



# **WEEKLY ECONOMIC UPDATE**

**17 JANUARY 2023**

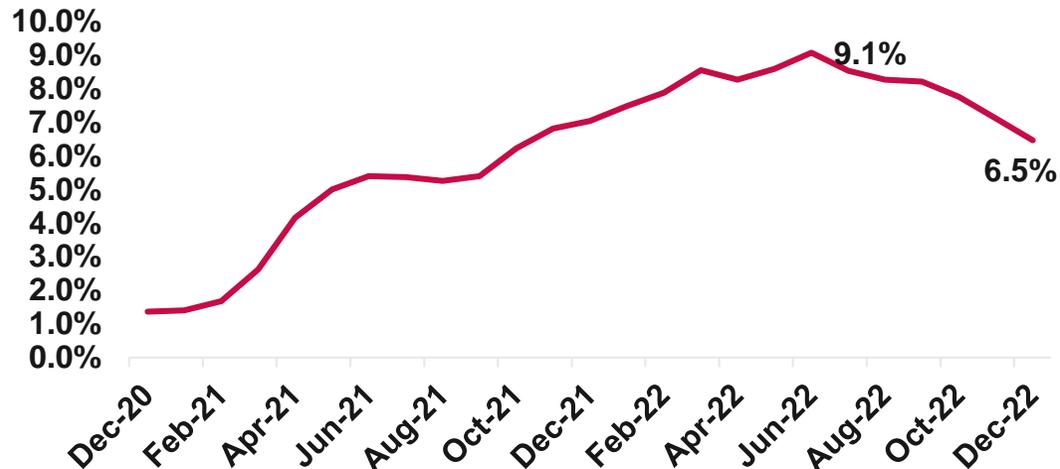
**ECONOMIC RESEARCH**

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

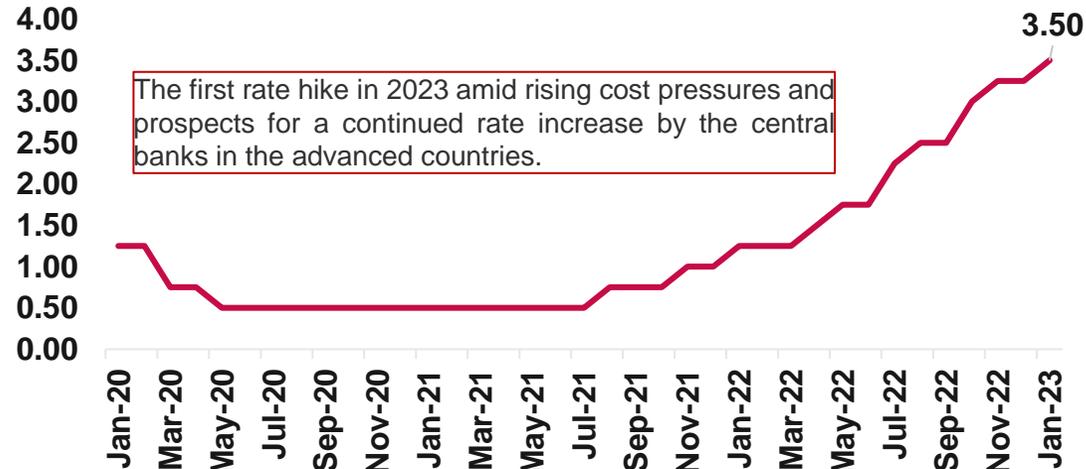
# KEY HIGHLIGHT OF THE WEEK: U.S. INFLATION MODERATED AFTER REACHING ITS PEAK AT 9.1% IN JUNE 2022

