BANK ISLAM

WEEKLY ECONOMIC UPDATE

12 AUGUST 2024

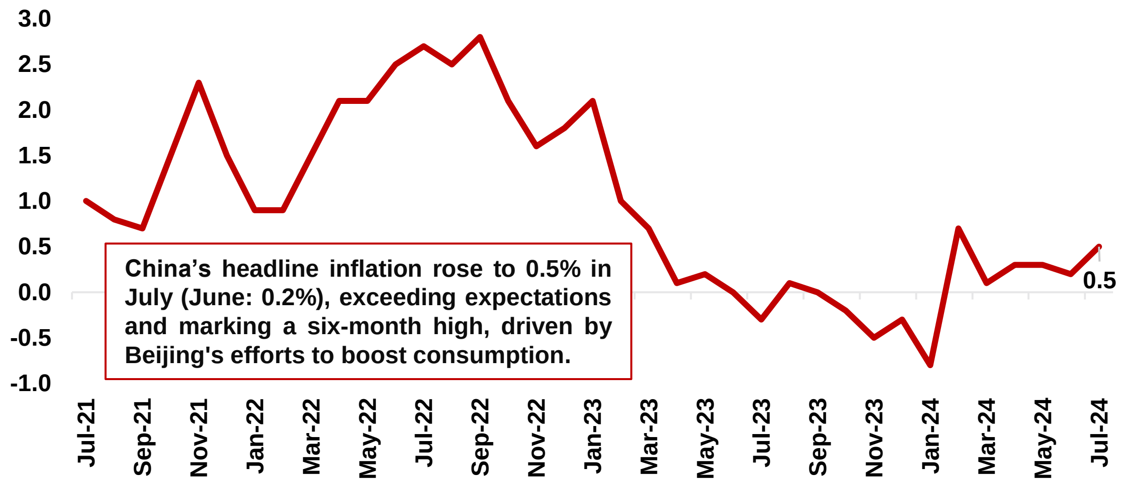
ECONOMIC RESEARCH

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

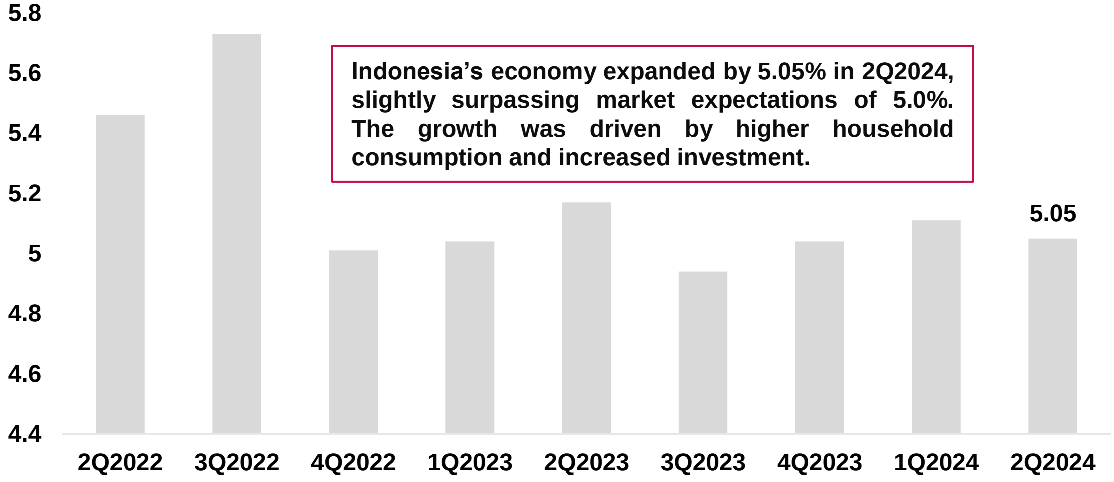
WEEKLY HIGHLIGHT: CHINA'S INFLATION EDGES UP IN JULY AMID SPENDING BOOST

GLOBAL

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

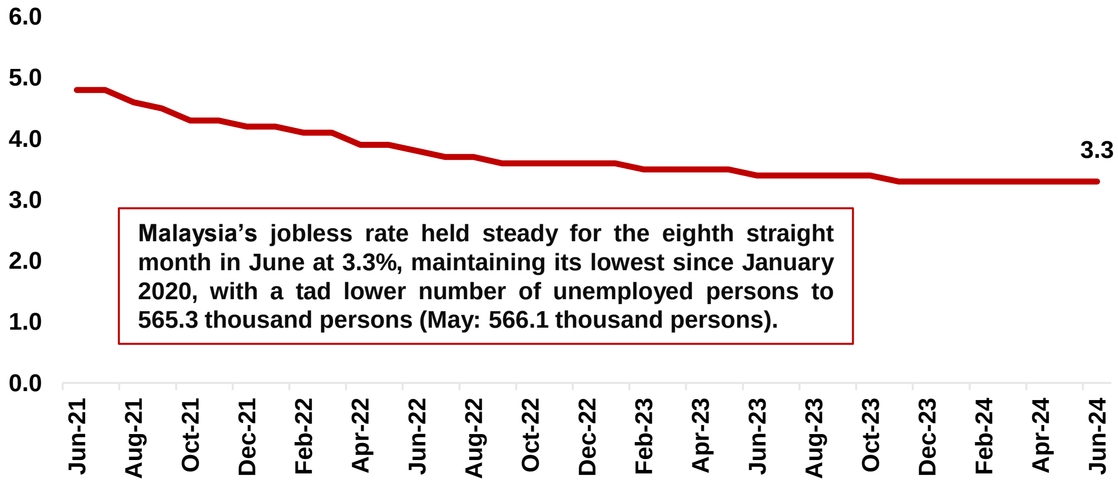


