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WEEKLY ECONOMIC UPDATE

24 MARCH 2025

ECONOMIC RESEARCH

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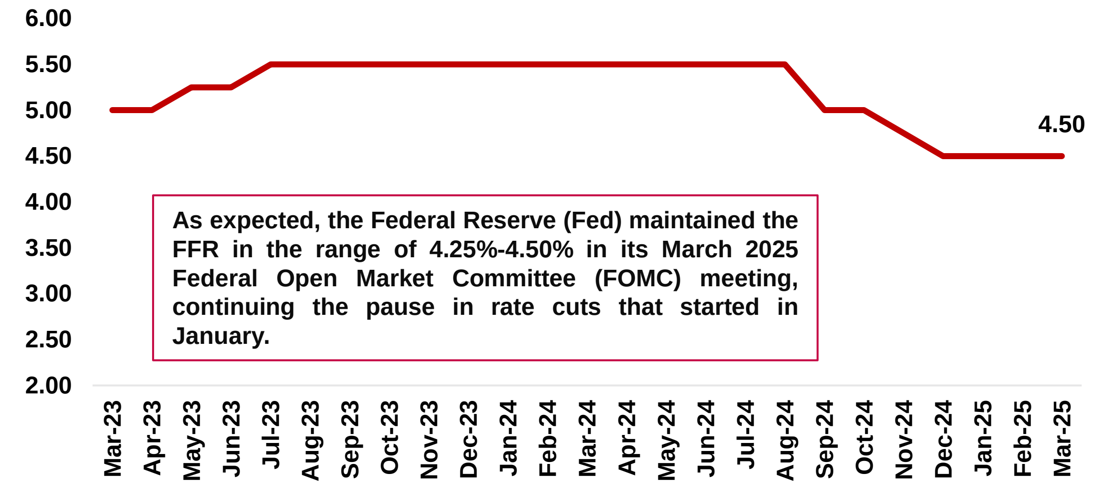
WEEKLY HIGHLIGHT: MALAYSIA'S HEADLINE INFLATION EASED TO THE LOWEST LEVEL SINCE JANUARY 2024

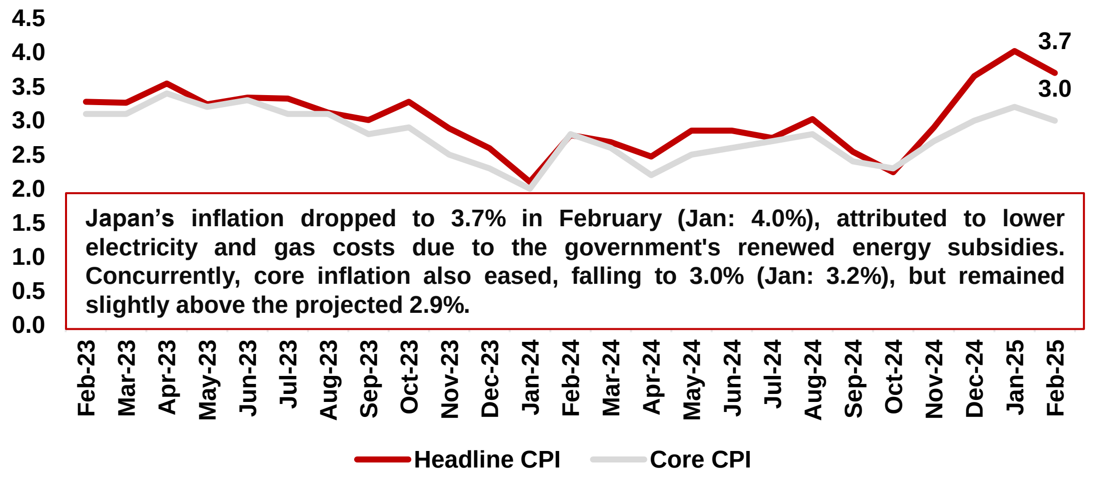
GLOBAL

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



As expected, the Federal Reserve (Fed) maintained the FFR in the range of 4.25%-4.50% in its March 2025 Federal Open Market Committee (FOMC) meeting, continuing the pause in rate cuts that started in January.

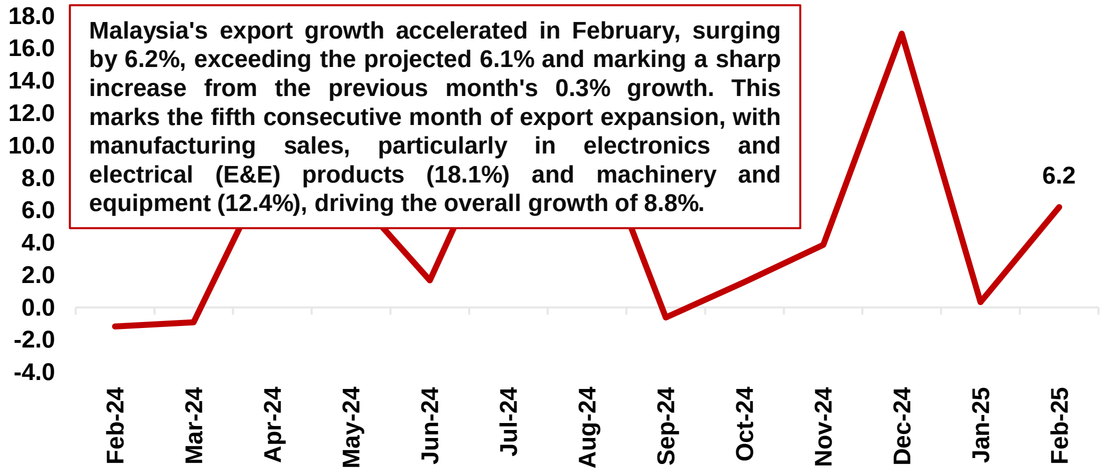
Japan - Consumer Price Index (CPI), y-o-y%



Japan's inflation dropped to 3.7% in February (Jan: 4.0%), attributed to lower electricity and gas costs due to the government's renewed energy subsidies. Concurrently, core inflation also eased, falling to 3.0% (Jan: 3.2%), but remained slightly above the projected 2.9%.

