



WEEKLY ECONOMIC UPDATE

27 MAY 2024

ECONOMIC RESEARCH

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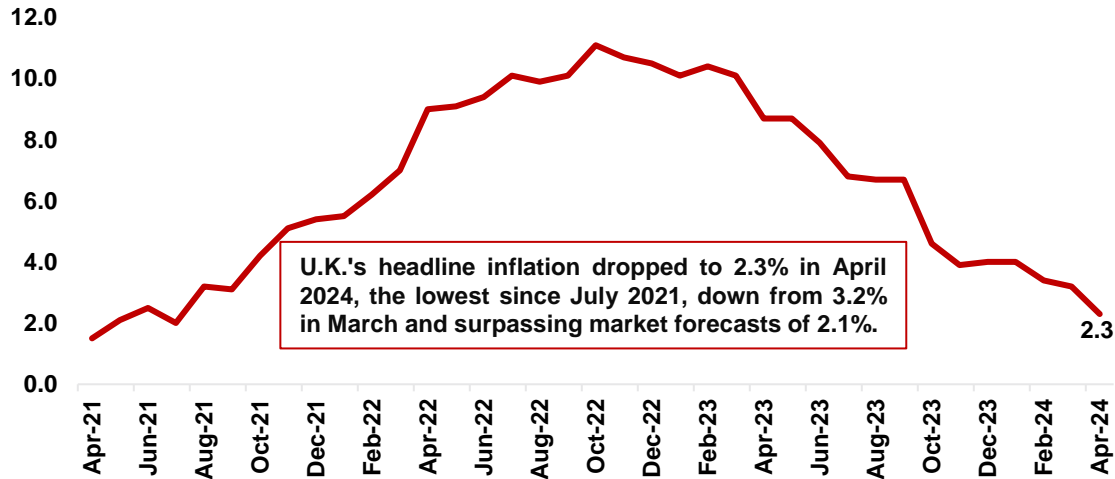
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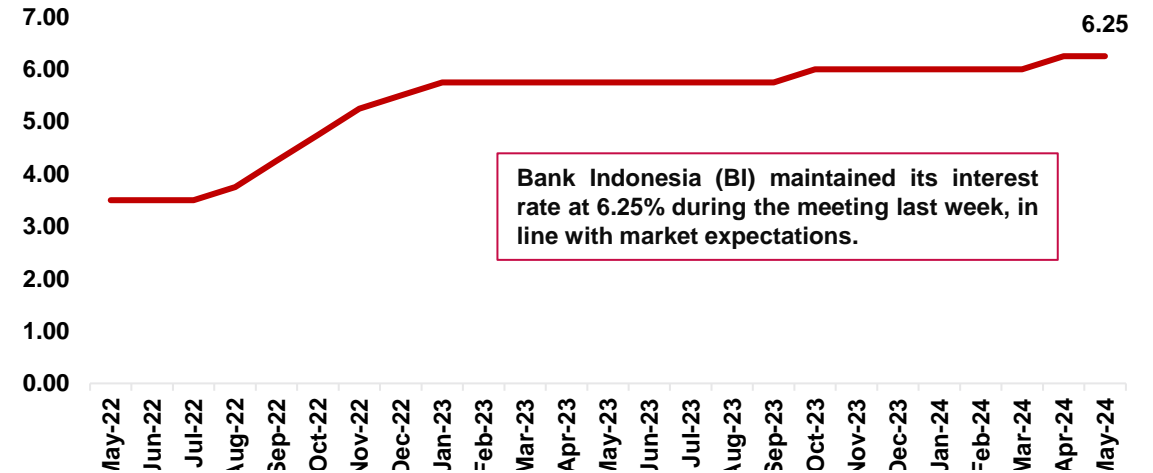
WEEKLY HIGHLIGHT: MALAYSIA'S INFLATION LOWER THAN ANTICIPATED

