



From the Desk
of the
Chief Economist

BANK ISLAM

MONTHLY ECONOMIC & MARKET UPDATES

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ECONOMIC RESEARCH

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OVERVIEW – GLOBAL GROWTH IN 2H2022 COULD BE SLOWER DUE TO THE UNCERTAIN ECONOMIC OUTLOOK AT THE CURRENT JUNCTURE

U.S.-China tension escalated amid Pelosi's visit to Taiwan

- ✓ The U.S. House Speaker Nancy Pelosi's trip to Taiwan on 2 August 2022 could create greater instability between the U.S. and China.
- ✓ However, the visit was said to show the U.S.'s unwavering commitment to support Taiwan's vibrant democracy.
- ✓ For record, Beijing has vowed to unify Taiwan with the mainland, creating conflict as Taiwanese President Tsai Ing-Wen favours independence.

U.S. Senate votes to ratify NATO membership for Finland and Sweden

- ✓ The aim is to strengthen the defense bloc against backdrop of war in Ukraine.
- ✓ In the latest development, Europe faces tension as the Russia-Ukraine war intensifies.
- ✓ The Donetsk region, an area that has long-been in the crosshairs of Kremlin forces, is ordered by Ukrainian President Volodymyr Zelenskyy to evacuate.

The global manufacturing output declined during July

- ✓ The J.P. Morgan Global Manufacturing Purchasing Manager's Index (PMI) fell to 51.1 points in July from 52.2 points in June.
- ✓ The downturn in global manufacturing was attributable to the contraction in the developed world outputs.
- ✓ Apart from that, business sentiment has fallen to its lowest level since May 2020 mainly affected by the gloomy economic backdrop.
- ✓ Meanwhile, the supply chain bottleneck is seen to have abated, with shortened delivery times and decreasing price pressures. However, these largely reflect a slow demand owing to last quarter's skyrocketing consumer prices.

Global inflation continues to rise

- ✓ With the pandemic affecting supply chains and the war in Ukraine, countries around the world is facing rising prices.
- ✓ Global financial conditions are becoming tighter due to inflation in the U.S. and the largest European economies, which are higher than expected.
- ✓ In its latest release, the International Monetary Fund (IMF) is now forecasting inflation to hit 6.6% (April's projection: 5.7%) and 9.5% (April's projection: 8.7%) in the advanced and developing economies this year.
- ✓ In addition, it is expected to be at an elevated level should labour market remains tight, as well as renewed lockdowns that further suppress China's growth.

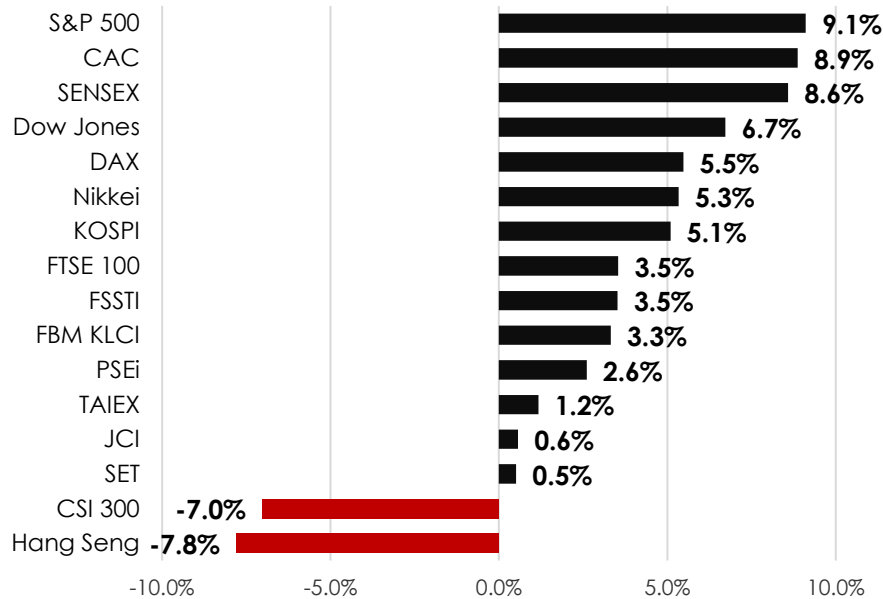
U.S. economy shrank again, sparking recession fears

- ✓ Though two straight quarters of negative growth is often considered as recession, it is not an official definition as it does not fall simply on gross domestic product (GDP) reports.
- ✓ The U.S. Policymakers and White House officials ranging from the Federal Reserve (Fed) Chairman Jerome Powell to the President Joe Biden reiterated that the economy is not heading into recession following a tight labour market condition.
- ✓ Nevertheless, the inflation has undermined the robust job market as wage gains failed to keep pace with price increases.

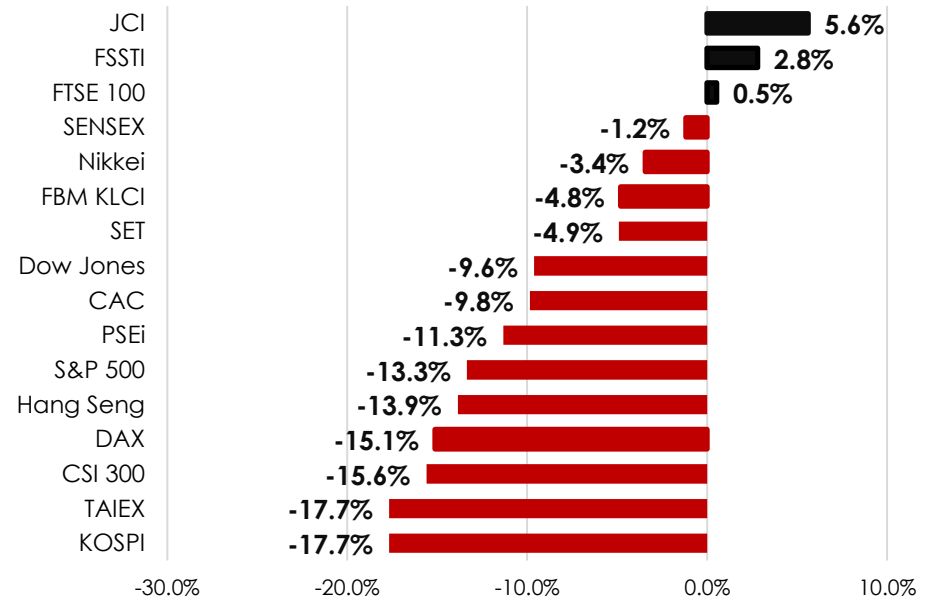


MALAYSIA'S FINANCIAL MARKET

Monthly Gains/Losses of Benchmark Indices in July



YTD Gains/Losses of Benchmark Indices as of July

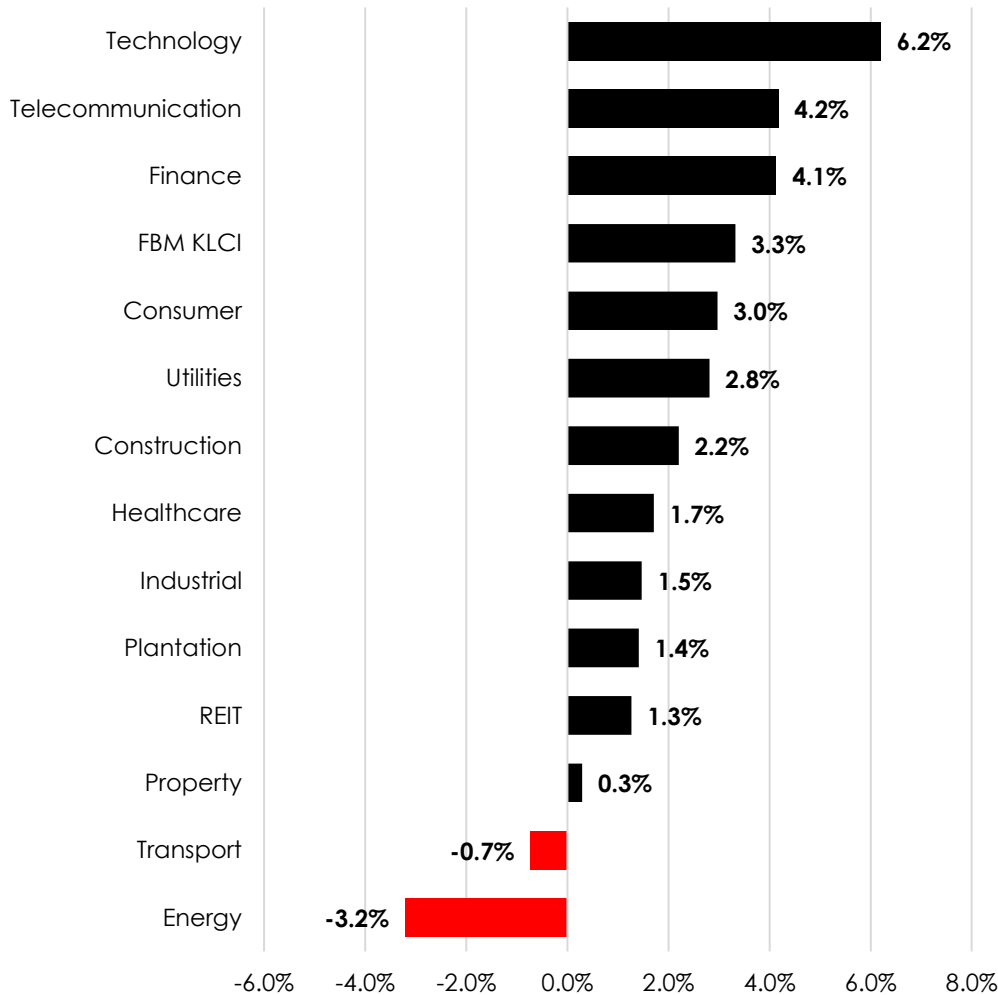


Source: CEIC

- ✓ The U.S. S&P 500 led gainers in July, increasing by 9.1% from a 8.4% decline previously. This was the largest monthly gains since November 2020, supported by better corporate earnings result during 2Q2022 alongside with expectation of slower pace of Federal Fund Rate (FFR) hike moving forward.
- ✓ Meanwhile, Hong Kong's Hang Seng recorded the biggest loss among the major equity markets, falling by 7.8% during the month (June: 2.1%) as tech stocks came under pressure over ongoing audit inspection issues by the U.S. market regulator.
- ✓ On a Year-to-Date (YTD) basis, most of the equity markets were still in the red amid heightened uncertainties about global growth projection moving forward.

