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WEEKLY ECONOMIC UPDATE

19 FEBRUARY 2024

ECONOMIC RESEARCH

IMRAN NURGINIAS IBRAHIM
LEE SI XIN
RAJA ADIBAH RAJA HASNAN
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI
AMIRATUL HUSNA MOHAMMAD

WEEKLY HIGHLIGHT: U.K. INFLATION UNCHANGED, MALAYSIA'S ECONOMY CAME IN WEAKER THAN EXPECTED

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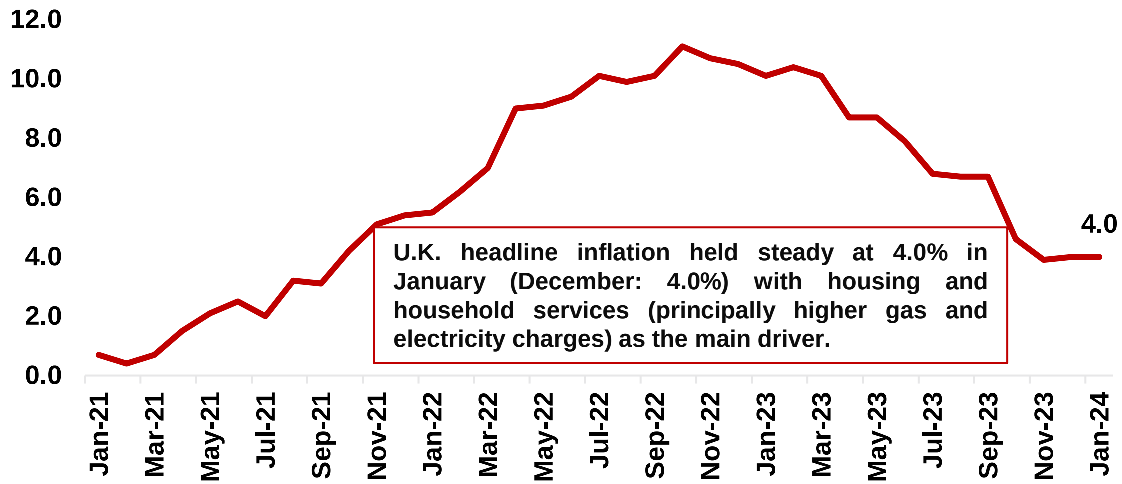
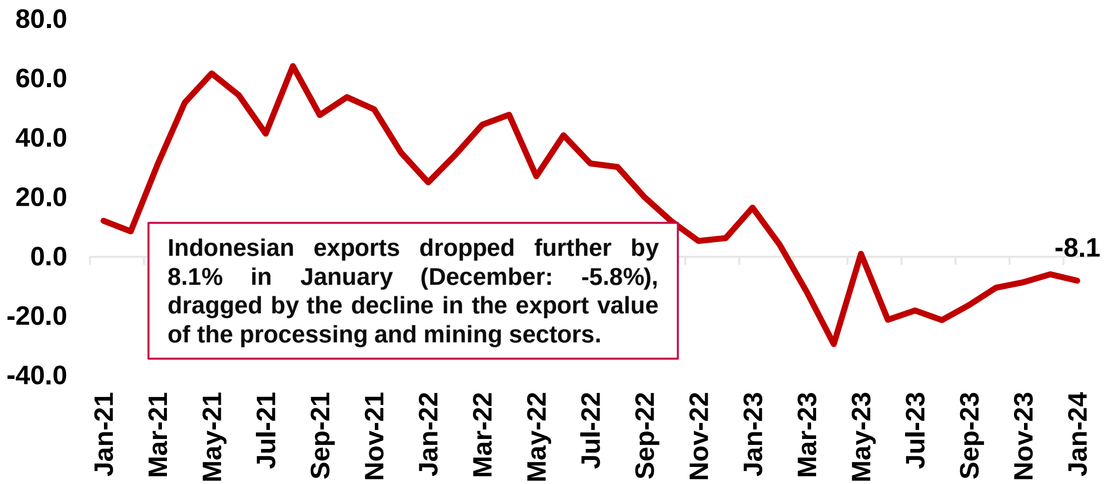
GLOBAL

