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WEEKLY ECONOMIC UPDATE

12 DECEMBER 2022

ECONOMIC RESEARCH

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KEY HIGHLIGHT OF THE WEEK: RBA AND RBI REMAINED ON MONETARY TIGHTENING PATH IN DECEMBER

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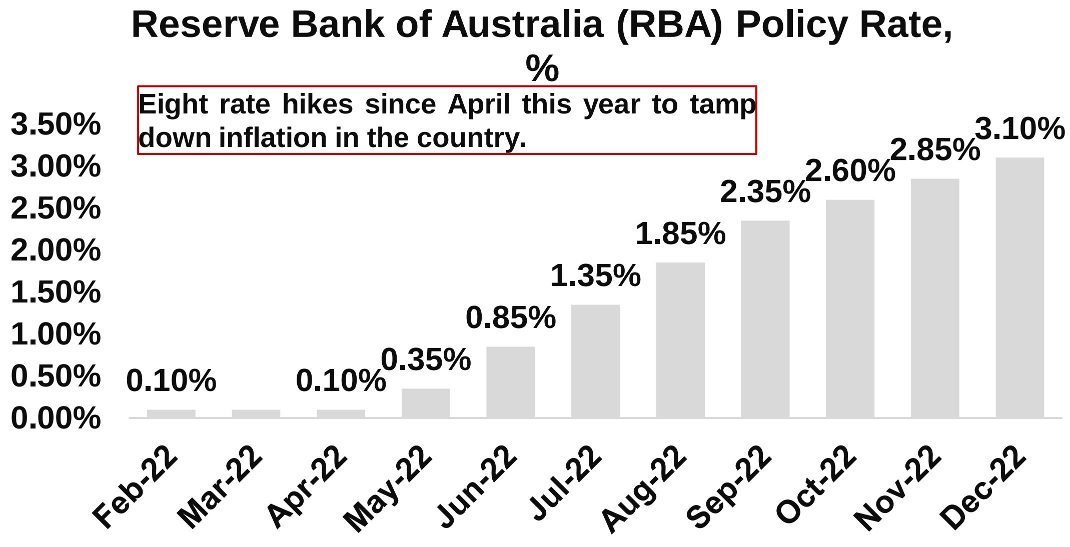
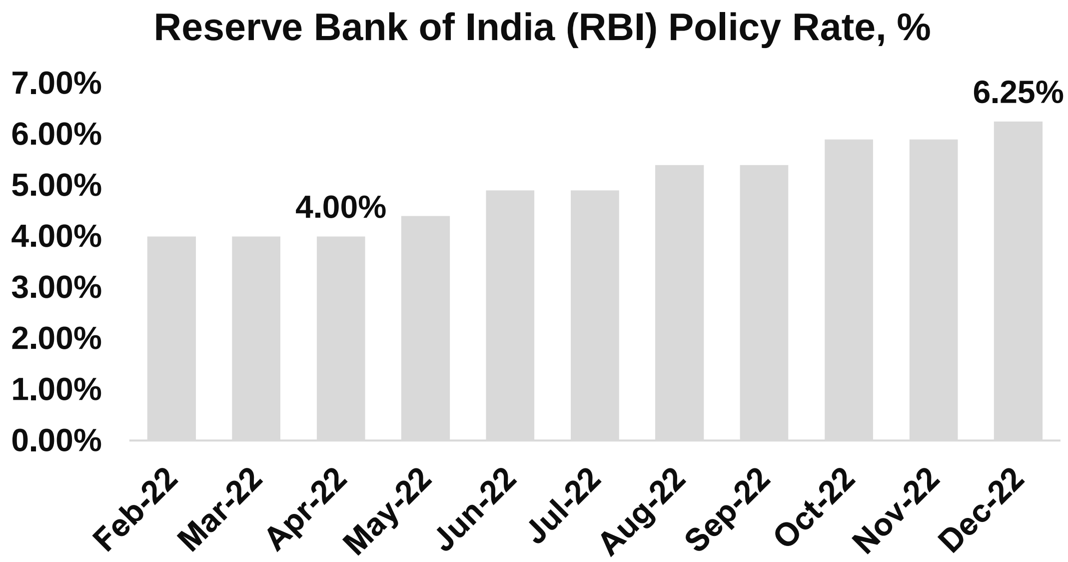
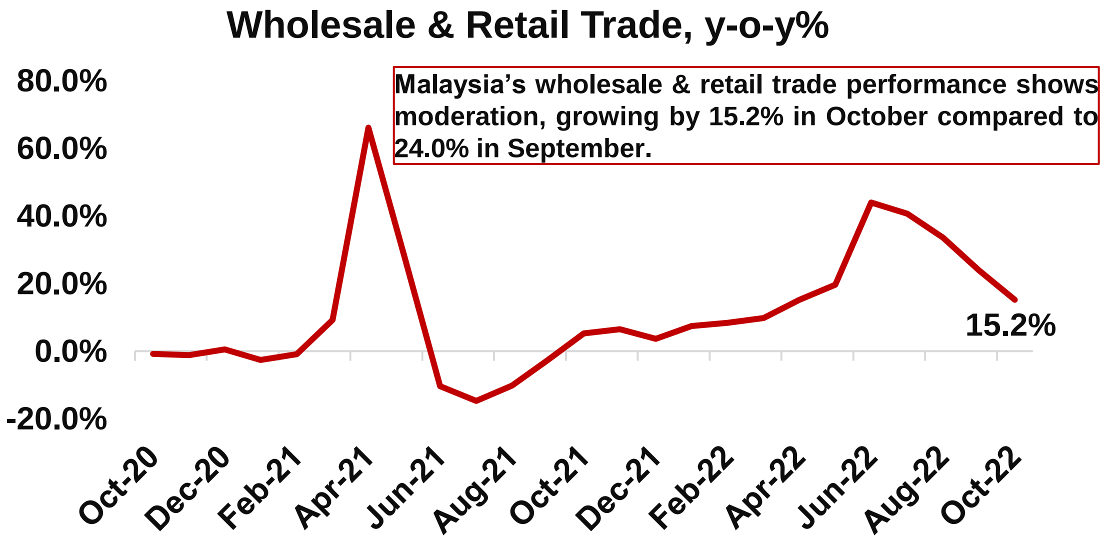
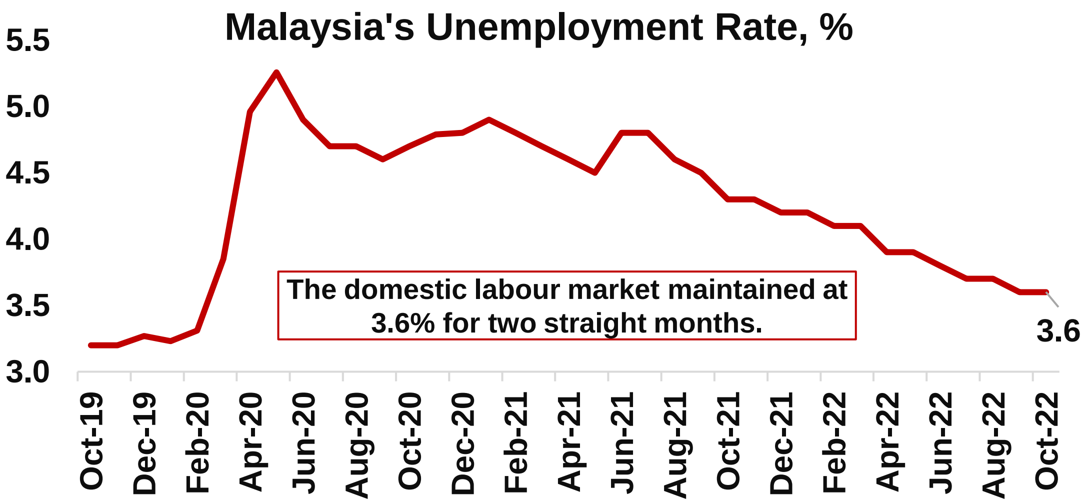
GLOBAL





