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WEEKLY ECONOMIC UPDATE

19 JUNE 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: U.S HEADLINE INFLATION IN MAY 2023 GREW AT THE SLOWEST PACE SINCE MARCH 2021

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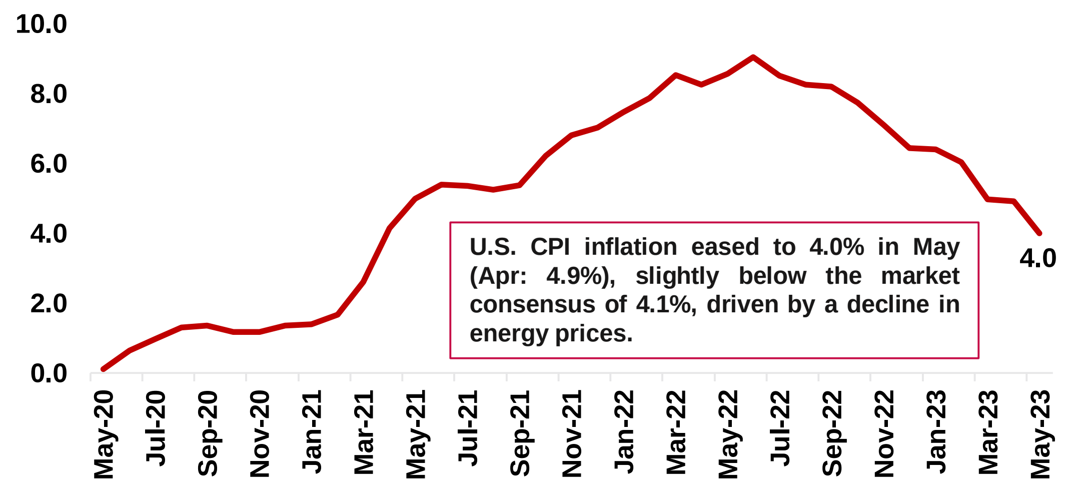
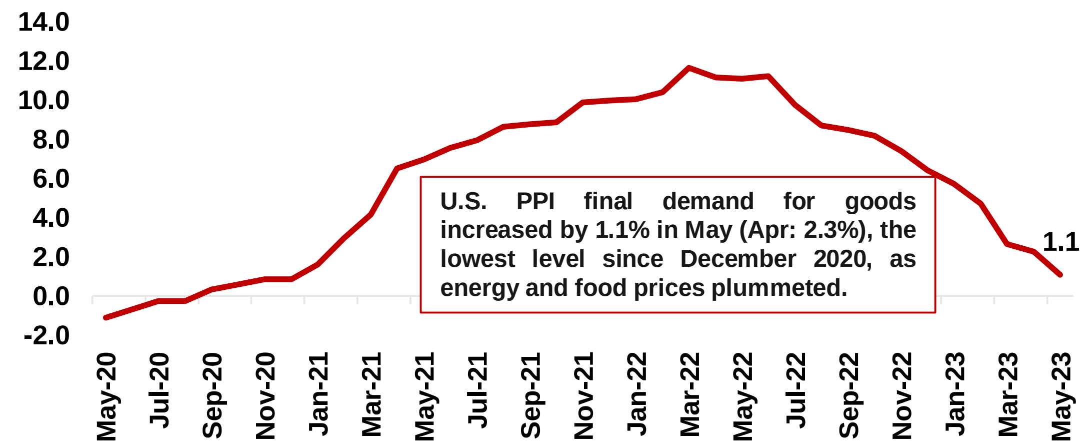
GLOBAL

