WEEKLY ECONOMIC UPDATE

27 JUNE 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: MALAYSIA'S HEADLINE CPI CONTINUED TO SOFTEN BUT CORE INFLATION REMAINED STICKY

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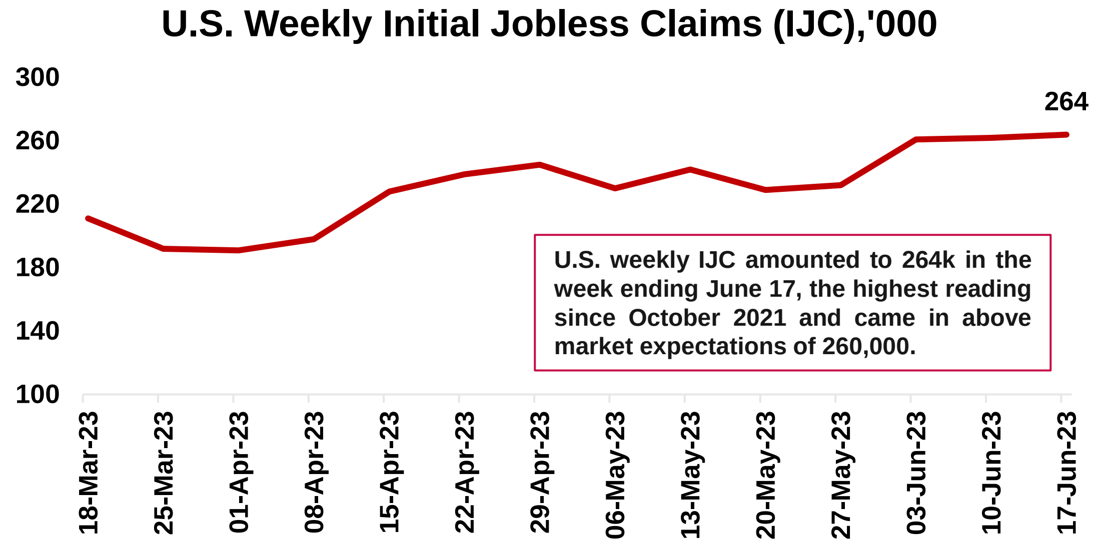
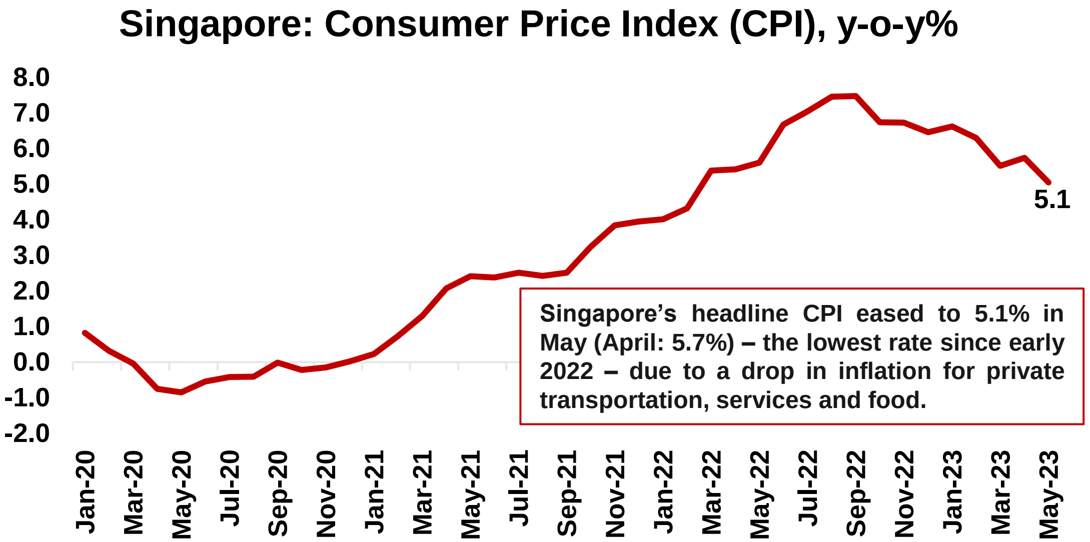
GLOBAL

