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WEEKLY ECONOMIC UPDATE

25 JANUARY 2023

ECONOMIC RESEARCH

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KEY HIGHLIGHT OF THE WEEK: MALAYSIA'S ECONOMIC INDICATORS HAVE STARTED TO MODERATE

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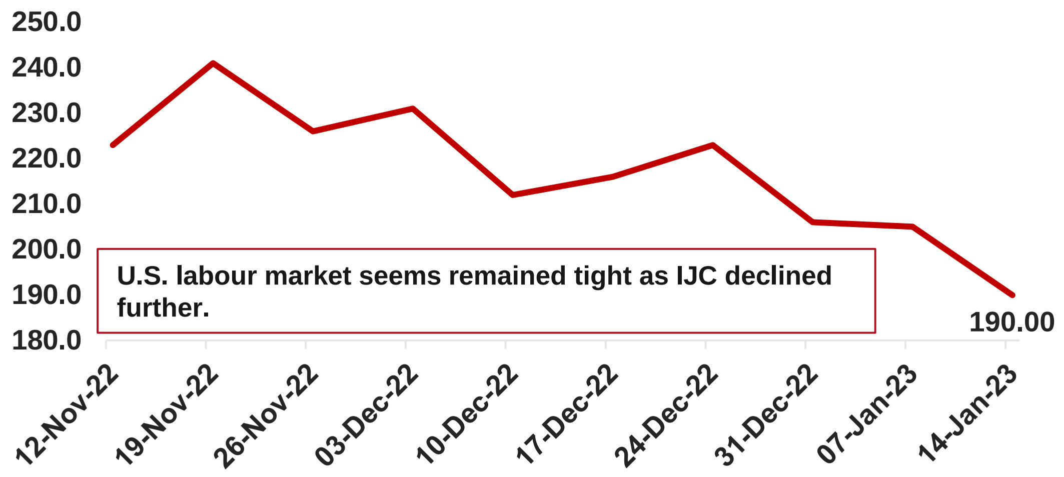
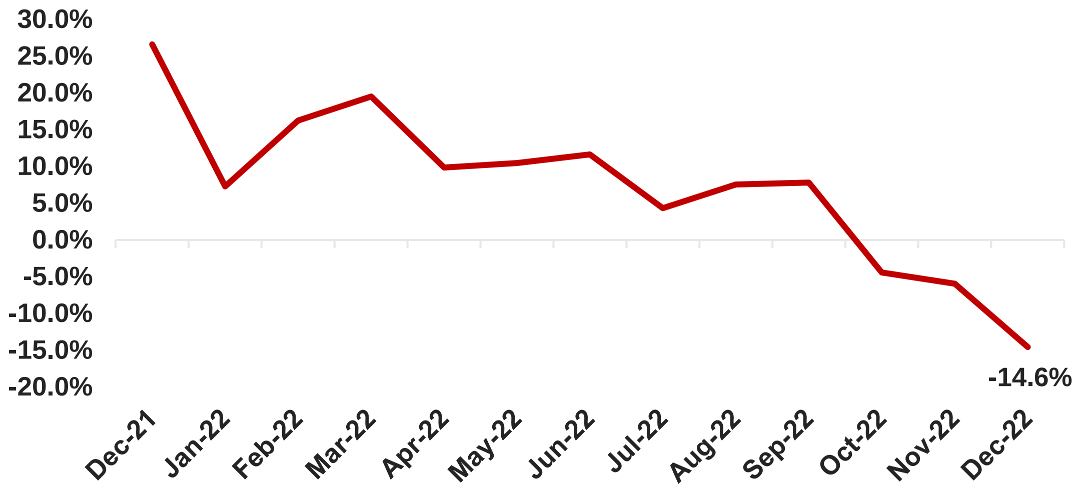
GLOBAL

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



Thailand Exports, y-o-y%

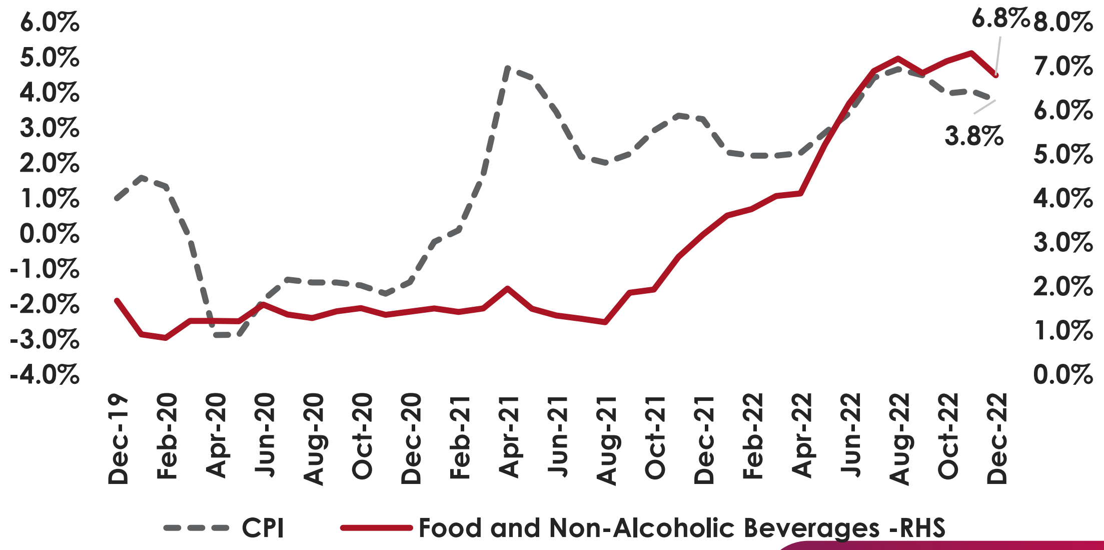


DOMESTIC

Malaysia's Trade Performance

Exports softened in line with slower global growth projection for 2023 after reaching its peak at 48.1% in August 2022.