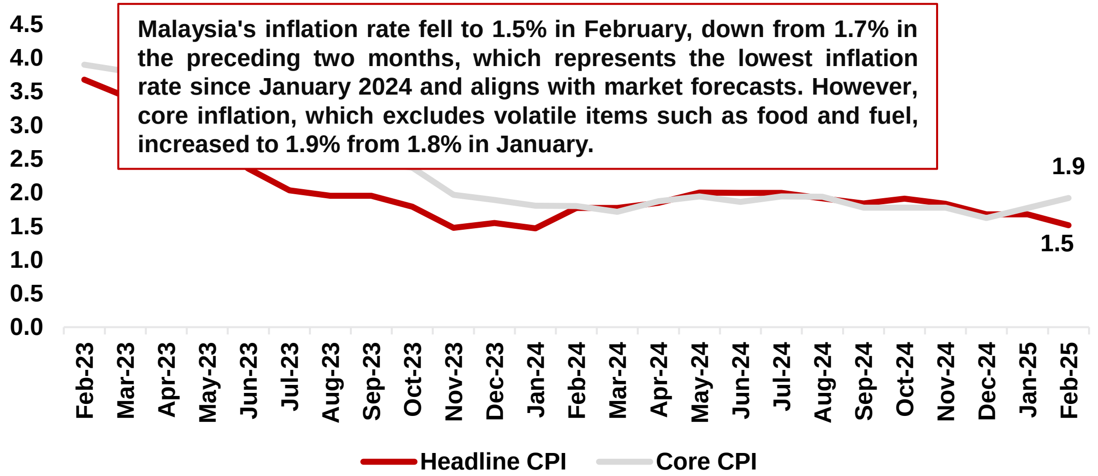
DOMESTIC

Malaysia - Exports, y-o-y%



Malaysia's export growth accelerated in February, surging by 6.2%, exceeding the projected 6.1% and marking a sharp increase from the previous month's 0.3% growth. This marks the fifth consecutive month of export expansion, with manufacturing sales, particularly in electronics and electrical (E&E) products (18.1%) and machinery and equipment (12.4%), driving the overall growth of 8.8%.

Malaysia - CPI, y-o-y%

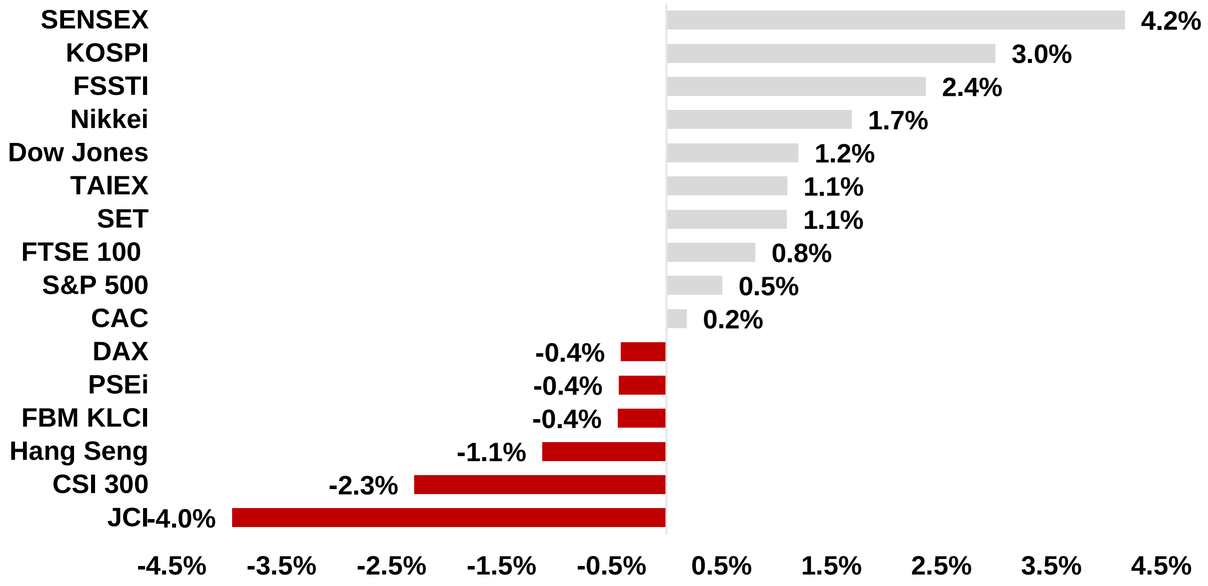


Malaysia's inflation rate fell to 1.5% in February, down from 1.7% in the preceding two months, which represents the lowest inflation rate since January 2024 and aligns with market forecasts. However, core inflation, which excludes volatile items such as food and fuel, increased to 1.9% from 1.8% in January.

