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MALAYSIA'S GDP 4Q2021 GROWTH PICKED UP BY 3.6%

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ECONOMIC RESEARCH

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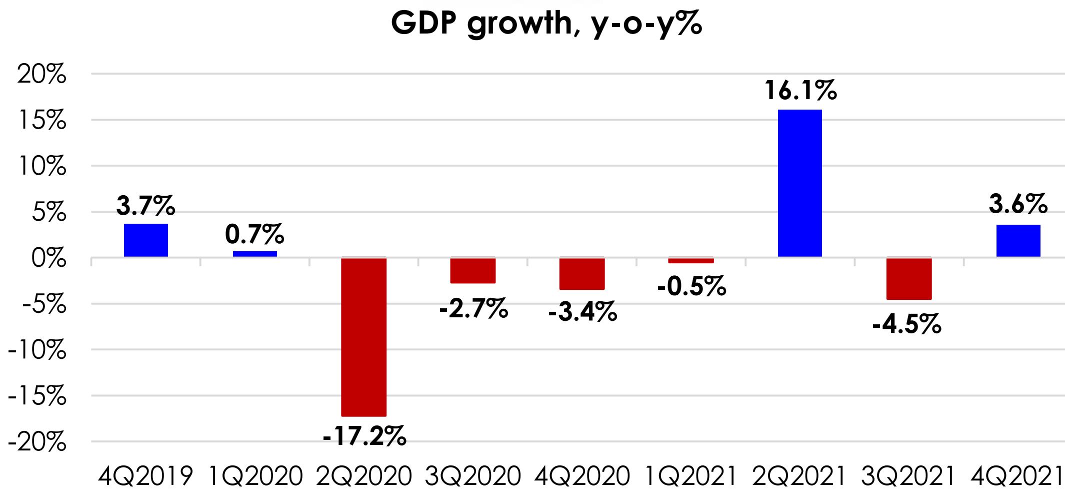
MALAYSIA'S GDP REBOUNDED BY 3.6% IN 4Q2021



4Q2021: 3.6%

3Q2021: -4.5%

Key Factors:
- ✓ Sturdy growth in exports and imports.
- ✓ Positive improvement in demand and supply side.

- ✓ Malaysia's Gross Domestic Product (GDP) rebounded by 3.6% (Consensus: 3.1%, Bank Islam: 3.1%) in the final quarter of 2021, after declining by 4.5% in 3Q2021. Correspondingly, the monthly GDP performance has grown modestly 2.7% in October before accelerating to 5.4% in November. For the month of December, the growth moderated to 2.6% possibly due to shocks from the flash floods.
- ✓ The improvement in economic performance is attributed to the encouraging labour market conditions and accommodative policy measures. Strong external demand is also a boon given the positive contribution from the net exports.
- ✓ From the supply side, the economic performance was anchored by Manufacturing (4Q2021: 9.1% vs. 3Q2021: -0.8%), Services (4Q2021: 3.2% vs. 3Q2021: -4.9%) and Agriculture (4Q2021: 2.8% vs. 3Q2021: -1.9%) sectors.
- ✓ On the demand side, household consumption has turned around(4Q2021: 3.7% vs. 3Q2021: -4.2%) while the external sector such as exports and imports have risen by 13.3% (3Q2021: 5.1%) and 14.6% (3Q2021: 11.7%) respectively.
- ✓ Overall, Malaysia's GDP in 2021 expanded by 3.1% (Bank Islam: 3.0%) after contracting 5.6% in the previous year, suggesting that the output loss has been reversed.
- ✓ Following this, our GDP target for 2022 is set to reach 5.5%. This is premised on possible pent-up demand in tandem with improved consumer sentiments as well as the government's direction to open international boarders that will kickstart the international tourism in a meaningful way.
- ✓ Against such a backdrop, there will be spill over effects to other sectors such as accommodation, food & beverages, hotels, event management as well as logistic. In a nutshell, we are constructive on Malaysian economy for 2022 barring any unforeseen circumstances such as natural disaster shocks, instability in domestic politics as well as the emergence of new variant that are resistant to the prevailing vaccines.

DEMAND SIDE – DOMESTIC DEMAND RECOVERED BY 2.3% IN 4Q2021

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Private Consumption	Private Investment	Exports
4Q2021: 3.7% 3Q2021: -4.2%	**4Q2021: -3.0%** 3Q2021: -4.8%	**4Q2021: 13.3%** 3Q2021: 5.1%

Public Consumption	Public Investment	Imports
4Q2021: 4.3% 3Q2021: 8.1%	**4Q2021: -3.8%** 3Q2021: -28.9%	**4Q2021: 14.6%** 3Q2021: 11.7%

Gross Domestic Product (GDP)

2021: 3.1%	**4Q2021: 3.6%**
2020: -5.6%	3Q2021: -4.5%

- ✓ Growth was mainly underpinned by an improvement in domestic demand (4Q2021: 2.3% vs. 3Q2021: -4.1%) as economic activity normalised following the easing of Covid-19 related containment measures under the National Recovery Plan (NRP).
- ✓ Apart from that, strong external demand amid the continued upcycle in global technology provided a support to economic growth during 4Q2021.

Sources: BNM, CEIC

SUPPLY SIDE – ECONOMIC ACTIVITIES PERFORMANCE IMPROVED AMIDST RELAXATION OF COVID-19 RELATED RESTRCITIONS

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Services (4Q2021: 3.2% vs. 3Q2021: -4.9%)

- ✓ Services sector has rebounded amid continued recovery in consumer –related activities supported by further ease in human mobility restriction.
- ✓ This can be seen in higher spending of retail trade (4Q2021: 2.1% vs. 3Q2021: -7.3%) and accommodation (4Q2021: 48.5% vs. 3Q2021: -52.0%).

