BANK ISLAM

WEEKLY ECONOMIC UPDATE

10 JULY 2023

ECONOMIC RESEARCH

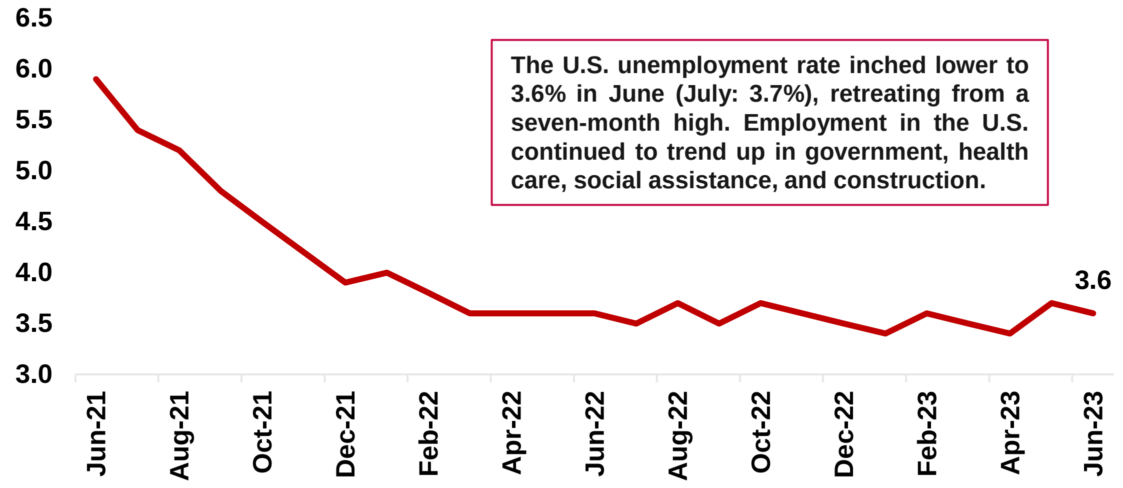
FIRDAOS ROSLI
LEE SI XIN
RAJA ADIBAH RAJA HASNAN
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI

WEEKLY HIGHLIGHT: ROBUST U.S. JOBS MARKET DATA FLASHING SIGNS OF RESILIENCE IN THE ECONOMY

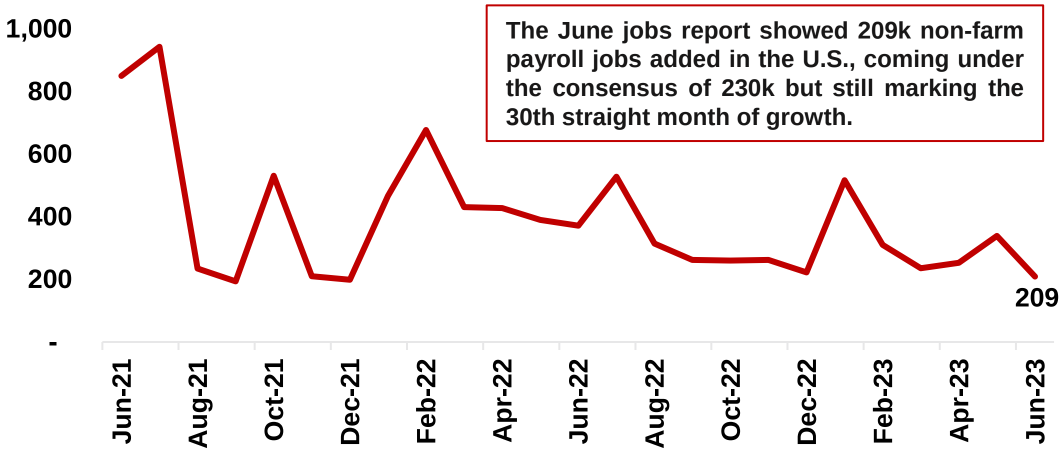
BANK ISLAM

GLOBAL

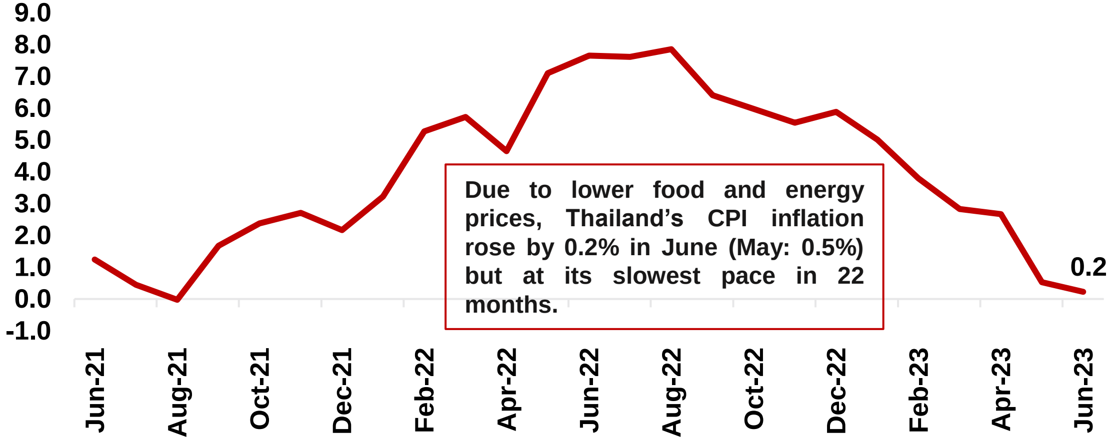
U.S. Unemployment Rate, y-o-y%



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



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

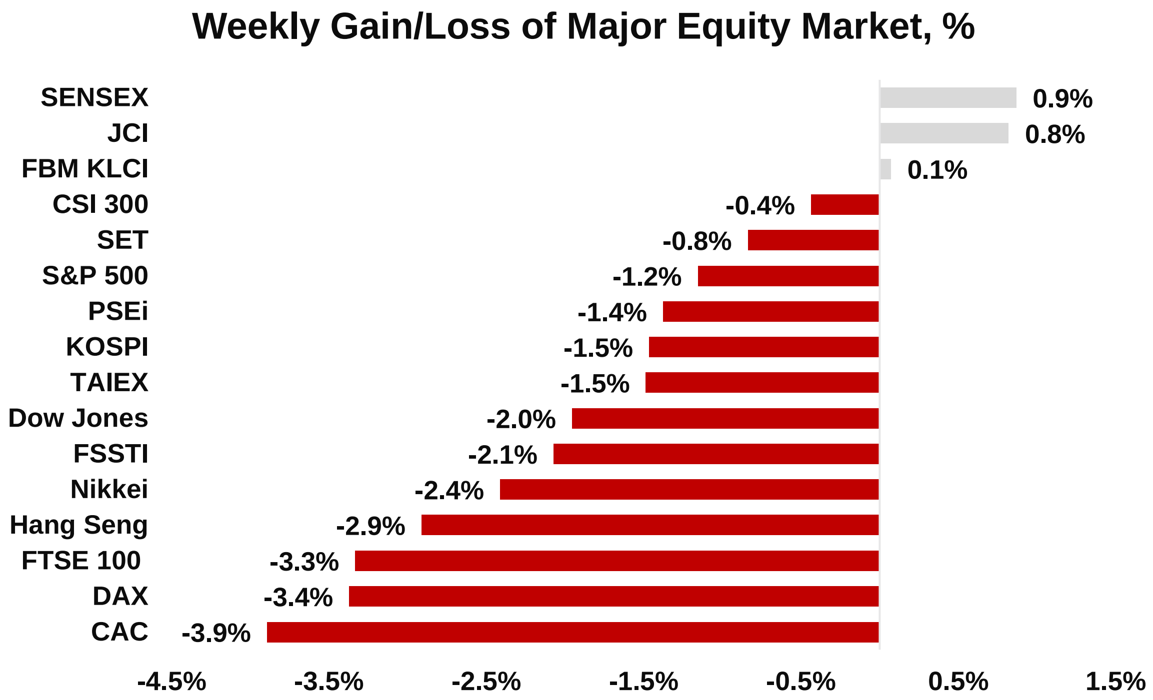


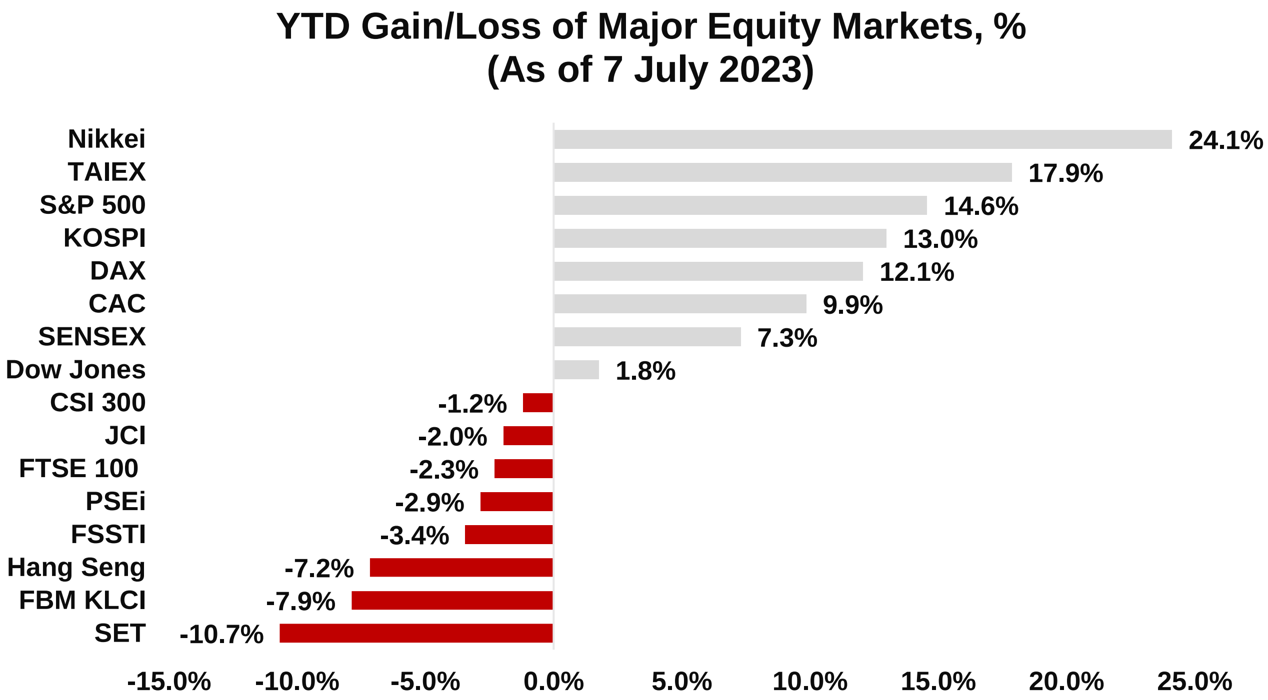
Indonesia: Consumer Price Index (CPI), y-o-y%

