MONTHLY ECONOMIC UPDATE

4 SEPTEMBER 2023

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Cooling job market allows the Fed to stay on the sideline.** The August non-farm payrolls (NFP) report showed the U.S. added 187K jobs, more than the downwardly revised 157K for July, but lower than the average monthly gain of 271K over the past year. The unemployment rate increased to 3.8% from 3.5% in July, another sign of loosening labour market conditions. Wage pressures also eased, with the average hourly earnings rising at a slightly slower pace at 4.3% in August as compared with 4.4% previously. The latest job report reaffirmed market expectations of a pause by the U.S. Federal Reserve (Fed) in the upcoming Federal Open Market Committee (FOMC) meeting on September 19-20. However, investors have not entirely ruled out further rate hikes in the remainder of the year, pricing in a 32.5% chance of such an event happening, though lower than the 45.0% seen before the job data release.

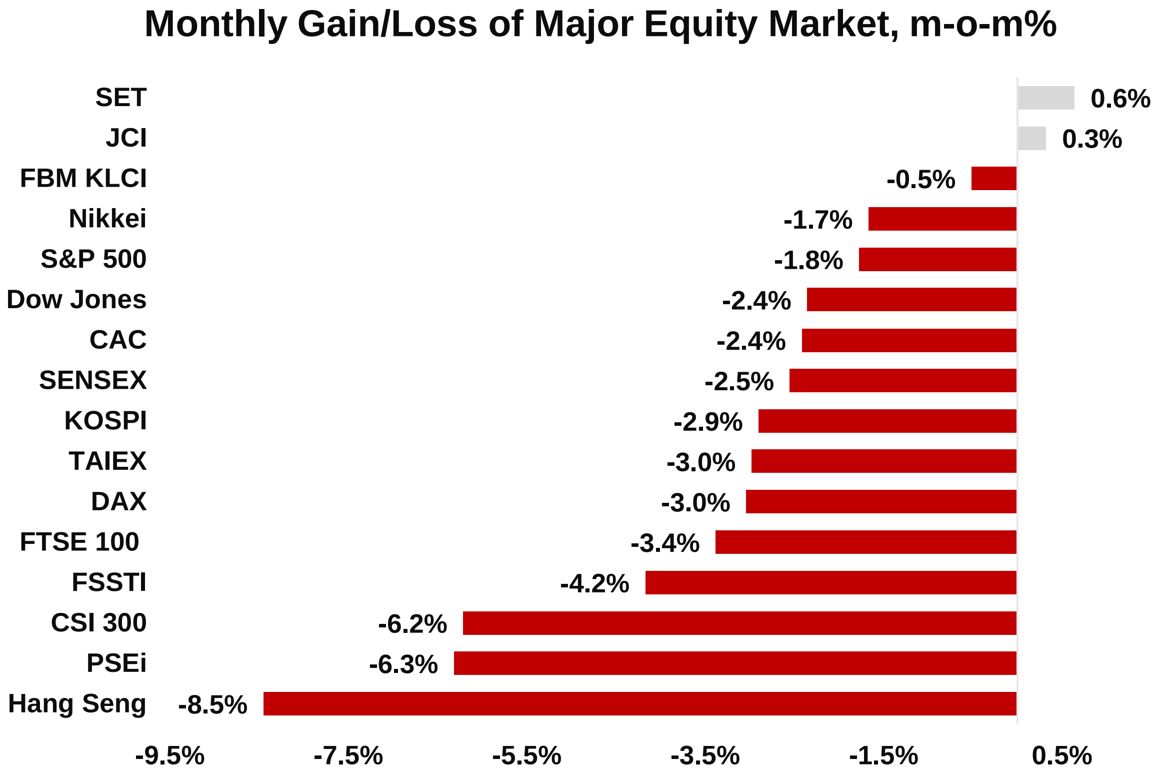
- **China intensified efforts to support its lackluster economy.** In the latest efforts to boost confidence in its economy, China unveiled a set of stimulus measures targeting lifting household consumption, reviving the property market, and supporting the Chinese yuan. The measures include tax reliefs for families with children and elderly parents, lower minimum down payments for mortgages for first-time and second-time home buyers, a cut in the rates for existing mortgage holders, and a reduction in the amount of foreign currency deposits that financial institutions are required to hold as reserves. Despite calls for more aggressive fiscal measures to stimulate the economy, China has resorted to targeted support measures thus far to avoid inflating debt bubbles.

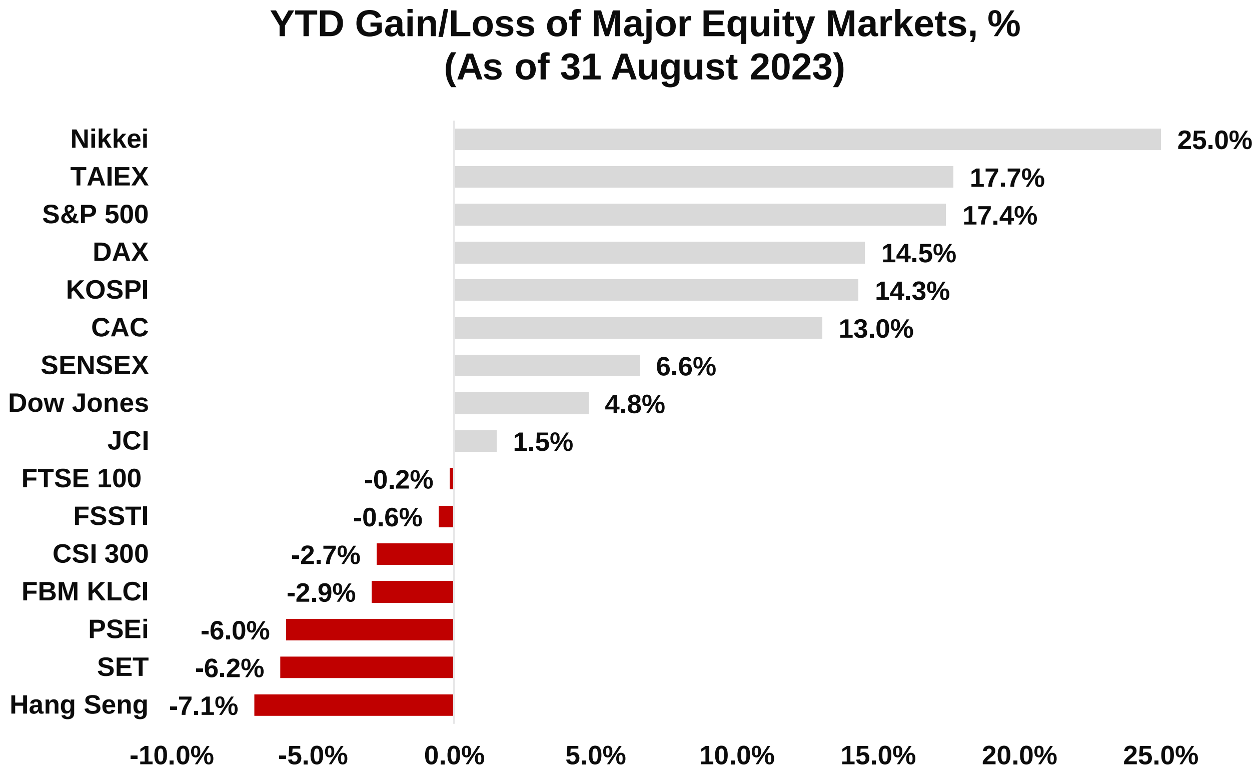
- **Malaysia's 2Q2023 GDP growth came in slower-than-expected at 2.9%.** The slower growth (1Q20232: 5.6%), with net exports as the main drag, was mainly due to external headwinds such as cooling prospects for global demand and the global electronics downcycle. Private consumption remained the key growth driver as the unemployment rate declined to 3.4% in June. Declining inflation has helped lift real wage growth. The positive momentum in tourist arrivals has also supported the economy thus far. Given the weak 2Q2023 performance and the moderating growth momentum moving forward, keeping the official full-year growth projection of 4.0-5.0% can be challenging.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: HONG KONG STOCKS DIPPED THE MOST AMID CHINESE MANUFACTURING SLUMP AND PROPERTY DEBT WOES

