WEEKLY ECONOMIC UPDATE

22 MAY 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: WEAKER-THAN-EXPECTED READING IN CHINA'S ECONOMIC INDICATORS

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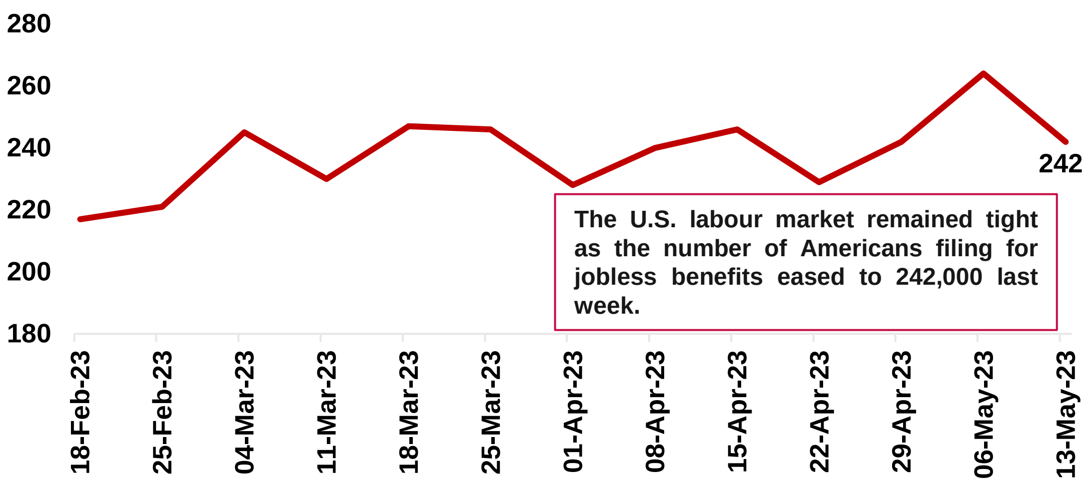
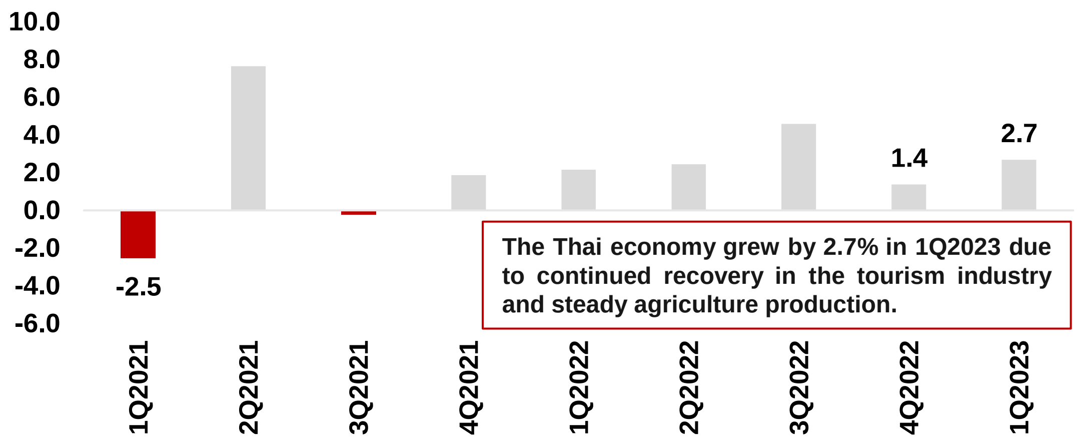
GLOBAL

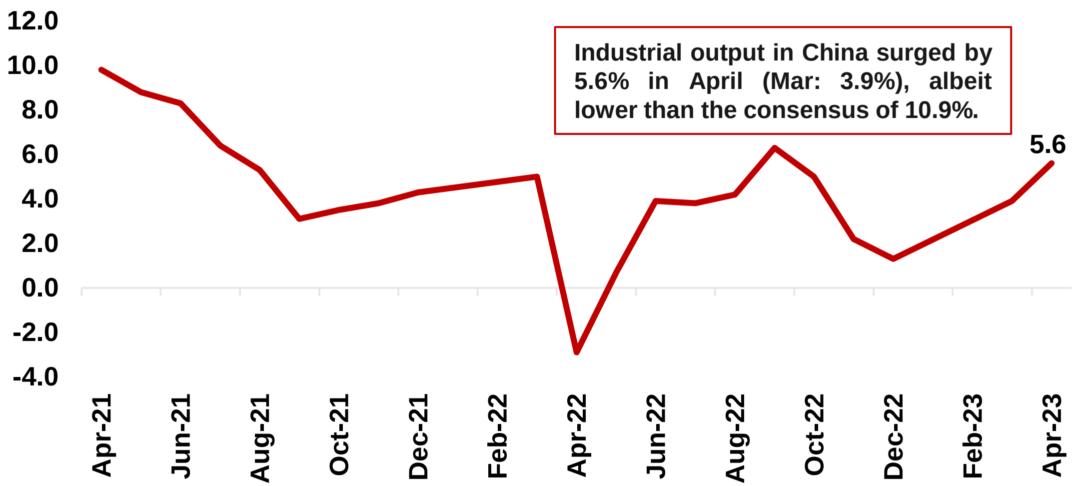
U.S. Weekly Initial Jobless Claims (IJC),'000