Manufacturing (4Q2021: 9.1% vs. 3Q2021: -0.8%)

- ✓ Manufacturing activities continued to strengthen contributed by strong demand from export-oriented industries such as E&E products amid tech upcycle. Additionally, recovery in primary-related sector such as chemicals & chemical products (4Q2021: 10.8% vs. 3Q2021: 9.3%) have also supported overall performance.

Agriculture (4Q2021: 2.8% vs. 3Q2021: -1.9%)

- ✓ Agriculture recovered during 4Q2021 on the back of expansion in production of Crude Palm Oil (CPO) at 4.8 million ton in 4Q2021 (4Q2020: 4.5 million tones) as fresh fruit bunch yields improved benefiting from the higher rainfalls during the early part of the year.

Construction (4Q2021: -12.2% vs. 3Q2021: -20.6%)

- ✓ A smaller contraction was recorded in construction sector mainly supported by higher activities in special trade subsectors (4Q2021: 9.0% vs. 3Q2021: 8.9%).
- ✓ Additionally, construction in civil engineering (4Q2021: -18.8% vs. 3Q2021: -36.1%) and non-residential (4Q2021: -12.0% vs. 3Q2021: -13.3%) also registered softer declines during 4Q2021 following resumption of large-scale projects.

Mining (4Q2021: -0.9% vs. 3Q2021: -3.6%)

- ✓ The contraction mainly attributable to some facility closures for maintenance purposes during the quarter.
- ✓ However, the production of natural gas was higher (4Q2021: 3.9% vs. 3Q2021: 2.1%) supported by mining activities from the PETRONAS Floating Liquefied Natural Gas DUA (PFLNG2) facility located in offshore East Malaysia.

Sources: Bank Islam, CEIC, DOSM, BNM

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Y-o-Y%	Share (2021)	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	2020	2021
GDP	**100.0%**	**3.7%**	**0.7%**	**-17.2%**	**-2.7%**	**-3.4%**	**-0.5%**	**16.1%**	**-4.5%**	**3.6%**	**-5.6%**	**3.1%**
Domestic Demand (excluding stocks)	92.7%	4.9%	3.7%	-18.8%	-3.3%	-4.5%	-1.0%	12.4%	-4.1%	2.3%	-5.8%	1.9%
Private Sector	**74.3%**	**7.2%**	**4.9%**	**-20.4%**	**-4.0%**	**-4.0%**	**-0.9%**	**13.0%**	**-4.4%**	**2.4%**	**-6.0%**	**2.0%**
-Consumption	58.8%	8.2%	6.7%	-18.5%	-2.1%	-3.5%	-1.5%	11.7%	-4.2%	3.7%	-4.3%	1.9%
-Investment	15.6%	3.4%	-1.1%	-26.1%	-10.8%	-6.6%	1.3%	17.4%	-4.8%	-3.0%	-11.9%	2.6%
Public Sector	**18.3%**	**-1.9%**	**-1.8%**	**-11.1%**	**0.1%**	**-5.7%**	**-1.5%**	**9.7%**	**-2.8%**	**1.9%**	**-4.7%**	**1.6%**
-Consumption	13.8%	1.0%	4.9%	2.2%	6.8%	2.4%	5.9%	9.0%	8.1%	4.3%	3.9%	6.6%
-Investment	4.5%	-6.7%	-14.4%	-40.1%	-13.1%	-20.4%	-18.6%	12.0%	-28.9%	-3.8%	-21.3%	-11.4%
Net Exports of Goods and Services	**6.0%**	**-11.1%**	**-36.8%**	**-37.9%**	**19.2%**	**10.0%**	**0.8%**	**34.3%**	**-37.5%**	**2.6%**	**-13.0%**	**-5.8%**
-Exports	69.2%	-3.3%	-7.2%	-21.7%	-4.9%	-2.1%	11.9%	37.4%	5.1%	13.3%	-8.9%	15.9%
-Imports	63.2%	-2.3%	-2.7%	-19.7%	-7.9%	-3.3%	13.0%	37.6%	11.7%	14.6%	-8.4%	18.5%

Y-o-Y%	Share (2021)	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	2020	2021
Services	57.0%	6.2%	3.1%	-16.2%	-4.0%	-4.8%	-2.3%	13.5%	-4.9%	3.2%	-5.5%	1.9%
Manufacturing	24.3%	3.0%	1.4%	-18.3%	3.3%	3.0%	6.6%	26.6%	-0.8%	9.1%	-2.6%	9.5%
Agriculture	7.2%	-5.5%	-8.6%	0.9%	-0.3%	-1.0%	0.2%	-1.5%	-1.9%	2.8%	-2.2%	-0.2%
Mining and Quarrying	6.7%	-2.5%	-2.9%	-20.8%	-7.8%	-10.4%	-5.0%	13.9%	-3.6%	-0.9%	-10.6%	0.7%
Construction	3.7%	1.3%	-7.9%	-44.5%	-12.4%	-13.9%	-10.4%	40.3%	-20.6%	-12.2%	-19.4%	-5.2%

