



WEEKLY ECONOMIC UPDATE

18 SEPTEMBER 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: CHINESE ECONOMIC DATA SHOWED GREEN SHOOTS OF RECOVERY

GLOBAL

China - Retail Sales, y-o-y%

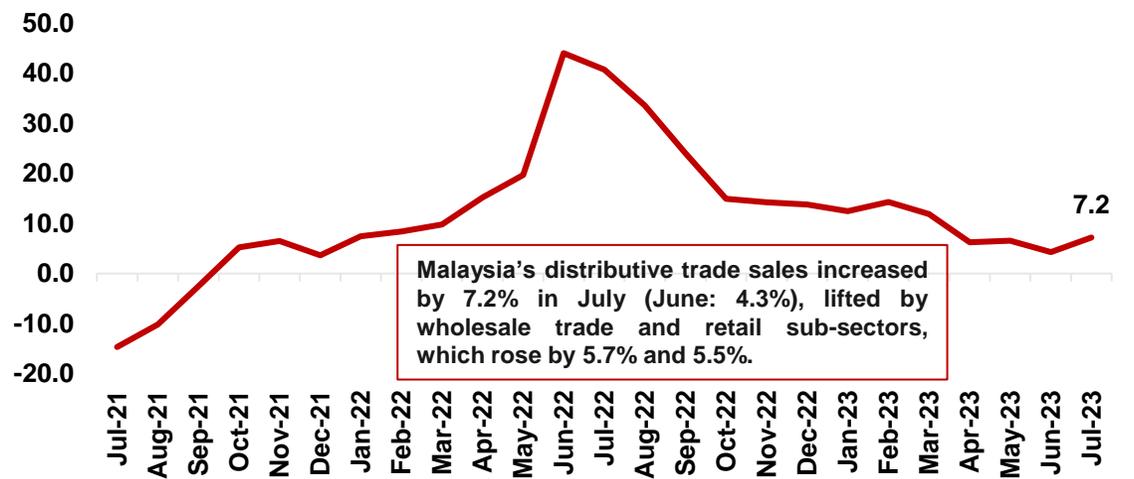


China - Industrial Production Index (IPI), y-o-y%

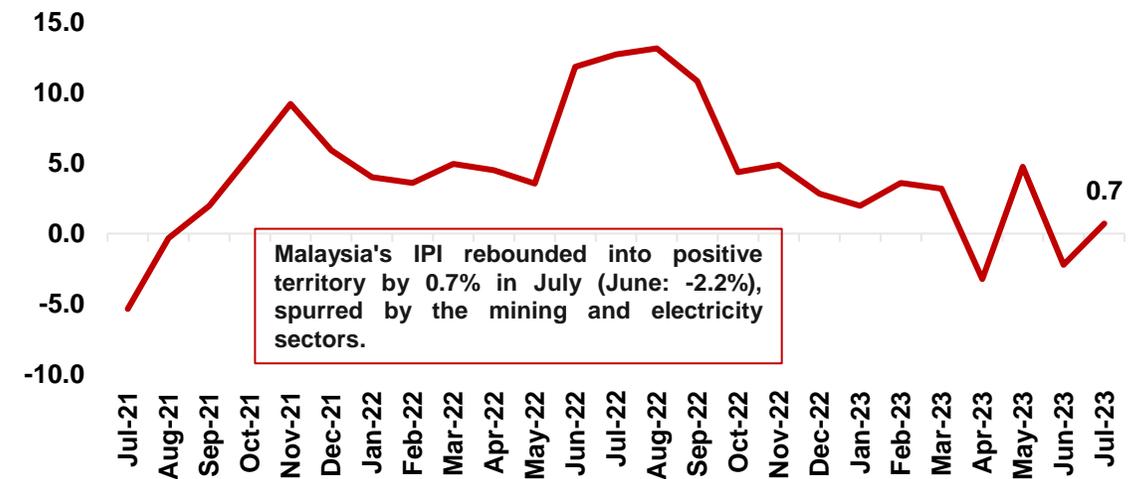


DOMESTIC

Malaysia - Distributive Trade Sales, y-o-y%

