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WEEKLY ECONOMIC UPDATE

26 FEBRUARY 2024

ECONOMIC RESEARCH

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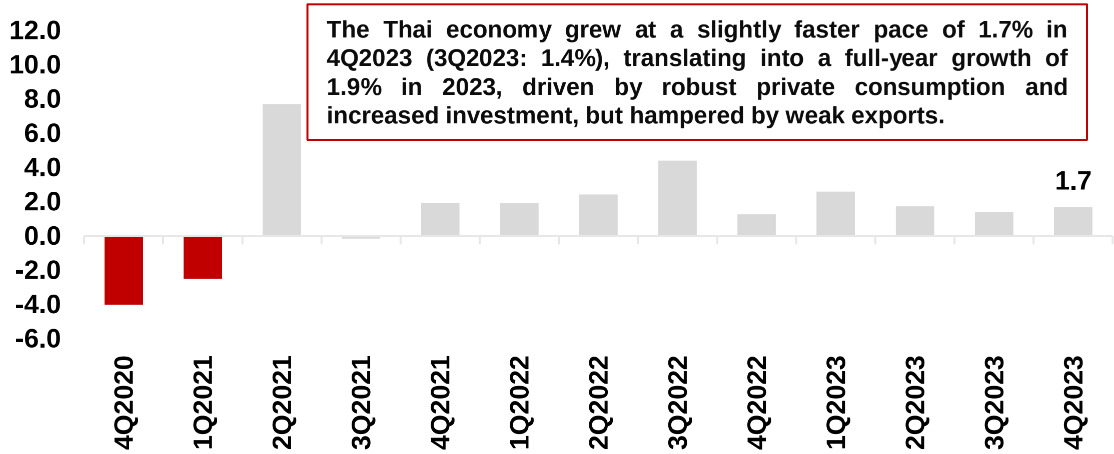
WEEKLY HIGHLIGHT: MALAYSIA'S INFLATION HELD STEADY IN JANUARY

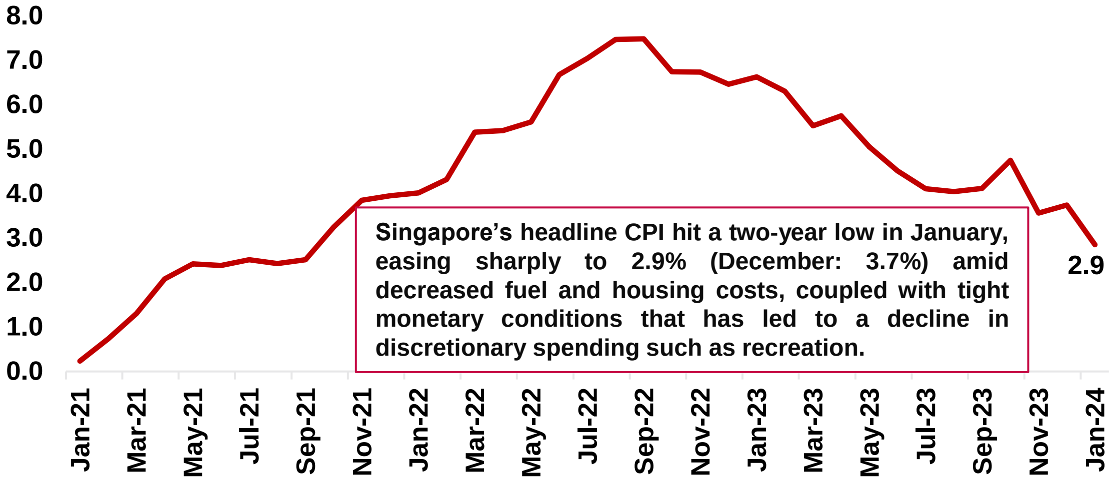
GLOBAL

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



The Thai economy grew at a slightly faster pace of 1.7% in 4Q2023 (3Q2023: 1.4%), translating into a full-year growth of 1.9% in 2023, driven by robust private consumption and increased investment, but hampered by weak exports.

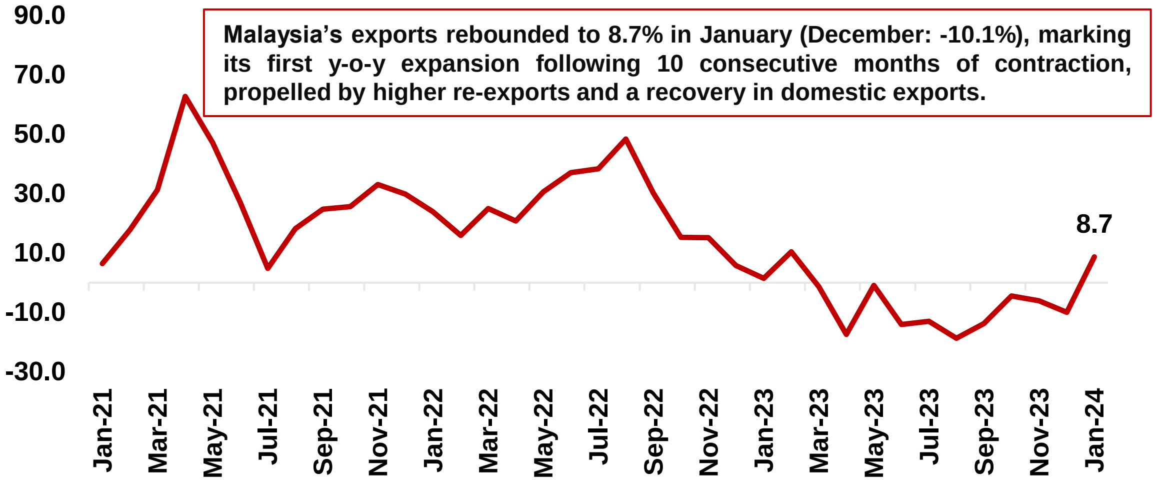
Singapore - Consumer Price Index (CPI), y-o-y%



Singapore's headline CPI hit a two-year low in January, easing sharply to 2.9% (December: 3.7%) amid decreased fuel and housing costs, coupled with tight monetary conditions that has led to a decline in discretionary spending such as recreation.

