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WEEKLY ECONOMIC UPDATE

27 MARCH 2023

ECONOMIC RESEARCH

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KEY HIGHLIGHT OF THE WEEK: PMI REPORTED STELLAR GROWTH AMID IMPROVED DEMAND CONDITIONS

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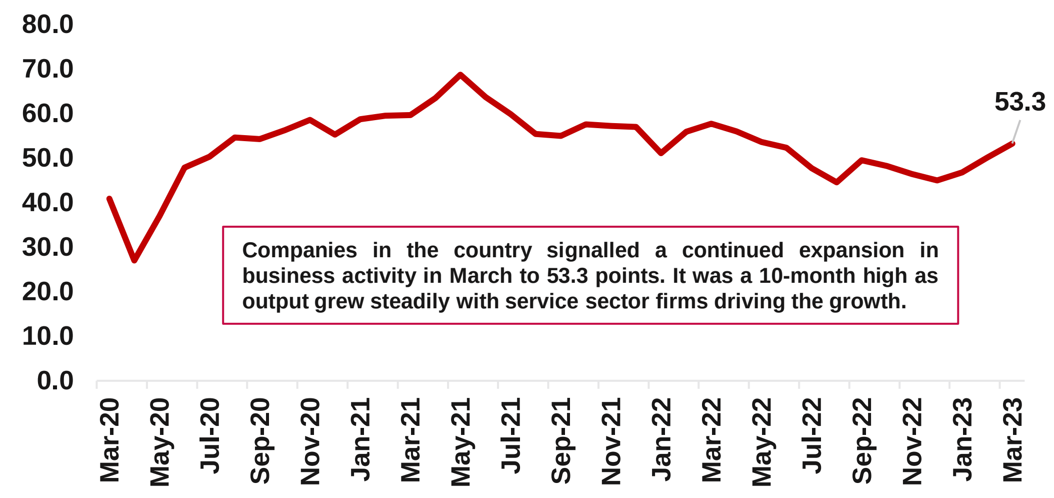
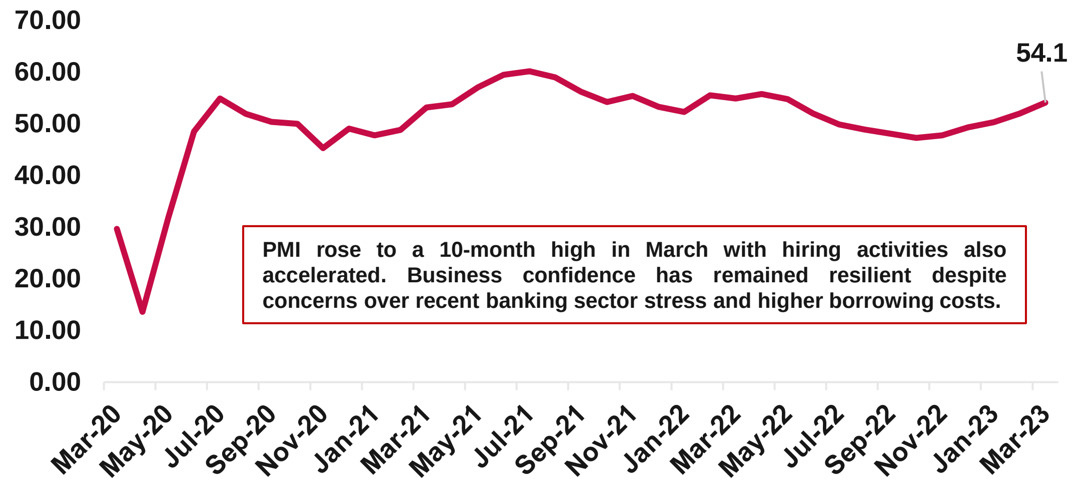
GLOBAL

