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WEEKLY ECONOMIC UPDATE

24 JULY 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: MALAYSIA’S TOTAL TRADE SLIPPED DESPITE THE TRADE SURPLUS

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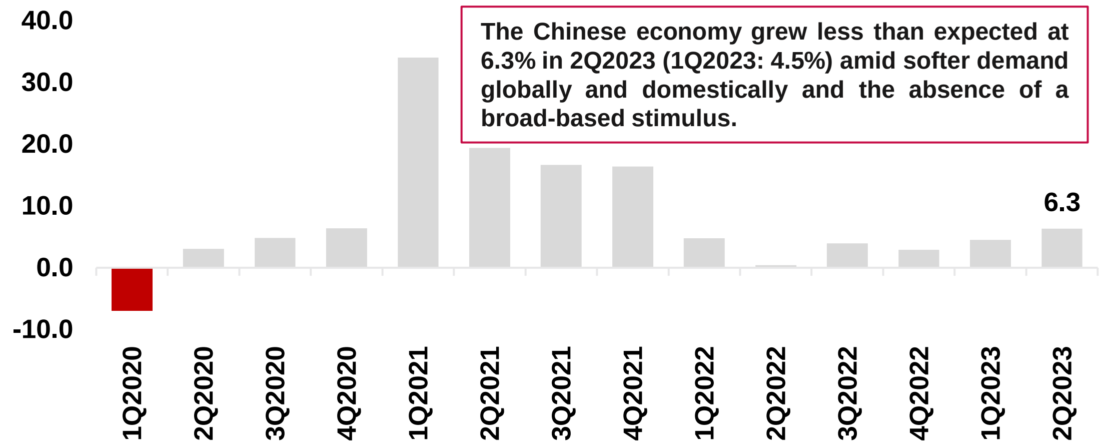
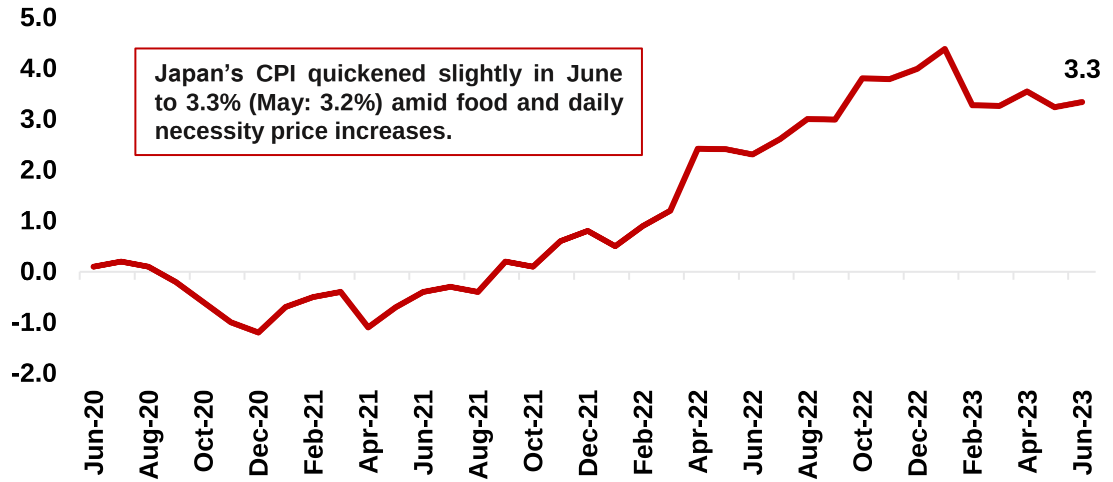
GLOBAL

