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MONTHLY ECONOMIC UPDATE

2 OCTOBER 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Federal Reserve (Fed) lowered the target range for the fed funds rate (FFR) by a jumbo 50bp to 4.75%-5.00% in September 2024,** marking the first rate cut since March 2020. While the move was expected, there had been some debate about whether the Fed might opt for a smaller 25bp cut. Along with the rate cut, the central bank unveiled new economic forecasts, indicating plans for 100bp of easing by the end of the year, which implies two more 25bp cuts. In 2025, another 1 percentage point reduction is anticipated, with a final 50bp cut projected for 2026. Additionally, personal consumption expenditure (PCE) inflation for 2024 was revised down to 2.3% (from 2.6% in the June forecast) and to 2.1% for 2025 (from 2.3%). Core inflation projections were also lowered to 2.6% for 2024 (from 2.8%) and 2.2% for 2025 (from 2.3%). GDP growth is slightly reduced to 2.0% for 2024 (from 2.1%), while the 2025 forecast remains unchanged at 2.0%.

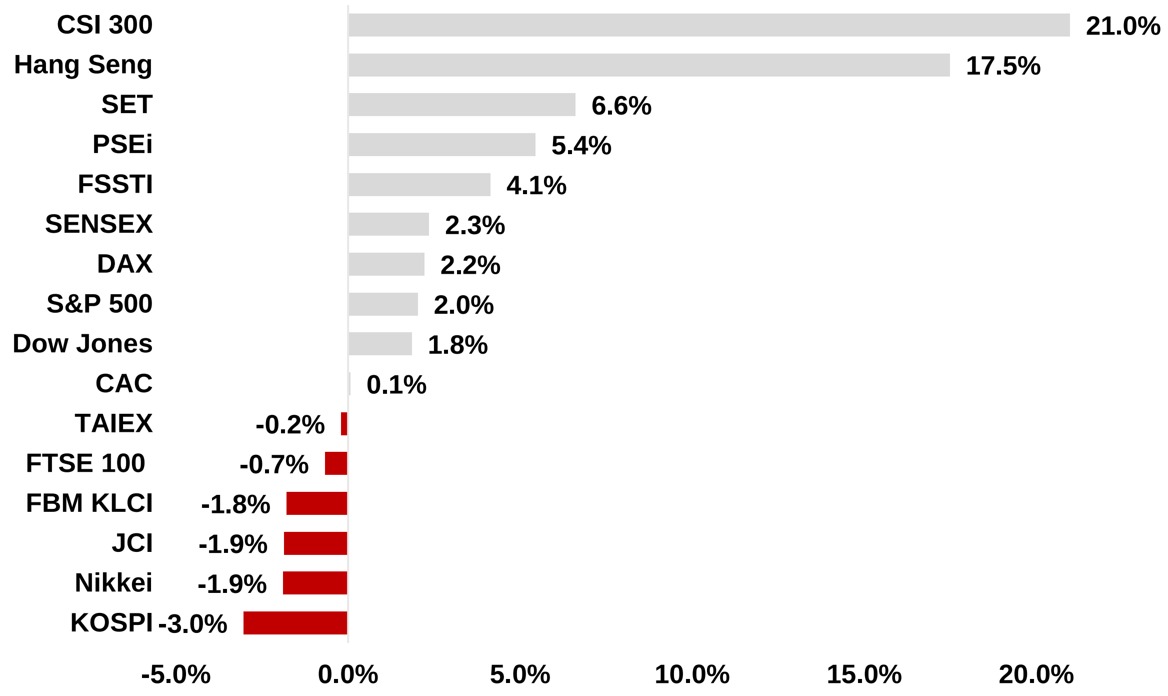
- **European Central Bank (ECB) implemented second rate cut of the year.** The ECB cut the deposit facility rate by 25bp to 3.50% to ease monetary policy, factoring in an updated inflation outlook and better policy transmission. Additionally, the rates for the main refinancing operations and the marginal lending facility were reduced to 3.65% and 3.90%, starting September 18th. The ECB remains committed to bringing inflation back to its 2.00% target, adjusting rates based on data without committing to a fixed path. Inflation projections stay in line with previous estimates: 2.5% in 2024, 2.2% in 2025, and 1.9% in 2026, though a short-term rise is expected as last year's energy price drops fade. Core inflation is expected to decline from 2.9% in 2023 to 2.0% by 2026, despite elevated services inflation. Domestic inflation pressures remain due to rising wages, but moderating labour costs and stable corporate profits are helping to cushion the impact.

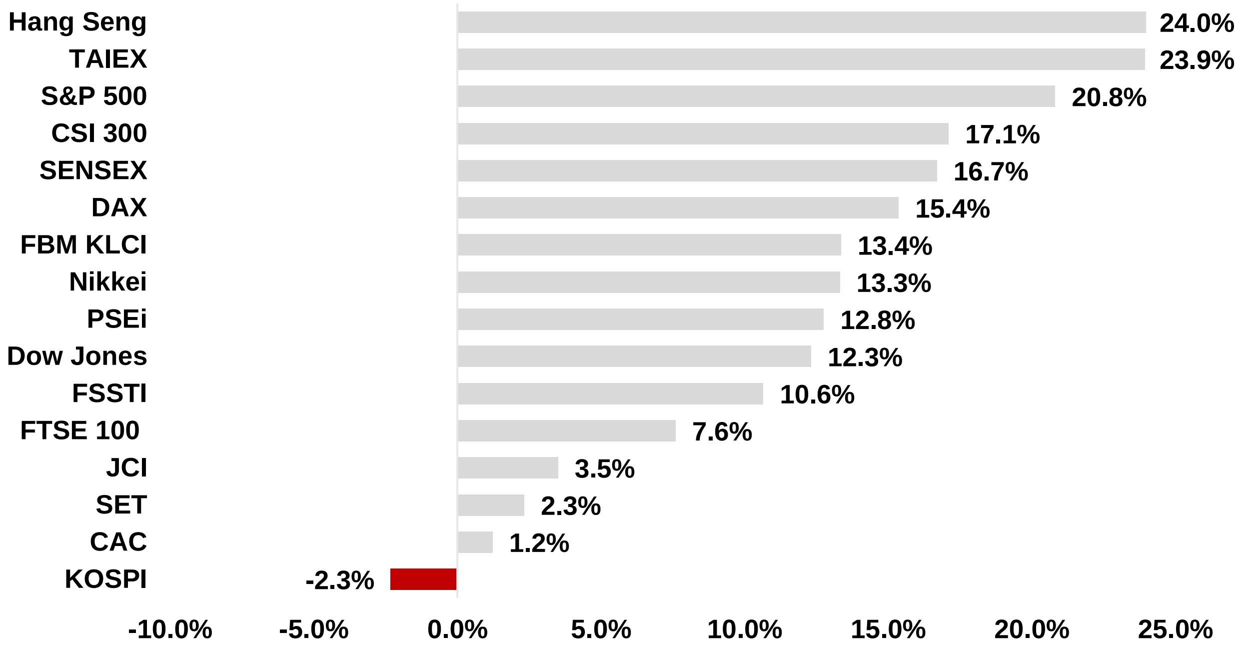
- **Bank of England (BoE) held the Bank Rate steady at 5.00% in its September 2024 meeting,** following a 25bp cut in August, which was the first reduction in over four years. This move aligned with market expectations, although one member advocated for an additional 0.25 percentage point cut to 4.75%. Annual inflation stood at 2.2% in August and is forecasted to rise to around 2.5% by year-end as last year's energy price drops phase out of the comparison. Services consumer price inflation remained high at 5.6% in August. Private sector regular average weekly earnings growth slowed to 4.9% in the three months leading to July. Meanwhile, headline GDP growth is projected to return to its underlying rate of around 0.3% per quarter in the second half of the year.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: CHINESE STOCKS SOARED IN SEPTEMBER, BUOYED BY BEIJING'S MASSIVE STIMULUS PACKAGE