BURSA INDICES GAINED ITS MOMENTUM AS PARTICIPATION OF FOREIGN FUNDS IMPROVED

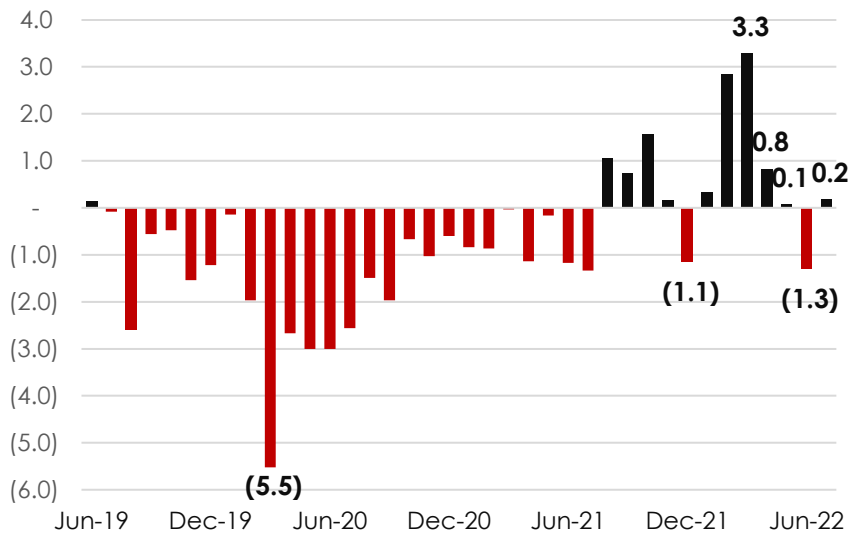
Bursa Sectoral Performance, m-o-m%



- ✓ Most of the Bursa sectors were in positive territory with largest gains were led by Technology (6.2%) and Telecommunication (4.4%) index during July.
- ✓ The upturn was mainly contributed by better-than-expected corporate earnings in the U.S. which have provided support to regional equity market alongside bargain hunting activities by foreign investors.
- ✓ Apart from that, the U.S. Fed has signaled that the interest rate hike in the country might slow down moving forward.
- ✓ All in all, the FBM KLCI is expected to move between 1,460.0 points and 1,480.0 points in the immediate term driven by continuous inflow of foreign investors due to cheap valuations of local stocks, as well as an improving macroeconomic condition in the country.

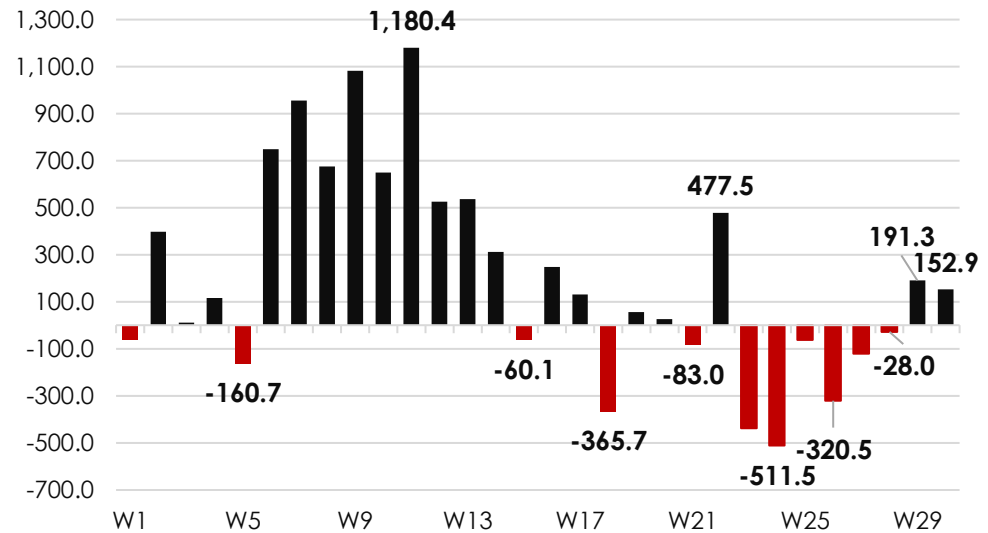
INTERNATIONAL FUND FLOWS IN MALAYSIA – FOREIGN INVESTORS TURNED TO BE NET BUYERS IN JULY

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



Source: Bursa

Weekly Foreign Net Inflows/Outflows in 2022, RM Million



*W=week

- ✓ Foreign investors had been net purchasers in July as they acquired RM0.2 billion net of local equities, after selling RM1.3 billion net in the preceding month.
- ✓ On further scrutiny, 13 out of 20 trading days in July were registered foreign inflows with the highest was recorded on 18 July at RM81.7 million respectively.
- ✓ To date, international investors have been net buyers for 19 out of 30 weeks (as of July 2022) with a total net inflows of RM6.3 billion (7M2021: -RM3.2 billion).
- ✓ Moving forward, we anticipate 'risk on' mode from foreign investors into emerging markets as the Fed already hinted a slower pace of FFR hike to avoid a recession in the U.S.

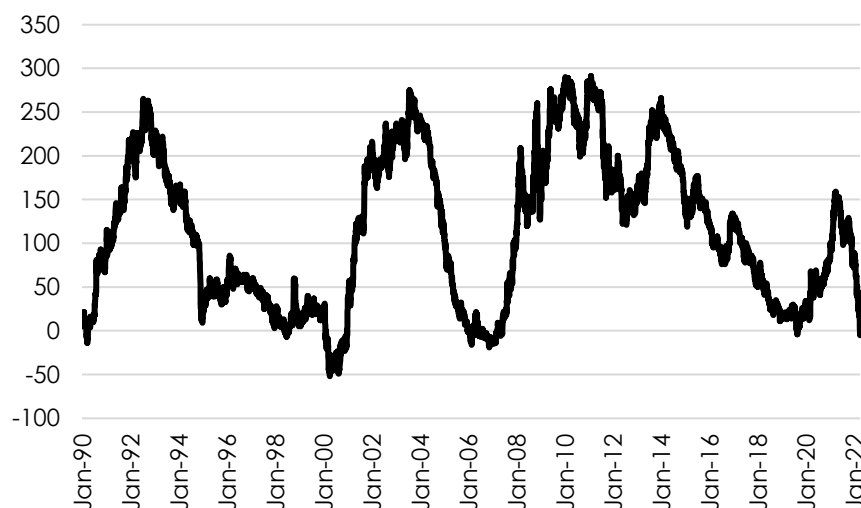
FIXED INCOME- DECLINING IN BOND YIELDS AMID RISING DOWNSIDE RISKS FROM EXTERNAL FRONT

Monthly Changes, basis points (bps)

UST	Yields (%) 30-Jun-22	Yields (%) 29-Jul-22	Change (bps)
3-M UST	1.72%	2.41%	69
2-Y UST	2.92%	2.89%	-3
5-Y UST	3.01%	2.70%	-31
10-Y UST	2.98%	2.67%	-31

MGS	Yields (%) 30-Jun-22	Yields (%) 29-Jul-22	Change (bps)
3-Y MGS	3.51%	3.50%	-1
5-Y MGS	3.96%	3.71%	-25
7-Y MGS	4.21%	3.84%	-37
10-Y MGS	4.26%	3.88%	-38

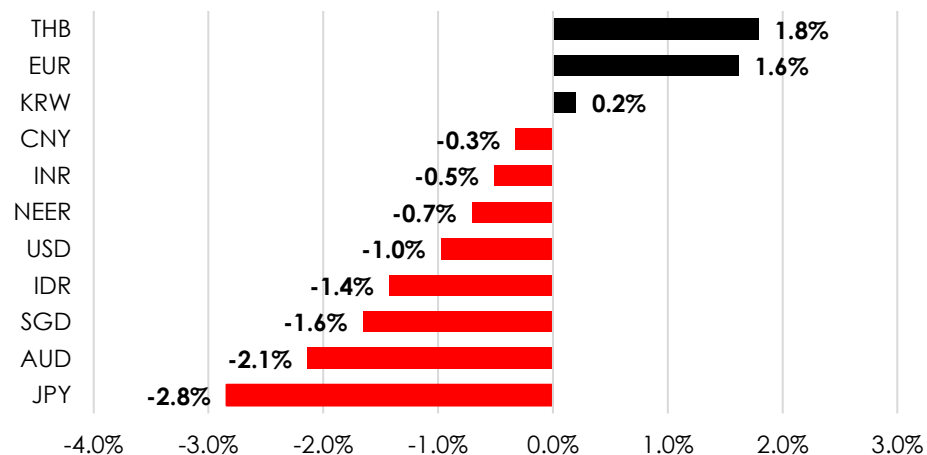
10-Y UST minus 2-Y UST, bps



- ✓ The 3-M UST yields surged by 69 bps in July on the back of 75 bps FFR rate hike during Federal Open Market Committee (FOMC) meeting.
- ✓ However, the longer tenure UST bond yields closed lower between 3 bps and 31 bps during July as downside risks from the U.S. tightening cycle remained visible.
- ✓ Following this, the yield curve of 10-Y minus 2-Y have inverted for 20 straight days while the yield curve of 10-Y minus 3-M continued to narrow to 26 bps on 29 July from 126 bps on 30 June.
- ✓ This suggests that the market showed worries over recession which could happen in the U.S.
- ✓ As for local bond market, the MGS yields fell between 1 bps and 38 bps in July as investors were seeking for safe-haven assets in view of slower global economic growth in 2H2022.
- ✓ All in all, the bond yields are likely to decline in the medium term as the Fed will continue to unwind its monetary policy by increasing the FFR in next couple meeting and reducing their balance sheet size.

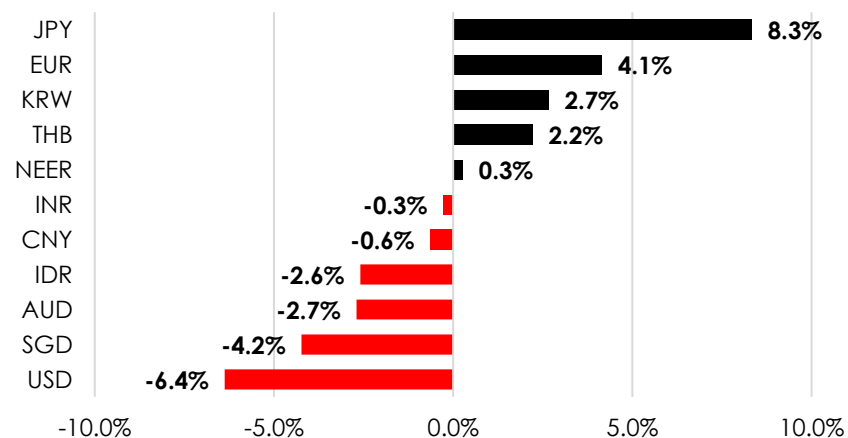
- ✓ The Ringgit depreciated by 1.0% month-to-month (m-o-m) against the U.S. Dollar (USD) to close at RM4.4480 on 29 July from RM4.4060 in the previous month.
- ✓ The weaker local note was attributable to the U.S. Fed's 75 bps hike on its 26-27 July meeting amid the country's inflation which skyrocketed to 40-year high. Thus, emerging currencies including the Ringgit has been weighed down by the stronger greenback as investors turned to safe-haven asset.
- ✓ A declining in the Ringgit was also due to the U.S. economy's technical recession which saw the GDP advanced estimation slipped by 0.9% quarter-on-quarter (q-o-q) in 2Q2022 following a 1.6% drop in the previous quarter.
- ✓ This week, investors would be eyeing the release of non-farm payroll figure, hoping a slowing pace of job gains. This could steer the future path of the Fed to ease back on the rate hike quantum for the next central bank's meeting.
- ✓ Overall, we foresee that the Ringgit would be traded lower against the USD due to the headwinds from the external front in the near term.

