BANK ISLAM

WEEKLY ECONOMIC UPDATE

11 SEPTEMBER 2023

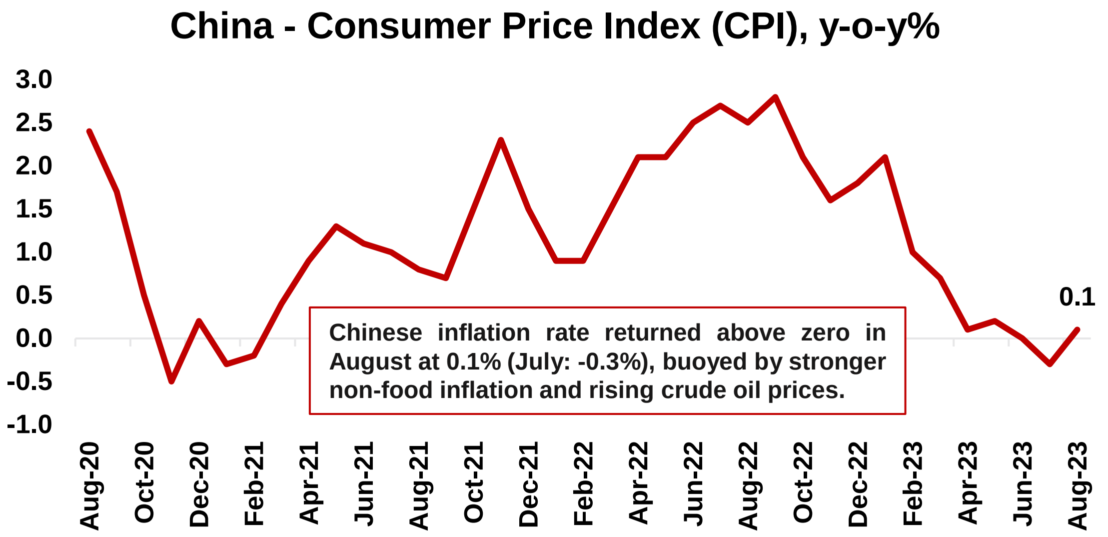
ECONOMIC RESEARCH

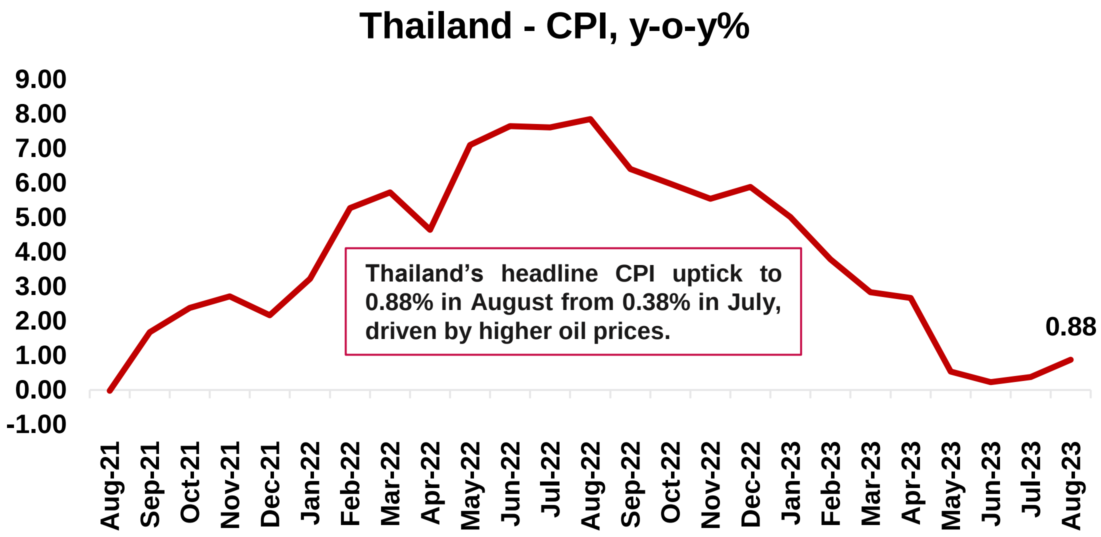
FIRDAOS ROSLI
LEE SI XIN
RAJA ADIBAH RAJA HASNAN
NOR LYANA ZAINAL ABIDIN

WEEKLY HIGHLIGHT: DEFLATION PRESSURES IN CHINA EASED AS CONSUMER PRICES EMERGED IN POSITIVE TERRITORY

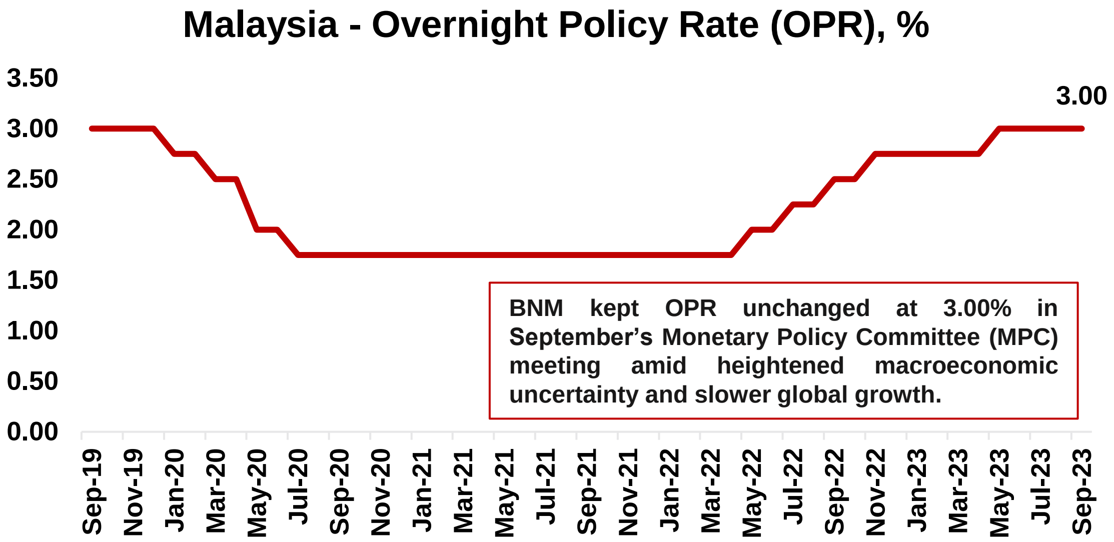
BANK ISLAM

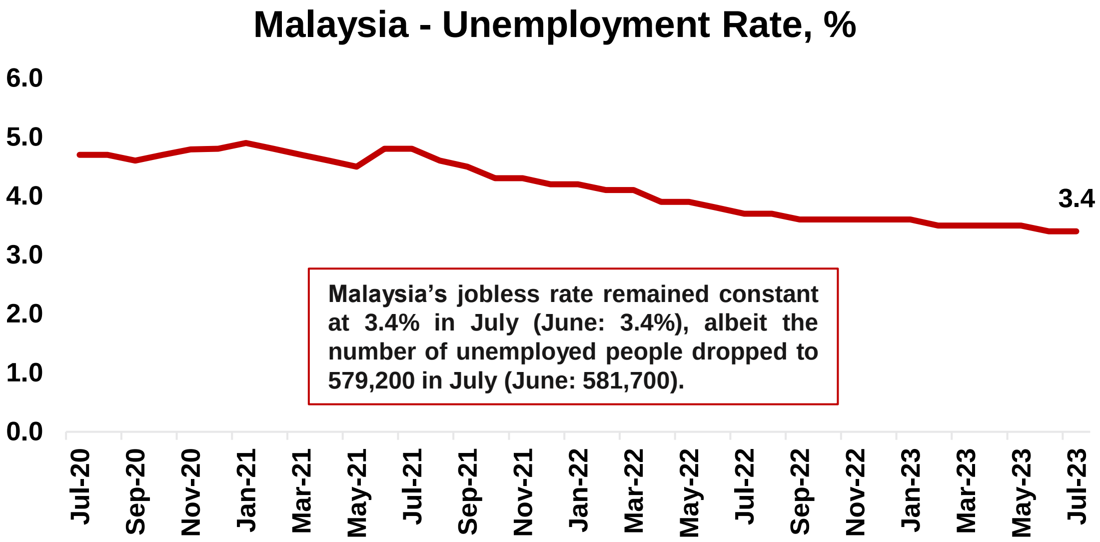
GLOBAL





DOMESTIC

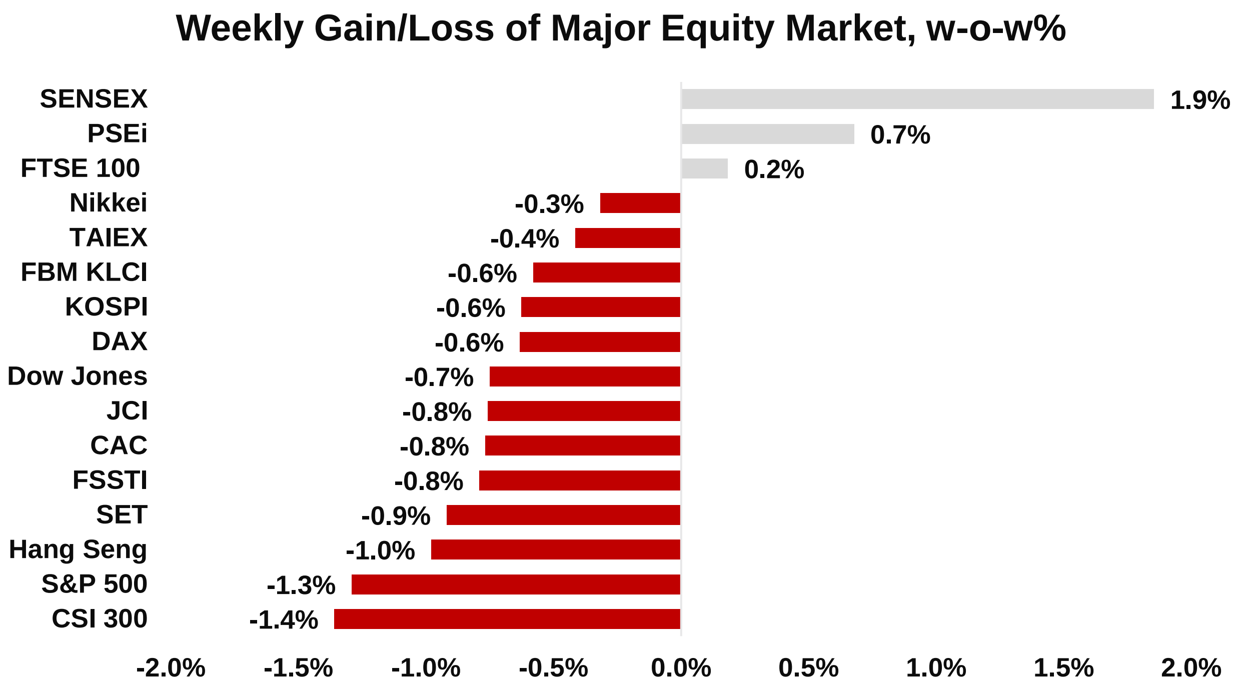


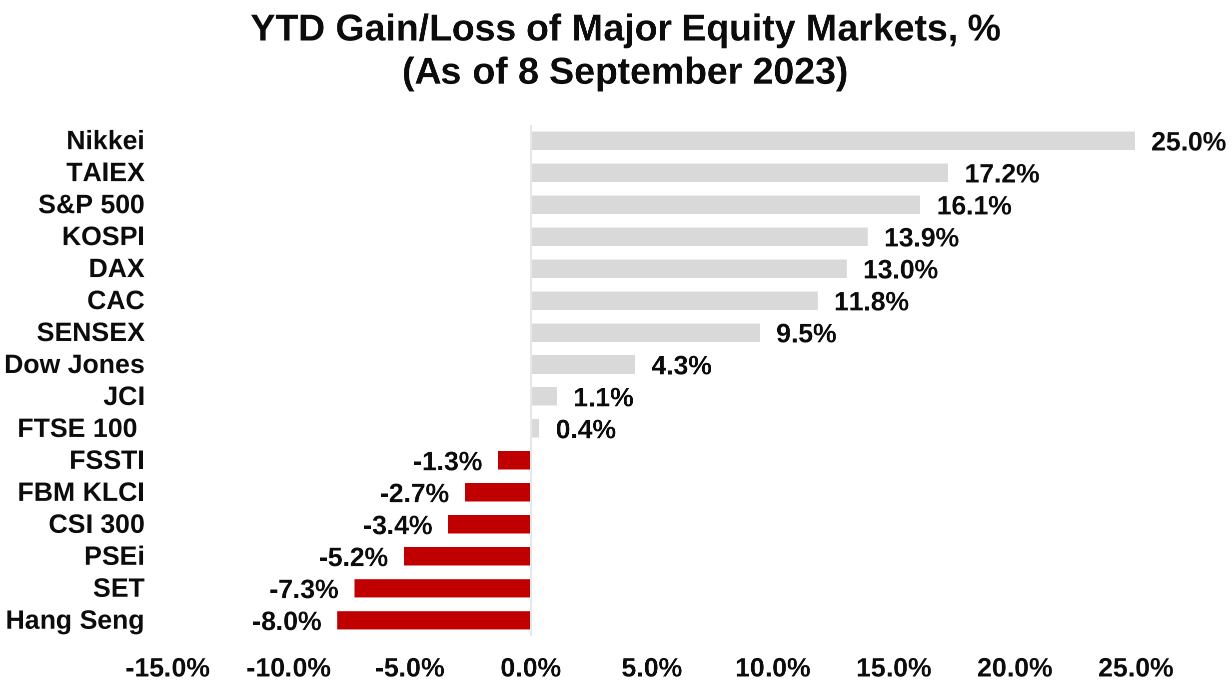


ECONOMIC RESEARCH

