WEEKLY ECONOMIC UPDATE

9 SEPTEMBER 2024

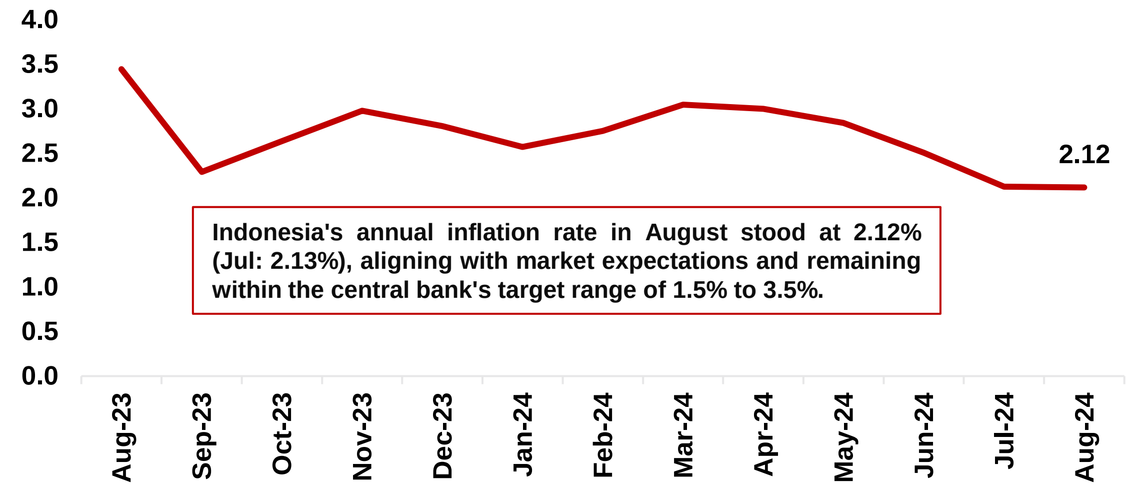
ECONOMIC RESEARCH

IMRAN NURGINIAS IBRAHIM
NOR LYANA ZAINAL ABIDIN
KHAYRIN FARZANA FAZLI
AMIRATUL HUSNA MOHAMMAD

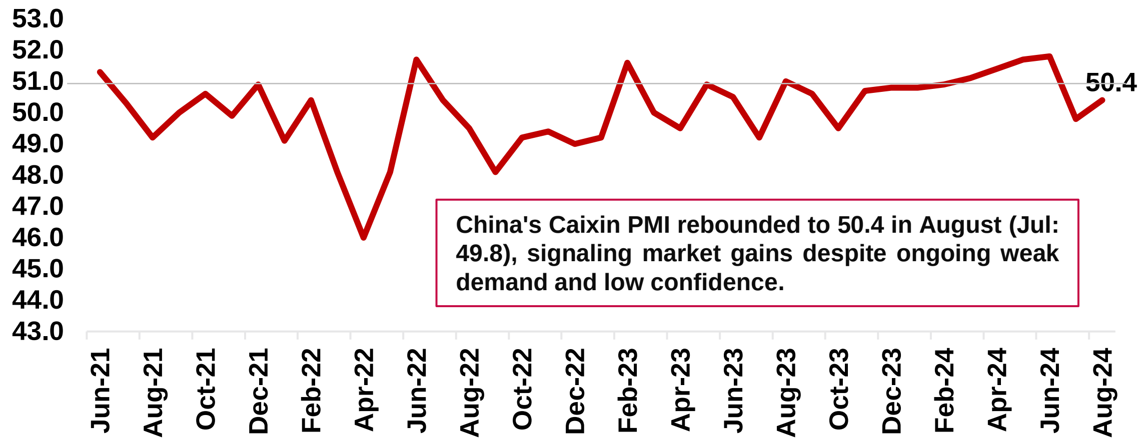
WEEKLY HIGHLIGHT: BNM HOLDS OPR AT 3% AMID STABLE ECONOMIC GROWTH

