



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **MONTHLY ECONOMIC & MARKET UPDATES**

**7 FEBRUARY 2022**

**ECONOMIC RESEARCH**

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# GLOBAL ECONOMY

## Worldwide Covid-19 infections have surpassed 383.0 million in February

- ✓ The number of confirmed Covid-19 cases globally registered at 383.5 million with more than 5.7 million deaths recorded as at 3 February 2022.
- ✓ The U.S., India, Brazil, France and the U.K. are among the countries which have seen the highest number of confirmed cases.

## Jerome Powell's latest remark on monetary policy decision

- ✓ The Federal Reserve (Fed) is signaling that the central bank is ready to hike the benchmark rates in March this year to anchor the inflation expectation.
- ✓ The Fed will continue to scale down its bond purchases and eventually halt the program in March.

## How has the vaccination campaign progressed so far?

- ✓ More than 10.1 billion vaccine doses have been administered worldwide.
- ✓ Global vaccination rate currently at 25.6 million doses per day being administered. It will take another 5 months to cover 75.0% of the world's population to enable a return to normalcy.

## The rate of expansion in global manufacturing sentiment eases at the start of 2022

- ✓ The J.P. Morgan Global Manufacturing PMI stood at 53.2 points in January from 54.3 points in the previous month. This was due to weaker growth of incoming new work, declining international trade volumes, supply chain disruptions and rising Covid-19 infections from Omicron variant.

## Omicron variant could potentially deter the global recovery

- ✓ The spread of the new variant, Omicron, has surged across the globe. Consumers would be more wary to physical interaction while SOPs will continue to be implemented which will lead to higher operating cost for businesses.
- ✓ However, the Omicron variant is not as deadly as Delta variant. Hence, economic recovery is anticipated to take place this year.

## Russian-Ukraine conflict could hit global markets

- ✓ Russia is building up troops near the Ukraine's boarder demanding for halt in North Atlantic Treaty Organisation (NATO) expansion as they view Ukraine admission into the alliance as a threat.
- ✓ Such conflict could severely affect the global market sentiments, leading to higher demand for safe haven instruments and currencies such as U.S. Treasury securities and U.S. dollar.

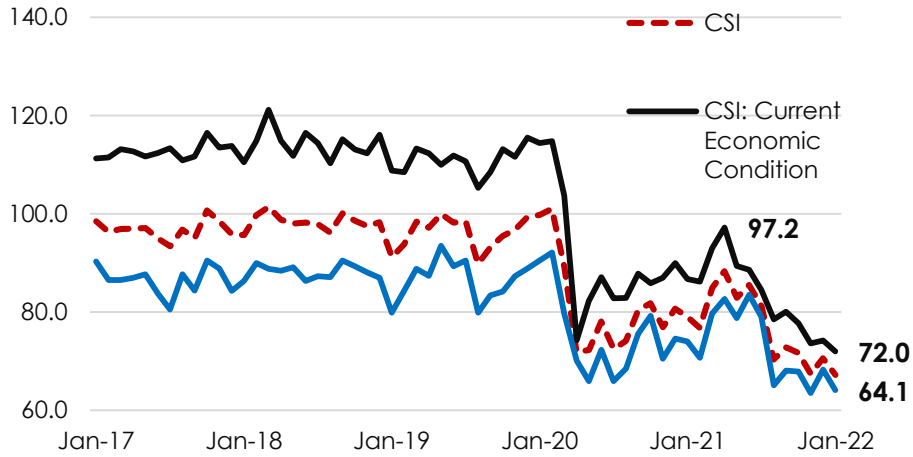
# CENTRAL BANKS GET MORE HAWKISH THESE DAYS...

| Central Bank  | Remarks  |
|---|--|
| <p data-bbox="73 325 432 391"><b>The U.S. Federal Reserve (the Fed)</b></p> <p data-bbox="104 431 405 462">25 &amp; 26 January 2022</p> | <ul style="list-style-type: none"> <li>✓ The <b>Federal Fund Rate (FFR) kept at 0.00%- 0.25%</b>.</li> <li>✓ The Fed decided to continue to <b>unwind its massive balance sheet, bringing them to an end in early March this year.</b></li> <li>✓ The U.S. economic indicators have been pointing to a stronger performance.</li> <li>✓ Labour market was solid as reflected by the substantial decline in unemployment rate to 4.0% in January 2022 from as high as 14.7% in April 2020.</li> <li>✓ Nevertheless, the Covid-sensitive sectors such as travel and restaurants were adversely affected by recent Omicron outbreak in the country and this will dampen the economic growth this quarter.</li> <li>✓ <b>Inflation remains well above the Fed longer-run goal of 2.0% with CPI inflation currently at 7.0%</b></li> </ul>  |
| <p data-bbox="88 679 421 745"><b>European Central Bank (ECB)</b></p> <p data-bbox="142 782 367 813">3 February 2022</p>                 | <ul style="list-style-type: none"> <li>✓ The <b>interest rate</b> on the main refinancing operations, marginal lending facility and deposit facility <b>maintained at 0.00%, 0.25% and -0.50%</b> respectively.</li> <li>✓ <b>Asset purchases will be reduced over the coming quarters with pandemic emergency purchase programme (PEPP) will come to an end by March.</b></li> <li>✓ Economic growth is likely to remain subdued in the first quarter weighed by <b>ongoing pandemic wave.</b></li> <li>✓ <b>Shortages</b> of raw materials, equipment and labour continue to hold back output in some industries.</li> <li>✓ <b>Inflation has risen sharply in recent months</b> driven by higher energy costs, as well as higher food prices. <b>Hence, inflation is likely to remain elevated for longer than previously expected.</b></li> </ul>                                      |
| <p data-bbox="139 999 370 1065"><b>Bank of England (BoE)</b></p> <p data-bbox="142 1102 367 1133">3 February 2022</p>                   | <ul style="list-style-type: none"> <li>✓ The <b>Bank Rate was increased by 0.25 percentage points to 0.5%</b>.</li> <li>✓ The BoE will also <b>reduce the purchases of UK government bond and non-financial investment-grade corporate bond.</b></li> <li>✓ Supply chain disruption in global goods markets also appears to have continued to constrain output in some sectors. <b>Consumer price inflation has risen markedly in many countries including the U.K. amid firmer energy price.</b></li> <li>✓ <b>The BoE is of the view that economic activities in December 2021 and January 2022 would be affected by the Omicron spread. However, the UK central bank is also convinced that economic activities would return to its pre pandemic level in February and March.</b></li> <li>✓ <b>In a nutshell, the BoE is very hawkish based on their latest assessment.</b></li> </ul> |

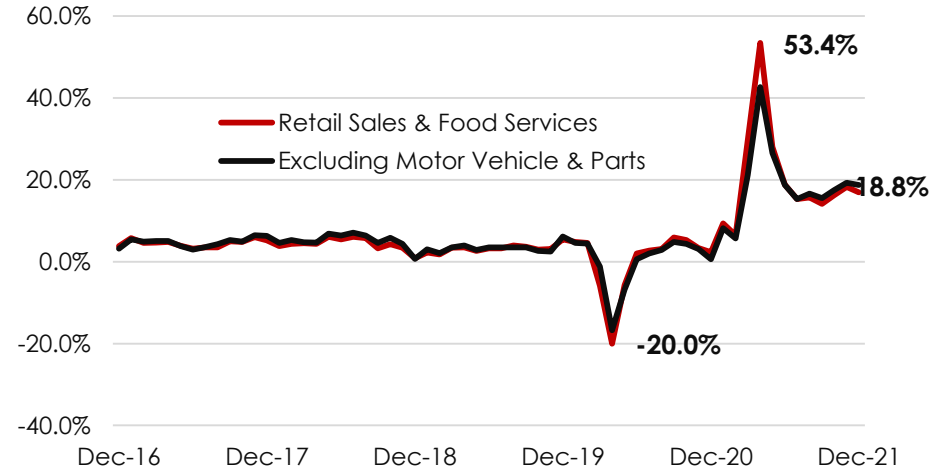
Source: Central Banks

# U.S. ECONOMY AT A GLANCE – CONSUMER SPENDING & LABOUR MARKET ARE IN GOOD SHAPE.

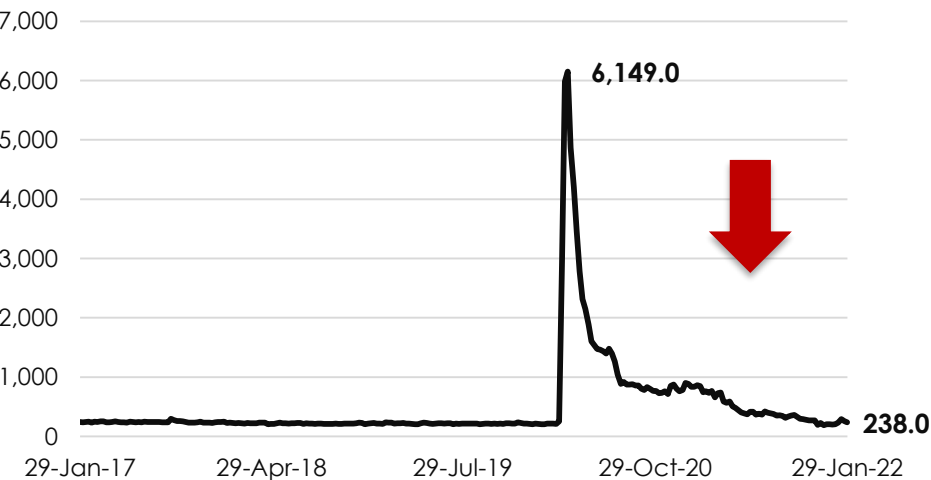
### Consumer Sentiment Index (CSI), points