Indonesia - Real GDP, y-o-y%

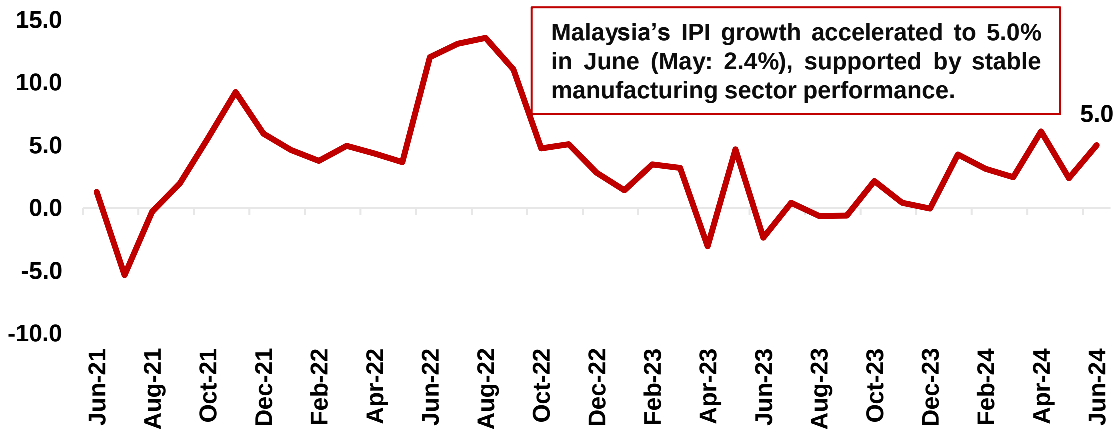


DOMESTIC

Malaysia - Unemployment Rate, y-o-y%

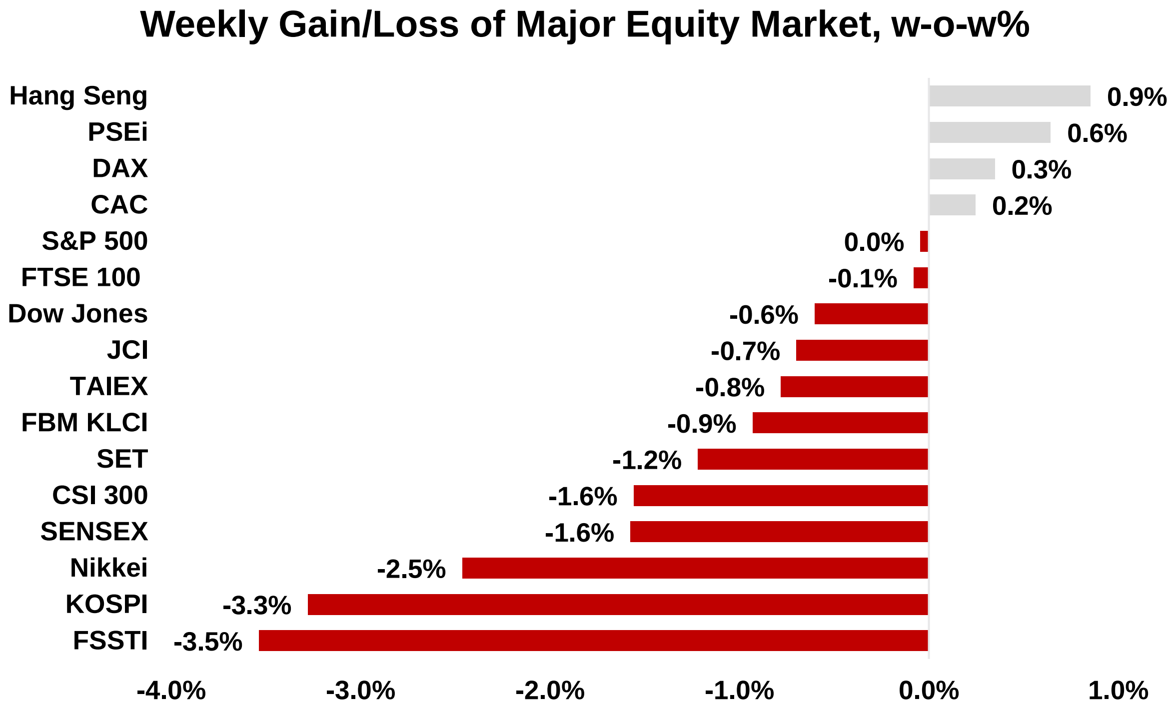


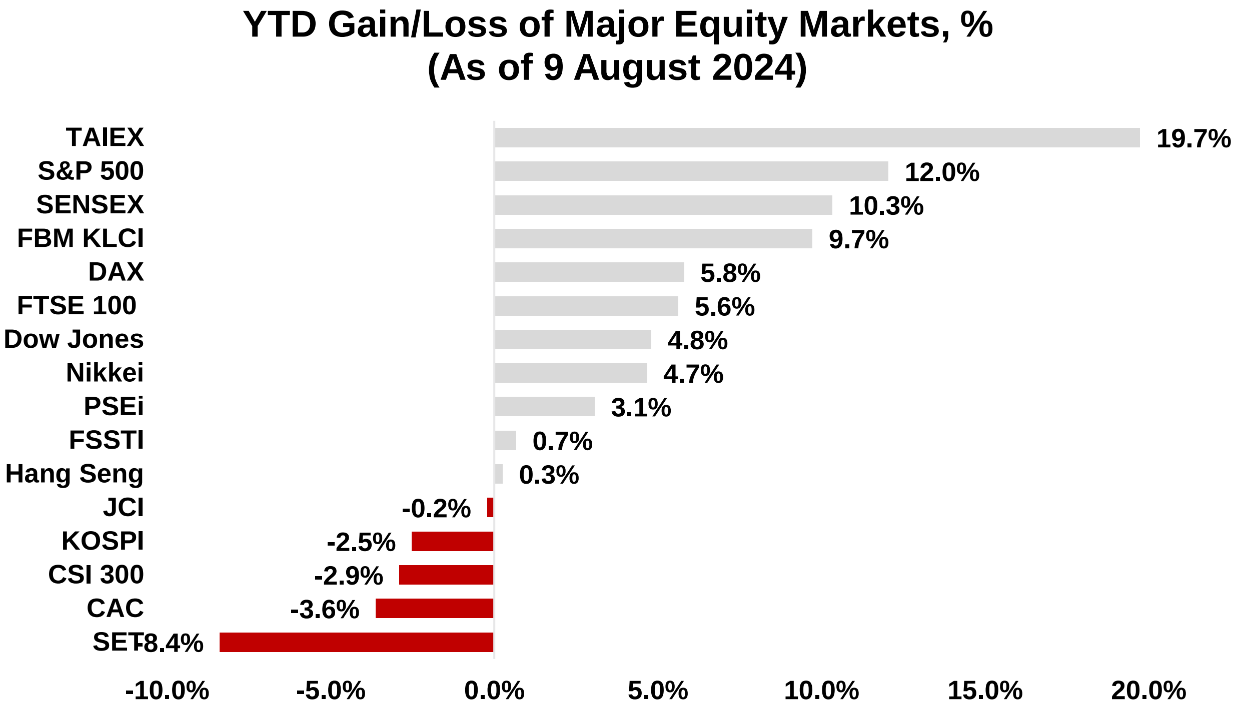
Malaysia - Industrial Production Index (IPI), y-o-y%



Sources: China's National Bureau of Statistics, Statistics Indonesia, Department of Statistics Malaysia (DOSM)

