WEEKLY ECONOMIC UPDATE

9 OCTOBER 2023

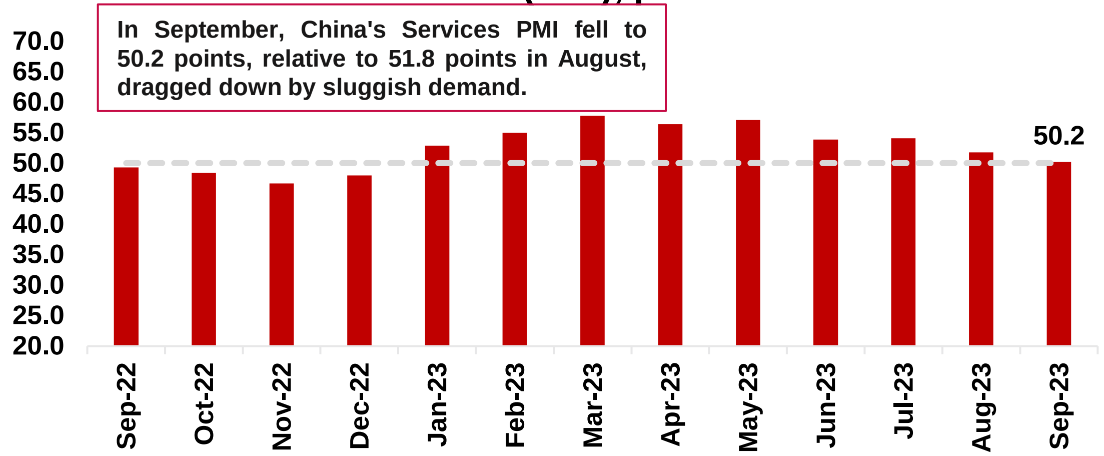
ECONOMIC RESEARCH

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

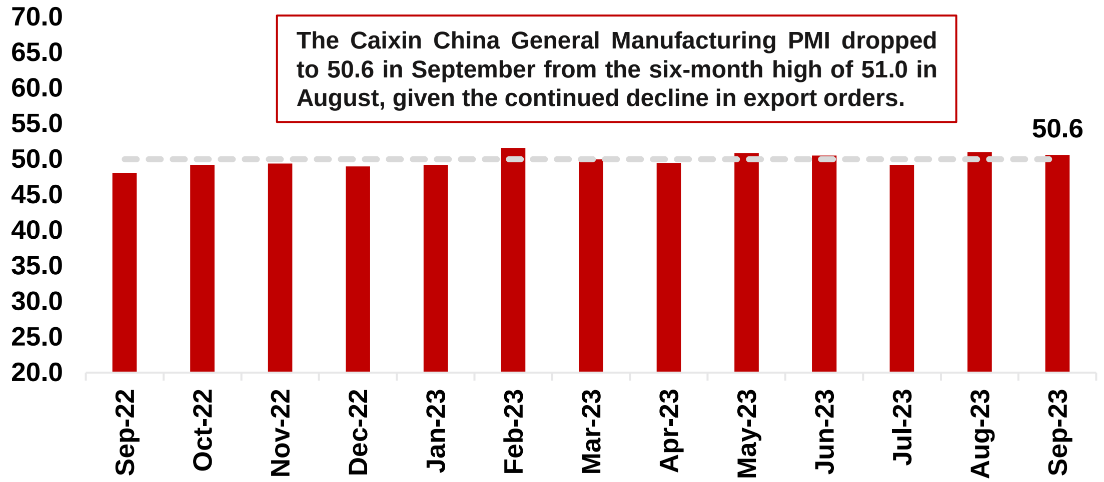
WEEKLY HIGHLIGHT: INFLATION EDGED LOWER IN INDONESIA AND THAILAND

GLOBAL

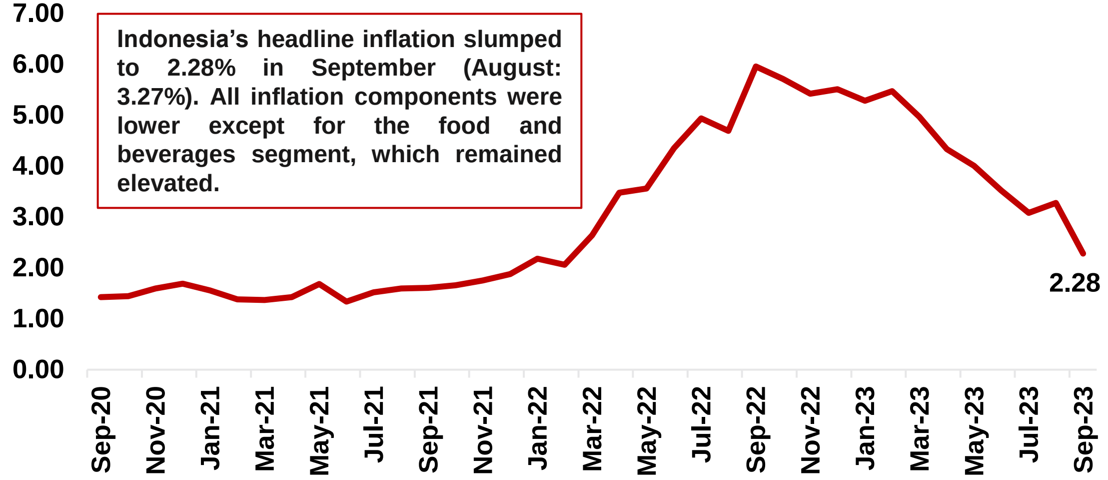
China - Caixin Services Purchasing Managers' Index (PMI), points



