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WEEKLY ECONOMIC UPDATE

20 MAY 2024

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: MALAYSIA'S ECONOMIC GROWTH SURPASSES EXPECTATIONS

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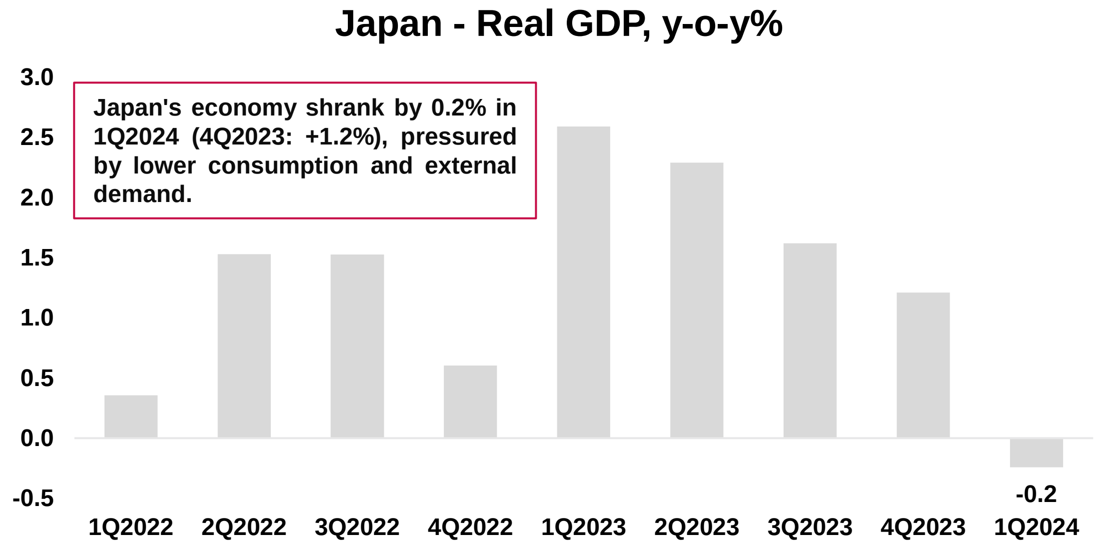
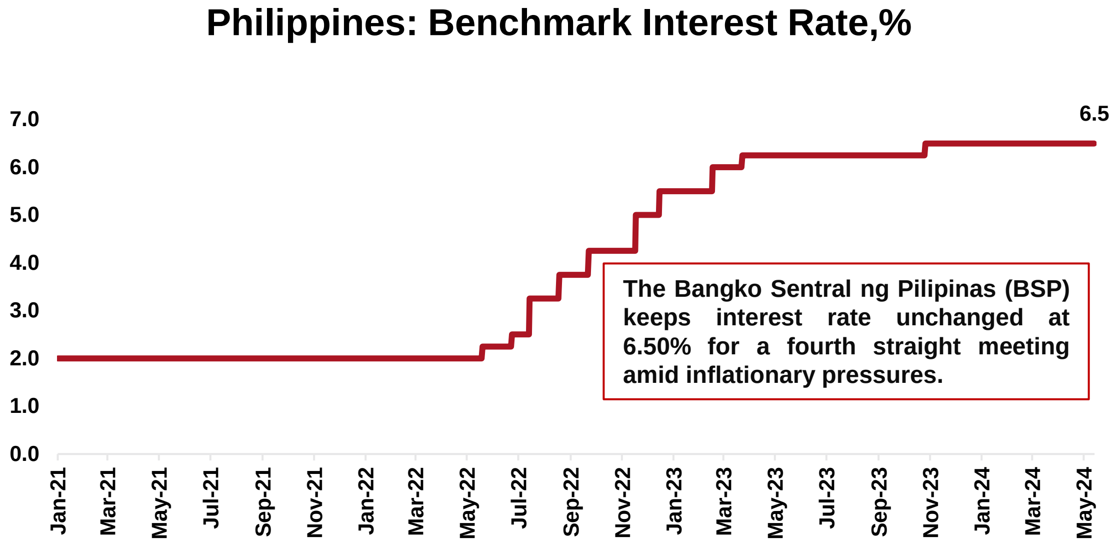
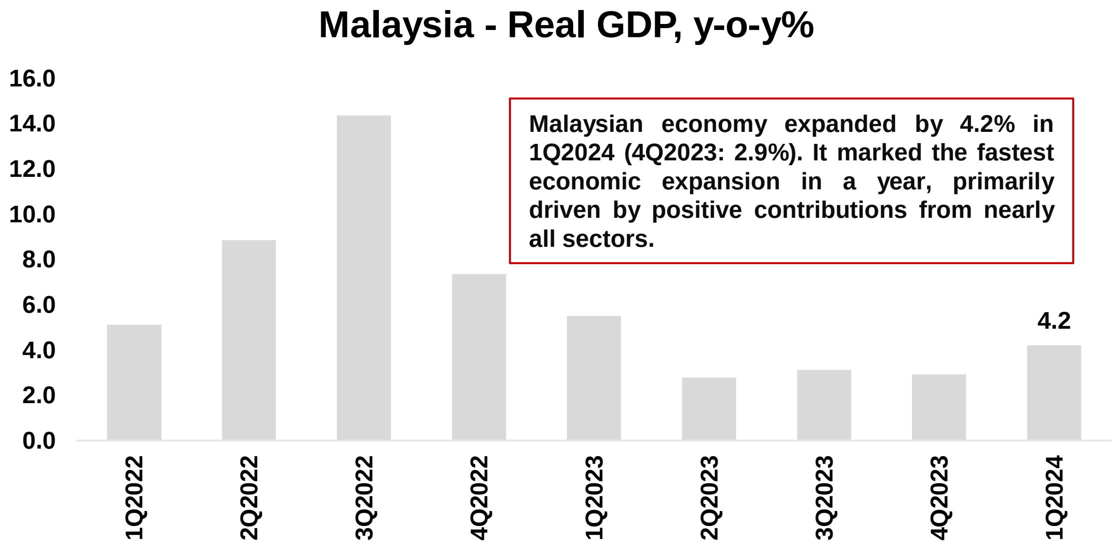
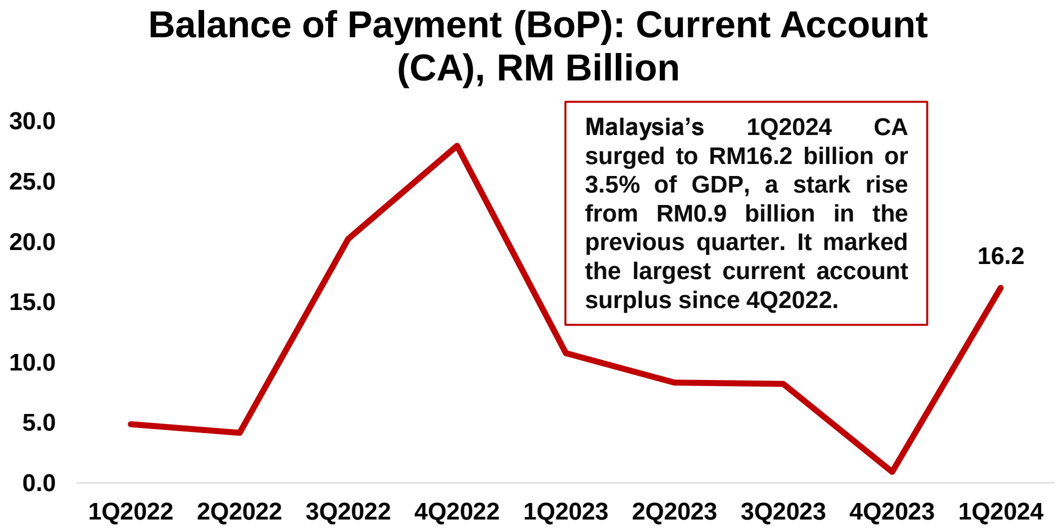
GLOBAL





