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MONTHLY ECONOMIC UPDATE

2 FEBRUARY 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Fed signalled no imminent interest rate cut.** As widely expected, the U.S. Federal Reserve (Fed) held the Federal Funds Rate (FFR) steady at 5.25%-5.50% for the fourth consecutive meeting in January, stating that the policy rate is likely at its peak. The Fed, however, has indicated that rate cuts would not begin until it has gained more confidence that inflation is moving sustainably toward its 2.0% target. The Fed's statement led markets trimming their rate cut bets, pricing in 38.0% chance of first rate cut in March at the time of writing, down from more than 70.0% just a month ago.

- **The ECB keeps investors guessing on the timing of rate cut.** The European Central Bank (ECB), in its January policy meeting, left monetary policy settings and forward guidance unchanged. ECB President Christine Lagarde said there was consensus among ECB policymakers that the next change to rates will be a cut, again confirming that the ECB's rate hike cycle has ended. However, she also indicated that the ECB was in no rush to cut as it was "premature". While Eurozone's disinflationary trend continues, the path to ECB's 2.0% target is likely to be bumpy given the upside risks to inflation stemming from geopolitical tensions. The latest GDP data showed that the Eurozone's economy narrowly avoided a recession with zero growth in 4Q2023 (3Q2023: -0.1%), giving the ECB some breathing room to maintain its high interest rate.

- **The BoE left policy rate unchanged at 16-year high of 5.25%.** The Bank of England's (BoE) Monetary Policy Committee (MPC) voted by a majority 6-3 for a rate pause for a fourth meeting in a row, with two dissenters voting for a 25bp rate hike and one favouring a 25bp cut. The BoE has reiterated that it remains prepared to adjust monetary policy as warranted by economic data to return inflation to the 2.0% target sustainably, leaving the door open to further rate hikes should indications emerged of more persistent inflationary pressures. While labour market, wage growth and inflation in the U.K. starting to show signs of easing, the BoE does not expect the headline inflation to return to 2.0% until late 2026.

KEY TAKEAWAYS

- **China's GDP growth above target at 5.2% in 2023 but concerns about the economy still linger.** While remaining on track for recovery, with growth picking up from 3.0% notched in 2022, China's economic performance has underperformed the high expectations made at the start of 2023 when the Chinese government announced the exit from zero-COVID policy. Reflecting the continuing property woes, real estate investment remained in contraction territory but the pace of decline slowed marginally to 9.6% in 2023 (2022: -10.0%). Furthermore, deflation persisted for the third consecutive month in December 2023, with consumer prices declining by 0.3% (November: -0.5%), indicating still sluggish consumer demand. With headwinds looming, the People's Bank of China (PBoC) has recently announced a 50bp cut in banks' reserve requirement ratio (RRR) effective from February 5. The announcement is perceived as a sign that the central bank will stick to loose monetary stance.

- **Malaysia's latest economic data painted a mixed picture of the economy.** Official advance estimates showed GDP growth improved marginally to 3.4% in 4Q2023 (3Q2023: 3.3%), translating into a full-year growth of 3.8%, which fall short of the government's expectation of 4.0%. Trade remained a drag on the economy as exports dipped deeper into contraction in December 2023 (-10.0% vs. November: -6.1%). Hinting at a cooling of factory activity, the Industrial Production Index (IPI) saw a deceleration to a mere 0.6% expansion in November (October: 2.4%). Though on a more constructive note, consumer spending remained encouraging, with retail sales rising to 4.4% in November (October: 3.9%), lifted by the government's handouts, the boost in tourist arrivals and the still-robust job market conditions. Of note, the unemployment rate eased to 3.3% in November (October: 3.4%), which has technically reached full employment in the job market.

- **Bank Negara Malaysia (BNM) remained on hold at its first Monetary Policy Committee (MPC) meeting of the year.** The central bank cited that the Overnight Policy Rate (OPR), currently at a pre-pandemic level of 3.00%, remains supportive of the economy and is consistent with its assessment of the inflation and growth prospects. This is in line with our view that the OPR has peaked after a cumulative rate hike of 125bps implemented from May 2022 to May 2023. We expect the BNM to remain cautious in the near-term as the balance of risks is skewed to the downside for economic growth and to upside for inflation.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: GLOBAL STOCKS MARKET KICKED OFF THE YEAR WITH MIXED PERFORMANCE

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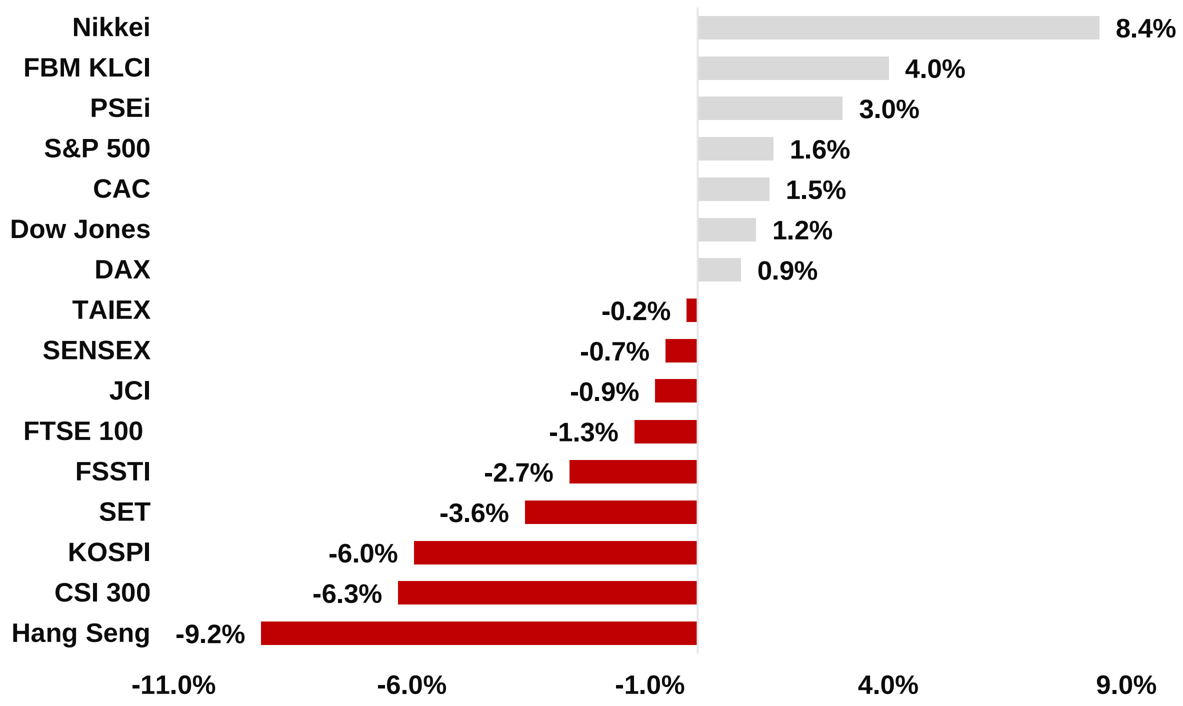
Monthly Gain/Loss of Major Equity Market, m-o-m%



Sources: Bursa, CEIC data

- In January, the regional benchmark indices ended mixed. Japan's Nikkei (+8.4%) emerged as the top performer as investors expected the sluggish Japanese economy to put a brake on a swift pivot in the Bank of Japan's (BoJ) monetary policy.
- In addition, among other major winners were the FBM KLCI (+4.0%) and Philippines' PSEi (+3.0%).
- Chinese stocks, Hong Kong's Hang Seng (-9.2%) and China's CSI 300 (-6.3%) tumbled as the major losers in January amid fresh worries mount about company earnings and China's economic growth prospect.
- South Korea's KOSPI also ended the month dismally as the index contracted by 6.0% following weakened expectations for an early interest rate cut in the U.S., poor corporate performance, and geopolitical risks.
- The Fed held interest rates steady in January's Federal Open Market Committee (FOMC) meeting and throws cold water on hopes for a March rate cut.

