



WEEKLY ECONOMIC UPDATE

28 AUGUST 2023

ECONOMIC RESEARCH

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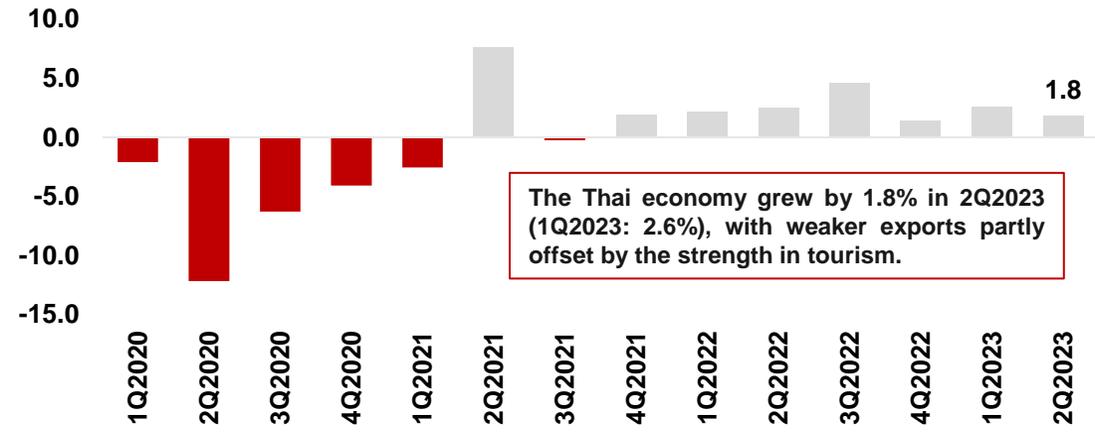
RAJA ADIBAH RAJA HASNAN

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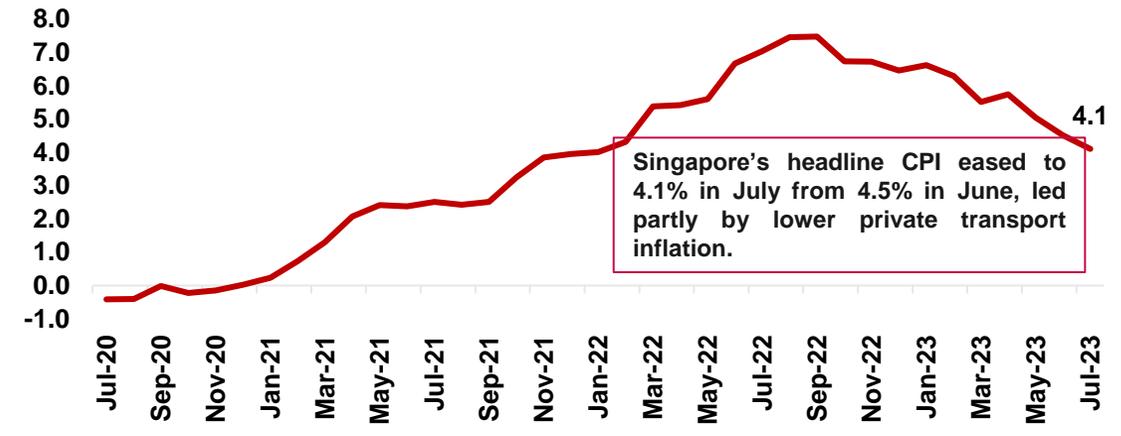
WEEKLY HIGHLIGHT: INFLATION CONTINUED TO DOWNTREND IN MALAYSIA AND SINGAPORE

