MONTHLY ECONOMIC UPDATE

6 DECEMBER 2023

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **November Fed meeting minutes signalled a cautious approach to future rate adjustments.** While acknowledging the disinflationary trend, the U.S. Federal Reserve (Fed) did not entirely rule out additional interest rate hikes if "incoming information indicated that progress toward its inflation objective was insufficient". Latest data showed the Fed's preferred inflation gauge, the core Personal Consumption Expenditures (PCE) Price Index, decelerated to 3.5% in October (September: 3.7%), on track to return to the Fed's 2.0% target. This, in addition to the loosening labour market, would support the case for the Fed to maintain its interest rates in the upcoming Federal Open Market Committee (FOMC) meeting on December 12-13 to assess the lagged impact of tighter rates. Nevertheless, given the still above target inflation, the minutes gave no indication that Fed policymakers even discussed the possibility of rate cuts anytime soon.

- **The RBA raised interest rates in November, the first time since June, and then paused in December.** The Reserve Bank of Australia's (RBA) 25bp hike on November 6 brought the policy rate to a 12-year high of 4.35% was widely expected as inflation remained far above the RBA's target band of between 2.0% and 3.0%. While holding the policy rate unchanged in December, RBA Governor Michele Bullock has reiterated that returning inflation to target within a reasonable timeframe remains the bank's priority, keeping further rate hikes on the table.

- **Malaysia's economy grew at 3.3% in 3Q2023 (2Q2023: 2.9%), a tad higher than our forecast of 3.2%.** Growth was mainly driven by resilient private consumption (3Q2023: 4.6% vs. 2Q2023: 4.3%) amid the continued recovery in the labour market and the easing of inflation that has lifted real wages. However, due to the moderating external demand, exports dipped more profoundly into the contraction (3Q2023: -12.0% vs. 2Q2023: -9.4%). Overall, the Malaysian economy expanded by 3.9% in the first three quarters of 2023, and we maintain our full-year growth forecast at 3.7%, for now. 4Q2023 growth will remain challenged by a slowing global economy. Still, the contraction in exports is expected to be less pronounced given the restocking activities ahead of festivities such as New Year. Stronger tourism activity following the launch of the visa-free policy to China, India and selected Middle-Eastern countries will boost growth.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: WORLD STOCKS NUDGED HIGHER ON HOPES THAT INFLATION BATTLES ABATED

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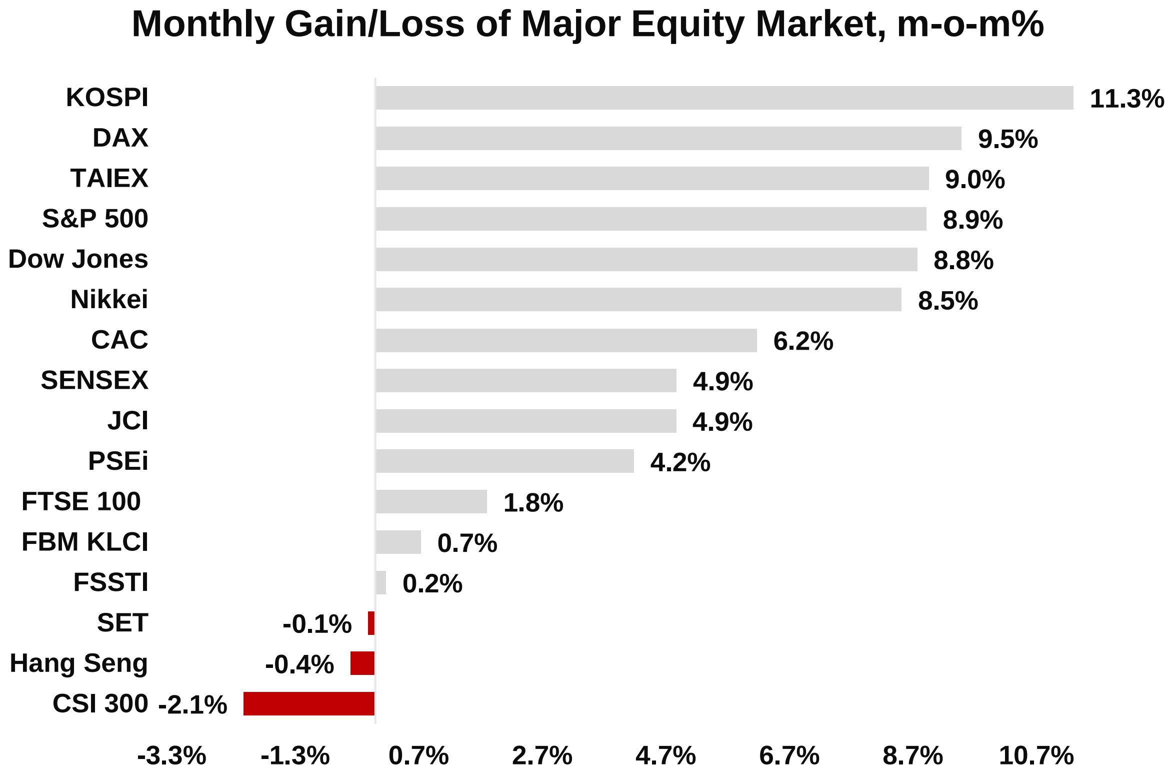

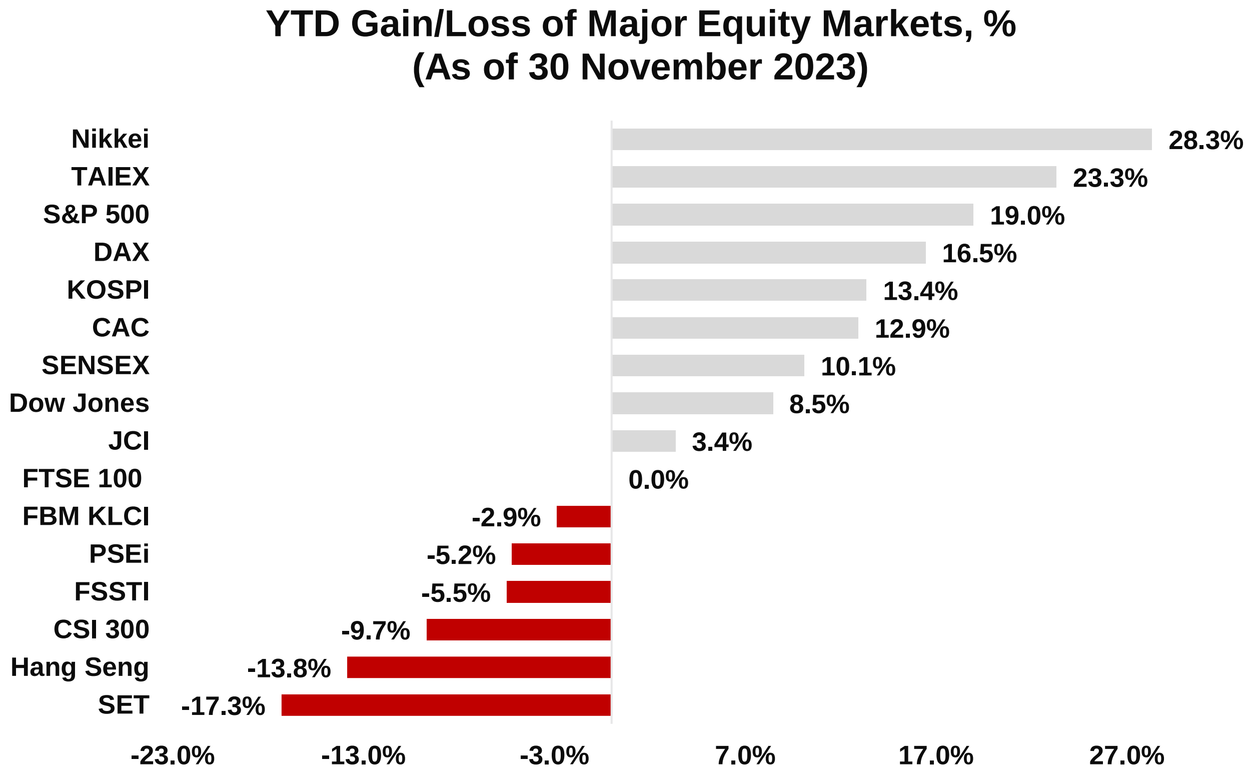

Sources: Bursa, CEIC data

- In November, the regional benchmark indices mostly ended in the green, with Korea's KOSPI (+11.3%), Germany's DAX (+9.5%) and Taiwan's TAIEX (+9.0%) leading the gainers as traders are inclined towards risky assets amid growing sentiments that the Fed and other major central banks are close to ending their rate hiking cycle.
- Meanwhile, Chinese stocks, CSI 300 (-2.1%) and Hong Kong's Hang Seng (-0.4%) were the major losers as the official manufacturing Purchasing Managers' Index (PMI) data dipped to 49.4 points (October: 49.5 points), which was below the market consensus of 49.7 points, raising concerns about China's economy.
- For the first eleven months of 2023, Japan's Nikkei remained the top performer at a stronger gain of 28.3% relative to 18.3% in the previous month.

