WEEKLY ECONOMIC UPDATE

25 SEPTEMBER 2023

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: MALAYSIA’S EXPORTS CONTINUED TO BE IN NEGATIVE TERRITORY FOR SIXTH CONSECUTIVE MONTHS

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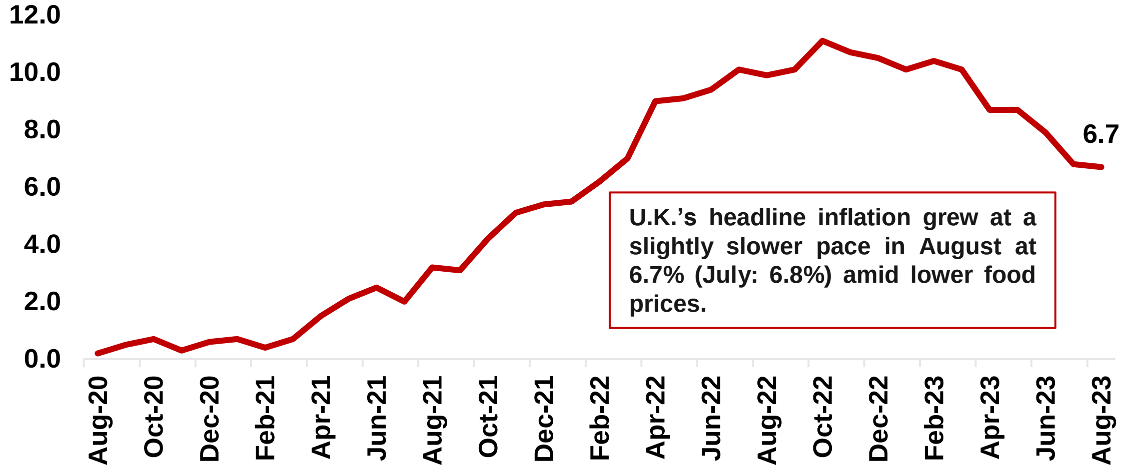
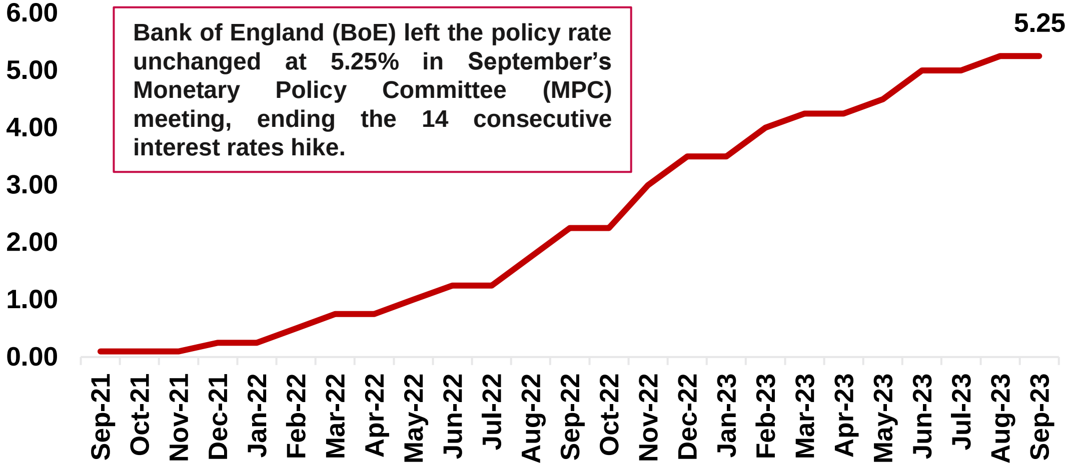
GLOBAL