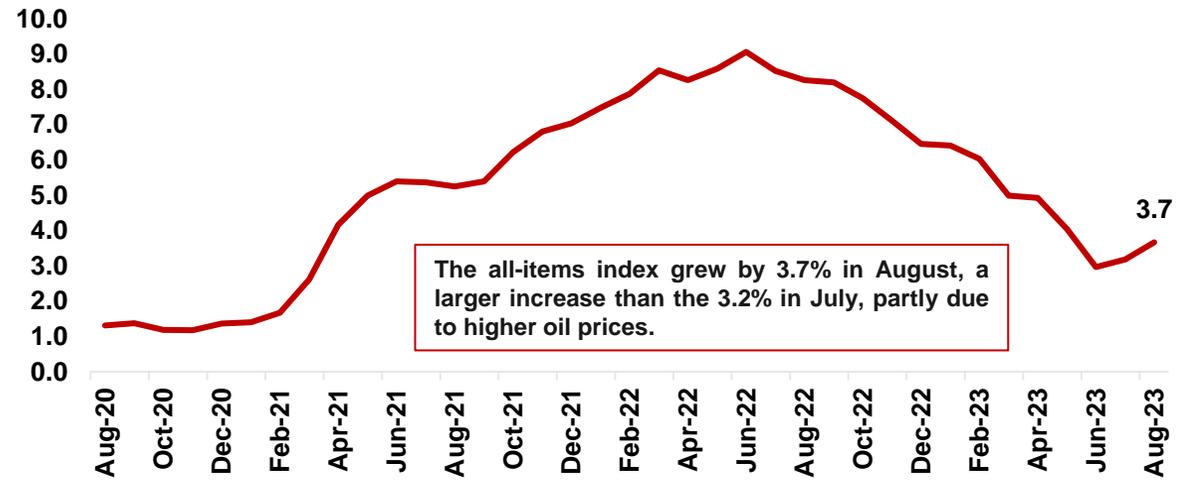


Malaysia - IPI, y-o-y%

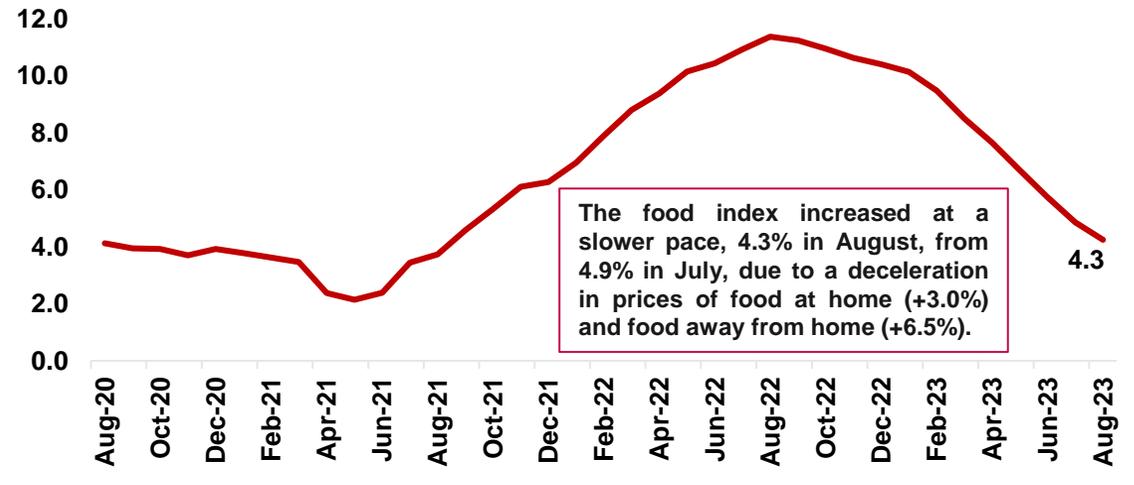


U.S. WEEKLY HIGHLIGHT: U.S. INFLATION EDGED HIGHER, OPENING AVENUES FOR FURTHER RATE HIKES

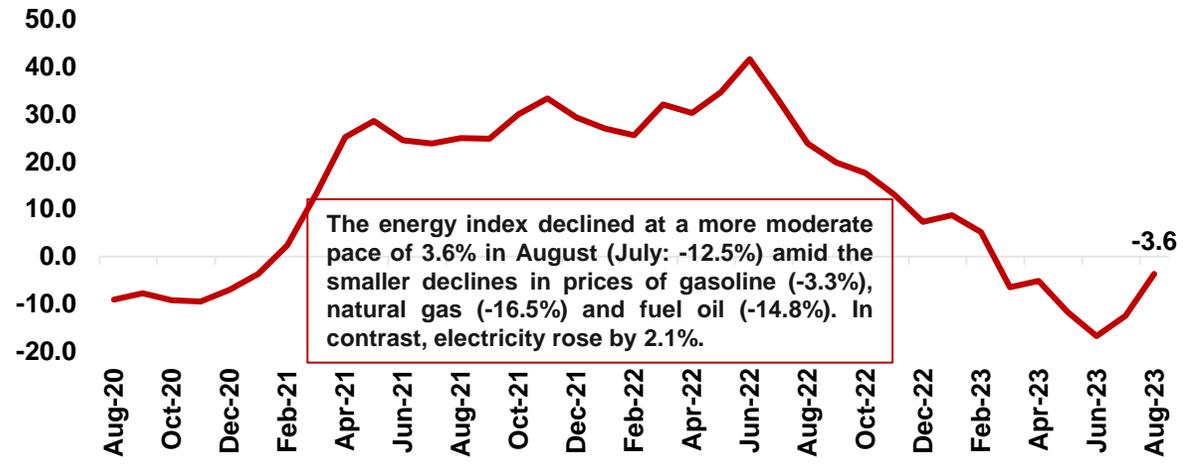
U.S. Consumer Price Index (CPI), y-o-y%



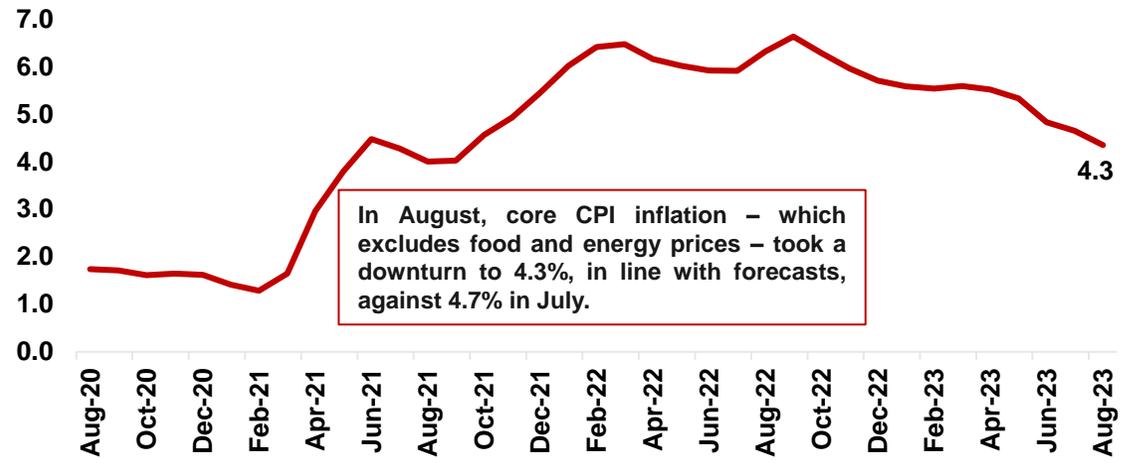
U.S. CPI (Food), y-o-y%



