WEEKLY ECONOMIC UPDATE

11 DECEMBER 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: DEFLATION MODE IN CHINA AND THAILAND

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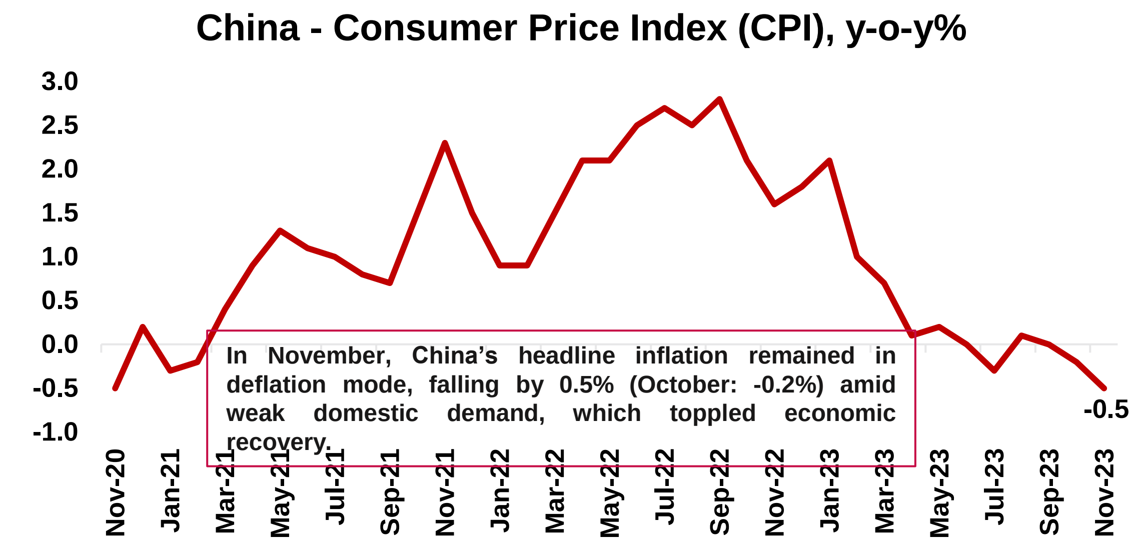
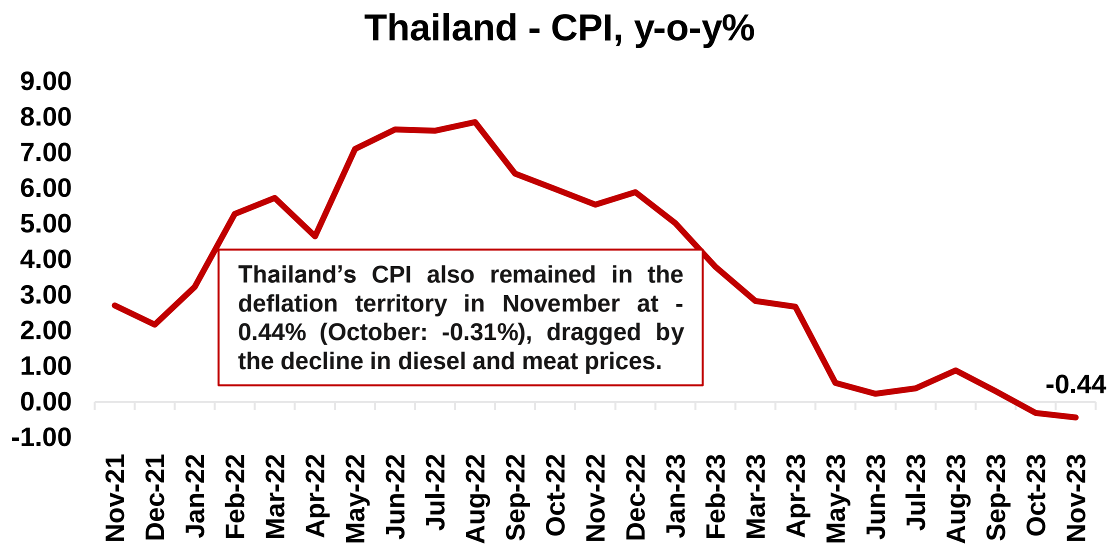
GLOBAL

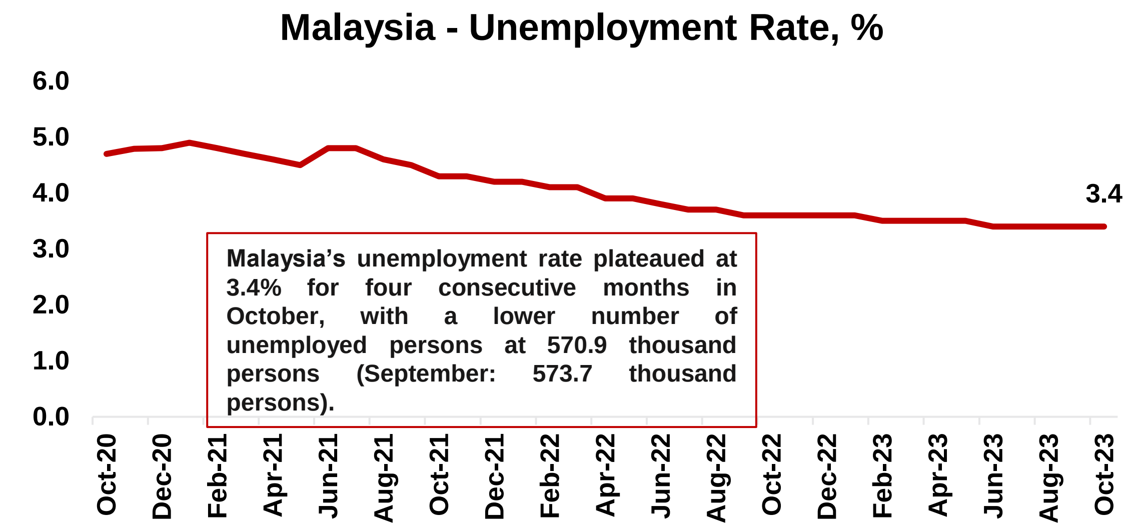


In November, China's headline inflation remained in deflation mode, falling by 0.5% (October: -0.2%) amid weak domestic demand, which toppled economic recovery.

