WEEKLY ECONOMIC UPDATE

20 DECEMBER 2022

ECONOMIC RESEARCH

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KEY HIGHLIGHT OF THE WEEK:
ECONOMIC INDICATORS ARE SHOWING SIGNS OF MODERATION

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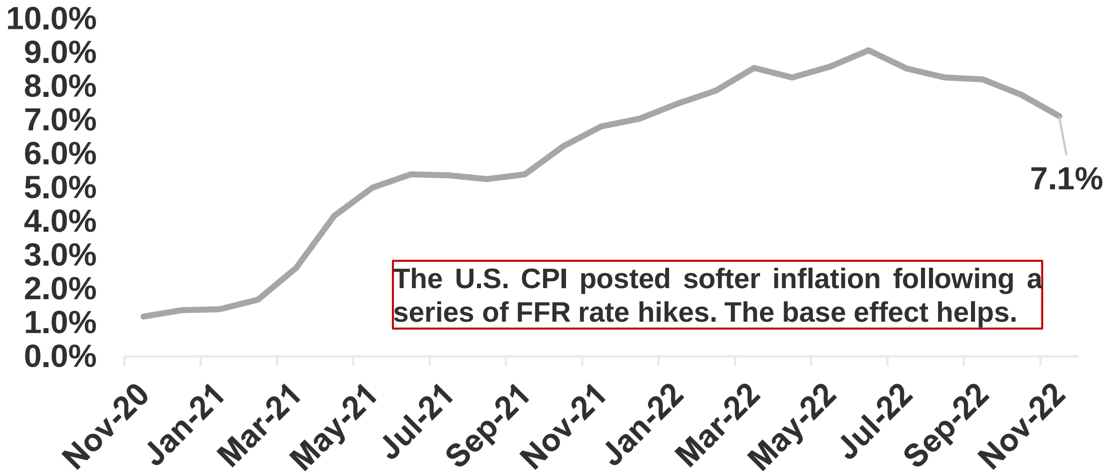
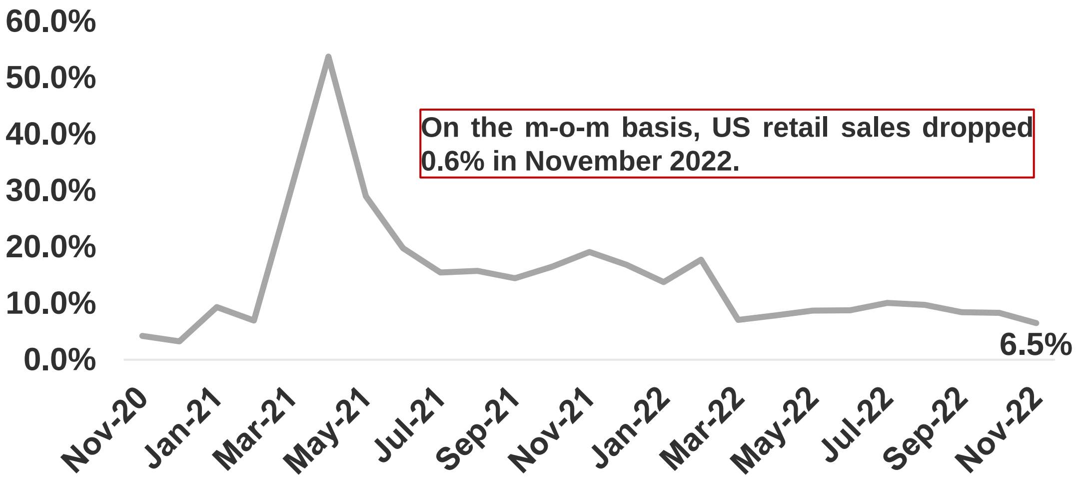
GLOBAL

