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WEEKLY ECONOMIC UPDATE

6 NOVEMBER 2023

ECONOMIC RESEARCH

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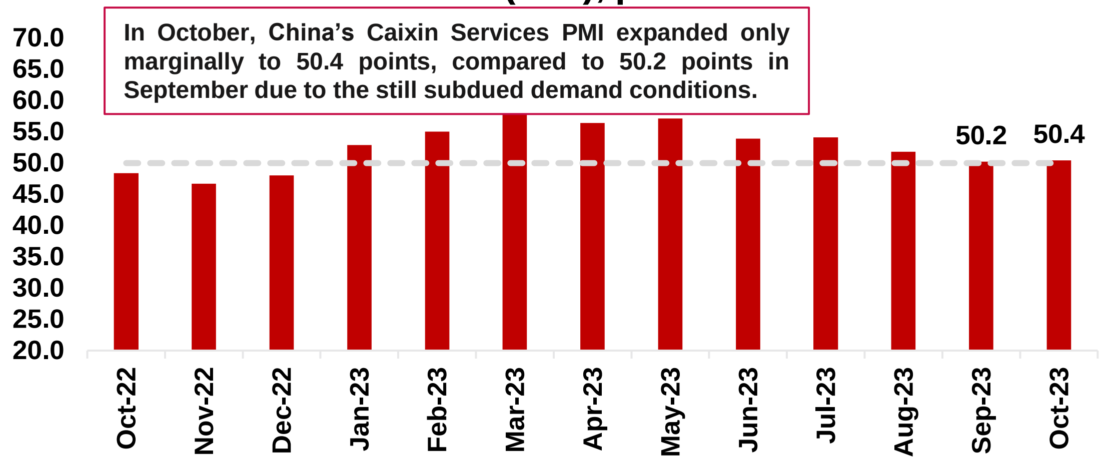
WEEKLY HIGHLIGHT: STILL SLUGGISH SERVICES AND MANUFACTURING ACTIVITIES IN CHINA

