



MONTHLY ECONOMIC UPDATE

ECONOMIC RESEARCH

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KEY TAKEAWAYS

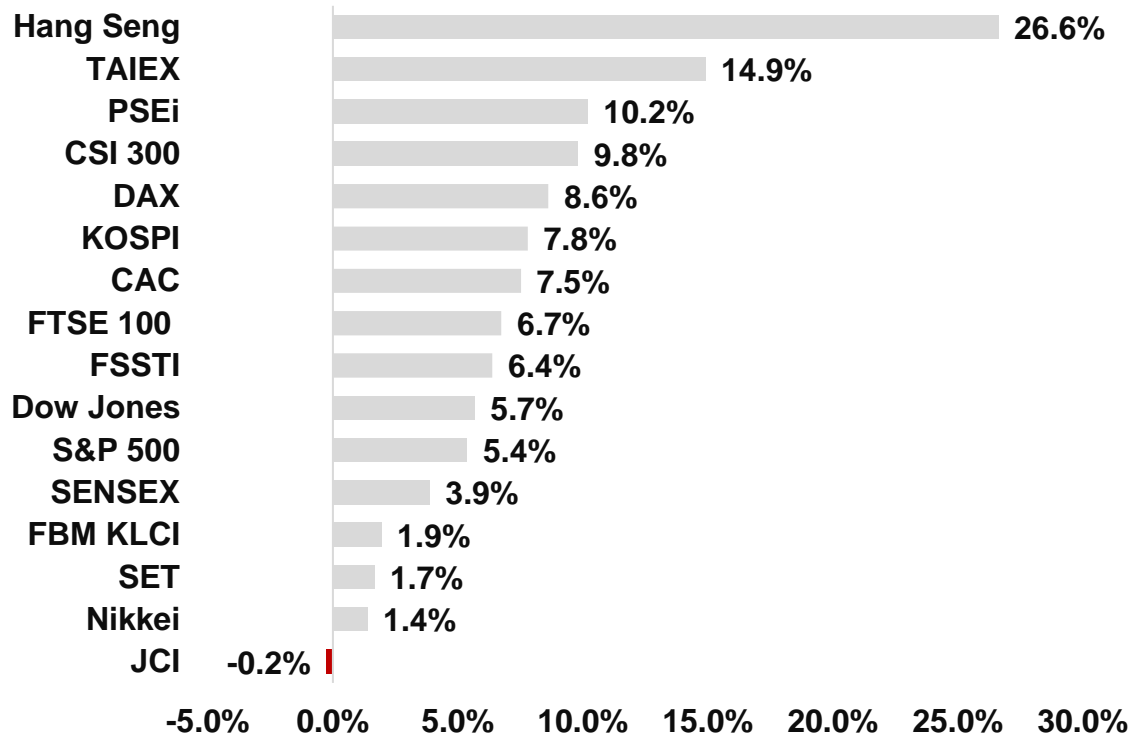
- 1. The U.S. Fed could “pivot” in 2Q2023.** In his recent speech at Brookings Institutions, Jerome Powell signaled a slowdown in rate increases as soon as the December meeting. It is still premature to view this development positively as U.S. inflation remains elevated but declining. Restoring the price stability will require quite some time until there is clarity that the inflation is under control.
- 2. China weighs in on the gradual Zero-Covid policy exit.** The country has been trying to balance its twin aims of curbing COVID-19 infections and steering the economy in line with the rest of the world. China was once hailed as effective in keeping COVID-19 under control but is now facing a spiraling infection rate throughout the country. Officials are considering economic reopening by March 2023, as their ultra-stringent policy is hurting social harmony and global confidence in the country’s industrial supply chains.
- 3. Rebuilding a better Malaysia with a blunt tool.** The wait is finally over for Y.A.B. Datuk Seri Anwar Ibrahim and the country following the former’s appointment as the tenth Malaysian Prime Minister. We applaud Prime Minister Anwar’s commitment to addressing the rising living costs while keeping the government’s purse strings as tight as possible amid a global slowdown in 2023. However, we view these two objectives as non-complementary and will become more touchy over time. Furthermore, Prime Minister Anwar is facing an uphill battle to keep his government stable as the ruling coalition is built on a house of cards amid the hung parliament. GE15 pushed all contested parties to the edge, and we anticipate constant politicking from all sides in light of the upcoming by-elections and state elections. While his decades-long struggle to assume premiership is over, the difficult task has just started.

Section 1

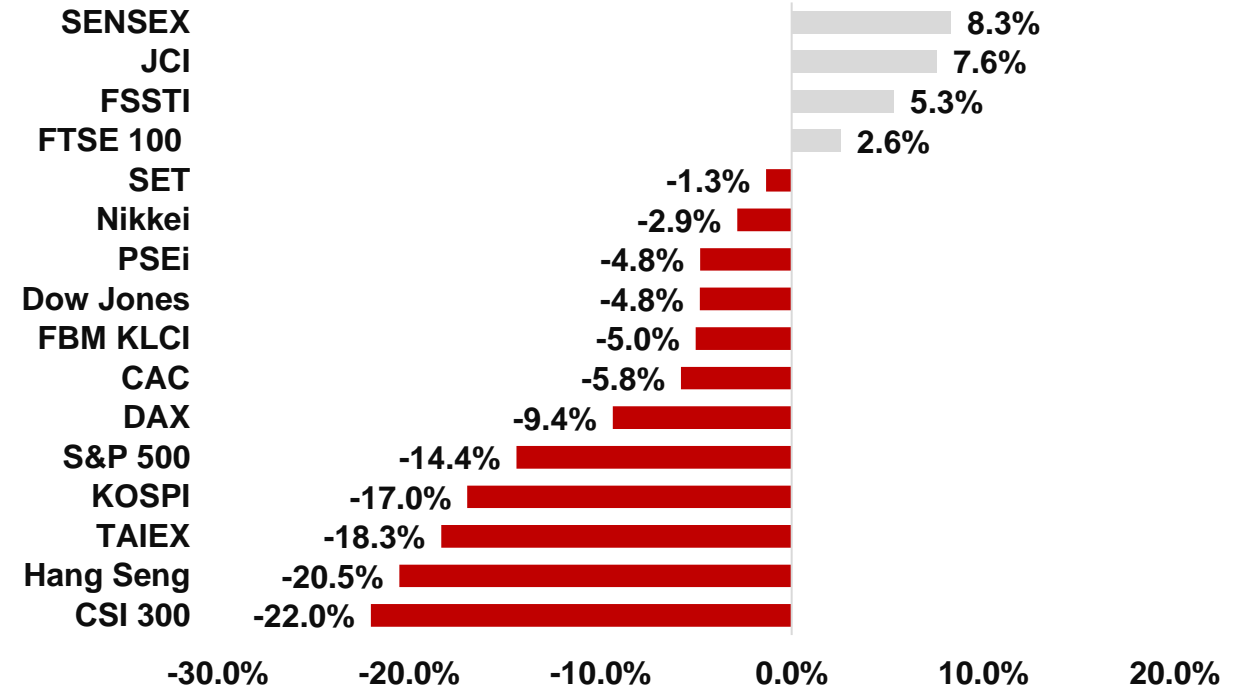
MALAYSIA'S FINANCIAL MARKETS

REGIONAL EQUITY MARKET: STOCK INDICES WERE RESILIENT IN NOVEMBER AS THE FED HINTED A SLOWER PACE OF INTEREST RATE HIKES

Monthly Gain/Loss of Major Equity Market, %



YTD Gain/Loss of Major Equity Markets, % (As of 30 November 2022)

