BANK ISLAM

MONTHLY ECONOMIC UPDATES

2 NOVEMBER 2020

ECONOMIC RESEARCH

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TABLE OF CONTENT

GLOBAL ECONOMY

OVERVIEW – DIMMER PROSPECTS

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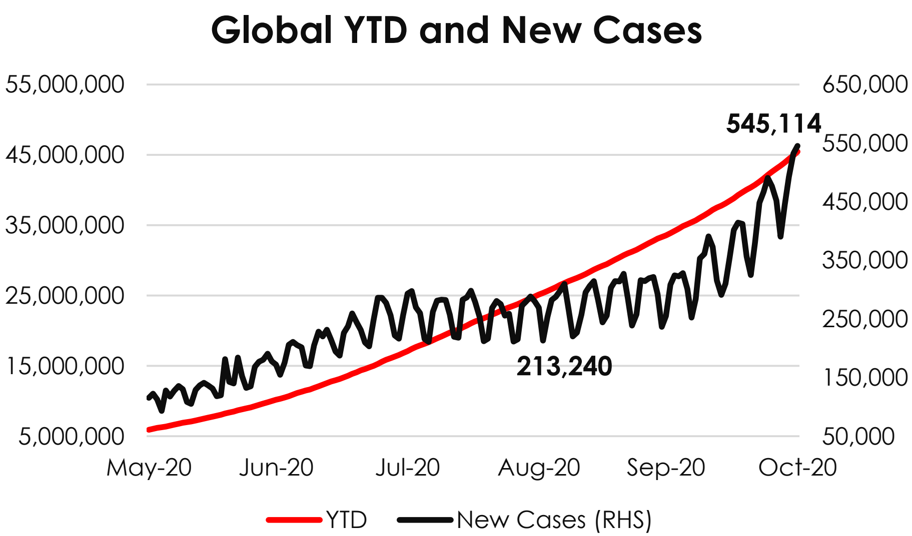
- ✓ **New wave of Covid-19 –** More countries are seeing a resurgence in Covid-19 cases after successfully slowing down the outbreaks during first half this year. The number of new people infected with Covid-19 across the world was reported at 545,114 on 31 October 2020 which was higher as compared to 255,139 on 30 September. The surge in new Covid-19 cases can be seen in France (31 October: 48,573 vs. 30 September: 7,779), the UK (31 October: 24,405 vs. 30 September: 7,143) and the US (31 October: 89,048 vs. 30 September: 32,688).

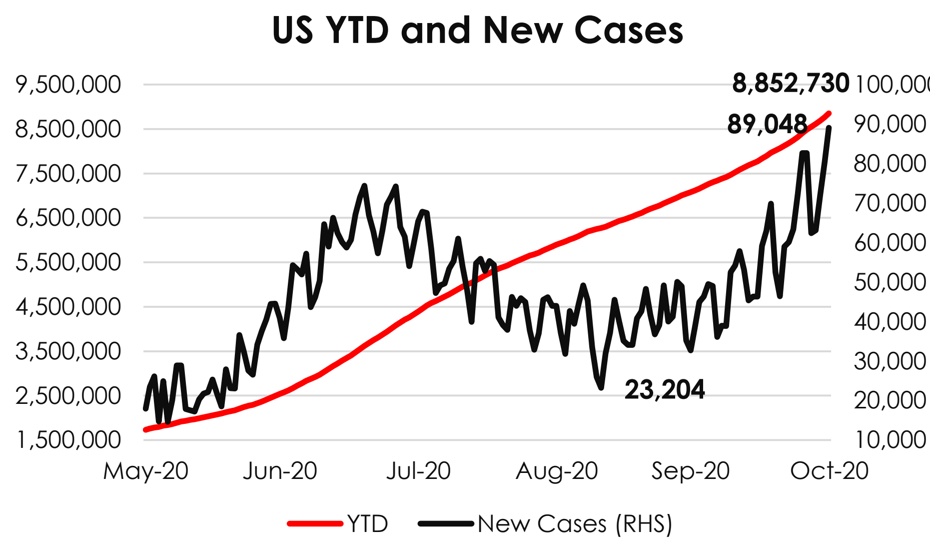
- ✓ **Extension of CMCO –** The domestic Covid-19 cases increased at an unprecedented rate which resulted in the extension of Conditional Movement Control Order (CMCO) for another two weeks that will end on 9 November. With tighter restrictions, the concern is the impacts of the ongoing uncertainties on business sentiments, labour market recovery, as well as consumer spending.

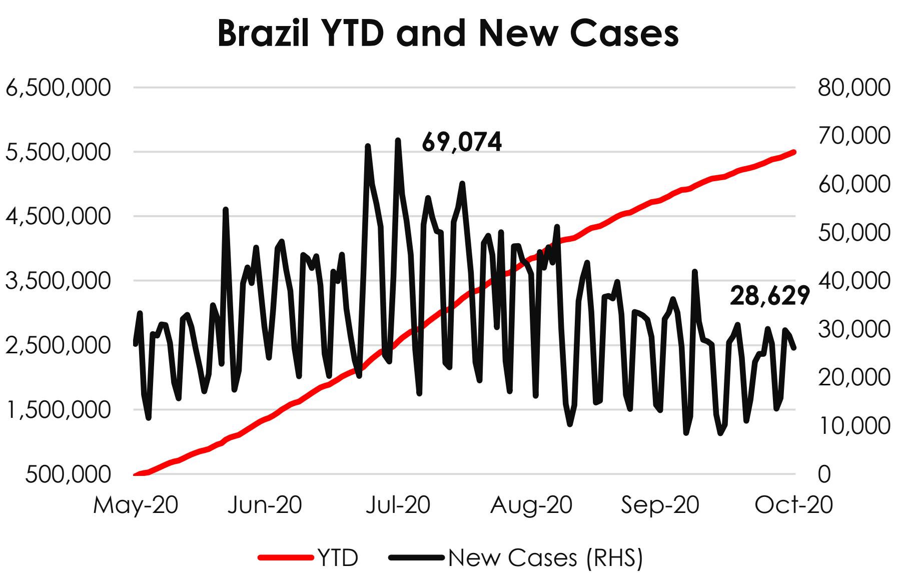
- ✓ **Weaker manufacturers' sentiments –** Malaysia's Manufacturing Purchasing Manager's Index (PMI) plummeted to 48.5 points in October from 49.0 points recorded previously. According to the survey, output has scaled back for two consecutive months weighed by faltering exports. In addition, the confidence has dipped largely impinged by rising Covid-19 infection rates and worries over further lockdown measures which would hit the order books.

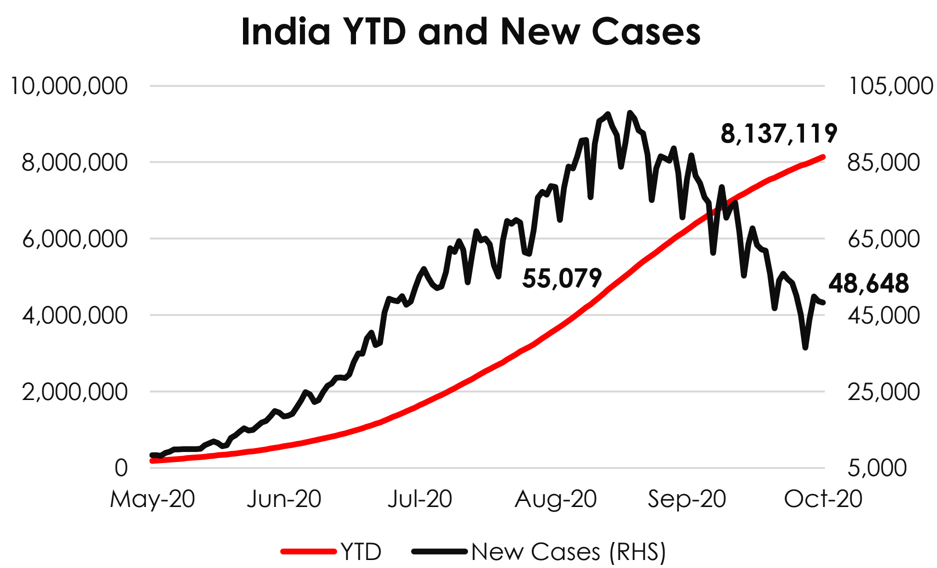
- ✓ **Key risk events ahead –** The market players would likely to remain cautious awaiting the interest rate decision by the Monetary Policy Committee (MPC), national budget tabling, and the US presidential election which will influence the market movement.

COVID-19 : THE US, INDIA AND BRAZIL CONTINUE TO RECORD THE HIGHEST NUMBER OF INFECTION CASES DAILY









Source: CEIC

THE INTERNATIONAL MONETARY FUND (IMF) PROJECTED THAT GLOBAL GROWTH WOULD CONTRACT BY 4.4% IN 2020

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IMF World Economic Outlook Projections, %:

		Projections		Difference from June 2020 WEO *Update*[1]		Difference from April 2020 WEO[1]	
	2019	2020	2021	2020	2021	2020	2021
World Output	**2.8**	**–4.4**	**5.2**	**0.8**	**–0.2**	**–1.1**	**–0.5**
Advanced Economies	**1.7**	**–5.8**	**3.9**	**2.3**	**–0.9**	**0.3**	**–0.6**
United States	2.2	–4.3	3.1	3.7	–1.4	1.6	–1.6
Euro Area	1.3	–8.3	5.2	1.9	–0.8	–0.8	0.5
Germany	0.6	–6.0	4.2	1.8	–1.2	1.0	–1.0
France	1.5	–9.8	6.0	2.7	–1.3	–2.6	1.5
Italy	0.3	–10.6	5.2	2.2	–1.1	–1.5	0.4
Spain	2.0	–12.8	7.2	0.0	0.9	–4.8	2.9
Japan	0.7	–5.3	2.3	0.5	–0.1	–0.1	–0.7
United Kingdom	1.5	–9.8	5.9	0.4	–0.4	–3.3	1.9
Canada	1.7	–7.1	5.2	1.3	0.3	–0.9	1.0
Other Advanced Economies[2]	1.7	–3.8	3.6	1.1	–0.6	0.8	–1.0
Emerging Market and Developing Economies	**3.7**	**–3.3**	**6.0**	**–0.2**	**0.2**	**–2.1**	**–0.5**
Emerging and Developing Asia	5.5	–1.7	8.0	–0.9	0.6	–2.7	–0.5
China	6.1	1.9	8.2	0.9	0.0	0.7	–1.0
India[3]	4.2	–10.3	8.8	–5.8	2.8	–12.2	1.4
ASEAN-5[4]	4.9	–3.4	6.2	–1.4	0.0	–2.8	–1.5
Emerging and Developing Europe	2.1	–4.6	3.9	1.2	–0.3	0.6	–0.3
Russia	1.3	–4.1	2.8	2.5	–1.3	1.4	–0.7
Latin America and the Caribbean	0.0	–8.1	3.6	1.3	–0.1	–2.9	0.2
Brazil	1.1	–5.8	2.8	3.3	–0.8	–0.5	–0.1
Mexico	–0.3	–9.0	3.5	1.5	0.2	–2.4	0.5
Middle East and Central Asia	1.4	–4.1	3.0	0.4	–0.5	–1.3	–1.0
Saudi Arabia	0.3	–5.4	3.1	1.4	0.0	–3.1	0.2
Sub-Saharan Africa	3.2	–3.0	3.1	0.2	–0.3	–1.4	–1.0
Nigeria	2.2	–4.3	1.7	1.1	–0.9	–0.9	–0.7
South Africa	0.2	–8.0	3.0	0.0	–0.5	–2.2	–1.0
Memorandum							
Low-Income Developing Countries	5.3	–1.2	4.9	–0.2	–0.3	–1.6	–0.7
Middle East and North Africa	0.8	–5.0	3.2	0.7	–0.5	–1.8	–1.0
World Growth Based on Market Exchange Rates	2.4	–4.7	4.8	1.4	–0.5	–0.5	–0.6

Source: IMF

- ✓ The global economy is projected to contract by 4.4% in 2020, an upward revision from revised estimate of -5.2% (Forecast in June: -4.9%).
- ✓ The revision was driven by better-than-expected growth in advanced economies and China during the 2Q2020 and signs of a more rapid recovery in the third quarter.

