BANK ISLAM

WEEKLY ECONOMIC UPDATE

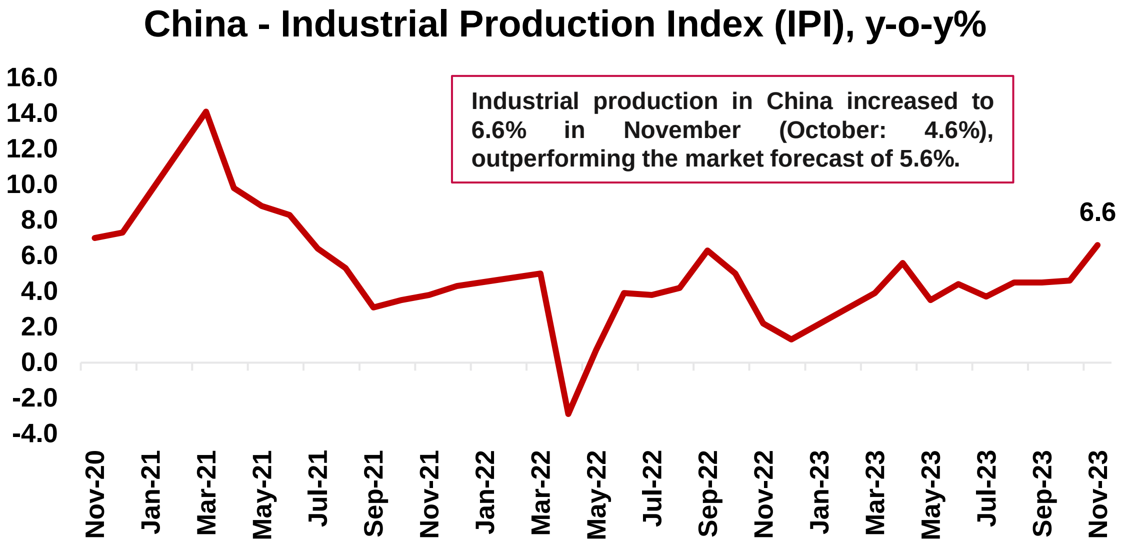
18 DECEMBER 2023

ECONOMIC RESEARCH

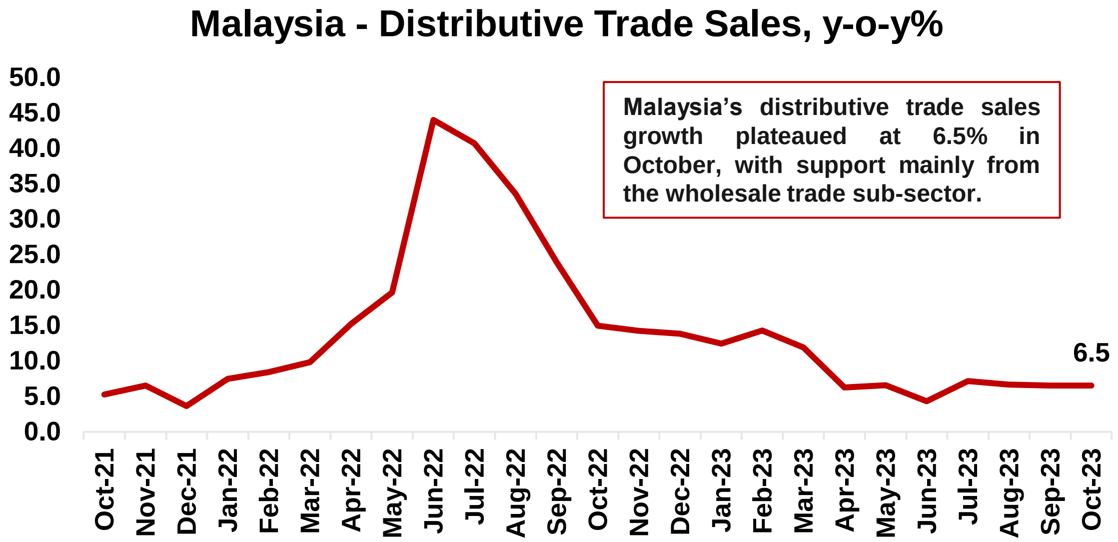
FIRDAOS ROSLI
LEE SI XIN
RAJA ADIBAH RAJA HASNAN
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI

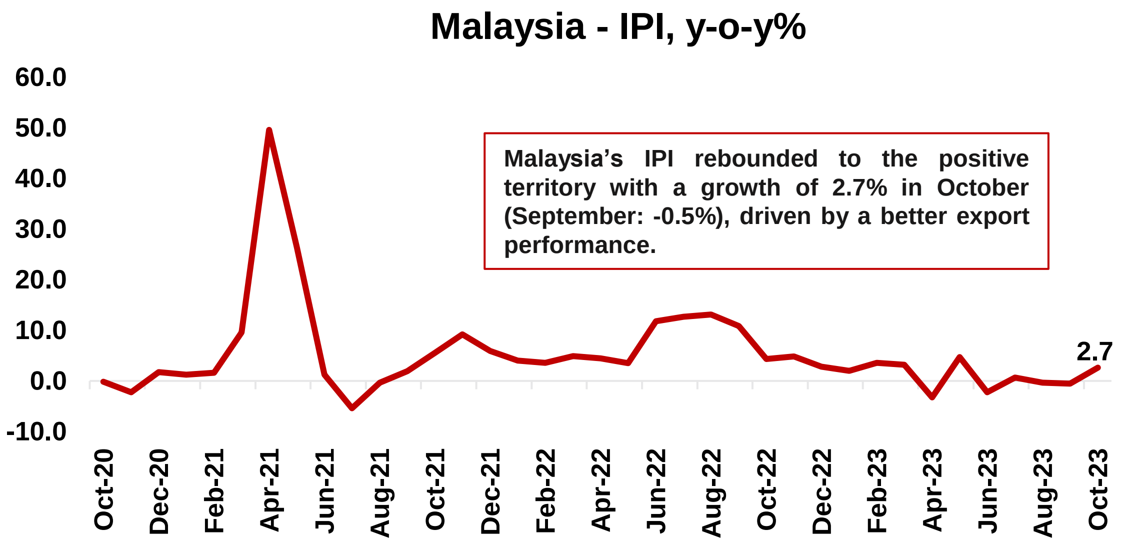
WEEKLY HIGHLIGHT: UPTREND IN CHINESE RETAIL SALES AND INDUSTRIAL PRODUCTION IN NOVEMBER