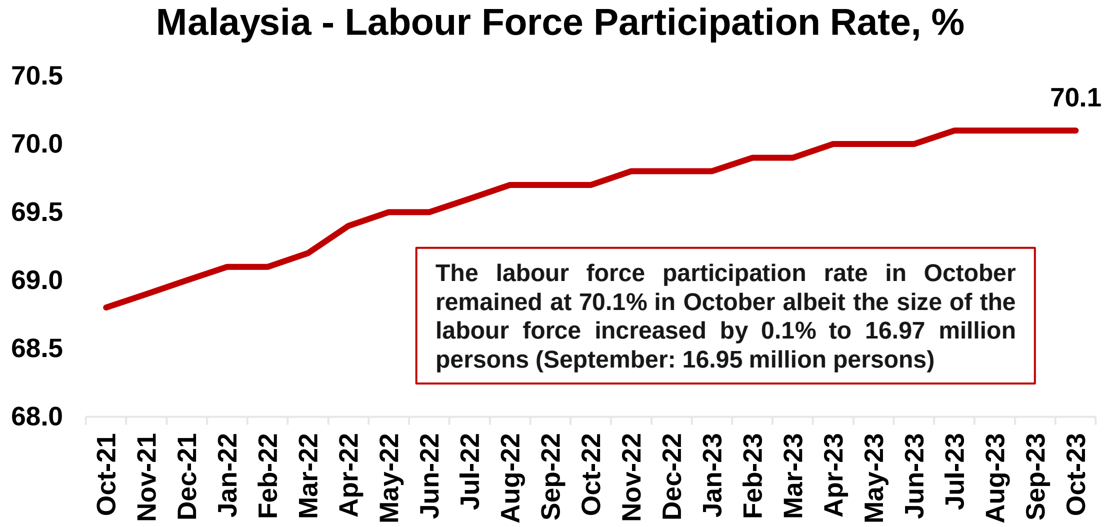


Thailand's CPI also remained in the deflation territory in November at -0.44% (October: -0.31%), dragged by the decline in diesel and meat prices.

DOMESTIC



Malaysia's unemployment rate plateaued at 3.4% for four consecutive months in October, with a lower number of unemployed persons at 570.9 thousand persons (September: 573.7 thousand persons).



The labour force participation rate in October remained at 70.1% in October albeit the size of the labour force increased by 0.1% to 16.97 million persons (September: 16.95 million persons)

Sources: National Bureau of Statistics, Thailand Bureau of Trade and Economic Indices, Department of Statistics Malaysia (DOSM)

U.S. WEEKLY HIGHLIGHT: HOT JOBS REPORT DAMPENED HOPES FOR AGGRESSIVE RATE CUTS

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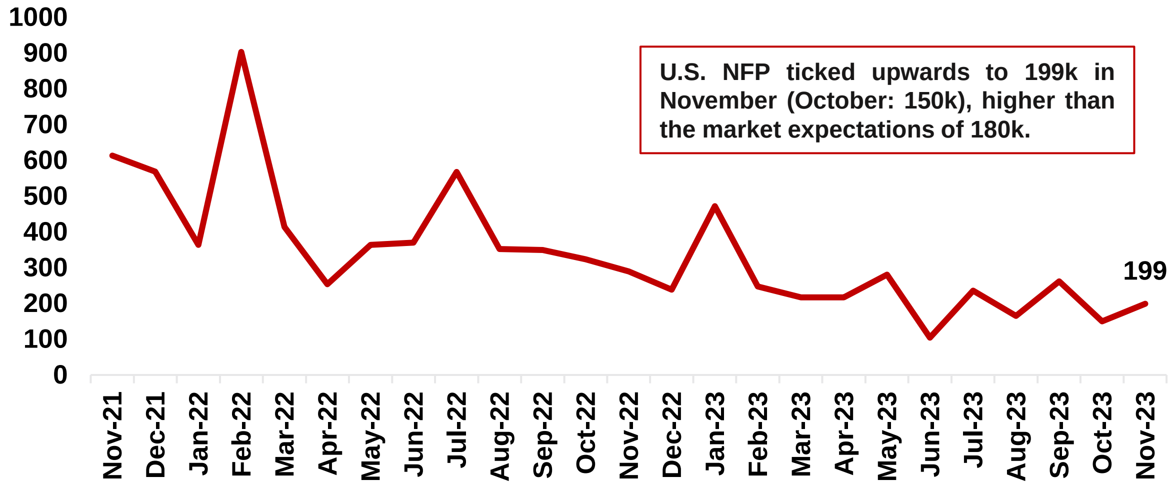
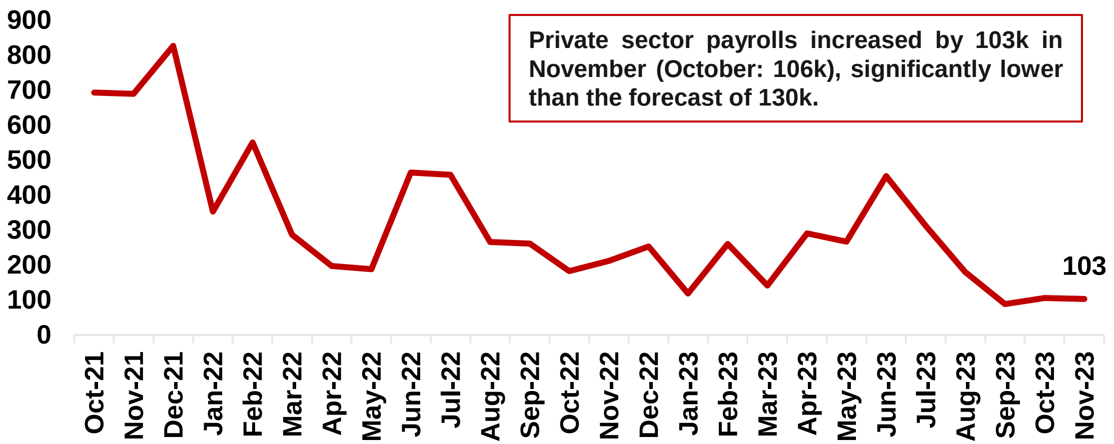
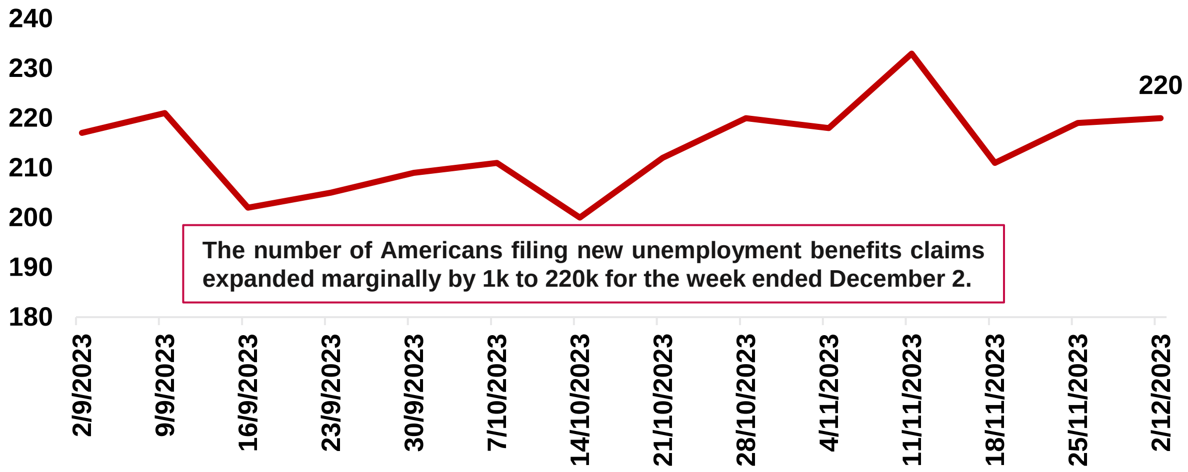
U.S. Non-Farm Payroll (NFP), m-o-m changes ('000)



