



WEEKLY ECONOMIC UPDATE

18 JUNE 2024

ECONOMIC RESEARCH

IMRAN NURGINIAS IBRAHIM

LEE SI XIN

NOR LYANA ZAINAL ABIDIN

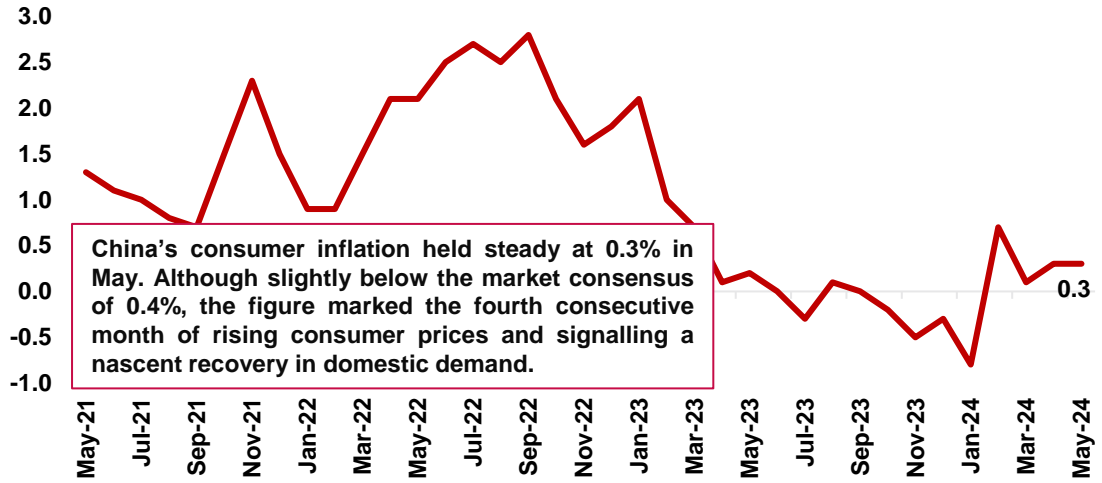
KHAYRIN FARZANA FAZLI

AMIRATUL HUSNA MOHAMMAD

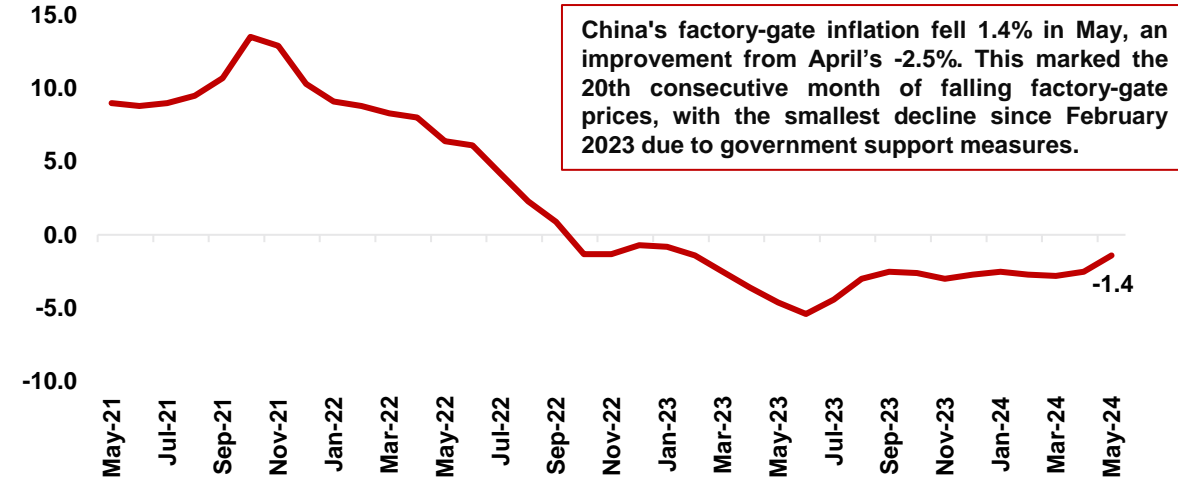
WEEKLY HIGHLIGHT: CHINA'S STEADY INFLATION HEIGHTENS PRESSURE FOR MORE DEMAND-BOOSTING STIMULUS

