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WEEKLY ECONOMIC UPDATE

23 OCTOBER 2023

ECONOMIC RESEARCH

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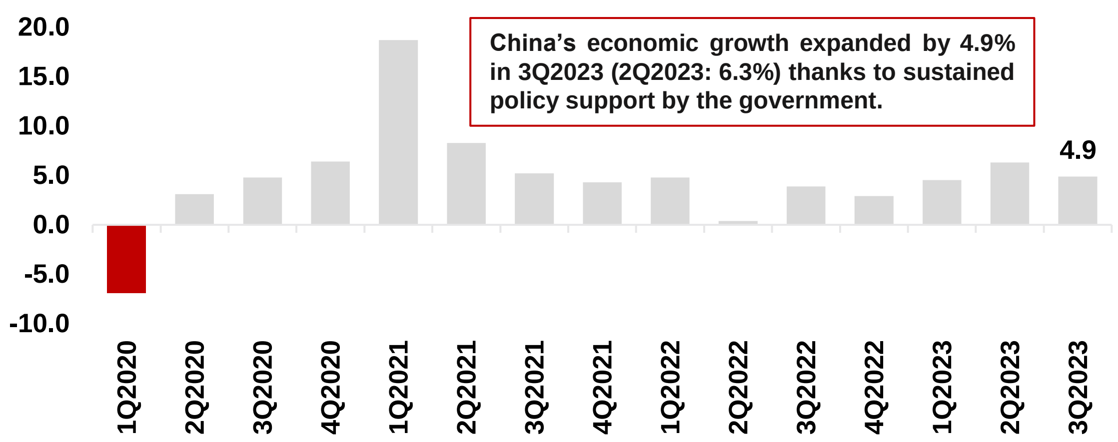
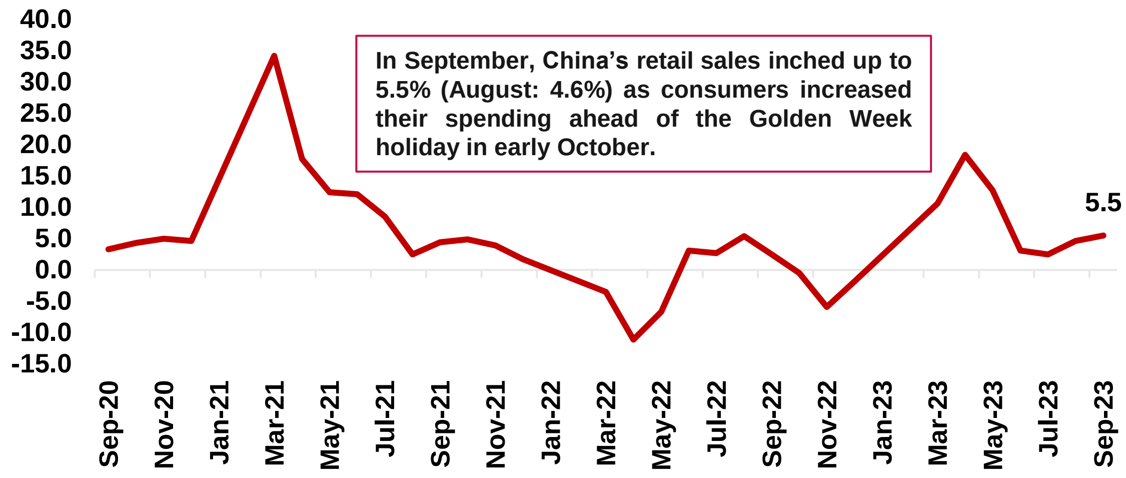
WEEKLY HIGHLIGHT: MALAYSIA'S EXPORTS REMAINED IN NEGATIVE TERRITORY FOR SEVEN CONSECUTIVE MONTHS

