



# **WEEKLY ECONOMIC UPDATE**

**14 AUGUST 2023**

**ECONOMIC RESEARCH**

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LEE SI XIN

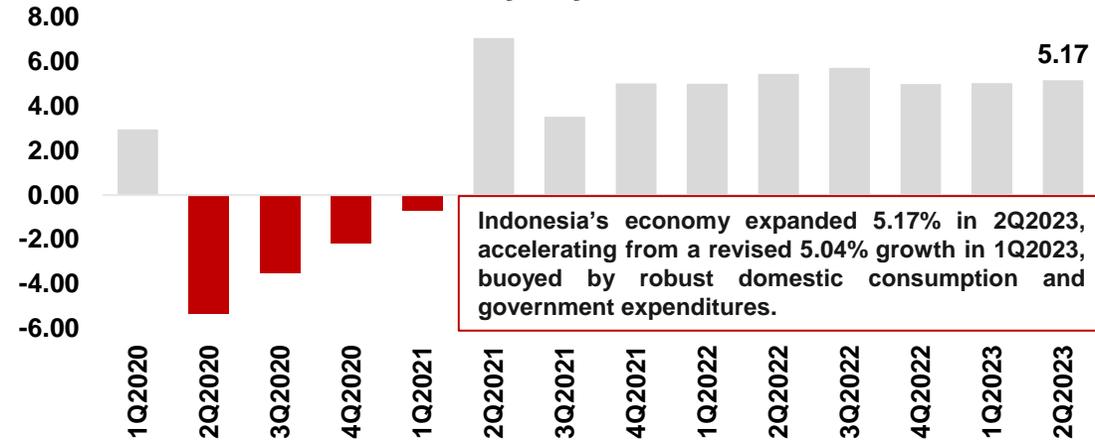
RAJA ADIBAH RAJA HASNAN

NOR LYANA ZAINAL ABIDIN

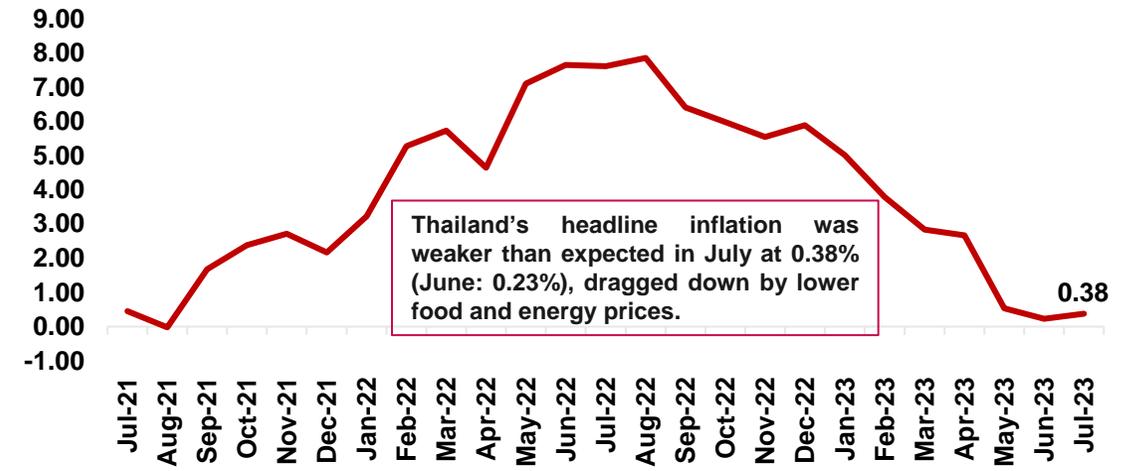
# WEEKLY HIGHLIGHT: MALAYSIA'S UNEMPLOYMENT RATE IMPROVED BUT INDUSTRIAL OUTPUT CONTRACTED