Inflation,y-o-y%



Sources: DOSM, Thailand's Ministry of Commerce, U.S. Department of Labor

REGIONAL EQUITY: ASEAN EQUITY MARKET CLOSED POSITIVELY LAST WEEK

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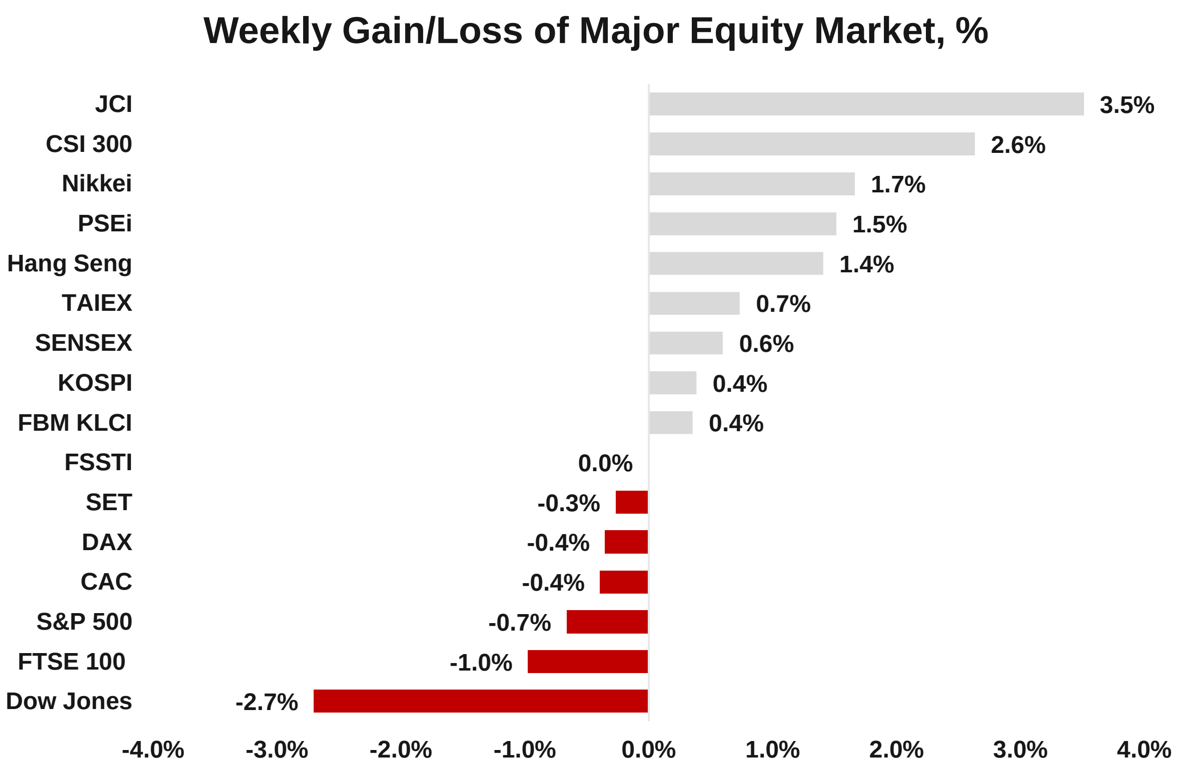
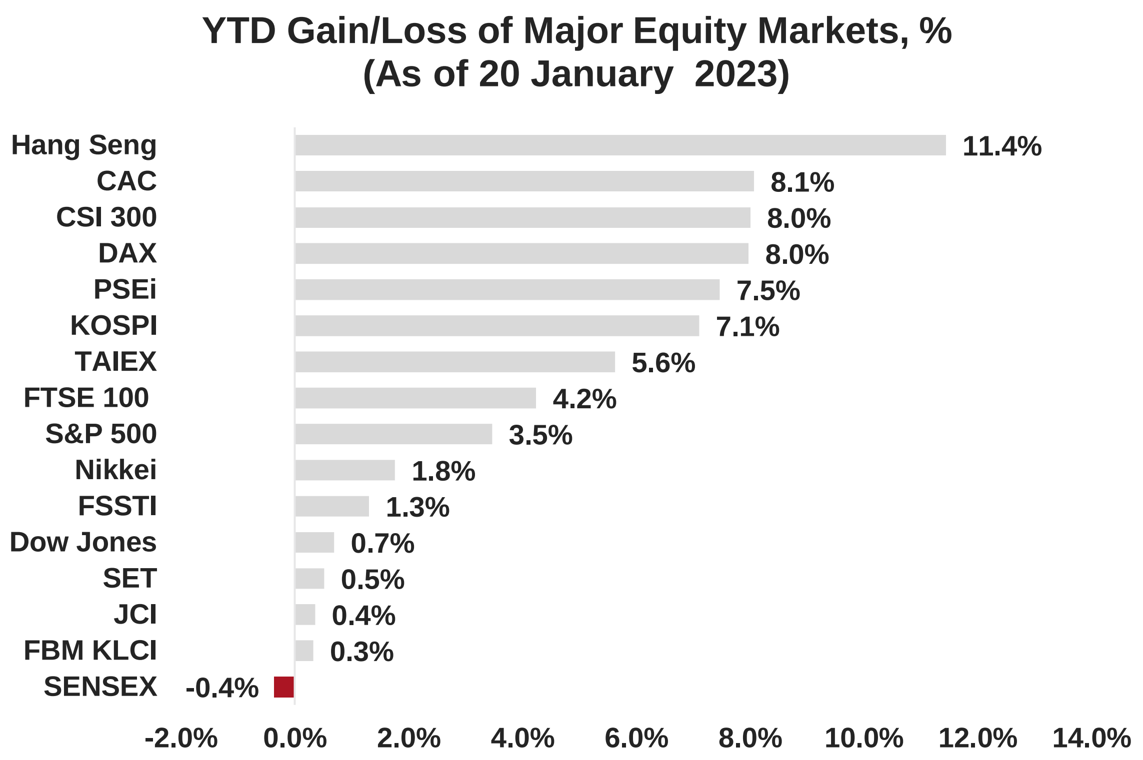
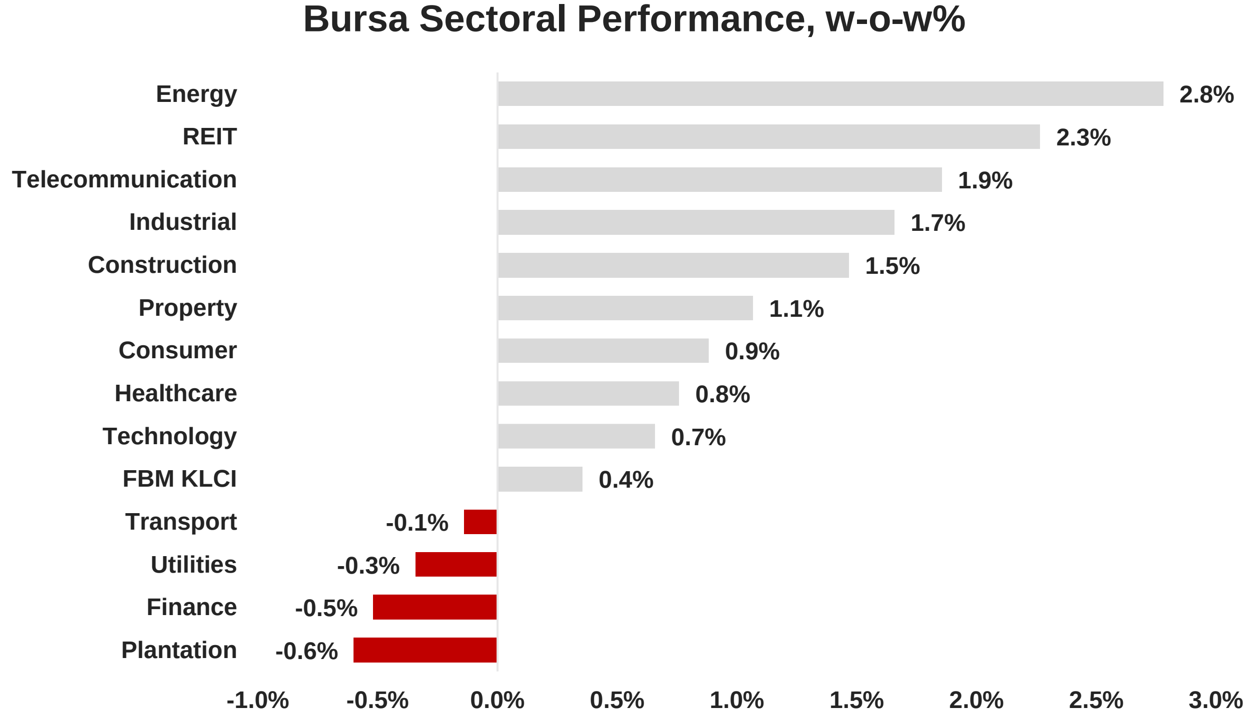


