



# **WEEKLY ECONOMIC UPDATE**

**14 FEBRUARY 2023**

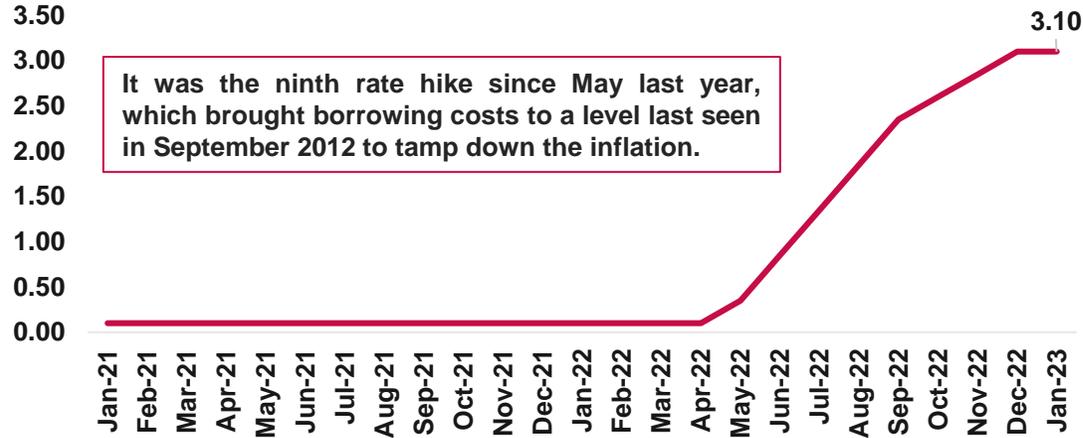
**ECONOMIC RESEARCH**

**FIRDAOS ROSLI  
NOR JANNAH ABDULLAH  
RAJA ADIBAH RAJA HASNAN**

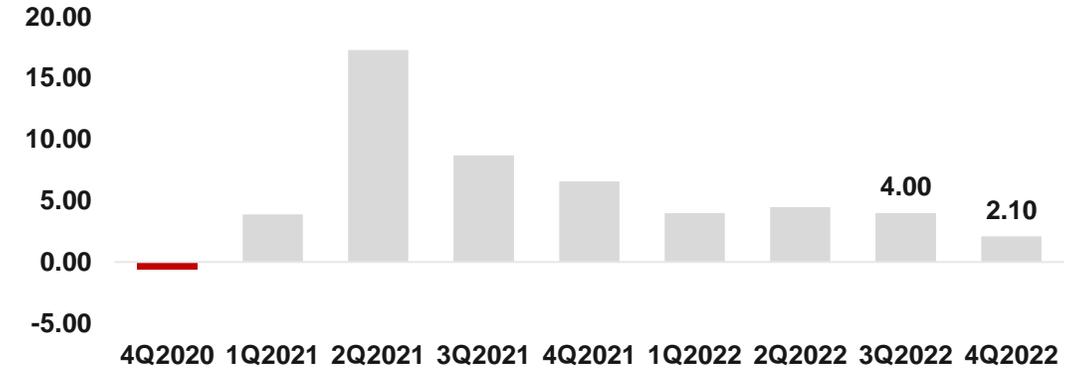
# KEY HIGHLIGHT OF THE WEEK: MALAYSIAN ECONOMY GREW HIGHER THAN EXPECTED AT 8.7% AMID STRONG DOMESTIC DEMAND. IMMINENT MODERATING GROWTH IN LINE WITH EXTERNAL ENVIRONMENT.

