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MONTHLY ECONOMIC UPDATE

2 JUNE 2023

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Global economy hinges on U.S. debt ceiling outcome.** Dominating sentiments across the globe for this past month, U.S. debt ceiling talks finally sailed the U.S. House of Representatives by an overwhelming vote of 314-117. Just hours ago, the U.S. Senate gave the bill a thumbs-up by a 63-36 vote margin. A higher U.S. debt ceiling is inevitable and widely expected, as it did in the past. The world's biggest economy now stands with the US$31.4 trillion debt ceiling, everting a full-blown global economic crisis.

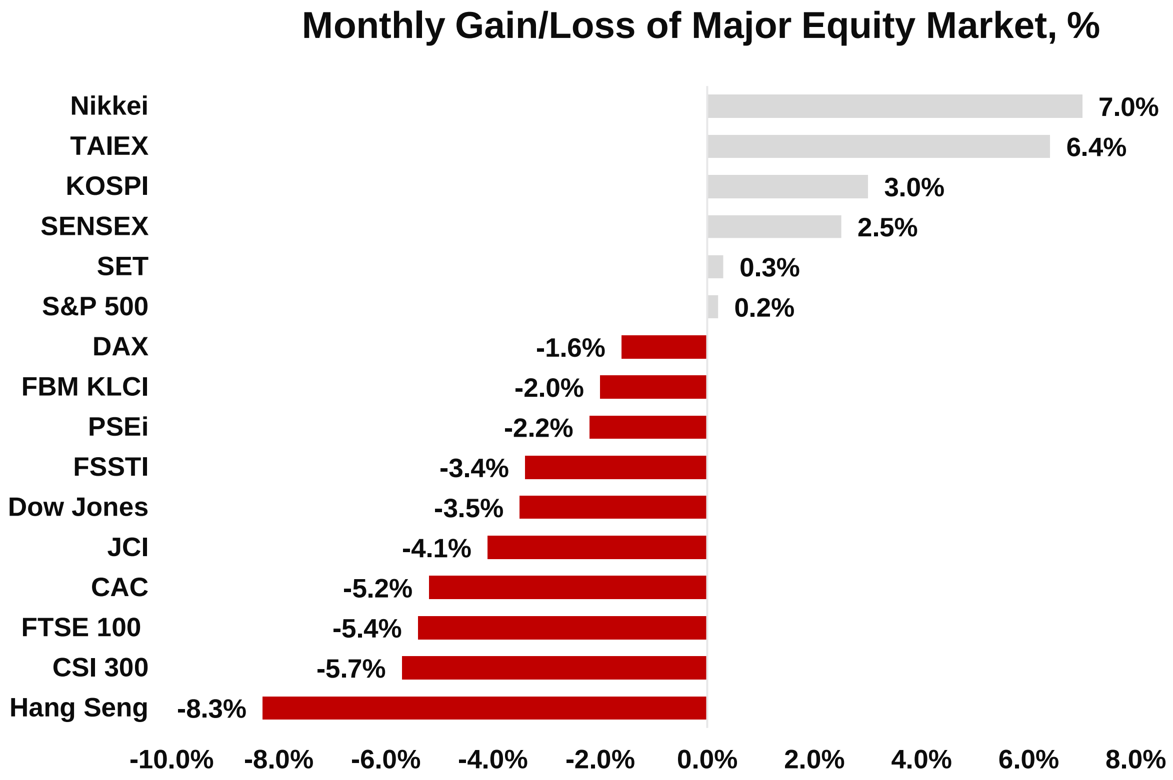
- **Mixed views on policy approach amid moderating U.S. inflation.** U.S. inflation data came in slower in April, with Personal Consumption Expenditure (PCE) rose by 4.4% while core PCE climbed by 4.7%. Despite the Fed's raising the Federal Fund Rate (FFR) for 10 straight months since March last year, consumer spending remained robust and buoyed the country's economic growth (1Q2023: 1.3%). However, this brings uncertainties to cloud the rate path as Fed officials are still divided on their decision. The International Monetary Fund (IMF) recommended higher rates to curb the sticky inflation. As of today, the CME Fedwatch is projecting a 72.6% probability of a pause in the upcoming meeting.

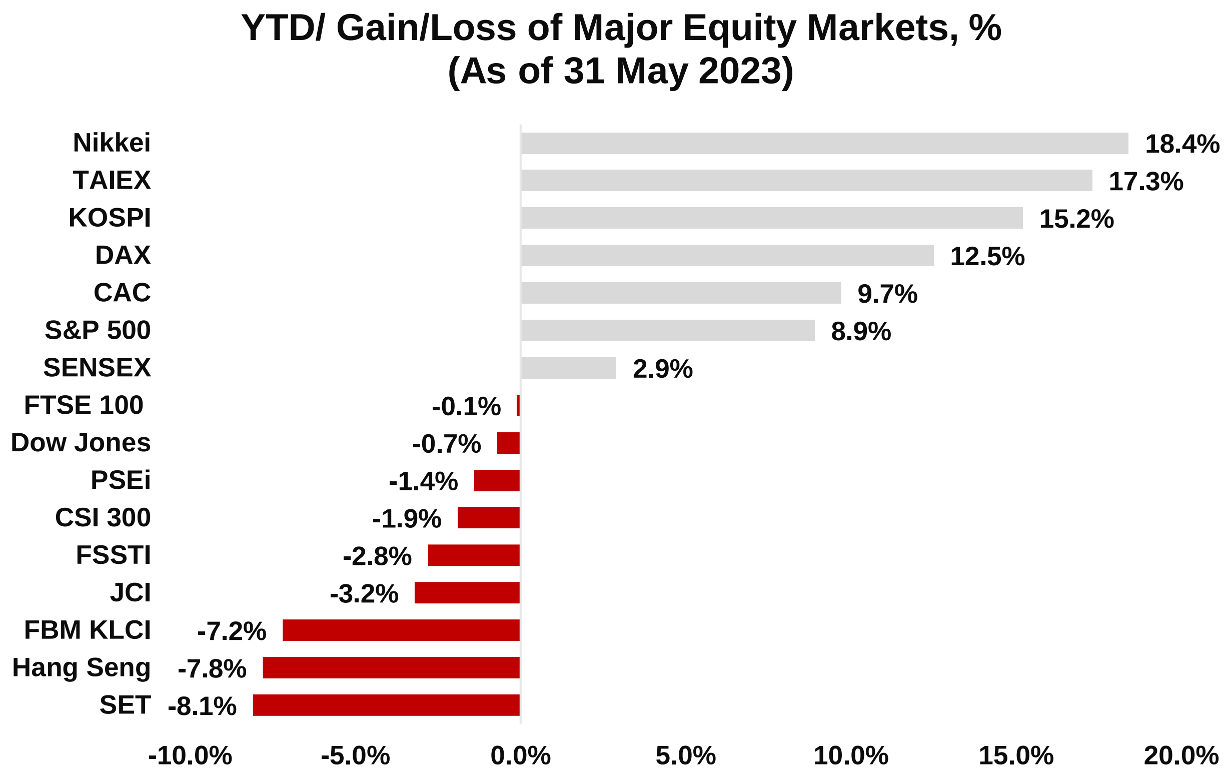
- **Strong 1Q2023 growth signals underlying strength in our economy.** The Malaysian economy grew by 5.6%, as announced by Bank Negara Malaysia (BNM) on 12 May 2023, which fell in line with our projection. Such performance was driven by expansion in private consumption spending, backed by improving growth in employment, investment activity and recovery in tourism. BNM reiterated their stance of 4.0-5.0% full-year growth with no recession looming over the horizon for the economy. However, external downside risks stemming from slower growth and volatile financial markets remain. We are maintaining our full-year GDP growth estimation in 2023 at 4.5%.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: SEA OF RED DOMINATED THE MARKET AMID JITTERS OVER THE U.S. DEBT CEILING BILL AND SLOW ECONOMIC RECOVERY IN CHINA





Sources: Bursa, CEIC

- The regional markets ended mixed, with Japan's Nikkei leading the gainers by 7.0% m-o-m and followed closely by Taiwan's TAIEX (6.4%).
- Meanwhile, Hong Kong's Hang Seng and China's CSI 300 sank into the red sea at -8.3% and -5.7%, respectively.
- Investors' sentiment in May was dampened by the uncertainties over U.S. debt ceiling resolutions and the drop in China's Purchasing Manager's Index (PMI) to 48.8 in May (April: 49.2), which denoted slower-than-expected economic recovery in China.
- YTD, Japan's Nikkei led the gainers by 18.4% on the weakening yen, which lifted export-related issues.