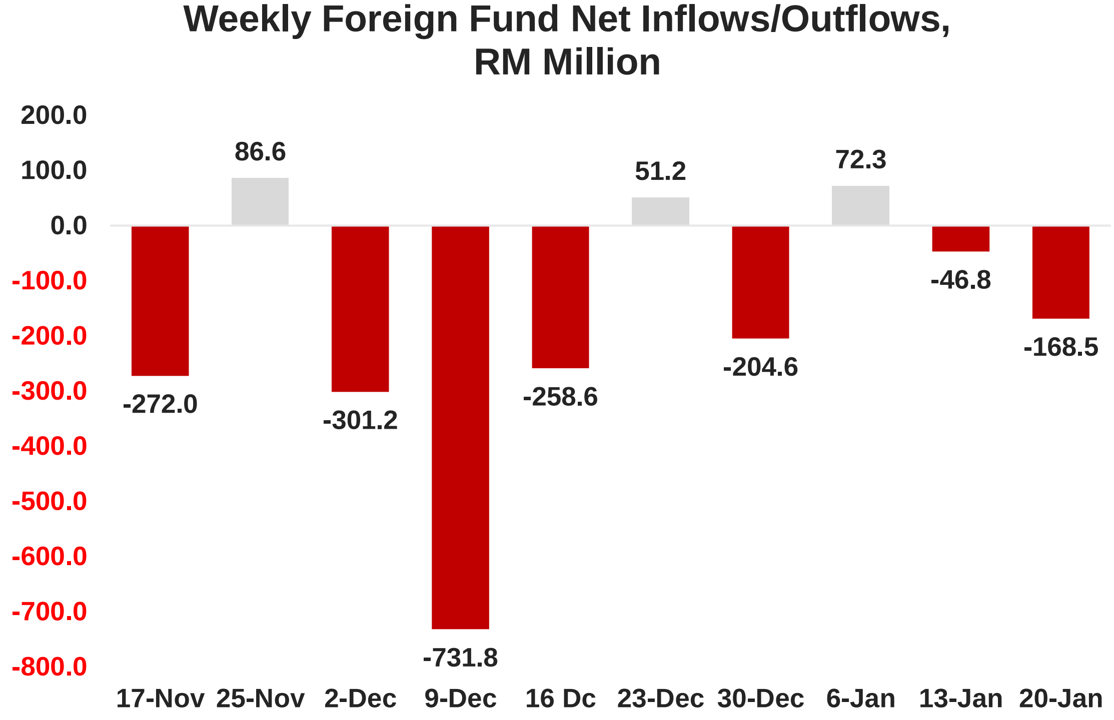


Sources: Bursa, CEIC

- Most of regional market closed on a positive note for the week ended on 20 January led by Indonesia's JCI, China's CSI 300 and Japan's Nikkei which rose by 3.5%, 2.6% and 1.7% respectively fueled by positive sentiments amid China's reopening news that will boost consumption activities.
- However, the Dow Jones index posted the largest loss at 2.7% over the week on the back of rising concerns over the negative impact on the U.S. economy amid aggressive rate hikes in 2022.
- The Fed is likely to continue its monetary tightening plan with a 25 bps FFR rate hike on the cards in the upcoming meeting.

DOMESTIC EQUITY: BETTER SENTIMENT AMONG MARKET PARTICIPANTS





Source: Bursa

- Similarly, Bursa sectoral indices also ended positively over the week except for the Plantation, Finance, Utilities and Transport sectors.
- The Finance index dropped by 0.5% as the net interest margin (NIM) is likely to be affected by the rate pause, which is resting at 2.75%.
- Foreign investors continued to offload their equity holdings with RM168.5 million of foreign net outflows recorded during the week ended on 20 January.
- We expect Bursa and regional market are likely to be relatively quiet for now, but will gain momentum amid higher Chinese tourist arrivals after the “Chunyun” rush.

FIXED INCOME: MGS YIELDS HAVE BECOME MORE FLATTISH

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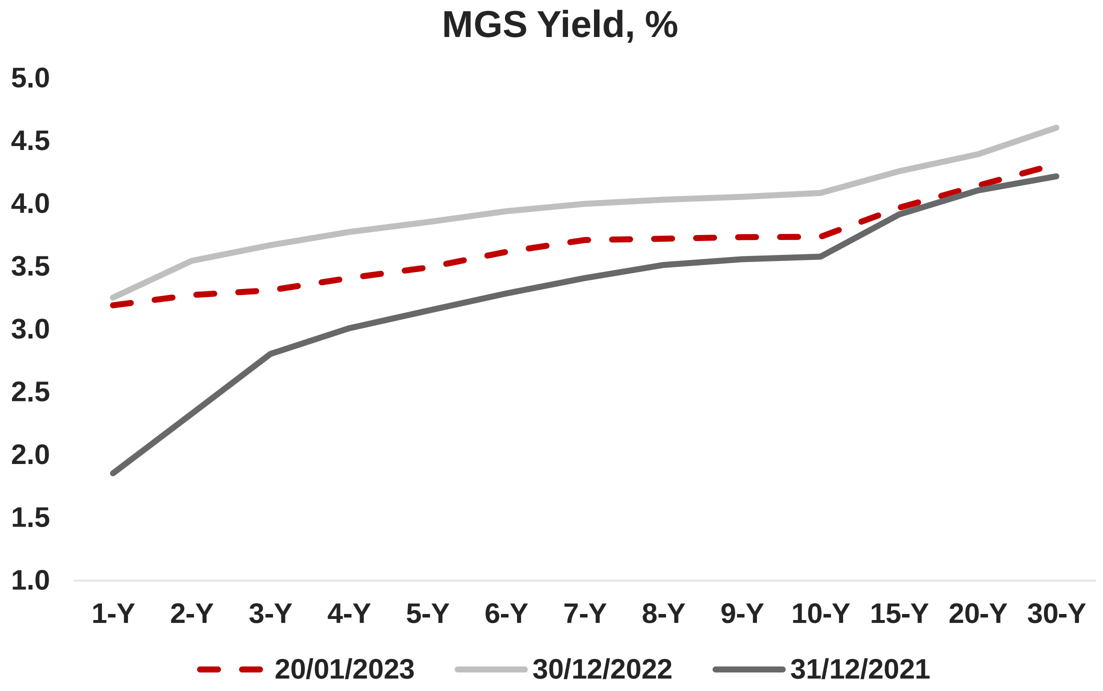
Weekly Changes, basis points (bps)