GLOBAL

Australia's Policy Rate, %

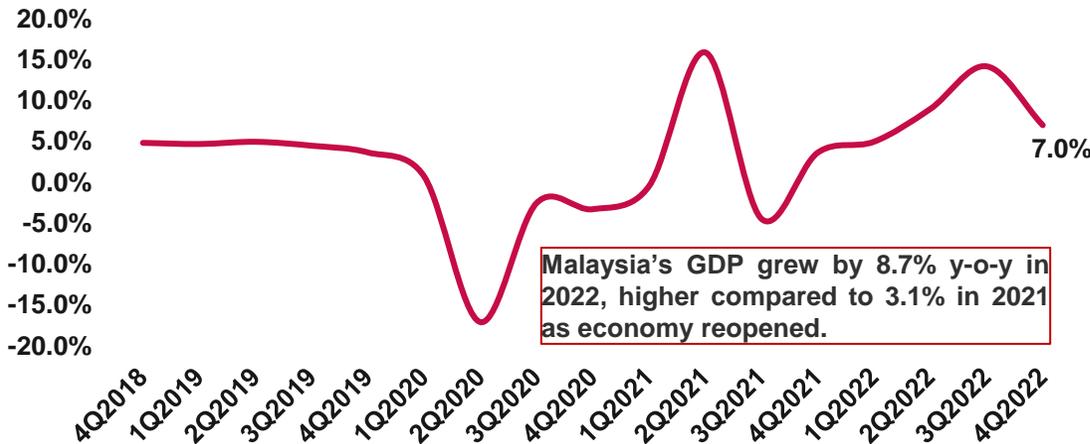


Singapore's Gross Domestic Product (GDP), y-o-y%

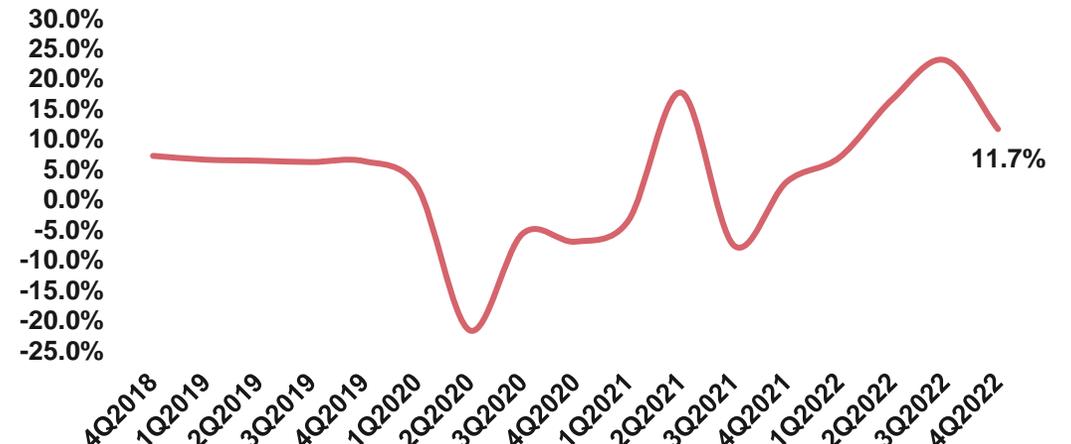


DOMESTIC

Malaysia's GDP, y-o-y%

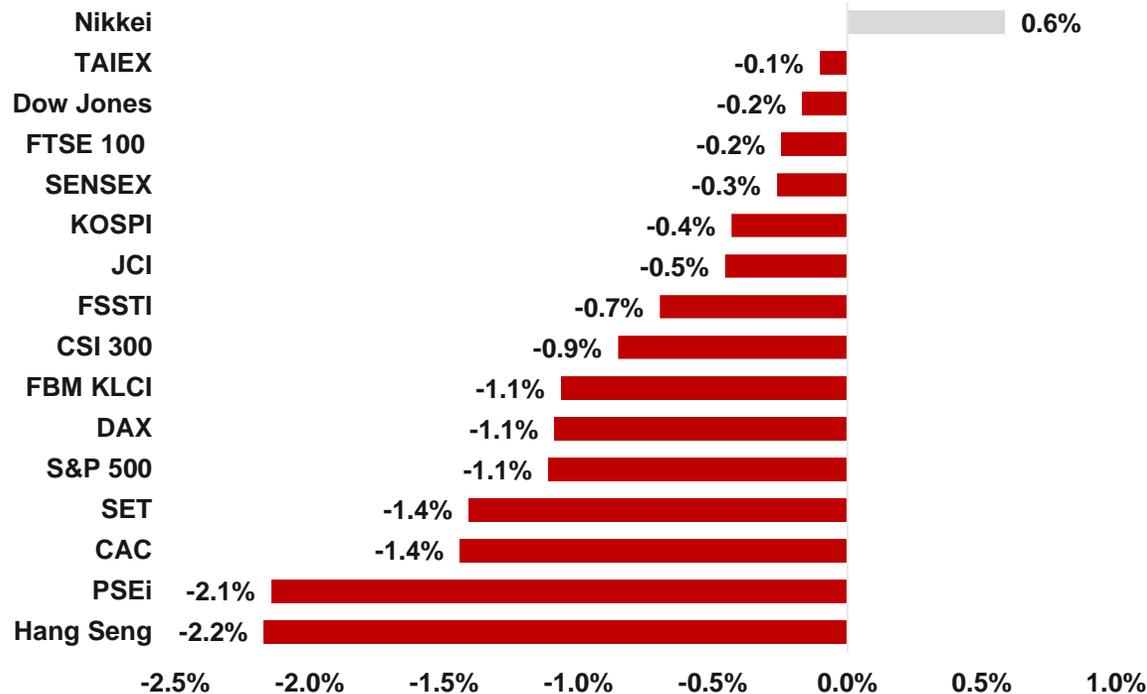


