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WEEKLY ECONOMIC UPDATE

25 MARCH 2024

ECONOMIC RESEARCH

IMRAN NURGINIAS IBRAHIM
LEE SI XIN
RAJA ADIBAH RAJA HASNAN
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI
AMIRATUL HUSNA MOHAMMAD

WEEKLY HIGHLIGHT: MALAYSIA'S TOTAL TRADE MAINTAINED POSITIVE GROWTH DESPITE A DECLINE IN EXPORTS

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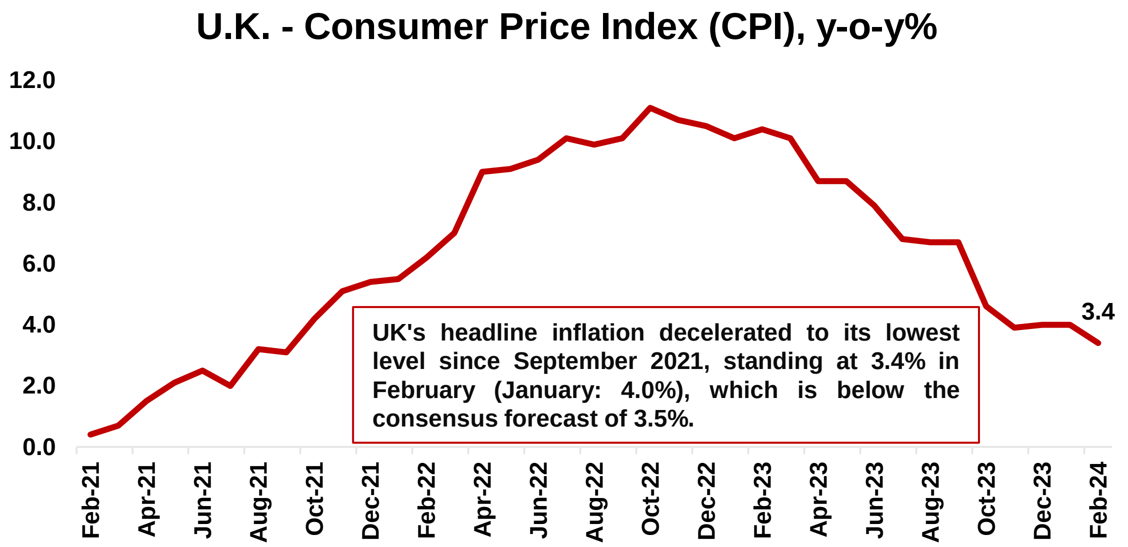
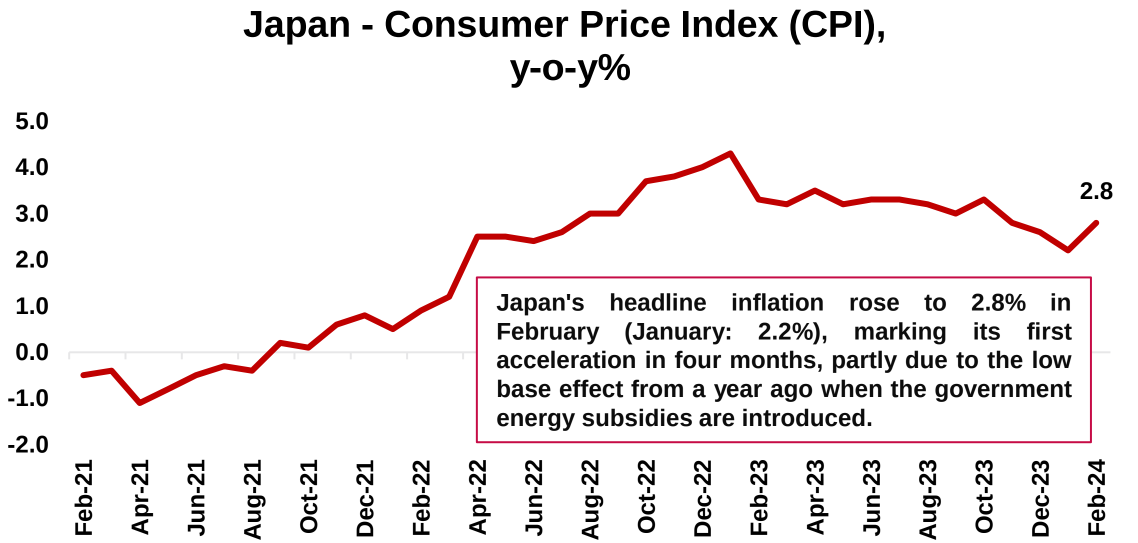
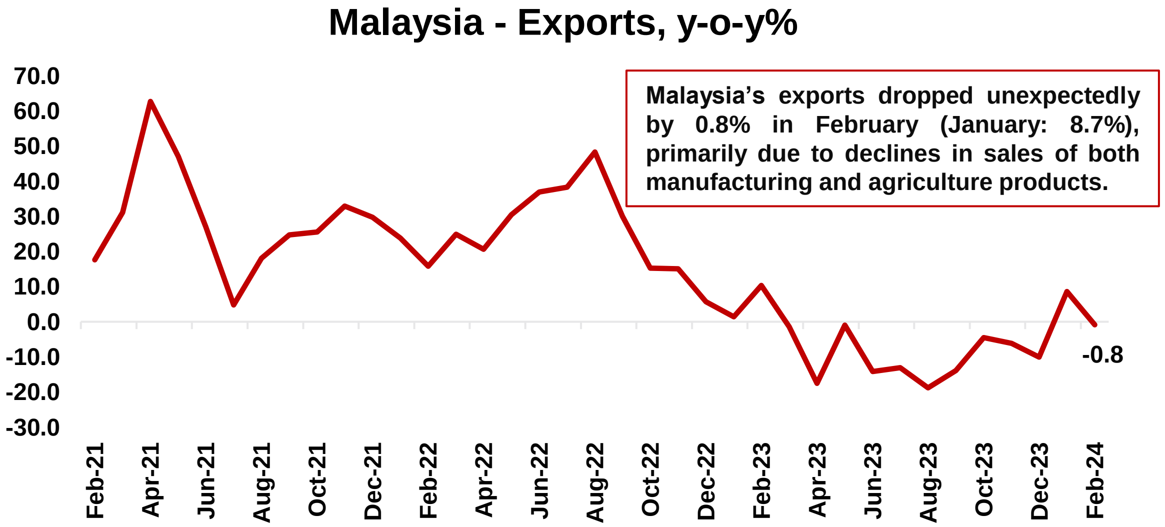
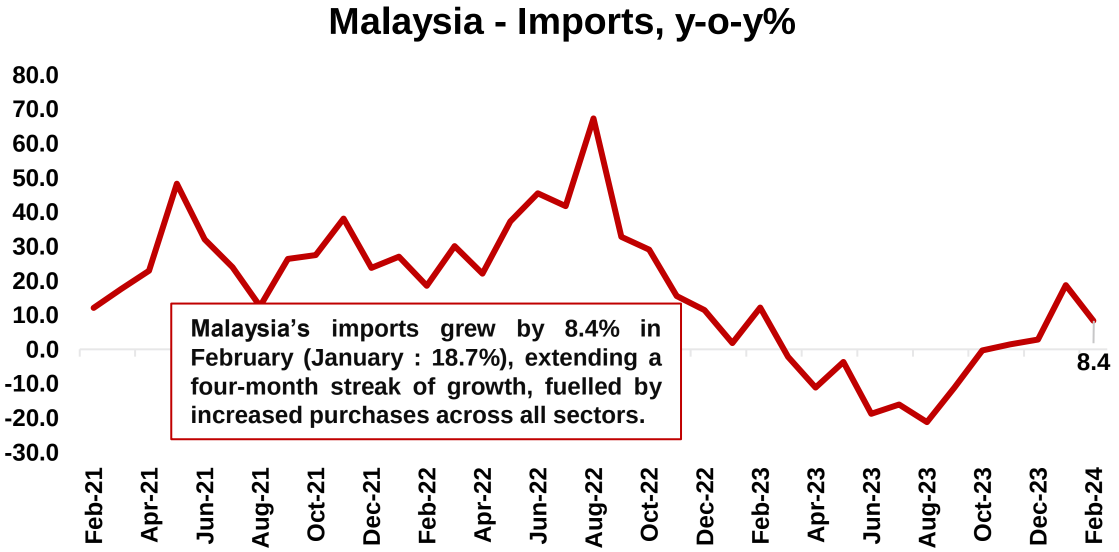
GLOBAL