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

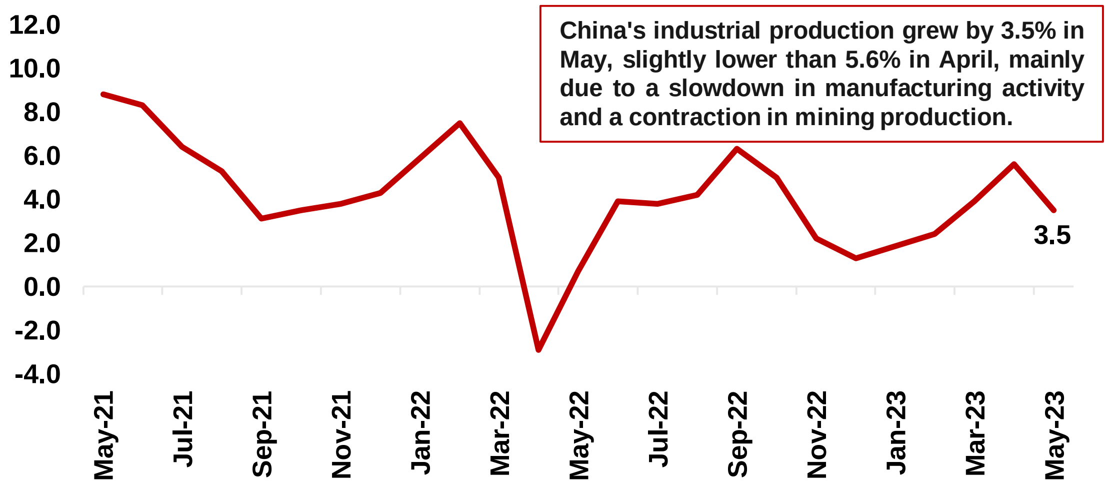


U.S. - Producer Price Index (PPI) Final Demand, y-o-y%



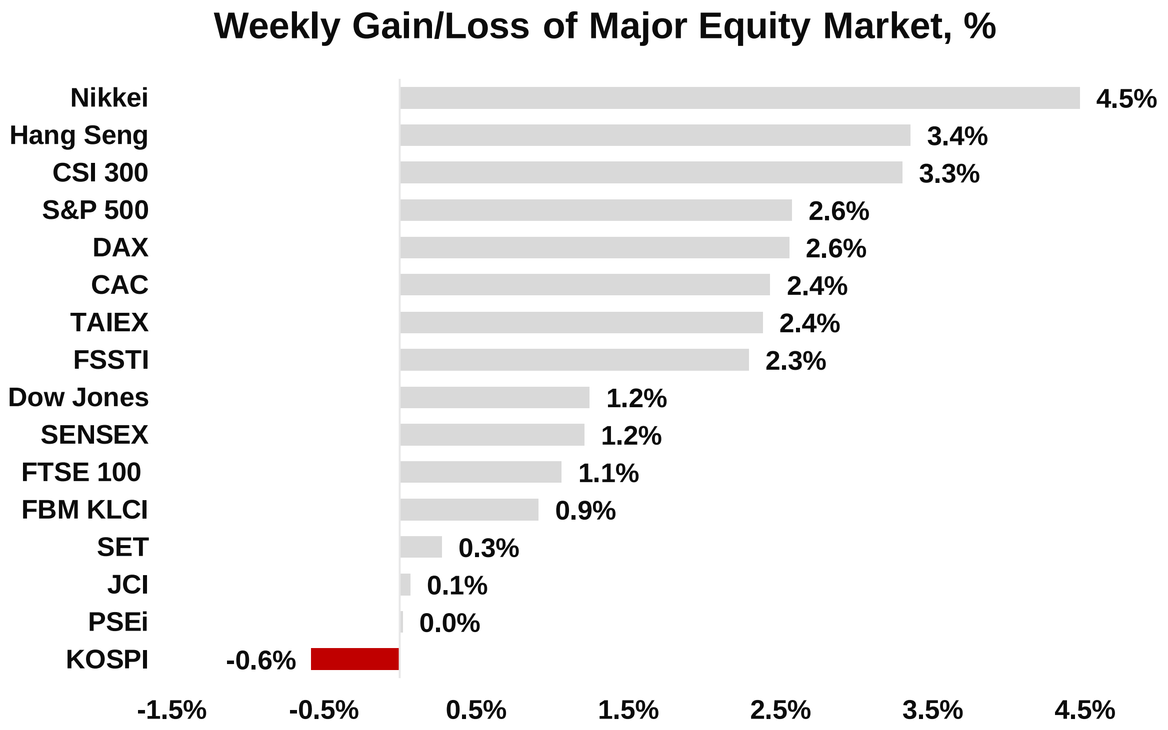
China - Retail Sales, y-o-y%

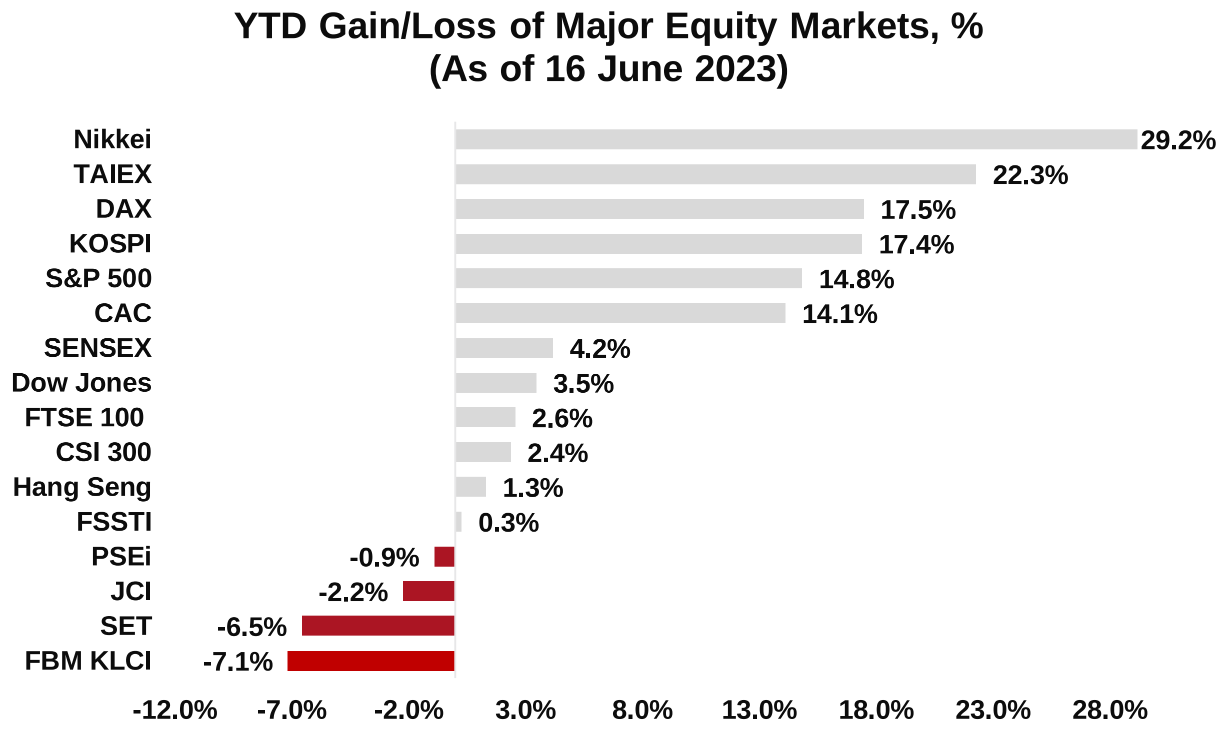
China - Industrial Production, y-o-y%



Sources: International Monetary Fund, National Bureau of Statistics, Department of Statistics Malaysia