U.S. Consumer Price Index (CPI), y-o-y%

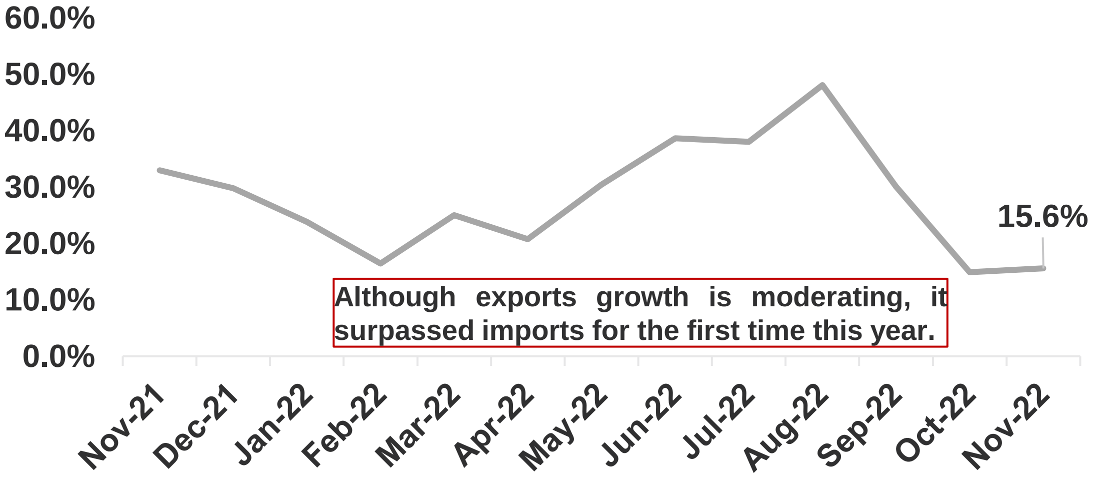


U.S. Retail Sales, y-o-y%

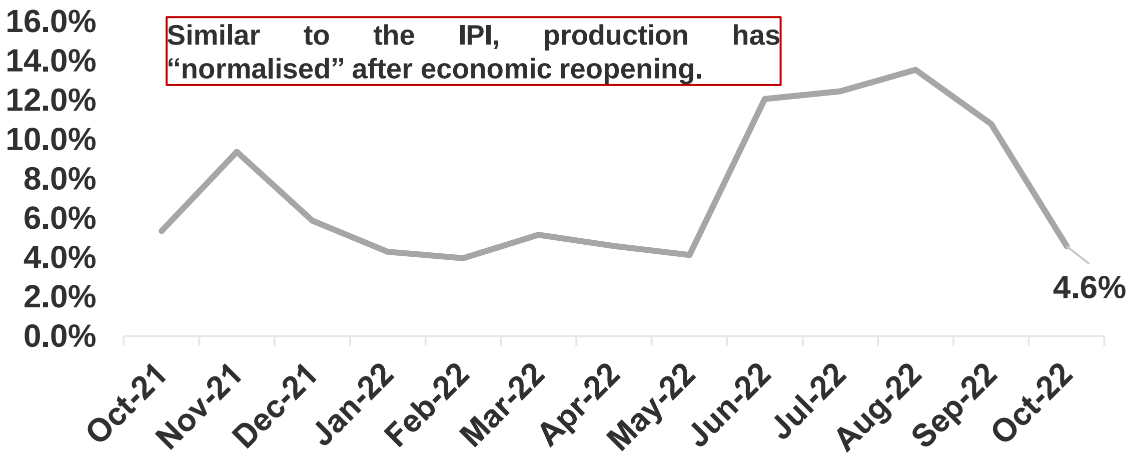


DOMESTIC

Malaysia's Exports, y-o-y%



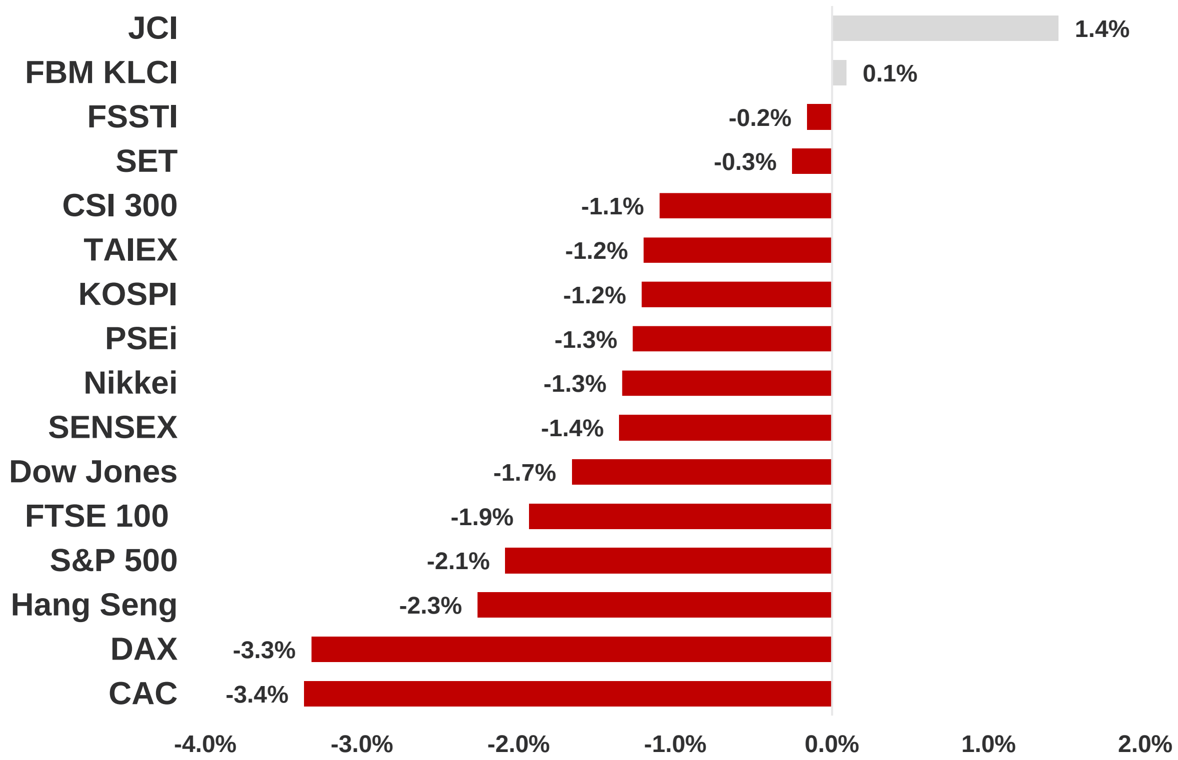
Malaysia's Industrial Production Index (IPI), y-o-y%



