



From the Desk
of the
Chief Economist

BANK ISLAM

MONTHLY ECONOMIC & MARKET UPDATES

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ECONOMIC RESEARCH

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No let up in the U.S.-China conflict

- ✓ In early August, the U.S. House Speaker Nancy Pelosi's visit to Taiwan prompted China to conduct unprecedented military drills surrounding the island.
- ✓ In the latest development, the U.S. agreed to a USD1.1 billion arms sale to Taiwan, including missiles and air defense systems. Following this development, the Chinese embassy stated that the arms sale jeopardises China-U.S. relations, peace, and stability across the Taiwan Straits.
- ✓ President Joe Biden's administration reportedly said that the sale has been under consideration for some time and was developed in consultation with Taiwan and U.S. lawmakers.

Another lockdown in Chengdu as COVID-19 cases rise

- ✓ One of China's biggest cities, Chengdu, has been locked down from 1 September to curb a new COVID outbreak as infections spike.
- ✓ The measures in Chengdu, the biggest shutdown since Shanghai's early this year, are impactful to most of its 21 million people. Chengdu is home to Toyota Motor and Apple supplier Foxconn factories.
- ✓ Additionally, the country's manufacturing activity contracted for the second consecutive month in August, reflecting the economic hit by its government's zero-COVID policy.

Winter is coming while the energy crisis worsens

- ✓ With Russia's cut-off of a key natural gas pipeline to Germany, a retaliation move by the Kremlin in response to Western sanctions, energy prices throughout Europe have soared. Words about rationing and blackouts are also in the air.
- ✓ In fact, the energy crisis is not limited to Europe as other countries are feeling the impact amid extreme weather conditions.
- ✓ Given the latest development, it may be unlikely for Europe to get other gas flows through Nord Stream 1 throughout winter.

Major central banks to remain hawkish

- ✓ Hot inflation data across the globe remains to date. Major central banks have employed hawkish monetary policies to bring inflation down to the 2% target rate.
- ✓ Following the footsteps of the U.S. Federal Reserve (Fed), the Bank of Canada (BoC) raised its main interest rate by 75 basis points (bps) to 3.25%, the highest in 14 years to tackle the inflationary pressures in the country.
- ✓ The European Central Bank (ECB) also joined the "75bps club" in its latest September meeting as the inflation rate surged to 9.1% year-on-year (y-o-y) in August from 8.9% in the previous month.

The global manufacturing output dropped in August

- ✓ The J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) fell to 50.3 points in August from 51.1 points in the previous month, marking its lowest since June 2020.
- ✓ The outlook seemed increasingly weak, with new orders continuing to fall at an increased rate in August, pointing out the production trend deteriorating in the coming months.
- ✓ On average, confidence is bolder, reaching a six-month high in emerging markets and a three-month peak among developed nations. The year ahead looks positive, but the near-term horizon is still negative.

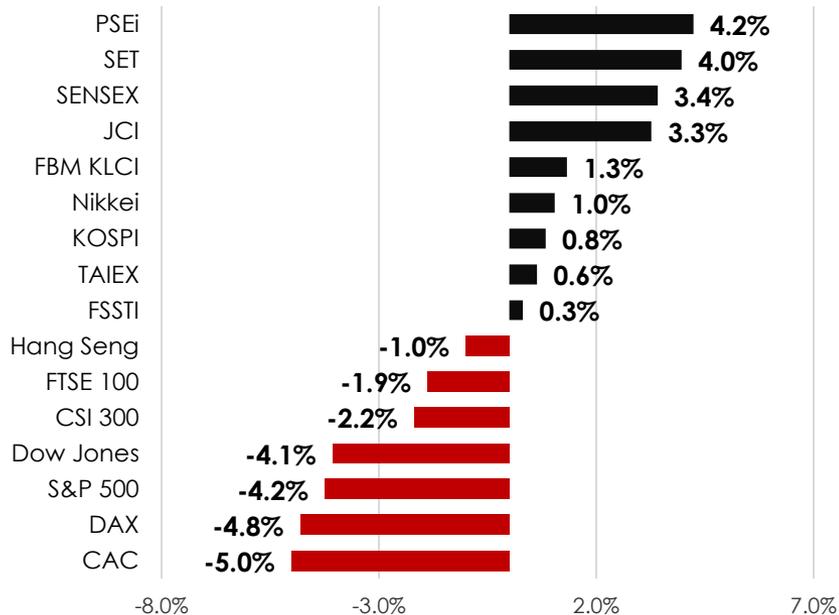
OPEC+ agrees to a small oil cut production

- ✓ During its 5 September meeting, the Organisation of Petroleum Exporting Countries Plus (OPEC+) decided to cut production targets by 100,000 barrels a day from October.
- ✓ The move was at the time of the dispute between Russia and the West, with many in Europe deeply concerned about the prospect of recession and winter gas shortage.