GLOBAL



DOMESTIC



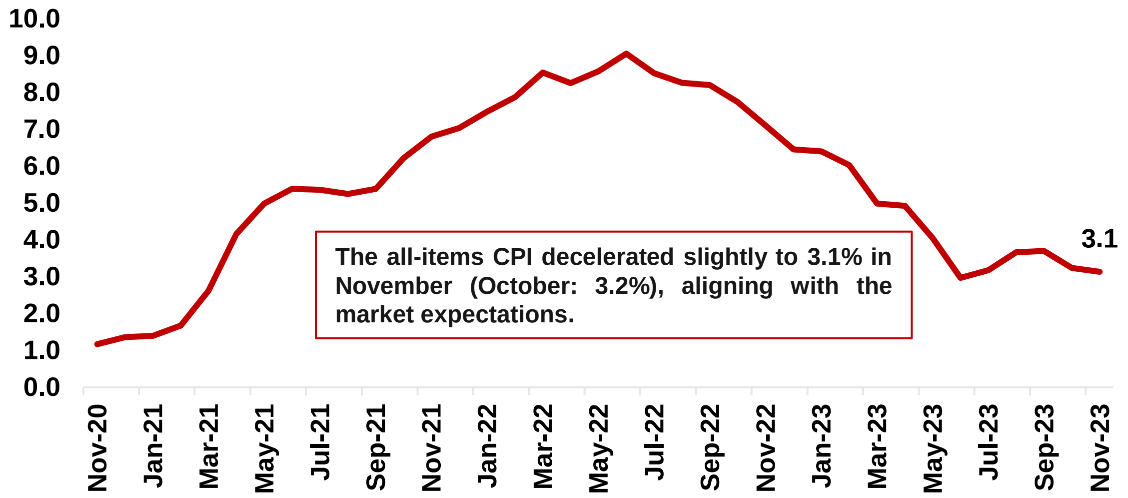


Sources: China's National Bureau of Statistics, Department of Statistics Malaysia (DOSM)

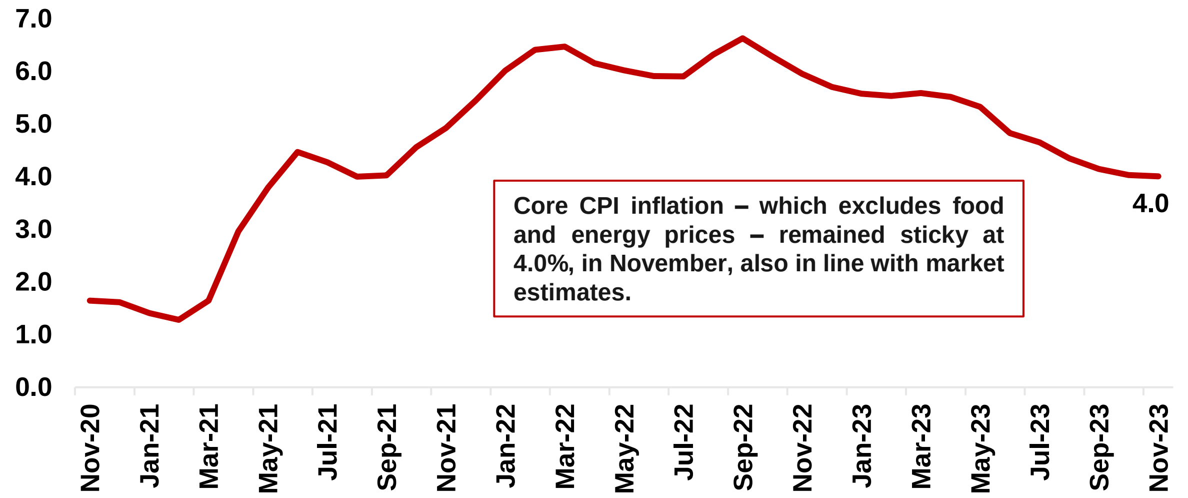
U.S. WEEKLY HIGHLIGHT: HEADLINE INFLATION COOLED MARGINALLY BUT CORE REMAINED STICKY

