



From the Desk
of the
Chief Economist

BANK ISLAM

MONTHLY ECONOMIC & MARKET UPDATES

4 OCTOBER 2021

ECONOMIC RESEARCH

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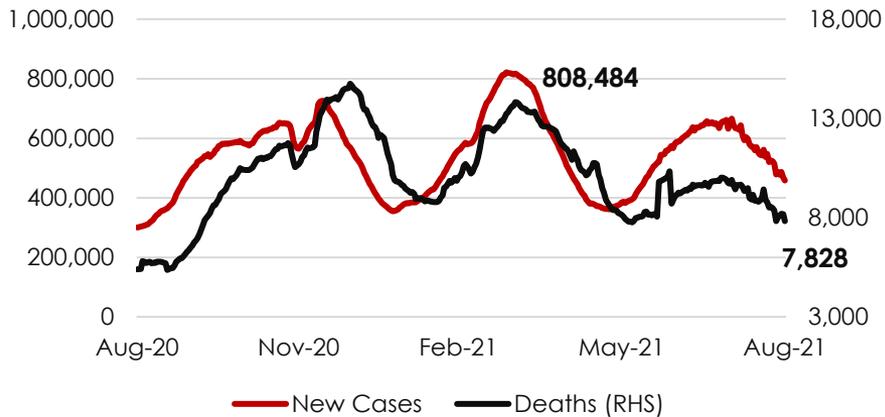
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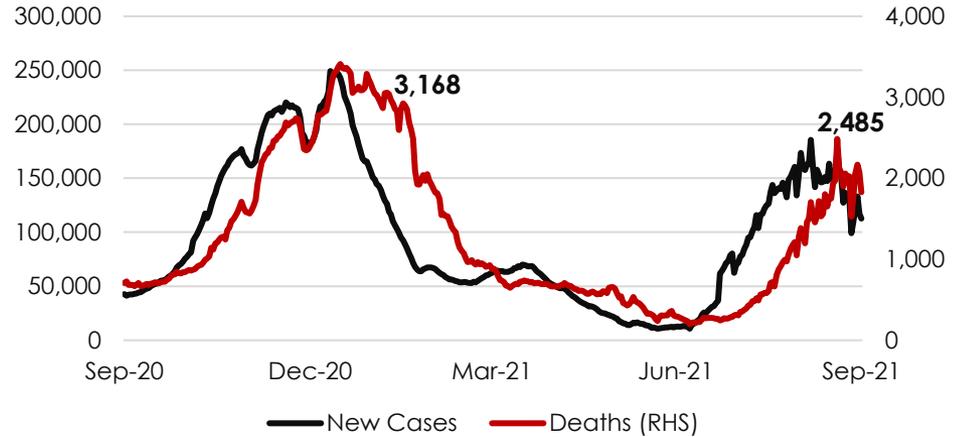
GLOBAL ECONOMY

- ✓ **Worldwide Covid-19 infections have surpassed 219.0 million** - The number of confirmed Covid-19 cases globally registered at 219.5 million, with more than 4.5 million deaths recorded as at 3 October 2021. The U.S., India and Brazil have seen the highest number of confirmed cases, followed by the U.K., Russia and Turkey.
- ✓ **How has the vaccination campaign progressed so far?** – Based on the data collected from Bloomberg, more than 6.3 billion doses have been administered across 184 countries, signifying that the biggest vaccination campaign in history is underway. Be that as it may, the vaccine distribution is unevenly balanced with the highest income countries getting vaccinated more than 20 times faster as compared to the lowest. With the latest global vaccination rate at 31.0 million doses per day, it will take another six months to cover 75.0% of the population to enable a return to normalcy based on Bloomberg's data as at 4 October.
- ✓ **Jerome Powell's latest hint on monthly tapering asset purchases** – The U.S. Federal Reserve (Fed) concluded its Federal Open Market Committee (FOMC) meeting held on 21-22 September, by explicitly stating its intention to begin tapering the monthly asset purchase programme soon. However, the Fed Chairman, Jerome Powell reiterated that the taper is not a direct signal pertaining to the timing of interest rate liftoff. Nevertheless, half of the Fed members now see a hike interest rate in 2022 according to the so-called dot plot of projections released during the meeting.
- ✓ **The easing of restrictions in parts of the world** – Last Friday, Australia's Prime Minister, Scott Morrison has announced that an 18-month ban on Australian travelling abroad will be lifted in November. The first phase of the plan will be focused on citizens and permanent residents being allowed to leave Australia, followed by further changes expected to permit foreign travelers to enter the country.
- ✓ **Global manufacturing activities remained unchanged in September** – The J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) was unchanged at 54.1 points in September (August: 54.1 points) following the worldwide production activities that have faced supply chain disruptions, as well as input shortages. In addition, input costs and output charges continued to rise at elevated rates.

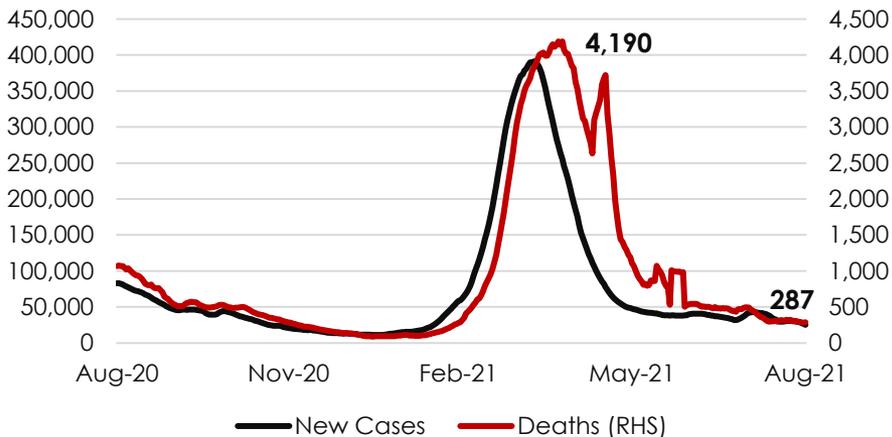
Covid-19 Cases and Deaths Global (7-Day Moving Average)



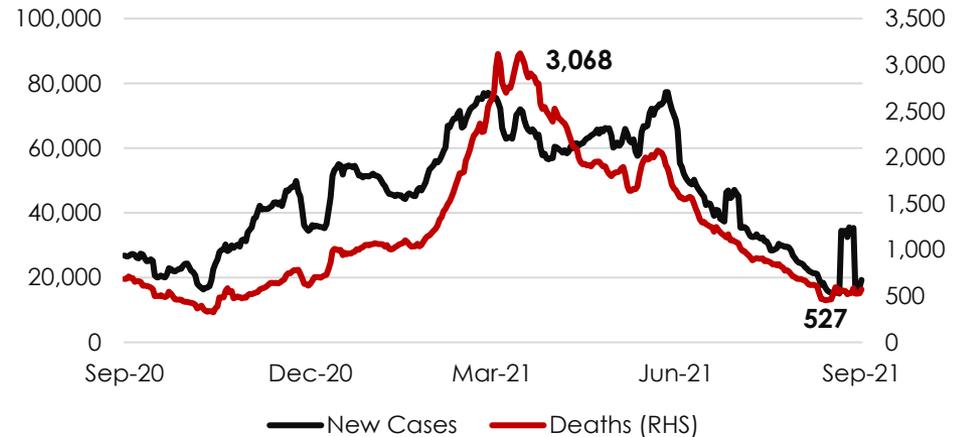
Covid-19 Cases and Deaths in the U.S. (7-Day Moving Average)



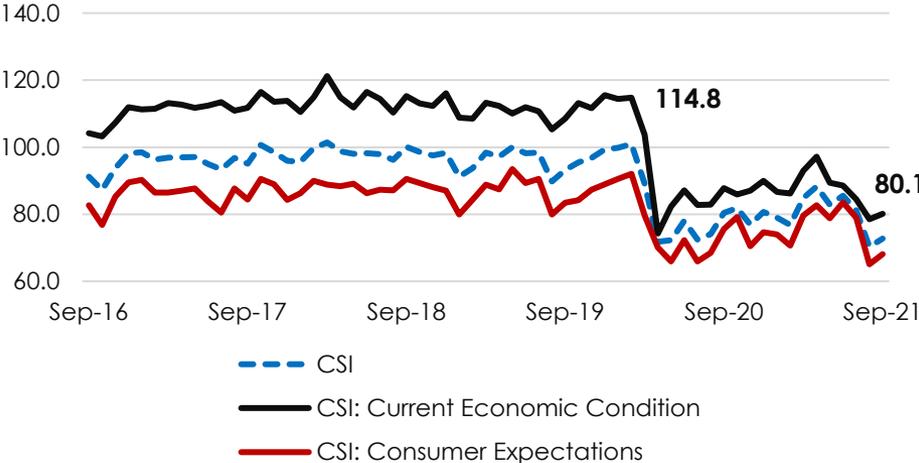
Covid-19 Cases and Deaths in India (7-Day Moving Average)



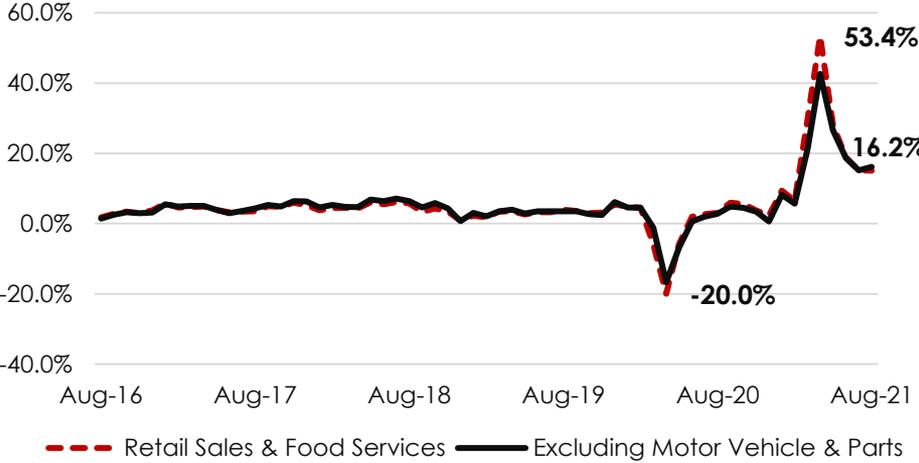
Covid-19 Cases and Deaths in Brazil (7-Day Moving Average)



