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WEEKLY ECONOMIC UPDATE

10 JANUARY 2023

ECONOMIC RESEARCH

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KEY HIGHLIGHT OF THE WEEK: ECONOMIC INDICATORS ARE SHOWING SIGNS OF MODERATION ON THE BACK OF WEAKER GLOBAL DEMAND

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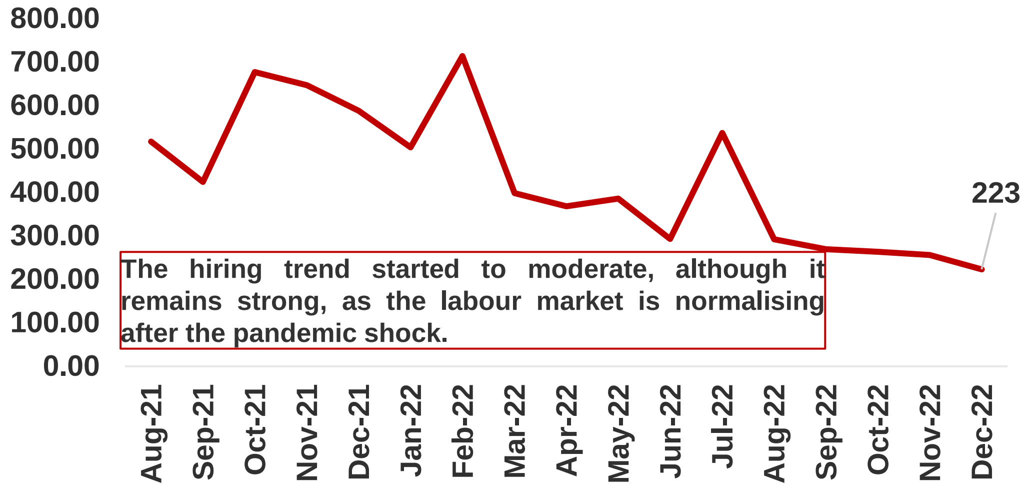
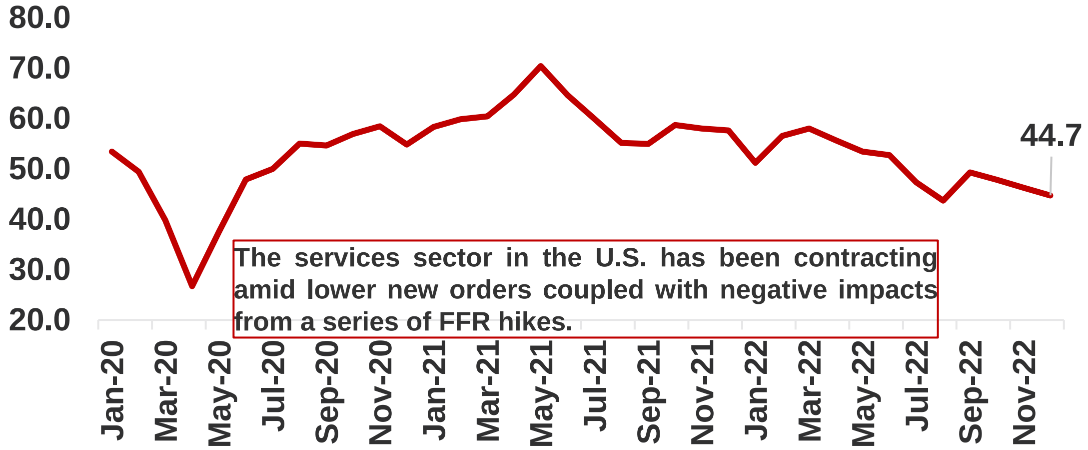
GLOBAL

Non-Farm Payroll, m-o-m changes ('000)