U.K. - Consumer Price Index (CPI), y-o-y%

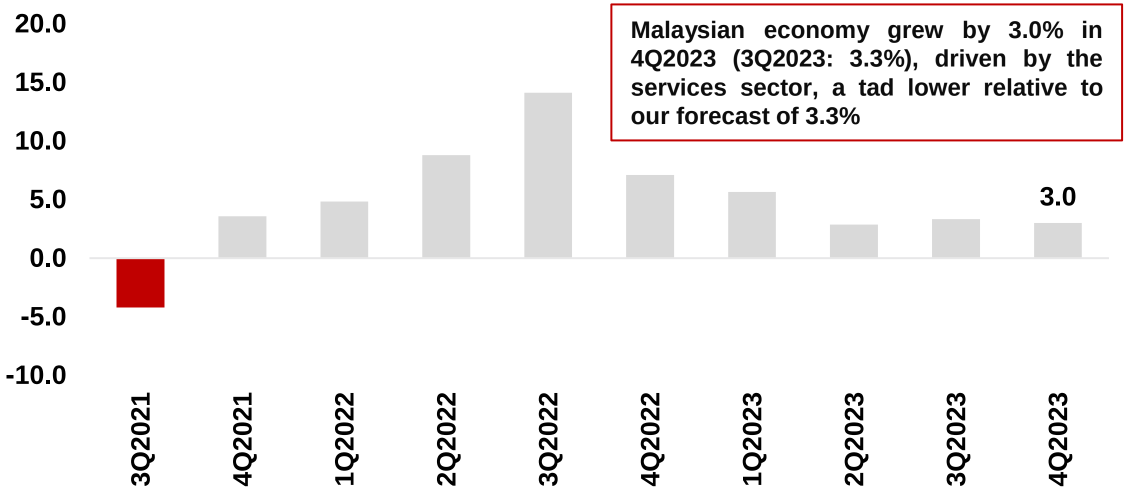


Indonesia: Exports, y-o-y%

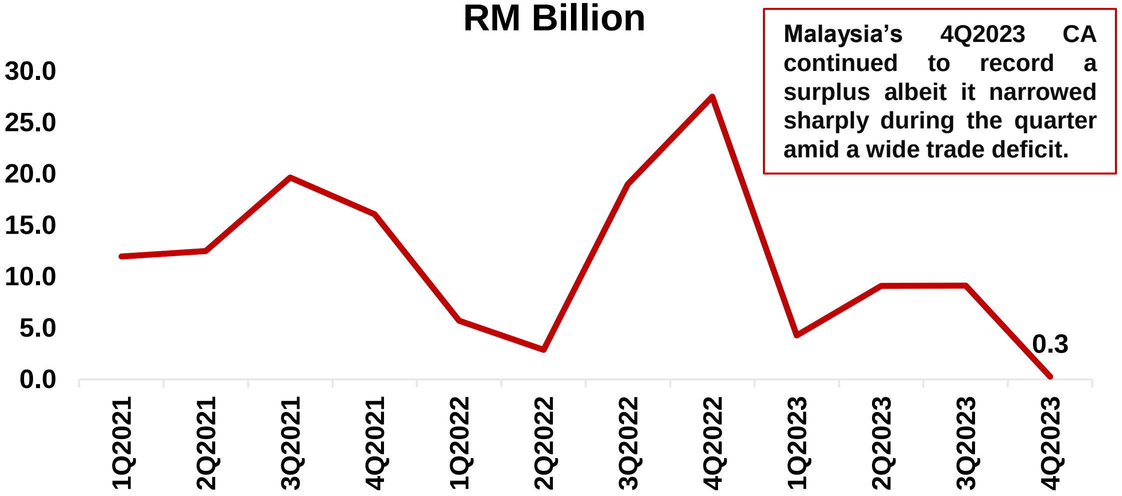


DOMESTIC

Malaysia - Real GDP, y-o-y%



Balance of Payment (BoP): Current Account (CA), RM Billion



Sources: Office for National Statistics, Statistics Indonesia, Department of Statistics Malaysia (DOSM)

U.S. WEEKLY HIGHLIGHT: BOTH HEADLINE AND CORE INFLATION REMAINED STICKY

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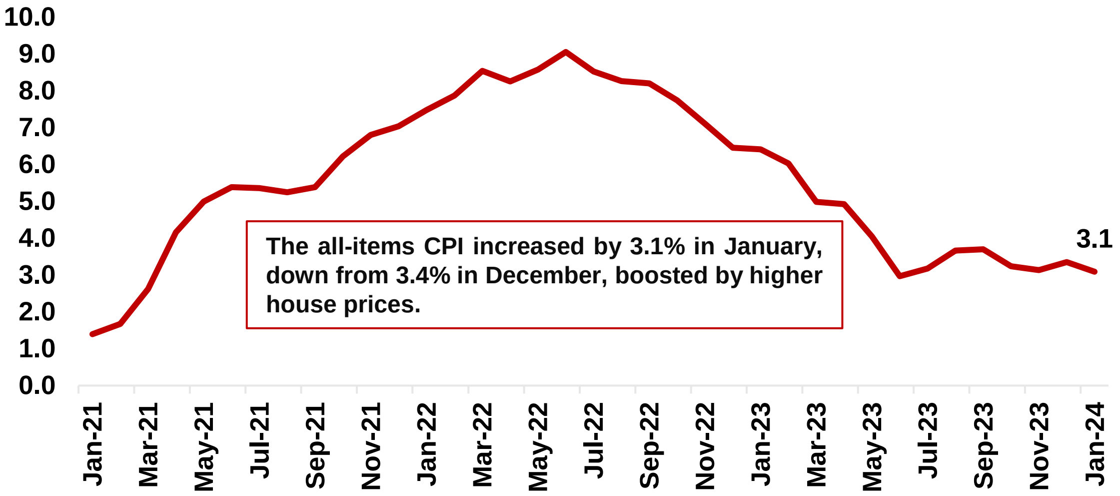
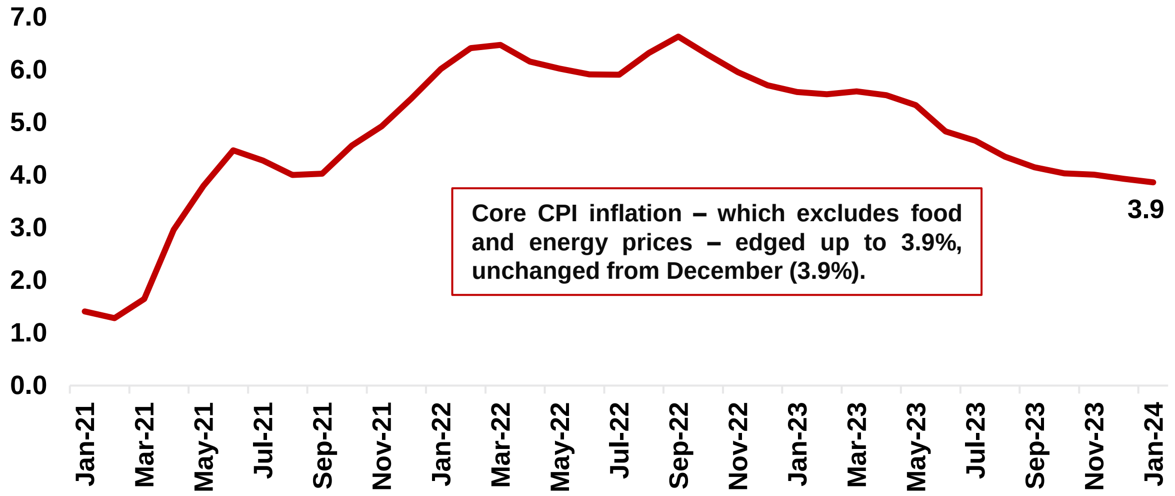
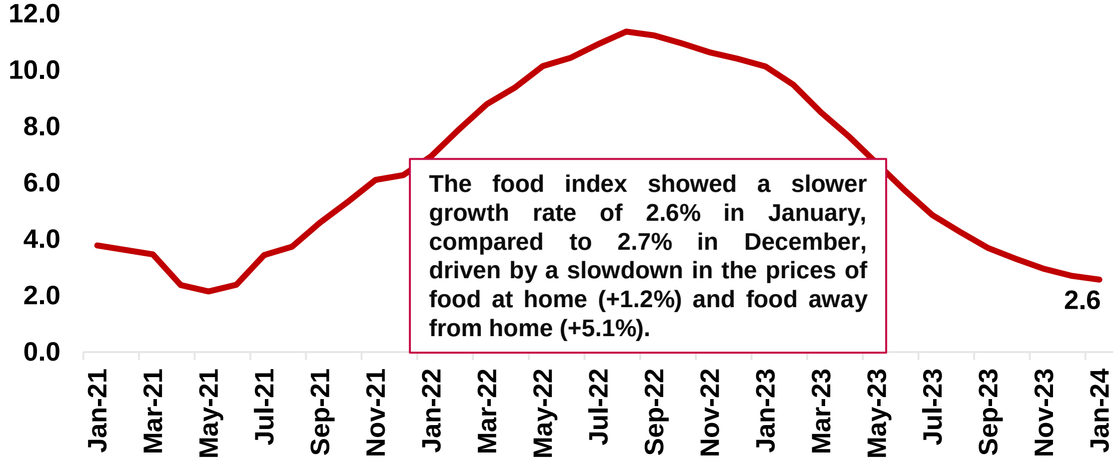
U.S. CPI, y-o-y%