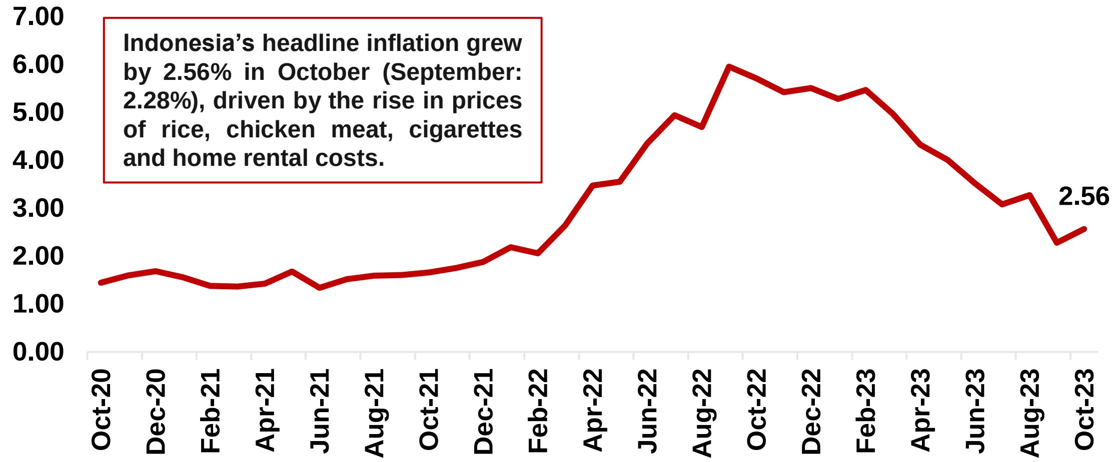
GLOBAL

China - Caixin Services Purchasing Managers' Index (PMI), points

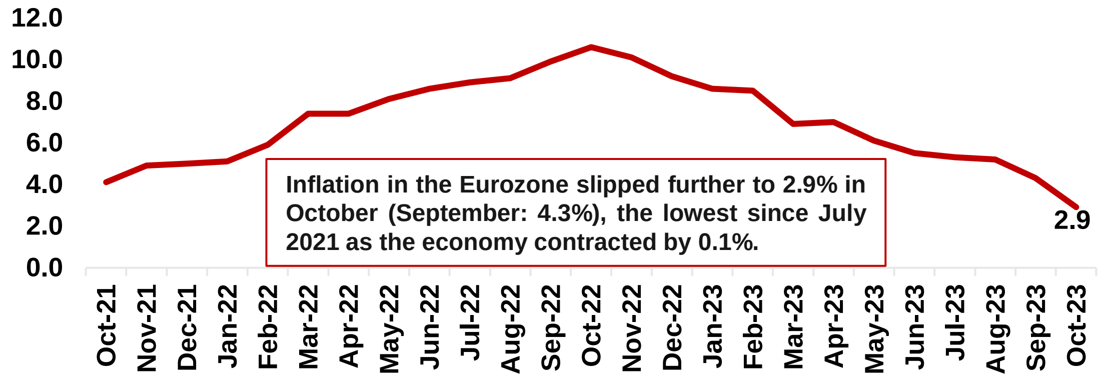


China - Caixin Manufacturing PMI, points

Indonesia - Consumer Price Index (CPI), y-o-y%



Euro Area – Harmonised Index of Consumer Prices (HICP) Inflation, y-o-y %



Sources: Markit Economics, Statistics Indonesia, Eurostat

U.S. WEEKLY HIGHLIGHT: SIGNS OF COOLING IN THE LABOUR MARKET

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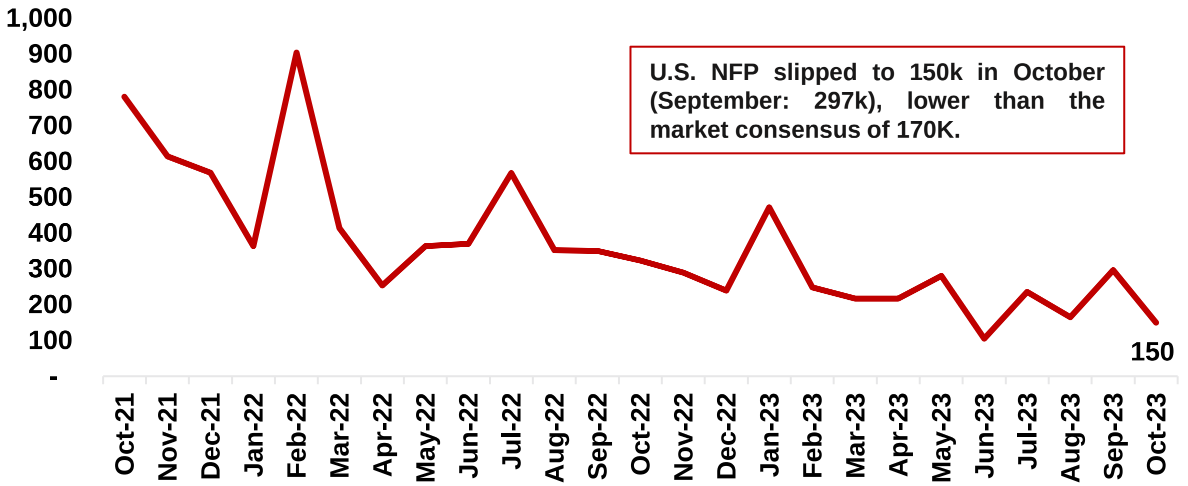
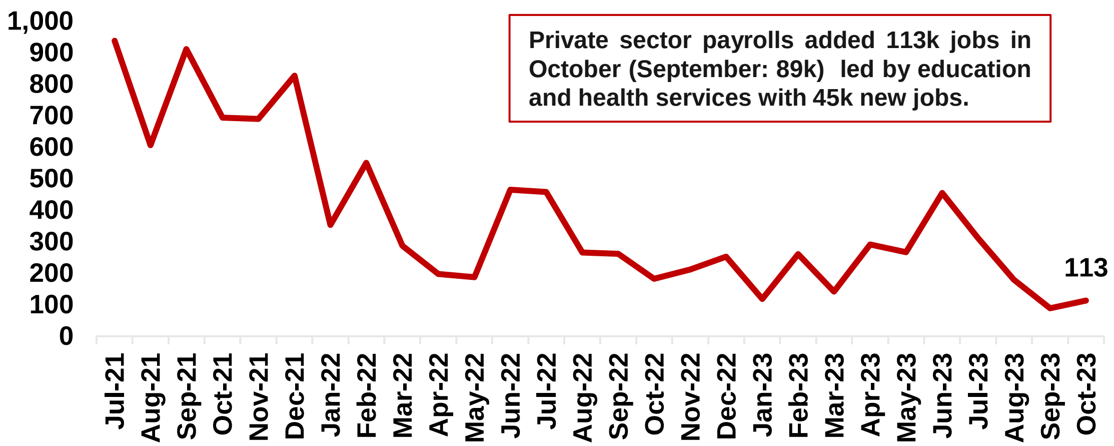
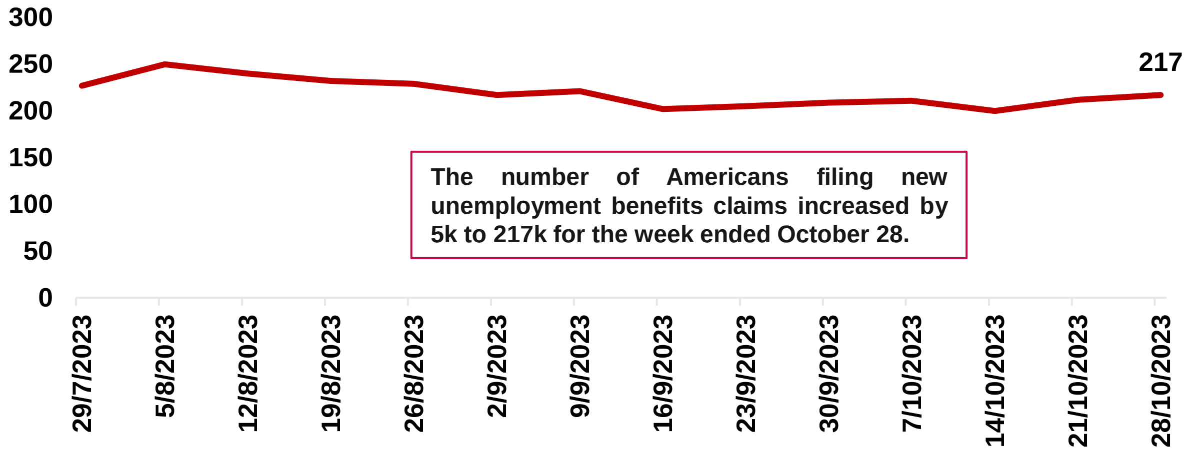
U.S. Non-Farm Payroll (NFP), m-o-m changes ('000)



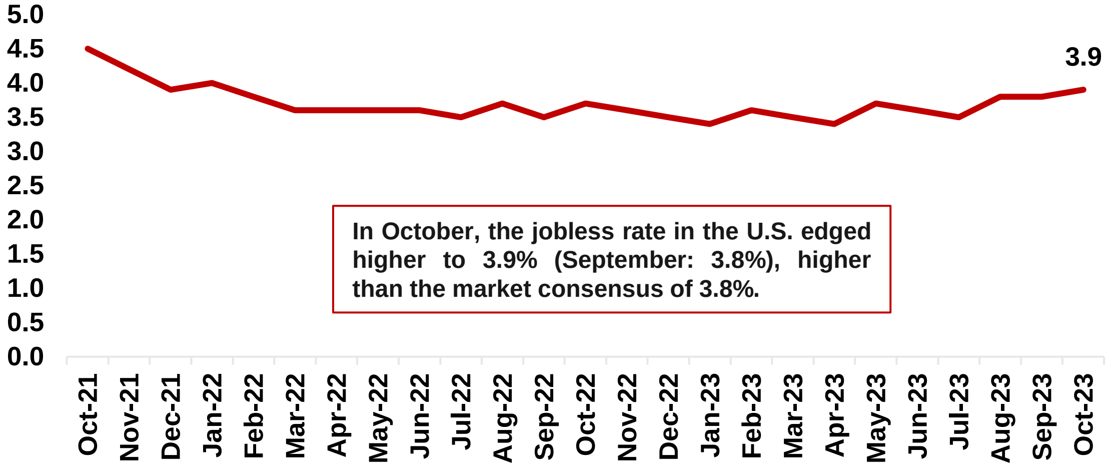
U.S. ADP Nonfarm Employment, m-o-m changes ('000)



