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WEEKLY ECONOMIC UPDATE

6 JUNE 2023

ECONOMIC RESEARCH

FIRDAOS ROSLI
RAJA ADIBAH RAJA HASNAN
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI

WEEKLY HIGHLIGHT: HIRING ACTIVITIES EDGED UP IN THE U.S. REFLECTING CONTINUED ECONOMIC RESILIENCE

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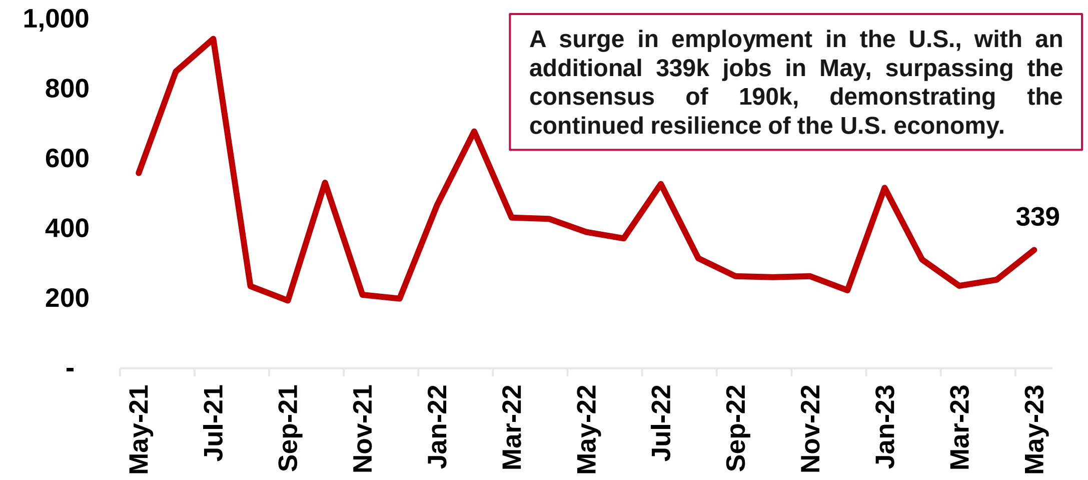
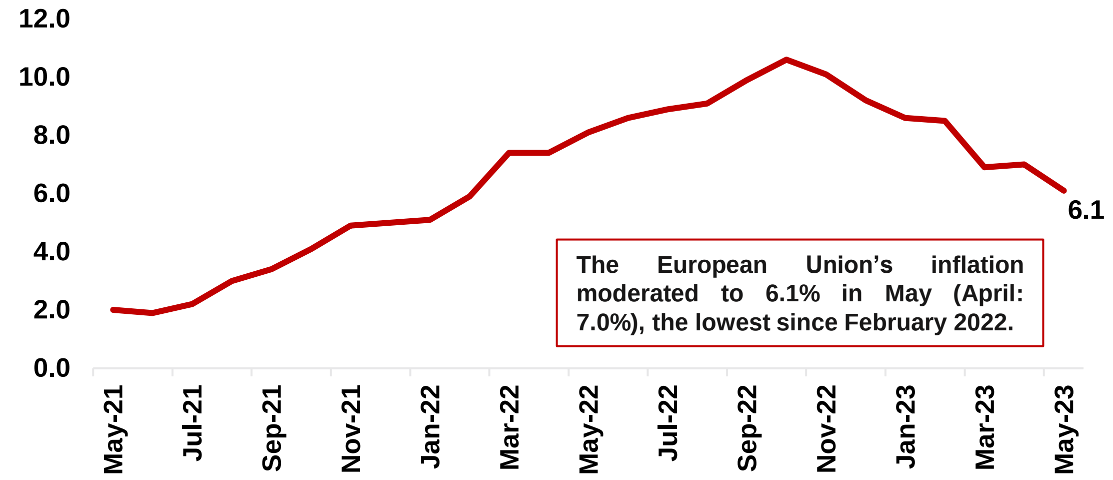
GLOBAL

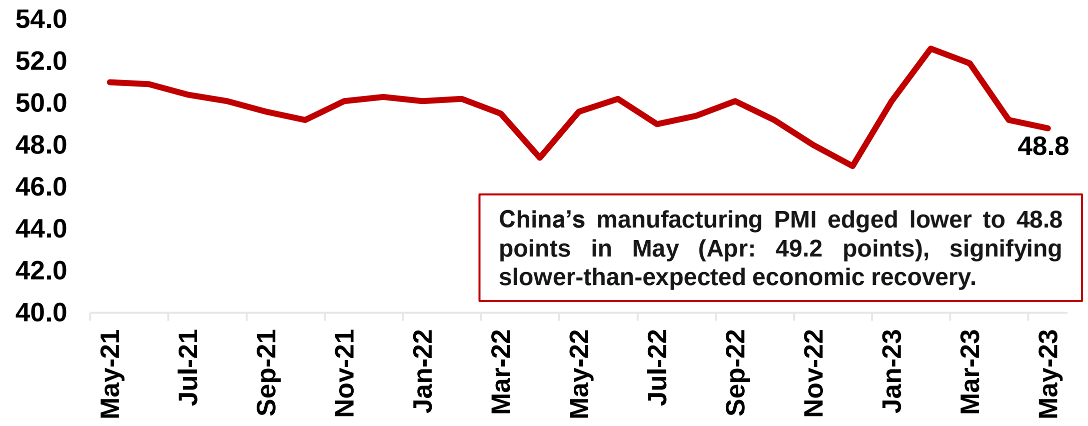
U.S. Non-Farm Payroll, m-o-m changes ('000)