DOMESTIC





Source: CEIC

REGIONAL EQUITY: MARKET FELL INTO NEGATIVE TERRITORY AFTER RECORDING GAINS FOR TWO STRAIGHT WEEKS

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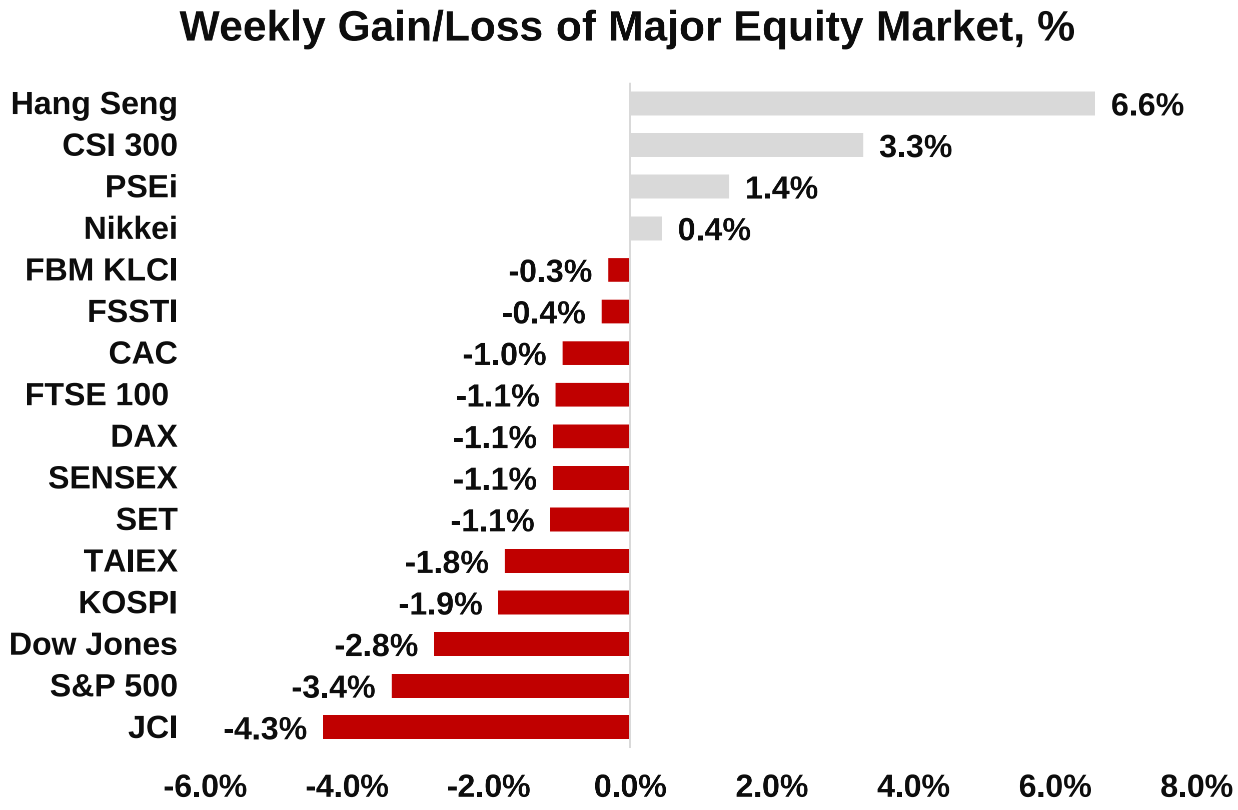
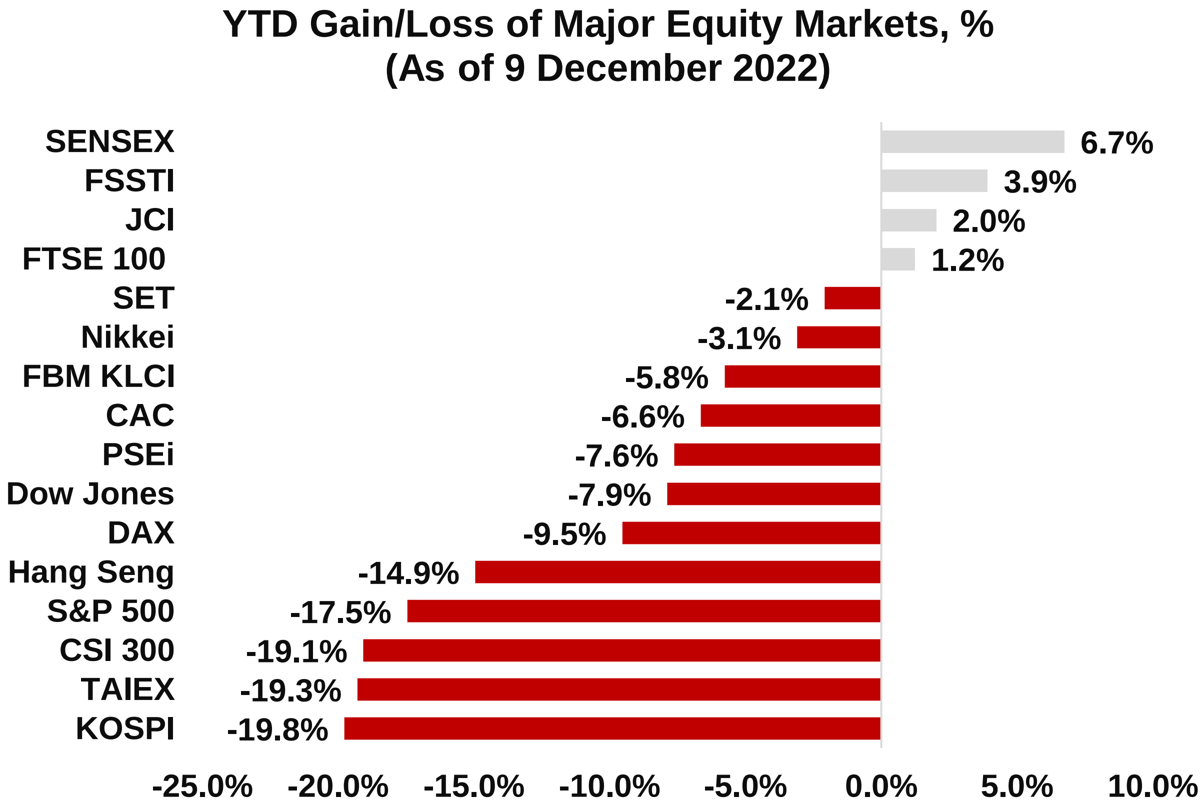
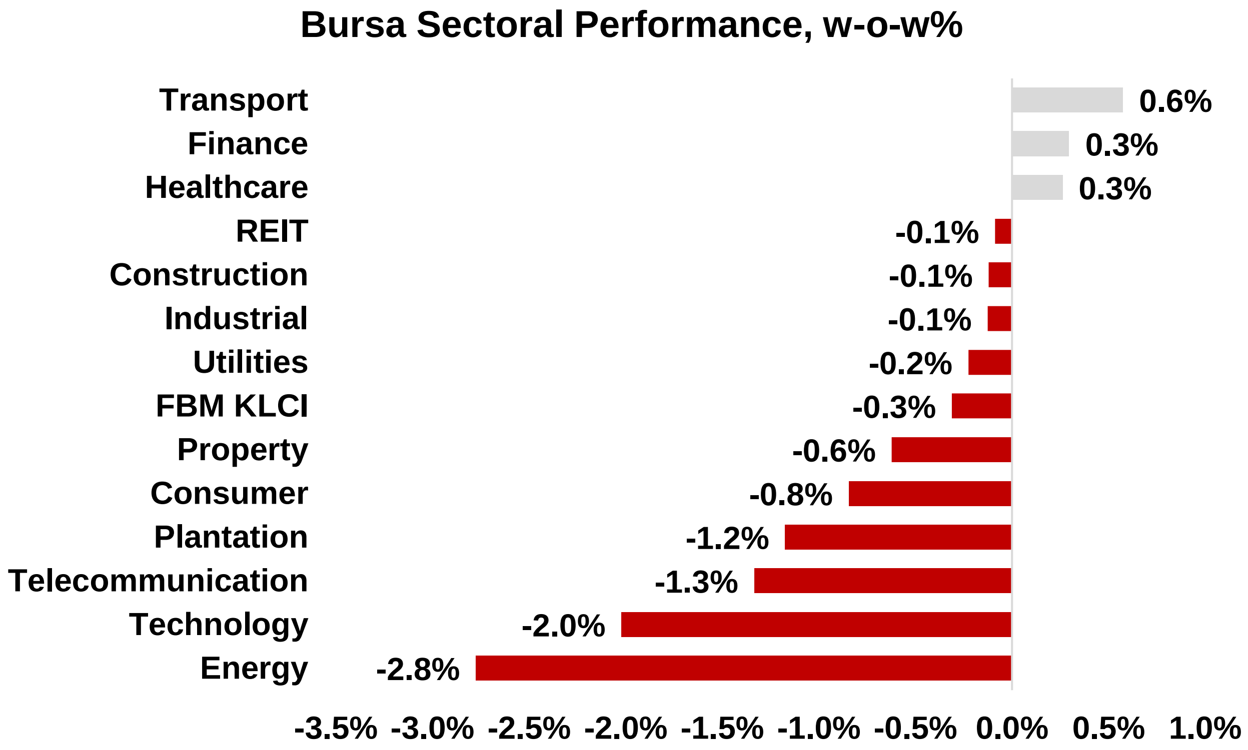


