BANK ISLAM

MONTHLY ECONOMIC UPDATE

3 MARCH 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

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- **Trump announced several new trade tariffs in February.** Trade wars and tariffs became a major issue last month and are expected to continue causing volatility in the market, as certain tariffs are set to be imposed this month. The 25% tariff on imports from Canada and Mexico will be enforced on March 4, in addition to a doubling of the 10% universal tariff charged on imports from China. Furthermore, the U.S. raised tariffs on steel and aluminum imports to a flat 25% on February 10, while also introducing reciprocal tariffs on its trading partners, which will take effect on April 2. Additionally, Trump plans to impose 25% tariffs on autos, semiconductors, and pharmaceutical as early as April 2. Overall, the implementation of these new tariffs could lead to a bleak outlook for the global economy, as the affected countries may retaliate, potentially worsening supply chain disruptions. The escalating risk of higher inflation has also become a significant concern for U.S. consumers, as the increased costs for businesses are likely to be passed on to them. Consumers are expected to be most impacted by the new import taxes on automobiles as car prices could surge.

- **Malaysia's GDP recorded a robust growth of 5.1% in 2024**, surpassing our initial forecast of 5.0%. This marks a notable recovery from the 3.6% growth seen in 2023. The 4Q2024 alone saw a 5.0% expansion, slightly higher than the Department of Statistics Malaysia's (DOSM) preliminary estimate of 4.8%, driven by resilient household consumption and strong investment activity. Looking ahead, we project a moderation in growth to 4.7% in 2025. Risks to the outlook remain skewed to the downside, primarily due to heightened global uncertainties, including the potential for a renewed trade war that could disrupt global supply chains and reduce external demand. Nonetheless, we remain optimistic that Malaysia's robust domestic demand will continue to provide a solid foundation for economic growth in 2025.

- **Bank of Thailand (BoT) unexpectedly cut its interest rate by 25 basis points (bps) during its February meeting.** Due to global uncertainties, alongside concerns about the potential impacts of trade wars on the Southeast Asian economy, the central bank decided to lower its interest rate by 25 bps to 2.0%. This monetary policy easing was also intended to support the Thai economy and weaken its currency to remain competitive in the export market. For 2025, resilient private consumption and the tourism sectors are anticipated to be the key drivers of growth. The International Monetary Fund (IMF) projects Thailand's economy to expand by 2.9% in 2025, up from 2.5% in 2024.

SECTION 1

Malaysia's Financial Market

REGIONAL EQUITY: DIVERGING PERFORMANCES AMID ECONOMIC UNCERTAINTIES

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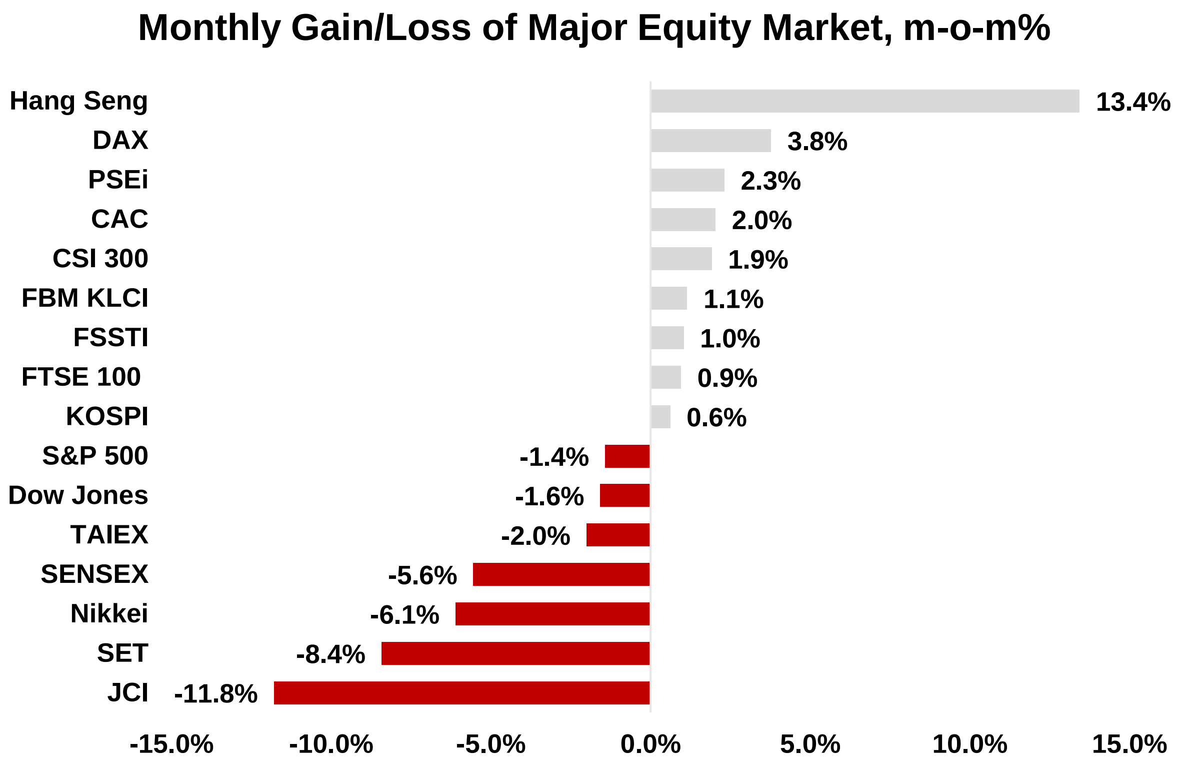
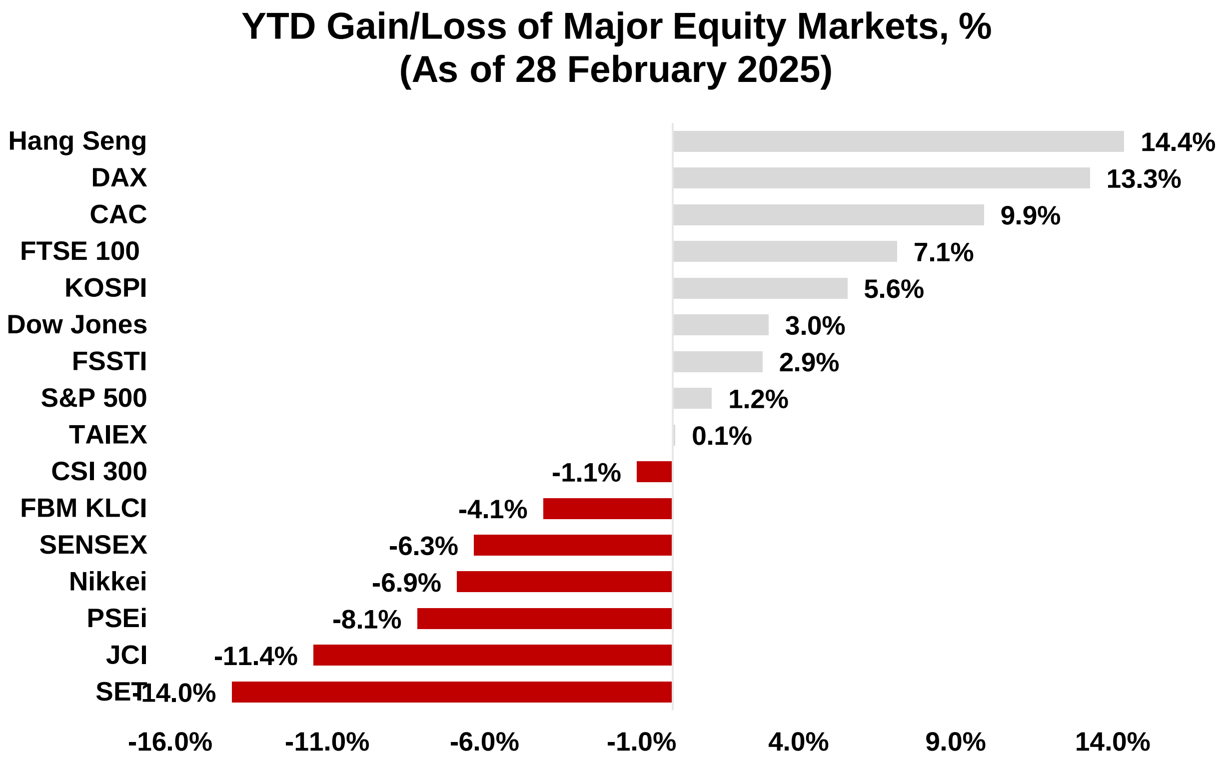
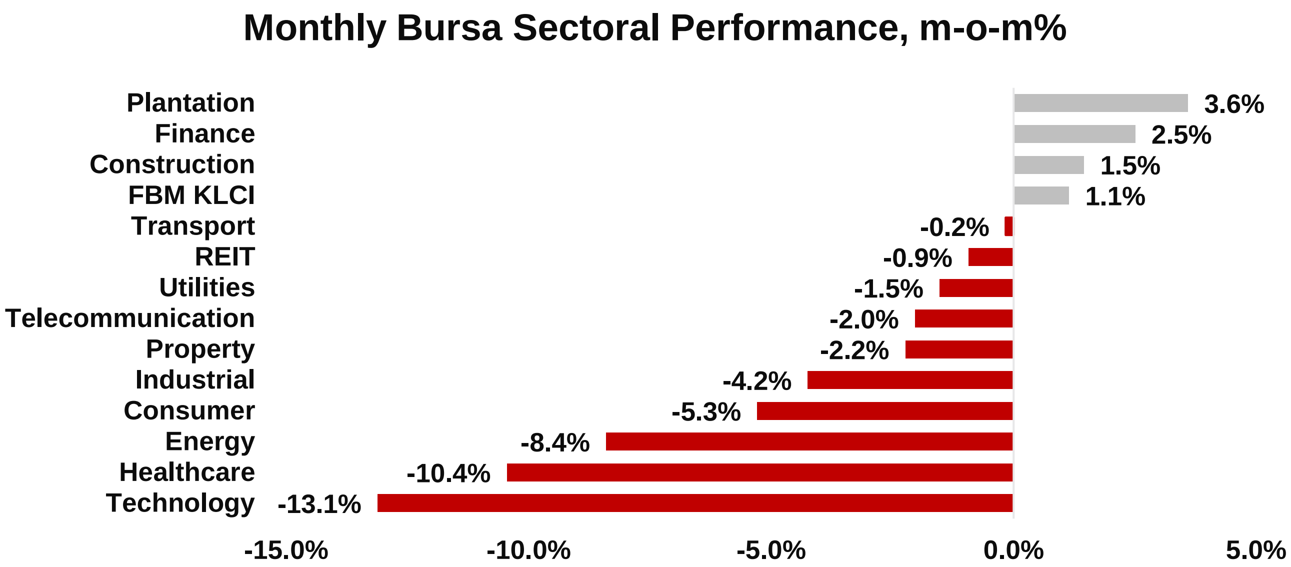