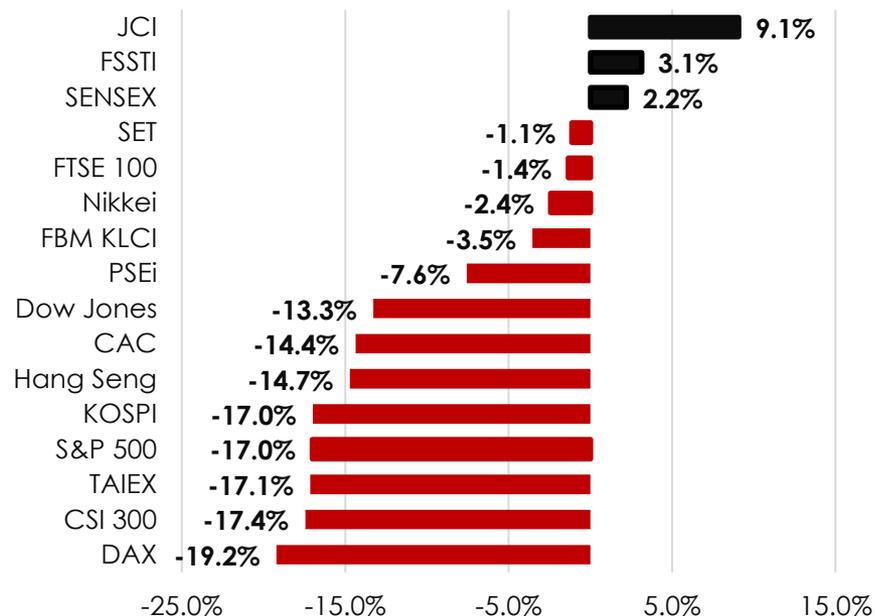


MALAYSIA'S FINANCIAL MARKET

Monthly Gains/Losses of Benchmark Indices in August



YTD Gains/Losses of Benchmark Indices as of August

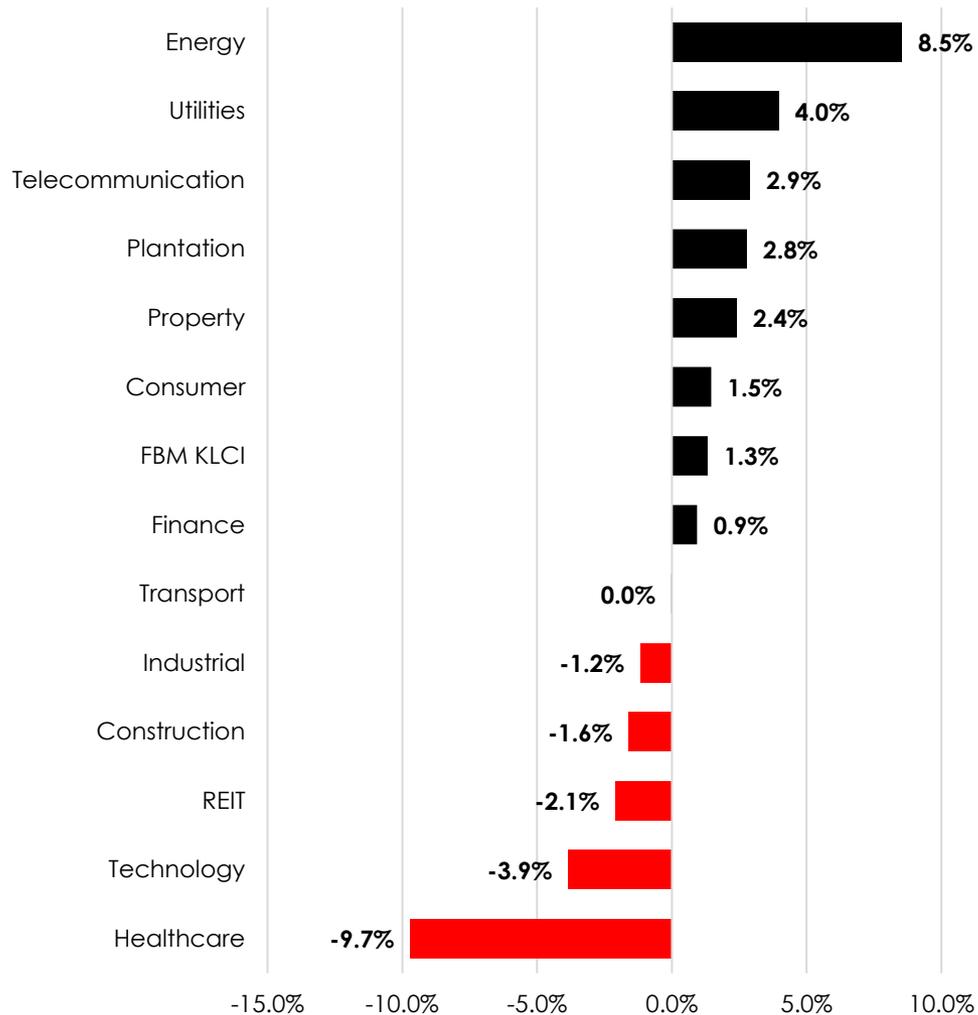


Source: CEIC

- ✓ The Philippines PSEi led gainers in August, increasing by 4.2% from a 2.6% gain in the previous month amid anticipation of a slower rate hike after the September meeting in the U.S. in light of lower CPI print in July.
- ✓ Meanwhile, France's CAC index recorded the biggest loss among the major equity markets. It fell by 5.0% during the month, weighed by signs of slowing down consumer spending (July: -0.8% m-o-m vs. June: 1.0%).
- ✓ On a Year-to-Date (YTD) basis, most equity markets were in the red as investors were still reeling from worries over aggressive rate hikes from global policymakers.

EQUITY MARKET- MALAYSIA'S ENERGY INDEX WAS SUPPORTED BY FIRM CRUDE OIL PRICE

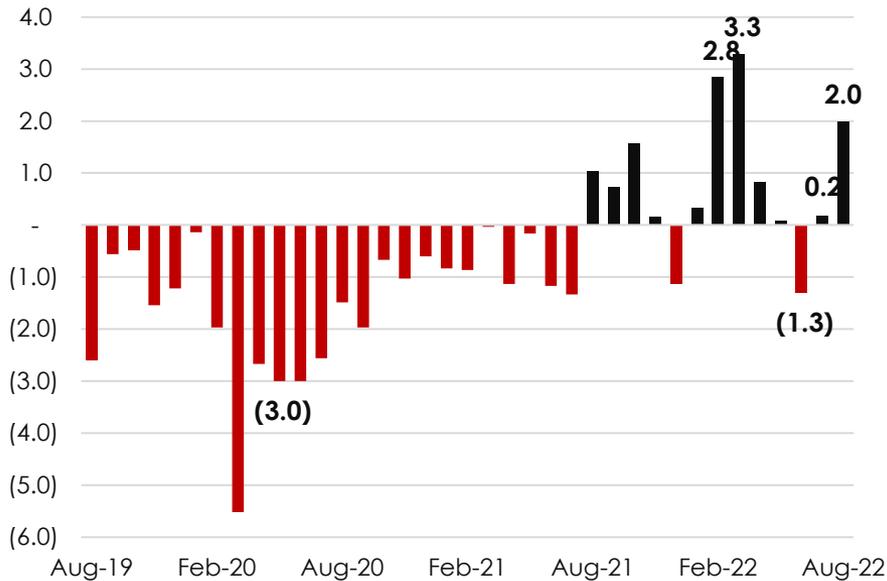
Bursa Sectoral Performance, m-o-m%



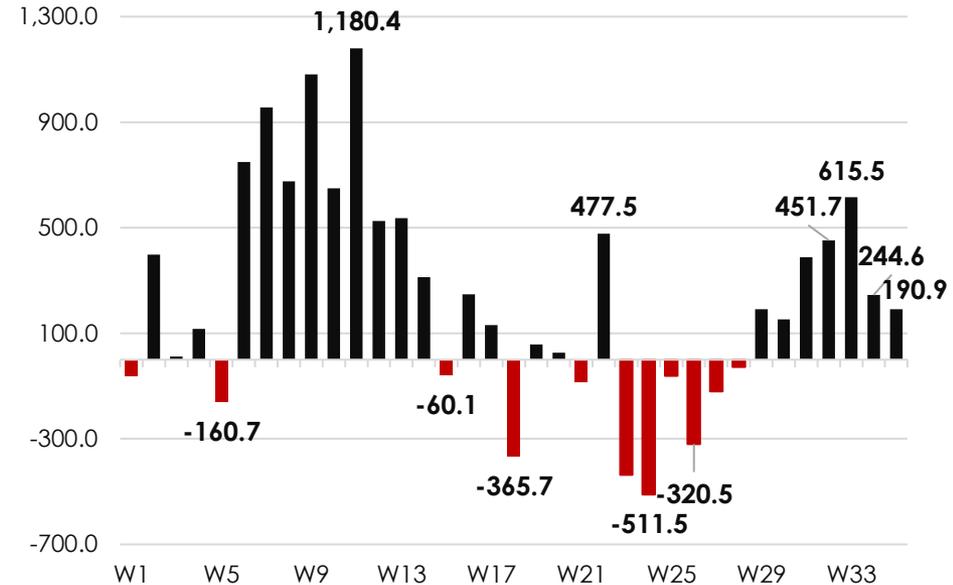
- ✓ The Energy sector was the lead gainer, rising by 8.5% month-on-month (m-o-m) amid the possible move by the OPEC+ to cut the production to ensure crude oil price stay elevated due to worries over the weaker demand outlook.
- ✓ Meanwhile, the Healthcare index recorded the biggest loss at 9.7% in August as the impacts of the COVID-19 outbreak in 2020 and 2021 have receded.
- ✓ All in all, market participants would remain cautious as the U.S. will likely experience a soft landing in the economy during the second half of this year following a series of aggressive rate hikes by the Fed.

FOREIGN INVESTORS CONTINUED THEIR BUYING SPREE ON BURSA FOR THE SECOND STRAIGHT MONTH IN AUGUST

Monthly Foreign Net Inflow/Outflow in Malaysia's Equity Market (RM Billion)



Weekly Foreign Net Inflow/Outflow in 2022 (RM Million)



Source: Bursa

- ✓ Foreign investors remained as net purchasers in August as they acquired RM2.0 billion net of local equities, higher than RM0.2 billion net in the preceding month.
- ✓ 19 of 22 trading days in the month registered foreign inflows, with the highest recorded on 4 August at RM284.2 million, respectively.
- ✓ On a YTD basis, global equities were mostly in the red following heightened uncertainties in the global market. This was due to anticipation of higher interest rates, particularly in the advanced countries to curb the rising inflation.
- ✓ Moving forward, we anticipate 'risk on' mode from foreign investors into the emerging markets amid anticipation of a slower pace of Federal Fund Rate (FFR) hike after the Federal Open Market Committee (FOMC) meeting in September.