GLOBAL

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

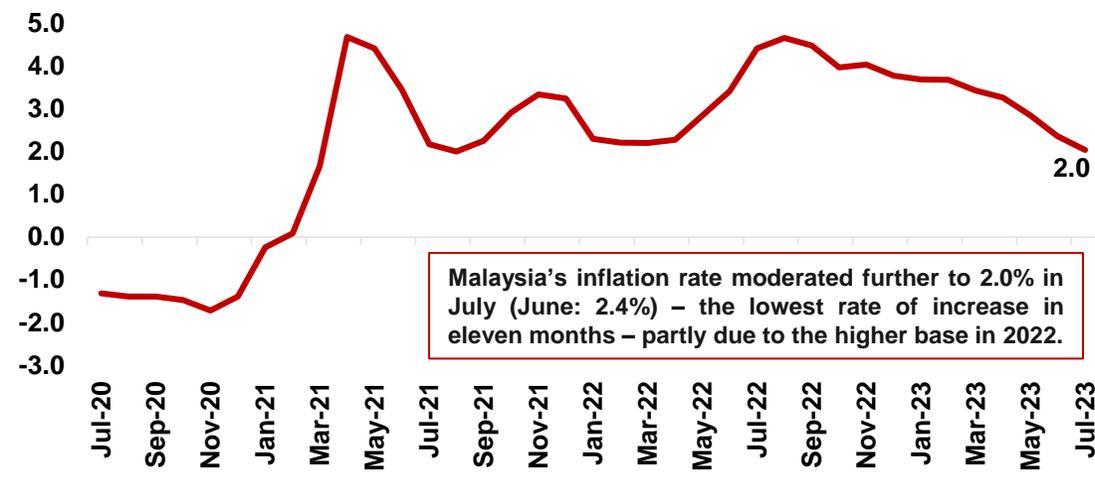


Singapore - Headline Consumer Price Index (CPI), y-o-y%



DOMESTIC

Malaysia - Headline CPI, y-o-y%

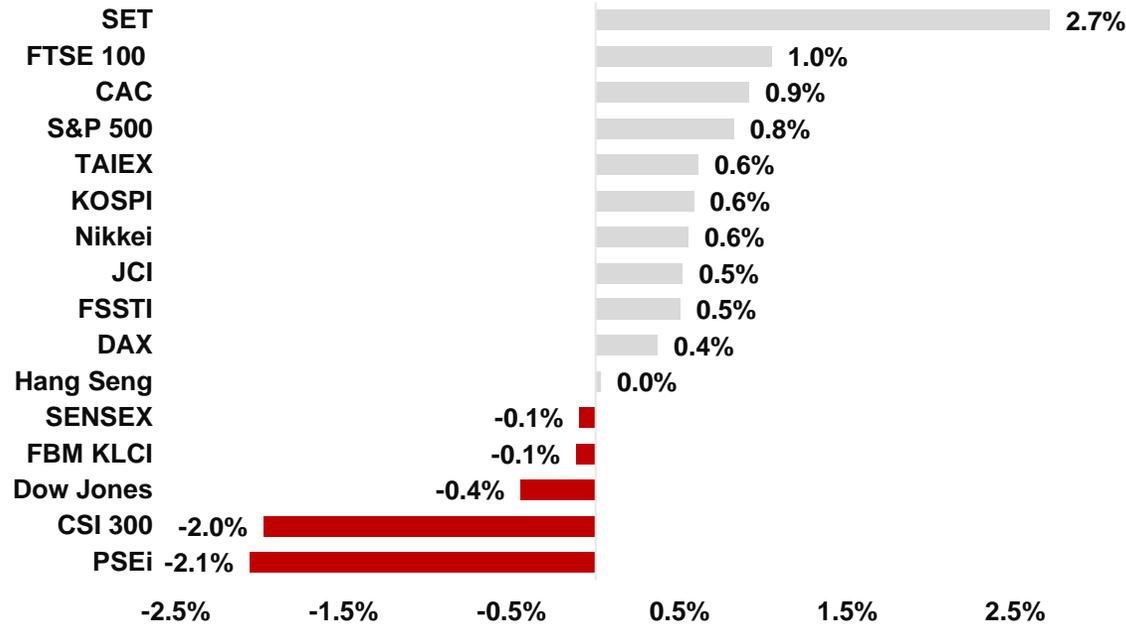


Malaysia - Core CPI, y-o-y%