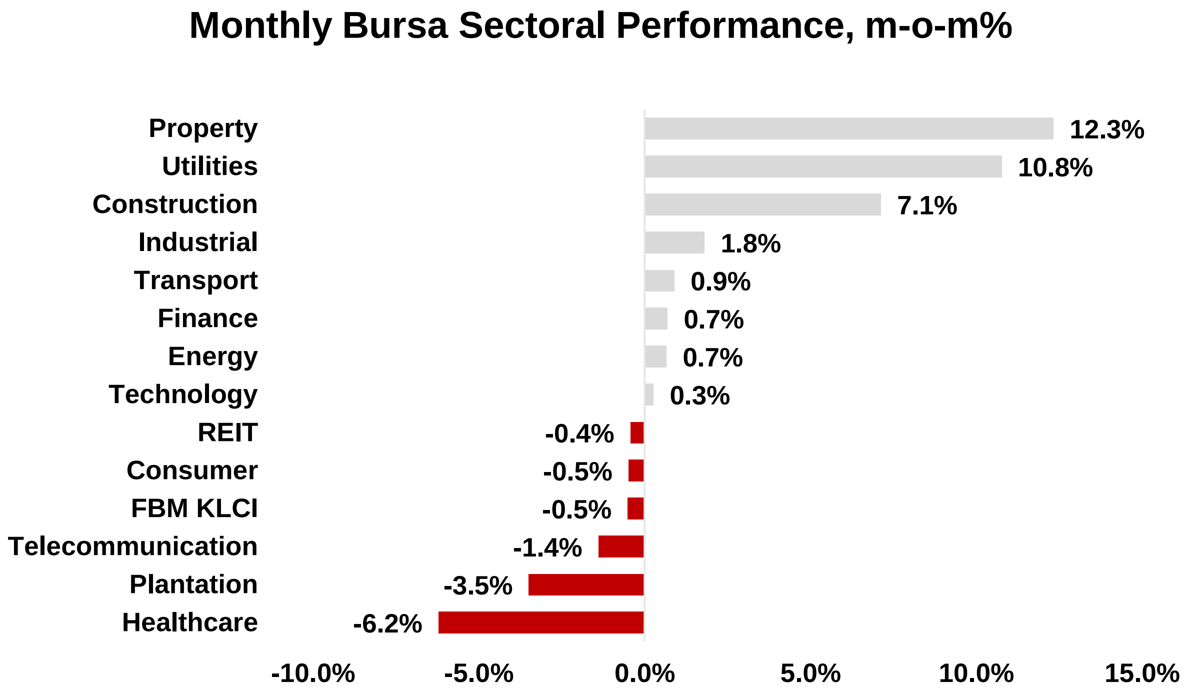


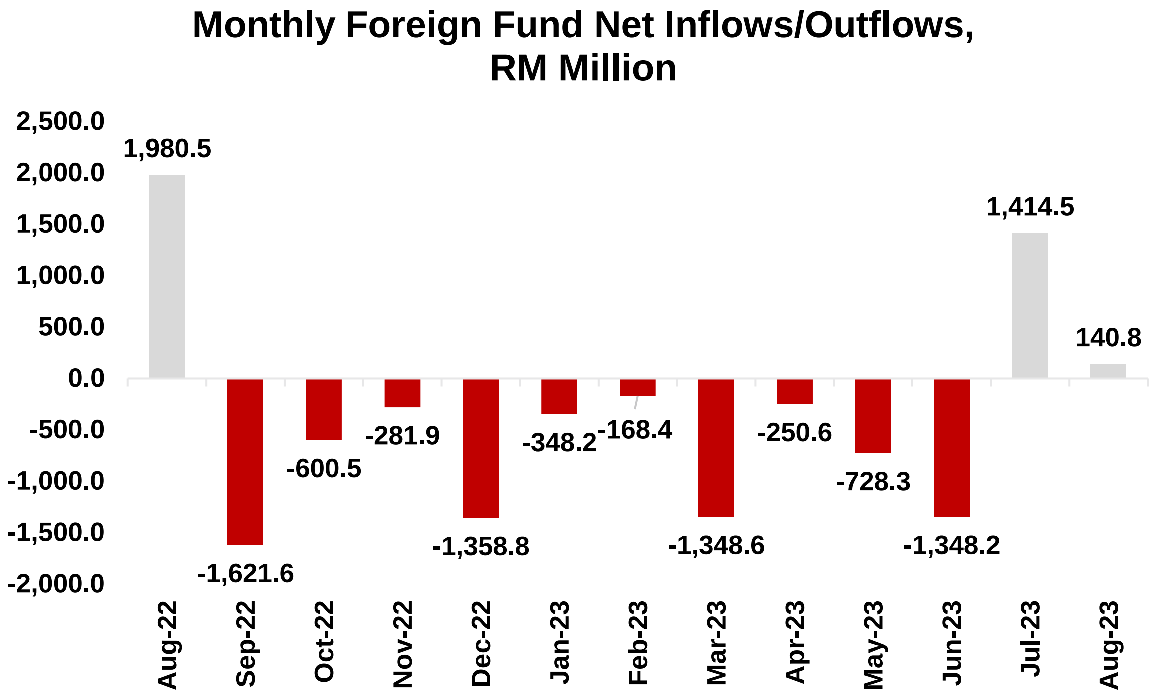


Sources: Bursa, CEIC data

- The regional benchmark indices mostly ended in negative territory in August. Thailand's SET (0.6%) and Indonesia's JCI (0.3%) were the only gainers for the month.
- Thailand's SET regained momentum amid forming a new coalition government under the new prime minister.
- Hong Kong's Hang Seng suffered a contraction of 8.5% in August, the first monthly setback since May and the most since February, as a slump in Chinese manufacturing activity and property debt woes rattled investors.
- For the first eight months of the year, Japan's Nikkei was the top performer, leading with a 25.0% gain.

DOMESTIC EQUITY: LOCAL STOCKS ENDED MIXED AFTER PARING EARLY GAINS





Source: Bursa, BNM, CEIC data

- Slightly more than half of the Bursa sectoral indices gained in the month of August, with Property (12.3%), Utilities (10.8%), and Construction (7.1%) leading the gainers by a large margin.
- On the other hand, Healthcare led decliners with a 6.2% drop, followed by Plantation (-3.5%) and Telecommunication (-1.4%).
- Market sentiment was mixed as investors digested a flurry of economic data from domestic and global fronts.
- Foreign investors extended buying for the second consecutive month, albeit at a more moderate pace at RM140.8 million compared to RM1.4 billion recorded in July.
- With the Bank Negara Malaysia (BNM) and the Fed expected to stand pat in the upcoming policy meetings, the FBM KLCI will likely see some buying, notably from foreign funds, in September.

FIXED INCOME: UST YIELDS CLIMBED AS TRADERS RE-EVALUATED INTEREST RATES PATH

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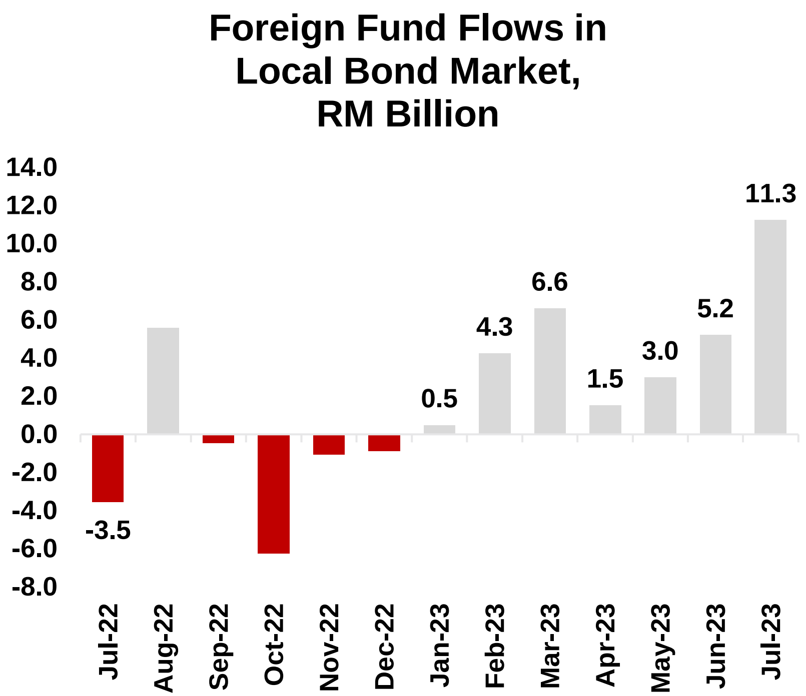
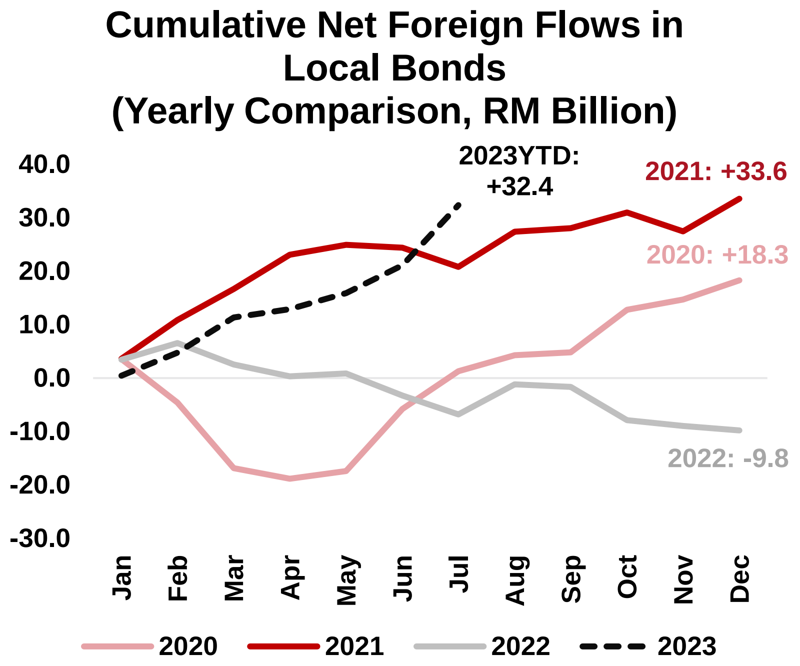
Monthly changes, basis points (bps)

