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WEEKLY ECONOMIC UPDATE

22 JANUARY 2024

ECONOMIC RESEARCH

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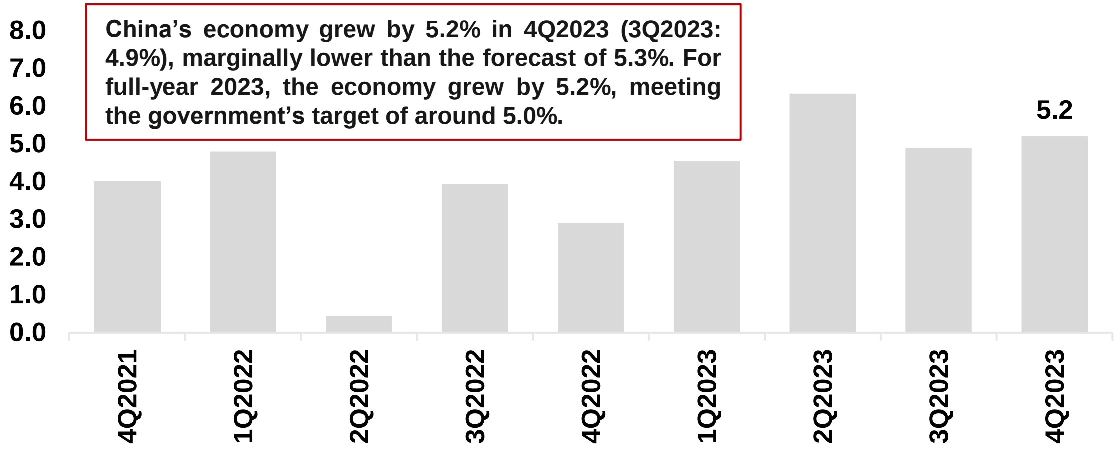
WEEKLY HIGHLIGHT: MALAYSIA'S TEPID GROWTH AND DOUBLE-DIGIT CONTRACTION IN EXPORTS

GLOBAL

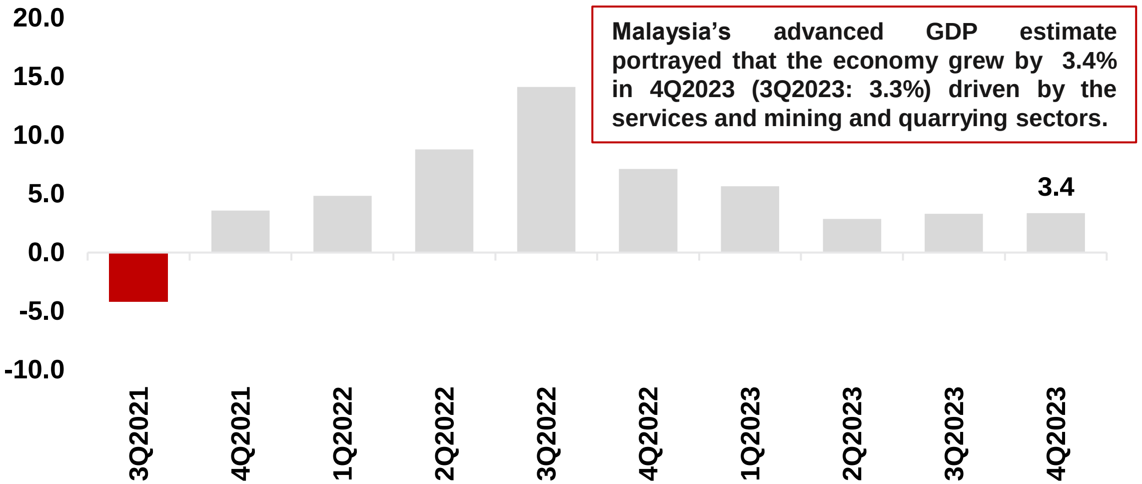
China - Real Gross Domestic Product (GDP), y-o-y%