MYR Against Other Currencies, m-o-m%



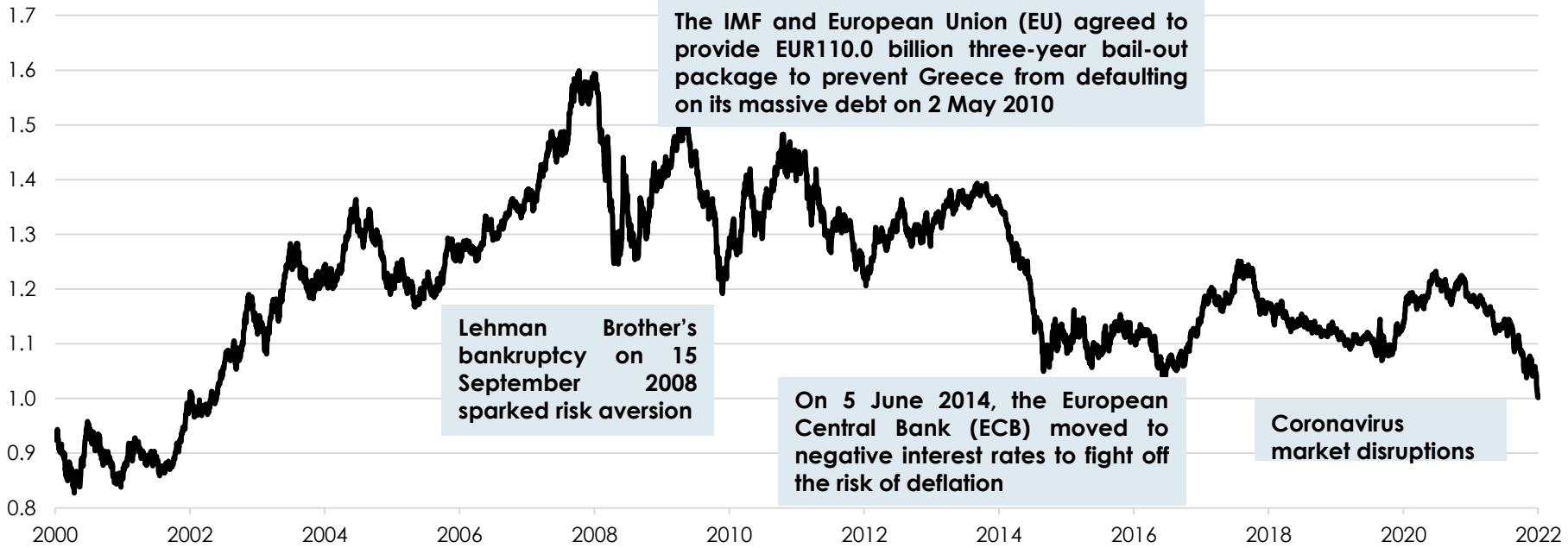
Source: Investing.com

YTD Performance MYR Against Other Currencies, %



MEANWHILE, THE EURO HIT PARITY WITH THE USD FOR THE FIRST TIME SINCE 2002 DURING MID JULY THIS YEAR

EUR/USD



Sources: Investing.com, Various media

- ✓ The Ukraine war took a heavy toll on European's economy, causing the energy markets and gas bills to soar to all-time highs.
- ✓ As a ripple effect, the eurozone experiences record-breaking inflation at 8.9% in July (June: 8.6%), with a gradual slowdown in economic activity.
- ✓ On top of that, the Fed's move to hike interest rates aggressively has direct impact on the EUR currency as investors seek shelter against the safe-haven assets due to its attractiveness thus, dropping the EUR value.
- ✓ On 21 July, the ECB increased its interest rates by 50 bps, the first hike in 11 years to join the global peers in confronting the inflation spike. The central bank stated further normalisation of interest rates will be appropriate in the upcoming meetings.

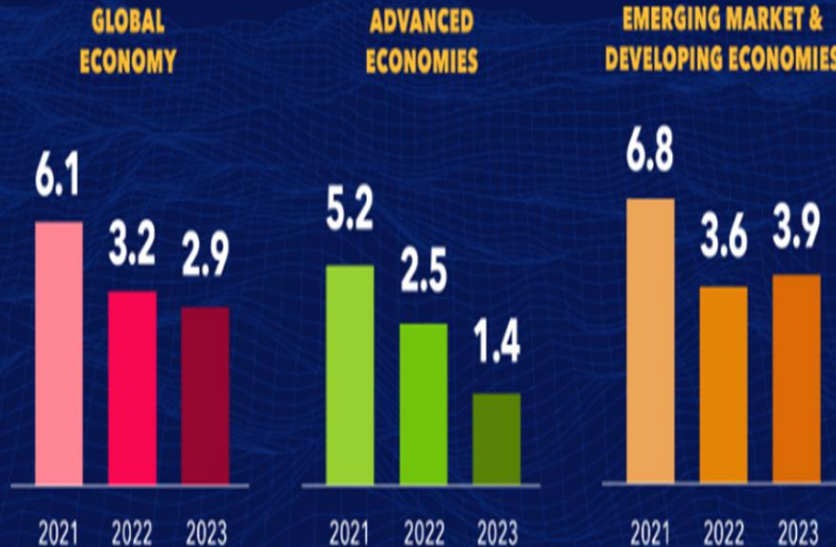


GLOBAL ECONOMY

IMF REVISED DOWNWARD ITS GLOBAL GROWTH PROJECTIONS FOLLOWING MACROECONOMIC PRESSURES AS THE KEY FACTORS

WORLD ECONOMIC OUTLOOK UPDATE JULY 2022

GROWTH PROJECTIONS



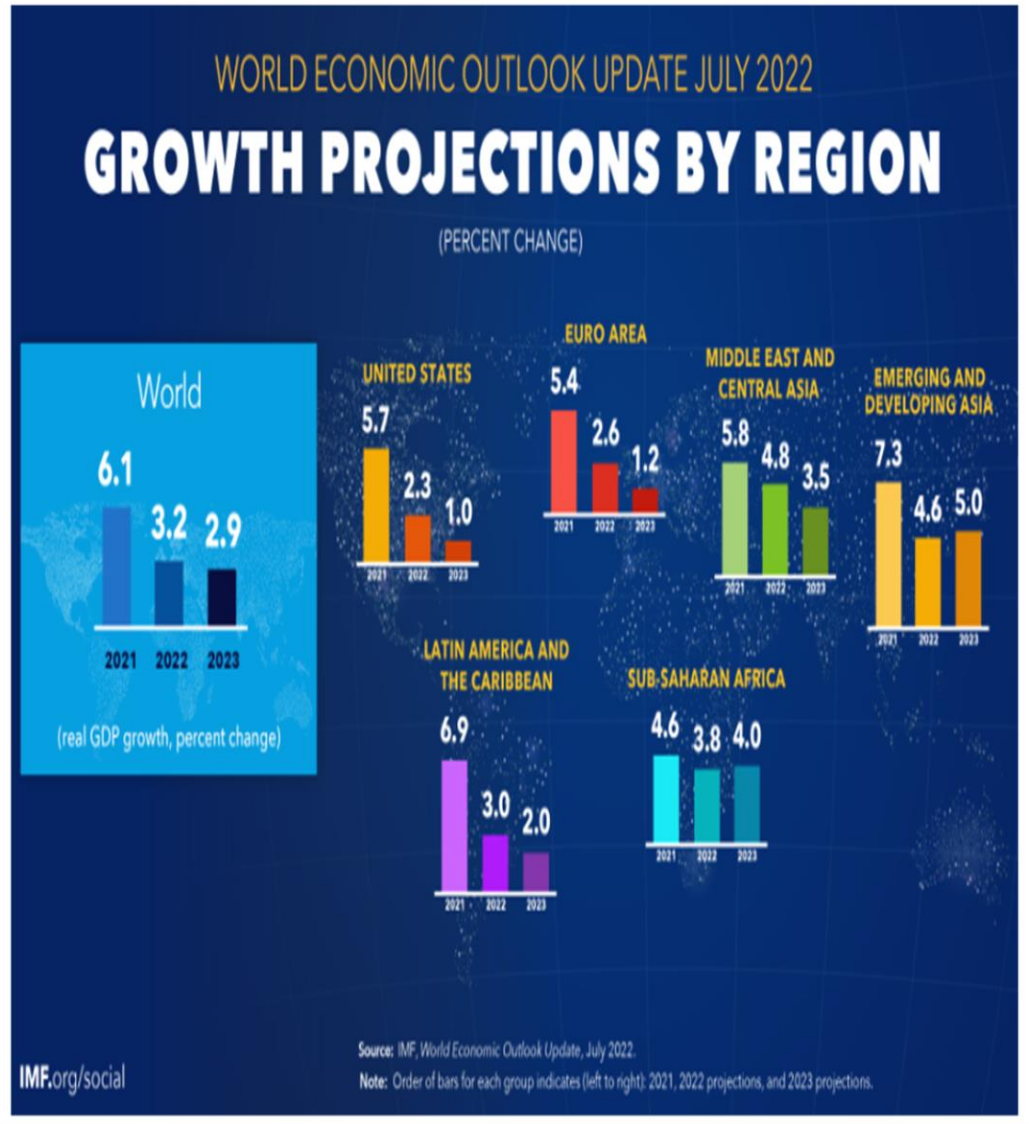
INTERNATIONAL MONETARY FUND

IMF.org #WEO

- ✓ On 26 July 2022, IMF slashed global GDP growth outlook in 2022 and 2023 for the third straight time this year.
- ✓ Concerns are arising about a global near-recession view.
- ✓ Global economic expansion is likely to slow to 3.2% in 2022, less than 3.6% projected in April and 4.4% in January.
- ✓ Additionally, the series of interest-rate hike by the central banks to contain the inflationary pressure is expected to affect the global output in 2023 which is set to decelerate to 2.9%.