GLOBAL

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

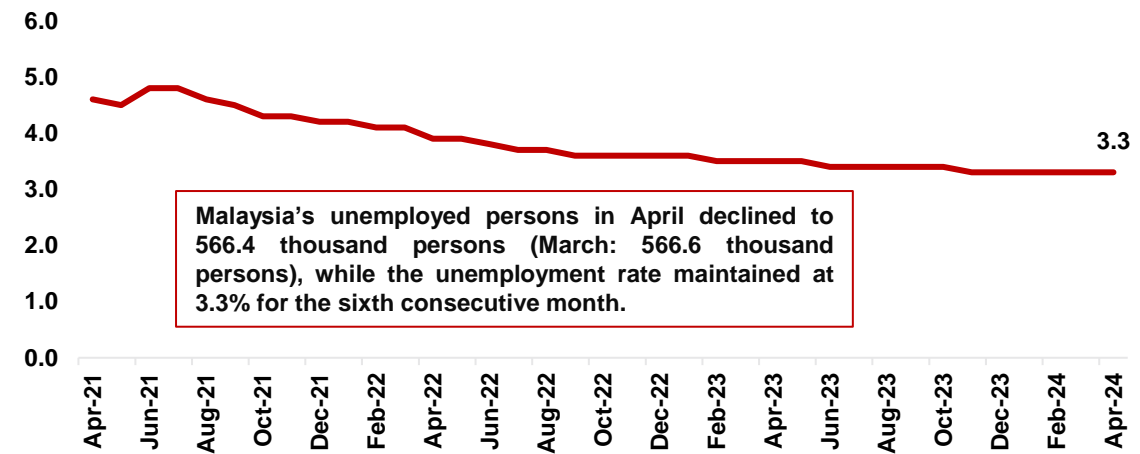


China - Producer Price Index (PPI), y-o-y%

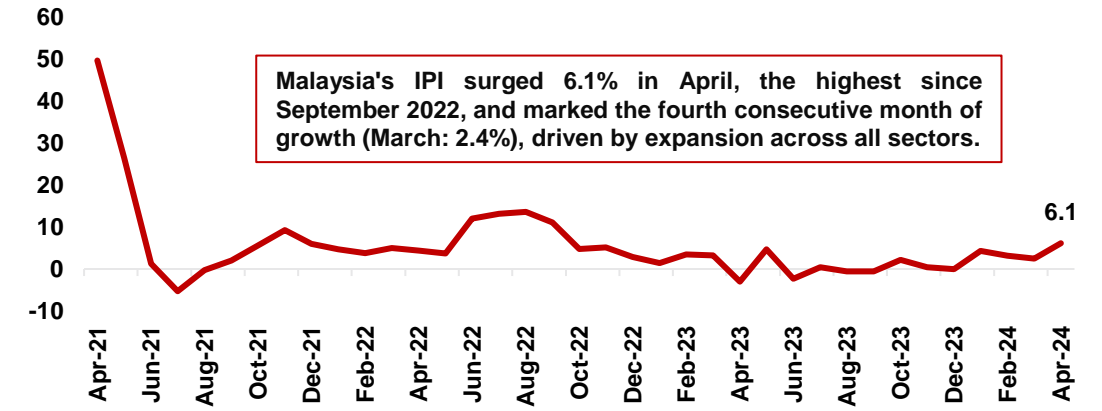


DOMESTIC

Malaysia - Unemployment Rate, y-o-y%

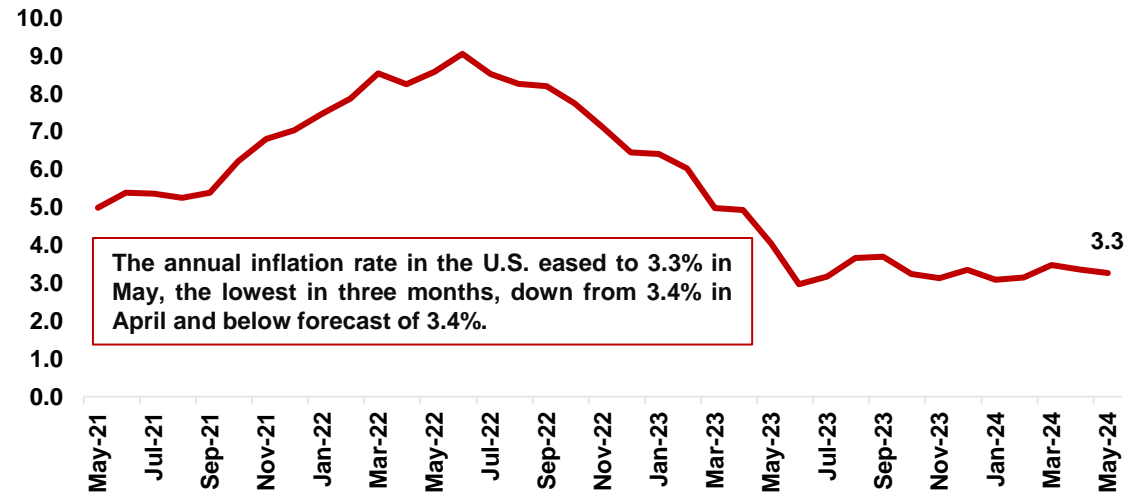


