MONTHLY ECONOMIC UPDATE

3 SEPTEMBER 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Fed hints at imminent rate cut, likely in September.** The U.S. Federal Reserve (Fed) Chair Jerome Powell, in his speech at Jackson Hole Symposium, said that “the time has come for policy to adjust”, reinforcing market expectations of a rate cut at the upcoming policy meeting on September 17-18. According to Fed Fund Futures, the market currently assigns about a 70% chance to a 25bp cut and a 30% chance to a 50bp cut. With the U.S. inflation edging closer towards the 2.0% target, the Fed has grown increasingly concerned about the softening job market. U.S. non-farm payrolls were recently revised down to 2.1 million for the 12 months ending March 2024, from 2.9 million previously, which reduced average monthly job gains to 178K from 246K.

- **RBNZ joins the rate-cut bandwagon.** At the conclusion of its August policy meeting, the Reserve Bank of New Zealand (RBNZ) delivered its first rate cut since March 2020, lowering the benchmark Official Cash Rate (OCR) by 25 basis points to 5.25%. The cut, which surprised many market participants, was justified by the RBNZ due to inflation returning towards the target range of 1.0-3.0% (2Q24: 0.4% QoQ, 3.3% YoY; 1Q24: 0.6% QoQ, 4.0% YoY). The central bank projects that the OCR will decrease further to 4.92% by year-end and to 3.85% by December 2025. This is a significant shift from its previous projection, which anticipated no rate cuts until mid-2025.

- **Malaysia's GDP surges to a six-quarter high of 5.9% in 2Q2024.** The economy accelerated from 4.2% in 1Q2024, bringing overall growth for 1H2024 to 5.1% (1H2023: 4.1%). Private consumption remained the key growth driver, rising to 6.0% (1Q2024: 4.7%) on the back of strong holiday demand, government cash transfers, a vibrant tourism sector and resilient labour market conditions. Investment activity reached its strongest level in seven quarters, growing by 11.5% (1Q2024: 9.6%), primarily driven by increased private sector investments (2Q2024: 12.0%; 1Q2024: 9.2%) amid ongoing development projects and capacity expansions. Meanwhile, exports picked up further, growing by 8.4% (1Q2024: 5.2%), underpinned by the global semiconductor recovery. While there is an upside risk to our current full-year growth forecast of 4.7% for 2024, growth is expected to moderate in 2H2024 due to a more challenging global economic backdrop.

SECTION 1

Malaysia's Financial Market

REGIONAL EQUITY: OPTIMISM OVER FED RATE CUTS ELEVATED STOCKS MARKET

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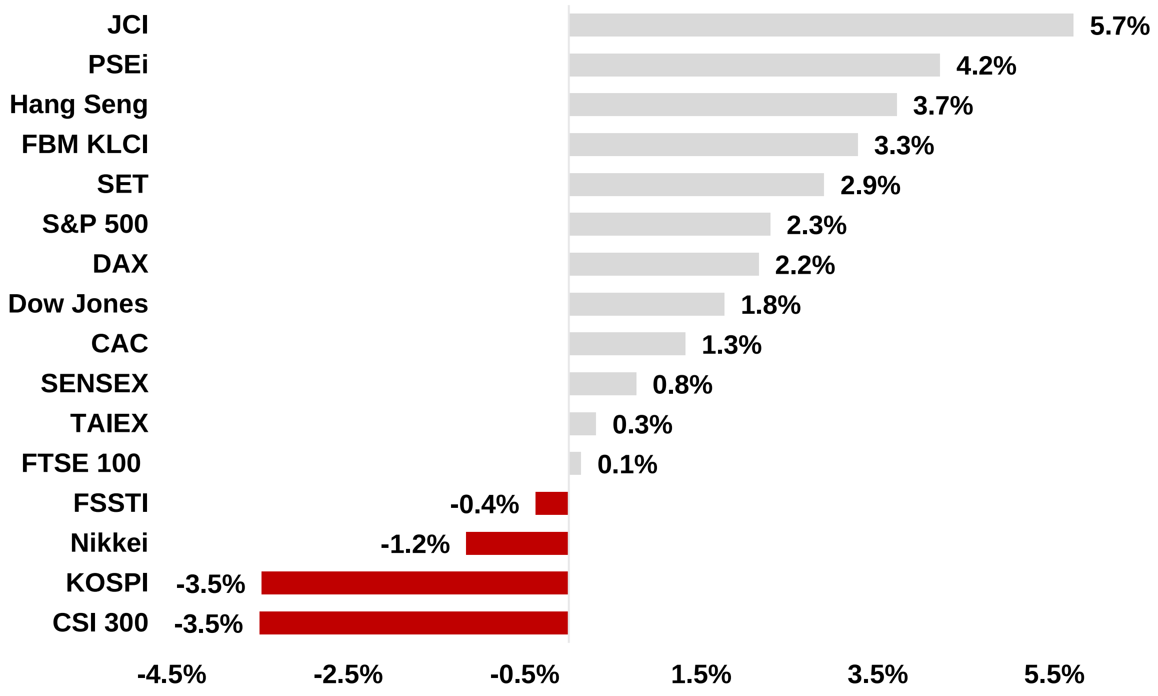
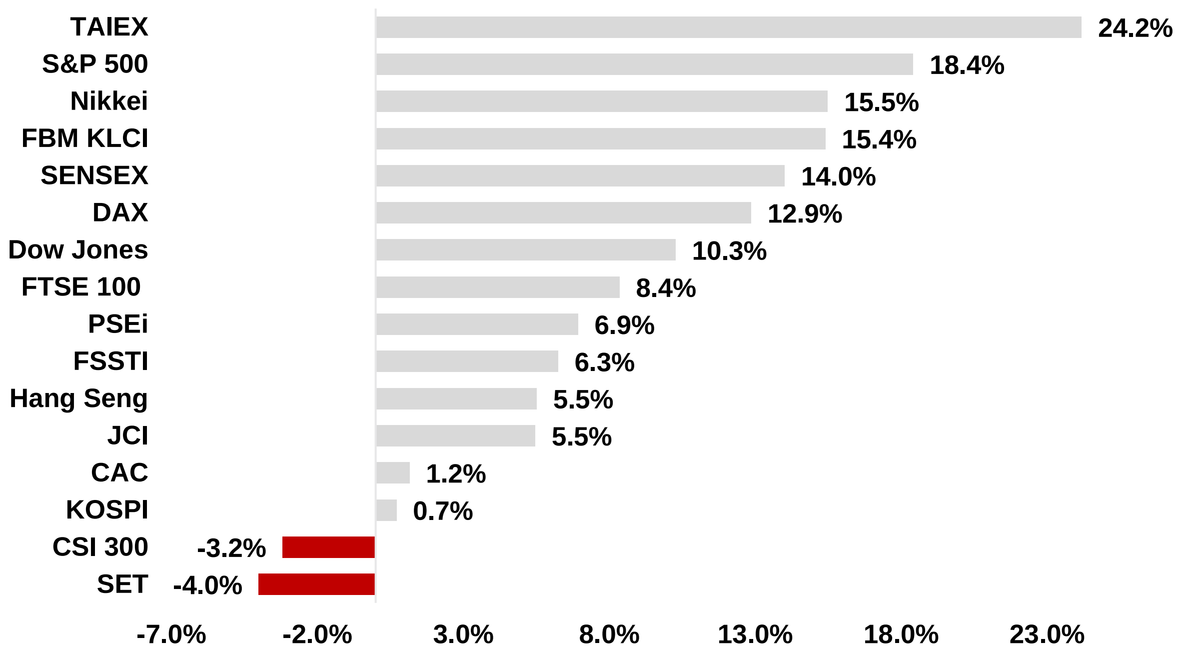
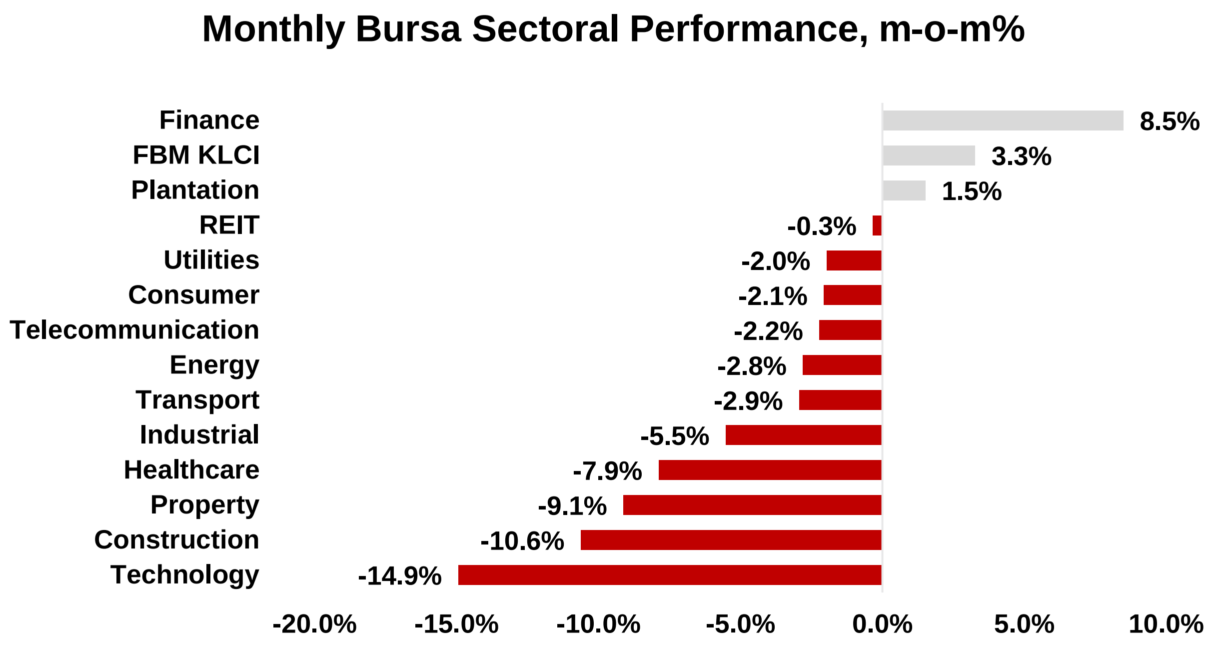


