



WEEKLY ECONOMIC UPDATE

20 FEBRUARY 2023

ECONOMIC RESEARCH

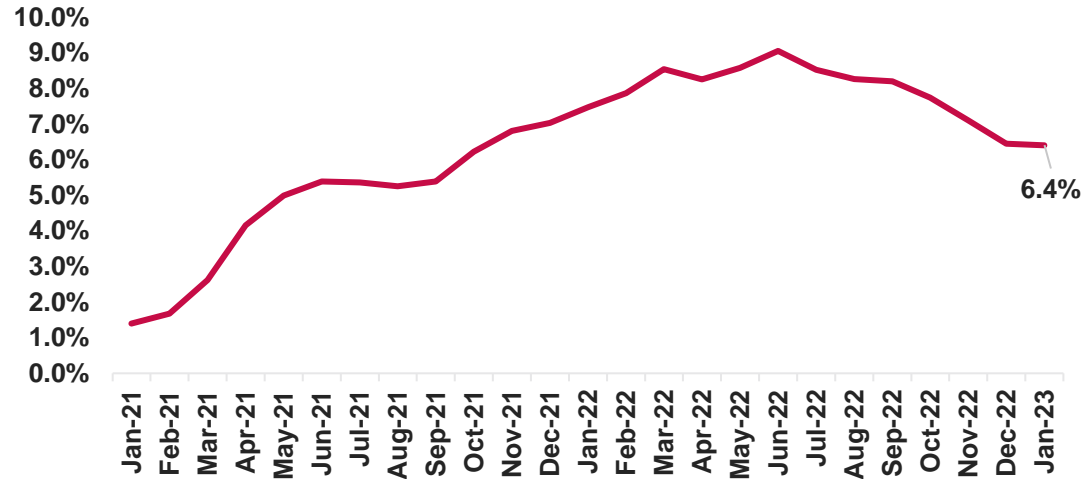
**FIRDAOS ROSLI
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN**

KEY HIGHLIGHT OF THE WEEK:

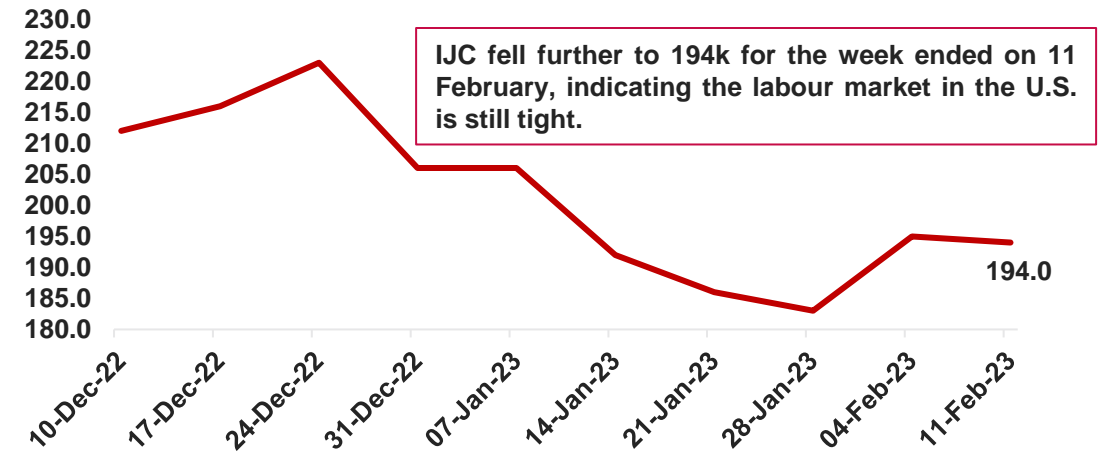
U.S. INFLATION SLOWED 6.4% Y-O-Y IN JANUARY AMID A HOT LABOUR MARKET. MALAYSIA'S LABOUR MARKET IS PLATEUING.