Sources: Bursa, CEIC data

- Chinese stocks – CSI 300 (+21.0%) and Hong Kong's Hang Seng (+17.5%), spearheading the gainers in September as Beijing's massive stimulus package sparked a buying frenzy among foreign, institutional, and retail investors amid fears of missing out, propelling Chinese stocks to their highest levels in over a decade.
- U.S. stocks – S&P 500 (+2.0%) and Dow Jones (+1.8%) rallied on the back of positive sentiment surrounding the first interest rate cut in years and the booming artificial intelligence (A.I.) sector.
- On the other hand, South Korea's KOSPI slumped by 3.0% in September, dragged down by the sharp declines in chip and auto stocks weighed heavily on the overall market.
- YTD, Hong Kong's Hang Seng emerged as the top performer in September, with a gain of 24.0%.

DOMESTIC EQUITY: FBM KLCI ENDED IN THE RED AS CHINA'S STOCKS SHONE BRIGHTER ON FRESH STIMULUS

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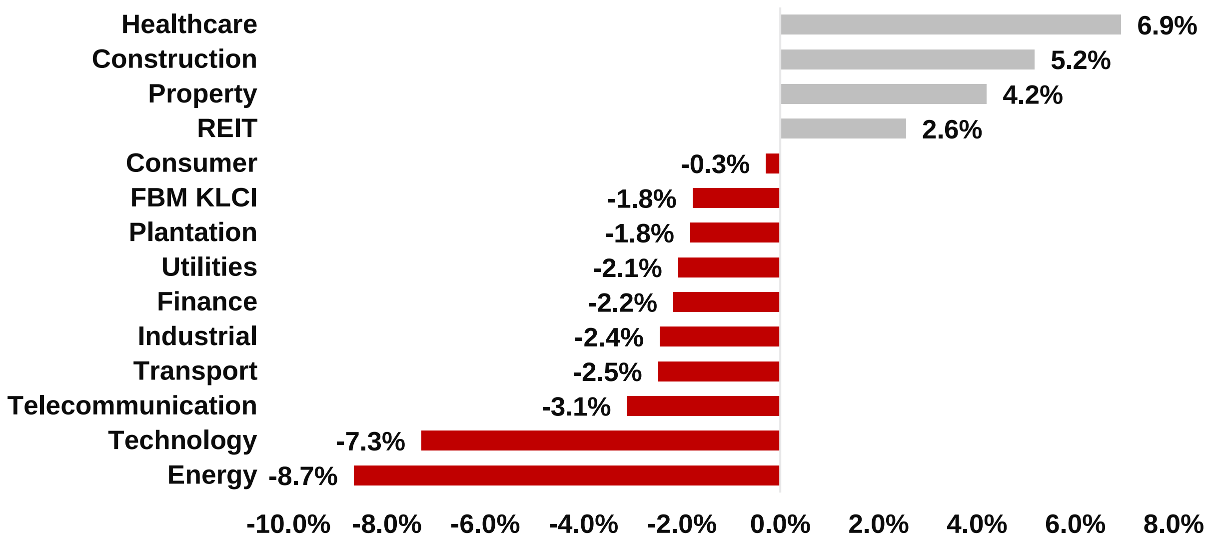
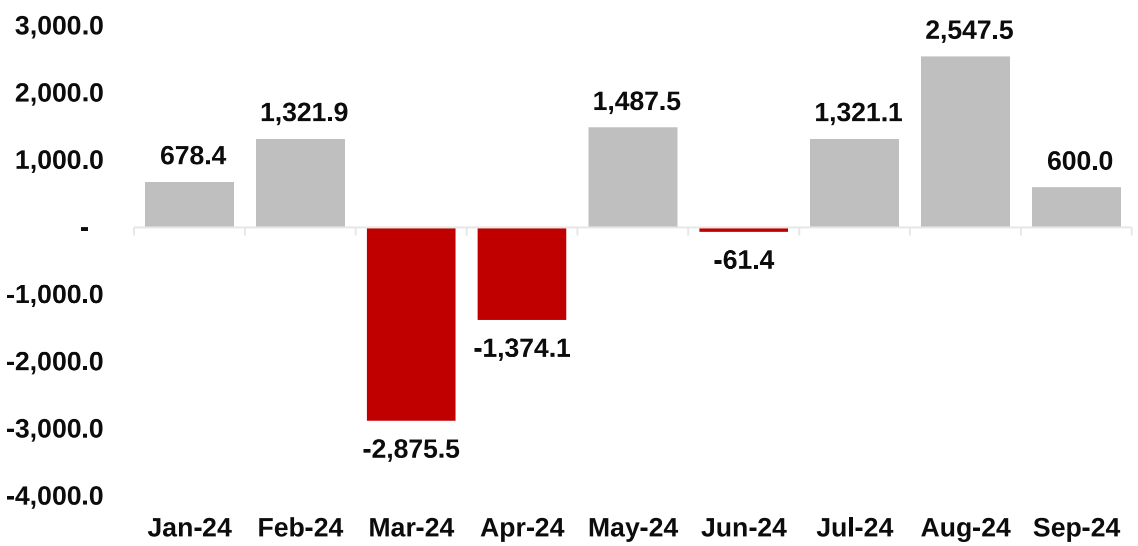
Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



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

- The FBM KLCI lost some ground in September to close 1.8% m-o-m lower (August: +3.3%) as buying interest trended lower. Despite rising sharply following the Fed's larger than expected interest rate cut which boosted inflows into emerging market assets, the key index had slipped lower on profit-taking activities following the gains.
- The focal point drawing investors away was the fresh monetary and fiscal stimulus measures announced by China, prompting selling pressure in emerging market assets including Malaysia as global investors flock towards China's and Hong Kong's markets.
- In the broader market, the Energy index ended as the biggest loser where it plunged by 8.7% m-o-m, followed by the Technology (-7.3%) and Telecommunications (-3.1%) indices.
- Nevertheless, the Healthcare index (+6.9%) topped the gainers while other indices which ended in the green includes the Construction (+5.2%), Property (+4.2%) and REIT (+2.6%) indices.
- Foreign investors remain as net buyers albeit recording the lowest net inflow this year at RM600 million in September.

