WEEKLY ECONOMIC UPDATE

17 JULY 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: MALAYSIA'S IPI REBOUNDED BUT UNEMPLOYMENT RATE REMAINED FLAT

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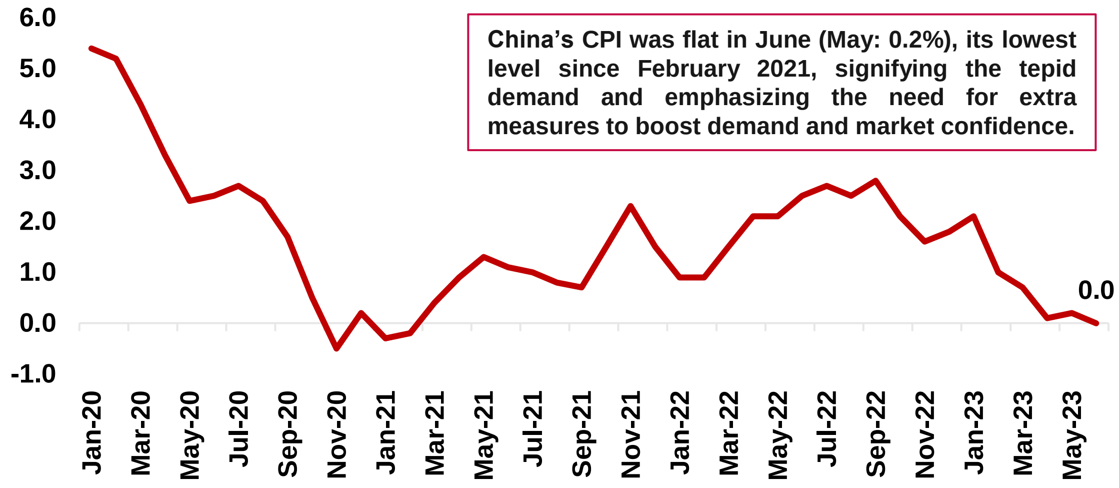
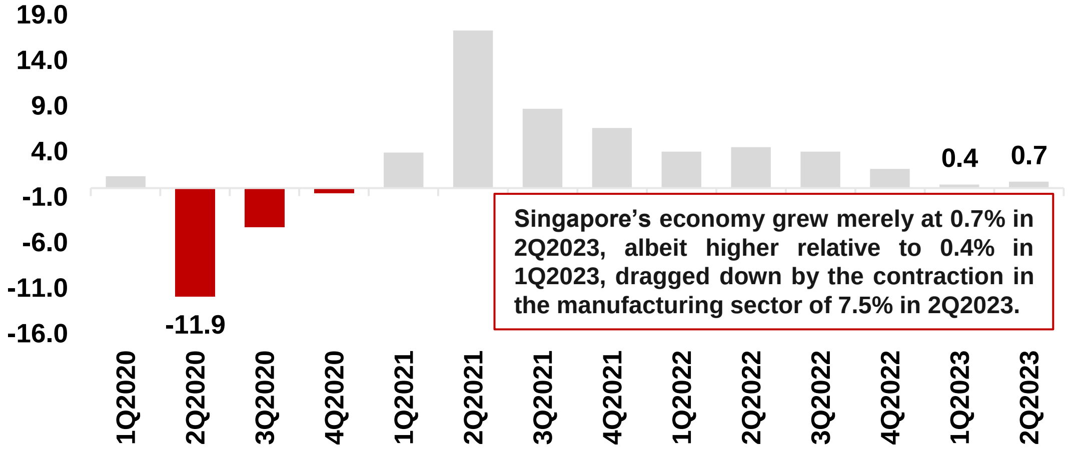
GLOBAL