DOMESTIC EQUITY: LOCAL MARKET OFF TO A GREAT START IN 2024 AMID UPBEAT DOMESTIC OUTLOOK

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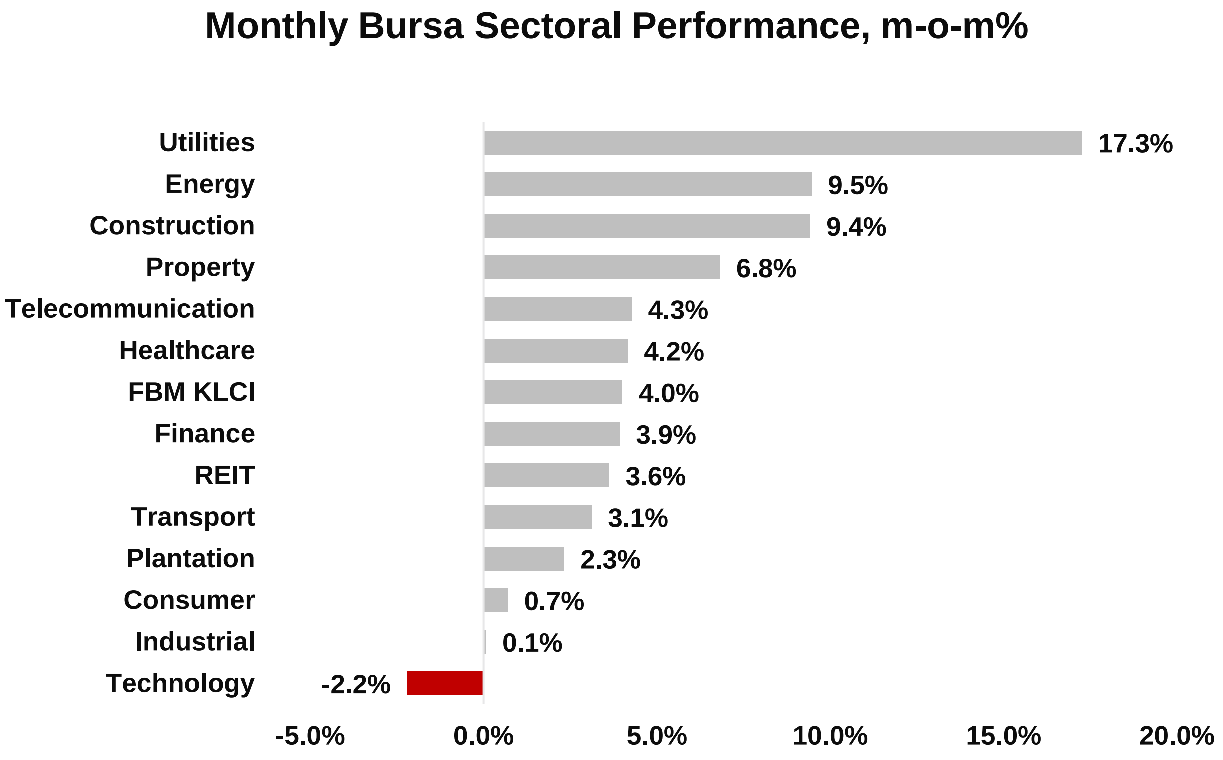


Sources: Bursa, CEIC data

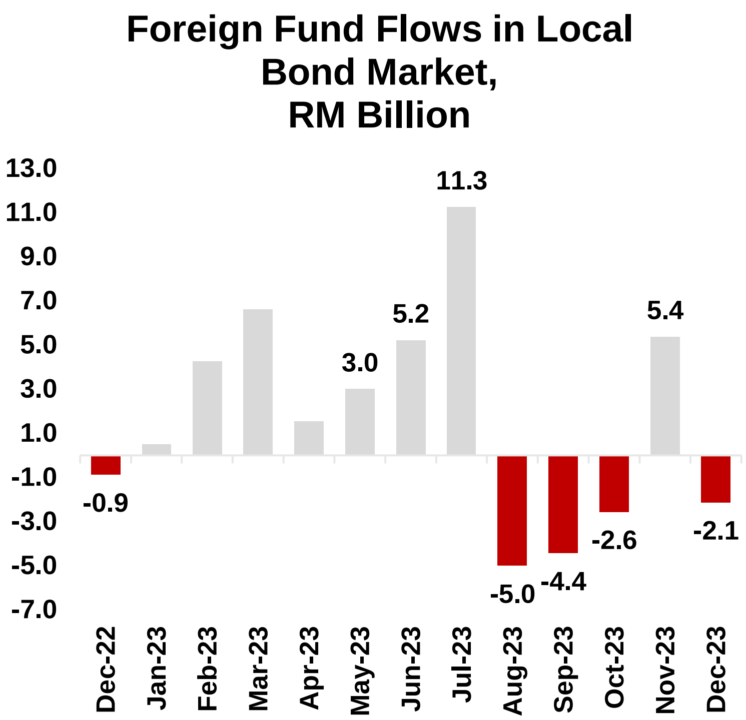
- FBM KLCI (+4.0%) closed the first month of the year on a positive with most Bursa sectoral indices ending in the green.
- Such performance was supported by the positive economic outlook, whereby most multilateral banks (MDBs) foresee Malaysia's economy to improve in 2024. Additionally, in a year of elections, Malaysia's political stability poses another plus to investors.
- Leading the winners were the Utilities index (+17.3%), followed by Energy and Construction at +9.5% and +9.4%, respectively.
- The Construction index was supported by the ongoing mega infrastructure projects, some of which are the East Coast Railway Link (ECRL), the Pan-Borneo Highway and the Light Rapid Transit (LRT) projects for Penang and Johor in the pipeline.
- The only loser in the month was the Technology index (-2.2%) amid the lack of pick-up in Electrical and Electronic Products (E&E) exports despite the latest available data showed Global Semiconductor Sales (GSS) increased on yearly basis for the first time in November 2023.

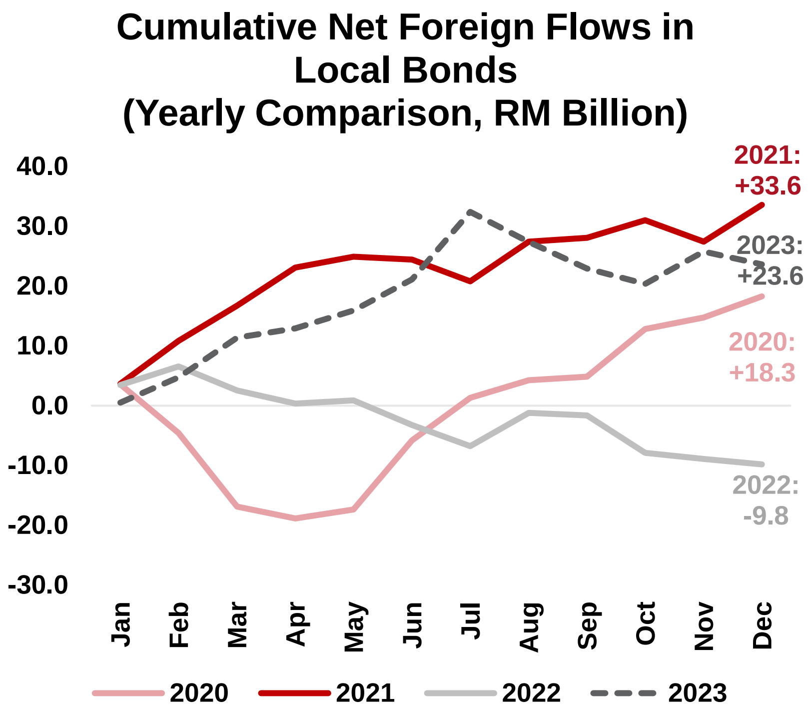
FIXED INCOME: UST YIELDS INCHED UP WHILE LOCAL GOVVIES YIELDS ENDED MIXED IN JANUARY