GLOBAL

### U.S. Consumer Price Index (CPI), y-o-y%

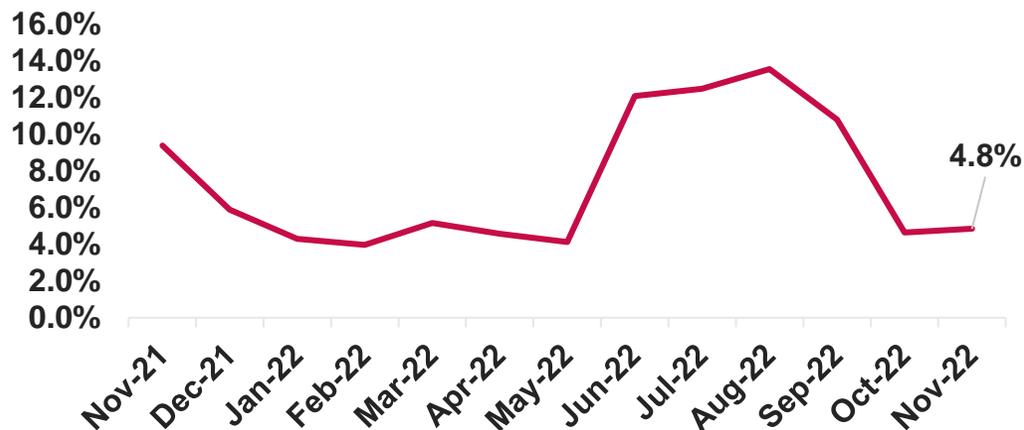


### South Korea Base Rate, %

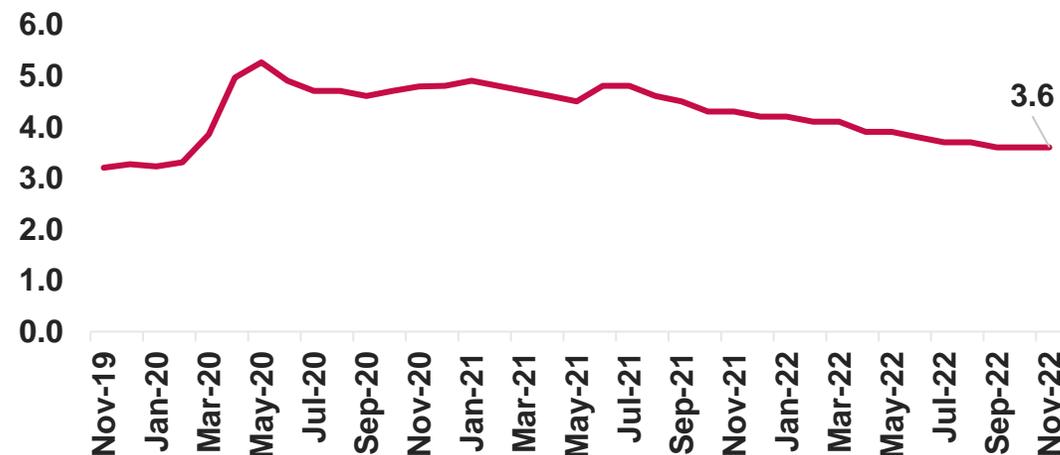


DOMESTIC

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

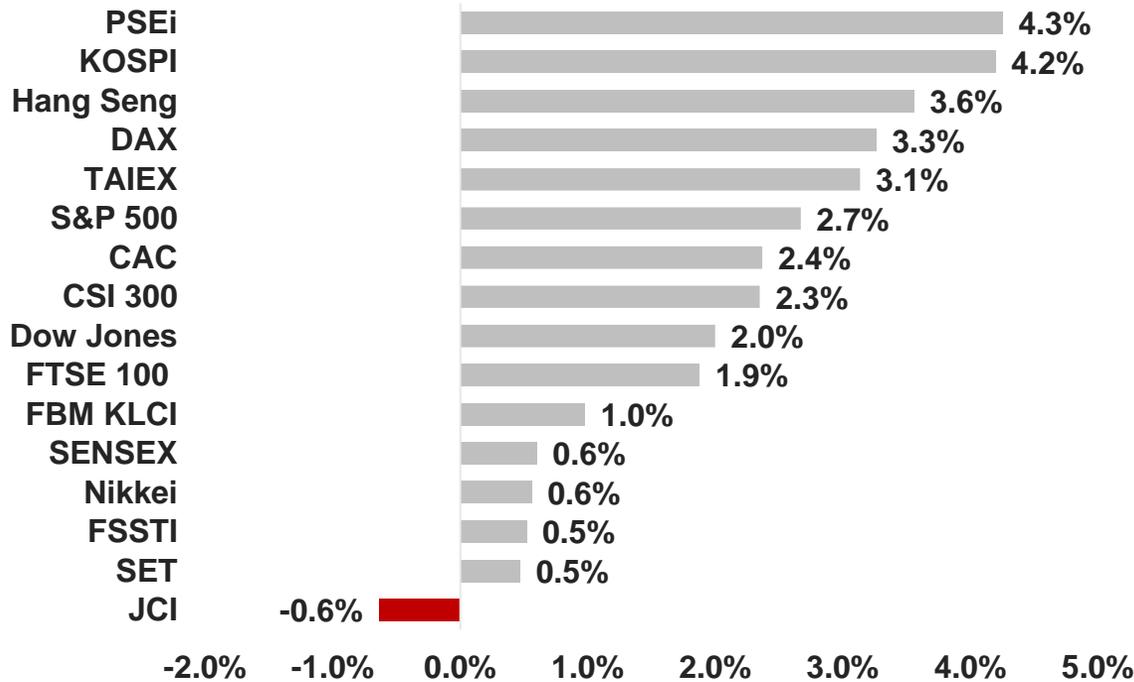