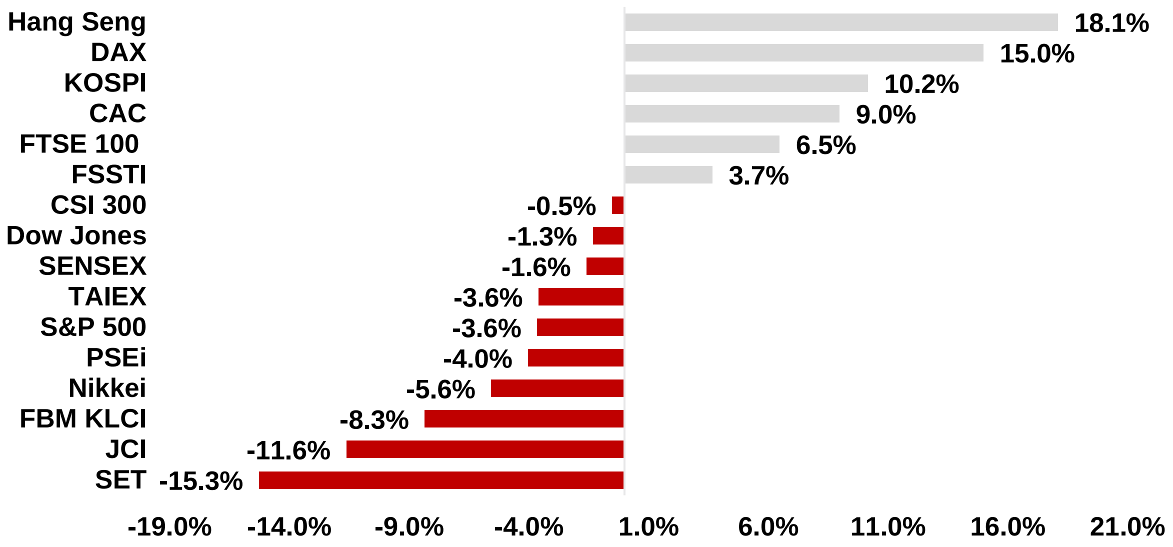
Sources: Statistical Bureau, Federal Reserve Economic Data (FRED), Department of Statistics Malaysia (DOSM)

REGIONAL EQUITY: FLEXIBILITY IN THE U.S. TARIFF APPROACH AND EXPECTATIONS OF FUTURE FED RATE CUTS BUOYED STOCKS MARKET

Weekly Gain/Loss of Major Equity Market, w-o-w%



YTD Gain/Loss of Major Equity Markets, % (As of 21 March 2025)



Sources: Bursa, CEIC Data

- The global stocks market were mostly in the green sea last week. India's SENSEX was the major gainer, closing higher by 4.2% amid positive market sentiment, driven by robust domestic economic indicators, specifically the drop in retail inflation to a seven-month low at 3.61% in February (Jan: 4.31%), fueled speculation about upcoming interest rate reductions by the Reserve Bank of India (RBI).
- U.S. stocks – Dow Jones (+1.2%) and S&P 500 (+0.5%) soared afterTrump highlighted "flexibility" in his approach to tariffs, but also stressed that tariffs would be reciprocal, meaning countries that impose tariffs on the U.S. would face similar retaliatory measures.
- On the other hand, Indonesia's JCI (-4.0%), China's CSI 300 (-2.3%) and Hong Kong's Hang Seng (-1.1%) were the biggest losers for the week ending March 21.

DOMESTIC EQUITY: MIXED PERFORMANCE IN THE LOCAL MARKET AMID RISK-OFF CAUTION

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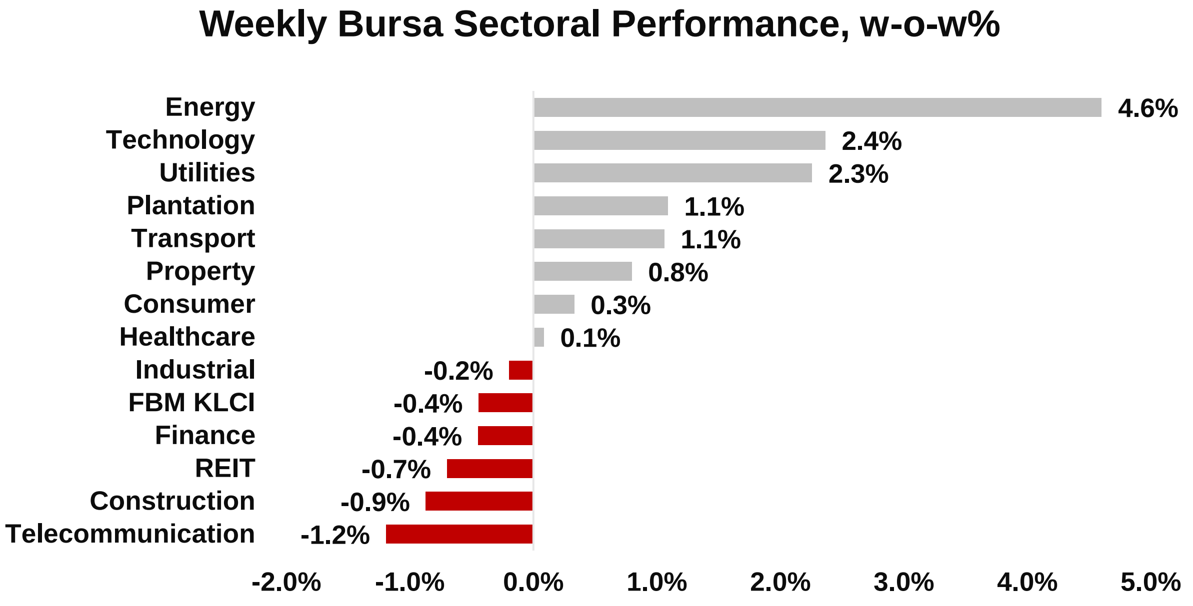