GLOBAL

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

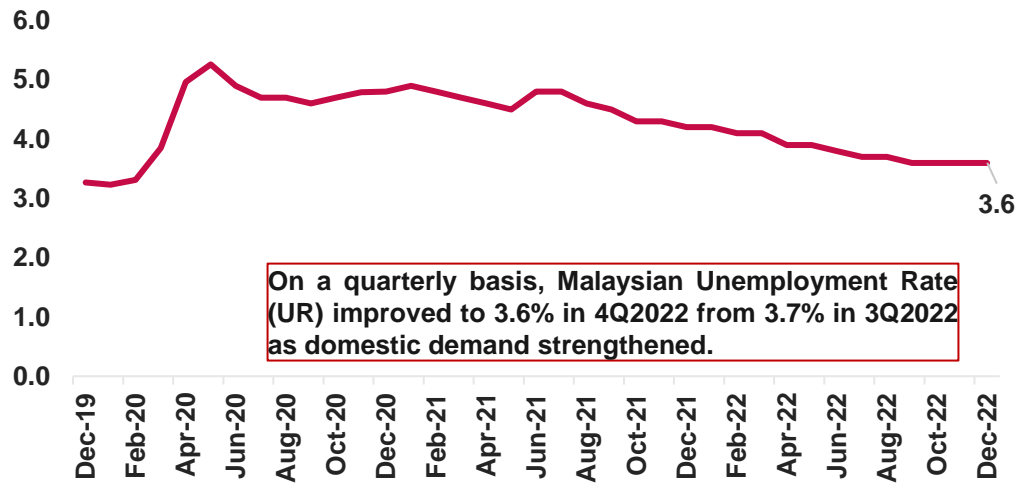


U.S. Weekly Initial Jobless Claims (IJC), thousand



DOMESTIC

Malaysia's Unemployment Rate, %



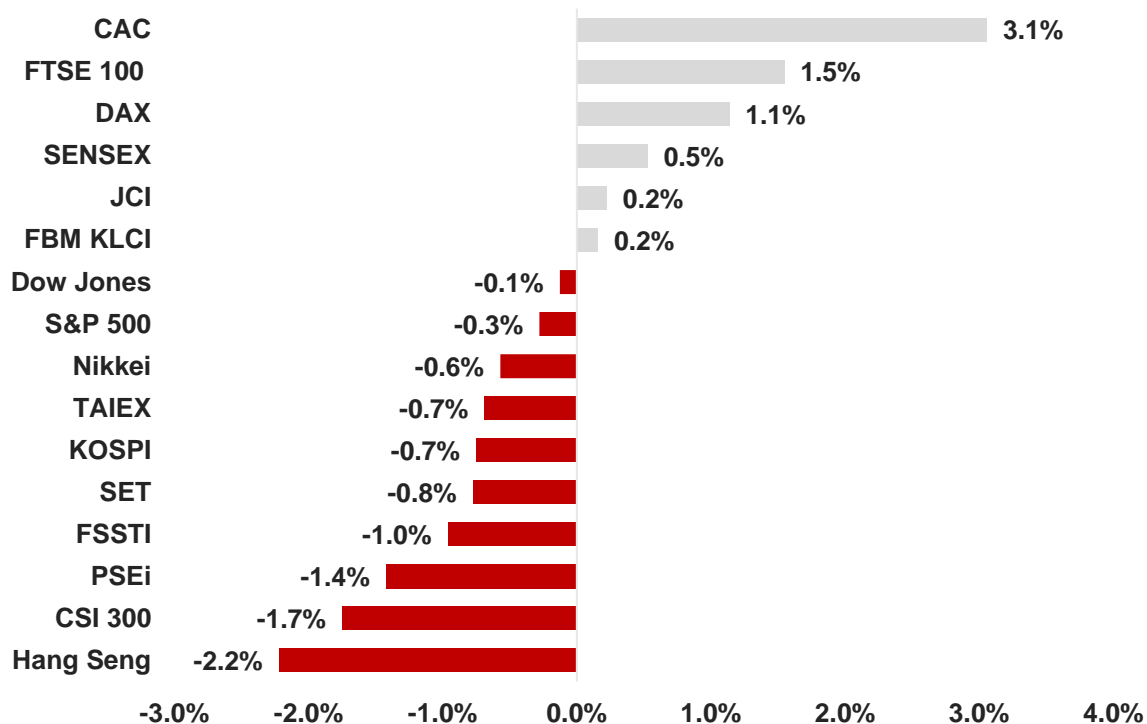
Malaysia's Labour Productivity, y-o-y%