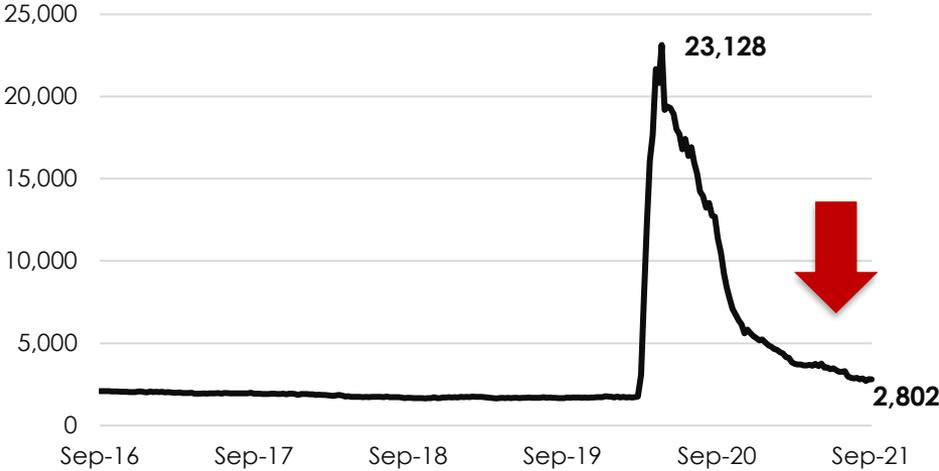
Consumer Sentiment Index (CSI), points



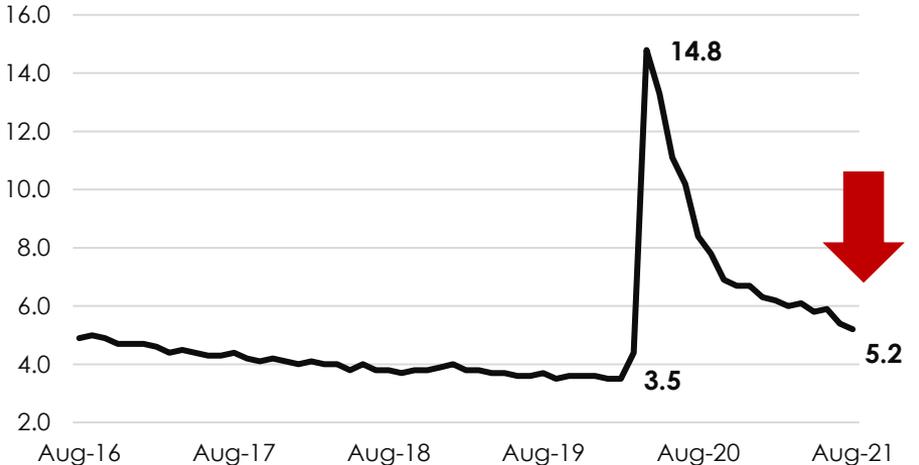
Retail Sales & Food Services, y-o-y%



Continuous Jobless Claims (IJC), '000

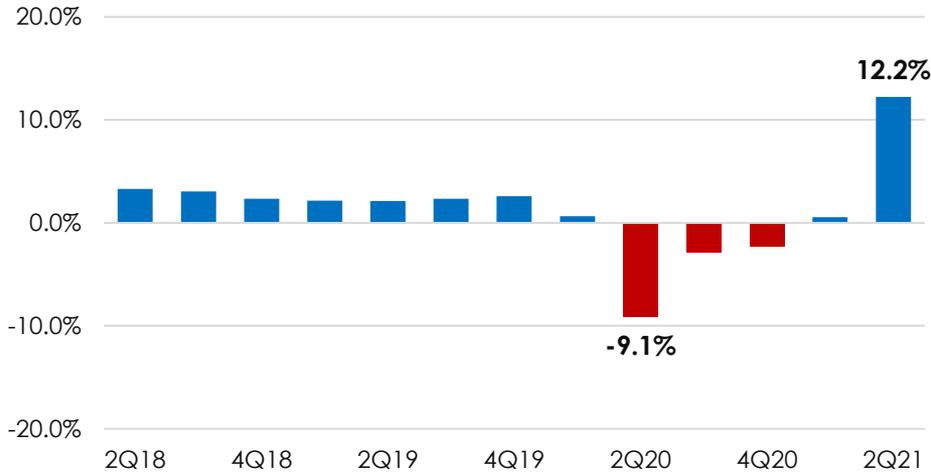


Unemployment Rate, %

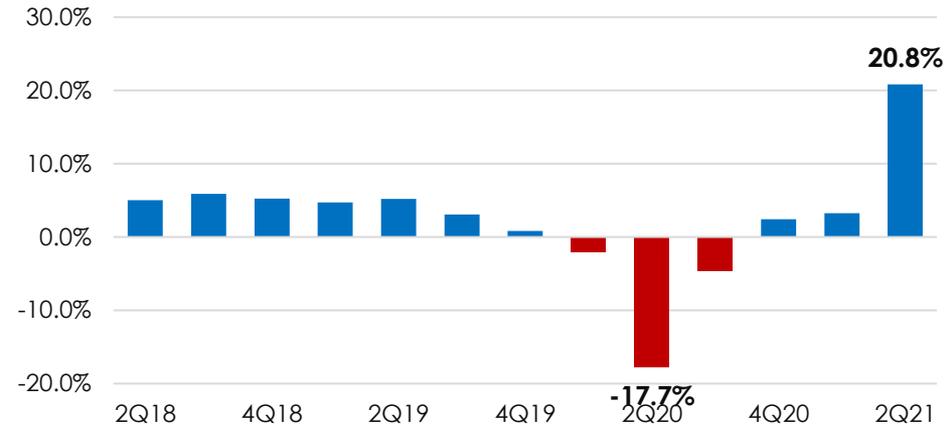


Source: CEIC

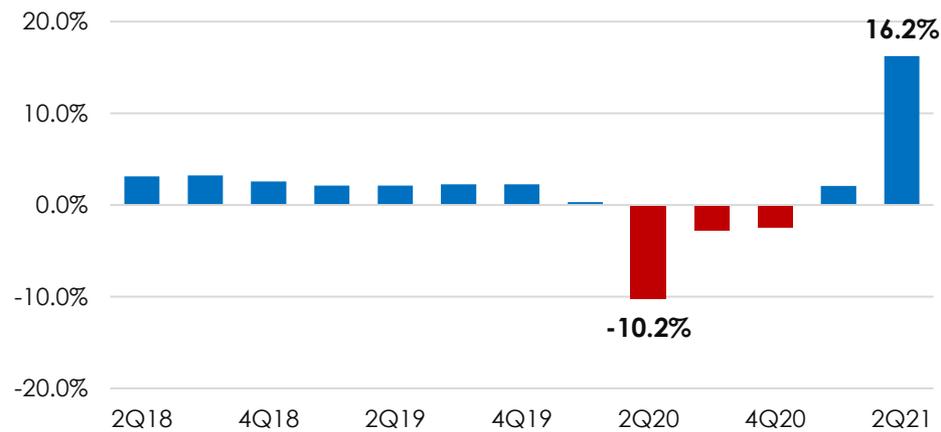
GDP, y-o-y%



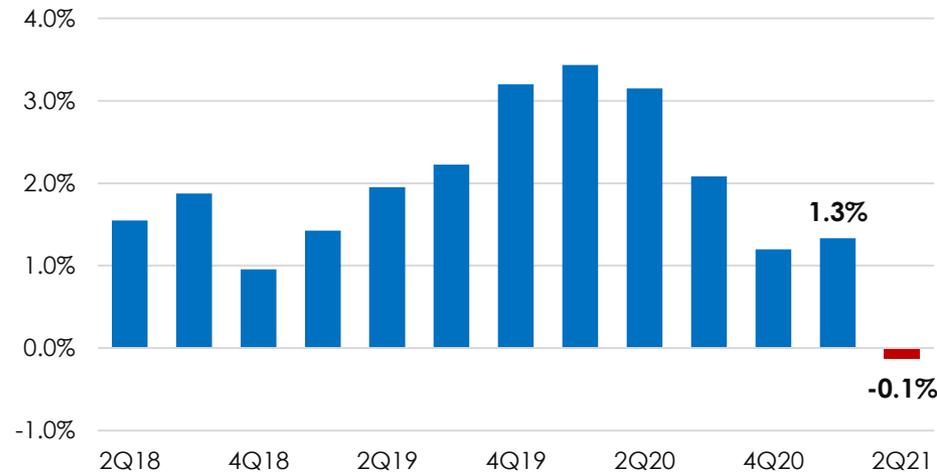
Gross Private Domestic Investment (GPI), y-o-y%