### Malaysia's Unemployment Rate, %

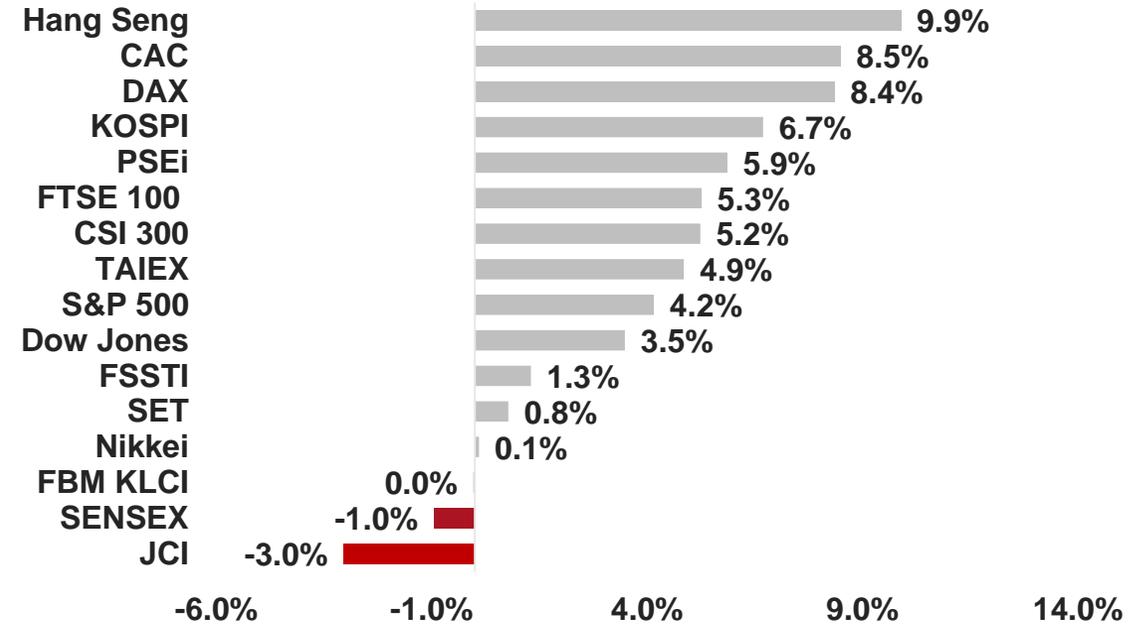


# REGIONAL EQUITY: MARKET ENDED WITH POSITIVE NOTE AS U.S. INFLATION POSTED SOFTER INFLATION

Weekly Gain/Loss of Major Equity Market, %



YTD Gain/Loss of Major Equity Markets, % (As of 13 January 2022)