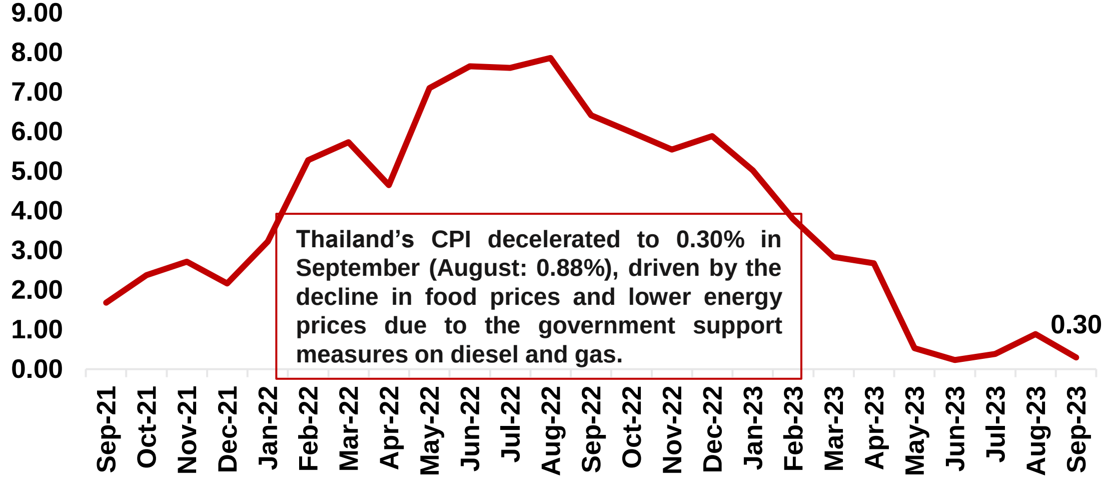
China - Caixin Manufacturing PMI, points



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



Thailand - CPI, y-o-y%

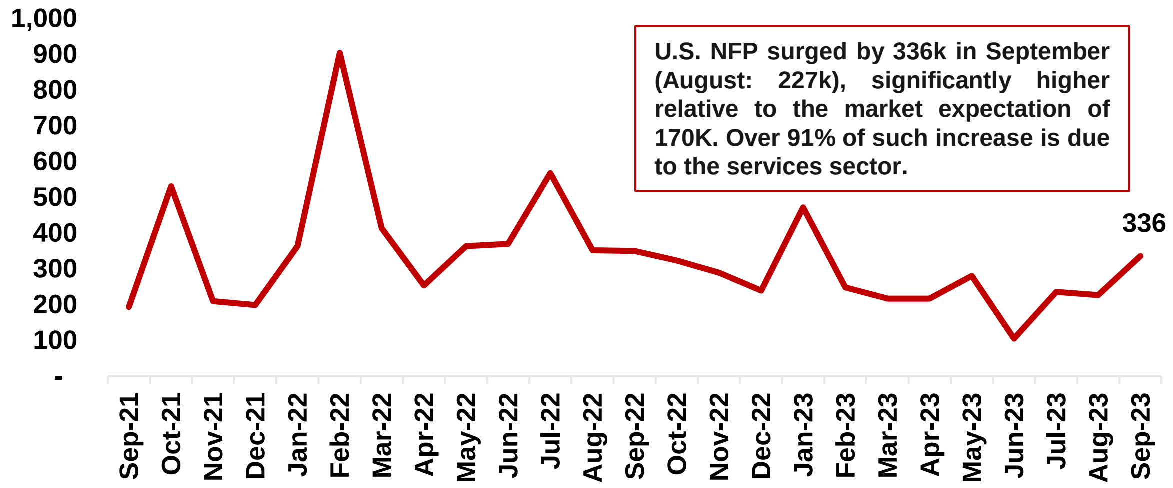


Sources: Markit Economics, Statistics Indonesia, Thailand Bureau of Trade and Economic Indices

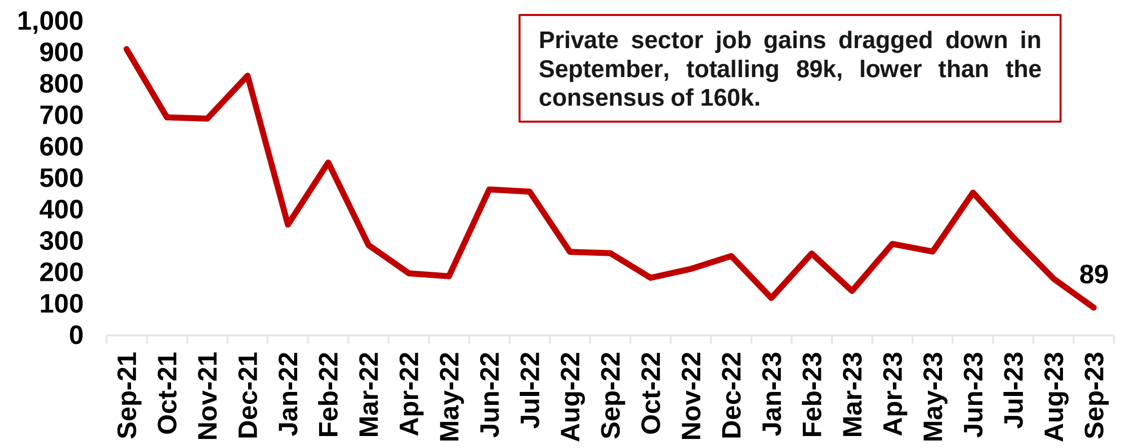
U.S. WEEKLY HIGHLIGHT: LABOUR MARKET PERFORMANCE SIGNALLED DURABLE U.S. ECONOMY

BANK ISLAM

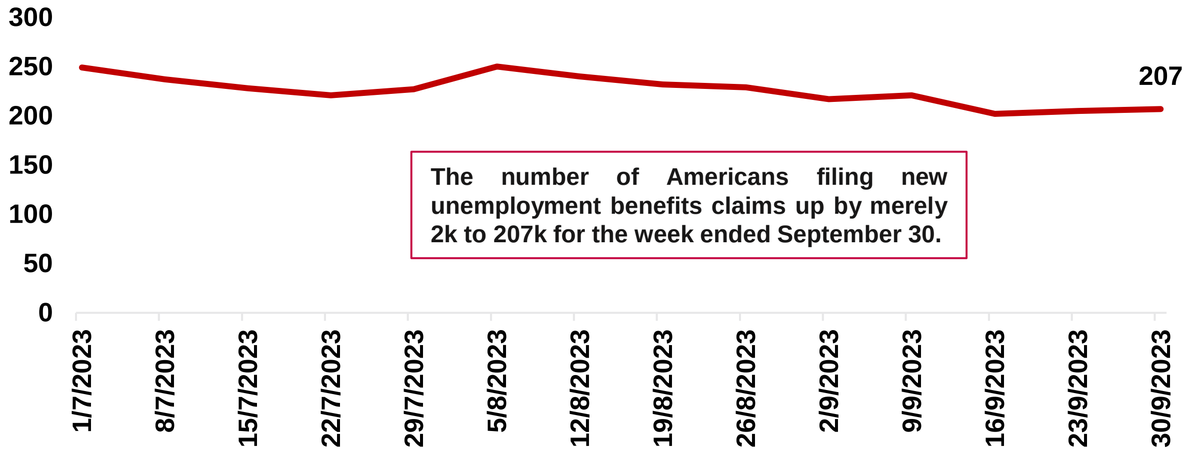
U.S. Non-Farm Payroll (NFP), m-o-m changes ('000)