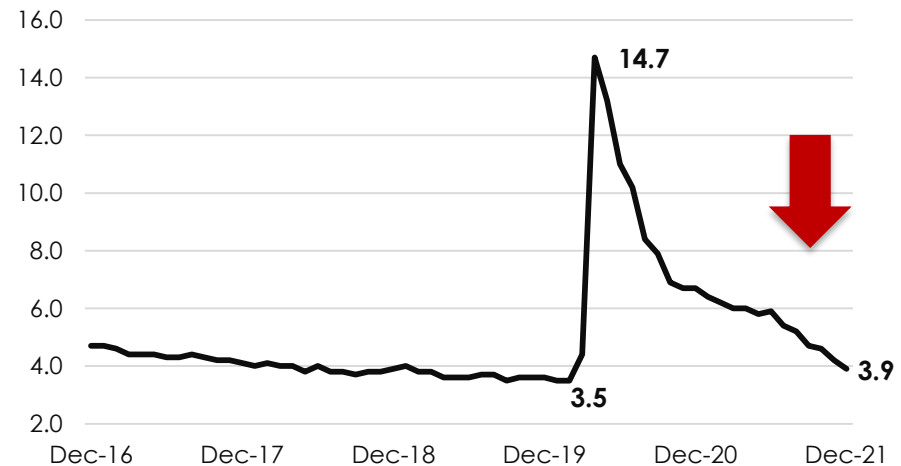
### Retail Sales & Food Services, y-o-y%