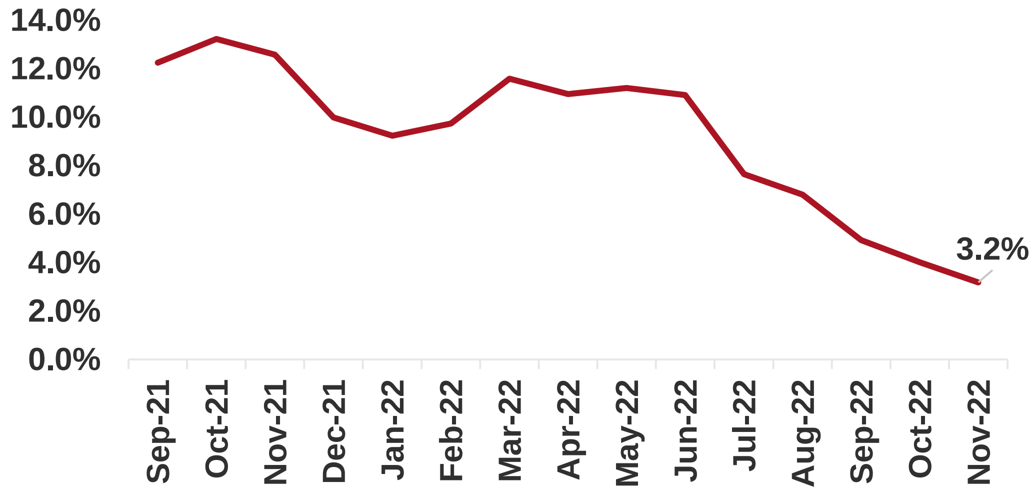


The U.S. Services Purchasing Manager's Index (PMI), points

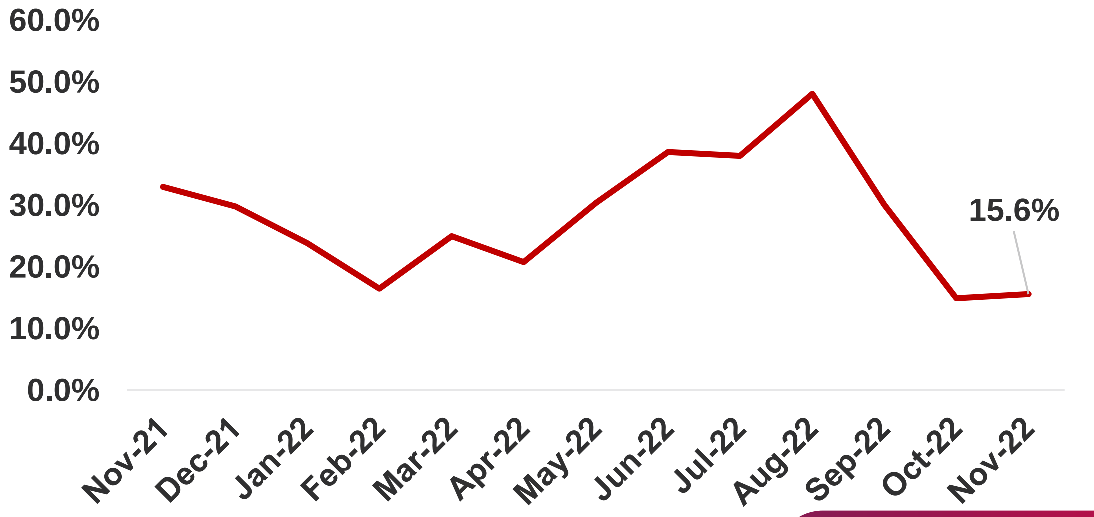


DOMESTIC

Malaysia's Producer Price Index (PPI), y-o-y%



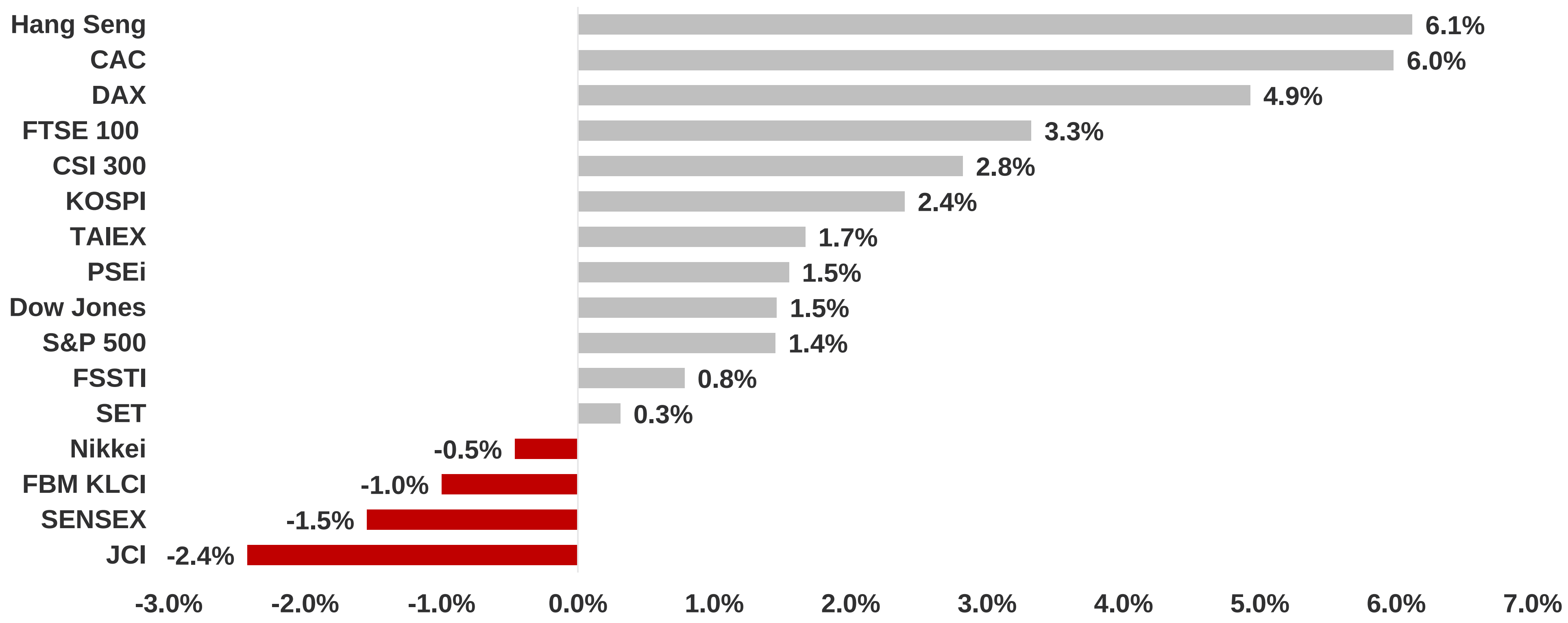
Malaysia's Exports, y-o-y%



Sources: U.S. Bureau of Labor Statistics, CEIC

REGIONAL EQUITY: STRONGER MARKET PERFORMANCE POWERED BY CHINA'S INTERNATIONAL BORDERS REOPENING

Weekly Gain/Loss of Major Equity Market, %



Source: CEIC

- Most regional markets recorded sturdy growth amid China's reopening news that will support demand