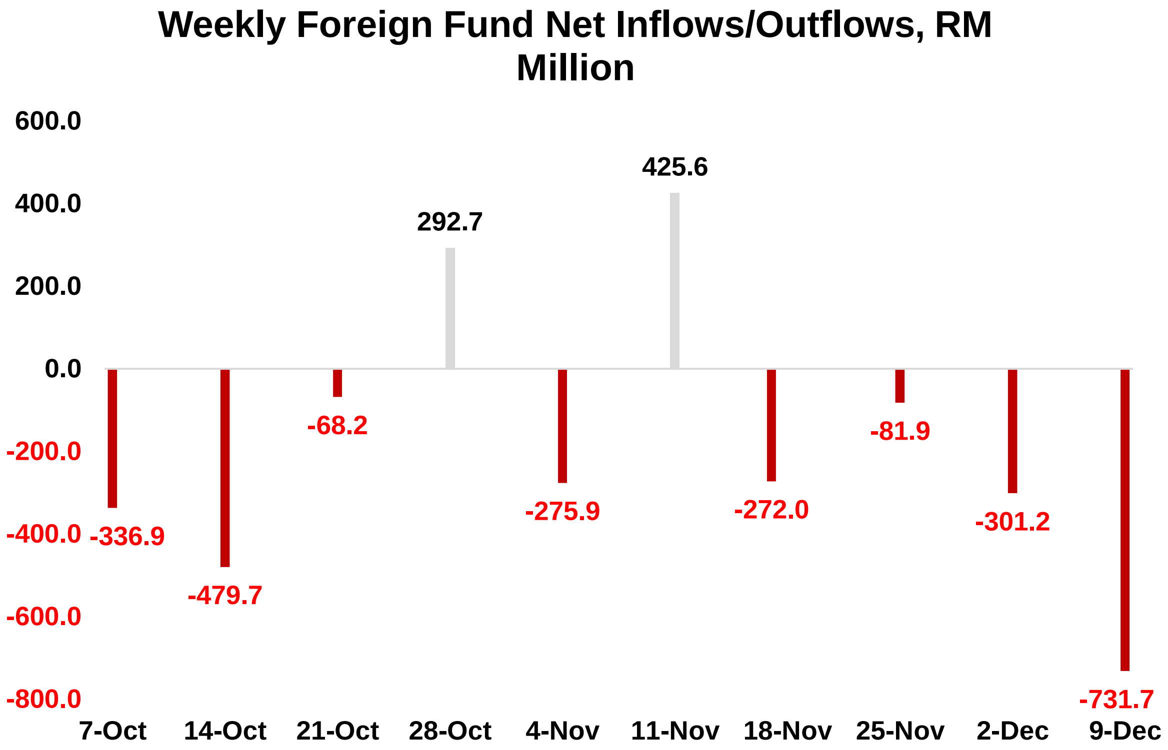


Source: CEIC

- Most regional markets were in the red amid worries over recession next year as global central banks continued to prescribe monetary tightening in December, which has weighed on the sentiment.
- Hang Seng, CSI 300, PSEi and Nikkei were the only indices that posted gains, partly supported by China's reopening news.
- Looking forward, we anticipate the investors to remain cautious ahead of the FOMC policy meeting and release of the U.S. CPI data that will guide the policy decision in 2023.

DOMESTIC EQUITY: LOCAL INDICES WERE IN THE RED AHEAD OF FOMC MEETING





Source: CEIC, Trading View

- Bursa sectoral indices also mirrored a similar trend, with the Energy sector posting the largest loss at 2.8% for the week ended on 9 December.
- Meanwhile, international investors continued to offload local equities with a total of RM731.7 million foreign net outflows recorded for the week ended on 9 December.
- Following this, Bursa is expected to remain sideways this week as the U.S. Federal Reserve (Fed) will continue to tighten its monetary policy during the FOMC meeting this week.
- Be that as it may, easing Covid-19 restrictions in China will be one of the key catalysts to support economic growth moving forward.