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

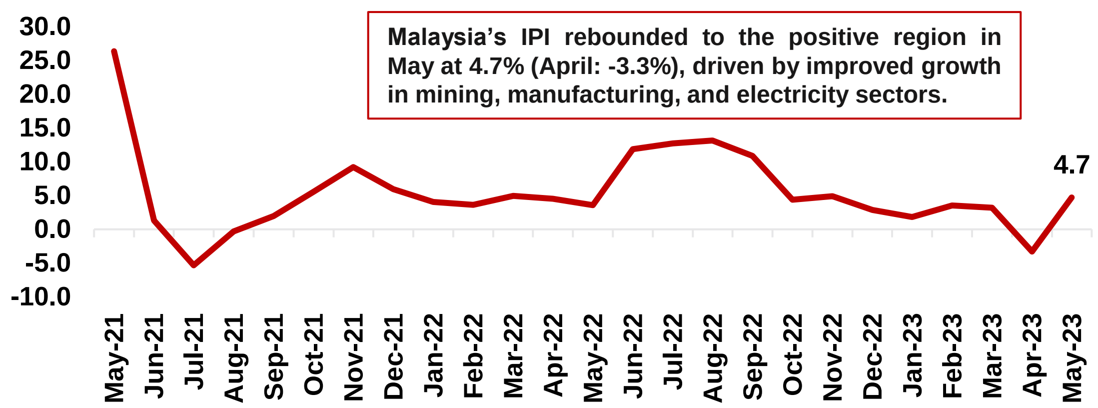


Singapore - Real Gross Domestic Product (GDP), y-o-y%

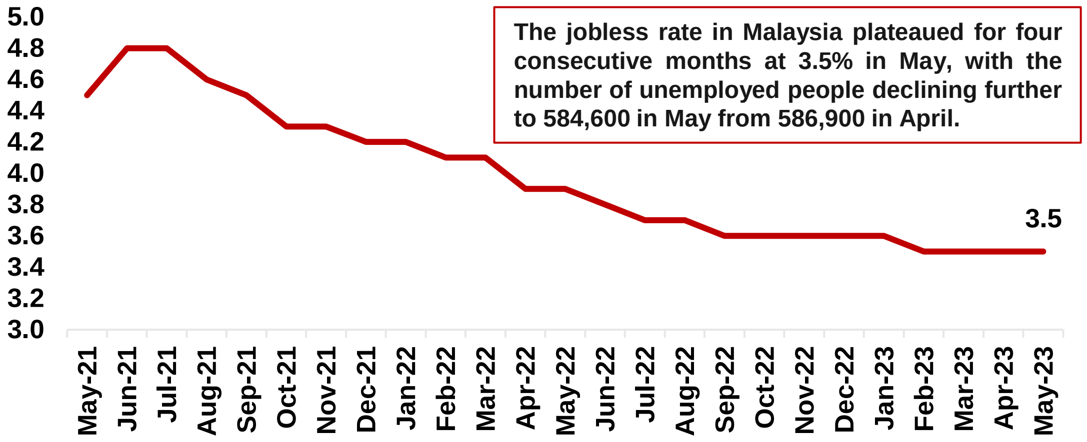


DOMESTIC

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



Malaysia - Unemployment Rate, %

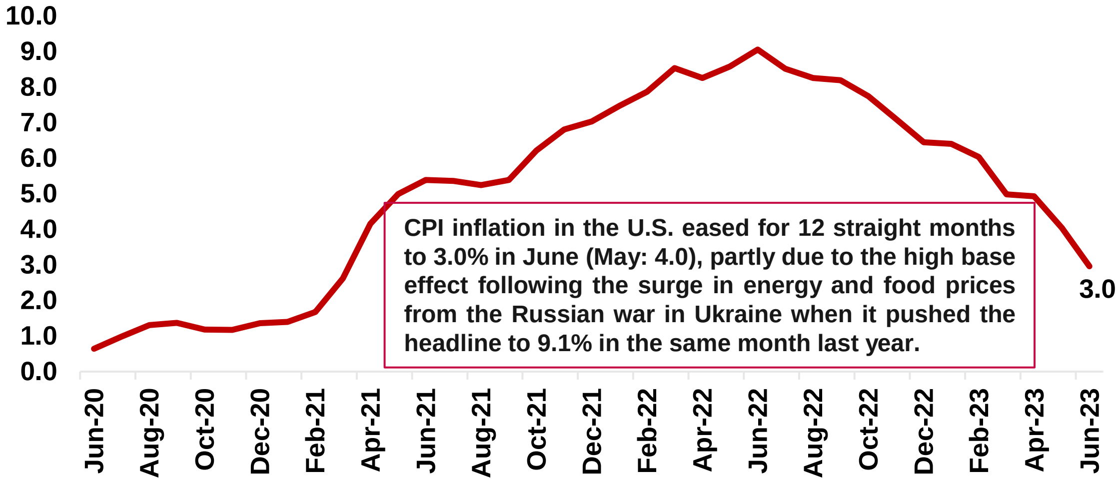


Sources: National Bureau of Statistics, Singapore Department of Statistics, Department of Statistics Malaysia

U.S. WEEKLY HIGHLIGHT: SLOWER PACE OF INFLATION BUT THE JOURNEY IS YET TO BE OVER

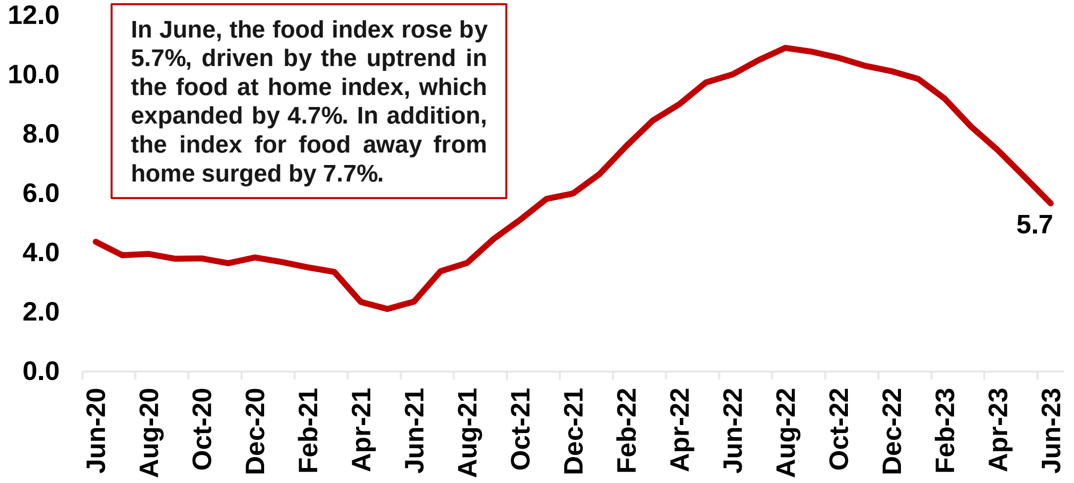
GLOBAL

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



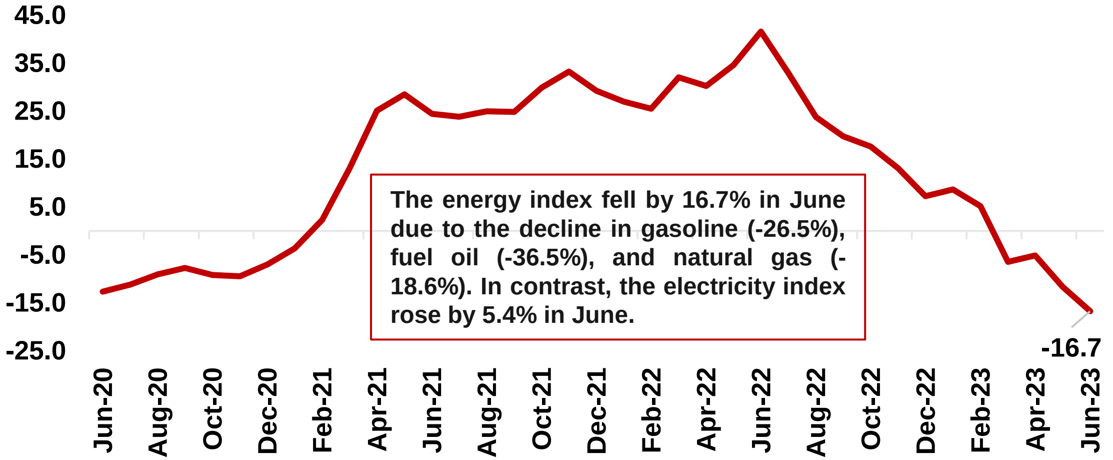
CPI inflation in the U.S. eased for 12 straight months to 3.0% in June (May: 4.0), partly due to the high base effect following the surge in energy and food prices from the Russian war in Ukraine when it pushed the headline to 9.1% in the same month last year.