GLOBAL

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

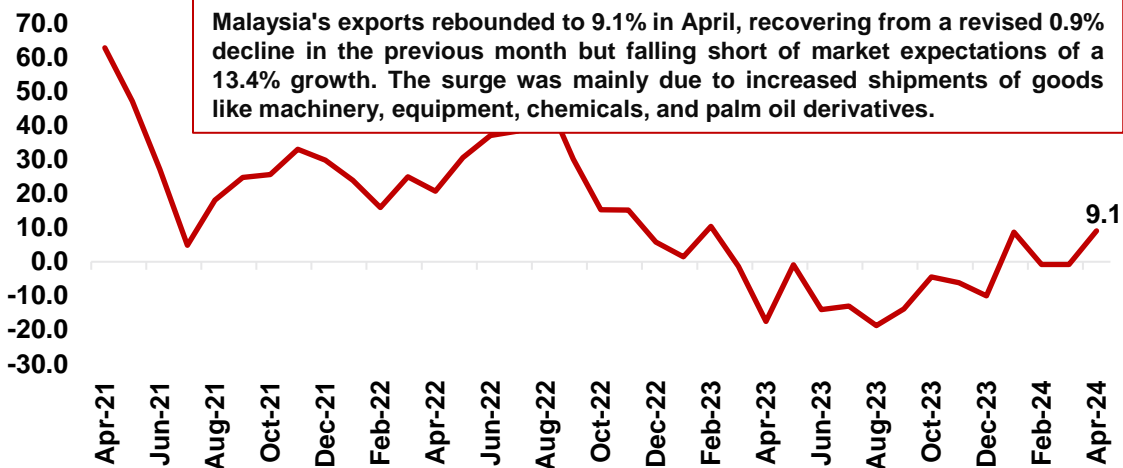


Indonesia – 7-Day Reverse Repo Rate, %

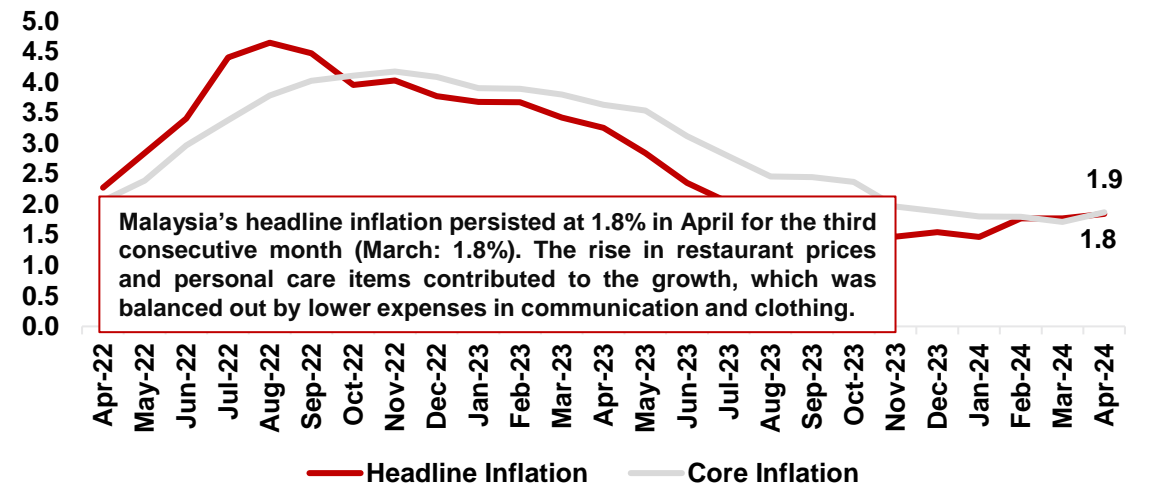


DOMESTIC

Malaysia - Exports, y-o-y%

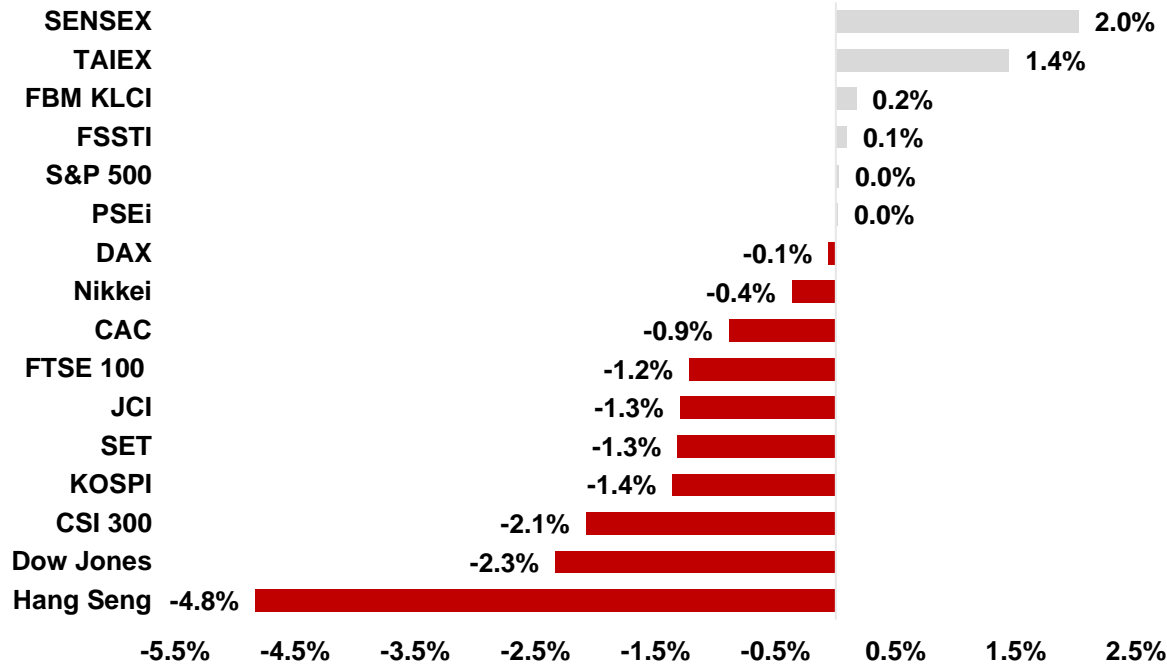