GLOBAL

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

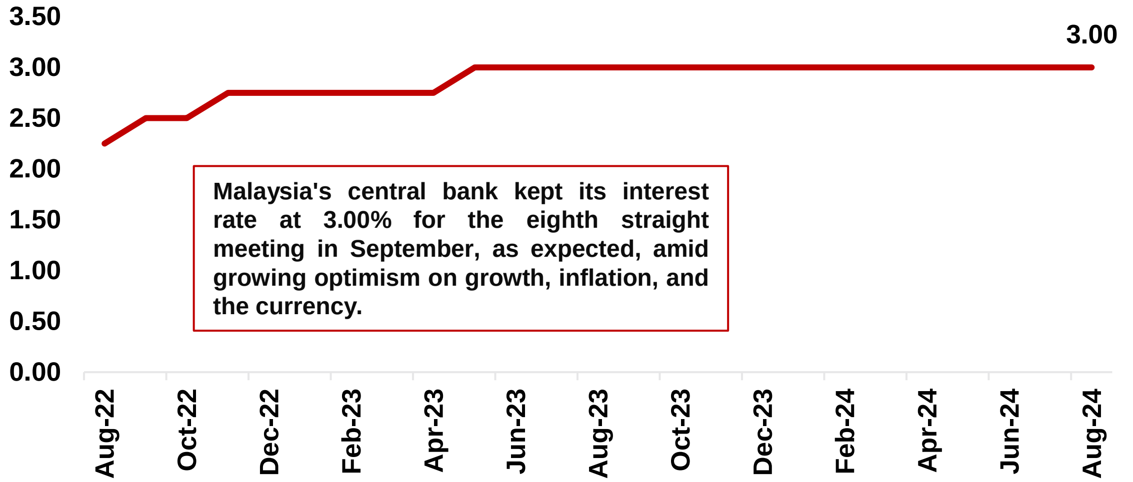


China Caixin Manufacturing Purchasing Managers' Index (PMI), points

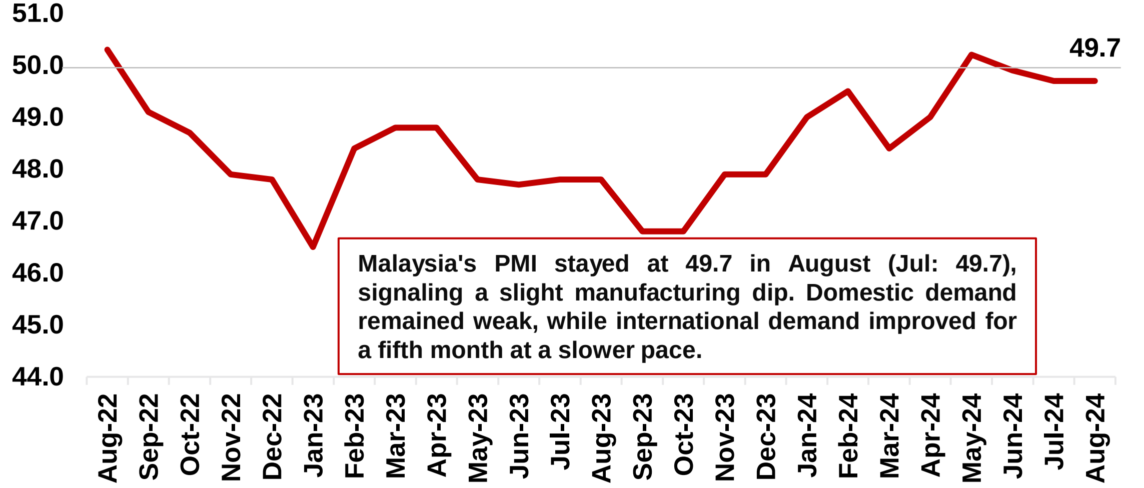


DOMESTIC

Malaysia – Overnight Policy Rate (OPR), %



Malaysia Manufacturing PMI, points

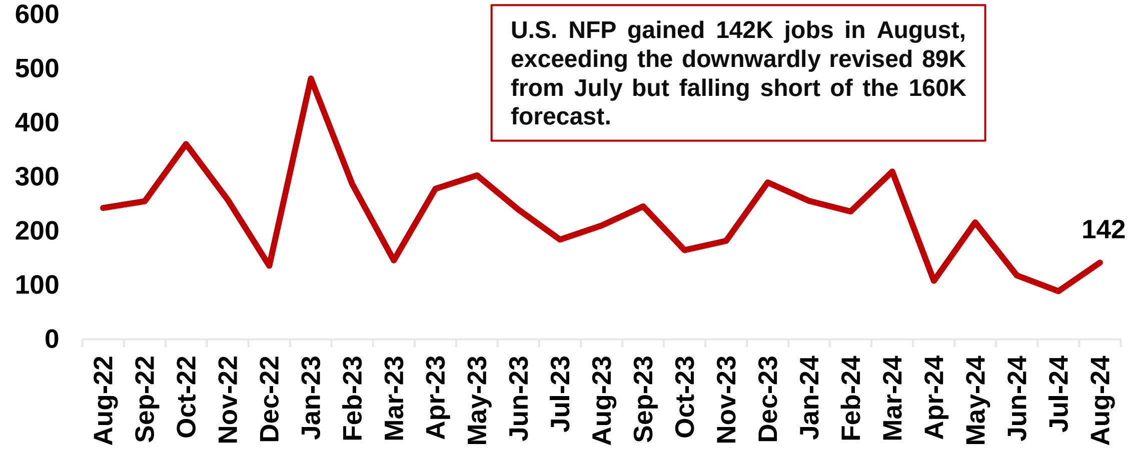


Sources: S&P Global, Statistics Indonesia, Bank Negara Malaysia

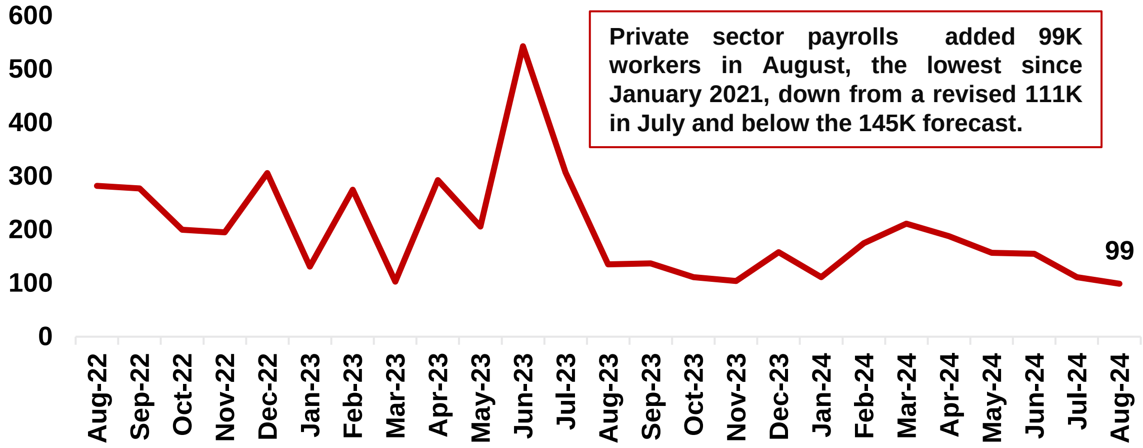
WEEKLY HIGHLIGHT: COOLING U.S. JOB MARKET COULD LEAD TO LOWER U.S. INTEREST RATES

BANK ISLAM

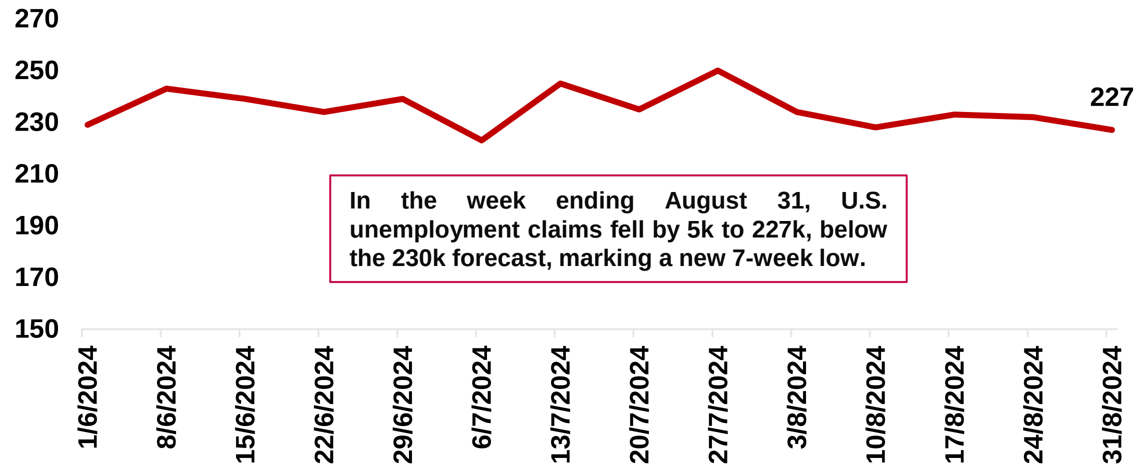
U.S. Non-Farm Payroll (NFP), m-o-m changes ('000)



