



From the Desk
of the
Chief Economist

BANK ISLAM

WEEKLY MARKET UPDATES

12 JULY 2022

ECONOMIC RESEARCH

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KEY HIGHLIGHTS OF THE WEEK- RBA INCREASED THE CASH RATE BY 50 BASIS POINTS (BPS) IN VIEW OF RISING INFLATIONARY PRESSURE

International

Australia- Monetary Policy

- ✓ The Reserve Bank of Australia (RBA) raised the cash rate by 50 bps to 1.35% during its July 2022 meeting following a June's 50-bps hike and a 25-bps increase in May to contain the inflation.
- ✓ The labor market in the country remains strong with unemployment rate maintained at 3.9% in May.
- ✓ Additionally, the RBA has signalled that they will further tighten it monetary with the size and timing being guided by the incoming data.

The U.S.- Non-Farm Payroll (NFP)

- ✓ The U.S. economy added 372K payrolls in June 2022 which was slightly lower compared to 384K in May. However, the figure is above market estimation of 268k, suggesting the labor market remains healthy.
- ✓ Notable job growth was seen in Manufacturing and Construction which increased by 29k (May: 18k) and 13k (May: 34k) during June as the economy continued to recover from Covid-19 crisis.

China- Consumer Price Index (CPI)

- ✓ China's CPI rose by 2.5% y-o-y in June from 2.1% in May.
- ✓ The upturn was driven by higher food price, increasing by 2.9% in June compared to 2.3% in the preceding month.
- ✓ Furthermore, cost of transportation & communication also went up by 8.5% in June from 6.2% in May.
- ✓ The government has forecasted the headline inflation to reach 3.0% this year in view of global inflationary environment.

Domestic

Malaysia – Industrial Production Index (IPI)

- ✓ Malaysia's IPI moderated by 4.1% y-o-y in May compared to 4.6% in the preceding month.
- ✓ The slower growth mainly weighed by production of Mining which declined further by 4.9% in May from 0.1% contraction previously.
- ✓ Nevertheless, stronger Manufacturing (May: 6.8% vs. April: 6.2%) and Electricity (May: 2.8% vs. April: 1.5%) activities amid a more favourable operating conditions have cushioned the fall in Mining sector.

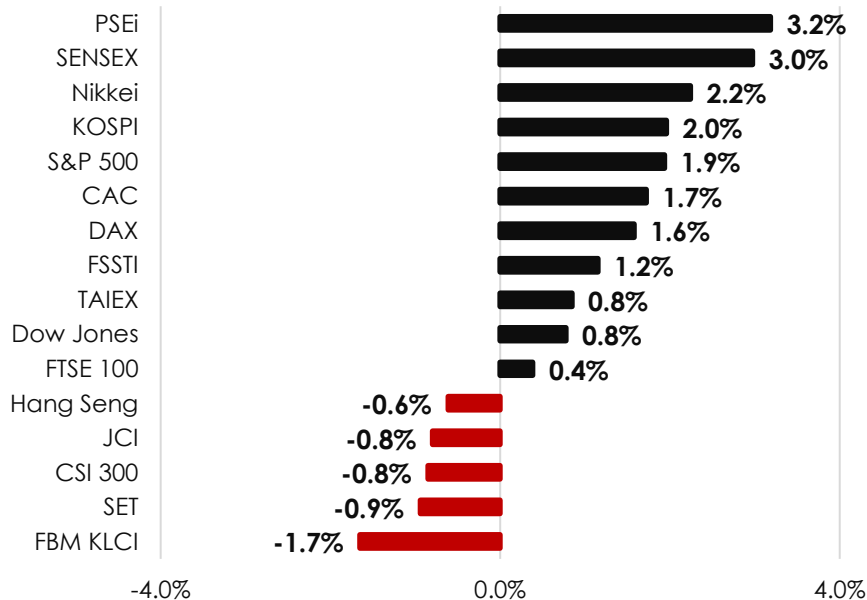
Malaysia – Unemployment Rate

- ✓ The Unemployment Rate (UR) sustained at 3.9% in May (April: 3.9%), suggesting Malaysia's labour market condition remained healthy.
- ✓ Additionally, the number of employed person rose to 15.90 million in May (April: 15.85 million), mainly supported by higher employment in Wholesale & Retail Trade and Food & Beverages Service activities amid reopening of the international border on 1 April 2022.