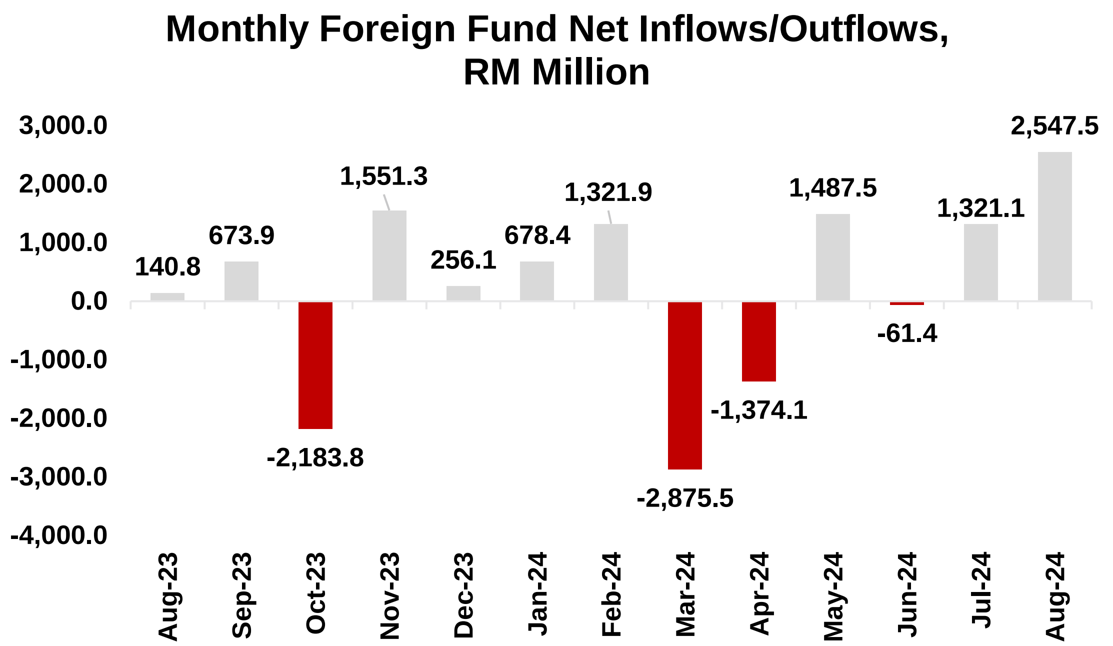


Sources: Bursa, CEIC data

- In August, Indonesia's JCI surged by 5.7% amid optimism that Bank Indonesia (BI) might begin lowering interest rates in 4Q2024, following their decision to maintain the key rate at 6.25% for the fourth consecutive time in July's monetary policy meeting.
- U.S. stocks – S&P 500 (+2.3%) and Dow Jones (+1.8%) ticked higher in August as the anticipation of a near-term rate cut from the Fed fuelled risk-taking behavior.
- In contrast, China's CSI 300 slumped by 3.5% in August as the Chinese stocks were negatively impacted by economic uncertainties, deflationary trends, and China's inadequate policy measures.
- YTD, Taiwan's TAIEX remained solid as the top performer in August, with a gain of 24.2%.

DOMESTIC EQUITY: FBM KLCI LIFTED BY GAINS IN HEAVYWEIGHT STOCKS





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

- The FBM KLCI extended its gains for the second consecutive month, closing August with a 3.3% increase (July: 2.2%). This rise was buoyed by strong buying interest in heavyweight stocks, particularly in the banking sector, which reported robust earnings.
- Demand for blue chips was primarily driven by an inflow of foreign funds amid a strengthening ringgit as Fed's dovish tone and softening U.S. economic data boosted rate cut expectations. Foreign funds net purchased RM2.5 billion worth of equities in August (July: RM1.3 billion), marking the second consecutive month of buying and the highest monthly inflow YTD.
- Across the Bursa sectoral indices, however, most recorded losses, with the exception of the Finance and Plantation indices. The Technology index led the decline with a 14.9% drop, followed by the Construction (-10.6%) and Property (-9.1%) indices, as profit-taking activities weighed on these counters.
- Trading in local stocks is likely to be muted ahead of the Fed's anticipated rate cut in September

