From the Desk of the Chief Economist

BANK ISLAM

MONTHLY ECONOMIC UPDATES

6 OCTOBER 2020

ECONOMIC RESEARCH

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GLOBAL ECONOMY

GLOBAL ECONOMIC DISTRESS

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- ✓ **Worldwide Covid-19 confirmed cases have exceeded 35.0 million early in October –** The total number of people infected with Covid-19 globally was reported at 35.1 million as at 5 October 2020. The highest number was reported in the US, increasing to 7.3 million on 5 October from 6.1 million on 5 September. This was followed by India (5 October: 6.6 million vs. 5 September: 4.0 million) and Brazil (5 October: 4.9 million vs. 5 September: 4.0 million).

- ✓ **Heightened uncertainties in global economic activities –** Risks are tilted to the downside. They could further weigh down on GDP growth. Recently, the World Bank on its latest East Asia and Pacific Economic Update in October 2020, has revised down its projection for most of the developing East Asia and Pacific countries in light of slower economic activities amid Covid-19 crisis (Refer page 5).

- ✓ **Reintroduction of restrictions which had been eased after initial lockdowns –** The sharp rise in the number of new coronavirus cases has led the government across the map to keep everything under review. A new wave of infections in Europe has led some countries to reimpose restrictions including the UK, Germany and France.

- ✓ **Manufacturer sentiments continued to improve –** Despite rising concerns over the resurgence of Covid-19 pandemic globally, the J.P. Morgan Global Manufacturing Purchasing Managers' Index (PMI) rose to a 25-month high of 52.3 points in September from 51.8 points in the previous month. According to the survey, output and new orders both rose for the third successive month, while new export business expanded for the first time in over two years. This suggests that the global industrial sector continued its recovery in September.

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

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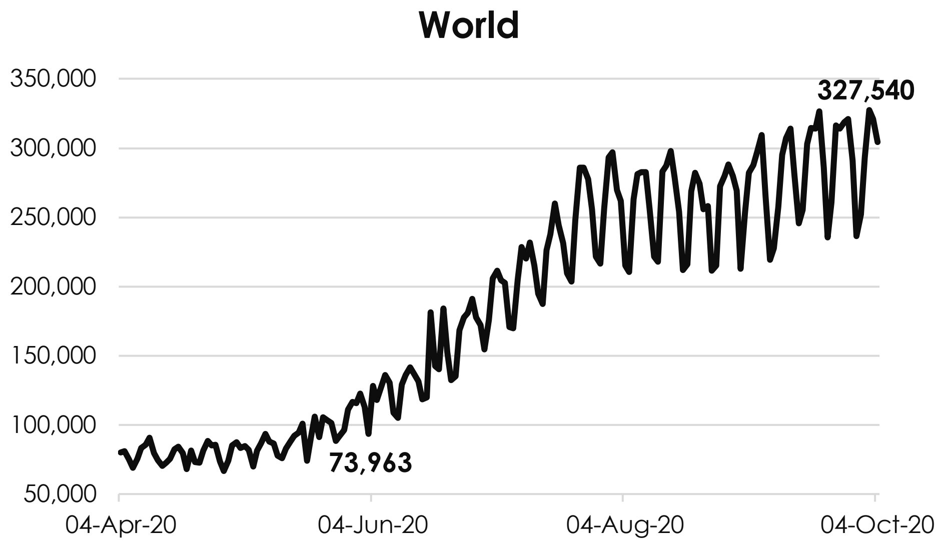

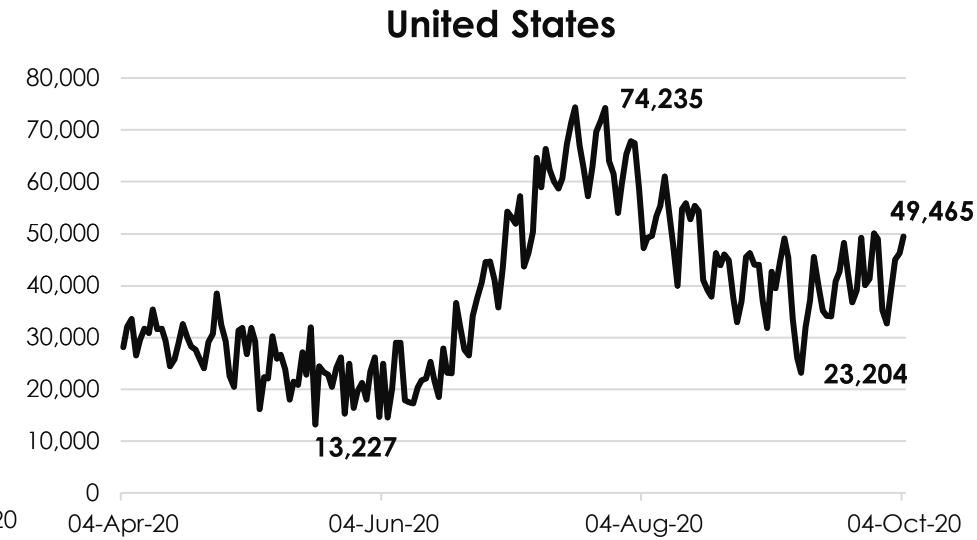

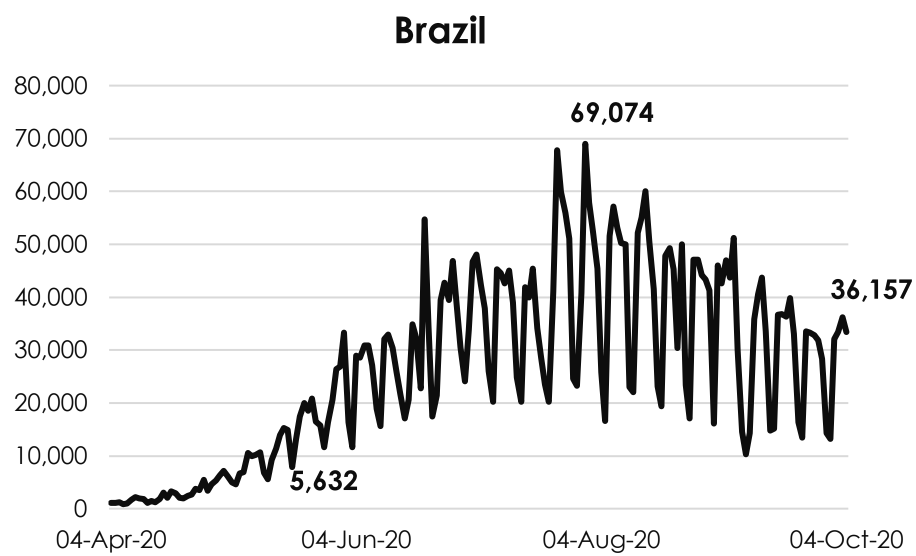

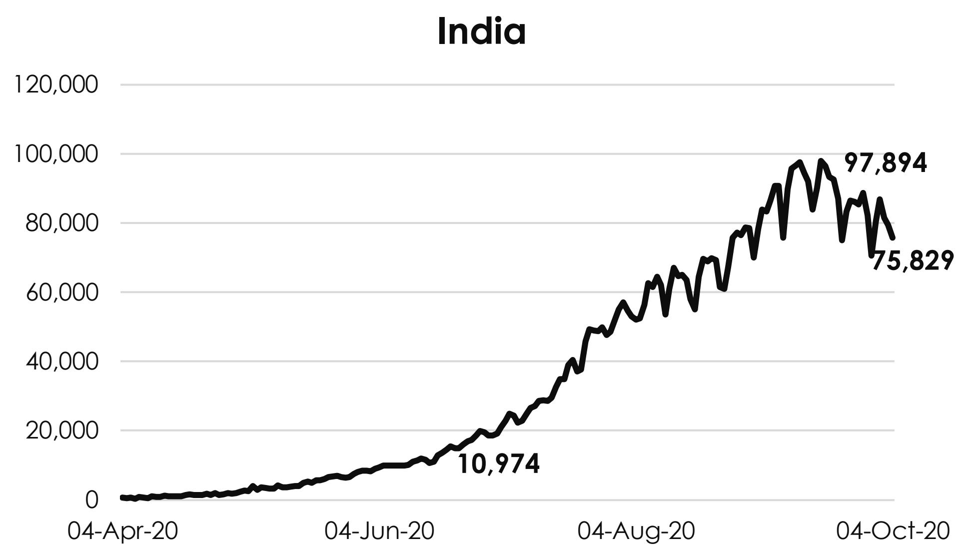

Source: CEIC

WORLD BANK REVISED DOWN ITS GDP PROJECTION FOR DEVELOPING EAST ASIA AND PACIFIC IN 2020

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Developing East Asia and Pacific: latest GDP growth projections in 2020

Countries	Projections			Percentage point differences from June 2020 projections
	April	June	October	
China	2.3	1.0	2.0	1.0
Indonesia	2.1	0.0	-1.6	-1.6
Malaysia	***-0.1***	***-3.1***	***-4.9***	***-1.8***
Philippines	3.0	-1.9	-6.9	-5.0
Thailand	-3.0	-5.0	-8.3	-3.3
Vietnam	4.9	2.8	2.8	0.0
Cambodia	2.5	-1.0	-2.0	-1.0
Lao PDR	3.6	1.0	-0.6	-1.6
Myanmar	3.0	1.5	0.5	-1.0
Mongolia	2.4	-0.5	-2.4	-1.9
Fiji	-4.3	-4.3	-21.7	-17.4
Papua New Guinea	0.2	-1.3	-3.3	-2.0
Solomon Islands	-6.7	-6.7	-4.8	1.9
Timor-Leste	-2.8	-4.8	-6.8	-2.0

Source: World Bank

- ✓ The Covid-19 pandemic and efforts to contain its fast-spread led to a significant curtailment of economic activities.
- ✓ Apart from that, the disruption of trade and global value chains could also hurt productivity by leading to a less efficient allocation of resources across sectors and firms.
- ✓ As such, the World Bank downgraded its forecast for most of the countries to reflect the heightened uncertainties and slower pace of recovery globally.

US GDP SLUMPED BY 31.4% IN 2Q2020

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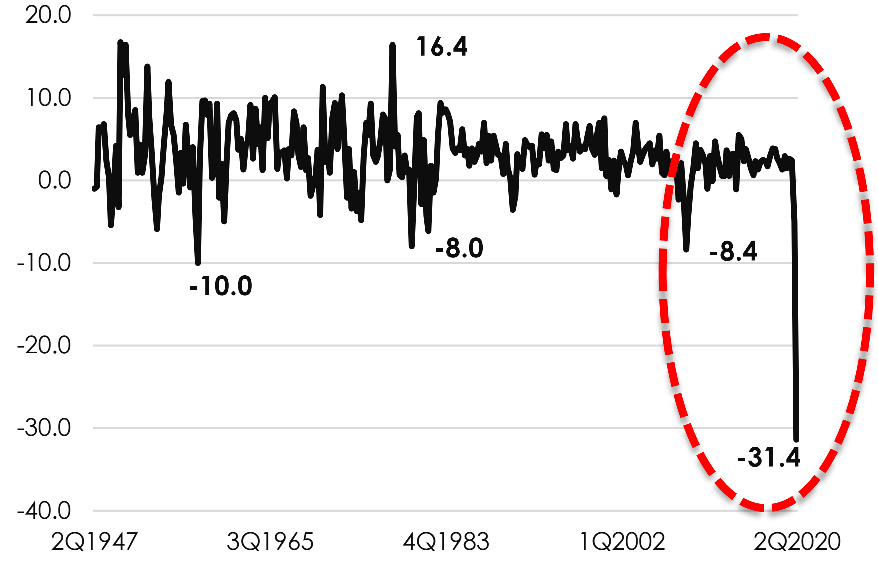
Real Gross Domestic Product (GDP): % Change from preceding Period:

Quarter/Year	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019	Q1 2020	Q2 2020
Gross Domestic Product (GDP), %	2.9	1.5	2.6	2.4	2.2	-5.0	-31.4
Personal Consumption Expenditure	1.8	3.7	2.7	1.6	2.6	-6.9	-33.2
Gross Private Domestic Investment	3.9	-5.8	1.8	-3.7	1.7	-9.0	-46.6
Government Spending	2.5	5.0	2.1	2.4	2.3	1.3	2.5
Exports	1.8	-4.5	0.8	3.4	-0.1	-9.5	-64.4
Imports	-2.1	1.7	0.5	-7.5	1.1	-15.0	-54.1

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

US GDP, q-o-q SAAR %



- ✓ US Gross Domestic Product (GDP) plunged by 31.4% quarter-on-quarter (q-o-q) seasonally adjusted annualized rate (SAAR) in 2Q2020 from 5.0% contraction in the 1Q2020 (second estimate: -31.7%, advance estimate: -32.9%).
- ✓ This was the steepest pace of decline since Global Financial Crisis (GFC) in 2008 (4Q2008: -8.4%) as Covid-19 pandemic has halted business operations and put the economy almost at standstill.
- ✓ Personal consumption expenditure (PCE) which is the anchor of the US economy fell significantly by 33.2% in 2Q2020 from -6.9% in March quarter, while gross private domestic investment has been plummeting for the third straight quarter (2Q2020: -46.6% vs. 1Q2020: -9.0%).
- ✓ Covid-19 pandemic has taken a serious toll on domestic economy amid higher infection cases recorded every day.