Index of Services (IOS), y-o-y%

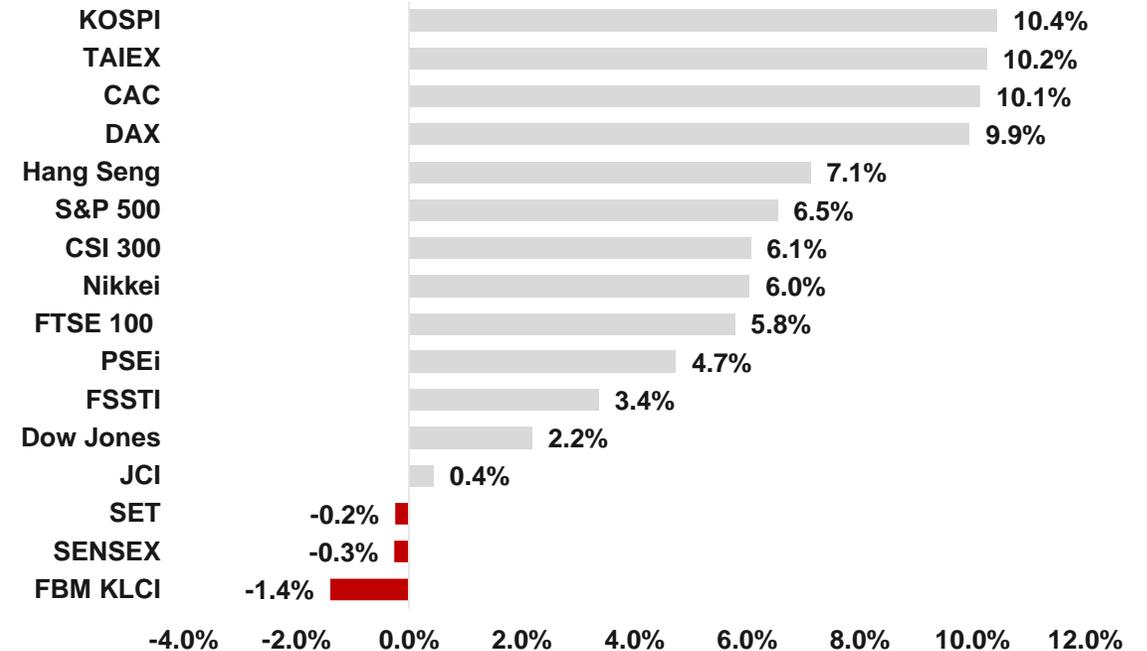


# REGIONAL EQUITY: MARKET SLUMPED AMID RATE HIKES WORRY

Weekly Gain/Loss of Major Equity Market, %



YTD Gain/Loss of Major Equity Markets, %  
(As of 10 February 2023)

