



# **WEEKLY ECONOMIC UPDATE**

**7 AUGUST 2023**

**ECONOMIC RESEARCH**

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LEE SI XIN

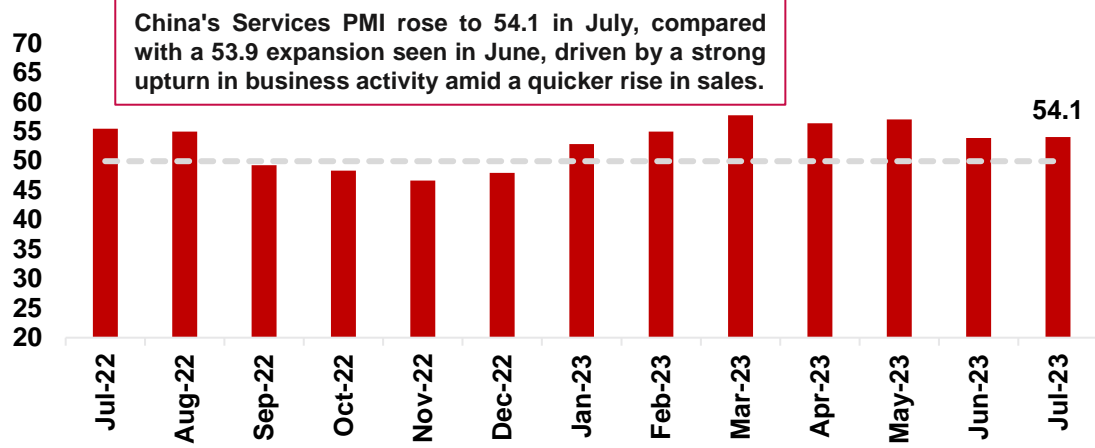
RAJA ADIBAH RAJA HASNAN

NOR LYANA ZAINAL ABIDIN

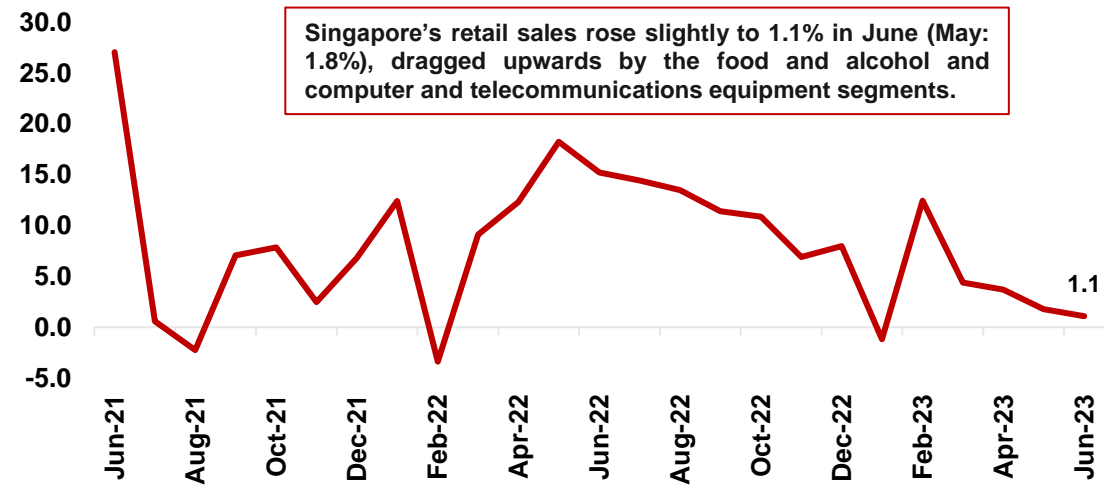
# WEEKLY HIGHLIGHT: INFLATION CONTINUED TO SOFTEN IN INDONESIA AND PHILIPPINES

GLOBAL

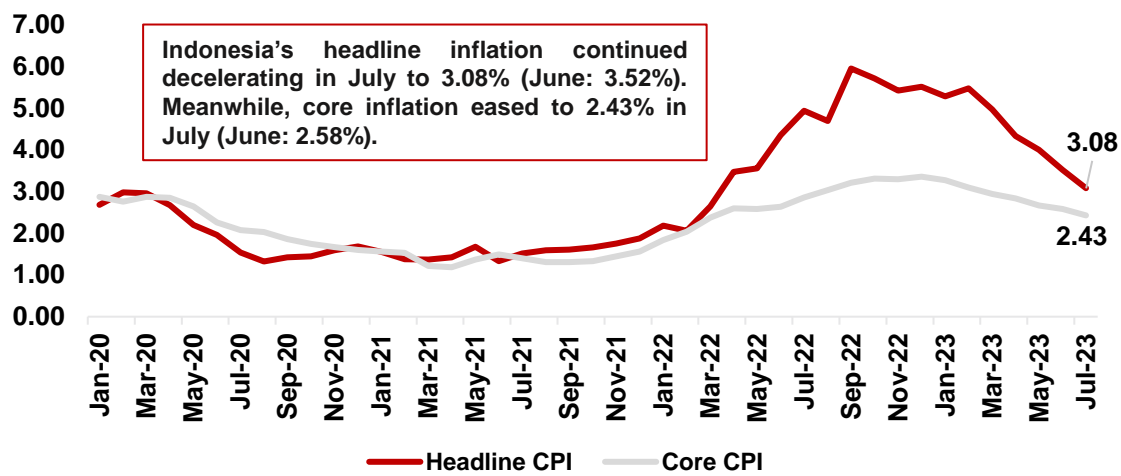
### China - Caixin Services Purchasing Manager's Index (PMI), points