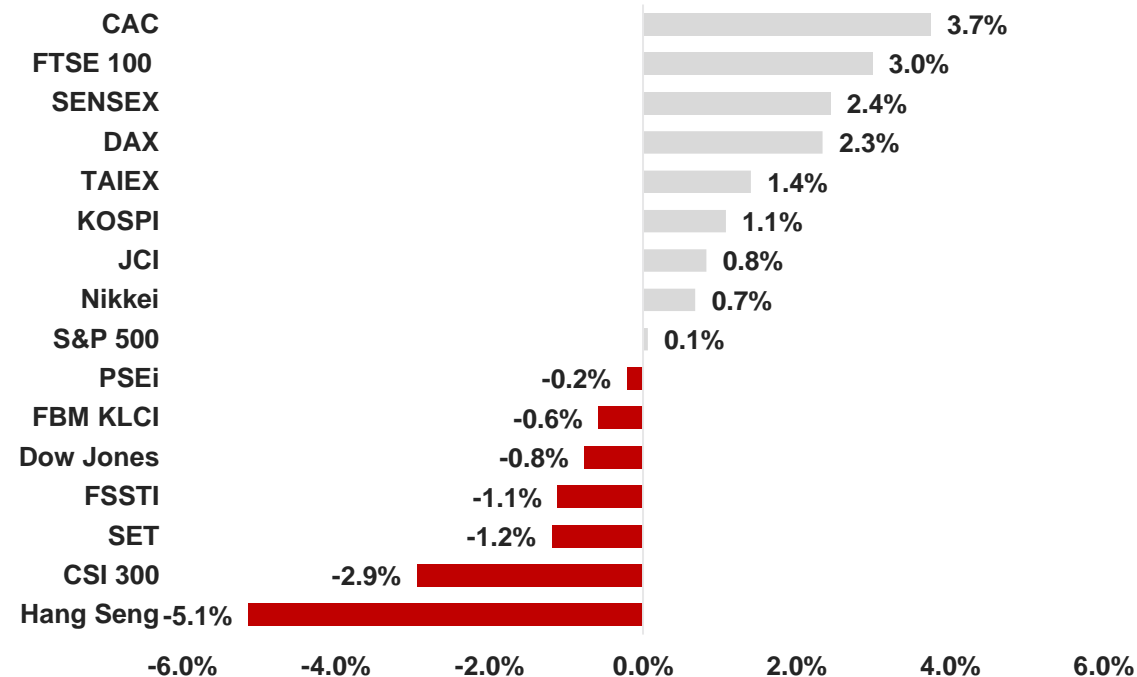
Sources: DOSM, U.S. Department of Labour

REGIONAL EQUITY: MARKET MIXED AMID FFR RATE CONCERNS

Weekly Gain/Loss of Major Equity Market, %



YTD Gain/Loss of Major Equity Markets, %
(As of 17 February 2023)