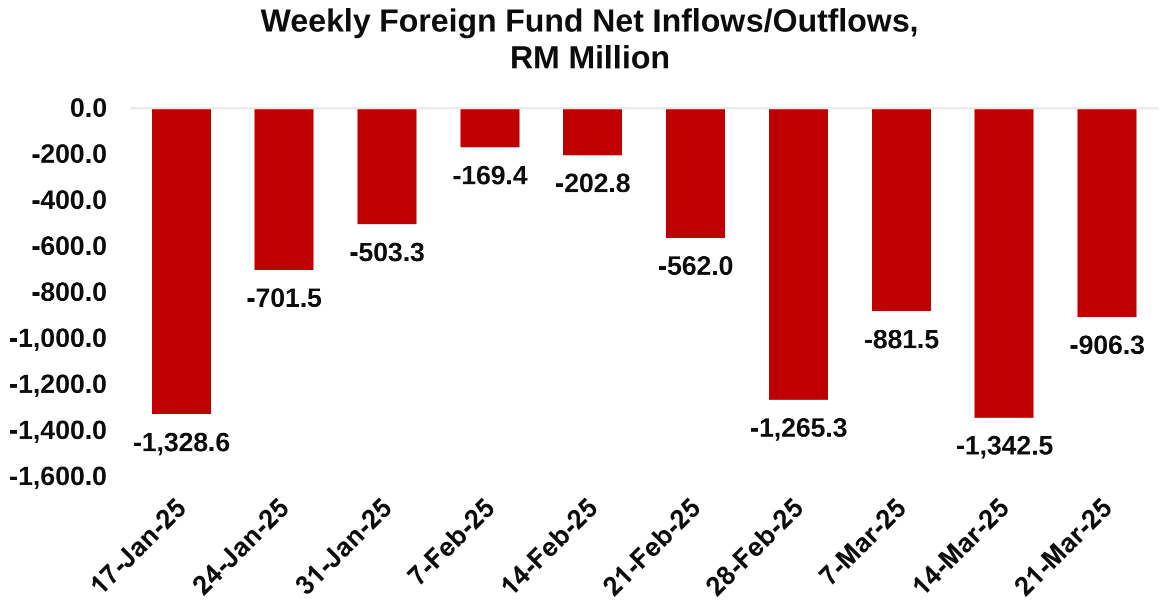

Sources: Bursa, CEIC Data

- The FBM KLCI slipped by 0.4% w-o-w for the week ending March 21, extending the downtrend seen in the past weeks as investors became more cautious about emerging market assets.
- In its March dot plot projections, the Fed adopted a more bearish outlook on the U.S. economy relative to the December release, in addition to the more wary of inflationary pressures. Given the significant impact of the U.S. economy on global growth, such view had ramped up investors' risk off sentiments, leading to more muted buying activity, which was further exacerbated by heightened geopolitical tensions in the Red Sea.
- Looking closer, Bursa indices closed mixed with the Telecommunications index plunging by 1.2%, followed by the Construction and REIT indices which slid by 0.9% and 0.7%, respectively. Nevertheless, buying interest in blue chip stocks lifted several indices, with the Energy index soaring by 4.6%, followed by the Technology (+2.4%) and Utilities (+2.3%) indices.
- Foreign investors continued net selling for the twelfth straight week this year, shedding a total of RM906.3 million worth of equities. This had increased the cumulative net outflow thus far to RM8.8 billion.

FIXED INCOME: UST YIELDS DECLINED FOLLOWING THE LATEST ECONOMIC PROJECTIONS BY THE FED

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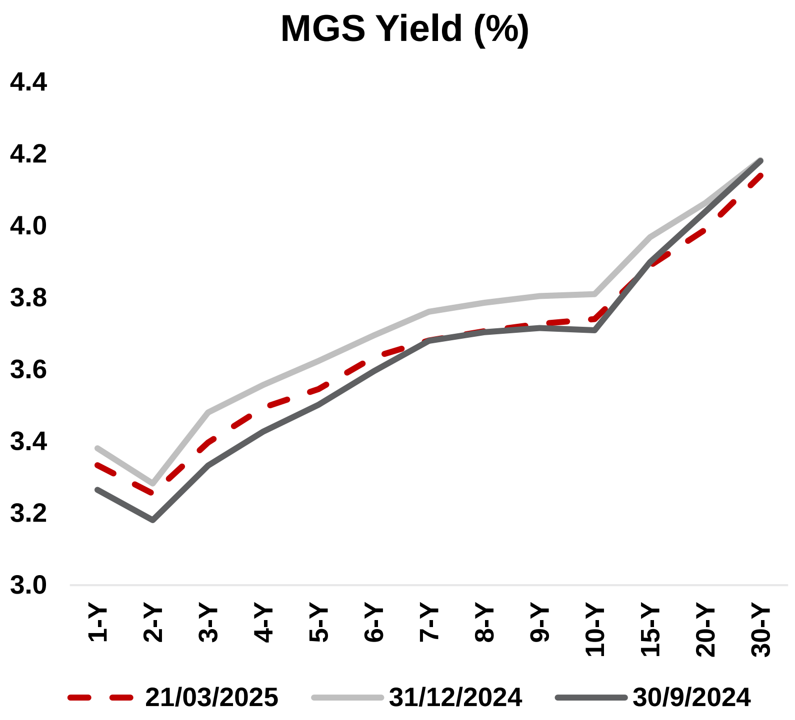
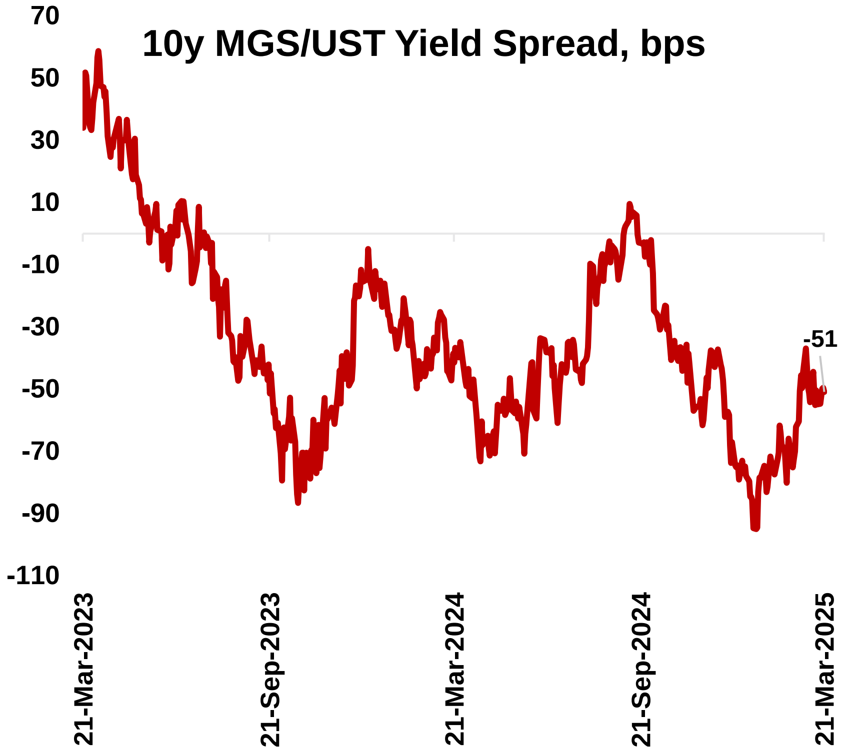
Weekly Changes, basis points (bps)