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

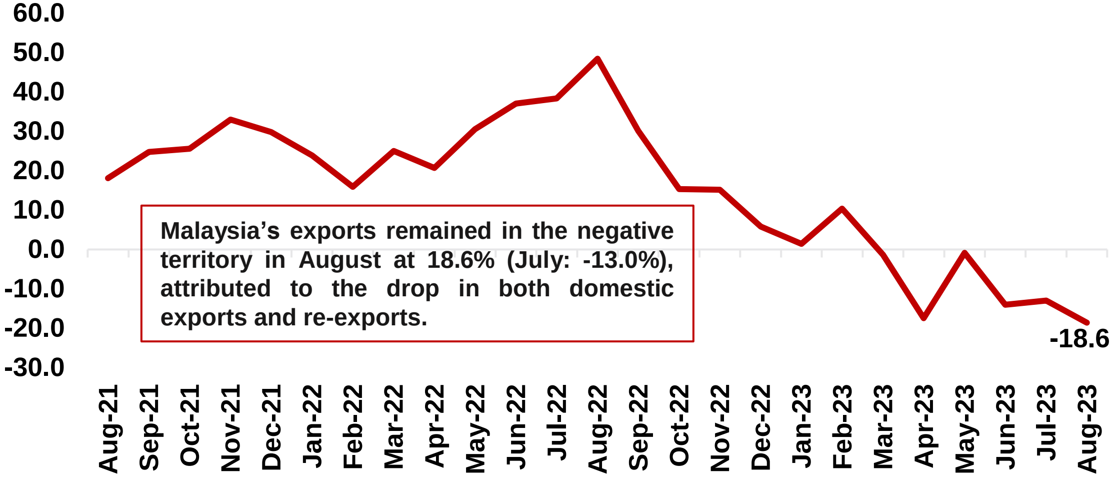


U.K. - Policy Base Rate, %

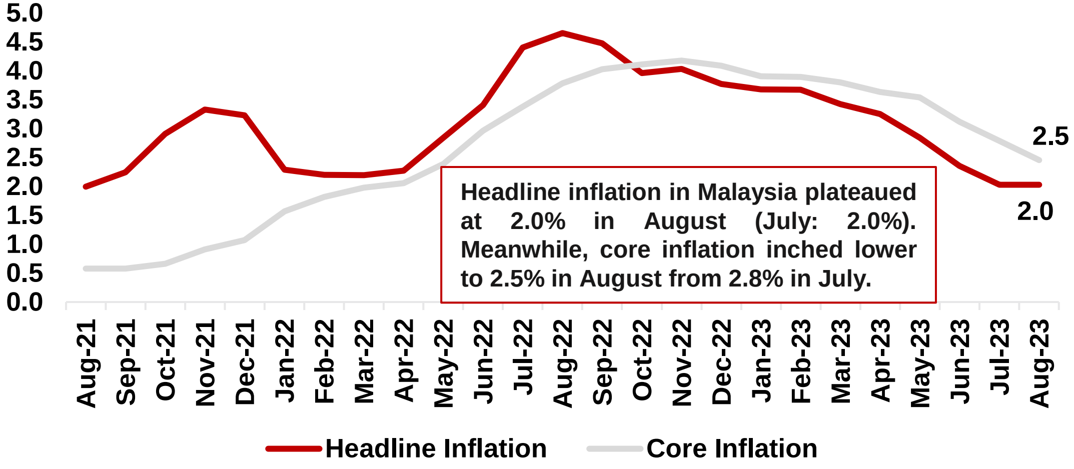


DOMESTIC

Malaysia - Exports, y-o-y%



Malaysia - CPI, y-o-y%



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

REGIONAL EQUITY: GLOOMY GLOBAL STOCKS MARKET AMID FED HAWKISH TONE

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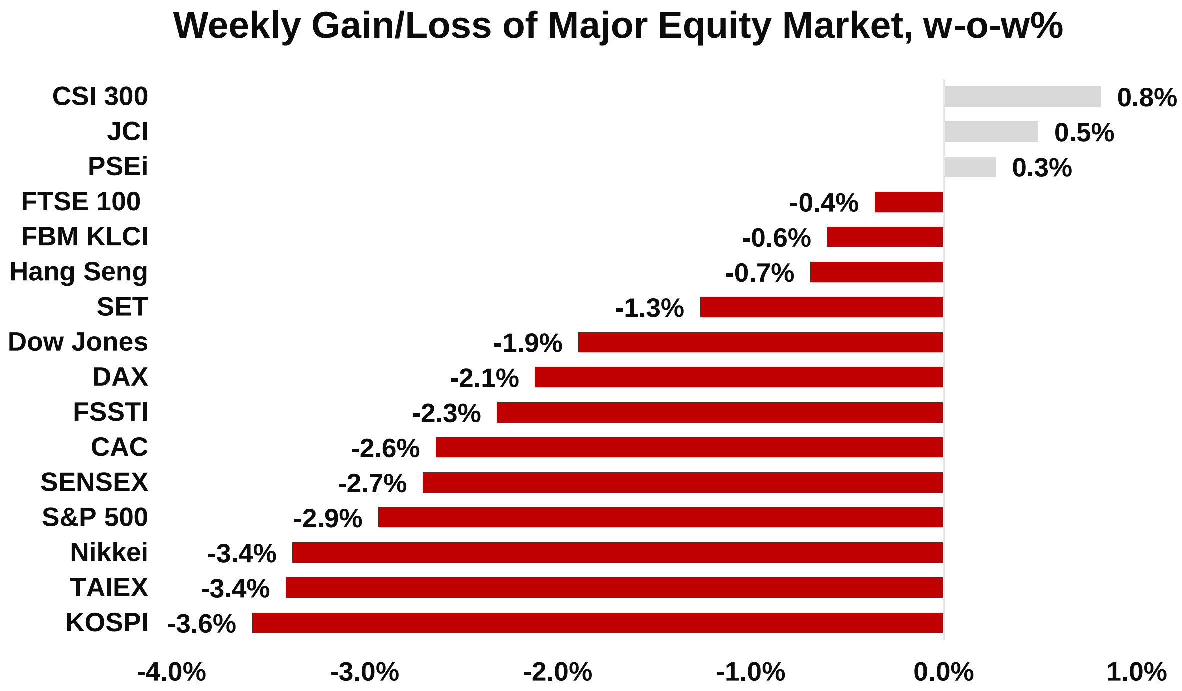