BANK ISLAM

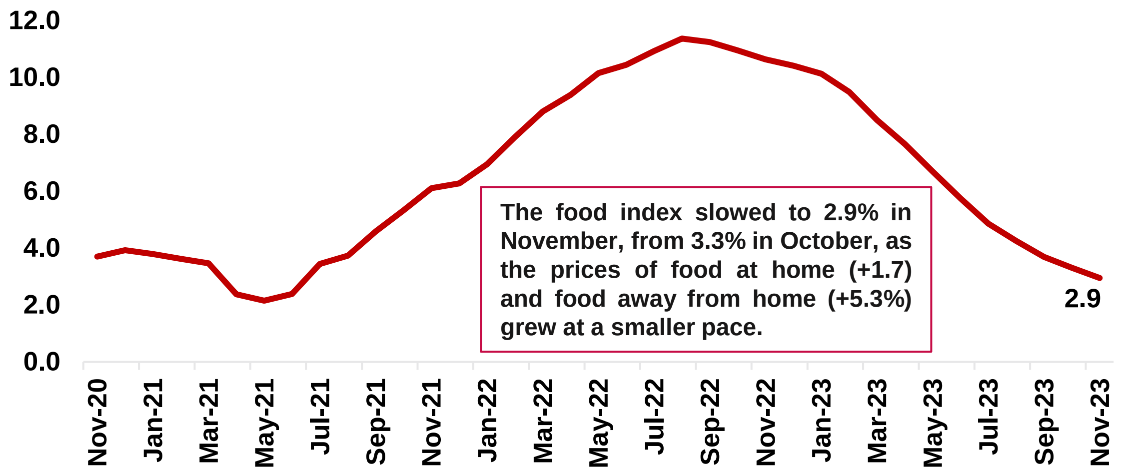
U.S. Consumer Price Index (CPI), y-o-y%



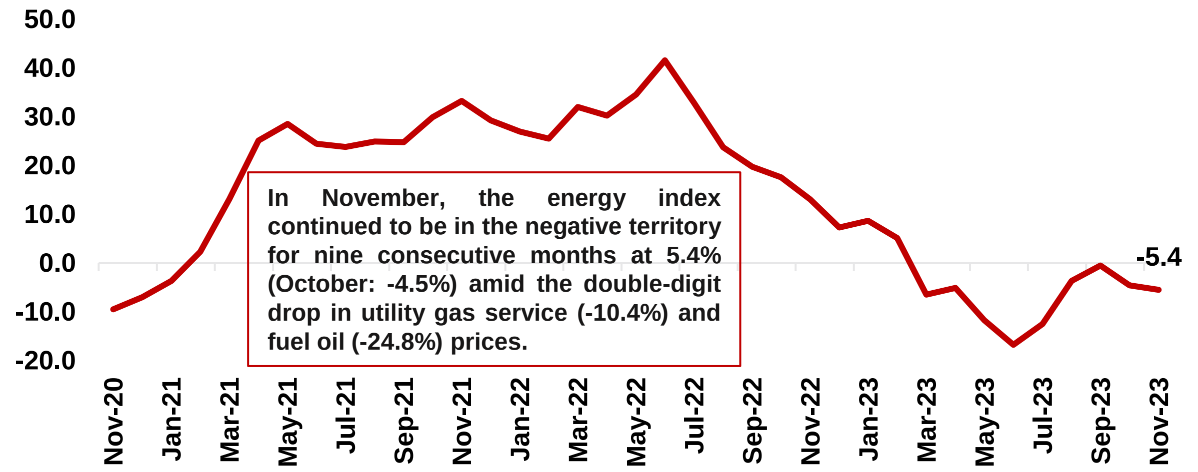
U.S. CPI (All Items less Food and Energy), y-o-y%



