



From the Desk
of the
Chief Economist

BANK ISLAM

TAKING A LOOK AT MALAYSIA'S FOREIGN EQUITY FLOWS

17 MAY 2021

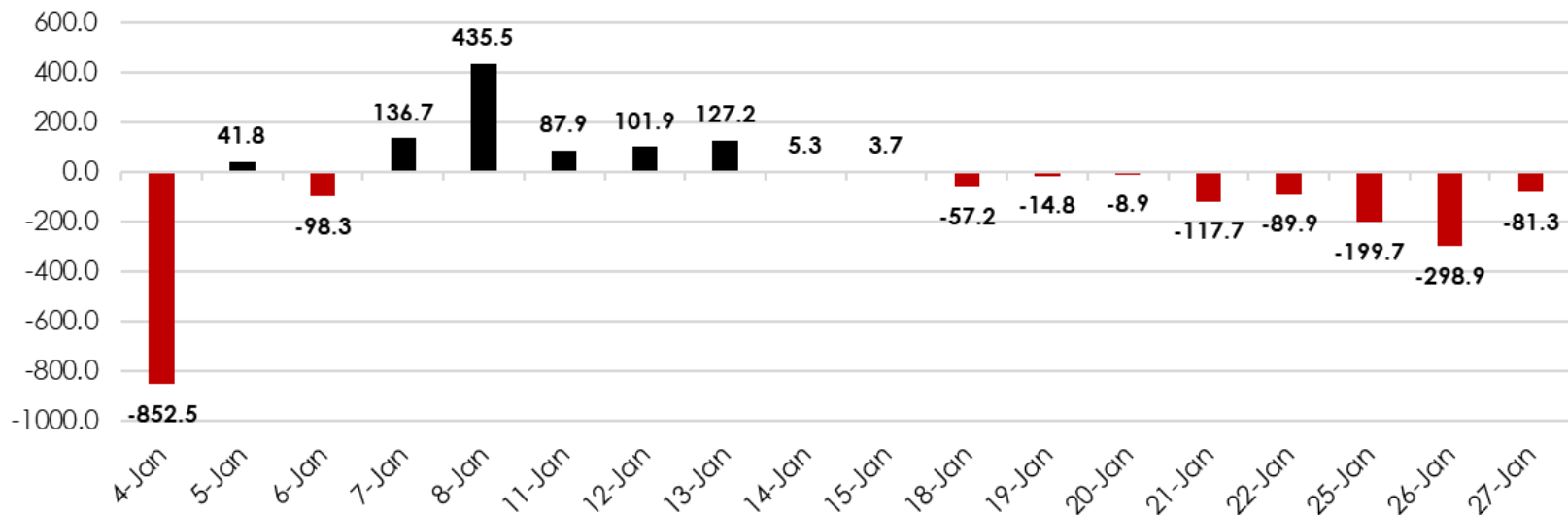
ECONOMIC RESEARCH

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THERE WAS A GLIMPSE OF HOPE AT THE BEGINNING OF THE YEAR

- ✓ At the start of the year 2021, we observed that foreign investors entered Bursa for seven straight days from 7 January 2021 to 15 January 2021. This was the longest buying streak seen since January 2019 which saw international funds being net buyers on Bursa for nine consecutive days.
- ✓ During that period, the level of foreign net buying even reached RM435.5 million on 8 January 2021, the highest amount bought in a day since 21 March 2017 which recorded a foreign net inflow of RM455.4 million.
- ✓ Notwithstanding this, the buying streak was then snapped on 18 January 2021 when foreign investors sold RM57.2 million net of local equities.
- ✓ Since then, foreign net buying activity only occurred at short intervals, lasting for only up to only three days the most.