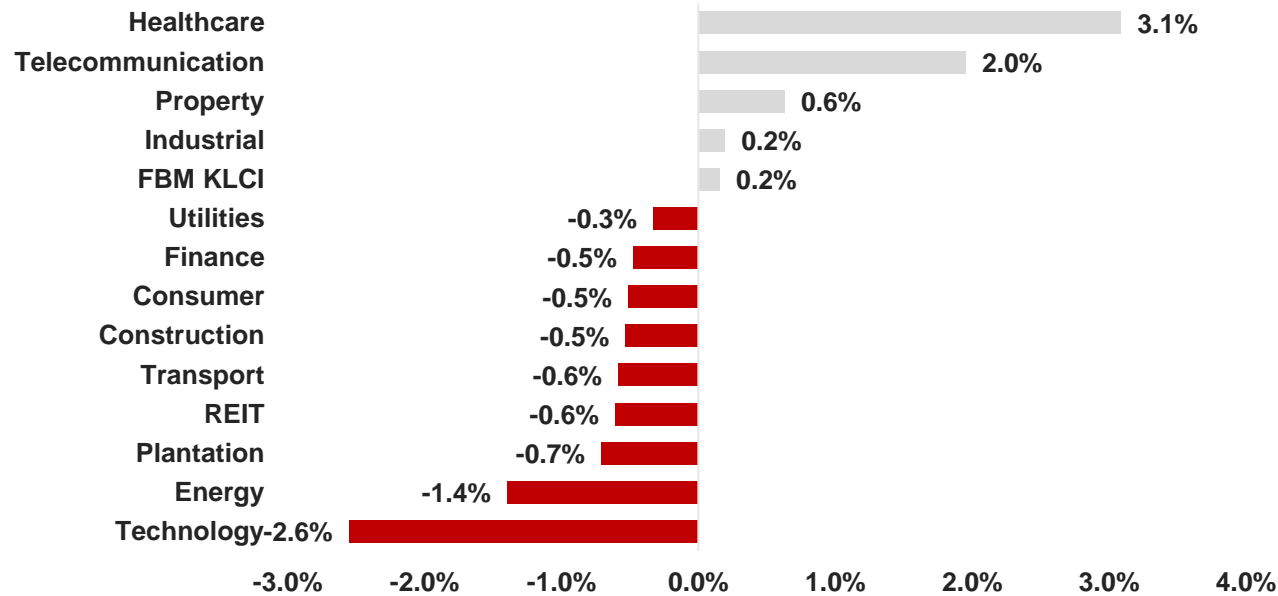


Sources: Bursa, CEIC

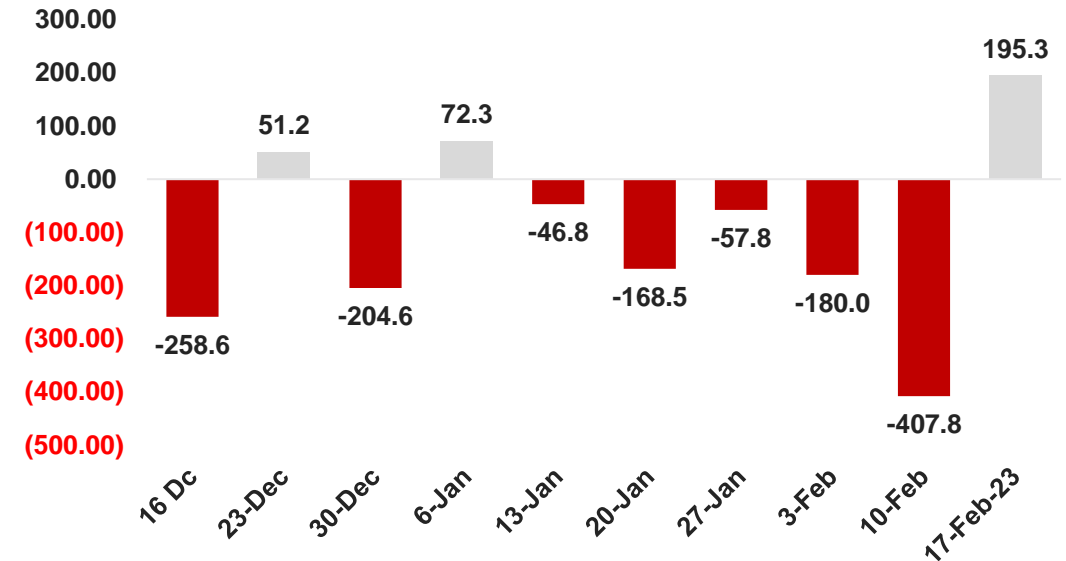
- Regional market closed mixed over the week following the number of American filing for unemployment benefits dropped to 194k for the week ended on 11 February from 195k in the previous week. This has sparked inflation worries as employers will have to raise wages to attract or retain staff.
- Following this, larger U.S. FFR rate hikes could be on the cards in the upcoming meetings to bring down the inflation to the Fed's target inflation of 2.0%. This will, in turn, reignite the debate about a U.S. hard landing in 2023 when it has successfully avoided it thus far.