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



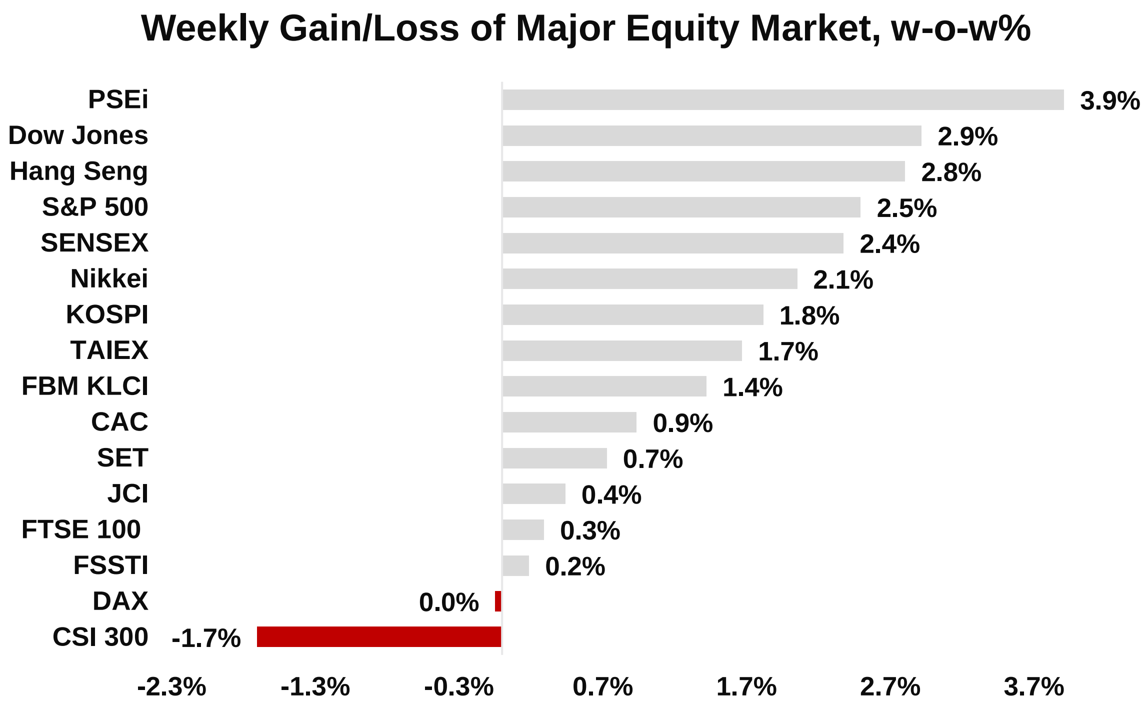
U.S. CPI (Energy), y-o-y%

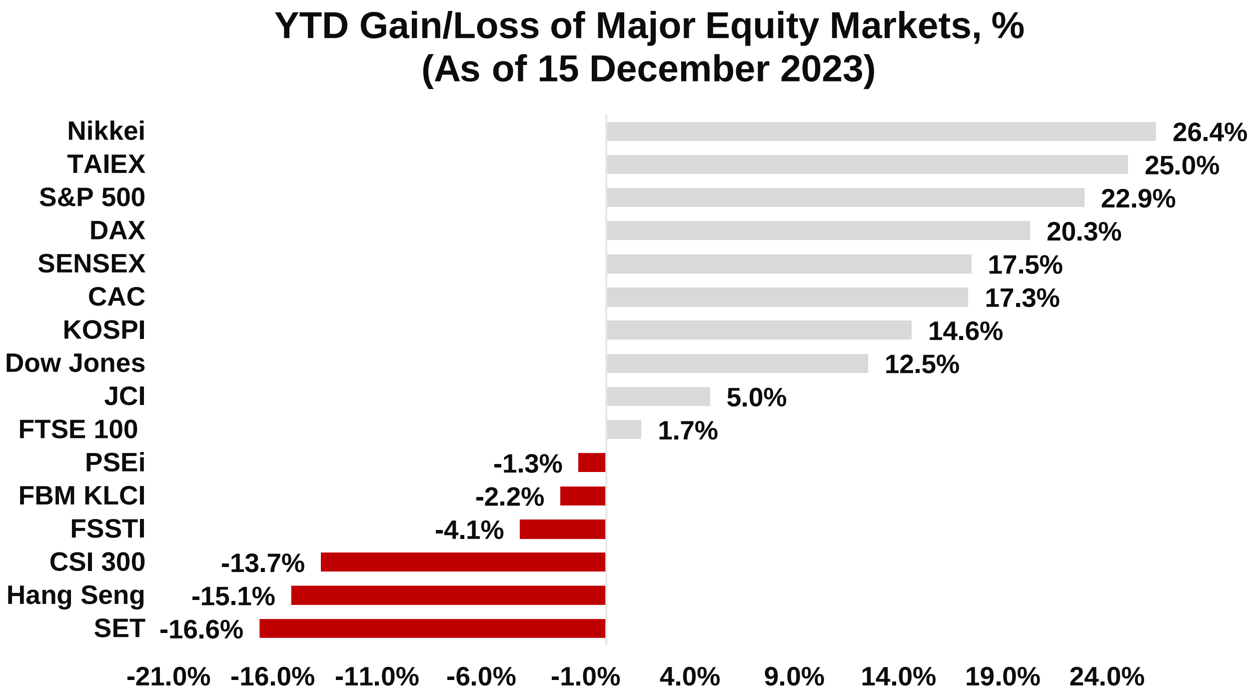


 Source: U.S Bureau of Labor Statistics

REGIONAL EQUITY: GREEN WAVES IN THE WORLD STOCKS MARKET

BANK ISLAM





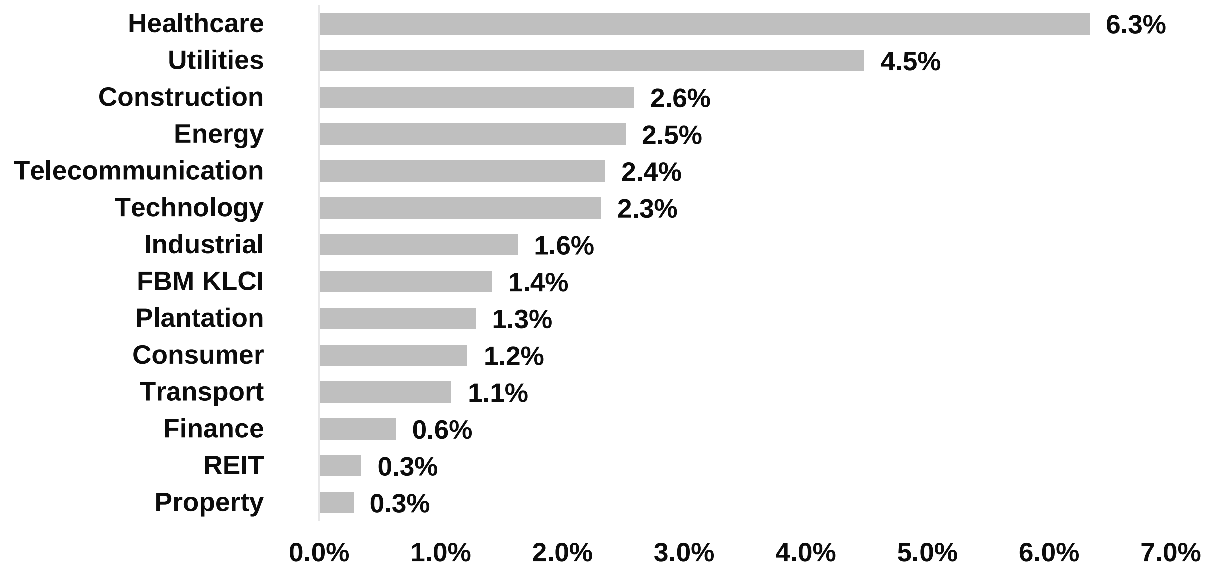
Sources: Bursa, CEIC Data

- Regional benchmark indices mostly ended in the green for the week ending December 15, with the Philippine's PSEi (+3.9%), U.S.' Dow Jones (+2.9%) and Hong Kong's Hang Seng (+2.8%) as the major winners in the global stocks market.
- The market rallied after the U.S. Federal Reserve (Fed) kept interest rates steady in December's Federal Open Market Committee (FOMC) meeting and signalled that it may cut interest rates next year.
- In contrast, China's CSI 300 was the biggest loser, declining by 1.7% last week.

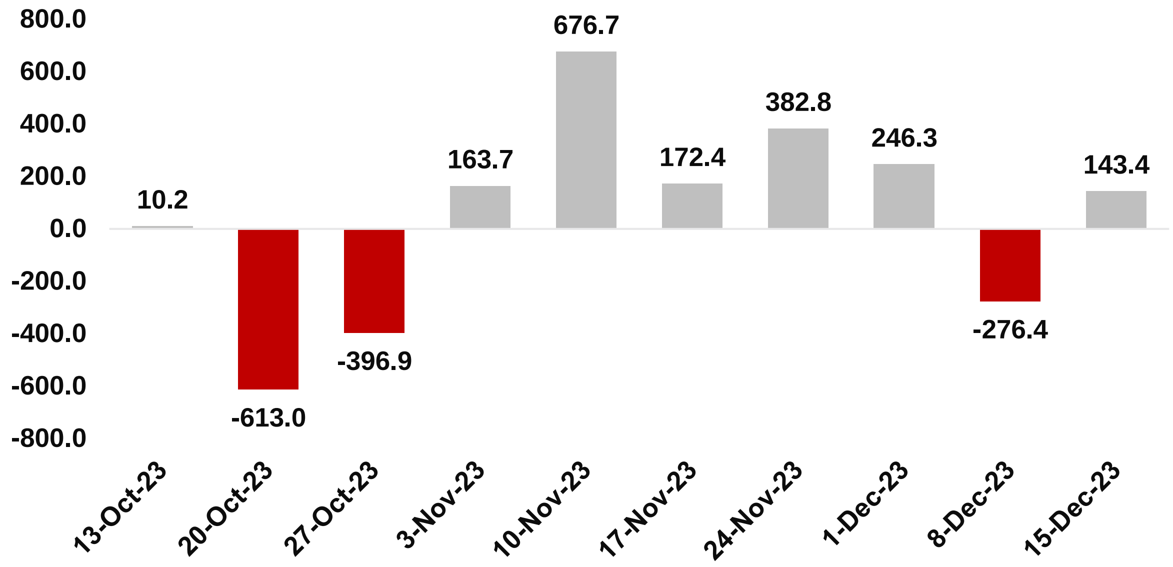
DOMESTIC EQUITY: RECOVERY IN THE LOCAL MARKET FOLLOWING STRONGER INVESTOR CONFIDENCE

BANK ISLAM

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 rebounded from last week's loss to close in the green for the week ending December 15 on bargain-hunting activities.
- Similarly, all bursa indices ended on a positive note, with the Healthcare index (+6.3%) leading the gainers, followed by the Utilities (+4.5%) and Construction (+2.6%) index.
- The upbeat performance was also attributable to recovering market sentiments following the renewed vigour on anticipation of U.S. rate cuts next year and domestically, the Cabinet reshuffle – a move that aims to better the government's administration.
- Meanwhile, foreign investors switched to net buying last week, leading to a total net inflow of RM143.4 million for the week ending December 15. The buying has reduced the cumulative total net outflow this year thus far to RM2.6 billion.

