



From the Desk
of the
Chief Economist

BANK ISLAM

MONTHLY ECONOMIC & MARKET UPDATES

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ECONOMIC RESEARCH

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THE END OF 1Q2022: RUSSIA-UKRAINE DISPUTES PURSUE TO DOMINATE THE HEADLINES IN GLOBAL EVENTS

The war between Ukraine and Russia continues to intensify

- ✓ To recap, Russian President Vladimir Putin has ordered a special military operation to demilitarise Ukraine on 24 February.
- ✓ Ever since that, the peace talks between both countries apparently at impasse as they remain far apart on many issues.
- ✓ On 1 April, such talks have made it possible for meeting between the presidents of both countries which is likely to occur in Turkey.
- ✓ Meanwhile, the U.S. President Joe Biden with its European allies will closely monitor the development between both countries. At the same time, he had no intention to uplift those sanctions against the Russia.

Rising inflation triggered an interest rate hike

- ✓ The U.S. Federal Reserve (Fed) increased its policy interest rate by 25 basis points (bps) to reach 0.5% during the Federal Open Market Committee (FOMC meeting) in March. It signified the first rate hike since 2018 in an effort to tackle rising inflation in the country since August last year.
- ✓ Likewise, the Bank of England (BoE) imposed back-to-back interest rate hikes for the first time since 2004, taking it to 0.75%. Such move in March meeting was to combat rapidly accelerating inflation that has been worsened by the war in Ukraine.

Russia's invasion of Ukraine rocked commodity markets

- ✓ The Russia-Ukraine conflict has sent commodity prices through the roof over the past months.
- ✓ For instance, Brent oil price surge to above USD100.0 per barrel for the first time since 2014 on 24 February.
- ✓ With the endless of military conflict between the two countries, commodities prices are expected to stay at high levels or rise even further.
- ✓ As a result, global consumers have to pay more for various goods from energy to food.

OPEC+ agreed a modest output increase in May

- ✓ During its latest meeting on 31 March, the Organisation of Petroleum Exporting Countries Plus (OPEC+) ratified the 432,000 barrel-per-day (bpd) supply increase.
- ✓ OPEC+ resisted to pump more, insisted the oil price volatility driven by geopolitical uncertainties rather than market fundamentals.
- ✓ Against such backdrop, the U.S. decided to release 1.0 million bpd of oil from Strategic Petroleum Release (SPR) to calm spiking oil and gas prices.
- ✓ Hence, oil prices dropped by 4.9% (31 March: USD107.91 per barrel vs. 30 March: 113.45 per barrel).

No inflation relief in sight

- ✓ The U.S. saw its inflation jumped to 40-year peak in February by 7.9% y-o-y (January: 7.5%) with energy (February: 25.6% vs. January: 27.0%) remained its biggest contributor.
- ✓ Similarly, the U.K. inflation hits 30-year high of 6.2% in the said month (January: 5.5%) as soaring energy costs, fuel bills and food prices drive the worst cost of living squeeze in decades.
- ✓ Additionally, inflation in Russia climbed by 9.2% in February (January: 8.8%), marking its highest reading since January 2016. This is despite the central bank's emergency rate hike to 20.0% during its meeting on 28 February from 9.5% previously.

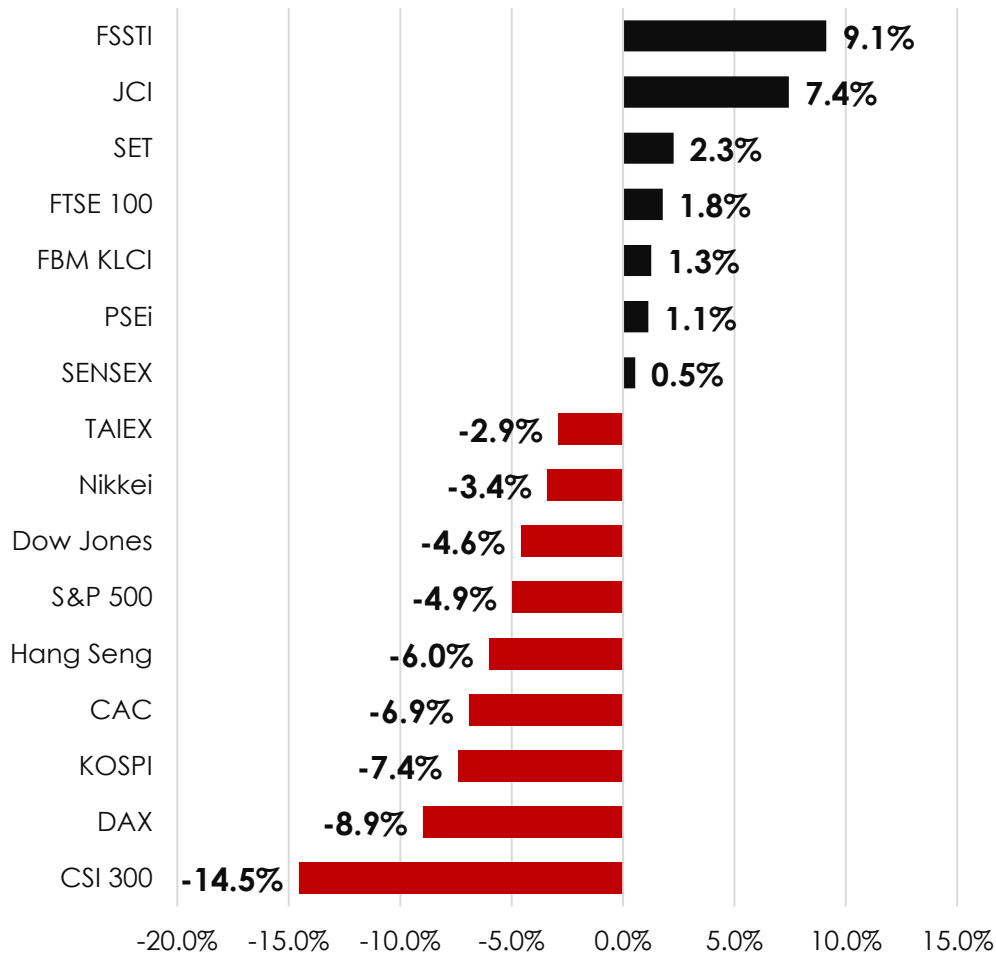
China launched lockdown in 2 years since Wuhan

- ✓ While the world is progressing towards an endemic phase, China is still adamant with its zero-Covid policy.
- ✓ Following this, the country imposed a two-stage lockdown in Shanghai amid growing outbreak that calls for stringent lockdown.
- ✓ The first phase (28 March – 1 April) will be limited to Shanghai's Pudong financial district whereas the second phase (1 April – 5 April) will target the downtown area west of the Huangpu River.



MALAYSIA'S FINANCIAL MARKET

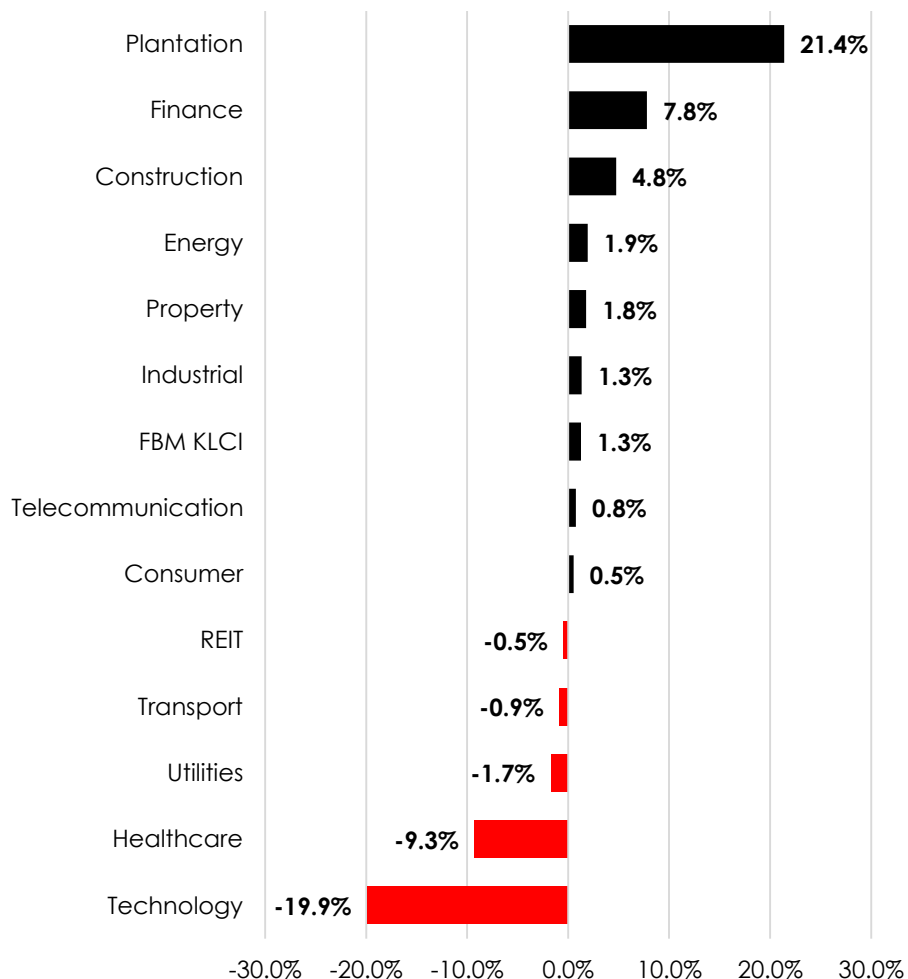
Gains/Losses of Benchmark Indices in 1Q2022, %



Source: CEIC

- ✓ Losers outnumbered gainers in 1Q2022 with markets in South-East Asia (SEA) outperformed developed markets particularly in the U.S. and Europe.
- ✓ The tightening monetary stance alongside with the outbreak of war in Ukraine have affected market's valuation and investors' sentiments on developed markets especially for the Eurozone.
- ✓ On the other hand, SEA economies are expected to experience a positive growth trajectory in 2022 following reopening of economy this year.
- ✓ Apart from that, most of the SEA economies are commodity producers such as Malaysia, Indonesia and Thailand which anticipated to benefit from the high commodity prices.
- ✓ All in all, market participants are likely to remain cautious as military conflicts in Ukraine appear to be the main stumbling block moving forward.