Daily Foreign Net Inflow/Outflow (RM Million) In January 2021

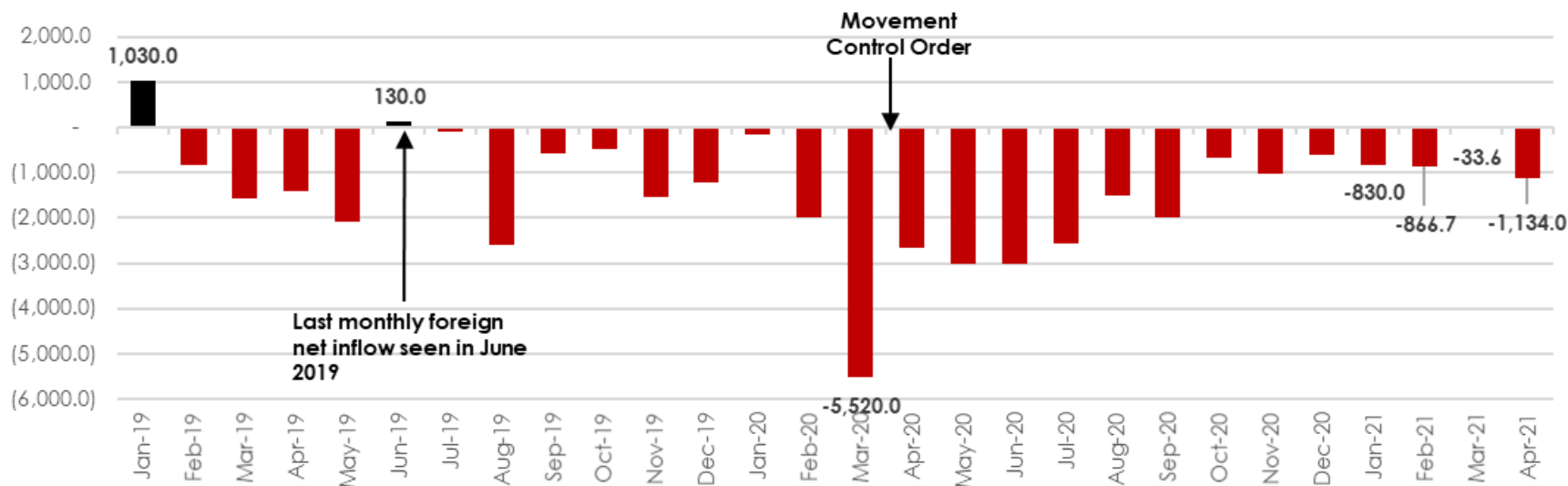


Source: Bursa Malaysia

PROSPECTS OF LOWER MONTHLY FOREIGN NET OUTFLOW WAS THERE BUT APRIL CRUSHED THE HOPE

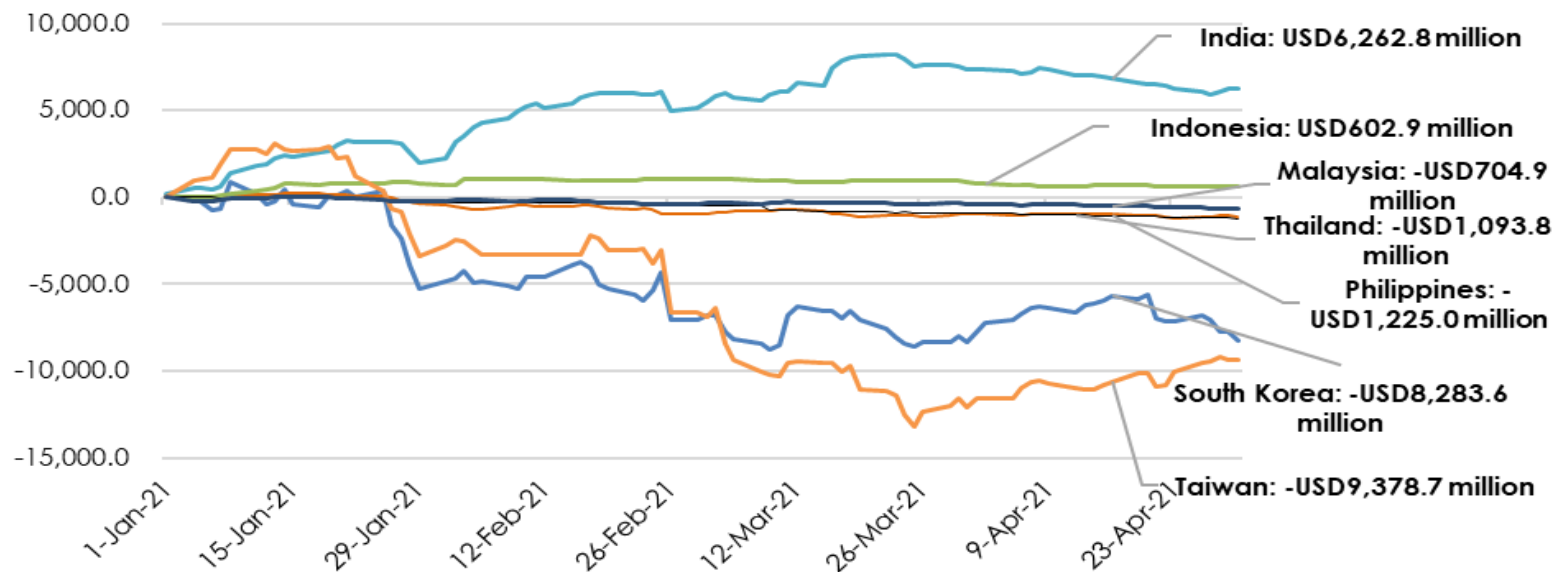
- ✓ Foreign fund net outflows in April 2021 accelerated to RM1,134.0 million (March 2021: -RM33.6 million), marking the 22nd consecutive month of foreign net selling on Bursa Malaysia.
- ✓ More importantly, the latest round of monthly foreign net outflow in April crushed hopes of a downward trend in selling activity. The monthly foreign net outflow during April this year worth RM1,134.0 million was the highest in seven months.
- ✓ Meanwhile, the monthly foreign net outflow of RM33.6 million in March this year was the lowest since August 2018 which registered a monthly foreign net outflow of RM10.0 million.
- ✓ Therefore, foreign investors remain hesitant to enter the Malaysian equity market.