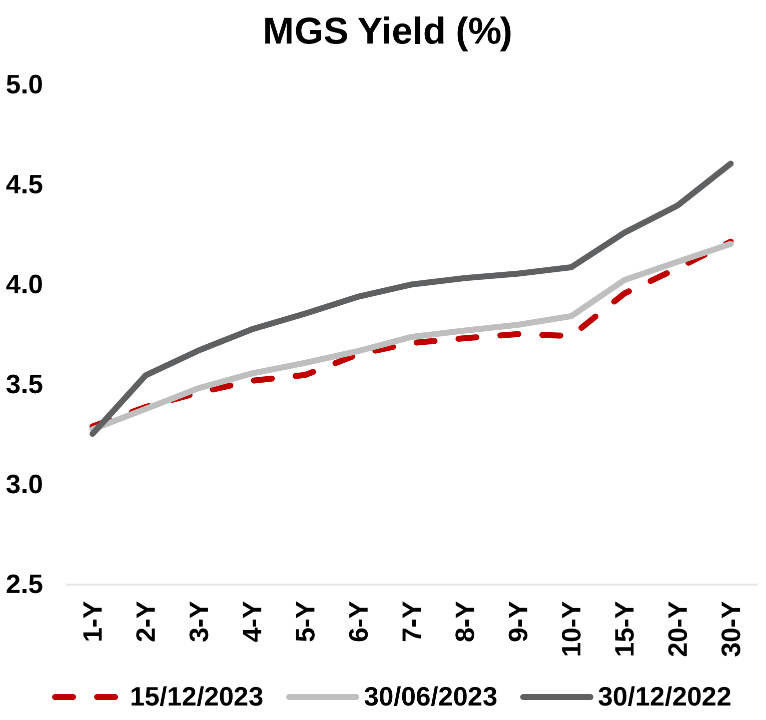
FIXED INCOME: DOVISH PIVOT BY THE FED PULLED DOWN BOND YIELDS

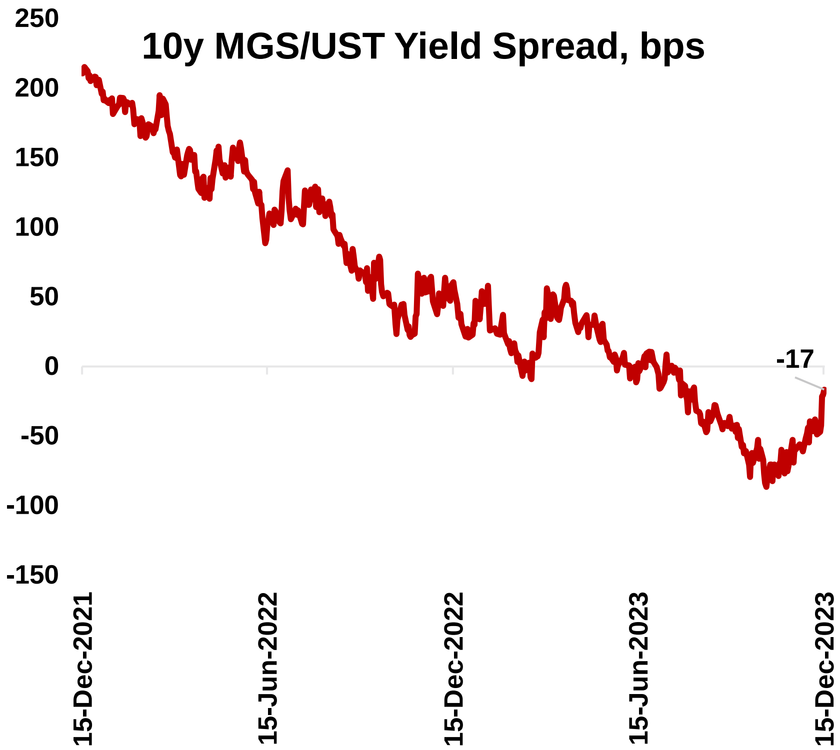
BANK ISLAM

Weekly Changes, basis points (bps)

UST	Yields (%) 8-Dec-23	Yields (%) 15-Dec-23	Change (bps)
3-Y UST	4.45	4.13	-32
5-Y UST	4.24	3.91	-33
7-Y UST	4.28	3.94	-34
10-Y UST	4.23	3.91	-32
MGS	**Yields (%) 8-Dec-23**	**Yields (%) 15-Dec-23**	**Change (bps)**
3-Y MGS	3.49	3.46	-3
5-Y MGS	3.58	3.55	-3
7-Y MGS	3.75	3.71	-4
10-Y MGS	3.74	3.74	0
GII	**Yields (%) 8-Dec-23**	**Yields (%) 15-Dec-23**	**Change (bps)**
3-Y GII	3.52	3.50	-2
5-Y GII	3.63	3.62	-1
7-Y GII	3.78	3.74	-3
10-Y GII	3.82	3.77	-5

