MONTHLY ECONOMIC UPDATE

4 MARCH 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Slower-than-anticipated disinflation pushes back market bets on first rate cuts by major central banks to summer.** In the U.S., core personal consumption expenditures (PCE) price index – Federal Reserve's (Fed) preferred inflation gauge – eased only slightly to 2.8% in January (December: 2.9%), supporting the view that disinflationary process is likely to be bumpy. Consequently, investors priced in three 25bp cuts starting in June, aligning with the Fed's projections. Likewise in the Eurozone, February's flash inflation data showed core inflation in Germany held steady at 3.4% while services inflation in France eased just marginally to 3.1% (January: 3.2%), suggesting there is still some distance to achieving 2.0% inflation target, thus reinforcing the expectations that the European Central Bank (ECB) will stand pat on its interest rates at the upcoming policy meeting scheduled on March 7.

- **PBoC delivers surprise rate cut.** The People's Bank of China (PBoC) left the 1-year Loan Prime Rate (LPR) and Medium-Term Lending Facility rate unchanged at 3.45% and 2.50%, respectively, while cutting 5-year LPR by 25bps to 3.95%. This marked the first cut to 5-year LPR since May 2023, and the 25bp cut was the largest cut on record. The rate cut decision is perceived as to support the recovery of the property market as 5-year LPR is often used as the reference rate for mortgages. Given the still subdued economy and inflation, the PBoC is expected to stick to its loosen monetary policy although its room to manoeuvre will be constrained before the Fed's pivot to rate cuts that could help ease the Chinese Yuan volatility.

- **Malaysia's 4Q2023 GDP growth disappoints.** GDP growth moderated to 3.0% in 4Q2023 (3Q2023: 3.3%), translating into a full-year growth of 3.7%, which fall short of the government's expectation of about 4.0%. Trade remained a drag on the economy as net exports dipped deeper into contraction in 4Q2023 (-35.6% vs. 3Q2023: -22.7%). Though on a more constructive note, domestic demand remained encouraging, with final consumption expenditure and gross fixed capital formation rising to 4.9% (3Q2023: 4.8%) and 6.4% (3Q2023: 5.1%), respectively, supported by higher government spending. After a bumpy 2023, we expect Malaysia's economy to hold up well in 2024, expanding at a faster pace at 4.7%, driven by still-robust domestic demand and a turnaround in global trade. Meanwhile, Malaysia's current account balance remained in surplus but the size shrank to RM0.3 billion or 0.1% of GDP in 4Q2023 (3Q2023: RM9.1 billion or 2.0% of GDP), the lowest since Asian Financial Crisis (AFC), partly dragged by a smaller trade surplus that has outweighed higher tourist receipts.

SECTION 1

Malaysia's Financial Market

REGIONAL EQUITY: CHINESE STOCKS RALLIED AMID HOPES ON ADDITIONAL GOVERNMENT STIMULUS

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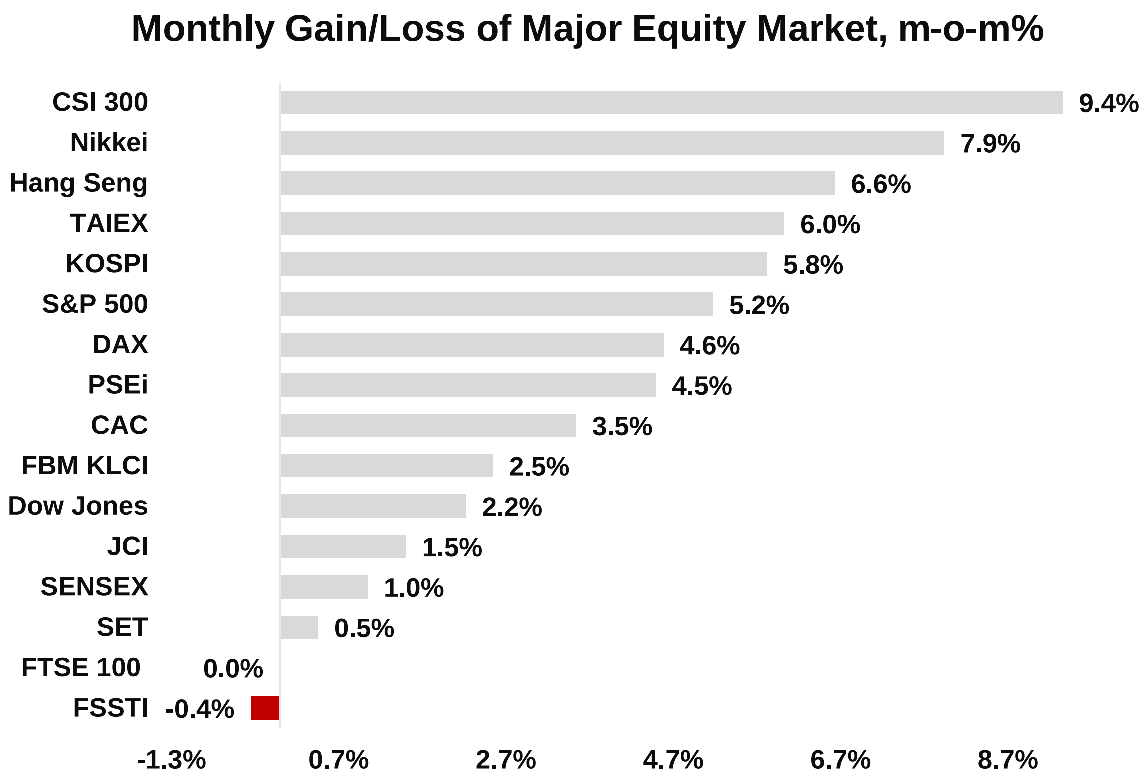

