BANK ISLAM

WEEKLY ECONOMIC UPDATE

8 MAY 2023

ECONOMIC RESEARCH

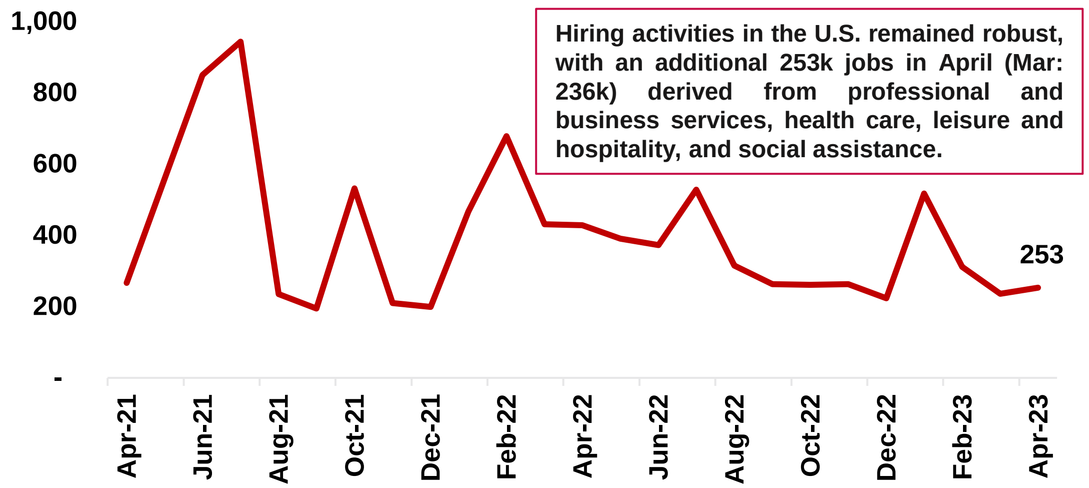
FIRDAOS ROSLI
RAJA ADIBAH RAJA HASNAN
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI

WEEKLY HIGHLIGHT: US LABOUR MARKET REMAINED HOT, REGIONAL HEADLINE INFLATION COOLED

BANK ISLAM

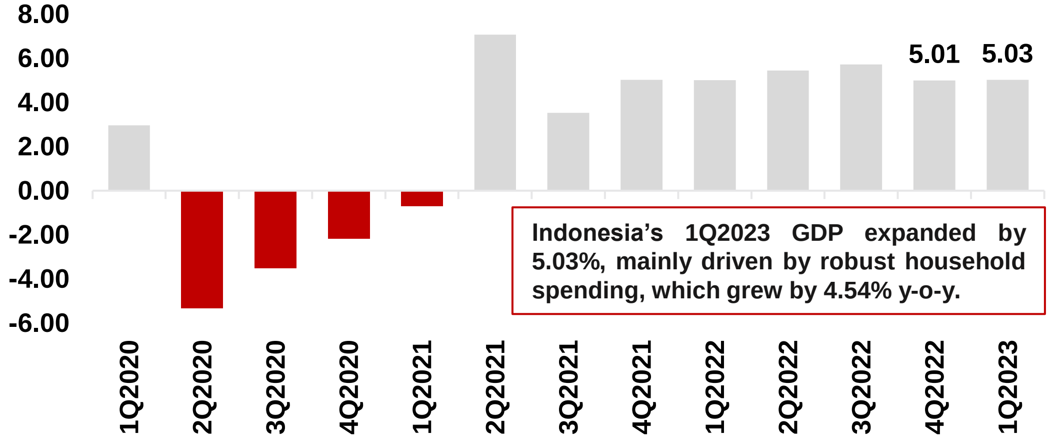
GLOBAL

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

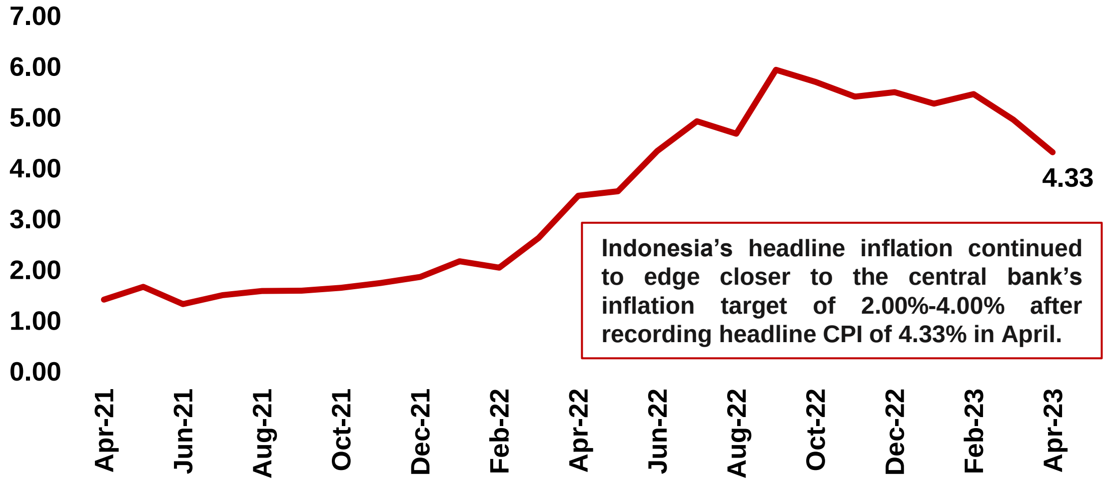


Thailand - Consumer Price Index (CPI), y-o-y%

