MONTHLY ECONOMIC AND MARKET UPDATES

7 November 2022

FIRDAOS ROSLI
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN

KEY TAKEAWAYS

1. **Global economic outlook remains challenging.** Undoubtedly, the global economy is facing a bumpy recovery amid various supply-side factors, including the still-lingering Covid-19 cases, prolonged supply chain disruptions, and elevated inflationary pressures. Additionally, the protracted Russia-Ukraine military conflict could exacerbate the already gloomy environment, disrupting the trade flows and undermining the global recovery.

2. **Major central banks remain hawkish as the battle against inflation is far from over.** Meanwhile, major central banks are still hawkish, reflecting their endless effort to combat rising prices as they have seen little progress in inflation despite the “75 bps” club. Such a move raises a question of a hard landing in 2023. Japan is the outlier among the developed countries, maintaining its negative interest rate policy, putting the Yen at a 32-year low.

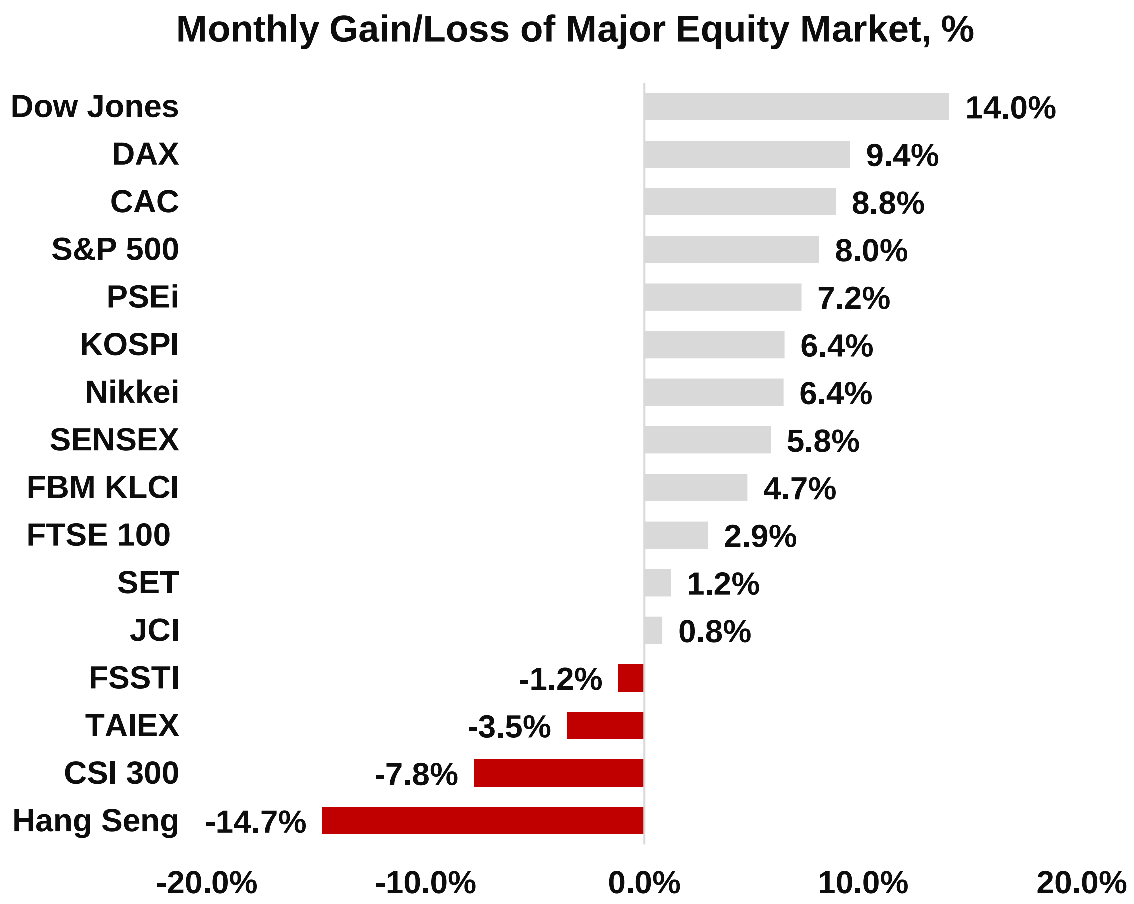
3. **Malaysia’s growth remains intact thus far.** During the recent MPC meeting on 2-3 November, BNM decided to raise the OPR by 25 bps to end the year at 2.75%. Recent data pointed to more robust growth than in 2Q2022, supported by improvements in the labour market, justifying BNM’s move to further adjusting the degree of monetary accommodation. Due to the low base effects, we foresee that such growth will likely be stronger in 3Q2022 despite the weaker global economic environment.

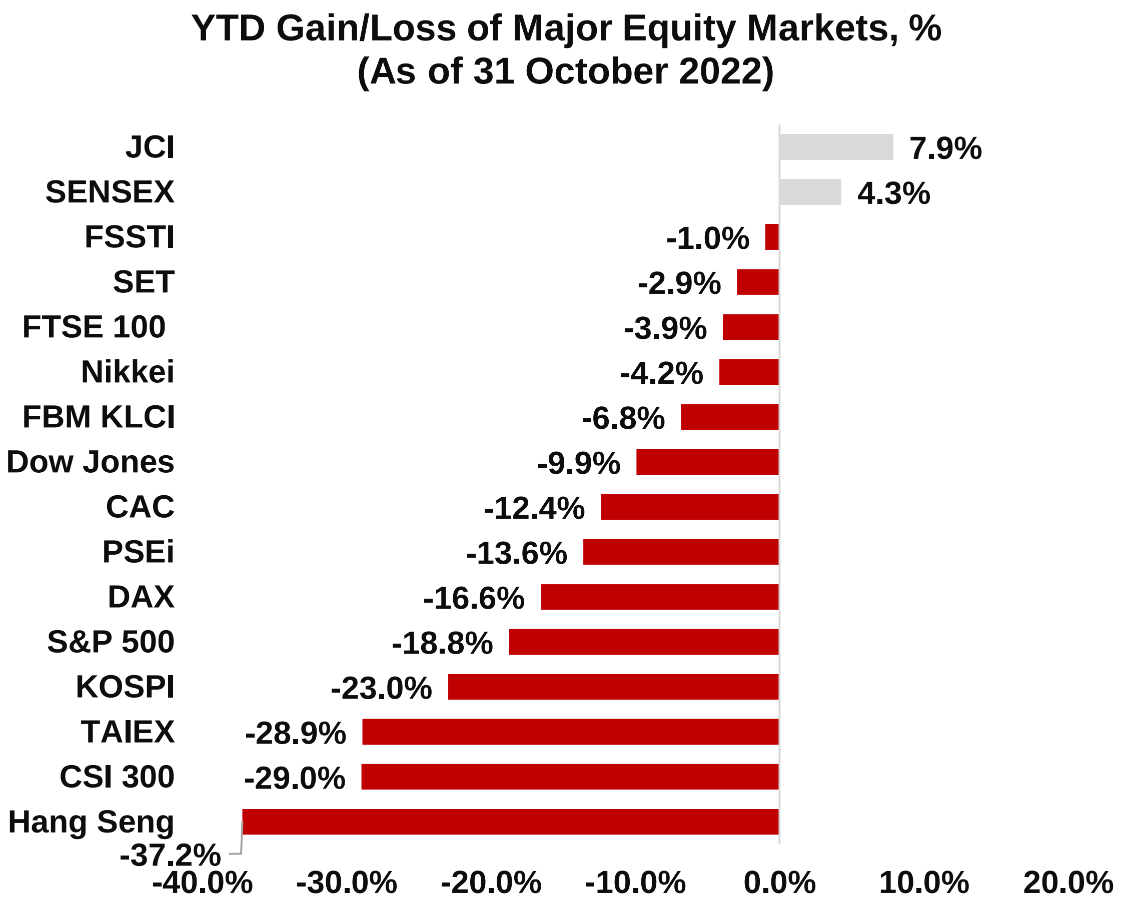
4. **The “GIG” factor is the heart of BNM’s concern.** The term “measured and gradual” means that BNM is steering clear from taking a similar hawkish stance as major central banks. Aggressive tightening would make the ringgit more volatile, impacting the perception of the ringgit as a store of value. Furthermore, our real interest rate is still higher than in advanced economies owing to the government’s proactive intervention in keeping inflation relatively benign.

Section 1

MALAYSIA’S FINANCIAL MARKETS

REGIONAL EQUITY MARKET:
STOCK INDICES MADE A COMEBACK IN OCTOBER





Source: CEIC

- Most of the regional markets were in the positive territory, led by the Dow Jones index, which saw a double-digit gain at 14.0% in October as markets took a breather after the U.S. Federal Reserve (Fed) meeting in September.
- We anticipate the equity market participants will remain cautious as the final FOMC meeting in December may continue the jumbo hike of 75bps following Chairman Powell’s comments on US’ higher-than-expected terminal rate.