DOMESTIC

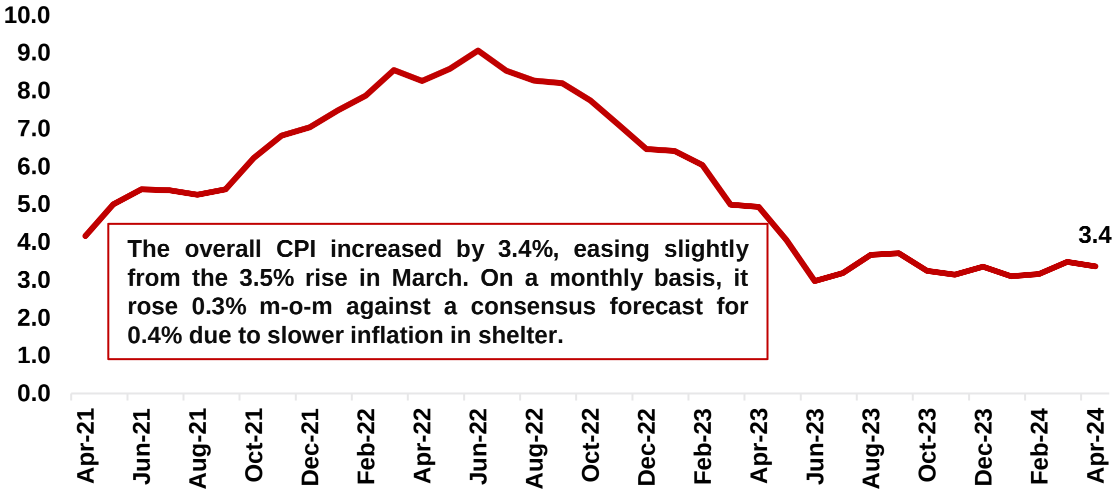




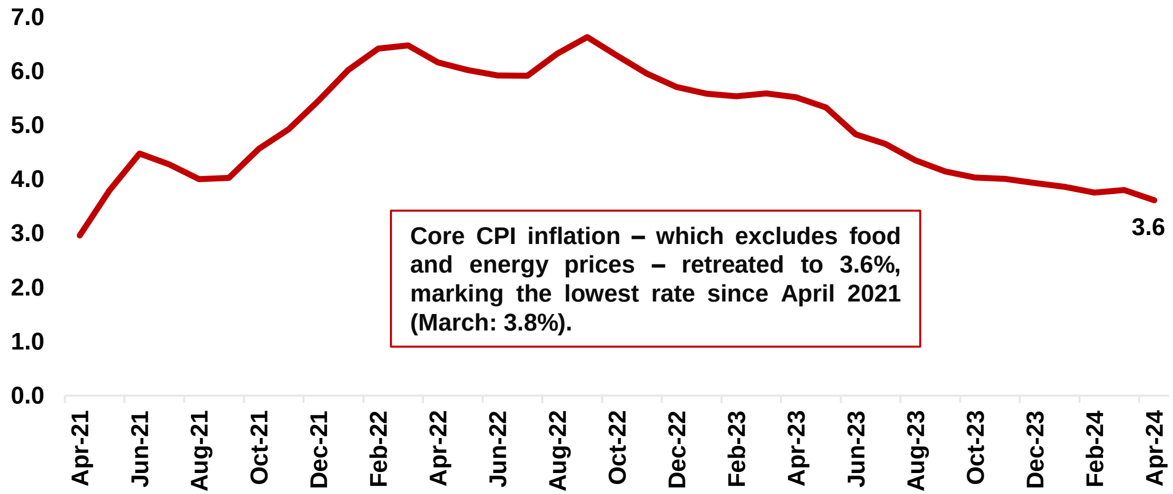
Sources: Japan Cabinet Office, Bangko Sentral ng Pilipinas, Department of Statistics Malaysia (DOSM)