GLOBAL

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

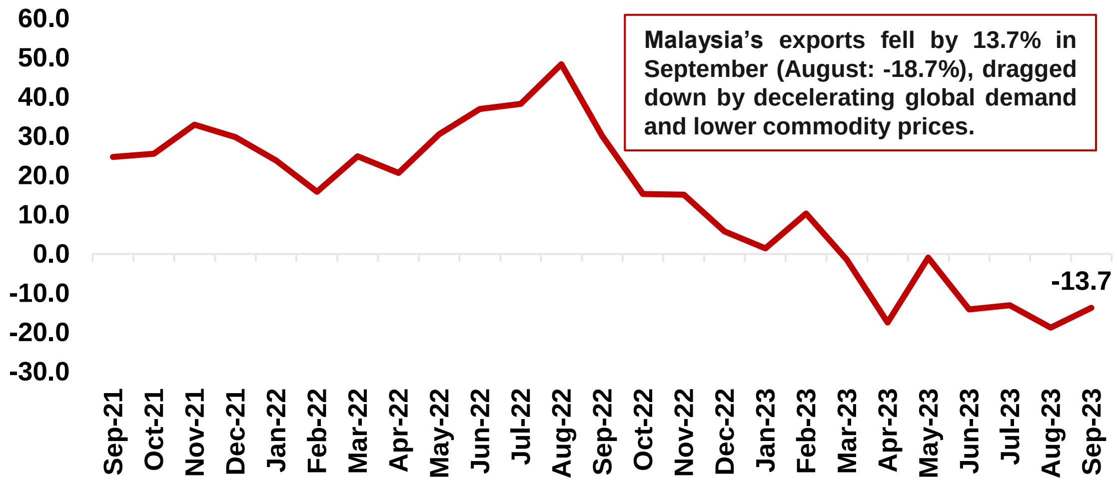


China - Retail Sales, y-o-y%

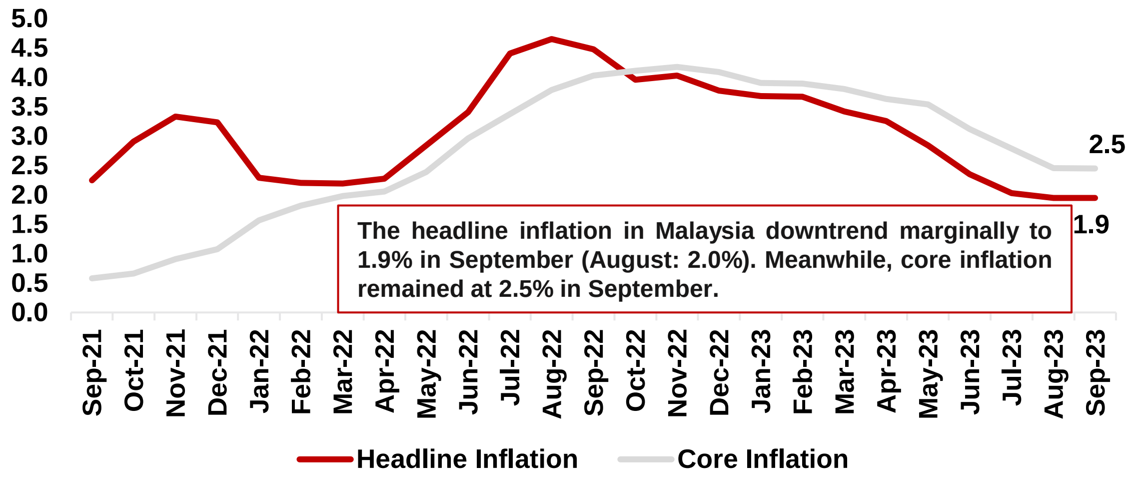


DOMESTIC

Malaysia - Exports, y-o-y%



Malaysia – Consumer Price Index (CPI), y-o-y%



Sources: China's National Bureau of Statistics, Department of Statistics Malaysia (DOSM)

REGIONAL EQUITY: A RED WEEK FOR GLOBAL STOCKS MARKET AMID HEIGHTENED RISK AVERSION AMONG INVESTORS

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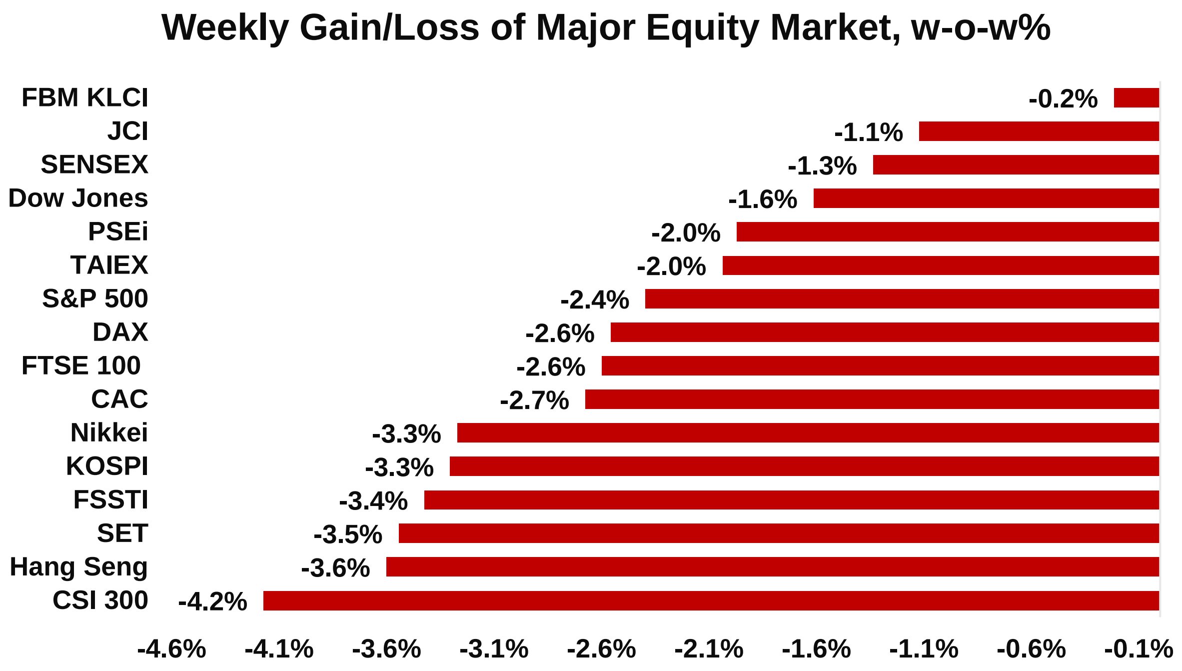