REGIONAL EQUITY: U.S. RECESSION FEARS SPILLED RED INK TO THE EQUITY MARKET



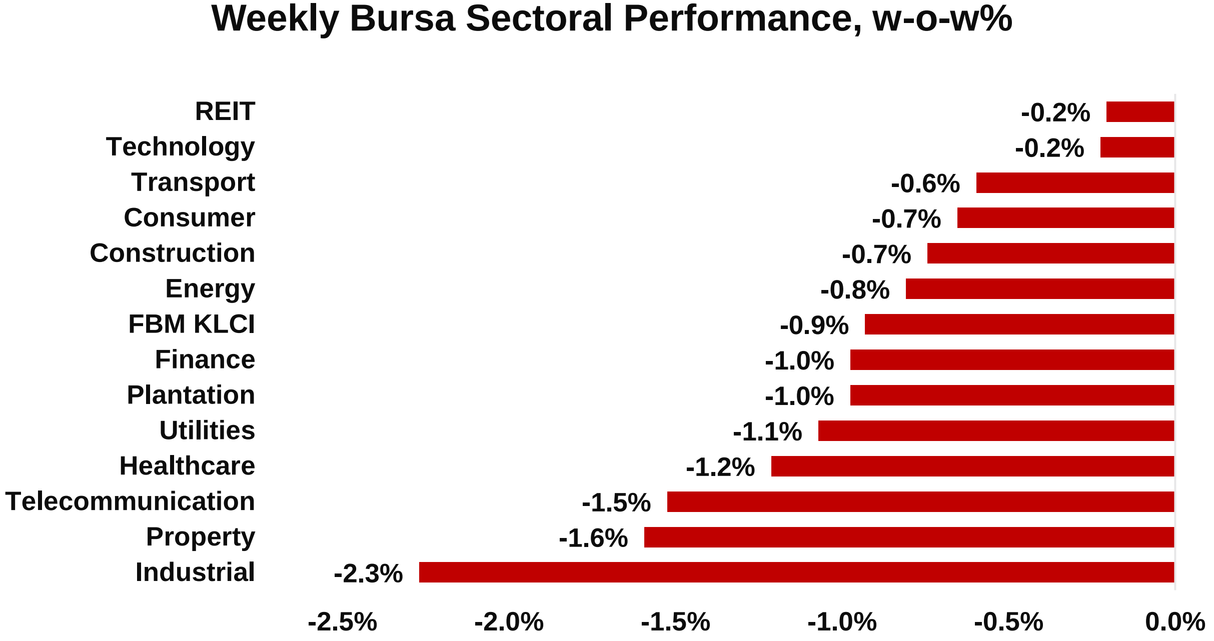


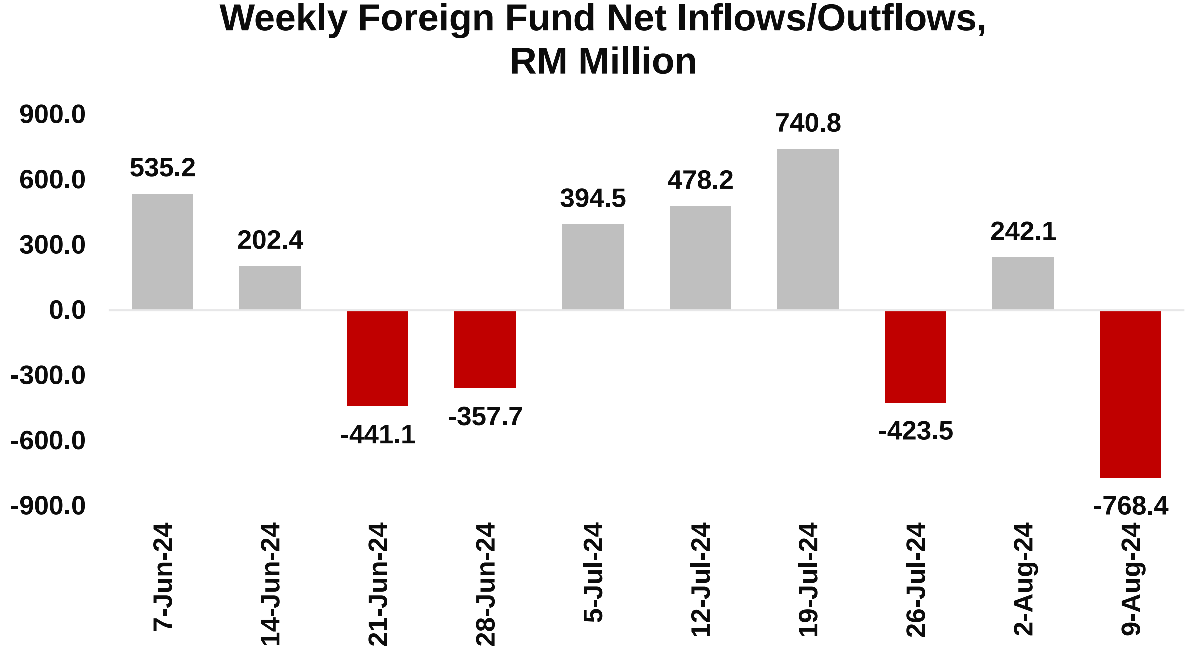
Sources: Bursa, CEIC Data

- Overall, the regional equity indices were mostly in the red sea for the week ending August 9 as recession fears mount as U.S. job growth unexpectedly weakens.
- Singapore's FSSTI was the biggest loser, tanking by 3.5%, amid market anticipation of a reduction in policy rates by the U.S. Federal Reserve (Fed) which could compresses profit margins for banks given the significant banking component of the index, its performance is consequently hindered.
- South Korea's KOSPI also plunged by 3.3% dragged lower by falling chip and battery stocks, tracking the decline in U.S. technology shares.
- On the other hand, Hong Kong's Hang Seng surged by 0.9% as China's CPI accelerated to a five-month high of 0.5% in July relative to 0.2% in June, dragged up by the efforts of the government to uplift consumption.

DOMESTIC EQUITY: SEA OF RED IN THE LOCAL MARKET AMID U.S. RECESSION FEARS

BANK ISLAM





Sources: Bursa, CEIC Data

- Reflecting regional indices, the FBM KLCI slumped by 0.9% for the week ending August 9 following fears of a recession in the U.S. as the job growth slows more than expected. The shock reverberated across the global markets, dragging the local index to slip below the 1,600-level.
- No Bursa sectoral indices were spared from the sell-off, with the Industrial index plunging by 2.3%, followed by the Property index (-1.6%) and the Telecommunications index (-1.5%).
- Foreign investors turned net sellers last week, shedding off a total of RM768.4 million worth of equities. The net selling had dragged the cumulative total net inflow this year thus far to RM49.4 million.
- Nevertheless, we expect a better performance in the local market this week as Malaysia's 2Q2024 GDP data is scheduled to be released on Friday. The widely anticipated strong growth (advance estimate: 5.8%) will provide much needed support to the equity market.