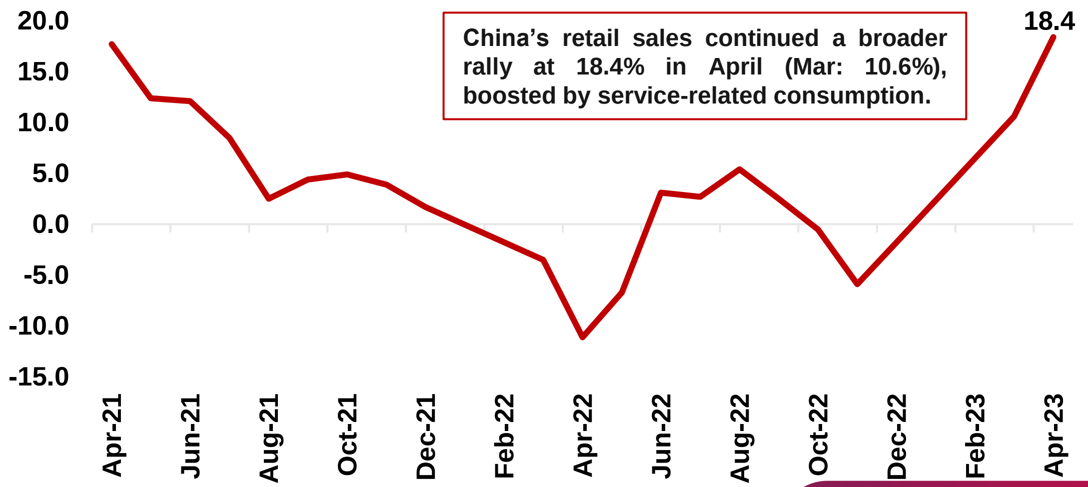
Thailand - Real Gross Domestic Product (GDP), y-o-y%



China - Value Added Industrial Output, y-o-y%



China - Retail Sales, y-o-y%



Sources: U.S. Department of Labour, Thailand Office of the National Economic and Social Development Council, China National Bureau of Statistics