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



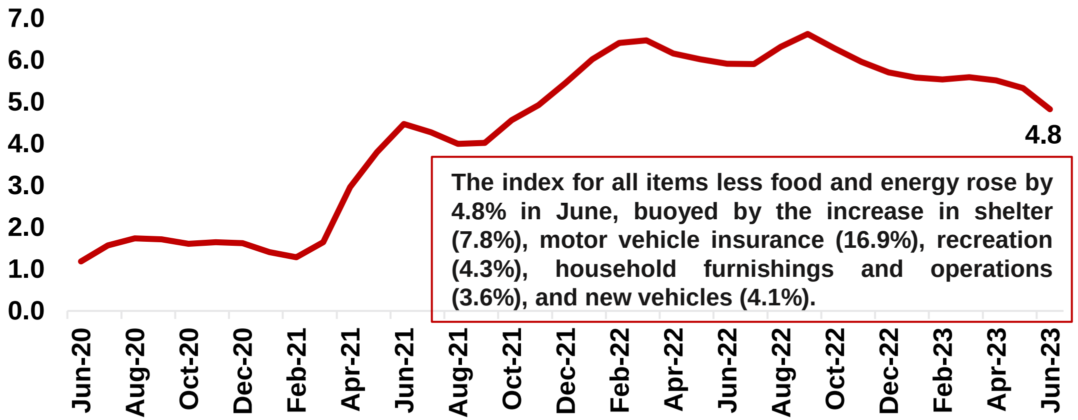
In June, the food index rose by 5.7%, driven by the uptrend in the food at home index, which expanded by 4.7%. In addition, the index for food away from home surged by 7.7%.

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



The energy index fell by 16.7% in June due to the decline in gasoline (-26.5%), fuel oil (-36.5%), and natural gas (-18.6%). In contrast, the electricity index rose by 5.4% in June.

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



The index for all items less food and energy rose by 4.8% in June, buoyed by the increase in shelter (7.8%), motor vehicle insurance (16.9%), recreation (4.3%), household furnishings and operations (3.6%), and new vehicles (4.1%).

Source: U.S Bureau of Labour Statistics

REGIONAL EQUITY: GLOBAL STOCKS RALLIED ON BULLISH SENTIMENT

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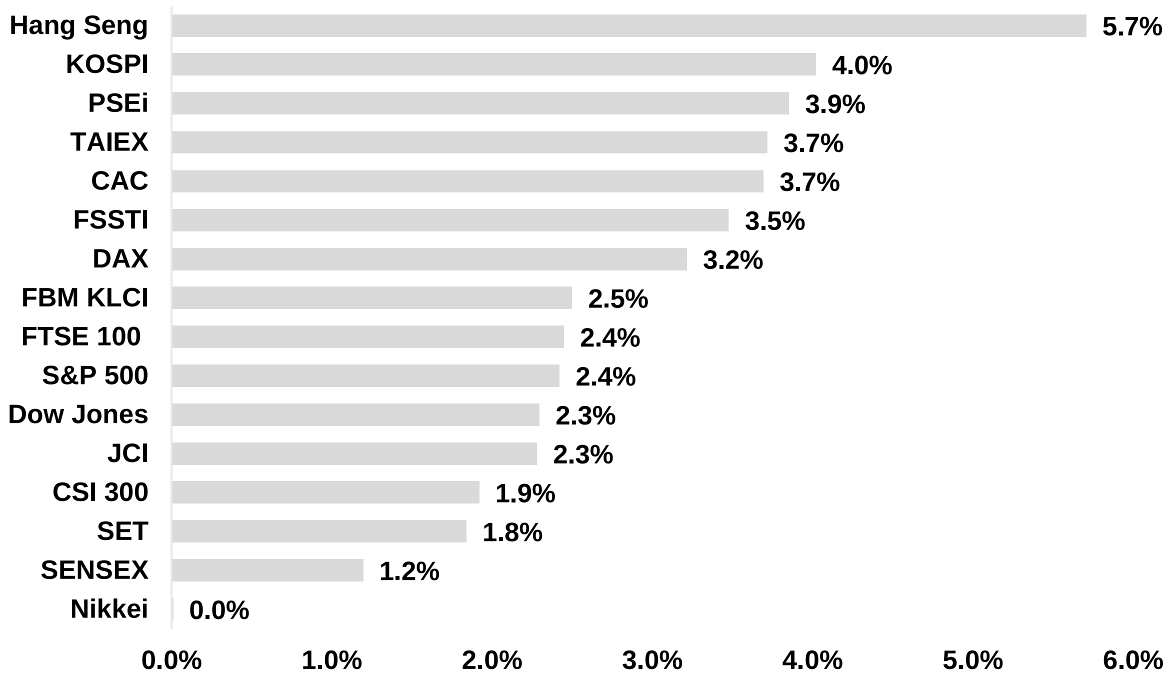