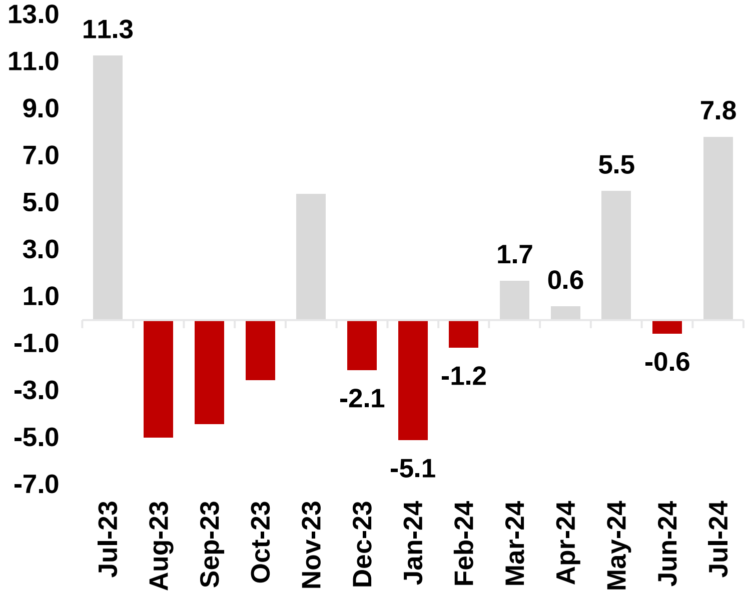
FIXED INCOME: UST YIELDS TICKED HIGHER AMID EASED RECESSION FEARS

BANK ISLAM

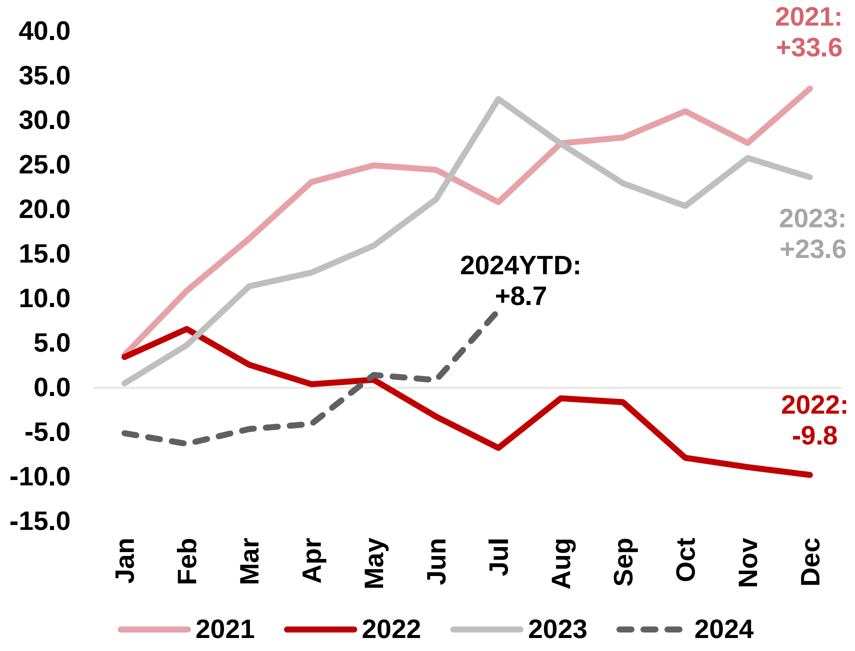
Weekly Changes, basis points (bps)			
UST	**Yields (%) 2-Aug-24**	**Yields (%) 9-Aug-24**	**Change (bps)**
3-Y UST	3.70	3.86	16
5-Y UST	3.62	3.80	18
7-Y UST	3.68	3.85	17
10-Y UST	3.80	3.94	14
MGS	**Yields (%) 2-Aug-24**	**Yields (%) 9-Aug-24**	**Change (bps)**
3-Y MGS	3.34	3.33	-1
5-Y MGS	3.50	3.50	0
7-Y MGS	3.66	3.70	4
10-Y MGS	3.70	3.77	6
GII	**Yields (%) 2-Aug-24**	**Yields (%) 9-Aug-24**	**Change (bps)**
3-Y GII	3.32	3.33	0
5-Y GII	3.50	3.49	-1
7-Y GII	3.68	3.71	3
10-Y GII	3.72	3.78	5

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

Foreign Fund Flows in Local Bond Market, RM Billion



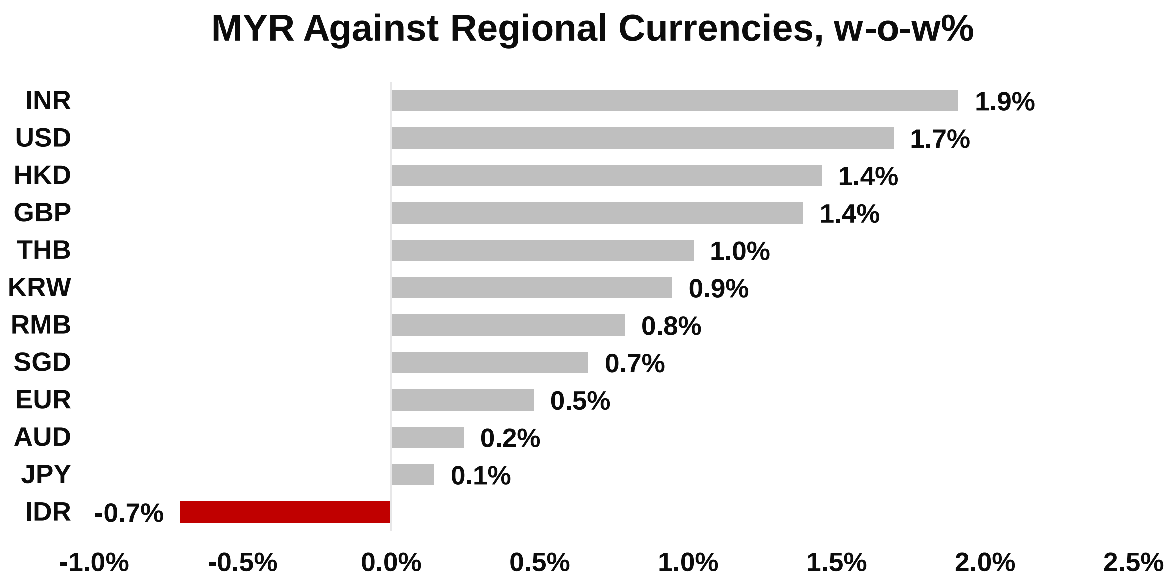
Cumulative Net Foreign Flows in Local Bonds, RM Billion