DOMESTIC EQUITY: FOREIGN INVESTORS TURNED NET BUYERS FOR THE WEEK ENDED ON 17 FEBRUARY

Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, BNM

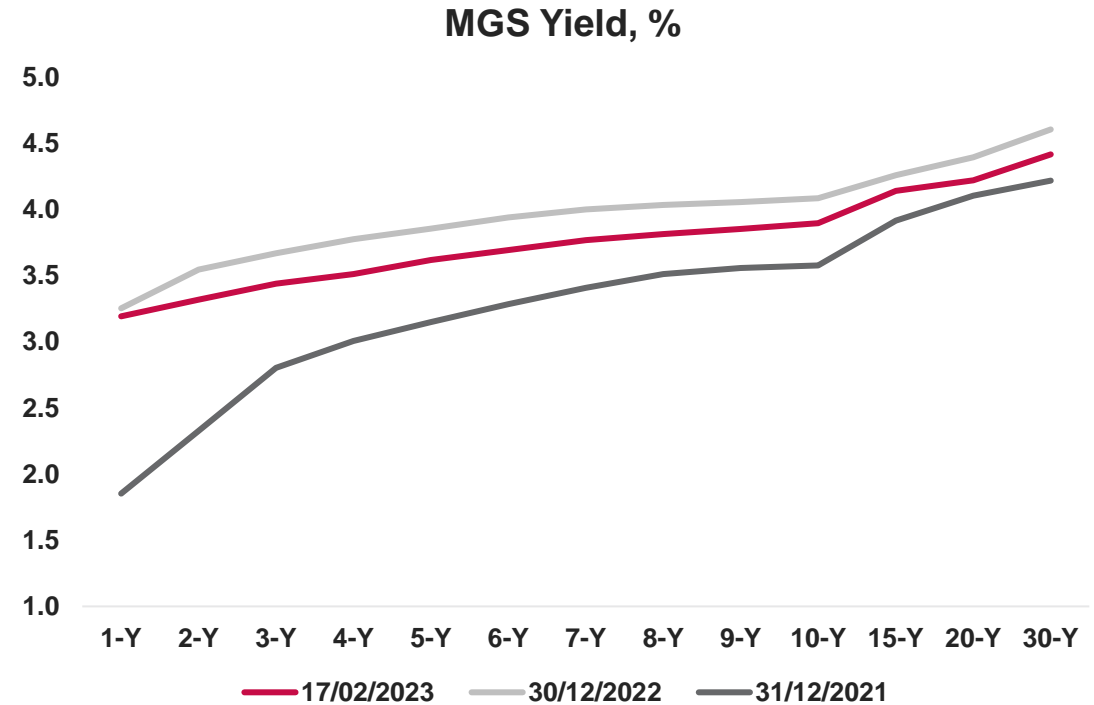
- Similarly, Bursa sectoral indices also closed mixed, with the Healthcare industry topping the list, rising by 3.1%. The Technology sector posted the largest loss at 2.6% for the week ended on 17 February.
- On the other hand, a total of RM195.3 million net foreign inflows were recorded last week after RM407.8 million net selling activities due to interest rate hikes in the U.S.
- In light of the hotter-than-expected U.S. job report and the re-tabling of Budget 2023 on Friday, we expect the market to be somewhat volatile this week.