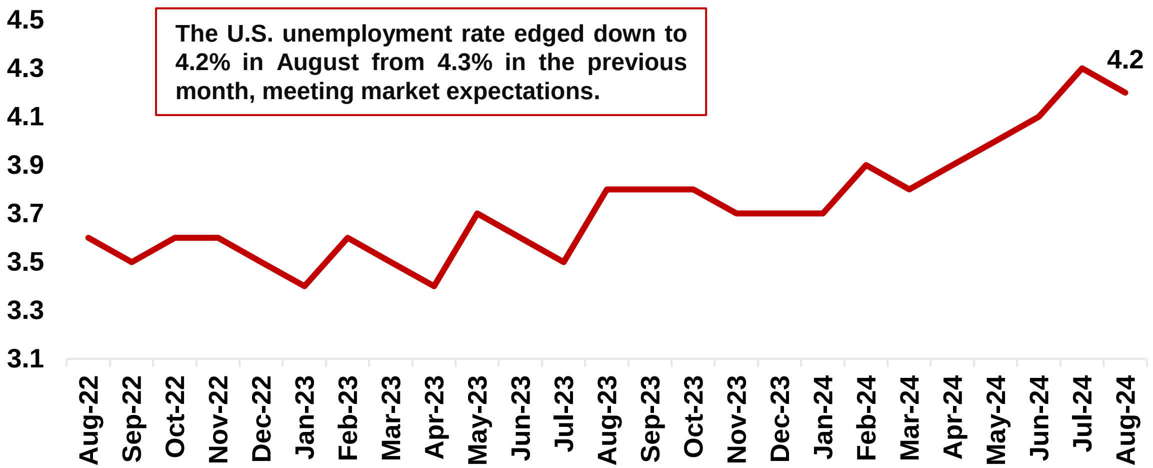
U.S. ADP Nonfarm Employment, m-o-m changes ('000)



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



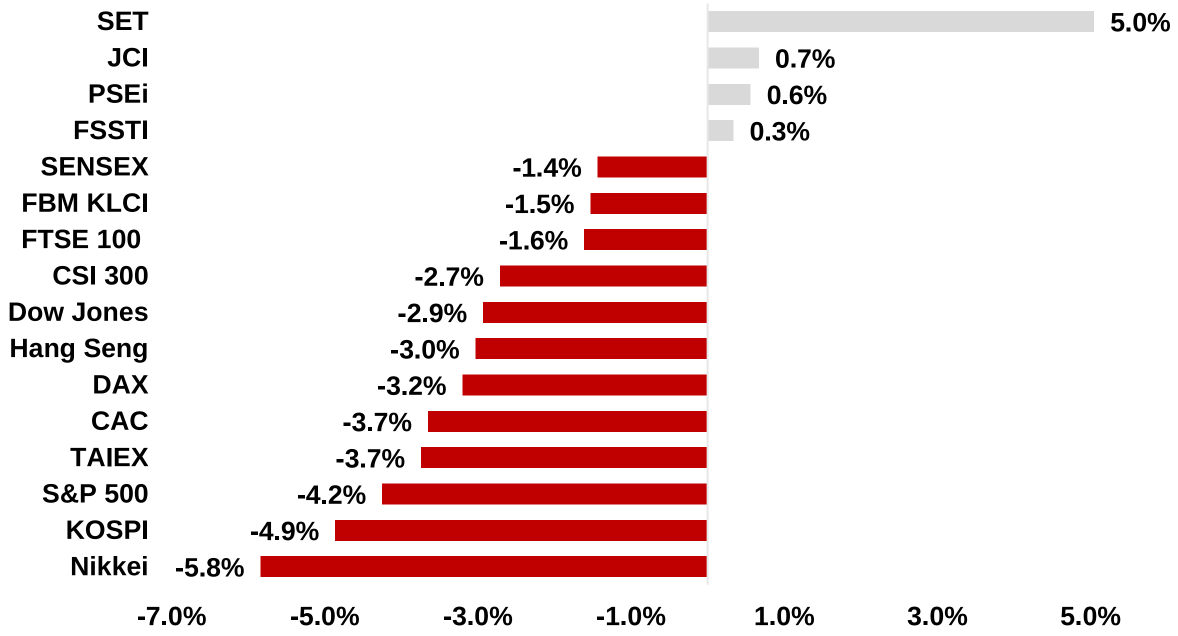
U.S. Unemployment Rate, %



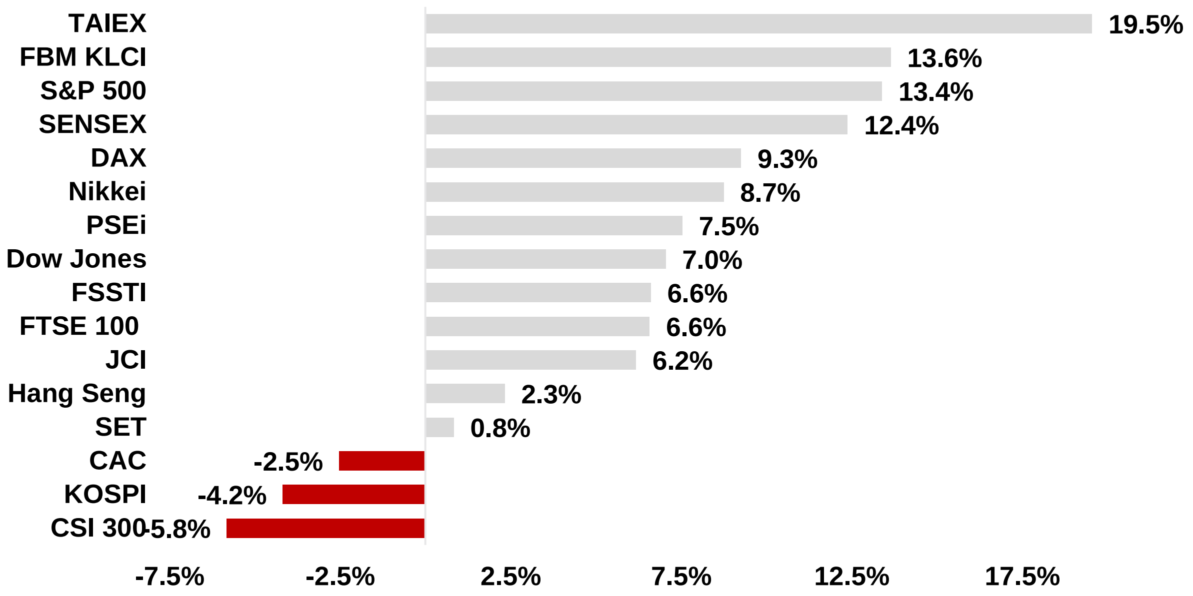
Sources: U.S Bureau of Labor Statistics (BLS), U.S. Department of Labor