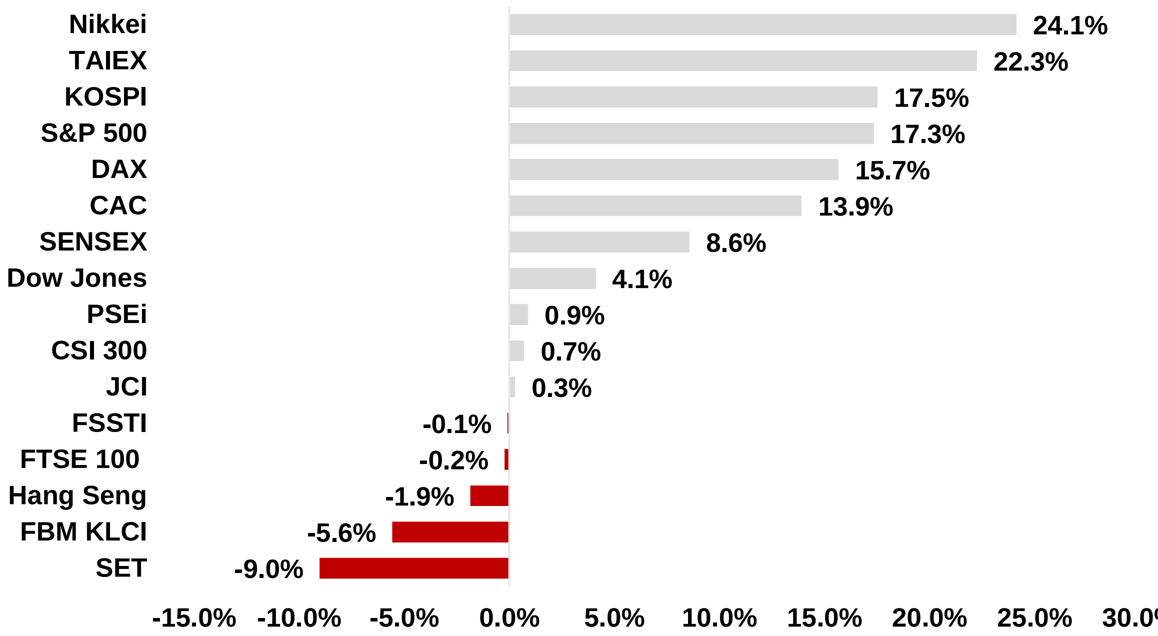

Sources: Bursa, CEIC

- Regional equity markets broadly advanced for the week ending on 14 July. Hong Kong's Hang Seng led gains with a 5.7% rise week-on-week, followed by Korea's KOSPI (4.0%), and Philippines' PSEi (3.9%).
- Investors' sentiment received a boost from rising hopes of more stimulus measures from China amid the building-up of deflationary pressures. The easing of inflation in the U.S. also led market participants to pare down their bets on rate hikes beyond July, thus raising the soft-landing narrative, which buoyed some buying for stocks.
- Market investors will shift their focus to earnings this week as earnings season kicks off.

DOMESTIC EQUITY: LOCAL STOCKS EXTENDED GAINS ALONGSIDE REGIONAL EQUITIES

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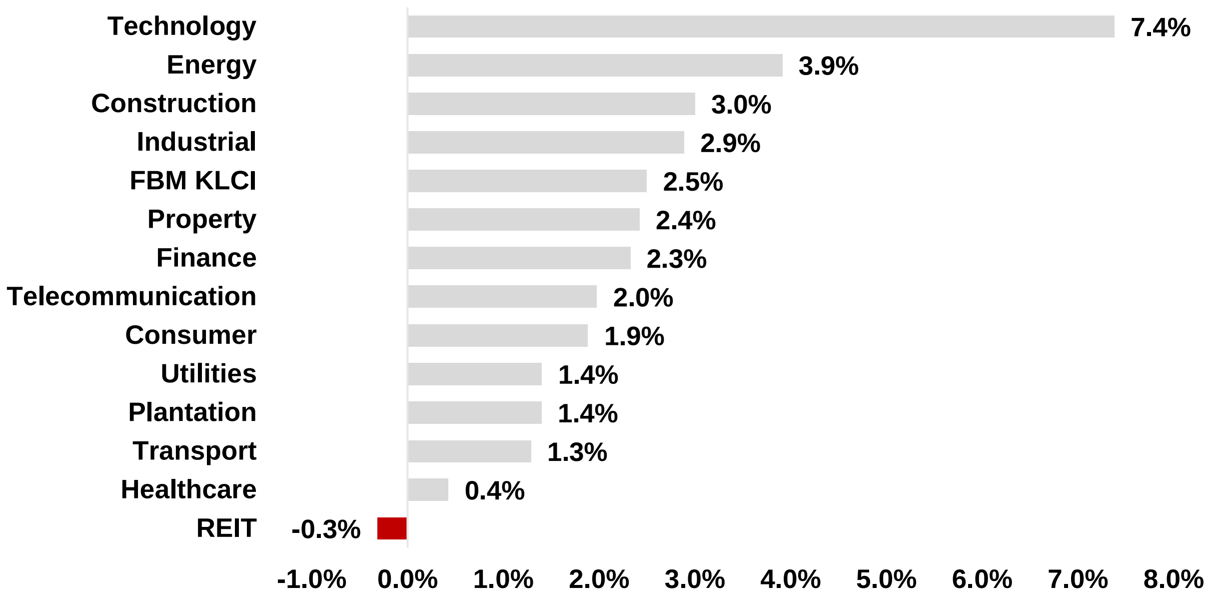
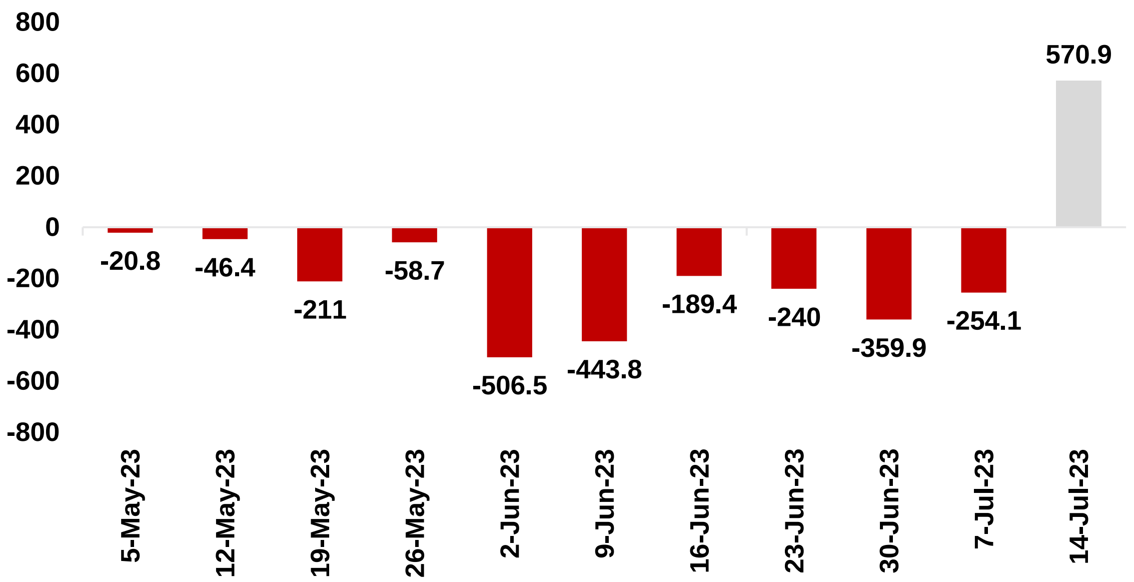
Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, BNM, CEIC

- Most Bursa sectoral indices tracked gains in regional equities for the week ending on 14 July. Technology stocks led the rally (7.4%), followed by energy (3.9%) and construction (3.0%) sectors.
- Meanwhile, REIT was the only loser in Bursa, falling 0.3% compared to the previous week.
- Foreign investors turned net buyers, recording a weekly total net inflow of RM 570.9 million after twelve consecutive weeks of selling lifted by the positive sentiment amid slowing U.S. CPI June reading. The buying reduced the cumulative total net outflow this year to RM3.9 billion.

