



WEEKLY ECONOMIC UPDATE

20 MARCH 2023

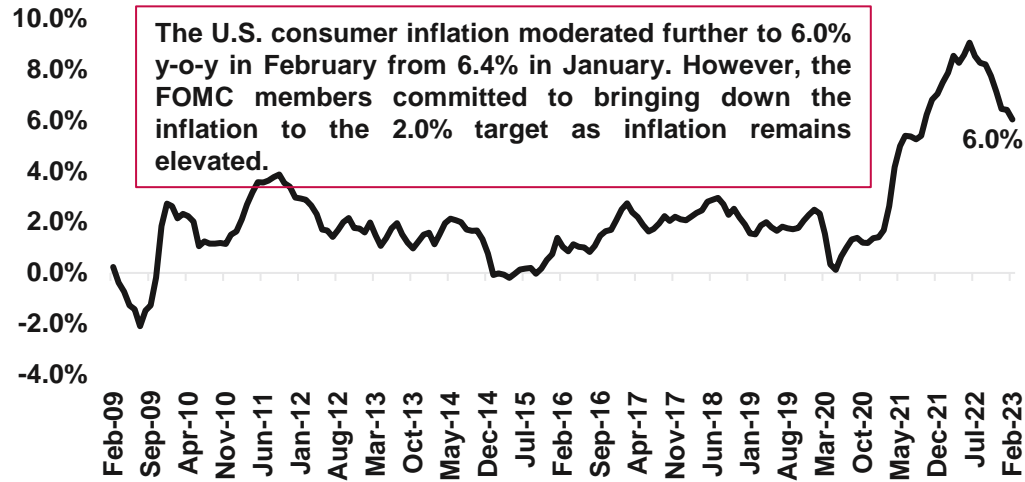
ECONOMIC RESEARCH

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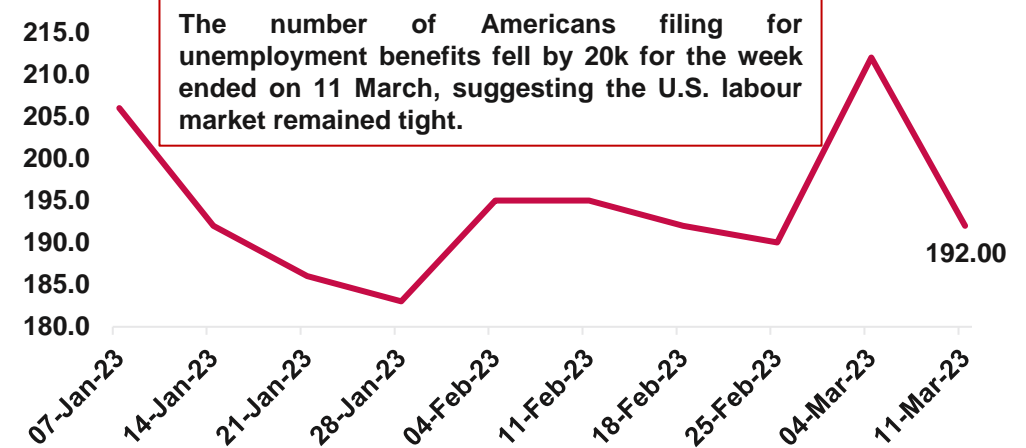
KEY HIGHLIGHT OF THE WEEK: THE U.S. ECONOMIC INDICATORS ARE SHOWING MIXED VIEWS