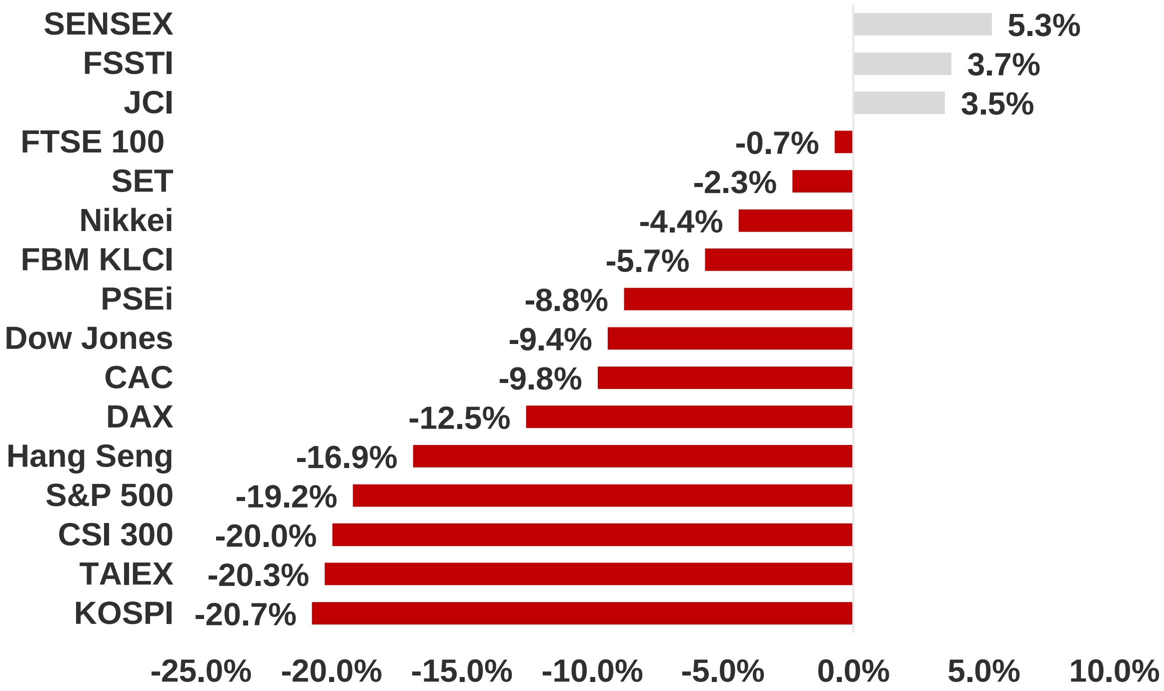
Source: CEIC

REGIONAL EQUITY: MARKET SUFFERED LOSSES OVER THE WEEK FOLLOWING THE 50 BPS RATE HIKE BY THE U.S. FED

Weekly Gain/Loss of Major Equity Market, %



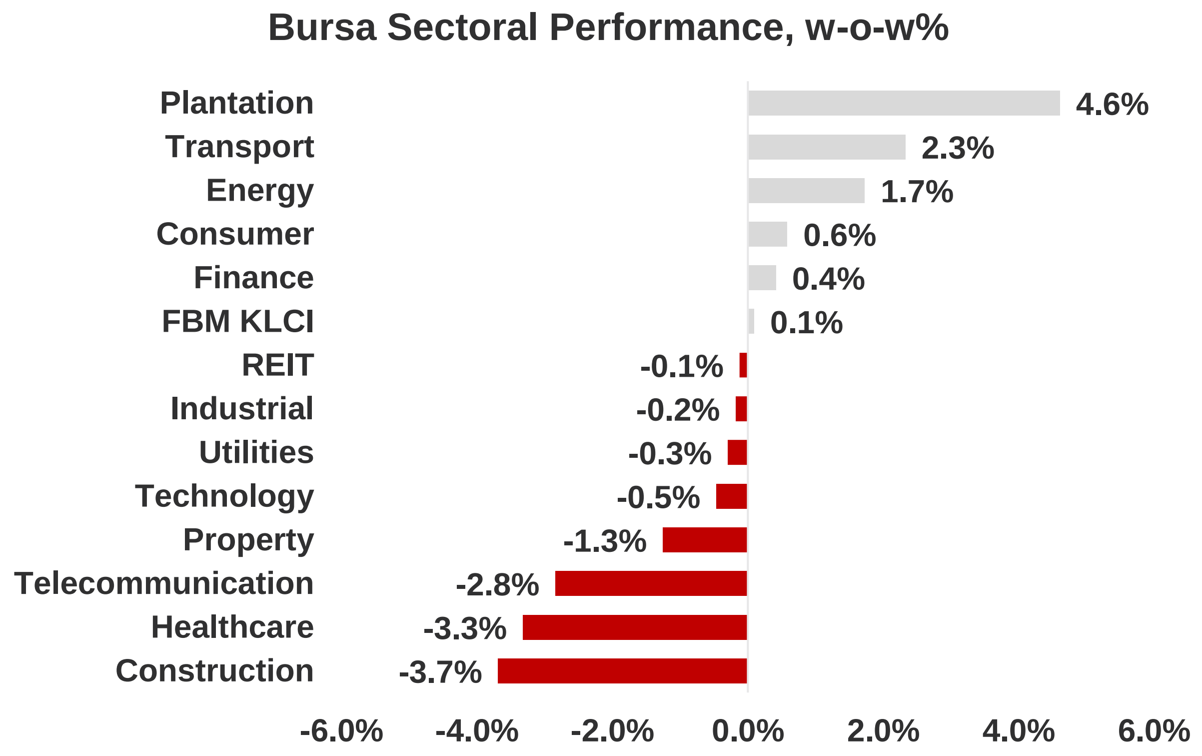
YTD Gain/Loss of Major Equity Markets, %
(As of 16 December 2022)