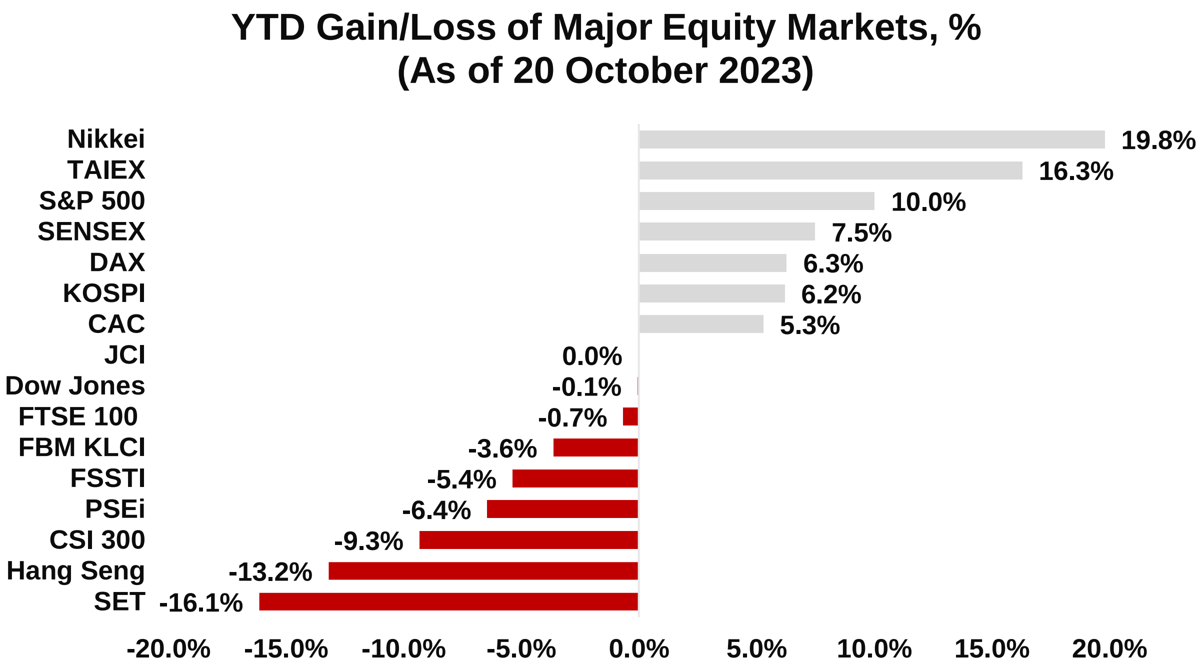

Sources: Bursa, CEIC Data

- All regional benchmark indices slumped into the negative territory for the week ending October 20, with China's CSI 300 (-4.2%) and Hong Kong's Hang Seng (-3.6%) suffering the biggest losses amid the rising concerns about the looming default by Country Garden Holdings and about the tightened U.S. tech curbs on Chinese companies.
- The global stock market was down last week as investors grappled with worries over the outlook of U.S. interest rates. The U.S. Federal Reserve (Fed) Chair, Jerome Powell, in a recent statement at an event by the Economic Club of New York, reiterated that the U.S. inflation remained too high, the U.S. economy and labour market are still robust, which may lead to another interest rates hike.
- Additionally, the rising U.S. Treasury (UST) bond yields and the escalation of the Israel-Hamas war have led investors to migrate to bonds from stocks.

DOMESTIC EQUITY: LOCAL STOCKS ENDED IN THE RED SEA, REFLECTING REGIONAL SENTIMENTS

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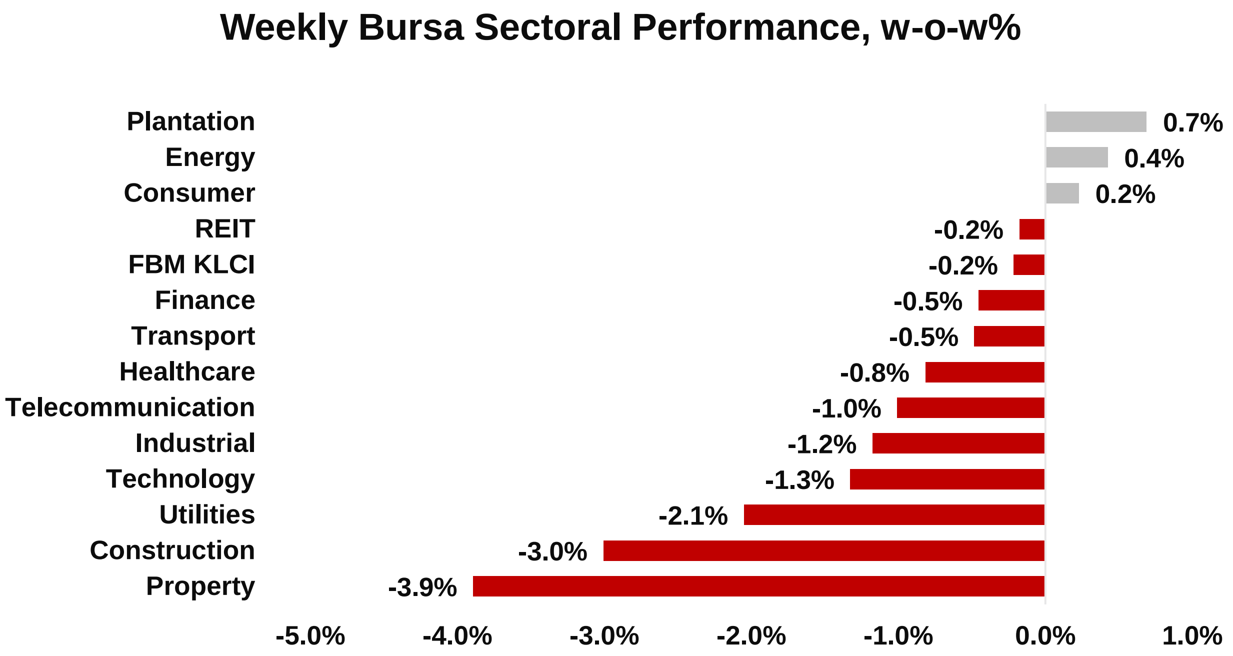