DOMESTIC EQUITY MARKET:
GAINERS OUTNUMBERED LOSERS AMID MARKET REBOUND

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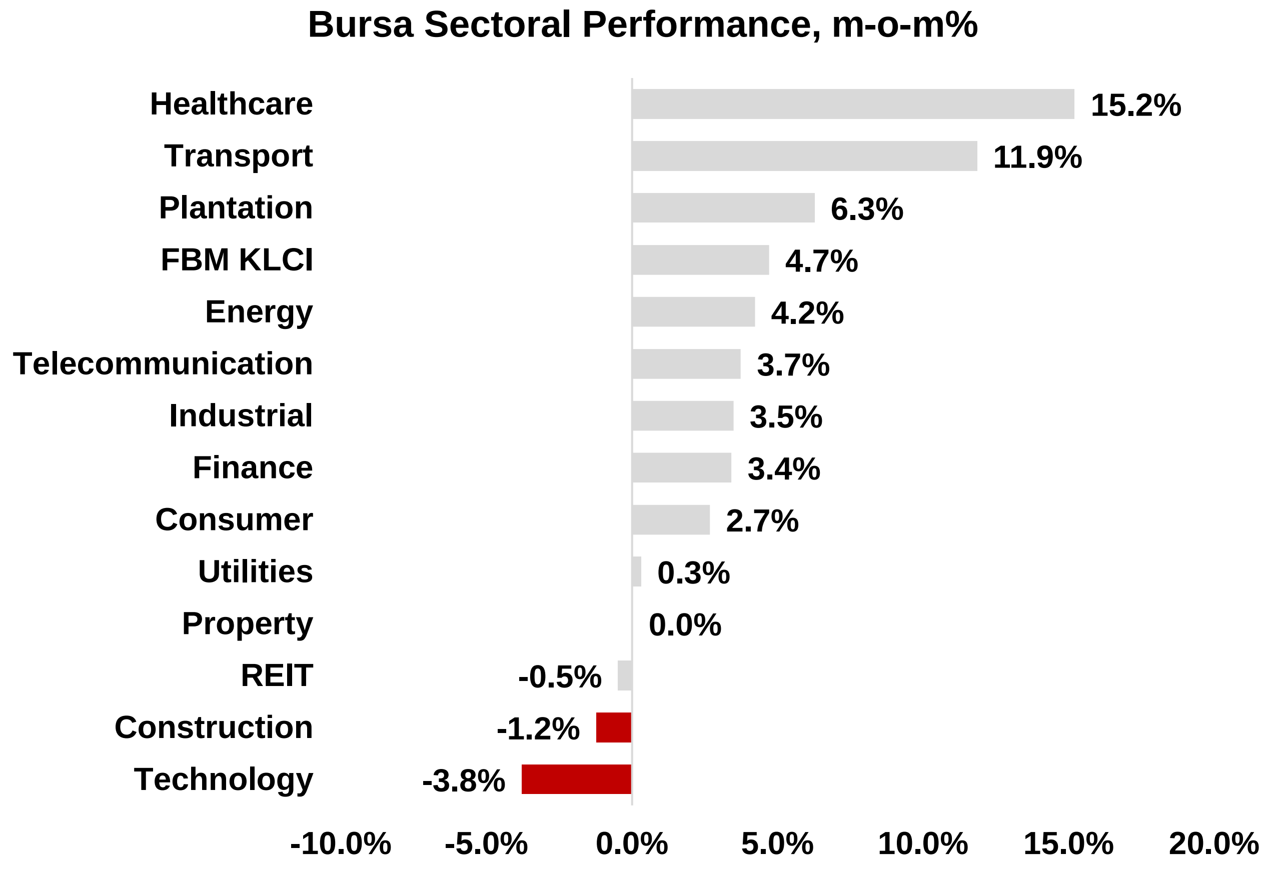

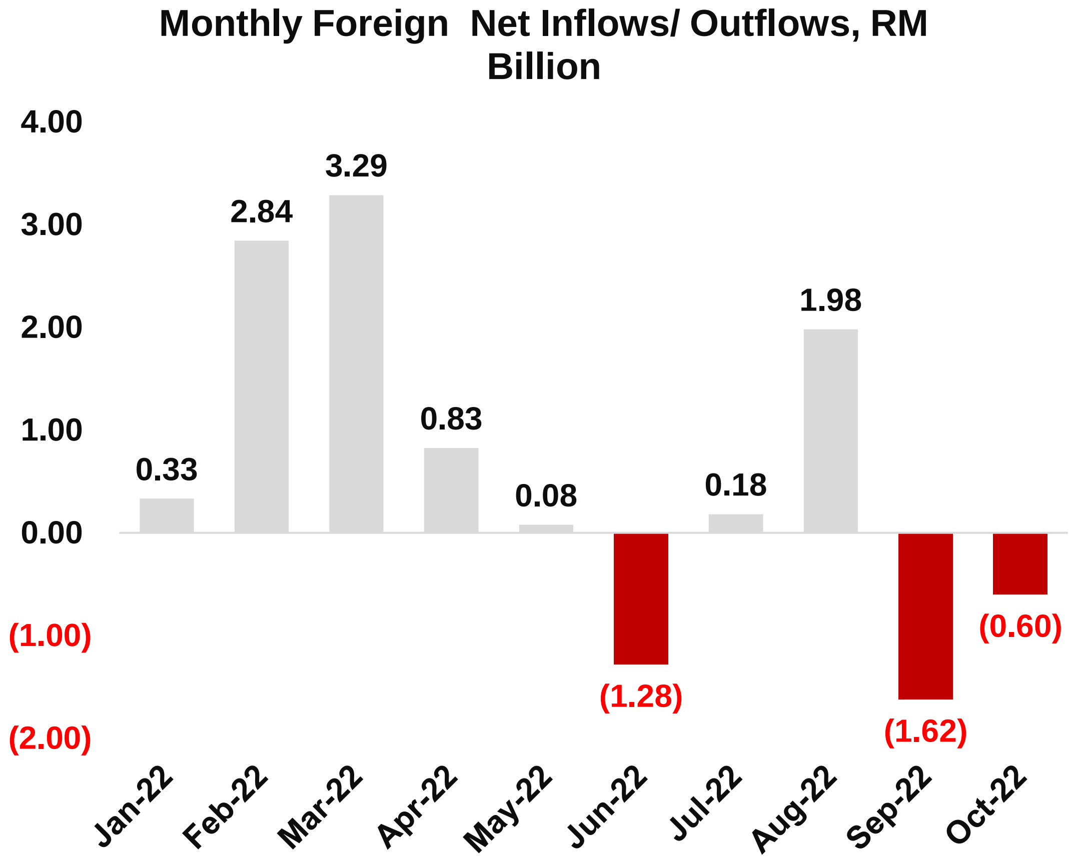

Source: CEIC, Trading View

- The Healthcare sector recorded a strong gain at 15.2% in October, supported by improved sentiment amid a sudden surge of Covid-19 cases across the world.
- Meanwhile, the Technology index fell by 3.8% in view of the semiconductor down cycle with the latest Global Semiconductor Sales declined for two straight months (September: -3.0% vs. August: -0.2%).

- Foreign investors continued to offload equity holdings for the second month, with RM1.6 billion and RM0.6 billion net outflows recorded in September and October, respectively.
- We opine that foreign fund outflows to persist in the upcoming months as the Fed is not showing any signs of pausing its tightening cycle, heightening the volatility in the global financial market and EM currencies.

BOND MARKET: SHORTER TENURE BONDS SAW A SIGNIFICANT RISE IN YIELDS AS RATE GAP WIDENS

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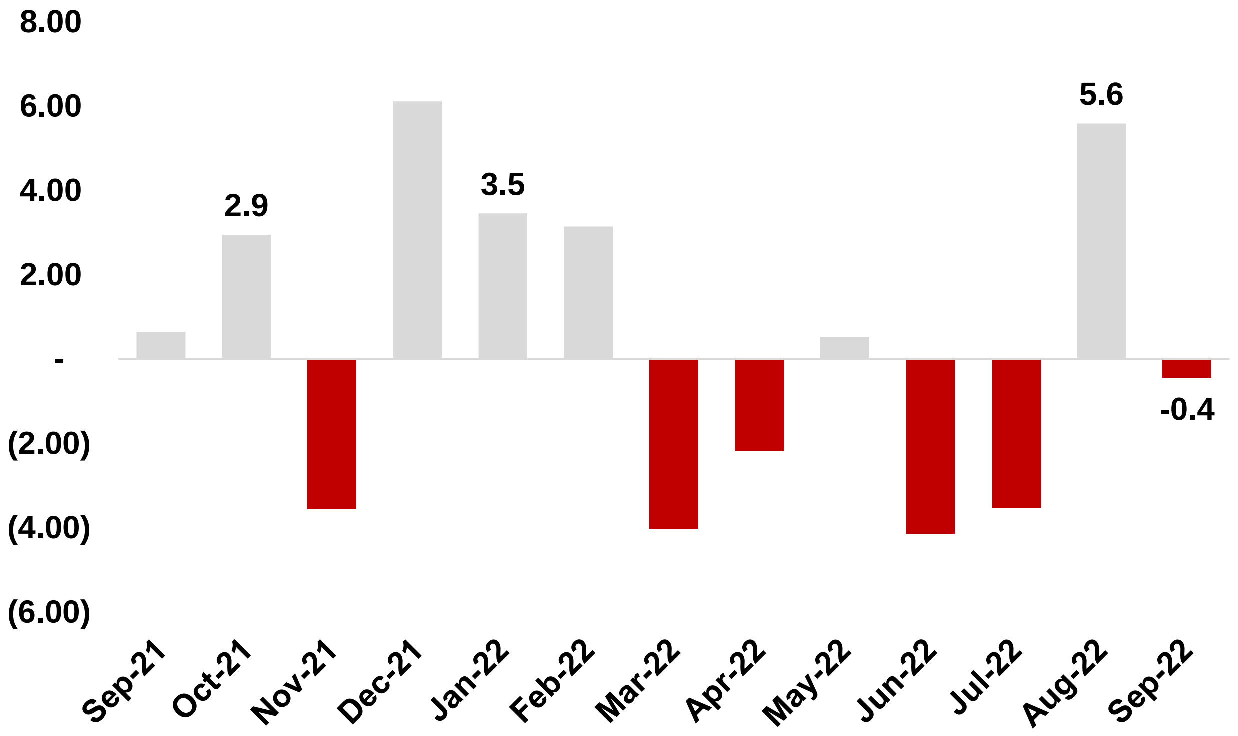
Monthly Changes

UST	Yields (%) 30-Sep-22	Yields (%) 31-Oct-22	Change (bps)
3-M UST	3.33%	4.22%	89
2-Y UST	4.22%	4.51%	29
5-Y UST	4.06%	4.27%	21
10-Y UST	3.83%	4.10%	27
MGS	**Yields (%) 30-Sep-22**	**Yields (%) 31-Oct-22**	**Change (bps)**
3-Y MGS	3.77%	3.79%	2
5-Y MGS	4.04%	4.17%	13
7-Y MGS	4.22%	4.26%	4
10-Y MGS	4.41%	4.37%	-4

Source: BNM, CEIC

Monthly Foreign Fund Flows in Bond Market, RM billion



- Shorter-tenure UST and MGS yields ended higher amid further monetary tightening by the U.S. Fed.
- Meanwhile, the 10y MGS yield fell by 4 bps over the month. This could signal that investors have started to shift to longer-tenure bonds in view of the global economic slowdown next year.
- Foreign fund in the bond market is likely to record further net outflows in the short term on interest rate hikes in major economies.