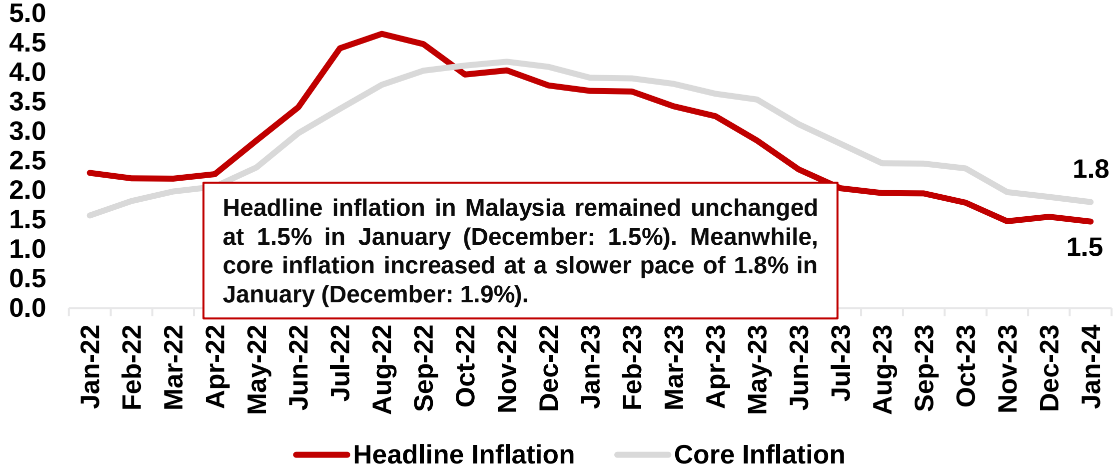
DOMESTIC

Malaysia - Exports, y-o-y%



Malaysia's exports rebounded to 8.7% in January (December: -10.1%), marking its first y-o-y expansion following 10 consecutive months of contraction, propelled by higher re-exports and a recovery in domestic exports.

Malaysia – CPI, y-o-y%



Headline inflation in Malaysia remained unchanged at 1.5% in January (December: 1.5%). Meanwhile, core inflation increased at a slower pace of 1.8% in January (December: 1.9%).

Sources: Office of the National Economic and Social Development Council in Thailand, Singapore Department of Statistics, Department of Statistics Malaysia (DOSM)

REGIONAL EQUITY: CHINESE STOCKS RALLIED AMID FURTHER EASING OF MONETARY POLICY

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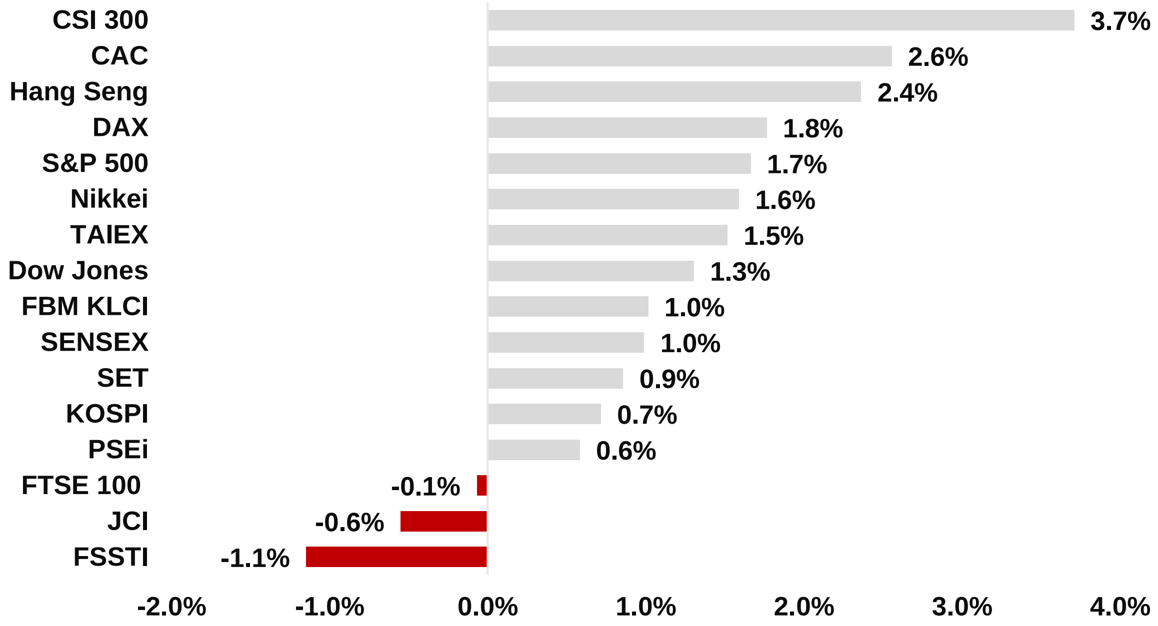
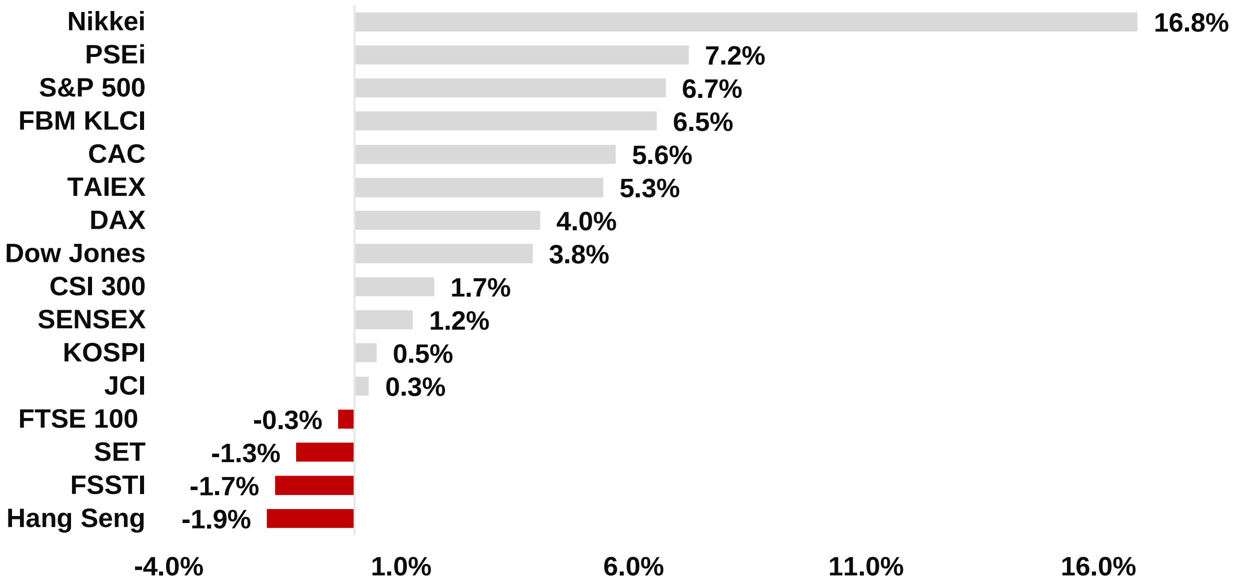
Weekly Gain/Loss of Major Equity Market, w-o-w%