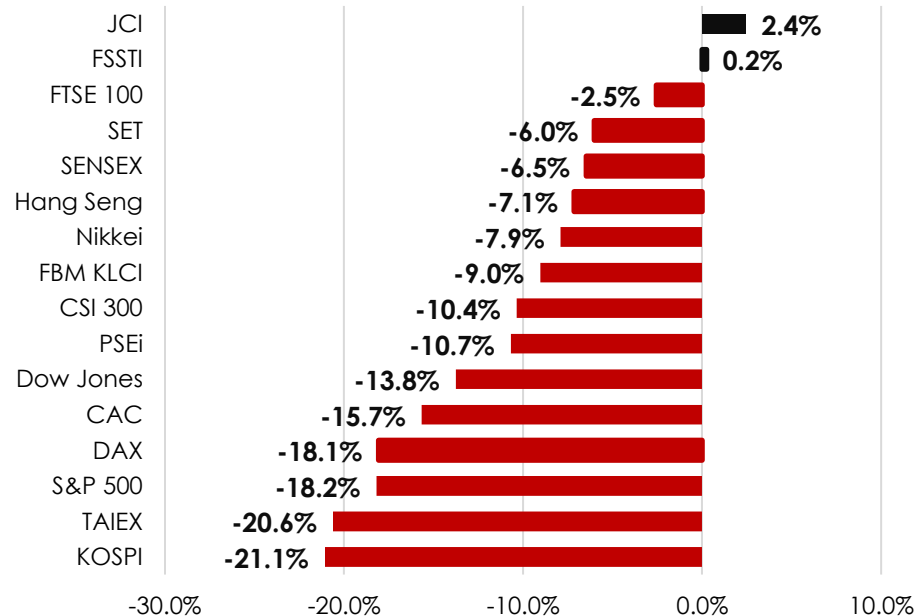
WEEKLY MARKET PERFORMANCE

- ✓ The Philippines's PSEi recorded a 3.2% weekly advance among the major equity markets after it declined for the fourth straight week previously. This was mainly attributable to the central bank governor's announcement that the Bangko Sentral ng Pilipinas (BSP) may raise the benchmark interest rate by an additional 100 bps this year as the country's annual inflation hit a near four-year high in June (June: 6.1% vs. May: 5.4%).
- ✓ Meanwhile, the FBM KLCI dropped by 1.7% due to heavy profit-taking in plantation and energy stock.
- ✓ On a Year-To-Date (YTD) basis, global equities were mostly on the red as investors remained cautious about a global economic slowdown and recession risks due to interest rate hikes by major central banks.