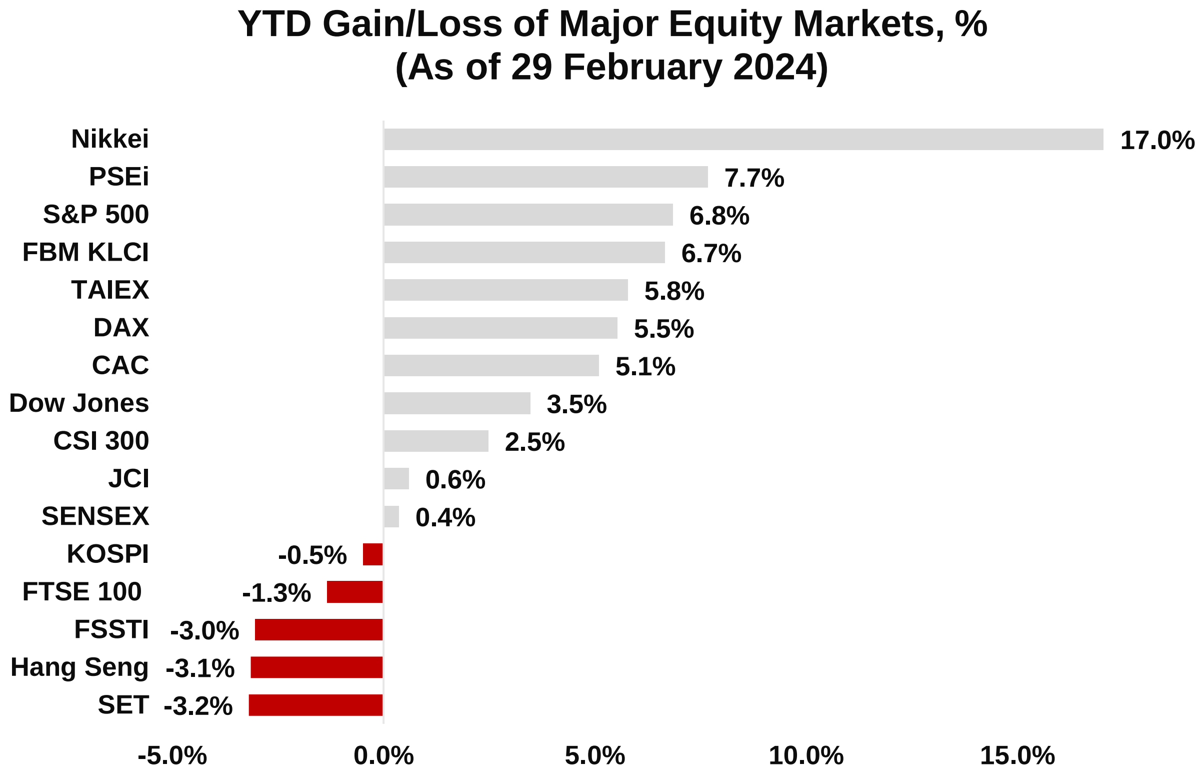

Sources: Bursa, CEIC data

- Chinese stocks – China's CSI 300 (+9.4%) and Hong Kong's Hang Seng (+6.6%) ended on a high note in February, fuelled by regulatory changes in the derivatives market and hopes of additional government stimulus before an important policy meeting.
- Japan's Nikkei climbed by 7.9% in February. YTD, it remained as the major gainer, inching higher by 17.0% amid raising expectations for a swift shift away from negative interest rates, a policy credited with weakening the yen and attracting overseas investment.
- On the contrary, Singapore's FSSTI dragged lower marginally by 0.4% in February as concerns over inflation and interest rate data led to a cautious market sentiment and amid profit-taking activity.

DOMESTIC EQUITY: THE FBM KLCI TRACKED GAINS IN GLOBAL STOCKS

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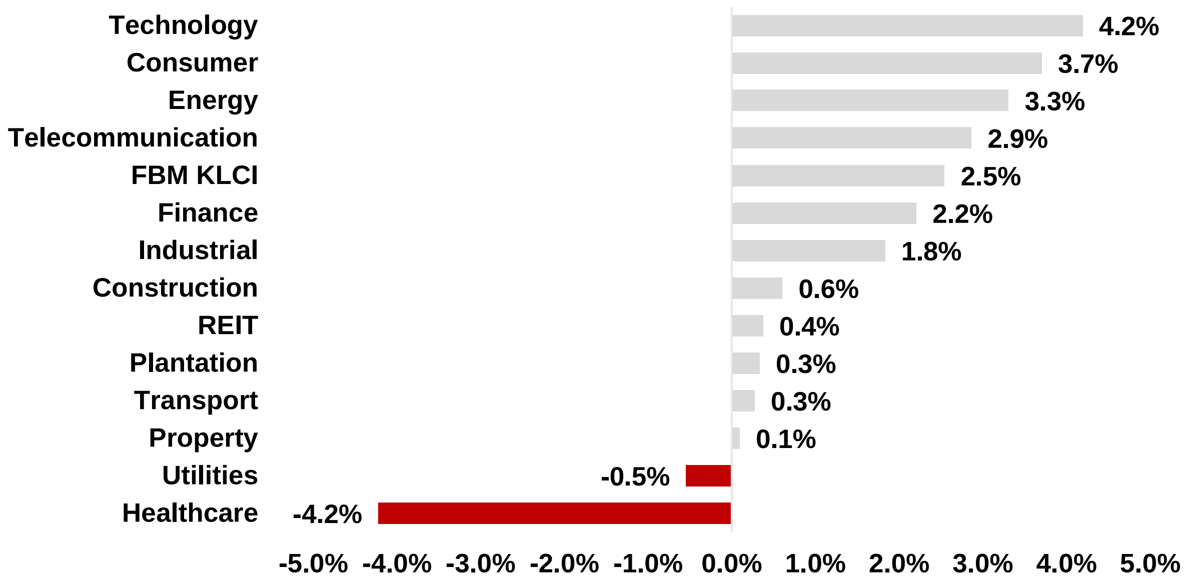

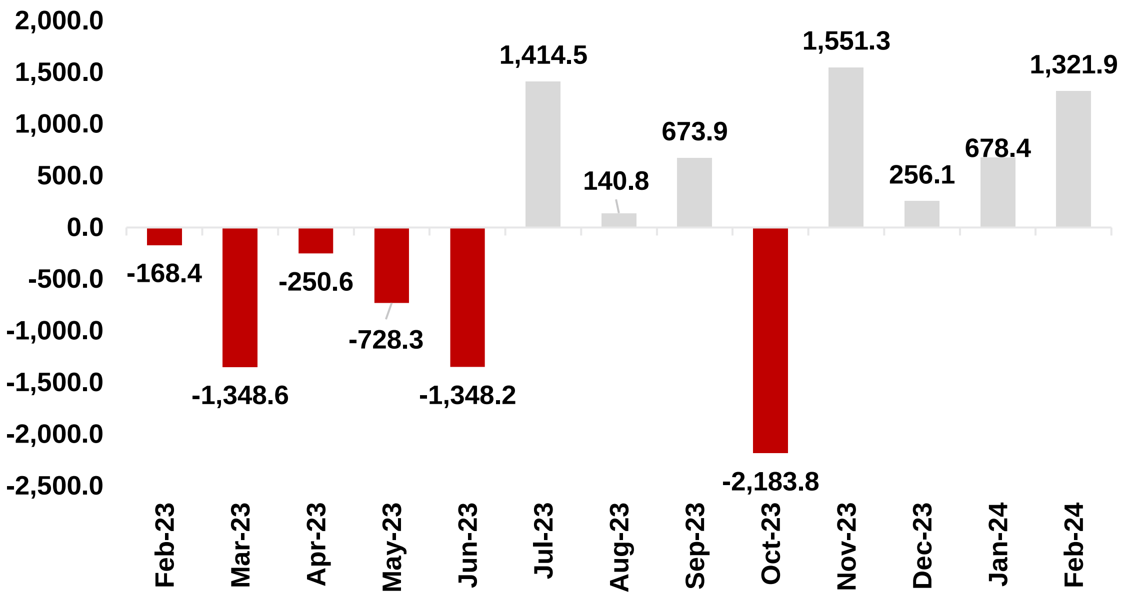

Sources: Bursa, Bank Negara Malaysia (BNM), CEIC data

- The FBM KLCI ended the month of February higher by 2.5% at 1,551.44 amid gains in the blue chips.
- However, Bursa sectoral indices were mixed, with the Technology index leading gains by rising 4.2% on optimism around artificial intelligence (AI) that could boost demand for chips. Meanwhile, losses were led by the Healthcare index (-4.2%) on profit-taking activities.
- Foreign investors increased their net buying by almost double to RM1.3 billion from RM678.4 million in January. This also marked their fourth consecutive month of buying.
- Trading in local stocks will continue to take cue from global stock performance as major central banks such as the Fed and ECB are scheduled to meet in March, where a rate pause is widely expected. Upcoming National People's Congress, which will be held on March 5, will be closely watched for any sign of additional policy support from the Chinese government.