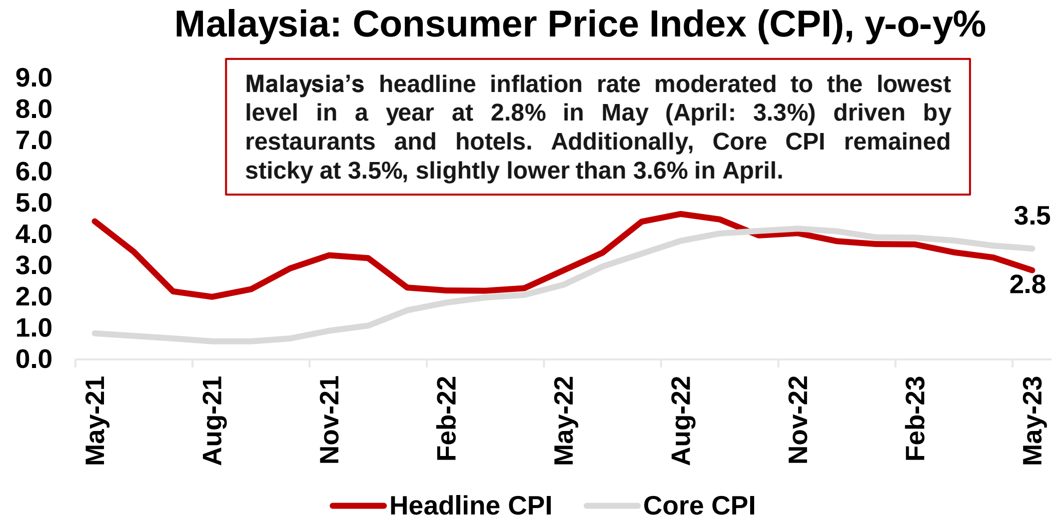


U.S. weekly IJC amounted to 264k in the week ending June 17, the highest reading since October 2021 and came in above market expectations of 260,000.

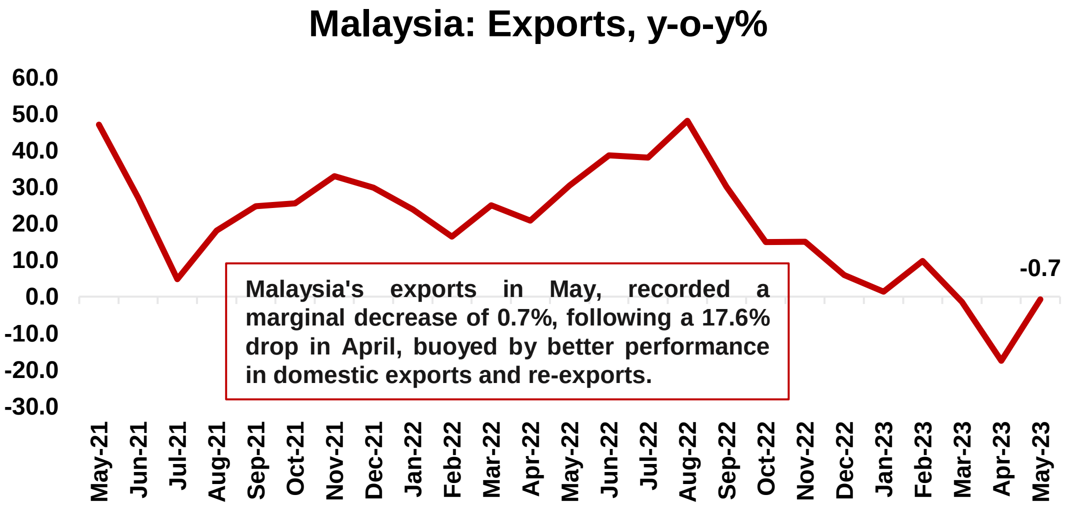


Singapore's headline CPI eased to 5.1% in May (April: 5.7%) – the lowest rate since early 2022 – due to a drop in inflation for private transportation, services and food.

DOMESTIC



Malaysia's headline inflation rate moderated to the lowest level in a year at 2.8% in May (April: 3.3%) driven by restaurants and hotels. Additionally, Core CPI remained sticky at 3.5%, slightly lower than 3.6% in April.



Malaysia's exports in May, recorded a marginal decrease of 0.7%, following a 17.6% drop in April, buoyed by better performance in domestic exports and re-exports.

Sources: U.S Department of Labour, Singapore Department of Statistics, Department of Statistics Malaysia