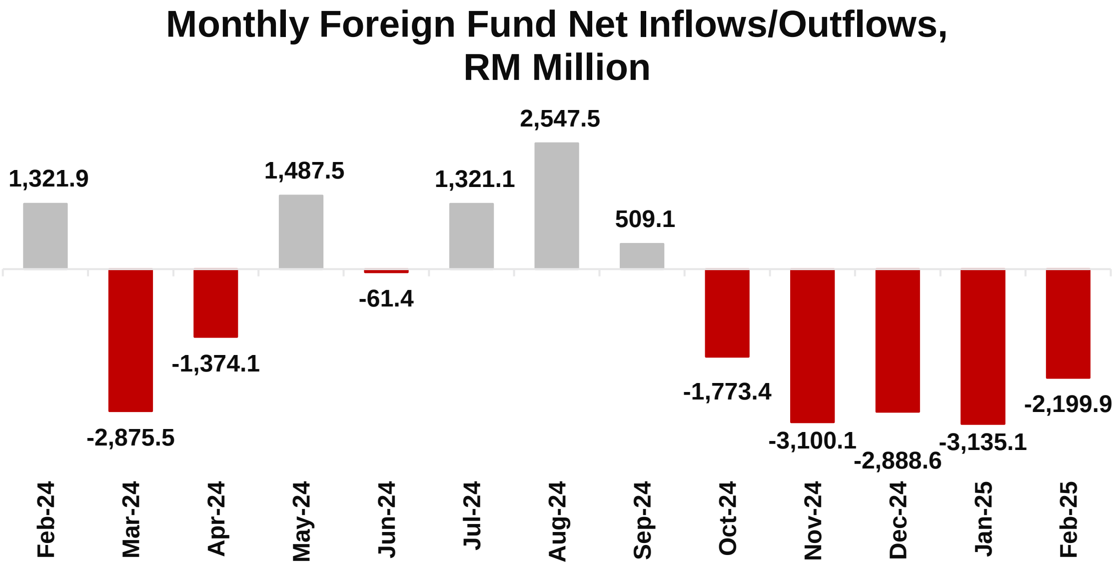


Sources: Bursa, CEIC data

- The global stock markets ended mixed in February with Hong Kong's Hang Seng spearheading the gainers with a significant expansion of 13.4% on anticipation of new economic stimulus measures from China's upcoming Two Sessions meeting fueled optimism for a stronger recovery.
- In contrast, Indonesia's JCI slumped by 11.8% in February as rising budget pressures forced the government to announce significant spending cuts, affecting infrastructure and subsidies. These reductions, coupled with a weaker currency, are expected to weigh on economic growth.
- U.S. stocks – Dow Jones (-1.6%) and S&P 500 (-1.4%) plunged as traders grappled with a struggling tech sector, alongside the implications of the most recent U.S. personal consumption expenditure (PCE) report and rising trade tensions.
- YTD, Hong Kong's Hang Seng emerged as the top performer in February, with a gain of 14.4%.

DOMESTIC EQUITY: DESPITE A GAIN IN THE KLCI, MOST SECTORS ARE IN RED TERRITORY





Sources: DOSM, CEIC Data

- The FBM KLCI closed February 2025 with a 1.1% m-o-m gain, rebounding from a 5.2% decline in January. The recovery was partly driven by Malaysia's strong economic fundamentals, as 4Q2024 GDP growth came in at 5.0%, surpassing DOSM's advanced estimate of 4.8%. This brought the country's overall economic growth for 2024 to 5.1%.
- The local market was on an upward trend during the first half of the month, surpassing 1,600 mark on February 12. However, it began fluctuating thereafter, culminating in a sharp decline with strong selling pressure on February 25, as Trump's trade tariff policies impacted global sentiment. The Trump administration emphasized that tariffs on imports from Mexico and Canada would take effect starting March 4.
- Additionally, reciprocal tariffs and tariffs on autos, semiconductors, and pharmaceuticals, set to be imposed as early as April 2, contributed to selling pressure on local equities, amid concerns over global trade tensions and a potential U.S. economic slowdown.
- In the broader market, the technology (-13.1%) and healthcare (-10.4%) index recorded double-digit declines during the month. Meanwhile, the plantation sector was the biggest gainer (+3.6%), followed by finance (+2.5%), and construction (+1.5%).
- Foreign investors remained net sellers for the fifth straight month, recording a total net outflow of RM2.2 billion. This net selling resulted in a cumulative net outflow of RM5.3 billion in February 2025.