US ECONOMY – CONTINUES ITS SLUGGISH RECOVERY

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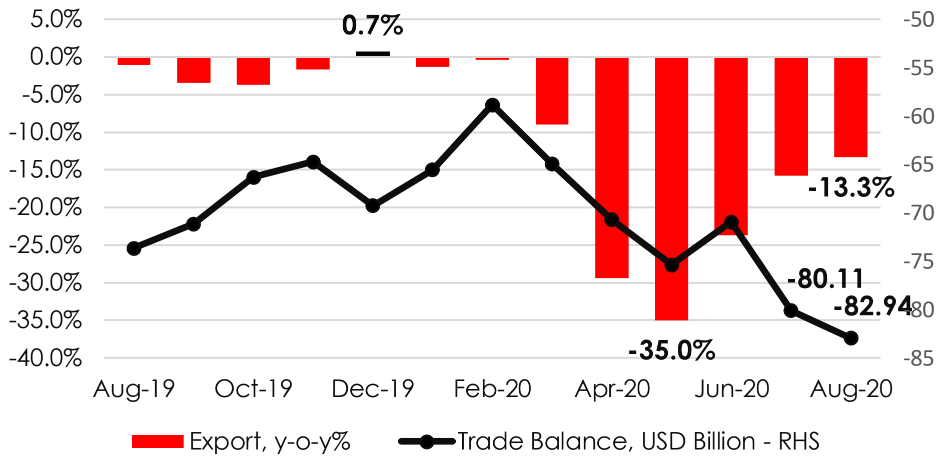
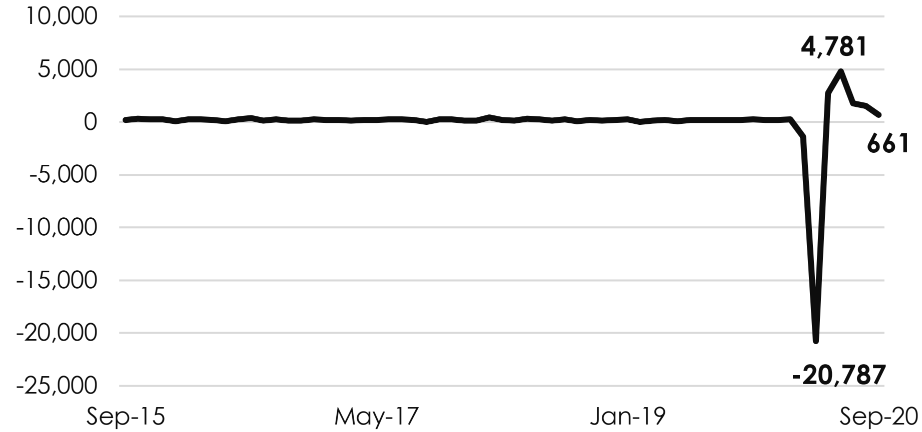
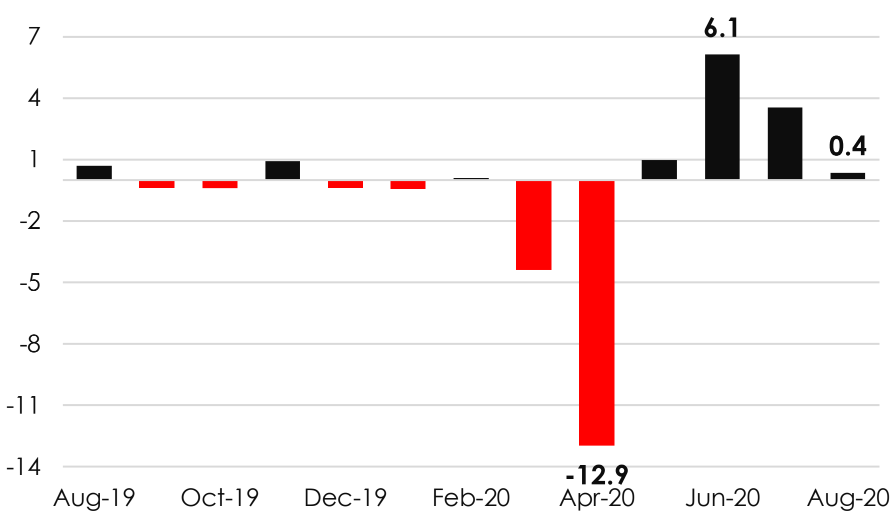
Exports, y-o-y% vs. Trade Balance (USD Billion)



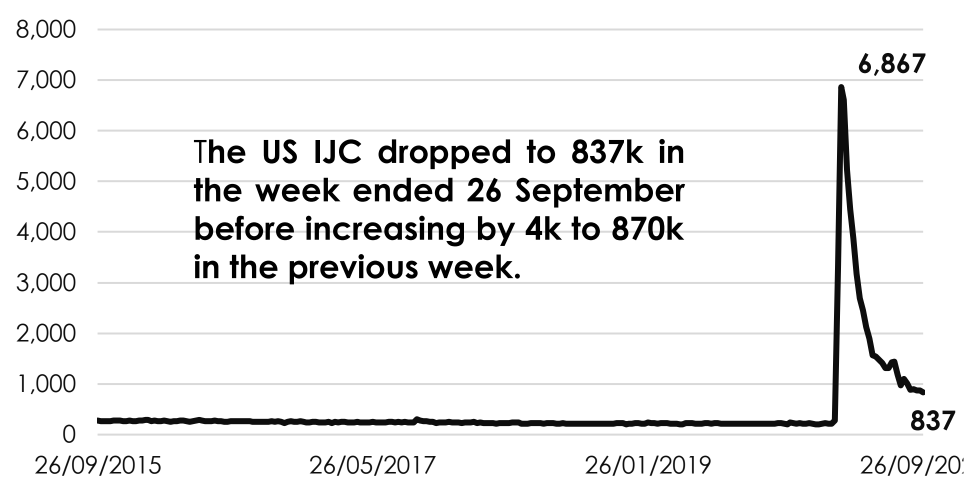
Nonfarm Payrolls, m-o-m changes ('000)



Industrial Production, m-o-m%



Initial Jobless Claims (IJC), 000



Sources: Bloomberg, CEIC

CHINA ECONOMY – ON ITS ROAD TO RECOVER

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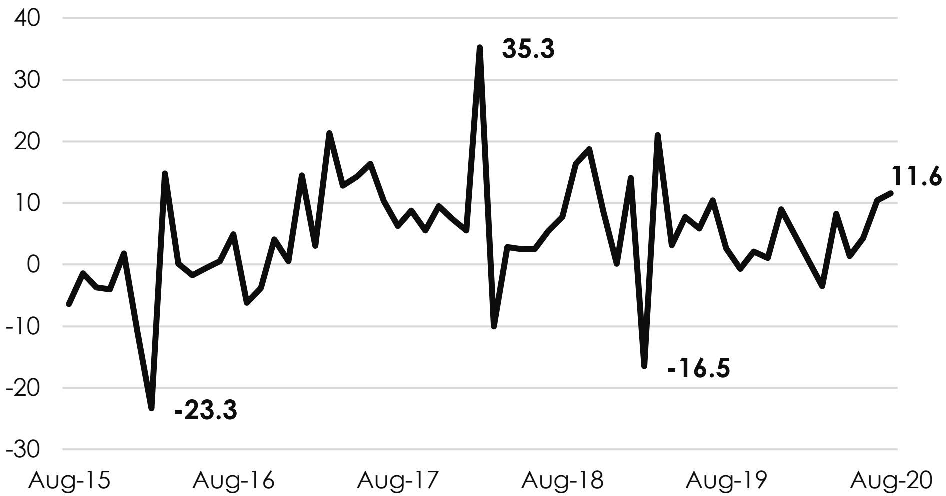
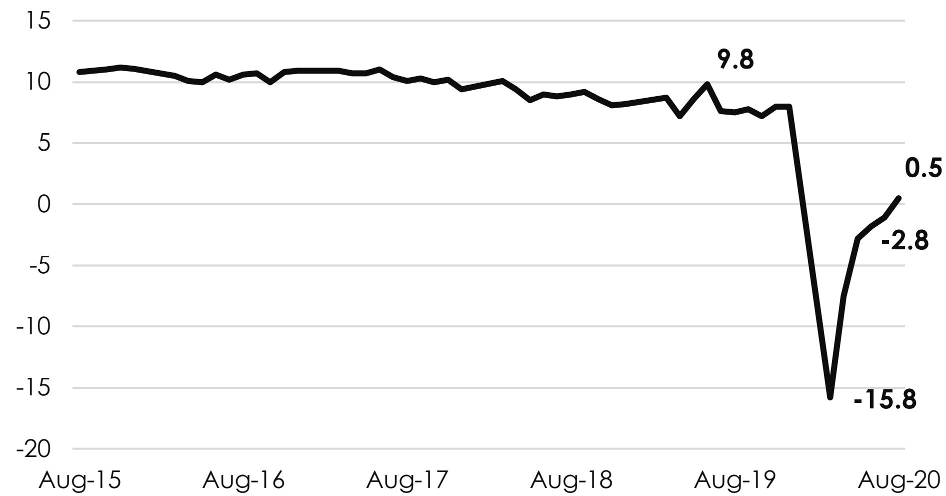
Exports, y-o-y%

