WEEKLY ECONOMIC UPDATE

12 JUNE 2023

ECONOMIC RESEARCH

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

WEEKLY HIGHLIGHT: JOBLESS CLAIMS SURGED FLASHING SIGNS OF U.S. LABOUR MARKET CRACKS

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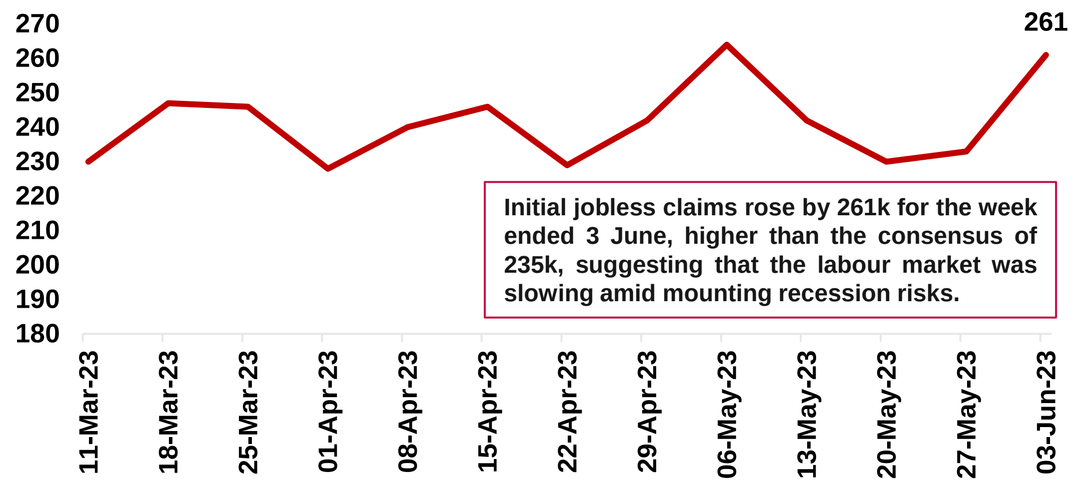
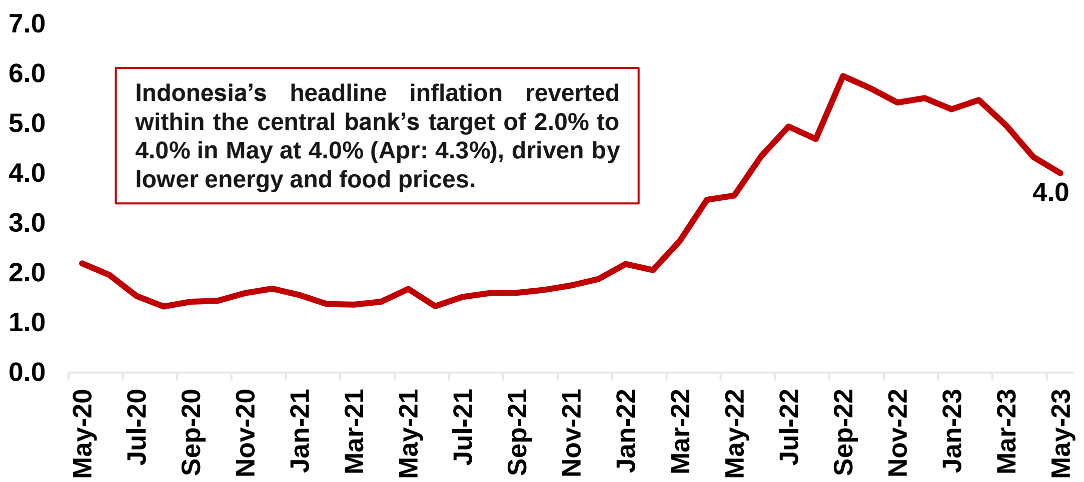
GLOBAL

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



Initial jobless claims rose by 261k for the week ended 3 June, higher than the consensus of 235k, suggesting that the labour market was slowing amid mounting recession risks.

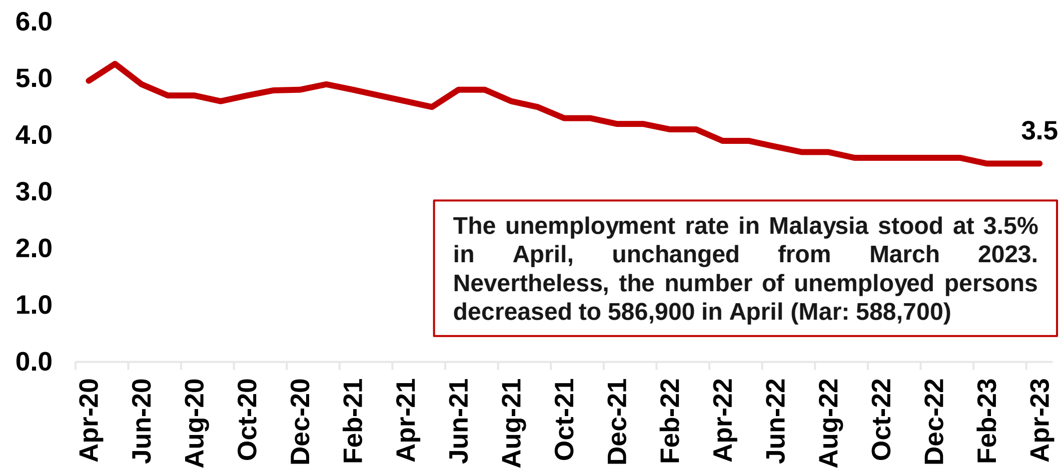
Indonesia - Consumer Price Index (CPI), y-o-y%



Indonesia's headline inflation reverted within the central bank's target of 2.0% to 4.0% in May at 4.0% (Apr: 4.3%), driven by lower energy and food prices.