YTD Gain/Loss of Major Equity Markets, %
(As of 23 February 2024)



Sources: Bursa, CEIC Data

- The regional equity benchmark indices mostly ended in the green for the week ending February 23, spearheaded by the Chinese stocks – China's CSI 300 (+3.7%) and Hong Kong's Hang Seng (+2.4%) as investors were emboldened by a package of policies designed to prop up the market and a further loosening of monetary policy.
- U.S. stocks – S&P 500 (+1.7%) and Dow Jones (+1.3%) also ticked higher amid A.I. fuelled rally as Nvidia's strong financial performance led to increased investor confidence, driving the company's market capitalisation above USD2.0 trillion.
- On the other hand, Singapore's FSSTI (-1.1%), Indonesia's JCI (-0.6%) and U.K.'s FTSE 100 (-0.1%) were the only losers last week.

DOMESTIC EQUITY: LOCAL MARKET CLOSED MIX AMID SURGE IN FOREIGN INFLOW

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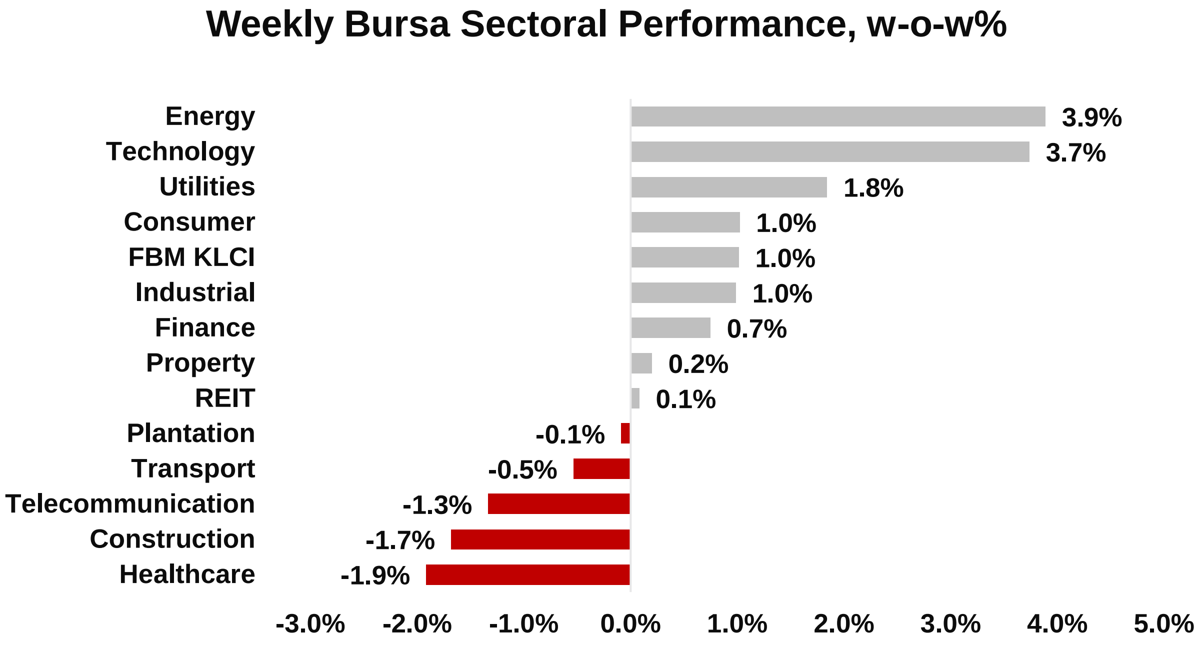
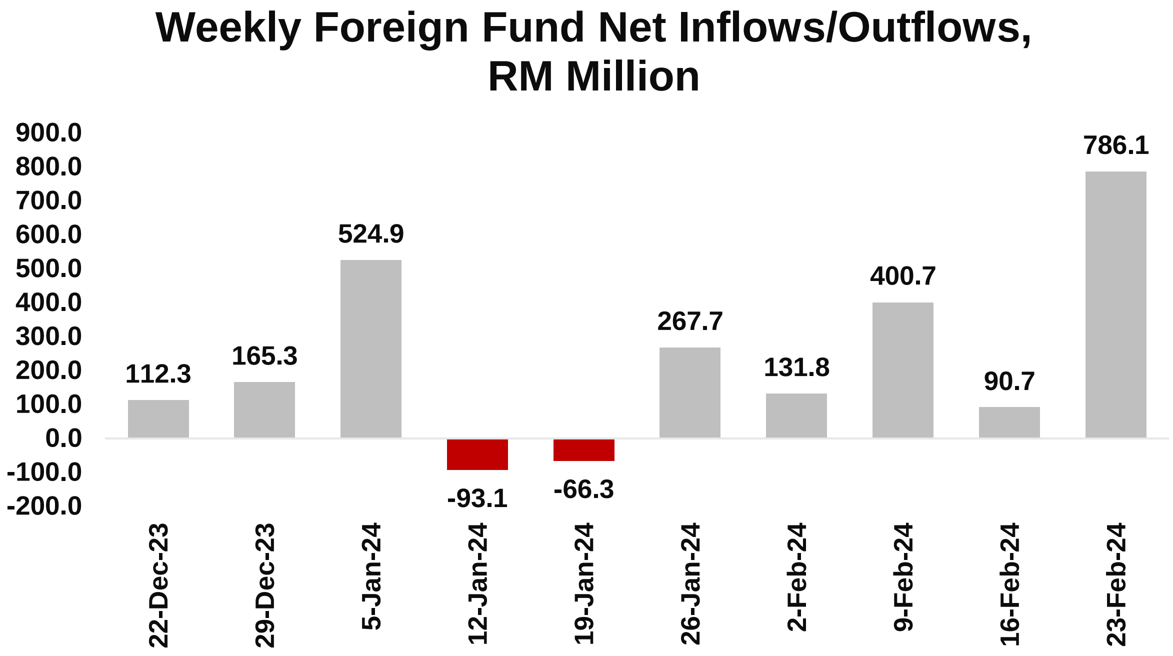