FIXED INCOME: SHARP DROP IN UST YIELDS DRIVEN BY ECONOMIC WORRIES

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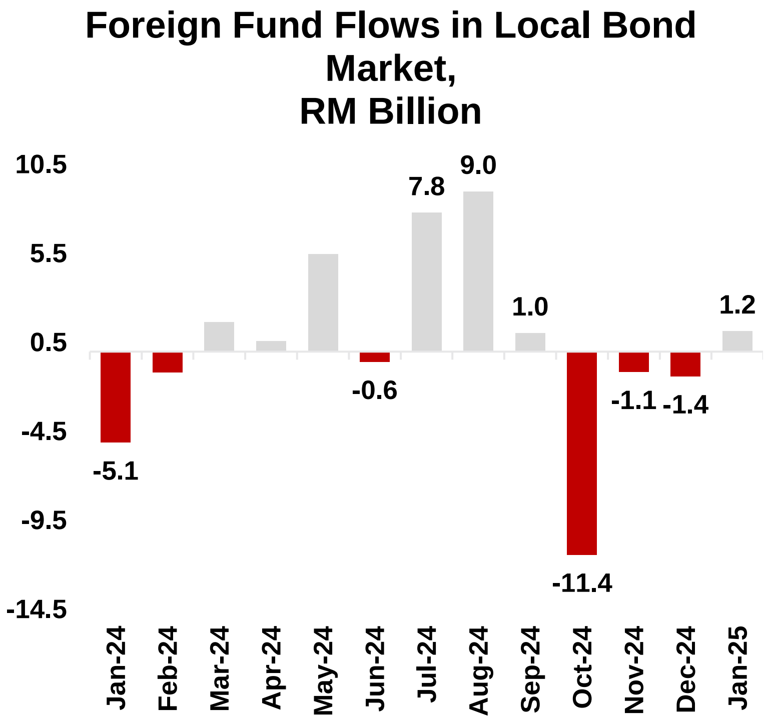
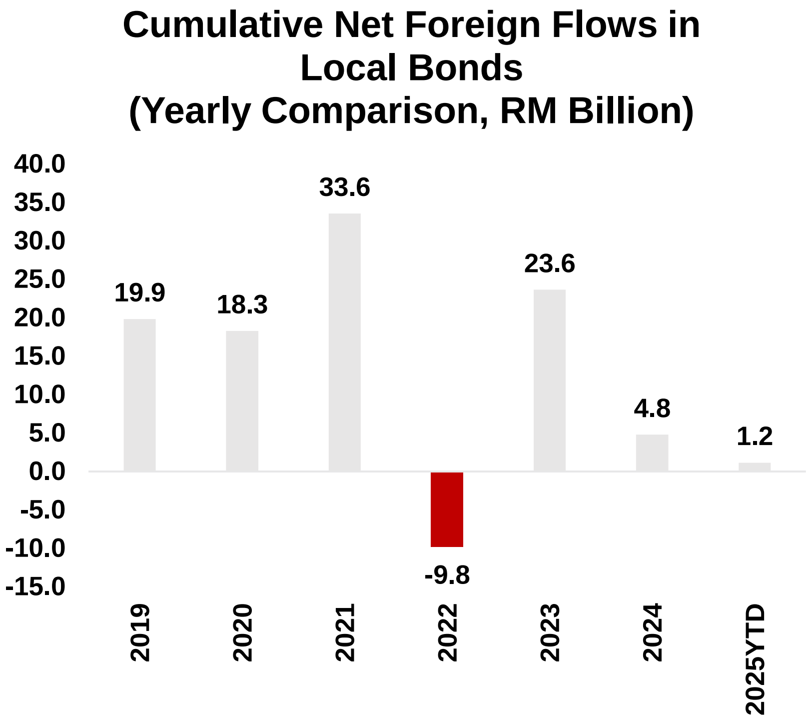
Monthly changes, basis points (bps)

UST	Yields (%) 31-Jan-25	Yields (%) 28-Feb-25	Change (bps)
3-Y UST	4.27	3.99	-28
5-Y UST	4.36	4.03	-33
7-Y UST	4.47	4.14	-33
10-Y UST	4.58	4.24	-34
MGS	**Yields (%) 31-Jan-25**	**Yields (%) 28-Feb-25**	**Change (bps)**
3-Y MGS	3.46	3.45	-1
5-Y MGS	3.61	3.60	-2
7-Y MGS	3.77	3.75	-2
10-Y MGS	3.81	3.79	-1
GII	**Yields (%) 31-Jan-25**	**Yields (%) 28-Feb-25**	**Change (bps)**
3-Y GII	3.52	3.55	3
5-Y GII	3.62	3.63	1
7-Y GII	3.77	3.76	-1
10-Y GII	3.82	3.81	-1

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yields tumbled in the range of 28bps and 34bps as markets weighed a mix of economic data alongside worries that trade tariffs and sharp reductions in government spending could stifle economic expansion.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields mostly ended slightly lower in February except for 3-Y and 5-Y GII yields which increased marginally by 3bps and 1bp, respectively.
- Foreign fund flows in the local bond market returned into positive territory with a net foreign inflow of RM1.2 billion in January (December 2024: -RM1.4 billion), after three consecutive months of net foreign outflows. Nevertheless, local govvies' foreign shareholdings to total outstanding declined to 21.1% in January (December 2024: 21.3%).

FX MARKET: TRUMP'S TARIFF NEWS DOMINATED THE CURRENCY MARKET AS INVESTORS ERRED ON THE SIDE OF CAUTION

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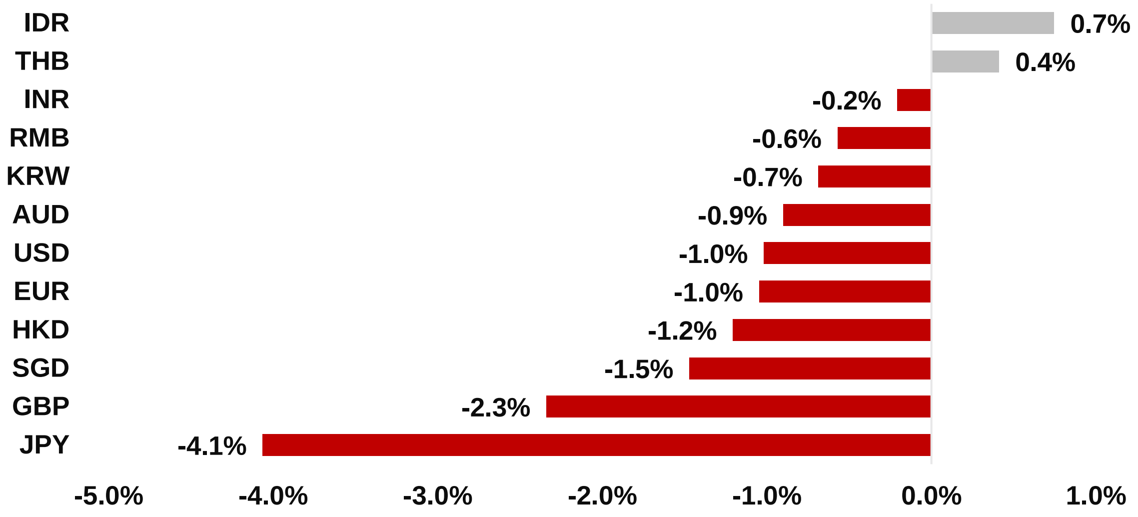