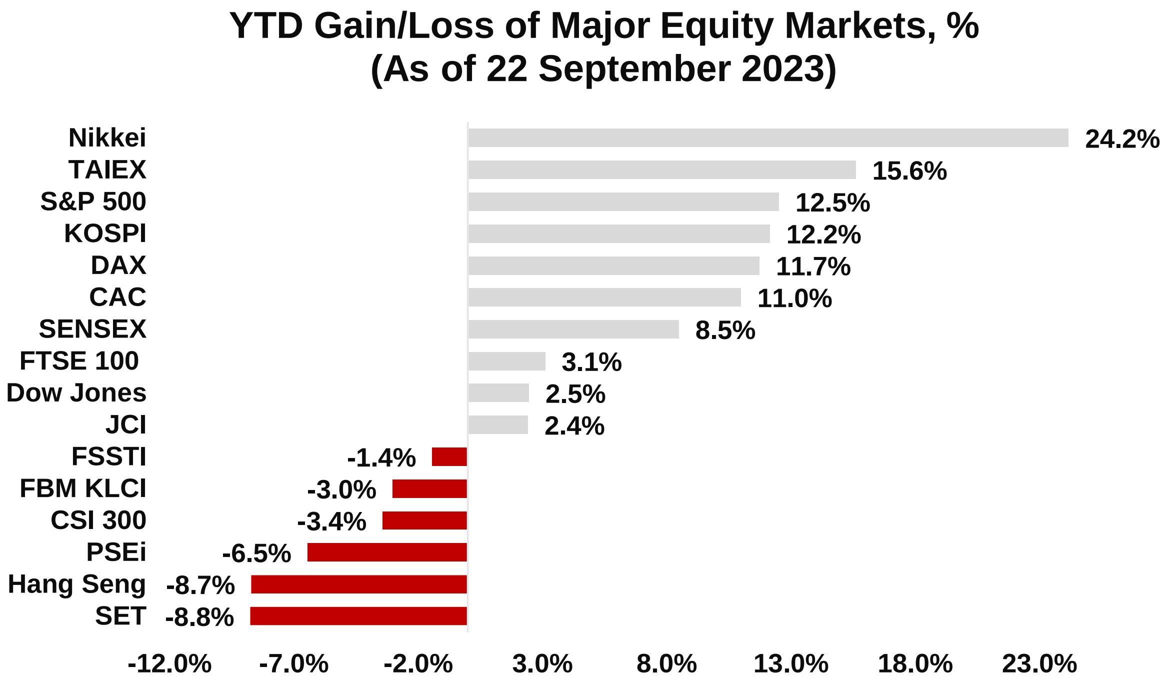

Sources: Bursa, CEIC Data

- Global stocks plunged last week after the U.S. Federal Reserve (Fed) warned rates will stay higher for longer. The Fed on September 20 kept the Fed funds rate (FFR) on hold in line with market expectations but left the door open for another rate hike this year to continue fighting inflation.
- Among the major losers last week were Korea's KOSPI (-3.6%) and Taiwan's TAIEX (-3.4%). Additionally, Japan's Nikkei slumped by 3.4% after the Bank of Japan (BoJ) kept stimulus unchanged and hinted that there was no rush to tighten policy.
- On the other hand, China's CSI 300 gained by 0.8% as investors' optimism was lifted by the slew of support measures aimed at boosting China's struggling recovery. In addition, the green shoots of recovery indicated by the economic data in August provided signs of positive momentum of recovery in China.
- The remaining gainers last week were Indonesia's' JCI (+0.5%) and the Philippines' PSEi (+0.3%).

DOMESTIC EQUITY: KLCI FELL ALONGSIDE REGIONAL RETREAT AMID HIGHER-FOR-LONGER RHETORIC FROM MAJOR CENTRAL BANKS

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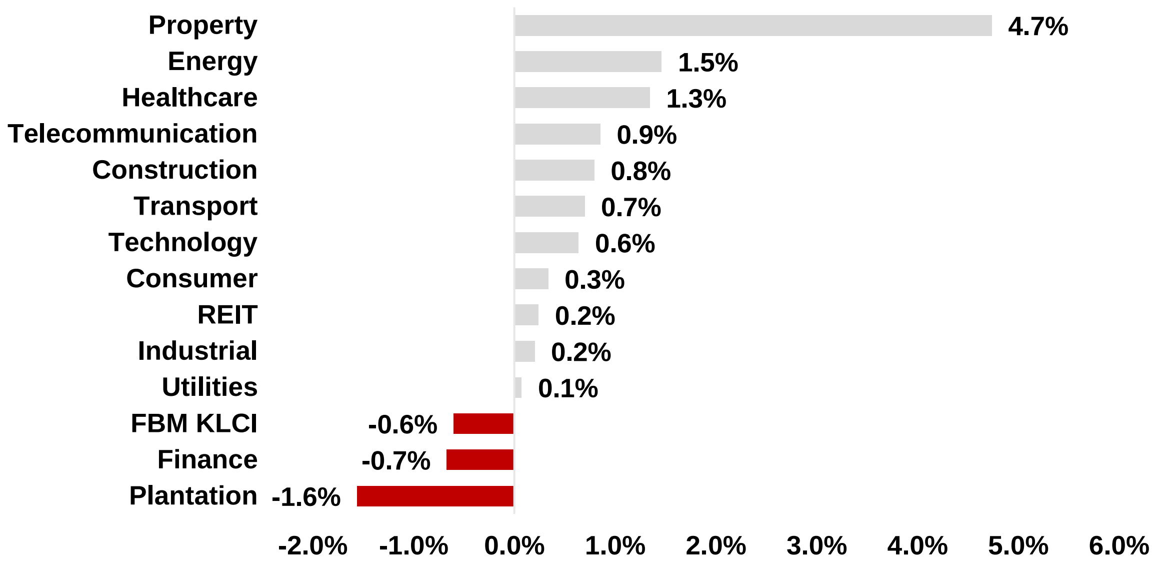
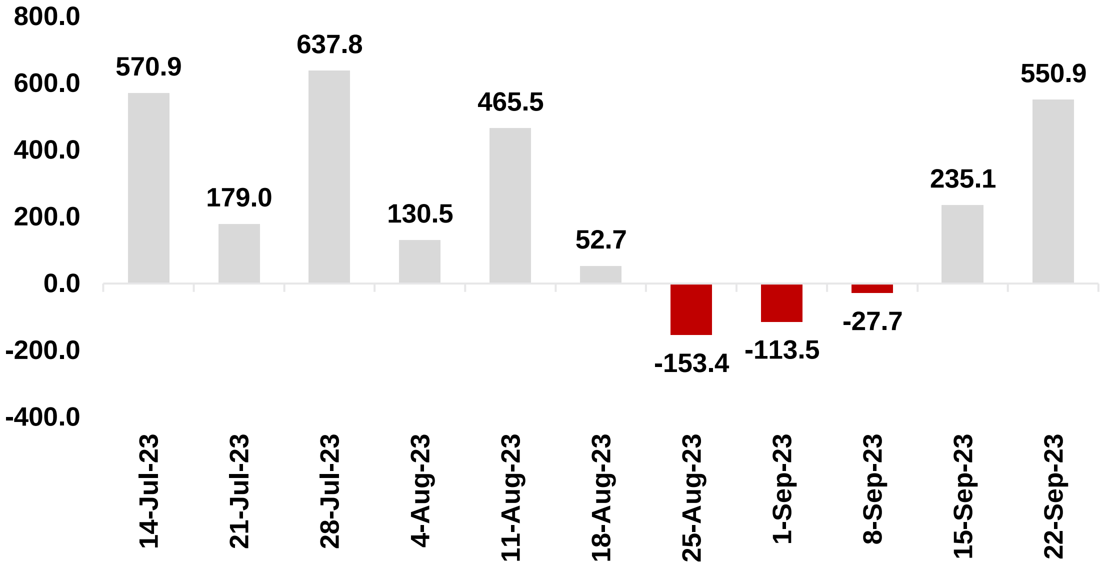
Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



