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MONTHLY ECONOMIC UPDATE

3 FEBRUARY 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **The Federal Reserve (Fed) decided to leave interest rates unchanged during its first Federal Open Market Committee (FOMC) meeting of 2025**, after three consecutive rate cuts since September 2024. The decision, which kept the policy rate in the 4.25%-4.50% range, was widely expected by markets. The Fed is adopting a "wait-and-see" approach to gain more clarity on the potential impact of upcoming policies from the Trump administration, particularly in areas such as tariffs and taxes. Despite healthy macroeconomic fundamentals, these policy shifts could still introduce uncertainties and may alter the monetary policy stance. The U.S. economy remains resilient yet expanded at a slower rate in 4Q24 according to the advance estimate, while the unemployment rate steady at a low level in recent months, and inflation continuing to progress at a moderate pace. Fed Chairman Powell highlighted the risks associated with aggressive rate cuts and reiterated that there’s no rush to adjust the policy stance at this time. However, we anticipate that the Fed will lower its interest rates twice in 2H2025, each by 25 basis points.

- **European Central Bank (ECB) continued to cut its policy rate to stimulate economic growth in the region.** The ECB lowered the interest rate by 25bps to 2.75% on January 30th 2025, diverging from the Fed’s decision to hold its rate steady just a day earlier. This marked the fifth consecutive rate cut since June 2024 due to the sluggish growth of the economy. ECB governor indicated that more rate cuts could be on the horizon, as the economy is expected to remain weak in the near term. They also highlighted downside risks to the economy with potential impact of tariffs from the US, which could exacerbate trade frictions and disrupt inflation expectations, further straining the euro zone's already lackluster economy. In 4Q24, both economies, Germany and France contracted, while Italy stagnated during the quarter. Spain was the only country among the euro zone's big four to experience positive growth. Markets are predicting two or three additional rate cuts later this year.

- **China’s GDP grew by 5.0% in 2024, aligning with the government’s official target**. In 4Q2024, growth accelerated to 5.4%, up from 4.6% in the 3Q2024, contributing to the overall annual growth of 5.0%. This marks a more moderate pace compared to the 5.2% growth seen in 2023. Stimulus measures introduced since September, including cuts to the market-based benchmark lending rates, a reduction in the reserve requirement ratio for banks, and a substantial fiscal package of 10 trillion yuan to address local government debt risks have played a crucial role in supporting the economy. In response to potential new tariffs under the Trump administration, Chinese officials are reportedly planning to introduce larger fiscal stimulus packages in 2025, rolling them out in stages and carefully adjusting to the evolving U.S. policy landscape.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: GLOBAL BENCHMARK INDICES MIXED IN JANUARY ON RATE CUT HOPES AND GROWTH CONCERNS

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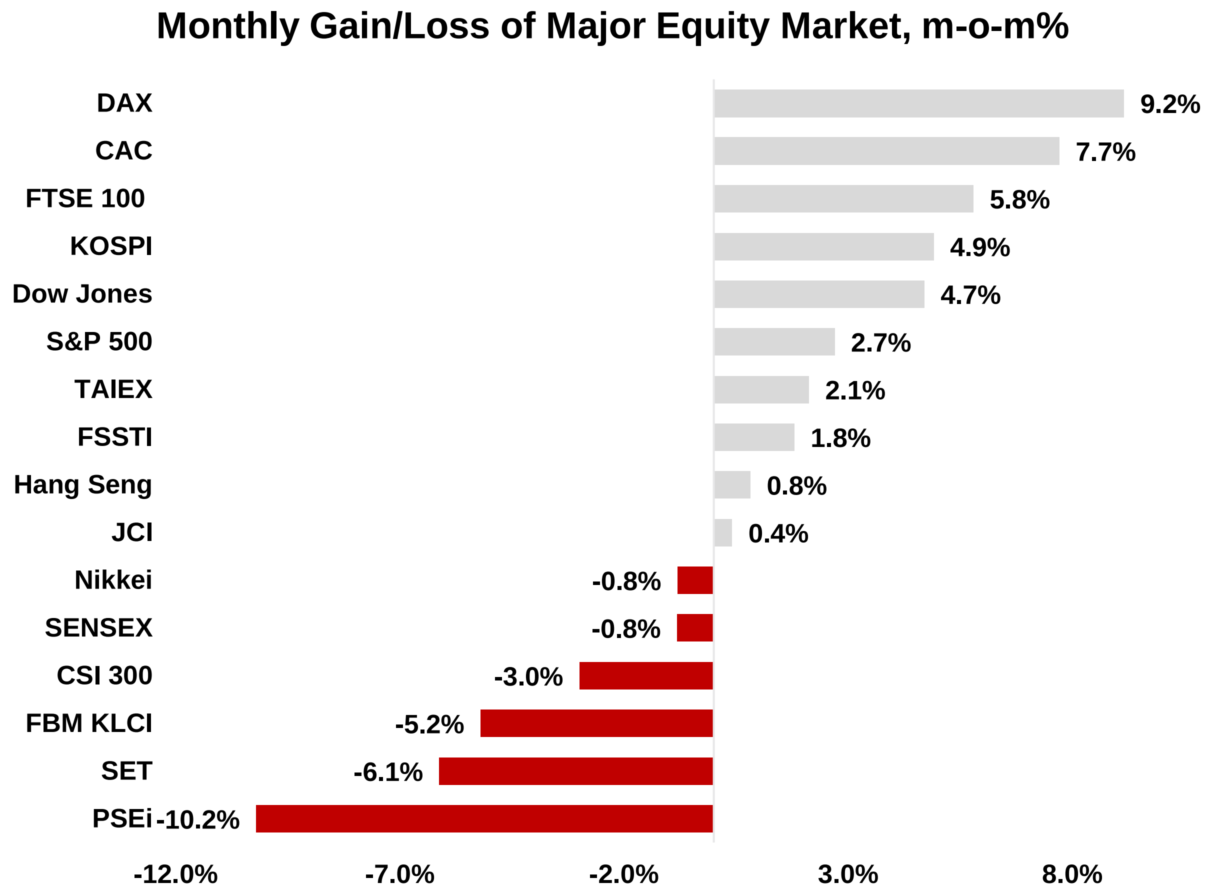

Sources: Bursa, CEIC data

- In January, the regional benchmark indices ended mixed. Germany's DAX spearheaded the gainers, growing by 9.2% amid the market participants reviewed key inflation data from both Europe and the U.S., along with the latest corporate earnings reports, they noted that both Germany and France had headline inflation below expectations, indicating easing price pressures and strengthening predictions that the ECB will proceed with rate cuts this year. On the corporate side, Germany's Commerzbank announced a 20% increase in net profit for 2024.
- U.S. stocks – Dow Jones (+4.7%) and S&P 500 (+2.7%) surged driven by expectations of multiple rate cuts by the Fed this year, solid earnings from tech giants, and reduced concerns over tariffs from U.S. President Trump.
- On the other hand, Philippines' PSEi declined by 10.2% in January, dragged down by the country's economic growth in 2024 which fell short of the government's target for the second consecutive year. The country's GDP grew by merely 5.6%, below the government's projected range of 6.0%-6.5%.