DOMESTIC EQUITY: THE FBM KLCI TRACKED GAINS IN GLOBAL STOCKS

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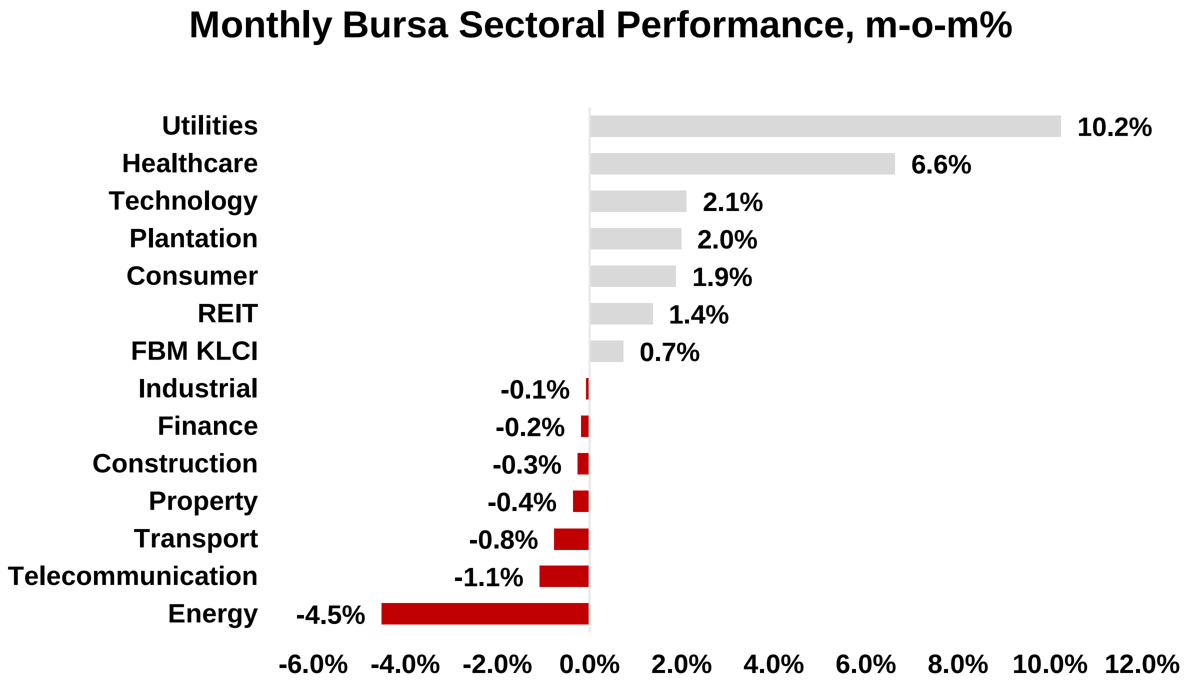

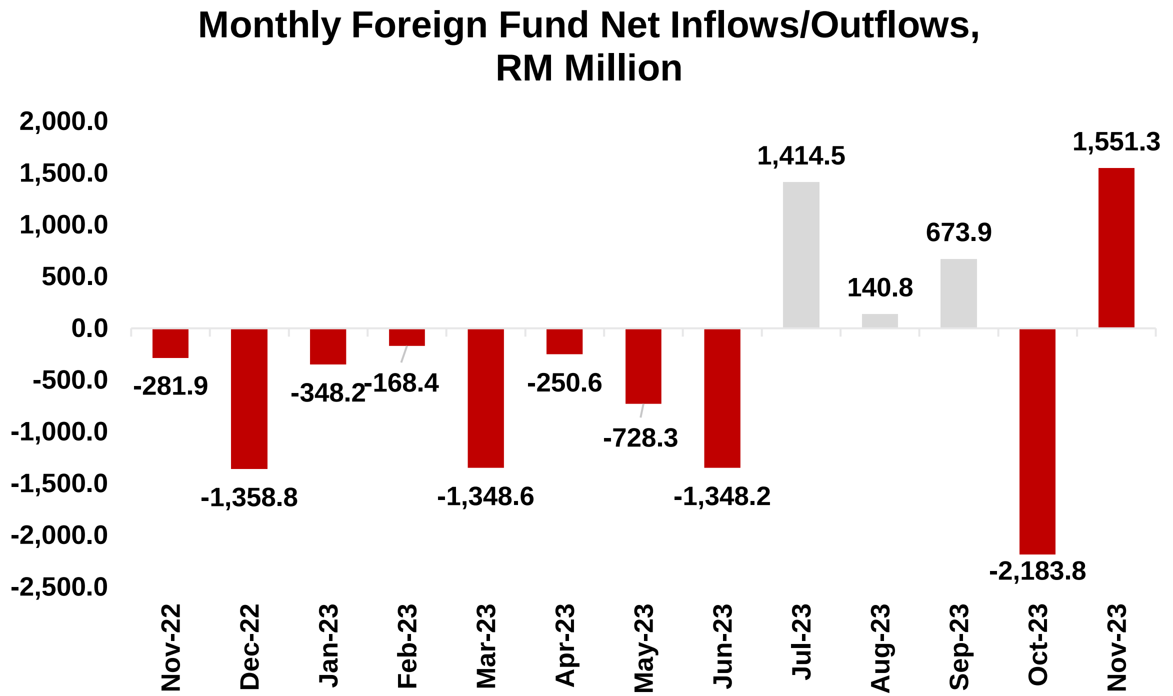

Sources: Bursa, Bank Negara Malaysia (BNM), CEIC data

- The FBM KLCI ended the month of November marginally higher by 0.7% at 1,452.74 amid selective buying on reporting season.
- Bursa sectoral indices were mixed, with the Utilities index leading gains by 10.2%, followed by Healthcare (6.6%) and Technology (2.1%). However, losses were led by the Energy index (-4.5%) as selling interest loomed over concerns about the global oil demand outlook.
- Foreign investors turned net buyers after net selling in the previous month, with a net inflow of RM1.55 billion worth of equities from a selling position of RM2.18 billion in October.
- Trading in local stocks will continue to take a cue from global stock performance as the FOMC is scheduled to meet again in December, where a rate pause is widely expected.

FIXED INCOME: YIELDS RALLIED AS INVESTORS PERCEIVED THAT THE FED IS DONE WITH THE RATE HIKES CYCLE

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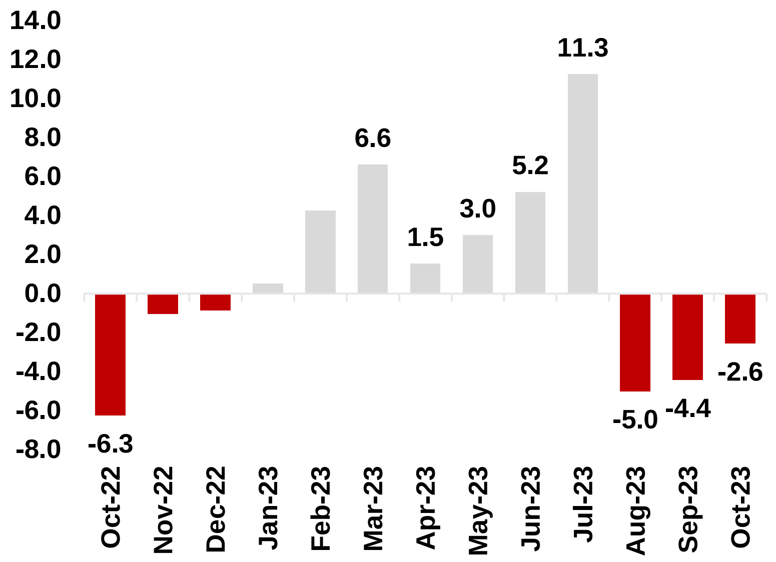
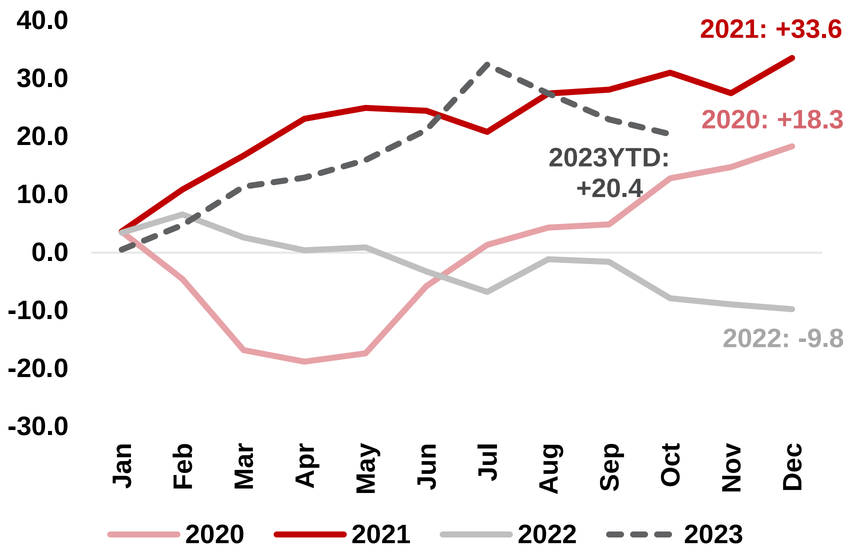
Monthly changes, basis points (bps)