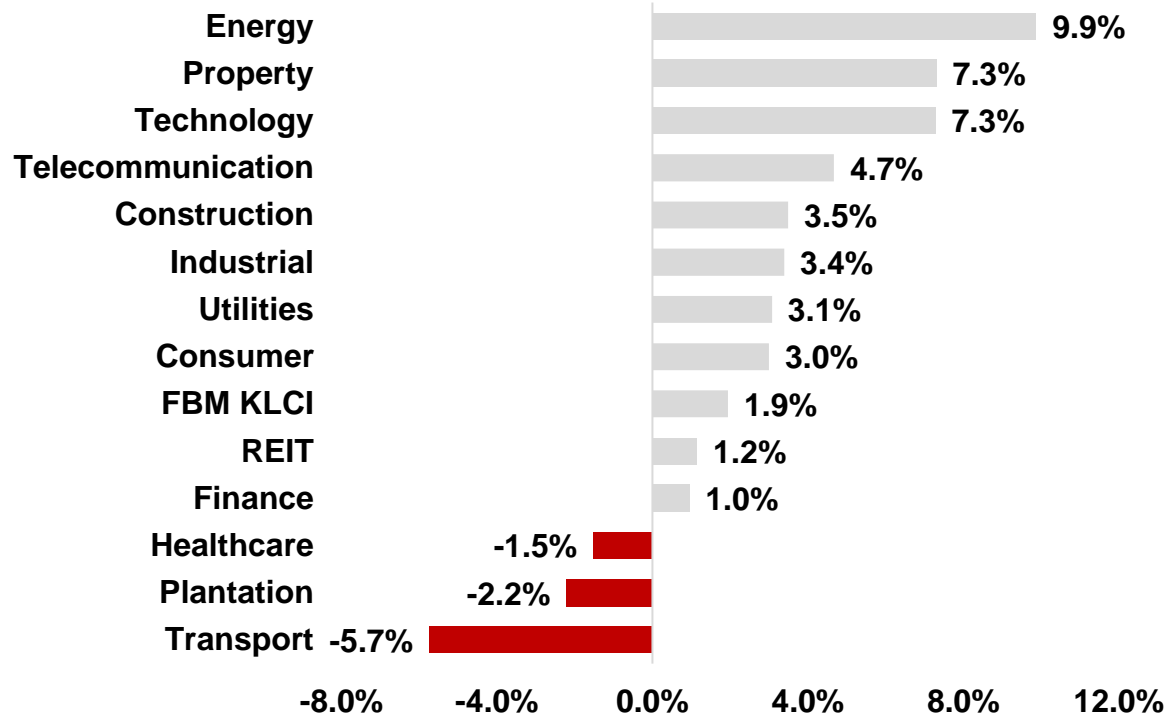


Source: CEIC

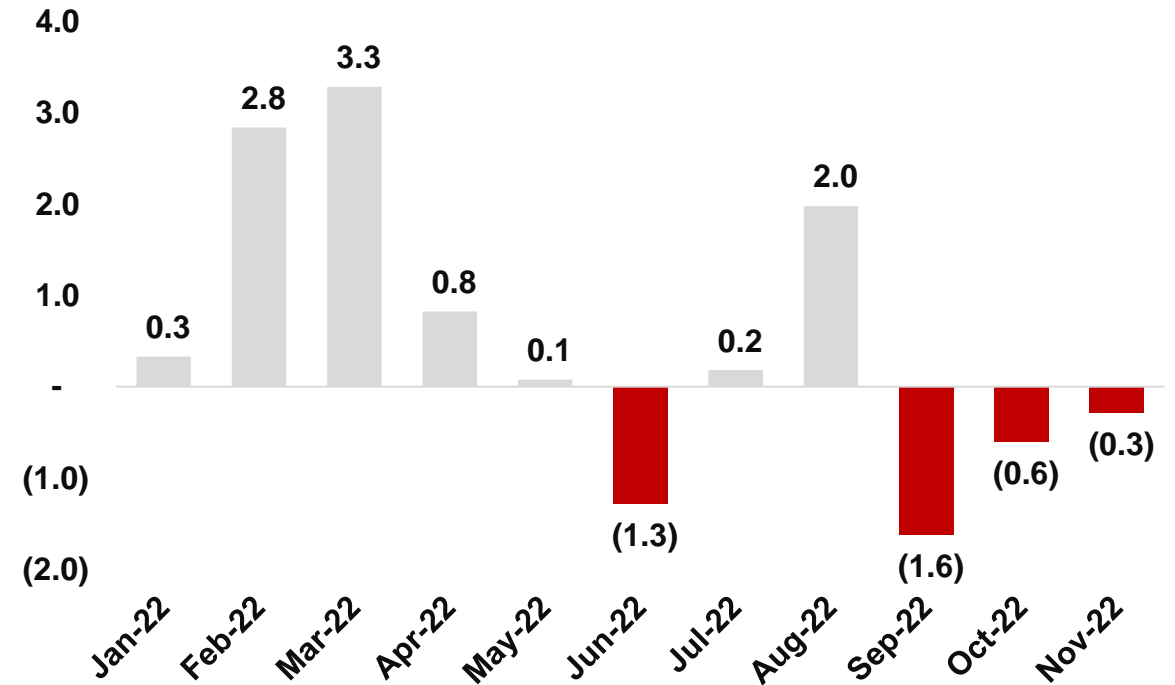
- Most regional markets were in the positive territory led by Hong Kong's Hang Seng index, which saw a strong gain of 26.6% in November. This was followed by Taiwan's TAIEX and the Philippines' PSEi, higher by 14.9% and 10.2% respectively.
- Regional market reacted positively to the latest U.S. Fed meeting minutes, signaling a less aggressive monetary tightening during the upcoming FOMC meetings as the U.S. labour market and CPI have started to moderate.

DOMESTIC EQUITY MARKET: GAINERS OUTNUMBERED LOSERS AMID MARKET REBOUND

Bursa Sectoral Performance, m-o-m%



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



Source: CEIC, Trading View

- 11 out of 14 stocks we monitor recorded a better performance in November, with the Energy and Property sectors topping the list.
- The positive gains were mainly anchored by improving the regional equity market as the U.S. labour market and inflation showed signs of cooling down. Hence, the Fed signaled that its aggressive campaign to curb inflation could be end soon.

- Foreign investors continued to offload equity holdings for the third month, with RM0.3 billion net outflows recorded in November.
- Despite the appointment of the 10th Prime Minister on 24 November, risks from political instability alongside uncertainty surrounding policy direction remain in the immediate term amid GE15's fragmented outcome.

BOND MARKET: LONGER TENURE BONDS SAW A SIGNIFICANT FALL IN YIELDS IN LINE WITH ANTICIPATION OF A LESS HAWKISH MONETARY POLICY BY THE FED

Monthly Changes

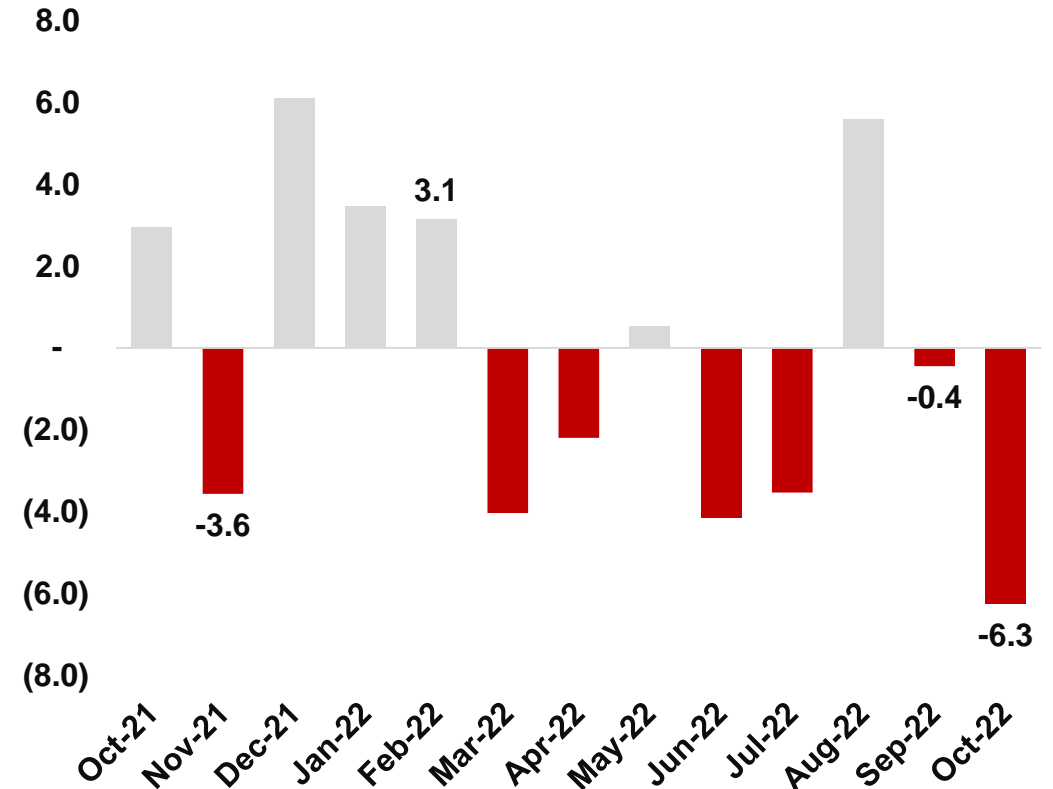
UST	Yields (%) 31-Oct-22	Yields (%) 30-Nov-22	Change (bps)
3-M UST	4.22%	4.37%	15
2-Y UST	4.51%	4.38%	-13
5-Y UST	4.27%	3.82%	-45
10-Y UST	4.10%	3.68%	-42

MGS	Yields (%) 31-Oct-22	Yields (%) 30-Nov-22	Change (bps)
3-Y MGS	3.79%	3.81%	2
5-Y MGS	4.17%	3.93%	-24
7-Y MGS	4.26%	4.07%	-19
10-Y MGS	4.37%	4.11%	-26

Source: BNM, CEIC

- Longer-tenure UST and MGS yields ended lower during November as the series of 75-bps rate hikes in the U.S. have started to bite.
- Following this, the Fed is expected to reduce the pace of the FFR rate hike from 75 bps to 50 bps in the next FOMC meeting. At the time of writing, the CME FedWatch is pointing at a 79.4% probability of a 50bps hike in the coming mid-December 2022 meeting.