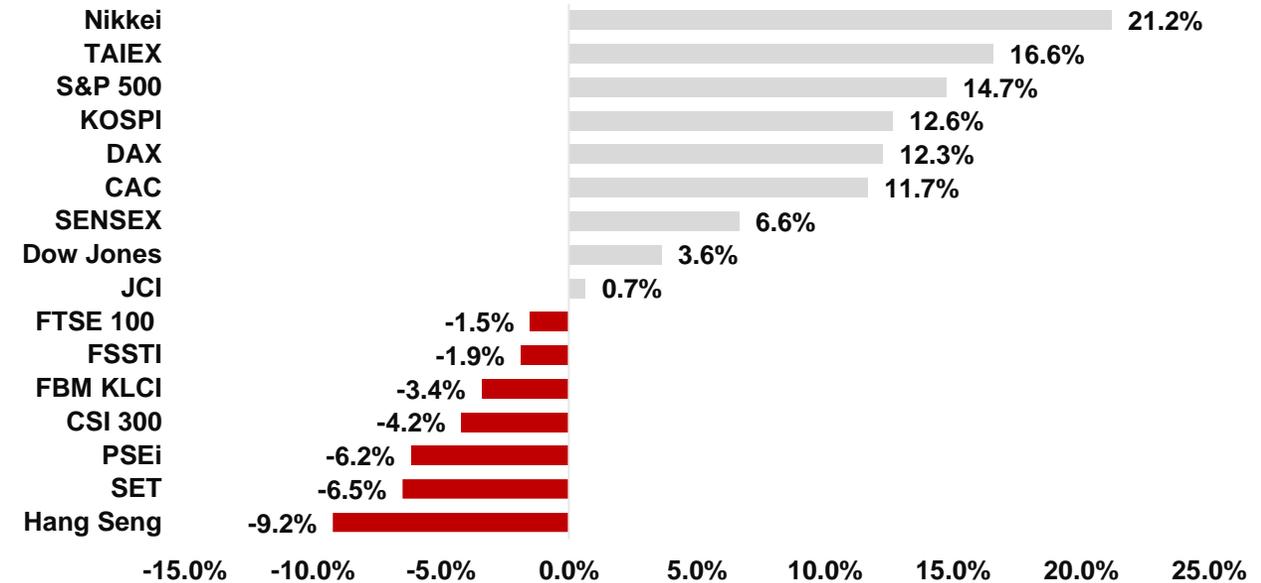


REGIONAL EQUITY: MARKET MOSTLY ENDED IN THE GREEN AS TRADERS HOPED FOR THE END OF RATE HIKES

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



YTD Gain/Loss of Major Equity Markets, % (As of 25 August 2023)