US GDP IS ESTIMATED TO CONTRACT BY 2.9% IN 3Q2020

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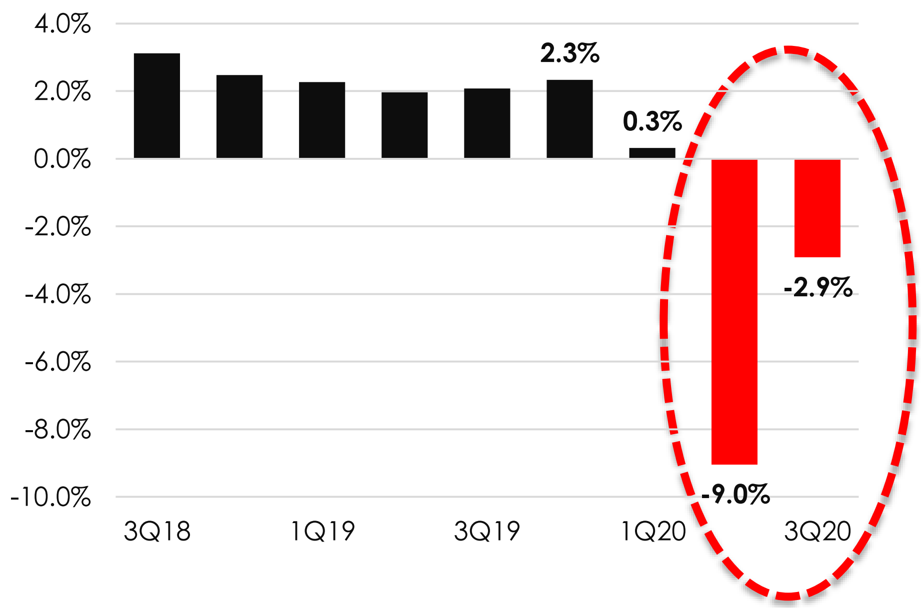
Real Gross Domestic Product (GDP): % Change from Quarter One Year Ago:

Quarter/Year	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020*
Gross Domestic Product (GDP), y-o-y	2.1%	2.3%	0.3%	-9.0%	**-2.9%**
Personal Consumption Expenditure	2.5%	2.5%	0.2%	-10.2%	**-2.9%**
Gross Private Domestic Investment	0.9%	-1.0%	-4.2%	-16.9%	**-3.8%**
Government Spending	2.2%	3.0%	2.7%	2.1%	**0.4%**
Exports	0.2%	0.4%	-2.6%	-23.9%	**-14.6%**
Imports	1.0%	-1.9%	-5.3%	-22.4%	**-8.9%**

*Advance estimate
Sources: US Bureau of Economic Analysis (BEA), CEIC

US GDP, y-o-y%



- ✓ US Gross Domestic Product (GDP) advance estimate dropped by 2.9% year-on-year (y-o-y) in 3Q2020, slower than 9.0% contraction in the previous quarter.
- ✓ As the coronavirus-related restrictions have been lifted, economic and businesses activities have started to resume. These have helped to support the recovery process.
- ✓ Personal consumption expenditure (PCE) which is the anchor of the US economy fell moderately by 2.9% in 3Q2020 from -10.2% in June quarter, while gross private domestic investment has been plummeting for the fourth straight quarter (3Q2020: -3.8% vs. 2Q2020: -16.9%).
- ✓ Apart from that, as the international trading activities have been restricted amid prolonged Covid-19 infections, exports performance continued to be adversely affected, declining by 14.6% in 3Q2020 from -23.9% previously.

US ECONOMY – CONTINUES ITS SLUGGISH RECOVERY

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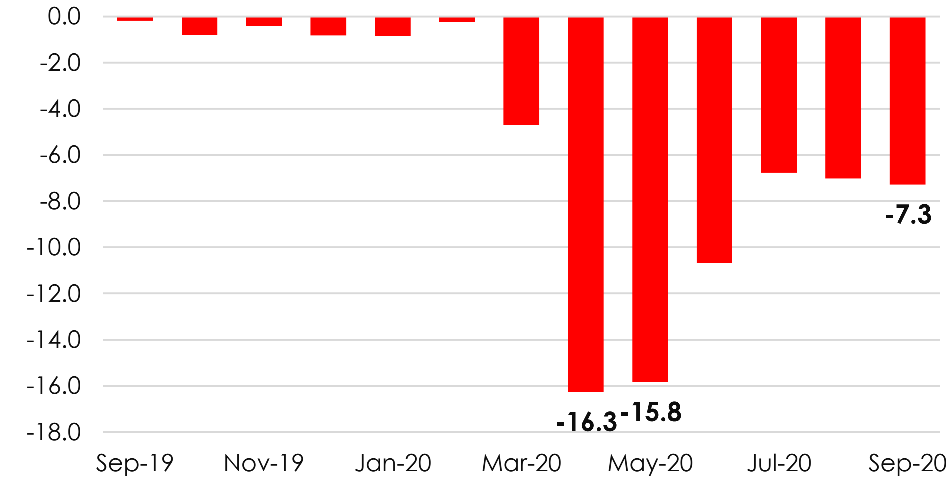
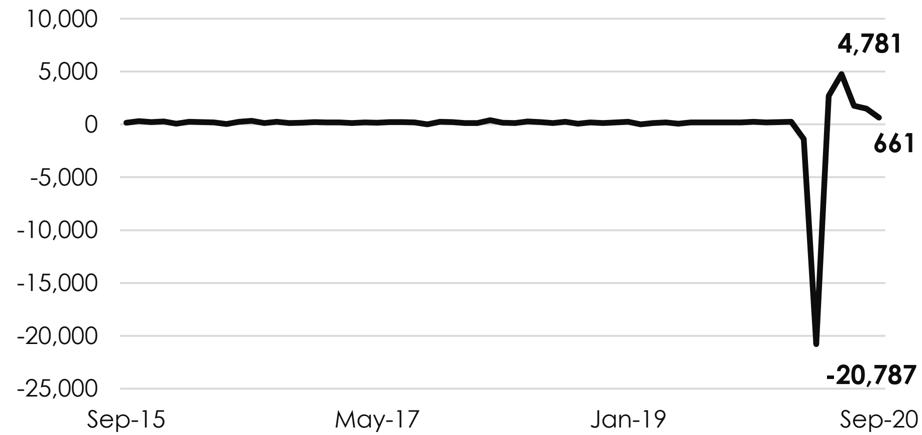
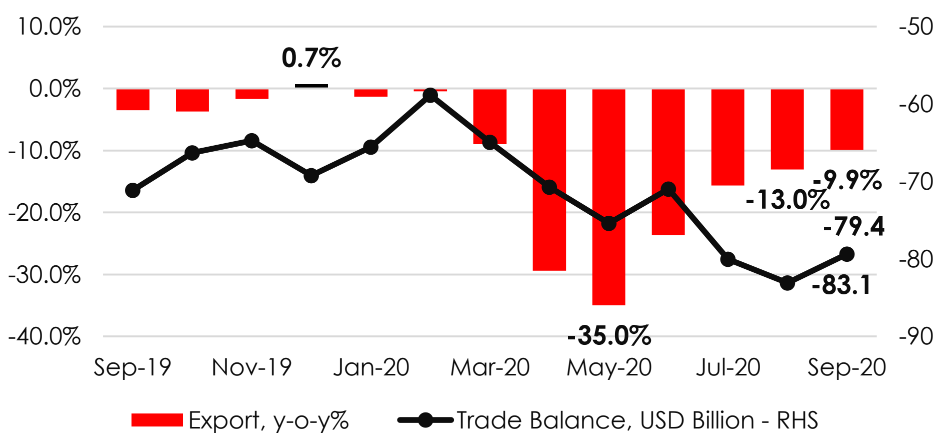
Industrial Production, y-o-y%



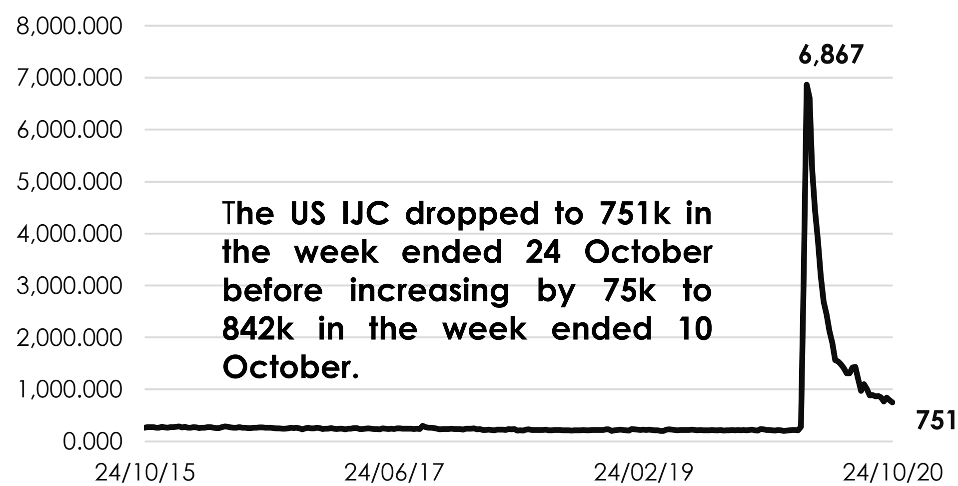
Nonfarm Payrolls, m-o-m changes ('000)



Exports, y-o-y% vs. Trade Balance (USD Billion)



Initial Jobless Claims (IJC), 000



The US IJC dropped to 751k in the week ended 24 October before increasing by 75k to 842k in the week ended 10 October.

Sources: Bloomberg, CEIC

CHINA ECONOMY – CONTINUES TO BOUNCE BACK FROM VIRUS SLUMP

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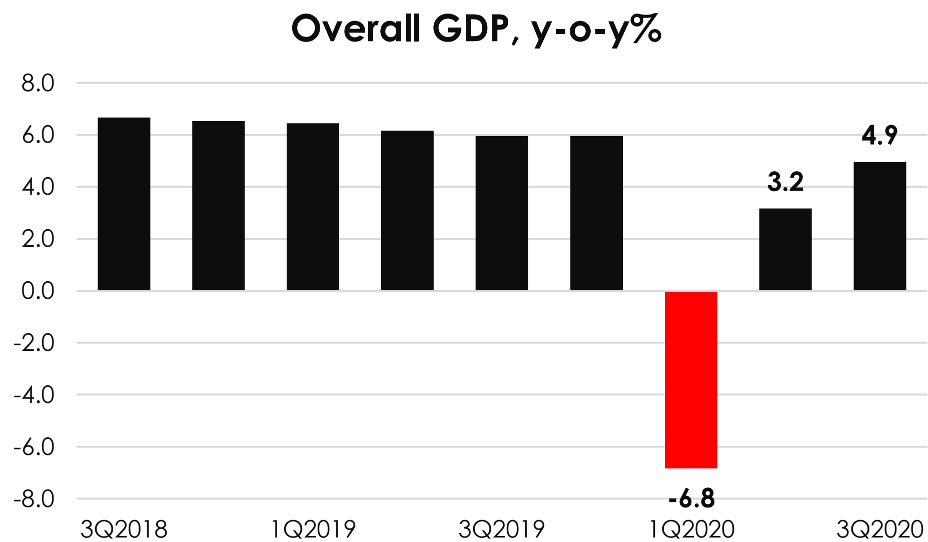