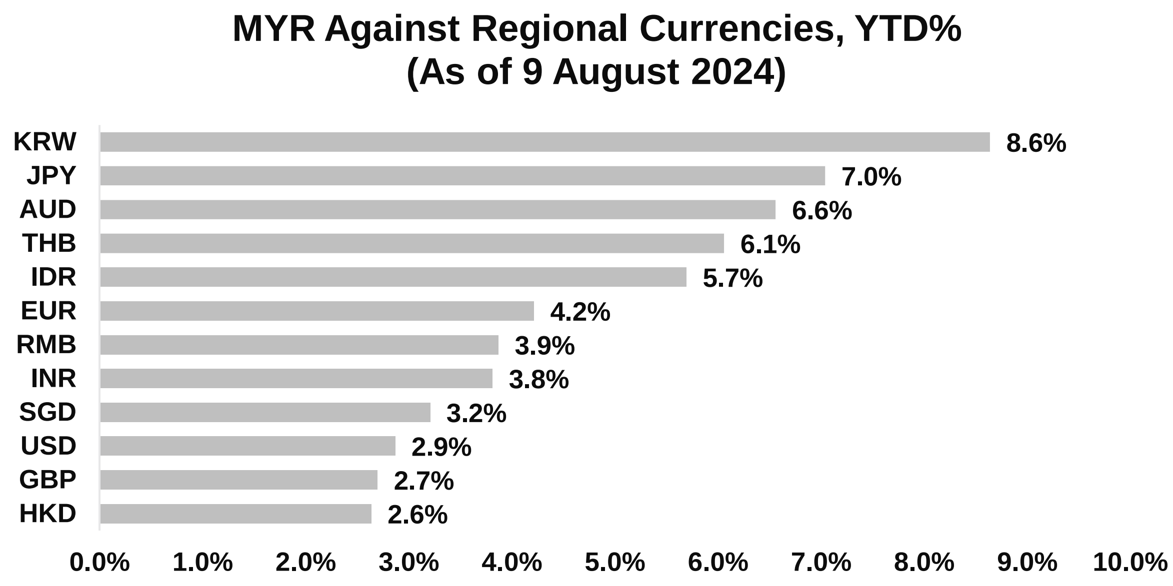


- The U.S. Treasury (UST) yields soared between 14bps and 18bps for the week ending August 9, as the lower-than-expected U.S. initial jobless claims for the week ending August 3 (Act: 233K, Est: 241K) eased recession fears, driving investors back into riskier assets.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields mostly ended higher in the range of 3bps to 6bps. Meanwhile, 3-Y MGS and 5-Y GII yields inched lower by 1bp, and 5-Y MGS yield plateaued at 3.50%.
- 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). Consequently, local govvies' foreign shareholdings to total outstanding edged higher at 22.1% in July (June: 21.6%).
- As of July 2024, the local bond market recorded the cumulative net foreign inflows of RM8.7 billion, significantly lower than the inflows of RM32.4 billion in the same period in the previous year.

