BANK ISLAM

MONTHLY ECONOMIC UPDATE

4 NOVEMBER 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Bank of Canada implemented jumbo rate cut as economic growth slows.** The Bank of Canada reduced its key interest rate by 50 basis points to 3.75% in October 2024, as anticipated, and indicated further cuts if the economy aligns with forecasts. This move accelerates rate reductions after three 25bps cuts, reflecting recent data that shows inflation cooling sharply, with headline inflation dropping to 1.6% in September, the first sub-2% reading in three years. The bank also noted slower per capita consumption and a softening labor market, with unemployment surpassing 6.5% for the first time in over two years. In its latest Monetary Policy Report, the bank projects inflation near target levels and balanced inflation risks, with GDP growth forecasted at 1.2% for 2024 and 2.1% for 2025**.**

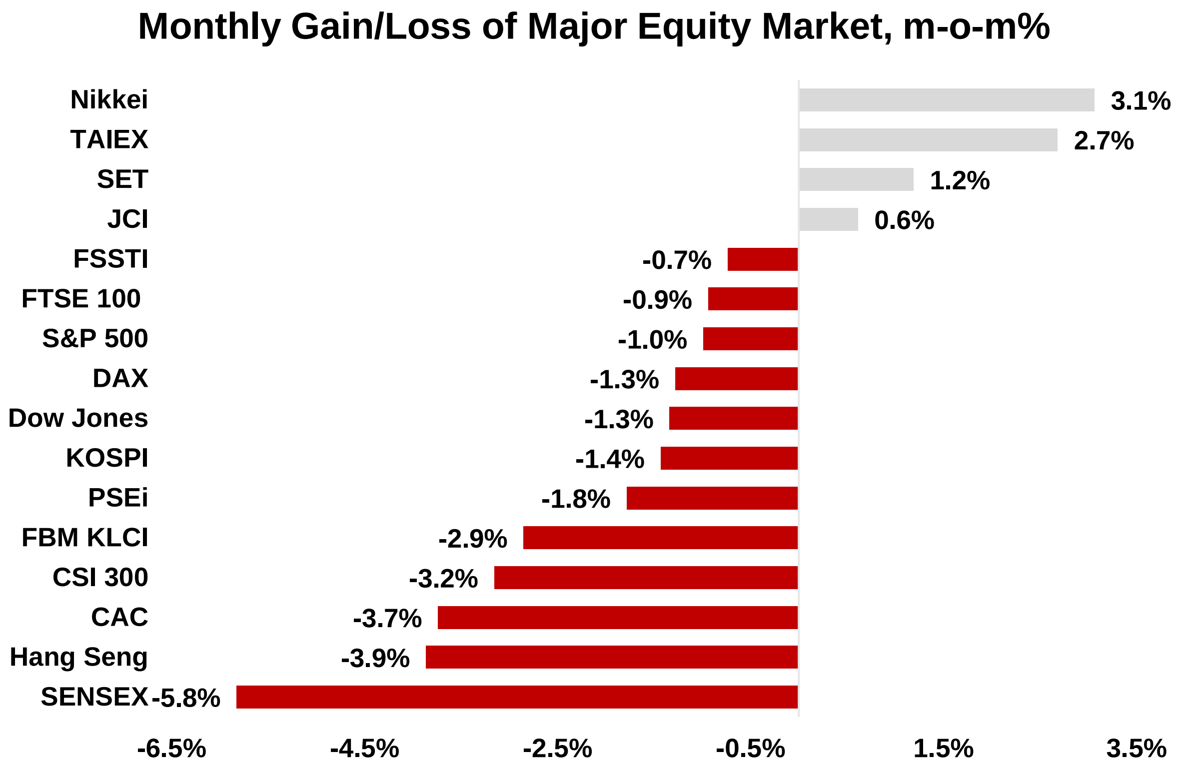
- **European Central Bank (ECB) delivered third rate cut to support slowing economy.** The ECB lowered its three main interest rates by 25bp in October 2024, following similar cuts in September and June. The rates for the deposit facility, main refinancing operations, and marginal lending facility are now set at 3.25%, 3.40%, and 3.65%, respectively. This decision reflects progress in reducing inflation, as Eurozone inflation fell below the 2.0% target in September for the first time in over three years. Although inflation may increase slightly in the near term, it's expected to move toward the 2.0% target by 2025. Wage growth remains elevated but is beginning to ease. The ECB will continue to maintain restrictive rates to achieve its inflation goal, using a flexible, data-driven approach without a fixed rate path.

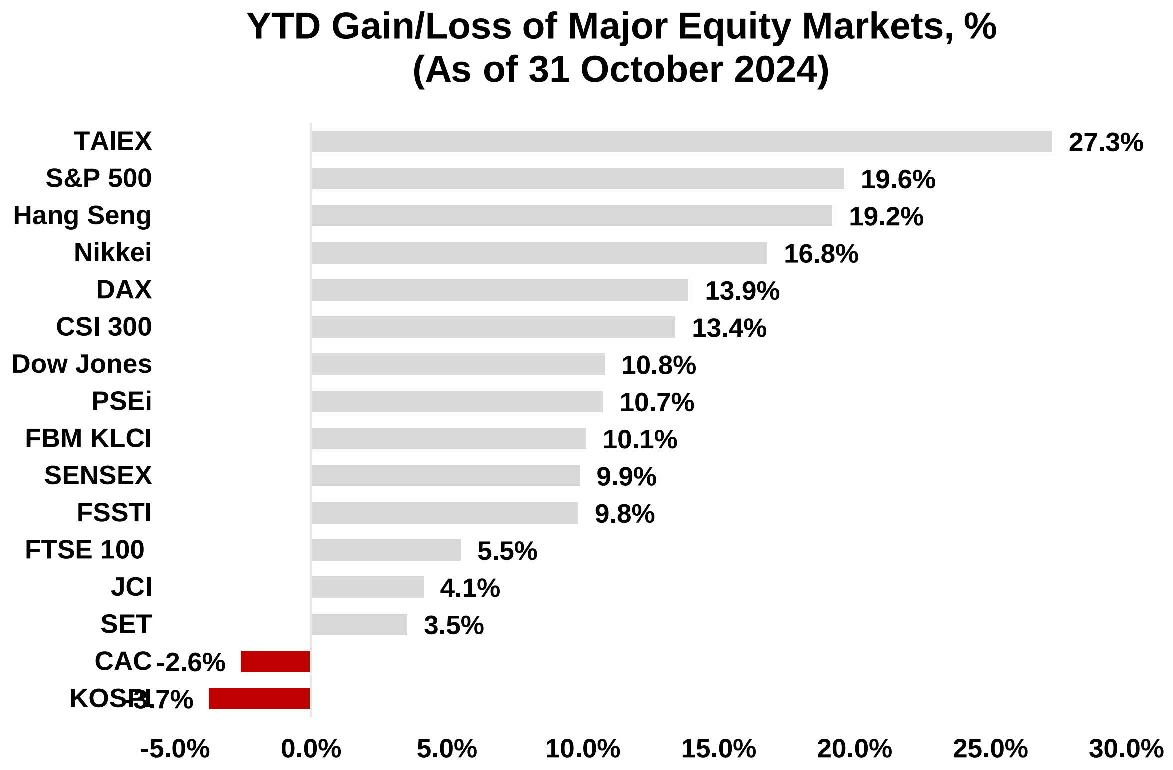
- **Malaysia's 3Q2024 economic growth likely outpaced expectations.** Malaysia's economy expected to grow 5.3% y-o-y in 3Q2024, down from 2Q's six-quarter high of 5.9%, according to flash data. Growth in services slowed (5.1% vs. 5.9%) but remained positive across all sub-sectors. Agricultural output also decelerated (4.0% vs. 7.2%), impacted by a contraction in fishing. Mining and quarrying activity declined (-3.4% vs. 2.7%) due to drops in natural gas and crude oil. However, manufacturing accelerated (5.7% vs. 4.7%), led by electrical, electronic, and optical products. Construction continued its strong pace (19.5% vs. 17.3%), driven by specialized and non-residential projects. Seasonally adjusted GDP grew 4.6%, rebounding from Q2's revised 0.8%. Year-to-date, the economy expanded 5.1%, up from 3.8% in the same period of 2023.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: DISMAL U.S. TECH COMPANIES PERFORMANCE DRAGGED STOCKS TO THE RED SEA