UST	Yields (%) 14-Mar-25	Yields (%) 21-Mar-25	Change (bps)
3-Y UST	4.00	3.92	-8
5-Y UST	4.09	4.00	-9
7-Y UST	4.20	4.12	-8
10-Y UST	4.31	4.25	-6
MGS	**Yields (%) 14-Mar-25**	**Yields (%) 21-Mar-25**	**Change (bps)**
3-Y MGS	3.44	3.40	-5
5-Y MGS	3.57	3.55	-3
7-Y MGS	3.71	3.68	-3
10-Y MGS	3.76	3.74	-2
GII	**Yields (%) 14-Mar-25**	**Yields (%) 21-Mar-25**	**Change (bps)**
3-Y GII	3.54	3.50	-4
5-Y GII	3.59	3.57	-2
7-Y GII	3.72	3.69	-3
10-Y GII	3.77	3.74	-3

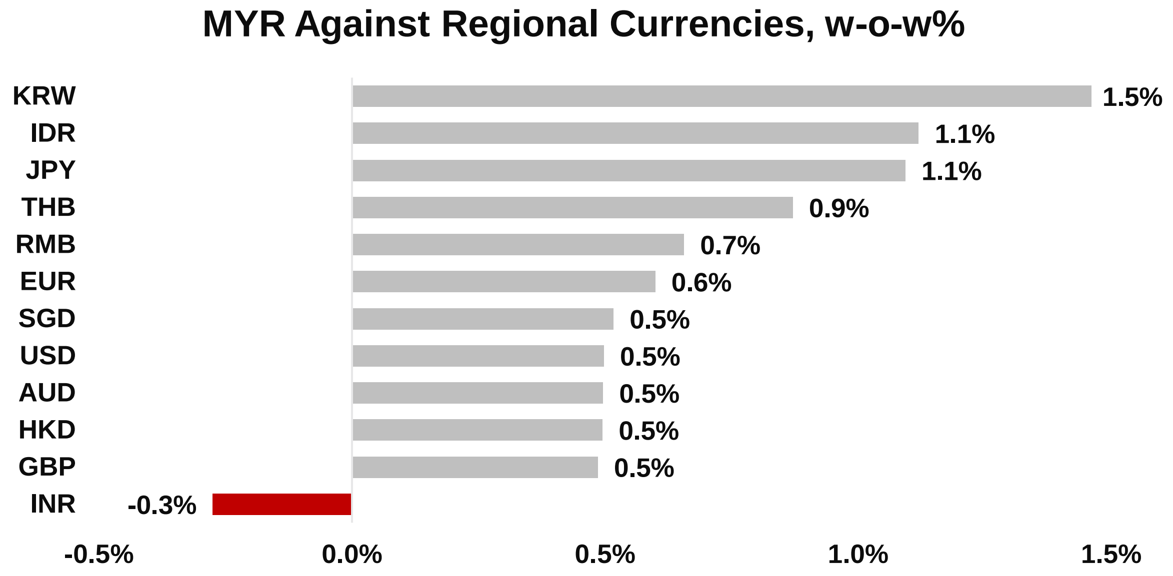


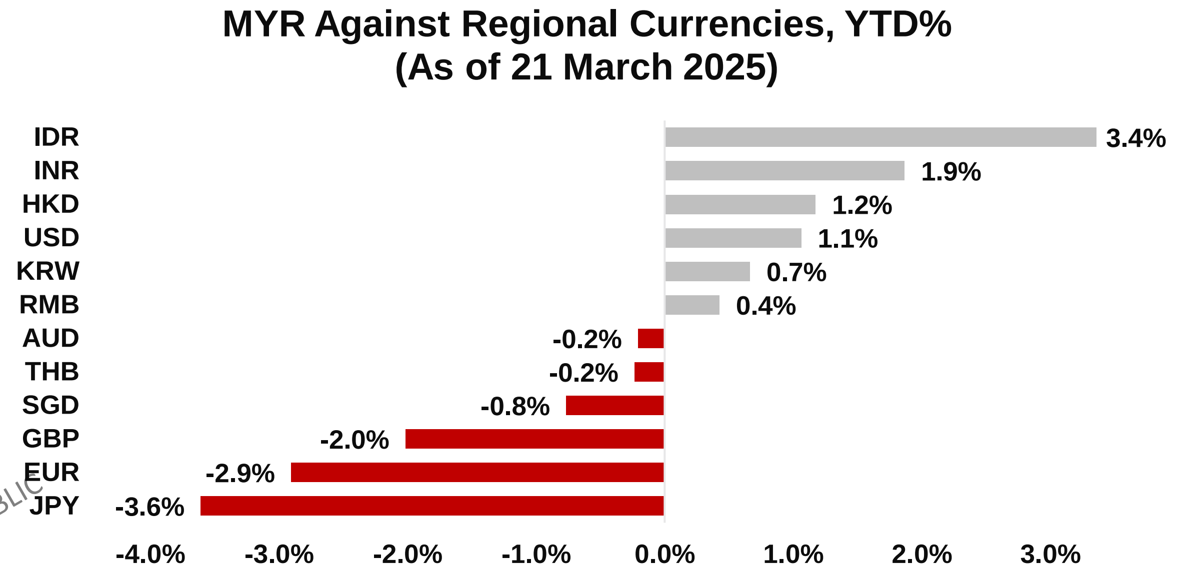


Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) yields edged down in the range of 6bps and 9bps last week. While the Fed maintained current interest rates, their 'dot plot' suggested two 25bp cuts later this year, amidst forecasts of slower growth and increased unemployment. Consequently, traders adjusted their expectations, now pricing in three rate cuts for the year, up from the previously anticipated two. This shift occurred despite projected higher inflation, though Fed Chair, Jerome Powell characterized the inflationary impact of tariffs as transitory.
- To address liquidity concerns, the Fed also announced a reduction in its balance sheet runoff, slowing the pace of Treasury security reductions to USD5 billion per month from USD20 billion, while maintaining the USD35 billion monthly reduction for mortgage-backed securities.
- In addition, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields 2bps and 5bps, tracking the movement of UST yields.
- The 10y MGS/UST yield spread narrowed into negative territory at 51bps relative to -55bps in the previous week.