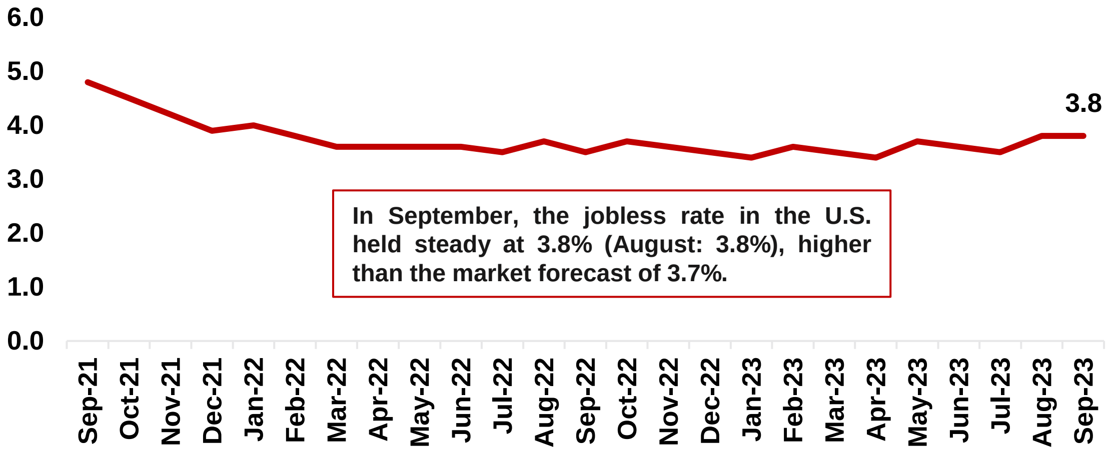
U.S. ADP Non-Farm Employment, m-o-m changes ('000)



