



From the Desk
of the
Chief Economist

BANK ISLAM

WEEKLY MARKET UPDATES

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ECONOMIC RESEARCH

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KEY HIGHLIGHTS OF THE WEEK- THE FEDERAL RESERVE (FED) AND BOE HAVE INCREASED THE POLICY RATE, CONTINUING ITS TIGHTENING PLAN

International

The U.S.- Monetary Policy

- ✓ The U.S. Federal Open Market Committee (FOMC) decided to increase the Federal Fund Rate (FFR) by 75 basis points (bps) to between 1.50% and 1.75%.
- ✓ The latest dot plot indicates that the FFR is expected to reach 3.50% by end of 2022. This could mean another 175 bps would be announced in the remainder of 2022.
- ✓ Additionally, the Fed revised down the Gross Domestic Product (GDP) forecast to 1.7% growth for 2022 and 2023 compared to 2.8% and 2.2% projections made in March.

Japan- Monetary Policy

- ✓ The Bank of Japan (BOJ) left its key short-term interest rate unchanged at -0.1% and 10-year bond yields around 0.0% during its June meeting.
- ✓ Furthermore, the board also would offer to buy unlimited amounts of the bonds to defend an implicit 0.25% cap every market day, repeating the guidance on market operations it made in April.
- ✓ Policymakers viewed that the country's economy has picked up, despite some weakness due to the impact of Covid-19 and surging commodity prices.

The U.K.- Monetary Policy

- ✓ The Bank of England (BOE) increased its main Bank Rate by 25 bps to 1.25% on 16 June.
- ✓ It was fifth consecutive rate hike in order to temper soaring inflation in the country.
- ✓ The central bank raised its commitment to bring inflation back to the 2.0% target and act forcefully' if necessary.
- ✓ The BOE expects inflation to be over 9.0% during the next few months and to rise slightly above than 11.0% in October while GDP growth is seen slowing sharply over the first half of the forecast period.

Domestic

Malaysia – Exports

- ✓ Malaysia's exports maintained its double-digit growth at 30.5% year-on-year (y-o-y) in May from 20.8% in April.
- ✓ This was mainly contributed by exports of Manufacturing and Services which surged by 27.3% (April: 17.3%) and 43.9% (April: 29.8%) in May.
- ✓ Meanwhile, Mining sector rose by 54.9% in May albeit softer compared to 64.5% previously.
- ✓ As for imports, it grew by 37.4% in May from 22.1% in April.
- ✓ Following this, the trade balance has narrowed to RM12.6 billion in May compared RM23.5 billion previously.

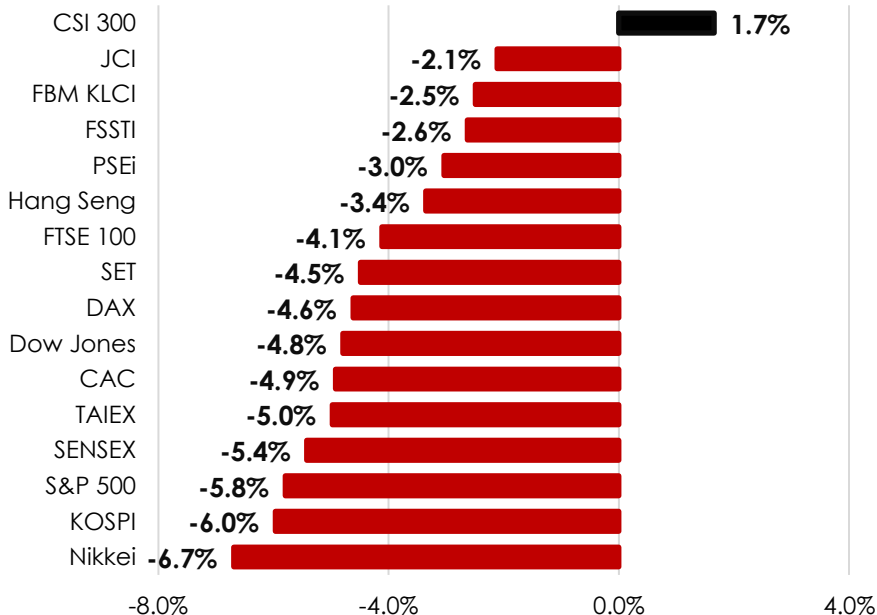
Malaysia – Foreign Direct Investment (FDI)