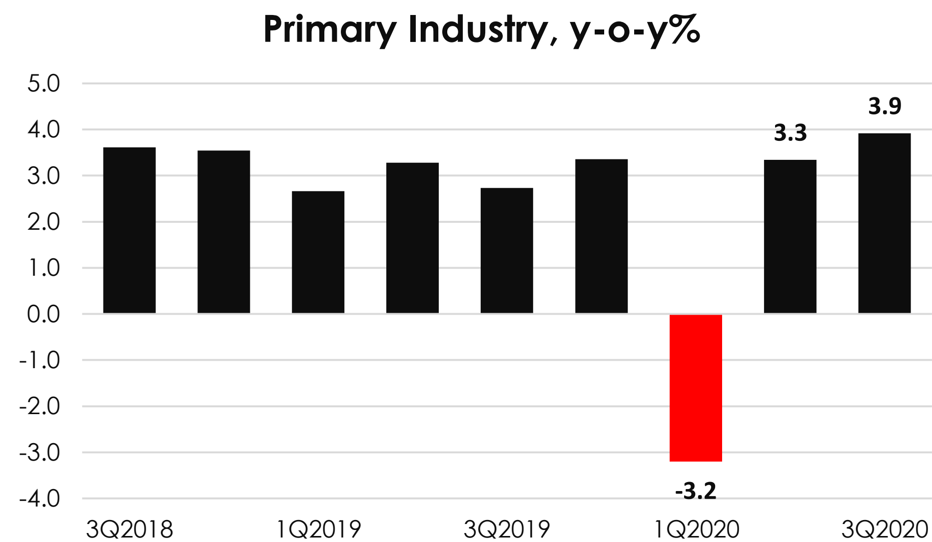

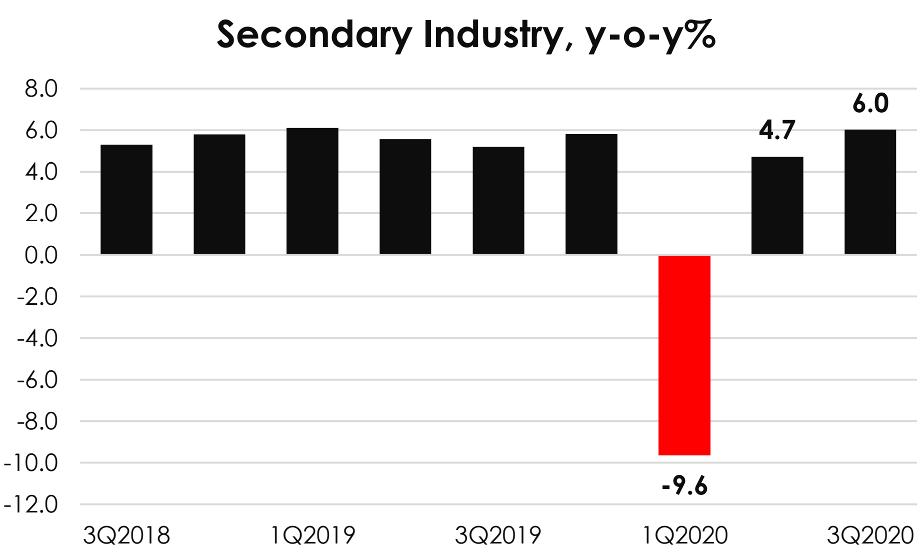

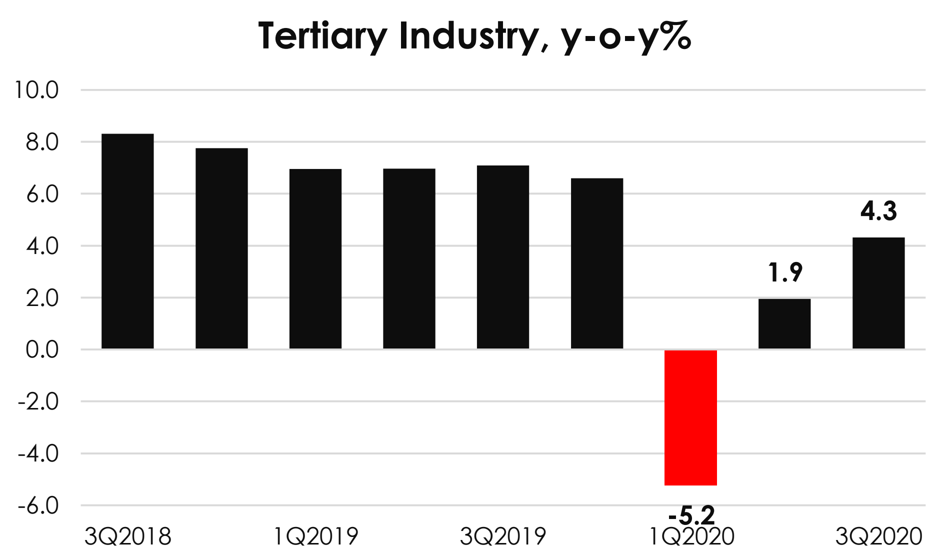

Sources: CEIC, National Bureau of Statistics of China

SINGAPORE ECONOMY IS EXPECTED TO CONTRACT BY 7.0% IN 3Q2020

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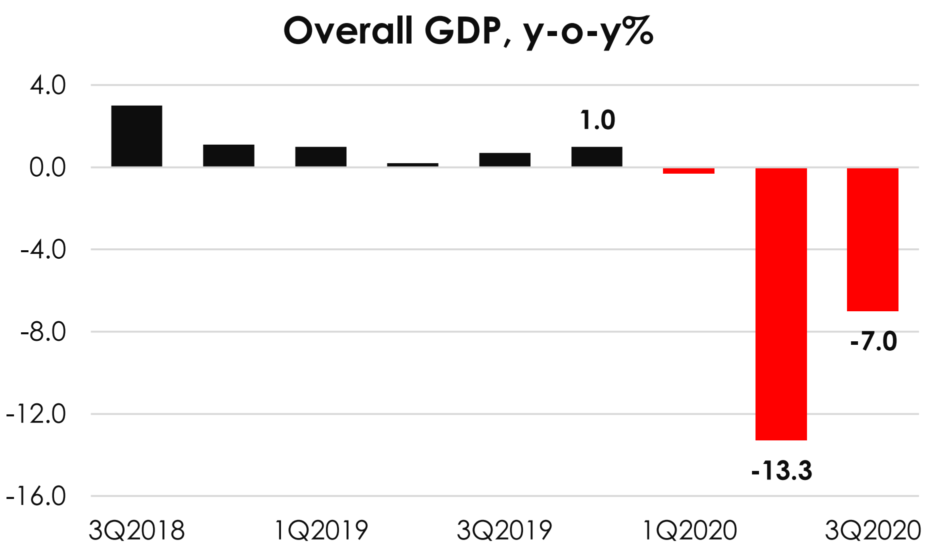
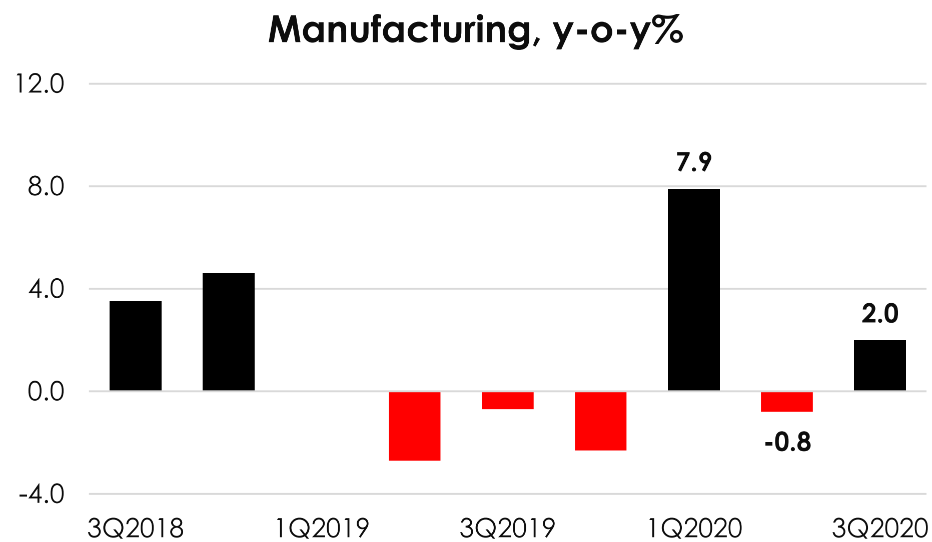
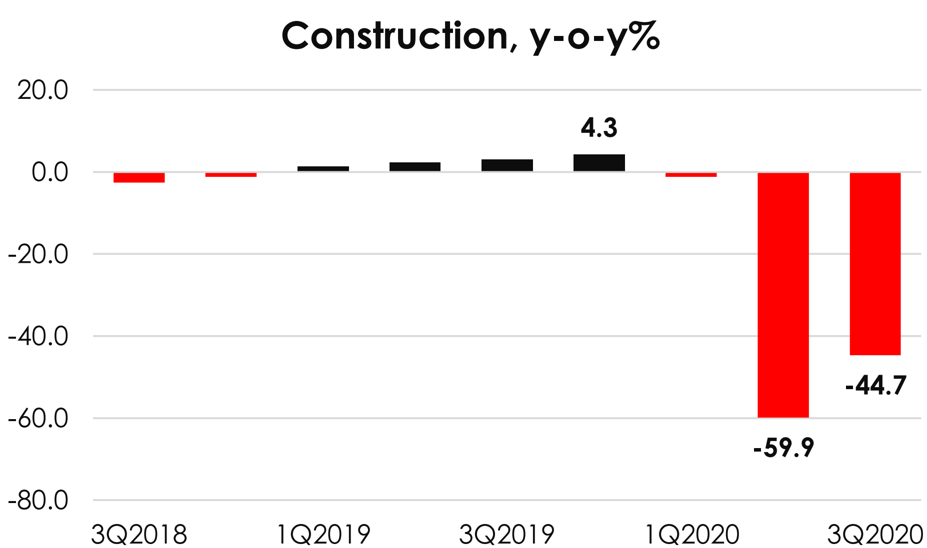
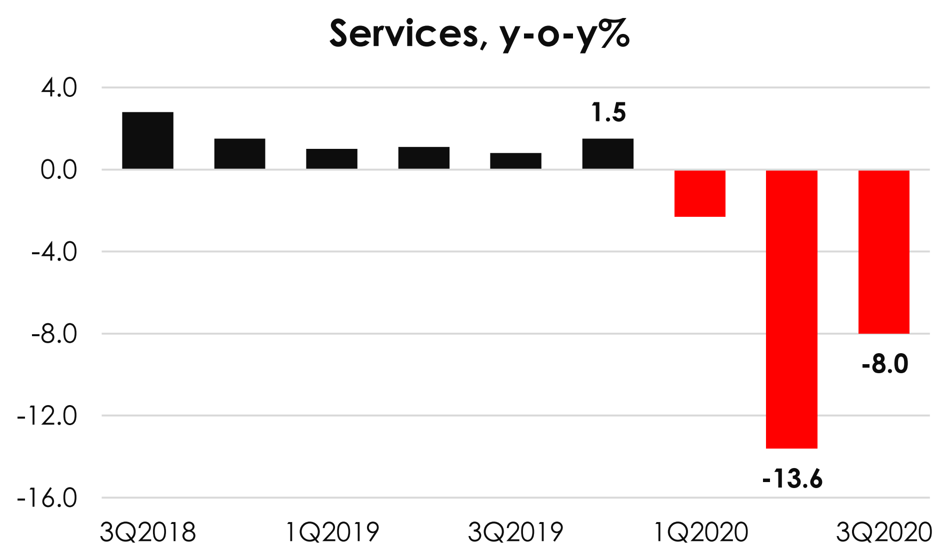