Malaysia - CPI, y-o-y%

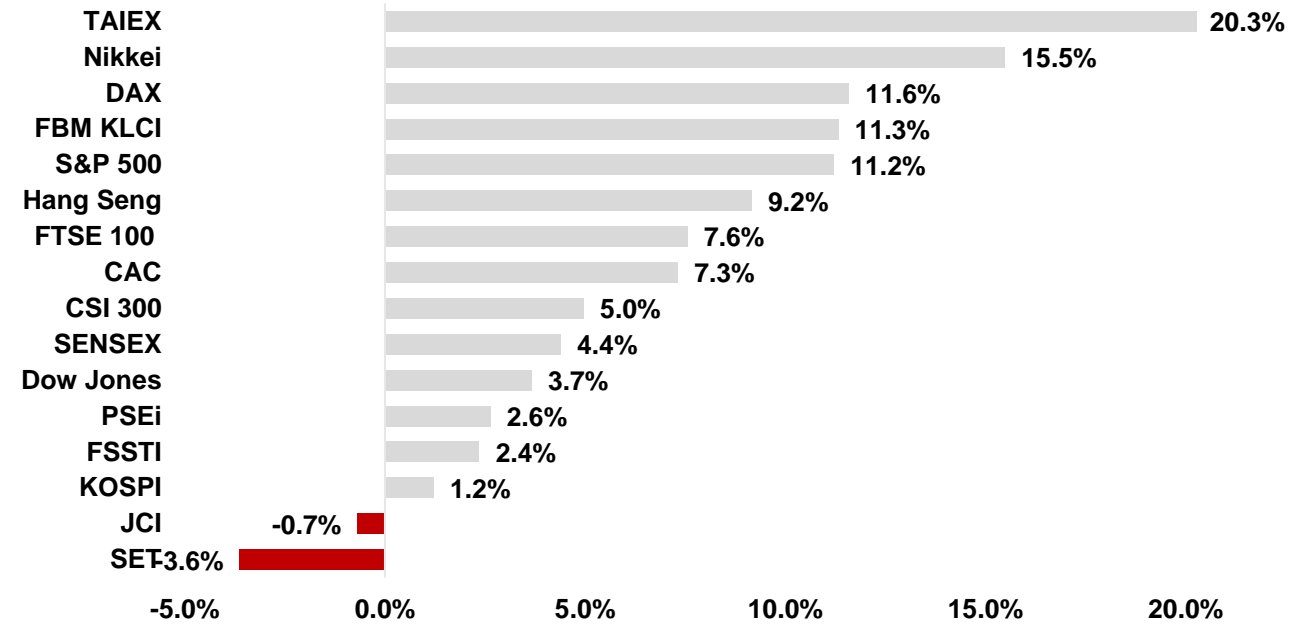


REGIONAL EQUITY: HONG KONG STOCKS EXTENDED LOSSES AMID TECH WEAKNESS AND HAWKISH FED MINUTES

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



YTD Gain/Loss of Major Equity Markets, % (As of 24 May 2024)