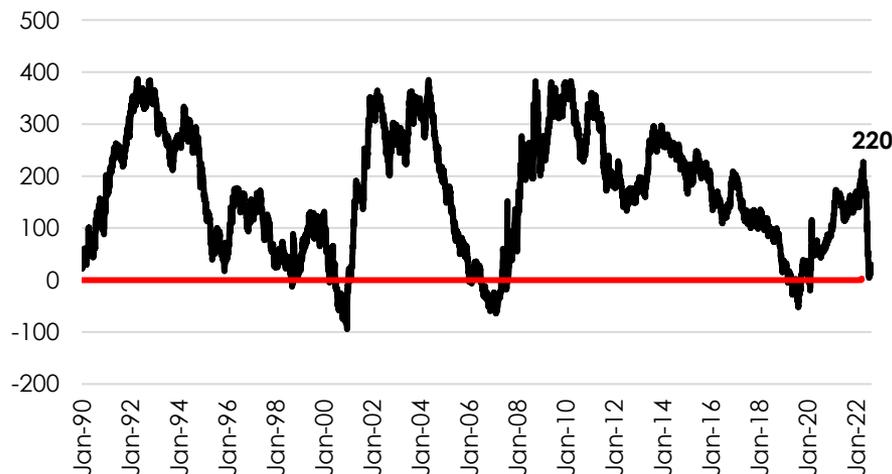
FIXED INCOME- BOND YIELDS WERE HIGHER AS THE FED WILL CONTINUE TO RAISE ITS INTEREST RATE

Monthly Changes, bps

UST	Yields (%) 29-Jul-22	Yields (%) 31-Aug-22	Change (bps)
3-M UST	2.41%	2.96%	55
2-Y UST	2.89%	3.45%	56
5-Y UST	2.70%	3.30%	60
10-Y UST	2.67%	3.15%	48

MGS	Yields (%) 29-Jul-22	Yields (%) 30-Aug-22	Change (bps)
3-Y MGS	3.50%	3.34%	-16
5-Y MGS	3.71%	3.72%	1
7-Y MGS	3.84%	3.88%	4
10-Y MGS	3.88%	3.98%	10

10-Y UST minus 2-Y UST, bps

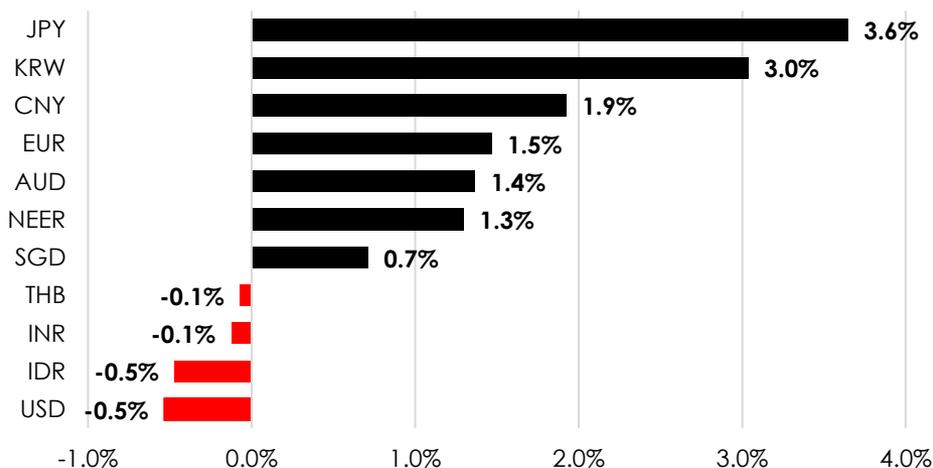


- ✓ The U.S. Treasury (UST) yields surged between 48 bps and 60 bps during August after the U.S. Fed raised the FFR in March.
- ✓ In addition, another 75 bps hike is expected during the upcoming meeting on 20-21 September to contain the country's high inflation.
- ✓ Following this, the yield curve of 10-Y UST minus 2-Y UST remained narrow at 19 bps on 31 August.
- ✓ On the domestic front, Malaysian Government Securities (MGS) yields ended mixed with shorter tenure 3-Y MGS yield fell by 16 bps while 5-Y MGS, 7-Y MGS, and 10-Y MGS were higher by 1 bps to 10 bps in August in line with higher OPR.
- ✓ Looking forward, the bond yields will likely remain on an upward trend, given the monetary tightening cycle in the advanced countries. For Malaysia, the MGS yield curve with a flattening bias continues until the year-end.

RINGGIT IS EXPECTED TO REMAIN VOLATILE AGAINST THE USD, WAITING FOR THE FED'S MOVE

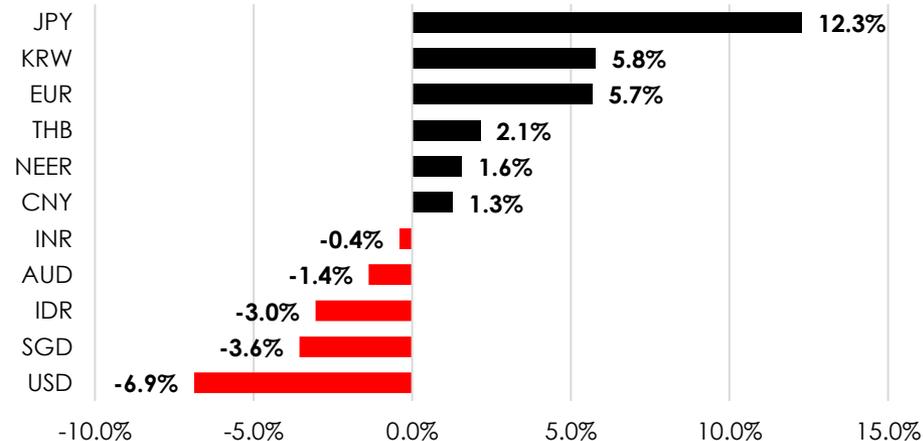
- ✓ The Ringgit depreciated by 0.5% m-o-m against the U.S. Dollar (USD) to close at RM4.4740 on 30 August from RM4.4480 in the previous month.
- ✓ The local note was weighed down by the hawkish statements by Fed Chairman Jerome Powell during the Jackson Hole Symposium to keep the interest rate high for a while to bring inflation back to its 2.0% target.
- ✓ Additionally, a steady line of U.S. Fed officials have backed up support for further rate hikes to stamp out the inflation with the latest comment by Cleveland Fed President Loretta Mester to move the FFR to somewhat above 4.0% by early 2023.
- ✓ Ringgit was also weighed down by the declining oil price (31 August: USD96.49 per barrel vs. 29 July: USD110.01 per barrel) due to the resurgence of COVID-19 and lockdown measures in China which explained the oil's recent slower movement. Talks about moderating global growth did not help.
- ✓ As such, we foresee the Ringgit trading lower against the greenback in the medium term.

MYR Against Other Currencies, m-o-m%



Source: Investing.com

YTD Performance MYR Against Other Currencies, %



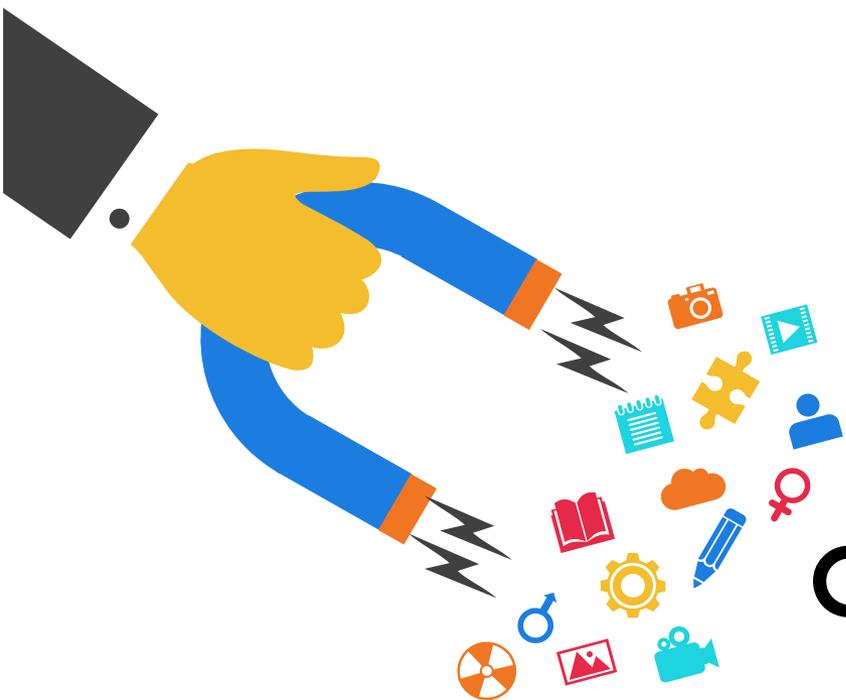
ELSEWHERE, THE USD/JPY FALLS TO FRESH 24-YEAR LOW FOLLOWING THE FED RATE HIKE WOES

USD/JPY



Source: Investing.com

- ✓ The Japanese Yen (JPY) slid to as low as 138.79 per USD on 30 August, its softest since 1998. The U.S. Fed's remarks on another aggressive tightening raised concerns about a widening gulf in the interest rates between both countries.
- ✓ While the Fed and the ECB are looking to raise interest rates to quell inflation, the Bank of Japan (BOJ) remained steady with its ultra-loose monetary policy. The short-term interest rates are benchmarked at minus 0.1% while guiding 10-year Japanese government bond yields to around 0.0%.
- ✓ The JPY last trended at the present rate when the currency plunged to around 147.00 against the greenback during the late-90s Asian Financial Crisis.