REGIONAL EQUITY: MARKET MOSTLY ENDED ON A POSITIVE NOTE LED BY ASIAN STOCK MARKETS

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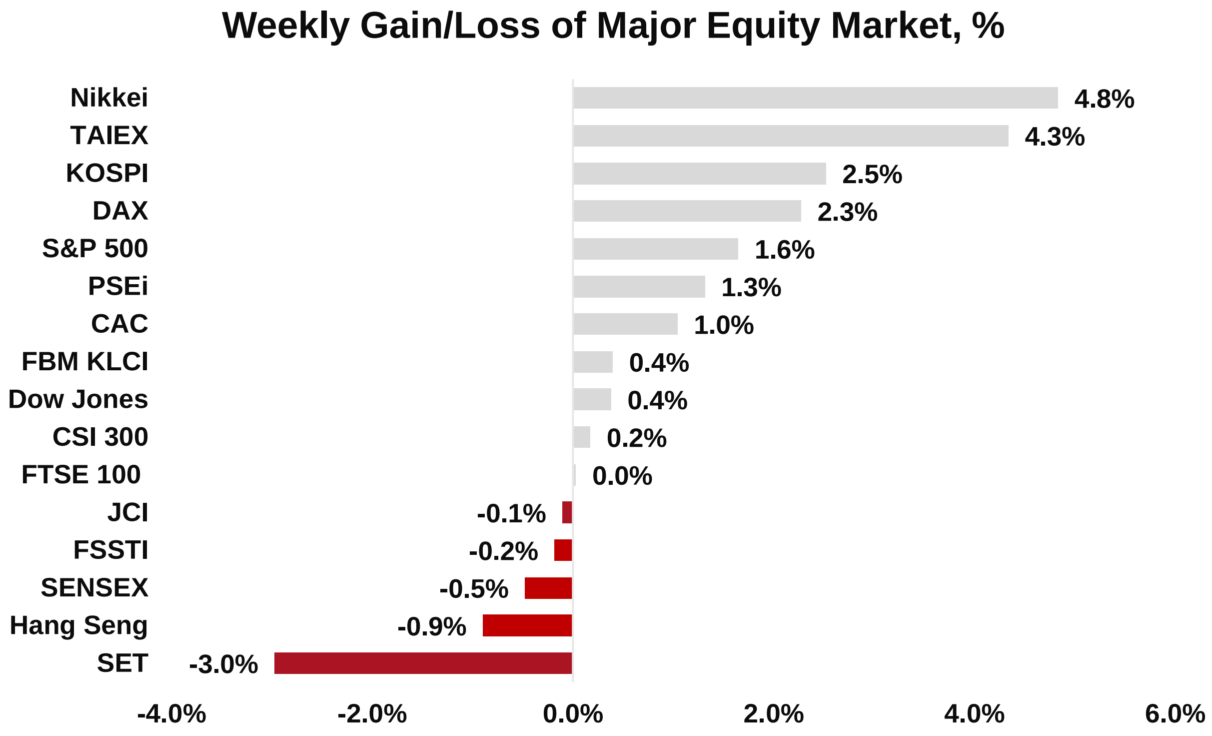
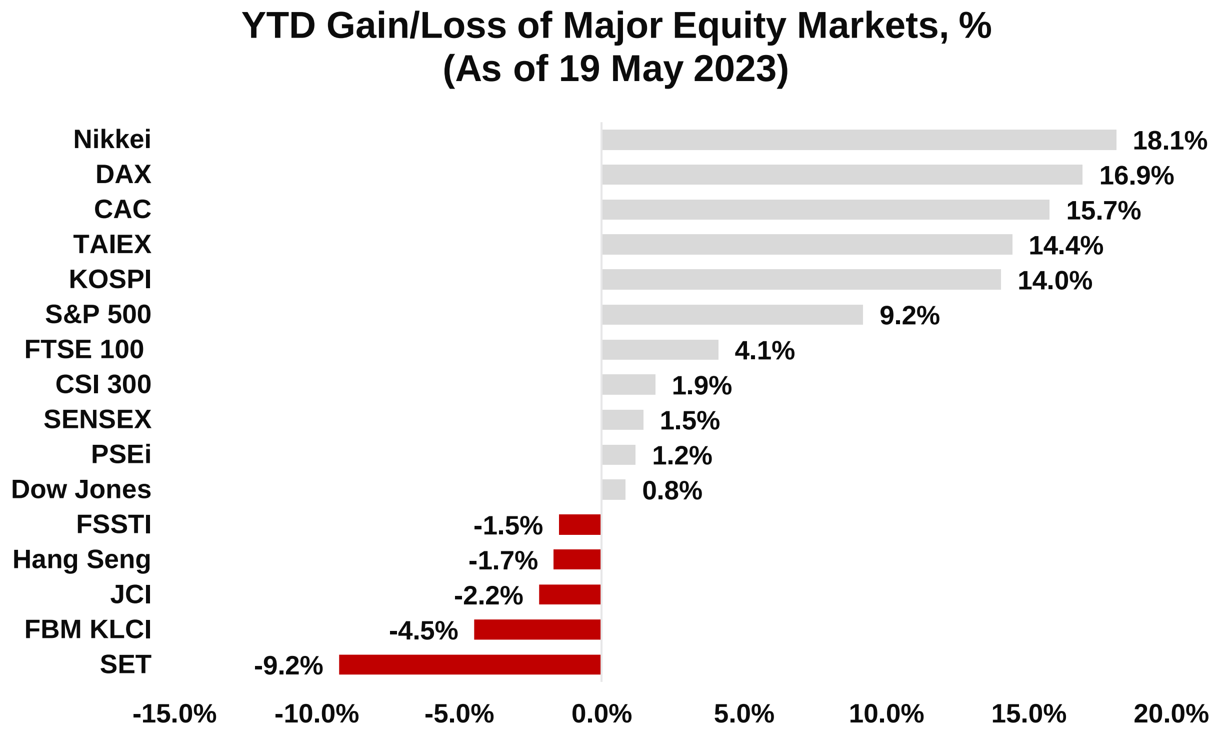
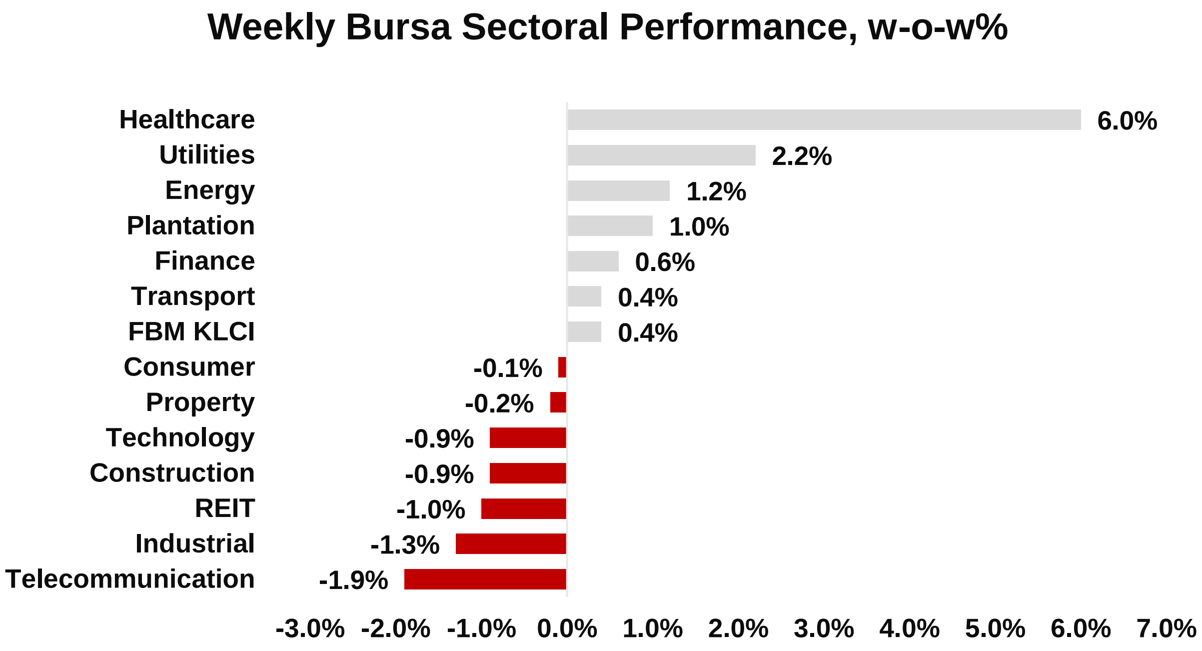