REGIONAL EQUITY: A WEAKENING U.S. JOBS MARKET DRAGGED STOCKS MARKET INTO THE RED SEA

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



YTD Gain/Loss of Major Equity Markets, % (As of 6 September 2024)



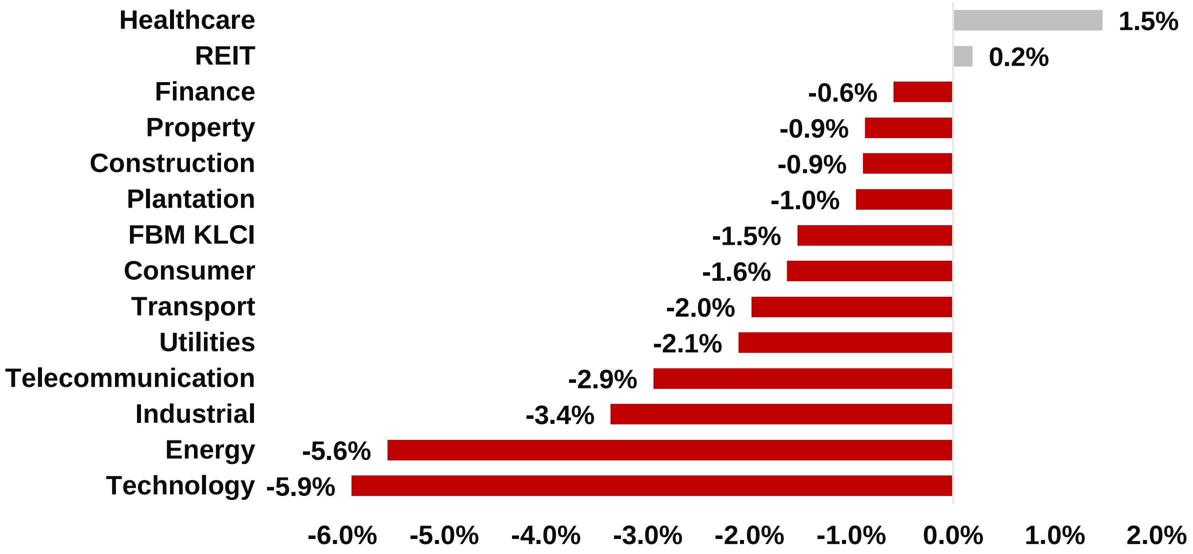
Sources: Bursa, CEIC Data

- Regional equity indices were predominantly negative for the week ending September 6, with the Japan's Nikkei as the biggest loser, declining by 5.8% amid the strengthening yen put further downward pressure on domestic stocks.
- U.S. stocks – S&P 500 (-4.2%) and Dow Jones (-2.9%) weighed down by the worries about a weakening job market and a decline in tech stocks. The August jobs report, which fell short of expectations with 142K new jobs (Est: 161K), increased market jitters.
- In contrast, Thailand's SET emerged as the major winner as investors are cautiously optimistic following the formation of the new Pheu Thai-led government. This optimism stems from the hope for policy continuity, which could bring stability to the Thai economy.

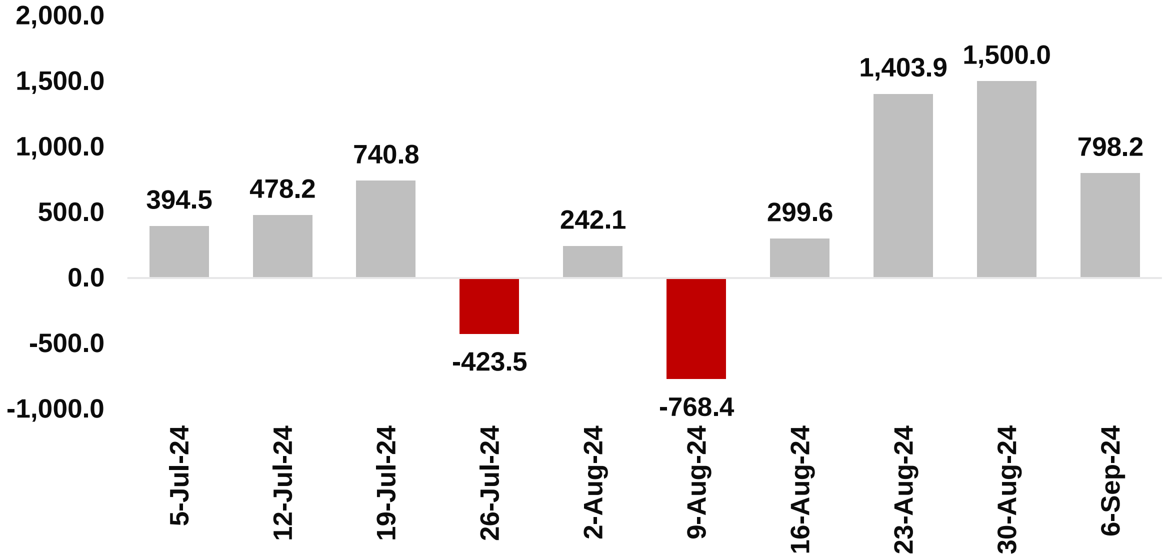
DOMESTIC EQUITY: LOCAL MARKET ENDED IN A SEA OF RED AMID CAUTIOUS SENTIMENTS

BANK ISLAM

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, CEIC Data

- The FBM KLCI slipped by 1.5% w-o-w for the week ending September 6 on profit-taking activities after marking the highest level since July 2019 in the week before (Sept 6: 1,653.1 points vs. Aug 30: 1,678.8 points).
- Furthermore, investors were on a risk-off mode as sentiments remained cautious ahead of key U.S. job figures, leading to a broad sell-off in the emerging market assets.
- Most indices ended in the red with the Technology index (-5.9%) as the biggest loser, followed by the Energy (-5.6%) and Industrial (-3.4%) indices.
- The Healthcare (+1.5%) and REIT (+0.2%) indices were the only gainers in the past week.
- Foreign investors remained as the net buyers for the fourth straight week, accumulating a total of RM798.2 million worth of equities. The net buying had increased the cumulative total net inflow this year thus far to RM4.1 billion.