UST	Yields (%) 31-Jul-23	Yields (%) 31-Aug-23	Change (bps)
3-Y UST	4.51	4.54	3
5-Y UST	4.18	4.23	5
7-Y UST	4.08	4.19	11
10-Y UST	3.97	4.09	12
MGS	**Yields (%) 31-Jul-23**	**Yields (%) 30-Aug-23**	**Change (bps)**
3-Y MGS	3.49	3.46	-3
5-Y MGS	3.60	3.59	-1
7-Y MGS	3.75	3.74	-1
10-Y MGS	3.83	3.84	1
GII	**Yields (%) 31-Jul-23**	**Yields (%) 30-Aug-23**	**Change (bps)**
3-Y GII	3.49	3.47	-2
5-Y GII	3.65	3.63	-3
7-Y GII	3.80	3.79	-1
10-Y GII	3.87	3.87	0

Sources: BNM, Federal Reserve Board





- In August, the U.S. Treasury (UST) yields curve bearishly steepened, with yields rising in the range of 3bps and 12bps as investors reassessed the outlook of U.S. interest rates after remarks from Fed Chair Jerome Powell that additional rate hikes could be delivered in the fight against inflation.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) mostly ended firmer, with yields easing between 1bp and 3bps along the 3y7y curve. Meanwhile, the 10-Y MGS yield increased by 1bp while the 10-Y GII yield plateaued.
- The local bond market recorded net foreign inflows for a seventh straight month in July, with the said month recording the highest inflows of RM11.3 billion (June: RM5.2 billion) this year thus far. It will likely be the highest annual inflow since the pandemic.
- Concurrently, the local govvies' foreign shareholdings to total outstanding climbed to 24.0% in July (June: 23.0%).
- From January to July 2023, the cumulative net foreign flows logged inflows of RM32.4 billion, significantly higher than the outflows of RM6.8 billion in the same period in the previous year.

FX MARKET: RINGGIT ENDED LOWER AGAINST THE USD FOLLOWING RECENT REMARKS FROM THE FED CHAIR AT THE JACKSON HOLE SYMPOSIUM

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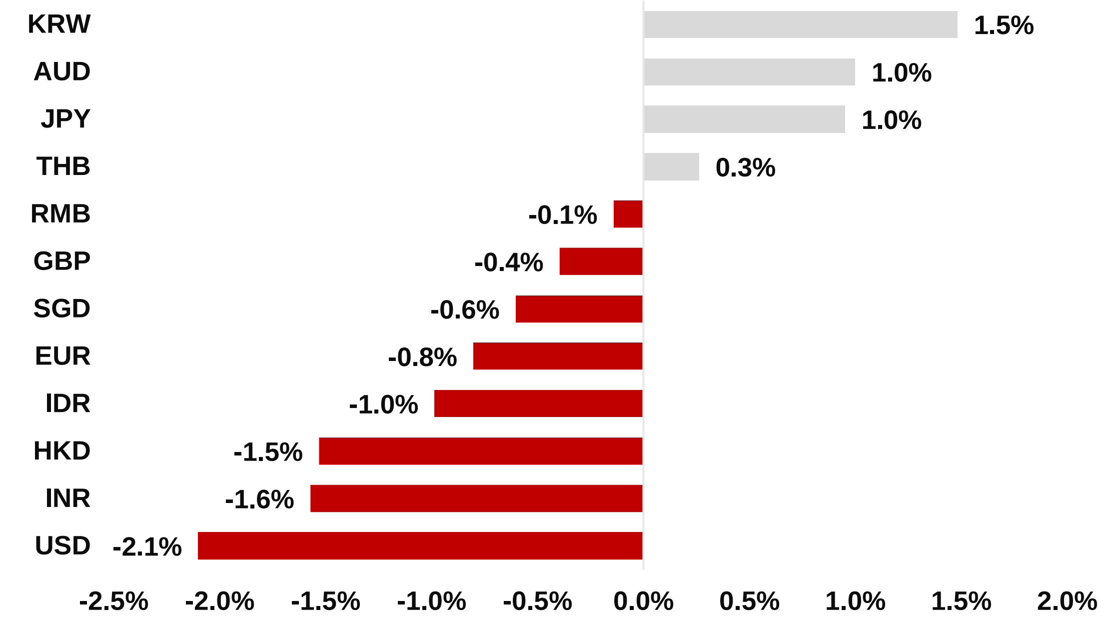
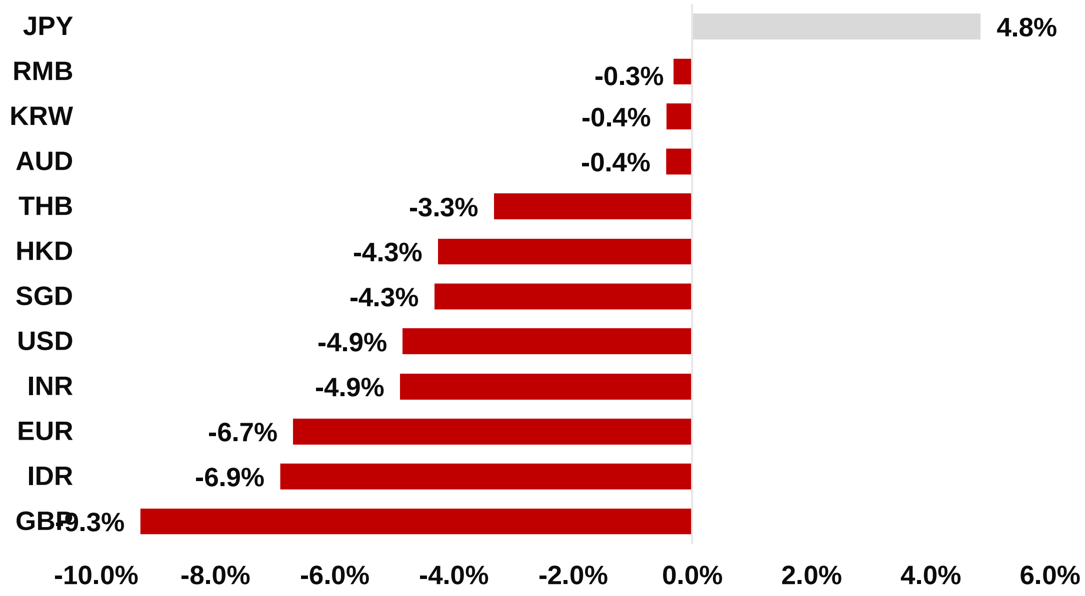
MYR Against Regional Currencies, m-o-m%



Source: BNM

MYR Against Regional Currencies, YTD% (As of 30 August 2023)



- It appears that the Fed's battle against inflation is far from over, as Fed Chair Jerome Powell hinted that another rate hike for this year remains on the table given sticky core inflation. As a result, the USD index touched the 104-mark post-meeting, a level not seen since June last year, thus pressuring the local note.
- Though the U.S. labour market appeared to be cooling, consumer spending accelerated m-o-m (July: 0.8% vs. June: 0.6%), a sign that the spending remains robust; thus, achieving a soft landing is possible while simultaneously providing upside risks for service consumption.
- Domestically, we posit that BNM would leave the Overnight Policy Rate (OPR) steady at 3.00% in September, partly attributable to the headline inflation showing some signs of easing since the start of the year with the latest print (July: 2.0% vs. June: 2.4%) marked the lowest rate since August 2021.