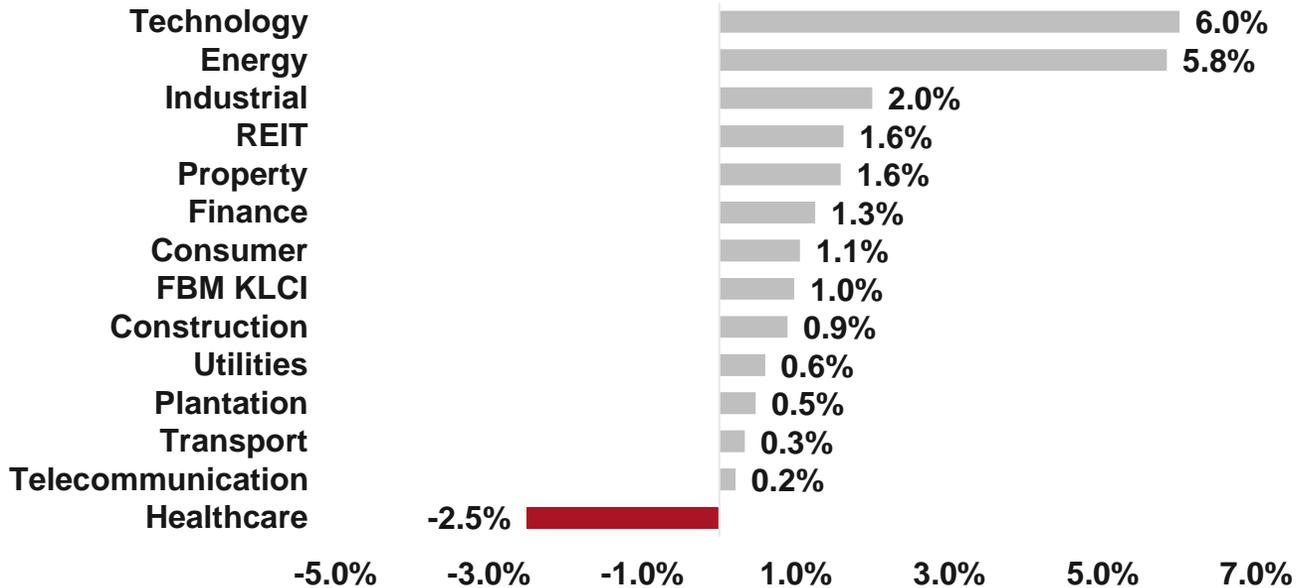


Source: Bursa, CEIC

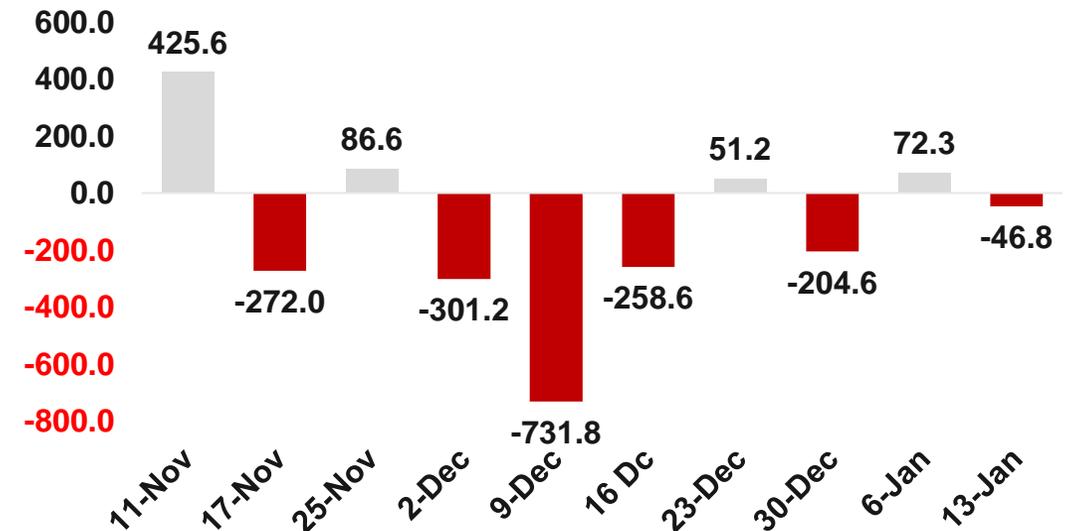
- Regional market closed on positive gains for the week ended on 13 January, led by the Philippines' PSEi, South Korea's KOSPI and Hong Kong's Hang Seng, which rose by 4.3%, 4.2% and 3.6%, respectively, amid ease of inflation in the U.S. which has boosted the sentiment among investors.
- Nevertheless, the Fed is likely to continue its monetary tightening plan as the latest weekly initial jobless claims (IJC) were the lowest in 3 months (7 January 2023: 205k vs 31 December 2022: 206k), suggesting the labour market in the country remained tight despite series of FFR rate hikes since 2022.

# DOMESTIC EQUITY: BETTER SENTIMENT AMONG MARKET PARTICIPANTS

Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Source: Bursa, BNM

- Bursa sectoral indices also ended positively over the week except for the healthcare sector, which dropped by 2.5% as the risk of resurgence of COVID-19 due to China's reopening has dissipated.
- Foreign fund flows reversed their trend with a total of RM46.8 million net outflow recorded for the week ended on 13 January from RM72.3 net inflow previously.
- Looking forward, we anticipate that Bursa and the regional market will likely remain on an upward trend in the short term. Positive sentiment will manifest amid lower U.S. inflation, accompanied by China's reopening news that will support tourism and consumption activities.

## Weekly Changes, basis points (bps)

UST	Yields (%) 6-Jan-23	Yields (%) 13-Jan-23	Change (bps)
3-M UST	4.67%	4.67%	0
2-Y UST	4.24%	4.22%	-2
5-Y UST	3.69%	3.60%	-9
10-Y UST	3.55%	3.49%	-6

MGS	Yields (%) 6-Jan-23	Yields (%) 13-Jan-23	Change (bps)
3-Y MGS	3.59%	3.53%	-6
5-Y MGS	3.82%	3.77%	-5
7-Y MGS	4.00%	3.94%	-6
10-Y MGS	4.02%	3.94%	-8

Source: BNM, Federal Reserve Board

- The U.S. Treasury (UST) and MGS yields were lower for the week ended on 13 January, taking cues for moderating U.S. inflation.
- In the near term, we anticipate the MGS yields will continue to trend lower at a gradual pace. Economic activities will be weighed on by the Fed's continuous monetary tightening path, which has led to a contraction in manufacturing and services PMI.