Sources: Bursa, CEIC data

- In October, India's SENSEX finished as the major loser with technology stocks led the decline driven by weakness in U.S. IT companies.
- U.S. stocks declined – Dow Jones (-1.3%) and S&P 500 (-1.0%) amid traders digest disappointing results from mega caps and await more earnings reports. Shares of Microsoft fell about 5.6% after the company announced slower growth projections despite an earnings and revenue beat. Meta was also falling about 3.4% after reporting a weaker-than-expected user numbers and noticing a "significant acceleration" in AI-related infrastructure expenses.
- In contrast, Japan's Nikkei surged by 3.1% in October, as investors evaluated the impact of the recent election, the ruling Liberal Democratic Party lost its parliamentary majority over the weekend, creating policy uncertainties and complicated the Bank of Japan's plans for a rate hike.
- YTD, Taiwan's TAIEX emerged as the top performer in October, with a gain of 27.3%.

DOMESTIC EQUITY: FBM KLCI ENDED IN THE RED ON INVESTORS' RISK-OFF MODE

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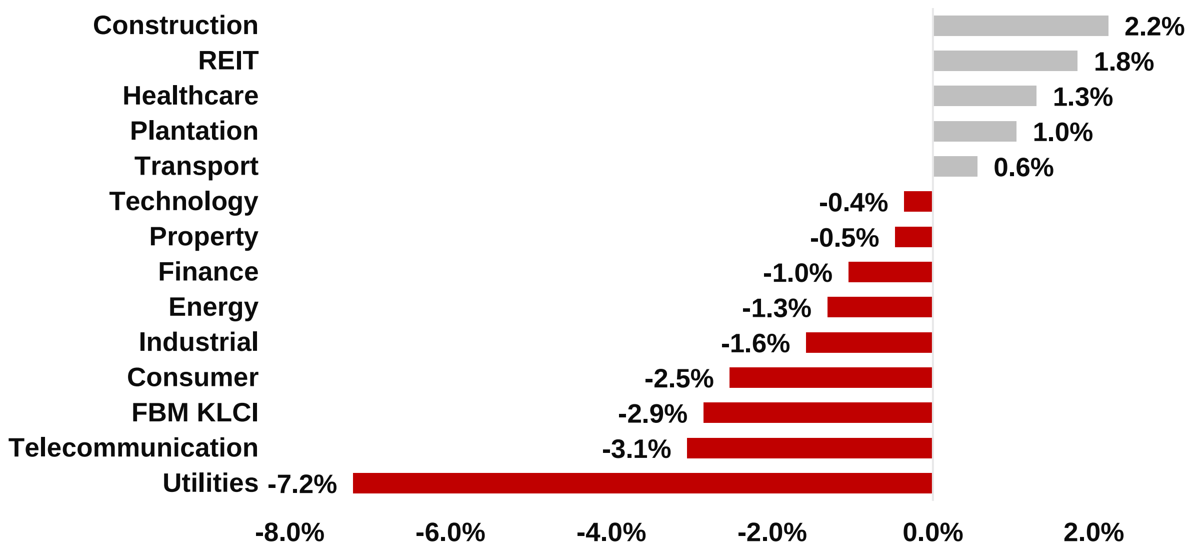

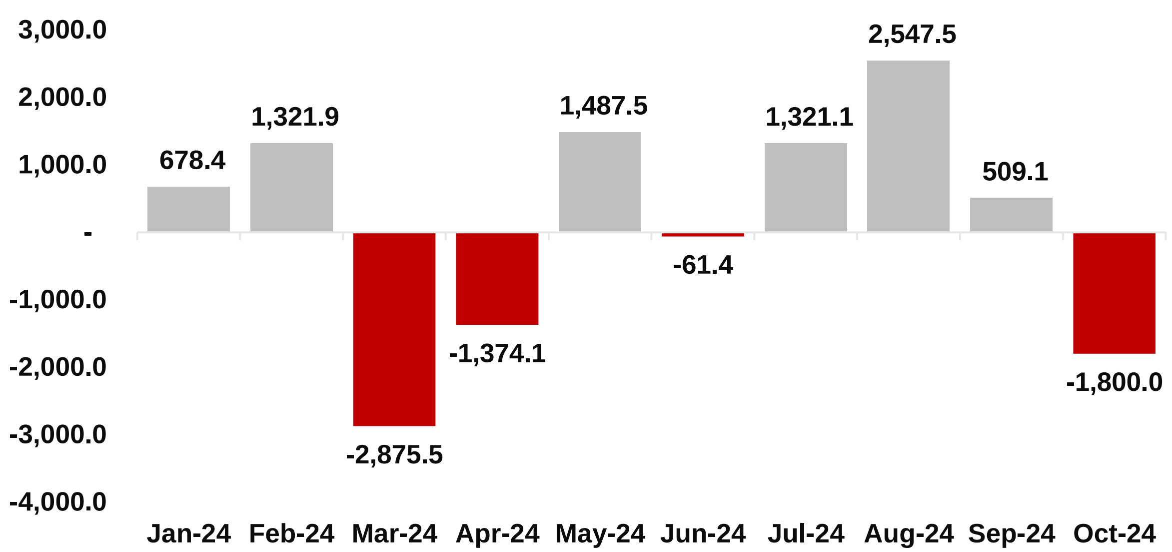

Sources: Bursa, People's Bank of China (PBoC), CEIC data

- The FBM KLCI persisted in its downtrend as it ended 2.9% m-o-m lower in October (September: -1.8%) as buying interest remains muted. Most trading days saw foreign investors fleeing the market while local investors remain a key support.
- Investor sentiments were dragged by the markets repricing their bets of Fed rate cuts, drawing attention away from the emerging market assets. Furthermore, investors' risk appetite was dampened in the run towards the U.S. presidential election as well as Japan's election. This was exacerbated by the widening geopolitical conflict in the Middle East, leading investors flocking to safe-haven assets.
- In the broader market, the Utilities index plunged by a major 7.2% m-o-m, marking the lowest point since April. This was followed by the Telecommunications and Consumer indices which slipped by 3.1% and 2.5%, respectively.
- Meanwhile, the Construction index (+2.2%) emerged as the biggest winner, followed by the REIT (+1.8%) and Healthcare (+1.3%) indices.
- As such, foreign investors were net sellers in October, shedding off RM1.8 billion worth of equities. The net selling had reduced the cumulative net inflow this year to RM1.8 billion.