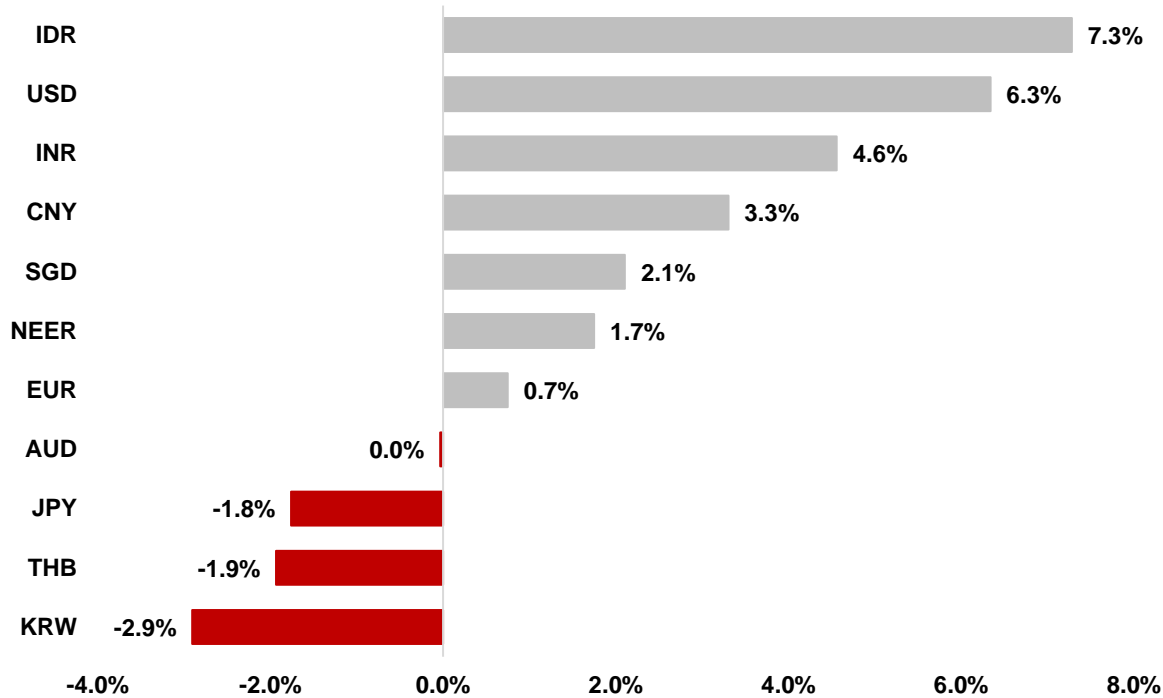
Foreign Fund Flows in Bond Market, RM billion



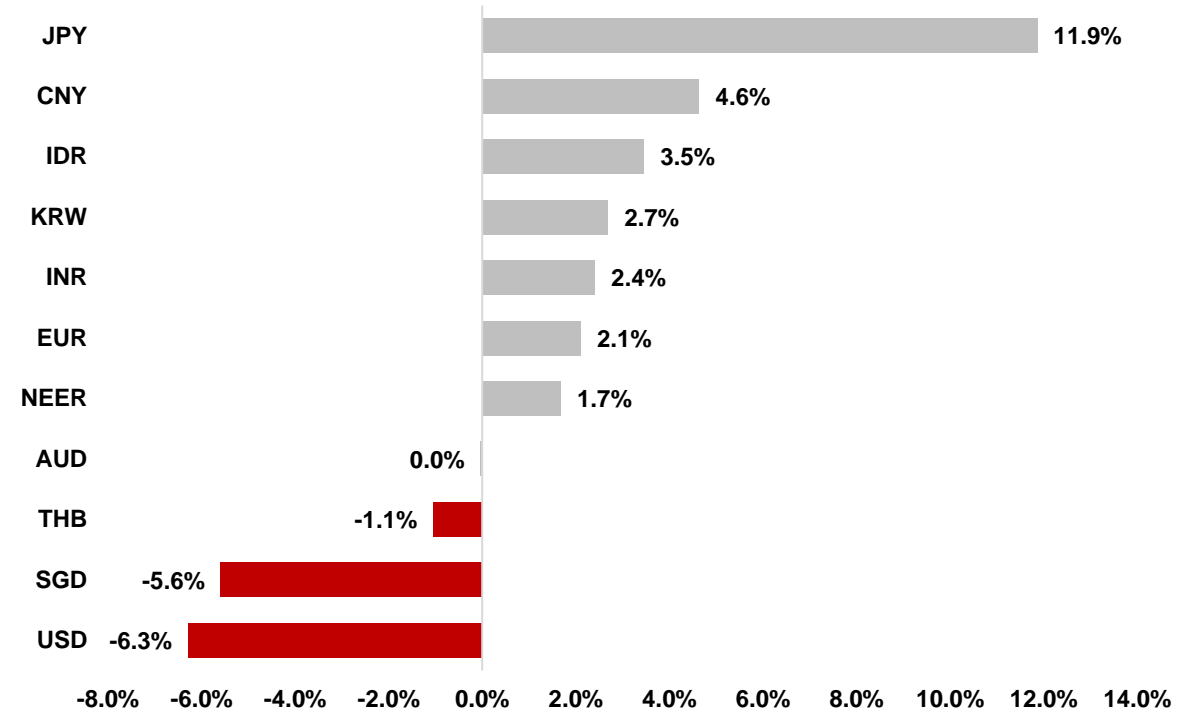
- Foreign funds in the bond market continued to record net outflows for two straight months.
- We believe this was partly due to the cautious stance among the investors amid analysts' early projections of GE15.
- Be that as it may, foreign investors may come back should the government paves the way towards sustainable growth and reforms.

FX MARKET: BOTH INTERNAL AND EXTERNAL FACTORS SUPPORT THE RINGGIT VALUE

MYR against regional currencies, m-o-m%



YTD Performance MYR Against Currencies, %



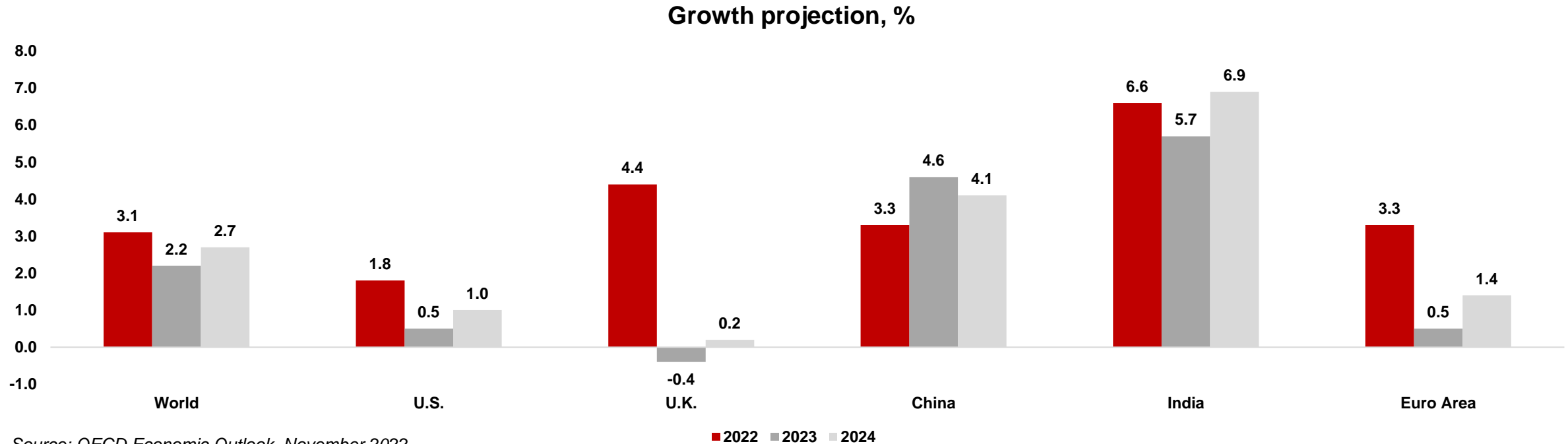
Source: Investing.com

- Ringgit ended higher against the USD on a monthly basis, closing at RM4.4475 on 30 November (31 October: RM4.7260).
- On the domestic front, the Ringgit was lifted upon the appointment of Y.A.B. Datuk Seri Anwar Ibrahim as the tenth Malaysian Prime Minister, ending the political turmoil caused by the hung parliament.
- Meanwhile, the USD index depreciated by 5.0% during the month on the back of a dovish statement by the Fed officials, thus, overturning the losses of the Ringgit when it dropped to the lowest level since July 1998 at RM4.725 to a USD (4 November: RM4.7465).
- Additionally, China's reopening news is positive for the Ringgit, given Malaysia's high trade exposure with the country.