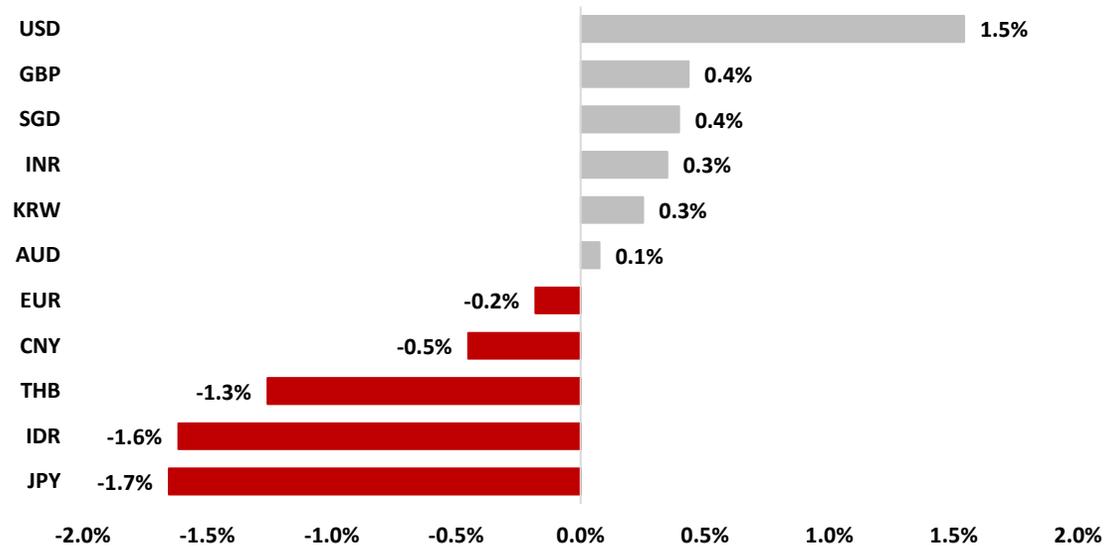
## Foreign Fund Flows, RM Million

Year	Total	BNM Bills	BNNN/B NMN-I	Tbills	MITB	MGS	PDS & Others	GII
2015	(11,270)	(26,006)	(10,872)	2,495	534	16,834	(425)	6,480
2016	825	(15,557)	(79)	(1,107)	(452)	6,334	1,000	9,899
2017	(7,975)	(3,724)	-	753	802	(4,041)	922	(3,032)
2018	(21,865)	650	-	325	76	(18,287)	(2,517)	(2,603)
2019	19,852	-	-	(1,930)	(291)	17,735	327	5,202
2020	18,303	(3,000)	-	3,837	697	13,442	(784)	3,721
2021	33,575	(2,000)	-	(426)	2,269	12,144	668	19,670
2022	(9,782)	-	-	(1,156)	298	(3,498)	61	(4,282)

- A total of RM9.8 billion foreign net outflows were recorded in 2022 amid aggressive rate hikes in the U.S., which led to the Ringgit's weakness.
- Foreign investors may make a return into 2023 as growth moderates in time.

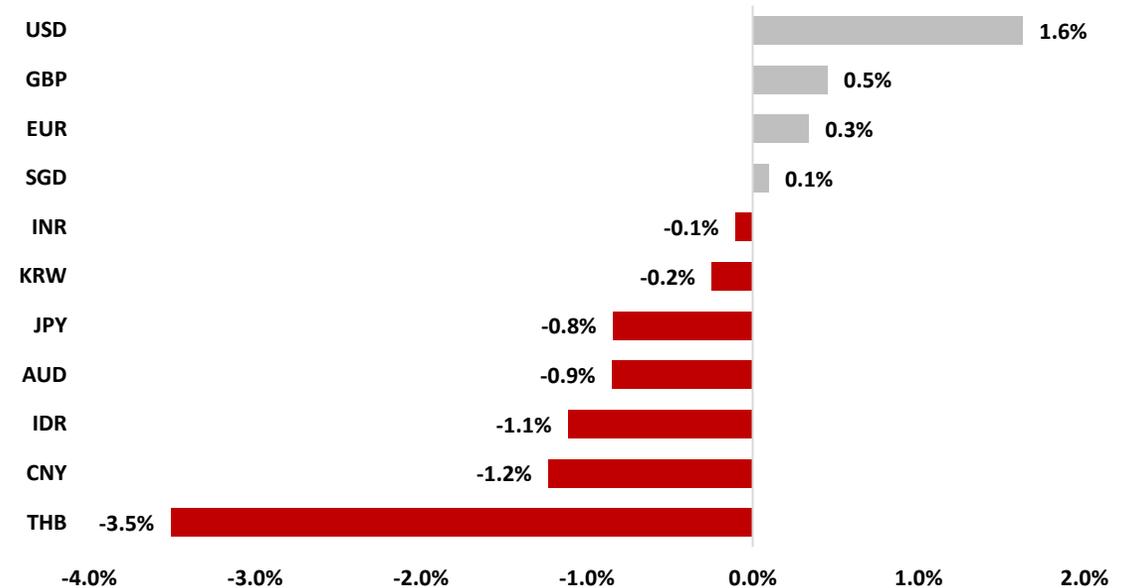
# FX MARKET: RINGGIT TO STRENGTHEN AGAINST USD, TRADING BETWEEN RM4.30 TO RM4.32 THIS WEEK