SECTION 2

The Global Economy

THE GLOBAL MANUFACTURING ACTIVITY REMAINED IN CONTRACTION IN AUGUST

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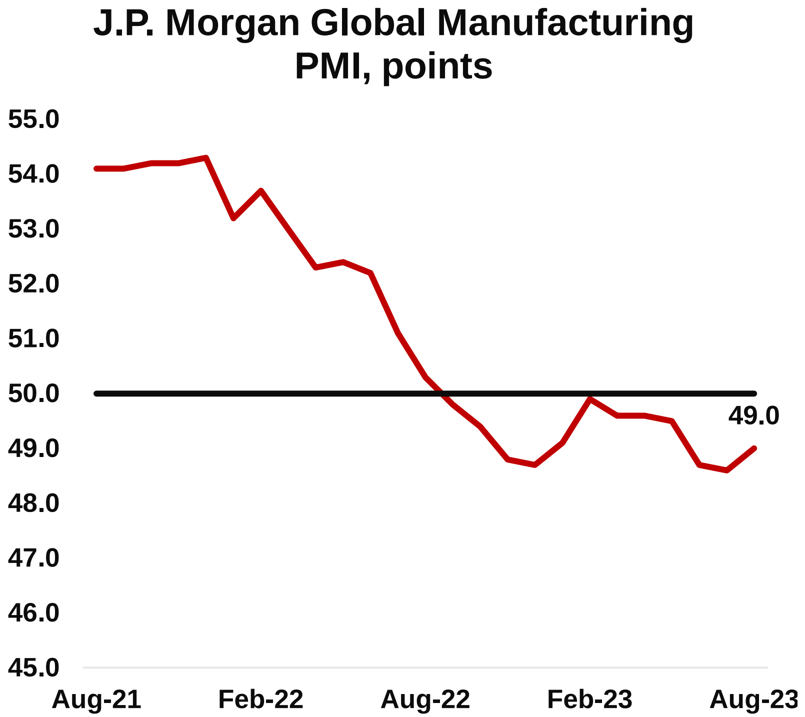
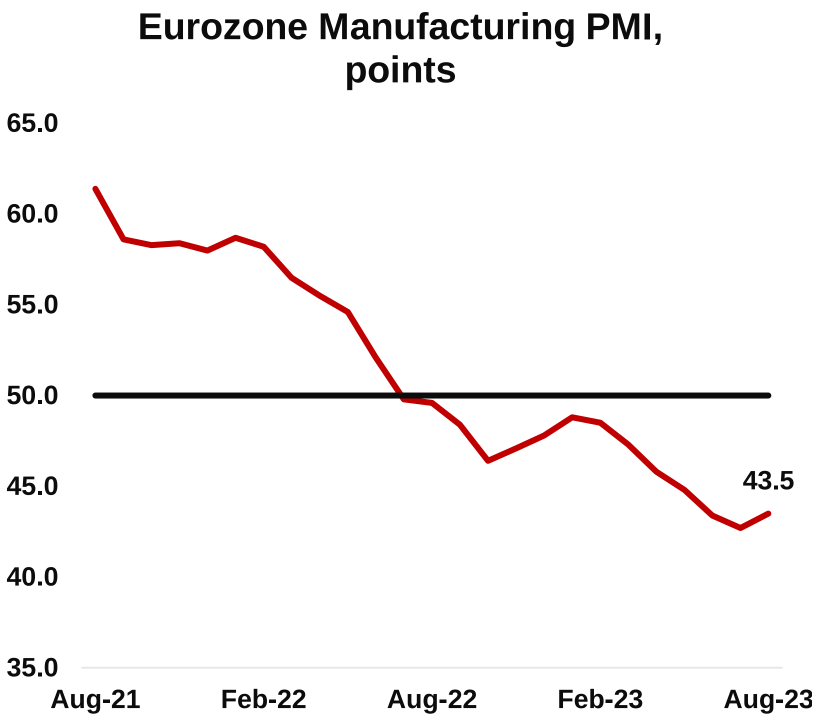
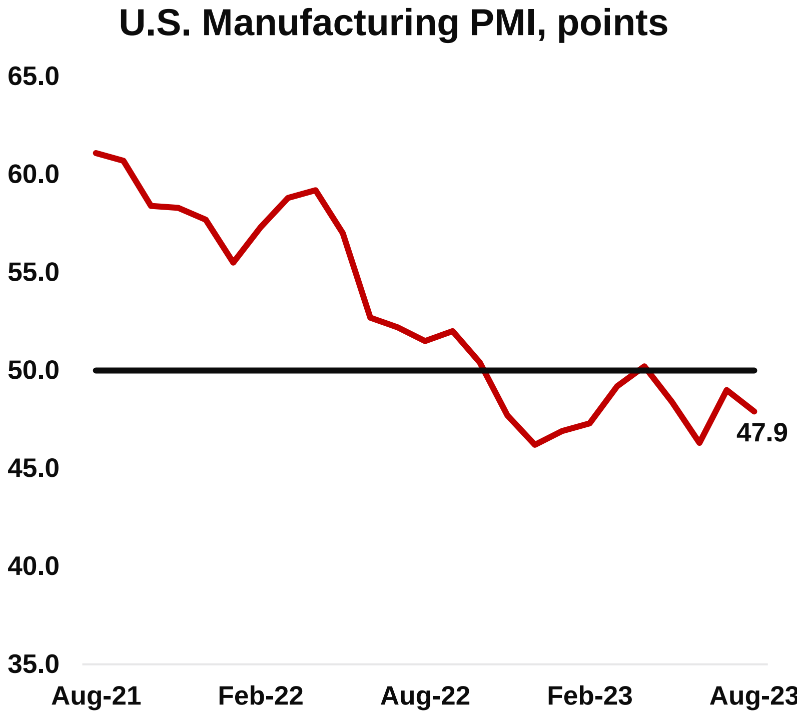