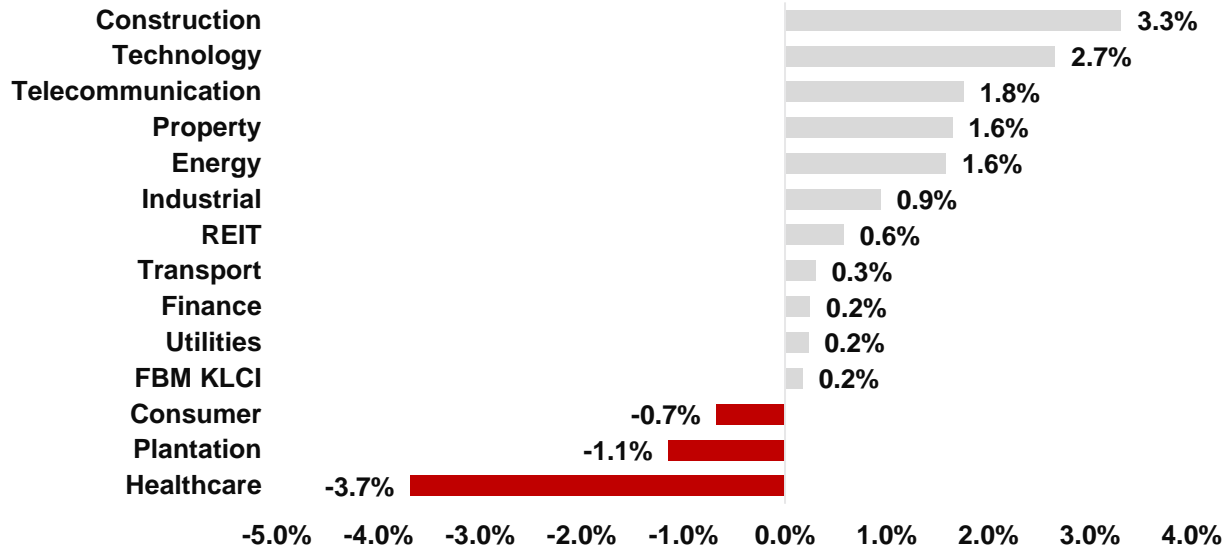


Sources: Bursa, CEIC Data

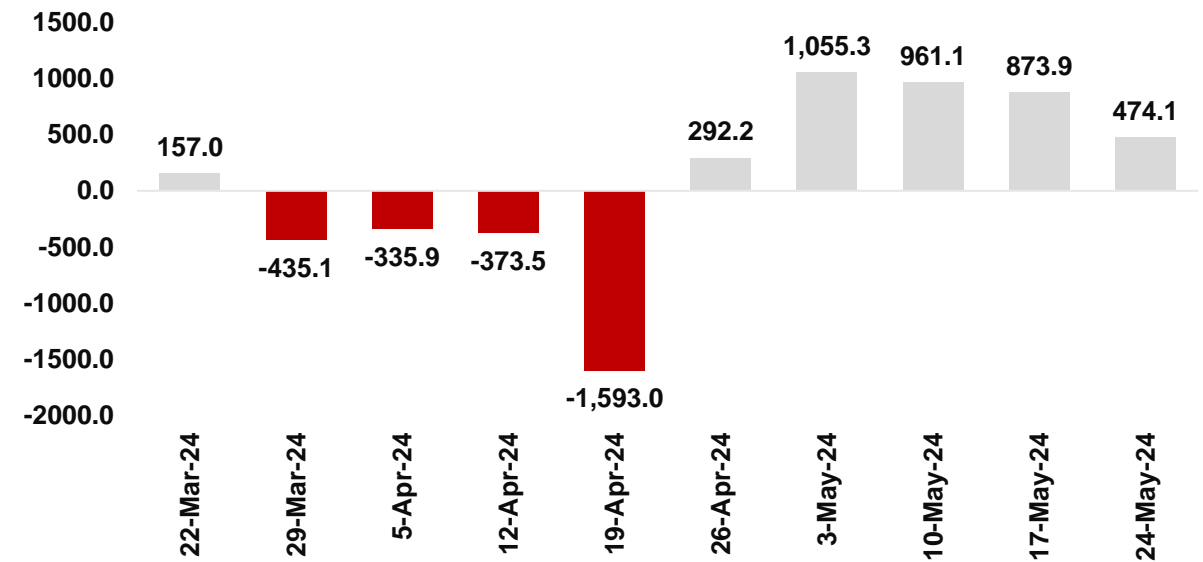
- Hong Kong’s Hang Seng extended their losses, contracting by 4.8%, dragged down by tech giants Alibaba and NetEase.
- Hong Kong stocks faced additional pressure after the release of surprisingly hawkish minutes from the U.S. Federal Reserve (Fed) meeting which revealed disappointment among officials with recent inflation data, leading them to believe that bringing inflation down would take longer than initially anticipated.
- U.S.’ Dow Jones also declined by 2.3% as traders grew anxious after the Federal Open Market Committee (FOMC) minutes hinted at a prolonged period of high interest rates.
- In contrast, India’s SENSEX (+2.0%), Taiwan’s TAIEX (+1.4%) and FBM KLCI (+0.2%) were among the major gainers last week.