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

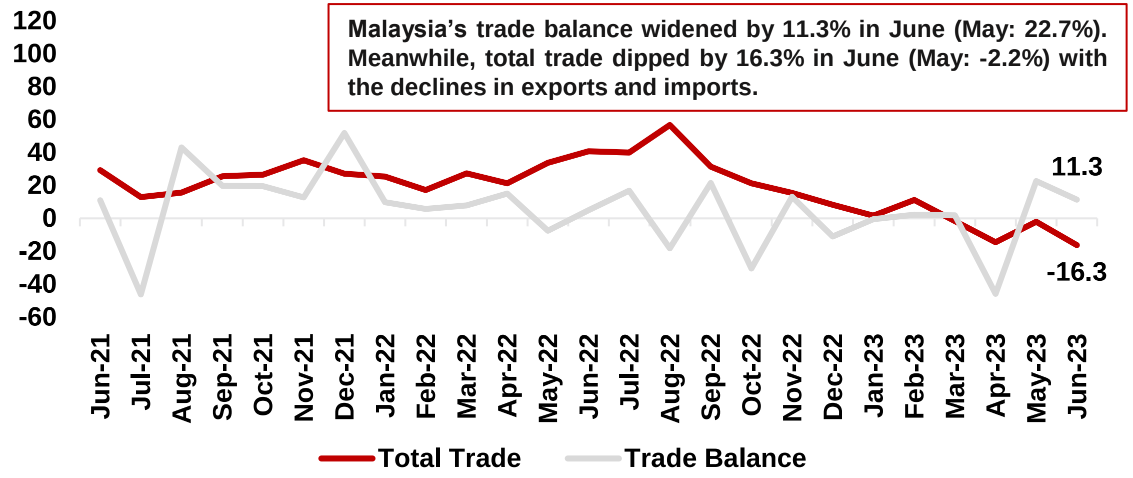


Japan - Consumer Price Index (CPI), y-o-y%

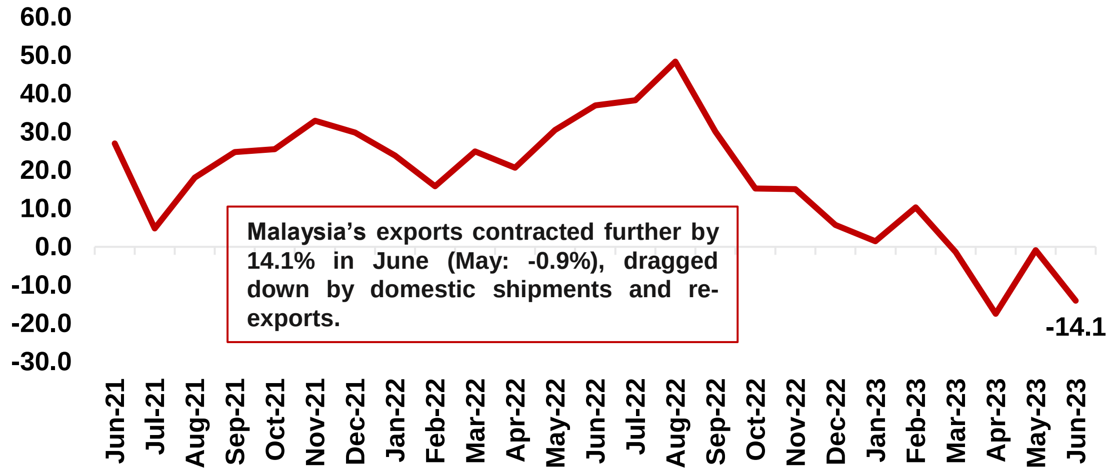


DOMESTIC

Malaysia - Total Trade and Trade Balance, y-o-y%



Malaysia - Exports, y-o-y%

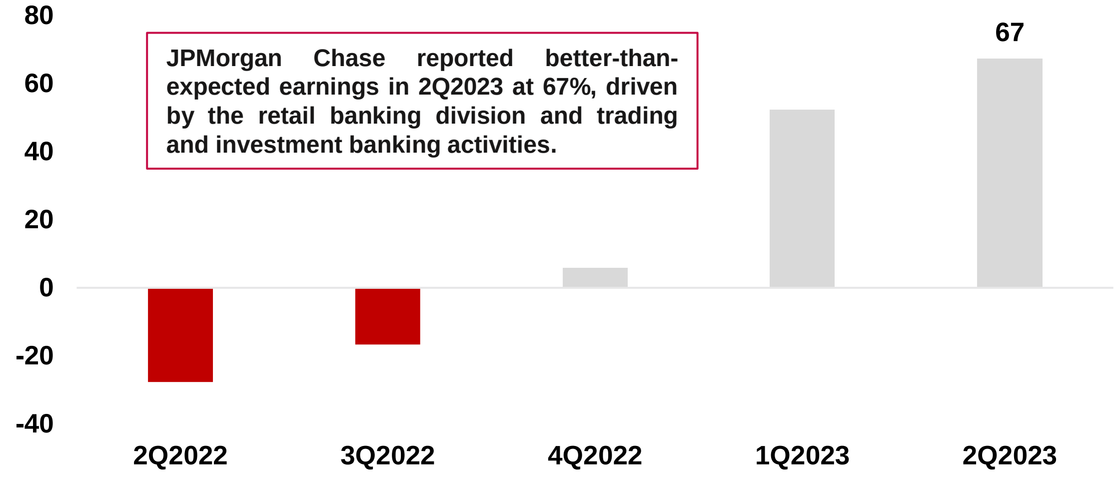


Sources: National Bureau of Statistics, Japan Statistical Bureau, Department of Statistics Malaysia

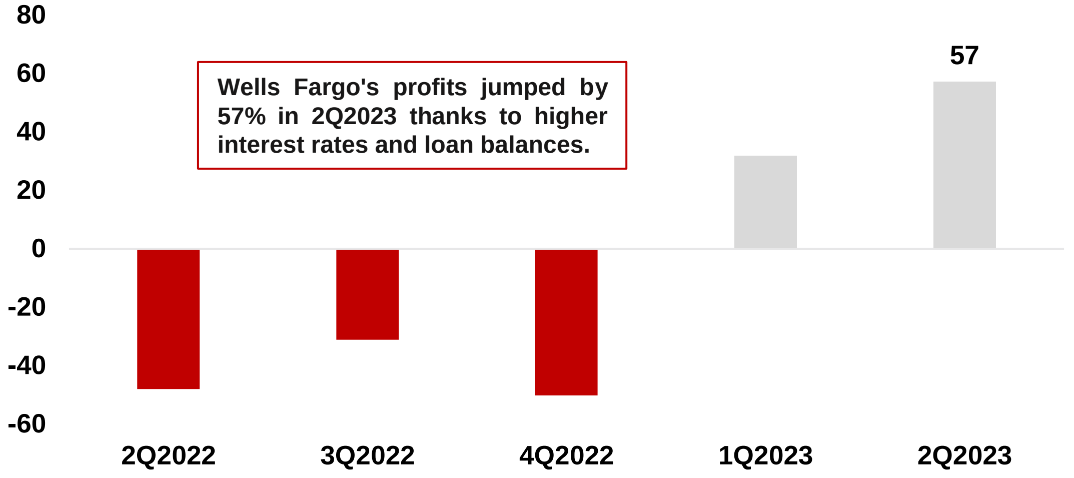
U.S. WEEKLY HIGHLIGHT: MAJOR U.S. BANKS POSTED DOUBLE-DIGIT PROFITS GROWTH ON HIGHER INTEREST RATES