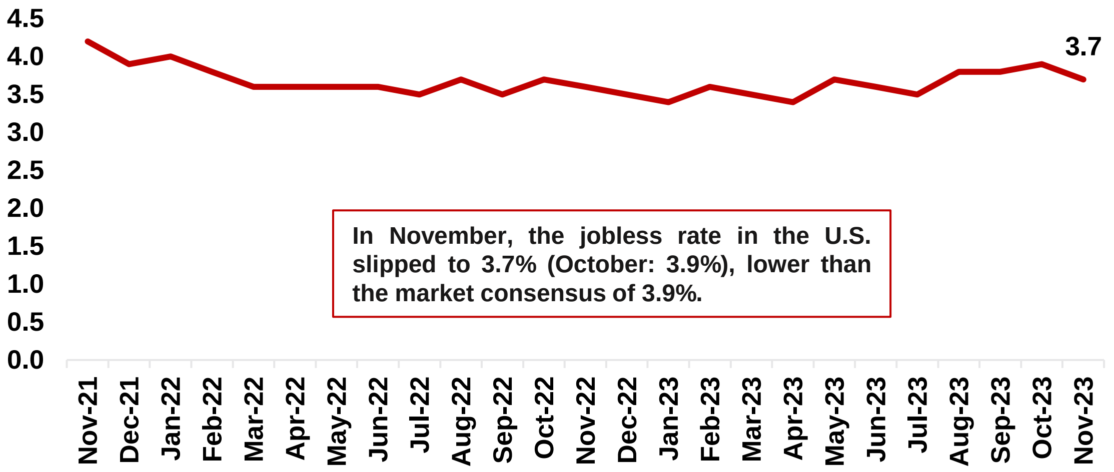
U.S. ADP Nonfarm Employment, m-o-m changes ('000)



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



U.S. Unemployment Rate, %



Sources: U.S Bureau of Labor Statistics (BLS), U.S. Department of Labor

REGIONAL EQUITY: MIXED PERFORMANCE OF GLOBAL STOCKS

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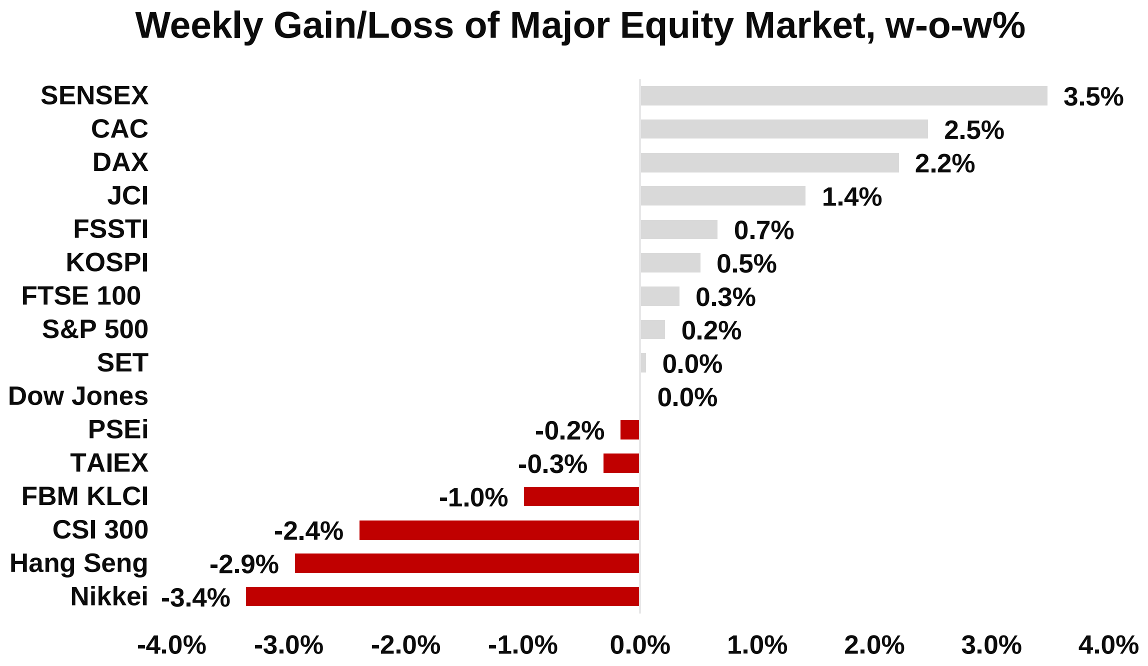