Indonesia - Real Gross Domestic Product (GDP), y-o-y%



Indonesia - CPI, y-o-y%

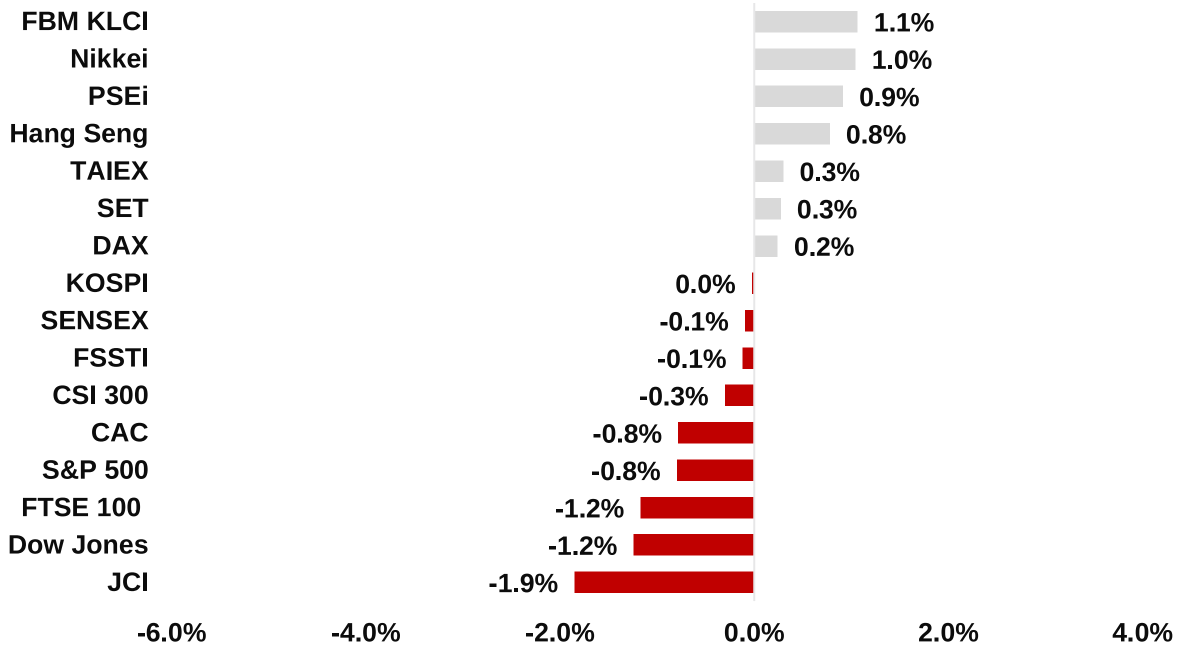


Sources: U.S. Bureau of Labour Statistics, Indonesia Central Bureau of Statistics, CEIC

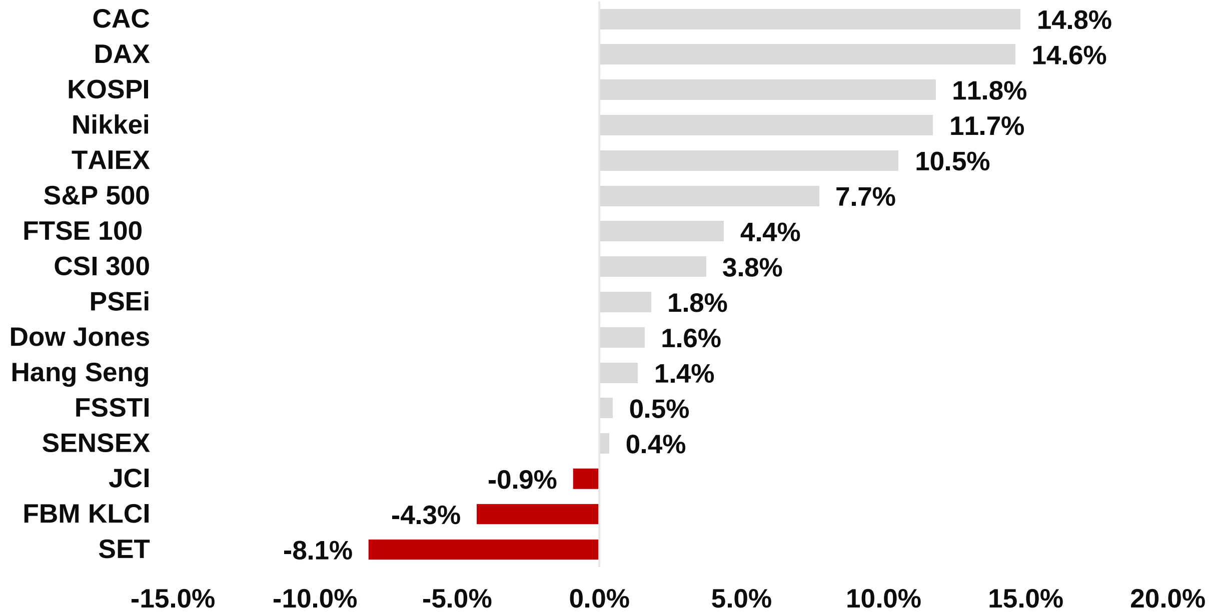
REGIONAL EQUITY: MARKET ENDED MIXED WITH A SLOWER GAIN MOMENTUM