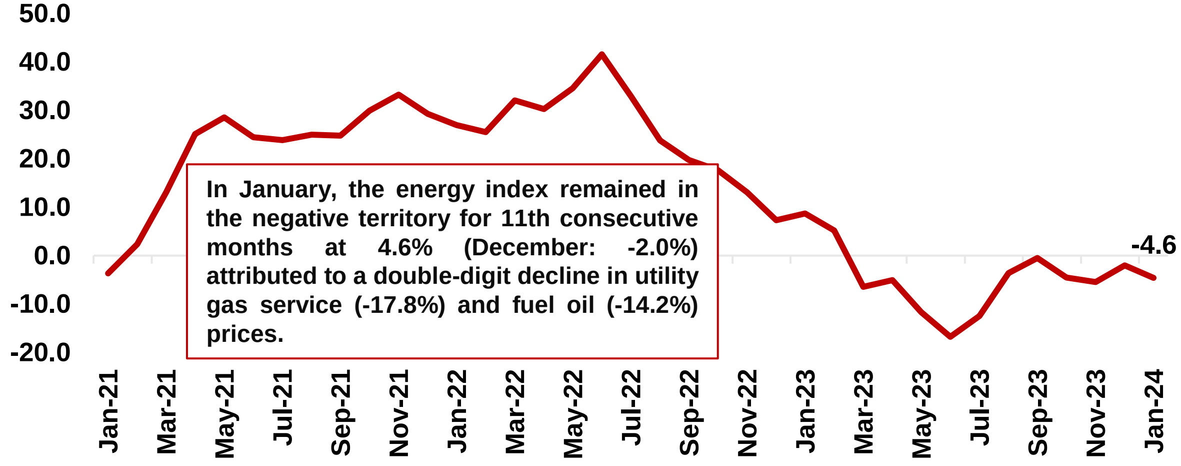
U.S. CPI (All Items less Food and Energy), y-o-y%



