# MONTHLY ECONOMIC UPDATE

ECONOMIC RESEARCH

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# KEY TAKEAWAYS

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- **The disinflationary process has started, but where will it bring global growth in 2023?** Yesterday, U.S. Federal Reserve (Fed) Chairman Jerome Powell stated that "the disinflationary process is now getting underway", yet "more interest rates rise will be needed to cool inflation and the red-hot jobs market". The lingering question now is not only about the trajectory of the U.S. rate hikes in the near-term but also whether a soft landing is achievable. Multilateral development banks (MDBs) appear to be in two minds about global growth in 2023, where the IMF upgraded its latest forecast to 2.9%, whereas the World Bank is staring at a much slower growth at 1.7%.

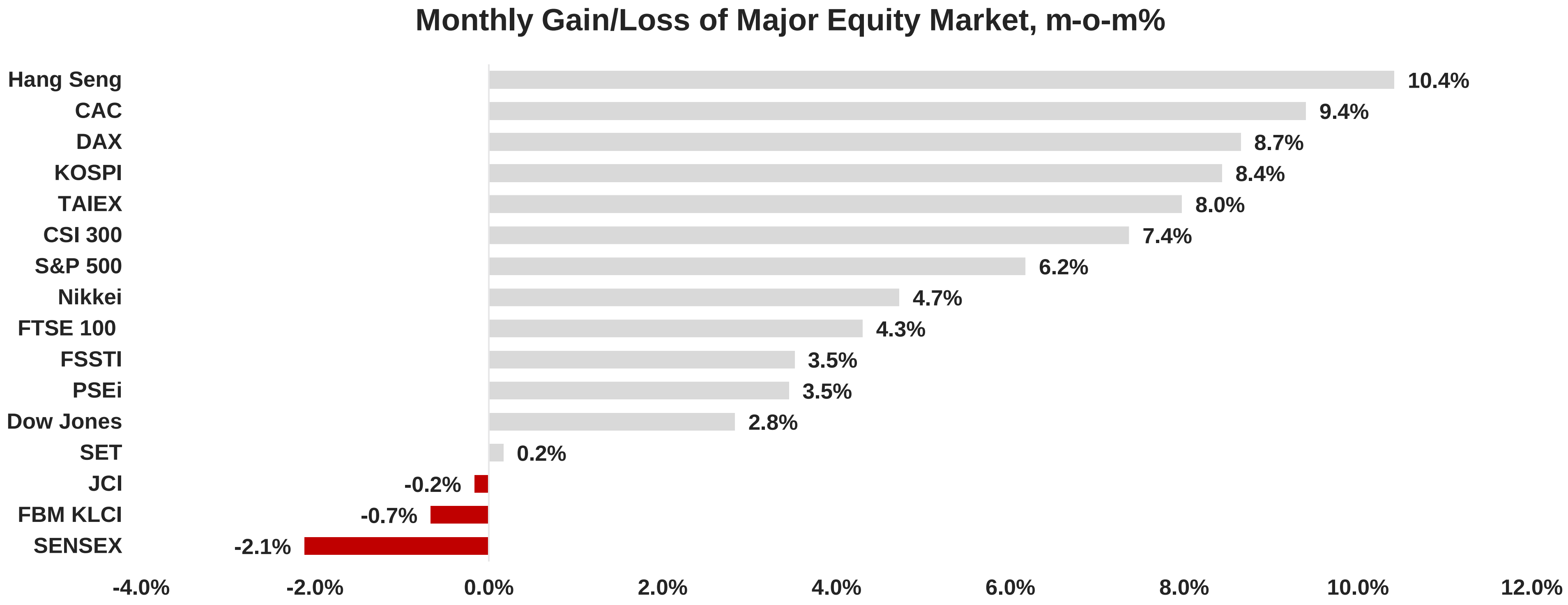
- **Interest rate glide path also depends on China's outlook.** The past week witnessed major central banks such as the Fed, the Bank of England (BoE), and the European Central Bank (ECB) retire from the "75-bps hike" club amid signs of cooling headline inflation. However, the decelerated tightening cycle has yet to consider the solid U.S. labour market and the impact on global inflation amid China's reopening. These events will take shape sooner rather than later, influencing central banks' views on the ongoing battle against global inflation. Analysts closely watch China's CPI print in January following the economic reopening.

- **No looming recession, but a slower growth is inevitable.** DOSM and BNM are set to announce Malaysia's 4Q2022 GDP data on Friday. We expect Malaysia's economy to expand at a range between 4.5%-5.0% during the said quarter, bringing the FY2022 GDP growth to 8.1%. Such a performance would surpass the official projections of the range between 6.5%-7.0%, which is also the fastest growth in Southeast Asia. We concur with the government's view that Malaysia could avert a recession this year. However, Malaysia is facing a steep drop in GDP growth should its economy moderate at 4.5% this year, in line with MDBs' projection of between 4.0%-4.4%.

# SECTION 1

## Malaysia's Financial Market

# REGIONAL EQUITY: THE MARKET ROSE DURING JANUARY CHEERED BY BETTER SENTIMENT




*Sources: Bursa, CEIC*

- On the one hand, most of the regional markets ended positively in January, with Hong Kong's Hang Seng Index surging by 10.4% on a monthly basis following China's reopening news.
- On the other hand, Indonesia's JCI, Malaysia's FBM KLCI, and India's SENSEX were in the red, falling by 0.2%, 0.7%, and 2.1%, respectively.
- The risk-on sentiment among investors is likely to remain given a less hawkish tone by the U.S. Federal Reserve (Fed) as the country's inflation has seemingly moderated. Whether the sentiment would sustain amid the red-hot U.S. jobs market and the heightening geopolitical tensions is uncertain.
- China's economic reopening also sparks positive momentum that will uplift the sentiment and may spur global growth this year.

# DOMESTIC EQUITY: INVESTORS WERE BULLISH BUT WEIGHED DOWN BY FINANCE, PLANTATION AND HEALTHCARE SECTORS

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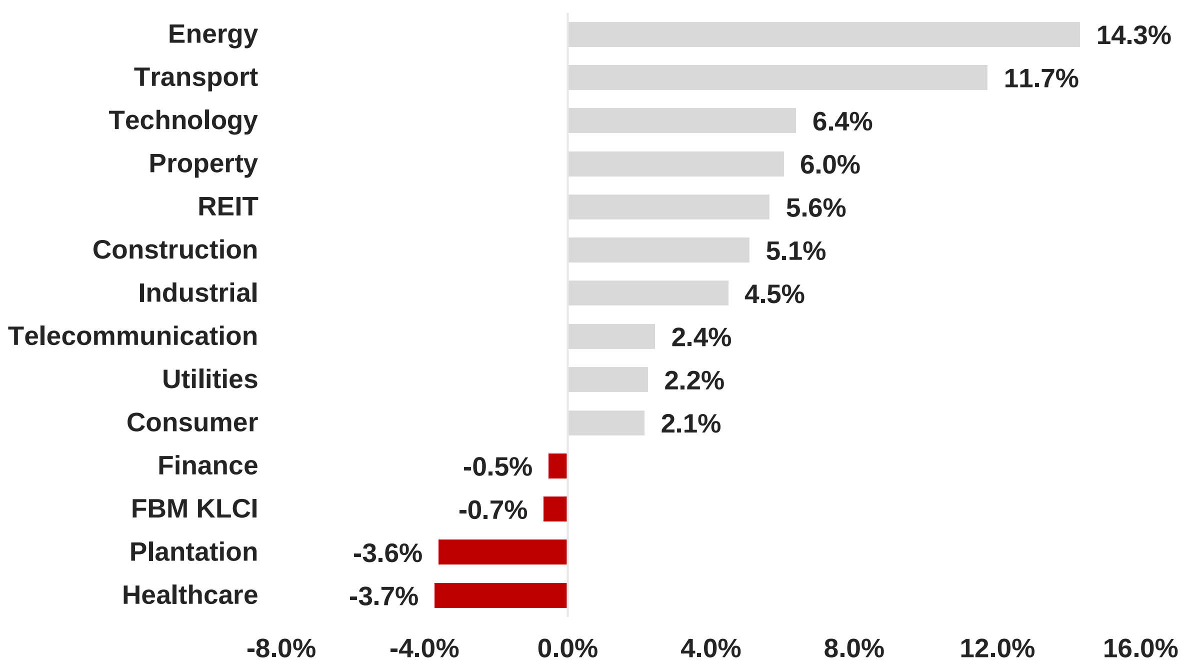
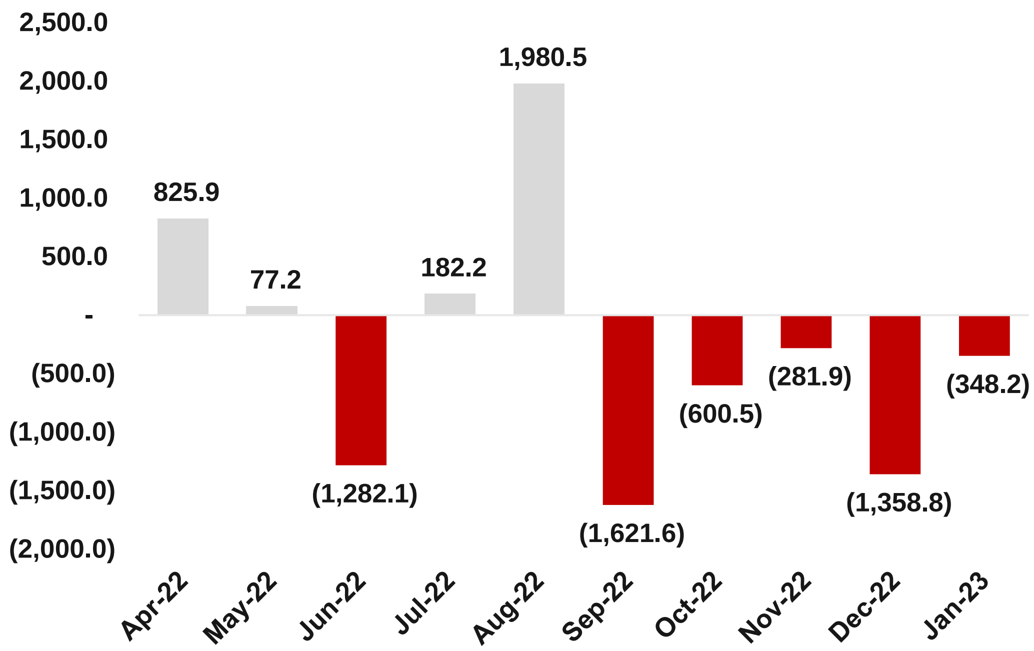
### Bursa Sectoral Performance, m-o-m%