DOMESTIC EQUITY: LOCAL MARKET HIT HIGHEST LEVEL IN MORE THAN THREE YEARS

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



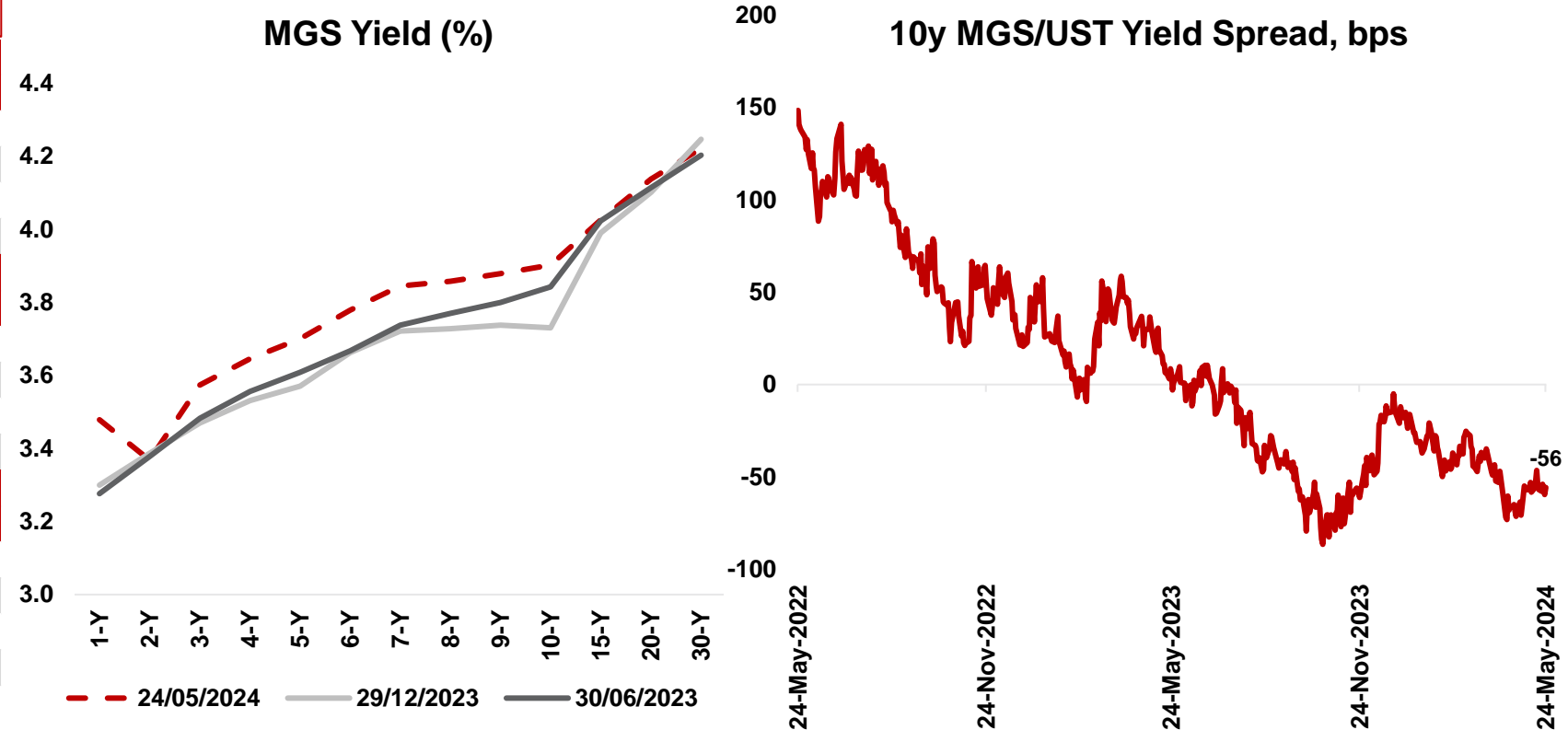
Sources: Bursa, DOSM, CEIC Data

- The FBM KLCI closed in the green for the week ending May 24 amid bargain hunting activities, marking the highest level in over three years at 1,629.18 points on Thursday.
- Sentiment remained upbeat throughout the week on the back of Malaysia's positive economic momentum amid a surge in total trade (April: 12.1% vs. March: 5.1%), drawing in both local and foreign investors. Performance of imports continued its uptrend (April: 15.6% vs. March: 12.5%) while the much-anticipated rebound in exports came in strong at 9.1% (March: -0.8%) in the same month.
- Topping the gainers was the Construction index (+3.3%), followed by the Technology (+2.7%) and Telecommunications (+1.8%) indices.