Sources: BNM, CEIC, Bank Islam

CURRENT ACCOUNT SURPLUS WIDENED IN 4Q2021 DUE TO LARGER SURPLUS IN GOODS ACCOUNT

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RM Billion	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	2020	2021
Current Account	**7.4**	**8.8**	**7.7**	**24.8**	**18.6**	**12.3**	**14.4**	**11.6**	**15.2**	**60.0**	**53.5**
% GDP	2.0%	2.4%	2.5%	6.7%	4.9%	3.3%	3.9%	3.1%	3.6%	4.2%	3.5%
Goods	32.7	28.9	25.8	41.5	42.6	36.6	40.7	41.2	51.8	138.7	170.2
Services	(4.0)	(7.6)	(12.4)	(13.4)	(14.0)	(15.0)	(15.4)	(15.2)	(15.5)	(47.4)	(61.1)
Primary Income	(15.7)	(7.2)	(3.8)	(10.4)	(7.2)	(5.7)	(9.5)	(11.3)	(19.7)	(28.6)	(46.2)
Secondary Income	(5.6)	(5.2)	(1.9)	7.2	(2.7)	(3.6)	(1.4)	(3.1)	(1.4)	(2.7)	(9.5)
Financial Account	**(1.9)**	**(13.2)**	**(21.7)**	**(31.1)**	**(10.2)**	**16.0**	**(7.0)**	**22.8**	**(2.2)**	**(76.2)**	**29.7**
Direct Investment	5.3	3.9	(0.6)	(2.2)	1.6	1.4	4.2	17.6	9.7	2.8	32.9
Asset	(5.2)	(1.0)	(0.9)	(9.1)	(4.2)	(9.1)	(8.7)	(4.7)	(17.8)	(15.2)	(40.3)
Liabilities	10.5	4.9	0.4	6.9	5.8	10.5	12.9	22.2	27.5	18.0	73.1
Portfolio Investment	(3.5)	(41.4)	20.6	(20.3)	(7.1)	0.4	20.0	(4.3)	2.8	(48.2)	18.9
Asset	(15.9)	(15.6)	(3.1)	(20.8)	(19.9)	(14.2)	(10.6)	(5.2)	(6.1)	(59.3)	(36.2)
Liabilities	12.4	(25.8)	23.7	0.5	12.8	14.6	30.5	0.9	8.9	11.1	55.0
Financial Derivatives	(0.6)	2.5	(0.6)	(0.5)	(0.9)	0.3	(0.6)	0.7	(0.6)	0.4	(0.2)
Other Investment	(3.2)	21.8	(41.1)	(8.1)	(3.7)	13.9	(30.5)	8.8	(14.0)	(31.1)	(21.9)
Errors and Omissions	**(8.0)**	**(4.2)**	**7.7**	**4.8**	**(11.0)**	**(10.9)**	**(2.6)**	**(13.0)**	**(10.2)**	**(2.7)**	**(36.7)**
Overall Balance	**(2.5)**	**(8.7)**	**(6.4)**	**(1.6)**	**(2.6)**	**17.1**	**4.7**	**21.3**	**2.5**	**(19.3)**	**45.6**

Sources: CEIC, BNM

Overall Balance registered a net inflow of RM2.5 billion in 4Q2021, smaller than RM21.3 billion net inflows recorded in the preceding quarter due to net inflows in financial account (4Q2021: -RM2.2 billion vs. 3Q2021: RM22.8 Billion). This was because of higher outflows in other investment which offset the inflows in the direct and portfolio investment accounts.

MONETARY POLICY – NORMALISATION OF OVERNIGHT POLICY RATE (OPR)

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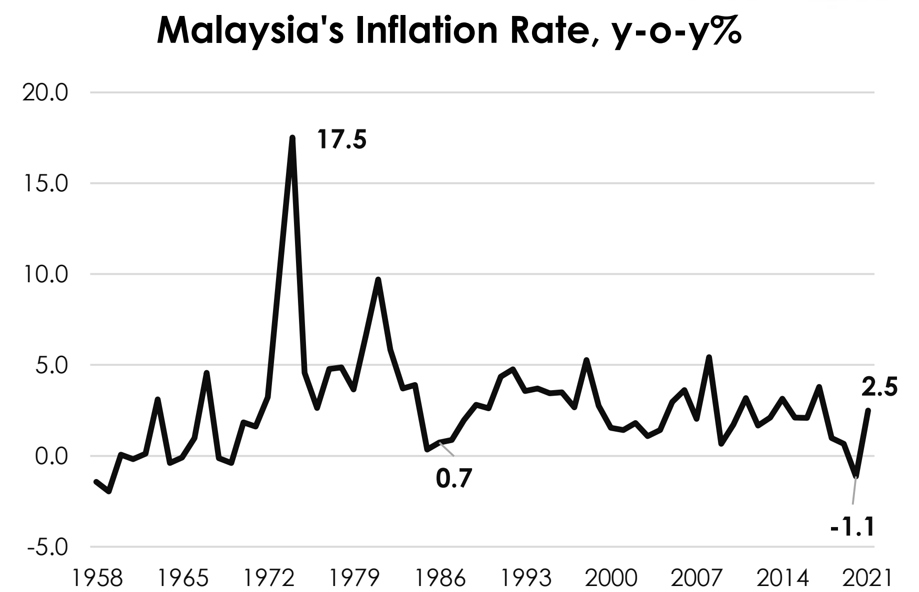
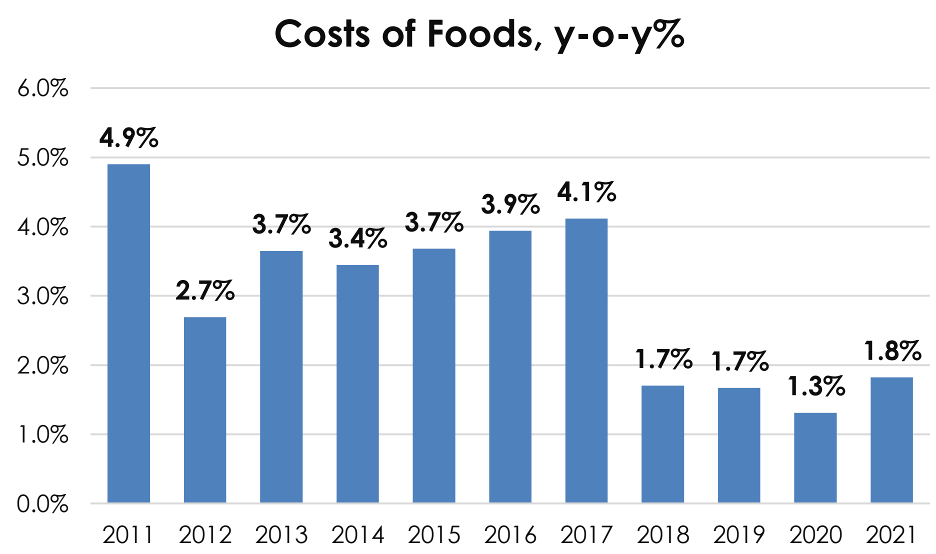
The case for higher Overnight Policy Rate (OPR) is building up based on few factors:

01 Higher Inflation Rate

- ✓ Malaysia's Consumer Price Index (CPI) increased by 2.5% y-o-y in 2021, the highest since 2017 from a 1.1% decline in the previous year.
- ✓ This was mainly contributed by the rise in costs of food (2021: 1.8% vs. 2020: 1.3%) and fuels. On further scrutiny, average petrol prices in Malaysia for RON95, RON97 and Diesel surged by 20.9% (2020: -18.8%), 32.6% (2020: -21.9%) and 18.6% (2020: -17.1%) respectively in 2021 due to the increasing trends in global crude oil prices.
- ✓ Apart from that, the termination of the electricity discounts in Peninsular Malaysia which was implemented in 2020 also exerted upward pressure to the national inflation rate for 2021.
- ✓ While the inflation is expected to moderate this year, the passthrough and the second-round effects to other prices and wages would necessitate the BNM to respond by raising by the OPR by 25 basis points (bps), in our view.





Source: CEIC

MONETARY POLICY – NORMALISATION OF OVERNIGHT POLICY RATE (OPR) (CONT'D)

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02 Second Round Effect from Costs of Labour

- ✓ Gradual increase in minimum wages appears likely to occur as the discussion has become intensified.
- ✓ Higher food prices which are increasing ahead of the minimum wage is seen to be the main motivation.
- ✓ Thus far, the Malaysian Trades Union Congress (MTUC) has urged the government to up the minimum wage from RM1,200 to RM1,500 by 2Q2022.
- ✓ As required by the National Wages Consultative Council Act 2011, minimum wage will be revised once every two years.
- ✓ However, the minimum wage was last increased in February 2020, from RM1,100 to RM1,200 per month.
- ✓ As such, the upward revision is overdue.
- ✓ Should the government consider to raise the minimum wage as early 2Q2022, this would create second the round effect to costs of goods and services following higher costs of labour moving forward.
- ✓ Following this, it warrants for OPR hike to curb the inflationary pressures. Additionally, the benefits of protracted of lower interest rate environment may have waned especially when signs of economic recovery has become clearly visible. Risks of financial imbalances such as rising household debts, excessive risk-taking activities and asset price bubbles are some of the risks that would occur should interest rate is kept too low for too long.

Minimum Wage Order – Section 25 under National Wages Consultative Council Act 2011:

Council to review minimum wages order

25. (1) The Council shall, at least once in every two years, review the minimum wages order.

(2) Notwithstanding subsection (1), the Council may, on its own accord or upon the direction of the Government, review the minimum wages order.

- ✓ Be that as it may, the BNM remains cautious in their assessment by mentioning that the downside risks remain clearly visible and policy decision will hinge upon the incoming data.
- ✓ All in all, **our base case scenario as of now is that BNM will likely raise the OPR in 2H2022.** As such, OPR could remain unchanged at 1.75% in the 1H2022.

FISCAL POLICY – GOVERNMENT HAS A WIDER FISCAL ROOM TO SPEND AMID STRONGER CRUDE OIL PRICE

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RM Billion	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	2020	2021
Revenue	45.3	56.5	46.4	77.0	49.5	56.9	51.5	75.9	225.1	233.8
Y-o-Y %	-28.8%	-9.1%	-32.5%	10.2%	9.3%	0.8%	10.9%	-1.5%	-14.9%	3.8%
Operating Expenditure	62.1	51.9	56.8	53.7	62.2	55.2	50.7	63.5	224.6	231.5
Y-o-Y %	4.4%	-20.5%	-17.4%	-23.0%	0.2%	6.2%	-11.0%	18.1%	-14.7%	3.1%
Current Balance	**(16.7)**	**4.5**	**(10.4)**	**23.2**	**(12.7)**	**1.7**	**0.8**	**12.4**	**0.5**	**2.2**
Net Development Expenditure	10.9	6.9	12.1	20.2	15.3	12.7	22.1	13.3	50.1	63.3
Y-o-Y %	-4.3%	-42.6%	26.6%	3.1%	41.6%	80.7%	82.5%	-34.3%	-4.8	26.3%
Covid-19 Fund	0.5	22.1	5.0	10.4	9.1	9.3	5.0	14.3	38.0	37.7
Overall Balance	-28.1	-24.6	-27.6	-7.3	-37.1	-20.3	-26.3	-15.1	-87.6	-98.8
Overall Balance (% of GDP)	**-7.6%**	**-8.1%**	**-7.5%**	**-2.0%**	**-10.0%**	**-5.4%**	**-7.0%**	**-3.6%**	**-6.2%**	**-6.4%**

Sources: Bank Islam, CEIC

- ✓ Malaysia's fiscal deficits for **2021 came in at 6.4% (Bank Islam: -6.5%)** which was slightly higher compared to 6.2% in 2020 amid higher government spending to tackle the negative impacts from Covid-19 pandemic.
- ✓ Going into 2022, the **fiscal deficits is expected to narrow to 6.0%** amid anticipation of higher revenue collection particularly from petroleum-related resources.
- ✓ Additionally, firmer crude oil price will enlarge the fiscal space for government to prescribe more measures.
- ✓ For every increase in USD1.0 per barrel of Brent price is estimated to generate an extra RM300.0 million revenue.
- ✓ According to our back of envelope calculation, the government is projected to receive an additional of RM7.2 billion worth of petroleum-related revenues should the Brent price lingers around USD90.0 per barrel this year.
- ✓ The onus now is on the fiscal authority to continue its expansionary policies that will deliver higher growth this year and the central banks are likely to remove the monetary policy accommodation albeit gradually.