Sources: U.S Department of Labour, Thailand Bureau of Trade and Economic Indices, Statistics Indonesia

REGIONAL EQUITY: WORLD STOCKS DIPPED TO THE NEGATIVE TERRITORY AMID RISK-OFF SENTIMENT

BANK ISLAM



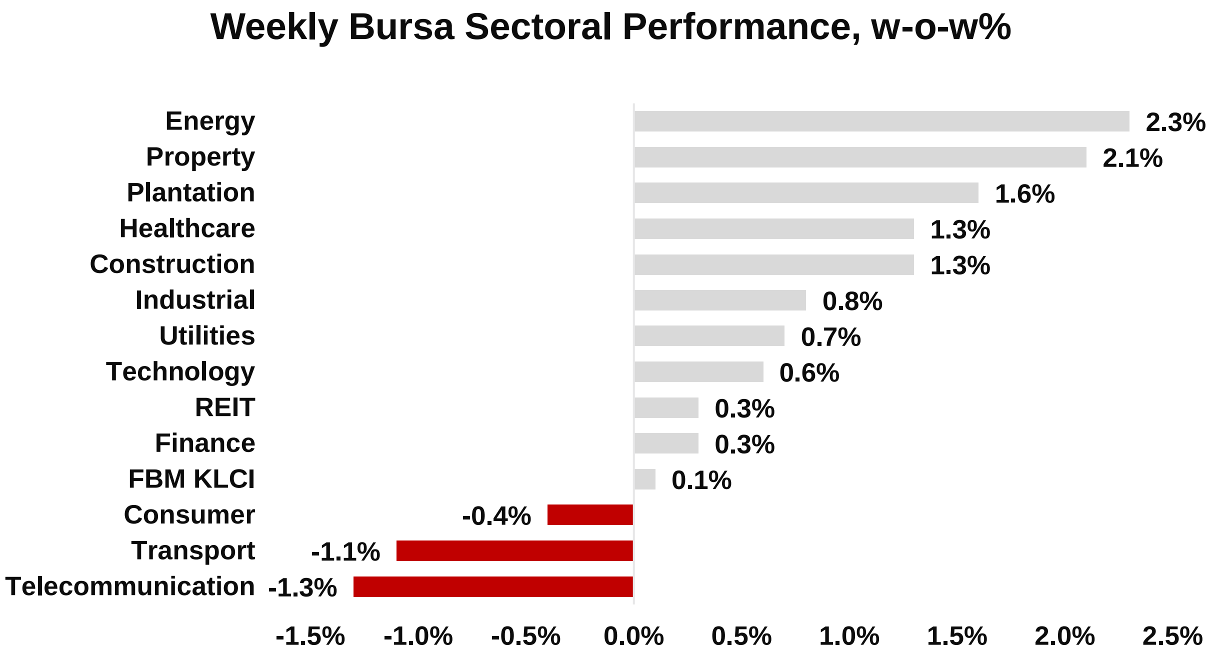


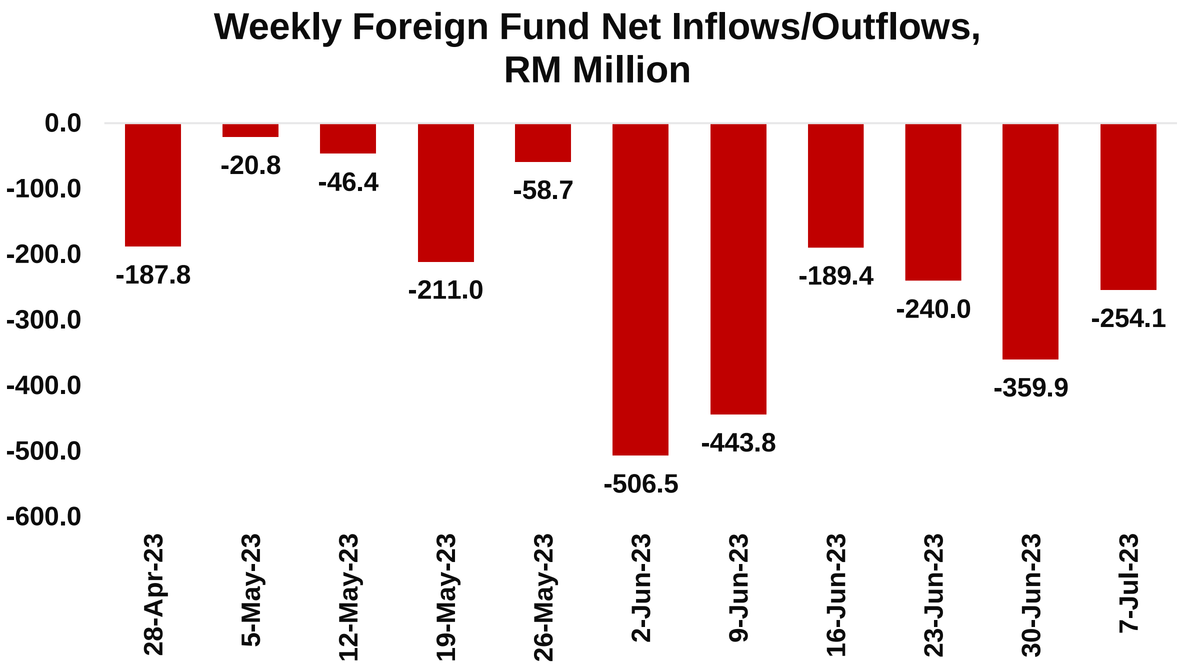
Sources: Bursa, CEIC

- Regional equity markets mostly ended in the negative territory for the week ending 7 July. India's SENSEX (0.9%), Indonesia's JCI (0.8%), and FBM KLCI (0.1%) were the only gainers last week. On the other hand, France's CAC (-3.9%), Germany's DAX (-3.4%) and United Kingdom's FTSE 100 (-3.3%) were the major losers.
- Global stock markets mostly plunged into the red sea as investors feared more U.S. interest rate hikes by the Federal Reserve (Fed) and the global recessionary risks.
- Investors' sentiments were hit by Federal Open Market Committee (FOMC) minutes released on Wednesday on the Fed's last interest-rate meeting in June, which indicated higher-for-longer interest rates at taming inflation.