U.S. CPI (Food), y-o-y%

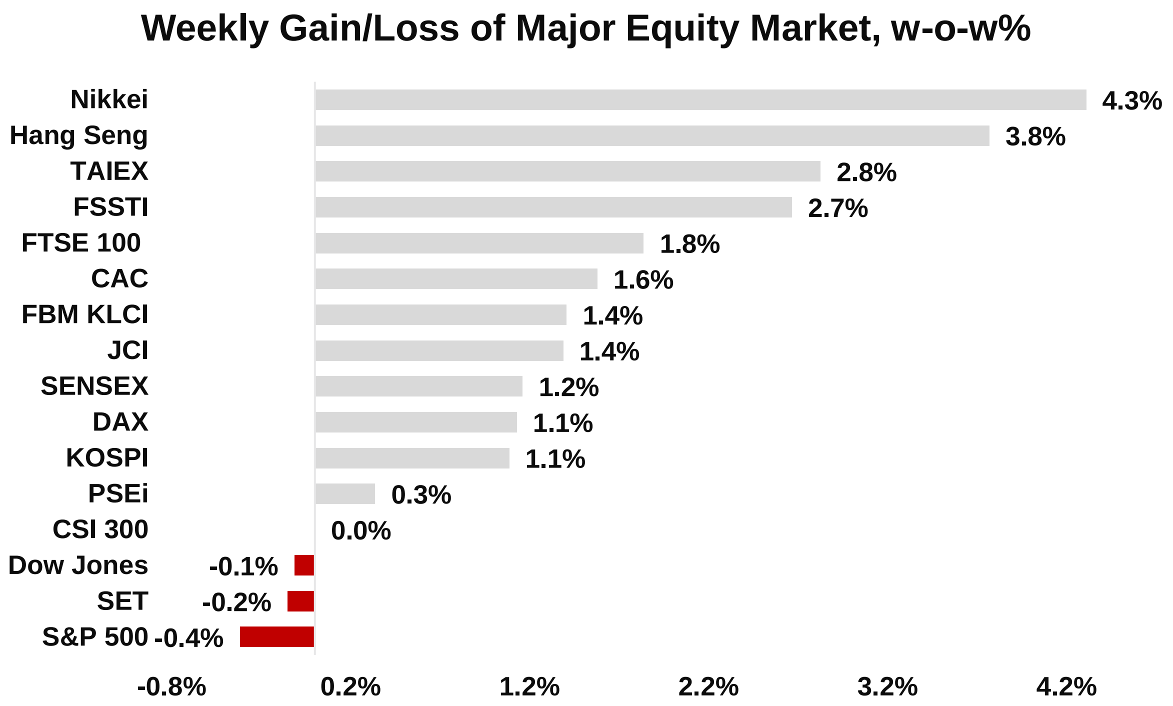


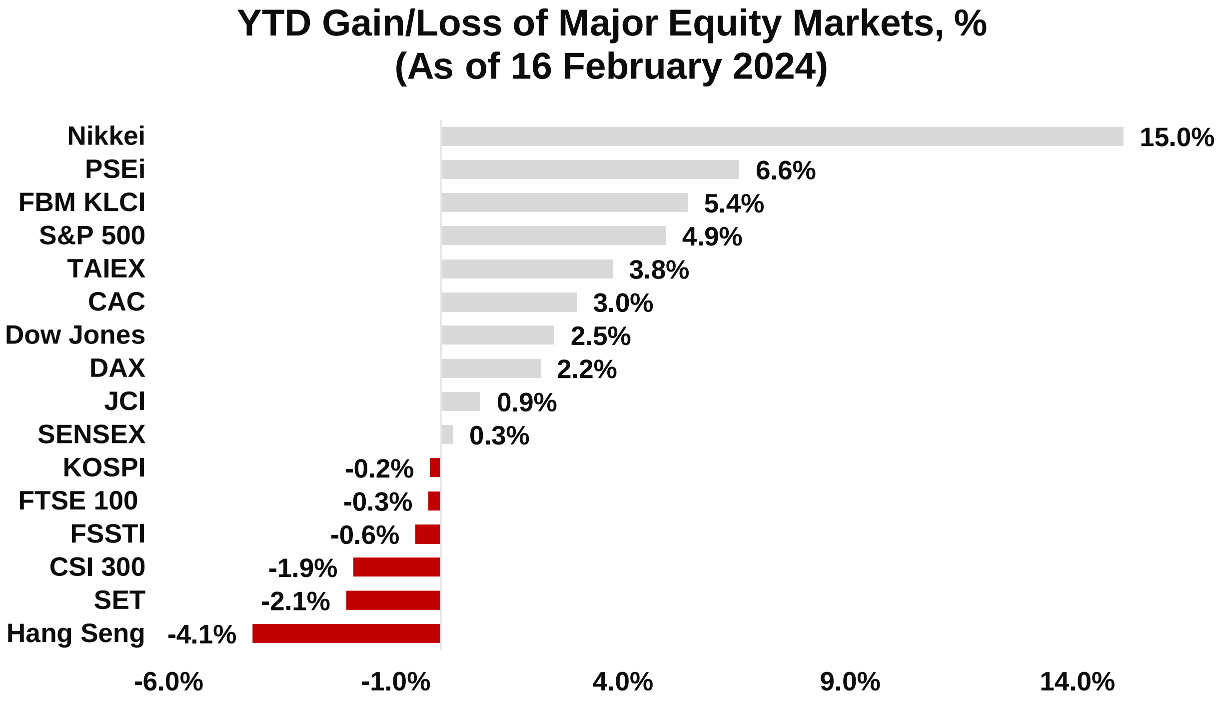
U.S. CPI (Energy), y-o-y%



Source: U.S Bureau of Labor Statistics

REGIONAL EQUITY: GLOBAL EQUITY LIFTED BY A WAVE OF OPTIMISM IN THE TECHNOLOGY SECTOR

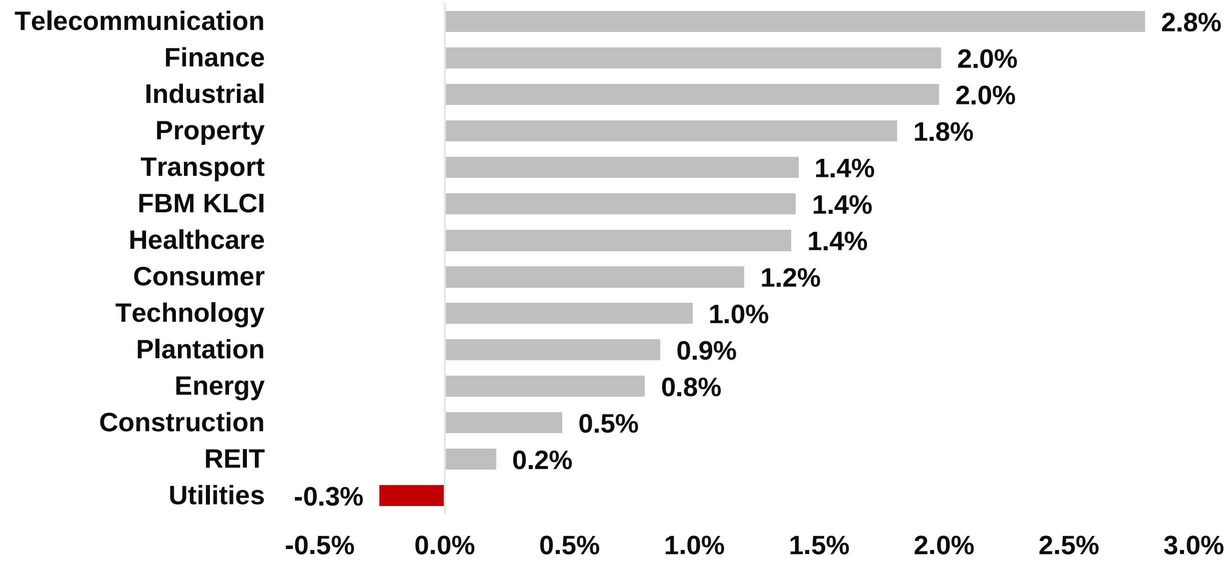


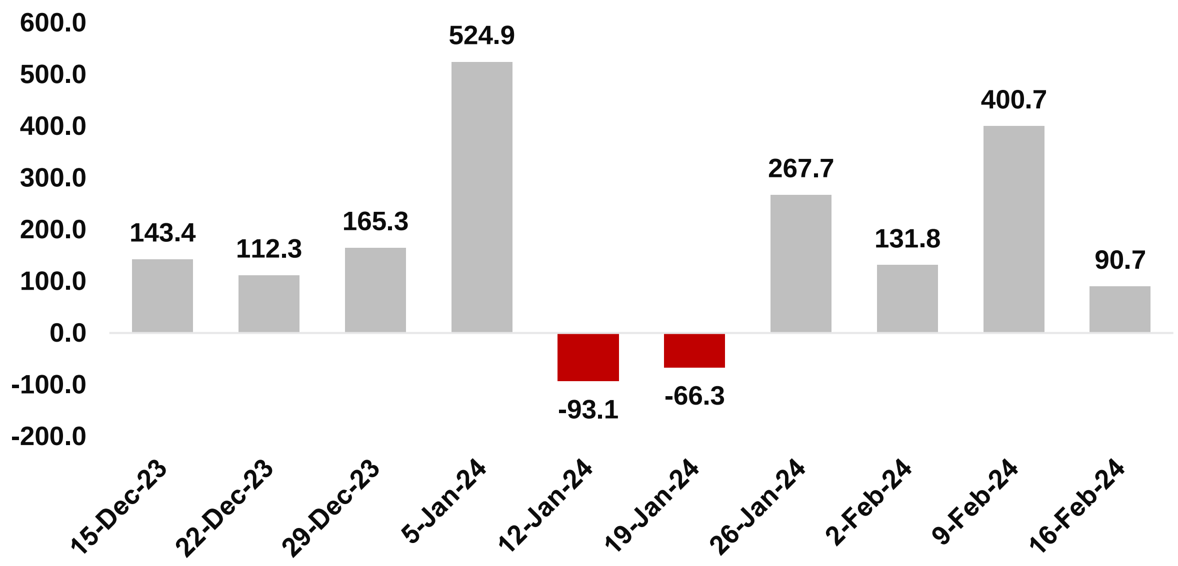


Sources: Bursa, CEIC Data

- The regional equity benchmark indices mostly ended in the green for the week ending February 16, led by Japan's Nikkei (+4.3%) as strong technology sector earnings and improved governance drive individual stock buying. Additionally, Hong Kong's Hang Seng shot up by 3.8%, driven by investors buying China-linked stocks ahead of mainland markets reopening after a week-long Lunar New Year holiday.
- The U.S. stocks – S&P 500 (-0.4%) and Dow Jones (-0.1%) were among the bottom performers as fears of delayed rate cuts by the U.S. Federal Reserve (Fed) sent stocks tumbling after strong producer prices index (PPI) data coming in at 0.9% in January relative to market estimates of 0.6%.