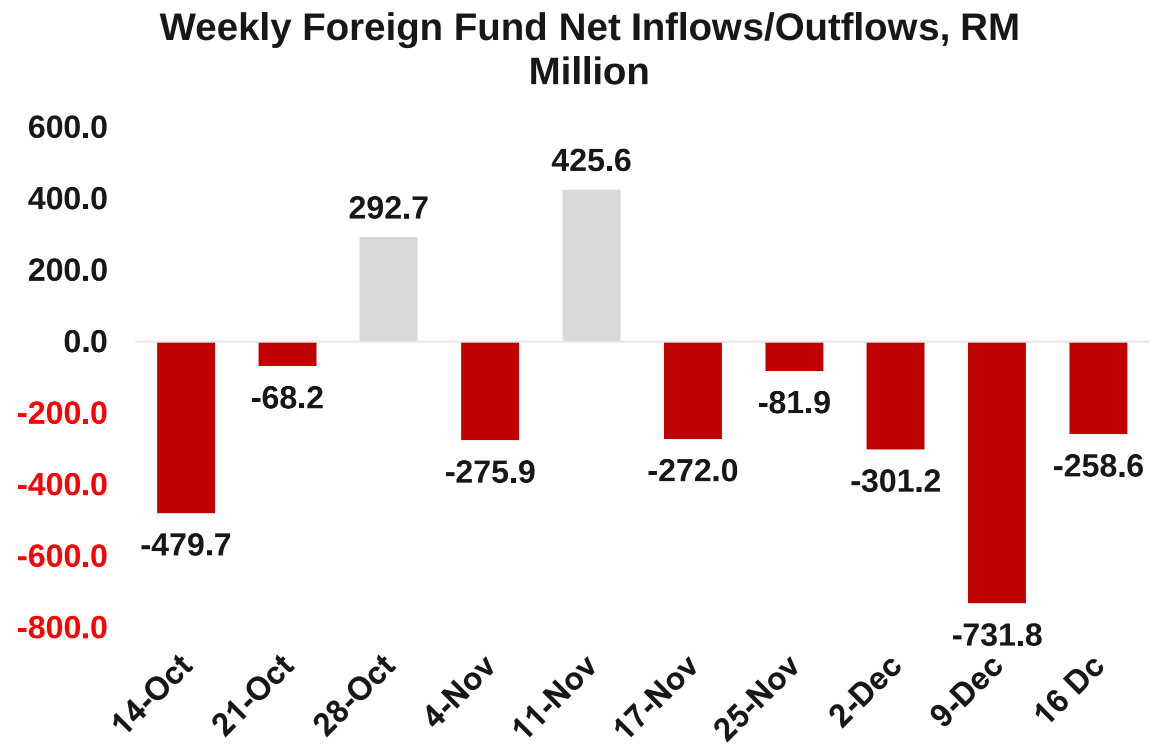


Source: CEIC

- Most regional markets were in the red as the U.S. Federal Reserve (Fed) continued to prescribe monetary tightening in December. The interest rate is expected to remain elevated for at least until 2024, dampening the market sentiment.
- Indonesia’s JCI and Malaysia’s FBM KLCI were the only indices that posted gains at 1.4% and 0.1% for the week ended on 16 December.

DOMESTIC EQUITY: PLANTATION SECTOR TOPPED THE LIST, RISING BY 4.6% IN THE PAST WEEK





Source: CEIC, Trading View

- Meanwhile, Bursa sectoral indices performance was mixed with the Plantation, Technology and Energy sectors recording the largest gains at 4.6%, 2.3% and 1.7% last week, while the Construction sector fell by 3.7%.