The U.S. Composite PMI, points

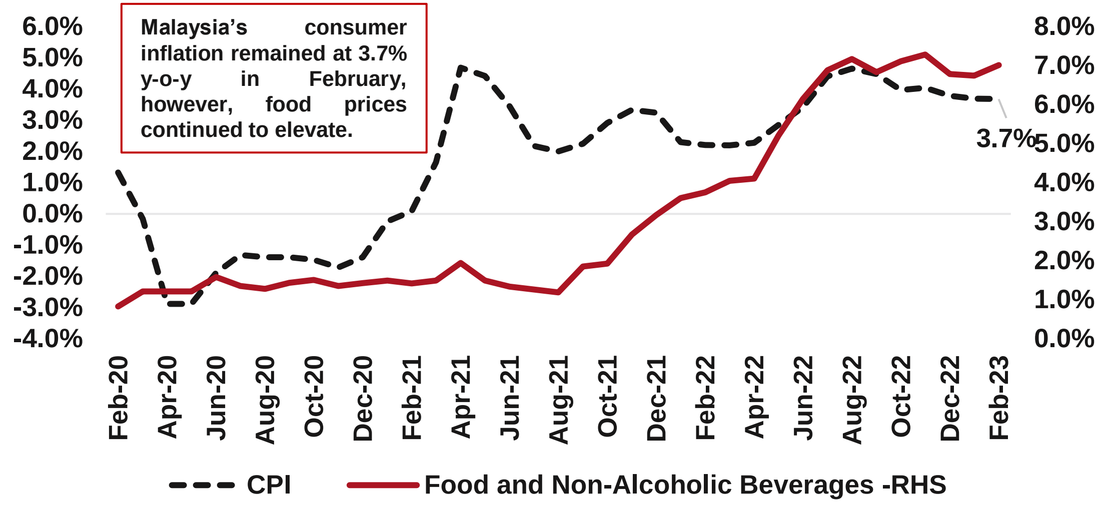


Eurozone Composite PMI, points

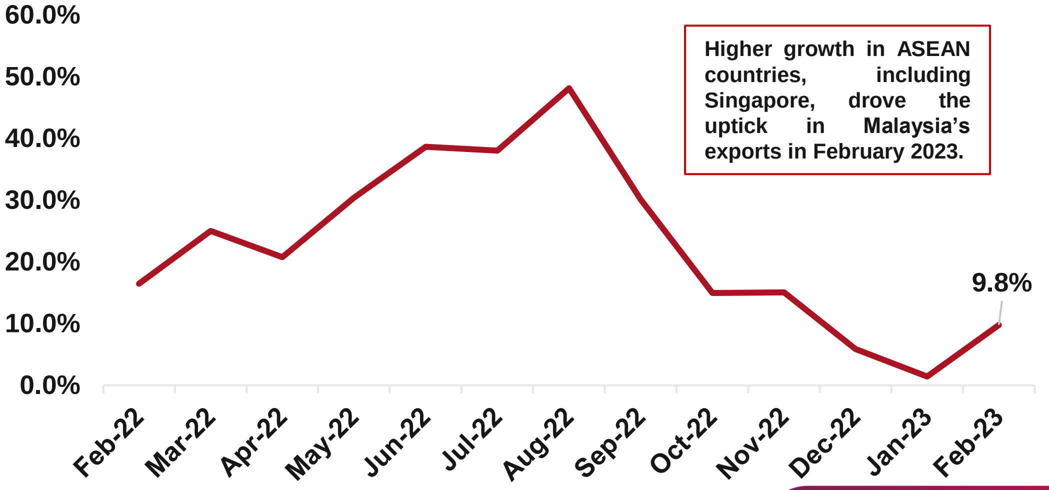


DOMESTIC

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



Malaysia's Exports, y-o-y%



Source: IHS Markit, Department of Statistics Malaysia (DOSM)