FX MARKET:
CONTINUED USD RALLY PRESSURES THE RINGGIT

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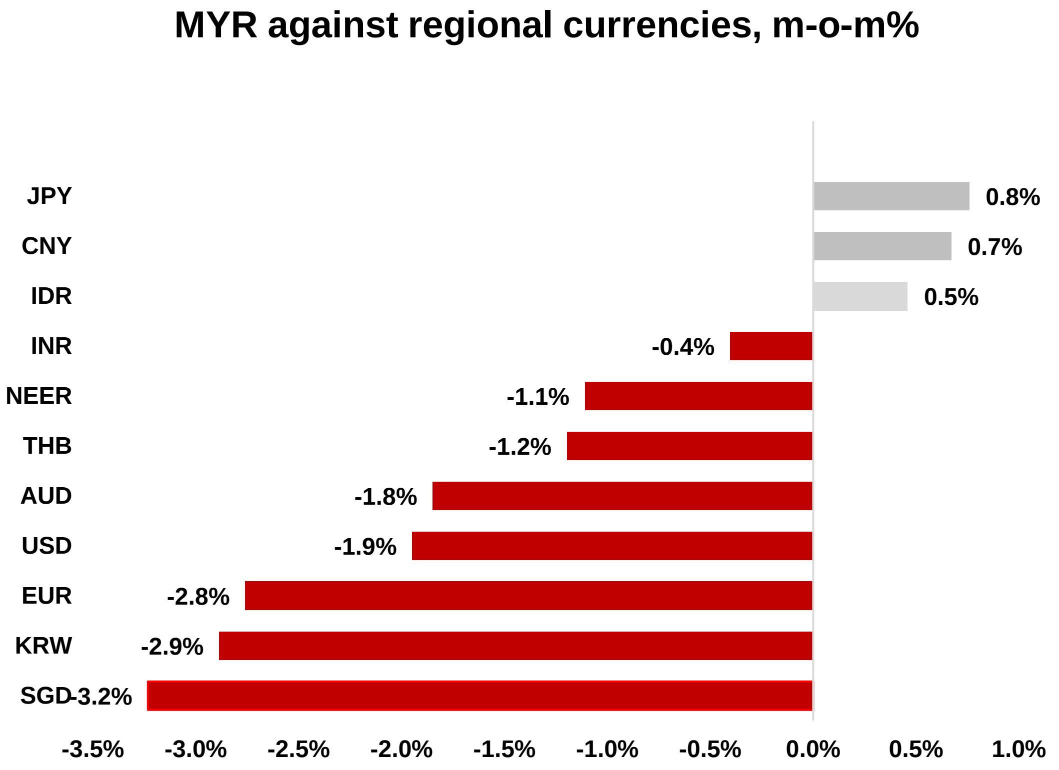
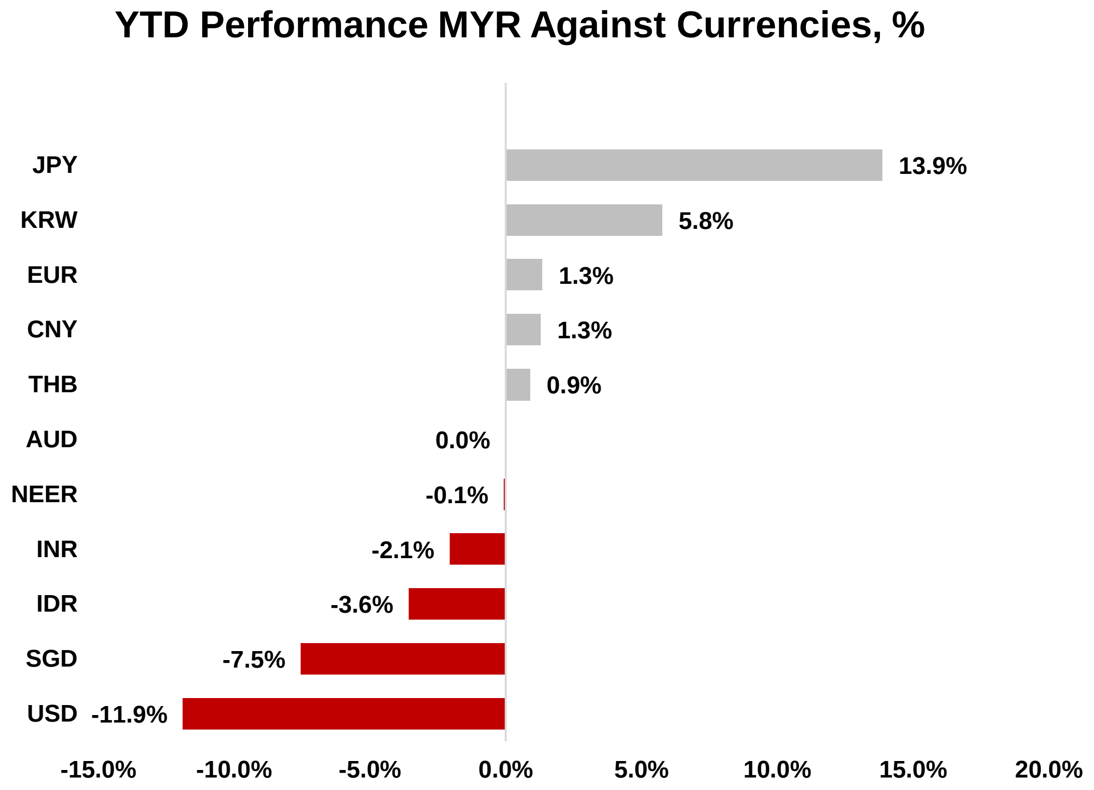




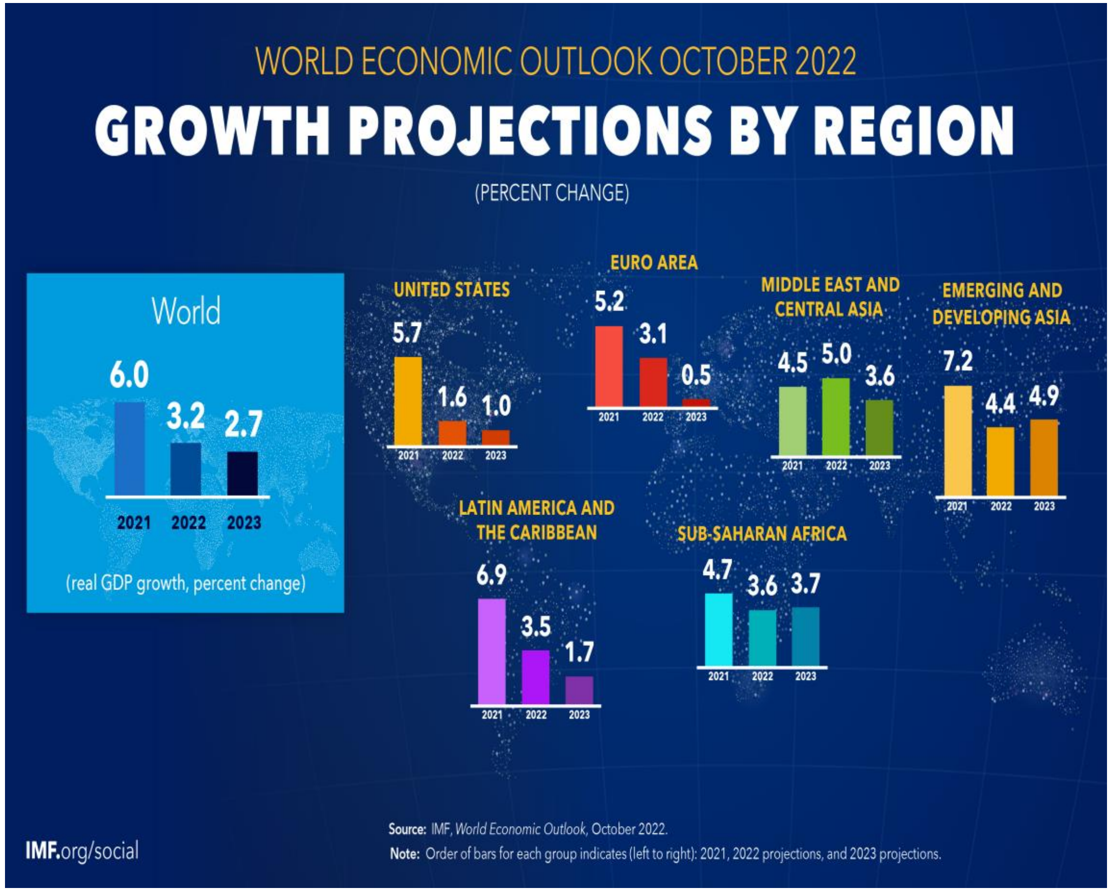
Source: Investing.com

- Ringgit ended lower against the USD on a monthly basis, closing at RM4.7260 on 31 October (30 September: RM4.6350).
- The weaker note stemmed from the Fed’s persistent commitment to cool down the inflation rate, which is at a 40-year high, and the political turmoil in the U.K. following its mini-budget proposal.
- While the recent FOMC meeting suggested that rate hikes might slow in the upcoming months, Fed Chair Jerome Powell warned the FFR would peak higher as rate hikes have yet to make a dent in inflation.
- We expect the ringgit would also be under pressure from the internal front amid GE15.