### U.S. Initial Jobless Claims (IJC), '000

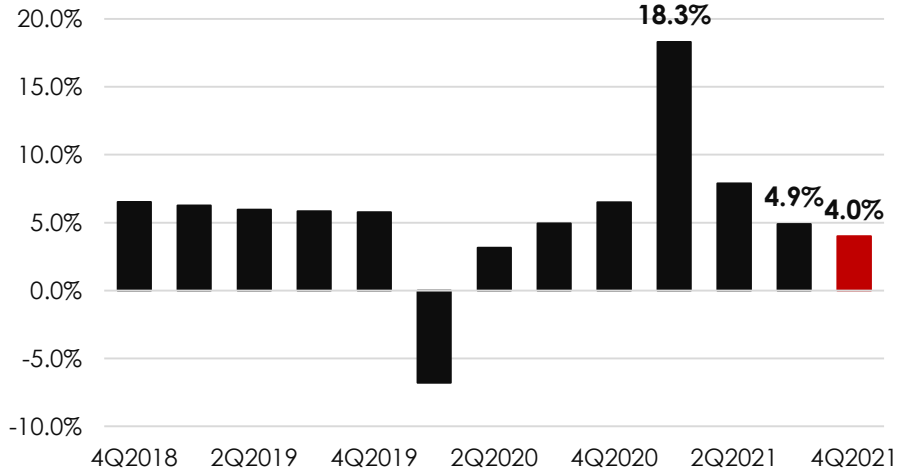


### Unemployment Rate, %

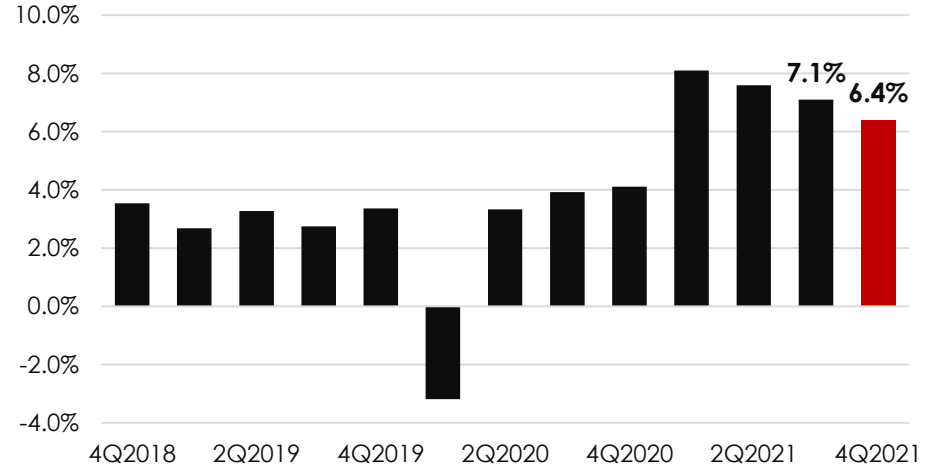


**Weak consumer sentiments were due to Omicron. But this has not deter the spending pattern.**

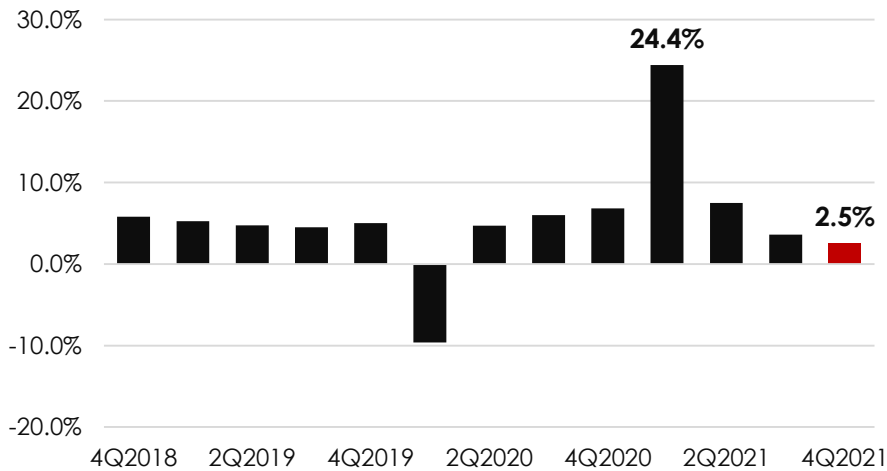
### GDP, y-o-y%



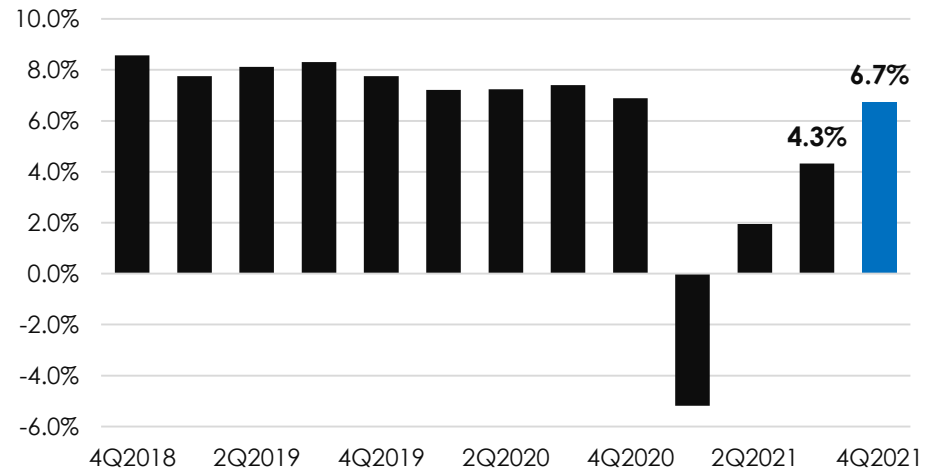
### Primary Industry, y-o-y%



### Secondary Industry, y-o-y%



### Tertiary Industry, y-o-y%

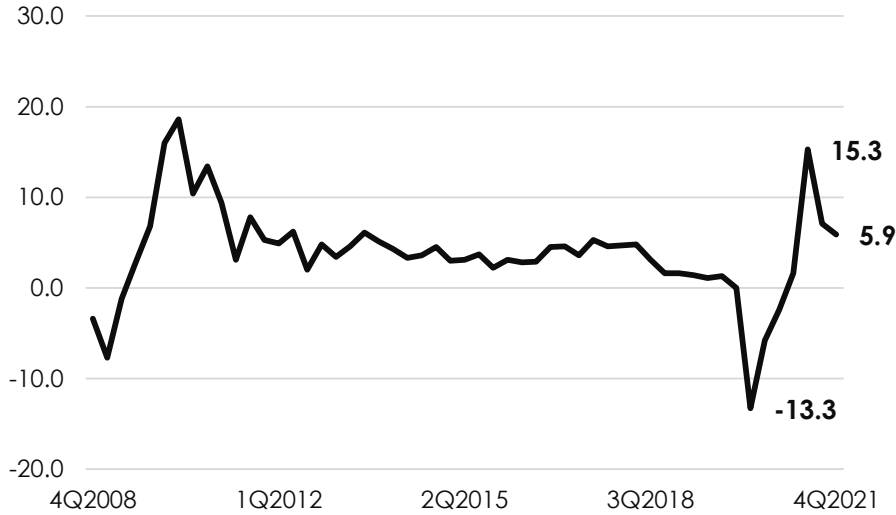


Source: CEIC

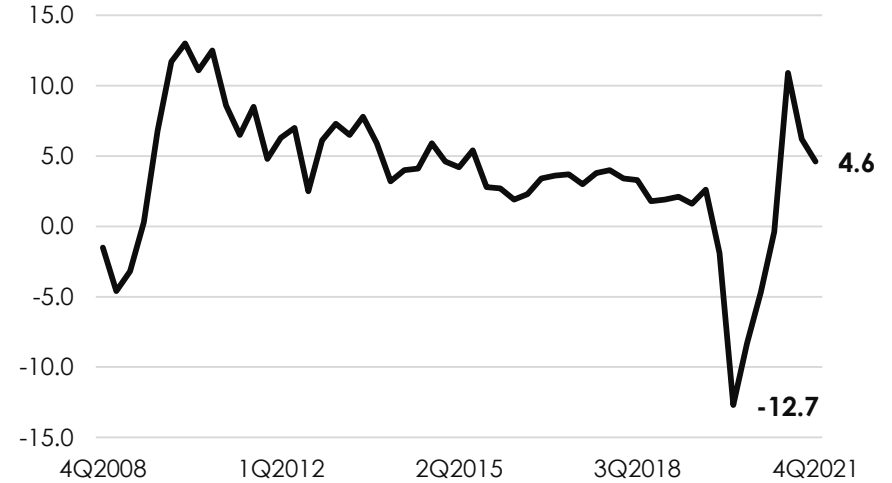
**China has been adamant on their zero Covid strategy (ZCS). We shall expect growth to be anemic this year.**

# SINGAPORE'S GDP INCREASED BY 5.9% IN 4Q2021, 7.2% IN 2021 – ADVANCE ESTIMATE

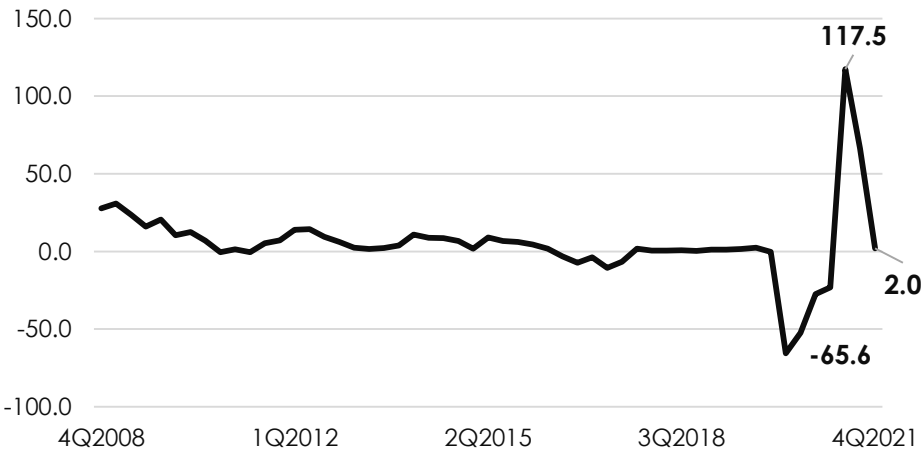
Singapore's GDP, y-o-y%



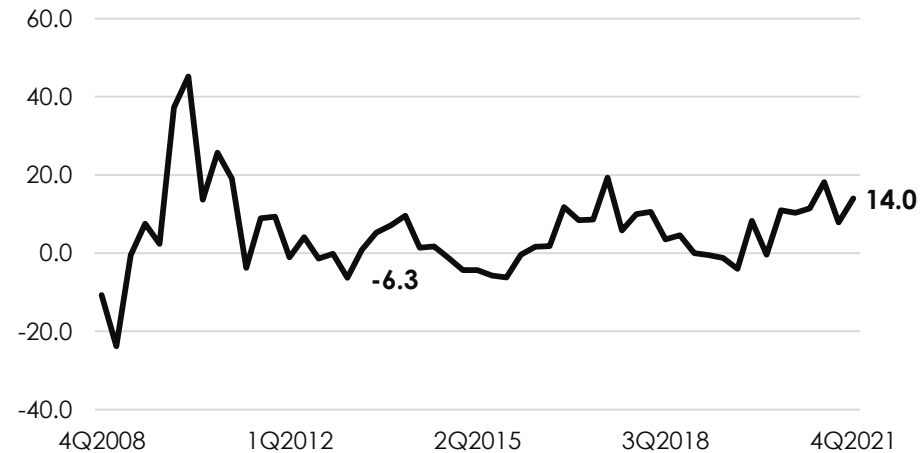
Services, y-o-y%



Construction, y-o-y%



Manufacturing, y-o-y%



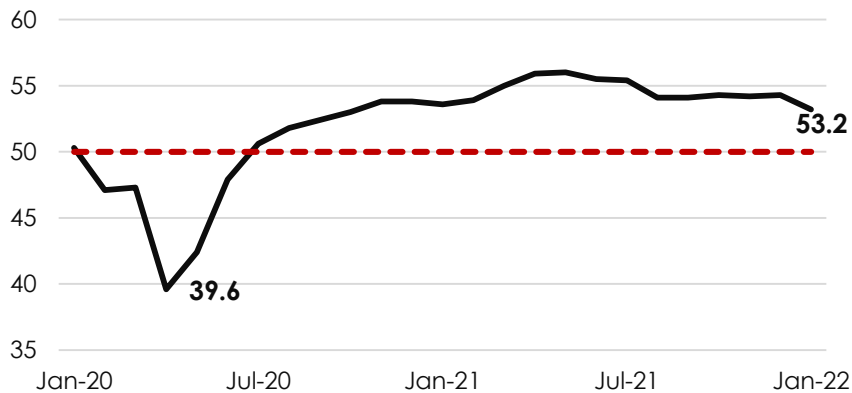
Source: CEIC

**Growth has been solid. Expect the Monetary Authority of Singapore (MAS) to continue to alter the SGDNEER slope (steeper perhaps) in the upcoming meeting in April.**



# GLOBAL MANUFACTURING SECTOR CONTINUED TO EXPAND FOR THE 19<sup>TH</sup> STRAIGHT MONTH IN JANUARY, THOUGH AT A SLOWER PACE