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



Source: Bloomberg

Regional Foreign Equity Net Inflow/Outflow (USD Million)

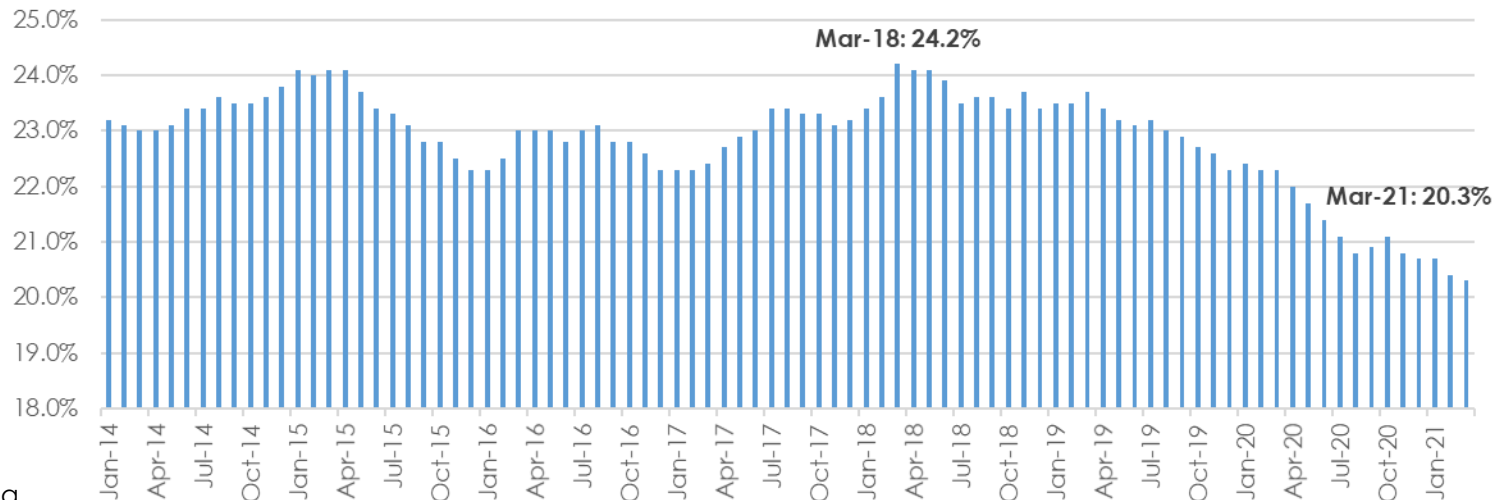


Source: Bloomberg
 Note: As at 30 April 2021

- ✓ Despite the persistent foreign net outflow in Malaysia's equity market, Malaysia has the lowest foreign net outflow of USD704.9 million during the first four months of 2021 (4M2021) in comparison with other regional peers under our coverage.
- ✓ Taiwan recorded the largest foreign net outflow of USD9,378.7 million in 4M2021. Meanwhile, India and Indonesia are the only countries with a foreign net inflow of USD6,262.8 million and USD602.9 million respectively.
- ✓ Therefore, Malaysia is not the odd one out experiencing constant net selling by foreign investors.

FOREIGN SHAREHOLDING ON BURSA HAS ALSO BEEN ON A DOWNWARD TREND

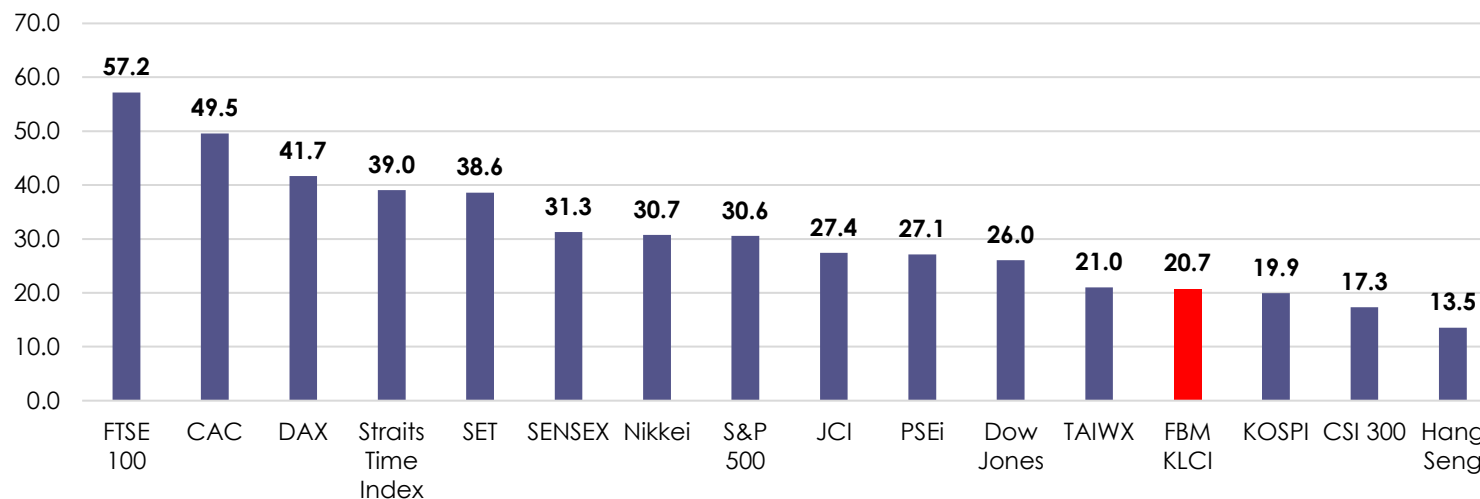
Securities Market Foreign Ownership In Terms of Percentage of Bursa Malaysia's Market Capitalisation



Source: Bursa

- ✓ In line with the persistent foreign net outflow in Malaysia's equity market, the level of foreign ownership has also been on the downtrend.
- ✓ On further scrutiny, the securities market foreign ownership in terms percentage of Bursa's market capitalization reached 24.2% in March 2018 and has been declining since then.
- ✓ The latest securities market foreign ownership in terms percentage of Bursa's market capitalization stood at 20.3% in March (February: 20.4%). This is the lowest level in history that may suggest that the foreign shareholding levels on Bursa have bottomed out.
- ✓ However, the current overall landscape which is volatile may indicate that the current foreign shareholding level can go down further.