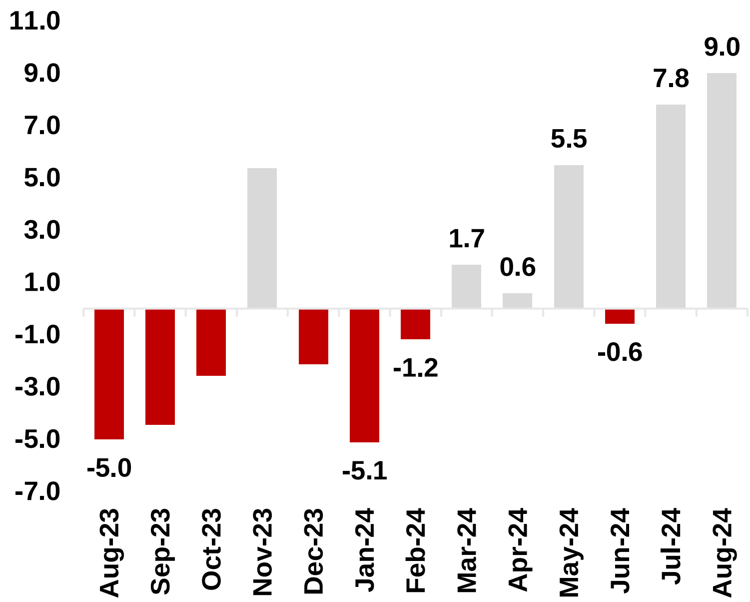
FIXED INCOME: UST YIELDS EDGED LOWER ON RATE CUTS EXPECTATION

BANK ISLAM

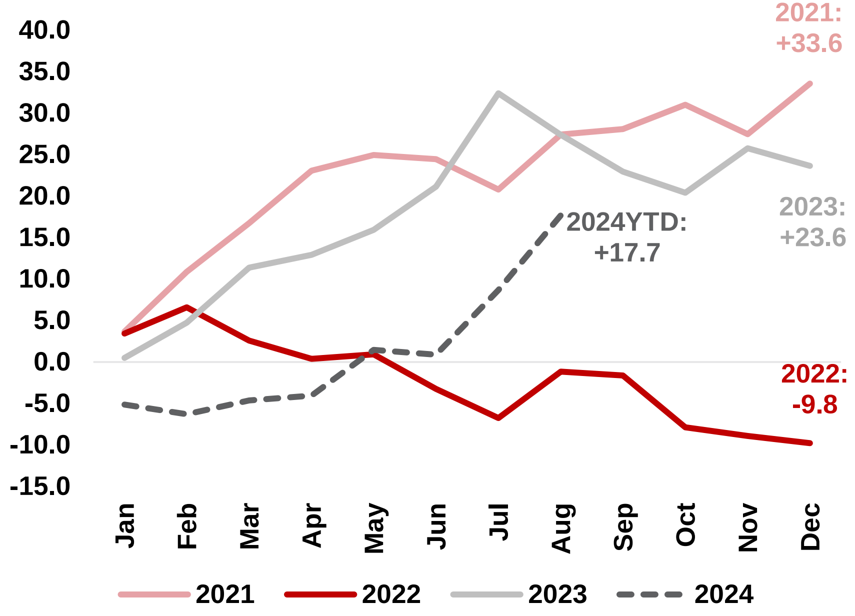
Weekly Changes, basis points (bps)			
UST	**Yields (%) 30-Aug-24**	**Yields (%) 6-Sep-24**	**Change (bps)**
3-Y UST	3.79	3.54	-25
5-Y UST	3.71	3.50	-21
7-Y UST	3.80	3.60	-20
10-Y UST	3.91	3.72	-19
MGS	**Yields (%) 30-Aug-24**	**Yields (%) 6-Sep-24**	**Change (bps)**
3-Y MGS	3.33	3.35	1
5-Y MGS	3.50	3.49	-1
7-Y MGS	3.71	3.68	-2
10-Y MGS	3.76	3.74	-2
GII	**Yields (%) 30-Aug-24**	**Yields (%) 6-Sep-24**	**Change (bps)**
3-Y GII	3.32	3.33	1
5-Y GII	3.50	3.52	2
7-Y GII	3.69	3.70	1
10-Y GII	3.79	3.78	-1