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

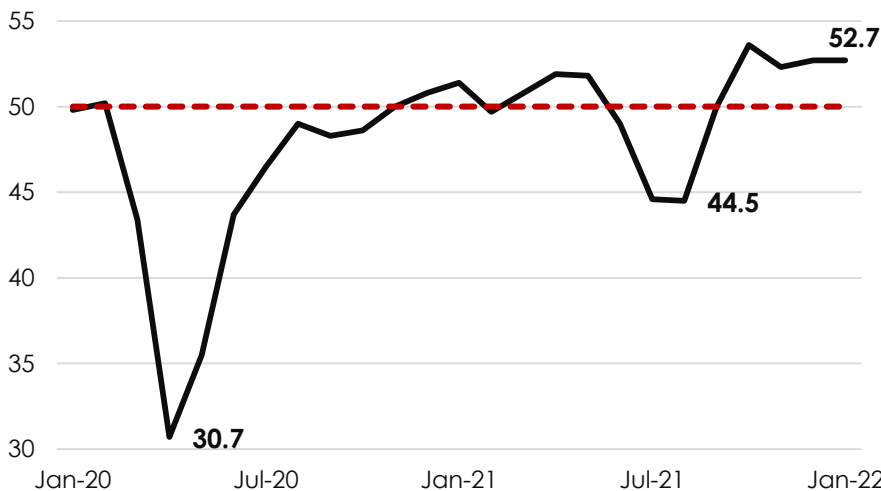


## Index Summary:

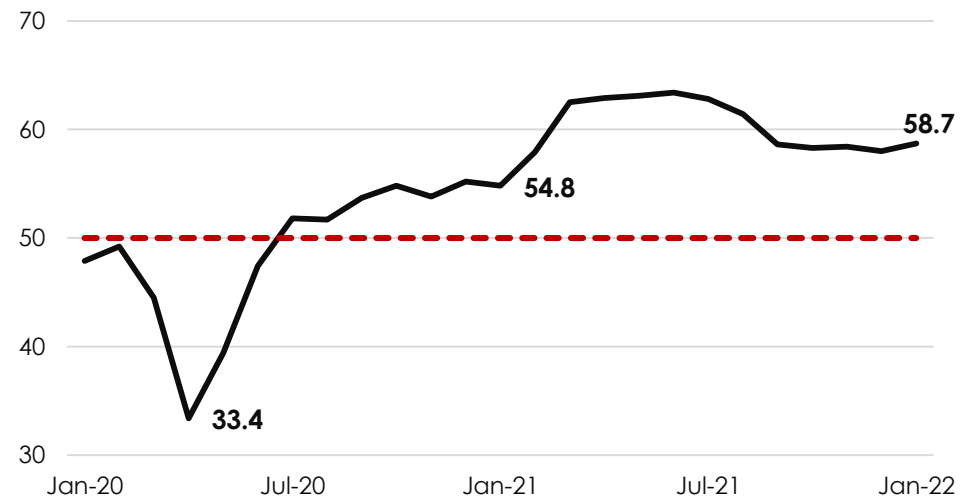
| Index             | Jan-22 | Dec-21 | Interpretation                      |
|-------------------|--------|--------|-------------------------------------|
| PMI               | 53.2   | 54.3   | Improvement, slower rate            |
| Output            | 51.4   | 53.3   | Growth, slower rate                 |
| New Orders        | 52.2   | 53.4   | Growth, slower rate                 |
| New Export Orders | 49.7   | 51.2   | Decline, from growth                |
| Future Output     | 65.4   | 63.7   | Growth expected, stronger sentiment |
| Employment        | 51.0   | 51.7   | Growth, slower rate                 |
| Input Prices      | 68.4   | 69.7   | Inflation, slower rate              |
| Output Prices     | 61.0   | 59.8   | Inflation, faster rate              |

Source: IHS Markit

**ASEAN Manufacturing PMI, points**



**Eurozone Manufacturing PMI, points**





# DOMESTIC LANDSCAPE

# SNAPSHOT OF LATEST MAJOR EVENTS/ECONOMIC VARIABLES IN MALAYSIA

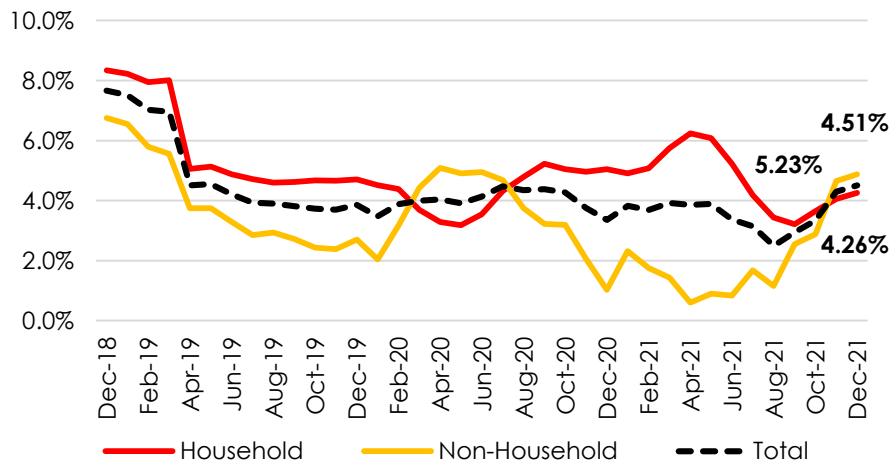
| Event  | Date            | Remarks  |
|--|-----------------|--|
| <b>BNM's Monetary Policy Committee (MPC) Meeting</b> | 20 January 2022 | <ul style="list-style-type: none"> <li>✓ The <b>Overnight Policy Rate (OPR) maintained at 1.75%</b> as expected by most economists.</li> <li>✓ Economic growth will regain its momentum in 2022 underpinned by the expansion in global demand and private sector expenditure amid improvements in labour market and continued policy support.</li> <li>✓ The MPC believes that the current monetary policy stance is appropriate and accommodative.</li> </ul>   |
| <b>Consumer Price Index (CPI)</b>                    | 21 January 2022 | <ul style="list-style-type: none"> <li>✓ Malaysia's <b>CPI remain elevated at 3.2% y-o-y in December 2021</b> (November 2021: 3.3%).</li> <li>✓ The slight CPI moderation was mainly attributable to the slower increase of Transport cost by 9.5% in December 2021 (November 2021: 12.7%) as base effect from fuel price dissipates.</li> <li>✓ Notwithstanding that, Food and Non-Alcoholic Beverages sub-index which accounted for 29.5% of total CPI recorded an upward trend (December 2021: 3.2% vs. November 2021: 2.7%).</li> <li>✓ Meanwhile, the <b>Core CPI</b> which exclude most volatile items of fresh food, as well as administered prices of goods and services <b>surged by 1.1% in December 2021 from 0.9% in the previous month.</b></li> <li>✓ <b>Higher Core CPI suggests that there has been a pass through effect to other prices. In short, higher inflation and cost of living will be the key issue this year.</b></li> </ul> |
| <b>BNM Financial Sector Blueprint 2022 – 2026</b>    | 24 January 2022 | <ul style="list-style-type: none"> <li>✓ The 5-Year Blueprint sets out development priorities for Malaysia's financial industry to promote a smooth transitioning to green economy, as well as climate risk to be integrated into bank's internal functions and operations.</li> </ul>   |

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

| Event  | Date            | Remarks   |
|--|-----------------|---|
| <b>External Trade</b>  | 28 January 2022 | <ul style="list-style-type: none"> <li>✓ Malaysia's <b>exports continued to maintain a double-digit growth of 29.2% y-o-y in December 2021 (November 2021: 32.4%)</b>, albeit at a slower pace as compared to preceding month.</li> <li>✓ The modest growth in exports is attributable to the slowdown seen in both Agriculture (December 2021: 32.5% vs. November 2021: 76.8%) and Mining (December 2021: 37.0% vs. November 2021: 45.2%) during the month.</li> <li>✓ Meanwhile, Manufacturing increased to 28.4% in December 2021 from 28.2% recorded in the previous month.</li> </ul>  |
| <b>Special Report on Impacts of Flood in Malaysia 2021 by Department of Statistics Malaysia (DOSM)</b> | 28 January 2022 | <ul style="list-style-type: none"> <li>✓ <b>Malaysia has suffered an overall loss of RM6.1 billion due to the unusual floods that hit the country at the end of 2021 and early 2022.</b></li> <li>✓ These losses include RM2.0 billion for public assets and infrastructure, RM1.6 billion for living quarters, RM1.0 billion for vehicles, RM0.9 billion for manufacturing, RM0.5 billion for business premises and RM90.6 million for agriculture.</li> <li>✓ Additionally, <b>Selangor recorded the highest estimated value of losses of RM3.1 billion</b>, followed by Pahang (RM593.2 million) and Melaka (RM85.2 million).</li> <li>✓ On further scrutiny, Klang district registered RM1.2 billion losses, Petaling district RM1.1 billion and Hulu Langat district RM0.4 billion making these three districts as the top 3 districts suffered losses due to floods.</li> </ul> |

