UPDATES

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ECONOMIC RESEARCH

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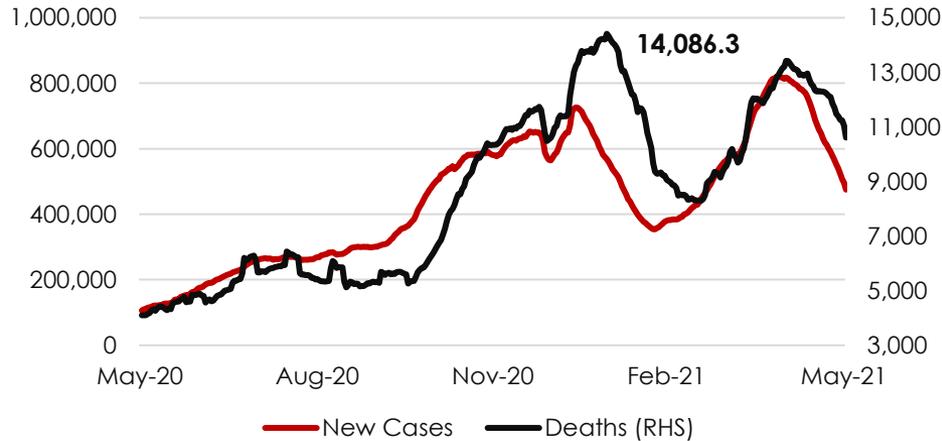
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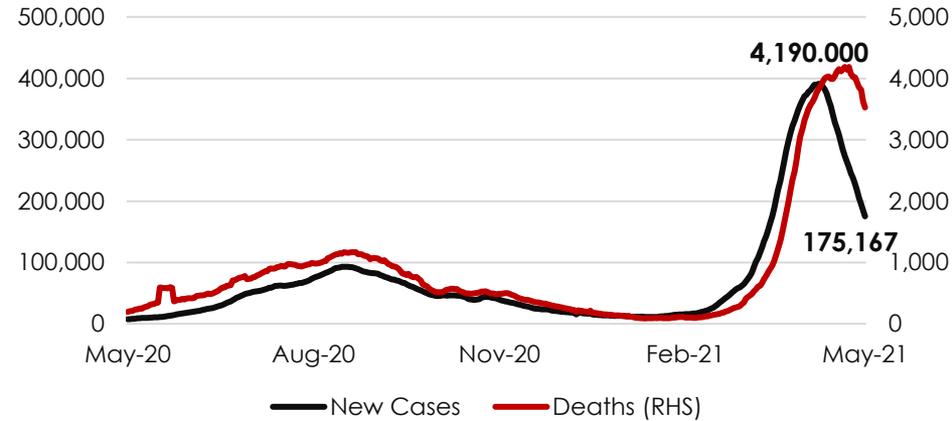
GLOBAL ECONOMY

- ✓ **Brighter economic prospects in 2021** - The Organisation for Economic Co-operation and Development (OECD) has revised up its global economic projection by 0.2% to 5.8% in 2021, higher than the 5.6% forecast made in March this year. This was mainly supported by the accelerating vaccination rollout, as well as massive economic stimulus packages particularly in the US. However, the recovery is likely to remain uneven, depending on the effectiveness of public health measures and policy support.
- ✓ **Worldwide Covid-19 confirmed cases have surpassed 170.0 million in May** - The total number of people infected with Covid-19 globally was recorded at 170.1 million as at 31 May. The US, India and Brazil have seen the highest number of confirmed cases, followed by France, Turkey and Russia. Notwithstanding this, the number of new daily cases globally have been gradually declining (31 May: 451,704 cases vs. 1 May: 868,862 cases), suggesting that the vaccination programs have been highly successful.
- ✓ **How has the vaccination campaign progressed so far?** - More than 1.93 billion vaccine doses have been administered worldwide, equal to 25 doses for every 100 people as at 1 June (2 May: more than 1.16 billion, 15 doses for every 100 people). However, vaccination gap continues to persist between advanced economies and developing countries which could lead to vaccination apartheid.
- ✓ **Strict measures to prevent the spread of the virus** – Japan has extended its third state of emergency in Tokyo, Osaka and eight other prefectures by another three weeks to 20 June as the pace of decline in infections remain slow. On domestic front, Malaysia decided to implement a full-scale lockdown for two weeks from 1 June 2021 to 14 June 2021 in efforts to reduce the higher number of Covid-19 cases. In fact, the number of daily Covid-19 cases recorded per million people in Malaysia reached 237.3 cases per million people, surpassing India which only saw 126.9 cases per million people as at 31 May 2021.
- ✓ **Global manufacturing activities continued to expand for the eleventh straight month** – The J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) increased to 56.0 points in May from 55.9 points previously. The outlook is expected to remain positive as manufacturers anticipate further increases in output over the next 12 months.

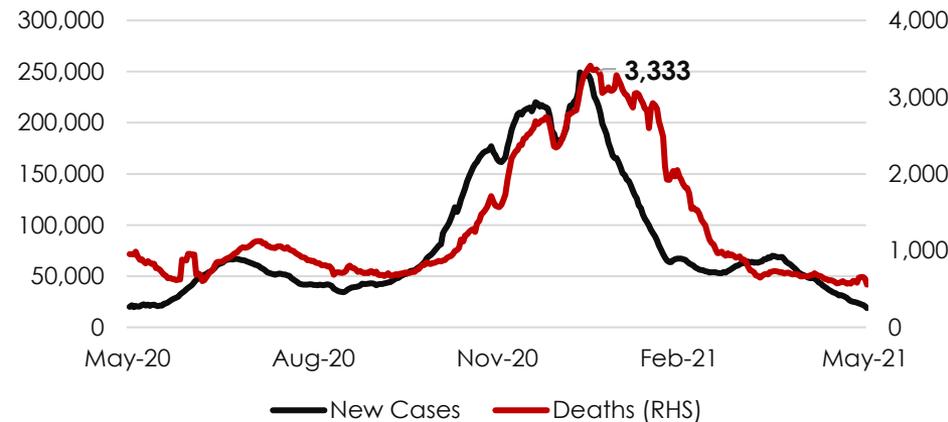
Covid-19 Cases and Deaths Global (7-Day Moving Average)



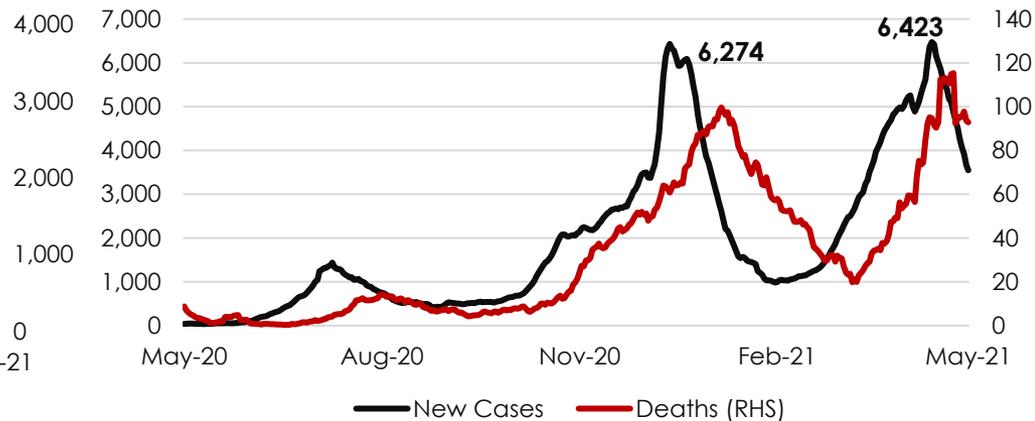
Covid-19 Cases and Deaths in India (7-Day Moving Average)



Covid-19 Cases and Deaths in US (7-Day Moving Average)



Covid-19 Cases and Deaths in Japan (7-Day Moving Average)



MOST OF COUNTRIES RECORDED A NEGATIVE GROWTH RATE IN 1Q2021 DUE TO COVID-19 PANDEMIC

GDP performances based on selected countries, %:

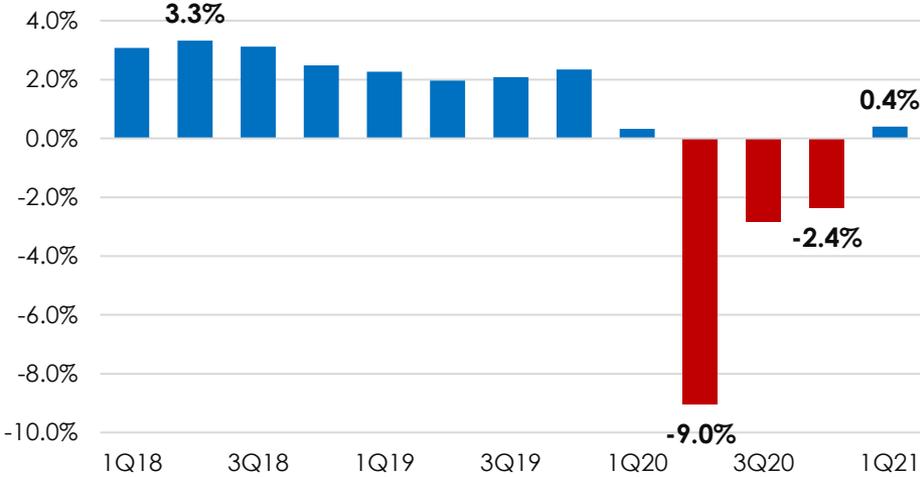
GDP, y-o-y%	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021
US	2.3	2.0	2.1	2.3	0.3	-9.0	-2.8	-2.4	0.4
UK	1.7	1.5	1.4	1.2	-2.2	-21.4	-8.5	-7.3	-6.1
Eurozone	1.6	1.3	1.4	1.0	-3.3	-14.6	-4.1	-4.9	-1.8
Japan	1.5	0.4	0.5	-7.4	-1.9	-28.6	22.9	11.6	-5.1
Germany	1.1	0.1	0.7	0.4	-2.2	-11.3	-3.8	-3.3	-3.1
France	2.1	2.3	2.0	1.0	-5.5	-18.4	-3.5	-4.6	1.2
China	6.4	6.2	6.0	6.0	-6.8	3.2	4.9	6.5	18.3
Thailand	2.8	2.4	2.7	1.3	-2.1	-12.1	-6.4	-4.2	-2.6
Philippines	5.9	5.6	6.3	6.6	-0.7	-17.0	-11.6	-8.3	-4.2
South Korea	1.8	2.1	2.0	2.3	1.4	-2.7	-1.1	-1.2	1.8
Singapore	1.6	1.4	1.1	1.3	0.0	-13.3	-5.8	-2.4	1.3
Indonesia	5.1	5.1	5.0	5.0	3.0	-5.3	-3.5	-2.2	-0.7
Malaysia	4.7	5.0	4.5	3.7	0.7	-17.2	-2.7	-3.4	-0.5