Monthly changes, basis points (bps)

UST	Yields (%) 29-Dec-23	Yields (%) 31-Jan-24	Change (bps)
3-Y UST	4.01	4.05	4
5-Y UST	3.84	3.91	7
7-Y UST	3.88	3.95	7
10-Y UST	3.88	3.99	11
MGS	**Yields (%) 29-Dec-23**	**Yields (%) 31-Jan-24**	**Change (bps)**
3-Y MGS	3.47	3.40	-8
5-Y MGS	3.57	3.54	-3
7-Y MGS	3.72	3.72	0
10-Y MGS	3.73	3.78	5
GII	**Yields (%) 29-Dec-23**	**Yields (%) 31-Jan-24**	**Change (bps)**
3-Y GII	3.50	3.43	-6
5-Y GII	3.60	3.58	-3
7-Y GII	3.76	3.75	-1
10-Y GII	3.78	3.82	4

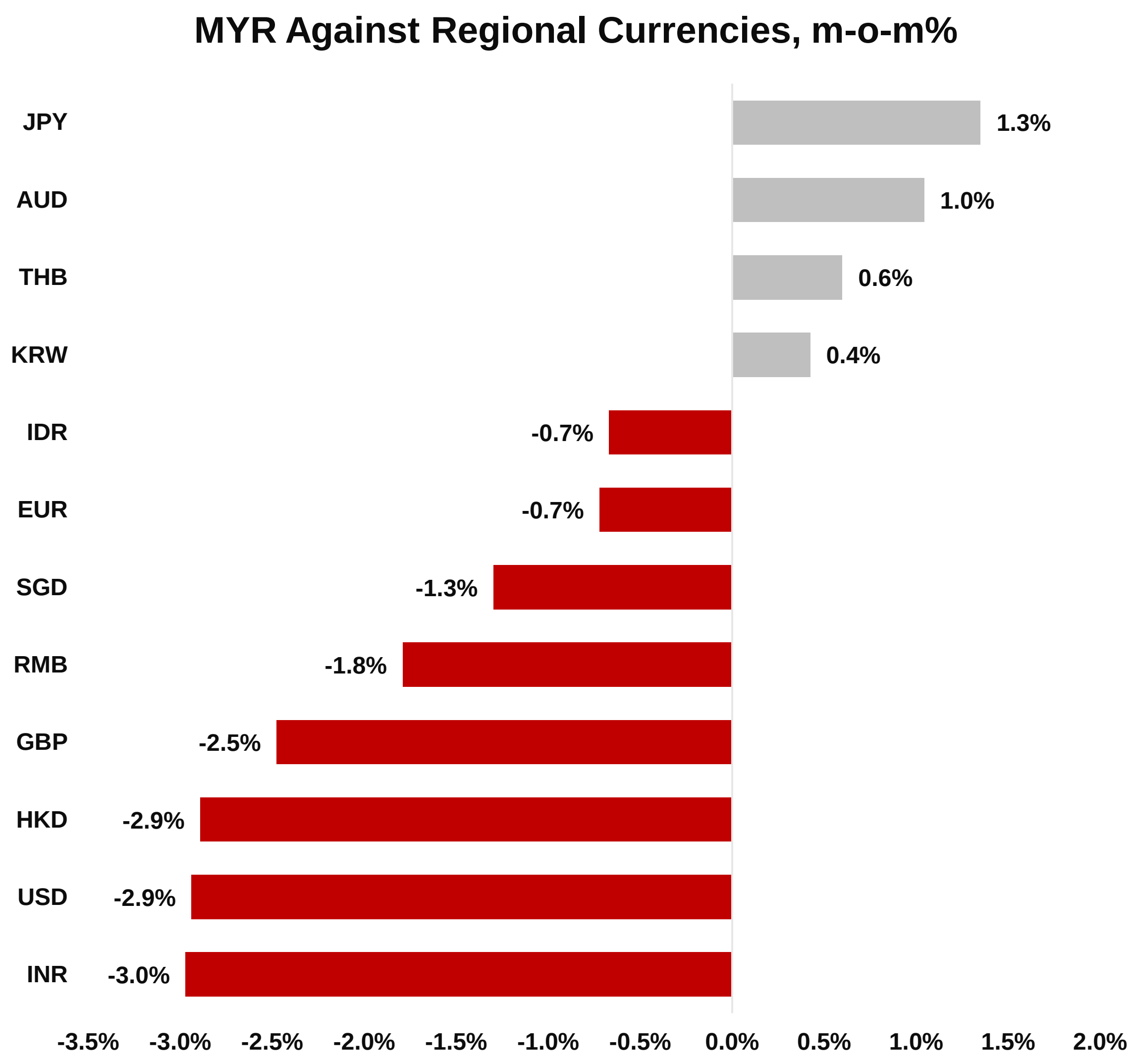
Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yield curve bearishly steepened in the range of 4bps and 11bps as Fed Chair's press conference remarks suggested the FOMC will likely hold rates steady at its next meeting in March.
- Both Malaysian Government Securities (MGS) and Government Investment Issues (GII) ended mixed with yields on the shorter end dragging lower between 3bps and 8bps. Meanwhile, 10-Y MGS and GII yields increased by 5bps and 4bps, respectively.
- Foreign investors turned net sellers in the local bond market in December 2023 with a net foreign outflow of RM2.1 billion (November: +RM5.4 billion). Local govvies' foreign shareholdings to total outstanding slid to 22.5% in December (November : 22.9%).
- Overall, the cumulative net foreign inflows in 2023 remained in the positive territory of RM23.6 billion, significantly higher than the outflows of RM9.8 billion in 2022.