DOMESTIC



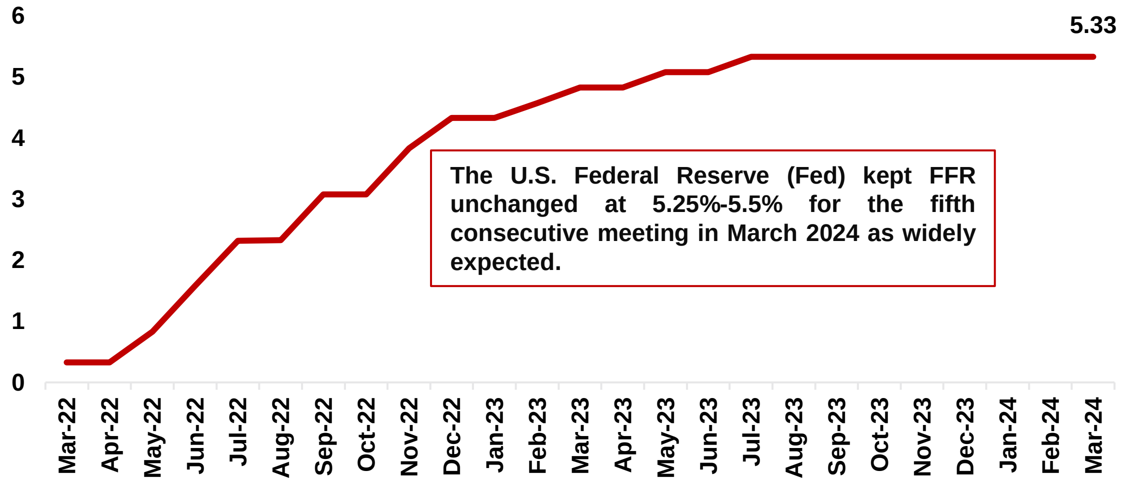


Sources: Office for National Statistics, Statistical Bureau, Department of Statistics Malaysia (DOSM)

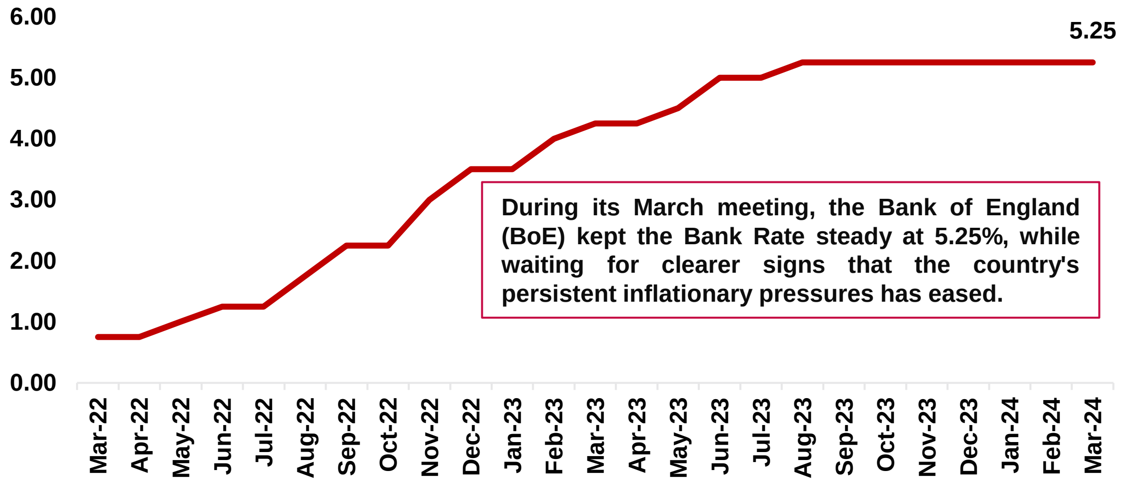
MPC DECISION HIGHLIGHT: FEDERAL RESERVE KEEPS RATES STEADY, EXPECTS THREE CUTS THIS YEAR

GLOBAL

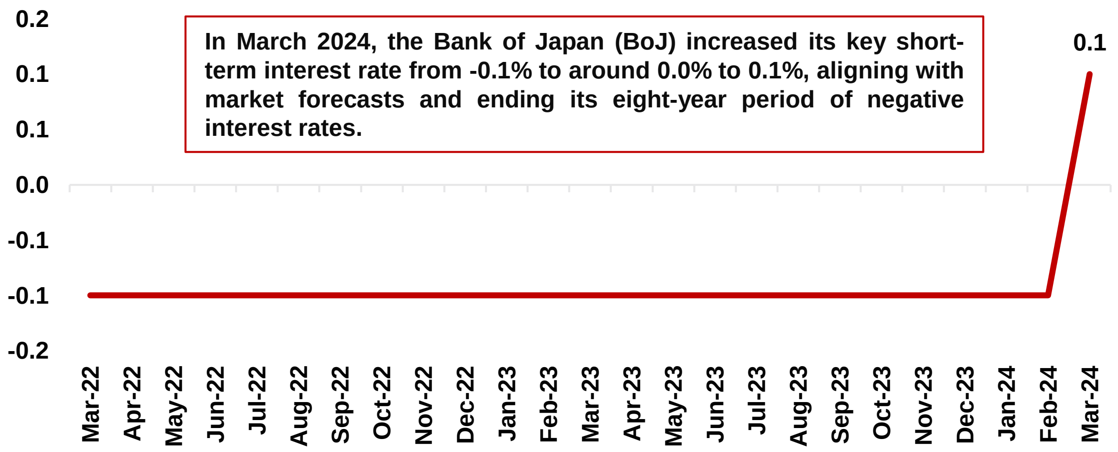
U.S. - Effective Federal Funds Rate (FFR), %



