



From the Desk
of the
Chief Economist

BANK ISLAM

WEEKLY MARKET UPDATES & JULY CPI REPORT

**29 AUGUST 2022
ECONOMIC RESEARCH**

**SHAFIZ BIN JAMALUDDIN
NOR JANNAH ABDULLAH
RAJA ADIBAH RAJA HASNAN**

KEY HIGHLIGHTS OF THE WEEK- BI AND BOK DECIDED TO TIGHTEN THE POLICY RATES LAST WEEK

International

Indonesia- Monetary Policy

- ✓ Bank Indonesia (BI) unexpectedly raised its 7-day reverse repo rate by 25 basis points (bps) to 3.75% during its meeting on 23 August.
- ✓ It was the first policy rate hike since 2018 to contain runaway inflation and strengthen the rupiah exchange rate.
- ✓ Furthermore, the annual inflation rate in Indonesia accelerated by 4.9% in July from 4.4% in June, marking the fastest increase in consumer prices since December 2014.
- ✓ Be that as it may, the central bank believe that the economy was in a good position driven by stronger domestic demand particularly in household consumption and stellar export performance.

South Korea- Monetary Policy

- ✓ Bank of Korea (BoK) increased its base rate by 25 bps to 2.50% during its August meeting to prevent capital outflows amid monetary policy tightening in the U.S.
- ✓ Additionally, the headline inflation for 2022 was also revised up to 5.2% compared to earlier projections of 4.5% made in May.
- ✓ The BOK Governor Rhee Chang-yong was of the view that fighting inflation remained as the central bank's priority, however this would need to be reviewed if growth weakened sharply.
- ✓ At the same time, the Gross Domestic Product (GDP) growth forecast was downgraded to 2.5% from 2.7% for 2022 underpinned by weaker exports activities moving forward.

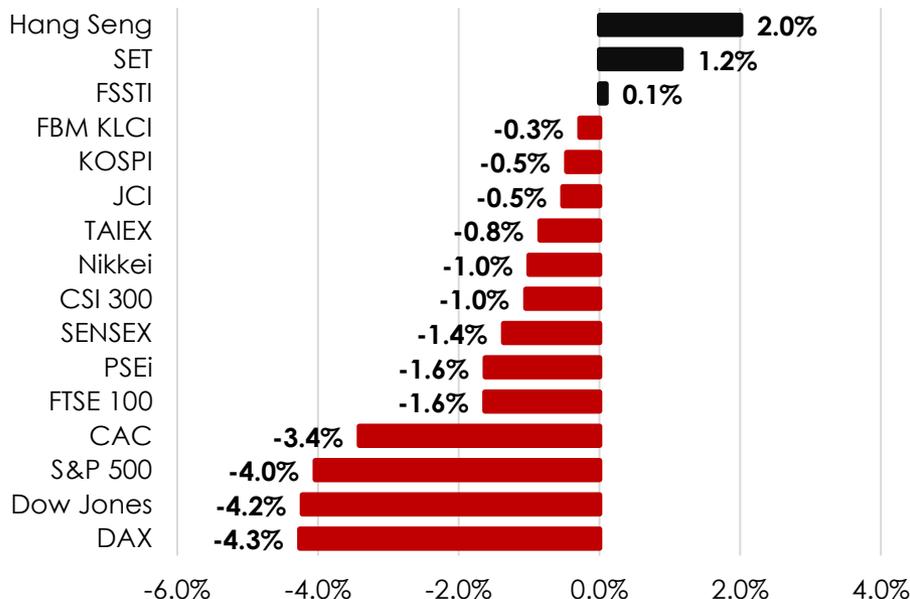
The U.S.- Flash Composite PMI

- ✓ The U.S. Flash Composite Purchasing Manager's Index (PMI) contracted to 45.0 points in August from 47.7 points previously.
- ✓ It was the 27-month low as the country private sector signalled a sharper fall in business activities.
- ✓ Furthermore, the rate of contraction in output has outpaced the decline during initial Covid-19 pandemic.
- ✓ On top of that, the fall was also broad-based which was seen in manufacturing and services sectors in light of material shortages, delivery delays, higher inflationary pressure, as well as increase in borrowing costs.

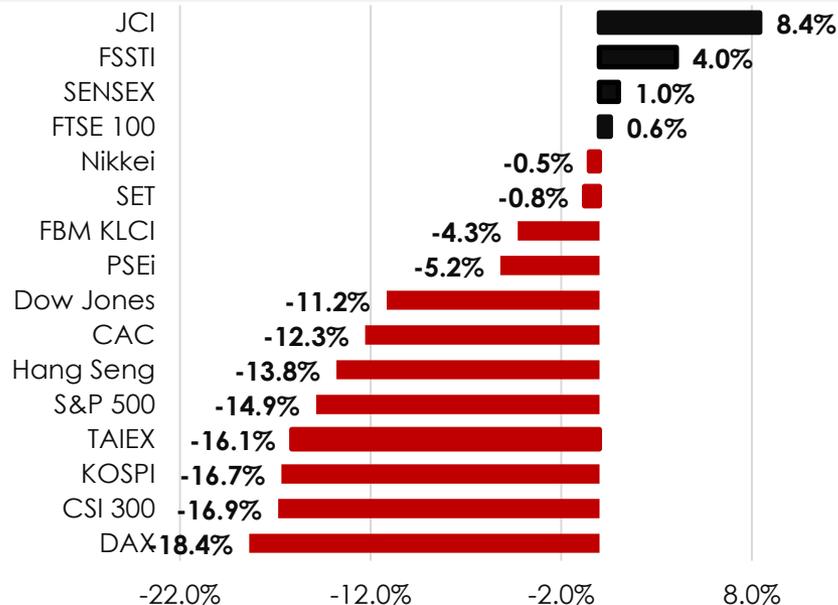
WEEKLY MARKET PERFORMANCE

- ✓ Germany's DAX index dropped for the second straight week as it declined by 4.3% last week. The market was trading lower after the U.S. Federal Reserve (Fed) Chairman, Jerome Powell warned that household and businesses would feel the pain ahead in the fight against inflation.
- ✓ Apart from that, German's consumer confidence fell further to a new record low as the forward-looking consumer sentiment index fell to -36.5 in September from -30.9 in August. This was driven by persistent recession fears and mounting concerns over higher energy costs which could dampen propensity to buy moving forward.
- ✓ Meanwhile, Hong Kong's Hang Seng index recorded a 2.0% weekly advance among the major equity market, buoyed by news of possible progress for China and the U.S. to hit an audit deal.
- ✓ On a Year-To-Date (YTD) basis, global equities were mostly in the red following an anticipation of slowing economic activities in the 2H2022.