Section 2

THE GLOBAL ECONOMY

IMF: THE GLOBAL OUTLOOK REMAINS CLOUDY AS MANY ECONOMIES ANTICIPATED TO POISE CONTRACTION AMID SUPPLY-SIDE PRESSURES



Source: World Economic Outlook Update October 2022, IMF

- The 2022 global growth projection remains unchanged from the previous estimates made in July, but the incoming year's outlook was cut by 0.2%, marking its fourth downward revision this year.
- Undoubtedly, the cost-of-living crisis, tightening financial conditions, the protracted Russia-Ukraine military conflict, and the lingering Covid-19 pandemic, particularly in China, have weighed down the economic outlook.
- The three largest economies – the U.S., the E.U. and China – are expected to stall.

MEANWHILE, MALAYSIA WOULD GROW AT 4.4% IN 2023, LOWER THAN PREVIOUS JULY ESTIMATION OF 4.7%

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	Real GDP		
		Projections	
	2021	2022	2023
Asia	**6.5**	**4.0**	**4.3**
Advanced Asia	**3.7**	**2.2**	**2.3**
Japan	1.7	1.7	1.6
Korea	4.1	2.6	2.0
Taiwan Province of China	6.6	3.3	2.8
Australia	4.9	3.8	1.9
Singapore	7.6	3.0	2.3
Hong Kong SAR	6.3	–0.8	3.9
New Zealand	5.6	2.3	1.9
Macao SAR	18.0	–22.4	56.7
Emerging and Developing Asia	**7.2**	**4.4**	**4.9**
China	8.1	3.2	4.4
India[4]	8.7	6.8	6.1
ASEAN-5	**3.4**	**5.3**	**4.9**
Indonesia	3.7	5.3	5.0
Thailand	1.5	2.8	3.7
Vietnam	2.6	7.0	6.2
Philippines	5.7	6.5	5.0
Malaysia	3.1	5.4	4.4
Other Emerging and Developing Asia[5]	**3.0**	**3.7**	**4.4**
Memorandum			
Emerging Asia[6]	7.4	4.4	4.9

- The recovery in Asean is anticipated to be strong in 2022, with slightly over 5.0% for Indonesia and Malaysia, followed by the Philippines at 6.5%.
- Vietnam is expected to benefit from trade diversion from China, hence the growth projection at 7.0%.
- Although the region's growth in 2022 appears favourable, the growth momentum will moderate next year amid weaker external demand, supply-chain disruptions, as well as policy normalisation to restore price stability.

Source: World Economic Outlook Update October 2022, IMF

THE U.S.: 3Q2022 U.S. ECONOMY RECORDED POSITIVE GROWTH, BUT THE UNDERLYING DATA SHOWS SOME SIGNS OF SLOWING DOWN

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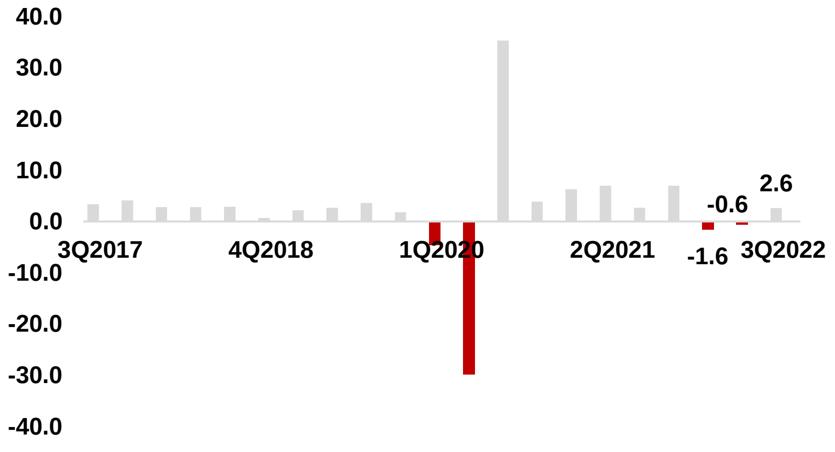
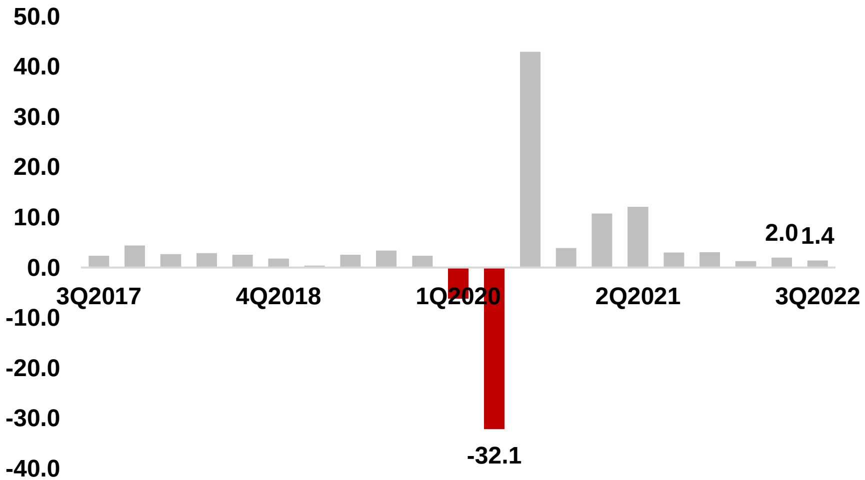
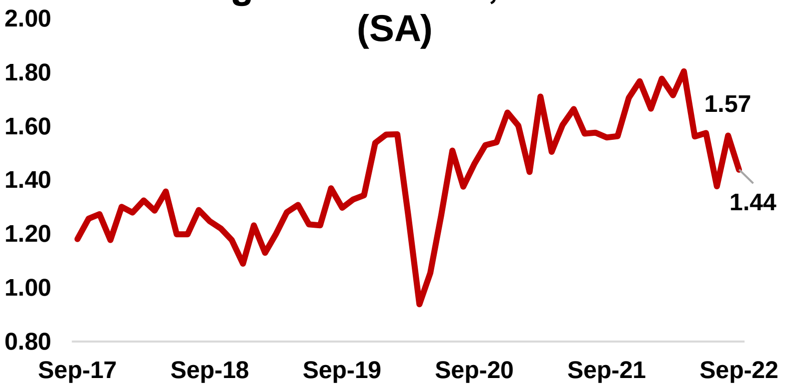
U.S. GDP growth, q-o-q%



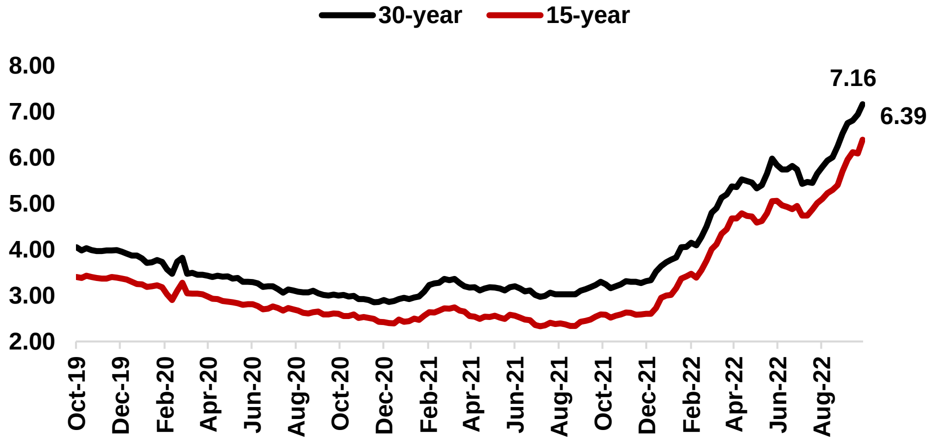
Consumer Spending, q-o-q%



Monthly new privately owned housing units started, '000 units (SA)



Mortgage Rates, %



- The US economy grew by an annual rate of 2.6% in 3Q2022, once again denying the so-called "technical recession" in the first two quarters of the year.
- The growth in the said quarter raised questions about the effectiveness of the Fed's aggressive rate hikes.
- American households are feeling the pinch, leaving them in a gloomy state less than a week before the mid-term elections.
- Meanwhile, mortgage rates rose rapidly this year because of the Fed's aggressive rate hikes.
- The supply of private homes has cooled amid worries over a drop in demand.

Sources: CEIC, U.S. Census Bureau, HUD

CHINA: THE ZERO-COVID STRATEGY CONTINUES, BUT THERE ARE SIGNALS THAT IT COULD BE EASED NEXT YEAR, STARTING WITH HONG KONG.

