



WEEKLY ECONOMIC UPDATE

9 JULY 2024

ECONOMIC RESEARCH

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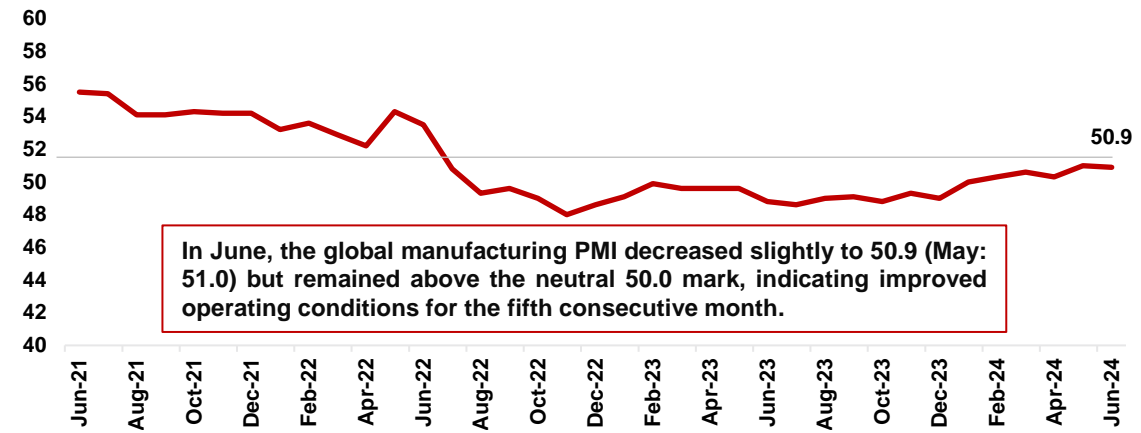
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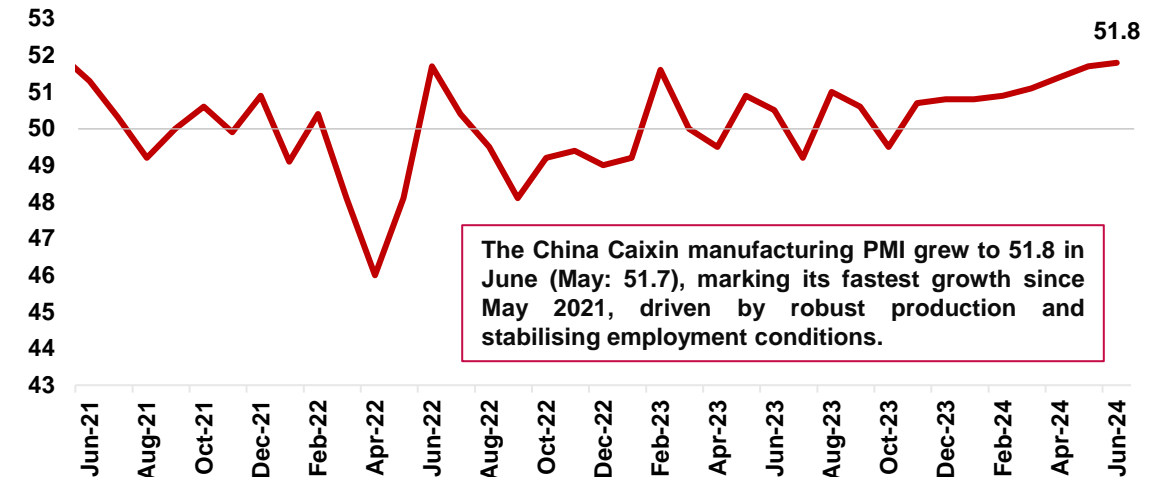
WEEKLY HIGHLIGHT: CHINA'S MANUFACTURING GROWTH REACHED THREE-YEAR HIGH

GLOBAL

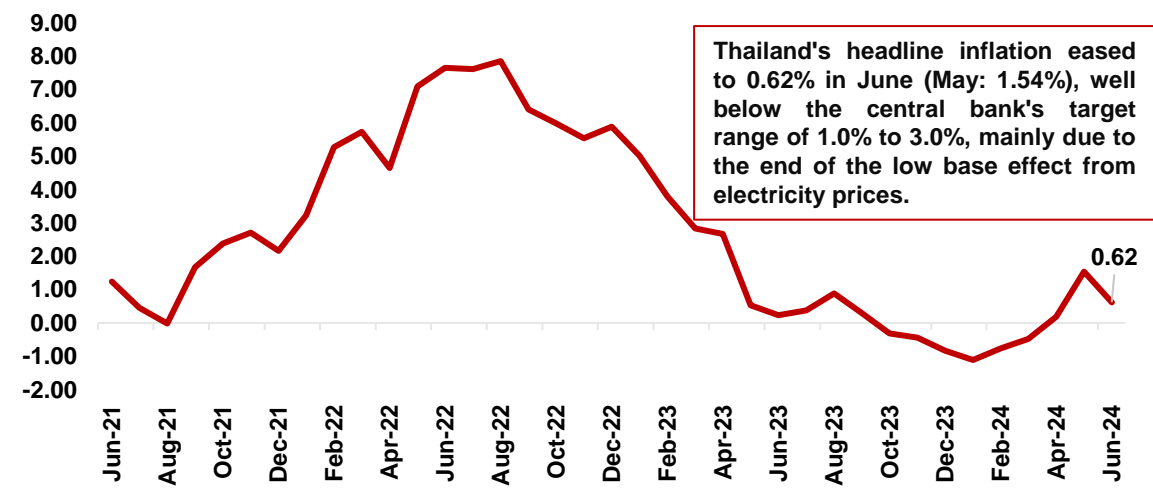
Global Manufacturing Purchasing Managers' Index (PMI), points