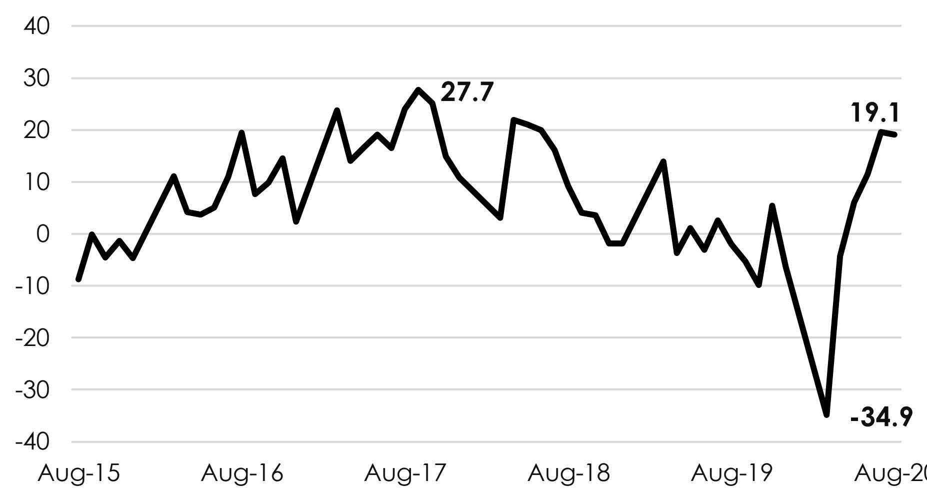


Retail Sales, y-o-y%



Industrial Production, y-o-y%

Industrial Profits, y-o-y%



Source: Bloomberg

MANUFACTURERS SHAKING OFF COVID-19 GLOOM

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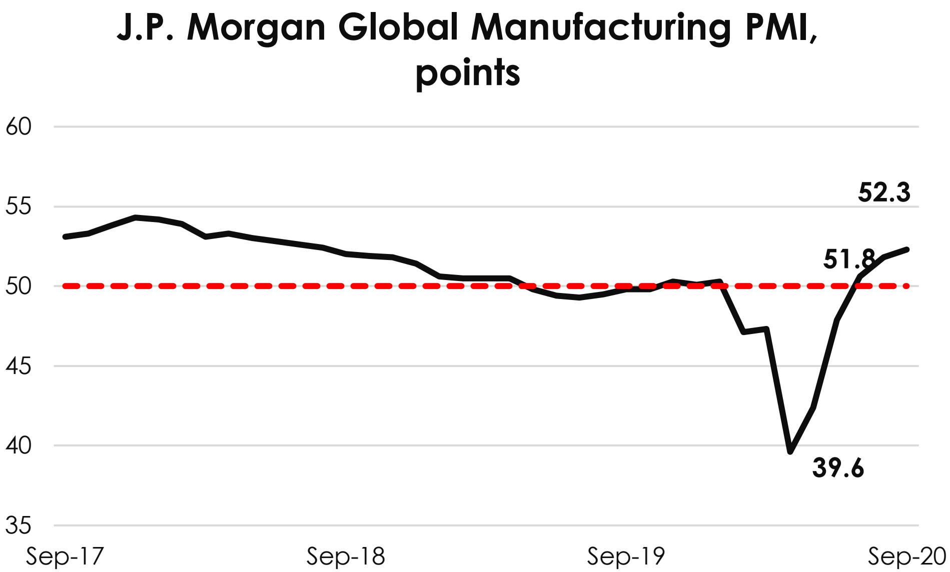

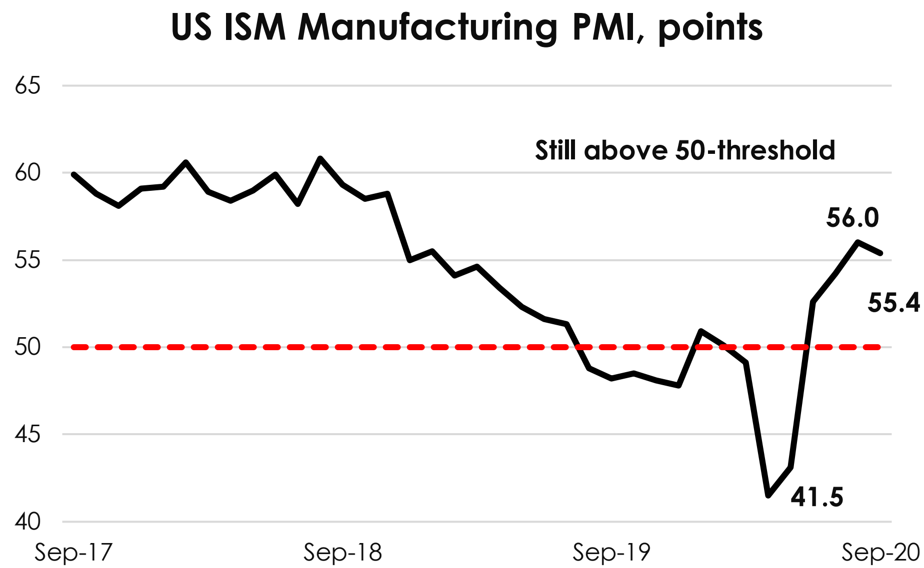

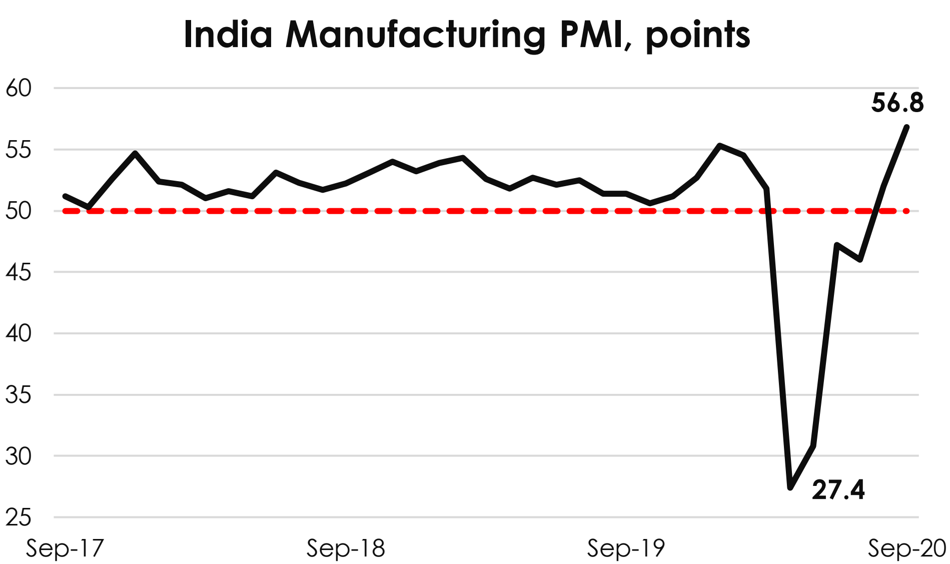

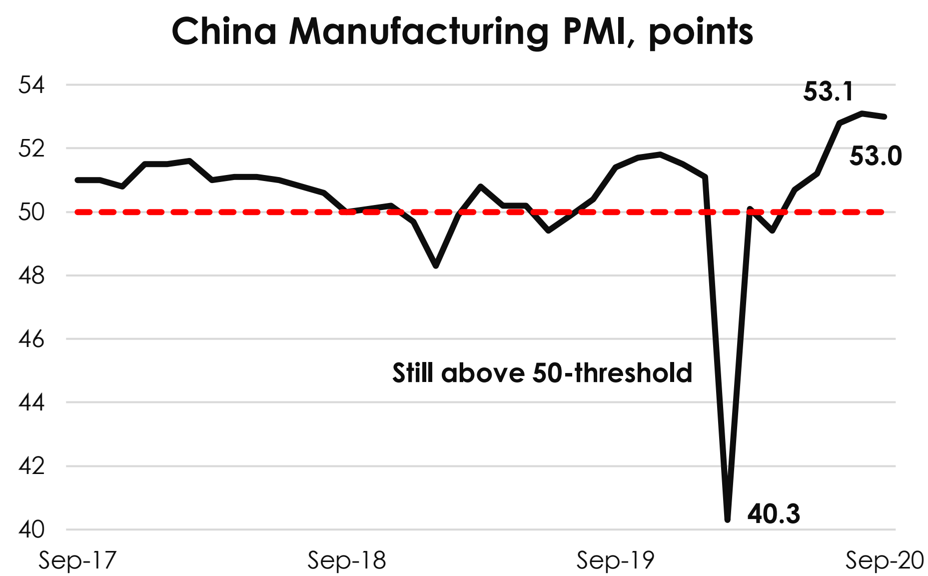

Source: Bloomberg

DOMESTIC LANDSCAPE

MALAYSIA'S EXPORTS DECLINED IN AUGUST

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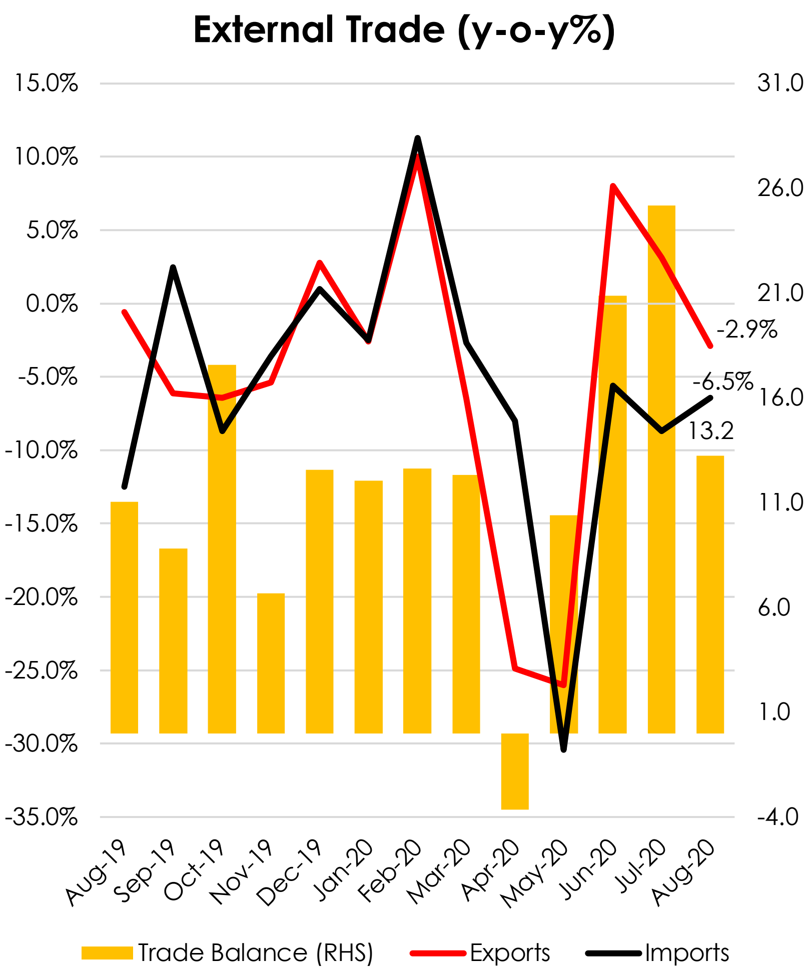
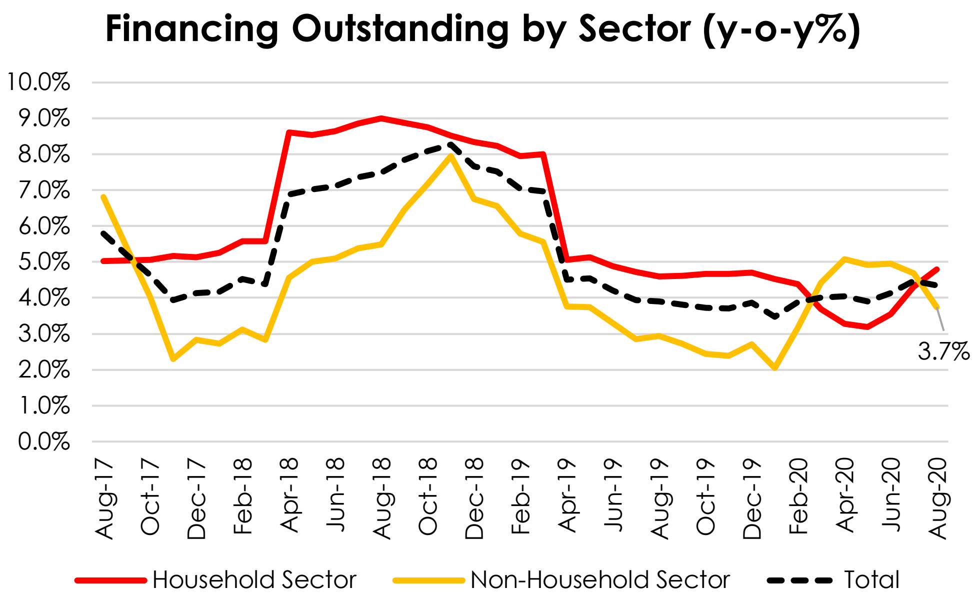


Source: CEIC

- ✓ Malaysia's exports fell by 2.9% year-on-year (y-o-y) in August, following a positive growth of 3.1% recorded previously.
- ✓ It was a broad-based downturn largely weighed by Mining sector which slumped by 25.9% in August (July: -30.2%).
- ✓ On a similar note, the Agriculture and Manufacturing also decreased by 4.5% (July: 30.4%) and 0.1% (July: 4.7%) in August.
- ✓ Within the Mining sector, exports for Liquefied Natural Gas (LNG) posted the largest drop at 4 9.1% in August, extending the 47.6% fall in July.
- ✓ For imports, it shrank by 6.5% in August from -8.7% as imports of Capital Goods and Intermediate Goods registered softer fall at 15.5% (July: -19.8%) and 5.6% (July: -17.3%) while Consumption Goods were higher by 2.9% in August (July: 0.1%).
- ✓ Therefore, the trade surplus narrowed to RM13.2 billion in August from RM25.2 billion in July.
- ✓ Cumulatively, the exports were down by 5.8% during 8M2020 after expanding by 0.8% in the same period last year. Similarly, imports plummeted by 7.3% in 8M2020 from -4.0% in 8M2019. As such, the trade surplus widened from RM100.0 billion in 8M2019 to RM103.0 billion in 8M2020.