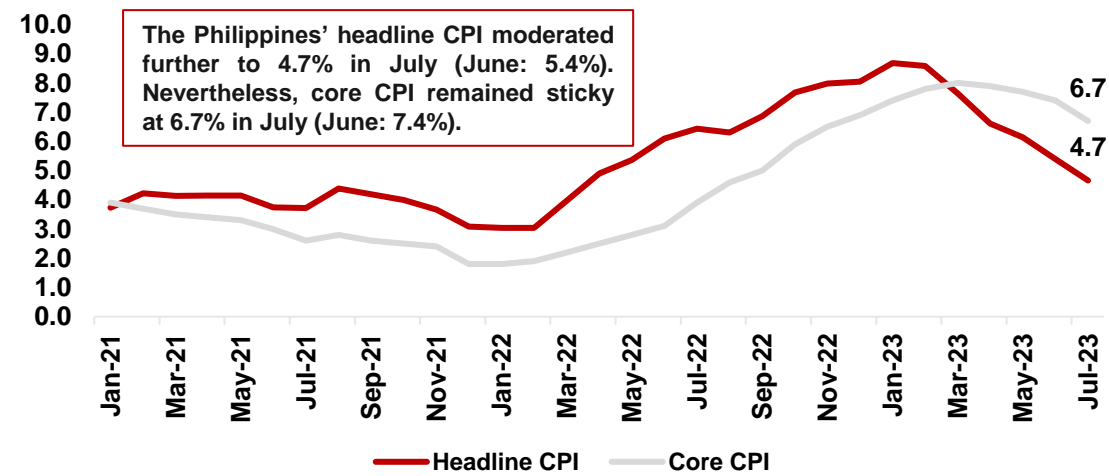
### Singapore - Retail Sales, y-o-y%



### Indonesia - Consumer Price Index (CPI), y-o-y%

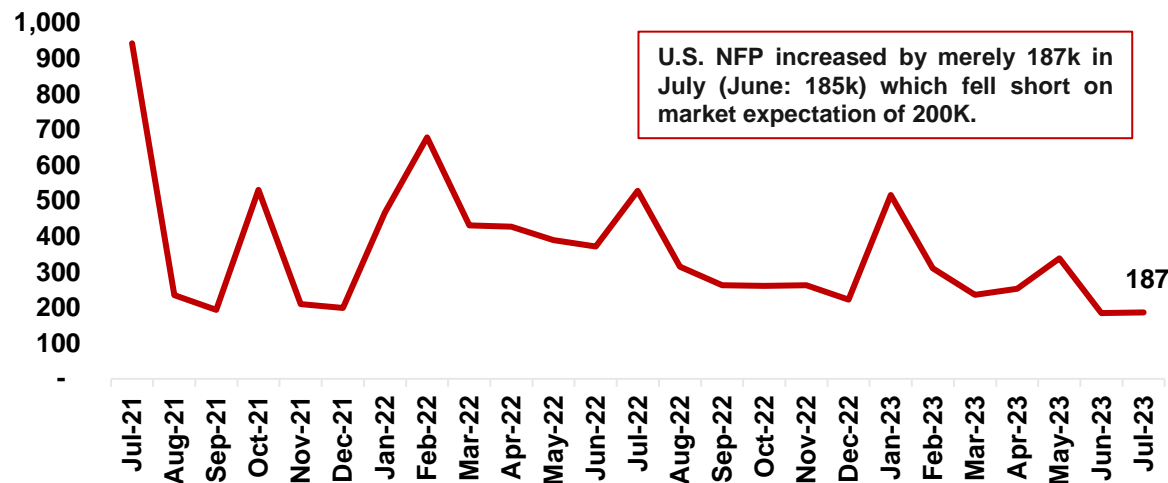


### Philippines - CPI, y-o-y%

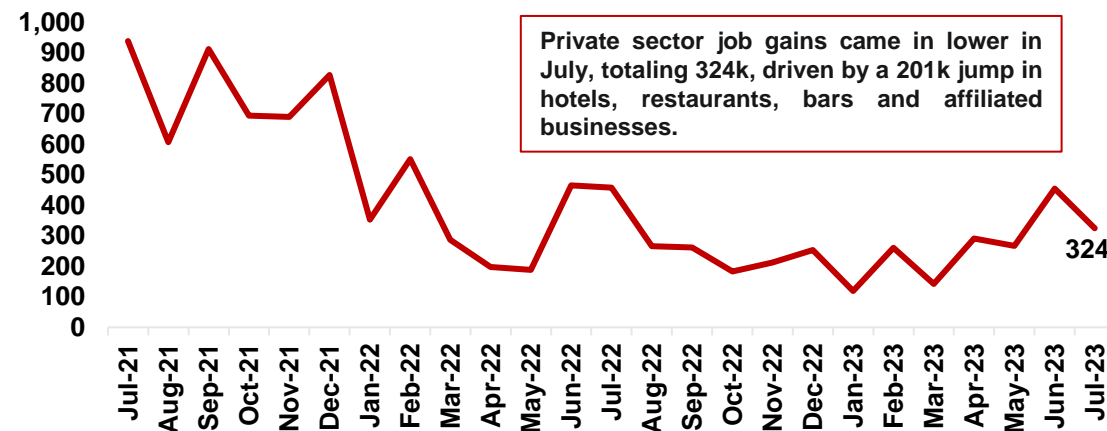


# U.S. WEEKLY HIGHLIGHT: LABOUR MARKET DATA SHOWED SIGNS OF COOLING

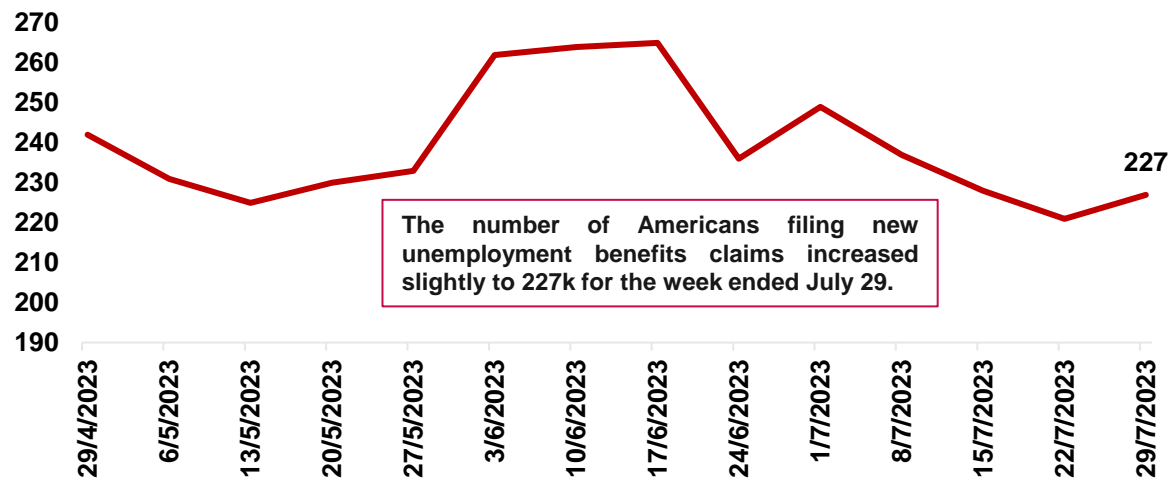
### U.S. Non-Farm Payroll (NFP), m-o-m changes ('000)



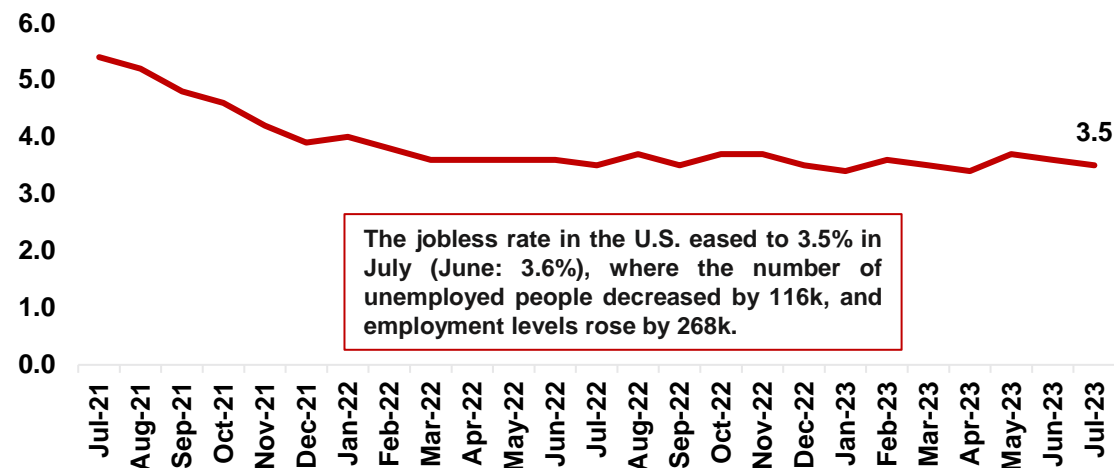
### U.S. ADP Non-Farm Employment, m-o-m changes ('000)