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

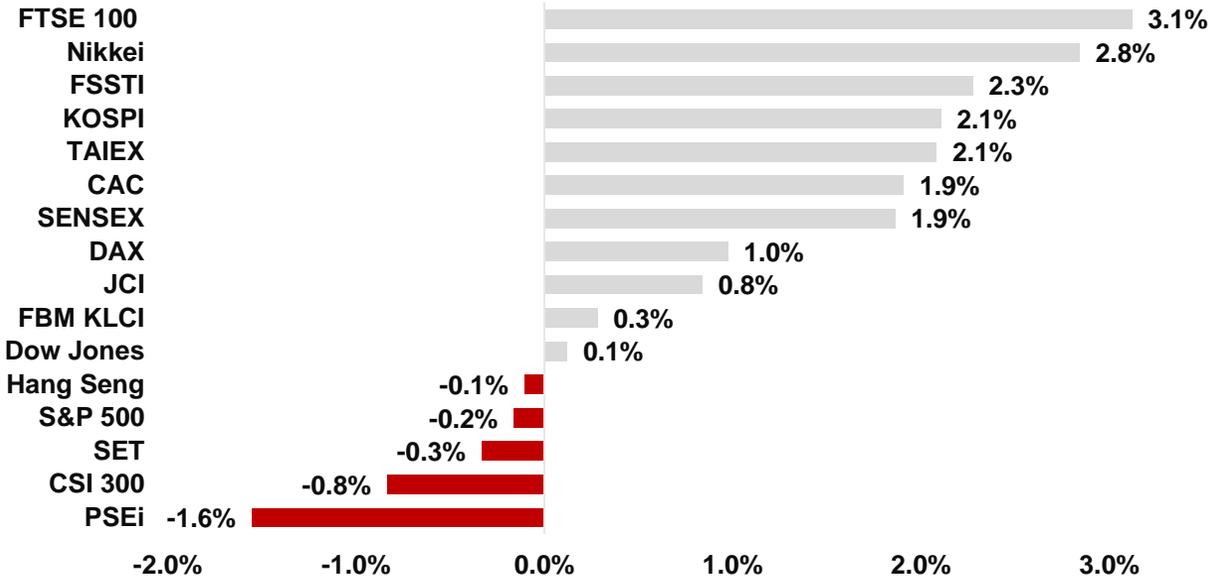


U.S. CPI (All Items less Food and Energy), y-o-y%

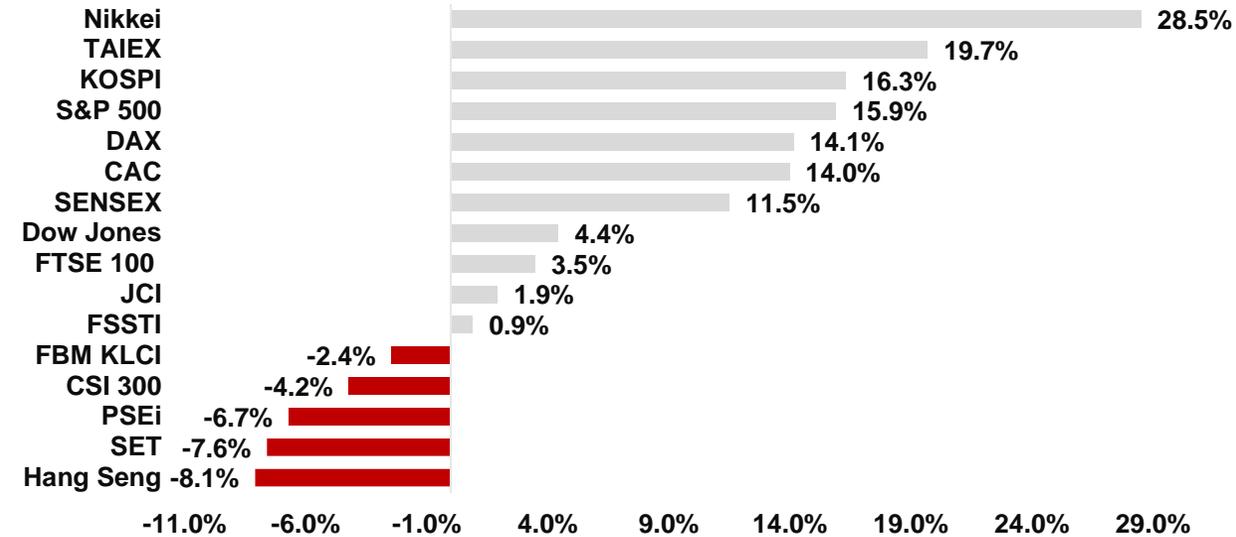


REGIONAL EQUITY: GLOBAL EQUITY RALLIED AMID BETTER-THAN-EXPECTED CHINESE ECONOMIC DATA

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



YTD Gain/Loss of Major Equity Markets, % (As of 15 September 2023)

