WEEKLY ECONOMIC UPDATE

18 SEPTEMBER 2024

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: CHINA'S DEFLATION CONCERNS PERSIST

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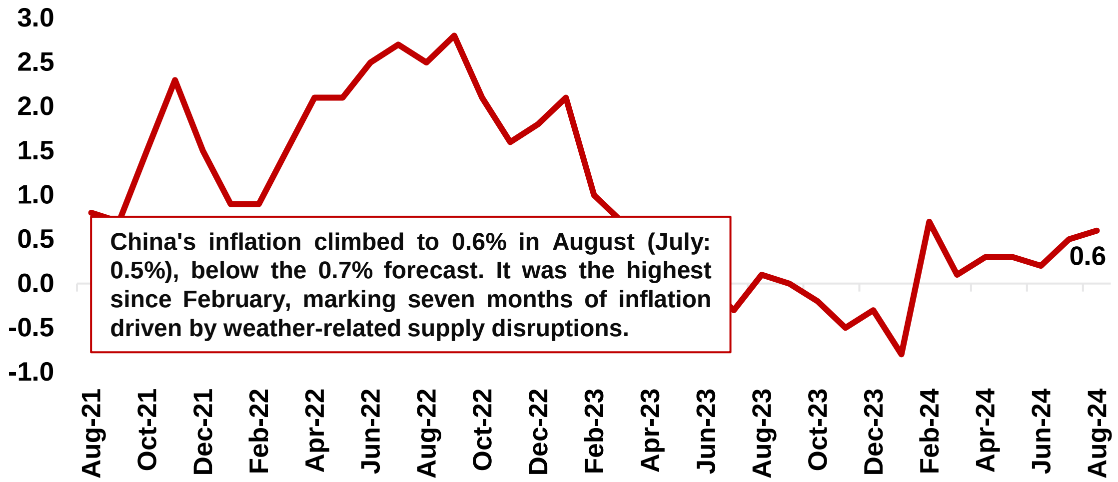
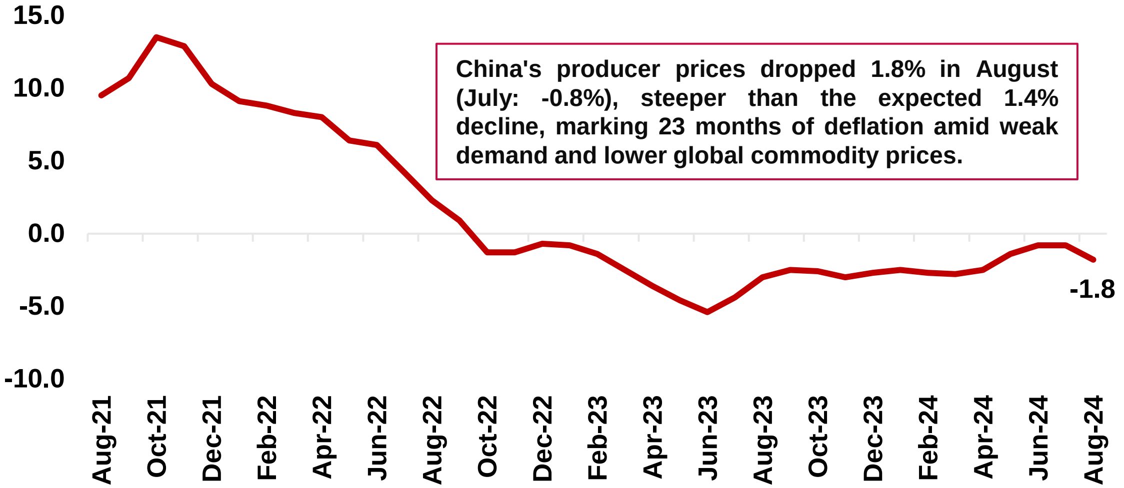
GLOBAL