MYR against regional currencies, w-o-w%  
(Week Ending 13 January)



Source: Investing.com

MYR against regional currencies, YTD Gain%  
(As of 13 January)



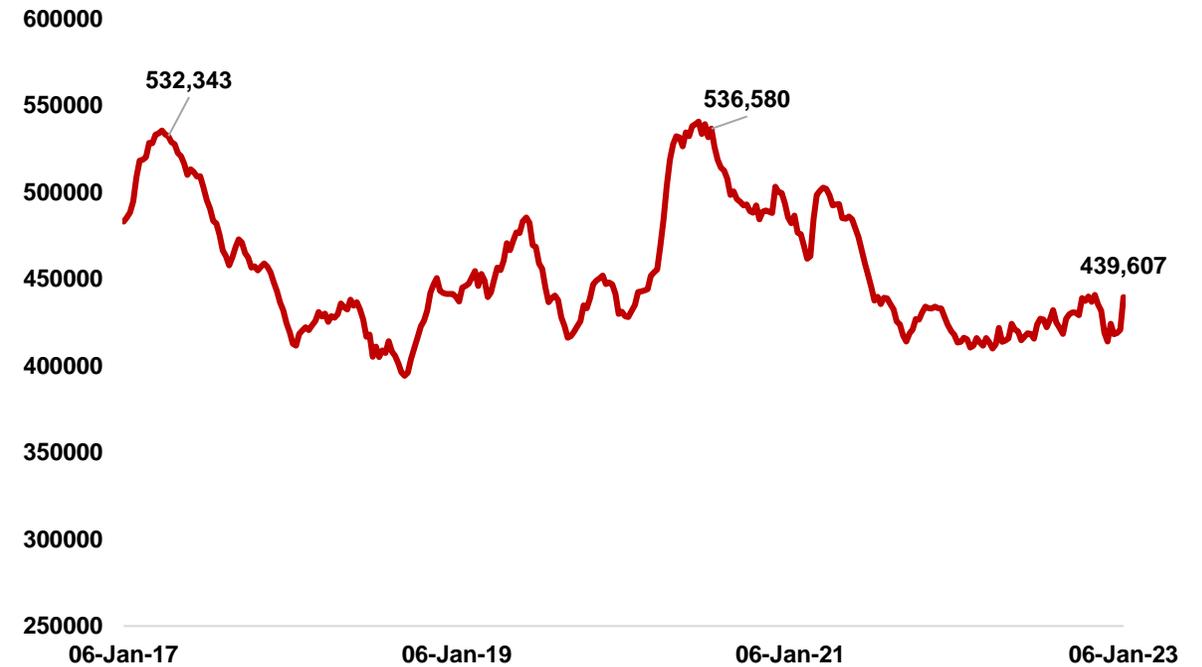
- The Ringgit strengthened against the USD by 1.5% on a weekly basis following a softer U.S. inflation in December 2022, prompting the Fed to be less aggressive in hiking its rates.
- Domestically, the local note is further supported by the better-than-expected y-o-y November IPI reading (Actual: 4.8% vs Est: 3.0%) aside from the market optimism about China's economic reopening.
- Looking forward, we expect Ringgit to continue its strong trend movement from anticipating another 25 bps increase in the Overnight Policy Rate (OPR) by the Bank Negara Malaysia (BNM) in its first Monetary Policy Committee this week.
- As such, we foresee the Ringgit to trade between RM4.30 to RM4.32 against the greenback during the week.