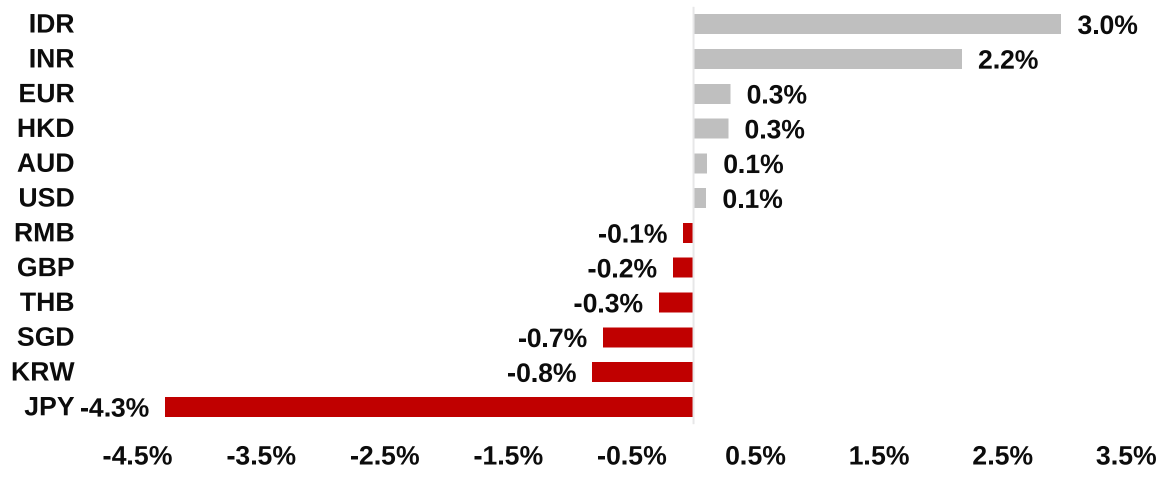

Sources: Bank Negara Malaysia(BNM), Bloomberg, CEIC Data

- The Ringgit reversed its gains in the last month, depreciating by 1.0% against the USD for the month ending February 28 (February 28: RM4.4655 vs. January 31: RM4.20) despite a similar weakness seen in the dollar index (-1.0%).
- The greenback was on a downtrend throughout February amid a rocky global trade environment as Trump doubled down on his aggressive trade policies. As the one-month extension on tariffs on Canada and Mexico comes to an end, Trump told reporters that these 25% tariffs will go on as planned while tacking on another 10% on top of the 10% levies imposed on China.
- Other remarks by Trump also include tariffs on all imports of semiconductors, autos and pharmaceuticals, sweeping reciprocal tariffs, and 25% levies on European imports – previously encompassing aluminium and steel goods but has since expanded.
- The deluge of trade policies by Trump had overshadowed the Fed's more hawkish stance, causing a downward pressure on the greenback. In its Federal Open Market Committee (FOMC) minutes, the Fed noted that the interest rates may have to stay at the restrictive level if inflation remains elevated, citing the need for more evidence of sustained disinflation. As latest figures show price pressures edging higher with the core PCE rising by 0.3% m-o-m (December: 0.2%), markets once again repriced their rate cuts bets.

SECTION 2

The Global Economy

U.S. FED MINUTES: RATE CUTS ON HOLD, TRUMP TARIFFS REMAIN A CONCERN

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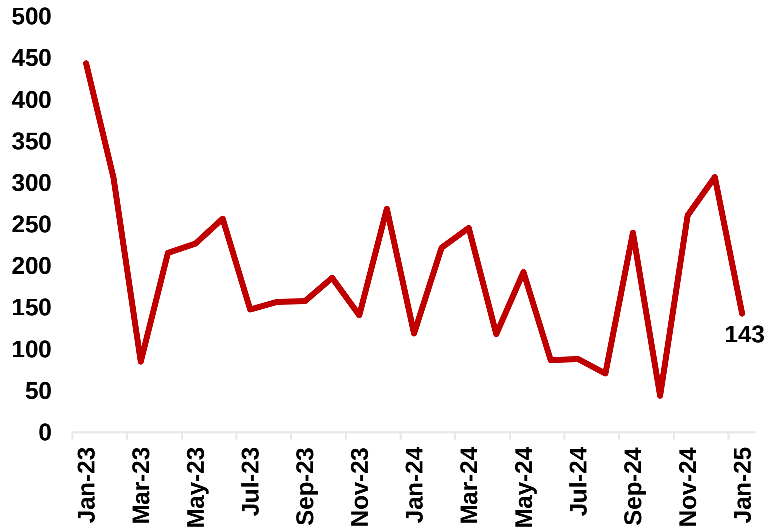
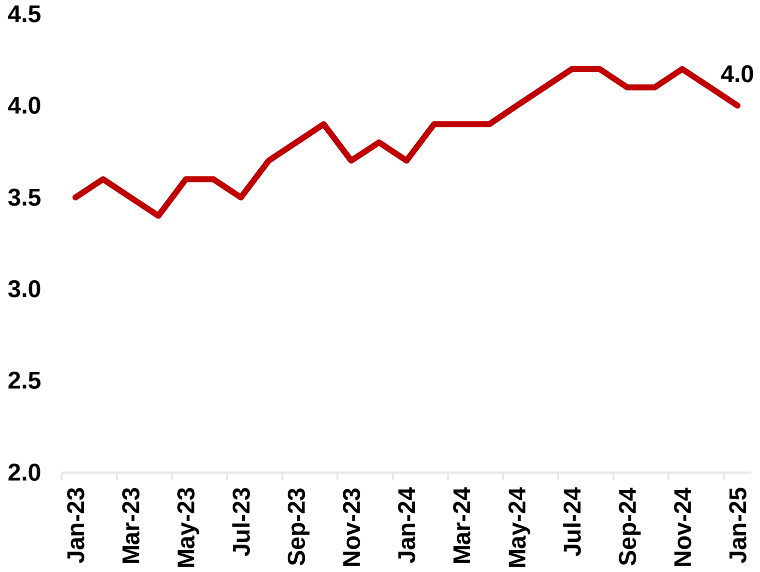
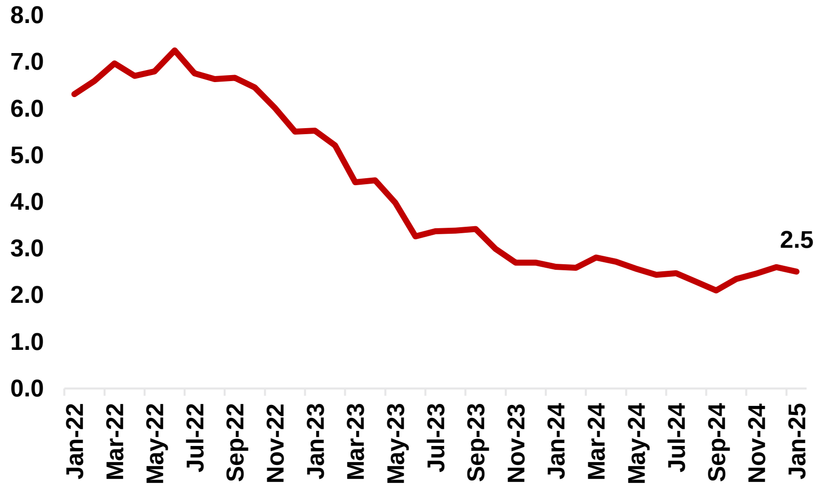
U.S. Non-Farm Payroll, m-o-m changes ('000)