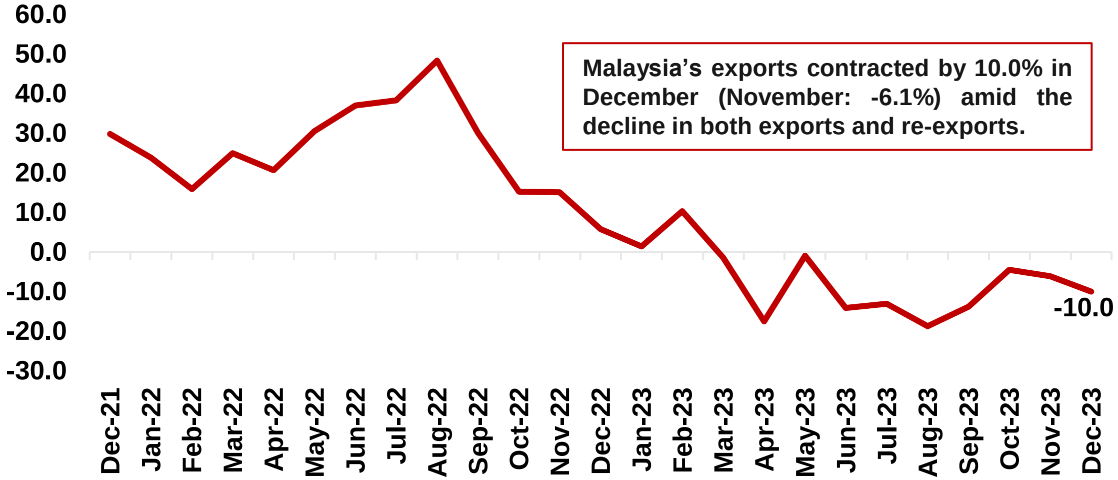
China - Retail Sales, y-o-y%

DOMESTIC

Malaysia - Real GDP, y-o-y%

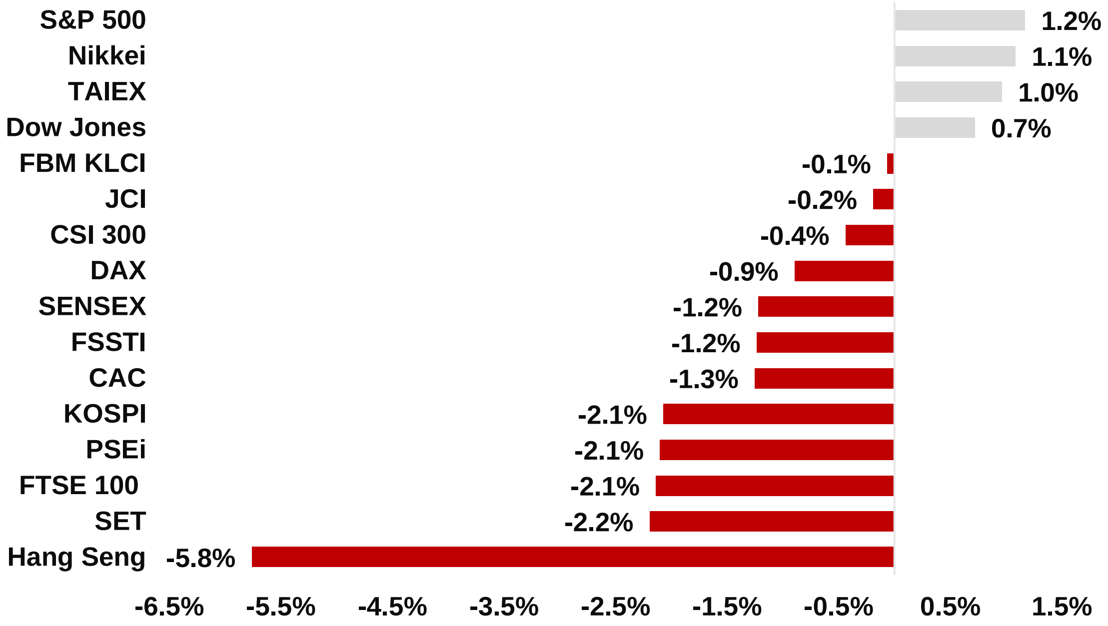


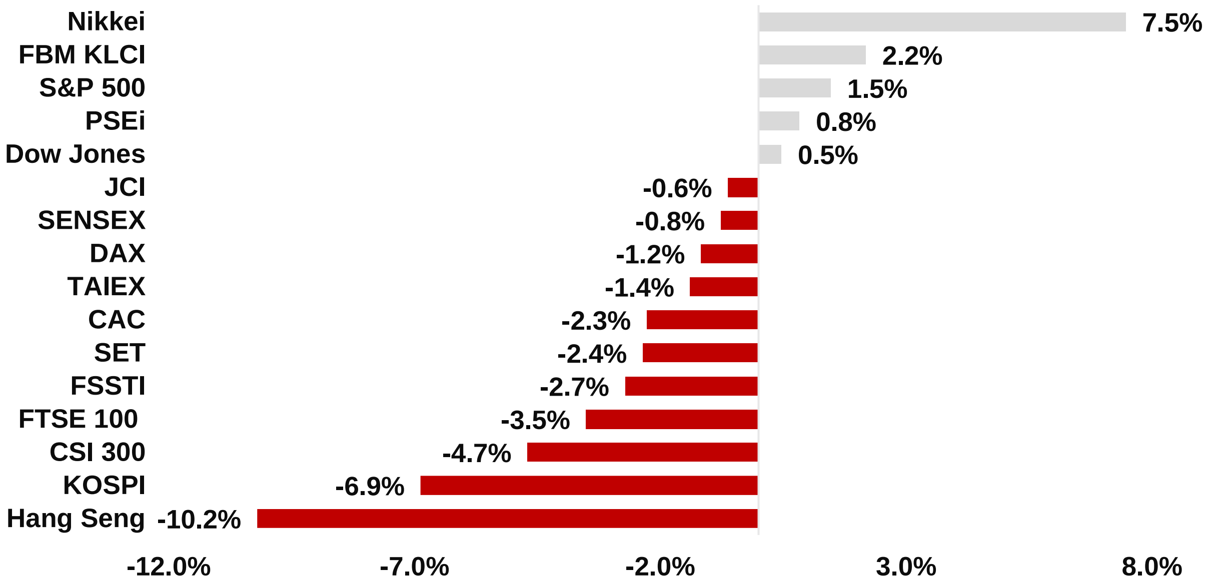
Malaysia - Exports, y-o-y%



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

REGIONAL EQUITY: U.S. STOCKS SURGED ON STRENGTH IN TECHNOLOGY SECTOR

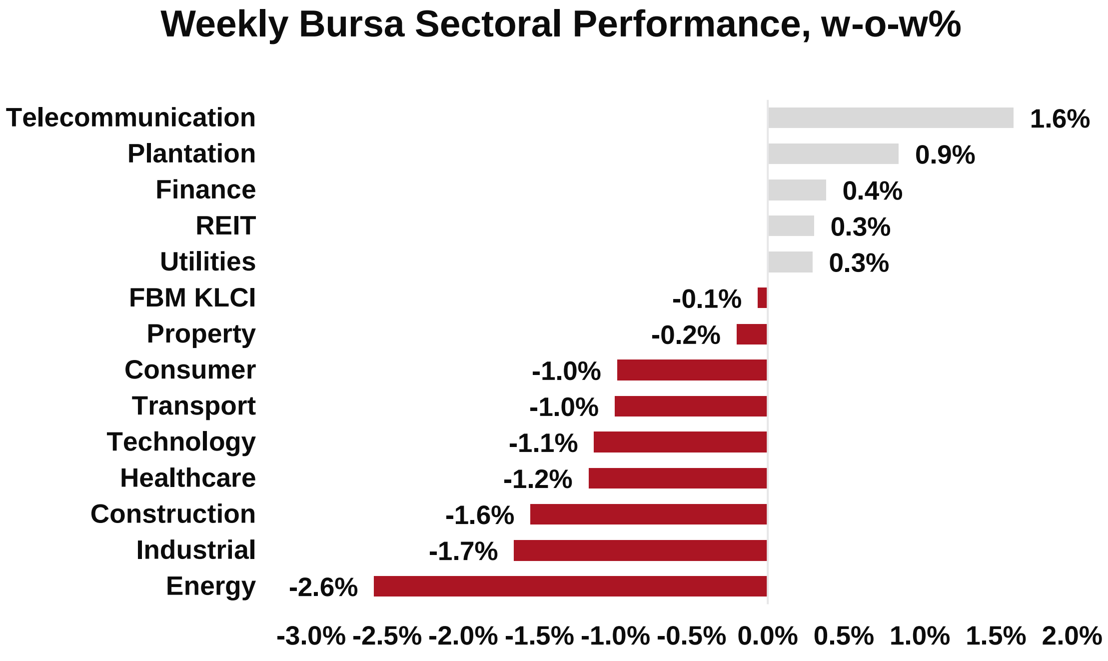


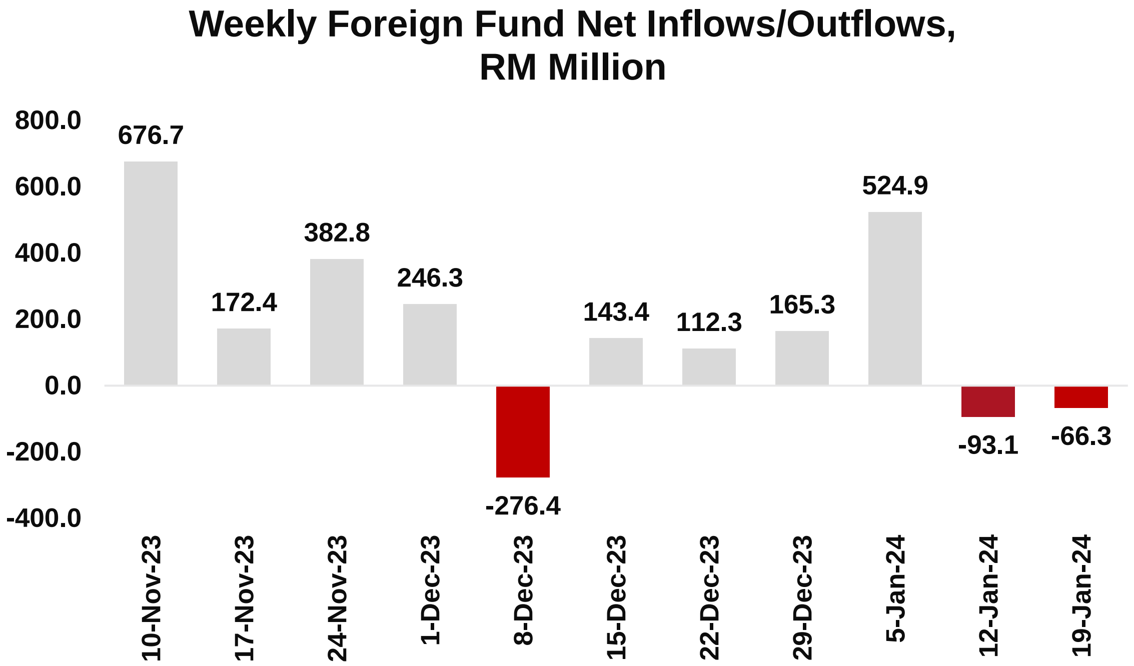


Sources: Bursa, CEIC Data

- Mixed performance across major equity markets for the week ending January 19, with the top performers were the U.S.' S&P 500 (1.2%), Japan's Nikkei (1.1%), and Taiwan's TAIEX(1.0%).