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



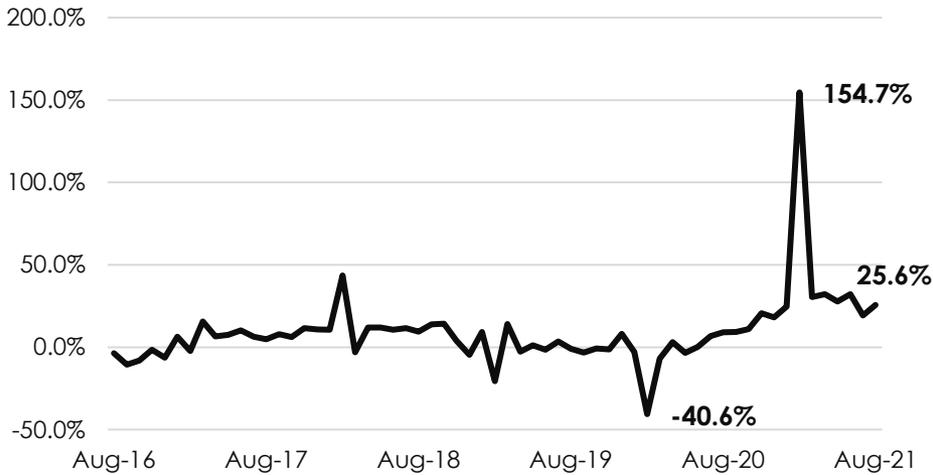
Government Spending, y-o-y%



Source: CEIC

CHINA ECONOMIC ACTIVITIES ARE MODERATING

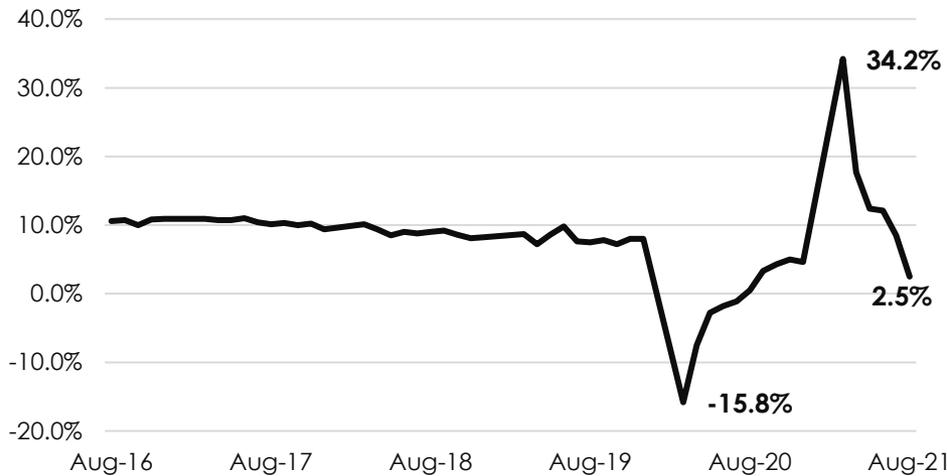
Exports, y-o-y%



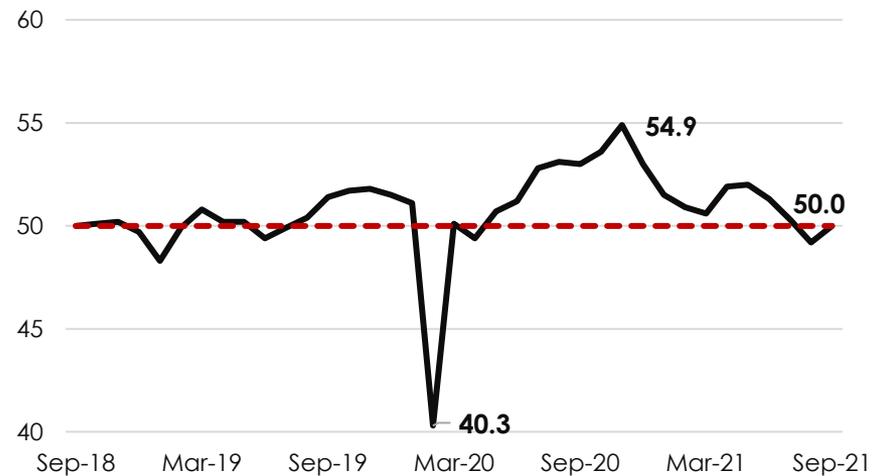
Industrial Production, y-o-y%



Retail Sales, y-o-y%



Caixin Manufacturing PMI, points



Source: CEIC

CENTRAL BANK POLICY RATES – REMAINED ACCOMMODATIVE

Policy rates	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-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)	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.25	4.25	4.50	4.75
Brazil (Selic Rate)	2.00	2.00	2.00	2.00	2.00	2.00	2.75	2.75	3.50	4.25	4.25	5.25	6.25
Argentina (LELIQ 7D Notes Rate)	38.00	36.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00
Eastern Europe													
Russia (Key Rate)	4.25	4.25	4.25	4.25	4.25	4.25	4.50	5.00	5.00	5.50	6.50	6.50	6.75
Ukraine (Discount Rate)	6.00	6.00	6.00	6.00	6.00	6.00	6.50	7.50	7.50	7.50	8.00	8.00	8.50
Turkey (1W Repo Rate)	10.25	10.25	15.00	17.00	17.00	17.00	19.00	19.00	19.00	19.00	19.00	19.00	18.00
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)	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	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	0.75	0.75
Philippines (O/N Lending Rate)	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Australia (Cash Rate)	0.25	0.25	0.10	0.10	0.10	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)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75

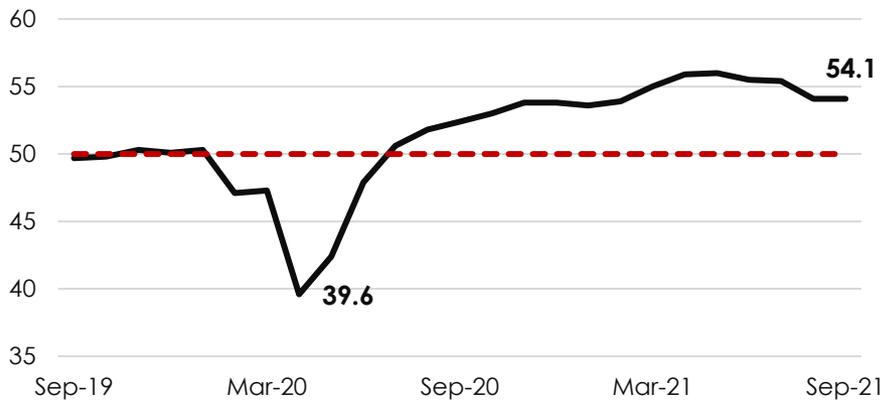


Source: Bloomberg

- ✓ The Central Bank of Turkey cut its one-week repo rate by 100 basis points (bps) to 18.00% during its meeting on 23 September, claiming that the tightness of the monetary policy stance had created a contractionary effect on commercial loans and the increase in inflation rate is due to transitory factors such as supply constraints.
- ✓ Meanwhile, the Central Bank of Russia raised its benchmark policy rate by another 25 bps to 6.75%, mentioning that the balance of risks for inflation is tilted to the upside and the current monetary policy stance is aimed to limit this risk and return inflation to 4.00% (August: 6.68% y-o-y vs. July: 6.46%).

GLOBAL MANUFACTURING SECTOR CONTINUED TO EXPAND FOR THE FIFTEENTH STRAIGHT MONTH

J.P. Morgan Global Manufacturing PMI, points

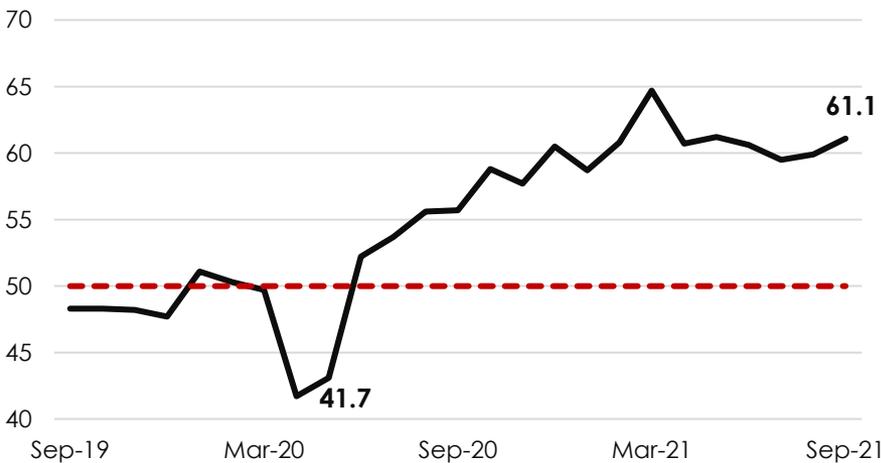


Index Summary:

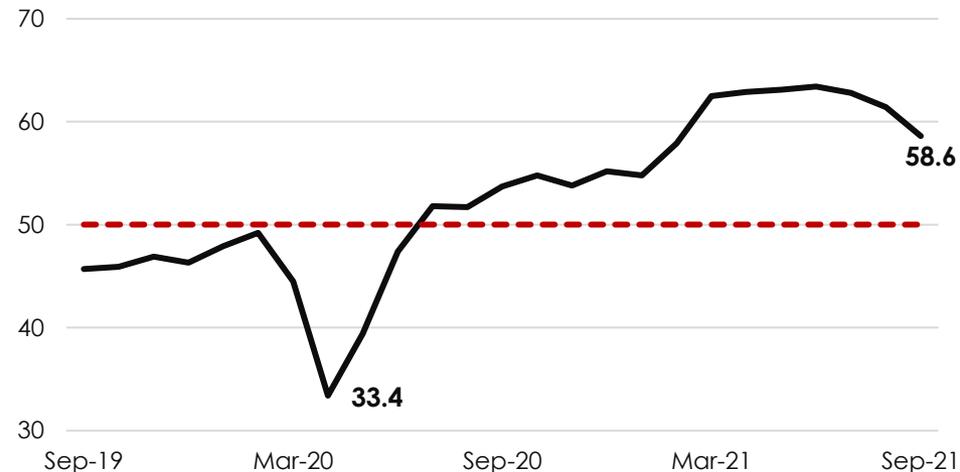
Index	Sep-21	Aug-21	Interpretation
PMI	54.1	54.1	Improvement, unchanged rate
Output	52.0	51.8	Growth, faster rate
New Orders	53.9	53.6	Growth, faster rate
New Export Orders	51.0	51.0	Growth, unchange rate
Future Output	64.2	64.1	Growth expected, better sentiment
Employment	51.4	52.0	Growth, slower rate
Input Prices	71.2	70.3	Inflation, faster rate
Output Prices	60.9	60.1	Inflation, faster rate

Source: IHS Markit

U.S. ISM Manufacturing PMI, points



Eurozone Manufacturing PMI, points





DOMESTIC LANDSCAPE

SNAPSHOT OF LATEST MAJOR EVENTS/ECONOMIC VARIABLES IN MALAYSIA

Event	Remarks
<p>RMK-12</p>	<ul style="list-style-type: none"> ✓ The Twelfth Plan is anchored on 3 key themes: i) resetting the economy, ii) strengthening security, wellbeing and inclusivity, as well as iii) advancing sustainability. ✓ 4 catalytic policy enablers, namely developing future talent, accelerating technology adoption and innovation, enhancing connectivity and transport infrastructure, as well as strengthening the public service will support the achievement of the 3 themes. ✓ Malaysia's economic growth is expected to range between 4.5% and 5.5% during 2021-2025 period. This is higher as compared to the previous Eleventh Plan performance (11MP), whereby the economy expanded by 2.7%.
<p>MPC Meeting</p>	<ul style="list-style-type: none"> ✓ Bank Negara Malaysia (BNM) has decided to maintain the Overnight Policy Rate (OPR) at 1.75% during the Monetary Policy Committee (MPC) meeting on 9 September 2021. ✓ The MPC considers the stance of monetary policy to be appropriate and accommodative. Apart from that, BNM remains committed to utilise its policy levers whenever deemed fit to nurture conducive conditions for a sustainable economic recovery.
<p>Consumer Price Index (CPI)</p>	<ul style="list-style-type: none"> ✓ Malaysia's Consumer Price Index (CPI) continued to rise at a softer pace of 2.0% year-on-year (y-o-y) in August after rising by 2.2% in the previous month, maintaining its positive growth for seven straight months since February amid a low base effect from last year. ✓ This was mainly attributable to the modest price increase in Food & Non-Alcoholic Beverages (August: 1.2% vs. July: 1.3%) and Housing, Water Electricity, Gas & Other Fuels (August: 0.6% vs. July: 0.7%) in August compared to the month before. Both sub-indices accounted for 53.3% of the total CPI.