DOMESTIC EQUITY: LOCAL MARKET ENDS UP IN RED FOLLOWING DETERIORATING SENTIMENTS

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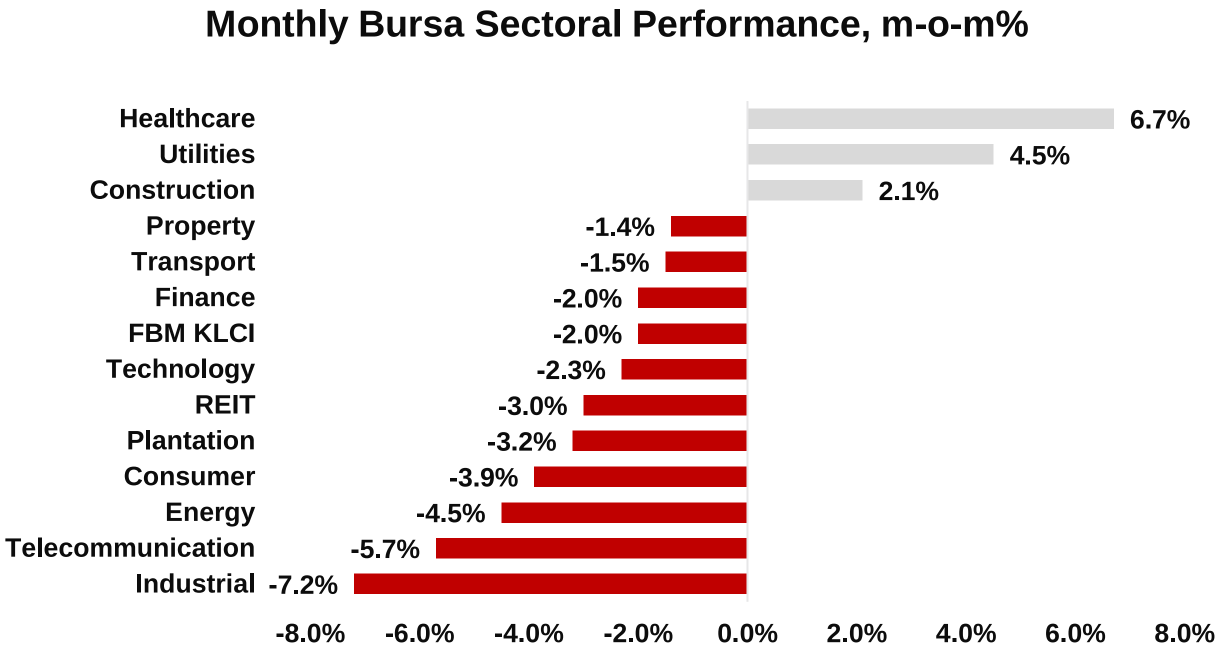

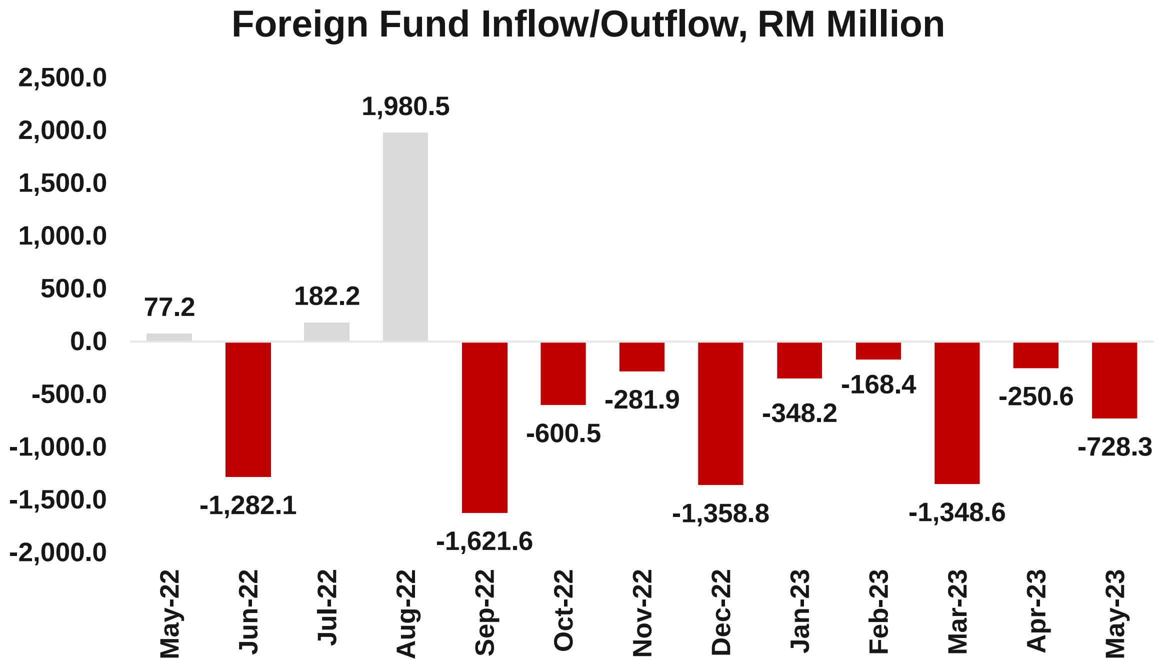

Sources: Bursa, BNM

- In a sharp turn from April's encouraging local market movement, most Bursa sectoral indices were in the red during May, with Industrial (-7.2%), Telecommunications (-5.7%) and Energy (-4.5%) as the biggest decliners.
- The negative market movement was dragged down by uncertainties following the U.S. debt ceiling talks and already wary sentiments amid the slowing global economy. The lack of growth catalysts from the domestic perspective is not helping.
- On the other hand, Healthcare (6.7%), Utilities (4.5%) and Construction (2.1%) were the gainers during the month.
- Meanwhile, foreign investors' selling spree continued in May, with the total net outflows increasing to RM 728.30 million, recording the ninth straight month of net foreign outflows.
- We anticipate FBM KLCI will be cautiously traded amid wary sentiments surrounding the U.S. debt ceiling bill.

FIXED INCOME: US TREASURY BONDS WERE UNDER HEAVY SELLING PRESSURE IN MAY

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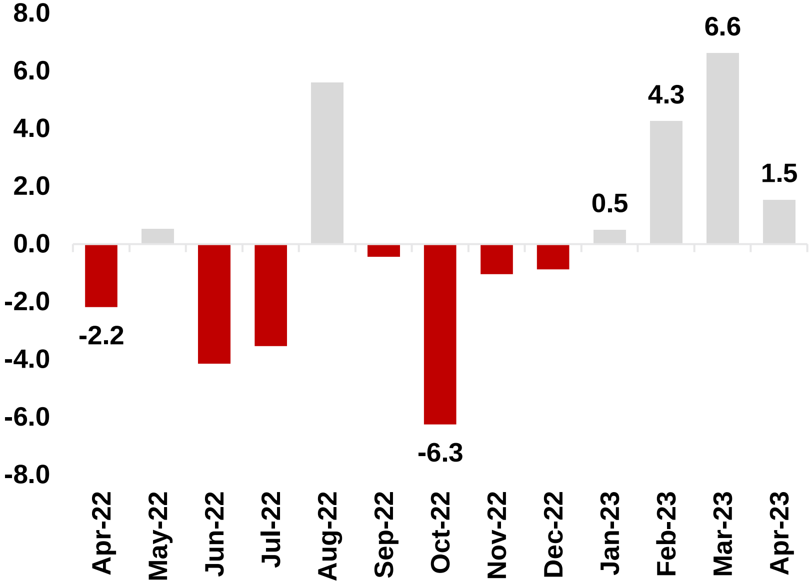
Monthly changes, basis points (bps)