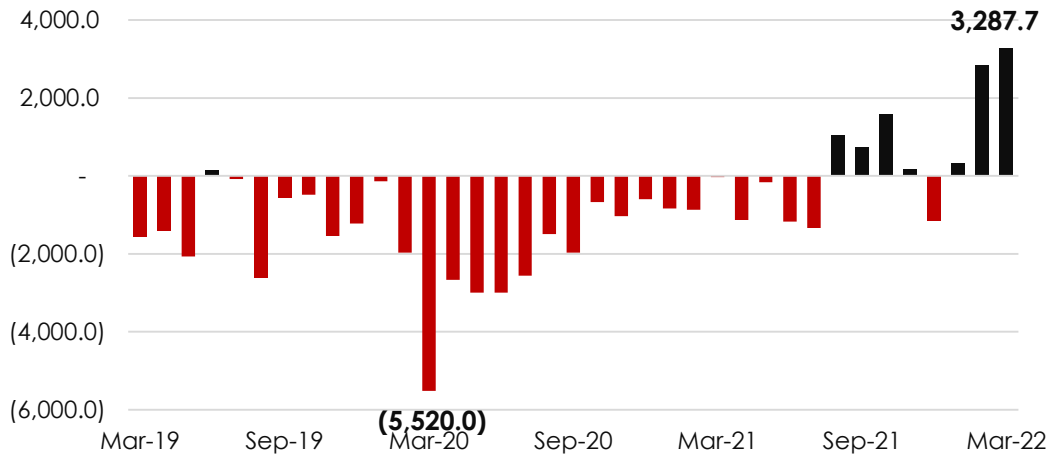
Bursa Sector Quarterly Performance in 1Q2022, %



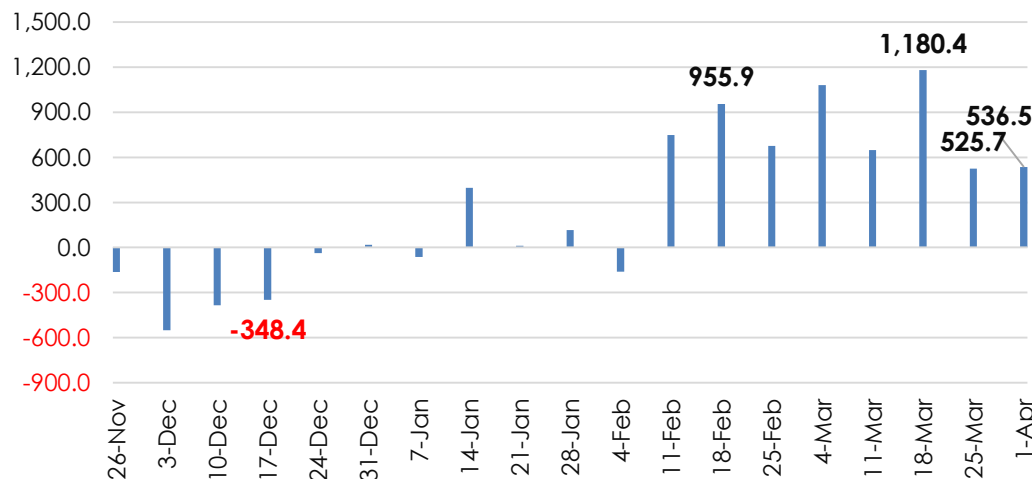
- ✓ Bursa **Plantation** index has emerged among the local bourse with a double-digit gain of 21.4% recorded in 1Q2022.
- ✓ The planters' share price has reacted positively to the surge in CPO future price (*refer page 14*) over the past weeks amid tight supply, as well as noticeable gains in soybean prices.
- ✓ Meanwhile, **Technology** index remained as the biggest loser with a huge loss of 19.9% recorded during the same quarter in view of rate-driven sell off.
- ✓ Looking forward, the Bursa is likely to be traded between 1,590.0 points and 1,610.0 points in the immediate term, supported by series of foreign fund inflows and international border reopening commenced on 1 April.
- ✓ However, the outlook remains fluid due to external factors such as global monetary normalisation alongside Russia-Ukraine turmoil.

INTERNATIONAL FUND FLOWS IN MALAYSIA – FOREIGN INVESTORS ARE MAKING A COME BACK

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



Weekly Foreign Fund Flows, RM Million

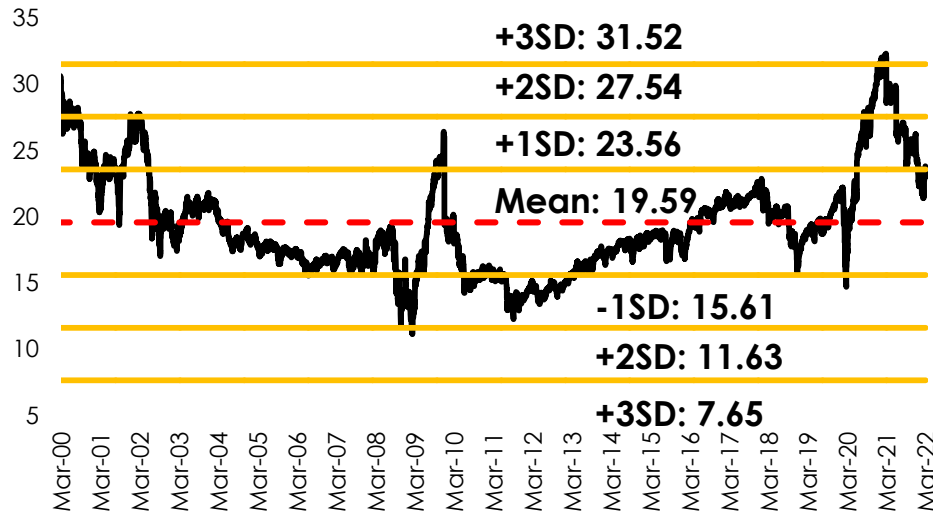


- ✓ Foreign investors continued to be net buyers as they acquired RM3.3 billion net of local equities in March, higher than RM2.8 billion net in the preceding month.
- ✓ So far in 1Q2022, international investors bought RM6.5 billion (4Q2021: RM599.1 million) net of domestic equities from RM1.7 billion net sold in the same corresponding period last year.
- ✓ Apart from that, we observed that foreign investors have been net buyers on Bursa for 11 weeks out of 13 weeks, suggesting they have indeed returned to the Malaysian equity market due to favours on financial services, industrial and plantation sectors.
- ✓ Moving forward, we anticipate that the trend of foreign net inflows would likely to continue given the unresolved Russia-Ukraine conflicts while commodity prices remain at its elevated level.

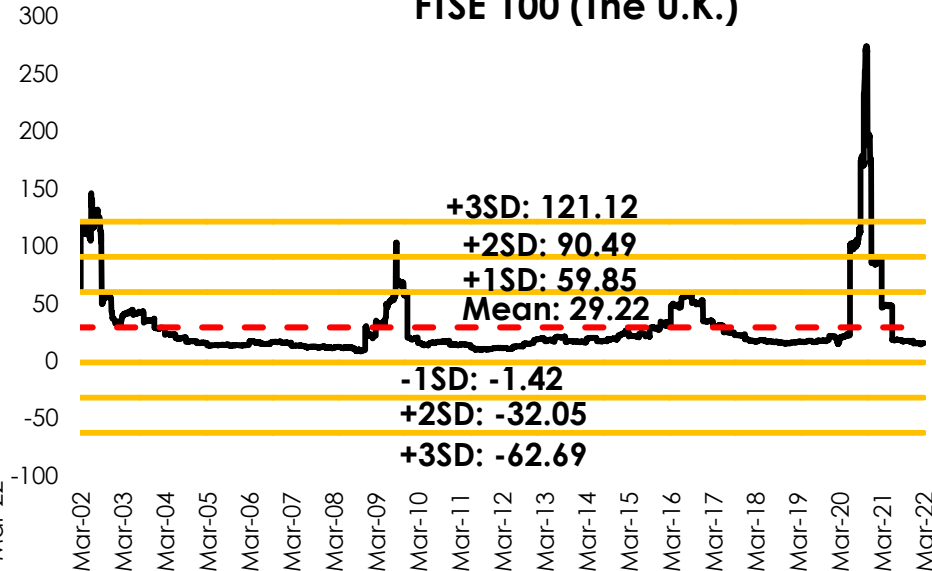
Source: Bursa

PRICE EARNING RATIO (PER) – EQUITIES VALUATION HAVE MOSTLY COME DOWN WHICH SUGGESTS VALUES MAY HAVE EMERGED

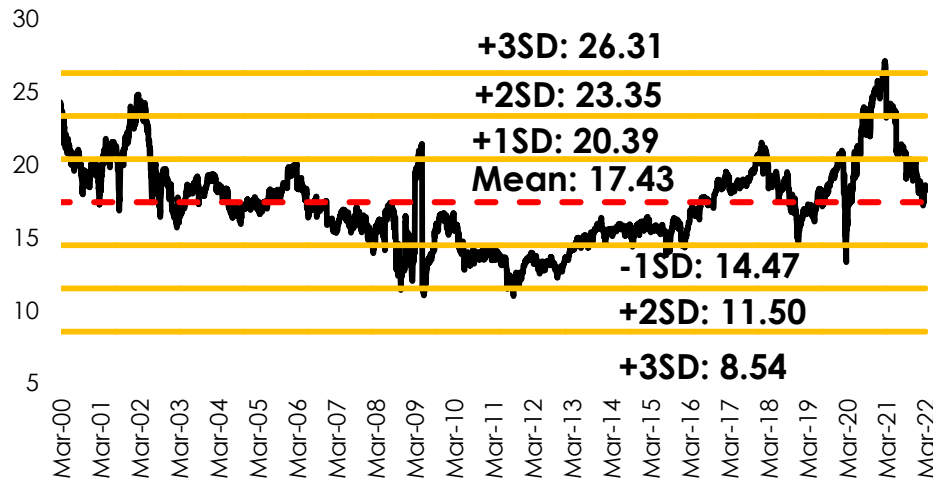
S&P 500 (The U.S.)