REGIONAL EQUITY: GLOBAL STOCK MARKETS SLID AS RECESSIONARY FEARS REKINDLED

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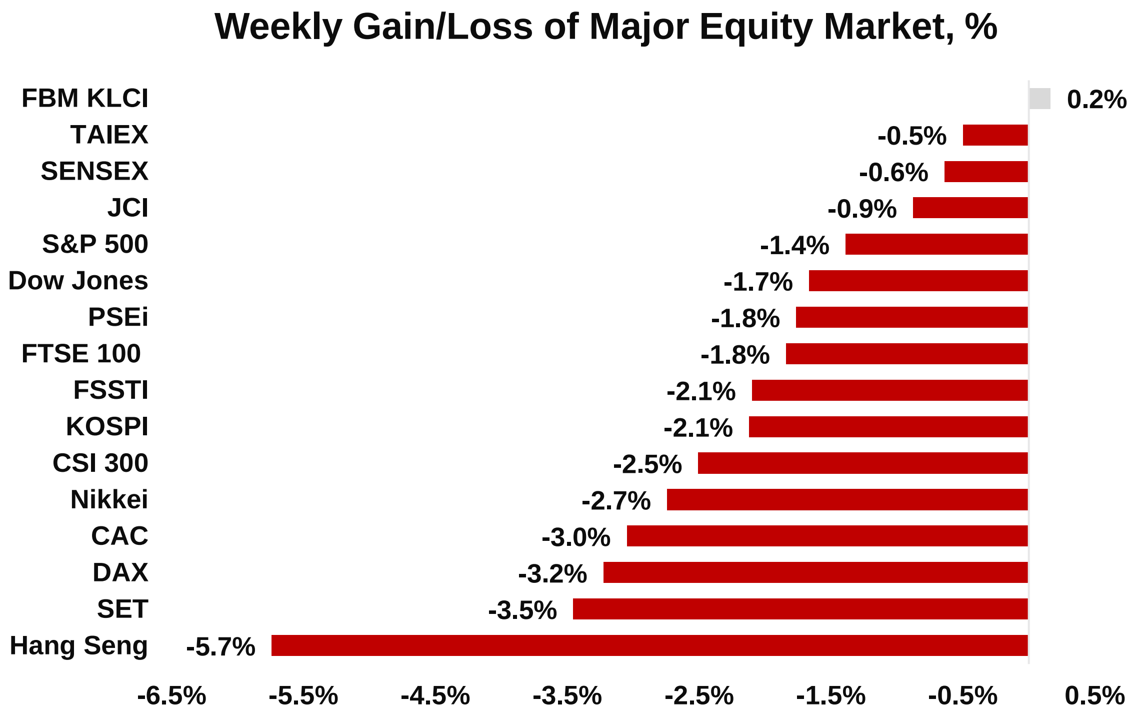

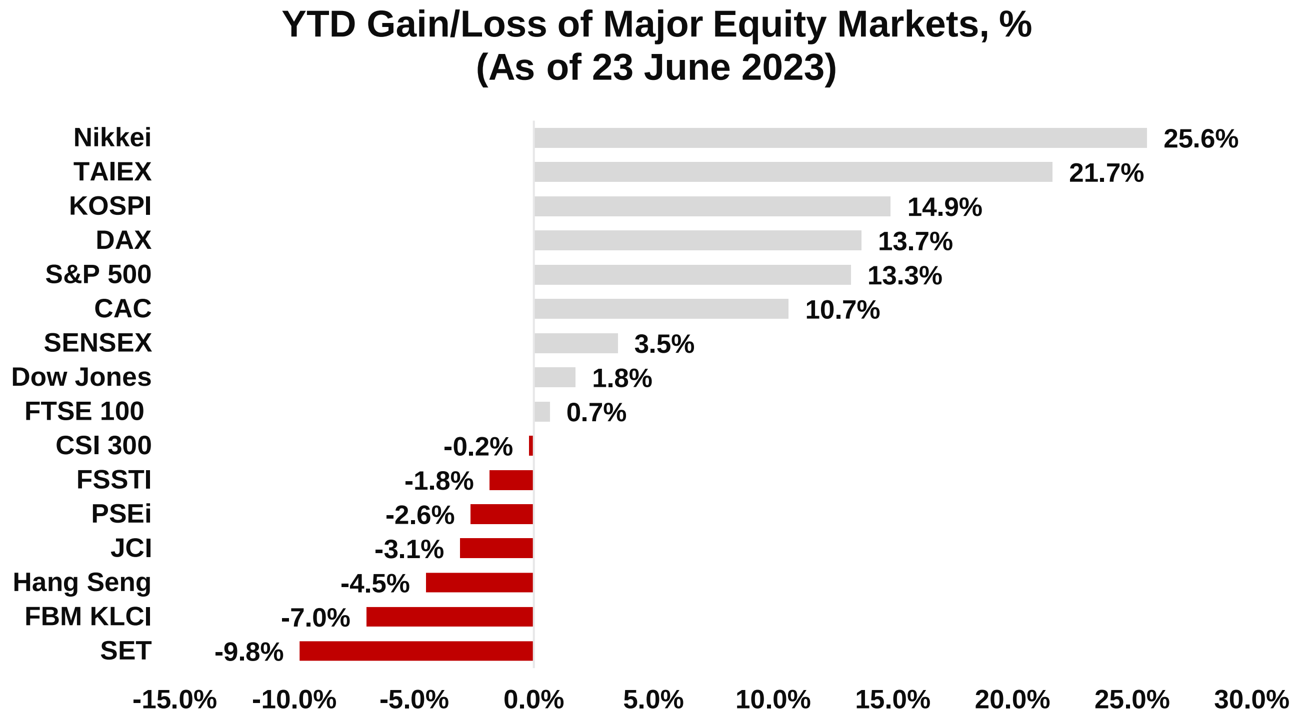

Sources: Bursa, CEIC

- Regional equity markets mostly ended in the red sea, with the only gainer for last week being Malaysia's FBM KLCI by 0.2%. Meanwhile, Hong Kong's Hang Seng (-5.7%), Thailand's SET (-3.5%), and Germany's DAX (-3.2%) were the losers.
- Stock markets plunged into the negative territory as market players grew concerned that the hawkish moves by major central banks would lead to major economies entering a prolonged recession.
- The Federal Reserve (Fed) held interest rates steady at its last meeting after hiking rates aggressively throughout 2022 and into 2023 to quell red-hot inflation. Inflation has cooled to 4.0% in May, the slowest pace since March 2021.
- Nevertheless, the Fed has signaled that it may raise rates twice this year to push inflation down to its target of 2.0%.