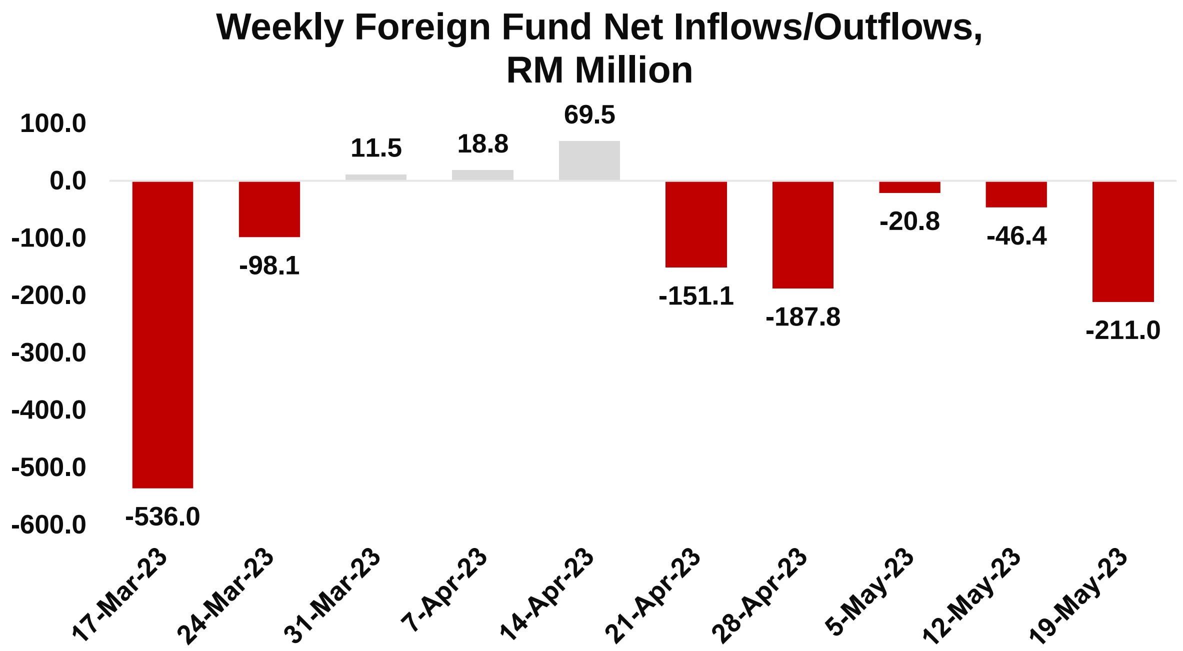


Sources: Bursa, CEIC

- Regional equity markets mostly ended on a positive note for the week ending 12 May. Japan’s Nikkei (4.8%), Taiwan’s TAIEX (4.3%) and Korea’s KOSPI (2.5%) were the major gainers last week.
- On the other hand, Thailand’s SET (-3.0%), Hong Kong’s Hang Seng (-0.9%) and India’s SENSEX (-0.5%) were the major losers.
- The regional equity market closed higher last week amid optimism over the U.S. debt ceiling talks.
- Nevertheless, concerns over a slowing economic recovery in China as Chinese consumer spending remained below forecast and hawkish chatters by the Fed kept gains limited.

DOMESTIC EQUITY: LOCAL MARKET CLOSED MIX, REFLECTING MARKET SENTIMENTS





Sources: Bursa, BNM

- Bursa sectoral indices closed mixed for the week ending on 19 May, with Healthcare surging by 6.0%, followed by Utilities (2.2%) and Energy (1.2%). Meanwhile, Telecommunication (-1.9%) and Industrial (-1.3%) ended the week as the biggest losers.
- The slow recovery was supported by retuning positive sentiments in the local market.
- The positive momentum of the Energy index emerged as Brent price floated higher in the past week, following reduced global oil supply.
- Although Malaysia's 1Q2023 GDP came in strong at 5.6%, marking the best 1Q performance since 2015, foreign investors continued their selling spree for the fifth consecutive week, with net outflows surging to RM 211.0 million.