BANK ISLAM

Weekly Gain/Loss of Major Equity Market, %



YTD Gain/Loss of Major Equity Markets, % (As of 5 May 2023)

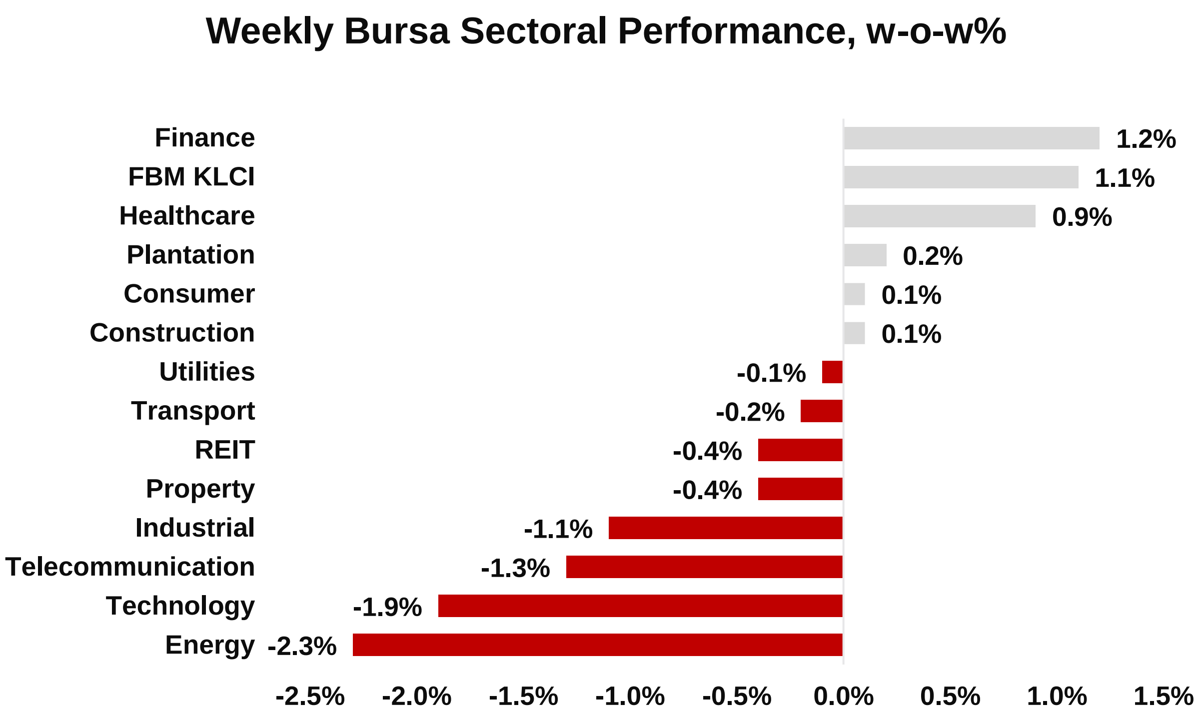


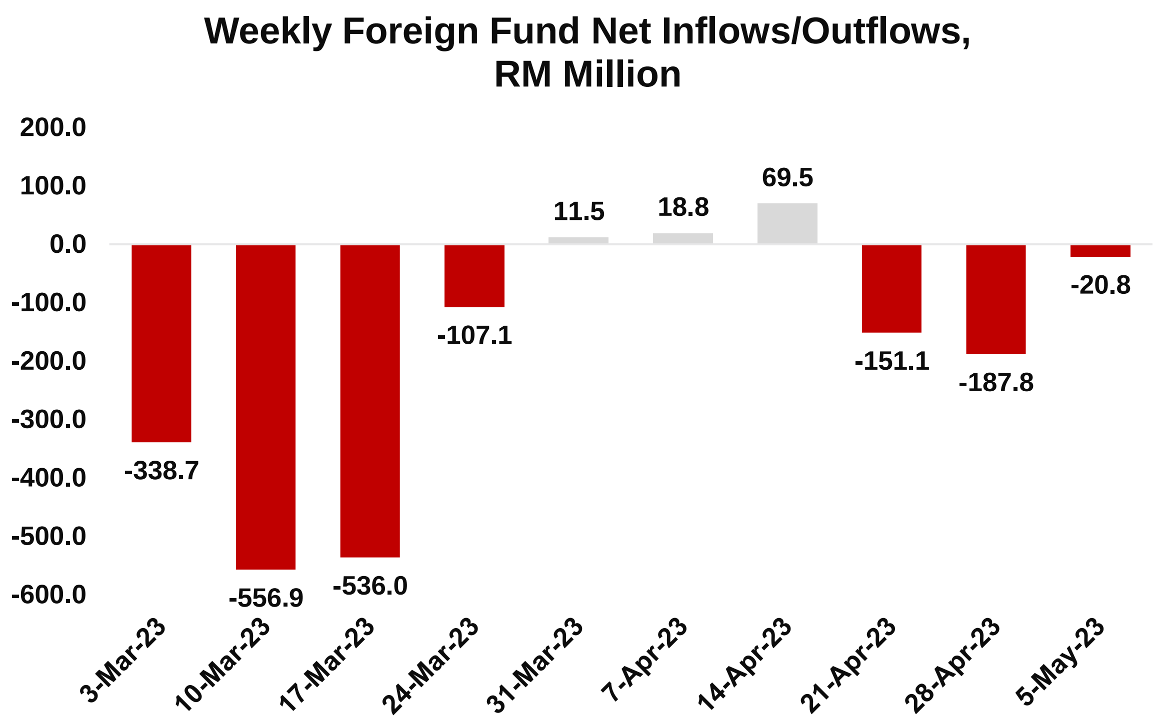
Sources: Bursa, CEIC

- Regional markets closed mixed last week. The gains were at a slower momentum, led by Malaysia's FBM KLCI (1.1%) and were trailed closely by Japan's Nikkei (1.0%) and Philippine's PSEi (0.9%).
- On the other hand, Indonesia's JCI and U.S. Dow Jones were the major losers, moving downwards by 1.9% and 1.2%, respectively.
- Investors expect at least a brief U.S. recession this year. In addition, they anticipate the Federal Reserve (Fed) to start slashing rates in 2H2023 to prop up economic growth. Nonetheless, Fed Chair Jerome Powell highlighted that "it would not be appropriate to cut rates and we (the Fed) won't cut rates" amid sticky inflation.

DOMESTIC EQUITY: SURPRISE OPR SHOCKED LOCAL MARKET

BANK ISLAM





Sources: Bursa, BNM