Sources: Bloomberg, CEIC

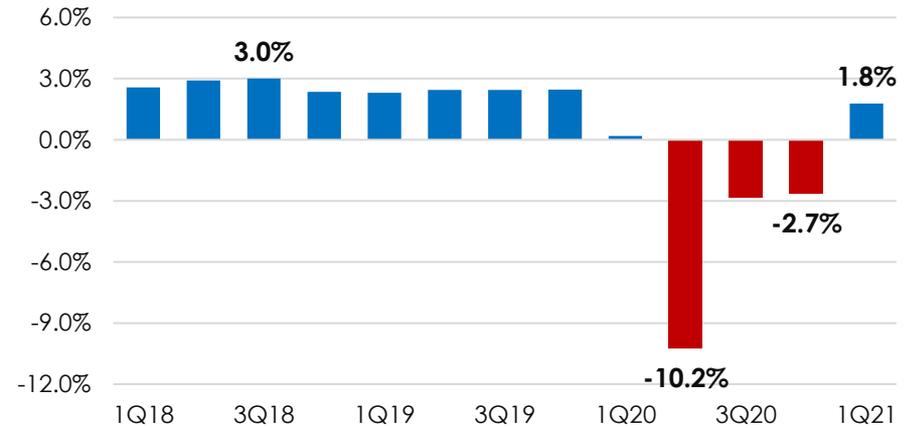
- ✓ Covid-19 pandemic has caused many countries to restrict their economic activities and impose coronavirus-related lockdowns in order to contain the spreading virus. Consequently, these have lead to unprecedented reduction economic growth.
- ✓ Be that as it may, the world's second largest economy, China, continued to record a strong expansion of 18.3% in 1Q2021, the highest figure since 1992, supported by the strengthening domestic and global demand.

US ECONOMY: GDP REBOUNDED BY 0.4% Y-O-Y IN 1Q2021 (SECOND ESTIMATE)

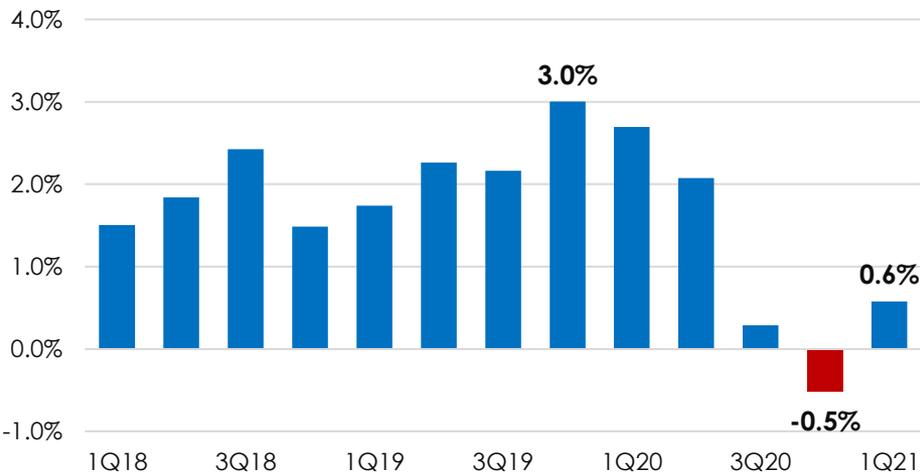
GDP, y-o-y%



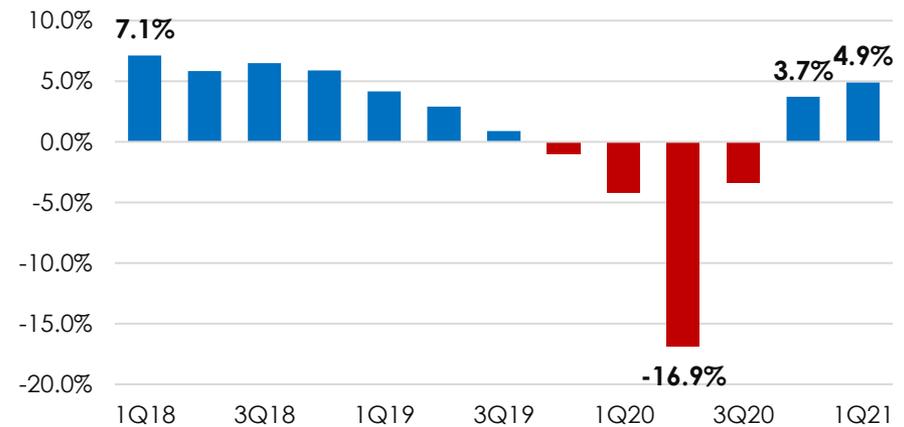
Personal Consumption Expenditure (PCE), y-o-y%



Government Spending, y-o-y%



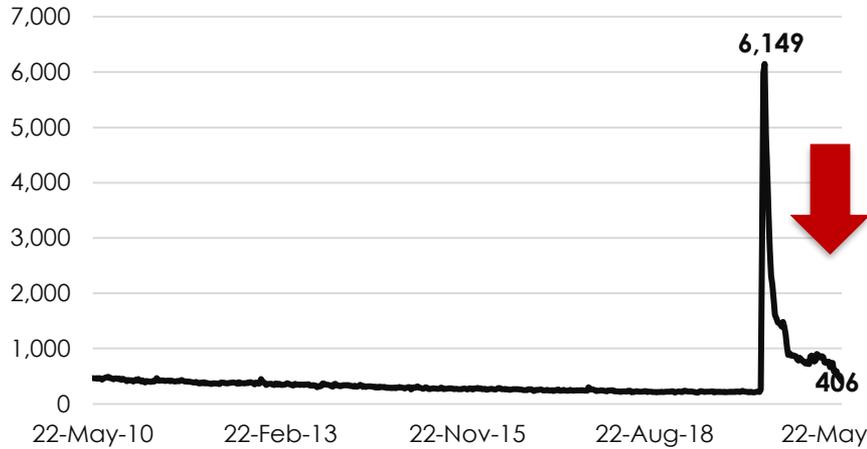
Gross Private Domestic Investment (GPDI), y-o-y%



Source: CEIC, US BEA

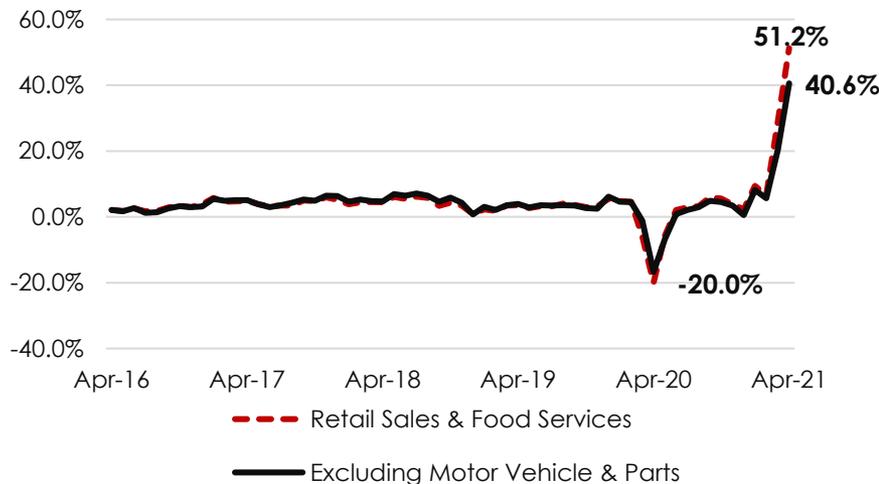
AMERICANS' CONSUMER SECTOR IS IMPROVING, ADDING FUEL TO ECONOMIC GROWTH

US IJC, '000



- ✓ The number of Americans filing for the US unemployment benefits stood at 406k for the week ended 22 May, down by 38k from 444k in the previous week.
- ✓ The claims keep falling to a new post-pandemic low for the fourth straight week since April, suggesting a strengthening labour market condition.
- ✓ This was mainly supported by the country's reopening efforts, rapid vaccination program, as well as the US massive stimulus packages.

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



- ✓ Retail sales and food services surged by 51.2% in April, after accelerating by 29.0% in the previous month.
- ✓ This was the highest figure on record amid better prospects for job market and consumers continued to benefit from aggressive congressional spending.
- ✓ Similarly, excluding motor vehicle and parts, sales jumped by 40.6% in April from a 20.4% growth in the preceding month.
- ✓ This suggests that the consumers are willingly to spend on an expectation that the economy will gradually recover in 2021.

Sources: Bloomberg, CEIC

Singapore's GDP, y-o-y%



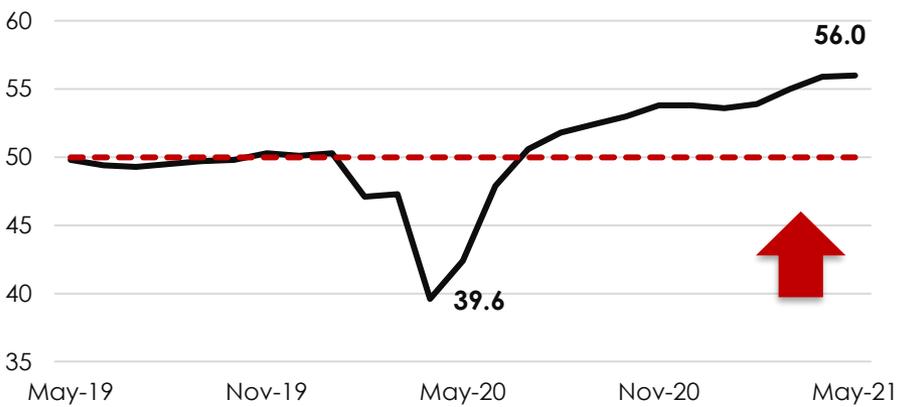
Source: CEIC

Quarter/Year	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021
% Change over corresponding period of previous year (y-o-y)						
Overall GDP	0.0	-13.3	-5.8	-2.4	-5.4	1.3
Goods Producing Industries:	6.7	-10.0	1.1	3.9	0.3	5.5
Manufacturing	8.3	-0.4	11.0	10.3	7.3	10.7
Construction	-0.3	-65.6	-52.5	-27.4	-35.9	-22.7
Services Producing Industries	-1.9	-12.7	-8.3	-4.7	-6.9	-0.5

Source: MTI, Singapore

- ✓ Singapore's GDP rebounded by 1.3% year-on-year (y-o-y) in 1Q2021 from a 2.4% contraction in the preceding quarter (advance estimates: 0.2%) amid improving in external economic environment.
- ✓ This was mainly contributed by the Manufacturing sector which increased by 10.7% in 1Q2021 from a 10.3% expansion in the previous quarter. Growth of the sector was supported by higher output in the electronics, precision engineering and chemicals clusters.
- ✓ Meanwhile, Construction and Services sectors continued to record a negative growth of 22.7% (4Q2020: -27.4%) and 0.5% (4Q2020: -4.7%) in 1Q2021. Nonetheless, the degree of contraction was softened as compared to the previous quarter.
- ✓ Thus far, the Ministry of Trade and Industry (MTI) of Singapore decided to maintain its GDP growth projection for 2021 between 2.0% and 6.0%, considering heightened uncertainty over the pandemic globally, as well as our domestic situation.