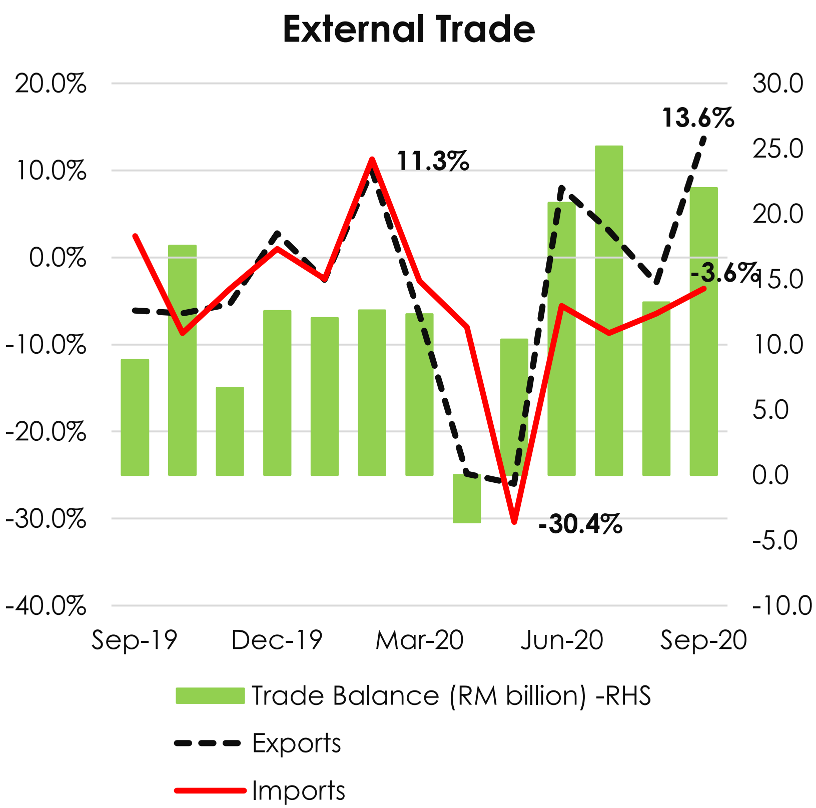




Sources: MTI, Singapore, CEIC

DOMESTIC LANDSCAPE

MALAYSIA'S EXPORTS JUMPED TO 13.6% IN SEPTEMBER



Source: CEIC

- ✓ Malaysia's exports rebounded by 13.6% year-on-year (y-o-y) in September from 2.9% contraction in the previous month.
- ✓ This was mainly contributed by the strong expansion in Manufacturing (September: 16.3% vs. August: -0.1%) and Agriculture (September: 26.6% vs. August: -4.5%) sectors.
- ✓ Meanwhile, Mining sector declined by 27.4% in September, extending the 25.9% fall in the preceding month.
- ✓ Within Manufacturing sector, sales for Electrical & Electronic products (September: 33.0% vs. August: 7.6%) and Rubber products (September: 115.8% vs. August: 66.8%) continued to record stellar performance during September.
- ✓ For imports, it shrank by 3.6% in September from -6.5% previously as imports of Capital Goods and Intermediate Goods registered softer fall at 1.8% (August: -15.6%) while Consumption Goods were higher by 11.2% in September (August: 2.9%).
- ✓ Consequently, the trade surplus widened to RM22.0 billion in September from RM13.2 billion in August.

- ✓ On a quarterly basis, total exports grew by 4.4% during the 3Q2020 from 15.1% declined in the preceding quarter. On the other hand, total imports dropped by 6.3% in the 3Q2020 from -15.1%% in the 2Q2020. As such, the trade surplus balance increased to RM60.4 billion in the 3Q2020 from RM27.6 billion in the preceding quarter.

- ✓ Cumulatively, total exports plummeted by -3.7% during 9M2020 from a flat figure last year. Similarly, total imports slumped by 6.9% from -3.3% in 9M2019. Therefore, the trade surplus balance expanded to RM124.9 billion during 9M2020 from RM108.8 billion in the corresponding period last year.

BANKING SECTOR RECORDED STABLE GROWTH IN SEPTEMBER 2020

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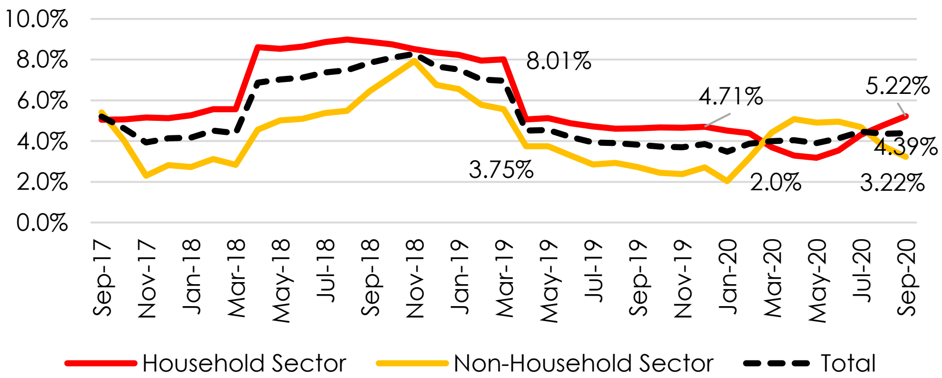
Financing Outstanding by Sector (y-o-y%)



Source: CEIC

- ✓ The banking system's financing growth was higher at 4.39% y-o-y in September (August: 4.35%). Within the sector, the Household sector increased by 5.22% in September (August: 4.79%), anchored by purchase of passenger cars (September: 4.24% vs. August: 2.18%) ascribed to lower SST on CKDs and CBUs to 0.0% and 5.0% for cars.

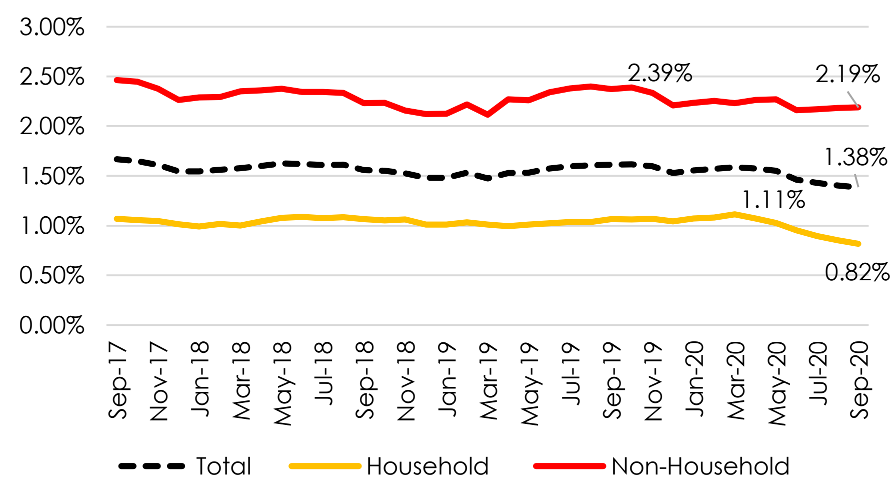
- ✓ In addition, the extension of Home Ownership Campaign (HOC) has supported the purchase of residential properties. In light of this, the financing growth has inched up to 7.57% in September (August: 7.52%).

- ✓ Meanwhile, financing from Non-Household sector recorded slower growth at 3.22% in September from 3.74% previously.

- ✓ On impairment, the Gross Impaired Financing Ratio (GIFR) was lower at 1.38% in September (August: 1.40%), The Household sector has declined to 0.82% in September from 0.85% in August while the Non-Household sector increased marginally to 2.19% (August: 2.18%). However, few of the sector has recorded higher GIFR such as Manufacturing (September: 3.25% vs. August: 3.16%), Construction (September: 2.56% vs. August: 2.54%) and Transport, Storage & Communication (September: 4.70% vs. August: 4.46%).

- ✓ All in all, the GIFR is expected to pickup gradually following the resumption of the financing repayment. Furthermore, the BNM has projected the overall GIFR to raise above 4.00% by the end of 2021 mainly driven by business sector.

GIFR (%)



Source: CEIC

FEW SEGMENTS SHOWED HIGHER GIFR (%)

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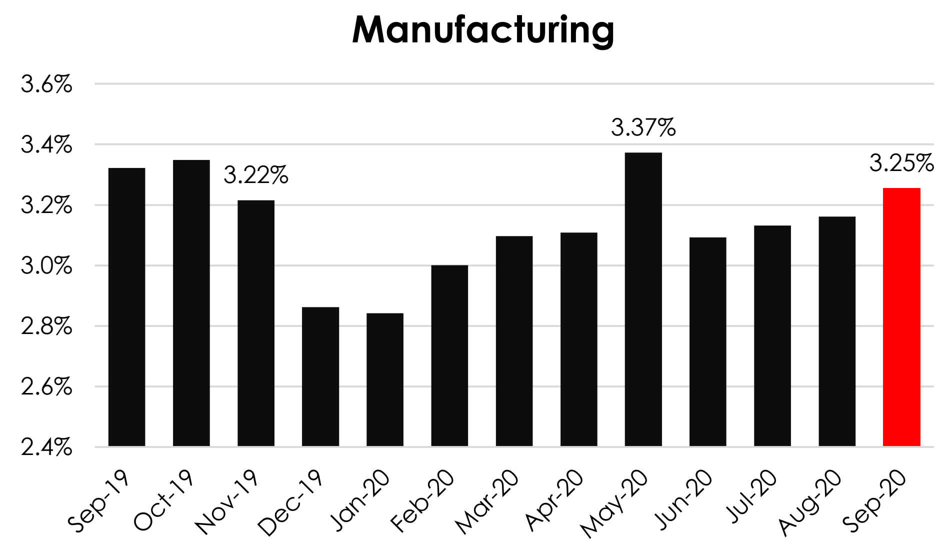