Sources: BNM, Federal Reserve Board

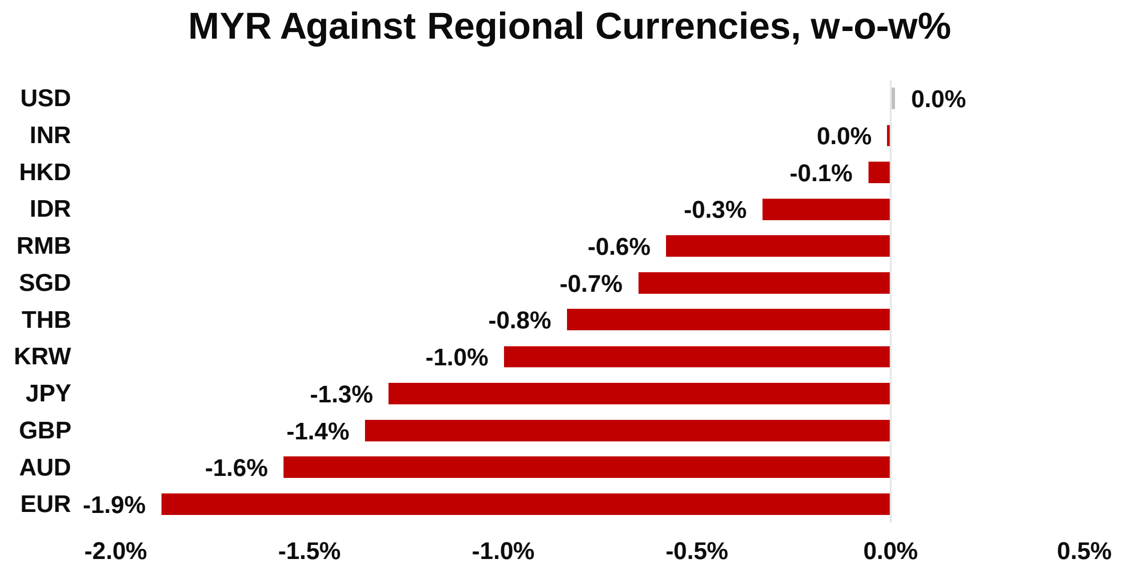


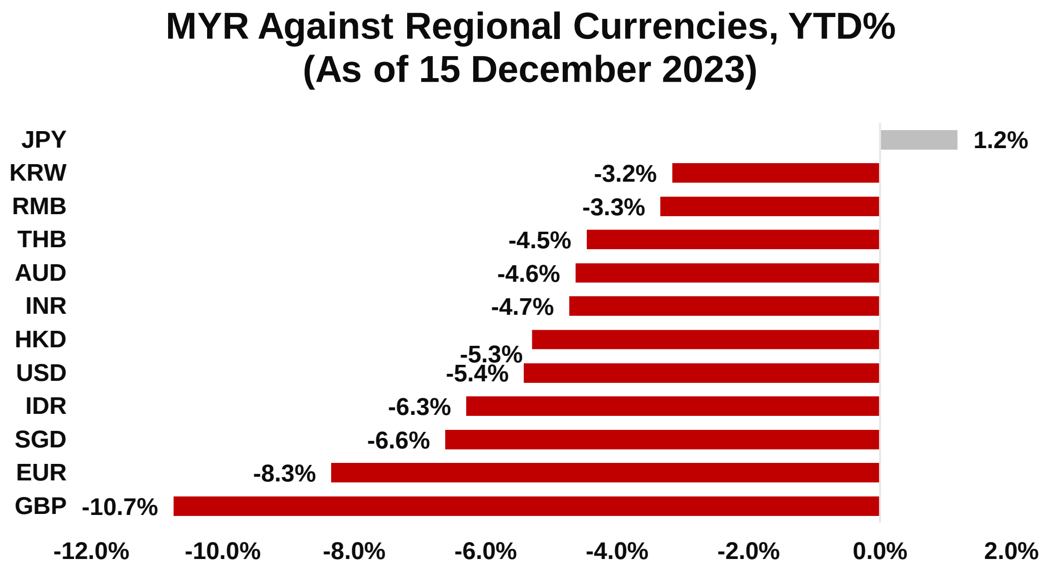


- Investors cheered over the prospects of possible rate cuts by the Fed in 2024, which consequently led to lower U.S. Treasury (UST) yields last week, dipping between 32bps and 34bps.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields followed the same pattern albeit at a smaller pace of easing in the range of 1bp and 5bps. Nevertheless, 10y MGS yield remained unchanged at 3.74%.
- The RM5.0 billion 10-Y reopening of MGS issued on December 15 drew a robust demand with a bid-to-cover (BTC) ratio of 2.2x, although marginally lower than the previous RM5.5 billion 10-Y reopening of MGS in July, which garnered a BTC ratio of 2.6x.
- Meanwhile, the 10y MGS/UST yield spread ended significantly better at -17bps relative to -49bps in the previous week.

FX MARKET: RINGGIT WAS POISED FOR A SLIGHT GAIN FOLLOWING AN ANTICIPATION OF RATE CUTS IN THE U.S.