FIXED INCOME: YIELDS LOOKED UP AMID RISING CAUTIOUS OPTIMISM OVER DEBT CEILING NEGOTIATIONS

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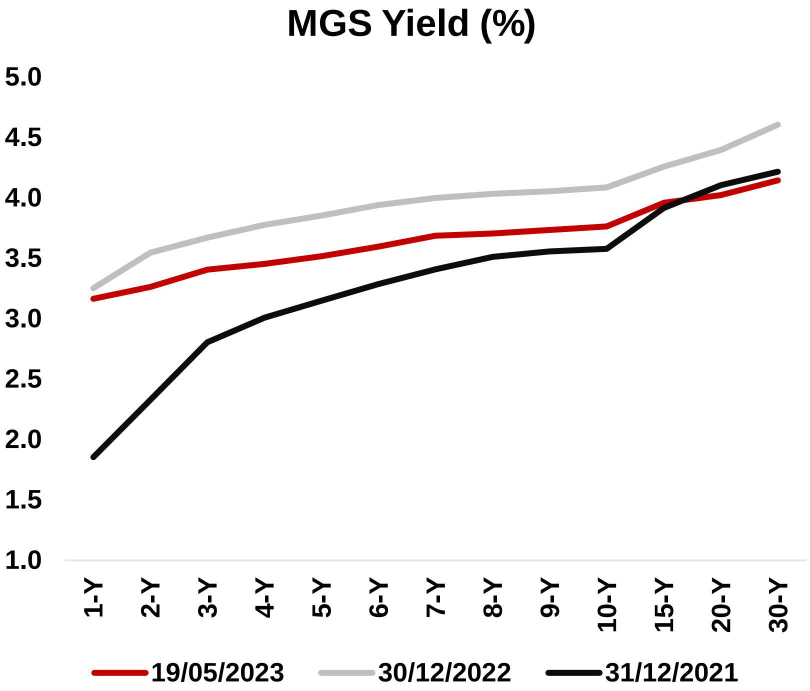
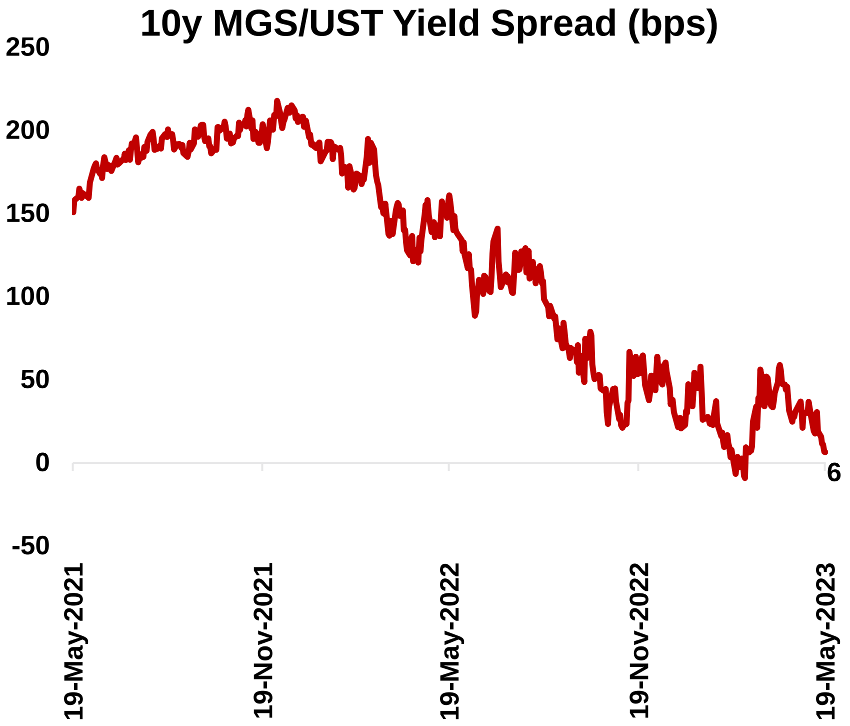
Weekly Changes, basis points (bps)

UST	Yields (%) 12-May-23	Yields (%) 19-May-23	Change (bps)
3-Y UST	3.65	3.98	33
5-Y UST	3.45	3.76	31
7-Y UST	3.45	3.74	29
10-Y UST	3.46	3.70	24
MGS	**Yields (%) 12-May-23**	**Yields (%) 19-May-23**	**Change (bps)**
3-Y MGS	3.35	3.41	6
5-Y MGS	3.45	3.52	6
7-Y MGS	3.60	3.69	9
10-Y MGS	3.65	3.76	12
GII	**Yields (%) 12-May-23**	**Yields (%) 19-May-23**	**Change (bps)**
3-Y GII	3.30	3.36	6
5-Y GII	3.51	3.56	5
7-Y GII	3.69	3.78	9
10-Y GII	3.77	3.85	8

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





- The U.S. Treasury yields (UST) yield curve was bearishly flattened with the shorter end of the yield curve shot up by 33bps relative to the longer end of the curve, which increased by 24bps. On the other hand, the belly of the curve rose between 29bps and 31bps.
- The bear flattening of the UST yield curve was driven mainly by a more optimistic tone surrounding the ongoing debt ceiling negotiations.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) were under selling pressure last week as investors were cautiously optimistic of debt ceiling situation and hawkish tone by the Federal Reserve (Fed) which highlighted that the U.S. inflation was not cooling fast enough.
- MGS yields curve bear steepened with yields rose between 6bps and 12bps. Meanwhile, GII yields increased in the range of 5bps and 9bps.
- The 10y MGS/UST yield spread narrowed further to 6bps, the lowest since 6 March, compared to 19bps last week.

