WEEKLY ECONOMIC UPDATE

21 AUGUST 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: MALAYSIA'S GROWTH DECELERATED AMID WEAK EXTERNAL DEMAND

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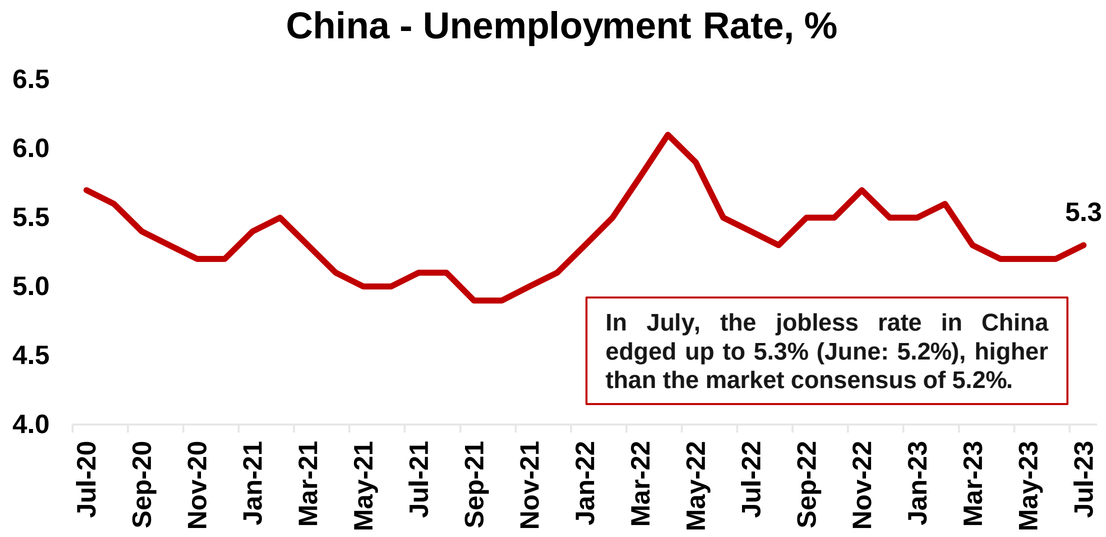
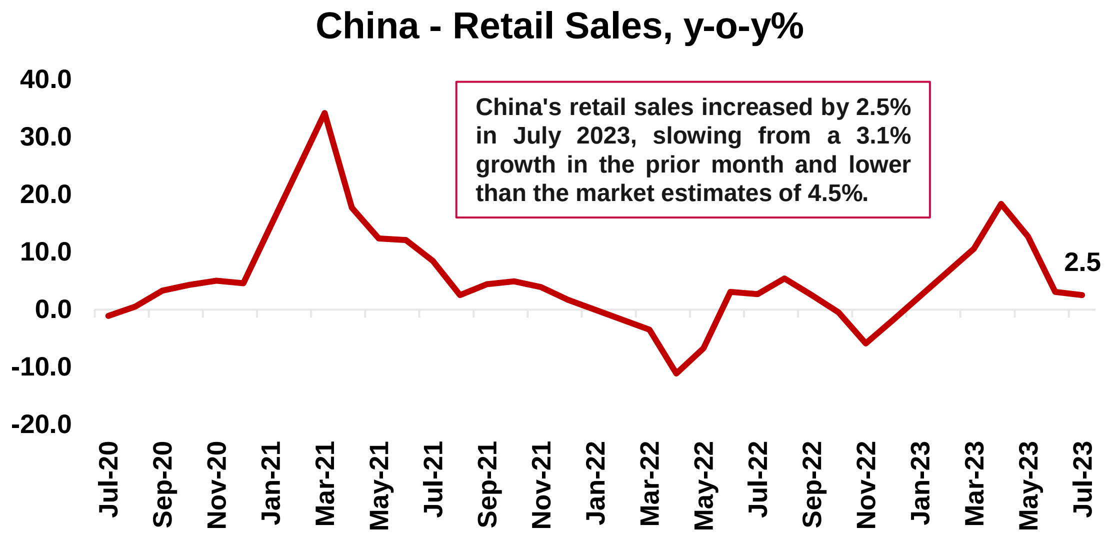
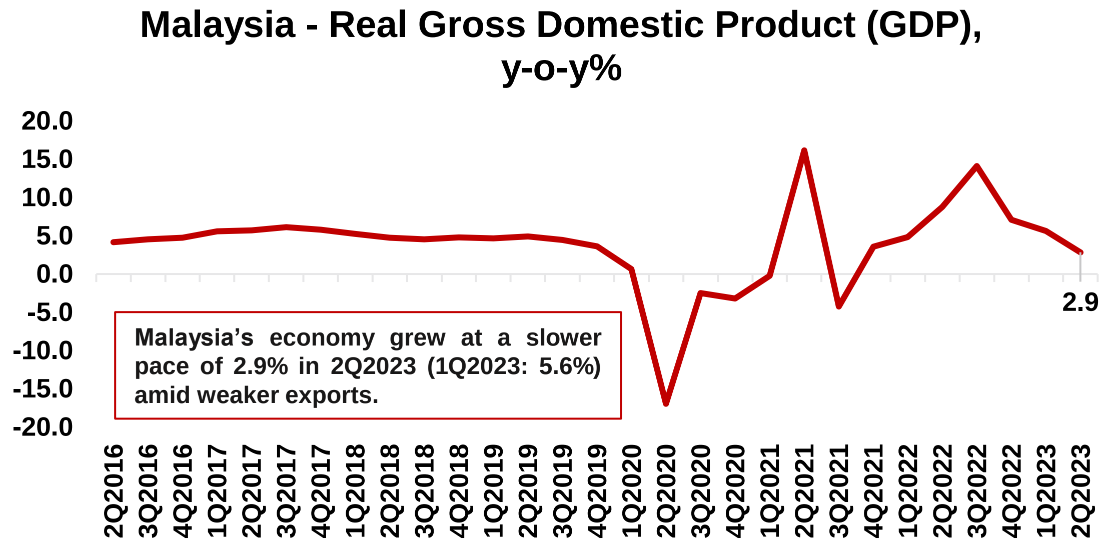
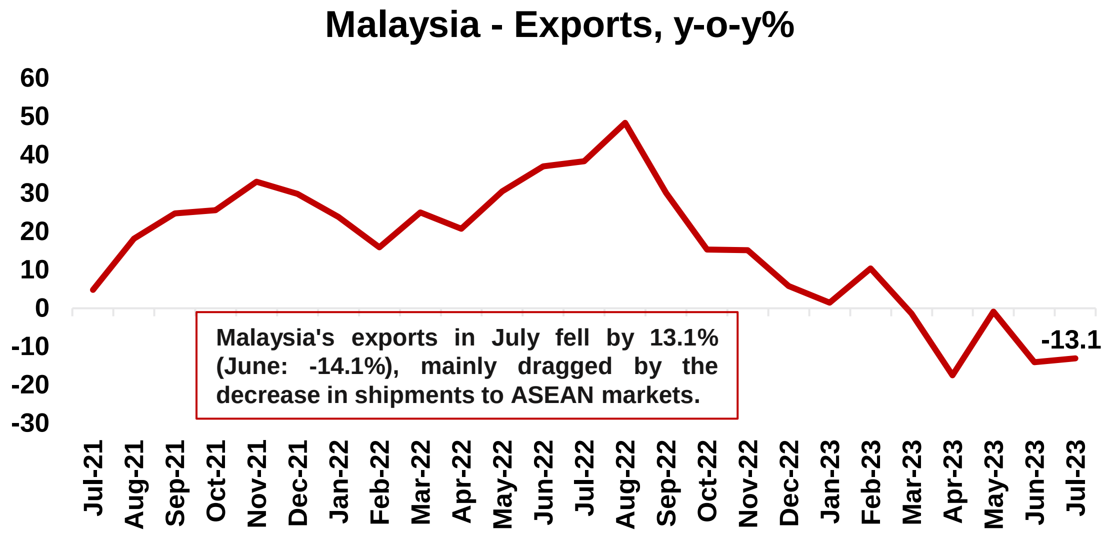
GLOBAL