### U.S. Weekly Initial Jobless Claims (IJC), '000



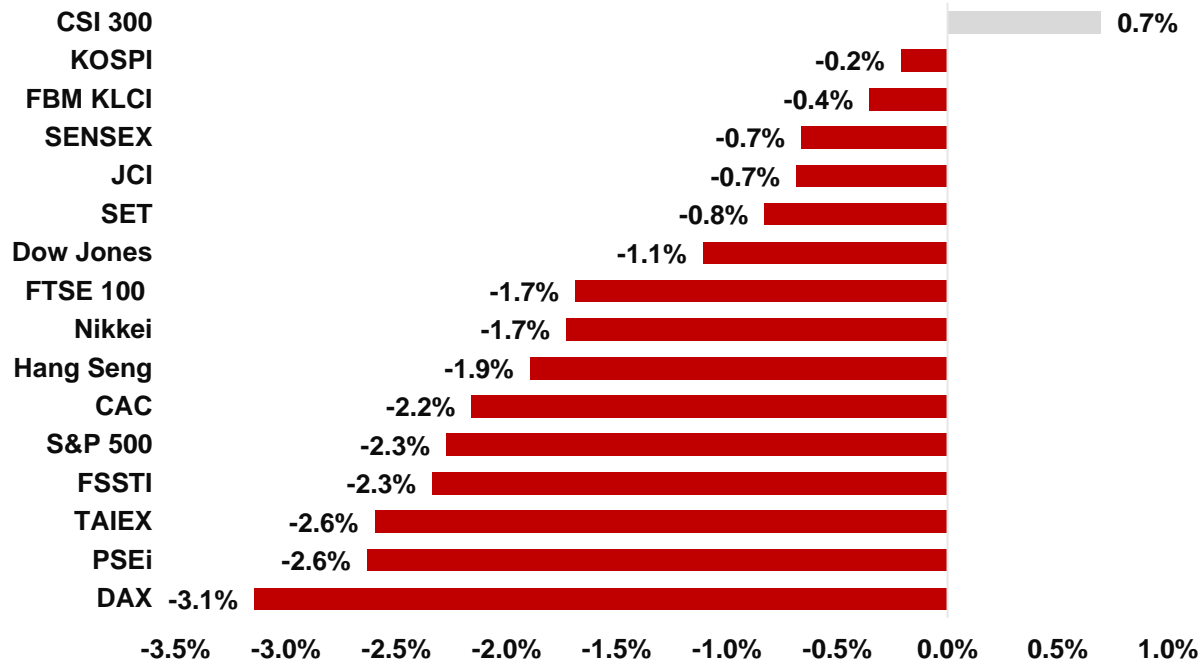
### U.S. Unemployment Rate, %



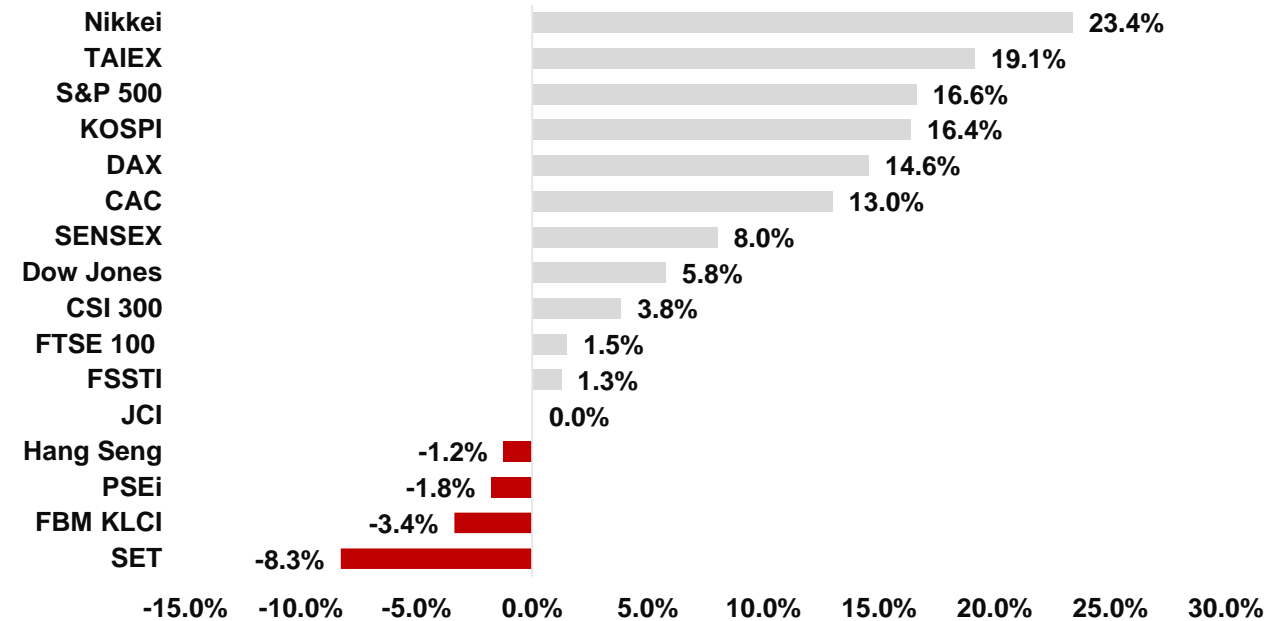
Sources: U.S Bureau of Labor Statistics, U.S. Department of Labor

# REGIONAL EQUITY: SEA OF RED ACROSS GLOBAL STOCK MARKET, WEIGHED DOWN BY U.S. CREDIT RATING DOWNGRADE

Weekly Gain/Loss of Major Equity Market, w-o-w%



YTD Gain/Loss of Major Equity Markets, %  
(As of 4 August 2023)