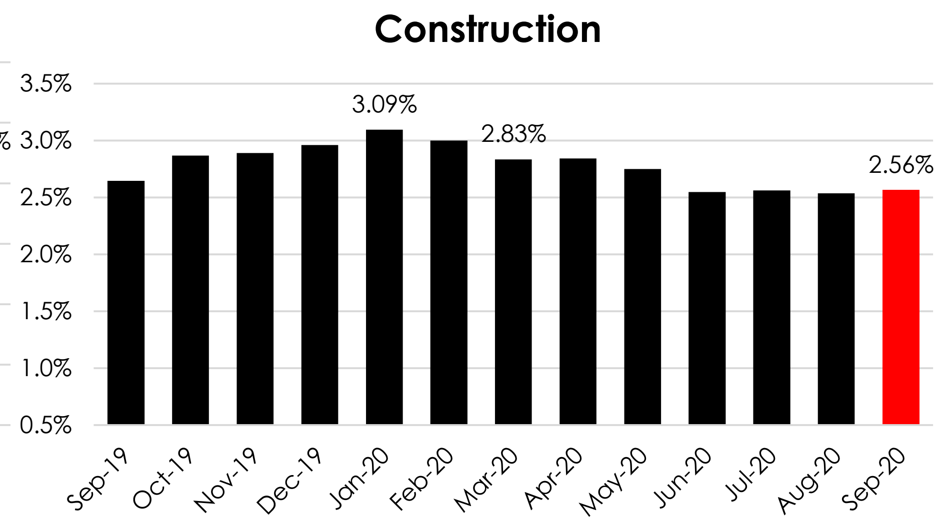

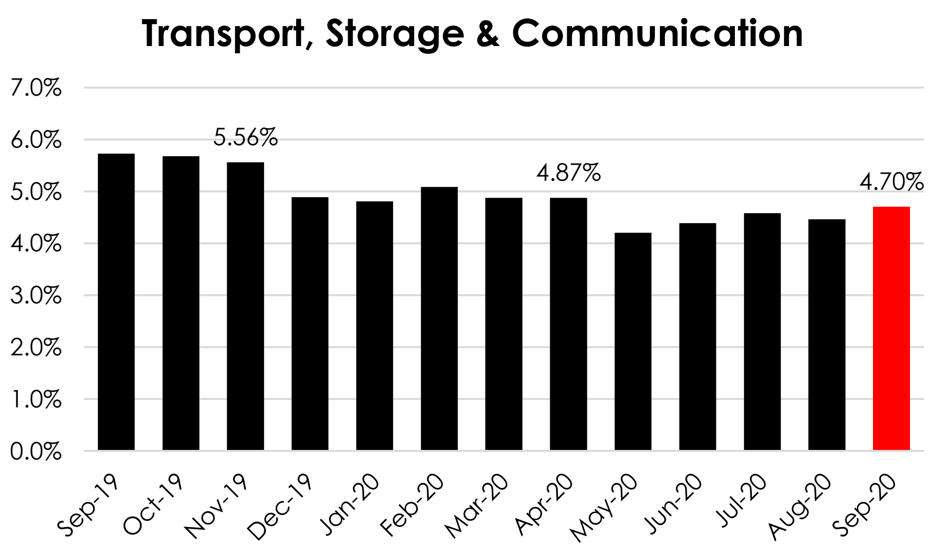

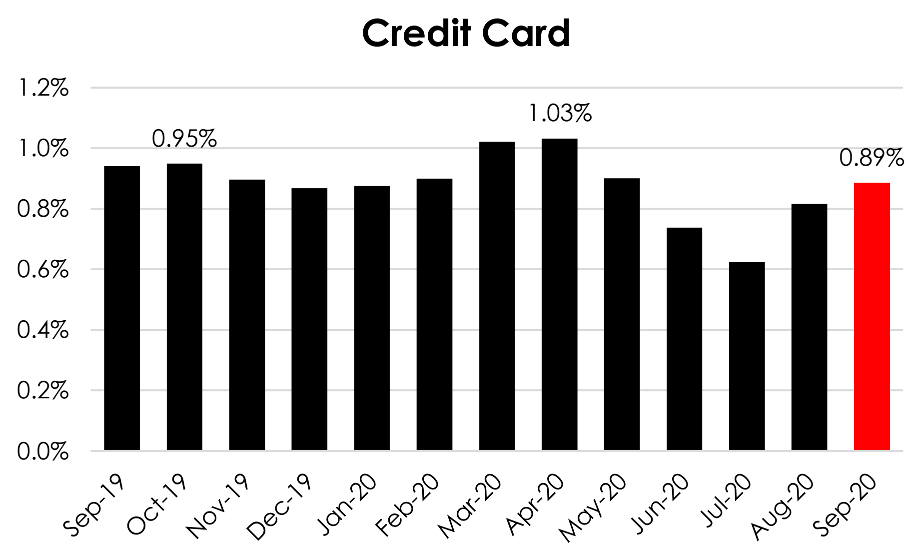

Source: CEIC, BNM

AUTOMOTIVE SECTOR – TIV CONTINUES TO RISE GRADUALLY

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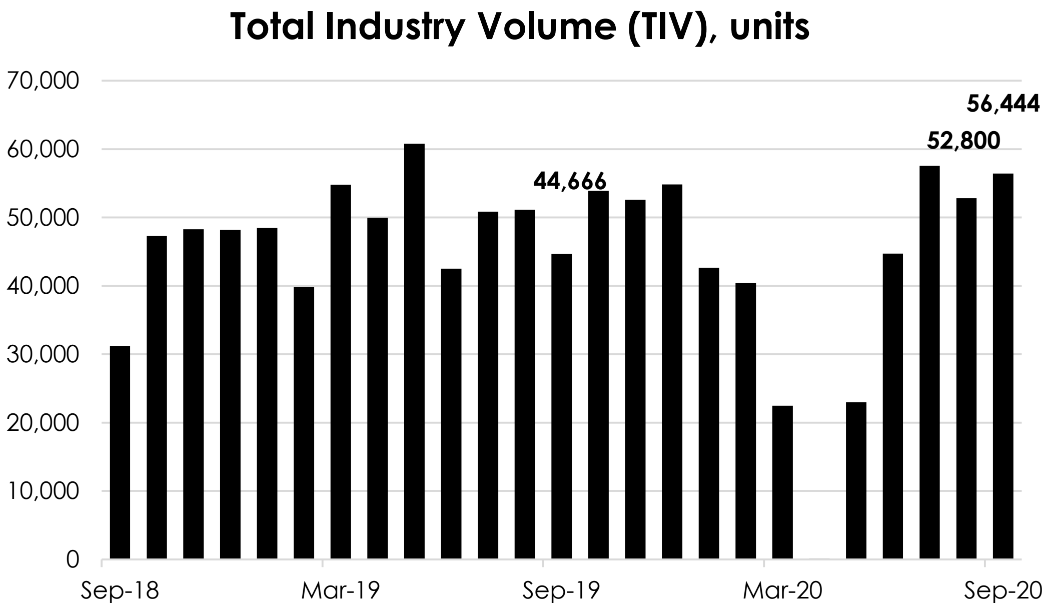
Market Segment	2020F	2021F	2022F	2023F	2024F
Total Industry Volume (TIV)	470,000	550,000	600,000	612,000	624,240
Growth	-22.2%	17.0%	9.1%	2.0%	2.0%



Source: Malaysian Automotive Association (MAA)

- ✓ TIV rose by 26.4% y-o-y to 56,444 units in September 2020, compared to the 3.2% increase in the month before. In fact, this was the strongest TIV growth registered so far this year. Meanwhile, total industry volume (TIV) for 9M2020 was 22.9% y-o-y lower at 341,489 units from the 442,985 vehicles a year ago.
- ✓ The Malaysian Automotive Association (MAA) has maintained its TIV forecast for 2020 at 470,000 units (2019: 604,287 units), representing an annual contraction of 22.2%.
- ✓ Automotive sales are expected to pick up in the remainder of 2020 due to the sales tax incentives for purchase of passenger cars which runs until 31 December 2020, on top of promotional campaign by auto makers.
- ✓ Attractive financing rates could lure consumers to purchase new cars in the subsequent periods.

- ✓ However, we still maintain our neutral call for the sector amid downside risks from a possible resurgence of Covid-19 cases in the country which may dent consumer sentiment and subsequently impede TIV growth.

AUTOMOTIVE SECTOR – TIV CONTINUES TO RISE GRADUALLY

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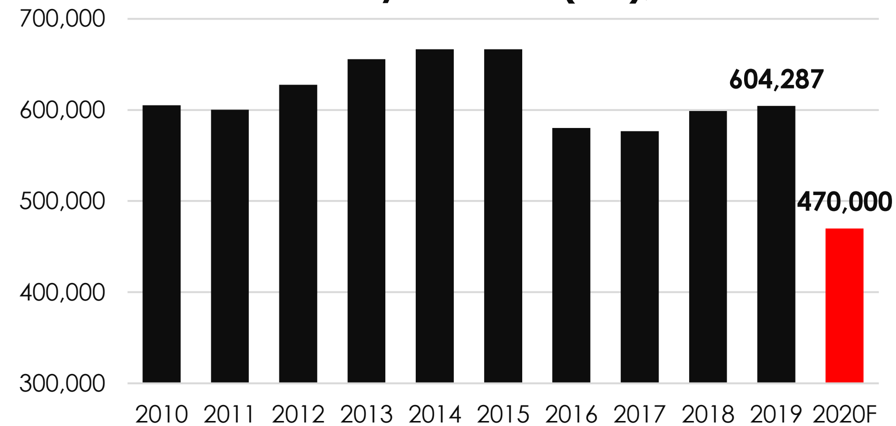
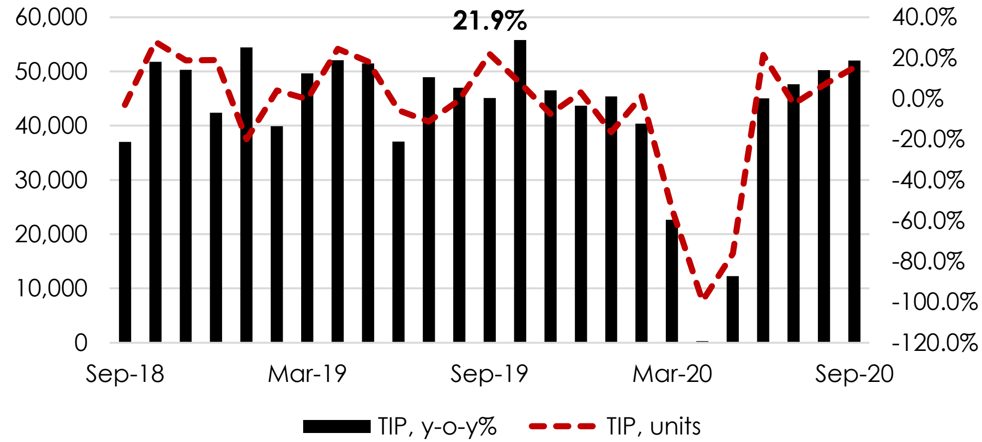
Total Industry Volume (TIV), units



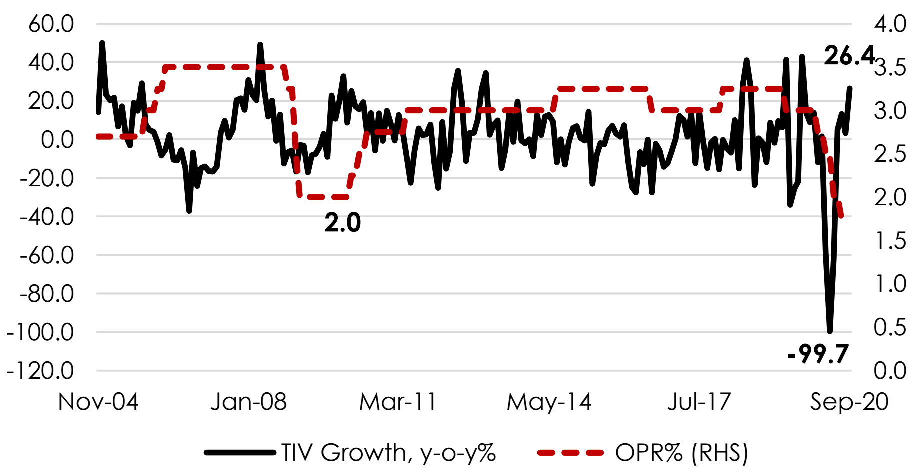
Source: Malaysian Automotive Association (MAA)