DOMESTIC EQUITY: INVESTOR CAUTION KEEPS LOCAL MARKET IN THE RED

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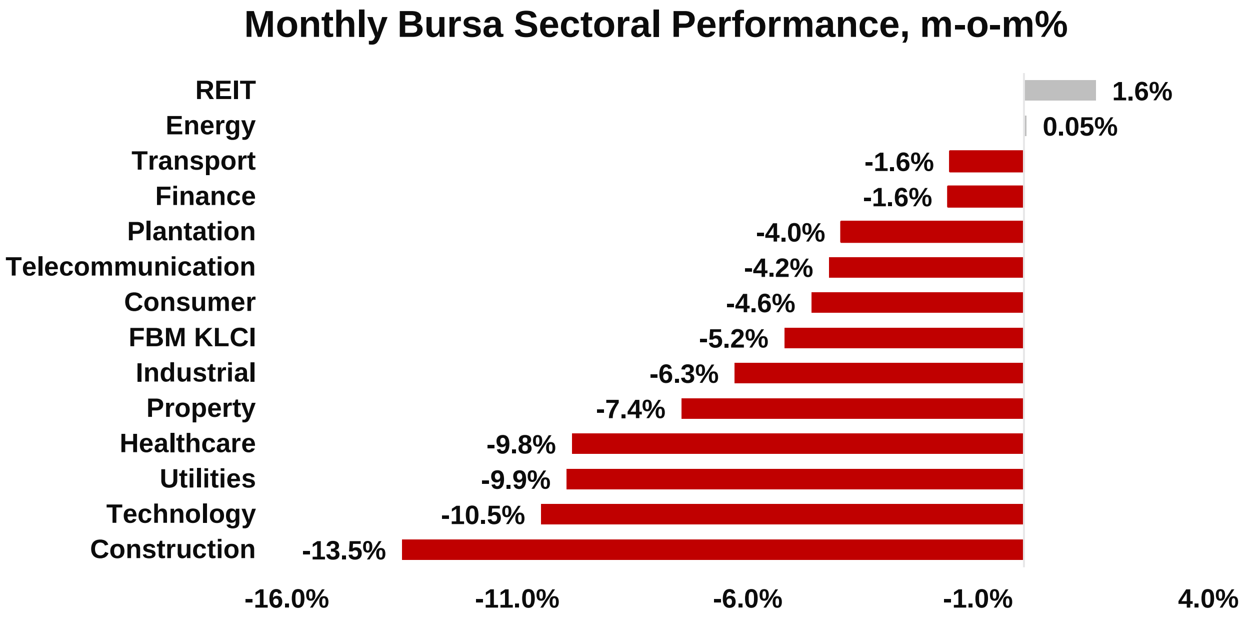

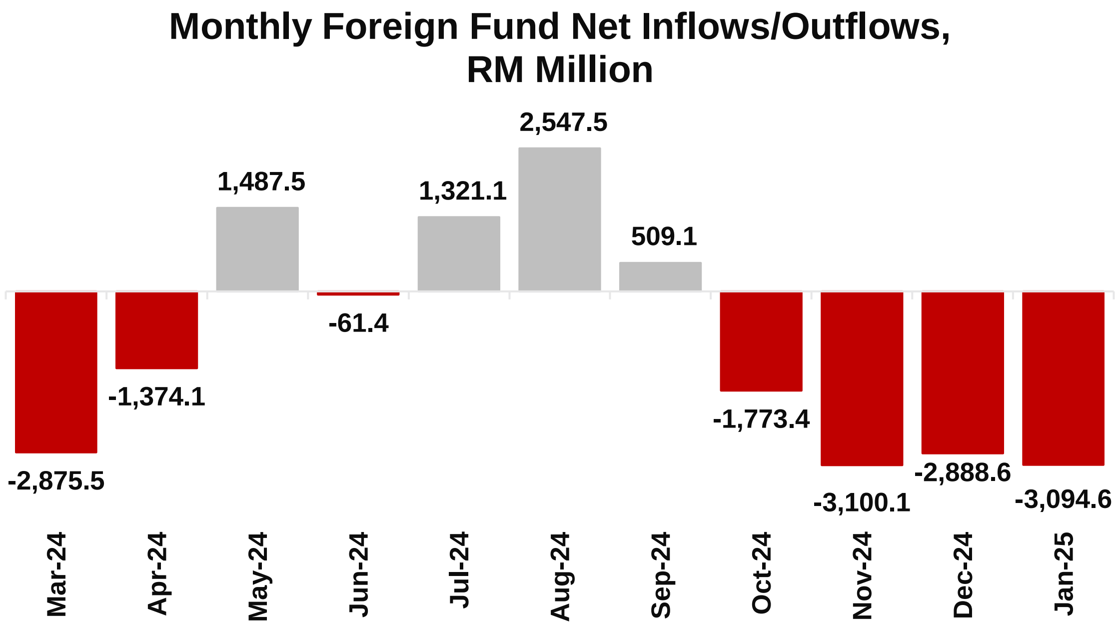

Sources: DOSM, CEIC Data

- The FBM KLCI dropped by 5.2% m-o-m in January 2025, after rising by 3.0% in December 2024. This decline was due to cautious sentiment from investors, reflecting both global and domestic market uncertainties, which led to a sell-off during the month.
- The local market trended downward during the first half of the month amid uncertainties surrounding Trump's inauguration and the potential policy shifts, such as trade tariffs. Ongoing geopolitical tensions in Ukraine and the Middle East, as well as China's slowing economy, further dampened sentiment during the period.
- However, China's better-than-expected economic data coupled with optimism over the delay in tariff implementation by Trump provided some support to the market, resulting in a brief uptrend. Yet, this was short-lived, as the market declined again toward the end of month amid global uncertainties with China's introduction of DeepSeek sparked concern over AI competitiveness, which led to a negative market reaction.
- In the broader market, nearly all sector indices registered negative growth, except for REITS (+1.6%) and Energy (+0.05%) indices. The construction index was the biggest loser (-13.5%), followed by technology (-10.5%) and utilities (-9.9%).
- Foreign investors remained net sellers for the third consecutive month, with a net outflows of RM3.1 billion in January 2025.