FX MARKET: RINGGIT HITS THE STRONGEST LEVEL IN ALMOST 16-MONTHS

BANK ISLAM

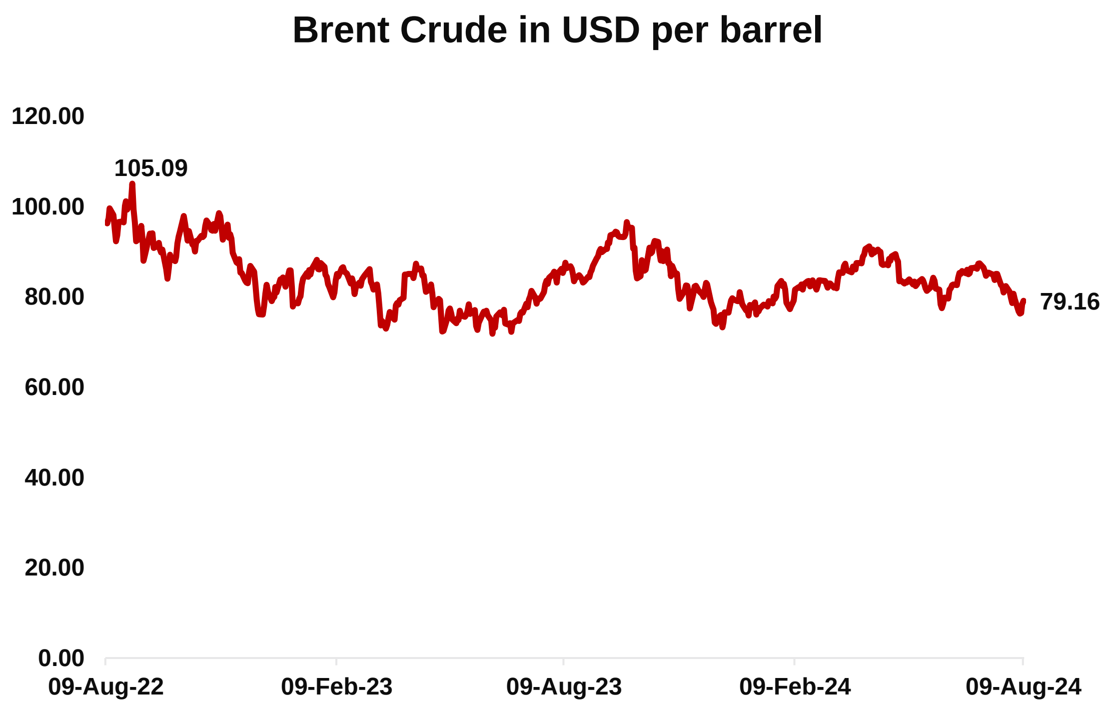


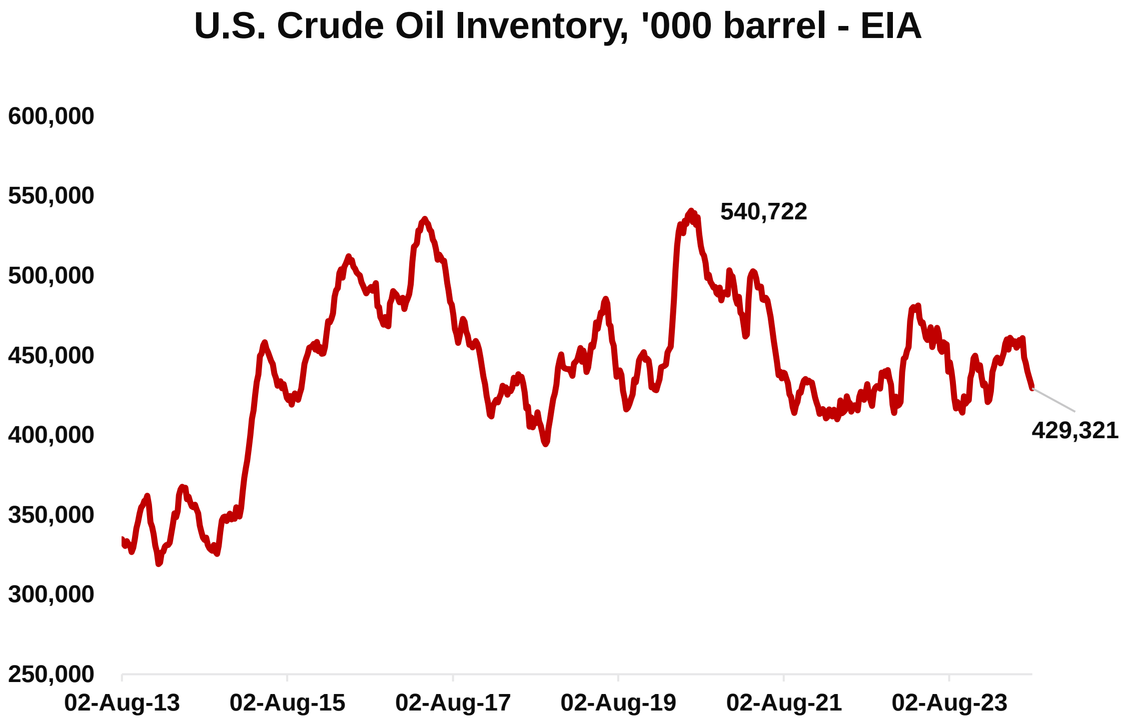


Sources: BNM, Federal Reserve Board, Bureau of Labor Statistics (BLS)

- The ringgit took on center stage last week when it marked the strongest level since mid-April 2023 on Monday (RM4.4075) as the USD index plunged to the 102-level. USD weakened due to the U.S. recession fears following a softer than expected job market.
- Of note, the U.S. unemployment rate jumped to 4.3% in July (Est: 4.1%, June: 4.1%) and the economy added 114k jobs in the same month, drastically lower than the anticipated 175k jobs. Additionally, the Non-Farm Payroll (NFP) for June was revised lower from 206k to 179k.
- Previously released ADP employment figures also showed that businesses added workers at the slowest pace in six months (July: 122k vs. June: 155k), signaling a slowdown on the private sector front too.