- ✓ Malaysia's FDI registered higher net inflow of RM48.1 billion in 2021 as compared to RM13.3 billion in 2020.
- ✓ The improvement supported by a gradual recovery in the global economy as risks from Covid-19 pandemic receded.
- ✓ The increase was mainly driven by higher flows in equity and investment fund shares.
- ✓ Within the sector, Manufacturing saw largest net inflow of RM29.5 billion in 2021 from RM7.0 billion in 2020. This was followed by Services and Mining which garnered net inflow of RM12.0 billion (2020: RM5.4 billion) and RM5.8 billion (2020: RM2.0 billion).

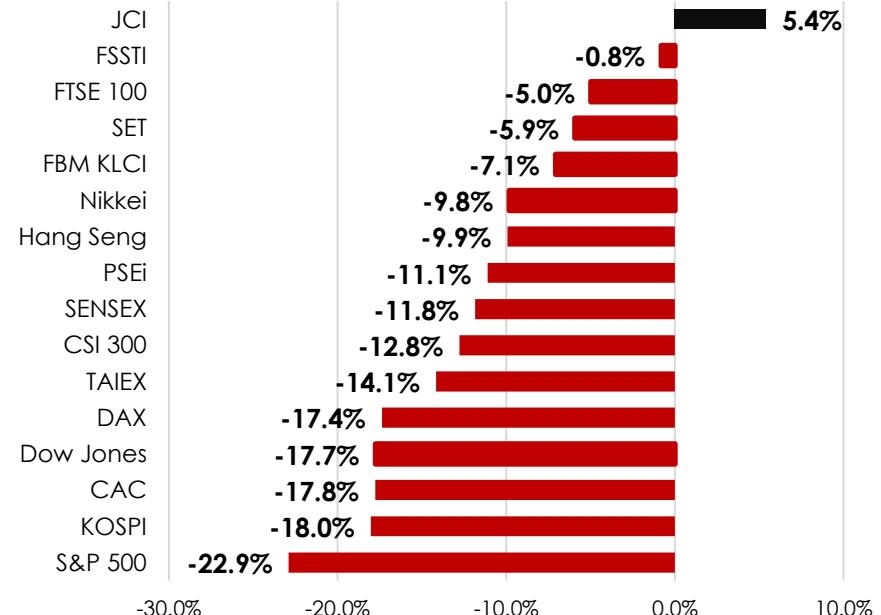
WEEKLY MARKET PERFORMANCE

- ✓ Japan's Nikkei fell by 6.7% last week as investors weighed the possibility of aggressive monetary policy tightening would lead to a recession.
- ✓ On the other hand, China's CSI 300 continued to outperform for the second straight week with a 1.7% weekly advance as the country's growth-focused policy has lured investors to seek a reprieve from the global market meltdown.
- ✓ On a Year-To-Date (YTD) basis, global equities were mostly on the red due to tighter monetary policy conditions, China's Zero-Covid policy and the ongoing Russia-Ukraine war which have further contributed to an uncertain on economic prospects.

Weekly Gain/Loss of Major Equity Markets, % (Week Ending 17 June)