Sources: Bureau of Trade and Economic Indices, Bank Negara Malaysia (BNM), Department of Statistics Malaysia (DOSM)

REGIONAL EQUITY: HEIGHTENED UNCERTAINTY ON MONETARY POLICY PATH SLUMPED GLOBAL STOCKS MARKET





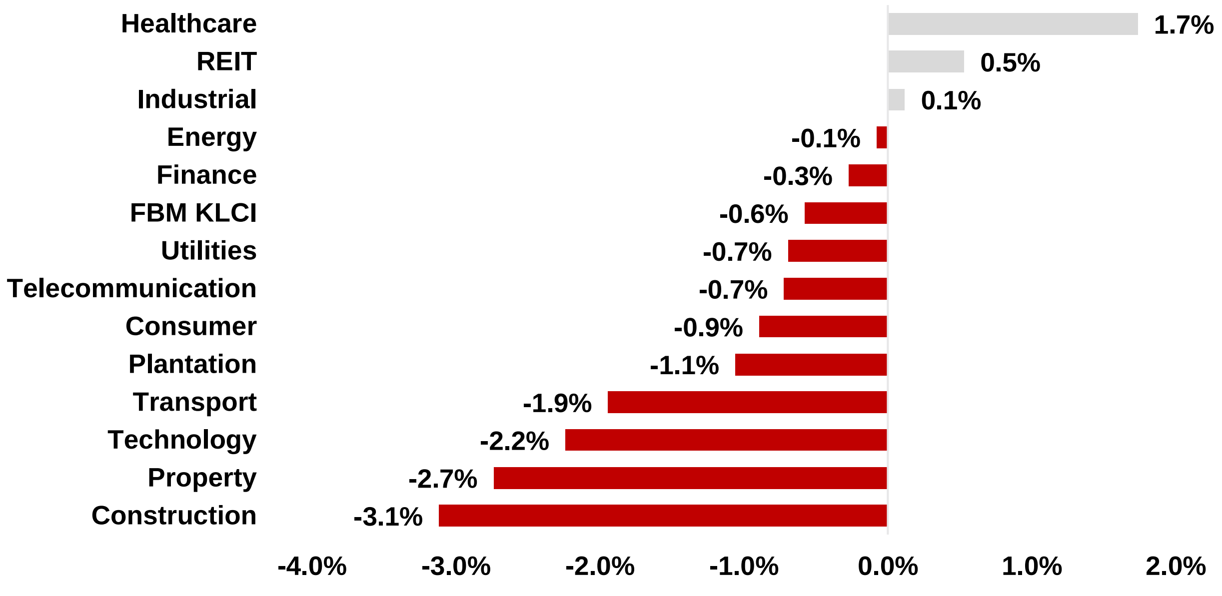
Sources: Bursa, CEIC

- Global stock markets mostly ended in the red last week amid heightened uncertainty over the path of incoming interest rate decisions from major central banks. In addition, investors looked forward to the upcoming August inflation report while they became convinced that the U.S. Federal Reserve (Fed) will have to keep interest rates higher for a longer period as the economy continues to show signs of resilience.
- China's CSI 300 slipped by 1.4% as Apple suppliers tumbled amid Beijing's ban on iPhones among government staff to root out foreign technology use in sensitive environments. The other major losers were the U.S. S&P 500 (-1.3%) and Hong Kong's Hang Seng (-1.0%).
- On the other hand, India's SENSEX (1.9%), Philippines' PSEi (0.7%) and U.K.'s FTSE 100 (0.2%) were the only gainers last week.