U.S. WEEKLY HIGHLIGHT: SOFTER-THAN-EXPECTED U.S. INFLATION OFFERS HOPE FOR RATE CUTS

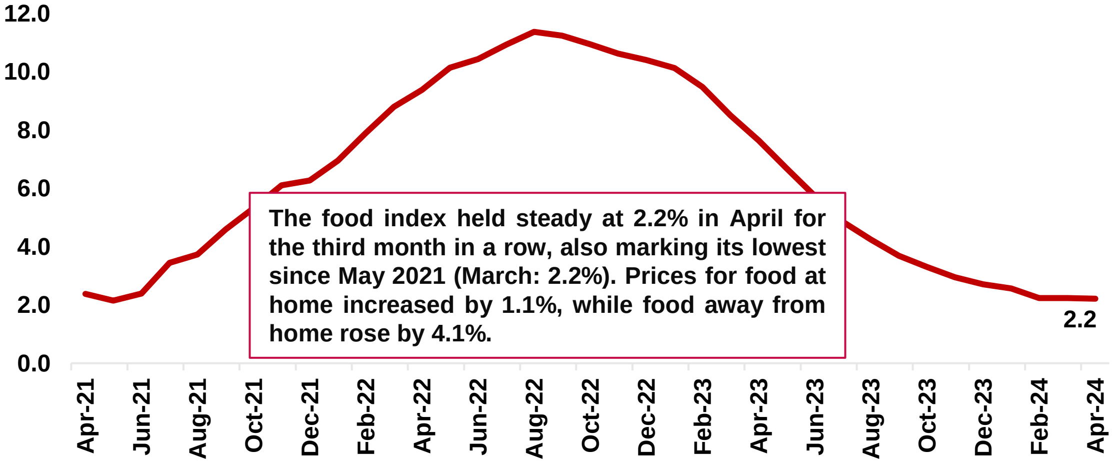
U.S. Consumer Price Index (CPI), y-o-y%



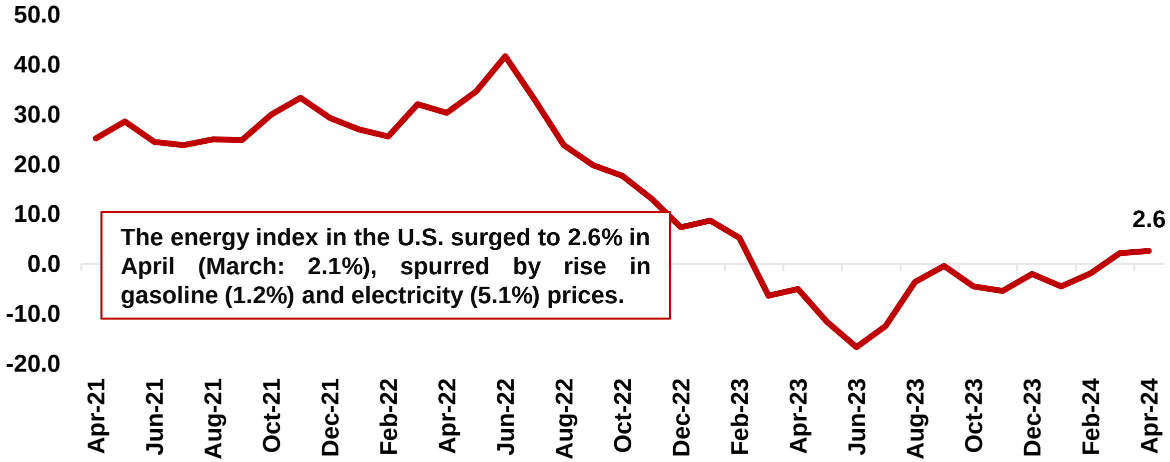
U.S. CPI (All Items less Food and Energy), y-o-y%



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



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



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

REGIONAL EQUITY: GLOBAL STOCKS RALLIED ON MILDER U.S. INFLATION REPORT

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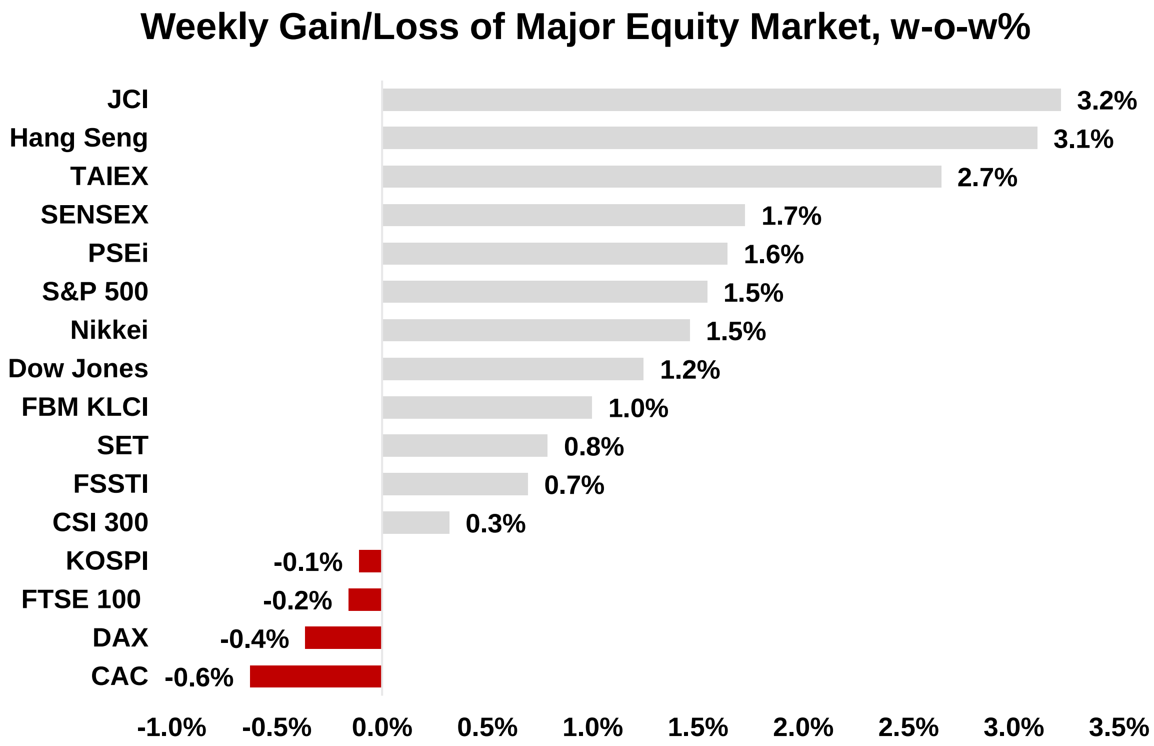