Sources: Bursa, Bank Negara Malaysia (BNM), CEIC Data

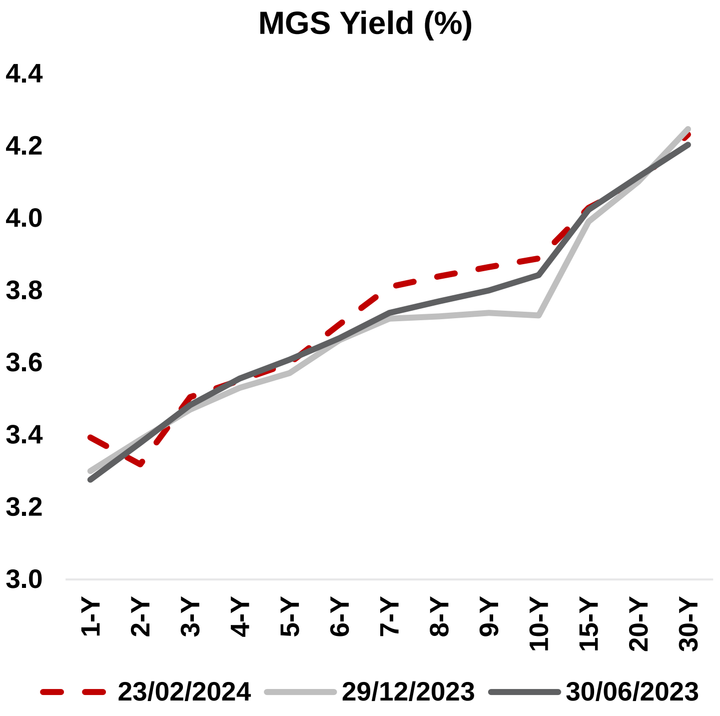
- The FBM KLCI closed in the green on bargain-hunting activities for the week ending February 23, alongside continuous inflow of foreign funds into the local market.
- Additionally, such performance was supported by the larger-than-expected cut in China's 5-year Loan Prime Rate (LPR).
- Leading the gainers was the Energy index (+3.9%), followed closely by the Technology (+3.7%) and Utilities (+1.8%) indices.
- The positive momentum of the Technology index was driven by positive sentiment surrounding the technology market following U.S.' chipmaker Nvidia's better-than-expected performance.
- Meanwhile, the Healthcare (-1.9%), Construction (-1.7%) and Telecommunications (-1.3%) indices were the biggest losers last week.
- Foreign investors continued their net buying streak with a total net inflow of RM786.1 million, marking the highest inflow since mid-March 2022. The buying increased the cumulative total net inflow this year thus far to RM2.0 billion.