FX MARKET: RINGGIT COULD BE UNDER PRESSURE THIS WEEK DUE TO THE GLOBAL OUTLOOK UNCERTAINTY

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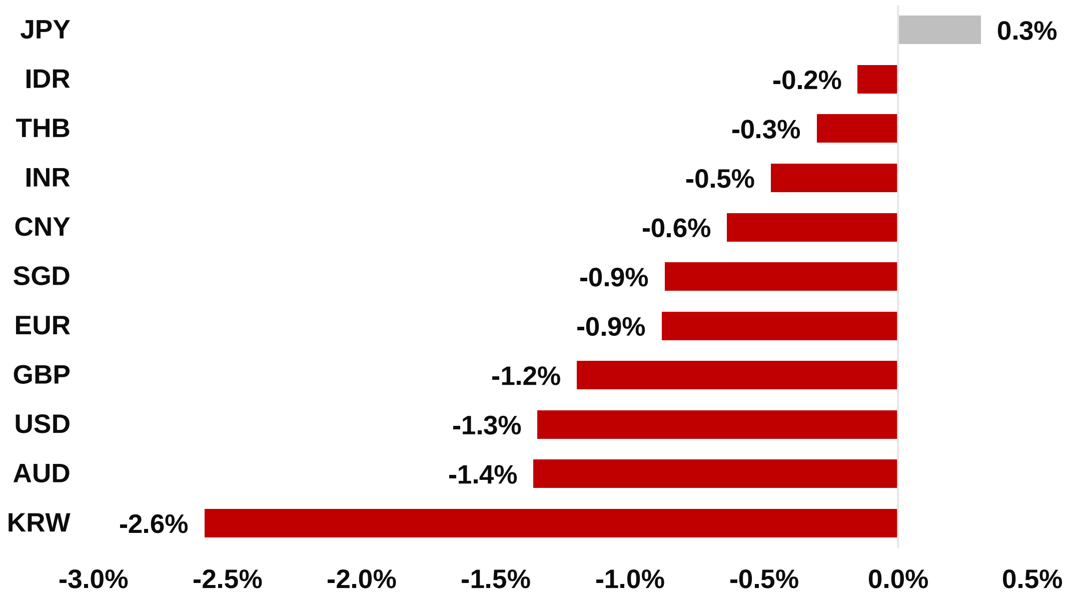

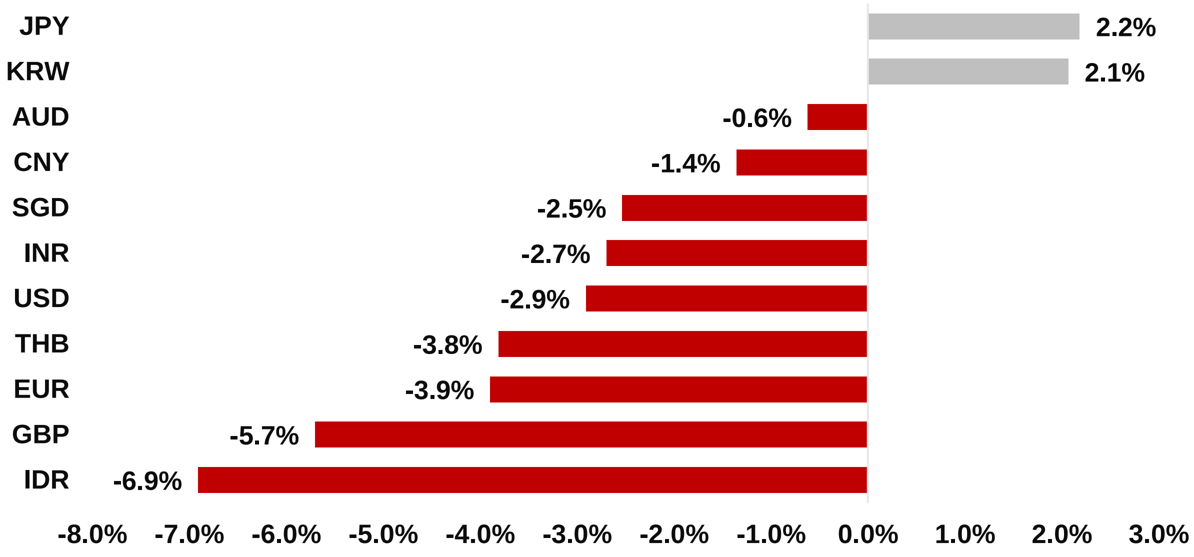

Source: Investing.com

- Again, the Ringgit extended its losses against the USD as the local note depreciated by 1.3% during the week following the external pressures, mostly from the U.S.
- The upbeat U.S. economic data reinforces the bets from the U.S. policymakers to raise the interest rates during its June meeting. It appears that more hawkish comments from the Fed officials could challenge anticipation for a June pause, which could be the main focus once the hype over the U.S. debt ceiling recedes. As of today, the CME Fedwatch is looking at a 90.8% probability of a rate pause in the upcoming mid-June meeting.
- While negotiations on a U.S. debt ceiling deal "appear" to be progressing, market participants would be cautiously monitoring such updates as it was inching closer to the deadline by next month.
- All in all, we foresee the Ringgit to trade against USD between RM4.54 to RM4.55 this week.