REGIONAL EQUITY: MARKETS RESTABILISE AS SENTIMENT LIFTED

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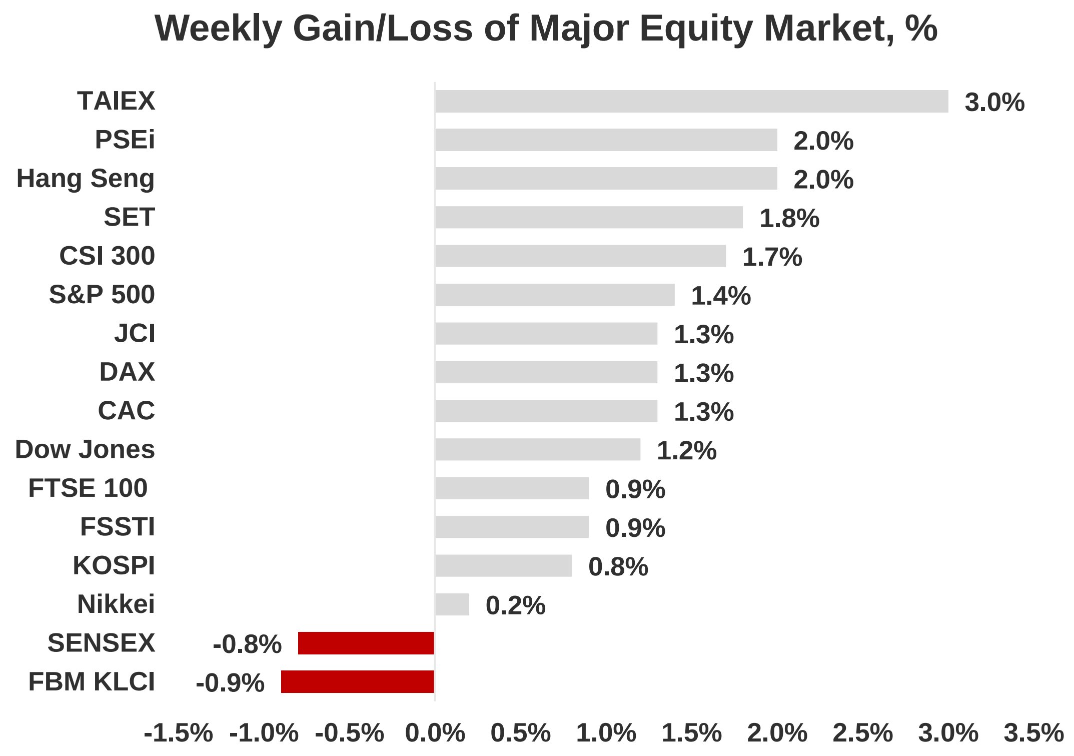
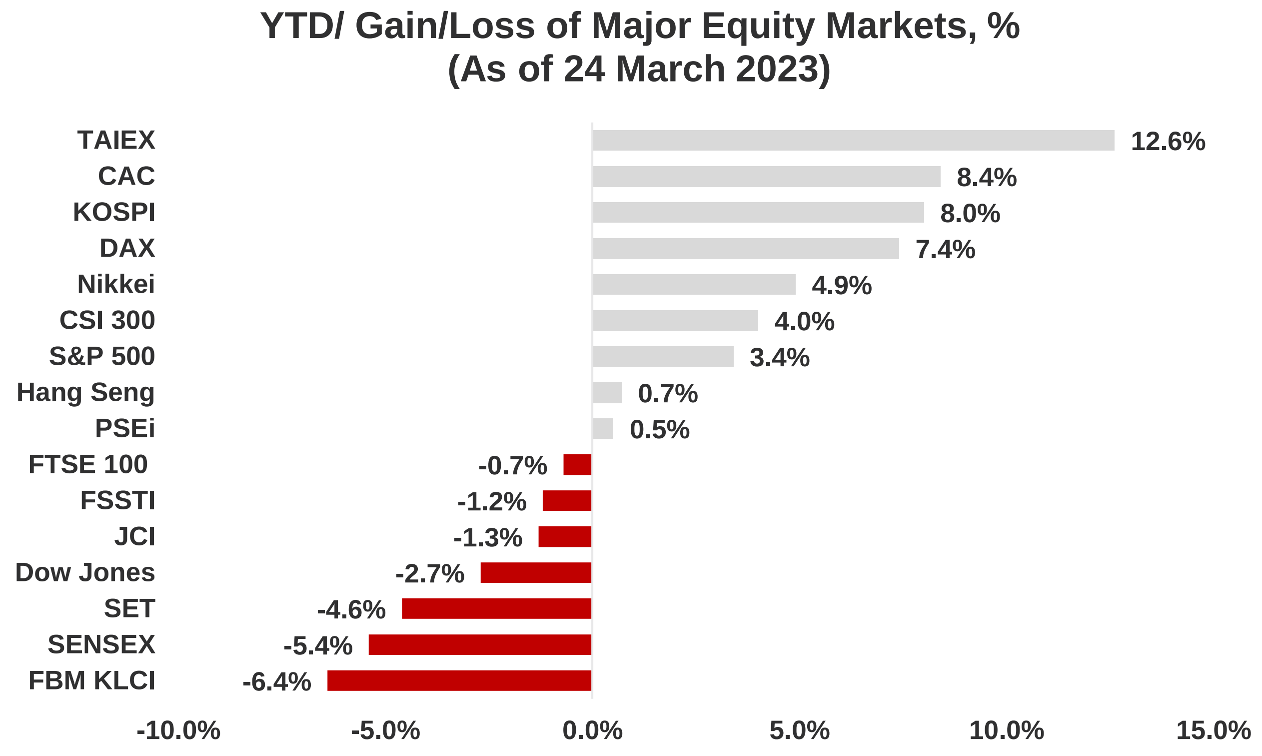
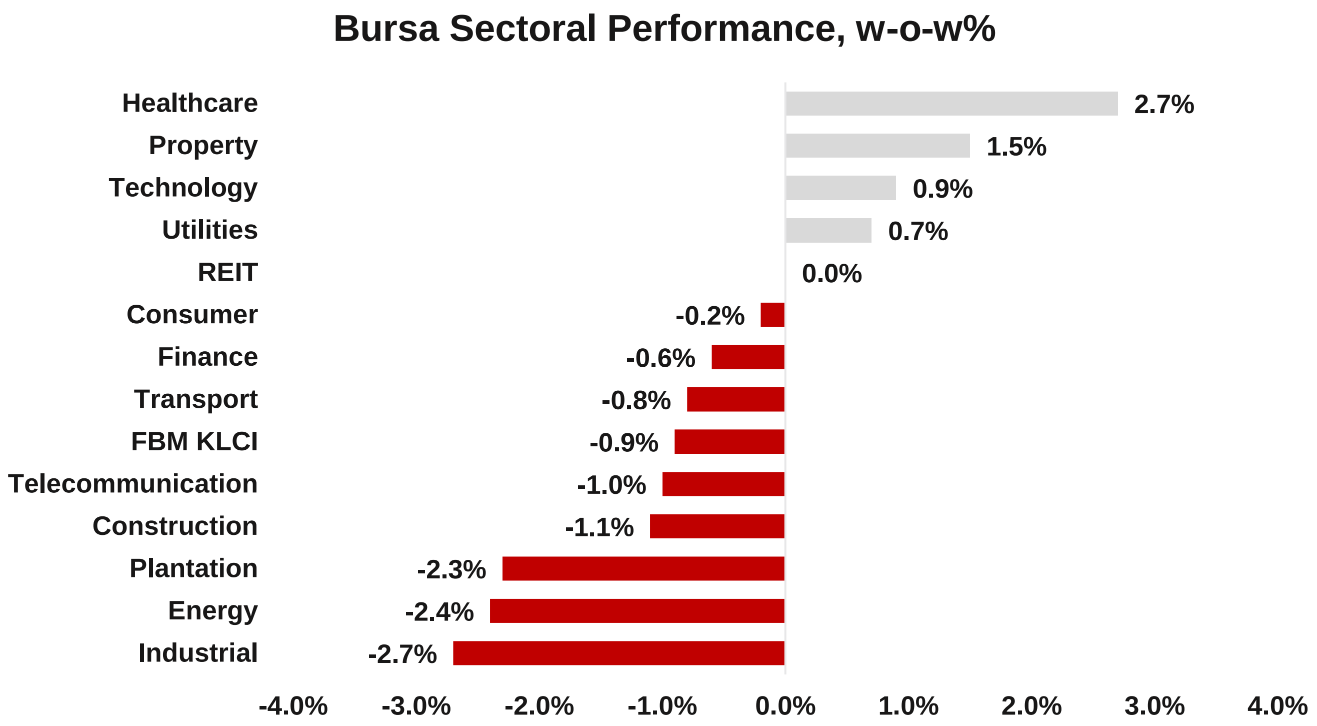