GLOBAL

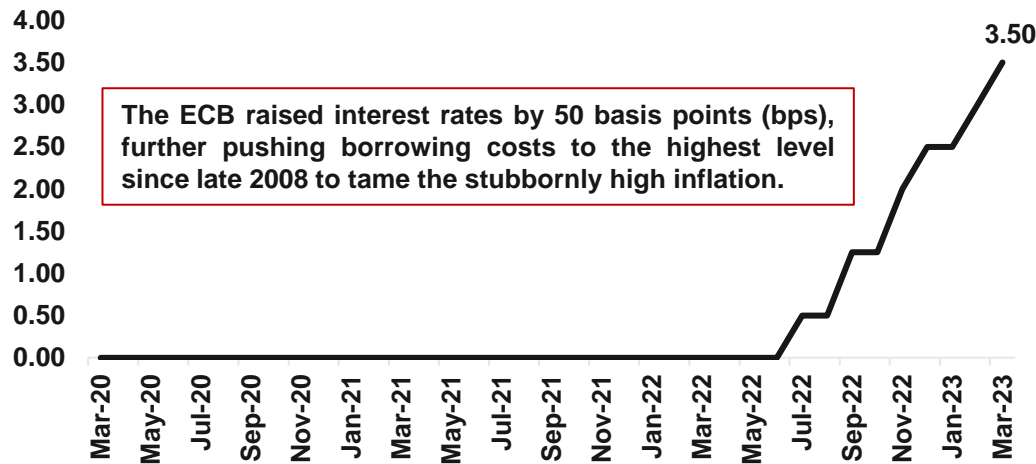
The U.S. Consumer Price Index (CPI), y-o-y%



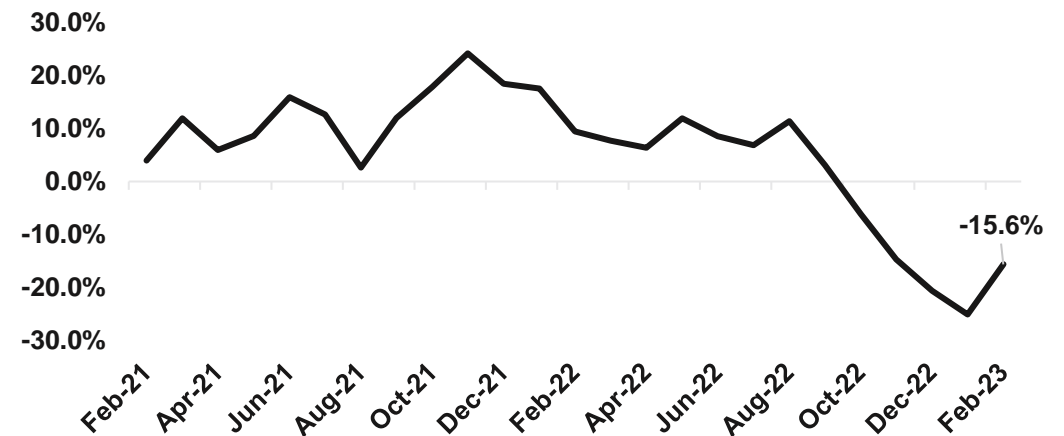
The U.S. Weekly Initial Jobless Claims (IJC), thousand