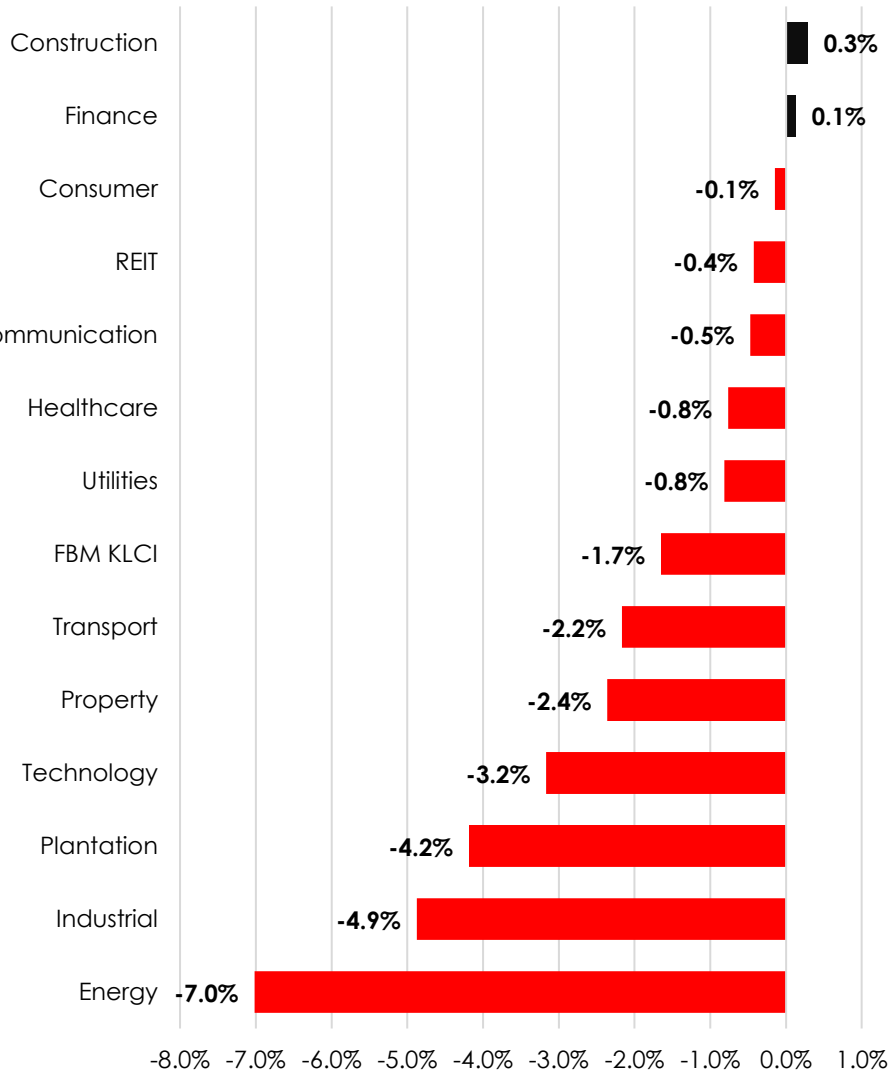
Weekly Gain/Loss of Major Equity Markets, % (Week Ending 8 July)



YTD Gain/Loss Of Major Equity Markets, % (As at 8 July)



Bursa Sectoral Performance, w-o-w%



Sources: CEIC, Trading View

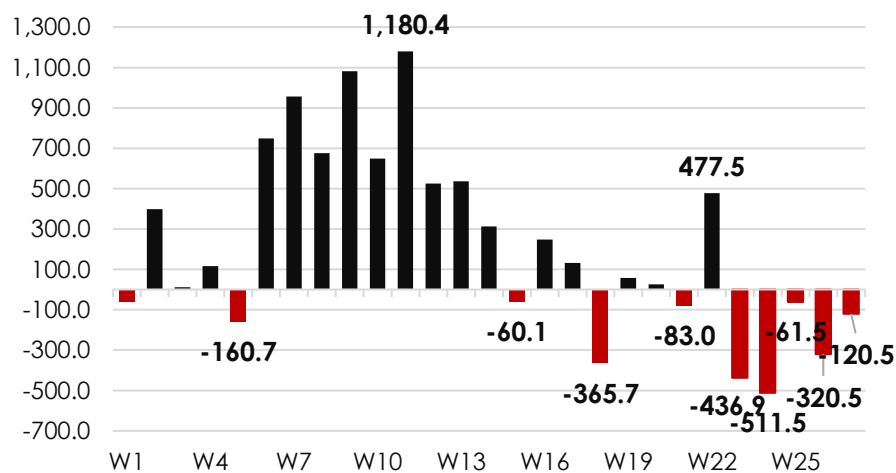
WEEKLY SECTORAL PERFORMANCE

- ✓ Most of the sectors were in the red except for Construction and Finance which have gained by 0.3% and 0.1% respectively during the week ending on 8 July.
- ✓ Finance sector gained some momentum following a 25 bps rate hike in the Overnight Policy Rate (OPR) that will improve the banks' profit margin.
- ✓ Meanwhile, Energy index recorded biggest loss at 7.0%, followed by Industrial which fell by 4.9%.
- ✓ The downturn in Energy weighed by weaker Brent crude oil price which fell to USD107.02 per barrel on 8 July from USD111.63 per barrel on 1 July.
- ✓ Looking forward, the FBM KLCI is likely to range between **1,415.0 points and 1,440.0 points this week** as investors would remain cautious amid hawkish monetary stance by the U.S. Federal Reserve (Fed) to combat soaring inflation.