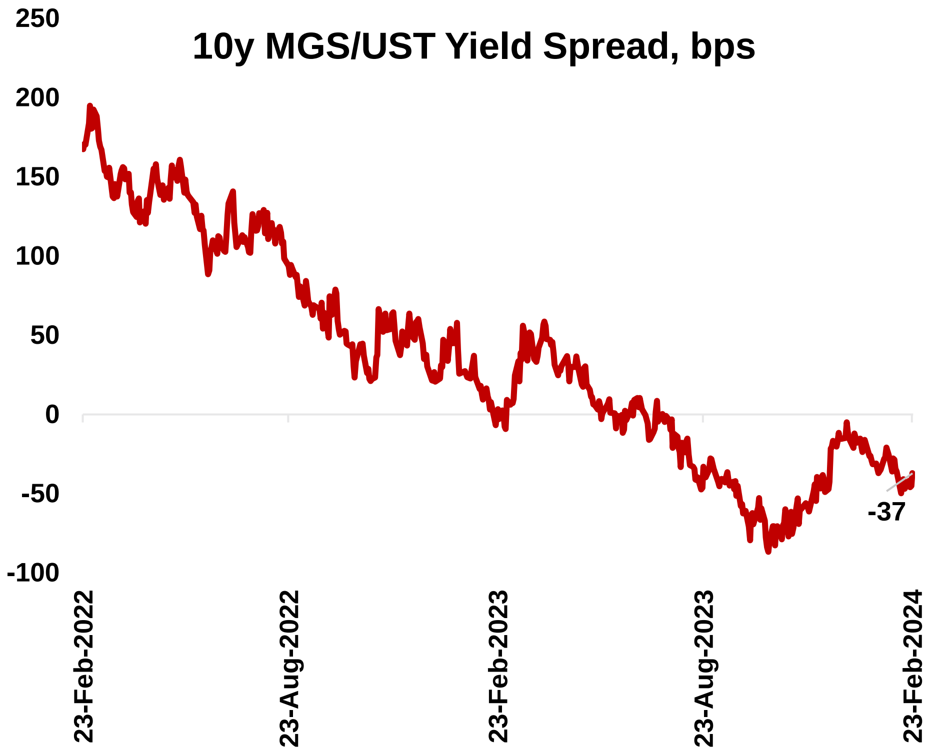
FIXED INCOME: UST YIELD ENDED MIXED AS INVESTORS REASSESSED INTEREST RATE PATH

Weekly Changes, basis points (bps)

UST	Yields (%) 16-Feb-24	Yields (%) 23-Feb-24	Change (bps)
3-Y UST	4.43	4.45	2
5-Y UST	4.29	4.28	-1
7-Y UST	4.31	4.28	-3
10-Y UST	4.30	4.26	-4
MGS	**Yields (%) 16-Feb-24**	**Yields (%) 23-Feb-24**	**Change (bps)**
3-Y MGS	3.40	3.51	11
5-Y MGS	3.54	3.60	6
7-Y MGS	3.77	3.81	4
10-Y MGS	3.83	3.89	6
GII	**Yields (%) 16-Feb-24**	**Yields (%) 23-Feb-24**	**Change (bps)**
3-Y GII	3.42	3.47	5
5-Y GII	3.57	3.61	5
7-Y GII	3.75	3.81	5
10-Y GII	3.85	3.89	4

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yields ended mixed with the shorter end of the curve edging higher by 2bps as investors reassessed the interest rate path as the U.S. Federal Reserve (Fed) stressed a deliberate approach to rate cuts, emphasising a reliance on data and avoiding premature action. On the contrary, UST yields on the belly to the long end of the curve declined in the range of 1bp and 4bps.
- On the domestic front, Malaysian Government Securities (MGS) and Government Investment Issues (GII) saw some selling pressure, with yields surging between 4bps and 11bps.
- The RM5.0 billion 3-Y reopening of MGS issued on February 22 drew a tepid demand with a bid-to-cover (BTC) ratio of 1.7x, relative to the previous RM4.5 billion 3-Y reopening of MGS in July 2023, which garnered a BTC ratio of 1.9x.
- The 10y MGS/UST yield spread narrowed in the negative territory at -37bps relative to -47bps in the previous week.

FX MARKET: RINGGIT IS EXPECTED TO TRADE AROUND RM4.77 TO RM4.78 THIS WEEK

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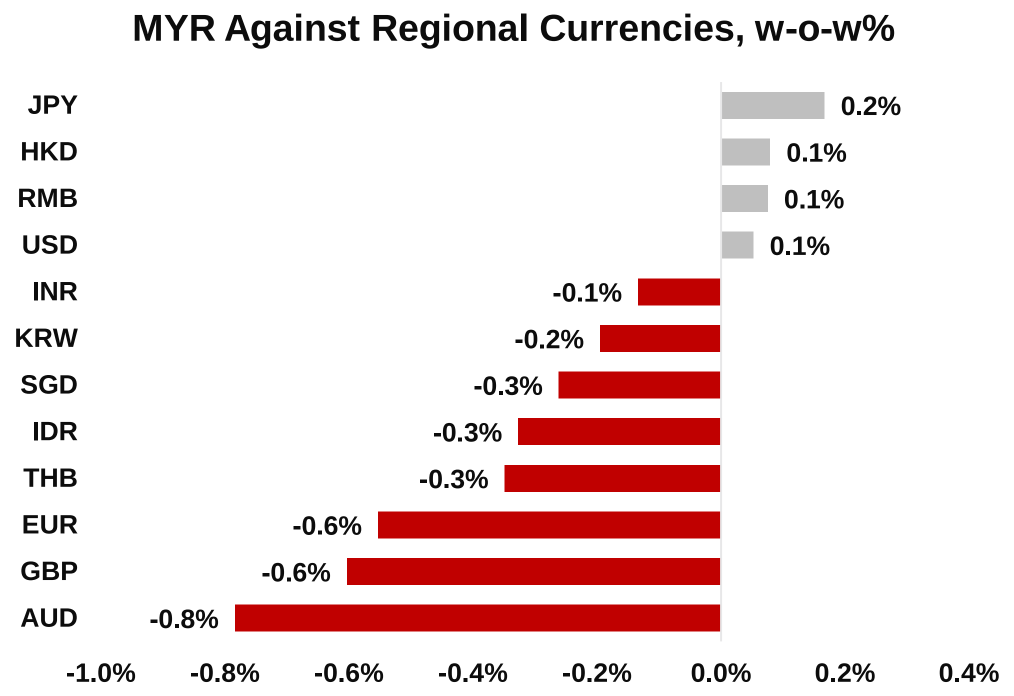