REGIONAL EQUITY: STOCK MARKET RALLIED DESPITE A HAWKISH FED

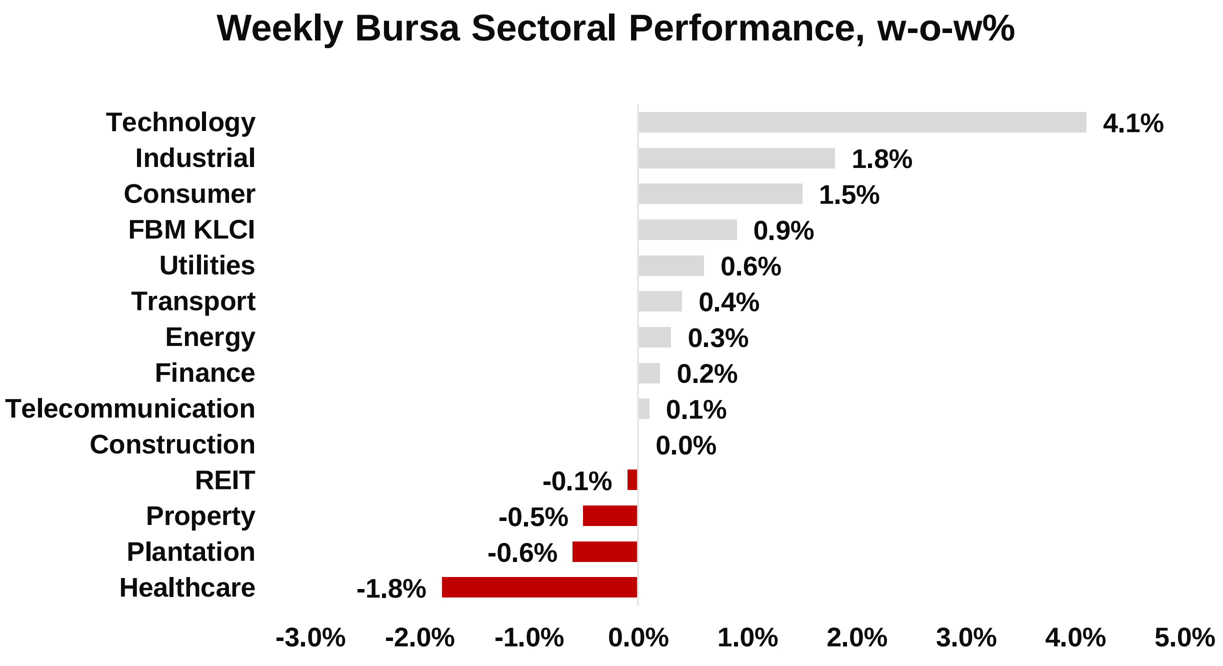


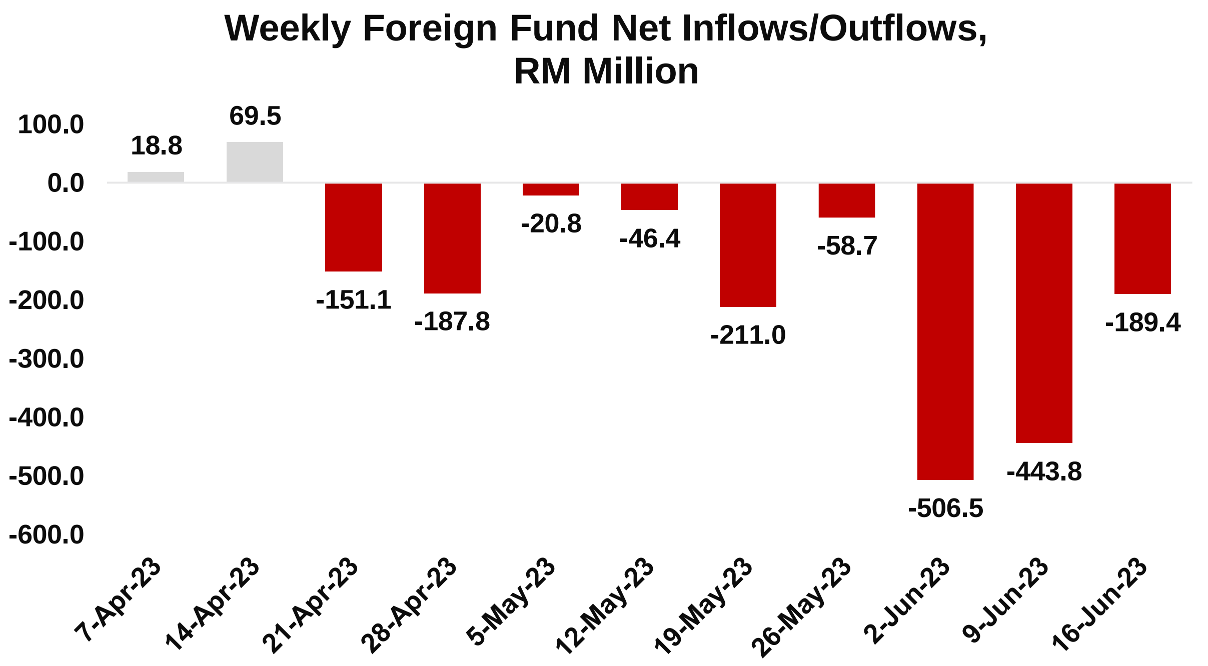


Sources: Bursa, CEIC

- Regional equity markets mostly closed on a positive note for the week ended 16 June, headed by Japan’s Nikkei (4.5%), Hong Kong’s Hang Seng (3.4%) and China’s CSI 300 (3.3%). On the other hand, Korea’s KOSPI was the only loser, slipping by 0.6%.
- YTD, the Japanese stock market increased by almost 30%, driven by a solid economy, a weak Japanese Yen and ultralow rates.
- The Federal Reserve (Fed) paused interest rates on 14 June and indicated it could raise rates twice this year.
- However, investors shrugged off the hawkish signal, with stocks continuing to rally in the days after.
- A possible U.S. recession could be short and shallow amid its strong/resilient labour market and headline inflation downtrend. Nevertheless, the recent upward revision of U.S. GDP growth by the World Bank suggests the probability of a U.S. recession is becoming increasingly remote in 2023.