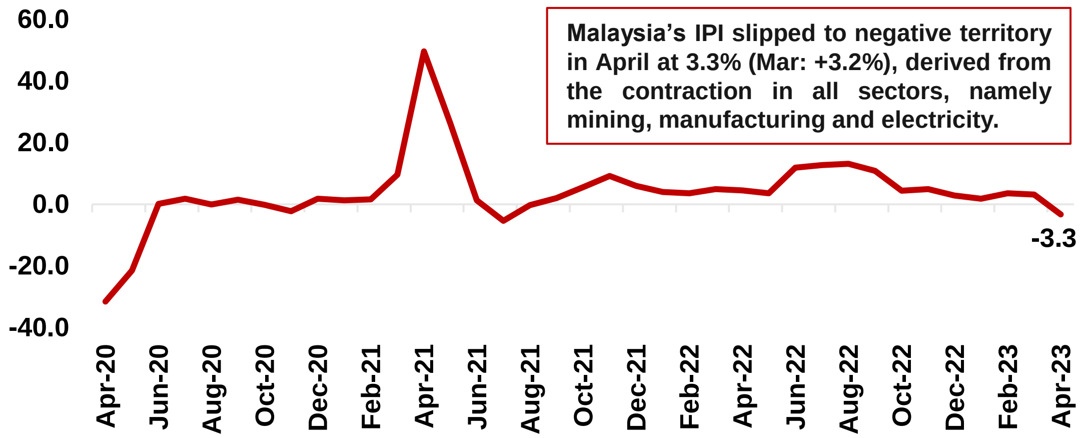
DOMESTIC

Malaysia - Unemployment Rate, %



The unemployment rate in Malaysia stood at 3.5% in April, unchanged from March 2023. Nevertheless, the number of unemployed persons decreased to 586,900 in April (Mar: 588,700)

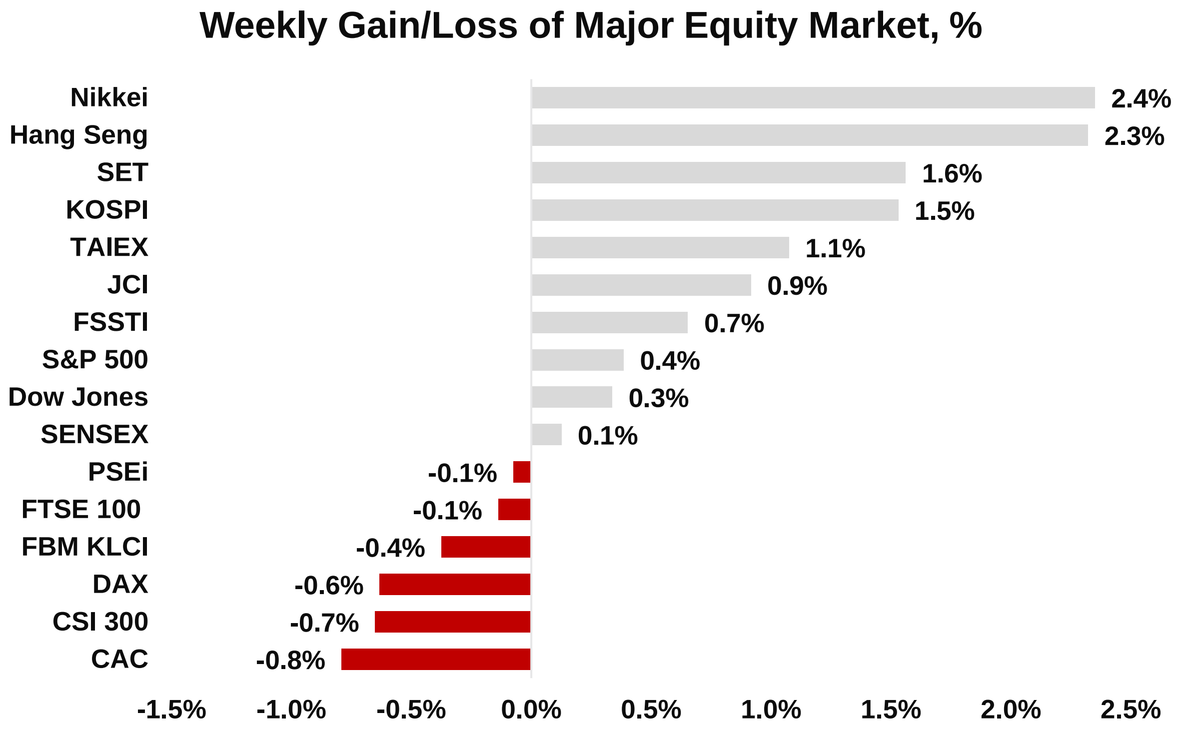
Malaysia - Industrial Production Index (IPI), y-o-y%