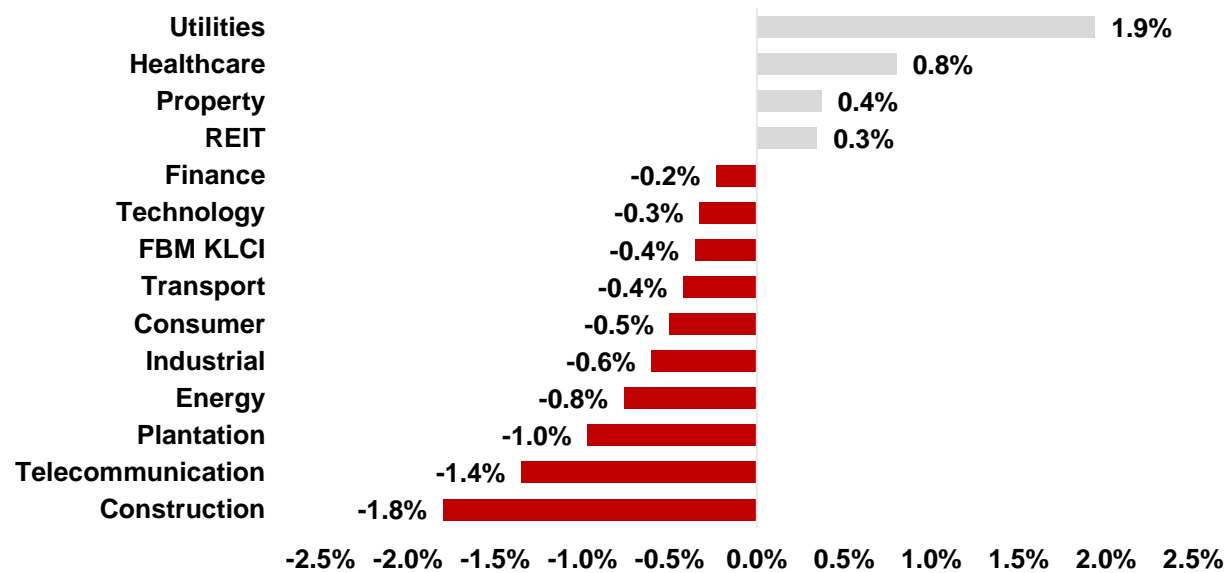


Sources: Bursa, CEIC

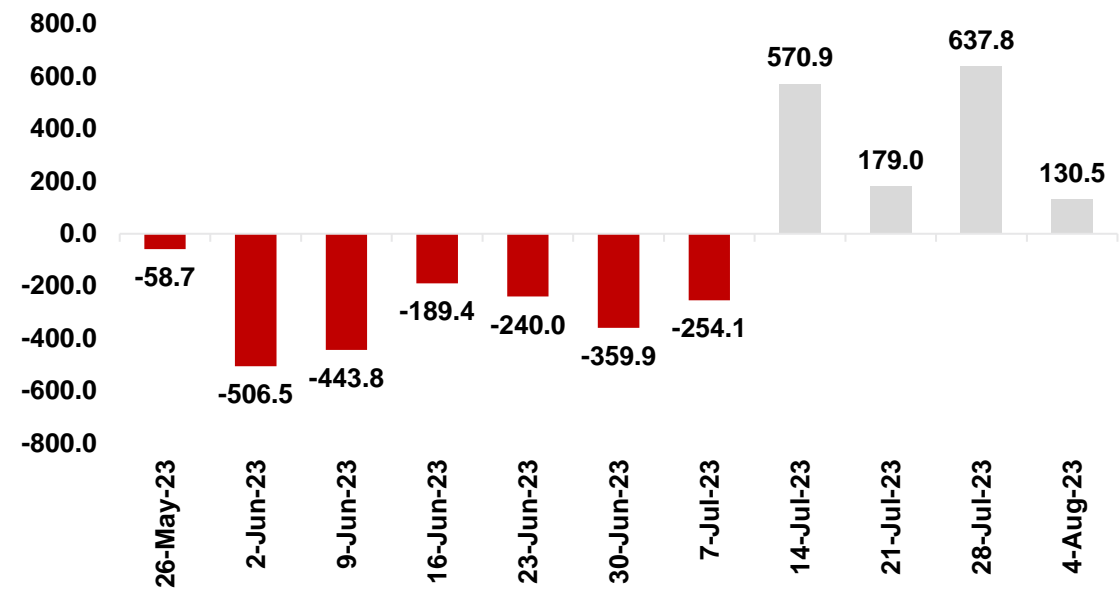
- Overall, the global stock market plunged to the red sea, with Germany’s DAX leading the losers by a 3.1% drop, followed closely by both Philippines’ PSEi and Taiwan’s TAIEX, which dropped by 2.6%.
- In contrast, China’s CSI 300 jumped by 0.7%, being the only gainer for the week ending August 4 amid investors’ hope for further stimulus.
- Regional benchmark indices were pressured during the week as the downgrade in U.S. credit rating from “AAA” to “AA+” by the Fitch sparked a flight to haven assets.
- Investors’ risk appetites were also sapped by the Bank of England (BoE) and the European Central Bank (ECB) remarks that interest rates will likely stay elevated for longer.

# DOMESTIC EQUITY: LOCAL STOCKS RETREATED AMID RISK OFF SENTIMENT

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, Bank Negara Malaysia (BNM), CEIC