Price-To-Earnings Ratio of Global Benchmark Indexes



Source: Bursa

- ✓ From a valuation point of view, Malaysia's price-to-earnings (PE) ratio is one of the cheapest if compared to other regional benchmark indexes such as Indonesia's JCI index and Taiwan's TAIEX Index.
- ✓ On further scrutiny, we observed that India's SENSEX index which has a higher PE ratio of 31.3x compared to Malaysia's PE ratio of 20.7x.
- ✓ Nonetheless, India continues to record a total foreign net inflow of USD6,262.8 million in 4M2021 despite its lofty valuation and the substantially high number of Covid-19 infections in the country. A possible factor that could have attracted foreign investors to India despite the aforementioned points is the inclusion of companies involved in Information Technology (IT) consulting services under the SENSEX index. Such companies are usually resilient during pandemics as they can operate remotely.
- ✓ Therefore, a market with high valuations does not necessarily mean it is less attractive to foreign investors as there are many other factors to be considered.

POSSIBLE FACTORS FOR THE FOREIGN NET OUTFLOW IN MALAYSIA'S EQUITY MARKET – FACTOR #1 POLITICAL UNSTABILITY

2021



January 12

Two UMNO members of parliament (MPs) who are Dato' Sri Mohamed Nazri Abdul Aziz and Datuk Ahmad Jazlan Yaakub have declared the withdrawal of their support for the government.



January 12

The Emergency proclamation was declared under Article 150(1) of the Federal Constitution, and will last until 1 August, unless ended earlier.



March 13

Parti Keadilan Rakyat (PKR) lost three MPs including Julau MP Larry Sng, Tebrau MP Steven Choong and Kuala Langat MP Dr Xavier Jayakumar who have pledged support for the Perikatan Nasional (PN)-led government.



March 27

UMNO concluded at its 75th general assembly to stop having any political collaboration with PN and Malaysian United Indigenous Party (Bersatu) in the next general election.



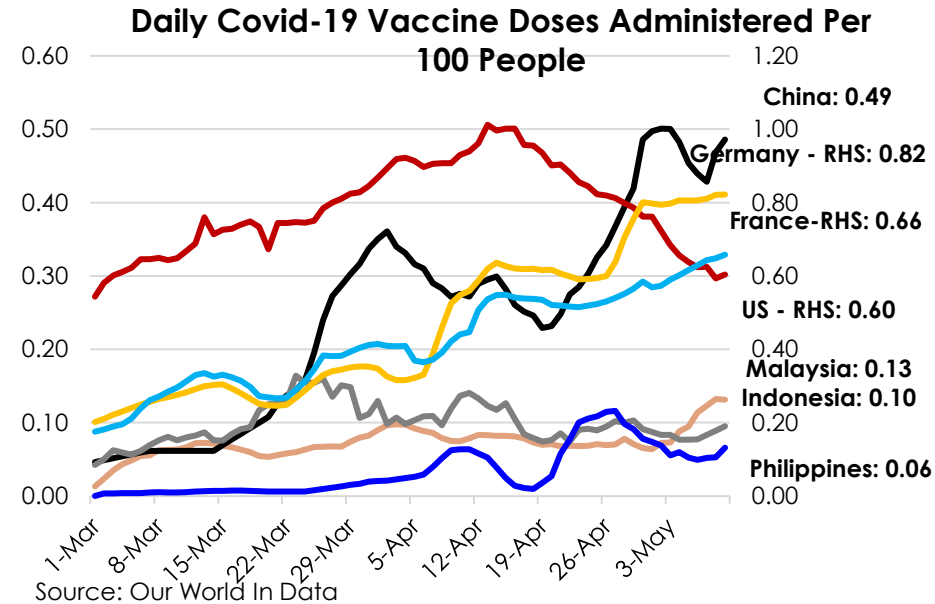
What's next?

UMNO's decision to reject PN also throws into question doubts about the Muafakat Nasional pact (between UMNO and Malaysian Islamic Party (PAS)).