U.S. Weekly Initial Jobless Claims (IJC), '000

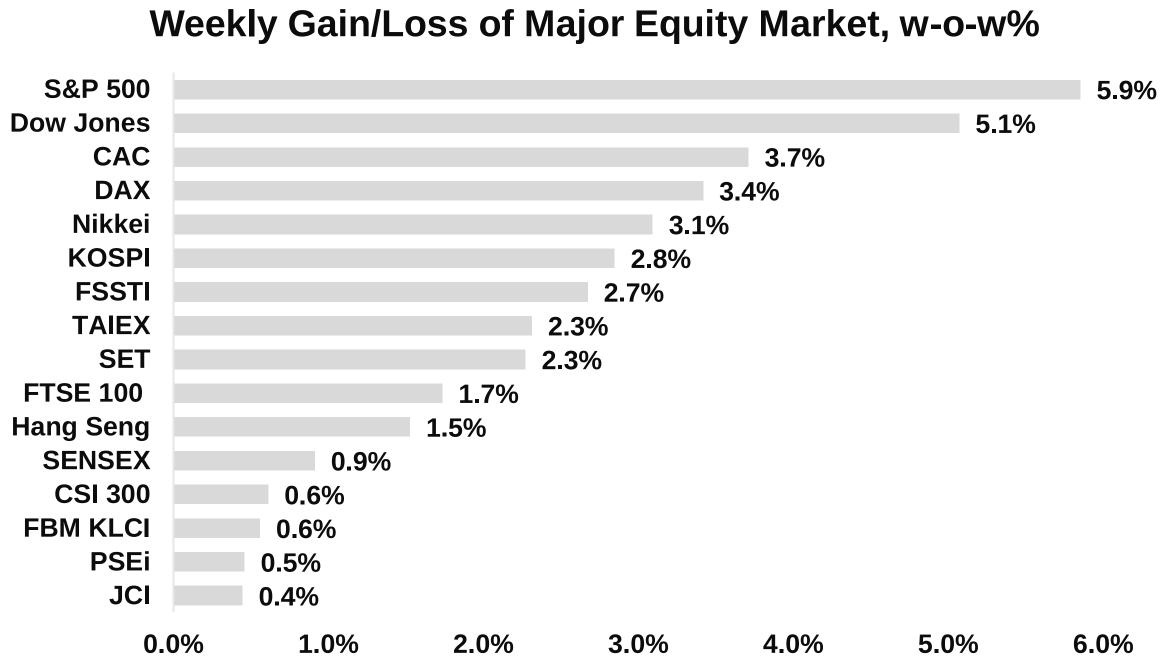


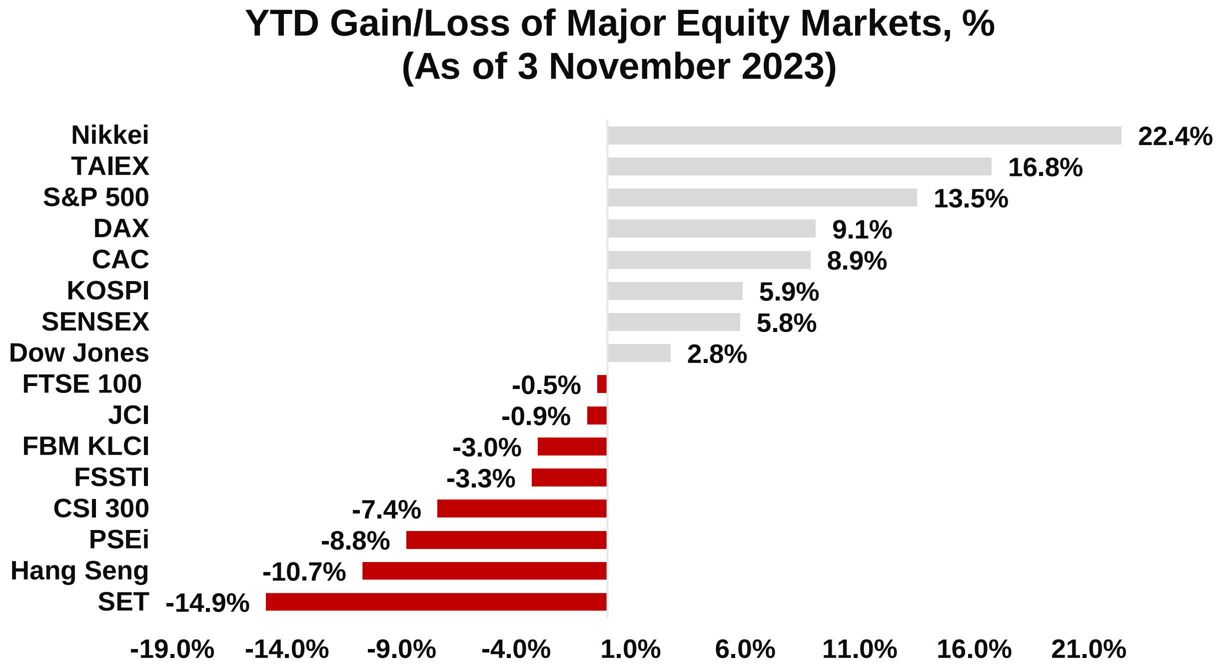
U.S. Unemployment Rate, %



Sources: U.S Bureau of Labor Statistics, U.S. Department of Labor

REGIONAL EQUITY: GLOBAL STOCKS MARKET JUMPED INTO POSITIVE TERRITORY ON HOPES THAT THE FED WILL END ITS RATE HIKE CYCLE SOON