J.P. Morgan Global Manufacturing PMI, points

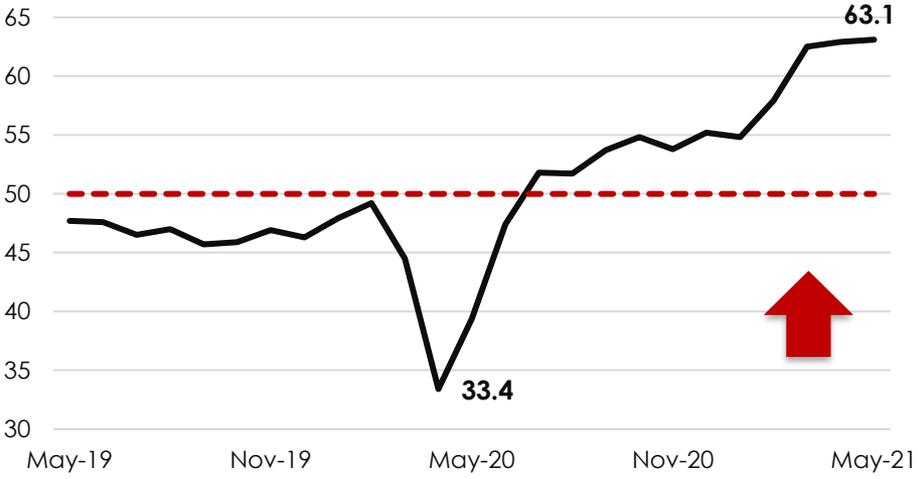


Index Summary:

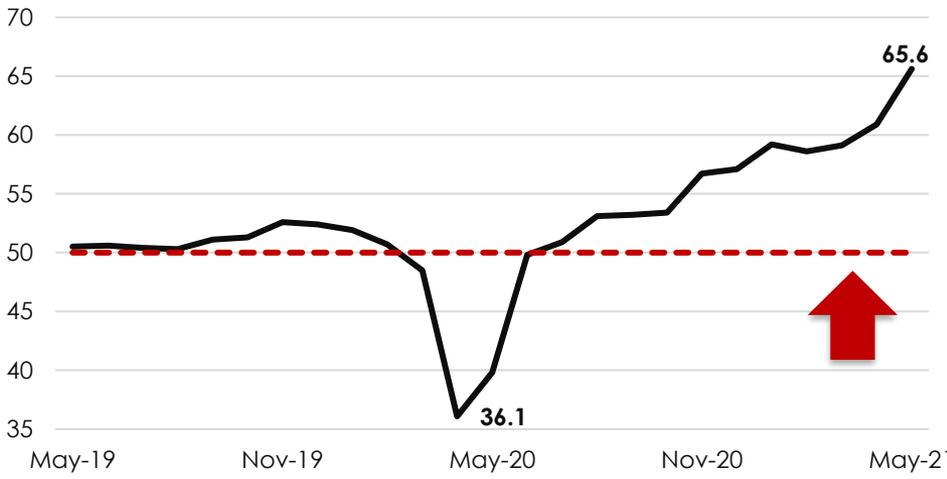
Index	Apr-21	May-21	Interpretation
PMI	55.9	56.0	Improvement, faster rate
Output	55.8	55.6	Growth, slower rate
New Orders	56.8	57.3	Growth, faster rate
New Export Orders	54.7	54.9	Growth, faster rate
Future Output	66.6	65.1	Growth expected, weaker sentiment
Employment	52.6	52.5	Growth, slower rate
Input Prices	69.7	71.6	Inflation, faster rate
Output Prices	59.8	62.6	Inflation, faster rate

Source: IHS Markit

Eurozone Manufacturing PMI, points



US Manufacturing PMI, points



CENTRAL BANK POLICY RATES

Policy rates	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21*
Advanced countries													
US (Fed Fund Rate)	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
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)	0.10	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)	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
Latin America													
Mexico (ON Rate)	5.00	5.00	4.50	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00
Brazil (Selic Rate)	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.75	2.75	3.50	3.50
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	36.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00
Eastern Europe													
Russia (Key Rate)	4.50	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.50	5.00	5.00	5.00
Ukraine (Discount Rate)	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.50	7.50	7.50	7.50
Turkey (1W Repo Rate)	8.25	8.25	8.25	10.25	10.25	15.00	17.00	17.00	17.00	19.00	19.00	19.00	19.00
Asia													
China (1Y Loan Prime Rate)	3.85	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)	4.00	4.00	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)	4.25	4.00	4.00	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
Thailand (1D Repo Rate)	0.50	0.50	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)	0.50	0.50	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)	2.25	2.25	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Australia (Cash Rate)	0.25	0.25	0.25	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
New Zealand (Cash Rate)	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)	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75

* As at 1 June 2021

Source: Bloomberg

- ✓ In May, most of the central banks have decided to keep their accommodative monetary policy stance to support the economy recover from the Covid-19 crisis.
- ✓ Recently, the Reserve Bank of Australia (RBA) maintained its cash rate at 0.1% during its meeting on 1 June. Policymakers reiterated their commitment to continue the highly supportive monetary conditions until 2024 when actual inflation is sustainably between 2.0% and 3.0% target range. Currently, inflation in underlying terms remains low and below central bank targets and is expected to be 1.5% in 2021 and 2.0% in mid 2023.



DOMESTIC LANDSCAPE

GDP-THE DECLINE IN ECONOMIC GROWTH WAS SMALLER AT 0.5% IN 1Q2021

Y-o-Y%	Share (2020)	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021
GDP	100.0%	4.7%	5.0%	4.5%	3.7%	0.7%	-17.2%	-2.7%	-3.4%	-0.5%
Domestic Demand (excluding stocks)	93.8%	4.5%	4.5%	3.5%	4.9%	3.7%	-18.8%	-3.3%	-4.5%	-1.0%
Private Sector	75.2%	6.2%	6.1%	5.5%	7.2%	4.9%	-20.4%	-4.0%	-4.0%	-0.9%
-Consumption	59.5%	7.7%	7.8%	7.1%	8.2%	6.7%	-18.5%	-2.1%	-3.5%	-1.5%
-Investment	15.7%	1.4%	1.5%	0.5%	3.4%	-1.1%	-26.1%	-10.8%	-6.6%	1.3%
Public Sector	18.6%	-2.4%	-2.5%	-4.9%	-1.9%	-1.8%	-11.1%	0.1%	-5.7%	-1.5%
-Consumption	13.4%	6.1%	0.0%	0.7%	1.0%	4.9%	2.2%	6.8%	2.4%	5.9%
-Investment	5.2%	-15.1%	-7.6%	-14.3%	-6.7%	-14.4%	-40.1%	-13.1%	-20.4%	-18.6%
Net Exports of Goods and Services	6.5%	14.6%	32.5%	15.3%	-11.1%	-36.8%	-37.9%	19.2%	10.0%	0.8%
-Exports	61.5%	0.3%	0.6%	-1.6%	-3.3%	-7.2%	-21.7%	-4.9%	-2.1%	11.9%
-Imports	55.0%	-1.6%	-2.3%	-3.3%	-2.3%	-2.7%	-19.7%	-7.9%	-3.3%	13.0%

Y-o-Y%	Share 2020	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021
Services	57.7%	6.5%	6.2%	5.9%	6.2%	3.1%	-16.2%	-4.0%	-4.8%	-2.3%
Manufacturing	22.9%	4.1%	4.3%	3.6%	3.0%	1.4%	-18.3%	3.3%	3.0%	6.6%
Mining and Quarrying	6.8%	-0.1%	2.9%	-2.8%	-2.5%	-2.9%	-20.8%	-7.8%	-10.4%	-5.0%
Agriculture	7.4%	6.1%	4.2%	3.7%	-5.5%	-8.6%	0.9%	-0.3%	-1.0%	0.4%
Construction	4.0%	0.6%	1.1%	-1.4%	1.3%	-7.9%	-44.5%	-12.4%	-13.9%	-10.4%

Sources: BNM, CEIC, Bank Islam

IMPOSITION OF MCO 4.0

- ✓ On Friday, 28 May 2021, the government decided to impose the Phase 1 'total lockdown' from 1 June 2021 to 14 June 2021. This decision was made after considering the current Covid-19 situation in Malaysia.
- ✓ We view the Phase 1 'total lockdown' (which we shall refer to it as Movement Control Order 4.0 (MCO 4.0)) to have tighter restrictions than MCO 2.0 and MCO 3.0 but more relaxed compared to MCO 1.0 as the definition of essential economic activities broader this time.
- ✓ For example, Ministry of International Trade and Industry announced 18 manufacturing and manufacturing-related services (MRS) sectors that are allowed to operate under the MCO 4.0 (subject to approval from the ministry). Thirteen of the sectors are allowed to operate at 60.0% workforce capacity while the remaining five are permitted to operate with 10.0% workforce (refer to page 15).
- ✓ Should the number of Covid-19 cases decline, the lockdown measures will go into Phase 2 for 4 weeks continued by Phase 3 which has similar restrictions to MCO 3.0.
- ✓ In short, business now are more prepared compared to MCO 1.0 and vaccination programmes are already under way which should help support business sentiment moving forward.

Phases of Lockdowns Planned By The Malaysian Government

Phase 1



Phase 2



Phase 3

Full-scale lockdown whereby inter-district and inter-state travel is prohibited. Other restrictions include allowing only 2 people per household are allowed to head out to shop for daily necessities with movement limited to a 10km radius and 3 people for medical reasons.