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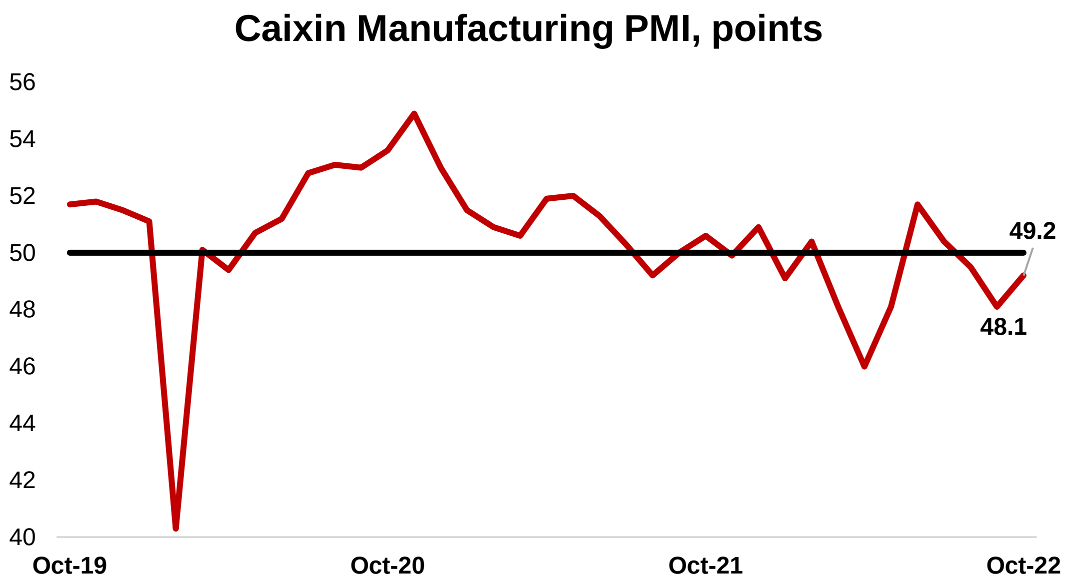

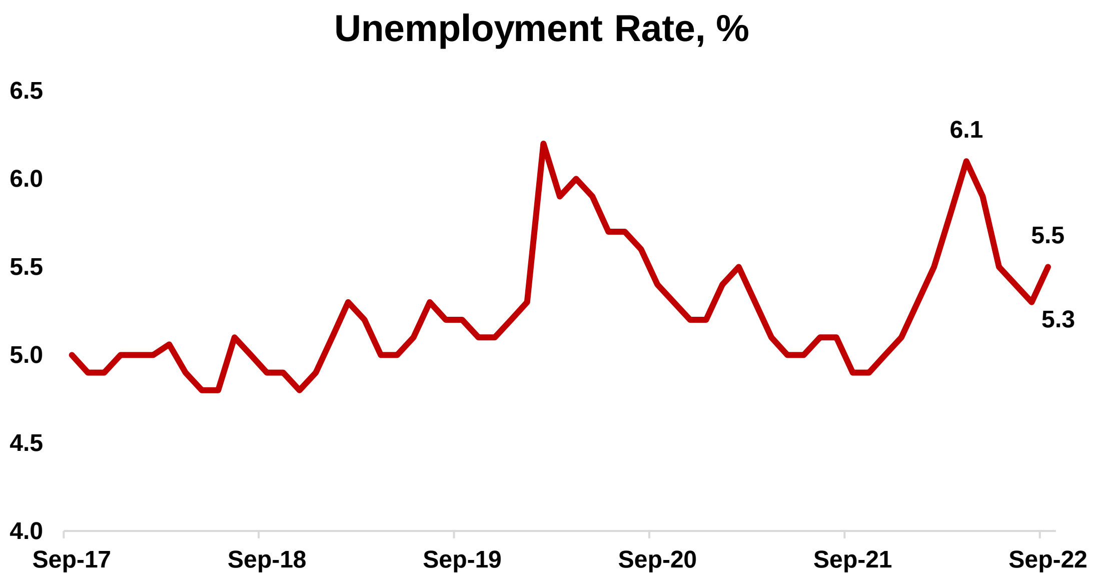

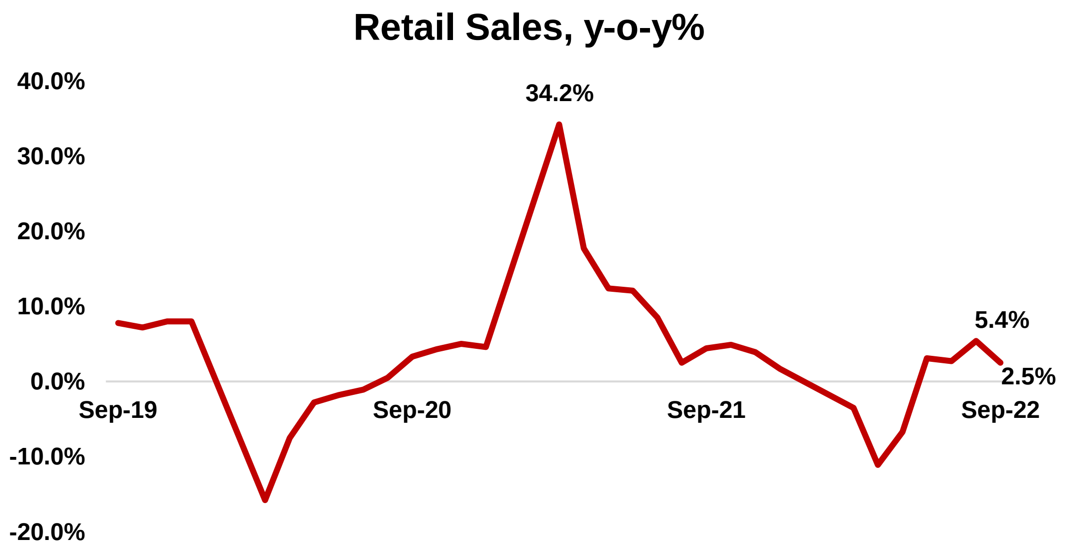

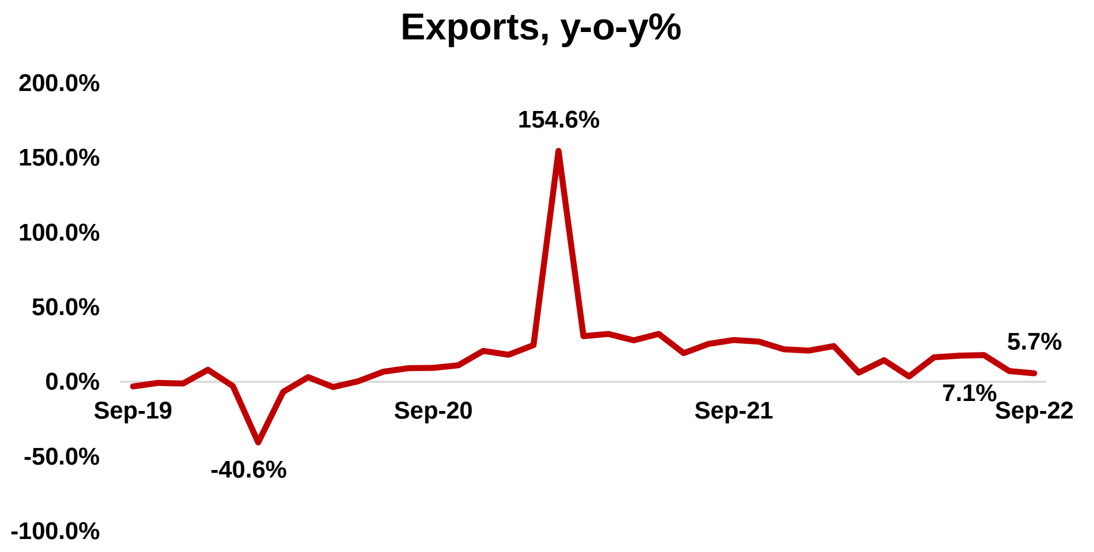

Source: CEIC

GLOBAL POLICY NORMALISATION: MAJOR CENTRAL BANKS FORMED THE "75-BPS HIKE" CLUB, ALL-OUT BATTLE TO TAME THE HIGH INFLATION RATE