European Central Bank's (ECB) Policy Rate, %

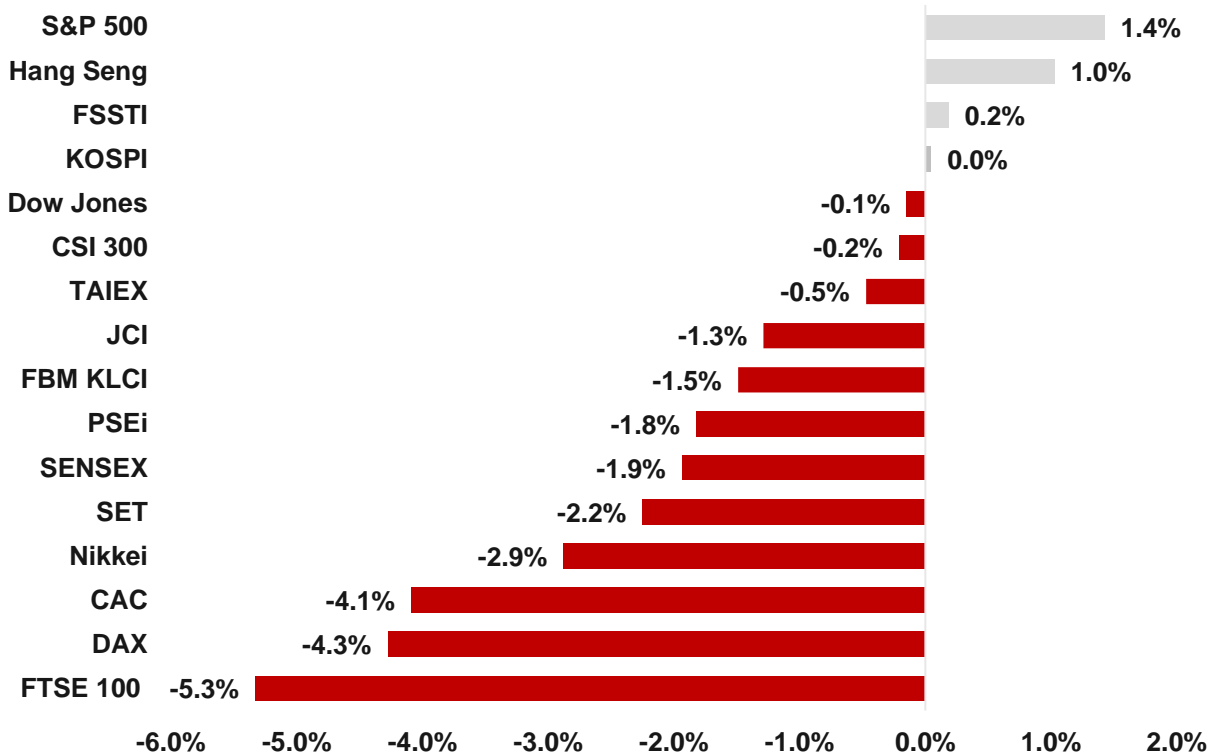


Singapore's Non-Oil Domestic Exports (NODX), y-o-y%



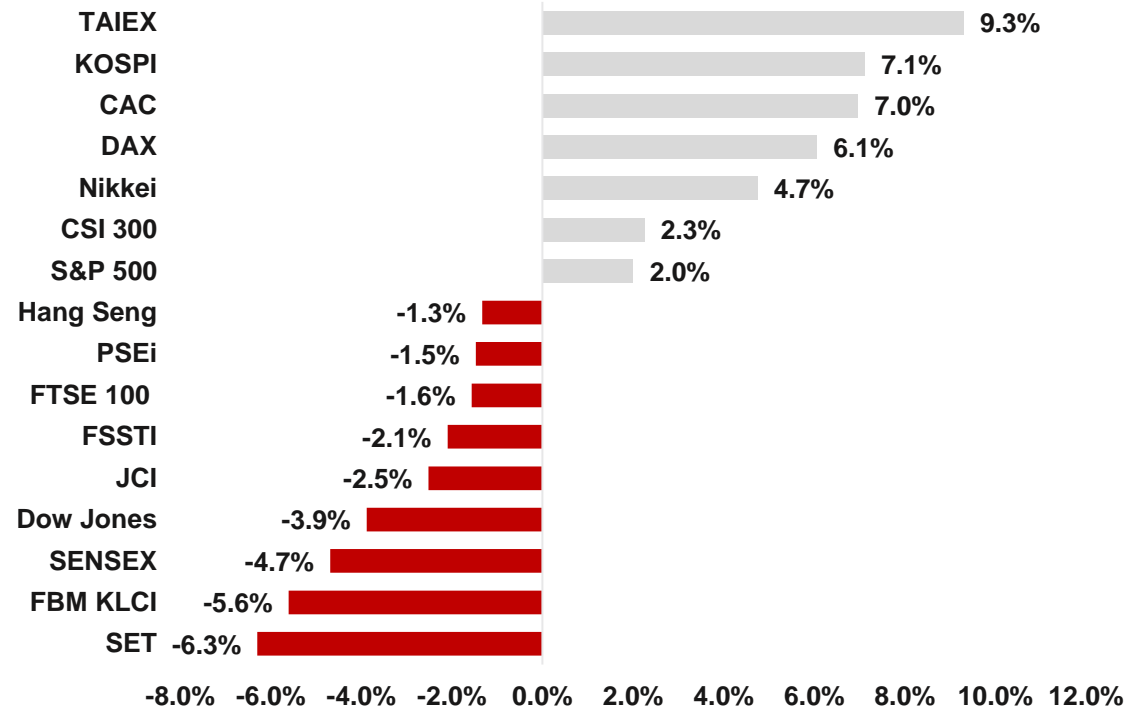
REGIONAL EQUITY: BATTLING MARKET AMID FEARS OF BANKS COLLAPSE IN THE U.S.