FIXED INCOME: UST YIELDS UNDER PRESSURE AMID EXPECTATIONS OF A DOVISH FED

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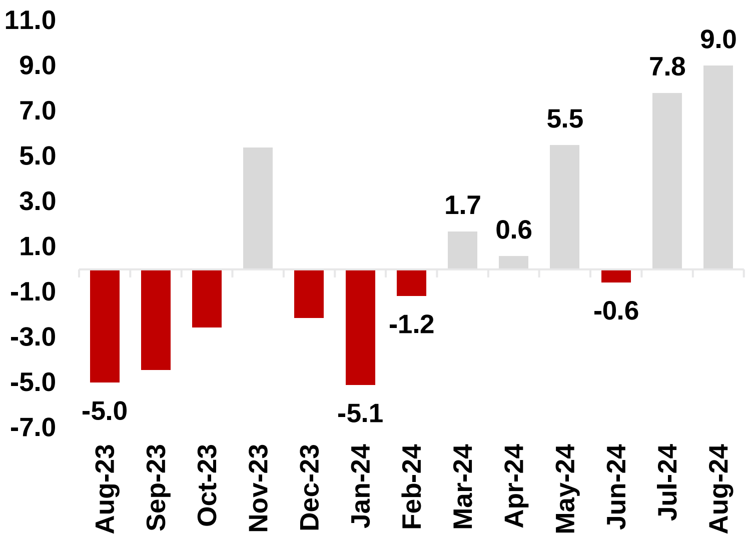
Monthly changes, basis points (bps)

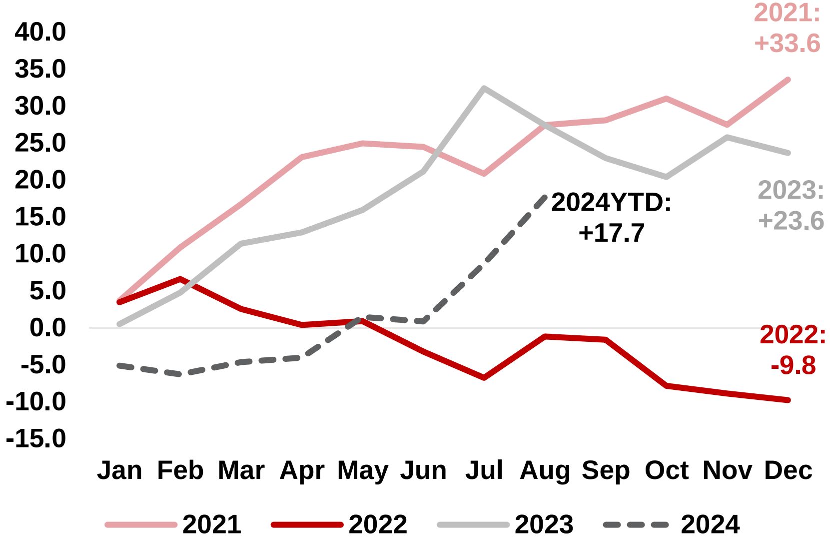
UST	Yields (%) 30-Aug-24	Yields (%) 30-Sep-24	Change (bps)
3-Y UST	3.79	3.58	-21
5-Y UST	3.71	3.58	-13
7-Y UST	3.80	3.67	-13
10-Y UST	3.91	3.81	-10
MGS	**Yields (%) 30-Aug-24**	**Yields (%) 30-Sep-24**	**Change (bps)**
3-Y MGS	3.33	3.33	0
5-Y MGS	3.50	3.50	-1
7-Y MGS	3.71	3.68	-2
10-Y MGS	3.76	3.71	-5
GII	**Yields (%) 30-Aug-24**	**Yields (%) 30-Sep-24**	**Change (bps)**
3-Y GII	3.32	3.32	0
5-Y GII	3.50	3.50	0
7-Y GII	3.69	3.69	0
10-Y GII	3.79	3.75	-4

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM Billion

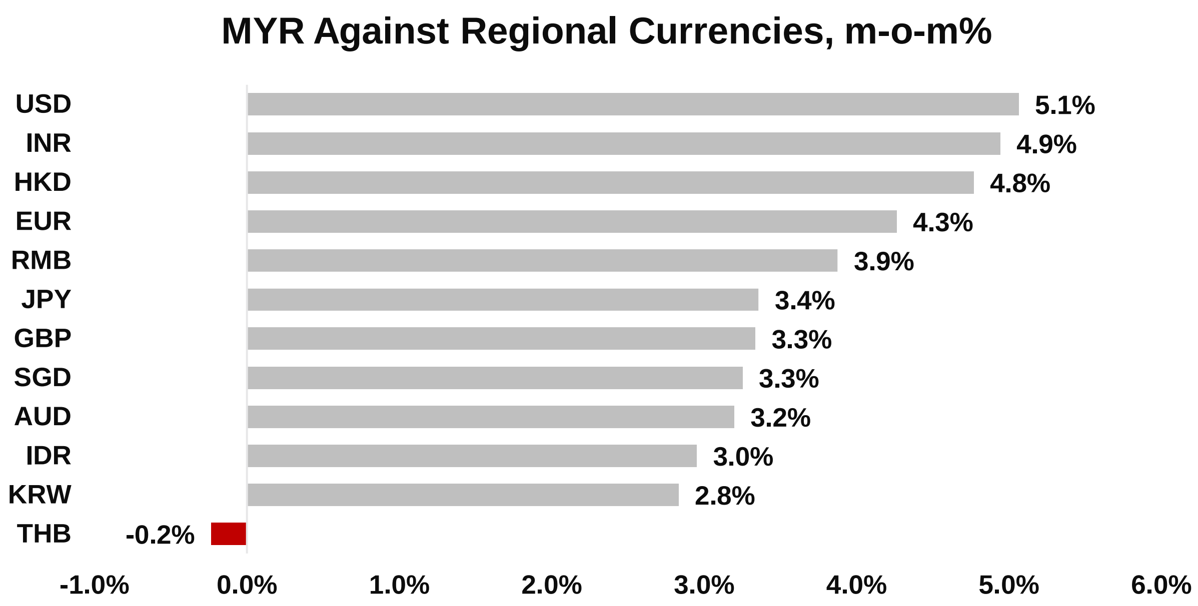


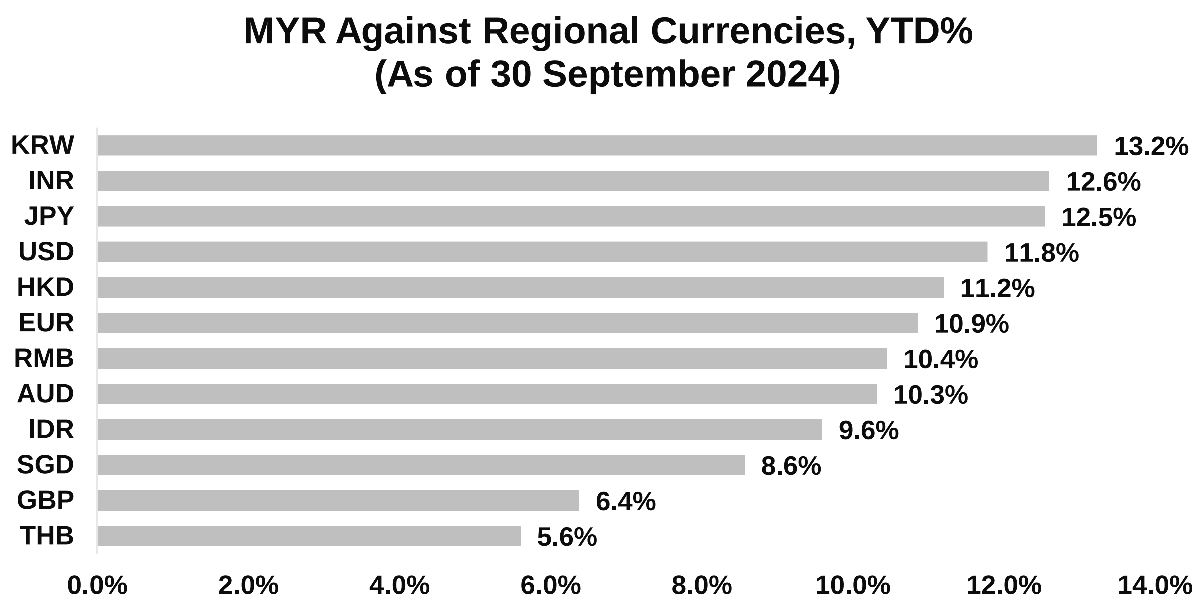
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