GLOBAL

Indonesia - Real Gross Domestic Product (GDP), y-o-y%

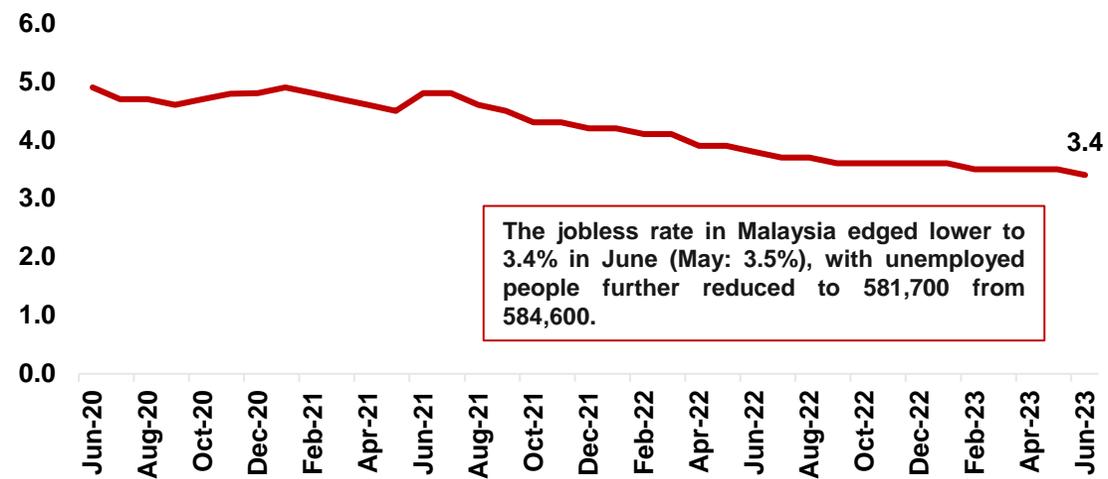


Thailand - Consumer Price Index (CPI), y-o-y%

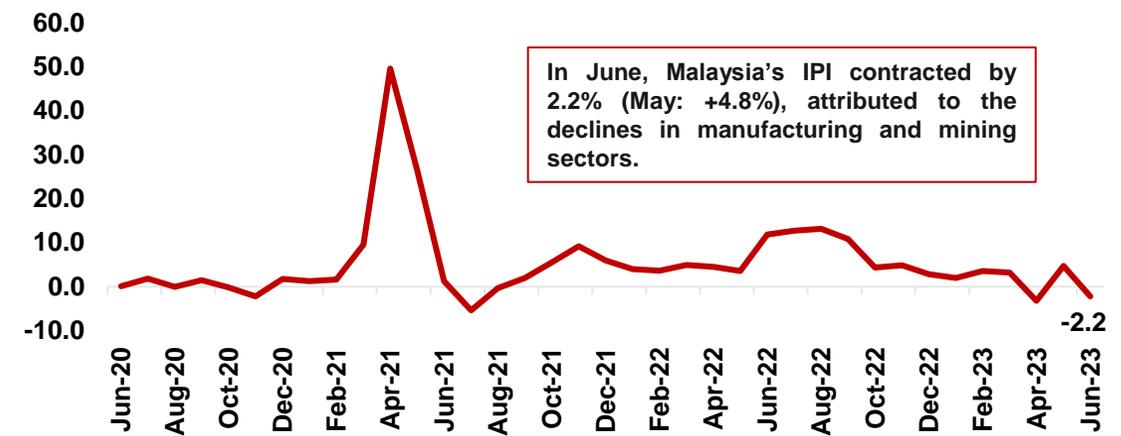


DOMESTIC

Malaysia - Unemployment Rate, %

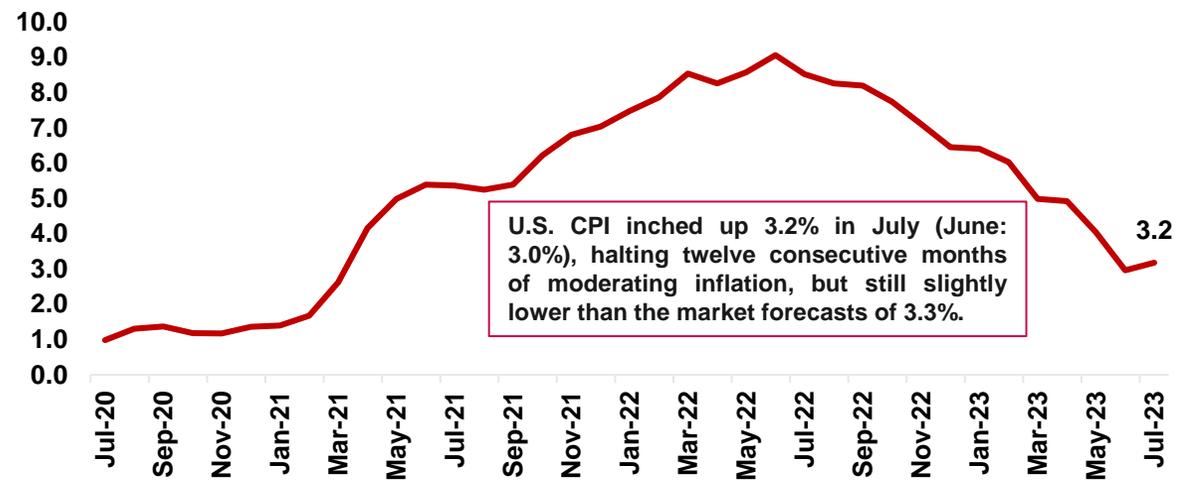


Malaysia - Industrial Production Index (IPI), y-o-y%