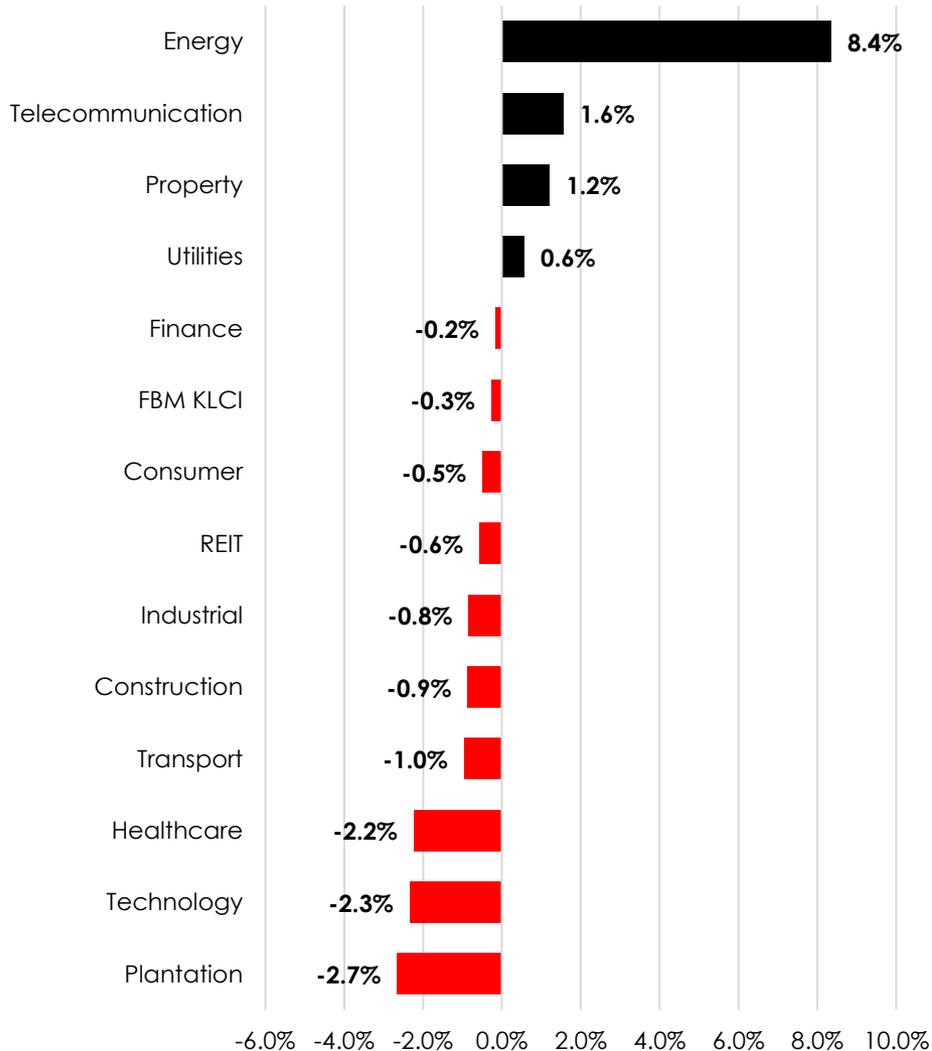
Weekly Gain/Loss of Major Equity Markets, % (Week Ending 26 August)



YTD Gain/Loss Of Major Equity Markets, % (As at 26 August)



Bursa Sectoral Performance, w-o-w%



Sources: CEIC, Trading View

WEEKLY SECTORAL PERFORMANCE

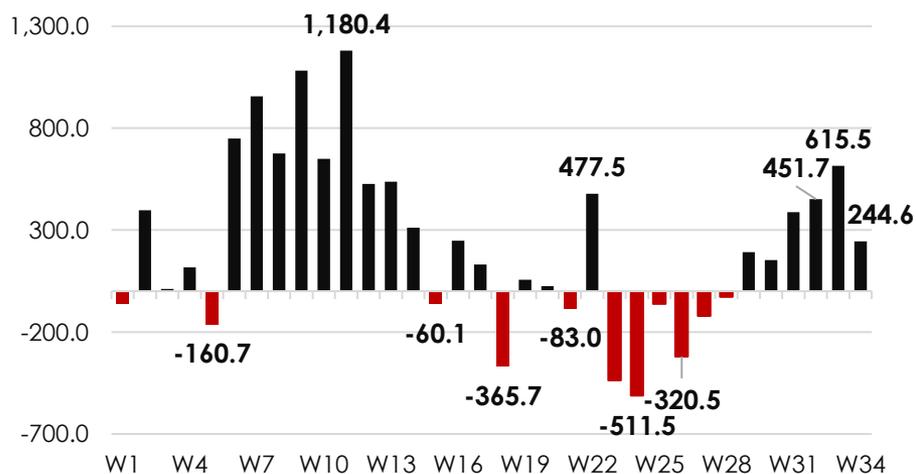
- ✓ **Energy index recorded largest increase at 8.4%** for the week ending on 26 August.
- ✓ The gain mainly supported by Brent crude oil price which was traded above USD100.0 per barrel in view of uncertain supply levels.
- ✓ Meanwhile, **Plantation, Technology, Healthcare and Transport were the biggest decliners**, falling by 2.7%, 2.3%, 2.2% and 1.0% respectively.
- ✓ Looking forward, the FBM KLCI is likely to range between **1,490.0 points and 1,510.0 points this week** due to further monetary tightening in the U.S. as the Fed Chairman, Jerome Powell committed to keep the inflation expectation of 2.0% anchored.
- ✓ Hence, the prospect of sustained higher interest rate could weigh on the investor sentiment moving forward.