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

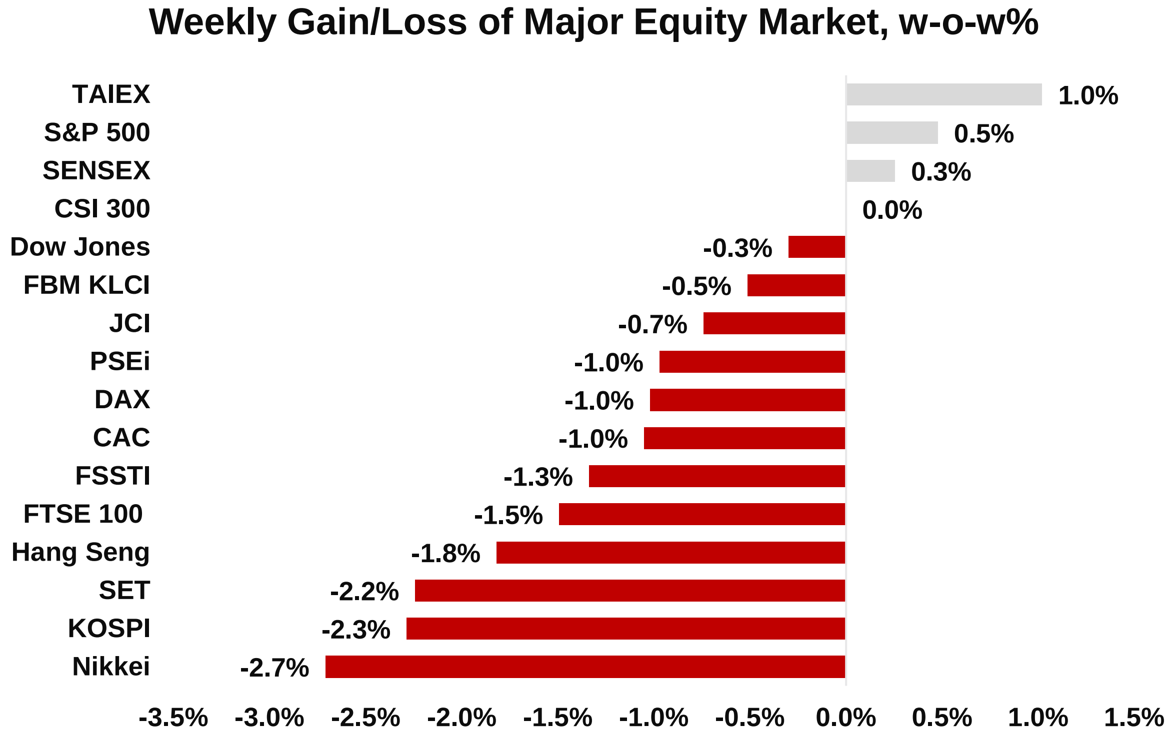


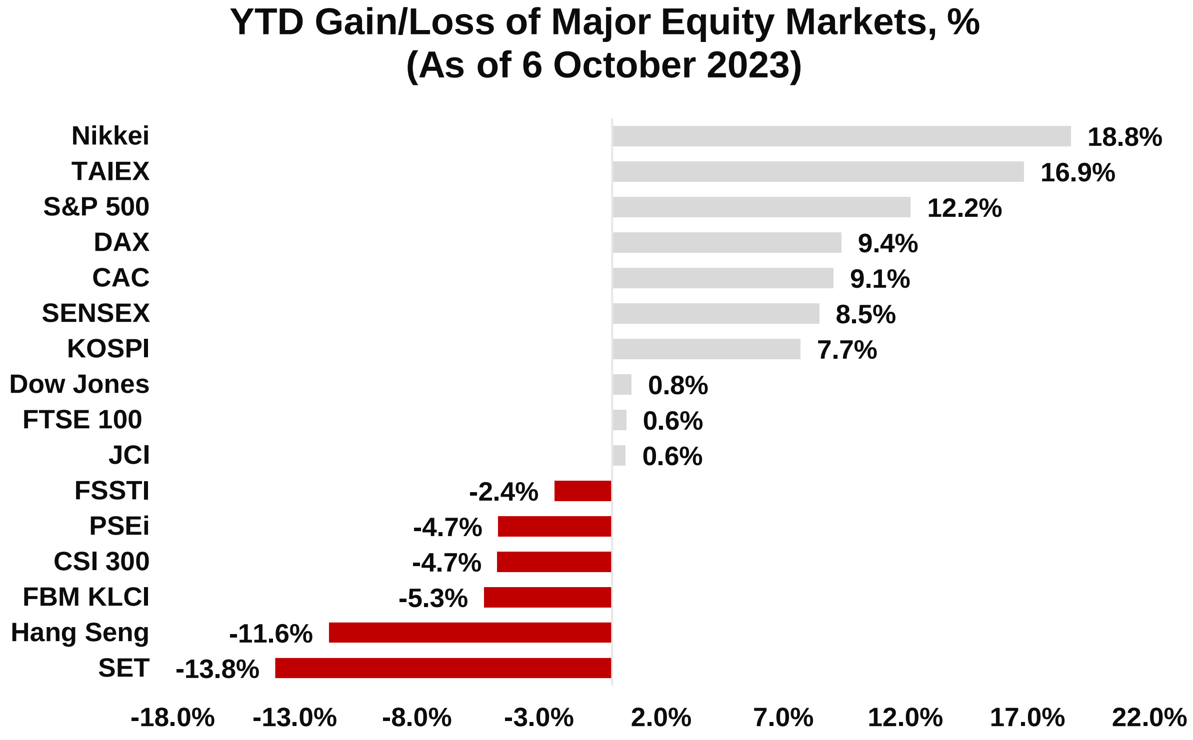
U.S. Unemployment Rate, %



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

REGIONAL EQUITY: GLOBAL STOCKS BROADLY IN RED AHEAD OF U.S. LABOUR DATA RELEASE



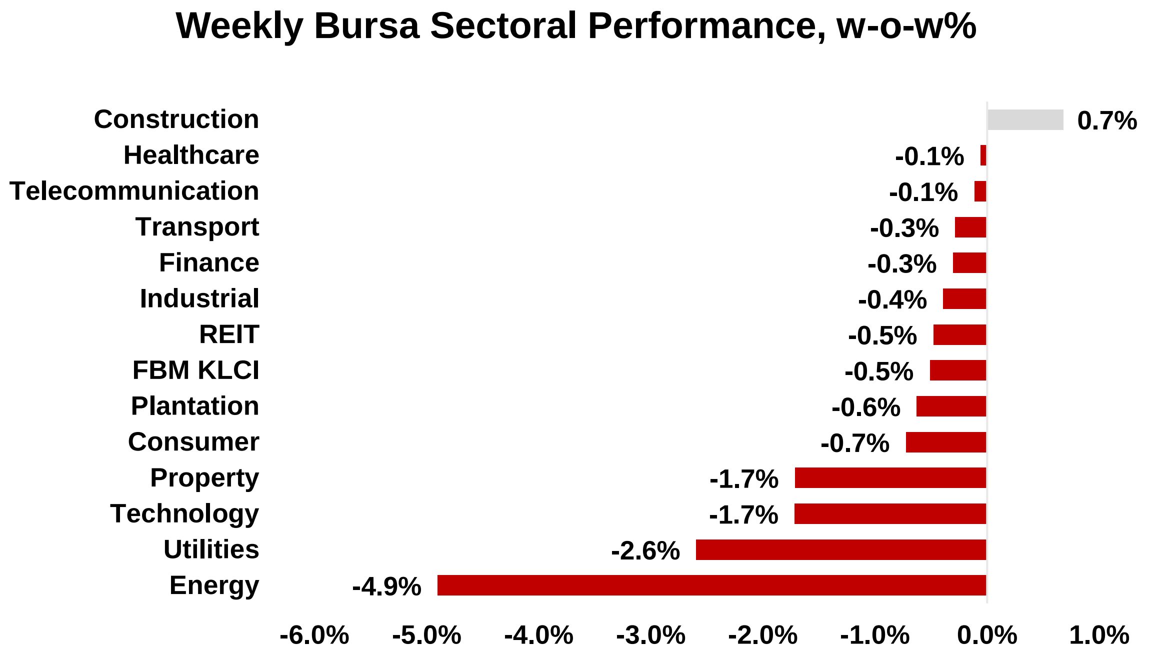


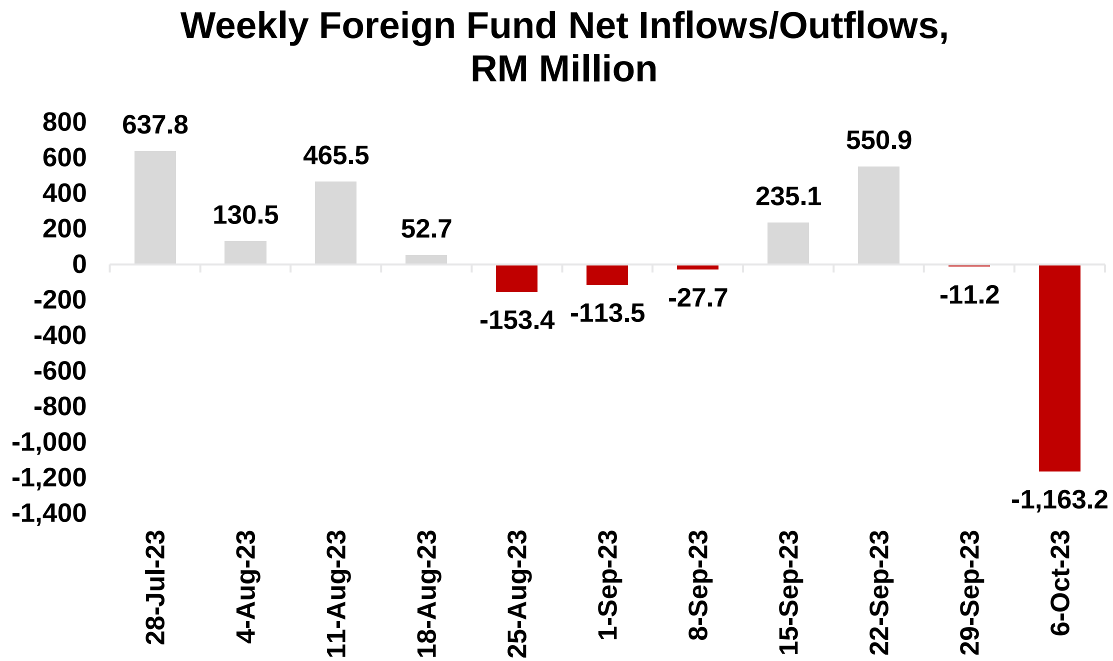
Sources: Bursa, CEIC Data

- The global stock market was broadly in the red for the week ended October 6, with Japan's Nikkei being the major loser with a contraction of 2.7%, dragged down by the heavyweight technology stocks, which consequently lowered Nikkei's YTD gain to below 20.0%.
- Other biggest losers were Korea's KOSPI (-2.3%) and Thailand's SET (-2.2%).
- Investors were in cautious mode ahead of the release of the U.S. jobs report for more clues on the U.S. Federal Reserve (Fed)'s future interest rate path. The latest U.S. jobs market data showed resilience in the economy, denoted by a surge of hiring in September despite the rising interest rates.
- In contrast, Taiwan's TAIEX (+1.0%), U.S. S&P 500 (+0.5%) and India's SENSEX (+0.3%) were the major gainers last week.