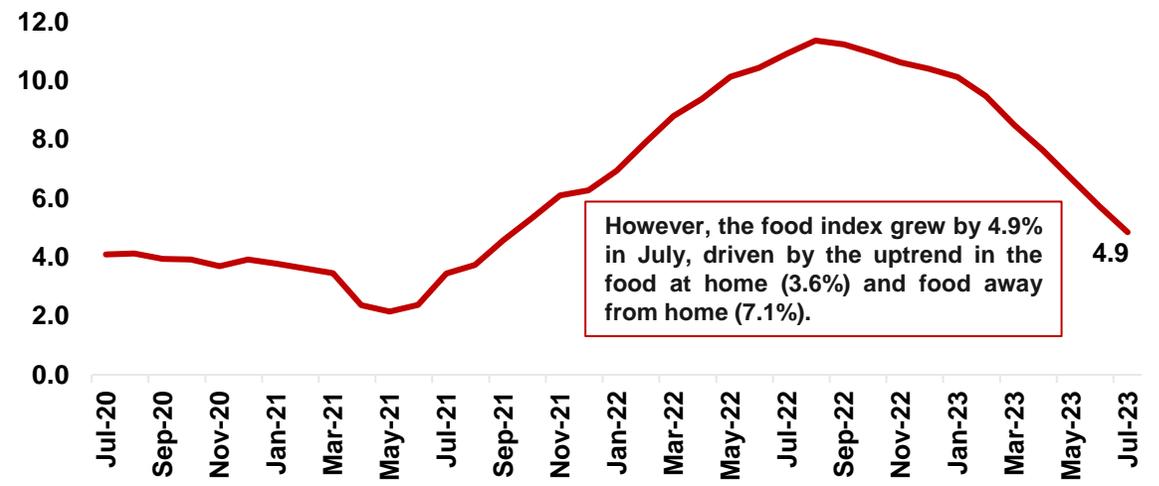


# U.S. WEEKLY HIGHLIGHT: INFLATION TICKED UP, BUT FOOD AND CORE CPI CAME IN LOWER

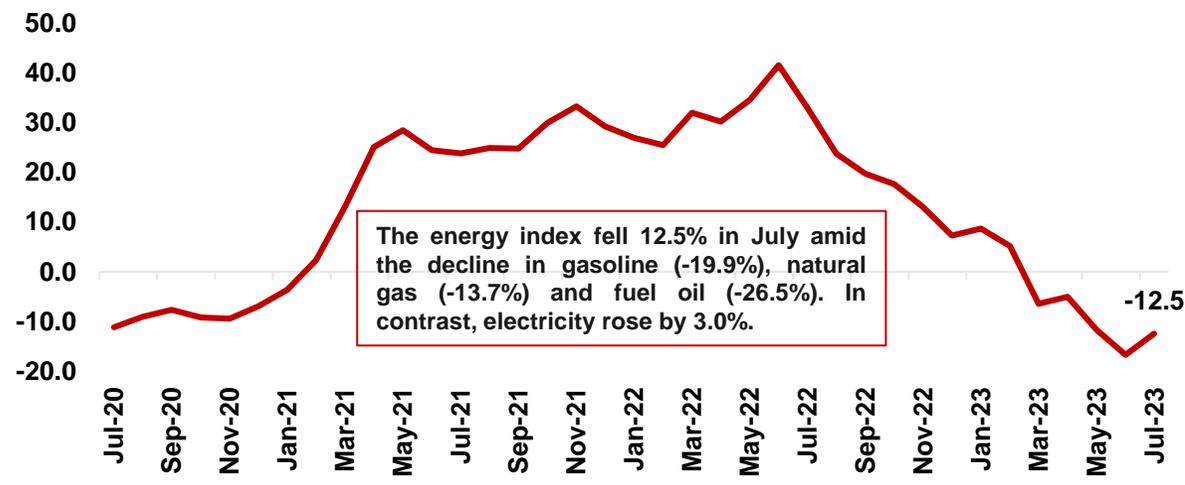
### U.S. CPI, y-o-y%



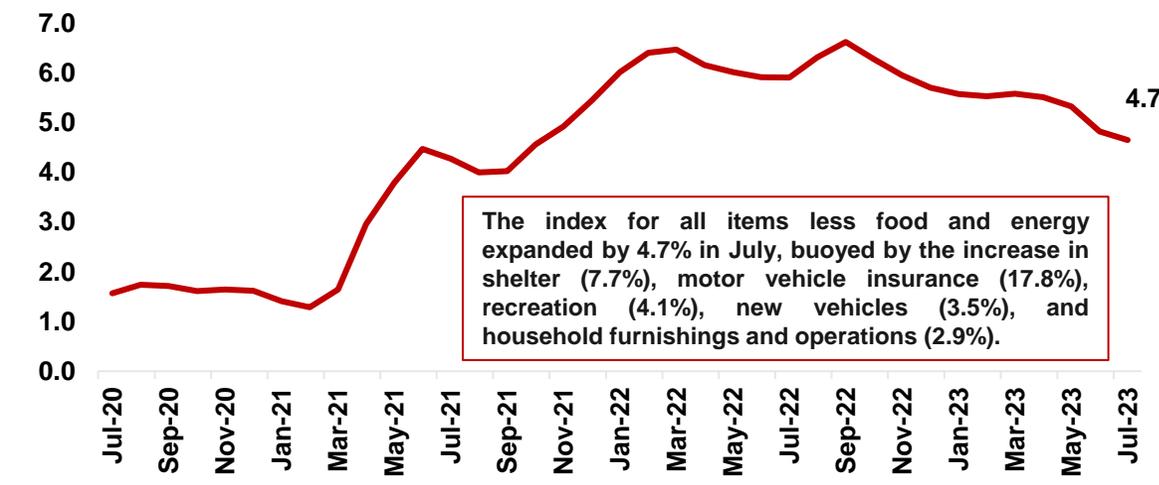
### U.S. CPI (Food), y-o-y%



### U.S. CPI (Energy), y-o-y%



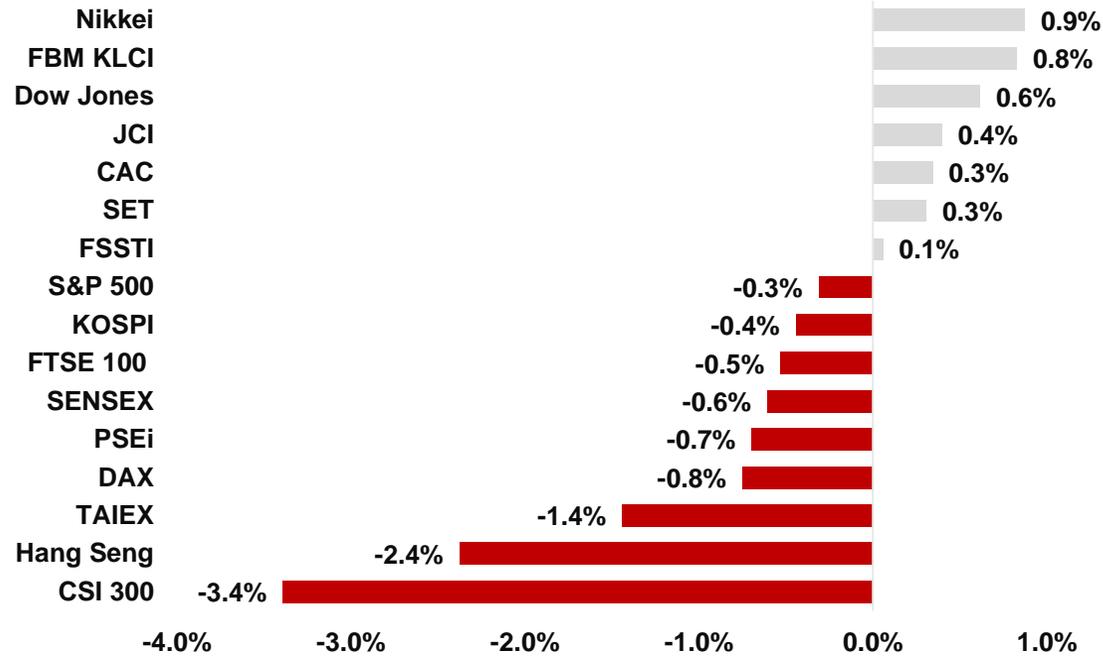