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

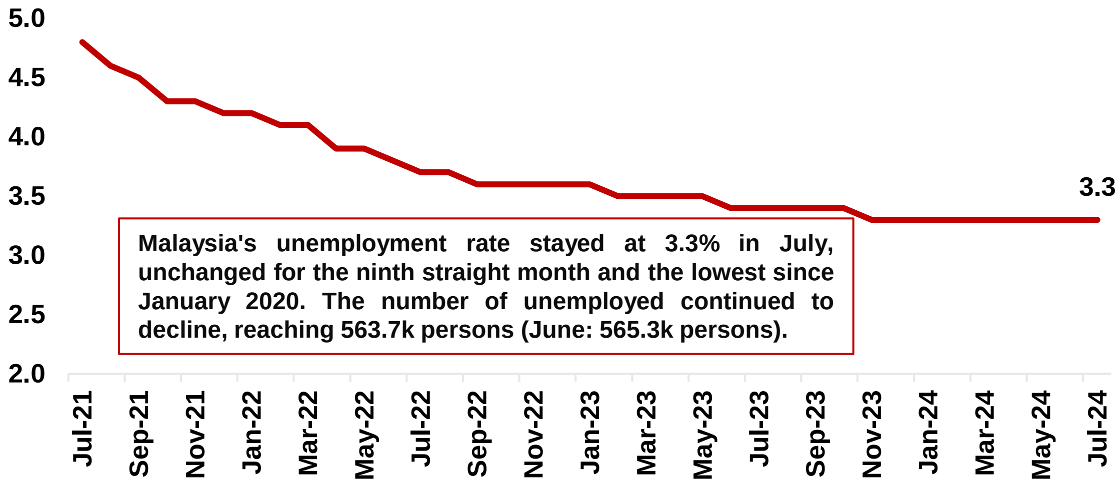


China - Producer Price Index (PPI), y-o-y%

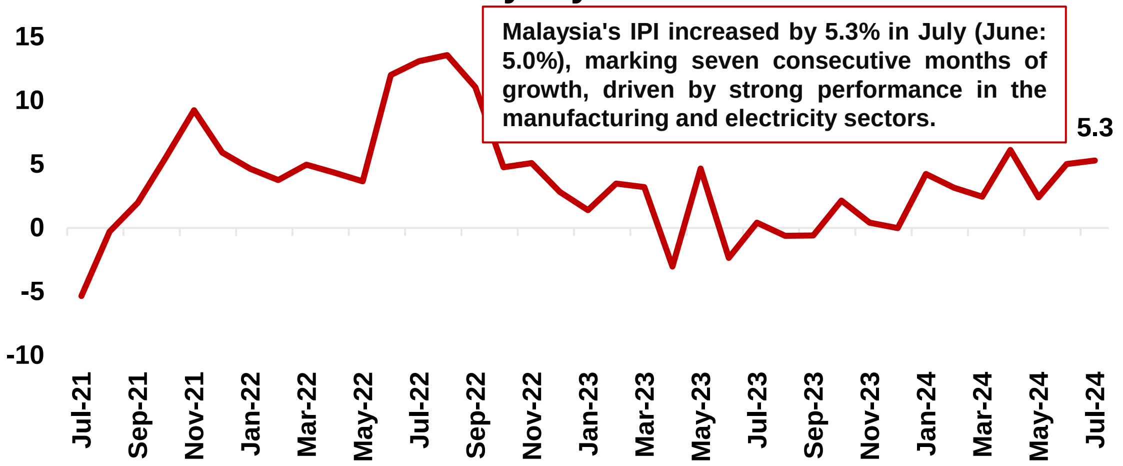


DOMESTIC

Malaysia - Unemployment Rate, y-o-y%



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



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

U.S. WEEKLY HIGHLIGHT: U.S. INFLATION COOLS, YET SOME STICKINESS LINGERS

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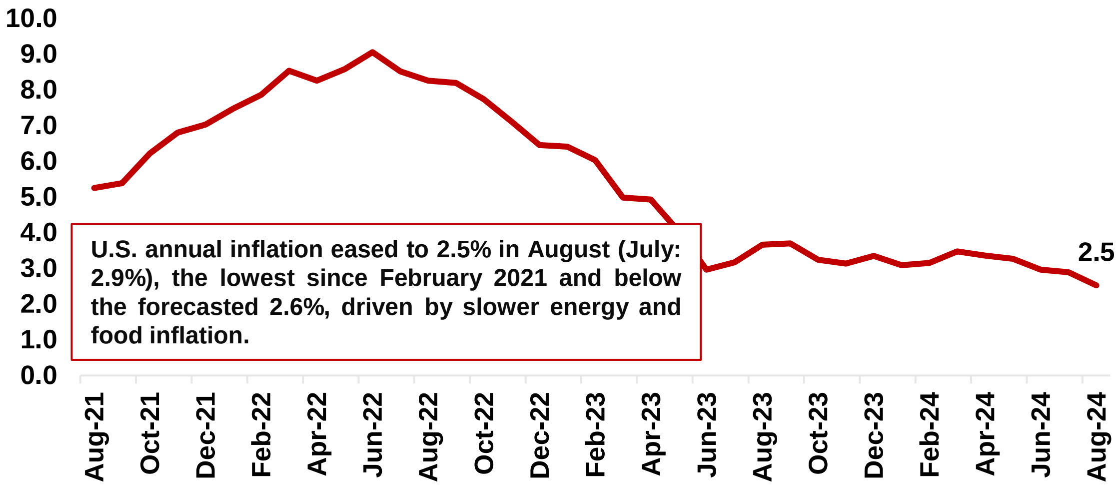
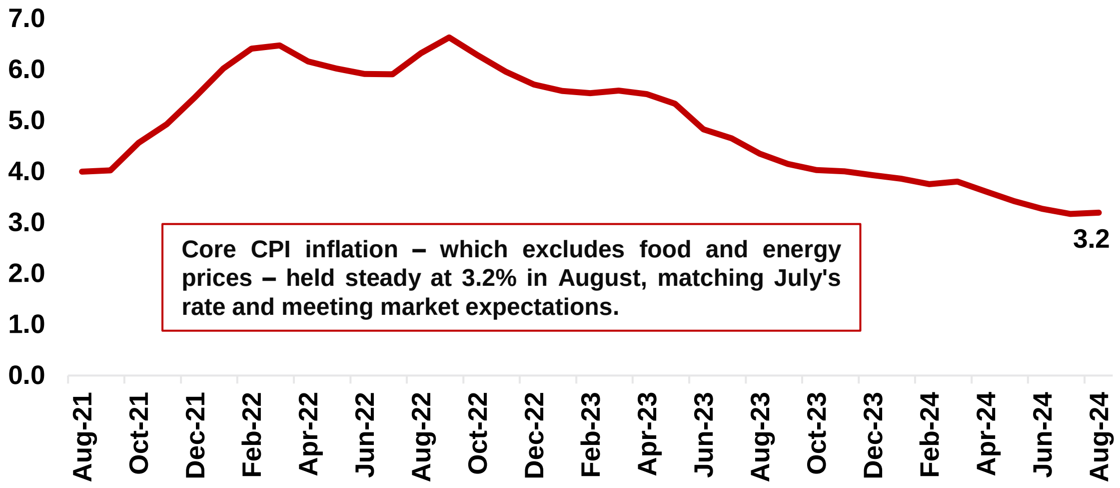
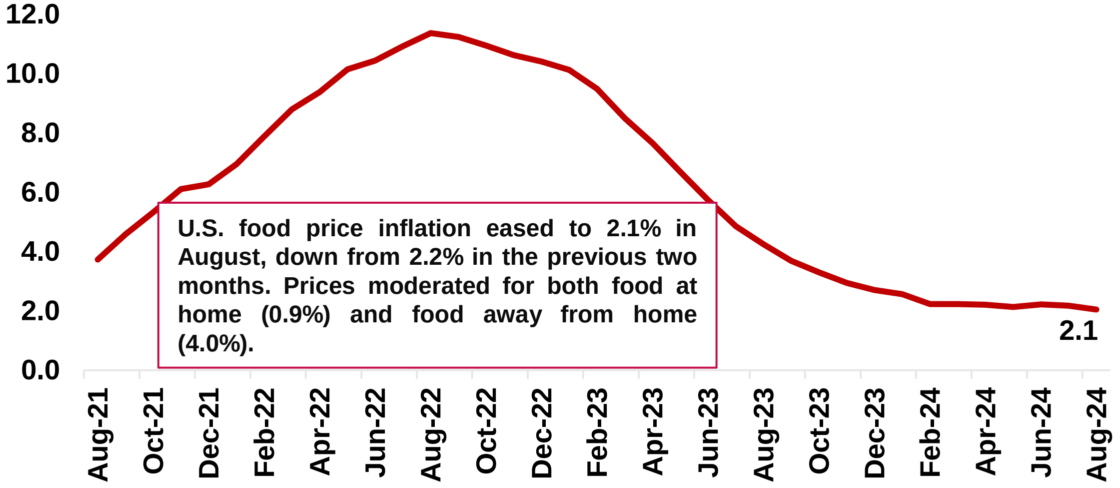
U.S. CPI, y-o-y%