Malaysia - Industrial Production Index (IPI), y-o-y%

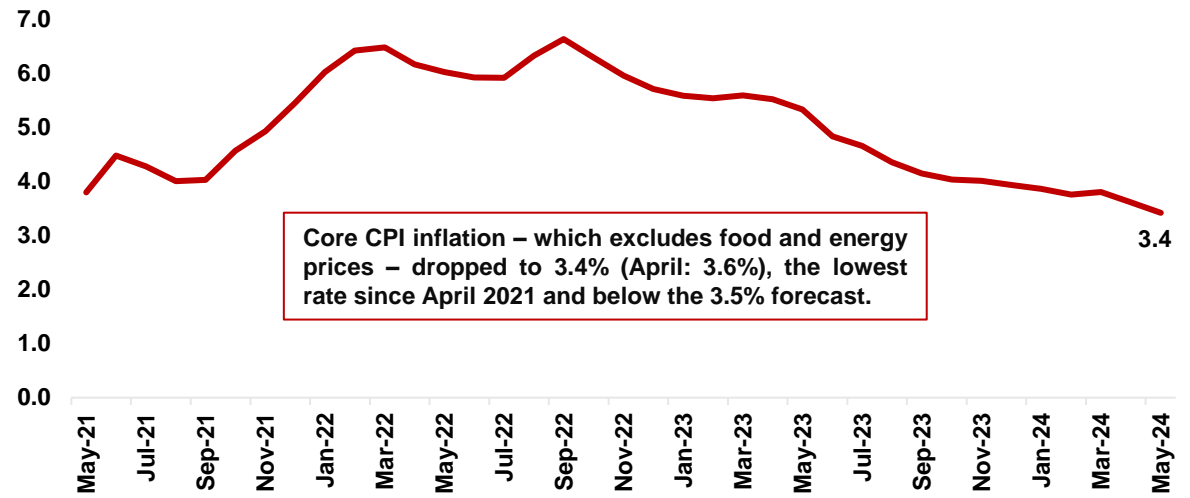


U.S. WEEKLY HIGHLIGHT: COOLING U.S. INFLATION BOOSTS RATE CUT EXPECTATIONS

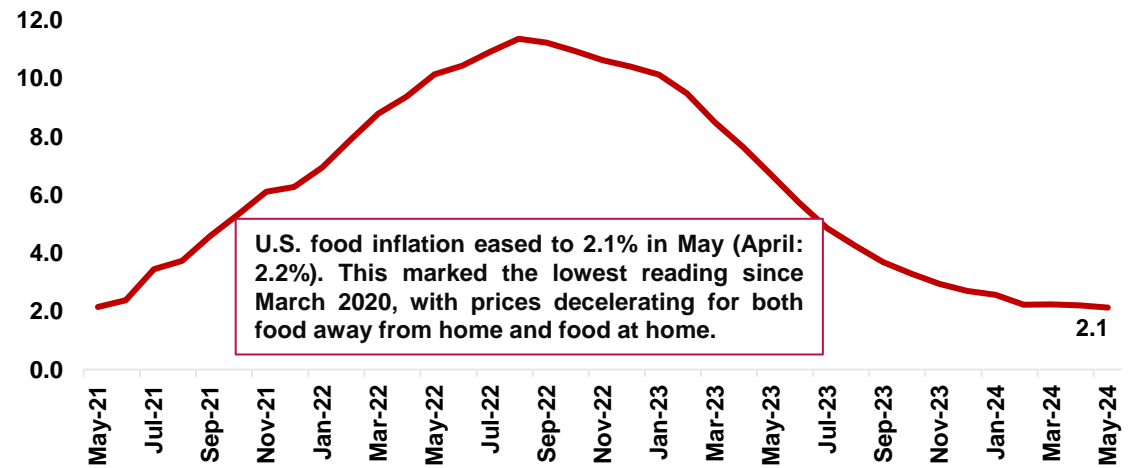
U.S. CPI, y-o-y%



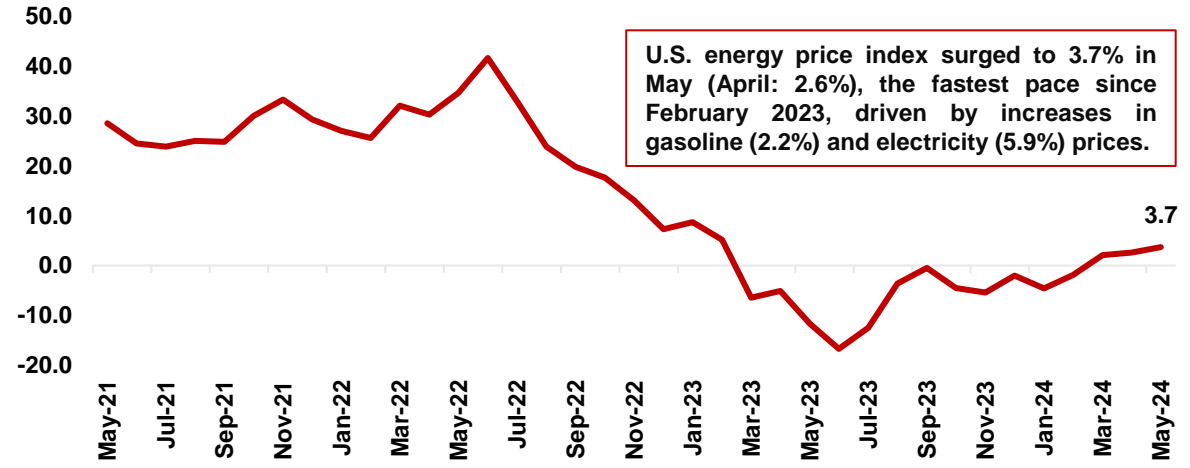
U.S. Core CPI, y-o-y%



U.S. CPI (Food), y-o-y%