FOREIGN INVESTORS CONTINUED THEIR BUYING SPREE ON BURSA FOR THE SIXTH STRAIGHT WEEK

WEEKLY FOREIGN FUND FLOW

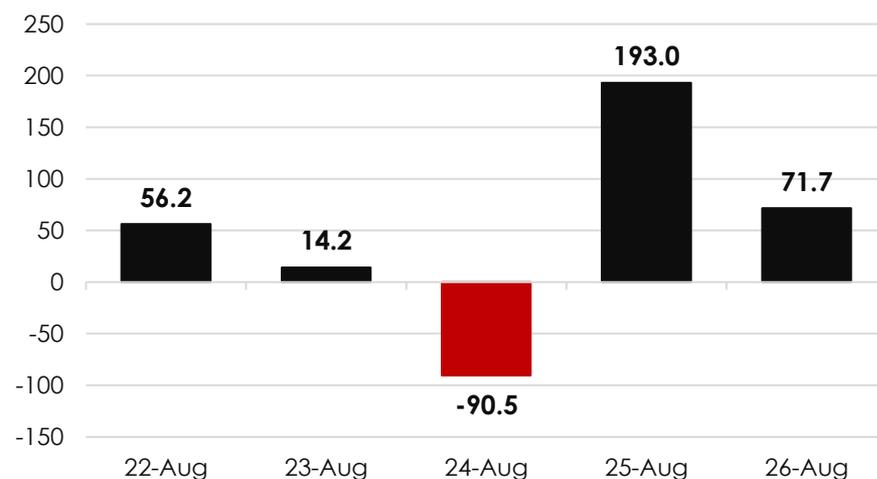
- ✓ Foreign investors remained as net purchasers as they acquired RM244.6 million net of Malaysian equities last week. However, this was lower as compared to RM615.5 million net inflows registered in the previous week.
- ✓ On further scrutiny, Bursa started the week with a strong foot as international investors bought a total of RM70.4 million net of domestic equity on Monday and Tuesday. However, foreign investors turned as net sellers as they dumped RM90.5 million net of Malaysian equities on Wednesday. This was the biggest outflows reported since June this year before registering the highest foreign inflows for the week worth of RM193.0 million respectively.
- ✓ On a YTD basis, international investors have bought RM8.0 billion net of local equities in 2022 and have been net buyers for 23 out of 34 weeks of 2022, suggesting that foreign investors still favour on our domestic equity market.

**Weekly Foreign Fund Flow in 2022
(RM Million)**



Source: Bursa
*W = week

Daily Foreign Net Inflow/Outflow from 22 to 26 August (RM Million)



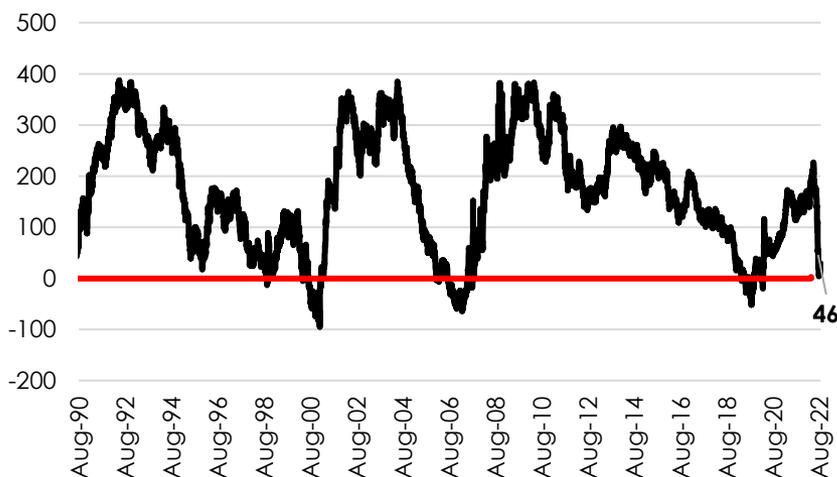
FIXED INCOME- THE U.S. TREASURY (UST) YIELDS WERE HIGHER AS THE FED IS RESOLVED TO WARD OFF INFLATION

Bond Yields Weekly Change, bps

UST	Yields (%) 19-Aug-22	Yields (%) 26-Aug-22	Change (bps)
3-M UST	2.74%	2.89%	15
2-Y UST	3.25%	3.37%	12
5-Y UST	3.11%	3.20%	9
10-Y UST	2.98%	3.04%	6

MGS	Yields (%) 19-Aug-22	Yields (%) 26-Aug-22	Change (bps)
3-Y MGS	3.37%	3.31%	-6
5-Y MGS	3.70%	3.69%	-1
7-Y MGS	3.89%	3.85%	-4
10-Y MGS	3.96%	3.96%	0