# COMMODITY: BRENT PRICE GAINS DURING THE WEEK FOLLOWING THE GLOBAL ECONOMIC OPTIMISM

### Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- Oil price was up by 8.5% during the week, underpinned by an improving demand outlook from the top oil importer China, as well as hopes for less aggressive interest rates hikes from the Fed.
- With the E.U. imposing further sanctions against Russia effective February, the market is preparing for a bullish outlook as additional curbs may be aimed at Russian fuel-related products sales.

# COMMODITY: GOLD PRICE TO NOTCH ITS FOURTH STRAIGHT WEEKLY GAINS AMID ANTICIPATION OF SLOWER FED'S RATE HIKES

### Gold in USD per ounce



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



Sources: Bloomberg, Commodity Research Bureau

- The U.S. CPI print eased in December 2022, fueling the bets that the central bank will decelerate its interest rate hikes pace.
- Markets are now expecting a 25 bps increase in the interest rates for the upcoming meeting after delivering a 50 bps increase during the December meeting.

# WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The cooling of U.S. inflation has boosted market hopes for the U.S. Fed to reduce its aggressive rate hikes to 25 bps in the upcoming FOMC meeting on 1 February. However, the U.K.'s better-than-expected GDP figures, together with ongoing wage pressures, could prompt a 50 bps increase by its central bank during its next MPC meeting in early February. There will be a Bank of Japan (BoJ) meeting while the European Central Bank (ECB) President Christine Lagarde is due to speak.
- As for the U.S., retail sales saw their biggest decline in 11 months in November. We expect a similar scenario in the following month, which could signal that the Fed's aggressive rate hikes are cooling the economy. Other upcoming figures to release this week include the producer price index (PPI), existing home sales and initial jobless claims in the week ended 14 January.
- Meanwhile, world leaders, policymakers, as well as top corporate chiefs will be attending the annual World Economic Forum (WEF) meeting in Davos from 16-20 January. Under the theme of "Cooperation in a Fragmented World", participants will deliberate on issues of a slowing world economy, de-globalisation and military conflict between Russia and Ukraine,
- On the domestic front, the week's highlight will be the first MPC meeting of the new year on 18-19 January. Though inflation in Malaysia is still not as acute as in other countries, its upward momentum has started to pick up in 2H2022. Nevertheless, BNM will stick to its "gradual and measured" mantra to ensure an optimal level of sustainable economic growth and price stability. As such, we expect a 25 bps increase in the OPR during the said meeting to bring the cumulative rate to 3.00%.

# DISCLAIMER

*Produced and issued by BANK ISLAM MALAYSIA BERHAD (Bank Islam) for private circulation only or for distribution under circumstances permitted by applicable laws. All information, opinions and estimates contained herein have been compiled or arrived at based on sources and assumptions believed to be reliable and in good faith at the time of issue of this document. This document is for information purposes only and has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. No representation or warranty, expressed or implied is made as to its adequacy, accuracy, completeness or correctness. All opinions and the content of this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or groups of Bank Islam as a result of using different assumptions and criteria. No part of this document may be used, reproduced, distributed or published in any form or for any purpose without Bank Islam's prior written permission.*

BANK ISLAM

**THANK YOU**