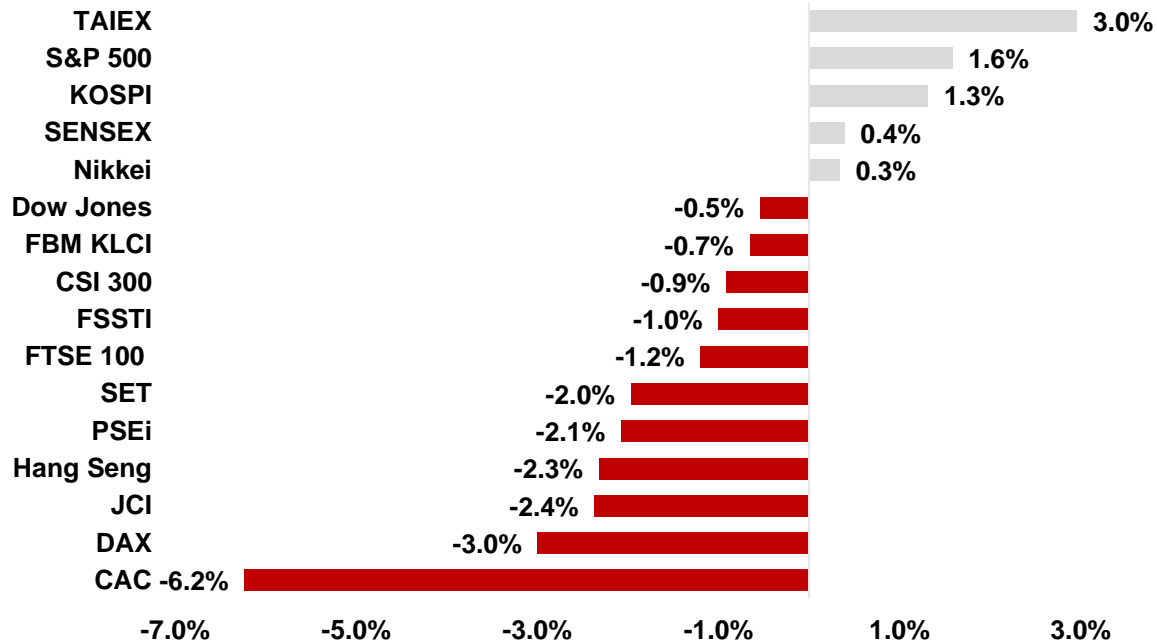


U.S. CPI (Energy), y-o-y%

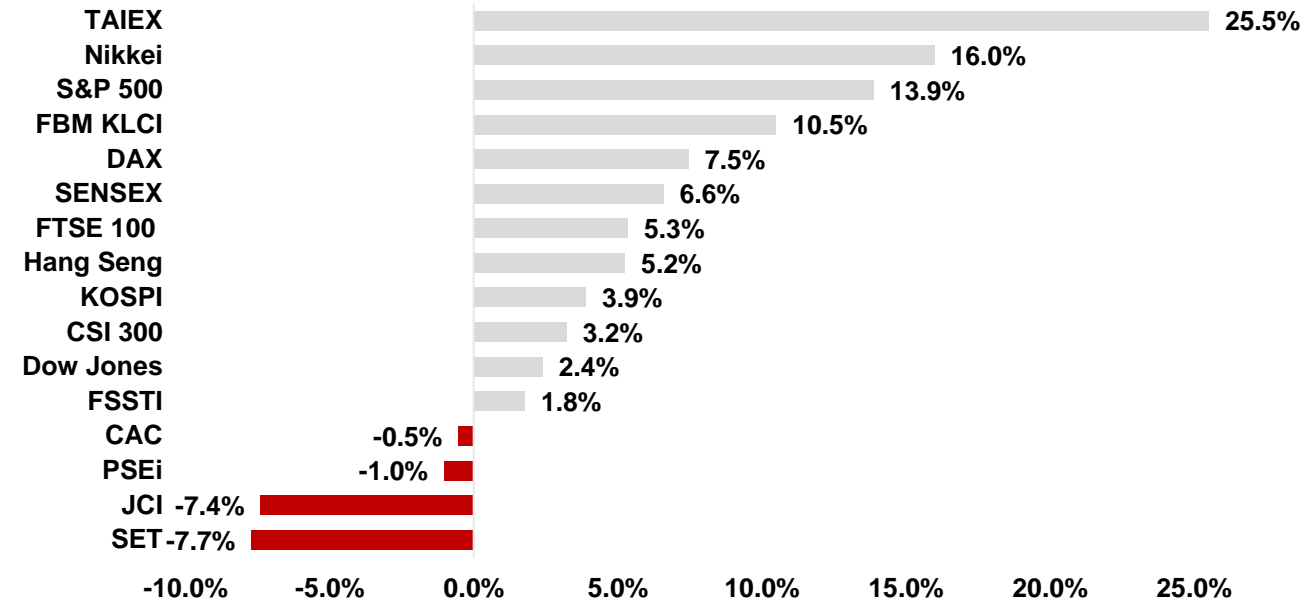


REGIONAL EQUITY: EUROPEAN STOCKS DIPPED FOLLOWING POLITICAL TURMOIL IN EUROPE

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



YTD Gain/Loss of Major Equity Markets, % (As of 14 June 2024)