Weekly Gain/Loss of Major Equity Market, w-o-w%



Source: Bursa, CEIC

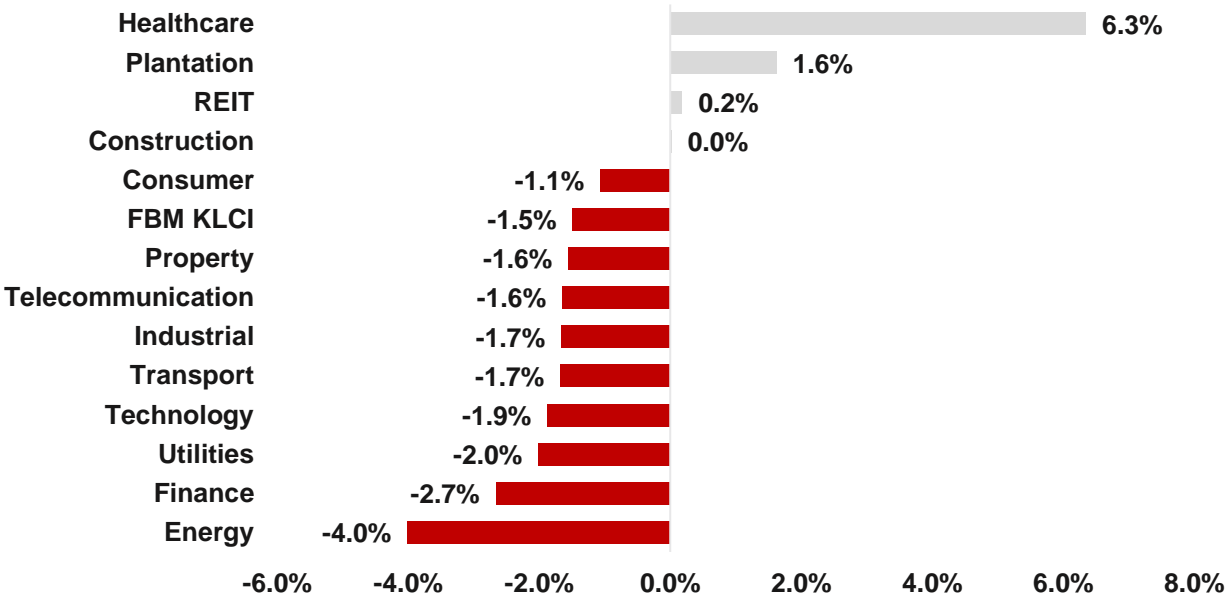
YTD Gain/Loss of Major Equity Markets, % (As of 17 March 2023)



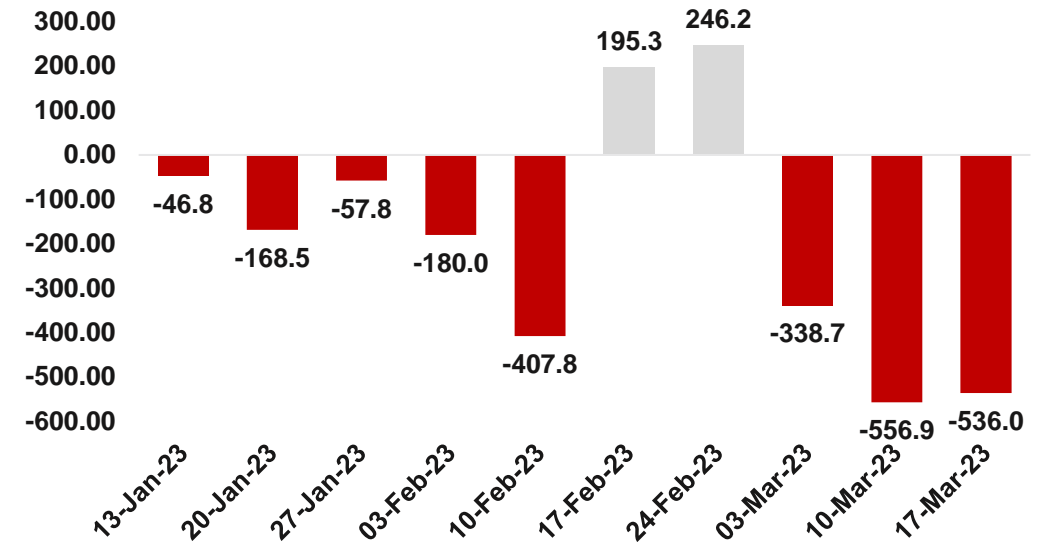
- Most regional markets were in the red sea last week with the U.K.'s FTSE 100 recording a significant loss at 5.3% w-o-w for the week ended on 17 March.
- The heavy losses were mainly dragged by technology and financial stocks amid growing fears that the bank crisis in advanced economies could broaden and tip the global economy into a recession.
- The Silicon Valley Bank (SVB) bank run had created panic in an already sluggish market amid uncertainty over the Fed Funds outlook.