European Union - HICP Inflation, y-o-y%



China - Manufacturing Purchasing Manager's Index (PMI), points



Indonesia - Manufacturing PMI, points

Sources: Eurostat, China National Bureau of Statistics, Markit Economics

REGIONAL EQUITY: MARKET RALLIED AS U.S. CONGRESS PASSED DEBT CEILING BILL

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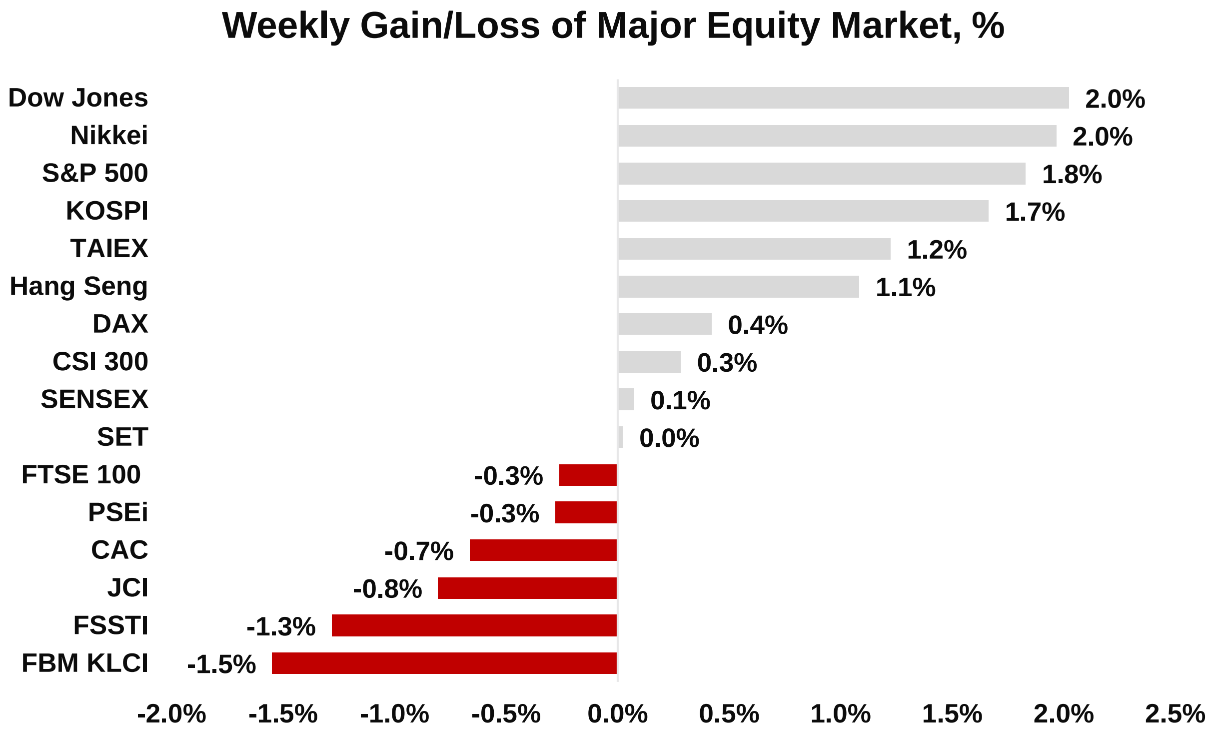