10-Y UST minus 3-M UST, bps

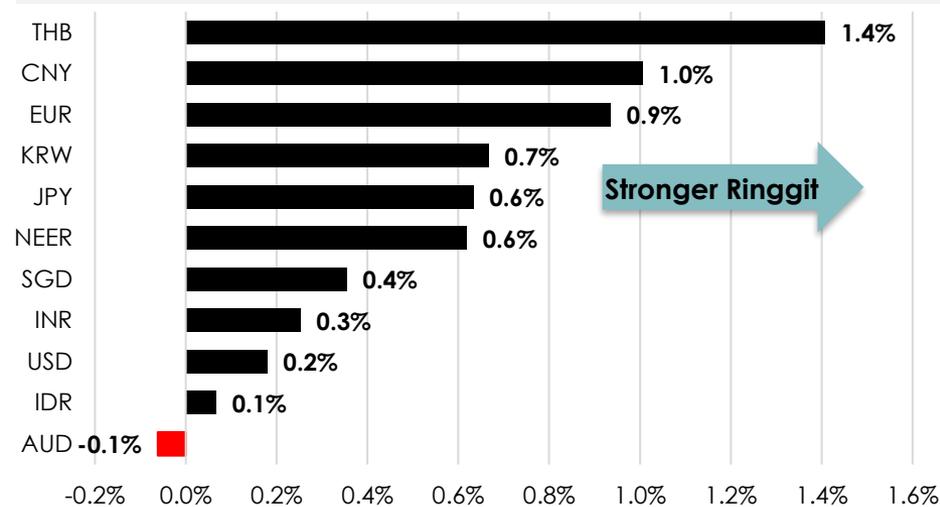


- ✓ The U.S. Treasury (UST) yields were higher between 6 bps to 15 bps following the Fed's pledge to keep rising the Federal Fund Rate (FFR) until the inflation is under control.
- ✓ Following this, the yield curve of 10-Y UST yield minus 3-M UST yield continued to narrow to 15 bps on 26 August compared to 24 bps on 19 August. This suggests the risk of recession in the U.S. has become more prevalent.
- ✓ Nevertheless, the Malaysian Government Securities (MGS) yields were slightly lower between 1 bps and 6 bps backed by rising downside risks from domestic front.
- ✓ All in all, we foresee the market outlook will remain cloudy in the medium term driven by hawkish stance by the Fed, as well as weaker global economic activities.

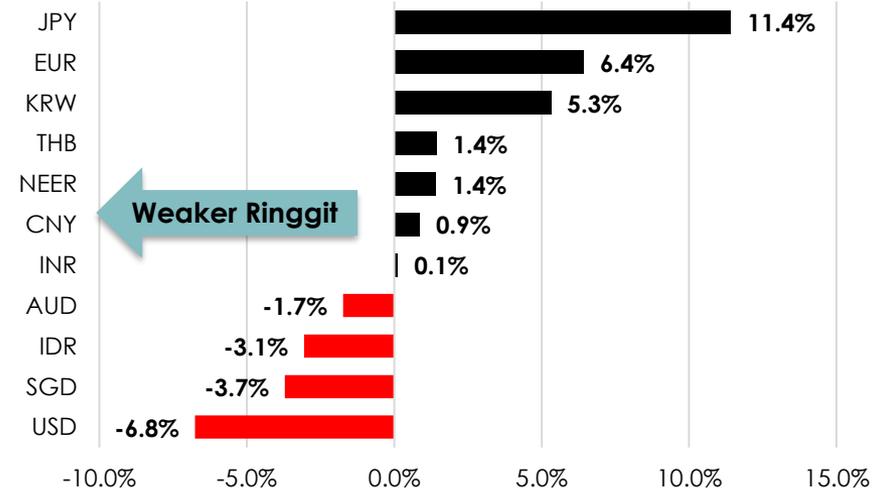
WEEKLY PERFORMANCE

- ✓ The Ringgit appreciated by 0.2% w-o-w against U.S. Dollar (USD), closing at RM4.4650 on 26 August after declining by 0.7% (RM4.4740) in the previous week.
- ✓ The stronger local note was mainly boosted by a rally in the oil market which saw the Brent crude oil price touched above the USD100.0 per barrel (26 August: USD100.99 per barrel vs. 19 August: USD96.72 per barrel) during the week.
- ✓ Additionally, oil prices improved on last Friday when the Saudi Arabia suggested the Organisation of the Petroleum Exporting Countries Plus (OPEC+) could consider cutting output.
- ✓ Apart from that, the USD could show some signs of bearish trend as market was a little apprehensive towards the decision to hike interest rates by the Fed.
- ✓ As such, the local note is expected to trade between RM4.46 to RM4.48 against the greenback in the near term.

MYR against regional currencies, w-o-w% (Week Ending 26 August)



MYR against regional currencies, YTD Gain% (As at 26 August)



COMMODITIES – BRENT PRICE WAS TRADED ABOVE USD100.00 PER BARREL LAST WEEK

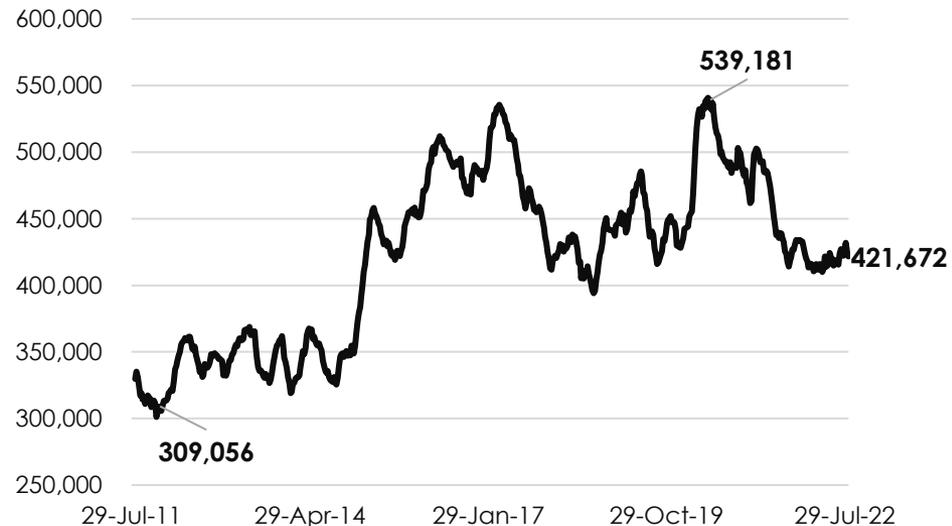
BRENT

- ✓ Brent crude oil price increased by 4.4% w-o-w (26 August: USD100.99 per barrel vs. 19 August: USD96.72 per barrel) as investors weighed on uncertain supply levels against the prospects of slowing demand conditions moving forward.
- ✓ On the supply side, the U.S. crude oil inventories continued to drop as reported by the U.S. Energy Information Administration (EIA). The crude oil stockpiles declined by 3.3 million barrels to 421.7 million barrels in the week ending 19 August from 425.0 million barrels in the previous week. Similarly, the American Petroleum Institute (API) mentioned that fuel inventories went down by 5.6 million barrels for the week which ended on 19 August from 0.4 million barrels draw in the previous week. As such, these have also supported the Brent price movement last week.