- The U.S. stocks rally was fueled by the technology sector, spurred by continued gains in chip stocks. These gains were driven by the positive news about Taiwan Semiconductor's (TSMC) future performance and growing excitement about the potential of artificial intelligence (AI).
- The bottom performers were the Hong Kong's Hang Seng (-5.8%), Thailand's SET (-2.2%) and U.K.'s FTSE 100 (-2.1%).

DOMESTIC EQUITY: LOCAL MARKET CLOSED MIXED AMID MARKET JITTERS





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

- The local market closed in the red in the week ending January 19, with the FBM KLCI slipping by 0.1% amid sell-off activities after breaching the 1,500-level at 1,501.11 on Monday.
- Leading the losers was the Energy index (-2.6%), followed by the Industrial and Construction indices at -1.7% and -1.6%, respectively.
- The dampened performance was affected by negative market sentiments following recent volatile market activity in the Bursa as several counters hit limit-down, coupled with a surge in number of unusual market activity (UMA) queries issued since the start of the year.
- Furthermore, market remains cautious amid expectations of higher-for-longer U.S. Federal Funds Rate (FFR) and anticipation of the coming Monetary Policy Committee (MPC) meeting on 23-24 January.
- Meanwhile, the biggest gainer was the Telecommunications index (+1.6%), followed by the Plantation (+0.9%) and Finance (+0.4%) indices.
- Additionally, foreign investors continued to shed their equities, leading to a total net outflow of RM66.3 million for the week ending January 19. The cumulative total net inflow this year thus far is RM365.5 million.

FIXED INCOME: STRONG LABOUR MARKET DATA INCHED UP BOND YIELDS

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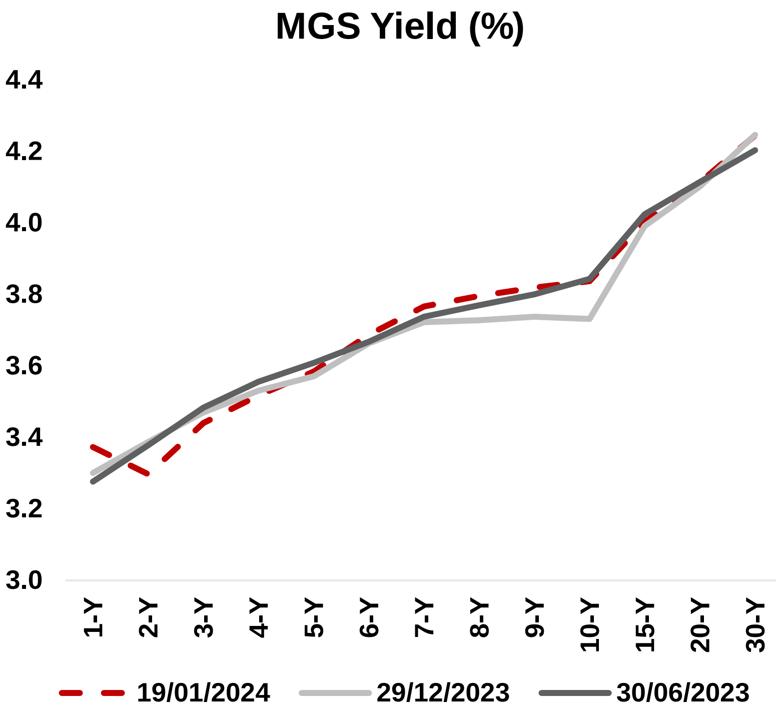
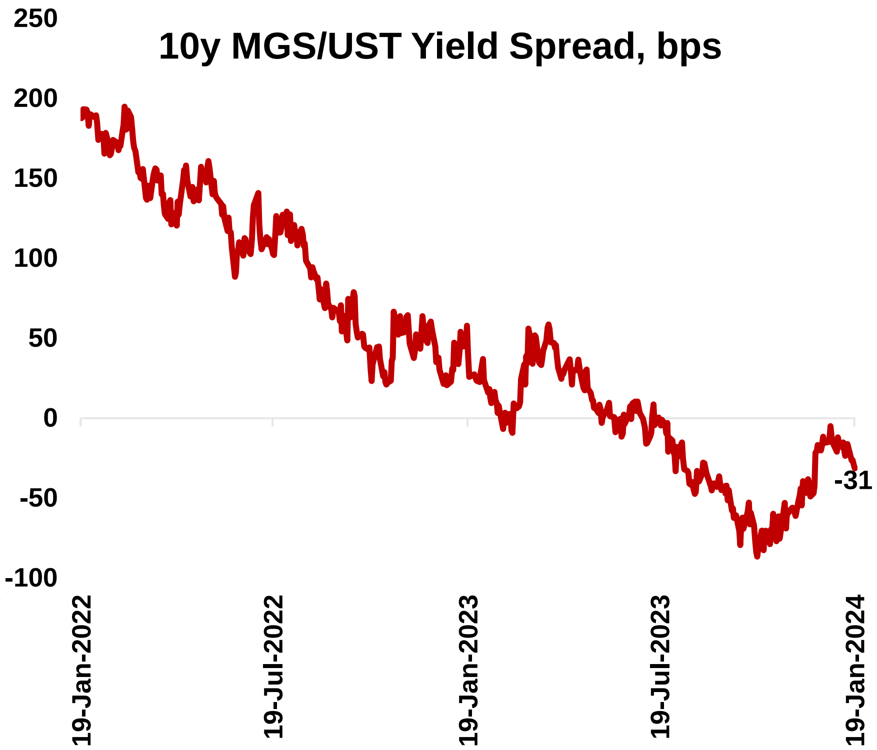
Weekly Changes, basis points (bps)