FIXED INCOME: FOREIGN SELLING KICKED OFF THE YEAR IN THE LOCAL BOND MARKET

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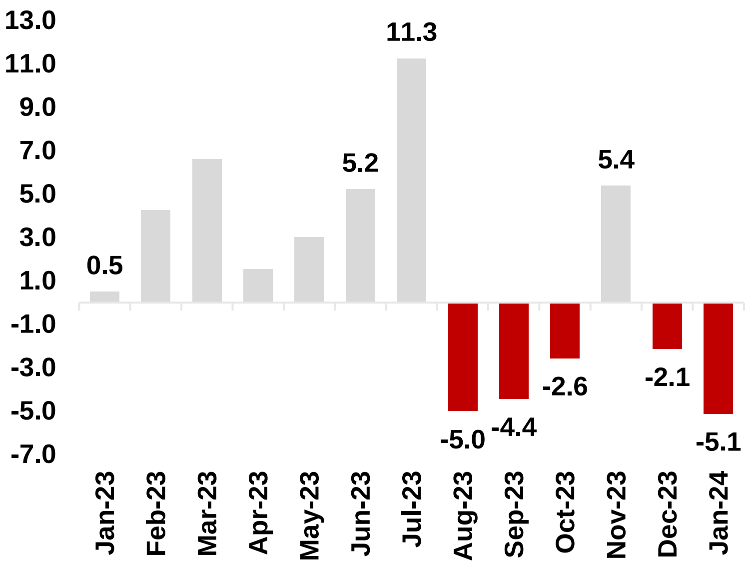
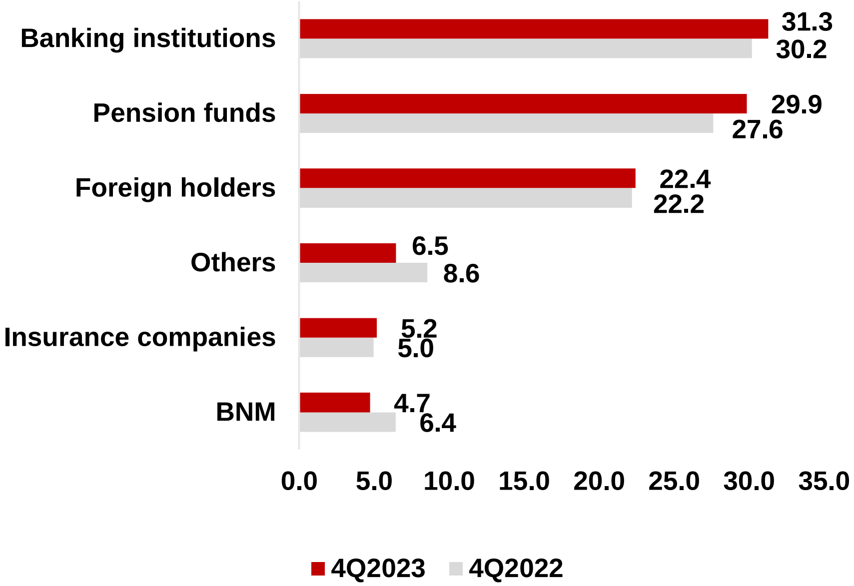
Monthly changes, basis points (bps)

UST	Yields (%) 31-Jan-24	Yields (%) 29-Feb-24	Change (bps)
3-Y UST	4.05	4.43	38
5-Y UST	3.91	4.26	35
7-Y UST	3.95	4.28	33
10-Y UST	3.99	4.25	26
MGS	**Yields (%) 31-Jan-24**	**Yields (%) 29-Feb-24**	**Change (bps)**
3-Y MGS	3.40	3.50	10
5-Y MGS	3.54	3.59	5
7-Y MGS	3.72	3.78	6
10-Y MGS	3.78	3.86	8
GII	**Yields (%) 31-Jan-24**	**Yields (%) 29-Feb-24**	**Change (bps)**
3-Y GII	3.43	3.48	5
5-Y GII	3.58	3.61	4
7-Y GII	3.75	3.78	3
10-Y GII	3.82	3.88	5

Foreign Fund Flows in Local Bond Market, RM Billion



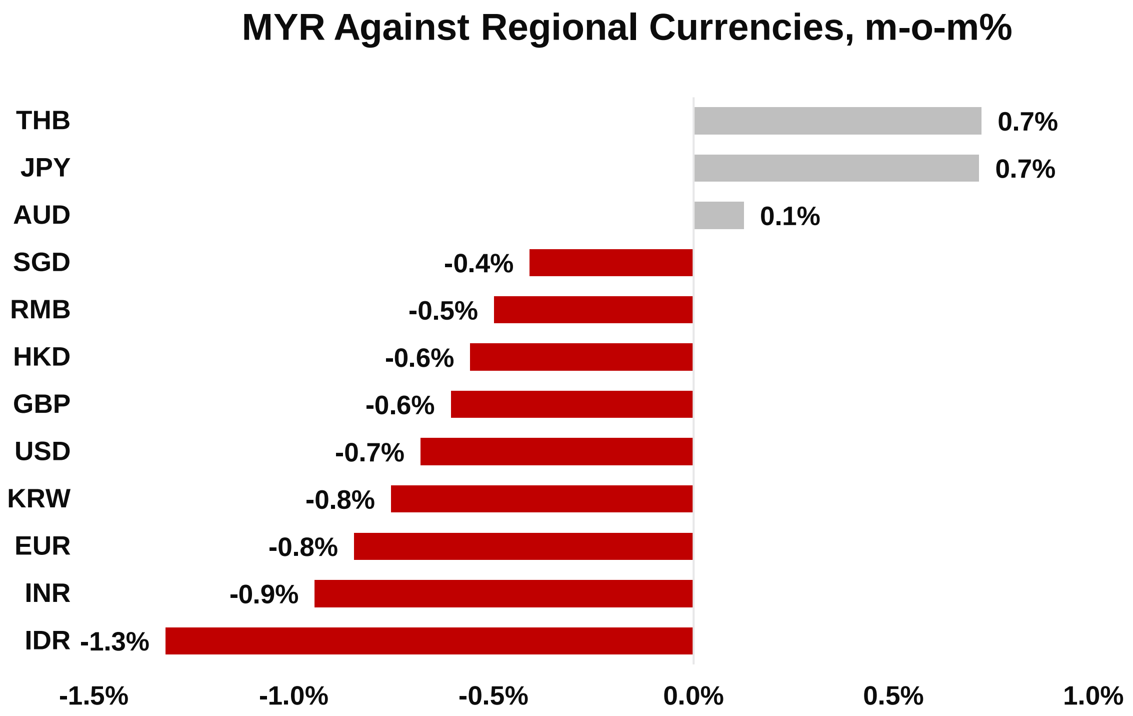
Ownership distribution of MGS, GII, MTB and MITB (%)

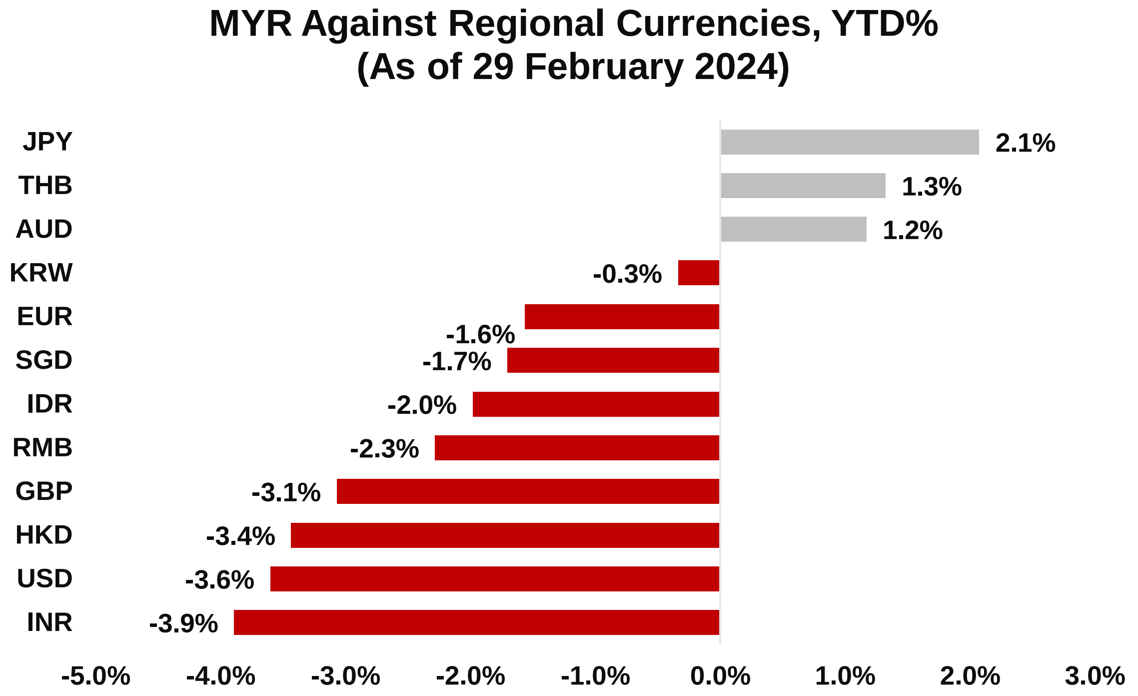


Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) yield curve bearishly flattened between 26bps and 38bps as investors remained focused on deciphering the future course of Fed's monetary policy as a slew of data indicated a still robust U.S. economy.
- Both Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields rose in the range of 3bps and 10bps, tracking the movement of UST yields but the 10y UST/MGS yield spread widened by 39bps in February (January: -21 bps).
- Foreign fund flows in the local bond market embarked the year by dipping into the negative territory with a net foreign outflow of RM5.1 billion in January (December: -RM2.1 billion). Local govvies' foreign shareholdings to total outstanding slid to 21.8% in January (December : 22.5%).
- In addition, the foreign shareholding in MGS of total outstanding dropped to 33.8% in January (December: 34.5%), the lowest since June 2011.
- On the other hand, banking institutions and pension funds remained the top holders of local govvies in 4Q2023 at 31.3% and 29.9%, respectively.