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

- The FBM KLCI shed 0.6% in the week ending September 22, mainly dragged down by selling in heavyweights.
- However, most of the Bursa sectoral indices ended higher, with the Property index leading the gainers with a 4.7% rise following recent updates on the work progress on the Johor Bahru-Singapore Rapid Transit System (RTS) link project and the proposed Kuala Lumpur-Singapore High Speed Rail (HSR).
- Only the Plantation (-1.6%) and Finance (-0.7%) indices recorded losses.
- Foreign investors increased their net buying to RM550.9 million relative to RM235.1 million recorded in the previous week. The inflow reduced the cumulative total net outflow this year thus far to RM1.9 billion.

FIXED INCOME: BOND YIELDS ENDED WEAKER AS U.S. FED INDICATED ON POSSIBILITY OF ANOTHER RATE HIKES

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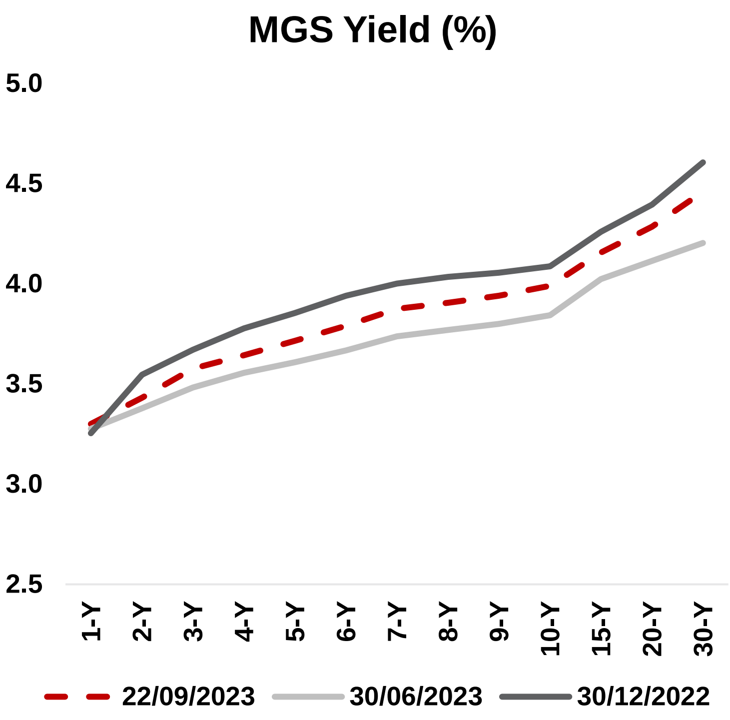
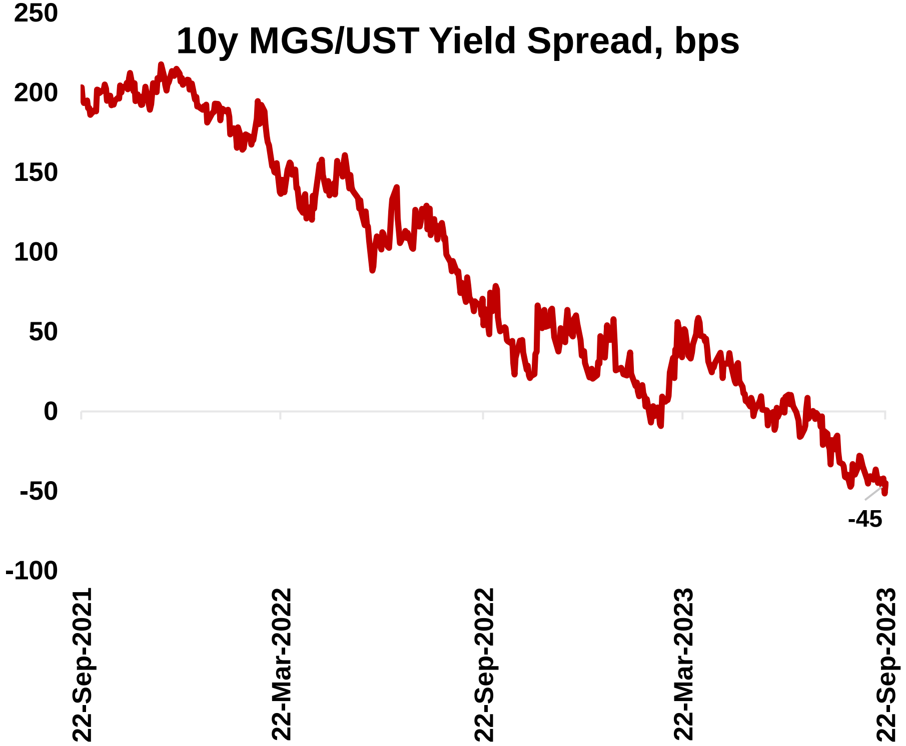
Weekly Changes, basis points (bps)