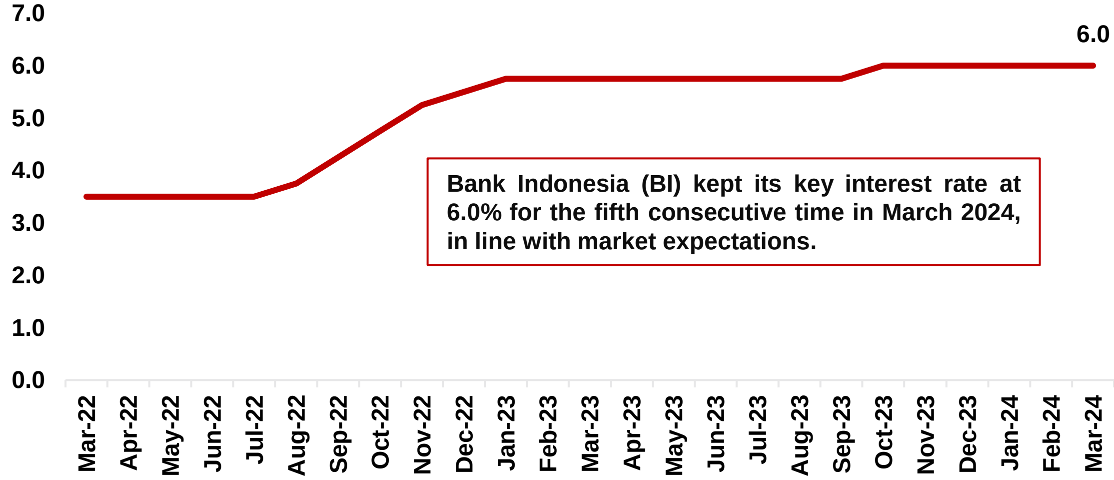
U.K. – Bank Rate, %



Japan - Short Term Interest Rate, %



Indonesia - 7-Day Reverse Repo Rate, %



Sources: Federal Reserve Board, BoE, BoJ, BI

REGIONAL EQUITY: JAPAN'S STOCKS LED GAINS AS BOJ EXITS NEGATIVE INTEREST RATE POLICY

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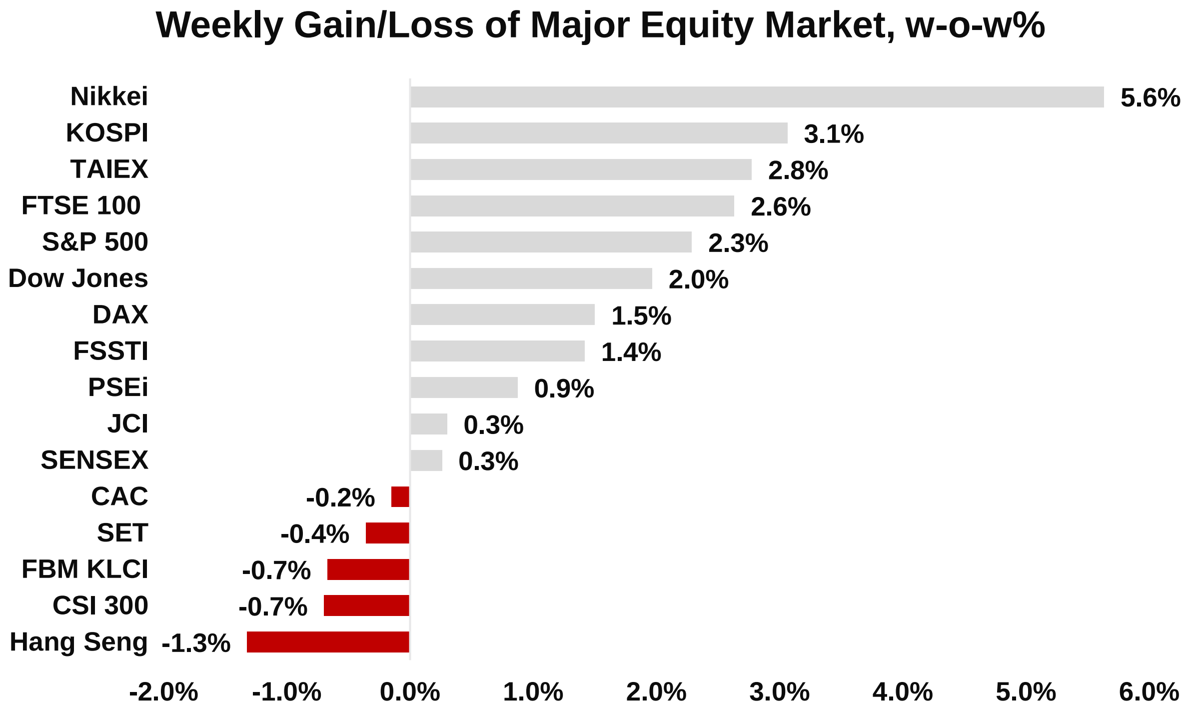