FX MARKET: RINGGIT CONTINUED TO HOVER AROUND RM4.70 THRESHOLD SINCE MID-JANUARY





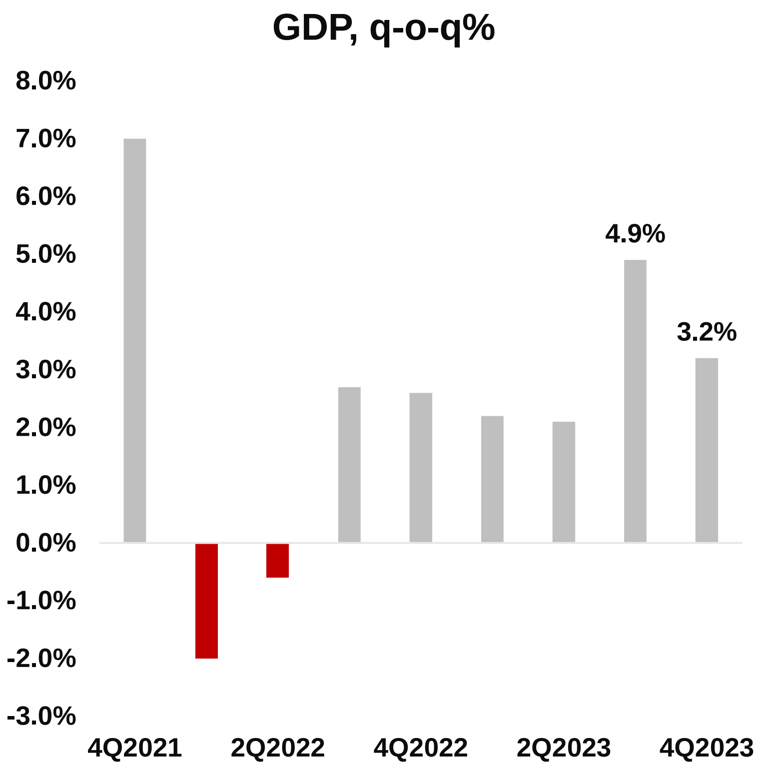
Source: BNM

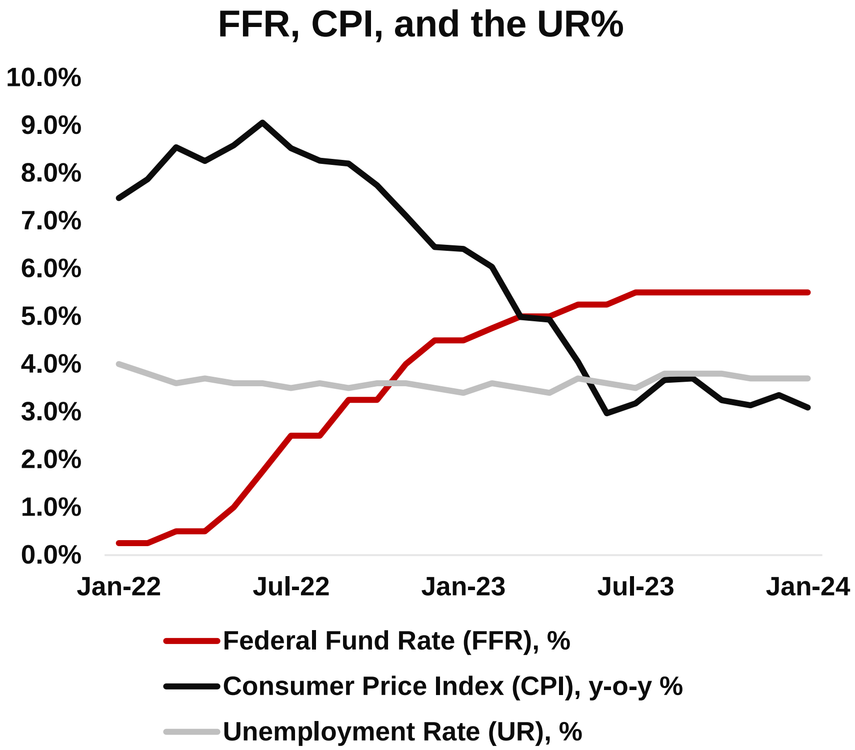
- Ringgit weakened further as the local note briefly touched RM4.80 level on 27 February 2024, leading to BNM issuing a statement on the prevailing market condition.
- We opine that the differential gap between our country’s Overnight Policy Rate (OPR) and the U.S. Fed Funds Rate (FFR) is among the factors that could have influenced the local note trajectory. Furthermore, the Fed officials expressed caution on cutting interest rates too quickly as revealed in the post-meeting statement, supporting the higher-for-longer narrative.
- BNM has held its OPR unchanged at 3.00% since July last year, leading to a 250bps interest rate-gap with the U.S., prompting some capital outflows which eventually adding pressure to the Ringgit. Despite that, BNM governor stated the local note is currently undervalued and is expected to trade higher on the back of positive economic fundamentals and prospects.

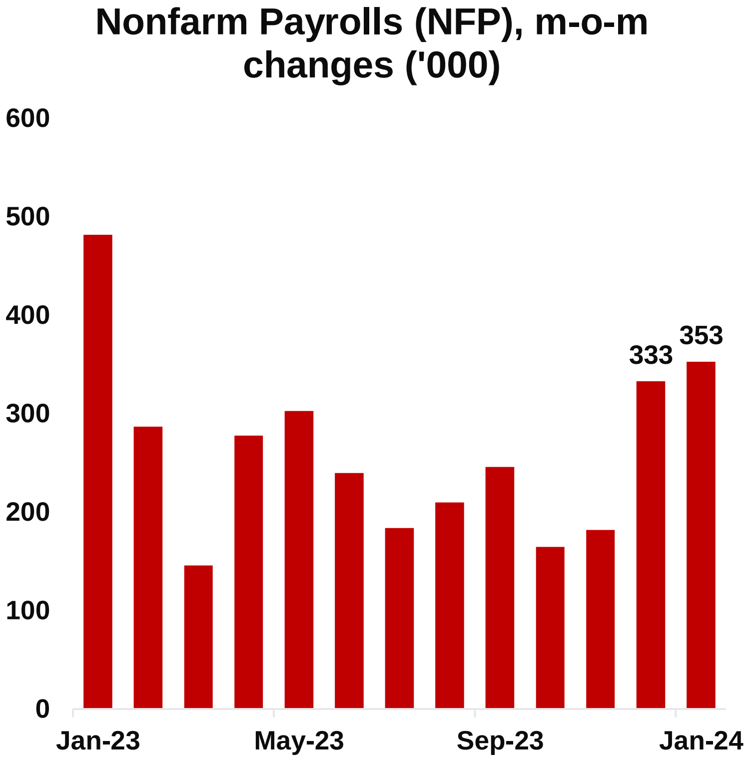
SECTION 2

The Global Economy

THE U.S. ECONOMY HAS TOPPED 2.0% FOR SIX STRAIGHT QUARTERS, DEFYING RECESSION FEARS







Sources: Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve Board

- Despite the 4Q2023 GDP growth was slightly lower compared to the previous estimate (First estimate: 3.3%), the consumer spending, which represents for about 70.0% of the country's economic activity increased at 3.0% – which was previously expected to have grown at 2.8%.
- The inflation is surprisingly causing less economic pain than expected, with the unemployment rate staying below 4.0% for 24 straight months, the longest such streak since the booming 1960s. Additionally, the country has added a healthy average of 255k jobs a month in 2023, with more than 300k jobs added in both December 2023 and January 2024.
- Far from stumbling, the economy grew 2.5% y-o-y in 2023, topping the 2.0% growth in 2022.