UST	Yields (%) 13-Jan-23	Yields (%) 20-Jan-23	Change (bps)
3-M UST	4.67%	4.72%	5
2-Y UST	4.22%	4.14%	-8
5-Y UST	3.60%	3.56%	-4
10-Y UST	3.49%	3.48%	-1
MGS	**Yields (%) 13-Jan-23**	**Yields (%) 20-Jan-23**	**Change (bps)**
3-Y MGS	3.53%	3.31%	-22
5-Y MGS	3.77%	3.42%	-35
7-Y MGS	3.94%	3.67%	-27
10-Y MGS	3.94%	3.72%	-22

Sources: BNM, Federal Reserve Board

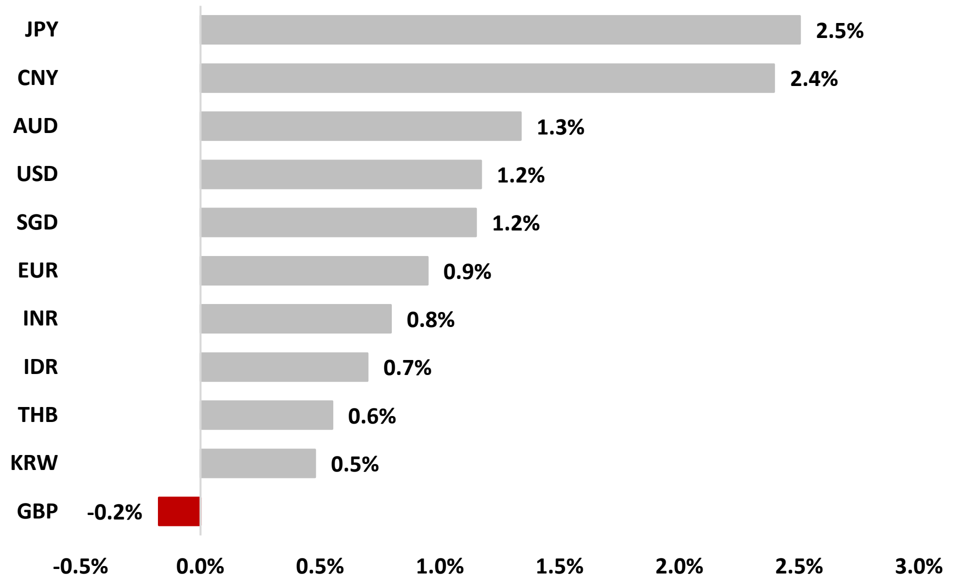


Source: BNM

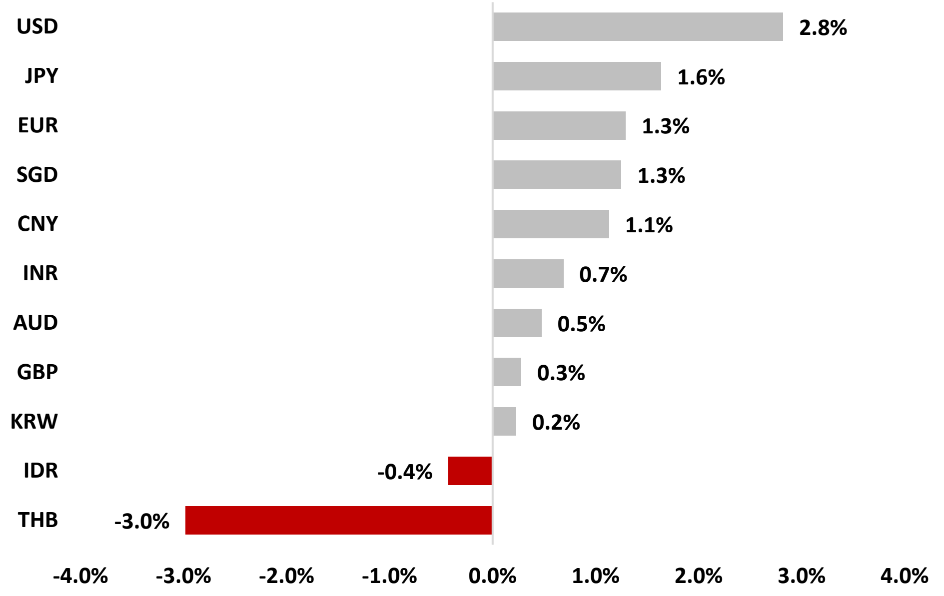
- The U.S. Treasury (UST) yields ended lower except shorter tenure of 3-Y UST yield, which was higher by 5 bps to close at 4.72% for the week ended on 20 January.
- As for local govvies, the MGS yields fell across all maturities between 22 bps and 35 bps which was in tandem with BNM’s rate hike pause last week.
- The MGS is expected to remain flattish this year with 3-Y MGS, 5-Y MGS and 10-Y MGS to settle at 3.00%, 3.45% and 3.60% by end of 2023 in view of weaker economic outlook in 2H2023.