DOMESTIC EQUITY: LOCAL STOCKS SLIPPED AMID CAUTIOUS TRADING AHEAD OF THE BUDGET 2024 ANNOUNCEMENT

BANK ISLAM





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

- The FBM KLCI extended losses for the third consecutive week, shedding 0.5% in the week ending October 6, dragged by broad sectoral selling.
- The Energy index led the decliners with a 4.9% drop as Brent crude fell below USD90. This is followed by the Utilities (-2.6%) and Technology (-1.7%) indices.
- The only gainer was the Construction index (0.7%) as investors anticipated the announcement of infrastructure projects under the upcoming Budget 2024.
- Foreign investors accelerated their net selling to RM1.2 billion, the highest weekly outflow in more than three years, from RM11.2 million recorded in the previous week. The cumulative total net outflow this year thus far came in at RM3.1 billion.

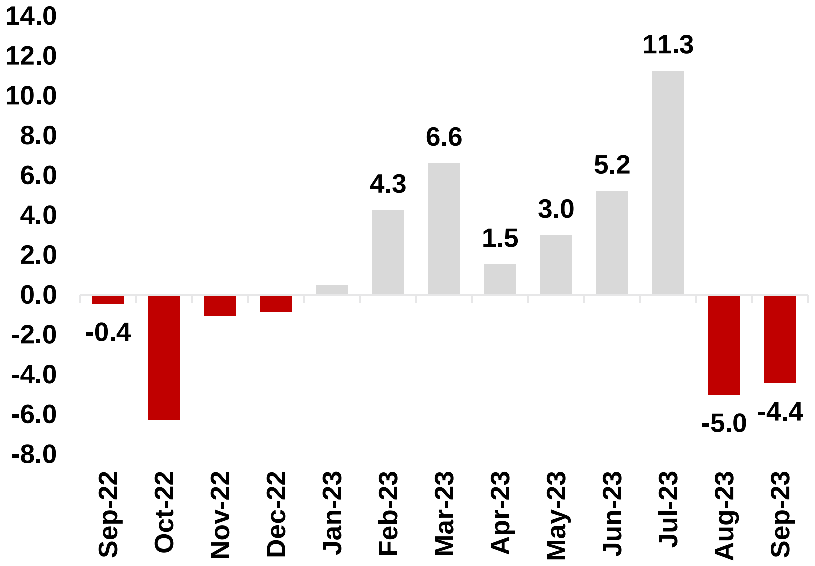
FIXED INCOME: FOREIGNERS CONTINUED AS NET SELLERS IN LOCAL BOND MARKET FOR TWO STRAIGHT MONTHS

Weekly Changes, basis points (bps)

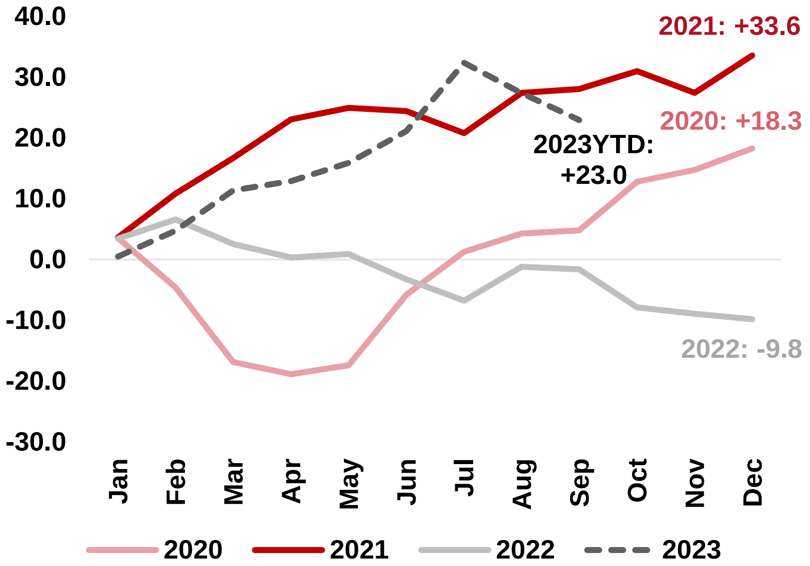
UST	Yields (%) 29-Sep-23	Yields (%) 6-Oct-23	Change (bps)
3-Y UST	4.80	4.87	7
5-Y UST	4.60	4.75	15
7-Y UST	4.61	4.79	18
10-Y UST	4.59	4.78	19
MGS	**Yields (%) 29-Sep-23**	**Yields (%) 6-Oct-23**	**Change (bps)**
3-Y MGS	3.58	3.67	9
5-Y MGS	3.72	3.82	9
7-Y MGS	3.89	4.01	12
10-Y MGS	3.98	4.09	11
GII	**Yields (%) 29-Sep-23**	**Yields (%) 6-Oct-23**	**Change (bps)**
3-Y GII	3.60	3.68	8
5-Y GII	3.80	3.85	5
7-Y GII	3.91	4.02	12
10-Y GII	4.01	4.11	10