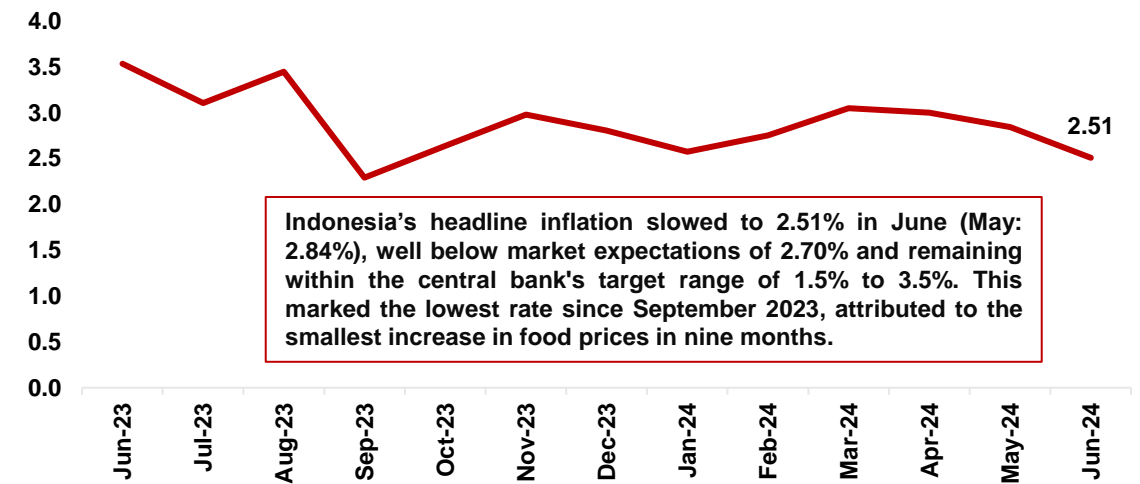
China Caixin Manufacturing PMI, points



Thailand - Consumer Price Index (CPI), y-o-y%

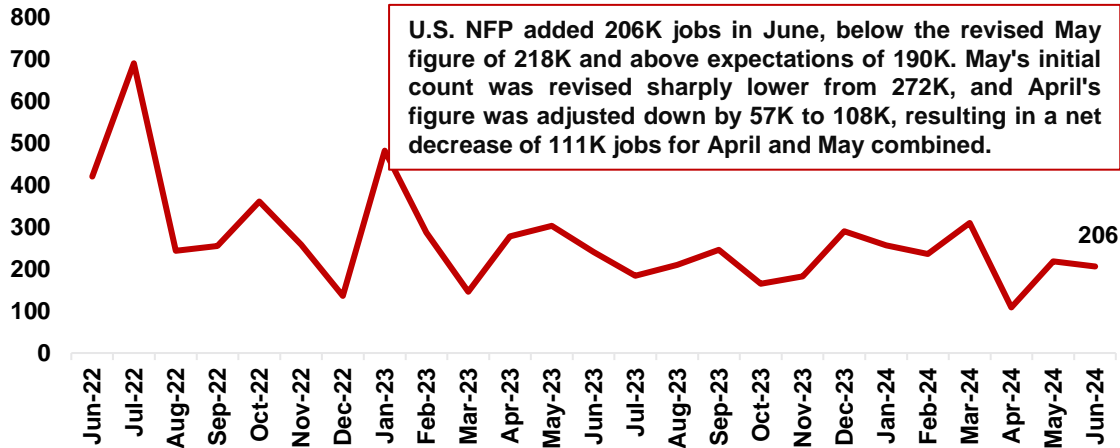


Indonesia - Consumer Price Index (CPI), y-o-y%

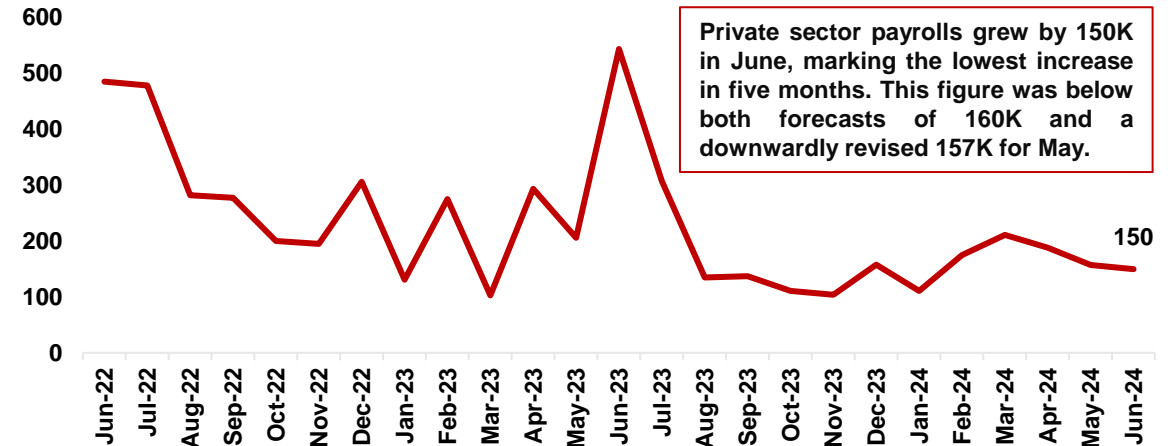


WEEKLY HIGHLIGHT: JUNE U.S. JOB GROWTH MODERATED, UNEMPLOYMENT RATE TICKED UP

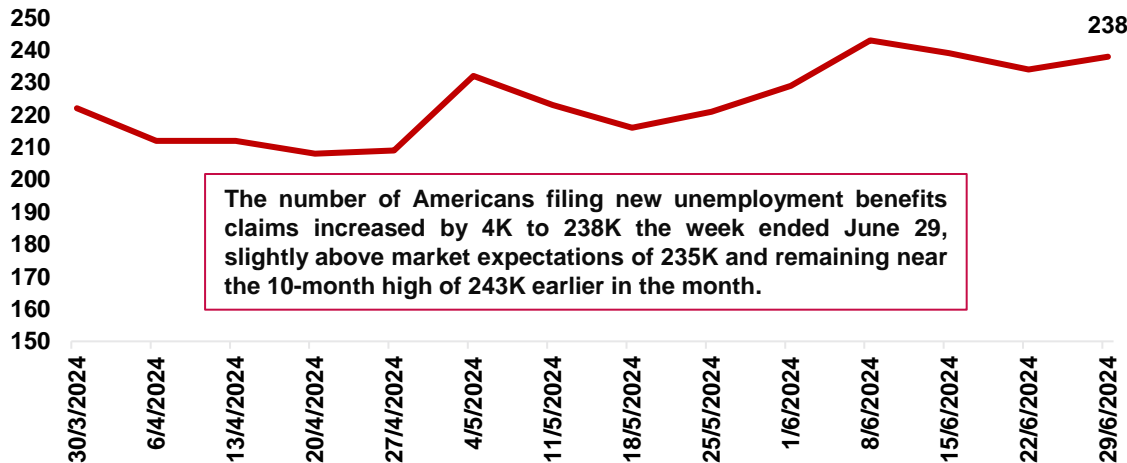
U.S. Non-Farm Payroll (NFP), m-o-m changes ('000)



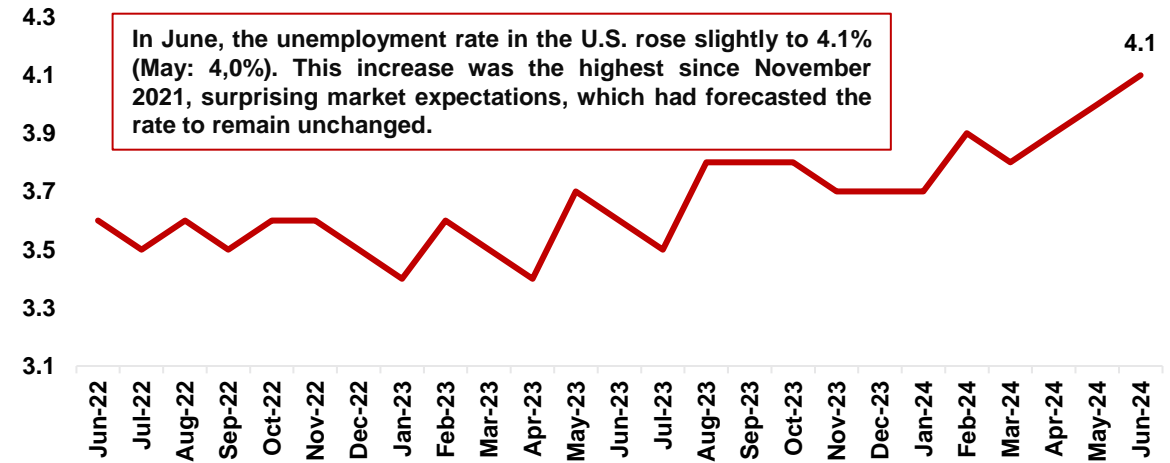
U.S. ADP Nonfarm Employment, m-o-m changes ('000)