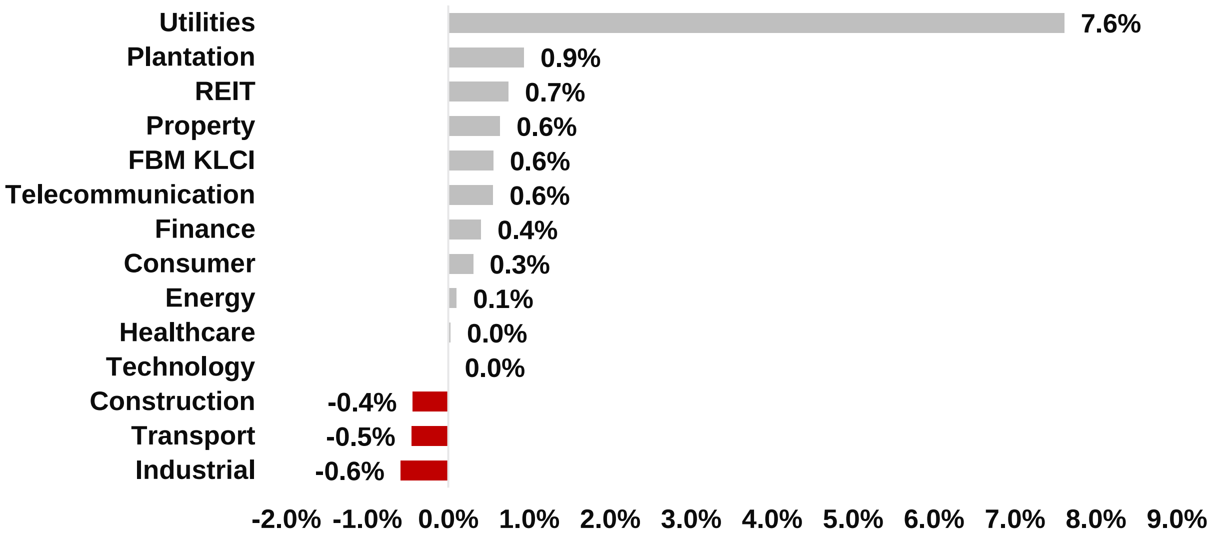


Sources: Bursa, CEIC

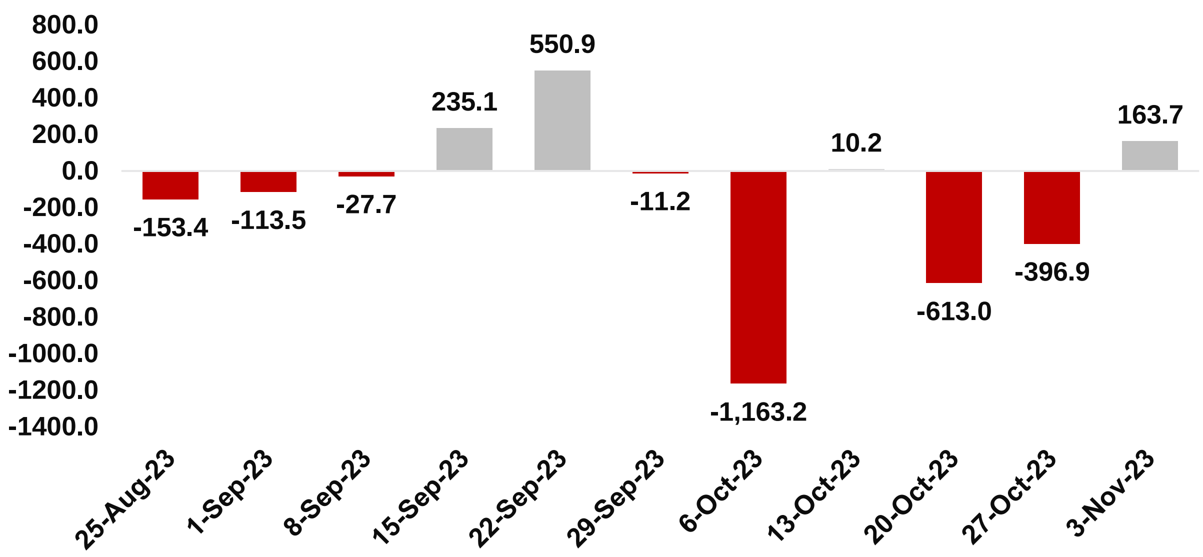
- All regional benchmark indices ended in the green last week as traders cheered a pause in U.S. interest rate hikes on November 2.
- Of note, the U.S. S&P 500 and Dow Jones were leading the gainers by 5.9% and 5.1%, respectively. In addition, the European shares, France's CAC (+3.7%) and Germany's DAX (+3.4%), also closed significantly higher last week as the U.S. jobs report indicated the loosening of the labour market, buttressing bets that the U.S. Federal Reserve (Fed) is ending the interest rate hikes.
- Additionally, Asian shares also extended a global rally with Japan's Nikkei (+3.1%), Korea's KOSPI (+2.8%) and Singapore's FSSTI (+2.7%) among the top performers as the Fed Chair, Jerome Powell feeds hopes that the U.S. interest rates may have peaked.

DOMESTIC EQUITY: UPBEAT MOMENTUM IN THE LOCAL STOCKS MARKET AMID POSITIVE REGIONAL SENTIMENT

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



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

- Most Bursa sectoral indices ended on a positive note for the week ending November 3. Gaining by the largest margin, the Utilities index led the winners at +7.6%, followed by the Plantation (0.9%) and REIT (+0.7%) indices.
- Reflecting the rally in the global stocks, the upbeat performance in the local stock market was attributed to the Fed's decision to hold rates steady. Additionally, positive sentiments extended in the local bourse following BNM's decision to hold the Overnight Policy Rate (OPR) at 3.00% for the rest of the year.
- Meanwhile, the Industrial index was the biggest loser (-0.6%) amid cautious trading ahead of the Industrial Production Index (IPI) reports for September due November 7. The Transport and Construction indices also recorded losses of -0.5% and -0.4%, respectively.
- Foreign investors turned net buyers after two consecutive weeks of net selling, recording a total inflow of RM163.7 million for the week.