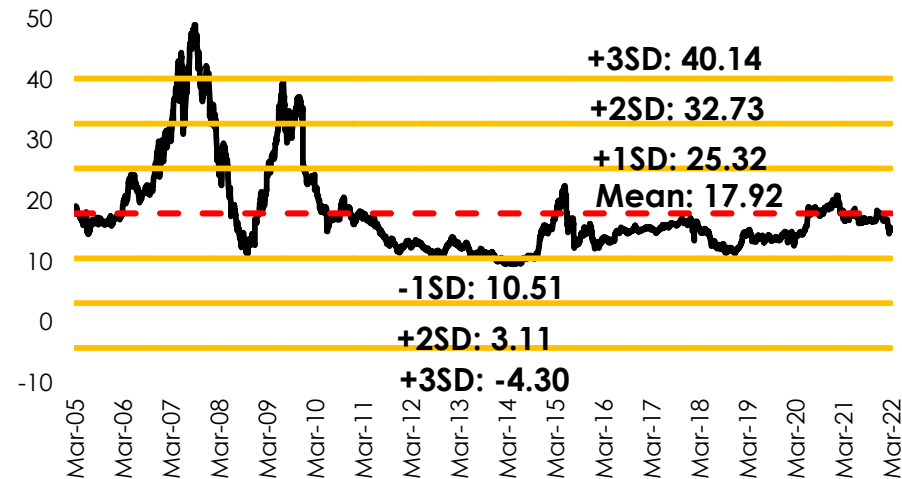
FTSE 100 (The U.K.)



Dow Jones (The U.S.)



CSI 300 (China)

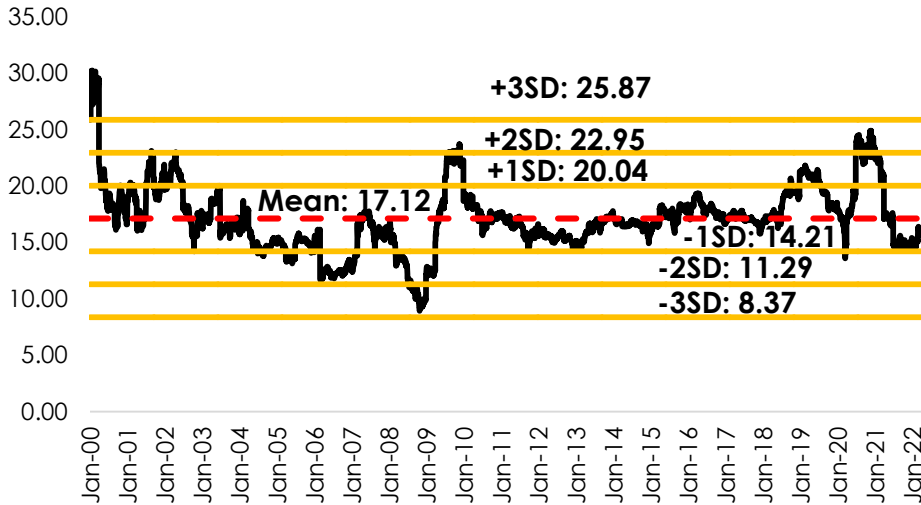


Sources: Bloomberg, Bank Islam

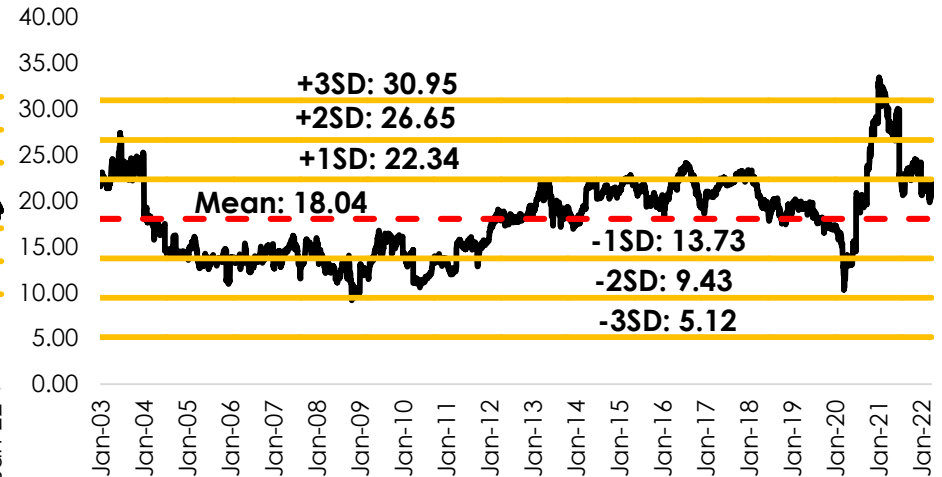
* Data as at 31 March 2022

PRICE EARNING RATIO (PER) – EQUITIES VALUATION HAVE MOSTLY COME DOWN WHICH SUGGESTS VALUES MAY HAVE EMERGED (CONT'D)

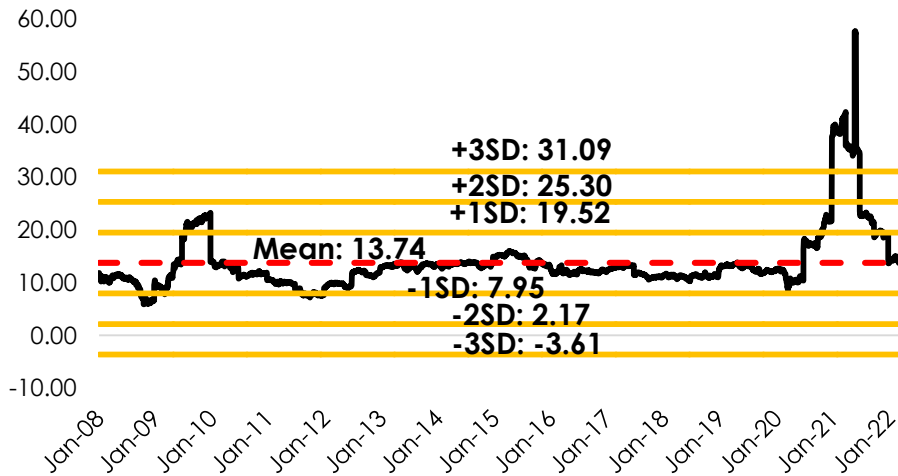
FBM KLCI (Malaysia)



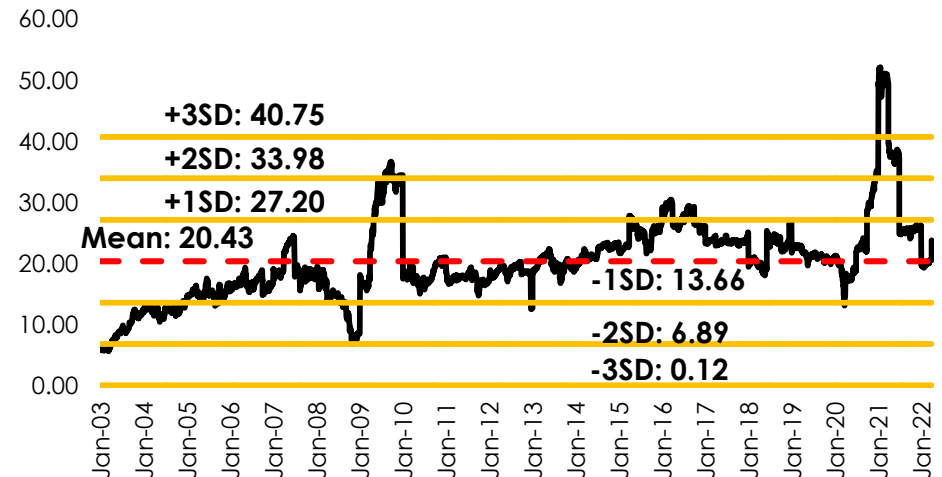
PCOMP (Philippines)



FSSTI (Singapore)



JCI (Indonesia)



Sources: Bloomberg, Bank Islam
* Data as at 31 March 2022

Quarterly Changes

UST	Yields (%) 31-Dec-21	Yields (%) 31-Mar-22	Change (bps)
3-M UST	0.06%	0.52%	46
2-Y UST	0.73%	2.28%	155
5-Y UST	1.26%	2.42%	116
10-Y UST	1.52%	2.32%	80

MGS	Yields (%) 31-Dec-21	Yields (%) 31-Mar-22	Change (bps)
3-Y MGS	2.81%	3.19%	38
5-Y MGS	3.16%	3.40%	24
7-Y MGS	3.39%	3.76%	37
10-Y MGS	3.60%	3.85%	25

Sources: CEIC, BNM

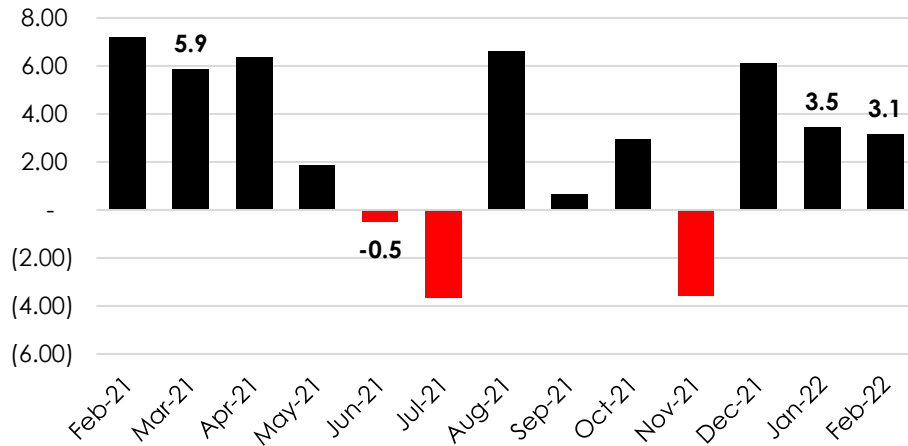
- ✓ As for the bond market, the U.S. Treasury (UST) yields saw significant increases between 46 basis points (bps) and 155 bps during 1Q2022. Rising in bond yields mainly due to hawkish monetary stance by the Fed as inflation continues to soar in the U.S. (February: 7.9% vs. January: 7.5%).
- ✓ Additionally, the UST yield curve (10-Y UST yield minus 2-Y UST yields) has inverted on 1 April at -6 bps (31 December 2021: 79 bps).
- ✓ The recent jobs data indicates tightening in labour market has caused the short-term 2-Y UST yield to jump by 16 bps on last Friday.
- ✓ Hence, this has led to the inversion of yield curve, stoking fears that a recession in the U.S. could be on the cards.