UST	Yields (%) 12-Jan-24	Yields (%) 19-Jan-24	Change (bps)
3-Y UST	3.92	4.18	26
5-Y UST	3.84	4.08	24
7-Y UST	3.91	4.12	21
10-Y UST	3.96	4.15	19
MGS	**Yields (%) 12-Jan-24**	**Yields (%) 19-Jan-24**	**Change (bps)**
3-Y MGS	3.41	3.44	3
5-Y MGS	3.54	3.58	5
7-Y MGS	3.73	3.77	4
10-Y MGS	3.80	3.84	4
GII	**Yields (%) 12-Jan-24**	**Yields (%) 19-Jan-24**	**Change (bps)**
3-Y GII	3.43	3.48	6
5-Y GII	3.59	3.62	2
7-Y GII	3.77	3.79	2
10-Y GII	3.83	3.87	3

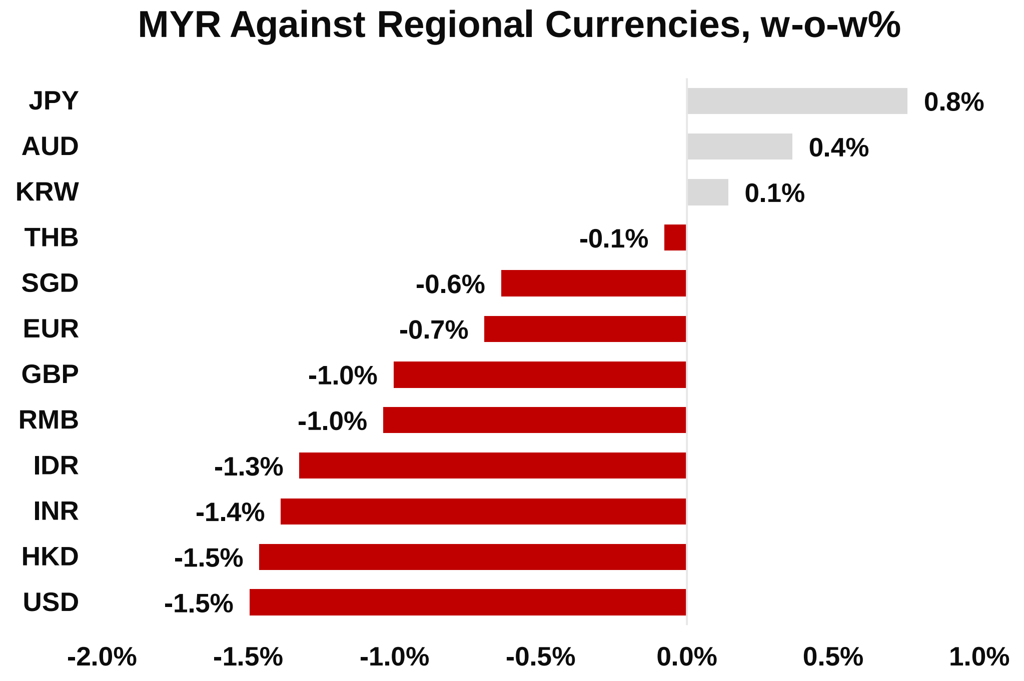
Sources: BNM, Federal Reserve Board

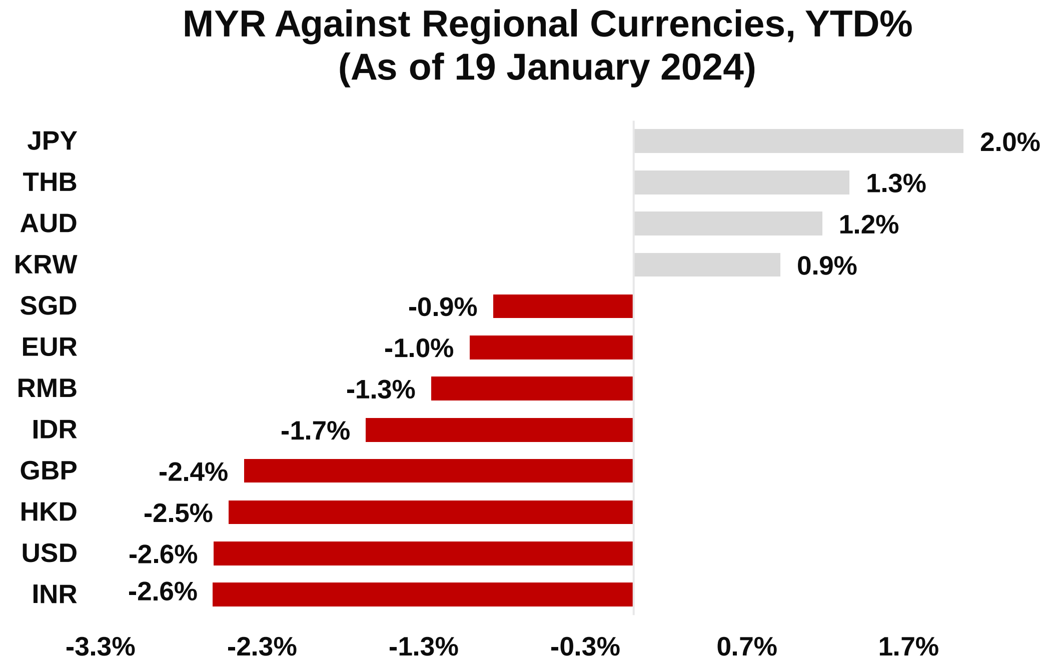




- The U.S. Treasury (UST) yield curve bearishly flattened in the range of 19bps and 26bps as the weekly U.S. initial jobless claims data pointed towards stronger labour market performance that dampened hopes for a near-term Federal Reserve (Fed) rate cut.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also climbed between 2bps and 6bps.
- The RM5.0 billion 5-Y reopening of GII issued on January 19 drew a significantly robust demand with a bid-to-cover (BTC) ratio of 4.4x, significantly higher relative to the previous RM5.0 billion 5-Y reopening of GII in September 2023, which garnered a BTC ratio of 2.0x.
- Concurrently, the 10y MGS/UST yield spread widened in the negative territory at -31bps relative to -16bps in the previous week.