Source: World Economic Outlook Update July 2022, IMF

LIKewise, THE WORLD'S THREE LARGEST ECONOMIES – THE U.S., CHINA AND EUROPE TO BE AFFECTED AS INFLATION, RATES JUMP



- ✓ The global economic outlook ahead is darkening with slowing growth and rising inflation. Adding to the woes are the aftershocks of the pandemic and the Russia-Ukraine war.
- ✓ At the same time, inflation in the U.S. and major European economies remain the biggest worry.
- ✓ Central banks have been in a hawkish mode to tamp down the persistently high inflation, triggering recession fears.
- ✓ Following this, the 2022 U.S. GDP was lowered to 2.3% from the 3.7% projection made in April, driven by weaker-than-expected growth in 1H2022, reduced household purchasing power and tightening monetary policy.
- ✓ Similarly, China's economy was seen to progress slowly to 3.3% (April's projection: 4.6%) in 2022 amid extended Covid-19 lockdowns, as well as a deepening real estate crisis.
- ✓ Meanwhile, the euro zone's outlook was revised down to 2.6% and 1.2% in 2022 and 2023 respectively, reflecting the spillover effects from the Ukraine war.

Source: World Economic Outlook Update July 2022, IMF

MALAYSIA ALSO REELS FROM THE SHOCK OF THE IMF'S 2022 GDP GROWTH CUT FROM 5.6% TO 5.1% IN 2022

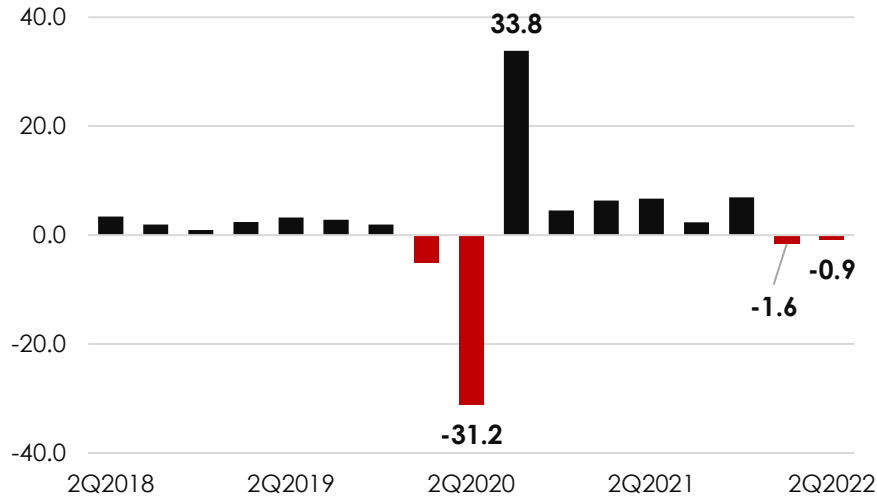
Selected Economies Real GDP Growth *(Percent change)*

	2020	2021	Projections		Difference from April	
			2022	2023	2022 WEO	2023
Argentina	-9.9	10.4	4.0	3.0	0.0	0.0
Australia	-2.1	4.8	3.8	2.2	-0.4	-0.3
Brazil	-3.9	4.6	1.7	1.1	0.9	-0.3
Canada	-5.2	4.5	3.4	1.8	-0.5	-1.0
China	2.2	8.1	3.3	4.6	-1.1	-0.5
Egypt 2f	3.6	3.3	5.9	4.8	0.0	-0.2
France	-7.9	6.8	2.3	1.0	-0.6	-0.4
Germany	-4.6	2.9	1.2	0.8	-0.9	-1.9
India 2f	-6.6	8.7	7.4	6.1	-0.8	-0.8
Indonesia	-2.1	3.7	5.3	5.2	-0.1	-0.8
Iran 2f	1.8	4.0	3.0	2.0	0.0	0.0
Italy	-9.0	6.6	3.0	0.7	0.7	-1.0
Japan	-4.5	1.7	1.7	1.7	-0.7	-0.6
Kazakhstan	-2.6	4.1	2.9	3.9	0.6	-0.5
Korea	-0.7	4.1	2.3	2.1	-0.2	-0.8
Malaysia	-5.5	3.1	5.1	4.7	-0.5	-0.8
Mexico	-8.1	4.8	2.4	1.2	0.4	-1.3
Netherlands	-3.9	4.9	2.5	1.0	-0.5	-1.0
Nigeria	-1.8	3.6	3.4	3.2	0.0	0.1
Pakistan 2f	-0.9	5.7	6.0	3.5	2.0	-0.7
Philippines	-9.5	5.7	6.7	5.0	0.2	-1.3
Poland	-2.2	5.9	4.5	2.0	0.8	-0.9
Russia	-2.7	4.7	-6.0	-3.5	2.5	-1.2
Saudi Arabia	-4.1	3.2	7.6	3.7	0.0	0.1
South Africa	-6.3	4.9	2.3	1.4	0.4	0.0
Spain	-10.8	5.1	4.0	2.0	-0.8	-1.3
Thailand	-6.2	1.5	2.8	4.0	-0.5	-0.3
Türkiye	1.8	11.0	4.0	3.5	1.3	0.5
United Kingdom	-9.3	7.4	3.2	0.5	-0.5	-0.7
United States	-3.4	5.7	2.3	1.0	-1.4	-1.3

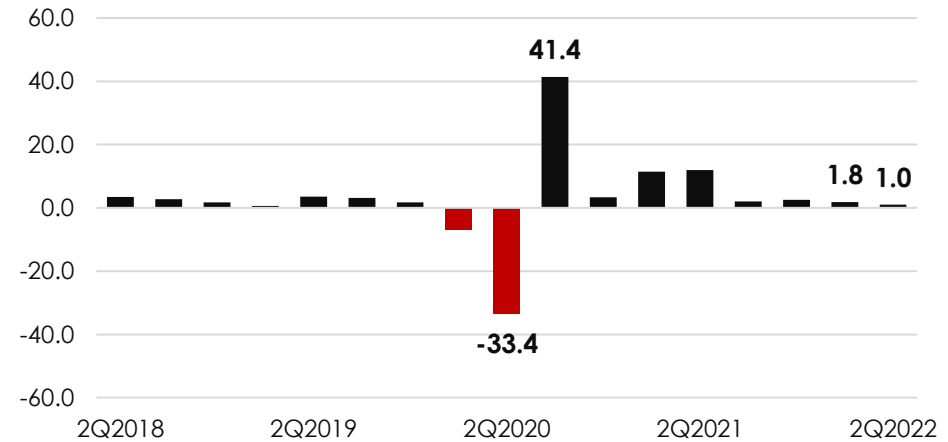
Source: World Economic Outlook Update July 2022, IMF

THE U.S. ECONOMY IS EXPECTED TO CONTRACT BY 0.9% Q-O-Q IN 2Q2022 – ADVANCE ESTIMATE BY THE U.S. BEA, SUGGESTING SLOWING ECONOMIC ACTIVITIES

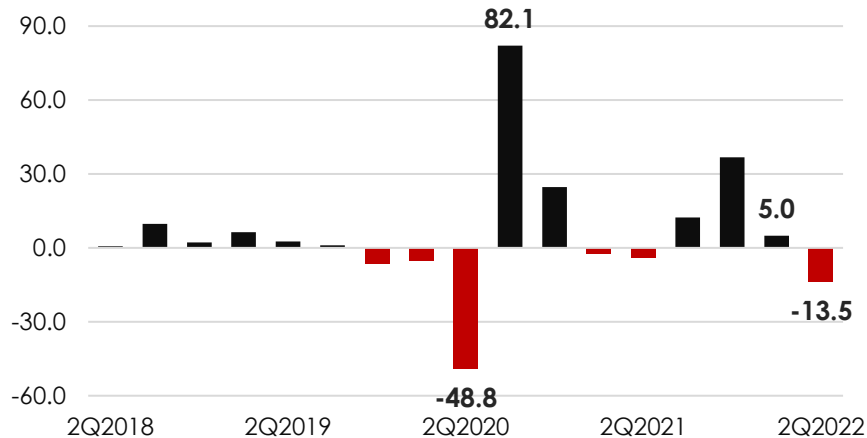
Gross Domestic Product (GDP), q-o-q%



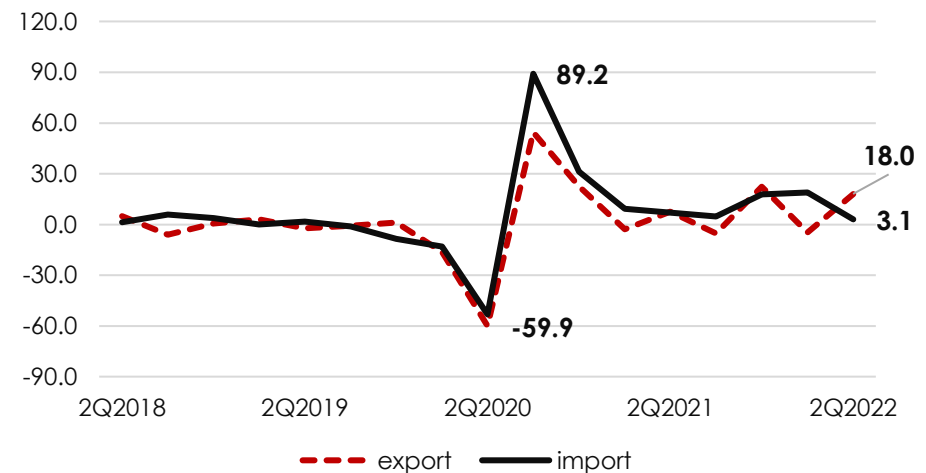
Personal Consumption Expenditures (PCE), q-o-q%



Gross Private Domestic Investment (GPDI), q-o-q%



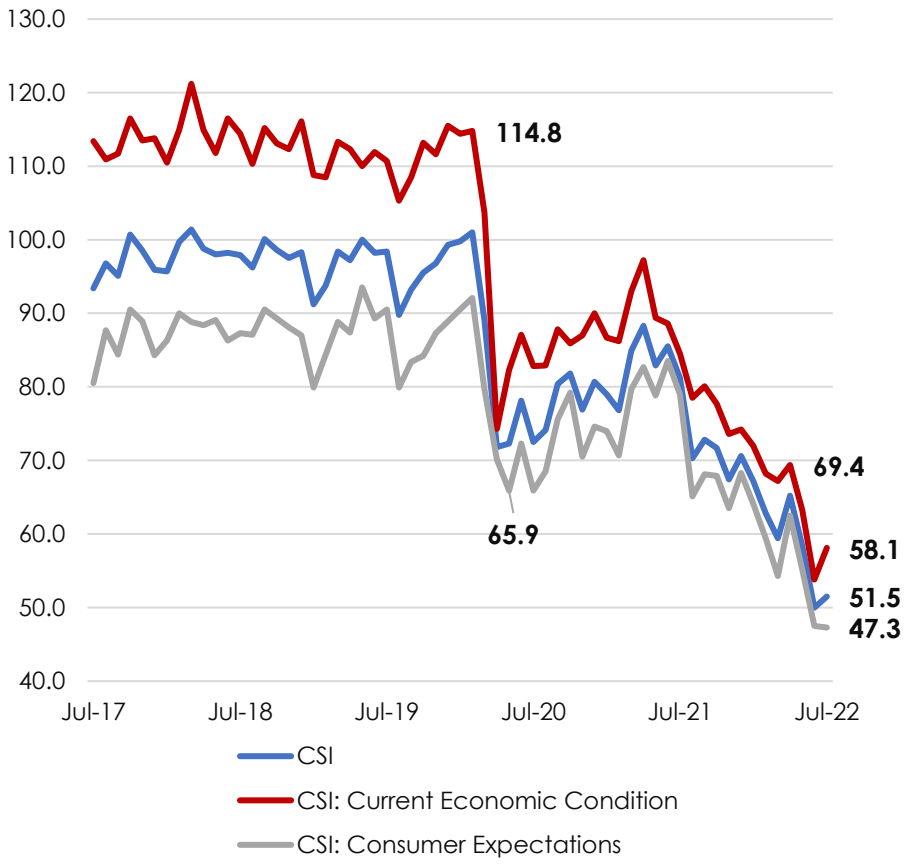
Export vs. Import, q-o-q%



Sources: CEIC, U.S. Bureau of Economic Analysis (BEA)

SENTIMENT AMONG AMERICAN CONSUMERS REMAINED WEAK. MOUNTING INFLATION CONTINUED TO ERODE PURCHASING POWER

Consumer Sentiment Index (CSI), points



Source: CEIC

- ✓ CSI in July was the second lowest reading on record from its historic low in June 2022.