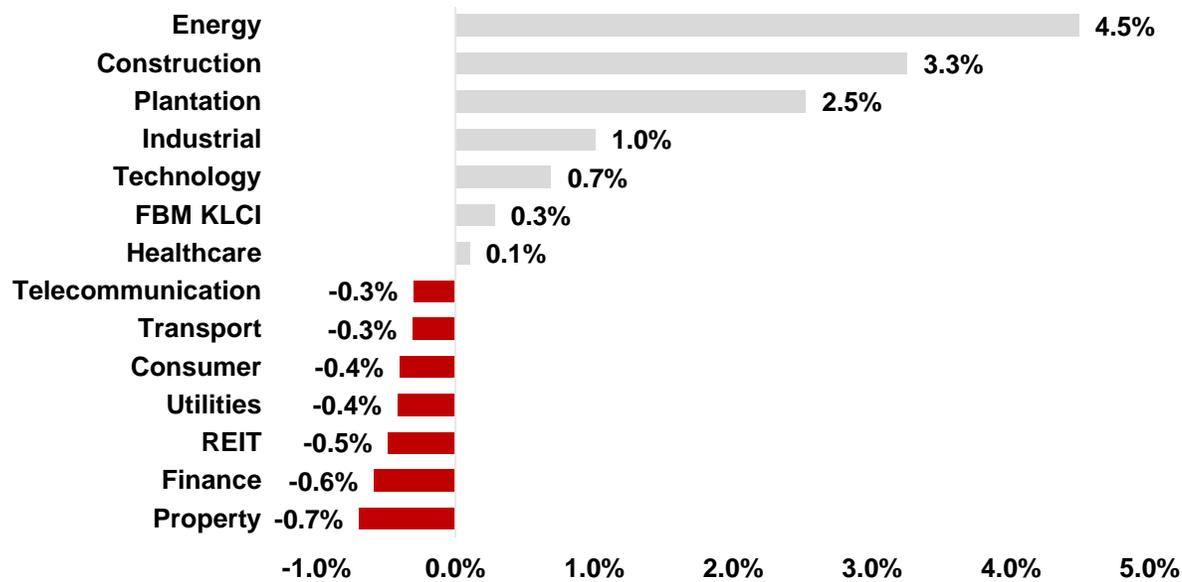


Sources: Bursa, CEIC Data

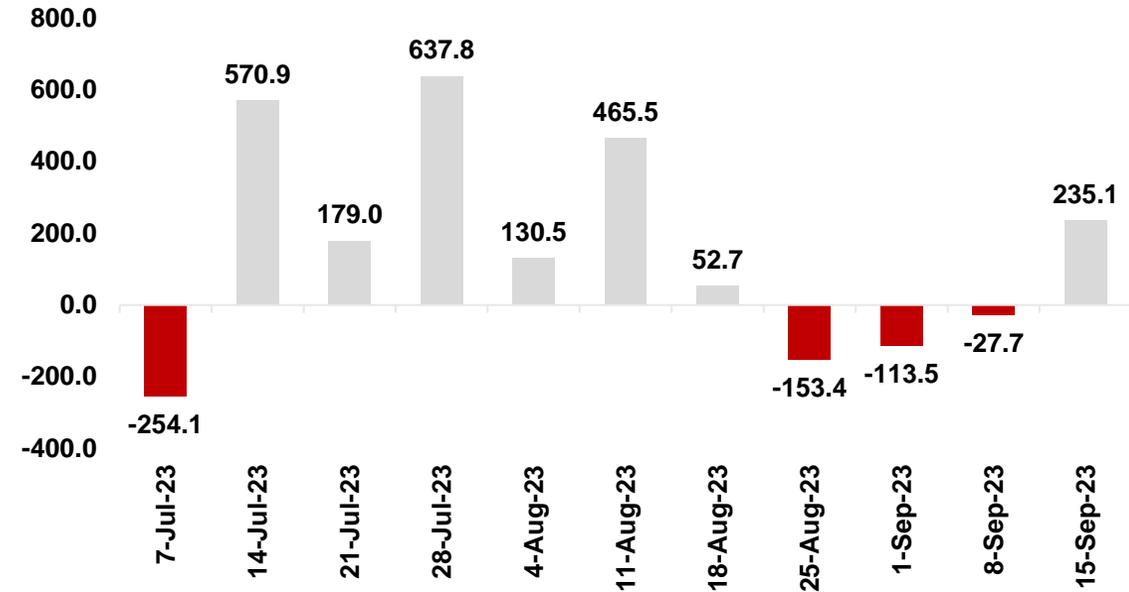
- Regional benchmark indices mostly ended in the green for the week ending September 15 as a fresh batch of data showed that the Chinese economy has started to react positively to a series of economic support measures from Beijing.
- U.K.'s FTSE 100 (+3.1%), Japan's Nikkei (+2.8%), and Singapore's FSSTI (+2.3%) were the major gainers last week.
- Chinese gauges of retail sales and industrial output for August handily topped market forecasts, providing additional tailwinds to regional stocks apart from the decision by the People's Bank of China (PBoC) to cut reserve ratio requirements for a second time this year.
- Nevertheless, China's CSI 300 contracted by 0.8% last week as investors were still uncertain whether these stimulus measures could turn the country's faltering economy around. Among other major losers last week were the Philippines' PSEi (-1.6%) and Thailand's SET (-0.3%).
- Following the European Central Bank (ECB's) 25bps hike last week, investor sentiment improved amid the prospect of peaked interest rates in the Eurozone.