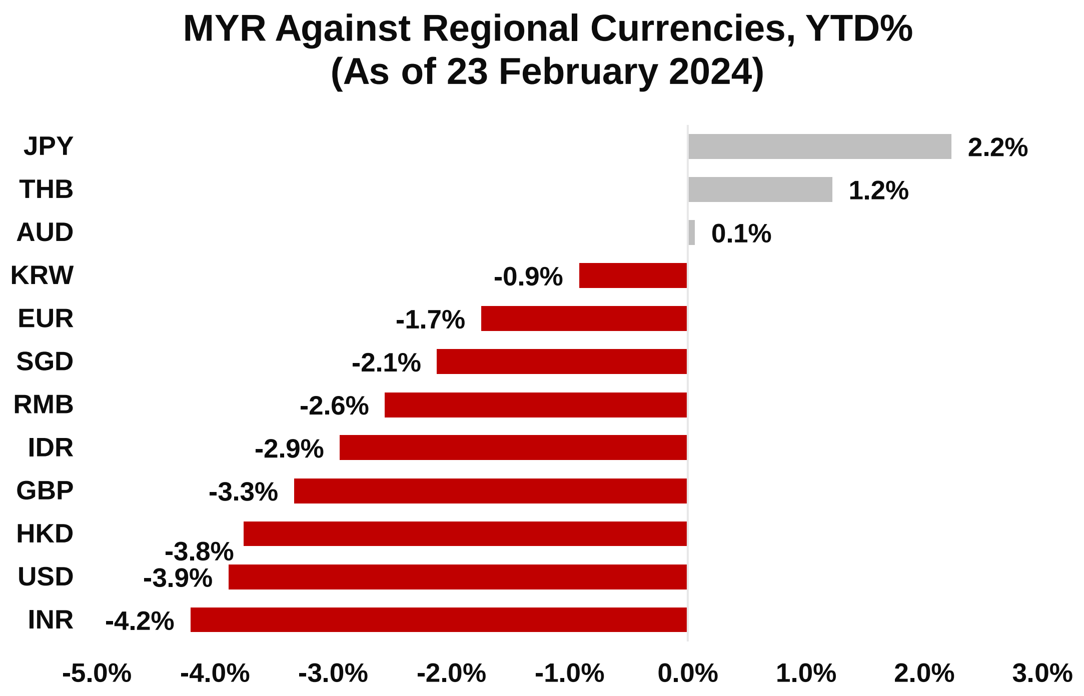

Source: BNM

- YTD, the Ringgit has declined by almost 4.0%, attributable to the external development, particularly in the U.S. regarding its interest rate path outlook.
- The local note movement was quite volatile last week when it briefly touched RM4.80 threshold on Tuesday, leading for the BNM to issue a statement on the prevailing market condition.
- The recent weakening in the Ringgit was due to the changes in the market sentiment related to U.S. economic development which led to a relook in the rate cut timing by the Fed. This is supported by the comment from the Fed Governor Christopher which foresee such decision could be delayed for at least two months.
- On a weekly basis, the Ringgit posed a slightly gain against the greenback as the USD index retreated by 0.3% last Friday.

COMMODITY: THE OIL PRICE DECLINED LAST FRIDAY AFTER POSTING A GAIN FOR TWO STRAIGHT WEEK PREVIOUSLY

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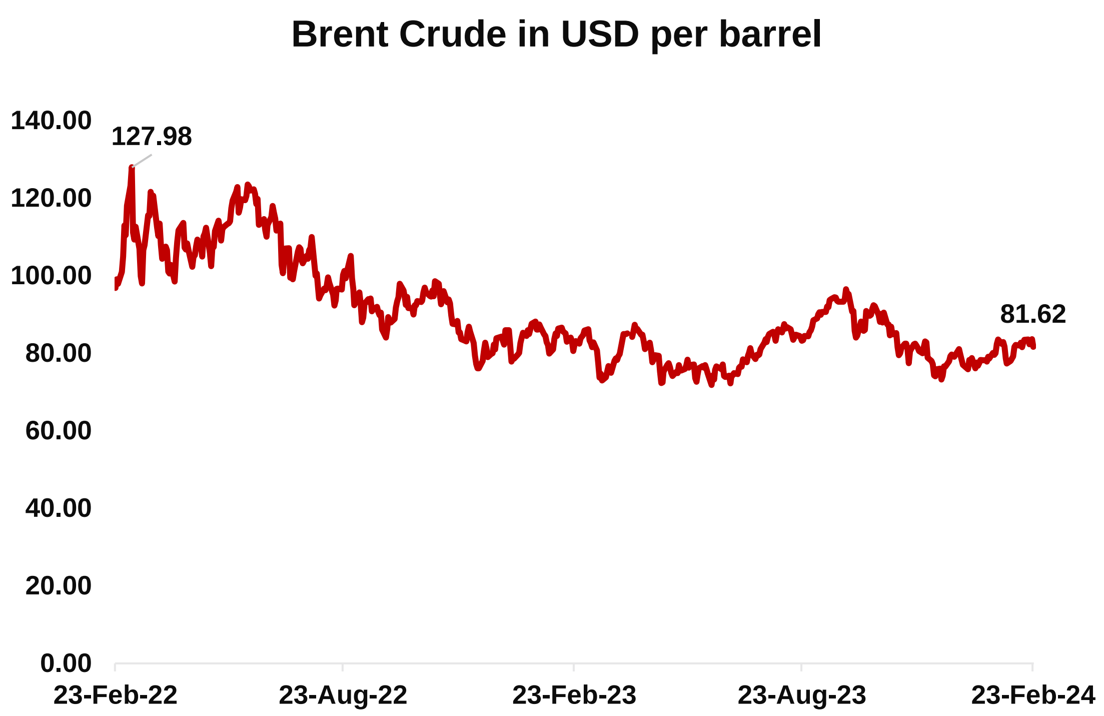