If Phase 1 succeeds in reducing the new daily Covid-19 cases, the government will implement the Phase 2 of lockdown for 4 weeks which will allow the reopening of some sectors of the economy that does not involve large gatherings as well as those that can adhere to physical distancing.

Social activity is not allowed but almost all sectors of the economy are allowed operate subject to strict SOPs as well as restricted physical presence at the workplace.

ESSENTIAL SECTORS ALLOWED TO OPERATE DURING MCO 4.0

Services Sector		Manufacturing and Manufacturing-Related Sector	
No.	Operate Normally With Adherence to SOPs	No.	Operate at 60.0% of Working Capacity
1	Food and beverages (including for animals)	1	Aerospace including maintenance, repair and overhaul (MRO)
2	Health and medical care (including dietary supplements, animal care and clinics as well as veterinary services)	2	Food and beverage
3	Water	3	Packaging and printing materials
4	Energy	4	Personal care products and cleaning supplies
5	Security and safety, defence, emergency, welfare and humanitarian assistance	5	Healthcare and medical care including dietary supplement
6	Solid waste management, public cleaning and sewerage	6	Personal Protective Equipment (PPE) including rubber gloves and fire safety equipment
7	Transportation by land, water or air	7	Medical equipment components
8	Services and operations of ports, shipyards and airports (including loading, laiter transportation, cargo handling and piloting and storage of bulk commodities)	8	Electrical and Electronics
9	Communications including media, telecommunications and internet, post and courier as well as broadcasting (for the purpose of conveying information, news and the like only)	9	Oil and Gas, including petrochemical products
10	Banking, insurance, takaful and capital markets	10	Chemical Products
11	Community credit (mortgage only)	11	Machinery and equipment
12	E-commerce and information technology	12	Textiles for manufacturing of PPE only
13	Production, distillation, storage, supply and distribution of fuels and lubricants	13	Production, distillation, storage, supply and distribution of fuels and lubricants
14	Hotels and accommodation (only for the purpose of quarantine, isolation and not for tourism purposes)	No. Operate at 10.0% of Working Capacity	
15	Critical construction, maintenance and repairs	14	Automotive (vehicles and components)
16	Forestry services (limited to enforcement) and wildlife	15	Iron and Steel
17	Logistics limited to the delivery of necessary services	16	Cement
		17	Glass
		18	Ceramics

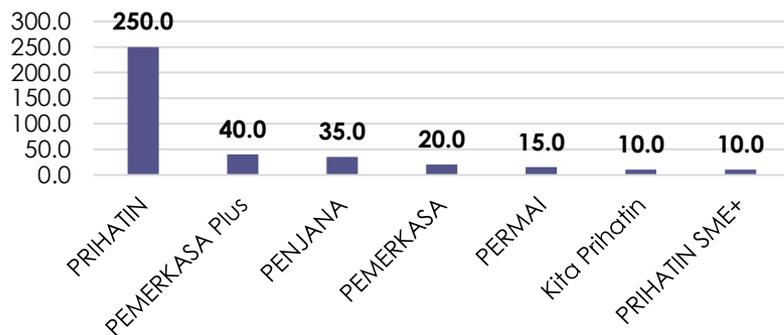
PEMERKASA PLUS STIMULUS PACKAGE

- ✓ The government announced an additional stimulus called PEMERKASA Plus in response to the MCO 4.0 which began on 1 June 2021. The amount allocated under PEMERKASA Plus stimulus package is worth RM40.0 billion, of which RM5.0 billion is via direct fiscal injection.
- ✓ We expect PEMERKASA Plus to have limited impact on the fiscal deficit projection. The reason being is that there are still avenues available for the government to shore up its finances despite fiscal space becoming more limited.
- ✓ The government could repurpose some of the 2021 budget allocation towards the Covid-19 related measures such as the higher ever RM69.0 billion development expenditure.
- ✓ Therefore, the fiscal deficit as a percentage of GDP is not expected to deviate much from last year's fiscal deficit which stood at 6.2% out of GDP.

Key Measures Of PEMERKASA Plus Stimulus Package		Allocation (RM billion)
Aim 1: Increasing capacity of public healthcare		
Increasing bed capacity and intensive care unit (ICU) equipments		0.5
Operation and management costs to handle the Covid-19 pandemic		0.6
Aim 2: Continuing the support for the rakyat		
One-off cash transfer under Bantuan Prihatin Rakyat		2.1
One-off cash tranfer for taxi and bus drivers		0.1
Targeted loan Repayment and moratorium		30.0
Home Ownership Campaign which is supposed to end on 31 May 2021 is extended until 31 December 2021		Not applicable
Sales and service tax exemption for auto purchases which is supposed to end on 30 June 2021 is extended until 31 December 2021		Not applicable
Aim 3: Supporting the continuity of businesses		
Loan moratorium for taxi and bus operators up to 12 months with the option to extend until 36 months		1.0
Micro credit financing for micro businesses		1.5
Wage Subsidy Programme extension for one month until July		1.5
Electricity bill discount of 10.0% offered to hotels, tour agencies, shopping malls, convention centres, theme parks and airlines from July to September 2021		Not applicable
Exemption for tourism and services tax for accommodations that are continuingly being provided by hotel operators.		Not applicable

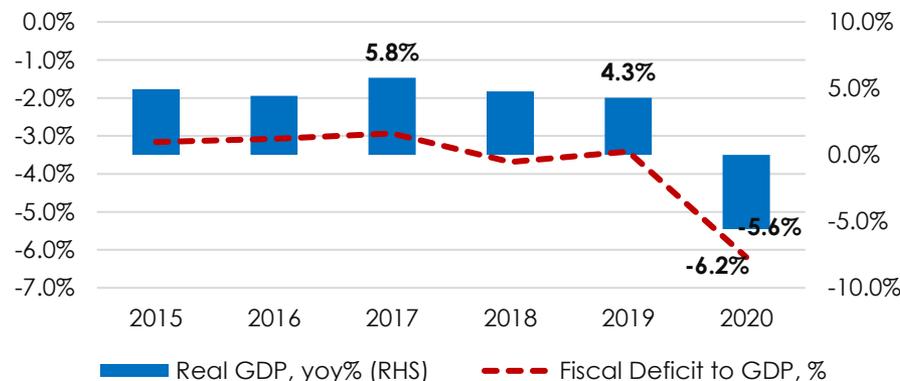
Source: Prime Minister's Office

Malaysia's Covid-19 Stimulus Packages, RM billion



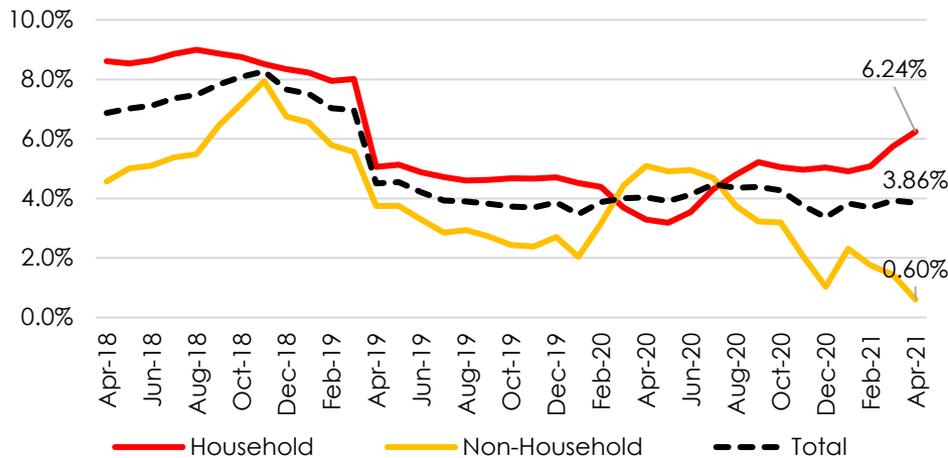
Source: Prime Minister's Office
ECONOMIC RESEARCH

Fiscal Deficit (% of GDP) vs. Real GDP (y-o-y%)



Source: Ministry of Finance, BNM, CEIC

Financing Growth by Sector, y-o-y%

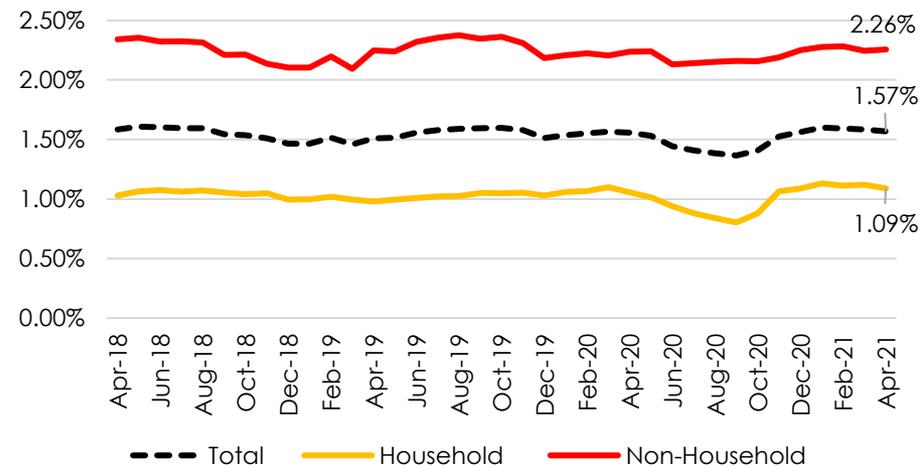


Source: CEIC

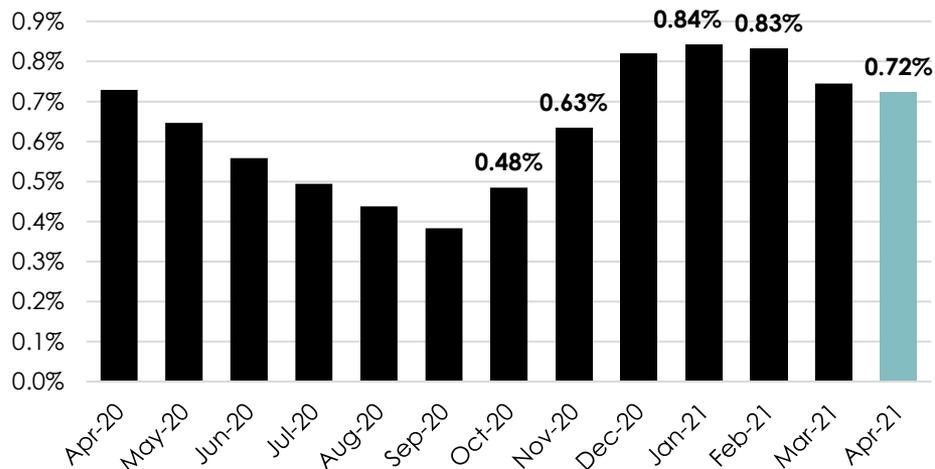
- ✓ As for the Gross Impaired Financing Ratio (GIFR), the performance was slightly better during April as it declined to 1.57% from 1.58% in March. This was mainly due to lower GIFR for Household sector which dropped to 1.09% in April from 1.12% in March. Nevertheless, the Non-Household sector went up to 2.26% in April from 2.25% in the preceding month.
- ✓ All in all, we anticipate financing activities for Household sector would continue to pick up mainly supported by the PEMERKASA Plus stimulus package whereby the sales tax exemption for passenger vehicles, as well as for the stamp duty exemption provided under the Home Ownership Campaign will be extended until December this year.