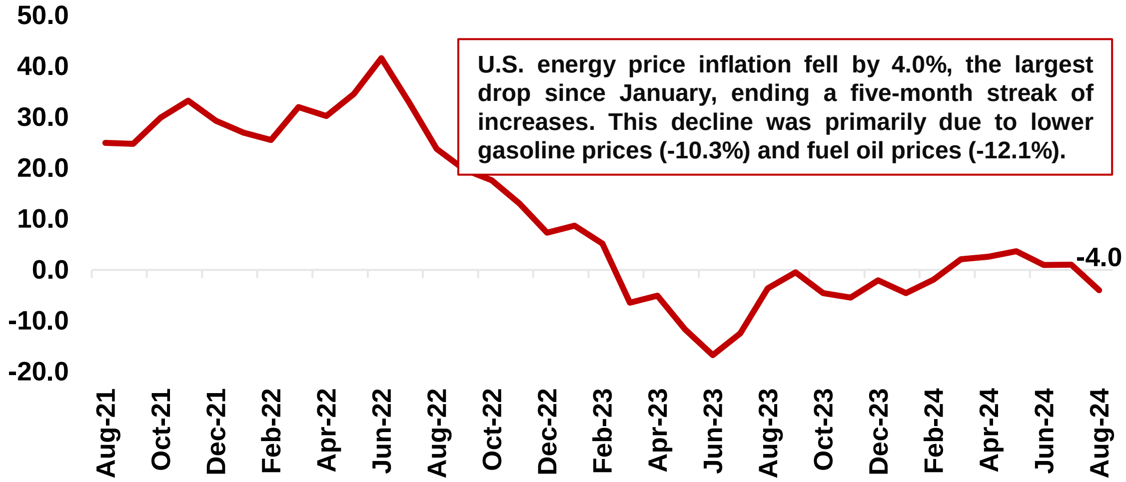
U.S. CPI (All Items less Food and Energy), y-o-y%