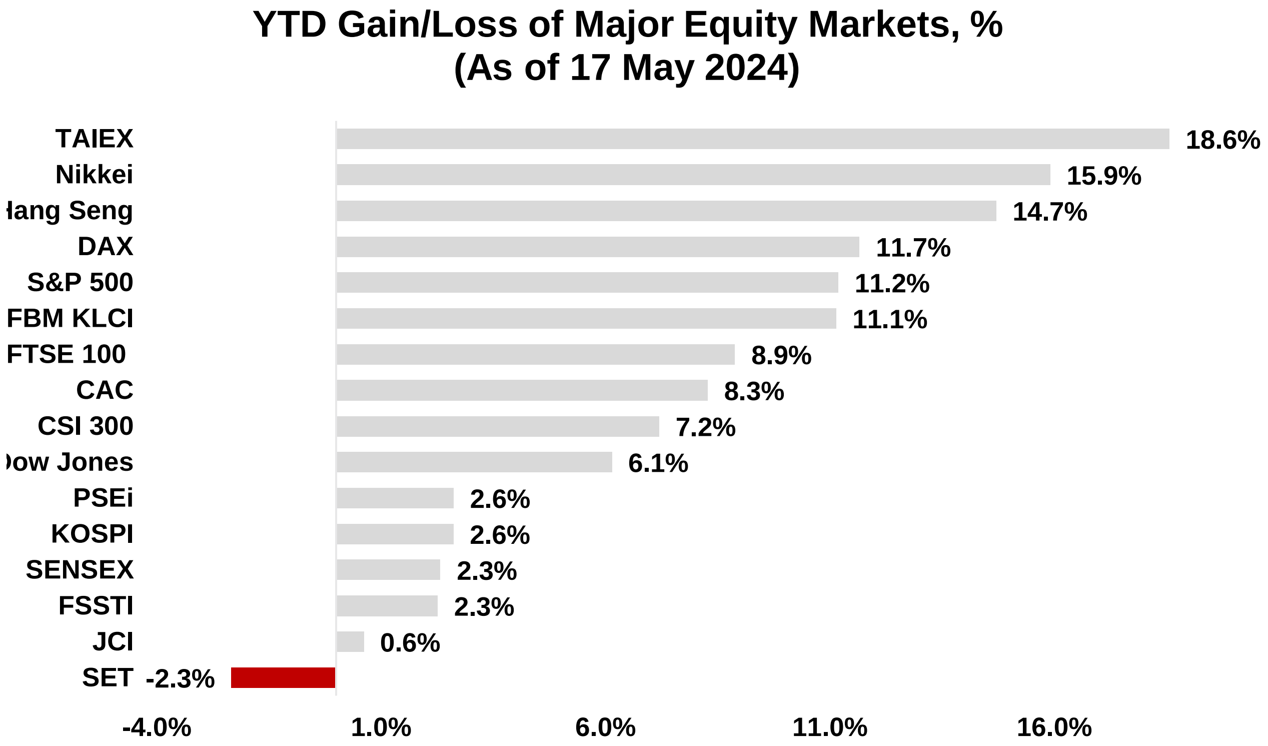

Sources: Bursa, CEIC Data

- Most stocks closed higher for the week ending May 17, indicating an overall positive market performance. Indonesia's JCI led the gainers with a rise of 3.2% and followed closely by Hong Kong's Hang Seng which rose by 3.1% as a cooler U.S. inflation report fuelled investor optimism, with expectations now pointing towards at least two interest rate cuts from the U.S. Federal Reserve (Fed) this year.
- U.S. stocks – S&P 500 and Dow Jones also rose by 1.5% and 1.2%, respectively as interest rates and inflation remain front-and-center for investors, who are glued to economic data and Fed pronouncements for clues on future policy path.
- In contrast, France's CAC (-0.6%), Germany's DAX (-0.4%) and U.K.'s FTSE 100 (-0.2%) were the major losers last week.

DOMESTIC EQUITY: BETTER-THAN-EXPECTED 1Q2024 GROWTH SUPPORTED THE LOCAL MARKET

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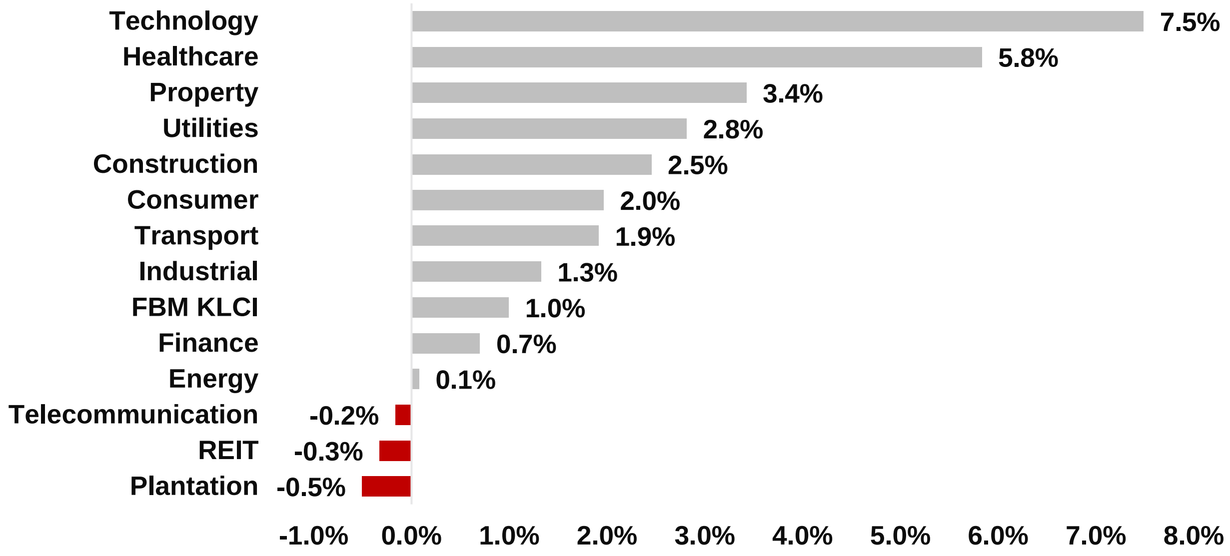
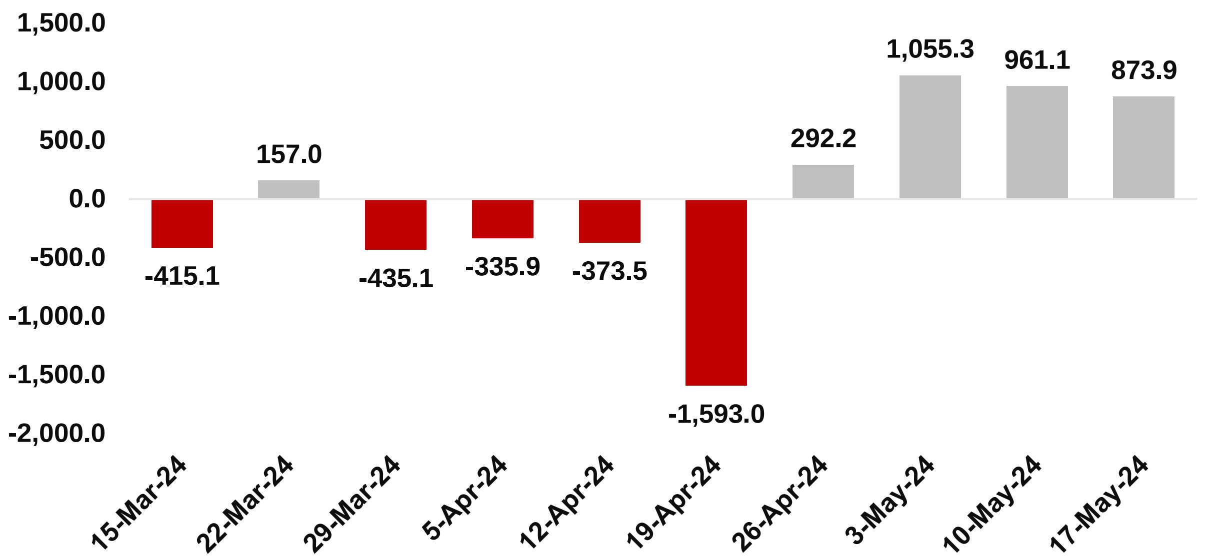
Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, DOSM, CEIC Data