FIXED INCOME: RATE CUT BETS KEEP UST YIELDS IN CHECK

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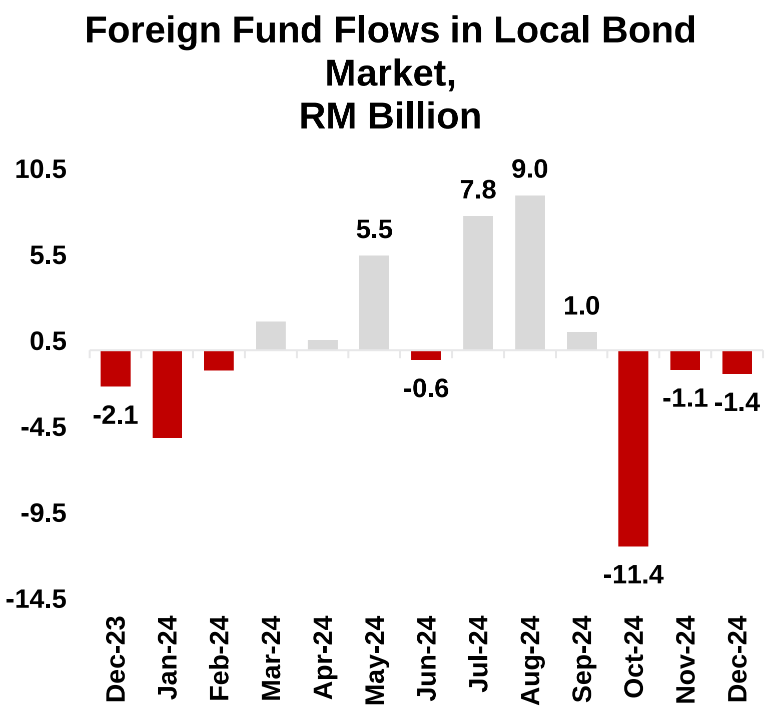
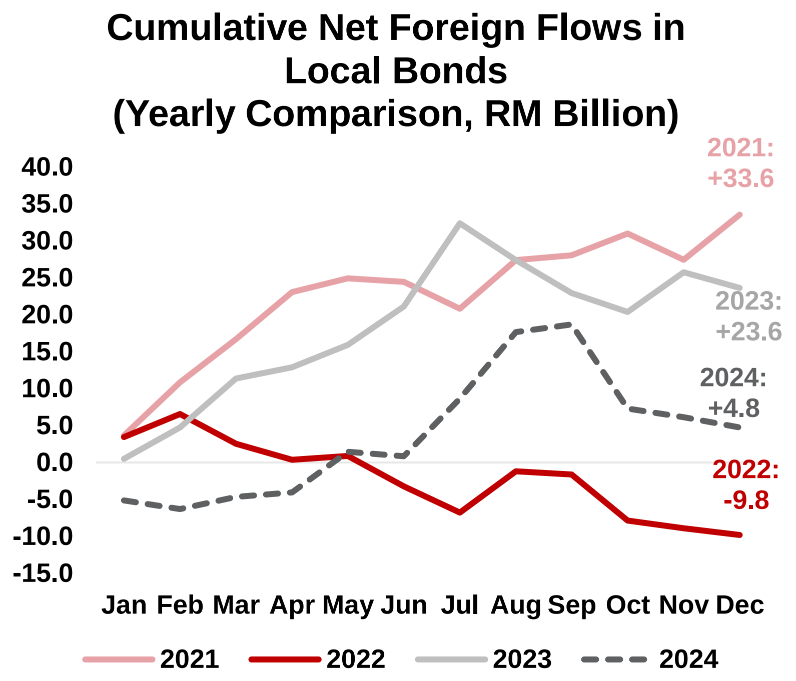
Monthly changes, basis points (bps)			
UST	**Yields (%) 31-Dec-24**	**Yields (%) 31-Jan-25**	**Change (bps)**
3-Y UST	4.27	4.27	0
5-Y UST	4.38	4.36	-2
7-Y UST	4.48	4.47	-1
10-Y UST	4.58	4.58	0
MGS	**Yields (%) 31-Dec-24**	**Yields (%) 31-Jan-25**	**Change (bps)**
3-Y MGS	3.48	3.46	-2
5-Y MGS	3.62	3.61	-1
7-Y MGS	3.76	3.77	1
10-Y MGS	3.81	3.81	0
GII	**Yields (%) 31-Dec-24**	**Yields (%) 31-Jan-25**	**Change (bps)**
3-Y GII	3.42	3.52	10
5-Y GII	3.63	3.62	0
7-Y GII	3.74	3.77	3
10-Y GII	3.83	3.82	-1

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yields were little changed with only the 5-Y and 7-Y UST yields edged lower between 1bp and 2bps. The absence of any positive surprises in the latest price data allowed the market to maintain positions anticipating multiple rate cuts by the Fed this year.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also saw minor movements in January except for GII yields which increased significantly by 10bps to end the month at 3.52%.
- Foreign fund flows in the local bond market remained in the negative territory with a net foreign outflow of RM1.4 billion in December (Nov: -RM1.1 billion). Consequently, local govvies' foreign shareholdings to total outstanding decreased to 21.3% in December (Nov: 21.6%).
- In 2024, the local bond market recorded the cumulative net foreign inflows of RM4.8 billion, significantly lower than the inflows of RM23.6 billion in 2023.

FX MARKET: RINGGIT TOOK A BREATHER BUT RECENT U.S. TARIFF DEVELOPMENTS THREATEN ITS FRAGILE RECOVERY

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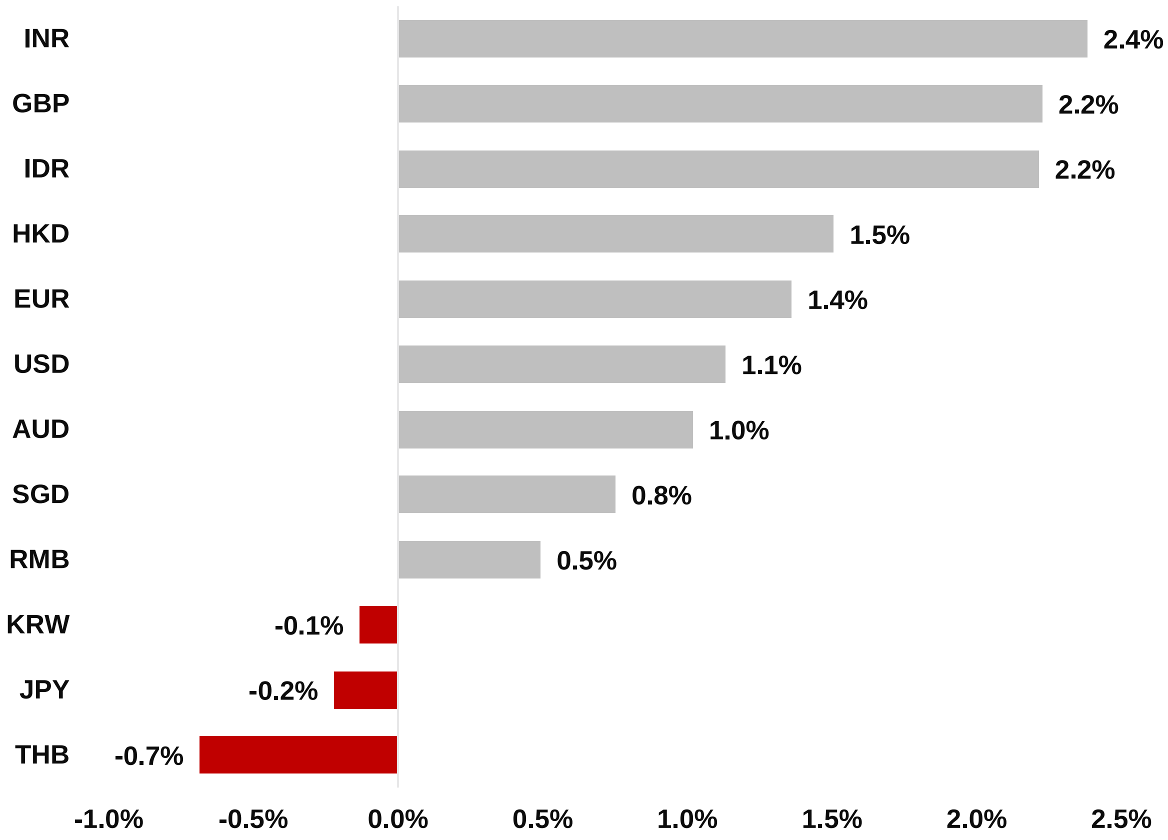
MYR Against Regional Currencies, m-o-m%