MALAYSIAN ECONOMY TO GROW 5.5% IN 2022

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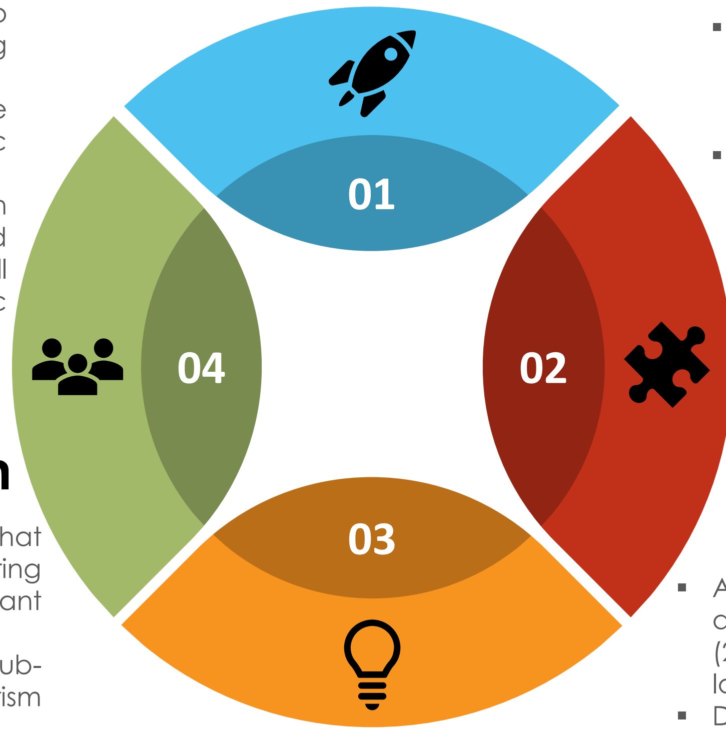
We are projecting GDP growth 5.5% in 2022 premised on the following:

Fiscal Policy

- Malaysia's fiscal policy is expected to remain expansionary in 2022, projecting its fiscal deficit at 6.0% of GDP.
- This move will substantially boost the economy especially through economic stimulus packages.
- Additionally, government expenditure on vaccination also has increased vaccination rollouts which in turn will reflect positively to the key economic sectors.

Sector Expansion

- Latest data from DOSM revealed that sectors including Services, Manufacturing and Agriculture had shown significant growth in 4Q2021.
- With that in mind, potentials are seen in sub-sectors such as Food & Beverages, Tourism and Construction.
- Even though the economy witnessed softer decline in growth for construction sector in 4Q2021, the recovery in private sector opportunities and ongoing rollouts of existing projects supported by higher allocated development expenditure for this year will aid the sector to recover.



Pent-up Demand

- 2022 will see improvement in people mobility domestically and internationally following government's direction to reopen the international boarders.
- This will result to a pent-up demand for international travel which can dampen current loss of aviation industry as well as continue to affect consumer spending significantly.

Global Recovery

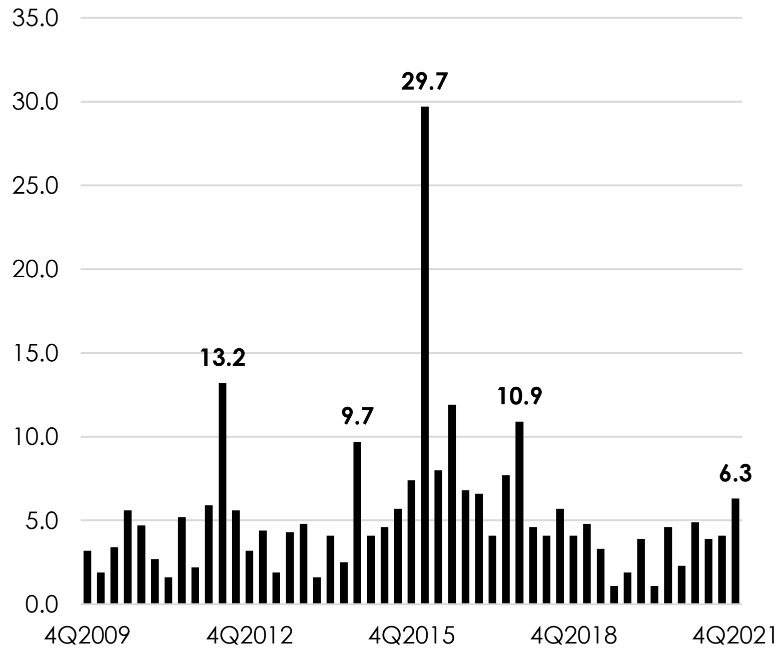
- According to IMF, the global economy is anticipated to moderate to 4.4% in 2022 (2021: 5.9%) due to revised forecast for 2 largest economies.
- Despite the estimates, the resilience in Chinese economy to stabilize supply chain bottlenecks will eventually stimulate economic growth globally.
- The U.S labour market which created more jobs than expected in January this year signals improving US economy albeit rising in Omicron cases.