UST	Yields (%) 15-Sep-23	Yields (%) 22-Sep-23	Change (bps)
3-Y UST	4.72	4.80	8
5-Y UST	4.45	4.57	12
7-Y UST	4.41	4.53	12
10-Y UST	4.33	4.44	11
MGS	**Yields (%) 15-Sep-23**	**Yields (%) 22-Sep-23**	**Change (bps)**
3-Y MGS	3.50	3.58	8
5-Y MGS	3.64	3.72	8
7-Y MGS	3.78	3.88	10
10-Y MGS	3.88	3.99	11
GII	**Yields (%) 15-Sep-23**	**Yields (%) 22-Sep-23**	**Change (bps)**
3-Y GII	3.55	3.60	5
5-Y GII	3.69	3.76	7
7-Y GII	3.81	3.91	10
10-Y GII	3.91	4.00	10

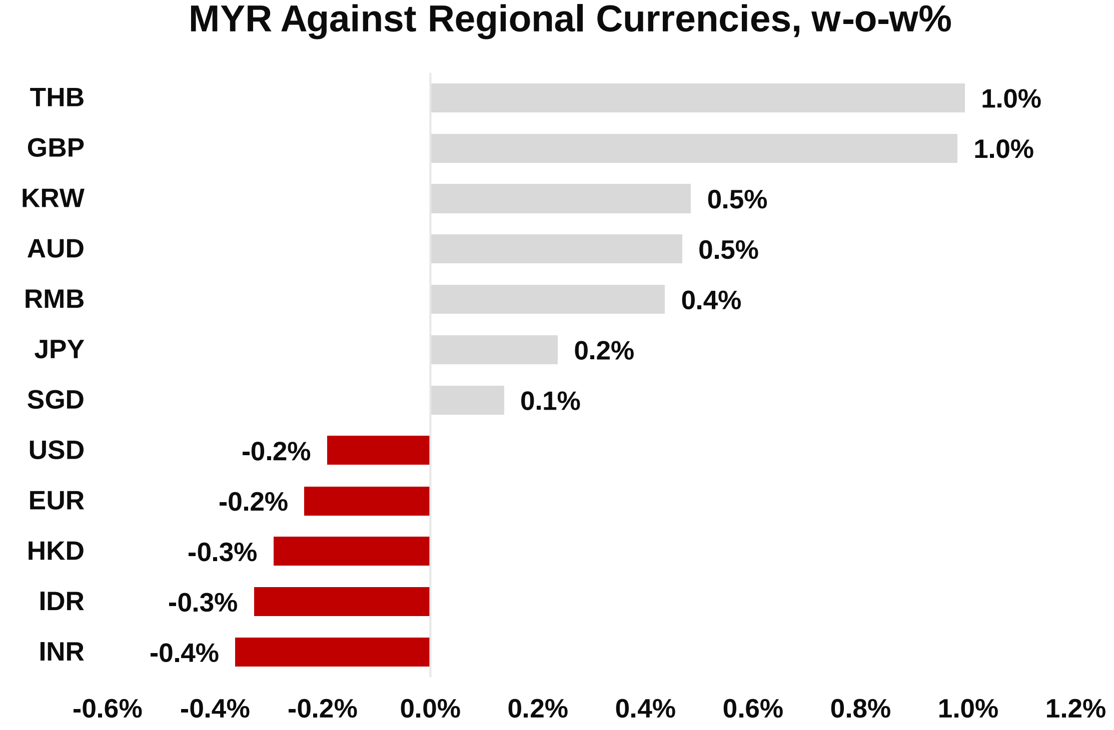
Sources: BNM, Federal Reserve Board

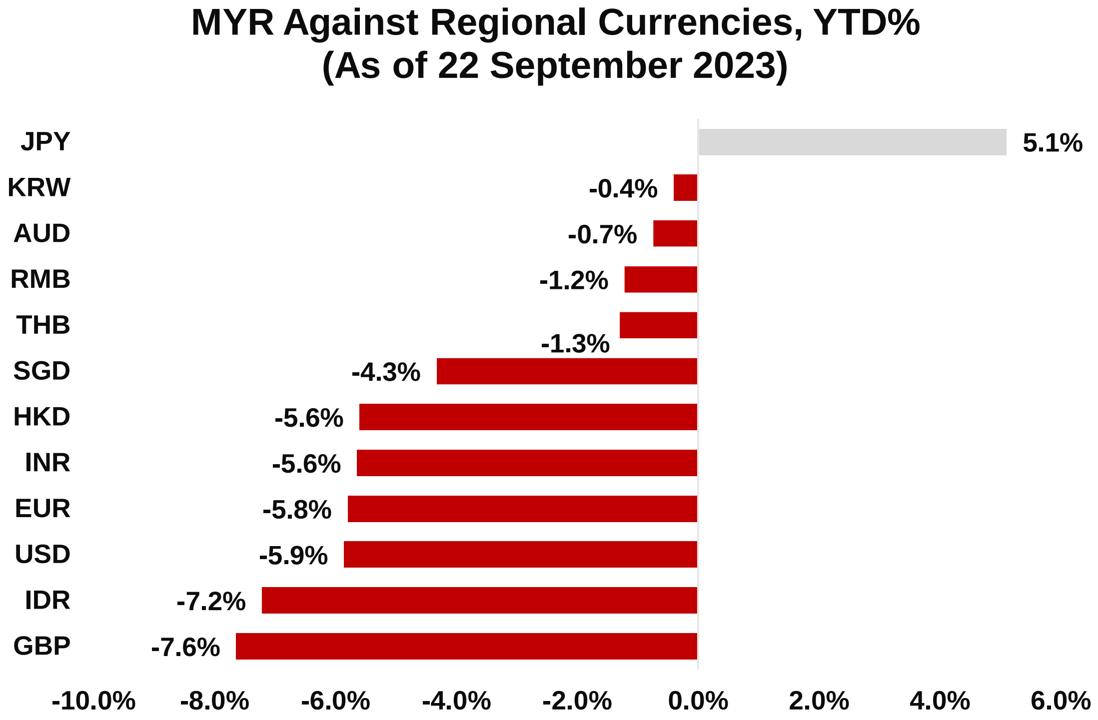




- The U.S. Treasury (UST) yields rose in the range of 8bps and 12bps amid the narrative of higher for longer interest rates by the Fed.
- The yield curves of both Malaysian Government Securities (MGS) and Government Investment Issues (GII) bearishly steepened, where MGS yields surged between 8bps and 11bps while GII yields rose between 5bps and 10bps.
- The RM5.0 billion 30y reopening of MGS issued on September 22 drew weak demand with a bid-to-cover (BTC) ratio of 1.9x, slightly lower compared to the previous RM5.0 billion 30y reopening of MGS in March, which garnered a BTC ratio of 2.0x.
- The 10y MGS/UST yield spread remained unchanged at -45bps relative to the previous week.