GLOBAL

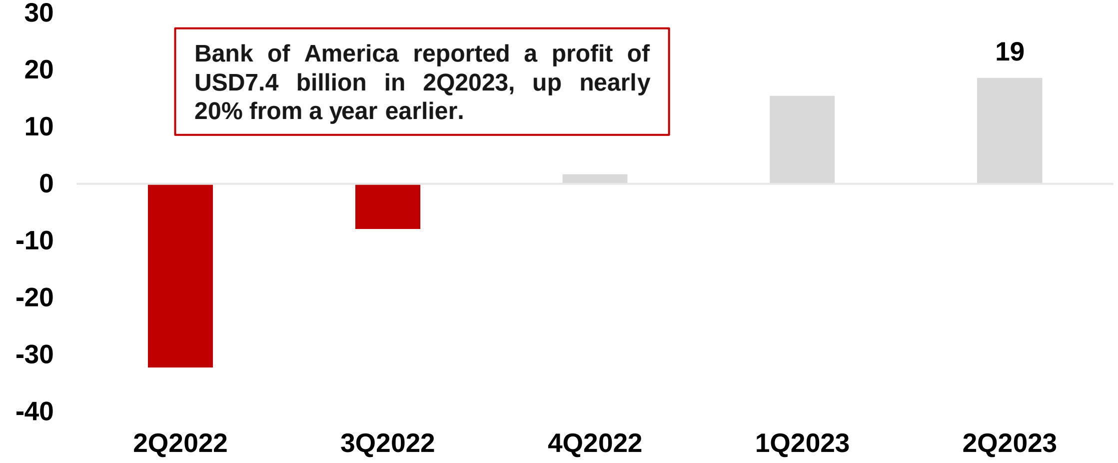
JPMorgan Chase - Profits, y-o-y%



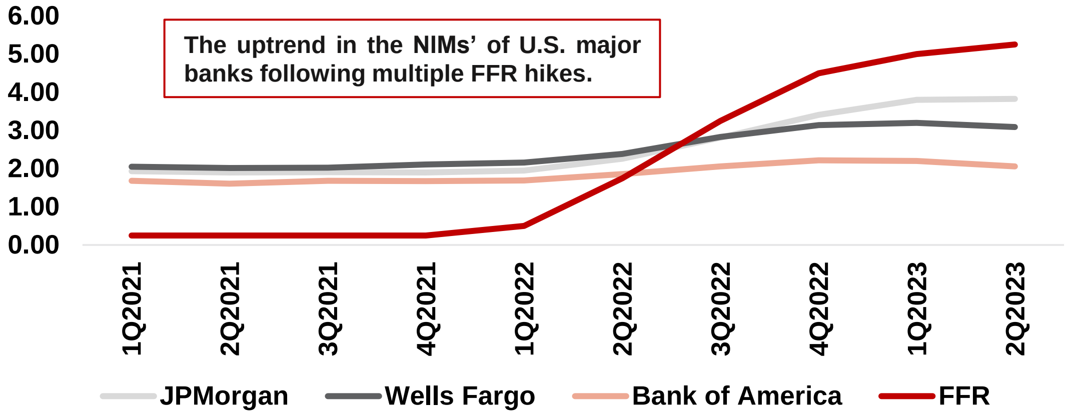
Wells Fargo - Profits, y-o-y%



Bank of America - Profits, y-o-y%



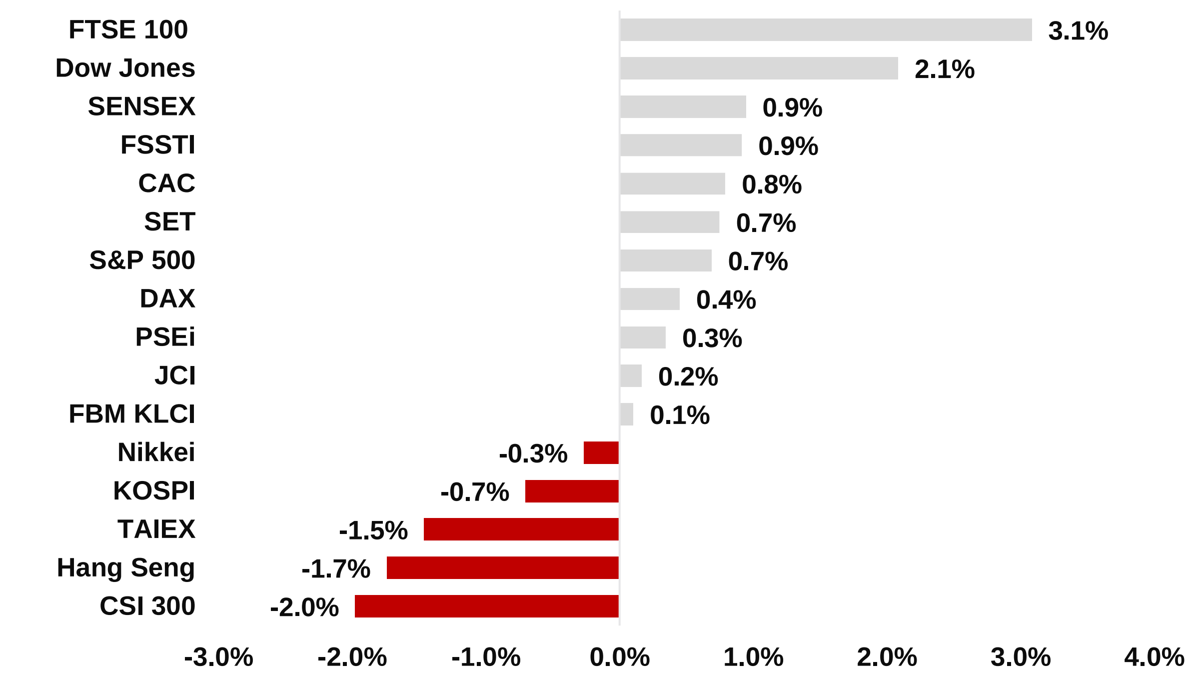
U.S. Federal Funds Rate (FFR) vs U.S. Major Banks' Net Interest Margins (NIMs), %



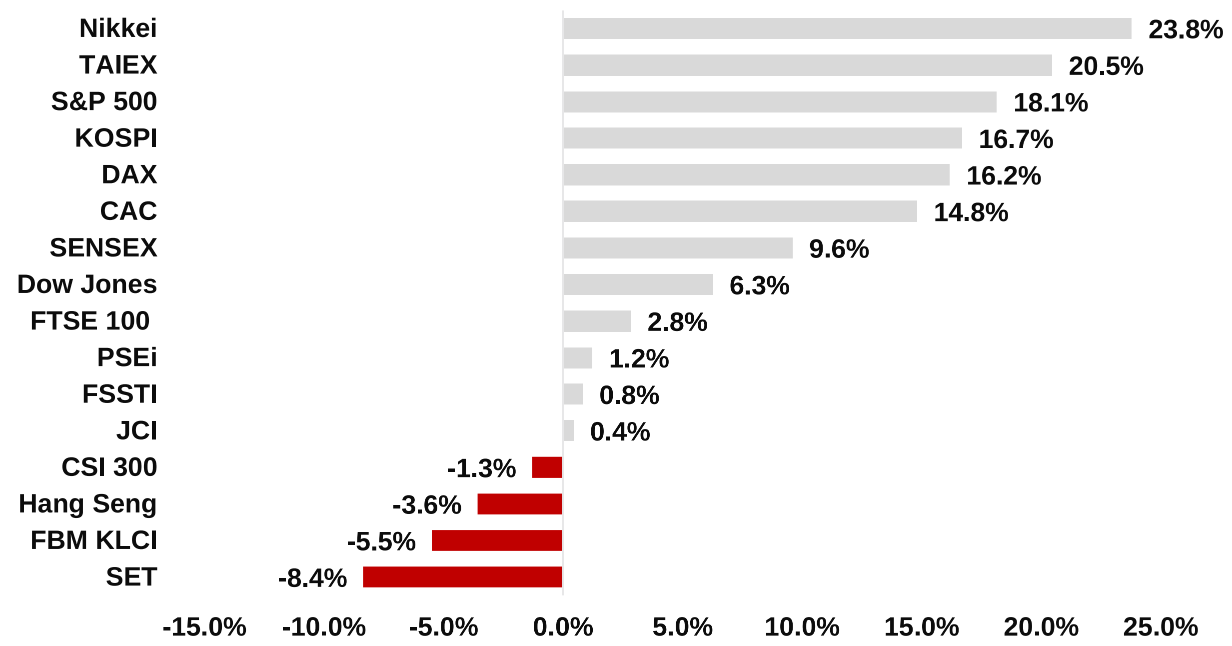
Sources: JPMorgan Chase and Co., Wells Fargo, Bank of America, Federal Reserve Economic Data (FRED)