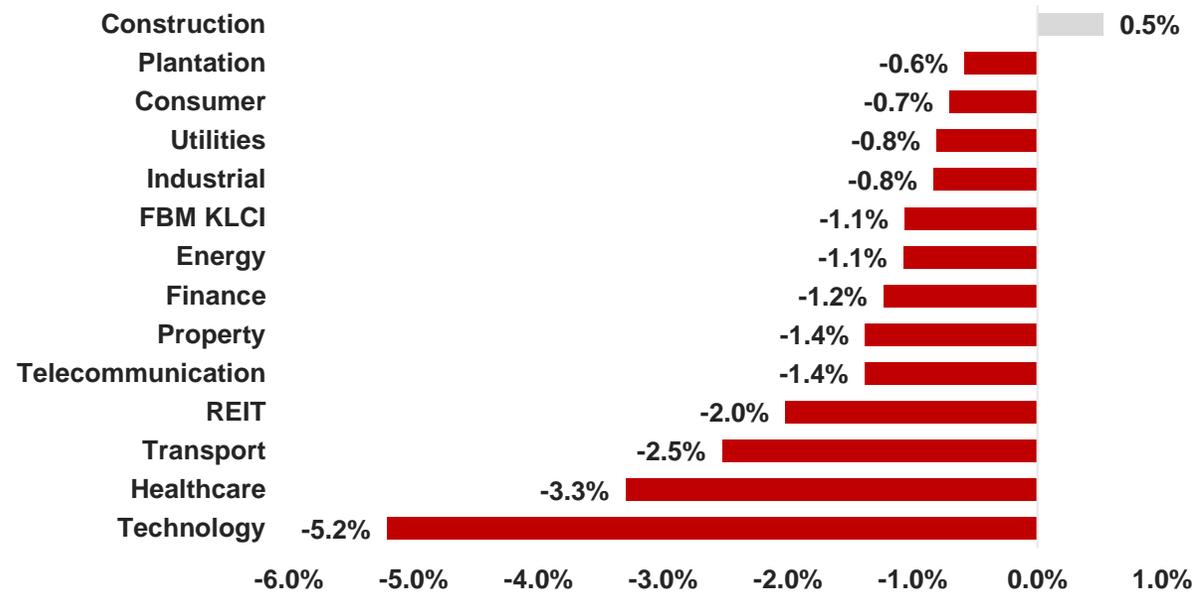


Sources: Bursa, CEIC

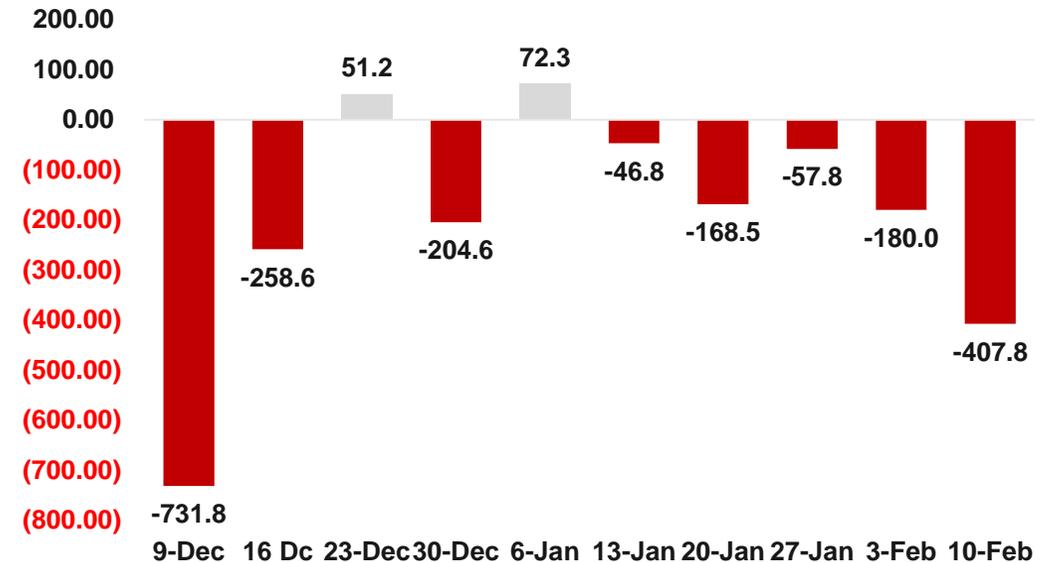
- Regional market was in red after posting significant gains in January. The decline mainly came on the heels of hawkish signals from the U.S. Fed and the escalating tension between the U.S. and China following the spy balloon controversy in the U.S.
- On the other hand, Japan's Nikkei was the only market that recorded a positive gain of 0.6% for the week ended on 10 February.
- The announcement of the better-than-expected Malaysia's GDP performance pushed FBM KLCI higher by 9.95 points but it was not enough to reverse the decline in the week.

# DOMESTIC EQUITY: LARGER FOREIGN NET OUTFLOW IN TANDEM WITH REGIONAL MARKET PERFORMANCE

Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, BNM

- Bursa sectoral indices also ended negatively except for the Construction sector, which rose by 0.5% for the week ended on 10 February.
- The overall downturn mirrored regional market movement amid cautious sentiment following U.S. Fed officials' commitment to bringing down inflation with more rate hikes.
- Foreign investors dumped a total of RM407.8 million equity last week, bringing the cumulative foreign net outflows to RM788.6 million as of 10 February.
- We anticipate FBM KLCI to linger around 1,470.0 points -1,485.0 points this week, given volatility surrounding the U.S. Fed and the lack of positive catalyst from the domestic front.

# FIXED INCOME: BOND YIELDS REVERSED ITS TREND, CLOSED HIGHER LAST WEEK

## Weekly Changes, basis points (bps)

UST	Yields (%) 3-Feb-23	Yields (%) 10-Feb-23	Change (bps)
3-M UST	4.70%	4.79%	9
2-Y UST	4.30%	4.50%	20
5-Y UST	3.67%	3.93%	26
10-Y UST	3.53%	3.74%	21