SNAPSHOT OF LATEST MAJOR EVENTS/ECONOMIC VARIABLES IN MALAYSIA (CONT'D)

Event	Remarks
External Trade	<ul style="list-style-type: none"> ✓ Malaysia's exports registered a double-digit growth of 18.4% y-o-y in August, extending a gain of 5.0% in the preceding month. This marks the twelfth consecutive month of expansion in the nation's exports activities. ✓ The strong growth in exports were underpinned by the Manufacturing sector (August: 15.4% vs. July: 2.3%), as well as the Mining sector (August: 50.6% vs. July: 18.3%). ✓ Meanwhile, the Agriculture sector softened by 28.5% in August from a 29.2% growth in the previous month.
Industrial Production Index (IPI)	<ul style="list-style-type: none"> ✓ Malaysia's Industrial Production Index (IPI) contracted by 5.2% y-o-y in July from a 1.4% growth in the previous month. ✓ The downturn was mainly underpinned by the Manufacturing and Electricity sectors which plummeted by 6.5% (June: -0.2%) and 6.6% (June: -4.8%) in July respectively. These sectors contributed a sizeable share of 74.9% towards the total IPI during July. ✓ Meanwhile, the Mining sector moderated by 0.6% in July from a 10.3% expansion in the preceding month.
Unemployment Rate	<ul style="list-style-type: none"> ✓ Malaysia's unemployment rate remained at 4.8% in July (June: 4.8%). ✓ The number of unemployed person increased by 1.2% to 778.2k persons from 768.7k previously. ✓ However, the labour market is expected to improve in the next few months as all states have been allowed to transition into the second, third or fourth phase of the National Recovery Plan (NRP).

Monthly and Cumulative Doses Administered as at 30 September 2021

Month	Average Daily Doses Administered/Expected To Be Administered ('000)	Total Doses Administered (1st And 2nd Dose) (million)	Cumulative Doses Administered (1st and 2nd Dose) As At Month-End (million) (A)
24 February 2021 to 30 June 2021	63.8	8.0	8.0
Jul-21	401.6	12.5	20.5
Aug-21	459.4	14.2	34.7
Sep-21	300.7	9.1	43.8

Sources: DOSM, National Covid-19 Immunisation Programme. CEIC

Breakdown of Cumulative First and Second Dose Administered as at 30 September 2021

Location	Cumulative Number of 1st Dose Administered (million)	Cumulative Number of 2nd Dose Administered (million)	Percentage of Total Population		Percentage of Adult Population	
			1st Dose	2nd Dose	1st Dose	2nd Dose
Malaysia	23.5	20.3	72.1%	62.0%	94.2%	86.3%
Klang Valley	7.3	6.8	87.1%	81.2%	115.4%*	110.9%

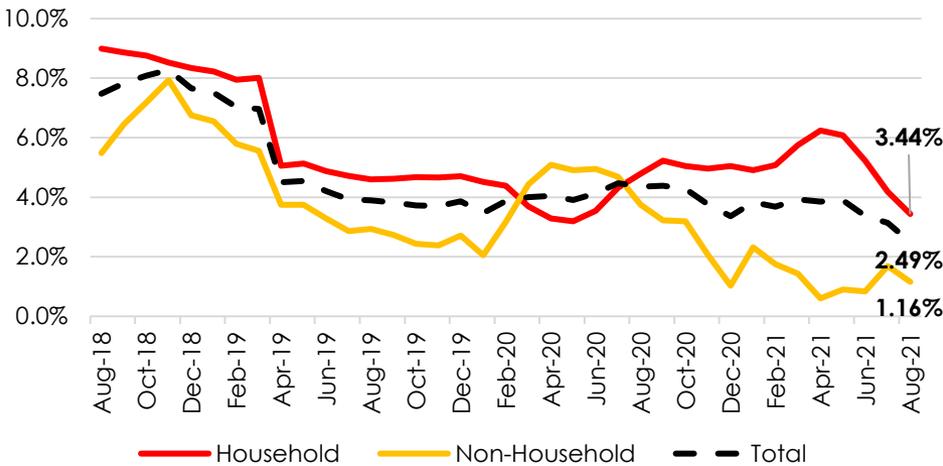
Sources: DOSM, National Covid-19 Immunisation Programme. CEIC

* Exceeds 100.0% due to population statistics from DOSM not accounting for changes in population size since the last Census, undocumented residents and also due to vaccination of undocumented residents and non-residents.

- ✓ For the month of September, the average of daily doses administered during the month reached 300.7k doses per day (August: 459.4k doses per day), higher than 209.9k doses per day targeted earlier under the National Covid-19 Immunisation Programme.
- ✓ Looking at a cumulative basis, 43.8 million doses (first dose: 23.5 million doses, second dose: 20.3 million doses) have been administered so far since the vaccination programme commenced in late February this year.
- ✓ On further scrutiny, 62.0% of Malaysia's population has been fully vaccinated with two doses as at 30 September compared to just 46.0% as at 31 August, in line with the commencement of the vaccination programme for children aged between 12 and 17 years old.
- ✓ Meanwhile, the percentage of Malaysia's adult population that has been fully vaccinated has breached the 80.0% mark at 86.3% on 30 September compared to 64.2% as at 30 August. Assuming that the vaccination pace for adults is maintained for this month, 100.0% of adults in Malaysia may likely be fully vaccinated by end of October.

BANKING SECTOR – MODERATE GROWTH IN FINANCING ACTIVITIES DURING AUGUST

Financing Growth by Sector, y-o-y%

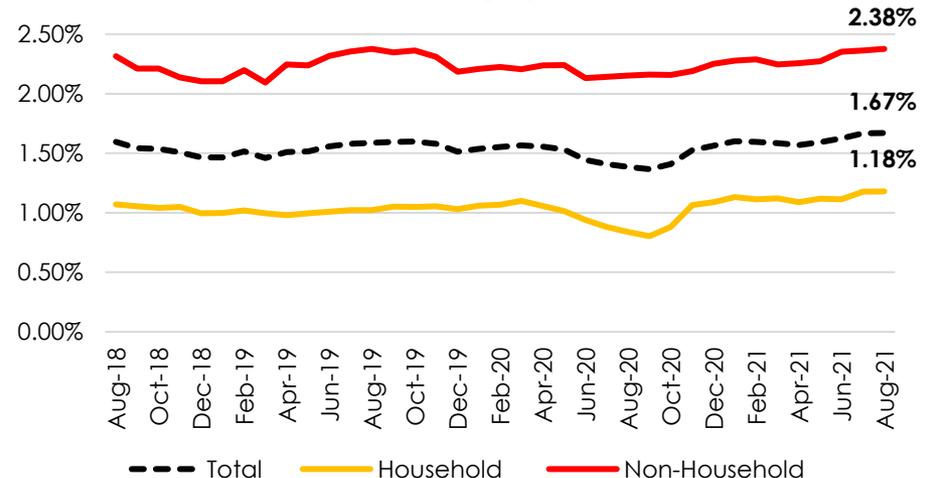


Source: CEIC

- ✓ The banking system's financing activities continued to record a slower growth at 2.49% y-o-y in August after rising by 3.14% in the previous month. This was mainly underpinned by the moderation in both of the Household sector (August: 3.44% vs. July: 4.18%) and the Non-Household sector (August: 1.16% vs. July: 1.68%).
- ✓ Within the Household sector, financing for Personal Use grew slower by 0.29% in August (July: 1.15%) while the Credit Card segment declined further by 11.11% (July: -10.86%), suggesting that the consumers have been very cautious in their spending activities.
- ✓ Additionally, the growth in the Purchase of Transport Vehicles softened by 0.81% (July: 3.43%) in August despite showrooms being allowed to reopen since August in Kuala Lumpur and Selangor.

- ✓ Looking at the Gross Impaired Financing Ratio (GIFR), it was unchanged at 1.67% in August (July: 1.67%). Similarly, the impairment for Household sector remained at 1.18% (July: 1.18%).
- ✓ Be that as it may, asset quality for the Non-Household sector was slightly weaker at 2.38% in August compared to 2.36% in July.
- ✓ In the near term, we foresee that the GIFR may decline substantially ahead of a planned reopening of the economy in October as more states transition into the remaining phases of the NRP. Subsequently, this can allow more businesses to resume its operations which will translate into higher household expenditure.

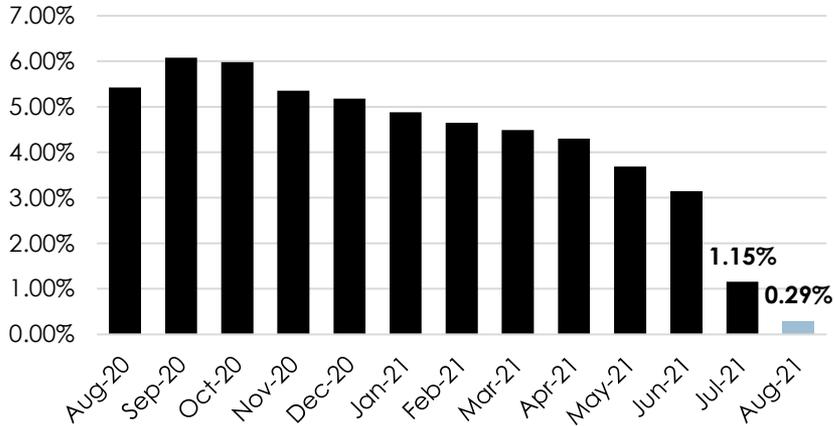
GIFR (%)