DOMESTIC EQUITY: FOREIGN BUYING PROPELS LOCAL MARKET TO END IN THE GREEN





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

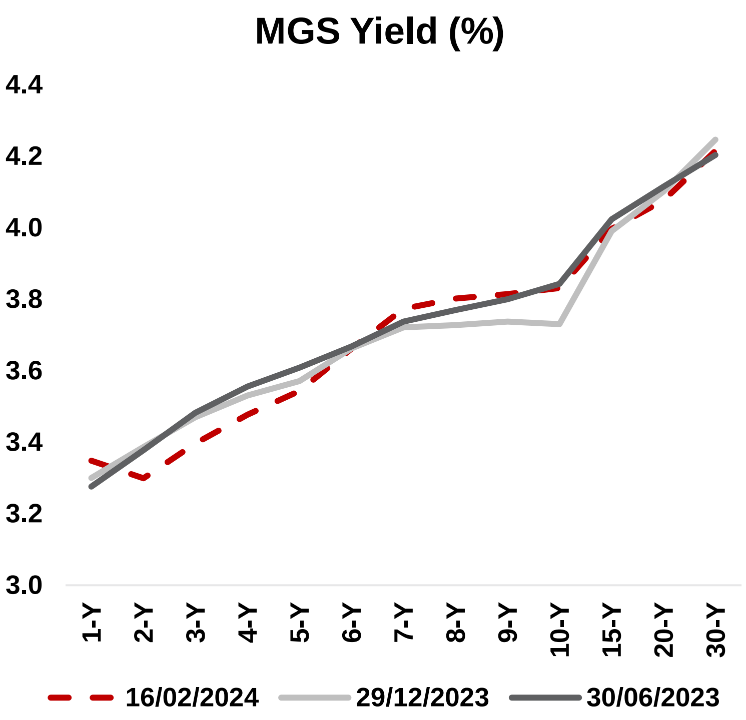
- The FBM KLCI closed on a positive note for the week ending February 16, mirroring the positive regional market performance, following late buying activities and fresh inflow of foreign funds amid weak U.S. retail sales data.
- The Telecommunications index maintained its lead with a gain of 2.8%, followed by the Finance and Industrial indices which both rose by 2.0%.
- Meanwhile, the sole loser for the week was the Utilities index (-0.3%).
- Foreign investors continued their net buying streak, marking the fourth straight week of inflow with a total net inflow of RM90.7 million. The buying increased the cumulative total net inflow this year thus far to RM1.3 billion.

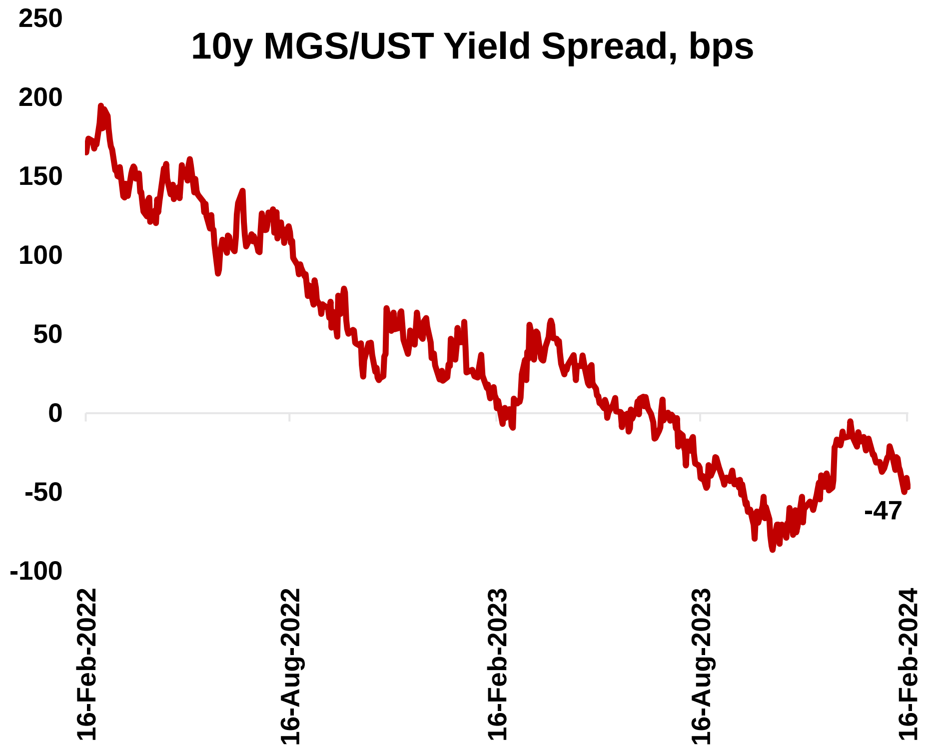
FIXED INCOME: SOARING PRODUCER PRICES REIGNITE WORRIES OF ENTRENCHED U.S. INFLATION

Weekly Changes, basis points (bps)

UST	Yields (%) 9-Feb-24	Yields (%) 16-Feb-24	Change (bps)
3-Y UST	4.25	4.43	18
5-Y UST	4.14	4.29	15
7-Y UST	4.17	4.31	14
10-Y UST	4.17	4.30	13
MGS	**Yields (%) 9-Feb-24**	**Yields (%) 16-Feb-24**	**Change (bps)**
3-Y MGS	3.39	3.40	0
5-Y MGS	3.53	3.54	1
7-Y MGS	3.77	3.77	0
10-Y MGS	3.81	3.83	2
GII	**Yields (%) 9-Feb-24**	**Yields (%) 16-Feb-24**	**Change (bps)**
3-Y GII	3.43	3.42	-1
5-Y GII	3.56	3.57	0
7-Y GII	3.74	3.75	1
10-Y GII	3.84	3.85	1

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yield curve bearishly flattened in the range of 13bps and 18bps as hotter-than-prediction PPI figure in January, triggered a resurgence of inflation fears in the U.S. economy.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ended mixed between -1bp and 2bps.
- The RM5.0 billion 20-Y reopening of GII issued on February 15 drew a robust demand with a bid-to-cover (BTC) ratio of 3.0x, significantly higher relative to the previous RM5.0 billion 20-Y reopening of GII in August 2023, which garnered a BTC ratio of 2.0x.
- The 10y MGS/UST yield spread widened in the negative territory at -47bps relative to -36bps in the previous week.