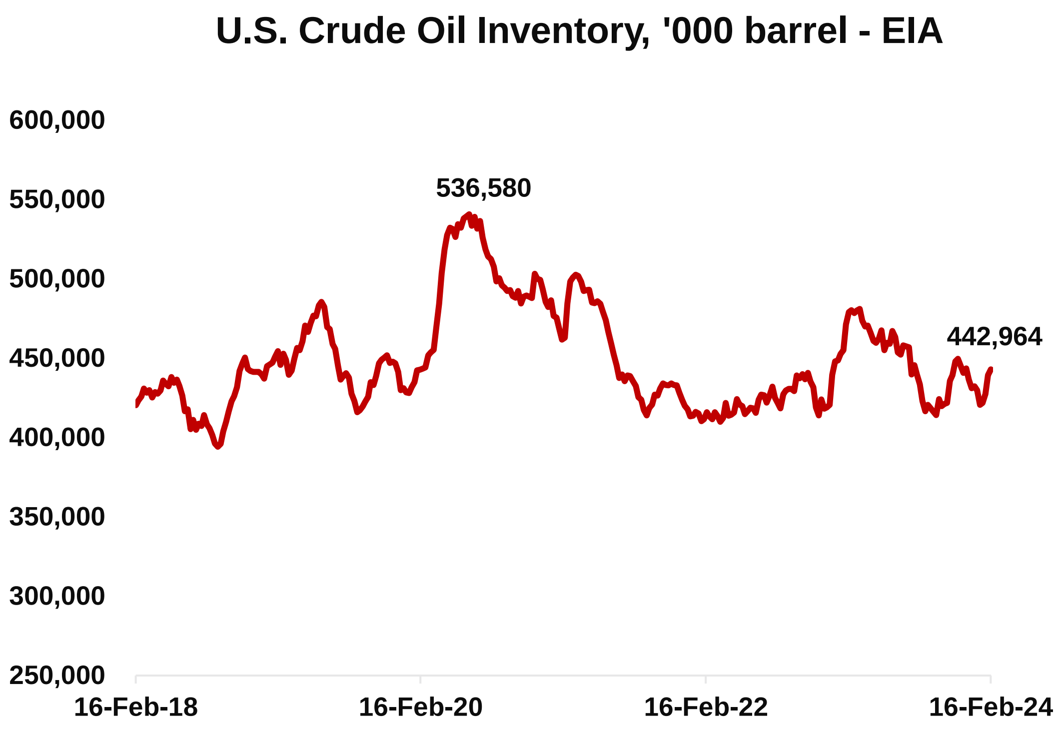

Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price declined for about 2.0% last week after market participants assessed the comment from one of the U.S. policymakers, saying that rate cut by the central bank could delay by at least two months. Such statement suggested a slow economic growth which could curb the oil demand.
- Earlier in the week, stronger-than-expected U.S. January inflation (Act: 3.1% vs. Est: 2.9%) bolstered the bet that the Fed would keep the borrowing cost at an elevated level, while International Energy Agency (IEA) in its monthly report revealed that global demand is losing the steam due to shift towards renewable energy.
- Additionally, the EIA showed the U.S. crude inventories rose less than expected last week.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY GAIN AMID A WEAKER DOLLAR

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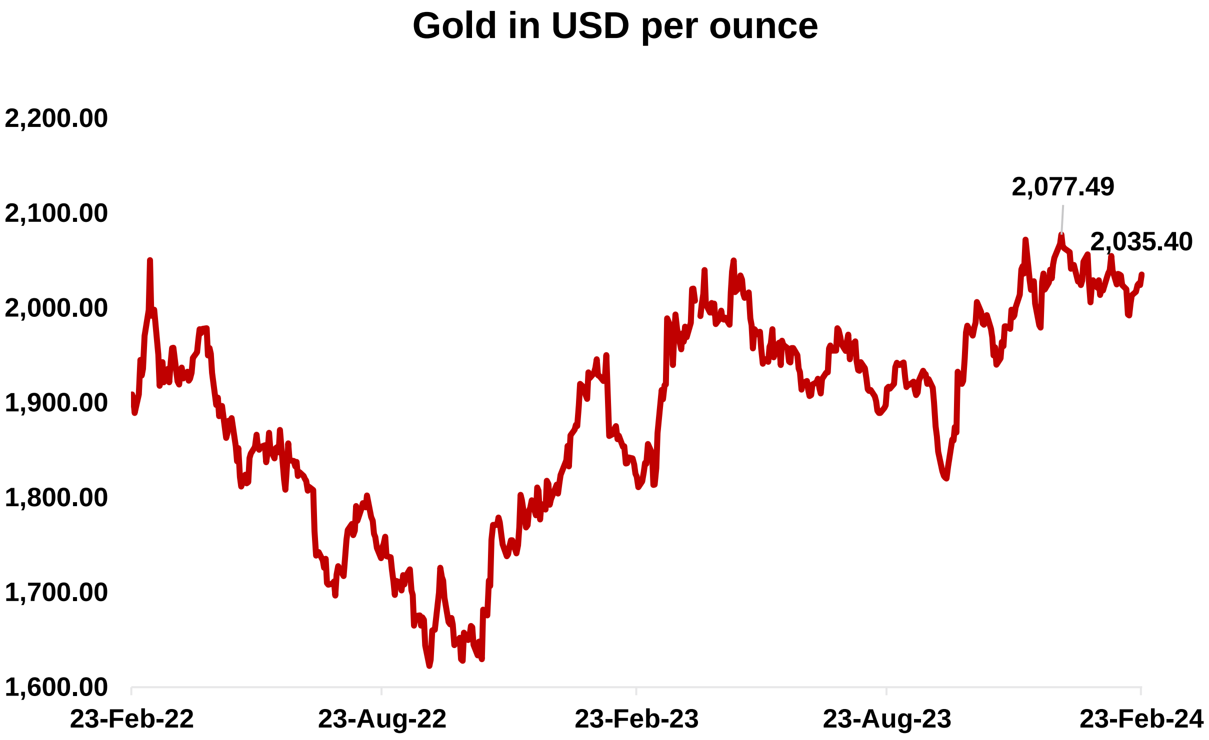