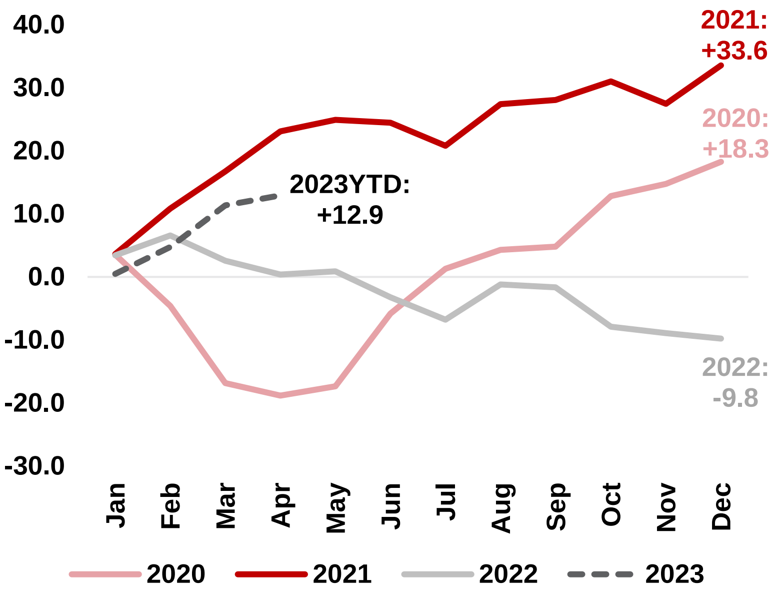
UST	Yields (%) 28-Apr-23	Yields (%) 31-May-23	Change (bps)
3-Y UST	3.75	4.04	29
5-Y UST	3.51	3.74	23
7-Y UST	3.49	3.69	20
10-Y UST	3.44	3.64	20
MGS	**Yields (%) 28-Apr-23**	**Yields (%) 31-May-23**	**Change (bps)**
3-Y MGS	3.32	3.40	7
5-Y MGS	3.45	3.46	1
7-Y MGS	3.65	3.62	-3
10-Y MGS	3.74	3.71	-3
GII	**Yields (%) 28-Apr-23**	**Yields (%) 31-May-23**	**Change (bps)**
3-Y GII	3.25	3.35	10
5-Y GII	3.51	3.52	2
7-Y GII	3.74	3.69	-5
10-Y GII	3.85	3.81	-4

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM billion

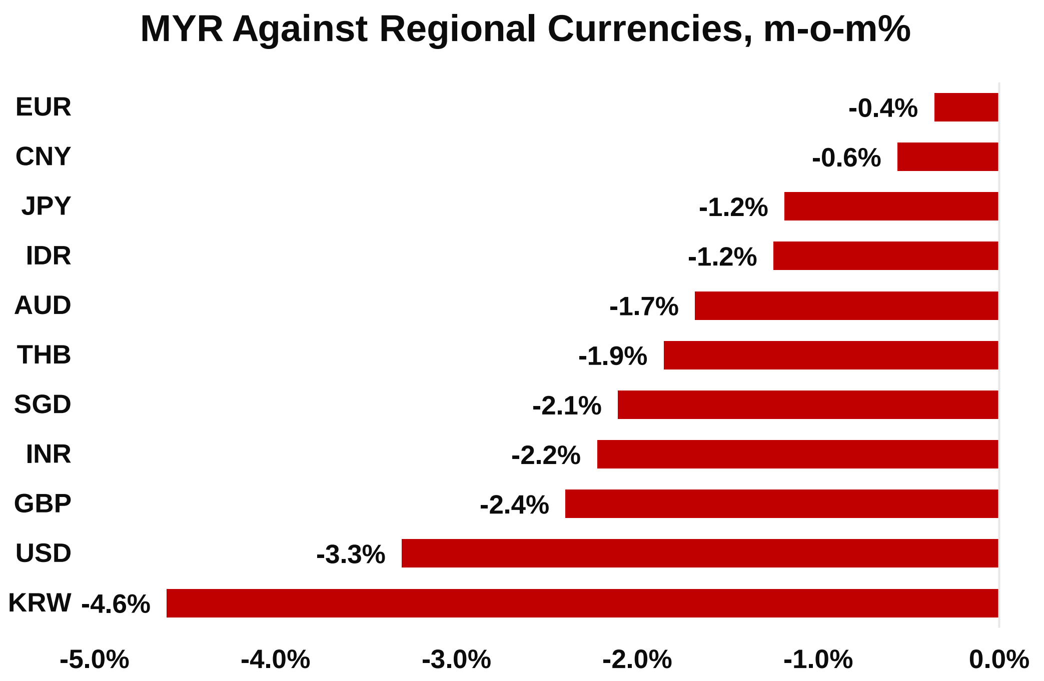


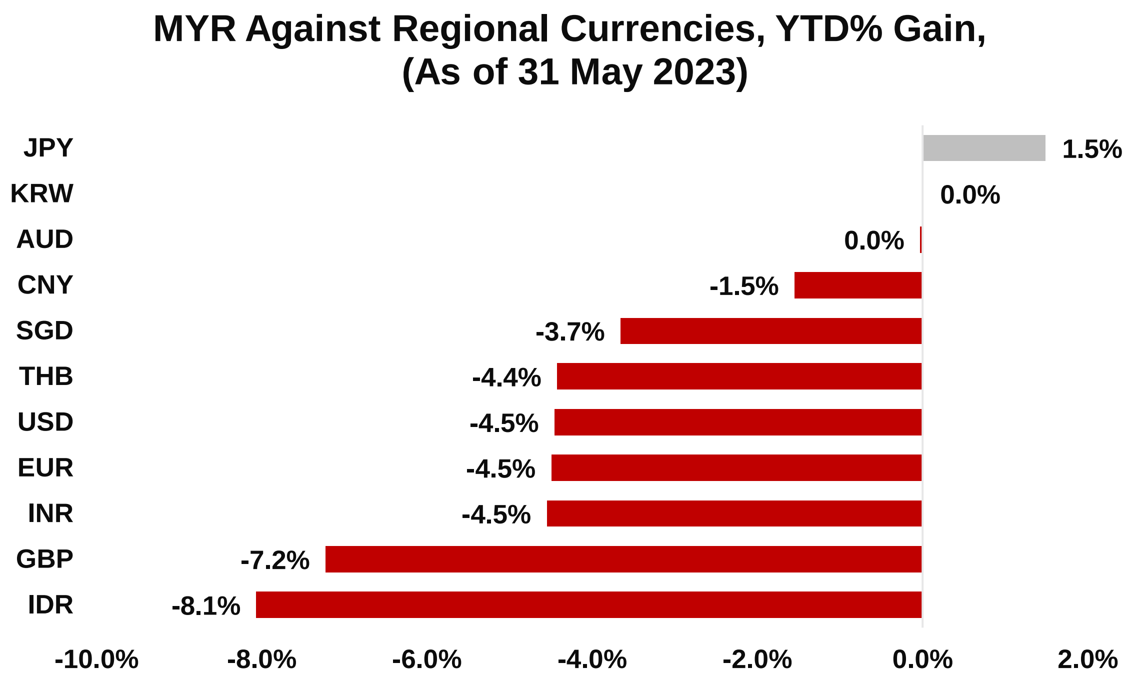
Cumulative Net Foreign Flows in Local Bonds (Yearly comparison, RM billion)



- The U.S. Treasury (UST) yields soared in May in the range of 20bps to 29bps amid uncertainties surrounding the U.S. debt ceiling deal that picked investors' nerves. The 10y MGS/UST yield spread has narrowed significantly over time.
- Local govvies, Malaysian Government Securities (MGS) and Government Investment Issues (GII) ended on a mixed note in May. The 3-Y and 5-Y of MGS and GII yields were under selling pressure. Meanwhile, the 7-Y and 10-Y local govvies garnered buying interest.
- Foreign investors remained the net buyers of local bonds for four consecutive months, with April logging an inflow of RM1.5 billion, albeit lower than the prior month's inflows of RM6.6 billion.
- YTD, the local bond market received foreign inflows of RM12.9 billion, significantly higher than RM0.4 billion recorded in the first four months of last year.

FX MARKET: RINGGIT REMAINED WEAK DURING MAY





Source: Investing.com

- On a monthly basis, the Ringgit ended lower against the USD again, mostly attributable to external developments such as the U.S. debt ceiling impasse, dampening the market sentiment. The local note, which surpassed the 4.60 level within weeks, was last seen traded around September last year due to the strong USD demand as the U.S. Fed embarked on a tight monetary policy, resulting in a widening interest rate differential between the FFR and OPR. This scenario and the narrowing 10y MGS/UST yield gap pressure the ringgit.
- While the Fed officials seemed less confident about the need for further rate hikes based on the latest FOMC minutes from the May meeting, the flow of strong economic data might compel the central bank to pursue another 25bps increase later this month, hence keeping the elevated pressure on the local note.
- On the local front, the demand for Ringgit was less in favour, perhaps due to the conclusion of policy normalization in May. Despite that, we do not rule out the possibility for the central bank to hike in 2H2023, depending on the unemployment trend, as well as any significant fiscal resolution made by the government.