activities. Following this, Hong Kong's Hang Seng index topped the list with a 6.1% increase for the week ended on 6 January.
- In addition, a softer labour market report in the U.S. following series of interest rate hikes in 2022 could signal that the inflationary pressure starts to ease.
- Hence, the regional market will likely remain on an upward trend in the short term, boosted by upbeat U.S. sentiment and higher demand from China.

DOMESTIC EQUITY: BETTER SENTIMENT AMONG FOREIGN INVESTOR

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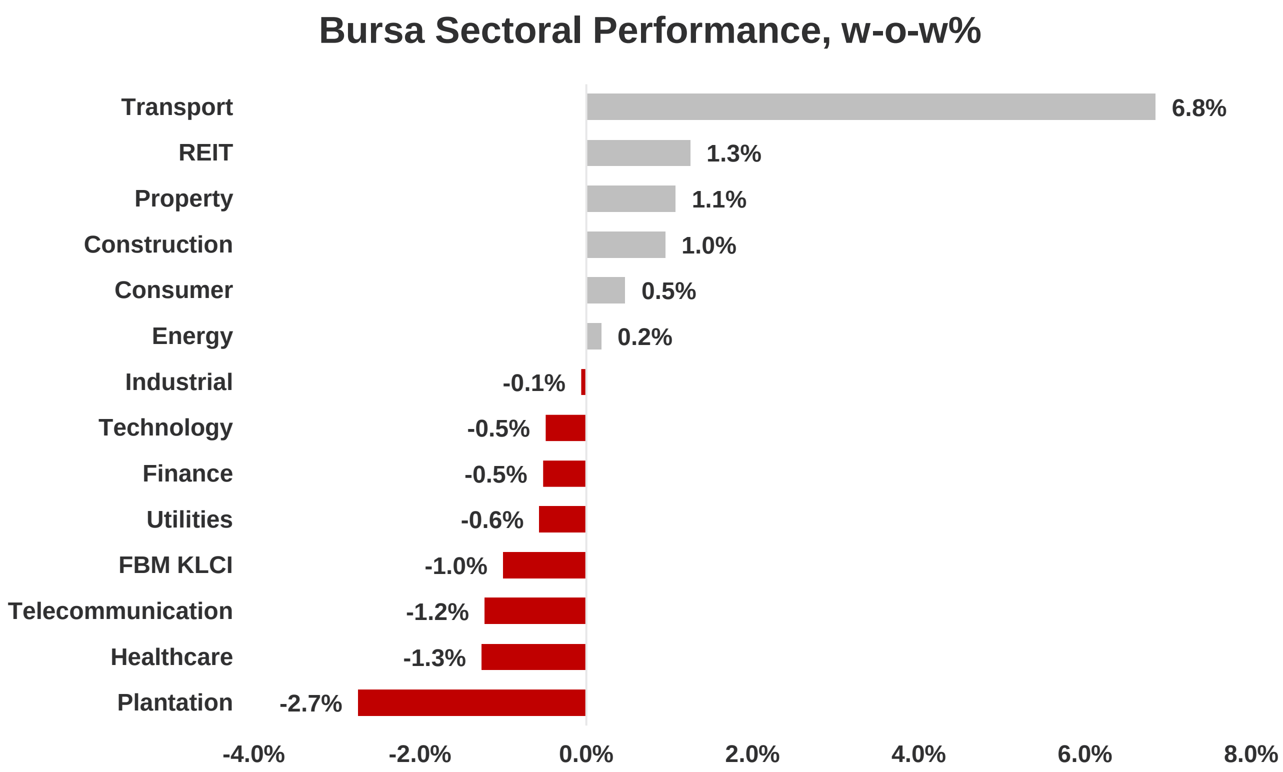