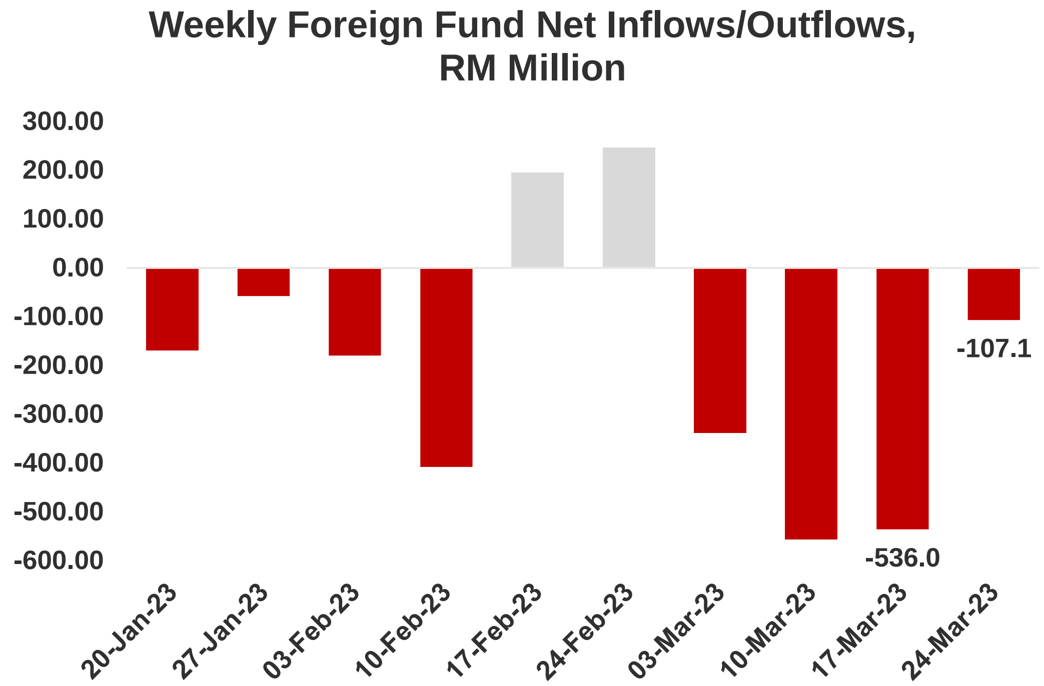


Source: Bursa, CEIC

- Most regional markets closed positively, with Taiwan's TAIEX leading the gainers by 3.0% w-o-w for the week ending on 24 March.
- The overall stronger market performance was mainly driven by better sentiment supported by assurances from the U.S. regulators that the country's banking system remained stable.
- In addition, negative sentiments regarding a worsening global economic landscape were allayed following the FOMC meeting last week, resulting in improving regional stock markets since the banking turmoil in advanced economies.