DOMESTIC EQUITY: ENERGY INDEX HEAVILY AFFECTED BY NEGATIVE SENTIMENTS IN THE U.S.

Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Source: Bursa, CEIC

- Similarly, Bursa sectoral indices also mostly ended on a negative note, led by the Energy sector, which fell significantly by 4.0% w-o-w, dampened by a possibility of broader banking and financial crisis that will cloud the oil demand outlook.
- The uncertainty surrounding the U.S. interest rate during the FOMC meeting this week, alongside fears of a larger financial crisis in the U.S., will remain the biggest immediate-term downside risk.
- Following this, foreign investors continued to shred their equity holdings with a total of RM536.0 million net outflows recorded last week after a total of RRM556.9 million net outflows for the week ended on 10 March.
- Looking forward, the trend is expected to persist in the near term, given the rising U.S. market volatility index (VIX).

FIXED INCOME: BOND YIELDS FELL AMID U.S. MARKET UNCERTAINTY

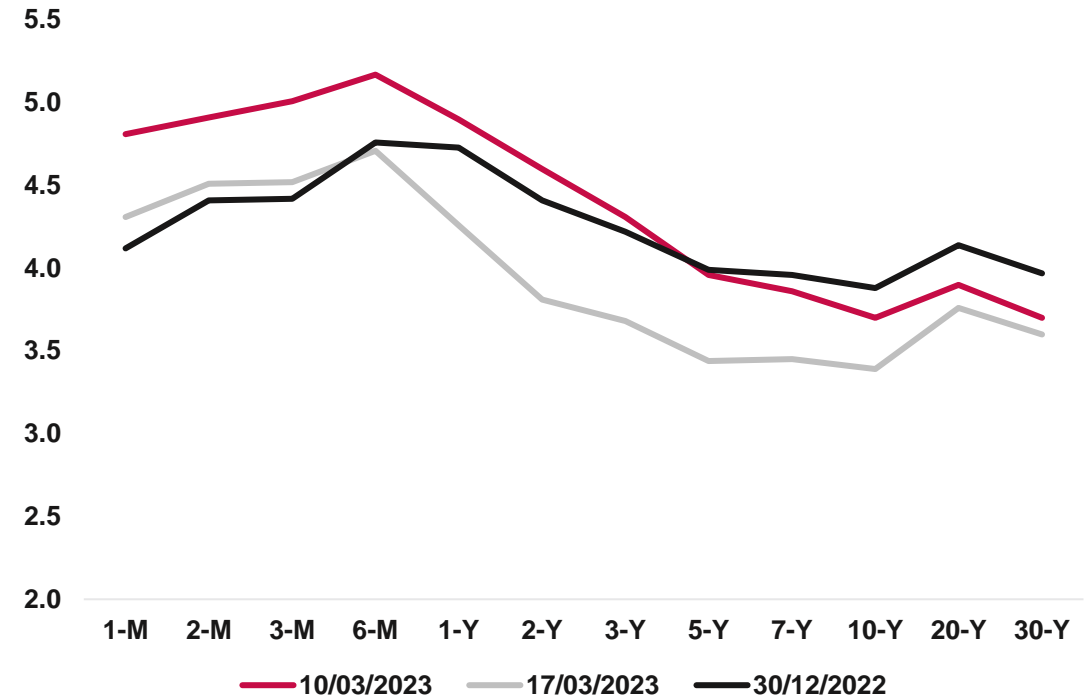
Weekly Changes, basis points (bps)