DOMESTIC EQUITY: KLCI TRADED RANGEBOUND AMID MIXED CUES FROM GLOBAL AND DOMESTIC MARKETS

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million

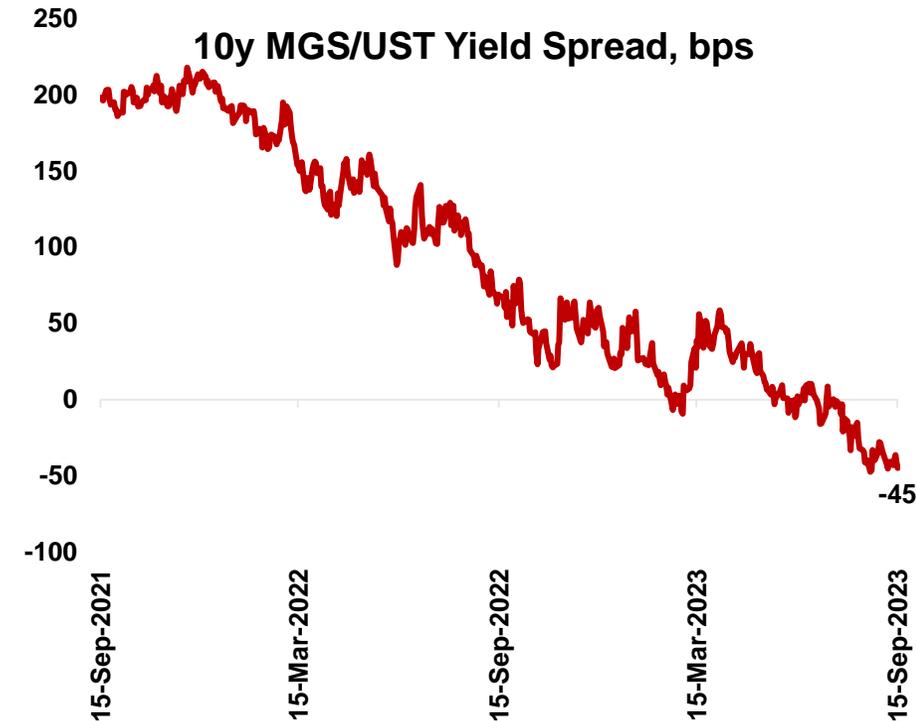
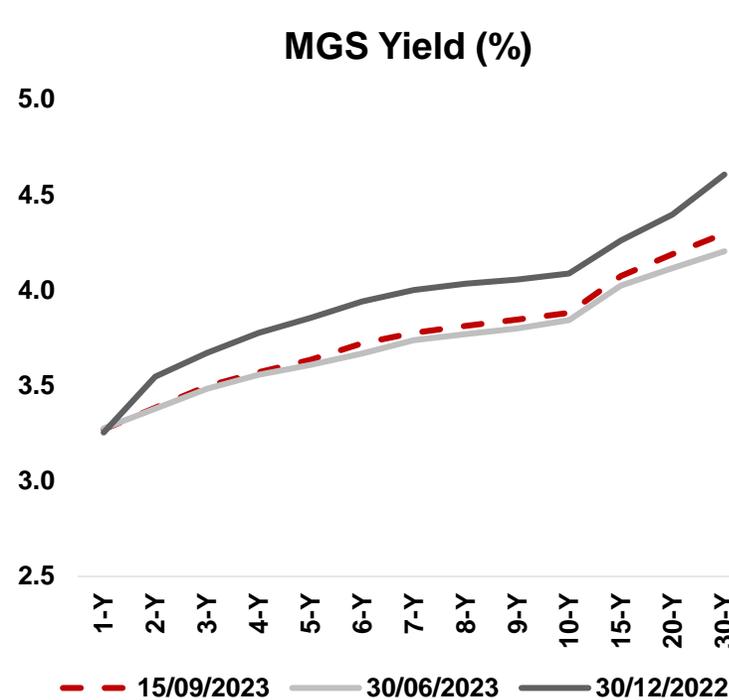


Sources: Bursa, Bank Negara Malaysia (BNM), CEIC Data

- The FBM KLCI closed the week ending September 15 narrowly higher (+0.3% vs. the week ending September 8: -0.6%) with mixed results across sectors as investors await several central bank rate decisions due this week.
- The Energy index led the gainers with a 4.5% rise, buoyed by the buying interest in oil and gas-related stocks as Brent crude had surged over USD90 per barrel. The Construction and Plantation indices also rose by 3.3% and 2.5%, respectively.
- Meanwhile, the Property (-0.7%), Finance (-0.6%) and REIT (-0.5%) indices led losses.
- Foreign investors turned net buyers with RM235.1 million inflows (the week ending September 8: -RM27.7 million) after selling for the past three weeks. The buying reduced the cumulative total net outflow this year thus far to RM2.5 billion.

FIXED INCOME: UST YIELDS CONTINUED TO INCHED HIGHER AS BETS OF THE HIGHER-FOR-LONGER RATES HEIGHTENED

Weekly Changes, basis points (bps)			
UST	Yields (%)	Yields (%)	Change (bps)
	8-Sep-23	15-Sep-23	
3-Y UST	4.68	4.72	4
5-Y UST	4.39	4.45	6
7-Y UST	4.35	4.41	6
10-Y UST	4.26	4.33	7
MGS	Yields (%)	Yields (%)	Change (bps)
	8-Sep-23	15-Sep-23	
3-Y MGS	3.47	3.50	2
5-Y MGS	3.60	3.64	3
7-Y MGS	3.74	3.78	4
10-Y MGS	3.85	3.88	3
GII	Yields (%)	Yields (%)	Change (bps)
	8-Sep-23	15-Sep-23	
3-Y GII	3.50	3.55	5
5-Y GII	3.65	3.69	3
7-Y GII	3.80	3.81	1
10-Y GII	3.89	3.91	2