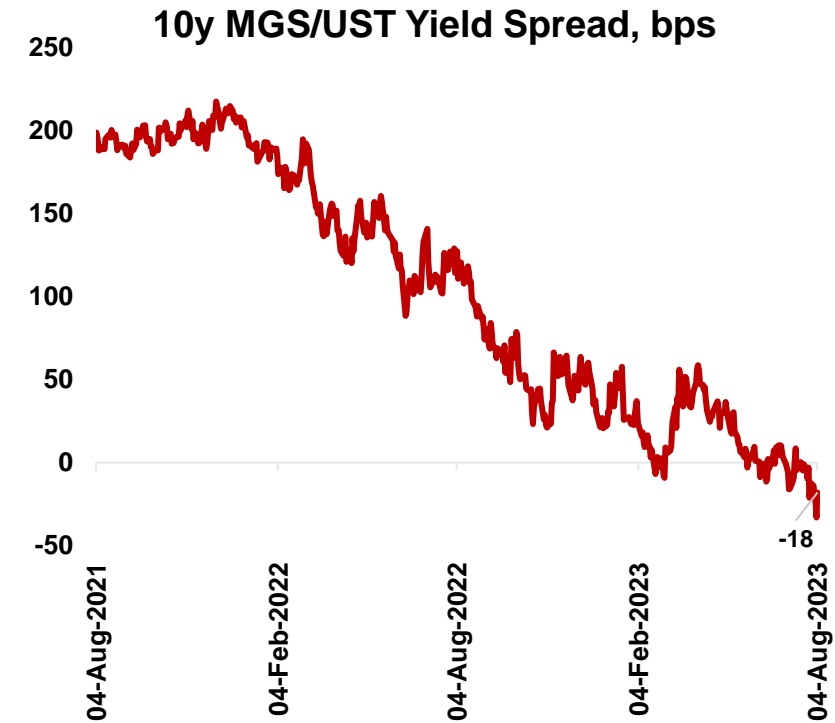
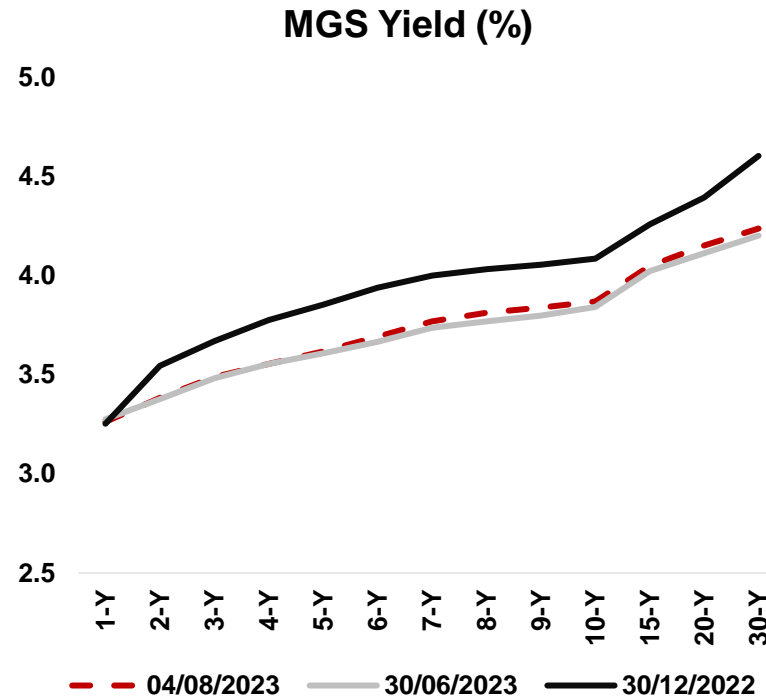
- Most Bursa sectoral indices were in the red for the week ending August 4 on profit-taking activities. The Construction index led the losses with a 1.8% drop, followed by Telecommunication (-1.4%) and Plantation (-1.0%).
- Only the Utilities (1.9%), Healthcare (0.8%), Property (0.4%), and REIT (0.3%) indices registered gains.
- Investors' risk appetites were partly undermined by the U.S. sovereign credit rating downgrade by Fitch. We expect the local sentiment to remain tepid ahead of the upcoming six state elections on August 12.
- Foreign investors extended buying for the fourth straight week, albeit at a more moderate pace at RM130.0 million compared to last week's RM 637.8 million. The buying reduced the cumulative total net outflow this year to RM2.9 billion.