FX MARKET: RINGGIT TO TRADE CAUTIOUSLY AHEAD OF FEBRUARY CORE PCE FIGURES

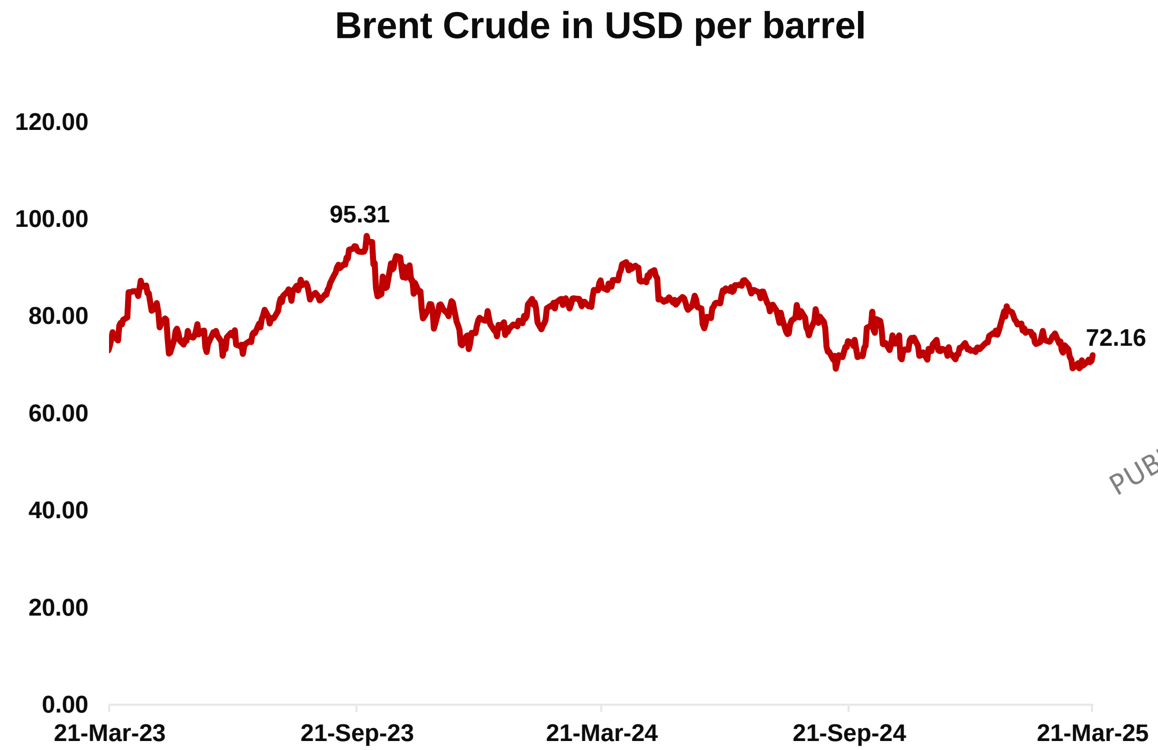


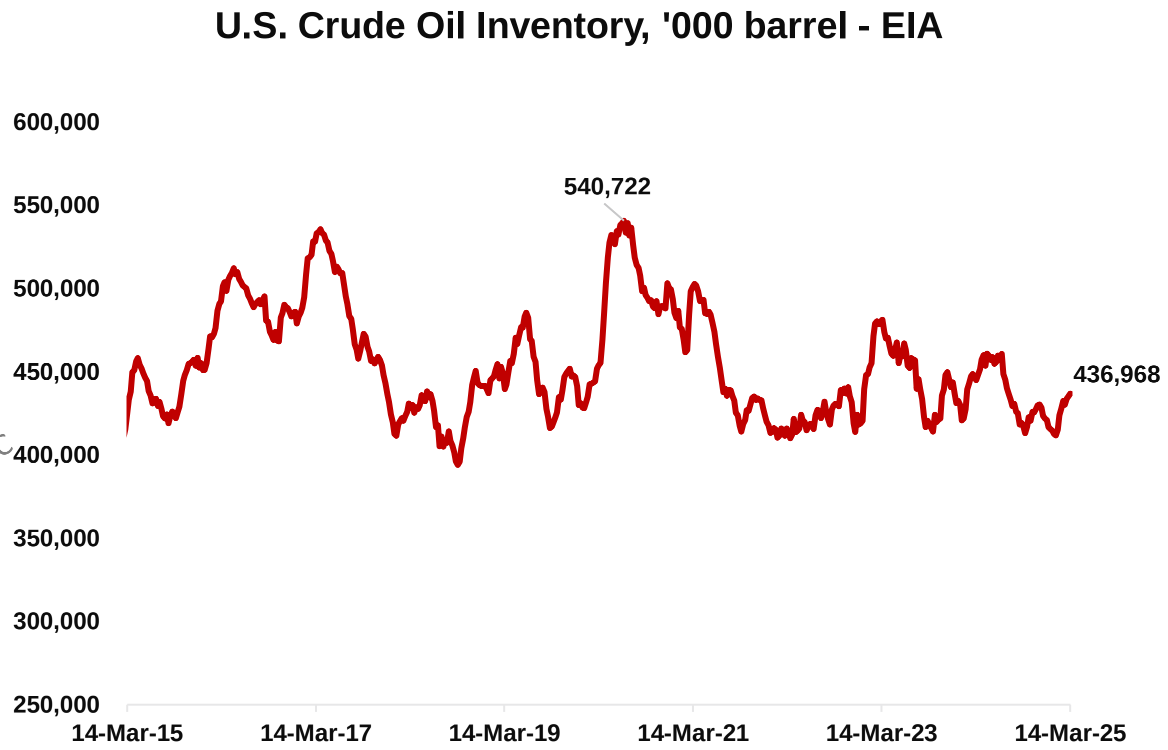


Sources: BNM, U.S. Bureau of Labor Statistics (BLS), CEIC Data

- Reversing the previous week's losses, the Ringgit strengthened by 0.5% w-o-w against the USD for the week ending March 21 despite the USD index returning above the 104-level.
- The greenback's appreciation of 0.4% w-o-w was attributed to the recently released Fed dot plot projections, where the central bank maintained its median Federal Funds Rate (FFR) expectations at 3.9% for end-2025, unchanged from December's Summary of Economic Projections (SEP). Furthermore, the Fed had upwardly revised its core inflation forecast to 2.8% from December's projection of 2.5% amid expectations of elevated price pressures following Trump's inflammatory immigration and trade policies.
- Nevertheless, markets remained steadfast in pricing in higher probabilities of three quarter-point rate cuts by the Fed, according to the CME FedWatch tool, taking cues from the disinflation trend displayed thus far as the Core Personal Consumption Expenditure (PCE) price index – the Fed's preferred gauge of inflation – slowed to 2.6% in January (December 2024: 2.9%), the lowest point since March 2021.