U.S. Unemployment Rate, %



U.S. Personal Consumption Expenditure (PCE) Inflation s.a., y-o-y%



Sources: Bureau of Economic Analysis (BEA), CEIC

- U.S. non-farm payroll growth in January 2025 came in below expectations, increasing by only 143K jobs, following a revised December figure of 307K. This was below the anticipated 170K job gain. Meanwhile, the unemployment rate dropped to 4.0% in January, surpassing expectations of 4.1% and down from 4.1% in December.
- In January, the PCE price index, the Fed's key inflation gauge, rose by 2.5%. This represents a slight easing from the 2.6% annual rate in December 2024, following a period of steady increases in the fall, and was in line with markets' expectations.
- According to meeting minutes released on February 20, Federal Reserve (Fed) officials in January agreed that inflation would need to decrease further before they could consider cutting interest rates again. They also expressed concerns about how President Donald Trump's tariffs might affect efforts to achieve this goal. During the meeting, policymakers on the Federal Open Market Committee (FOMC) unanimously decided to keep their key policy rate unchanged, following three consecutive rate cuts in 2024.

CHINA: MODEST GROWTH AMIDST DEFLATION CONCERNS

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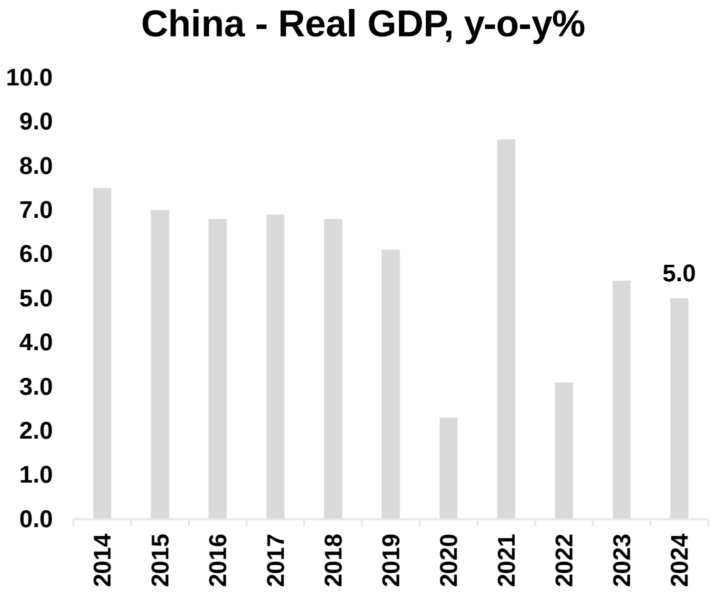
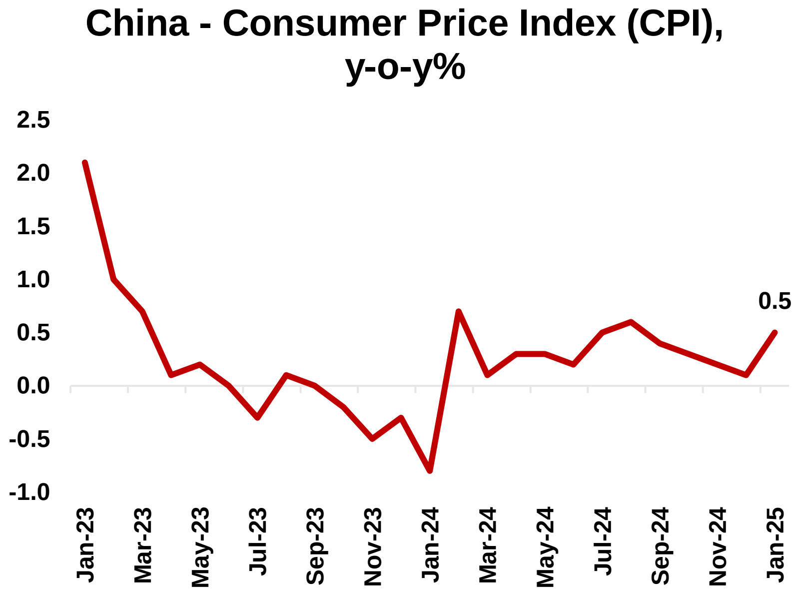
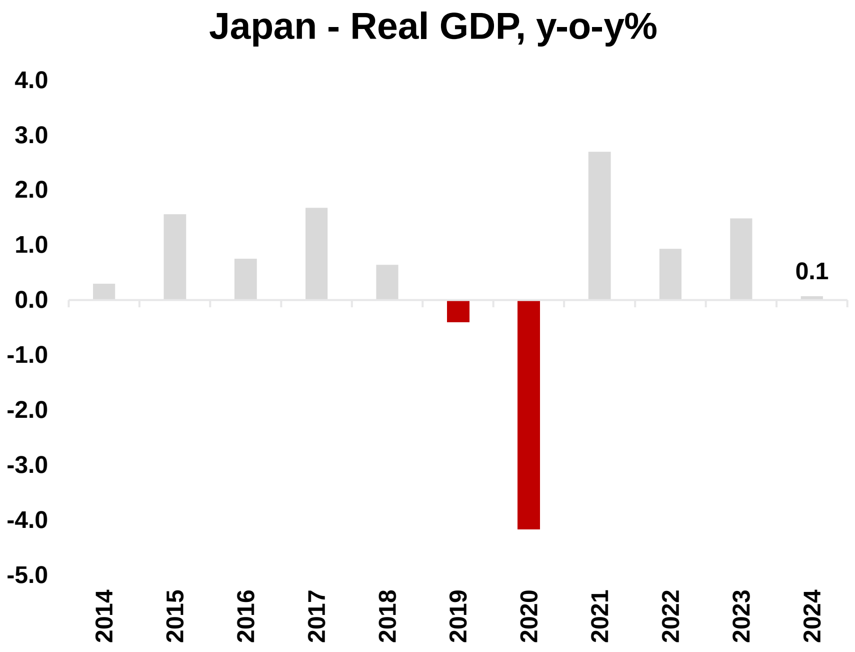