- The FBM KLCI extended its reign for the week ending May 17 amid bargain hunting activities from both local and foreign investors.
- Investors' sentiments were riding high as the economy grew at a faster pace than expected in 1Q2024 at 4.2%, beating the official advanced estimate of 3.9%. Alongside the expansion, Bank Negara Malaysia (BNM) anticipates the economy to grow between 4.0-5.0% this year.
- Leaping ahead of the gainers was Technology index at 7.5%, followed by the Healthcare and Property at 5.8% and 3.4%, respectively.
- Buying interest in the Property and Construction sectors were supported by the growth of the Construction sector, surging to 11.9% in 1Q2024 (4Q2023: 3.6%) following progress made on multiple infrastructure development projects.
- Meanwhile, the Plantation index (-0.5%) was leading the losers, followed by the REIT (-0.3%) and Telecommunications (-0.2%) indices.
- Foreign investors remained net buyers for the fourth consecutive week with a total net inflow of RM873.9 million. The net buying had boosted the cumulative total net inflow this year thus far to RM213.5 million.

FIXED INCOME: YIELDS DROPPED AMID RATE CUTS EXPECTATIONS

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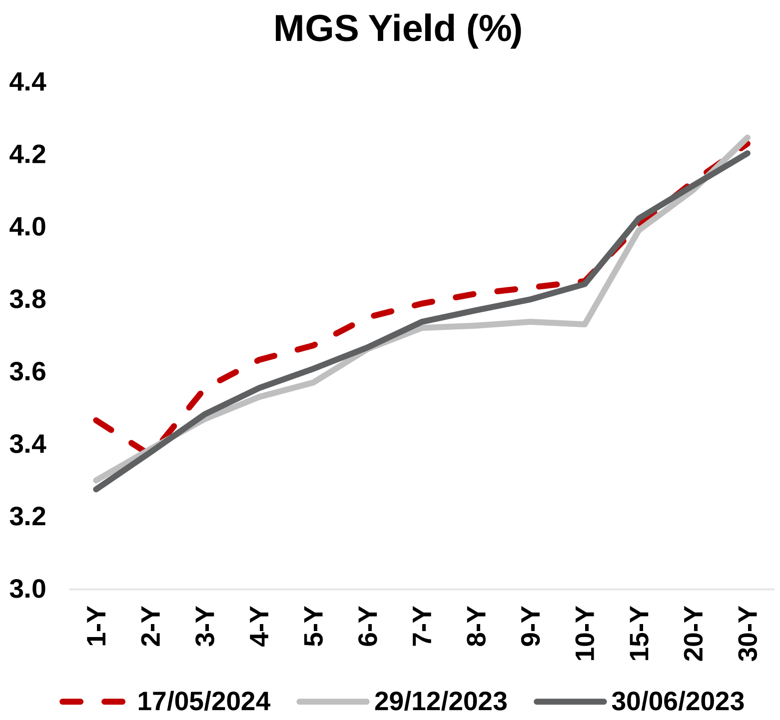
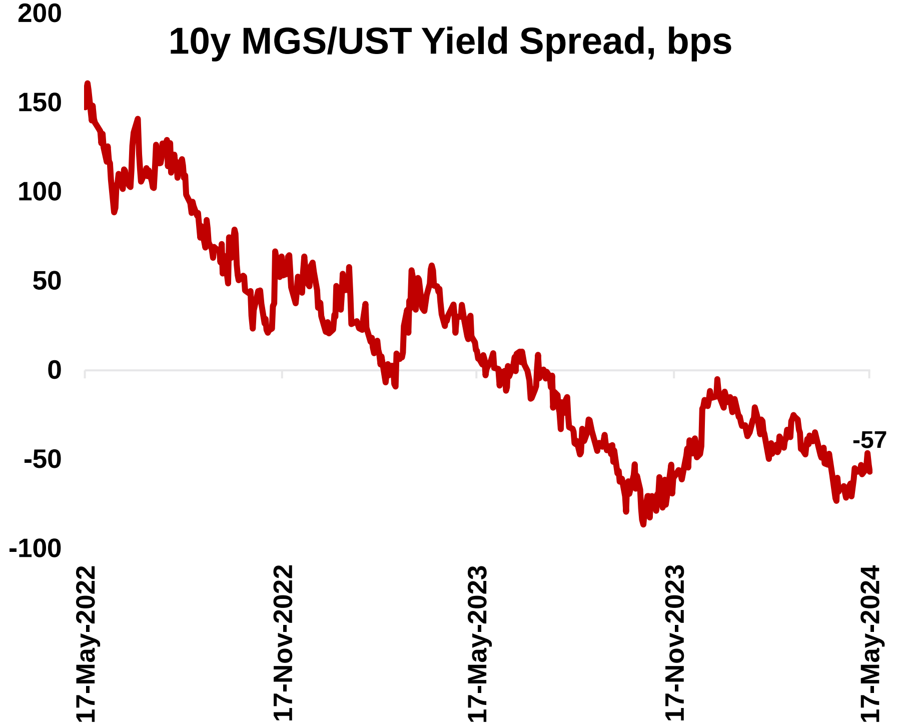
Weekly Changes, basis points (bps)

UST	Yields (%) 10-May-24	Yields (%) 17-May-24	Change (bps)
3-Y UST	4.65	4.60	-5
5-Y UST	4.52	4.44	-8
7-Y UST	4.51	4.43	-8
10-Y UST	4.50	4.42	-8
MGS	**Yields (%) 10-May-24**	**Yields (%) 17-May-24**	**Change (bps)**
3-Y MGS	3.60	3.56	-4
5-Y MGS	3.73	3.67	-6
7-Y MGS	3.84	3.79	-5
10-Y MGS	3.92	3.85	-7
GII	**Yields (%) 10-May-24**	**Yields (%) 17-May-24**	**Change (bps)**
3-Y GII	3.54	3.52	-3
5-Y GII	3.72	3.67	-4
7-Y GII	3.82	3.78	-4
10-Y GII	3.91	3.87	-3

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yield curve bullishly flattened between 5bps and 8bps for the week ending May 17, following softer-than-expected U.S. inflation data, with investors gaining more confident that the Fed will begin lowering interest rates later in 2024 as a result.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also edged lower in the range of 3bps and 7bps.
- The RM5.0 billion 20-Y new issuance of MGS which was issued on May 15 drew a robust demand with a bid-to-cover (BTC) ratio of 3.1x.
- The 10y MGS/UST yield spread narrowed marginally in the negative territory at -57bps relative to -58bps in the previous week.