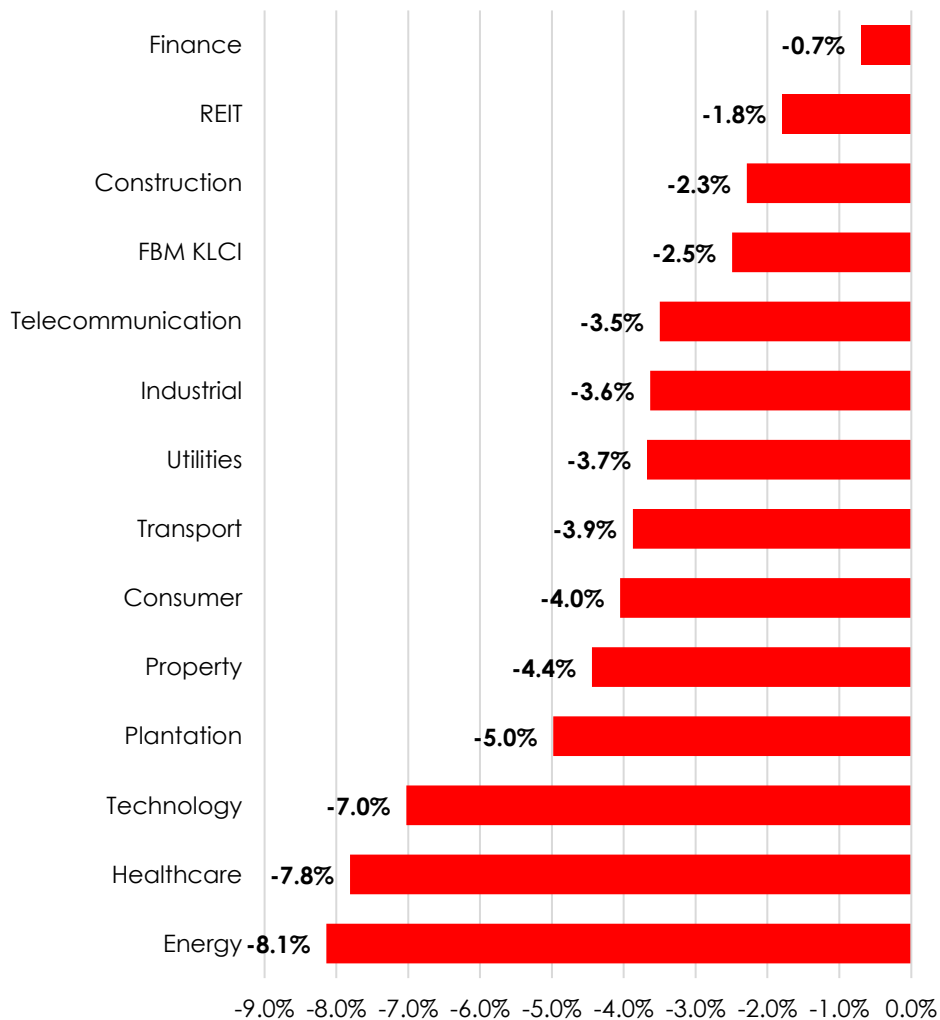


YTD Gain/Loss Of Major Equity Markets, % (As at 17 June)



EQUITY- BURSA SECTORAL INIDICES WERE IN THE RED SEA FOR TWO STRAIGHT WEEKS

Bursa Sectoral Performance, w-o-w%



Source: CEIC

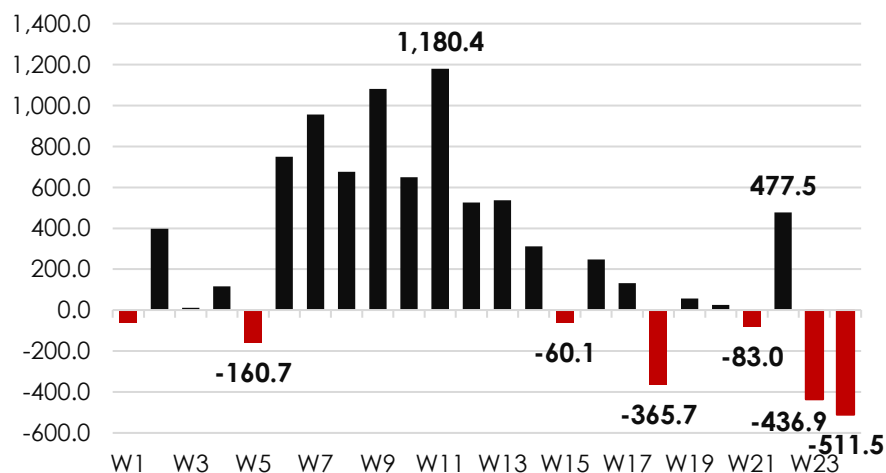
WEEKLY SECTORAL PERFORMANCE

- ✓ All sectors were in the red zone for the week ending on 17 June.
- ✓ Energy index recorded biggest loss at 8.1%, followed by Healthcare and Technology which fell by 7.8% and 7.0% respectively.
- ✓ The downturn was heavily weighed by the aggressive rate hike in the U.S. which has caused the sell-off in Bursa Malaysia.
- ✓ The Fed's restrictive campaign is putting immense pressure on the stock market which has raised concerns that the U.S. economy could slip into a recession.
- ✓ All in all, the FBM KLCI is likely to range between **1,400.0 points and 1,450.0 points this week** as investors would remain cautious pertaining to the path of monetary tightening in the U.S.