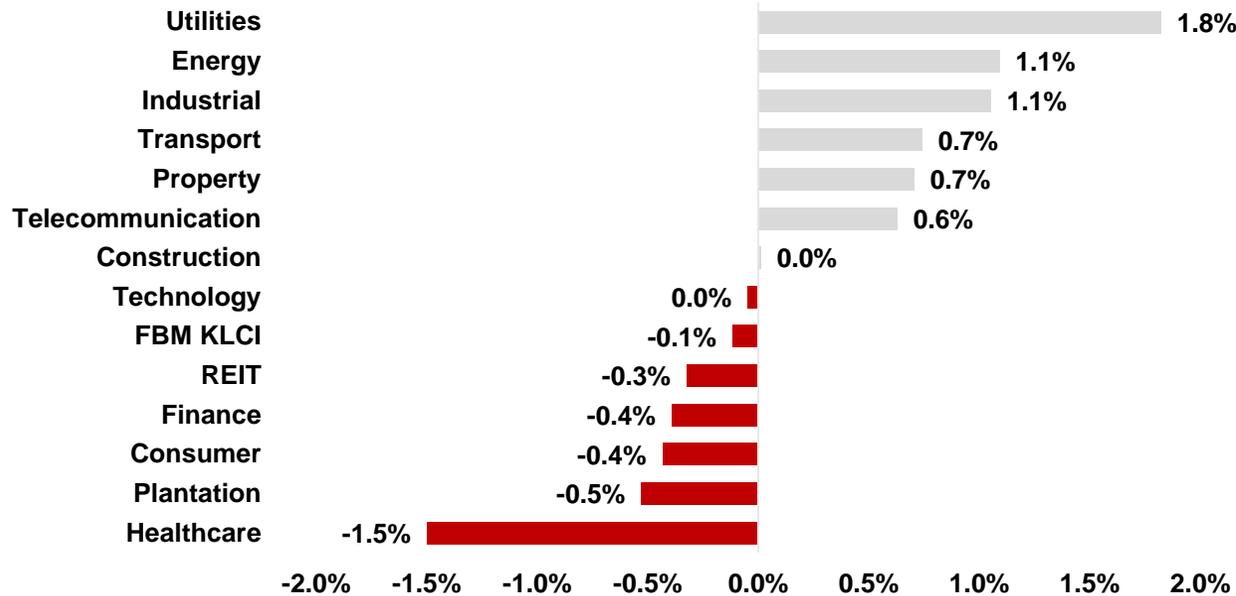


Sources: Bursa, CEIC

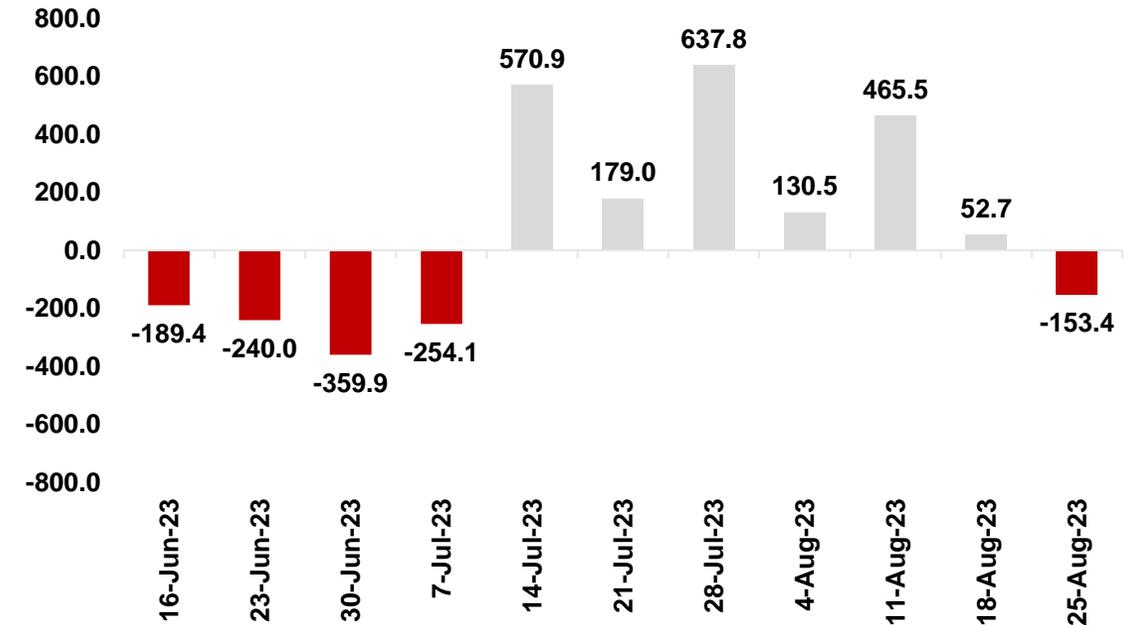
- The regional benchmark indices mostly ended in the green last week as investors waited for clues of future U.S. interest rate path from the speech by U.S. Federal Reserve (Fed) Chair Jerome Powell at the Jackson Hole Symposium due late Friday. Traders hoped that the Fed would decide that inflation is easing, thus laying its future rate path. However, U.S. consumer inflation accelerated in July to 3.2% (June: 3.0%), significantly lower from last year's peak of above 9.0% but more than the Fed's 2.0% target.
- Thailand's SET posted a significant gain (+2.7%), with investors convinced that the political deadlock is nearing the end after the 30th prime minister was elected with the upcoming economic stimulus measures expected.
- On the other hand, among the losers last week were Philippines' PSEi (-2.1%), China's CSI300 (-2.0%) and U.S. Dow Jones (-0.4%).