- ✓ The banking system's financing activities moderated by 3.86% year-on-year (y-o-y) in April after increasing by 3.93% previously. This was mainly weighed by the Non-Household sector which softened by 0.60% in April which was far lower than 1.44% growth in March.
- ✓ On the other hand, Household sector recorded a significant rise of 6.24% in April from 5.75% in March.
- ✓ Within the Household segment, financing for Purchase of Transport Vehicles (April: 7.11% vs. March: 6.03%) and Purchase of Residential Property (April: 7.38% vs. March: 7.15%) continued to expand during April.

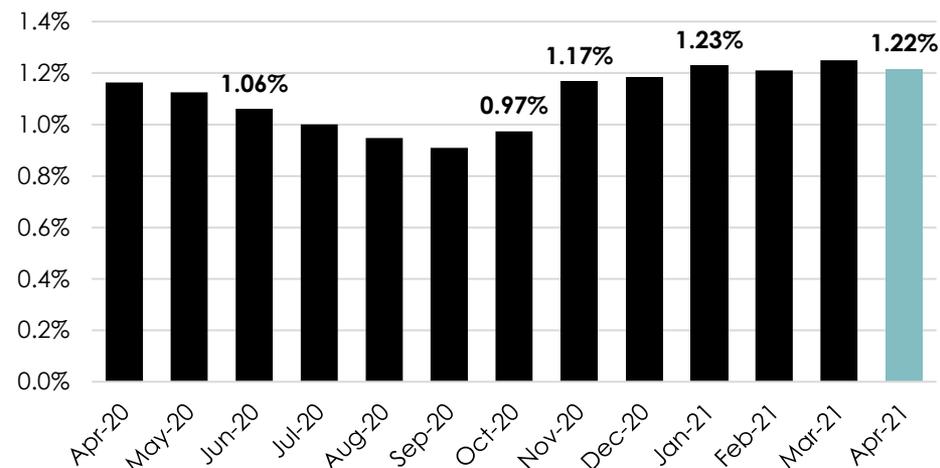
GIFR (%)



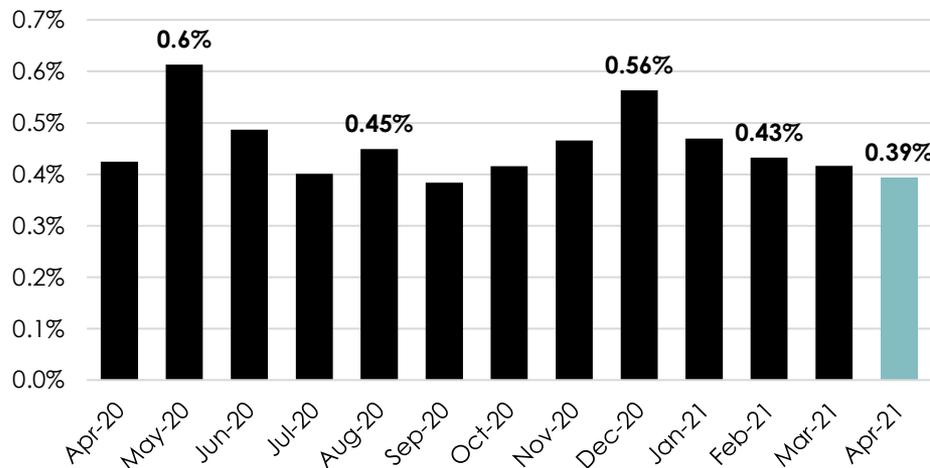
GIFR-Purchase of Transport Vehicles



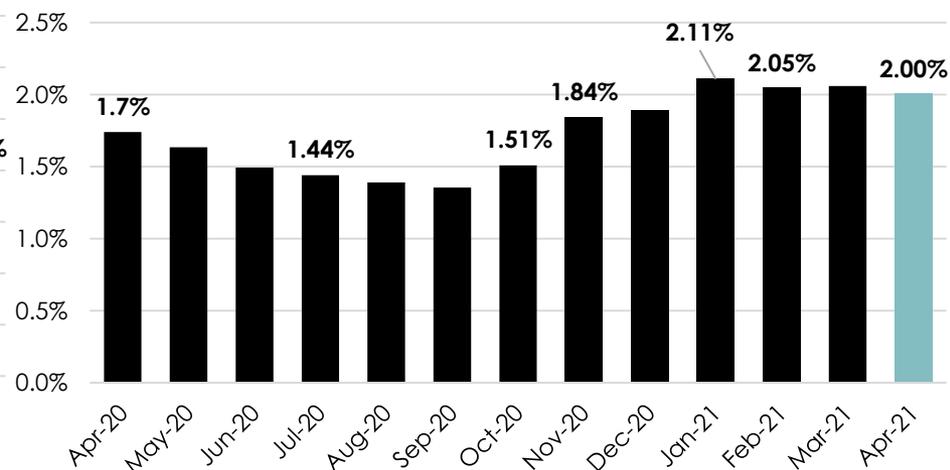
GIFR-Purchase of Residential Property



GIFR-Purchase of Securities

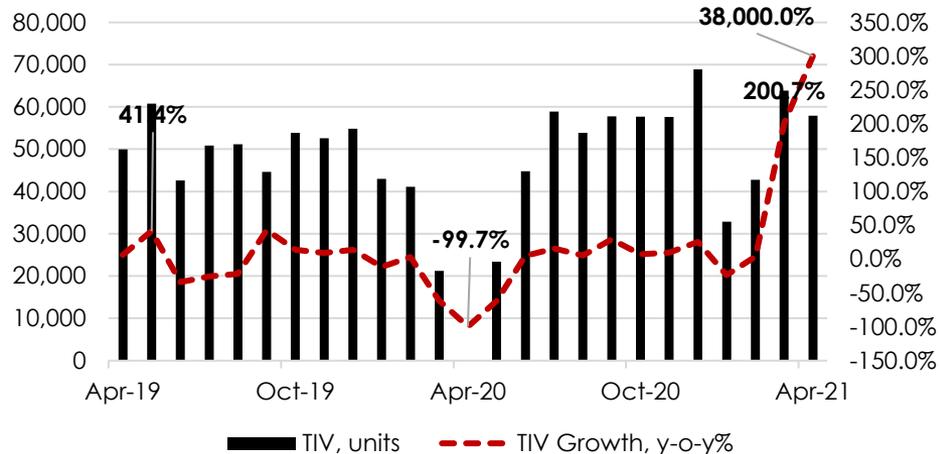


GIFR-Personal Use



EXTENSION OF SALES AND SERVICE TAX EXEMPTION ON AUTO PURCHASES TO BOOST TIV

Total Industry Volume (TIV), units



Annual Total Industry Volume Forecast By Malaysia Automotive Association

Market Segment	2020	2021F	2022F	2023F	2024F	2024F
Total Industry Volume (TIV)	529,434	570,000	604,200	622,300	641,600	662,100
Growth	-12.4%	7.7%	6.0%	3.0%	3.1%	3.2%

Source: Malaysia Automotive Association

Sources: Malaysia Automotive Association, CEIC

- ✓ The Total Industry Volume (TIV) continued to regain momentum by growing to the tune of 38,000.0% in April (March: 200.7%) to reach 57,912 units (February: 63,878 units) due to a weak base in April last year whereby the TIV slumped to only 152 units due to the MCO 1.0 implementation.
- ✓ On a cumulative basis, the TIV for 4M2021 was up by 87.2% to reach 197,403 units compared to the -45.4% contraction which dropped to 105,423 units in 4M2020.
- ✓ The latest MCO 4.0 will likely have a negative impact on total industry volume (TIV) in the immediate term as auto manufacturers are only allowed to operate at 10.0% workforce capacity. Unlike the MCO 1.0, auto players are now sitting on 2 to 4 months of order backlog.
- ✓ Nevertheless, the government announced that the sales tax holiday will be extended further until 31 December 2021 from the previous 30 June 2021 expiry as part of the RM40.0 billion PEMERKASA Plus stimulus package. This bodes well for the auto manufacturers as seen in the positive impact on TIV since the tax holiday commenced in June last year.
- ✓ Therefore, the tax holiday extension serves to boost bookings further post-lockdown period. As such, the 570,000 units forecasted by the Malaysia Automotive Association for 2021 could likely be within reach.