DOMESTIC EQUITY: RECOVERY IN LOCAL MARKET LAST WEEK AHEAD OF MPC MEETING

BANK ISLAM





Sources: Bursa, BNM, CEIC

- Most Bursa sectoral indices revived to end in the green territory for the week ending on 7 July, with Energy (2.3%) leading the gainers, followed by Property (2.1%) and Plantation (1.6%).
- Such performance was supported by the anticipation in the market ahead of the Monetary Policy Committee (MPC) meeting, where more insights into the nation's monetary path will be unveiled.
- Meanwhile, the Telecommunication index (-1.3%) was last week's biggest decliner, followed by Transport (-1.1%) and Consumer (-0.4%).
- Additionally, foreign investors continued the net selling of their equities for a **twelfth** week, recording a weekly total net outflow of RM254.1 million and a cumulative total net outflow of RM4.45 billion this year.

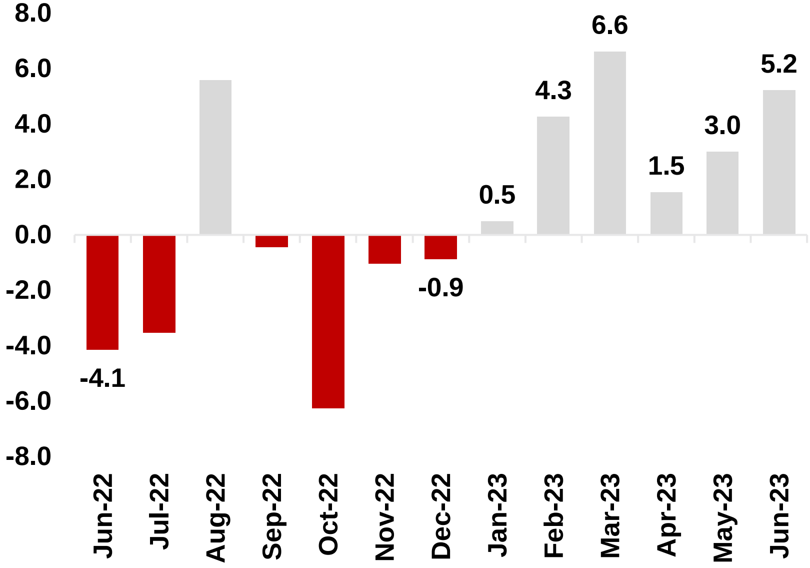
FIXED INCOME: FOREIGNERS REMAINED AS THE NET BUYERS OF LOCAL BONDS IN ALL MONTHS OF 1H2023

BANK ISLAM

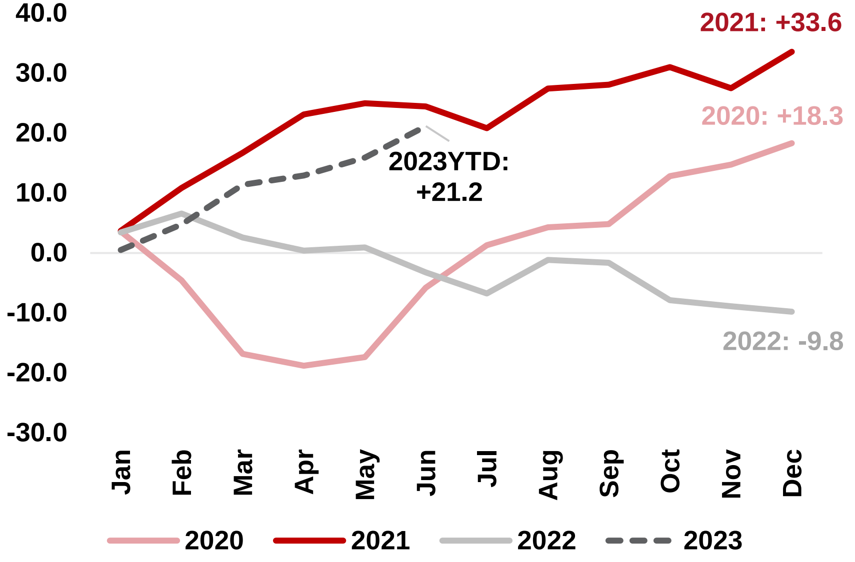
Weekly Changes, basis points (bps)