CHINA FACES CHALLENGES IN REVIVING ITS ECONOMIC GROWTH

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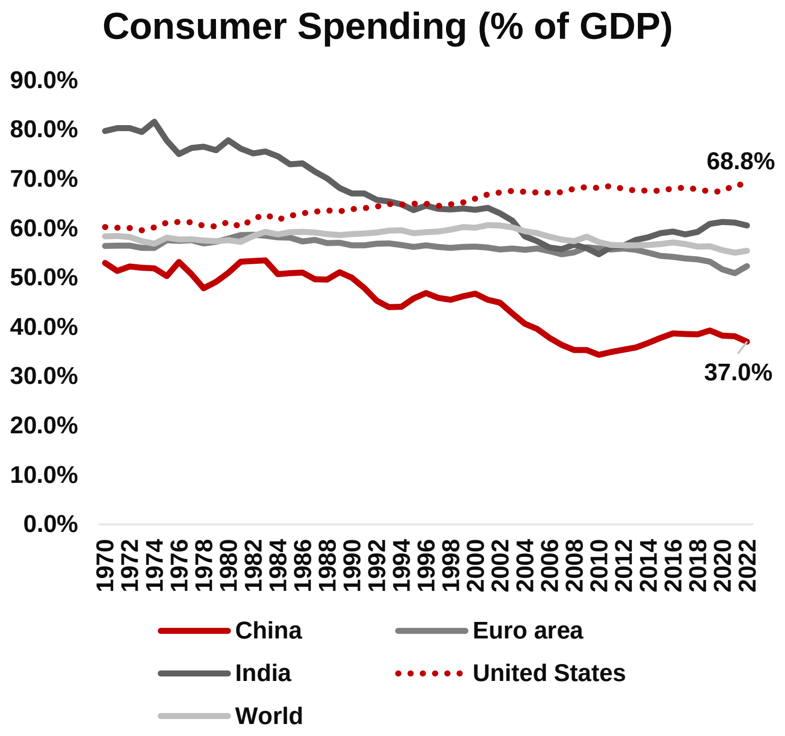
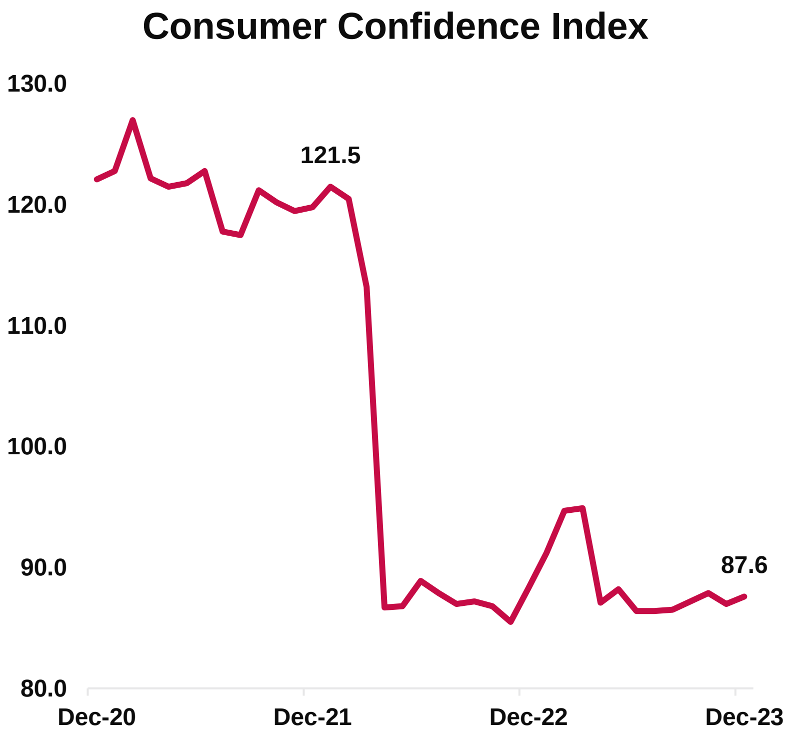
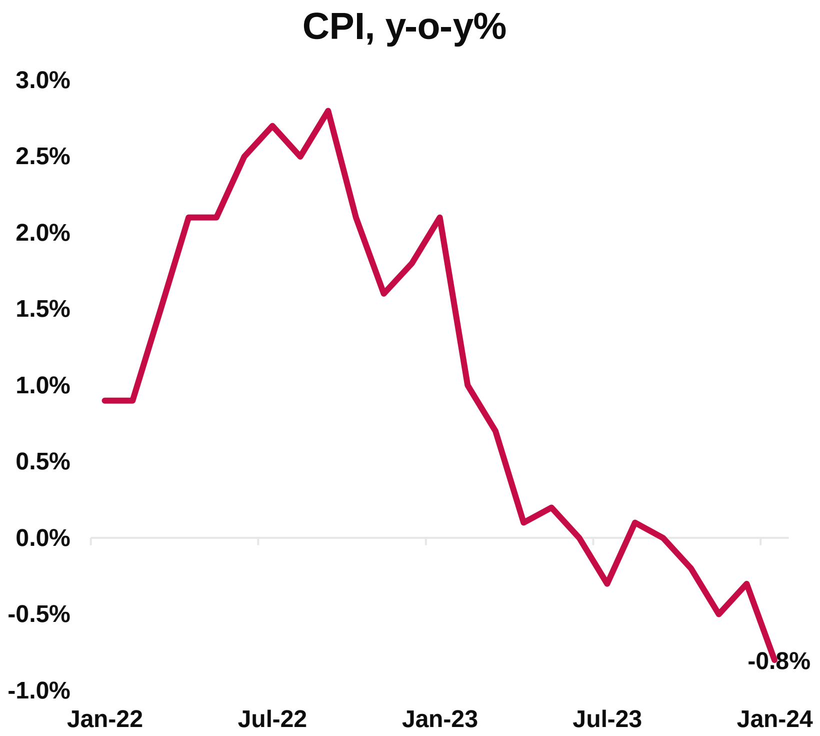