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

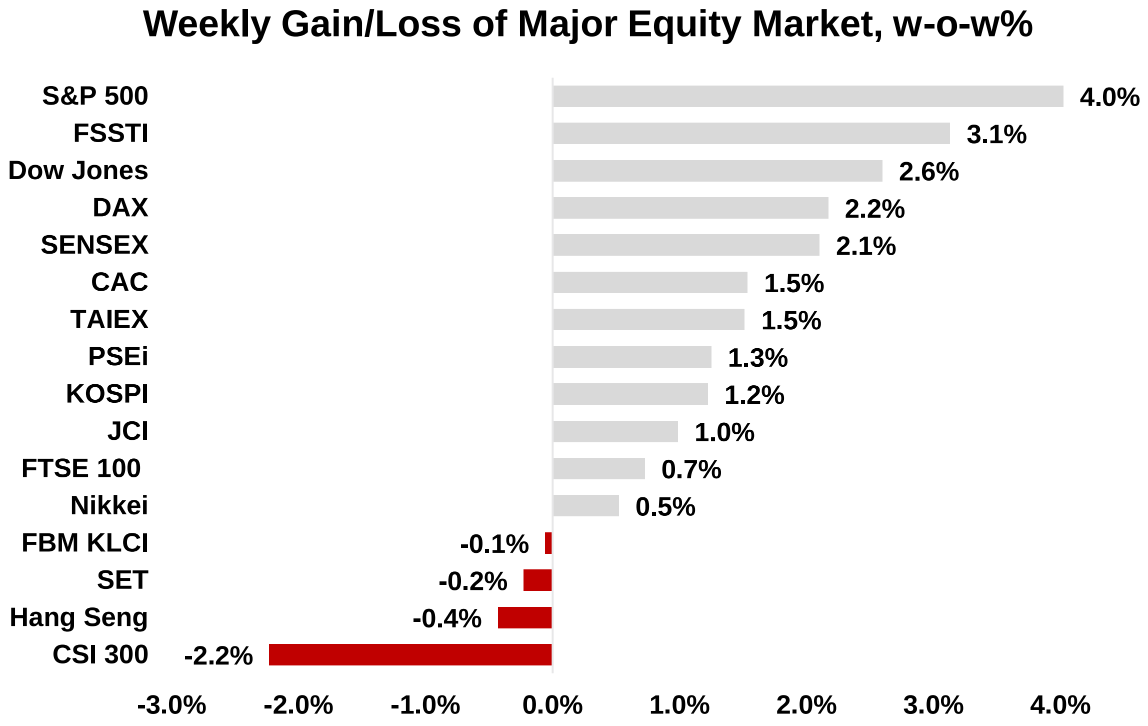


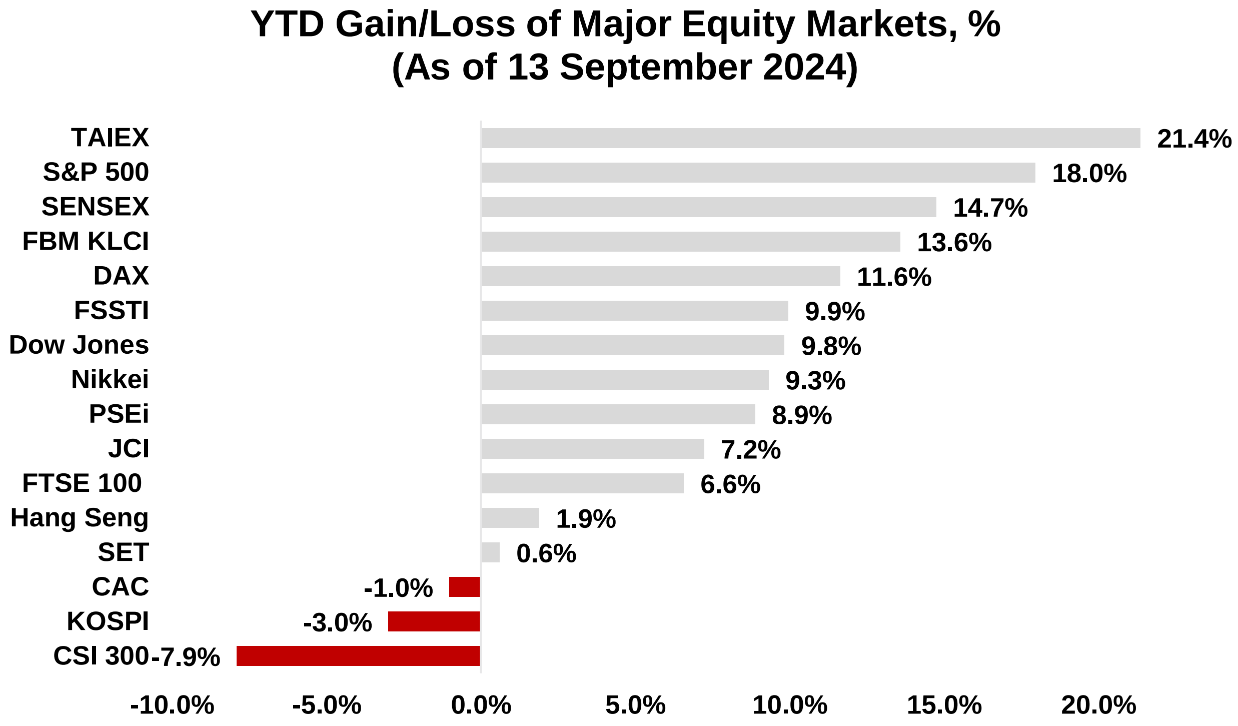
U.S. CPI (Energy), y-o-y%



Source: U.S. Bureau of Labor Statistics (BLS)

REGIONAL EQUITY: RISING HOPES FOR FED RATE CUTS UPLIFTED U.S. STOCKS





Sources: Bursa, CEIC Data

- The global stocks market mostly ended in the green for the week ending September 13, spearheaded by U.S. stocks – S&P 500 (+4.0%) and Dow Jones (+3.1), driven by rising expectations of a larger interest rate cut at the Federal Reserve’s (Fed) Federal Open Market Committee (FOMC) meeting on September 17 and 18.
- Additionally, Singapore’s FSSTI expanded by 3.1%, fueled by robust economic outlook that bolstered investors’ confidence. The managing director of the Monetary Authority of Singapore (MAS) stated at a forum that the city-state's economy is expected to grow towards the upper end of its 2.0%-3.0% forecast range for this year.
- On the contrary, Chinese stocks - China’s CSI 300 (-2.2%) and Hong Kong’s Hang Seng (-0.4%) were the major losers in the face of persistently weak domestic demand and growing external pressures.

DOMESTIC EQUITY: LOCAL MARKET CLOSED MIX, REFLECTING INVESTORS' APPETITE

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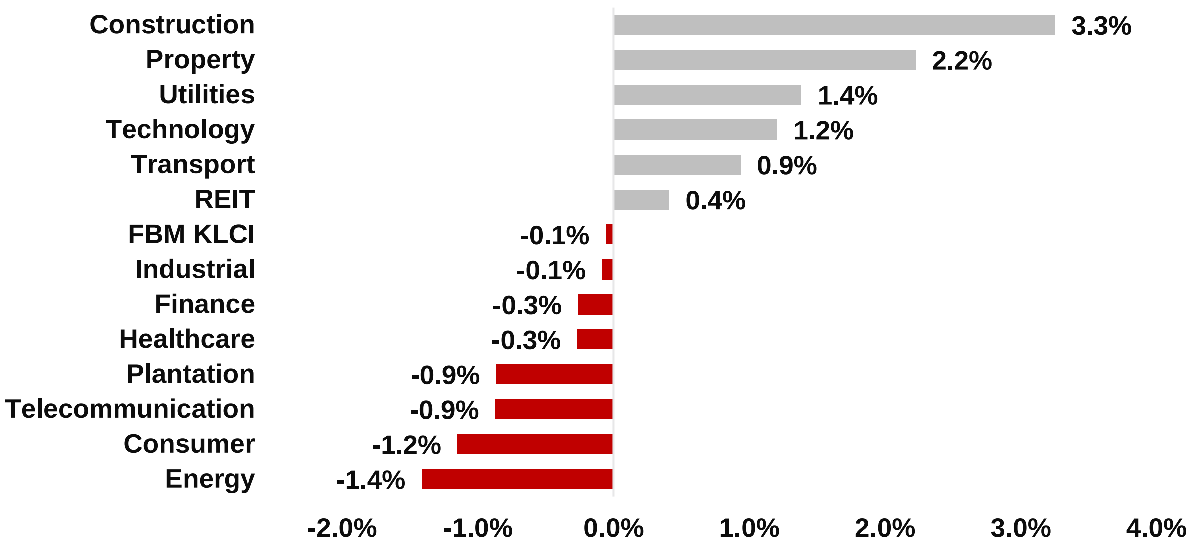

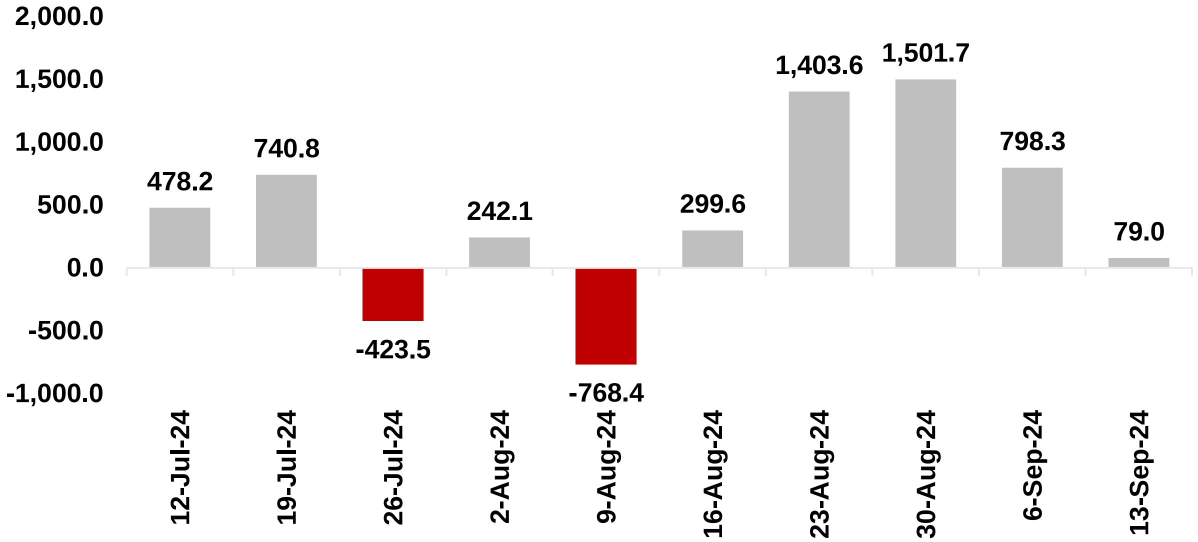

Sources: Bursa, CEIC Data

- The FBM KLCI slipped by 0.1% w-o-w for the week ending September 13 amid late selling activities in selected stocks.
- Investor sentiments were largely lifted by the latest U.S. inflation report which solidified expectations of a Fed rate cut this week, thus fueling investors' appetite for riskier assets. However, this also translated into lower buying interest in defensive stocks.
- As such, the Energy index emerged as the biggest loser, slipping by 1.4%, followed by the Consumer (-1.2%), Telecommunications (-0.9%) and Plantation (-0.9%) indices.
- Meanwhile, the Construction index (3.3%) was the top gainer, followed by the Property and Utilities indices which rose by 2.2% and 1.4%, respectively.
- Foreign investors remained as the net buyers for the fifth straight week albeit at a smaller magnitude, accumulating a total of RM79.0 million worth of equities. The net buying had increased the cumulative total net inflow this year to RM4.1 billion.