DOMESTIC





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

THE DOMESTIC ECONOMY REMAINED WELL-SUPPORTED DESPITE MALAYSIA'S 2Q2023 GDP GROWTH COMING IN AT 2.9%, WHICH WAS SLOWER THAN EXPECTED

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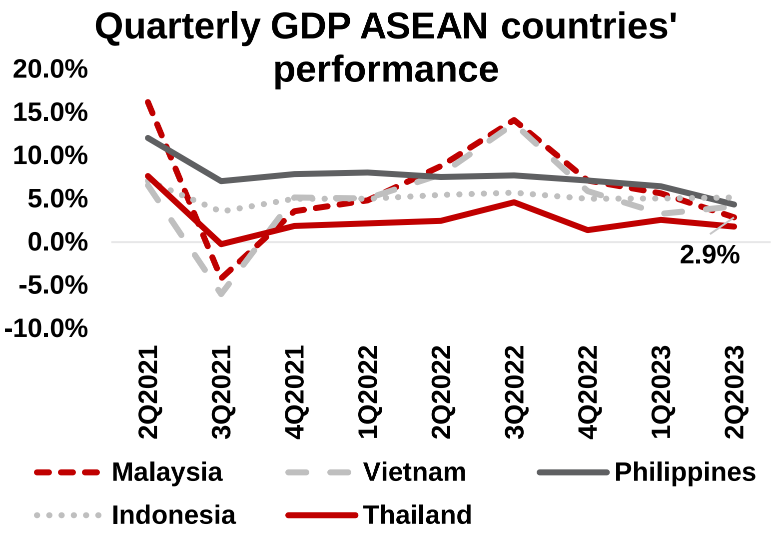
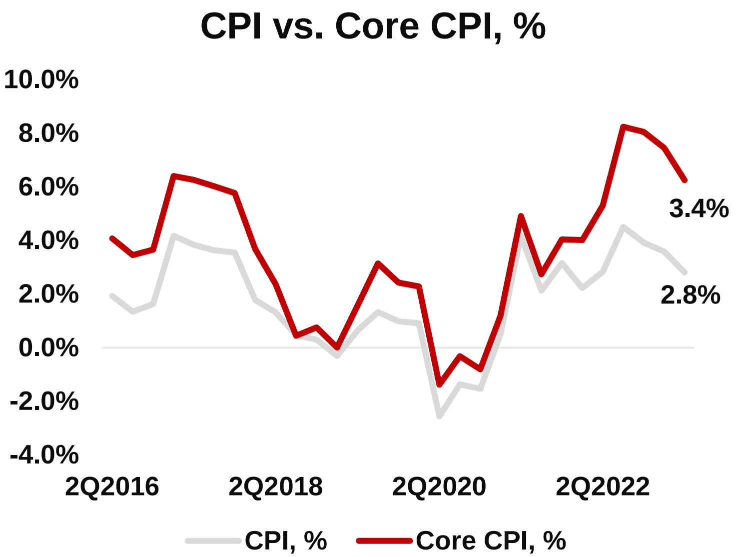
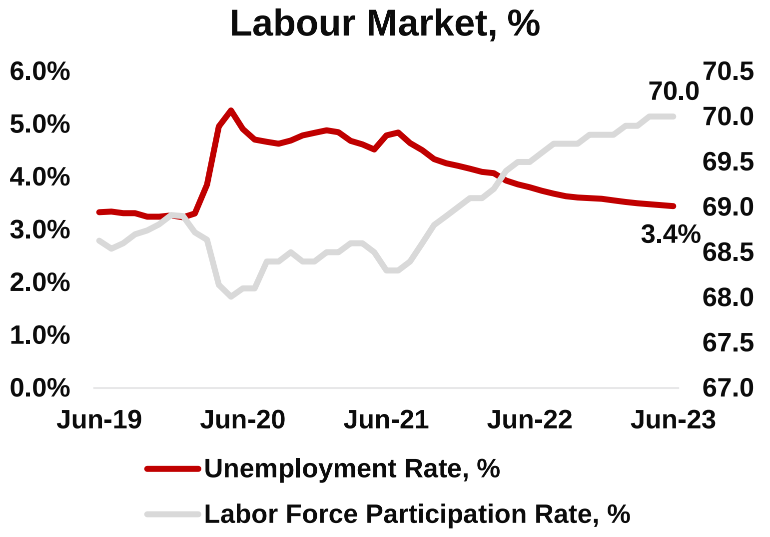