- As such, the differential between the Fed's projected two rate cuts and market expectations of three cuts had supported the greenback's rise, overshadowing the Fed's more downbeat outlook on the U.S. economy and job market.

COMMODITY: BRENT OIL PRICES ROSE AGAINST THE BACKDROP OF SANCTIONS ON IRAN AND OPEC+ OIL PRODUCTION CUTS





Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices rose on Friday (March 21), settling at USD 72.16 per barrel (up 0.2%), marking its second consecutive weekly gain. The increase was driven by U.S. sanctions on Iran and OPEC+ output cuts, signaling tighter supply. Looking ahead, oil prices are expected to remain supported by geopolitical tensions and OPEC+ production constraints, though gains may be capped by the group's gradual output increases starting in April.
- U.S. crude oil inventories rose further, adding 1.7 million barrels to reach 437.0 million for the week ending March 14.

COMMODITY: GOLD PRICE SURPASSED USD3,000-LEVEL, MARKING FRESH HIGH OF USD3,047.79 ON WEDNESDAY

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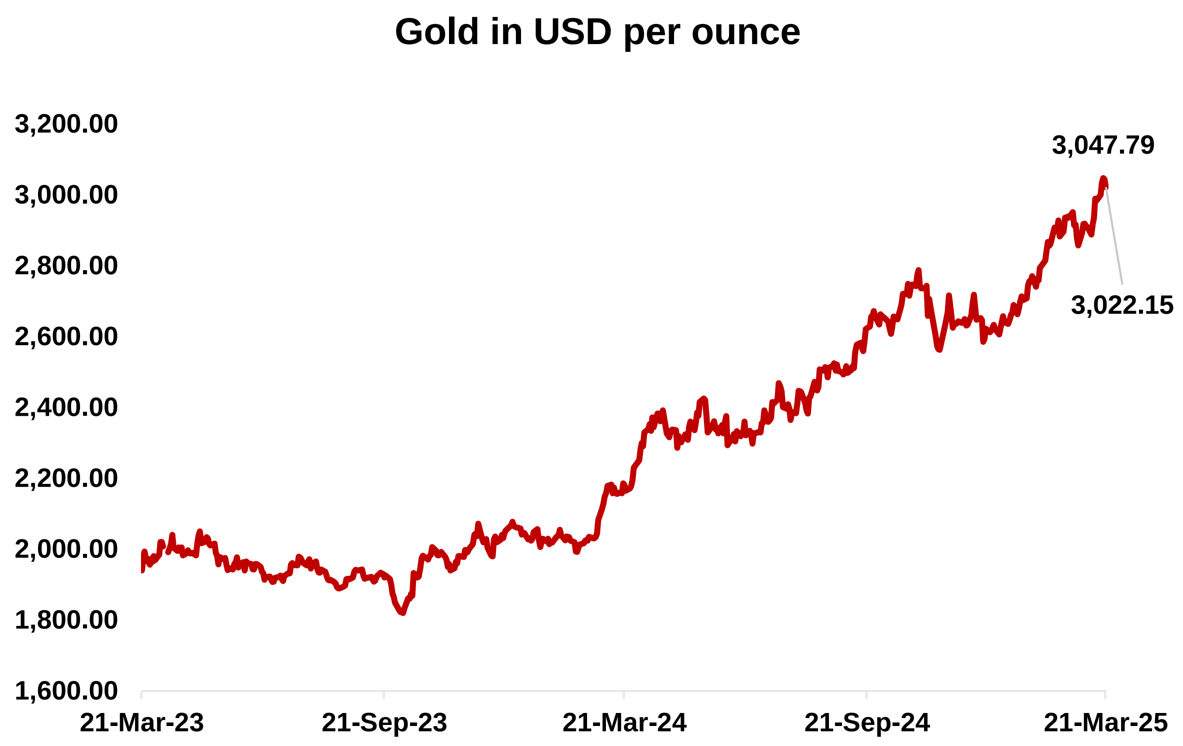