# BANKING SECTOR - FINANCING ACTIVITIES ENDED ON HIGHER NOTE IN DECEMBER 2021

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



Source: CEIC

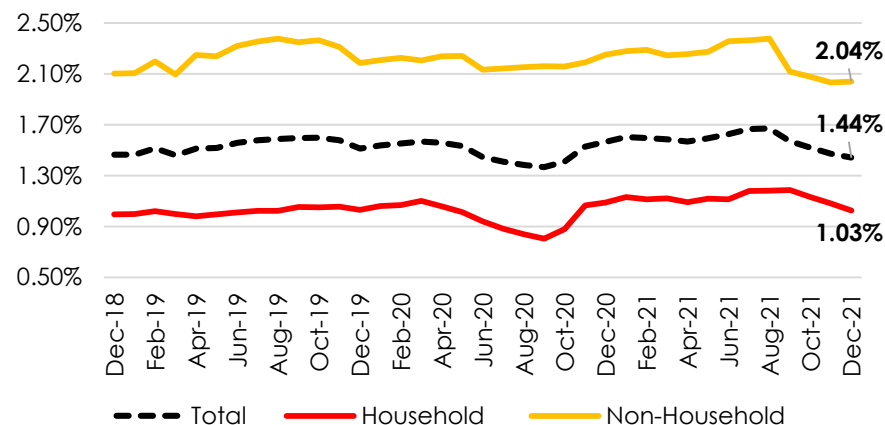
## Banking Industry's Asset Quality

- ✓ The GIFR improved slightly to 1.44% in December 2021 (November 2021: 1.47%), mainly supported by **Household sector** (December 2021: 1.03% vs. November 2021: 1.08%).
- ✓ Nevertheless, GIFR for **Non-Household** increased marginally to 2.04% in December last year (November 2021: 2.03%).
- ✓ Within the Non-Household sector, **mining & quarrying** activities saw a significant deterioration of asset quality (December 2021: 3.69% vs. November 2021: 1.09%).
- ✓ All in all, we anticipate that global economic recovery alongside with pent-up in demand will continue to support financing performance.
- ✓ However, risks of higher GIFR cannot be totally ruled out as targeted moratorium period has ended in December 2021.

## Banking Industry's Financing Growth

- ✓ Total financing grew by 4.51% y-o-y in December 2021 (November 2021: 4.30%).
- ✓ The upturn was supported by stronger financing in both **Household** (December 2021: 4.26% vs. November 2021: 4.05%) and **Non-Household** (December 2021: 4.88% vs. November 2021: 4.65%) as restriction measures were lifted during final quarter of 2021.
- ✓ Within Household sector, financing activities for **purchase of residential property** (December 2021: 6.76% vs. November 2021: 6.50%) and **passenger cars** (December 2021: 1.16% vs. November 2021: 0.34%) increased further at the end of 2021, suggesting the consumer demand continued to pick-up.

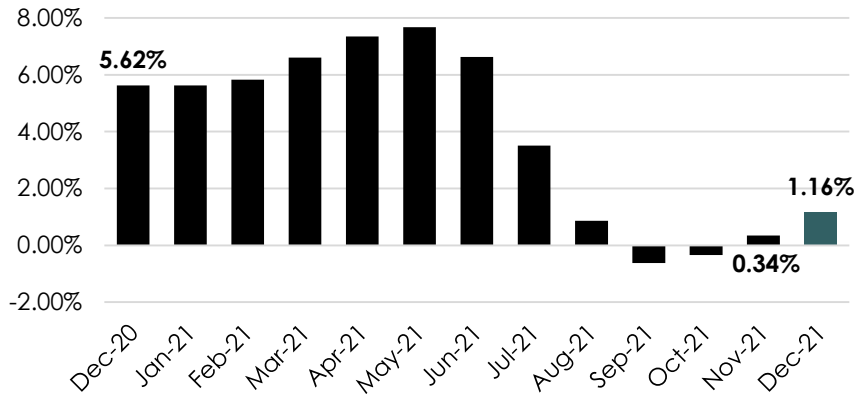
## Gross Impaired Financing Ratio (GIFR), %



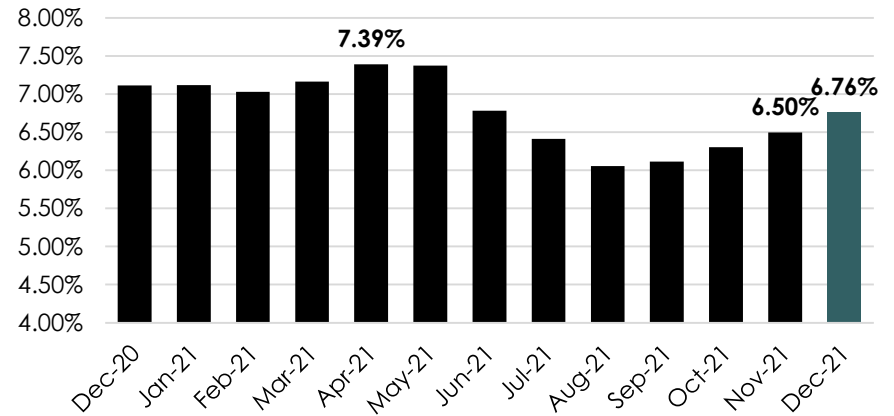
Source: CEIC

# FINANCING GROWTH BY PURPOSE - PERFORMANCE WAS HIGHER AT THE END OF 2021

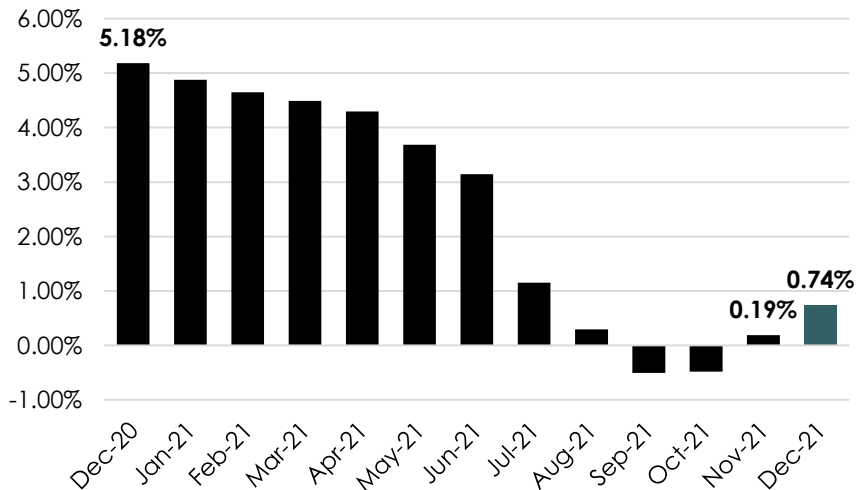
### Purchase of Passenger Cars, y-o-y%



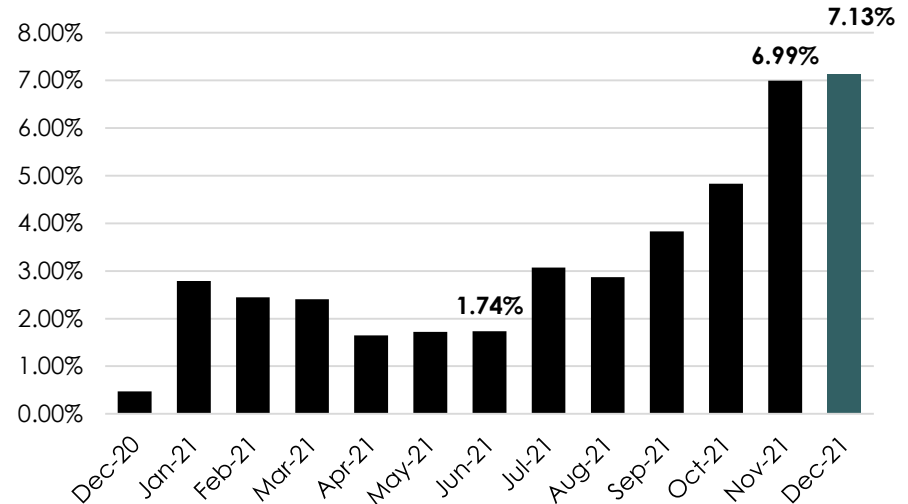
### Purchase of Residential Property, y-o-y%