DOMESTIC EQUITY: GLOBAL UNCERTAINTY BLEEDS INTO LOCAL MARKET





Source: Bursa, CEIC

- Bursa sectoral indices closed mixed, with the Industrial and Energy sectors falling behind by 2.7% w-o-w and 2.4% respectively amid growing fears that the bank crisis in the U.S. could broaden and lead to credit crunch.
- On the contrary, the Healthcare sector flourishes with a 2.7% gain recorded for the week ended on 24 March, followed by Property (1.5%) and Technology (0.9%) indices.
- Meanwhile, foreign funds continued to post net selling, which continued for the fourth straight week, with foreign investors sold-off a total of RM107.1 million last week.
- However, it was lower than the net selling amount of RM536.0 million the preceding week.

FIXED INCOME: BOND YIELDS MOSTLY ENDED LOWER AMID LINGERING ANXIETY OVER RECESSION RISK

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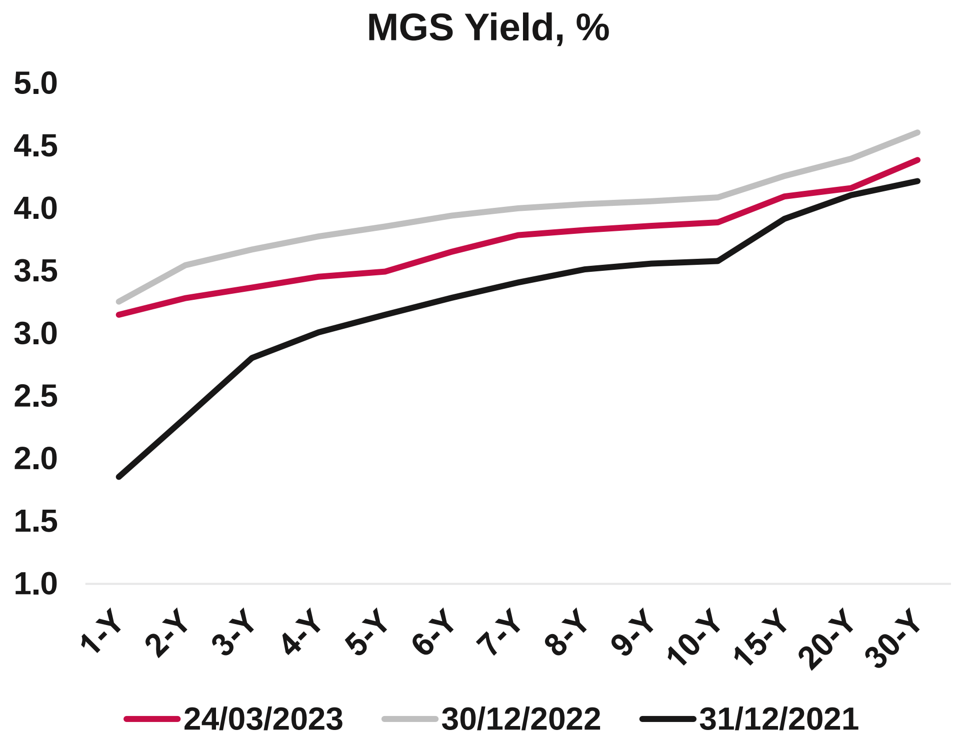
Weekly Changes, basis points (bps)

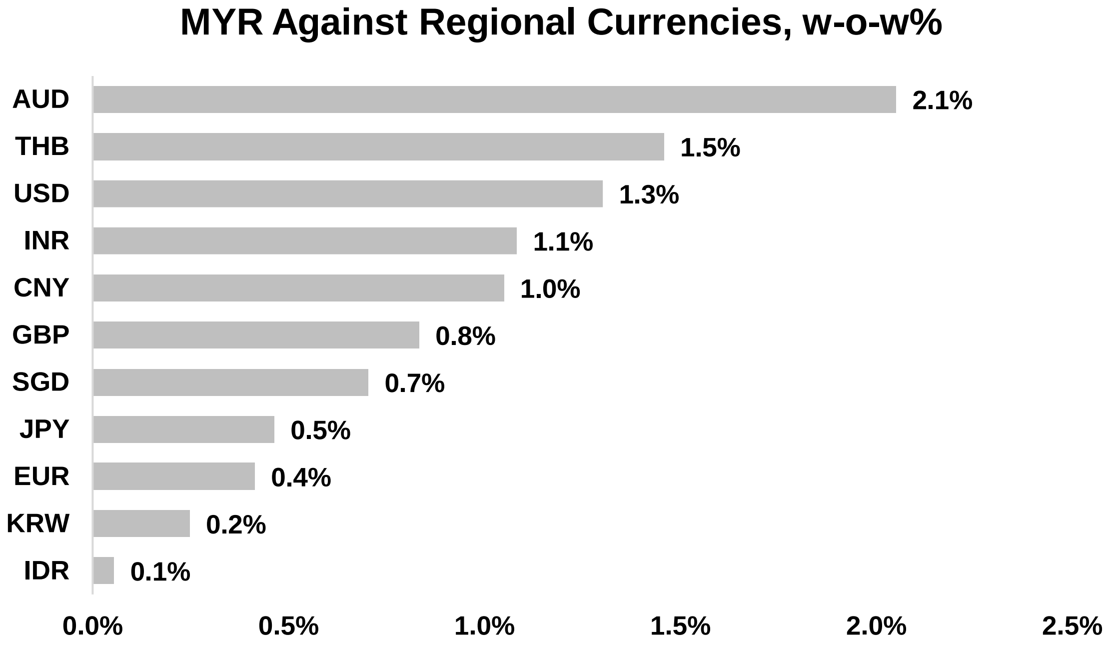
UST	Yields (%) 17-Mar-23	Yields (%) 24-Mar-23	Change (bps)
3-M UST	4.52%	4.74%	22
2-Y UST	3.81%	3.76%	-5
5-Y UST	3.44%	3.41%	-3
10-Y UST	3.39%	3.38%	-1
MGS	**Yields (%) 17-Mar-23**	**Yields (%) 24-Mar-23**	**Change (bps)**
3-Y MGS	3.44%	3.34%	-10
5-Y MGS	3.57%	3.49%	-8
7-Y MGS	3.83%	3.75%	-8
10-Y MGS	3.99%	3.87%	-12
GII	**Yields (%) 17-Mar-23**	**Yields (%) 24-Mar-23**	**Change (bps)**
3-Y MGS	3.39%	3.29%	-10
5-Y MGS	3.64%	3.56%	-8
7-Y MGS	3.85%	3.83%	-2
10-Y MGS	3.99%	3.92%	-7