- Meanwhile, the Healthcare index slumped by 3.7%, followed by the Plantation (-1.1%) and Consumer (-0.7%) indices.
- Foreign investors maintained their net buying streak for the fifth consecutive week, accumulating a total of RM474.1 million worth of equities. The net buying had increased the cumulative total net inflow this year thus far to RM687.6 million.

FIXED INCOME: STRONG U.S. ECONOMIC DATA PUSHED U.S. TREASURY YIELDS HIGHER

Weekly Changes, basis points (bps)			
UST	Yields (%) 17-May-24	Yields (%) 24-May-24	Change (bps)
3-Y UST	4.60	4.71	11
5-Y UST	4.44	4.53	9
7-Y UST	4.43	4.49	6
10-Y UST	4.42	4.46	4
MGS	Yields (%) 17-May-24	Yields (%) 24-May-24	Change (bps)
3-Y MGS	3.56	3.57	2
5-Y MGS	3.67	3.70	3
7-Y MGS	3.79	3.85	6
10-Y MGS	3.85	3.90	5
GII	Yields (%) 17-May-24	Yields (%) 24-May-24	Change (bps)
3-Y GII	3.52	3.54	2
5-Y GII	3.67	3.68	1
7-Y GII	3.78	3.82	4
10-Y GII	3.87	3.90	3

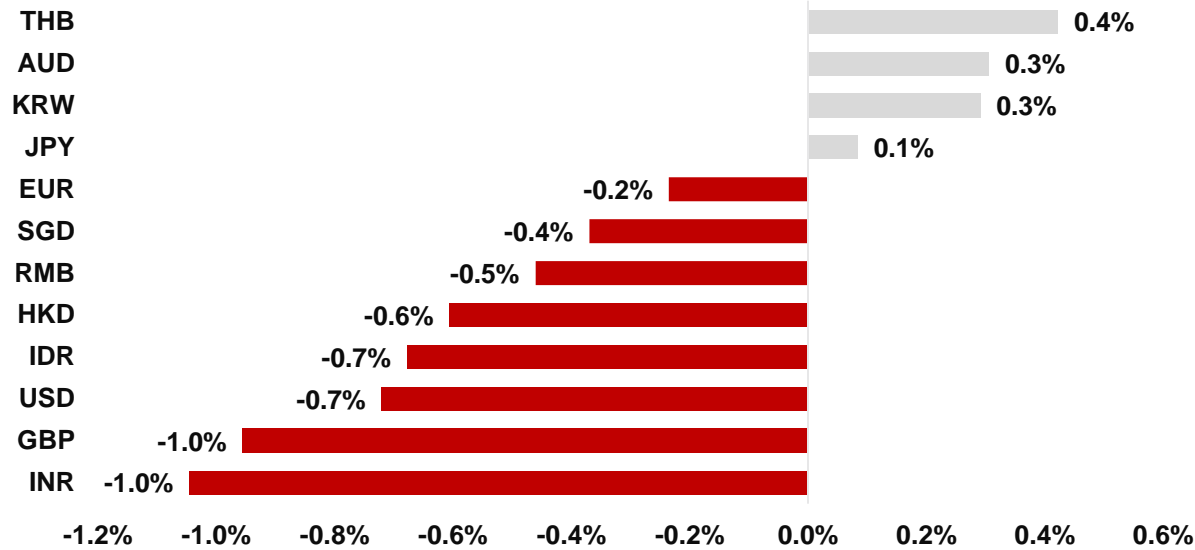
Sources: Bank Negara Malaysia (BNM), Federal Reserve Board