FX MARKET: RINGGIT WILL BE TRADED CAUTIOUSLY AGAINST THE USD AHEAD OF THE FOMC MINUTES MEETING THIS WEEK

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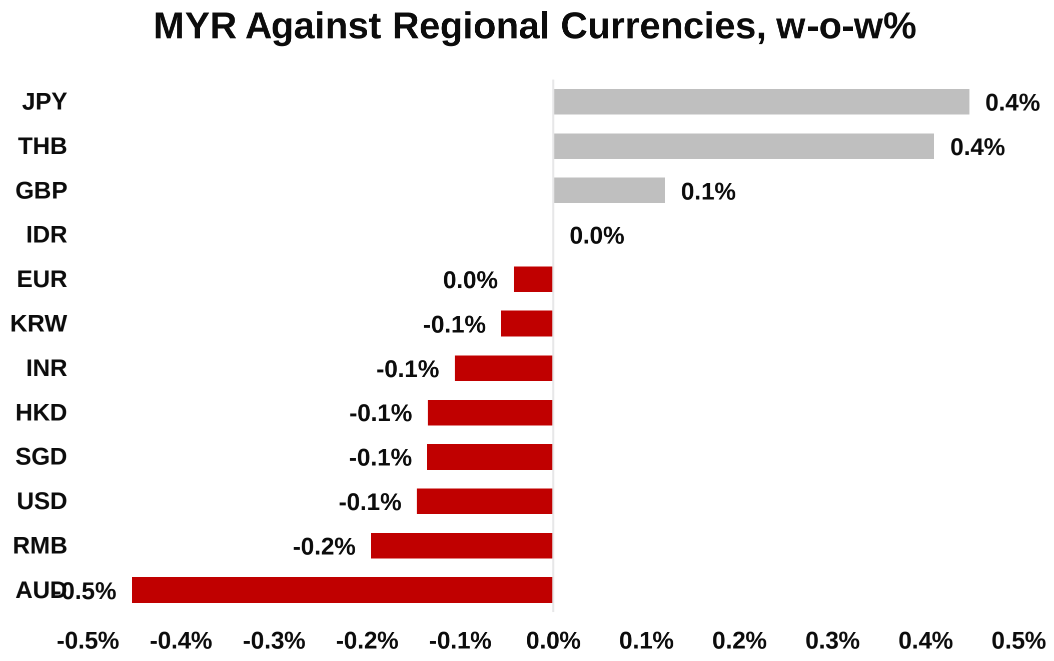

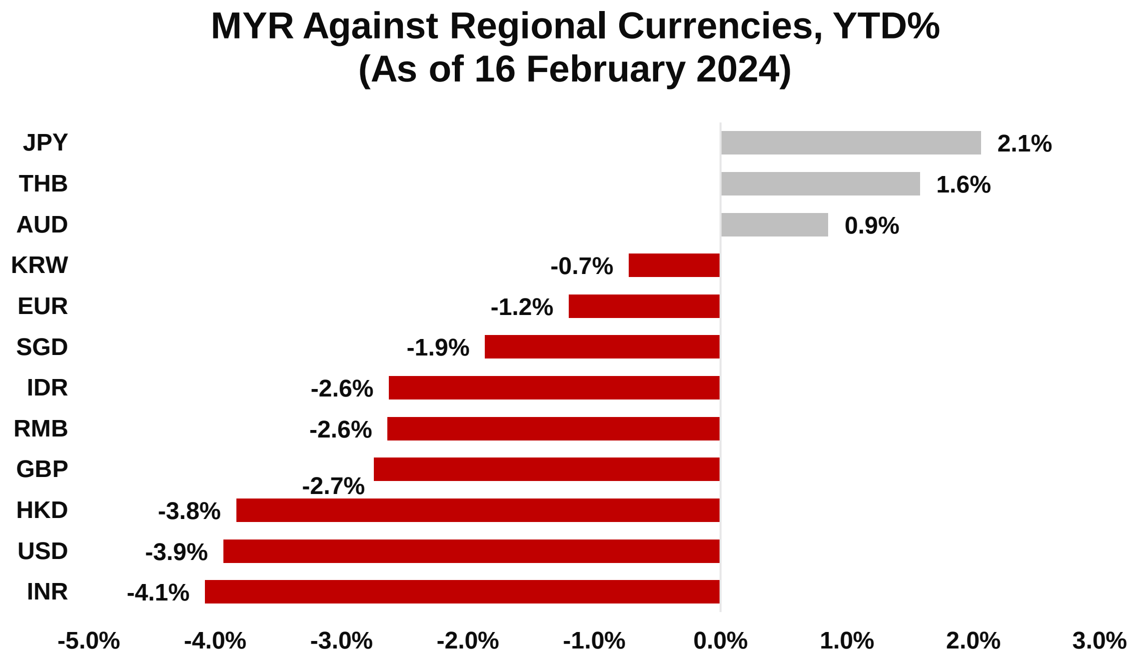

Source: BNM

- The Ringgit continued to depreciate against the USD, albeit at a slower pace in the last Friday (16 February 2024: -0.1% vs. 9 February 2024: -0.9%), most probably due to the slower economic data from the U.S.
- The U.S. retail sales tumbled more than expected in January on a monthly basis (Act: -0.8% Est: -0.1%) while the inflation rate fell back to 3.1% y-o-y in January after a brief gain of 3.4% in the previous month but slightly higher than market forecast of 2.9%.
- Despite that, we posit that the greenback maintained its strength which started since early of this year, perhaps due to the cues taken by market participants from the latest inflation report when the rate rose 0.3% m-o-m in the said month (December 2023: 0.2%), surpassing the market estimation of 0.2%. Such data could also provide a support to the view that the Fed is in no rush to cut interest rates.