DOMESTIC EQUITY: RECOVERY IN THE LOCAL MARKET MIRRORS RECOVERING SENTIMENTS





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

- The local market reflected regional sentiment as most Bursa sectoral indices ended on a positive note for the week ending on 16 June, with Technology (4.1%) leading by a large margin, followed by Industrial (1.8%) and Consumer (1.5%).
- Such upbeat momentum in the market fueled investors' risk appetite following the Fed's pause in their rate hike cycle.
- Meanwhile, the Healthcare index (-1.8%) was last week's biggest decliner.
- However, the foreign investors' rigorous selling spree stretches for the ninth week, with net outflows of RM 189.4 million recorded. We believe cautious trading will continue until after the state elections.

FIXED INCOME: UST YIELDS ENDED ON A HIGHER NOTE FOLLOWING A HAWKISH OUTLOOK BY THE FED

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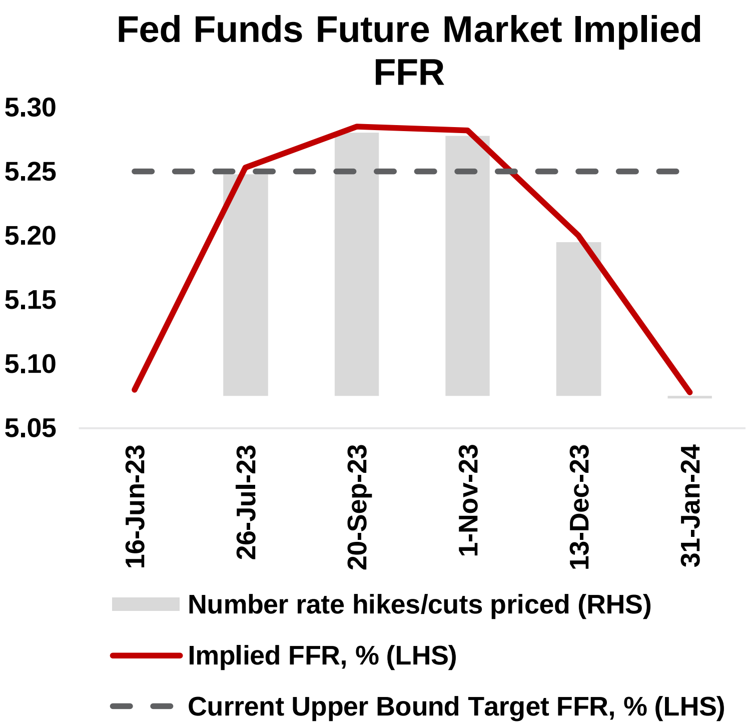
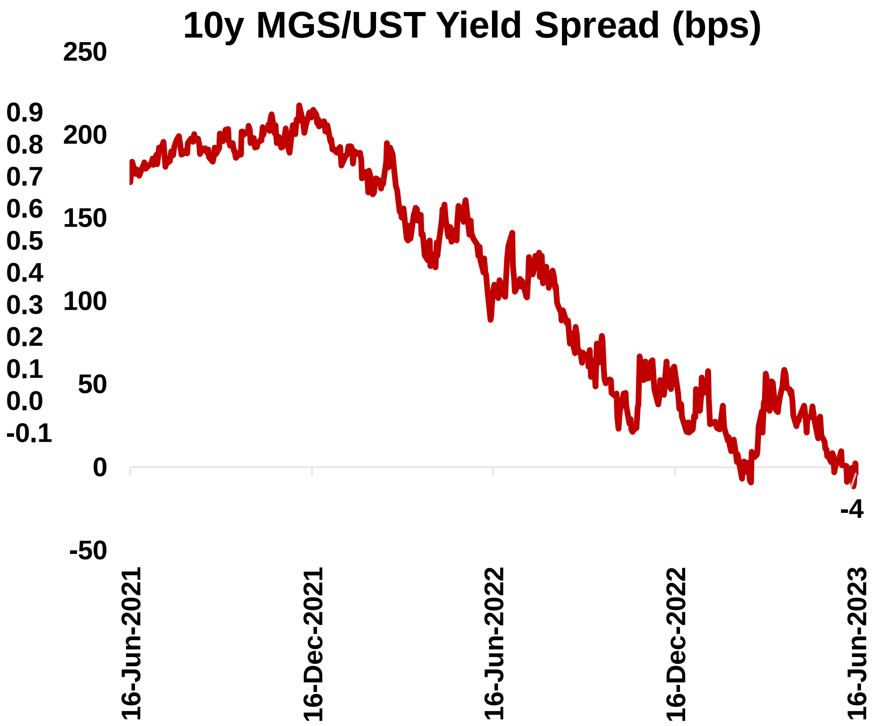
Weekly Changes, basis points (bps)