REGIONAL EQUITY: STOCKS FIRMER ACROSS MAJOR MARKETS EXCEPT EAST ASIA

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



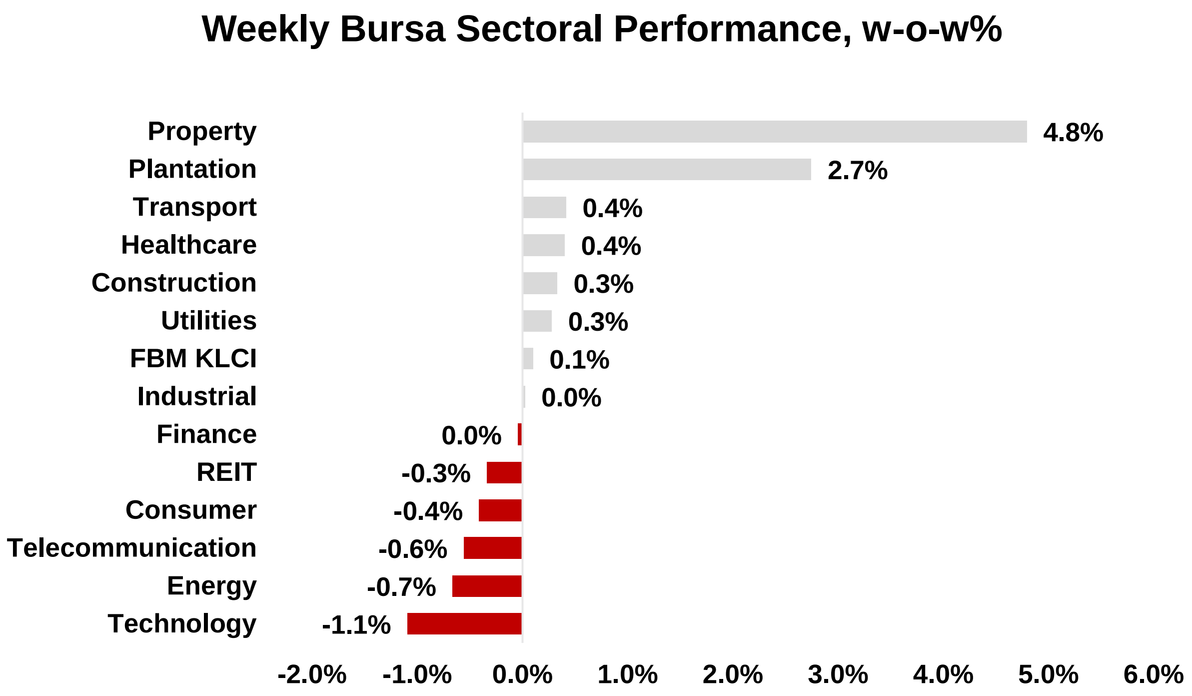
YTD Gain/Loss of Major Equity Markets, % (As of 21 July 2023)

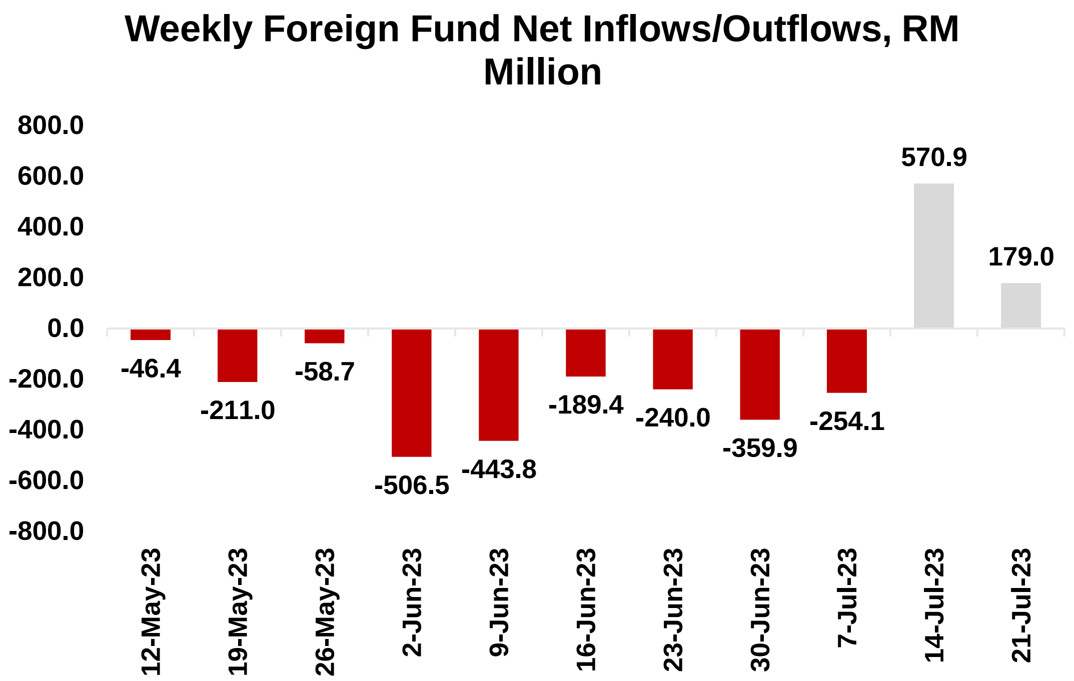


Sources: Bursa, CEIC

- Regional stock markets, except East Asia, extended gains into the week ending July 21, with buying interest partly buoyed by encouraging earnings reports from major U.S. banks.
- The UK's FTSE 100 is in the lead with a 3.1% gain week-on-week (w-o-w) as slower-than-expected inflation data led investors to scale back their expectations for the peak interest rate.
- Meanwhile, stocks retreated across East Asia amid growing concerns over China's economy after a below-consensus GDP print. The vow by Chinese policymakers to support the domestic economy also failed to impress investors, although the official GDP growth target of 5% is still within reach.
- China's CSI led losses with a 2.0% decline, followed by Hong Kong's Hang Seng (-1.7%) and Taiwan's TAIEX (-1.5%).

DOMESTIC EQUITY: LOCAL STOCK INDEX CLIMBED FOR THE SECOND CONSECUTIVE WEEK





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

- The FBM KLCI inched up 0.1% to close the week ending July 21 at 1,413.52, led by gains in Property (4.8%) and Plantation (2.7%) indices.
- Profit-taking activities helped reverse early-week losses amid improved investors' appetite after solid earnings reports from major U.S banks. The rally of crude palm oil prices to a four-month high also contributed to the positive sentiment.
- Meanwhile, the Technology index was the biggest decliner with a 1.1% drop as buying interest weighed by the warning from the world's largest contract chipmaker of a deepening semiconductor downcycle.
- Foreign investors extended buying for the second consecutive week, albeit slower at RM179.0 million compared to last week's RM570.9 million. The buying reduced the cumulative total net outflow this year to RM3.7 billion.