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM Billion



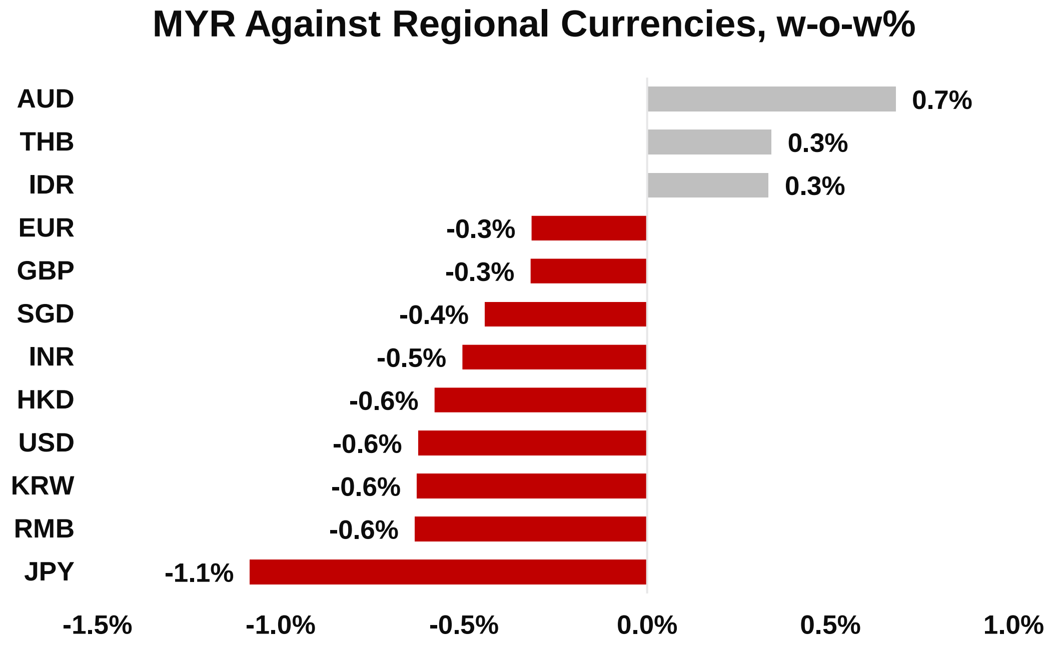
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)

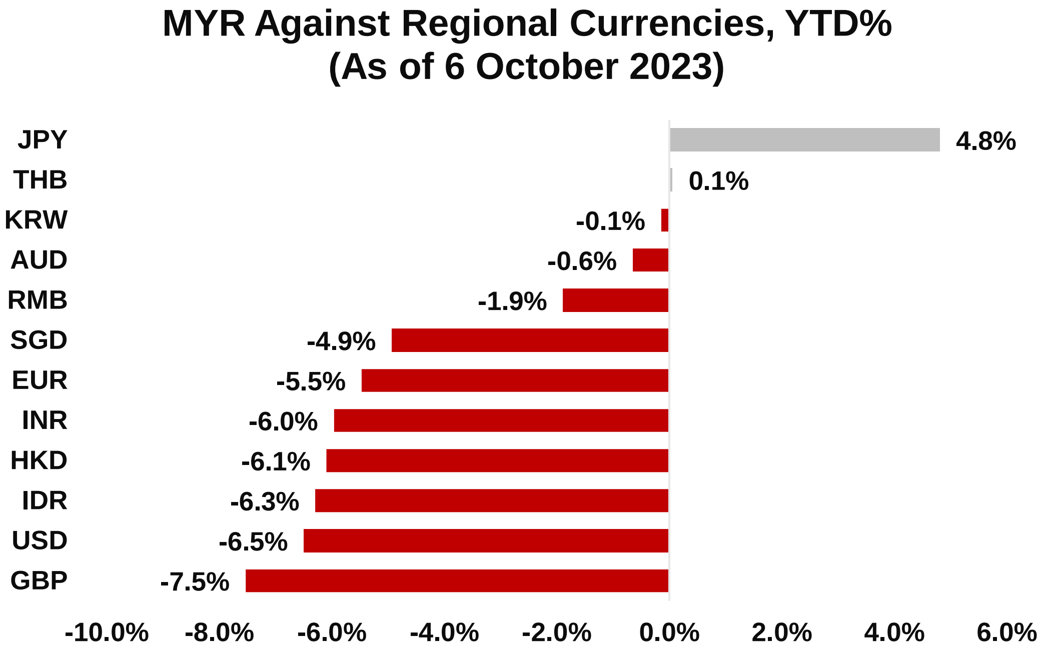


- The U.S. Treasury (UST) yields continued an upward trajectory last week as the yield curve bearishly steepened between 7bps and 19bps after the robust U.S. labour data in September, potentially leaving more room for Fed to keep U.S. borrowing costs elevated for a longer period.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) also moved in parallel with the UST as yields ended lower in the range of 5bps and 12bps.
- The local bond market logged a second consecutive month of net foreign outflows of RM4.4 billion in September, albeit marginally lower than the outflows of RM5.0 billion in August. Local govvies' foreign shareholdings to total outstanding dipped to 22.8% in September (August: 23.4%).
- The outflows reduced the cumulative net foreign inflows to RM23.0 billion for the first nine months of this year, although still higher than the outflows of RM1.6 billion in the same period in the previous year.