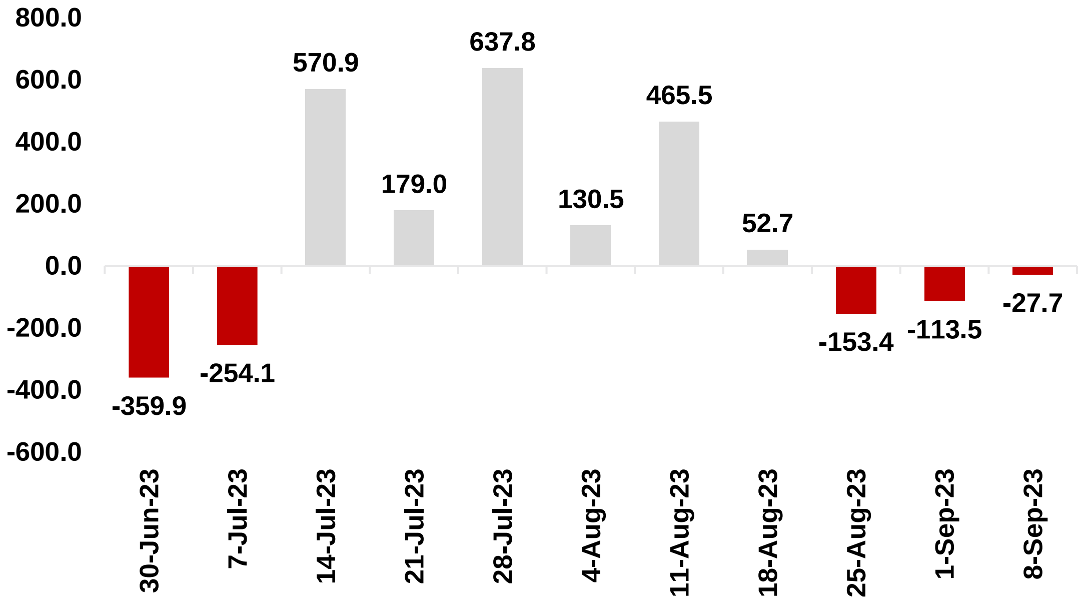
DOMESTIC EQUITY: LOCAL STOCKS CAME UNDER PRESSURE AMID CAUTIOUS REGIONAL SENTIMENT

BANK ISLAM

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



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

- Most Bursa sectoral indices ended weaker on the week ending September 8 on profit-taking activities, resulting from a broadly weaker regional market performance. The Construction index led the losers with a 3.1% drop, followed by Property (-2.7%) and Technology (-2.2%).
- Meanwhile, only the Healthcare (+1.7%), REIT (+0.5%), and Industrial (+0.1%) indices registered gains.
- Net foreign outflow continued for the third consecutive week, albeit at a more moderate pace at RM27.7 million relative to RM113.5 million recorded in the previous week. The cumulative total net outflow this year thus far came in at RM2.7 billion.

FIXED INCOME: FOREIGN INVESTORS TURNED NET SELLERS AFTER SEVEN MONTHS OF NET BUYING STREAK

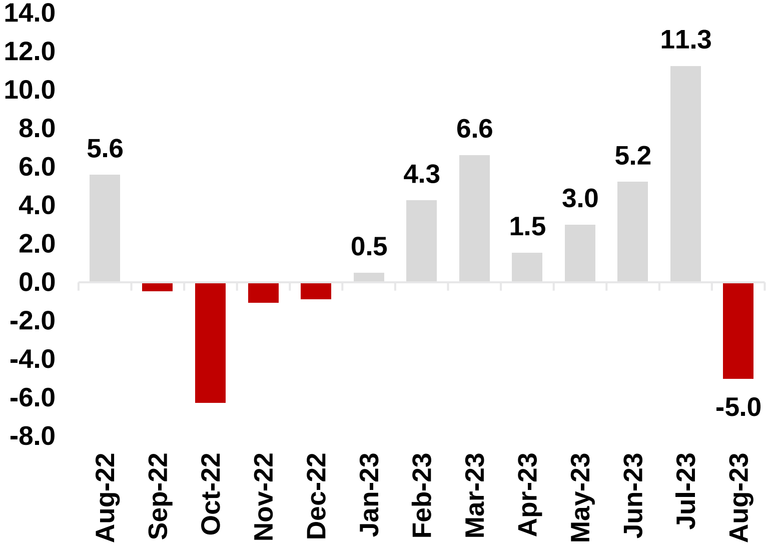
BANK ISLAM

Weekly Changes, basis points (bps)