Brent Crude in USD per barrel



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



COMMODITIES – GOLD PRICE SLIDED DURING THE WEEK AMID TIGHT MONETARY POLICY SIGNALLED BY THE U.S. FED CHAIRMAN JEROME POWELL

GOLD

- ✓ Gold price declined by 0.5% to reach USD1,738.14 per ounce on 26 August from USD1,747.06 per ounce in the previous week as the USD index increased by 0.6% to 108.80 on the said date from 108.17 on 19 August.
- ✓ During the Jackson Hole Symposium event, the U.S. Fed Chairman Jerome Powell was committed to bring down the inflation by continuing to raise the interest rates while acknowledging that could hurt the country's economy for some time.
- ✓ Since March this year, the gold price has been weighed down by the unison move taken by central banks around the globe to stamp out the inflation.
- ✓ Meanwhile, investors anticipated for European Central Bank (ECB) to raise the interest rate again next month, with 75 bps increase could be on the card.

Gold in USD per ounce



Source: Bloomberg

U.S. Dollar Index (DXY)



INFLATION ACCELERATED TO 4.4% DURING JULY

	Weight	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	7M2021	7M2022
Consumer Price Index	100.0%	2.3%	2.2%	2.2%	2.3%	2.8%	3.4%	4.4%	2.3%	2.8%
Food & Non-Alcoholic Beverages	29.5%	3.6%	3.7%	4.0%	4.1%	5.2%	6.1%	6.9%	1.5%	4.8%
Alcoholic Beverages & Tobacco	2.4%	0.4%	0.4%	0.5%	0.5%	0.4%	0.4%	0.6%	0.6%	0.4%
Clothing & Footwear	3.2%	-0.3%	-0.2%	-0.3%	-0.2%	0.0%	0.2%	0.3%	-0.4%	-0.1%
Housing, Water, Electricity, Gas & Other Fuels	23.8%	0.7%	0.8%	0.9%	0.8%	1.2%	1.2%	3.8%	1.1%	1.3%
Furnishings, Household Equipment & Routine Household Maintenance	4.1%	3.1%	3.2%	3.0%	2.7%	2.9%	3.4%	4.0%	1.2%	3.2%
Health	1.9%	0.3%	0.5%	0.2%	0.2%	0.4%	0.6%	0.8%	0.6%	0.4%
Transport	14.6%	6.0%	3.9%	2.6%	3.0%	3.9%	5.4%	5.6%	10.9%	4.4%
Communication	4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Recreation Services & Culture	4.8%	1.2%	1.6%	1.1%	1.3%	1.8%	2.2%	2.5%	0.5%	1.6%
Education	1.3%	0.7%	0.7%	0.9%	1.0%	1.0%	1.1%	1.2%	0.2%	1.0%
Restaurants & Hotels	2.9%	2.1%	2.6%	2.9%	3.2%	3.7%	5.0%	5.8%	0.2%	3.6%
Miscellaneous Goods & Services	6.7%	0.6%	1.1%	1.9%	1.8%	1.9%	2.2%	2.1%	1.0%	1.6%
Core CPI		1.6%	1.8%	2.0%	2.1%	2.4%	3.0%	3.4%	0.7%	2.3%

Sources: DOSM, CEIC

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1 Malaysia's Consumer Price Index (CPI) increased by 4.4% year-on-year (y-o-y) in July from 3.4% in June (Consensus: 4.4%). Additionally, there are 53 items which showed an increase of more than 10.0% in July as compared to 48 items in June.
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2 The cost of Food & Non-Alcoholic Beverages rose at a new record peak of 6.9% during the said month as compared 6.1% in June following supply chain disruption amid Russian invasion of Ukraine, as well as last year's lower base effect.
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3 Likewise, the cost of Transport grew by 5.6% in July (June: 5.4%) due to the rise in the price of subgroup of Operation of Personal Transport Equipment (July: 6.7% vs. June: 6.6%).

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4 Apart from that, other sub items also caused the upward inflationary pressures in July except for Communication (July: 0.0% vs. June: 0.0%) which remained unchanged during the month.
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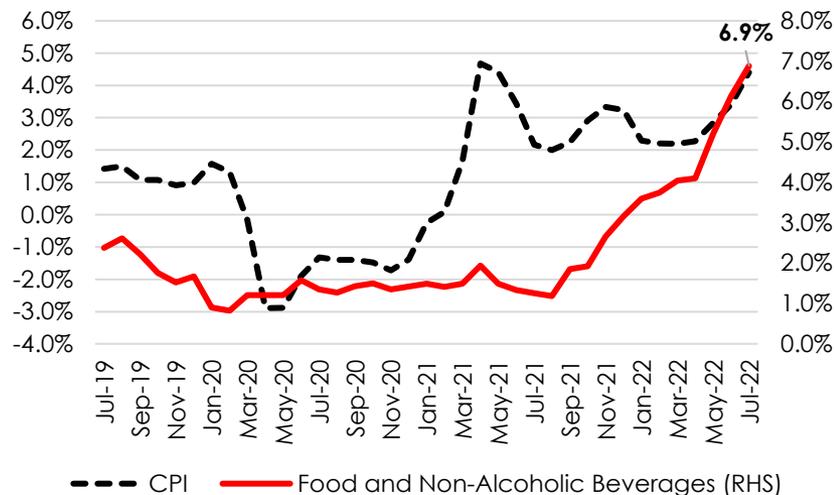
5 The Core CPI which excludes most volatile items of fresh food, as well as administered prices of good and services maintained its upward trend to 3.4% in July from 3.0% in June.
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6 On a cumulative basis, the CPI increased further by 2.8% in 7M2022 after rising by 2.3% in the same period last year. Similarly, the Core CPI showed the same trend significantly during the said period (7M2022: 2.3% vs. 7M2021: 0.7%).