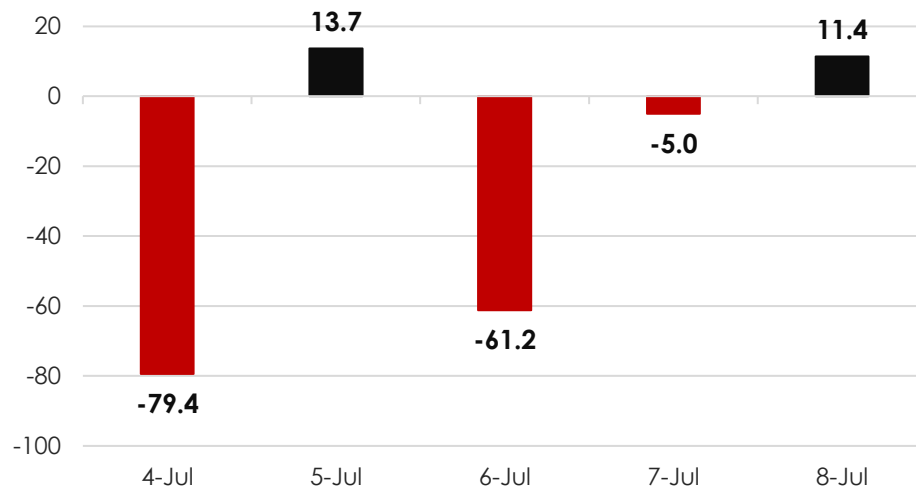
WEEKLY FOREIGN FUND FLOW

- ✓ Foreign investors remained as net sellers for the fifth straight week as they disposed RM120.5 million net of Malaysian equities. Nonetheless, this was lower as compared to RM320.5 million net outflows recorded in the preceding week.
- ✓ On further scrutiny, Bursa started the week on the wrong foot as international funds took out RM79.4 million net of local equities on Monday, the biggest outflows during the week. However, foreign investors turned to be net buyers on Tuesday whereby RM13.7 million net inflows were registered before continuing to be net sellers for the next two days with total of -RM66.2 million. Then, Friday marked the second day of foreign inflows with RM11.4 million were registered at the end of the week.
- ✓ On a YTD basis, international investors have bought RM6.0 billion net of local equities in 2022. Nevertheless, prospects of aggressive monetary policy by major central banks would continue to affect market sentiment among investors moving forward.

Weekly Foreign Fund Flow in 2022 (RM Million)



Daily Foreign Net Inflow/Outflow from 4 to 8 July (RM Million)



Source: Bursa
*W = week

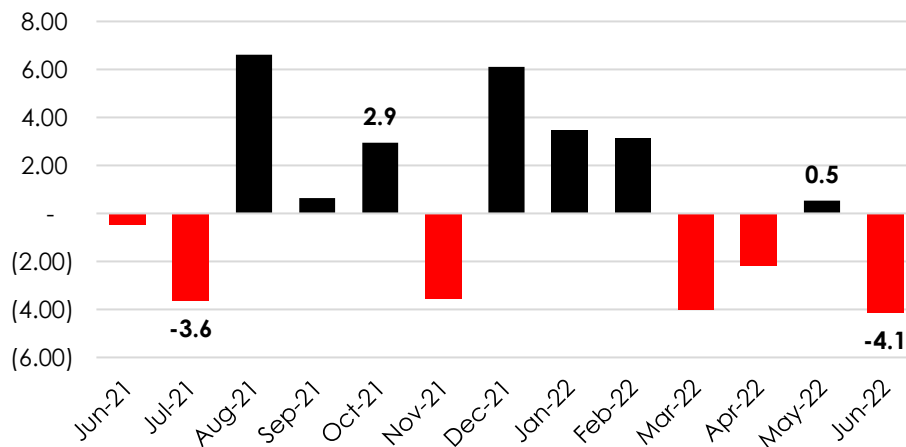
FIXED INCOME- FOREIGN INVESTORS HAVE SOLD RM4.1 BILLION FUND IN BOND MARKET DURING JUNE 2022