U.S. Weekly Initial Jobless Claims (IJC), '000

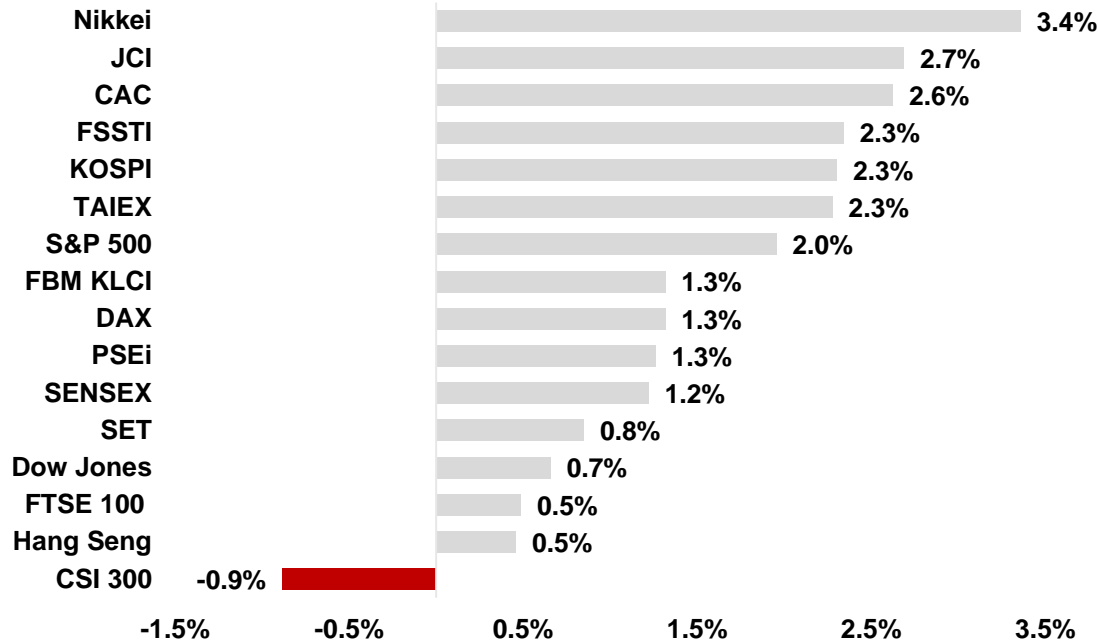


U.S. Unemployment Rate, %

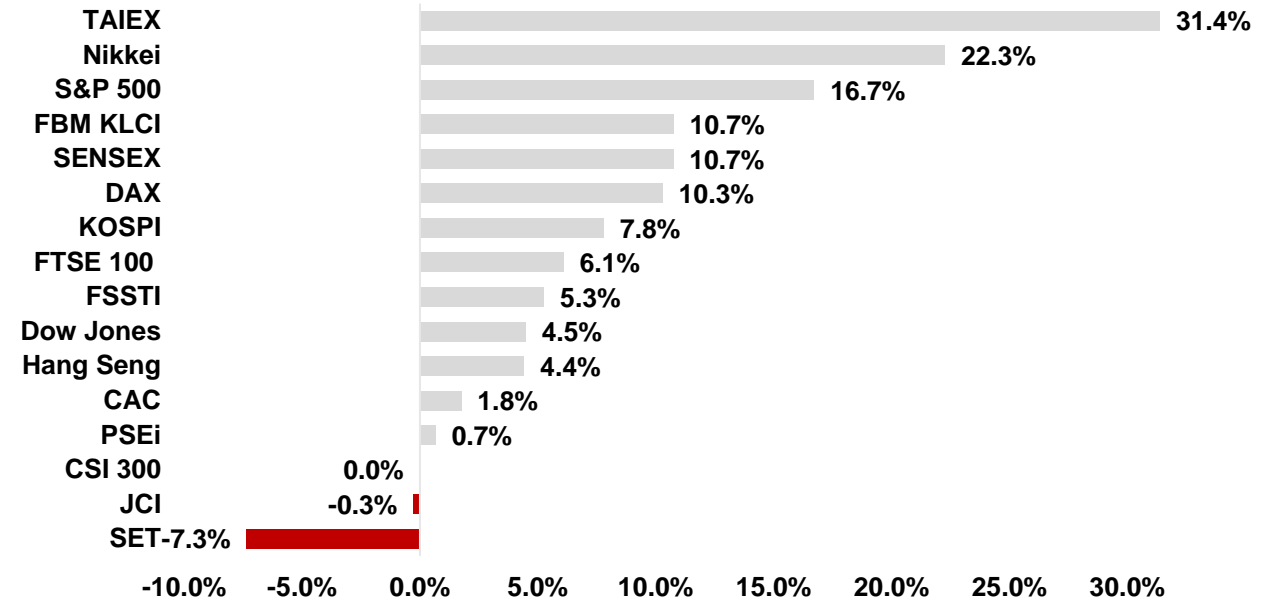


REGIONAL EQUITY: JAPANESE SHARES CLIMBED ON WEAKER YEN

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



YTD Gain/Loss of Major Equity Markets, % (As of 5 July 2024)

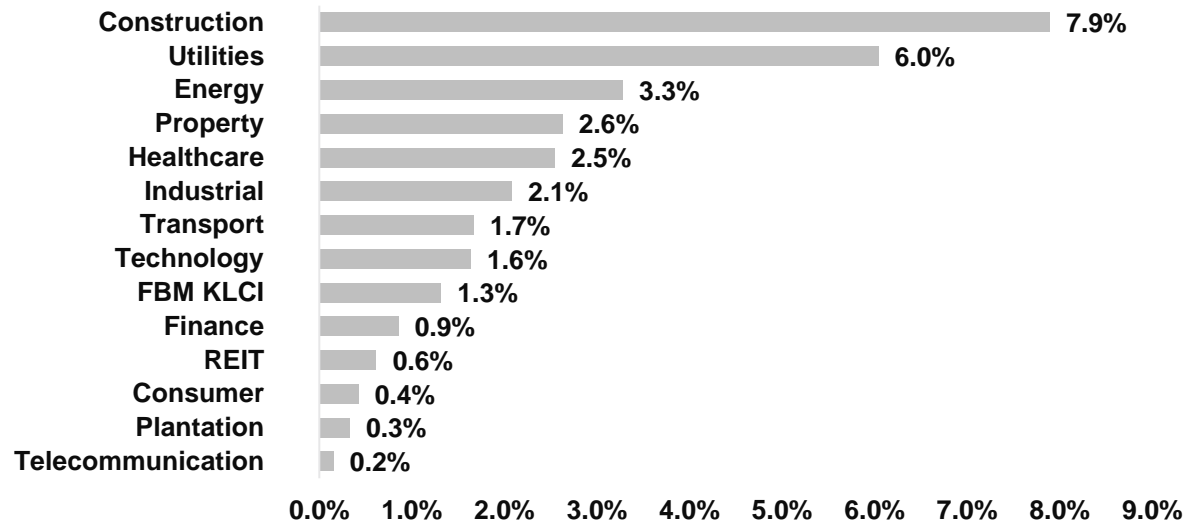


Sources: Bursa, CEIC Data

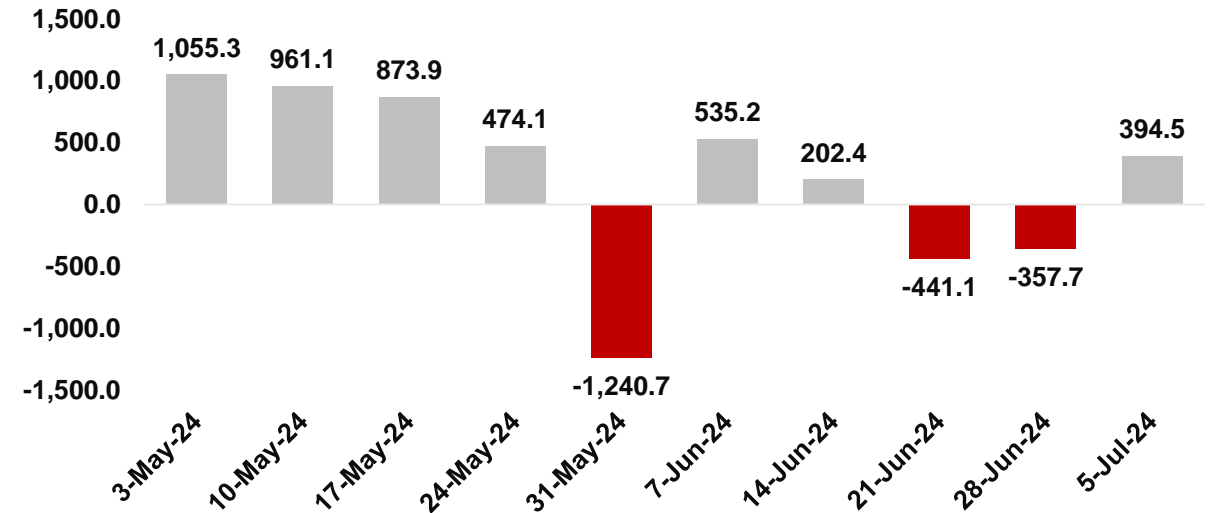
- The regional equity indices mostly ended in the green for the week ending July 5, spearheaded by Japan’s Nikkei. The Japanese yen's significant decline to a 38-year low boosted Japanese stocks, particularly in export-oriented industries.
- U.S. stocks – the S&P 500 (+2.0%) and Dow Jones (+0.7%) – surged as investors grew more optimistic about rate cuts following data showing a slower pace of hiring in the U.S. for June. The unemployment rate also ticked up, raising the possibility of the U.S. Federal Reserve (Fed) reducing rates in September and leading to lower government bond yields.
- On the contrary, China’s CSI 300 (-0.9%) was the only loser for last week as investors cautiously awaited a flurry of data in the coming two weeks, including the 2Q2024 GDP report, to guide their decisions.