FX MARKET: RINGGIT STAYED UNDER PRESSURE FOR THE FIRST MONTH OF THE YEAR



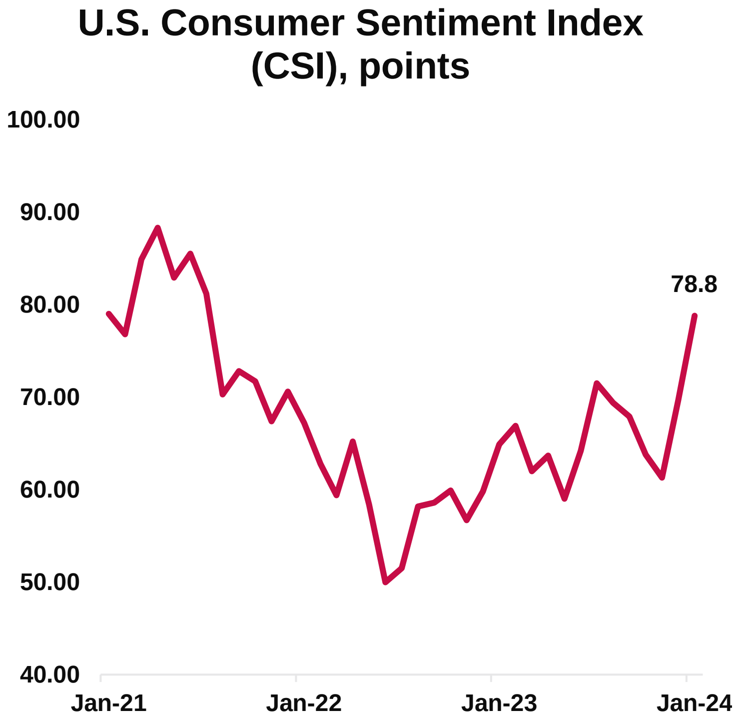
Source: BNM

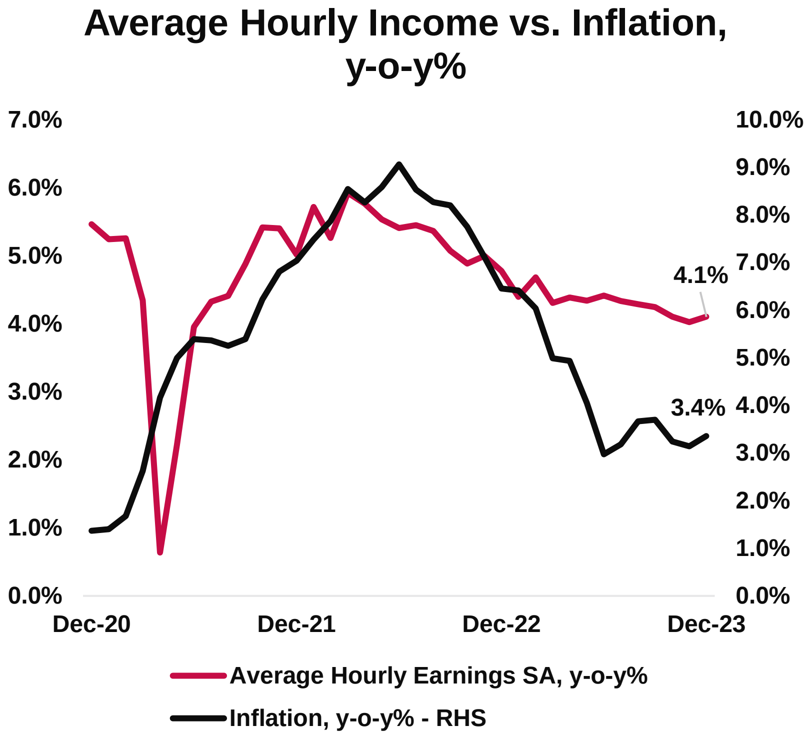
- On a monthly basis, the Ringgit ended lower against the USD, closing at RM4.7305 in January from RM4.5915 in the previous month, possibly due to an uptick seen in the USD index (January 2024: 1.9% vs. December 2023: 0.1%).
- Based on the latest decision of FOMC meeting, some policymakers seemed inclined to leave it higher for longer until they have greater confidence that inflation is moving sustainably towards the desired 2.0% level.
- However, we noticed that the Fed has removed reference to further rate hikes from the statement, suggesting that rate cuts will begin sometimes this year but unlikely in the near term, specifically in March as stated by the Fed Chair Jerome Powell.
- At present, the USD index has been hovering consistently at 103-level since mid-January, perhaps attributable to the bumpy disinflation path (December: 3.4% vs. November: 3.1%), as well as still resilience in some of macroeconomic indicators in the U.S. which could complicate the Fed's rate decision moving forward.
- As such, the local note remained under pressure against the greenback as it continued weaken since the start of the year.
- Domestically, while Malaysia is set to achieve the government's 2023 GDP target of about 4.0%, still, the local note growth is limited, considering that external factor remained significant on the impact that it had to the emerging currencies, including the Ringgit.

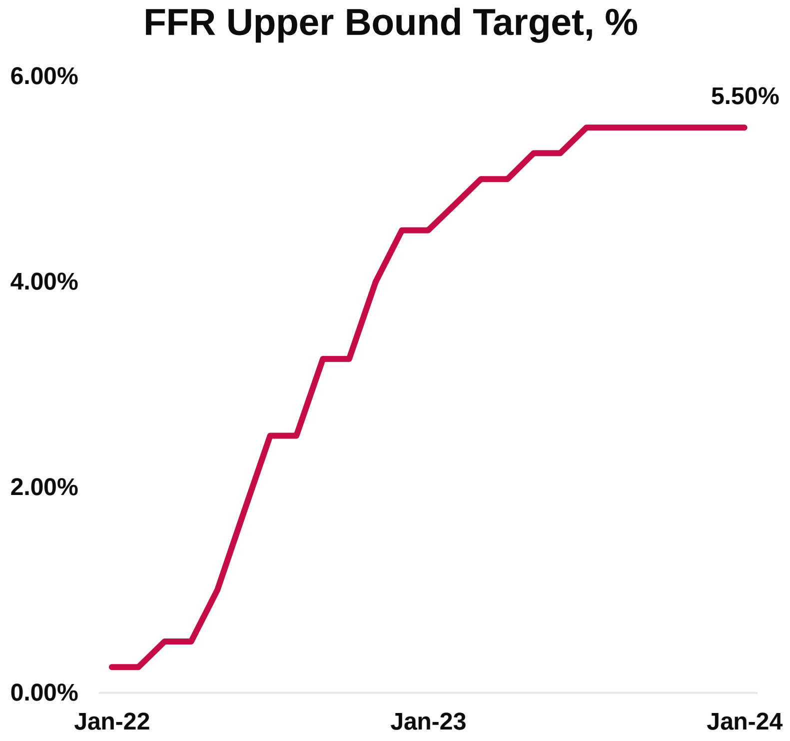
SECTION 2

The Global Economy

A ROBUST U.S. ECONOMY LANDSCAPE THUS FAR







Sources: University of Michigan, U.S. Bureau of Labor Statistics, Federal Reserve Board

- As the economy gears up for the U.S. presidential election, the latest 4Q2023 GDP numbers (Act: 3.3% vs. Est: 2.0%) provide further evidence that the economy is nowhere near recession territory.
- Therefore, consumer sentiment as reported by the University of Michigan improved at the start of the year (January 2024: 78.8 vs. December 2023: 69.7) which were also supported by confidence that inflation has turned a corner and strengthening income expectations.
- Concern remains, however, on the lagged effects of monetary policy – more than 500bps rate increases which the central bank approved between March 2022 and July 2023 before they have held pat during their past four meetings.
- Though the Fed Chair Jerome Powell stated rate cut in March is unlikely, he reiterated that such decision will eventually take place this year – slowly but surely.

CHINA'S DOUBLE WHAMMY – WEAK DEMAND AT HOME AND ABROAD

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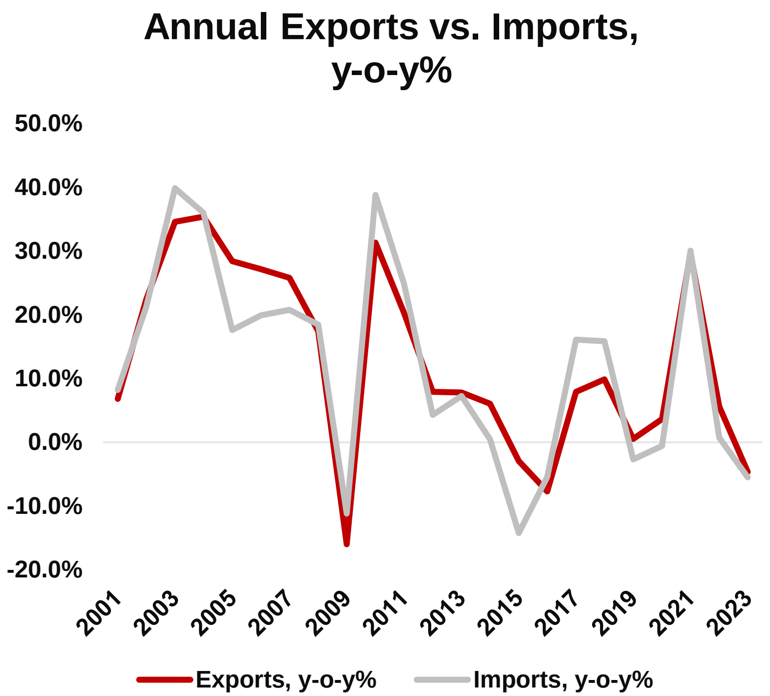