UST	Yields (%) 30-Jun-23	Yields (%) 7-Jul-23	Change (bps)
3-Y UST	4.49	4.64	15
5-Y UST	4.13	4.35	22
7-Y UST	3.97	4.23	26
10-Y UST	3.81	4.06	25
MGS	**Yields (%) 30-Jun-23**	**Yields (%) 7-Jul-23**	**Change (bps)**
3-Y MGS	3.48	3.52	4
5-Y MGS	3.61	3.67	6
7-Y MGS	3.74	3.80	6
10-Y MGS	3.84	3.90	6
GII	**Yields (%) 30-Jun-23**	**Yields (%) 7-Jul-23**	**Change (bps)**
3-Y GII	3.49	3.53	5
5-Y GII	3.69	3.72	2
7-Y GII	3.78	3.82	4
10-Y GII	3.88	3.92	5

Foreign Fund Flows in Local Bond Market, RM billion



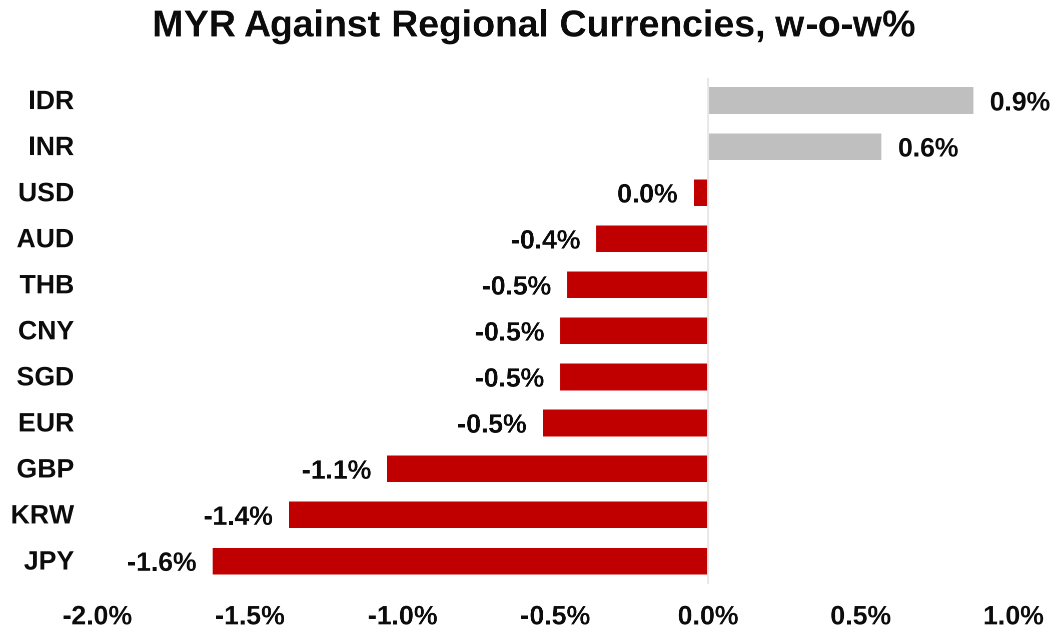
Cumulative Net Foreign Flows in Local Bonds (Yearly comparison, RM billion)