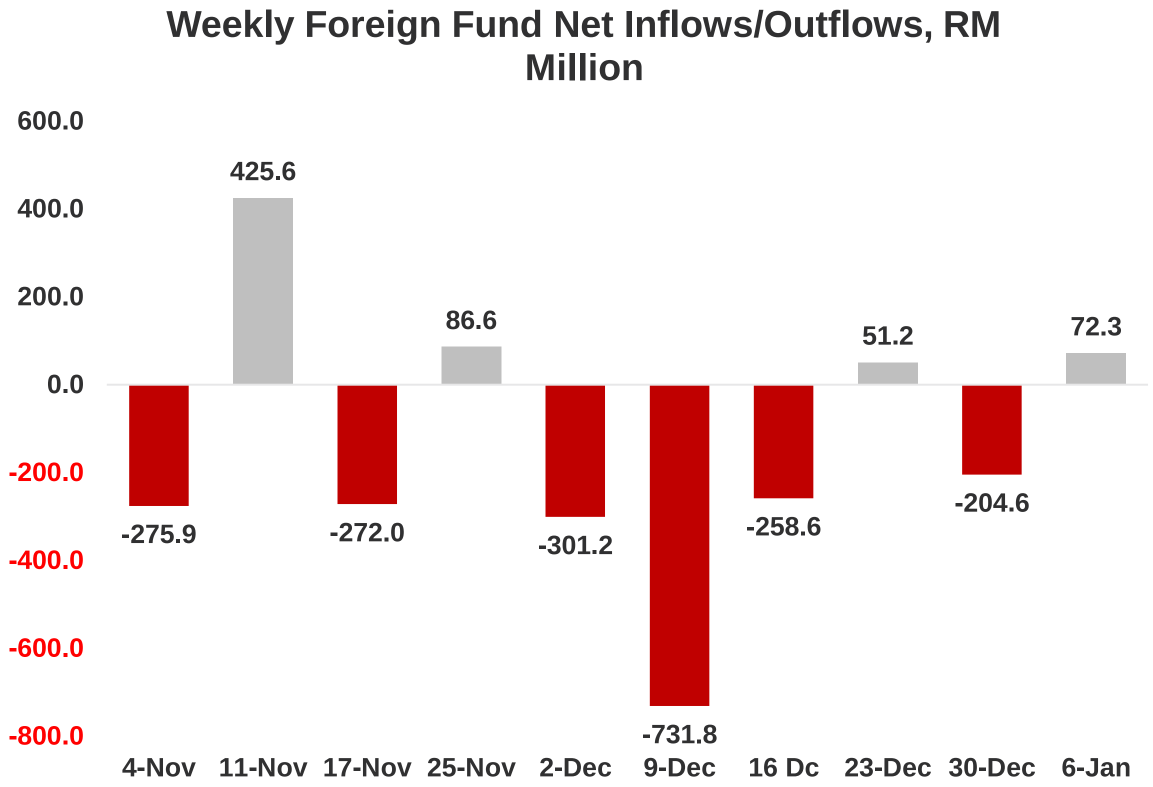

Sources: CEIC, Trading View

- Bursa sectoral indices were mixed, with the Transport index posting the largest gain at 6.8%, while the Plantation sector fell by 2.7% for the week ended on 6 January.
- China's international borders reopening lifted foreign investors' appetite last week as Malaysia's tourism and manufacturing sectors stand to benefit from the news. A total of RM72.3 million net foreign fund inflow was recorded for the week ended on 6 January, compared to RM204.6 million of net foreign fund outflow in the previous week.