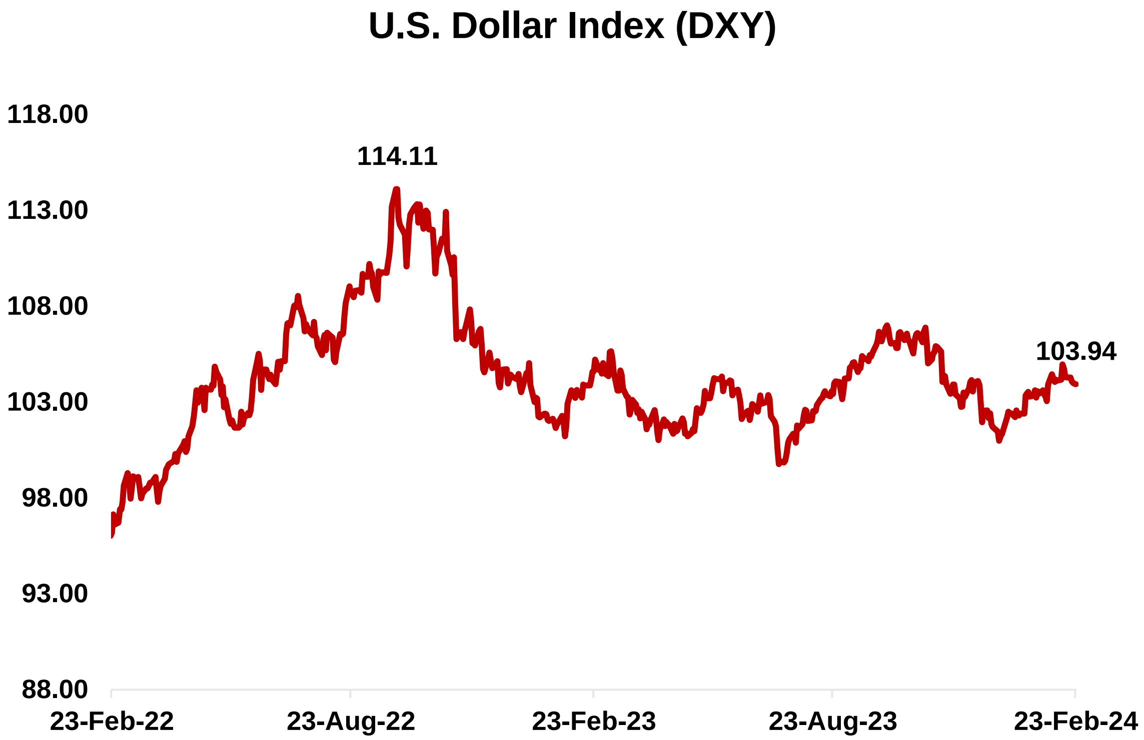

Sources: Bloomberg

- The bullion price regained its footing in the week ending February 23 after falling below the USD2,000-level in the previous week, rising by 1.1% w-o-w on the back of a weak dollar.
- Meanwhile, the greenback's performance remained muted despite signals pointing to the Fed Funds Rate (FFR) staying elevated for longer.
- Of note, the released minutes from the Fed's January policy meeting points to caution in cutting rates too soon while several Fed policymakers have reaffirmed the need for proof that inflation is converging to the targeted 2.0% before decisions could be made.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- After the recent hotter-than-expected consumer and producer price data, the upcoming U.S. personal consumption expenditures (PCE) price index report for January will likely confirm, again, inflation is making a slow progress toward reaching the Fed's desired 2.0% target. Core PCE inflation – the Fed's preferred inflation gauge – is predicted to ease slightly from 2.9% in December on annual basis but likely to have pick up from 0.2% month-on-month (m-o-m). If there is an upside surprise in PCE inflation, together with likely subdued consumer spending and manufacturing Purchasing Managers' Index (PMI) data due this week, we could see a further pushback in investors' rate cut bets. Investors are currently expecting four 25bp cuts starting in June, still higher than the Fed's projected three cuts.

- In the Eurozone, we have seen investors trimming rate cut bets to slightly less than 100bps cut in total by the end of this year. Speeches by European Central Bank (ECB) policymakers including President Lagarde and the Eurozone's preliminary inflation figure for February due this week will be watched for hints on the ECB's future monetary policy path ahead of the central bank's policy meeting concluded on March 7. The Eurozone's inflation in January was confirmed at 2.8% last week, easing from 2.9% in the previous month. Market consensus is expecting the disinflationary path to continue on high base effects, albeit at a moderate pace as wage growth remained above 4.0%.

- It will be a heavy data week for Japan with inflation data for February in focus. Japan's inflation is projected to decelerate in February and thus undershooting the Bank of Japan's (BoJ) 2.0% target for the second straight month (January: 1.6%). Should this materialise, concerns may increase that the BoJ's plan to exit from ultra-loose monetary policy in the coming months will be complicated as Japan's economy unexpectedly slipped into recession in 4Q2023. Nevertheless, BoJ Governor Ueda has, in his recent remarks, said that Japan's economy is "in a state of inflation rather than deflation", indicating BoJ's optimism that the conditions for ending negative interest rates will be satisfied.

- On the domestic front, there will be updates for producer prices and manufacturing PMI. Malaysia's producer prices is likely to stay in the deflationary territory for the fourth straight month in January amid the waning effects of cost-push factors, but at a smaller magnitude than -1.3% recorded in December. On the other hand, Malaysia's manufacturing PMI is foreseen to record a softer contraction in February amid hopes of improving demand.

THANK YOU