FIXED INCOME: BOND YIELDS ENDED HIGHER FOLLOWING STRONGER LABOUR MARKET IN THE U.S.

Weekly Changes, basis points (bps)

| UST | Yields (%) 10-Feb-23 | Yields (%) 17-Feb-23 | Change (bps) |
|----------|-------------------------|-------------------------|--------------|
| 3-M UST | 4.79% | 4.84% | 5 |
| 2-Y UST | 4.50% | 4.60% | 10 |
| 5-Y UST | 3.93% | 4.03% | 10 |
| 10-Y UST | 3.74% | 3.82% | 8 |

| MGS | Yields (%) 10-Feb-23 | Yields (%) 17-Feb-23 | Change (bps) |
|----------|-------------------------|-------------------------|--------------|
| 3-Y MGS | 3.35% | 3.40% | 5 |
| 5-Y MGS | 3.57% | 3.62% | 5 |
| 7-Y MGS | 3.74% | 3.78% | 4 |
| 10-Y MGS | 3.78% | 3.92% | 14 |

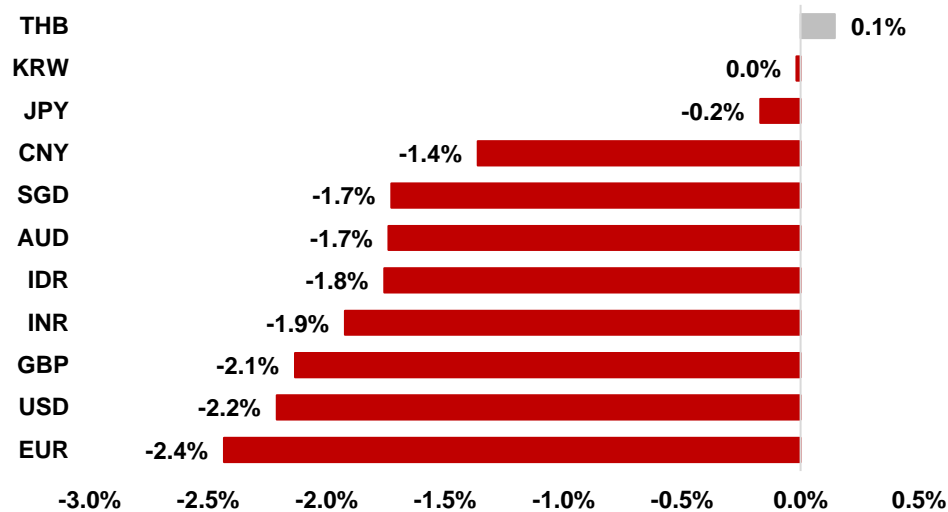


Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) and Malaysian Government Securities (MGS) yields were higher for the week ended on 17 February as investors fretted over bigger interest rate hikes by the U.S. Fed to cool the economy.
- On top of that, the latest U.S. job report also showed the country's labour market remained tight as IJC unexpectedly fell again.
- Looking forward, we anticipate market participants will take a cautious stance on the back-rising uncertainty over a tighter U.S. monetary cycle.
- Furthermore, Budget 2023 will be unveiled this week. While the revised Budget 2023 will outline the new government's near-term policy priorities, we should look for signs of clearer policy direction for Malaysia's longer economic plan.