FX MARKET: RINGGIT ON TRACK FOR WEEKLY GAIN AS U.S. INFLATION COOLS FURTHER

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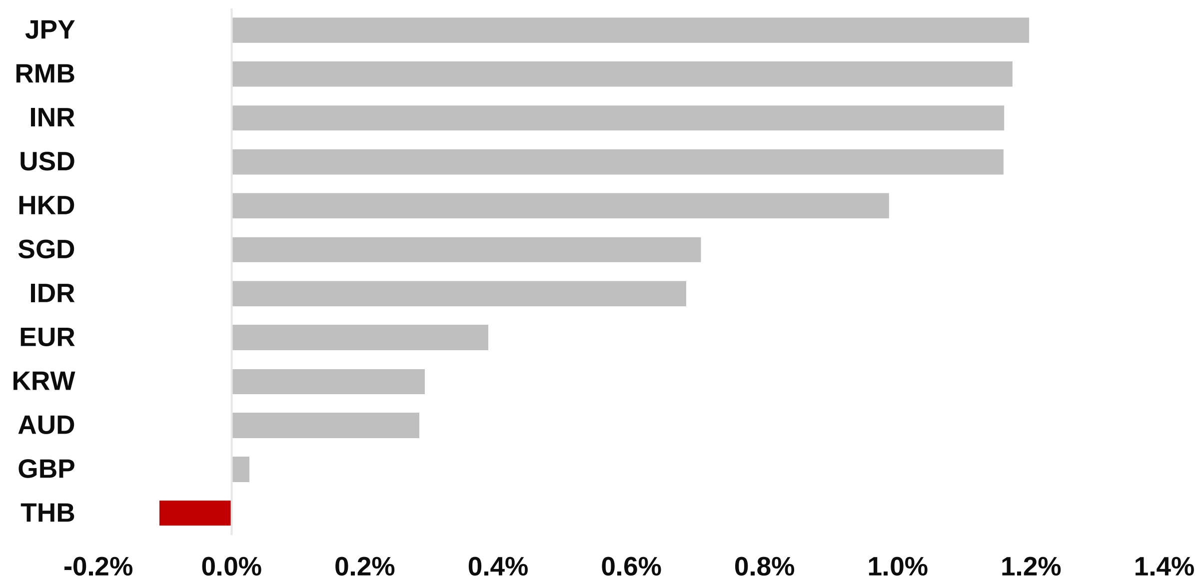
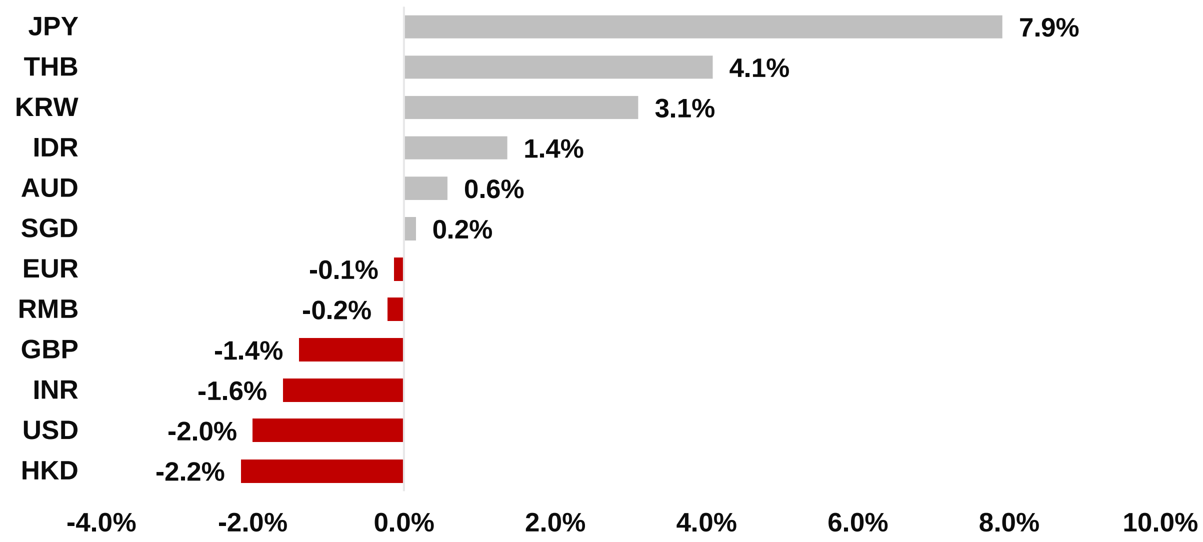
MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD%
(As of 17 May 2024)



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

- The Ringgit appreciated against the USD on a weekly basis to close at RM4.6850 on the week ending May 17 (10 May 2024: RM4.7393), strengthening below the RM4.70-level.
- The USD index slipped by 0.8% in the past week as inflation eased to 3.4% in April from March's 3.5% while core inflation had also slowed to 3.6% (March: 3.8%). Furthermore, U.S. retail sales disappoints as it remained flat on a monthly basis, indicating that the tighter financial conditions have weighed on consumer spending.
- Nevertheless, downside to the greenback was capped by remarks from several Fed officials stating that they have yet to gain confidence in the disinflation trend to initiate any policy easing.
- Additionally, the local note was bolstered by Malaysia's stronger than expected performance as the economy grew at 4.2% in the first quarter of the year (4Q2023: 3.0%), fuelling investors' optimism surrounding its growth in 2024.
- We foresee the economy to expand at 4.7% this year, aligning with BNM's 4.0-5.0% growth projection.