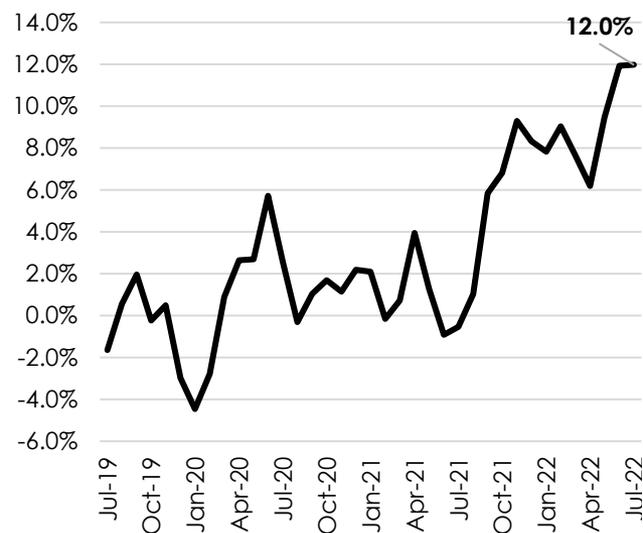
FOOD PRICE WAS THE MAIN CULPRIT OF HIGHER CPI IN JULY

- ✓ The food & non-alcoholic beverages price (July: 6.9% vs. June: 6.1%) has surpassed the annual price growth since 2009 (4.1%).
- ✓ Soaring in food price also partly influenced by the setting of a new retail ceiling price for standard chicken (from RM8.90 per kg to RM9.40 per kg) and chicken eggs (Grade A: RM0.45 cents/each, Grade B: RM0.43 cents/each, Grade C: RM0.41 cents/ each), as well as the removal of subsidies on bottled cooking oils which have been implemented starting on 1 July.
- ✓ In addition, flour & other cereals grains continued to surge by 14.4% July (June: 11.0%) due to war crisis which have caused raw material for food production become costlier.
- ✓ Following this, local bread producer, Gardenia was forced to raise its products price for the second time in less than a year. The new price list for 53 of its products shows that a 400g Gardenia Original Classic loaf will now cost RM3.00 (up from RM2.80).
- ✓ This suggests that consumers are feeling the pinch from persistence increase in food price as they will need to spend more on grocery bills.