### Foreign Fund Inflow/Outflow, RM Million




*Sources: Bursa, BNM*

- Many Bursa sectoral indices closed positively in January, with the Energy sector topping the list, gaining by 14.3%.
- However, foreign investors continued to sell off their equity holdings totaling RM348.2 million of net outflows in January. The outflows were smaller than the RM1.36 billion worth of foreign net outflows recorded in the preceding month, suggesting that sentiment is improving amid the Fed's smaller quarter-point hike.
- We posit that FBM KLCI will trade cautiously amid mixed signals from the external environment, although the overall sentiments have improved due to stronger Ringgit and slower interest rate hikes in the U.S.

# FIXED INCOME: BOND MARKET STRENGTHENED IN JANUARY

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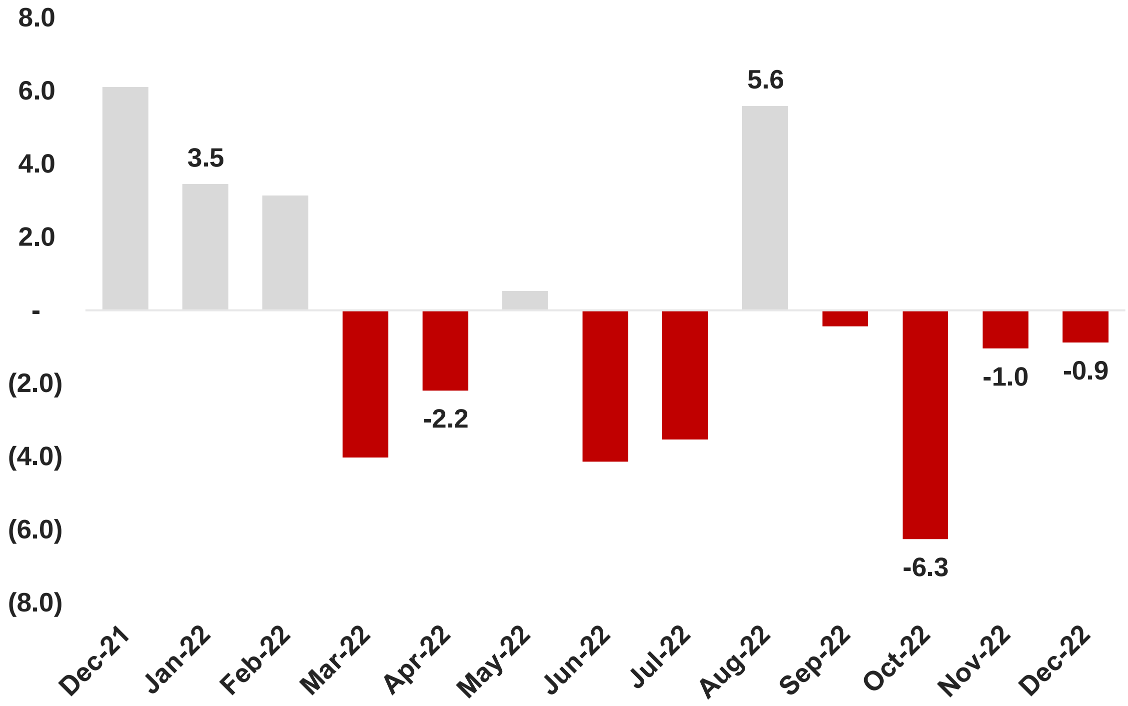
Monthly changes, basis points (bps)

| UST | Yields (%) 30-Dec-22 | Yields (%) 31-Jan-23 | Change (bps) |
|---|---|---|---|
| 3-M UST | 4.42% | 4.70% | 28 |
| 2-Y UST | 4.41% | 4.21% | -20 |
| 5-Y UST | 3.99% | 3.63% | -36 |
| 10-Y UST | 3.88% | 3.52% | -36 |
| **MGS** | **Yields (%) 30-Dec-22** | **Yields (%) 31-Jan-23** | **Change (bps)** |
| 3-Y MGS | 3.67% | 3.39% | -28 |
| 5-Y MGS | 3.84% | 3.55% | -29 |
| 7-Y MGS | 4.03% | 3.69% | -34 |
| 10-Y MGS | 4.07% | 3.80% | -27 |

*Sources: BNM, Federal Reserve Board*

Foreign Fund Flows in Bond Market, RM billion




- The U.S. Treasury (UST) and Malaysian Government Securities (MGS) yields were lower in January amid a less aggressive rate hike by the Fed and MPC's decision to pause the OPR rate hike during its latest meeting.
- Foreign investors remained net sellers with a total of RM0.9 billion in bond holdings offloaded in the said month. However, the trend is softening compared to RM6.3 billion and RM1.0 billion foreign net outflows recorded in October 2022 and November 2022, respectively.
- Foreign investors may come back in the near term amid less aggressive global monetary tightening in the upcoming months.

# FX MARKET: RINGGIT ENDED HIGHER IN JANUARY

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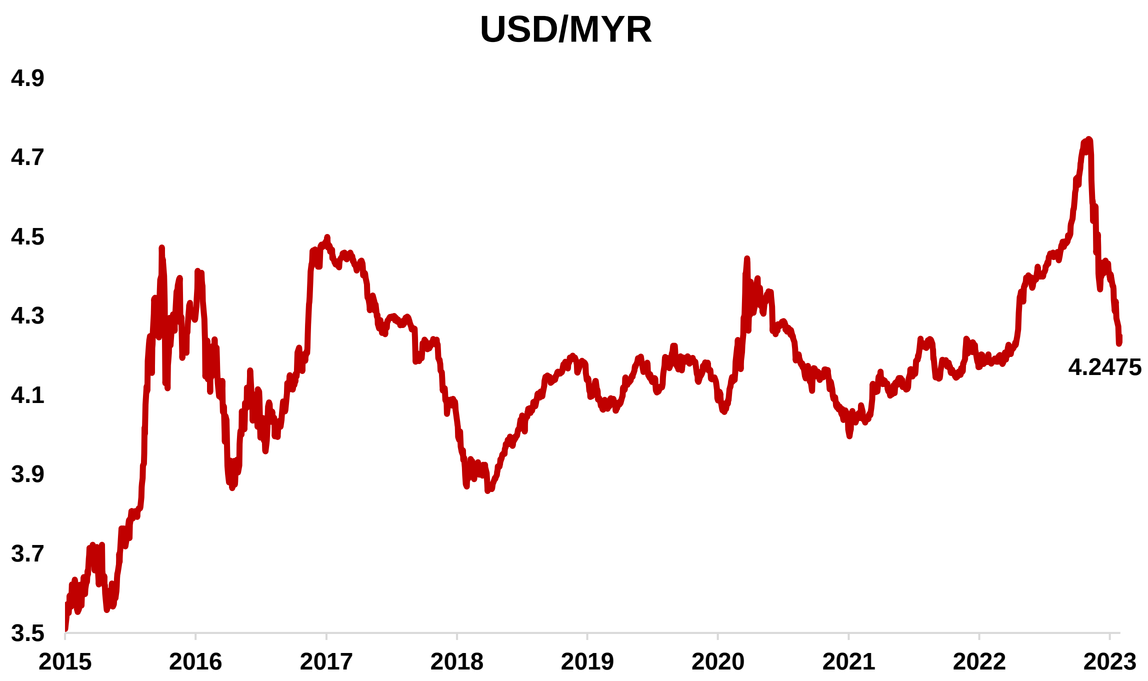
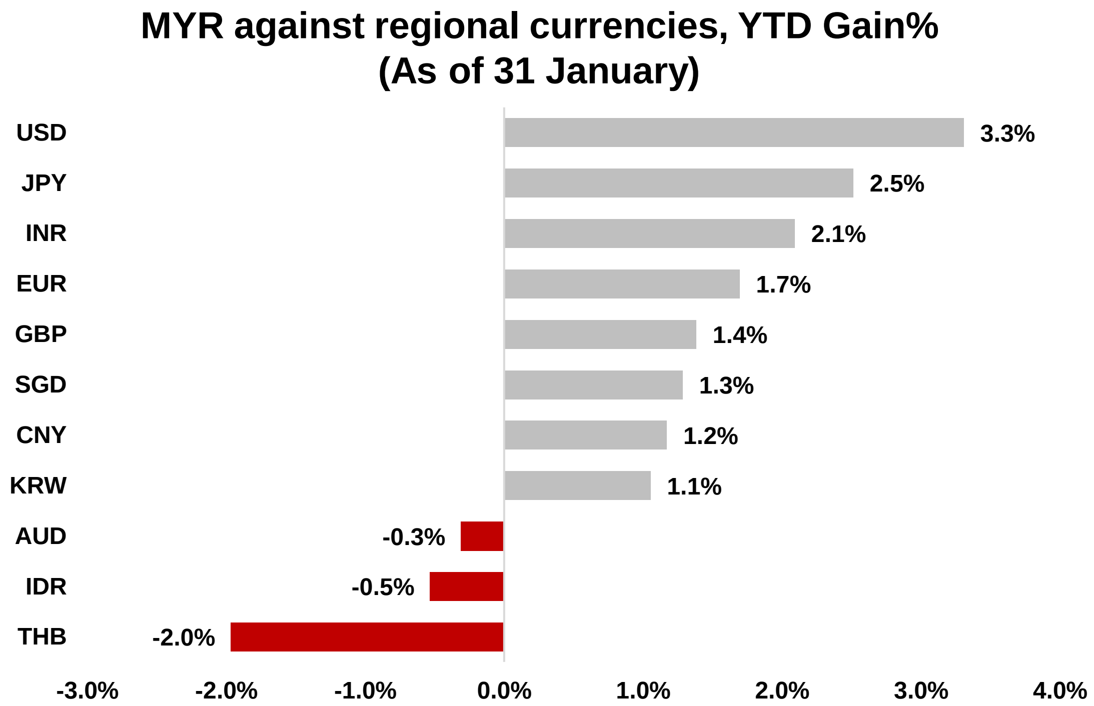