FIXED INCOME: UST YIELDS DRAGGED DOWN ON PROSPECTS OF DOVISH FED

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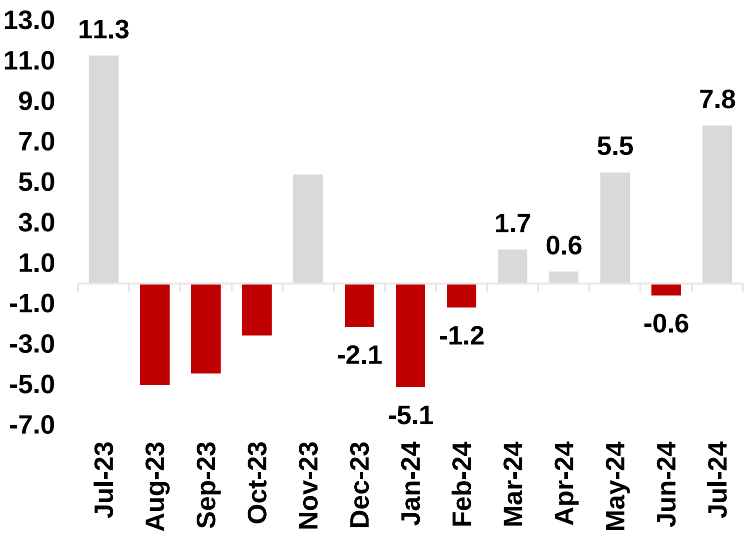
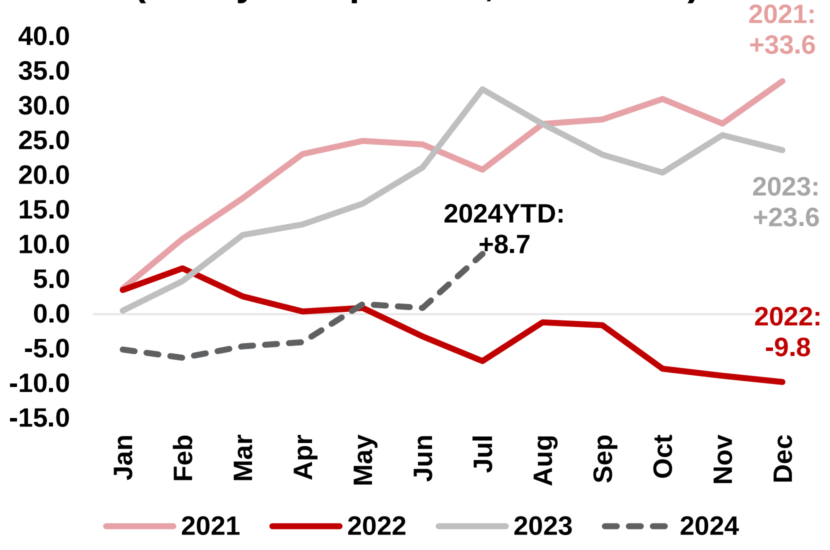
Monthly changes, basis points (bps)			
UST	Yields (%) 31-Jul-24	Yields (%) 30-Aug-24	Change (bps)
3-Y UST	4.10	3.79	-31
5-Y UST	3.97	3.71	-26
7-Y UST	4.00	3.80	-20
10-Y UST	4.09	3.91	-18
MGS	Yields (%) 31-Jul-24	Yields (%) 30-Aug-24	Change (bps)
3-Y MGS	3.37	3.33	-4
5-Y MGS	3.53	3.50	-2
7-Y MGS	3.68	3.71	3
10-Y MGS	3.72	3.76	4
GII	Yields (%) 31-Jul-24	Yields (%) 30-Aug-24	Change (bps)
3-Y GII	3.35	3.32	-4
5-Y GII	3.52	3.50	-1
7-Y GII	3.70	3.69	-1
10-Y GII	3.73	3.79	5

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM Billion

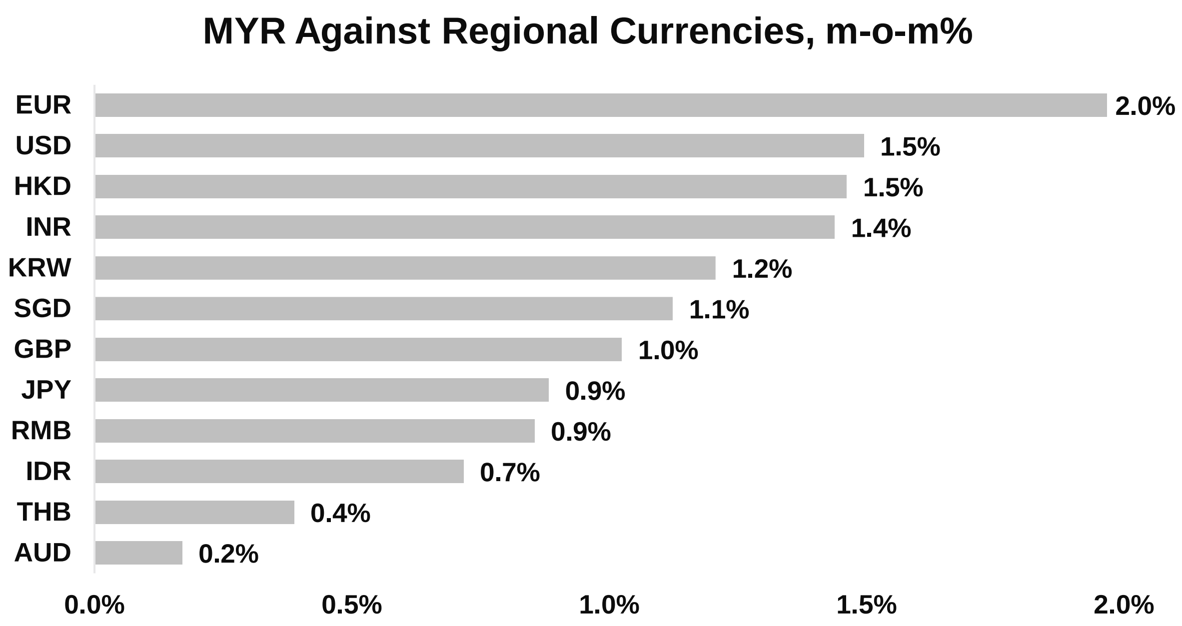


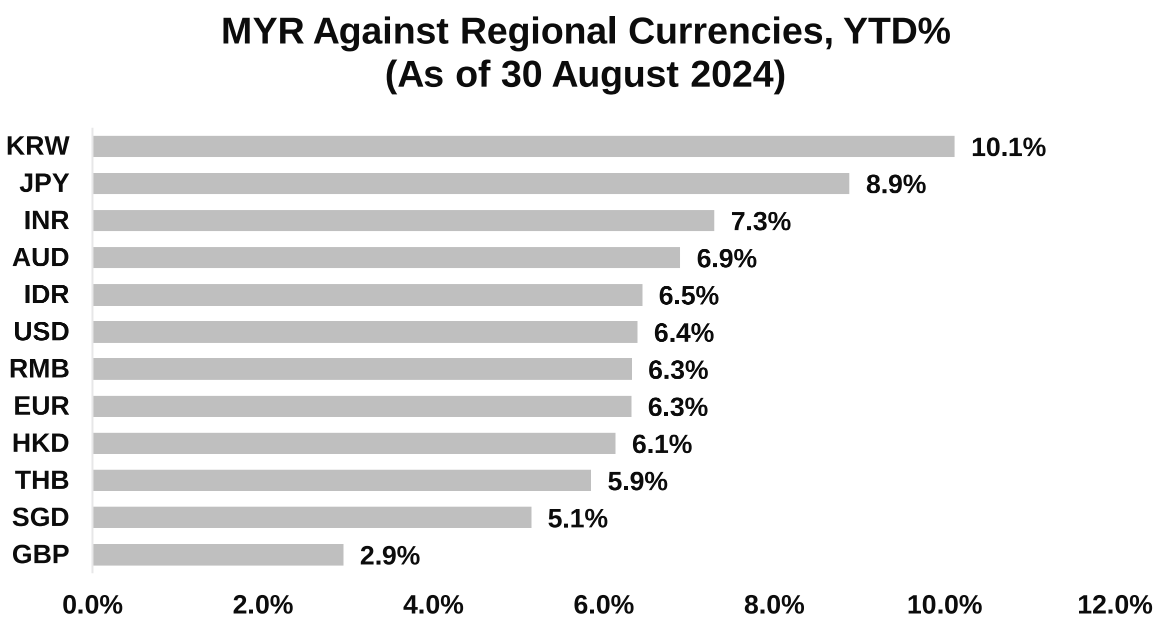
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