DOMESTIC EQUITY: LOCAL STOCKS ENDED MIXED AHEAD OF FED SPEECH

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million

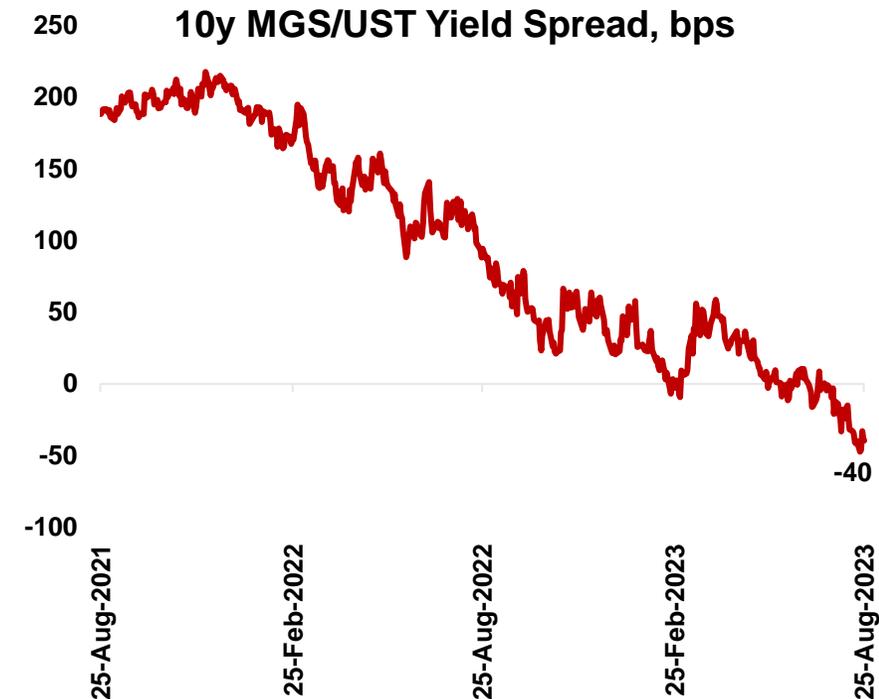
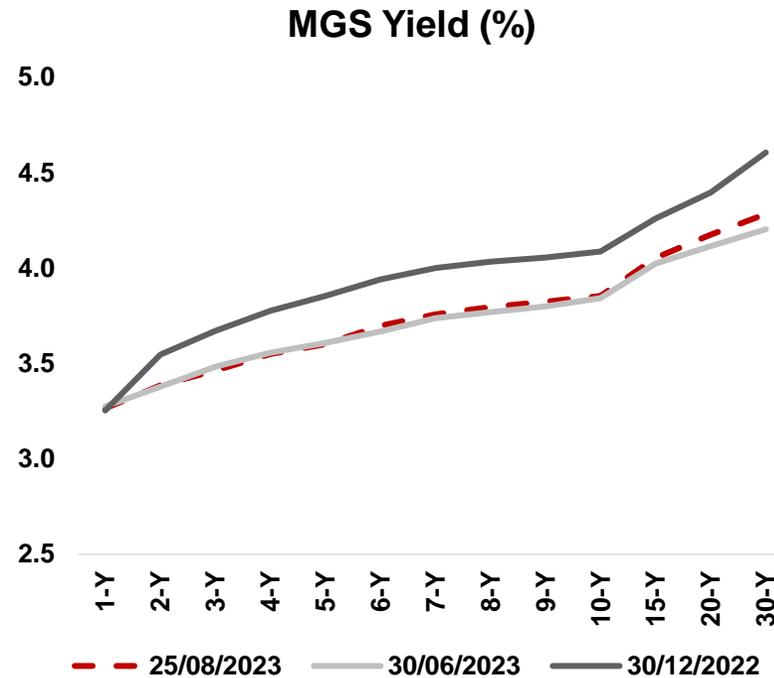


Sources: Bursa, Bank Negara Malaysia (BNM), CEIC

- Half of the Bursa sectoral indices ended weaker on the week ending August 25 as investors awaited Powell’s speech at the Jackson Hole Symposium. The Healthcare index led the losers with a 1.5% drop, followed by Plantation (-0.5%) and Consumer (-0.4%).
- Meanwhile, gainers were led by the Utilities index, with a 1.8% rise, followed by Energy (+1.1%) and Industrial (+1.1%).
- Foreign investors turned net sellers after six consecutive weeks of purchases, registering a net outflow of RM153.4 million relative to a net inflow of RM52.7 million the previous week. The selling increased the cumulative total net outflow this year thus far to RM2.6 billion.

FIXED INCOME: YIELDS ENDED MIXED AS INVESTORS REASSESSED MONETARY POLICY OUTLOOK

Weekly Changes, basis points (bps)			
UST	Yields (%)	Yields (%)	Change (bps)
	18-Aug-23	25-Aug-23	
3-Y UST	4.63	4.72	9
5-Y UST	4.38	4.44	6
7-Y UST	4.34	4.37	3
10-Y UST	4.26	4.25	-1
MGS	Yields (%)	Yields (%)	Change (bps)
	18-Aug-23	25-Aug-23	
3-Y MGS	3.47	3.46	-1
5-Y MGS	3.63	3.60	-3
7-Y MGS	3.77	3.76	-1
10-Y MGS	3.86	3.85	-1
GII	Yields (%)	Yields (%)	Change (bps)
	18-Aug-23	25-Aug-23	
3-Y GII	3.50	3.48	-2
5-Y GII	3.66	3.65	-1
7-Y GII	3.80	3.79	-1
10-Y GII	3.88	3.89	1