UST Yield Curve, bps (10-Y UST minus 2-Y UST)



Source: CEIC

Foreign Fund Flows in Bond Market, RM Billion



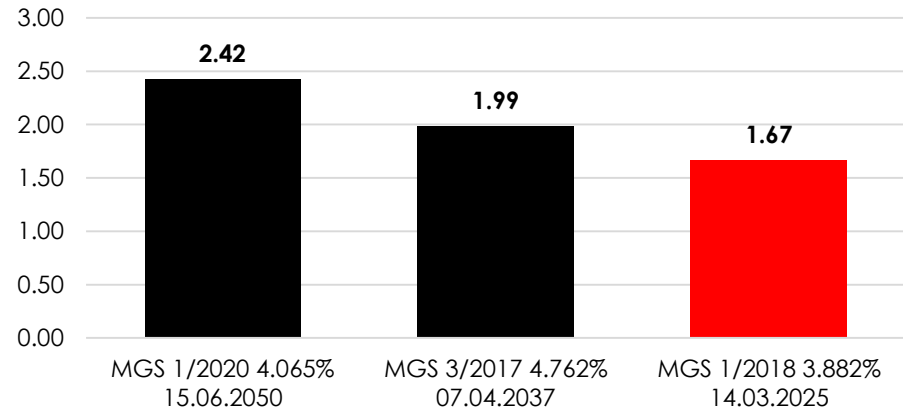
Source: CEIC

- ✓ On domestic front, the MGS yields have mirrored the UST yields movement, rising between 24 bps and 38 bps on a quarterly basis.
- ✓ Meanwhile, the auction of 3-Y MGS 03/25 drew a decent Bid-To-Cover ratio of 1.67x.
- ✓ As for the fund flows, the foreign investors remained as net buyers with a total of RM3.1 billion of fund inflows recorded during February (January: RM3.5 billion).
- ✓ Cumulatively, foreign fund holdings stood at RM6.6 billion in 2M2022 (2M2021: RM10.9 billion).
- ✓ This reflects the demand for Malaysia's bond market remained healthy.

Source: CEIC

Past Auction Results

MGS



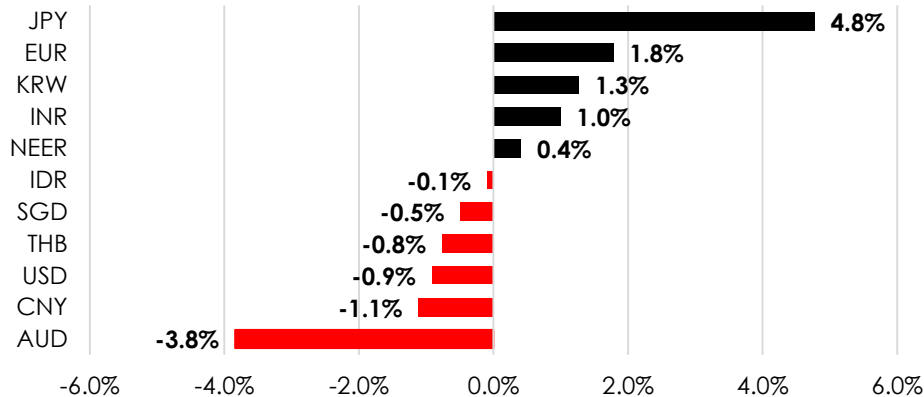
Source: Bond Info Hub

Rating Updates : Two companies' corporate bonds were downgraded on 29 March

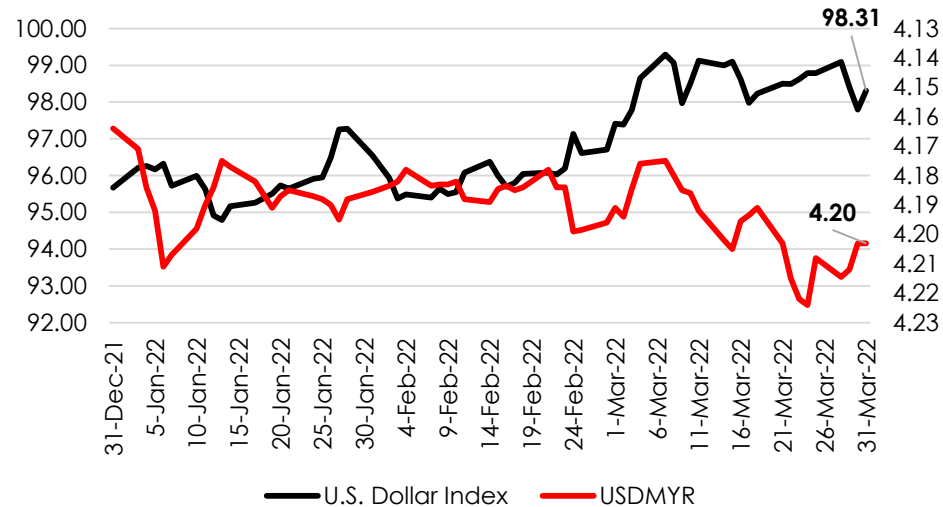
Company	Remarks
Quill Retail Malls Sdn Bhd	Class A, Class B, Class C and Class D Sukuk Murabahah were placed on Rating Watch with a negative outlook
Menara ABS	Menara ABS' A1-A4 tranches had multi-notch rating downgrades on concerns over materializing asset disposals in time for the sukuk redemption by the legal maturity date in Jan 2023.

Source: RAM

MYR Performance Against Other Currencies in 1Q2022, %



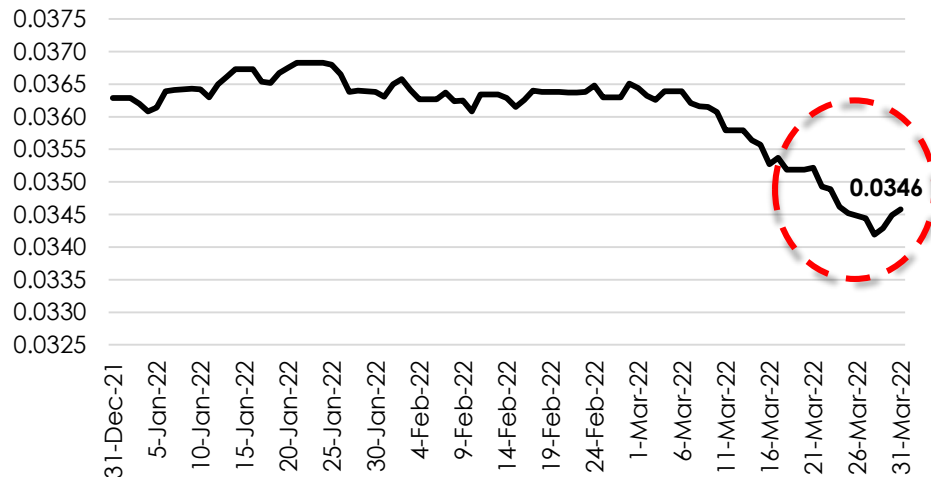
USD Index vs. USDMYR



Source: Investing.com

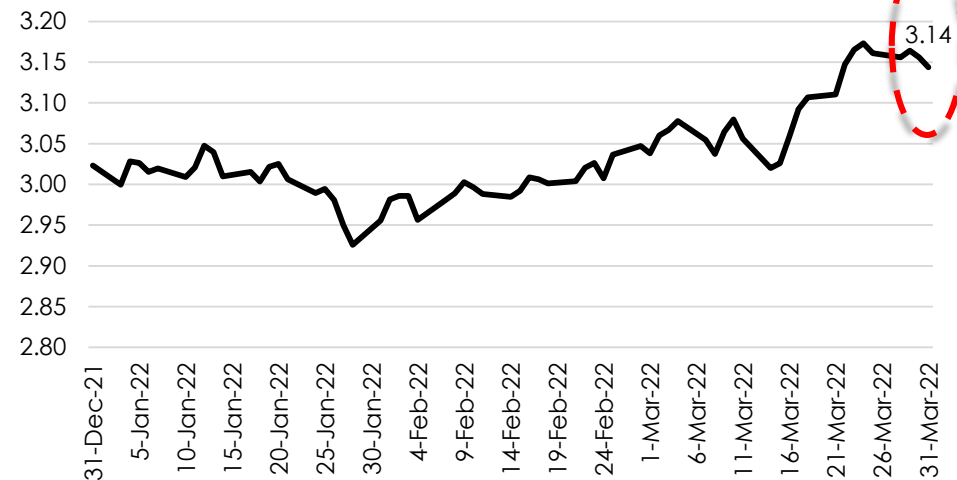
- ✓ As of 1Q2022, the Ringgit depreciated by 0.9% against the USD, to close at RM4.20 on 31 March 2022 from RM4.16 on 31 December 2021.
- ✓ The movement mainly weighed by the heightened military conflict between the Ukraine and Russia. As a result, this had led to increased demand for safe haven assets such as the USD.
- ✓ In addition, the interest rate hike by the Fed in March has further limited the appreciation of the Ringgit.
- ✓ Recently, the Biden administration has decided to release the 1.0 million bpd from its reserves for six months to tame energy prices following the Russian invasion of Ukraine. Hence, the drop in oil prices (31 March: USD107.91 per barrel vs. 30 March: USD113.45 per barrel) continues to weaken the Ringgit. Note that Brent crude oil's price has causality effect on the Ringgit's movement.
- ✓ Despite that, the local note could also be influenced by the country's reopening of the international border effective 1 April 2022. While we foresee that such news could lend support to the Ringgit, BNM on its latest 2021 annual report remains guarded on the evolving outlook.
- ✓ Taking into above considerations, the Ringgit is expected to trade within RM4.20 and RM4.21 against the greenback in the medium term.