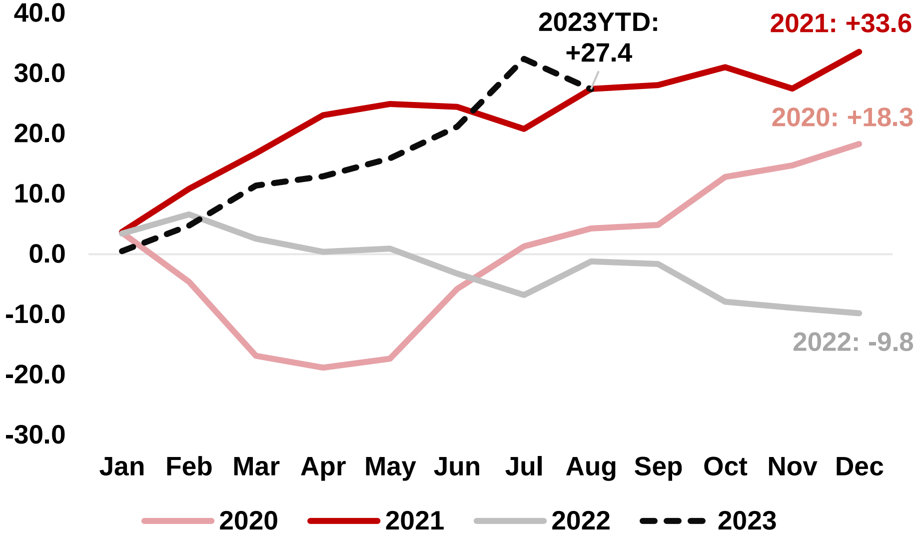
UST	Yields (%) 1-Sep-23	Yields (%) 8-Sep-23	Change (bps)
3-Y UST	4.57	4.68	11
5-Y UST	4.29	4.39	10
7-Y UST	4.27	4.35	8
10-Y UST	4.18	4.26	8
MGS	**Yields (%) 1-Sep-23**	**Yields (%) 8-Sep-23**	**Change (bps)**
3-Y MGS	3.46	3.47	1
5-Y MGS	3.59	3.60	2
7-Y MGS	3.74	3.74	0
10-Y MGS	3.84	3.85	1
GII	**Yields (%) 1-Sep-23**	**Yields (%) 8-Sep-23**	**Change (bps)**
3-Y GII	3.47	3.50	2
5-Y GII	3.63	3.65	3
7-Y GII	3.79	3.80	1
10-Y GII	3.87	3.89	2

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM Billion



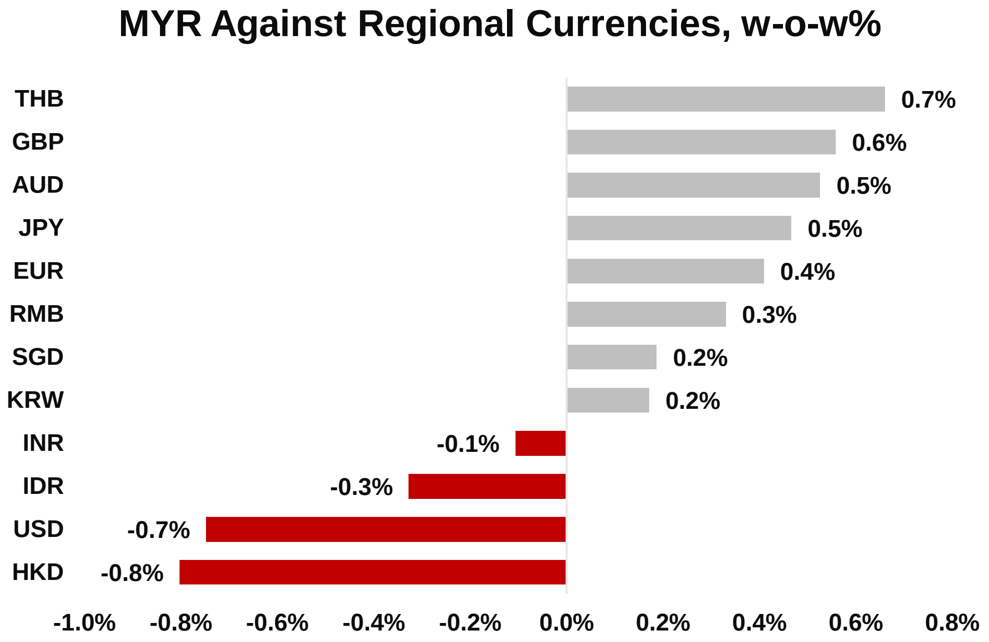
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)