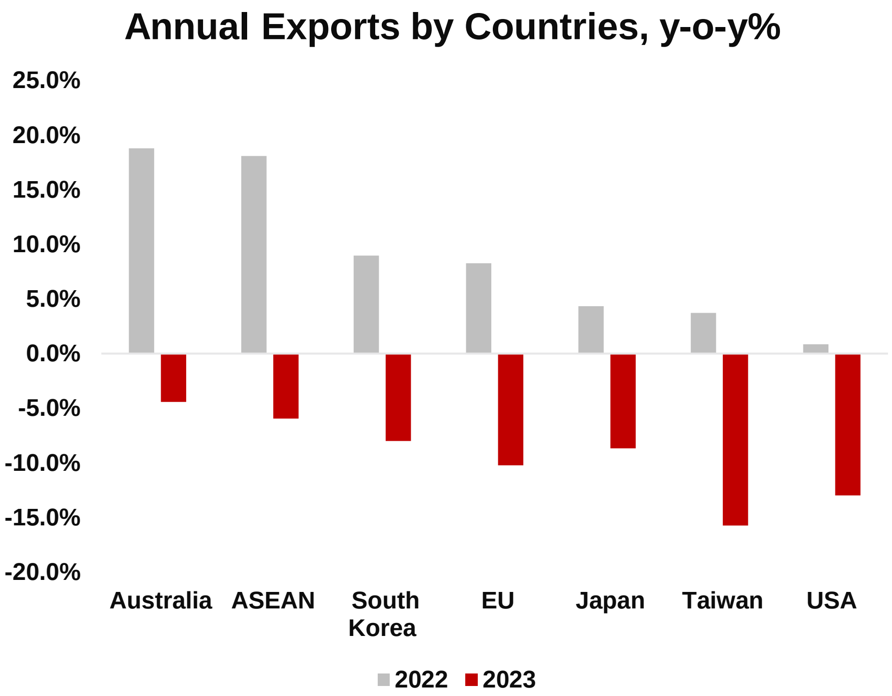

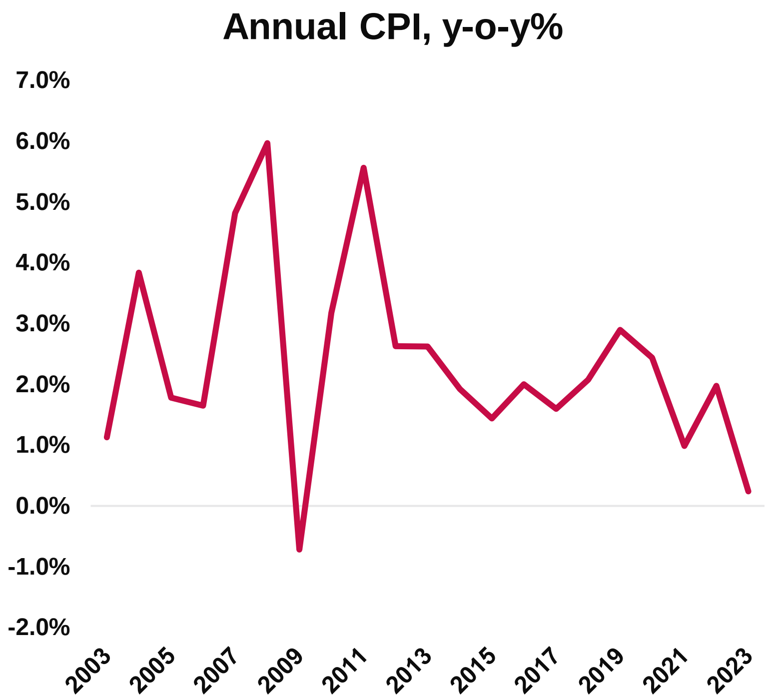

Sources: General Administration of Customs, International Monetary Fund (IMF)

- Export for the year fell by 4.6% y-o-y in 2023 – the first annual drop since a 7.7% decline in 2016 amid slowing global demand for Chinese-made goods (other than cars). Likewise, the import dropped by 5.5% last year, reversing a 0.7% growth recorded in 2022. The last decline was in 2020 when COVID-19 pandemic began.
- The country's trade with its major trading partners declined in 2023 with Taiwan, U.S., as well as E.U. went down by more than 10.0%.
- Additionally, the world's largest-second economy is struggling to stem deflationary pressures with the latest data (December: -0.3% vs. November: -0.5%) marking the longest streak of drop since October 2009. For the full year, the price increased moderately at 0.2% (2022: 2.0%).
- In other words, exports as a pillar for China's growth is insufficient to boost overall domestic demand, which calls for urgent support from the fiscal policy.

EUROZONE ENDED THE YEAR ON A WEAK NOTE AS THE ECONOMY FLATLINED IN THE FINAL QUARTER

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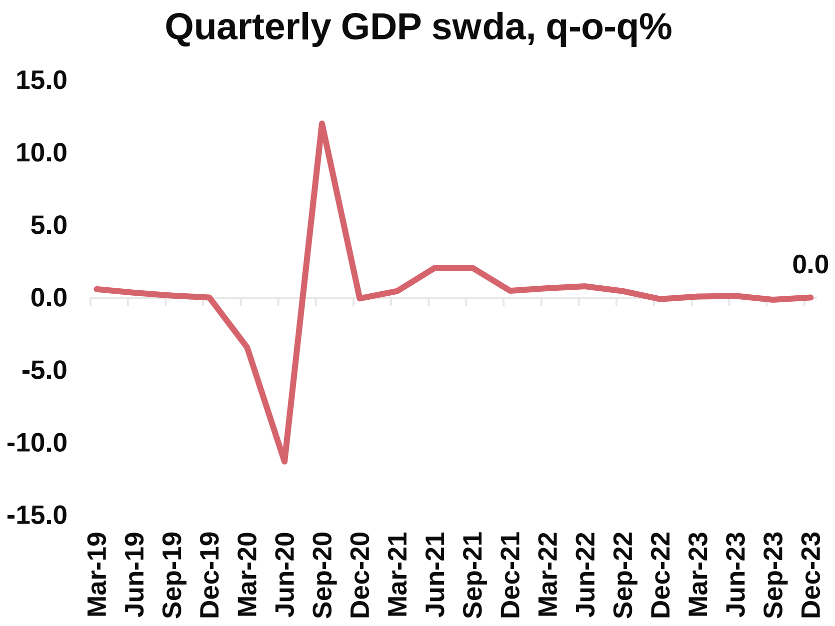