JPY / MYR



Source: Investing.com

AUD / MYR



- ✓ On the contrary, the Ringgit fell by 3.8% against the Australian Dollar (AUD) to close at RM3.14 on 31 March 2022 from RM3.02 during December last year.
- ✓ The stronger AUD emerged during the first quarter amid Ukraine war which sent commodity prices soaring, translating into a positive terms-of-trade shock for Australia*.
- ✓ Apart from that, the said currency is further boosted by the strong job report for the month of February which saw its unemployment rate dropped to the lowest rate since 2008, hitting 4.0% (January: 4.2%).
- ✓ On the monetary policy front, the Reserve Bank of Australia (RBA) has decided to maintain its rate at 0.1% on 5 April despite higher inflation in the country.
- ✓ The central bank wanted to wait inflation to sustain between 2.0% and 3.0% before increasing the interest rate.

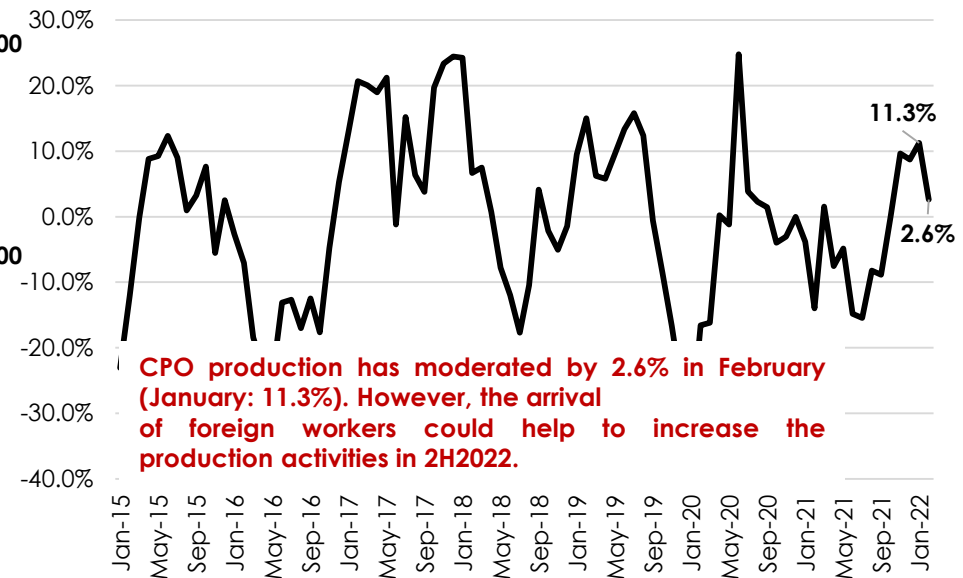
*Note: Australia exports a large quantity of iron ore, coal, petroleum, gas, gold and aluminium

COMMODITIES – CPO PRICE WILL BE WEIGHED BY HIGHER SOYBEAN PRODUCTION

CPO Future, RM/tonne



CPO Production, y-o-y%



CPO production has moderated by 2.6% in February (January: 11.3%). However, the arrival of foreign workers could help to increase the production activities in 2H2022.

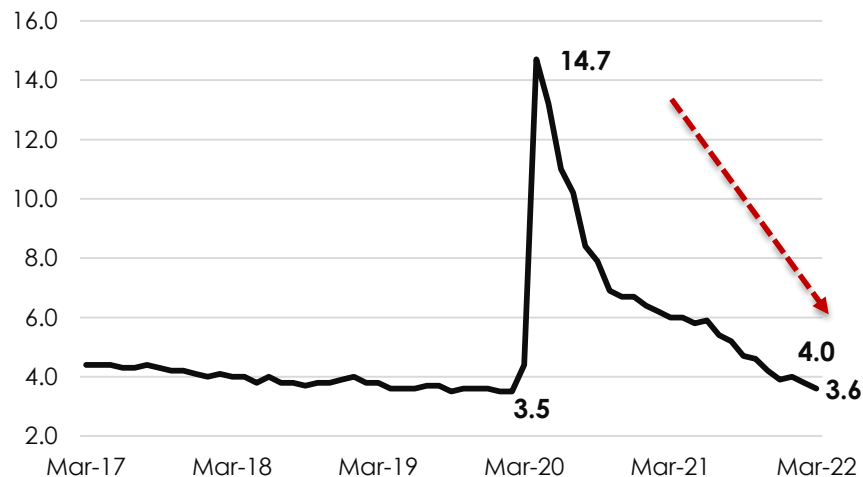
Source: Investing.com

- ✓ Malaysia's CPO future price rose by 23.9% y-o-y to RM6,391.0 per tonne in 1Q2022 (4Q2021: RM5,159.0 per tonne). The strong performance was mainly underpinned by uncertainties from the Russian-Ukraine war that led to worries over commodities shortages.
- ✓ Be that as it may, the CPO future price saw some correction towards end of March after reached its peak at RM8,163.0 per tonne on 1 March. This was due to anticipation of higher soybean crop yields this year.
- ✓ According to United States Department of Agriculture (USDA), the producers are expected to plant a record high of 91.0 million acres of soybeans in 2022, representing a 4.0% increase from 2021.
- ✓ Additionally, Malaysia will receive 32,000 foreign workers for the plantation sector through special permits earliest in May. This could help to mitigate labour shortage and boost palm oil production moving forward.
- ✓ Hence, these combination of factors are likely to cap the upside potential of the CPO price.

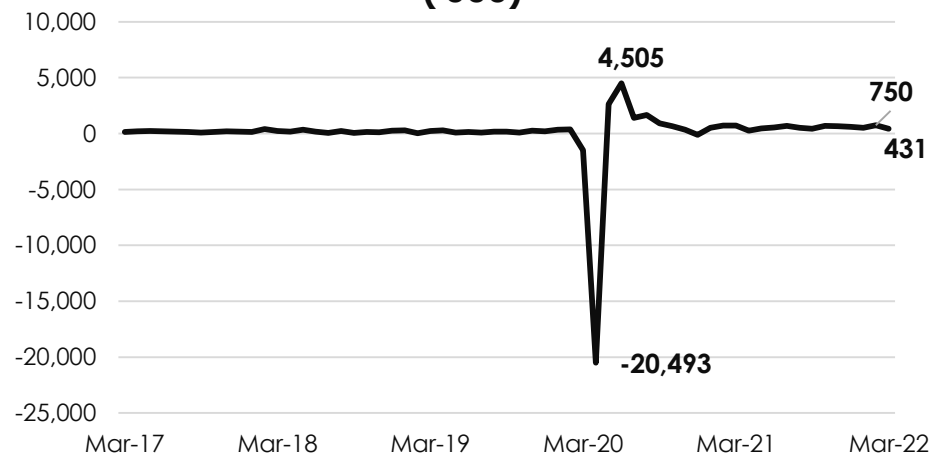


GLOBAL ECONOMY

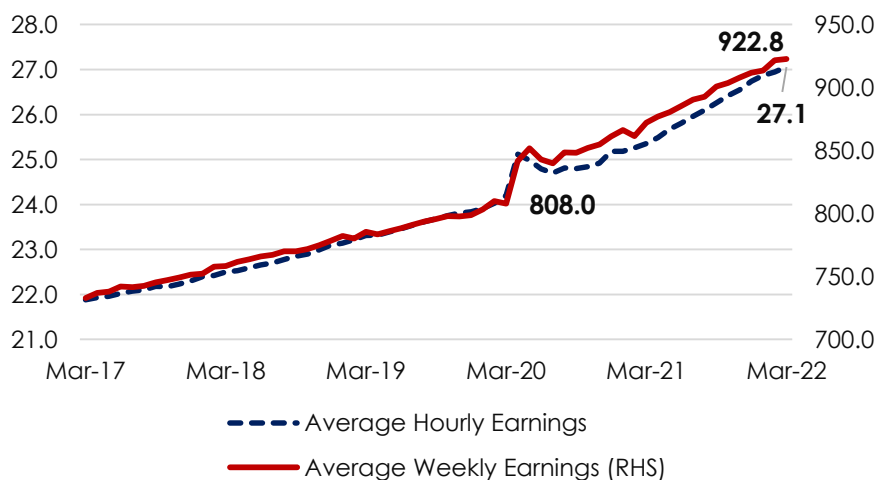
Unemployment Rate, %



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



Average Earnings, USD



- ✓ Unemployment rate in the U.S. declined to 3.6% in March from 3.8% in the previous month.
- ✓ Meanwhile, payrolls continue to grow, increasing by 431k in March (February: 750k) driven by higher employment in leisure and hospitality, as well as professional and business services.
- ✓ As such, robust hiring has pulled the unemployment rate close to its pre-pandemic level.
- ✓ Apart from that, an increasing trend in average earnings has also lured more workers back to the labour force, suggesting labour market recovery is continuing.
- ✓ The improvement in the job market has bolstered the case for the Fed to speed up the tightening of monetary policy in fighting against inflation.