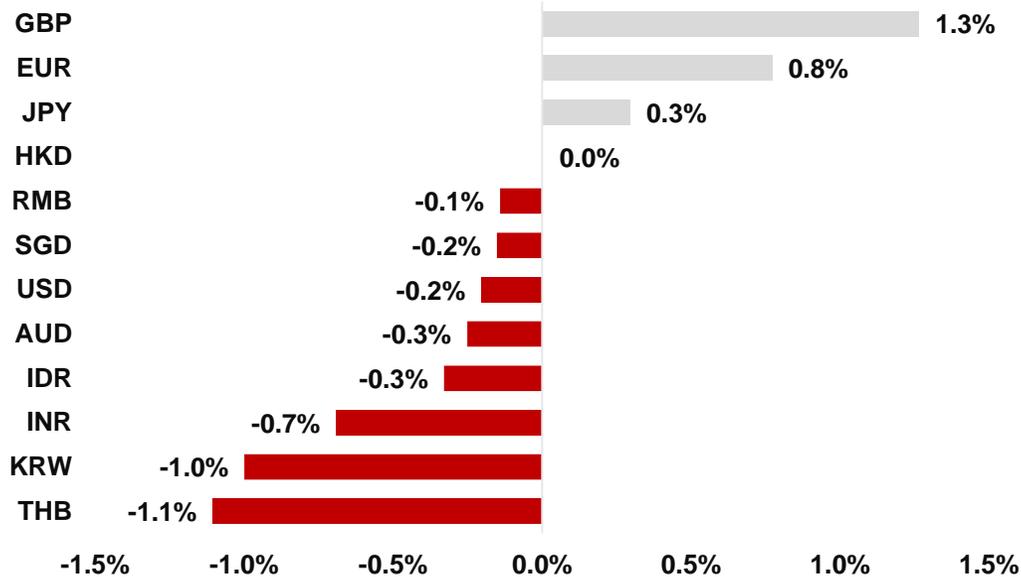


Sources: BNM, Federal Reserve Board

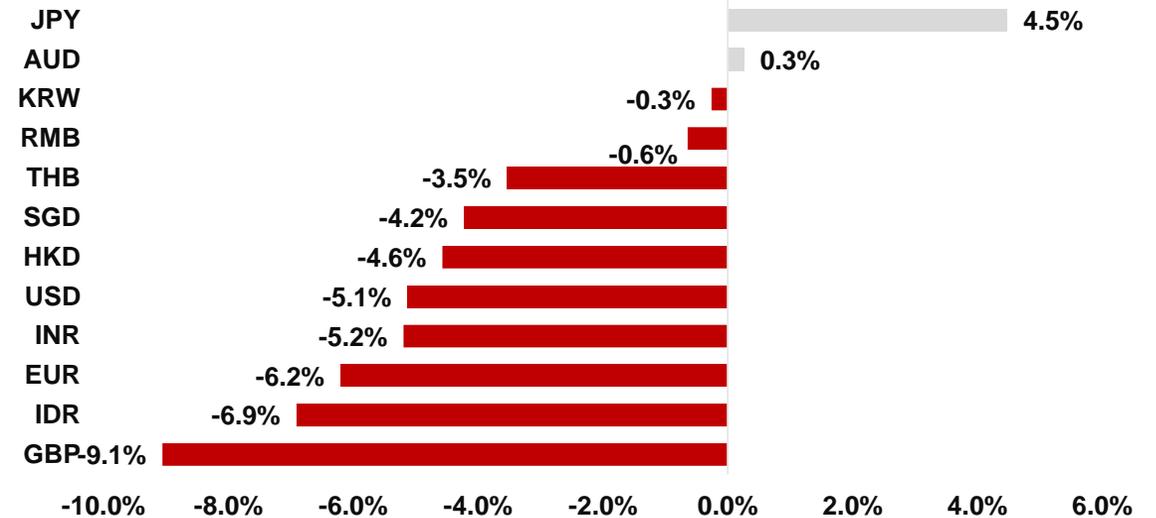
- The short-end to the belly of U.S. Treasury (UST) yield curve rose in the range of 3bps and 9bps after the Fed Chair Jerome Powell emphasised that another rate hike could be necessary should above-trend growth pattern persist and accentuated the priority to bring inflation down to the 2.0% target. Meanwhile, 10y UST yield contracted by 1bp.
- Malaysian Government Securities (MGS) ended stronger with yields falling in the range of 1bp and 3bps. Meanwhile, the yields of Government Investment Issues (GII) ended mixed, with yields easing between 1bp to 2bps along 3y7y curve but edging higher by 1bp at the 10y.
- The RM5.0 billion 20y reopening of GII issued on August 23 drew decent demand with a bid-to-cover (BTC) ratio of 2.0x, relatively higher than the previous RM5.5 billion 20y reopening of GII in May, which garnered a BTC ratio of 1.7x.
- The 10y MGS/UST yield spread remained little changed at -40bps in comparison to the previous week.