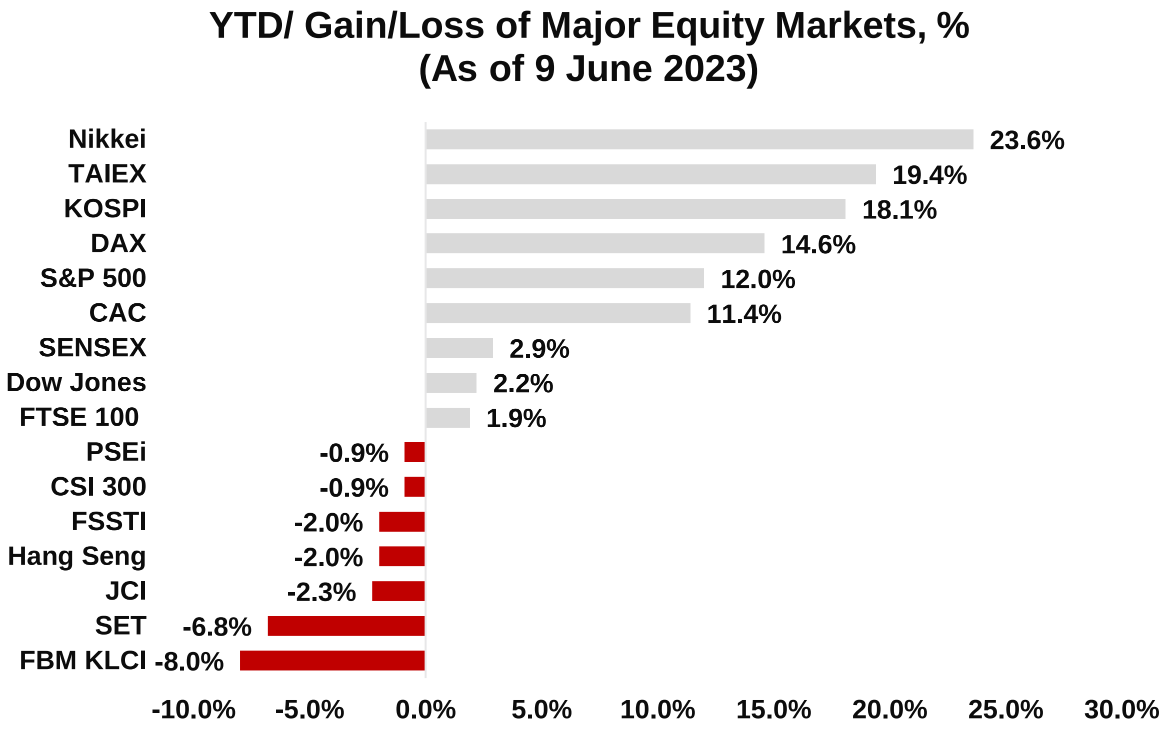


Malaysia's IPI slipped to negative territory in April at 3.3% (Mar: +3.2%), derived from the contraction in all sectors, namely mining, manufacturing and electricity.

Sources: U.S. Department of Labor, Statistics Indonesia Department of Statistics Malaysia

REGIONAL EQUITY: ASIAN MARKET GAINED AMID OPTIMISM OVER A NEW BULL MARKET





Sources: Bursa, CEIC

- Regional equity markets mostly closed on positive gains for the week ended 9 June, led by Japan’s Nikkei (2.4%), Hong Kong’s Hang Seng (2.3%) and Thailand’s SET (1.6%).
- On the other hand, France’s CAC and China’s CSI 300 were the major losers, moving downwards by 0.8% and 0.7%, respectively.
- Asian shares mostly rose last week, driven by the optimism from a new bull market as the S&P 500 closed more than 20.0% from its October lows.
- The broad expectation among investors is that the Federal Reserve (Fed) will hold rates steady in June’s monetary policy meeting, marking the first meeting where it has not raised rates in more than a year. The increase in U.S. weekly jobless claims hardened expectations of a pause in the Fed's policy tightening cycle.

DOMESTIC EQUITY: LOCAL MARKET ENDED IN RED AMID RETREATING ENERGY PRICES

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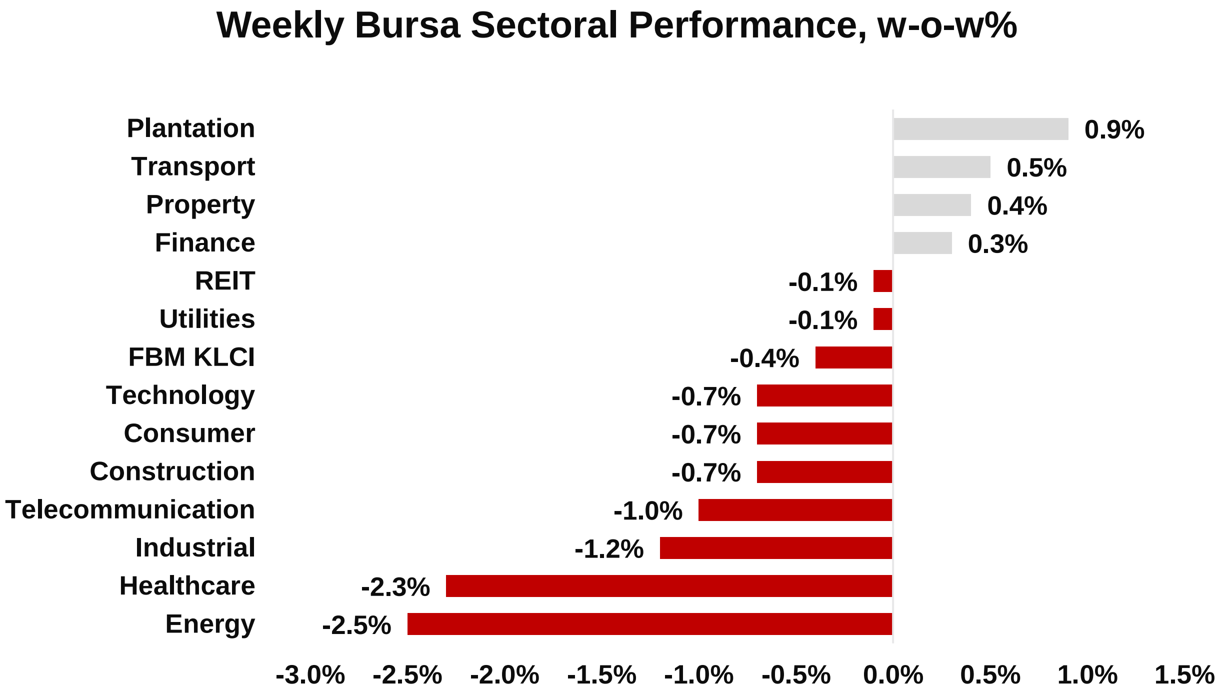