### Personal Use, y-o-y%



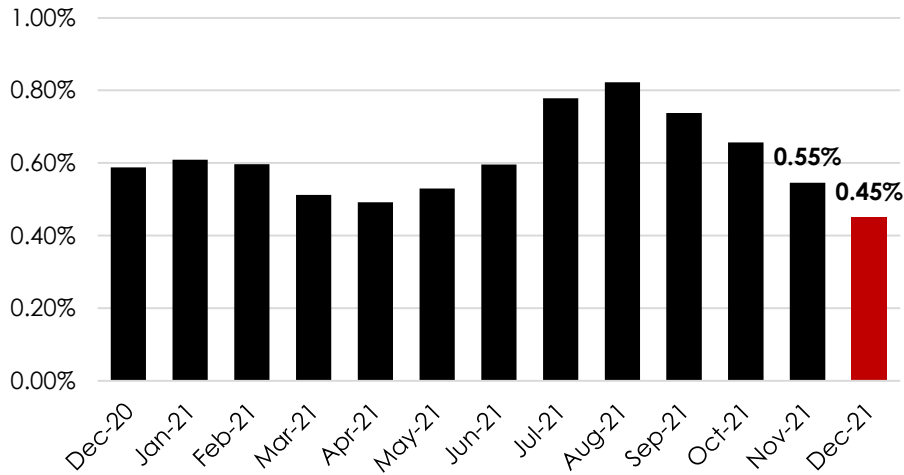
### Working Capital, y-o-y%



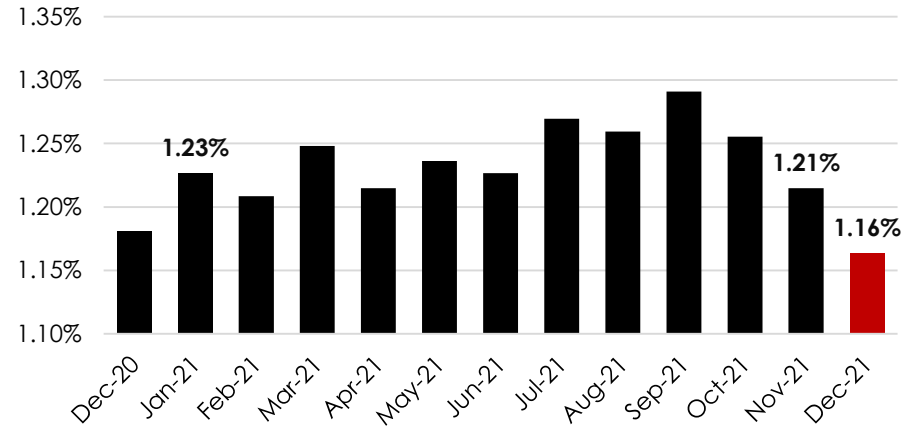
Source: CEIC

# IMPAIRMENT BY PURPOSE - ASSET QUALITY CONTINUED TO IMPROVE AS DEMAND ACTIVITIES HAVE PICKED UP

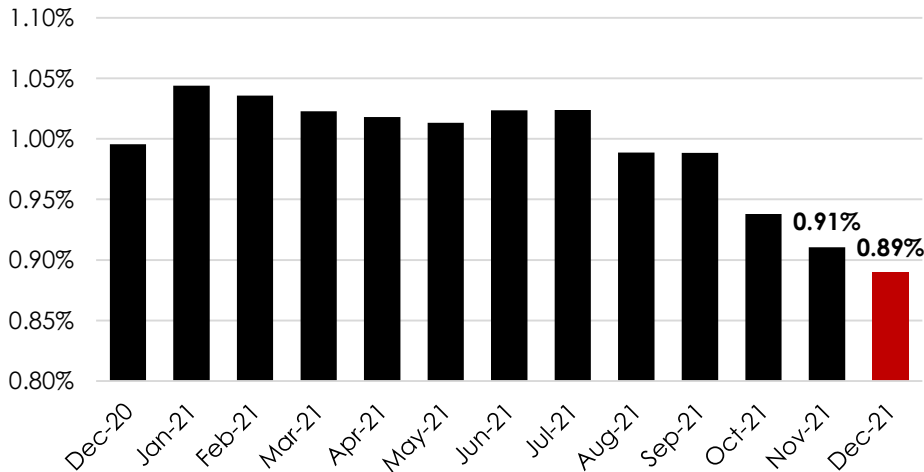
### GIFR-Purchase of Passenger Cars, %



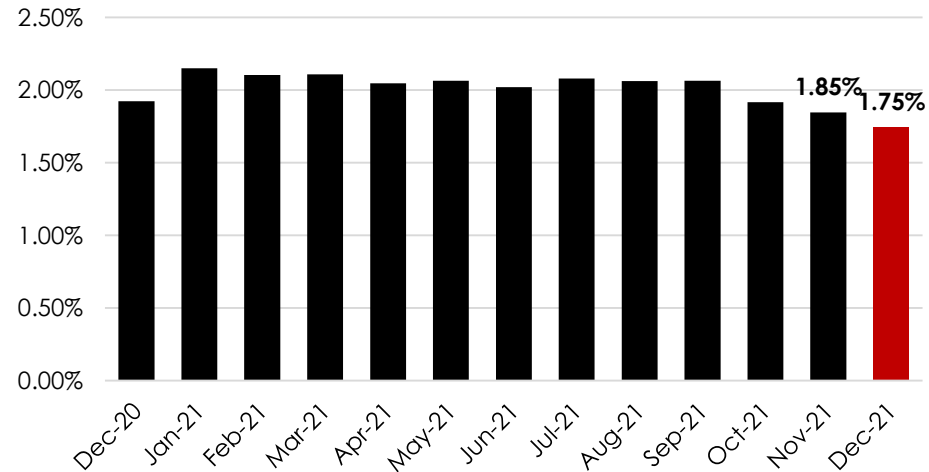
### GIFR-Purchase of Residential Property, %