UST	Yields (%) 31-Oct-23	Yields (%) 30-Nov-23	Change (bps)
3-Y UST	4.90	4.48	-42
5-Y UST	4.82	4.31	-51
7-Y UST	4.89	4.38	-51
10-Y UST	4.88	4.37	-51
MGS	**Yields (%) 31-Oct-23**	**Yields (%) 30-Nov-23**	**Change (bps)**
3-Y MGS	3.66	3.47	-19
5-Y MGS	3.85	3.63	-23
7-Y MGS	4.07	3.83	-24
10-Y MGS	4.09	3.82	-27
GII	**Yields (%) 31-Oct-23**	**Yields (%) 30-Nov-23**	**Change (bps)**
3-Y GII	3.70	3.57	-14
5-Y GII	3.88	3.69	-19
7-Y GII	4.08	3.88	-20
10-Y GII	4.10	3.89	-21

Foreign Fund Flows in Local Bond Market, RM Billion



Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) yields dived in the range of 42bps and 51bps as investors perceived that the Fed has put the brakes on its tightening cycle, given the latest economic data that suggested the U.S. economy has shown signs of slowing down.
- Tracking the UST rally, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yield curves bullishly flattened, with yields falling between 14bps and 27bps. Nevertheless, the 10y MGS/UST yield spread remained in the negative territory at a narrower 55bps as of end-November 2023 (End-October: -79bps).
- The local bond market recorded the third consecutive month of net foreign outflows of RM2.6 billion in October, albeit slower than the outflows of RM4.4 billion in September. Local govvies' foreign shareholdings to total outstanding inched lower to 22.4% in October (September: 22.8%).
- For the first ten months of this year, the cumulative net foreign inflows eased to RM20.4 billion following the outflows, albeit still significantly higher than the outflows of RM7.9 billion in the same period in the previous year.

FX MARKET: RINGGIT ENDED ON A POSITIVE NOTE AGAINST THE USD FOLLOWING IMPROVED SENTIMENTS IN THE MARKET

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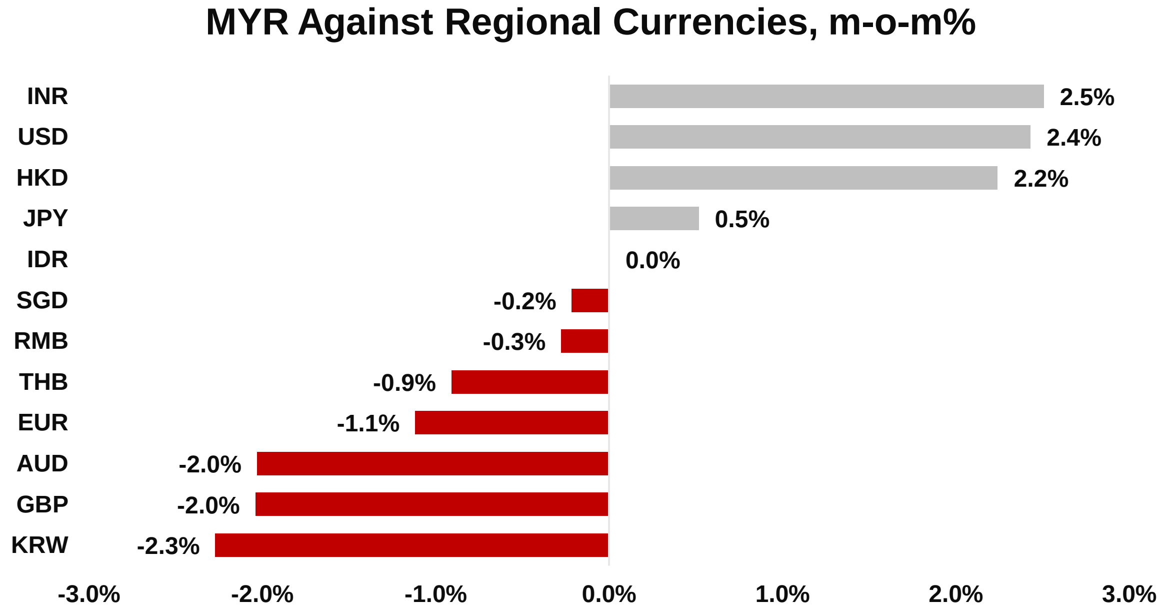
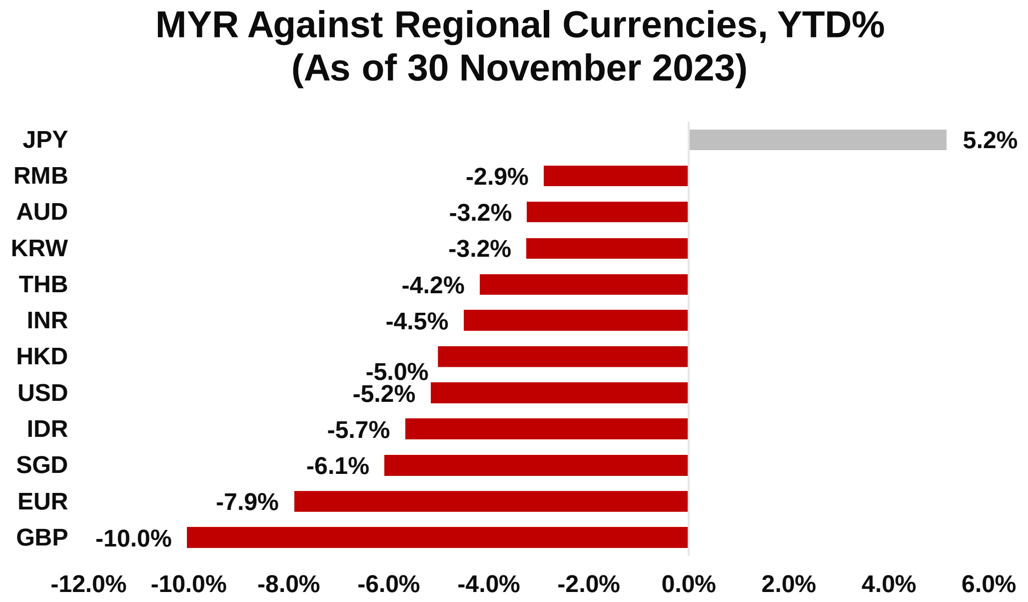


Source: BNM



- On a monthly basis, the Ringgit ended higher against the USD, closing at RM4.6530 in November from RM4.7660 in the previous month due to positive developments in both domestic and external fronts.
- Although the U.S. inflation rate remains above the long-term target of 2.0%, the current print (Oct: 3.2% vs. Sept: 3.7%) slowed further and came in even below market expectations of 3.3% during the month. Additionally, a softening U.S. labour market, as evidenced by the rising initial jobless claims (IJC) (25 November: 218k vs 18 November: 211k), could strengthen the case for the Fed to be less hawkish in its policy outlook narrative. Already, market participants priced in over 97.0% chance that the Fed will hold its rate steady in the December meeting, according to the CME FedWatch tool at the time of writing.
- Domestically, we posit that the appreciation of the local note against the greenback in the month could be attributed to the better-than-expected 3Q2023 GDP reading as the economy grew by 3.3% during the quarter (2Q2023: 2.9%), supported by none other than its resilient domestic demand despite external headwinds. Additionally, the country's trade performance in October decreased slightly, with exports performing better than market estimation (Act: -4.4% vs. Est: -5.1%), marking the eighth straight of contraction yet the softest pace.