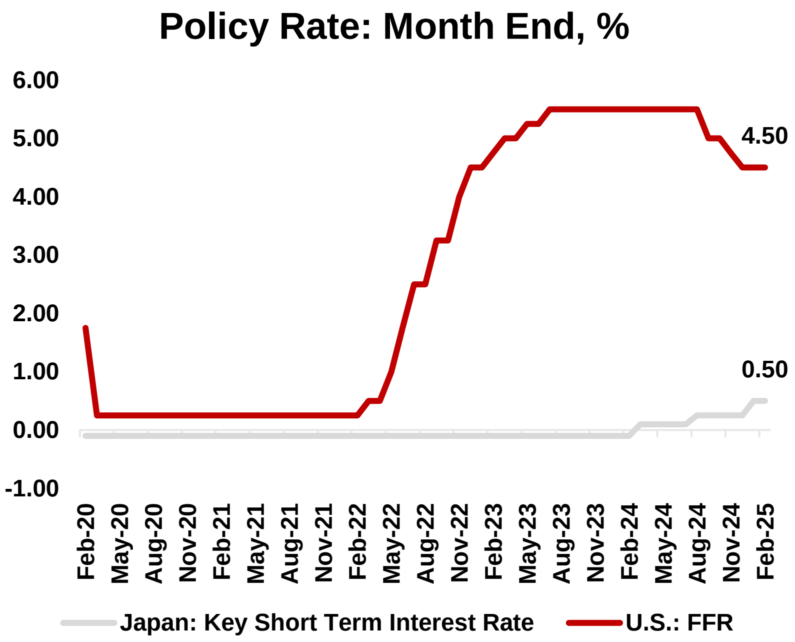


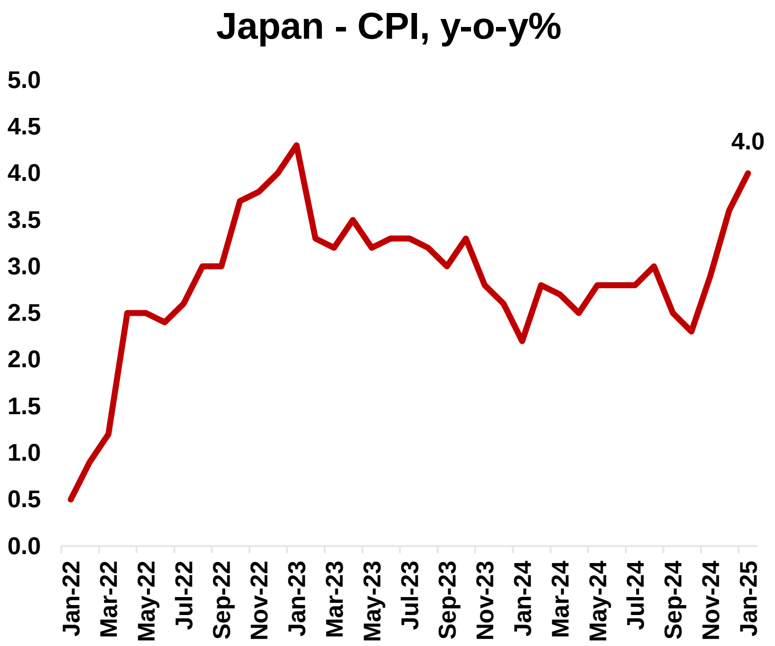
Sources: National Bureau of Statistics, CEIC

- The headline PMI for China's manufacturing sector edged down to 50.1 in January, extending its growth to a fifteenth month. This increase, fueled by rising new orders and enhanced promotional efforts, indicates continued, albeit slight, expansion in the sector.
- While China's consumer prices saw a temporary increase in January due to Lunar New Year spending, market participants remain concerned about persistent deflationary pressures. They emphasize the need to stimulate domestic demand in 2025, especially given the increased uncertainty in the global economic landscape due to evolving U.S. policies. The January CPI rose 0.5% in January (Dec 2024: +0.1%), aligning with expectations, but this seasonal uptick does not negate the broader economic challenges.
- China’s full-year GDP grew by 5.0% in 2024, matching the official target of "around 5%.“ Looking forward, China's key political meetings, the annual Two Sessions, will commence in Beijing in early March. The Chinese People's Political Consultative Conference (CPPCC) will open on March 4, followed by the National People's Congress (NPC) on March 5.
- Despite growing external uncertainties, China is expected to reaffirm its 'around 5%' GDP growth target for 2025, demonstrating its belief in its capacity for continued stable growth.

JAPAN'S RECOVERY REMAINS SLUGGISH DUE TO PERSISTENT INFLATION







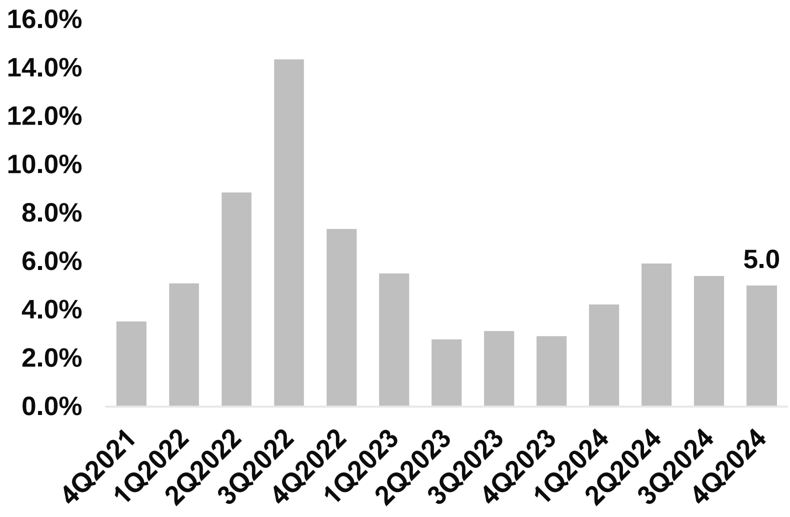
Sources: Statistical Bureau, Federal Reserve Economic Data (FRED), CEIC Data,

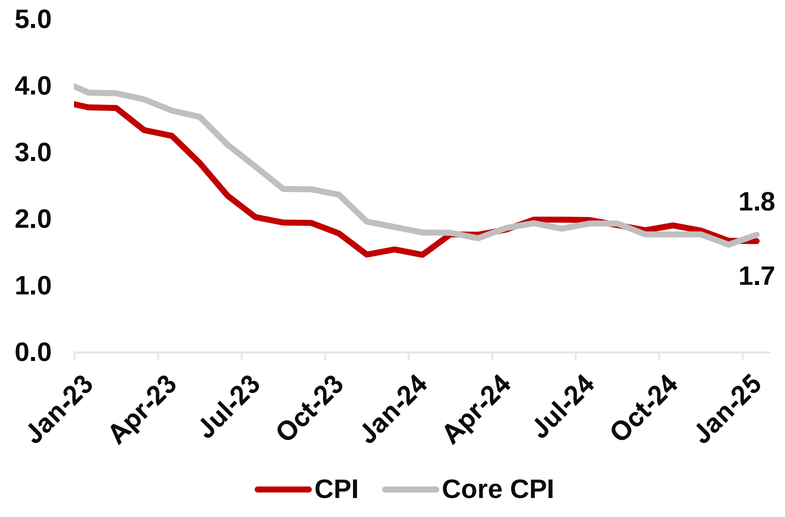
- Japan's 4Q2024 GDP growth significantly exceeded expectations with a 2.8% annualized growth rate, exceeding forecasts of 1.0%, driven by robust exports and capital spending, which offset weaker private consumption. This strengthens the yen, potentially allowing the Bank of Japan (BOJ) to continue raising rates. Despite a stronger-than-expected fourth quarter driven by exports, Japan's economic growth significantly decelerated in 2024, registering only a 0.1% annual GDP increase, a sharp drop from the previous year's growth of 1.5%.
- Concerns remain about a potential slowdown in private spending, despite anticipated strong wage growth from upcoming spring negotiations.
- Japan's inflation in January climbed to 4.0% (December 2024: 3.6%), hitting its highest level since January 2023, further strengthening the case for rate hikes by the country's central bank.
- The latest inflation data strengthens the argument for the BOJ to raise interest rates. This comes after the BOJ discussion on tightening monetary policy at their January meeting, citing concerns about inflationary pressures and the weakening yen.