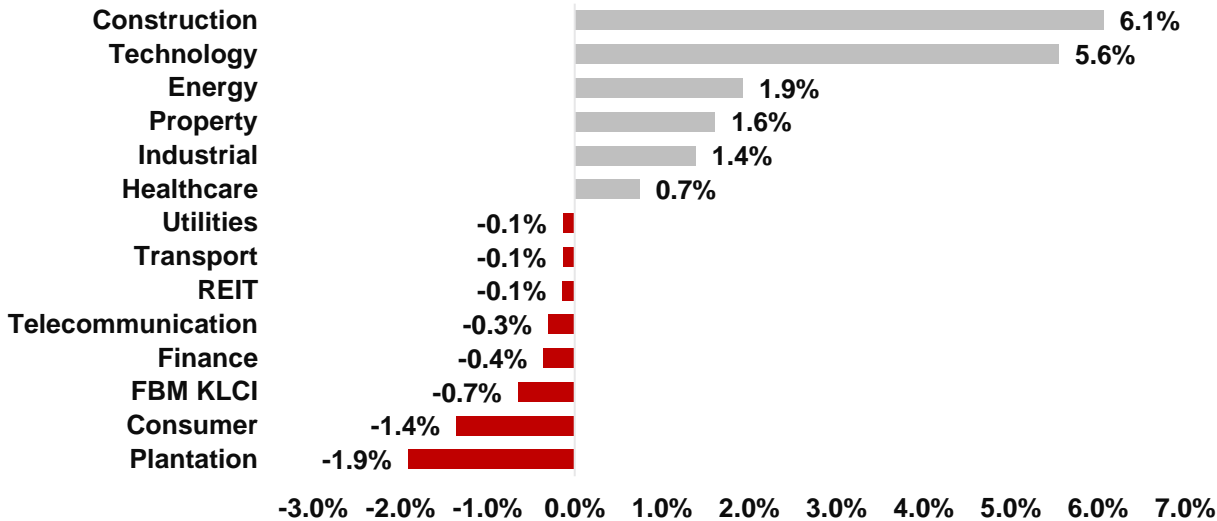


Sources: Bursa, CEIC Data

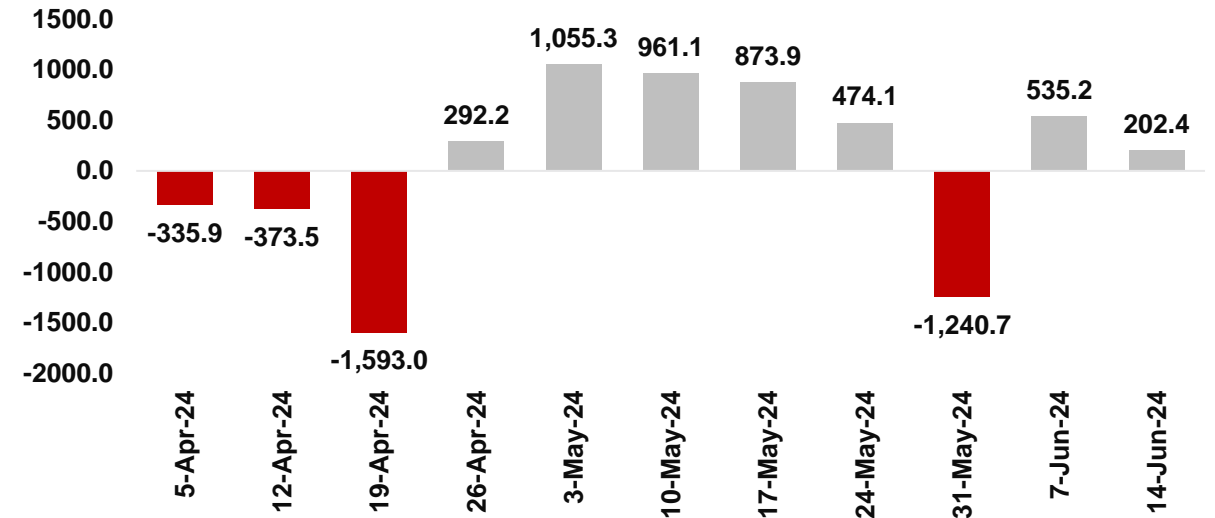
- The global stocks market mostly ended in the red for the week ending June 14, with the European stocks - France's CAC (-6.2%) and Germany's DAX (-3.0%) as the major losers as the possibility of a far-right government is causing jitters in European financial markets.
- Investors had cheered recent economic data showing U.S. inflation slowing down faster than expected, rekindling hopes of more rate cuts from the Fed. However, these expectations were quickly dashed when the Fed lowered its forecasted number of rate cuts for this year from three to just one, signaling a more cautious approach than anticipated.
- On the other hand, Taiwan's TAIEX (+3.0%), U.S.' S&P 500 (+1.6%) and South Korea's KOSPI (+1.3%) were the top gainers for last week.