Bond Yields Weekly Change, bps

UST	Yields (%) 1-Jul-22	Yields (%) 8-Jul-22	Change (bps)
3-M UST	1.73%	1.98%	25
2-Y UST	2.84%	3.12%	28
5-Y UST	2.88%	3.13%	25
10-Y UST	2.88%	3.09%	21
MGS	Yields (%) 1-Jul-22	Yields (%) 8-Jul-22	Change (bps)
3-Y MGS	3.47%	3.47%	0
5-Y MGS	3.89%	3.82%	-7
7-Y MGS	4.16%	4.06%	-10
10-Y MGS	4.21%	4.14%	-7

Sources: CEIC, BNM

Foreign Fund Flows in Bond Market, RM Billion



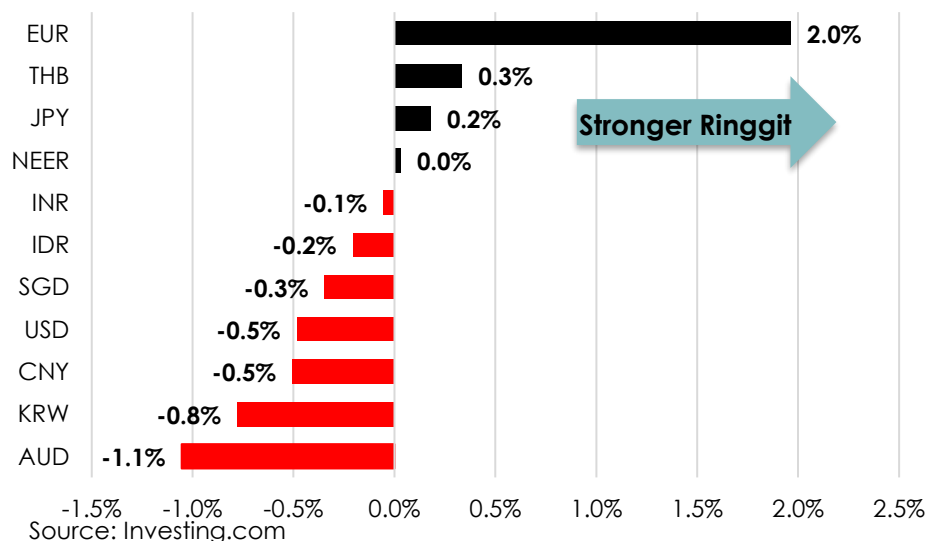
Source: CEIC

- ✓ For the bond market, the UST yields have surged between 21 bps and 28 bps over the week amid anticipation of aggressive rate hike in the U.S. during its upcoming meeting on 26-27 July.
- ✓ On domestic front, the MGS yields have retraced between 7 bps and 10 bps following the BNM's decision to withdraw its accommodative monetary policy.
- ✓ Meanwhile, foreign fund recorded a total of RM4.1 billion net outflows in June from RM0.5 billion net inflows previously due to rising uncertainty from aggressive rate hike by the major central banks including the U.S.
- ✓ Looking forward, we foresee the foreign fund outflows will persist in the medium term in view of another 50 bps to 75 bps federal fund rate (FFR) rate hike that could heighten the market volatility.