FX MARKET: RINGGIT REMAINED UNDER PRESSURE AMID THE PROSPECT OF HIGHER FOR LONGER FFR

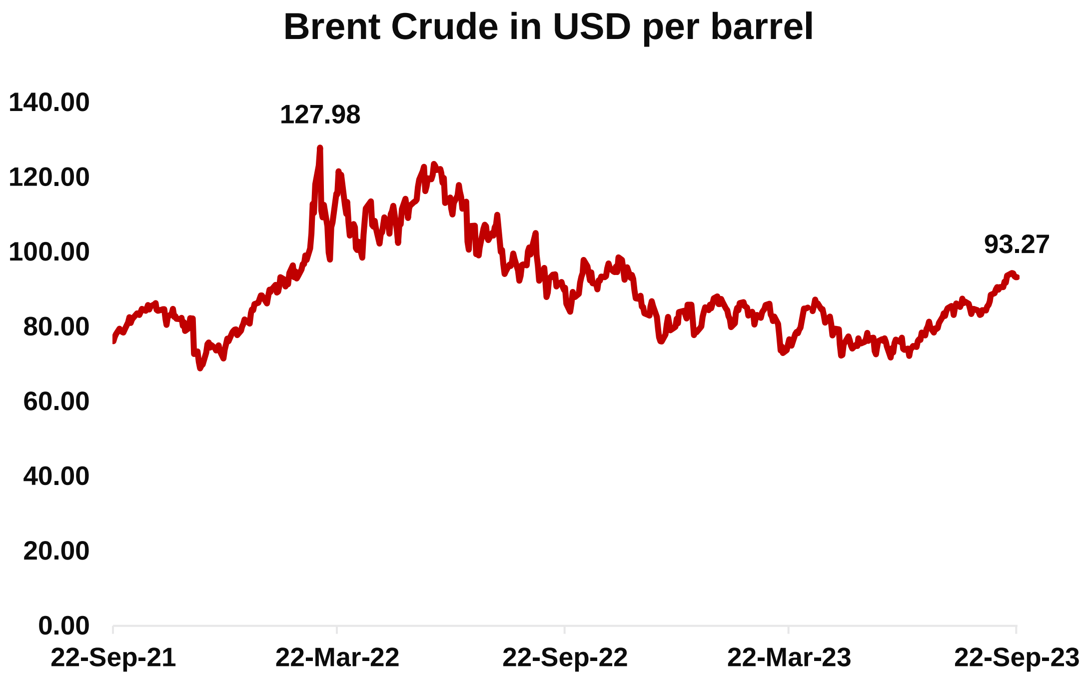


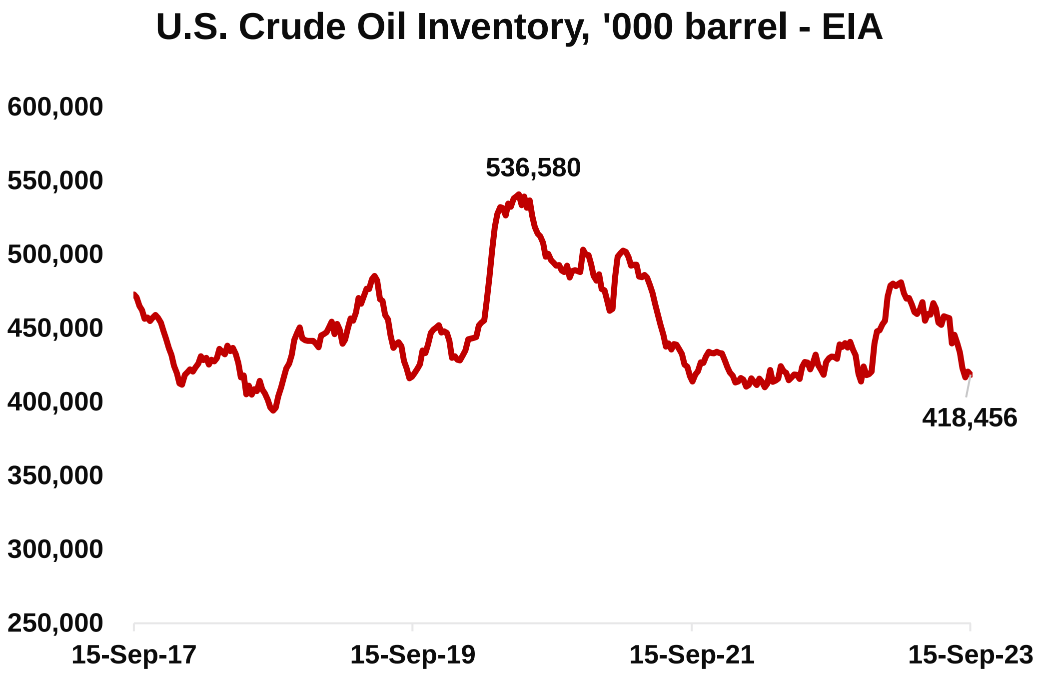


Source: BNM

- As expected, the USD index continued to remain firm on the back of hawkish FFR projections from the latest Social Economic Projections (SEPs), which foresaw fewer rate cuts in 2024, signalling that the interest rate is likely to be higher for longer.
- As a result, Ringgit remained under pressure against the greenback, hovering around RM4.68 to RM4.69 during the week. We believe that Ringgit would remain weak against the USD given the prospect of another rate hike in the FFR, either in the November or December meeting, which would be a positive call for the greenback.
- Meanwhile, while it is a good sign that Malaysia’s CPI has been easing, which could have been a result of a 125bps increase in the Overnight Policy Rate (OPR) to 3.00% since May last year, it could signal that the rate hiking cycle is over.