UST	Yields (%) 9-Jun-23	Yields (%) 16-Jun-23	Change (bps)
3-Y UST	4.23	4.32	9
5-Y UST	3.92	3.99	7
7-Y UST	3.84	3.88	4
10-Y UST	3.75	3.77	2
MGS	**Yields (%) 9-Jun-23**	**Yields (%) 16-Jun-23**	**Change (bps)**
3-Y MGS	3.45	3.44	-1
5-Y MGS	3.53	3.53	0
7-Y MGS	3.64	3.66	3
10-Y MGS	3.73	3.74	1
GII	**Yields (%) 9-Jun-23**	**Yields (%) 16-Jun-23**	**Change (bps)**
3-Y GII	3.47	3.47	0
5-Y GII	3.57	3.57	0
7-Y GII	3.72	3.74	2
10-Y GII	3.82	3.84	2

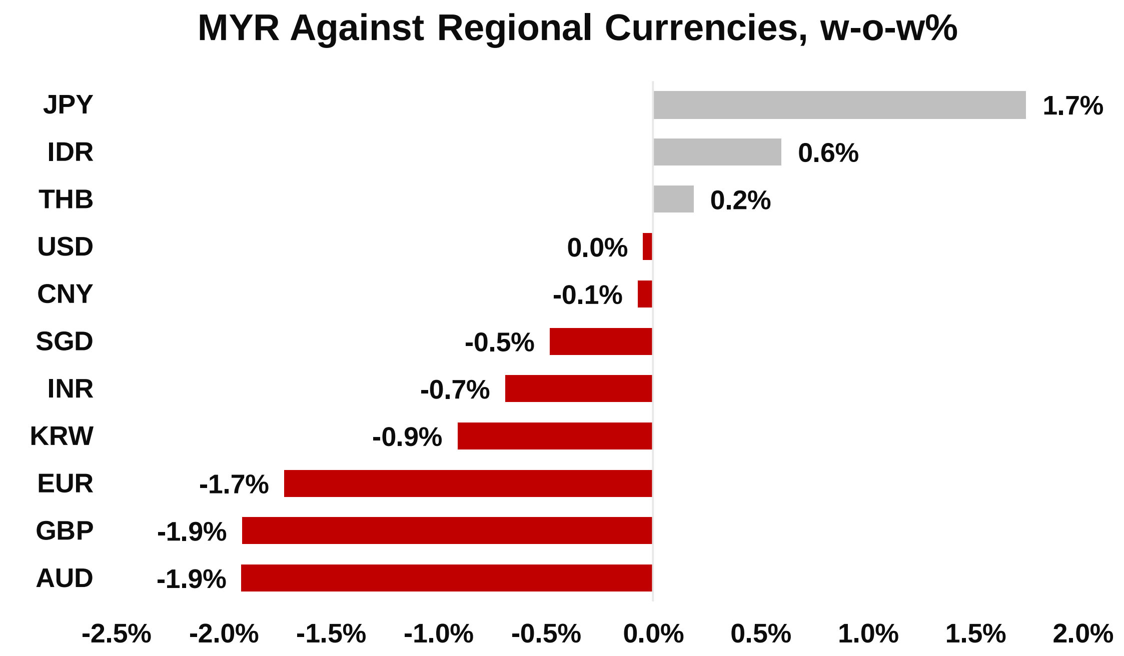


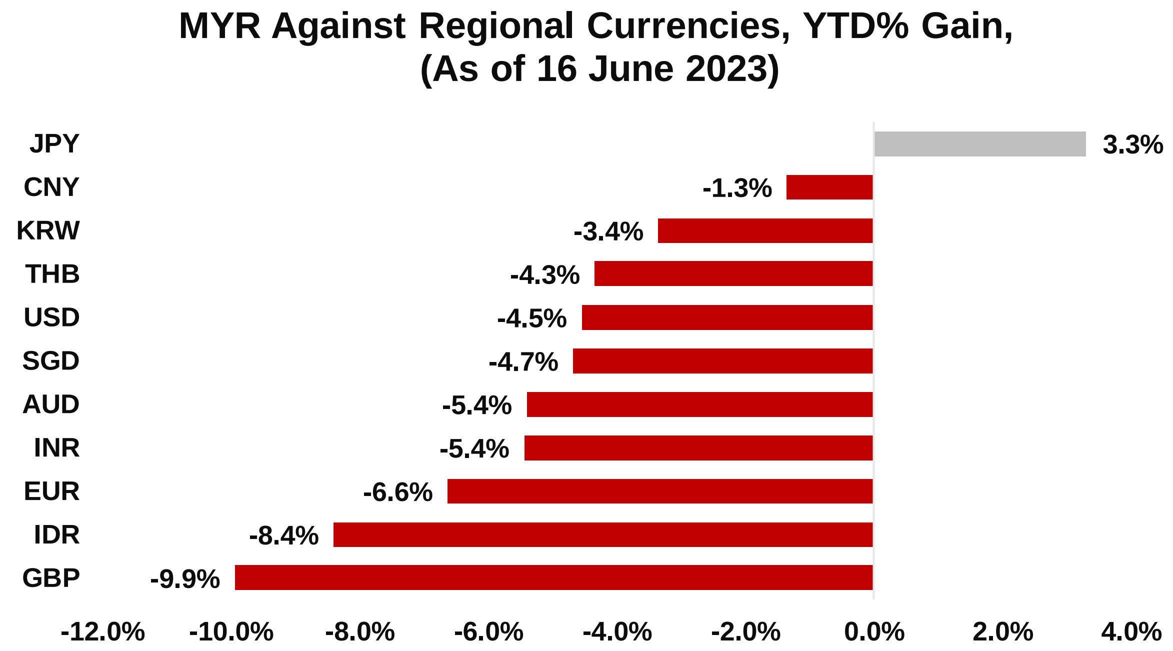


Sources: Bank Negara Malaysia (BNM), Federal Reserve Board, Bloomberg

- The U.S. Treasury (UST) yields bear flattened last week between 2bps and 9bps despite the Fed hitting a pause button after 10 consecutive interest rate hikes to give room for the Fed to assess the impact of its actions.
- Nevertheless, it is a hawkish pause and does not signal an end to the tightening cycle.
- On the local govvies, Malaysian Government Securities (MGS) ended mixed last week with the 3-Y MGS yield declining by 1bp and the 5-Y MGS yield was left muted. The 7-Y and 10-Y MGS yields increased by merely 3bps and 1bp, respectively.
- As for Government Investment Issues (GII), 3-Y and 5-Y GII yields were relatively unchanged during the week, ahead of the release of the May CPI figure and the Federal Open Market Committee (FOMC) meeting. Meanwhile, 7-Y and 10-Y GII yields increased by 2bps.
- The 10y MGS/UST yield spread closed in negative territory of 4bps lower than -2bps recorded last week.