- Local market closed mixed for the week ending on 5 May, with Finance (1.2%), FBM KLCI (1.1%) and Healthcare (0.9%) leading the gainers. Meanwhile, Energy (-2.3%) and Technology (-1.9%) ended the week as the biggest losers.
- The upturn in the Finance index emerged as market sentiments recovered amid the recent banking sector turmoil, fueled by increased buying interest in bank stocks following the widely unanticipated OPR hike by BNM.
- However, the Energy index declined as global oil prices fell below USD 80.0 per barrel following China's manufacturing sector contraction.
- Following the expectations of a pause in the monetary policy approach and the surprise hike, net foreign outflows narrowed significantly to RM 20.8 million from RM187.8 million a week earlier. Still, they remained negative for the third straight week.

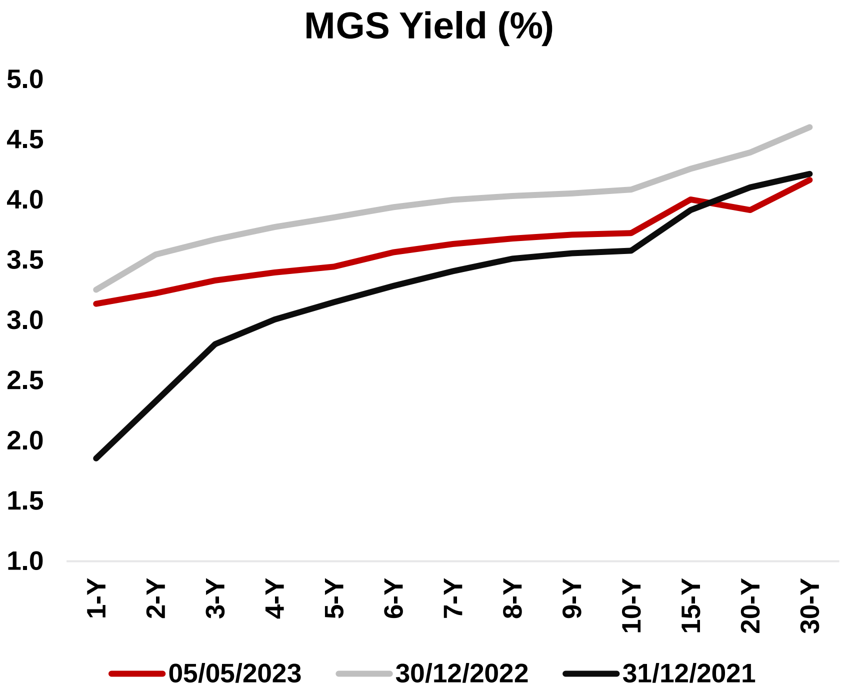
FIXED INCOME: LOCAL GOVVIES WERE MIXED AMID RATE HIKES AND BETTER ECONOMIC OUTLOOK

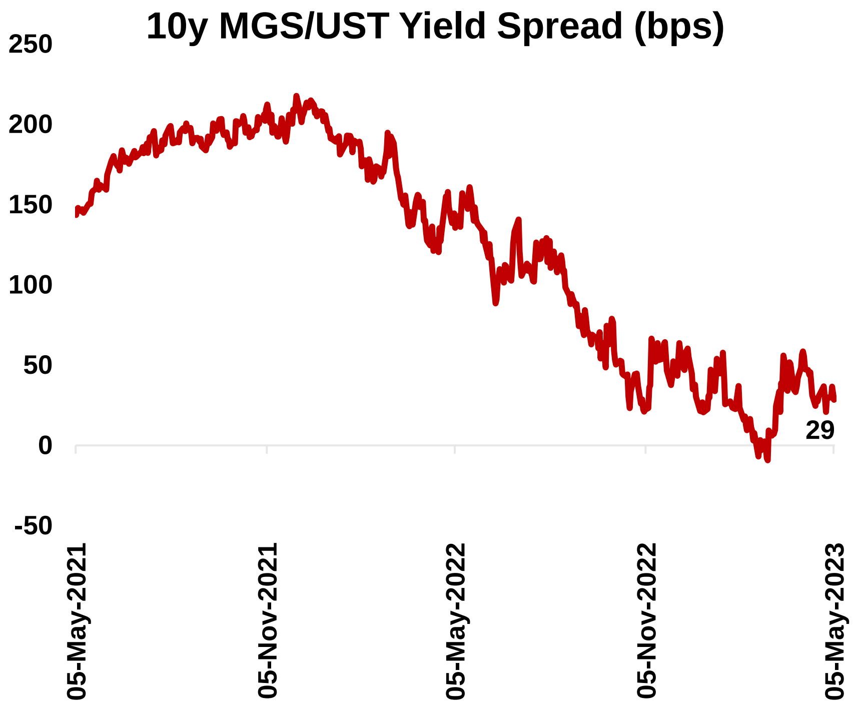
BANK ISLAM

Weekly Changes, basis points (bps)