- Following the shock, markets are now weighing in a 50bp rate cut from the Fed in its September meeting, which had pressured the greenback through the week. As such, the local note was supported and closed the week at 1.7% higher against the USD.
- Moving forward, we believe the local note will be traded cautiously as markets await the release of the U.S. CPI on Wednesday.

COMMODITY: OIL PRICES SET FOR WEEKLY GAIN AS BULLISH SENTIMENT RISES





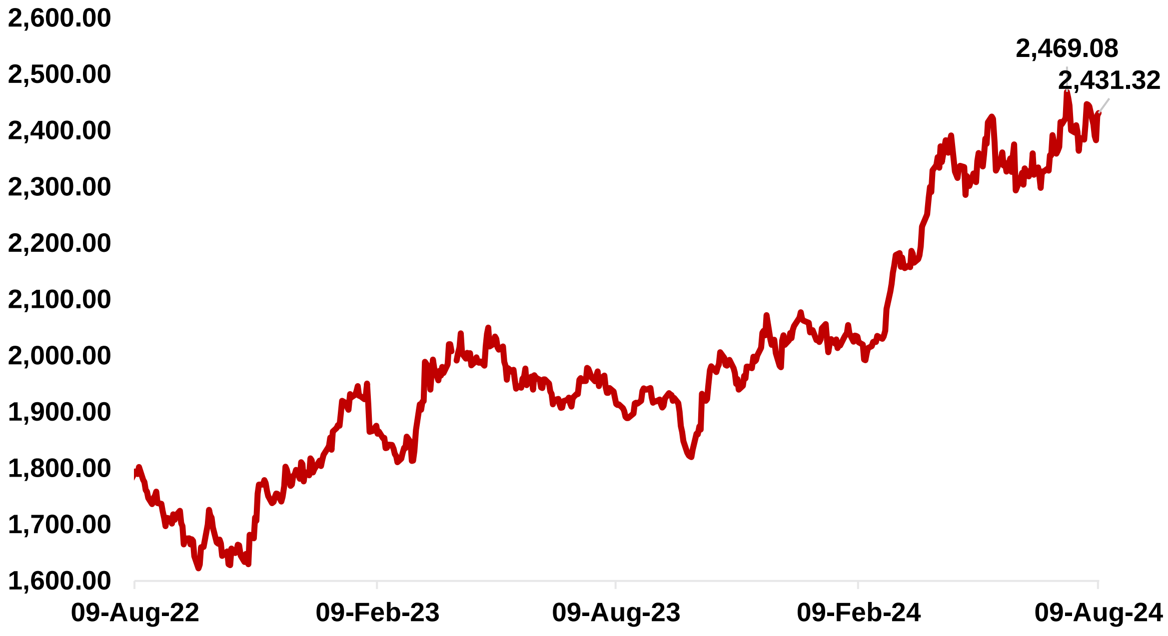
Sources: Bloomberg, Energy Information Administration (EIA)

- Brent prices rose over 3.5% for the week ending August 9, driven by positive economic data and potential Fed rate cuts, despite persistent Middle East supply risks.
- U.S crude inventories fell by 3.7 million barrels for the week ending August 2. Recently, the market has been concerned about Middle East supply risk due to the heightened chance of a full-scale regional conflict following the assassinations of Hamas leader.