POSSIBLE FACTORS FOR THE FOREIGN NET OUTFLOW IN MALAYSIA'S EQUITY MARKET – FACTOR #2 COVID-19 PANDEMIC

- ✓ Recent reports from Our World In Data indicate that the number of daily doses administered per 100 people in Malaysia reached 0.13 as at 9 May 2021, the highest ever following the commencement of the voluntary AstraZeneca vaccination programme. However, it is still very low compared to developed countries such as Germany, France and the US.
- ✓ As such, foreign investors may be more attracted to countries with higher vaccination rates as it indicates a faster journey towards reaching herd immunity which will enable businesses to operate back to normal.
- ✓ Based on data from the Bloomberg Covid-19 Tracker, the time for Malaysia to vaccinate 75.0% of the population will take 33.6 months based on the latest vaccination rate of 0.1 million doses per day. This is even longer than India which is facing a higher number of infections compared to Malaysia.
- ✓ The longer it takes for a country to reach herd immunity, the longer for the country's economy to regain pre-pandemic levels as badly hit industries such as tourism and aviation will likely remain restrictive.



Vaccination Rates And Time To Cover 75.0% Of A Country's Population

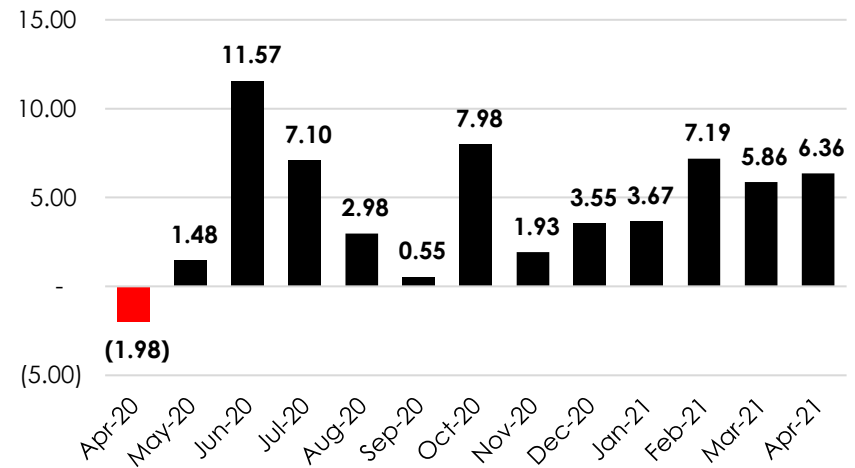
Country	Latest Vaccination Rate (million doses per day)	Time To Cover 75.0% Of The Population (months)
Global	207.0	16.0
European Union	3.3	5.0
UK	0.5	3.0
US	2.2	3.0
Germany	0.7	4.0
China	7.0	8.0
India	2.0	31.2
Malaysia	0.1	33.6

Source: Bloomberg Covid-19 Tracker

WHERE HAVE THE FOREIGN INVESTORS BEEN TO INSTEAD OF MALAYSIA'S EQUITY MARKET

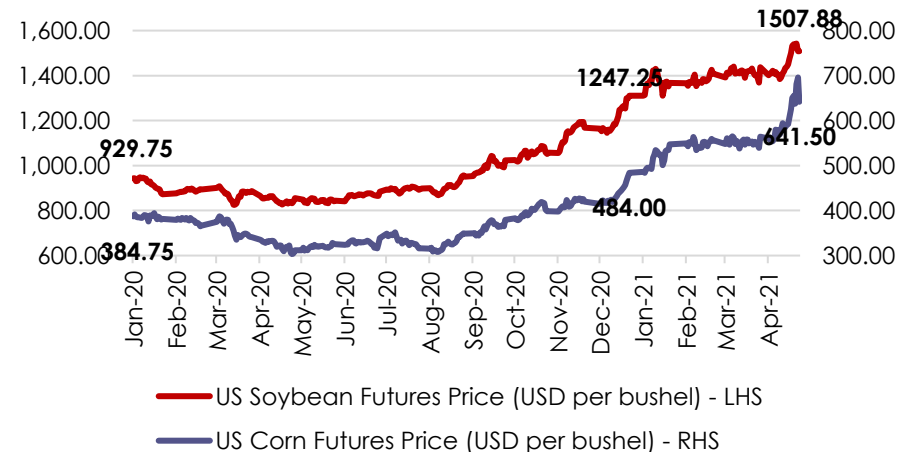
- ✓ Just because foreign investors have kept reducing their exposure in Malaysia's equity market, it does not mean that they have left Malaysia's financial market for good. In fact, foreign investors remain invested in Malaysia but in other type of asset classes, namely the fixed income market.
- ✓ Foreign fund investors continued to purchase local govies for the 12th straight month with higher inflows recorded in April at RM6.4 billion from RM5.9 billion in March. In light of this, the cumulative inflows were higher at RM23.1 billion in 4M2021 compared to outflows of RM18.8 billion in the same period last year.
- ✓ All in all, we opine the demand for local bond would remain strong amid risk-off mode among investors in the wake of rising uncertainty due to high local and international Covid-19 cases.
- ✓ Aside from the bond market, investors might have shifted to the commodity markets such as Crude Palm Oil futures, Corn futures, Brent crude oil futures and Soybean Futures which have been advancing as of late. The rise in commodity markets is mainly due to the anticipation of stronger demand in the wake of stimulus injections by major economies such as the US.