FX MARKET: RINGGIT TO STRENGTHEN AGAINST THE USD, TRADING BETWEEN RM4.26 TO RM4.28

MYR against regional currencies, w-o-w% (Week Ending 20 January)



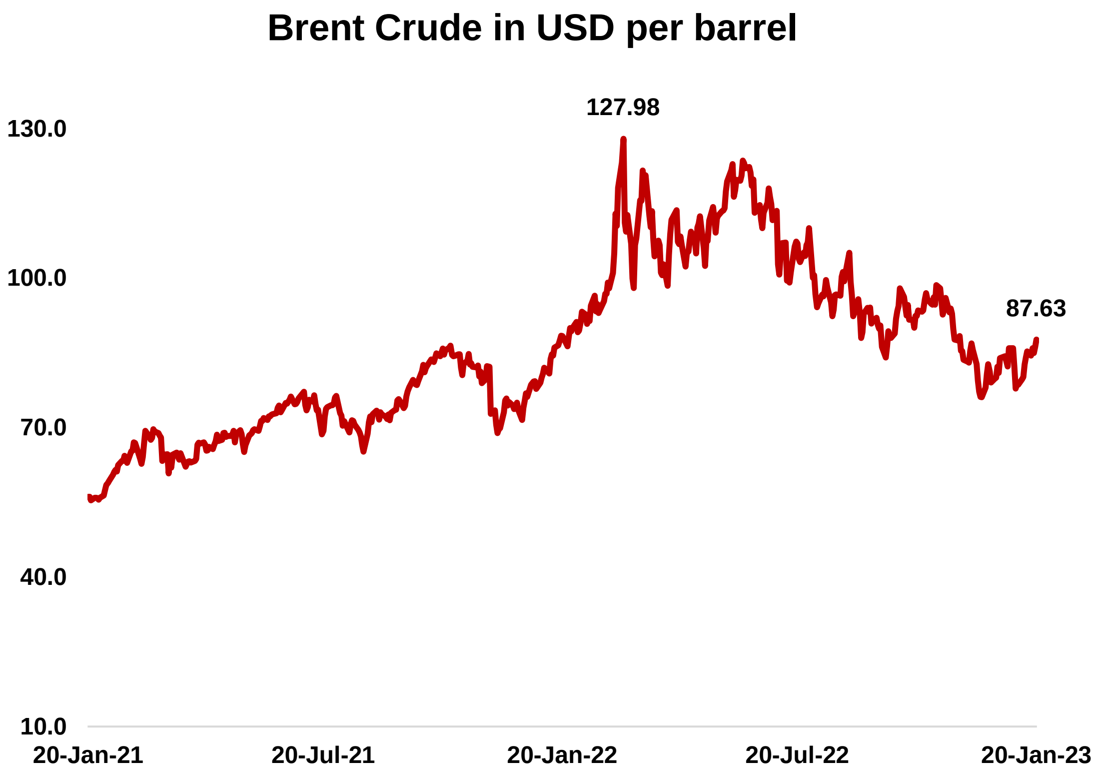
MYR against regional currencies, YTD Gain% (As of 20 January)