FIXED INCOME: UST YIELDS MOSTLY MUTED, WHILST LOCAL GOVVIES YIELDS SURGED

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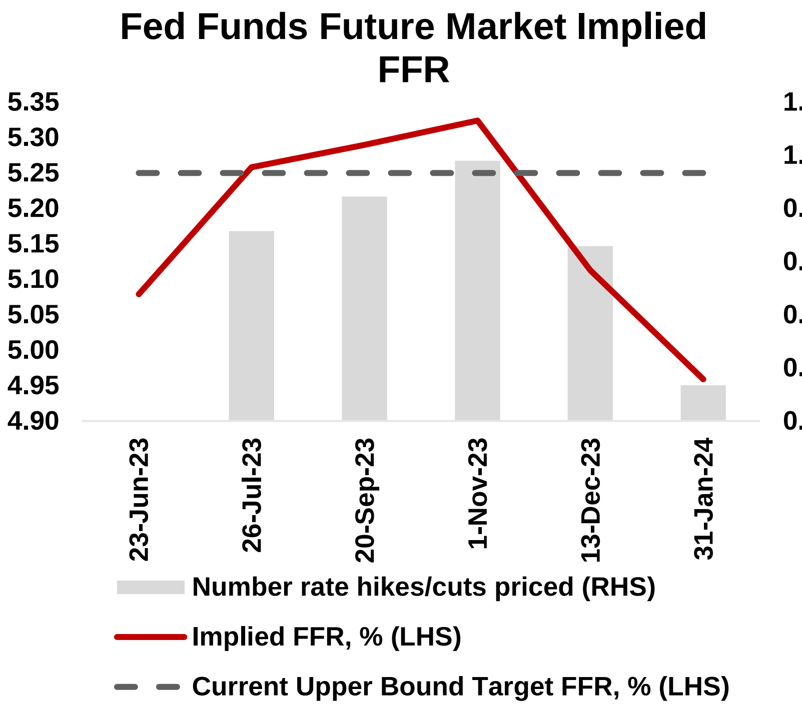
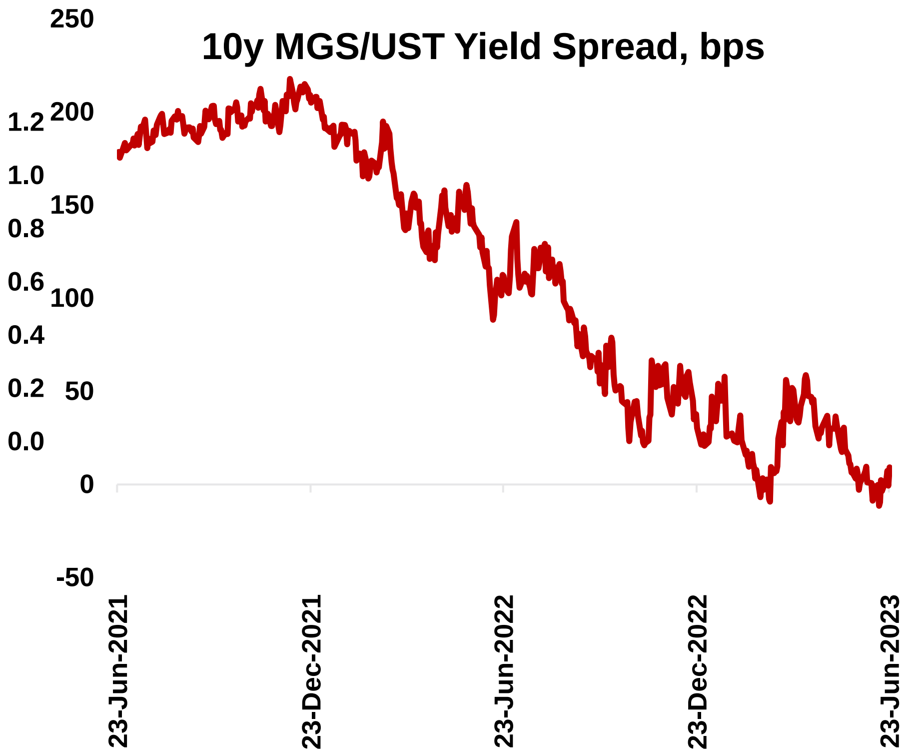
Weekly Changes, basis points (bps)

UST	Yields (%) 16-Jun-23	Yields (%) 23-Jun-23	Change (bps)
3-Y UST	4.32	4.32	0
5-Y UST	3.99	3.99	0
7-Y UST	3.88	3.88	0
10-Y UST	3.77	3.74	-3
MGS	**Yields (%) 16-Jun-23**	**Yields (%) 23-Jun-23**	**Change (bps)**
3-Y MGS	3.44	3.48	4
5-Y MGS	3.53	3.61	8
7-Y MGS	3.66	3.74	8
10-Y MGS	3.74	3.83	10
GII	**Yields (%) 16-Jun-23**	**Yields (%) 23-Jun-23**	**Change (bps)**
3-Y GII	3.47	3.48	1
5-Y GII	3.57	3.61	3
7-Y GII	3.74	3.76	2
10-Y GII	3.84	3.88	4