- On the other hand, international investors continued to dispose their local equities holdings for the fifth week, with a total of RM258.6 million foreign net outflows recorded for the week ended on 16 December.
- All in all, we foresee the Bursa will be traded between the range of 1,470 and 1,485 points this week, supported by China's reopening news.

FIXED INCOME: LONGER TENURE BOND YIELDS ENDED LOWER

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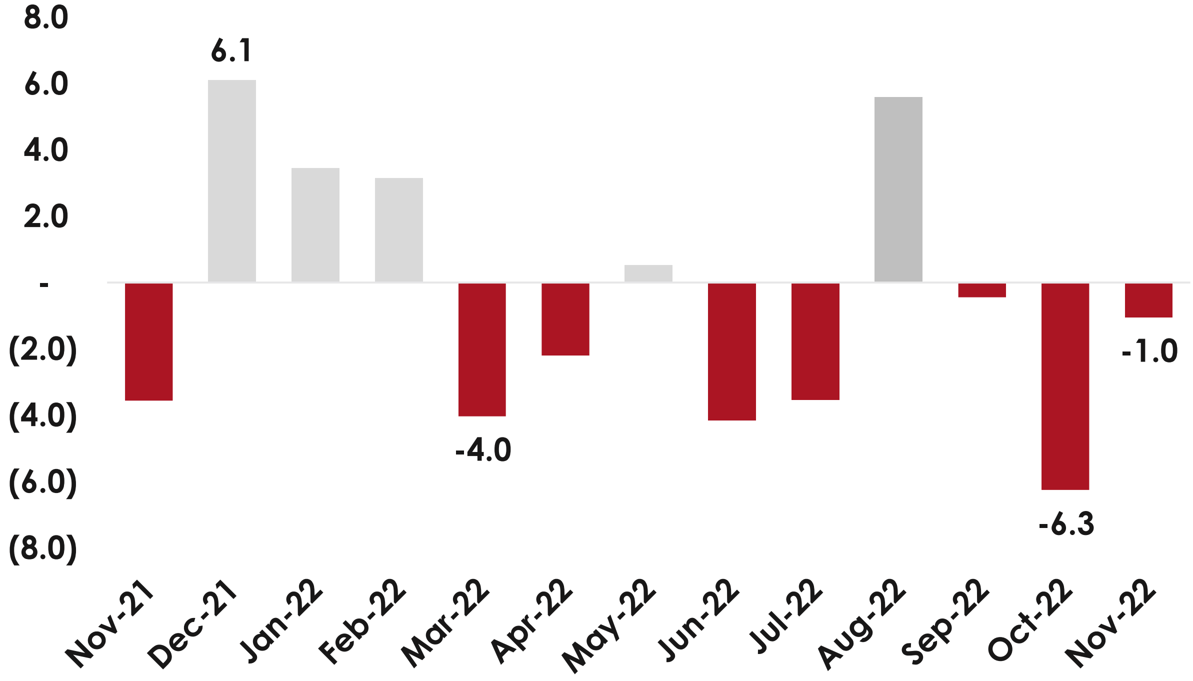
Weekly Changes, basis points (bps)

UST	Yields (%) 9-Dec-22	Yields (%) 16-Dec-22	Change (bps)
3-M UST	4.31%	4.31%	0
2-Y UST	4.33%	4.17%	-16
5-Y UST	3.75%	3.61%	-14
10-Y UST	3.57%	3.48%	-9
MGS	**Yields (%) 9-Dec-22**	**Yields (%) 16-Dec-22**	**Change (bps)**
3-Y MGS	3.65%	3.67%	2
5-Y MGS	3.88%	3.75%	-13
7-Y MGS	3.98%	3.97%	-1
10-Y MGS	4.06%	4.00%	-6