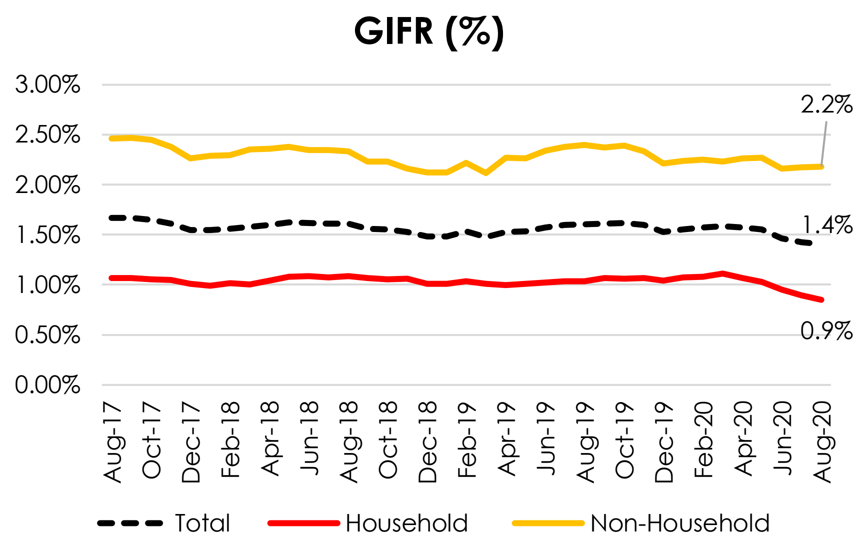
SLOWER FINANCING GROWTH DURING AUGUST



Source: CEIC

- ✓ Total financing recorded softer growth at 4.4% in August from 4.5% previously, mainly weighed by loan from Non-Household sector which moderated by 3.7% in August (July: 4.7%).
- ✓ However, financing from Household sector continued to gain its momentum, growing by 4.8% in August from 4.3% in July.

- ✓ On impairment, the Gross Impaired Financing Ratio (GIFR) stayed at 1.4% in August (July: 1.4%).
- ✓ Similarly, GIFR for Household and Non-Household remained at 0.9% (July: 0.9%) and 2.2% (July: 2.2%) in August.
- ✓ Be that as it may, we anticipate the GIFR to pick up going forward following the expiry of the blanket financing moratorium at the end of September.



Source: CEIC

HIGHER GIFR WAS SEEN IN FEW SECTORS

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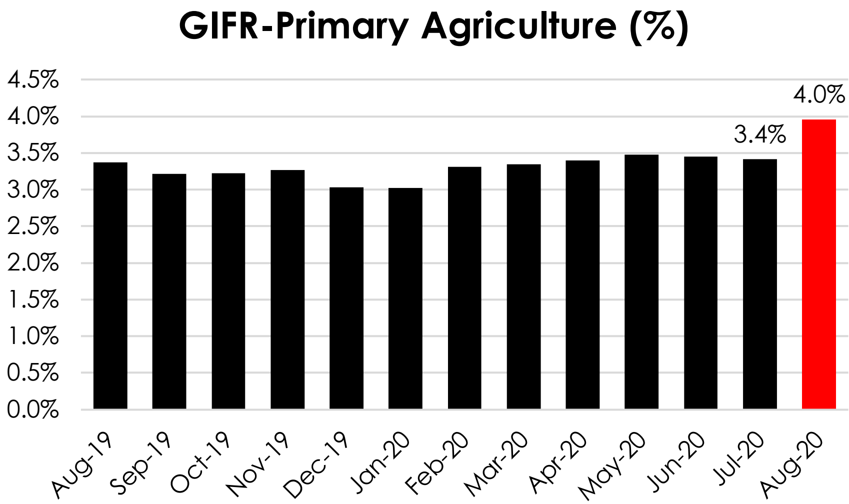

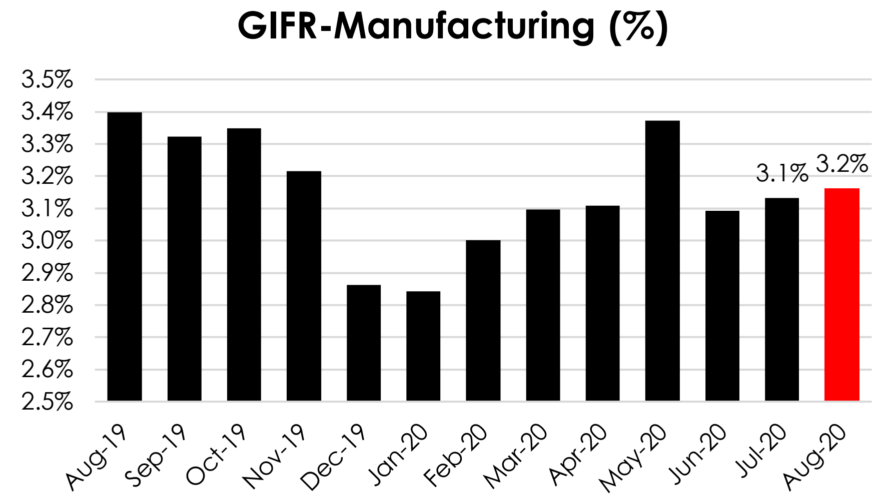

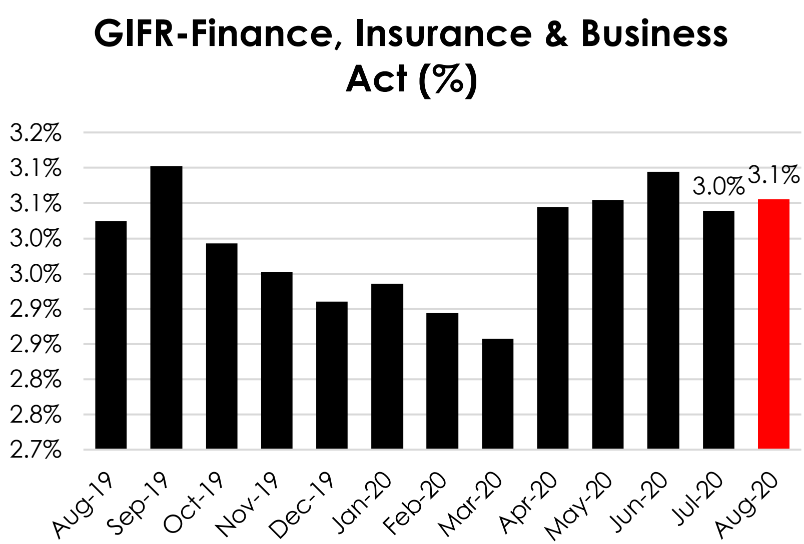

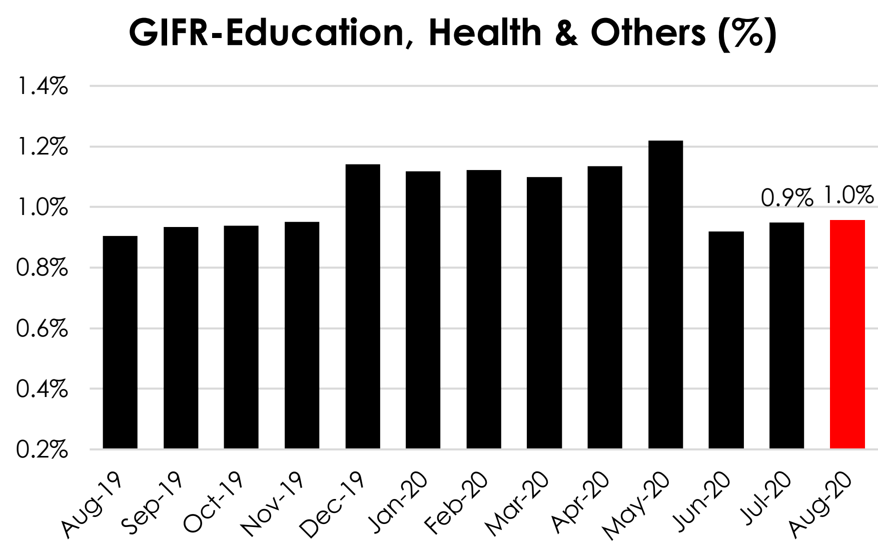

Source: CEIC

AUTOMOTIVE SECTOR – TIV CONTINUES TO RISE GRADUALLY

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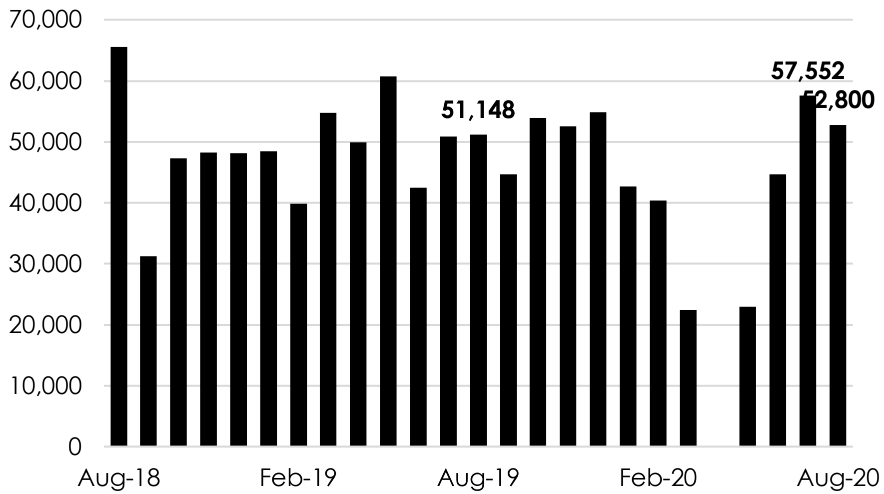
Market Segment	2020F	2021F	2022F	2023F	2024F
Total Industry Volume (TIV)	470,000	550,000	600,000	612,000	624,240
Growth	-22.2%	17.0%	9.1%	2.0%	2.0%