- The U.S. Treasury (UST) yield curve bullishly steepened, with yields falling by 18bps to 31bps, as investors assessed the most recent data to gauge the extent of potential interest rate cuts by the Fed in the upcoming cycle.
- On the domestic front, the Malaysian Government Securities (MGS) yield curve along the 3y5y segment fell between 2bps and 4bps while yields at the longer-end were higher between 3bps and 4bps. Meanwhile, the 3y7y Government Investment Issues (GII) yield curve closed lower between 1bp and 4bps. On the other hand, 10y GII yield curve edged up by 5bps.
- Foreign fund flows in the local bond market rebounded into the positive territory, with a net foreign inflow of RM7.8 billion in July (June: -RM0.6 billion). Nevertheless, local govvies' foreign shareholdings to total outstanding plateaued at 22.1% in July.
- As of July 2024, the local bond market recorded the cumulative net foreign inflows of RM8.7 billion, significantly lower than the inflows of RM21.2 billion in the same period in the previous year.

FX MARKET: RINGGIT TRIUMPHS OVER REGIONAL CURRENCIES AS THE FED'S SEPTEMBER MEETING INCHES CLOSER





Sources: BNM, Federal Reserve Board, Bank of Japan (BoJ)

- The Ringgit continued its appreciation against the USD throughout August, strengthening to the highest level since February 2023 at RM4.3155 on August 30 from RM4.606 just a month before.
- The uptrend was underpinned by Fed Chair Powell's dovish remarks during the Jackson Hole symposium which solidified expectations of a rate cut in the Fed's September meeting, and thus pressuring the USD index to hover around the 101-level. Moreover, Powell had signaled a shift in the Fed's priorities, highlighting the concerns on the cooling job market now that inflation is slowly easing towards the targeted 2.0%. Of note, the economy added 818k jobs less than initially reported in the year to March 2024 as shown by the annually revised figures.
- Furthermore, the local note was supported by the uptick in foreign fund flows into Malaysia with the net inflow to the domestic equity market totaling RM2.5 billion, the highest monthly inflow since March 2022. Such performance was driven by investors' interest in Malaysia's data center market as well as infrastructure development projects, opening up ample room for more developments down the line.

SECTION 2

The Global Economy

THE U.S. ECONOMY DEMONSTRATED STRENGTH IN 2Q2024, GROWING AT A REVISED 3.0%

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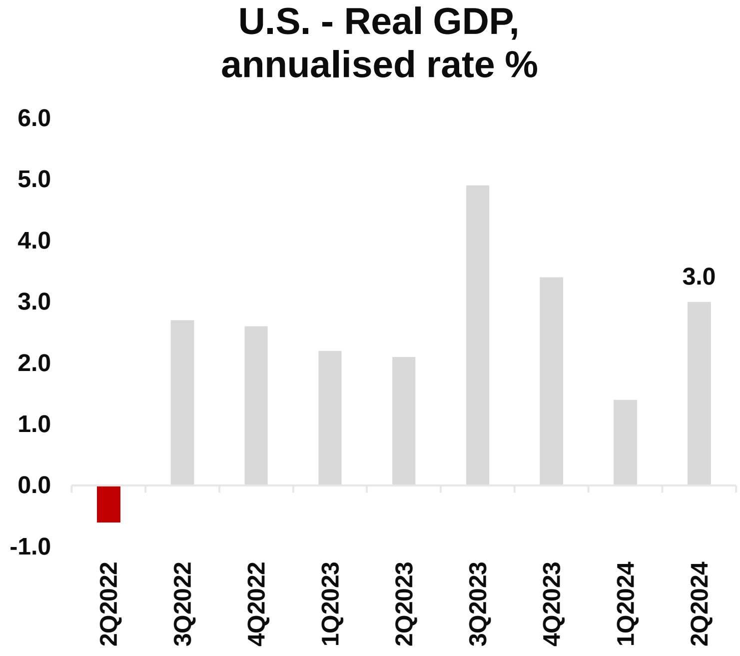
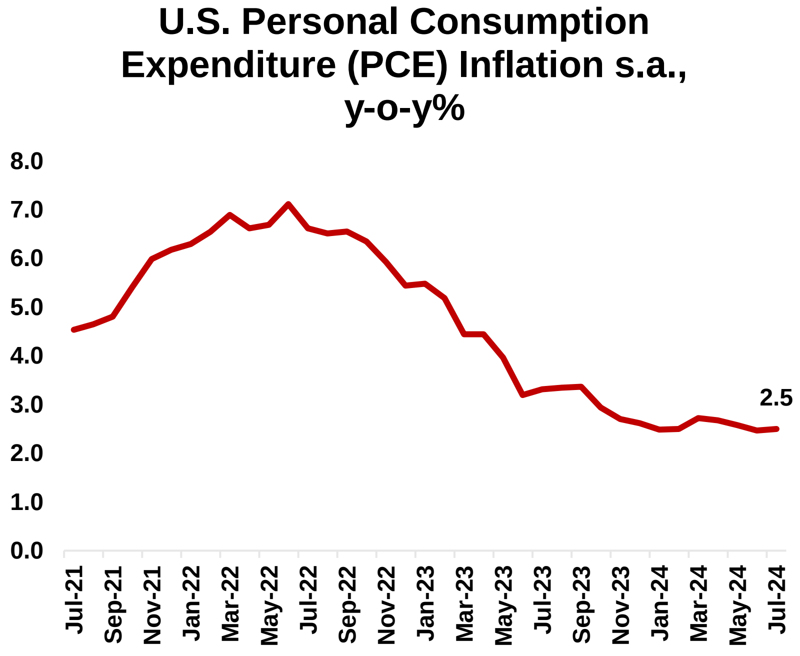
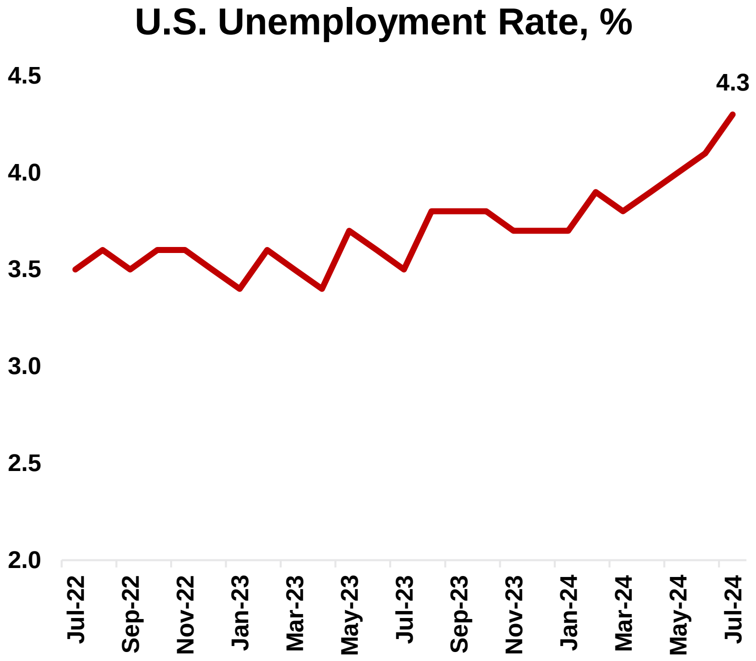