Sources: Bank Negara Malaysia (BNM), Federal Reserve Board, Bloomberg

- The U.S. Treasury (UST) yields mostly muted last week, with only 10y UST yield that moved downwards by 3bps due to the concerns that higher interest rates could cause a recession outweighed the opportunity cost of government bonds.
- The movement occurred after Fed Chair Jerome Powell emphasized that Federal Open Market Committee (FOMC) members believe that the FFR must continue to increase to bring inflation down, despite recent data underscoring the negative impact of a tighter monetary setting.
- Meanwhile, Malaysian Government Securities (MGS) yields bear steepened in the range of 4bps and 10bps. Government Investment Issues (GII) yields surged between 1bp to 4bps.
- The 10y MGS/UST yield spread ended wider in the week ended 23 June at 9bps relative to -4bps in the prior week.

DOMESTIC EQUITY: LOCAL MARKET ENDS IN RED AMID CAUTIOUS MARKET SENTIMENTS

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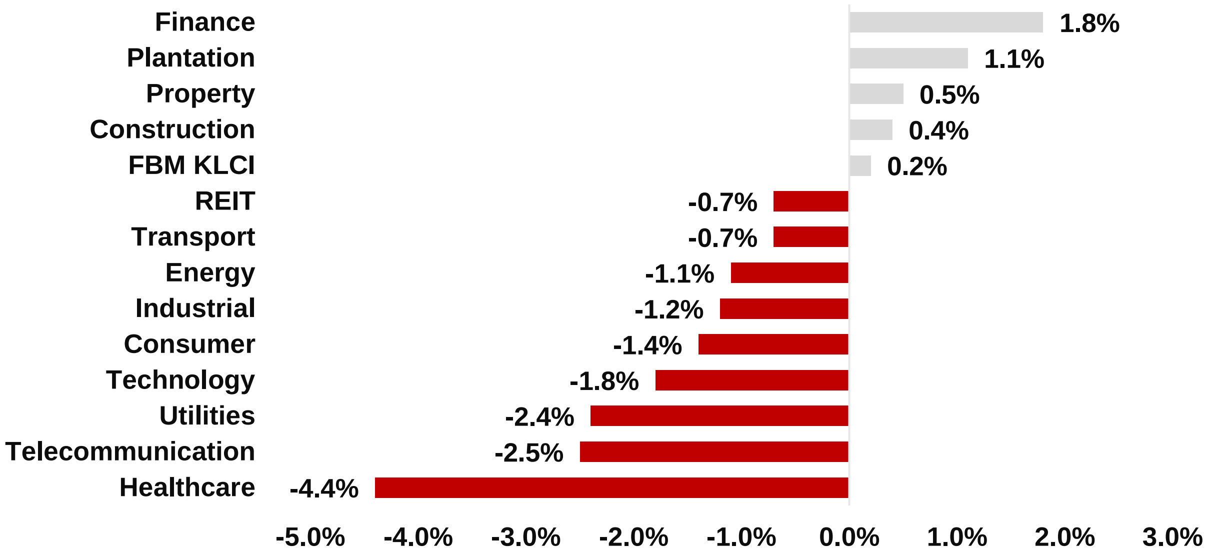
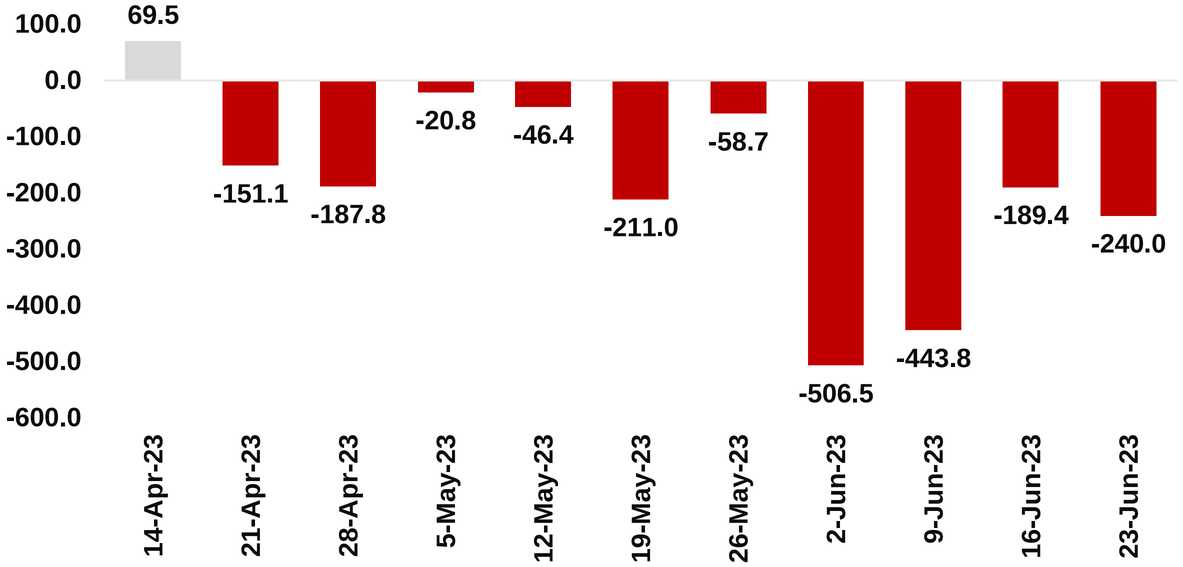
Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, BNM, CEIC