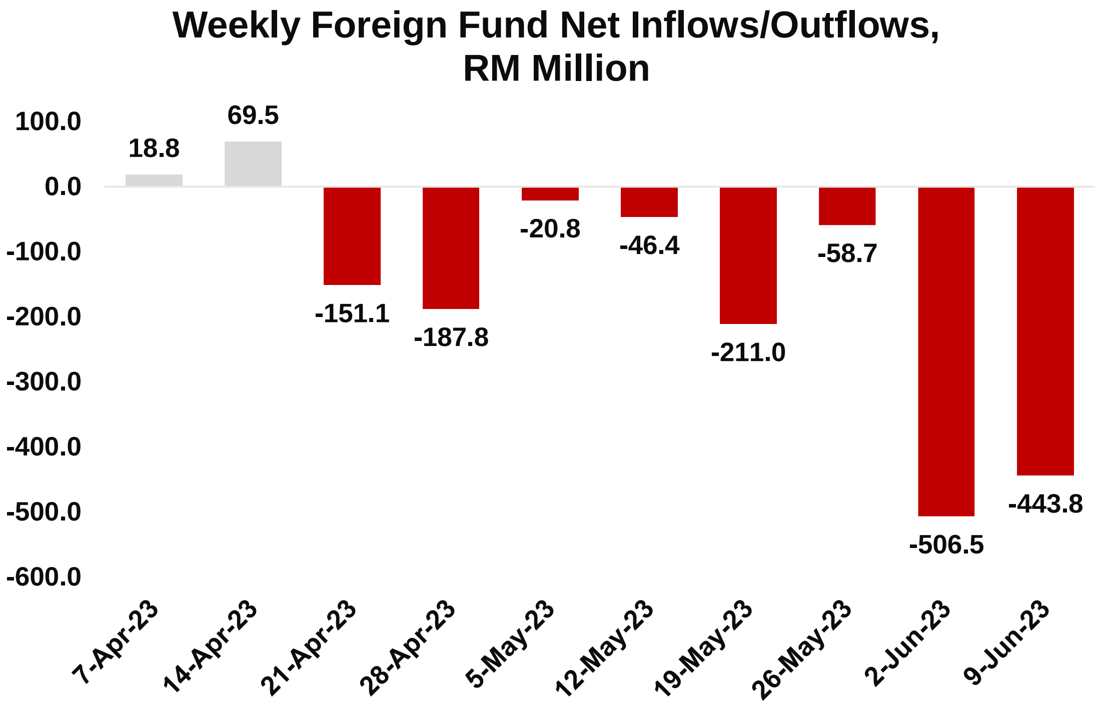

Sources: Bursa, Malaysian Palm Oil Board (MPOB), BNM

- No rest for the local market as most Bursa sectoral indices contracted for the week ending on 9 June, with Energy (-2.5%) and Healthcare (-2.3%) plunging off the far end.
- Energy index slumped on the back of falling energy prices, with crude Brent finishing at USD74.79 per barrel (2 June: USD76.13 per barrel).
- Meanwhile, the Plantation index (0.9%) led the gainers as the crude palm oil price floated higher last week, settling at RM3414 per metric tonne (MT) (2 June: RM3384.5 per MT).
- Additionally, foreign investors' rigorous selling spree persists for the eighth week, with net outflows of RM 443.8 million recorded. We believe cautious trading will continue until after the state elections.