WEEKLY FOREIGN FUND FLOW

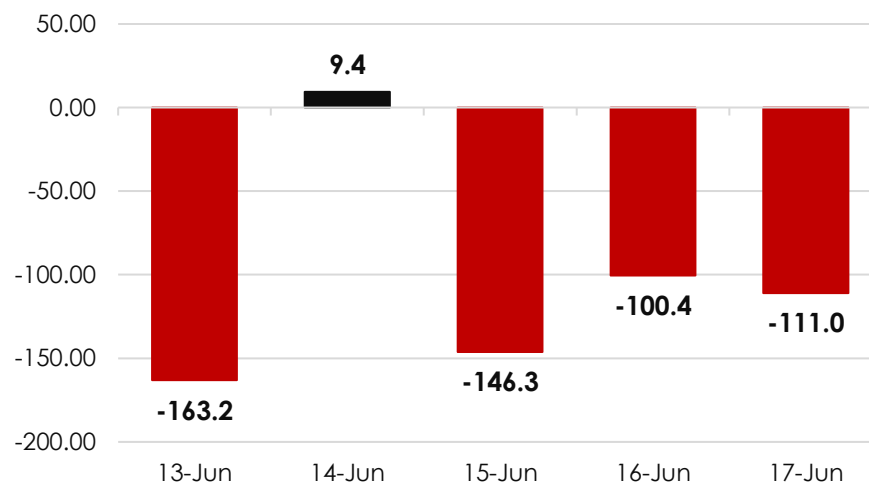
- ✓ Foreign investors remained as net sellers for the second straight week as they disposed RM511.5 million net of Malaysian equities, accelerating from RM436.9 million net outflows recorded in the preceding week.
- ✓ On further scrutiny, Bursa started the week on the wrong foot as international funds took out RM163.2 million net of local equities on Monday, the biggest outflows during the week. However, foreign investors turned to be net buyers on Tuesday whereby RM9.4 million net inflows were registered before continuing to be net sellers for the remaining days of the week at -RM357.7 million.
- ✓ On a YTD basis, international investors have bought RM6.5 billion net of local equities in 2022. Nevertheless, concerns over prospects of aggressive monetary policy by major central banks have fanned risk-off sentiment among investors.

Weekly Foreign Fund Flow in 2022 (RM Million)



Source: Bursa
*W = week

Daily Foreign Net Inflow/Outflow from 13 to 17 June (RM Million)



FIXED INCOME- BOND SELL-OFF HAS CAUSED THE YIELDS TO RISE SIGNIFICANTLY

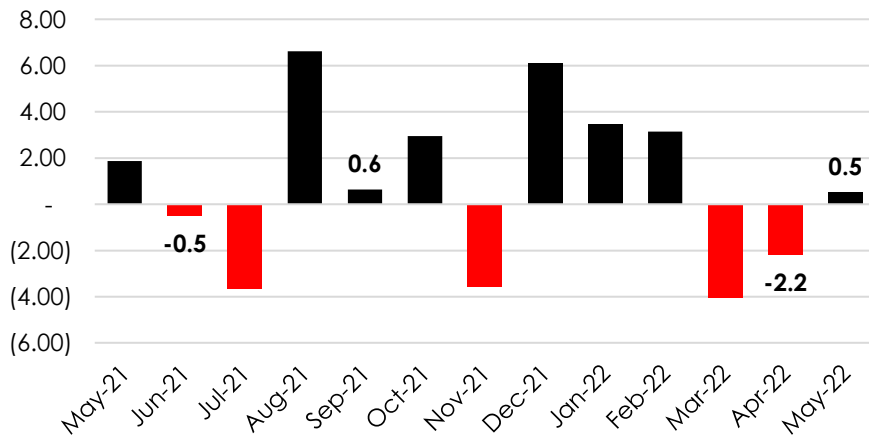
Bond Yields Weekly Change, bps

UST	Yields (%) 10-Jun-22	Yields (%) 17-Jun-22	Change (bps)
3-M UST	1.39%	1.63%	24
2-Y UST	3.06%	3.17%	11
5-Y UST	3.25%	3.34%	9
10-Y UST	3.15%	3.25%	10