GLOBAL INTEREST RATE – TIGHTENING MONETARY POLICY

Policy rates	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22*
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	0.50	0.50
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
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
UK (Bank Rate)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.50	0.75	0.75
Canada (ON Lending Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
Latin America												
Mexico (ON Rate)	4.00	4.25	4.25	4.50	4.75	4.75	5.00	5.50	5.50	6.00	6.50	6.50
Brazil (Selic Rate)	3.50	4.25	4.25	5.25	6.25	7.75	7.75	9.25	9.25	10.75	11.75	11.75
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00	40.00	42.50	44.50	44.50
Eastern Europe												
Russia (Key Rate)	5.00	5.50	6.50	6.50	6.75	7.50	7.50	8.50	8.50	9.50	20.00	20.00
Ukraine (Discount Rate)	7.50	7.50	8.00	8.00	8.50	8.50	8.50	9.00	10.00	10.00	10.00	10.00
Turkey (1W Repo Rate)	19.00	19.00	19.00	19.00	18.00	16.00	15.00	14.00	14.00	14.00	14.00	14.00
Asia												
China (1Y Loan Prime Rate)	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.80	3.70	3.70	3.70	3.70
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
Indonesia (7D Repo Rate)	3.50	3.50	3.50	3.50	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
South Korea (Base Rate)	0.50	0.50	0.50	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25
Philippines (O/N Lending Rate)	2.00	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)	0.10	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	0.50	0.75	0.75	0.75	1.00	1.00	1.00
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

Source: Bloomberg

*As at 4 April 2022

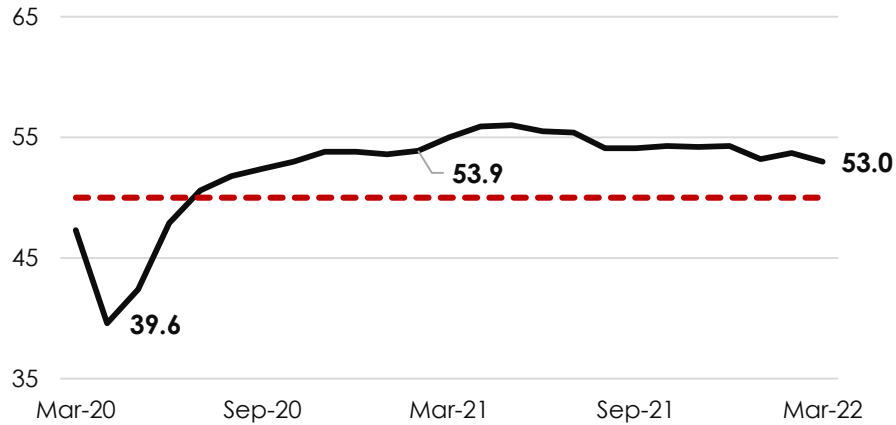
Interest Rate Hike

Interest Rate Cut

- ✓ Central banks globally have started to raise their benchmark interest rate to contain inflationary pressure.
- ✓ Thus far, the Fed is telegraphing aggressive interest rate moving forward, aiming to tame higher inflation rate in the U.S.
- ✓ Meanwhile, the European Central Bank (ECB) decided to wind down asset purchase faster than planned starting in April and mentioned that the Asset Purchase Programme (APP) could end in the 3Q2022 if the medium-term inflation outlook will not weaken.
- ✓ All in all, we anticipate more interest rate hike particularly in 2H2022 amid rising concerns over prospect of stagflation.

MANUFACTURING ACTIVITIES EXPANDED AT A SLOWER PACE IN MARCH

J.P. Morgan Global Manufacturing PMI, points

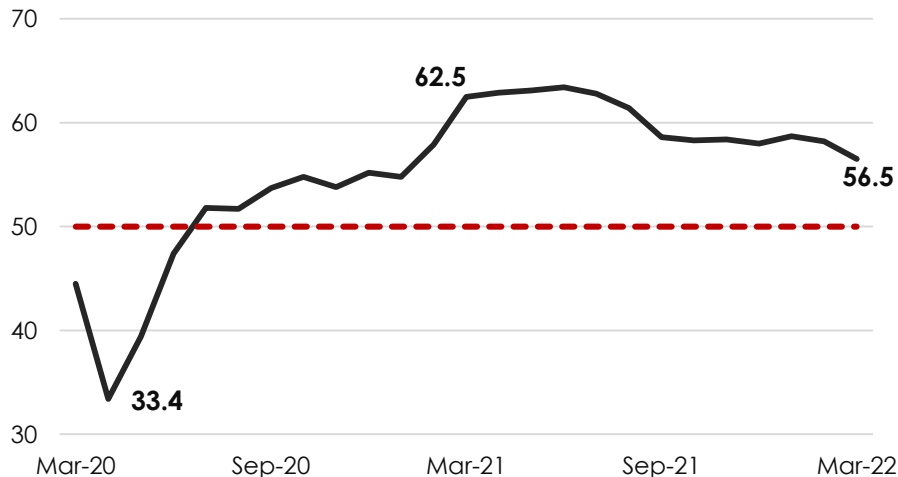


Index Summary:

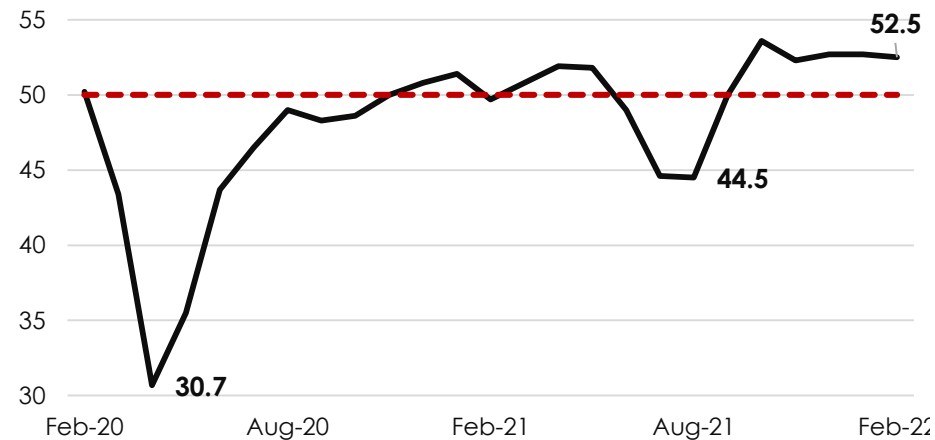
Index	Feb-22	Mar-22	Interpretation
PMI	53.7	53.0	Improvement, slower rate
Output	52.2	51.0	Growth, slower rate
New Orders	53.7	51.4	Growth, slower rate
New Export Orders	51.0	48.2	Decline, from rising
Future Output	66.5	62.7	Growth expected, weaker sentiment
Employment	51.6	52.0	Growth, faster rate
Input Prices	68.5	71.4	Inflation, faster rate
Output Prices	61.3	62.3	Inflation, faster rate

Source: IHS Markit

Eurozone Manufacturing PMI, points



ASEAN Manufacturing PMI, points



Source: Bloomberg



DOMESTIC LANDSCAPE & SECTOR UPDATE

THE END OF 1Q2022: DOMESTIC ECONOMY IS STILL IMPROVING DESPITE GLOBAL UNCERTAINTIES

Economic data is pointing a positive growth

Industrial Production Index (IPI)

- ✓ Malaysia's IPI moderated by 4.3% y-o-y in January 2022 after rising by 5.9% in December 2021. This was due to slower growth in Manufacturing sector (January 2022: 6.8% vs. December 2021: 8.4%) during the said month.
- ✓ On the other hand, Electricity sector grew further by 7.7% from 4.7% recorded in the previous month.
- ✓ Meanwhile, Mining sector continued to experience a downward trend, plummeting by 5.1% (December 2021: -2.6%) in January 2022.

Consumer Price Index (CPI)

- ✓ Cumulatively, Malaysia's CPI rebounded by 2.3% in 2M2022 from a 1.0% contraction in the same period last year.
- ✓ This was mainly attributed by higher costs of Food and Non-Alcoholic Beverages during the period (2M2022: 3.7% vs. 2M2021: 1.5%) which accounted for 29.5% of total CPI.
- ✓ The similar pattern was also seen in Housing, Water, Electricity, Gas & Other Fuels (2M2022: 0.7% vs. 2M2021: -0.8%), as well as Transport (2M2022: 4.9% vs. 2M2021: -3.6%) that recovered in 2M2022.

External Trade

- ✓ On a cumulative basis, exports expanded by 20.4% in 2M2022 from a 11.5% growth in the same period last year.
- ✓ The expansion was mainly contributed by exports of Manufacturing (2M2022: 17.0% vs. 2M2021: 16.0%) and Agriculture (2M2022: 55.7% vs. 2M2021: 1.0%) during 2M2022.
- ✓ Additionally, Mining sector recovered by 34.3% in 2M2022 from a contraction of 22.4% in 2M2021.

Other important headlines...

Reopening of Malaysia's international border

- ✓ Effective 1 April 2022, Malaysia welcomes back international travelers after nearly two years in the pandemic.
- ✓ This would translate to livelier economic activities which could accelerate domestic demand moving forward.
- ✓ Additionally, the special Employee Provident Fund (EPF) withdrawal scheme will help boost consumer spending power ahead of the upcoming Hari Raya festival on 2-3 May 2022.

BNM Annual Report 2021

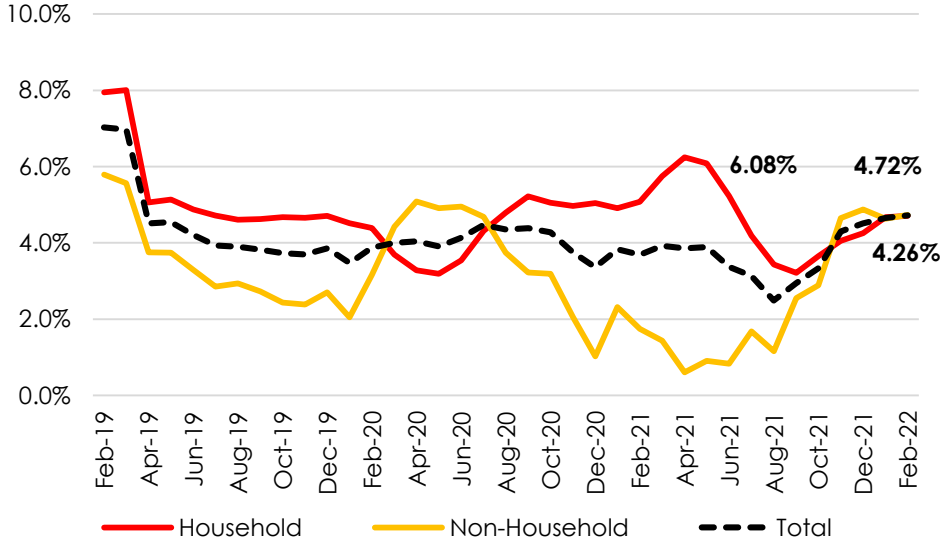
- ✓ Though most of the countries are progressing towards endemicity, BNM remained guarded over the evolving outlook, especially in relation to ongoing Ukraine war conflict.
- ✓ Subsequently, a slightly lower projection for Malaysia's GDP growth in 2022, ranging between 5.3% and 6.3% (earlier projection: 5.5% to 6.5%) signified the central bank became wary on the global recovery.
- ✓ This suggests the monetary authorities have become increasingly wary on the evolving outlook, implying policy accommodation is likely to be maintained in the immediate terms.