COMMODITY: THE OIL PRICE SURPASSED USD83.00 PER BARREL, THE HIGHEST SINCE NOVEMBER LAST YEAR DURING THE WEEK

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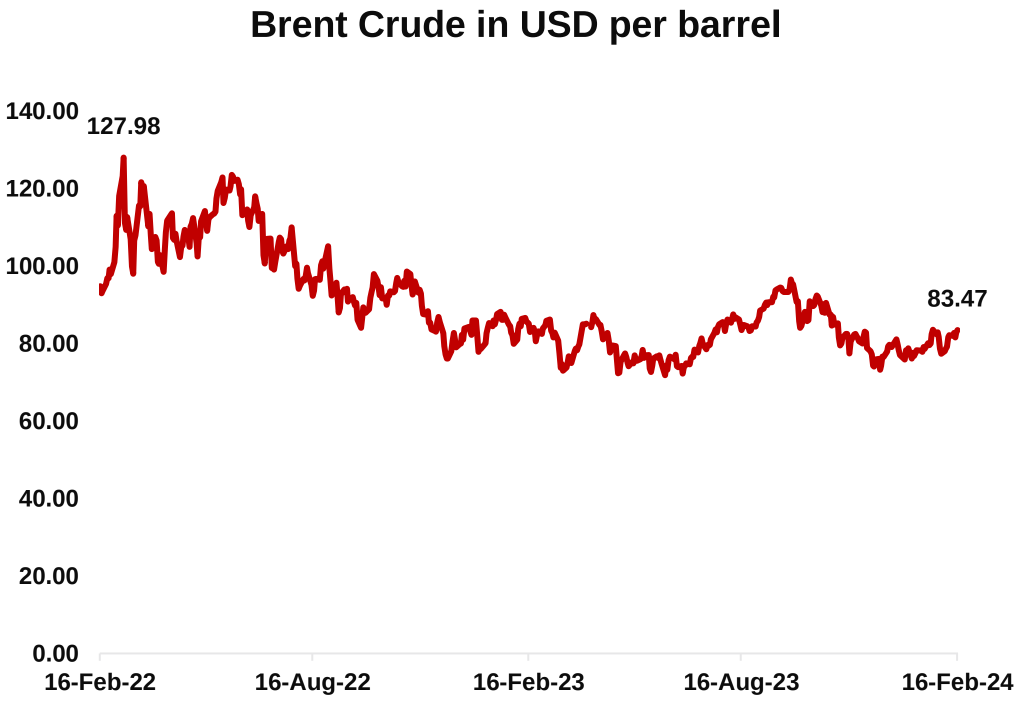
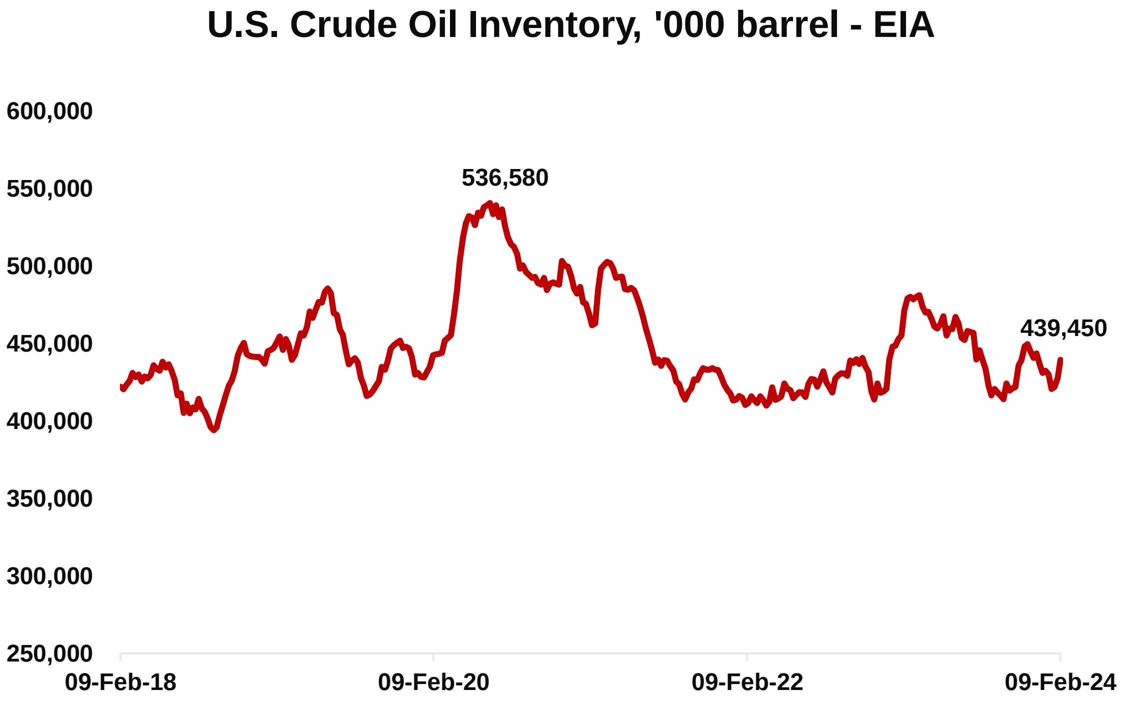
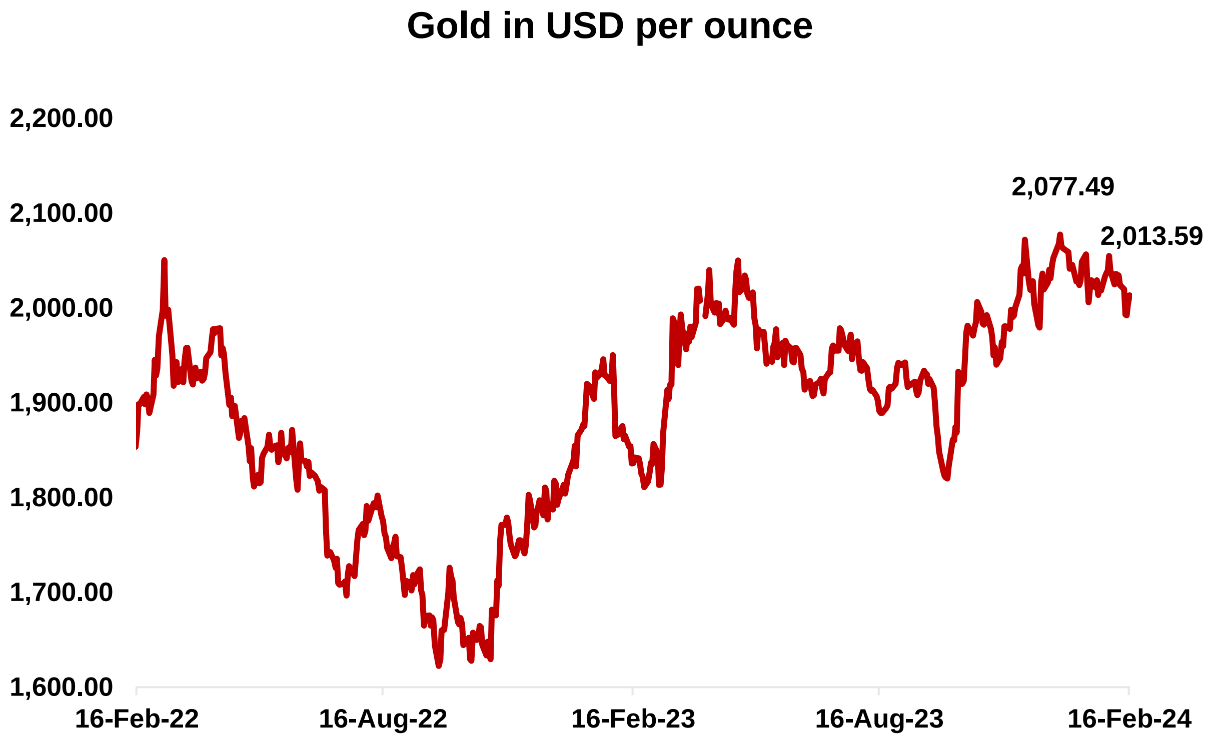