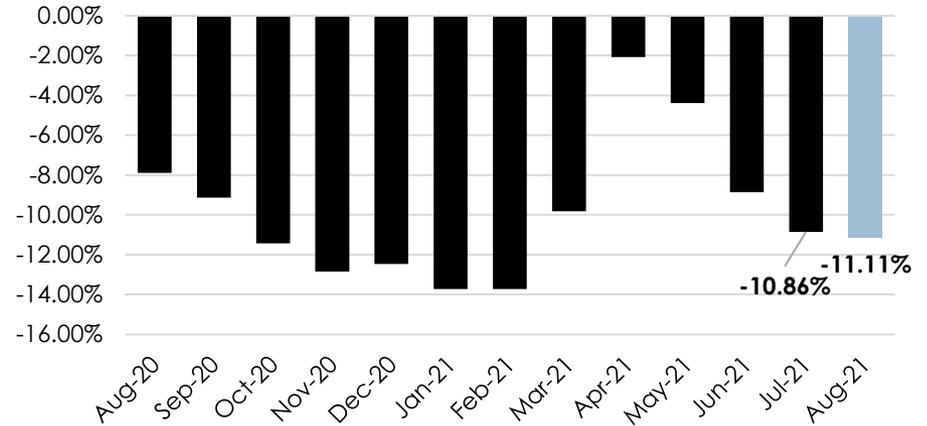
Source: CEIC

FINANCING BY PURPOSE – FINANCING GROWTH CONTINUED TO SOFTEN

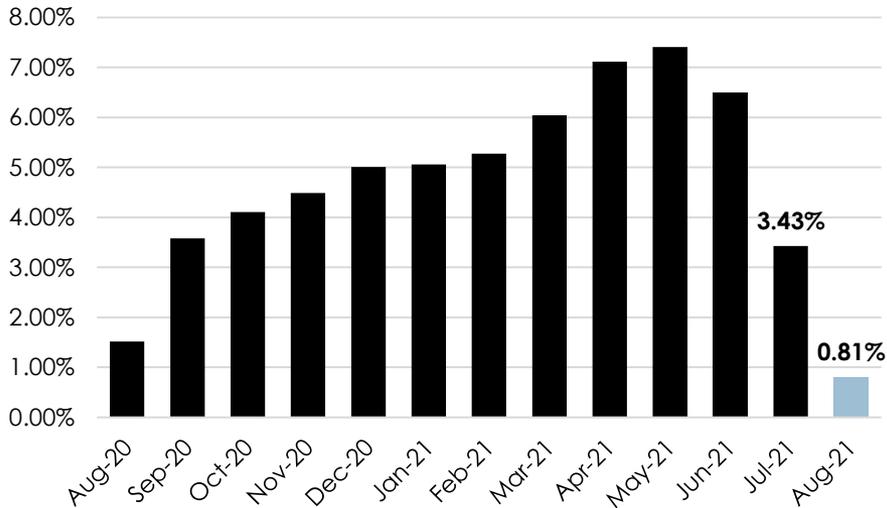
Personal Use, y-o-y%



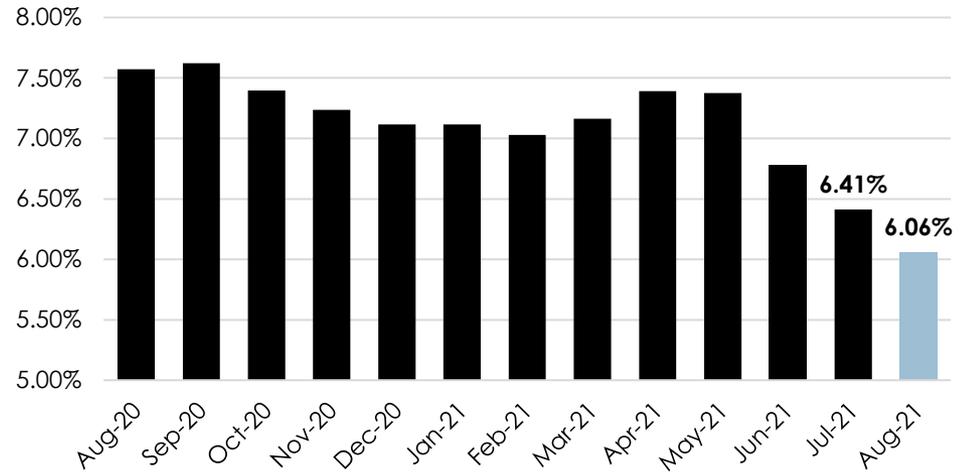
Credit Card, y-o-y%



Purchase of Transport Vehicles, y-o-y %

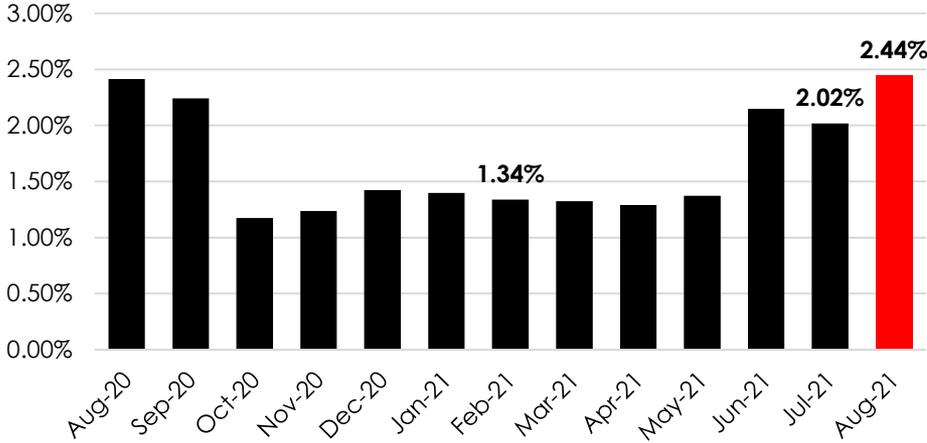


Purchase of Residential Property, y-o-y%

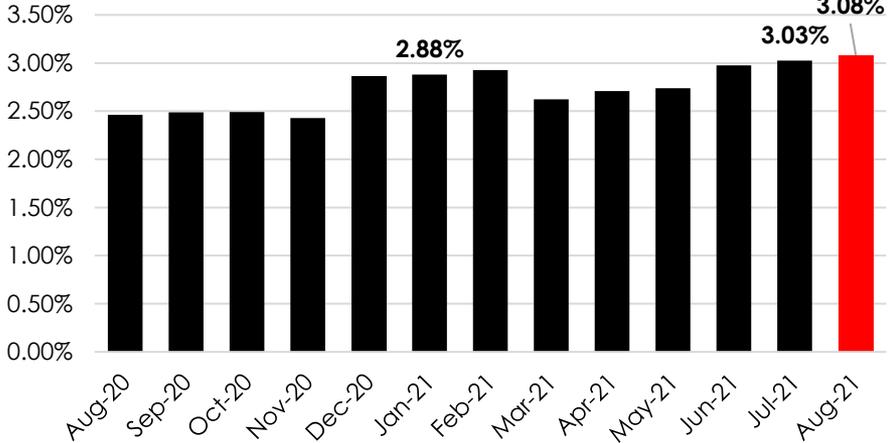


IMPAIRMENT BY SECTOR – DETERIORATION OF ASSET QUALITY IN THE NON-HOUSEHOLD SECTOR CONTINUES

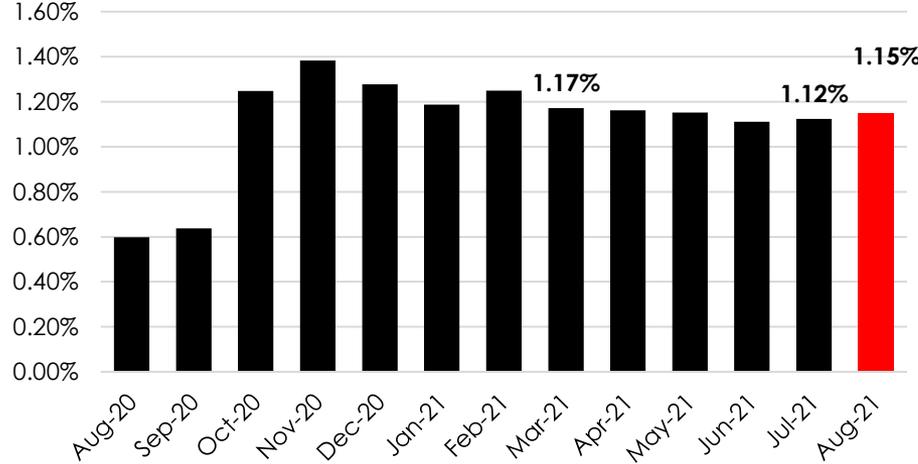
GIFR-Mining & Quarrying



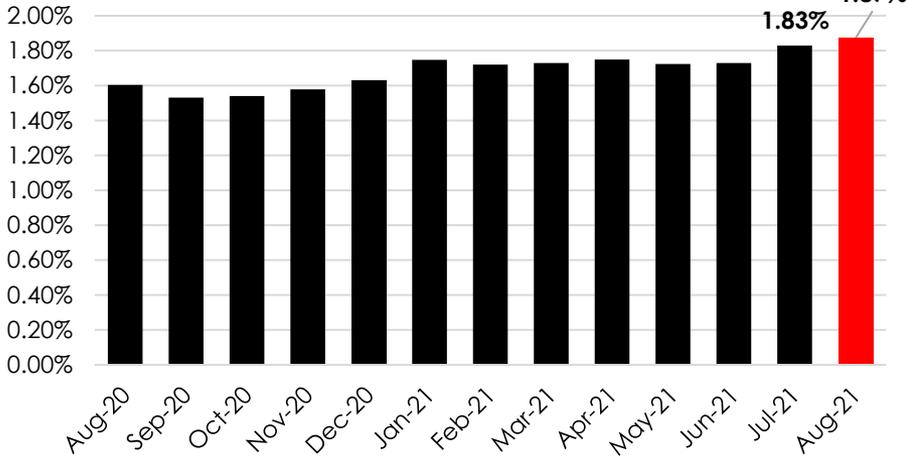
GIFR-Construction



GIFR-Electricity, Gas & Water Supply

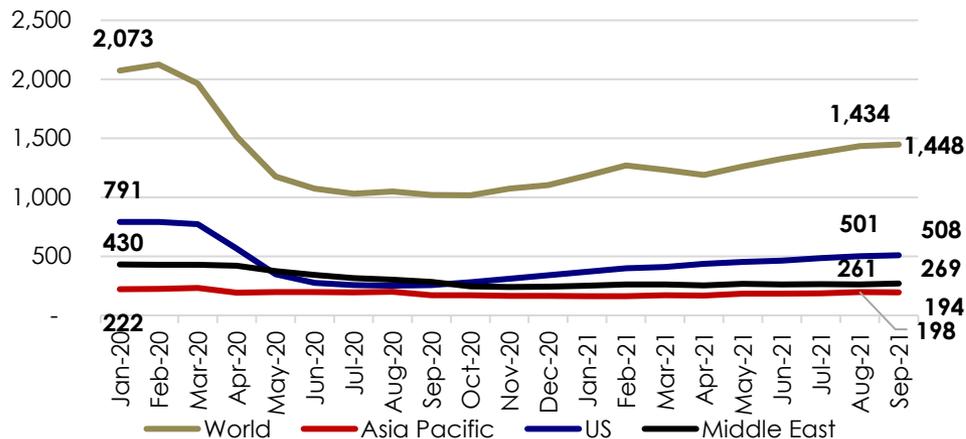


GIFR-Wholesale, Retail, Restaurant & Hotel

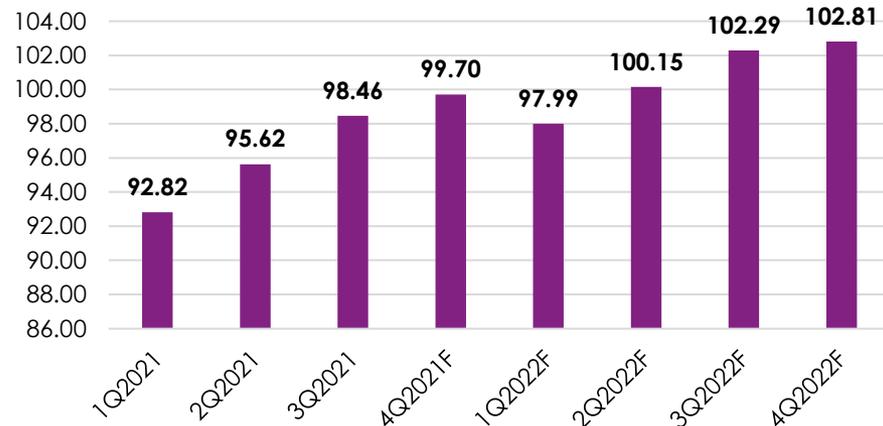


Sources: CEIC, BNM
ECONOMIC RESEARCH

Global Oil Rig Count



World Oil Demand, million barrels per day



Source: Baker Hughes

Source: OPEC

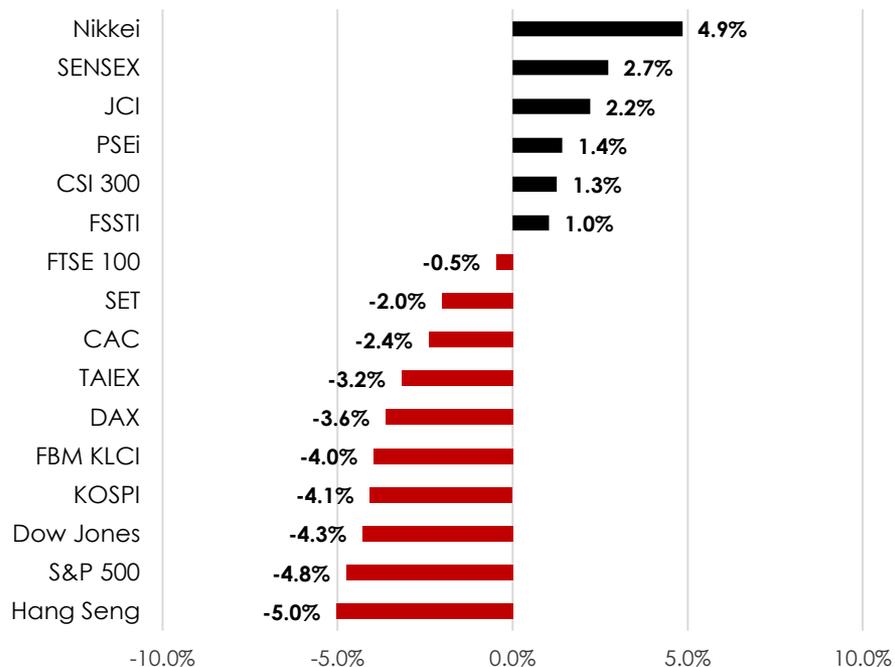
- ✓ Production activities in the oil and gas space has been gaining traction as of late. This was reflected by the increase in the number of oil rigs globally.
- ✓ The total number of rigs worldwide reached 1,448 rigs in September this year (August: 1,434 rigs) compared to 1,019 rigs in September last year.
- ✓ In line with higher production activities, global oil demand is expected to pickup in the coming quarters as more economies gradually reopen. The Organization of the Petroleum Exporting Countries (OPEC) on 13 September boosted its forecast for 2022 growth in global oil demand to 100.83 million barrels per day (bpd) (2021F: 96.68 million bpd) from its August projection of 99.86 million bpd.