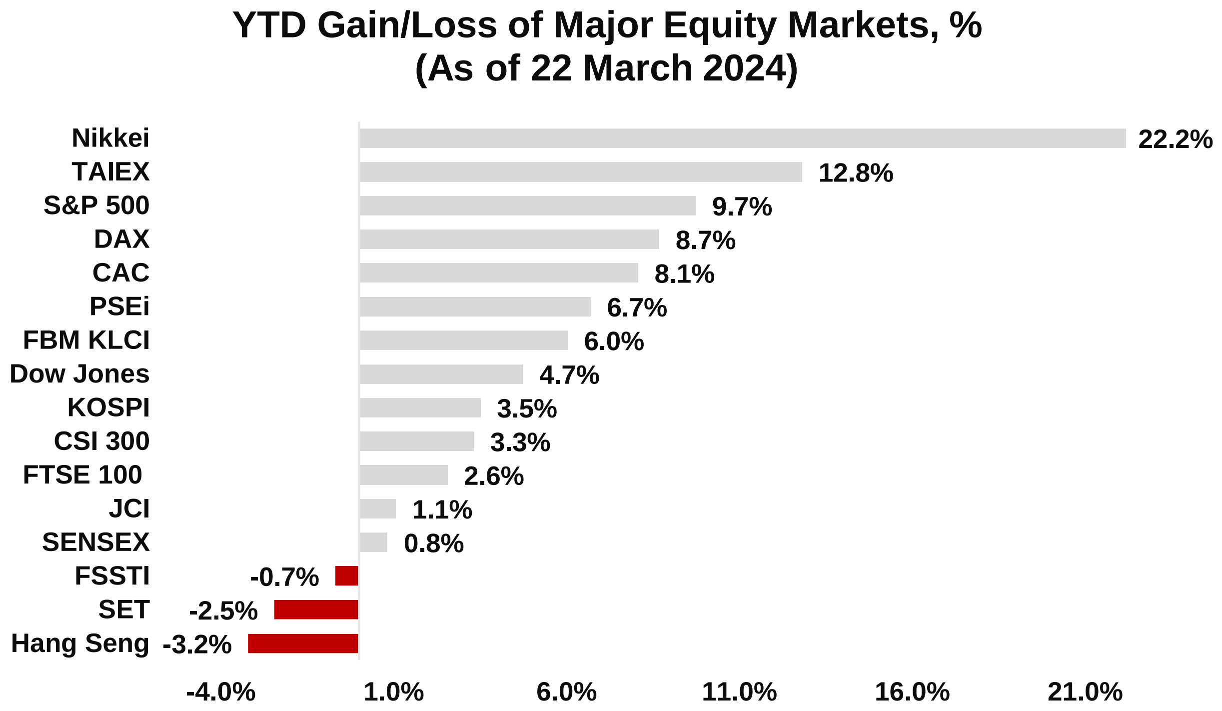

Sources: Bursa, CEIC Data

- Most regional equity indices ended in the green for the week ending March 22, with Japan's Nikkei spearheading the gainers by 5.6% on the back of a weaker Japanese yen (JPY) and a strong inflation data. Additionally, investors cheered on the BoJ's decision to hike its overnight call rate to a range of 0.0% to 0.1%, effectively ending its long-running negative rate policy.
- Among other major winners were Korea's KOSPI (+3.1%) and Taiwan's TAIEX (+2.8%).
- Sentiment was also lifted by the Fed's decision to maintain its relatively upbeat assessment on the U.S. economy as well as its outlook for three rate cuts this year.
- On the other hand, Chinese stocks were beaten down, with Hong Kong's Hang Seng (-1.3%) and China's CSI 300 (-0.7%) indices leading the declines amid worries that the U.S. may intensify sanctions against Chinese chip companies.

DOMESTIC EQUITY: FBM KLCI CLOSED SLIGHTLY LOWER TO MIRROR REGIONAL MARKETS

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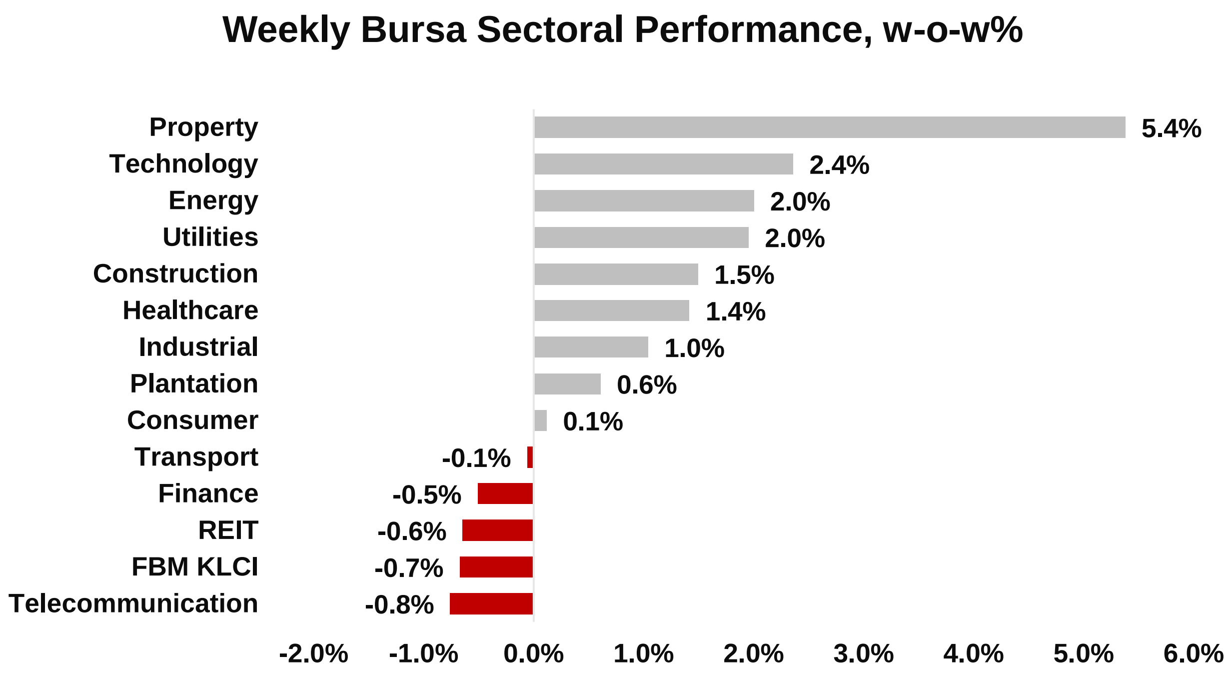