Section 2

THE GLOBAL ECONOMY

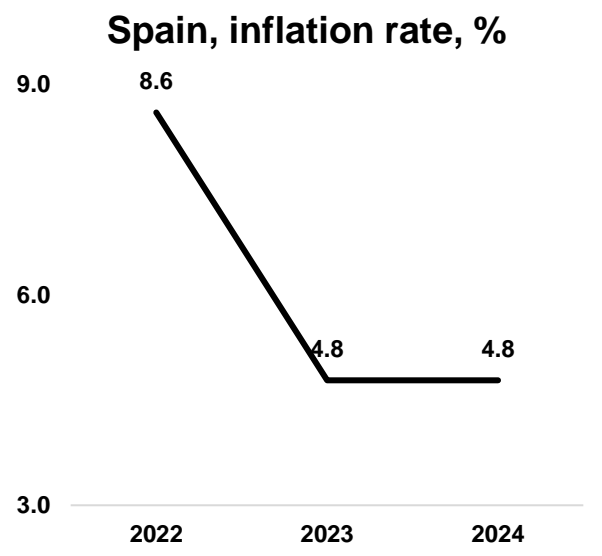
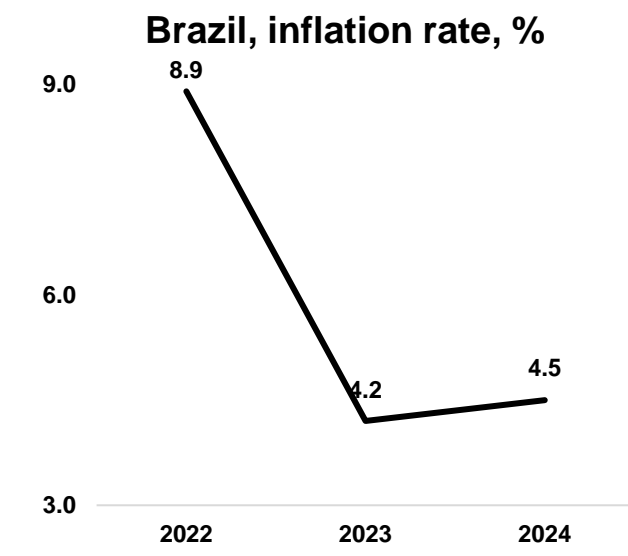
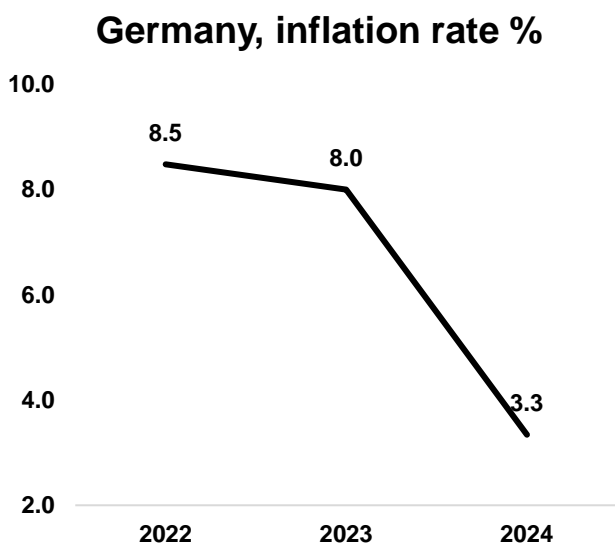
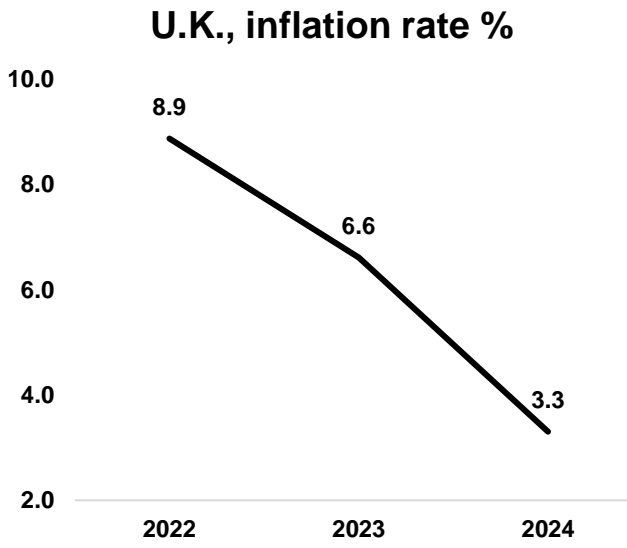
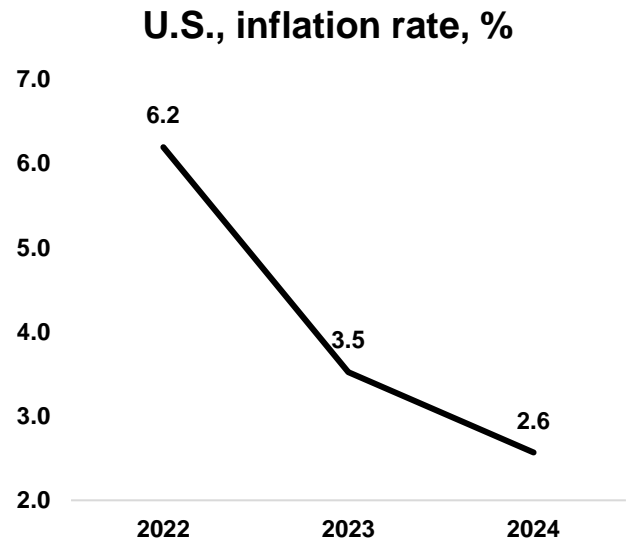
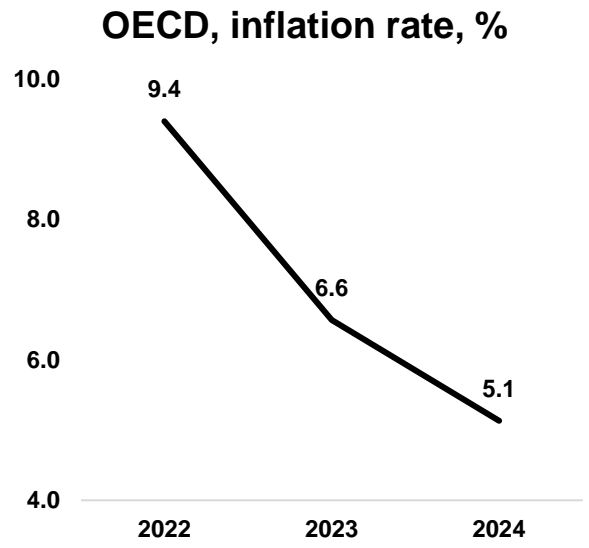
OECD: THE GLOBAL GROWTH WOULD BE SLOWER IN THE UPCOMING YEAR. THE WORLD IS LIKELY TO AVOID RECESSION, THANKS TO THE VITAL ROLE OF EMERGING ECONOMIES



Source: OECD Economic Outlook, November 2022

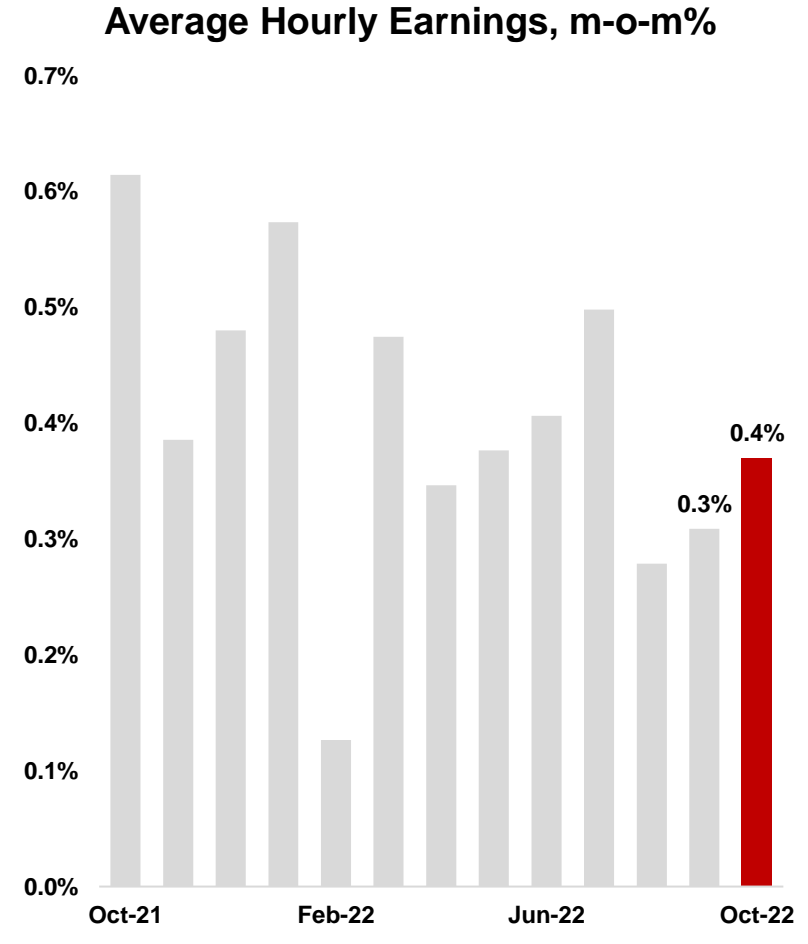
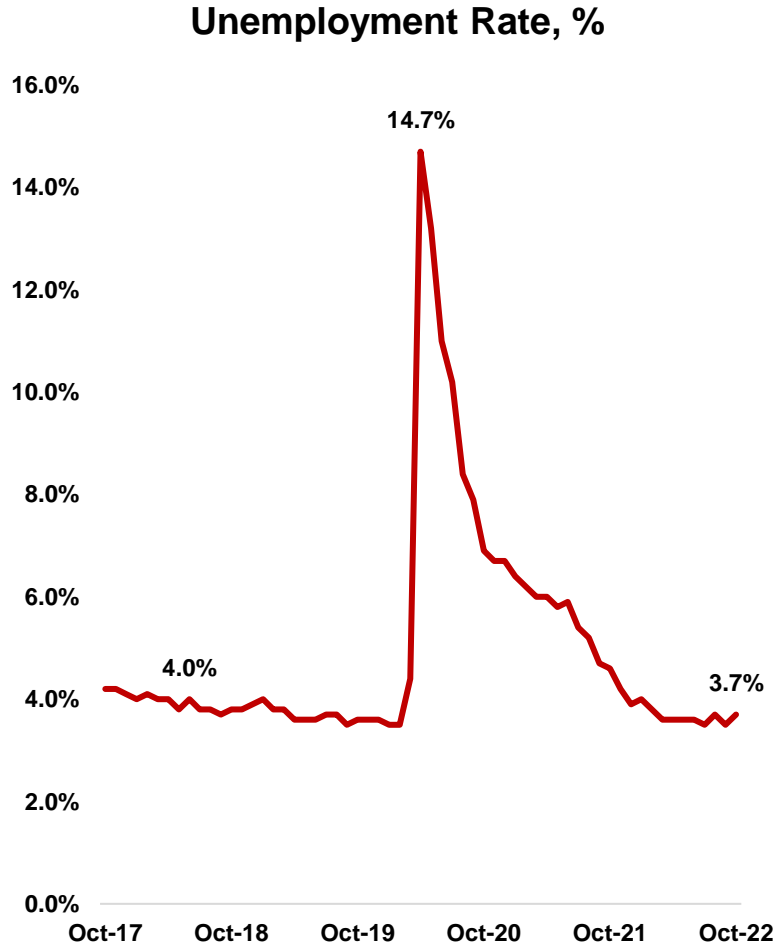
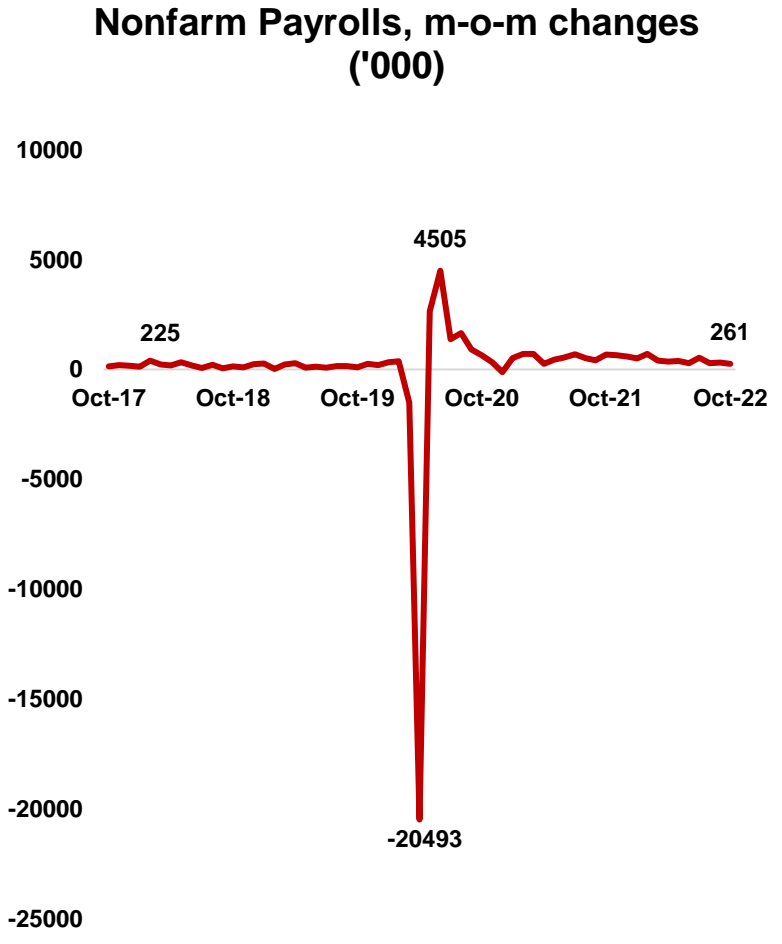
- India is projected to grow by 6.6% in 2022 before slowing down to 5.7% next year. There will be moderation in both domestic demand and exports due to high inflation and tightening monetary supply.
- Meanwhile, China's growth for this year will be at 3.3% before picking up to 4.6% in 2023, held up by infrastructure investment, as well as supportive measures that moderate the correction in the real estate sector.
- While the OECD is not predicting a recession, projections appear to become more pessimistic amid the IMF's latest estimates released in October 2022.
- The fragile prospect of the global economic outlook is due to the prolonged Russia-Ukraine military conflict, which triggered an energy crisis leading to persistent global inflation. The Global Supply Chain Pressure Index (GSCPI) is declining but remains elevated to date.
- As a result, Europe bears the brunt the most as military conflict, causing energy prices to spike. Thus, weighing growth further down to 0.5% next year.