FIXED INCOME: UPTREND IN BOND YIELDS AMID INFLATION CONCERNS

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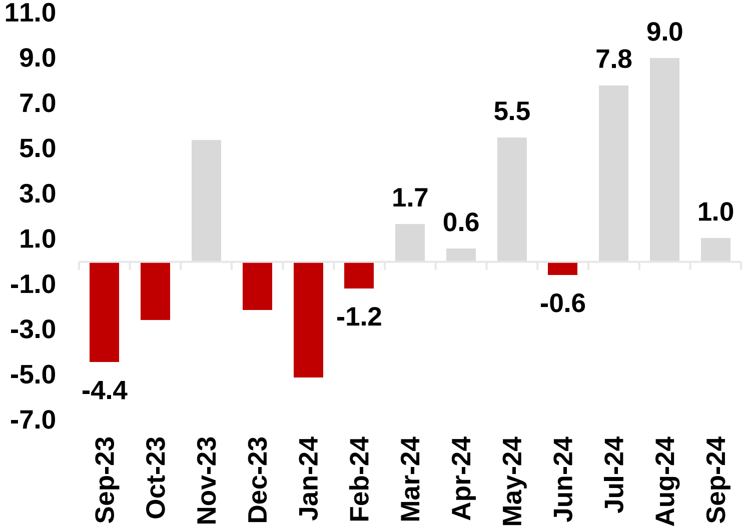
Monthly changes, basis points (bps)

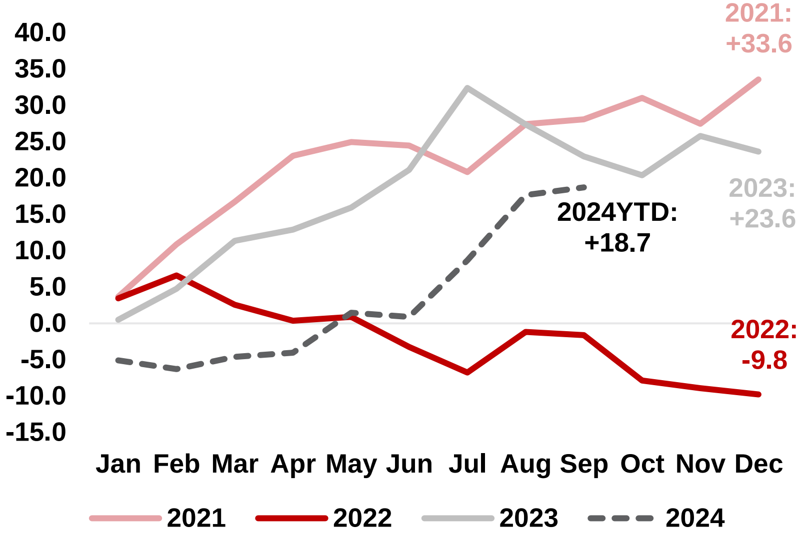
UST	Yields (%) 30-Sep-24	Yields (%) 31-Oct-24	Change (bps)
3-Y UST	3.58	4.12	54
5-Y UST	3.58	4.15	57
7-Y UST	3.67	4.21	54
10-Y UST	3.81	4.28	47
MGS	**Yields (%) 30-Sep-24**	**Yields (%) 30-Oct-24**	**Change (bps)**
3-Y MGS	3.33	3.52	19
5-Y MGS	3.50	3.65	15
7-Y MGS	3.68	3.90	22
10-Y MGS	3.71	3.93	22
GII	**Yields (%) 30-Sep-24**	**Yields (%) 30-Oct-24**	**Change (bps)**
3-Y GII	3.32	3.45	13
5-Y GII	3.50	3.65	15
7-Y GII	3.69	3.91	22
10-Y GII	3.75	3.95	20

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM Billion



Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



- The U.S. Treasury (UST) yields soared in the range of 47bps and 57bps as the core personal consumption expenditures (PCE) prices, the Fed's preferred measure of underlying inflation, showed no annual decline, fueling concerns about persistent inflation. As a result, markets began to contemplate a scenario where the Fed might avoid significant interest rate hikes next year in its pursuit of a soft landing. Furthermore, the prospect of a Trump presidency exerted pressure on long-dated bonds, given expectations of expansionary fiscal policies and an increased credit risk for U.S. debt.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ticked higher between 13bps and 22bps.
- Foreign fund flows in the local bond market remained in the positive territory with a net foreign inflow of RM1.0 billion in September (Aug: +RM9.0 billion). Local govvies' foreign shareholdings to total outstanding increased to 22.7% in September (Aug: 22.6%).
- As of the first nine months of 2024, the local bond market recorded the cumulative net foreign inflows of RM18.7 billion, significantly lower than the inflows of RM23.0 billion in the same period in the previous year.

FX MARKET: RINGGIT DEPRECIATED TO WEAKEST LEVEL SINCE MID-AUGUST 2024 AS MARKETS READJUST RATE CUT EXPECTATIONS

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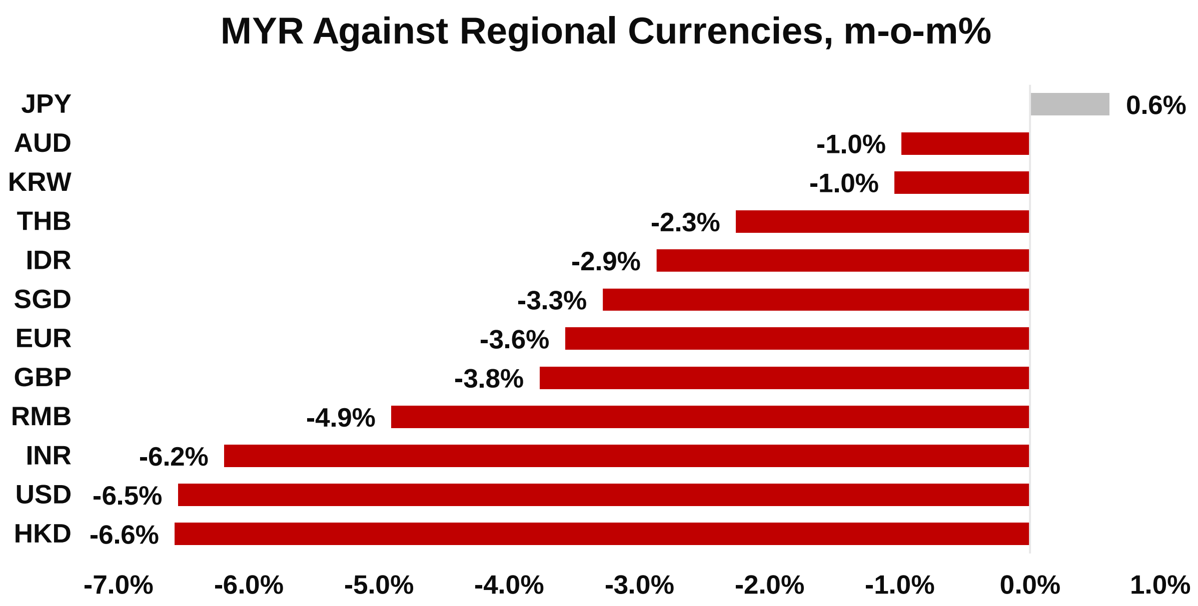