FIXED INCOME: FOREIGN INVESTORS RESUMED BUYING STREAK IN LOCAL BONDS FOR FIVE STRAIGHT MONTHS

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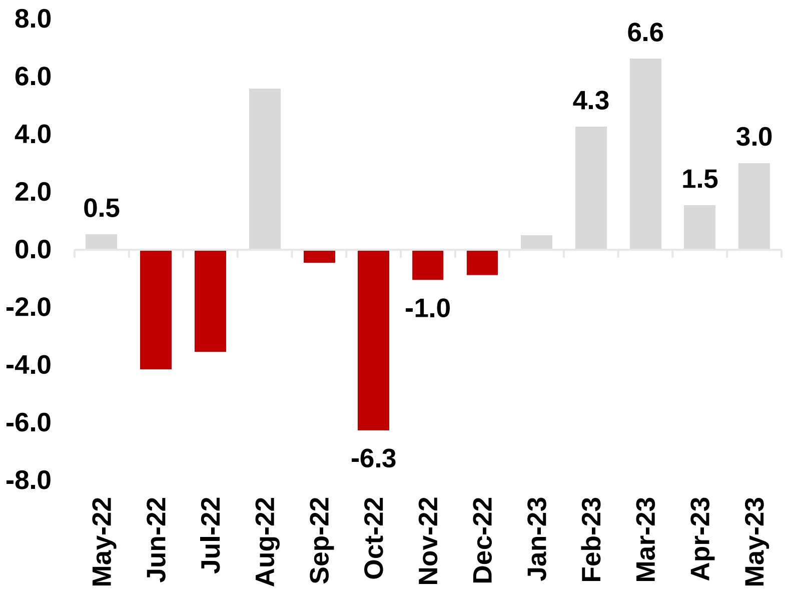
Weekly Changes, basis points (bps)

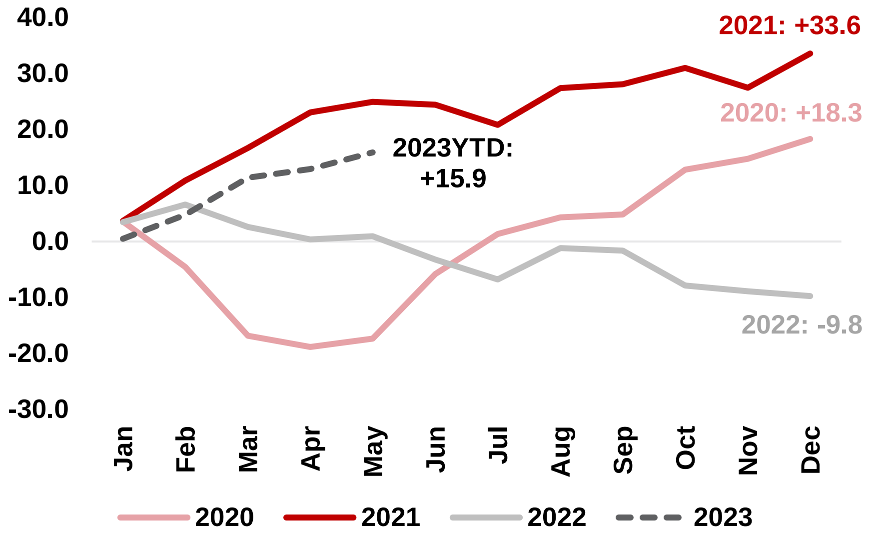
UST	Yields (%) 2-Jun-23	Yields (%) 9-Jun-23	Change (bps)
3-Y UST	4.13	4.23	10
5-Y UST	3.84	3.92	8
7-Y UST	3.78	3.84	6
10-Y UST	3.69	3.75	6
MGS	**Yields (%) 2-Jun-23**	**Yields (%) 9-Jun-23**	**Change (bps)**
3-Y MGS	3.40	3.45	4
5-Y MGS	3.47	3.53	6
7-Y MGS	3.61	3.64	3
10-Y MGS	3.70	3.73	2
GII	**Yields (%) 2-Jun-23**	**Yields (%) 9-Jun-23**	**Change (bps)**
3-Y GII	3.36	3.47	11
5-Y GII	3.53	3.57	4
7-Y GII	3.70	3.72	2
10-Y GII	3.80	3.82	2

Sources: Bank Negara Malaysia (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) yields bear flattened last week between 6bps and 10bps as investors looked ahead to the next Fed's monetary policy meeting, where the market is betting that the Fed will hit a pause button on the interest rate hike.
- Consequently, local government bonds uptrend last week with the Malaysian Government Securities (MGS) spiked between 2bps and 6bps.
- 3Y Government Investment Issues (GII) surged by 11bps as the 3-Y GII reopening auction recorded a bid-to-cover (BTC) ratio of 1.8x, denoting a weak demand. The belly and the long end of the curve rose slightly in the range of 2bps to 4bps.
- Foreign investors continued as the net buyer of local bonds for five consecutive months, with net foreign inflows of RM3.0 billion in May (Apr: RM1.5 billion). Local govvies' foreign shareholdings to total outstanding increased marginally to 22.7% in May from 22.6% in April.
- For the first five months of 2023, the cumulative net foreign inflows jumped to RM15.9 billion (Jan-May 2022: RM0.9 billion).