OECD: FIGHTING INFLATION IS THE TOP PRIORITY



- Before the energy crisis, inflation has already on the rise amid the bottlenecks in the global supply chain when countries emerged from the COVID-19 pandemic.
- Aggressive monetary policy tightening by major central banks will moderate in the coming month as inflation eases. However, interest rates will continue to remain high to tame inflation.
- Hence, OECD revised its 2023 inflation estimation upwards and foresees that price increases in the following year remain above the targets set by respective central banks.

THE U.S.: THE FED IS HOPING FOR SOME LOOSENING IN THE LABOUR MARKET TO JUSTIFY SMALLER INCREMENT RATE HIKES IN THE DECEMBER MEETING

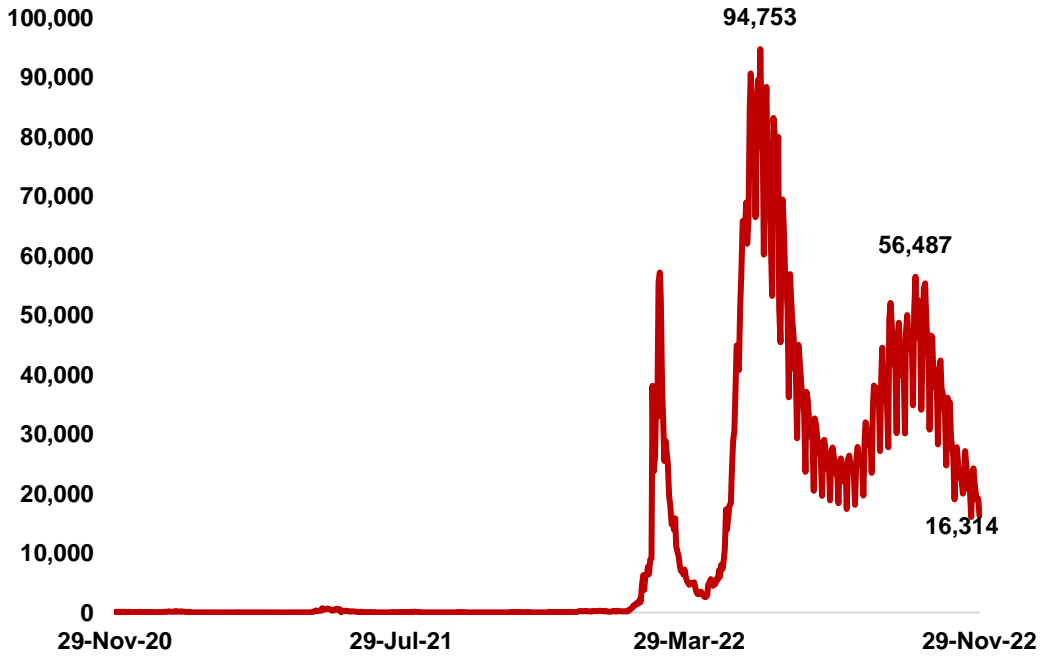


Source: CEIC

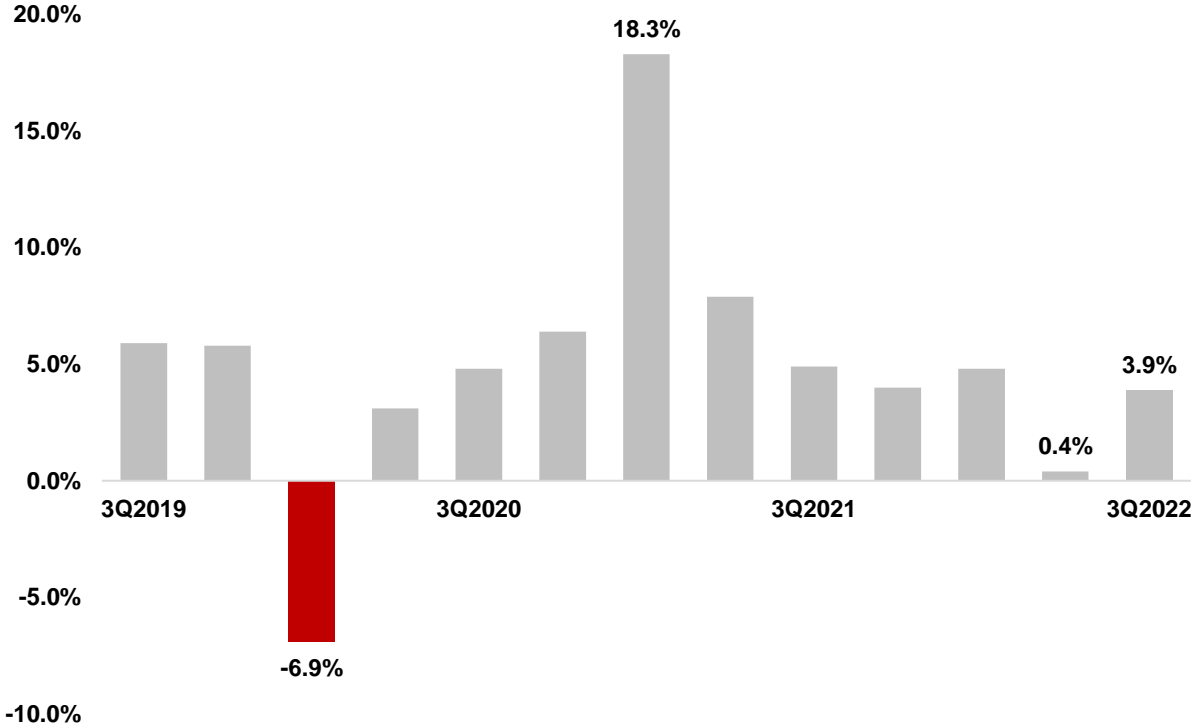
CHINA: THE GLOBAL ECONOMY WOULD SUFFER IF CHINA CONTINUES WITH ITS ZERO-COVID STRATEGY IN 2023