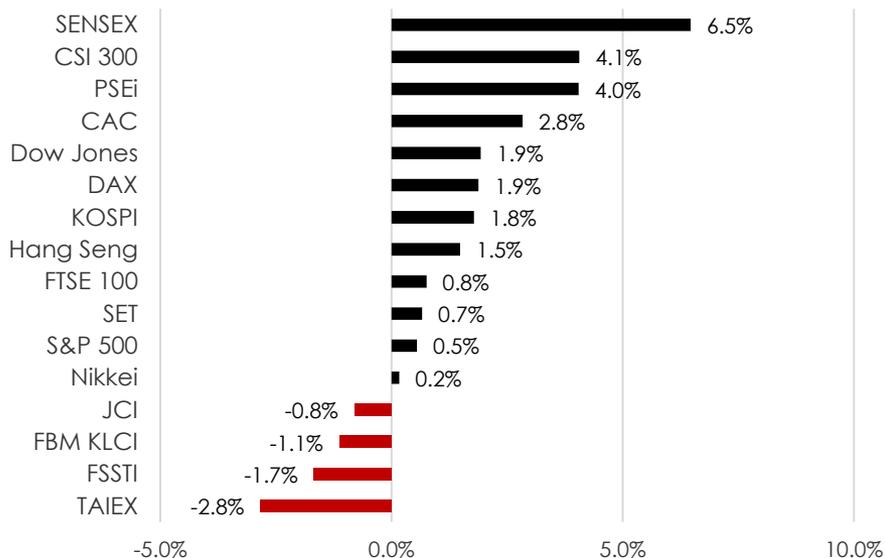


MALAYSIA'S FINANCIAL MARKET

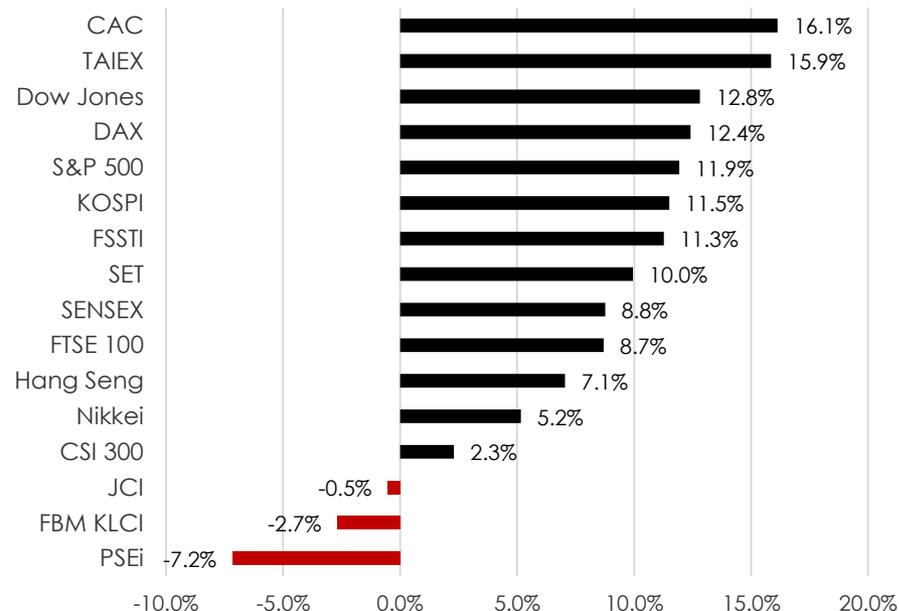
MOST EQUITY MARKETS PERFORMED WELL IN MAY

- ✓ The old phrase 'go away and sell in May' was not applicable for May 2021 as gainers exceeded losers among global benchmark indexes with India's SENSEX index recording the largest monthly gain of 6.9%. Investors have somehow taken comfort from the latest downtrend in India's daily Covid-19 cases which have eased from the record high of over 414,188 cases on 7 May 2021 compared to the current levels of around 150,000 cases.
- ✓ On the other hand, Taiwan's TAIEX index led losers with a 2.8% monthly decline. The catalyst for the rout seen in May was the unexpected surge in new Covid-19 cases. The fact that Taiwan, which was long seen as having one of the most effective containment strategies, is now suffering a dramatic increase in daily infections to reach 351 cases on 31 May 2021 from just 7 on 30 April 2021. This reached to the extent that measures such as mandatory mask-wearing and limits on indoor and outdoor gatherings were imposed.
- ✓ On the domestic front, the FBM KLCI index recorded a 1.1% decline in May but saw a heavier loss of 2.7% on a Year-To-Date (YTD) basis. Other YTD decliners include the Philippines' PSEI index and Indonesia's JCI index which lost 7.2% and 0.5% in May, respectively.

Monthly Gains/Losses of Benchmark Indices in May 2021



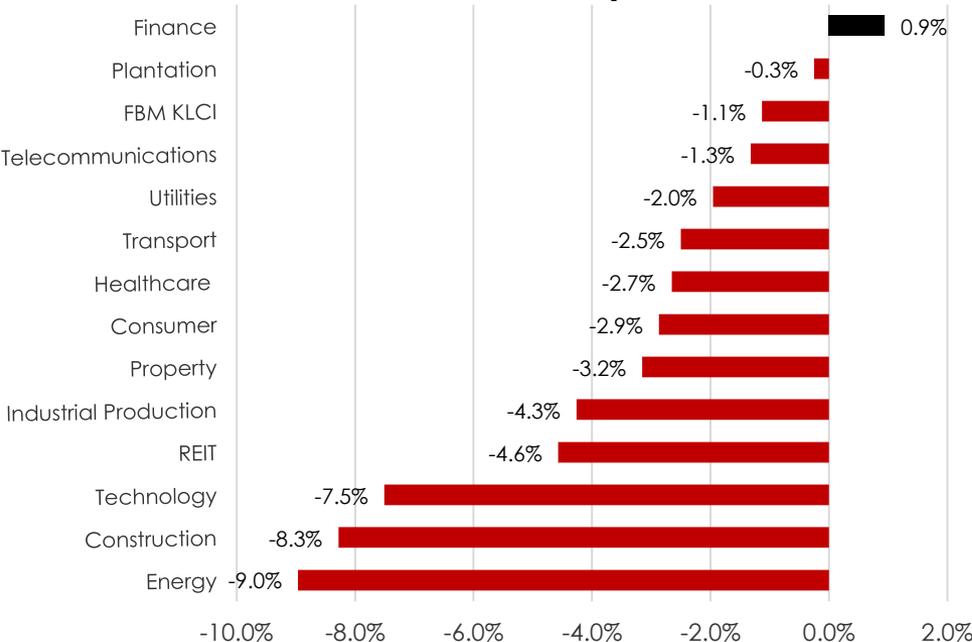
YTD Gain/Losses of Benchmark Indices



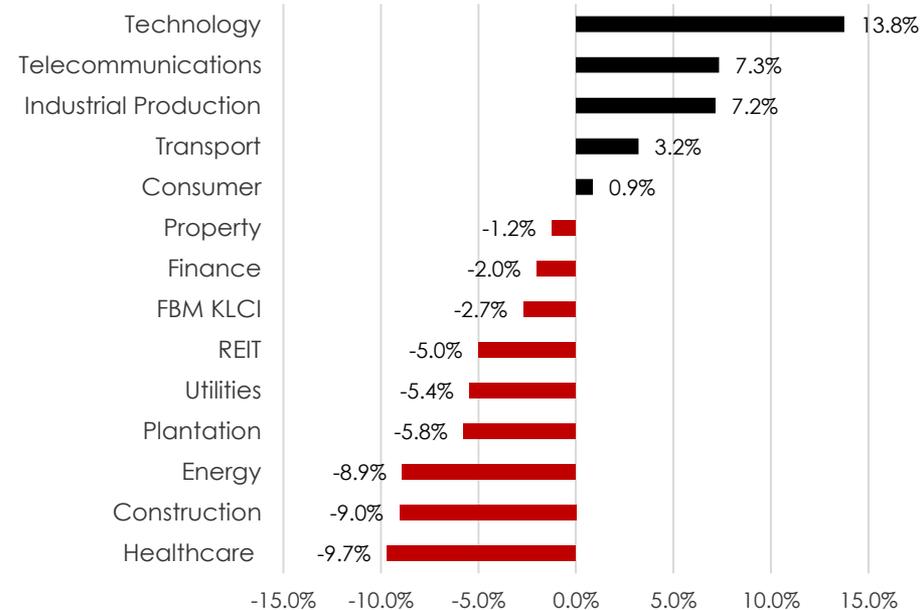
SECTORAL PERFORMANCE OF BURSA MALAYSIA

- ✓ All sectoral indexes under Bursa Malaysia recorded losses in May except the Bursa Malaysia Finance Index which ended 0.9% higher during the month. Perhaps investors have already considered the worst-case scenario following the surge in Covid-19 infections in Malaysia and therefore, are starting to focus on the recovery theme amid encouraging vaccination rates in the country. The financial services sector which includes banks are a proxy to economic growth. Therefore, a recovery theme will usually be centred on the banks,
- ✓ Meanwhile, the Bursa Malaysia Energy Index recorded the biggest monthly drop of 9.0% in May. The Brent crude oil price gained by 3.1% to settle at USD69.32 per barrel on 31 May 2021 compared to USD67.25 per barrel on 30 April 2021 amid increasing fuel consumption in the US due to the unofficial start of the summer driving season in the country. However, jitters remain in the oil market as Iran claims that it can boost its crude oil production to as much as 6.5 million barrels per day (bpd) when the US sanctions on its oil industry are lifted compared to the current level of around 2.5 million barrels per day.

Bursa Malaysia Sectoral Monthly Performance in May 2021



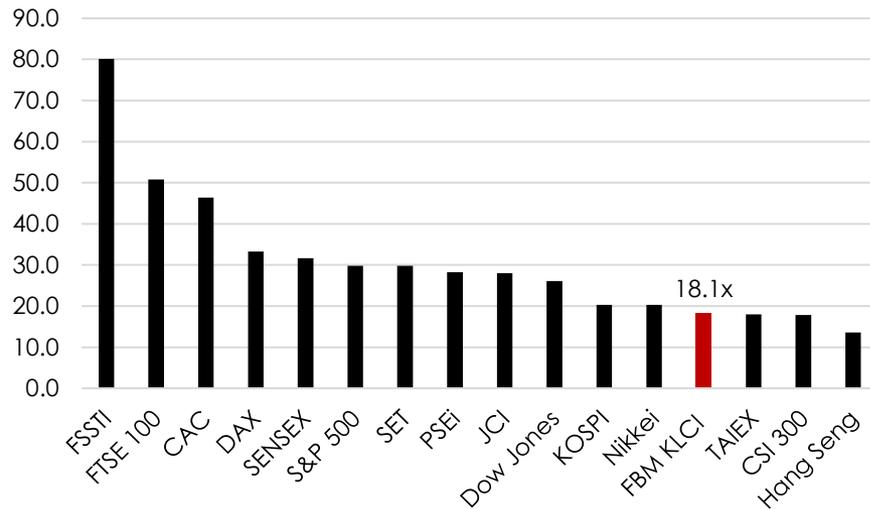
Bursa Malaysia Sectoral YTD Gains/Losses