COMMODITY: OIL PRICE WAS ON TRACK FOR A THIRD WEEKLY GAIN

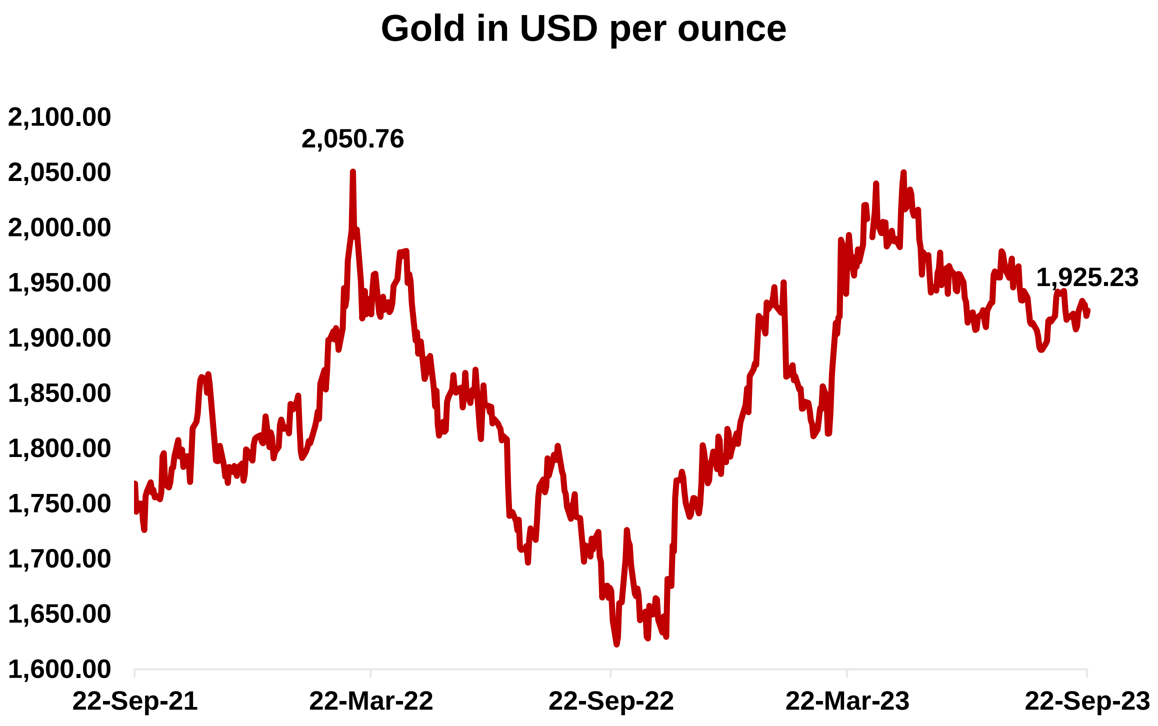


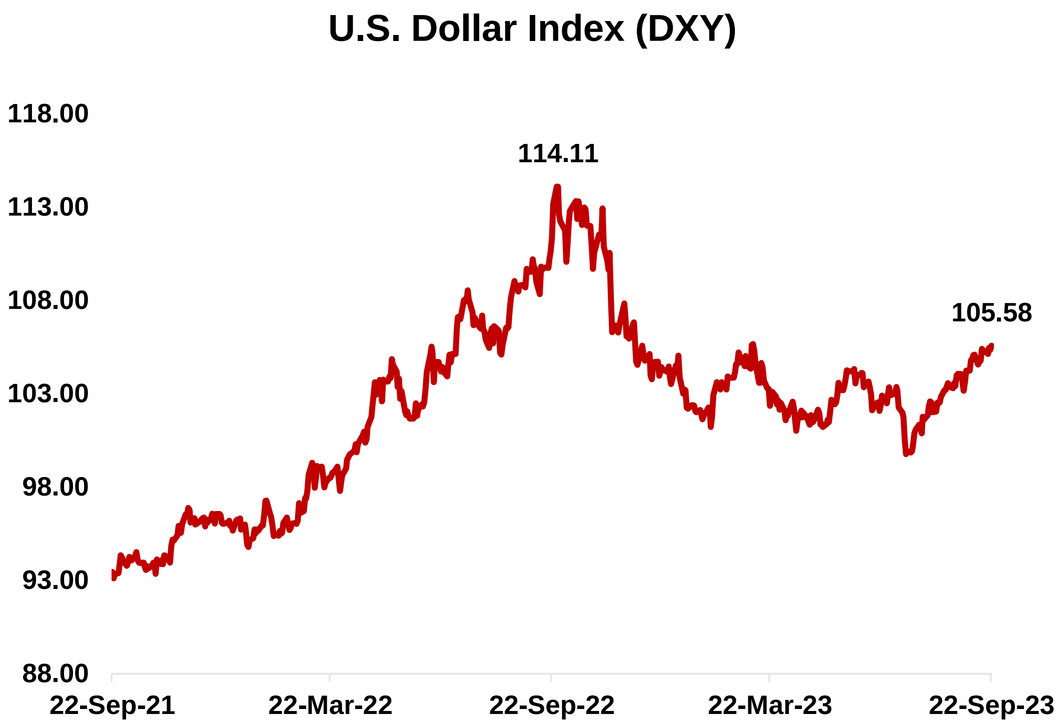


Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price ended the week little changed, with gains partly capped by the prospects of further rate hikes from the U.S. despite the Fed's decision to pause in its 19-20 September meeting.
- Still, it remained elevated amid still-tight supply conditions due to the Russian government's announcement to restrict exports of gasoline and diesel to stabilise fuel prices in the domestic market.
- Apart from that, the U.S. crude oil inventories were seen lower on the supply side, as reported by the EIA. The crude oil stockpiles slid by 2.1 million barrels to 418.5 million barrels in the week ending 15 September from 420.6 million barrels the previous week.

COMMODITY: GOLD PRICE EDGED HIGHER DESPITE THE U.S. DOLLAR STRENGTH DURING THE WEEK





Sources: Bloomberg, Commodity Research Bureau

- The bullion recorded its second weekly gain despite a stronger USD. However, the gain is modest as market participants remained cautious over another potential rate hike by the Fed this year.
- Elsewhere, the BoE surprised the market with its first pause in policy tightening in nearly two years while the Bank of Japan (BoJ) maintained its ultra-easy monetary stance, aiming to achieve 2.0% price stability sustainably.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- This week will feature several speeches from Fed officials, including Fed Chair Jerome Powell, all of whom will be closely watched for their thoughts on interest rate prospects. Given the Fed's reiteration of its higher-for-longer stance on interest rates at last week's Federal Open Market Committee (FOMC) meeting, the market is seeking more clarity on what would warrant a rate hike in the eyes of the Fed. At the time of writing, market pricing pointed to around a 45% chance of further rate hikes by year-end, which partly reflects the market's view that the Fed remains data-dependent for its rate path. There will also be an August personal income and spending report from the U.S., which provides a picture of the U.S. consumer strength and features the personal consumption expenditures (PCE) price index – the Fed's preferred gauge of inflation.