FIXED INCOME: BOND MARKETS RALLIED AS INVESTORS FORESEE THAT THE U.S. FED IS NEARING TO HALT RATE HIKES

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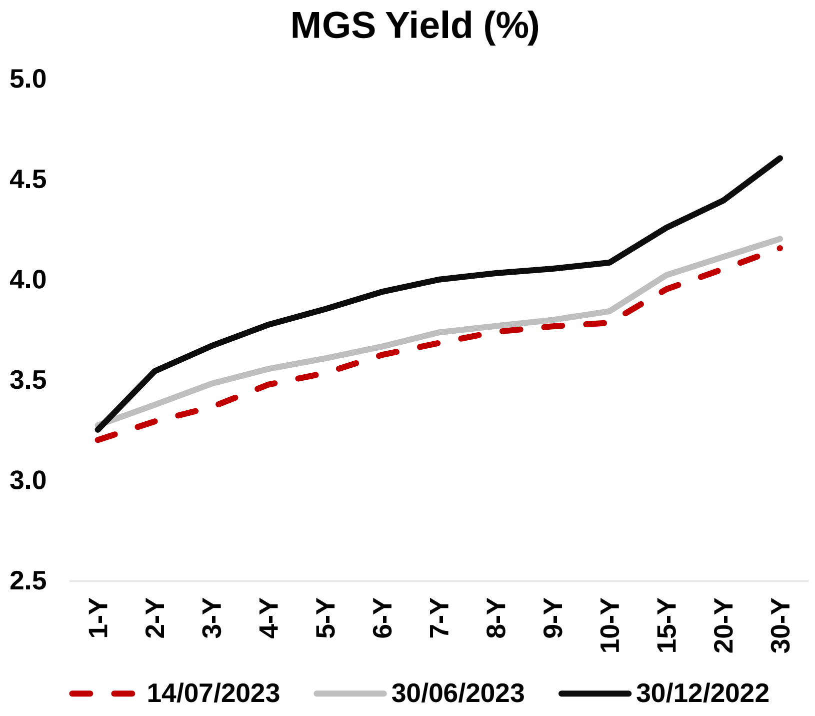
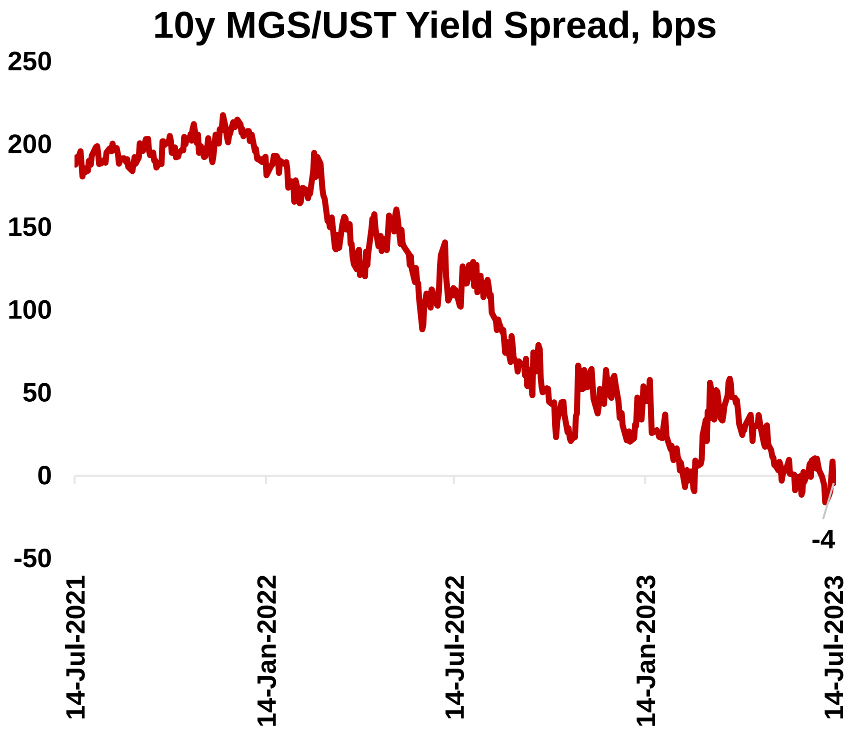
Weekly Changes, basis points (bps)

UST	Yields (%) 7-Jul-23	Yields (%) 14-Jul-23	Change (bps)
3-Y UST	4.64	4.35	-29
5-Y UST	4.35	4.04	-31
7-Y UST	4.23	3.94	-29
10-Y UST	4.06	3.83	-23
MGS	**Yields (%) 7-Jul-23**	**Yields (%) 14-Jul-23**	**Change (bps)**
3-Y MGS	3.52	3.37	-16
5-Y MGS	3.67	3.54	-14
7-Y MGS	3.80	3.69	-12
10-Y MGS	3.90	3.79	-12
GII	**Yields (%) 7-Jul-23**	**Yields (%) 14-Jul-23**	**Change (bps)**
3-Y GII	3.53	3.44	-9
5-Y GII	3.72	3.61	-11
7-Y GII	3.82	3.73	-9
10-Y GII	3.92	3.81	-11

Sources: Bank Negara Malaysia (BNM), Federal Reserve Board





- The U.S. Treasury (UST) yields ended stronger last week, with UST yielding a downtrend of 23bps and 31bps. UST yields fell as the latest inflation print showed a slowdown. Thus, bolstered speculation that the Federal Reserve (Fed) is near to ending its rate hikes.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ended firmer. MGS yield curve bull flattened in the range of 12bps and 16bps. Meanwhile, GII yields decreased between 9bps and 11bps.
- The RM5.5 billion 10-Y reopening of MGS issued on 13 July managed to garner robust demand with a bid-to-cover (BTC) ratio of 2.6x, in contrast to a weaker demand of 1.7x in the previous RM4.5 billion 10-Y reopening of MGS, back in March.
- The 10y MGS/UST yield spread closed in negative territory of 4bps, albeit better than -16bps recorded in the previous week.