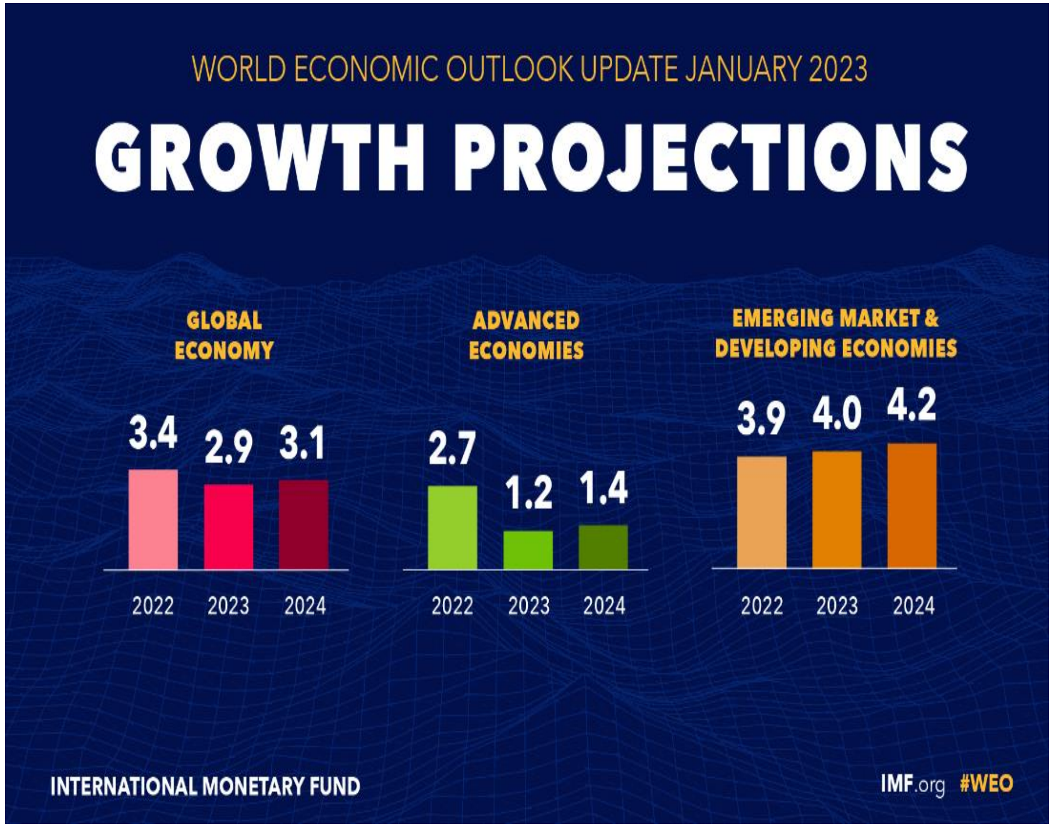

*Sources: BNM, Investing.com*

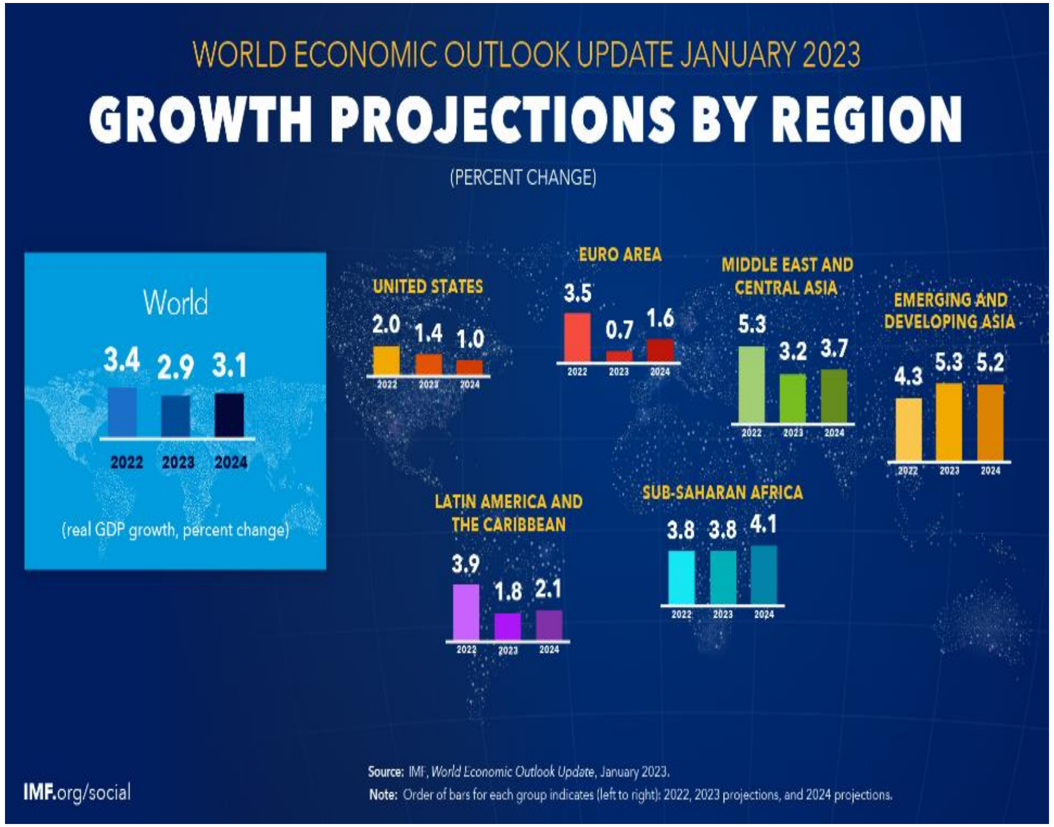
- The Ringgit strengthened against the USD by 3.3% on a monthly basis, closing at RM4.2603 on 31 January (30 December 2022: RM4.4000).
- Meanwhile, the USD index depreciated by 1.4% during the month amid slower rate hikes. In the latest February meeting, the central bank raised its key rates by 25bps to 4.50%-4.75%, throttling back from a half-point hike in December as inflation decelerates.
- We believe that the stunningly strong U.S. January nonfarm jobs report (Act: 517k vs. Est: 185k), which brought its unemployment rate to five decades-low, might affect the Fed's interest rate trajectory in the future. This could, in turn, put Ringgit under pressure in the near term once again.
- We also believe that the direction of the local note could be influenced by the release of 4Q2022 GDP on 10 February, whereby a better-than-expected figure could support demand for the said currency.