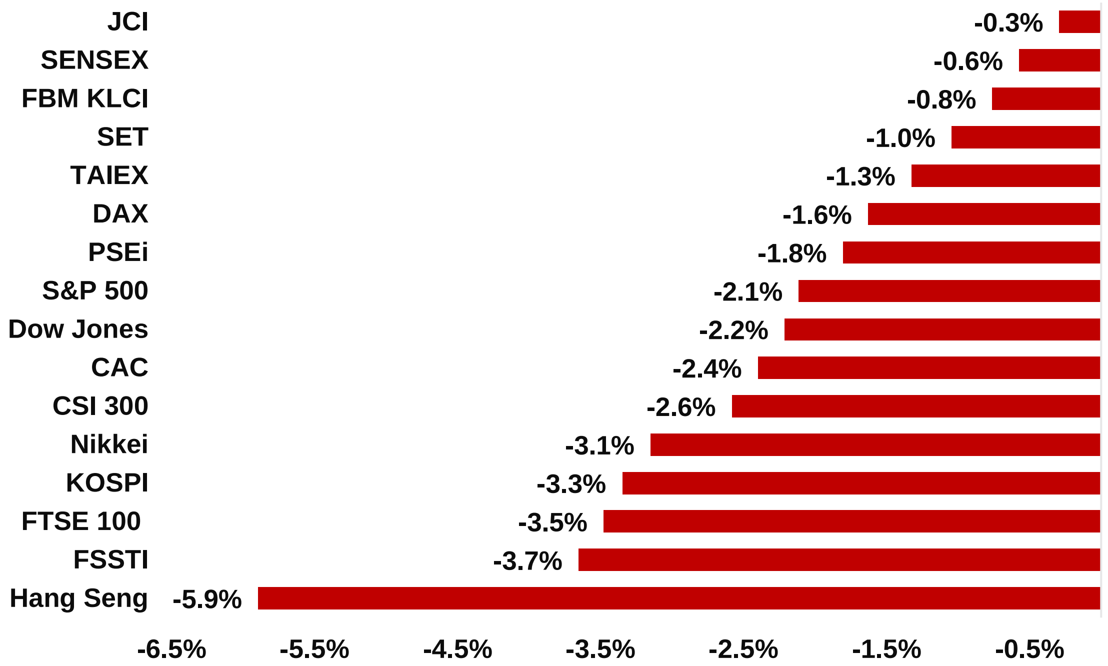


- The slower growth during 2Q2023 from a 5.6% expansion in the previous quarter was widely anticipated. Still, it came in below expectations, given external headwinds such as cooling prospects for global demand and the global electronics downcycle.
- The latest print marked the second-lowest growth among its ASEAN peers, with net exports as the main drag.
- Private consumption remained the key growth driver as the unemployment rate declined to 3.4% in June. Declining inflation has helped lift real wage growth.
- The positive momentum in tourist arrival thus far has supported the economy but remains below pre-pandemic levels. Arrivals from China and Australia are lower than other top tourist sources.
- Moving to 3Q2023, we posit that the growth will likely come in little change or even slower than 2Q2023, partly due to a high base effect. The slowing external demand and lower industrial production are key headwinds to growth in 2H2023.
- As such, we opine that keeping the official growth projection of 4.0-5.0% can be challenging.

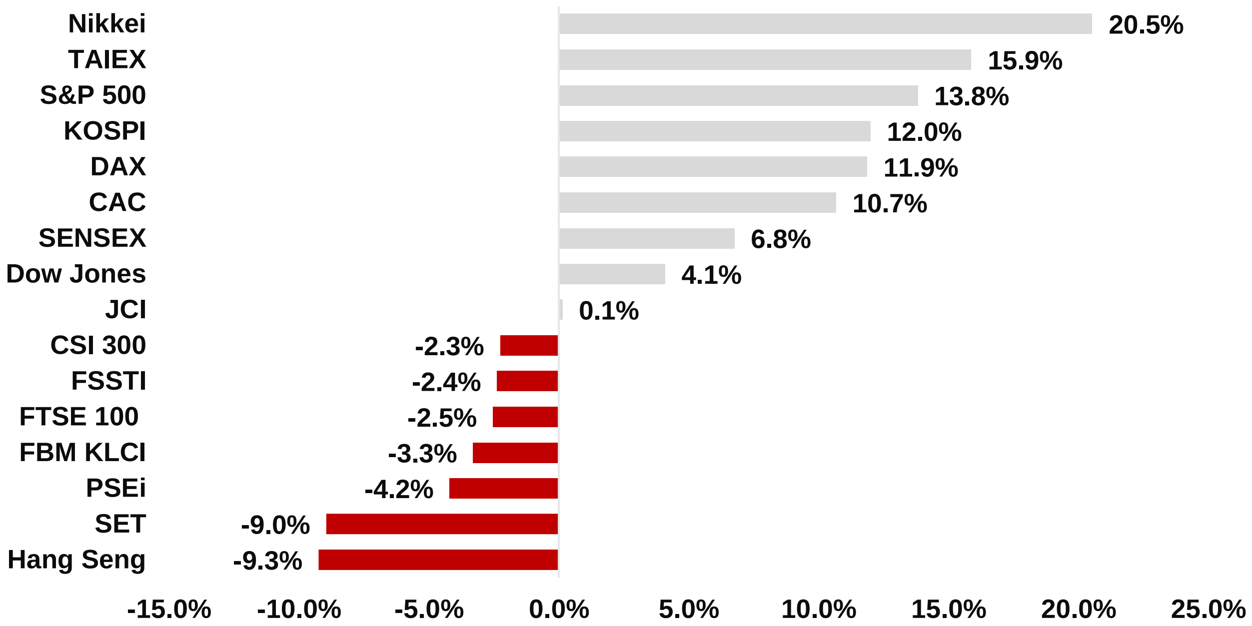
Sources: DOSM, Tourism Malaysia

REGIONAL EQUITY: GLOBAL STOCK MARKET FINISHED LOWER ON DISAPPOINTING CHINA DATA AND U.S. RATE HIKE FEARS

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



YTD Gain/Loss of Major Equity Markets, % (As of 18 August 2023)