FX MARKET: THE RINGGIT STRENGTHENED AGAINST THE USD DURING THE WEEK

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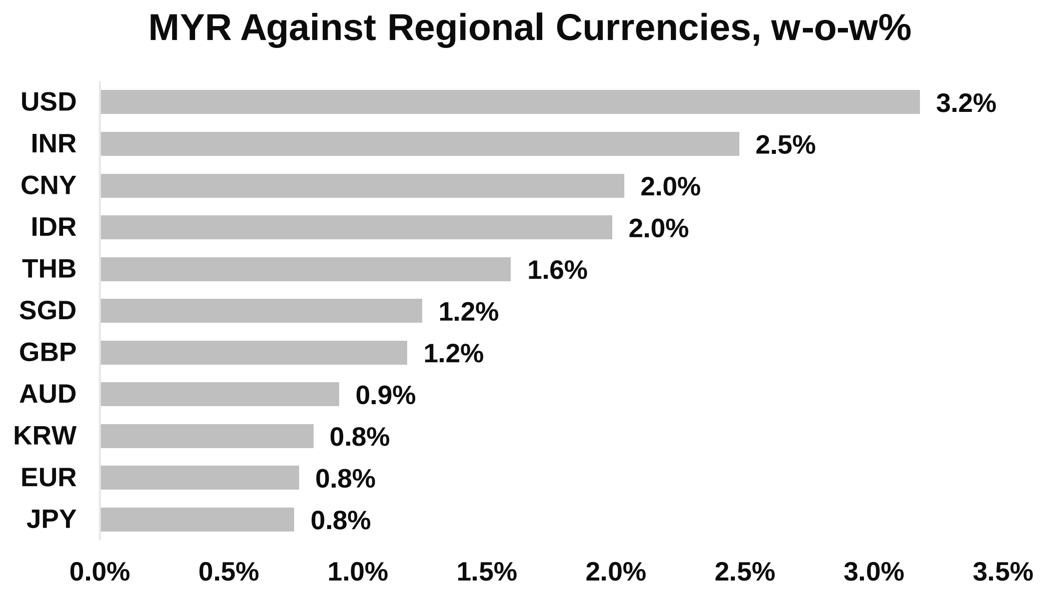
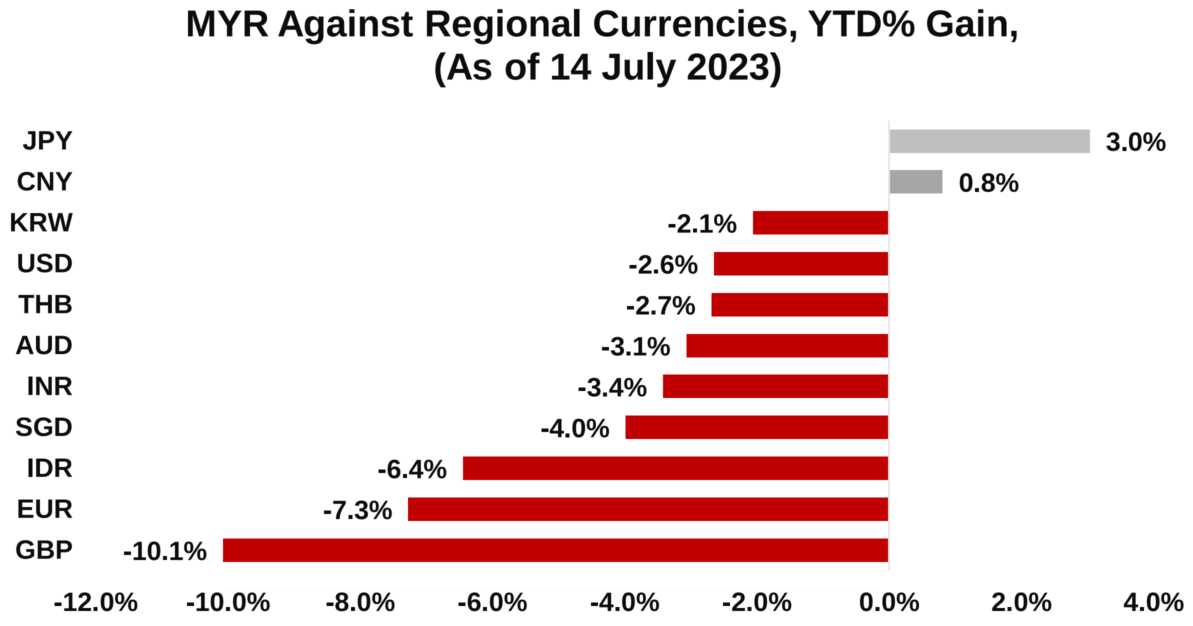
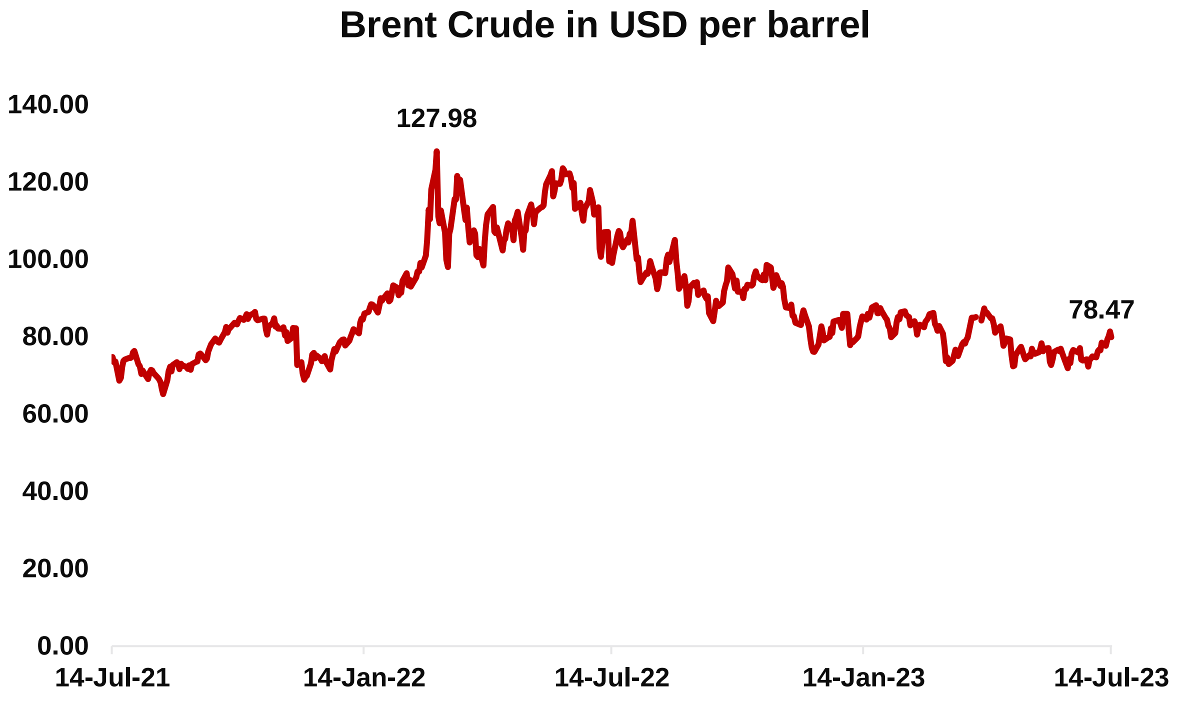