# SECTION 2

The Global Economy

# IMF REVISED ITS 2023 GLOBAL OUTLOOK UPWARDS AMID CHINA'S REOPENING AND SURPRISINGLY RESILIENT DEMAND IN THE U.S. AND EUROPE




*Source: IMF'S World Economic Outlook Update January 2023*

- The IMF's latest global economic forecast paints a much brighter picture for the global economy when it is anticipated to grow by 2.9% in 2023 compared to its October 2022 report (2.7%).
- The organisation warns that higher interest rates and the escalation in geopolitical tensions will weigh on the overall global economic activity.
- Malaysia's FY2023 projections remain at 4.4%.

# AFTER THE FED'S 25BPS HIKE, BOE AND ECB DELIVERED HALF-POINT HIKES, BRINGING THEIR RATES TO THE HIGHEST LEVEL SINCE 2008

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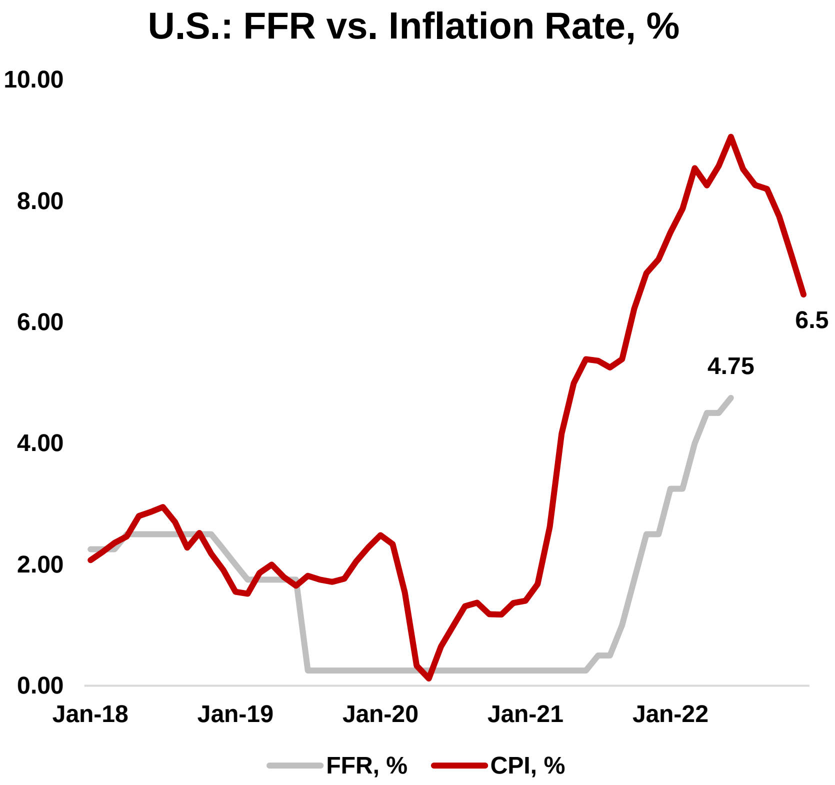


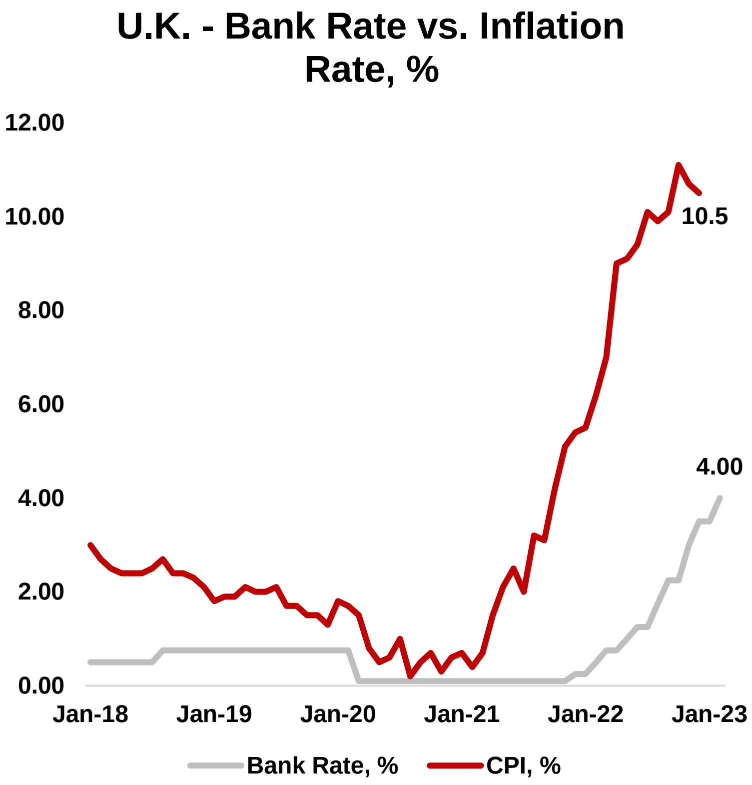


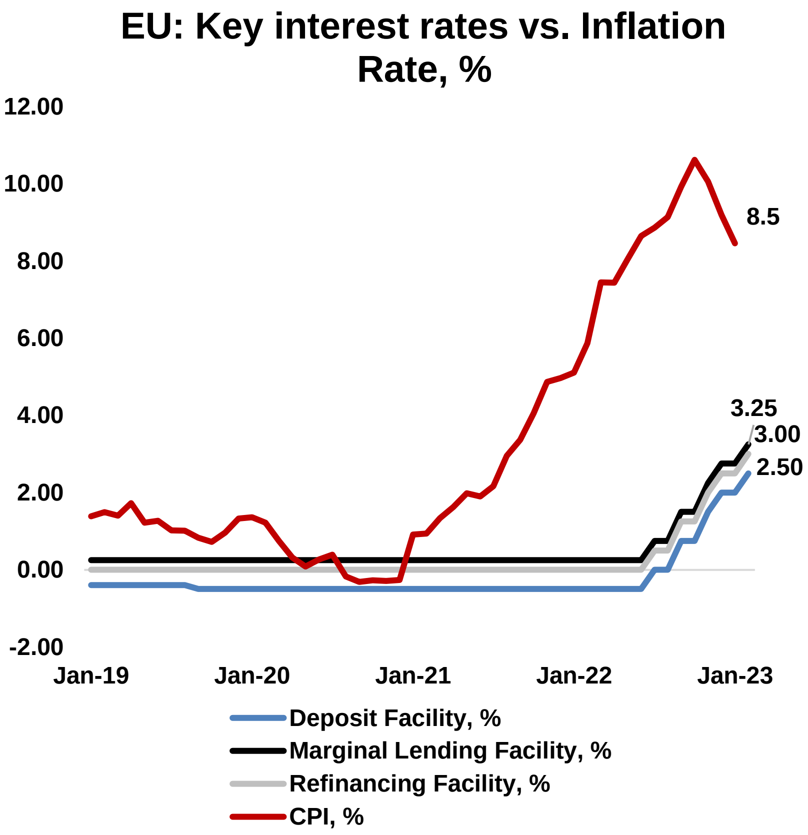


*Sources: Federal Reserve Board, Office for National Statistics, BoE, IMF ECB, Eurostat,*

- Inflation in the three major economies is easing but remains higher than their 2% target rate.
- Since the December FOMC meeting, several economic indicators in the U.S. have moderated alongside inflation, strengthening the case for a slower hike in the Fed's first meeting of the year.
- In contrast, both BoE and ECB raised rates by 50bps respectively, with ECB signaling the same quantum for its next meeting in March. Meanwhile, the BoE hinted it could be the last hike for the time being as the economy suffers from demand-side pressures.

# SOFT LANDING IMMINENT FOR THE U.S. ECONOMY?

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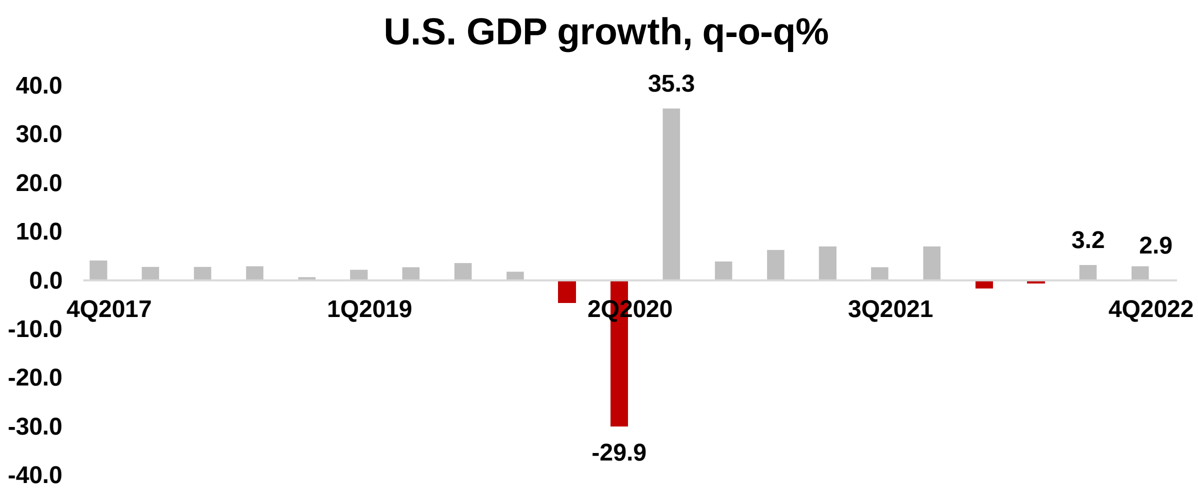