# FIXED INCOME: UST YIELDS ENDED MIXED AMID THE COOLING OF U.S. JOBS MARKET

## Weekly Changes, basis points (bps)

UST	Yields (%) 28-Jul-23	Yields (%) 4-Aug-23	Change (bps)
3-Y UST	4.52	4.45	-7
5-Y UST	4.18	4.15	-3
7-Y UST	4.08	4.10	2
10-Y UST	3.96	4.05	9
MGS	Yields (%) 28-Jul-23	Yields (%) 4-Aug-23	Change (bps)
3-Y MGS	3.48	3.49	1
5-Y MGS	3.60	3.62	2
7-Y MGS	3.75	3.77	2
10-Y MGS	3.84	3.87	3
GII	Yields (%) 28-Jul-23	Yields (%) 4-Aug-23	Change (bps)
3-Y GII	3.47	3.50	3
5-Y GII	3.65	3.67	2
7-Y GII	3.80	3.81	1
10-Y GII	3.88	3.88	0

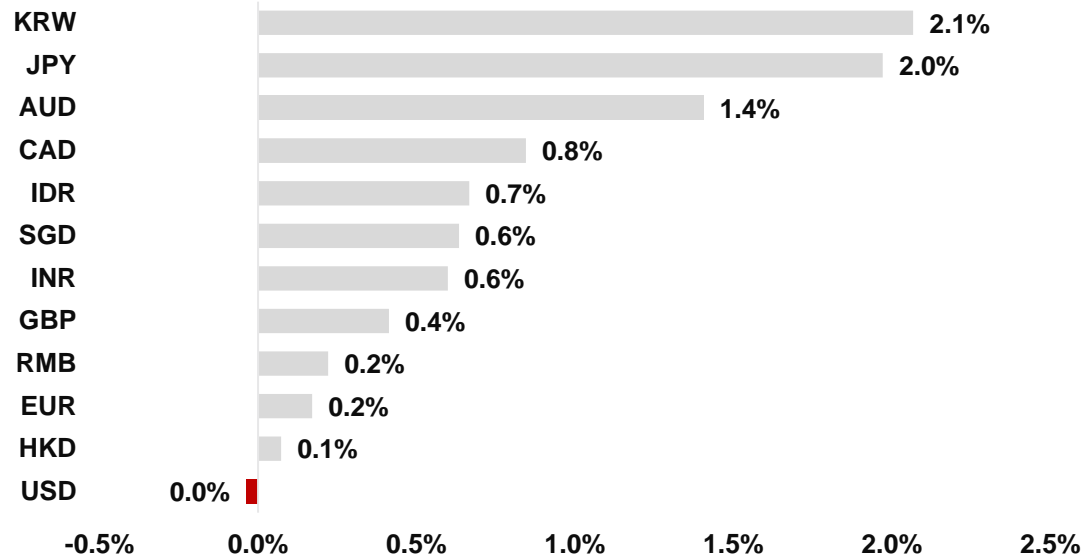
Sources: BNM, Federal Reserve Board



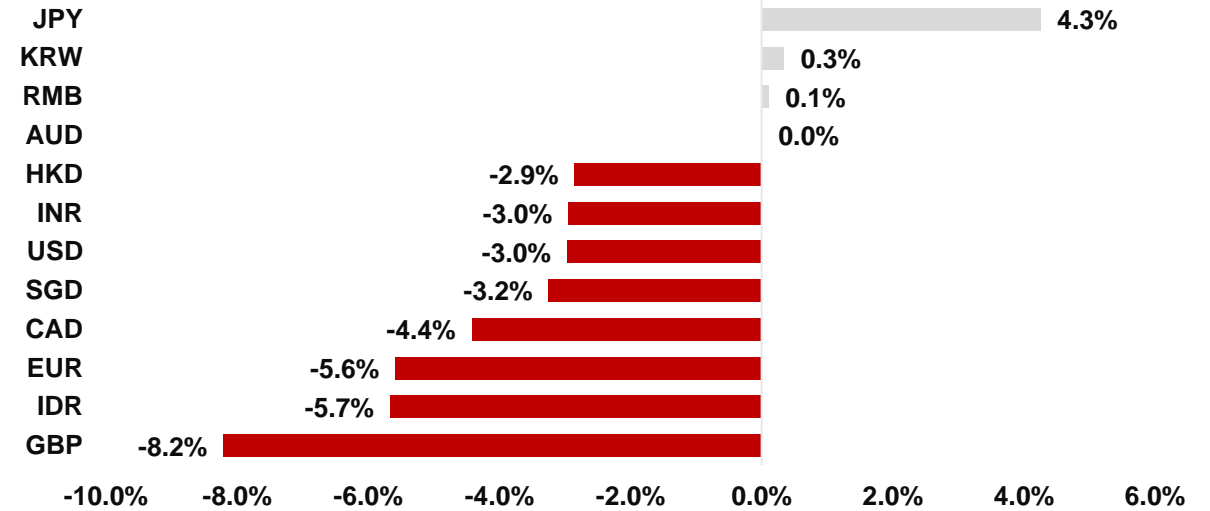
- The U.S. Treasury (UST) ended mixed last week. Buying skewed towards the shorter-term notes, with 3-Y and 5-Y UST yields falling 7bps and 3bps, respectively. On the other hand, 7-Y and 10-Y UST yields jumped between 2bps and 9bps.
- The buying of the short-end of the curve was partly driven by increased investors' bets that the U.S Federal Reserve (Fed) will stand pat in the upcoming Federal Open Market Committee (FOMC) meeting in September after the latest U.S. jobs report showed signs of cooling. On the other hand, sell-off at the belly to the longer-end of the curve reflects rising expectations that the Fed's rate tightening will lead to a recession.
- On the domestic front, Malaysian Government Securities (MGS) yield curve bearishly steepened in the range of 1bp and 3bps. Meanwhile, the yield curve of Government Investment Issues (GII) bearishly flattened between 0 to 3bps.
- The 10y MGS/UST yield spread widened to -18bps, relative to -12bps in the previous week.