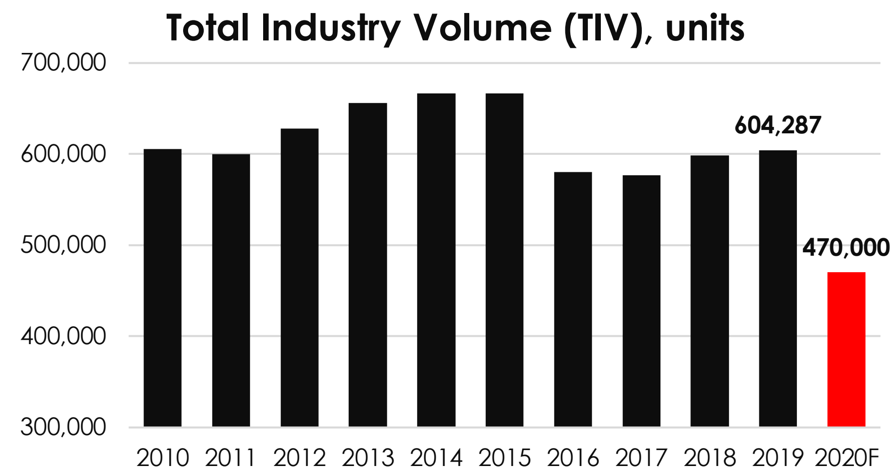
Total Industry Volume (TIV), units



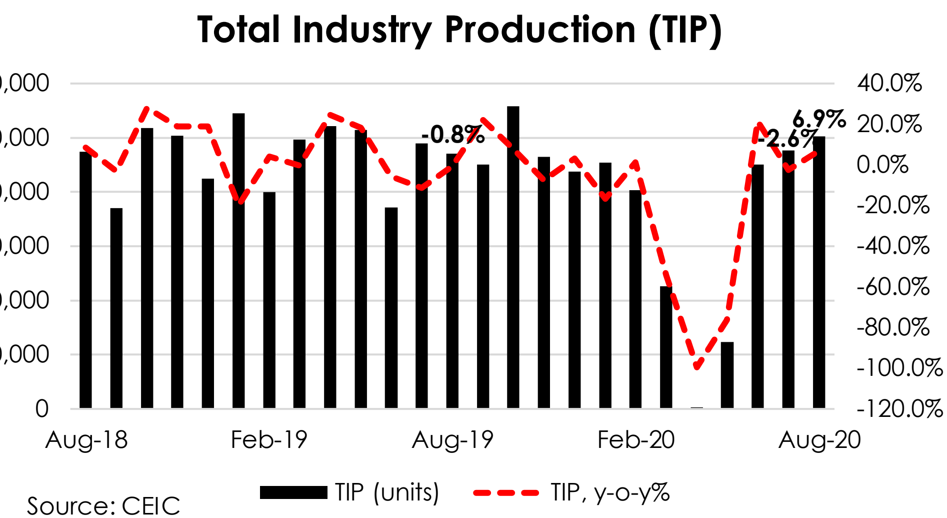
Source: Malaysian Automotive Association (MAA)

- ✓ TIV increased by 3.2% y-o-y to 52,800 units in August 2020, compared to the 13.2% y-o-y jump in the month before. On a cumulative basis, this was the third consecutive month that TIV had registered a positive y-o-y growth. It was however, 8% lower month-on-month given a shorter working month in August (July: 28.8%) coupled with possible consumer purchases ahead of Aidiladha in July replacing the typical Aidilfitri purchasing rush (considering there were no Aidilfitiri celebrations this year).
- ✓ 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



Source: Malaysian Automotive Association (MAA)



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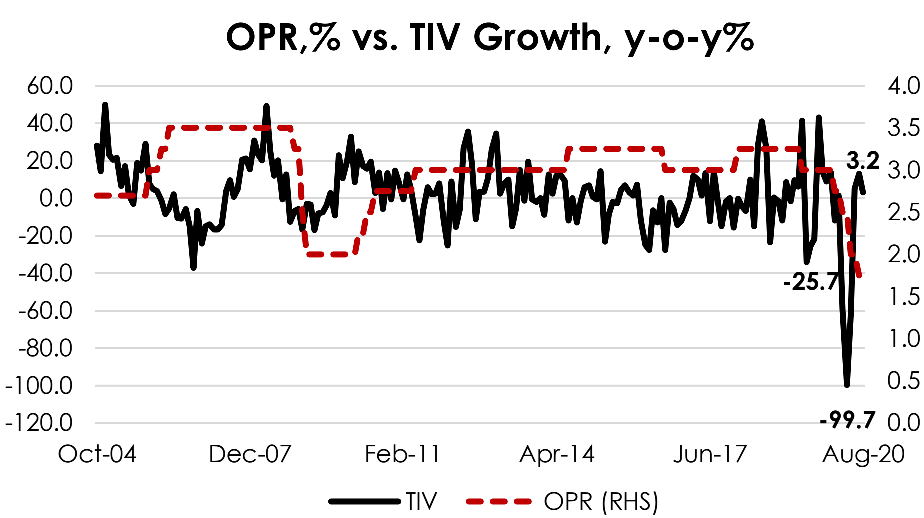

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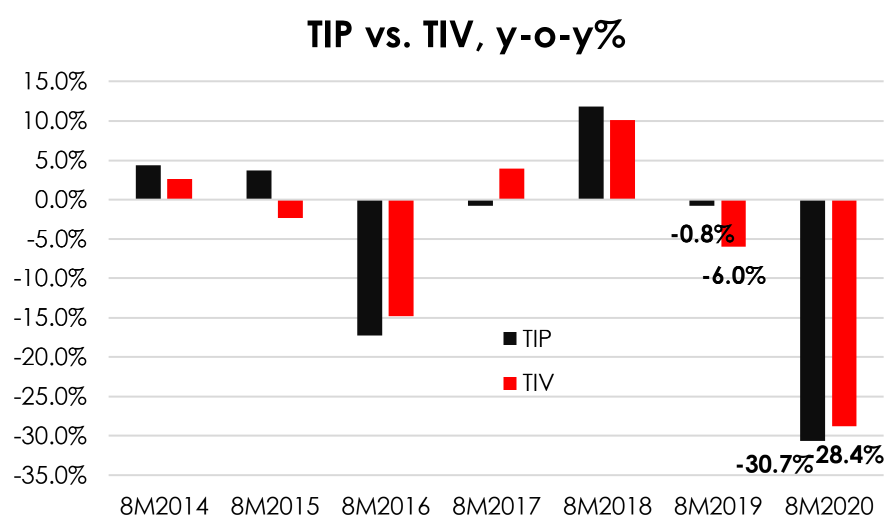
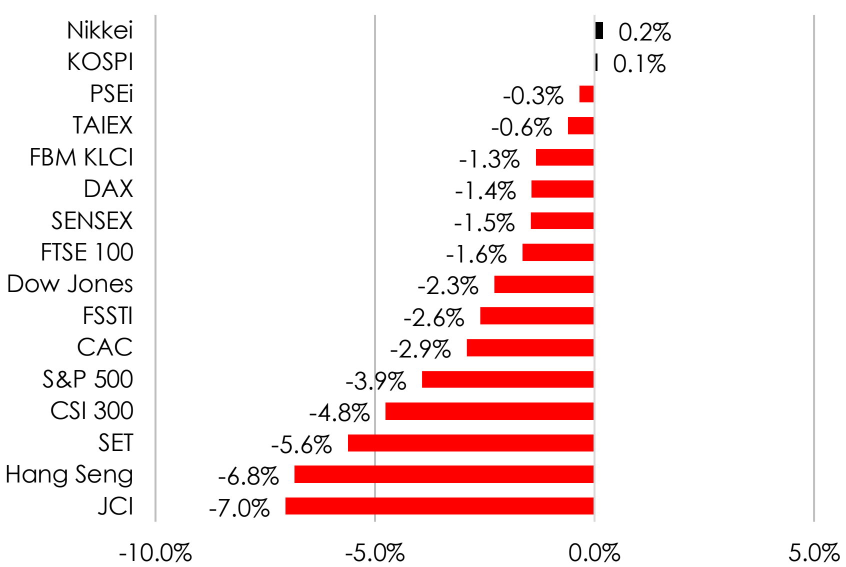


Source: CEIC

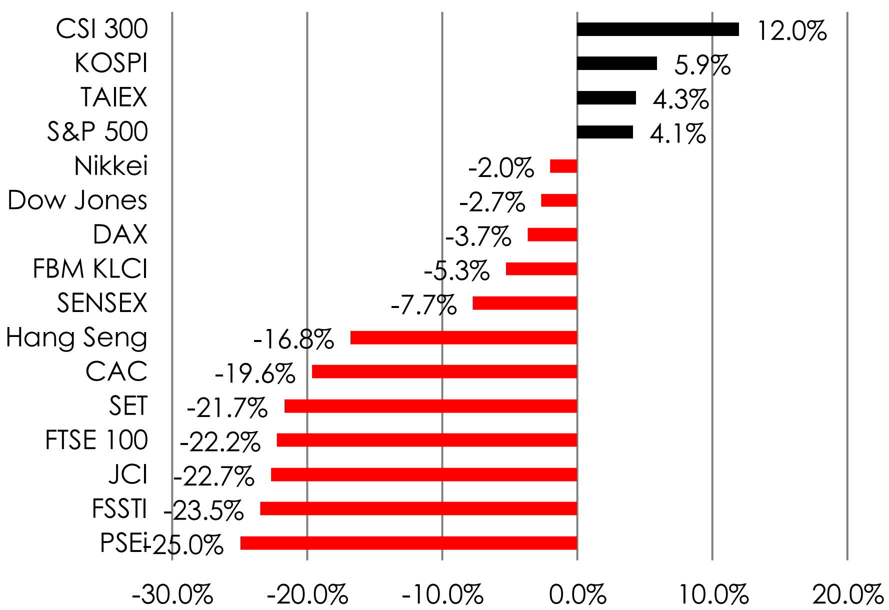
REGIONAL MARKETS WERE SWIMMING IN THE RED

- ✓ Majority of regional equity markets remained in the red zone during September. Indonesia's JCI was the biggest laggard, losing 7.0% for the month. The weak monthly performance was largely attributable to the government's decision to re-impose a partial lockdown in Jakarta effective from 14 September which will hit the Indonesian economy in 3Q2020.
- ✓ Meanwhile Japan's Nikkei 225 index led gainers with a 0.2 % monthly increase in September. Another market which ended in the green zone during September was South Korea's KOSPI which advanced just by 0.1%, having managed the impressive feat of dodging a tech sell off on Wall Street in early September. In addition, the supplementary budget for small medium enterprises to support demand has put the consumer sector in prime position to lead the recovery.
- ✓ On the domestic front, the FBM KLCI retained its position as the smallest decliner amongst its Southeast Asian peers, not just on a monthly basis but also on a year-to-date basis.