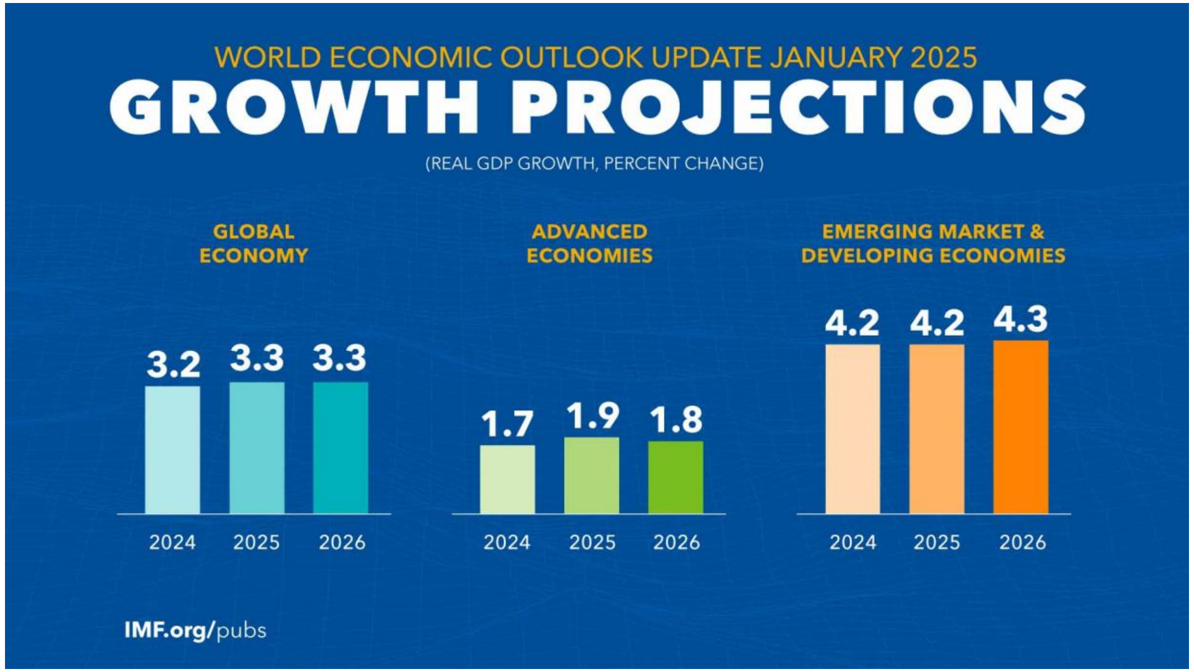
Sources: Bank Negara Malaysia(BNM), Bloomberg, CEIC Data

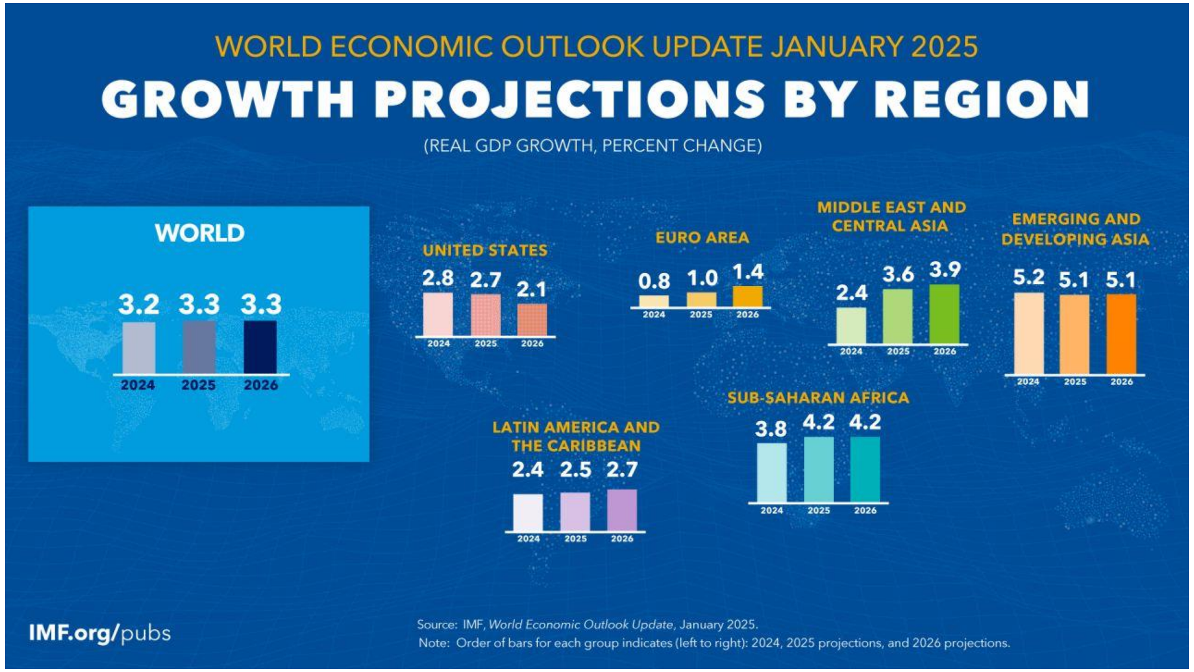
- On a monthly basis, the Ringgit appreciated by 1.1% against the USD, closing at RM4.42 in January, up from RM4.47 in the previous month. Earlier in the month, the USD index trended higher, reaching its strongest level since November 2022, buoyed by expectations of higher for longer U.S. interest rates.
- Nevertheless, the greenback began to lose momentum following Trump's inauguration where he has yet to fulfil his pre-election promises on trade tariffs. As fears of heightened price pressures eased, there seemed to be more space for the Fed to deliver its projected cuts in 2025.
- Furthermore, inflation remained within expectations, as the CPI rising by 2.9% in December while core CPI slowed to 3.2%, further tilting the market towards more dovish bets. As such, the greenback softened, leading to a slight recovery in the local note.
- However, in recent news, Trump imposed widespread 25% tariffs on imports from Canada and Mexico, as well as 10% tariffs on China effective Tuesday. This announcement was followed immediately with vows of retaliatory measures from the mentioned economies, which once again reigniting concerns of elevated price pressures and derailing bets surrounding the Fed's policy outlook.
- Moving forward, we believe the Ringgit will remain under pressure during 1H2025, taking cues from this development as well as the Fed's January meeting statement, during which it kept interest rates steady. Notably, the remark about inflation progressing towards its 2.0% target was dropped.