FIXED INCOME: UST YIELDS RALLIED AMID EXPECTATIONS OF A SIGNIFICANT FED RATE CUT

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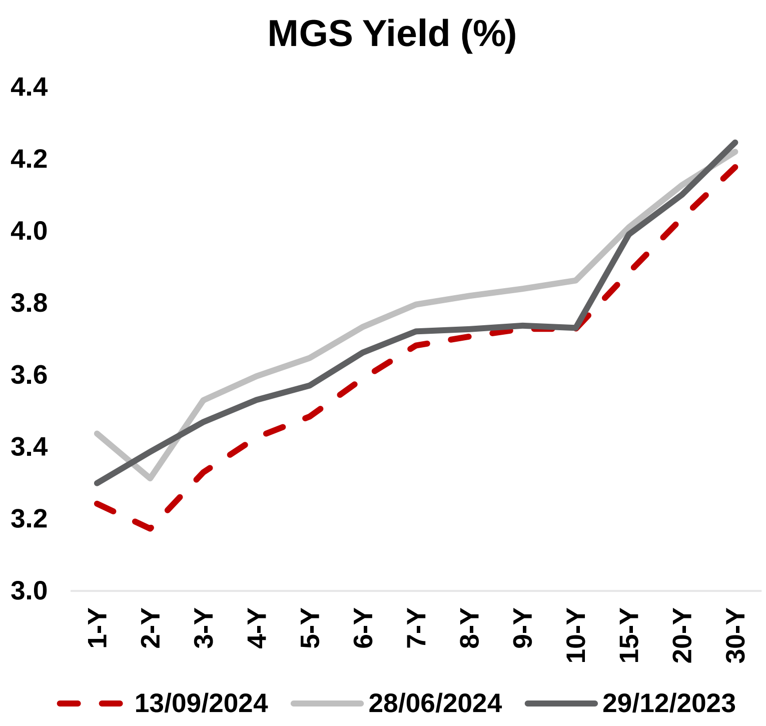
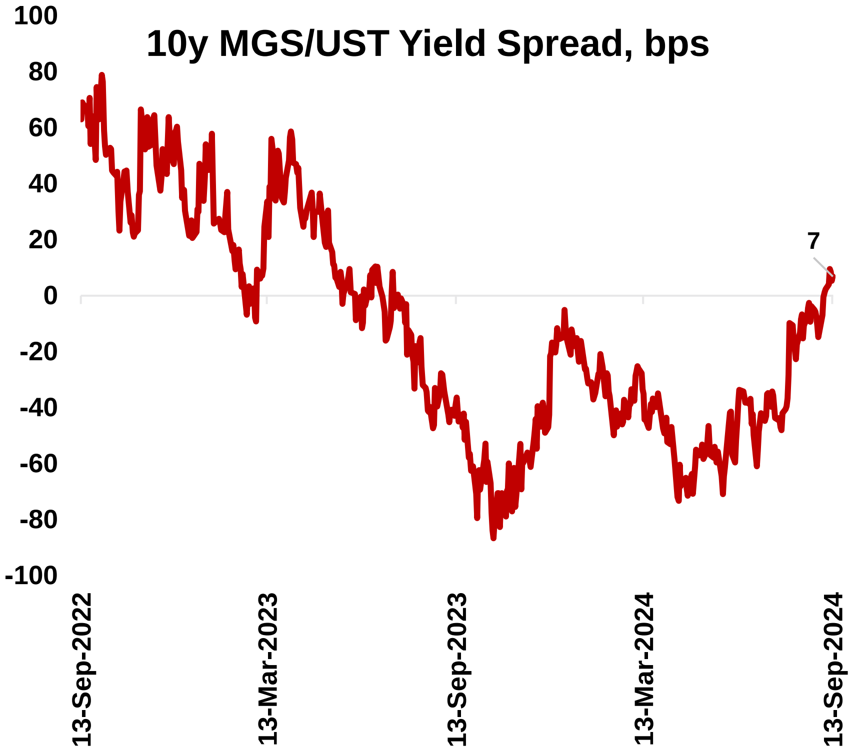
Weekly Changes, basis points (bps)			
UST	Yields (%) 6-Sep-24	Yields (%) 13-Sep-24	Change (bps)
3-Y UST	3.54	3.42	-12
5-Y UST	3.50	3.43	-7
7-Y UST	3.60	3.53	-7
10-Y UST	3.72	3.66	-6
MGS	Yields (%) 6-Sep-24	Yields (%) 13-Sep-24	Change (bps)
3-Y MGS	3.35	3.33	-2
5-Y MGS	3.49	3.49	-1
7-Y MGS	3.68	3.68	0
10-Y MGS	3.74	3.73	-2
GII	Yields (%) 6-Sep-24	Yields (%) 13-Sep-24	Change (bps)
3-Y GII	3.33	3.32	-1
5-Y GII	3.52	3.51	-1
7-Y GII	3.70	3.69	-1
10-Y GII	3.78	3.77	-1

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yield curve bullishly steepened between 6bps and 12bps for the week ending September 13 amid growing speculation that the Fed may announce a significant rate cut in September’s FOMC meeting. Based on CME's FedWatch Tool, markets are currently pricing in a 33% probability of the Fed implementing a 25bp rate cut, while there is a 67% chance of a larger 50bp reduction.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields edged lower in the range of 1bp and 2bps. Meanwhile, 7-Y MGS yield plateaued at 3.68%.
- The 10y MGS/UST yield spread widened in the positive territory at 7bps relative to 2bps in the previous week.