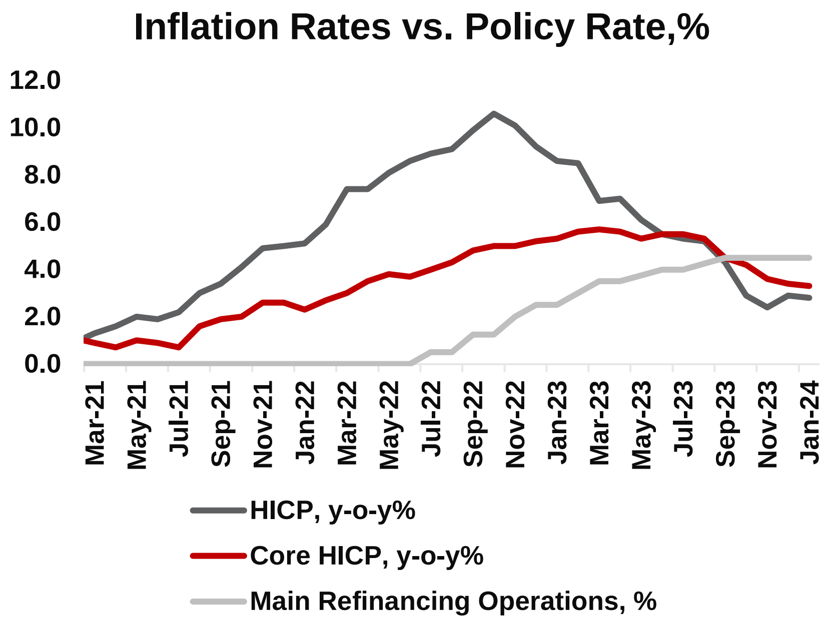

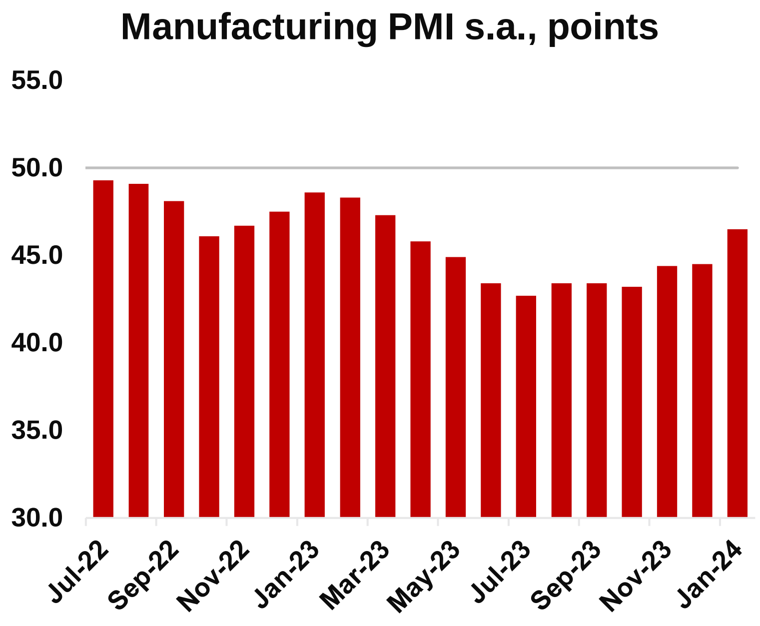

Sources: Eurostat, ECB, S&P Global

- Eurozone's economy stagnated in the last quarter of 2023 (3Q2023: -0.1%) as reported by Eurostat's early estimates, weighed on by the region's largest economy, Germany (4Q2023: -0.3% vs. 3Q2023: 0.0%).
- After a whopping 450 bps rate hikes since June 2022, the question that hangs in the air remains on when will the rate cuts begin? The consensus is that a rate cut could be considered in the latter half of the year whilst discrepancies on data coming from the bloc sheds little clue.
- On one hand, inflation had moderated to 2.8% in January 2024 (December 2023: 2.9%), pointing to the sufficiently restrictive nature of the policy environment. Similarly, disinflation was seen in core prices, reaching the lowest level in nearly two years at 3.3% (December 2023: 3.4%).
- However, economic activity had been struggling to gain momentum in the past year with latest PMI figures (January 2024: 46.5 points vs. December 2023: 44.5 points) showing that manufacturing activities remains in contraction, albeit picking up slightly towards the end of 2023.
- Nevertheless, the job market remains tight with unemployment rate trending at a record low of 6.4% for November-December. Additionally, wages has been on an uptrend in the first three quarters of 2023.
- ECB President Christine Lagarde reaffirmed that policymakers would monitor developments in wage growth and the heightened tension in the Red Sea, which presents upside risks to prices.

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SECTION 3

Domestic Landscape & Banking Sector Update

MALAYSIA'S ECONOMY TO END 2023 ON AN OPTIMISTIC NOTE – THINGS ARE LOOKING UP IN 2024

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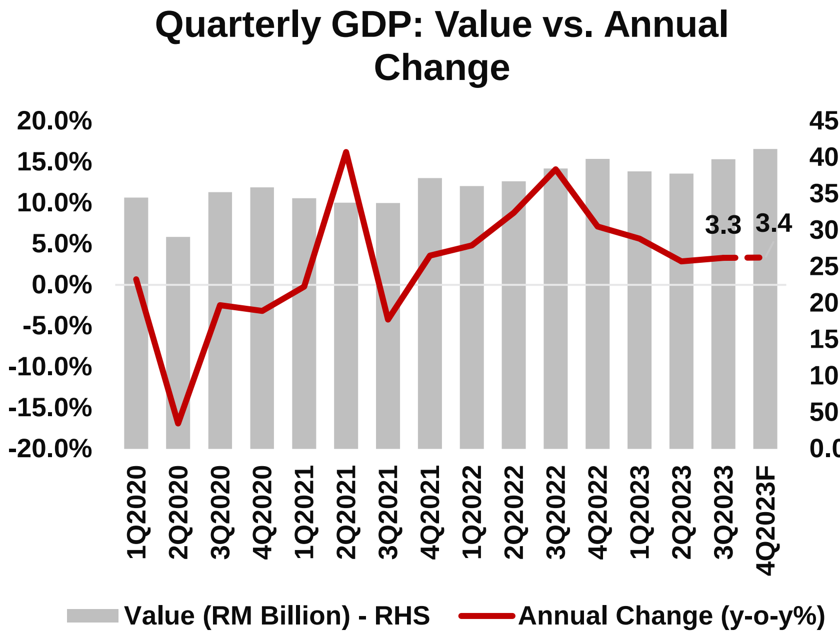
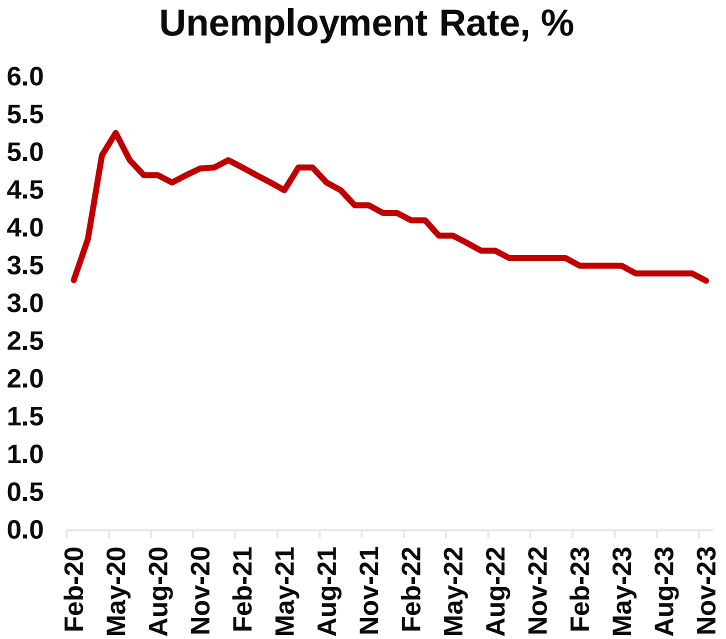
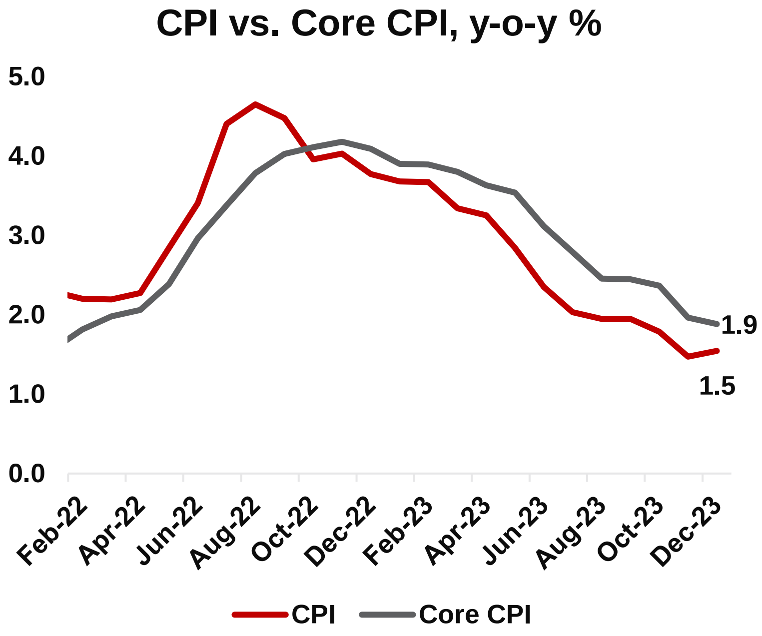