MGS	Yields (%) 10-Jun-22	Yields (%) 17-Jun-22	Change (bps)
3-Y MGS	3.47%	3.59%	12
5-Y MGS	3.75%	3.92%	17
7-Y MGS	4.11%	4.31%	20
10-Y MGS	4.24%	4.34%	10

Sources: CEIC, BNM

Foreign Fund Flows in Bond Market, RM billion



Source: CEIC

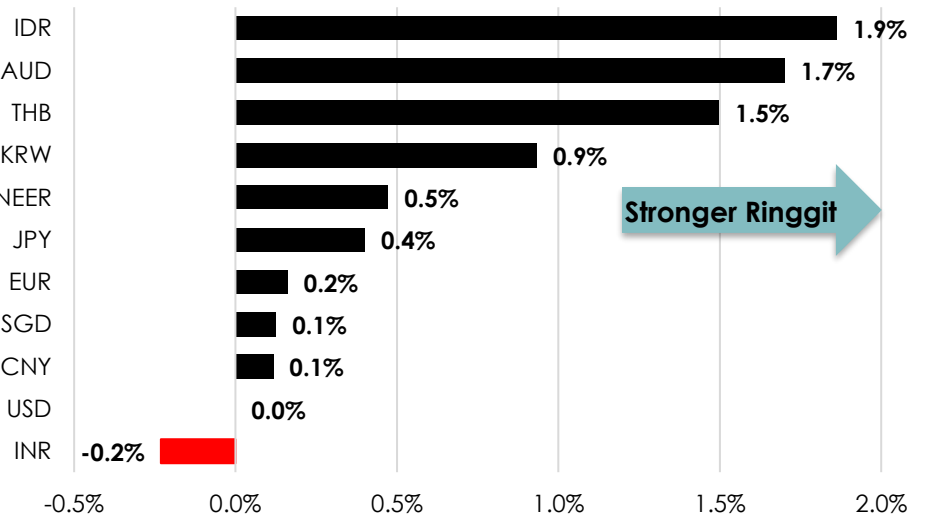
- ✓ As for the bond market, the U.S. Treasury (UST) yields surged between 9 bps and 24 bps for the week ending 17 June following a 75 bps rate hike in the FFR.
- ✓ Additionally, the Fed Chairman Jerome Powell has indicated that either a 50 bps or 75 bps rate increase during next policy meeting in July seemed most likely.
- ✓ Following this, MGS yields mirrored similar pattern, rising significantly by 10-20 bps last week.
- ✓ Looking forward, we foresee the restrictive monetary stance by the Fed will affect the bond yields to move higher.
- ✓ Meanwhile, the foreign investors are likely to sell local govies in the medium term as investors worried about the prospect of tighter monetary policy tipping the economy into a recession.

RINGGIT WAS TRADED MIX AGAINST THE USD DURING THE WEEK DUE TO CONCERN OVER INTEREST RATE HIKES BY CENTRAL BANKS TO CURB THE INFLATIONARY PRESSURE