FIXED INCOME: BONDS RALLIED AS FED CHAIR HINTED ON THE END OF RATE HIKE CYCLES

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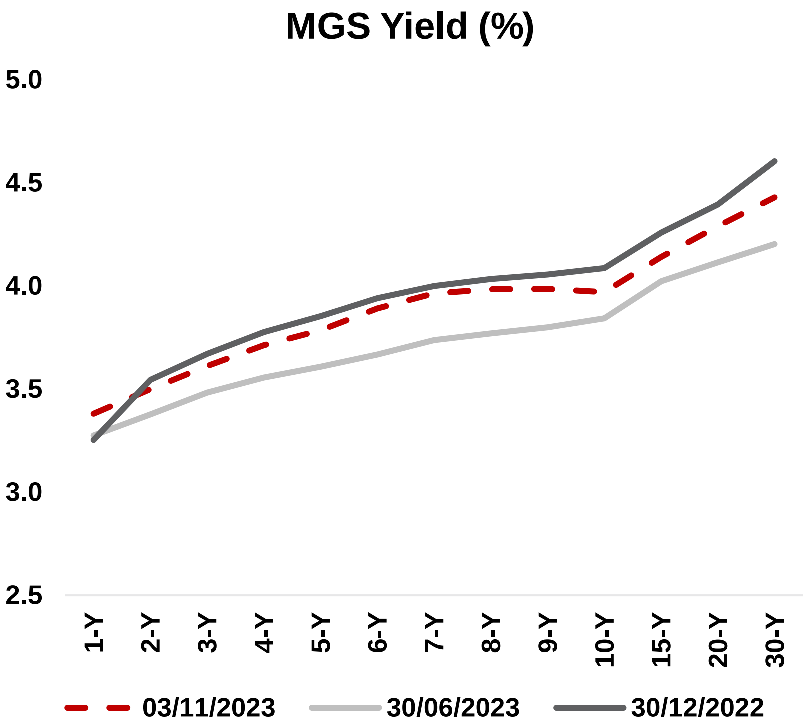
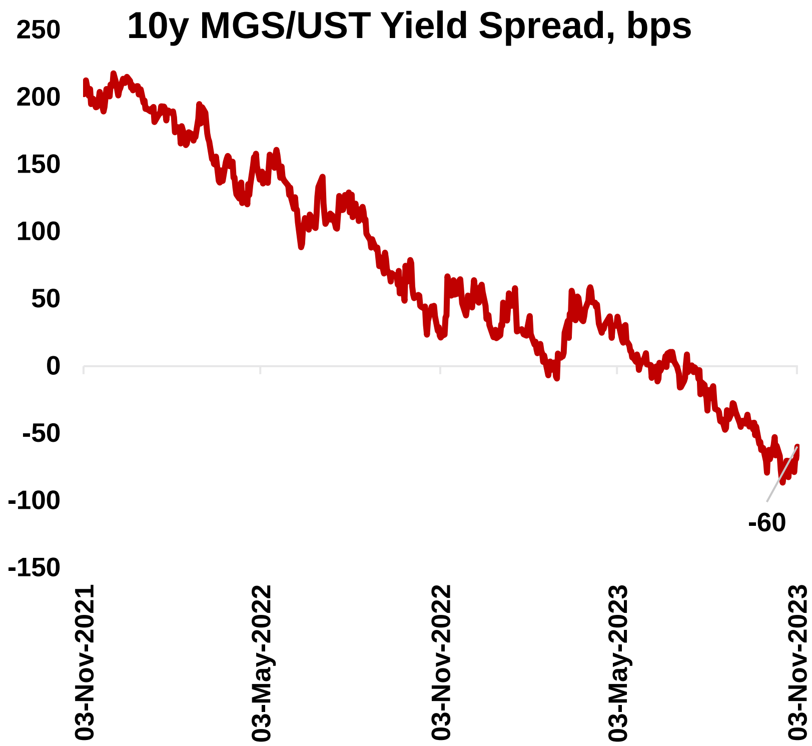
Weekly Changes, basis points (bps)

UST	Yields (%) 27-Oct-23	Yields (%) 3-Nov-23	Change (bps)
3-Y UST	4.84	4.62	-22
5-Y UST	4.76	4.49	-27
7-Y UST	4.83	4.55	-28
10-Y UST	4.84	4.57	-27
MGS	**Yields (%) 27-Oct-23**	**Yields (%) 3-Nov-23**	**Change (bps)**
3-Y MGS	3.69	3.61	-7
5-Y MGS	3.89	3.79	-10
7-Y MGS	4.12	3.97	-15
10-Y MGS	4.14	3.97	-16
GII	**Yields (%) 27-Oct-23**	**Yields (%) 3-Nov-23**	**Change (bps)**
3-Y GII	3.72	3.64	-8
5-Y GII	3.89	3.79	-11
7-Y GII	4.11	3.98	-13
10-Y GII	4.13	4.00	-13

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) rallied last week as investors revised their interest rates outlook after the Federal Open Market Committee (FOMC) meeting. The UST yields slipped between 22bps and 28bps, with the 10-Y UST yield dropping to 4.57%. Looking forward, investors expect that the Fed will put an end to its tightening cycle sooner than it projected as the latest U.S. labour market performance has shown signs of loosening.
- Both Malaysian Government Securities (MGS) and Government Investment Issues (GII) yield curves bullishly steepened, with MGS yields falling in the range of 7bps and 16bps. Meanwhile, GII yields dropped between 8bps and 13bps.
- Due to a faster rise in UST yields, the 10y MGS/UST yield spread narrowed to -60bps relative to -71bps in the previous week.

FX MARKET: RINGGIT ENDED ON A SLIGHTLY STRONGER NOTE DURING THE WEEK

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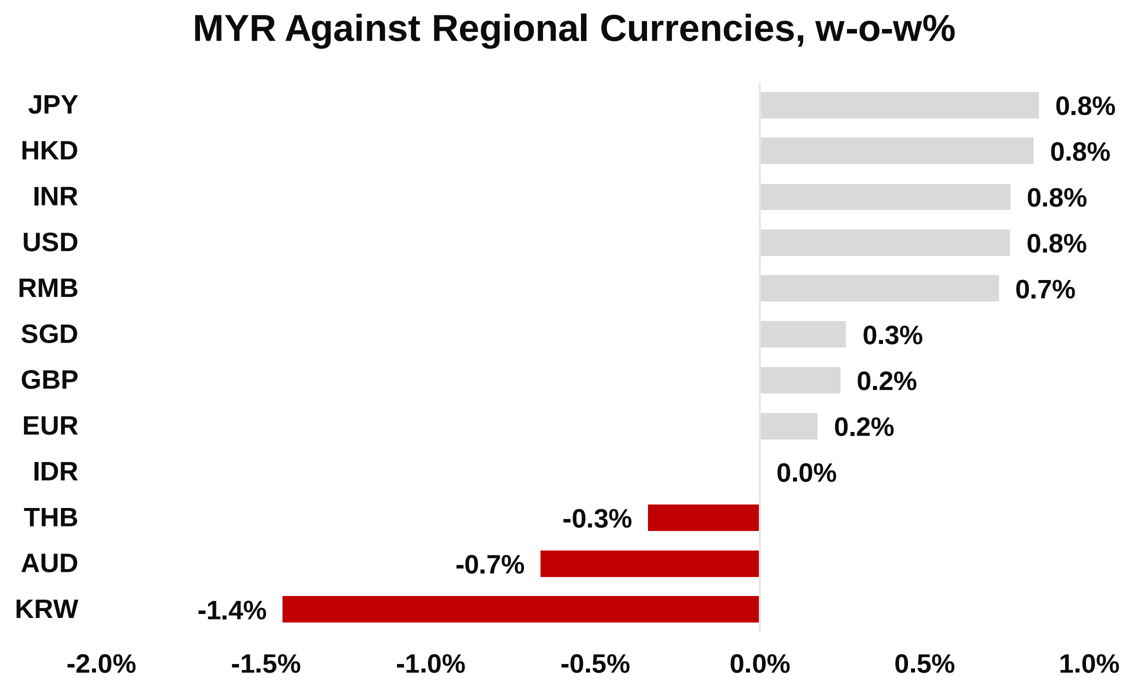