SECTION 2

The Global Economy

IMF FORECASTS MODERATE GROWTH, CAUTIONS ON UNCERTAINTY

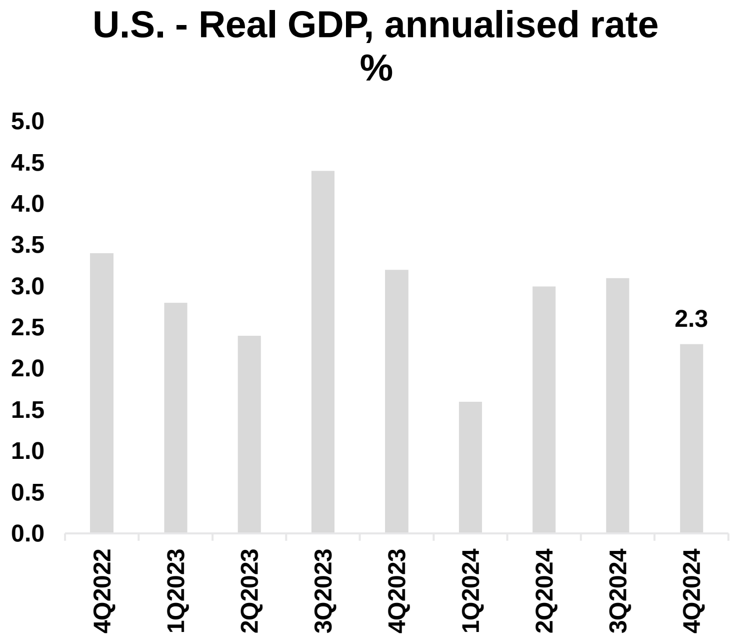


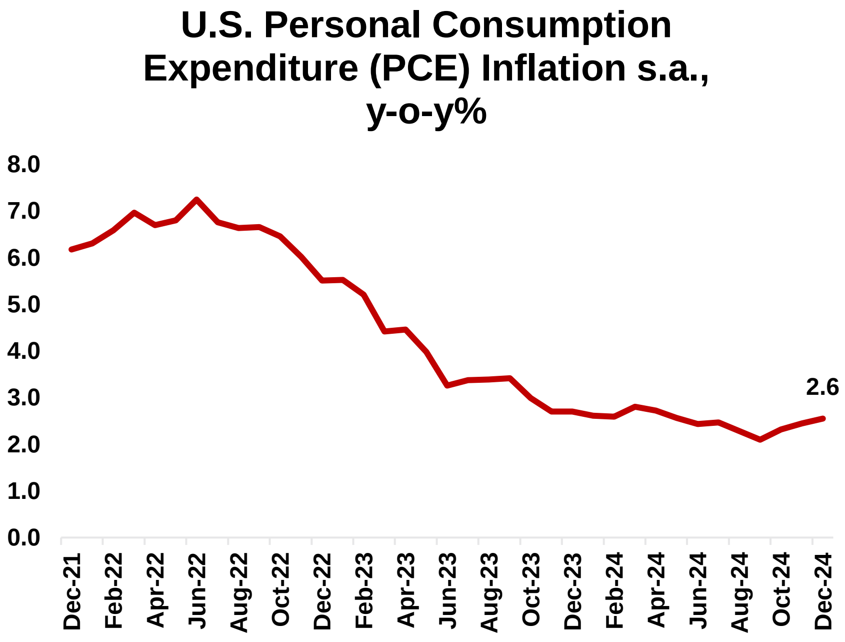


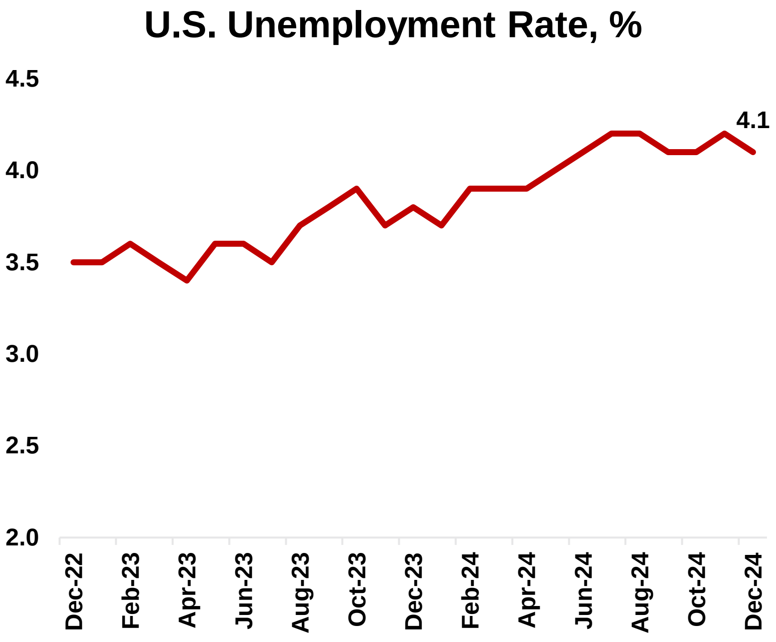
Sources: International Monetary Fund (IMF), World Economic Outlook (WEO), January 2025

- The IMF's WEO in January 2025 predicted moderate global growth of 3.3% in 2025, an upward revision from the previous projection of 3.2% in October 2024. Inflation is expected to slowdown and returning to central bank targets after the disruptions caused by the pandemic, the war in Ukraine, and a historic inflation surge. However, with ongoing geopolitical conflicts, rising trade tensions, upcoming elections, and leadership changes in major global economies, there is a significant uncertainty.
- To navigate this uncertain environment, the IMF stresses the importance of structural reforms and multilateral cooperation to boost growth. Countries are urged to focus on improving resource allocation, fostering innovation, and strengthening global institutions.
- Additionally, the IMF advises countries to reduce their debt-to-GDP ratios to ensure fiscal space for future crises, emphasizing the need for stronger fiscal buffers to better handle potential economic shocks, such as energy disruptions or trade system disturbances.

U.S. ECONOMY GROWTH SLOWED IN 4Q2024 BUT LABOR MARKET HINTED AT RESILIENCE







Sources: Bureau of Economic Analysis (BEA), CEIC

- The U.S. economy expanded at a slower rate than anticipated in 4Q2024. According to the BEA’s advance estimate, U.S. GDP grew at an annualized rate of 2.3% during the period, falling short of the 2.6% growth expectations. This figure also represented a slowdown from the 3.1% growth recorded in 3Q2024. The U.S. economy grew at a 2.8% rate in 2024, just shy of the 2.9% growth recorded in 2023.
- The Fed's preferred inflation measure, the PCE price index, increased 2.6% y-o-y in December, the highest rate since May, and higher than 2.4% in November, in line with the market expectations.
- In December, the unemployment rate unexpectedly ticked lower to 4.1%, from 4.2% in November, reflecting economic resilience.
- Nonfarm payrolls jumped by 256K in December, rising from 212K in November and surpassing the 155K expected in the consensus forecast.
- At the time of writing, the market is looking at an 84.0% probability that the Fed will maintain interest rate at 4.25% and 4.50% at the Federal Open Market Committee (FOMC) meeting on March 19.