GLOBAL ECONOMY

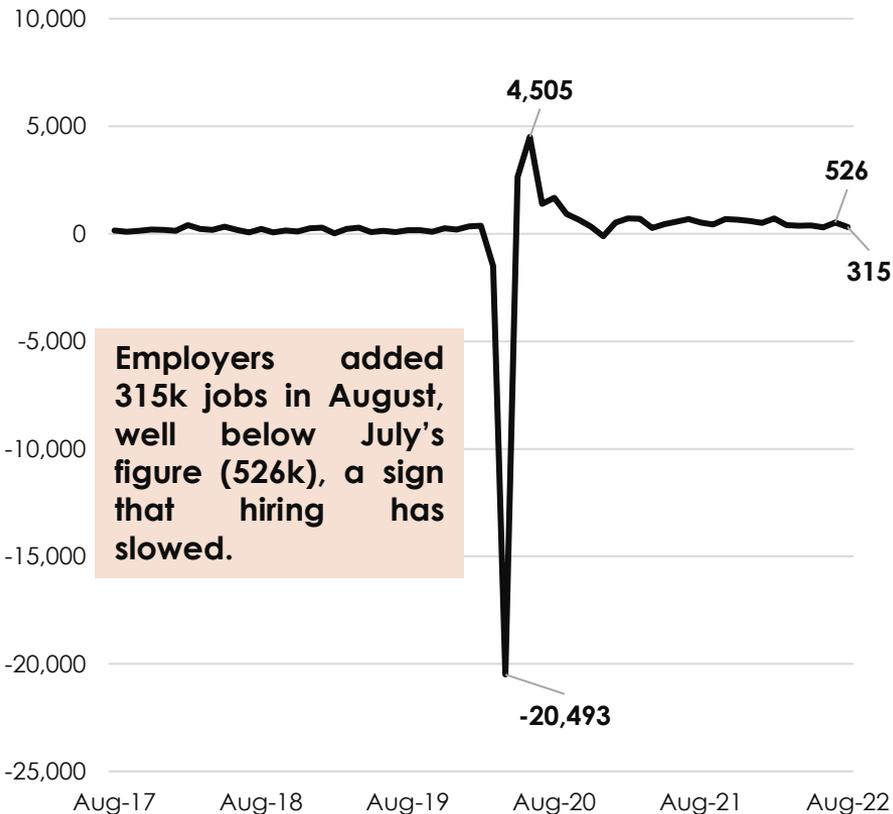
REGIONAL GDP GROWTH DURING 2Q2022 – MODERATING GROWTH AMID SUPPLY-SIDE PRESSURE

GDP, y-o-y%	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021	1Q2022	2Q2022
U.S.	-9.1	-2.9	-2.3	0.5	12.2	4.9	5.5	3.5	1.7
U.K.	-21.1	-7.7	-6.3	-5.0	24.5	6.8	6.7	8.8	3.0
Japan	-10.3	-5.4	-0.9	-1.7	7.3	1.2	0.5	0.6	1.6
Germany	-10.5	-2.5	-2.2	-2.1	10.1	1.9	1.2	3.6	1.7
France	-18.6	-3.6	-4.2	1.5	18.6	3.6	5.1	4.8	4.2
China	3.2	4.9	6.5	18.3	7.9	4.9	4.0	4.8	0.4
Thailand	-12.3	-6.4	-4.2	-2.4	7.7	-0.2	1.9	2.3	2.5
Philippines	-16.9	-11.6	-8.2	-3.8	12.1	7.0	7.8	8.2	7.4
South Korea	-2.6	-1.0	-1.1	1.9	6.0	4.0	4.2	3.0	2.9
Singapore	-13.3	-5.8	-2.4	2.0	15.8	7.5	6.1	3.8	4.4
Indonesia	-5.3	-3.5	-2.2	-0.7	7.1	3.5	5.0	5.0	5.4
Malaysia	-17.1	-2.5	-3.4	-3.3	15.9	-4.5	3.6	5.0	8.9

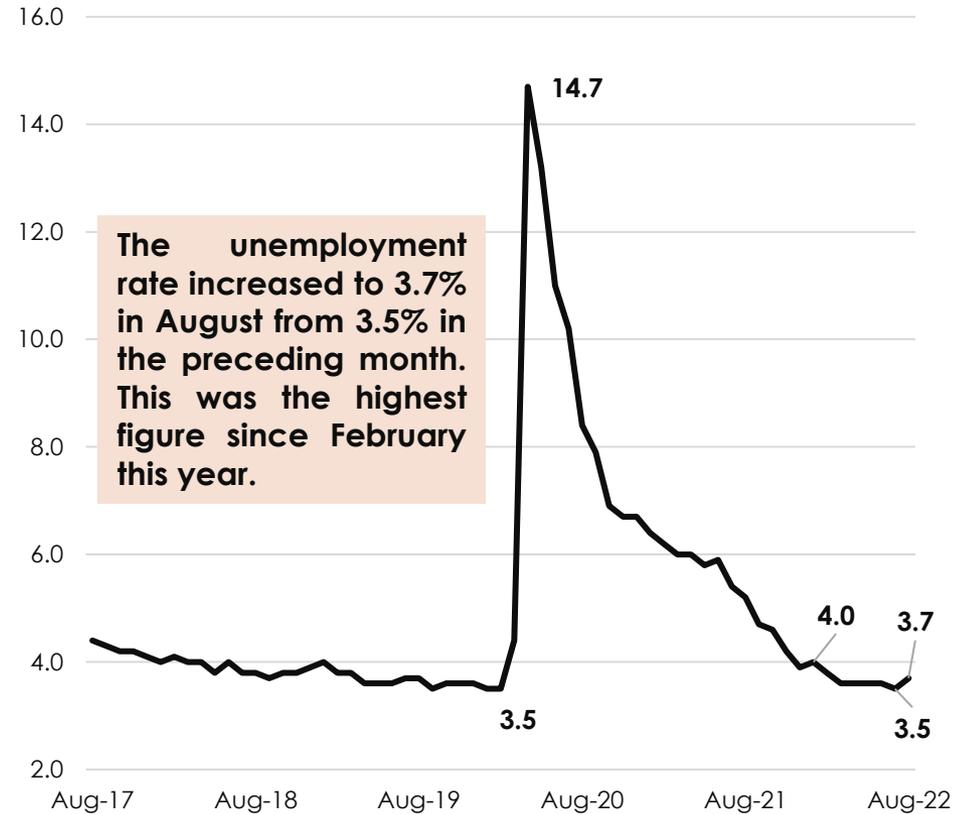
Sources: CEIC, official websites of respective central banks

Prolonged geopolitical tensions in Europe, higher energy prices and aggressive tightening pace by major central banks are among the reasons for slowing economic activities during 2Q2022.