- Most Bursa sectoral indices ended in the red territory for the week ending on 23 June, with Healthcare (-4.4%) losing by the largest margin, followed by Telecommunication (-2.5%) and Utilities (-2.4%).
- The downbeat momentum in the market amid cautious sentiments among investors following the news of the six state assemblies' dissolution and fears of a slowing global economy.
- Meanwhile, the Finance index (1.8%) was last week’s biggest gainer, followed by Plantation (1.1%).
- Foreign investors’ rigorous selling spree stretches into the tenth week, marking the longest net selling streak this year with net outflows of RM 240.0 million recorded.

FX MARKET: THE RINGGIT IS LIKELY TO REMAIN PRESSURE IN THE NEAR TERM

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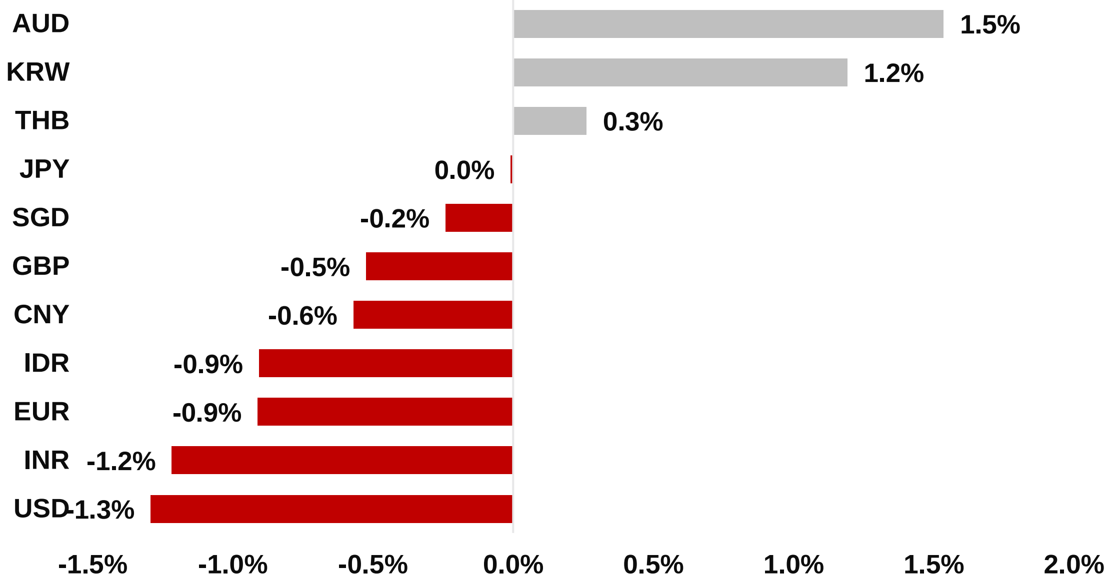