- The U.S. Treasury (UST) yield curve bullishly steepened in the range of 10bps and 21bps as weak U.S. economic data strengthened expectations of additional Fed rate cuts after the 50bp rate cut in September's Federal Open Market Committee (FOMC) meeting.
- Domestically, the Malaysian Government Securities (MGS) yields mostly ended lower between 1bp and 5bps except for 3-Y MGS yield that remained at 3.33%. Government Investment Issues (GII) yields were mostly unchanged apart from 10-Y GII yield that edged lower by 4bps.
- Foreign fund flows in the local bond market remained into the positive territory with a net foreign inflow of RM9.0 billion in August (Jul: +RM7.8 billion). Concurrently, local govvies' foreign shareholdings to total outstanding increased to 22.6% in August (Jul: 22.1%).
- As of August 2024, the local bond market recorded the cumulative net foreign inflows of RM17.7 billion, significantly lower than the inflows of RM27.4 billion in the same period in the previous year.

FX MARKET: RINGGIT REACHES STRONGEST LEVEL SINCE MAY 2021 ON THE FED'S SEPTEMBER RATE CUT AND BETS FOR MORE TO COME





Sources: BNM, Federal Reserve Board, PBoC

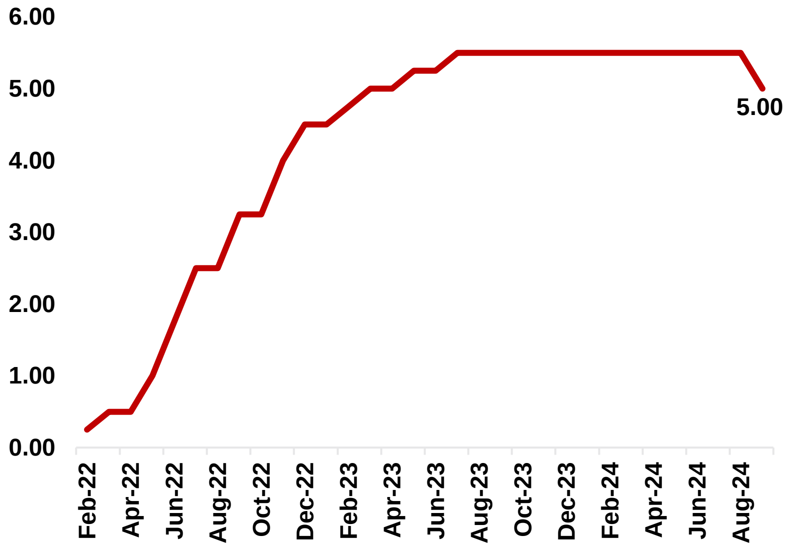
- The Ringgit's unrelenting climb continued in September to appreciate by 5.1% against the USD (September 30: RM4.11 vs. August 30: RM4.32), marking a level last seen in early May 2021.
- Such strengthening was parallel to the greenback's weakness as the Fed's finally initiates its monetary policy decision with a larger than expected cut of 50bp, bringing the Federal Funds Rate to a range of 4.75%-5.00%.
- Furthermore, the Fed had signaled another 50bp cut to be delivered in 4Q2024 while 100bp more cuts will happen in 2025. Based on Fed Chair Powell's latest remarks, markets are expecting a quarter basis point cut in both November and December.
- As such, we foresee some upside support to the local note in the coming months in addition to the prevailing strength of Malaysia's economic fundamentals and solid investment momentum.
- Additionally, the greenback was pressured by a slew of fresh stimulus measures in China which boosted the Yuan to breach the strongest level in more than 16 months against the USD.

SECTION 2

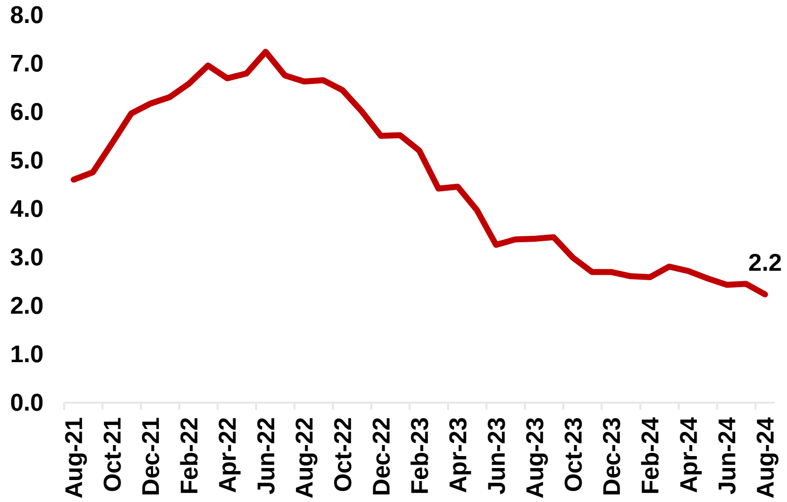
The Global Economy

FED SLASHED RATES BY 50BP, MORE CUTS TO COME

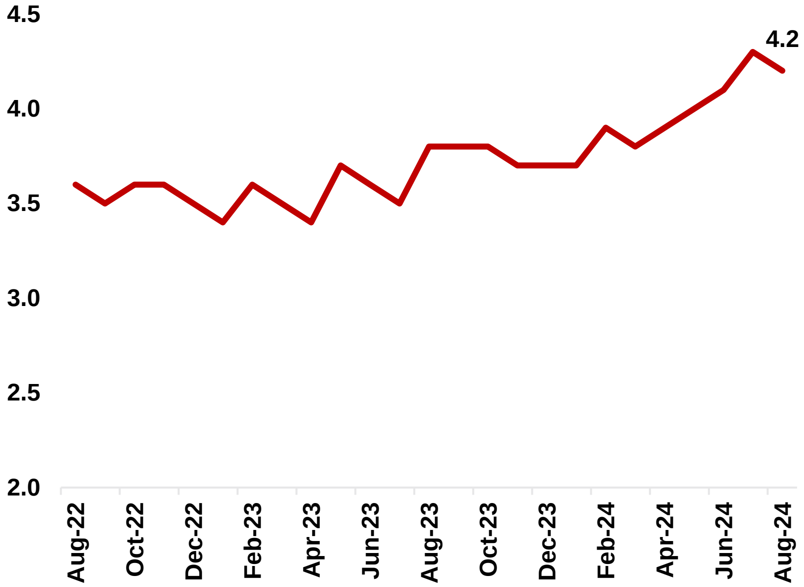
U.S. - Federal Funds Rate (FFR) Upper Bound, %