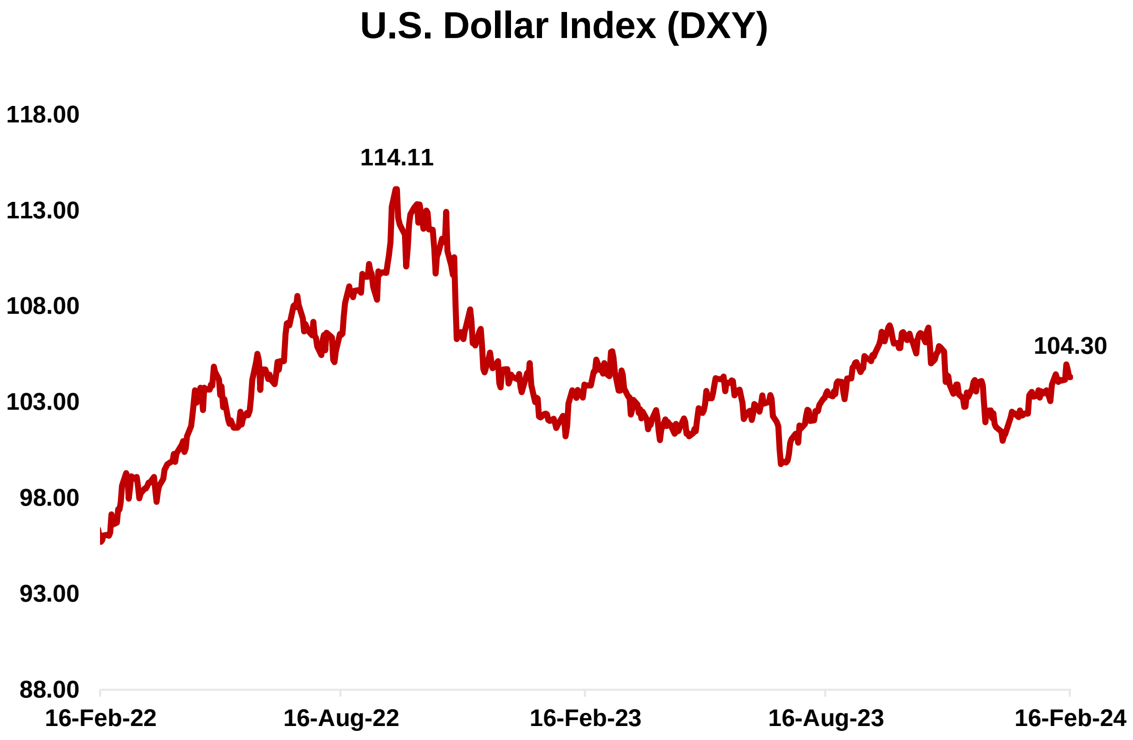


Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price poised to mark second weekly gain following growing risk of a wider conflict in the Middle East, as well as efforts by OPEC+ to restrict oil supply.
- However, the International Energy Agency (IEA) cautioned in its monthly report that global oil demand is losing steam, citing a significant decline in Chinese consumption. The international agency revised its 2024 global oil demand forecast to 1.22 million barrels per day (bpd) from the previous estimate of 1.24 million bpd. Furthermore, it anticipated a supply increase of 1.7 million bpd this year, surpassing its earlier projection of 1.5 million bpd.

COMMODITY: GOLD PRICE SLIPPED DURING THE WEEK FOLLOWING HOTTER-THAN-EXPECTED INFLATION





Sources: Bloomberg

- The bullion price had fell below the USD2,000-level following a hotter-than-expected January inflation figure (Act: 3.1% vs. Est: 2.9%) that has pushed back anticipations of Fed rate cuts further.
- However, the decline was buffered in the latter half of the week as the USD slipped amid weaker-than-expected retail sales (Act: -0.8% vs. Est: -0.1%) that signaled that private consumption is finally feeling the heat from the high interest environment.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- This week will feature several Fed speeches as well as the minutes of the Federal Open Market Committee (FOMC) meeting concluded on January 31, which could reinforce the view that rate cut will not be imminent. With the latest data pointing to continued bumpy disinflationary path, investors have pushed back their rate cut bets. Investors are currently expecting four 25bp cuts starting in June, compared to six 25bp cuts starting in March before the January FOMC meeting, but still higher than the Fed's projected three cuts.

- The People's Bank of China (PBoC) is scheduled to announce its rate decision for the Loan Prime Rate (LPR) this week. The current market consensus expects the PBoC to stand pat on its interest rates again as the central bank's decision to maintain its Medium-Term Facility (MLF) rate at 2.50% on Sunday indicates its hesitance to cut rates further. This is notwithstanding the fourth consecutive month of deflation in January that has spurred calls for more policy support. The room for further rate cut is constrained by concerns about Chinese Yuan (CNY) volatility as the recent retreat in Fed rate cut expectations put pressure on CNY again.

- Bank Indonesia (BI) will likely hold its benchmark interest rate steady at 6.00% for the fourth time in row during the meeting this week. Potential upside risks to inflation and the weakness in Indonesian Rupiah (IDR) will keep BI in cautious mode in the near-term. BI Governor Perry Warjiyo has, in his latest remarks, said that the stability of IDR will be the key to deciding on the central bank's rate-cut cycle and he foresees the opportunity to cut rates could come in 2H2024.

- On the domestic front, trade and inflation data for January will be closely watched for any signs of a potential turnaround after the lacklustre GDP growth in 4Q2023. For record, Malaysia's exports dipped deeper into contraction zone with a 10.0% decline in December (November: -6.1%), marking its 10th consecutive month of decline. Meanwhile, imports grew at a slightly faster pace at 2.9% in December (November: 1.7%). We expect the trade balance to remain in deficit territory but with a lower magnitude compared to RM11.8 billion recorded in December amid improving exports. On the other hand, headline inflation will likely remain modest and little changed from the 1.5% increase recorded in December given the global disinflationary trend.

THANK YOU