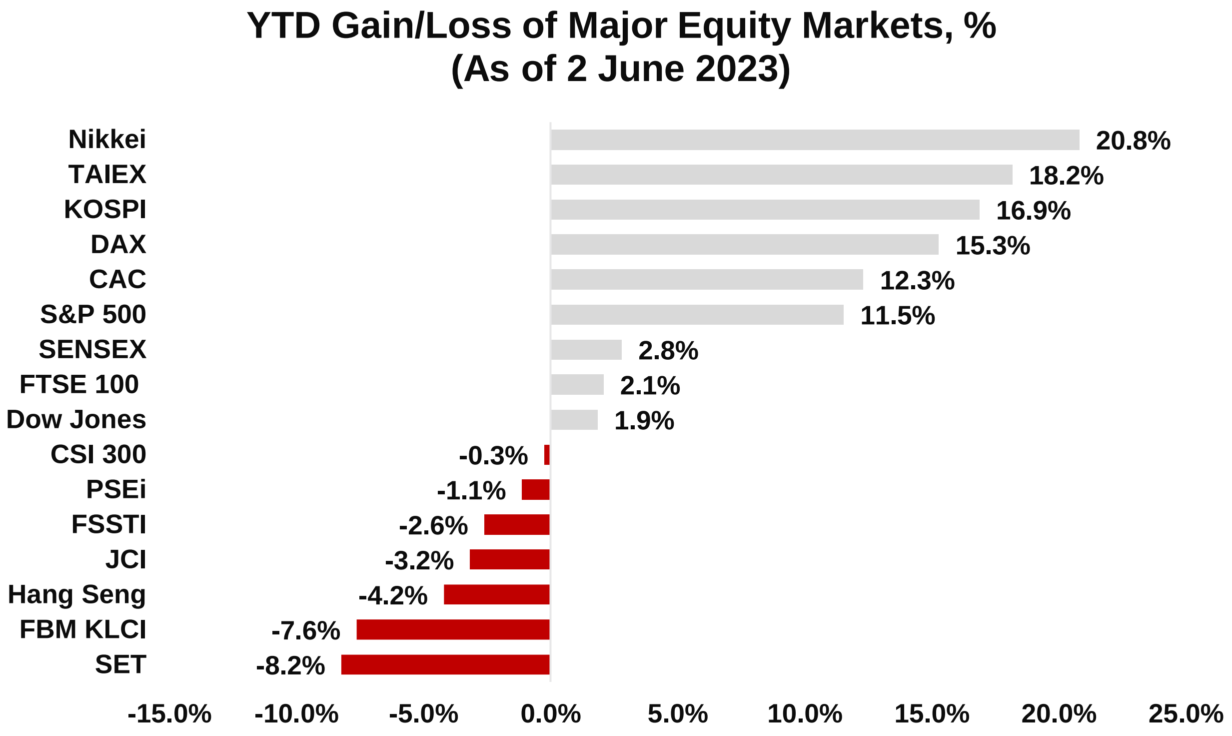

Sources: Bursa, CEIC

- Regional equity markets mostly ended positively for the week ending 2 June. U.S.' Dow Jones (2.0%), Japan's Nikkei (2.0%) and U.S. S&P 500 (1.8%) were the major gainers last week.
- Meanwhile, Malaysia's FBM KLCI (-1.5%), Singapore's FSSTI (-1.3%) and Indonesia's JCI (-0.8%) were the major losers.
- The gains in regional equity last week were mainly due to the end of U.S. debt ceiling episodes in which Congress passed a new limit, averting a government default. The strong job numbers in the U.S. also aided the positive sentiment about its economy.

DOMESTIC EQUITY: SLOW MOMENTUM IN LOCAL MARKET FOLLOWING GLOBAL UNCERTAINTIES

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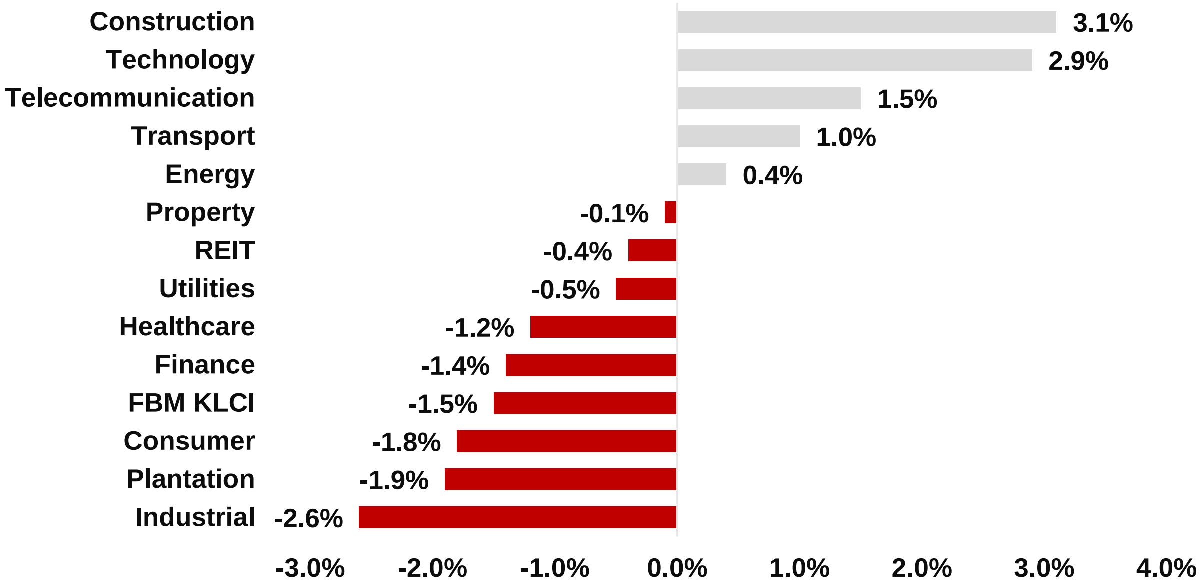
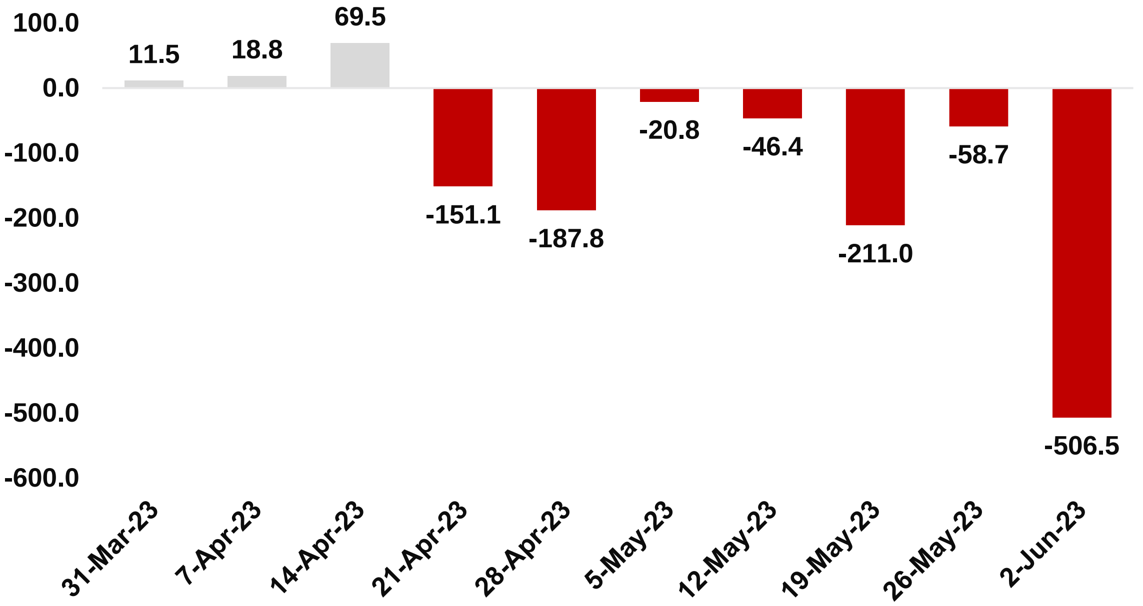
Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, BNM