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



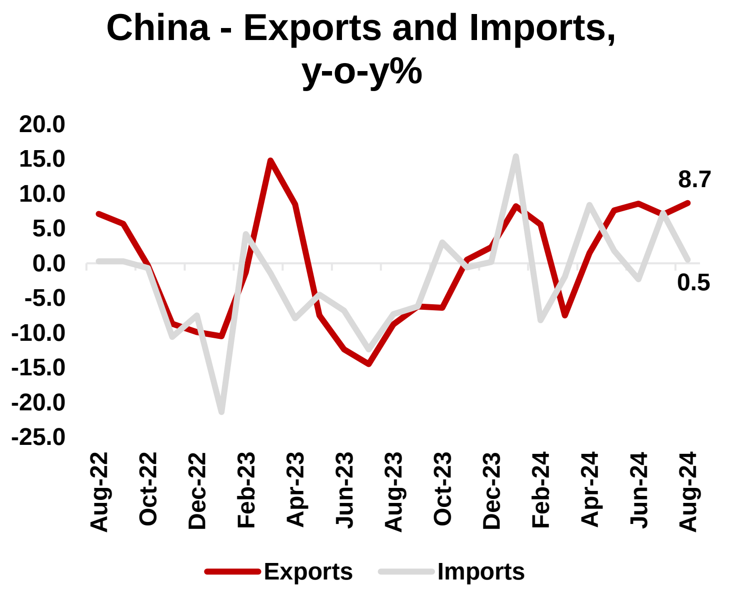
U.S. Unemployment Rate, %

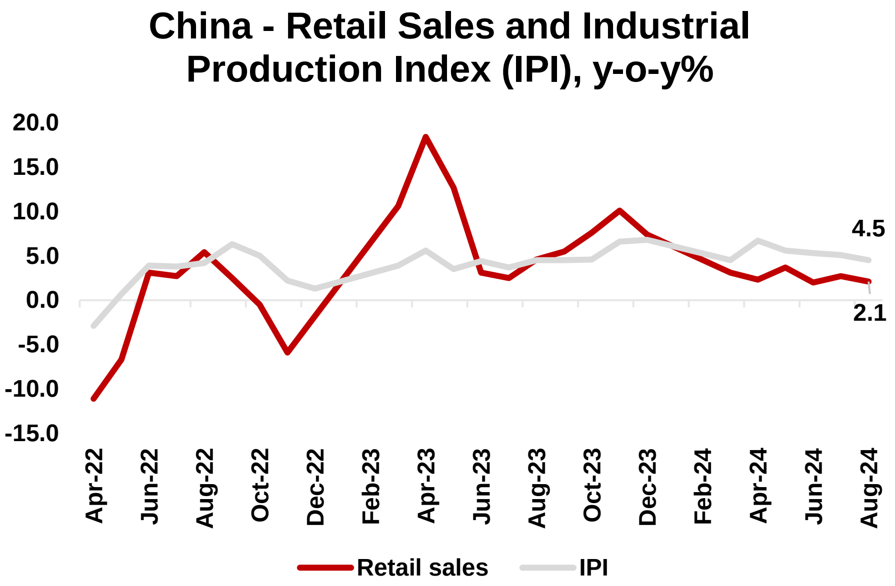


Sources: Bureau of Economic Analysis, CEIC

- In September, the U.S. economy showed signs of moderating inflation and slowing labor market activity, prompting the Fed to begin cutting interest rates for the first time in over a year. After 14 months of holding rates steady, the FOMC reduced the FFR by 50bp, with another cuts amounted to 50bp expected for the remaining of the year. This shift in monetary policy was driven by declining inflation, which decelerated to 2.2% in August, and weakening labor market conditions, including a modest level of unemployment at 4.2% (Jul: 4.3%).
- The U.S. economy grew at an annualized rate of 3.0% in 2Q2024, unchanged from the previous estimate and surpassing the upwardly revised 1.6% growth recorded in the 1Q2024.
- Despite these positive signs, concerns remain. Geopolitical conflicts, particularly in regions like Ukraine and the Middle East, could drive oil prices higher, creating upward pressure on inflation in the near term. Additionally, political volatility and trade policy risks, particularly as the U.S. heads into a presidential election, pose potential downside risks for economic growth.

STRONG EXPORTS DESPITE WEAK DOMESTIC DEMAND AND REAL ESTATE CHALLENGES IN CHINA





Sources: National Bureau of Statistics, CEIC

- As of September 2024, China's economy faces mixed signals. Export growth has remained strong, with exports increasing by 8.7% in August (July: 7.0%), particularly in sectors like electronics and vehicles.
- This boost has helped counterbalance weaker domestic consumption and a sluggish property sector. However, fixed asset investment growth has slowed, particularly in real estate which remained in the contraction zone, reflecting ongoing structural challenges in the property market.
- In an effort to stimulate its slowing economy, the People's Bank of China (PBoC) has once again reduced the reserve requirement ratio (RRR) by 20bps to 1.5% for banks. This latest cut, which is the second of the year, will inject approximately CNY 1 trillion into the economy through increased lending capacity. To further ease monetary conditions, the PBoC also lowered the 7-day reverse repo rate by 0.5%.
- Inflation remains low, with a slight rise in the consumer price index (CPI) at 0.5% in August (Jul: 0.8%). Internal consumption and real estate remain persistent weak points, adding pressure on the government for more aggressive policy interventions