FX MARKET: THE RINGGIT REMAINED UNDER PRESSURE AGAINST THE USD AMID CAUTIOUS SENTIMENT

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD% (As of 25 August 2023)

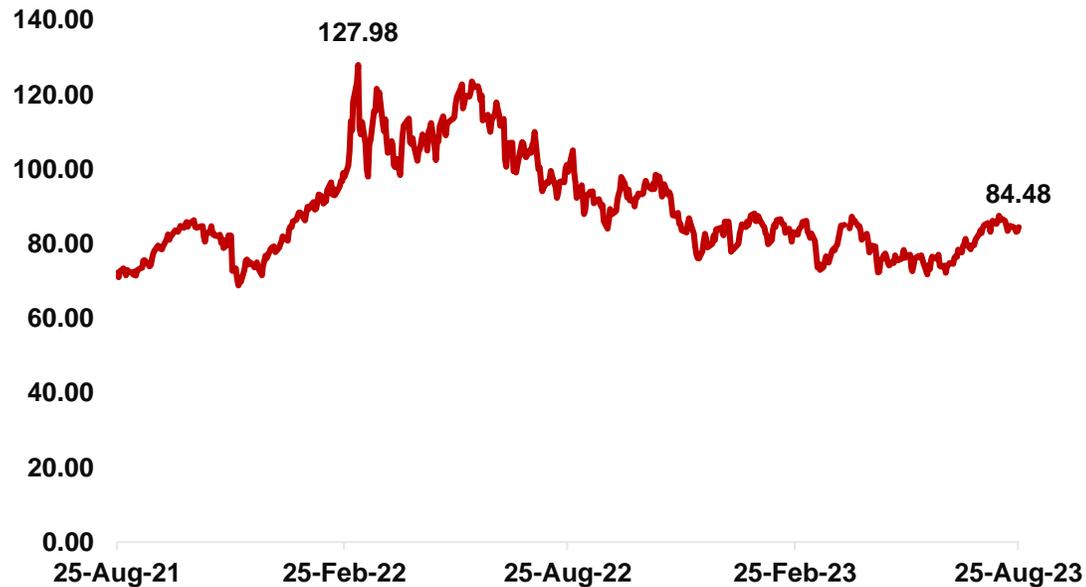


Source: BNM

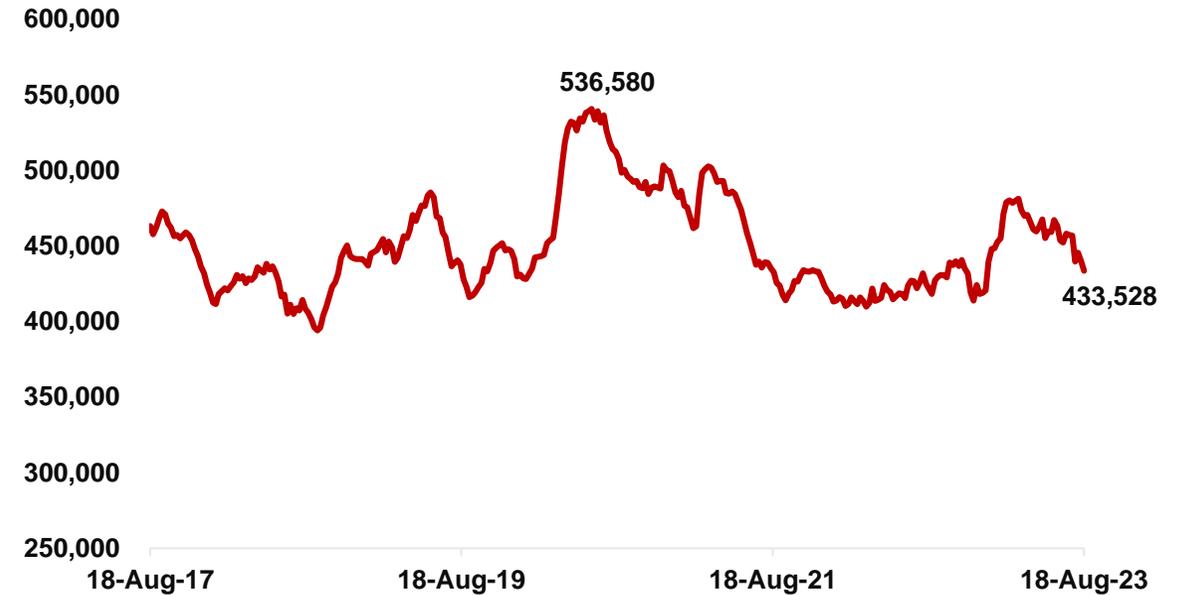
- The Ringgit traded mixed in the week but ended flat at RM4.652 to a dollar. The same scenario was evident against RMB, SGD and AUD as well.
- In a speech at an economic summit in Jackson Hole, Wyoming, Fed Chair Jerome Powell clarified that the central bank has yet to conclude that the interest rate benchmark is restrictive enough to return the inflation to its 2.0% target.
- As a result, the USD index reached the 104-mark, a level last seen in June last year, partly reflecting investors' rising safe-haven demand, putting the local note under renewed downward pressure.
- Market participants would be eyeing the August U.S. labour market – non-farm payroll (NFP) and automatic data processing (ADP) reports, as well as the core Personal Consumption Expenditures (PCE) inflation data this week to gauge the likelihood of another rate hike in the remainder of the year.