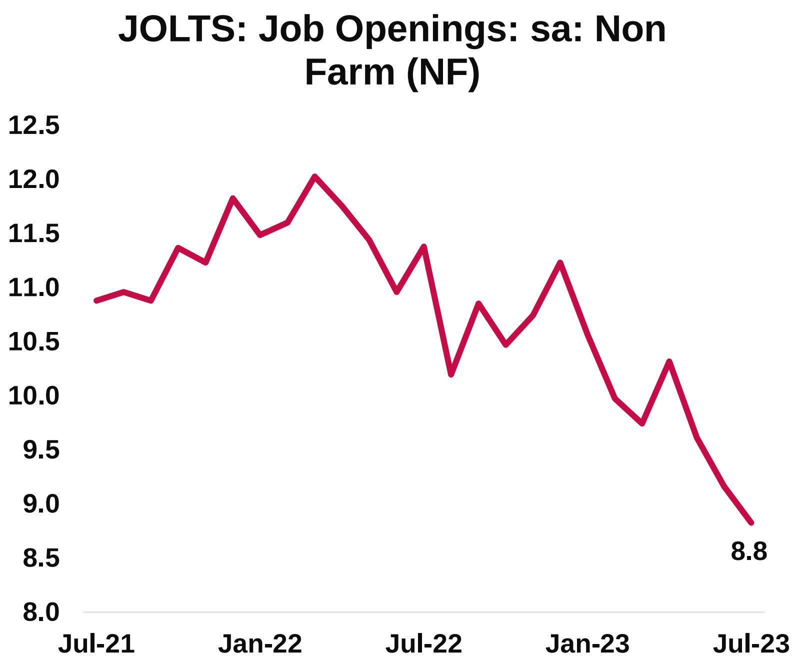


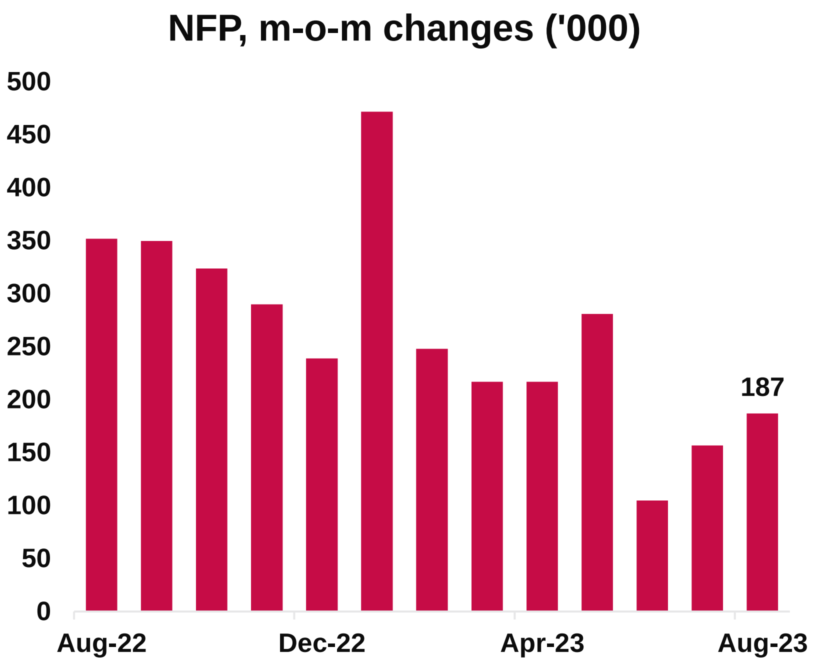


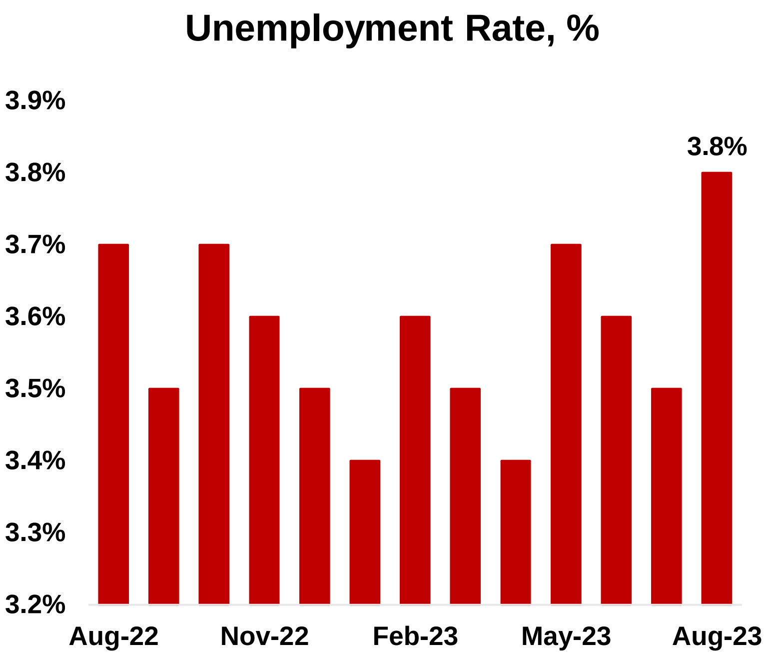
Source: S&P

- Though the latest global manufacturing Purchasing Managers' Index (PMI) inched higher to 49.0 points during the month, it remained below the neutral 50.0 mark for the twelfth straight month, implying a decline in the new orders, perhaps due to the manufacturers' responsiveness to the weaker economic conditions.
- Likewise, the Eurozone manufacturing PMI is still trending below the 50.0 mark – indicative of a protracted contraction in the economic bloc's manufacturing activity amid a slower volume of factory orders.
- As for the U.S., manufacturing activity continued its downward trend in August amid a deterioration in business conditions. Growing pessimism about the short-term outlook has negatively impacted hiring and has resulted in a significant reduction in purchasing activity.

RECENT U.S. EMPLOYMENT DATA APPEARED TO BE COOLING







Sources: U.S. Bureau of Labor Statistics, CEIC data

- For the first time in over two years, the job openings dropped below 9.0 million - the lowest level since March 2021. The latest figure represented a third straight month of decline, showing that labour market conditions gradually loosened as a response to rate hikes.
- Likewise, the job's gains fell below the 200k threshold despite increasing more than expected, indicating that the central bank's rate hike to cool the inflation has caused hiring to slow down.
- The unemployment rate ticked up further to 3.8% in August (July: 3.5%), which will likely put the Fed on hold in the upcoming September meeting.
- Although it may appear contradictory when the U.S.' job gains and the unemployment rate moved in the same direction, the latter is not high/strong enough to keep the former steady at 3.5%. The US unemployment rate is still within the universal definition of full employment.

TOUGHER TIMES AHEAD OF CHINA'S ECONOMY AS THE COUNTRY'S POST-COVID REBOUND FADES

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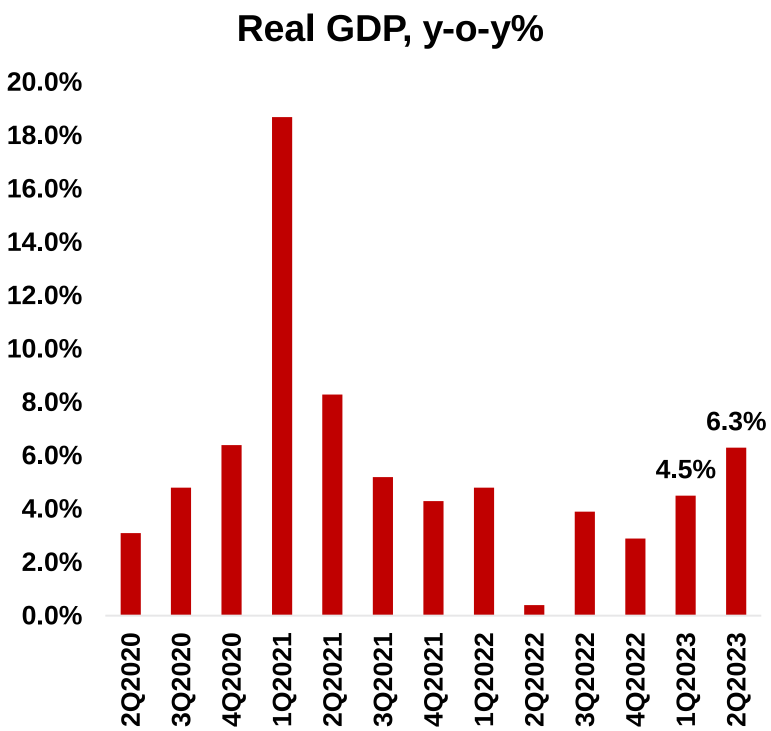

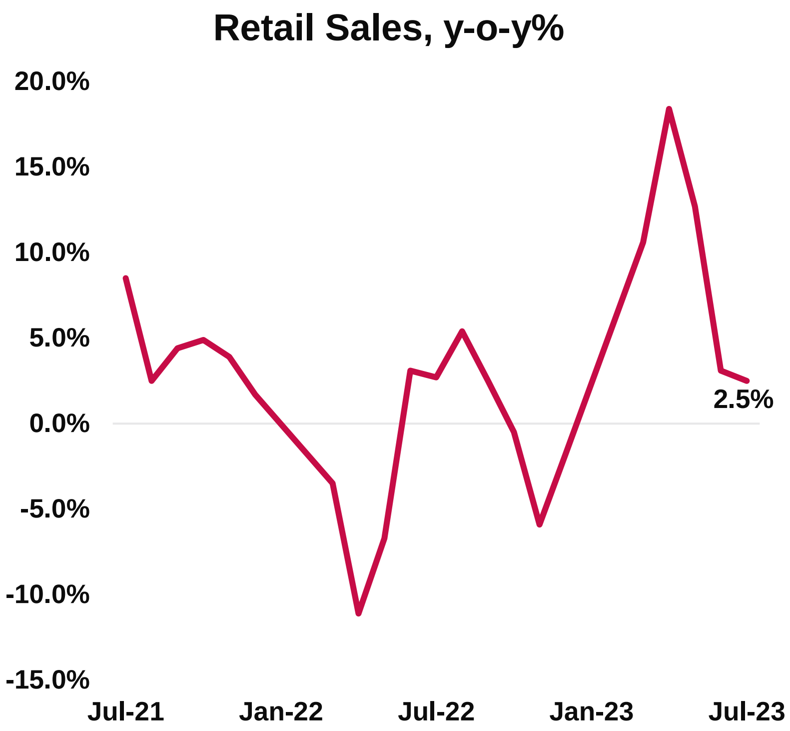

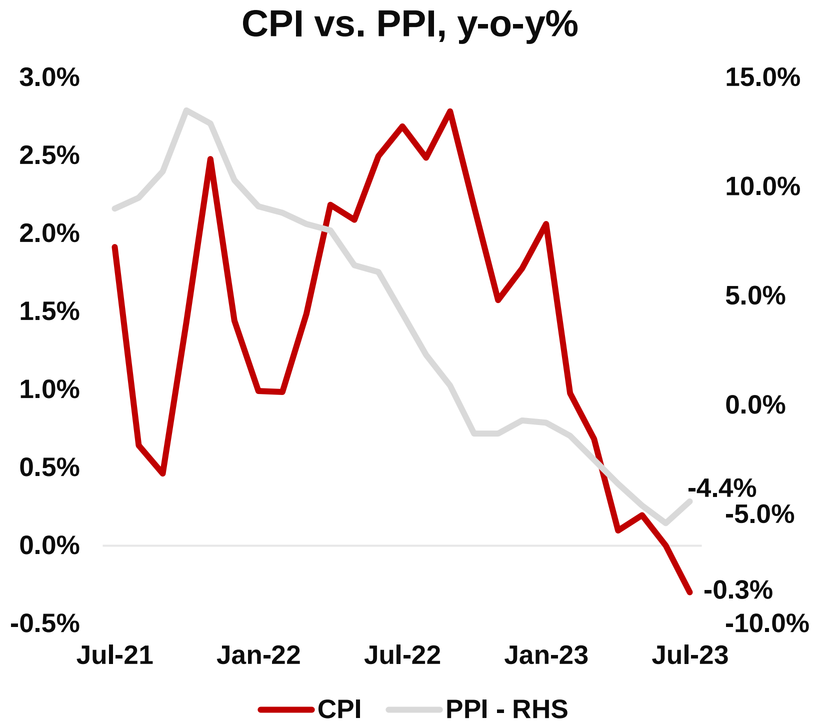

Sources: Organisation for Economic Co-operation and Development, National Bureau of Statistics, International Monetary Fund (IMF), CEIC data