### GIFR-Credit Card, %



### GIFR-Personal Use, %



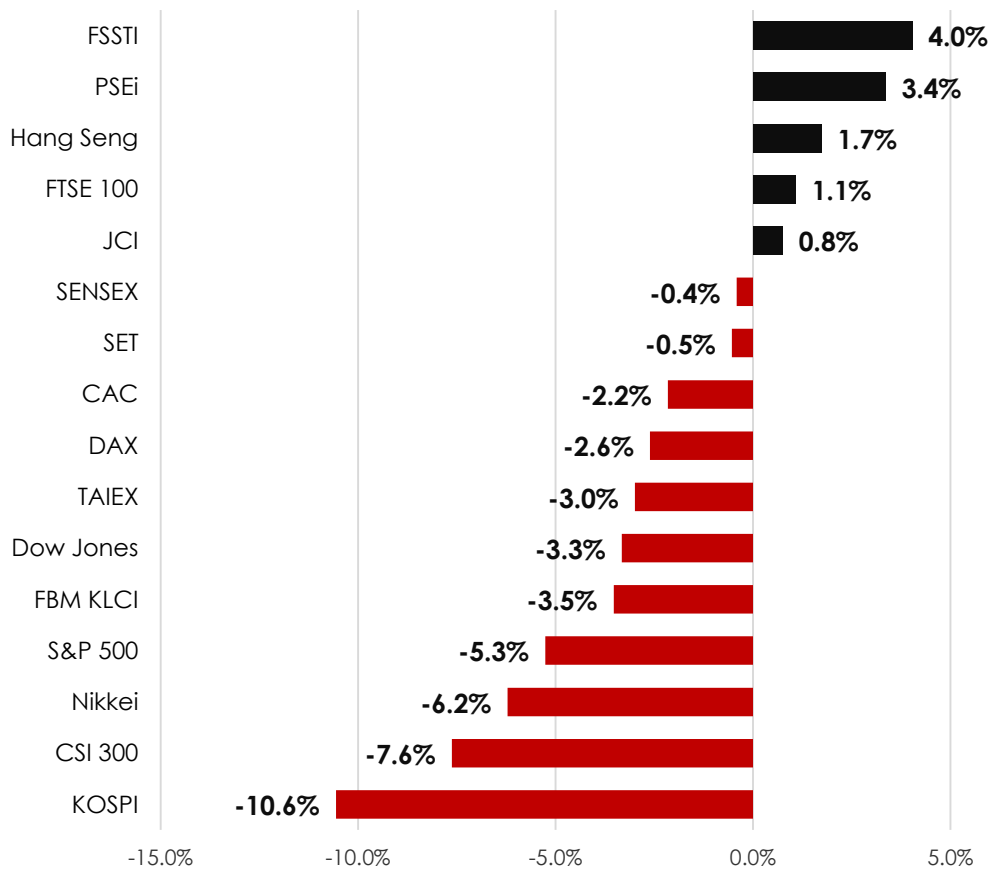
Source: CEIC



# MALAYSIA'S FINANCIAL MARKET



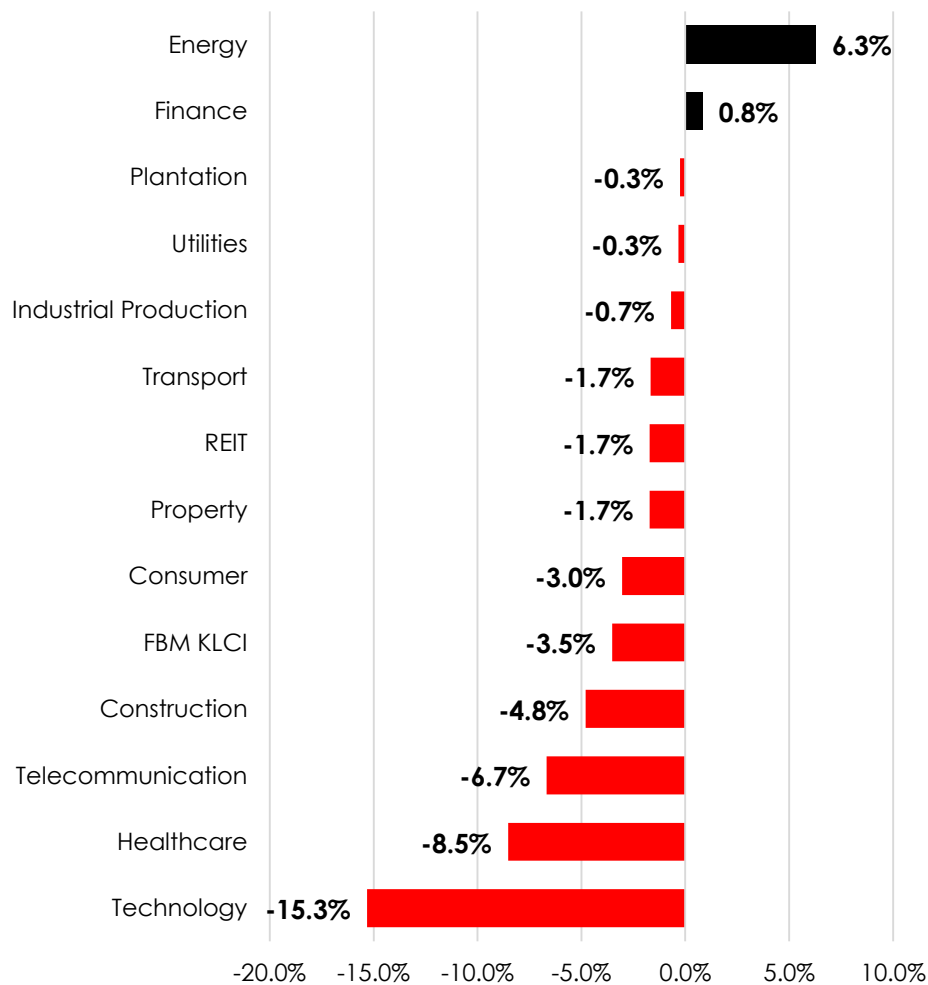
## Monthly Gains/Losses of Benchmark Indices in January 2022



Source: CEIC

- ✓ Losers outnumbered gainers in the month of January after the U.S. Fed signalled they would begin to raise the FFR as soon as March.
- ✓ **South Korea's KOSPI led the bearish momentum** with 10.6% decline followed by China's CSI 300 and Japan's Nikkei 225 which fell by 7.6% and 6.2% respectively.
- ✓ Meanwhile, **Singapore's FSSTI was the biggest gainer in January** after ending a 4.0% higher during the month, driven mostly by its heavyweight financial stocks.
- ✓ On the domestic front, the FBM KLCI recorded a 3.5% drop in January, making the index the seventh smallest loser among 11 other markets.
- ✓ It was a turbulent month for equities in January. Higher inflation rate, heightening geo political risks in Eastern Europe (Ukraine vs. Russia) and disappointing corporate earnings in the 4Q2021 have been the key factors for the market fallout.

**Bursa Monthly Sectoral Performance, m-o-m%**

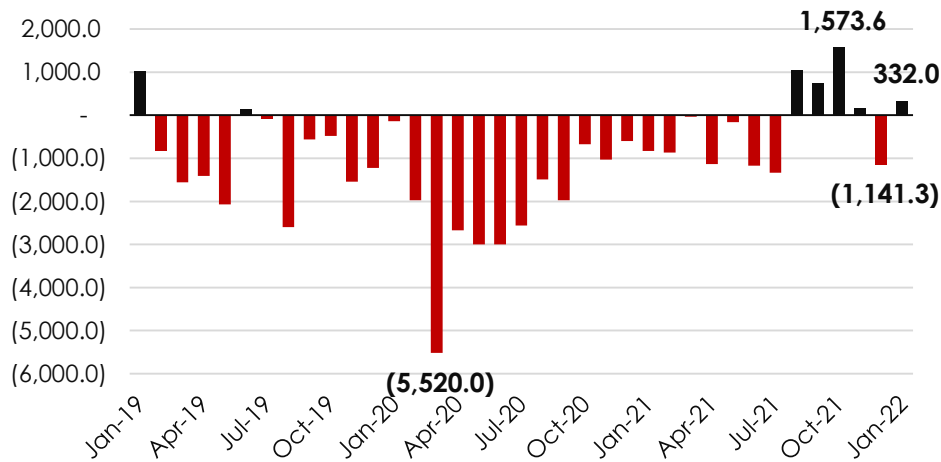


- ✓ Bursa **Energy** index recorded largest monthly gain of 6.3% in January this year on the back of **stronger crude oil price** (31 January 2022: USD91.21 per barrel vs. 31 December 2021: USD77.78 per barrel).
- ✓ Meanwhile, **Technology** index was the biggest loser with a 15.3% monthly loss. The downturn mainly due to concern over **higher interest rate environment that will derail the tech stocks' hefty valuation** which has spooked investors' sentiment.
- ✓ Looking forward, the market participants are likely to remain cautious amid volatility in the regional markets as investors are still assessing the impacts of higher inflation rate on corporate earnings.

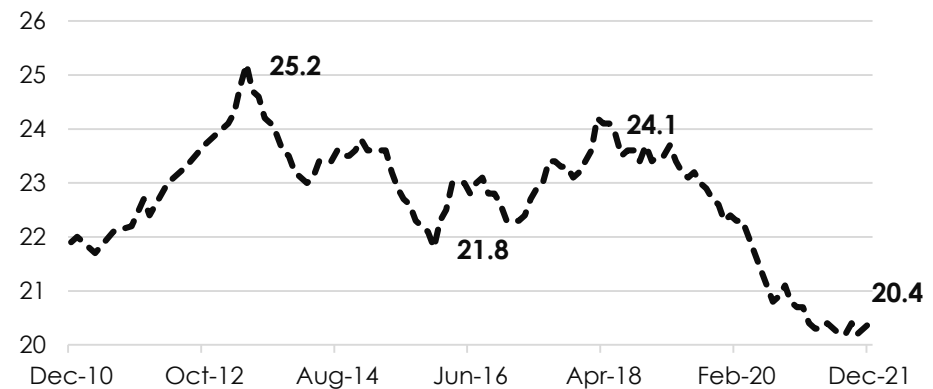
Source: CEIC

- ✓ Based on Bursa Malaysia's FY2021 Financial Results published on 28 January 2022, foreign ownership of Malaysian equities edged down to 20.4% based on market capitalisation at end-December 2021 as compared to 20.7% at end-December 2020.
- ✓ Notwithstanding that, Bursa started the year of 2022 on a strong footing as foreign investors turned to be net buyers as they acquired RM332.0 million net of local equities in January compared to RM1,141.3 million net sold in the previous month.
- ✓ On further scrutiny, we observed that foreign investors were net sellers for only 6 days out of the 20 trading days in the month of January, suggesting that foreign investors have indeed returned to the Malaysian market. However, the last trading day of January saw a massive foreign net outflow of RM131.7 million net as investors remained on the sidelines ahead of the Chinese New Year celebrations.