COMMODITY: OIL PRICES CLIMB DUE TO ROBUST DEMAND

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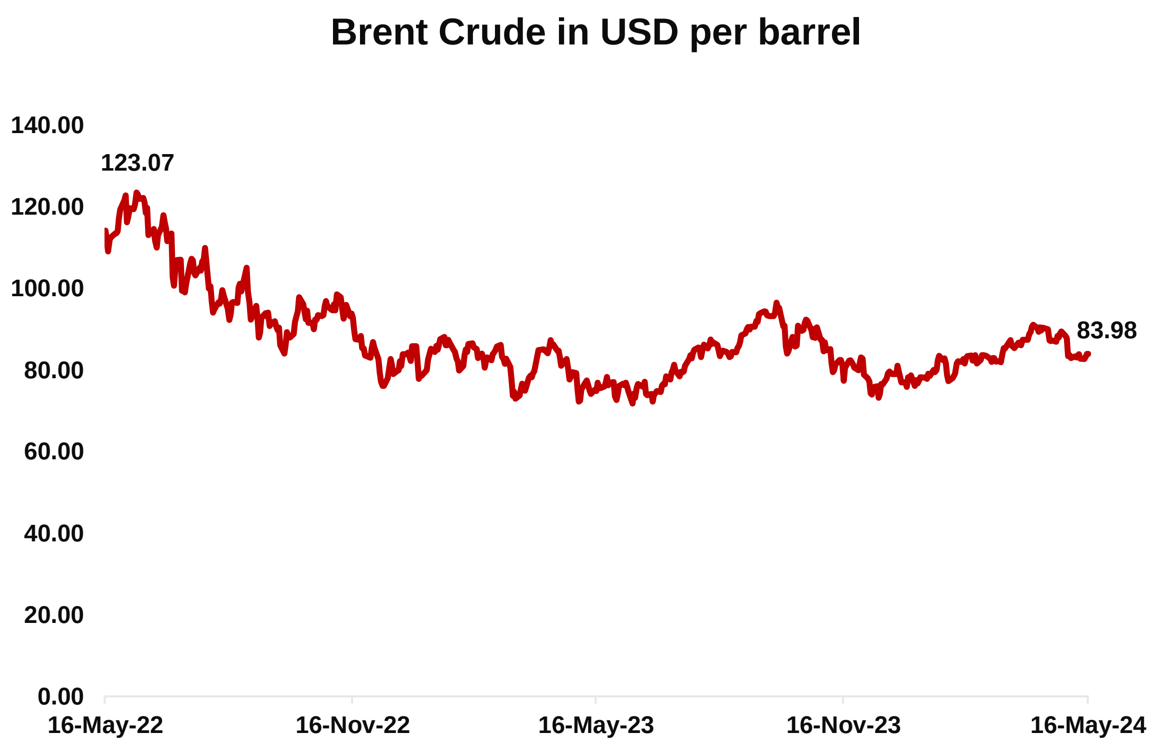

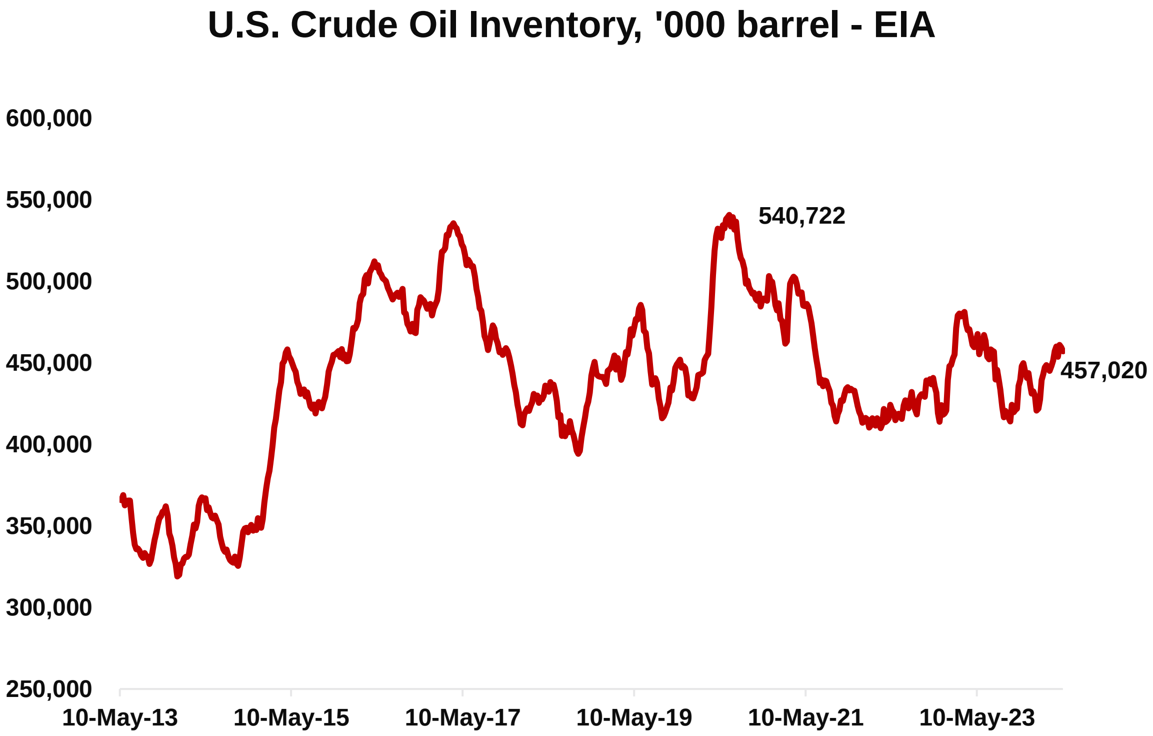

Sources: Bloomberg, Energy Information Administration (EIA)

- Brent crude price strengthened above USD83 per barrel, poised for weekly gains, backed by growing demand from the U.S. and growing expectations of interest rate reductions by the Fed following a softer-than-expected inflation data.
- The EIA inventories revealed a significant decrease in stocks, surpassing market predictions of a roughly 400,000 barrels decline, indicating heightened demand that supports a rise in prices.

COMMODITY: GOLD PRICE MARKS A FRESH RECORD-HIGH ON THE BACK OF RATE CUT BETS

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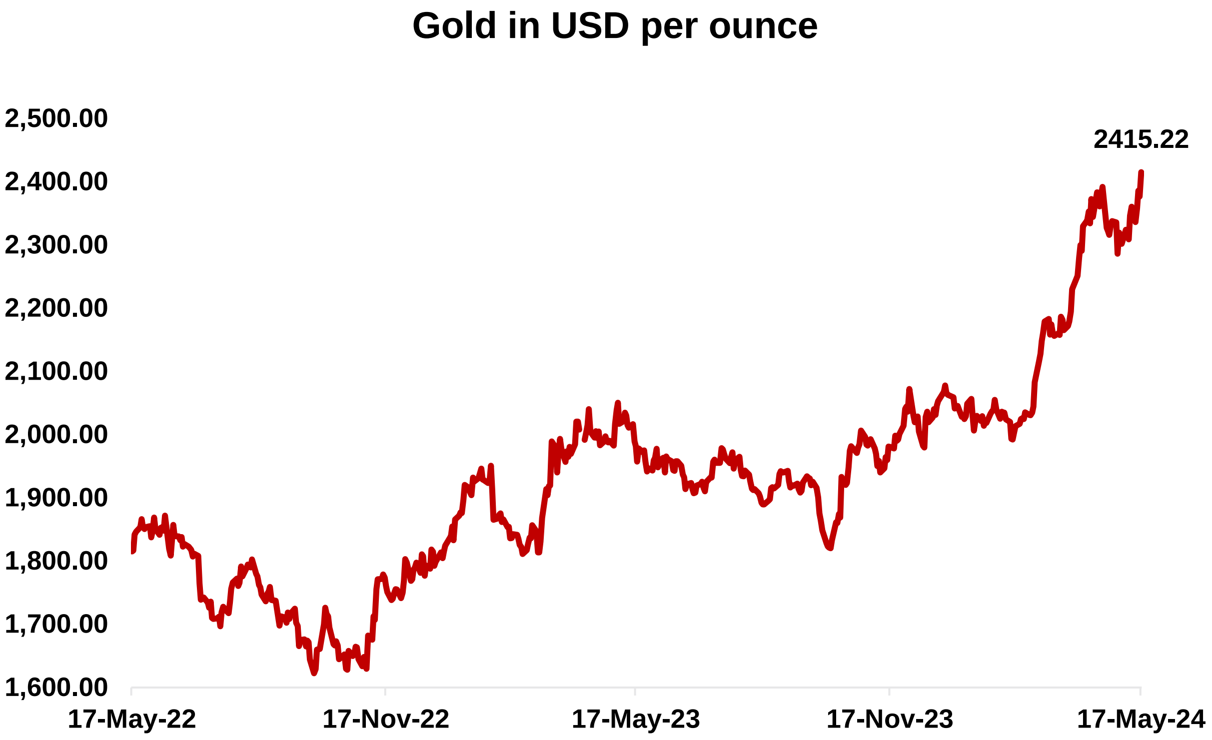