SECTION 2

The Global Economy

THE U.S. ECONOMY REMAINS RESILIENT DESPITE AN ELEVATED INFLATION AND HIGH BORROWING COSTS

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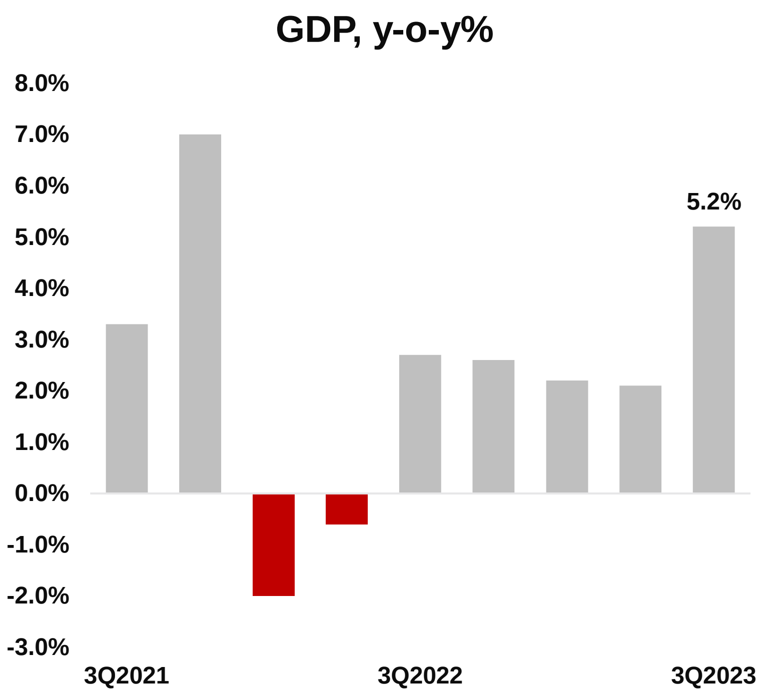

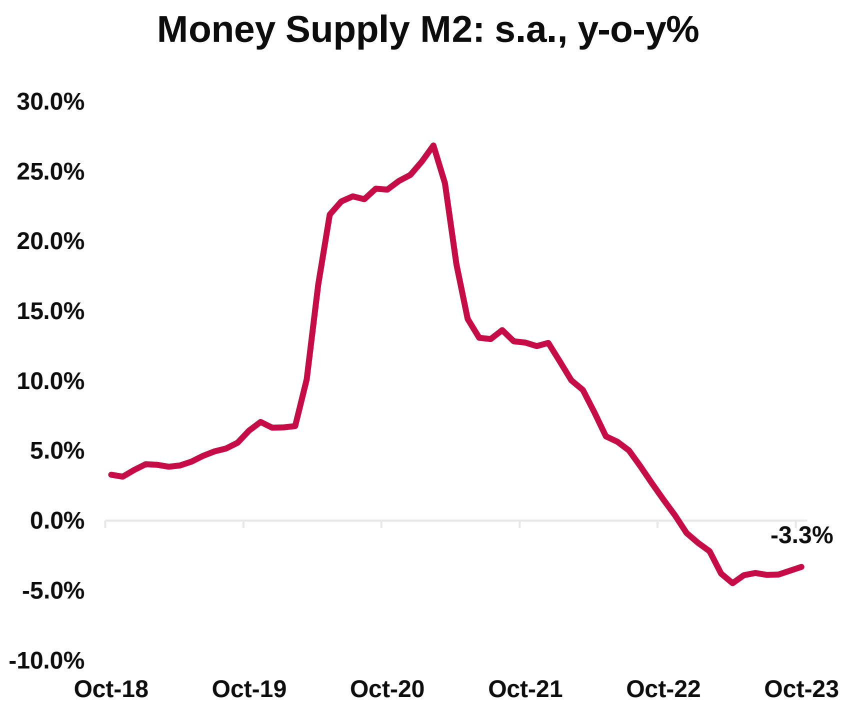

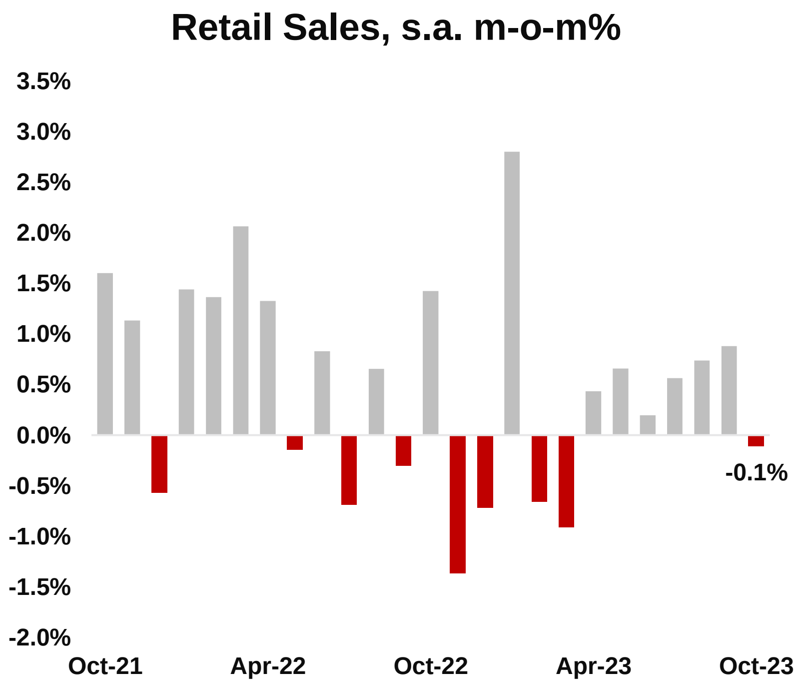

Sources: U. S. Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics

- In the latest update, the U.S. economy grew by 5.2% y-o-y in 3Q2023, even better than 4.9% in the preliminary estimate and market forecast of 5.0% - marking the strongest growth since 4Q2021.
- Following a robust 3Q performance, the country's economy is widely anticipated to grow more moderately in 4Q2023 as pandemic savings diminish and the interest rate remains elevated at a 22-year high. Moreover, the M2 money supply has continued its downward trend, declining by 3.3% y-o-y in October (September: -3.6%).
- While consumer spending seems robust, the scorching pace is unlikely to persist into the next quarter in view of a fall in retail sales during October, putting an end to a six-month streak of increases.

CHINA'S 3Q2023 GDP READING SUGGESTED THE RECOVERY MOMENTUM IN THE WORLD'S SECOND-BIGGEST ECONOMY IS GAINING TRACTION

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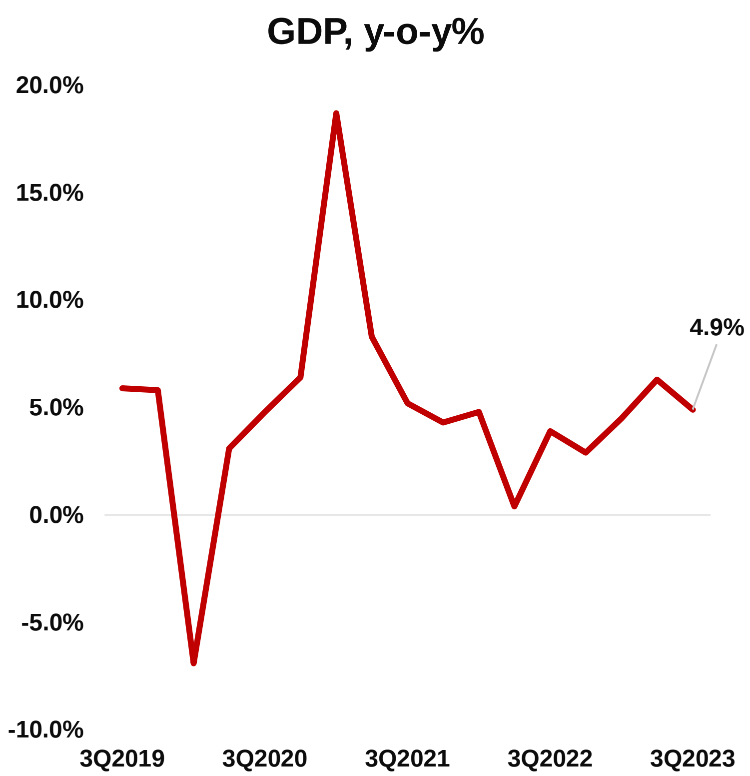