UST	Yields (%) 28-Apr-23	Yields (%) 5-May-23	Change (bps)
3-Y UST	3.75	3.63	-12
5-Y UST	3.51	3.41	-10
7-Y UST	3.49	3.41	-8
10-Y UST	3.44	3.44	0
MGS	**Yields (%) 28-Apr-23**	**Yields (%) 5-May-23**	**Change (bps)**
3-Y MGS	3.32	3.33	1
5-Y MGS	3.45	3.45	-1
7-Y MGS	3.65	3.64	-2
10-Y MGS	3.74	3.73	-2
GII	**Yields (%) 28-Apr-23**	**Yields (%) 5-May-23**	**Change (bps)**
3-Y GII	3.25	3.29	4
5-Y GII	3.51	3.52	2
7-Y GII	3.74	3.72	-2
10-Y GII	3.85	3.82	-3

Sources: Bank Negara Malaysia (BNM), Federal Reserve Board

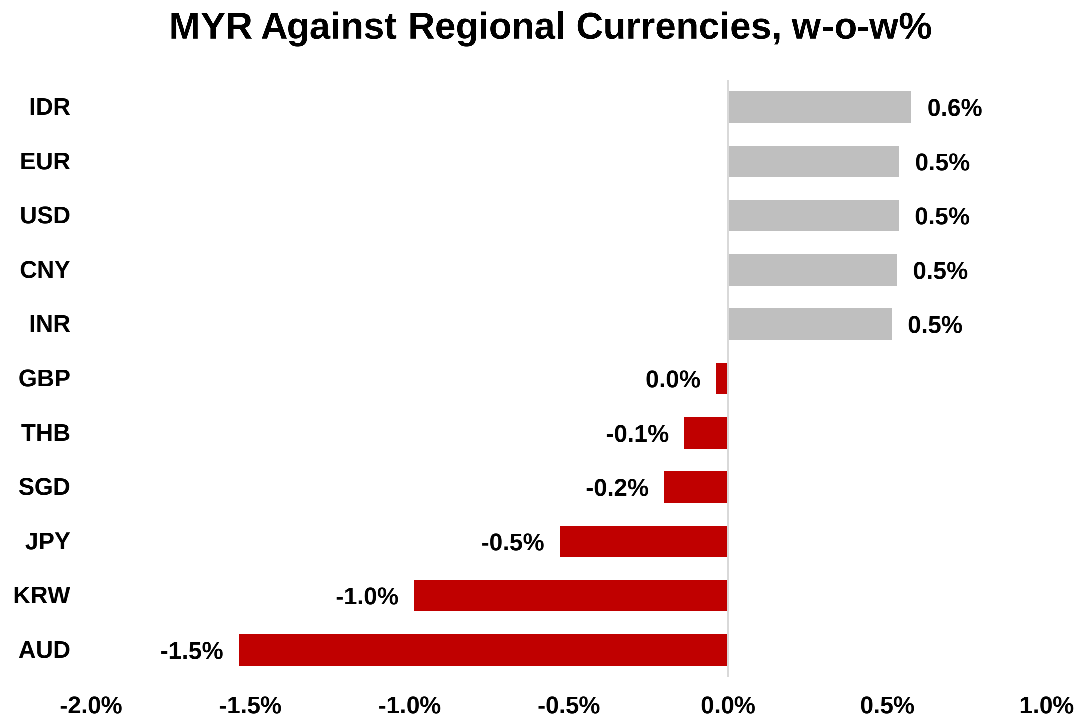


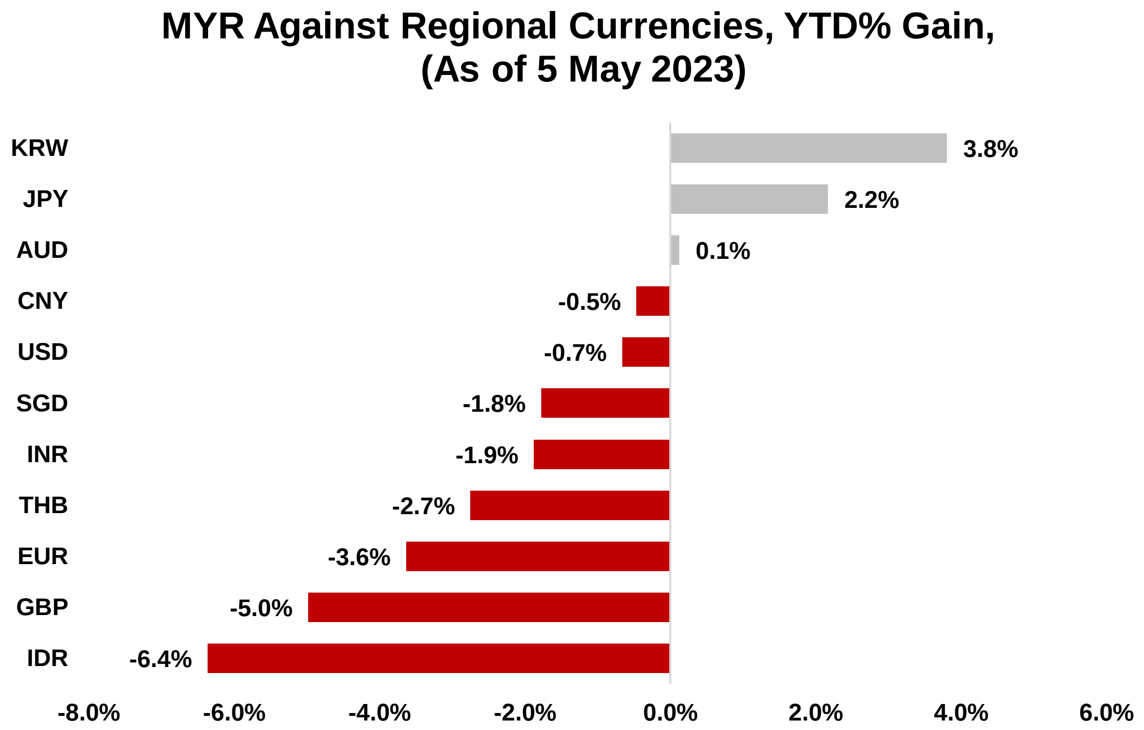


- The U.S. Treasury (UST) yields slipped last week, with the shorter end of the curve dropping the most by 12bps, followed by the belly of the curve, which fell in the range of 8 and 10bps. On the other hand, 10y UST yields remained stationary from the week earlier.
- Local govvies ended mixed last week, fueled by the 25bps rate hike in Overnight Policy Rate (OPR) and Federal Funds Rate (FFR), as well as the optimistic domestic economic outlook by BNM.
- Both 3-year Malaysian Government Securities (MGS) and Government Investment Issues (GII) increased by 1bp and 4bps, respectively. Meanwhile, the longer end of the yield curve dipped as BNM hinted at a positive development and outlook in the domestic economy.
- As a consequence, the yield spread of 10y MGS/UST dropped merely to 29bps on 5 May relative to 30bps on 28 April.