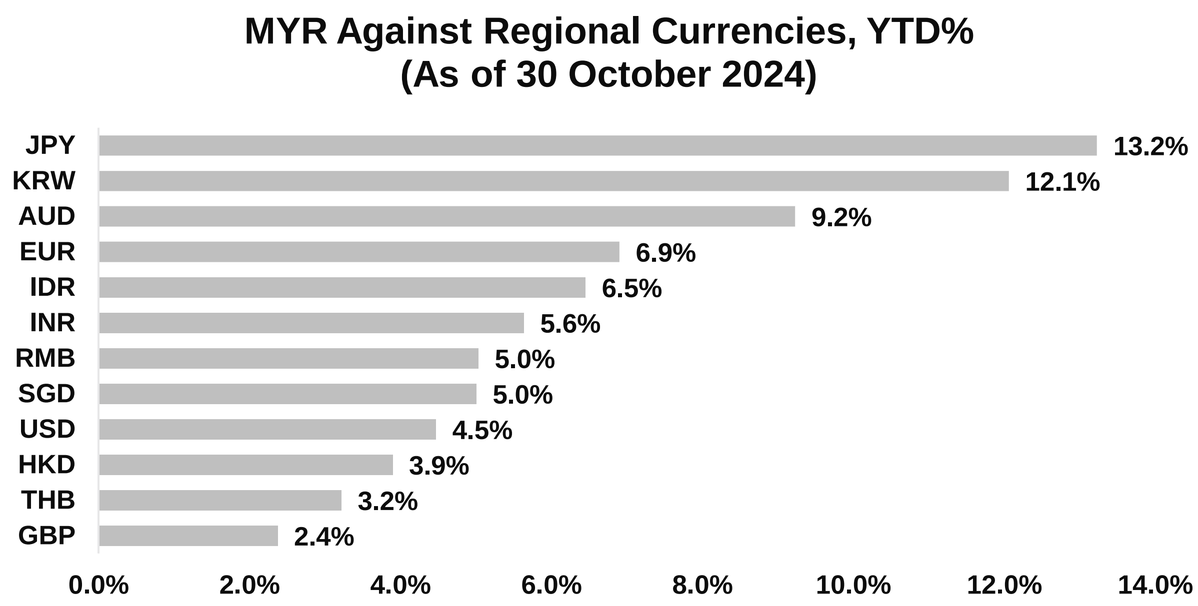

Sources: BNM, Federal Reserve Board, BLS

- The Ringgit's relentless climb ended on a negative note in the past month as the local note depreciated by 6.5% m-o-m against the USD, marking the lowest level since mid-August (October 30: RM4.395).
- Such performance was dragged by the strength of the greenback, whereby the USD index rose above the 104-level, following markets repricing their Fed rate cuts bets. While markets had initially expected more aggressive policy easing following the Fed's surprise jumbo cut in September, their expectations shifted towards quarter basis points cuts for the remaining two Fed decisions of the year.
- Furthermore, latest figures supported the view of gradual easing as the Personal Consumption Expenditure (PCE) index for September eased to 2.1% (August: 2.3%). However, core PCE remained elevated at 2.7% as in August, still far from the Fed's 2.0% target.
- The job market also seemed to cool further when the U.S. economy had added a mere 12K jobs in October, the lowest job growth since December 2020, while the figures for August and September are downwardly revised by 112K compared to previously reported.
- Moving forward, we posit the local note will trade cautiously ahead of the upcoming U.S. presidential election.

SECTION 2

The Global Economy

U.S. ECONOMY SHOWED RESILIENCE: STRONG CONSUMER SPENDING FUELS GROWTH

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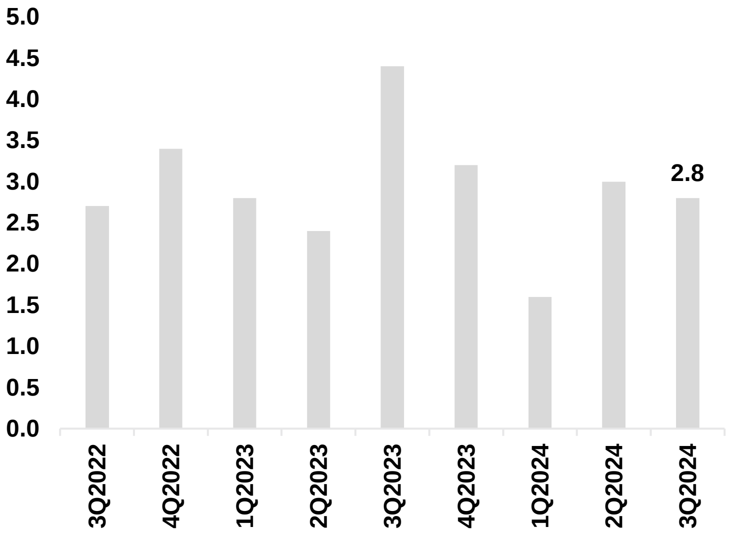
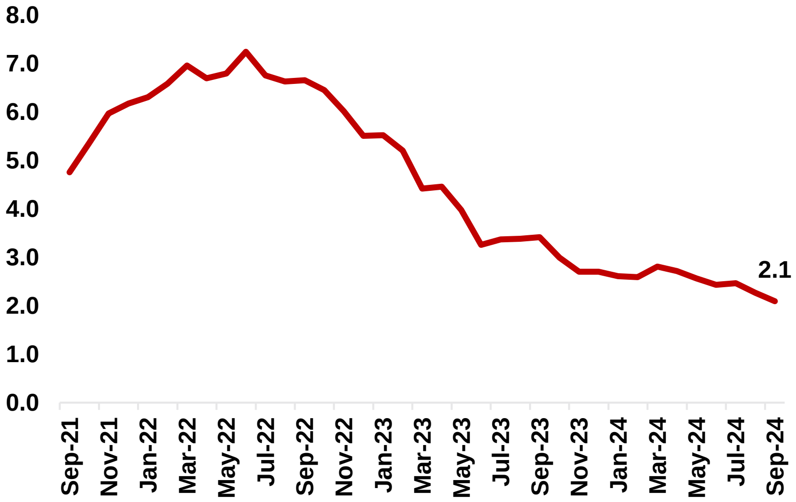
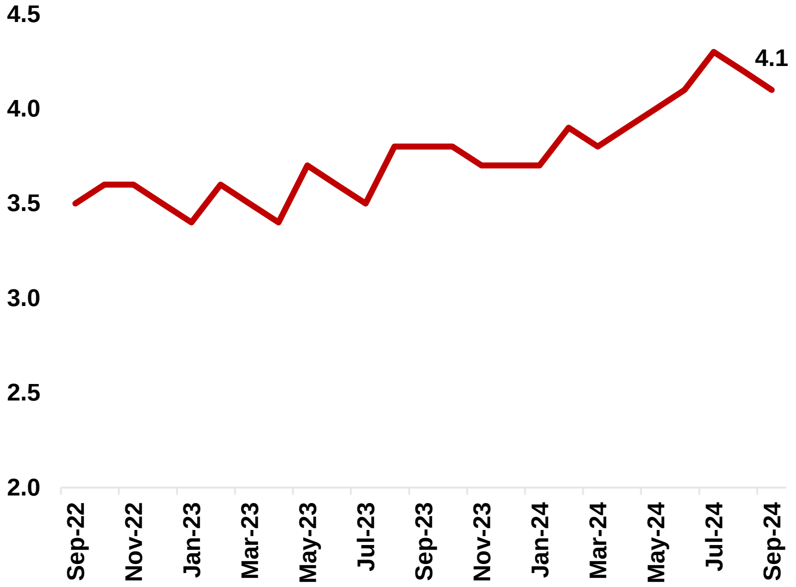
U.S. - Real GDP, annualised rate %