STIMULUS MEASURES DROVE CHINA'S GROWTH IN 4Q2024, ACHIEVING FULL-YEAR TARGET FOR 2024

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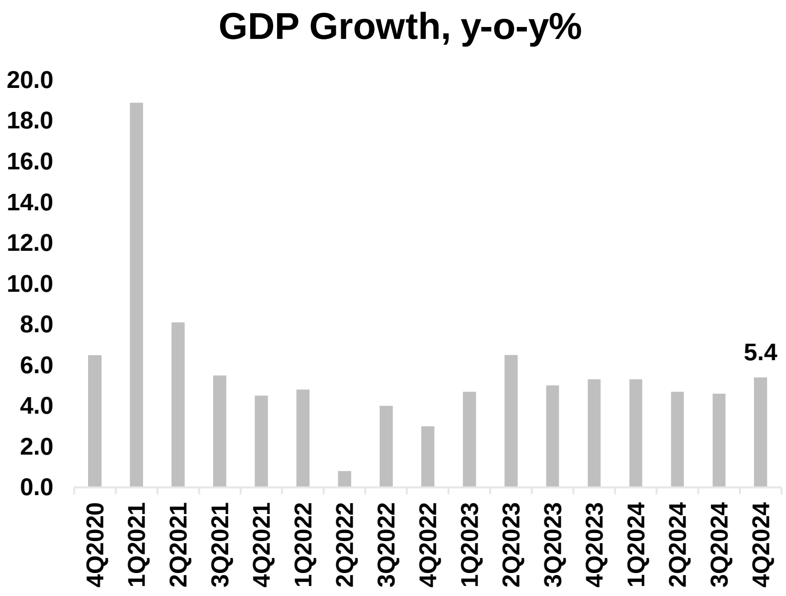
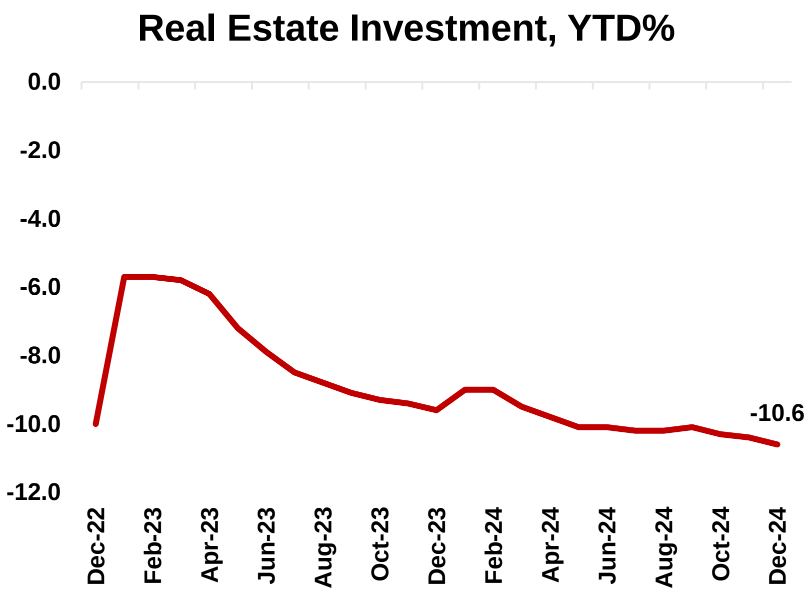
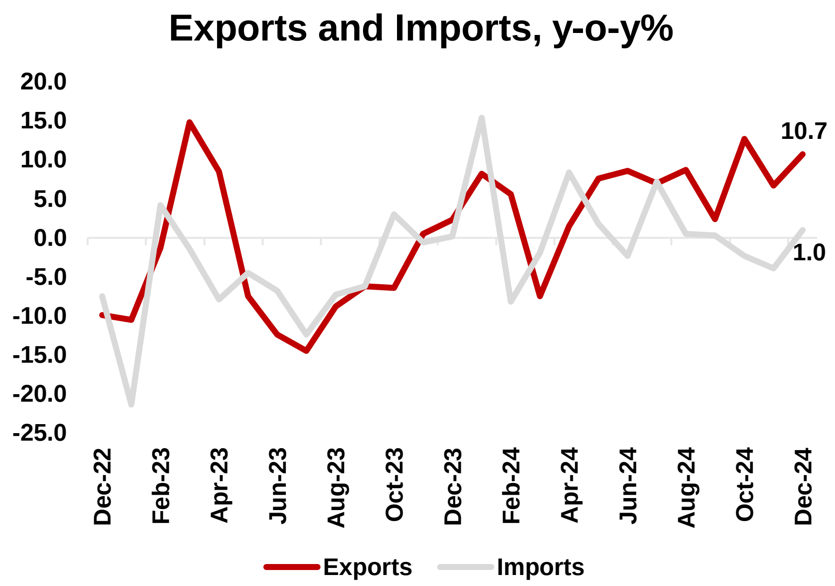






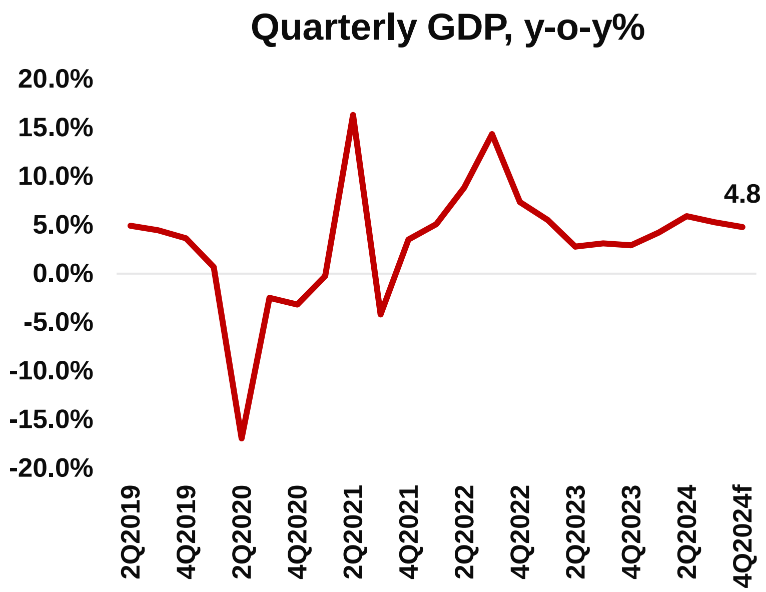
Sources: National Bureau of Statistics, CEIC

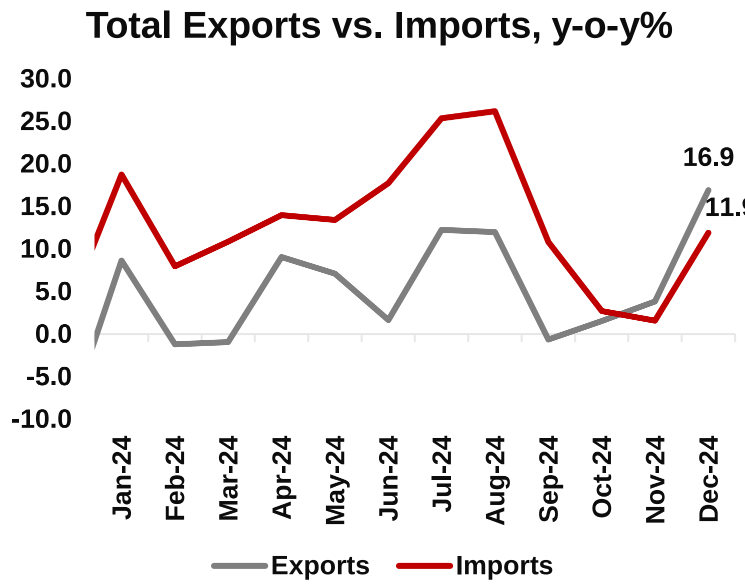
- China's economy grew by 5.4% in the fourth quarter, surpassing market expectations, as a wave of stimulus measures helped drive growth to meet Beijing's target. The strong performance in the final quarter boosted China's full-year GDP growth to 5.0% in 2024, matching the official target of "around 5%."
- Real estate investment in China contracted further to 10.6% in 2024 (11M2024: -10.4%), pointing to ongoing weakness in the supply side of the Chinese real estate market.
- China's export growth accelerated in December, and imports showed signs of recovery, ending the year on a positive note as the world's second-largest economy braces for rising trade risks under the incoming U.S. administration. Customs data revealed that outbound shipments in December rose 10.7% year-on-year, surpassing the 7.3% growth predicted by the market, and improving from November's 6.7% increase. Imports also exceeded expectations, growing by 1.0%, the strongest performance since July 2024, relative to the forecast of a 1.5% decline.