UST	Yields (%) 10-Mar-23	Yields (%) 17-Mar-23	Change (bps)
3-M UST	5.01%	4.52%	-49
2-Y UST	4.60%	3.81%	-79
5-Y UST	3.96%	3.44%	-52
10-Y UST	3.70%	3.39%	-31

MGS	Yields (%) 10-Mar-23	Yields (%) 17-Mar-23	Change (bps)
3-Y MGS	3.47%	3.44%	-3
5-Y MGS	3.57%	3.57%	0
7-Y MGS	3.82%	3.83%	1
10-Y MGS	3.94%	3.99%	5

GII	Yields (%) 10-Mar-23	Yields (%) 17-Mar-23	Change (bps)
3-Y MGS	3.44%	3.39%	-5
5-Y MGS	3.60%	3.64%	4
7-Y MGS	3.85%	3.85%	0
10-Y MGS	3.98%	3.99%	1

UST Yield Curve, %

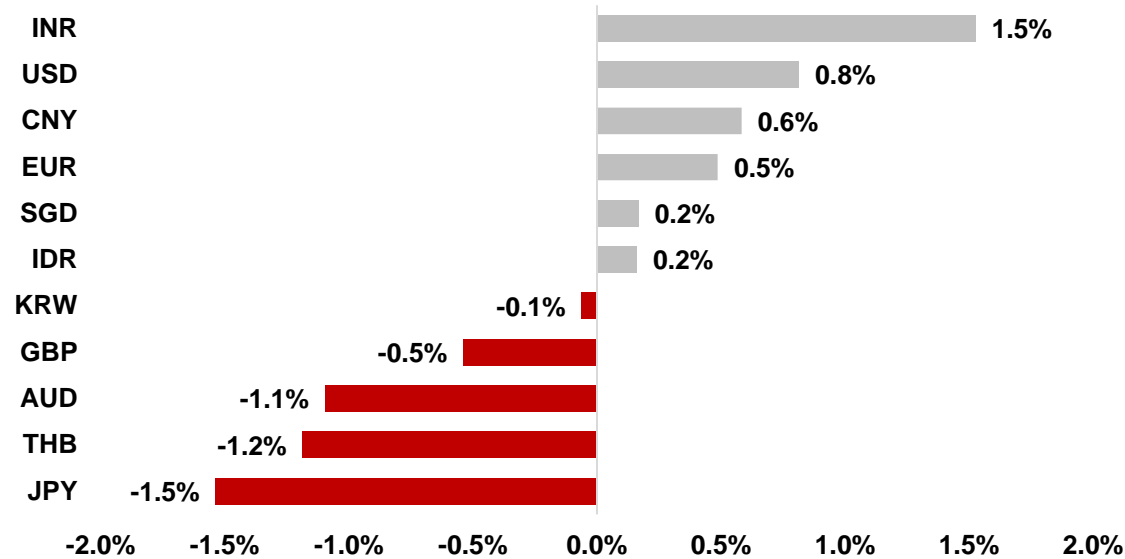


Source: BNM, Federal Reserve Board

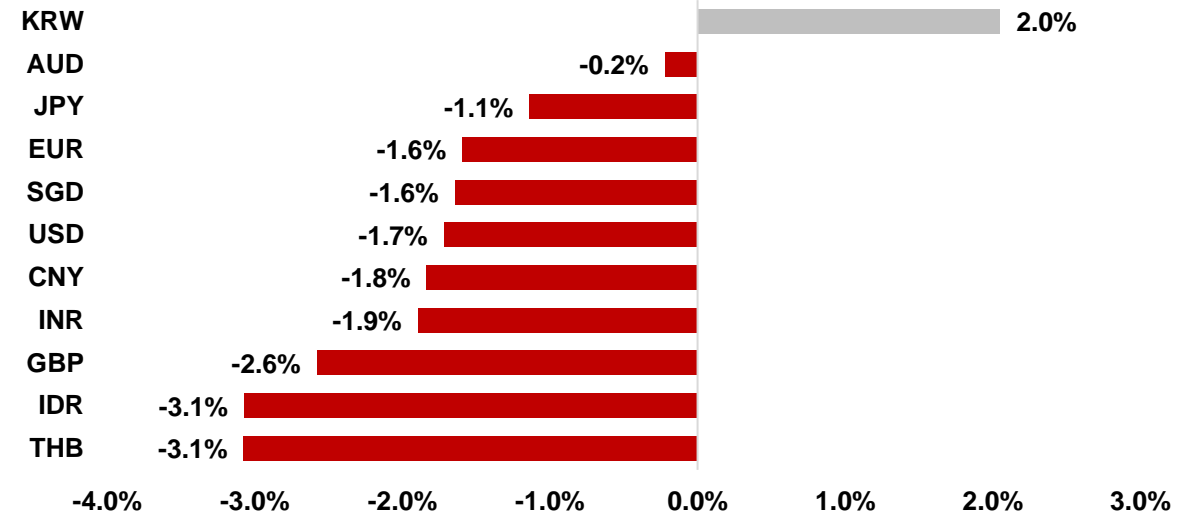
- The U.S. Treasury (UST) yields fell significantly between -31 bps and -79 bps for the week ended on 17 March on the back of rising uncertainty over U.S. monetary tightening cycle, as well as worries over broader impact due to banking crisis in the U.S.
- On the domestic front, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields indicated minimal movement.
- All in all, we believe the bond market participants will remain cautious ahead of FOMC meeting this week as traders assess possible ramifications from policy decision by the Fed, as well as issues in the banking sector in the U.S.

FX MARKET: RINGGIT STRENGTHEN AGAINST THE USD DURING THE WEEK