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



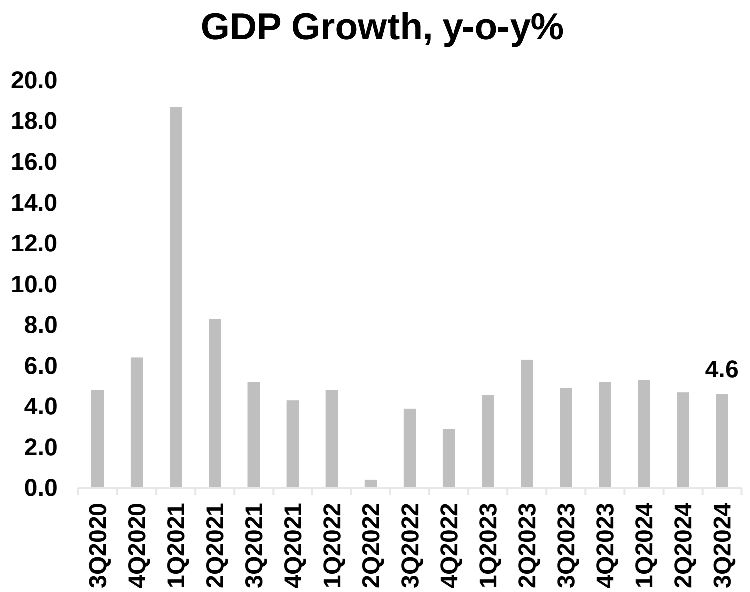
U.S. Unemployment Rate, %



Sources: Bureau of Economic Analysis, CEIC data

- The U.S. economy experienced another robust, albeit slightly disappointing, growth period in the third quarter, driven by strong consumer spending that has surpassed expectations for a slowdown. In 3Q2024, the U.S. economy grew at an annualized rate of 2.8% (2Q2024: 3.0%).
- In September, the PCE price index rose by 2.1%, marking the smallest year-on-year increase in PCE inflation since February 2021, following a 2.3% rise in August. The core PCE Price Index, which excludes the more volatile food and energy prices, rose by 2.7% during the same period, matching the increase seen in August and exceeding the market forecast of 2.6%.
- In September, the unemployment rate unexpectedly ticked lower to 4.1%, from 4.2% in August., reflecting a stronger picture of the jobs market.
- However, the U.S. labor in October market saw an addition of 12K payrolls, falling short of the anticipated 100K due to the impact of weather disruptions and worker strikes.
- At the time of writing, the market is looking at a 97.9% probability that the Fed will reduce interest rate by 25bp at the Federal Open Market Committee (FOMC) meeting on November 7.