FX MARKET: MARKET TO FOCUS ON THE BUDGET 2024 ANNOUNCEMENT THIS WEEK FOR FURTHER SIGNALS ON THE ECONOMY

BANK ISLAM



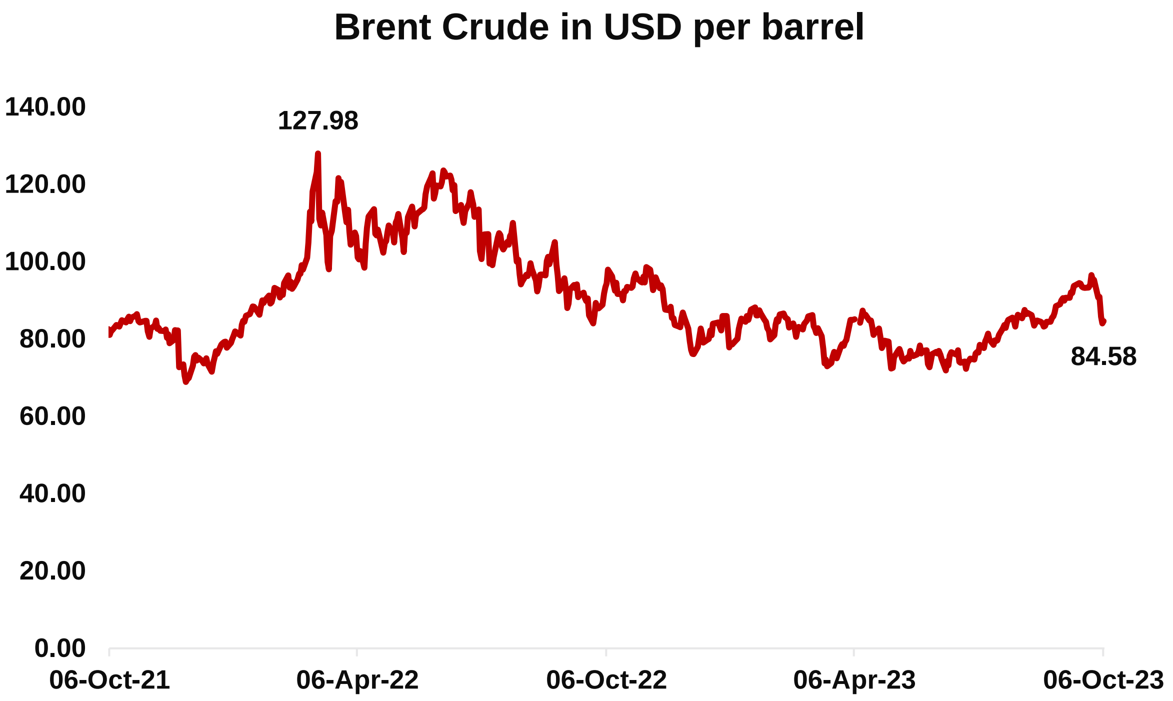


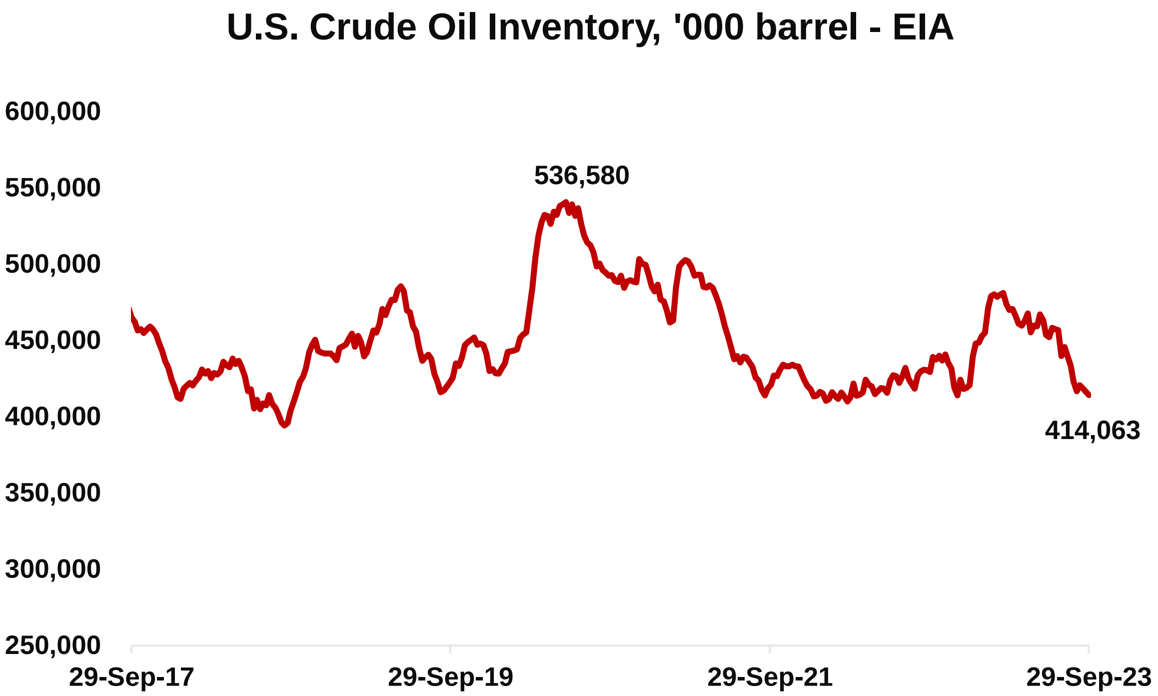
Source: Investing.com

- Despite the USD index ending on a softer note alongside the decline in UST yields, the Ringgit faced no reprieve, closing weaker for the week ending on 6 October at RM4.7195 compared to RM4.6900 in the previous week
- Of note, the local note briefly hit a one-year low of RM4.735 on October 4.
- Moving forward, we believe that the prospects of another Fed Funds Rate (FFR) hikes would continue to pressure the Ringgit.
- Additionally, market participants will be eyeing the tabling of Budget 2024 this Friday, where further details about the government's measures on lifting growth will be unveiled. These measures could determine the direction of the Ringgit moving forward.
- We posit that Ringgit is yet to rebound and end the year modestly at RM4.55.