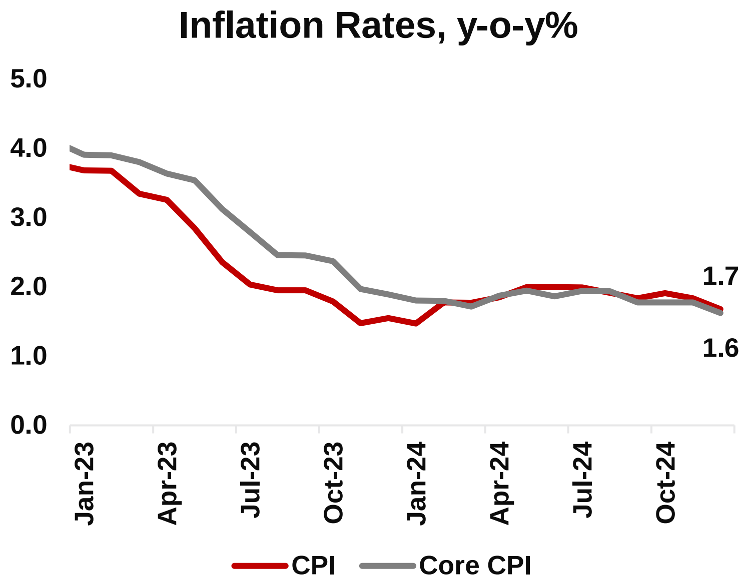
SECTION 3

Domestic Landscape & Banking Sector Update

EXPORTS EXPANDED AT THE FASTEST PACE IN OVER TWO YEARS, TRADE SURPLUS AT THE HIGHEST LEVEL IN MORE THAN A YEAR







Sources: DOSM, CEIC Data

- The Malaysian economy is projected to expand by 4.8% in 4Q2024 (3Q2024: 5.3%), driven by the slower growths in the manufacturing (4Q2024: 4.3% vs. 3Q2024: 5.6%) and construction (4Q2024: 19.6% vs. 3Q2024: 19.9%) sectors. Meanwhile, the services sector maintained its solid momentum to increase by 5.3%, up from 5.2% in 3Q2024.
- On the other hand, two sectors experienced contractions, namely the agriculture (4Q24: -0.6% vs. 3Q24: 3.9%) and mining (4Q24: -1.4% vs. 3Q24: -3.9%) sectors. On an annual basis, the economy is anticipated to grow by 5.1% in 2024, higher than the 3.6% growth in 2023.
- Furthermore, trade has proven to be on a solid recovery track as exports expanded at a 26-month high of 16.9% in December, bringing total exports growth in 2024 to 5.7% (2023: -8.0%). Meanwhile, imports accelerated at a faster pace of 11.9% in the same month, fueling the double-digit rebound in 2024 imports (2024: 13.2% vs. 2023: -6.4%).
- Malaysia’s headline inflation moderated further to 1.7% in December 2024, down from 1.8% in November 2024, bringing the annual inflation rate for 2024 to 1.8%. Similarly, core inflation also trended downward, rising by 1.6% in December (November: 1.8%).

BANKING SECTOR: FINANCING GROWTH MODERATED IN DECEMBER

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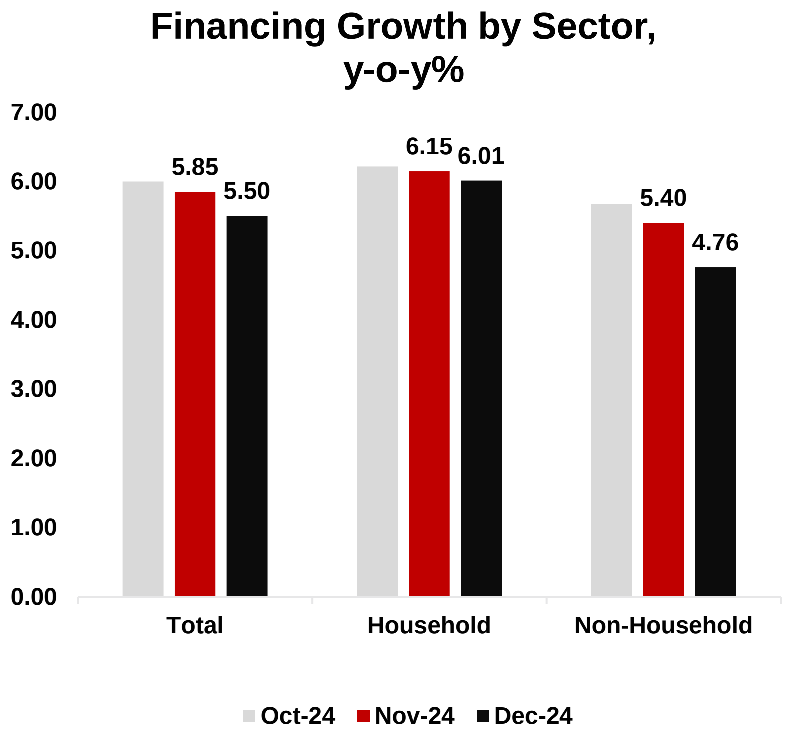
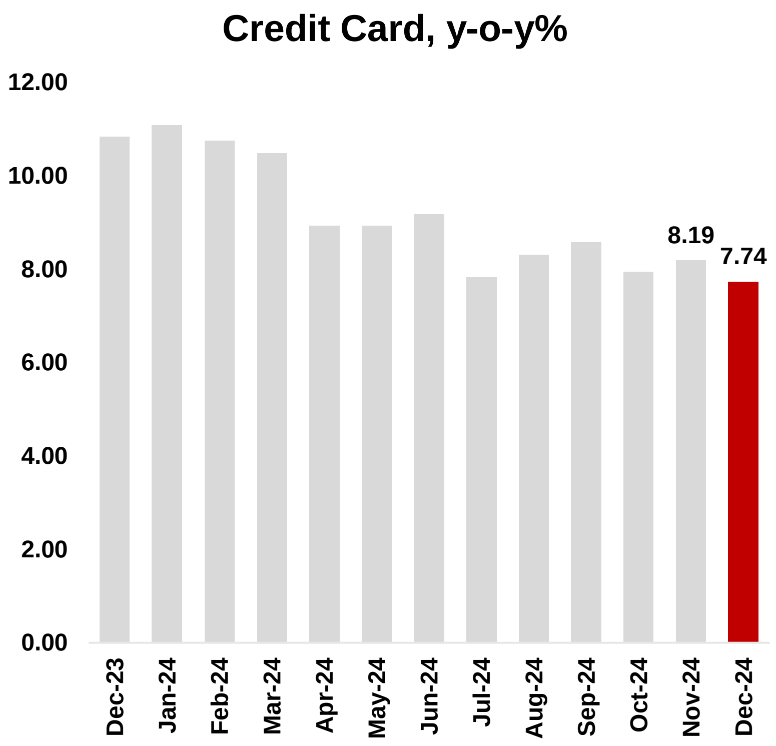
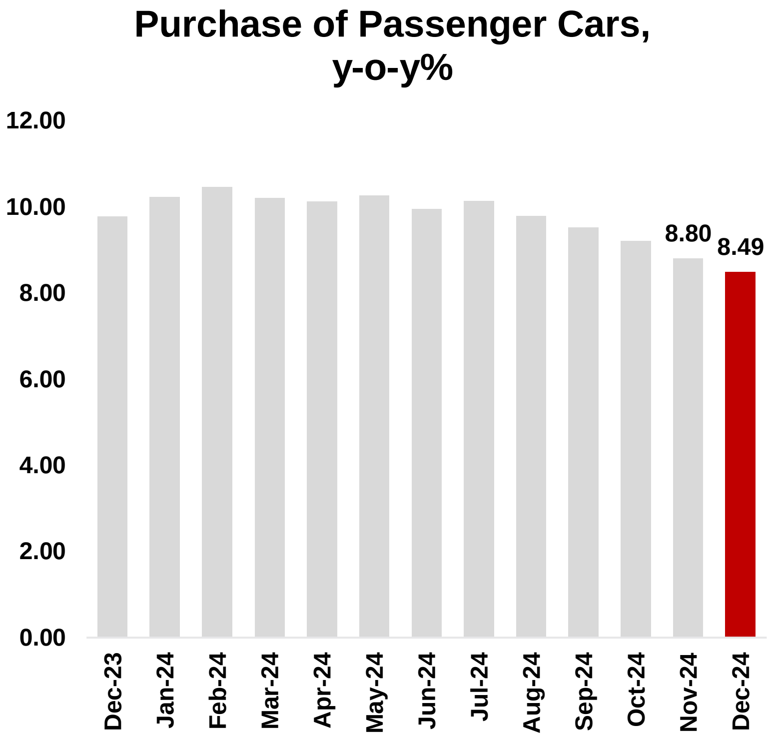