# FX MARKET: THE RINGGIT REMAINS UNDER PRESSURE AGAINST THE USD THIS WEEK, AHEAD OF THE U.S. JULY CPI REPORT

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD% (As of 4 August 2023)



Source: BNM

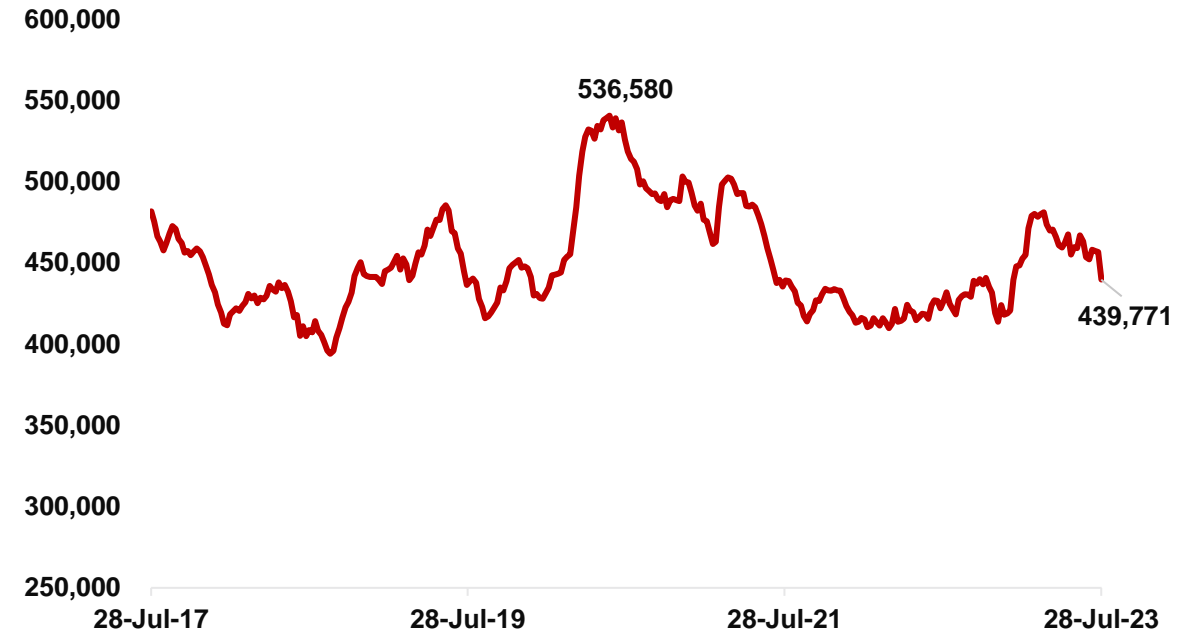
- The Ringgit closed flat at RM4.5480 for the week ending August 4 compared to RM4.5463 the previous week. Be that as it may, the local note depreciated slightly against the greenback as the USD index strengthened around the 102 level.
- The recent Fitch’s downgrade of U.S. sovereign debt from “AAA” to “AA+” has spurred haven demand for USD, which pressured emerging currencies, including the Ringgit, during the week.
- Looking ahead, we foresee that the attention will likely shift to the upcoming U.S. July CPI number, setting the tone for the USD this week. Preliminary projections showed that market participants looked at 3.3% during the month (June: 3.0%). Should the inflation accelerate further, this could bolster the case for a September rate hike, boosting the USD further.

# COMMODITY: OIL PRICE POISED FOR SIXTH WEEKLY GAIN AS PRODUCERS PLEDGE FOR OUTPUT CUTS

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price was on track for its longest streak of weekly gain this year, boosted by Saudi Arabia and Russia's announcement to extend voluntary supply cuts through September. Meanwhile, OPEC+ kept its oil output policy unchanged in its recent meeting on August 4.
- Elsewhere, the latest EIA report showed that the crude inventories in the week of 28 July dropped by a record 17.0 million barrels to 439.8 million barrels from 456.8 million barrels in the previous week.