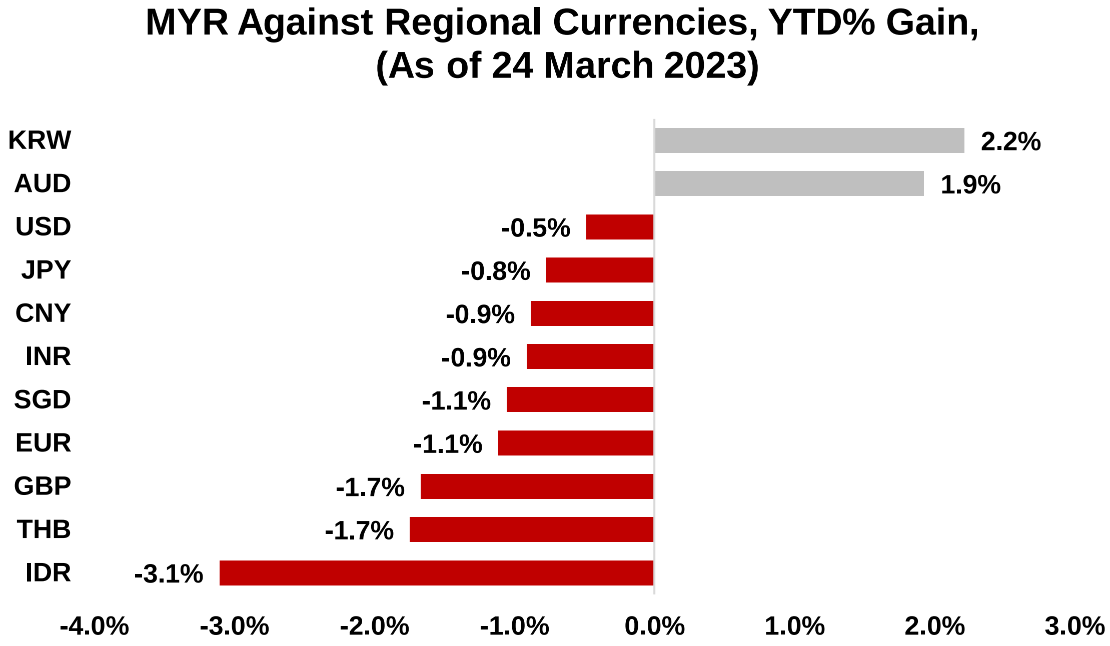
Source: BNM, Federal Reserve Board



- The U.S. Treasury (UST) yields were mixed last week with shorter tenure 3-M UST yield surged by 22 bps to settle at 4.74% following a 25 bps FFR rate hike delivered by the U.S. Fed during the FOMC meeting.
- Meanwhile, the longer tenure bonds of 2-Y UST, 5-Y UST and 10-Y UST yields fell between 1 bps and 5 bps as market participants remained wary of further market volatility.
- On the domestic front, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields went down for the week ending 24 March. We foresee this trend to persist amid renewed concerns over the global banking system.