- European Central Bank (ECB) President Christine Lagarde is scheduled to testify before the European Parliament this week, with the session likely to explain the bank's rate hike decision on September 14 and provide further insights on the future monetary policy path. At the moment, interest rate futures implied about 25% probability of another hike in the remainder of the year. The Eurozone will release inflation data for September this week, with the market expecting both headline (August: 5.2% vs. July: 5.3%) and core inflation (August: 5.5% vs. July: 5.3%) to decelerate further to below 5% due mainly to higher base effects.

- The Bank of Thailand (BoT) will hold its monetary policy meeting this week. Market consensus points to a seventh consecutive hike of 25bps, which would bring the policy rate to 2.50%, the highest level since late 2013. Rate hike expectations have firmed after the BoT's assessment that Thailand's economy is continuing to recover and that inflation is returning to the bank's target range of 1.0%-3.0% amid higher oil prices. Nevertheless, the rate hike, if it materialises, is expected to be the final hike of the current cycle, as the BoT chief has said that Thailand's interest rates are approaching neutral levels.

- On the domestic front, the DOSM is slated to release figures for the coincident index, leading index and producer price index (PPI) this week. Malaysia's leading index will be watched to foresee the economic direction an average of four to six months ahead. The index has slipped further into the negative territory at -2.1% in June (May: -1.1%), indicating a moderate economic performance in 4Q2023. Meanwhile, Malaysia's August PPI will likely show a continued contraction, albeit at a softer pace relative to -2,3% recorded in July.

THANK YOU