FX MARKET: RINGGIT TO TRADE CAUTIOUSLY AHEAD OF THE FOMC MEETING ON SEPTEMBER 17–18

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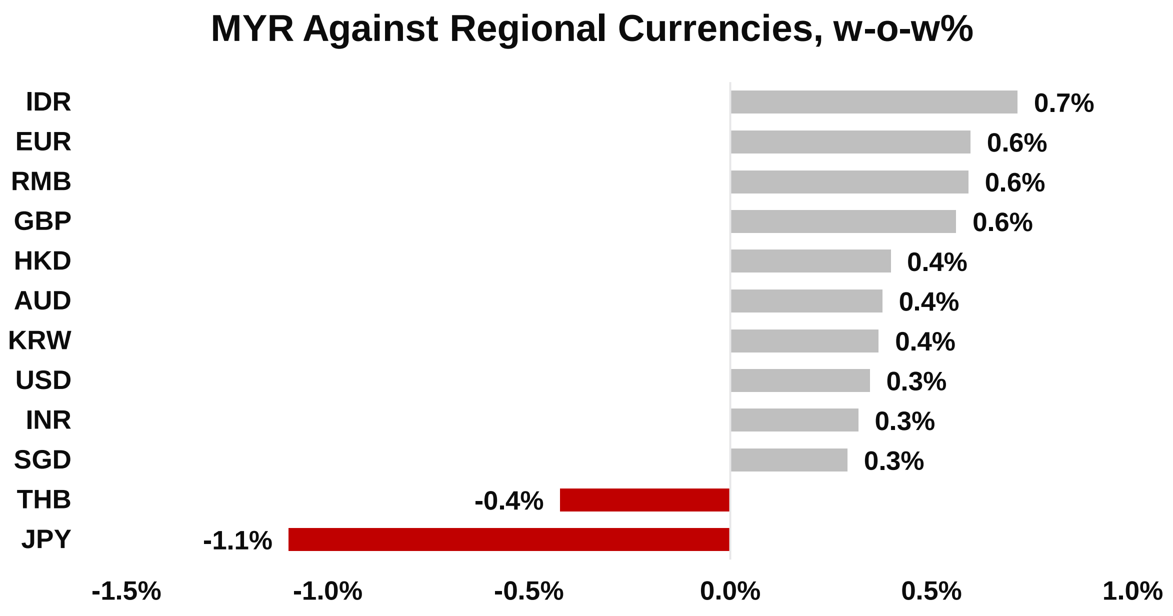
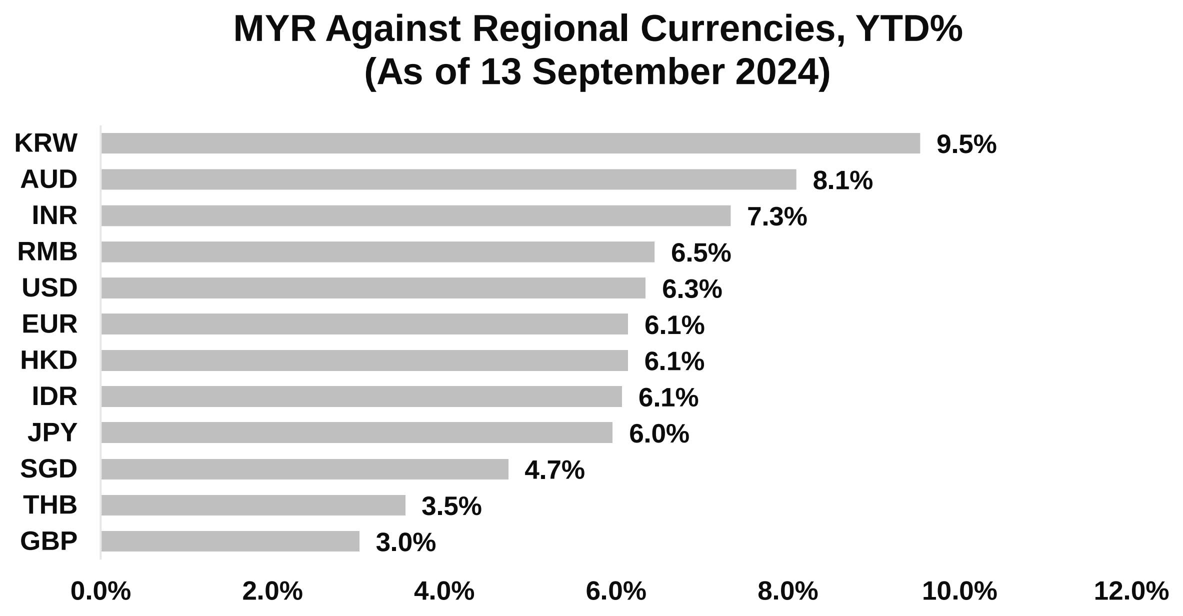
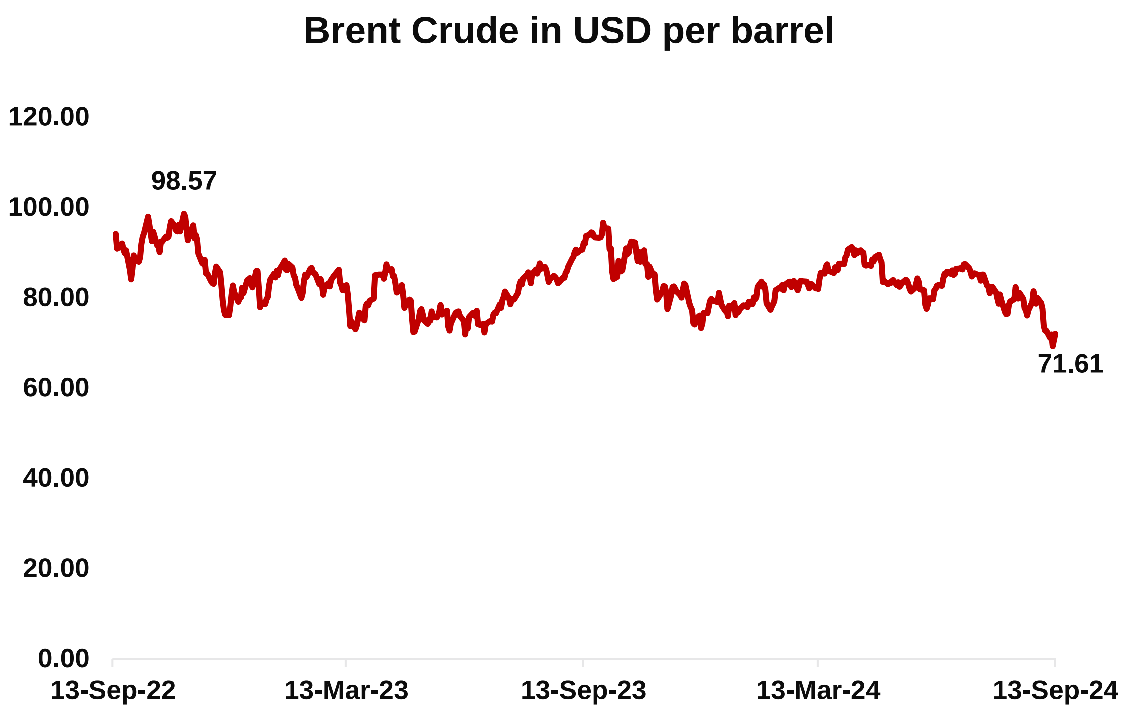