DOMESTIC EQUITY: SEA OF GREEN IN THE LOCAL MARKET AMID OPTIMISM OF MALAYSIA'S TECHNOLOGICAL EXPANSION

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million

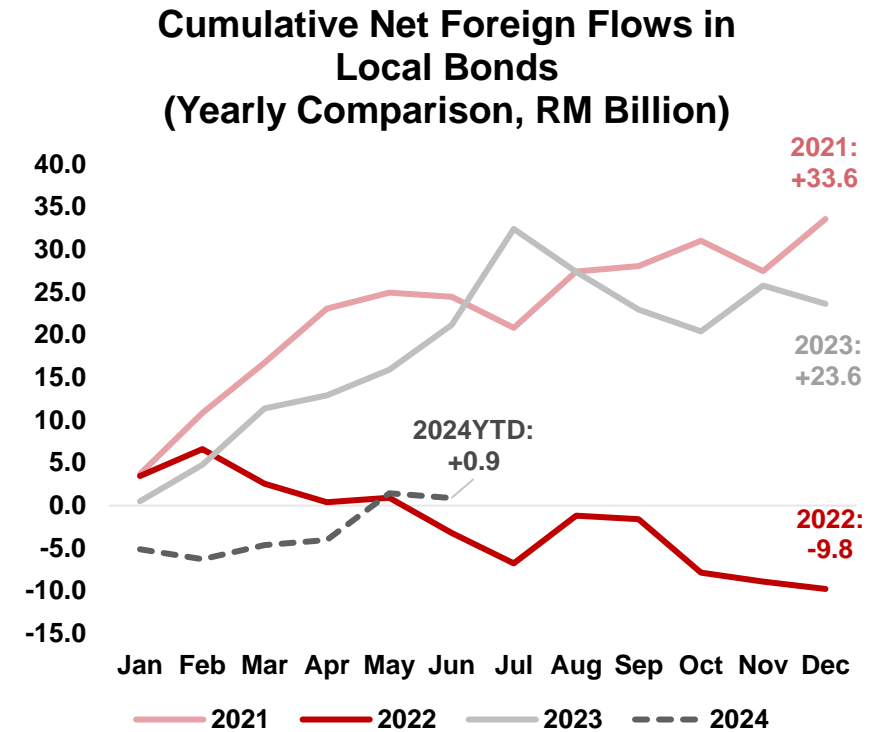
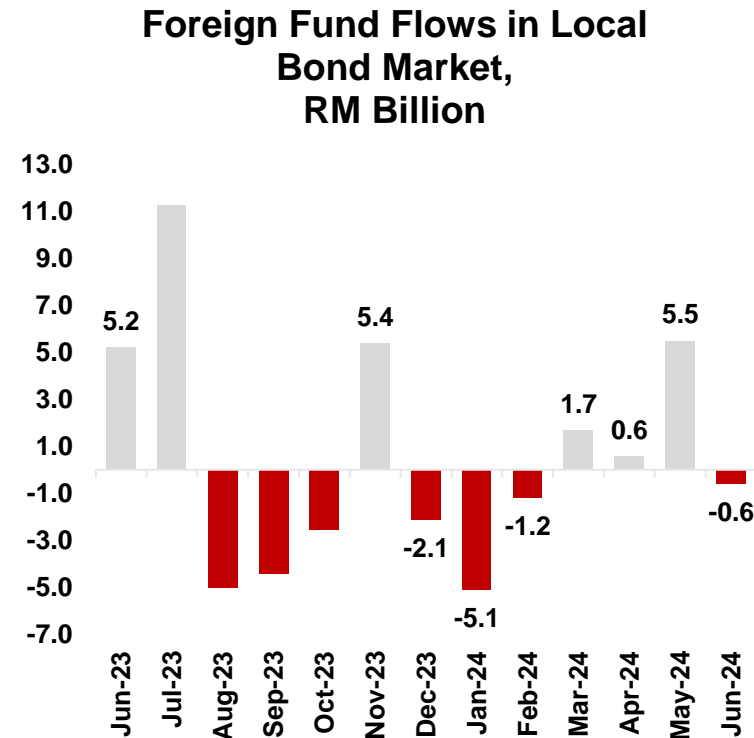


Sources: Bursa, CEIC Data

- The FBM KLCI was riding high for the week ending July 5, returning to trend above the 1,600-level following the return of foreign investors into the local market after two consecutive weeks of net outflow. Heightened expectations of a Fed rate cut as early as September spurred buying interest across Asia's markets.
- Additionally, China's better-than-expected manufacturing PMI (Estimated: 51.2 points vs. Actual: 51.8 points) led to spillover interest into the local market, given China's status as one of Malaysia's top trading partners.
- Investors remain optimistic about the technology landscape following the recent announcements of major investments into establishing data centers in Malaysia. Such view had fed investors' appetite for related stocks, namely the Construction (+7.9%), Utilities (+6.0%), Energy (+3.3%) and Technology (+1.6%) stocks.
- Foreign investors reversed their net selling last week to acquire a total of RM394.5 million worth of equities. The net buying had reduced the cumulative total net outflow this year thus far to RM219.8 million.