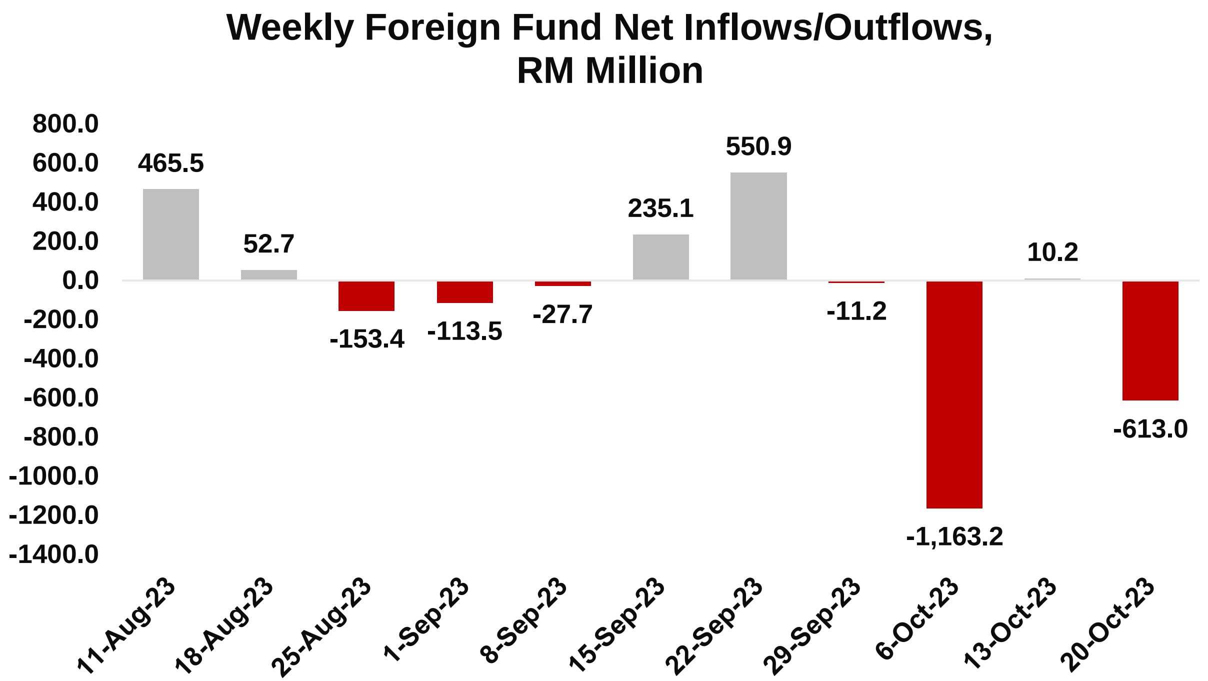

Sources: Bursa, Bank Negara Malaysia (BNM), CEIC Data

- Most Bursa sectoral indices retreated into negative territory for the week ending October 20. The Property index fell by the largest margin (-3.9%), followed by Construction (-3.0%) and Utilities (-2.1%).
- Such performance was affected by the concerns surrounding external developments, including the ongoing property woes in China and the conflict in Gaza. The lack of growth catalysts in the Budget 2024 announcement is not helping these flagging sectors as well.
- Leading the gainers was the Plantation index (+0.7%) amid higher crude palm oil prices at RM3,753.50 per Metric Tonne (MT) (13 October: RM3,632.50 per MT). The Energy and Consumer indices also recorded gains of +0.4% and +0.2%, respectively.
- Foreign investors turned net sellers last week, selling off every day to record a total outflow of RM613.0 million. The cumulative total net outflow this year thus far came in at RM3.73 billion.

FIXED INCOME: UST YIELDS ROSE CLOSE TO 5.00%, UST-MGS YIELD SPREAD WIDENED IN THE NEGATIVE TERRITORY

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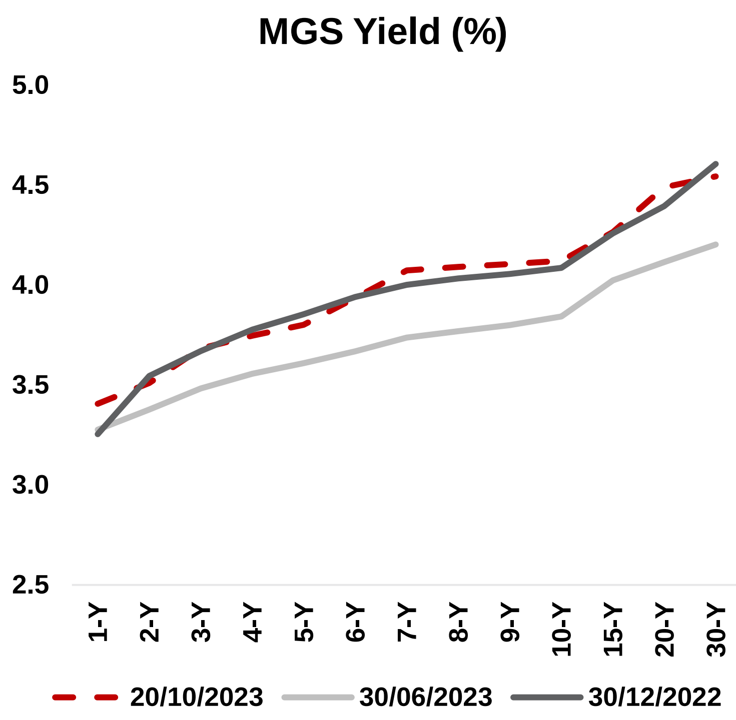
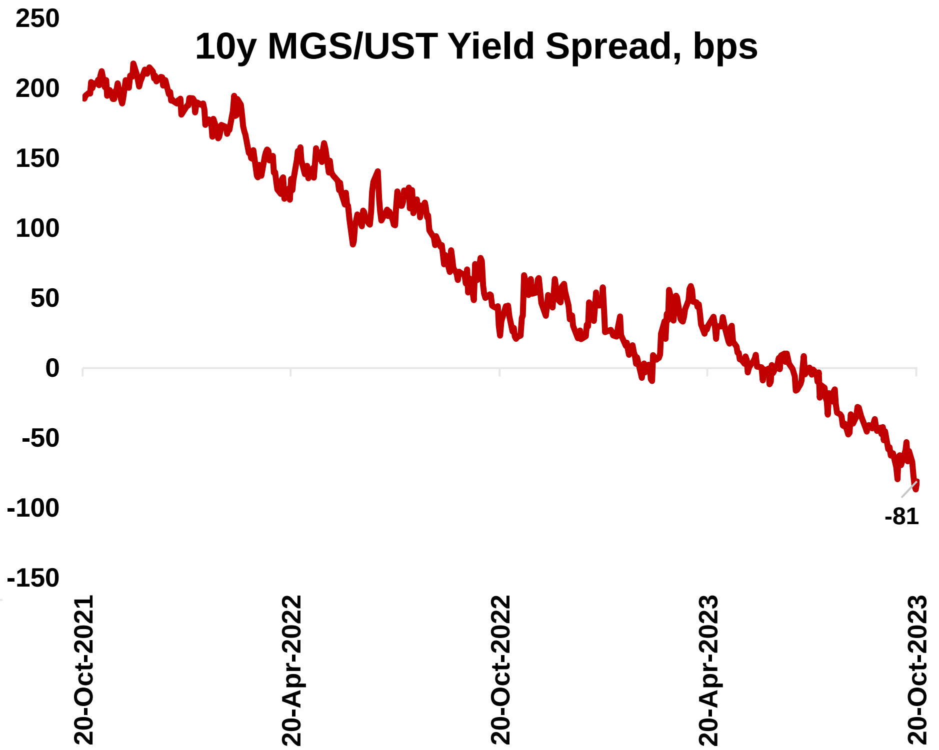
Weekly Changes, basis points (bps)