SECTION 2

The Global Economy

THE U.S. ECONOMY POWERS THROUGH HIGH-RATE HIKES, BANKING FAILURES AND DEBT-CEILING DRAMA

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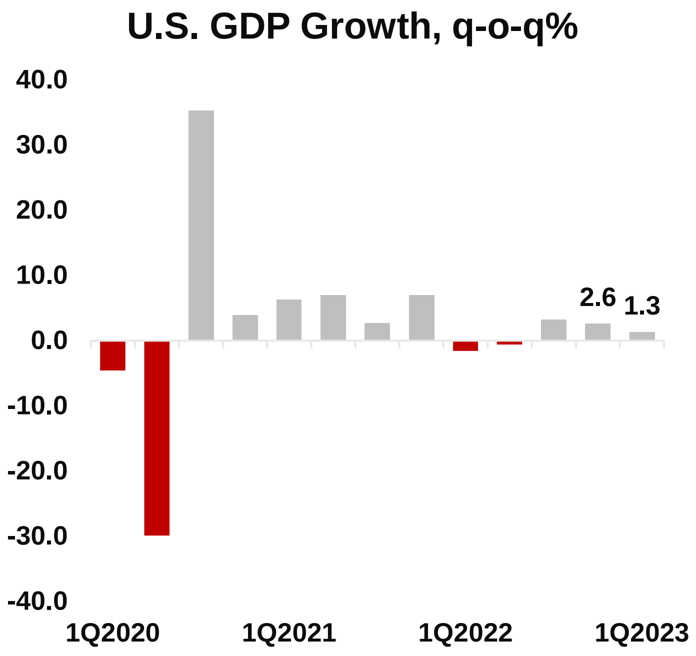

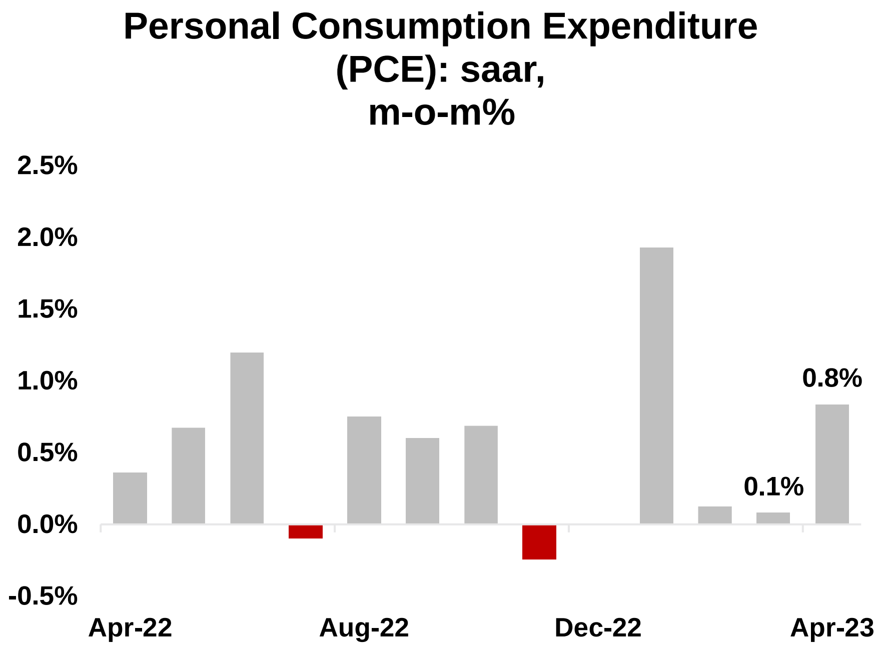

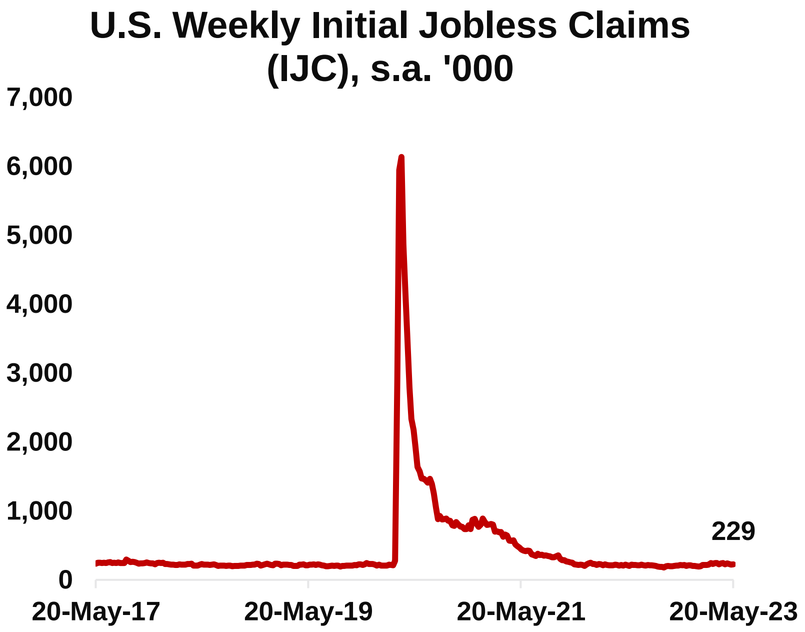

Sources: Bureau of Economic Analysis (BEA), U.S. Department of Labor

- Interestingly, despite gloomy predictions, the economy has not collapsed since the pandemic outbreak, suggesting no recession in sight yet. The sheer resilience of the US economy in sailing through growth headwinds thus far is remarkable.
- Economic indicators showed that the economy continued to power on, with GDP expanded by 1.3% during the 1Q2023, exceeding the initial estimate of 1.1% advanced, buoyed by better-than-expected consumer spending.
- Consumer spending, which drives most of the U.S. economy, remains robust, jumped by 0.8% m-o-m, supported by higher wages and the still-tight labour market situation with the jobless claims less than expected (Act: 229k vs Est: 245k). This is despite the Fed’s 500bps worth of rate hikes since March last year to tame the soaring price pressures.
- Such a situation has boosted the US’ growth prospects for the second quarter, projected to accelerate to 2.0%.

THE IMF EXPECTED THAT THE U.K. ECONOMY TO AVOID RECESSION

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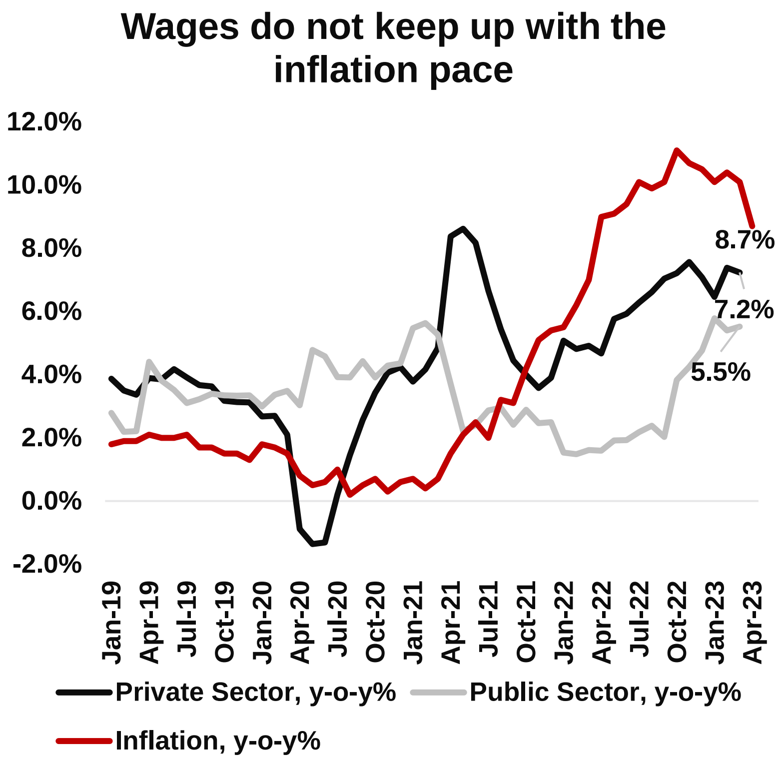