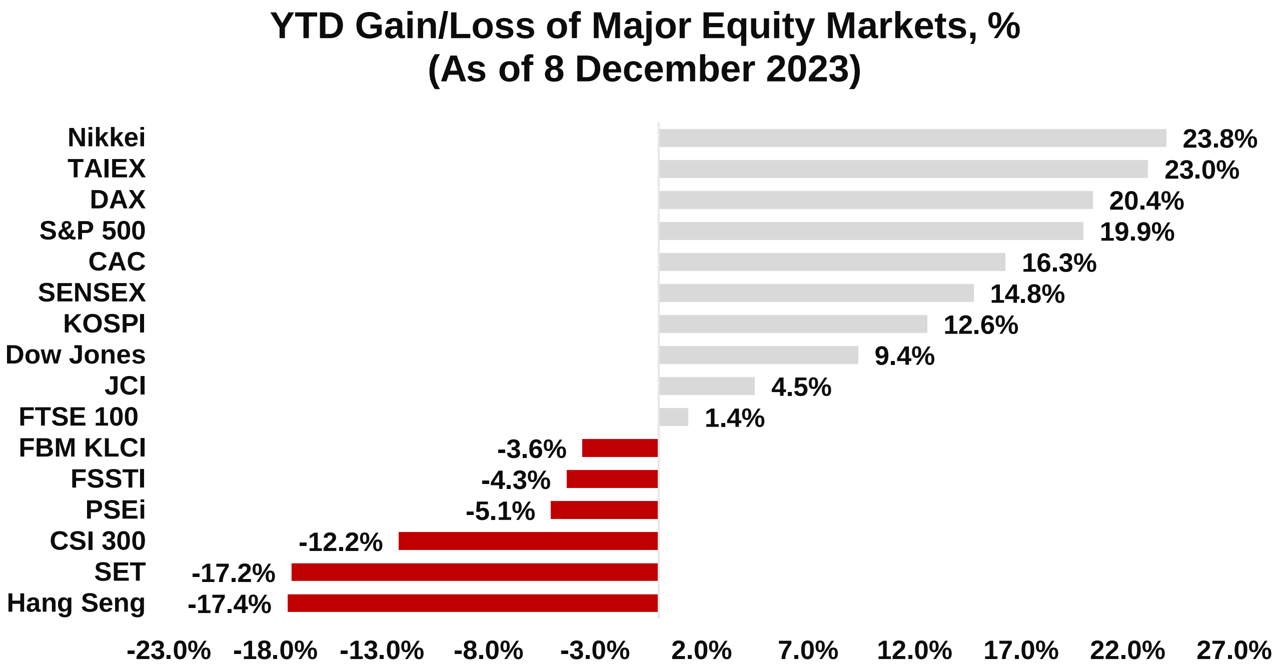

Sources: Bursa, CEIC Data

- Global benchmark indices showed mixed performance for the week ended December 8, with gains headed by India's SENSEX (+3.5%) as investors increased their exposure to stocks from emerging economies with high growth expectations.
- Other major winners were France's CAC (+2.5%) and Germany's DAX (+2.2%).
- Meanwhile, Asian shares were mostly in the red last week, led by Japan's Nikkei (-3.4%), driven by increasing bets over the forthcoming end to decade-old Bank of Japan (BOJ) stimulus measures.
- Among other major losers were Hong Kong's Hang Seng (-2.9%) and China's CSI 300 (-2.4%) as traders reacted to China's economic gloom and the slashed in credit outlook of China's sovereign rating by Moody's Investors Service.

DOMESTIC EQUITY: LOCAL STOCKS IN NEGATIVE TERRITORY AMID LACK OF CATALYSTS

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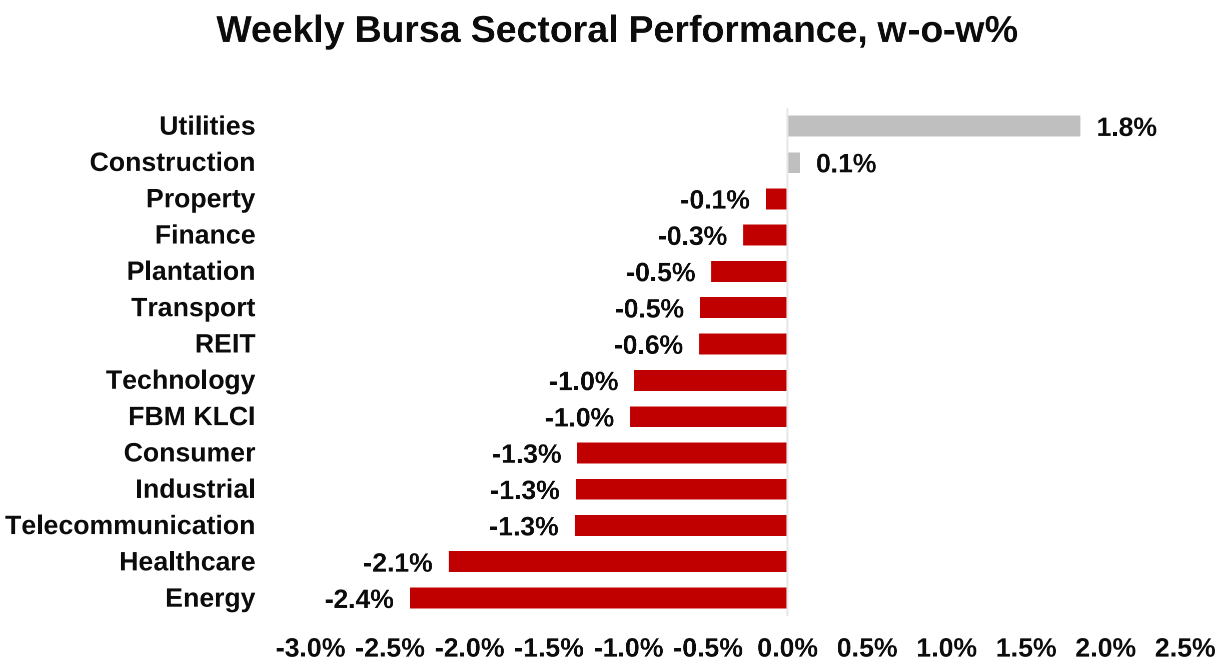