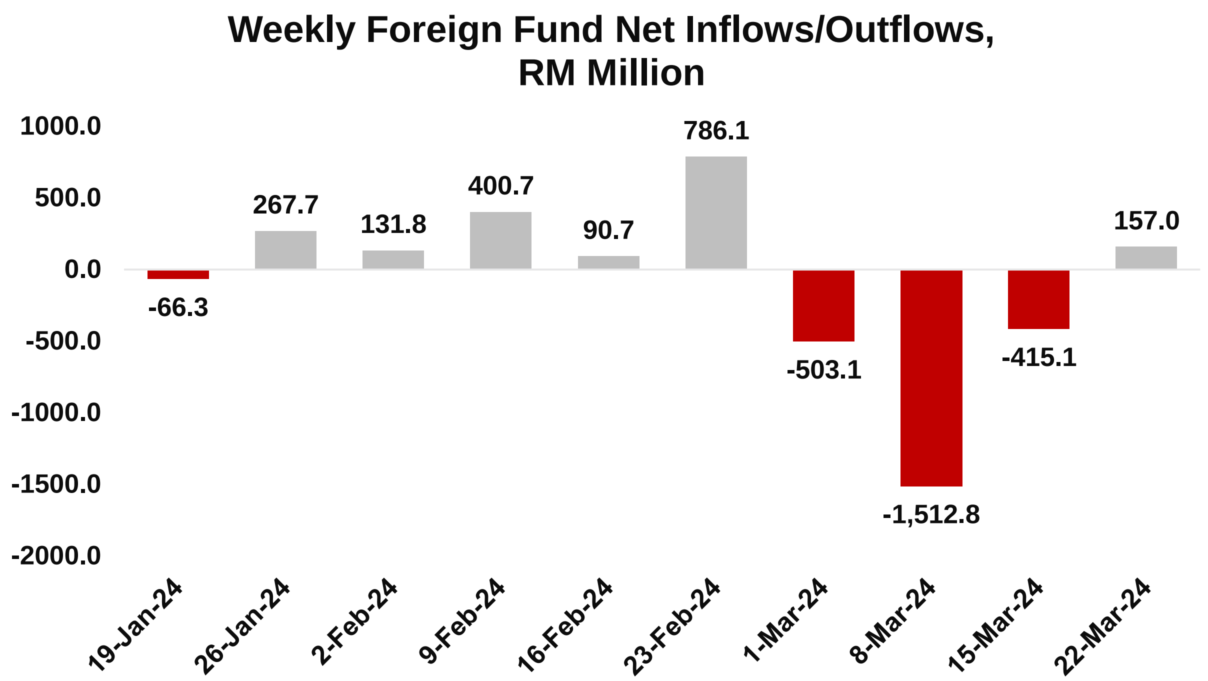

Sources: Bursa, Bank Negara Malaysia (BNM)

- Beaten-down Chinese stocks has dragged down the local sentiment, with the FBM KLCI closed in the red for the week ending March 22. Profit-taking activities took place following last week's gains.
- Looking closer, Bursa sectoral indices closed mixed with the Property index (+5.4%) topping the gainers by a large margin amid decent earnings performance. This was followed by the Technology (+2.4%) and Energy (+2.0%) indices.
- Leading the losers was the Telecommunications index which slipped by 0.8%, followed by the REIT (-0.6%) and Finance (-0.5%) indices.
- Foreign investors reversed their selling streak to net buying, bagging a total of RM157.0 million worth of equities. The net inflow reduced the cumulative total net outflow this year thus far to RM231.5 million.

FIXED INCOME: FED'S DOVISH OUTLOOK FOR INTEREST RATES DRAGGED UST YIELDS LOWER

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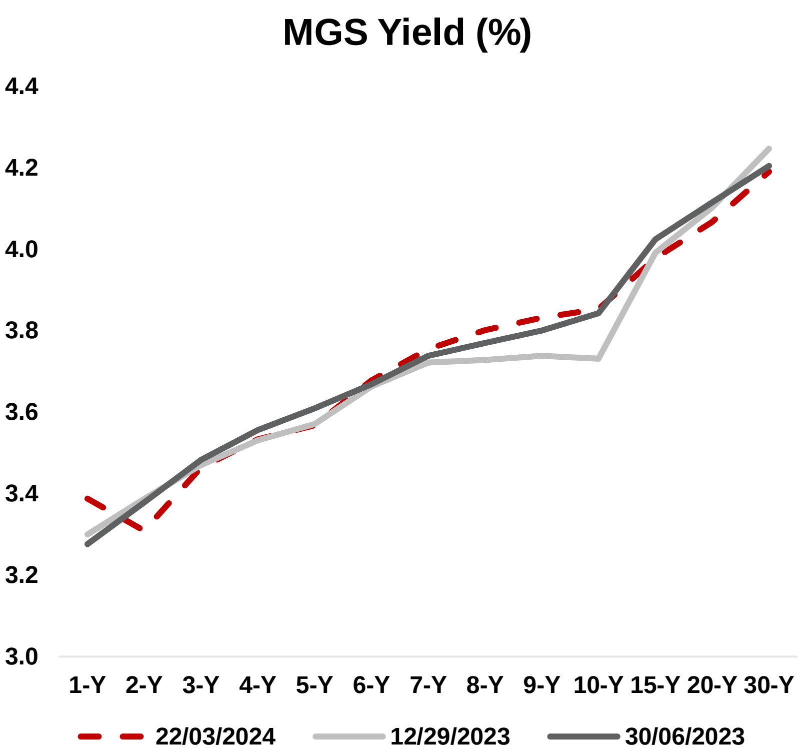
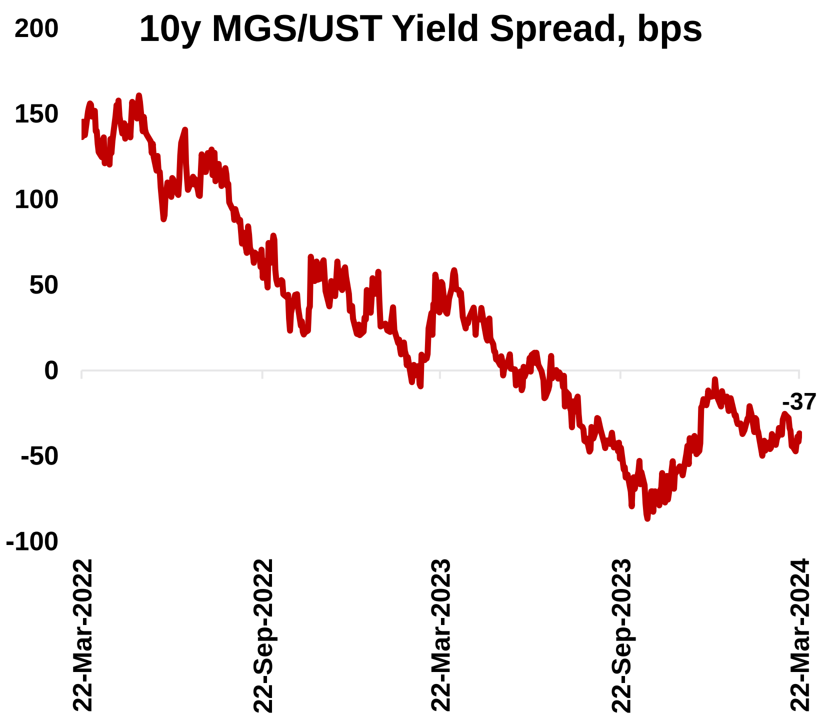
Weekly Changes, basis points (bps)

UST	Yields (%) 15-Mar-24	Yields (%) 22-Mar-24	Change (bps)
3-Y UST	4.51	4.36	-15
5-Y UST	4.33	4.20	-13
7-Y UST	4.33	4.22	-11
10-Y UST	4.31	4.22	-9
MGS	**Yields (%) 15-Mar-24**	**Yields (%) 22-Mar-24**	**Change (bps)**
3-Y MGS	3.46	3.46	1
5-Y MGS	3.58	3.57	-1
7-Y MGS	3.76	3.76	0
10-Y MGS	3.87	3.85	-1
GII	**Yields (%) 15-Mar-24**	**Yields (%) 22-Mar-24**	**Change (bps)**
3-Y GII	3.46	3.45	-1
5-Y GII	3.61	3.60	0
7-Y GII	3.76	3.75	-1
10-Y GII	3.87	3.86	-1

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yields fell between 9bps and 15bps for maturities ranging from 3-Y to 10-Y for the week ending March 22, as the Fed's decision to keep its projection for three 25bp rate cuts in 2024 untouched renewed market bets for rate cuts.
- On the domestic front, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed in narrow trading as investors stayed on the sidelines during a busy central bank week.
- The auction of 30-Y new issue of GII worth RM3.0 billion issued on March 22 recorded the highest bid-to-cover (BTC) ratio year-to-date, at 3.2x.
- The 10y MGS/UST yield spread narrowed in the negative territory at -37bps relative to -44bps in the previous week.