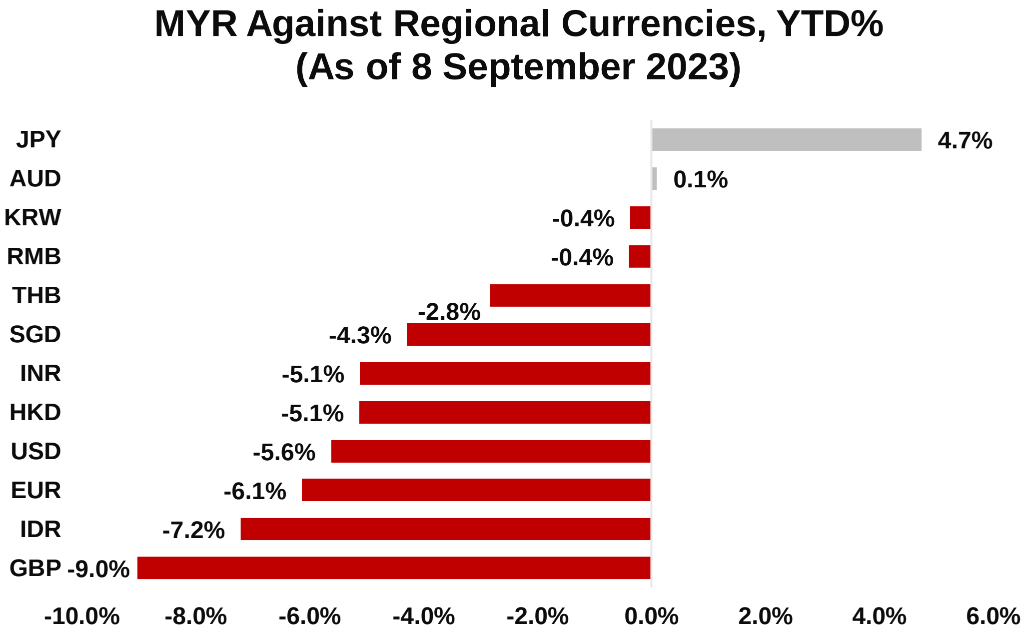


- The U.S. Treasury (UST) yield curve bearishly flattened, with yields rising in the range of 8bps and 11bps as investors assessed the possibility of further interest rate hikes amid sticky inflation and the tightness in the labour market.
- Malaysian Government Securities (MGS) yields mostly ended weaker, with higher yields between 1bp and 2bps. The only exception was the 7-Y MGS yield, which plateaued at 3.74%. Yields on Government Investment Issues (GII) also inched higher between 1bp and 3bps.
- The local bond market ended seven months of net foreign buying streak, with August recording net outflows of RM5.0 billion (July: RM 11.3 billion). Consequently, the local govvies' foreign shareholdings to total outstanding slipped to 23.4% in August (July: 24.0%).
- For the first eight months of 2023, the cumulative net foreign flows logged inflows of RM27.4 billion, significantly higher than the outflows of RM1.2 billion in the same period in the prior year.