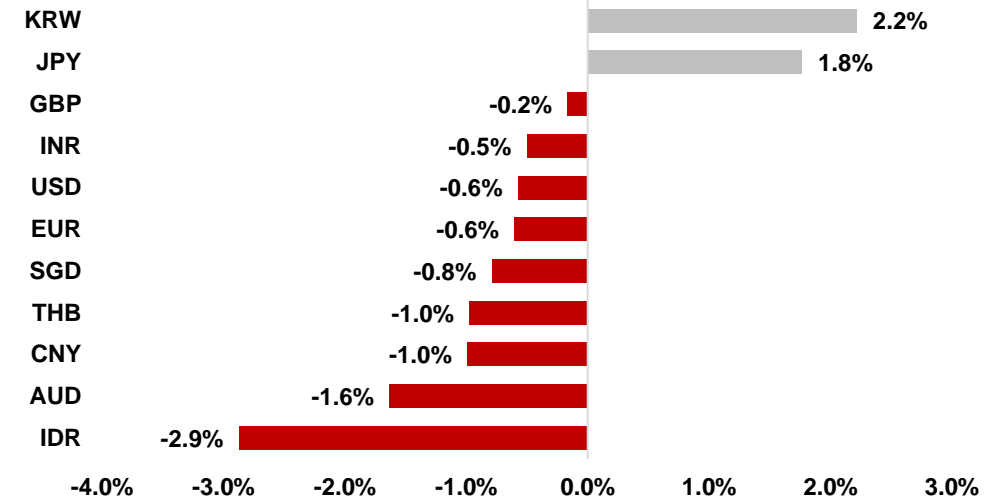
FX MARKET: RINGGIT COULD REACH RM4.45 THRESHOLD DUE TO HIGHER U.S.' RATE HIKE PROSPECTS

MYR against regional currencies, w-o-w%
(Week Ending 17 February)



Source: Investing.com

MYR against regional currencies, YTD Gain%
(As of 17 February)



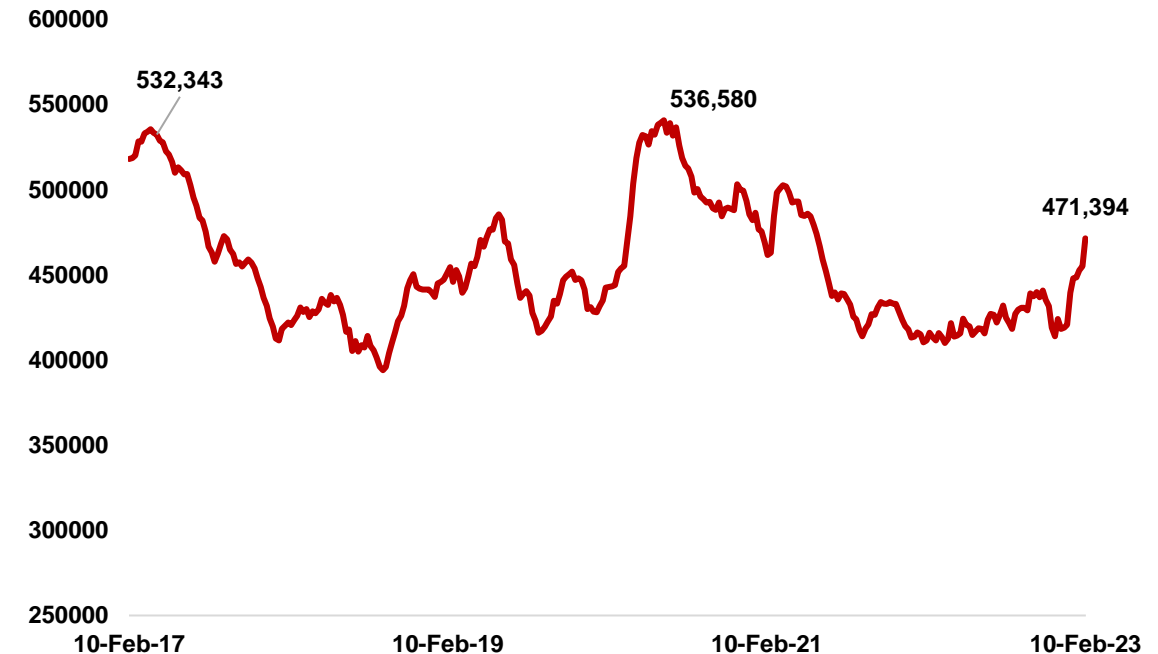
- The Ringgit continued its losing streak against the greenback, where the local note closed the week above the RM4.40 level against the USD.
- Market participants brace for more rate hikes from the U.S. Fed as the continued strength in the country's economic data suggests that the "war on inflation" is far from done.
- The U.S. hotter-than-expected month-to-month basis figures of inflation (Jan: 0.5% vs. Dec: 0.1%), retail sales (Jan: 3.0% vs. Dec: -1.1%) and producer price index (Jan: 0.7% vs. Dec: -0.2%) reinforced the notion of a possible 50-basis point hike in the upcoming March meeting, pushing the USD index higher that is now hovering near to 104 level.
- In light of this, we expect the release of the latest FOMC meeting minutes will bring some clues on the Fed's rate hike path moving forward. Should it turn hawkish, this might bring downward pressure to the Ringgit as it could reach to RM4.45 threshold. As such, imported inflation, particularly food inflation, will become contentious for Malaysia in 1Q2023.
- The re-tabling of Budget 2023 will ascertain the new government's near-term fiscal priorities, which will impact market sentiment.