FX MARKET: RINGGIT IS ANTICIPATED TO TRADE AROUND RM4.40 AGAINST THE USD





Source: Investing.com

- The Ringgit ended higher against the USD by 1.3% on a weekly basis, partly due to the dovish stance of the U.S. Fed in its latest March FOMC meeting following the ongoing banking crisis.
- Despite the Fed's decision to raise the FFR by 25 bps, bringing the rates to 4.75%-5.00% and the highest level since October 2007, the Fed's softer tone on the prospect of future rate hikes led investors to shift out from the greenback, supporting demand for emerging currencies including the Ringgit during the week.
- On a domestic front, we foresee that the local note could be buoyed by a better-than-expected reading February export figure (Act: 9.8% vs Est: 4.5%) following an increase of 1.4% in the previous month due to solid global demand.
- Looking ahead, we foresee that the local note could sustain its upward momentum against the USD, trading around RM4.40 against the USD should the U.S. central bank remain dovish, signaling it is coming closer to the end the rate of the hike cycle.

COMMODITY: BRENT PRICE REBOUNDED BY 2.8%, RECOVERING FROM THE LAST WEEK'S CRASH OF GLOBAL BANKING CHAOS

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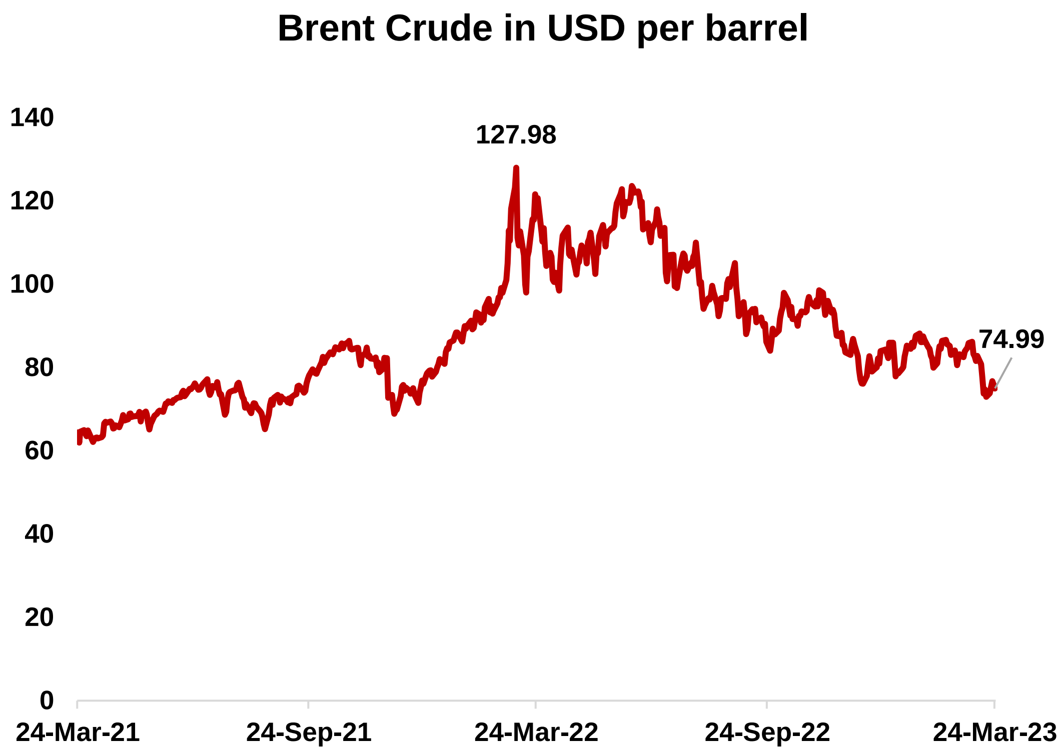