FX MARKET: THE RINGGIT REMAINED UNDER PRESSURE AGAINST THE USD AMID U.S. RATE HIKE PROSPECTS

BANK ISLAM



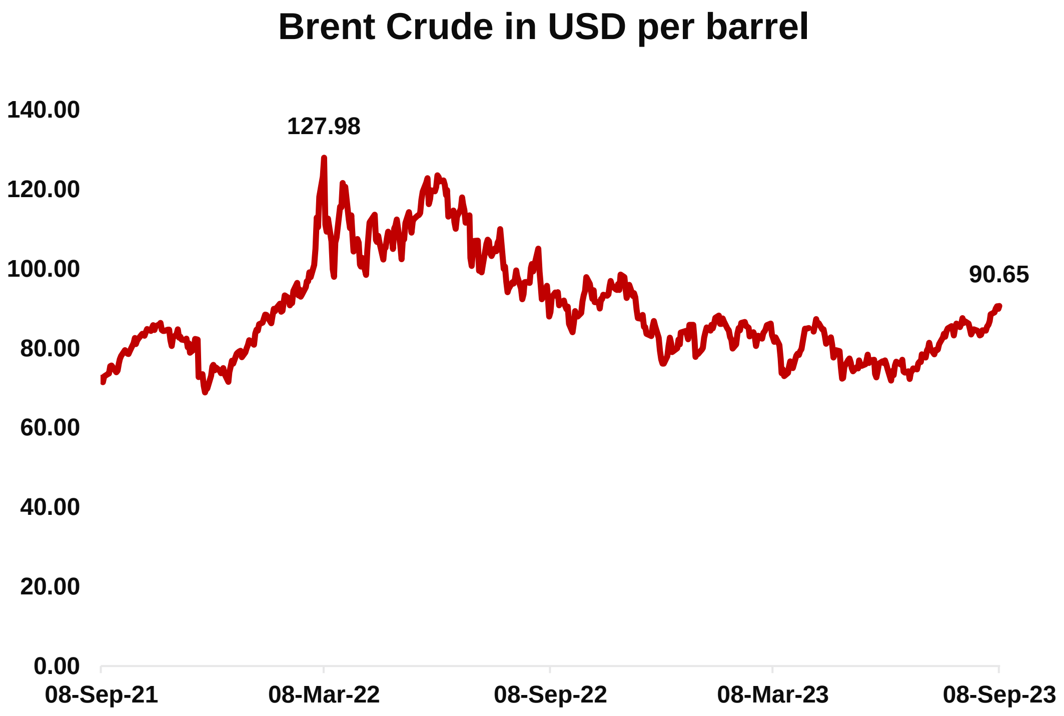


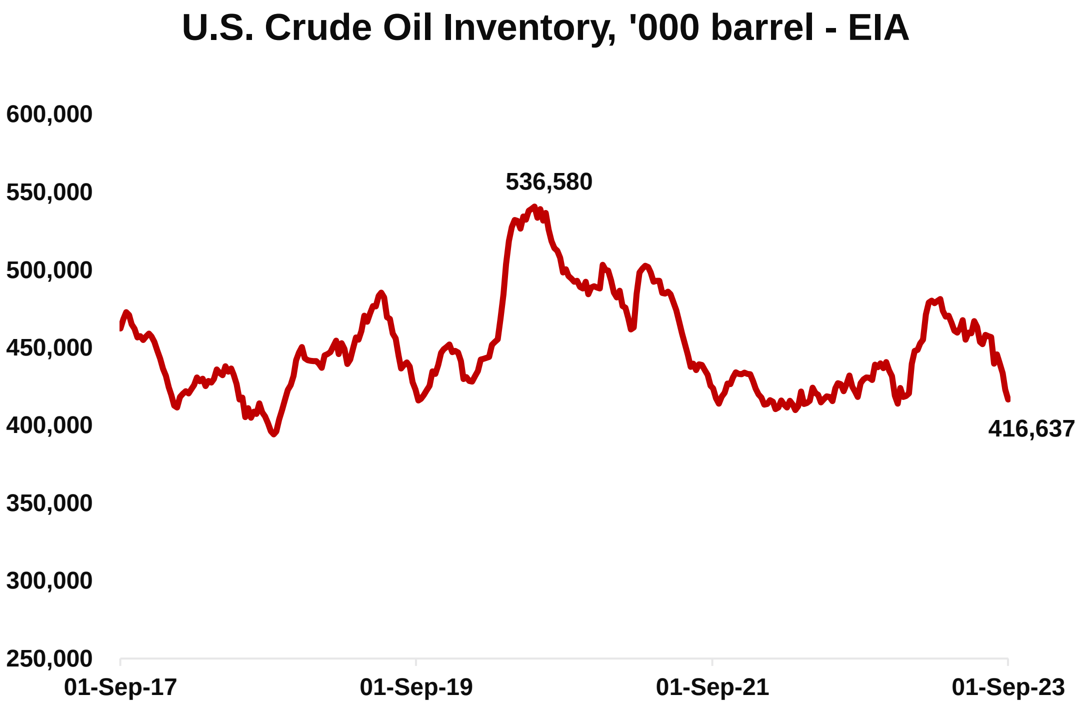
Source: BNM

- The Ringgit continued depreciating against the USD when the local note ended at RM4.6760 last Friday from RM4.6410 in the week ending September 1.
- This could be due to the uptick in the USD index, which touched the 105.0 level as the U.S. economy continued to show signs of resiliency when the ISM Services index unexpectedly jumped to 54.5 points in August from 52.7 points in the previous month.
- Additionally, amid tight supply conditions, the soaring Brent price during the week (September 8: USD90.65 per barrel vs. September 1: USD88.55 per barrel) might suggest continued monetary tightening for longer than expected to reach the inflation’s long-term target.
- We posit that Ringgit will persist in a weak trajectory as market participants remain cautious ahead of the upcoming Federal Open Market Committee (FOMC) meeting on September 19-20.