FIXED INCOME: SOFTER LABOUR MARKET DRAGGED DOWN UST YIELDS BANK ISLAM

Weekly Changes, basis points (bps)			
UST	Yields (%) 28-Jun-24	Yields (%) 5-Jul-24	Change (bps)
3-Y UST	4.52	4.39	-13
5-Y UST	4.33	4.22	-11
7-Y UST	4.33	4.23	-10
10-Y UST	4.36	4.28	-8
MGS	Yields (%) 28-Jun-24	Yields (%) 5-Jul-24	Change (bps)
3-Y MGS	3.53	3.51	-2
5-Y MGS	3.65	3.65	0
7-Y MGS	3.80	3.80	0
10-Y MGS	3.86	3.86	0
GII	Yields (%) 28-Jun-24	Yields (%) 5-Jul-24	Change (bps)
3-Y GII	3.47	3.47	0
5-Y GII	3.63	3.63	0
7-Y GII	3.79	3.77	-1
10-Y GII	3.87	3.87	0

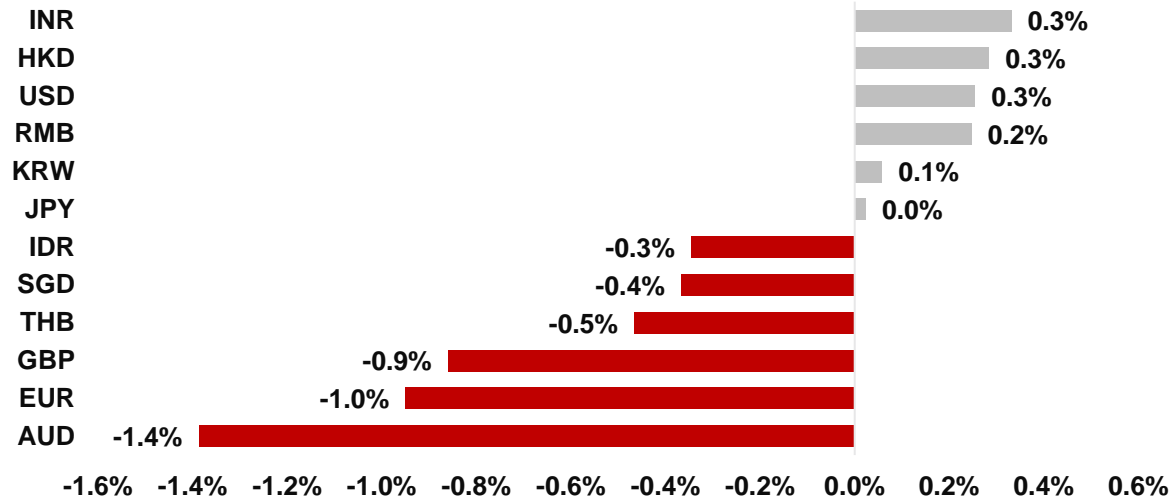


Sources: Bank Negara Malaysia (BNM), Federal Reserve Board

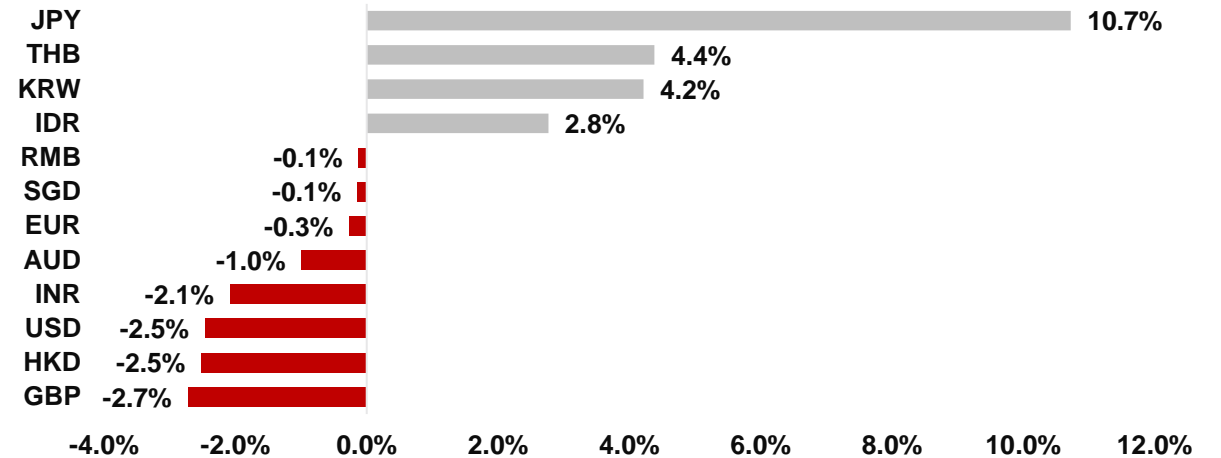
- The U.S. Treasury (UST) yield curve bullishly steepened, with yields falling between 8bps and 13bps for the week ending July 5, as the latest jobs data fuelled expectations for the Fed to start lowering interest rates in September.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ended little changed amid the lack of fresh catalysts.
- Foreign fund flows in the local bond market slumped into the negative territory with a net foreign outflow of RM0.6 billion in June (May: +RM5.5 billion). Nevertheless, local govovies' foreign shareholdings to total outstanding plateaued at 21.6% in June.
- As of 1H2024, the local bond market recorded the cumulative net foreign inflows of RM0.9 billion, significantly lower than the inflows of RM21.2 billion in the same period in the previous year.