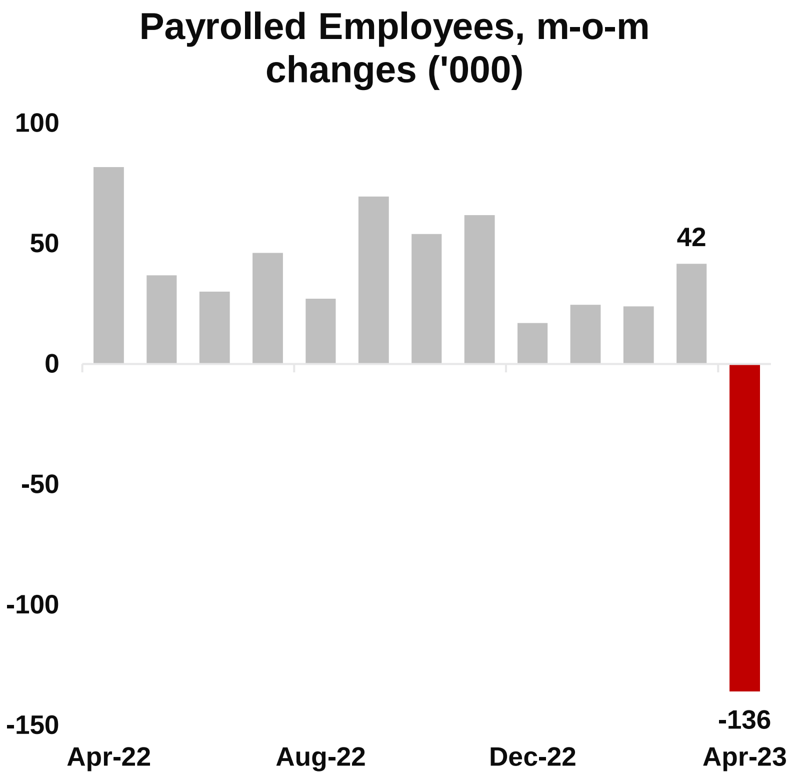

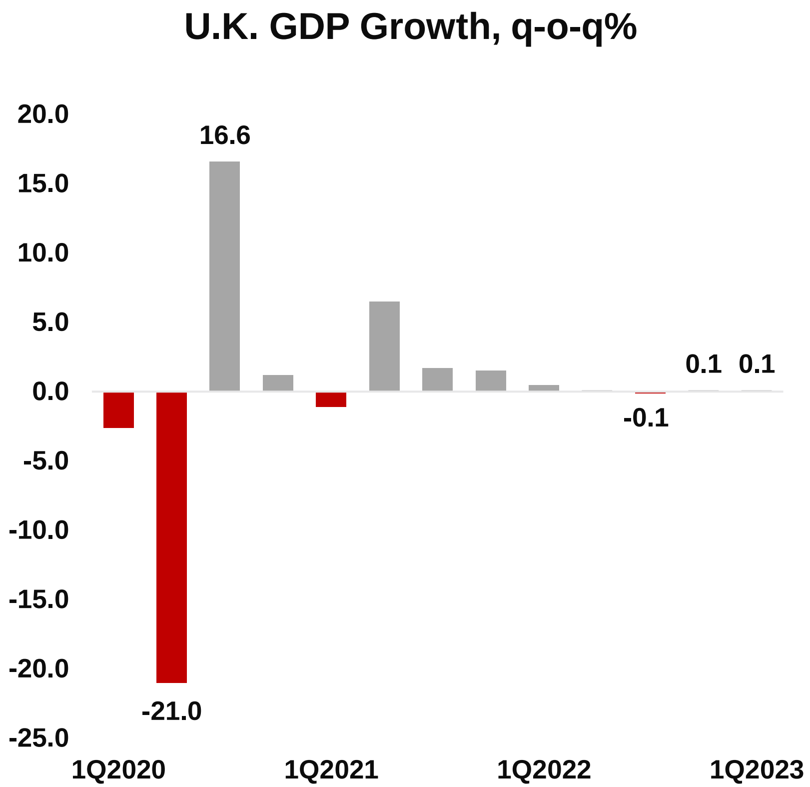

Source: Office for National Statistics (ONS)

- Though the economy has defied the anticipation of recession, the inflation remains stubbornly high, prompting the central bank to raise the base lending rate for the twelfth straight time to 4.50% in its May meeting. Meanwhile, wage growth remains elevated, driven by higher acute labour shortages, which has given workers unprecedented bargaining power. Yet, it fails to keep up with the rising prices. Higher-for-longer rates, it seems.
- The labour market showed some signs of cooling when the number of U.K. payrolled employees dropped for the first time since February 2021, reflecting that the flatlining economy started to take a toll on the country's labour market.
- Meanwhile, the U.K. delivered a small gain during 1Q2023, suggesting that soaring prices and interest rates have eroded consumer spending.

ON THE FLIP SIDE, THE EUROPE'S LARGEST ECONOMY – GERMANY, SLIPPED INTO RECESSION AS INFLATION AND HIGHER INTEREST RATES CURBED THE DEMAND

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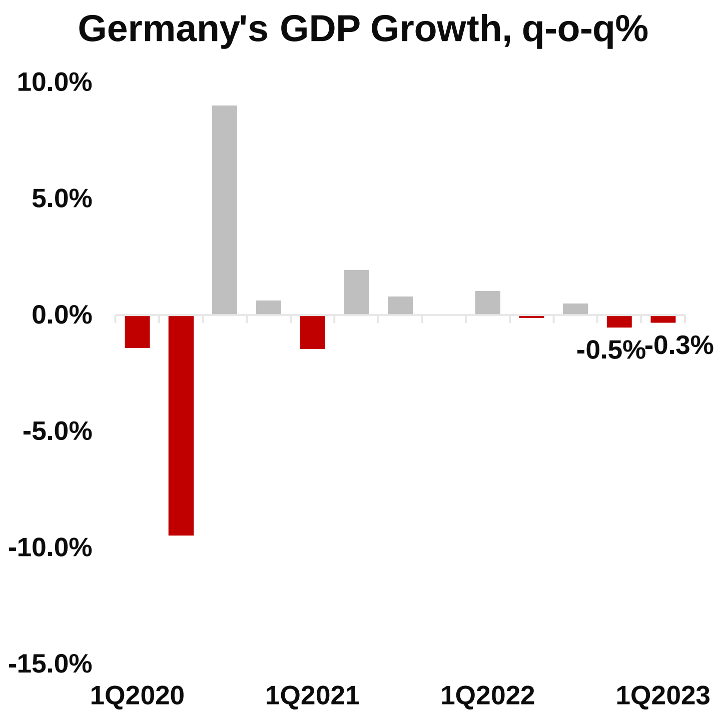