Nonfarm Payrolls, m-o-m changes ('000)



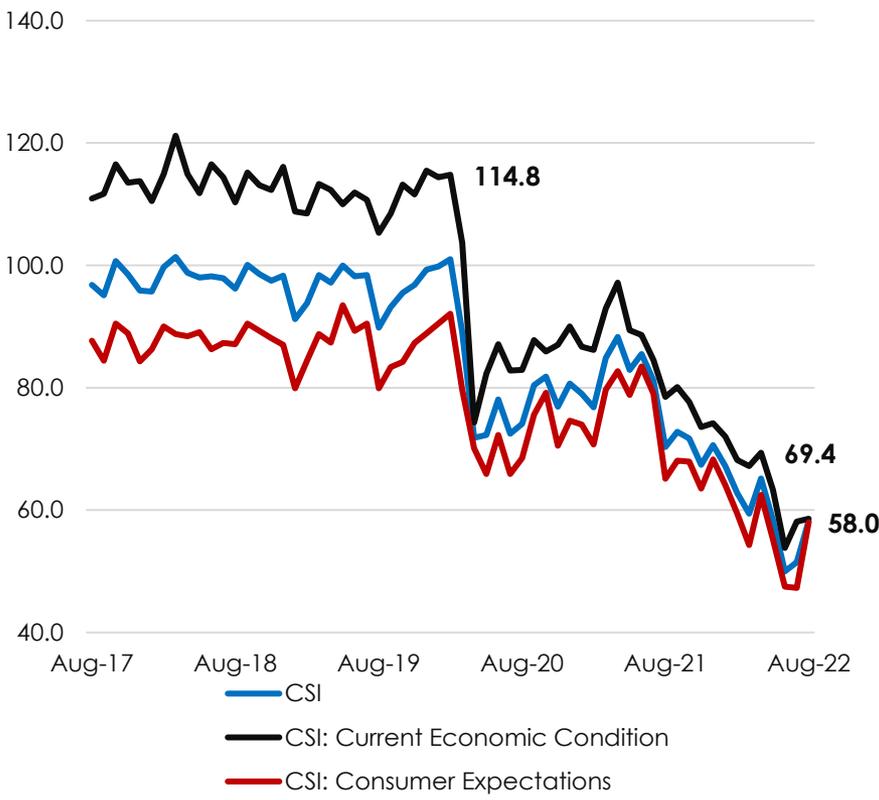
Unemployment Rate, %



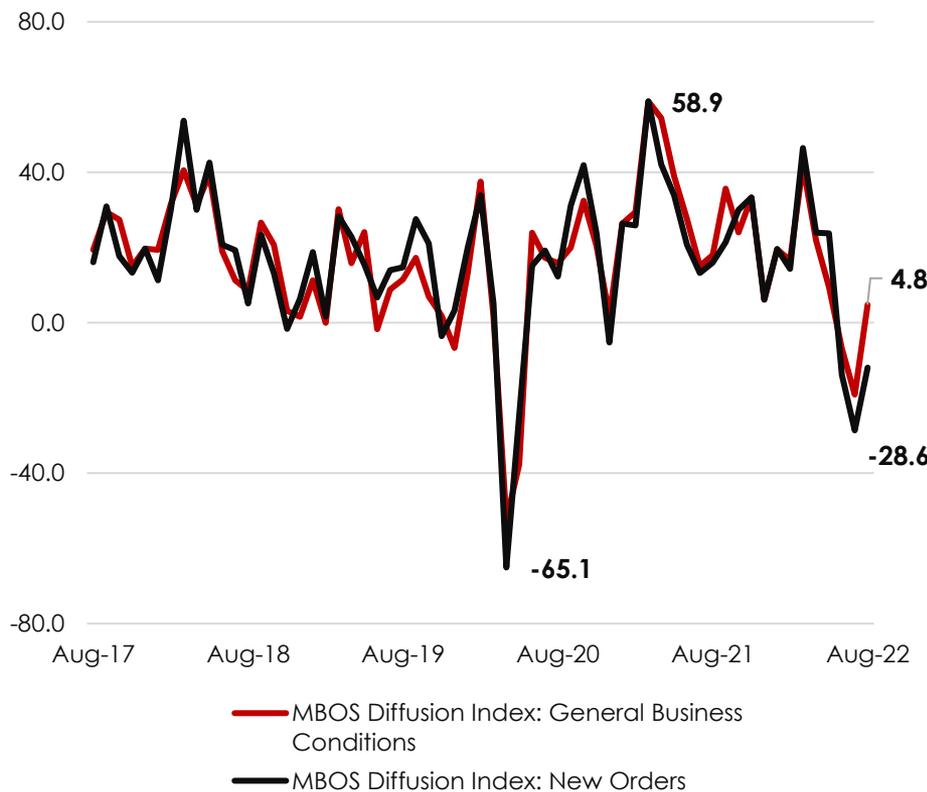
Source: CEIC

The recent U.S. labour market indicators have lessened the pressure on the Fed to deliver a third 75 bps interest rate hike this month. However, the upcoming inflation report will signal the Fed's tightening pace in this month's FOMC meeting.

Consumer Sentiment Index (CSI), points



Business Conditions, %



Source: CEIC
MBOS: Manufacturing Business Outlook Survey

Price pressures are becoming entrenched in the economy, shattering consumers and businesses confidence.

SOARING INFLATION HAS FORCED CENTRAL BANKS GLOBALLY TO RAISE THEIR BENCHMARK INTEREST RATES

Policy rates	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sept-22*
Advanced countries													
US (Fed Fund Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	1.00	1.75	2.50	2.50	2.50
Japan (Policy Balance Rate)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro Zone (Main Refinancing Rate)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.50	1.25
UK (Bank Rate)	0.10	0.10	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25	1.75	1.75
Canada (ON Lending Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.50	2.50	2.50	3.25
Latin America													
Mexico (ON Rate)	4.75	4.75	5.00	5.50	5.50	6.00	6.50	6.50	7.00	7.75	7.75	8.50	8.50
Brazil (Selic Rate)	6.25	7.75	7.75	9.25	9.25	10.75	11.75	11.75	12.75	13.25	13.25	13.75	13.75
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	40.00	42.50	44.50	47.00	49.00	52.00	60.00	69.50	69.50
Eastern Europe													
Russia (Key Rate)	6.75	7.50	7.50	8.50	8.50	9.50	20.00	14.00	11.00	9.50	8.00	8.00	8.00
Ukraine (Discount Rate)	8.50	8.50	8.50	9.00	10.00	10.00	10.00	10.00	10.00	25.00	25.00	25.00	25.00
Turkey (1W Repo Rate)	18.00	16.00	15.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	13.00	13.00
Asia													
China (1Y Loan Prime Rate)	3.85	3.85	3.85	3.80	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.65	3.65
India (Repo Rate)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.40	4.90	4.90	5.40	5.40
Indonesia (7D Repo Rate)	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75
Thailand (1D Repo Rate)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
South Korea (Base Rate)	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.50	1.75	1.75	2.25	2.50	2.50
Philippines (O/N Lending Rate)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25	2.50	3.25	3.75	3.75
Australia (Cash Rate)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.35	0.85	1.35	1.85	2.35
New Zealand (Cash Rate)	0.25	0.50	0.75	0.75	0.75	1.00	1.00	1.50	2.00	2.00	2.50	3.00	3.00
Malaysia (OPR)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00	2.25	2.25	2.50

Source: Bloomberg
 *As at 13 September 2022

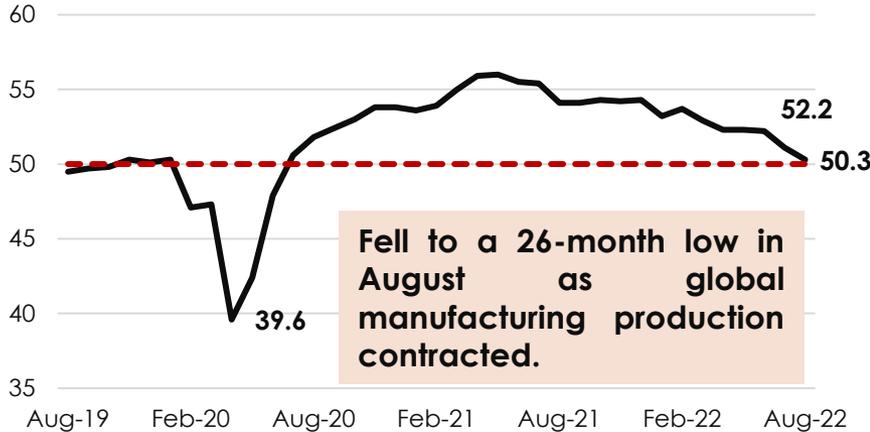
Recently, the ECB raised interest rates by 75 bps in its September meeting to fight against inflation.