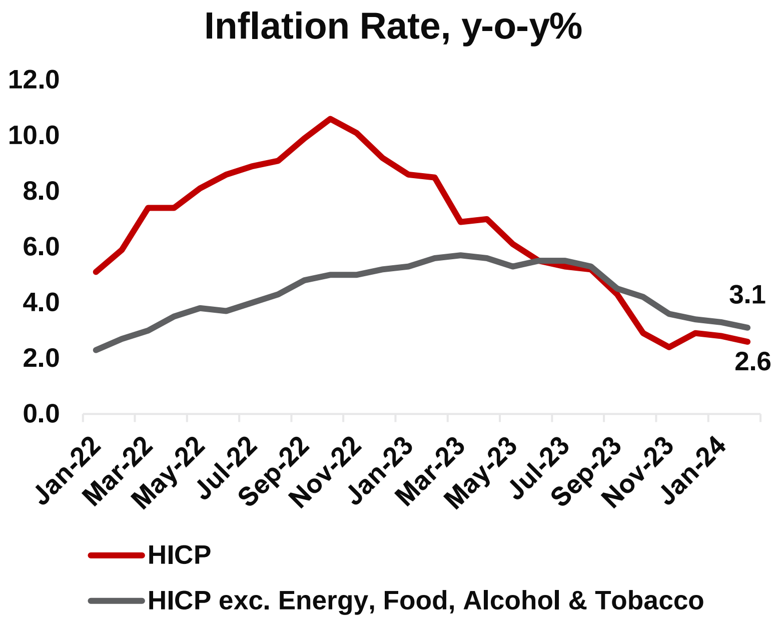


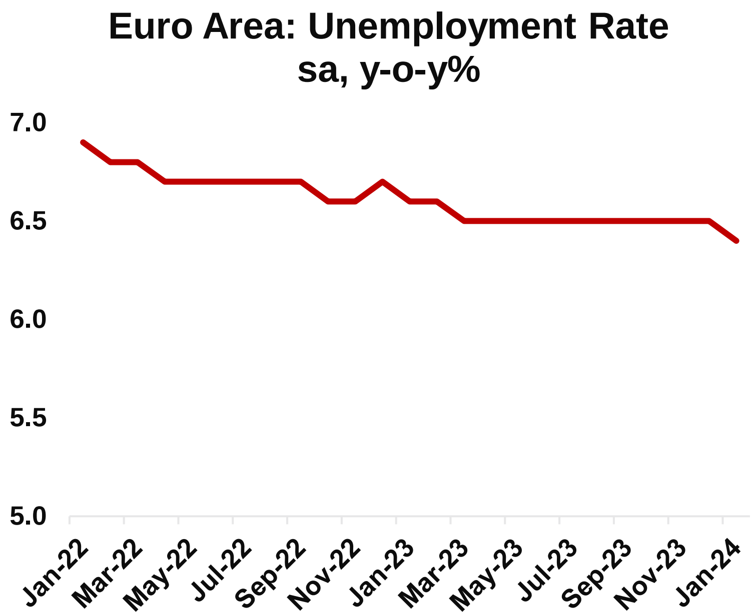


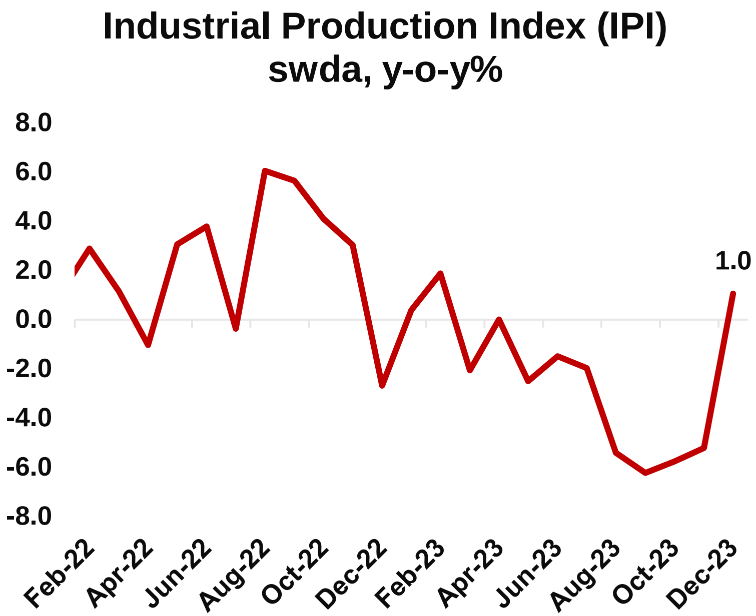
Sources: World Bank, National Bureau of Statistics

- Even though China has been ramping up measures to overcome the prolonged property downturn, the new home prices declined m-o-m, (January 2024: -0.7% vs. December 2023: -0.4%) marking the seventh straight month of drop and the steepest pace since March 2023. The real-estate crisis undermined consumer confidence even further which is now below 100-mark reading since April 2022.
- Additionally, this has caused the country's household to be cautious in their spending. In 2022, the household consumption accounted for just 37.0% of China's GDP, suggesting less spending than the rest of the world. In contrast, private spending made up nearly 69.0% of the GDP for the U.S. in the same year.
- On the other hand, China is experiencing its longest deflationary run since 2008. The consumer prices fell by -0.8% y-o-y in January 2024 (December 2023: -0.3%) for a fourth straight month and such decline seems to extend further. Given that the interest rates are already quite low, the government is under pressure to stimulate consumption to generate high and stable growth.

BETTER YEAR AHEAD? – EUROZONE'S MANUFACTURING SECTOR REBOUNDED IN THE LAST MONTH OF 2023







Sources: Eurostat, ECB, S&P Global

- The common currency area's inflation has moderated to 2.6% in February (January: 2.8%), but a tad higher than the market consensus of 2.5%. The disinflation was attributable to slower increases in Services (February: 3.9% vs. January: 4.0%) and Food, Alcohol and Tobacco (February: 4.0% vs. January: 5.6%) inflation.
- Similarly, Euro Area's core inflation also eased to the lowest level since March 2022 at 3.1% (January: 3.3%), albeit slightly higher than expected.
- Meanwhile, revised figures showed a hot job market as the unemployment rate fell to a record low of 6.4% in January 2024 after trending at 6.5% for ten straight months.
- Coupled with the improving labour market conditions and recovering global demand, Eurozone's IPI recorded a growth of 1.0% in December (November: -5.2%), beating market expectations of another contraction. Such performance was driven by higher production of durable consumer goods and capital goods. On a monthly basis, the factory activities had ramped up to record the largest increase since August 2022.

SECTION 3

Domestic Landscape & Banking Sector Update

AN UPTURN IN EXTERNAL DEMAND TO COMPLEMENT THE EVER-RESILIENT DOMESTIC DEMAND LANDSCAPE

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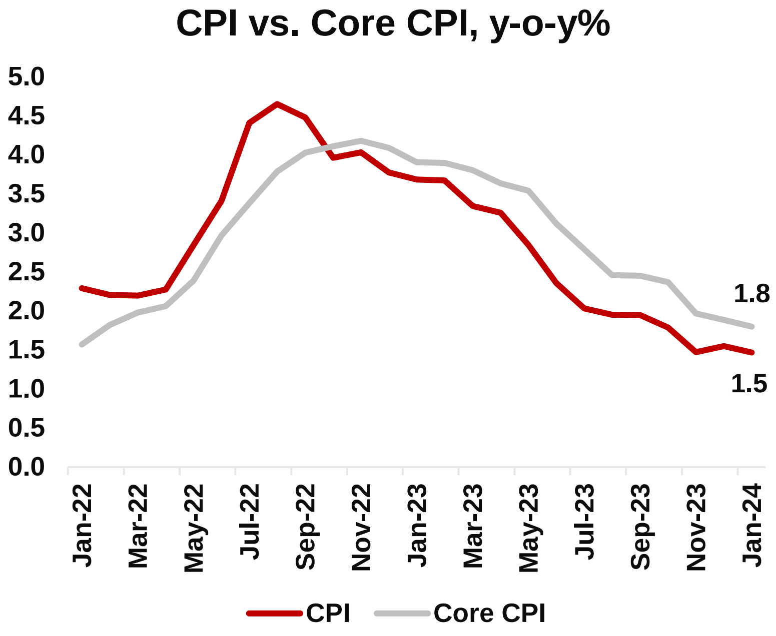