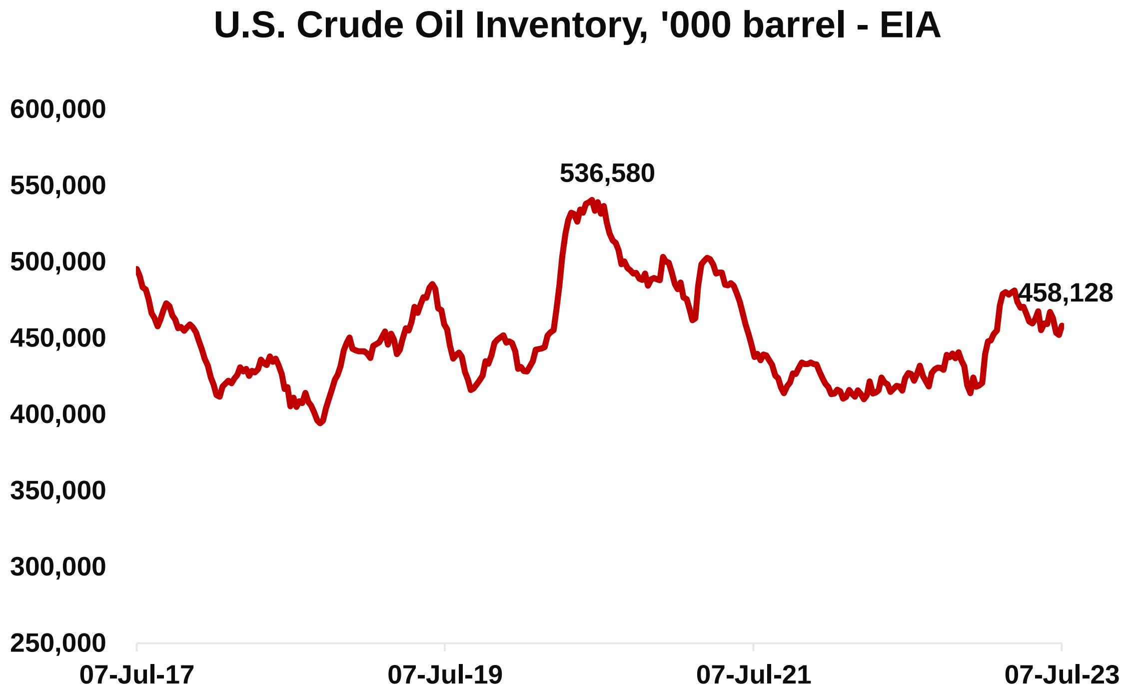


Source: Investing.com

- The Ringgit touched the RM4.50 territory when the local note closed at RM4.5230 against the USD last Friday, a level that has not been seen since May this year, bolstered by the continued slower reading in the June U.S. CPI, which marked the lowest print since March 2021.
- Subsequently, the USD index fell below the 100-mark for the first time since April last year as the market participants started to price at the end of the current hiking cycle, from which we believe the local note could have benefited.
- We posit that investors remain cautious ahead of the upcoming Federal Open Market Committee (FOMC) meeting, with a 25bps rate hike likely before the anticipation of the rate pause bets in the future. China's lower-than-expected 2Q2023 GDP growth of 6.3%, versus the projected 7.3%, would put the local note under some pressure.
- For the record, the Ringgit traded higher against its regional currencies on a weekly basis.

COMMODITY: OIL PRICE WAS ON TRACK FOR THIRD WEEKLY GAIN AMID SUPPLY DISRUPTIONS AND A TIGHTENING GLOBAL MARKET





Sources: Bloomberg, Energy Information Administration (EIA)

- Oil price rose to nearly 2.0% during the week following supply disruptions in Libya and Nigeria, heightening concerns that the market will tighten in the upcoming months. Additionally, Russian oil exports have decreased significantly. If the trend continues, this will drive prices higher since the country's oil export is set to be reduced by 500,000 barrels per day (bpd) in August.
- Apart from that, the cooler-than-expected U.S. inflation numbers also raised hope that the Fed could be nearing the end of its rate-hike cycle, thus boosting the market sentiment.