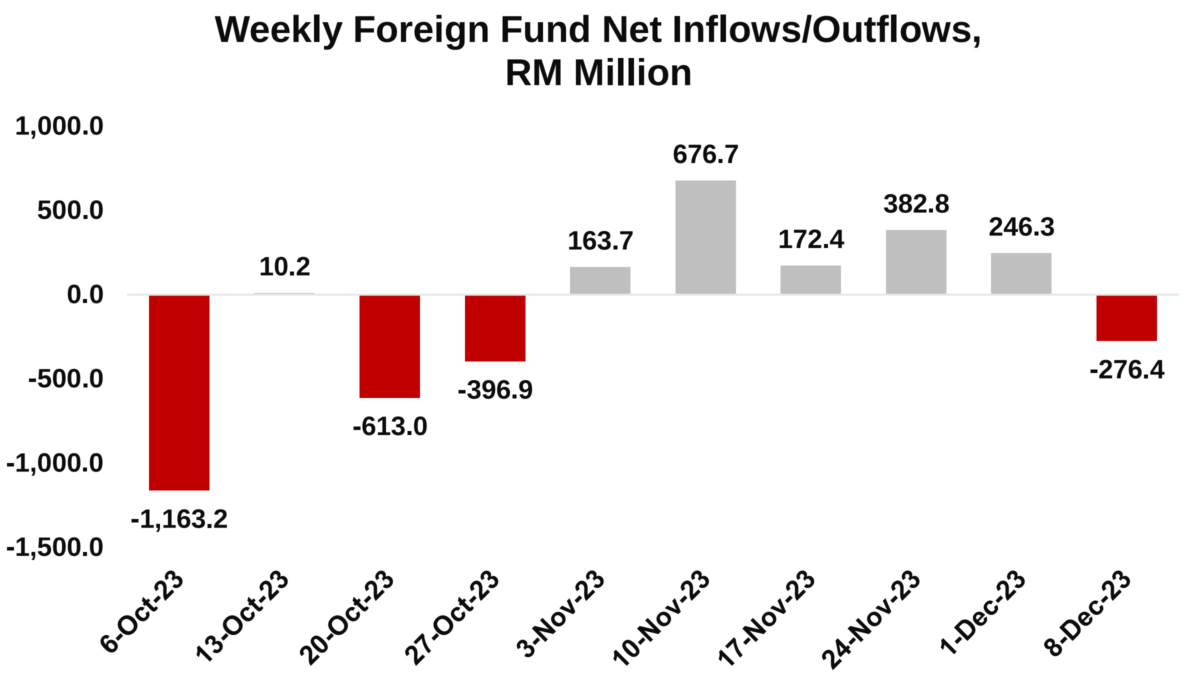

Sources: Bursa, Bank Negara Malaysia (BNM), CEIC Data

- The FBM KLCI ended on a negative note amid a mixed performance in the regional market, with most bursa sectoral indices closing in the red for the week ending December 8.
- Leading the losers was the Energy index (-2.4%) following the downtrend in crude oil prices, followed closely by the Healthcare index (-2.1%). Meanwhile, the sole gainers were the Utilities (+1.8%) and Construction indices (+0.1%).
- Foreign investors started shedding off local equities after five consecutive weeks of net buying, leading to a total net outflow of RM276.4 million for the week ending December 8. The selling increases the cumulative total net outflow this year thus far to RM2.7 billion.

FIXED INCOME: FOREIGNERS RETURNED AS NET BUYERS OF LOCAL BONDS

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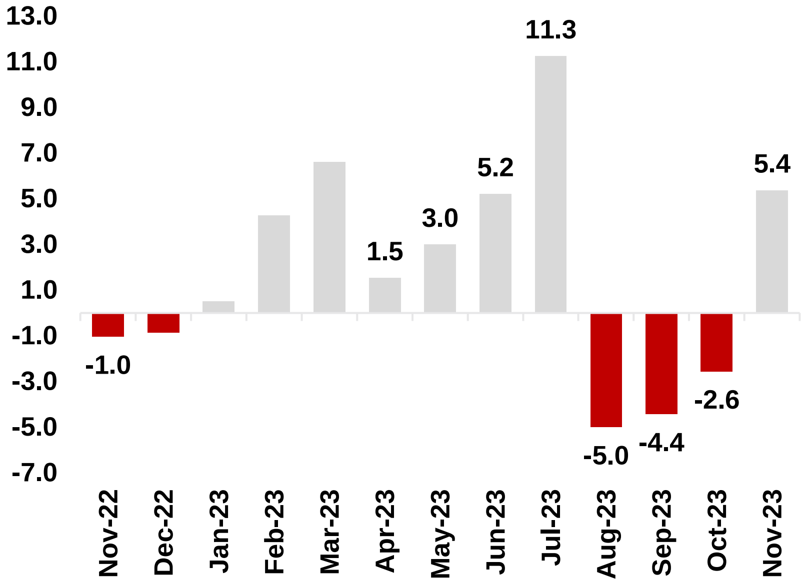
Weekly Changes, basis points (bps)