INDUSTRY TO BE PROMINENT IN 2022 - CONSTRUCTION

Quarterly Contract Awards to Listed Contractors

Type of Award	4Q2020 RM Million	3Q2021 RM Million	4Q2021 RM Million	Year-on-year (y-o-y) Growth (%)	Quarter-on-quarter (q-o-q) Growth (%)	2020	2021	Year-on-year (y-o-y) Growth (%)
Domestic	2,353	4,118	6,341	169.5%	54.0%	11,925	19,379	62.5%
Foreign	15,193	142	157	-99.0%	10.6%	28,861	806	-97.2%
Total	**17,546**	**4,260**	**6,498**	**-63.0%**	**52.5%**	**40,786**	**20,185**	**-50.5%**

Quarterly Trend of Domestic Contract Awards RM, Billion



Sources: HLIB, Bursa announcement compilations

- ✓ In respect to domestic contract awards, the growth improved significantly y-o-y during 4Q2021, driven by RM1.6 billion worth of awards from water and solar projects, notably Rasau Water Scheme (RM896.0 million), as well as LSS4/rooftop (RM571.0 million).
- ✓ For the full year 2021, the said contract was higher by 62.5% (2021: 19,2379 vs. 2020: 11,925) mainly attributable to low base effect since 2Q2020 saw strict lockdowns imposed (i.e., MCO1.0).
- ✓ Moving ahead, it is expected that there will be gradually improving contract flows in Malaysia as the country is progressing towards endemic phase with recovery in private sector opportunities and ongoing rollouts of existing projects such as East Coast Rail Link (ECRL), Pan Borneo Highway (PBH) Sabah and Sarawak and Johor-Singapore Rapid Transit System (RTS) to support the job flows in 2022.
- ✓ In addition, the higher development expenditure (DE) allocated for this year (2022: RM75.6 billion vs. RM2021: 61.0 billion) can eventually attract higher new contracts wins for upcoming projects.

TOURISM WILL BE THE KEY BENEFICIARIES OF THE ECONOMIC RECOVERY IN 2022

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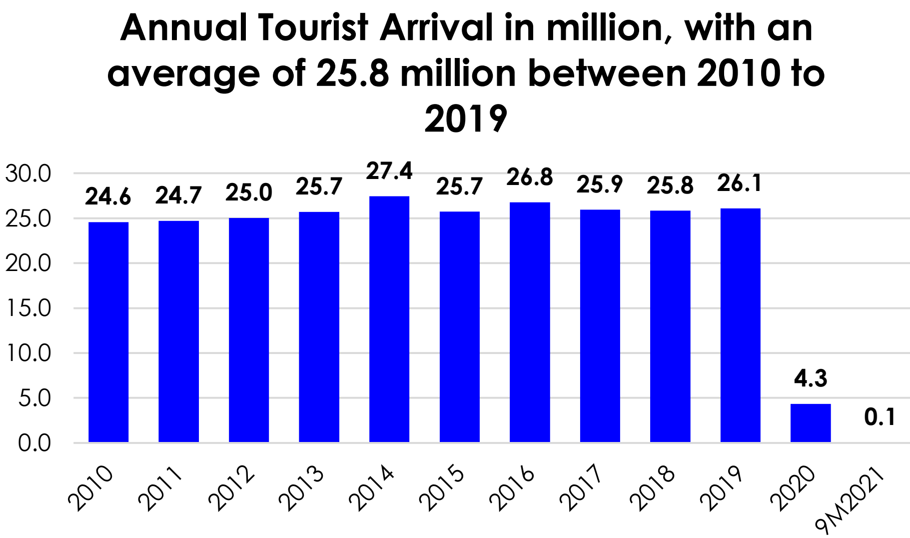
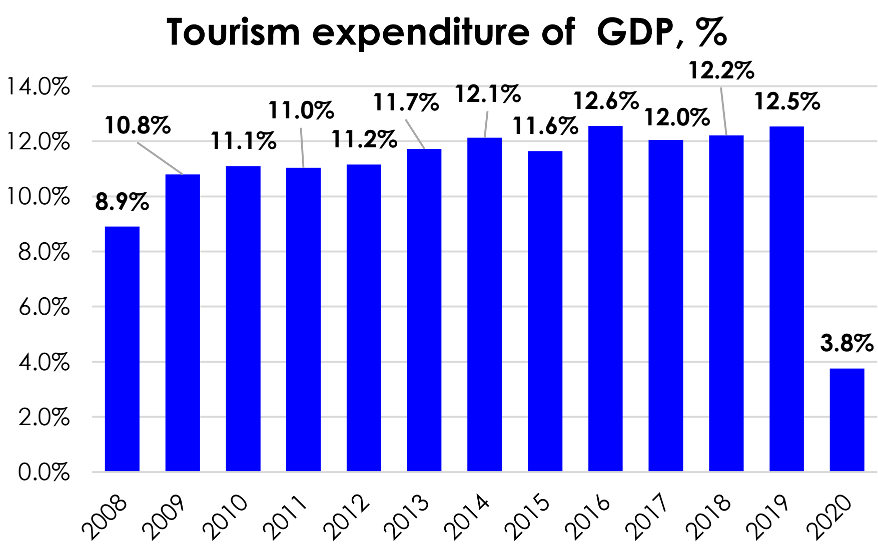