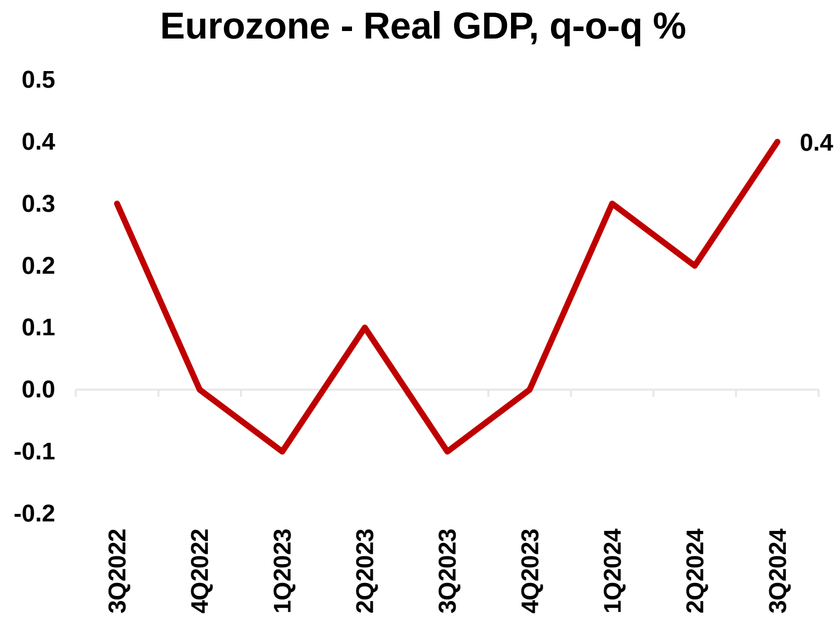
CHINA’S GROWTH ENGINE SPUTTERS

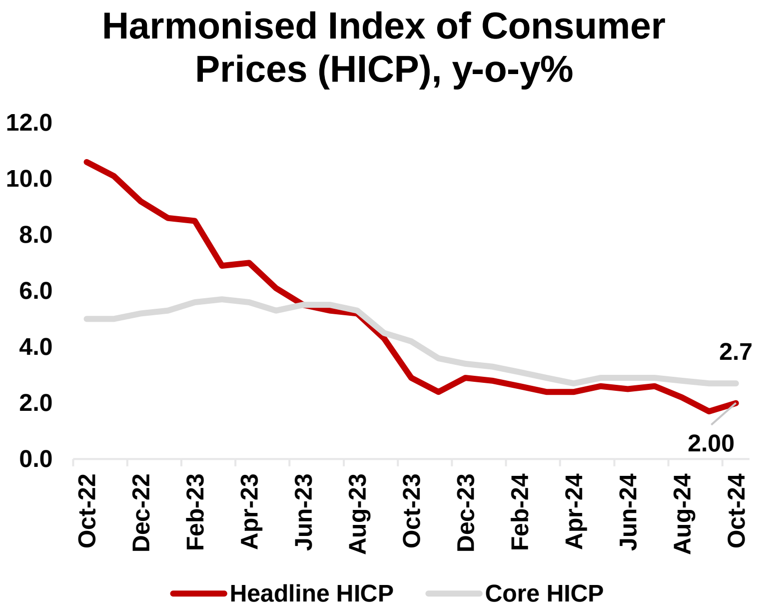


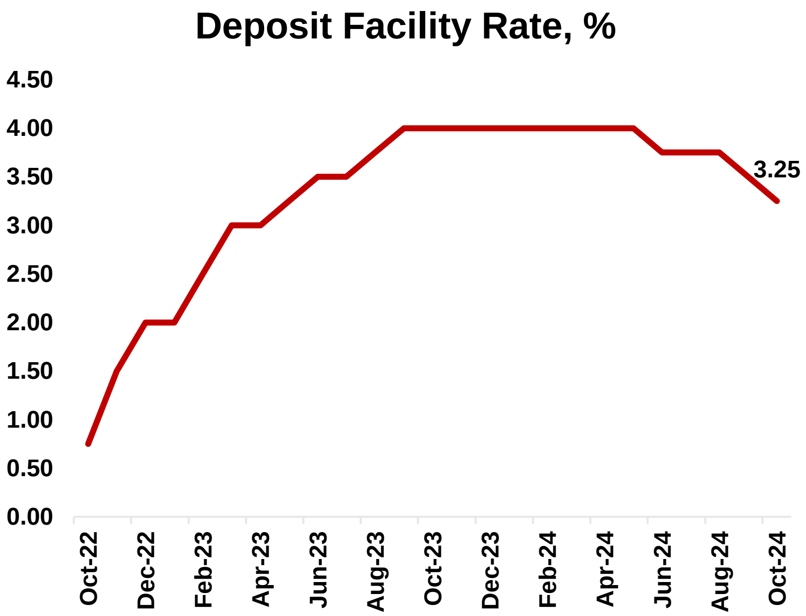
Sources: National Bureau of Statistics, CEIC data

- The growth rate of the Chinese economy slowed to 4.6% in 3Q2024 (Est: 4.5%), down from 4.7% in the 2Q2024. This deceleration is attributed to ongoing weaknesses in the property market, sluggish domestic demand, concerns about deflation, and trade tensions with Western nations. With real GDP having expanded by 4.8% in the first three quarters of the year, the full-year GDP growth target of approximately 5.0% remains achievable, contingent on additional stimulus measures in the fourth quarter of 2024.
- Property investment in China decreased by 10.1% in the first nine months of 2024 (8M2024: -10.2%). Chinese authorities have implemented measures to bolster the property sector, such as directing banks to reduce mortgage rates for existing home loans and further relaxing home-buying restrictions in key cities.
- Exports rose by 2.4% in September (Aug: +8.7%) and marking the slowest growth since April, falling short of the anticipated 6.0% increase. Imports saw a slight increase of 0.3%, missing expectations of a 0.9% rise and lower than the previous growth of 0.5%. This weak data signals potential challenges for future exports, as nearly one-third of China’s imports consist of components intended for re-export, especially in the electronics sector.

EUROZONE ECONOMY SURPRISES WITH GROWTH AMID MIXED INFLATION SIGNALS







Sources: ECB, Eurostat, CEIC data

- The Eurozone economy grew at an unexpected quarter-on-quarter rate of 0.4% in 3Q2024, as reported by Eurostat's preliminary estimates, with Germany and France exceeding expectations. This growth rate represents an acceleration from the 0.2% recorded in the second quarter, surpassing economists' predictions of 0.2% and marking the eurozone's strongest expansion since the third quarter of 2022.
- The HICP, which is the ECB’s favored measure of inflation, increased by 2.0% in the preliminary estimate for October, according to Eurostat's report. This uptick follows a 1.7% rise in September and surpassed the market expectation of 1.9%.
- Nevertheless, core inflation held steady at 2.7%, which is slightly above expectations of 2.6%, displaying its stickiness.
- ECB President Christine Lagarde conveyed a cautious optimism regarding the Eurozone's inflation trajectory, stating that the target is "in sight," while emphasizing that inflation has not been completely controlled. She expressed satisfaction with the recent decline in headline inflation but cautioned that "inflation is likely to rise again in the coming months" due to base effects. The ECB anticipates achieving this goal by 2025.

SECTION 3

Domestic Landscape & Banking Sector Update

MALAYSIA'S ECONOMY IS EXPECTED TO REMAIN SOLID IN 3Q2024, TRADE SHOWS SIGNS OF SLOWING DOWN

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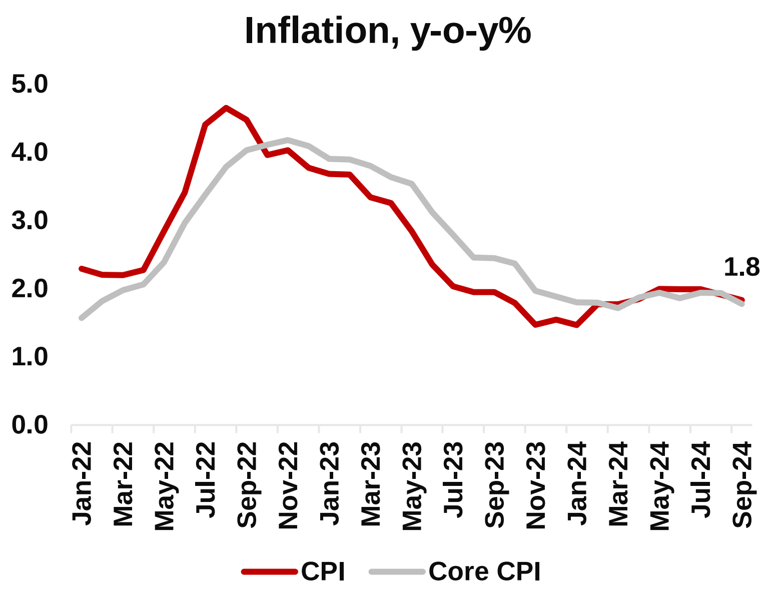
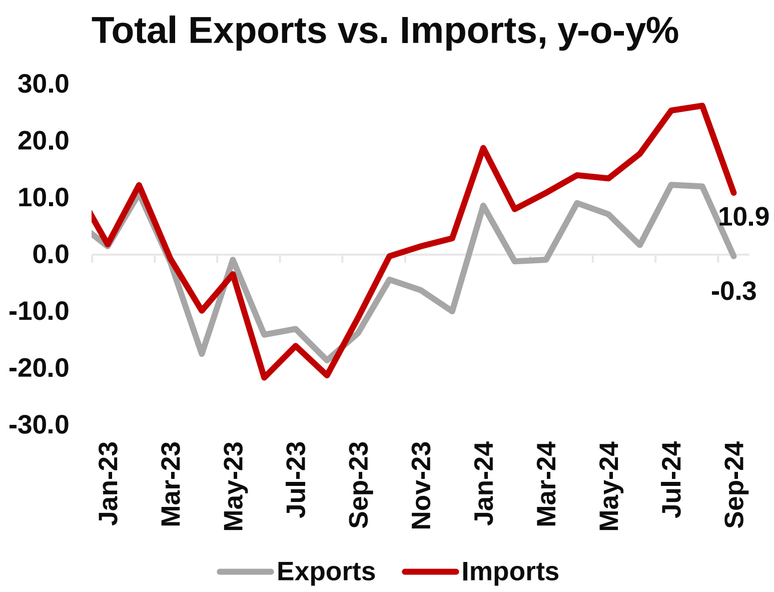
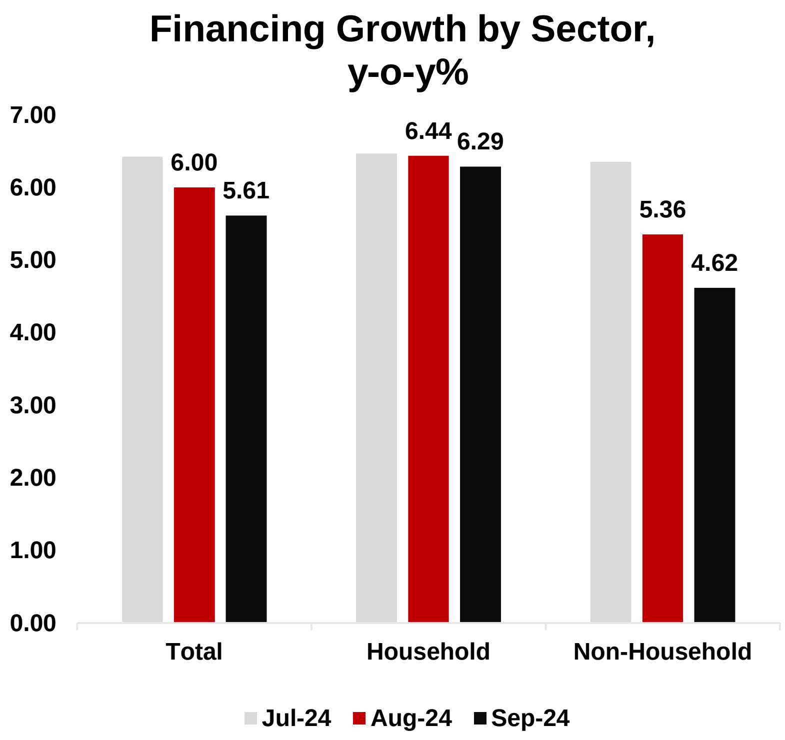