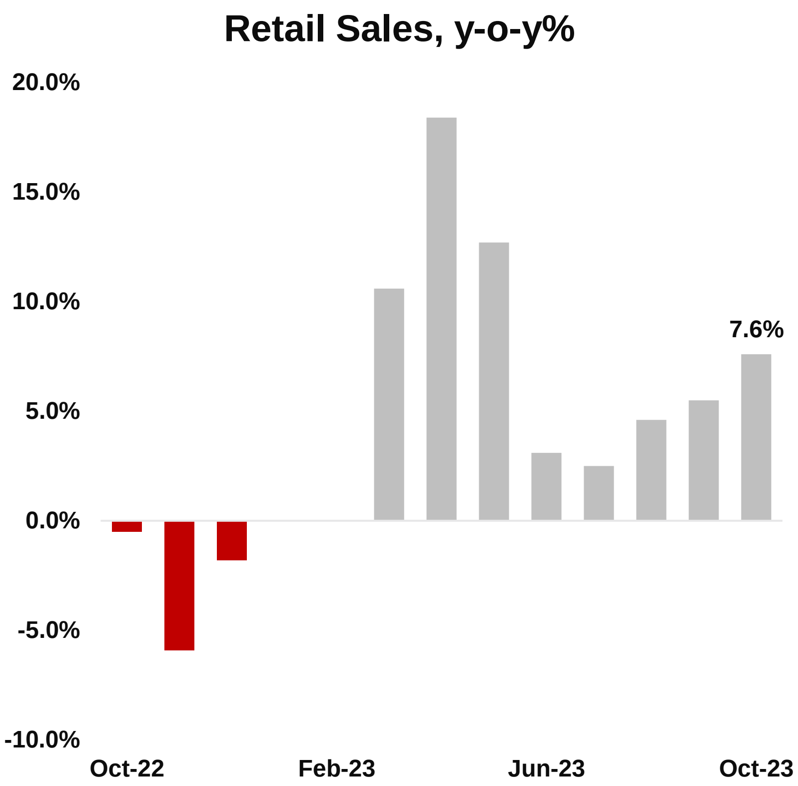

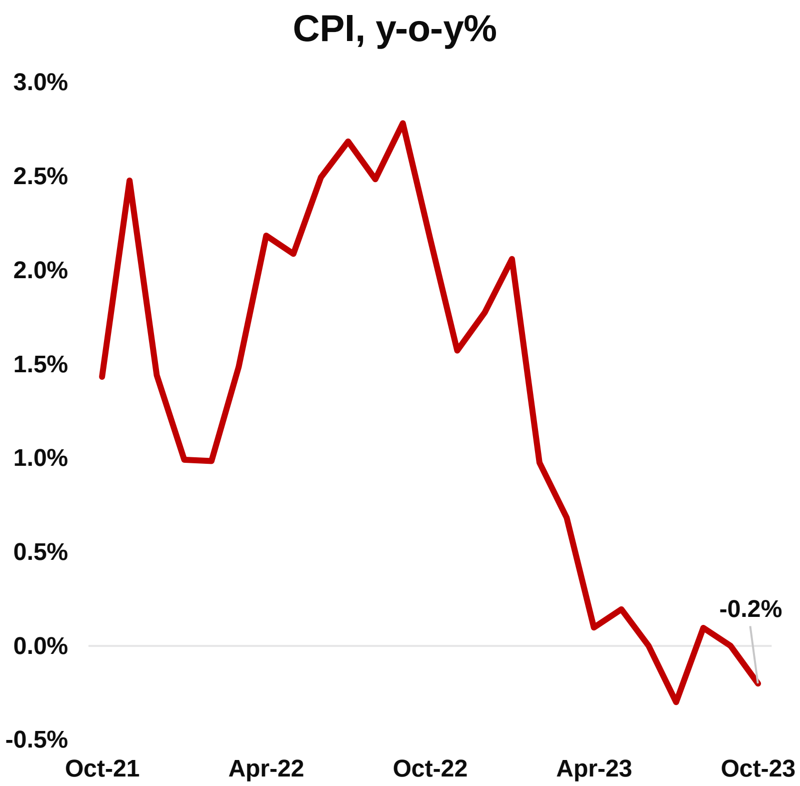

Sources: Organisation for Economic Co-operation and Development (OECD) , National Bureau of Statistics, International Monetary Fund (IMF)

- China's economy grew at a faster-than-expected clip (Act: 4.9% vs. Est: 4.4%) in the 3Q2023 with surprise upside in consumption as indicated by a 7.6% y-o-y growth in the retail sales during October (September: 5.5%).
- Such growth signalled that the recent flurry of policy measures is finally beginning to take effect, thus implying the government's full-year 2023 growth target of around 5.0% is likely to be achieved.
- Be that as it may, the country's inflation print edged back to deflation mode in October, dragged down by falling pork prices as policymakers seemed to struggle to reignite domestic demand at the time of a deepening downturn in the property crisis.

INDIA SHINES BRIGHT IN THE GLOBAL ECONOMY, RAISING EXPECTATIONS TO OUTPERFORM ITS FULL-YEAR ESTIMATION

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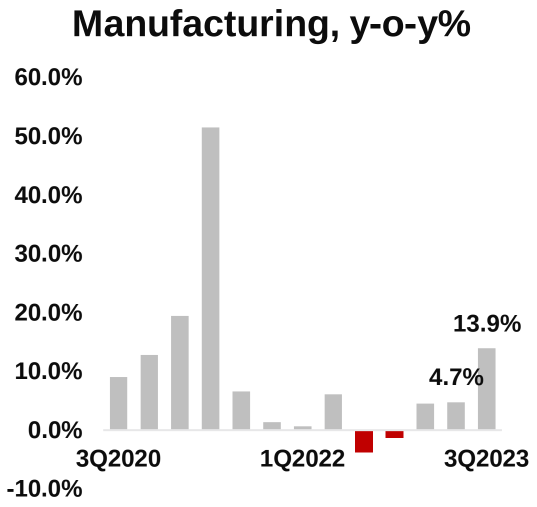
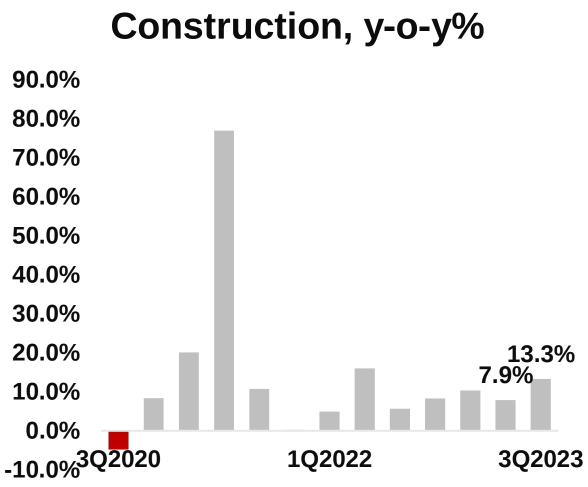
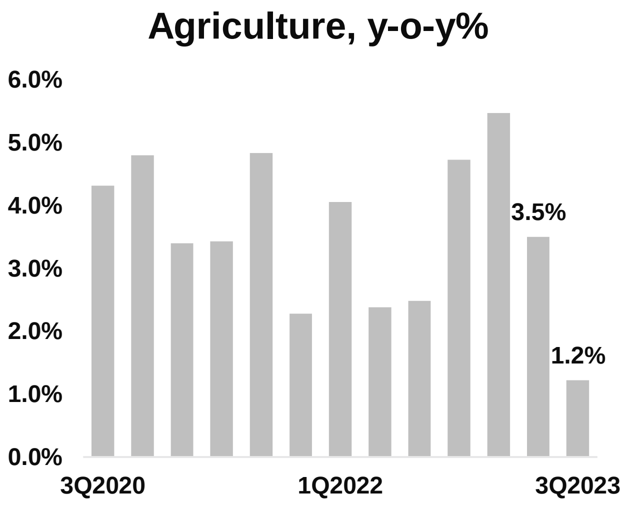
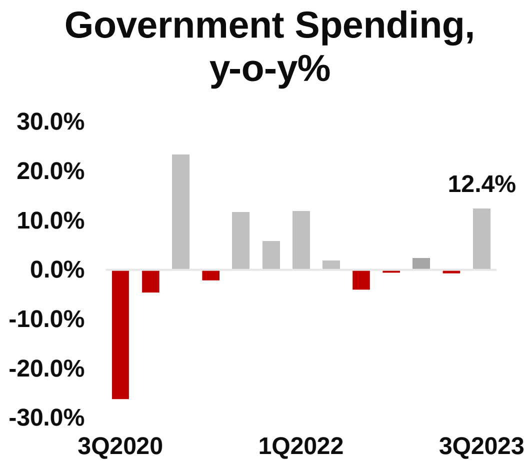
Key Sectors Adding to India's Growth