FIXED INCOME: FLATTENING BIAS BOND YIELDS

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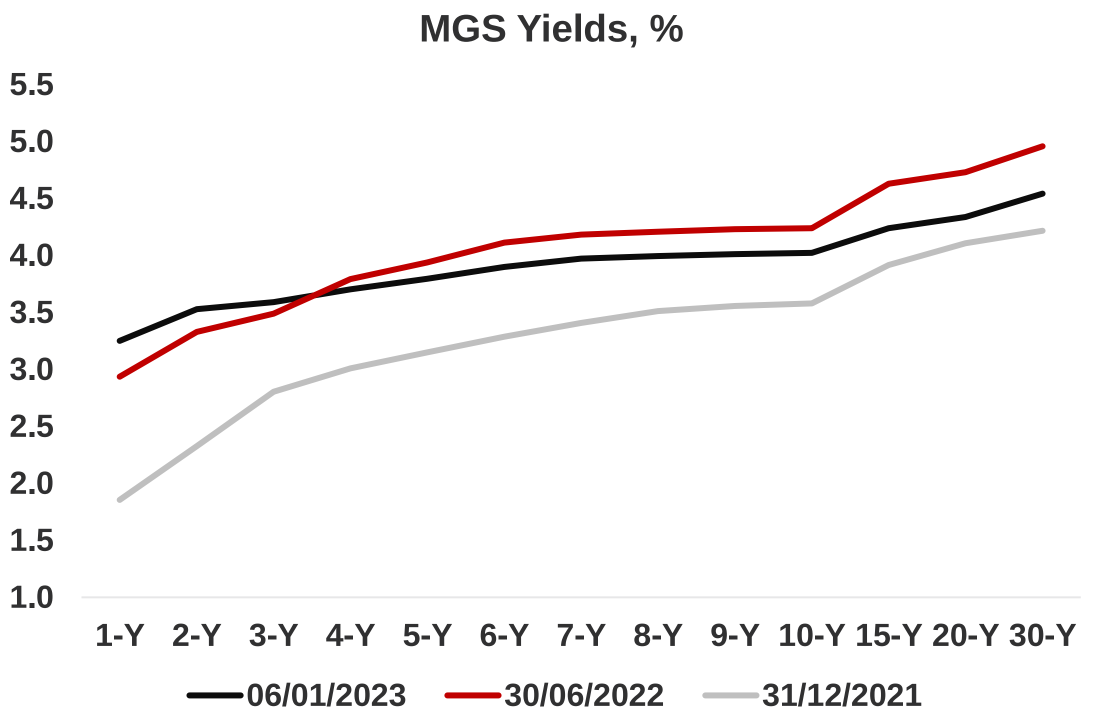
Weekly Changes, basis points (bps)

UST	Yields (%) 30-Dec-22	Yields (%) 6-Jan-23	Change (bps)
3-M UST	4.42%	4.67%	25
2-Y UST	4.41%	4.24%	-17
5-Y UST	3.99%	3.69%	-30
10-Y UST	3.88%	3.55%	-33
MGS	**Yields (%) 30-Dec-22**	**Yields (%) 6-Jan-23**	**Change (bps)**
3-Y MGS	3.67%	3.59%	-8
5-Y MGS	3.84%	3.82%	-2
7-Y MGS	4.03%	4.00%	-3
10-Y MGS	4.07%	4.02%	-5