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD% Gain, (As of 17 March)



Source: Investing.com

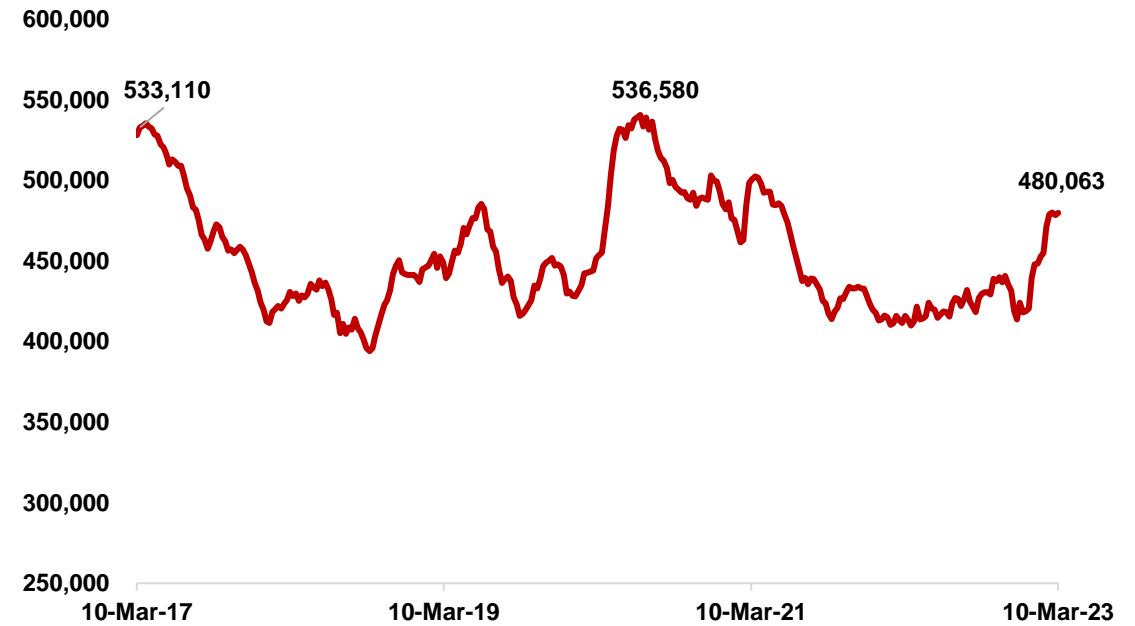
- The Ringgit appreciated against the USD during the week after the ongoing bearish local note, mainly attributable to the lower USD index. It is hovering around the 103 level following concerns over the collapse of the U.S. tech-related banks.
- At the same time, the recent decision from the ECB to hike by another 50bps in light of the country's stubbornly high inflation has also dragged down the USD index during the week, which has benefitted the local note.
- However, though the U.S. core inflation eased slightly to 0.4% month-on-month (m-o-m) during February (January: 0.5%), it still puts the Fed in a tough spot as the central bank balances its inflation fight with financial stability concerns.
- Looking forward, investors will be eyeing the FOMC March meeting for this week, as this could affect the Ringgit movement. Following the global banking crisis, market participants are pricing that the central bank might only hike by 25bps in the interest rate. Such a move could signal to the market that the central bank might pivot sooner rather than later. Thus, this could support the local note in the short term.