ECB CUTS INTEREST RATES AMID COOLING INFLATION AND STAGNANT GROWTH IN THE EUROZONE

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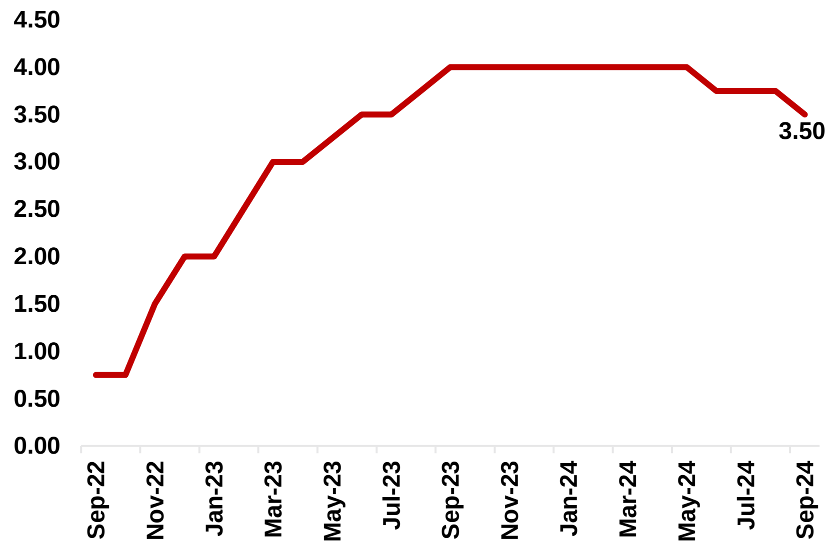
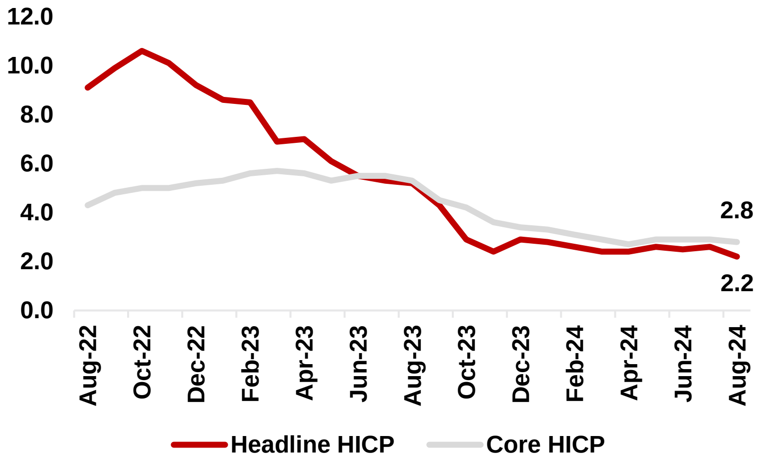
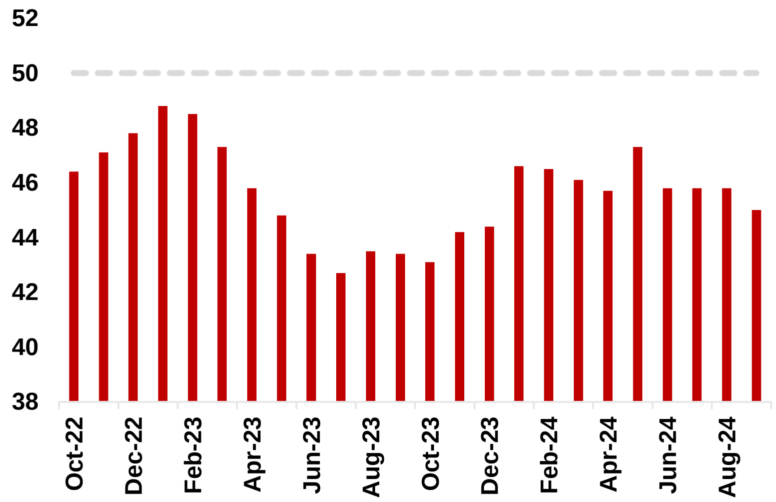






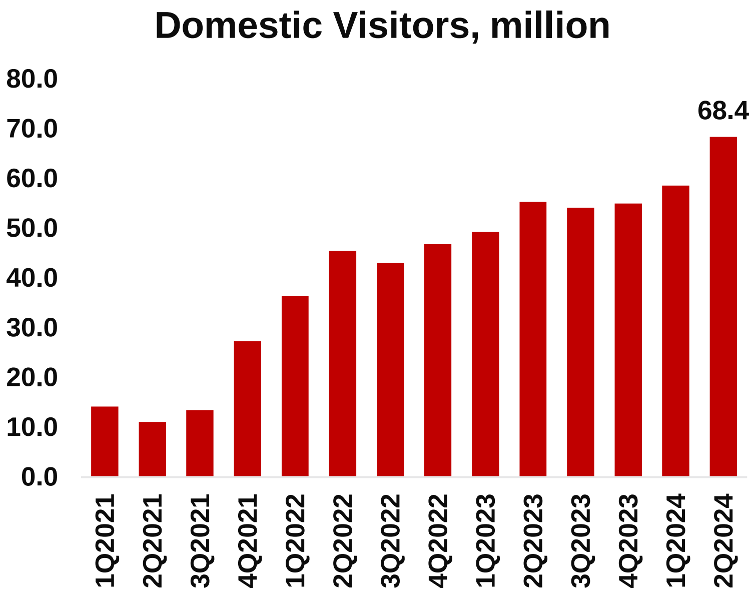
Sources: ECB, Eurostat, S&P Global

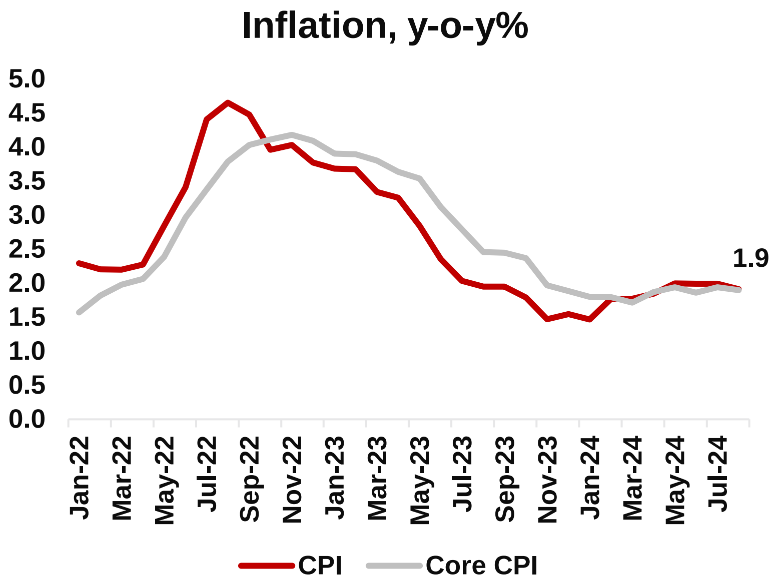
- The European Central Bank (ECB) has lowered its key interest rate by 25bp in September in line with market expectations, making it the second rate cut this year after a reduction in June amid easing inflation in the Eurozone.
- Consumer price growth slowed to 2.2% in August (Jul: 2.9%), the lowest level since July 2021. However, core inflation remains persistent at 2.8% in August (Jul: 2.9%). The sharp decline in annual inflation can partially be attributed to a higher base last year. Eurostat highlighted that the slowdown was due to a sharp fall in energy costs as base effects came into play in August.
- While inflation is cooling, growth indicators remain concerning. The Eurozone's gross domestic product (GDP) grew by only 0.2% in the second quarter of 2024, lower than 0.3% in 1Q2024. Overall, annual average real GDP growth is expected to be tepid at 0.8% in 2024 (2023: 0.4%)
- The Eurozone Manufacturing PMI for September 2024 was revised slightly upward to 45.0 from a preliminary estimate of 44.8, though still lower than the 45.8 recorded in the previous two months. Despite the revision, it marks the lowest reading of the year, indicating a further contraction in the manufacturing sector.