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM Billion

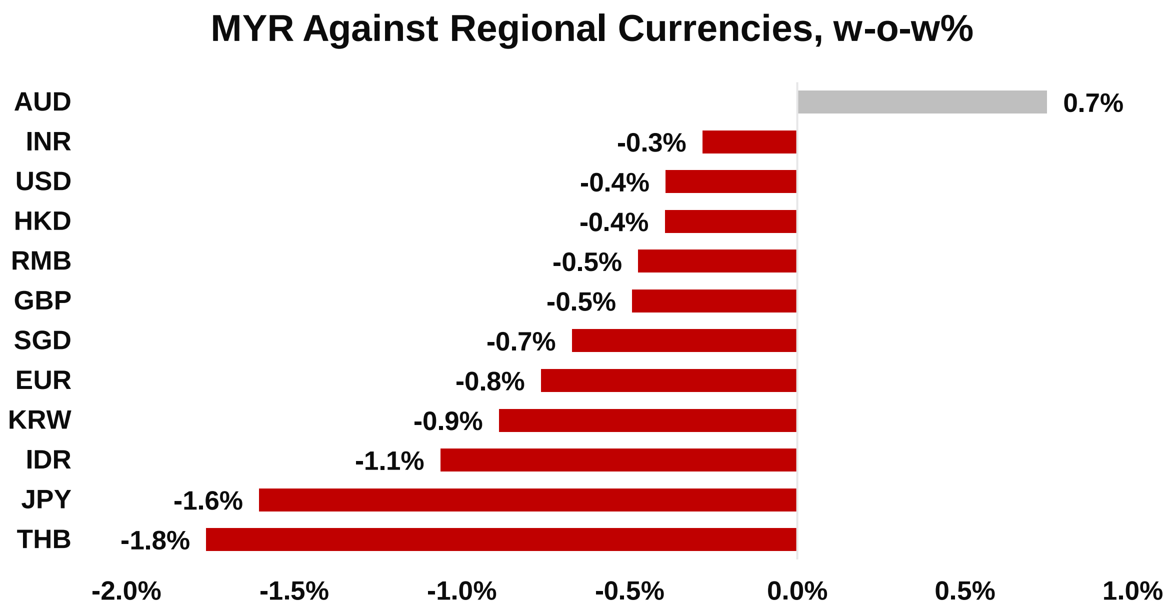


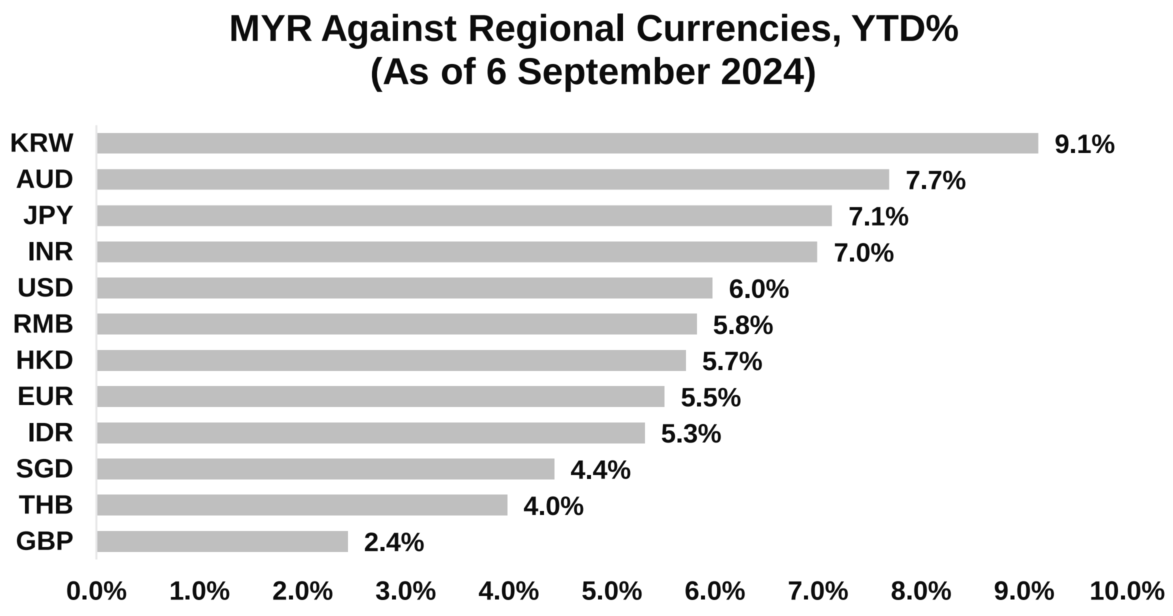
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



- The U.S. Treasury (UST) yield curve bullishly steepened between 19bps and 25bps last week as the softened labor market has led to increased expectations among investors that the Fed will significantly lower interest rates multiple times throughout the year.
- The Malaysian Government Securities (MGS) yield curve along the 5y10y segment fell marginally between 1bp and 2bps while 3y MGS yield increased by 1bp. On the other hand, the Government Investment Issues (GII) yield curve along the 3y7y ticked slightly higher in the range of 1bp and 2bps. Meanwhile, 10-Y GII yields reduced by merely 1bp to 3.78%.
- Foreign fund flows in the local bond market remained into the positive territory with a net foreign inflow of RM9.0 billion in August (Jul: +RM7.8 billion). Concurrently, local govvies' foreign shareholdings to total outstanding increased to 22.6% in August (Jul: 22.1%).
- As of August 2024, the local bond market recorded the cumulative net foreign inflows of RM17.7 billion, significantly lower than the inflows of RM27.4 billion in the same period in the previous year.