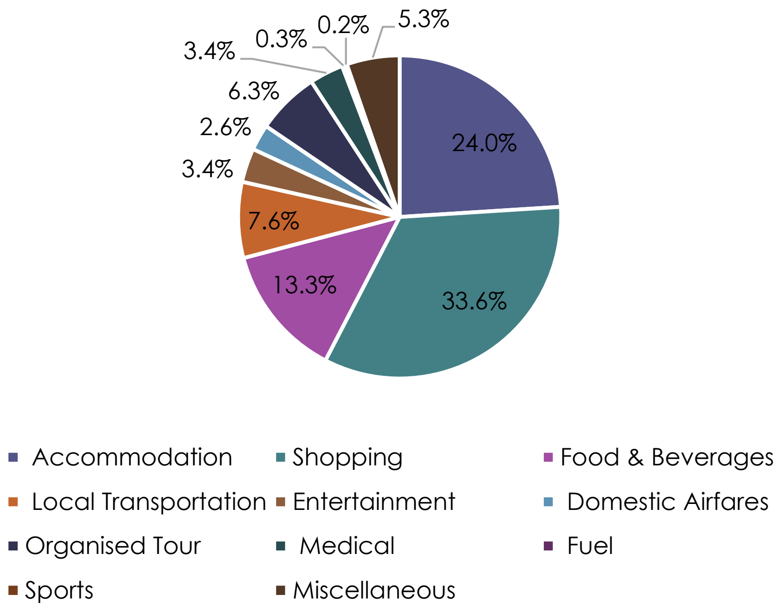


Source: CEIC, Tourism Malaysia

- ✓ Tourism industries is expected to improve this year after remaining in a doldrums in the past 2 years. The National Recovery Council (NRC) has mooted the idea that international borders will be reopened in March.
- ✓ The monthly average of tourist arrivals in 2019 is 2.18 million. Assuming half of this amount to be recorded in 2022, **the country should be able to record tourists arrivals of 13.05 million.**
- ✓ This would clearly have a spillover effects to other industries such as retail, hotels, food & beverages as well as logistics.

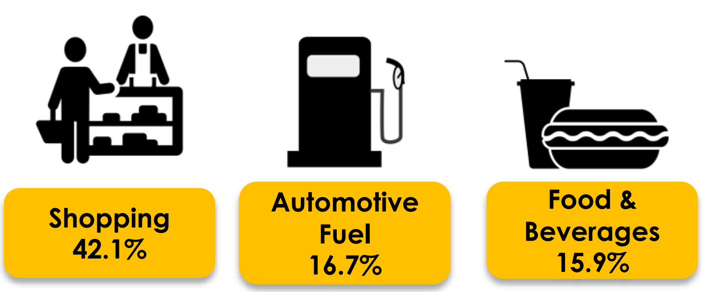
FOOD & BEVERAGES (F&B) GROWTH TO TURN AROUND IN 2022

Tourist Receipt by Purpose in 2019



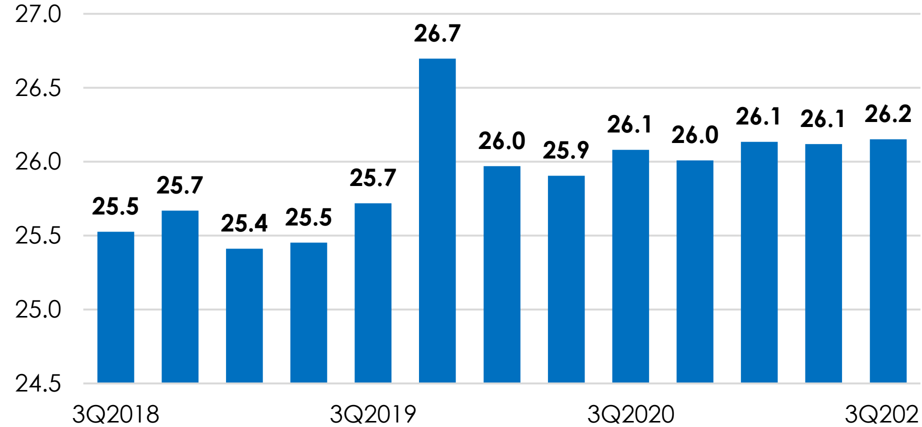
Sources: CEIC, Tourism Malaysia

Main Components of Domestic Tourism Expenditure in 2019



Source: Tourism Satellite Account (TSA) 2019, DOSM

Number of Hotels Room booking, unit in thousands

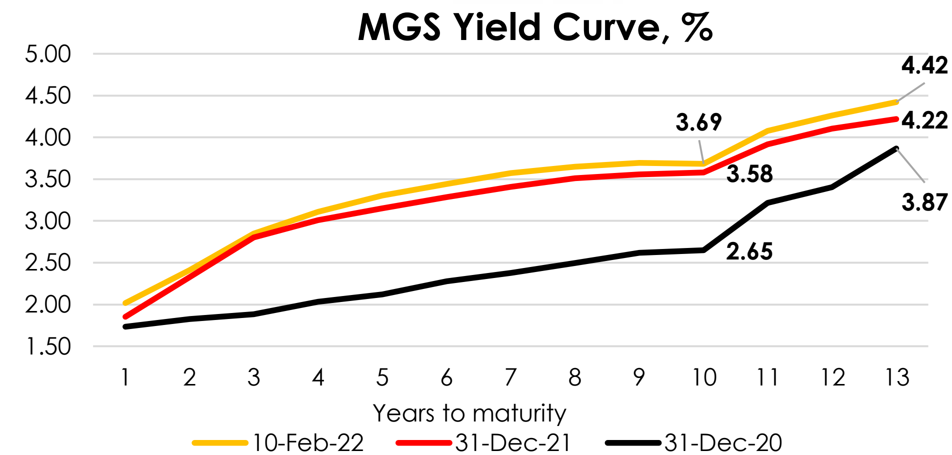


Source: CEIC

- ✓ Looking at the pre-pandemic level, we can see that food & beverages (F&B), shopping, as well as accommodation were the biggest sectors in tourism by far.
- ✓ Though these three sectors have been adversely affected by the Covid-19 pandemic in various degrees, especially the F&B, we believe that the industry is in period of adjustment and adaption to the new norm.
- ✓ The recovery has been seen since last year with increased bookings from October 2021. Thus, we can expect the composition of the tourist receipt will recover further this year.