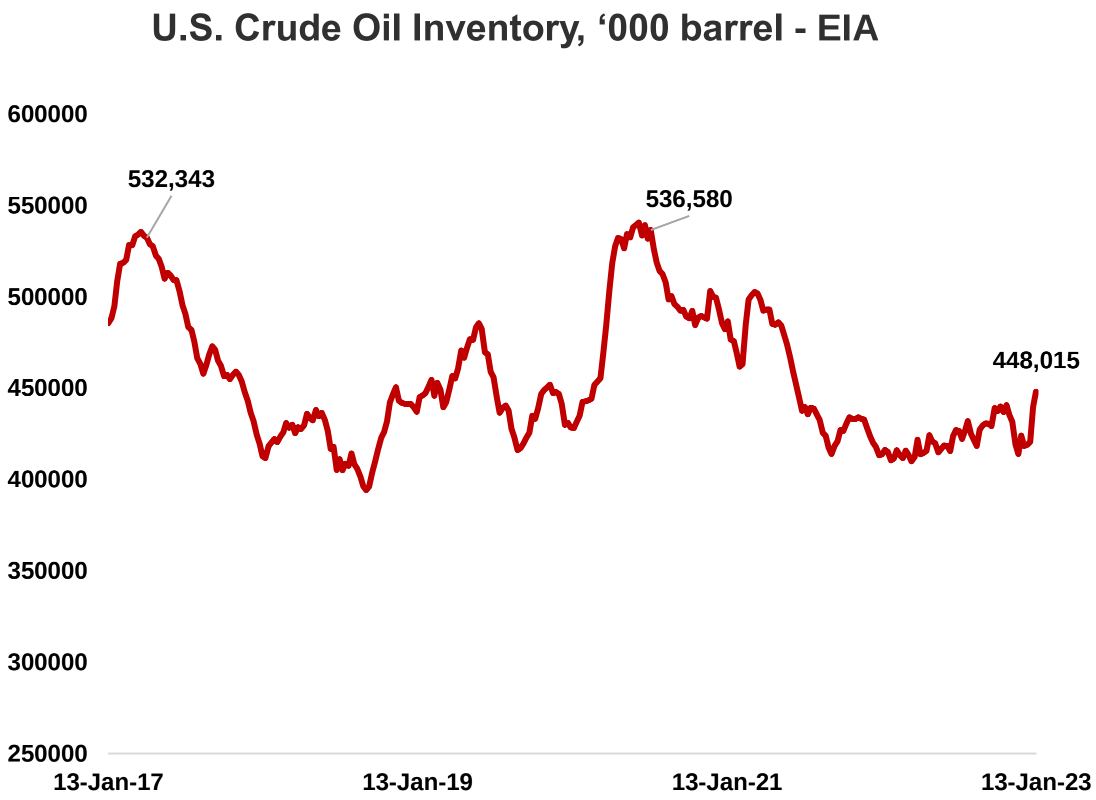


Source: Investing.com

- The Ringgit strengthened against the USD by 2.8% on a weekly basis despite by a surprise BNM's decision to maintain the OPR level at 2.75% during its first MPC meeting of the year last week.
- Perhaps, this is due to the weakening of the USD index which continued to fall below 102 level amid further signs of weakness in the U.S. economy. Its December 2022 m-o-m retail sales statistics came in lower than expected (Actual: -1.0% vs. Est: 0.8%), signalling the softening of consumer spending amid high inflation and interest rates.
- For this week, we foresee the Ringgit to remain on solid footing following China's reopening narrative. As such, we foresee the local note to trade between RM4.26 to RM4.28 against the greenback during the week.

COMMODITY: BRENT PRICE NOTCHED A SECOND STRAIGHT WEEKLY GAIN FOLLOWING CHINA'S DEMAND OUTLOOK





Sources: Bloomberg, Energy Information Administration (EIA)

- Oil price logged a 2.8% increase during the week as China's economic prospect brightened thus, boosting expectations for higher energy demand from the world's second biggest economy.
- The oil price movement was supported by the hopes from the Fed officials to soon downshifting to smaller rate hikes by 25 bps for its next policy meeting, giving chances for a "soft landing" for the U.S. economy.

COMMODITY: GOLD PRICE WAS ON TRACK TO GAIN FOR THE FIFTH STRAIGHT WEEK AMID SLOWER RATE HIKES HOPE

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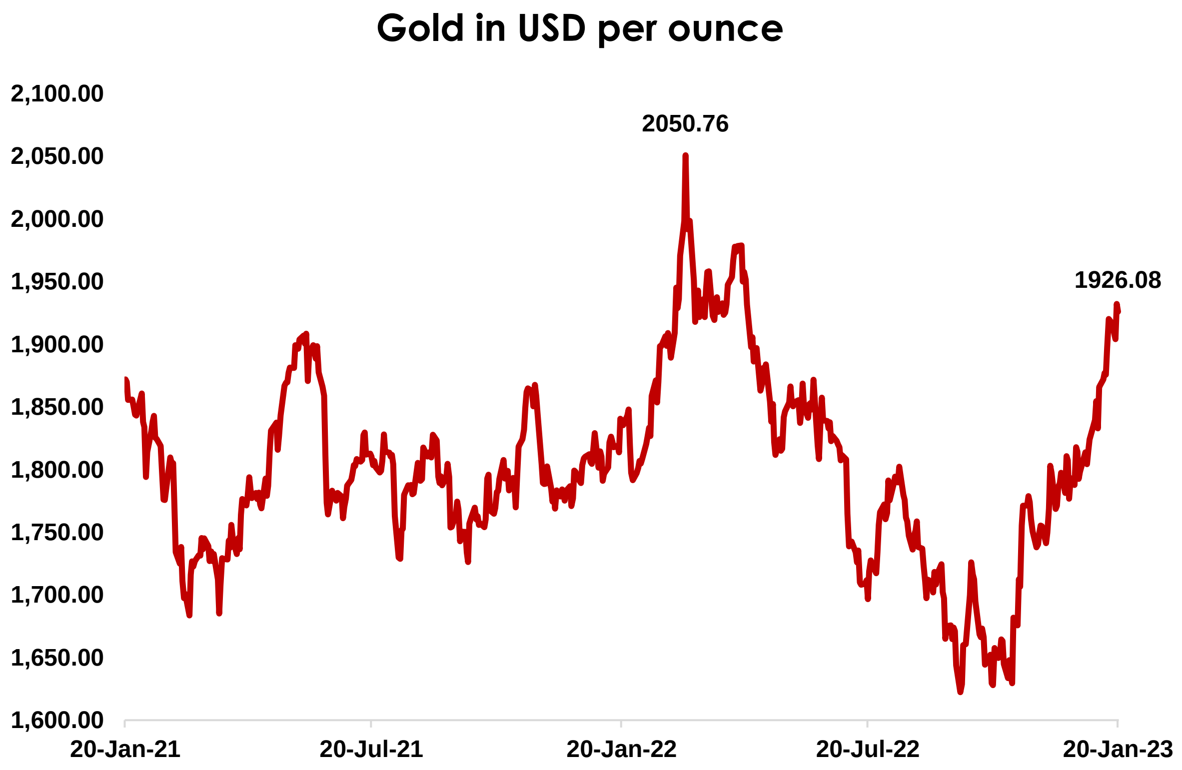