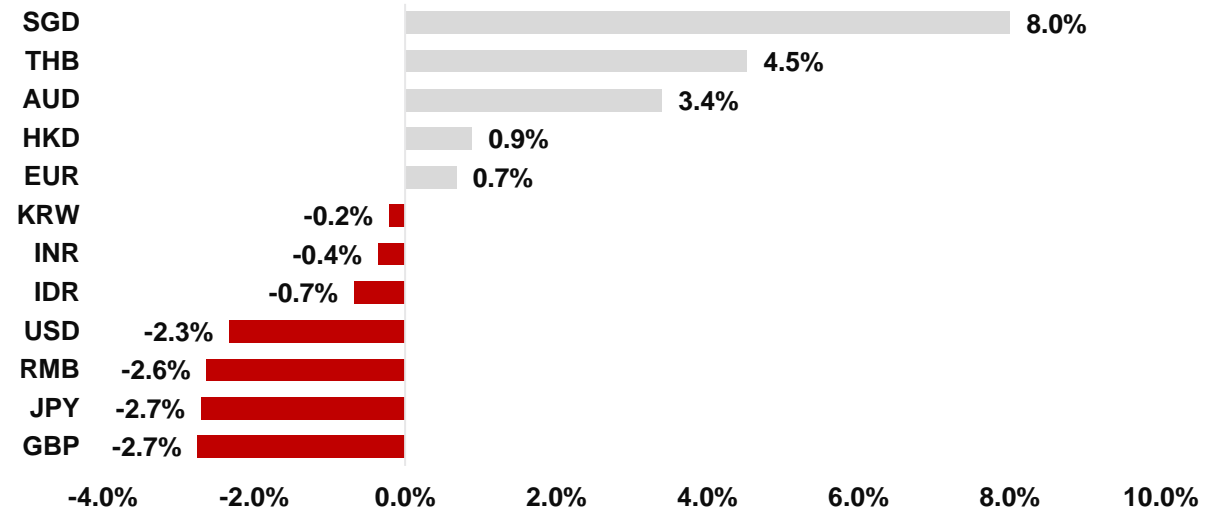
- The U.S. Treasury (UST) yield curve bullishly steepened between 4bps and 11bps for the week ending May 24 as new economic data indicated a macroeconomic environment that supports the higher interest rates for longer narrative.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also inched higher in the range of 1bp and 6bps.
- The RM5.0 billion 15-Y reopening of GII issued on May 23 drew a robust demand with a bid-to-cover (BTC) ratio of 3.0x, similar to the previous RM5.0 billion 15-Y reopening of GII on March 1.
- The 10y MGS/UST yield spread narrowed slightly in the negative territory at -56bps relative to -57bps in the previous week.

FX MARKET: RINGGIT DEPRECIATED AGAINST THE USD AS FOMC MINUTES UNDERLINED A MORE HAWKISH FED

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD% (As of 24 May 2024)



Sources: BNM, Fed, S&P Global

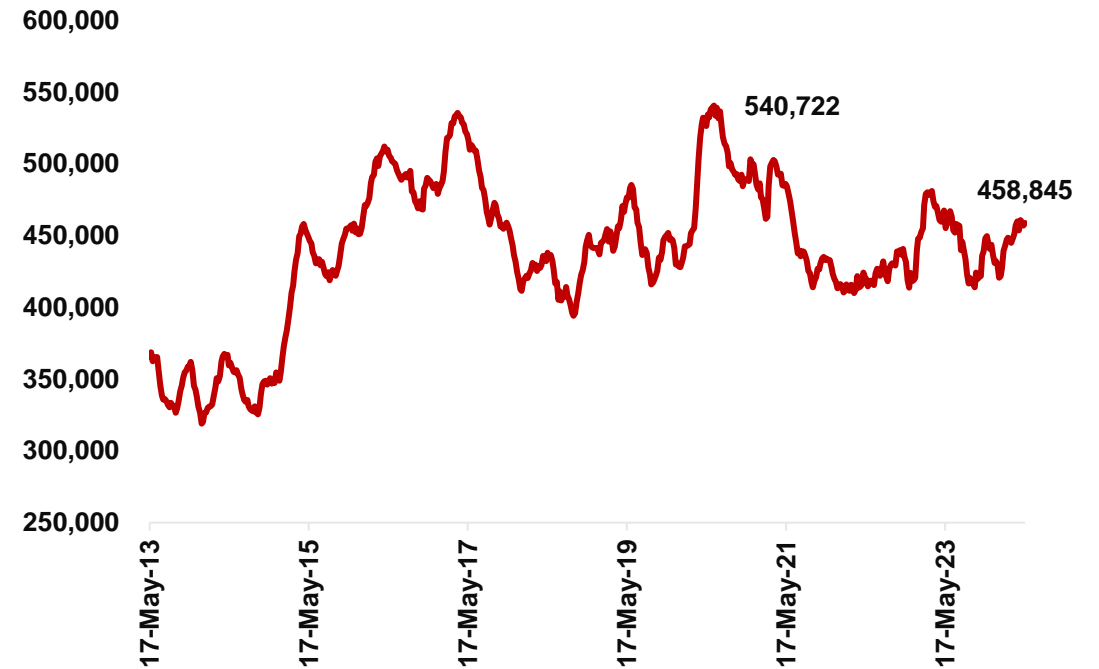
- The USD index strengthened on a weekly basis for the week ending May 24, exerting downwards pressure on the Ringgit, which depreciated against the greenback to close at RM4.7190 (17 May 2024: RM4.6850).
- The recently released FOMC minutes took on a more hawkish tone as several Fed officials signalled the possibility of tighter monetary policy should the risks to the inflation outlook materialise, in addition to their prevailing stance that they have yet to gain confidence in the disinflation trend thus far.
- As such, the probability of the Fed maintaining the Federal Funds Rate (FFR) in its September meeting rose to over 50.0% at the time of writing, from 35.2% just a week before.
- Furthermore, factory activities remained robust with the Manufacturing PMI rising to 50.9 points in May from 50.0 points in April whilst Services PMI jumped to 54.8 points (April: 51.3 points), pointing towards a still healthy demand environment in the U.S..