FIXED INCOME: UST YIELDS ROSE AS INVESTORS REASSESSED THE ECONOMIC OUTLOOK

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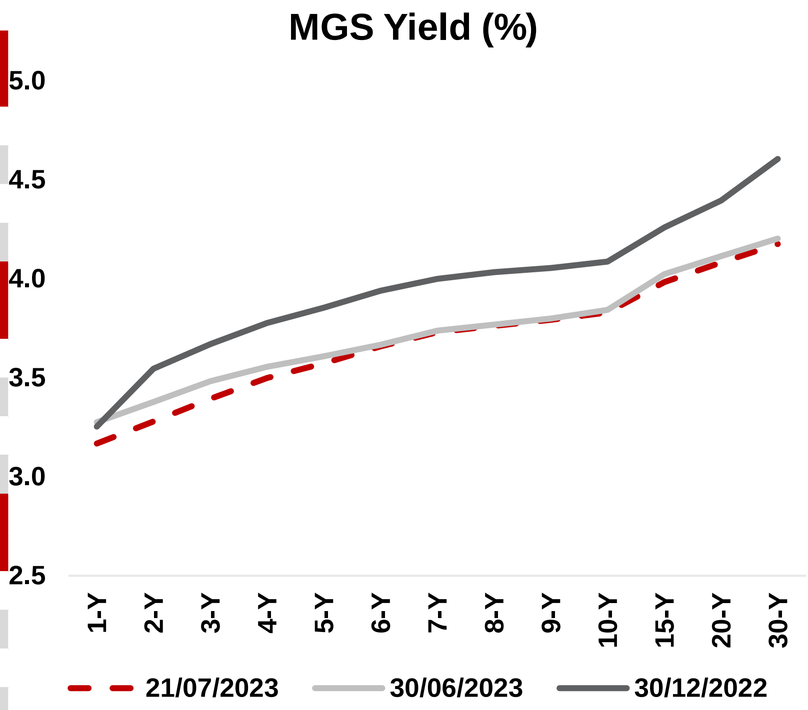
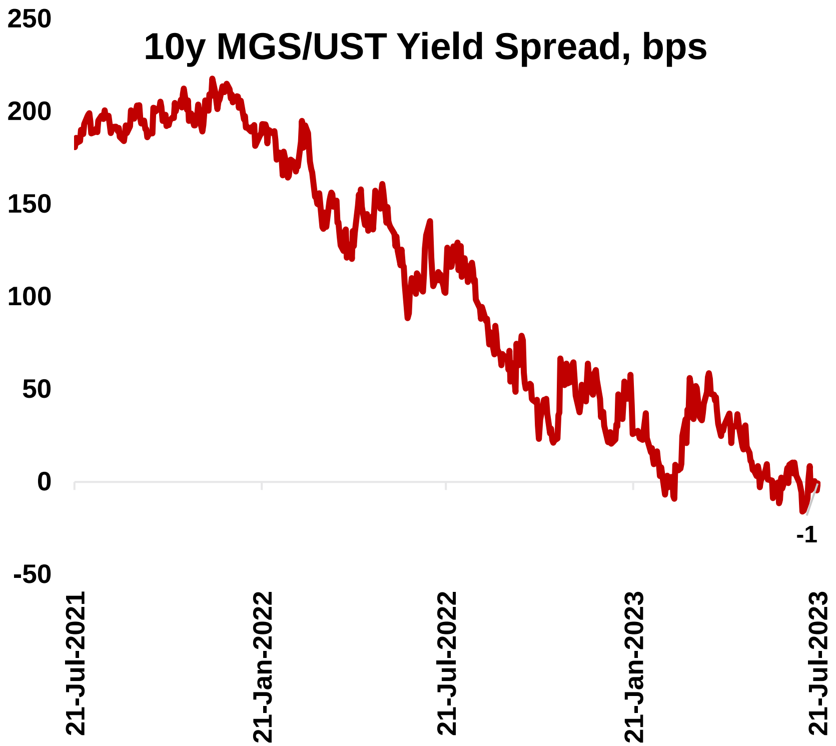
Weekly Changes, basis points (bps)

UST	Yields (%) 14-Jul-23	Yields (%) 21-Jul-23	Change (bps)
3-Y UST	4.35	4.44	9
5-Y UST	4.04	4.09	5
7-Y UST	3.94	3.97	3
10-Y UST	3.83	3.84	1
MGS	**Yields (%) 14-Jul-23**	**Yields (%) 21-Jul-23**	**Change (bps)**
3-Y MGS	3.37	3.39	3
5-Y MGS	3.54	3.57	4
7-Y MGS	3.69	3.73	4
10-Y MGS	3.79	3.83	4
GII	**Yields (%) 14-Jul-23**	**Yields (%) 21-Jul-23**	**Change (bps)**
3-Y GII	3.44	3.45	1
5-Y GII	3.61	3.64	4
7-Y GII	3.73	3.80	7
10-Y GII	3.81	3.87	6