DOMESTIC EQUITY: THE FBM KLCI CLOSED IN THE RED ON CAUTIOUS SENTIMENT BANK ISLAM

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, DOSM, CEIC Data

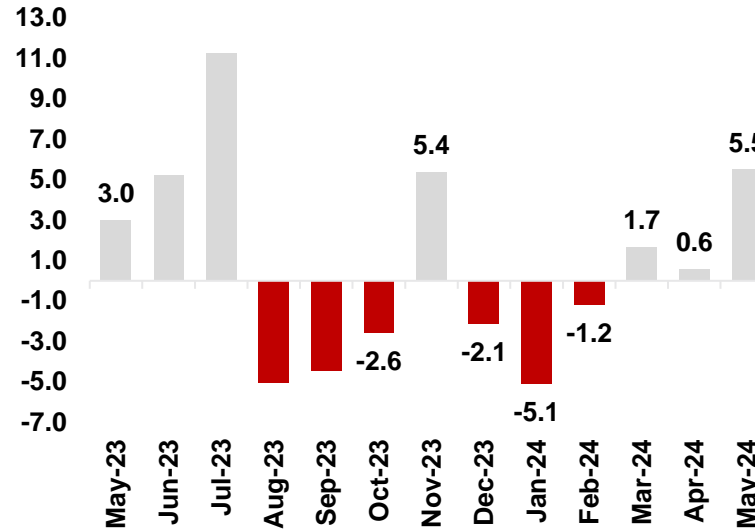
- The FBM KLCI slipped by 0.7% for the week ending June 14 amid profit taking activities.
- Investor sentiment was cautious as the Fed met last week. The latest Fed dot plot projections revealed that the Fed had trimmed down their expectations to only one rate cut in 2024, leading investors to scale back their rate cut expectations.
- Nevertheless, investors' confidence in Malaysia's construction developments and technological advancement projects remained strong, supporting the related stocks with the Technology index extending its gains to a 28-month high while the Construction index hit the highest level since mid-2018 on Thursday.
- Meanwhile, the Plantation (-1.9%) index was the biggest loser, followed by the Consumer (-1.4%) and Finance (-0.7%) indices.
- Foreign investors remained net buyers for the second straight week with a total net inflow of RM202.4 million. The net buying had increased the cumulative total net inflow this year thus far to RM184.5 million.

FIXED INCOME: YIELDS EDGED LOWER DESPITE HAWKISH TONE BY THE FED AMID LOWER INFLATION FIGURES

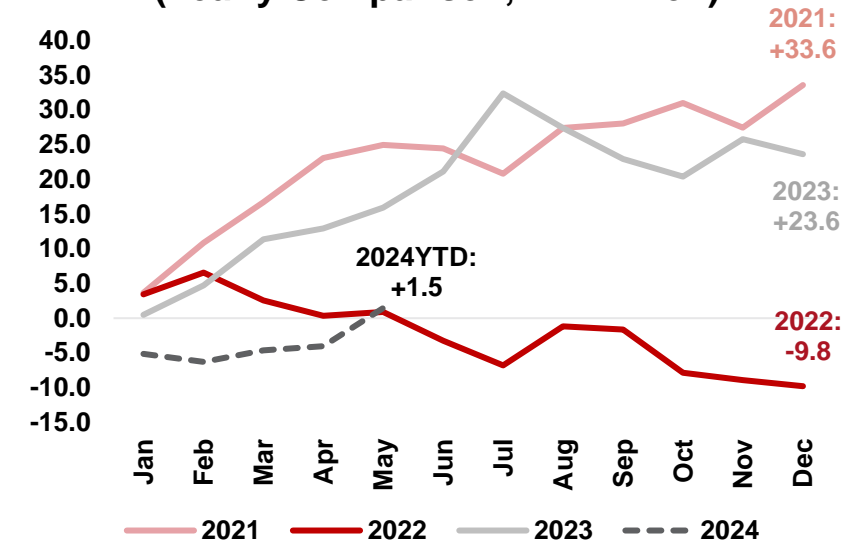
Weekly Changes, basis points (bps)			
UST	Yields (%) 7-Jun-24	Yields (%) 14-Jun-24	Change (bps)
3-Y UST	4.65	4.41	-24
5-Y UST	4.46	4.22	-24
7-Y UST	4.45	4.20	-25
10-Y UST	4.43	4.20	-23
MGS	Yields (%) 7-Jun-24	Yields (%) 14-Jun-24	Change (bps)
3-Y MGS	3.55	3.54	-1
5-Y MGS	3.65	3.66	0
7-Y MGS	3.81	3.80	-1
10-Y MGS	3.86	3.86	0
GII	Yields (%) 7-Jun-24	Yields (%) 14-Jun-24	Change (bps)
3-Y GII	3.51	3.49	-2
5-Y GII	3.65	3.64	-2
7-Y GII	3.80	3.80	-1
10-Y GII	3.88	3.87	-1

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

Foreign Fund Flows in Local Bond Market, RM Billion



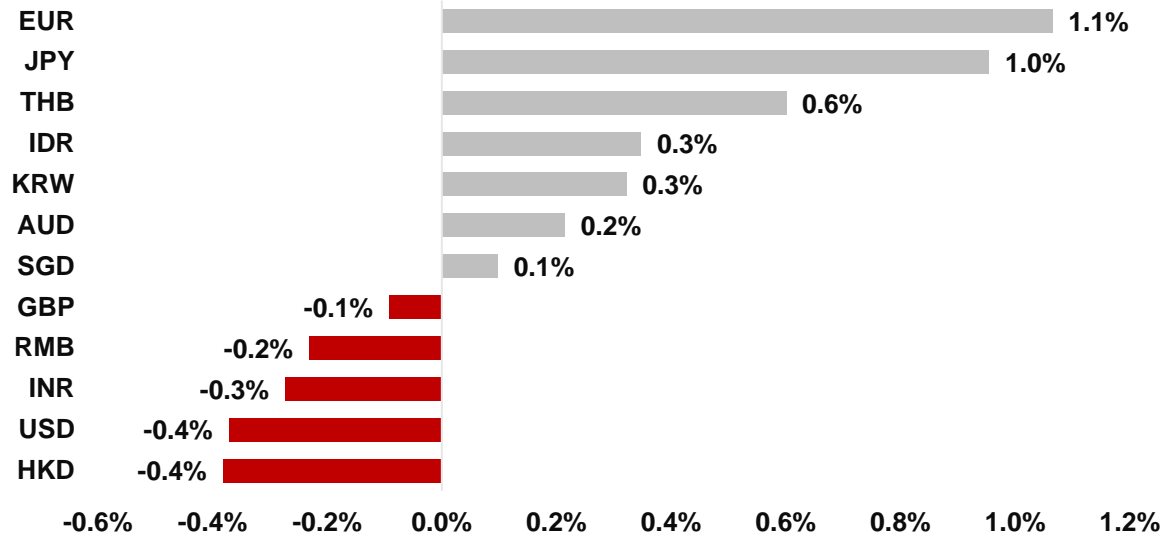
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