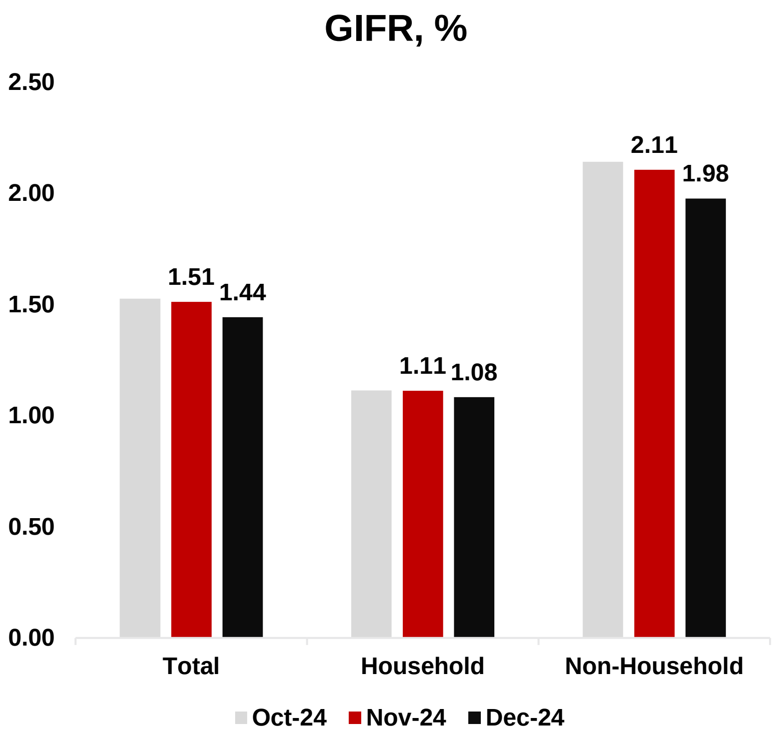


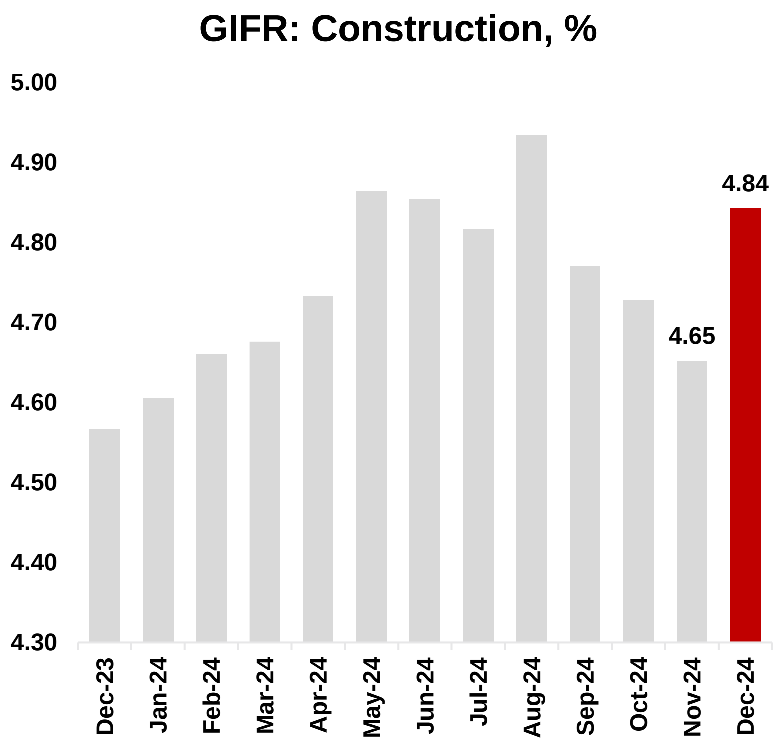


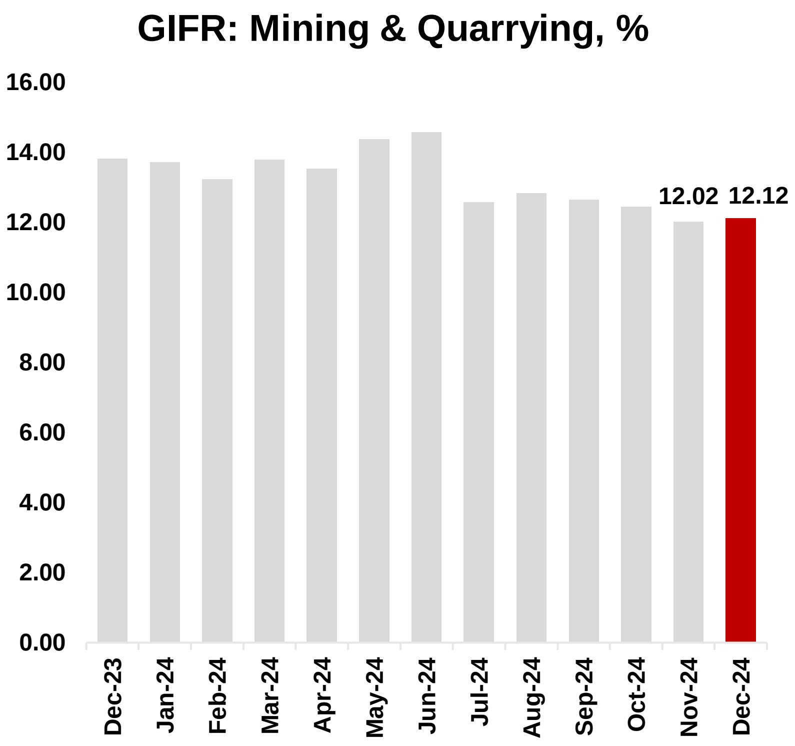
Source: BNM

- Financing activities slowed in December, decreasing to 5.50% compared to 5.85% in November. Growth in the non-household financing segment dropped to 4.76% in December, down from 5.40% in November. Similarly, the household sector's growth edged down slightly to 6.01% in December from 6.15% the previous month.
- The financing growth in the passenger car purchase segment eased to 8.49% in December, down from 8.80% in November. Similarly, financing activities for residential property purchases declined to 6.89% in December (November: 7.02%). Credit card financing growth also softened, falling to 7.74% in December compared to 8.19% in November.

BANKING SECTOR: DECEMBER'S ASSET QUALITY REMAINED SOUND







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector improved to 1.44% in December (November: 1.51%). The GIFR in the household segment reduced to 1.08% in December (November: 1.11%). Meanwhile, the impairment within the non-household sector also eased to 1.98% in December (November: 2.11%).
- The impairment rate in the construction sector rose to 4.84% in December, up from 4.65% in November. Similarly, the asset quality in the mining and quarrying industry increased slightly to 12.12% in December (November: 12.02%).

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