### U.S. CPI (All Items less Food and Energy), y-o-y%



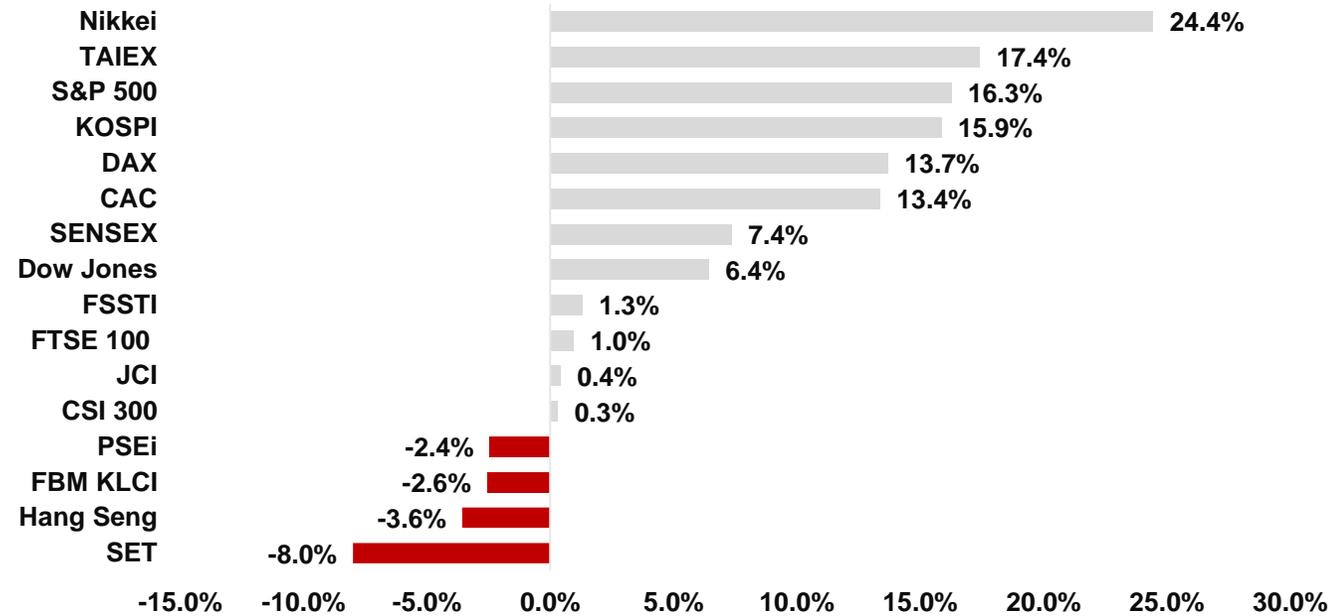
Source: U.S Bureau of Labor Statistics

# REGIONAL EQUITY: CHINESE STOCKS LED DECLINES AS PROPERTY CONCERNS SENT JITTERS TO INVESTORS

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



YTD Gain/Loss of Major Equity Markets, %  
(As of 11 August 2023)