FX MARKET: RINGGIT TO TRADE CAUTIOUSLY AHEAD OF FED POWELL'S SPEECH AND KEY INFLATION DATA

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD% (As of 5 July 2024)

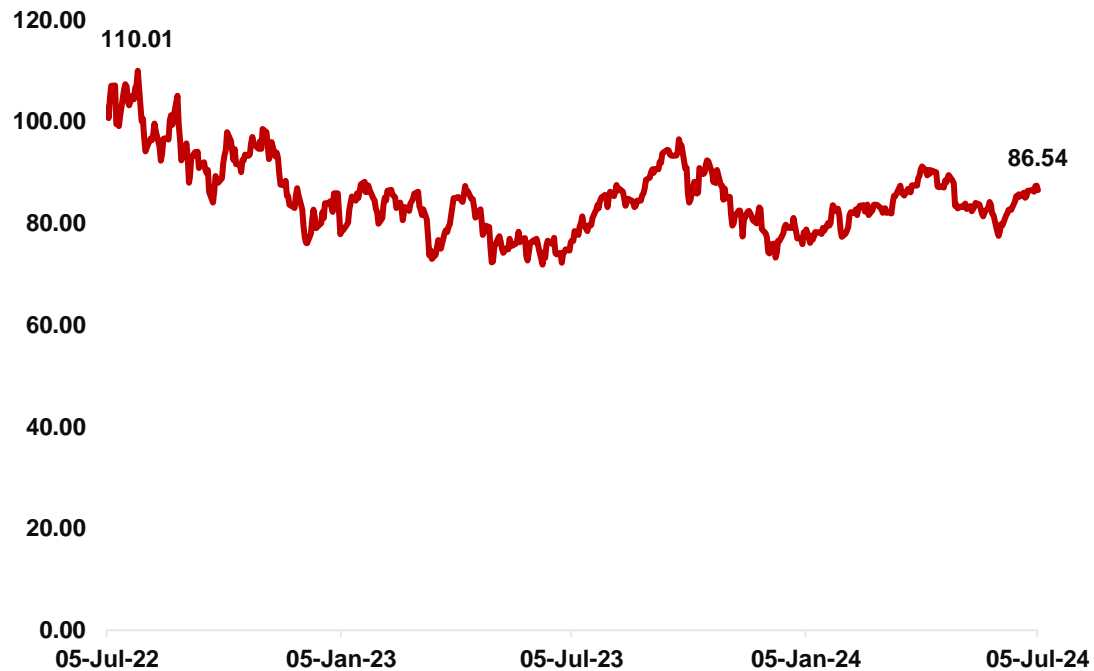


Sources: BNM, Federal Reserve Board, BLS

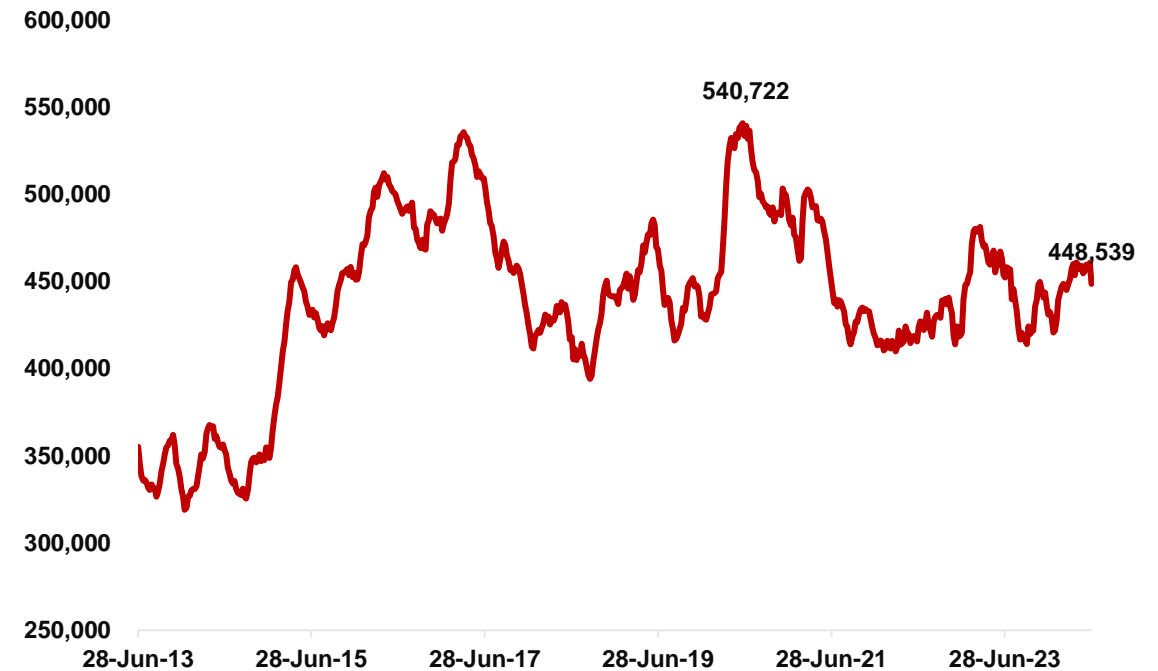
- The ringgit appreciated against the USD for the week ending July 5 as the USD index slipped below the 105-level amid heightened expectations of the Fed starting to cut rates in September.
- The greenback had weakened following a slew of softer-than-expected U.S. labour market data, with NFP figures for April and May revised downwards sharply by a cumulative of 111K jobs, overshadowing the addition of 206K jobs in June. Furthermore, the ADP employment change disappointed expectations with private businesses adding 150K jobs in June (Est: 160K), marking the lowest level in five months.
- Meanwhile, the local note ended lower against the GBP as the U.K. national elections concluded decisively with the Labour Party poised to lead the government, boosting the pound's gains.
- We foresee the local note to trade cautiously ahead of key U.S. inflation data, slated to be released on Thursday. Markets will also be keeping an eye out for Fed Chair Jerome Powell's testimony and speech this week.