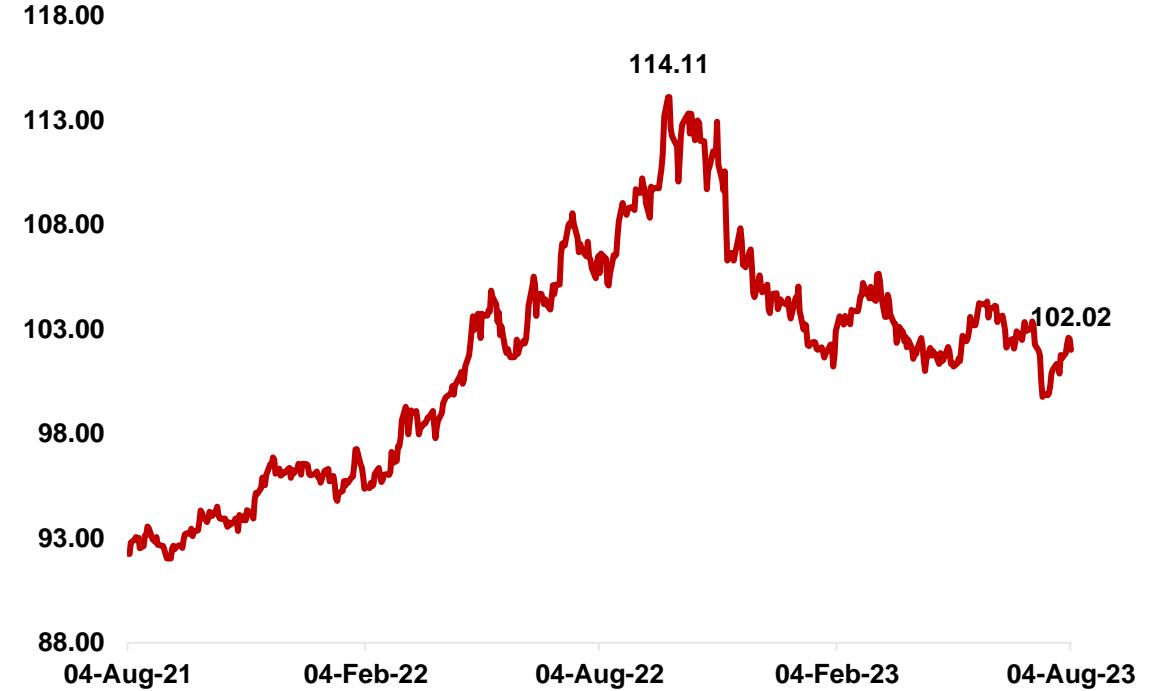


# COMMODITY: GOLD WITNESSED WEEKLY DECLINE AMID USD STRENGTH

### Gold in USD per ounce



### U.S. Dollar Index (DXY)



Sources: Bloomberg, Commodity Research Bureau

- Though the U.S July NFP data fell more than expected, the average hourly earnings saw a stronger-than-expected year-on-year (y-o-y) increase during the month (Act: 4.4% vs. Est: 4.2%), which could potentially allow the Fed to resume its rate hikes.
- This, in addition to the weakness in business activity in the Euro Area, has sparked a flight to safe haven currencies, triggering a slight uptick in the greenback, which supports the bullion price at a lower level.

# WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week will feature 2Q2023 GDP reports for the U.K., Indonesia, and the Philippines. The U.K. GDP growth is expected to be slightly positive in 2Q2023 after recording 0.1% growth for two consecutive quarters. The BoE, in its latest forecast, projected that the U.K. economy will likely stagnate through 2025. Meanwhile, Indonesia's GDP growth rose above consensus at 5.17% in 2Q2023 (1Q2023: 5.03%), thanks to higher household consumption and investment. However, growth is expected to moderate in 2Q2023 for Philippines amid higher inflation and tighter interest rates that sapped domestic demand and weaker exports. In 1Q2023, Philippines posted a steady growth of 6.4% (4Q2022: 7.1%).
- The U.S. will be reporting July CPI dataset, which will be closely watched for clues about whether the Fed's rate hiking cycle is nearing the end. The headline CPI growth is projected to rise marginally from 3.0% recorded in June due to a slightly larger base effect, while core CPI will likely hold steady at the lowest level since October 2021 (June: 4.8%). Any signs of higher inflation would bolster the case for an additional hike in the remainder of this year. As of the time of writing, market participants priced in a mere 13.5% chance of a rate hike at the upcoming Fed policy meeting on September 19-20, down from nearly 20.0% prior to the July U.S. NFP report that showed slower job creation than expected (July: 187k vs. June: 185k).
- It will be a heavy data week for China with trade, CPI, and Producer Price Index (PPI) reports. Both exports and imports of China will likely remain in contraction in July, reflecting domestic and external deteriorating demand. China's exports registered the steepest decline since February 2020 (June: -12.4% vs. May: -7.1%), while imports contracted for the fourth straight month (June: -6.8% vs. May: -4.5%). Meanwhile, China's July CPI is expected to change little following a flat reading recorded in June. Despite the recent rise in crude oil prices, China's July PPI will likely continue deflation (June: -5.4%), mirroring the weakness in China's manufacturing PMI and falling property prices.
- On the domestic front, quite a slew of data will be due this week, including industrial production, retail sales, and unemployment rate. Given signs of moderating demand, we expect a deceleration in Malaysia's June industrial production and retail sales growth. Industrial production rebounded at 4.7% in May (April: -3.3%), while retail sales slowed sharply to 5.0% (April: 12.9%). Meanwhile, the unemployment rate will likely remain flat at 3.5% in June, the same as in May. We expect the local bourse to trade cautiously amid this Saturday's state elections.

BANK ISLAM

**THANK YOU**