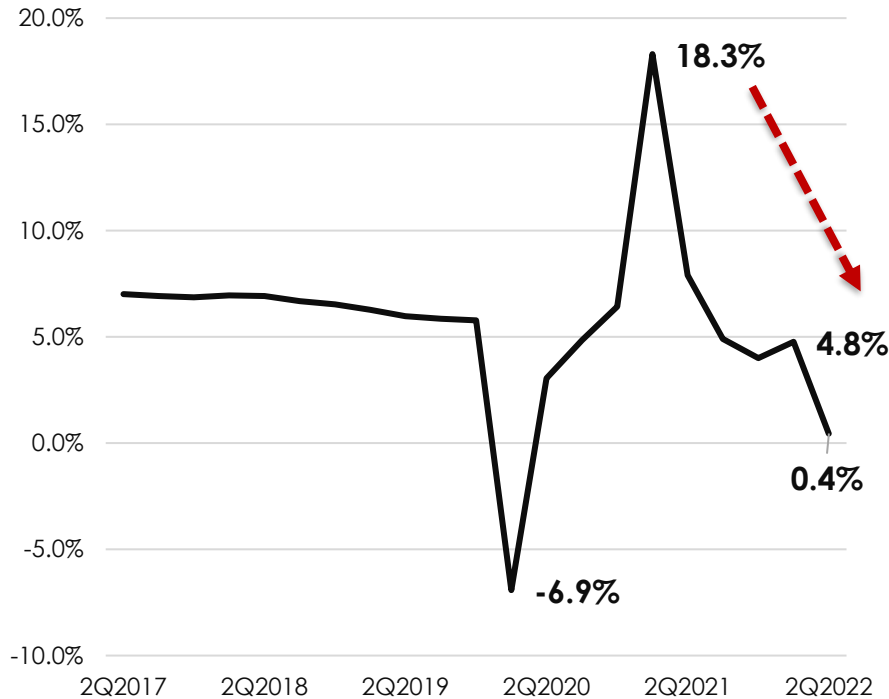
Inflation Rate, y-o-y%



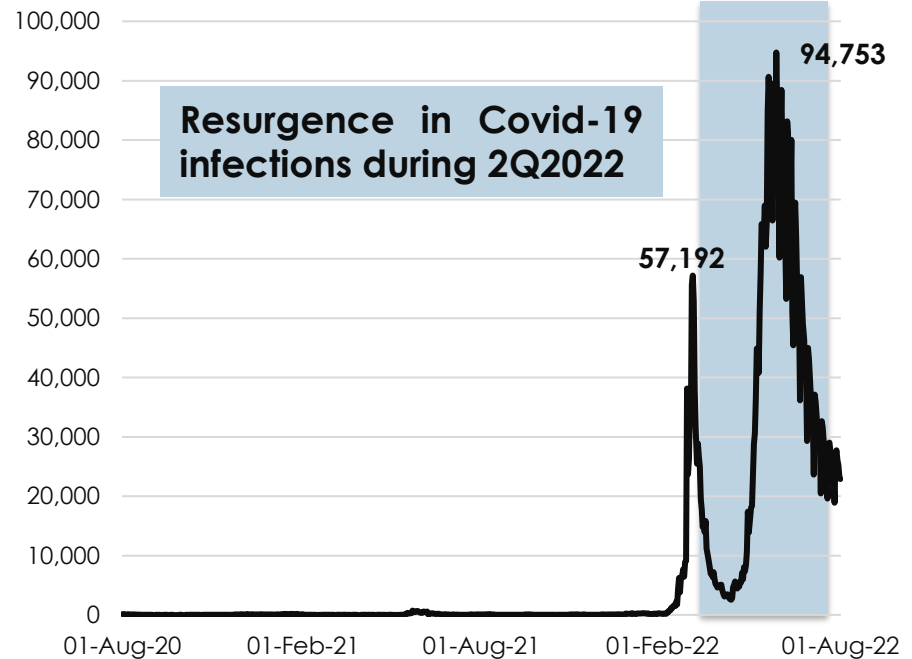
- ✓ Inflation rate rose by 9.1% y-o-y in June (May: 8.6%), a 40-year high since November 1981.
- ✓ This was underpinned by the rising costs of Energy (June: 41.6% vs. May: 34.6%) and Foods (June: 10.4% vs. May: 10.1%).

CHINA ECONOMY EXPANDED BY 0.4% Y-O-Y DURING 2Q2022 – THE SLOWEST IN 2 YEARS (PRELIMINARY RESULT BY NBS)

China GDP Growth, y-o-y%



Covid-19 Cases in China



Sources: National Bureau of Statistic (NBS) of China, CEIC

- ✓ China's GDP grew modestly by 0.4% y-o-y during 2Q2022 (1Q2022: 4.8%) as the economy struggled to shake off the impact of Covid-19.
- ✓ On further scrutiny, economic activities in the Tertiary industry contracted by 0.4% during 2Q2022 (1Q2022: 4.0%), while Primary (2Q2022: 4.4% vs. 1Q2022: 6.0%) and Secondary (2Q2022: 0.9% vs. 1Q2022: 5.8%) industries recorded a softer growth in the said period.
- ✓ In the 2Q2022, China faced its worst Covid outbreak since the height of the pandemic in early 2020.

CENTRAL BANKS ARE LIKELY TO CONTINUE RISING INTEREST RATE TO FIGHT AGAINST INFLATION

Policy rates	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22*
Advanced countries													
US (Fed Fund Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	1.00	1.75	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	0.00	0.50	0.50
UK (Bank Rate)	0.10	0.10	0.10	0.10	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.25	1.75
Canada (ON Lending Rate)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.00	1.50	2.50	2.50
Latin America													
Mexico (ON Rate)	4.50	4.75	4.75	5.00	5.50	5.50	6.00	6.50	6.50	7.00	7.75	7.75	7.75
Brazil (Selic Rate)	5.25	6.25	7.75	7.75	9.25	9.25	10.75	11.75	11.75	12.75	13.25	13.25	13.75
Argentina (LELIQ 7D Notes Rate)	38.00	38.00	38.00	38.00	38.00	40.00	42.50	44.50	47.00	49.00	52.00	60.00	60.00
Eastern Europe													
Russia (Key Rate)	6.50	6.75	7.50	7.50	8.50	8.50	9.50	20.00	14.00	11.00	9.50	8.00	8.00
Ukraine (Discount Rate)	8.00	8.50	8.50	8.50	9.00	10.00	10.00	10.00	10.00	10.00	25.00	25.00	25.00
Turkey (1W Repo Rate)	19.00	18.00	16.00	15.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Asia													
China (1Y Loan Prime Rate)	3.85	3.85	3.85	3.85	3.80	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
India (Repo Rate)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.40	4.90	4.90	4.90
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	3.50	3.50
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	0.50	0.50
South Korea (Base Rate)	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.50	1.75	1.75	2.25	2.25
Philippines (O/N Lending Rate)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25	2.50	3.25	3.25
Australia (Cash Rate)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.35	0.85	1.35	1.85
New Zealand (Cash Rate)	0.25	0.25	0.50	0.75	0.75	0.75	1.00	1.00	1.50	2.00	2.00	2.50	2.50
Malaysia (OPR)	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.00	2.25	2.25

Source: Bloomberg
*As at 5 August 2022

Interest Rate Hike

Interest Rate Cut

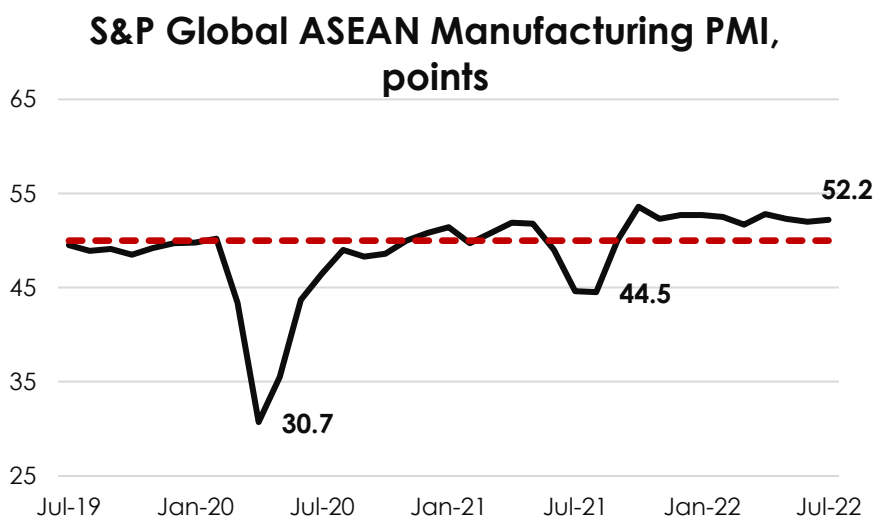
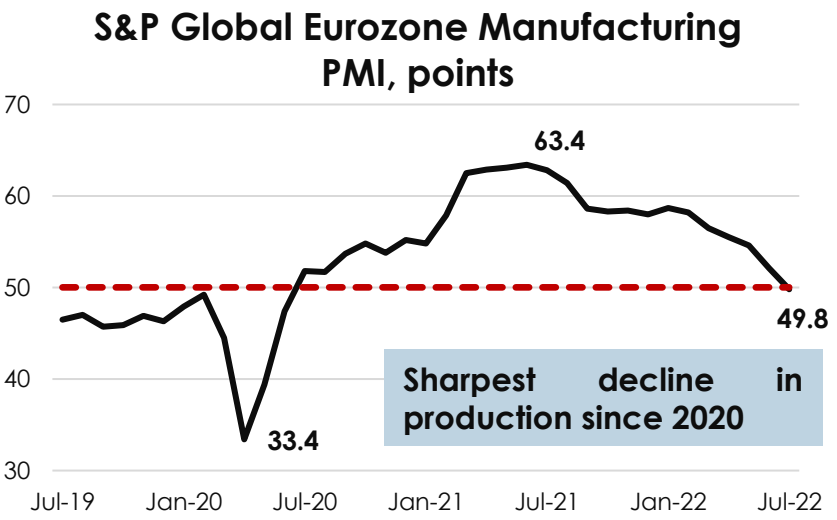
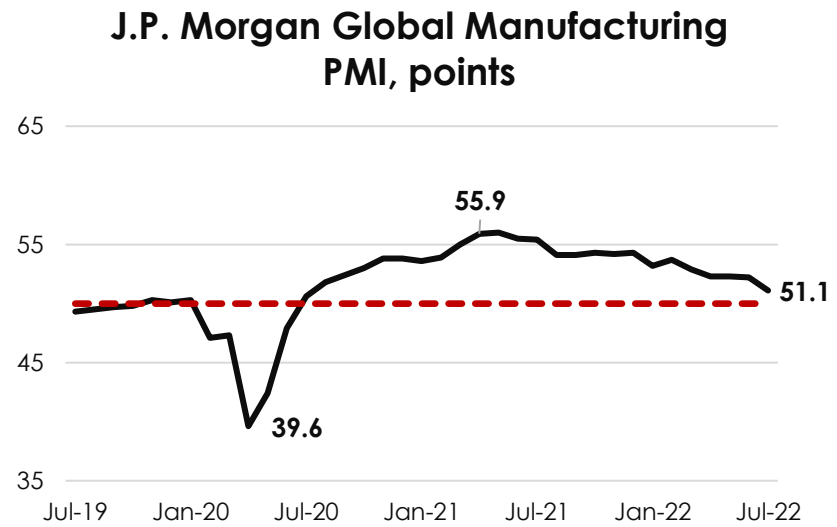
On 4 August, the Bank of England (BoE) raised its benchmark rate by 50 bps to 1.75%, the highest level since 2009. This is to prevent inflation running out of control.