COMMODITY: BRENT PRICE ROSE DURING THE WEEK AMID ANTICIPATION OF TIGHTENING MARKET

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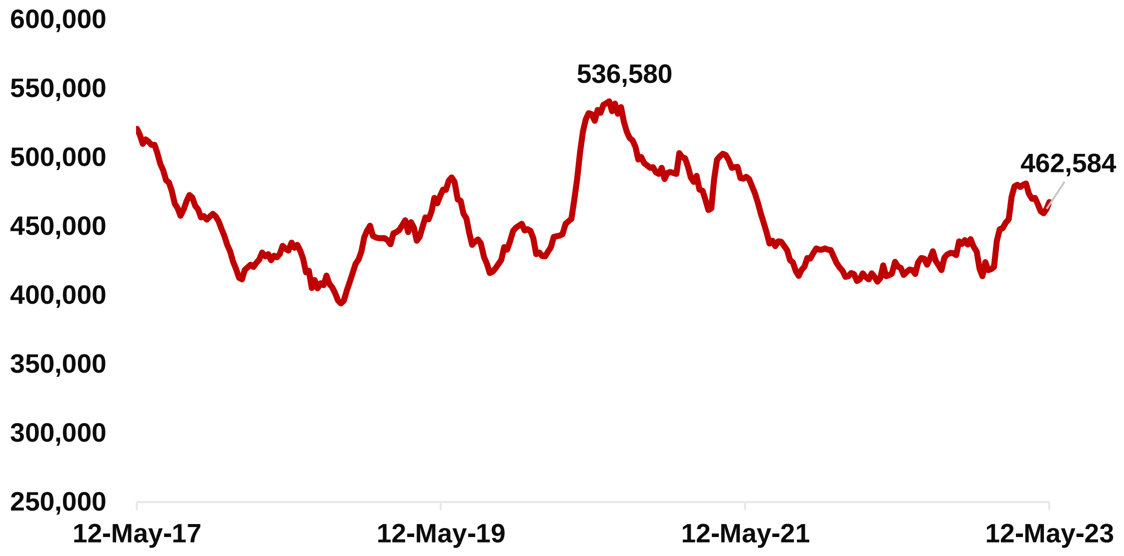
Brent Crude in USD per barrel

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



Sources: Bloomberg, Energy Information Administration (EIA)

- Price gains were limited, given continued concerns about the health of the U.S. economy and uneven economic recovery in China, whereby recent macroeconomic data disappointed the market. Also, the standstill negotiations over the U.S. debt ceiling affected the oil market.
- However, the drawdowns in the U.S. inventories supported oil prices, with the EIA showing 5.04 million per barrel during the week, the biggest weekly build since February. Additionally, EIA projected that the demand is expected to exceed 2.2 million barrels per day, with China accounting for a substantial part of it.

COMMODITY: THE GOLD PRICE WAS WEIGHED DOWN BY THE U.S. DEBT CEILING NEGOTIATIONS AND HAWKISH REMARKS FROM THE U.S. FED POLICYMAKERS

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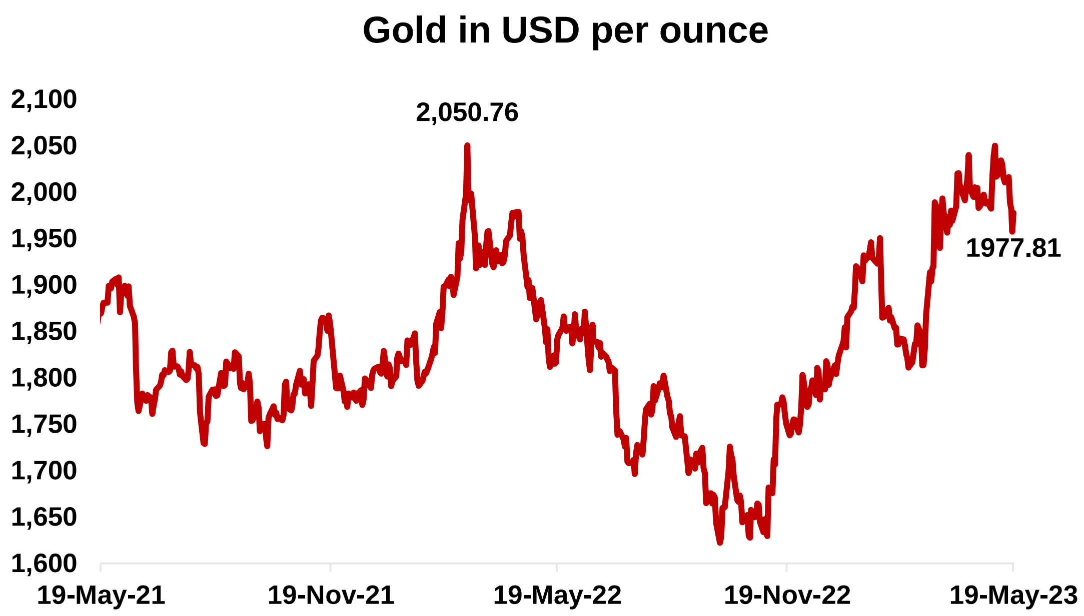