FX MARKET: RINGGIT WAS UNDER PRESSURE AGAINST THE USD LAST WEEK

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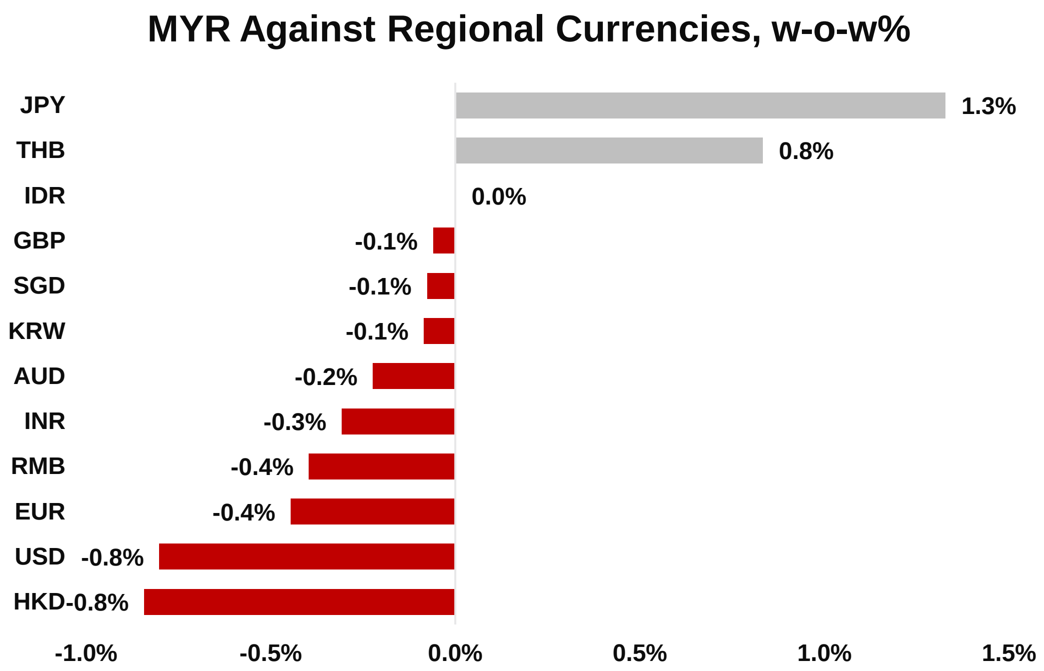

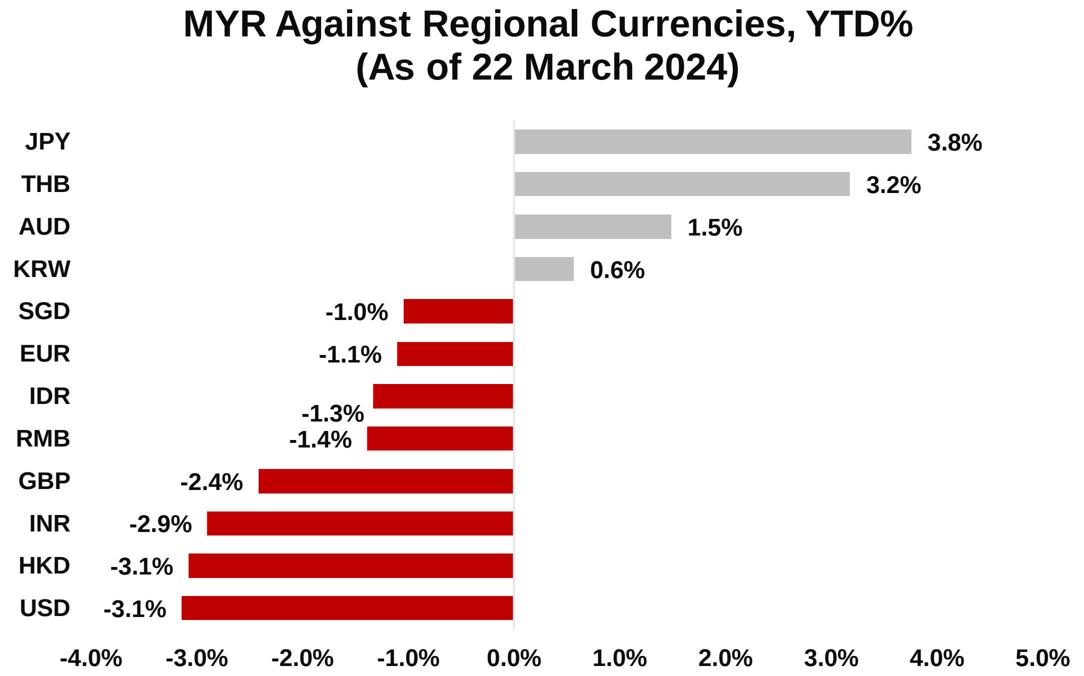

Source: BNM

- The Ringgit remained above RM4.70 threshold as the USD index strengthened further during the week (22 March: 1.0% vs. 15 March: 0.7%), touching the 104 level.
- This was due to the prevailing FFR which maintained at 5.25%-5.50% during the latest March Federal Open Market Committee (FOMC) meeting, causing the greenback to stand out given the still-wide interest rate differential gap with the Overnight Policy Rate (OPR). At the same time, the outlook for three rate cuts this year still being maintained in the Social Economic Projections (SEP), suggesting the high interest rates for longer narrative persists.
- Meanwhile, the move from BoJ to end its negative interest rate policy {NIRP) since 2007 failed to lift up the JPY, indicating the USD remains on the sweet spot as for now.
- Domestically, we posit that the latest export growth y-o-y figure (February: -0.8% vs. January: 8.7%) has further weighed the local note during the week.