- Though the economy expanded by 6.3% y-o-y during 2Q2023, posting a faster growth than the previous quarter, the latest print fell short of the market's estimation at 7.3%. This suggested that the recovery in the world's second-largest economy is losing momentum and remains uneven following the ongoing property downturn, deflation, record-high youth unemployment and declining exports.
- Additionally, the retail sales growth slowed to 2.5% in July, reflecting shaky consumer confidence, which has added pressure on policymakers to implement new stimulus measures to prop up consumption.
- Meanwhile, China's CPI rate headed into a negative reading in July for the first time since February 2021. In contrast, the PPI recorded its tenth consecutive month of decline during the said month, indicating deflationary pressures started to emerge in the country.

EUROZONE GROWTH RISKS ARE RISING, NECESSITATING ECB'S ATTENTION

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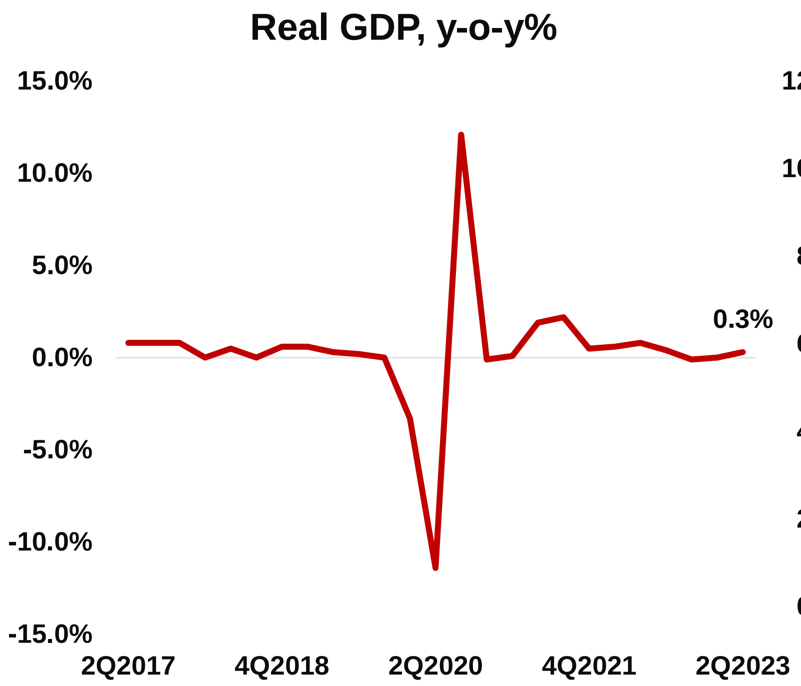

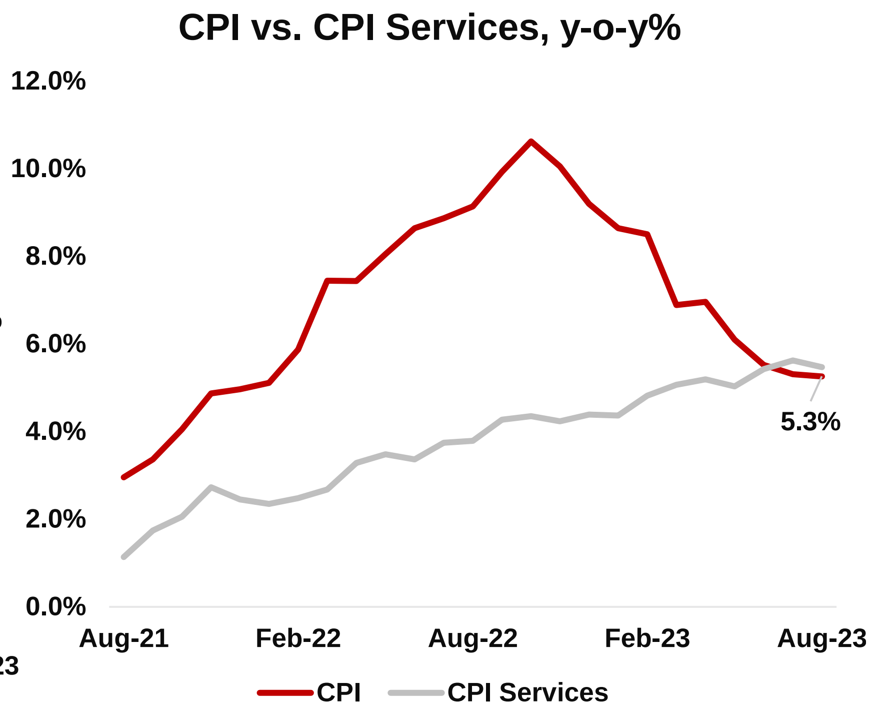

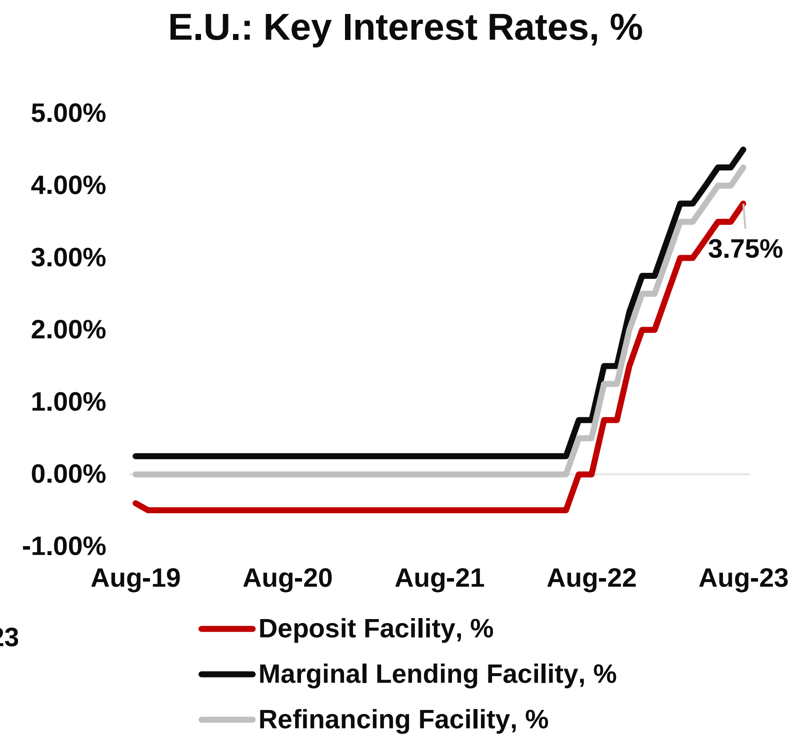

Sources: Eurostat, European Union, European Central Bank (ECB)

- The eurozone economy stagnated with zero growth at the start of this year before rebounding modestly by 0.3% in 2Q2023, owing to the moderation in the inflationary pressures after hitting its peak of 10.6% in October last year. It circumvented a technical recession following Eurostat's latest statistical revision where 1Q2023 is no longer in the contraction zone.
- The latest inflation reading proved unexpectedly stubborn when it steadied at 5.3% in August, defying the market expectations of a drop to 5.1% during the month, partly attributable to the services inflation, which barely moved (August: 5.5% vs. July: 5.6%).
- While this might suggest another rate hike in September, some were expecting a rate pause amid the deterioration of economic growth and the risk of recession. The central bank has raised rates at every meeting over the past 13 months, bringing the deposit rate to 3.75% from minus 0.5% in July 2022.