FX MARKET: THE RINGGIT IS ANTICIPATED TO LINGER AROUND RM4.60 LEVEL THIS WEEK AMID ECONOMIC WOES





Source: Investing.com

- The Ringgit ended flat during the week when it closed at RM4.6110 last Friday compared to RM4.6120 in the previous week ending on 9 June 2023.
- While the U.S. Fed left the target for FFR unchanged at 5.00%-5.25% as widely expected, the central bank hinted the rates might go up to 5.60% based on the latest Summary of Economic Projections (SEPs), should both economy and inflation outlook get worsen.
- At the same time, market participants remain cautious over rate hikes from other major central banks to combat inflationary pressures. Thus, this could bring pressure on the local note. For the record, the European Central Bank (ECB) raised interest rates by another 25bps though the bloc entered recession since both headline and core inflation remained significantly above the central bank’s 2.0% target.
- Meanwhile, due to the post-COVID recovery slowdown, the People’s Bank of China (PBoC) cut its key policy rate for the first time in ten months. While such a move is a positive attraction for the Ringgit, we foresee that there is resistance for the local note to move higher should the upcoming export data in May continues in the negative territory after falling steeply by 17.4% y-oy in April (March: -1.4%).

COMMODITY: BRENT BRICE ON TRACK FOR WEEKLY GAIN

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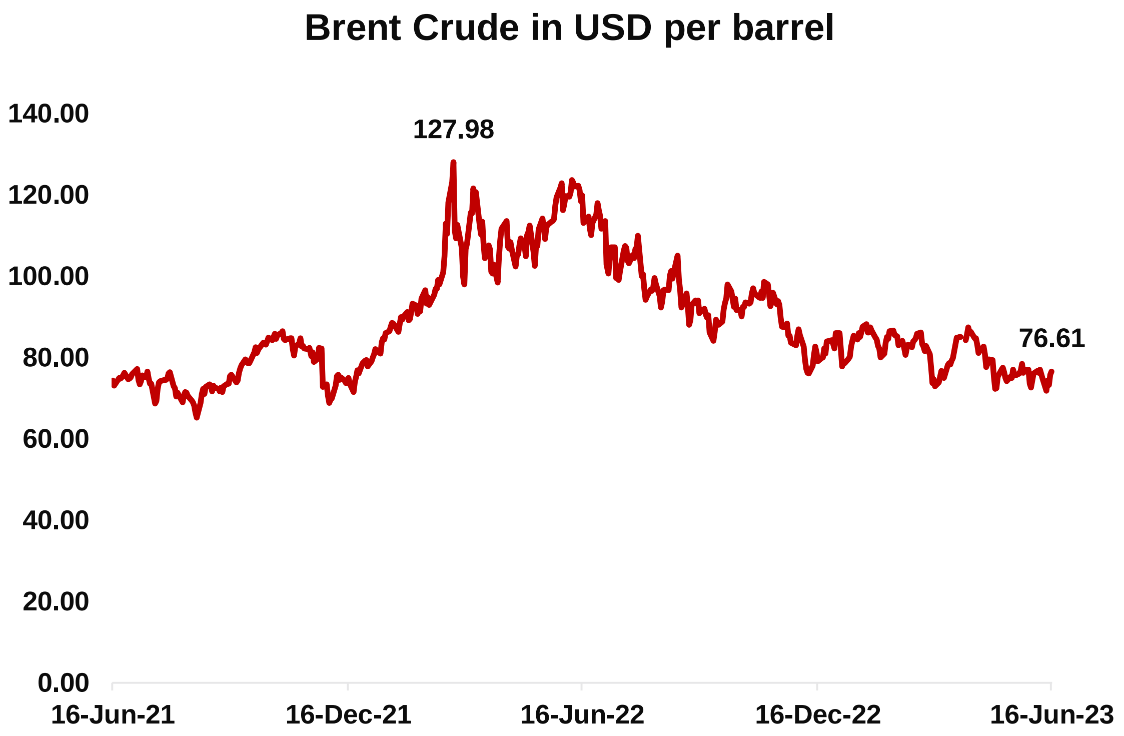