Source: CEIC, Trading View

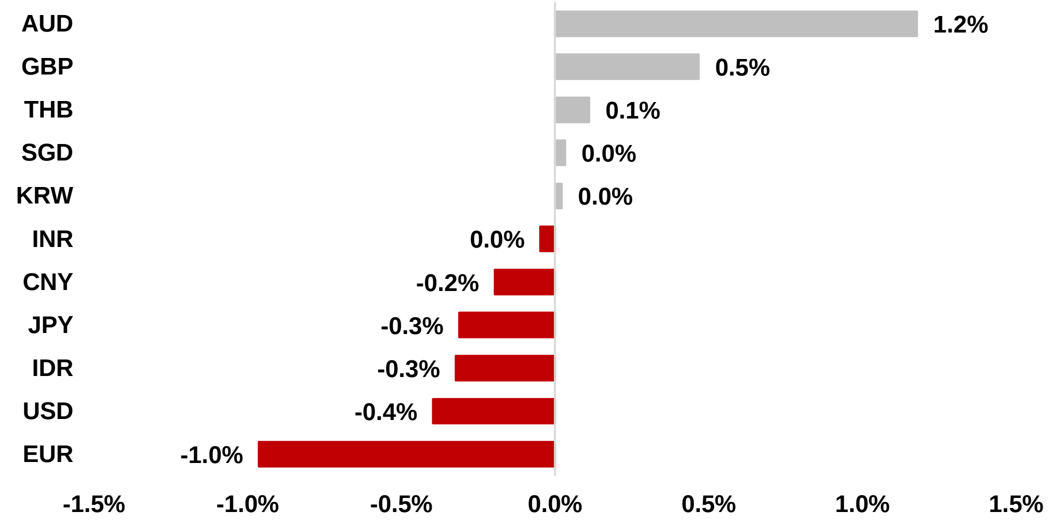
Foreign Fund Flows in Bond Market, RM billion



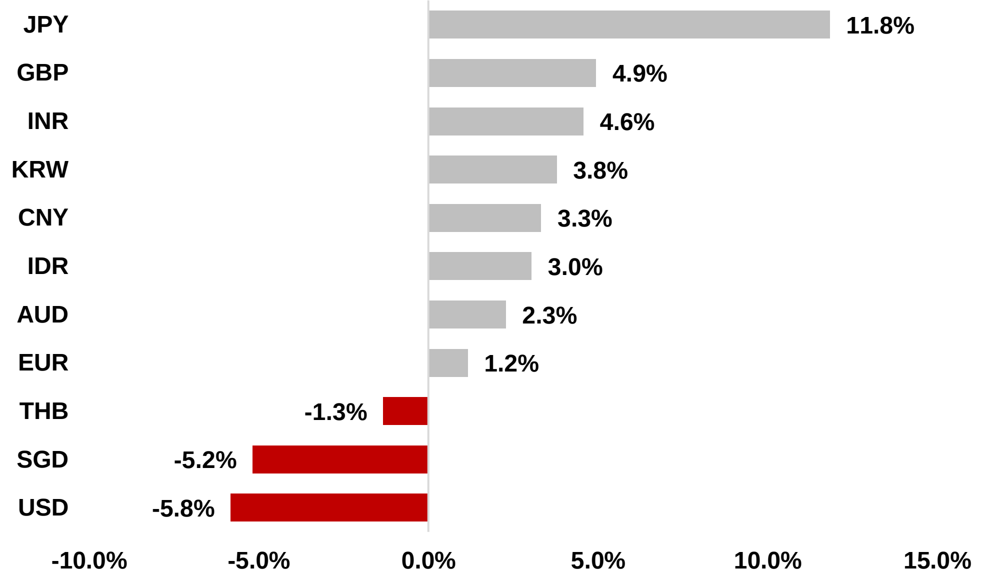
- The longer tenure of U.S. Treasury (UST) and Malaysian Government Securities (MGS) yields closed lower for the week ended 16 December after the Fed delivered a widely expected 50 bps FFR hike.
- Following this, investors have shifted to safe-haven assets as the Fed sees` no rate cuts until 2024, heightening concerns over the risk of recession next year.
- Meanwhile, local govvies continued to see net selling activities for the third straight month since September this year (November: -RM1.0 billion vs October: -RM6.3 billion).
- Looking forward, we anticipate the bond yields to trend lower. Concurrently, foreign investors will return as net buyers in the medium term due to uncertainties of global economic growth next year.