Total Industry Production (TIP), units



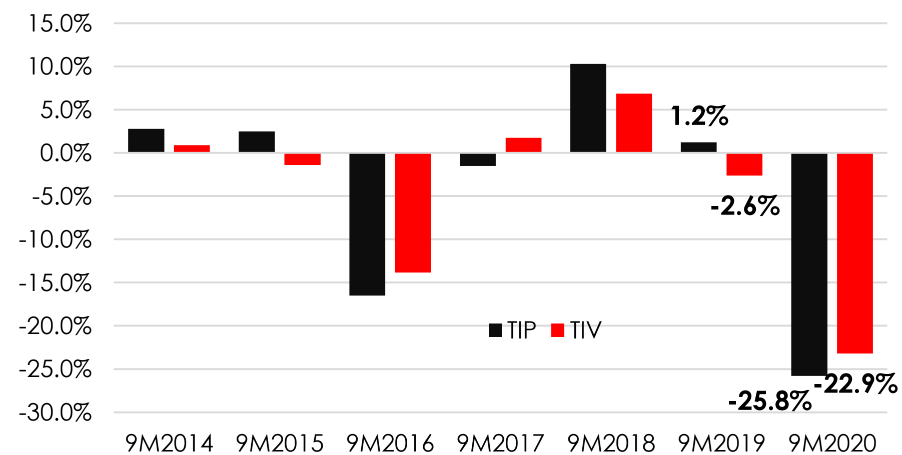
Source: CEIC

OPR,% vs. TIV Growth, y-o-y%



Source: CEIC

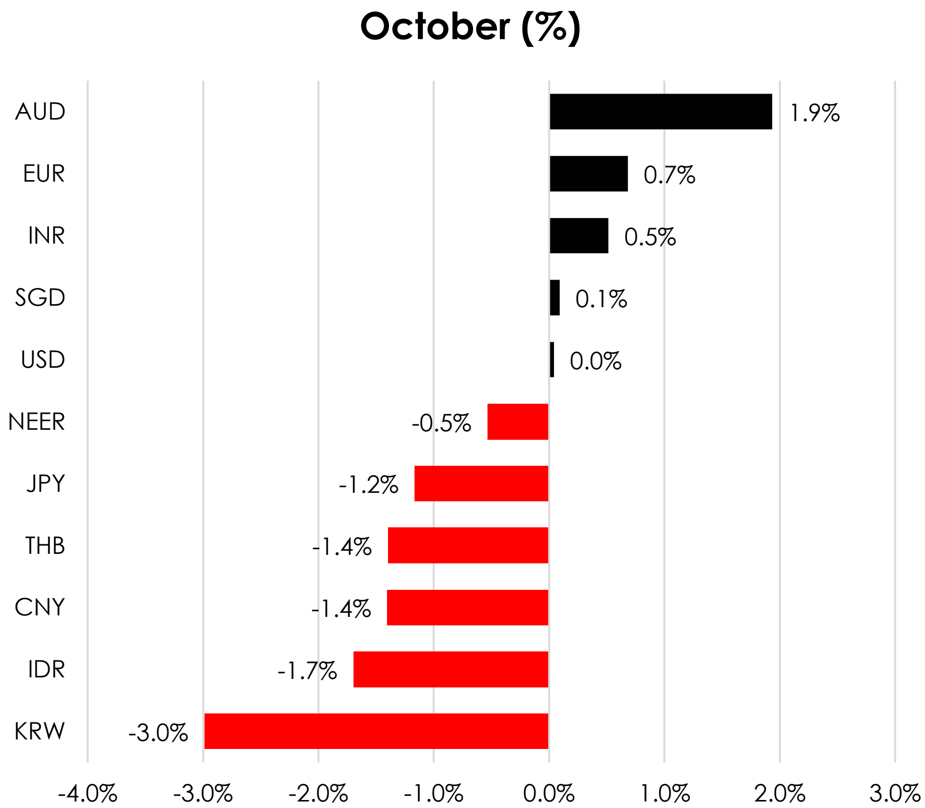
TIP vs. TIV, y-o-y%

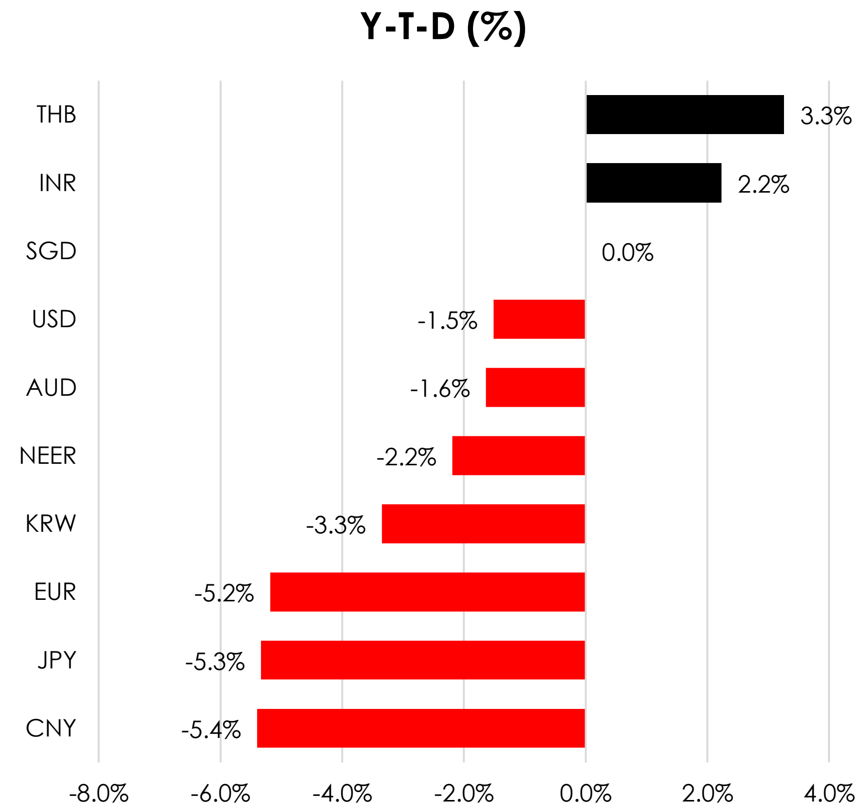


Source: CEIC

RINGGIT STRENGHTENED DURING OCTOBER

- ✓ The Ringgit was higher over the month as it closed at RM4.1558 against USD on 30 October from RM4.1565 on 30 September.
- ✓ However, the national budget tabling, coupled with cautiousness surrounding the US general election, are expected to keep the Ringgit under pressure in the next future.



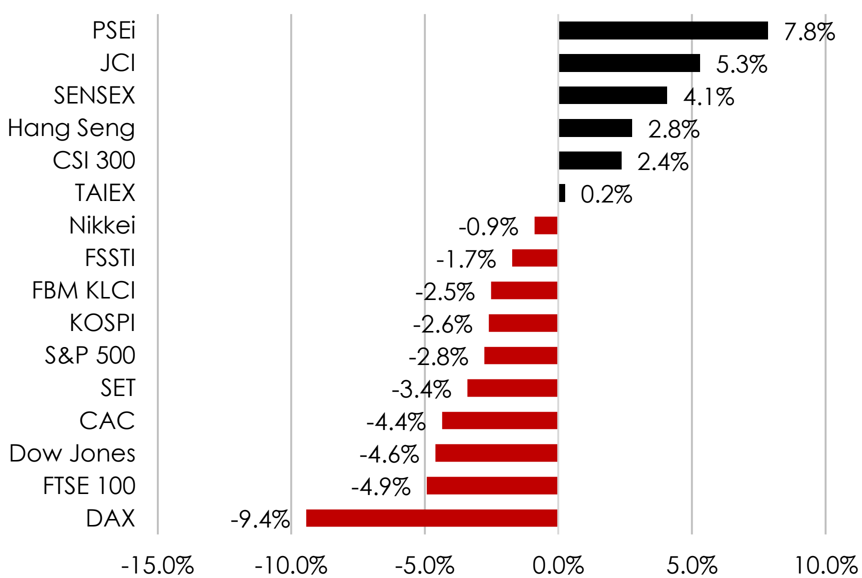


Source: Bloomberg, Bank Islam

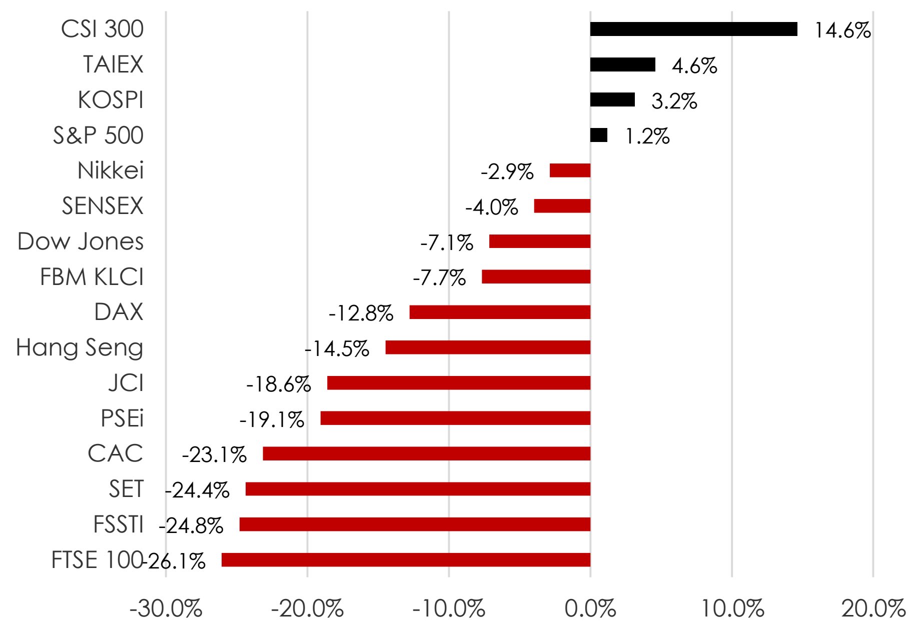
REGIONAL MARKETS WERE SWIMMING IN THE RED

- ✓ Majority of regional equity markets remained in the red zone in October. Germany's DAX index recorded the biggest loss of 9.4% in October as traders mulled mounting anti Covid-19 measures taken across the country, which are likely to slow a nascent economic recovery. In Germany, bars, restaurants, cinemas and gyms will be closed from 2 November 2020 until the end of the month.
- ✓ Meanwhile, Philippines's PSEI index was the biggest winner, gaining 7.8% for the month. Positivity was boosted by the announcement from the Inter-Agency Task Force on the Management of Emerging Infectious Diseases (IATF-EID) to ease the movement of persons traveling between areas under general community quarantine (GCQ) and modified general community quarantine (MGCQ).
- ✓ On the domestic front, the FBM KLCI lost 2.5% in October as political uncertainty lingers coupled with the recent spike in Covid-19 cases which led to the conditional movement control order (CMCO) being imposed. Nevertheless, it still has the lowest year-to-date loss compared to its ASEAN peers.

Gains/Losses of Benchmark Indices in October 2020



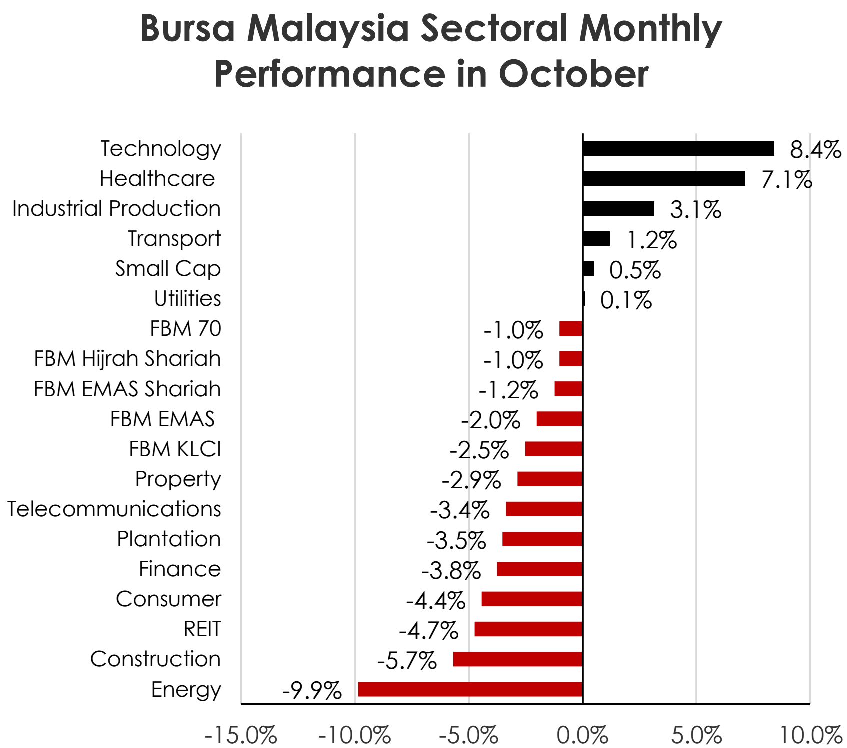
Benchmark Indices YTD Gain

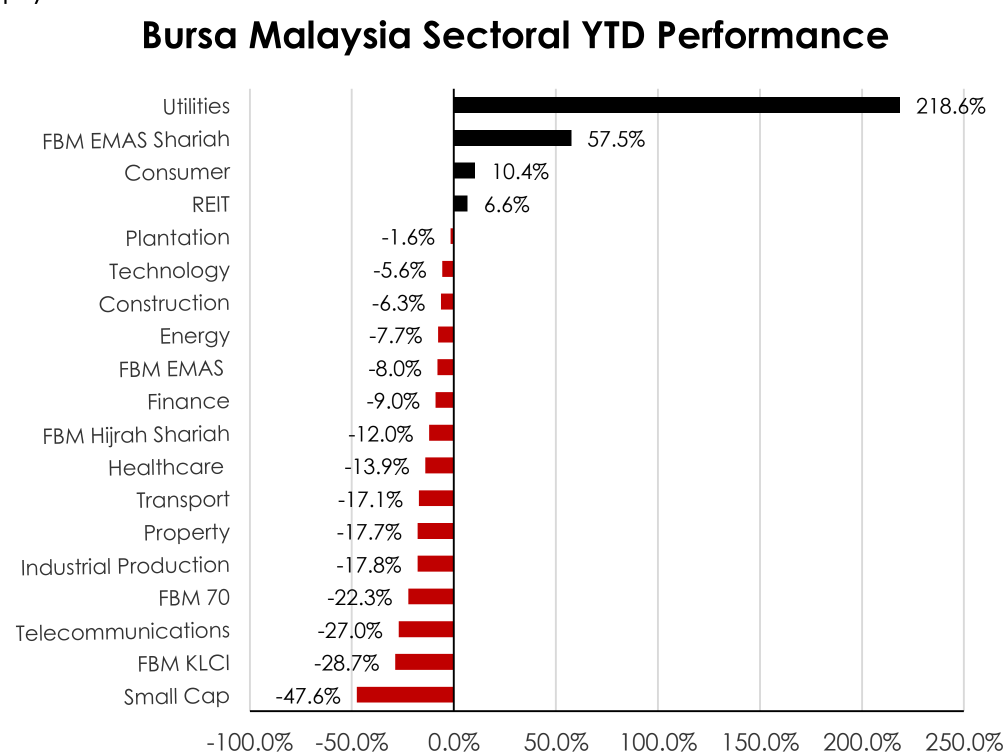


Sources: Bloomberg

SECTORAL PERFORMANCE IN MALAYSIA'S MARKET

- ✓ The **Bursa Malaysia Technology Index** and the **Bursa Malaysia Healthcare Index** emerged as the largest gainers for the month of October, adding 8.4% and 7.1% respectively. Technology counters rallied following news that Chinese technology giant Huawei Technologies Co Ltd quietly spent months racing to stockpile critical radio chips, ahead of the US President Donald Trump's sanctions, to ensure that it can deliver its 5G orders for next year. Glove counters on the other hand took cue of the rise in Covid-19 infections worldwide.
- ✓ Meanwhile, losers were conquered by the **Bursa Malaysia Energy Index** which lost 9.9% in October. Libya has increased its oil production from roughly 100,000 barrels per day (bpd) in early September to around 300,000 bpd currently due to the lifting of the blockade from General Khalifa Haftar. Governor of Libya's central bank states that it needs to raise oil production to 1.7 million bpd to compensate for current levels as the shut down of the country's oil production and exportation since 2013 has cost Libya around USD180.0 billion in losses. As such, the gain in oil prices were capped by such rise in oil supply.