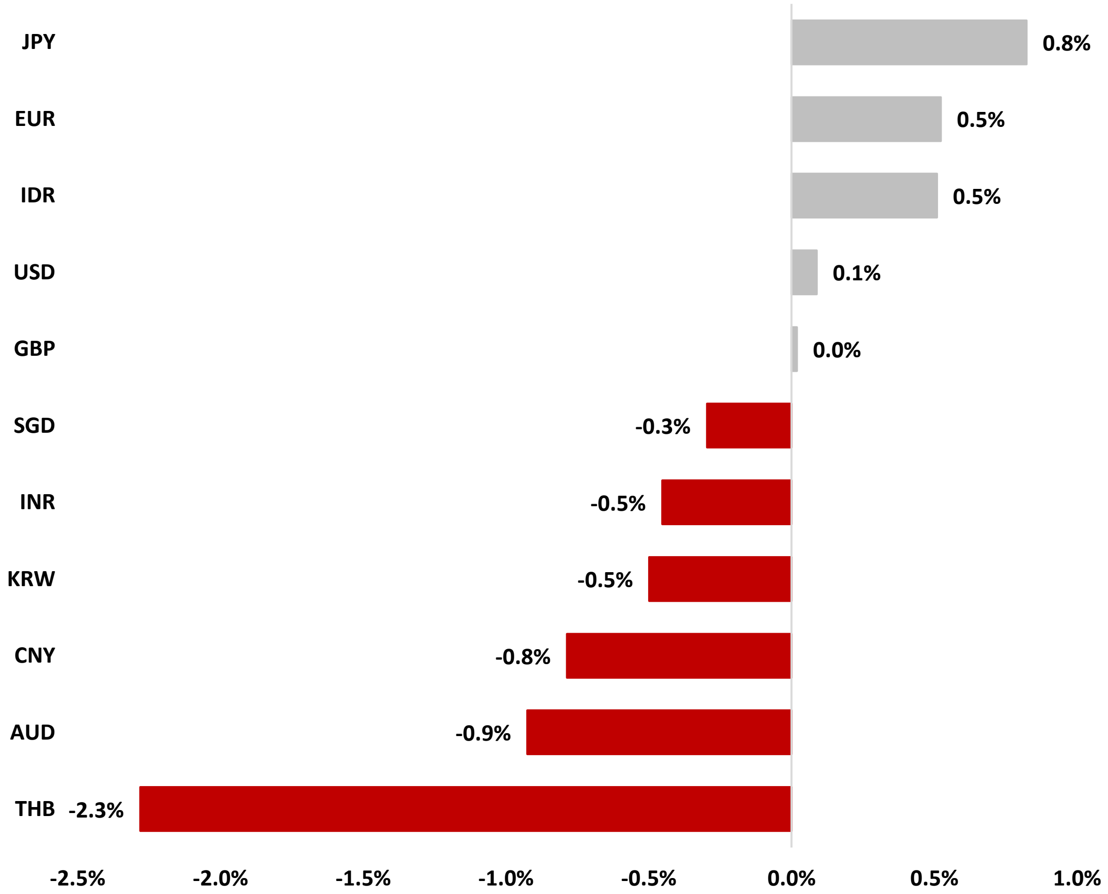


Sources: CEIC, BNM

- The longer tenure of U.S. Treasury (UST) and MGS yields were lower for the week ended on 6 January, pushing the bond price higher as a risk to the global growth tilted to the downside.
- Bond yields are rising in line with rate hikes, with a flattening bias in the immediate term. We foresee MGS yields may trend lower amid a gloomy global economic outlook sans a soft landing. In any case, global PMI also has started to decline of late.

FX MARKET: RINGGIT TO STRENGTHEN AGAINST USD, TRADING BETWEEN RM4.37 TO RM4.39 THIS WEEK

MYR against regional currencies, w-o-w%
(Week Ending 6 January)



Source: Investing.com

- The Ringgit strengthened against the USD last week following the optimism about China's economic reopening.
- The local note benefits from the lower USD index, which retreated to the 103 level last Friday despite the hawkish tone set in the recently released FOMC minutes meeting. The positive U.S. job market data also suggest that the Fed's efforts in taming inflation are far from over, although US inflation has moderated since mid-2022.
- Despite the encouraging job data that came in better than expected, wage growth in the world's largest economy has started to moderate, which could prompt the Fed from being overly aggressive in its coming rate hikes. As it stands, we expect the central bank to hike its policy rate by 25bps in the first two meetings of the new year.
- Foreign investors became net buyers of Malaysian equities last week, where it rose to RM72.3 million during the week after having offloaded RM204.6 million in the previous week.
- Coupled with the positive near-term economic outlook from China and the U.S.' slower wage growth, we believe that such a sentiment will spill over to Malaysia, reigniting interest in the local currency.
- Looking forward, the market will keep a close eye on the upcoming release of the U.S. inflation figure, due this Thursday. We expect it to moderate amid global oil prices in December, hence easing worries over the Fed's monetary policy path.
- For this week, we foresee the Ringgit to trade between RM4.37 to RM4.39.