FX MARKET: THE RINGGIT WEAKENED DURING THE WEEK DUE TO NEGATIVE SENTIMENT IN THE GLOBAL PROSPECTS

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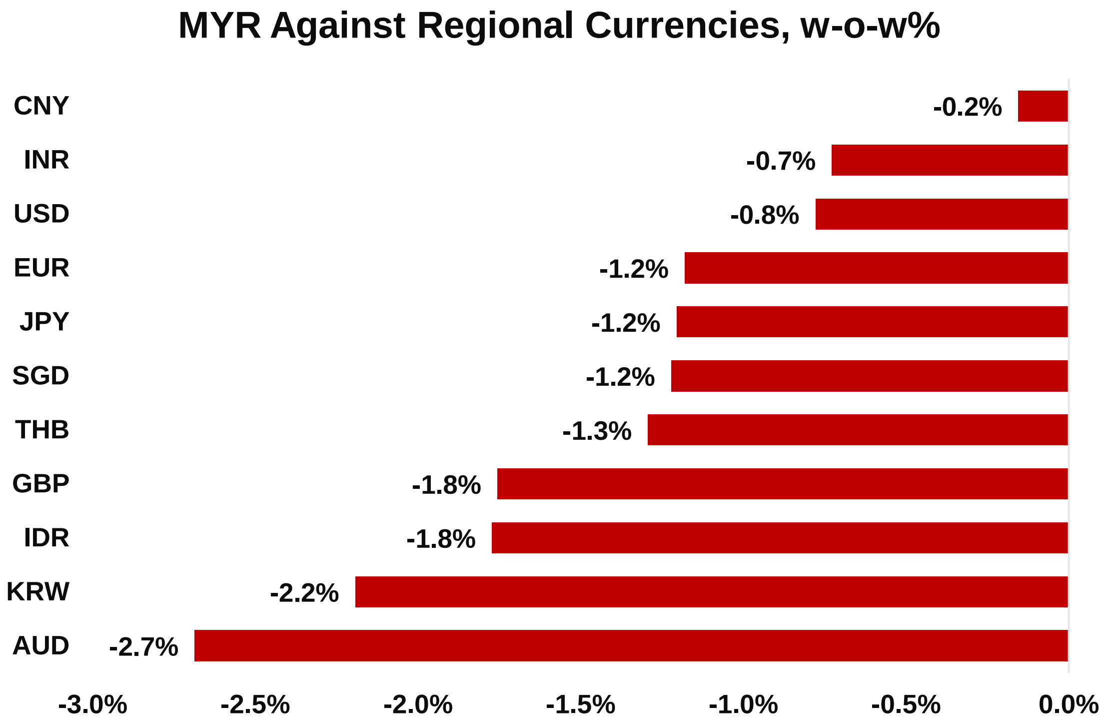

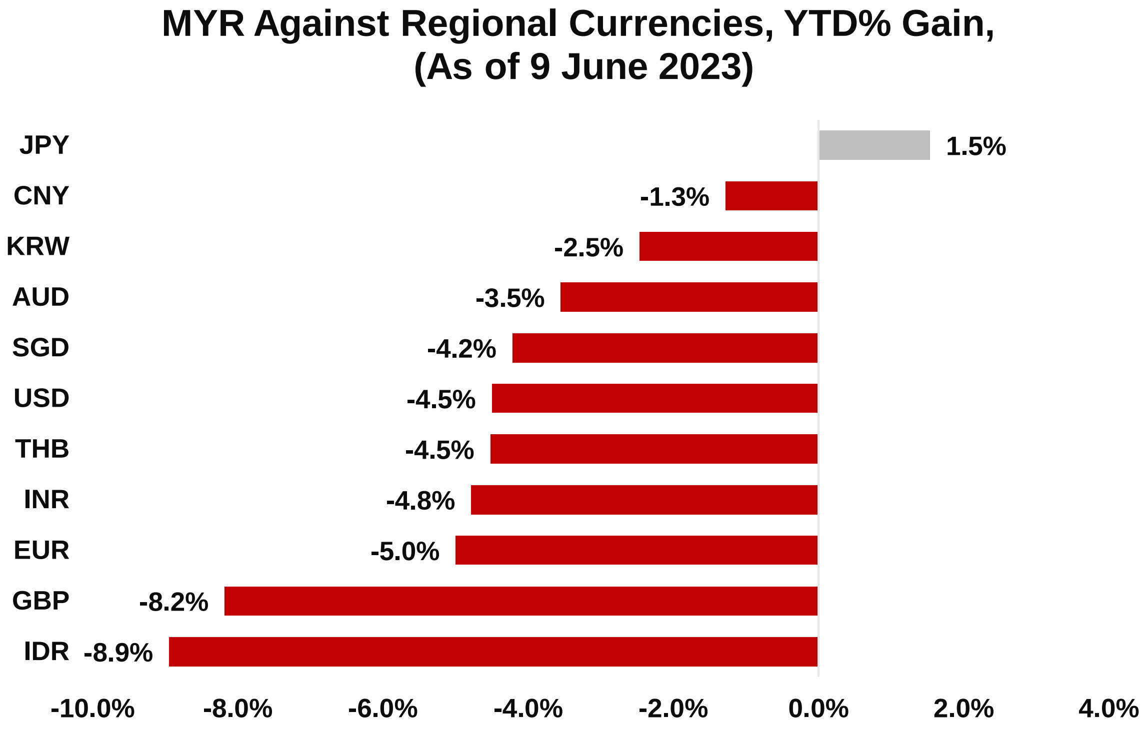

Source: Investing.com

- Last week's stronger Ringgit seemed short-lived when the local note ended lower against the USD on Friday despite the USD index continuing to trend down, reaching the 103 level as the U.S. successfully ended their debt-talk negotiations on a positive note.
- We foresee that the local note might be pressured by the uneven recovery in China when a few of the country's economic data missed expectations. Their export shrank by 7.5% in May, reversing the 8.5% growth in April, dimming one of the few bright spots in its recovery. Such performance complemented the weak official PMI data (May: 48.8 points vs. April: 49.2 points) from the previous week, adding further worries over the global growth outlook.
- For this week, we posit that Ringgit could be weakening against the USD as market participants might adopt a wait-and-see approach ahead of the U.S. FOMC meeting this week and the release of U.S. May CPI data.
- We are sensing an untangling between movements in DXY and USD/MYR of late.