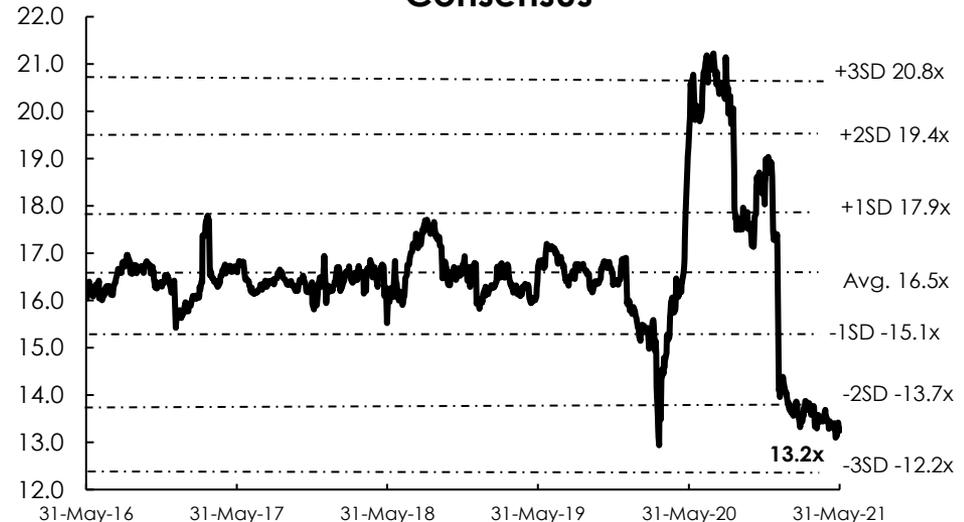
Source: Bloomberg

- ✓ On the valuation front, the FBM KLCI index appears attractive on the basis of its trailing price-to-earnings ratio (PER) of 18.1x as at 31 May 2021 if compared to some of its regional peers such as Indonesia's JCI index and India's SENSEX index which have a trailing PER of 28.0x and 31.7x respectively.
- ✓ Even if we were to look at the FBM KLCI index's forward PER of 13.2x as at 31 May 2021, valuation seems demanding as it is roughly two standard deviations (SD) below the five year average of 16.5x. The low forward PER is likely due to analysts' forecasts of higher earnings per share (EPS) amid the anticipated economic recovery.
- ✓ 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 118.3 with a forward PER target of 14.5x which is roughly -1.5 SD lower than the mean to reflect the better corporate earnings this year which could be capped by a slower-than-expected vaccination programme combined with political risks in the country.

Regional PER (x)



FBM KLCI PER Band based on 2021 Earnings Consensus



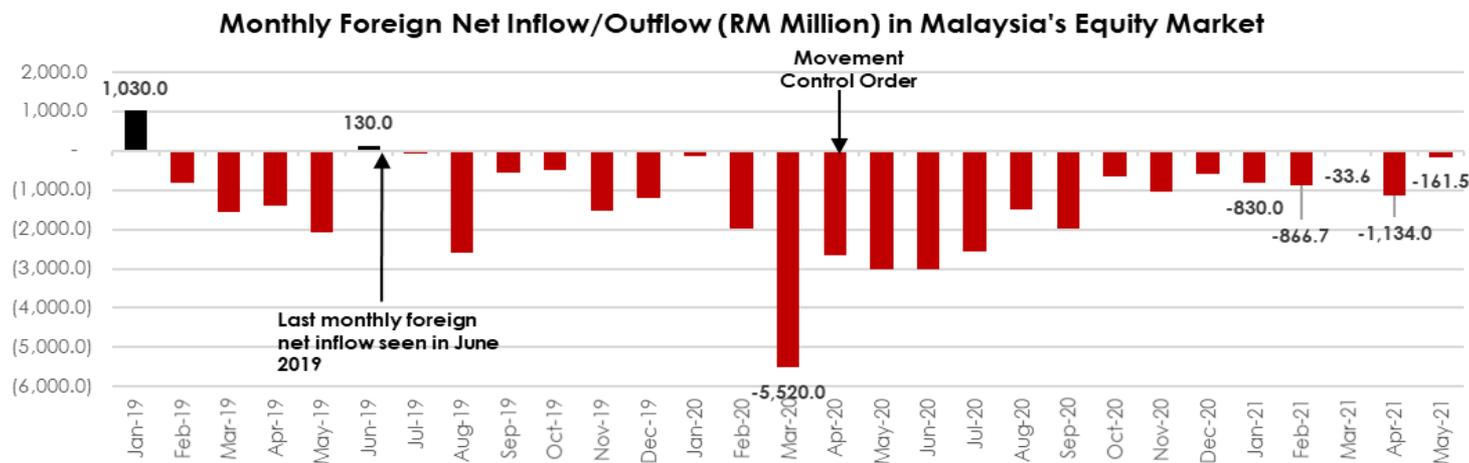
FOREIGN FUND FLOWS-EQUITY

- ✓ Foreign fund net outflows in May slowed down to RM161.5 million (April: -RM1,134.0 million), marking the 23rd consecutive month of foreign net selling on Bursa Malaysia. Aside from that, local retail investors have recorded net inflows of RM472.5 million in May (April : RM646.0 million) while local institutions disposed RM311.1 million net last month after acquiring RM488.0 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 USD744.6 million while Taiwan recorded the largest YTD foreign net outflow of USD16,730.0 million net. Meanwhile, India and Indonesia are the only countries with a foreign net inflow of USD5,816.3 million and USD796.8 million respectively.

YTD Regional Foreign Net Inflow/Outflow as at 31 May 2021

Country	USD Million
India	5,816.3
Indonesia	796.8
Malaysia	-744.6
Phillipines	-1,465.6
Thailand	-2,197.1
Taiwan	-11,808.6
South Korea	-16,730.0

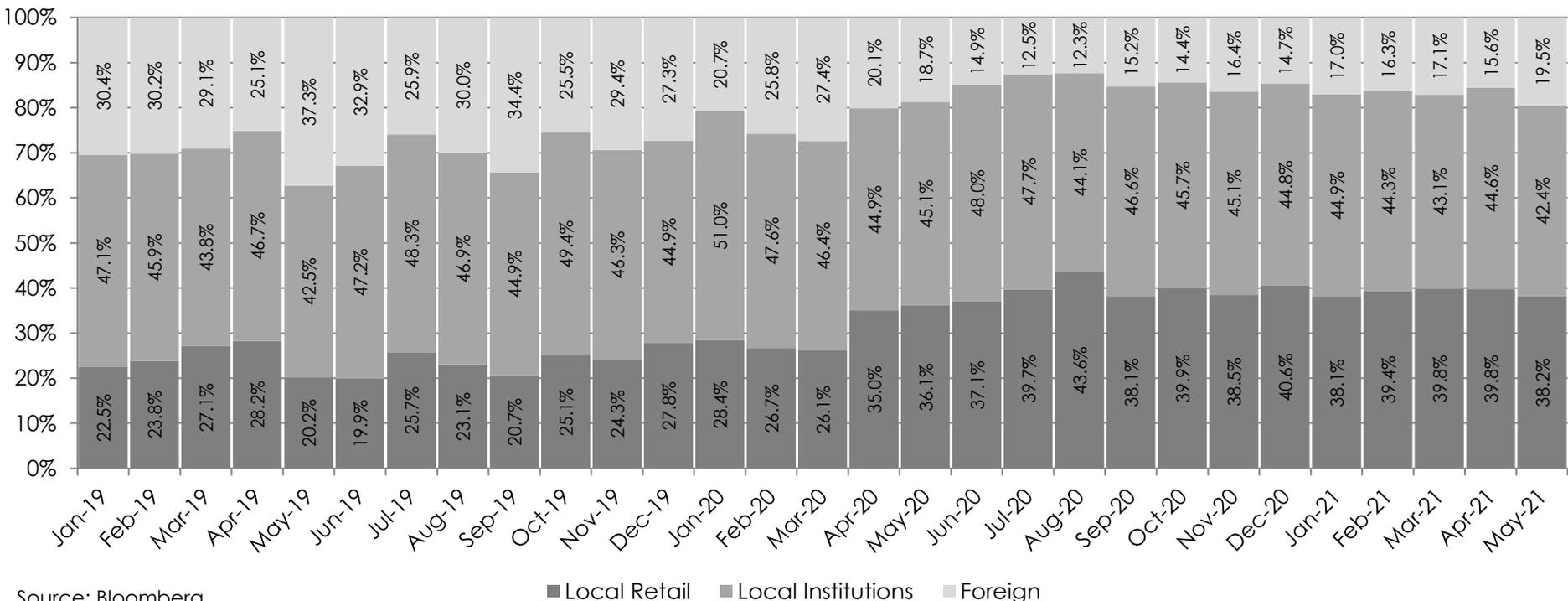
Source: Bloomberg



Source: Bloomberg

- ✓ Overall, the traded value on Bursa Malaysia declined to RM141.7 billion in May (April: RM169.5 billion).
- ✓ On further scrutiny, we observed that the participation of retail investors in terms of value traded remained commendable, despite moderating to 38.2% in May from 39.8% in April.
- ✓ It is noteworthy 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 improve to reach 19.5% in May (April:15.6%).
- ✓ We also noted that participation from local institutions also took a breather to drop to 42.4% compared to 44.6% in the previous month, a level not seen since May 2019 which saw a participation rate of 42.5%.

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



Source: Bloomberg

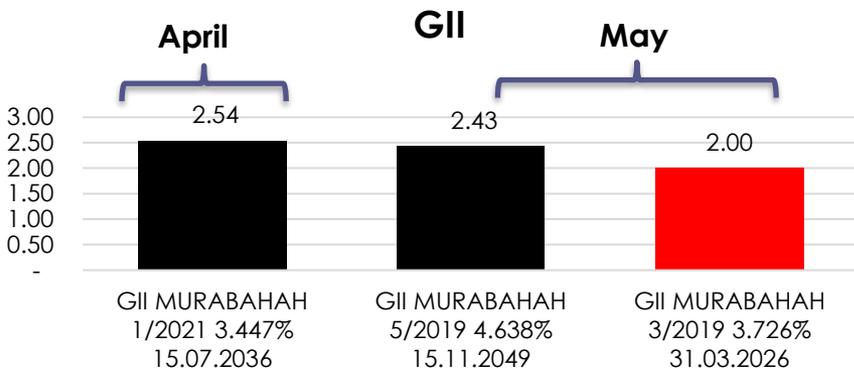
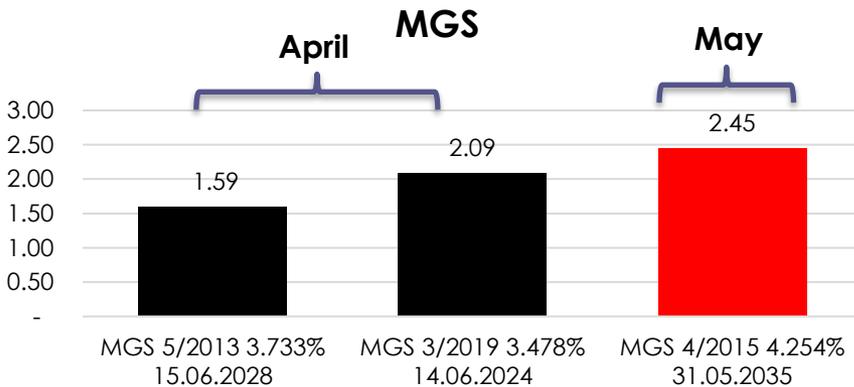
■ Local Retail ■ Local Institutions ■ Foreign