Gains/Losses of Major Equity Markets in September 2020



Benchmark Indices YTD Gain



Sources: Bloomberg

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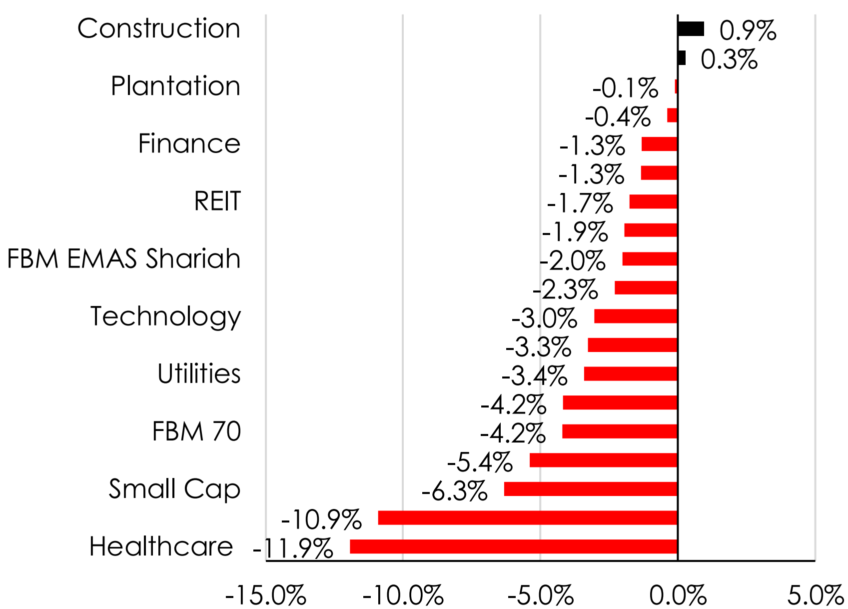
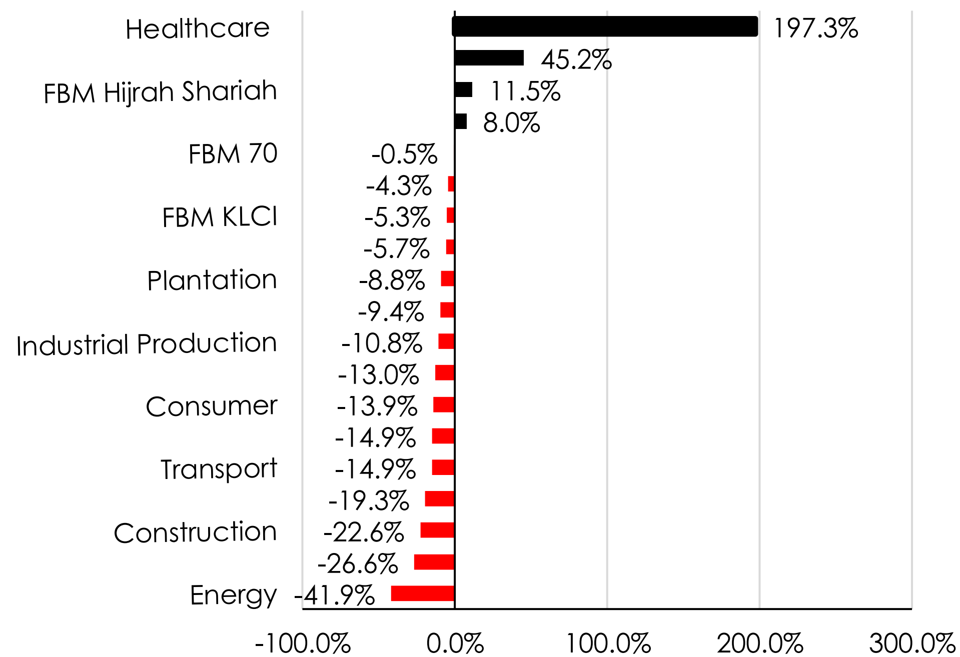
- The **Bursa Malaysia Construction Index** emerged as the largest gainer for the month of September, adding 0.9% during the month amid the expectation of construction earnings to rebound in 3Q2020 as progress billings accelerated with the resumption of construction works up to 80-90% efficiency for ongoing mega infrastructure projects, such as the MRT2 and Klang Valley Light Rail Transit Line 3 (LRT3).
- Meanwhile, losers were conquered by the **Bursa Malaysia Healthcare Index** which lost 11.9% in September. The euphoria for glove makers may have toned down amid increasing signs that a vaccine for Covid-19 could be developed soon. Now that the noises on the vaccines are getting louder, it has been impacting the performances of rubber glove makers. We opine sentiment for glove makers will hold strong in the immediate term as the scaling of global manufacturing capabilities of a vaccine to achieve herd immunity is likely to take 12-18 months. Companies such as Top Glove believes that glove usage globally will remain strong even in the event of discovery of a Covid-19 vaccine, mainly due to increasing healthcare and hygiene awareness in developing countries, as well as increased usage in both medical and non-medical sectors.

Bursa Malaysia Sectoral Monthly Performance in September



Sources: Bloomberg

Bursa Malaysia Sectoral YTD Performance



- ✓ 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 12.6% as at 31 September 2020 (August 2020: 13.0%) despite a series of sell-offs following positive development of the Covid-19 vaccine. This brings the healthcare sector's market capitalisation weightage to 17.3% as of 30 September 2020 compared to 7.6% as at 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 24.6%. With the expiry of the blanket loan repayment moratorium at the end of September and the beginning of the loan moratorium on a targeted basis, 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 31 Aug 2020	Market Cap Percentage as at 31 Aug 2020	Market Cap (RM Billion) as at 30 Sep 2020	Market Cap Percentage as at 30 Sep 2020
Banks	303.7	29.6%	241.7	24.6%	240.0	24.6%
Consumer Product and Services	114.4	11.1%	94.4	9.6%	93.7	9.6%
Energy	19.5	1.9%	20.2	2.1%	21.5	2.2%
Healthcare and Rubber Gloves	78.5	7.6%	174.8	17.8%	168.7	17.3%
Industrial product and	83.6	8.1%	61.6	6.3%	62.7	6.4%
Materials	18.8	1.8%	21.0	2.1%	20.8	2.1%
Plantation	119.7	11.7%	113.1	11.5%	114.3	11.7%
Real Estate	14.3	1.4%	14.1	1.4%	13.9	1.4%
Telecommunication	128.6	12.5%	113.1	11.5%	113.7	11.7%
Transportation	37.3	3.6%	34.0	3.5%	33.5	3.4%
Utilities	108.3	10.5%	94.6	9.6%	92.4	9.5%
Total Market Cap (RM Billion)	**1026.7**	**100.0%**	**982.7**	**100.0%**	**975.1**	**100.0%**

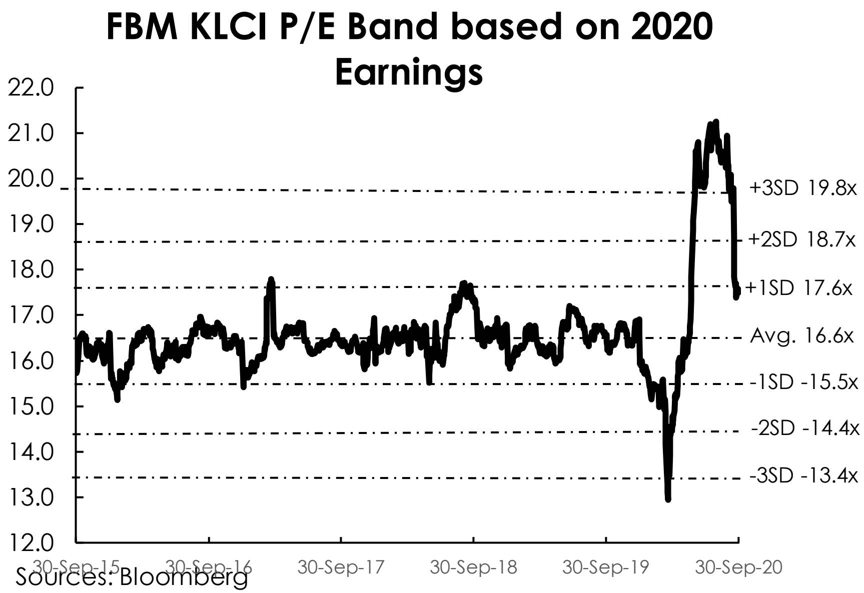
Sources: Bloomberg

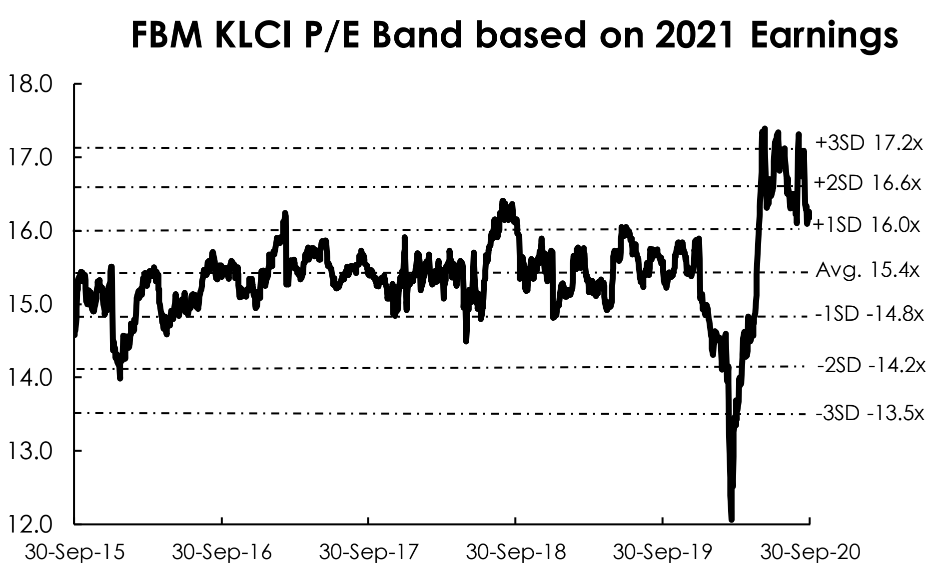
Earnings Growth Trajectory of the FBM KLCI

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%

VALUATION OF THE LOCAL BOURSE

- ✓ At the current range of 1,410 to 1,520 points, the market is trading at a PE of 17.5x (based on 2020 earnings consensus)or slightly below one standard deviation above its historical 5-year mean.
- ✓ Therefore, the valuation has become somewhat attractive as the market was trading at a Price-to-Earning Ratio (PER) of 20.0x to 21.0x in the month before earnings per share has been inflated by the earnings in Top Glove, while prices of most constituents of the FBM KLCI index did not move that much, resulting in a lower PE ratio.
- ✓ Looking into 2021, the risk/reward profile of the market should be slightly more demanding than this year. Based on Bloomberg's consensus on FBM KLCI earnings, the market is expecting earnings to recover by more than 5.0% in 2021. The rebound in earnings will be driven by a combination of low base effect and the return of revenue growth. Based on 2021 consensus earnings, the market is currently trading at a forward PE of just 16.2x, just a tad above one standard deviations above the historical 5-year mean as earnings are projected to rebound by >5.0% next year.
- ✓ We maintain our year-end FBM KLCI target at 1,500 points which equates to a price-to-earnings ratio (PER) (FY2020) valuation target of 17.6x. Meanwhile, the valuation target is equivalent to 1SD (standard deviation) higher than its 5-year historical average PER to reflect the gradual recovery in earnings in 2H2020 while being cognizant of the potential hurdles caused by the recent surge in covid-19 cases in Malaysia.



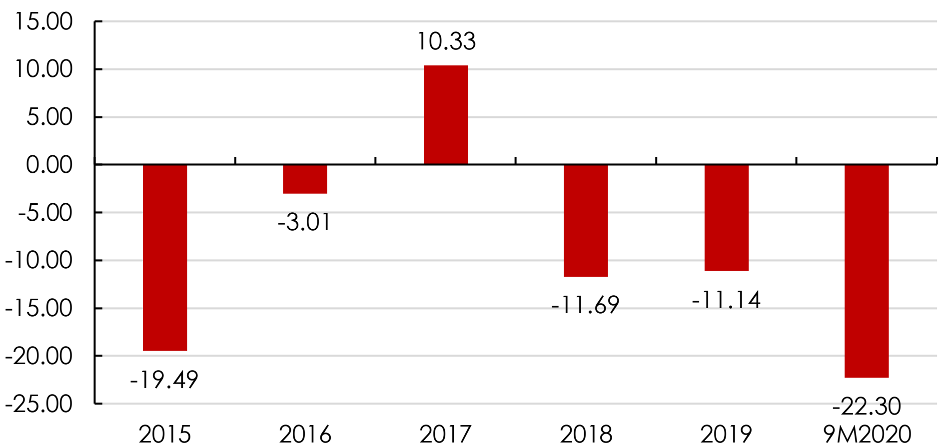


Sources: Bloomberg

FOREIGN FUND FLOW-EQUITY

- ✓ Foreign fund net outflows in September inched higher to RM1.97 billion(August: RM1.49 billion) Notwithstanding this, it was still far less than the foreign net selling of RM2.56 billion in July. Aside from that, local retail investors have posted net inflows of RM1.41 billion (August: RM1.73 billion) while local institutions snapped up RM530.2 million in September after disposing RM235.4 million of local equities in August.
- ✓ Cumulatively, total net outflows from foreign funds for the period between January and September stood at RM22.3 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 36 out of 40 weeks so far this year. The total foreign net outflow from Malaysia during 9M2020 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