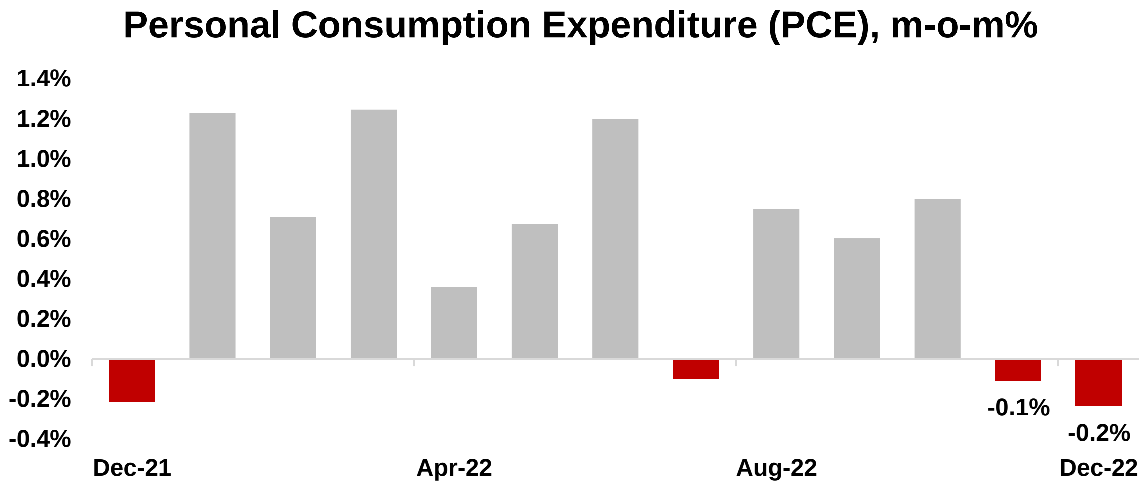


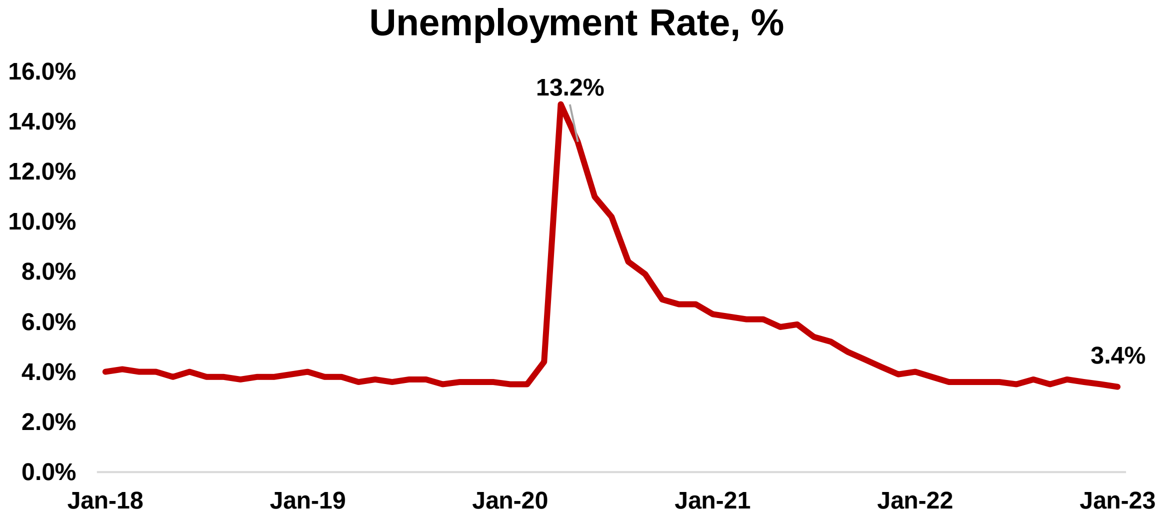


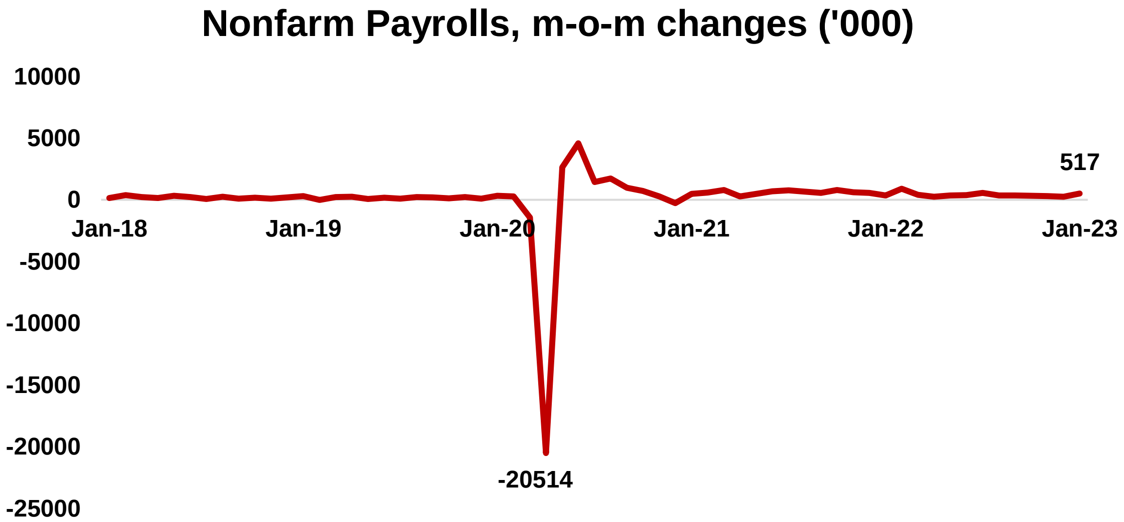


*Sources: IMF, Federal Reserve Board, BEA, U.S. Bureau of Labor Statistics*

- Recessionary fears appear to have also moderated along with inflation, suggesting that the U.S. economy may achieve a soft landing after all.
- However, things could go either way, considering that its labour market remains extremely tight in January.

# CHINA'S ECONOMIC REOPENING REMAINS ROBUST AS COVID 'EXIT WAVE' ENDS BUT NOT ALL ROSES

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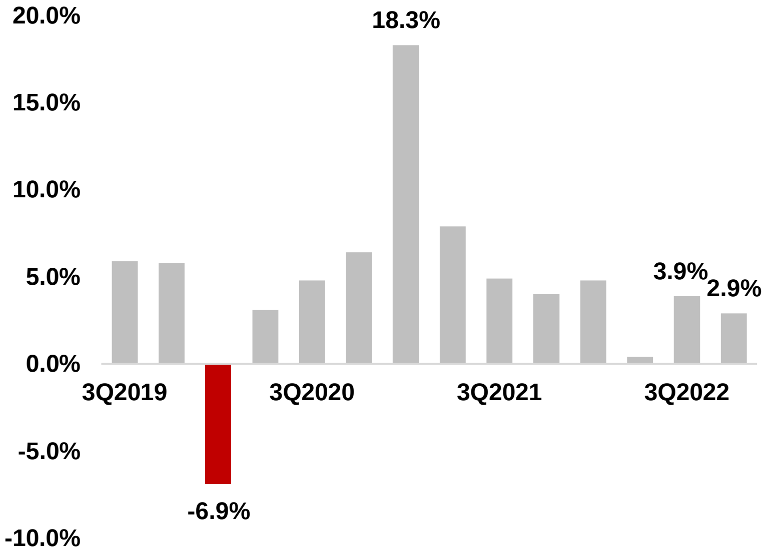
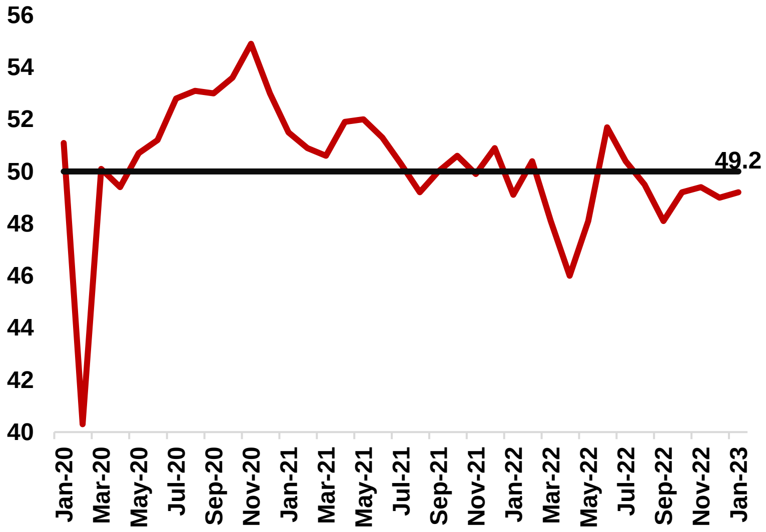
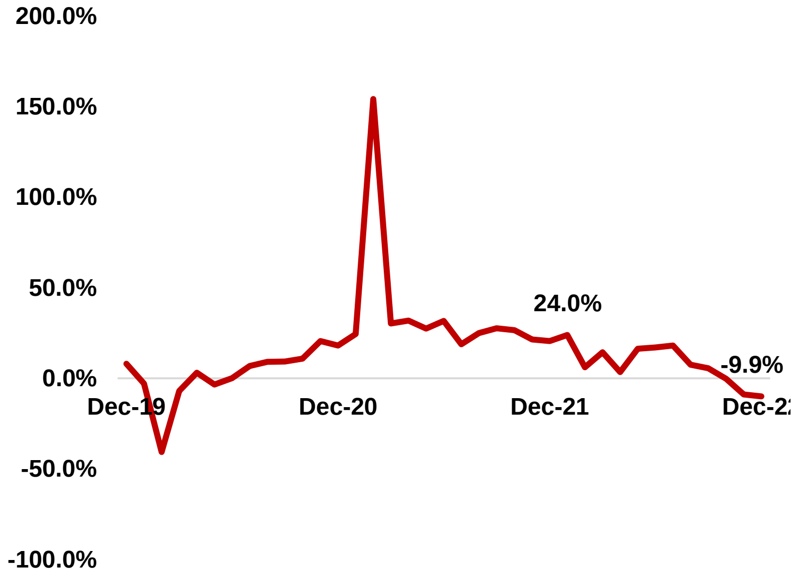
**GDP, y-o-y%**