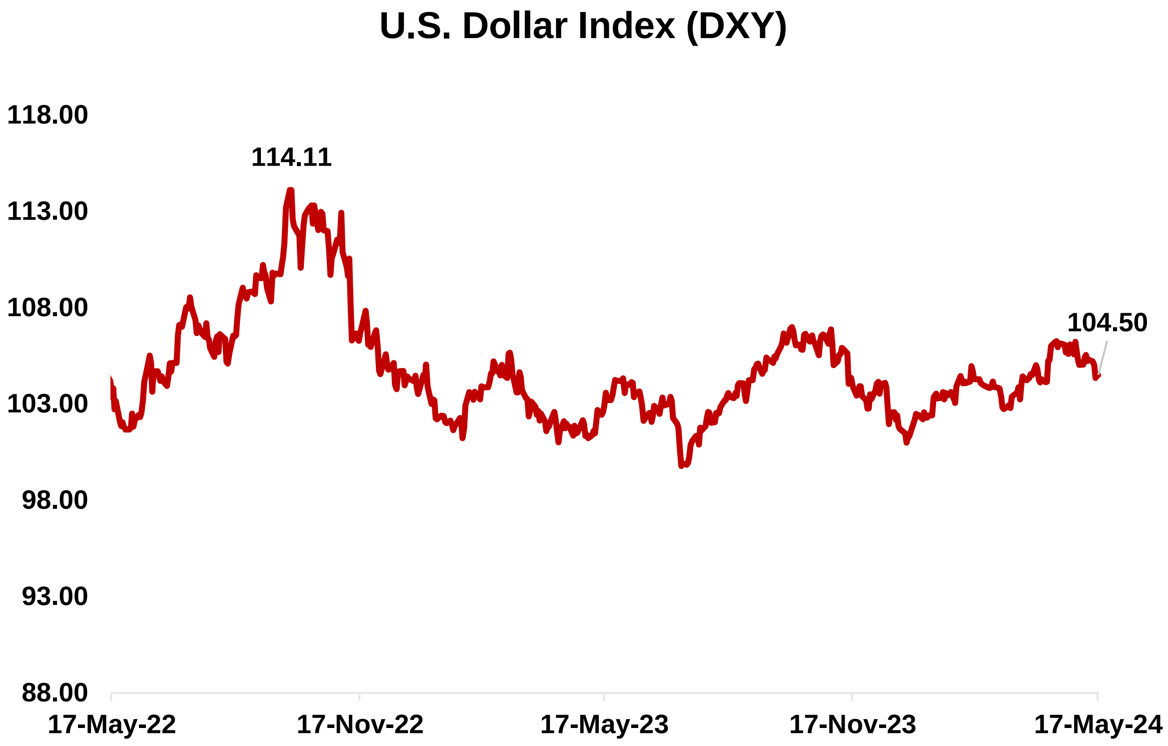

Sources: Bloomberg

- The bullion price surged to an all-time high of USD2,415.22 on Friday as cooling U.S. inflation and a slowdown in consumer spending ramped up expectations of a Fed rate cut in September.
- Additionally, demand for the bullion was on the rise following China’s stronger-than-expected industrial production figures, which showed factory activities rising by 6.7% (Est: 5.5%; March: 4.5%) in April.
- Moving forward, markets are eyeing the release of the Federal Open Market Committee (FOMC) minutes on Wednesday for further hints on the Fed’s policy path.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

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- Following the mixed job market data which showed stubbornly strong wage growth but higher unemployment rate, this week's U.K. CPI report for April will undoubtedly be closely monitored given the Bank of England (BoE)'s data dependence approach on deciding when to start cutting interest rates. The market consensus is that inflation will slow substantially from the 3.2% recorded in March due to the unwinding of energy-related base effects, suggesting that a rate cut in June remains a strong possibility. In fact, markets currently assign more than a half chance to the BoE pivoting to rate cuts in June.

- Fresh data showed Thailand's GDP expanded by 1.5% in 1Q2024, lower than 1.7% growth recorded in the previous quarter but exceeding consensus expectations of a more significant slowdown. Growth remained driven by private consumption and tourism but dragged down by a contraction in public expenditure. However, with the Thailand's economy expected to pick up in the coming quarters on higher government spending following the passing of the National Budget, the slight easing of growth is not expected to boost the case for a rate cut by the Bank of Thailand (BoT) in its next meeting in June.

- After delivering a rate hike of 25bps in April, bringing the benchmark policy rate to a record high of 6.25%, Bank Indonesia (BI) is expected to stand pat in its policy settings when it meets this week. A further rate hike is unlikely, with the latest data showing inflation easing to 3.00% in April from March's seven-month high of 3.05%, remaining well within BI's 1.5%-3.5% target range. However, the risks of IDR depreciation will keep BI cautious and refraining from signaling rate cuts.

- On the domestic front, trade and inflation data for April will be scrutinised to gauge whether the positive growth momentum will sustain into the coming quarters after recording a stronger-than-expected GDP growth of 4.2% (4Q2023: 2.9%). Fresh data showed Malaysia's total trade rose by 12.1% in April (March: 5.1%) alongside increases in both exports and imports. Of note, exports grew at the fastest pace in 13 months at 9.1%, rebounding from March's 0.9% contraction. Meanwhile, imports continued to record a double-digit growth (15.6% vs. March: 12.5%). Trade balance remained in contraction but with a lower magnitude at -39.0% compared to 52.3% contraction in the previous month. On the other hand, headline inflation will likely remain modest and only rose slightly from the 1.8% increase recorded in March given the global disinflationary trend.

THANK YOU