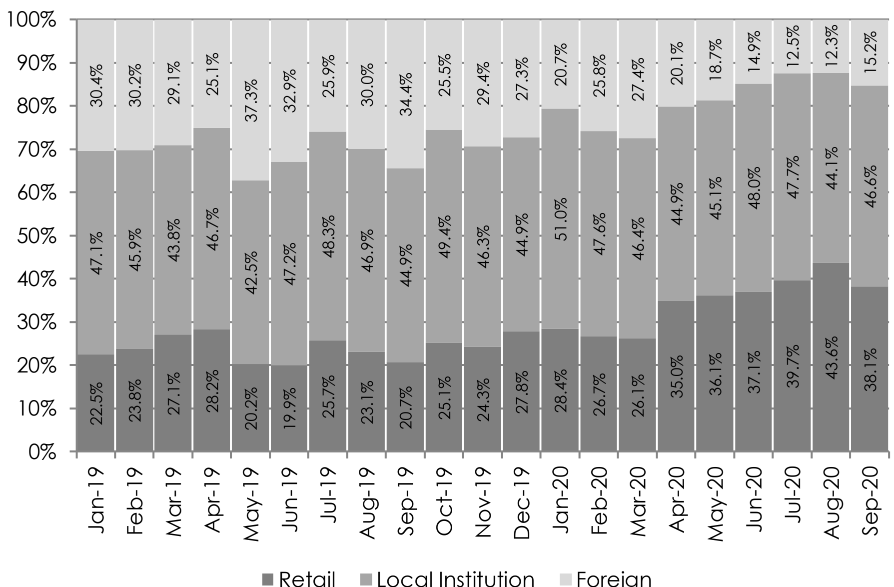
Regional Foreign Fund Flow (Equity) (USD Million)						
Country	2015	2016	2017	2018	2019	9M2020
Korea	-3.6	10.5	8.3	-5.7	0.9	-24.2
Thailand	-4.4	2.2	-0.8	-8.9	-1.5	-8.7
Indonesia	-1.6	1.3	-3.0	-3.7	3.5	-3.0
Phillipines	-1.2	0.1	1.1	-1.1	-0.2	-2.0
India	3.3	3.0	8.0	-4.6	14.2	4.0
Taiwan	3.4	11.0	5.7	-12.2	9.5	-22.2
Malaysia	-5.0	-0.6	2.4	-2.9	-2.7	-5.2

Source: Bloomberg

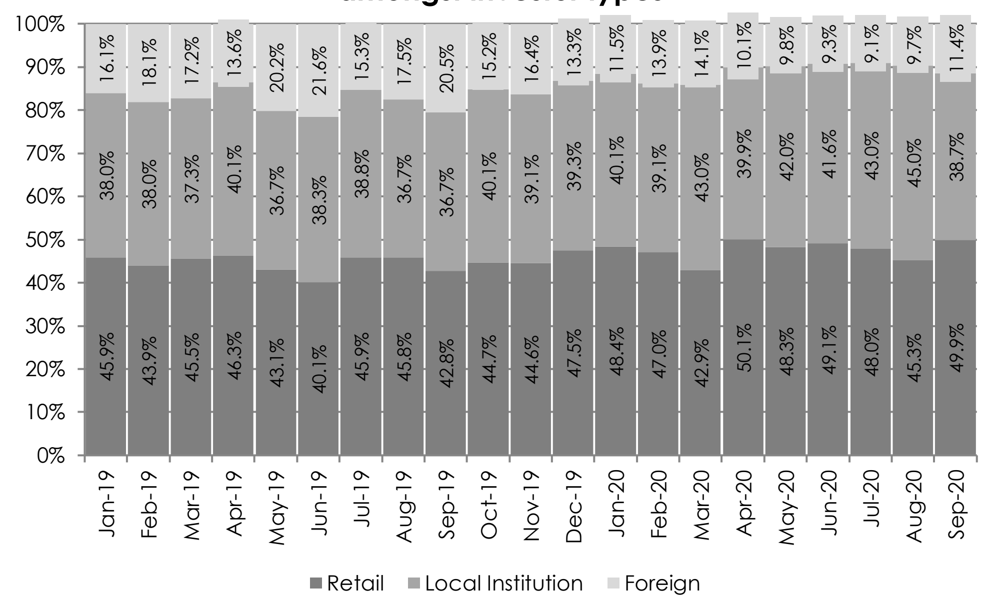
TRADING PARTICIPATION AMONGST INVESTOR GROUPS

- ✓ We observed that the participation of retail investors took a breather in September 2020. This is evident from the decrease in retail investors' monthly share of value traded on Bursa Malaysia which dropped to 38.1% in September compared to the record high of 43.6% in August 2020.
- ✓ The blip in retail investors' interest in the equity market comes about as loan commitment resumes from October 2020 onwards. With the end of the loan repayment moratorium, people will have less spare cash in their pockets and it is not a surprise if retail investors turn their attention away from the stock market. 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 improve to 15.2% for the month of September (August: 12.3%). We also noted participation from local institutions was fairly stable at 46.6% in August (July: 44.1%).

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



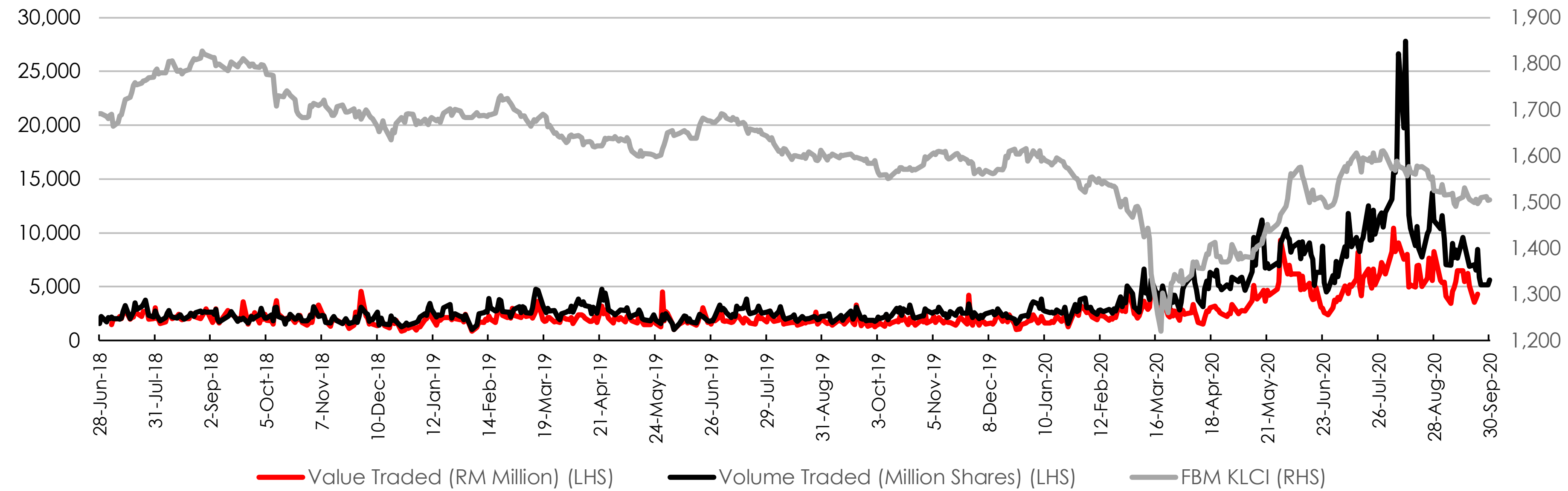
Trading Participation (%) based on Volume Traded amongst investor types



Source: Bloomberg

- ✓ The easing participation particularly amongst retail investors contributed to a drop in overall trading volume and value on Bursa Malaysia. For example in September, the average daily traded volume stood at 7.3 billion shares and the highest daily volume was only 11.6 billion shares seen on 2 September 2020. This represents a huge decline from the daily record high of 27.8 billion shares recorded on 11 August 2020. In fact, the last four trading days of September saw trading volumes decline below 6.0 billion shares on each day.
- ✓ The average daily traded value in September followed suit to decrease to RM4.7 billion from RM7.1 billion in the previous month.
- ✓ Henceforth, a higher level of volume of shares traded relative to the value of shares traded in the overall market indicates investors (mainly retail) are trading small cap shares. In line with this situation, the FBM Small Cap index lost 6.3% in September, underperforming the FBM KLCI Index and other indexes such as the FBM EMAS Shariah and FBM Hijrah Shariah.

Value Traded vs. Volume Traded in Malaysia's Equity Market vs. FBM KLCI



Source: Bloomberg

MOVEMENT OF THE EQUITY MARKET AFTER A MARKET SLUMP

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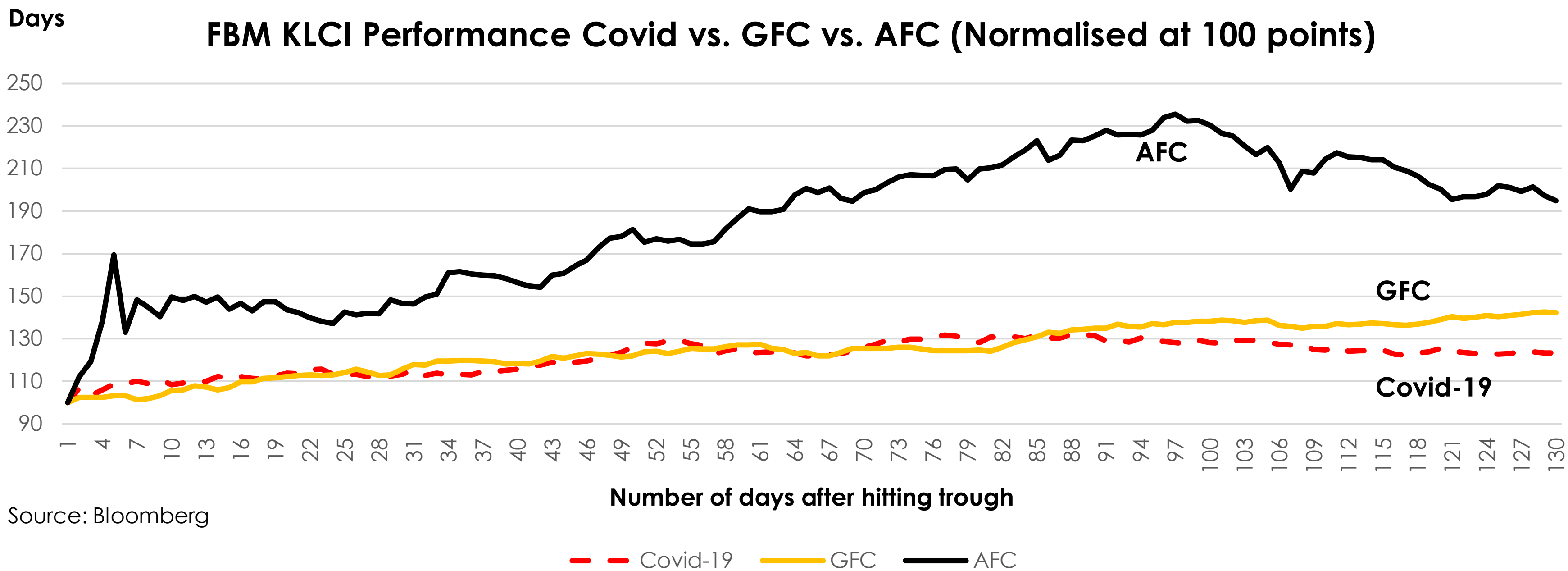
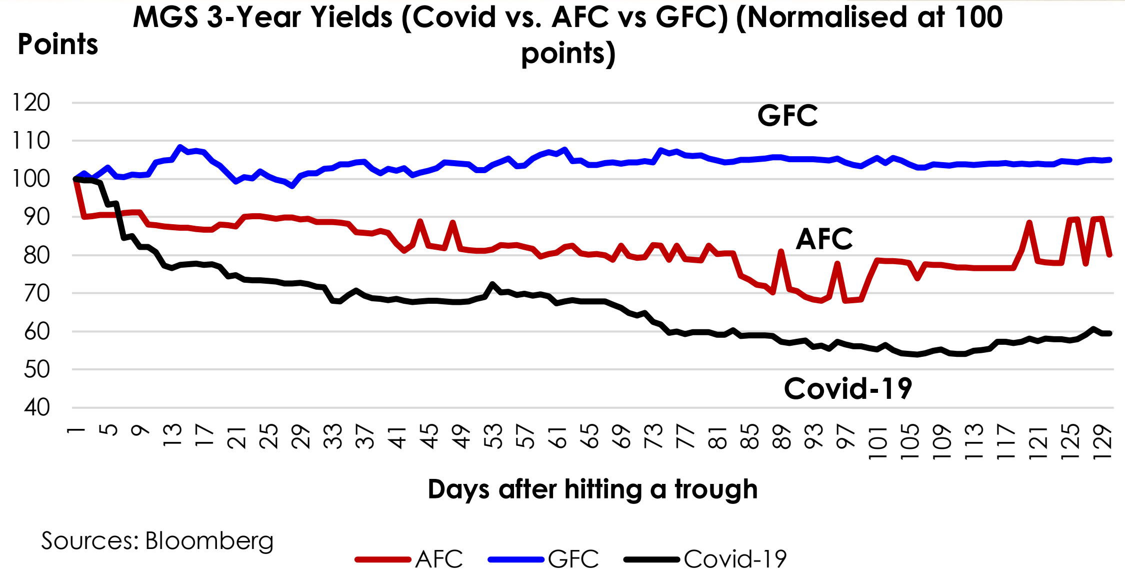