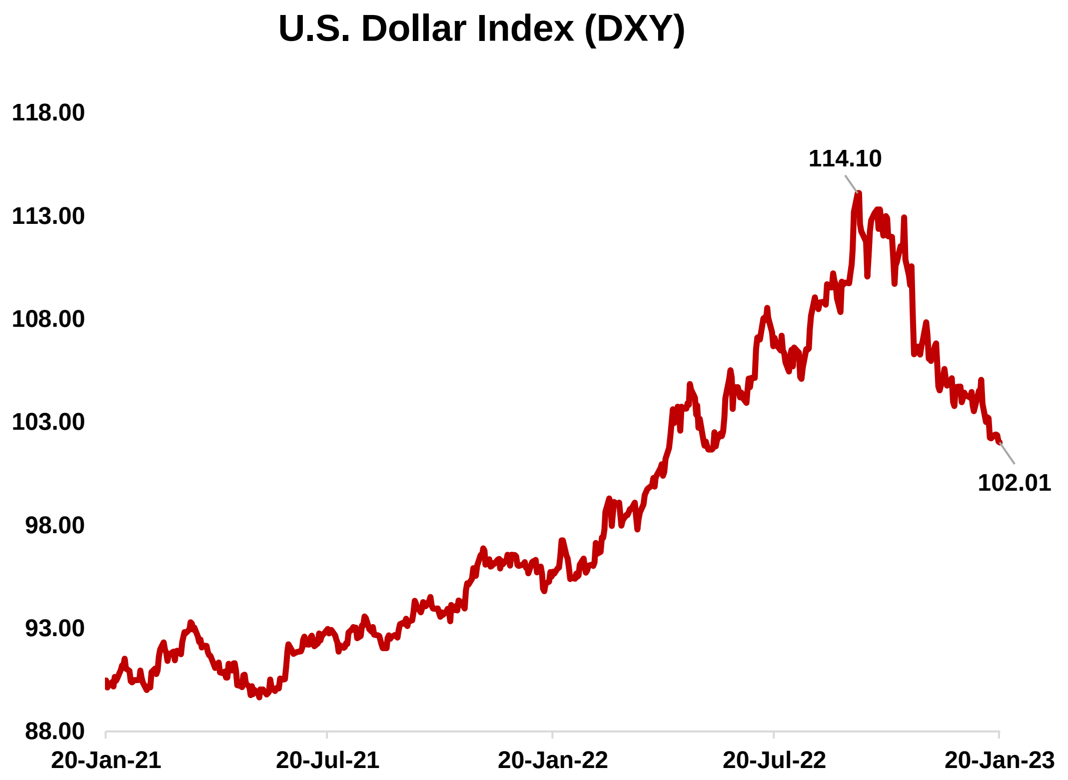

Sources: Bloomberg, Commodity Research Bureau

- Investors appears to seek refuge in the safe-haven metal amid the recent weak U.S. economic readings, together with the recent hawkish remarks from the Fed officials. Worries over the imminent global slowdown are taking shape.
- In the latest development, joining his colleagues, Fed Vice Chair Lael Brainard supported of slowing the pace rate hikes to a smaller 25 bps increase at the next central bank's policy meeting on 1 February.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- On the global front, this week's economic calendar is relatively light as the Fed officials are heading to their traditional communications blackout period ahead of its FOMC meeting scheduled on 31 January–1 February. During the said period, none of the Fed officials would speak publicly or issue any press release, leaving market participants to speculate based on publicly available data points. At the current juncture, the market is expecting a quarter point rate hike, bringing the federal fund target range to 4.50%-4.75%.

- Meanwhile, the debt ceiling situation in the U.S. is sending chills to the market. Last Thursday, the U.S. hit its mandated $31.4 trillion borrowing limit, sparking a stand-off between the Republicans and the Democrats. However, Janet Yellen indicated that the U.S. Treasury would take steps to ensure the government does not default on its debt obligations. Though the U.S. has never defaulted on its payment, the threat of such a situation lingered is enough to send jitters in the market.

- On the economic front, there would be a few U.S. economic indicators that could influence the tone of the FOMC meeting, amongst others, the 4Q2022 GDP and PCE index. Elsewhere, Japan will release January CPI data for the Tokyo region, something that would be eyed after the central bank defied market expectations for a more hawkish policy shift. Likewise, both Australia and New Zealand are due to release the said data with the former contemplating whether it is timely to pivot while the latter considers more tightening in the immediate term.

- BNM surprised us by leaving the OPR unchanged at 2.75% during its January MPC meeting, marking the first pause after four straight hikes of 100 bps last year. Compared to the previous Monetary Policy Statement, the latest statement appears to take a clearer stance on inflation and growth, but is somewhat static on the global headwinds front amid prolonged geopolitical tensions. We believe that the market will read cues from the new Budget 2023 to estimate the direction of monetary policy in the short term. As it stands, we maintain our expectations that the central bank to hike by 50 bps to end the year at 3.25% amid labour market improvements and positive spillover effects from China's economic reopening. However, we note the sense of resistance from BNM to hike in the upcoming meeting amid moderating growth and the proposed targeted subsidies.

THANK YOU