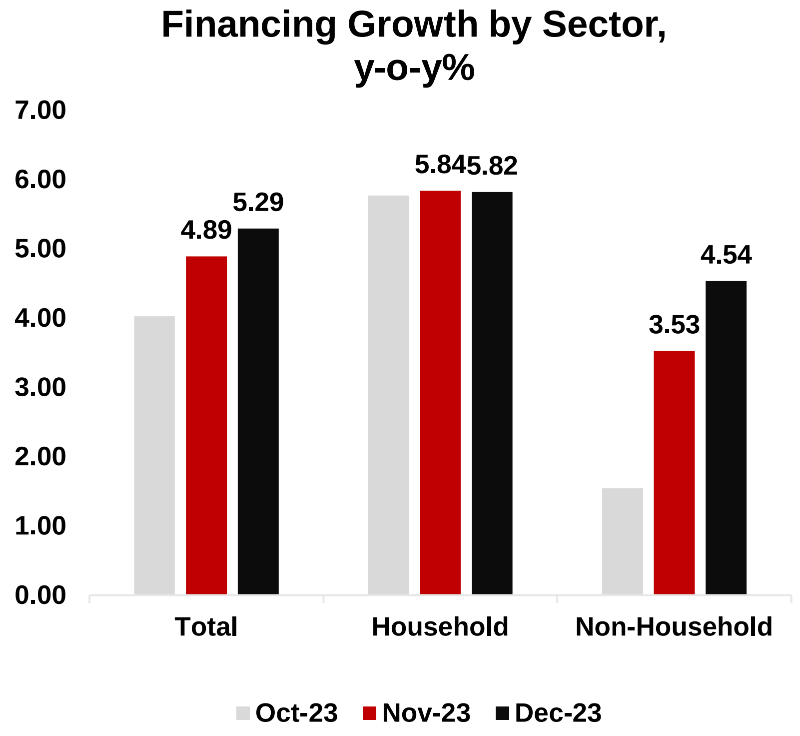


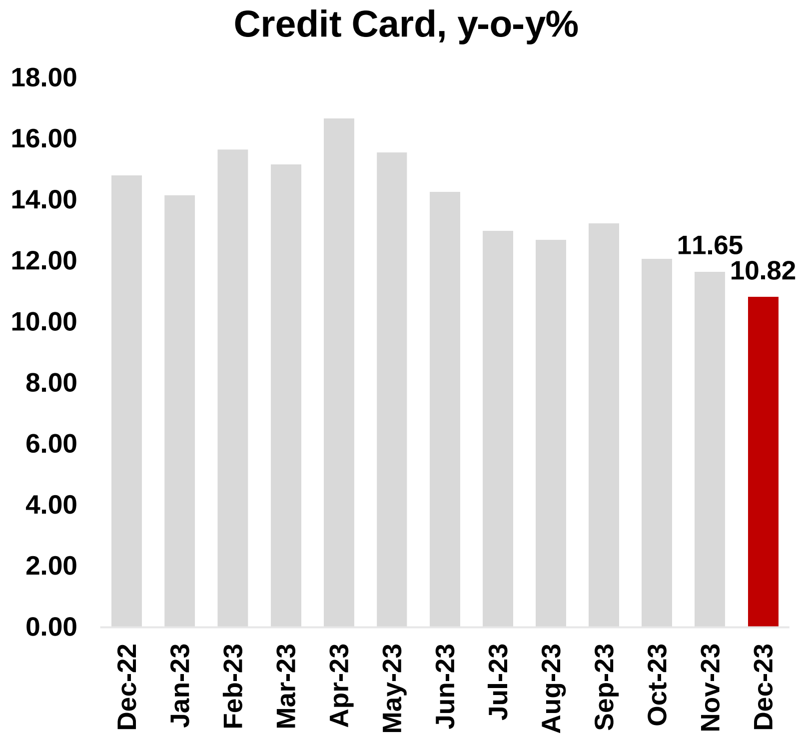


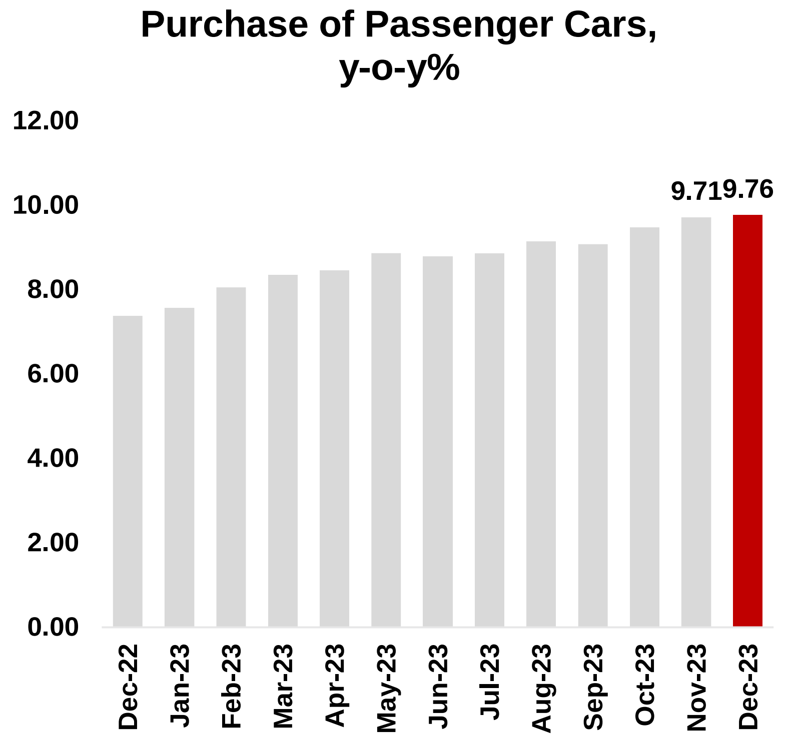
Sources: Department of Statistics Malaysia (DOSM), BNM, Malaysian Automotive Association (MAA)

- Official advance estimates showed Malaysia's GDP grew by 3.4% in 4Q2023, a tad higher than 3.3% in 3Q2023, propelled by the services sector. Meanwhile, the full year growth is forecasted to come in at 3.8% in 2023 (2022: 8.7%).
- Domestically, rising wage growth and improving labour market conditions had supported private consumption, with the unemployment rate falling to pre-pandemic levels (December: 3.3% vs. November: 3.4%) after more than three years plaguing the nation.
- Furthermore, support is lent from the recovery of the tourism sector as the number of international tourist arrivals surpassed 26.0 million by mid-November, bypassing official target and returning to its pre-pandemic trend.
- Of note, the automotive industry was also in for a flourishing year as it closed 2023 with a historic high of more than 799K units Total Industry Volume (TIV), as reported by the MAA.
- Headline inflation settled at 1.5% in December amid continuous disinflation in both Food and Non-Alcoholic Beverages (FNAB) and Restaurants and Hotels (RH), while core CPI dropped below 2.0% from November to 1.9% in December.
- This brought FY2023 inflation to moderate at 2.5% (2022: 3.3%), in line with the in-house forecast.