MANUFACTURERS' SENTIMENTS DROPPED TO ITS LOWEST LEVEL SINCE MAY 2022 AS NEW ORDERS CONTRACTED AND OUTPUT STAGNATED

Index Summary:

Index	Jun-22	Jul-22	Interpretation
PMI	52.2	51.1	Improvement, slower rate
Output	52.4	50.0	No change, from expanding
New Orders	50.1	49.0	Decline, from expanding
New Export Orders	49.5	48.0	Decline, faster rate
Future Output	59.2	58.7	Growth expected, weaker sentiment
Employment	51.3	50.5	Growth, slower rate
Input Prices	68.7	65.6	Inflation, slower rate
Output Prices	60.4	58.3	Inflation, slower rate

Source: IHS Markit
 >50-point : expansion
 <50-point : contraction



Source: Bloomberg



DOMESTIC LANDSCAPE & SECTOR UPDATE

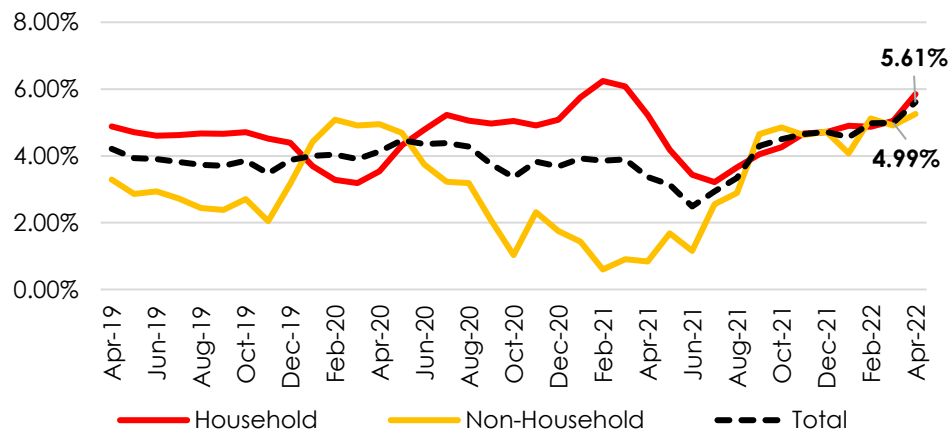
Economic variables	Date	Remarks
Overnight Policy Rate (OPR)	5-6 July 2022	<ul style="list-style-type: none"> ✓ The Bank Negara Malaysia (BNM) decided to increase the OPR by 25 bps to 2.25% during its fourth monetary policy committee (MPC) meeting this year. ✓ The central bank aimed to remove monetary accommodation in view of positive prospects in Malaysia's economic data as a historically low OPR of 1.75% is no longer needed. ✓ Apart from that, the purpose is to remove excess liquidity, as well as building up space for possible economic shocks in future.
Unemployment Rate (UR)	7 July 2022	<ul style="list-style-type: none"> ✓ Malaysia's UR sustained at 3.9% in May (April: 3.9%), suggesting the labour market condition remained healthy. ✓ Additionally, the number of employed person rose to 15.90 million in May (April: 15.85 million), mainly supported by higher employment in Wholesale & Retail Trade and Food & Beverages Service activities amid reopening of the international border on 1 April 2022.
Industrial Production Index (IPI)	8 July 2022	<ul style="list-style-type: none"> ✓ Malaysia's IPI moderated by 4.1% y-o-y in May compared to 4.6% in the preceding month. ✓ The slower growth mainly weighed by production of Mining which declined further by 4.9% in May from 0.1% contraction previously. ✓ Nevertheless, stronger Manufacturing (May: 6.8% vs. April: 6.2%) and Electricity (May: 2.8% vs. April: 1.5%) activities amid a more favourable operating conditions have cushioned the fall in Mining sector.

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

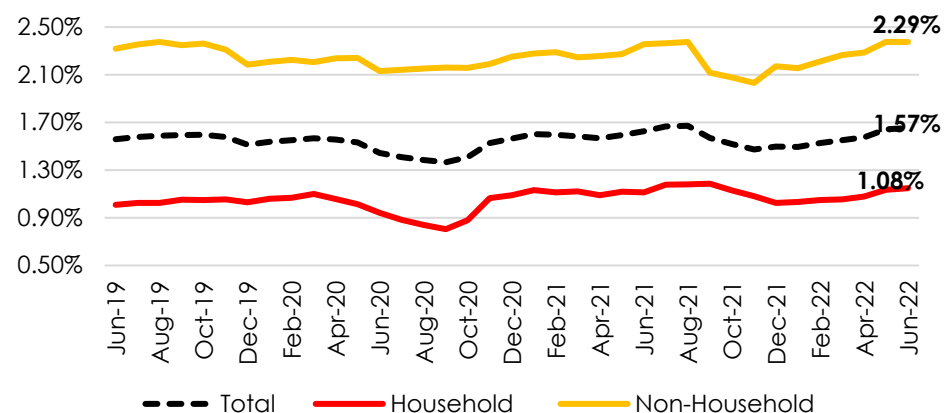
Economic variables	Date	Remarks
External Trade	20 July 2022	<ul style="list-style-type: none"> ✓ Malaysia's export rose by 38.8% y-o-y in June from a 30.4% increase in the previous month, maintaining its double-digit growth since August last year. ✓ All sectors such as Manufacturing (June: 33.8% vs. May: 27.4%), Agriculture (June: 46.8% vs. May: 43.9%) and Mining (June: 116.3% vs. May: 54.6%) recorded a strong growth during the month. ✓ Likewise, imports increased by 49.3% in June (May: 37.3%), supported by expansion in Intermediate Goods (June: 46.9% vs May: 34.2%), Consumption Goods (June: 25.6% vs. May: 19.0%) and Capital Goods (June: 30.4% vs. May: -1.8%) ✓ As such, the trade balance was higher at RM21.9 billion in June from RM12.7 billion in the previous month. ✓ On a quarterly basis, both exports and imports rose by 30.0% (1Q2022: 22.0%) and 36.1% (1Q2022: 25.2%) during 2Q2022. Meanwhile, the trade surplus narrowed to RM58.1 billion in 2Q2022 from RM65.0 billion in the previous quarter.
Consumer Price Index (CPI)	22 July 2022	<ul style="list-style-type: none"> ✓ Malaysia's CPI increased by 3.4% y-o-y in June from 2.8% in May. ✓ The main upward pressure was contributed by higher cost of Food & Non-Alcoholic Beverages which surged by 6.1% during the month (May: 5.2%) amid elevated commodity prices. ✓ It was the highest since April 2009 (7.5%) due to surge in cost of meat which jumped by double-digit at 11.9% in June from 9.5% previously. ✓ Similarly, the cost of Transport climbed by 5.4% in June (May: 3.9%) due to the rise in the price of subgroup of Operation of Personal Transport Equipment (June: 6.6% vs. May: 5.4%). ✓ On a quarterly basis, both inflation and core inflation rate rose by 2.8% (1Q2022: 2.2%) and 2.5% (1Q2022: 1.7%) respectively in 2Q2022 as compared to the previous quarter. On the same note, the inflation (1H2022: 2.1% vs. 1H2021: 0.7%) and core inflation (1H2022: 2.1% vs. 1H2021: 0.7%) rate showed the increasing trend during the 1H2022.

BANKING SECTOR - HIGHER FINANCING ACTIVITIES IN JUNE AS DOMESTIC DEMAND PICKED UP

Financing Growth by Sector, y-o-y%



GIFR, %



Banking Industry's Financing Growth

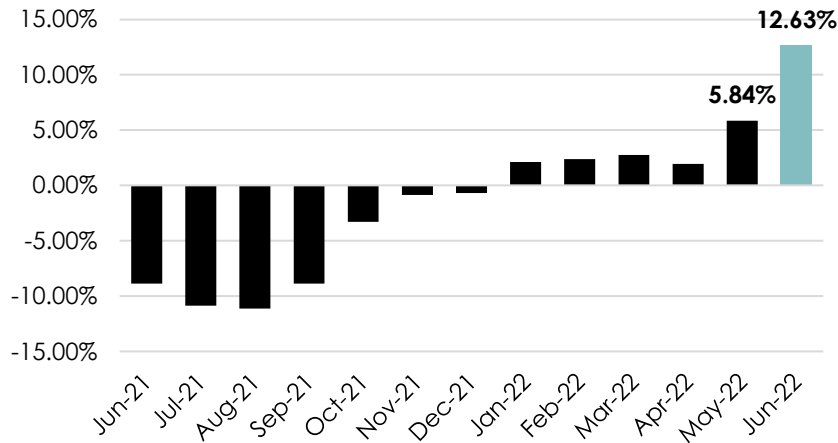
- ✓ Financing activities were significantly higher by 5.61% y-o-y in June compared to 4.99% in May.
- ✓ The stronger performance was underpinned by both Household and Non-Household sectors which rose by 5.85% (May: 5.05%) and 5.26% (May: 4.91%) in June.
- ✓ Within the Household segment, the pillar of growth was financing for credit card which posted double-digit increase at 12.63% in June (May: 5.84%). Apart from that, financing for purchase of passenger cars and residential property also accelerated by 4.56% (May: 2.61%) and 7.26% (May: 6.83%) respectively in June.