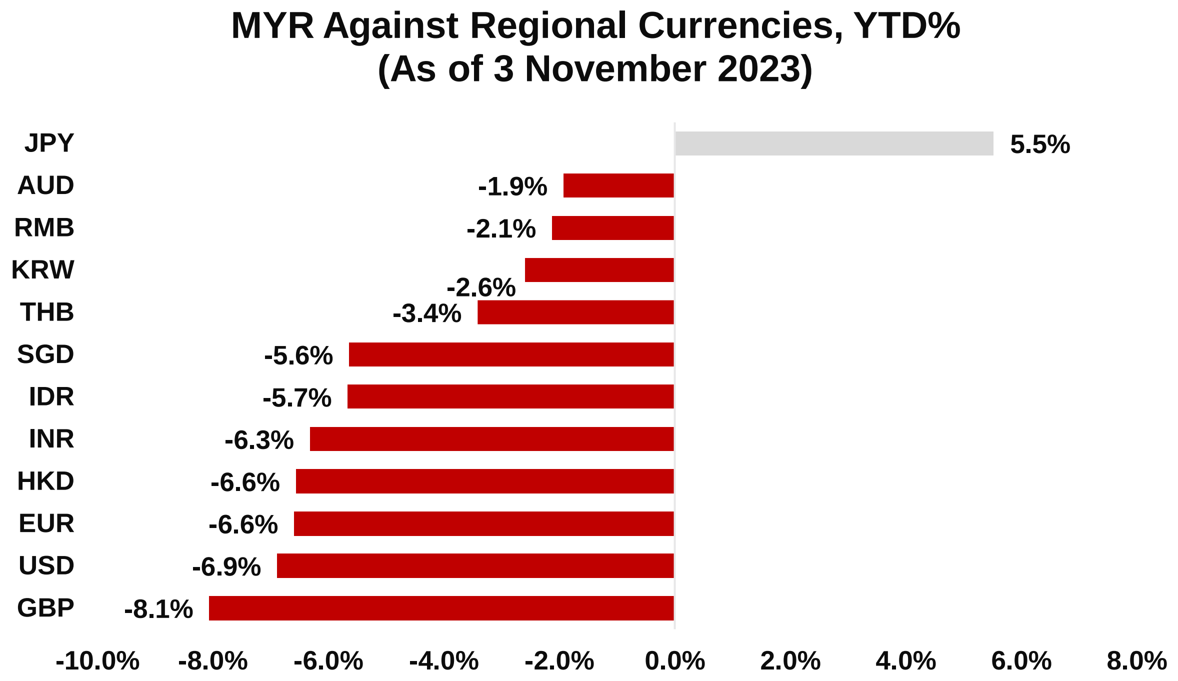

Source: BNM

- Following several weeks of extending losses against the USD, the Ringgit appreciated during the week, closing at RM4.7395 on November 3 from RM4.7755 in the previous week.
- This could have been attributed to the USD index, which saw a drop of almost 1.5% last week when the FOMC meeting decided to maintain the Fed Funds Rate (FFR), suggesting that the current rate-hiking cycle might have peaked. However, they remained open to additional rate hikes should inflationary pressures accelerate in the months ahead.
- Notwithstanding this, we posit that room for local note's appreciation is limited in view of the still ongoing geopolitical tensions, which prompts a flight to safe-haven assets, as well as the unanticipated contraction in China's manufacturing PMI during October.