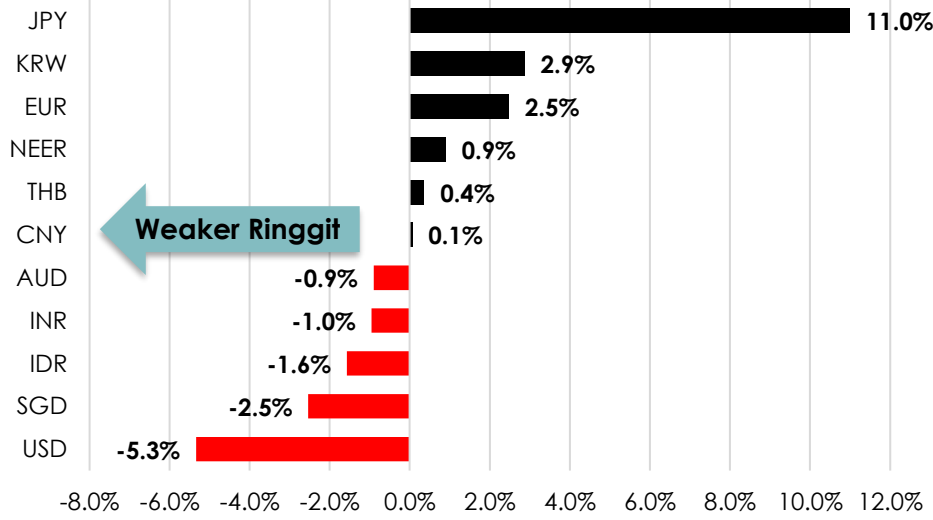
WEEKLY PERFORMANCE

- ✓ The Ringgit remained at RM4.4000 against the U.S. Dollar (USD) on 17 June. Prior to FOMC meeting, the Ringgit traded lower against the USD, closing at RM4.4170 on 13 June from RM4.4000 on 10 June as investors shifted towards safe-haven assets on the back of potential interest rate hike in the U.S.
- ✓ On 16 June, the U.S. Fed decided to increase its benchmark interest rate by 75 bps, the biggest hike since 1994 amid persistently high inflation in the country. Be that as it may, the local note continued to remain strong against the USD following the weak greenback sentiment that could lend support for emerging market currencies including the Ringgit.
- ✓ In fact, the talks of a possible global recession is gaining momentum as major central banks are moving towards hawkish policy stance to tamp down the inflation.
- ✓ Overall, the Ringgit is likely to trade between RM4.40 to RM4.42 during the week in the near term.

MYR against regional currencies, w-o-w% (Week Ending 17 June)



MYR against regional currencies, YTD Gain% (As at 17 June)



COMMODITIES – BRENT PRICE DROPPED TO ITS LOWEST LEVEL IN A MONTH

BRENT

- ✓ Brent crude oil price recorded a 7.3% weekly decline to settle at USD113.12 per barrel on 17 June (10 June: USD122.01 per barrel). This was due to the rising concerns over aggressive rate hikes by major central banks could cause a recession and affect fuel demand conditions.
- ✓ Already, the International Energy Agency (IEA) mentioned that higher oil prices and weakening economic activities are expected to dim the demand outlook moving forward.
- ✓ On the supply side, the U.S. Energy Information Administration (EIA) reported that the crude oil stockpiles rose by 2.0 million barrels to 418.7 million barrels in the week ending 10 June (3 June: 416.8 million barrels), signifying signs of easing demand. Similarly, the American Petroleum Institute (API) mentioned that fuel inventories went up by 0.7 million barrels for the week which ended on 10 June from 1.8 million barrels increase in the previous week.

Brent Crude in USD per barrel



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



Source: Bloomberg

COMMODITIES – GOLD PRICE FELL DOWN DURING THE WEEK, PRESSURED BY A STRONGER DOLLAR FOLLOWING HAWKISH POLICY SIGNALS FROM MAJOR CENTRAL BANKS