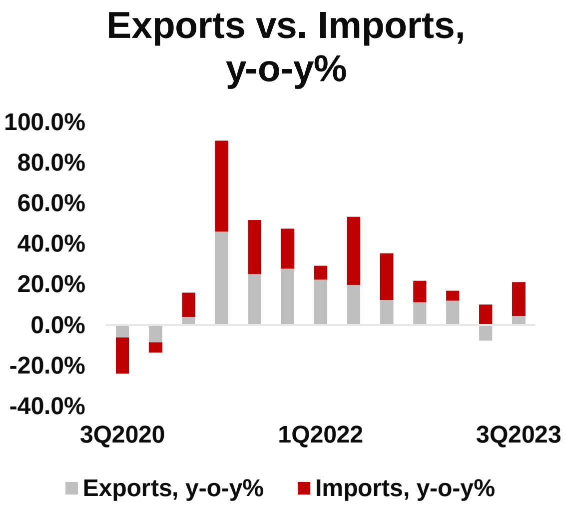


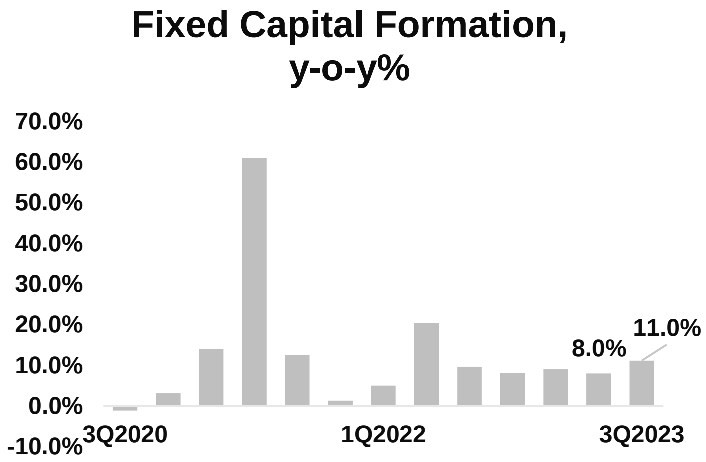




Key Components of Expenditure







- With the latest 3Q2023 print coming in well beyond expectations (Act: 7.6% vs. Est: 6.8%), the Reserve Bank of India (RBI) may opt for a hawkish stance in its upcoming policy announcement on December 8.
- For the record, the central bank kept the benchmark repo rate unchanged at 6.5% for the fourth straight meeting in October.
- It is stated that RBI is in no hurry to loosen policy with anticipation that the central bank would start the easing cycle in 2H2024, much later than most emerging economies.

Source: Ministry of Statistics and Programme Implementation

ECB'S AGGRESSIVE MONETARY POLICY A DOUBLE-EDGED SWORD TO GROWTH

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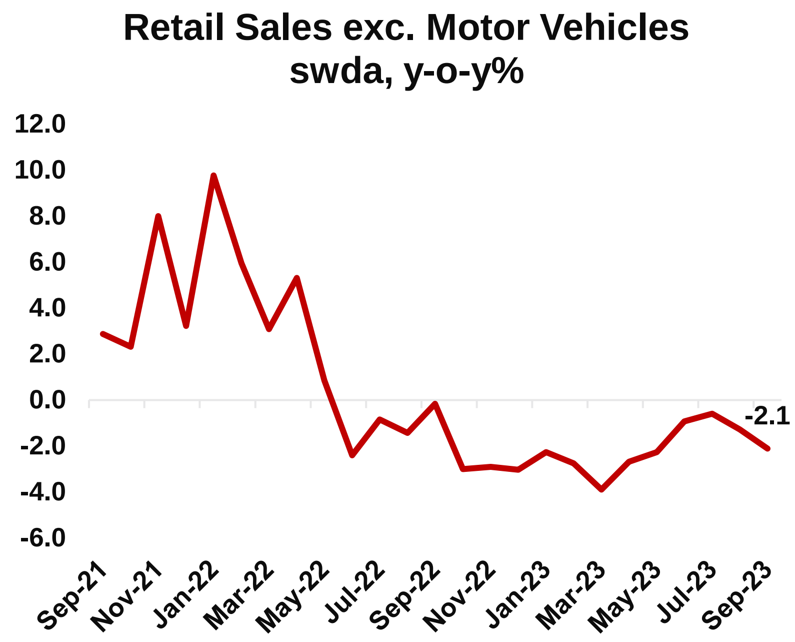

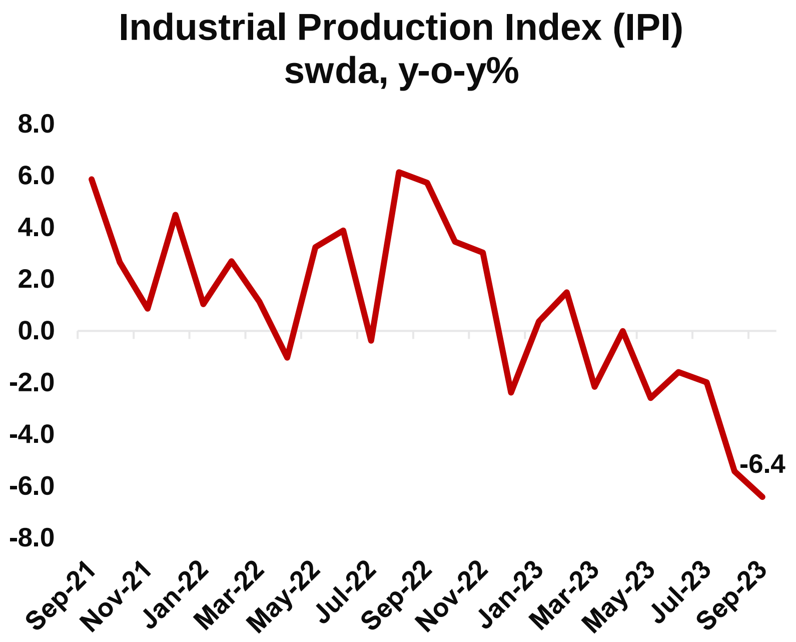

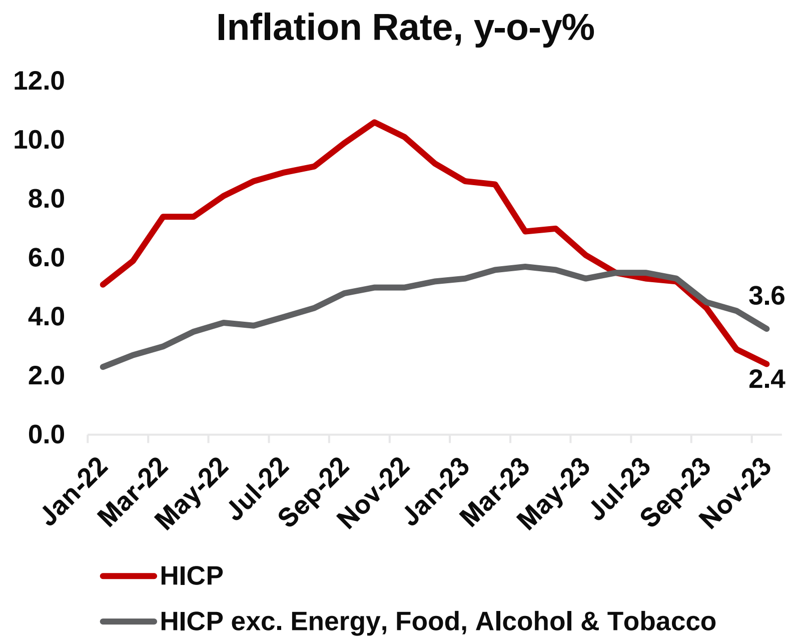

Sources: Eurostat, European Central Bank (ECB), S&P Global

- Consistent with Eurostat's 0.1% q-o-q contraction figures in 3Q2023, economic activities drag on as consumer demand remains weak. Retail sales, excluding motor vehicles sales, trended in the negative territory for more than a year, with the latest figure declining by 2.1% y-o-y in September (August: -1.3%).
- Additionally, industrial production dropped further by 6.4% in September (August: -5.4%), whilst November's manufacturing PMI persisted below the 50.0 mark at 44.4 points (October: 43.2 points).
- Such performance was weighed by the tighter financial conditions brought on by the ECB's aggressive rate hikes, which led to a broad-based slowdown in demand. The Eurozone's unemployment rate has been stagnating at 6.5% for three months since August.
- On the flip side, inflation fell faster than expected, with the Harmonised Index of Consumer Prices (HICP) at 2.4% in November as against the expected 2.7% (October: 2.9%), marking the lowest reading since July 2021, while underlying price pressures eased further to 3.6% from October's 4.2%. The latest development in consumer prices led to market participants pricing in rate cuts earlier than previously expected despite ECB's tone of higher-for-longer.