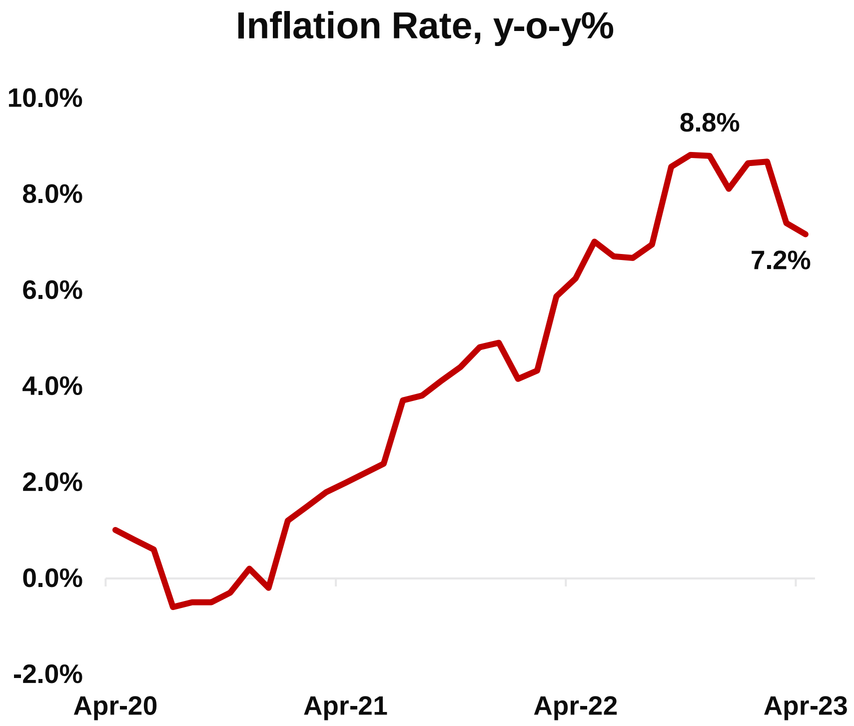

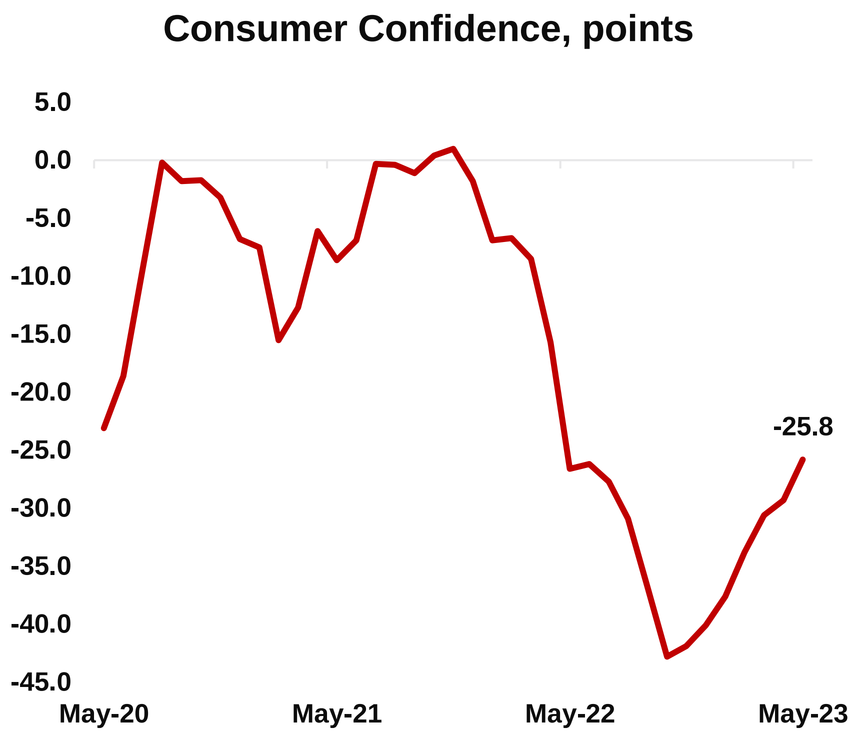

Source: CEIC

- Technically, the country has entered recession as the latest data showed the economy shrank by 0.3% in 1Q2023, following a contraction of 0.5% in the previous quarter as persistently high price pressures and a surge in the borrowing costs pushed the economy to the brink. However, its unemployment rate on a seasonally adjusted basis remained one of the lowest in EU-27 at 2.9% in April 2023.
- German consumer confidence is dwindling after a month-long rebound, as high inflation and an uncertain economic outlook loom. The small improvement in the sentiment is driven by higher income that could partially offset the price increases. Nevertheless, such optimism is clouded by the ongoing high cost of living, which affects consumer spending.
- Based on the recent data, the inflation rate remains elevated. However, it has slowed recently, sinking to the lowest since August 2022.
- For 2023, the country is anticipated to grow by 0.4% from a previously predicted 0.2% made during late January.

SINGAPORE DOLLAR RECORDED AN ALL-TIME HIGH AGAINST THE MALAYSIAN RINGGIT AMID ITS SUCCESSIVE POLICY TIGHTENING AND CAPITAL INFLOWS

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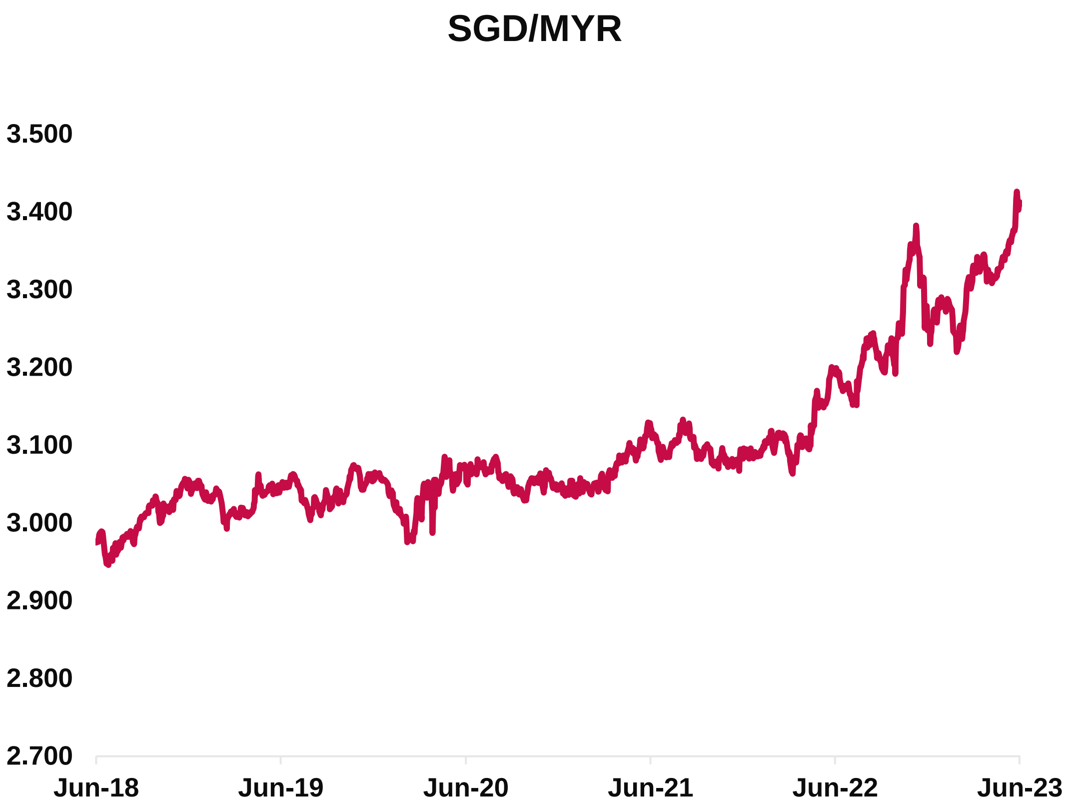

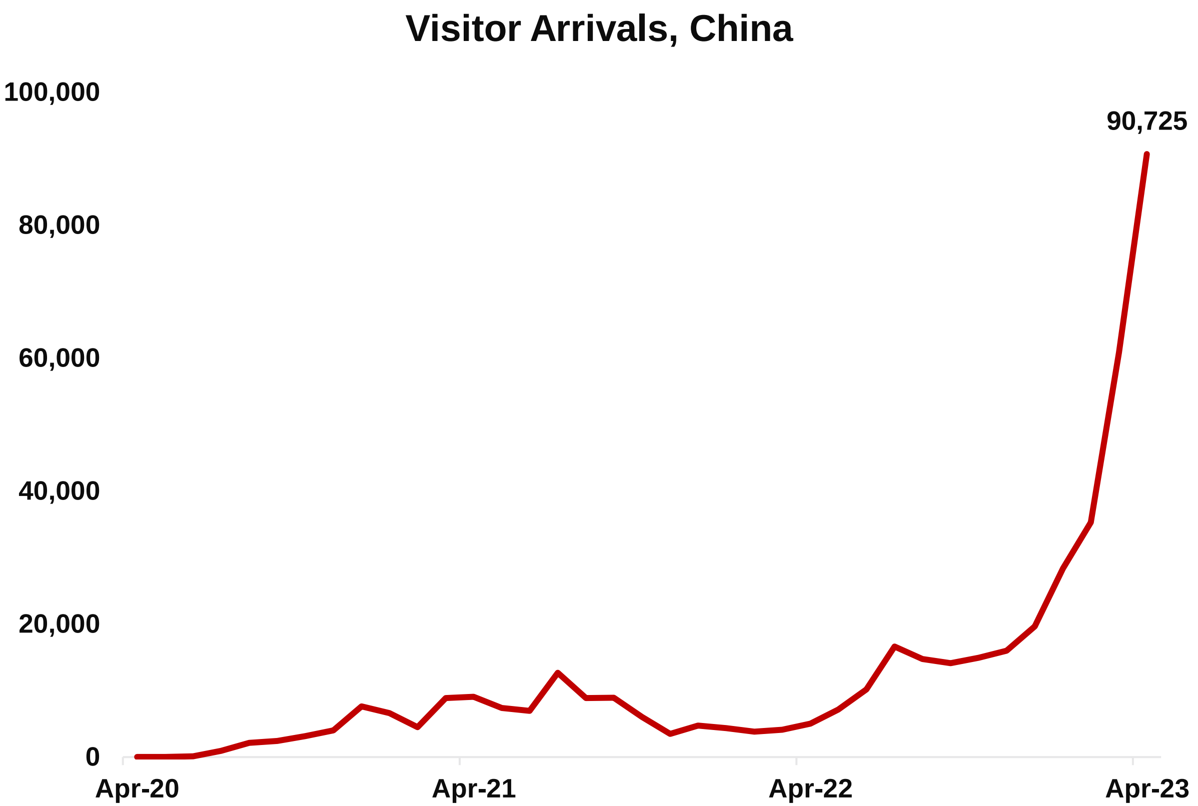

Sources: Bank Negara Malaysia (BNM), Singapore Tourism Board

- The Singaporean Dollar (SGD) surged to the strongest level against the Ringgit when it hit 3.416 on 25 May, possibly bolstered by the five straight times of policy tightening since October 2021 before the Monetary Authority of Singapore (MAS) decided to pause in April meeting.
- SGD benefits from the influx of Chinese tourist arrivals following the lifting of strict COVID restrictions, which saw a significant jump in April by 90,725 people from 60,888 who arrived in the previous month. For the record, the country welcomed 1.13 million tourist arrivals in April, marking the second consecutive month of more than a million, exceeding the March figure of 1.02 million.