UST	Yields (%) 13-Oct-23	Yields (%) 20-Oct-23	Change (bps)
3-Y UST	4.80	4.93	13
5-Y UST	4.65	4.86	21
7-Y UST	4.66	4.93	27
10-Y UST	4.63	4.93	30
MGS	**Yields (%) 13-Oct-23**	**Yields (%) 20-Oct-23**	**Change (bps)**
3-Y MGS	3.62	3.68	6
5-Y MGS	3.73	3.80	8
7-Y MGS	3.93	4.07	14
10-Y MGS	4.04	4.12	8
GII	**Yields (%) 13-Oct-23**	**Yields (%) 20-Oct-23**	**Change (bps)**
3-Y GII	3.65	3.69	4
5-Y GII	3.79	3.85	6
7-Y GII	3.96	4.06	10
10-Y GII	4.07	4.12	5

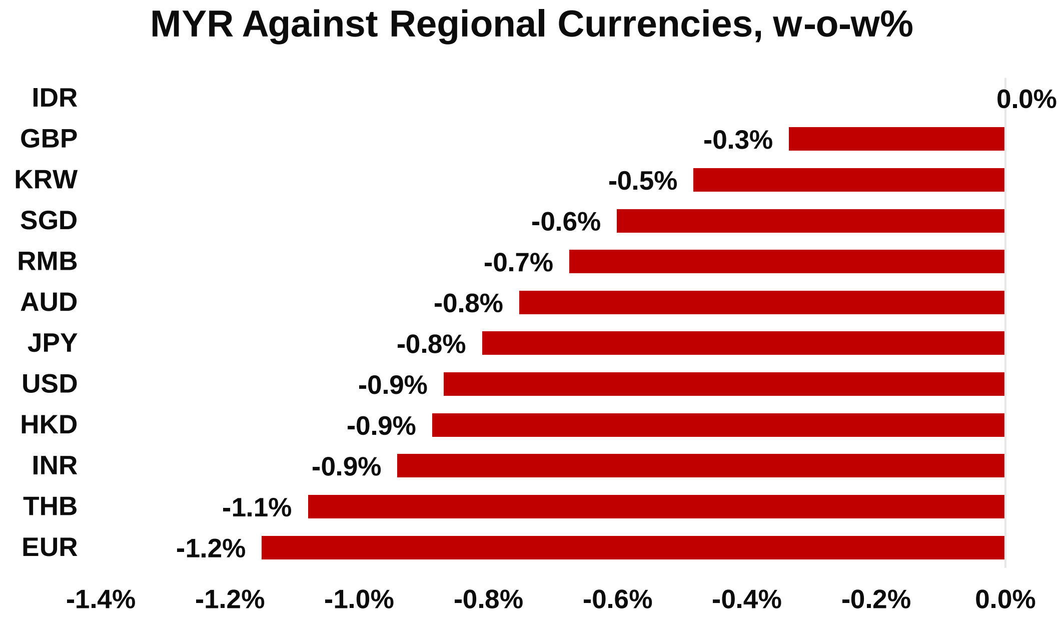
Sources: BNM, Federal Reserve Board

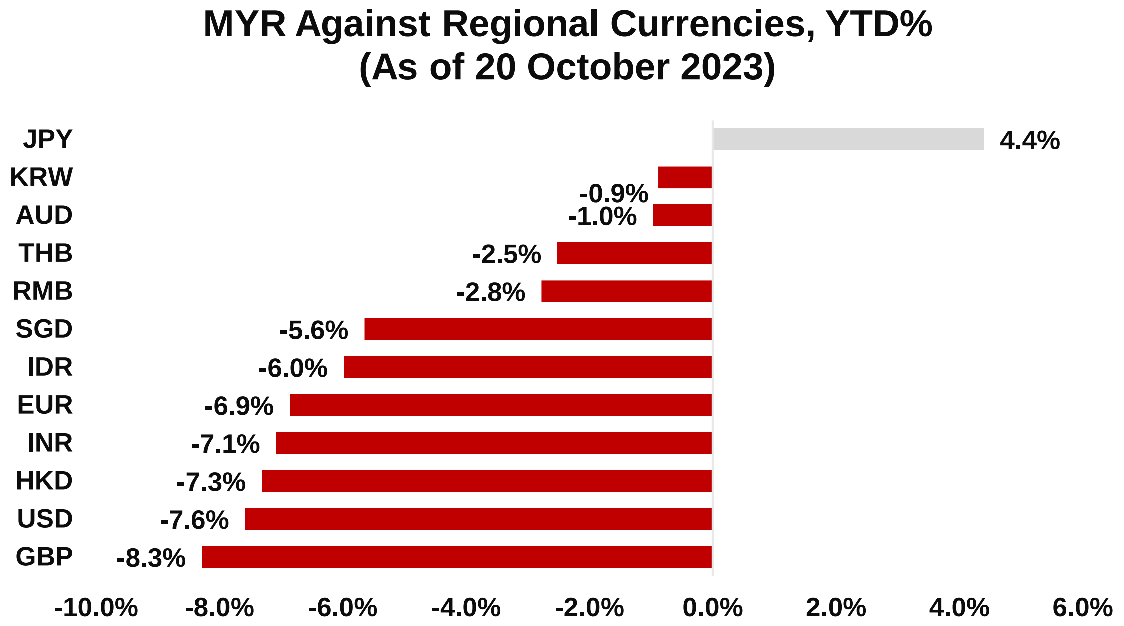




- The UST yield curve bearishly steepened, with yields surging in the range of 13bps and 30bps amid the higher-for-longer rhetoric by the Fed to firefight inflationary pressure and concerns over U.S. fiscal which ran a USD1.7 trillion deficit in the fiscal year 2023. The 10-Y UST yields inched closer to 5.00% on Thursday at 4.98%, the first time since 2007, making the bonds more enticing for yield-seeking investors.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended weaker, with MGS yields rising between 6bps and 14bps while GII yields ticked higher by between 4bps and 10bps.
- Meanwhile, the 10y MGS/UST yield spread widened to -81bps relative to -59bps in the previous week. Consequently, foreign flows in the local market are expected to remain volatile as investors are reaping the benefits of higher UST yields.