- Most Bursa sectoral indices closed in the red for the week ending on 2 June, with Industrial (-2.6%) ending as the biggest loser, followed by Plantation (-1.9%) and Consumer (-1.8%).
- Meanwhile, Construction (3.1%) and Technology (2.9%) led the winners by a large margin.
- The slow movement of the local market persisted as all eyes were trained on the U.S. debt ceiling bill, aggravated by a lack of buying impetus among investors.
- Additionally, foreign investors continued their selling spree for the seventh consecutive week, with net outflows surging to RM 506.5 million, the highest since March. The net selling amounted to a total net outflow of RM2.96 billion this year.

FIXED INCOME: YIELDS ENDED ON FIRMER FOOTING AMID THE RESOLUTION OF THE U.S. DEBT CEILING BILL

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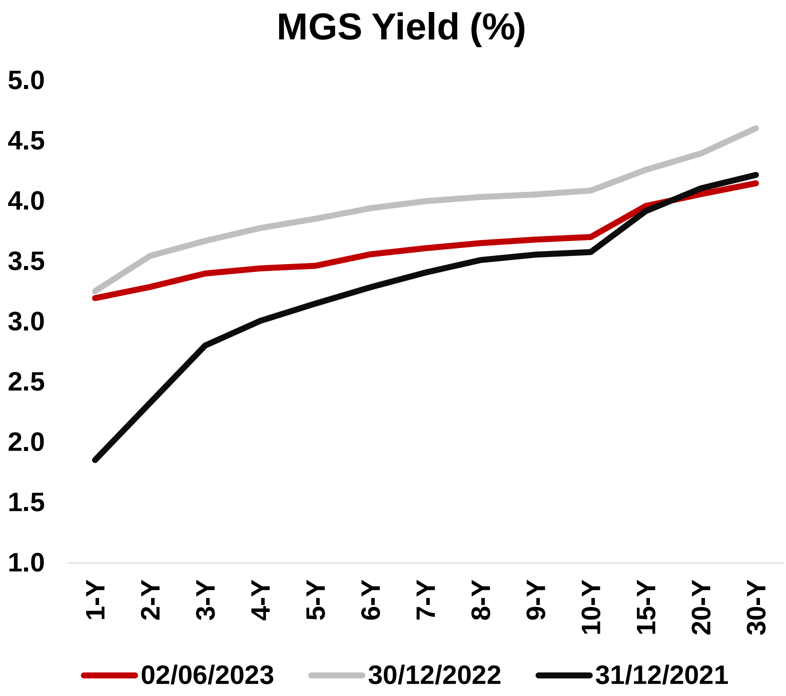
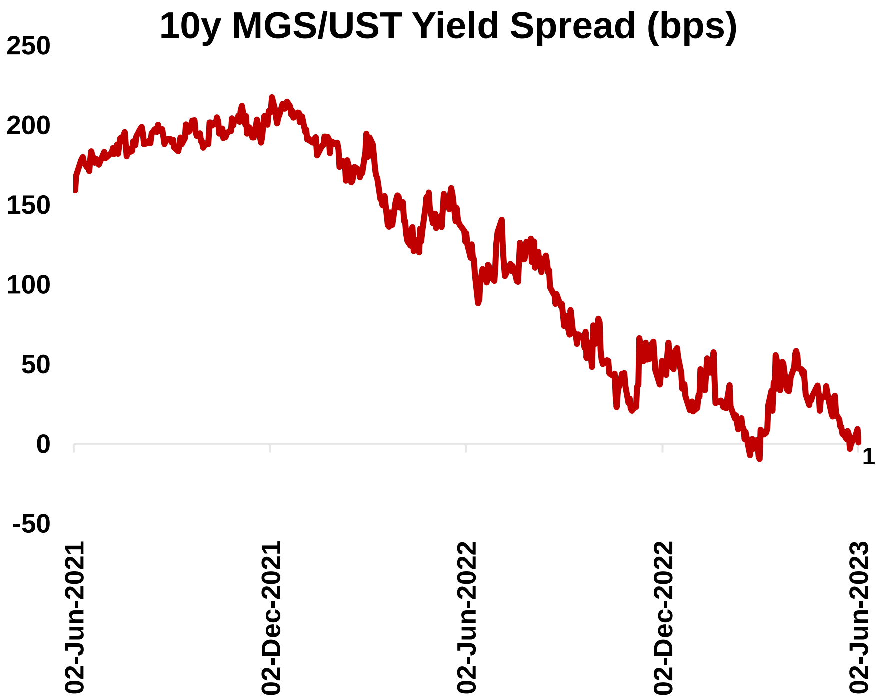
Weekly Changes, basis points (bps)