OUR VIEW – CUTTING DOWN PORTFOLIO DURATION IS THE WAY TO GO AS BOND YIELDS ARE LIKELY TO GO UP.

BANK ISLAM



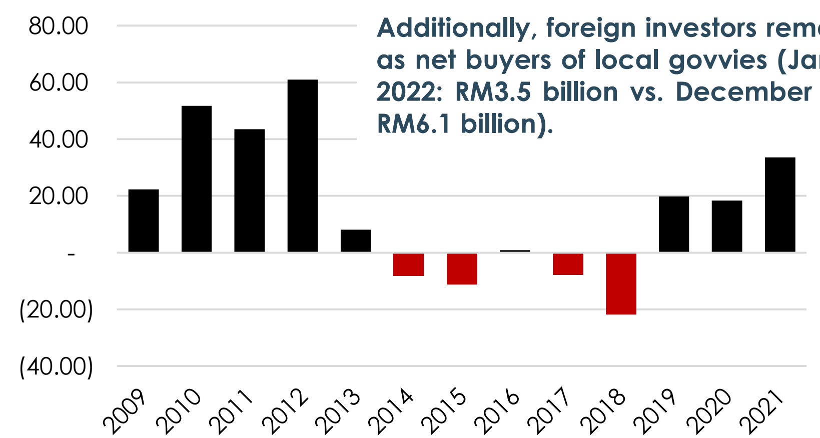
MGS Yields Forecast:

	3-Y MGS	5-Y MGS	10-Y MGS
2020	1.88%	2.12%	2.65%
2021	2.80%	3.15%	3.58%
2022F	3.25%	3.62%	4.07%

- ✓ Looking forward, the bond yields are expected to remain on an uptrend in view of global economic recovery alongside **spillovers from the U.S. Treasury (UST) market** and **hawkish stance by the U.S. Federal Reserve (Fed).**
- ✓ Despite that, the portfolio positioning is likely to be on the short-dated securities given the anticipation of larger interest rate hike in the U.S. during March meeting. It seems that the Fed may opt for a 50 basis points hike at one go during the March meeting on 15 – 16 March 2022.

- ✓ Significant **progress in vaccination** and **easing restriction measures** toward the 4Q2021 have resulted in risk-on mode.
- ✓ Consequently, bond yields were higher as talks monetary tightening is gaining traction.
- ✓ The **3-Y, 5-Y and 10-Y MGS yields increased by 5 bps, 15 bps and 10 bps** respectively on YTD basis.
- ✓ Despite higher yields, the **demand for local govvies in the primary market remain supportive** as reflected by sturdy Bid-To-Cover ratio (BTC) which stands at 2.19x for MGS and 2.15x for GII on YTD basis.

Foreign Holding in Malaysia's Fixed Income Market, RM Billion



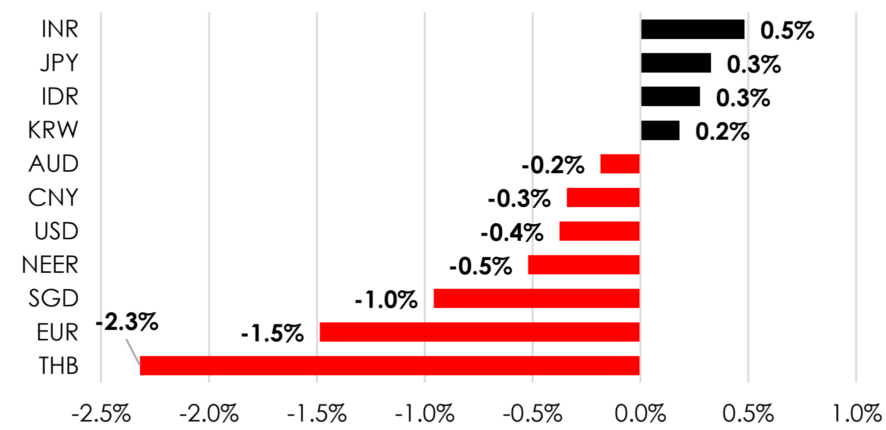
Additionally, foreign investors remained as net buyers of local govvies (January 2022: RM3.5 billion vs. December 2021: RM6.1 billion).

Sources: Bank Islam, CEIC

OUR VIEW – POSITIVE OUTLOOK REMAINS FOR RINGGIT IN 2022

USDMYR

MYR against regional currencies, YTD Gain, % (As at 10 February 2022)



Source: Investing.com

- ✓ As of 10 February 2022, the Ringgit is traded lower against the U.S. Dollar, influenced by the number of new Covid-19 cases which climbed to 19,090 cases on the said date.
- ✓ According to Health Minister, Khairy Jamaluddin, the increase of such figure was not unexpected as it was due to the spread of more easily-transmitted Omicron variant and the wave that hit the country is expected to peak at the end of March.
- ✓ Although the Ringgit might feel the pressure on the Fed rate hike narrative, we expect that the Ringgit could gain some appreciation amid the announcement of further easing of international borders as early as March.
- ✓ If this were to happen, it could help for Malaysia's economy to be more lively thus, it warrants for higher OPR which is anticipated to increase by 25 bps, bringing the rate to 2.0% in the 2H2022. With that, we opined that the **Ringgit could be strengthened to RM4.09 by the end of 2022 (2021: RM4.17).**

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