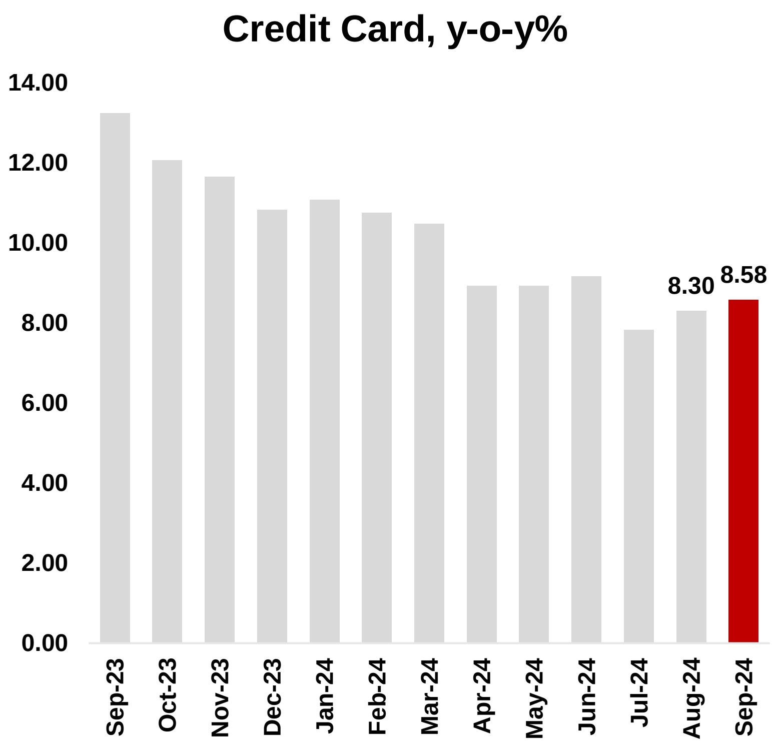


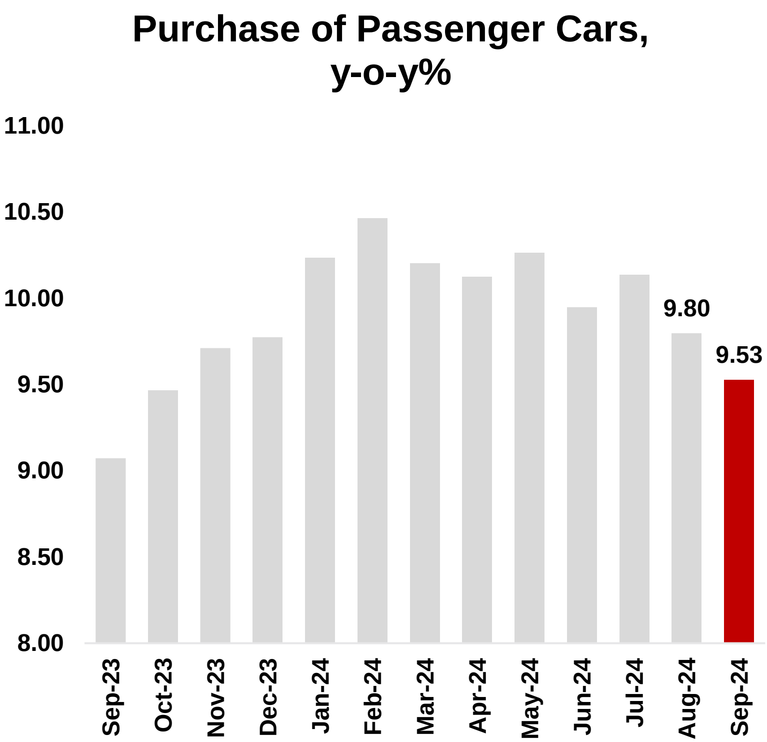
Sources: DOSM, BNM, S&P Global

- Official preliminary figures points to the economy expanding by 5.3% in 3Q2024, slowing slightly from 5.9% in the previous quarter. This growth is underpinned by solid performances in the services (3Q2024: 5.1% vs. 2Q2024: 5.9%) and manufacturing (3Q2024: 5.7% vs. 2Q2024: 4.7%) sectors. Meanwhile, the construction sector continued its upbeat momentum, surging by 19.5% from 17.3% previously.
- Reflecting the resilience in the economy, the job market had improved further in August with rising employment across all sectors while the unemployment rate eased to 3.2% after trending at 3.3% for nine straight months.
- Meanwhile, headline inflation moderated further to 1.8% in September, underpinned by slower increases in Personal Care, Social Protection & Miscellaneous Goods & Services (September: 3.1% vs. August: 3.2%), Transport (September: 1.1% vs. August: 1.3%) and Alcoholic Beverages & Tobacco (September: 0.8% vs. August: 1.1%).
- Nevertheless, total trade rose by 4.7% y-o-y in September, significantly slower than 18.5% recorded in August. Such performance was dragged by exports with a 0.3% contraction (August: 12.0%) while imports also displayed a slowing trend (September: 10.9% vs. August: 26.2%).