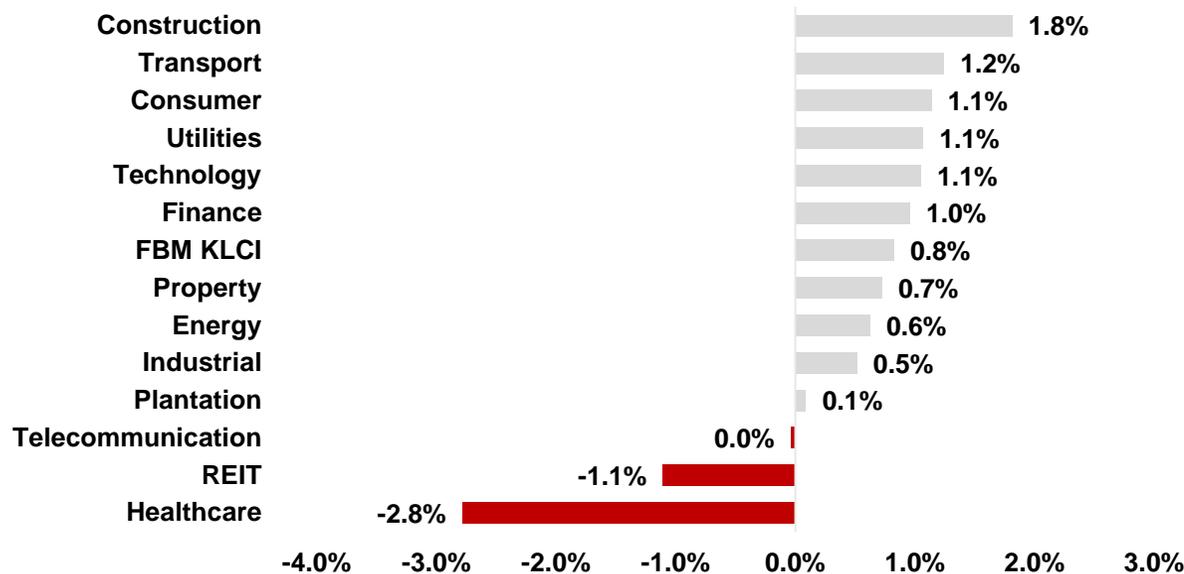


Sources: Bursa, CEIC

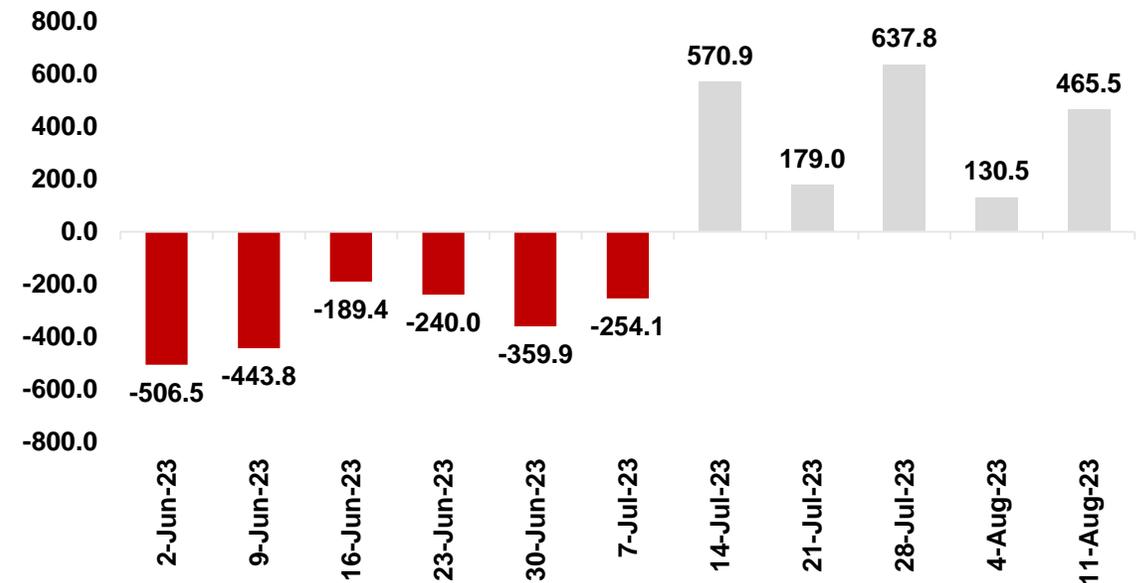
- Regional benchmark indices ended mixed for the week ended August 11. Japan's Nikkei headed the gainers by 0.9% amid robust corporate earnings, followed by Malaysia's FBM KLCI (0.8%) and U.S. Dow Jones (0.6%).
- On the other hand, China's CSI 300 (-3.4%), Hong Kong's Hang Seng (-2.4%) and Taiwan's TAIEX (-1.4%) were the major losers amid the Chinese property woes that sent jitters to investors. Additionally, signs of renewed tensions between the U.S. and China emerged after U.S. President Joe Biden signed an executive order outlining new restrictions on technology investments in China.
- Asian stock markets declined after the U.S. inflation edged higher, fueling unease about the outlook of the biggest global economy.

# DOMESTIC EQUITY: LOCAL STOCKS SAW CONTINUOUS FOREIGN BUYING INTEREST DESPITE MIXED REGIONAL SENTIMENT

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



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

- On the week ending August 11, most Bursa sectoral indices recovered the previous week's losses to end higher on bargain-hunting activities. The Construction index led the gainers with a 1.8% rise, followed by Transport (1.2%) and Consumer (1.1%).
- Gains in the local stocks were mainly lifted by foreign buying, offsetting the local selling ahead of the six states election on August 12.
- Foreign buying accelerated further to RM465.5 million relative to last week's RM130.5 million. This marked the fifth consecutive week of foreign fund inflow to the local stock market, thus reducing the cumulative total net outflow this year thus far to RM2.5 billion.
- Meanwhile, the Healthcare (-2.8%) and REIT (-1.1%) indices led the declines.