COMMODITY: OIL PRICE RETREATED FROM RECENT HIGHS AS DEMAND FALTERS

BANK ISLAM



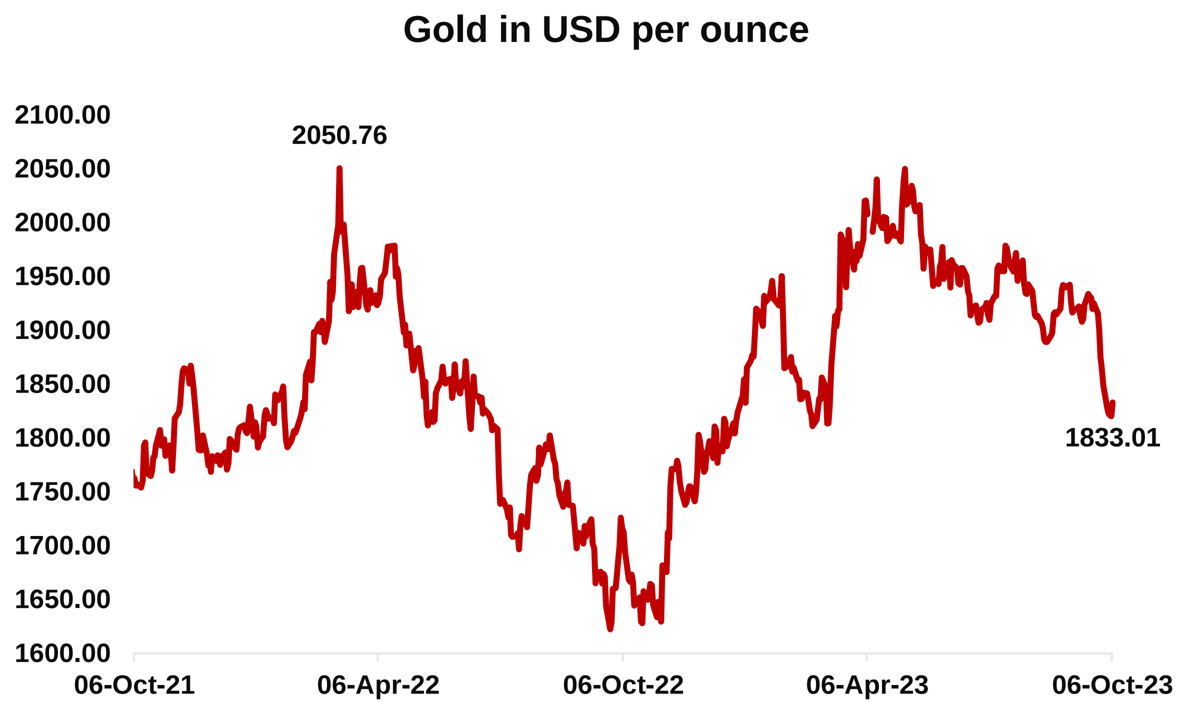


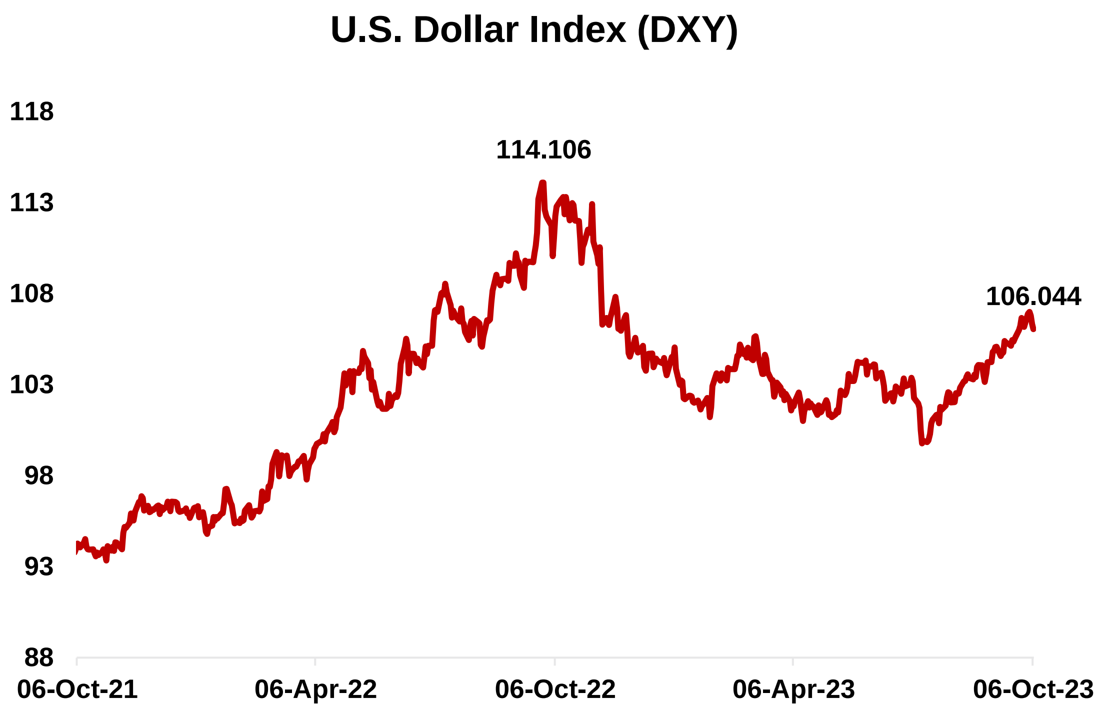
Sources: Bloomberg, Energy Information Administration (EIA)

- Oil prices fell to USD84.6 per barrel on the week ended October 6 as concerns that the demand could deteriorate further emerged following the strongly upward movement in oil prices in the previous week. Additionally, the anticipation of the Russian government lifting its export restrictions on diesel helped in cooling the price.
- There were worries that the oil price might breach USD100.0 per barrel this year given the declining U.S. crude oil inventories, extended production cut by Saudi Arabia and Russia, as the rebound of manufacturing activity in China.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY DECLINE AMID STRONGER-THAN-EXPECTED U.S. JOB DATA

BANK ISLAM





Sources: Bloomberg, Commodity Research Bureau

- The bullion price had been trending lower last week despite the USD retreating, both recording declines of 0.8% and 0.1%, respectively.
- Pressure on the bullion came from the stronger U.S. employment data, with the non-farm payrolls (Act: 336k vs. Est: 170k) rising higher than expected in September.
- However, we foresee increased demand for gold as the recent geopolitical conflict in Gaza could lead to investors fleeing to safe-haven assets.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

BANK ISLAM

- This week will feature several events that may impact U.S. rate hike expectations. These included the release of September Federal Open Market Committee (FOMC) meeting minutes and speeches by some Fed officials, all of which will be closely watched for more clarity on what would warrant a rate hike in the eyes of the Fed. This followed the diverging views of Fed policymakers over the near-term monetary policy outlook in their recent remarks, with some stressing the need for higher interest rates to bring inflation back to the 2.0% target. In contrast, others said they had done enough. Market focus will also be on the U.S. inflation report for September, which is predicted to show an easing but sticky price pressures due to higher energy and food commodity prices.

- China's inflation and trade data for September, due this week, will be on investors' watch for any further signs of economic stabilisation following the government's efforts to support the economy. China's CPI inflation has bounced back to positive terrain with a marginal rise of 0.1% in August from a temporary slip into -0.3% in July. Deflation in the producer price index (PPI) also slowed to 3.0% in August, compared to a decline of 4.4% in July. In view of rising oil prices, market consensus points to an uptick in price pressures. Meanwhile, the contraction in both exports and imports of China is projected to soften from -8.8% and -7.3% in August, respectively.

- The Monetary Authority of Singapore (MAS) is widely expected to keep its monetary policy settings unchanged at the scheduled review this week as the central bank balances weaker growth with persistently high inflation. Flash 3Q2023 GDP estimate, also due this week, will likely show a continued muted activity, with the annual growth rate slightly above zero (2Q2023: 0.5%). Recent economic indicators suggested that the city-state's economic growth remained dragged by slowing non-oil domestic exports and declining industrial production. Meanwhile, Singapore's inflation has been decelerating but remained above the MAS' comfort zone.

- On the domestic front, Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim is slated to table Budget 2024 in Parliament this week. The upcoming Budget 2024 is expected to be expansionary but with a smaller fiscal deficit target as the government remains committed to the fiscal consolidation objective. In the 12th Malaysia Plan Mid-term Review, the government aims to reduce fiscal deficit to between 3.0% and 3.5% of GDP by 2025 (2023F: 5.0%, 2022: 5.6%). The Budget is anticipated to prioritise measures that are complementary to the New Industrial Master Plan (NIMP) 2030 and the National Energy Transition Roadmap (NETR) with goals of promoting economic development, boosting private investment and raising income. All eyes will also be on the targeted subsidy programme, and perhaps some minor revenue-generating ideas, which will likely be implemented in 2024.

THANK YOU