BANKING SECTOR: HIGHER FINANCING ACTIVITIES GROWTH IN DECEMBER, FUELED BY THE NON-HOUSEHOLD SECTORS







Source: BNM

- Financing activities expanded by 5.29% in December from 4.89% recorded in November. The non-household segment's financing growth significantly accelerated to 4.54% in December (November: 3.53%). However, the household sector grew at a slower pace of 5.82% in December from 5.84% in November.
- The credit growth in the purchase of passenger cars segment ticked marginally higher to 9.76% in December (November: 9.71%). On the contrary, the financing growth within credit card segment expanded at a smaller momentum to 10.82% in December compared to 11.65% in November. In addition, the financing activities in the purchase of residential property segment decelerated to 7.29% in December (November: 7.33%).

BANKING SECTOR: STABLE ASSET QUALITY IN DECEMBER

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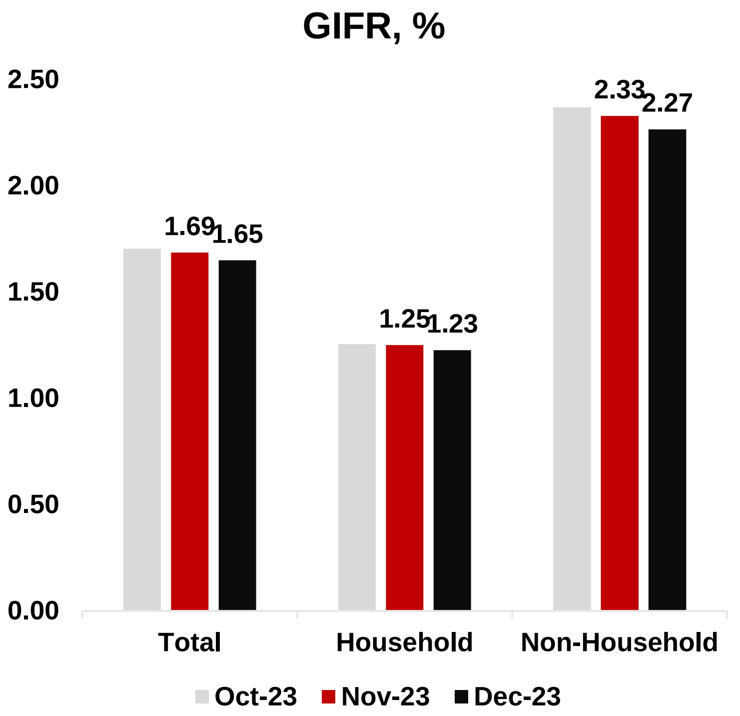

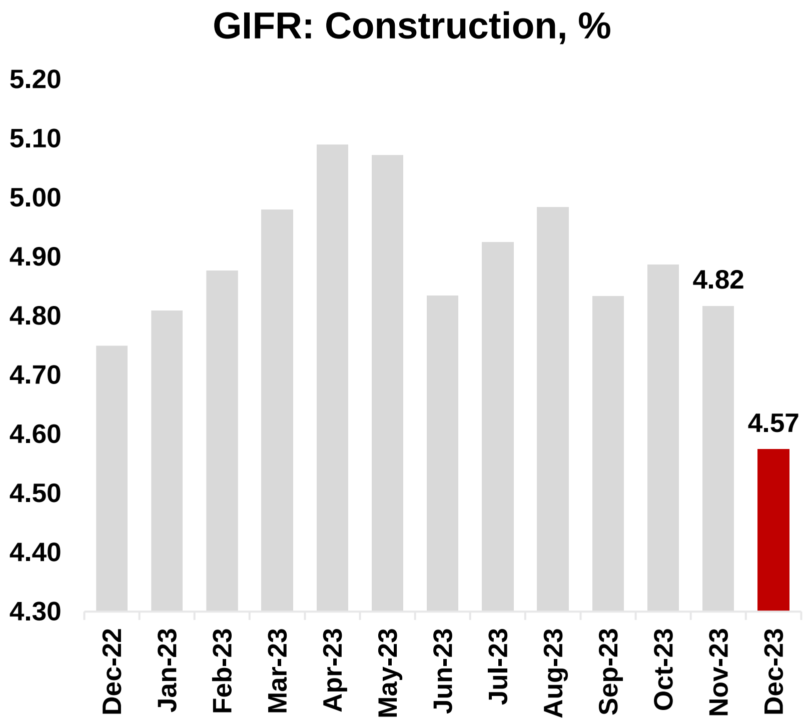

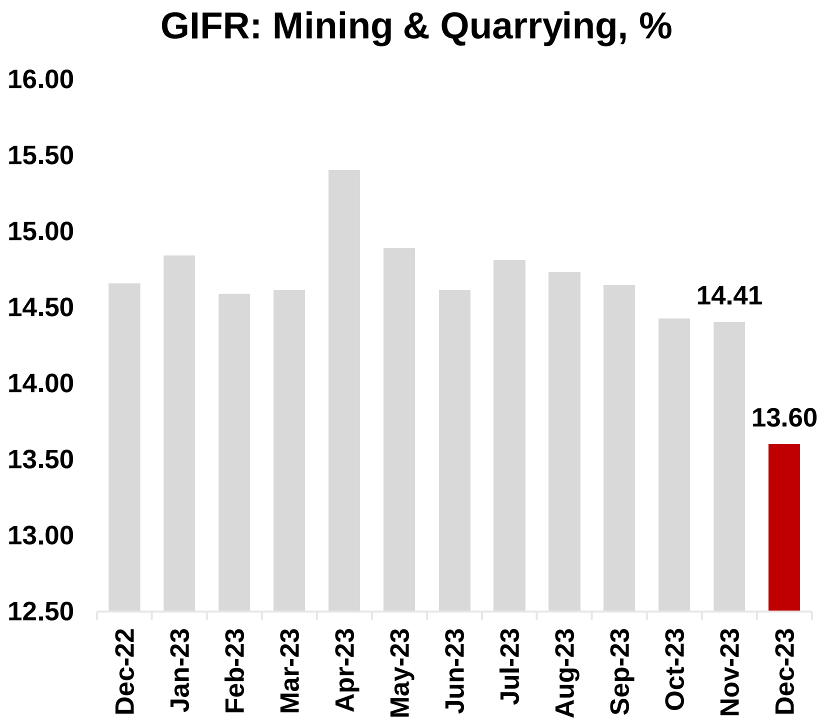

Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector remained stable at 1.65% in December (November: 1.69%). The GIFR in the household segment inched lower to 1.23% in December (November: 1.25%). Additionally, the impairment within the non-household sector edged lower to 2.27% in December (November: 2.33%).
- The impairment within the construction segment slid to 4.57% in December from 4.82% in November. The asset quality in the Mining and Quarrying industry fared better to 13.60% in December (November: 14.41%).

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THANK YOU