COMMODITY: BRENT PRICE DROPPED BY 8.5% ON A WEEKLY BASIS AMID RISK OF GLOBAL RECESSION

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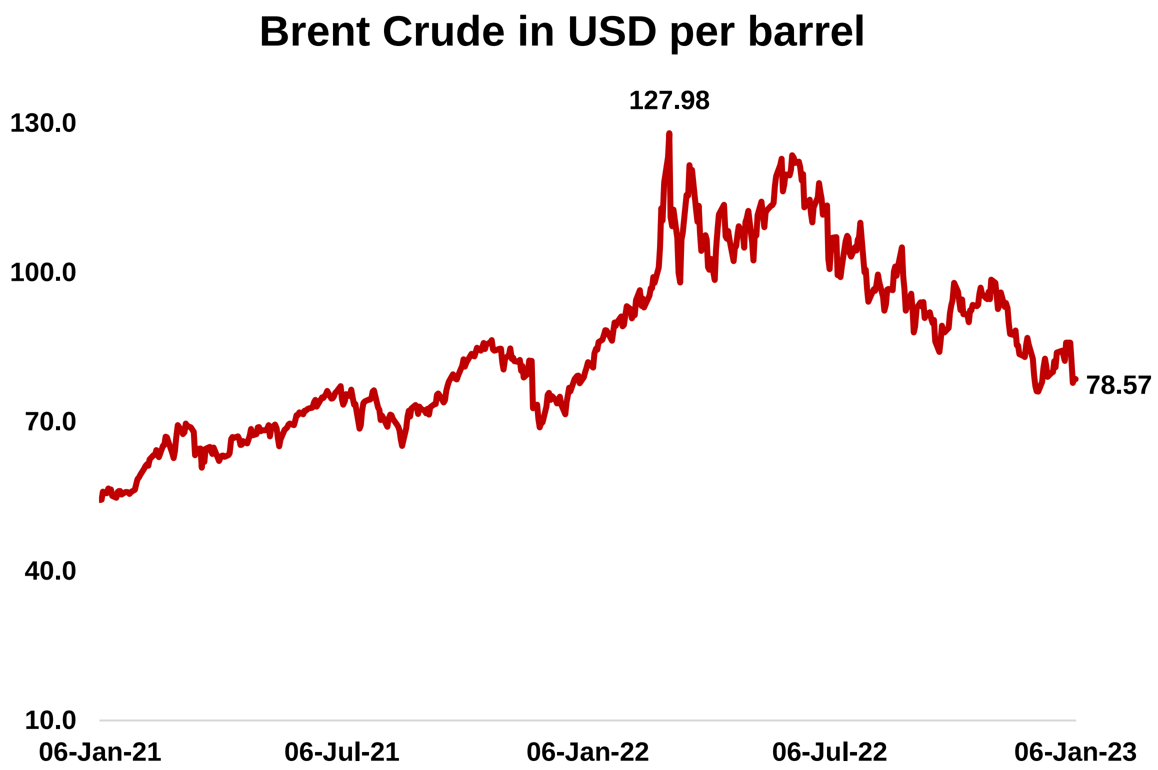
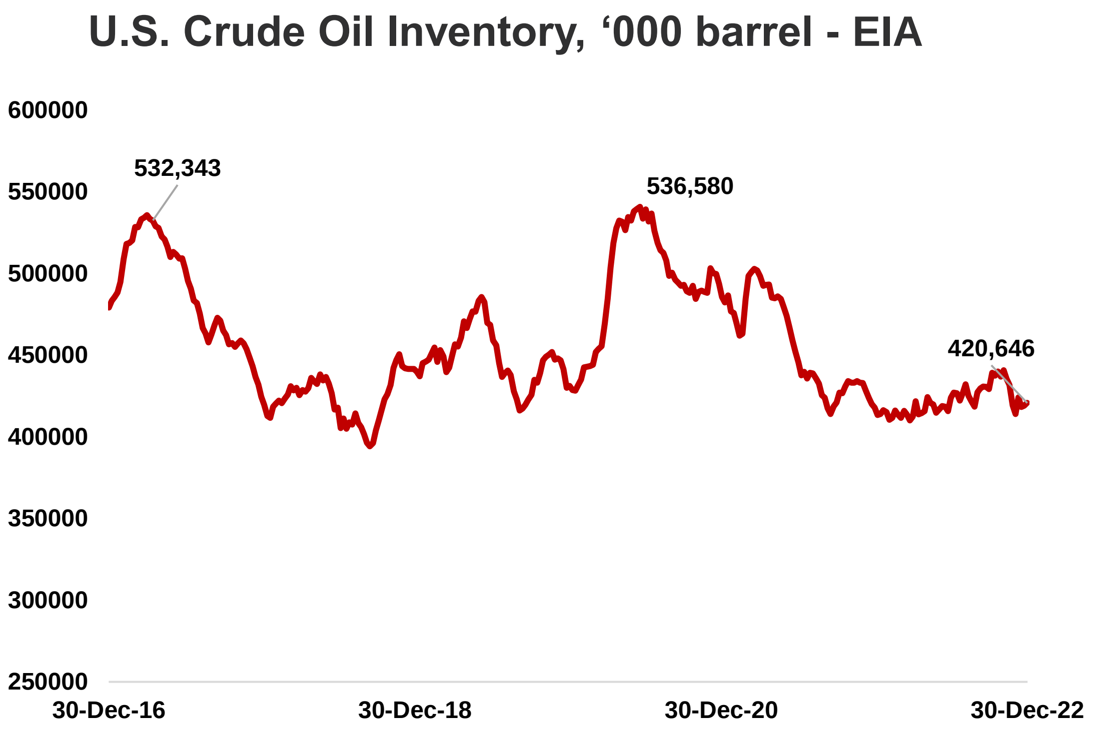


Source: Bloomberg



Source: Energy Information Administration (EIA)

- The International Monetary Fund (IMF) started the new year with a gloomy global economic outlook, weakening oil prices to fall below USD80.0 per barrel.
- Despite the holiday seasons and a decrease in production, U.S. crude oil inventories are about 4% below the 5-year average for this time of year.