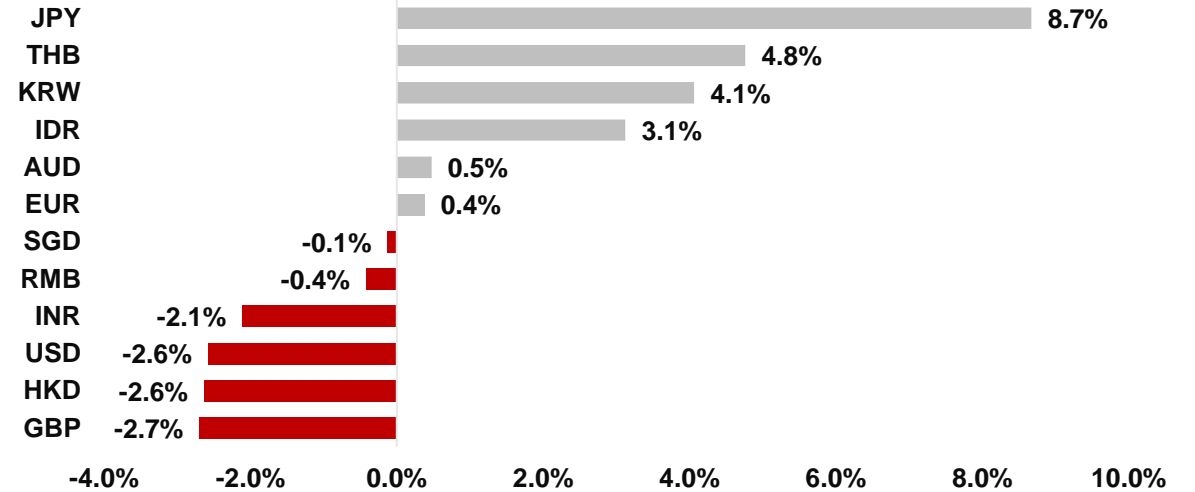
- The U.S. Treasury (UST) yields edged lower between 23bps and 25bps for the week ending June 14 as lower-than-expected inflation print has led bond investors to believe the Fed might cut interest rates more than one time this year.
- Domestically, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields mostly fell slightly, in the range of 1bp and 2bps. On the other hand, 3-Y and 10-Y MGS yield remained constant at 3.66% and 3.86%, respectively.
- Foreign fund flows in the local bond market remained in the positive territory with a larger net foreign inflow of RM5.5 billion in May (April: +RM0.7 billion). Thus, local govvies' foreign shareholdings to total outstanding climbed to 21.6% in May (April: 21.2%).
- For the first five months of this year, the local bond market recorded the cumulative net foreign inflows of RM1.5 billion, significantly lower than the inflows of RM15.9 billion in the same period in the previous year.

FX MARKET: RINGGIT ON TRACK FOR WEEKLY LOSS AS THE FED'S HAWKISH TONE DOMINATES

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD%
(As of 14 June 2024)