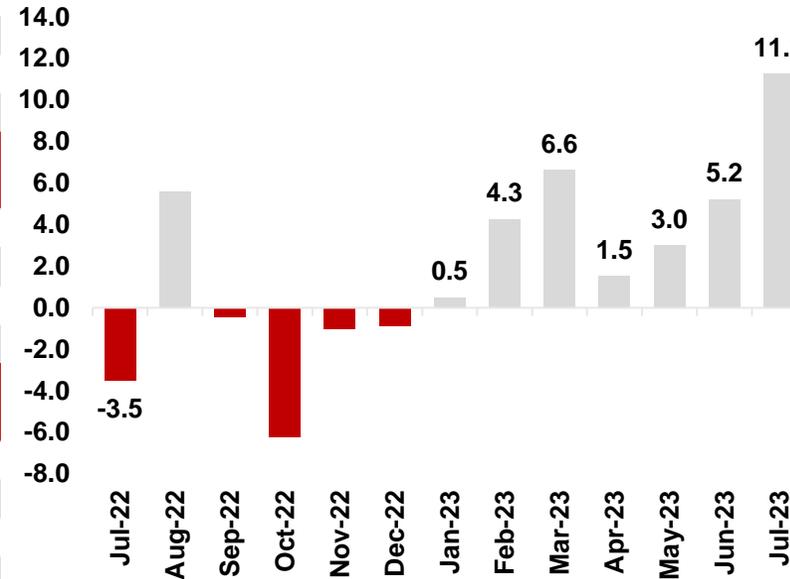
# FIXED INCOME: HIGHER U.S. INFLATION RESULTED IN WEAKER UST YIELDS BANK ISLAM

## Weekly Changes, basis points (bps)

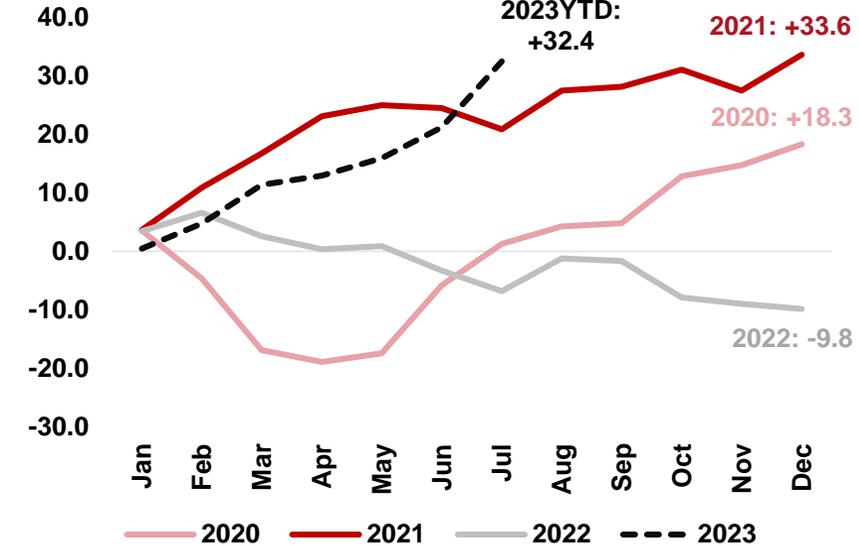
UST	Yields (%) 4-Aug-23	Yields (%) 11-Aug-23	Change (bps)
3-Y UST	4.45	4.56	11
5-Y UST	4.15	4.31	16
7-Y UST	4.10	4.26	16
10-Y UST	4.05	4.16	11
MGS	Yields (%) 4-Aug-23	Yields (%) 11-Aug-23	Change (bps)
3-Y MGS	3.49	3.46	-2
5-Y MGS	3.62	3.59	-3
7-Y MGS	3.77	3.74	-4
10-Y MGS	3.87	3.84	-3
GII	Yields (%) 4-Aug-23	Yields (%) 11-Aug-23	Change (bps)
3-Y GII	3.50	3.47	-3
5-Y GII	3.67	3.64	-4
7-Y GII	3.81	3.79	-2
10-Y GII	3.88	3.87	-1

Sources: BNM, Federal Reserve Board

## Foreign Fund Flows in Local Bond Market, RM Billion



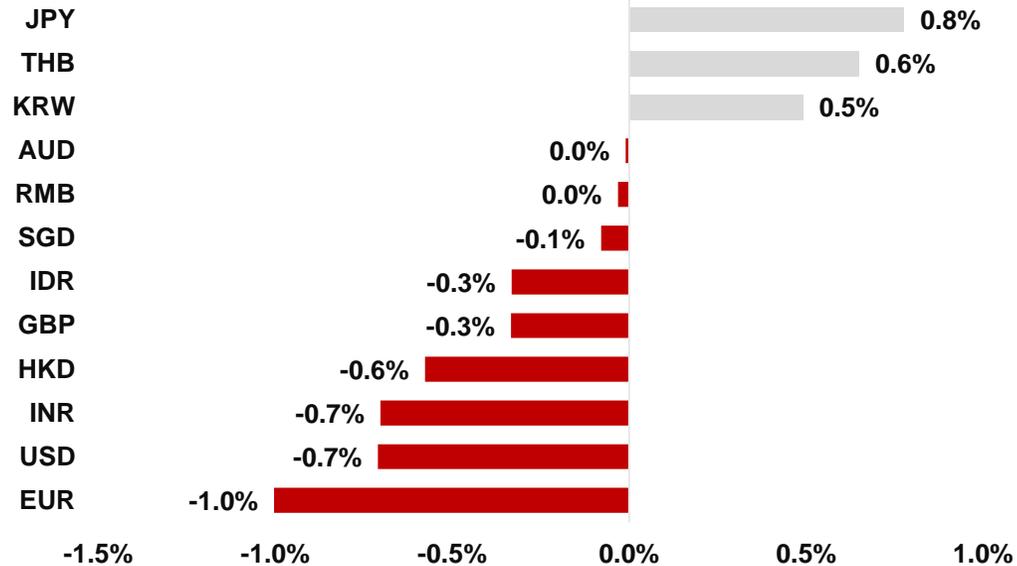
## Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