FX MARKET: RINGGIT TO TRADE CAUTIOUSLY AHEAD OF KEY U.S. INFLATION FIGURES

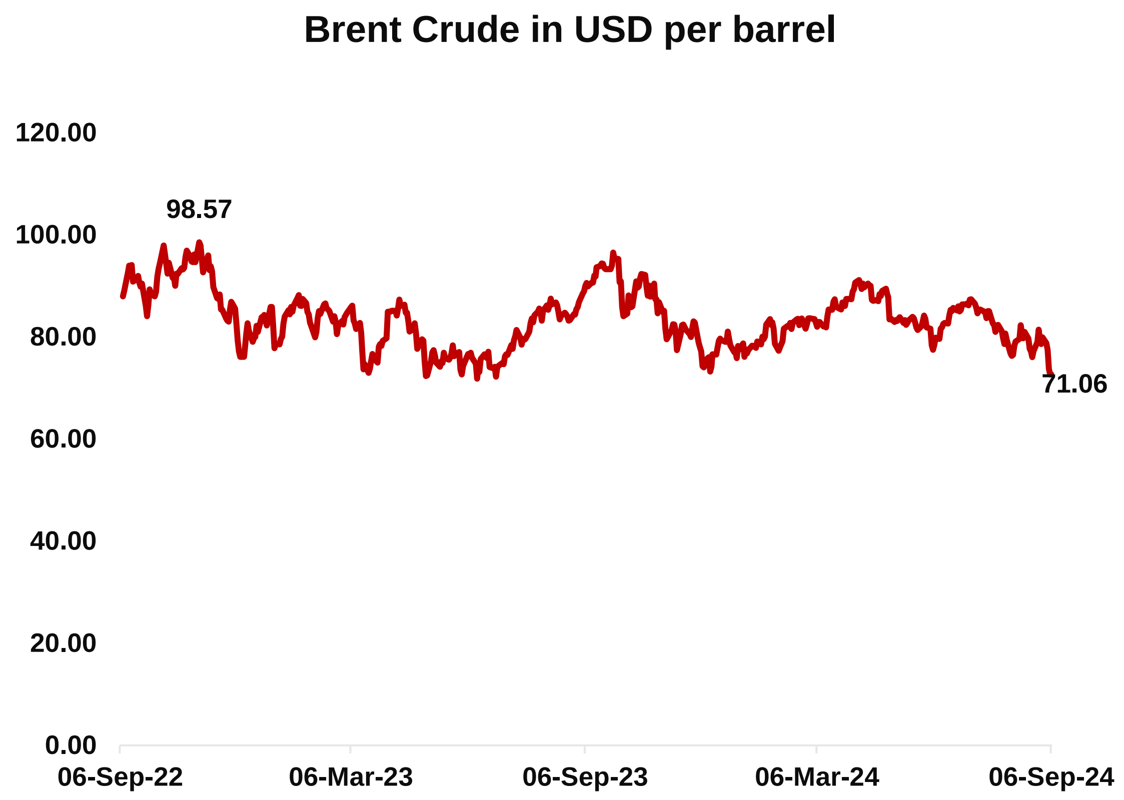


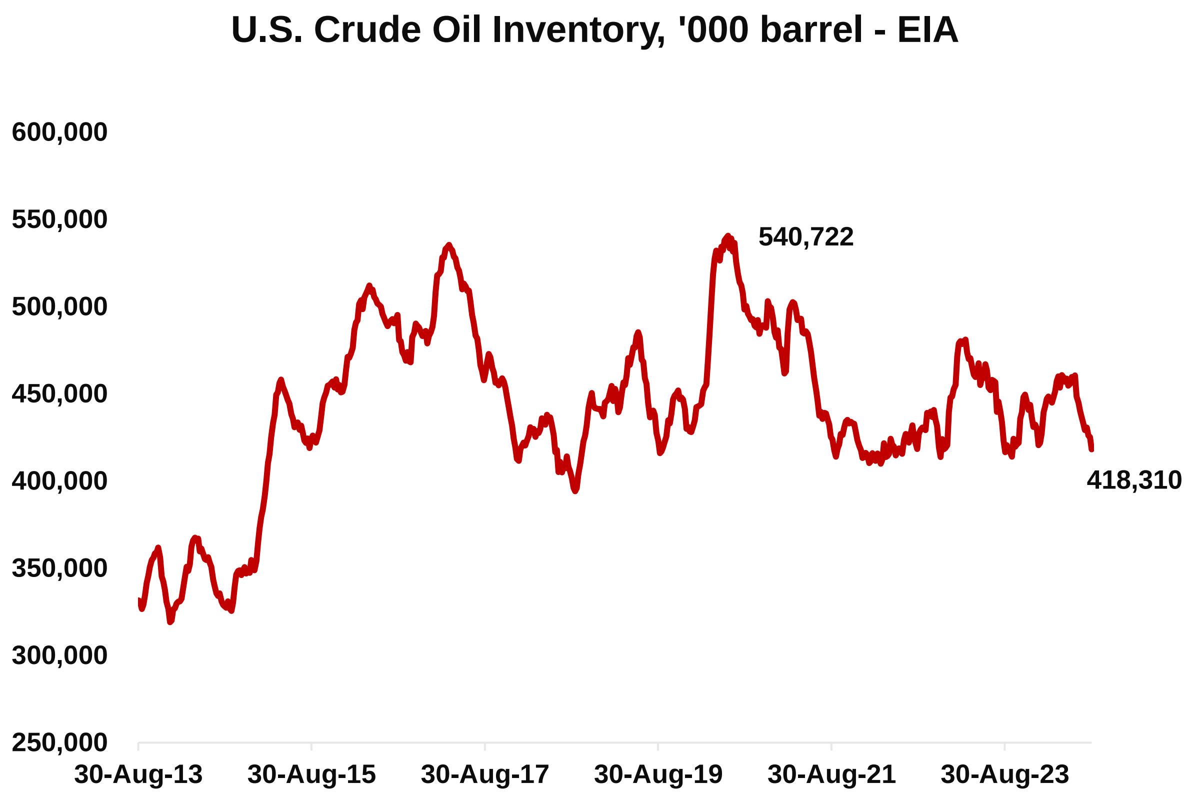


Sources: BNM, Federal Reserve Board, BLS

- The Ringgit depreciated slightly against the USD for the week ending September 6 despite the weakness in the USD index as it hovered around the 101-level throughout the past week.
- The local note failed to gain ground following Bank Negara Malaysia (BNM)'s decision to keep the OPR steady as it had been widely expected with all bets already priced in.
- Meanwhile, the greenback remained pressured by bearish sentiments as several key U.S. job figures disappoints. The U.S. economy added fewer jobs than anticipated in August at 142K (Est: 160K) while ADP data reflects similar trend in the private sector as businesses added 99K workers to their payroll, significantly lower than the expected 145K. Notably, the August ADP employment change marks the lowest level since January 2021, signalling further cooldown of the U.S. labor market and reinvigorating bets of the Fed's rate cuts.
- In the coming week, we believe the Ringgit will trade cautiously ahead of the U.S. CPI release on Wednesday.