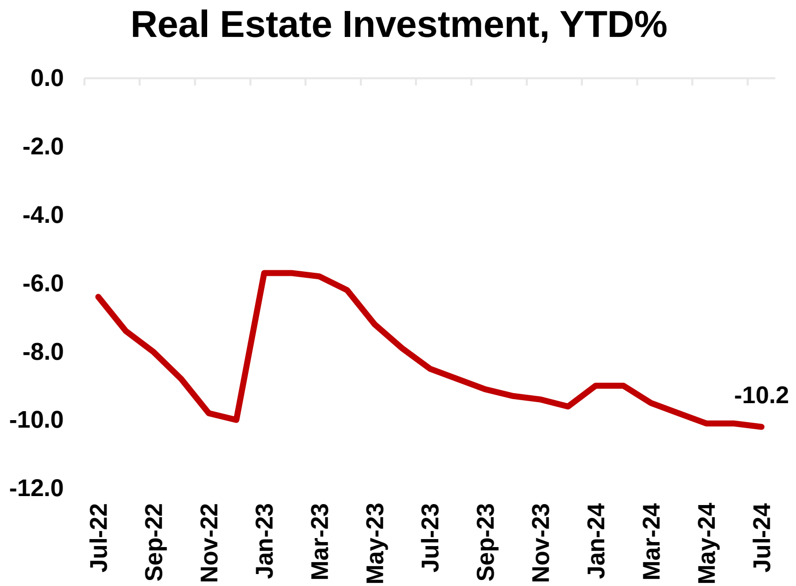


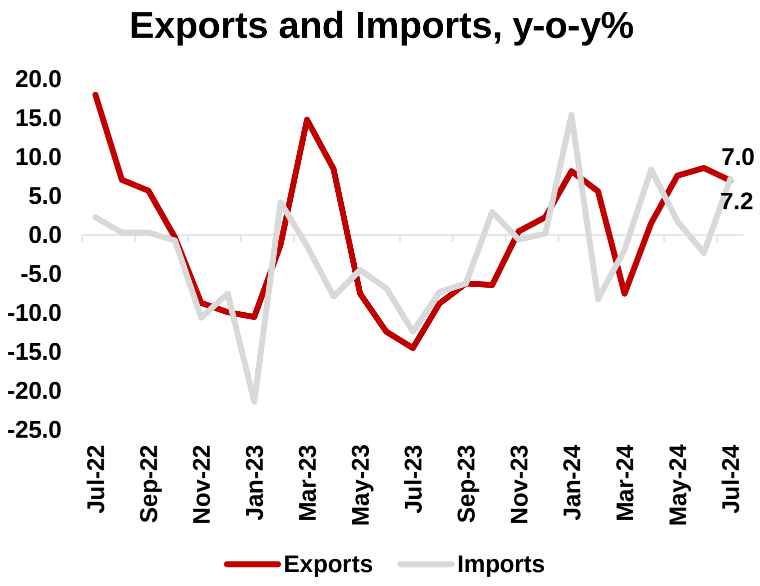


Sources: Bureau of Economic Analysis, CEIC Data

- The U.S. economy rose at a revised annualised rate of 3.0% in 2Q2024, up from the initially reported 2.8% growth rate (1Q2024: 1.4%). Consumer spending grew at a stronger-than-expected rate of 2.9% in 2Q2024, up from the previously reported 2.3%, largely driven by rising wages, which offset declines in business investment, particularly in software, exports, and private inventory investment.
- The Fed's favoured inflation gauge, PCE inflation remained unchanged at 2.5% in July, suggesting that the central bank may begin lowering interest rates as early as September.
- Initial jobless claims dropped by 2K to 231K in the week ending August 24, lower than the market expectations of 232K. This decline reflects the easing of temporary disruptions caused by motor vehicle plant closures and the effects of Hurricane Beryl. Nevertheless, the U.S. unemployment rate remained elevated, surging to 4.3% in July (June: 4.1%).