COMMODITY: GOLD PRICE POSED THE BEST WEEKLY GAIN SINCE MAY AMID FED PAUSE BET BEYOND JULY MEETING

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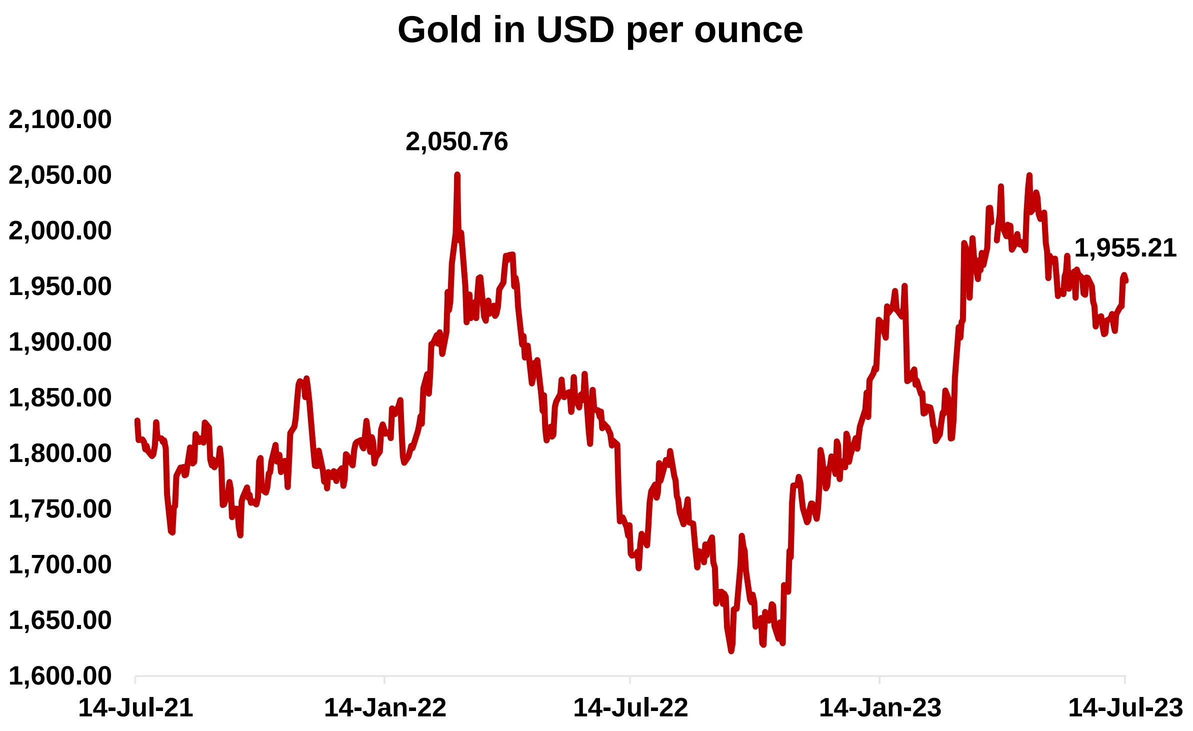

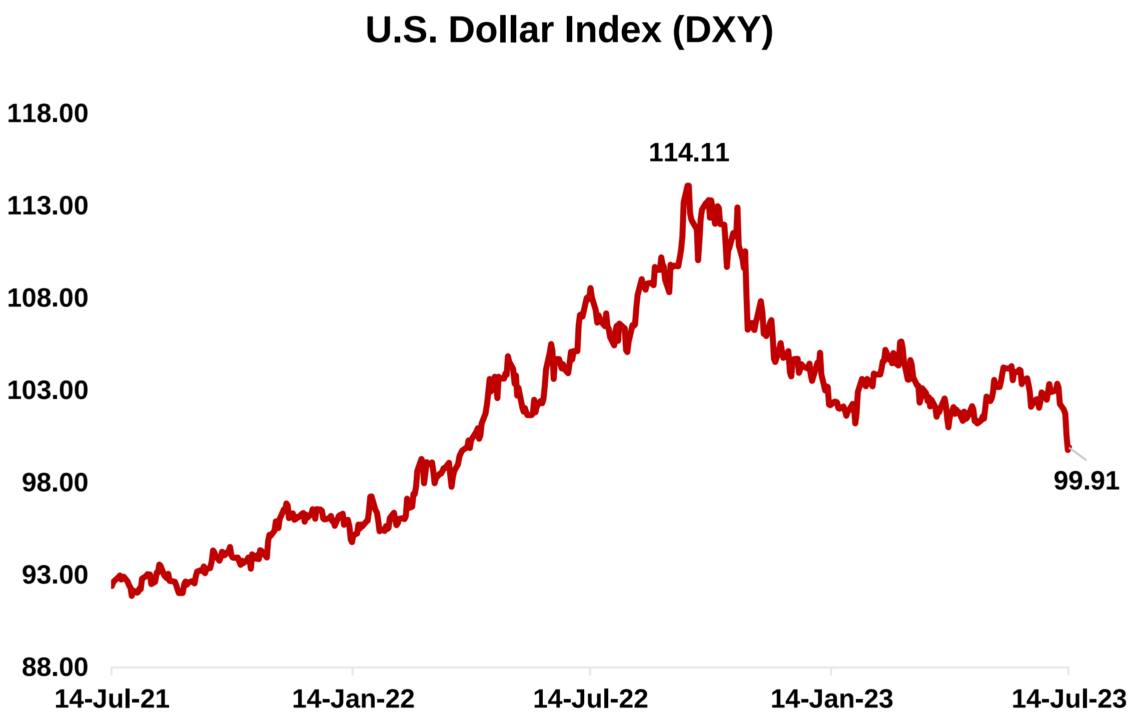

Sources: Bloomberg, Commodity Research Bureau

- The bullion price strengthened during the week as the U.S. CPI reading eased concern that the Fed would keep the rates elevated for longer.
- For now, market participants expect the central bank to raise its fund rate to 25bps in its upcoming meeting later this month before holding it steady for the rest of the year, pivoting towards a more dovish stance in the 1Q2024.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- China's real GDP grew 6.3% y-o-y in 2Q2023, higher than the 4.5% recorded in 1Q2023, mainly supported by the recovery in the services sector and low base effects. However, the growth fell below expectations amid the government's efforts to boost the post-lockdown recovery. Weaknesses in the recent economic data have mounted pressure on policymakers to step up their stimulus measures. The retail sales expanded 3.1% y-o-y in June, lower than the 12.7% recorded in May. The youth unemployment rate hit a fresh high at 21.3% in June, up from 20.8% in May. On the bright side, industrial production growth increased at 4.4% y-o-y in June compared with 3.5% in May.

- The People's Bank of China (PBOC) will decide on its one-year medium-term lending facility rate, one-year and five-year loan prime rates this week. Given the strong new loan growth, PBOC is widely expected to hold its interest rates steady to assess the impact of its rate cuts in June. Nevertheless, given the softness in China's post-lockdown recovery and the pledge by central bank officials to support the economy, we posit that another round of rate cuts in the remainder of the year is likely.

- Meanwhile, in the U.S., a slew of economic reports will be released this week that will allow market participants to gauge the current economic climate ahead of the FOMC meeting on July 26. The economic reports include June retail sales and industrial production data. The solid labour market conditions will likely support retail sales after rising 1.6% y-o-y in May (April: 1.2%). However, industrial production data may not impress as the latest manufacturing Purchasing Managers' Index (PMI) pointed to a downturn in new orders (June: 46.3 points vs. May: 48.4 points).

- On the domestic front, the Department of Statistics Malaysia (DOSM) is set to release trade data for June this week. Though the pace of contraction softened, export growth has been in the negative territory y-o-y for the third consecutive month (May: -0.7% vs. April: -17.4%), reflecting weak external demand. The manufacturing PMI, which ticked down further into the contraction zone at 47.7 points in June (May: 47.8 points), indicated declines in new orders and purchasing activity that would weigh on trade performance.

THANK YOU