COMMODITY: OIL PRICE WAS PRESSURED BY THE UNCERTAINTIES OVER THE GLOBAL ECONOMIC OUTLOOK DESPITE SUPPLY CUT FROM THE OPEC+ BANK ISLAM

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- The oil price pulled back during the week as the concerns about the economy of China, the biggest oil consumer, continued to dominate market sentiment.
- The drop in the commodity price was also due to the comment from Powell on potential for further rate hikes needed to fight the price pressures in the country.

COMMODITY: GOLD GAINED 1.4% DURING THE WEEK AFTER FOUR STRAIGHT WEEKLY DECLINE

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, Commodity Research Bureau

- However, the bullion dropped slightly on Friday, snapping the four-session streak of gains in the week following Powell's remarks, which left the door open to more interest rate hikes.
- Meanwhile, market participants are betting that the European Central Bank (ECB) would pause its tightening monetary policy due to deteriorating growth prospects.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- It appears that the Fed's battle against inflation is far from over. Fed Chair Powell's speech at the Jackson Hole Conference last week indicated another rate hike this year is warranted. This week's U.S. jobs data and the PCE inflation report will garner much attention as investors reassess the outlook for rate hikes in light of Powell's signals. At the time of writing, investors have priced in slightly more than a half chance of at least one rate hike in the remainder of the year. Consensus points to slower increases in August for ADP employment change (July: +324K) and NFP (July: +187K), while the U.S. unemployment rate is expected to remain steady at 3.5%. Meanwhile, the core PCE price index – the Fed's preferred inflation gauge – will likely be sticky in July despite a sharp decline to 4.1% in June (May: 4.6%).
- According to consensus forecasts, India's 2Q2023 GDP growth, scheduled to be announced this week, is expected to accelerate from 6.1% in 1Q2023, premised on the front-loading of government capital expenditure, a recovery in the private investment and a pick-up in the services sector. These may have acted as a buffer against the falling exports and erratic monsoons that disrupted production in the agricultural industry. The Reserve Bank of India (RBI) projects India's GDP to have expanded by 8.0% in 2Q2023. However, weaker global demand will challenge the growth momentum, the lagged impact of monetary tightening, and a possible slowdown in government investment.
- There will be a slew of August's Purchasing Managers' Index (PMI) reports from several Asian countries, including China, Japan and South Korea, to watch this week. Given the slowing global economy, China's factory activities are expected to deteriorate further, with both the official and Caixin manufacturing PMIs likely remaining below the 50.0 threshold for expansion in August. Likewise, manufacturing PMIs for Japan and South Korea are expected to stay in the contraction zone in August but improve marginally on better vehicle and semiconductor exports. Meanwhile, August's non-manufacturing PMIs across these countries will likely report a modest expansion, supported by summer travel.
- On the domestic front, the producer price index (PPI) report for July and the manufacturing PMI for August will be released this week. Malaysia's PPI for July will likely remain in deflation territory amid easing cost pressures and moderating demand. PPI fell by 4.8% in June (May: -4.6%) as prices declined in all sectors except water supply. On the other hand, Malaysia's manufacturing PMI is expected to remain in the contraction zone (July: 47.8) amid subdued production.

BANK ISLAM

THANK YOU