FIXED INCOME: BOND YIELDS ERE MIXED LAST WEEK

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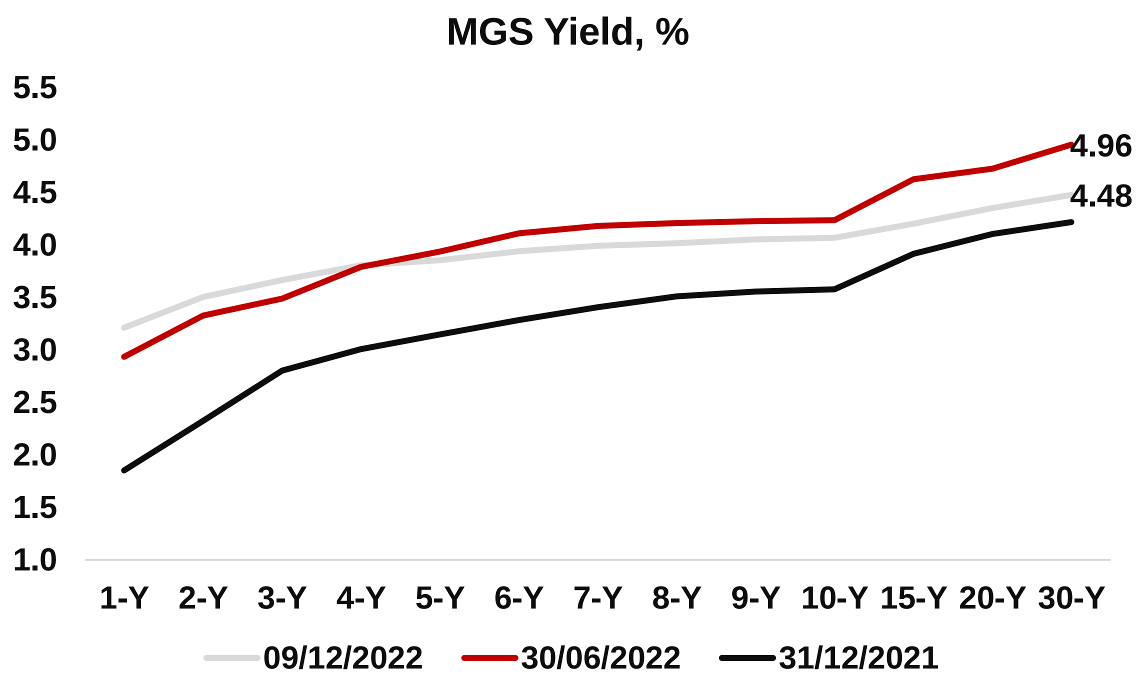
Weekly Changes, basis points (bps)

UST	Yields (%) 2-Dec-22	Yields (%) 9-Dec-22	Change (bps)
3-M UST	4.34%	4.31%	-3
2-Y UST	4.28%	4.33%	5
5-Y UST	3.67%	3.75%	8
10-Y UST	3.51%	3.57%	6
MGS	**Yields (%) 2-Dec-22**	**Yields (%) 9-Dec-22**	**Change (bps)**
3-Y MGS	3.67%	3.65%	-2
5-Y MGS	3.89%	3.88%	-1
7-Y MGS	3.97%	3.98%	1
10-Y MGS	4.02%	4.06%	4