Interest Rate Hike

Interest Rate Cut

THE WEAKENING DEMAND WILL PROMPT MANUFACTURERS TO ADJUST THEIR PRODUCTION ACCORDINGLY

J.P. Morgan Global Manufacturing PMI, points

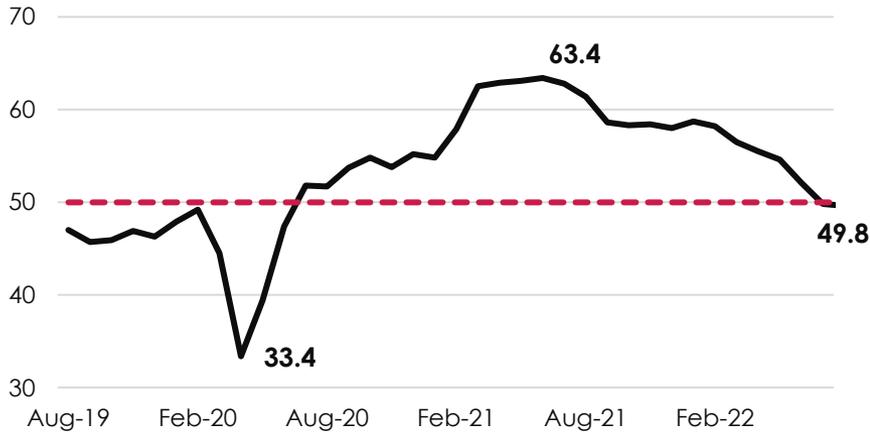


Fell to a 26-month low in August as global manufacturing production contracted.

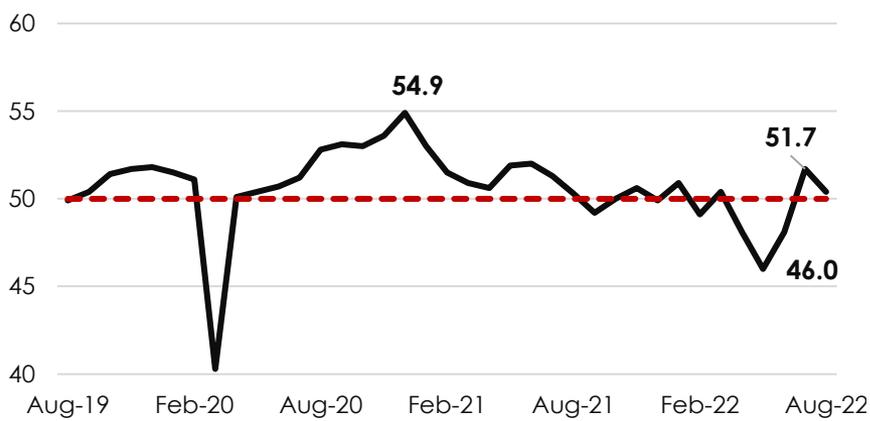
Index Summary:

Index	Jul-22	Aug-22	Interpretation
PMI	51.1	50.3	Improvement, slower rate
Output	50.0	49.4	Decline, from no change
New Orders	49.0	48.2	Decline, faster rate
New Export Orders	48.0	47.0	Decline, faster rate
Future Output	58.7	60.1	Growth expected, better sentiment
Employment	50.4	50.4	Growth, same rate
Input Prices	65.4	61.1	Inflation, slower rate
Output Prices	58.3	56.7	Inflation, slower rate

S&P Global Eurozone Manufacturing PMI, points



Caixin China General Manufacturing PMI, points





DOMESTIC LANDSCAPE & SECTOR UPDATE

Economic variables	Date	Remarks
2Q2022 Gross Domestic Product (GDP)	12 August 2022	<ul style="list-style-type: none"> ✓ Malaysia's GDP accelerated by 8.9% y-o-y in 2Q2022, following the 5.0% growth in 1Q2022. ✓ The strong growth was mainly underpinned by higher domestic demand (2Q2022: 13.0% vs. 1Q2022:4.4%) following further economic reopening activity and recovery in the labour market. ✓ Apart from that, consumer spending shot up by 18.3% in 2Q2022 (1Q2022: 5.5%), driven by policy support from the government such as the implementation of minimum wage hike, Bantuan Keluarga Malaysia (BKM), as well as special Employees Provident Fund (EPF) withdrawals. ✓ Within the economic sector, the services sector jumped by 12.0% in 2Q2022 (1Q2022: 6.5%), contributed by a surge in wholesale & retail trade, accommodation and transport as mobility improved. In addition, the manufacturing sector grew by 9.2% during 2Q2022 (1Q2022: 6.6%) amid sturdy external demand, which continues to support Malaysia's manufacturing activities, particularly in the E&E industry.
External Trade	19 August 2022	<ul style="list-style-type: none"> ✓ Malaysia's exports remained strong at a double-digit of 38.0% in July, though slightly softer compared to 38.7% in June. ✓ The firm performance was underpinned by the manufacturing sector, which surged by 35.4% in July after rising by 33.7% in June, supported by higher exports of Machinery & Equipment & Parts (July: 56.9% vs. June: 33.8%), Manufactures of Metal (July: 35.7% vs. June: 21.5%) and Chemical & Chemical Products (July: 19.1% vs. June: 4.1%). ✓ In line with the economic reopening, imports were slightly slower at 41.9% in July from 49.2% in June. As imports grew faster than exports, the trade balance narrowed to RM15.5 billion in July from RM21.9 billion in June.

SNAPSHOT OF LATEST MAJOR ECONOMIC VARIABLES IN MALAYSIA (CONT'D)

Economic variables	Date	Remarks
Consumer Price Index (CPI)	29 August 2022	<ul style="list-style-type: none"> ✓ Malaysia's CPI jumped by 4.4% y-o-y in July from 3.4% in June. Additionally, 53 items showed an increase of more than 10.0% in July compared to 48 items in June. ✓ The cost of Food & Non-Alcoholic Beverages rose at a new record peak of 6.9% during the said month compared to 6.1% in June following supply chain disruption amid the Russian-Ukraine military conflict and the low-base effect. Also, it has surpassed the annual price growth since 2009 (4.1%). ✓ Likewise, the cost of Transport grew by 5.6% in July (June: 5.4%) due to the rise in the price of a subgroup of Operation of Personal Transport Equipment (July: 6.7% vs. June: 6.6%). ✓ On a cumulative basis, the CPI increased by 2.8% in 7M2022 versus 2.3% in the same period last year. Similarly, the Core CPI increased significantly during the period (7M2022: 2.3% vs. 7M2021: 0.7%).
Overnight Policy Rate (OPR)	7-8 September 2022	<ul style="list-style-type: none"> ✓ The Bank Negara Malaysia (BNM) decided to increase the OPR by another 25 bps to 2.50% during its September meeting. ✓ The central bank added that the adjustment in the degree of monetary accommodation is supportive of economic growth while reducing the inflationary pressures due to elevated commodity prices and more favourable labour market conditions. ✓ Domestically, the country's transition to the endemic phase contributed to the stronger growth performance during 2Q2022, which saw the GDP accelerate further by 8.9% y-o-y after rising by 5.0% in the previous quarter. ✓ Meanwhile, on the global front, the growth is expected to face challenges amid monetary policy tightening in most economies, elevated commodity prices and strict pandemic management measures in China.