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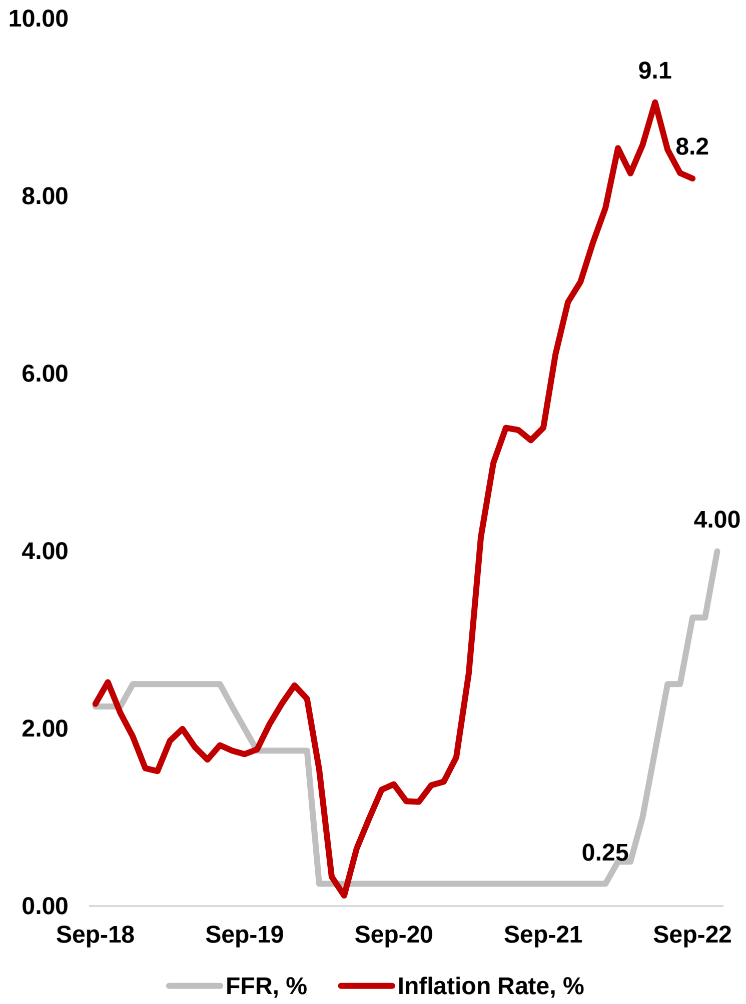
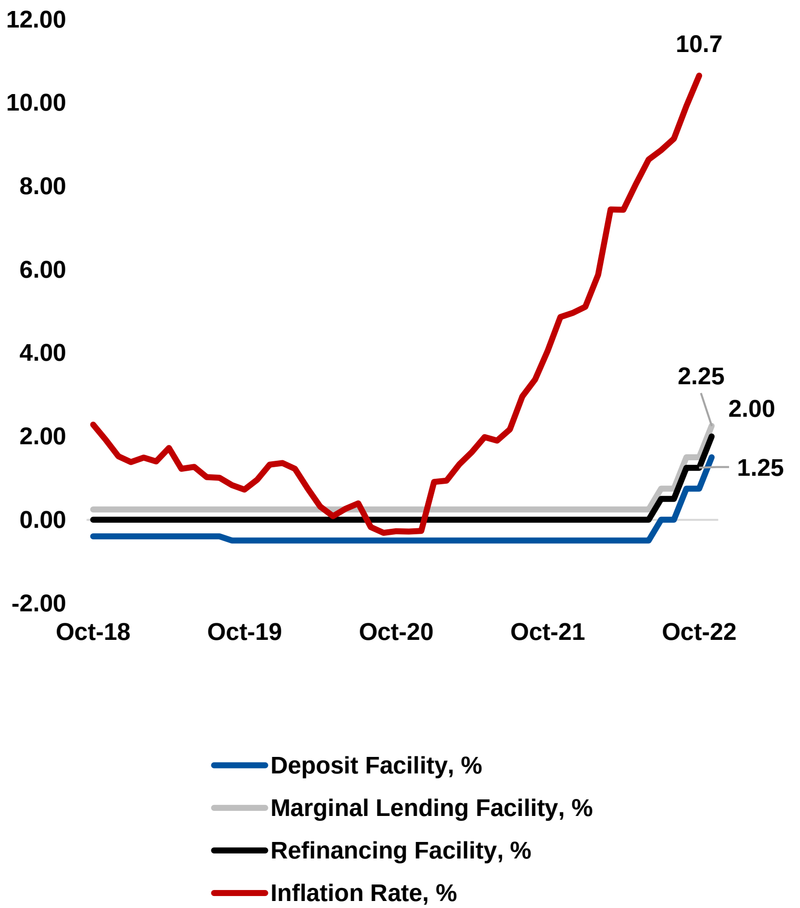
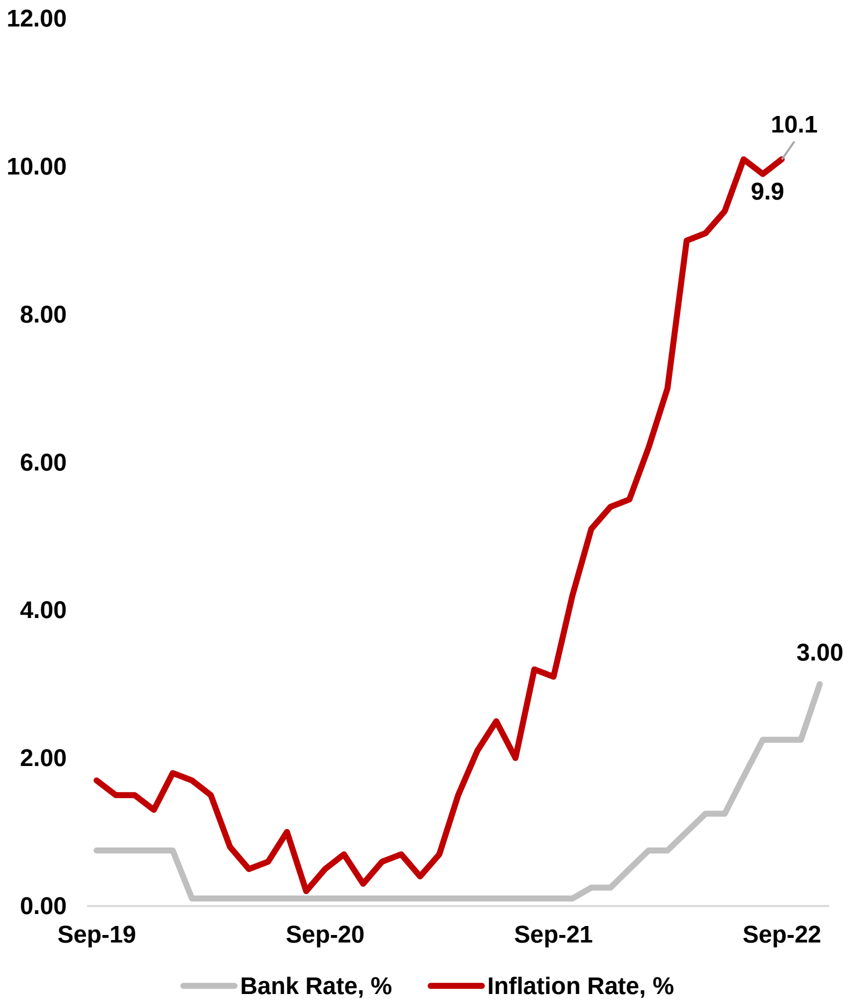
The U.S. – FFR vs. Inflation Rate, %



The E.U. – Key interest rates vs. Inflation Rate, %



The U.K. - Bank Rate vs. Inflation Rate, %



Source: CEIC

Section 3

DOMESTIC LANDSCAPE & SECTOR UPDATE

BNM DECIDED TO RAISE THE OPR BY 25 BPS TO 2.75% AMID CONTINUED POSITIVE GROWTH PROSPECTS IN THE ECONOMY

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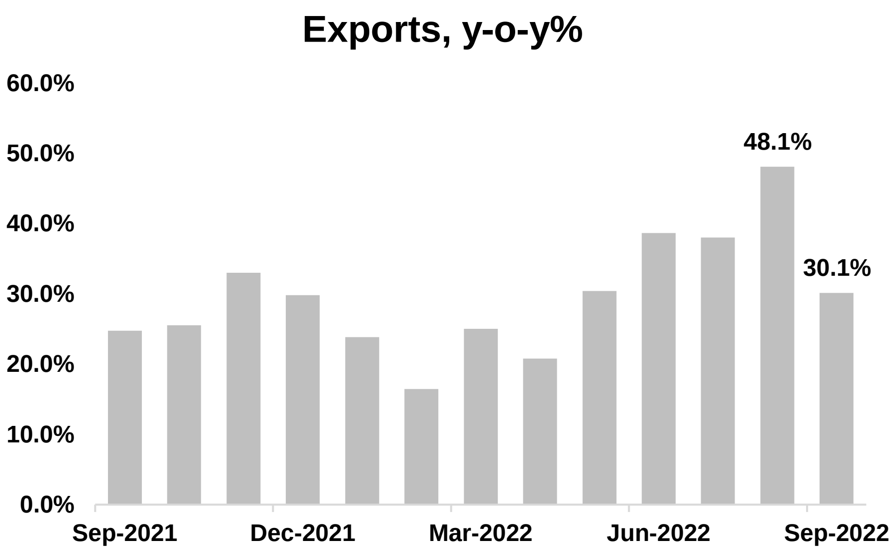
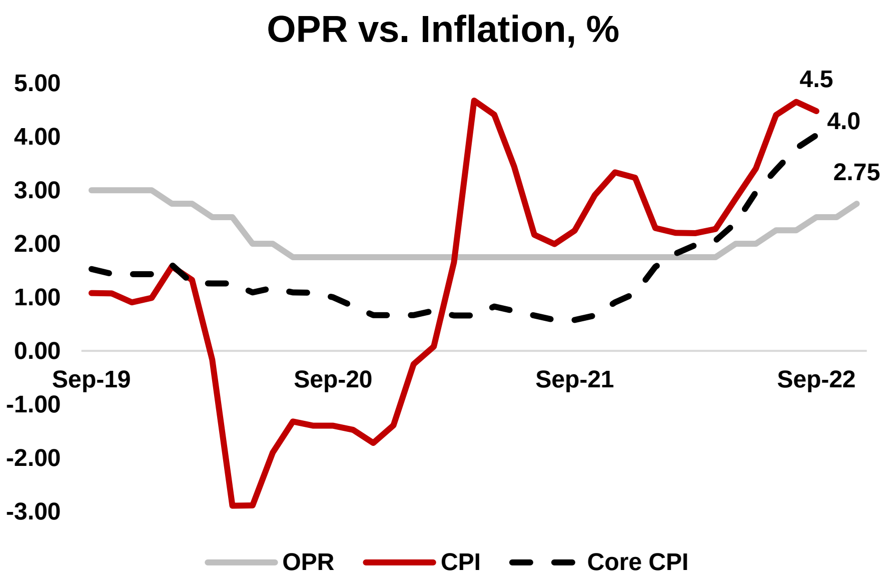
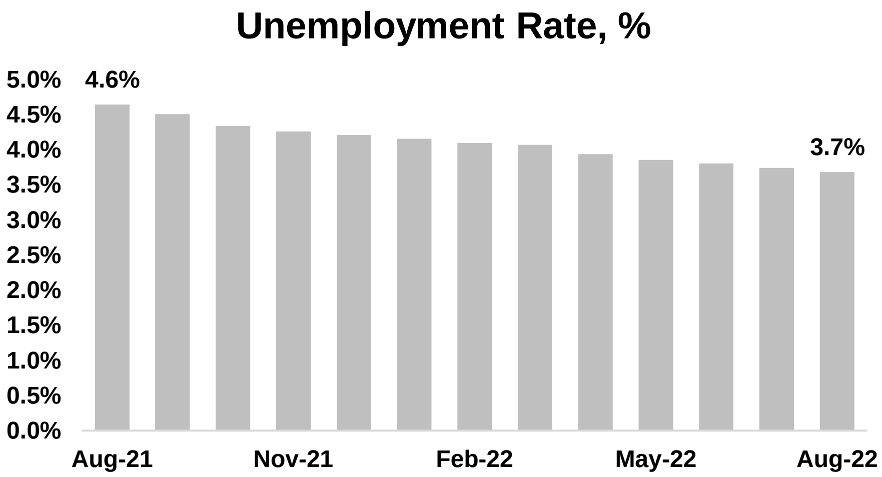
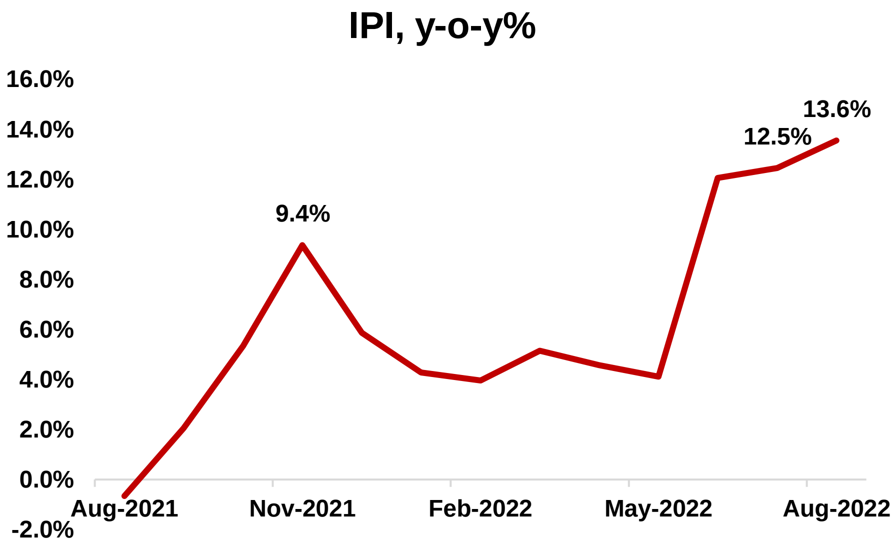