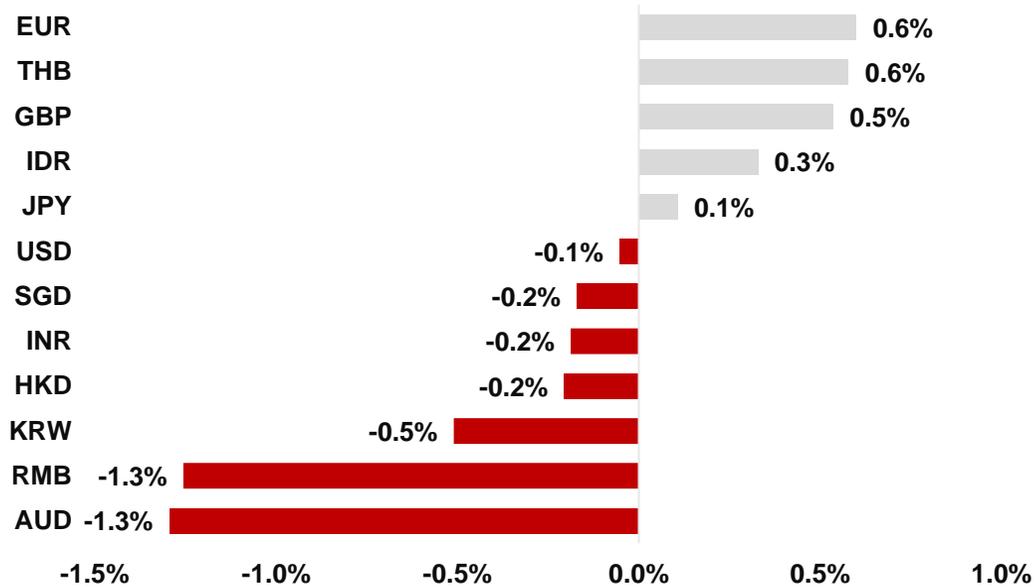


Sources: BNM, Federal Reserve Board

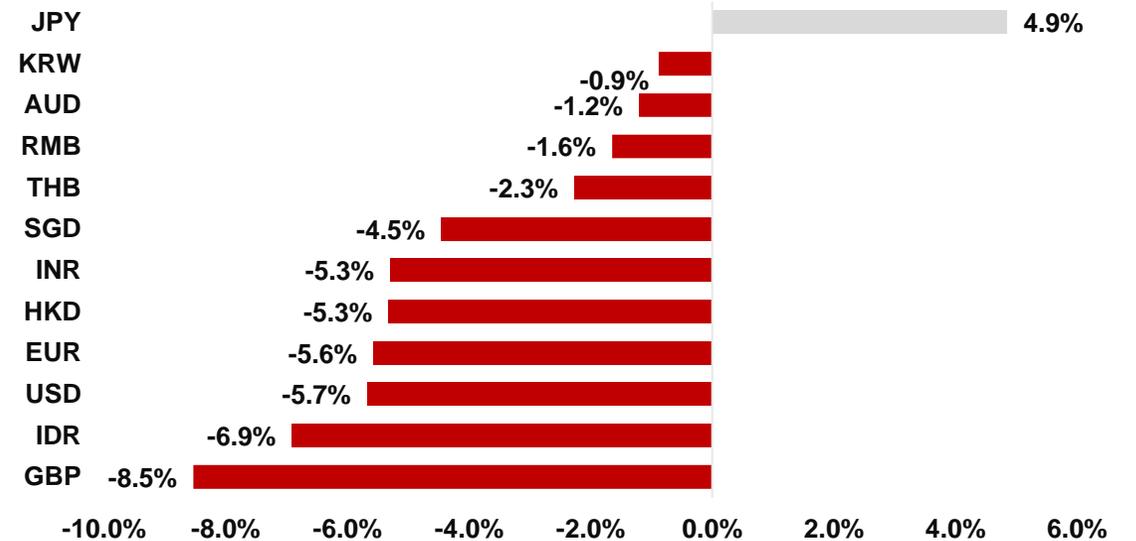
- The U.S. Treasury (UST) yield curve bearishly steepened, with yields rising in the range of 4bps and 7bps as further evidence of resilience in the U.S. economy strengthened bets that the U.S. Federal Reserve (Fed) will keep borrowing costs restrictive for a prolonged period.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) were also on a selling spree, with MGS yields surging between 2bps and 4bps while GII yields rose between 1bp and 5bps.
- Nevertheless, the RM4.5 billion 3y reopening of GII issued on September 13 drew robust demand with a bid-to-cover (BTC) ratio of 2.2x, relatively higher than the previous RM4.5 billion 3y reopening of GII in June, which garnered a BTC ratio of 1.8x.
- The 10y MGS/UST yield spread widened to -45bps relative to -41bps in the previous week.

FX MARKET: THE RINGGIT STAYED WEAK AS DEVELOPMENT IN THE U.S. REMAINED THE FOCAL POINT OF MARKET SENTIMENT

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD% (As of 15 September 2023)