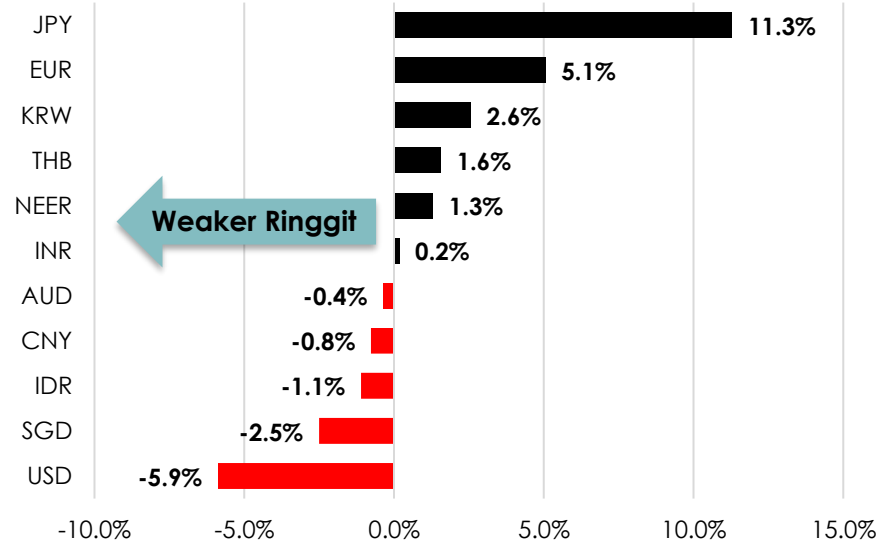
WEEKLY PERFORMANCE

- ✓ The Ringgit depreciated by 0.5% w-o-w against U.S. Dollar (USD), closing at RM4.4250 on 8 July from RM4.4060 in the preceding week.
- ✓ The USD emerged stronger during the week, reaching to 107.13 on Thursday amid hawkish statement by the Fed officials such as Christopher Waller and James Bullard who backed up 75 bps rate hike in the upcoming Federal Open Market Committee (FOMC) meeting. Such sentiment supported the value of greenback hence, putting downward pressure to the local note.
- ✓ Though the U.S. job report showed that the June's gains marked a slight deceleration from the downwardly revised in the previous month, (June: 372k vs. May: 384k), it indicated that economy is still going strong, defying expectations of a sharper slowdown.
- ✓ Apart from that, the resignation of U.K. Prime Minister Boris Johnson has given boost to the USD due to uncertain political situation, thus increase the safe-haven demand including the greenback.
- ✓ All in all, we foresee the Ringgit to trade around RM4.42 level as investors will be eyeing the U.S. inflation data that is due on 13 July which is anticipated to trend higher by 8.7% in June based on market consensus as compared to 8.6% in May.

**MYR against regional currencies, w-o-w%
(Week Ending 8 July)**



MYR against regional currencies, YTD Gain% (As at 8 July)



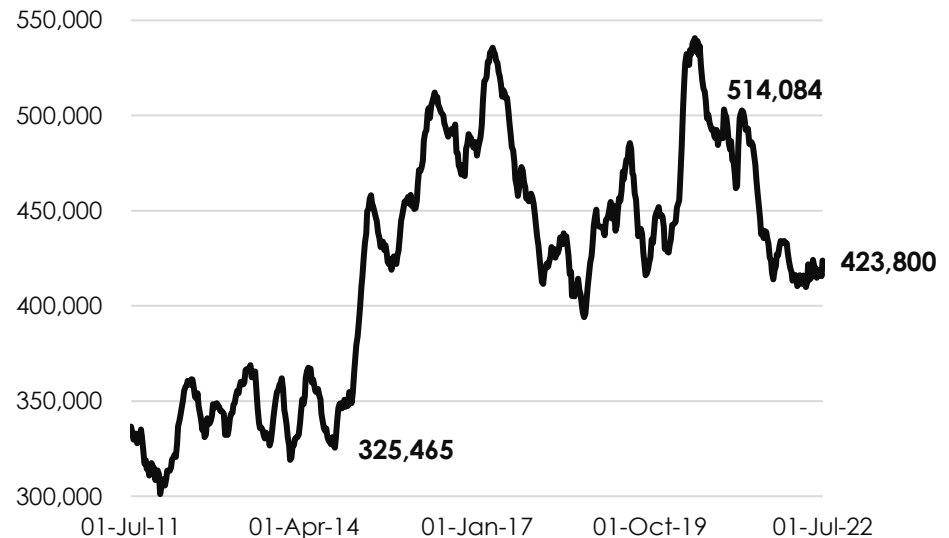
BRENT

- ✓ Brent crude oil price fell by 4.1% w-o-w to settle at USD107.02 per barrel on 8 July (1 July: USD111.63 per barrel). This was due to slowing fuel demand prospects following aggressive rate hikes by major central banks, as well as the resurgence of Covid-19 cases in China, the world's top oil importer.
- ✓ Apart from that, rising crude oil inventories has also put floor on the Brent price movement. The U.S. Energy Information Administration (EIA) reported that the crude oil stockpiles rose by 8.2 million barrels to 423.8 million barrels in the week ending 1 July (24 June: 415.6 million barrels), signifying signs of easing demand. Similarly, the American Petroleum Institute (API) mentioned that fuel inventories went up by 03.8 million barrels for the week which ended on 1 July from 3.8 million barrels draw in the previous week.