Sources: Bursa, CEIC

- Overall, the regional benchmark indices ended in the red for the week ending August 18. Hong Kong's Hang Seng was the major loser, down by 5.9%, amid spillovers from filing bankruptcy protection in a U.S. court by China's property developer, Evergrande.
- In addition, worries about the solvency of another property sector peer, Country Garden, have not helped either, along with increased concerns over contagion to the shadow banking system after Chinese asset manager Zhongzhi missed a coupon payment, which has weighed on sentiment.
- The likelihood of persistently higher for longer interest rates after the publication of the latest U.S. Federal Reserve (Fed) minutes also dragged the markets lower.

DOMESTIC EQUITY: LOCAL STOCKS SHED GAINS ON SOFTER GDP GROWTH

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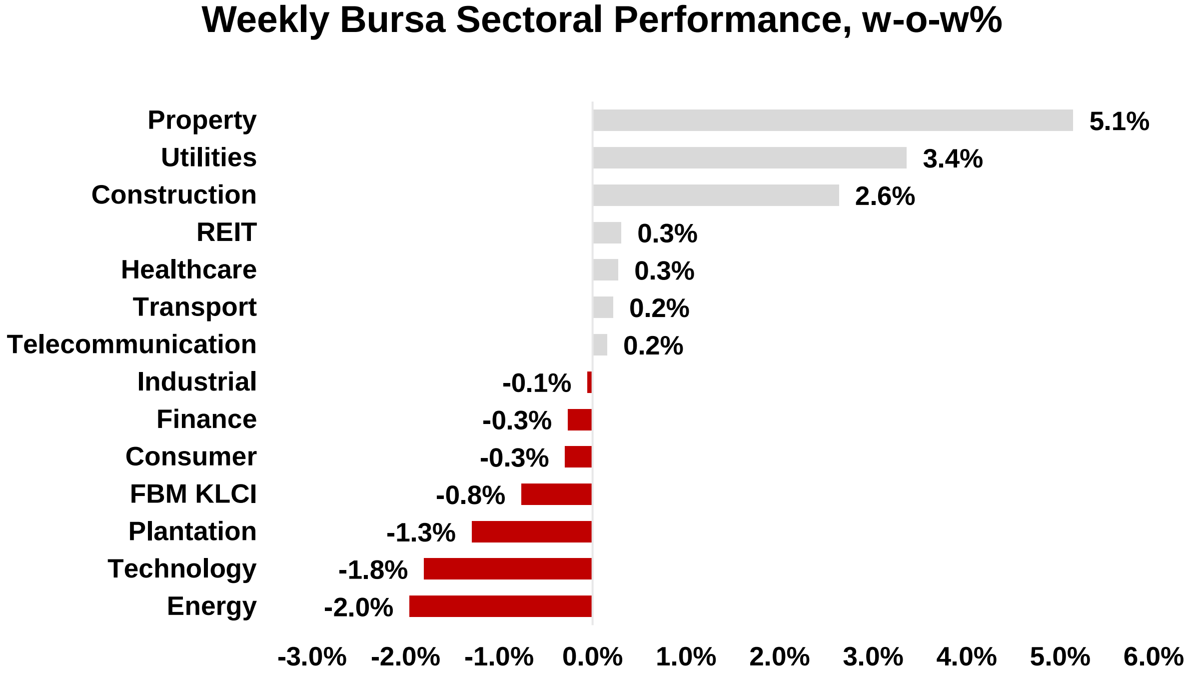