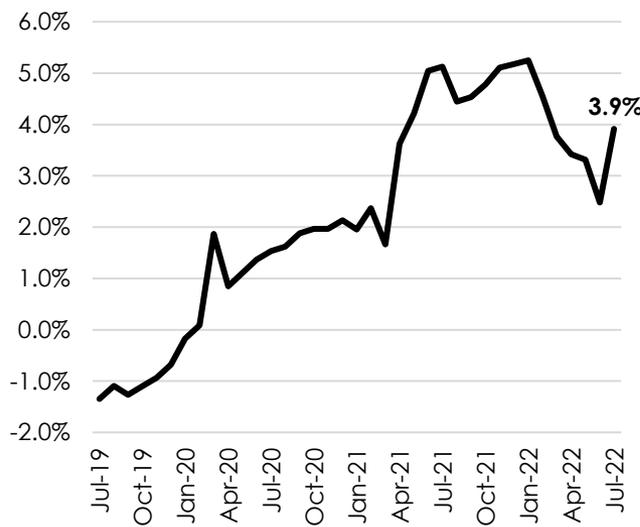
Inflation, y-o-y%



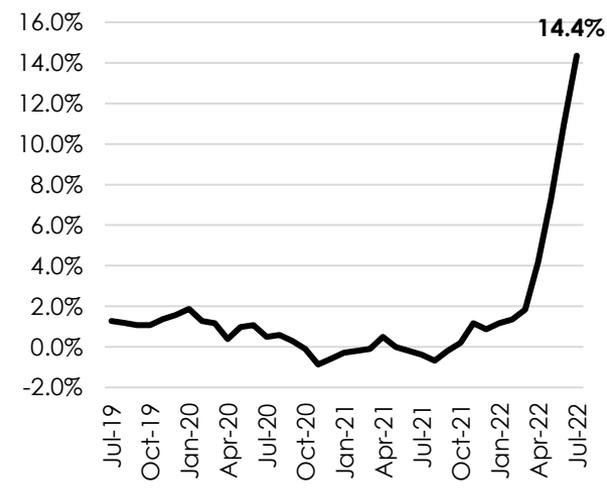
CPI: Meat, y-o-y%



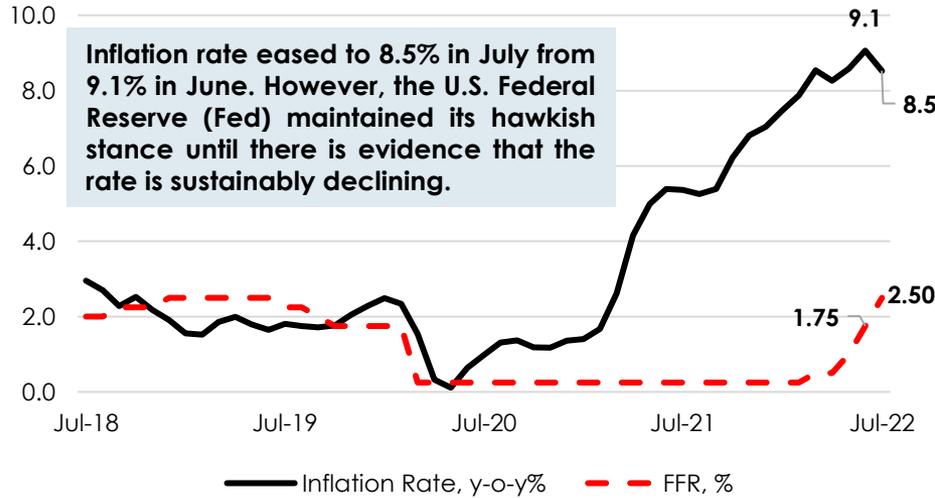
CPI: Oils, y-o-y%



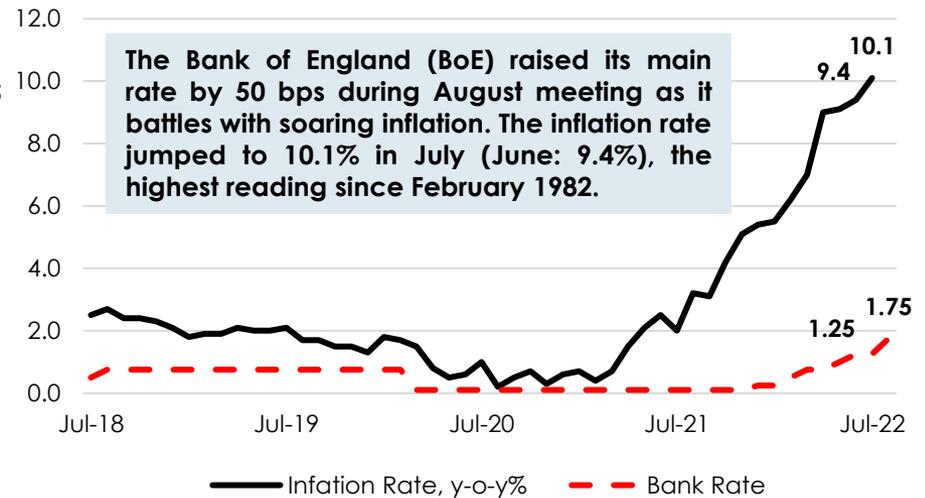
CPI: Flour & Other Cereals Grains, y-o-y%



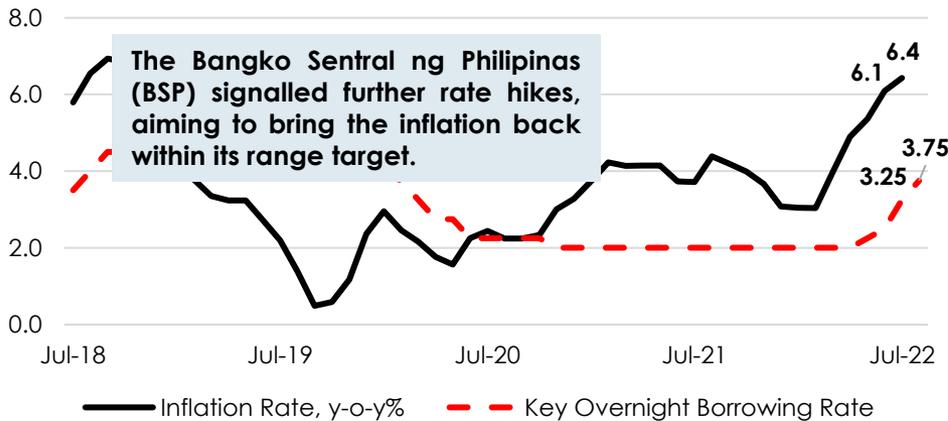
The U.S. - Inflation Rate, % vs. FFR, %



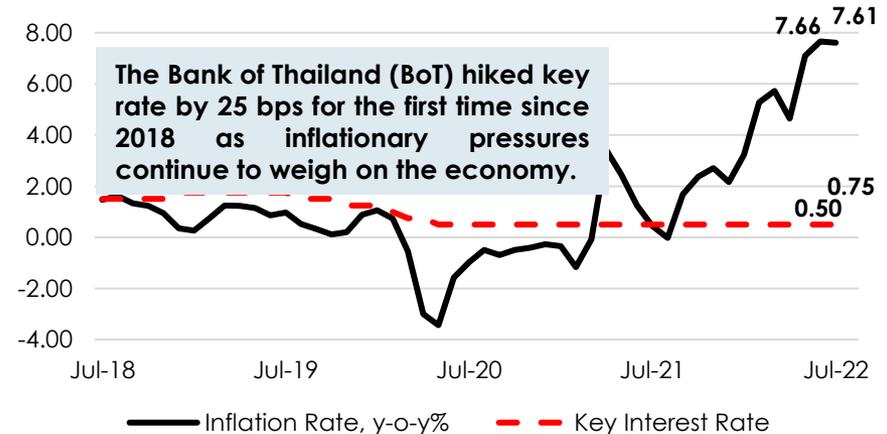
The U.K. - Inflation Rate, % vs. Bank Rate, %



Philippines - Inflation Rate, % vs. Key Overnight Borrowing Rate, %



Thailand - Inflation Rate, % vs. Key Interest Rate, %



- ✓ Market volatility has been hammered by the Fed's hawkish rhetoric during Jackson Hole Symposium last Friday. The central bank reiterated to keep the rates higher even at the expense of a decline in the economic growth. As the Fed's decision is based on the incoming data, the U.S. non-farm payroll data for the month of August will be closely anticipated.
- ✓ Elsewhere, the ECB officials are debating the size of interest rate hike in September meeting, with some arguing for 75 bps increase should be in part of the discussion as inflation remains uncomfortably high. Prior to this, the Eurozone's inflation data will be closely watched as the figure is expected to elevate, adding pressure for the central bank to make the case for a big rate hike.
- ✓ Following the higher Malaysia's inflation rate in July, we anticipate that BNM would continue to reduce its monetary policy accommodativeness by increasing the OPR by another 25 bps during September meeting. Our estimate is for the OPR to end the year at 2.75% and 3.25% for 2023.
- ✓ All in all, we foresee the FBM KLCI to trade between 1,490.0 points and 1,510.0 points, as the world's top central bankers have delivered unified message on the need to curb the inflation until it meaningfully slows.