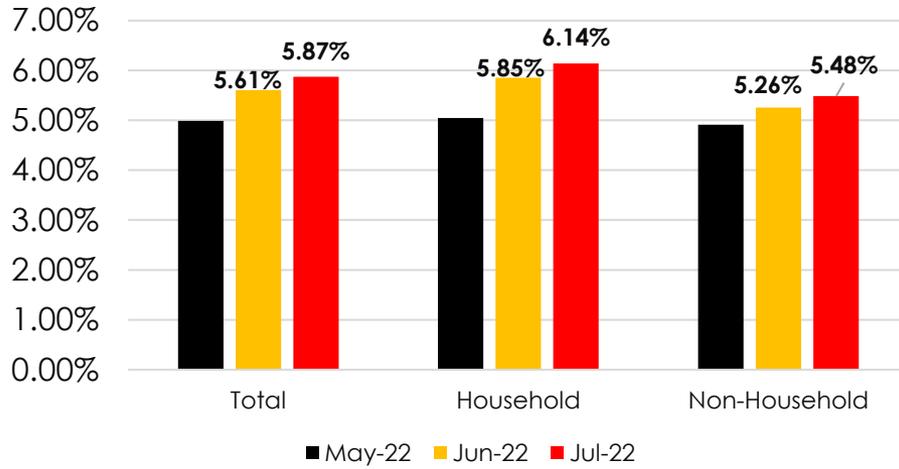
SNAPSHOT OF LATEST MAJOR ECONOMIC VARIABLES IN MALAYSIA (CONT'D)

Economic variables	Date	Remarks
Unemployment Rate (UR)	9 September 2022	<ul style="list-style-type: none"> ✓ Malaysia's UR continued to show a downward trend, reaching 3.7% in July (June: 3.8%), the lowest since Covid-19 hit the country two years ago. ✓ Apart from that, the number of employed persons increased to 15.98 million during the month from 15.94 million in June following higher employment in the Services sector, particularly in Food & Beverages, Wholesales & Retail Trade and Administrative and Support activities.
Industrial Production Index (IPI)	9 September 2022	<ul style="list-style-type: none"> ✓ Malaysia's IPI rose further to 12.5% y-o-y in July after rising by 12.1% in June, marking its double-digit growth for the second consecutive month. ✓ The growth was mainly contributed by Manufacturing (July: 14.9% vs. June: 14.4%) and Electricity (July: 13.2% vs. June: 15.4%) sectors during the month. These sectors accounted for 74.9% of the total IPI. ✓ Meanwhile, the Mining sector continued to increase by 3.2% in July from 2.1% in the previous month.

Source: DOSM

BANKING SECTOR- HIGHER FINANCING ACTIVITIES IN JULY AMID A HEALTHY DOMESTIC DEMAND RECOVERY

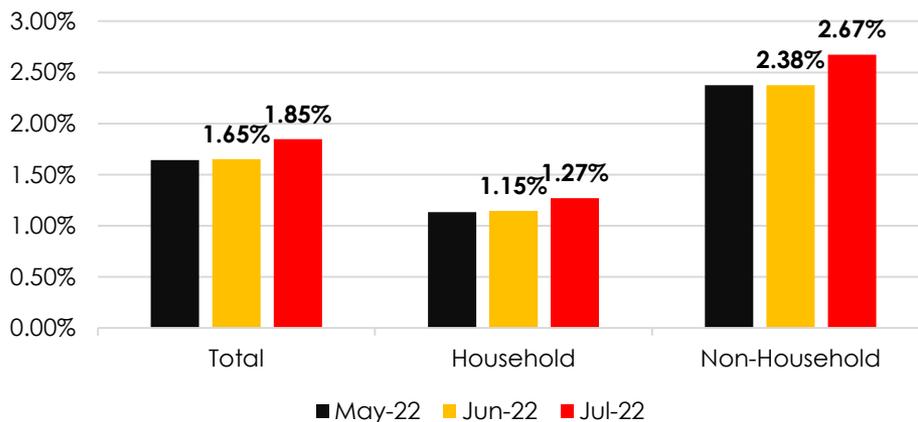
Financing Growth by Sector, y-o-y%



Banking Industry's Financing Growth

- ✓ Financing activities were higher by 5.87% y-o-y in July compared to 5.61% in June, underpinned by both Household (July: 6.14% vs. June: 5.85%) and Non-Household sectors (July: 5.48% vs. June: 5.26%).
- ✓ Within the Household sector, financing for credit cards was the pillar of growth, rising by double-digit for two straight months (July: 16.11% vs. June: 12.63%).
- ✓ Additionally, the purchase of passenger cars increased by 6.00% in July compared to 4.56%.
- ✓ This reflects improvements in demand conditions, supporting consumption activities.

Gross Impaired Financing Ratio (GIFR) by Sector, %

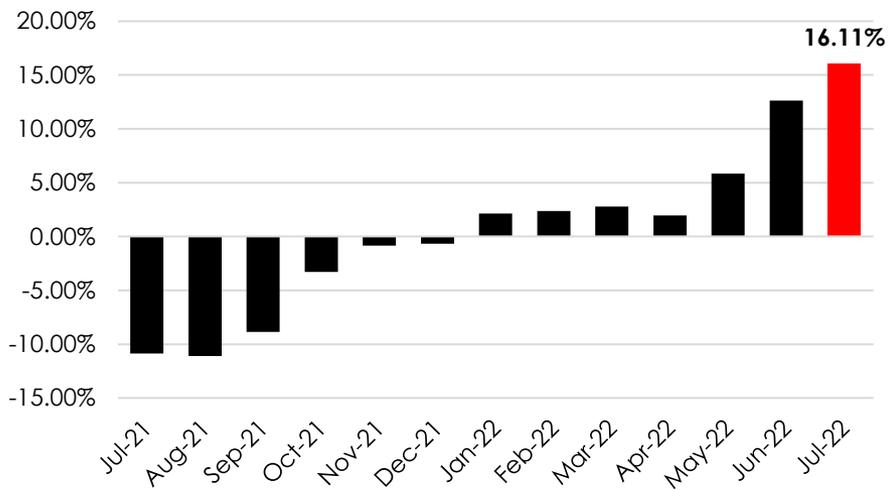


Banking Industry's Financing Growth

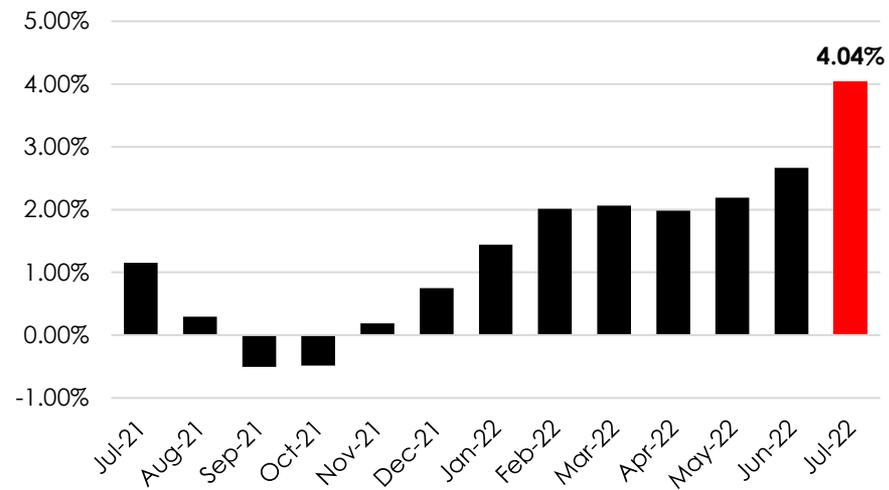
- ✓ The Gross Impaired Financing Ratio (GIFR) increased slightly to 1.85% in July (June: 1.65%) amid a deterioration in asset quality for both Household (July: 1.27% vs. June: 1.15%) and Non-Household sectors (July: 2.67% vs. June: 2.38%).
- ✓ Within the Non-Household sector, GIFR for manufacturing and construction saw higher impairment at 2.26% (June: 2.04%) and 4.77% (June: 3.55%) in July.
- ✓ A higher GIFR suggests challenges in business operations despite the economy's recovery path.