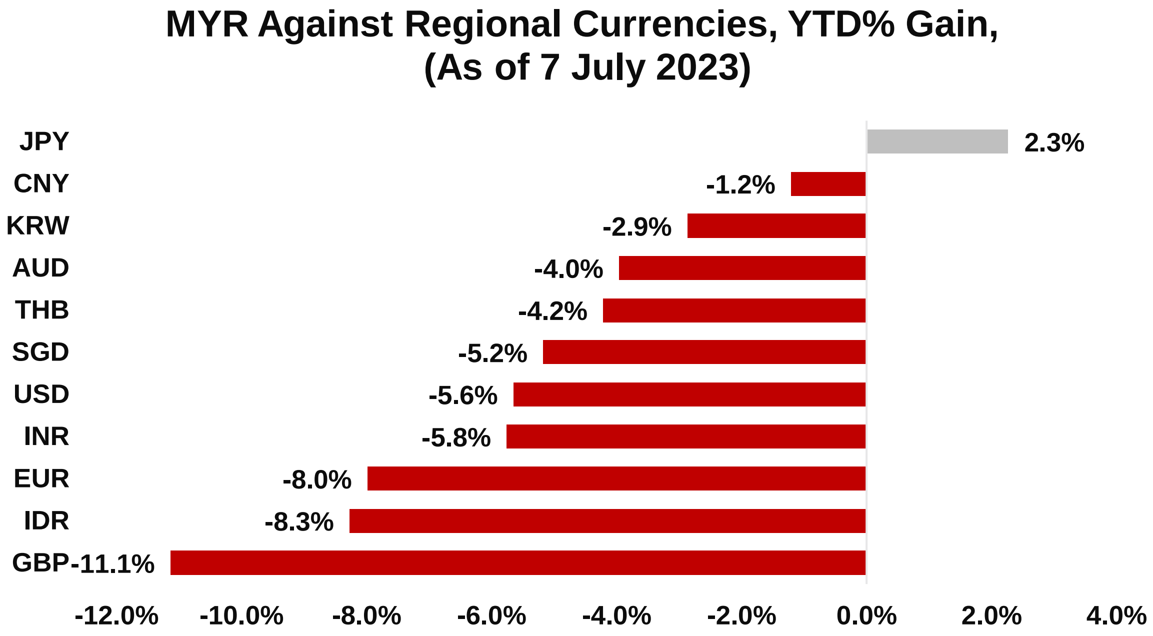


Sources: Bank Negara Malaysia (BNM), Federal Reserve Board, Bloomberg

- The U.S. Treasury (UST) yields elevated last week, with the 3-Y UST yield rising in a smaller magnitude of 15bps. Meanwhile, the belly to the long end of the yield curve increased in the range of 22bps and 26bps.
- Malaysian Government Securities (MGS) yields soared between 4bps and 6bps. Government Investment Issues (GII) yields also ended weaker, surging between 2bps to 5bps. BNM held the overnight policy rate (OPR) steady at 3.00% in its July MPC meeting.
- Local bonds market logged **net foreign inflows in all months of 1H2023**, with June recording the second highest inflows of RM5.2 billion (May: RM3.0 billion) this year. Local govvies' foreign shareholdings to total outstanding climbed to 23.0% in June from 22.7% in May.
- In 1H2023, the cumulative net foreign flows recorded inflows of RM21.2 billion, significantly higher than the outflows of RM3.2 billion in 1H2022.