**Caixin China Manufacturing PMI, points**




**Exports, y-o-y%**




*Sources: Organisation for Economic Co-operation and Development, S&P Global, General Administration of Customs*

- China's economic reopening will support global growth in 2023. International and domestic tourism soared amid the pent-up travel demands of the Lunar New Year holidays. Soon enough, there will be more Chinese tourists internationally than domestically.
- The rising interest rates and recessionary fears have caused China's exports to take a beating. It was 9.9% lower y-o-y in December last year (November: -9.0%).
- Despite the Caixin PMI index reading improvement (January 2023: 49.2 vs. December 2022: 49.0), it remained below 50.0, showing that the contraction in the manufacturing activity has continued.
- Nevertheless, we foresee the country will have the opportunity to announce more stimulus to support economic growth when it unveils the annual economic plan at the National People's Congress in March this year.

# THAI BAHT ON THE RISE AMID CHINA'S REOPENING

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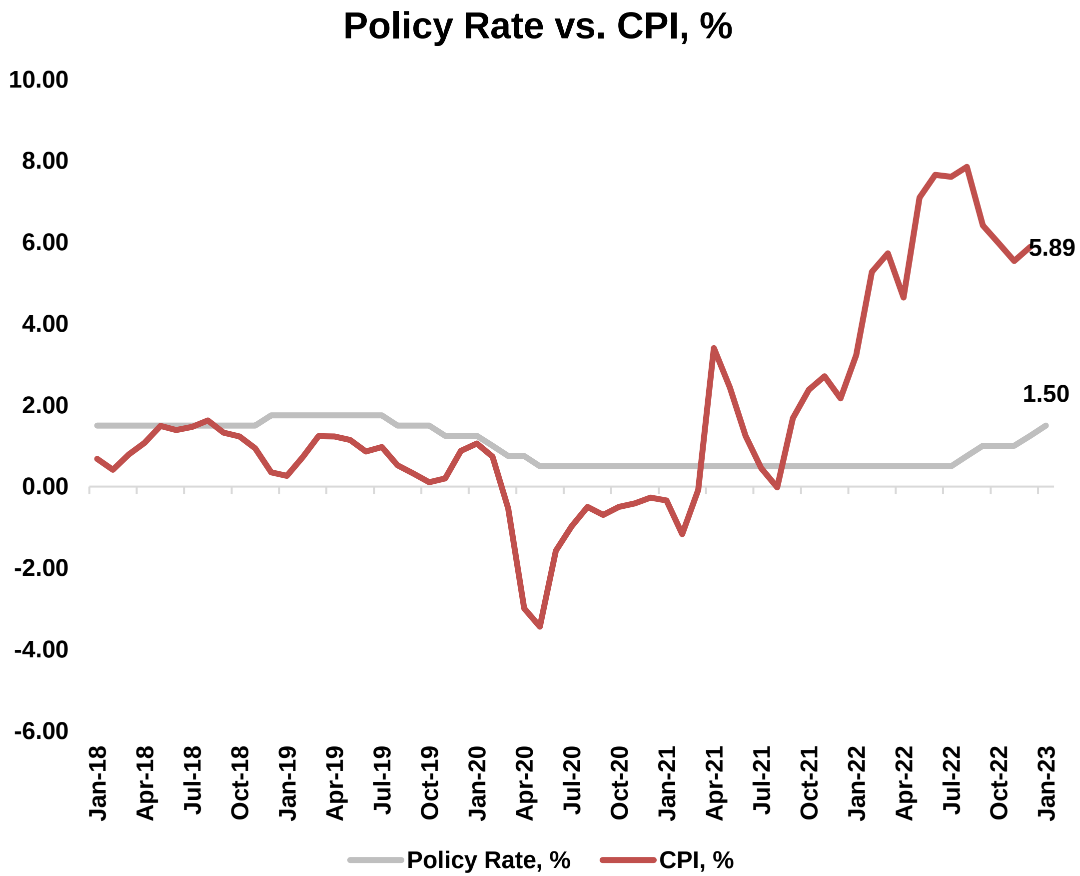


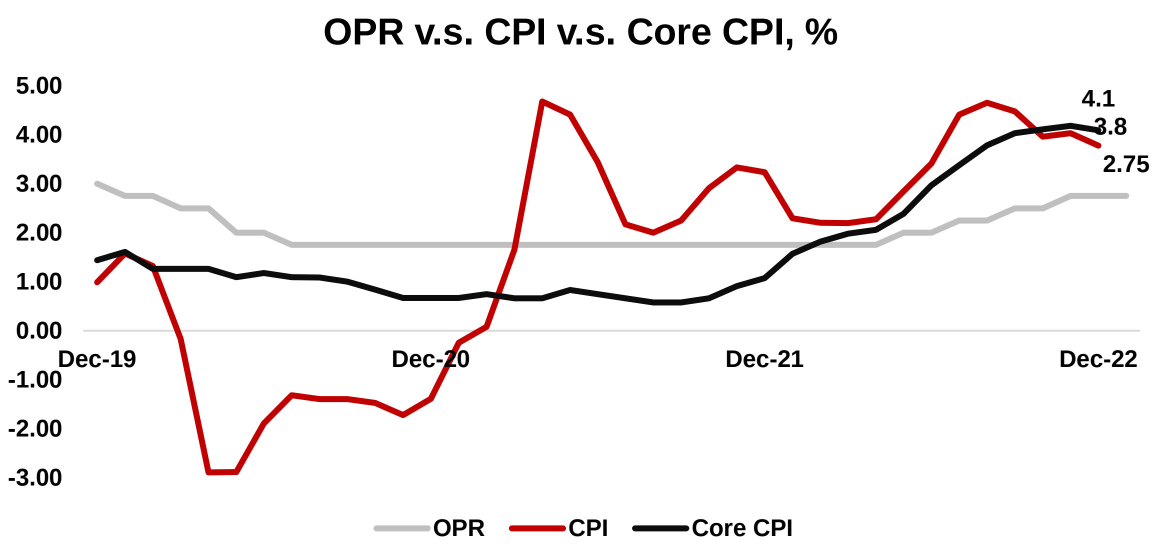

*Sources: Bank of Thailand (BoT), Bureau of Trade and Economic Indices*

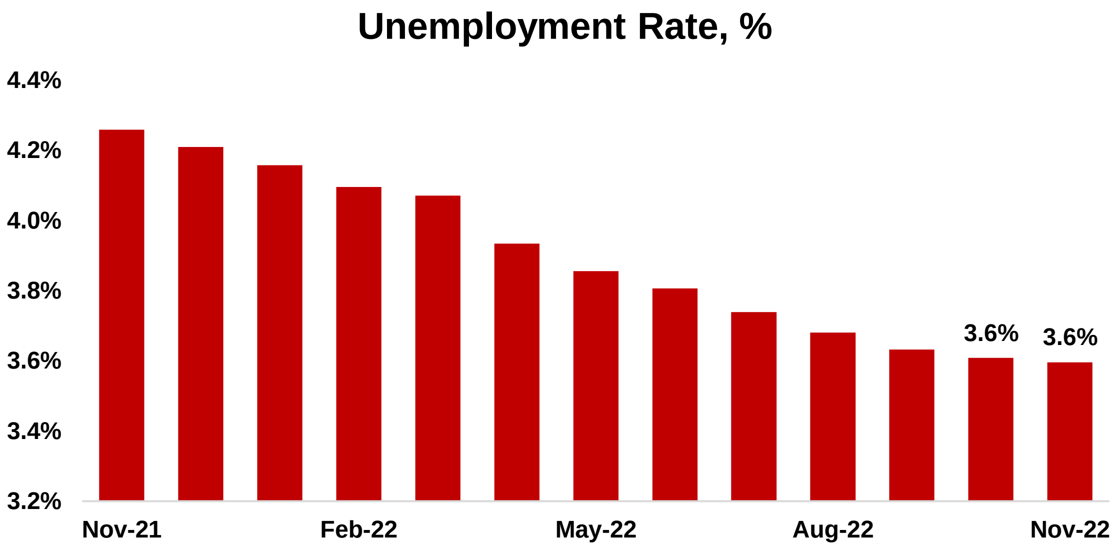
- BoT raised its policy rate by 25bps for a fourth consecutive time during its January 2023 meeting to address high inflation, which rose to 5.89% y-o-y during the said month (December 2022: 5.55%).
- Thailand's tourism sector exhibits a faster recovery following the return of Chinese visitors, leading to a broad-based improvement. Demand-side inflationary pressure is here to stay.
- Meanwhile, the Thai Baht hovers near a 10-month high against the USD.