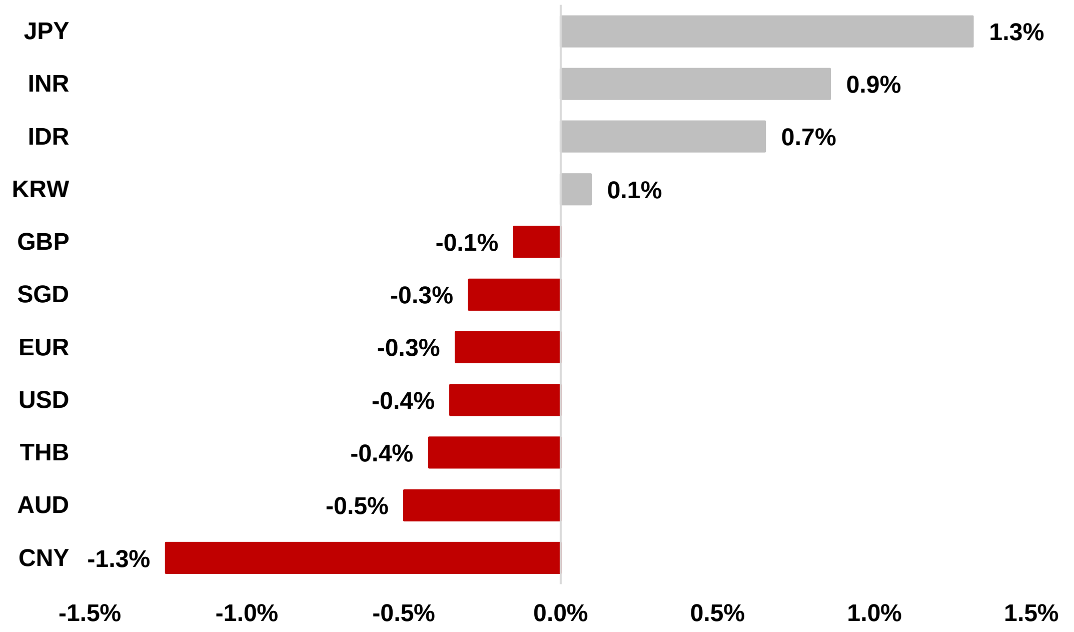


Source: CEIC, Trading View

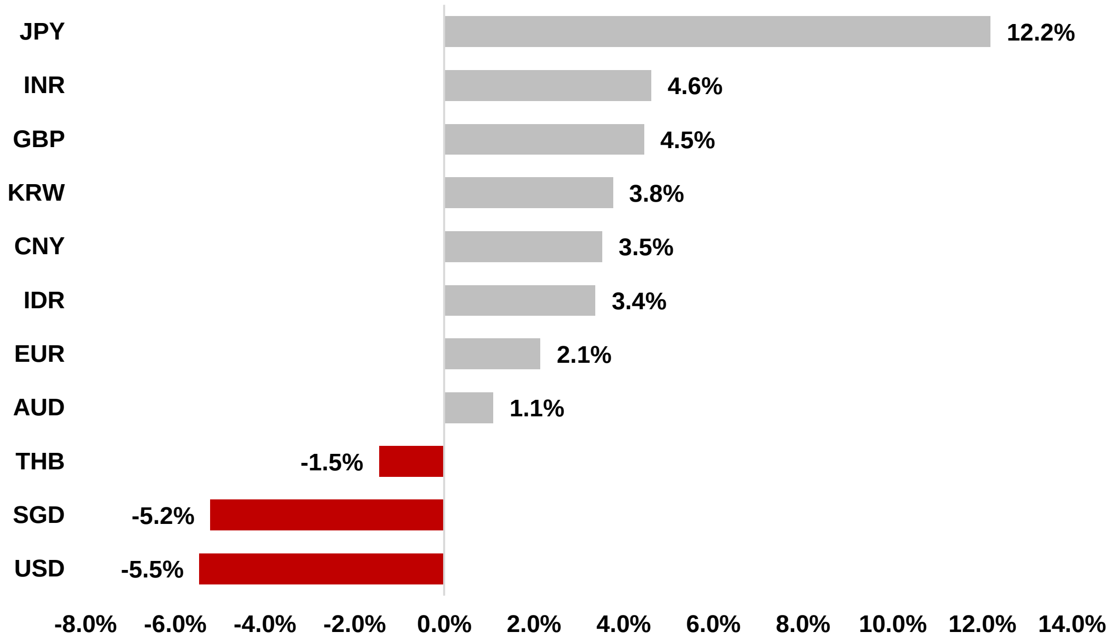
- The longer tenure of the U.S. Treasury (UST) went up between 5 bps and 8 bps over the week, given the anticipation of a 50-bps hike following the December FOMC meeting.
- Meanwhile, MGS yields were mixed with short tenure bond yield inched down between -1 bps and -2 bps while longer tenure rose by 1 bps to 4 bps for the week ended on 9 December.
- We anticipate the MGS yields to be slightly higher this week as the Fed is widely expected to increase the Federal Fund Rate (FFR) by 50 bps.

FX MARKET: RINGGIT TO TRADE BETWEEN RM4.40 TO RM4.43 AHEAD OF CENTRAL BANKS' POLICY MEETING THIS WEEK

MYR against regional currencies, w-o-w% (Week Ending 9 December)



MYR against regional currencies, YTD Gain% (As of 9 December)



Source: Investing.com

- On a weekly basis, the Ringgit is traded lower against the USD as market participants worry over a gloomy outlook on the global economy. At the same time, they remain cautious ahead of the FOMC meeting on 13-14 December.
- Though the market is pricing in a 50-bps FFR hike in December, the local note is still pressured by the widening interest rate differential between the FFR and OPR following the Fed's aggressive rate hikes thus far. The FFR has been raised by 375 bps since March this year versus a 100-bps increase in OPR.
- However, aside from the FOMC meeting, we foresee that the movement of the Ringgit could be swayed by the announcement of the monetary policy decisions by the ECB and BoE, which further tightening financial conditions could drag further the USD index which is already slipping below 105 level thus, benefitting the local note.
- In addition, continued momentum on China's reopening news could also support the Ringgit.