FX MARKET: THE RINGGIT IS LIKELY TO TRADE BETWEEN RM4.66 TO RM4.67 THIS WEEK

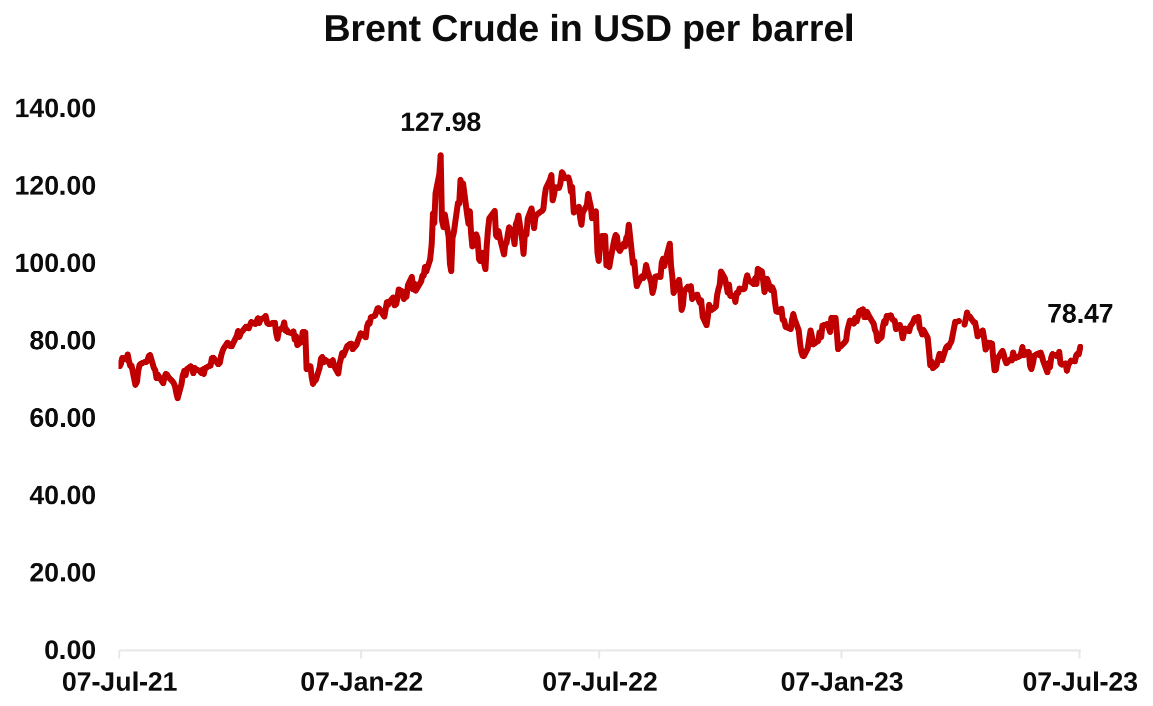


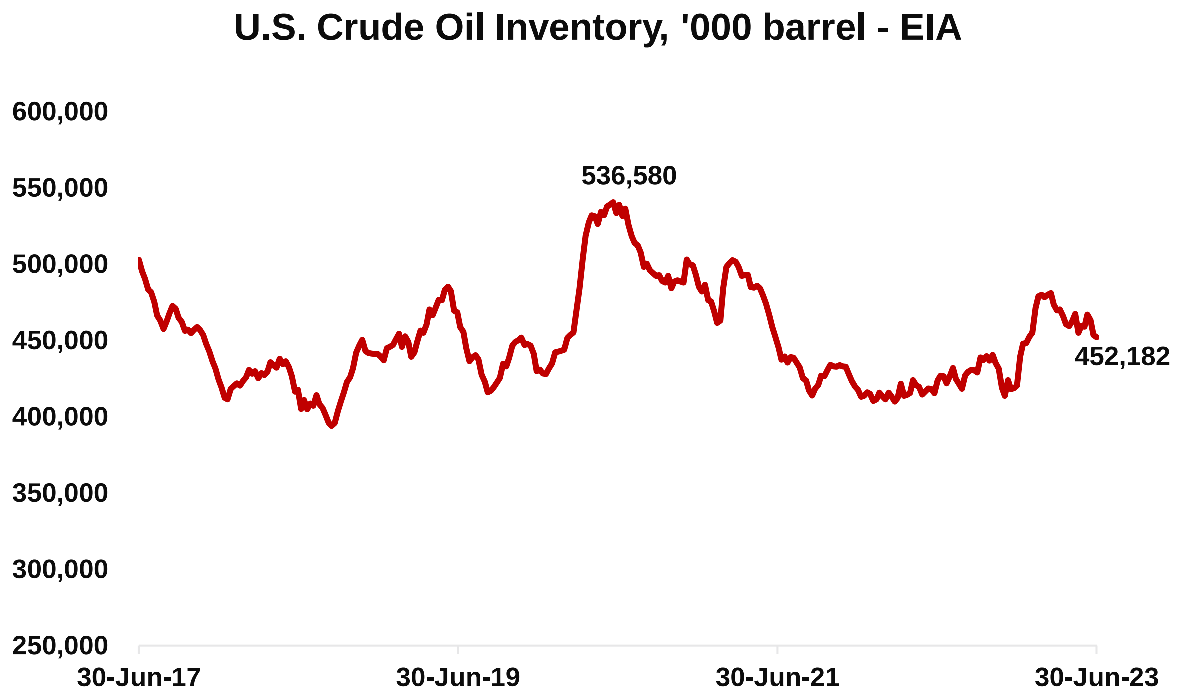


Source: Investing.com

- The Ringgit ended flat during the week, closing at RM4.6660 last Friday compared to RM4.6650 in the previous week ending on 30 June 2023.
- In the latest FOMC meeting minutes, it was revealed that the majority agreed to keep the rate steady during its June meeting to assess the cumulative impact that it had on the economy while at the same time reaffirming a strong commitment to bring down inflation to the 2.0% target. We posit that the local note could be under pressure as the hike prospect on 25-26 July seemed likely.
- We also believe that market participants would remain cautious over Malaysia's statewide elections, scheduled on 12 August 2023.
- In the latest development, BNM decided to maintain OPR at 3.00% during its July meeting, citing that the Malaysian economy remains resilient, supported by income growth and a favourable employment situation in the labour market, which could help to bolster household spending.