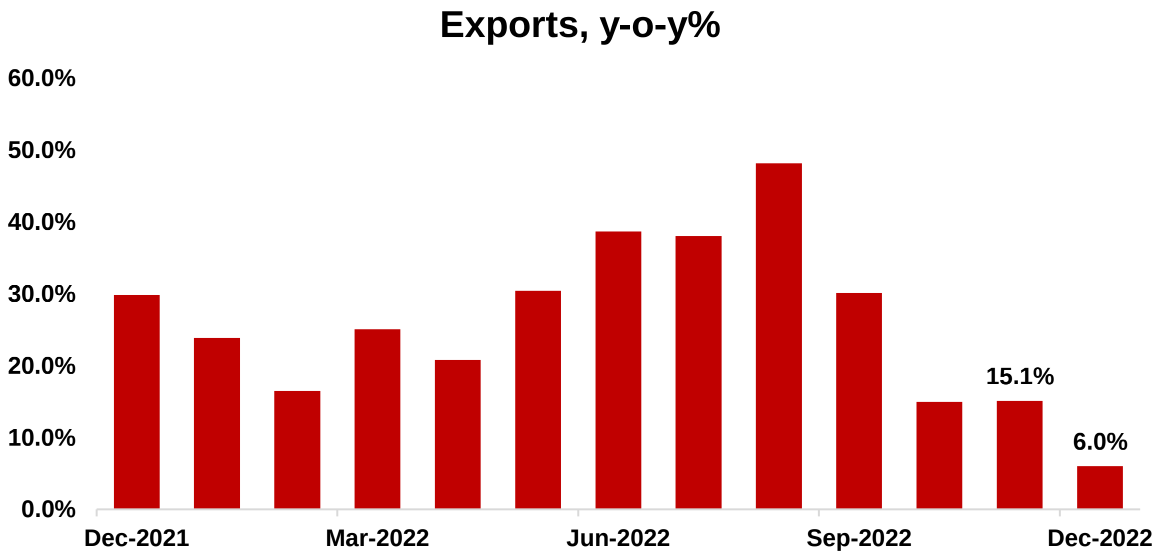
# SECTION 3

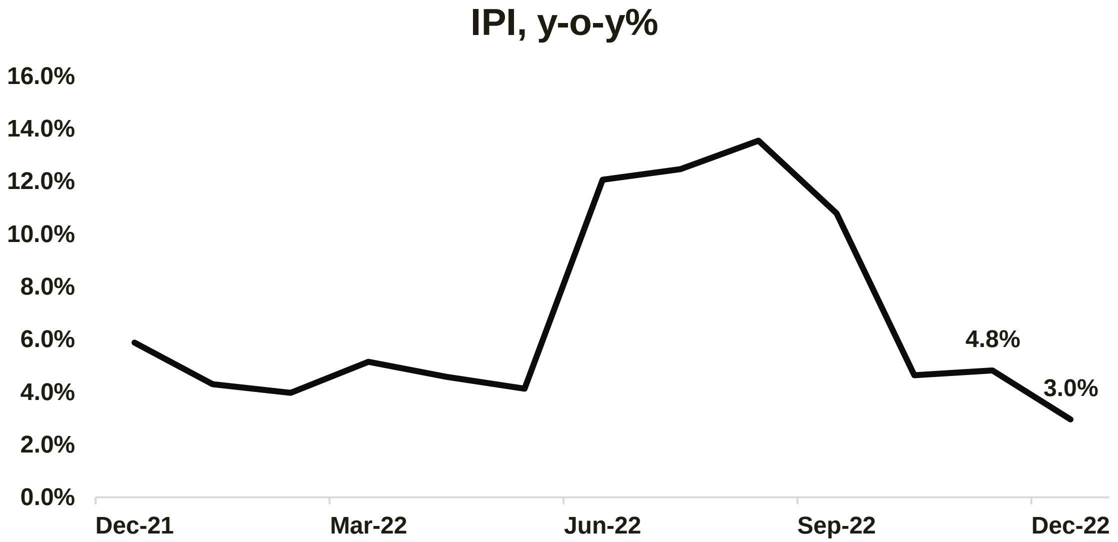
## Domestic Landscape & Banking Sector Update

# BNM UNEXPECTEDLY PAUSE OPR AT 2.75% DURING ITS FIRST MEETING OF THE YEAR IN JANUARY, GIVING ROOM FOR THE ECONOMY TO ADJUST AND ADAPT