COMMODITY: BRENT PRICE DROPPED TO ITS LOWEST LEVEL SINCE JANUARY FOLLOWING MARKET CONCERNS ABOUT GLOBAL ECONOMIC GROWTH

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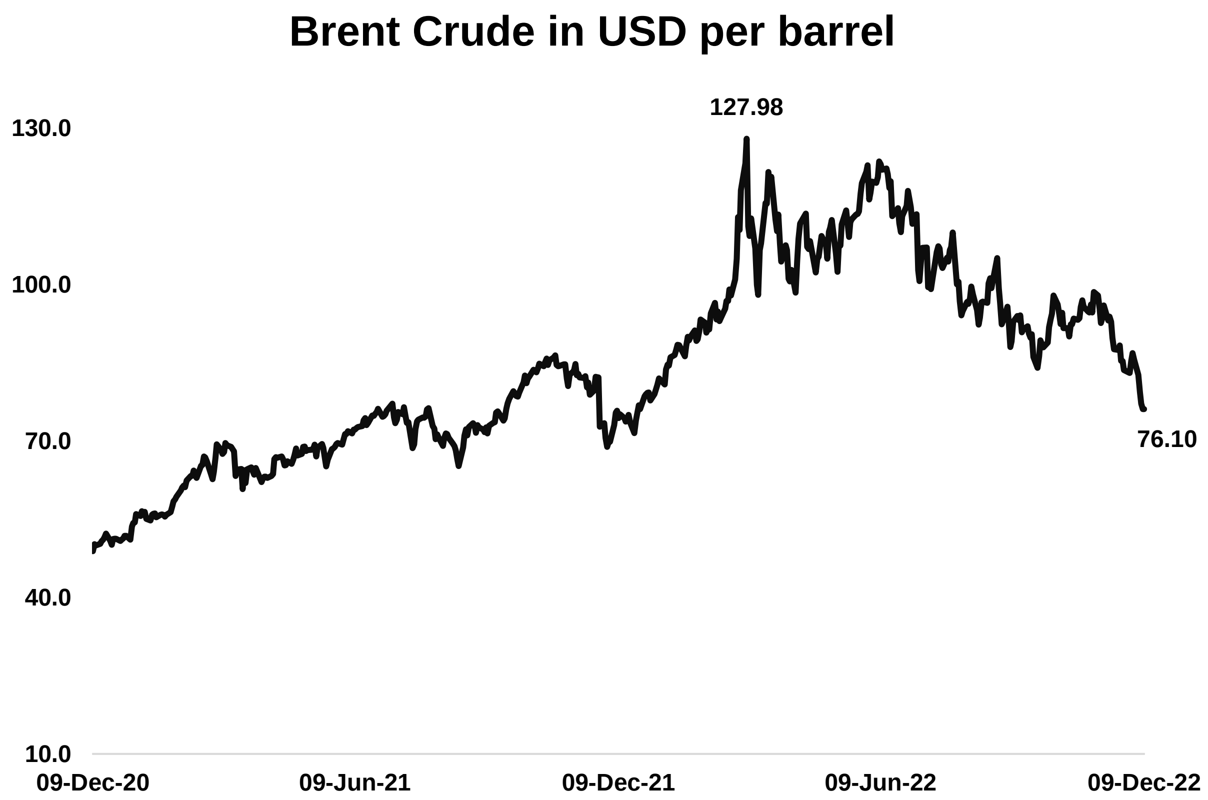
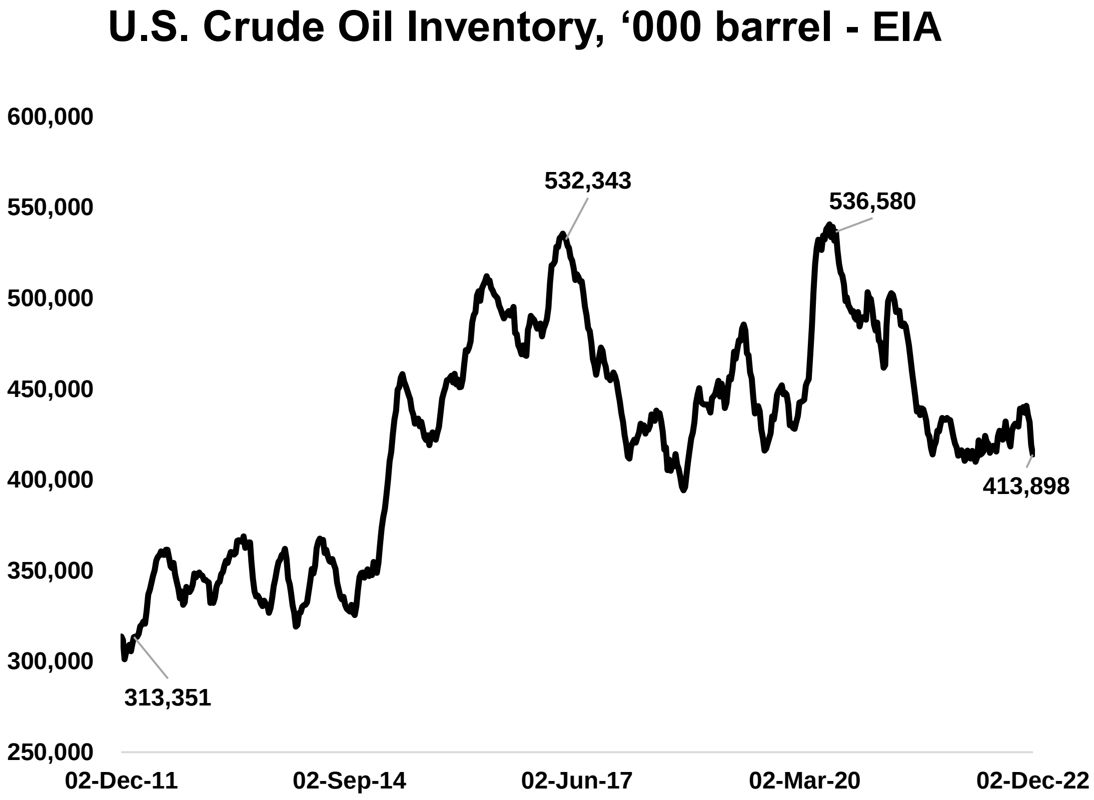