FX MARKET: RINGGIT REMAINS UNDER PRESSURE FOLLOWING EXTERNAL VOLATILE MARKET





Source: BNM

- Ringgit continued to depreciate against the USD, closing at RM4.7750 for the week ending October 20, making it the second-worst performance after Yen Japanese amidst the heightened Middle East tension, which prompted a flight to a haven.
- Additionally, the 10-year UST yield rose to 5.0% during the week, signaling that the inflation is relatively high, requiring the U.S. Fed to combat the inflationary pressures. Such a situation is supported by Fed Chairman Powell's remarks that the central bank will remain cautious about its monetary policy-setting decision amid the higher-for-longer FFR outlook.
- Apart from that, the stronger-than-expected China's 3Q2023 y-o-y GDP growth (Act: 4.9% vs. 4.4%) seems did not lift the outlook for the local note. Likewise, the country's inflation continued to decelerate to 1.9% in September, and the 3Q2023 GDP growth estimation came in at 3.3%, according to the DOSM release.
- We believe that the local note will continue to be under pressure amid rate and yield differentials, and more so in anticipation of the upcoming FOMC meeting, scheduled on the 30 October-1 November 2023.

COMMODITY: OIL PRICES RECORDED SECOND WEEKLY GAIN DUE TO SUPPLY CONCERN AMID RISING MIDDLE EAST TENSION

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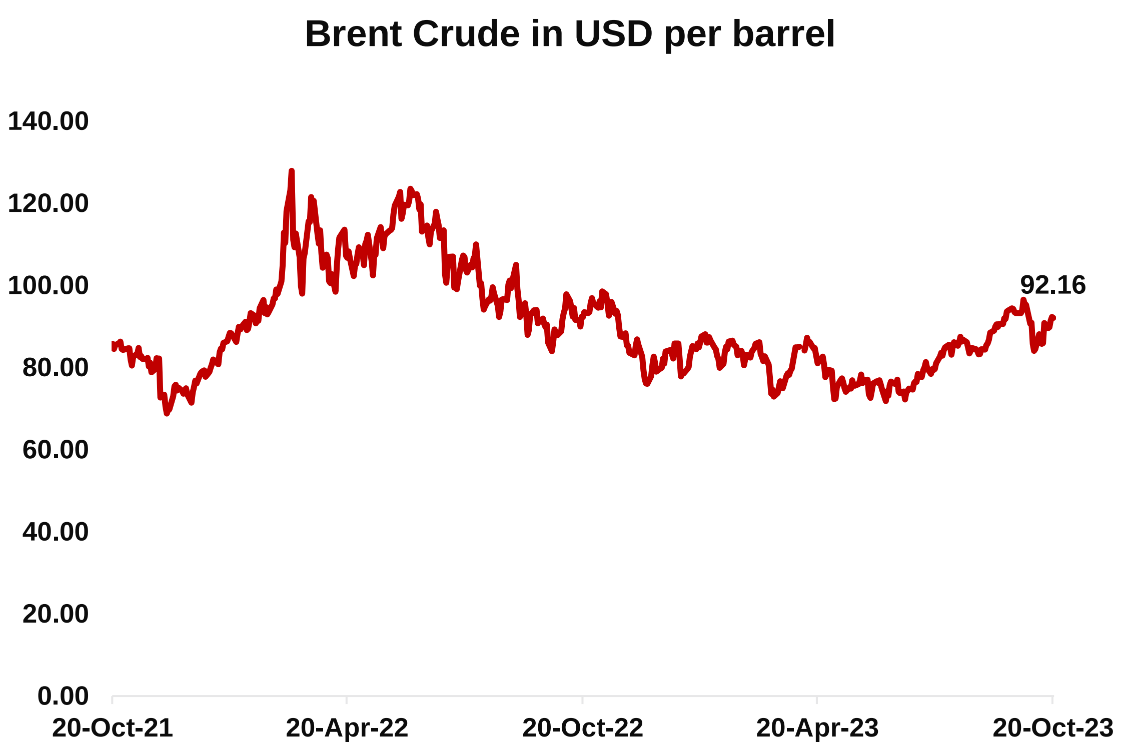