COVID-19 UPDATE: DAILY NUMBER OF CONFIRMED CASES

Date	Global	China	Germany	India	Indonesia	Italy	Japan	Singapore	South Korea	Spain	Thailand	United Kingdom	United States	France	Malaysia
26-Jul-22	751,031	18,896	120,214	14,830	6,483	24,117	154,011	5,551	99,224	-	1,828	11,270	51,918	11,195	4,759
27-Jul-22	1,114,182	27,038	118,075	18,313	6,438	88,651	180,226	12,419	100,197	-	2,747	13,290	111,590	81,818	4,503
28-Jul-22	1,047,921	27,755	96,070	20,557	6,353	64,400	207,236	8,763	88,339	-	1,902	11,716	169,313	58,638	3,926
29-Jul-22	1,034,518	26,089	75,191	20,409	5,831	60,826	230,055	8,565	85,320	-	2,480	10,527	160,318	50,518	4,860
30-Jul-22	1,038,438	25,285	61,985	20,408	5,398	54,417	221,938	12,999	81,944	26,018	1,962	9,305	145,479	40,224	4,271
31-Jul-22	977,259	23,322	15,604	19,673	4,205	50,297	212,960	1,497	73,589	-	1,664	8,497	258,557	41,278	2,783
1-Aug-22	1,185,514	22,895	7,931	16,464	3,696	37,252	196,812	5,106	44,600	-	2,108	7,319	34,575	31,535	3,213
2-Aug-22	689,234	18,367	84,078	13,734	5,827	19,520	167,678	4,709	111,733	-	1,843	8,416	35,710	7,249	4,204
3-Aug-22	995,529	25,279	84,376	17,135	6,167	65,099	195,801	10,230	119,877	19,417	2,432	9,815	124,119	54,105	5,330
4-Aug-22	979,076	25,929	68,917	19,893	6,527	45,956	231,597	7,231	107,850	-	2,166	9,156	161,370	32,965	4,413
5-Aug-22	1,359,634	25,115	56,202	20,551	5,929	42,959	253,392	6,648	112,901	-	2,253	8,336	149,449	33,751	3,927
6-Aug-22	963,060	23,802	48,643	19,406	5,455	38,215	236,809	-	110,610	20,188	2,381	7,275	131,807	26,466	4,684
7-Aug-22	996,034	21,953	13,453	18,738	4,279	34,997	214,879	11,903	105,507	-	2,250	6,529	149,635	28,518	2,728
8-Aug-22	936,275	24,043	7,165	16,167	4,425	26,656	198,563	4,798	55,214	-	1,842	5,410	30,130	21,528	2,863
9-Aug-22	637,171	17,411	66,105	12,751	6,276	11,975	172,998	3,541	149,839	-	1,955	6,531	30,705	5,090	3,083
10-Aug-22	898,610	25,747	67,508	16,047	5,926	43,078	196,732	7,965	151,747	14,353	2,335	8,012	103,342	38,211	4,896
11-Aug-22	900,987	26,401	55,800	16,299	5,532	31,699	227,828	2,819	137,198	-	2,316	7,269	137,525	27,081	4,831
12-Aug-22	897,703	25,082	47,273	16,561	6,091	28,423	240,205	7,262	128,714	-	2,455	6,716	138,068	19,410	3,943
13-Aug-22	856,914	24,111	43,410	15,815	5,104	26,689	192,364	5,481	124,515	13,582	2,140	6,172	124,820	19,811	4,334
14-Aug-22	727,635	23,901	10,997	14,092	4,442	24,785	166,611	4,403	119,603	-	1,773	5,320	135,494	21,175	3,045
15-Aug-22	762,446	23,581	6,366	14,917	3,588	19,455	169,972	3,023	62,078	-	1,663	4,473	27,832	16,347	2,437
16-Aug-22	506,810	18,103	54,332	8,813	5,869	9,893	159,781	2,665	83,977	-	1,508	5,355	19,127	4,564	3,429
17-Aug-22	801,445	25,733	63,082	9,062	5,253	8,941	178,286	5,202	180,709	12,162	2,461	6,392	103,726	6,331	3,516
18-Aug-22	888,354	27,870	52,141	12,608	4,039	36,261	208,483	3,762	178,503	-	2,143	5,503	125,868	30,652	4,071
19-Aug-22	870,346	26,424	42,925	15,754	5,163	27,291	261,252	3,553	138,812	-	2,110	4,879	119,272	23,271	3,490
20-Aug-22	859,316	25,756	35,536	13,272	4,922	24,689	255,810	-	129,350	8,463	1,902	4,254	113,629	20,236	2,798
21-Aug-22	769,879	24,957	9,533	11,539	3,949	24,392	242,790	5,666	110,944	-	1,968	3,590	132,194	19,870	2,464
22-Aug-22	604,156	25,251	4,953	9,531	3,300	19,470	217,875	1,951	58,886	-	1,531	3,070	22,146	14,820	2,078
23-Aug-22	587,362	19,693	50,040	8,586	4,858	10,417	185,497	1,692	150,084	-	1,488	3,866	22,371	4,012	2,722
24-Aug-22	761,205	29,168	51,467	10,649	5,428	35,357	194,223	3,627	139,249	9,020	2,062	3,880	91,187	28,988	2,636
25-Aug-22	776,404	32,027	42,668	10,725	5,214	25,388	237,410	2,645	113,295	-	2,002	2,215	113,891	15,469	3,206
26-Aug-22	727,901	30,805	25,471	10,256	4,549	23,435	227,139	2,397	101,140	-	1,749	-	124,151	19,671	3,118

Source: CEIC

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