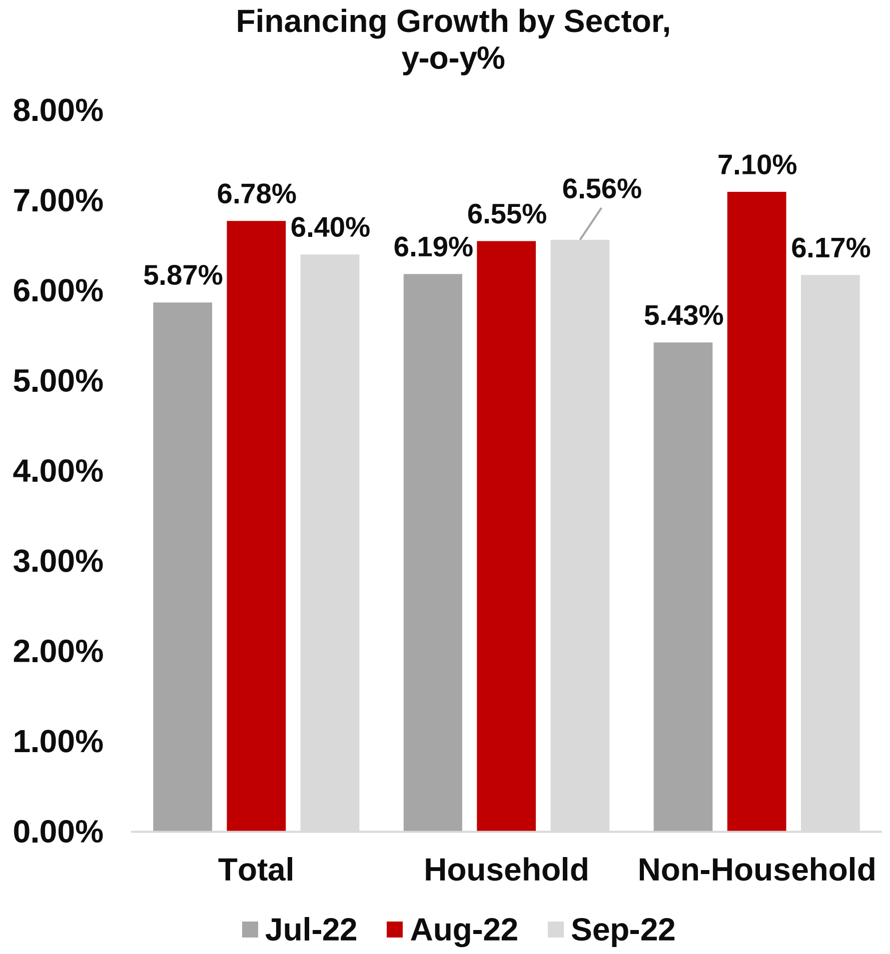


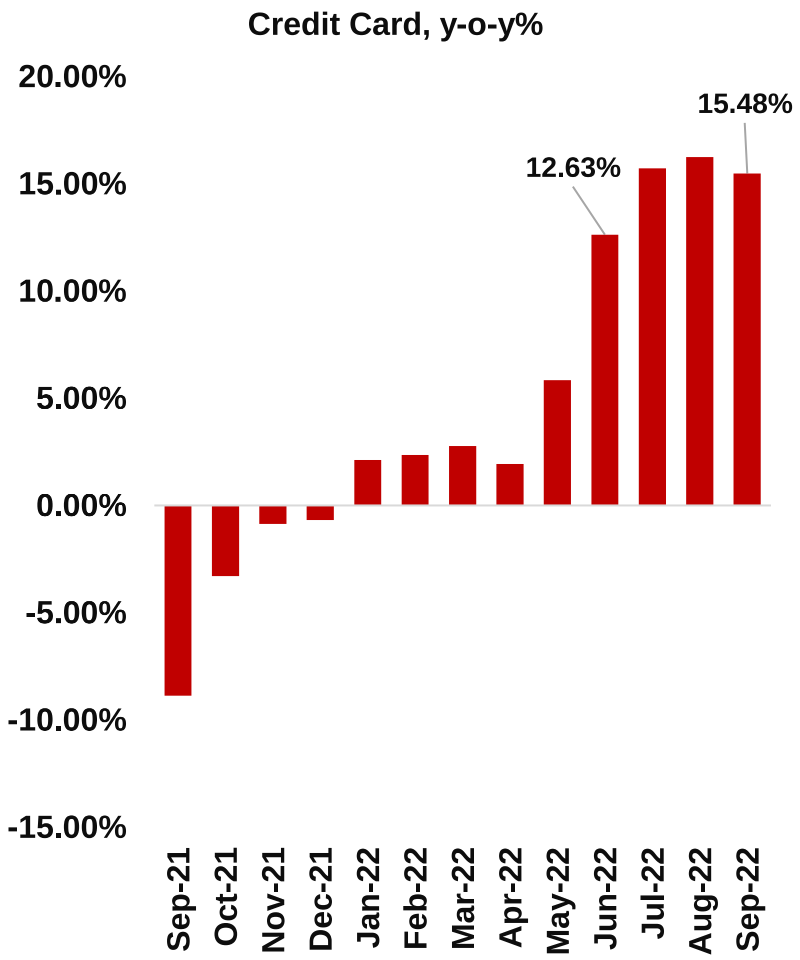


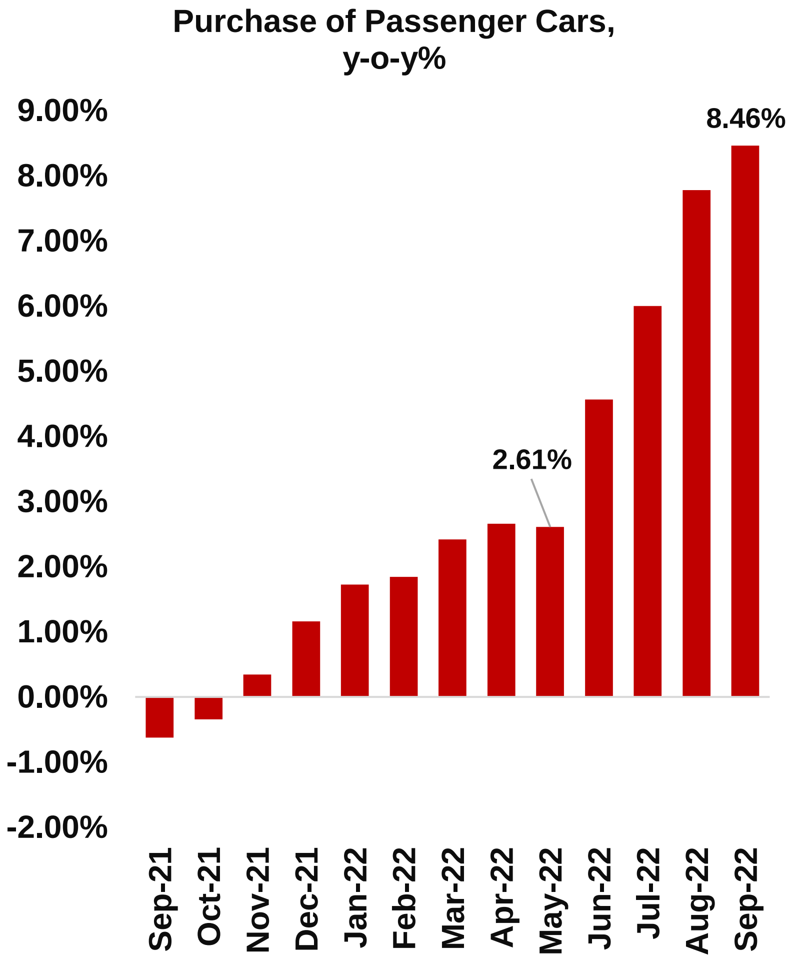
Source: CEIC

- Despite the public reaction to the consecutive rate hikes and GE15, BNM appears to be independent/autonomous in determining the direction of monetary policy.
- The GIG factor – the **Global** environment, **Inflation** and **Growth** prospects:
  - Global:
    - BNM is more concerned China right now.
  - Inflation:
    - OPR hike is a "pre-emptive" measure to avoid excessive demand. They may pause if necessary.
  - Growth:
    - No aggressive hikes in the offing to avoid over-tightening.