FX MARKET: RINGGIT WAS TRADED HIGHER AGAINST THE USD AMID EXTERNAL AND INTERNAL FACTORS

BANK ISLAM



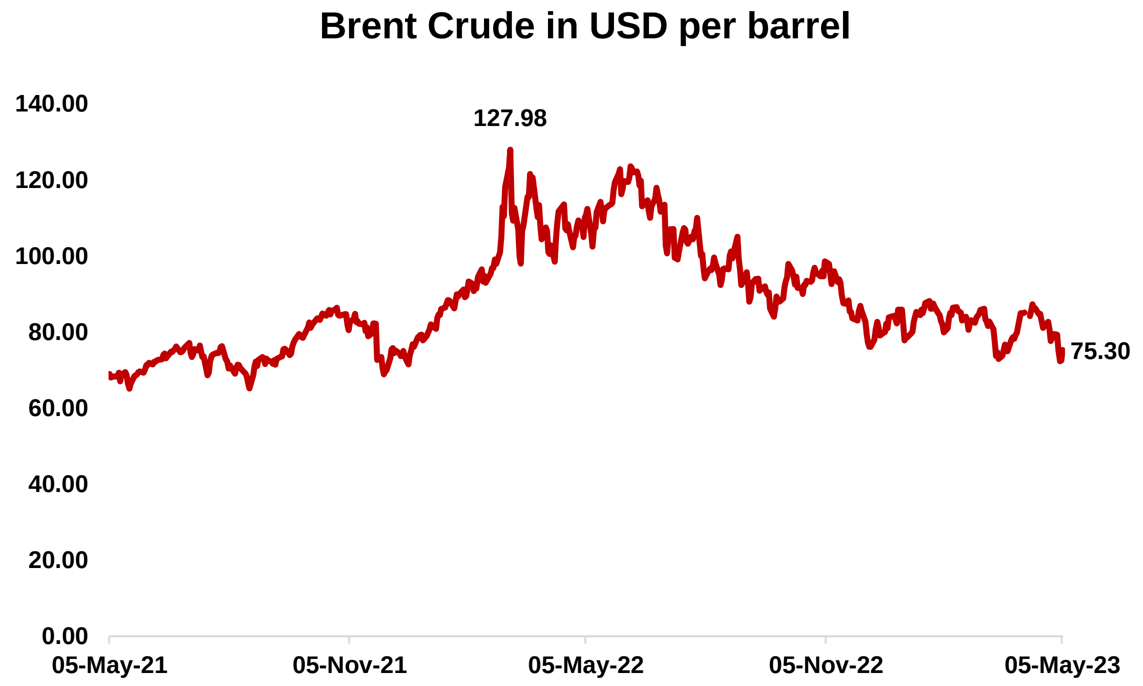


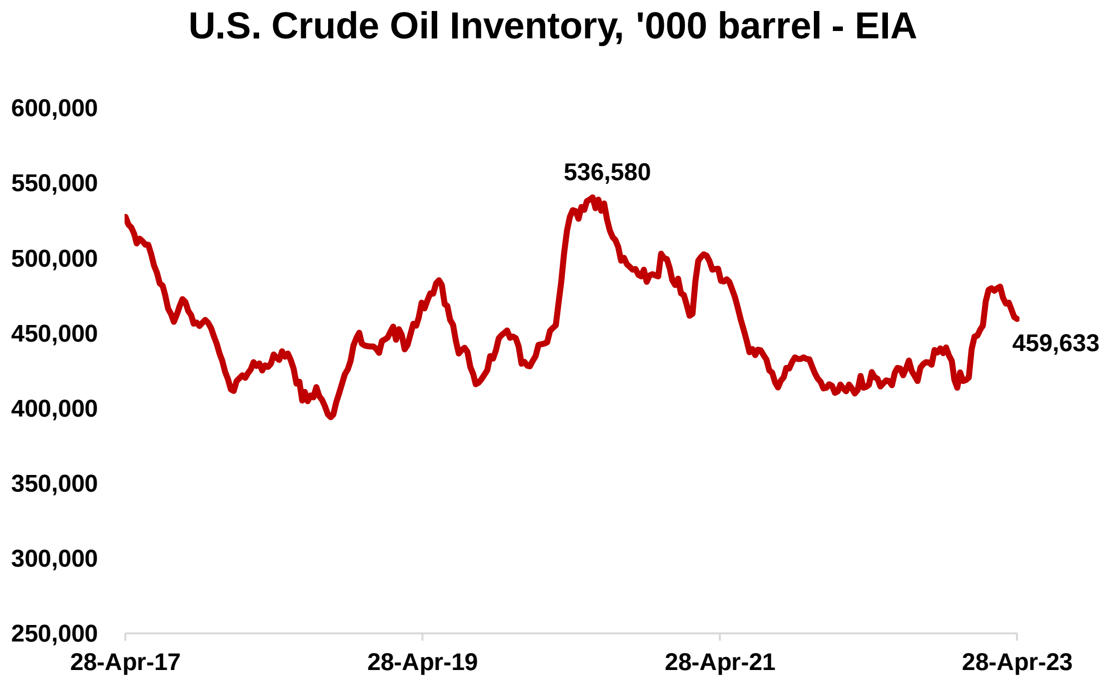
Source: Investing.com

- We posit that the local note to benefit from the surprise move by the BNM, which raised the OPR by 25bps to 3.00% after two consecutive pauses in the previous meetings. The resilient domestic growth prospects prompted the complete withdrawal of monetary policy stimulus to address the pandemic.
- We expect the latest FOMC statement's "hawkish pause" tone to support the Ringgit soon amid a lower USD index movement. We posit that market participants would be closely eyeing the upcoming April CPI figure to assess the Fed's next move, although the U.S. labour market remained somewhat unperturbed by the rate hikes thus far.
- All in all, we anticipated that Ringgit would move higher against the greenback, between RM4.41 to RM4.42, as the country is expected to record a stronger-than-expected 1Q2023 GDP print this Friday.