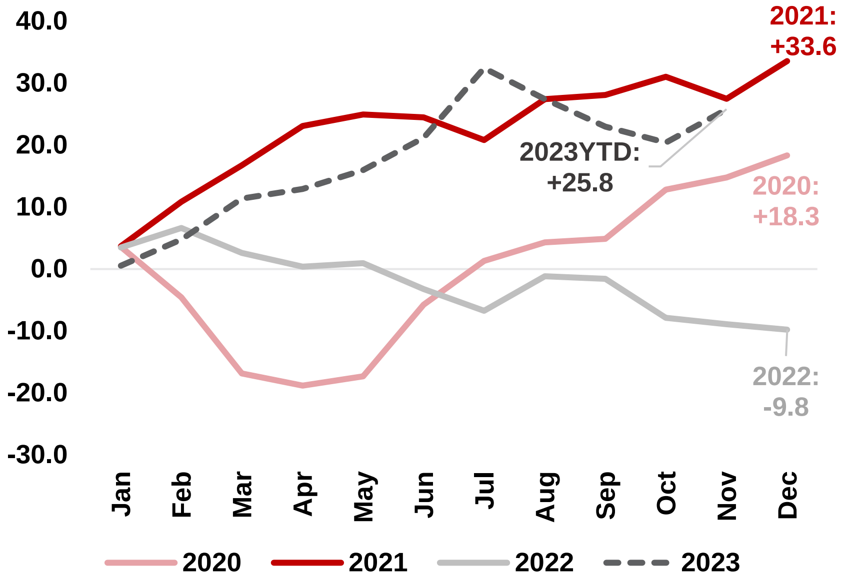
UST	Yields (%) 1-Dec-23	Yields (%) 8-Dec-23	Change (bps)
3-Y UST	4.31	4.45	14
5-Y UST	4.14	4.24	10
7-Y UST	4.22	4.28	6
10-Y UST	4.22	4.23	1
MGS	**Yields (%) 1-Dec-23**	**Yields (%) 8-Dec-23**	**Change (bps)**
3-Y MGS	3.48	3.49	1
5-Y MGS	3.62	3.58	-4
7-Y MGS	3.83	3.75	-8
10-Y MGS	3.83	3.74	-9
GII	**Yields (%) 1-Dec-23**	**Yields (%) 8-Dec-23**	**Change (bps)**
3-Y GII	3.56	3.52	-4
5-Y GII	3.69	3.63	-6
7-Y GII	3.87	3.78	-9
10-Y GII	3.88	3.82	-6

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) yield curve bearishly flattened, with yields rising between 1bp and 14bps after a strong jobs report, leading investors to pare their rate cut bets.
- In contrast, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields mostly ended lower in the range of 4bps and 9bps except for 3-Y MGS, which increased by 1bp last week.
- Foreign investors became net buyers in the local bond market with a net foreign inflow of RM5.4 billion in November (October: -RM2.6 billion) after three consecutive months of net outflows. Local govvies' foreign shareholdings to total outstanding edged higher to 22.9% in November (October: 22.4%).
- Consequently, the cumulative net foreign inflows for the first eleven months of this year improved to RM25.8 billion, significantly higher than the outflows of RM8.9 billion in the same period in the previous year.

FX MARKET: RINGGIT IS ANTICIPATED TO TRADE CAUTIOUSLY AHEAD OF THE FOMC MEETING THIS WEEK

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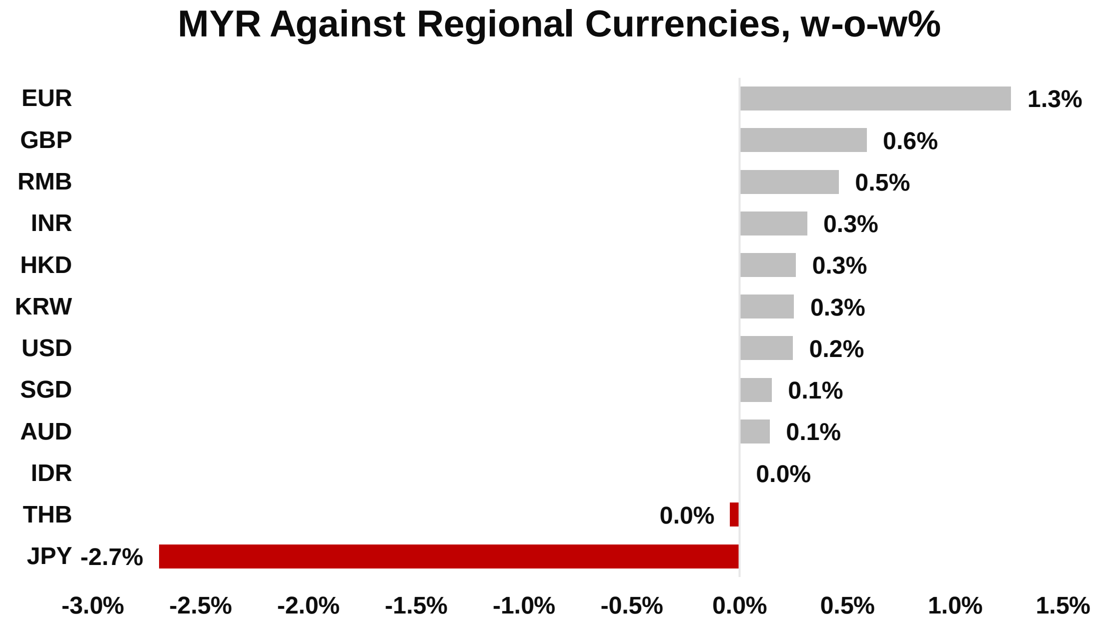