COMMODITY: GOLD PRICE MARKED ITS THIRD STRAIGHT WEEKLY RISE ON THE BACK OF SOLID U.S. ECONOMIC DATA

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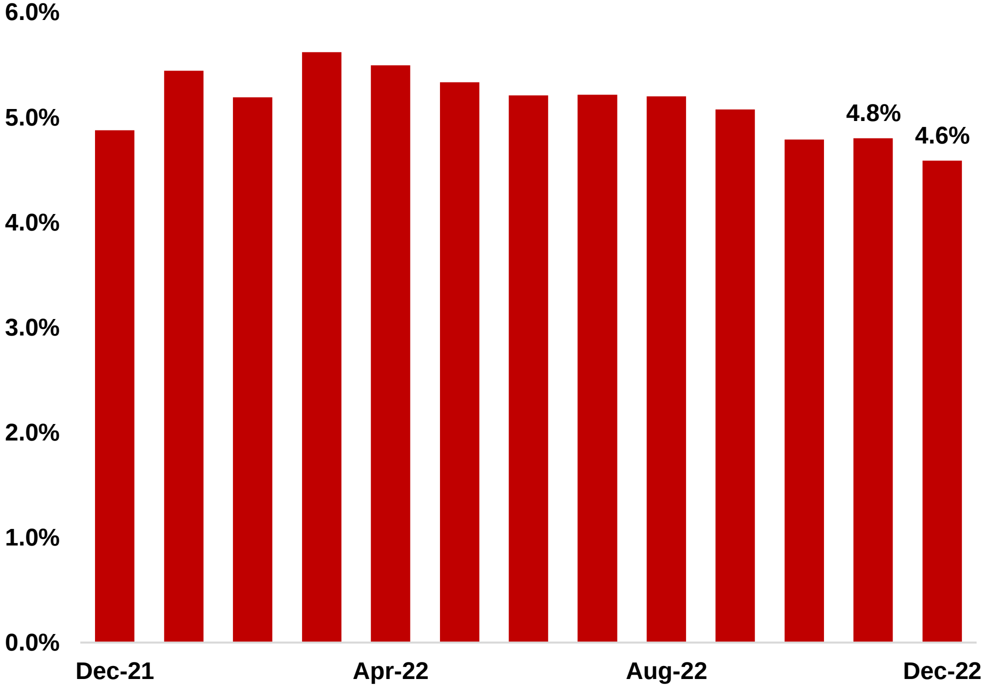
Gold in USD per ounce

Average Hourly Earnings, y-o-y%



Sources: Bloomberg, U.S. Bureau of Labor Statistics

- Though the December job report showed the labour market remained resilient (Actual: 223k vs Estimation: 200k), the Fed could draw some solace from a slowdown in y-o-y wage growth during the said month (December: 4.6% vs November: 4.8%).
- However, the central bank's inflation battle is far from over. Starting in March last year, the Fed embarked on its fastest interest-rate hiking since the 1980s to combat the spike in prices, which catapulted inflation to its highest level in 40 years.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- On the global front, the U.S. December data would be keenly watched as it is expected to ease (Est.: 6.5% vs November: 7.1%) from the previous month's figure. Also, headline and the Core CPI readings have been trending lower for the last two months in 2022 amid lower global oil prices. Hence the upcoming data could be the market-moving event for this week.

- Fed Chairman Jerome Powell will be panel at a symposium on central bank independence hosted by Sweden's central bank, Riksbank. This will be his first public appearance since the release of the December FOMC press conference; hence investors might want to look forward to his remarks relating to the state of the global and U.S. economy, and the Fed's rate hikes appetite in 2023. Other speakers to join him include the Bank of England's Bailey, the Bank of Canada's Macklem, and the Bank of Japan's Kuroda.

- Aside from the U.S., other major global economic CPI data releases would be anticipated from Tokyo and Beijing. China's December economic figures are also eagerly awaited amid the end of the Zero-Covid strategy. Meanwhile, the Bank of Korea will start the new year with the central bank's decision on 13 January in what could be the last tightening rate cycle as growth concerns emerge.

- Moving into 2023, we foresee the outlook being relatively benign due to the spillover of growth headwinds from 2022. Nevertheless, we believe Malaysia will likely dodge the recession as the country's fundamental remains solid, with the regional economic prospects not as gloomy as initially feared.

- However, we should not discount heightening event risks in 2023. The obvious ones are the escalation in the Russia-Ukraine military conflict and any flare-ups between the U.S., China and Taiwan. On the flip side, there is still room for optimism as China's reopening news would be the wild card for Malaysia's tourism sector, coupled with the continued consumer pent-up demand built since last year.

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