SECTION 3

Domestic Landscape & Banking Sector Update

MALAYSIA'S ECONOMY GREW BY 5.1% IN 2024 AS INVESTMENTS MARKED A 12-YEAR HIGH, OFFICIAL 2025 GROWTH TARGET AT 4.5-5.5%





Sources: DOSM, CEIC Data

- The Malaysian economy accelerated by 5.0% in 4Q2024 (3Q2024: 5.3%), underpinned by the strong investment momentum (4Q2024: 11.7% vs. 3Q2024: 15.3%) and resilient private consumption (4Q2024: 4.9% vs. 3Q2024: 4.8%). Most notably, double-digit expansions were seen in both public and private investments, driving the construction sector to grow at the strongest level since 2Q2021.
- Such performance brought Malaysia's full year GDP growth to 5.1% (2023: 3.6%). Moving forward, Malaysia's economy is expected to expand, albeit at a slightly slower pace, on the back of the sustained investment upcycle and favourable domestic demand.
- Private consumption is expected to remain solid, supported by the civil servant pay hike and minimum wage hike to RM1,700 as well as moderating inflation and a healthy job market as the Labor Force Participation Rate (LFPR) marked record high of 70.6% in 4Q2024.
- Furthermore, Malaysia's inflation steadied at 1.7% in January, the same as December 2024 while core inflation ticked down to 1.6% from 1.8%.
- On the trade front, exports rose at a significantly slower pace of 0.3% in January compared to December 2024's 16.9% growth amid a contraction in re-exports. Meanwhile, imports increased by 6.2% (December: 11.9%) on strong imports of intermediate and capital goods.

BANKING SECTOR: FINANCING GROWTH FOR THE NON-HOUSEHOLD SECTOR IMPROVED IN JANUARY

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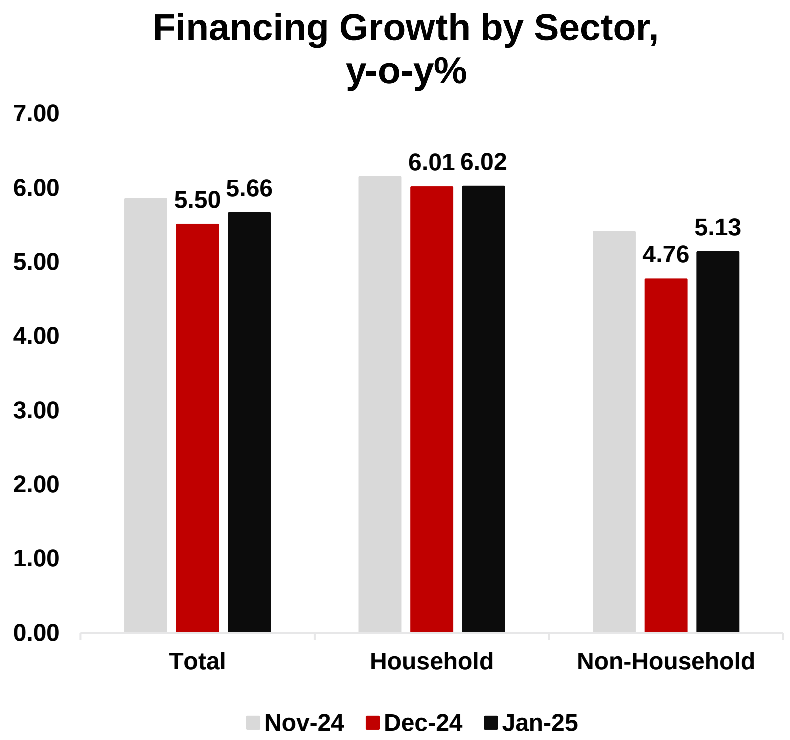
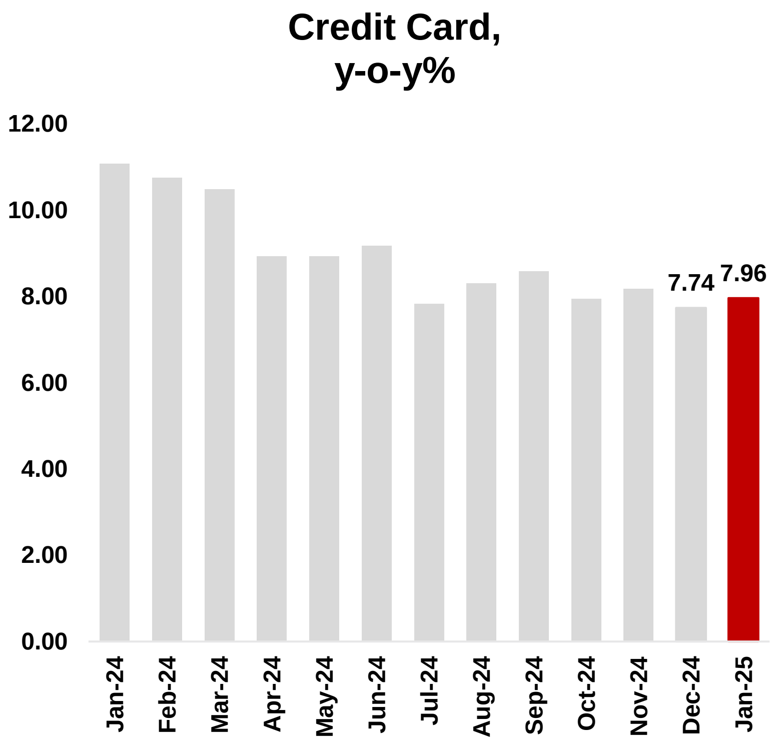
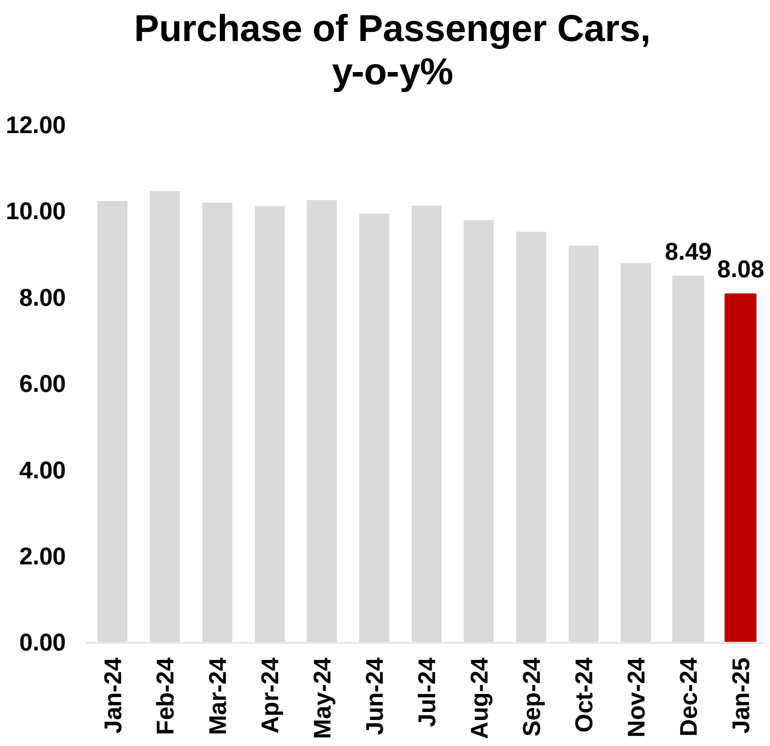