Foreign Fund Flows in Bond Market, RM billion



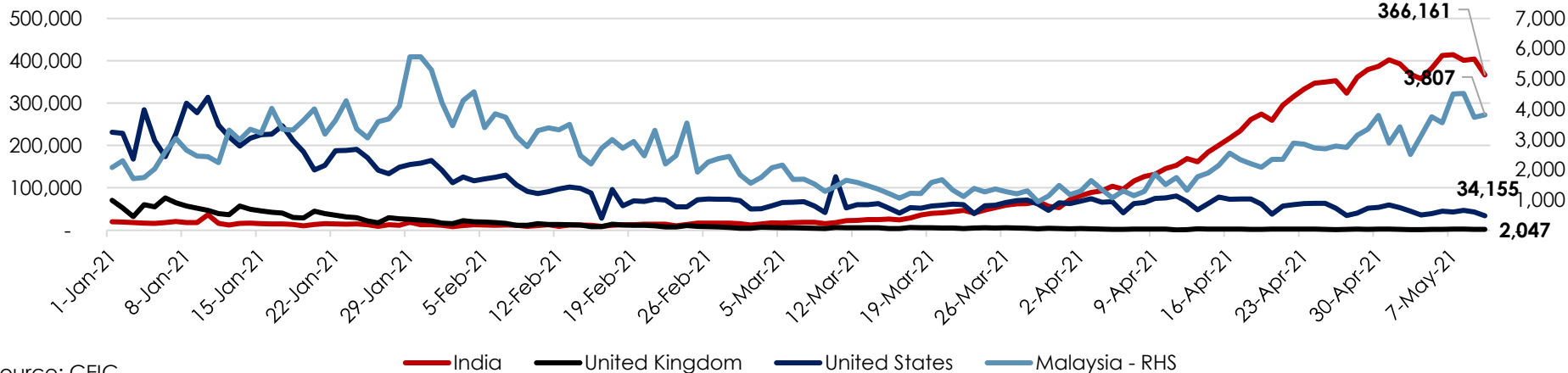
Sources: Bank Islam, CEIC

US Soybean Futures Price vs. US Corn Futures Price



- ✓ The global situation appears to be mixed at the moment. Developed countries such as the UK and the US have been showing a steady decline in the number of daily Covid-19 cases.
- ✓ In contrast, Malaysia has seen a sudden uptick in the number of daily Covid-19 cases. The rise in Covid-19 infections reached to the extent that Malaysia implemented the Movement Control Order (MCO) 3.0 beginning on 12 May 2021 until 7 June 2021.
- ✓ Notwithstanding this, Malaysia is still expected to benefit from export-oriented businesses that will ride on the external demand growth from developed markets. Henceforth, there are still pockets of opportunities for foreign investors in the Malaysia equity market especially in the manufacturing sector particularly electrical & electronic (E&E) products as companies around the globe continue to be digitally savvy.
- ✓ All in all, we opine that it may be a while before foreign investors start to flock into the Malaysian equity market. A catalyst for the local market to see foreign net inflows would be during the next general election. The reason being is that the GE will restore the mandate of the people to vote for the government. However, given the current situation of the pandemic, we reckon it may not be as soon as the State of Emergency ends in August.
- ✓ Recall that India still carried out elections which then later to a massive Covid-19 outbreak.

Number of Daily Covid-19 Cases



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