Monthly MGS Changes

MGS Benchmark	Coupon (%)	Yields (%) 30-Apr-21	Yields (%) 31-May-21	Change (bps)
3-Y MGS 06/24	3.48%	2.34%	2.31%	-3
5-Y MGS 09/25	3.96%	2.53%	2.59%	6
7-Y MGS 06/28	3.73%	2.98%	3.02%	4
10-Y MGS 04/31	2.63%	3.11%	3.23%	12

Source: BNM

Auction Results



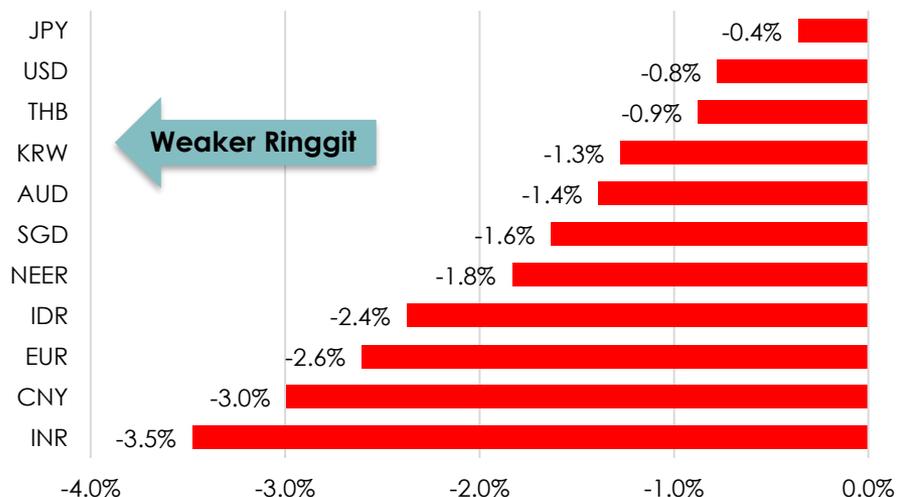
Source: Bond Info Hub
ECONOMIC RESEARCH

- ✓ Overall, the MGS benchmark yields were mixed during May with the short tenure of 3-Y MGS 06/24 declining by 3 bps to settle at 2.31%. However, the 5-Y MGS 09/25, 7-Y MGS 06/28 and 10-Y MGS 04/31 increased by 6 bps, 4 bps and 12 bps to close at 2.59%, 3.02% and 3.23% respectively in May. This suggests that the concerns over enforcement of MCO 4.0 are limited as consumers and business owners are more prepared compared to MCO 1.0 in March last year alongside the expected higher vaccination rate in Malaysia.
- ✓ On the other hand, foreign investors continued to purchase local govies for 12th consecutive month with RM6.4 billion of net inflows recorded during April this year (March: 5.9 billion). Cumulatively, the foreign inflows during first four months this year were higher at RM23.1 billion in 4M2021 compared to outflows of RM18.8 billion in 4M2021, indicating demand for Malaysia's bond remain healthy.
- ✓ On the other hand, the latest auction of 5-Y GII 03/26 garnered a reasonable participation with a Bid-To-Cover (BTC) ratio of 2.0x under a total issuance of RM4.5 billion.
- ✓ Overall, we anticipate the cautious sentiment among the investors to persist in view of high daily Covid-19 cases recorded. However, the efficiency and larger scale of vaccination programme is likely to offset the downside risks moving forward.

RINGGIT WAS IN THE RED SEA DURING MAY

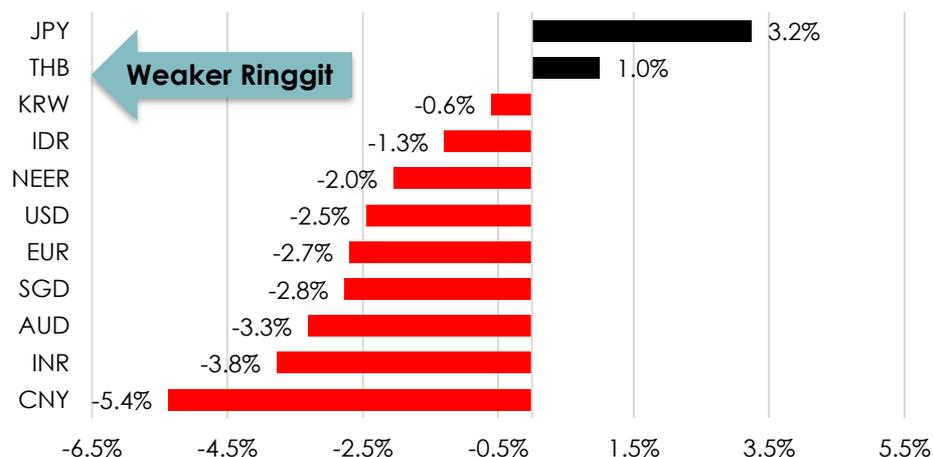
- ✓ The Ringgit fell by 0.8% month-on-month (m-o-m) against US Dollar to close at RM4.1220 on 31 May from RM4.0880 on 30 April. This was mainly weighed by worries over implementation of MCO 4.0 commenced on 1 June 2021 that could halt economic activities.
- ✓ Apart from that, the US Dollar continued to strengthen as the US economy reopened amid declining of local Covid-19 cases alongside higher vaccination rate. In light of this, the US labour market continued to recover with the Initial Jobless Claim (IJC) declining to 406k for the week ended on 22 May (previous week: 444k).
- ✓ Looking forward, we anticipate the Ringgit to trade within a range 4.1200 to 4.1450 during the month amid uncertainty from the path of Covid-19 in Malaysia with mass testing are conducted in Selangor which contributed sizeable share 24.2% of total GDP in 2020.
- ✓ At the same time, the decision by the Organization of the Petroleum Exporting Countries (OPEC) and its allies to bring back 2.1 million bpd of supply back to the market between May and July may exert additional downward pressure on the Ringgit given the causality of Brent crude oil price towards the Ringgit.

MYR Against Other Currencies, m-o-m%



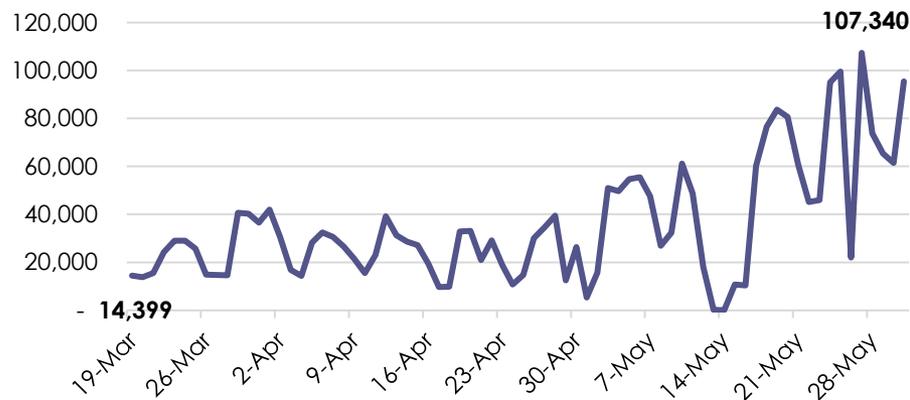
Sources: Bloomberg, Bank Islam

YTD Performance MYR Against Other Currencies, %



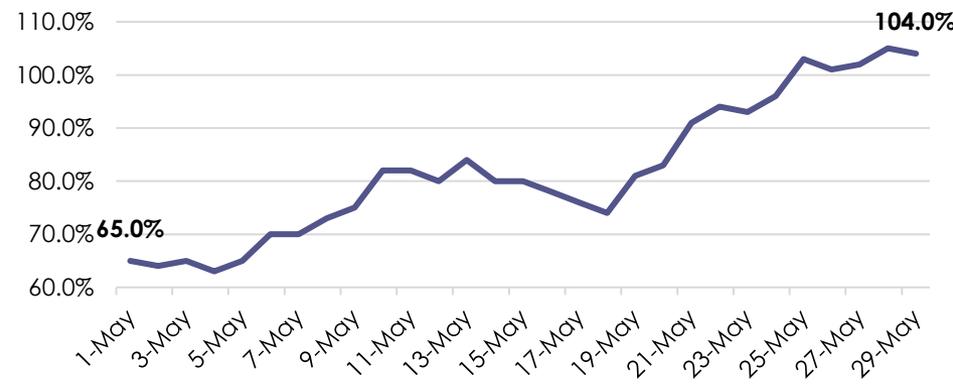
- ✓ As mentioned earlier, the daily Covid-19 cases remaining high as of late which reached a record high of 9,020 cases on 29 May 2021 evident through the high utilization rate of critical care beds for Covid-19 patients at hospitals has led to the MCO 4.0 being imposed in country from 1 June to 14 June 2021.
- ✓ Notwithstanding this, the impact from the MCO 4.0 towards the economy will be less severe than MCO 1.0 in March last year as classification of essential sectors is broader this time compared to the first one. In addition, supporting industries involved in the supply chain of the essentials sectors, such as printing, packaging and relevant business services, are also allowed to continue their operations.
- ✓ Apart from that, the ongoing national vaccination programme could provide better economic prospects in the coming months. There are signs that the vaccination programme will be accelerated as it aims to reach 150,000 jabs a day compared with the highest doses administered per day of 103,740 jabs recorded on 27 May 2021. The expectation of increased doses is also in line with the arrival of 15.4 million doses by July.
- ✓ Taking all of the abovementioned matters into account, we are maintaining our 2021 GDP forecast of 5.0% which is way lower than the Ministry of Finance's latest 2021 GDP growth estimates ranging from 6.0% to 7.5% in March.
- ✓ On the monetary policy front, the decision on the Overnight Policy Rate (OPR) direction will depend on economic information related to the duration of MCO 4.0. However, so long as global developments remain positive which was not the case last year, the country's exports will continue to be strongly supported and cushion the domestic demand. As such, BNM will likely maintain the OPR at 1.75% throughout 2021.

Total Number Of Daily Vaccination Doses Administered In Malaysia



Source: CEIC
ECONOMIC RESEARCH

Utilisation Rate of Critical Care Beds Allocated For Covid-19 Patients, %



Sources: CPMC Hospital Services, Medical Programme, MOH Malaysia
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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 sky, and a highway with cars is visible in the foreground. The overall mood is warm and appreciative.

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