COMMODITY: BRENT PRICE SETTLED DOWN AMID DOLLAR STRENGTH AND AMPLE CRUDE SUPPLY

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- The hotter-than-expected U.S. data fanned worries over aggressive rate hikes from the central bank, which could weigh the demand at a time when the supply continued to rise.
- Meanwhile, the latest EIA report showed that the crude inventories in the week of 10 February rose by 16.3 million barrels to 471.4 million barrels, the highest level since June 2021.

COMMODITY: GOLD PRICE POSTED A THIRD WEEKLY LOSS AS DOLLAR STRENGTHEN FOLLOWING RATE-HIKE BETS

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, Commodity Research Bureau

- The precious metal was pressured by the stronger-than-expected U.S. economic data and the hawkish remarks from the Fed officials supporting the case for further monetary tightening.
- Additionally, some Fed officials saw an “economic compelling case” for the central bank to lift the interest rates more than it did early this month, benefitting the USD.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The disinflation hope is now being challenged this week as the U.S. economic data continued surprising to the upside, pointing out that more work needs to be done to bring U.S. inflation to the 2.0% target. The FOMC minutes from the 31 January-1 February meeting will be in the spotlight this Wednesday as they may provide some insights for tightening appetite in the March meeting. Further tightening may be required following the recent remarks from the policymakers.
- The Fed's higher bet of rate hike prospects would dominate the market this week as the U.S. core personal consumption expenditures (PCE) price index is set to release this Friday. A higher-than-expected print may strengthen concerns about tighter rate hikes in the near term. The economic calendar also will be updated on January's new and existing home sales, together with the revised figure 4Q2022 GDP. Besides that, New York Fed President John William is set to speak on inflation at an event this Wednesday.
- The market will get the first glimpse of the new-look Bank of Japan (BoJ) governor, Kazuo Ueda, to testify before parliament this week, along with his two would-be deputies. On the monetary policy front, the People's Bank of China (PBoC) and the Bank of Korea (BoK) are scheduled to hold their respective meetings. PBoC is expected to keep its benchmark rates unchanged for the sixth month amid its economic reopening. Likewise, the BoK is anticipated to follow suit, marking its first on-hold decision following back-to-back hikes since April 2021.
- Domestically, the week's highlight will focus on re-tabling Budget 2023 this Friday. According to Prime Minister Datuk Seri Anwar Ibrahim, the budget will drive reforms in the country's economic recovery, boost investment, and improve public infrastructure. Apart from that, his government will continue to seek initiatives to control the price pressures and to ease people's burden from the high cost of living. Last week, he reaffirmed that there would be no GST introduction, instead planning to review the subsidy programme to prioritise aid for low-income groups. We believe that this is a prelude to high subsidies, and by extension, the increasing nature of government spending in 2023.

BANK ISLAM

THANK YOU