Brent Crude in USD per barrel



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



COMMODITIES – GOLD LOSES ITS SHINE OVER STRONG USD AND FED RATE HIKE BETS

GOLD

- ✓ Gold price continued to drop by 3.8% to reach USD1,742.48 per ounce on 8 July (1 July: USD1,811.43) amid a stronger USD. The USD index increased by 1.8% to 107.01 (1 July: 105.14) during the week.
- ✓ The weakness in the bullion is reflected by the DXY's rally to level not seen since 2002, driven by the hawkish monetary stance by the Fed following a stronger-than-expected jobs report. The Friday's job report saw the U.S. economy added 372k in June (May: 384k), above the estimation of 268k despite recession fears. Additionally, the unemployment rate remained unchanged at 3.6% during the month, the lowest since February 2020.
- ✓ Such signs of persistent labour market strength could induce another 75 bps rate hike for Fed's July meeting to curb the red-hot inflation in the country at the current juncture.

Gold in USD per ounce



Source: Bloomberg

U.S. Dollar Index (DXY)



- ✓ All eyes would be focusing on the release of U.S. CPI data on 13 July to see whether the movement is continuing higher, or the rate has finally peaked its level. Should the inflation remain on its upward trend in June (May: 8.6% vs. April: 8.3%), it could reinforce another big boost in the interest rate during the FOMC meeting later in this month. Such move could also be influenced by the new data of U.S. retail sales which is due during the week to assess whether surging cost fuels have added to price pressures.
- ✓ Apart from that, the global trend of aggressive monetary policy tightening is set to resume with Bank of Canada (BoC) is expected to deliver a 75 bps rate hike this week after two consecutive 50 bps rises. Similarly, the Reserve Bank of New Zealand (RBNZ) and Bank of Korea (BoK) would follow the suit with anticipation of further major rate hikes to reduce the soaring inflation in the respective countries.
- ✓ Another important data would see the release of a series of 2Q2022 gross domestic product (GDP) numbers for the U.K., China and Singapore to comprehend how those economies progressing during supply chain disruptions, as well as worsening cost of living crisis. Meanwhile, the industrial production figure for China, Eurozone, India, Japan and the U.K. would be monitored to seek clues whether the pace of the growth have slowed.
- ✓ On the domestic front, BNM decided to raise the OPR by 25 bps to 2.25% during its recent meeting last week, a similar quantum in May meeting previously. The move taken by the central bank is to remove monetary accommodation in view of positive prospects in Malaysia's economic data. **As such, we are projecting OPR to reach 2.75% by end of 2022 and between 3.00% and 3.25% in 2023.**
- ✓ Overall, even though there is improvement on the investors' sentiment following the release of better-than-expected of Malaysia's economic data, they are still cautious over hawkish monetary policy stance by the U.S. Fed. As such, the FBM KLCI is expected to trade between 1,415.0 points and 1,440.0 points during the week.