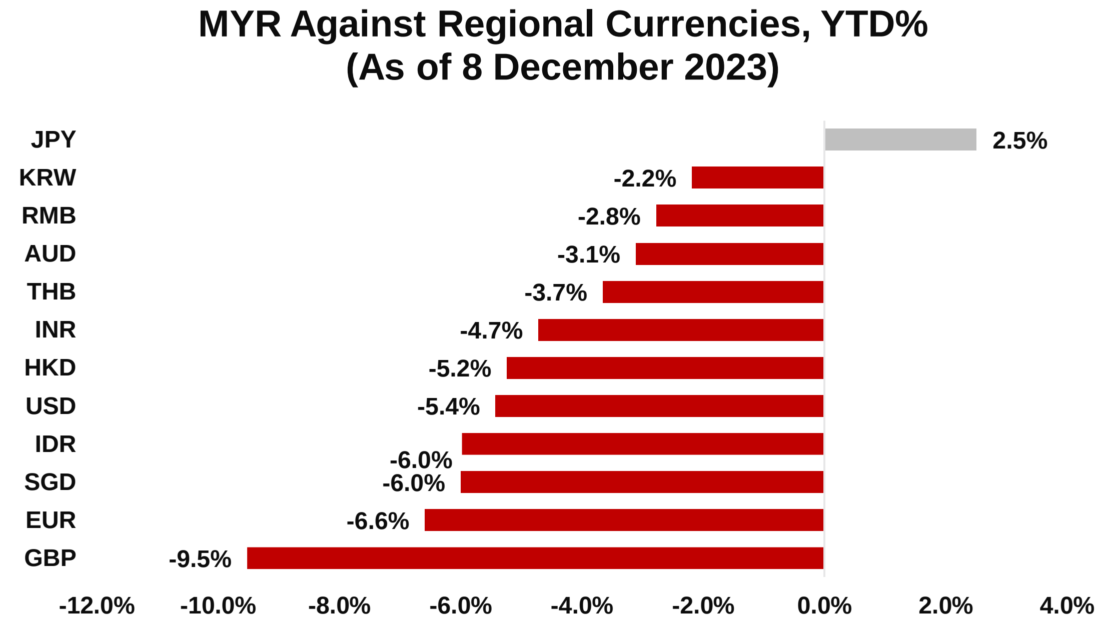

Source: BNM

- The Ringgit appreciated on a weekly basis, closing at RM4.6660 on 8 Dec 2023 from RM4.67750 in the previous week. We posit that the local note remained under pressure against the USD amid the anticipation of the FOMC meeting this week. It sustained above RM4.65 since mid-Nov this year.
- The U.S. labour market seemed robust, with the jobs opening at historically high levels, exceeding 8.0 million for 32 straight months, a level never reached before 2021. However, a slight decrease in print in the latest reading (October: 8.7 million job openings vs September: 9.4 million job openings) might be welcome news for the U.S. policymakers for a reconsideration of the monetary policy stance in the upcoming FOMC meeting this week, particularly in their updated dot plot projections.
- Meanwhile, we believe that the positive export figure from China could help to lift the Ringgit outlook last week when the latest figure rebounded to 0.5% in October, snapping the negative growth for six straight months earlier. Further improvement in the country's retail sales number will further contribute to a ringgit appreciation.

COMMODITY: OIL PRICES DECLINED AMID SIGNS OF INCREASING GLOBAL SUPPLIES AND WEAKENING DEMAND

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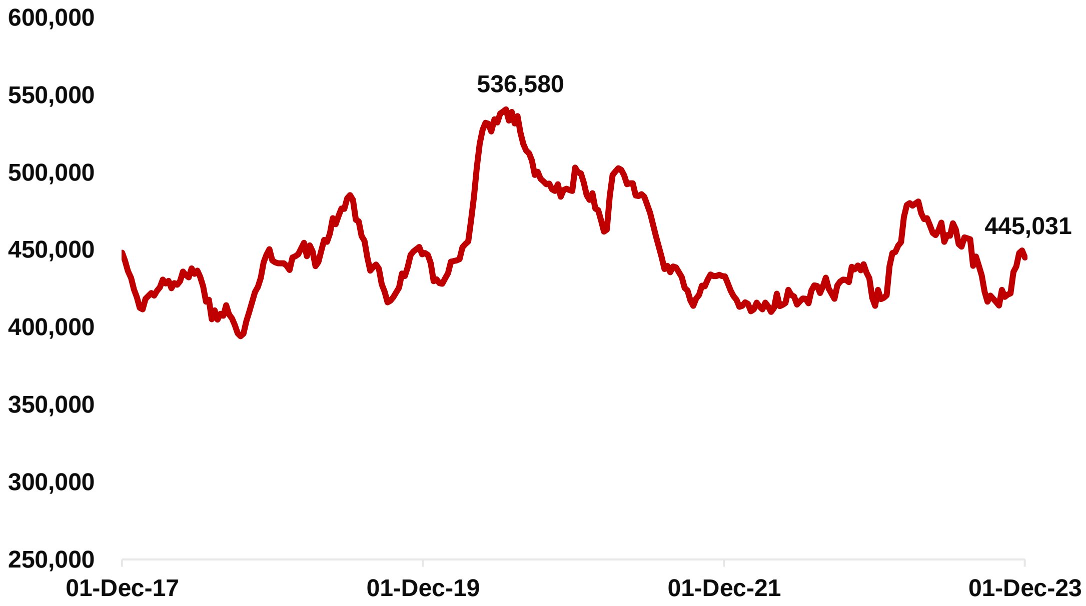
Brent Crude in USD per barrel

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



Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price was down nearly to 4.0% on a weekly basis, the lowest since it was last recorded during mid-June this year. Also, crude prices have dropped for two straight months due to the weaker global oil demand outlook.
- Moreover, the recent cut from the OPEC+ meeting did not help much on the oil movement when it continued moving down, reflecting the doubt in the market as to whether producers will fully commit to them.
- At the same time, heightened economic uncertainties in the top crude importer, China also pressured the market after Moody's cut its outlook on China's government credit rating from stable to negative.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY DECLINE AMID SOLID LABOUR MARKET PERFORMANCE

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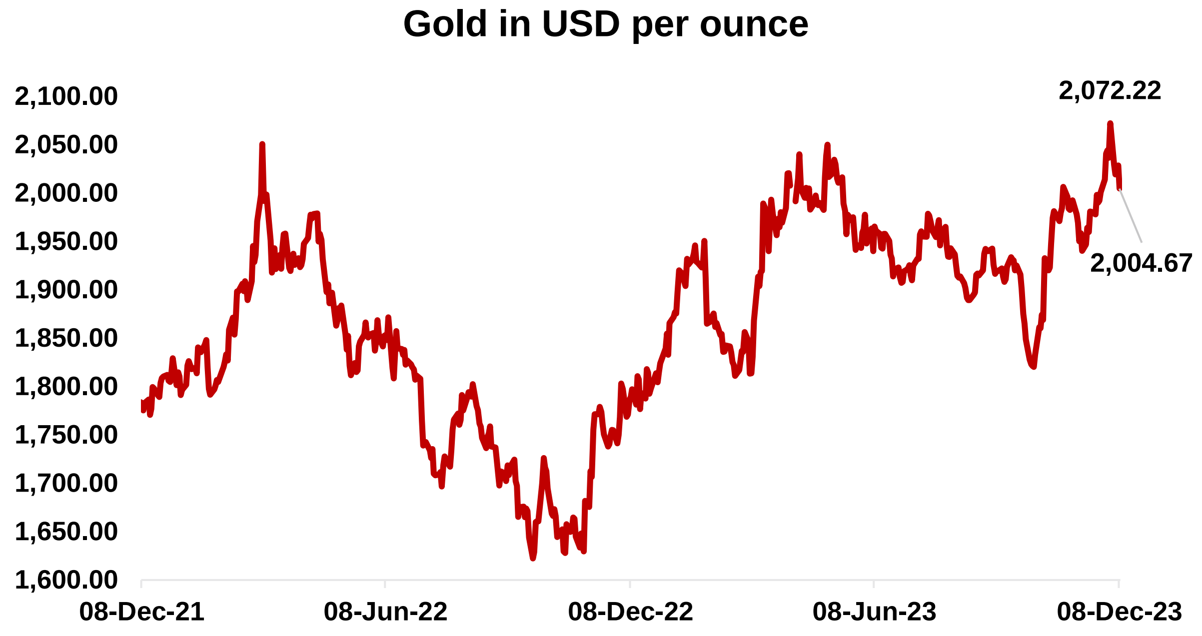