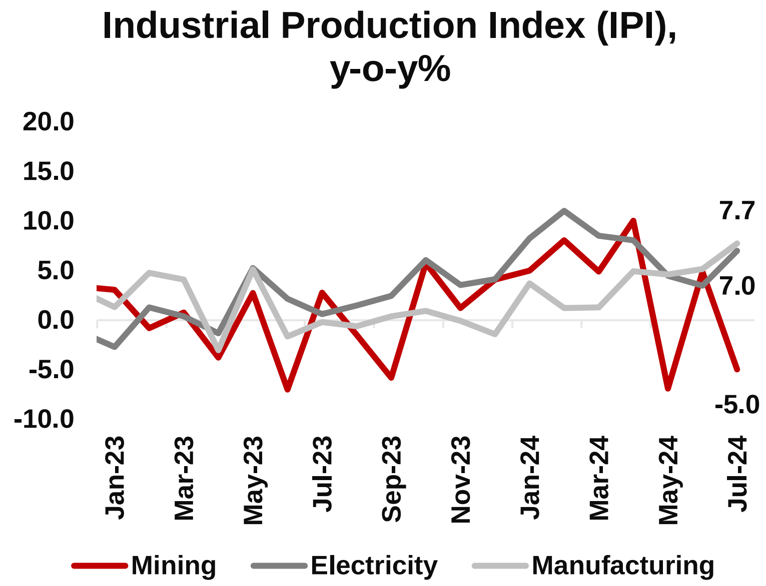
SECTION 3

Domestic Landscape & Banking Sector Update

MANUFACTURING OUTPUT ROSE TO HIGHEST LEVEL IN 23 MONTHS ON HIGHER DOMESTIC AND EXTERNAL DEMAND







Sources: DOSM, BNM, S&P Global

- The tourism sector remains upbeat on strong domestic demand with the number of domestic visitors surging by 23.8% y-o-y to 68.4 million persons in 2Q2024 (1Q2024: 58.6 million persons) while total expenditure reaches RM28.1 million (+28.6% y-o-y, 1Q2024: RM24.1 million).
- Such robust domestic demand was buoyed by the favourable inflationary trend with the latest data pointing to inflation easing to 1.9% in August after steadying at 2.0% for three consecutive months previously. The labour market conditions also supported consumer spending with the unemployment rate trending at 3.3% since November 2023.
- On the producers' front, Malaysia's Industrial Production Index (IPI) rose by 5.3% in July (June: 5.0%), underpinned by a strong expansion of the Manufacturing IPI (July: 7.7% vs. June: 5.2%) where it marked the highest level since September 2022, alongside the Electricity IPI which increased by 7.0% (June: 3.5%). The strength in factory activities were spurred by higher domestic-oriented (July: 7.5% vs. June: 4.6%) and export-oriented (July: 7.8% vs. June: 5.4%) outputs.
- However, the Mining IPI slipped by 5.0% (June: 4.9%) following declines in both Natural Gas and Crude Oil & Condensate productions.

BANKING SECTOR: FINANCING GROWTH MODERATED IN AUGUST

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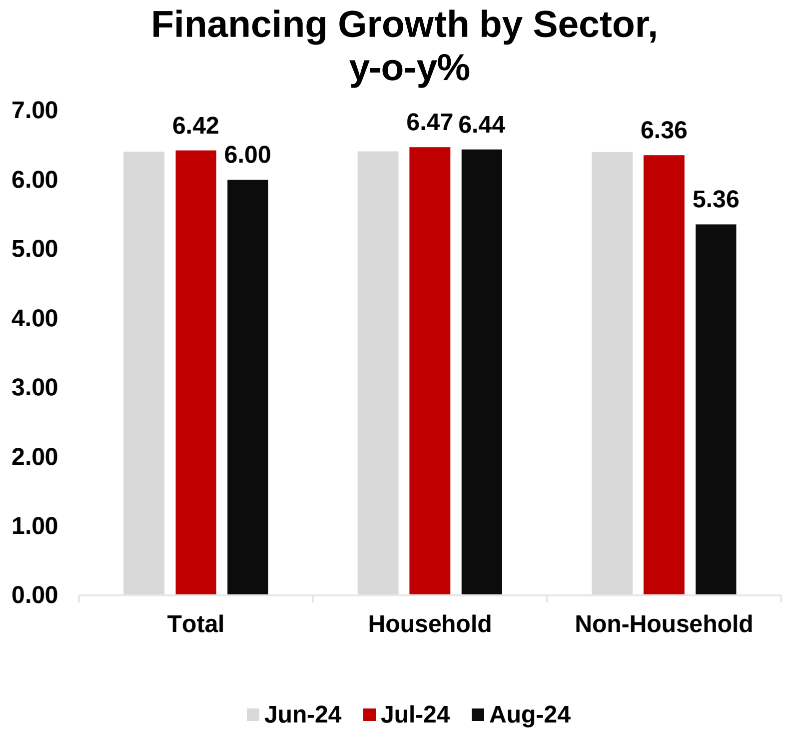
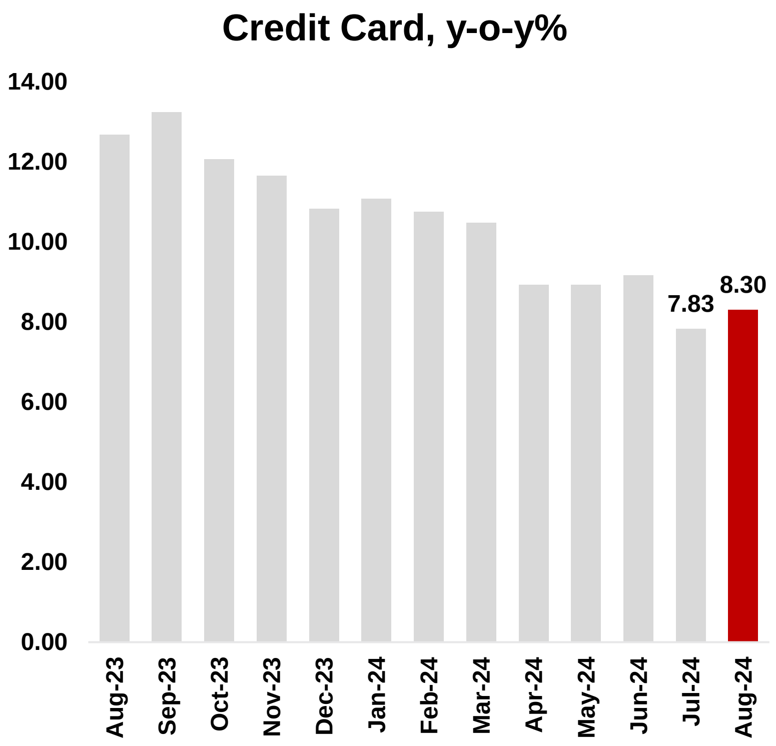
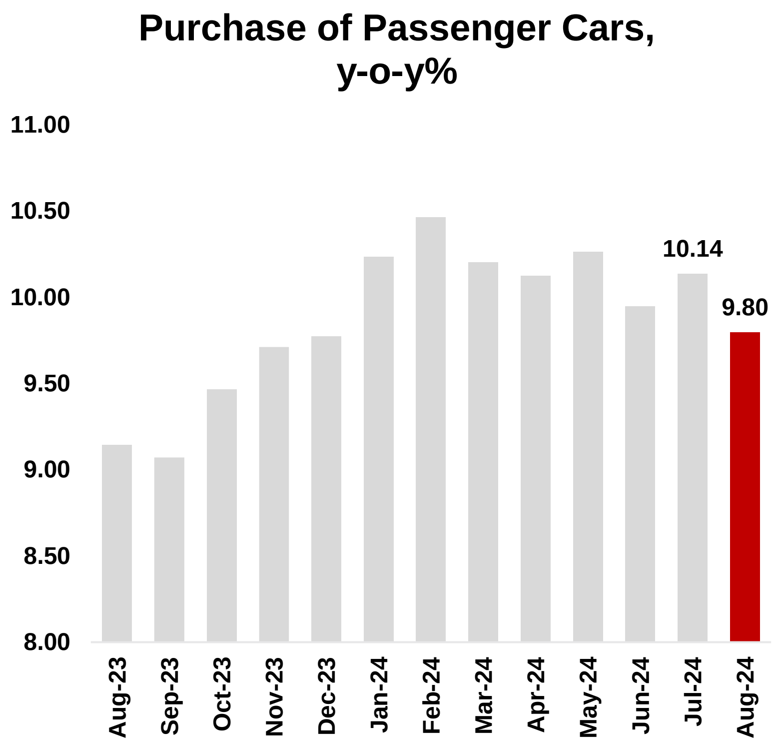