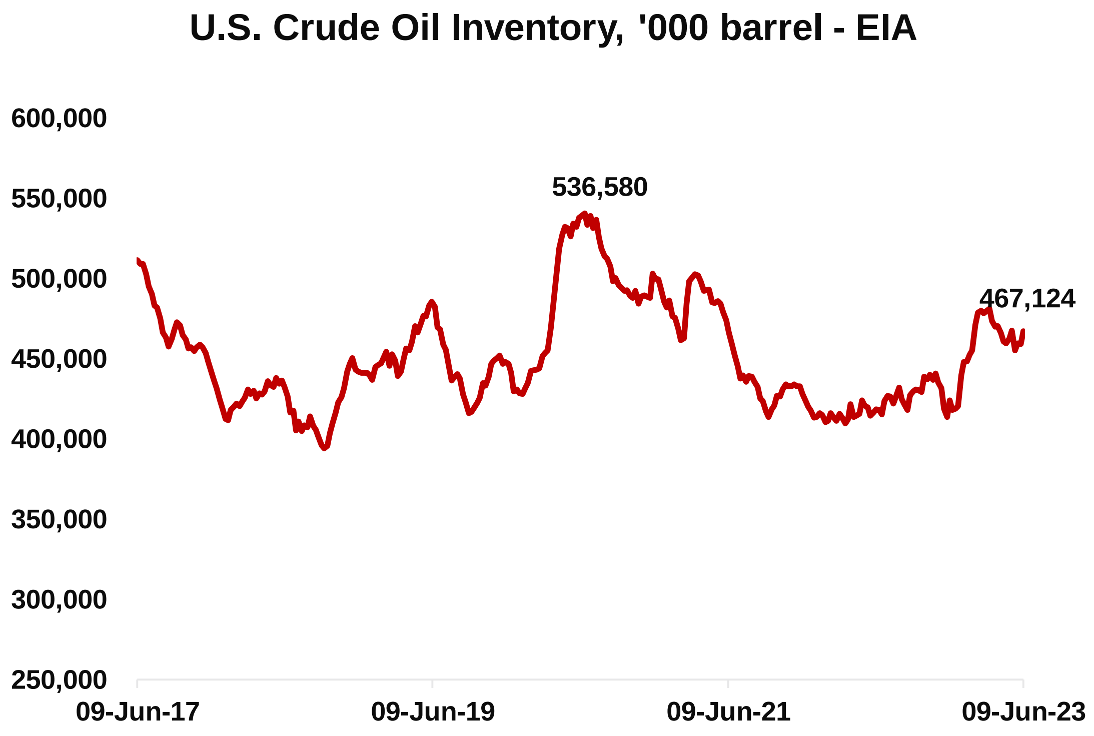

Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price returned to above USD75.0 per barrel following rate cuts in China and a pause from the Fed's aggressive rate hikes, bolstering demand outlook in the two world's biggest oil consumers.
- Additionally, the monthly report from the EIA stated that the global oil demand will rise by 6.0% between 2022 and 2028 to reach 105.7 million barrels per day (bpd), supported by robust demand from the petrochemical and aviation sectors.
- However, market participants remain cautious over global economic uncertainties with weak Chinese economic data and further interest rate hikes by other major central banks clouding the outlook.

COMMODITY: GOLD PRICE EDGED DOWN LAST WEEK DESPITE DOWNBEAT USD

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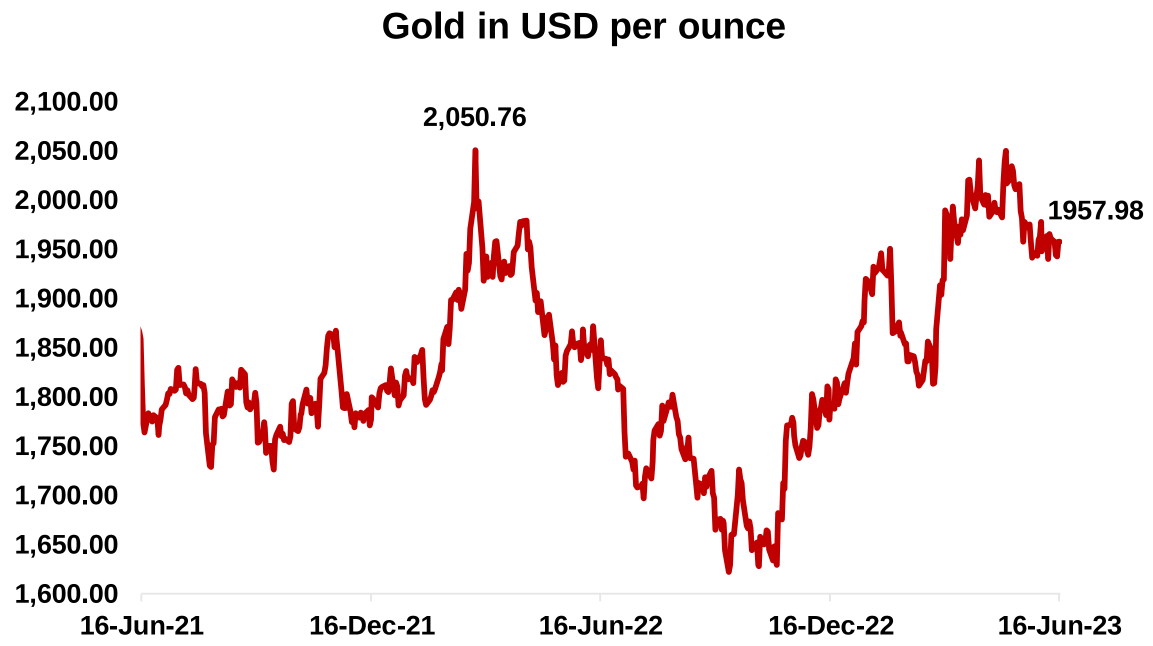