- ✓ Perhaps this will lead to a higher number of oil rig counts in Malaysia which dropped to 3 rigs in September (August: 4 rigs) as more production activities are probably just about to resume later in 4Q2021 in line with Petronas' higher expected capital expenditure.
- ✓ Any further increase in production beyond the 400,000 bpd for each month to phase out 5.8 million bpd in cuts as agreed earlier in July will have to take into consideration of the pace of strengthening demand.
- ✓ Too much supply in the oil market will exert downward pressure on oil prices, taming inflationary pressures but it will bring negative consequences for the oil producers in the market. Therefore, the OPEC will continuously need to monitor the supply and demand dynamics of the oil market.



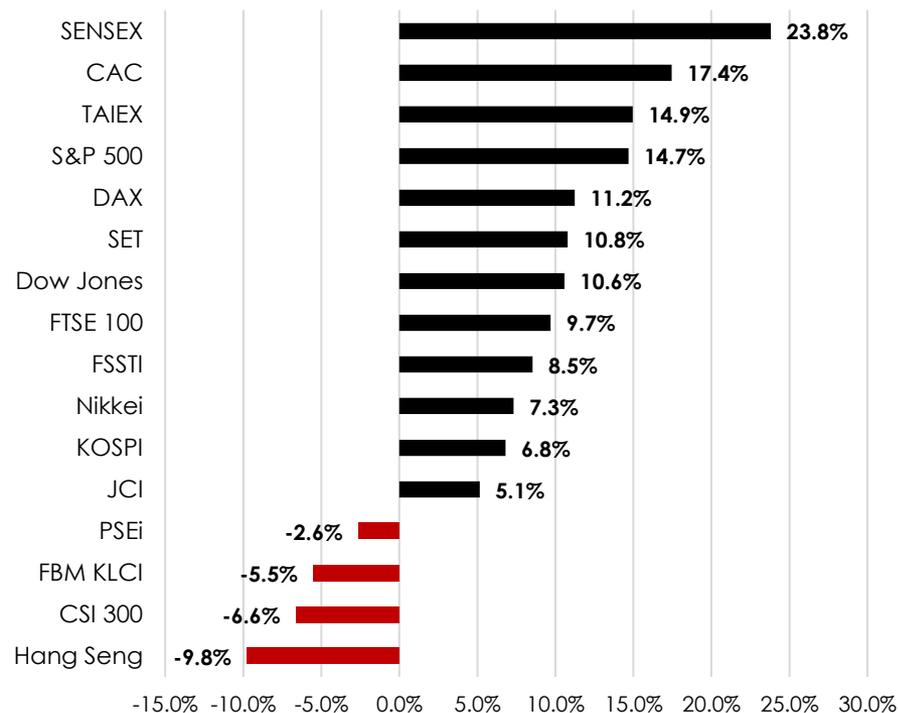
MALAYSIA'S FINANCIAL MARKET

- ✓ Losers outnumbered gainers in the month of September with decliners being led by Hong Kong's Hang Seng index which slumped by 5.0% during the month. Losses during the month were mainly due to the 10.2% decline in Evergrande shares on 20 September which led to a 3.3% drop in the Hang Seng index. The sell-off in Evergrande shares was due to the company's USD305.0 billion worth of liabilities that could spark broader risks to China's financial system if its debts are not stabilised.
- ✓ On the other hand, Japan's Nikkei index was the biggest gainer in September after ending 4.9% higher during the month amid a new political shake-up in the country that could unlock vast economic stimulus. Japan is set for a new prime minister after Fumio Kishida won the governing party leadership election on 29 September.
- ✓ On the domestic front, the FBM KLCI index recorded a 4.0% drop in September but saw a wider loss of 5.5% on a Year-To-Date (YTD) basis, making the index the second smallest loser among 4 other markets.