SECTION 3

Domestic Landscape & Banking Sector Update

BLEAK OUTLOOK ON TRADE FRONT AS GLOBAL ECONOMY LOSES MOMENTUM

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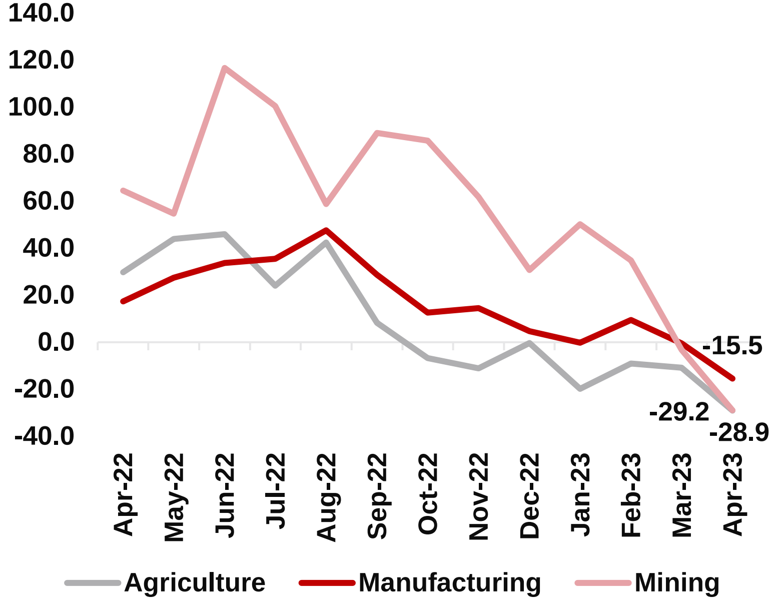
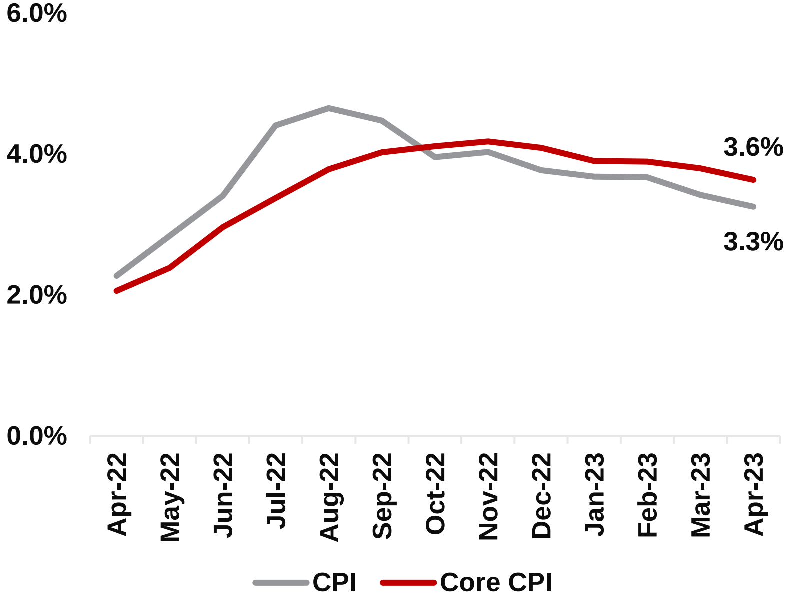
Exports by Category, y-o-y%



Quarterly Confidence Indicator, %

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



Sources: DOSM, CEIC

- Malaysia's trade performance is under pressure as exports plunged in April by 17.4% y-o-y (March: -1.4%), dragged by heavyweights in each export of manufactured goods (April: -15.5% vs March: -0.5%), agriculture goods (April: -29.2% vs March: -10.9%) and mining goods (April: -28.9% vs March: -3.2%).
- Such performance was underpinned by easing global demand, with slowing outbound shipments to China, the U.S., and the EU recorded.
- Consistent with external challenges faced by our country, business sentiments for 2Q2023 turned pessimistic, with the confidence indicator turning negative at -3.1% (1Q2023: 3.6%).
- Headline inflation, projected to moderate between 2.8%-3.8% for 2023, has been decelerating steadily to 3.3% in April (March: 3.4%) following softer food and services prices. However, risks remain on the upside, given the government's fluid policy outlook.

BANKING SECTOR: REDUCED FINANCING GROWTH IN HOUSEHOLD AND NON-HOUSEHOLD SECTORS

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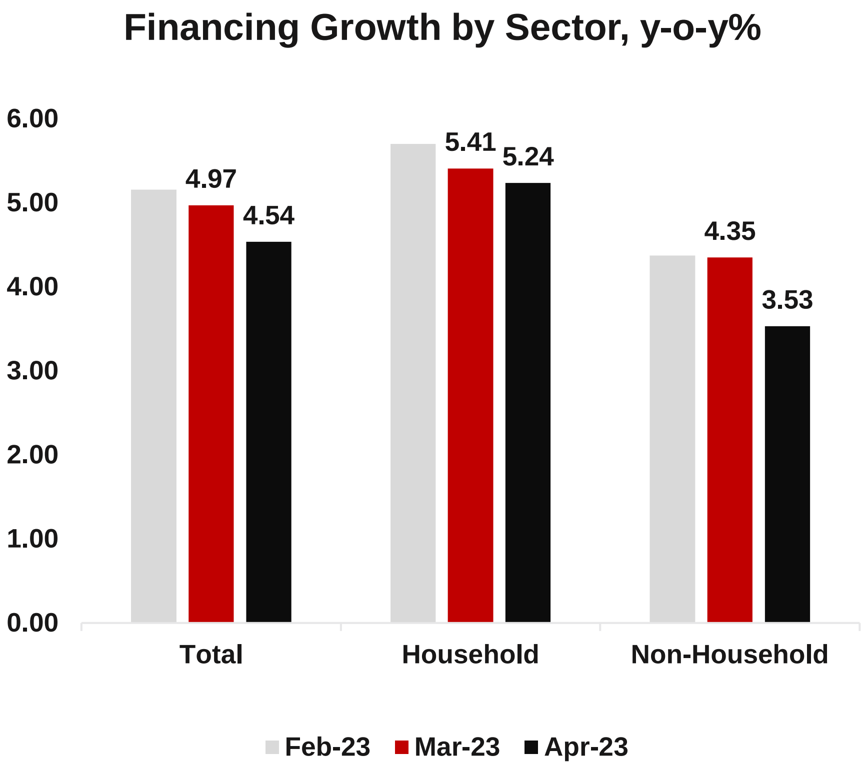
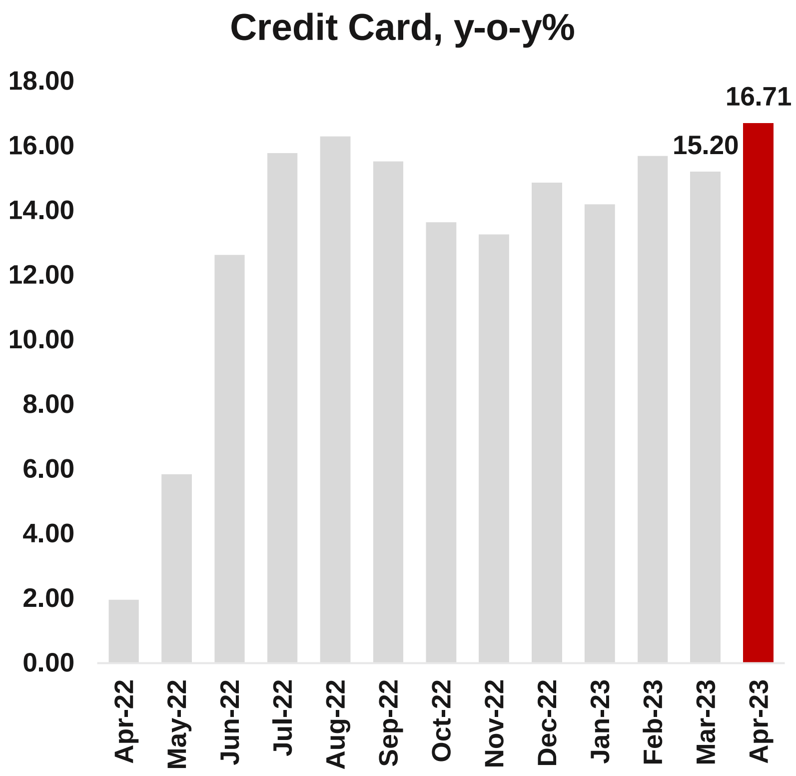
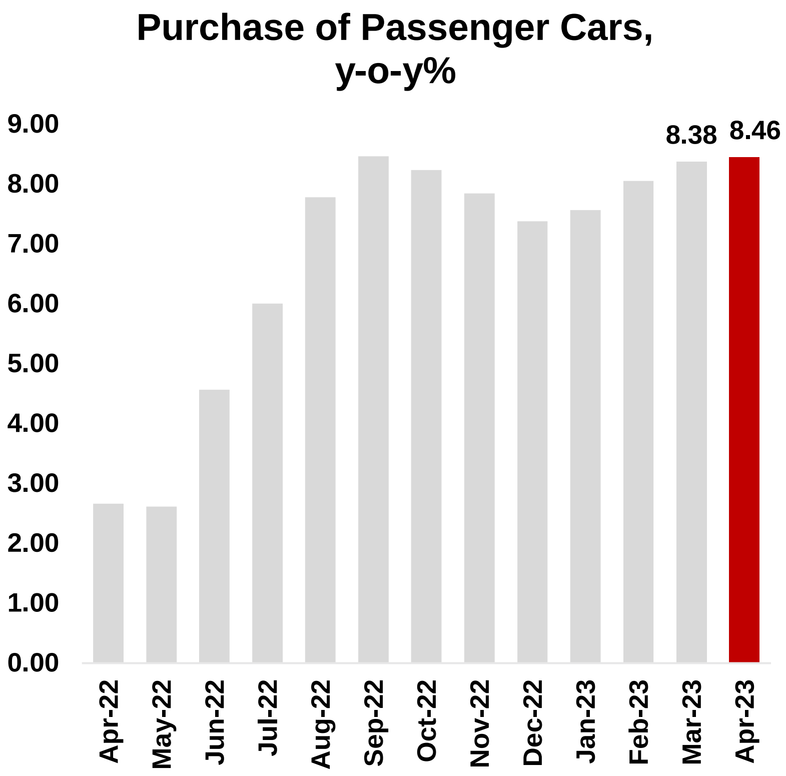