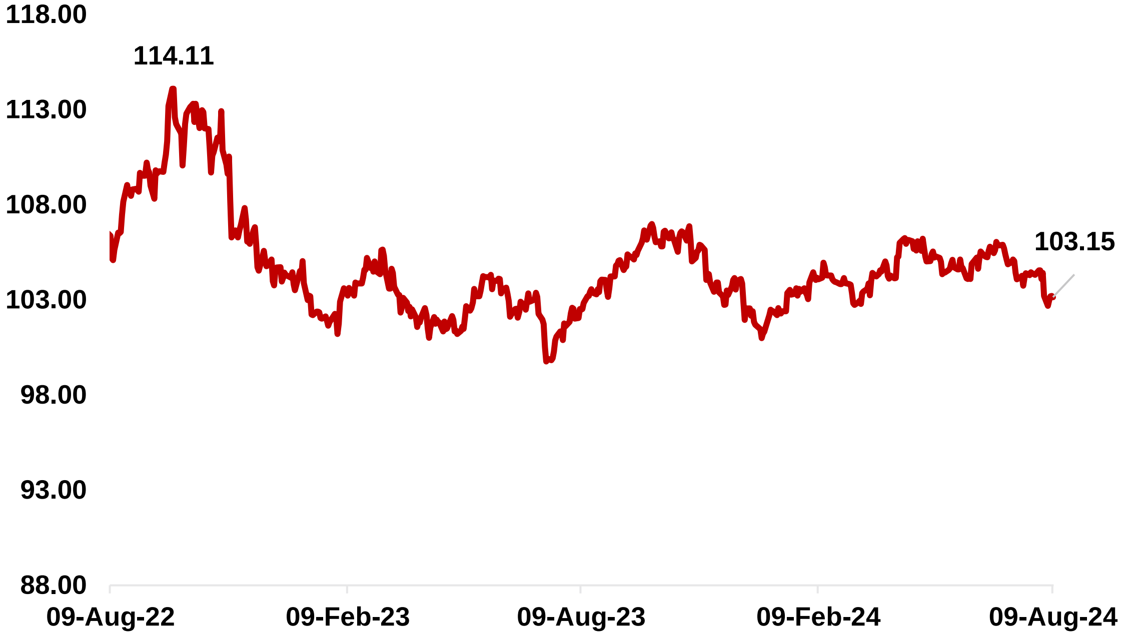
COMMODITY: GOLD PRICES ON TRACK FOR WEEKLY LOSS DESPITE THE WEAKER GREENBACK

BANK ISLAM

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, BLS

- The bullion price faced a volatile week last week as the fears of a U.S. recession overwhelms the market and investors flocked to the safe-haven asset.
- However, following the release of several favourable U.S. economic data, namely the Purchasing Managers' Index (PMI) and Initial Jobless Claims (IJC), demand for the bullion slowed with its price slipping by 0.5% w-o-w.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- Market expectations for sharp interest rate cuts by the Fed have been building since weaker-than-expected labour market data spurred recession fears. The U.S. CPI data for July, due this week, is likely to underscore a receding inflationary trend, further solidifying the case for an imminent rate cut by the Fed. The market consensus is for inflation to ease slightly from 3.0% in June. Any upside surprise could lead investors to pare back their aggressive rate cut bets, while a downside surprise would likely increase confidence in a 50bp cut in September. Currently, the market is split between a 25bp and 50bp cut in September.

- While no rate changes are expected, this week's Medium-Term Facility (MLF) Rate decision by the People's Bank of China (PBoC) will be closely watched for clues on the future rate path following last month's surprise cuts in key lending rates. Additionally, China is set to release key economic data for July, including retail sales, industrial production, the unemployment rate, and property prices. Retail sales are particularly expected to improve, aligning with the stronger-than-anticipated inflation figures. However, weaker-than-expected numbers could intensify calls for more effective fiscal stimulus measures.

- The Reserve Bank of New Zealand (RBNZ) is expected to begin cutting interest rates this week, likely reducing the Official Cash Rate (OCR) by 25 basis points to 5.25%. Conditions for monetary easing have emerged due to moderating inflationary pressures, with headline inflation expected to fall within the 1.0%-3.0% target range in the coming months, alongside softening economic conditions. Additionally, in its previous policy meeting in July, the RBNZ adopted a dovish stance, expressing optimism about disinflation and indicating that the policy rate would be lowered in tandem with the anticipated easing in inflation.

- Malaysia's 2Q2024 GDP report, scheduled for release this Friday (August 16), is expected to confirm an acceleration in growth from 4.2% in 1Q2024. This improvement is likely driven by the bottoming out of the global semiconductor downcycle, increased investment spending, resilient household consumption, and a favourable base effect from the previous year. Notably, exports of electronics and electrical products (E&E) turned positive in 2Q2024, rising by 2.0% after four consecutive quarters of declines, which is expected to bolster net exports. Investment activity has picked up, with increasing foreign direct investment (FDI) into Malaysia's data centres and renewable energy projects. Despite concerns over higher living costs, private consumption remains robust, supported by holiday demand, healthy labour market conditions, and government cash transfers.

THANK YOU