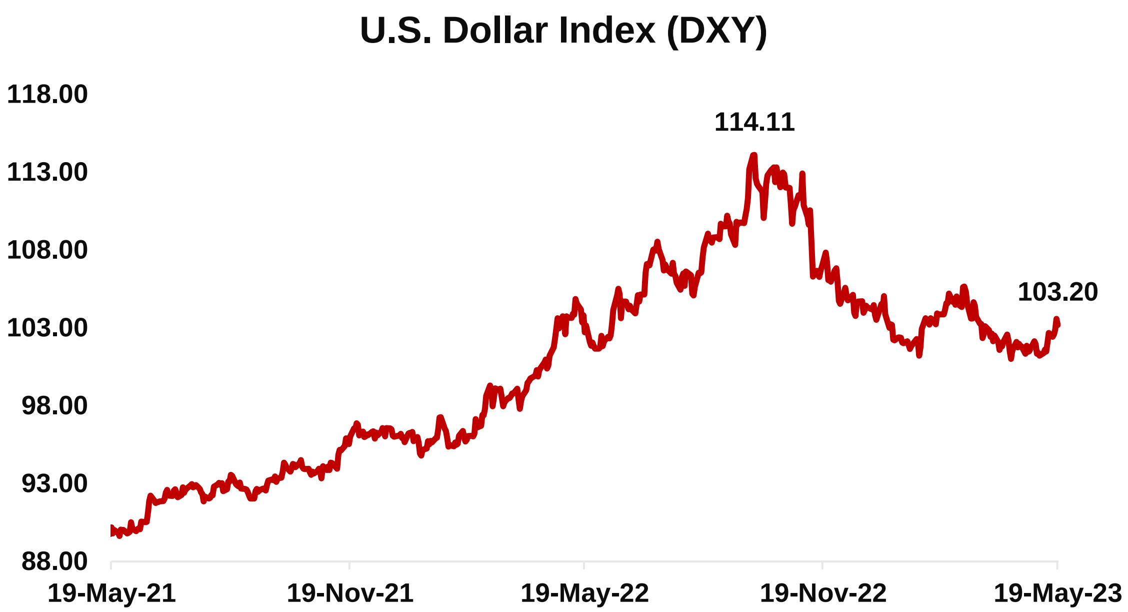

Sources: Bloomberg, Commodity Research Bureau

- There is a hope that U.S. President Joe Biden and House of Representative Speakers Kevin McCarthy will finalise the debt ceiling deal after the president's return from the Group of Seven meeting in Japan over the weekend. It is believed that the U.S. default could be everted, with McCarthy suggesting that a potential deal to raise the U.S. debt ceiling would come soon.
- Meanwhile, on the monetary policy front, some policymakers stated that the recent U.S. data inflation is not convincing enough to allow the central bank to pause its rate hikes, raising the odds for them to deliver another 25bps increase in the federal fund rate (FFR) during the next month's meeting.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- On the global front, U.S. debt ceiling talks will probably dominate sentiment in the coming week. Last Sunday, President Biden and Speaker Kevin McCarthy agreed to meet this week to jump-start conversation to avert a default on nations' debt. Last Friday, the negotiations between the White House and House Republicans had been paused over "serious differences", which sent financial markets to lower during the day, leaving some investors uneasy as a protracted standoff could roil the economy. Market participants would most likely watch the space as the statutory limit on the government's power to borrow to pay its obligations is anticipated to reach as soon as 1 June. We believe it will sail through, but a strong fight from the Republicans.

- With pause speculation escalating for the U.S. Fed, the May FOMC minutes and the personal consumption expenditure (PCE) inflation figure will be eyed closely this week. Thus far, the country's economic indicators are somewhat mixed, yet, the underlying strength seems to be holding up even with the cumulative 500bps rate hikes and mini-banking crisis. Last Friday, Jerome Powell stated that the recent credit stress in the banking sector could mean that interest rates might not have to rise as far as anticipated to curb inflation. Regarding the decision in the upcoming meeting, the move has yet to be made as incoming data will continue deciding the fate of monetary policy.

- Elsewhere, policy rate decisions which are due this week include those from Bank Indonesia (BI), Bank of Korea (BoK), as well as Reserve Bank of New Zealand (RBNZ). BoK will likely sustain the base interest rate at 3.5%, the third straight pause rate hike following waning inflation and a sluggish economy. Likewise, BI will follow suit in its next rate-setting this Thursday, maintaining at 5.75%. In contrast, RBNZ is widely tipped to hike by 25bps, making the twelfth consecutive increase since the cycle began last October, bringing the cash rate to 5.50%.

- Following the recent 1Q2023 GDP announcement, our latest growth print surpassed a few of our regional neighbours, such as Indonesia (5.03%), Vietnam (3.2%), China (4.5%) and Singapore (0.1%). Looking from a quarter-on-quarter seasonally-adjusted basis, the economy expanded by 0.9% as compared to a contraction of 1.7% in the previous quarter. BNM foresaw the need to normalise the OPR amid robust growth hence, the 25bps point hike. Despite that, the latest performance could also signal that the economy has detached itself from the booster effect of special measures undertaken during the Covid-19 pandemic. Undoubtedly, 2H2023 will remain challenging as we believe the upcoming quarters' growth will come in lower. Thus, we suspect many policies, including the rumoured subsidy rationalisation in 2H2023, will continue to support growth until the end of 2023.

THANK YOU