Sources: Bloomberg

EARNINGS MOMENTUM OF THE LOCAL MARKET

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- ✓ The two glove makers (Top Glove and Hartalega) which are part of the FBM KLCI constituents have seen their weightage (in terms of market capitalisation) remain strong at 13.8% as at 30 October 2020 (September 2020: 12.6%) despite a series of sell-offs following positive development of the Covid-19 vaccine. This brings the healthcare sector's market capitalisation weightage to 18.4% as at 30 October 2020 compared to 7.6% as of 31 December 2019.
- ✓ All-in-all, the FBM KLCI index's earnings are still anchored by the index heavyweight banking sector, which has the highest market capitalisation weighting at 24.3%. As the blanket loan repayment moratorium expired at the end of September and the loan moratorium on a targeted basis began, the gross impaired loans ratio of the banking sector could be sustained at a manageable level.
- ✓ Earnings wise, the expectation of stronger earnings for glove makers under the FBM KLCI index particularly Top Glove which saw its latest quarterly net profit jump by almost 18 times to RM1.29 billion led to an upward revision in the consensus of the FBM KLCI's earnings growth in 2020 to -3.8% y-o-y from -19.8% previously.

Sector Market Cap Weightings in the FBM KLCI

Sector	Market Cap (RM Billion) as at 31 Dec 2019	Market Cap Percentage as at 31 Dec 2019	Market Cap (RM Billion) as at 30 Sep 2020	Market Cap Percentage as at 30 Sep 2020	Market Cap (RM Billion) as at 30 Oct 2020	Market Cap Percentage as at 30 Oct 2020
Banks	303.7	29.6%	240.0	24.6%	231.7	24.3%
Consumer Product and Services	114.4	11.1%	93.7	9.6%	88.9	9.3%
Energy	19.5	1.9%	21.5	2.2%	20.9	2.2%
Healthcare and Rubber Gloves	78.5	7.6%	168.7	17.3%	175.1	18.4%
Industrial product and Services	83.6	8.1%	62.7	6.4%	65.0	6.8%
Materials	18.8	1.8%	20.8	2.1%	22.2	2.3%
Plantation	119.7	11.7%	114.3	11.7%	109.9	11.5%
Real Estate	14.3	1.4%	13.9	1.4%	13.7	1.4%
Telecommunication	128.6	12.5%	113.7	11.7%	109.5	11.5%
Transportation	37.3	3.6%	33.5	3.4%	29.4	3.1%
Utilities	108.3	10.5%	92.4	9.5%	85.6	9.0%
Total Market Cap (RM Billion)	**1026.7**	**100.0%**	**975.1**	**100.0%**	**951.9**	**100.0%**

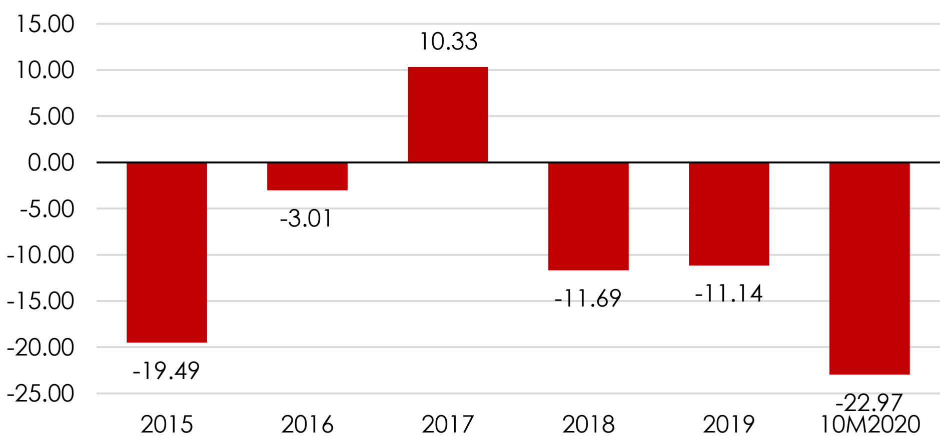
Earnings Growth Trajectory of the FBM KLCI

Year	Earnings Per Share (EPS) of FBM KLCI	Year-on-year (y-o-y) EPS Growth
2021F	93.1	8.1%
2020F	86.1	-3.8%
2019	89.6	12.9%
2018	79.3	-26.5%
2017	107.9	9.8%
2016	98.3	4.4%
2015	94.2	-13.0%

Sources: Bloomberg

- ✓ Foreign fund net outflows in October reached RM668.4 million (September: RM1.97 billion). Aside from that, local retail investors have posted net inflows of RM456.0 million (September: RM1.43 billion) while local institutions snapped up RM212.6 million in October after buying RM530.2 million of local equities in September.
- ✓ Cumulatively, total net outflows from foreign funds for the period between 1 January and 30 October stood at RM22.97 billion. Last year, the total foreign funds net outflow was RM11.14 billion and prior to that, the figure was RM11.69 billion. In terms of weeks, offshore funds were net sellers in 38 out of 44 weeks so far this year. The total foreign net outflow from Malaysia so far has not only exceeded the figure in 2019, but also the foreign net selling of RM19.49 billion seen in 2015. Foreign investors remained underweight in Malaysian equities at this juncture. Political stability and structural reforms are key for regaining their confidence.
- ✓ In comparison with Asian peers such as South Korea, Taiwan, India, Thailand, Indonesia and the Philippines, Malaysia has the fourth highest foreign net outflow on a year-to-date basis.

Foreign Fund Flow (Equity) in Malaysia (RM Million)



Source: Bloomberg

Regional Foreign Fund Flow (Equity) (USD Billion)						
Country	2015	2016	2017	2018	2019	10M2020
Korea	-3.6	10.5	8.3	-5.7	0.9	-24.7
Thailand	-4.4	2.2	-0.8	-8.9	-1.5	-9.4
Indonesia	-1.6	1.3	-3	-3.7	3.5	-3.2
Philippines	-1.2	0.1	1.1	-1.1	-0.2	-2.2
India	3.3	3	8	-4.6	14.2	6.7
Taiwan	3.4	11	5.7	-12.2	9.5	-22.8
Malaysia	-5	-0.6	2.4	-2.9	-2.7	-5.4

Source: Bloomberg

TRADING PARTICIPATION AMONGST INVESTOR GROUPS

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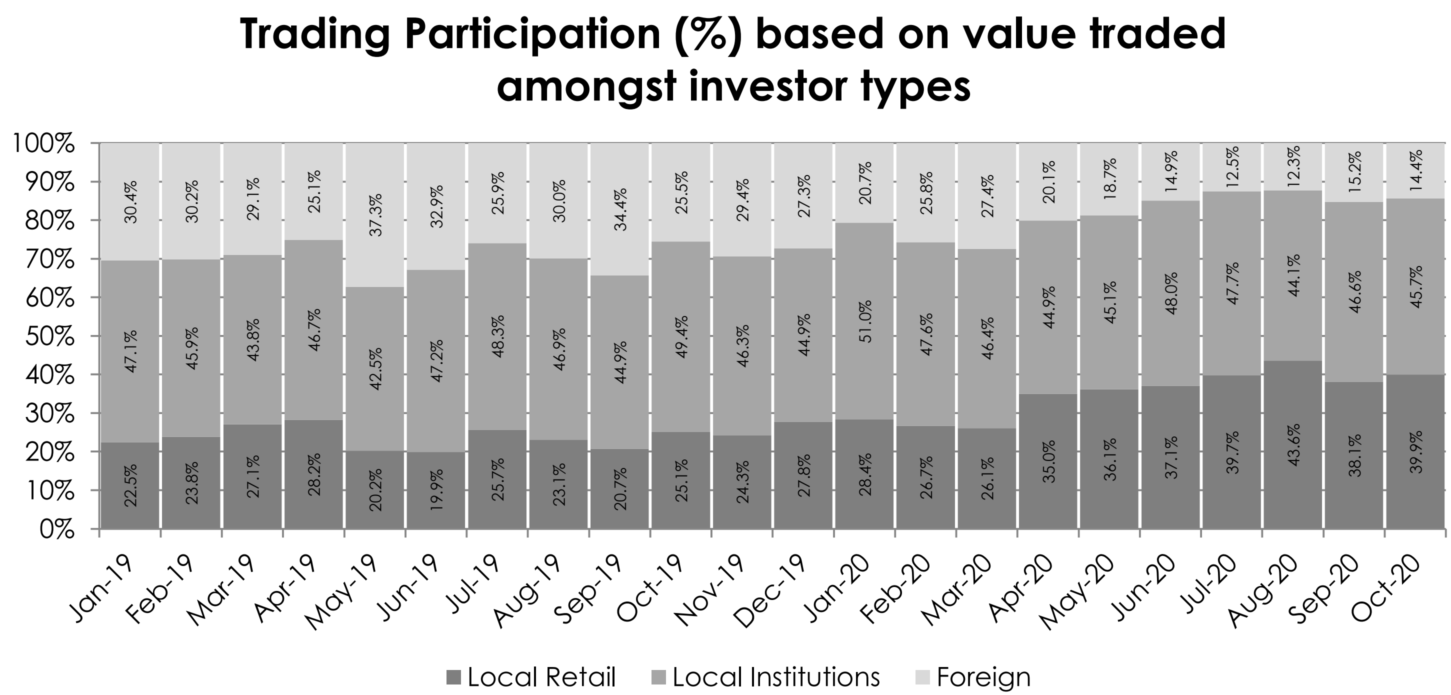
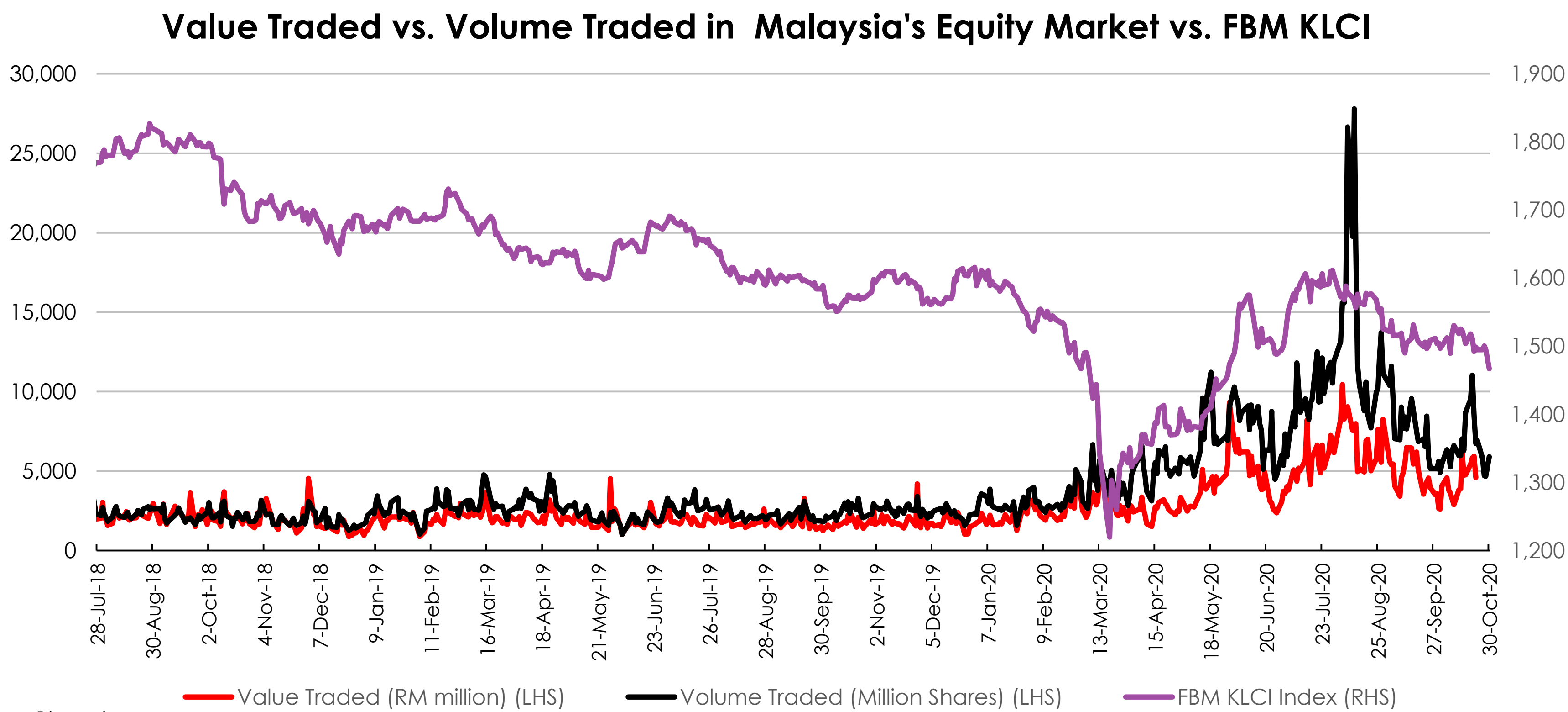
- ✓ We observed that the participation of retail investors took a breather in September 2020 before increasing in October. This is evident from the increase in retail investors' share of value traded on Bursa Malaysia which increased to 39.9% in October compared to 38.1% in September 2020.
- ✓ This was despite the resumption of loan commitments from 1 October 2020 following the expiry of the loan repayment moratorium. Nevertheless, it is still lower than the high of 43.6% recorded in August 2020. The easing of retail investor-driven liquidity will create a negative market sentiment, especially for the Ace Market and lower liner speculative stocks. However, over the longer term, this will be good for the market as it makes the overall market more fundamental-driven rather than on overspeculation.
- ✓ Meanwhile, foreign investors who have been constantly selling local equity saw their trading participation based on value traded decline to 14.4% thus far for the month of October (September: 15.2%). We also noted participation from local institutions was fairly stable at 45.7% in October so far (September: 46.6%).