COMMODITY: OIL PRICE STEADIED ABOVE USD78.0 PER BARREL AS PROSPECTS TIGHT SUPPLY OUTWEIGHED CENTRAL BANKS' RATE HIKE

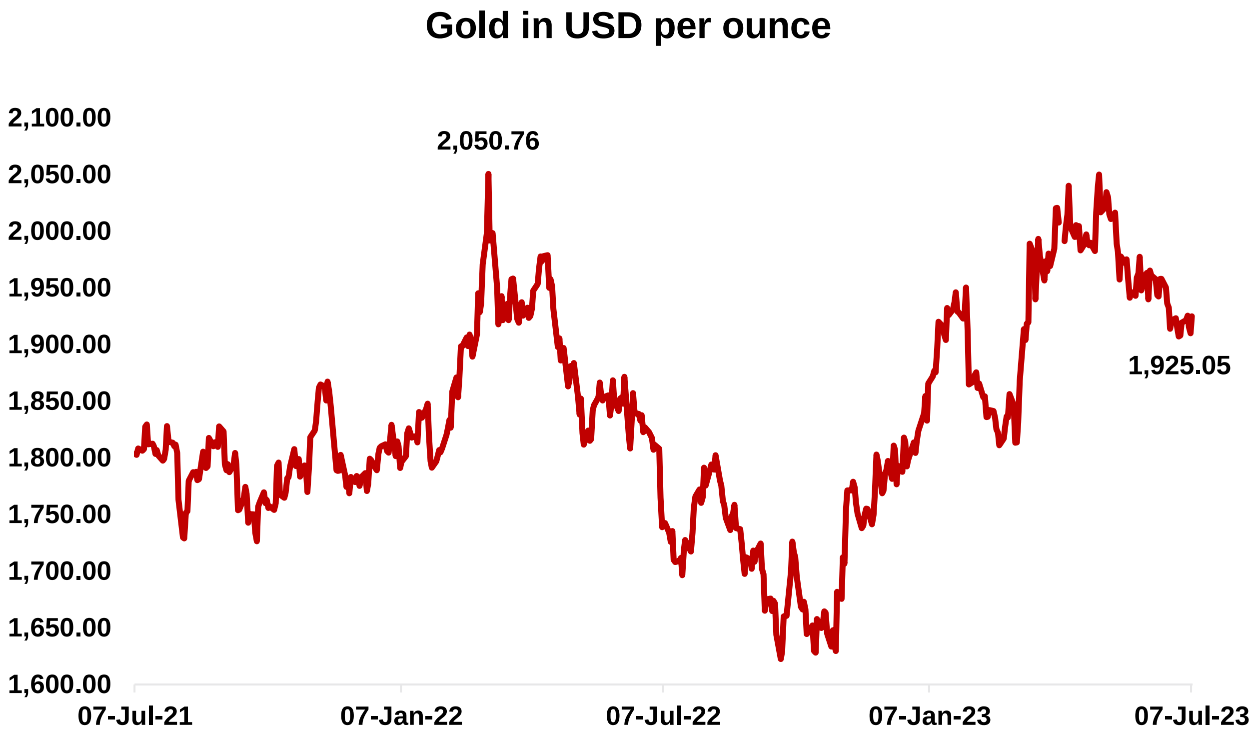


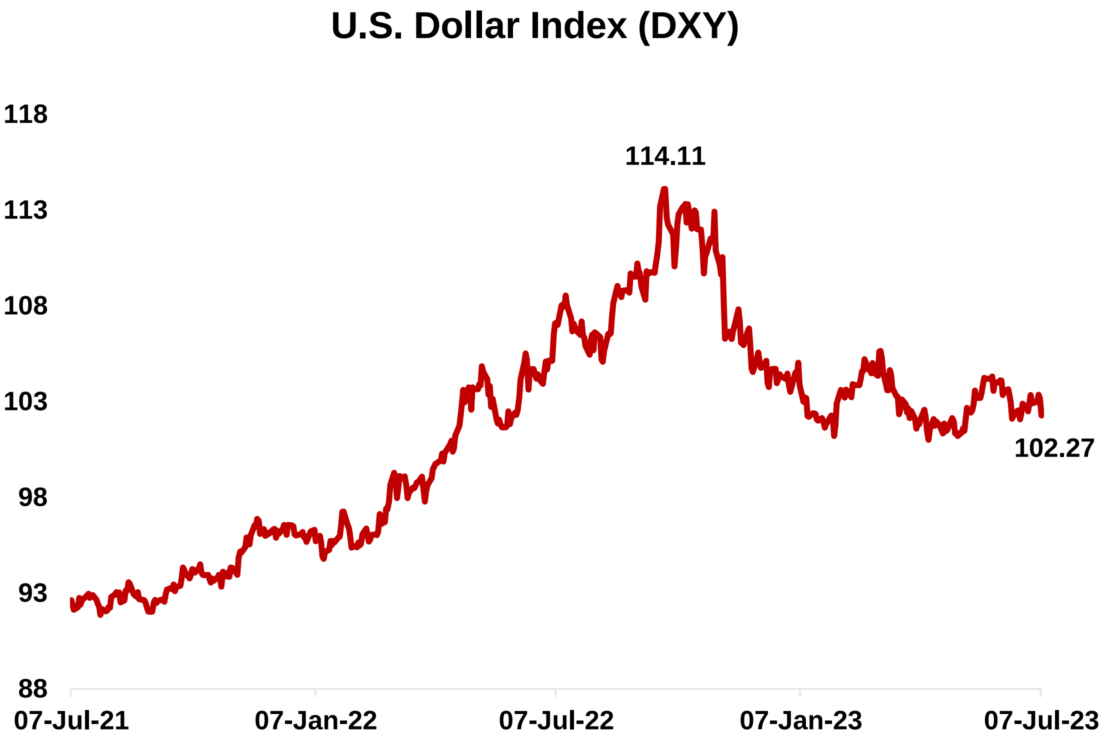


Sources: Bloomberg, Energy Information Administration (EIA)

- Previously, Saudi Arabia pledged to extend the July production cut by 1.0 million barrels per day (bpd) through August, while Russia decided to cut exports by 500,000 bpd next month.
- Elsewhere, the U.S. crude oil inventories have been declining on the supply side, as EIA reported. The crude oil stockpiles went down by 1.5 million barrels to 452.2 million barrels in the week ending 30 June 2023 from 453.7 million barrels in the previous week amid higher demand.

COMMODITY: GOLD PRICE WAS ON TRACK FOR FIRST WEEKLY GAIN AS DOLLAR WAS PRESSURED BY THE U.S. JOB REPORT





Sources: Bloomberg, Commodity Research Bureau

- The U.S. payroll report in June showed that the economy added jobs slows than expected (Act: 209k vs. Est: 230k), casting doubt on further hikes beyond July is necessary.
- Be that as it may, market participants will be closely eyeing the release of the CPI and Weekly Jobless Claims for further directions. At the point of writing, 92.0% expect another 25bps rate hike in the upcoming FOMC meeting this month, bringing the FFR target between 5.25%-5.50%.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- Several Fed officials are scheduled to deliver speeches this week, and their remarks will be watched closely for clues about the future rate hike path. The recent slew of economic data – the solid NFP report and the inflation still running more than double the Fed's 2.0% target – may warrant hawkish Fed remarks. The minutes of the June FOMC meeting released last week echoed recent comments from Fed Chair Jeremy Powell that there is strong support for more tightening this year to tame persistently high inflation. Market participants widely expect a 25bp rate hike at the upcoming FOMC meeting on July 26, pricing in about a 90.0% probability of such a decision based on Fed funds futures.

- The Bank of Canada (BoC) will likely raise interest rates for a second consecutive month at its June policy meeting. The recent slew of economic data indicated the need for additional tightening, given the still-tight labour market, resilient consumer spending and sticky inflation. Meanwhile, the Reserve Bank of New Zealand (RBNZ) is expected to stay put after lifting its interest rate to the highest level since December 2008 at 5.5% in May. The central bank has signalled its intention to adopt a wait-and-see approach and scrutinise the incoming data for some time before deciding on its next move.

- Focus will also turn to the inflation reports from the U.S. and China due this week as market participants assess the outlook for global inflation. U.S. consumer prices are expected to continue to moderate on a high base from the previous year but remain well above their long-term average. The headline CPI annual reading had slowed to 4.0% in May from 4.9% in April. Meanwhile, China's producer prices – the proxy for factory gate prices – dipped deeper into the deflation (June: -5.4% vs. May: -4.6%), reflecting weaker demand.

- On the domestic front, the Department of Statistics Malaysia (DOSM) will release key economic indicators such as May's unemployment rate, industrial production and retail sales data. Malaysia's unemployment rate remained unchanged at 3.5% for a third consecutive month in April. On the other hand, industrial production will likely remain in the contraction zone after turning negative for the first time since August 2021, falling 3.3% y-o-y in April amid sluggish external demand. Retail sales appear to moderate, but recent data suggests that it remains resilient after recording a double-digit growth of 12.9% y-o-y in April.

THANK YOU