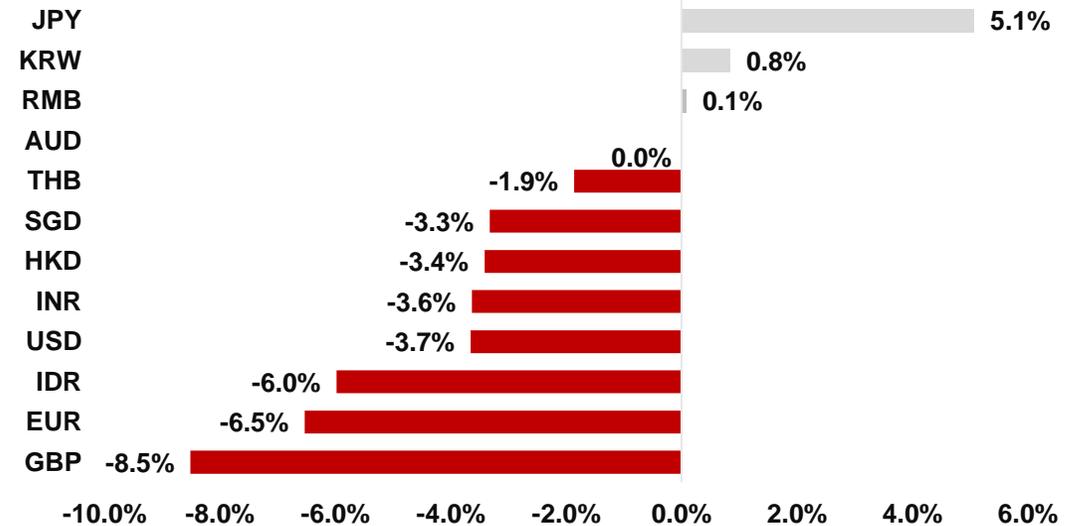
- The U.S. Treasury (UST) ended weaker amid the uptick in its inflation magnitude, diminishing expectations of a smooth disinflation process in the U.S. Additionally, the uptick in UST yields was contributed by higher bond issuance from the U.S. government.
- On the contrary, Malaysian Government Securities (MGS) and Government Investment Issues (GII) ended firmer last week. MGS yields decreased in the range of 2bps and 4bps, while GII yields fell between 1bp and 4bps.
- Local bond market recorded net foreign inflows for seven straight months in July, with the said month recording the highest inflows of RM11.3 billion (June: RM5.2 billion) this year thus far. Local govovies' foreign shareholdings to total outstanding climbed to 24.0% in July (June: 23.0%).
- From January to July 2023, the cumulative net foreign flows logged inflows of RM32.4 billion, significantly higher than the outflows of RM6.8 billion in the same period in the previous year.

# FX MARKET: THE RINGGIT ENDED ON A WEAKER NOTE AMID WARY SENTIMENT

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD%  
(As of 11 August 2023)



Source: BNM

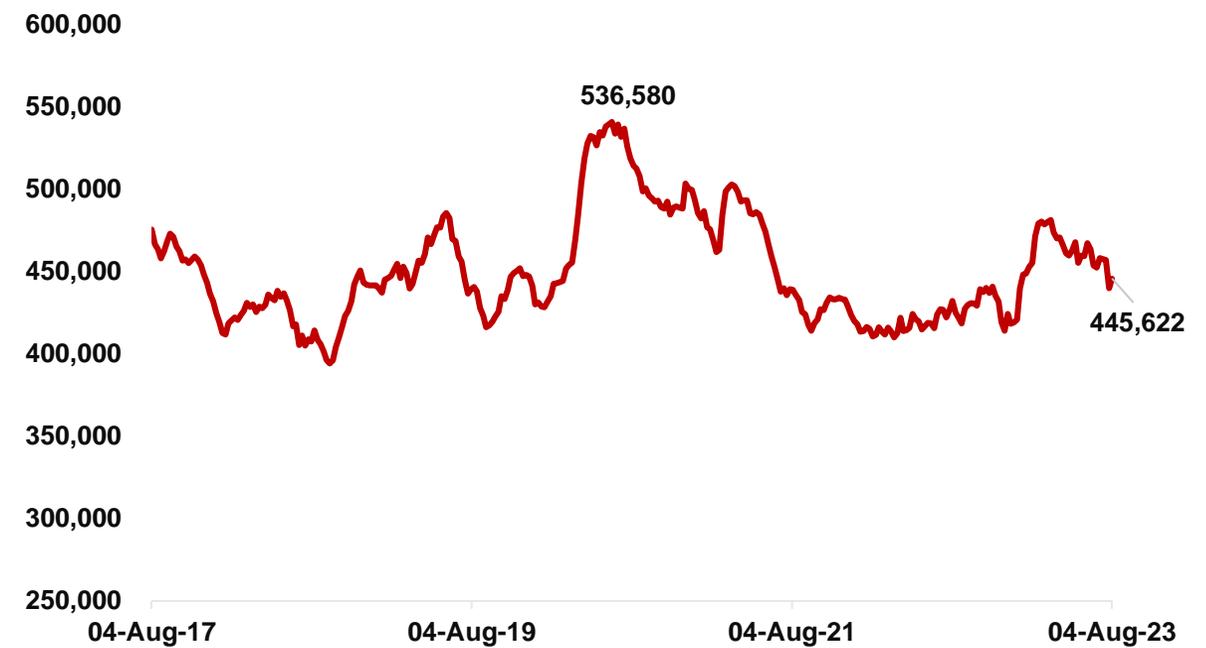
- The Ringgit depreciated against the USD, closing at RM4.5805 on 11 August 2023, compared to RM4.5480 in the previous week, as market participants were in a cautious mode ahead of the six state elections scheduled last Saturday.
- Additionally, we posit that the local note was influenced by the upward trajectory of the USD index, which continued to gain on a weekly basis by 0.8% (4 August 2023: 0.4%) during the week, as investors have not entirely ruled out a rate hike by the Federal Reserve (Fed) in the remainder of this year despite cooler-than-expected U.S. CPI data for July.
- Apart from that, the lacklustre movement of the Ringgit was impacted by the weak China data that has raised concerns about the global economic outlook.