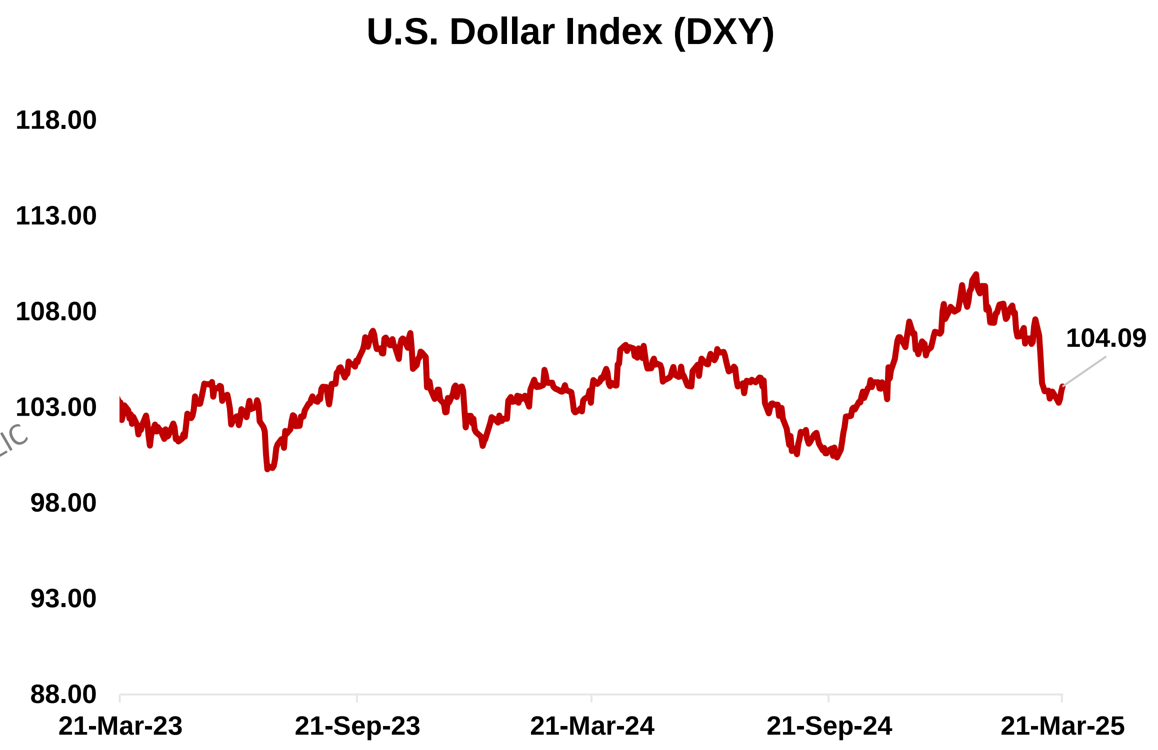

Sources: Bloomberg, CEIC Data

- The bullion price sustained its winning streak for the week ending March 21, soaring above the USD3,000 level since Monday before peaking at a record high of USD3,047.79 on Wednesday. On a weekly basis, the bullion price jumped by 1.3%.
- Such performance was driven by rising safe-haven demand amid global trade uncertainties as well as heightened geopolitical tensions, with the conflict in the Red Sea intensifying further over the weekend.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week, markets will closely watch several key U.S. economic data releases, including the February Personal Consumption Expenditures (PCE) index, which is expected to provide further insights into inflation trends. The Fed revised its core inflation forecast to 2.8% from 2.5% in December's projection, citing expected price pressures due to Trump's immigration and trade policies. With the Fed recently holding rates steady at a range of 4.25%–4.50% in the latest FOMC meeting, any signs of persistent inflation could influence future policy decisions. Traders now expect three cuts, up from two, despite projected higher inflation, with Fed Chair Powell calling the inflationary impact of tariffs transitory. Consumer sentiment reports, housing market data, and PMI figures will also be in focus, offering clues about the health of the economy amid ongoing uncertainty. Overall, markets are likely to remain cautious as investors weigh inflation data, consumer confidence, and housing trends against the backdrop of a slowing yet resilient economy.

- In the UK, markets will closely monitor upcoming inflation data, with headline inflation expected to ease slightly to 2.9% and core inflation to 3.5%. The Bank of England's decision to hold rates at 4.5% at its March meeting reflects a cautious approach amid heightened inflation risks and global economic uncertainties linked to geopolitical conflicts and trade tariffs.. Investors are currently pricing in a 25 basis-point rate cut in June, followed by another 25 basis points in 4Q2025, but any higher-than-expected inflation readings could delay these expectations. The market is likely to remain sensitive to inflation trends, particularly in transport, food, and industrial goods, as well as geopolitical risks. Overall, the BoE's stance suggests a wait-and-see approach, with rate cuts contingent on clearer signs of inflation moderation.

- In Japan, all eyes will focus on the Bank of Japan's upcoming policy decision, where it is widely expected to hold interest rates steady. The central bank remains cautious amid ongoing global economic uncertainty, particularly the impact of US trade tariffs and their ripple impact on international markets. Governor Kazuo Ueda has repeatedly expressed concerns over overseas economic trends, signaling the need for careful monitoring. With inflation levels stabilizing and external risks such as geopolitical tensions and trade disruptions persisting, the BoJ is likely to avoid aggressive moves, opting for a wait-and-see approach to ensure domestic economic stability in a volatile global environment.

THANK YOU