Source: Bloomberg

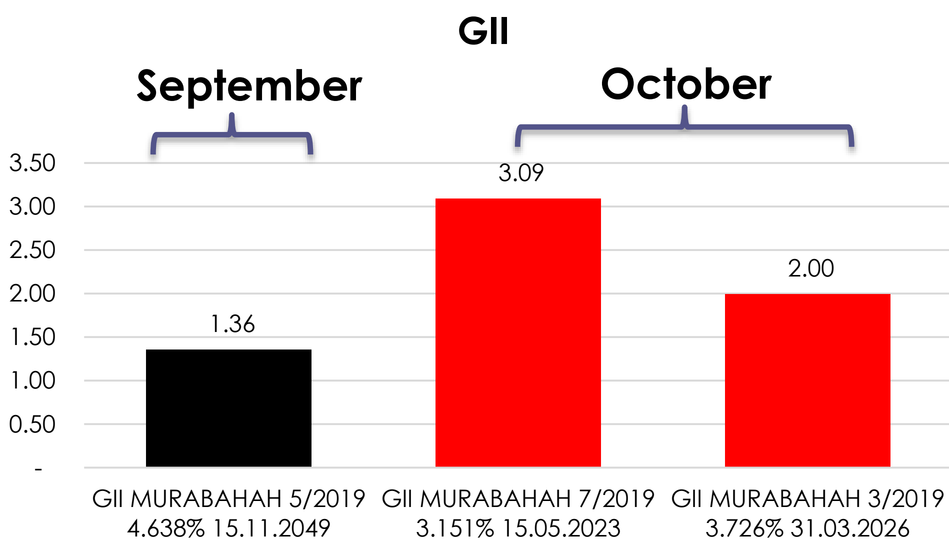
OVERALL TRADING PARTICIPATION IN EQUITIES

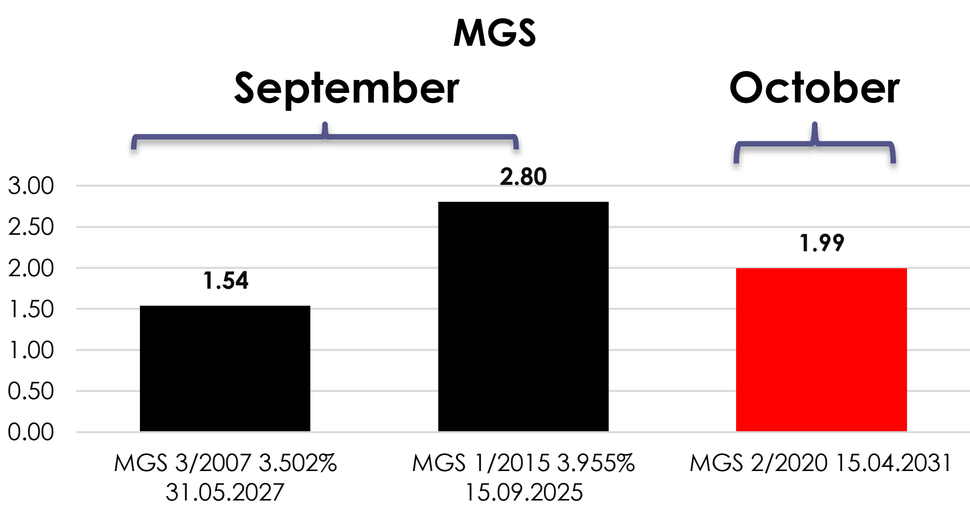
- ✓ The average daily traded volume for October 2020 stood at 6.60 billion shares and the highest daily volume was at 11.04 billion shares seen on 20 October 2020. This is lower than the average traded volume of 7.6 billion shares in the month before.
- ✓ Meanwhile, the average daily traded value so far in October reached RM4.3 billion compared to RM4.7 billion in September.
- ✓ Henceforth, a lower level of volume of shares traded relative to the value of shares traded in the overall market indicates investors (mainly institutions) are trading blue chip shares.



Source: Bloomberg

STRONG DEMAND FOR GII





Sources: Bond Info Hub

- ✓ The new issuance of 3-Y GII and 5-Y GII showed strong demand with the BTC ratio reaching 3.09x and 2.00x respectively. This was higher as compared to 1.36x from previous 30-Y GII auction.
- ✓ Meanwhile, demand for MGS has softened as reflected by lower BTC ratio at 1.99x.
- ✓ All in all, we believe that the safe haven assets will gain traction in view of dimmer growth outlook amid resurgence of Covid-19 cases.

FUND FLOWS-FIXED INCOME

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RM Million								
Year	Total	BNM Bills	BNNN/BNMN-I	Tbills	MITB	MGS	PDS & Others	GII
2009	22,304	7,114	644	432	25	12,035	2,032	21
2010	51,742	19,337	363	19	(60)	32,777	(847)	153
2011	43,511	13,440	(70)	258	(23)	28,770	(4,232)	253
2012	60,928	30,768	3,447	(288)	(67)	27,164	(800)	1,331
2013	8,031	(17,048)	15,155	333	110	7,407	166	1,409
2014	(8,313)	(7,601)	(9,127)	(878)	(88)	8,207	(1,764)	1,857
2015	(11,270)	(26,006)	(10,872)	2,495	534	16,834	(425)	6,480
2016	825	(15,557)	(79)	(1,107)	(452)	6,334	1,000	9,899
2017	(7,975)	(3,724)	-	753	802	(4,041)	922	(3,032)
2018	(21,865)	650	-	325	76	(18,287)	(2,517)	(2,603)
2019	19,852	-	-	(1,930)	(291)	17,735	327	5,202
9M2020	4,839	(1,000)	-	2,005	313	5,340	(1,328)	(939)

Source: CEIC

- ✓ The foreign investor continued to be the net buyer, recording net inflows of RM547.5 million in September albeit slower than the RM3.0 billion net inflow seen in August.
- ✓ On a cumulative basis, the net inflows stood at RM4.8 billion in 9M2020 which was higher from RM4.3 billion recorded in the same period last year.
- ✓ We view that the MYR bond market to remain supported for now reiterated by the series of positive foreign inflows in recent months coupled with strong demand from prior concluded MGS and GII auctions.

MOVEMENT IN BOND YIELDS

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✓ The total trading value of 10 most actively traded government bonds was lower at 58.0% out of the overall Government Bonds traded compared to 63.3%. In absolute terms, the total trading value for 10 most actively traded Government Bonds increased drastically to RM39.8 billion from RM11.8 billion in the preceding month. In addition, 9 out of the 10 most actively traded bonds saw lower yields hence higher prices during the month under review.

Trading Value and Changes in Yield of Government Bonds

Name	Coupon	Maturity	30-Sep	30-Oct	Weekly change in basis points	Trading Value
			Yield	Yield		(RM Billion)
Malaysia Government Securities	4.048	09/30/21	1.771	1.545	-22.6	6.9
Malaysia Government Securities	4.160	07/15/21	1.763	1.509	-25.4	5.7
Malaysia Government Securities	3.955	09/15/25	2.246	2.004	-24.2	5.6
Malaysia Investment Issue	3.151	05/15/23	2.036	1.792	-24.4	4.5
Malaysia Government Securities	3.480	03/15/23	1.992	1.745	-24.7	3.4
Malaysia Government Securities	3.659	10/15/20	1.936	1.796	-14.0	3.3
Malaysia Government Securities	3.885	08/15/29	2.668	2.657	-1.1	3.1
Malaysia Government Securities	3.502	05/31/27	2.426	2.339	-8.7	3.0
Malaysia Investment Issue	3.726	03/31/26	2.324	2.169	-15.5	2.4
Malaysia Government Securities	3.828	07/05/34	3.024	3.103	7.9	1.9
Total Trading Value (Top 10)						**39.8**
Total Trading Value (Overall)						**68.6**

Sources: Bloomberg

CONCLUSION

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- ✓ **Further improvement in leading index** – Malaysia's Leading Index (LI) continued to improve, rising for the fourth straight month by 7.6% y-o-y in August (July: 7.6%) due to improved sentiment and increased business activities. This suggests a better prospect for Malaysia's economy to sustain its recovery into early next year. With the reopening of the economy and more businesses have been allowed to resume operations, the Coincident Index (CI) also registered an improvement, with a smaller decline of -2.3% y-o-y in August (July: -2.4%), mainly due to increased retail trade and to a certain extent some improvement in industrial production. The improving CI suggests economic activities picked up its pace in the recent months after a sharp slowdown in April 2020.

- ✓ **Additional stimulus to underpin recovery** – On 23 September 2020, the government announced additional RM10.0 billion in fiscal stimulus, as several initiatives introduced earlier this year will expire soon. The additional stimulus will involve another round of Bantuan Prihatin Nasional (BPN), a targeted Wage Subsidy Programme (WSP) 2.0, and special grants for micro enterprises. The additional stimulus is expected to provide more support to the economy and ensure the current economic recovery will be sustainable. We do not discount any possibility of an extension of such measures in the upcoming Budget 2021.

- ✓ **Signs of recovery warrant a cautious view on bonds** – The lower inflation rate of -1.4% in September (August: -1.4%) undoubtedly provides the policy space for the monetary authorities to cut the OPR. However, we opine that the BNM would keep the benchmark rate unchanged at 1.75% throughout 2020 and well into 2021, barring any unforeseen circumstances. As such, the bullish sentiment in the bond markets warrant for a cautious view as bond yields could rise due to emerging signs of economic recovery. To some degree, the wider fiscal deficits would mean there would be more issuance of MGS and GII to fund the development expenditure. The recent spike in Covid-19 new cases has led to the reintroduction of CMCO for Kuala Lumpur and Selangor. While the PM reassured that any further measures will be targeted in nature, the financial markets would continue to be anxious of what may unfold in the days to come.

THANK YOU

Bank Islam ensures that social and environmental considerations are consistently its top priority governed by the Bank's core values and Shariah principles. More initiatives will be developed by the Bank as the Bank strives to make a positive difference for its financial and social performance.