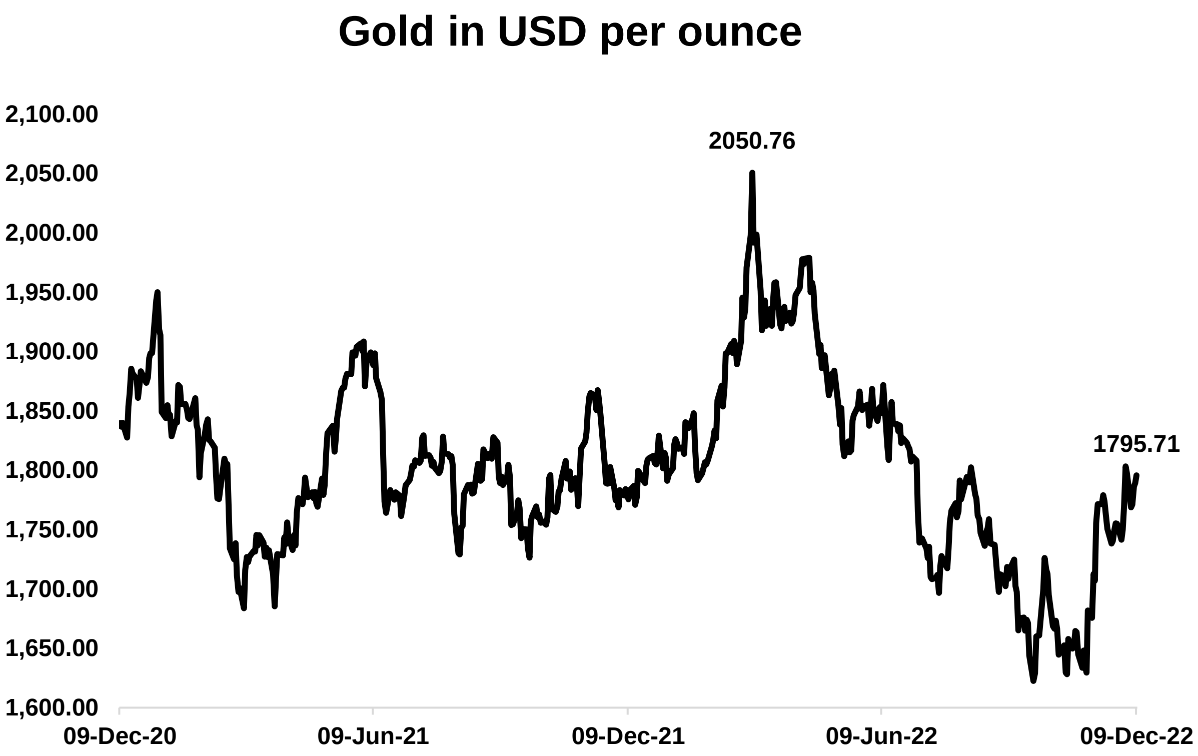
Source: Bloomberg



Source: Energy Information Administration (EIA)

- Oil price settled lower during the week at 11.1%, pressured by growing concerns about a potential global recession-driven demand downturn, especially among advanced countries.
- Additionally, the recent shutdown of the Keystone pipeline also added to the fears of an uncertain supply outlook while investors are also assessing the impact of the latest sanction on Russian oil.

COMMODITY: CPI REPORT AND CENTRAL BANKS' MEETINGS WOULD DETERMINE GOLD MOVEMENTS DURING THE WEEK



Source: Bloomberg

- The dollar bounced back last Friday amid positive m-o-m PPI data in November (Actual: 0.3% vs Estimation: 0.2%), pushing down the bullion price.
- Meanwhile, the U.S. CPI report due next week would be the catalyst for the movement of the bullion, aside from the monetary decisions by the three major central banks, the Fed, ECB, and BoE.
- While these central banks are expected to deliver rate hikes during their respective meetings, the focus would be more on the signs of whether policymakers are ready for a pivot soon.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- For this week, investors would be eyeing a slew of rate decisions by central banks, including the Fed, the ECB, and the BoE. The FOMC is due this Wednesday, with market pricing about 74.7% (at the time of writing, source: CME FedWatch) chance that the Fed would increase the benchmark interest rate by 50bps. While the central bank indicated that the pace of rate rises could slow as soon as the December meeting, the focus may turn to signals for the terminal rate in 2023. Concurrently, investors would be monitoring the November CPI report, which comes a day before the Fed meeting with the expectation that the rate is seen slowing down from 7.7% y-o-y to 7.3%.

- During the last meeting, the BoE hiked rates by 75bps to 3.00%, the highest level since late 2008, as policymakers were concerned over the stubbornly high inflation. As it stands, the U.K. economy has reported falling output in late 2022, likely the beginning of a protracted recession. Despite the deteriorating economic outlook, the central bank is bound to sound hawkish, with 50bps on the card, as the inflation is still at a 41-year high of 11.1% during October. Likewise, the ECB is expected to follow suit, and the central bank is far from done since the inflation rate remains well above its 2.0% target.

- Elsewhere, China will have a data dump this Thursday for November, such as the House Price Index, Industrial Production, Retail Sales, and Unemployment Rate. Last but not least, the week will be wrapped up with S&P Global's preliminary December Manufacturing and Services PMI report on Friday for the U.S. and the U.K.

- Prime Minister YAB Datuk Seri Anwar Ibrahim's cabinet lineup is finally completed, comprising 28 ministries and 27 deputies. We expect policy clarity will manifest over the coming weeks. Amalgamating diverging interests of the new ruling coalition may take some time, considering the differences in the composition of the new cabinet, perhaps after the confidence vote next week. In any case, we envisage that the Ringgit may strengthen thereafter as the process takes place in due time.

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Thank you.