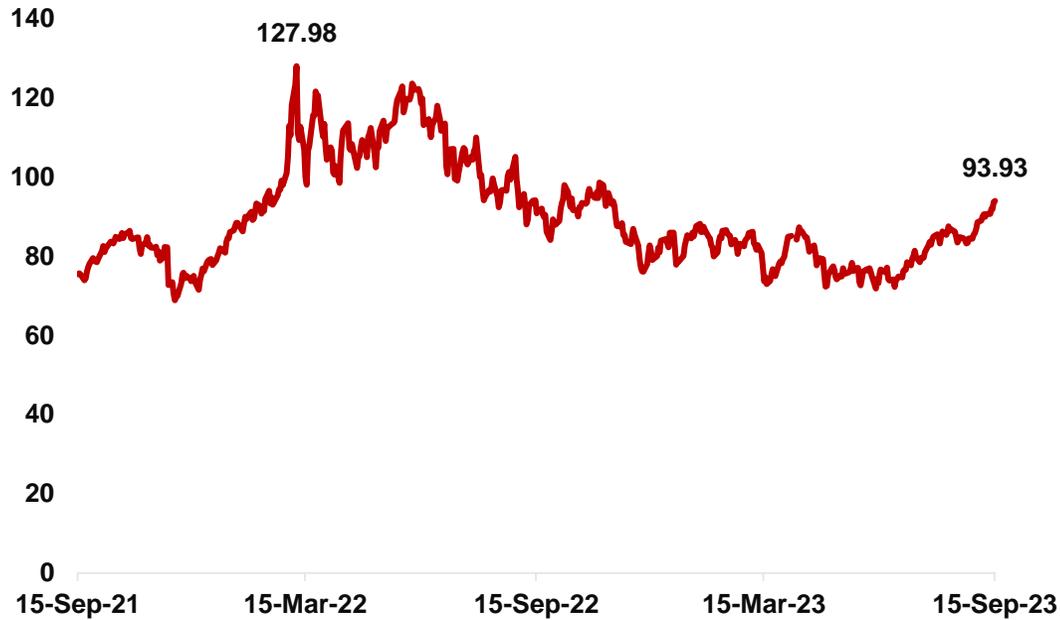


Source: BNM

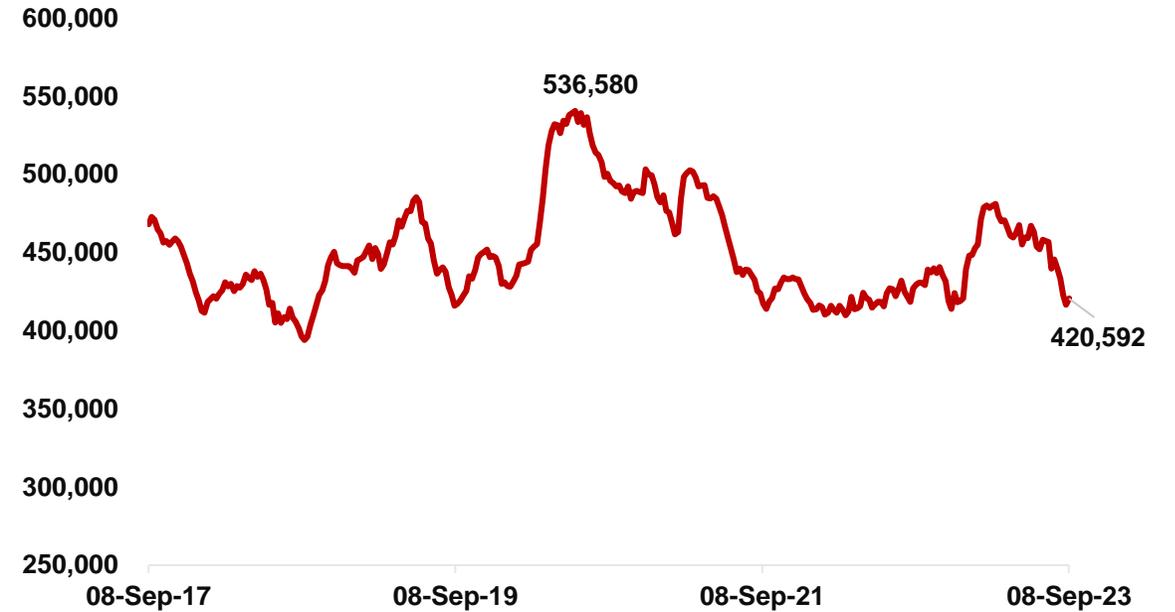
- The Ringgit remained under pressure against the USD during the week as the USD index strengthened around 105 level ahead of the Federal Open Market Committee (FOMC) meeting on September 19-20.
- The prospect of still above-target U.S. inflation that is keeping further rate hikes by the Fed on the agenda continued to pressure the local note.
- While it was unlikely for the Fed to raise its benchmark interest rate this week, the central bank might want to keep its restrictive monetary policy stance – higher for longer than expected.
- We posit that market participants would closely eye the updated dot plot projections, precisely the Fed funds rate (FFR), moving forward, as any hawkish or dovish estimation could influence the Ringgit's trajectory.

COMMODITY: OIL PRICE WAS ON TRACK FOR A THIRD WEEKLY GAIN BANK ISLAM

Brent Crude in USD per barrel



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

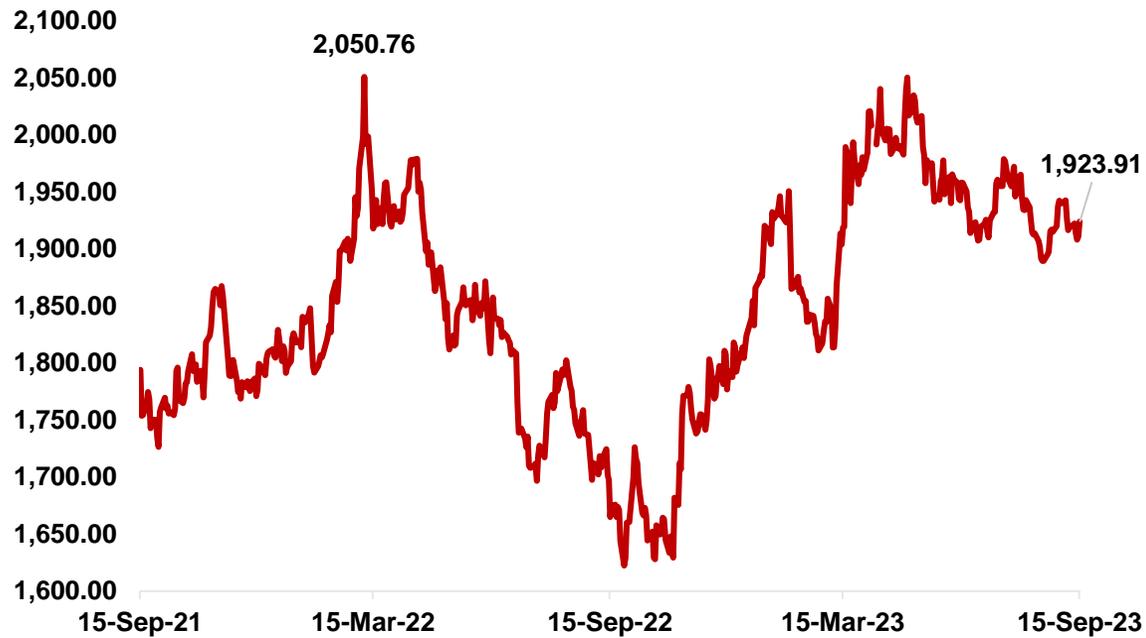


Sources: Bloomberg, Energy Information Administration (EIA)