COMMODITY: OIL FALLS OVER 2% AFTER THE RELEASE OF U.S. JOBS DATA



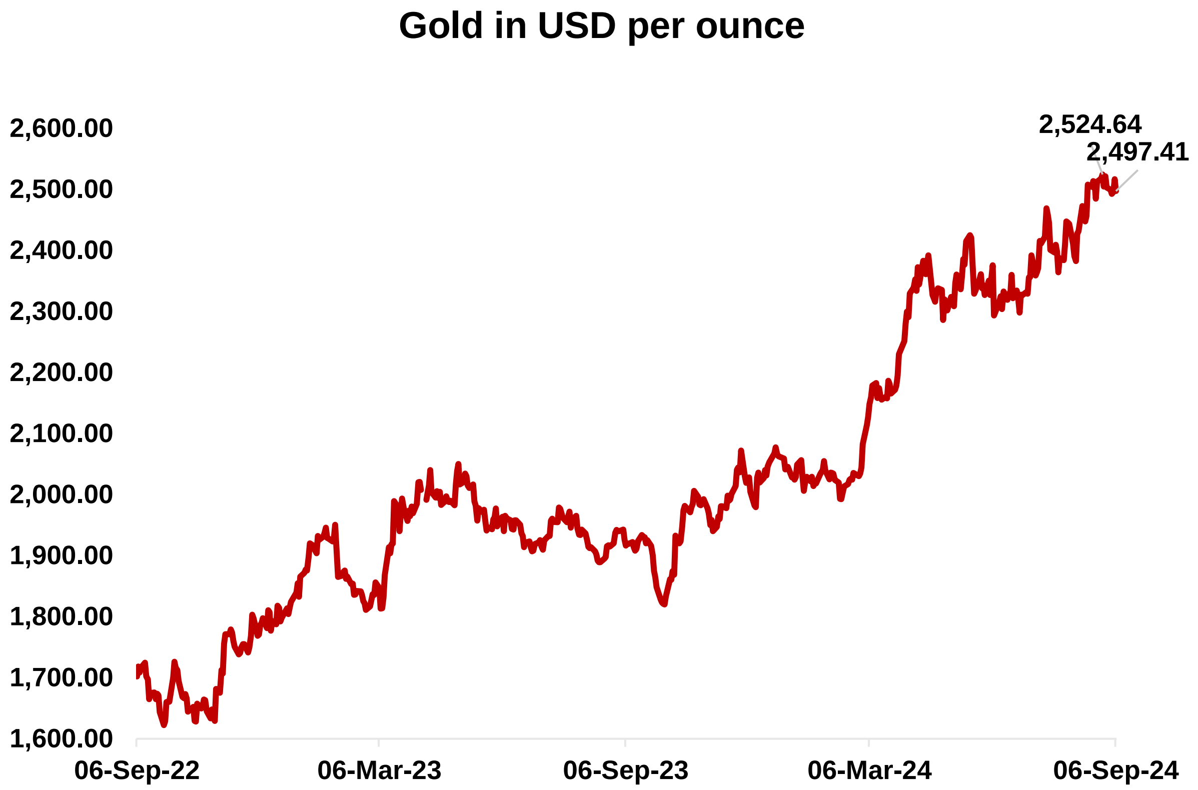


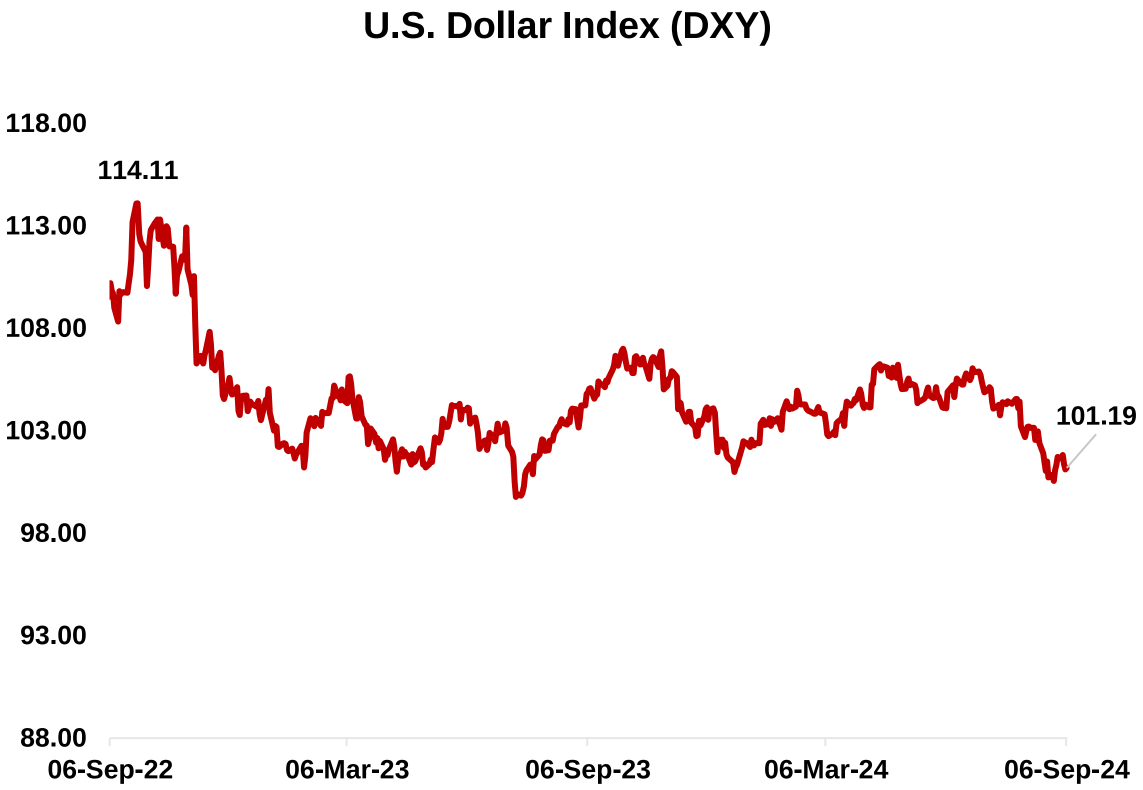
Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices dropped over 2% for the week ending September 6, following weaker-than-expected U.S. jobs data, and were set for a significant weekly loss as demand concerns overshadowed OPEC+ supply delays.
- US crude inventories declined by 6.9 million barrels for the week ending August 30, exceeding the expected 600,000-barrel draw, amid reduced imports. This marked the ninth decline in domestic oil stocks in the past ten months.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY LOSS AS MARKETS REPRICED THEIR RATE CUT BETS

BANK ISLAM





Sources: Bloomberg, CEIC Data

- The bullion price slipped by 0.2% in the past week, falling below the USD2,500-level as markets pared back their expectations of a steep Fed rate cut in its upcoming meeting. Prior to the U.S. job report release, the CME Fed Watch tool reported 40% probability of a 50-bps cut which then dropped sharply to 30% after the release.
- Furthermore, gold price was dragged by weak demand as China paused its purchase of the bullion for the fourth straight month.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The U.S. August CPI report is set for release on September 11. The previous month, July, saw a 0.2% monthly increase in prices, resulting in a 2.9% annual inflation rate. Nowcast projections from the Federal Reserve Bank of Cleveland indicate that the monthly increase for August CPI could be 0.23% and 0.26% for core inflation excluding food and energy prices. This would suggest an annual inflation rate of 2.6%, with core inflation potentially reaching 3.2%.

- Traders bet that the European Central Bank (ECB) will cut interest rates by a quarter-point for a second time on its September 12 meeting. The odds for another reduction in borrowing costs increased after preliminary figures showed inflation in the Eurozone fell to 2.2% in August, the lowest level since July 2021, and core inflation also eased to 2.8% after stagnating for three months at 2.9%. Despite the decline in energy prices, the rise in Eurozone services inflation to 4.2% could make rate-setters more cautious, especially given ongoing wage growth in Germany and other countries. Traders are currently betting on two or three more ECB cuts this year. Meanwhile, the manufacturing PMI for the Eurozone confirmed the manufacturing sector remained in contraction in August, weighed down by Germany and France.

- In China, attention will be focused on August's trade balance, with expectations for high but slower export growth of 6.8% in August (Jul: 7.0%) indicating that manufacturers are still depending on international sales to achieve their targets. At the same time, the anticipation of weaker import growth of 2.0% in August (Jul: 7.2%) will highlight the slowdown in China’s domestic demand. In Japan, the focus will be on August’s producer price index (PPI) is expected to expand by 2.8%, lower than 3.0% in July 2024 as well as the release of current account figure and a batch of speeches from Bank of Japan (BoJ) policymakers for September.

THANK YOU