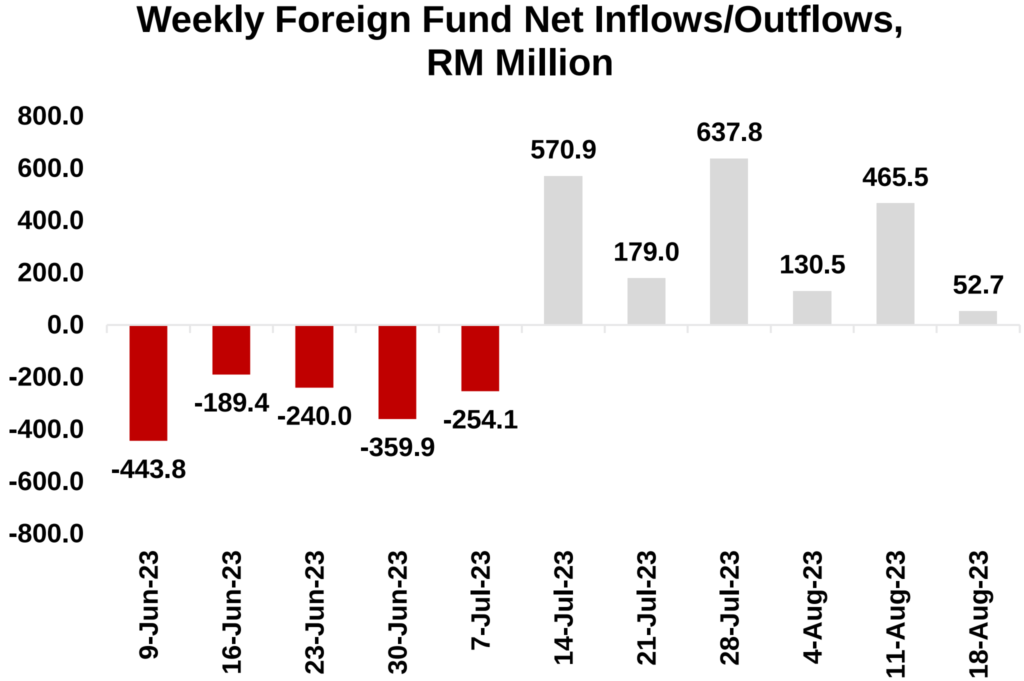

Sources: Bursa, Bank Negara Malaysia (BNM), CEIC

- Half of the Bursa sectoral indices slipped into the red on the week ending August 18 on profit-taking activities. The Energy index led the decliners with a 2.0% drop, followed by Technology (-1.8%) and Plantation (-1.3%).
- Investor sentiment turned cautious following a weak GDP print that shows Malaysia’s economy grew at the slowest pace since 4Q2021. Lacklustre regional markets, partly weighed by disappointing economic data from China, also contribute to the negative sentiment.
- Meanwhile, the Property index led gains with a 5.1% rise on a statement from the Real Estate and Housing Developers Association Malaysia (REHDA) that the property market is slowly returning to normalcy and that most developers turned more confident on the outlook for 1H2024.
- Foreign investors extended their buying streak for the sixth consecutive week, albeit much slower at RM52.7 million relative to RM465.5 million in the previous week. The buying reduced the cumulative total net outflow this year thus far to RM2.4 billion.

FIXED INCOME: BOND MARKET ENDED WEAKER AMID WORRIES OVER HIGHER RATES AND CHINESE ECONOMY

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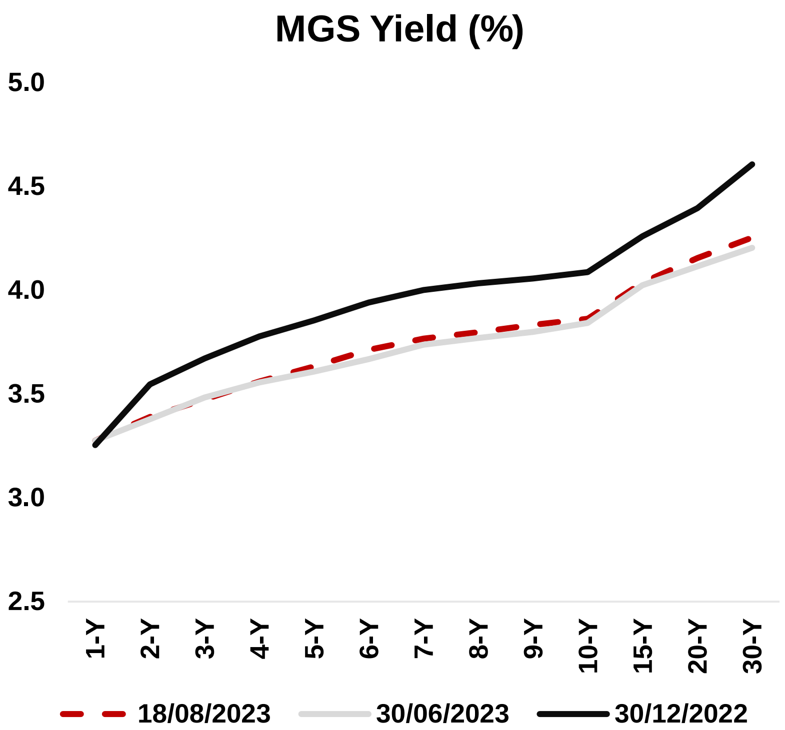
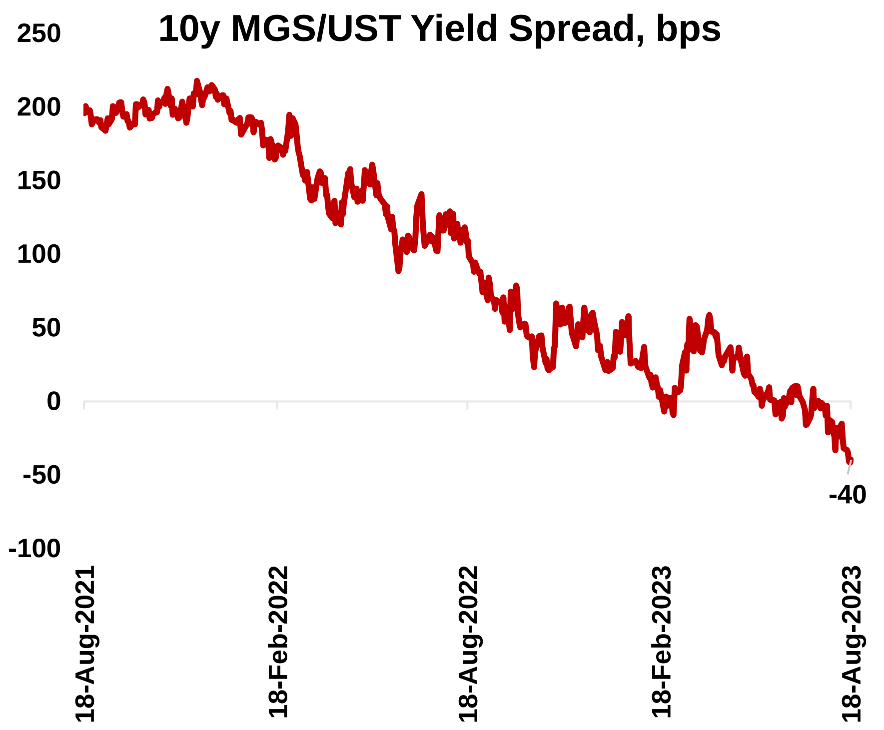
Weekly Changes, basis points (bps)

UST	Yields (%) 11-Aug-23	Yields (%) 18-Aug-23	Change (bps)
3-Y UST	4.56	4.63	7
5-Y UST	4.31	4.38	7
7-Y UST	4.26	4.34	8
10-Y UST	4.16	4.26	10
MGS	**Yields (%) 11-Aug-23**	**Yields (%) 18-Aug-23**	**Change (bps)**
3-Y MGS	3.46	3.47	1
5-Y MGS	3.59	3.63	4
7-Y MGS	3.74	3.77	3
10-Y MGS	3.84	3.86	2
GII	**Yields (%) 11-Aug-23**	**Yields (%) 18-Aug-23**	**Change (bps)**
3-Y GII	3.47	3.50	3
5-Y GII	3.64	3.66	3
7-Y GII	3.79	3.80	1
10-Y GII	3.87	3.88	1

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yield curve bearishly steepened in the range of 7bps and 10bps as investors grappled with the potential for longer-lasting high-interest rates by the Fed. Investors were spooked by the latest Fed minutes, indicating a continuous effort to firefight inflation.
- Additionally, the sentiment was undermined by weak data and turmoil in the property sector that painted a gloomy picture of China's post-pandemic recovery.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) also ended weaker, with MGS yields rising between 1bp and 4bps. The RM5.0 billion 5-Y reopening of MGS issued on August 15 garnered weak demand with a bid-to-cover (BTC) ratio of 1.8x, relatively lower than the previous RM5.0 billion 5-Y reopening of MGS in April, which drew a BTC ratio of 2.4x.
- Meanwhile, the yield curve of GII bearishly flattened in the range of 1bp and 3bps.
- The 10y MGS/UST yield spread widened to -40bps, relative to -32bps in the previous week.