SECTION 3

Domestic Landscape & Banking Sector Update

THE OPR WILL LIKELY BE MAINTAINED AT 3.00% FOR THE REMAINDER OF THE YEAR

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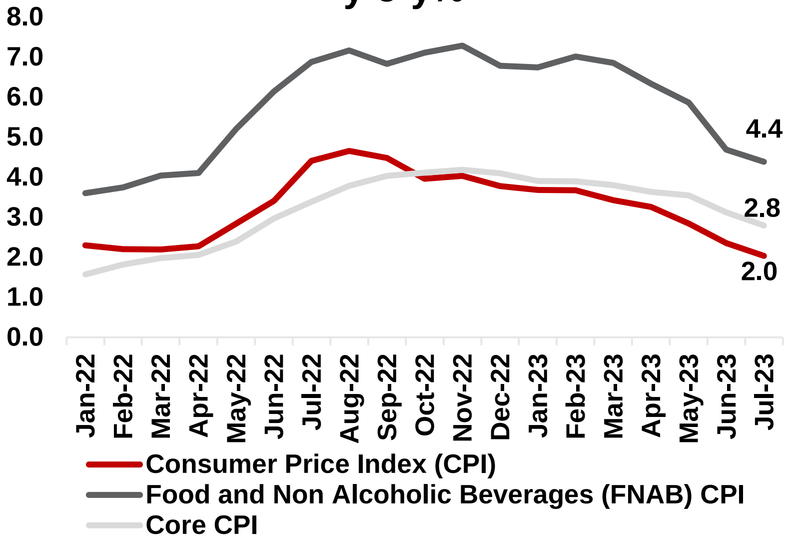
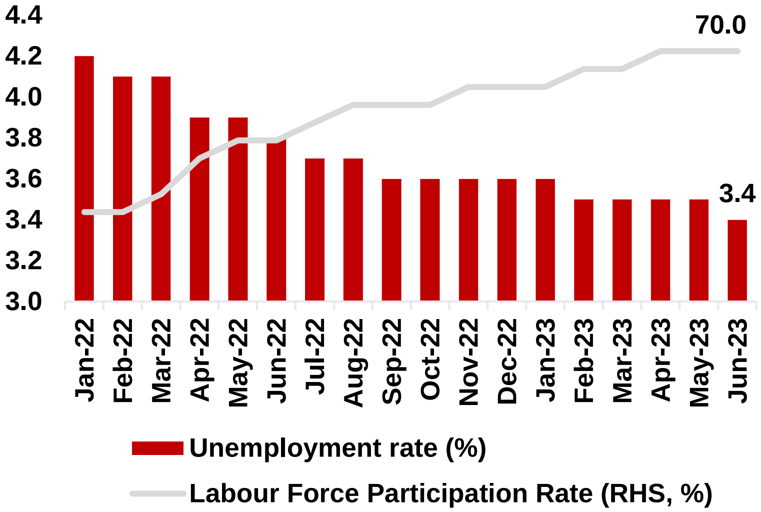
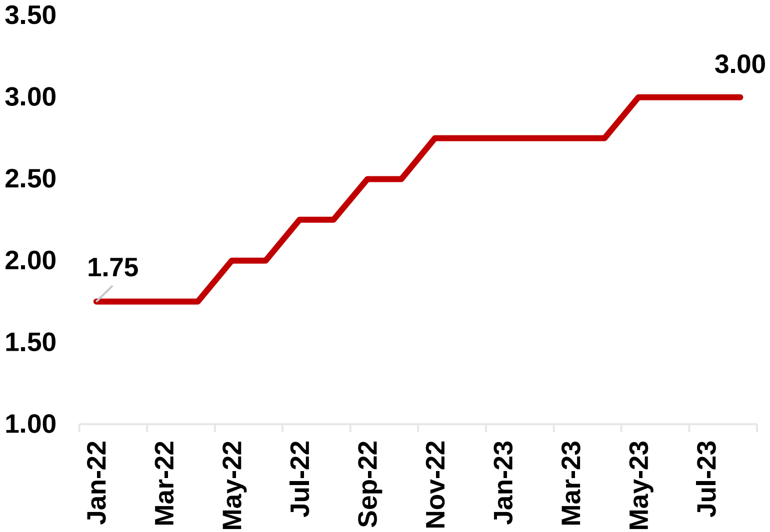
CPI vs FNAB CPI vs Core CPI, y-o-y%