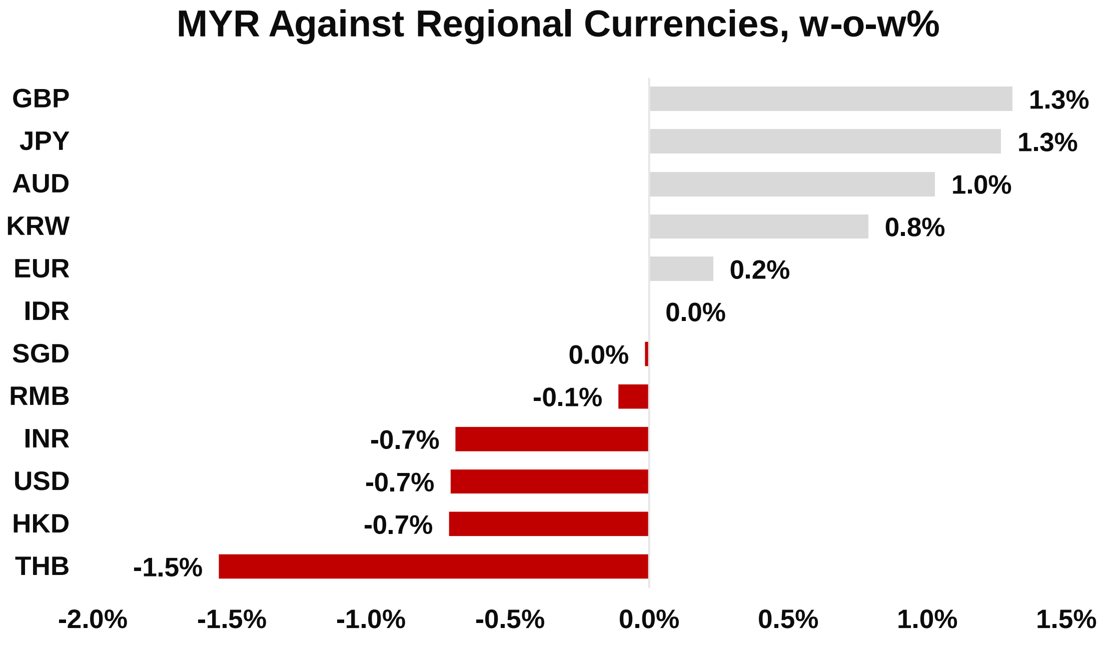
Sources: BNM, Federal Reserve Board

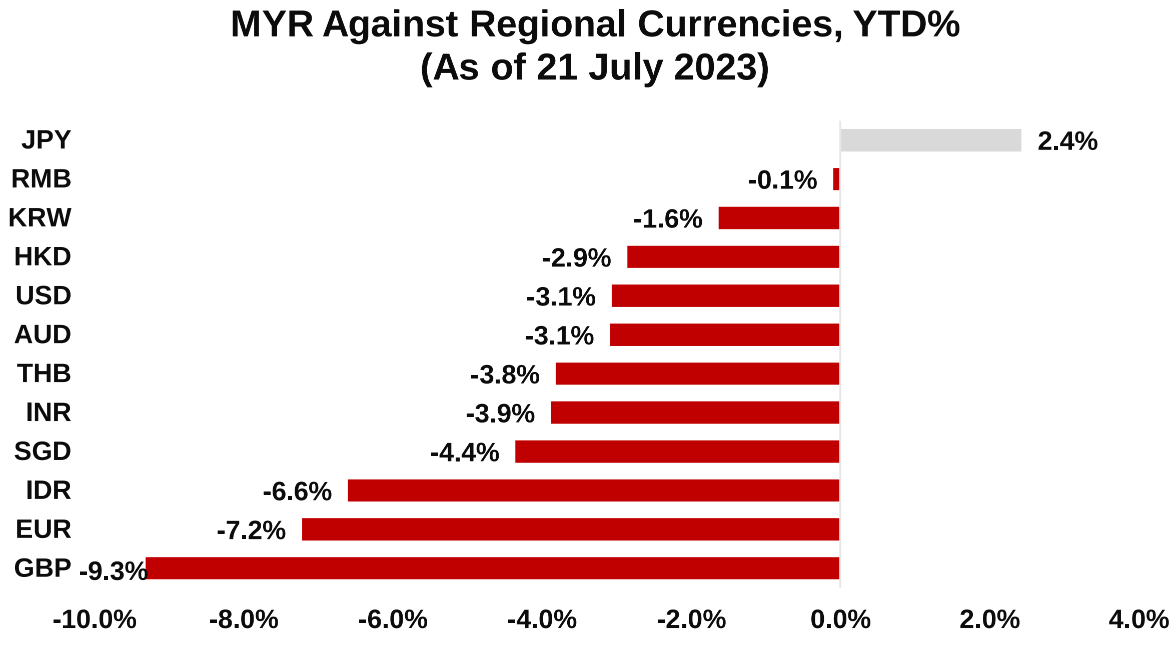




- The U.S. Treasury (UST) yields climbed last week, with the curve bear flattened between 1bp and 9bps. Markets are widely expecting the Federal Reserve (Fed) to hike interest rates by 25bps on July 26, but the picture for the remainder of the year is unclear after a slower pace of June's inflation print.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) closed weaker. 3-Y MGS yield increased by 3bps while results on the belly to the long end of the curve elevated by 4bps. Additionally, GII yields an uptick in the range of 1bp and 7bps.
- The RM5.0 billion 7-Y reopening of GII issued on 20 July garnered strong demand with a bid-to-cover (BTC) ratio of 2.3x, relatively higher than the previous RM5.0 billion 7-Y reopening of GII in March, which drew BTC ratio of merely 1.6x.
- The 10y MGS/UST yield spread remained negative at -1bp, although higher than -4bps in the prior week.