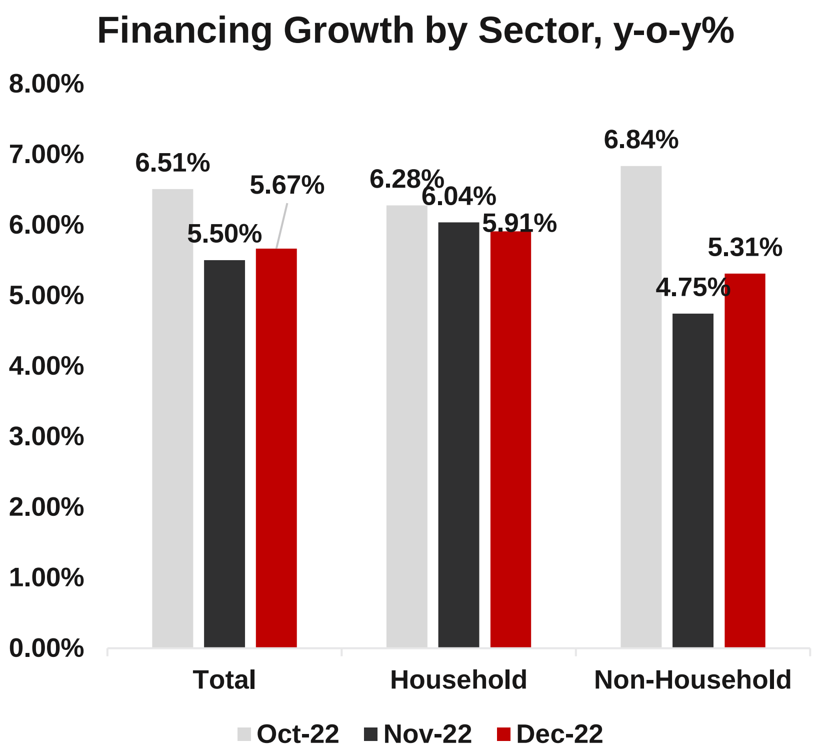



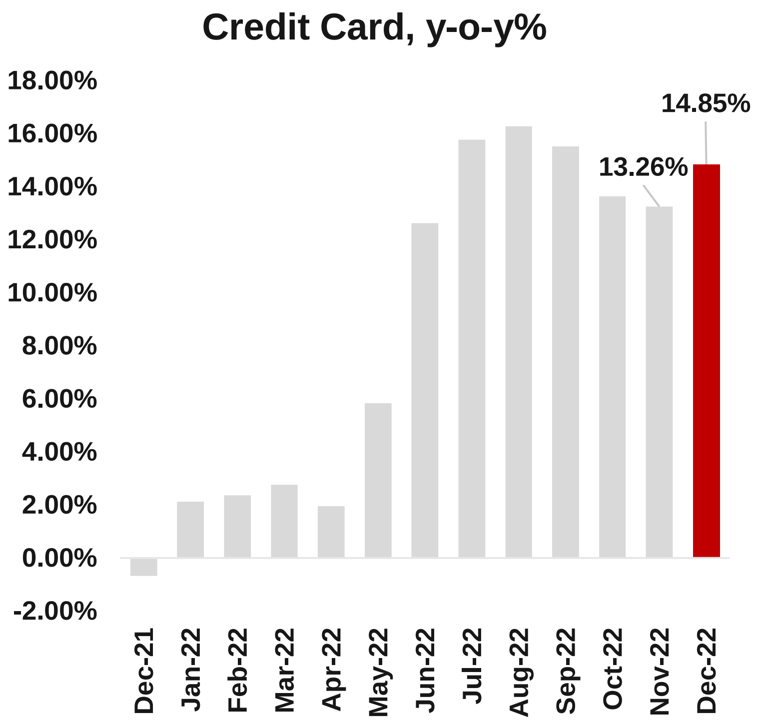



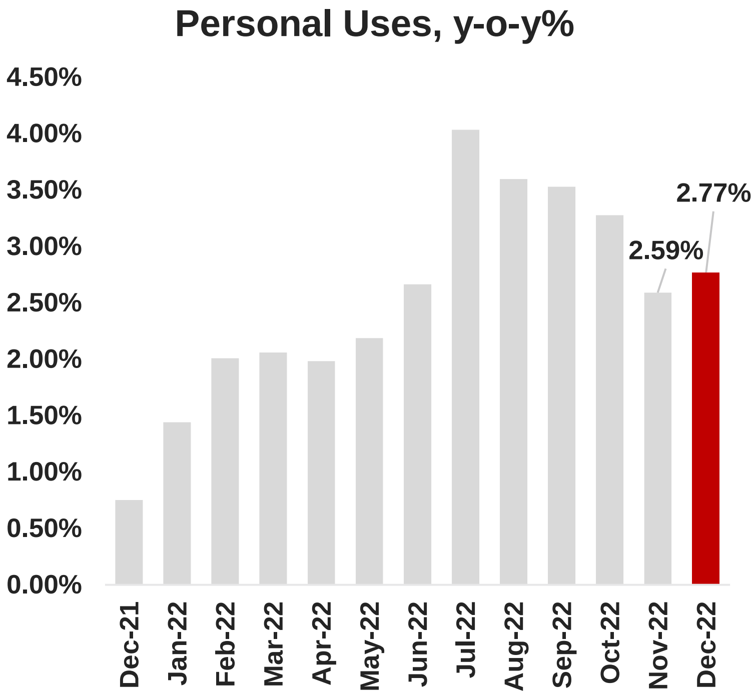




*Sources: DOSM, BNM*

# BANKING SECTOR: HIGHER FINANCING GROWTH IN DECEMBER 2022



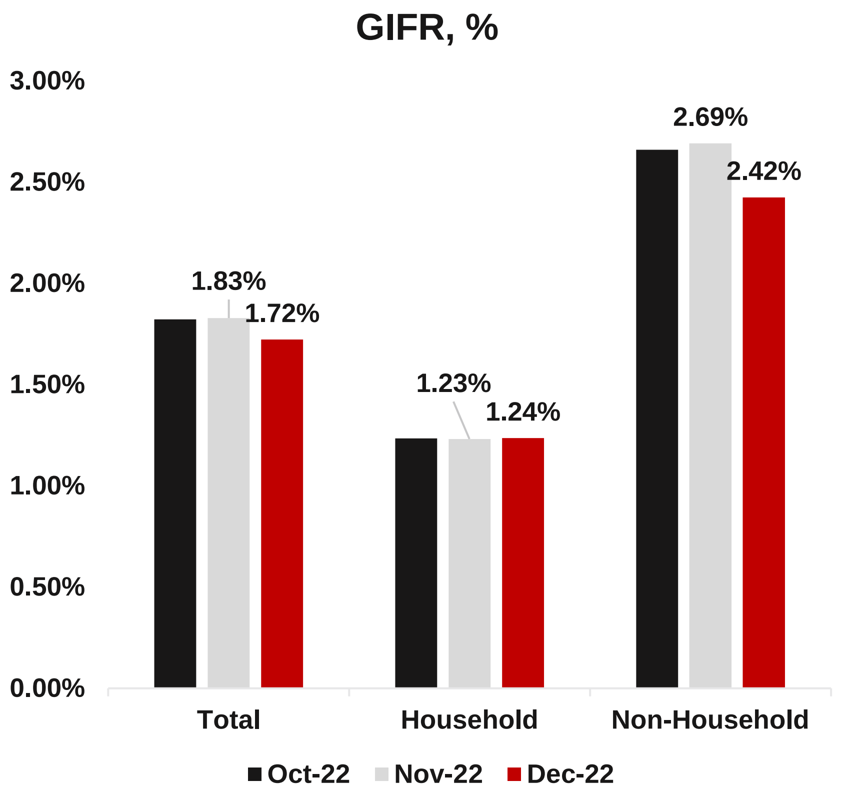



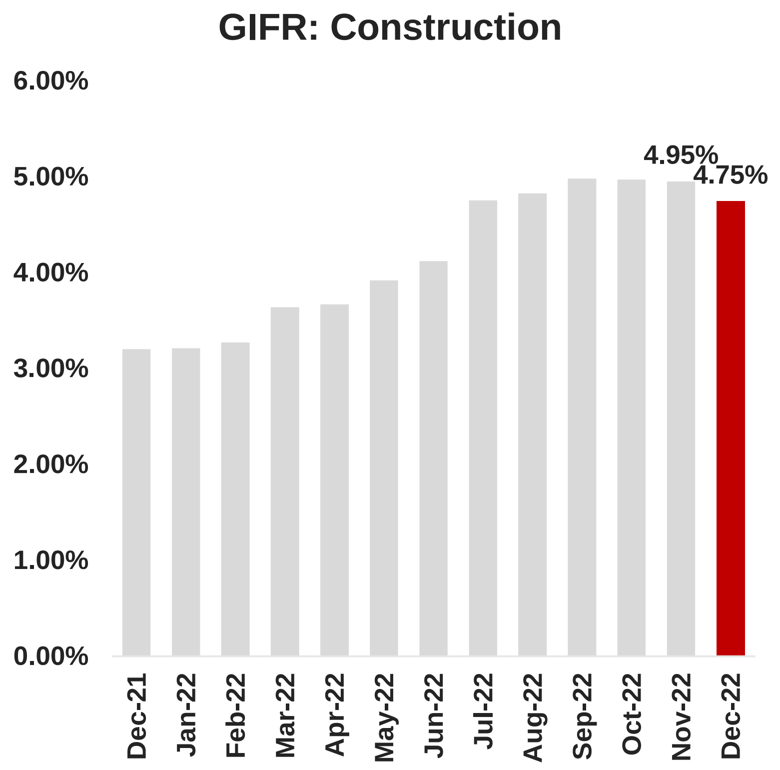



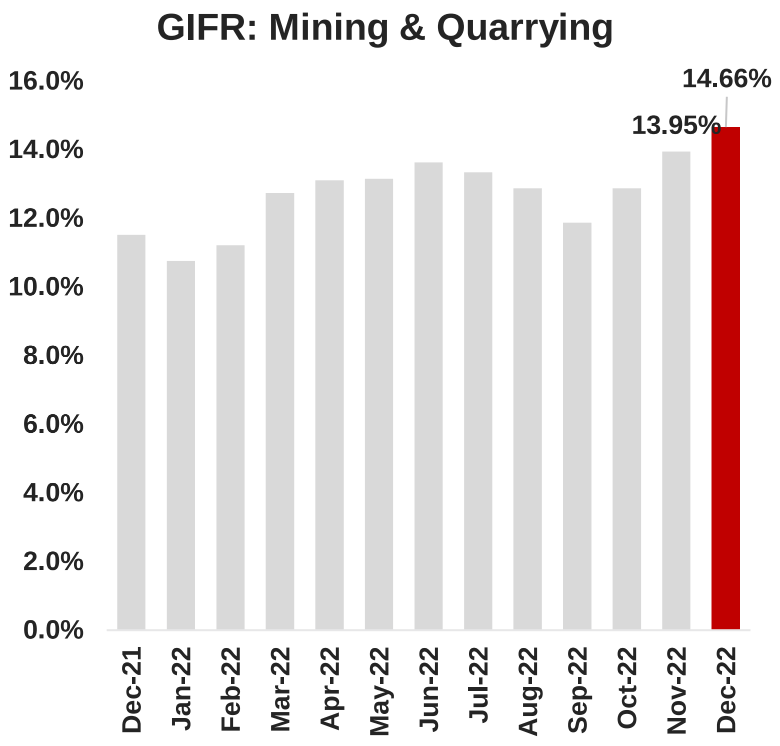

*Source: BNM*

- Financing activities were higher by 5.67% y-o-y in December 2022 after rising by 5.50% in November 2022, mainly driven by the Non-Household sector, which increased by 5.31% in December 2022 (November 2022: 4.75%).
- In contrast, the Household sector moderated by 5.91% in December 2022 compared to 6.04% in November 2022. Nevertheless, within the Household segment, financing for credit card and personal use went up by 14.85% (November 2022: 13.26%) and 2.77% (November 2022: 2.59%), respectively, in December 2022.
- This could reflect that demand activities remained supportive despite rising financing costs.

# BANKING SECTOR: GIFR IMPROVED IN DECEMBER 2022




*Source: BNM*

- The total Gross Impaired Financing Ratio (GIFR) was slightly lower at 1.72% in December 2022 from 1.83% in November 2022, supported by better GIFR in the Non-Household sector at 2.42% in December 2022 (November 2022: 2.69%).
- Within the Non-Household sector, GIFR for Construction declined to 4.75% in December 2022 (November 2022: 4.95%), while Mining & Quarrying continued to record deterioration in asset quality at 14.66% in December 2022 (November 2022: 13.95%).

# THANK YOU