COMMODITY: OIL PRICES FALL TO USD85.0 PER BARREL DURING THE WEEK – THE FIRST TIME SINCE EARLY OCTOBER THIS YEAR

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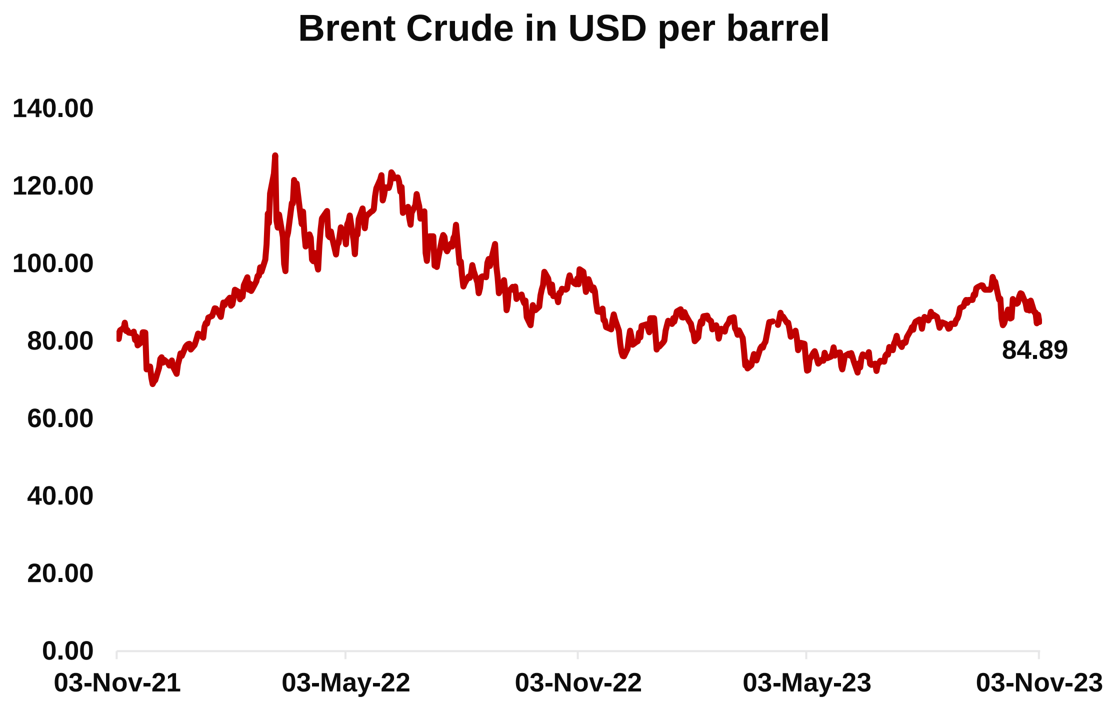
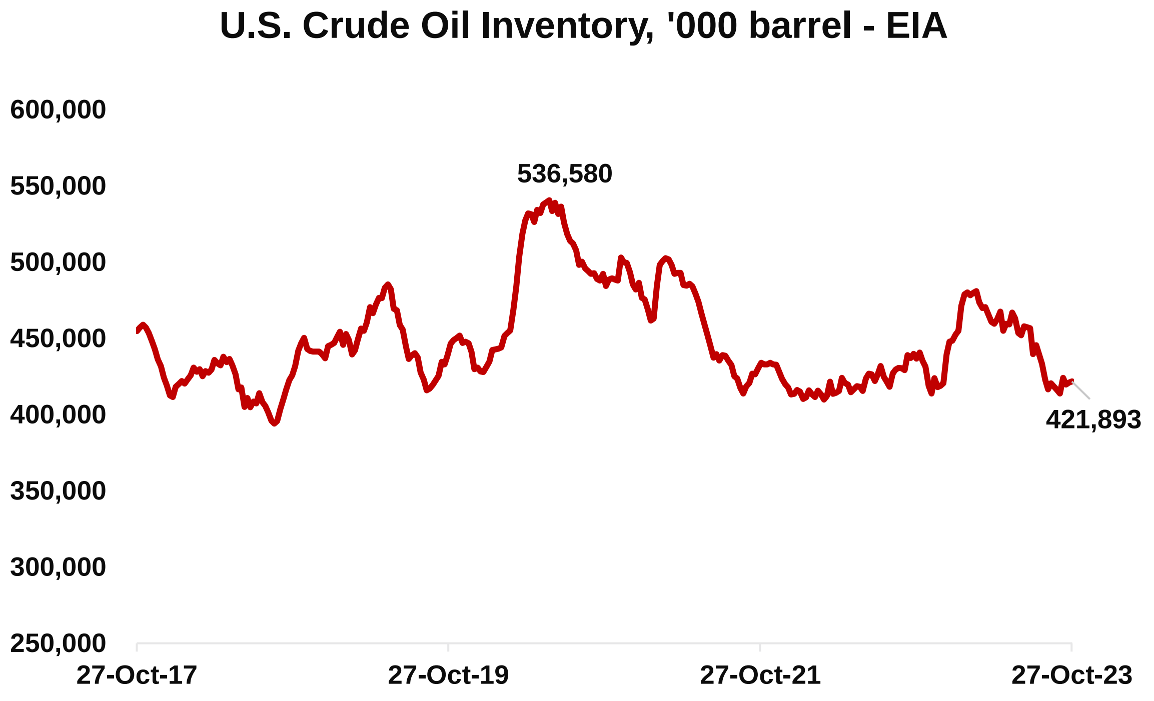
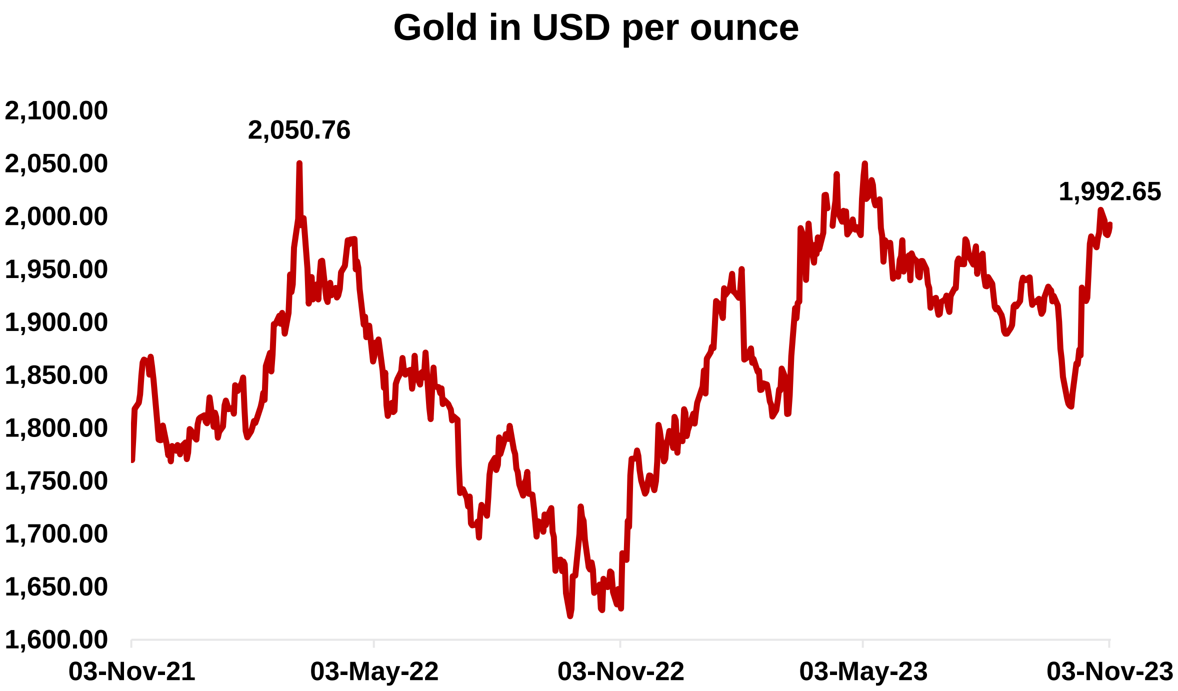