CHINA'S ECONOMIC DATA IS SENDING MIXED SIGNALS, BRINGING UNCERTAINTIES

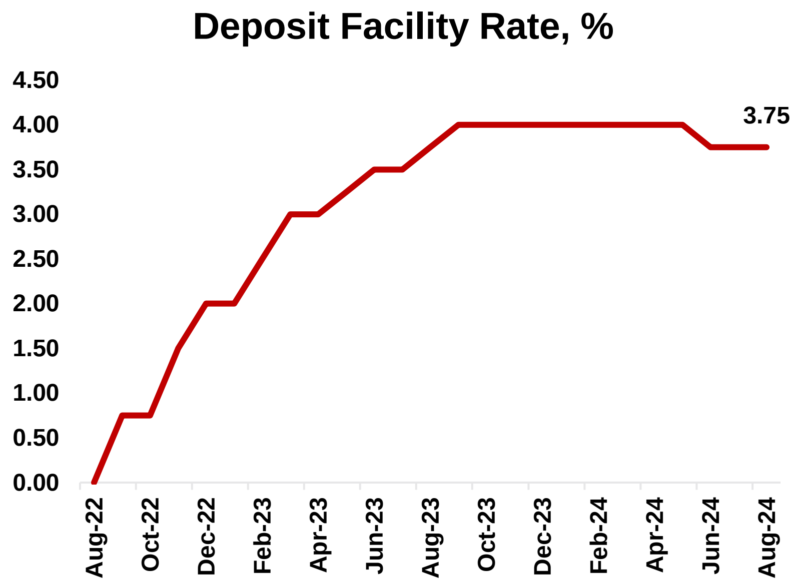


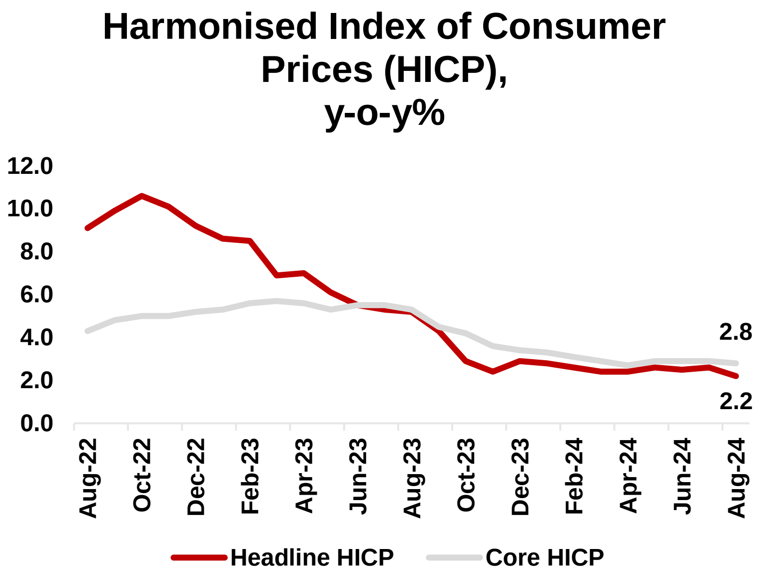


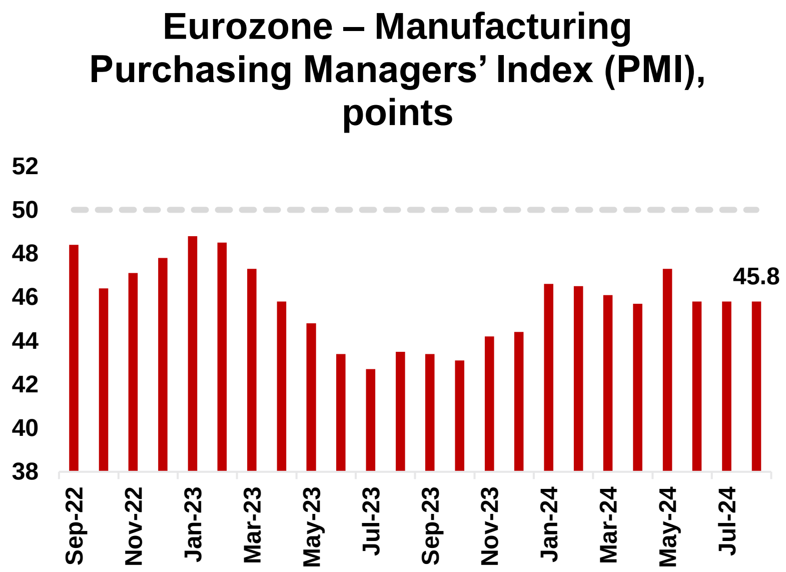
Sources: National Bureau of Statistics, CEIC Data

- Factory production in China continued to decelerate by 5.1% in July (June: 5.3%) for the third consecutive month, a tad lower than the market forecast of 5.2%. However, there was a modest improvement in consumer spending as government stimulus measures began to take effect. China's retail sales growth accelerated in July, increasing by 2.7% compared to 2.0% in June. This marked the eighteenth consecutive month of expansion in the retail sector and exceeded market expectations of 2.6%.
- On the other hand, real estate investment in China declined by 10.2% in the first seven months of the year despite the government's efforts to bolster market confidence to the market, real estate investment continued to fall deeper in the negative territory.
- China's exports increased by 7.0% in July, a slower rate of growth than in June at 8.6% and the weakest since April. In contrast, imports grew at a strong 7.2% in July (June: -2.3%), the fastest growth in three months.
- China's leadership pledged that economic stimulus measures will prioritise consumer spending and that the government will take countercyclical steps to support the economy for the remainder of 2024.

EUROZONE INFLATION COOLED TO A THREE-YEAR LOW BUT MANUFACTURING STUCK IN CONTRACTION ZONE







Sources: ECB, Eurostat, S&P Global

- Eurozone inflation reached a three-year low in August at 2.2% (Jul: 2.9%) due to declining energy prices, fuelling expectations of a European Central Bank (ECB) interest rate reduction as it inched closer to ECB's 2.0% inflation target. In addition, core HICP inflation, excluding volatile items like energy and food, declined marginally to 2.8% in August (Jul: 2.9%).
- Nevertheless, the Eurozone's manufacturing sector continued to struggle, with the PMI index remaining below the 50.0 points mark at 45.8 points for the third consecutive month in August. Despite a decline in new orders, both domestically and internationally, manufacturers have raised prices for the first time in 16 months, adding pressure on the ECB as it navigates the ongoing economic challenges.
- The ECB aggressively raised interest rates starting in July 2022 to combat soaring inflation, which peaked at 10.6% in October 2022 due to Russia's invasion of Ukraine. In June 2024, the ECB reversed course and cut rates for the first time.
- An ECB board member, Isabel Schnabel recently warned that interest rate setters should proceed with caution and gradually loosen monetary policy due to ongoing inflation challenges. Despite welcoming the signs of easing consumer prices, she emphasized that headline inflation does not capture the full extent of the challenges monetary policy continues to confront.

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SECTION 3

Domestic Landscape & Banking Sector Update

ALL IS WELL – MALAYSIA'S ECONOMY KICKS OFF 3Q2024 ON AN UPBEAT NOTE

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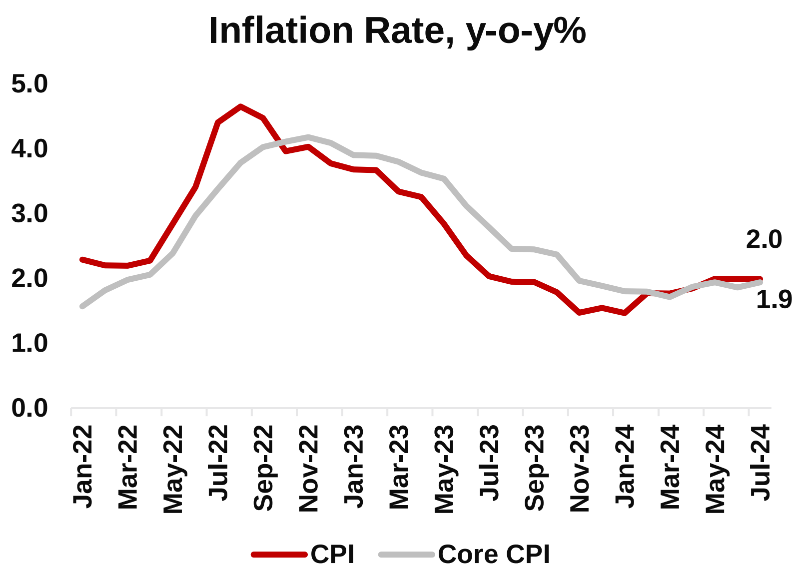
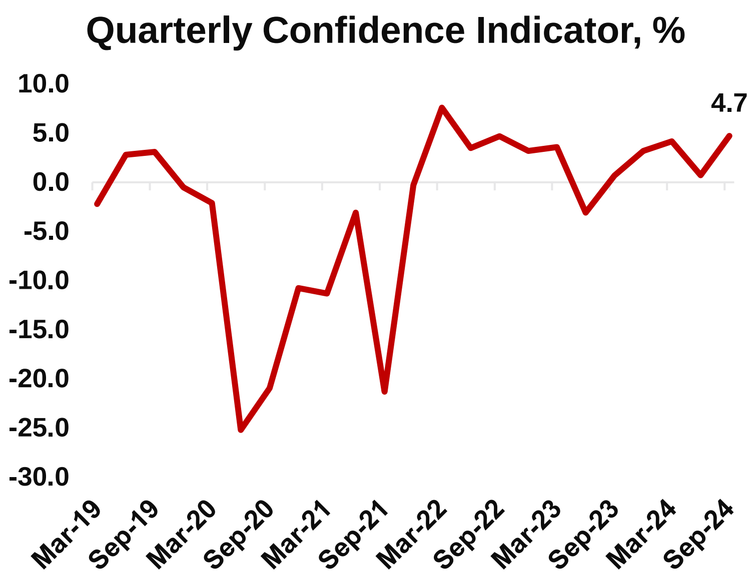
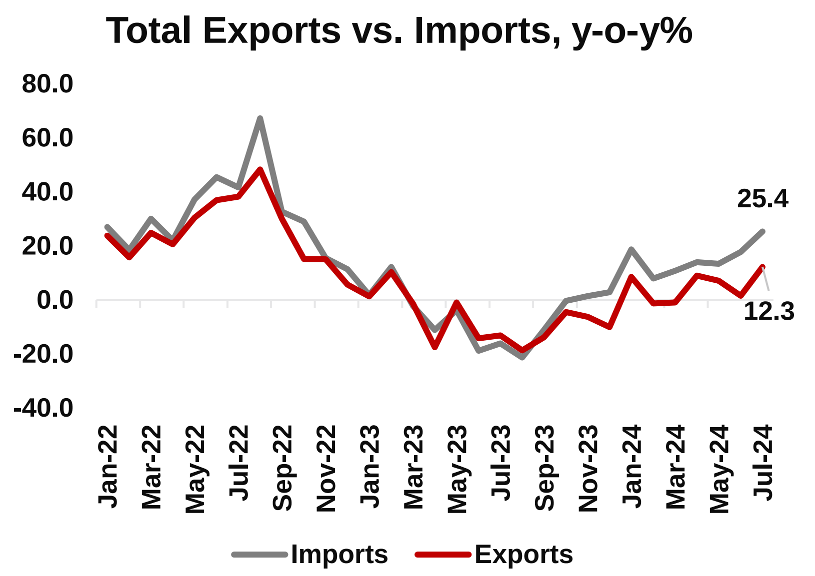