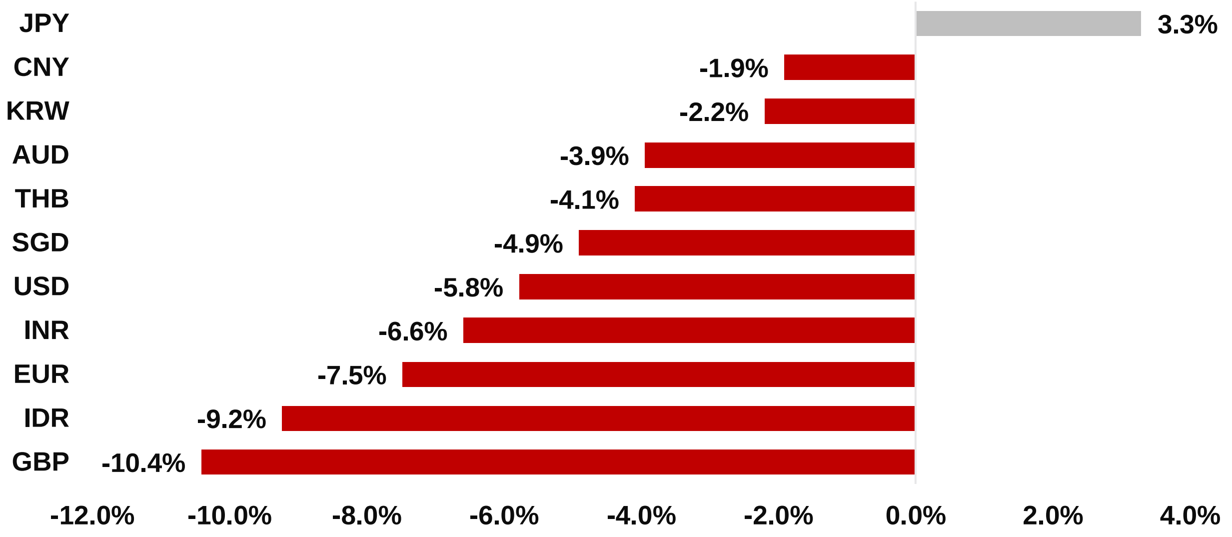

Source: Investing.com

- The Ringgit extended its losses against the USD when the local note depreciated by 1.3% during the week due to the uncertainty from the global economic prospects.
- The hawkish remarks from the U.S. policymakers, as well as China’s recovery, which has not been up to par, is most likely dragging the value of the Ringgit when it continued to fall against the greenback for five straight days.
- Despite the USD index lingering around the 102.0 level, the local note fails to afford any gain from it, perhaps, in our view, due to the domestic factor. Last week, the news over assembly dissolution dates in six states took place in the market, which might result in some investors being cautious ahead of the state elections that are highly anticipated to be held in the last week of July or early August, according to the latest development.
- As such, we foresee that the Ringgit will likely remain volatile soon.

COMMODITY: WEEKLY DECLINE DROP IN BRENT PRICE DUE TO CONCERNS OVER GLOBAL ECONOMIC SLOWDOWN

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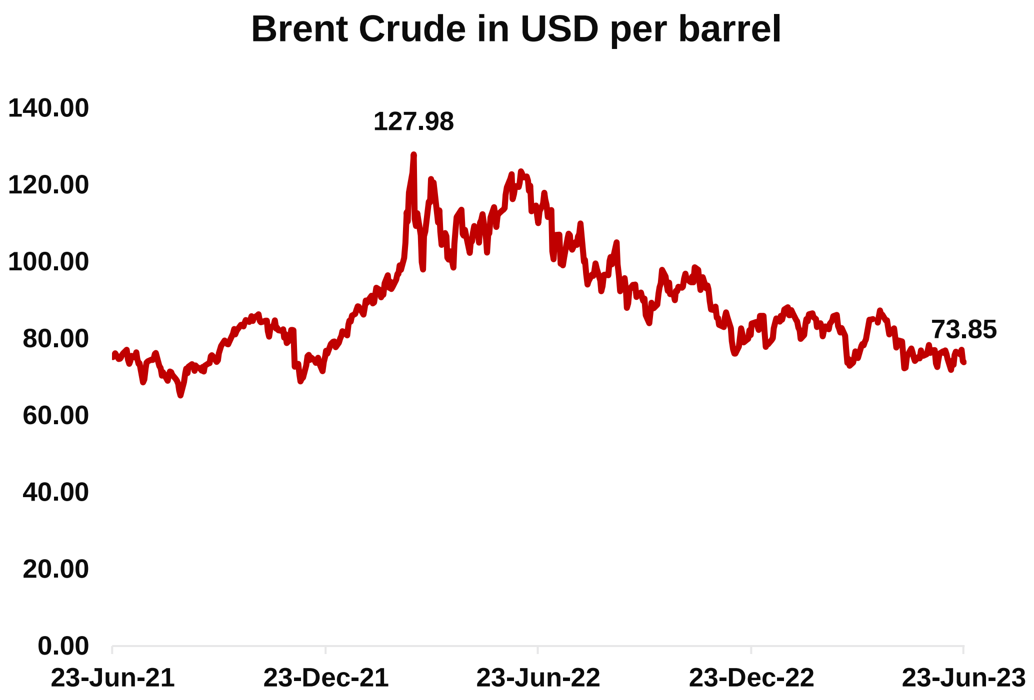