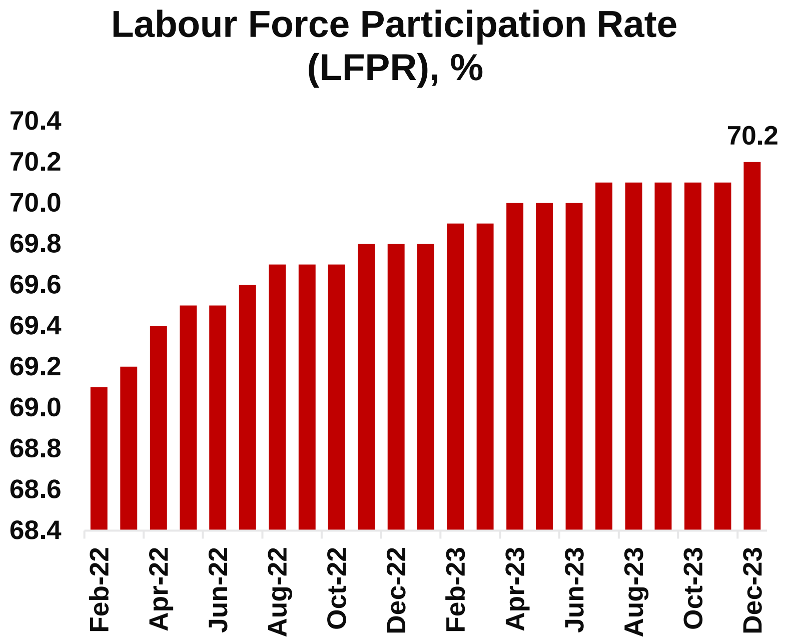

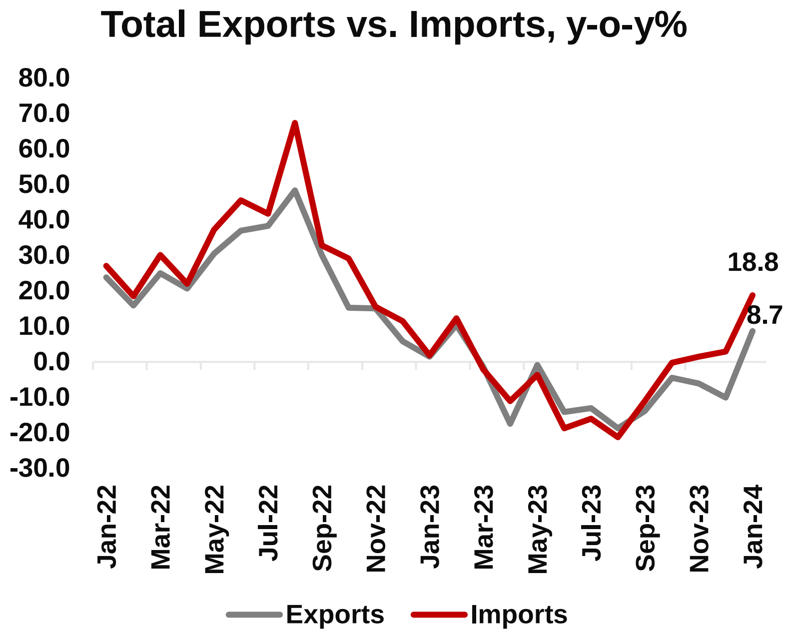

Sources: Department of Statistics Malaysia (DOSM), BNM

- Malaysia's headline inflation had remained steady at 1.5% for the past three months. Meanwhile, core inflation has eased to 1.8% in January from December's 1.9%.
- The disinflation trend was attributable to slowdown in Restaurant and Accommodations (January 2024: 3.2% vs. December 2023: 3.7%), Food and Beverages (January 2024: 2.0% vs. December 2023: 2.3%), and Health (January 2024: 2.4% vs. December: 2.5%).
- The job market had also displayed solid growth as the unemployment rate stayed pat at the pre-pandemic level of 3.3% while the Labour Force Participation Rate (LFPR) rose to a record high of 70.2% in December 2023 (November: 70.1%).
- On the external front, the much-anticipated revival of exports has finally dawned on the economy as exports rebounded by 8.7% in January 2024 (December 2023: -10.1%) following ten consecutive months of contractions. In the same month, broad-based growth in all categories of Import by End Use had driven imports to rise by 18.8% (December 2023: 2.9%).

BANKING SECTOR: JANUARY WITNESSED AN ELEVATED FINANCING GROWTH, DRIVEN BY HOUSEHOLD SECTOR

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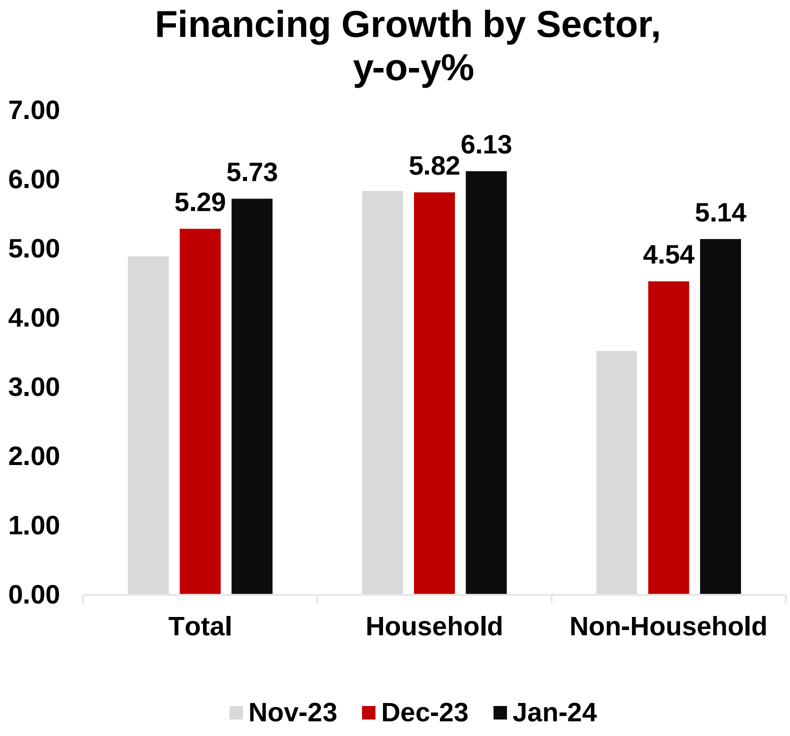
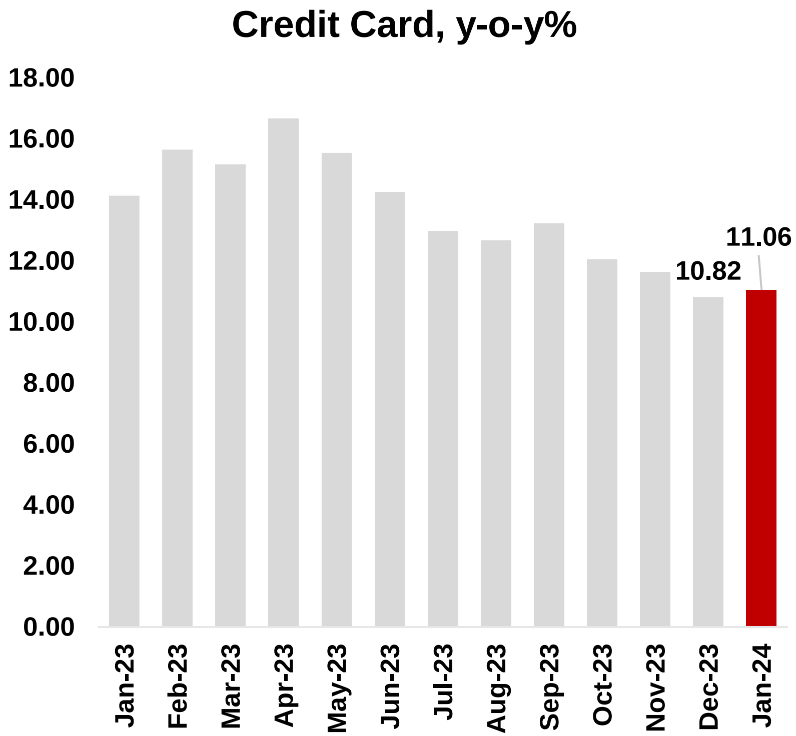
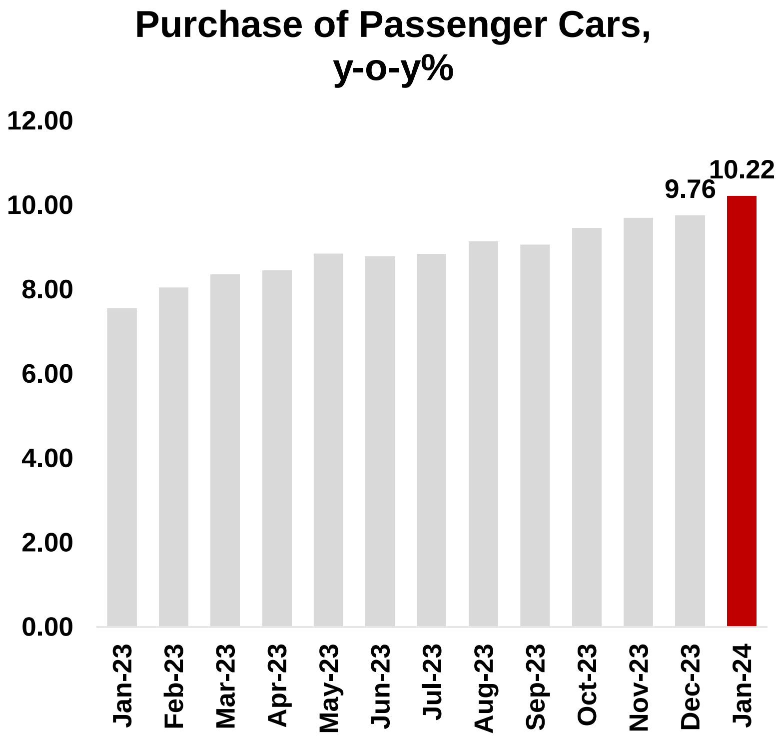