BANK ISLAM



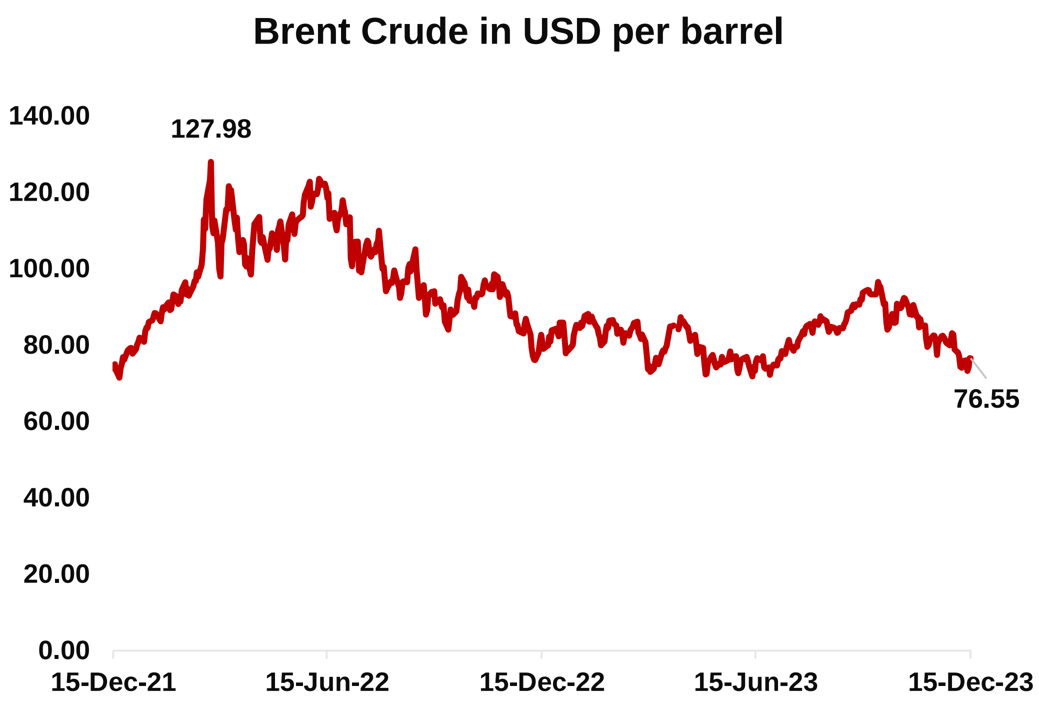


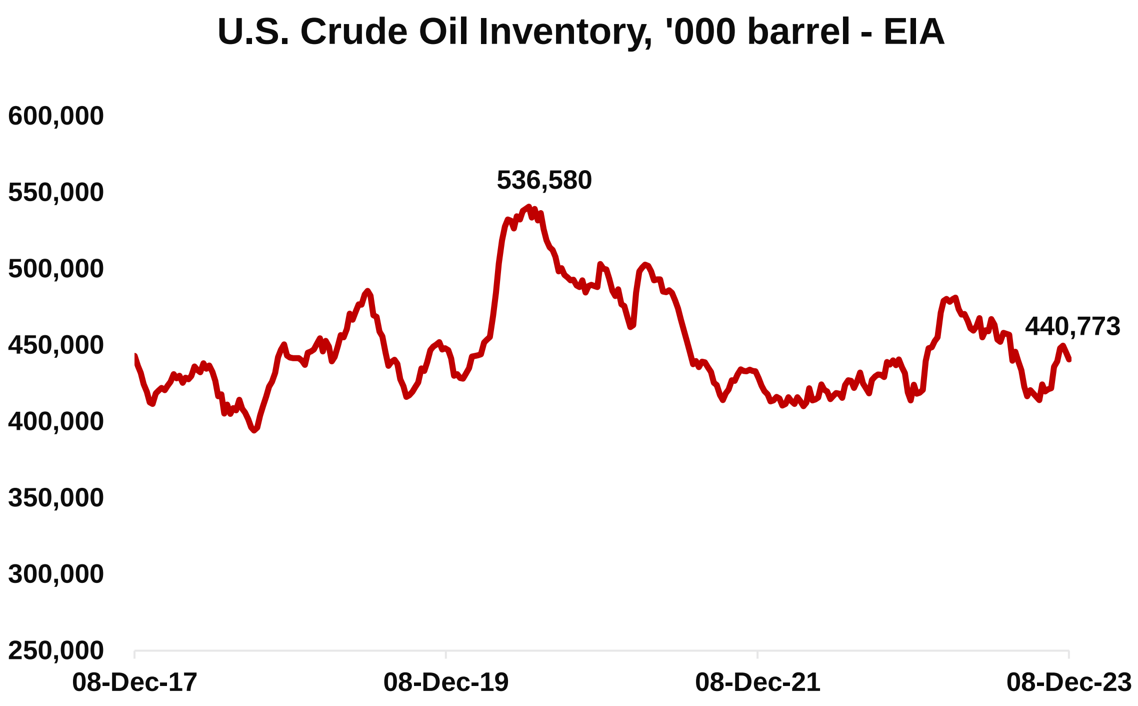
Source: BNM

- The Ringgit remained flat on w-o-w changes during the week. The local note closed only slightly higher (15 December 2023: RM4.6655 vs 8 December 2023: RM4.6660) as the USD index weakened, which dropped by 1.4% last Friday.
- The USD weakness was mainly attributable to the dovish remarks from the Fed when the central bank signalled its intention for Fed Funds Rate (FFR) cuts in 2024. Last week, the FOMC opted to maintain the FFR steady at 5.25%-5.50% during its final policy decision of the year after a cumulative increase of 525 bps in the rate since March 2022. We believe such a decision could be due to the continued deceleration in inflation in November at 3.1% (October: 3.2%), among others.
- Meanwhile, the European Central Bank (ECB) and the Bank of England (BoE) maintained their stance that policy rates remain at elevated levels for an extended period to address their respective inflation concerns.
- Looking ahead, we posit that the local note could benefit further from China's sustained stimulus effort to support the real estate market. However, downside risks remain should geoeconomic fragmentation worsen due to the tensions between the U.S. and China, which could hinder market confidence.

COMMODITY: OIL PRICES WAS ON TRACK FOR FIRST WEEKLY GAIN SINCE OCTOBER AMID DOVISH STANCE FROM THE FED

BANK ISLAM



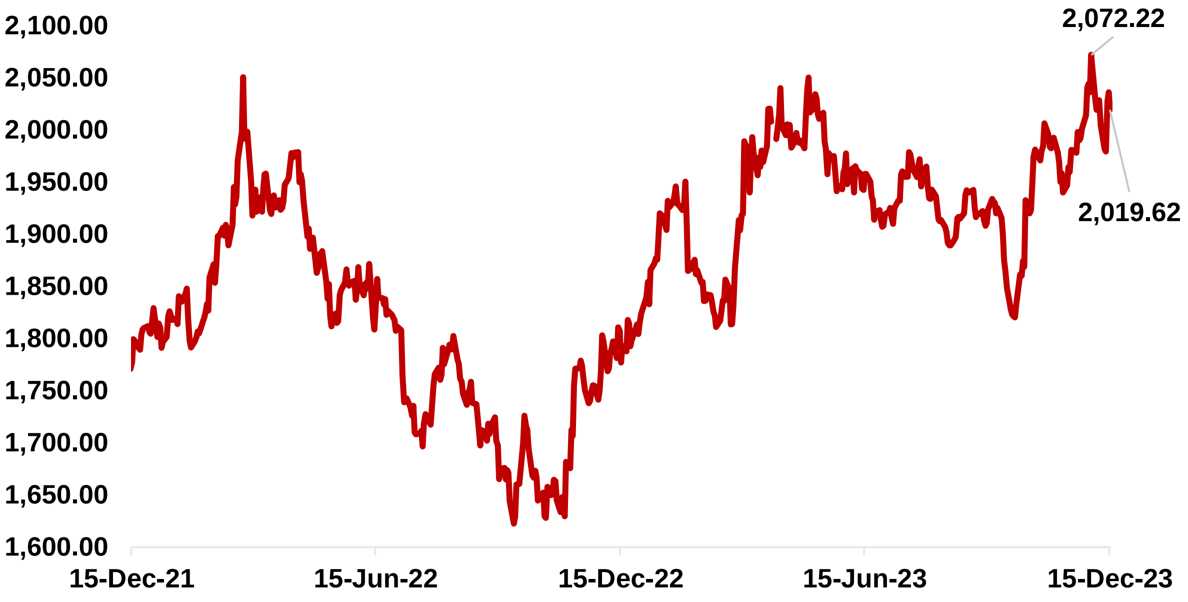


Sources: Bloomberg, Energy Information Administration (EIA)