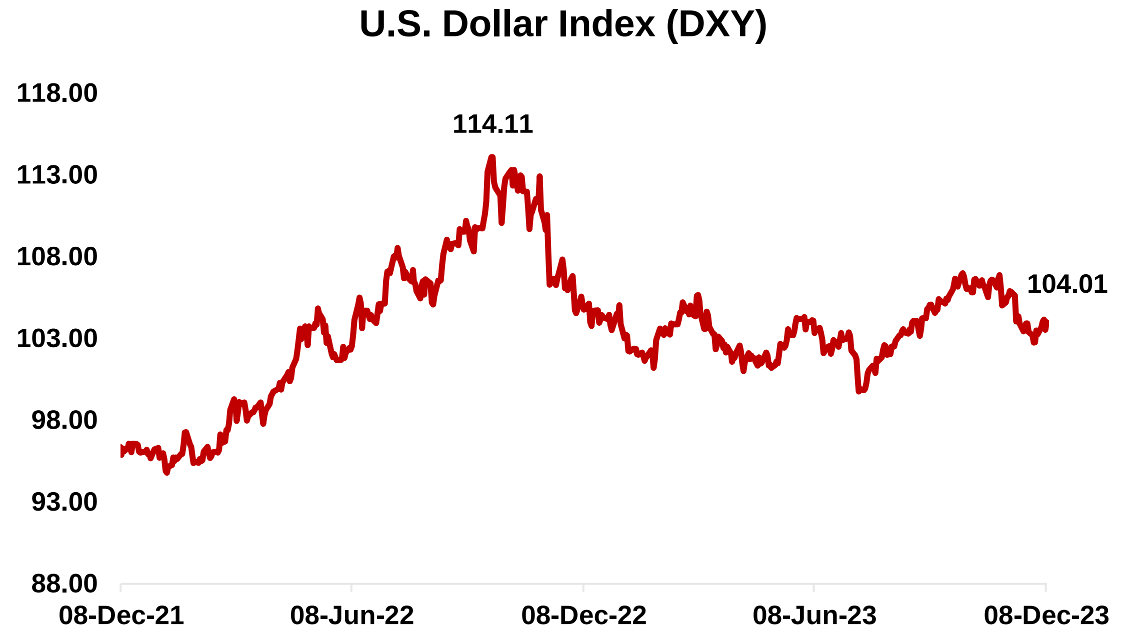

Source: Bloomberg

- The bullion price plunged by 3.3% to USD2,004.67 for the week ending December 8 amid profit-taking activities following the bullion hitting a new peak in the previous week.
- The drop was also attributable to the uptick in the greenback on the back of a tighter-than-expected job market in the U.S. Figures published by the BLS recorded higher-than-expected nonfarm payrolls at 199K in November (October: 150K), beating the market expectations by a 19K margin.
- Additionally, the unemployment rate eased to 3.7% in November from 3.9% in October, while job openings in October declined to 8.7 million (September: 9.4 million).
- Market participants will be on high alert for monetary decisions from three major central banks, namely the U.S. Federal Reserve (Fed), European Central Bank (ECB) and Bank of England (BoE), set to be released this week.
- The U.S.'s November inflation print will be announced this week as well.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- This week's FOMC meeting is widely expected to deliver a third consecutive rate pause. Consensus is of the view that the Fed is done hiking rates as the latest economic data showed continued deceleration in inflation and signs of cooling activities. The accompanying FOMC's updated Summary of Economic Projections (SEP) will be in focus as investors look for more clues on the timing and the depth of rate cuts. At the time of writing, the market priced in more than a half chance that the Fed will start cutting rates in May 2024 and that there will be at least four rate cuts by end-2024. This is against the two rate cuts pencilled by the Fed policymakers in September's SEP. Nevertheless, we envisage only a slight dovish shift in the Fed's rhetoric to counter market expectations of aggressive rate cuts.

- With the Eurozone economy stalling in 3Q2023 (2Q2023: 0.6%) and the inflation falling within striking distance of the 2.0% target (November: 2.4% vs. October: 2.9%), market expectations are for the ECB to keep interest rates unchanged for a second straight meeting this week. However, the ECB will likely remain wary of the inflation outlook and could warn that inflation could surge, pushing back the market pricing of significant rate cuts in 2024. The market is currently pricing in a high probability of at least five rate cuts in 2024, the most aggressive among major central banks.

- Likewise, the softening inflation in the U.K. leaves room for a rate pause by the BoE this week. Of note, U.K. services inflation, the BoE's preferred inflation gauge, edged lower to 6.6% in October (September: 6.9%), undershooting the BoE's forecast of 6.9%. The BoE's benchmark Bank Rate currently stands at a 15-year high of 5.25%, which markets assumed as the peak interest rate. However, the BoE is expected to reiterate that interest rates will remain elevated for an extended period to dampen market bets on rate cuts in 2024.

- On the domestic front, industrial production and retail sales data for October, due this week, will provide an updated view of the prospects for Malaysia's economy. Industrial production rebounded in October with a growth of 2.7% from a slight contraction of 0.5% recorded in September. The growth which was the strongest since May 2023, was driven by the robust performance in mining, electricity and manufacturing sectors. Meanwhile, growth in retail sales accelerated to 6.5% in October, compared to 5.9% in September, mainly lifted by the strong sales in motor vehicles.

THANK YOU