COMMODITY: BRENT PRICE SET FOR THE WORST WEEKLY DECLINE OF THE YEAR AMID FEARS ON THE BANKING SECTOR COLLAPSE

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price dived 11.9% lower last Friday due to the collapse of US-tech banks. Latest, the news of liquidity troubles at Credit Suisse seemed did not help despite assurance from U.S. President Joe Biden and Treasury Secretary that the country's banking system is still robust.
- Meanwhile on the supply side, the U.S. crude oil inventories have been building up, as reported by EIA. The crude oil stockpiles rose by 1.6 million barrels to 480.1 million barrels in the week ending 10 March from 478.5 million barrels the previous week, suggesting slowing demand conditions.

COMMODITY: GOLD PRICE WAS ON TRACK FOR ITS BIGGEST WEEKLY RISE FOLLOWING GLOBAL BANKING TURMOIL

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, Commodity Research Bureau

- The bullion price surged by 6.5% during the week as investors rushed to safe-haven assets amid a wave of banking crises that shook the global market.
- At the same time, the bets for aggressive rate hikes from the U.S. central bank has soften, with investors are now looking at 25pbs increase in the FFR for this week in view of easing inflationary pressures, as well as the recent banking crises.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The U.S. central bank is slated to meet on 21-22 March for the FOMC meeting amid global banking turmoil, scarring the financial markets and with fears of more risks to come. Such a situation has caught the Fed between a rock and a hard place as it must juggle between financial and/or price stability. Weeks ago, 50bps seemed to be on the card following the still-hot data. However, the sentiment has changed following the failure of SVB amid contagion concerns. At the time of writing, CMEFedWatch is torn between a rate pause or a 25bps hike in FFR this week.
- The Bank of England (BoE) will announce its monetary policy decision on 23 March. While the inflation rate remains double-digit, there are signs of easing price pressures in the recent data (January 2023: 10.1% vs. December 2022: 10.5%). At the same time, labour market pressure, including wage growth, has started to soften (January 2023: 5.7% vs. December 2022: 6.0%). However, market participants would be closely eyeing the February inflation figure to be released a day before the MPC meeting.
- Most importantly, Switzerland has been at the center stage of the recent banking turmoil, given fears over the solvency of 167-year-old Credit Suisse. The markets' nerves calmed when the Swiss National Bank (SNB) lent emergency funding to the troubled bank, amounting to USD 54.0 billion, providing short-term relief to the market. In the latest development, Union Bank of Switzerland (UBS) agreed to take over Credit Suisse for about a USD3.3 billion deal, a move engineered by the Swiss government to calm the loss of confidence in the financial market. Despite the turmoil, the market participants still expect the SNB to hike by 25bps in the interest rate when the policymakers meet this Thursday.
- In light of the recent global banking meltdown, BNM has reassured that our banking system has limited exposure to the SVB crisis. As per the latest assessment, the banking system remains resilient and can withstand "severe macroeconomic and financial shocks." Given the high correlation between Malaysia's economy with the U.S. at 73.6%*, a slowdown in the former will likely impact the Malaysian economy. The upcoming BNM Annual Report 2022 next week could provide some insight, particularly on the health of the Malaysian banking system amid the brewing global banking crisis.

⁹ *Note: Quarterly GDP Data since 1Q2016 from DOSM (Malaysia) and Bureau of Economic Analysis (U.S)

BANK ISLAM

THANK YOU