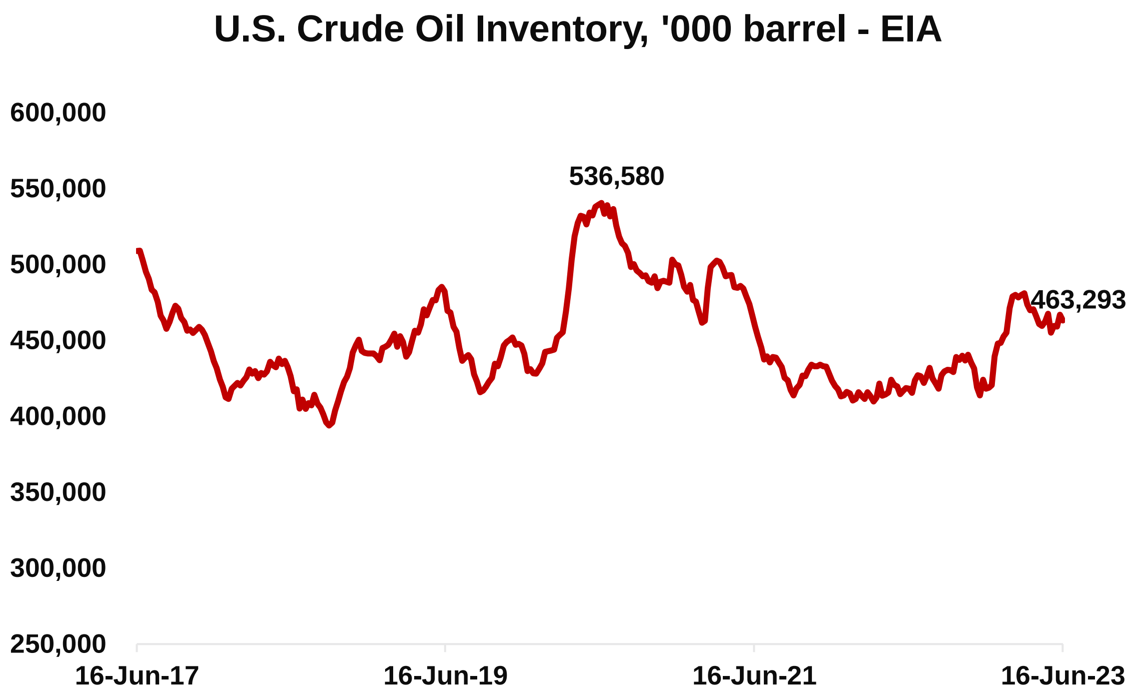

Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price was badly hammered during the week, falling by 3.6% last Friday as further monetary tightening and hawkish comments from major central banks hurt the global economic outlook for energy demand.
- Both Bank of England (BoE) and the Norges Bank raised their respective interest rate by 50bps in a surprise move to tackle the stubborn inflation as the current readings are markedly above the target while the Swiss National Bank (SBN) resumed tightening its monetary policy by 25bps to ensure price stability in the medium term.
- At the same time, China's economic recovery has been less than impressive, clouding the world's top crude importer outlook.

COMMODITY: GOLD PRICE CONTINUES ON DOWNBEAT MOMENTUM AMID FED'S HAWKISH STANCE

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Gold in USD per ounce

U.S. Dollar Index (DXY)

Sources: Bloomberg, Commodity Research Bureau

- Last week saw the greenback recovering, rising by 0.6% w-o-w on stronger-than-expected U.S. Existing Home Sales data, indicating the resilience of the country's housing market and overall economic health.
- Coupled with Chair Jerome Powell's hawkish statements on the future monetary policy path with two more hikes by the end of the year, this has led to the bullion price trending lower.
- With that said, investors will be eyeing the release of the Personal Consumption Expenditure (PCE) and Weekly Jobless Claims for further directions.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The global outlook seemed to deteriorate following last week's soft global PMI readings. The sharper economic downturn appeared to be greater for Europe than the U.S. when the composite PMI dropped sharply in June (Act: 50.3 points vs Est: 52.5 points), signalling a broad sense of weakening activity with another quarter of negative growth becoming more likely. The upside to the fragile economy picture – the anticipated downward trend in the consumer-price growth pressures during June by 5.6% y-oy after rising by 6.1% in the previous month, which marked the lowest print since February last year.

- Given the recent BOE decision last week, the focus would be on what the monetary policy committee (MPC) members have to say going forward. The central bank hiked its bank rate to 5.0% by a majority of 7-2, pushing the borrowing costs to their highest level since 2008 in response to worsening inflationary pressures in the country's economy. The MPC's remit is clear – inflation targets always apply, reflecting the primacy of price stability in the U.K. monetary policy framework. With the inflation rate unexpectedly holding steady at 8.7% y-o-y in May, we foresee that this would put additional pressure on the policymakers to maintain the bank's ongoing tightening campaign. As such, the investors will increasingly scrutinise comments from MPC members to move the dial.

- Despite the Fed's Chairman Jerome Powell reinforcing the likelihood of more rate hikes owing to persistently high inflation, the central bank is still expected to be nearing the end of its respective rate hiking campaign. As such, the central bank would move the interest rate at a "careful pace" as inflation has moderated somewhat since the middle of last year but noting that the pressures continue to run high. For this week, market participants would be eyeing remarks from Powell, who would share a stage with ECB President Christine Lagarde at the global banking forum in Portugal and other top central bankers.

- Domestically, we posit the market could be in a weaker spell in the medium term as investors take a cautious approach given Malaysia's first statewide election under Prime Minister Anwar Ibrahim's unity government. All six states shall be dissolved this week. After seven months of rule, the government has yet to develop a common policy framework, one that we believe would improve Malaysia's economic and political prospects in the short to medium term. As such, we believe that the policy direction of impending key policy documents – the Madani Economic Narrative, the Mid-Term Review of the 12th Malaysia Plan and Budget 2024 – is still fluid.

THANK YOU