COMMODITY: OIL POSTS FOURTH CONSECUTIVE WEEKLY GAIN ON STRONG FUEL DEMAND HOPES

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

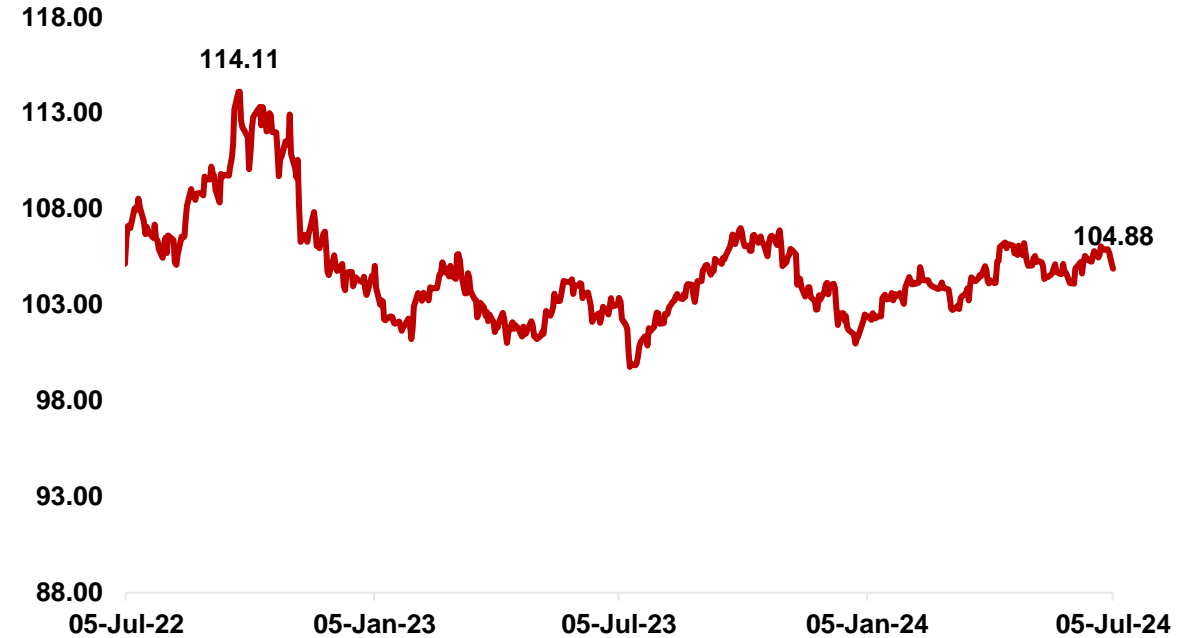
- U.S. crude inventories fell sharply by 12.2 million barrels for the week ending June 28, marking the largest drop since July 2023 and bringing total stocks to 448.5 million barrels, their lowest since March 22, 2024. Concerns about supply arise amid potential disruptions from hurricanes in the Gulf of Mexico. Meanwhile, hopes for strong demand have been bolstered as summer travel peaks.
- Nevertheless, oil settled at USD86.54 per barrel for the week ending July 5, declining from an earlier peak earlier in the week amid prospects of a Gaza ceasefire.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY GAIN AS USD RETREATED

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, BLS

- The bullion price rose to the highest level since late May, reaching USD2,392.16 on the back of a weakening USD.
- The USD retreated as the latest U.S. job market report showed signs of cooling. U.S. NFP for the month of April was sharply revised down to 108K (Previous: 165K), while NFP for May was significantly lower to 218K from the initial release of 272K. This resulted in a total of 111K jobs being cut from the initial releases, indicating a weaker-than-expected job market. Furthermore, the unemployment rate surprised by edging up to 4.1% in June (May: 4.0%).
- As such, market bets of the Fed initiating a rate cut in September rose sharply to 72.0% at the time of writing.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- With minutes from the latest Federal Open Market Committee (FOMC) meeting and recent Fed speeches emphasising the need to wait for further evidence of disinflation before pivoting to rate cuts, U.S. inflation data for June due this week will inevitably be in the spotlight. June U.S. headline CPI inflation is likely to indicate progress towards disinflation with an easing from the 3.3% recorded in May, thereby keeping rate cut expectations alive. Market pricing of a rate cut as early as September has increased to more than 70.0% at the time of writing, driven by cooling U.S. economic data last week.
- Elsewhere, the Reserve Bank of New Zealand (RBNZ) is scheduled to hold its policy meeting this week, where an eighth consecutive rate pause is widely expected. Persistent inflationary pressures are likely to keep the RBNZ on a hawkish stance, suggesting that interest rates will stay high for an extended period. At its previous meeting in May, the RBNZ projected that it would not begin cutting rates until 3Q2025. Moreover, it raised its average rate projections for 4Q2024 slightly to 5.65% against the current 5.50%, implying a higher possibility of a rate hike rather than a rate cut.
- On the domestic front, it will be a data-heavy week in Malaysia, with data on retail sales, industrial production and labour market for May awaited. Retail sales growth is expected to have eased in May from April's 5.5% due in part to the absence of festive demand and concerns of rising living costs. Reflecting the subdued demand, industrial production is likely to have eked out only modest growth in May (April: 6.1%). Meanwhile, unemployment rate is projected to remain stable at pre-pandemic level of 3.3%.
- BNM is expected to maintain its monetary policy settings at the upcoming meeting on July 10-11. Notwithstanding concerns about the inflationary impact from the winding back of government subsidies for diesel and RON95, we opine that BNM will continue to pursue a policy stance supportive of the economy. Whether the materialisation of any upside risks to inflation triggers a monetary response will depend on the persistence of price pressures. As such, we maintain our view that BNM will keep the Overnight Policy Rate (OPR) unchanged at 3.00% through at least 2024. This is to ensure ringgit stability amid the Fed's clear intent to maintain high interest rates for an extended period, alongside looming inflation and economic growth risks.

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THANK YOU