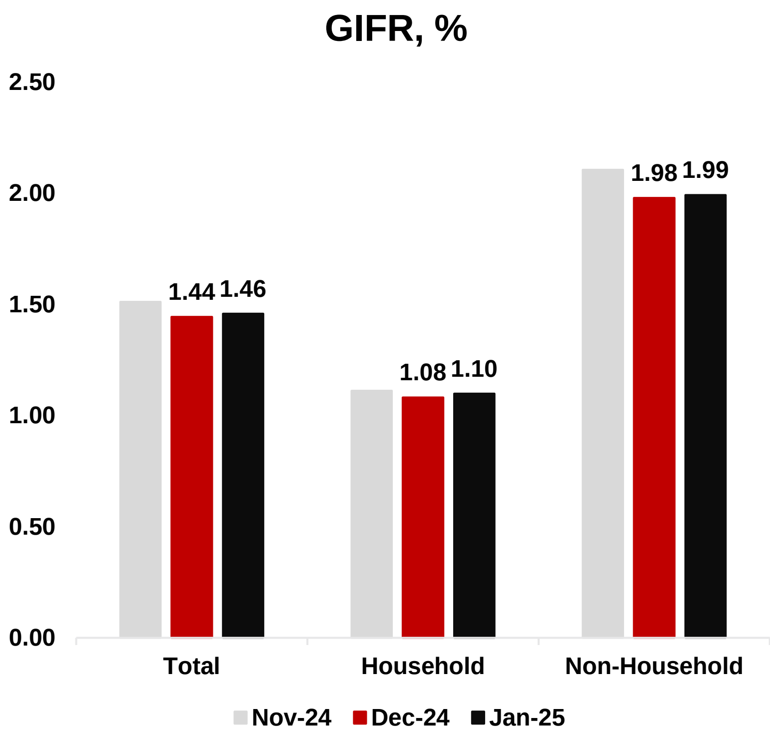


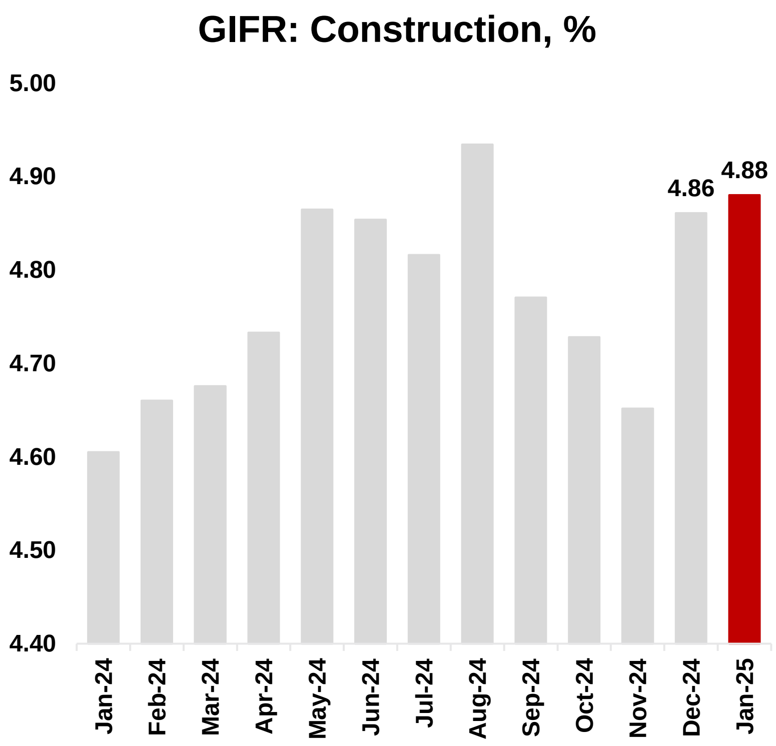


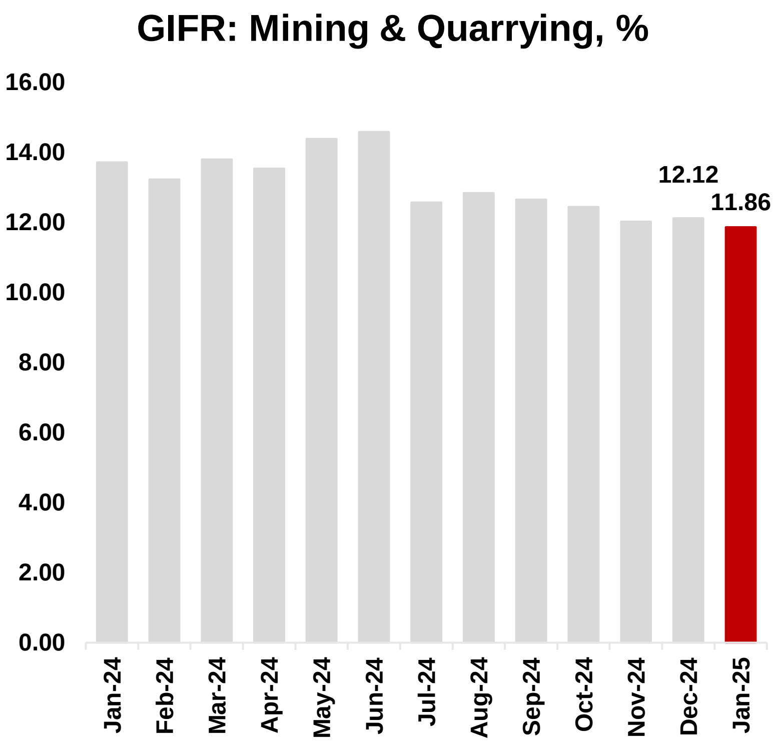
Source: BNM

- Financing growth increased by 5.66% in January, slightly higher than the 5.50% recorded in December. The rise in financing activities was supported by stable growth in household loans and a pick-up in financing for the non-household sector, which surged by 5.13%, compared to 4.76% the previous month.
- Financing for credit card grew by 7.96% in January, up from 7.74% in December. Meanwhile, the financing growth for both passenger car and residential property purchases moderated to 8.08% (December: 8.49%) and 6.79% (December: 6.89%), respectively in January.

BANKING SECTOR: JANUARY'S ASSET QUALITY REMAINED STABLE







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector rose marginally to 1.46% in January (December: 1.44%). The GIFR in the household segment edged up to 1.10% in January (December: 1.08%), while the impairment in the non-household sector showed almost no change in January (1.99; December: 1.98%).
- In particular, the impairment rate in the construction sector increased to 4.88% in January, up from 4.86% in December. Conversely, asset quality in the mining and quarrying industry improved, with the GIFR declining to 11.86% in January (December: 12.12%).

THANK YOU