BANKING SECTOR: FINANCING GROWTH SLOWED IN SEPTEMBER







Source: BNM

- Financing activities moderated to 5.61% in September, down from 6.00% in August. The non-household segment’s financing growth plunged to 4.62% in September (August: 5.36%). Similarly, the household sector's growth rate decreased to 6.29% in September from 6.44% in August .
- The financing growth in the passenger car purchase segment moderated to 9.53% in September (August: 9.80%). Meanwhile, financing activities related to the purchase of residential property dropped to 7.28% in August (August: 7.47%). However, financing growth in the credit card segment grew to 8.58% in September from 8.30% in August.

ECONOMIC RESEARCH

BANKING SECTOR: SEPTEMBER'S ASSET QUALITY REMAINED SOUND

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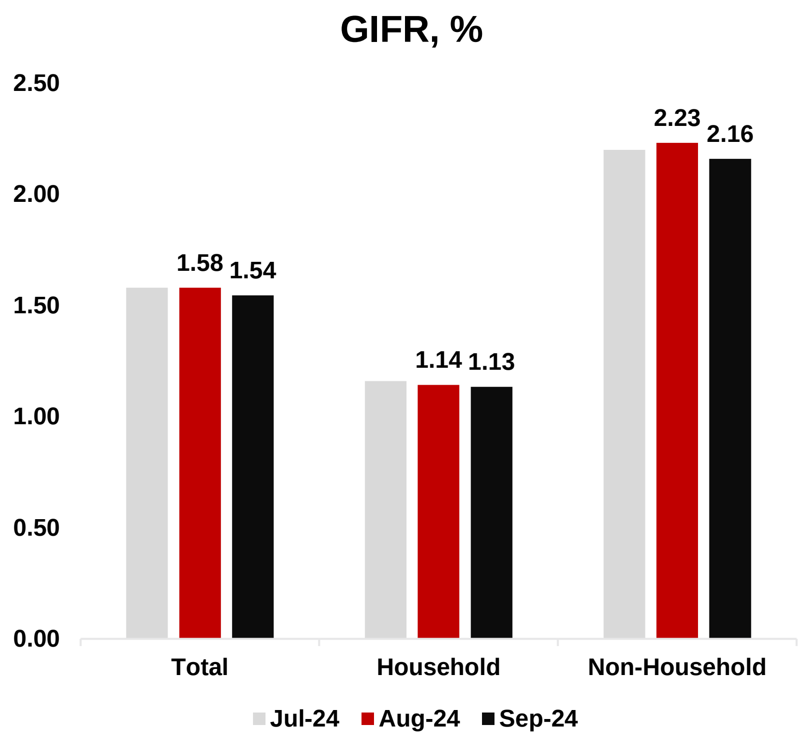

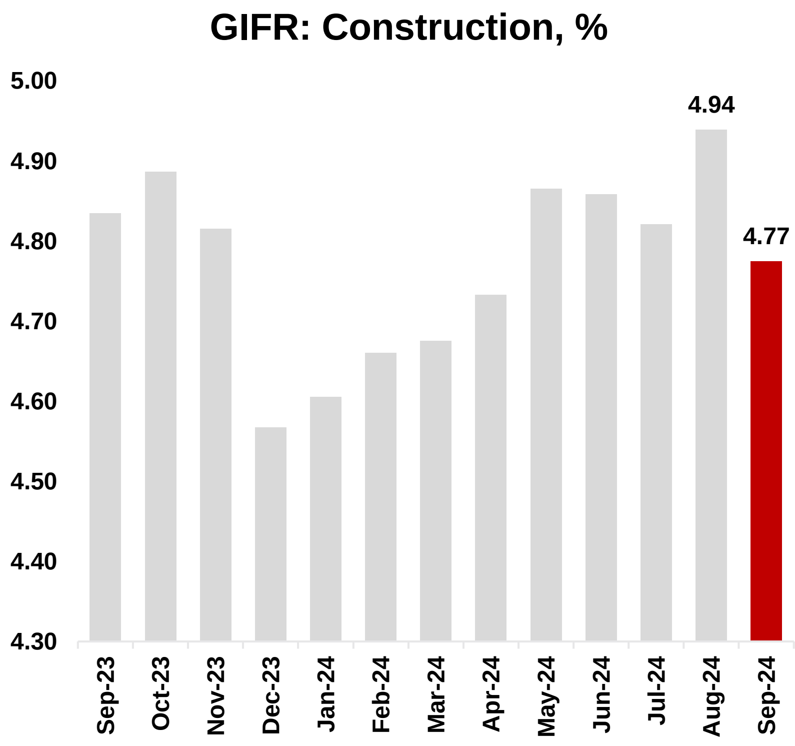

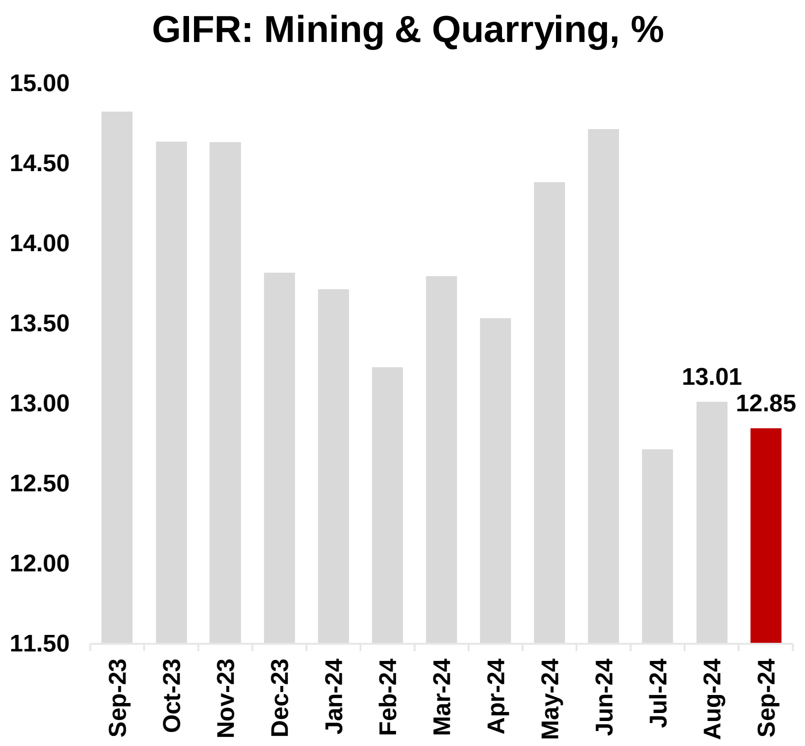

Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector improved to 1.54% in September (August: 1.58%). The GIFR in the household segment reduced to 1.13% in September (August: 1.14%). Meanwhile, the impairment within the non-household sector eased to 2.16% in September (August: 2.23%).
- The impairment rate in the construction sector decreased to 4.77% in September, down from 4.94% in August. Similarly, the asset quality in the Mining and Quarrying industry moderated to 12.85% in September (August: 13.01%).

THANK YOU