FX MARKET: THE RINGGIT REMAINED UNDER PRESSURE AGAINST THE USD DURING THE WEEK

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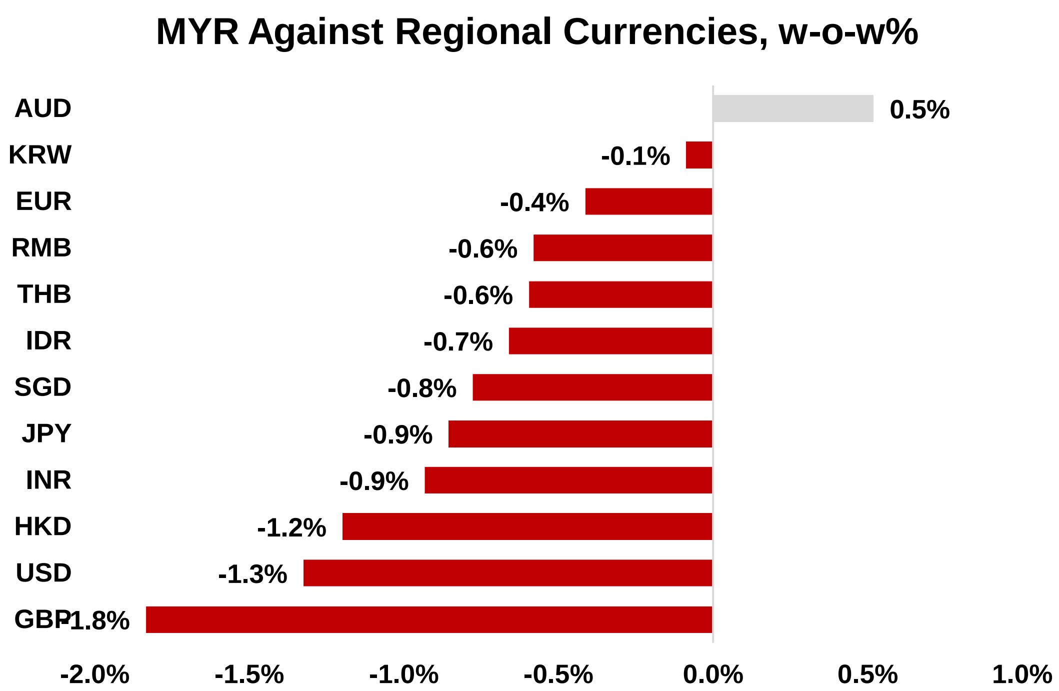

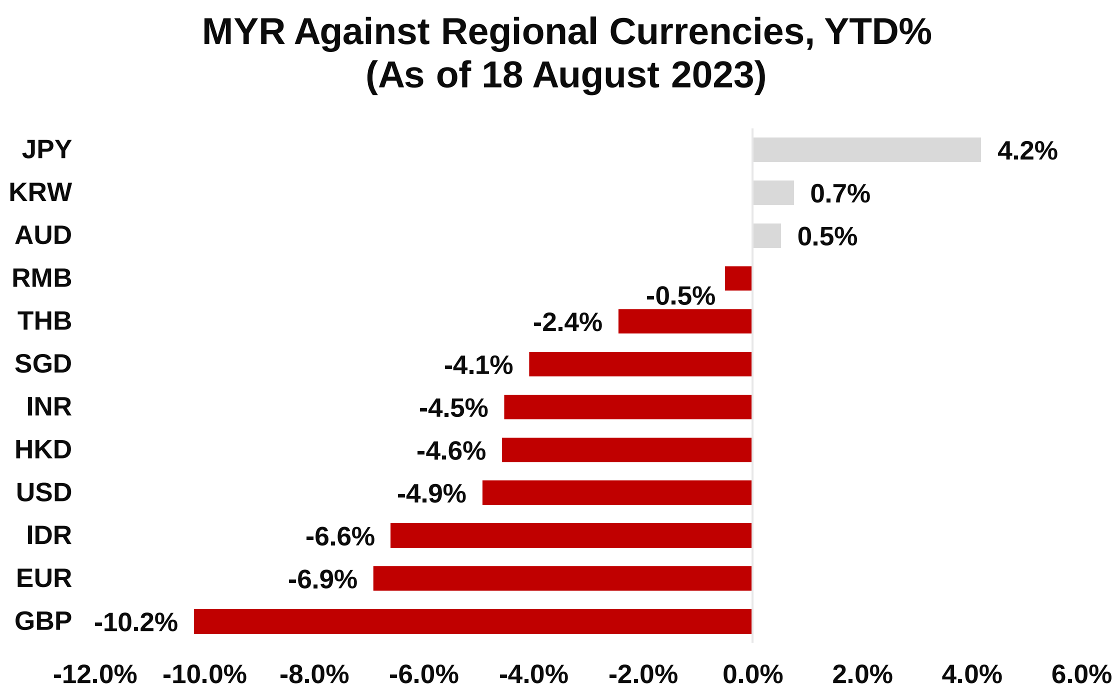

Source: BNM

- The Ringgit continued its slide against the USD as market participants perceived that the Fed's battle against taming inflation is far from done.
- Markets also took the cue from the upbeat U.S. retail sales print on a monthly basis (July: 0.7% vs June: 0.4%), which suggested that consumer spending was still powering to sustain the economic expansion. This has prompted the USD index to extend its uptrend for the fifth straight week, thus pressuring the local note.
- The weaker-than-expected China economic data, which has left investors anxious over the country's recovery, continued to weigh on market sentiment.
- Lower commodity prices, the increasing yields gap and the slower growth in Malaysia's 2Q2023 GDP could also have pressured the Ringgit last week.