Covid-19 Cases in China



GDP, y-o-y%

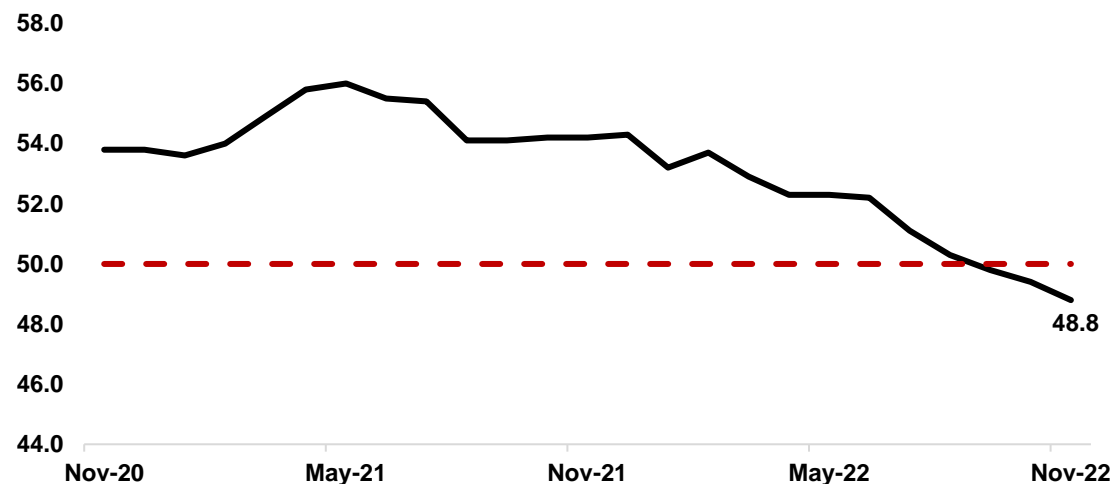


Source: CEIC

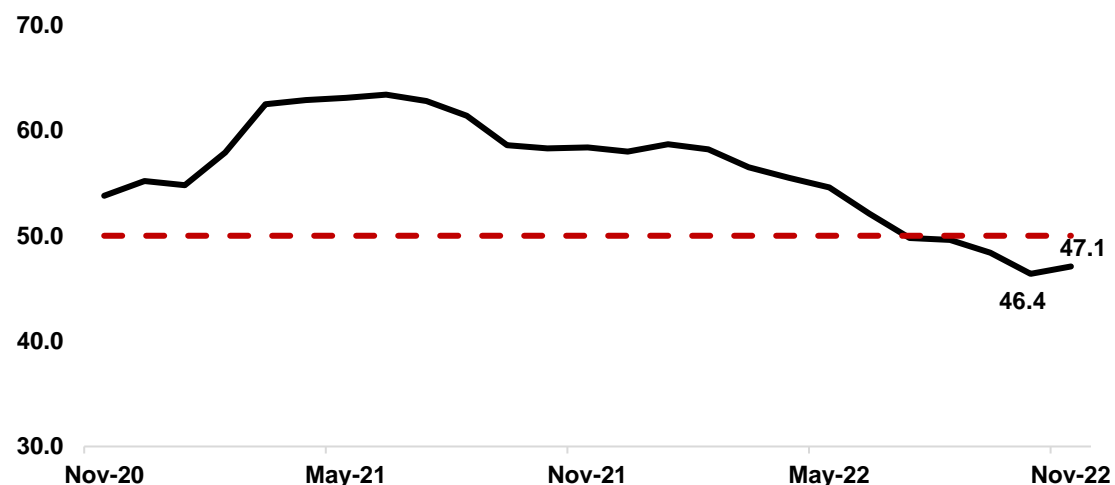
- China’s 3Q2022 GDP grew by 3.9%, marking a pickup from 0.4% in the previous quarter, which was weighed down by the COVID-19 containment measures that restrict business activities and mobility.
- The country is set to reopen, with Beijing to press on with easing its strict COVID-19 measures.
- Additionally, the health authorities urged immediate booster vaccination against the elderly to curb infections hence, reviving the economy, which was hit by nearly three years of Zero-COVID policy.

THE GLOBAL MANUFACTURING SECTOR SLIPPED BELOW THE NATURAL MARK OF 50.0 FOR THE PAST THREE MONTHS

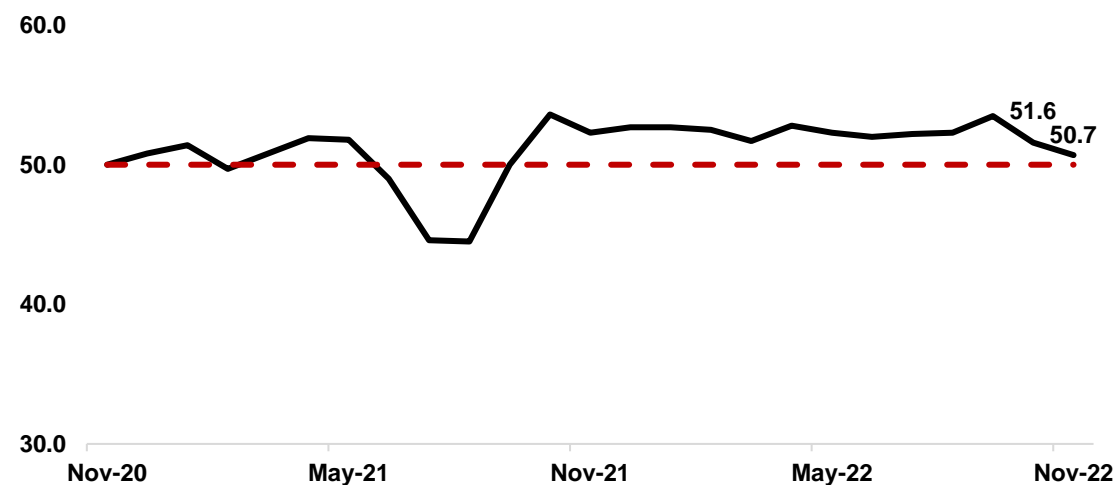
J.P. Morgan Global Manufacturing PMI



Eurozone Manufacturing PMI, points



ASEAN Manufacturing PMI, points



Index	Oct-22	Nov-22	Interpretation
PMI	49.4	48.8	Deterioration, faster rate
Output	48.7	47.8	Decline, faster rate
New Orders	46.9	46.8	Decline, faster rate
New Export Orders	46.2	46.2	Decline, same rate
Future Output	56.7	57.9	Growth expected, better sentiment
Employment	50.3	49.8	Decline, from rising
Input Prices	61.1	59.2	Inflation, slower rate
Output Prices	56.5	56.2	Inflation, slower rate

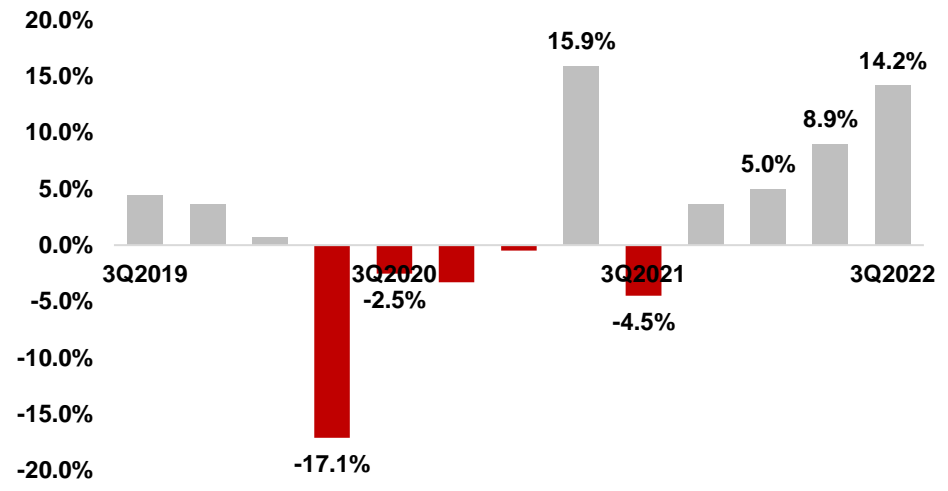
Section 3

DOMESTIC LANDSCAPE & SECTOR UPDATE

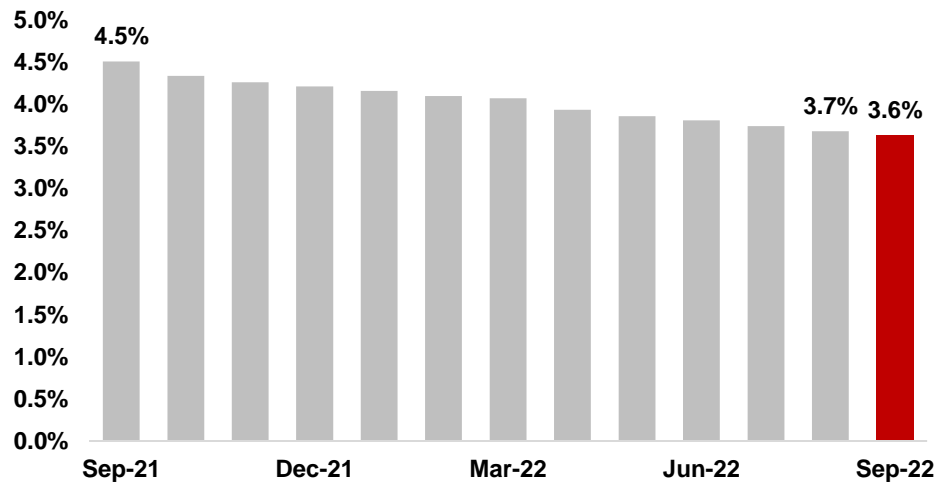
ECONOMIC UPDATE: FY2022 GROWTH COULD SURPASS THE OFFICIAL ESTIMATES GIVEN THE STELLAR 3Q2022 GDP PERFORMANCE