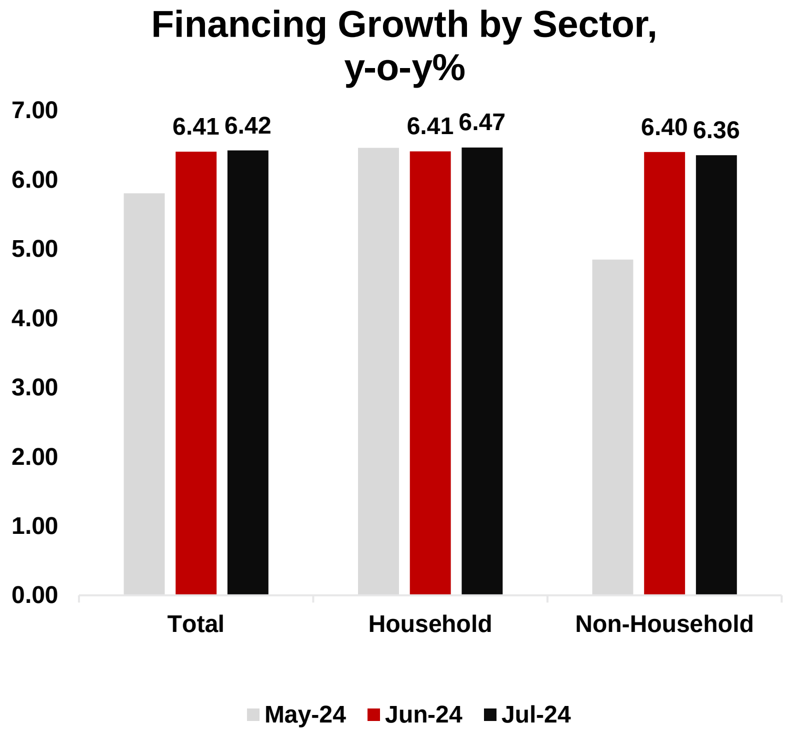


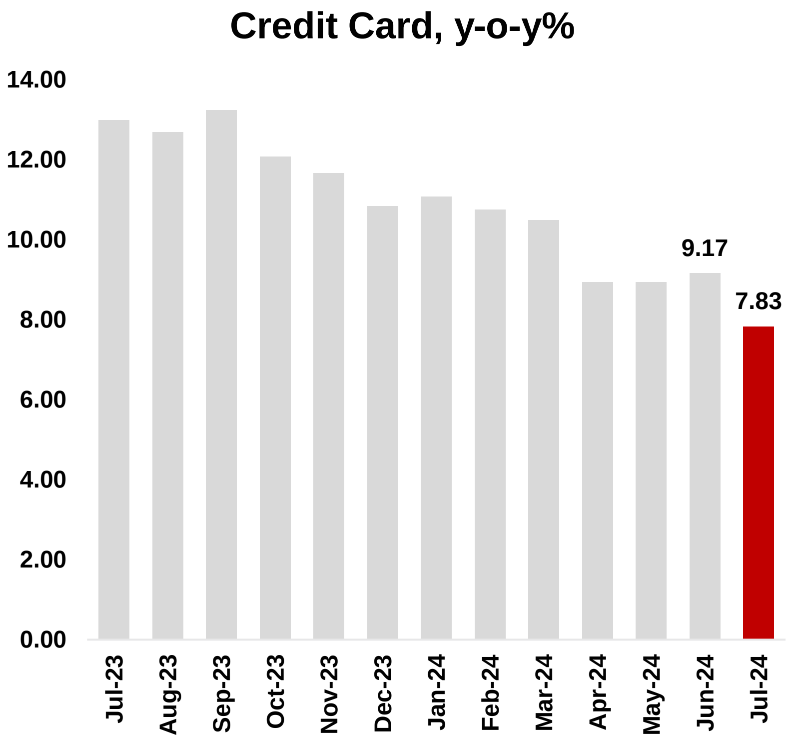


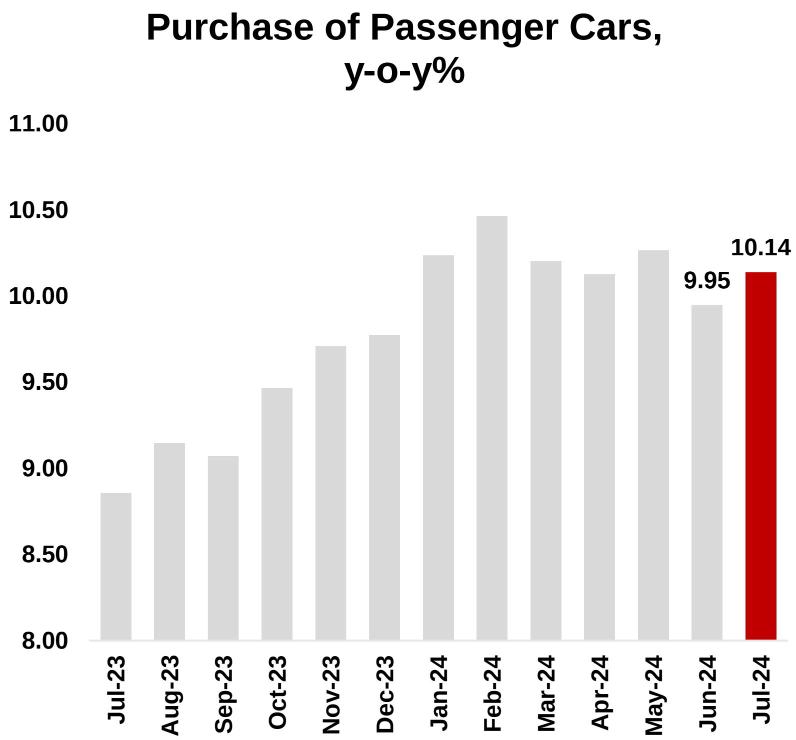
Sources: DOSM, BNM, S&P Global

- Following the diesel subsidy rationalisation on June 10, concerns over reigniting price pressures were raised. However, Malaysia's July inflation remained steady at 2.0% for three straight months, underpinned by the Restaurant & Accommodation (July: 3.4% vs. June: 3.3%), Personal Care, Social Protection & Miscellaneous Goods & Services (July: 3.2% vs. June: 2.8%) and Recreation, Sports & Culture (July: 2.2% vs. June: 1.9%) sub-groups. Meanwhile, core inflation has been trending at 1.9% since April 2024.
- On the businesses front, sentiments are riding high with the Quarterly Confidence Indicator jumping to 4.7% for 3Q2024, up from 0.7% in 2Q2024. Businesses across all sectors are seeing a brighter road moving into the third quarter amid a favourable economic environment.
- Malaysia's trade had expanded further in July with imports accelerating to 25.4% from June's 17.8%, driven by a surge in imports of capital goods and intermediate goods following the robust construction activities.
- The much-anticipated rebound of exports lived up to expectations as it surged to 12.3% in the same month (June: 1.7%) amid the rising external demand and global technology upcycle.