COMMODITY: OIL PRICES DECLINED AMID WEAK CHINA'S ECONOMIC DATA AND POTENTIAL FURTHER RATE HIKES IN THE U.S.

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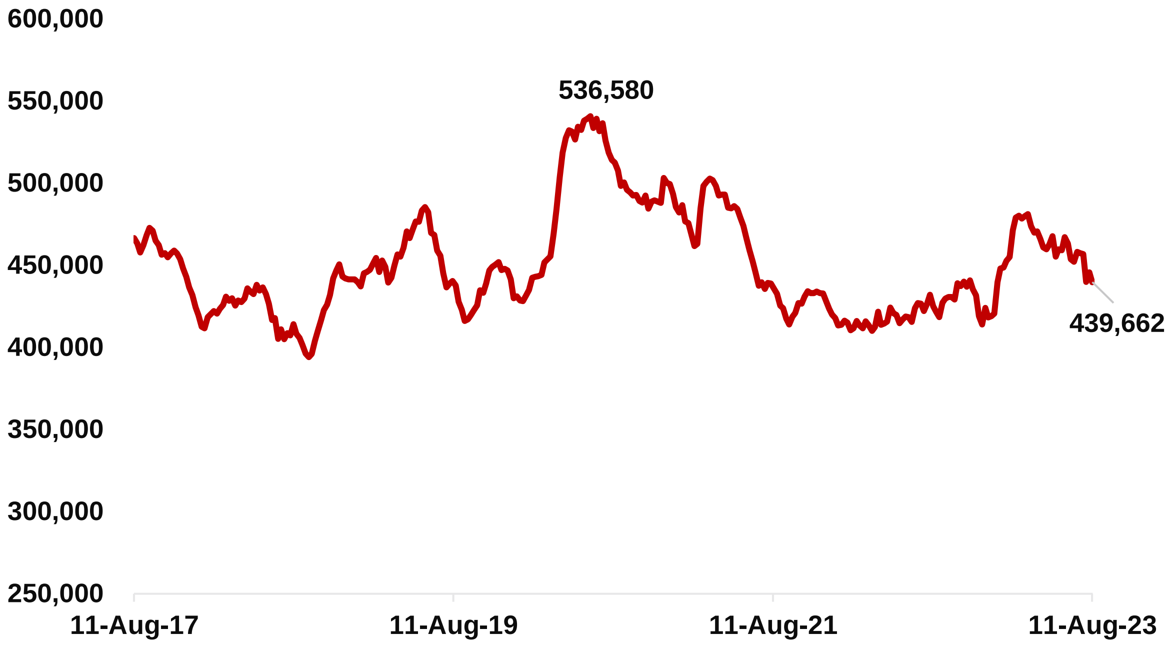
Brent Crude in USD per barrel

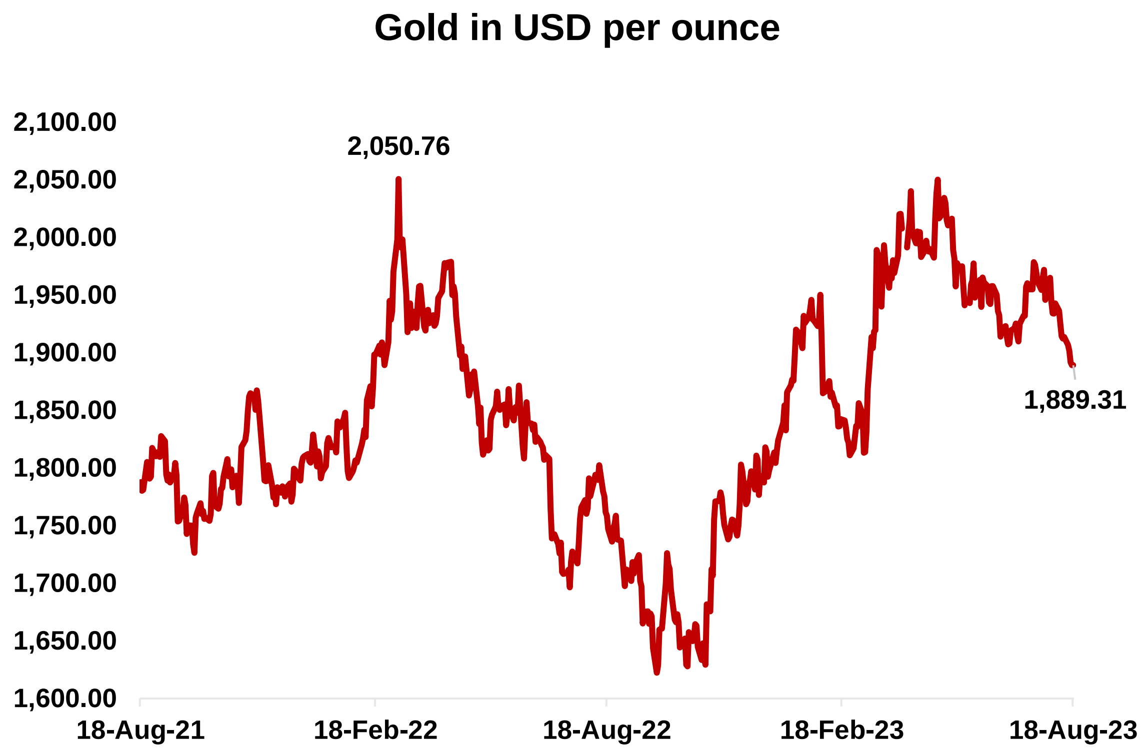
U.S. Crude Oil Inventory, '000 barrel - EIA