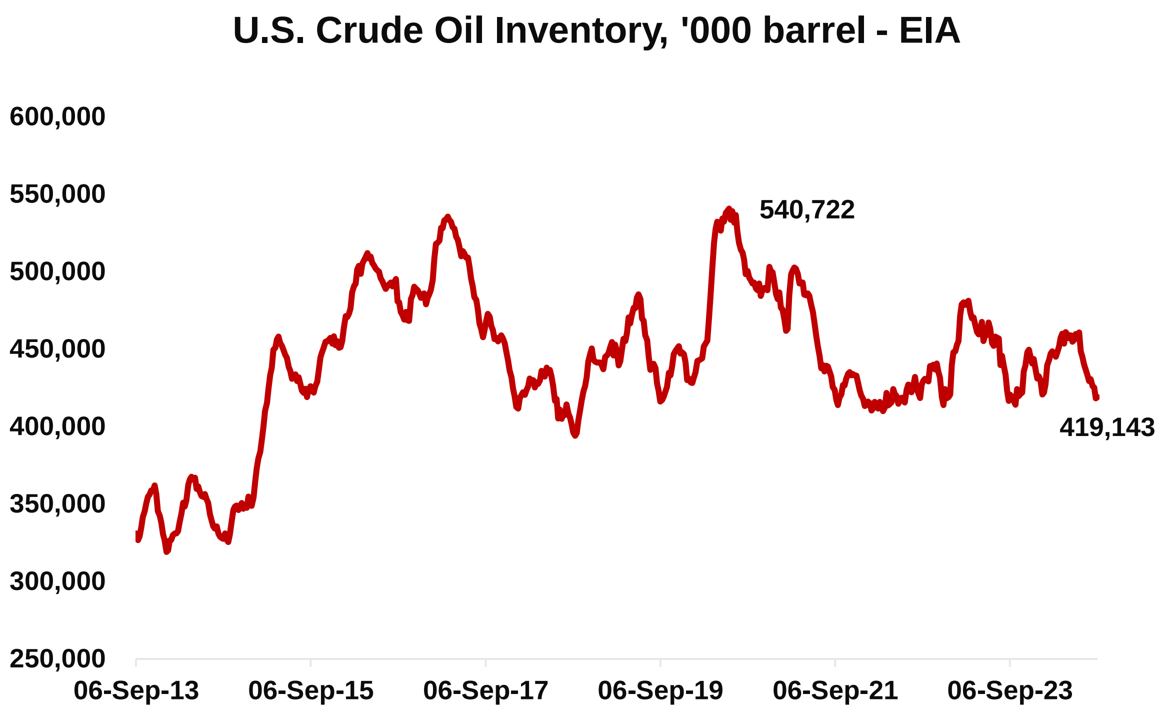


Sources: BNM, Federal Reserve Board, BLS

- The Ringgit closed 0.3% higher against the USD for the week ending September 13 as the USD index slipped by 0.1% w-o-w.
- The greenback had weakened following further disinflation in the U.S. as the headline inflation cooled faster than expected to 2.5% in August (Est: 2.6%) from 2.9% in July, marking the lowest level since February 2021. Nevertheless, core inflation had steadied at 3.2% from July.
- Signs of inflation finally easing towards the Fed's target had ramped up anticipation for its policy decision in its September meeting.
- Furthermore, the expectations of lower interest rates are fueling investors' risk-on mode, benefitting the strengthening of the local note.
- With both sides of the Fed's dual mandate calling for an easing of the tight monetary policy environment, we foresee the local note to appreciate further and thus, we revise our year-end forecast of Ringgit lower to RM4.30.

COMMODITY: OIL PRICES CONTINUE REBOUNDING FROM MULTI-YEAR LOWS





Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices extended their rally for the week ending September 13, aiming for a weekly gain, due to output disruptions in the U.S. Gulf of Mexico from Hurricane Francine, which caused the evacuation of production platforms.
- U.S. crude inventories increased by 0.833 million barrels for the week ending September 6, 2024, falling short of the 1-million-barrel rise anticipated by the market.

COMMODITY: GOLD PRICE MARKS FRESH HIGH ON THE BACK OF RATE CUT EXPECTATIONS

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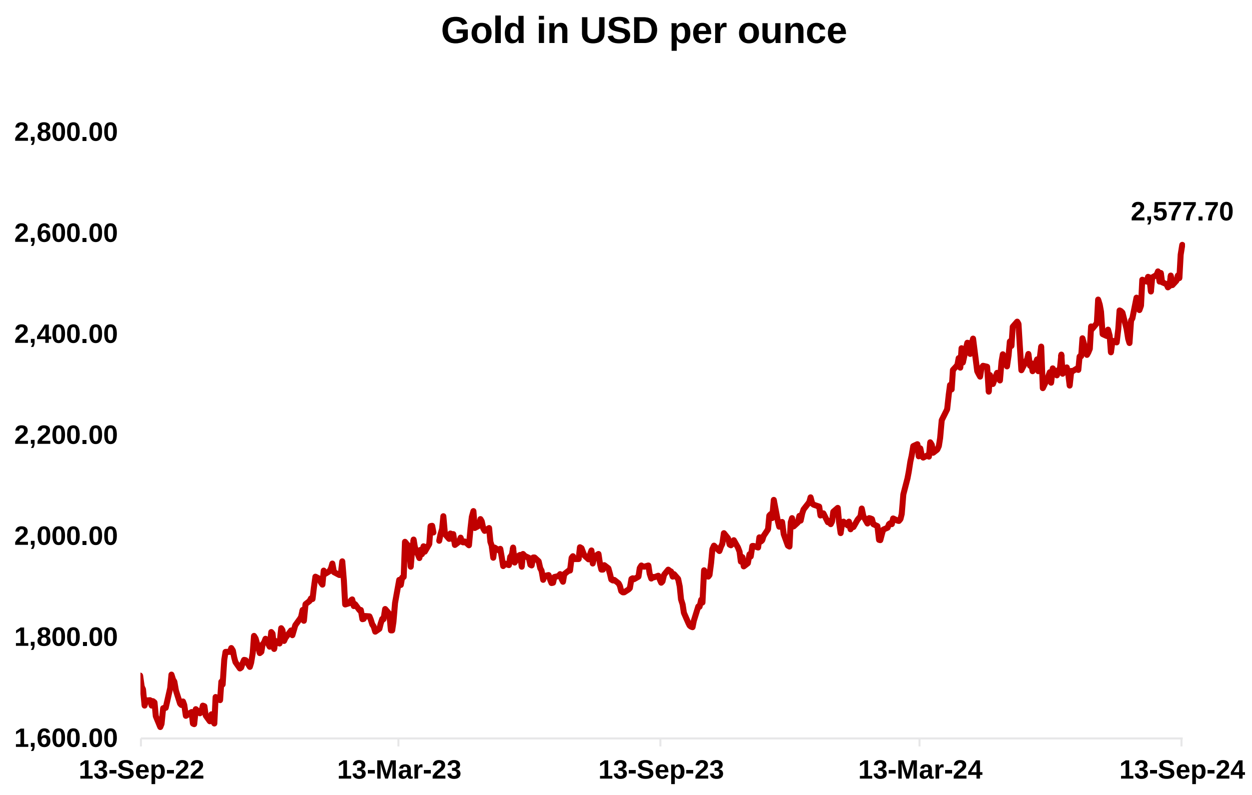