FX MARKET: THE RINGGIT REMAINS UNDER PRESSURE AGAINST THE USD THIS WEEK

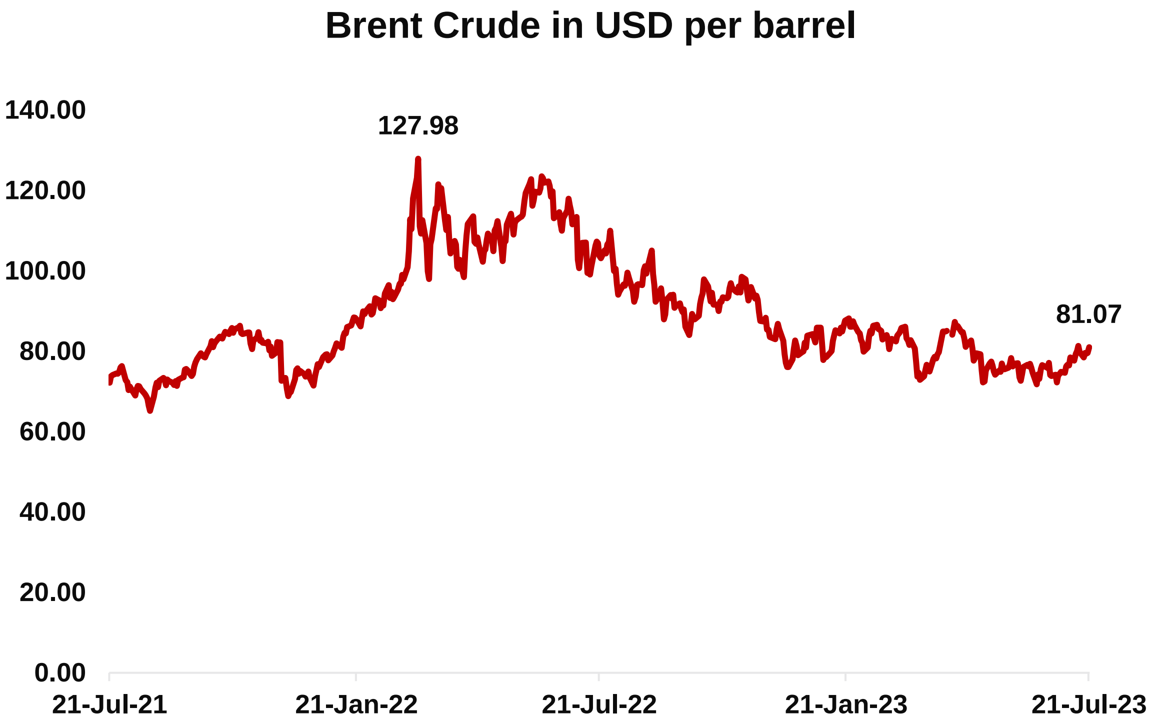


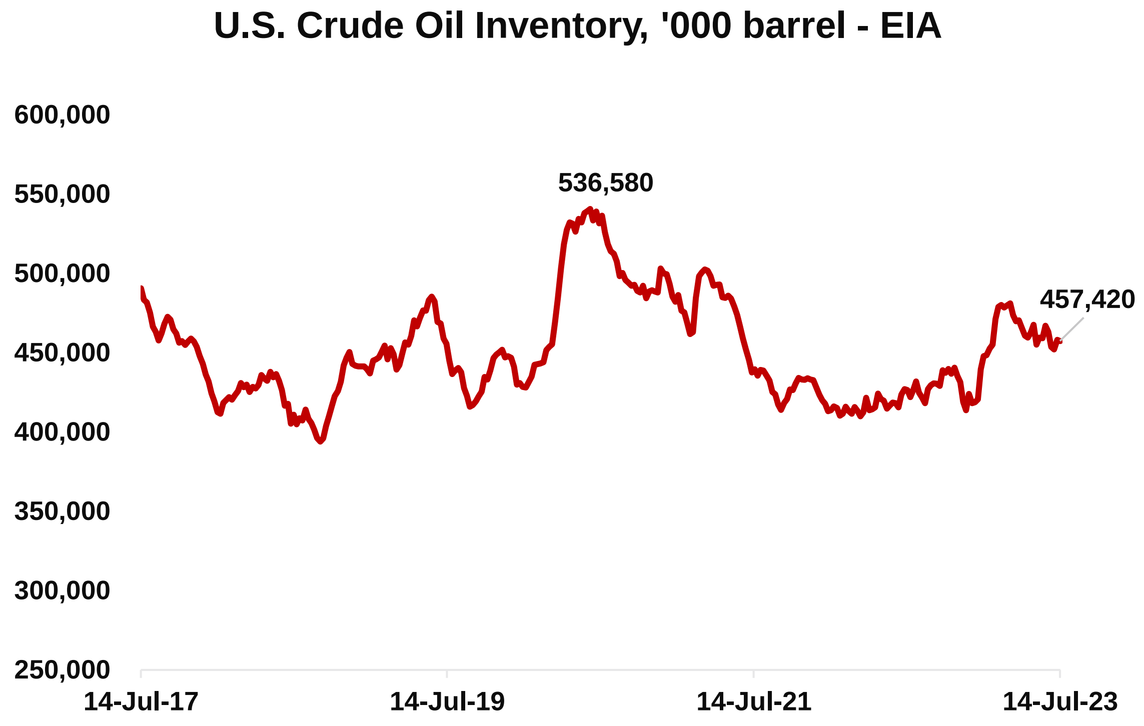


Source: BNM

- The Ringgit depreciated against the USD when the local note ended at RM4.5525 last Friday from RM4.5200 in the week ending 14 July 2023.
- The local note could have been pressured by the higher USD index, which has clawed its way back to the 100-mark level following anticipation of a 25bp increase in the FFR during this week's July Federal Open Market Committee (FOMC) meeting.
- Simultaneously, we posit that the rising concern over China’s economy might have led to higher demand for the greenback as the country’s economy’s recovery continued to lose momentum.
- The local note would be traded cautiously this week as investors are also eyeing a packed slate of central bank meetings from the European Central Bank (ECB) and Bank of Japan (BoJ).
- We believe that the narrative has shifted back to USD for now, at least until the July 26th FOMC meeting.

COMMODITY: OIL PRICE CLIMBED HIGHER ABOVE USD80.0 PER BARREL AS SUPPLY TIGHTENS





Sources: Bloomberg, Energy Information Administration (EIA)

- Oil price was supported during the week following China's top economic planner pledged to roll out policies to restore and expand consumption in the world's leading crude importer.
- Additionally, the expectation of the end of the current monetary policy tightening cycle that is getting closer also added to the bullish sentiment.
- At the same time, EIA reported that the price drew support from the decline in the crude oil stockpiled by 0.7 million barrels during the week.

COMMODITY: GOLD RECORDED THIRD WEEKLY STRAIGHT GAIN AMID FED PAUSE VIEW

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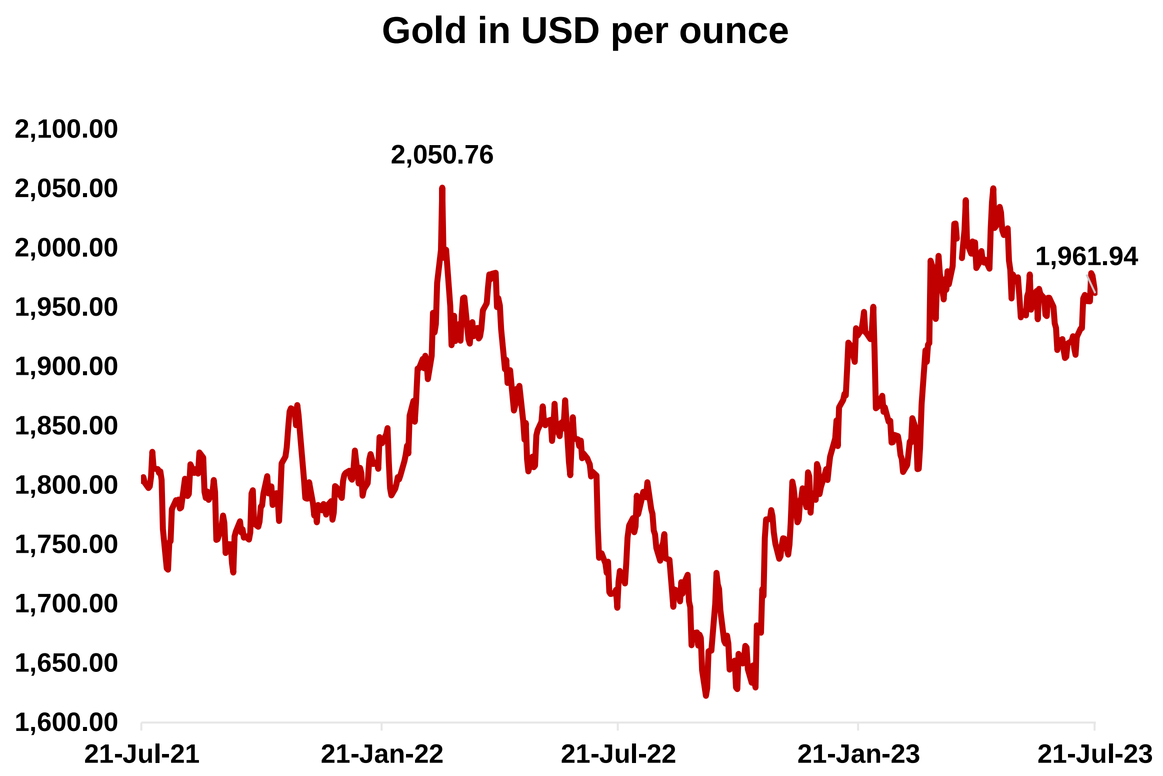