COMMODITY: BRENT BRICE POSTED SECOND WEEKLY DECLINE DESPITE SAUDI ARABIA'S JULY PRODUCTION CUT AS DEMAND CONCERNS LINGERING

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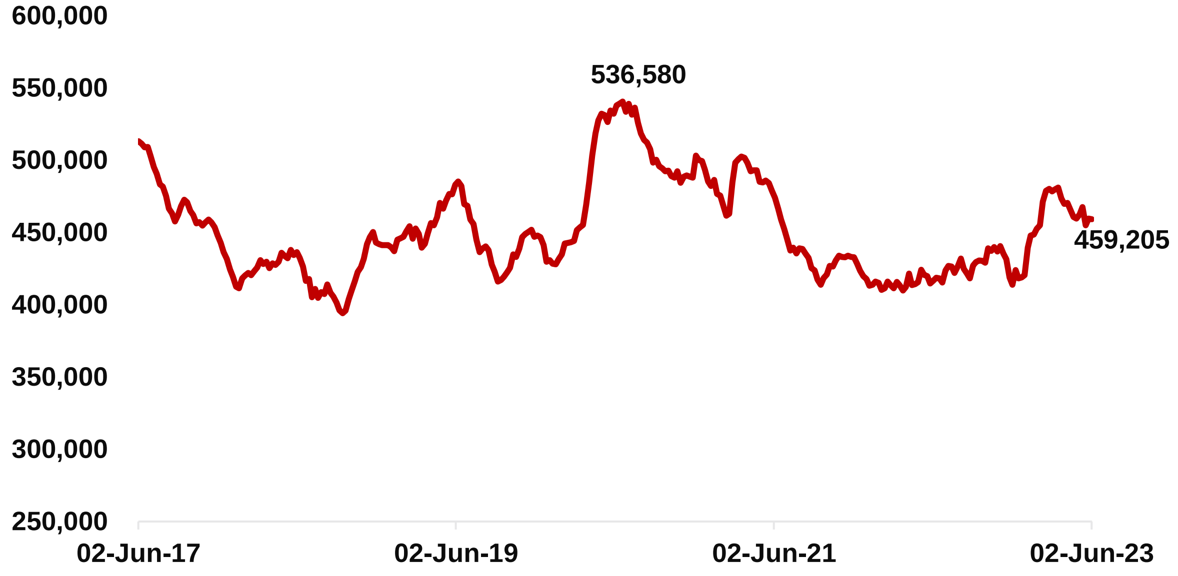
Brent Crude in USD per barrel

U.S. Crude Oil Inventory, '000 barrel - EIA



Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price was pressured by economic fears prospects, especially on the rate hikes from the central bank that could hinder oil demand, as well as heightened economic uncertainties from top crude importer China.
- Last week, the Reserve Bank of Australia (RBA) and the Bank of Canada (BoC) unexpectedly raised their respective interest rates, raising the odds that other advanced economies could follow suit.
- Apart from that, the U.S. crude oil inventories were seen lower on the supply side, as reported by the EIA. The crude oil stockpiles slid by 0.5 million barrels to 459.2 million barrels in the week ending 2 June from 459.6 million barrels the previous week.

COMMODITY: GOLD PRICE WAS ON TRACK FOR SECOND STRAIGHT WEEKLY GAIN ON FED'S RATE HIKE POTENTIAL PAUSE

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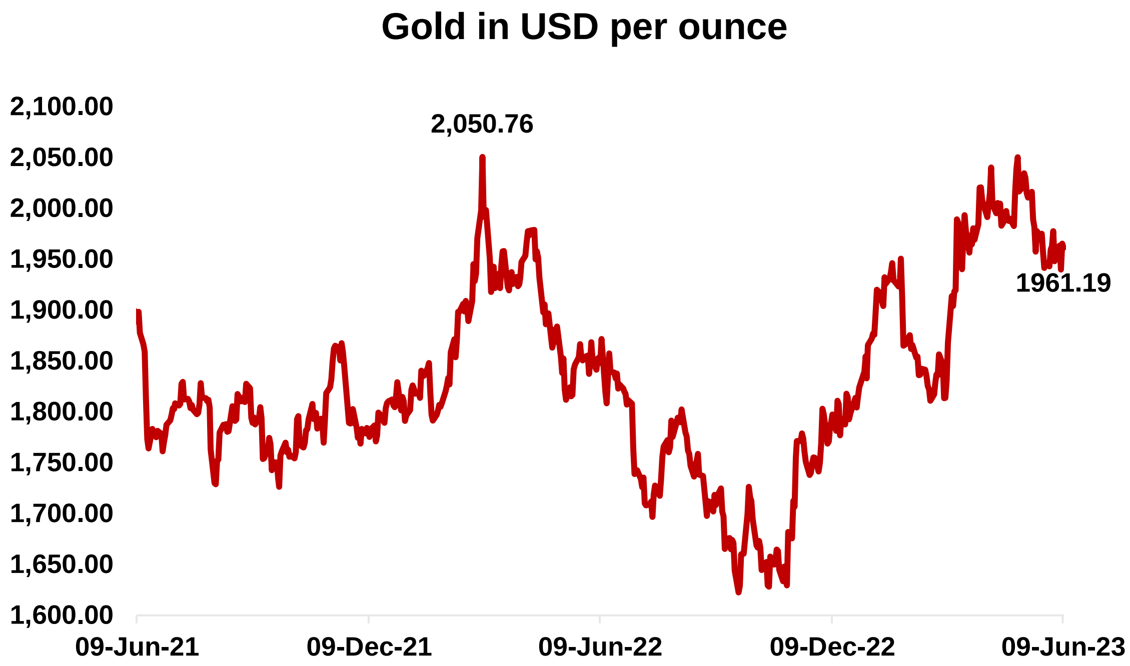