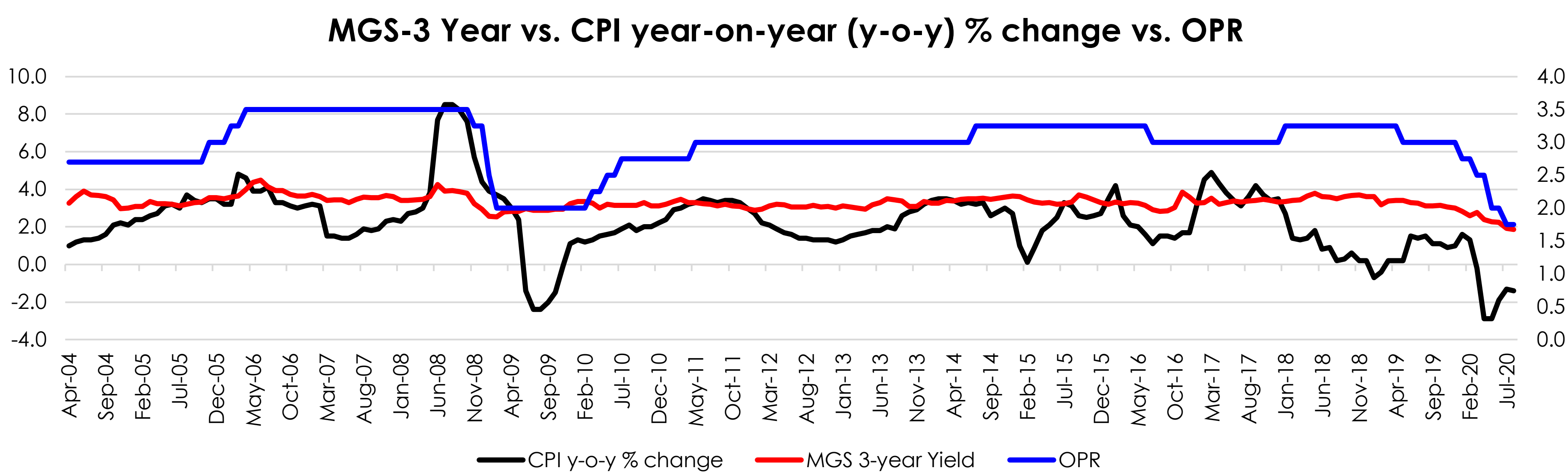
Source: Bloomberg

- ✓ For previous economic crises such as the Asian Financial Crisis (AFC) in 1998, the FBM KLCI gained by more than 100.0%, in 5 months after the reaching a trough. As for the Global Financial Crisis (GFC) in 2008-2009, the local bourse advanced by nearly 40.0% within a 5-month period after the index hit a low.
- ✓ Meanwhile for the case of the Covid-19 pandemic, the gains for the FBM KLCI after hitting a trough in mid-March was lower at less than 30.0%. The benchmark's ascent was in line with the gradual recovery of business activities following the relaxation on lockdown restrictions by the government. Indicators such as the Industrial Production Index (IPI) has also increased by 1.2% in July (June: -0.4%) after enduring series of contraction previously. Meanwhile, latest decision to maintain the OPR at 1.75% indicates that the economy is bound to recover barring any unforeseen circumstances from a resurgence in Covid-19 infections.

- ✓ With regard to MGS yields, the overall movement after the FBM KLCI index hit a trough in mid-March 2020 shows that yields have been on a steeper downtrend compared to the period during the AFC.
- ✓ Historically, lower MGS yields coincide with a low OPR and inflationary environment. This would then translate into capital gains for bonds traded at higher prices.



Sources: Bloomberg



Sources: Bloomberg

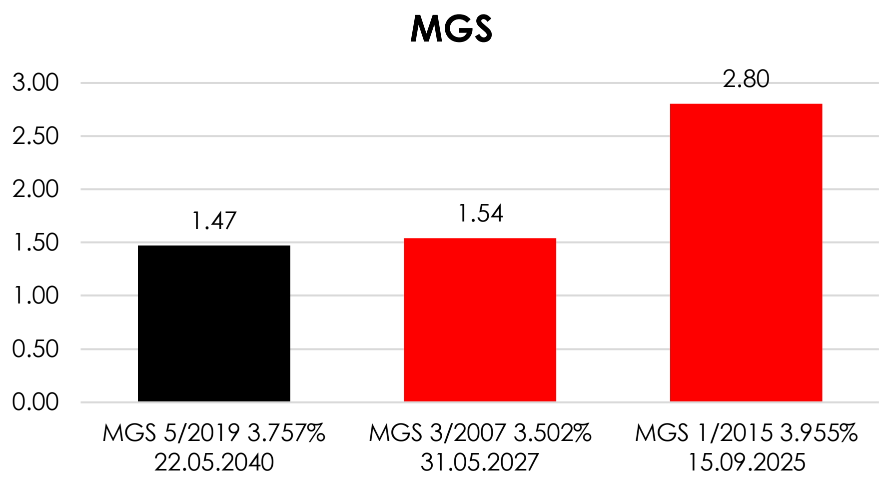
- ✓ However on further scrutiny, the yield for 3-Y MGS has been increasing of late.
- ✓ For instance, the yields 2 out of the top 10 most traded government bonds have actually been increasing for the past month (refer table below).
- ✓ Therefore, a low interest rate environment (as per BNM's monetary policy) will not necessarily translate into lower bond yields. The reason being is that market forces and sentiment also play a role in influencing the bond yields. Although Malaysia was retained in the watchlist of FTSE Russell's World Government Bond Index in the latest review, this has been fairly priced in by most investors. Other factors from the external front such as the US presidential elections will be more influential moving forward.
- ✓ With the stock market expected to improve (seen through higher expected earnings per share (EPS) of the FBM KLCI), there is a high likelihood that investors may allocate more weightage in the equity market compared to safe haven assets. As a result, bond yields may start to increase again and would limit the upside of bond prices for bond holders.

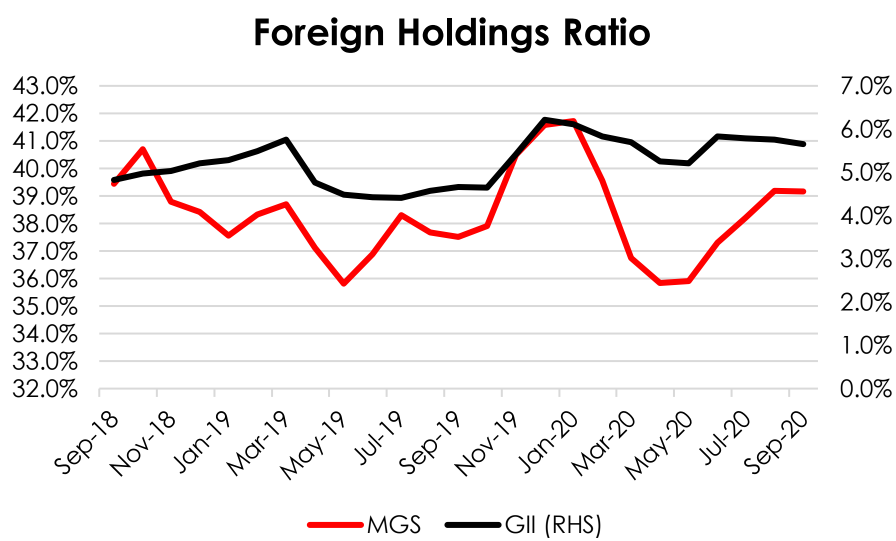
Trading Value and Changes in Yield of Government Bonds

Name	Coupon	Maturity	31-Aug Yield	30-Sep Yield	Change (Monthly % change)	Trading Value (RM Billion)
Malaysia Government Securities	3.659	10/15/20	1.548	1.936	38.8	8.7
Malaysia Government Securities	3.955	09/15/25	2.138	2.246	10.8	5.1
Malaysia Government Securities	4.160	07/15/21	1.680	1.763	8.3	5.0
Malaysia Government Securities	3.480	03/15/23	1.850	1.992	14.2	4.2
Malaysia Government Securities	3.885	08/15/29	2.618	2.668	5.0	4.1
Malaysia Government Securities	3.502	05/31/27	2.287	2.426	13.9	3.5
Malaysia Government Securities	3.828	07/05/34	3.082	3.024	-5.8	2.8
Malaysia Investment Issue	4.638	11/15/49	3.650	4.050	40.0	2.4
Malaysia Government Securities	3.757	05/22/40	3.520	3.325	-19.5	2.3
Malaysia Government Securities	4.048	09/30/21	1.680	1.771	9.1	2.3
Total Trading Value (Top 10)						**40.5**
Total Trading Value (Overall)						**71.4**

Sources: Bloomberg

DEMAND FOR BOND WAS RELATIVELY STABLE DURING SEPTEMBER





Sources: Bloomberg, Bond Info Hub

- ✓ The demand for MGS improved during September with BTC ratio for the new issuance of 5-Y MGS increased to 2.80x from 1.47x in August. The 5-Y MGS carried a coupon of 3.50% that will mature on 14 September 2025.
- ✓ In addition, the foreign holding ratio for MGS and GII were stable at 39.2% (August: 39.2%) and 5.7% (August: 5.8%) in September.
- ✓ This shows the demand persisted amid heightening downside risks from political instability.

FUND FLOWS-FIXED INCOME

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
8M2020	4,292	(1,000)	-	1,952	758	3,915	(1,311)	(584)

Source: CEIC

- ✓ The foreign investor continued to be the net buyer, recording net inflows of RM3.0 billion in August (July: RM7.1 billion).
- ✓ On a cumulative basis, the net inflows stood at RM4.3 billion in 8M2020 as opposed to RM3.4 billion in the same period last year.

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- **Further improvement in leading index** – Malaysia's Leading Index (LI) improved further, rising for the third straight month by 7.7% y-o-y in July (June: 4.6%) 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 smaller decline of -2.4% y-o-y (June: -3.1%), 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.

- **Signs of recovery warrant a cautious view on bonds** – The lower inflation rate of -1.4% in August (July: -1.3%) 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 to an all-time high of 691 on 6 October has led talks of possible reintroduction of MCO. While the PM reassured that it will be targeted measures, the financial markets would continue to be anxious of what may unfold in the days to come.

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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.