UST	Yields (%) 26-May-23	Yields (%) 2-Jun-23	Change (bps)
3-Y UST	4.23	4.13	-10
5-Y UST	3.92	3.84	-8
7-Y UST	3.86	3.78	-8
10-Y UST	3.80	3.69	-11
MGS	**Yields (%) 26-May-23**	**Yields (%) 2-Jun-23**	**Change (bps)**
3-Y MGS	3.44	3.40	-4
5-Y MGS	3.53	3.47	-6
7-Y MGS	3.74	3.61	-13
10-Y MGS	3.81	3.70	-11
GII	**Yields (%) 26-May-23**	**Yields (%) 2-Jun-23**	**Change (bps)**
3-Y GII	3.38	3.36	-2
5-Y GII	3.57	3.53	-4
7-Y GII	3.79	3.70	-9
10-Y GII	3.88	3.80	-8

Sources: Bank Negara Malaysia (BNM), Federal Reserve Board





- The U.S. Treasury (UST) yields dropped last week, with the shorter and longer end of the curve falling the most at 10bps and 11bps respectively. Meanwhile, the belly of the curve fell by 8bps.
- The downward trend was mainly due to the U.S. government averting default as Congress passed the U.S. debt ceiling bill.
- In addition, at the point of writing, the U.S. Federal Reserve (Fed) is expected to skip June rate hikes despite the strong employment data in the U.S.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) followed the same downtrend with the UST yields, with the MGS yields slipping between 4bps and 13bps. Additionally, GII yields dropped in the range of 2bps and 9bps.
- The 10y MGS/UST yield spread remained low at 1bp, unchanged relative to the yield spread on 26 May.