Sources: BNM, Federal Reserve Board, BLS

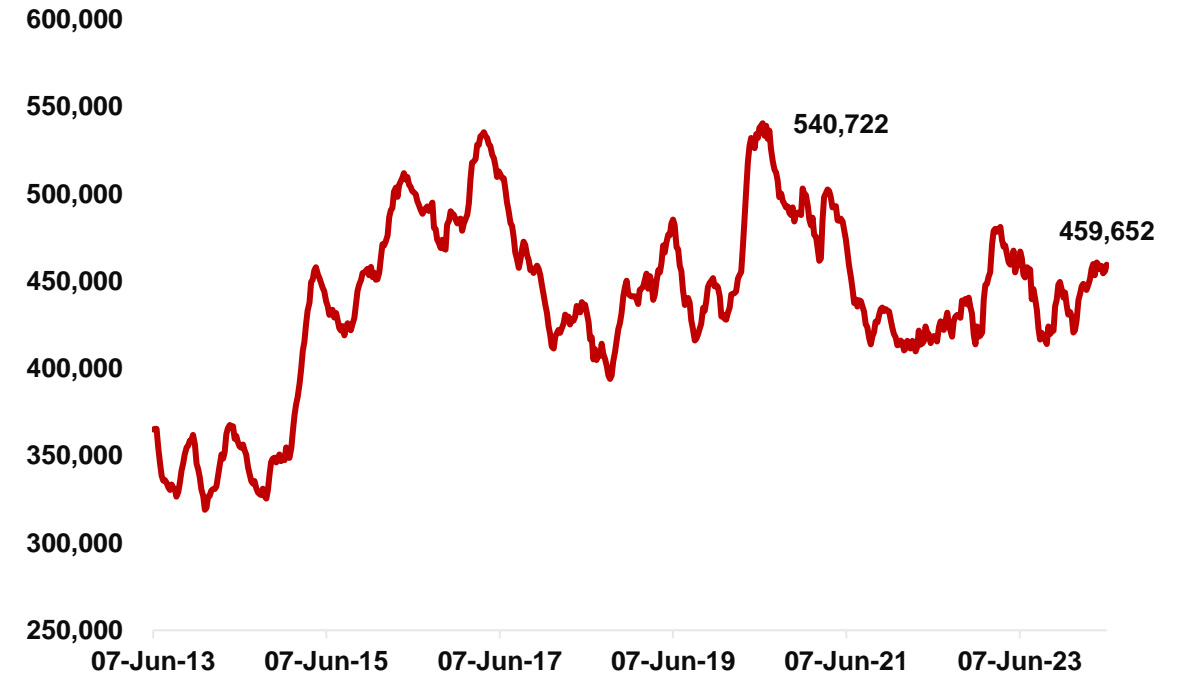
- Ringgit depreciated against the USD for the week ending June 14 to close at RM4.7130 from RM4.6955 a week ago as the USD index returned to trend above the 105-level.
- The strength of the greenback was attributable to the hawkish tone of the Fed, offsetting its earlier slip due to the softer than expected May inflation (Act: 3.3% vs. Est: 3.4%). Of note, the Federal Open Market Committee (FOMC)'s June dot plot projections pointed to only one rate cut in 2024 compared to the three cuts expected in March. Coupled with Fed Chair Jerome Powell's post-meeting remarks, signalling that the Fed has yet to gain confidence in the disinflation trend, the greenback rose by 0.6% w-o-w.
- Nevertheless, the local note appreciated 1.1% against the Euro as political instability currently plagued Europe, dragging the Euro against the USD.
- In the week ahead, we posit the local note to trade cautiously with U.S. retail sales data coming into focus.

COMMODITY: OIL PRICES ARE POISED FOR A WEEKLY GAIN ON A STRONG DEMAND OUTLOOK

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- Brent prices rose 4.0% for the week ending June 14 on forecasts of strong demand for crude oil and fuel in 2024.
- Nevertheless, U.S. crude oil inventories rose last week due to increased domestic production and imports, coupled with reduced oil exports, standing at 459.7 million barrels, 4.0% below the five-year average.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY GAIN FOLLOWING WEAKER THAN EXPECTED U.S. INFLATION

Gold in USD per ounce



U.S. Dollar Index (DXY)



Source: Bloomberg

- The bullion price surged by 1.7% following the softer-than-anticipated U.S. inflation print, heightening market bets of a Fed rate cut happening in September despite the Fed's more hawkish tone.
- Furthermore, demand for the bullion as well as the greenback increased as risk-averse investors fled to these safe-haven asset amid the political turmoil in Europe.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The latest flurry of economic data from China was mixed, intensifying calls for Beijing to enhance growth. China's May industrial production and fixed-asset investment both disappointed, while retail sales came in above consensus, likely boosted by holiday demand. We believe the chance of a Loan Prime Rate (LPR) cut this week still exists, although it is dented by the most recent decision from the People's Bank of China (PBoC) to stand pat on its Medium-term Lending Facility (MLF) rate. The decision is perceived as an indication that the PBoC's ability to cut rates is limited by currency weakness and a shrinking interest margin.
- Markets are of the view that persistent inflation and the upcoming election on July 4 will keep the Bank of England (BoE) from cutting its interest rates at its policy meeting this week. We expect the BoE's Monetary Policy Committee (MPC) to vote to keep rates steady at a 16-year high of 5.25% for the seventh time in a row, with an unchanged vote split of 7-2, as recent remarks from several policymakers who voted for no rate changes indicate caution about underlying inflationary pressures. Nonetheless, focus will be on the post-meeting statement for any changes in forward guidance that could offer greater clarity about the timing of the first rate cut. Given the BoE's data dependent approach, markets currently price in about a half chance of the first rate reduction in August.
- Elsewhere, the Reserve Bank of Australia (RBA) has kept the cash rate on hold at a 12-year high of 4.35% for the fifth straight meeting this week as the latest data pointed to a still-robust job market and inflation continued to run above the target band of 2.0%-3.0%. Nevertheless, the RBA has indicated that it remains non-committal on the next interest rate move, open to either hiking or cutting rates. Given the risks of persistent inflation, with the RBA board citing broader data indicating excess demand in the economy, coupled with elevated domestic cost pressures, the prospect of a rate cut before the end of this year seems less likely.
- Malaysia is scheduled to publish trade data for May this week, which will be watched if the rebound in exports persists. Exports have advanced by 9.1% in April, recovering from a decline of 0.9% in the previous month as all sectors registered gains. Meanwhile, growth in imports picked up further to 15.6% in April from 12.5% in the previous month.

BANK ISLAM

THANK YOU