No toll hike for four highways in Klang Valley

- ✓ On 4 April, Prime Minister Datuk Seri Ismail Sabri Yaakob announced the toll rates in such highways remain unchanged from 1 January until the end of concession period.
- ✓ The involved highways are Shah Alam Expressway (KESAS), Stormwater Management and Road Tunnel (SMART), Western Kuala Lumpur Traffic Dispersal Scheme (SPRINT) and Damansara-Puchong Expressway (LDP)
- ✓ Such move will help to limit the rise in transportation related cost among the urbanites. However, the details are still scanty as to how the restructuring exercise would pan out.

BANKING SECTOR- FINANCING GROWTH IS GAINING ITS MOMENTUM AMID ECONOMIC RECOVERY THIS YEAR

Financing Growth by Sector, y-o-y%



Source: CEIC

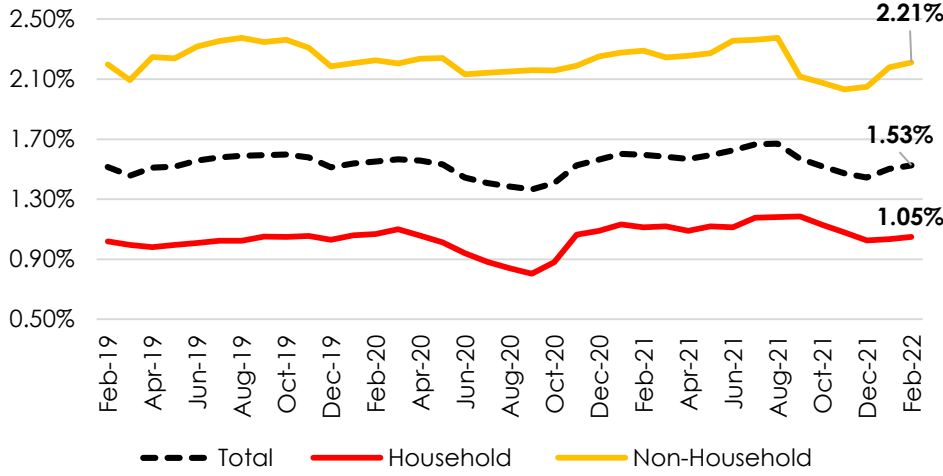
Banking Industry's Financing Growth

- ✓ Financing activities rose by **4.72% y-o-y in February (January: 4.66%)**.
- ✓ The upturn was supported by stronger financing in both **Household** (February: 4.71% vs. January: 4.67%) and **Non-Household** (February: 4.73% vs. January: 4.64%).
- ✓ Within Household sector, financing activities for personal use (February: 2.01% vs. January: 1.44%) and credit card (February: 2.37% vs. January: 2.13%) saw higher growth during February in view of rise in consumer spending as demand continued to pick-up.
- ✓ Furthermore, financing growth in working capital remained above 7.0% for 3 straight months (February: 7.14% vs. January: 7.17%), suggesting business are recovering from the economic fallout due to the pandemic.

Banking Industry's Asset Quality

- ✓ The **GIFR increased slightly to 1.53% in February (January: 1.50%)**.
- ✓ The deterioration of asset quality mainly due to higher impairment in **Household** (February: 1.05% vs. January: 1.03%) and **Non-Household** (February: 2.21% vs. January: 2.18%).
- ✓ Within the Non-Household sector, GIFR for **Mining** sector jumped to 14.71% and 17.99% in January and February respectively (December 2021: 3.69%).
- ✓ Looking forward, banks are expected to remain vigilant on their credit underwriting standard as balance of risk remains tilted to the downside.

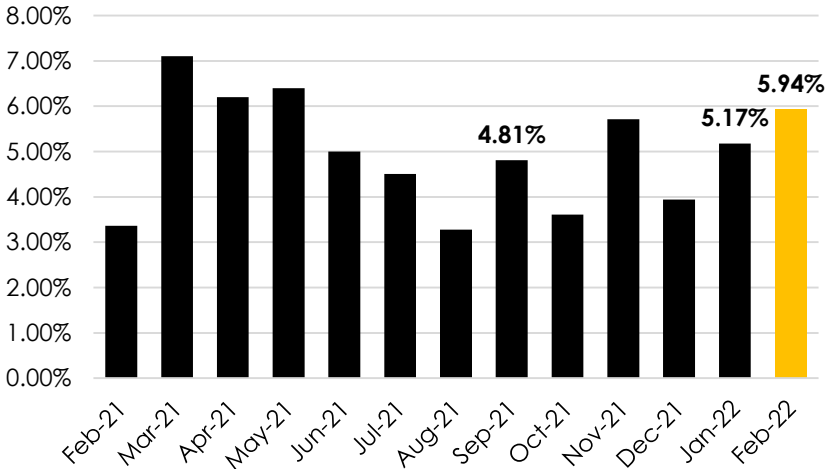
Gross Impaired Financing Ratio (GIFR), %