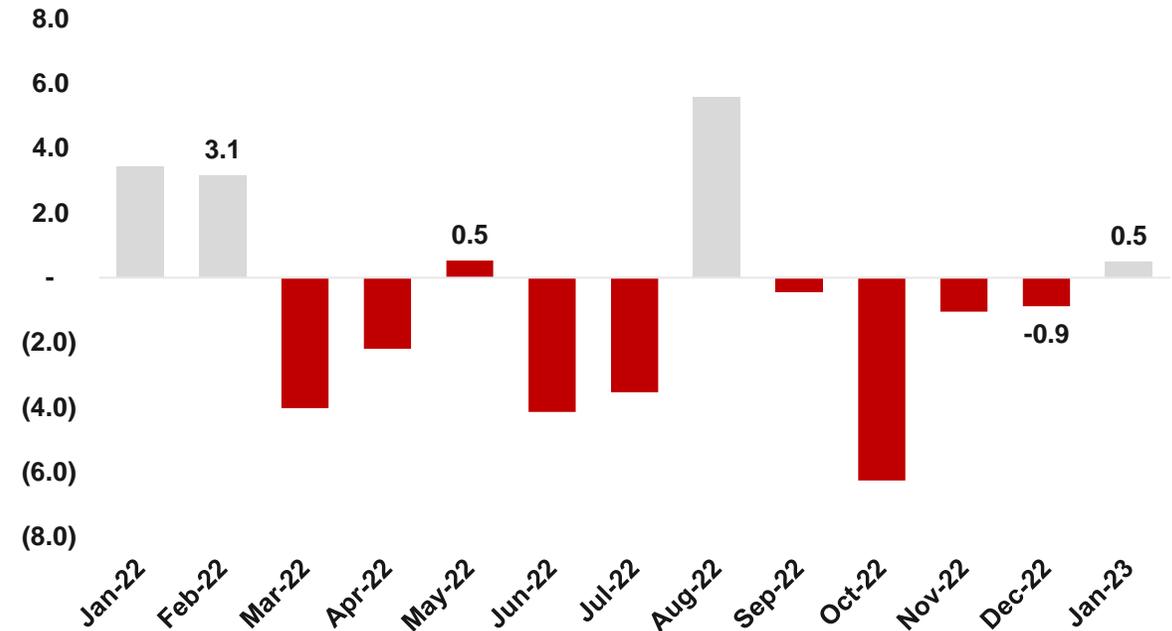
  

MGS	Yields (%) 3-Feb-23	Yields (%) 10-Feb-23	Change (bps)
3-Y MGS	3.33%	3.35%	2
5-Y MGS	3.45%	3.57%	12
7-Y MGS	3.63%	3.74%	11
10-Y MGS	3.76%	3.78%	2

Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) and MGS yields were higher for the week ended on 10 February as investors fretted over the prospect of higher interest rates ahead of key U.S. inflation data this week.
- Furthermore, the U.S. labour market also remained tight, negating expectations that the tightening cycle would soon end.