GOLD

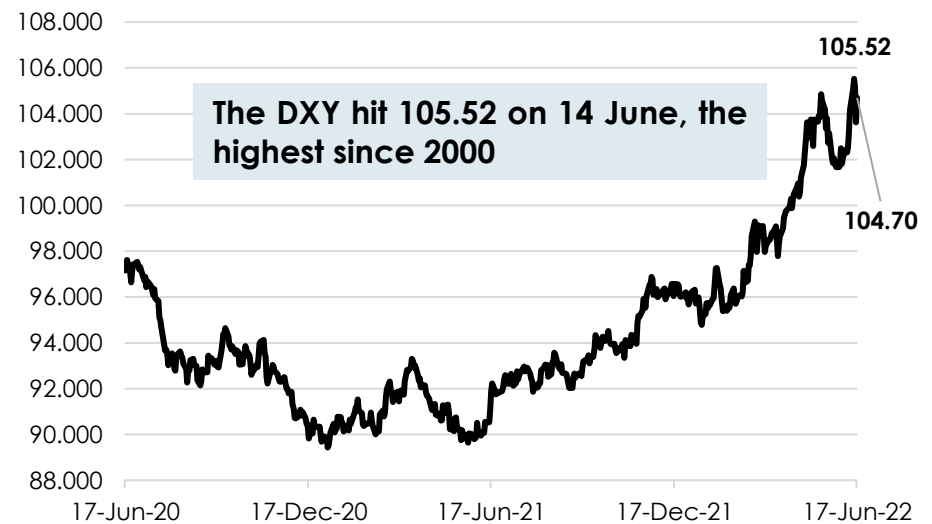
- ✓ Gold price slipped on Friday by 1.7% to USD1,839.39 per ounce after recording a 1.1% gain (10 June: USD1,871.60 per ounce) in the preceding week amid a stronger USD. The USD index rose by 0.5% to 104.70 (10 June: 104.15) during the week.
- ✓ The bullion gave in its gains during the week amid aggressive tightening measures from central banks around the world to contain surging inflation with the U.S. Fed delivered its biggest interest rate hike since 1994.
- ✓ Additionally, the Swiss National Bank (SNB) hiked its policy rate by 50 bps to -0.25% during its meeting on 16 June, the first increase since September 2007 to fight resurgent inflation (May: 2.9% vs. April: 2.5%). Similarly, the BoE followed the suit, raising its main rate by 25 bps to 1.25% last week.
- ✓ However, the price of precious metal could garner some support in the near term should the probability of a U.S. recession continue to rise.

Gold in USD per ounce



Source: Bloomberg

U.S. Dollar Index (DXY)



- ✓ During the week, the Fed Chairman Jerome Powell would be in the spotlight to testify in Congress amid its recent unexpected rate hike in the FOMC meeting. Other Fed officials such as Fed Bank of St Louis President James Bullard, Richmond Fed President Thomas Barkin, Chicago Fed President Charles Evans, as well as Philadelphia Fed President Patrick Harker are also due to make appearance this week. Their comments would be closely monitored as markets try to gauge the size of expected rate hike for Fed's upcoming July meeting.
- ✓ Elsewhere, flash of Purchasing Manager's Index (PMI) will be released for the U.S., the U.K., Eurozone, Japan and Australia that would offer the first look into worldwide economic conditions for the month of June. Recession worries are beginning to pick up as central banks around the world step up their fight to rein in soaring inflation. As such, the PMI readings would be watched to search any clues whether tighter monetary policy is chocking the economic growth.
- ✓ Other important data to be released during the week is inflation numbers from Hong Kong special administration region (SAR), the U.K., Canada, Singapore and Japan. Similarly, Department of Statistic Malaysia (DOSM) would be releasing CPI figure for the month of May on 24 June. We foresee the inflation is anticipated to increase slightly by 2.4% y-o-y in May from 2.3% seen in the previous month driven by higher food prices.
- ✓ Despite the aggressive rate hike by the U.S. to tame its high inflation, we are of the view that Bank Negara Malaysia (BNM) would not follow the suit since the dynamics of inflation between the two countries are different. **The rate hike would be in a gradual manner with anticipation of another increase between 25 bps to 50 bps during 2H2022.**
- ✓ All in all, the FBM KLCI is expected to linger between 1,400.0 points and 1,450.0 points during the week amid global market uncertainties. Subsequently, we also revised our **USD/MYR to RM4.28 by end of 2022 from RM4.15.**