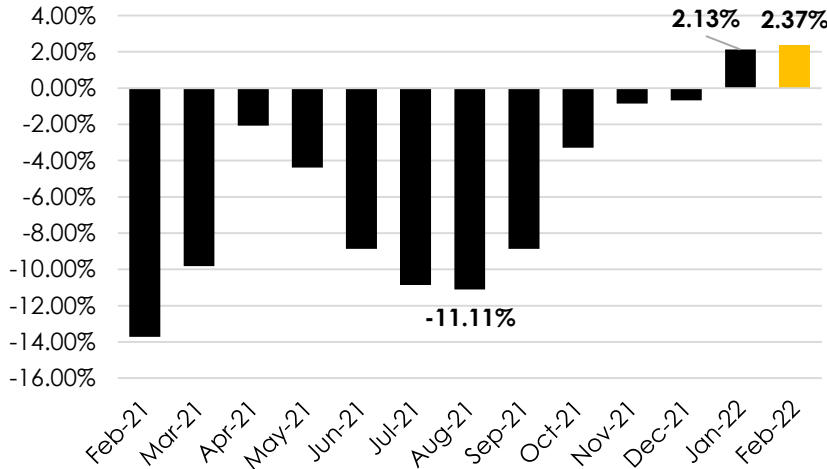
Source: CEIC

FINANCING GROWTH BY PURPOSE- BETTER PERFORMANCE DURING FEBRUARY

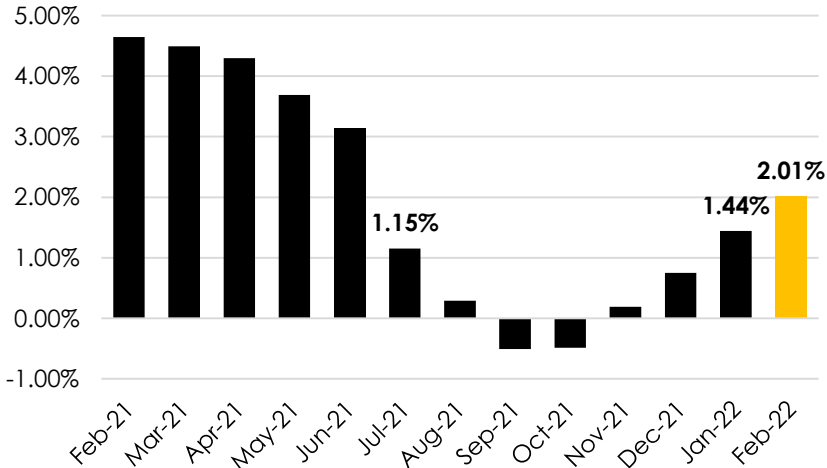
Purchase of Securities, y-o-y%



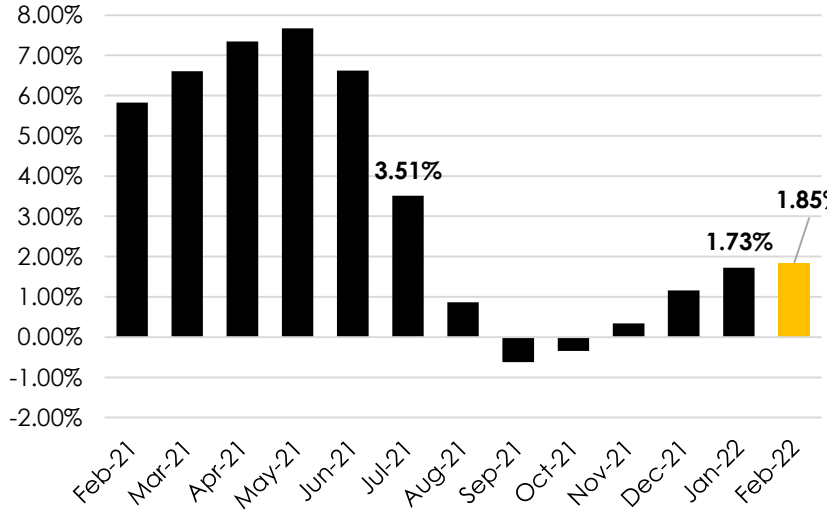
Credit Card, y-o-y%



Personal Use, y-o-y%



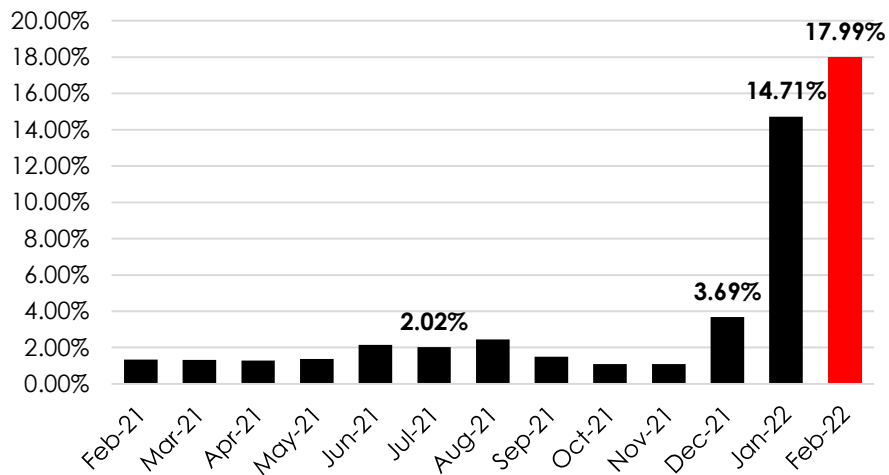
Purchase of Passenger Cars, y-o-y%



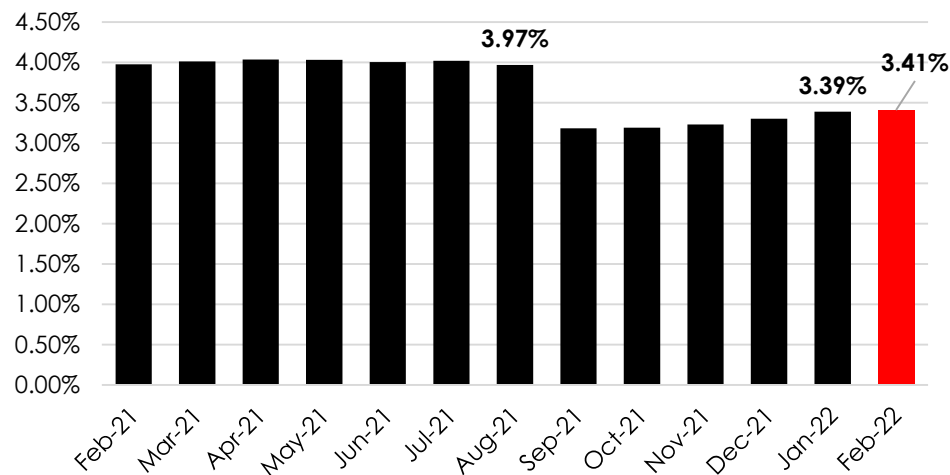
Source: CEIC

IMPAIRMENT BY SECTOR- MINING INDUSTRY RECORDED A SIGNIFICANT DETERIORATION IN ASSET QUALITY

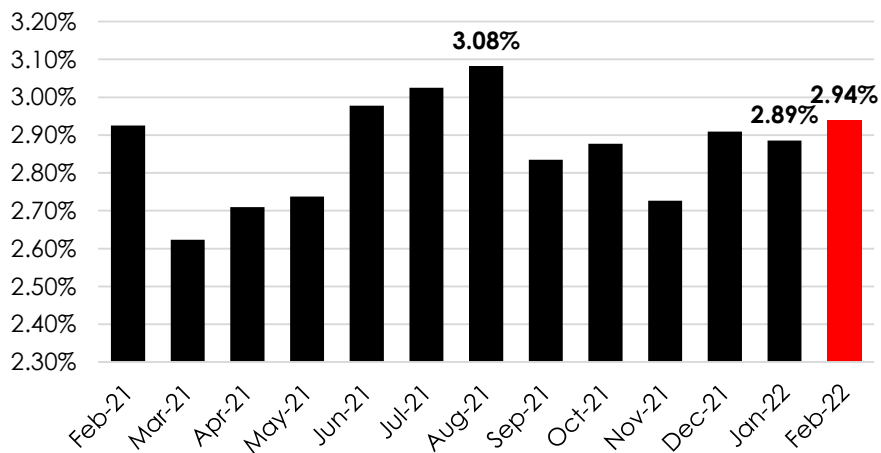
GIFR-Mining & Quarrying, %



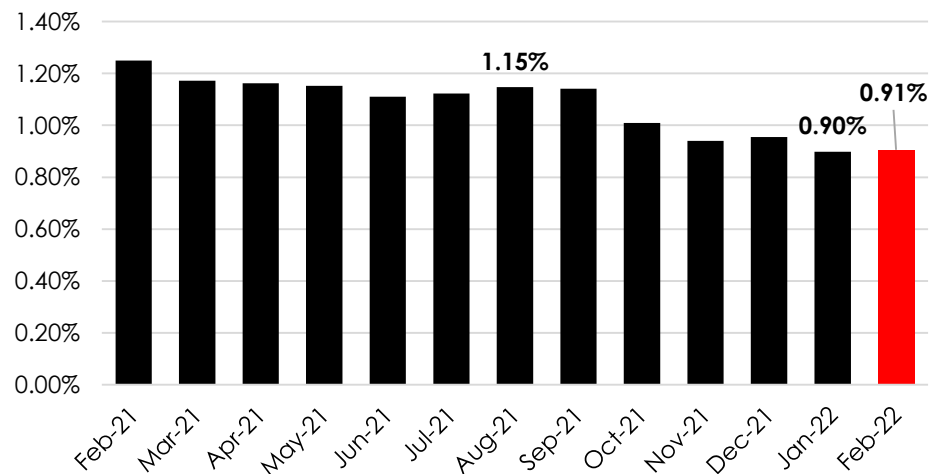
GIFR-Primary Agriculture, %



GIFR-Construction, %



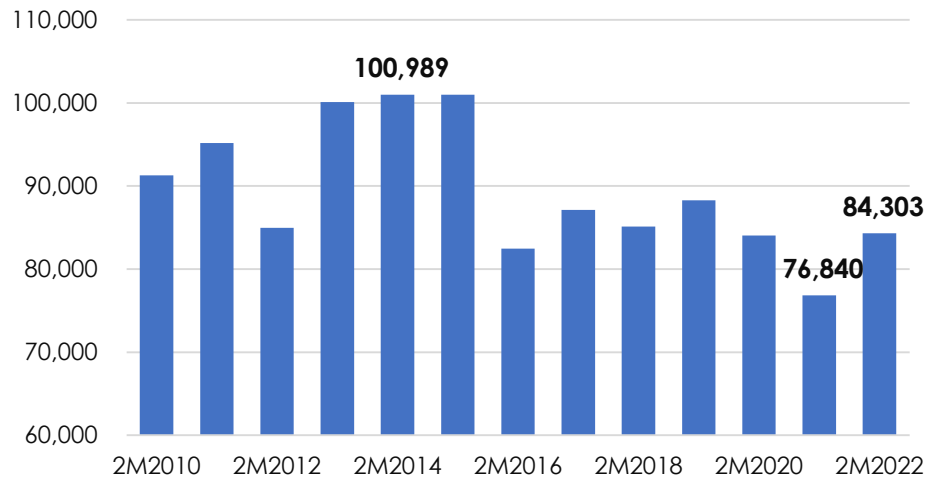
GIFR-Electricity, Gas & Water Supply, %



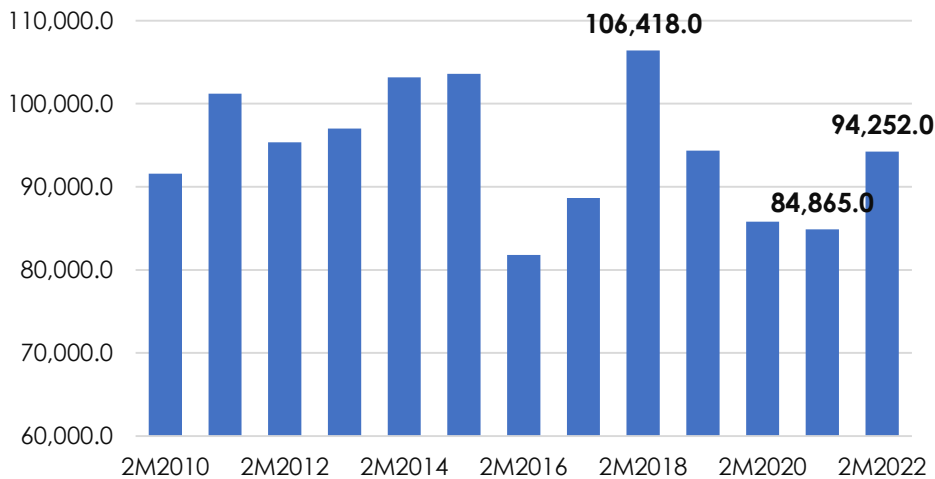
Source: CEIC

AUTOMOTIVE SECTOR IS EXPECTED TO STRENGTHEN AMID IMPROVING SALES AND PRODUCTION

Total Industry Volume (TIV), units



Total Industry Production (TIP), units



- ✓ TIV was higher by 9.7% y-o-y, increasing to 84,303 units during 2M2022 from 76,840 units in the same corresponding period last year.
- ✓ According to the Malaysian Automotive Association (MAA), ramped-up production by the auto companies to fulfil backlog orders has supported the sales performance during the said period.
- ✓ Similarly, TIP rose by 11.1% y-o-y to 94,252 units in 2M2022 (2M2021: 84,865 units) despite the flood-induced supply disruptions in January this year.
- ✓ Moving forward, we anticipate higher outstanding bookings, supportive tax holiday which is expected to end in June this year, record low financing rate, as well as improving employment could further boost automotive sales and production.
- ✓ Apart from that, the MAA already drafted an appeal to the Ministry of Finance to further extend the sales tax holiday. Should the appeal be successful, this could be a positive driver for the auto sector.

- ✓ **Malaysia to benefit from border reopening** - Malaysia's economy is anticipated to grow at a faster pace with the reopening of its international borders despite threats from Omicron variant and external headwinds. The impact could be significant particularly on tourism sector, where receipts recorded at RM86.1 billion or 5.8% of gross domestic product (GDP) pre-pandemic. Apart from that, border reopening will address major issues such as labour shortage for key sectors like manufacturing and agriculture, which have been a major impediment for their full recovery.
- ✓ **Leveraging the opportunities via Regional Comprehensive Economic Partnership (RCEP)** - Malaysia is expected to be the largest beneficiary among the ASEAN members of RCEP, collecting a USD200.0 million increase in export gains. Eventually, RCEP is a vital tool for the country to recover from the economic disruptions caused by the pandemic.
- ✓ **The Fed turns more hawkish on monetary policy** - After the first rate hike in March, the Fed is expected to do more amid solid March payroll report released on 1 April. Apart from that, there are plenty of Fed officials highlighted the urgency to tight the monetary policy to anchor the inflation expectation. This could raise the odds for half-percentage point increase in the interest rate in the upcoming meeting in May. Hence, the release of FOMC meeting minutes on 6 April will be closely watched to scan more clues on the trajectory of rate hikes.
- ✓ **Geopolitical conflict between Russia and Ukraine** - Russia continues its relentless approach despite several rounds of ceasefire talks. Recently, Western companies rejected demand by Russian President to enforce payment of gas in ruble from Europe nations starting 1 April. Such protest could potentially aggravate Europe's worst energy crunch since 1970s. Following this, we anticipate that commodity prices would stay elevated given the prolonged crisis between both countries.

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