COMMODITY: BRENT PRICE SLIPPED FOR THE THIRD STRAIGHT WEEK DRIVEN BY BEARISH SENTIMENT

BANK ISLAM



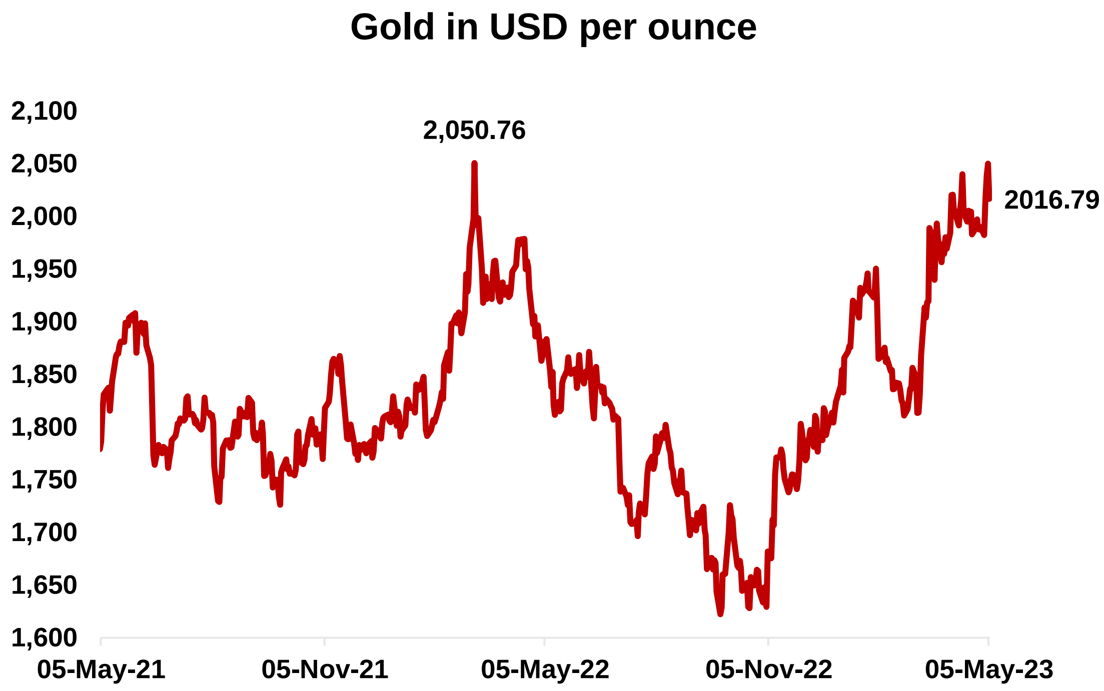


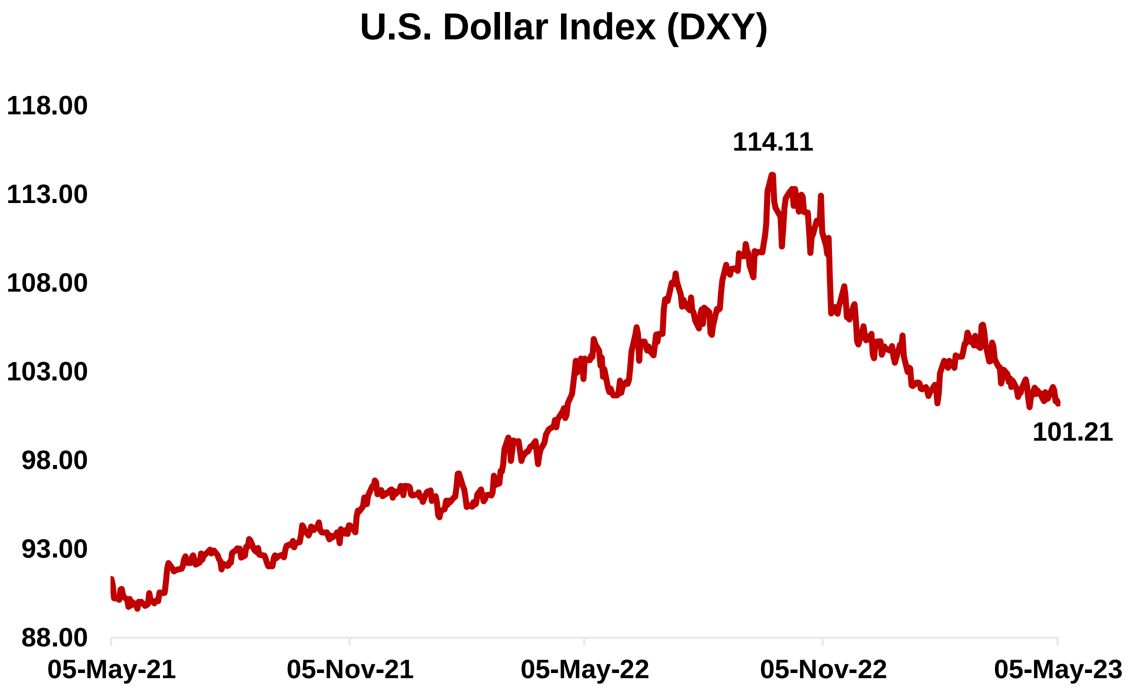
Sources: Bloomberg, Energy Information Administration (EIA)

- While the oil price retreated to circa USD75.00 per barrel amid the renewed recessionary fears from the ongoing U.S. banking turmoil, rate hikes by the Fed and ECB in the week did not help. Such a situation could drag the prospects of global growth further as the tightening financial condition could push major economies into recession.
- The unexpected first contraction in China's manufacturing activity (April: 49.5 points vs March: 50.0 points) since the start of the year also clouded the world's top crude importer outlook.

COMMODITY: HOT U.S. JOB MARKET SITUATION APPEARS TO COMPLICATE FED'S DECISION ON ITS MONETARY PATH DECISION

BANK ISLAM





Sources: Bloomberg, Commodity Research Bureau

- On a weekly basis, the bullion price surged by 1.3% as the central banks, especially the Fed, are generally expected to halt rate hikes soon.
- Worries over the banking sector and the U.S. debt ceiling also weighed on investors' risk appetite.
- Meanwhile, the gold price retreated slightly on Friday following the stronger-than-expected U.S. NFP in April, lessening the recession fears; thus, rate cuts could be unlikely.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

BANK ISLAM

- It was a “25bps hike” week for many central banks last week. The inflation fight is still far from over, although there has been a marked easing in supply chain constraints of late. This week, market participants will be eyeing the release of CPI April numbers from China, India and specifically from the U.S. to gauge the next move from the said countries’ central banks. Following last week’s hot U.S. job report, a hotter-than-expected U.S. CPI print could refuel bets on a June Fed interest rate hike meeting.

- It is an important week for the U.K. as well, with its monetary policy decision coming in this Thursday. Many analysts are anticipating BOE to hike by 25bps, moving its key bank rate to 4.50% amid the still-high double-digit inflation print (March: 10.1% vs February: 10.4%). Another key economic indicator to be released during the week is the 1Q2023 GDP, which is expected to show that growth remains weak for the first three months of the year.

- Meanwhile, a slew of economic data will come from mainland China this week, offering insight into the uneven post-COVID recovery of the world’s largest second economy. Aside from inflation figures, the April export data is due on Tuesday, which is predicted to moderate after a surge in the previous month (March: 14.8% vs January-February: 6.8%). Last week, the country’s manufacturing sector shrank during the month, adding pressure on policymakers to boost the economy amid subdued global demand and persistent weakness in the property sector.

- Last Wednesday, BNM surprised the market by raising the OPR by 25bps, citing that further monetary policy normalisation is needed as the economy appears resilient. The central bank kept the rate unchanged at two previous meetings earlier this year to take stock of the cumulative 100bps hike last year. We posit that the 1Q2023 GDP to be released this Friday could be higher than expected, prompting BNM to withdraw its monetary stimulus to address the pandemic fully. We are pencilling in Malaysia’s y-o-y growth to reach 5.6% during the said quarter, with private consumption as the main driver of economic growth.

THANK YOU