COVID-19 UPDATE: DAILY NUMBER OF CONFIRMED CASES

Date	Global	China	Germany	India	Indonesia	Italy	Japan	Singapore	South Korea	Spain	Thailand	United Kingdom	United States	France	Malaysia
8-Jun-22	528,438	83,172	71,121	5,233	520	28,547	15,519	4,477	13,343	13,665	2,688	11,717	98,636	9,703	1,518
9-Jun-22	672,781	80,429	82,068	7,240	556	22,925	18,275	3,602	12,150	14,137	3,185	11,361	152,310	53,705	1,887
10-Jun-22	623,861	73,344	71,205	7,584	627	23,534	17,201	3,431	9,315	13,185	2,836	11,768	147,538	40,151	2,166
11-Jun-22	523,051	68,663	65,228	8,329	574	22,012	15,790	-	8,428	11,720	2,501	11,261	102,529	5,998	3,875
12-Jun-22	528,248	80,020	19,646	8,582	551	22,458	14,684	6,097	7,382	10,253	2,474	10,761	147,416	6,075	1,571
13-Jun-22	357,527	51,100	12,170	8,084	591	19,310	13,128	2,503	3,818	3,779	1,801	10,038	37,486	78,014	2,092
14-Jun-22	324,034	45,459	87,001	6,594	930	10,668	10,204	2,389	9,766	2,721	1,833	12,657	38,520	8,474	1,922
15-Jun-22	646,870	66,651	93,587	8,822	1,242	39,844	14,030	5,130	9,419	-	2,263	15,202	90,955	65,425	2,320
16-Jun-22	629,938	69,470	81,629	12,213	1,173	32,809	16,555	3,906	7,982	-	2,153	15,062	137,484	51,885	2,033
17-Jun-22	617,132	63,761	36,895	12,847	1,220	37,068	15,802	3,120	7,198	-	1,967	14,778	142,639	53,081	2,130
18-Jun-22	577,066	55,742	77,184	13,216	1,264	36,170	8,905	8,761	6,842	12,257	2,272	14,145	97,679	39,241	2,127
19-Jun-22	526,192	54,218	22,853	12,899	1,167	34,971	12,867	-	6,067	-	1,892	13,842	125,025	50,266	1,690
20-Jun-22	406,016	51,168	12,971	12,781	1,180	34,255	19,638	3,199	3,511	-	1,784	13,567	35,483	40,125	2,093
21-Jun-22	382,013	36,182	104,974	9,923	1,678	16,905	10,207	3,220	9,286	-	1,714	16,940	35,131	10,263	1,921
22-Jun-22	732,137	56,939	124,351	12,249	1,985	63,264	13,998	7,109	8,937	50,235	2,387	19,860	51,953	95,217	2,425
23-Jun-22	789,568	52,951	113,186	13,313	1,907	54,873	17,160	5,862	7,480	-	2,299	20,809	185,647	77,967	2,796
24-Jun-22	750,512	49,053	100,758	17,336	2,069	57,432	16,782	6,606	7,227	-	2,313	20,773	134,699	79,795	2,512
25-Jun-22	802,456	46,513	86,457	15,940	1,831	56,410	16,064	7,987	6,780	68,186	2,236	19,485	102,686	68,601	2,302
26-Jun-22	684,833	41,120	26,485	11,739	1,726	56,873	15,671	4,697	6,246	-	2,378	18,225	163,259	80,926	2,003
27-Jun-22	486,572	40,425	14,424	17,073	1,445	49,325	13,771	5,116	3,404	-	1,735	16,704	41,955	66,301	1,894
28-Jun-22	467,895	29,337	116,310	11,793	2,167	25,019	11,988	5,309	9,870	-	1,761	20,695	42,914	16,101	2,025
29-Jun-22	884,472	45,012	137,348	14,506	2,149	84,161	17,709	11,504	10,453	52,218	2,569	24,962	98,122	147,248	2,605
30-Jun-22	903,627	43,135	124,339	18,819	2,248	95,455	-	9,392	9,583	-	2,695	24,755	153,171	124,724	2,867
1-Jul-22	922,379	39,947	109,018	17,070	2,049	84,234	46,437	9,505	9,528	-	2,354	24,170	142,028	133,265	2,773
2-Jul-22	944,371	36,825	94,031	17,092	1,794	86,900	23,125	9,087	10,695	84,146	2,508	23,747	105,666	115,435	2,527
3-Jul-22	755,572	35,765	22,671	16,103	1,614	85,943	23,327	7,952	10,059	-	2,328	23,037	154,445	122,639	2,536
4-Jul-22	529,248	33,327	12,824	16,135	1,434	72,917	22,154	6,127	6,239	-	1,995	21,228	10,030	96,191	1,918
5-Jul-22	547,543	23,676	118,768	13,086	2,577	36,885	20,774	5,946	18,138	-	1,917	26,221	13,599	24,418	2,932
6-Jul-22	1,012,409	37,114	132,737	16,159	2,743	133,015	32,906	12,784	19,363	71,818	2,428	28,028	65,254	206,554	3,561
7-Jul-22	1,047,063	35,862	120,885	18,930	2,881	110,017	44,845	9,989	18,498	-	2,366	18,155	237,428	151,565	4,020
8-Jul-22	938,575	32,694	80,003	18,815	2,472	108,386	47,786	9,985	19,323	-	2,144	-	156,639	164,237	3,589

Source: CEIC

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