MARKET OVERVIEW AND OUTLOOK

MARKET OVERVIEW IN 2022

Global and Domestic Economic Environment

Global economic growth in 2022 was estimated at 3.4%[1] (2021: 6.0%) as recovery continued to be uneven where the full reopening of economies and international borders alongside improvement in labour market conditions were weighed down by the global fight against inflation, geopolitical conflict between Russia and Ukraine as well as a resurgence of COVID-19 in China. Central banks across the globe accelerated the pace of rate increases to manage inflationary pressures driven by post-pandemic pent-up demand and supply chain disruptions resulting in further tightening of financial conditions and cooling consumer and business demand.

In Malaysia, gross domestic product expanded at 8.7%[2] in 2022 (2021: 3.1%) driven by the recovery in private and public sector spending following the easing of COVID-19 restrictions as the Government continued to provide relief measures and support towards rapid and broad recovery of the economy. Expansion was also observed across all economic sectors and notably the services sector as better labour market conditions and continued recovery in tourism activities provided support to growth.

Interest Rate and Liquidity Environment

Bank Negara Malaysia ("BNM") raised the overnight policy rate ("OPR") four times in 2022, each time by 25 basis points ("bps"), taking the OPR from 1.75% to 2.75%, amid global monetary authorities' measure to tighten liquidity in order to tame inflation. BNM's recalibration of monetary policy settings remained accommodative to support sustainable economic growth in an environment of price stability.

The liquidity condition in the banking system remained stable with all banks consistently reporting healthy Liquidity Coverage Ratio of more than 100% and compliance with BNM's Net Stable Funding Ratio minimum requirement of 100%. With the expiration of Statutory Reserve Requirement ("SRR") flexibility on 31 December 2022, all banks are expected to meet the SRR requirement.

Property Market

The resumption of economic activities in the endemic phase brought overall improvement to the property market in 2022. As of Q3 2022, the number of residential housing transactions increased by 52.5% in volume and 40.5% in value year-on-year, indicating that home ownership aspiration in Malaysia remains strong. The Malaysian House Price Index ("MHPI") continued to increase, albeit at a moderating trend and stood at 203.5[3] points, up by 0.7% on annual basis as at Q3 2022.

Bond Market

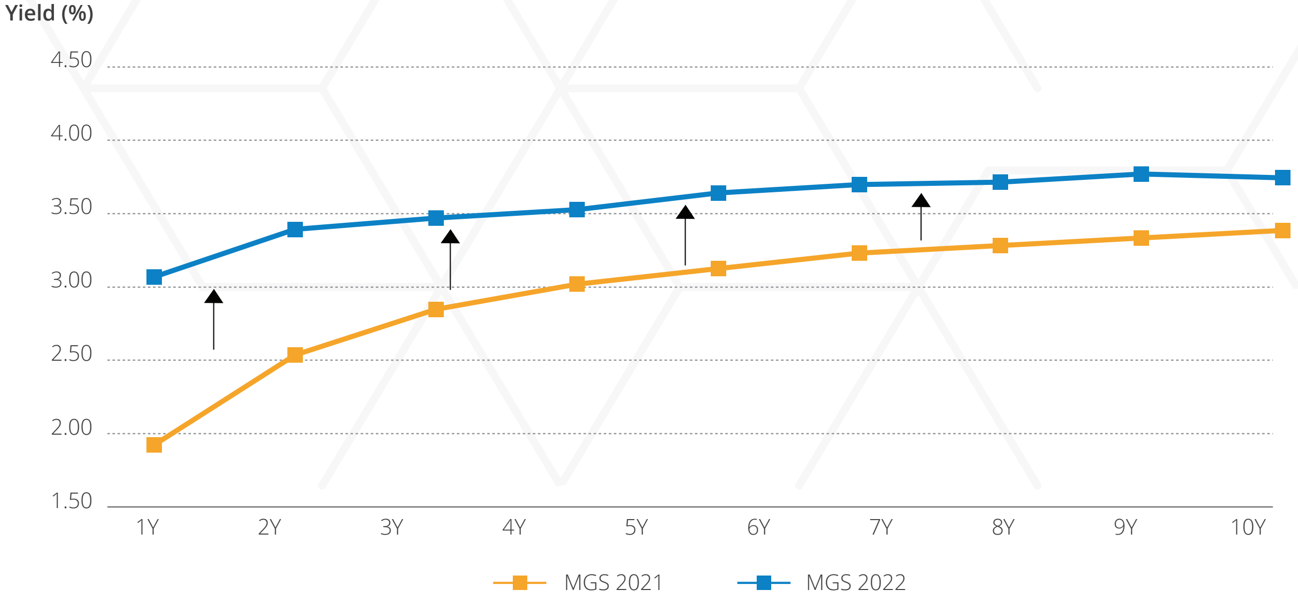
The US Federal Reserve (the "Fed") tightened its monetary policies aggressively in 2022, amid rising global inflationary pressure from continued supply chain disruption, which further deteriorated due to the Russia-Ukraine war. On a year-on-year basis, the Fed had raised its policy rate from 0-0.25% to 4.25-4.50%, the fastest pace in more than 50 years and begun its quantitative tightening program to reduce its balance sheet. The benchmark US 10-year Treasury yield rose to a high of 3.88%, the highest since the global financial crisis, while the 2-year Treasury yield was raised from a low of 0.73% to end the year at 4.43%, resulting in an inverted yield curve in the US Treasury market.