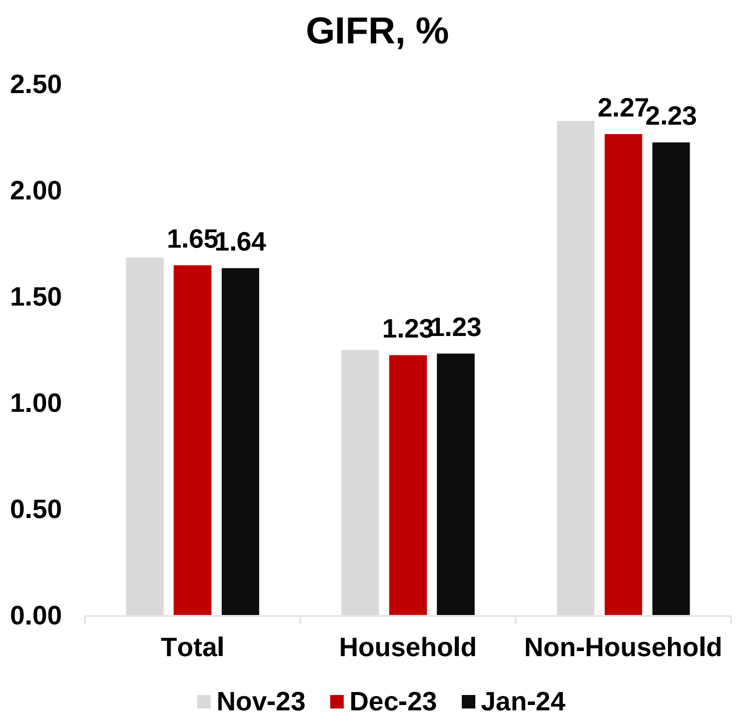


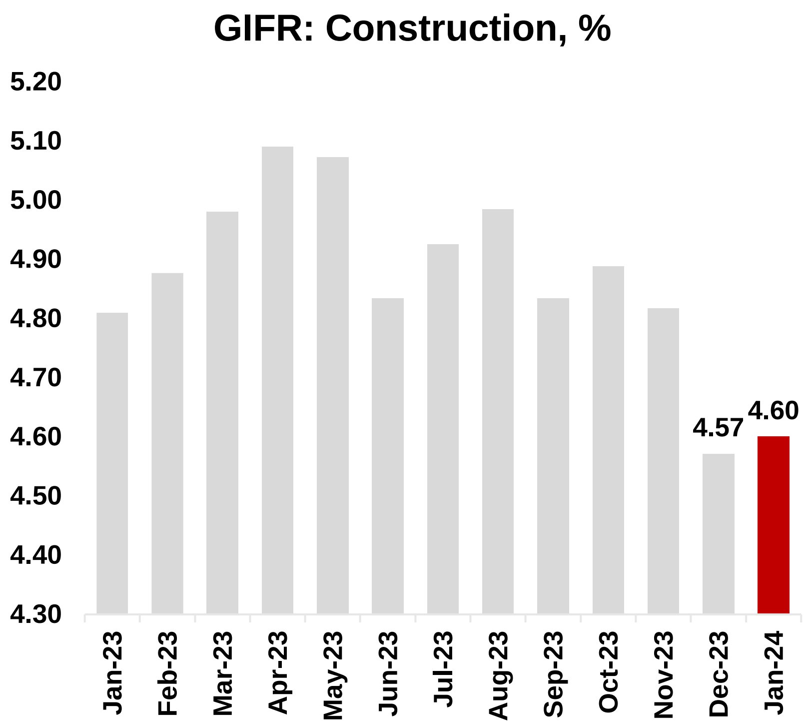


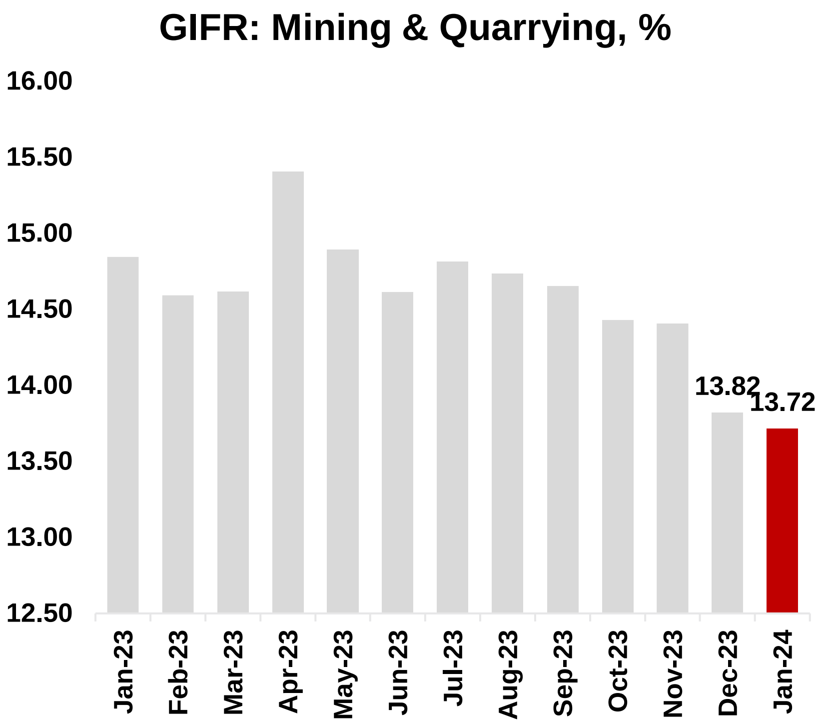
Source: BNM

- Financing activities expanded by 5.73% in January from 5.29% recorded in December. The non-household segment's financing growth significantly accelerated to 5.14% in January (December: 4.54%). Likewise, the household sector experienced an accelerated growth rate of 6.13% in January compared to 5.82% in December.
- The credit growth in the purchase of passenger cars segment expanded marginally to 10.22% in January (December: 9.76%). Correspondingly, the financing growth within credit card segment inched up slightly to 11.06% in January compared to 10.82% in December. In addition, the financing activities in the purchase of residential property segment accelerated to 7.43% in January (December: 7.29%).

BANKING SECTOR: ASSET QUALITY REMAINED INTACT IN JANUARY







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector remained stable at 1.64% in January (December : 1.65%). The GIFR in the household segment maintained at 1.23% in January (December : 1.23%). Additionally, the impairment within the non-household sector edged lower to 2.23% in January (December : 2.27%).
- The impairment within the construction segment grew modestly to 4.60% in January from 4.57% in December. The asset quality in the Mining and Quarrying industry improved to 13.72% in January (December: 13.82%).

THANK YOU