COMMODITY: OIL PRICE JUMPED ABOVE USD90.0 PER BARREL, THE HIGHEST SINCE NOVEMBER 2022 AMID TIGHT SUPPLIES

BANK ISLAM



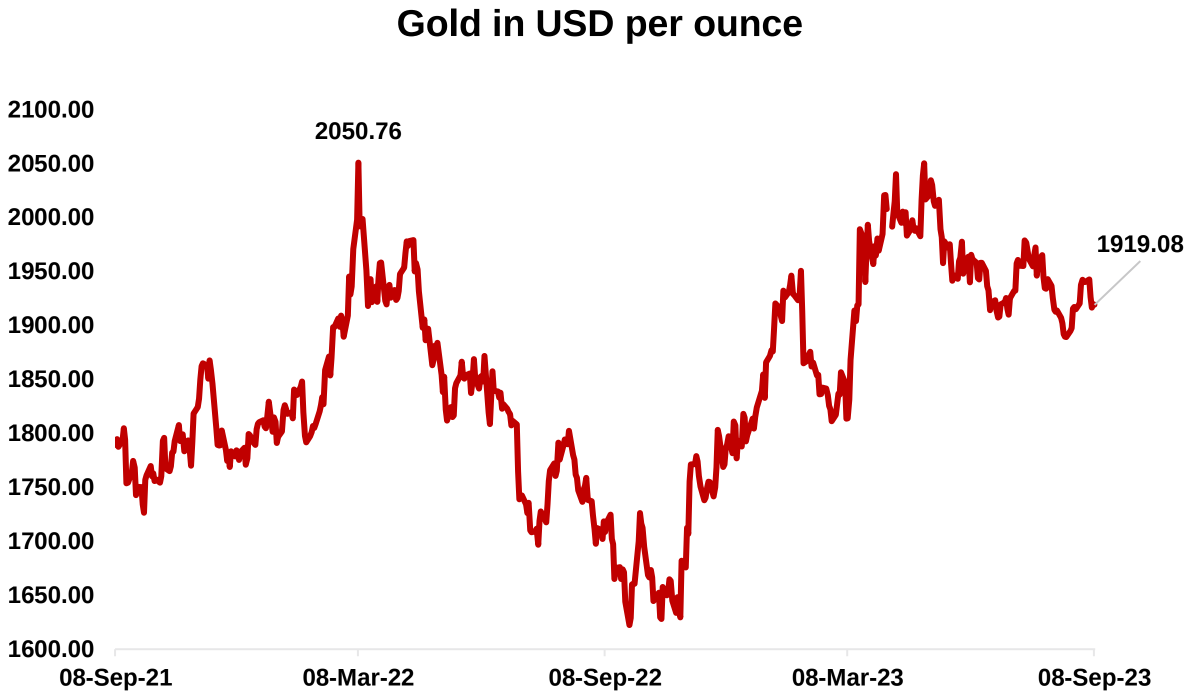


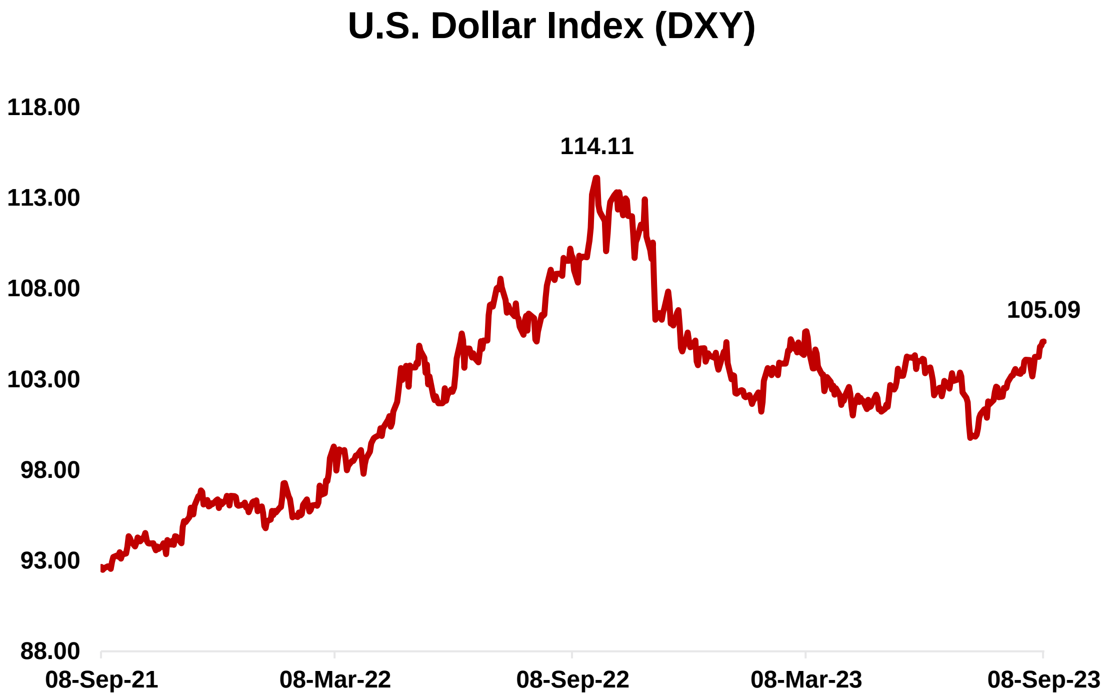
Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price headed for a second weekly gain after Saudi Arabia extended its voluntary output cut of 1.0 million barrels per day (bpd) through the end of December.
- Meanwhile, Russia also extended its voluntary reduction in oil exports by 0.3 million bpd until the end of next year. At the same time, the EIA reported that the price drew its support from the decline in the crude oil stockpiled by 6.3 million barrels last week.
- However, concerns on the demand side linger amid China's flagging economy. There are also renewed fears that further potential rate hikes from the Fed could exert downward pressure on energy consumption.

COMMODITY: GOLD DECLINED BY 1.1% AFTER GAINING FOR TWO STRAIGHT WEEKS

BANK ISLAM





Sources: Bloomberg, Commodity Research Bureau

- Latest U.S. data pointed to a still-robust economic growth, allowing the Fed to keep its monetary settings restrictive for longer than expected or even raise the interest rates further. At the point of writing, there is a 93% probability that the Fed may keep its rates steady next week.
- The U.S. initial jobless claims (IJC) fell unexpectedly to the lowest level since February, surpassing market anticipations of a moderate increase and refuting recent data that suggested some softening in the labour market.
- Additionally, the U.S. ISM Services Purchasing Managers' Index (PMI) gained steam more than expected in August (Act: 52.5 points vs. Est: 52.5 points), indicating the strongest growth in the services sector in six months.
- While market participants are seeing a hawkish pause from the Fed this month, it could signal a potential rate increase in the next meeting.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- Just a week before the Fed is scheduled to meet, there will be a slew of data out of the U.S., including inflation, retail sales, and industrial production numbers for August that could offer more clues on the Fed's future policy decisions. The market consensus indicates a further uptick in headline CPI rate (July: 3.2%) amid higher gasoline prices, whereas core CPI will likely continue decelerating (July: 4.7%). Given the weakening consumer spending power, as indicated by diminishing household savings and rising debt, U.S. retail sales are expected to grow at a more moderate pace in August (July: 3.2%). With August manufacturing PMI pointing to contraction, industrial production growth will likely remain subdued (July: -0.2%).

- Markets are divided on whether the European Central Bank (ECB) will deliver another rate hike this week. Continued economic weakness has left little room for the ECB to hike. The eurozone economy grew by a mere 0.5% in 2Q2023 (1Q2023: 1.1%), with Germany, the largest economy in the bloc, slipping into a recession after recording two consecutive quarters of contraction of 0.2%. However, ECB Governing Council member Klaas Knot said last week that markets may be underestimating the chances of a rate hike in the upcoming meeting. While significantly down from a peak of 10.6% recorded in October 2022, Eurozone inflation is still far above the ECB's 2.0% target at 5.3% in August.

- China will release its retail sales and industrial production data for August, which will be closely watched for economic indications after officials unveiled targeted stimulus measures and interest rate cuts. Taking a cue from the improvements in the official and Caixin manufacturing PMIs, China's industrial production is expected to expand slightly faster in August (July: 3.7%). Meanwhile, retail sales growth will likely slow in August as it is approaching the end of the summer holiday season.

- The six-day special sitting of the Dewan Rakyat, which will focus on the tabling of the 12th Malaysia Plan (12MP) Mid-Term Review (MTR) by Prime Minister Datuk Seri Anwar Ibrahim, is slated to begin this week. The 12MP MTR was carried out to evaluate the achievements of the five-year plan in its two years (2021-2022) and the direction for the next three years (2023-2025) toward achieving a sustainable, prosperous, and high-income nation. According to Economy Minister Rafizi Ramli, the review encompasses 17 policy shifts or radical approaches in line with current economic situations. The government intends to address the slowing economy, the weak ringgit, and the dependency on foreign labour.

THANK YOU