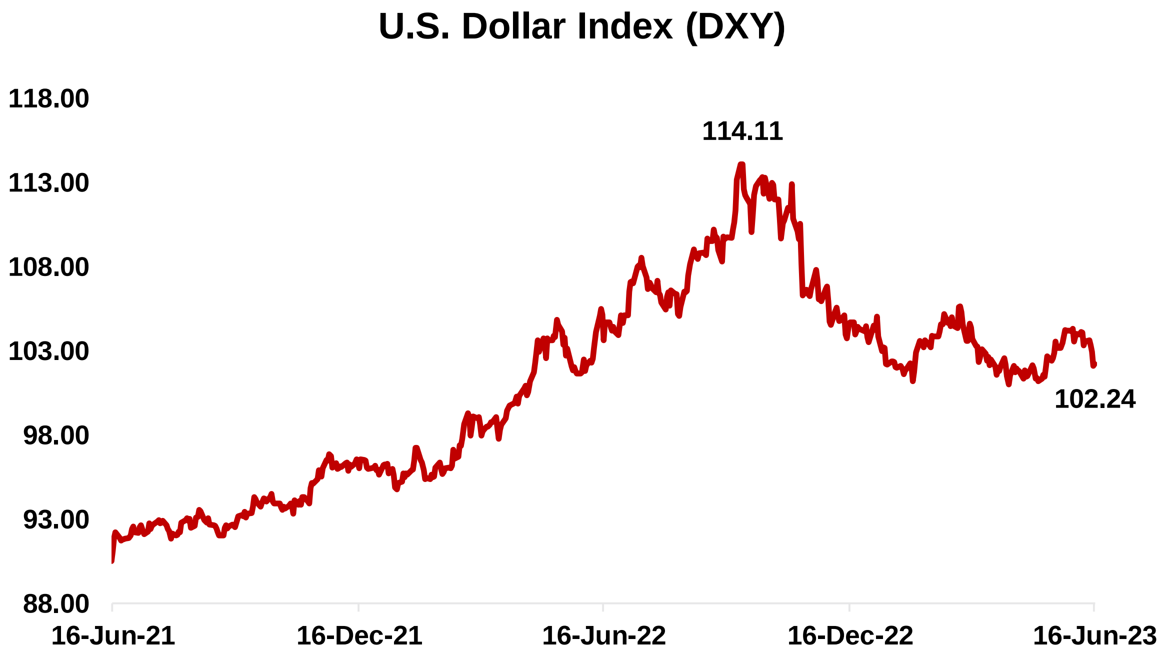

Sources: Bloomberg, Commodity Research Bureau

- The bullion price edged down last week despite the greenback being downtrend, following the Fed's decision to pause its aggressive rate hike campaign at 5.00%-5.25%.
- Chair Jerome Powell's indications of the future monetary path, considering credit conditions and the economy, have led market participants to anticipate higher FFR rates by the end of the year.
- With that said, investors are also eyeing Chair Powell's bi-annual testimony and U.S. June PMI figure for directions during the week.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- As anticipated, the Fed held its benchmark rate unchanged during the June meeting, the first time since its last ten monetary policy meetings, which saw the central bank delivering a 500bps hike that began in March last year. The policymakers stated that the move to stay on hold allowed them to assess the evolving outlook and the cumulative impact of past actions on the economy. The aggressive tightening campaign seemed to pay off when the headline CPI continued to trend down to 4.0% from around 8.0% last year. Be that as it may, the long-term goal is still the top priority since the current rate doubles the 2.0% target.

- Meanwhile, the Bank of England (BoE) is set to raise the interest rate by 25bps to 4.75% this week, marking its thirteenth straight increase as slower inflation reading takes much longer than expected. The tight job market in the country is not helping. On the flip side, both Bank Indonesia (BI) and the Bangko Sentral ng Pilipinas (BSP) are expected to maintain their respective interest rates as the current monetary policy stance is appropriate since the inflation reading is easing.

- Central banks have been receiving pressure about their tightening fueling a global slowdown, including big central banks such as the Fed. This week, cues from the Purchasing Manager's Index (PMI) worldwide would offer insight into the health of the manufacturing sector, such as the U.S., E.U., and Japan thus far in June. As of May, U.S. manufacturing activity contracted for the seventh straight month amid muted demand conditions due to higher interest rates. E.U. moved further into the contraction zone, another gloomy sign for the region has entered a technical recession in 1Q2023.

- On the domestic front, the Department of Statistics Malaysia (DOSM) will release economic indicators such as May's export figures and inflation data. The latest data in April experienced a double-digit decline, the largest decrease since May 2020. Additionally, the manufacturing PMI continued to face subdued demand conditions, further exacerbating downward pressure on the exports. On the other hand, inflation numbers come under control with the eleventh straight month of moderating trend, with the anticipation from the market participants that the upcoming data will reach 3.0% after rising by 3.3% in April.

THANK YOU