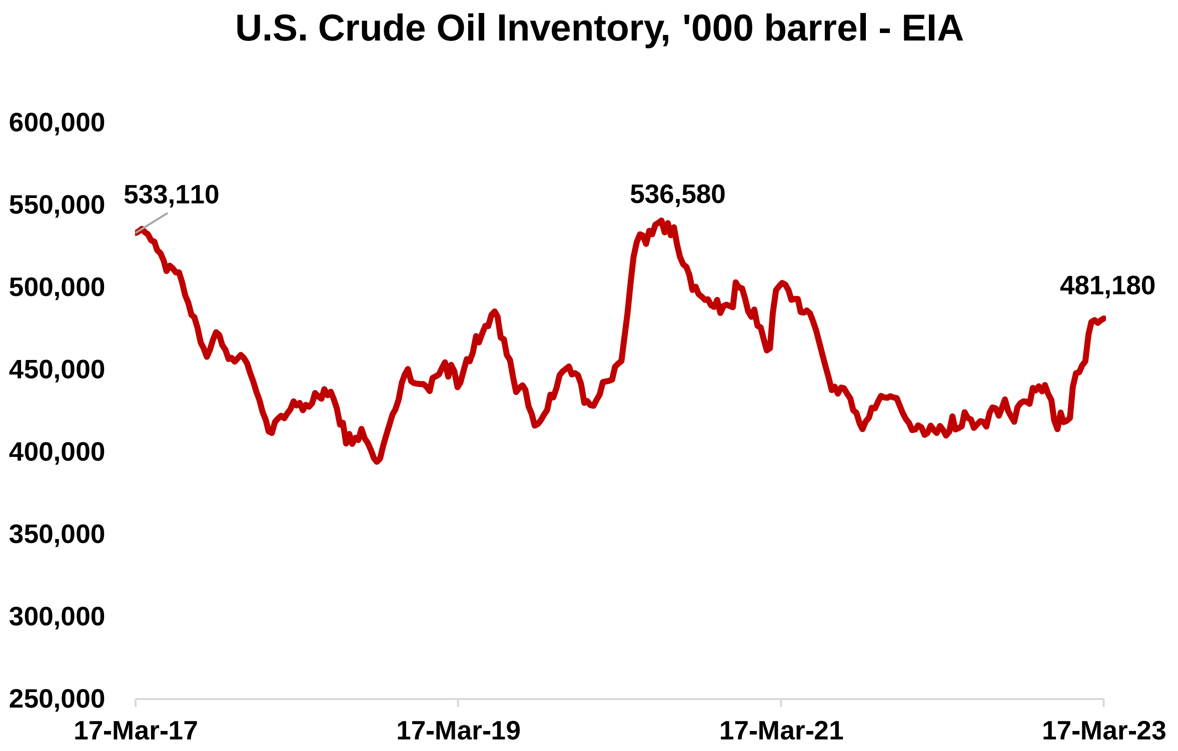

Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price settled nearly below USD75.0 per barrel following U.S. Energy Secretary Jennifer Granholm's statement stating that it would be difficult to refill strategic oil reserves this year, thus, weighing on the outlook of crude demand.
- At the same time, the U.S. crude oil inventories have been building up on the supply side, as EIA reported. The crude oil stockpiles rose by 1.1 million barrels to 481.2 million barrels in the week ending 17 March from 480.1 million barrels the previous week, indicating lower demand in the world's largest economy.
- Be that as it may, the upward force in the oil market during the week was underpinned by the bets that the Fed would end its tightening cycle and anticipate returning Chinese demand.

COMMODITY: GOLD PRICE HOVERED CLOSELY TO USD2,000 AN OUNCE, THE HIGHEST THUS FAR IN MARCH DUE TO FEARS OVER BANKING CRISIS

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Gold in USD per ounce

U.S. Dollar Index (DXY)

Sources: Bloomberg, Commodity Research Bureau

- In the latest development, the Deutsche Bank was under pressure as its share plunged amid a spike in the credit default swaps in the aftermath of Credit Suisse's troubles last week, triggering a flight to safety for safe-haven demand.
- Meanwhile, the U.S. central bank raised its key rates by 25 bps, as widely anticipated, but set a dovish tone in its both policy report and Summary of Economic Projections for the month of March.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- The global banking turmoil has become the focal point of investor concerns following the collapse of three regional U.S. banks and UBS's rapid Credit Suisse takeover, which left financial institutions and regulators scrambling for answers. Recently, market participants have focused on German giant Deutsche Bank as its shares plunged as investors sniff for signs of weakness in big banks. However, Germany's Olaf Scholz dismissed fear over the bank, stating there is no basis to speculate as it had "thoroughly reorganised and modernised its business model and is a very profitable bank". Meanwhile, FDIC has confirmed that family-owned First Citizens Bank will acquire SVB's USD72 billion assets at a discount of USD16.5 billion.

- Following the March FOMC meeting's decision last week, the highlight of the week would be Friday's core personal consumption expenditure (PCE) price index, the Fed's favoured measure of inflation as it is anticipated to remain elevated during February. This could keep the Fed officials on their toes as they seek to balance inflation-fighting resolve and pressure arising from the banking crisis. At the same time, March consumer confidence data is due on Tuesday, presumably to show the impact of stresses in the financial market. Other data includes pending home sales, revised quarterly 4Q2022 GDP, and weekly jobless claims (IJC).

- Investors would be closely eyeing Fed officials' speeches this week, hoping to have some insights on the other rate hikes appetite moving forward. Fed Governor Philip Jefferson will discuss monetary policy during an event on Monday, followed by speeches from Boston Fed President Susan Collins, Richmond Fed President Tom Barkin, and governors Christopher Waller and Lisa Cook. Meanwhile, over the weekend, Minneapolis Fed President Neel Kashkari spoke during an interview that the global banking turmoil had increased the U.S. recession risks.

- On the domestic front, Malaysia's inflation rate was at 3.7% in February, indicating the latest print to remain sticky. Inflation has been flat for the past three months. In February 2022, it was still driven by the elevated food inflation (February: 7.0% vs January: 6.7%), carrying a 29.5% weightage in the CPI basket. On the interest rate outlook, we are sensing resistance to normalise rates further amid a fragile global demand outlook and static domestic labour market conditions. We posit that BNM would keep the OPR steady until the year-end, subject to further direction during the release of the 2022 BNM Annual Report this Wednesday.

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THANK YOU