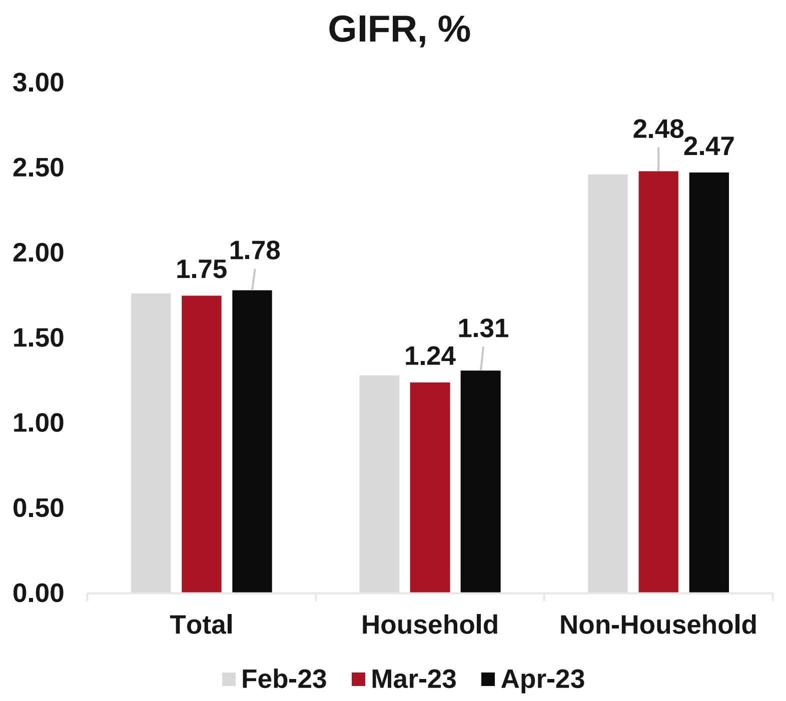


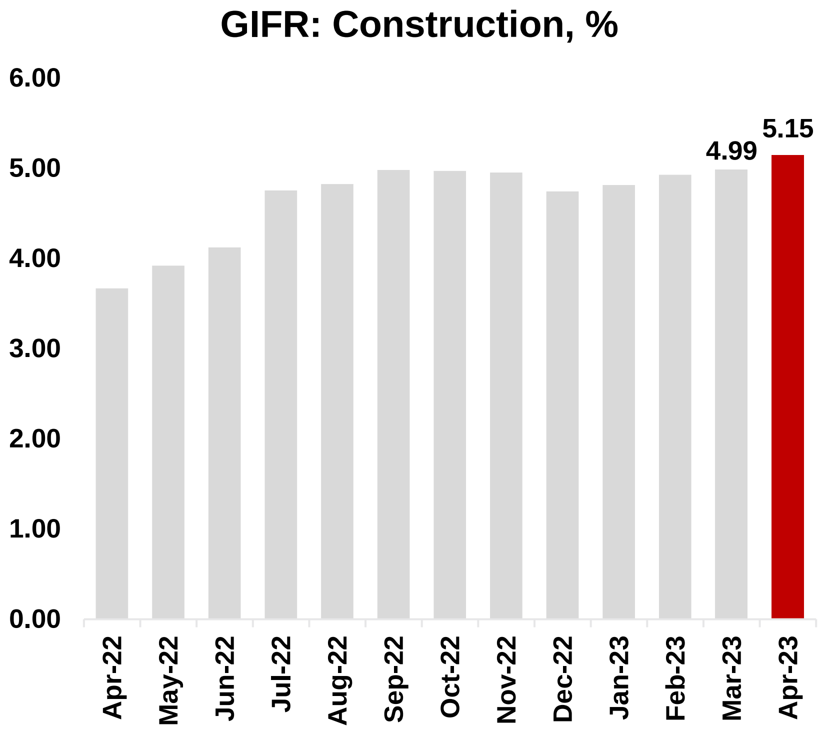


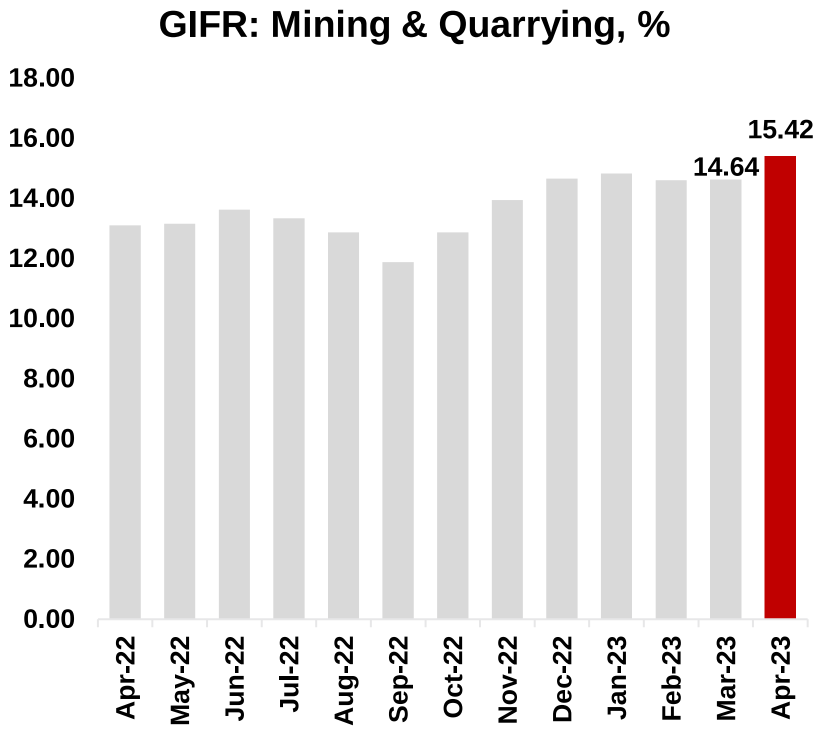
Source: BNM

- In April, the financing activities declined further to 4.54%, compared to 4.97% in March. The household and non-household sectors recorded slower growth momentum in April at 5.24% (March: 5.41%) and 3.53% (March: 4.35%), respectively. The purchase of residential property growth was down to 6.47% in April from 6.78% in March 2023.
- Nevertheless, the credit card segment grew faster at 16.71% in April compared to 15.20% in March. In addition, the purchase of passenger cars showed a higher growth of 8.46% in April from 8.38% in March.

BANKING SECTOR: ASSET QUALITY DRAGGED DOWN IN APRIL







Source: BNM

- Total Gross Impaired Financing Ratio (GIFR) increased marginally at 1.78% in April (March: 1.75%) in parallel with higher GIFR within the Household sector. On the other hand, the Non-Household sector dipped slightly to 2.47% in April (March: 2.48%).
- Impairment for the Construction industry spiked to 5.15% in April, higher than 4.99% in March. Additionally, the GIFR in Mining and Quarrying segment soared to 15.42% in April from 14.64% in March.

THANK YOU