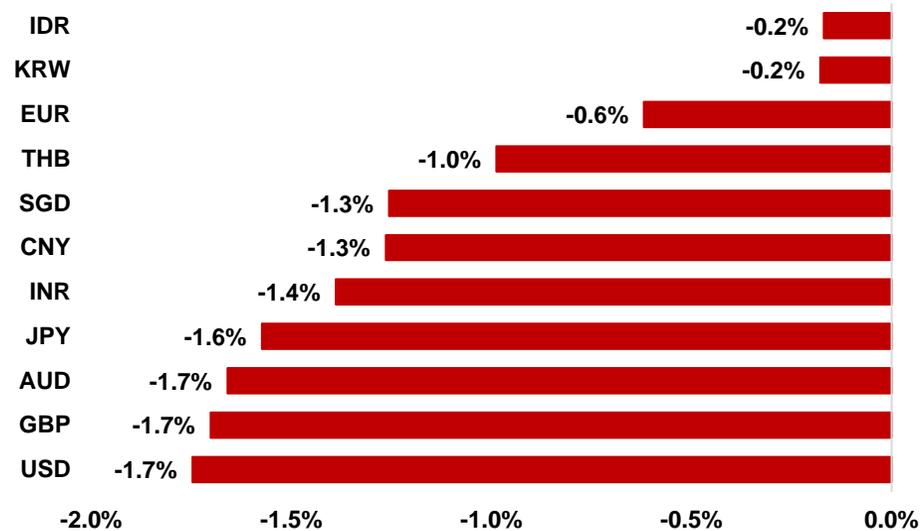
## Foreign Fund Flows, RM Million



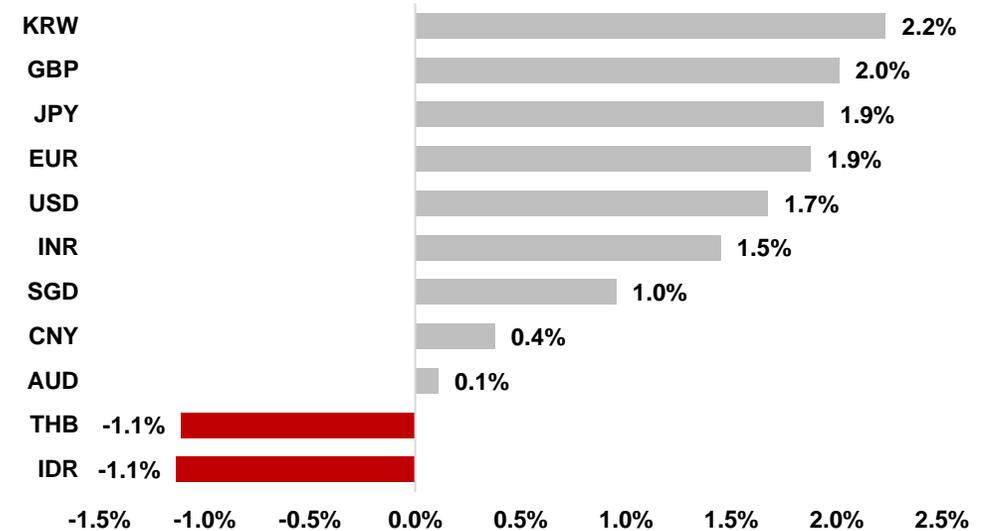
- Foreign investors finally returned with a total of RM0.5 billion net inflows in January after recording 4 straight months of foreign net outflows since September last year.
- However, the trend is expected to be volatile, weighed by uncertainty surrounding U.S. Fed's ongoing monetary tightening cycle.

# FX MARKET: RINGGIT TO REMAIN UNDER PRESSURE IN THE WEEK, TRADING BETWEEN RM4.34 TO RM4.37 AGAINST USD.

MYR against regional currencies, w-o-w%  
(Week Ending 10 February)



MYR against regional currencies, YTD Gain%  
(As of 10 February)



Source: Investing.com

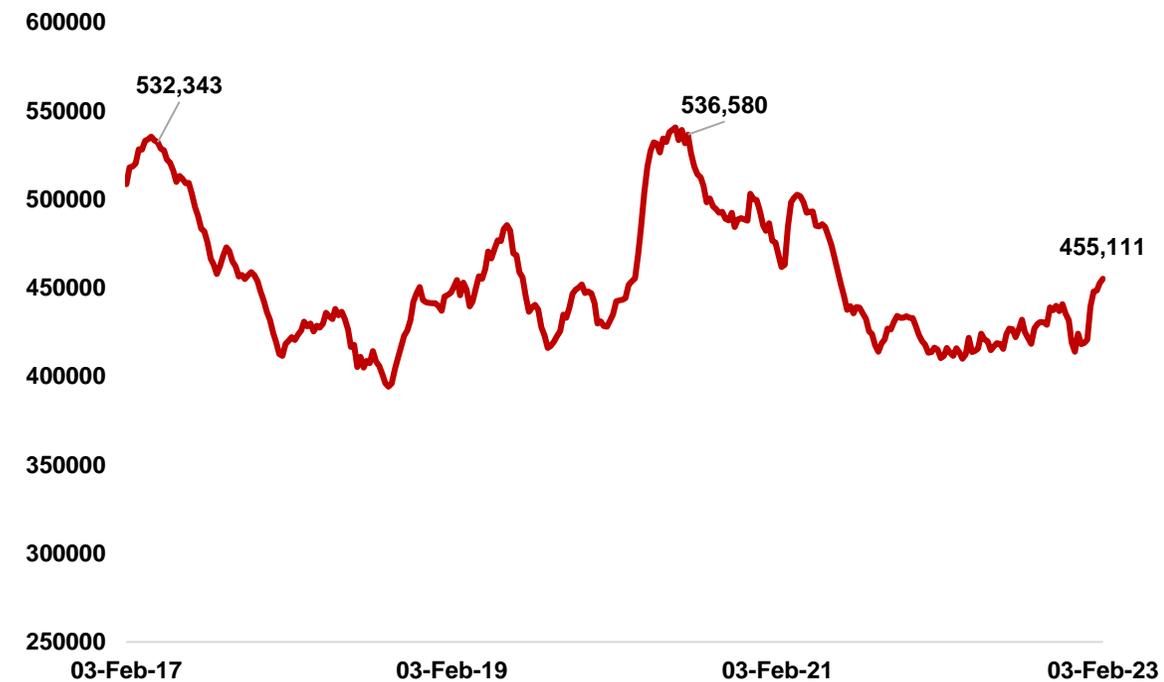
- Most currencies depreciated against the USD last week. The Ringgit is not spared from the weakening against USD despite Malaysia's better-than-expected 4Q2022 GDP reading, which brings the full-year growth to be the highest in ASEAN.
- The external factor pressured the local note as the Fed officials are in sync that the inflation battle is far from over. They added that it would take longer for the central bank to achieve price stability. The surprisingly strong U.S. job report resulted in the USD index climbing back to the 103 level during the week despite disinflation.
- Furthermore, we believe that the escalating geopolitical tensions between the U.S.-China over the spy balloon incident also has affected the Ringgit performance.
- Looking ahead, we foresee that Ringgit is anticipated to trade in cautious mode between RM4.34 and RM4.37 as market participants are likely to pay attention to the release of the U.S. inflation figures for January.