FX MARKET: THE RINGGIT STRENGTHENED DURING THE WEEK AS THE U.S. DEBT TALK ENDED ON A POSITIVE NOTE

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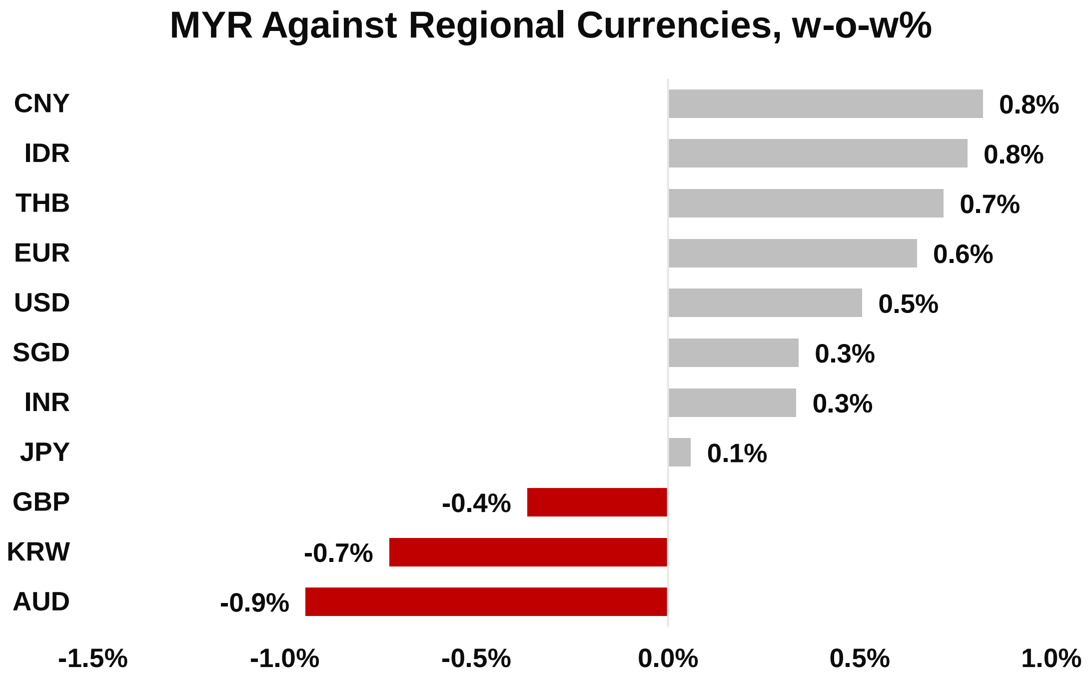
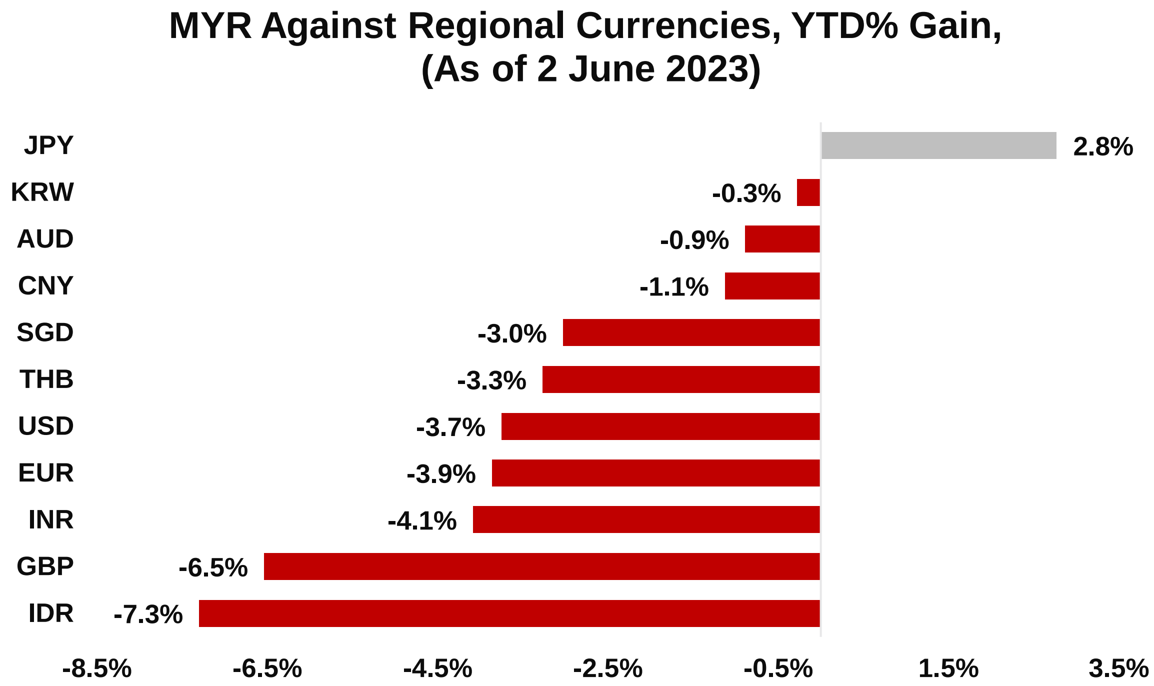