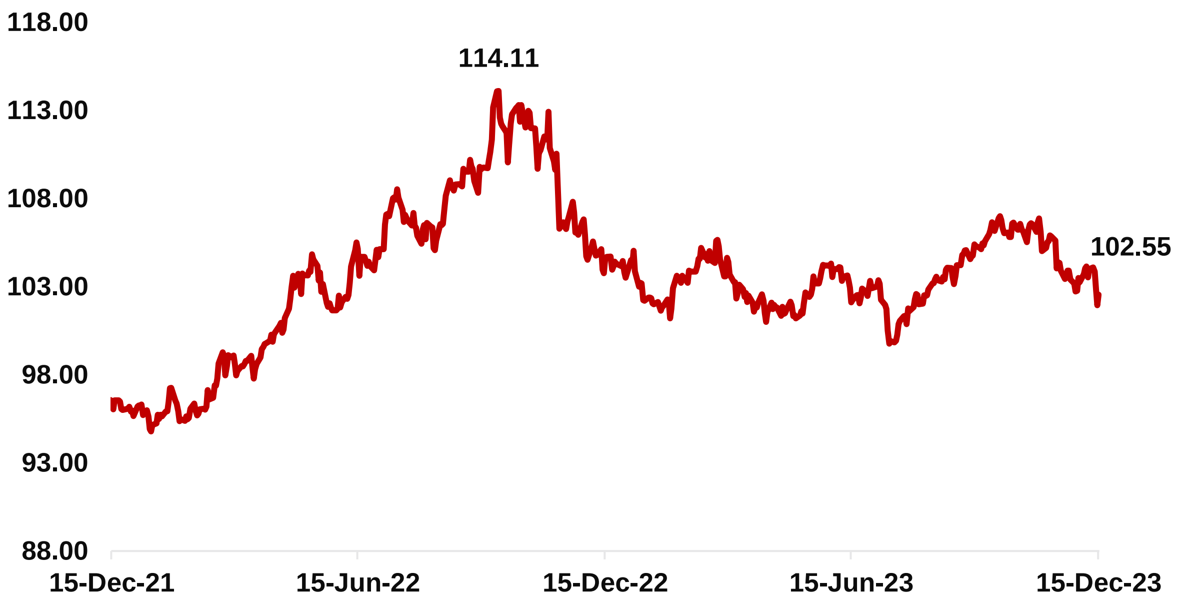
- The oil price rose above USD75.00 per barrel last week, premised on the dovish signal from the Fed that has weakened USD and a robust forecast for global oil demand next year.
- Last week, Fed Chair Jerome Powell hinted at a possible rate cut next year, with the latest dot plot projection estimating three rate cuts, pressuring the greenback and boosting the risk assets. The monetary shift could make oil more affordable internationally, creating potential demand.
- Meanwhile, the International Energy Agency (IEA) stated in its monthly report that global oil consumption will rise by 1.1 million barrels per day (bpd) in 2024, up 130,000 bpd from its earlier forecast.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY GAIN AS THE FED PICKS UP MORE DOVISH TONES

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg

- The bullion price rose for the week ending December 15 following the final FOMC meeting of the year, where the Fed opted to hold the rates steady at 5.25%-5.5%.
- Additionally, the latest dot plot and Chair Powell's statements had emboldened market expectations that rate cuts are on the table for next year. Consequently, the greenback slipped by 1.4% last week.
- Moving forward, market participants will seek the policy decision from the Bank of Japan (BoJ)'s final meeting for this year.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

BANK ISLAM

- With Fed Chair Jerome Powell stating that the Fed is likely done with rate hikes and that rate cuts are on the horizon, the rate pause delivered by the Fed at its final policy meeting of 2023 is perceived as relatively dovish. Following this, the market focus has shifted to the timing and depth of rate cuts 2024. The U.S. core personal consumption expenditure (PCE) deflator – the Fed's preferred inflation gauge – for November, due this week, will provide an update on the progress in the Fed's fight against inflation. The U.S. core PCE inflation has eased to 3.5% in October (September: 3.7%), the lowest since April 2021. November's core PCE number is predicted to change little, mirroring the sticky core CPI (November: 4.0% vs. October: 4.0%).

- U.K. inflation data for November, also scheduled to be released this week, will be watched for more clues on the BoE's future policy path. The upcoming inflation print will likely support the "higher for longer" interest rate scenario, a stance reiterated by the BoE during its policy meeting last week. While slowing sharply from 6.7% in September and August to 4.6% In October, the U.K. headline inflation still has some distance to cover to achieve the BoE's 2.0% target. Furthermore, the still-strong wage growth is expected to keep inflation sticky.

- Meanwhile, the BoJ's policy meeting this week is anticipated to provide more hints on the timing of a pivot from ultra-loose monetary policy. The consensus is that the BoJ's first rate hike since 2006 to exit its hostile interest rate policy is not imminent after the central bank officially terminated its seven-year policy of capping long-term yields at 1.0% at its October policy meeting. In addition, Japan's near-term inflation outlook is weighed down by the government's energy subsidy programme and the deflation in China, Japan's neighbour and significant trading partner. The Fed's signals that rate cuts are coming into view could also leave the BoJ with limited scope for tightening.

- Bank Indonesia (BI) will likely hold its interest rate steady at 6.0% at its policy meeting this week to assess the state of the economy. The latest data showed that Indonesia's inflation increased by 2.86% in November compared to 2.56% in October but remained within the BI's target range of 2.0%-4.0%. Indonesian Rupiah should see some downward pressure easing after the Fed's dovish tilt, although its weakness will likely persist until at least after Indonesia's national elections in February 2024.

THANK YOU