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
17-May-22	396,502	62,011	65,799	1,569	247	13,776	26,334	2,123	35,080	6,335	3,893	7,944	46,040	5,936	1,469
18-May-22	643,943	65,965	68,163	1,829	327	44,901	33,734	2,664	31,327	19,589	5,633	9,389	123,352	43,727	2,017
19-May-22	652,172	84,737	53,717	2,364	318	30,927	41,527	6,442	28,113	19,104	6,305	8,261	129,162	29,995	2,124
20-May-22	629,686	90,656	44,332	2,259	250	30,722	38,812	4,578	25,105	17,618	6,463	7,618	146,692	22,962	2,063
21-May-22	551,625	86,063	39,964	2,323	263	26,818	39,001	4,342	23,462	15,963	5,377	6,801	109,592	20,933	2,024
22-May-22	533,281	84,865	13,751	2,226	227	24,246	34,957	3,775	19,298	15,143	4,739	5,795	149,743	22,507	1,814
23-May-22	397,819	79,754	6,902	2,022	174	18,289	31,262	2,827	9,944	5,975	4,099	4,998	35,981	16,965	1,544
24-May-22	350,015	66,477	47,094	1,675	345	10,021	22,916	2,751	26,326	4,971	4,144	5,983	44,554	1,134	1,918
25-May-22	554,557	82,613	46,667	2,124	315	31,860	29,522	5,727	23,937	17,083	5,013	7,293	109,989	32,029	2,430
26-May-22	588,479	89,607	35,166	2,628	246	22,999	34,869	4,167	18,799	14,154	4,924	6,668	133,199	22,004	1,845
27-May-22	521,507	82,120	8,275	2,710	224	22,636	31,542	3,936	16,584	13,010	4,837	6,277	153,591	20,595	1,877
28-May-22	476,285	94,753	32,534	2,685	279	20,051	28,335	3,830	14,382	11,618	4,488	5,733	112,878	4,811	1,645
29-May-22	567,508	81,043	10,583	2,828	242	18,622	24,919	3,323	12,654	11,900	3,649	5,370	147,714	15,638	1,155
30-May-22	355,533	76,727	6,402	2,706	218	15,136	20,828	2,551	6,124	5,042	3,854	4,973	35,608	16,382	1,325
31-May-22	309,669	60,201	46,819	2,338	340	7,846	18,686	2,389	17,171	4,598	3,955	5,663	35,224	4,673	1,451
1-Jun-22	475,792	80,809	51,468	2,745	368	24,687	19,982	4,985	15,797	14,955	4,563	7,095	53,835	33,084	1,809
2-Jun-22	596,872	88,425	44,705	3,712	304	18,822	22,513	3,577	9,878	13,264	2,560	7,076	156,639	26,068	1,877
3-Jun-22	539,901	77,134	42,338	4,041	372	17,718	20,961	3,745	12,510	13,432	2,976	6,992	137,631	25,365	1,844
4-Jun-22	500,378	76,786	39,261	3,962	395	9,692	19,271	3,233	12,048	12,421	3,001	6,178	106,966	22,626	1,591
5-Jun-22	474,802	68,350	12,734	4,270	388	22,809	-	2,879	9,835	11,871	3,236	6,608	134,000	10,776	1,358
6-Jun-22	329,752	62,264	7,011	4,518	342	15,522	32,757	2,256	5,022	4,843	2,162	7,465	42,119	20,542	1,330
7-Jun-22	257,163	53,254	9,235	3,714	518	8,616	11,351	2,162	6,134	4,352	2,224	9,778	39,582	6,184	1,128
8-Jun-22	526,270	83,172	70,816	5,233	520	28,547	15,519	4,477	13,343	13,665	2,688	11,701	97,045	9,703	1,518
9-Jun-22	667,297	80,429	81,726	7,240	556	22,925	18,275	3,602	12,150	14,137	3,185	11,335	148,291	53,705	1,887
10-Jun-22	642,489	73,344	70,934	7,584	627	23,534	17,201	3,431	9,315	13,185	2,836	11,718	167,810	40,151	2,166
11-Jun-22	563,643	68,663	64,791	8,329	574	22,012	15,790	-	8,428	11,720	2,501	11,212	108,712	43,085	3,875
12-Jun-22	528,588	80,020	19,260	8,582	551	22,458	14,684	6,097	7,382	10,253	2,474	10,686	140,164	17,152	1,571
13-Jun-22	284,281	51,100	12,022	8,084	591	19,310	13,128	2,503	3,818	3,779	1,801	9,868	23,770	23,852	2,092
14-Jun-22	305,796	45,459	85,647	6,594	930	10,668	10,204	2,389	9,766	2,721	1,833	11,879	27,498	8,474	1,922
15-Jun-22	653,701	66,651	90,717	8,822	1,242	39,844	14,030	5,130	9,419	-	2,263	12,701	114,807	65,425	2,320
16-Jun-22	627,398	69,470	66,789	12,213	1,173	32,809	16,555	3,906	7,982	-	2,153	11,803	160,790	51,885	2,033
17-Jun-22	548,134	63,761	16,684	12,847	1,220	37,068	15,802	3,120	7,198	-	1,967	8,227	138,833	53,081	2,130

Source: CEIC

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