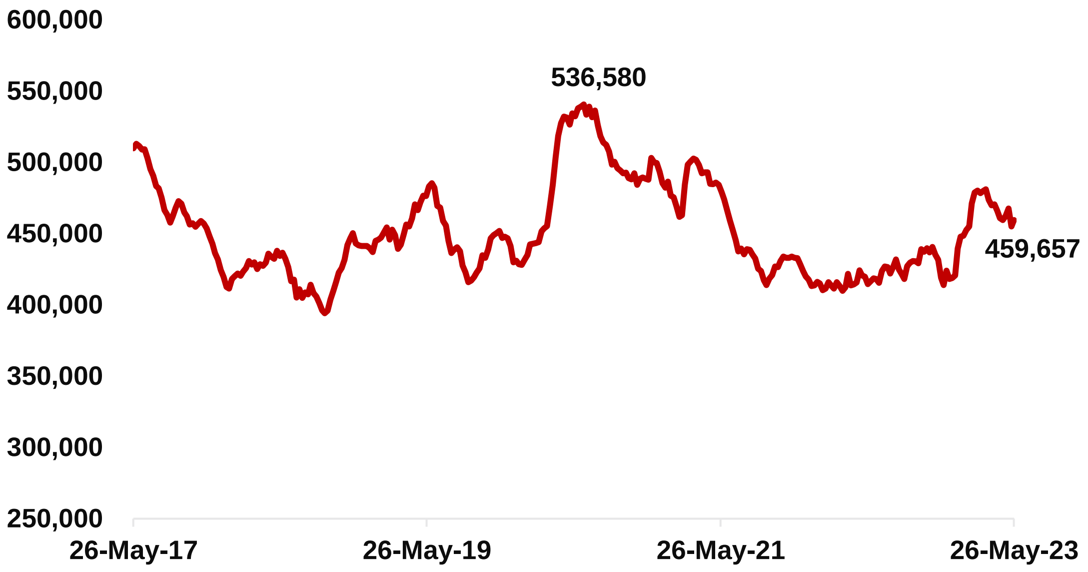
Source: Investing.com

- After weeks of weakening against the USD, Ringgit appreciated on a weekly basis as the U.S. debt ceiling talks finally sailed through the U.S. House of Representatives by an overwhelming vote of 314-117. Such a decision to lift the debt ceiling, which currently stands at USD31.4 trillion, managed to avert a catastrophic default on the federal government's debt.
- Though the U.S. economy added more jobs than anticipated during May (Act: 339k vs. Est: 190k), the higher unemployment rate (May: 3.7% vs. April: 3.4%) in the country suggested the labour market started to ease, perhaps might cause the U.S. Fed to skip rate hike during their policy meeting later in this month, leaving the rate to maintain at a range of between 5.00% and 5.25%.
- All in all, we foresee that the local note's gain could be limited as the investors will be cautiously eyeing the Fed's assessment of its outlook on its monetary path next week.

COMMODITY: BRENT BRICE SURGED FOLLOWING OPEC'S DECISION TO CUT OIL PRODUCTION IN JULY

Brent Crude in USD per barrel

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



Sources: Bloomberg, Energy Information Administration (EIA)

- In the latest development, Saudi Arabia pledged to voluntarily reduce output by another 1.0 million barrels per day (bpd) from July, bringing the country's production level to around 9.0 million bpd next month, the biggest reduction in years.
- In the event whereby the commodity price range between USD70.0 and 75.0 per barrel, or even below that, it could evoke Saudi Arabia to extend July's production cut to bring better prices into the market.
- On a weekly basis, the oil price declined by 1.1%, possibly due to the disappointing demand in the three largest consuming regions – China, the E.U. and the U.S.

COMMODITY: GOLD PRICE WAS ON TRACK FOR WEEKLY GAIN AMID THE FED PAUSE BETS

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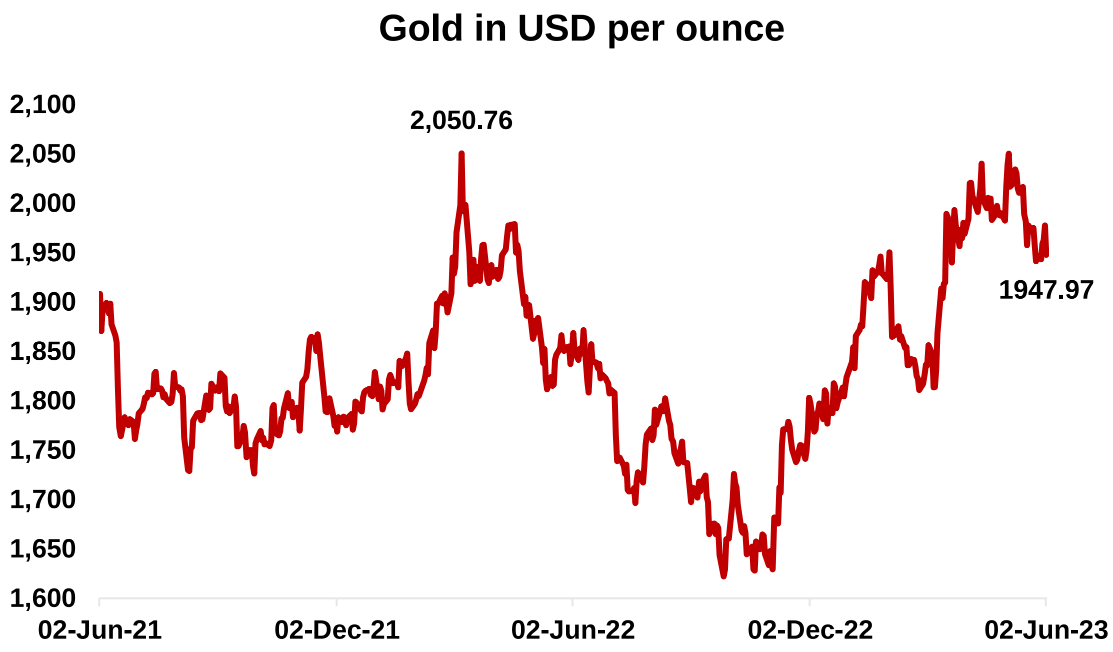