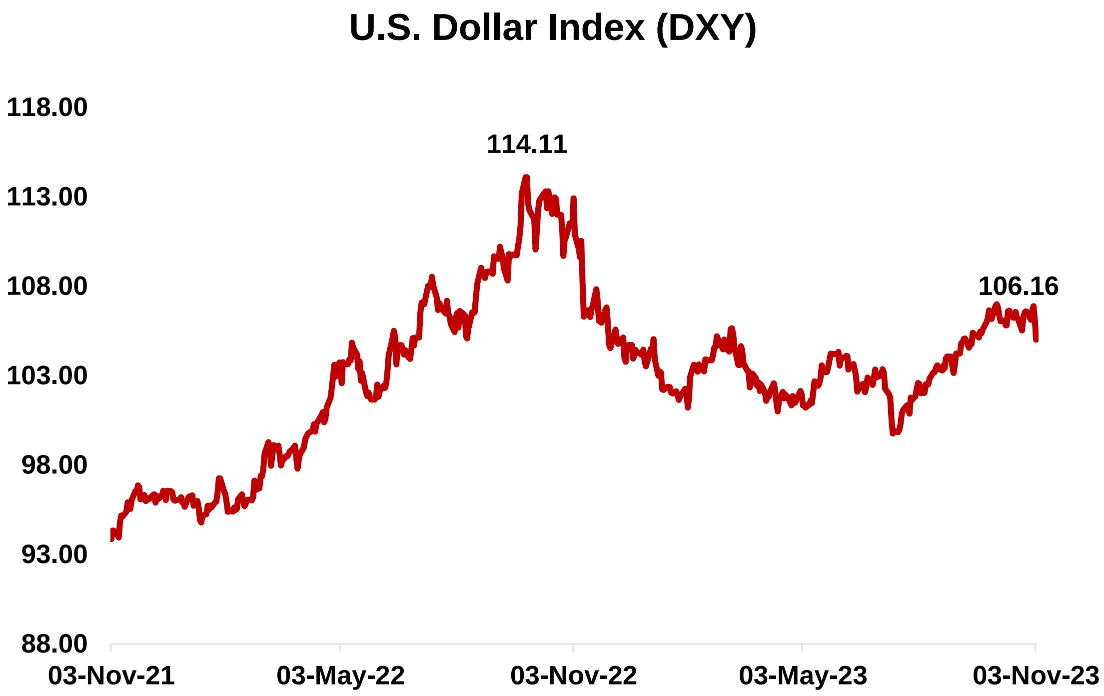


Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price dropped over 6.0% last Friday, marking its second weekly decline as concerns over Middle East tension that would disrupt supply eased.
- Concurrently, the demand outlook remained gloomy as the U.S.' ISM Services PMI fell more than expected (Act: 51.8 points vs. Est: 53.0 points), whereas in China – the world's biggest importer saw the factory output in contraction (Oct: 49.5 points vs. Sept: 50.6 points).
- Also, the U.S. crude oil inventories have been building up on the supply side, as EIA reported. The crude oil stockpiles rose by 0.8 million barrels to 421.9 million barrels in the week ending 27 October 2023 from 421.1 million barrels in the previous week, signaling lower demand in the world's largest economy.

COMMODITY: GOLD PRICE RETREATED FROM THE HIGHEST LEVEL SINCE MAY IN THE PREVIOUS WEEK





Sources: U.S. Bureau of Labor Statistics, Bloomberg

- The greenback slipped following the Fed's decision to keep the rates steady. Further, it weighed on by the weaker-than-expected job creation of only 150k in October (September: 297k) against the market expectations of 170k.
- Despite the decline, as mentioned earlier, gold prices failed to gain. The bullion price had retreated slightly last week as investors' risk appetites lifted by reduced expectations of another Fed rate hike by the end of the year. At the time of writing, 95.4% of market participants anticipate rates to be maintained at 5.25-5.50% at the upcoming FOMC meeting in December.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- U.K. GDP for 3Q2023 will be reported with consensus pointing to another quarter of stagnation (2Q2023: 0.6%), which is in line with the Bank of England's (BoE) economic projections released on November 2. The BoE currently expects the U.K. GDP to have flatlined in the said quarter, marking a downgrade from its projections in August, as there have been increasing signs that higher interest rates are taking a toll on growth. According to the official statistics, August's monthly GDP is estimated to have grown by 0.2%, rebounding from a fall of 0.6% in July. Given this, the economy will need to deliver at least a 0.4% growth for September to avoid slipping into a contraction in 3Q2023.

- Latest economic data indicates a potential 25bp rate hike by the Reserve Bank of Australia (RBA) this week. While leaving its policy rate unchanged at 4.10% for the fourth consecutive time during the last meeting in October, the RBA has signalled that further rate hikes remained on the cards. Some analysts are not convinced with another hike as Australia's inflation eased to 5.4% y-o-y in 3Q2023 (2Q2023: 6.0%) but remained double the RBA's target of between 2.0% and 3.0%. Furthermore, a decline in the unemployment rate in September (3.6% vs. August: 3.7%) and an uptick in retail sales growth at 0.9% m-o-m (August: 0.3%) would offer more confidence to the RBA that the economy can withstand further rate hikes.

- This week will also feature 3Q2023 GDP reports from Indonesia and the Philippines. Indonesia's 3Q2023 GDP growth came in at 4.94% (2Q2023: 5.17%), the weakest in two years. Growth was dragged down by a slowdown in household consumption amid higher interest rate and a decline in exports due to subdued external demand and moderating commodity prices. Meanwhile, the Philippines' 3Q2023 GDP growth will likely pick up from 4.3% in 2Q2023, lifted by stronger government spending. Notwithstanding this, the government's full-year GDP growth target of between 6.0% and 7.0% remains challenging.

- On the domestic front, DOSM is scheduled to release IPI, unemployment rate and retail sales data for September. Malaysia's IPI slipped into negative territory in August, recording a decline of 0.3% (July: +0.7%) due to a faster decrease in manufacturing output. Meanwhile, the unemployment rate stood at 3.4% in August (July: 3.4%) but is inching closer to the pre-pandemic levels. Partly supported by the robust labour market conditions, retail sales growth has edged higher to 6.3% in August (July: 5.5%).

THANK YOU