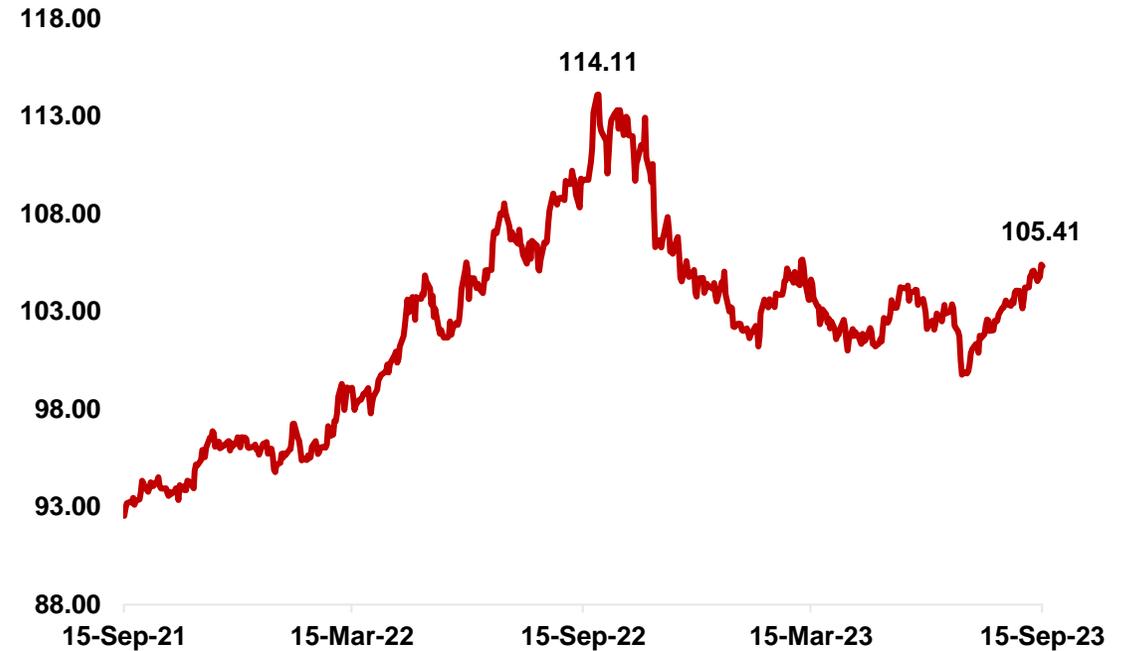
- The oil price lingered to almost USD94.0 per barrel during the week following an improved global demand outlook and the still-tightening supply condition.
- Aside from the recent positive economic indicators, PBoC cut all banks' cash reserve requirements to further the country's economic recovery, lifting the world's top crude importer demand outlook.
- The production cut coordinated by Saudi Arabia and Russia remains the main reason for the oil price jump.

COMMODITY: GOLD REBOUNDED DURING THE WEEK, AIDED BY PROMISING CHINA'S ECONOMIC DATA

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, Commodity Research Bureau

- Both China's retail sales and industrial output came in better than expected in August, suggesting the positive impact of the government measures, thus lifting the bullion's demand.
- Be that as it may, the gain seemed to be capped by the latest U.S. inflation report, which could imply that the interest rate might stay higher for longer as the price pressures remain visible.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week will be dominated by central bank policy meetings, of which the Fed will be eyed for more clues on the future interest rate path. U.S. economic data have been mixed since the FOMC last met in July, with modest improvement in inflation and the labour market showing signs of loosening. Given this, the FOMC is widely expected to keep the FFR target range unchanged at 5.25%-5.50% in the upcoming policy meeting due this Wednesday while leaving the door open for another hike at either the November or December meetings. At the time of writing, market participants priced in about a 40% chance of further rate hikes in the remainder of the year.
- Meanwhile, the still elevated U.K. services inflation (August: 7.4% vs. July: 7.2%) and the persistent wage growth (July: 8.5% vs. June: 8.4%) will likely see the Bank of England (BoE) delivering a 25bp hike in its policy rate this week. The hike, if it materialises, will mark the 15th consecutive increase. Nevertheless, with signs that the labour market is starting to cool, as evidenced by a further uptick in the unemployment rate (July: 4.3% vs. June: 4.2%), the BoE will likely signal that the end of rate hikes is near. BOE's governor, Andrew Bailey, in his remarks to the Commons Treasury committee earlier this month, said that the rate peak was approaching.
- In Asia, there will also be central bank updates from PBoC, the Bank of Japan (BoJ), Bank Indonesia (BI), and Bangko Sentral ng Pilipinas (BSP). PBoC is widely expected to hold 1y and 5y Loan Prime Rates (LPR) steady at 3.45% and 4.20%, respectively, following its last week's decision to leave the 1y Medium-term Lending Facility unchanged at 2.50% to support the Chinese yuan. BoJ will also likely stand pat on its monetary policy, but market participants will scrutinise the accompanying monetary policy statement for any hawkish signs. BoJ Governor Kazuo Ueda had hinted at the possibility of ending the bank's negative interest rate policy once sufficient evidence that the bank's target of sustainable 2.0% inflation was in sight. Likewise, BI and the BSP will likely maintain their current monetary policy settings, given the currency weakness.
- Malaysia is slated to release trade and inflation data for August this week. Trade data for August will likely show a sixth consecutive month of contraction for exports and imports, in line with the weakness in the manufacturing Purchasing Managers' Index (PMI). In July, exports shrank by 13.1% amid weak global demand, while imports dropped 15.9% as purchases for intermediate and capital goods plunged. Meanwhile, Malaysia's August CPI inflation is expected to change slightly from the 2.0% recorded in July.

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THANK YOU