FX MARKET: RINGGIT TO TRADE BETWEEN RM4.42 TO RM4.43 THIS WEEK

MYR against regional currencies, w-o-w% (Week Ending 16 December)



MYR against regional currencies, YTD Gain% (As of 16 December)



Source: Investing.com

- On a weekly basis, the Ringgit weakened against the USD following a hawkish remark set by the U.S. Fed Chairman Jerome Powell during the last week's central bank meeting.
- The rate hike decelerated to 50 bps after four consecutive 75 bps in the previous meetings amid insufficient declines in inflation of late. The upward FFR projection is now higher, from 4.6% to 5.1% in 2023, adding that there will be no rate cuts during the said year.
- Should the upcoming data from the U.S. point to a decelerating economic momentum, this could pressure the USD index, which is currently slipping below the 105 level, thus allowing the Ringgit to regain its losses in time.
- However, we are mindful of the surging COVID-19 cases in China as this might disrupt global economic activities. Hence, we foresee the Ringgit to trade between RM4.42 to RM4.43 for this week.

COMMODITY: BRENT PRICE POSTED GAINS DURING THE WEEK AMID OPTIMISM ON RECOVERY IN CHINESE FUEL CONSUMPTION, AS WELL AS TIGHT GLOBAL SUPPLIES

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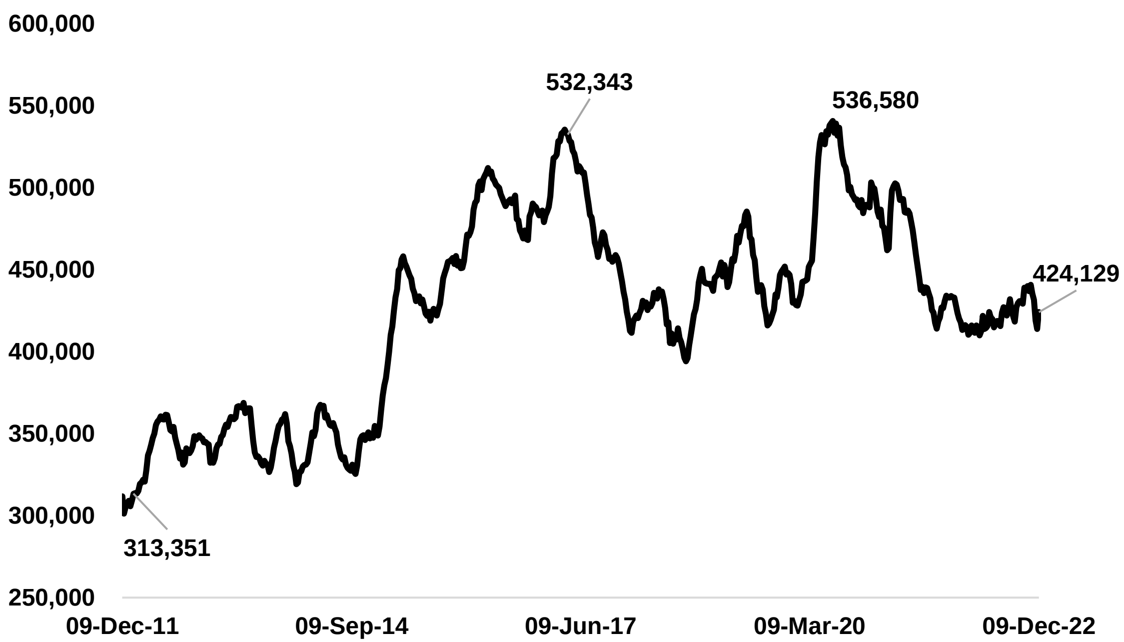
Brent Crude in USD per barrel

Source: Bloomberg

U.S. Crude Oil Inventory, '000 barrel - EIA



Source: Energy Information Administration (EIA)

- The International Energy Agency (IEA) provided a bullish 2023 market outlook, citing that China's reopening is the primary driver for both growth and demand while raising the following year's forecast to 1.7 million barrels per day (bpd) for a total of 101.6 million bpd.
- On the supply side front, OPEC+ decided to stick to their existing policy of reducing oil output by 2 million bpd from November through 2023. In contrast, the shutdown of the Keystone pipeline added to the highly uncertain supply outlook.