# COMMODITY: BRENT PRICE JUMPED SIGNIFICANTLY DURING THE WEEK AMID RUSSIA'S ANNOUNCEMENT PRODUCTION CUT

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- We noticed the Western bans on Moscow's crude and oil products implemented in the past few months is causing a wave of volatility in the oil market.
- As a result, the oil price gained by 8.1% last Friday as concerns about tight supplies emerged when the demand was likely to rebound.

# COMMODITY: GOLD PRICE HEADED FOR WEEKLY LOSS AMID RATE HIKE PROSPECTS

### Gold in USD per ounce



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



Sources: Bloomberg, Commodity Research Bureau

- Gold prices were nearly flat last Friday as investors decided to shift their focus on U.S. January inflation data to get clues on the Fed's policy tightening trajectory.
- The Fed officials have reiterated their commitments to cool down inflation with more rate increases given stronger-than-expected U.S. job numbers. The tight labour market will fuel consumer spending, thus, leading to upward pressure on inflation.

# WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- Last week, the U.S. Fed Chair Jerome Powell stated that “the disinflation process has begun”, suggesting that the FFR is on track to trend higher in the near term. However, the super-hot labour market continues to surprise on the upside, which might prompt the central bank to raise rates even higher than anticipated. As such, this week's global market will be dominated by U.S. inflation as investors will be watching closely such data to seek clarity on the future Fed's rate hike path. Other data to keep an eye on include U.S. retail sales, the producer price index (PPI) and industrial production.
- The U.K. inflation and jobs data are set to support the central bank's arguments to keep the rates higher, marking the fastest surge in borrowing costs in three decades. The two separate reports are expected to show that consumer prices are still rising at a double-digit pace while wage growth continues to grow. On the other hand, BoE forecasted that the country's economy would enter a shallow recession, starting in 1Q2023 and lasting for five quarters ahead.
- Singapore's 2023 budget statement will be in focus during the week. The government may reveal measures to help the country navigate economic challenges, especially during the inflationary environment and downside risks in global conditions. While the country is expected to provide immediate help to households and businesses to cope with the higher costs and slower growth ahead, the GST hike in 2024 is here to stay.
- Meanwhile, Malaysia's economy grew the fastest in Southeast Asia since 1996, expanding at 8.7% y-o-y in 2022. Although such a performance came in better than expected, there was a notable decline in growth from the seasonally adjusted quarter-on-quarter basis, suggesting the diminishing effects of fiscal measures in the year. Growth will likely moderate in 2023 amid slower external demand, but domestic demand will likely remain positive. On a separate note, the government will re-table Budget 2023 on 24 February 2023, yet we believe several key ideas in the new budget will begin to come to light this week.

BANK ISLAM

**THANK YOU**