COMMODITY: OIL PRICE FELL TOWARD USD85.0 PER BARREL FOLLOWING CEASEFIRE POSSIBILITY

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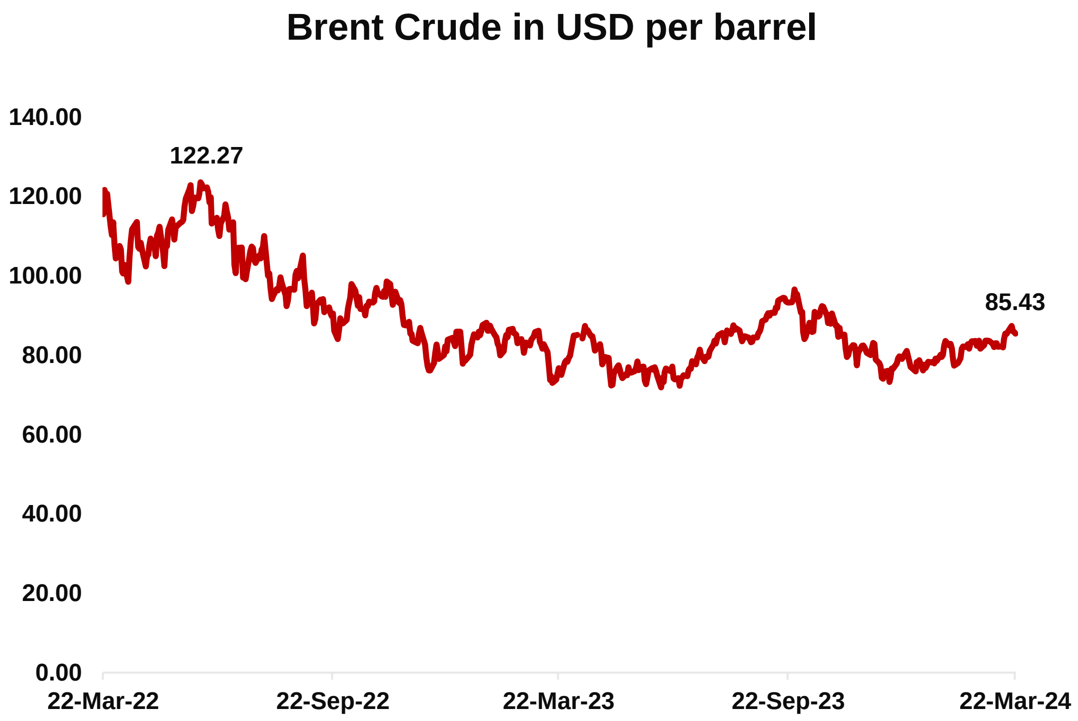

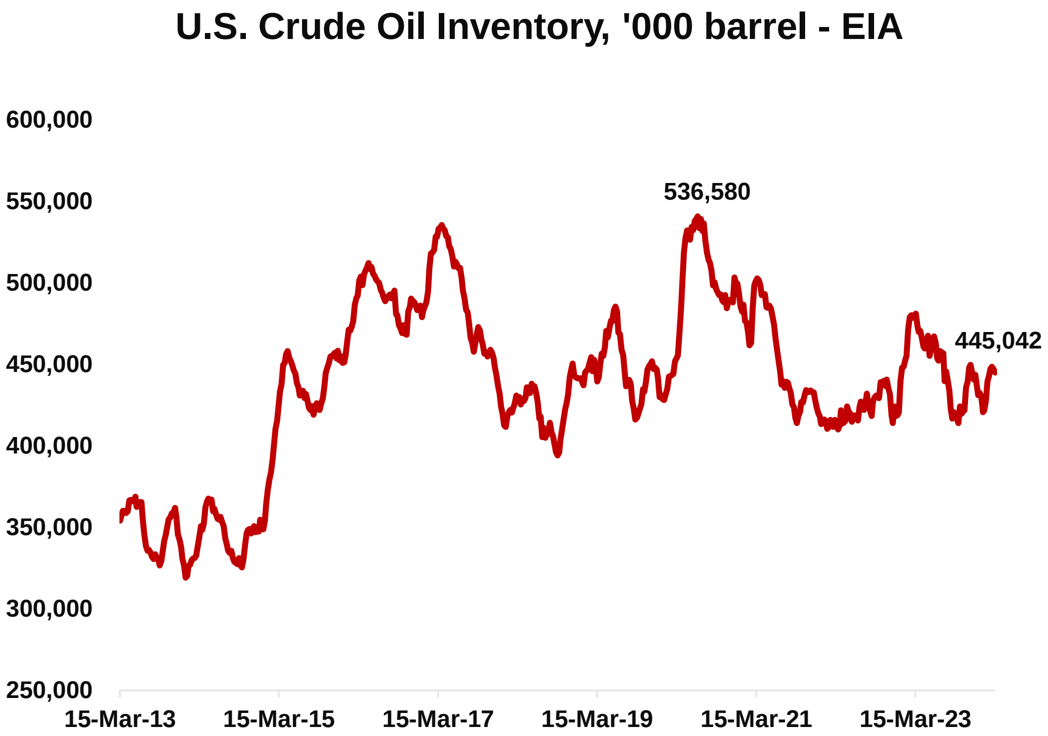

Sources: Bloomberg, Energy Information Administration (EIA)

- It was reported that the U.S. submitted a draft United Nation (U.N.) resolution, calling for an immediate and sustained ceasefire on Gaza to vote in the Security Council on last Friday.
- Elsewhere, the EIA data showed gasoline product supplies in the U.S. – a proxy for demand fell below 9.0 million barrels for the first time in three weeks, suggesting a weaker consumption.