FX MARKET: RINGGIT WEAKENED AGAINST THE USD DURING THE WEEK

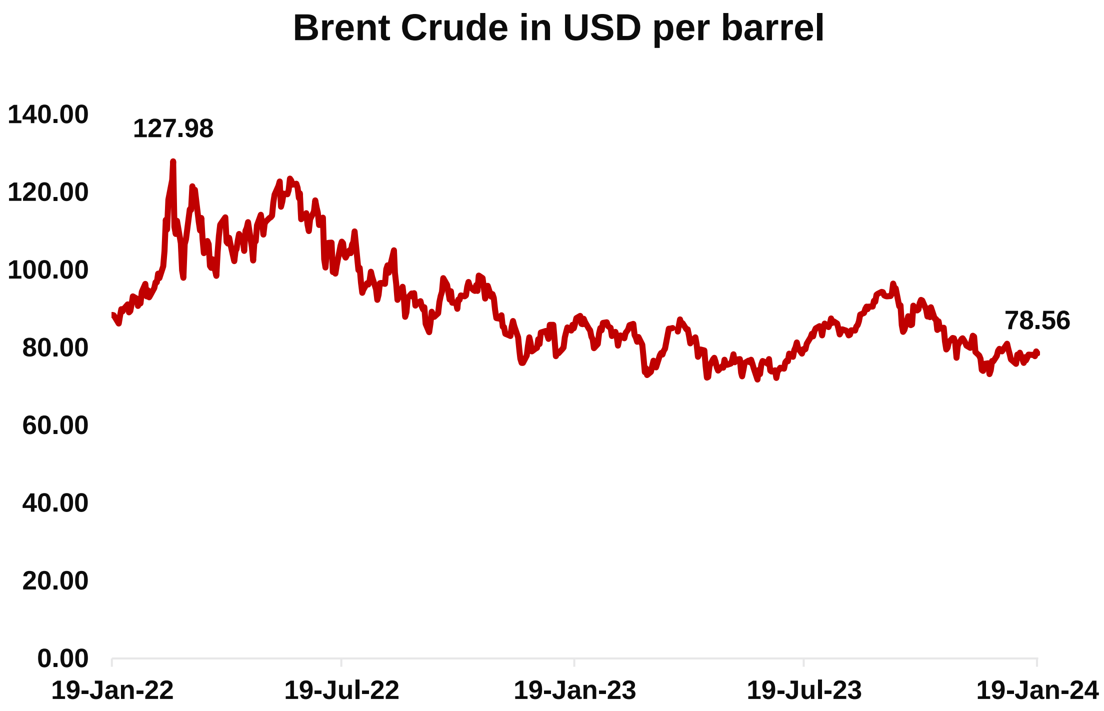


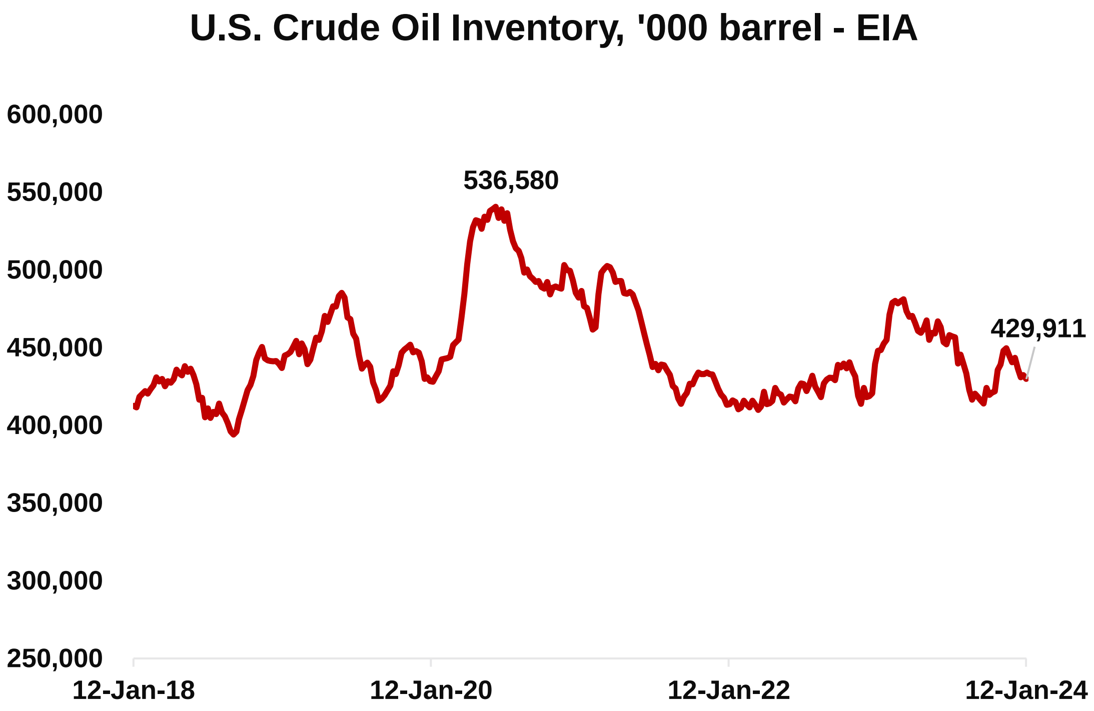


Source: BNM

- The Ringgit was once again pushed to the RM4.70 level following escalated tension in the Middle East, as well as China's patchy economic recovery.
- Additionally, the U.S. retail sales figure in December came in strong at 0.6% m-o-m (Nov: 0.3%), marking the biggest increase in 3 months, suggesting the spending is heavily influenced by the state of labour market. The employers continued to hire at a solid clip last month with the unemployment rate remained steady at 3.7%.
- At the same time, it seemed that there was an unclear direction of possible rate cut, possibly in the timing as the anticipation rate cut in March has dropped to below 50.0% when it was nearly close to 70.0% last week, at the point of writing.
- As such, the USD index strengthened during the week, hovering around 103 index and up by 0.9% on a weekly basis, thus pressuring the local note.

COMMODITY: OIL PRICES REMAINED ON TRACK FOR WEEKLY GAIN





Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price rose by 0.3% on a weekly basis, supported by the escalating risk of supply disruptions in the Red Sea due to the intensifying conflict, as well as positive outlook for global oil demand.
- In the recent development, the U.S. responded to a Houthi assault by initiating fresh strike against Iran-aligned Houthi rebels in Yemen.
- Meanwhile, the International Energy Agency (IEA) raised 2024 oil demand forecast to 1.24 million barrels per day (bpd), up by 180,000 bpd, citing improved economic growth. Organization of the Petroleum Exporting Countries (OPEC), on the other hand, maintained its 2.25 million bpd growth in 2024, with a strong expectation of 1.85 million bpd growth in 2025 amid solid activity in China.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY LOSS FOLLOWING PIVOT IN POLICY EXPECTATIONS