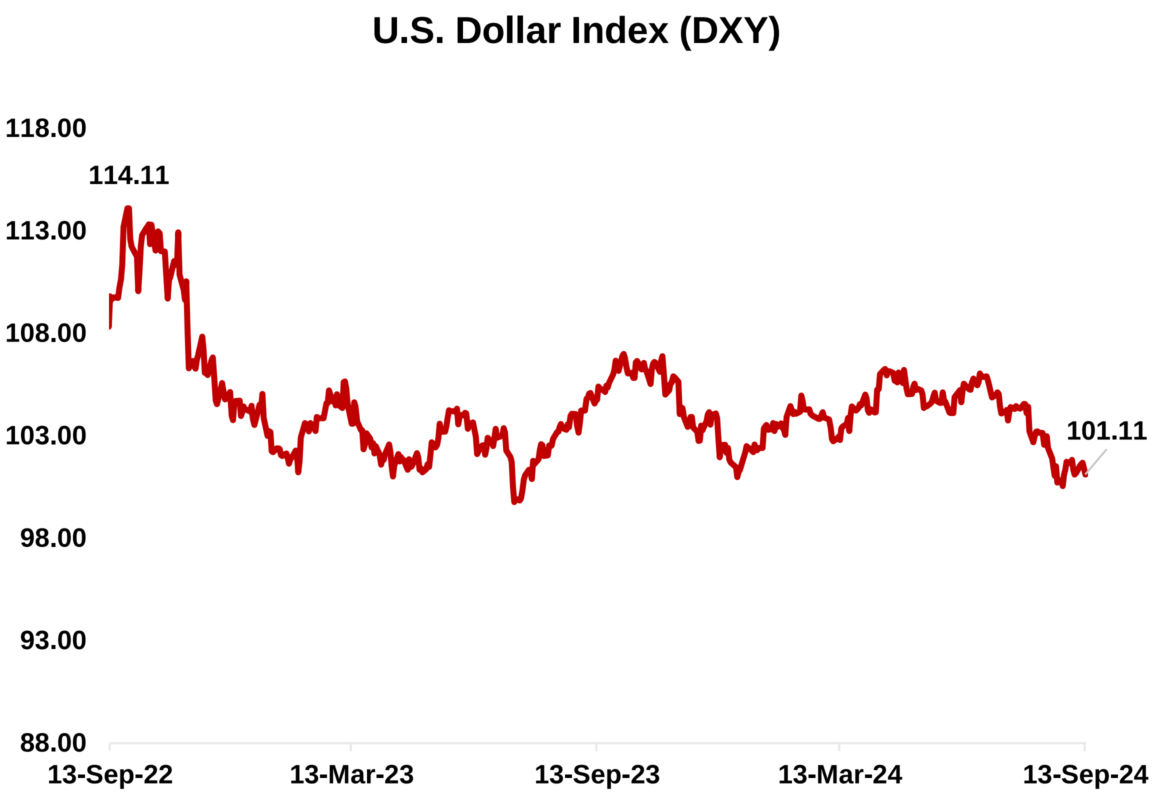

Sources: Bloomberg, CEIC Data

- The bullion price surged by 3.2% in the past week, marking a record high of USD2,577.7 per ounce on Friday, as softer than expected U.S. inflation figures increases bets of a steep Fed rate cut in its upcoming September FOMC meeting.
- As the prospects of lower interest rates looms, the bullion's shine grows more attractive for investors, powering its strong uptrend.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- In the U.S., attention will be focused on the upcoming monetary policy decision, with the Fed expected to lower interest rates for the first time since March 2020. At the time of writing, most traders anticipate a 50bp cut as the most likely outcome with a probability of 67%, while the remaining 33% are looking at a 25bp cut, according to CME's FedWatch Tool. The Fed will also release updated economic projections, with expectations of a full percentage point of easing by year-end. On the data front, retail sales in the U.S. rose by 2.1% y-o-y in August compared to the same month the previous year, following an upward revision of a 2.9% increase in July. Industrial production in the U.S. remained flat compared to the same month the previous year, following a downwardly revised 0.7% drop in July.

- In the U.K., focus will be on the upcoming inflation data and the Bank of England's (BoE) policy meeting. The BoE is widely expected to keep interest rates steady after implementing a 25 basis-point cut in August. A key factor influencing the central bank's decision will be the U.K. inflation figures, due on Wednesday, just a day before the BoE's policy announcement. The annual inflation rate is forecast to remain at 2.2% in August, staying above the BoE's 2.0% target. Later in the week, markets will also closely follow retail sales data and public sector net borrowing figures for additional economic insights.

- The Bank of Japan (BoJ) is expected to leave interest rates unchanged, with most investors anticipating a potential hike only in December 2024 or January 2025. Key data releases for Japan include inflation with the core CPI, excluding fresh food but including energy, is expected to have increased by 2.8% y-o-y in August, slightly up from the 2.7% rise in the previous month. In China, markets will be closed on Monday and Tuesday for the Mid-Autumn Festival, while the People's Bank of China (PBoC) is set to release its monthly update on key lending rates on Friday.

THANK YOU