Locally, total issuances of bonds and sukuk including Government papers amounted to RM435.1 billion comprising RM232.0 billion for Government papers and RM203.1 billion for corporate bonds and sukuk. Notable increase was seen in terms of corporate issuances from RM168.0 billion in 2021 to RM203.1 billion in 2022 mainly due to higher issuances by infrastructure, utilities and financial sectors.

The Malaysian Government Securities ("MGS") yield curve climbed significantly higher in tandem with the bearish global bond market. Overall, local bond yields have increased where the benchmark 10-year MGS yield rose by 51 basis points from 3.58% to 4.09% at the end of the year.

[1] International Monetary Fund, World Economic Outlook, January 2023
[2] Bank Negara Malaysia, Economic & Financial Development, 4Q 2022
[3] National Property Information Centre (NAPIC) Malaysia

Chart 1
MGS Yield Comparison for 31 December 2021 vs 31 December 2022



OUTLOOK 2023

- The International Monetary Fund ("IMF") predicts global economic growth to slow down from 3.4% in 2022 to 2.9% in 2023 driven by decline in advanced economies while growth in emerging markets and developing economies is estimated to have bottomed out. The economic outlook in 2023 is subjected to further downside risks, including potentially severe health outcomes in China, escalation of the Russia-Ukraine conflict and tighter global financing conditions which could worsen debt distress.
- Malaysia's economy is expected to expand at a more moderate pace, amid a challenging external environment. Growth will be driven by domestic demand, supported by the continued recovery in the labour market as well as the services and manufacturing sectors. Household spending growth will be underpinned by sustained improvements in employment and income prospects. Tourist arrivals are expected to rise further, boosting tourism-related activities. The ongoing progress of multi-year infrastructure projects will support investment activity.
- BNM is expected to maintain an accommodative monetary policy stance in line with slower monetary policy tightening by major central banks moving forward as inflation showed signs of peaking. The Malaysian fixed income market is expected to perform better in 2023. MGS have priced in much anticipation of OPR while inflation is expected to moderate in 2023. Given the historical yield spread between MGS and the OPR, the bond yields are expected to remain stable.
- The expectation of further increase in the OPR may have some impact on property demand in 2023, although it is not expected to be significant. The residential property sector has continued to face challenges due to global supply chain disruption resulting in high material costs, labour shortages, rising interest rates and inflationary pressures.
- While oversupply in the property market remains a structural challenge, modest growth in property prices and the prudent loan-to-value ratios as well as cautious lending to the residential property segment will limit risks from this sector.