COMMODITY: GOLD PRICE SOARED TO RECORD HIGH AMID RENEWED VIGOR IN RATE CUT EXPECTATIONS

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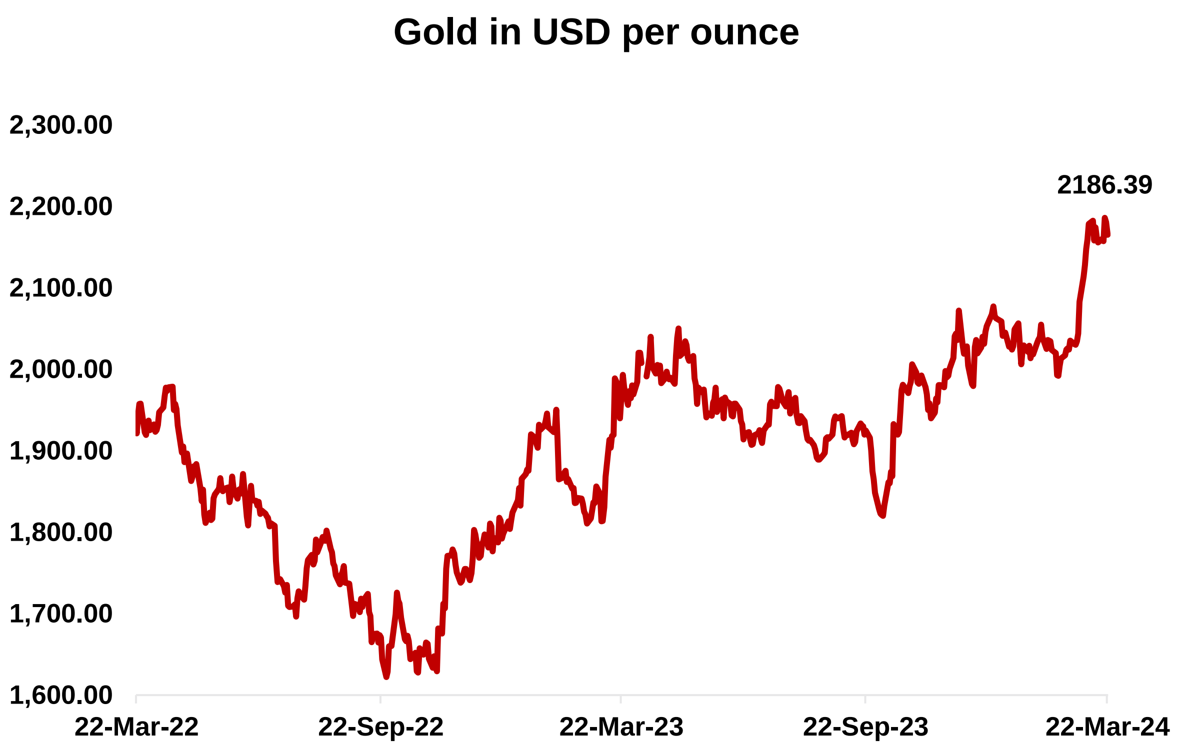

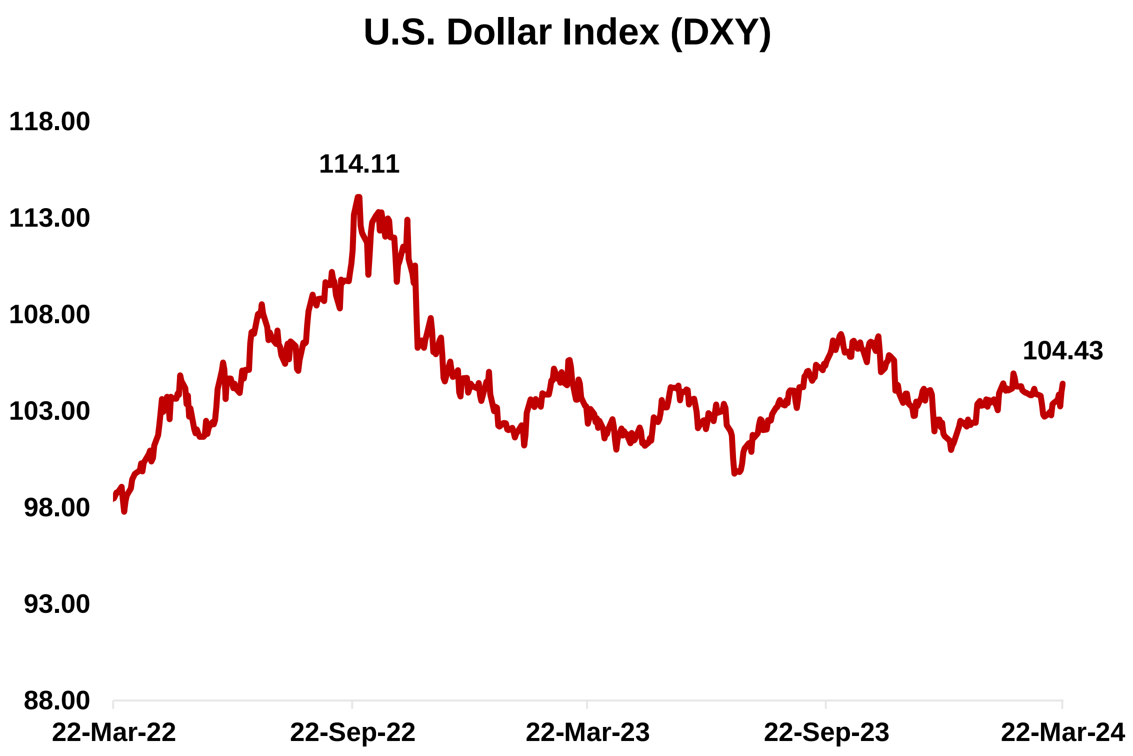

Sources: Bloomberg, Fed, BoE

- The bullion price climbed by 0.4% w-o-w for the week ending March 22 after hitting a new all-time high of USD2,186.39 on Wednesday.
- Market expectations strengthened in the wake of the Fed reaffirming its rate cut outlook in the latest SEP, pricing in three interest rate cuts this year despite hiccups stemming from resilient job market and persistent price pressures.
- Meanwhile, U.K. rate cut bets were fuelled by the Bank of England (BoE)'s dovish shift, as U.K.'s inflation eased more-than-expected to 3.4% in February (January: 4.0%).

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week will feature the U.S. personal consumption expenditures (PCE) inflation report for February, with market consensus pointing to a similar trend as CPI – continued disinflation but also some distance away from the Fed's desired 2.0% target. Nevertheless, with the Fed maintaining its projection for three 25bp rate cuts in 2024 at last week's policy meeting, any upside surprises on the PCE data may have little impact on market expectations of future rate movements. The market currently expect at least three 25bp rate cuts by the end of 2024 starting in June.

- China's official Purchasing Managers' Index (PMI) figures, also due this week, will be closely watched for latest insights on the health of the country's economy. Manufacturing PMI is projected to rebound in March after five straight months of contraction that was partly attributed to a slower production during Chinese New Year break. Meanwhile, non-manufacturing PMI, which measures the sentiment in the services and construction sectors, is expected to remain in expansion territory and even improve further commensurate with the easing in monetary policies. This year thus far, the People's Bank of China (PBoC) has delivered a 25bp cut to the 5-year Loan Prime Rate (LPR) and a 50bp cut to the Reserve Requirement Ratio (RRR). Any expectation miss could amplify calls for further stimulus.

- There will be a slew of economic data out from Japan including industrial production, retail sales and labour market reports, as well as the BoJ's Summary of Opinions that could offer hints on the future policy path. Both industrial production and retail sales are expected to have improved in February amid robust exports and an increase in tourist arrivals that led to a pick-up in demand. On the other hand, Japan's unemployment rate will likely hold steady at almost 4-year low of 2.4%.

- Malaysia's inflation picked up pace in February with a 1.8% y-o-y increase after registering a modest 1.5% growth since November 2023. The acceleration in inflation was mainly due to the implementation of the adjustment in water tariffs, which has inflation in Housing, Water, Electricity, Gas & Other Fuels sub-category higher to 2.7% from 2.0% in the previous month. The Food away from home also rose at a faster pace at 3.5% when compared with 3.1% recorded previously. However, the other sub-categories including Food at home recorded a slower increase.

THANK YOU