Monthly Gains/Losses of Benchmark Indices in September 2021

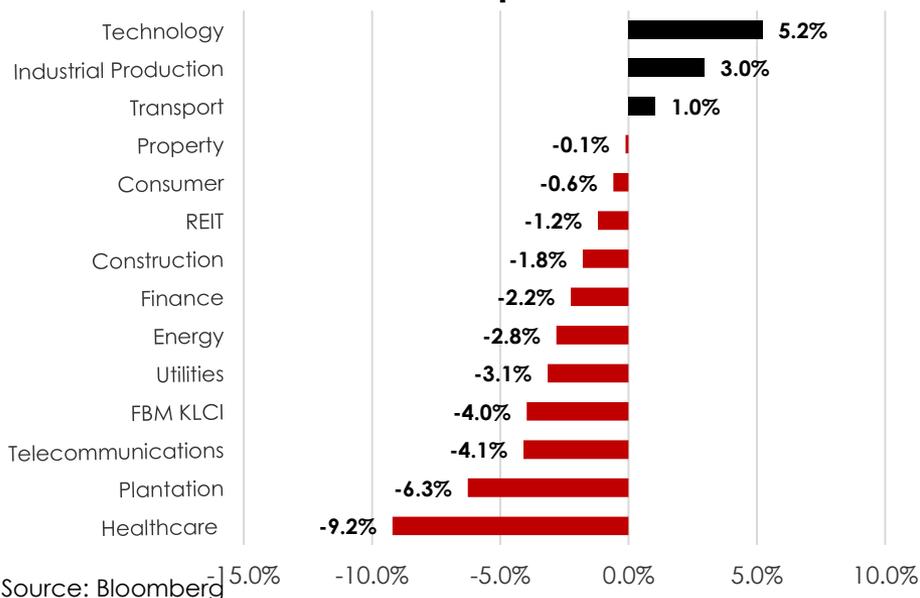


YTD Gain/Losses of Benchmark Indices

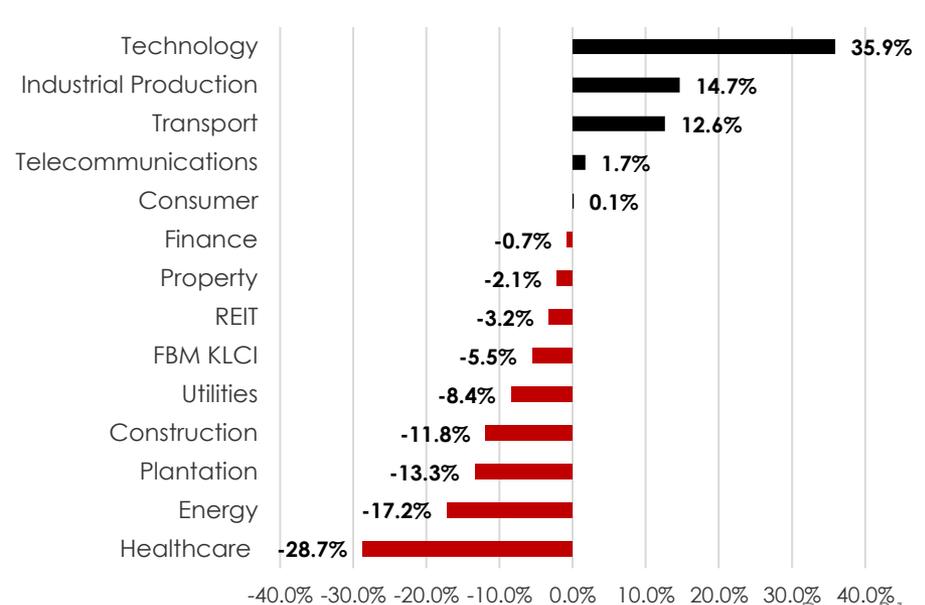


- ✓ The number of losers among Bursa's sectoral indexes also exceeded the number of gainers in September with the Bursa Malaysia Healthcare index reporting the biggest monthly loss of 9.2%. The main drag for the index came from rubber glove counters which have been facing pessimism among investors due to expected lower average selling prices, given the higher stronger incoming supplies from China over the next three to six months. The roll-out of vaccination in major glove consuming countries like the U.S. and Europe, which had resulted in lesser urgency for distributors to pre-book supplies in advance as buyers are currently holding back on purchases in order to avoid stocking up at higher prices.
- ✓ Meanwhile, the Bursa Malaysia Technology index led gainers with a 5.2% monthly advance in September amid the global semiconductor chip shortage and expectation of the deployment of new technologies in gadgets and devices. For instance, companies such as JF Tech Berhad is doubling its production capacity and has also partnered with industry giants like China's Huawei and South Korea's ISC Co Ltd in the past one year for a more synergistic growth. Biggest growth drivers would come from the test contacting solutions for 5G and electric vehicle (EV) products.

Bursa Malaysia Sectoral Monthly Performance in September 2021

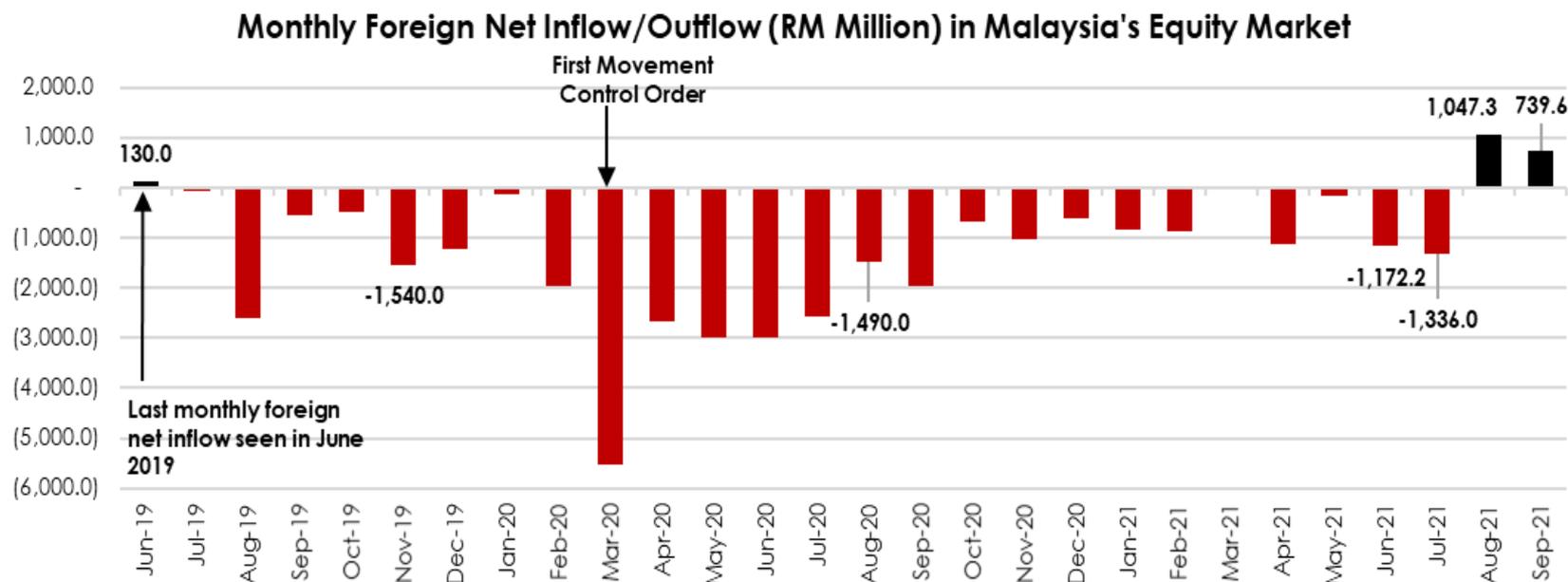


Bursa Malaysia Sectoral YTD Gains/Losses



FOREIGN FUND FLOWS-EQUITY

- ✓ The month of September recorded a foreign net inflow of RM739.6 million (August: RM1,047.3 million). This is the second monthly foreign net inflow seen after 25 consecutive months of foreign net selling on Bursa. Aside from that, local retail investors have recorded net inflows of RM941.3 million in September (August: RM469.1 million) while local institutions disposed more local equities to the tune of RM 1,680.8 million net last month compared to RM1,516.8 million net of local equities sold in the month before.
- ✓ Meanwhile, international investors have sold RM3,751.9 million net of local equities for the first nine months of 2021 compared to RM22,304.5 million net during the same period last year.
- ✓ On further scrutiny, we observed that foreign investors were net sellers for only 5 days out of the 21 trading days in the month of September, suggesting that foreign investors have indeed returned to the Malaysian market. However, the last trading day of September saw a massive foreign net outflow of RM207.2 million net but this was attributable to window-dressing activities by fund managers at the end of 3Q2021.



Source: Bursa

THE MOVEMENT OF THE LOCAL BOURSE

- ✓ Despite the return of foreign investors to the local bourse, the movement of FBM KLCI index has been unexciting towards the end of September whereby the index was seen hovering between 1,525 points to 1,550 points.
- ✓ To understand the disconnect between foreign fund inflows and the movement of the FBM KLCI index, the FBM KLCI index is made up 30 constituents which are mainly blue chip companies. Meanwhile, Bursa Malaysia itself as a whole has more than 900 companies listed. Therefore, selling pressure could have been in stocks which are members of the FBM KLCI index, particularly banking counters which have a considerable weightage in the benchmark index, following the instruction by the Ministry of Finance (MOF) for banks to work on interest rate exemption for loan moratorium repayments in September.
- ✓ We expect the market to stay choppy in October, ahead of Budget 2022 tabling on 29 October given risk of “market unfriendly” taxes. Nevertheless, an upward trajectory should resurface in November once the dust settles and investors refocus on a rejuvenated economy. Therefore, we are maintaining our year-end FBM KLCI target of 1,610 points at this juncture.

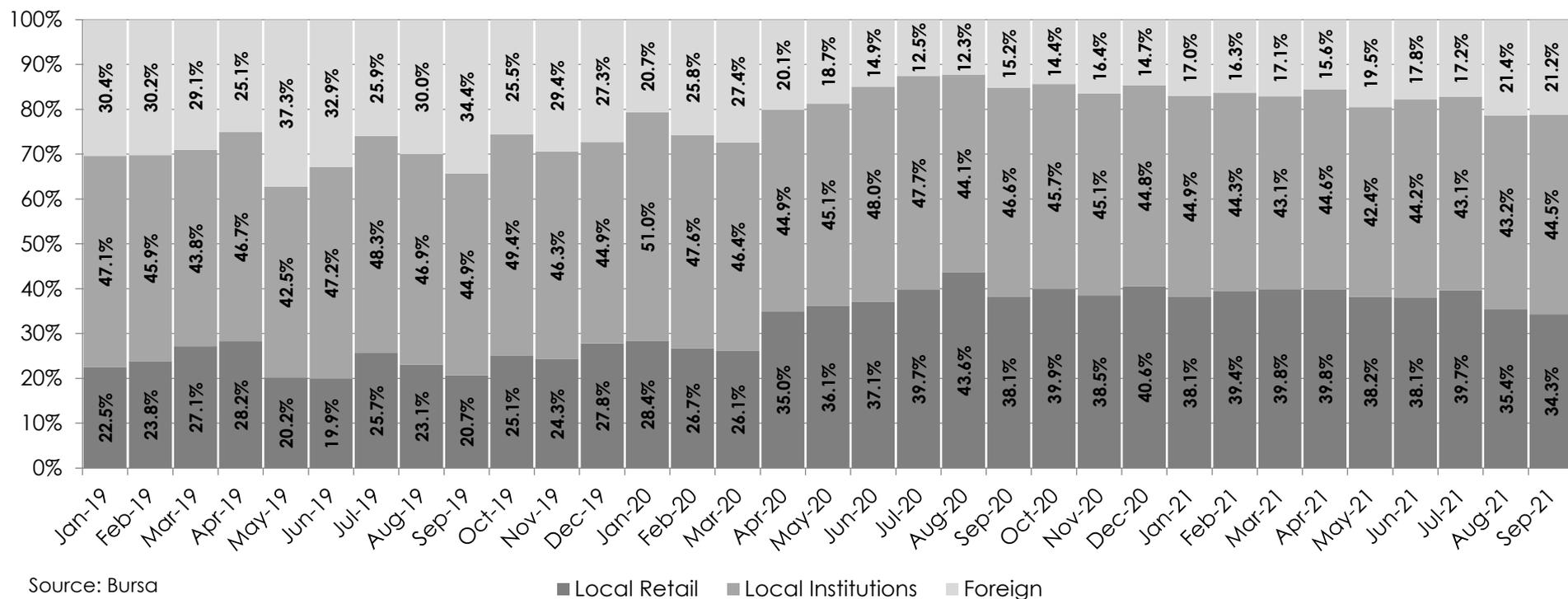
FBM KLCI Index



Source: Bursa

- ✓ Overall, the total value traded on Bursa Malaysia declined to RM129.1 billion in September (August: RM102.4 billion). We opine that the investors cheered the transition of states into the remaining phases of the NRP.
- ✓ On further scrutiny, we observed that the participation of retail investors in terms of percentage of total value traded on Bursa Malaysia shrank further to 34.3% in September (August: 35.4%).
- ✓ Meanwhile, foreign investors who have marked a return to Malaysia saw their trading participation based on value traded on Bursa Malaysia remain above 20.0% at 21.2% in September, albeit slightly lower than 21.4% seen in the previous month.
- ✓ We also noted that the participation from local institutions rose to 44.5% of the total value traded on Bursa in September compared to 43.2% in the previous month.