BANKING SECTOR: FINANCING GROWTH STAYED STEADY IN JULY







Source: BNM

- Financing activities increased modestly to 6.42% in July, up from 6.41% in June. The non-household segment's financing growth declined to 6.36% in July (June: 6.40%). Conversely, the household sector's growth rate grew to 6.47% in July from 6.41% in June .
- The financing growth in the passenger car purchase segment rose to 10.14% in July (June : 9.95%). However, financing growth in the credit card segment moderated to 7.83% in July from 9.17% in June. Meanwhile, financing activities related to the purchase of residential property edged up slightly to 7.51% in July (June: 7.49%).

BANKING SECTOR: JULY'S ASSET QUALITY REMAINED INTACT

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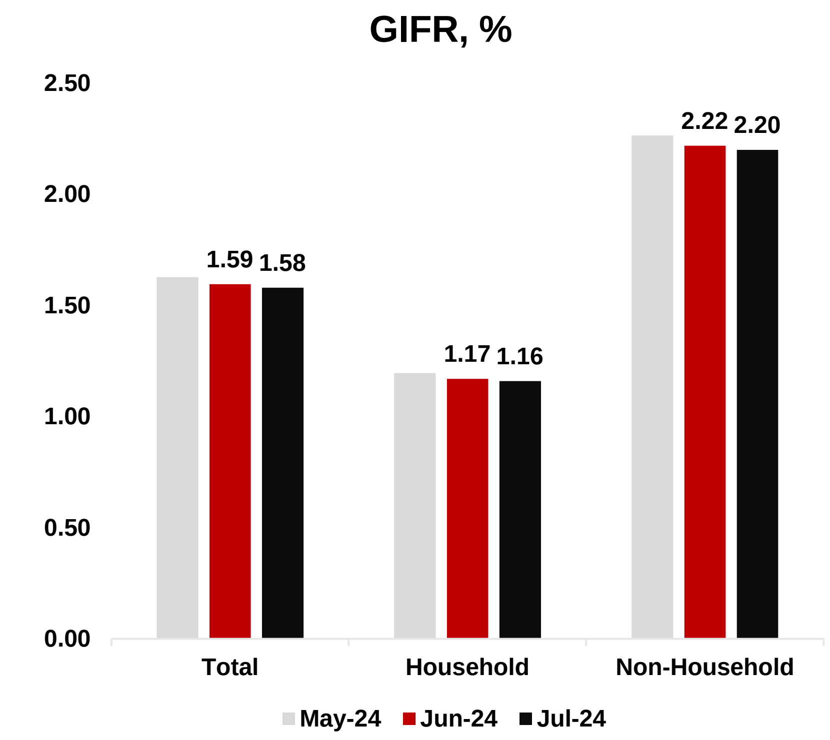

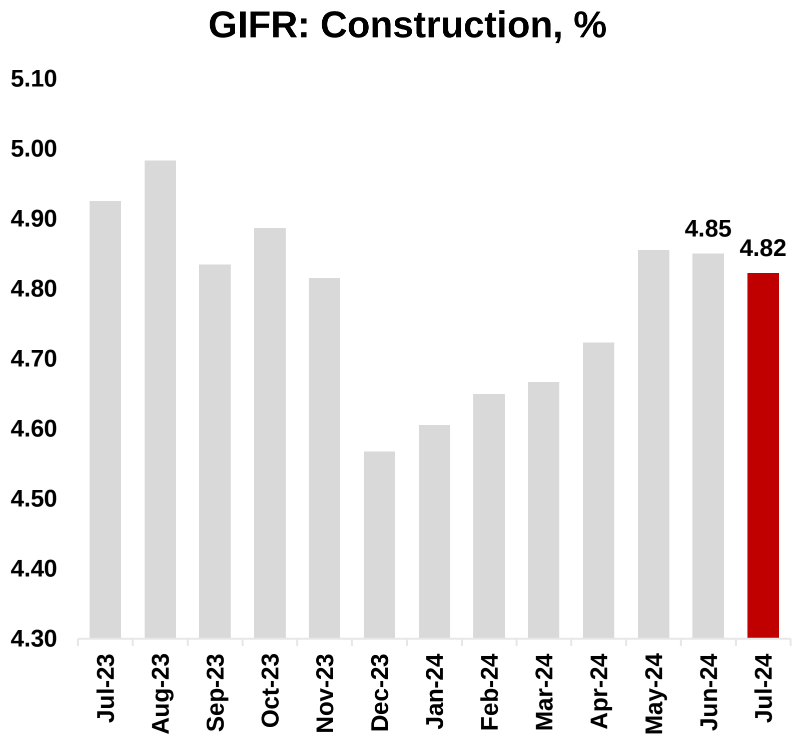

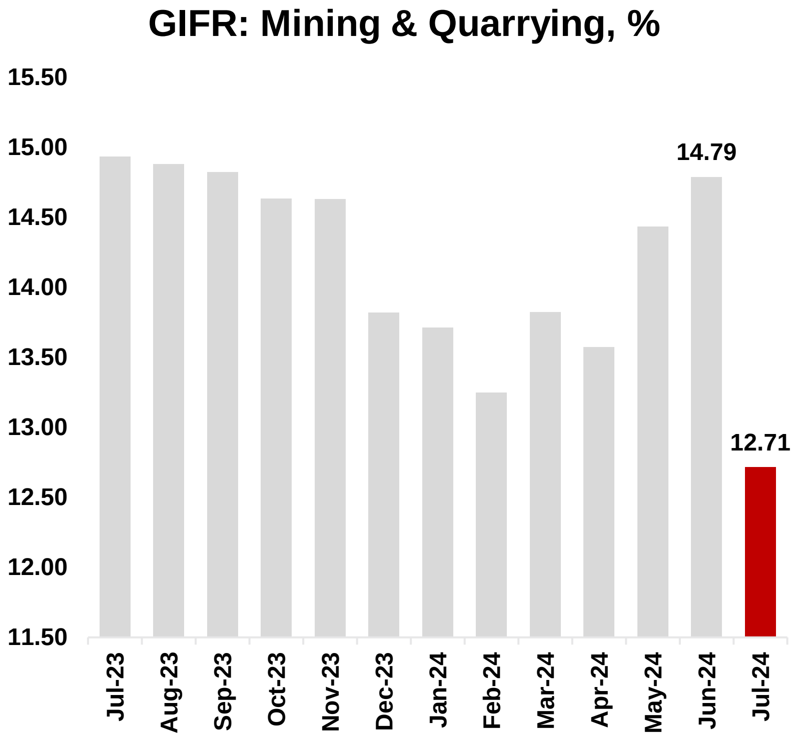

Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector decreased slightly to 1.58% in July (June: 1.59%). The GIFR in the household segment reduced to 1.16% in July (June: 1.17%). Meanwhile, the impairment within the non-household sector declined to 2.20% in July (June: 2.22%).
- The impairment within the construction segment eased to 4.82% in July from 4.85% in June. Surprisingly, the asset quality in the Mining and Quarrying industry plunged to 12.71% in July (June: 14.79%).

THANK YOU