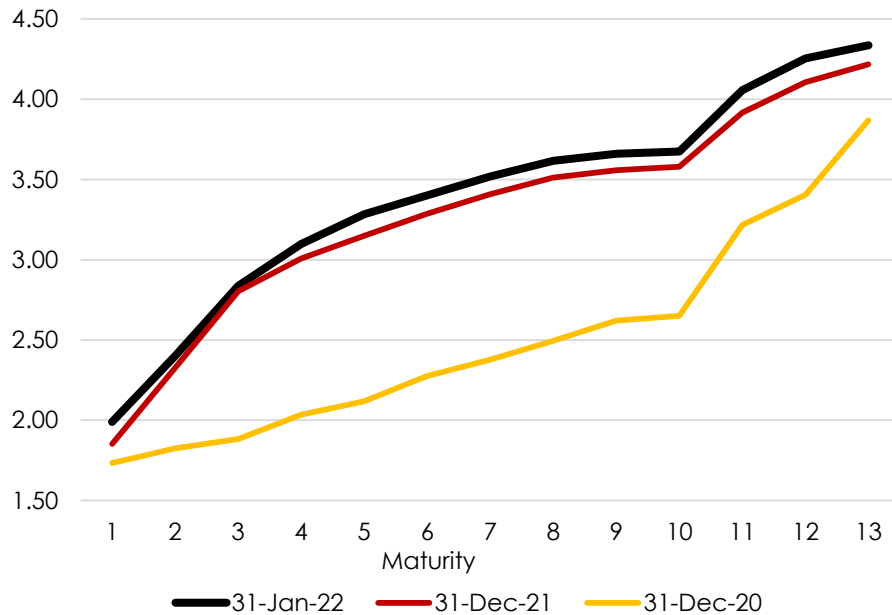
### Monthly Foreign Net Inflow/Outflow in Malaysia's Equity Market, RM Million



### Foreign Ownership in Malaysia Equities Market (Based on Market Capitalisation), %

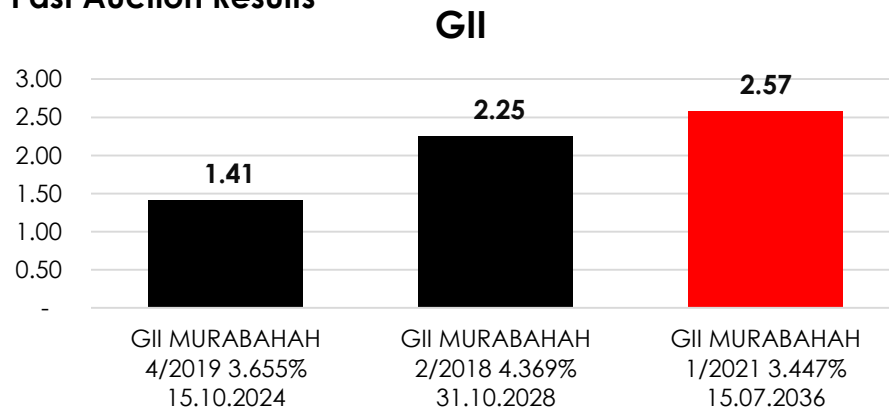


### MGS Yield Curve, %



Source: CEIC

### Past Auction Results



Source: Bond Info Hub

- ✓ Looking at the bond market, the MGS yields **remained on an uptrend**, ranging between 3 bps and 15 bps during January.
- ✓ The MGS yields are likely to increase gradually in the medium term following the **Fed's signal of tighter monetary policy**.
- ✓ Nevertheless, demand for bond remained supportive as **reopening of 15-Y GII has garnered a strong Bid-To-Cover (BTC) ratio of 2.57x (previous: 2.25x)**.
- ✓ Moving forward, foreign demand for Malaysian bonds will likely to be pressured in the near-term amid an increasingly hawkish monetary policy by the Fed and the elevating likelihood of a FFR hike in March.
- ✓ However, we anticipate foreign inflows should remain healthy given the anticipation of higher OPR and positive interest rate differentials with the advanced countries benchmark rate.

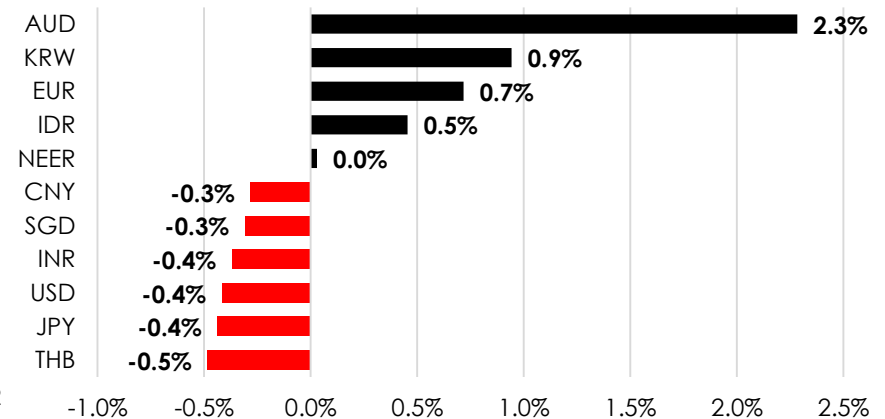
# RINGGIT – MOVING IN A TIGHT RANGE

- ✓ The Ringgit traded lower by 0.4% against the U.S. Dollar to close at RM4.1855 on 31 January 2022 as compared to RM4.1640 at the end of December last year.
- ✓ The weaker Ringgit was attributable to better U.S. economic performance which saw its final quarter gross domestic product (GDP) to reach 5.5% y-o-y from a 4.9% expansion in the previous quarter. This marked a significant growth in the last three months in 2021, despite the Omicron variant and general prices continuing to climb.
- ✓ Similarly, the initial jobless claims flashed a healthy labour market condition, falling to 261k for the week ending 22 January as compared to 290k in the previous week.
- ✓ Be that as it may, the downward pressure of the local note could be cushioned by a stronger Brent crude oil price (31 January 2022: USD91.21 per barrel vs. 31 December 2021: USD77.78 per barrel) following geopolitical tension between Russia and Ukraine, as well as latest meeting decision by Organisation of the Petroleum Exporting Countries Plus (OPEC+) on 2 February to green-light the return of 400,000 barrels per day (bpd) for March.
- ✓ With that, Ringgit is expected to trade in a tight range with downside bias between RM4.19 and RM4.20 against the U.S. Dollar in the near term.

**USDMYR**



**YTD Performance MYR Against Other Currencies, %**



## CPO Future, RM/ tonne vs. U.S. Soybean Oil Future, USD/pound



- ✓ **OPR to remain unchanged at 1.75% in 1H2022** – The BNM has kept the OPR at 1.75% during January's meeting, suggesting that the central bank is not in a hurry to raise the rate. We believe the BNM is assessing the evolving outlook on economic activities especially in the context of the global supply chain disruption and the ensuing inflationary pressures. Assuming the reopening of the economy continues, there could be a second-round effect in inflation which could take in the form of higher wages and pass through effect to other prices. **Given that, our baseline scenario of 25 bps OPR hike in the 2H2022 still intact.**
- ✓ **Malaysian manufacturing sector declined in January** – The manufacturing PMI fell to 50.5 points in January 2022 (December 2021: 52.8 points) amid Omicron variant which created further headwinds for manufacturers around the world. While the latest reading remained above the neutral 50.0 point level for the fourth month running, the expansion rate was the softest in the current sequence. We believe the current fallout is likely to be transitory as the government remain committed that there will not be lockdown measures to be implemented. That should set the stage for a sustainable economic recovery.
- ✓ **Rise in Covid-19 cases due to Omicron variant** – According to Health Minister Khairy Jamaluddin, the surge in Covid-19 cases was inevitable but the severity has been low with 99.0% of the cases are in categories 1 and 2. He reiterated that the public should not be alarmed as the country's vaccination rate was high and Malaysia is now better prepared to deal with the Covid-19 cases. In addition, the National Covid-19 Immunisation Programme for Children (PICKids) will kick off on 3 February in the Klang Valley with about 500,000 children aged 5 to 11 years old have registered for their shots.
- ✓ **Moderate oil supply in the market** – The OPEC+ had on 2 February reaffirmed to stick to existing policies of moderate crude oil output increases of 400,000 bpd for March 2022 despite getting pressure from top consumers such as the U.S. and India. Such decision could be in their interest as the prevailing crude oil prices are definitely in their favour. Therefore, there is no incentive for OPEC+ to pump more oil than what has been decided.
- ✓ **Bumpy road going into 2022** – All in all, the path to recovery for Malaysia is going to be uneven. Disruption in the global supply chain, possible global monetary tightening, rising inflation and heightening geo political risks are the key risks factor that could sway business and market sentiments. Not to mention, domestic political landscape will continue to hog the limelight with the dissolution of Johore state assembly on 22 January. Therefore, the timing for the eventual general election could be the talk of the town throughout the year. As such, key economic reforms is likely to take a backseat.

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