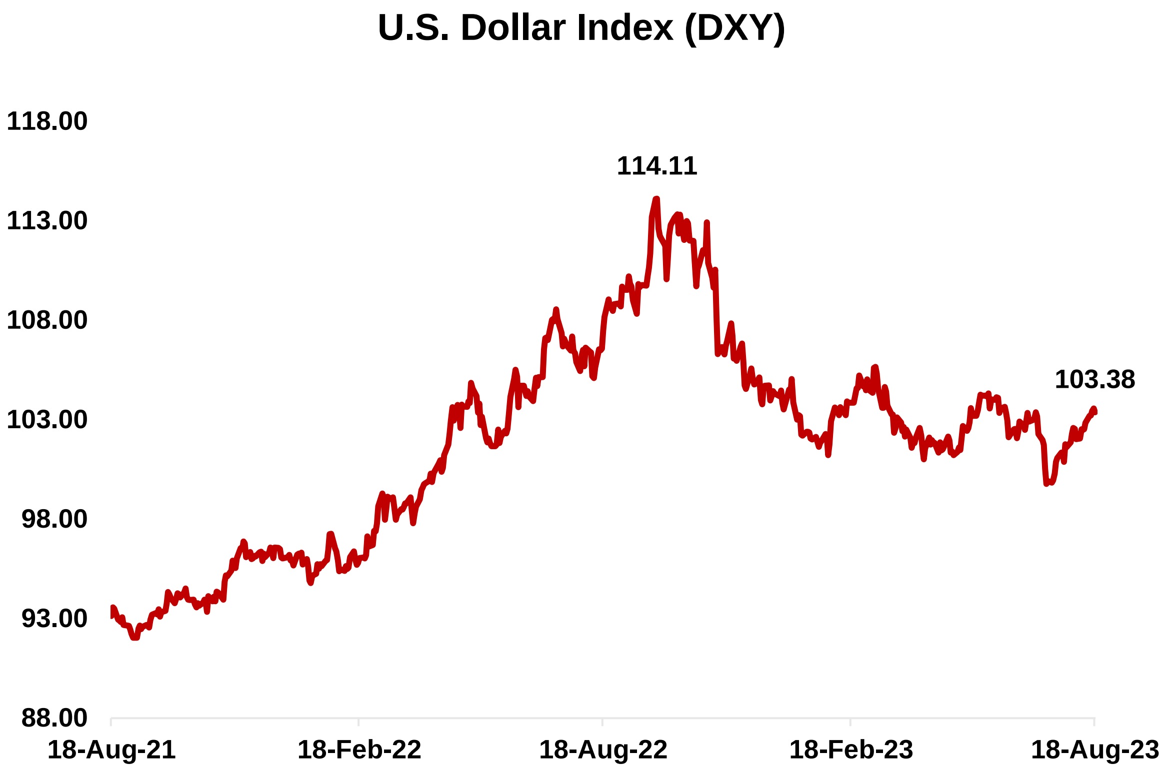


Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price was down about 2.3% on a weekly basis, snapping seven straight weeks of gain due to weaker-than-expected economic conditions and the deepening property sector crisis in China, indicating that market participants were less impressed with the surprise rate cut from the country.
- The Fed's July meeting minutes also showed that the U.S. policymakers could warrant a prolonged period of restrictive monetary policy or even another rate hike in the next meeting in September, which has boosted the USD.

COMMODITY: GOLD HEADED FOR FOURTH WEEKLY DECLINE AMID FEARS OVER FURTHER RATE HIKES BY THE FED





Sources: Bloomberg, Commodity Research Bureau

- USD continued its uptick trend as the July Federal Open Market Committee (FOMC) meeting minutes suggested more rate hikes could be on the card, given upside risks to inflation.
- Additionally, the U.S. labour market seemed to be in a tight condition when the weekly initial jobless claims for the week ending 12 August 2023 fell more than expected (Act: 239k vs Est: 240k).

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- Several central banks will meet this week, including the People's Bank of China (PBoC), Bank of Korea (BoK) and Bank Indonesia (BI). The PBoC lowered the 1y Loan Prime Rate (LPR) by 10bp to 3.45% but left the 5y LPR unchanged at 4.20%, signalling limited room for more aggressive monetary easing. The rate decision followed its surprise cuts to the 1y Medium-term Lending Facility by 15bp to 2.50% alongside a reduction of 10bp in its 7d Reverse Repo Rate to 1.80% last week. Meanwhile, the BoK is widely expected to maintain its policy rate at 3.50% amid the lacklustre economy. Nevertheless, investors will watch for clues on the policy outlook as the weakening Korean won raised speculation that the BoK may consider resuming rate hikes beyond August. Likewise, consensus pointed to another rate pause by BI, with the policy rate remaining at 5.75%. Still, the renewed weakness in the Indonesian rupiah will likely open the door for a rate hike.

- A slew of August's flash Purchasing Managers' Index (PMI) estimates for major developed economies, scheduled to release this week, will be closely watched for early insights on whether the global economy continues to look gloomy. July's PMI data shows that all major developed economies reported slowing service sector growth and continued manufacturing downturn, indicating a lacklustre start to 2H2023. The upcoming services PMI releases will confirm if the expected travel boom during summer has materialised and is sufficiently strong to provide a lift to growth in the services sector in August. Meanwhile, manufacturing PMI across major developed economies is expected to remain in the contraction zone in August as the unwinding of stockpiling weighed on new orders.

- Thailand's GDP grew at a more moderate pace at 1.8% in 2Q2023 (1Q2023: 2.6%), falling short of market expectations for faster growth at 3.1% amid weaker exports and the delay in government formation that has stalled policymaking. The slower GDP print will likely reinforce the case for the Bank of Thailand to halt its rate hikes. The government revised its full-year GDP forecast lower to 2.5%-3.0% from 2.7%-3.7%, citing the lower exports. Thailand will also release July trade data this week, which will be watched if the weakness in exports persists. Consensus points to a trade deficit in July.

- On the domestic front, DOSM will release the CPI report for July. Headline CPI is expected to ease from 2.4% recorded in June, partly due to the easing cost pressures, as reflected in the deflation in the producer price index (PPI) since February and the base effect of high inflation a year ago. Core CPI will likely continue its downtrend but remain above the headline inflation (June: 3.1%), in line with the moderating but still solid domestic demand.

THANK YOU