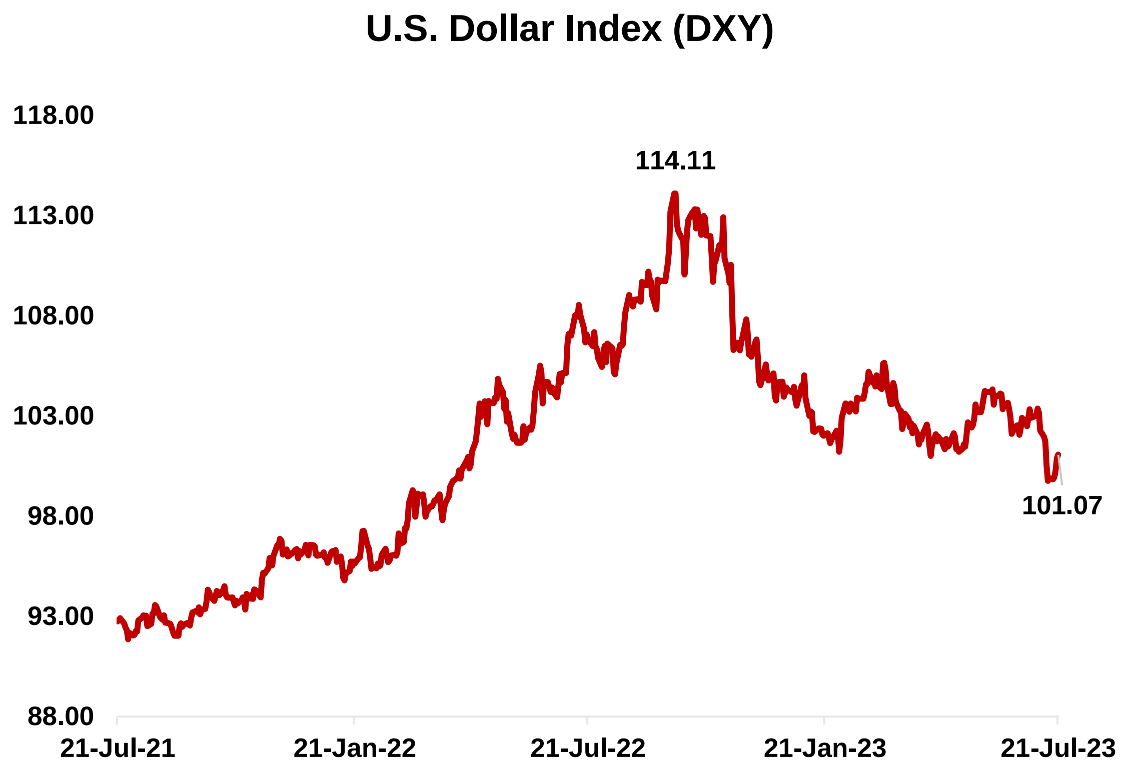

Sources: Bloomberg, Commodity Research Bureau

- The Fed is widely anticipated to push the FFR higher by another 25bps this week, with a 99.8% probability as of the time of writing. Having said that, the coming meeting could signal the end of the current tightening cycle, pushing the bullion price higher.
- At the same time, market participants also look ahead to interest rate decisions from ECB and BoJ during the week.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- The Fed is slated to announce its policy decision this Wednesday. Market participants have priced in a near-100% certainty of a 25bp hike in Fed funds rate to a target range of 5.25% - 5.50%. Should this materialise, a post-meeting press conference featuring Fed Chair Jerome Powell will be closely watched for clues on the future interest rate path. June Fed's dot plot and the latest remarks by Fed officials implied that another rate hike in September remains on the table. However, market participants appear less convinced, especially after slower-than-expected CPI data (June: 3.0% vs. May: 4.0%), pricing in more than an 80% chance of rate pause for the remainder of this year. The advance estimate for 2Q2023 GDP and the Fed's preferred inflation gauge, the personal consumption expenditures (PCE) price index in June, is also set to release this week, which will be pivotal for the market to gauge the likelihood of additional hikes.

- Meanwhile, in the eurozone, a 25bp hike by ECB this week seems a done deal given the still above-target headline (June: 5.5% vs May: 6.1%) and core inflation (June: 5.5% vs May: 5.3%). The hike, if materialised, would mark the ninth consecutive rate hike by ECB. Several ECB policymakers have recently indicated that rate hikes beyond July will be data-dependent. In addition to the slowing economy, which is currently in a technical recession, this has prompted speculation of a less hawkish stance in the upcoming ECB policy statement.

- Notwithstanding the anticipated rate hikes in the U.S. and Eurozone, the BoJ and Bank Indonesia (BI) are widely expected to stay at the meeting this week. The BoJ governor Kazuo Ueda has recently reiterated that there is still some distance from sustainably achieving the 2% inflation target, implying the bank's ultra-loose monetary settings will remain in place for now. The BOJ's policy has been held at -0.1% since it adopted a negative interest rate in 2016 to fight deflation. On the other hand, Indonesia's inflation has returned to BI's target range of 2% - 4%, thus reinforcing the view that BI will maintain a neutral policy stance moving forward. Additionally, the weakening Indonesian Rupiah of late means that a pivot towards easing looks less likely for the time being.

- Malaysia's headline CPI eased further to 2.4% y-o-y in June, the lowest level year-to-date, from 2.8% in May. However, core CPI remained elevated at 3.1% y-o-y in June, slightly lower than the 3.5% recorded in May. This aligns with our expectations that the headline and core inflation would continue to trend lower in the coming months on moderating cost pressures and base effects, as indicated by the contraction in producer prices since February 2023. Inflation may dip again in July before stabilising from August onwards.

THANK YOU