COMMODITY: OIL PRICES DECLINE AMID EXPECTATIONS OF SUSTAINED HIGH INTEREST RATES IN THE U.S.

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices have faced difficulty in breaking out as investors remained cautious due to concerns that persistently high interest rates could dampen the U.S. economy and impact oil demand.
- The EIA data showed that there was an unexpected increase in U.S. crude oil inventories last week, primarily due to a significant adjustment for unaccounted barrels. However, gasoline stockpiles decreased as demand surged in anticipation of the upcoming summer driving season.

COMMODITY: GOLD PRICE ON TRACK FOR WEEKLY LOSS AMID HIGHER FOR LONGER NARRATIVE

Gold in USD per ounce



U.S. Dollar Index (DXY)



Source: Bloomberg

- The bullion price marked a fresh all-time high of USD2,425.31 on Monday before sliding down to close 3.4% lower on a weekly basis.
- Such performance was attributable to the Fed's more hawkish stance in their FOMC minutes, hinting towards a higher for longer interest rate environment amid stickier than expected inflation and still hot job market. This has led market participants to reassess their rate cut bets, now favouring the Fed to cut rates only in November from September previously.
- In the coming week, all eyes will be trained on the release of the April Core Personal Consumption Expenditure (PCE), the Fed's preferred inflation gauge, for further clues on the Fed's policy path.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- Given the uncertainty surrounding Fed rate cuts, this week's U.S. PCE inflation data for April will be closely monitored. Market expectations for Fed rate cuts were dampened last week following more hawkish-than-expected minutes from the Fed's latest policy meeting, which revealed that several policymakers were open to further rate hikes if inflation risks materialise. Although slower-than-expected CPI data for April supported the case for a rate cut this year, the May U.S. Purchasing Managers' Index (PMI) data pointing to a sharp rise in output prices amid a reviving economic upcycle has kept investors on edge.
- Meanwhile in the Eurozone, May's flash CPI figures will confirm if inflation remains contained – a precondition for an imminent rate cut by European Central Bank (ECB). For record, headline inflation was steady in April, with a rise of 2.4% at the same level as March, whereas core inflation moderated to 2.7% from 2.9% previously. Expectations have grown that the ECB will deliver its first rate cut as early as June amid the alignment of supportive economic data with continued dovish signals from ECB. For instance, ECB President Christine Lagarde, in her latest remarks, expressed strong confidence that Eurozone inflation is under control as the effects of the energy crisis and supply chain bottlenecks diminish.
- May China PMI data released by the National Bureau of Statistics will also be due this week to provide an update on the economy. The official manufacturing PMI is expected to remain in expansion territory for a third consecutive month in May (April: 50.4), reflecting that China's industrial activities are stabilising. In contrast, services and construction activities are likely to slow as the domestic economy still faces headwinds including the protracted property crisis. The government's recently announced measures to support the property sector, such as the easing of mortgage rules and the provision of financing to local state-owned enterprises to buy unsold but completed apartments to turn them into affordable housing will take some time to show results.

BANK ISLAM

THANK YOU