FINANCING GROWTH- HOUSEHOLD SECTOR CONTINUED ITS UPWARD TREND, DEMONSTRATING BETTER DOMESTIC SENTIMENT

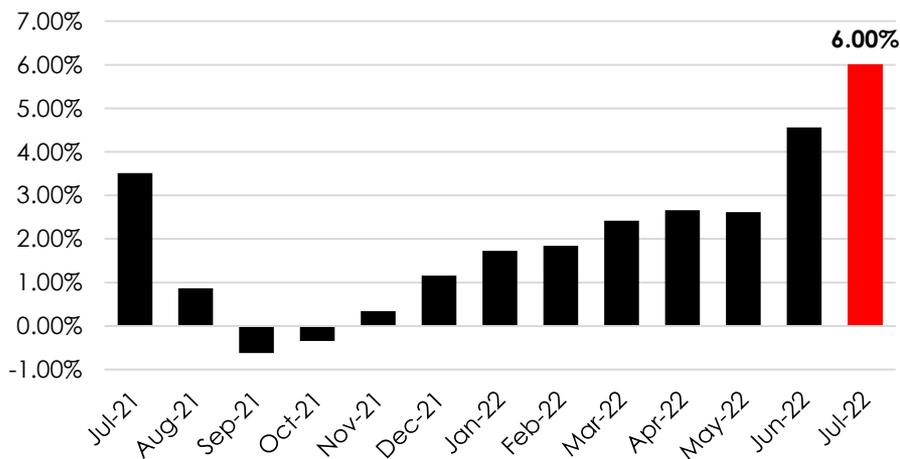
Credit Card, y-o-y%



Personal Uses, y-o-y%



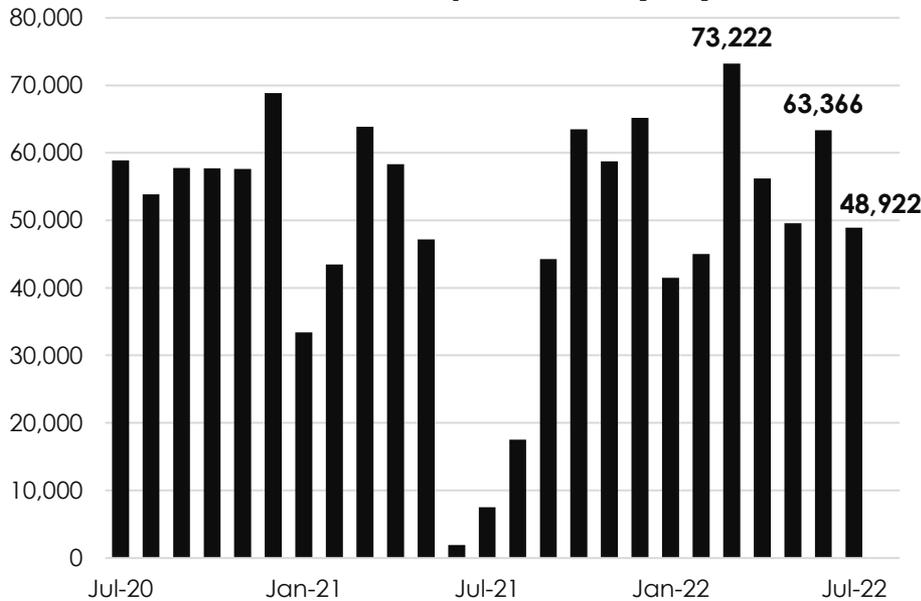
Purchase of Passenger Cars, y-o-y%



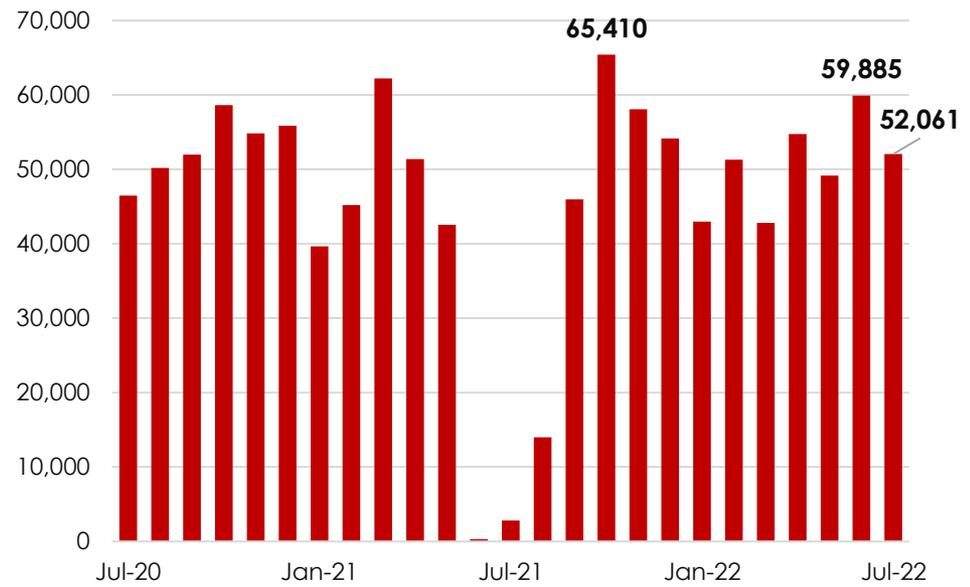
- ✓ In addition, wholesale trade except for motor vehicles also rose by double-digit in July at 19.30%.
- ✓ This shows that the domestic demand and consumer expenditure are on an uptrend.
- ✓ Be that as it may, rising downside risks from the external front and higher cost of living could dampen the consumer sentiment in 2H2022.

AUTOMOTIVE SECTOR – TIV AND TIP DROPPED IN JULY ON MONTHLY BASIS

Total Industry Volume (TIV), units



Total Industry Production (TIP), units



Sources: CEIC, MAA

- ✓ TIV declined by 22.8% m-o-m to 48,922 units in July from 63,366 units. The higher units sold in June were predominantly driven by increased orders and bookings during the sales and services tax exemption incentive before 30 June this year.
- ✓ In a similar move, TIP dropped by 13.1% m-o-m to 52,061 units in July (June: 59,885 units) as chips and components shortages continued to affect production, leading to the reduced volume last month.

CONCLUSION: DIVERGENCE IN MONETARY POLICY STANCE, DIVERGING GROWTH RATES

- ✓ **As expected, BNM raised OPR by 25 bps** – Malaysia's monetary setting remains accommodative despite the increasing borrowing cost amid the recent OPR hike. We do not believe that BNM would take a bold move to hike at a rate higher than 25 bps following each meeting, unlike by other central banks. The fundamentals of the Malaysian economy remain solid and the current monetary setting is in line with its growth trajectory.
- ✓ **Malaysia's manufacturing sector eased in August** – The manufacturing PMI went down slightly to 50.3 points in August from 50.6 points in the previous month. According to S&P Global Market Intelligence, the latest reading symbolises 3Q2022's gradual slowdown in the growth of manufacturing production and GDP, following sustained increases throughout 2Q2022. However, Malaysian manufacturers remain optimistic for the year ahead, hoping demand conditions improve and drive output as the pandemic is under control.
- ✓ **Market is bracing for another 75 bps rate hike of FFR** – On 7 September, several Fed officials signaled that the U.S. would continue to raise the interest rates until there are clear signs that the inflation prints get closer to the 2.0% target. The policy decision is set to take place on 20-21 September following the annual Jackson Hole Economic Symposium retreat in Wyoming last month. Thus far, the central bank has raised the interest rates four times this year, bringing a total of 225 bps.
- ✓ **As such, expect market volatility in September** – On the external front, we posit that the anticipation of the September FOMC meeting and rate hikes by other major central banks will ultimately shape investor sentiments in the month. We also cannot discount other key factors, such as the developments surrounding the Russia-Ukraine military conflict and its impact on commodity prices and inflation, to play a similar role as well. On the domestic front, we expect the market to gravitate towards government announcements surrounding the Budget 2023 and a possible early 15th General Elections (GE15).

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An aerial photograph of a city skyline at sunset, with a prominent pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city features numerous high-rise buildings, with a particularly tall, slender skyscraper on the left. A highway with traffic is visible in the foreground, winding through the city. The overall mood is warm and serene.

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