Banking Industry's Asset Quality

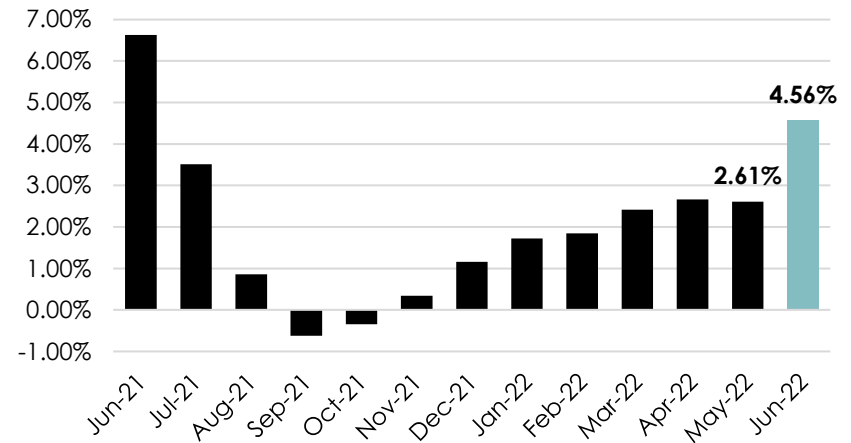
- ✓ The Gross Impaired Financing Ratio (GIFR) increased slightly to 1.65% in June compared to 1.64% in May.
- ✓ The deterioration in asset quality mainly due to increase in GIFR for construction, rising to 3.55% in June from 3.32% in May.
- ✓ Additionally, the GIFR for mining remained at double-digit at 20.64% in June though lower compared to 21.37% in May.
- ✓ Nevertheless, asset quality was otherwise relatively stable across most other loan classes.