Unemployment Rate vs Labour Force Participation Rate, %



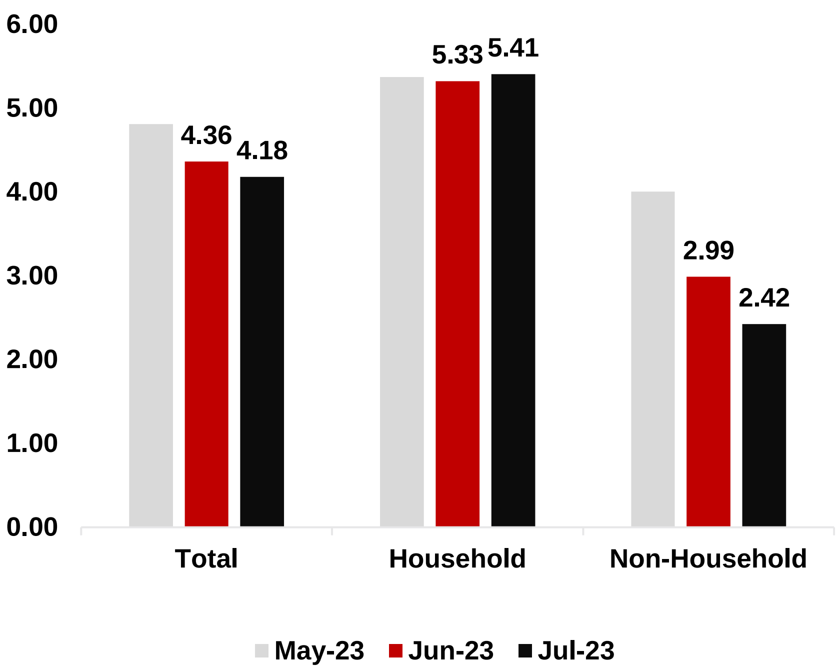
Overnight Policy Rate (OPR), %

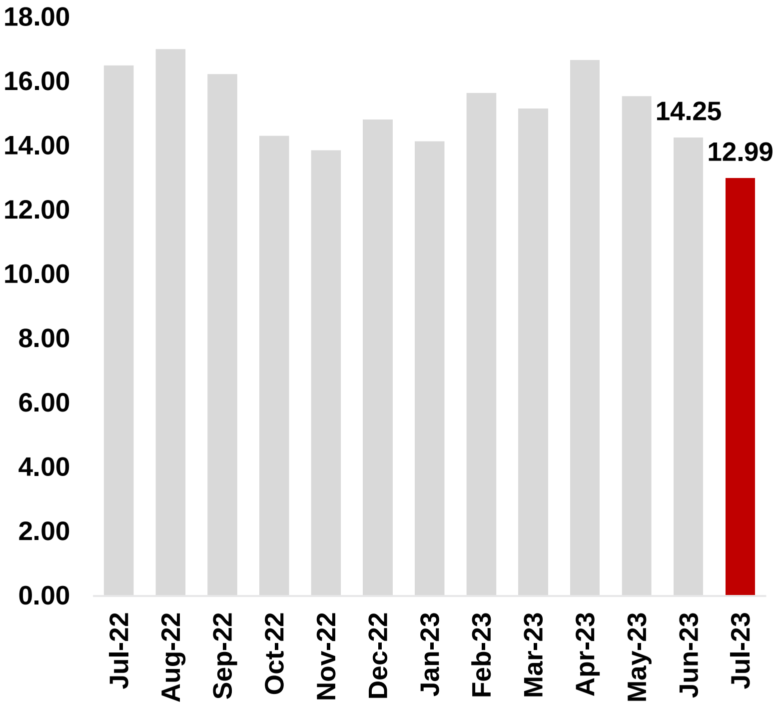


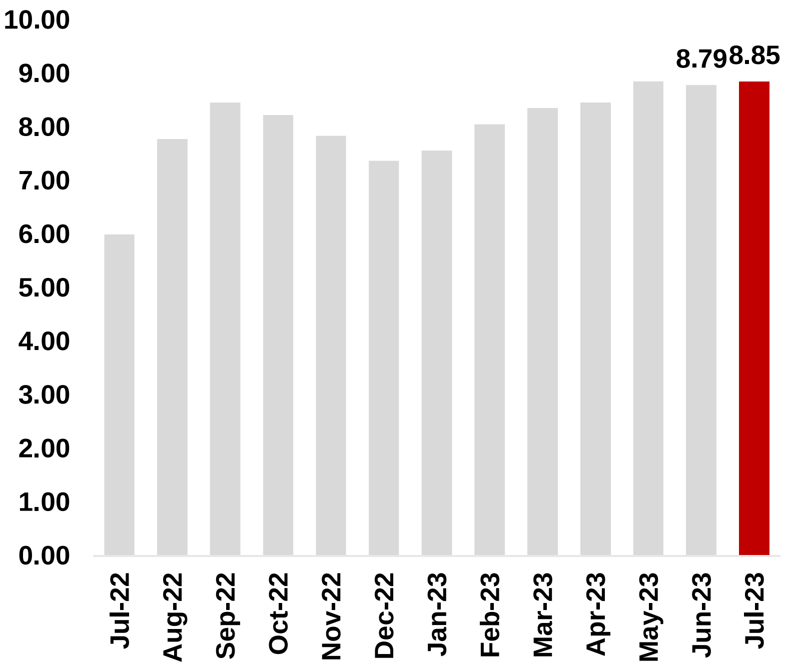
Sources: DOSM, BNM

- Malaysia’s headline inflation eased to 2.0% in July (June: 2.4%), extending a downtrend since peaking at 4.7% in August 2022 and marking the lowest reading since August 2021. The disinflation was mainly attributed to the decline in the inflation of food and non-alcoholic beverages (FNAB) prices (July: 4.4% vs. June: 4.7%). Core inflation also slowed (July: 2.8% vs. June: 3.1%) amid a subdued consumer demand.
- Given the steeper price deceleration, we expect the headline CPI rate to average at 2.6% in 2023 – lower than our earlier estimate. However, risks to the inflation outlook remain biased to the upside should the government’s subsidy rationalisation plan be implemented this year.
- The unemployment rate inched closer to the pre-pandemic level, coming in at 3.4% in June (May: 3.5%). Meanwhile, the labour force participation rate remained at an all-time high of 70.0% during the same month.
- We are of the view that the BNM will maintain the OPR at 3.00% throughout the remainder of the year as the case for a rate hike has weakened with the moderating growth momentum and the easing of inflation. We also believe there is no urgency to cut interest rates in the near term, given the firm labour market conditions and the weakness in the ringgit.

BANKING SECTOR: FINANCING ACTIVITIES GREW SLOWER IN JULY, DRAGGED DOWN BY NON-HOUSEHOLD SECTOR







Source: BNM

- Financing growth fell to 4.18% in July, lower than the 4.36% recorded in the previous month. The financing growth in the non-household sector trended downwards in July, growing at a more moderate pace at 2.42% (June: 2.99%). In contrast, credit growth in the household sector expanded by 5.41% in July (June: 5.33%).
- Credit card financing growth moved at a slower pace of 12.99% in July from 14.25% in June.
- On the other hand, financing activities in the purchase of passenger cars segment increased marginally to 8.85% in July (June: 8.79%). In addition, credit growth in the purchase of residential property segment grew at 6.92% in July (June: 6.76%).

BANKING SECTOR: ASSET QUALITY REMAINED RESILIENT IN JULY

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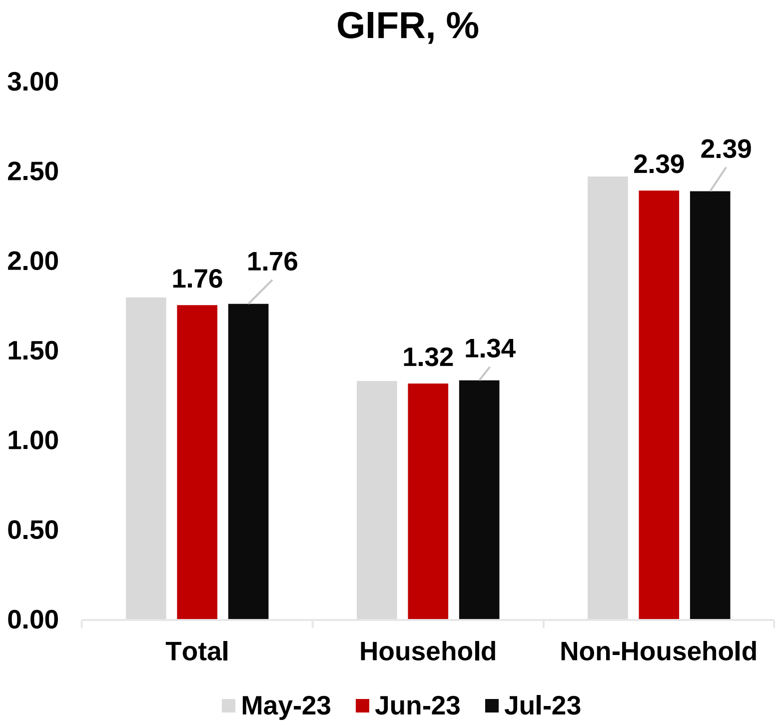

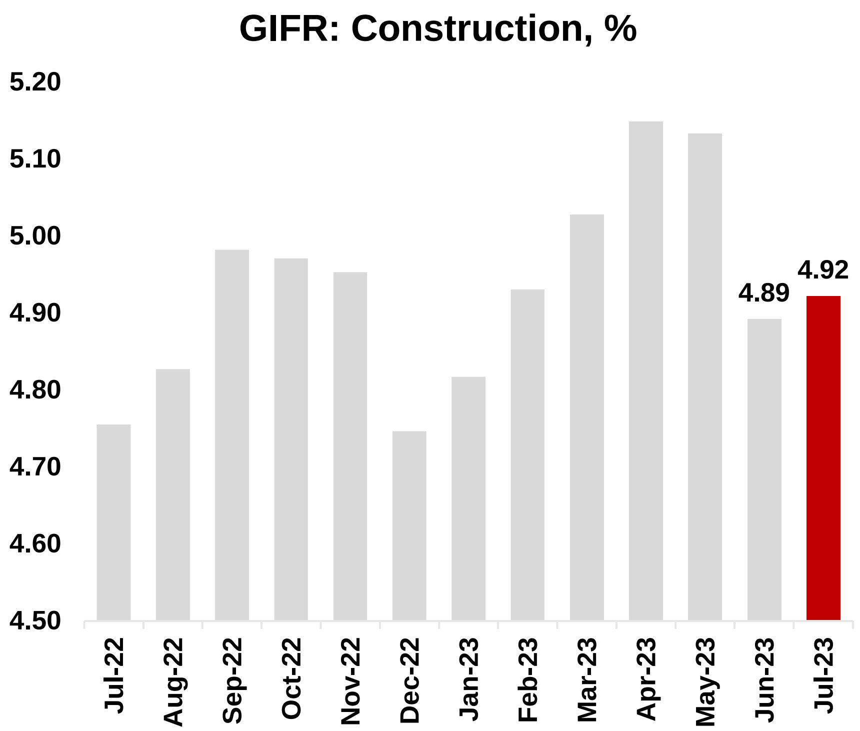

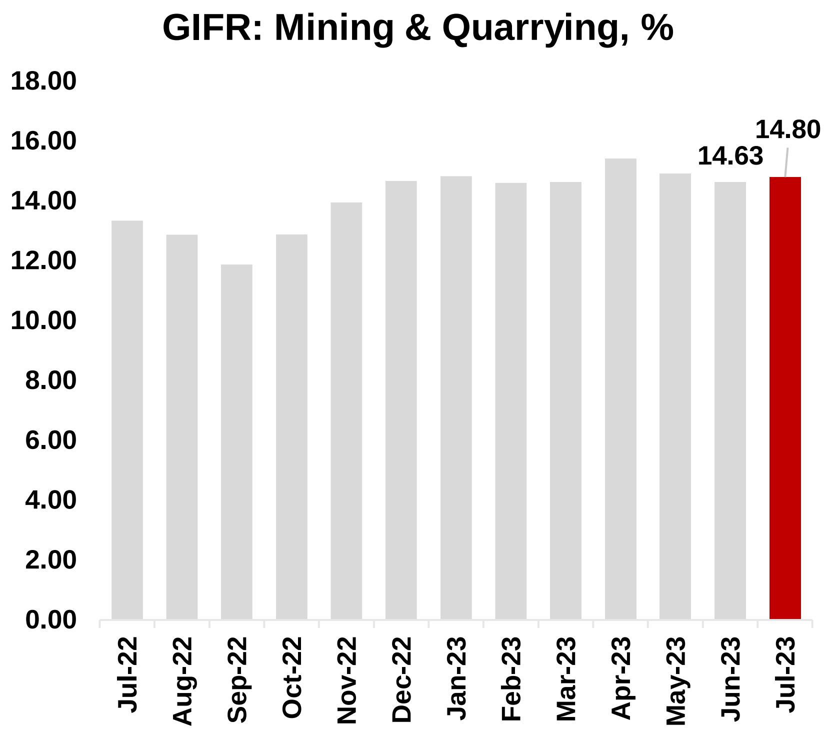

Source: BNM

- Overall, the total gross impaired financing ratio (GIFR) remained steady at 1.76% in July (June: 1.76%). The impairment in the non-household sector plateaued at 2.39% in July (June: 2.39%). Meanwhile, GIFR in the household segment increased slightly to 1.34% in July (June: 1.32%).
- The construction industry logged higher impairment at 4.92% in July from 4.89% in June. The banking sector's asset quality in the Mining and Quarrying segment also ticked higher to 14.80% in July (June: 14.63%).

THANK YOU