SECTION 3

Domestic Landscape & Banking Sector Update

3Q2023 GDP PERFORMANCE WAS BACKED BY RESILIENT DOMESTIC DEMAND, A MAINSTAY IN DRIVING GROWTH

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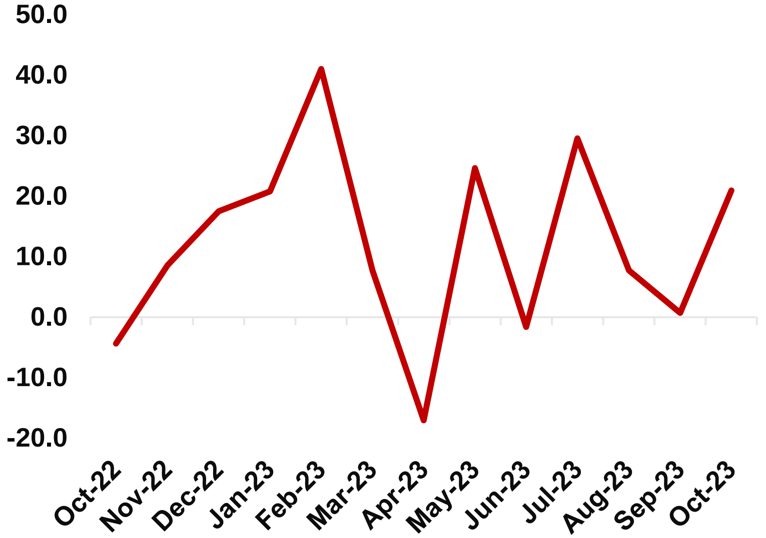
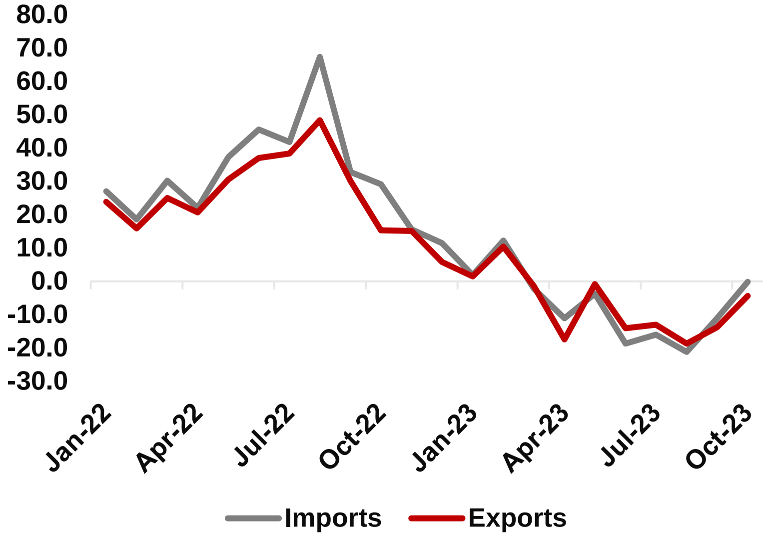
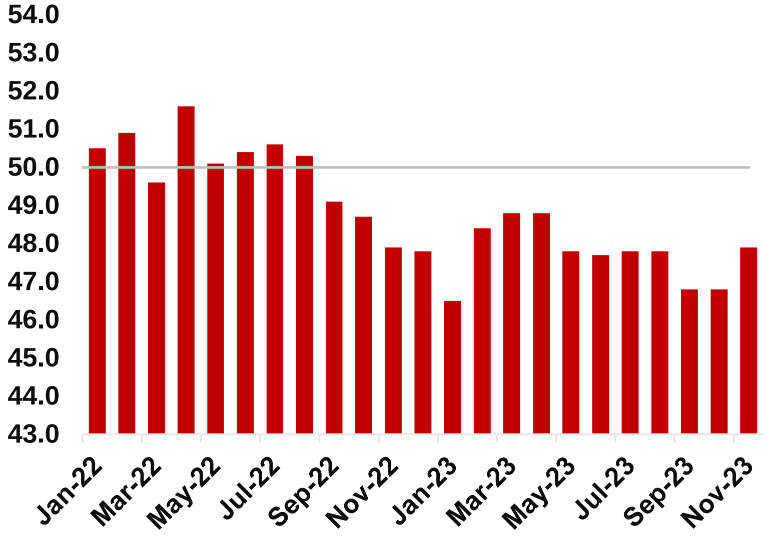
Motor Vehicle Sales, y-o-y%



Total Exports vs. Imports, y-o-y%



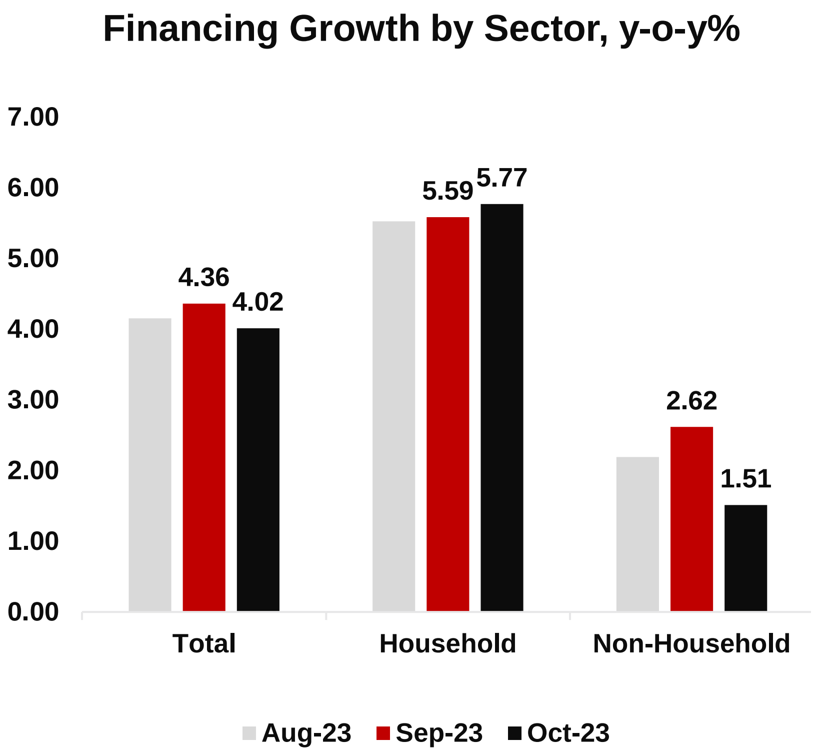
Manufacturing PMI s.a., points

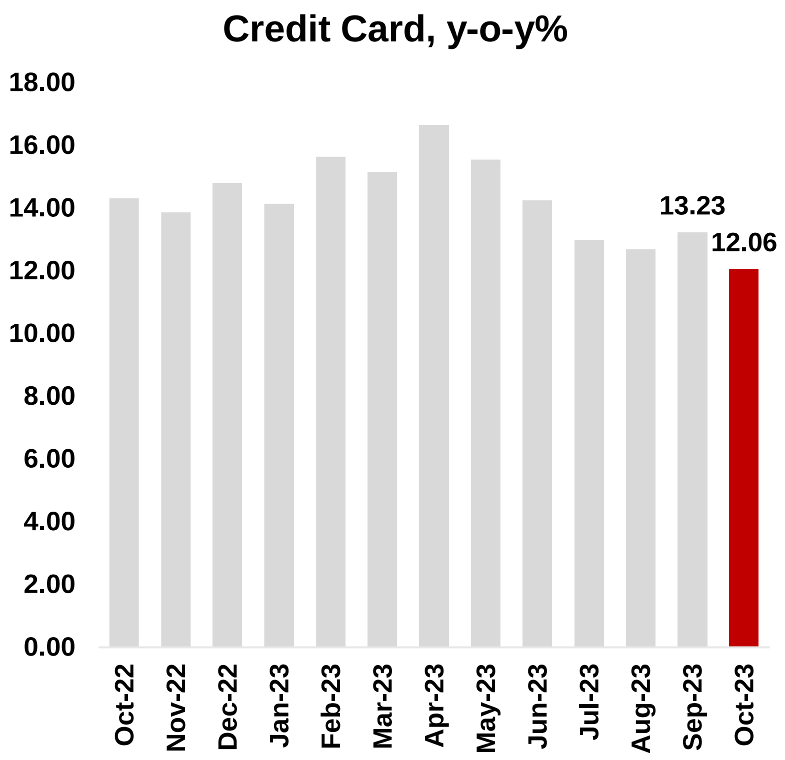


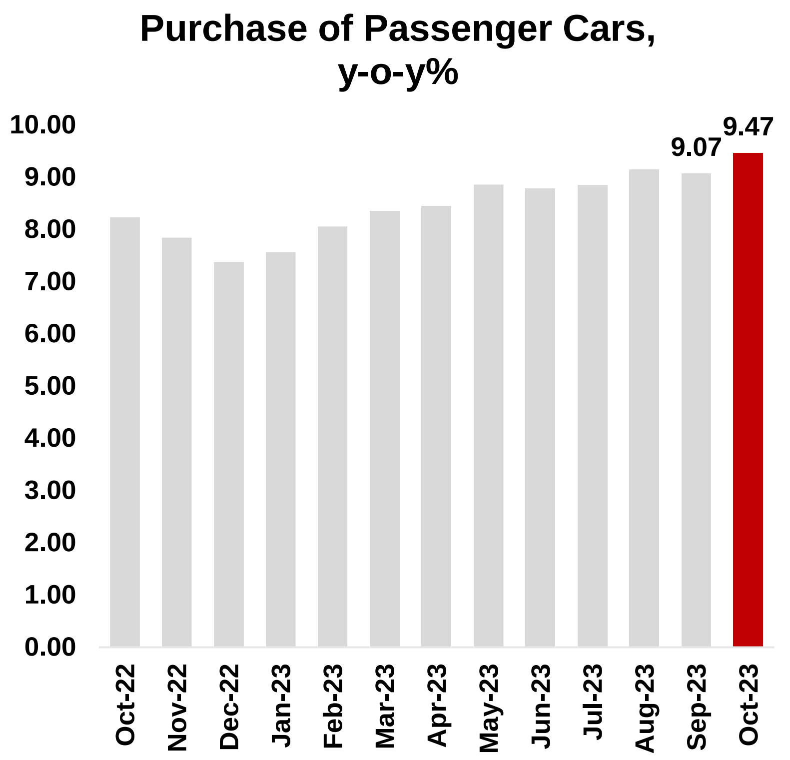
Sources: Department of Statistics Malaysia (DOSM), BNM, Malaysian Automotive Association (MAA)