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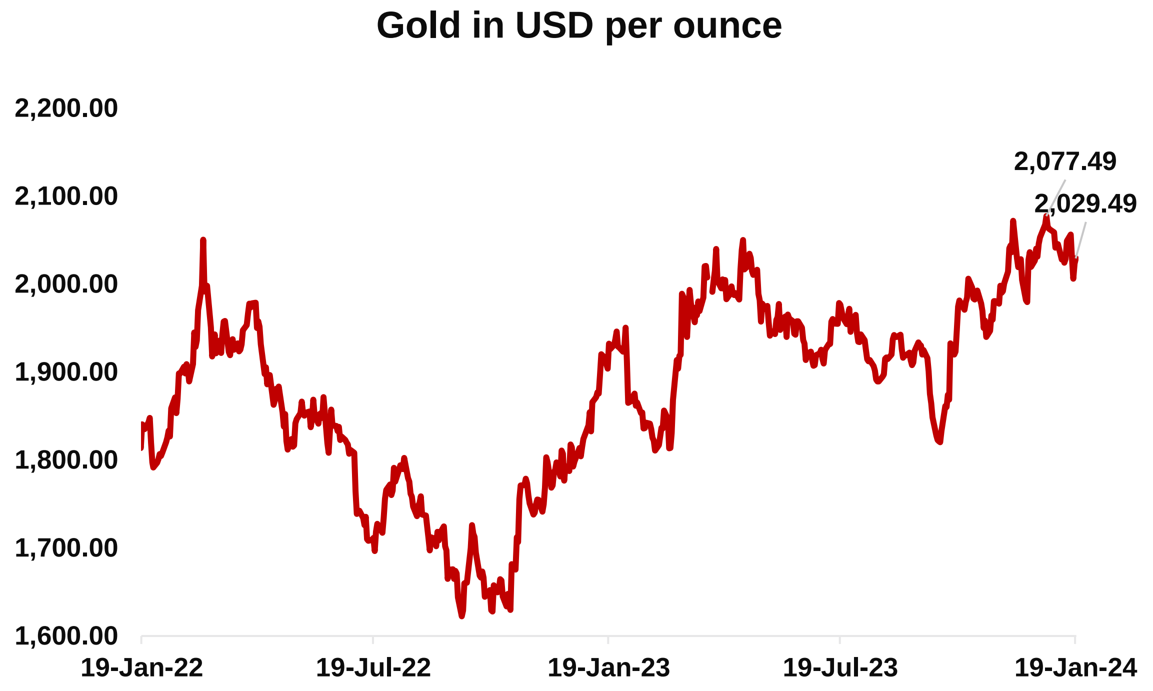

Sources: Bloomberg

- The greenback recorded gains whilst the bullion price slipped for the week ending January 19 as market expectations swayed to a higher-for-longer view as recent figures point to a still hot U.S. job market and persistent inflation.
- U.S. Weekly Initial Jobless Claims (IJC) fell to a 16-month low of 187K in the past week, much lower than the market estimate of 207K. Previously, December inflation print was also reported hotter-than-expected (December: 3.4% vs. November: 3.1%).

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week features the first estimate of U.S. 4Q2023 GDP, which may influence market expectations on the timing of Fed rate cuts. Fed Governor Christopher Waller's remarks last week that the recent resilience in the U.S. economy will likely delay any potential rate deductions has led bond investors paring bets on a March rate cut, with odds dropping to below 50.0% from over 70.0%, a week ago. The consensus is that growth in the U.S. economy in 4Q2023 has moderated from the highest in seven quarters recorded in 3Q2023 (4.9%) but remained intact at an annualised rate of around 2.0%, supported by the still-robust consumer spending.

- The European Central Bank (ECB) is widely expected to leave its interest rates unchanged for the third consecutive meeting this week. All eyes will fall on the accompanying speech by ECB President Christine Lagarde for any additional insights on the conditions needed to trigger rate cuts. While the central bank's 2.0% inflation target is within reach given the disinflationary trend, ECB policymakers have tried to temper market expectations for imminent rate cuts by reiterating the "higher for longer" interest rate stance. However, markets were less convinced as fresh data increasingly pointed to a weak economic outlook. Market pricing currently suggests there is a high chance the ECB will start cutting rates from April 2024.

- The Bank of Japan (BoJ)'s meeting due this week will continue to signal no rush in exiting its ultra-accommodative monetary policy that involves negative interest rate policy (NIRP) and yield-curve control (YCC) as the latest data showed easing of inflation and sluggish wage growth. There had also been some speculation that the BoJ will revise its inflation forecast for fiscal 2024 lower in the accompanying quarterly outlook report, from the current projection of 2.8%. That said, the prevailing view in the markets is that NIRP will be scrapped in April 2024 the soonest.

- BNM will likely remain on hold during its policy meeting on January 23-24, 2024. We opine that the Overnight Policy Rate (OPR), currently at a pre-pandemic level of 3.00%, has peaked. Malaysia's CPI report for December 2023 due this week will likely reflect modest inflation amid the moderation in food price pressure. However, upside risks to the inflation stemming from the lower food commodity production due to harsh weather conditions, geopolitical tensions that could disrupt the global supply chain, the 2.0% Service Tax rate hike from 6.0% to 8.0% as well as the subsidy rationalisation should keep BNM in cautious mode and hence, a rate cut in the near-term is less likely.

THANK YOU