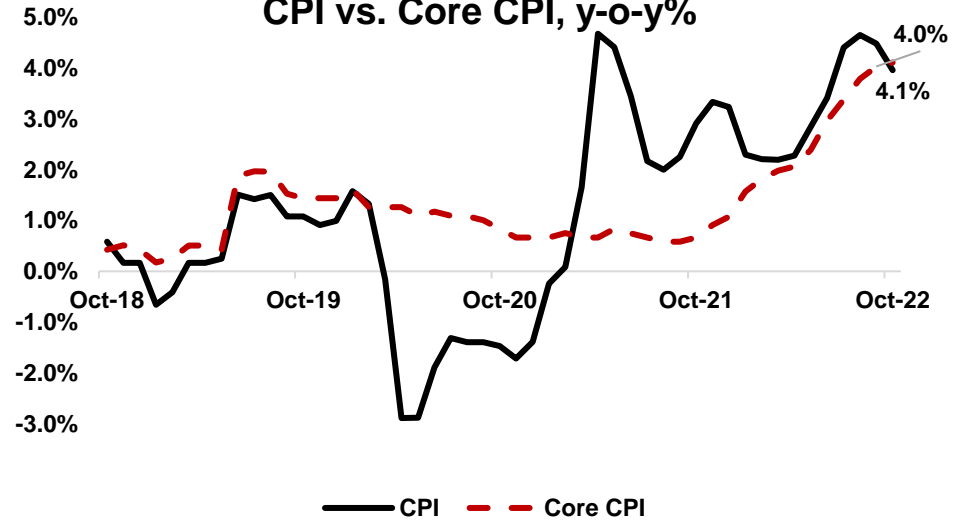
GDP growth, y-o-y%



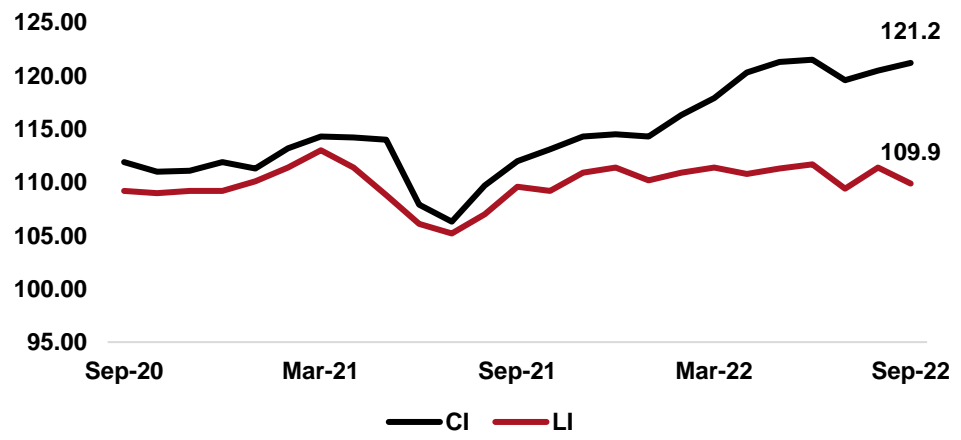
Unemployment Rate, %



CPI vs. Core CPI, y-o-y%



Coincident Index (CI) vs. Leading Index (LI), points

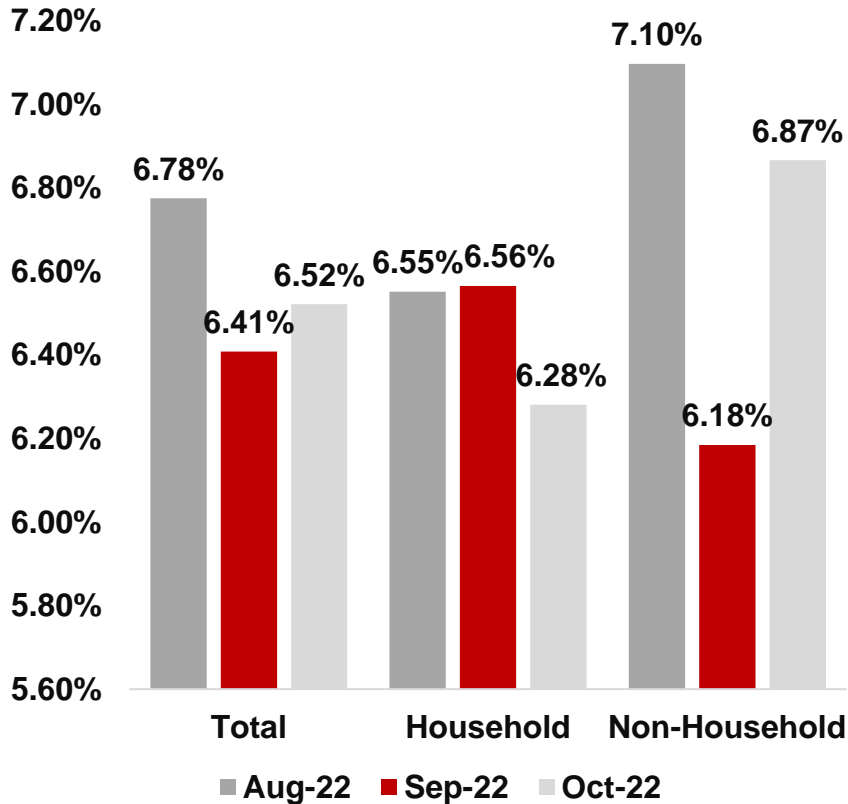


- Coupled with the low-base effect, the solid 3Q2022 growth was underpinned by the continued domestic demand expansion, a firmer labour market recovery, and ongoing government policy support.
- Inflation remains elevated but benign versus other parts of the world.
- Based on the latest indicators, Malaysia's growth momentum continues amid solid macroeconomic fundamentals despite the challenging external environment in the coming year.

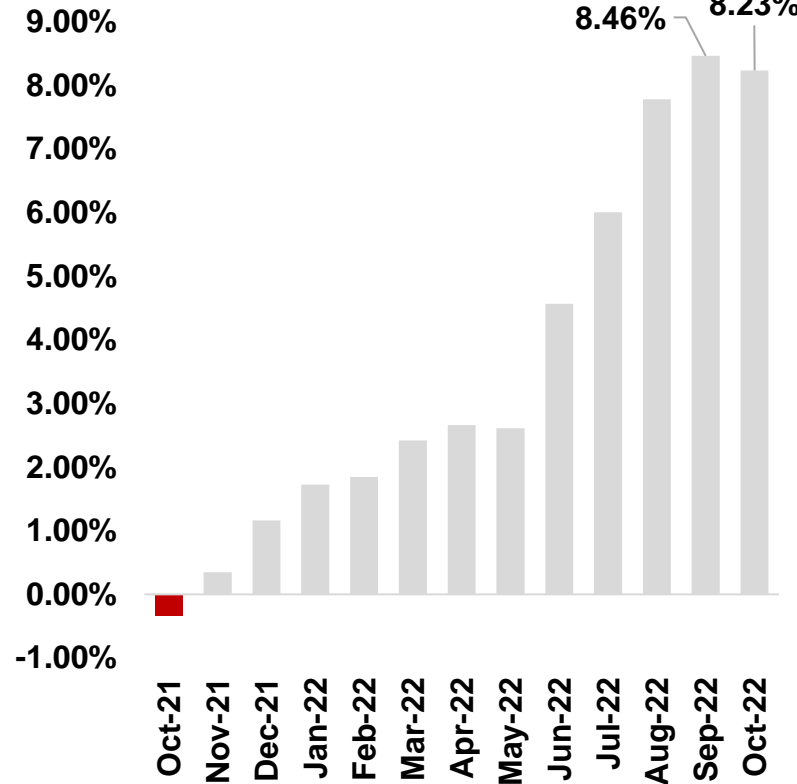
BANKING SECTOR: HIGHER FINANCING GROWTH IN OCTOBER POWERED BY NON-HOUSEHOLD SECTOR