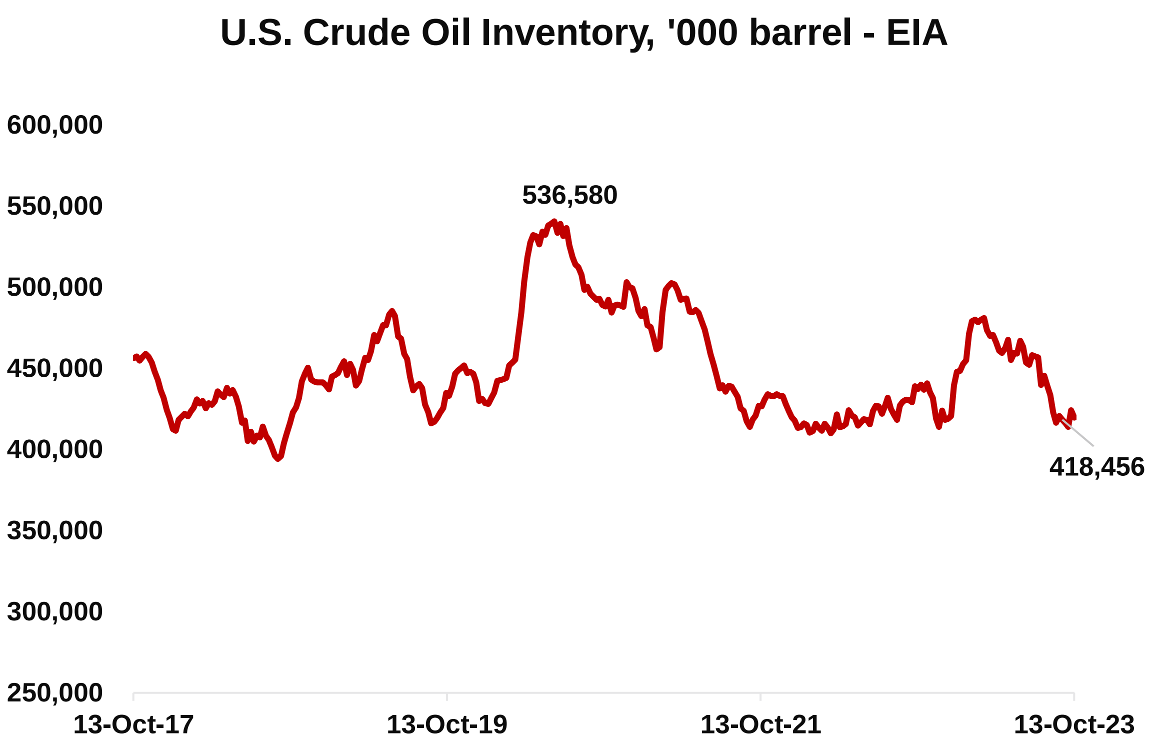

Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price settled above USD90.0 per barrel last week following the escalating Israel-Hamas conflict that could spill over to other parts of the Middle East. Apart from that, the oil price has been supported by the expectations of a wider oil market deficit in 4Q, followed by the extended supply cuts from heavyweight producers, Saudi Arabia and Russia, to the end of the year.
- Elsewhere, the U.S. seeks to buy 6.0 million barrels of crude oil for delivery in December and January, aiming to refill the emergency stockpile.

COMMODITY: GOLD PRICE TRENDED UPWARDS TO SCORE A FIVE-MONTH HIGH

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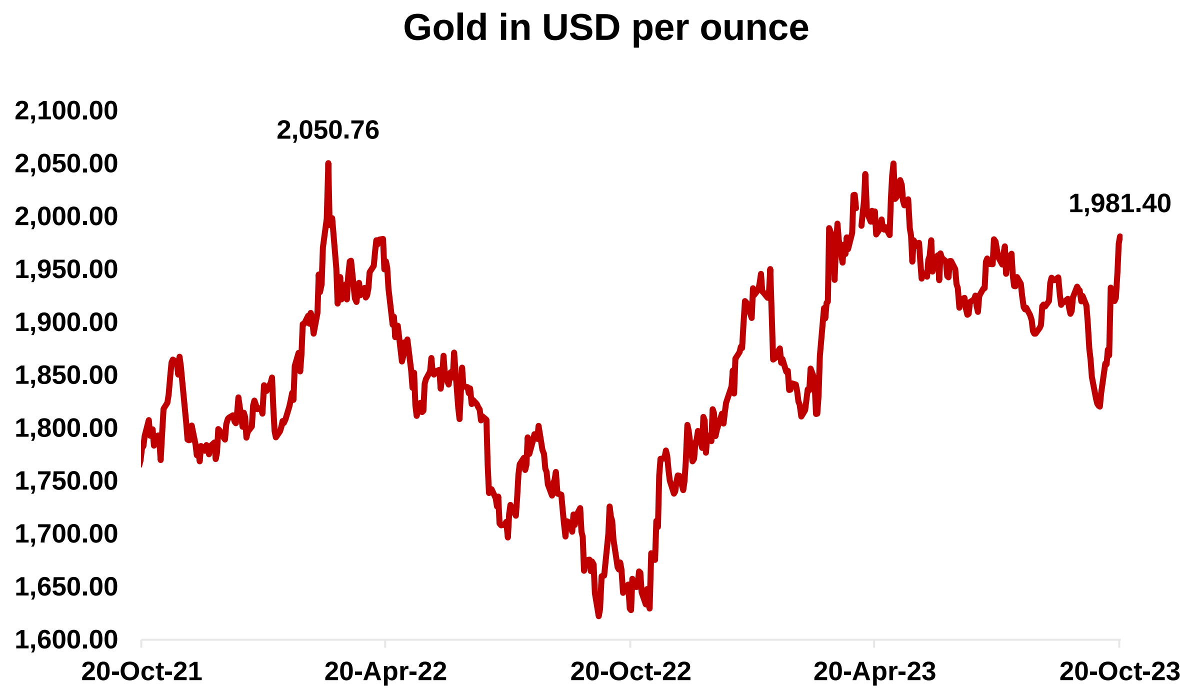