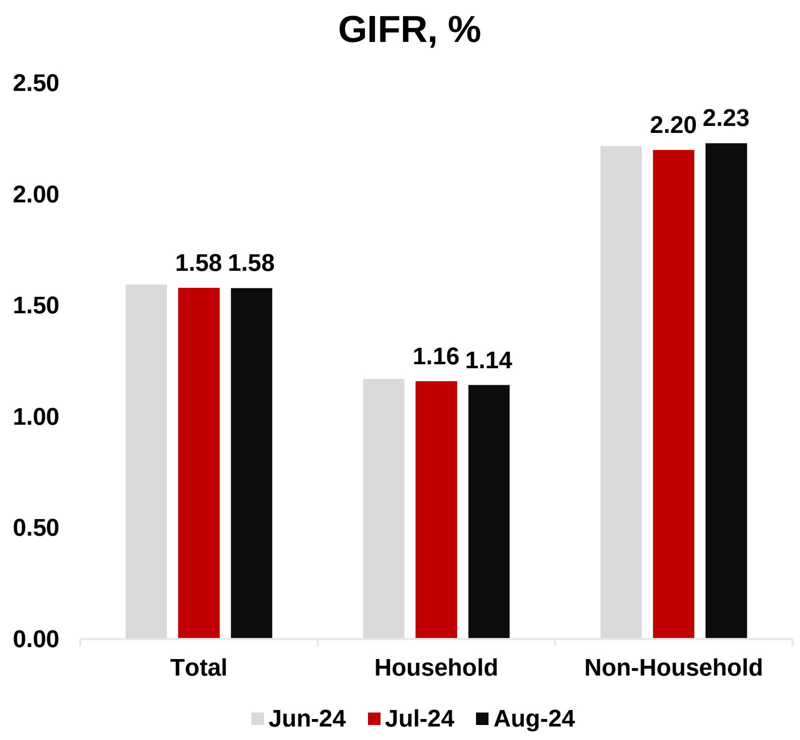


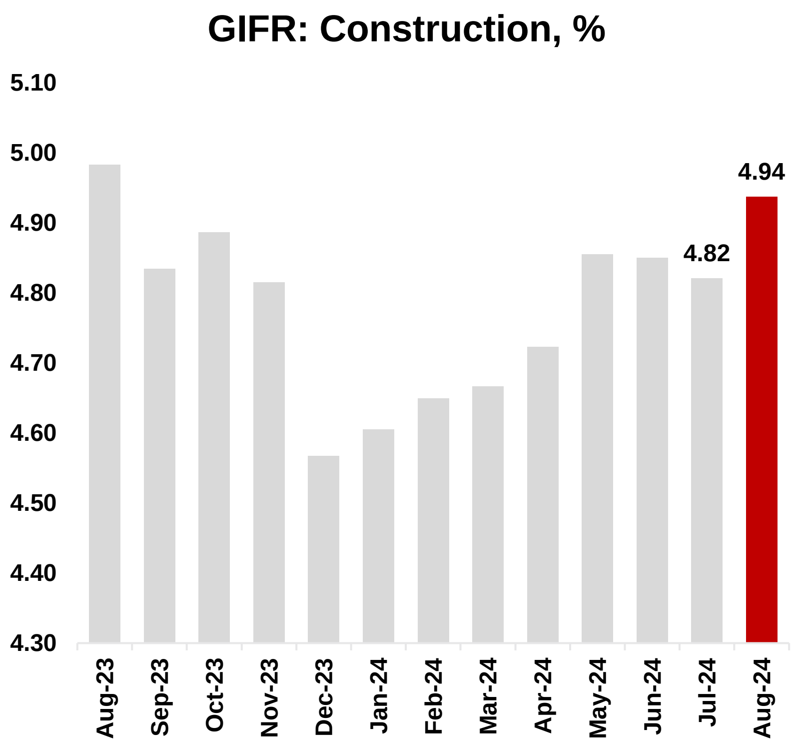


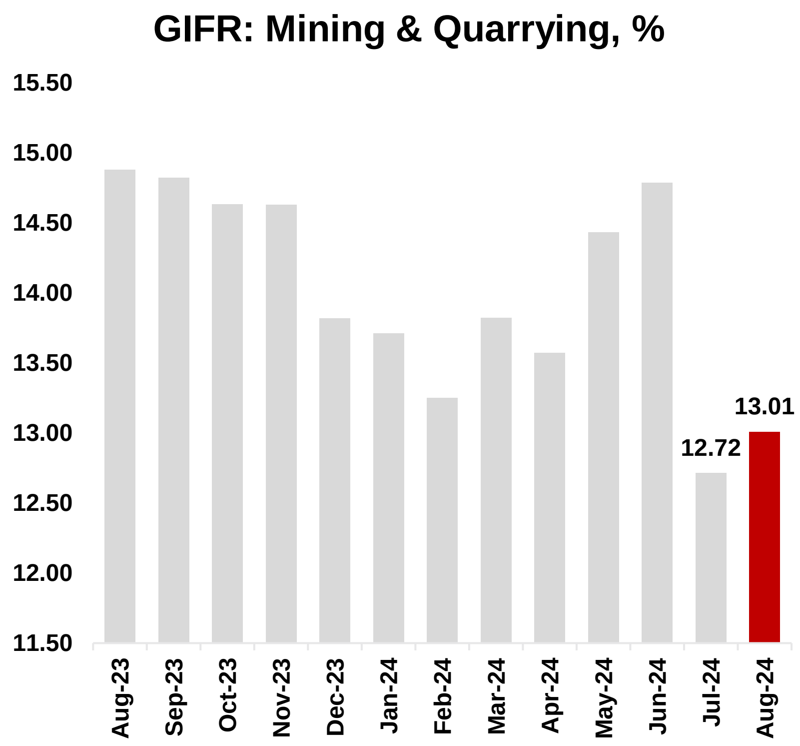
Source: BNM

- Financing activities eased to 6.00% in August, down from 6.42% in July. The non-household segment's financing growth declined to 5.36% in August (July: 6.36%). Similarly, the household sector's growth rate decreased slightly to 6.44% in August from 6.47% in July.
- The financing growth in the passenger car purchase segment moderated to 9.80% in August (July: 10.14%). However, financing growth in the credit card segment grew to 8.30% in August from 7.83% in July. Meanwhile, financing activities related to the purchase of residential property slowed to 7.47% in August (July: 7.51%).

BANKING SECTOR: AUGUST'S ASSET QUALITY REMAINED STABLE







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector remained at 1.58% in August (July: 1.58%). The GIFR in the household segment reduced to 1.14% in August (July: 1.16%). Meanwhile, the impairment within the non-household sector grew modestly to 2.23% in August (July: 2.20%).
- The impairment within the construction segment increased to 4.94% in August from 4.82% in July. Similarly, the asset quality in the Mining and Quarrying industry climbed to 13.01% in August (July: 12.71%).

THANK YOU