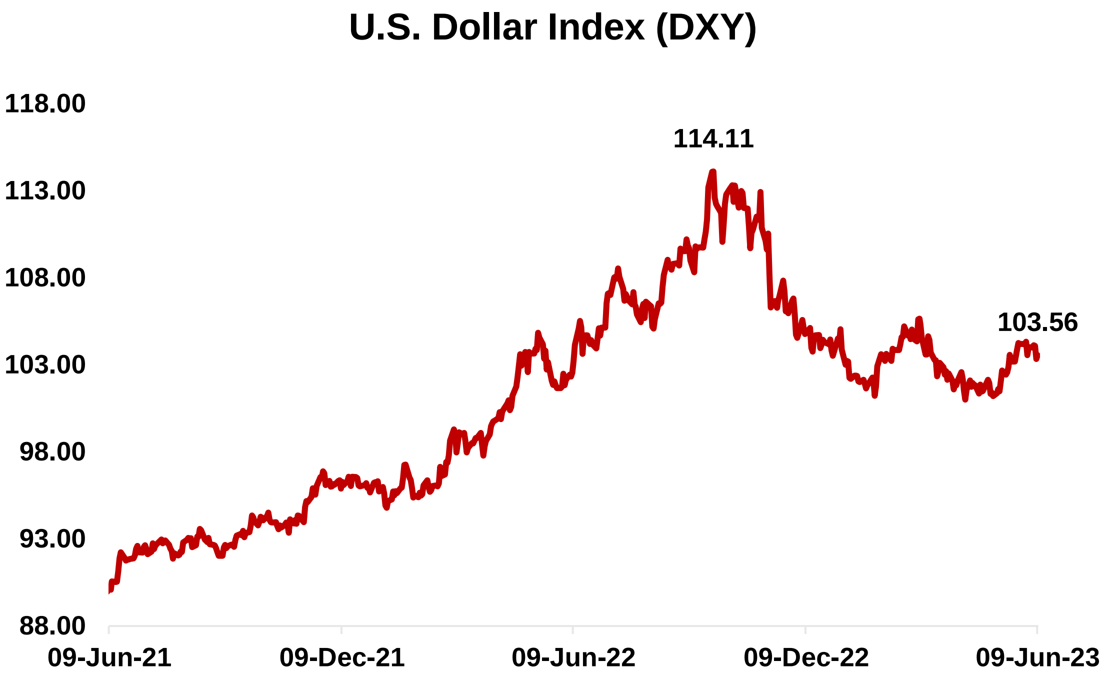

Sources: Bloomberg, Commodity Research Bureau

- The bullion price was on track to end the week higher, underpinned by a softer USD following a surge in the U.S. weekly jobless claims, reinforcing the anticipation of the Fed to hold steady its benchmark interest rate in this week's meeting. The Fed's Governor Christopher Waller and Chair Jerome Powell reaffirmed that the Fed's monetary measure would be undertaken after reassessing the impact of the previous hikes and the banking strains on the economy.
- Meanwhile, investors brace for the U.S. May CPI inflation figure due a day before the Fed announces its policy decision this week.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- On the global front, all eyes are on the upcoming U.S. FOMC meeting which is slated to be on 13-14 June. But first, the U.S. May CPI inflation could carry the weight of FOMC's outcome should price pressures still lingering amid past hikes. At the point of writing, 76.0% of market participants expect the central bank to stand pat on its monetary policy decision, according to the latest reading from the CME Fed Watch tool. Should that be the case, this would be the first rate pause since its tightening campaign in March last year. Investors also would take their focus on the Summary of Economic Projections (SEPs), which is released on a quarterly basis.

- Aside from the Fed's meeting, the European Central Bank (ECB) and Bank of Japan (BoJ) will release their monetary decisions this week as well. The combination of the RBA and BOC hike in the previous week saw some market participants assume other central banks share a similar narrative on their monetary policy path outlook. Despite the Eurozone being in a technical recession, the ECB may put its policy rate higher by another 25bps this week. Meanwhile, given Governor Ueda's recent mixed guidance, the BoJ seems to remain committed to its ultra-loose policy-rate setting.

- Also, last week saw an update coming from the World Bank and OECD which saw both increasing this year's projection from the previous estimation. However, World Bank has cut its 2024 global growth prospect forecast from 2.7% to 2.4%, citing central banks' monetary tightening and restrictive credit conditions as the main driver. Though OECD saw more promising prospects for next year than the World Bank. As mentioned earlier, Eurozone has officially entered a technical recession, mirroring a contraction in Germany, the country's largest economy, as the households struggle with the cost-of-living crisis, among other things.

- Malaysia's labour market continued to accelerate, further bolstered by continuous upbeat momentum in the domestic economy as shown by more labour force participation rate when it increased by 70.0% in April, a historic high, from 69.9% in the previous month. Additionally, the employment rate steadily improved by 0.2% m-o-m in April to record 16.25 million people compared to 16.23 million people in the previous month. Going into 2023, we expect that the labour market will continue to strengthen further, underpinned by a favorable domestic environment, creating a solid foundation for sustaining consumer spending that could support overall growth during the year. We do not rule out the possibility of another OPR hike in 2H2023 if the unemployment rate continues downward to 3.3%. For the record, the unemployment rate remained unchanged in April at 3.5%.

THANK YOU