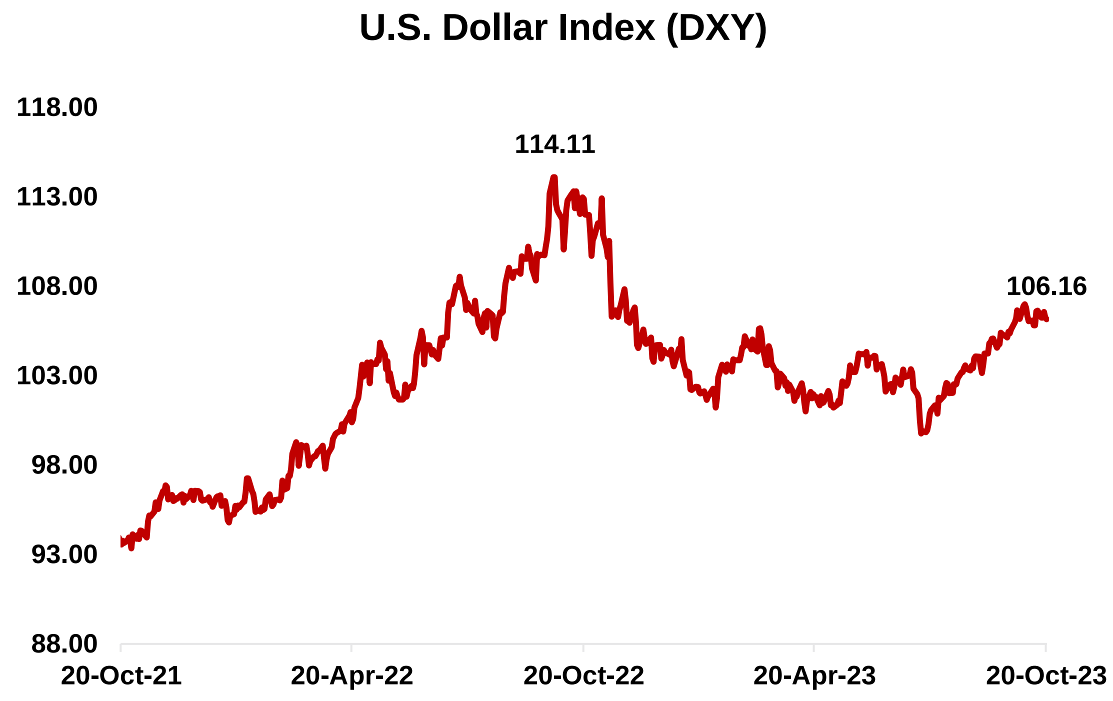

Sources: Bloomberg, Commodity Research Bureau

- Investors continued their flight to safe-haven assets amid the escalating Gaza conflict, pushing the bullion price to breach the highest level since mid-May.
- On the flip side, the greenback withdrew slightly from recent highs amid Powell’s recent speech, highlighting that the Fed remains attentive to incoming market data to decide on the appropriate policy decision.
- Of note, Powell remarked on the latest inflation data being far above the target and the still tight job market. The initial jobless claims fell to 198K for the week ending October 20 (7 October: 211K), the lowest reading since January.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- The advance estimate of U.S. GDP for 3Q2023 will be reported with consensus pointing to stronger growth as the latest stream of economic data indicate continued strength in consumer demand, driven by a tight labour market. The. The U.S. economy expanded at an annualised rate of 2.1% in 2Q2023, marginally slower than the 2.2% recorded in 1Q2023. Given the ongoing resilience in consumer spending and the potential spillovers from rising energy prices, the deceleration in core personal consumption expenditure deflator – the Fed's preferred inflation gauge – will likely be slower in September (August: 3.9% vs. July: 4.3%). These data will be among the last data points ahead of the upcoming Federal Open Market Committee (FOMC) meeting on October 31-November 1, where investors currently price in a near certainty of another rate pause.

- The European Central Bank (ECB) is widely expected to stand pat on interest rates when the policymakers meet this week. The ECB has signalled that its rate hike in September, which took the main refinancing operations rate to a 22-year high of 4.50%, will likely be the final hike of the cycle amid the moderating inflation and the broadly stagnant economy. The upcoming meeting will be closely watched for clues regarding the future path of interest rates. The ECB will likely reiterate the need for keeping interest rates high for an extended period given the still above target Inflation.

- South Korea's 3Q2023 GDP report, also due this week, will likely show a modest pace of growth (2Q2023: 0.9%). While summer holidays and easing inflation would help support consumer spending, trade data suggested weaker net exports given the slowing of China's economy and the ongoing semiconductor downcycle. In the latest outlook by the Bank of Korea (BoK), Korea's GDP is projected to moderate to 1.4% in 2023 from 2.2% recorded in 2022.

- On the domestic front, DOSM published its inaugural advance estimate 3Q2023 GDP (by production approach) report last Friday, denoting that the Malaysian economy expanded by 3.3% y-o-y. It was higher than the 2.9% y-o-y 2Q2023 performance, driven by higher services and agriculture output while others contracted. DOSM is scheduled to release the producer price index (PPI) for September, the leading index (LI), and the coincident index (CI) for August. Malaysia's PPI deflation is expected to ease amid rising crude oil prices in September. The PPI has been in negative territory since February 2023 and was -1.8% in August. Meanwhile, the LI has declined since March 2023, recording a fall of 0.8% in July.

THANK YOU