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

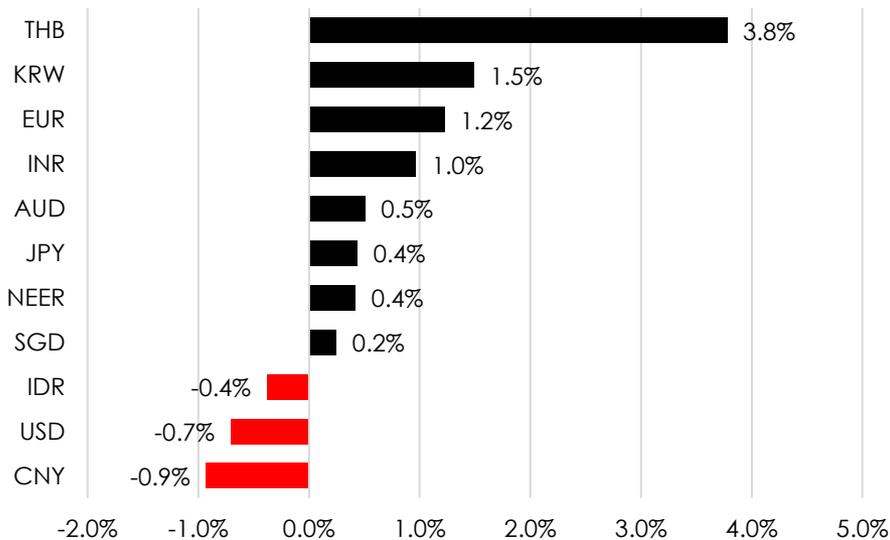


Source: Bursa

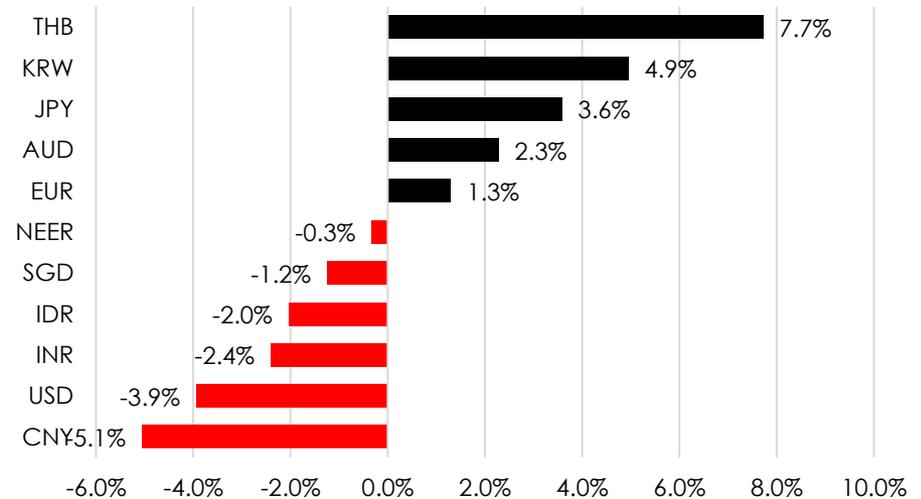
■ Local Retail ■ Local Institutions ■ Foreign

- ✓ The Ringgit depreciated by 0.7% month-on-month (m-o-m) against USD to close at RM4.1850 on 30 September from RM4.1575 in the previous month. This was mainly due to a stronger U.S. greenback in view of a more hawkish stance by the Fed as the country continued to gradually recover from the Covid-19 crisis. Following this, the Fed is expected to start unwinding its USD120.0 billion monthly government bond purchases in November and potentially begin raising rates in 2022.
- ✓ On the domestic front, the positive sentiment surrounding gradual relaxation of Covid-19 restrictions, alongside a firm Brent price (30 September: USD78.52 per barrel vs. 31 August: USD72.99 per barrel), continued to support the local note.
- ✓ Looking forward, the Ringgit is expected to trade within tight range between RM4.17 and RM4.18 as investors await policy clarity when the Budget 2022 is tabled at the end of October.

MYR Against Other Currencies, m-o-m%



YTD Performance MYR Against Other Currencies, %

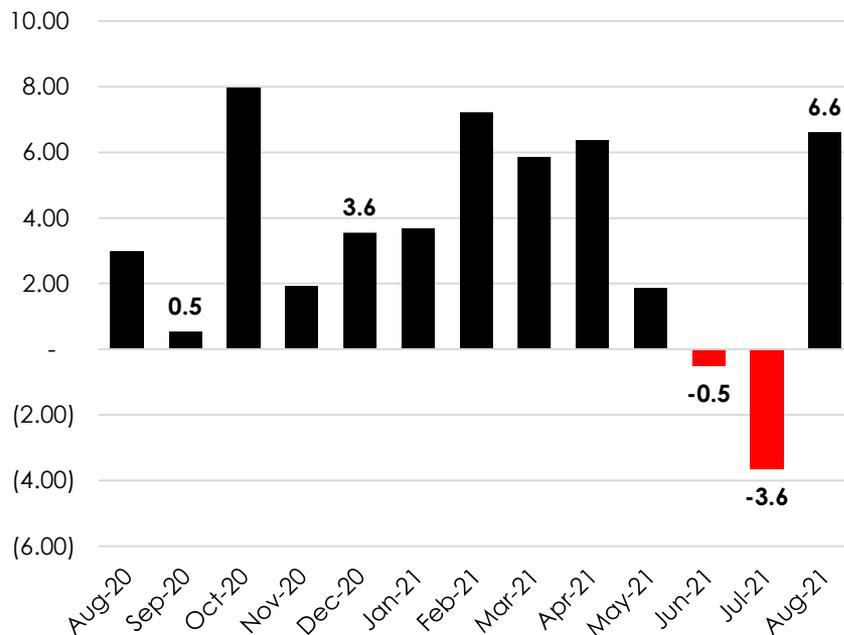


MGS Monthly Changes

MGS Benchmark	Coupon (%)	Yields (%) 30-Aug-21	Yields (%) 30-Sep-21	Change (bps)
3-Y MGS 06/24	3.48%	2.34%	2.44%	10
5-Y MGS 11/26	3.90%	2.68%	2.92%	24
7-Y MGS 06/28	3.73%	3.04%	3.30%	26
10-Y MGS 04/31	2.63%	3.19%	3.37%	18

Source: BNM

Foreign Fund Flows in Bond Market, RM billion



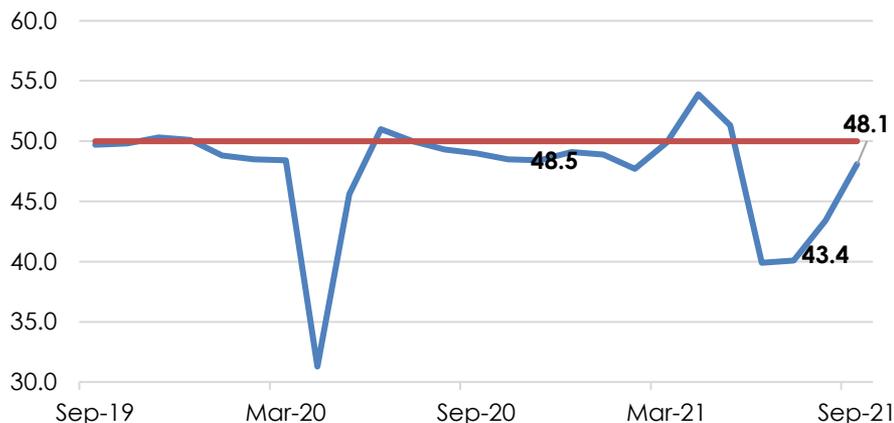
Source: Bond Info Hub
ECONOMIC RESEARCH

- ✓ Overall, the MGS benchmark yields rose significantly between 10 bps and 26 bps during September following higher UST yields alongside the dissipation of Covid-19 risks towards global growth. The 7-Y MGS 06/28 saw the largest increase of 26 bps to close at 3.30% for the month. This was followed by 5-Y MGS 11/26, 10-Y MGS 04/31 and 3-Y MGS 06/24 which went up by 24 bps, 18 bps and 10 bps to settle at 2.92%, 3.37% and 2.44% during the month respectively.
- ✓ On the other hand, foreign investors have made a comeback after registering a net inflow of RM6.6 billion in August following net outflows were recorded in June (-RM0.5 billion) and July (-RM3.6 billion), suggesting that the demand for local bond remained supportive.
- ✓ Looking forward, we anticipate the MGS yields would continue to rise gradually in view of better domestic growth prospects as Malaysia has been gradually relaxing the Covid-19 restrictions.
- ✓ Although the daily Covid-19 cases in Malaysia have declined below the 10,000 mark at 9,066 cases on 3 October, the spread of Delta variant remains as a downside risk to the economic recovery. For example, New Zealand has recently reported a Delta variant outbreak which has caused the country into a snap lockdown while the Delta variant in Australia has spread to new states.

- ✓ The effect of the earlier transition of states into the remaining phases under the NRP which enabled economic activities to operate on a larger scale namely, manufacturing can be seen through Malaysia's Manufacturing PMI which inched higher to 48.1 points in September (August: 43.4 points).
- ✓ Effective from 1 October, Klang Valley (Kuala Lumpur, Putrajaya and Selangor) has migrated to Phase 3 while Kedah has moved into Phase 2 of the NRP, leaving no states under Phase 1 which should contribute more to manufacturing activities as Kedah is home to the Kulim Hi-tech industrial park.
- ✓ Looking forward, we opine that human mobility will further improve as the government may allow inter-state travel in October provided that 90.0% of Malaysia's adult population has been fully vaccinated. This should bode well for industries such as tourism and aviation which have been bearing the brunt of the pandemic.
- ✓ As previously highlighted in our 2Q2021 GDP writeup, our analysis finds that the Google Mobility Index for Malaysia has a strong correlation of 83.6% with the nation's monthly GDP. Therefore, the case for better contribution from economic activities to the GDP especially in 4Q2021 is compelling.
- ✓ While most economic aspects may appear rosy, there are risks that linger on various fronts such as the difficulty of businesses in rehiring workers in addition to higher costs of raw materials stoked by the global supply chain bottleneck. With that in mind, business decisions on expansion plans should be analysed thoroughly to prevent from any unwanted circumstances.

Progress of states under the NRP

Malaysia's Manufacturing PMI, points



Source: IHS Markit

States			
Phase 1	Phase 2	Phase 3	Phase 4
None	Pulau Pinang	Federal Territory Of Kuala Lumpur	Labuan
	Perak	Federal Territory Of Putrajaya	
	Kelantan	Selangor	
	Sabah	Melaka	Negeri Sembilan
	Kedah	Perlis	
		Pahang	
	Johor	Terengganu	
		Sarawak	

Source: Prime Minister's Office

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