COMMODITY: GOLD PRICE IS WEIGHED DOWN BY THE ANTICIPATION OF FURTHER RATE HIKES BY MAJOR CENTRAL BANKS

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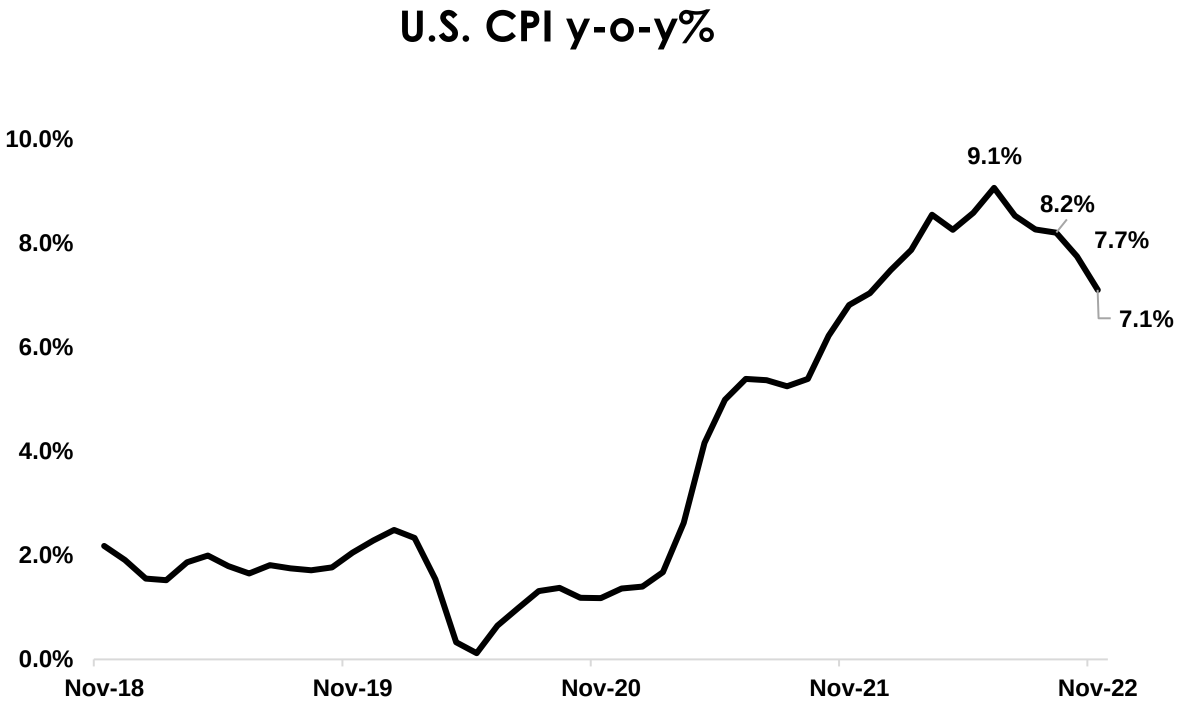

Source: Bloomberg

- During the recent FOMC meeting, the Fed offered a more hawkish outlook on its policy decision than the market anticipated after delivering a 50bps rate hike in the FFR to end the year at 4.5%.
- Even though the CPI figure showed inflation started to ease for the fifth straight month, the central bank is still committed to pulling the inflation rate down to its 2.0% target.
- Likewise, BoE and ECB followed suit with a 50bps hike to stem the soaring prices, adding that tightening monetary policy is needed should the outlook suggest persistent inflationary pressures. These central banks have essentially exited the “75bps hike club”.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- It has been a volatile week for the market following the release of big data such as CPI from the U.K. and the U.S., together with monetary policy meetings from the U.S. Fed, the ECB and the BoE. While the said central banks have moved on from the 75-bps rate hike in their respective benchmark interest rates, further rate hikes are still on the cards as the inflation rate is still far from their target rate. This week, the Bank of Japan (BoJ) will be the last major central bank to decide on its monetary policy decision. We believe that BoJ is comfortable with the negative interest rates despite rising inflation.

- As for the U.K. and the Eurozone area, the coming week will be quieter after the last week's 50 bps rate hike by the respective central banks. There will be no scheduled appearances by BoE officials, but ECB Vice President Luis de Guindos will on the spotlight, followed by colleagues from Estonia, Lithuania, and Slovakia, who are also due to deliver speeches on monetary policy.

- Apart from that, there would be a slew of data coming from the U.S., including an update on the health of the November U.S. housing market. Most importantly, investors would be closely eyeing the release of the Core PCE price index for November, which is the Fed's preferred inflation gauge. While the Fed dismissed any suggestion that the central bank would pivot anytime soon, a further easing figure in the said month could help determine the pace of future rate rises.

- The confidence vote on the 10th Malaysian Prime Minister was passed as expected yesterday. As Finance Minister, Y.A.B. Datuk Seri Anwar Ibrahim will use the last parliamentary sitting of the year with the tabling of three motions; first, a temporary budget amounting to RM55.9 billion to ensure the smooth running of government machinery over the coming months. Second, a transfer of funds amounting RM35.0 billion from GII and MITB receipts to the Development Fund, and third, another transfer of funds amounting to RM16.2 billion from GII issuance to the COVID-19 Fund. Considering the successful tabling of the confidence vote, we believe the parliament will subsequently pass these motions as well.

DISCLAIMER

THANK YOU