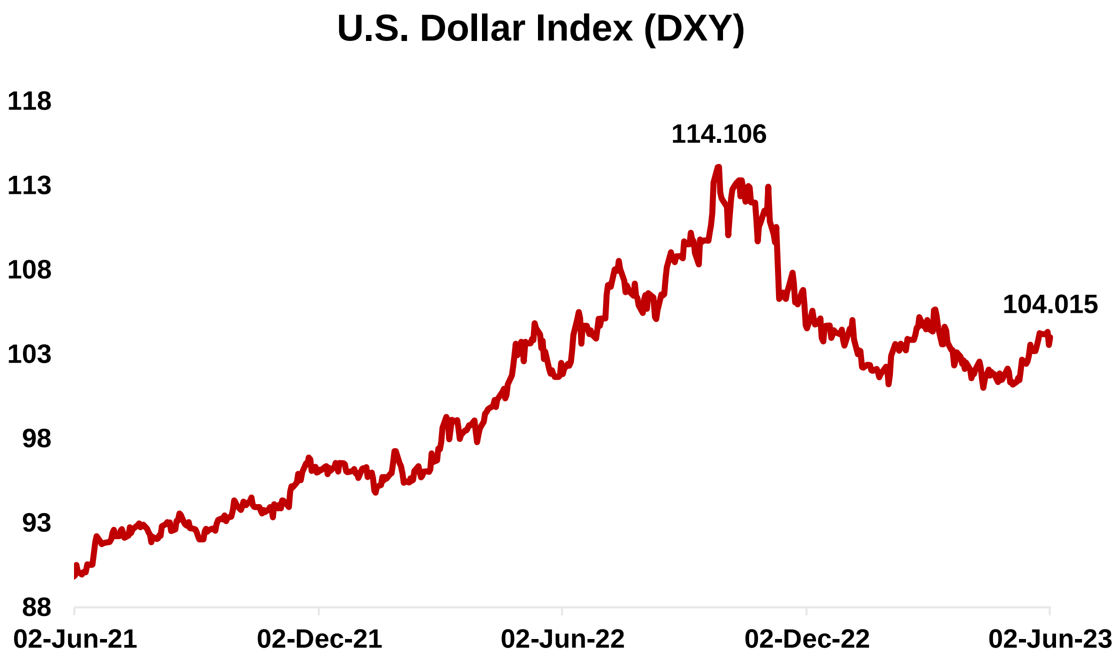

Sources: Bloomberg, Commodity Research Bureau

- The U.S. debt ceiling negotiations, which have been the key driver in pushing the USD to trend higher in the past weeks, ended last Friday. The bill passed the Senate in a 63-36 vote and the lower house with an overwhelming majority.
- As such, the dollar stabilising has led to a recovery in gold, albeit at a very sluggish momentum. However, last Friday, the bullion price edged slightly lower following a strong May U.S. payroll report, surprising the market participants as the labour market seemed to demonstrate grit in an economy that has been slowing.
- Despite the big job gains, the unemployment rate surged to 3.7% during the month, the highest since October 2022, after rising by 3.4% in April. This reading prompted investors to price the Fed to leave the benchmark interest rates unchanged during their 13-14 June meeting.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- There will be no U.S. officials' policymakers discussing the monetary policy outlook as they have entered the blackout period ahead of its FOMC meeting next week (13-14 June). Last Friday's U.S. employment report sent conflicting signals, with the job growth accelerating in May but the unemployment rate suggested otherwise, putting a tough spot for the Fed regarding its policy-rate setting decision. Though many anticipated the Fed could potentially take its foot off the monetary brake, the first halt since it started the aggressive policy tightening more than a year ago, market participants will be eyeing closely the May U.S. CPI data, which will come just a day before the 13-14 June meeting.

- Prior to the Fed's upcoming meeting, the Reserve Bank of Australia (RBA) and the Bank of Canada (BoC) will hold policy meetings this week as they are still struggling with the still-high inflationary pressures. In the previous meeting, the RBA reiterated to do the necessary to reach the 2.0%-3.0% target from around 7.0%. Meanwhile, the BoC will likely keep its overnight rate unchanged at 4.50% as the country may not be ready to abandon its rate pause just yet, which started in the January meeting this year. However, the recent economic data might indicate the need for additional monetary tightening, with the latest CPI print being higher than expected (April: 4.4% vs. March: 4.3%).

- Meanwhile, market participants will get an update for the latest projections of the global economic outlook from the World Bank today, followed by the Organisation for Economic Co-operation and Development (OECD) with its estimation. Previously, the World Bank addressed the slow growth in the global economy that could persist in the coming months due to the financial crisis, high inflation, and the still-raging military conflict between Russia and Ukraine. On the other hand, OECD revised its global forecast in March to reach 2.6% in 2023 and 2.9% in 2024, given an optimistic economic outlook but acknowledged that it remains fragile and risks remain tilted to the downside.

- On the domestic front, the annual inflation rate in Malaysia continued to slow down (April: 3.3% vs. March: 3.4%) during the month, marking the lowest print since May last year. This was mainly attributable to the slowdown in the food prices (April: 6.3% vs. March: 6.9%) and transport (April: 2.3% vs. March: 2.4%), carrying 44.1% weightage in the CPI basket. Looking at the trend as of late, the inflation reading is anticipated to moderate this year and will be able to meet the government's target in the range of between 2.8% and 3.8%. Core inflation, however, is still trending higher than the headline at 3.6% in April 2023.

THANK YOU