# COMMODITY: OIL PRICE WAS ON THE RISE, REFLECTING THE IMPACT OF PRODUCTION CUT FROM THE OPEC+

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- The U.S. EIA increased its forecast for Brent spot average price for 2023 and 2024 to USD82.62 per barrel and USD86.48 per barrel, respectively. The estimation was slightly higher than its previous forecast released in July, which saw the average oil coming in at USD79.34 per barrel in 2023 and USD83.51 per barrel in 2024.
- The higher projection was due to the extended, voluntary crude oil production cuts by Saudi Arabia and increasing global demand. Be that as it may, China's weak economic data recently raised uncertainty over its future oil demand.

# COMMODITY: GOLD WAS SET FOR THIRD WEEKLY DECLINE, WEIGHED DOWN BY THE STRONGER DOLLAR IN THE WEEK

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, Commodity Research Bureau

- USD rose as market participants remained sceptical over the following course of action by the U.S. Fed on its monetary decision after the producer price index (PPI) m-o-m figures picked up in July, beating the consensus forecast (Act: 0.3% vs. Est: 0.2%), supporting the case for further rate hikes.
- Additionally, several Fed officials hinted that there was more work to do to reign in the inflationary pressures, thus increasing the opportunity cost for holding the precious metals.

# WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week will feature several central bank updates, including the Fed minutes from the July Federal Open Market Committee (FOMC) meeting as well as monetary policy decisions from the Reserve Bank of New Zealand (RBNZ) and the Philippines' central bank, Bangko Sentral ng Pilipinas (BSP). The July FOMC meeting minutes will be scrutinised for more clues on the future interest rate path, with the Fed policymakers holding mixed views on whether the Fed has done enough on tightening. Furthermore, market participants were not entirely convinced of another rate hike in the remainder of the year, pricing only about a 32.5% chance of such a move at the time of writing. Beyond the U.S., the RBNZ and BSP are expected to maintain their policy rates, given the easing of inflation.
- China will release its retail sales and industrial production reports for July, which will be closely watched for further signs of losing momentum in its post-economic reopening. Given signs of slowing demand, with the producer price index (PPI) and CPI falling into deflation territory in July, China's retail sales for the said month are expected to record only modest growth (June: 3.1%). Meanwhile, China's July industrial production growth will likely remain below the pre-pandemic level (June: 4.4%), mirroring the weakness in China's manufacturing Purchasing Managers' Index (PMI). While the Chinese government has made several pledges to support the economy, a massive stimulus remains unlikely amid the country's growing debt risk.
- It will also be a heavy data week for Japan with GDP, trade and inflation data. Japan's 2Q2023 GDP growth is expected to improve marginally, supported by better net exports and a pick-up in the services sector from 1.9% recorded in 1Q2023. For trade performance in July, Japan's exports will likely see little change or mild contraction (June: 1.5%) on high base effect, while imports will continue to decline (June: -12.9%) amid lower global commodity prices. Meanwhile, Japan's inflation is expected to hover at the current level (June: 3.3%). However, an upside surprise to inflation is possible and could justify the Bank of Japan to pivot away from the ultra-loose monetary policy.
- On the domestic front, the 2Q2023 GDP report and July trade data will garner significant attention. We expect Malaysia's GDP growth to moderate to the slowest y-o-y growth since 4Q2021 at **3.7% in 2Q2023** (1Q2023: 5.6%) as the high base effect kicks in. Private consumption, the mainstay of the economy, looks to have remained robust, but the growth rate is likely slower, with retail sales decelerating to 7.8% in 2Q2023 (1Q2023: 19.5%). The gloomy growth prospects of major trading partners and the downtrend in export prices have dragged down Malaysia's export growth (2Q2023: -11.1% vs 1Q2023: +3.0%), which will weigh down on GDP in the said quarter. Both exports and imports for July will likely extend their negative growth trend since March 2023.

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**THANK YOU**