FINANCING GROWTH BY PURPOSES - HOUSEHOLD SECTOR CONTINUED ITS UPWARD TREND, SUGGESTING BETTER DOMESTIC SENTIMENT

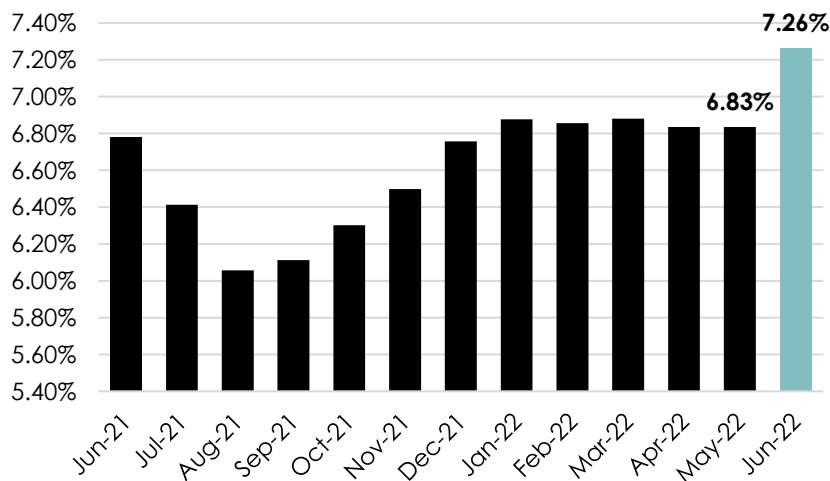
Credit Card, %



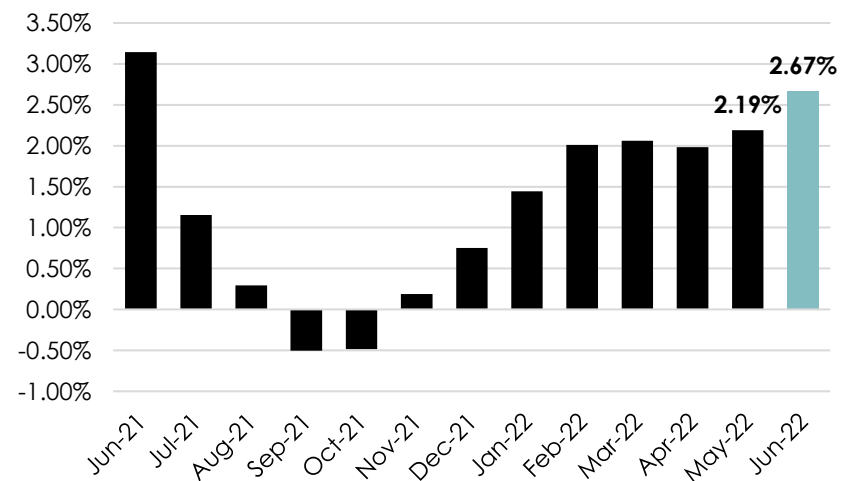
Purchase of Passenger Cars, %



Purchase of Residential Property, %

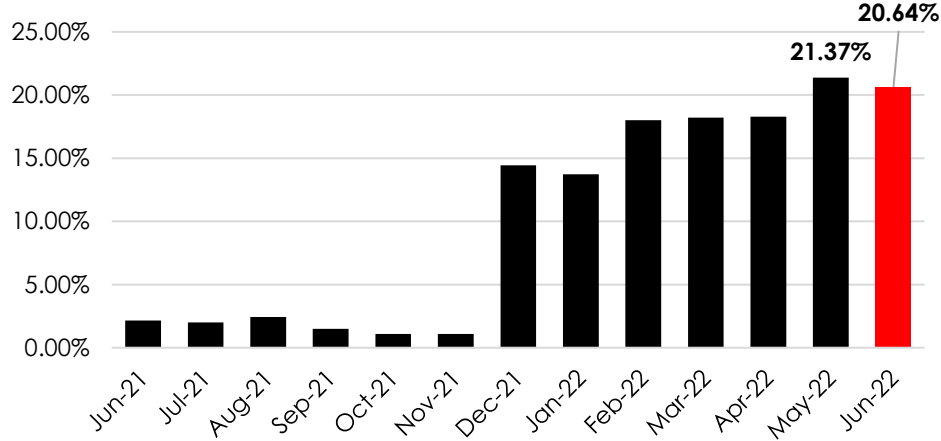


Personal Use, %

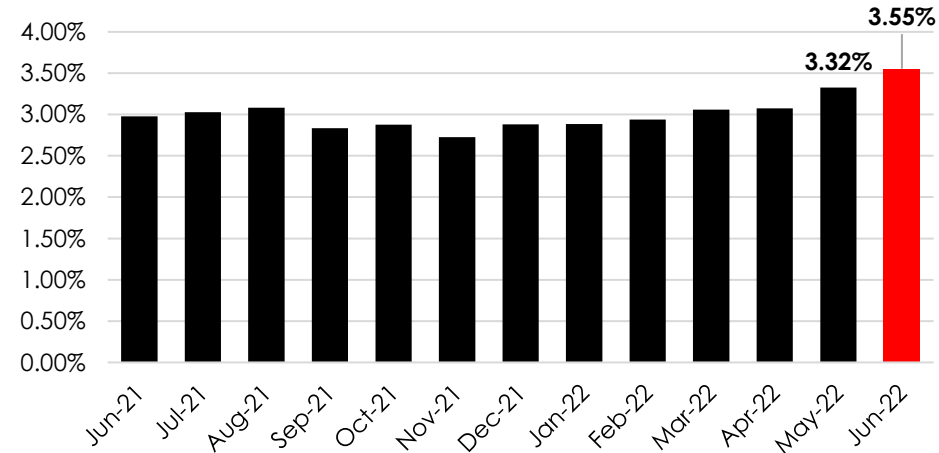


GIFR BY SECTOR - HOWEVER, FEW SECTORS HAVE RECORDED HIGHER IMPAIRMENT RATIO DURING JUNE

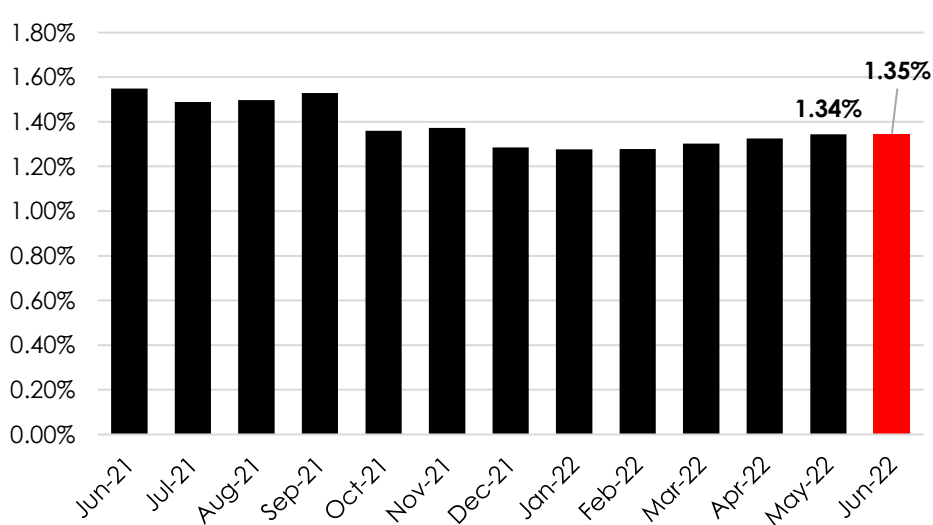
GIFR-Mining & Quarrying, %



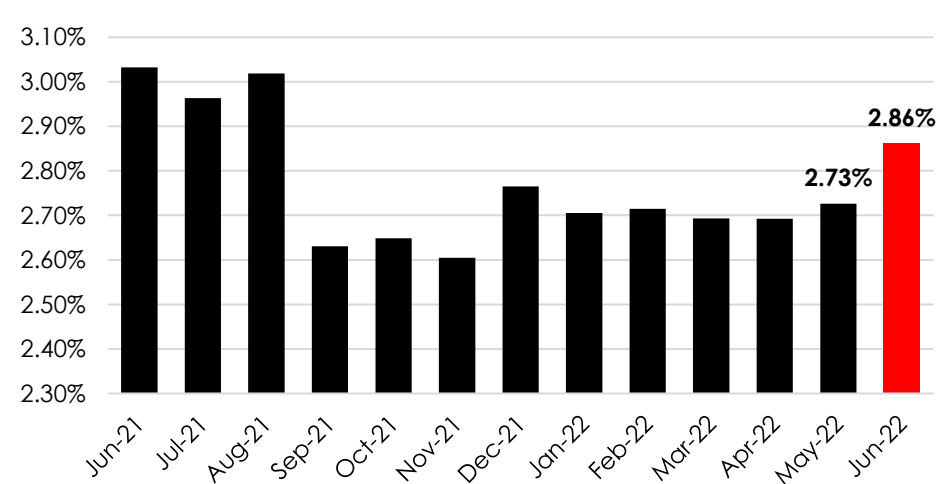
GIFR-Construction, %



Education, Health & Others, %

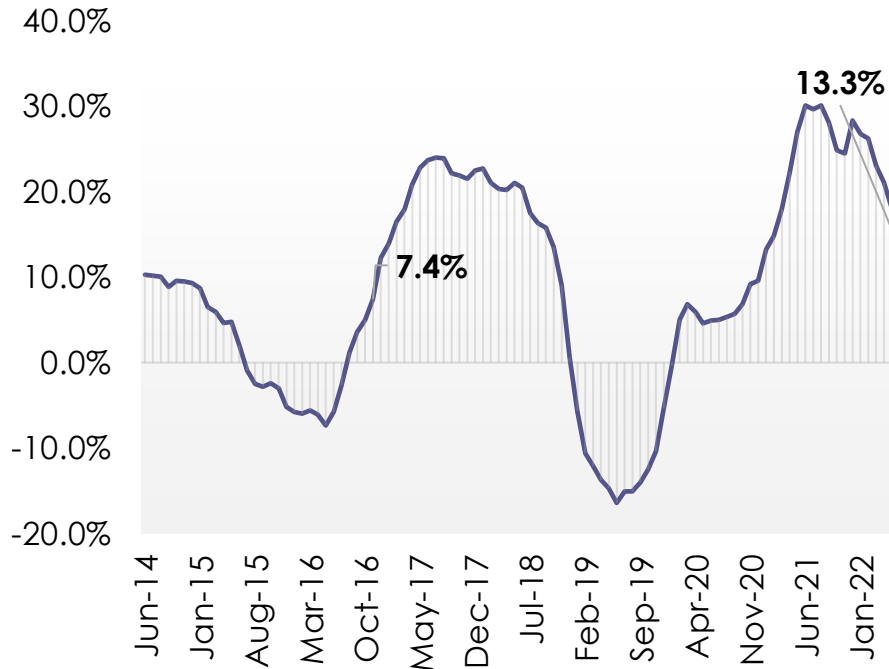


Finance, Insurance & Business Activities, %

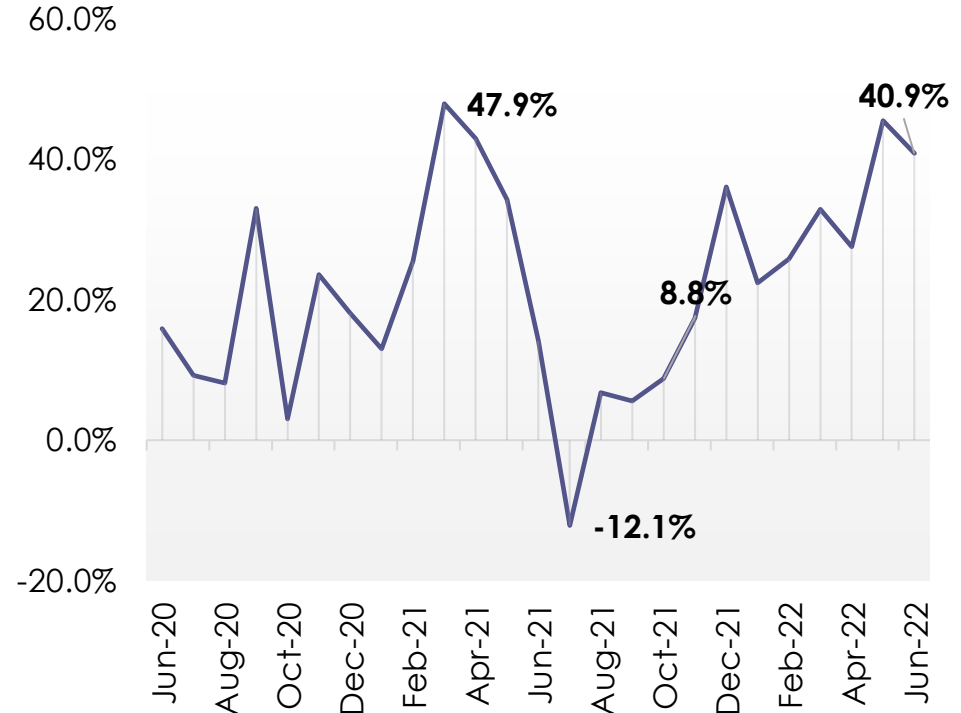


SEMICONDUCTOR - MALAYSIA'S E&E REMAINED STURDY AMID STRONG GLOBAL DEMAND

**Global Semiconductor Sales (GSS),
y-o-y%**



Malaysia's E&E Products Exports, y-o-y%

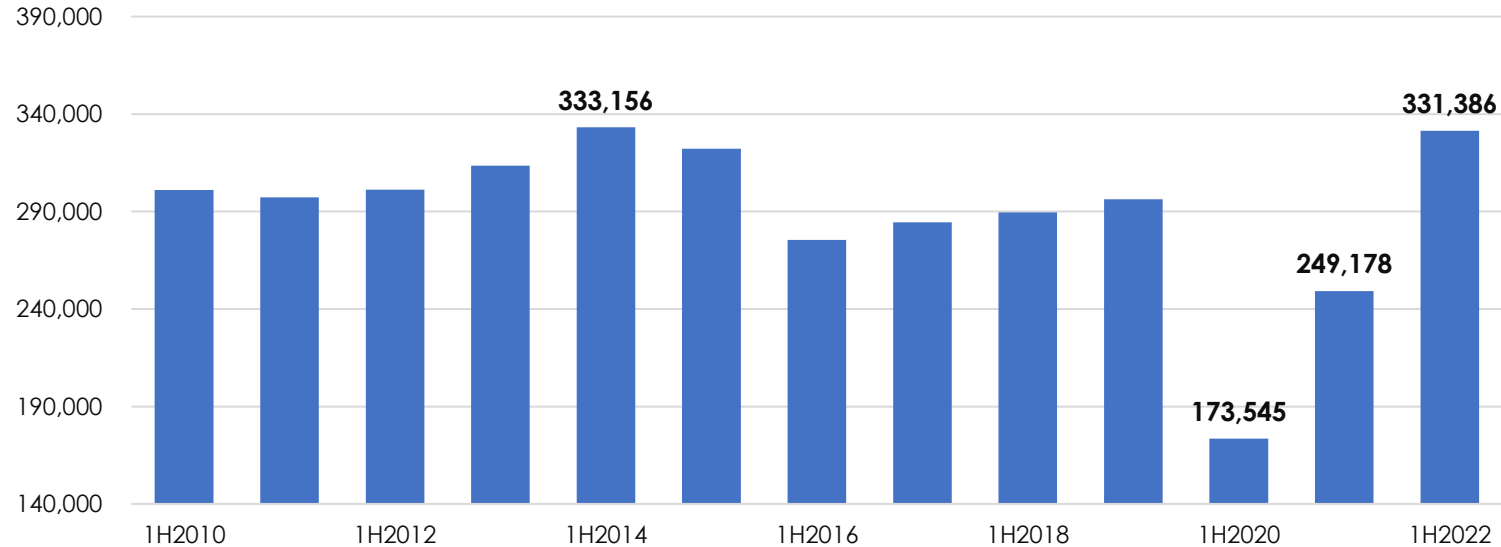


Sources: SIA, CEIC

- ✓ The Global Semiconductor Sales (GSS) continued to record stellar performance, rising by double-digit for 18 straight months amid surge in technology adoption across all industry.
- ✓ Nevertheless, the trend has shown sign of moderating in June which recorded a 13.3% growth (May: 18.0%) compared to its peak at 30.1% in August last year.
- ✓ Meanwhile, Malaysia's export of Electrical & Electronic (E&E) products grew positively by 40.9% in June (May: 45.5%), suggesting E&E players have been benefiting from strong demand across the world.

THE MALAYSIAN AUTOMOTIVE ASSOCIATION (MAA) REVISED UP ITS TIV FORECAST IN 2022 BY 5.0% DUE PENT-UP DEMAND FOR NEW CARS DURING 1H2022

Total Industry Volume (TIV), units



TIV Forecast by MAA (made in July):

Market Segment	2022 (New Forecast)	2022 (Forecast made in January)	2021
Passenger Vehicle	567,000	540,000	452,663
Commercial Vehicles	63,000	60,000	56,248
Total Vehicles	630,000	600,000	121,089

- ✓ TIV increased by 33.0% to 331,386 units during 1H2022 from 249,178 units in the same corresponding period last year.
- ✓ The government's decision of not extending sales tax exemption incentive for passenger vehicles after 30 June 2022 had supported the demand for new vehicle sales in June.

Sources: CEIC, MAA

- ✓ **OPR hike is imminent during September MPC meeting** – It is notably that inflationary pressure is mounting in Malaysia, registering a 3.4% increase in June (May: 2.8%) on the back of pent-up demand amid the reopening of international borders. Together with the expectation that the GDP growth would continue to be driven by stronger recovery in domestic demand, this would call for another 25 bps increase for the upcoming meeting next month.
- ✓ **Malaysia's manufacturing sector improved in July** – The manufacturing PMI increased to 50.6 points in July from 50.4 points in the previous month. During the recovery phase of the pandemic, the manufacturing output records improvement in the latest figure after broadly stagnating throughout 1H2022. Though manufacturers remain optimistic in the coming year, there are uncertainties in the air as recession risks intensified in the U.S. and Europe which poses risk to severely limit any export-derived growth.
- ✓ **The Fed's battle with the U.S. inflation continues** – The recent July FOMC meeting concluded with another 75 bps as the policymakers attempted to cool decade's high level of inflation, bringing the target FFR range between 2.25% and 2.50%. While the committee will be highly attentive to risk of inflation, they will remain data dependent in assessing the appropriate stance of monetary policy. They are also prepared to adjust accordingly should the emerging risks could impede their goals attainment.
- ✓ **OPEC+ agrees to raise oil output slightly as recession fears loom** – On 3 August 2022, the Organisation of Petroleum Exporting Countries Plus (OPEC+) decided to produce an additional 100,000 barrels a day in September. This is despite the urge to start pumping more to reign in high crude prices. Though the rise is a very small percentage of the overall production, it is still significant in reiterating the OPEC+'s commitment to manage the oil market.
- ✓ **Malaysia's economic performance is still intact** – Several key economic indicators have been pointing a positive performance, signalling the country's economic recovery amid transition to endemic phase after two years in pandemic. Additionally, the Leading Index (LI) rebounded by 2.2% in May from a contraction of 0.5% in the previous month, indicating a bright economic outlook in the coming months. Having said that, Malaysia is optimistic the economic recovery continue to be resilient with the effective management of the inflation by the government.

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