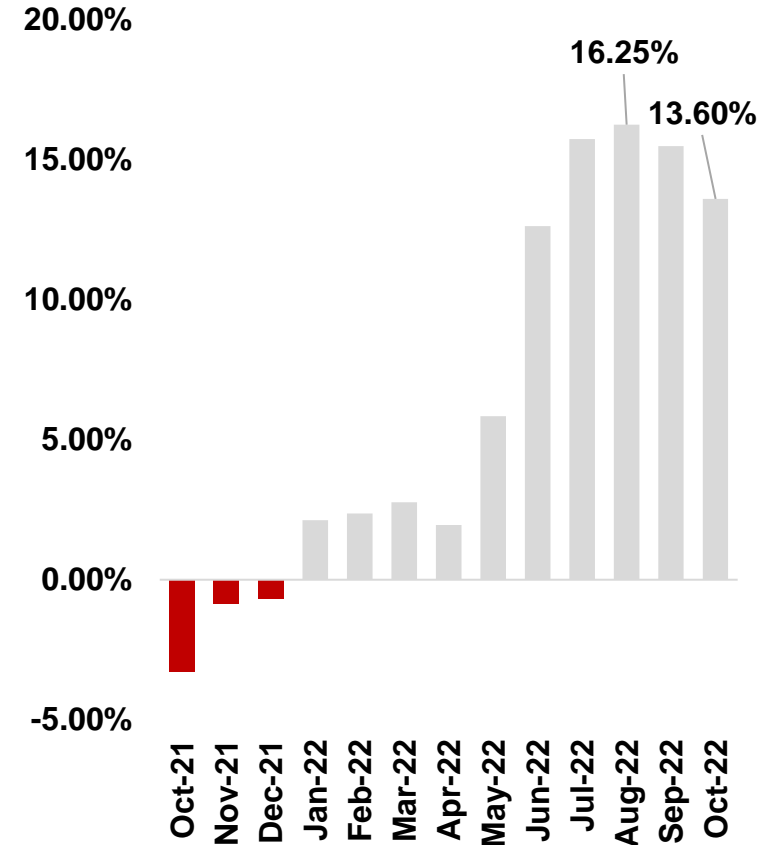
Financing Growth by Sector, y-o-y%



Purchase of Passenger Cars, y-o-y%



Credit Card, y-o-y%

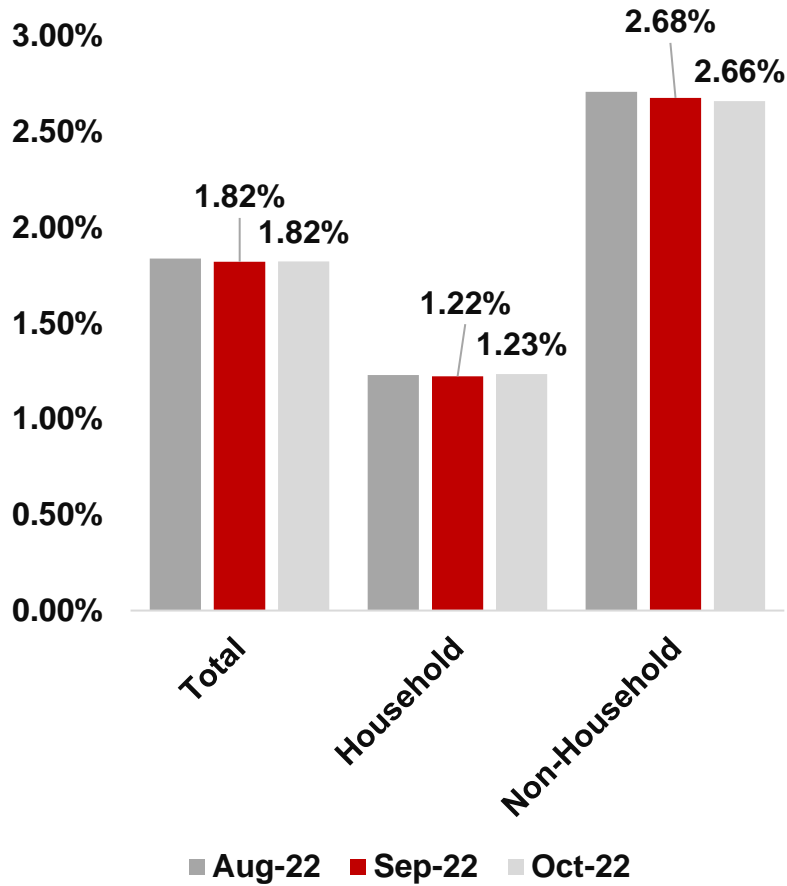


Source: CEIC

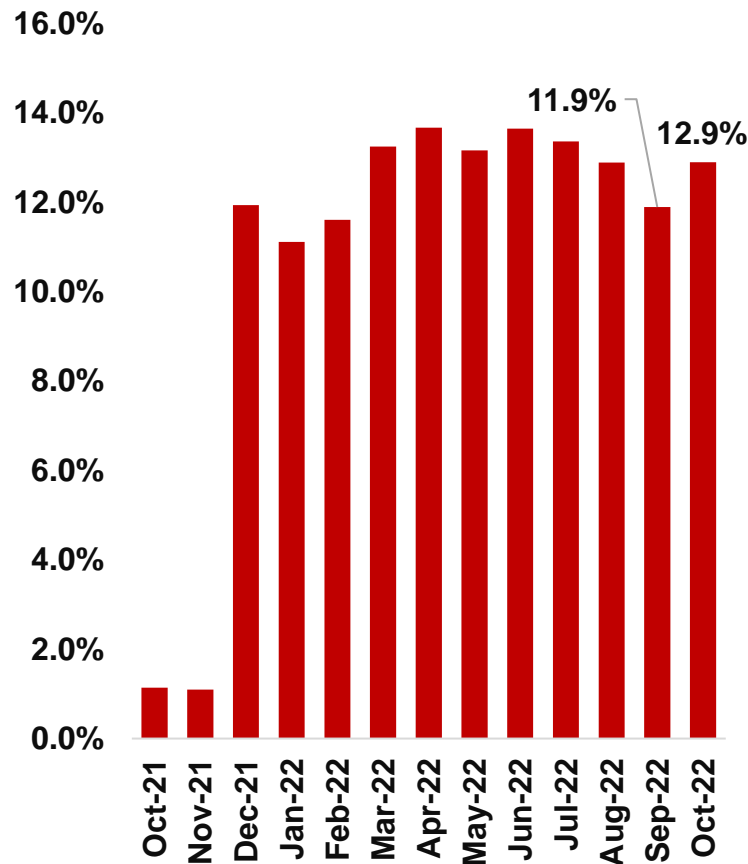
- Financing activities increased by 6.52% y-o-y in October, supported by a better Non-Household segment (October: 6.87% vs September: 6.18%).
- Within the Non-Household sector, financing for Wholesale & Retail Trade Motor posted double-digit growth at 13.4% in October (September: 16.0%). This was in line with solid growth seen in financing for credit cards and the purchase of passenger cars which continued to record stellar performance.
- This suggests Malaysia's private consumption activities remain healthy despite inflationary pressure.

BANKING SECTOR: GROSS IMPAIRED FINANCING RATIO (GIFR) WAS RELATIVELY STABLE

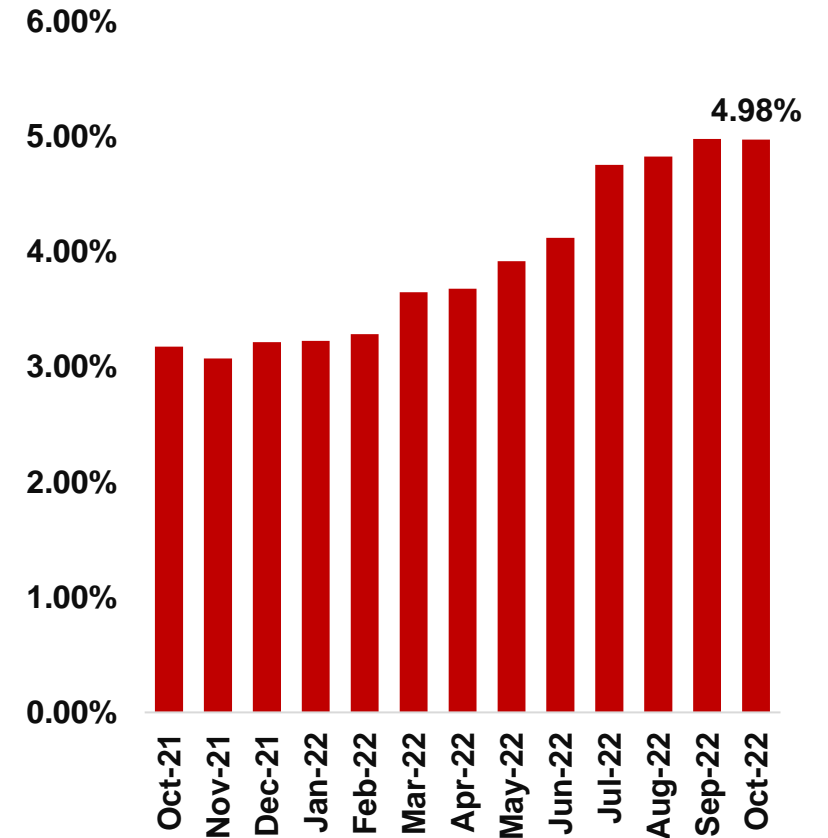
GIFR, %



GIFR: Mining & Quarrying



GIFR: Construction



Source: CEIC

- As for asset quality, the banking system's GIFR was unchanged at 1.82% in October (September: 1.82%).
- However, GIFR for the Non-Household sector improved to 2.66% in October compared to 2.68%.
- Within the Non-Household sector, impairment for Mining & Quarrying went up to 12.9% in October from 11.9% in September.
- This shows that the economic recovery post-COVID-19 remains uneven.

POLITICAL UPDATE: THE KING APPOINTED YAB DATUK SERI ANWAR IBRAHIM AS MALAYSIAN TENTH PRIME MINISTER, ENDING THE FIVE-DAY POST-ELECTION DEADLOCK



Source: Various Media

- GE15 witnessed Malaysia's first-ever hung parliament. PH had won 82 seats, followed by PN (73 seats), and BN (30 seats), while GTA, in its debut, failed to win any seat. Although many political analysts expected GE15 to end without a clear majority, none predicted PN to perform convincingly at the expense of BN and PH. BN suffered the worst defeat in its political history, while PH failed to maintain its GE14 performance in GE15.
- Strong ideological differences persist across the political spectrum despite the government formation. The ruling coalition applauded the King's mediatory role in ending the political stalemate and touted Prime Minister Anwar's appointment as en route to a unity government. PN refused to budge. Due to PN's stellar performance on the East Coast and semi-urban seats in major economic areas of the Peninsular, we believe political white noise will continue – irrespective of the government's majority in the Dewan Rakyat – as the country will witness state-level elections by mid-2023. The government is fragile sans a registered/unified political coalition.
- After much speculation, Prime Minister Anwar is expected to unveil his cabinet lineup on 2 December. The market will take cues from the cabinet formation and the first parliament sitting on 19 December, with the confidence motion as the first order of business.

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