- Malaysia's economy grew by 3.3% in 3Q2023 (2Q2023: 2.9%), in line with the inaugural advance estimates released by DOSM. Domestic demand remains the key growth driver, with private expenditure rising to 4.6% in 3Q2023 (2Q2023: 4.3%). Meanwhile, government expenditure surged to 5.8% in the quarter (2Q2023: 3.8%).
- The solid domestic demand remains strong heading into the last quarter of this year, with motor vehicle sales increasing to 74,896 units in October (September: 68,187 units), as reported by MAA.
- Trade seemed to be on recovery as exports and imports reported marginal y-o-y declines in October of 4.4% and 0.2%, respectively.
- Nevertheless, factory activities failed to pick up as the manufacturing PMI trended in the contraction territory since September last year, albeit rising slightly in November to 47.9 points (October: 46.8 points) as new orders remained muted.
- Meanwhile, headline inflation eased further (October: 1.8% vs September: 1.9%) following moderating Food and Non-Alcoholic Beverages (FNAB) inflation. As such, we posit inflation will average at 2.7% this year (2022: 3.3%) amid easing supply-chain disruptions and the realised lagged impacts from the cumulative 125 bps Overnight Policy Rate (OPR) hikes since May last year.

BANKING SECTOR: TEPID FINANCING ACTIVITIES GROWTH IN OCTOBER, DRAGGED NON-HOUSEHOLD SECTORS



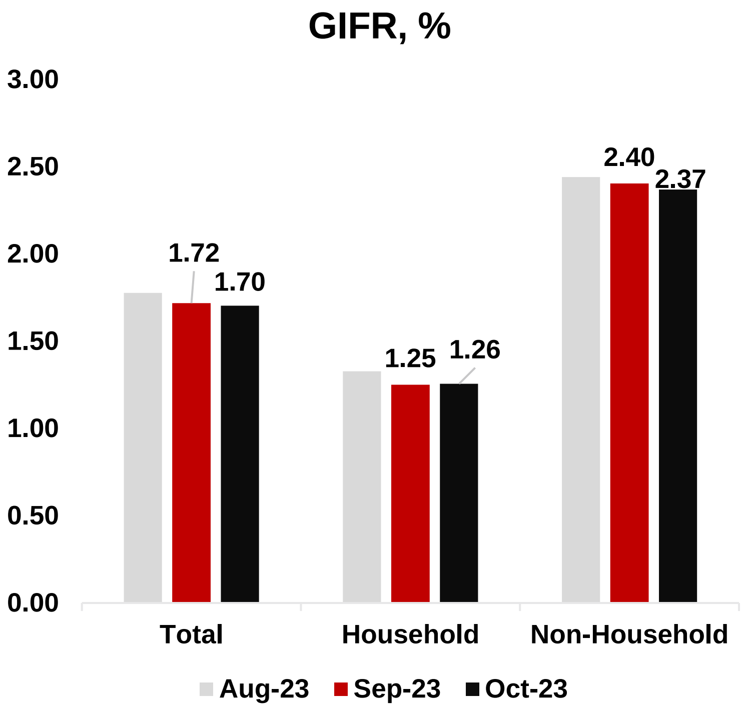


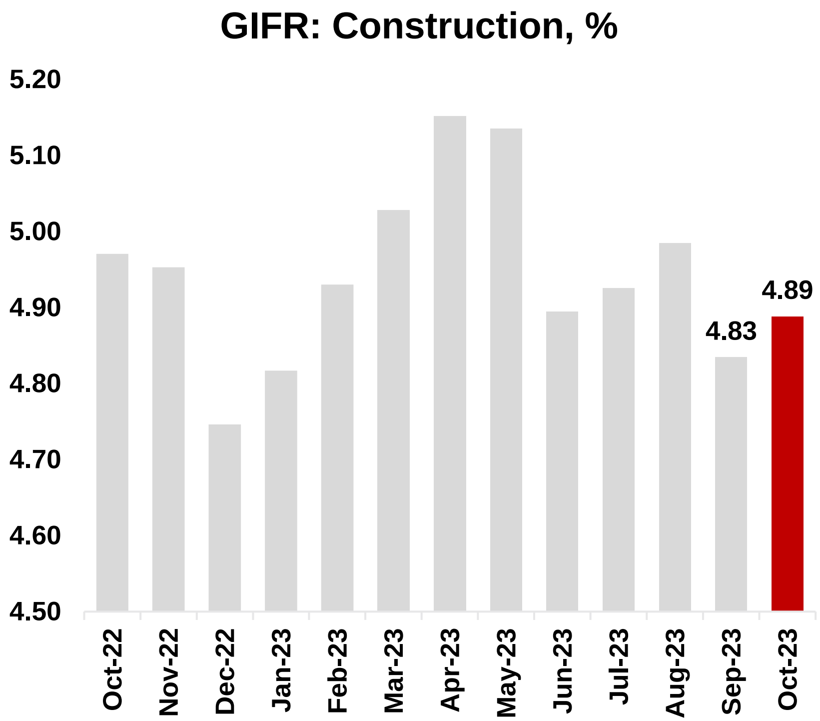


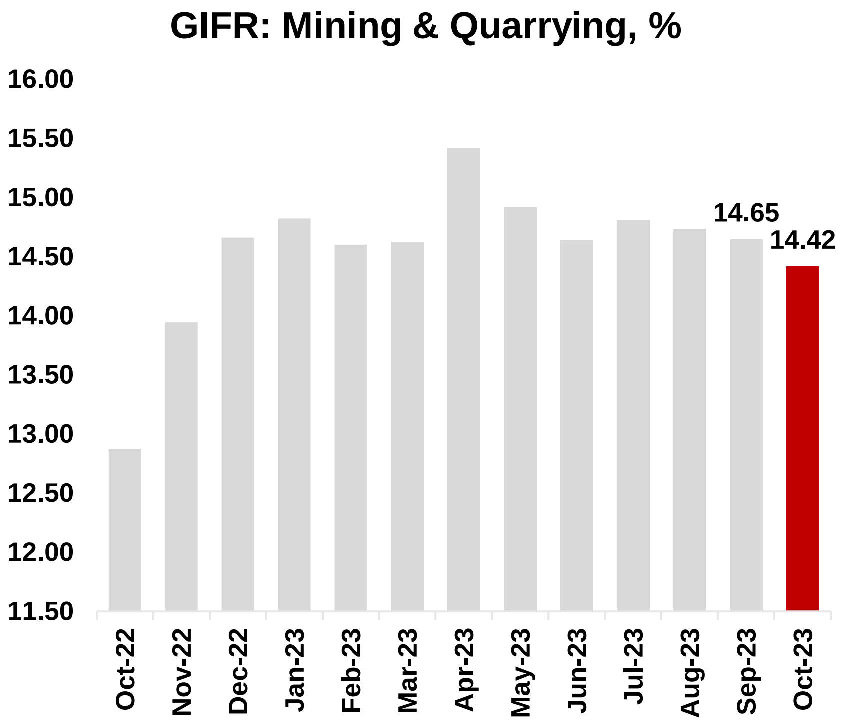
Source: BNM

- In October, financing activities grew slower at 4.02% from 4.36% logged in September, weighed down by the non-household segment's financing growth (October: 1.51% vs September: 2.62%). Nevertheless, the household sector trended upwards, jumping to 5.77% in October from 5.59% in the previous month.
- The financing growth within the credit card segment expanded at a smaller momentum to 12.06% in October relative to 13.23% in September.
- In contrast, the credit growth in the purchase of residential property segment expanded by 7.39% in October (September: 7.18%). Additionally, financing activities in the purchase of passenger cars segment accelerated to 9.47% in October (September: 9.07%).

BANKING SECTOR: CREDIT QUALITY REMAINED SOUND IN OCTOBER







Source: BNM

- In October, the banking sector's total gross impaired financing ratio (GIFR) remained sound at 1.70% (September: 1.72%). The impairment within the non-household sector slowed down to 2.37% in October (September: 2.40%). Meanwhile, GIFR in the household segment ticked slightly higher to 1.26% in October (September: 1.25%).
- The impairment within the construction segment increased marginally to 4.89% in October from 4.83% in September. On the other hand, the asset quality in the Mining and Quarrying industry improved slightly to 14.42% in October (September: 14.65%).

THANK YOU