BANKING SECTOR: SOFTER FINANCING GROWTH IN SEPTEMBER WEIGHED BY THE NON-HOUSEHOLD SECTOR



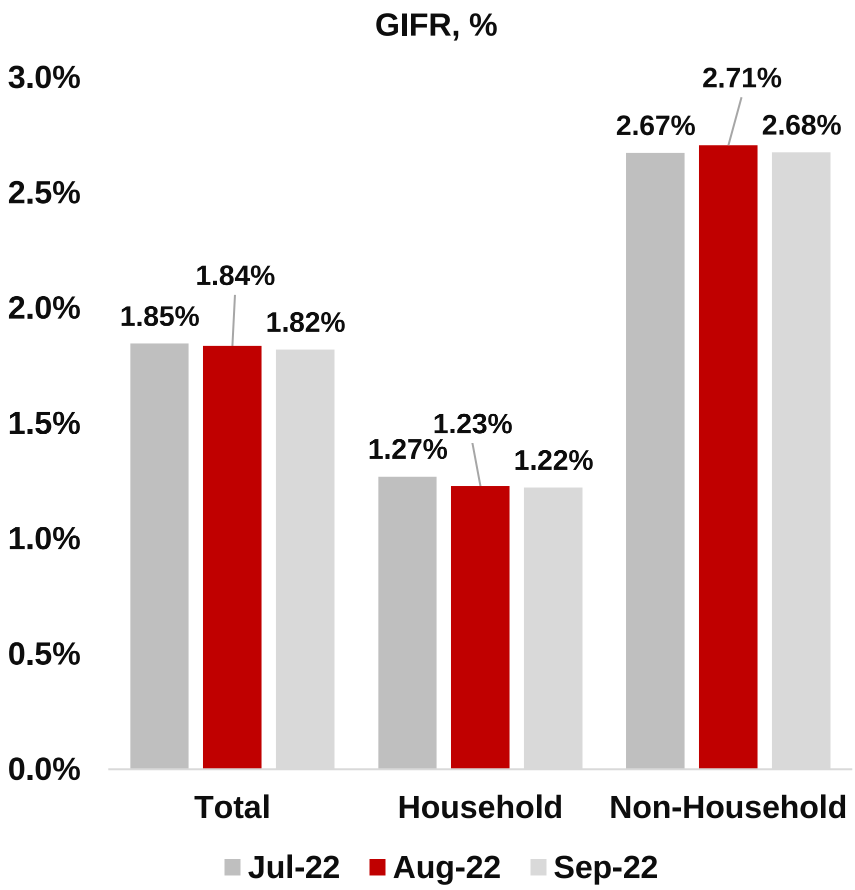


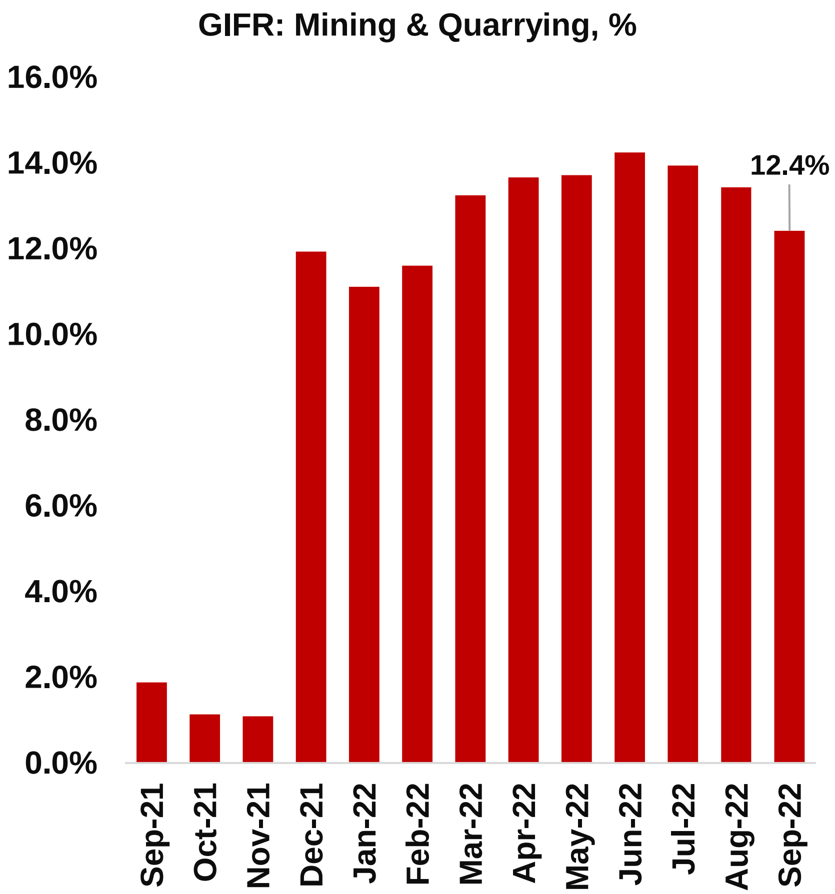


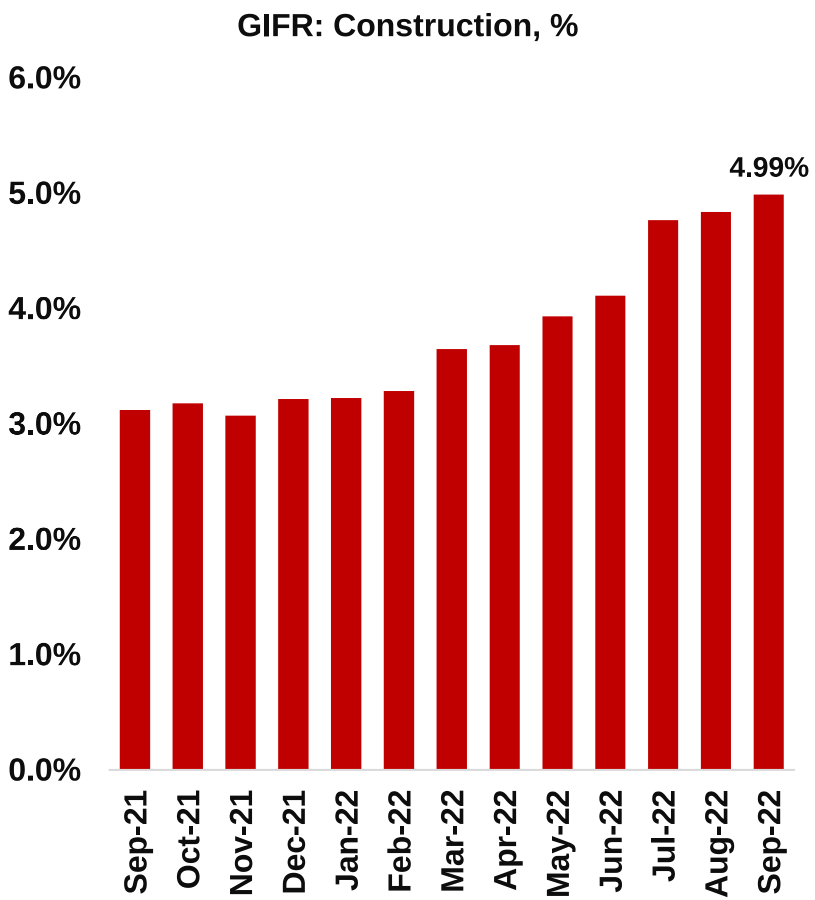
Source: CEIC

- Financing activities grew slower by 6.40% y-o-y in September compared to 6.78% in August.
- Nevertheless, within the Household sector, financing for credit cards remained at double-digit growth for four straight months while the purchase of passenger cars continued to record stellar performance.
- This shows Malaysia’s private consumption remains sturdy as the labour market improves further.

BANKING SECTOR: GROSS IMPAIRED FINANCING RATIO (GIFR) WAS SLIGHTLY LOWER IN SEPTEMBER







Source: CEIC

- The GIFR ratio came in lower at 2.68% in September 2022 (August 2022: 2.71%). The ratio's Construction sector, however, came in higher at 4.99% in September, while Manufacturing & Quarrying remained elevated to record weak asset quality.
- Looking forward, the banking sector could see higher default rates moving forward, clouded by the rising interest rate environment, as well as the economic slowdown going into 2023.

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