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WEEKLY ECONOMIC UPDATE

27 JANUARY 2025

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: BANK OF JAPAN RAISED INTEREST RATES TO 17-YEAR HIGH

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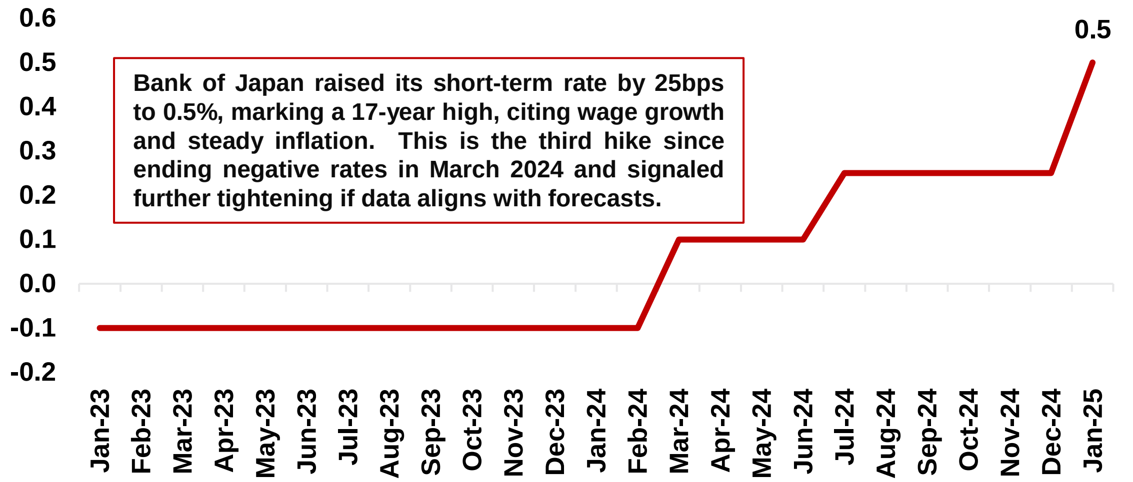
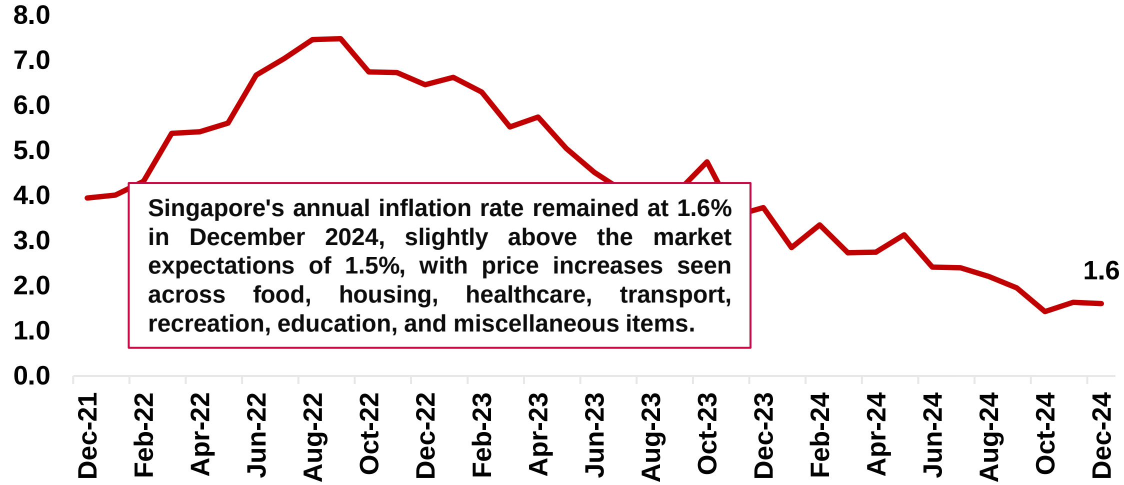
GLOBAL

Japan - Short Term Interest Rate, %

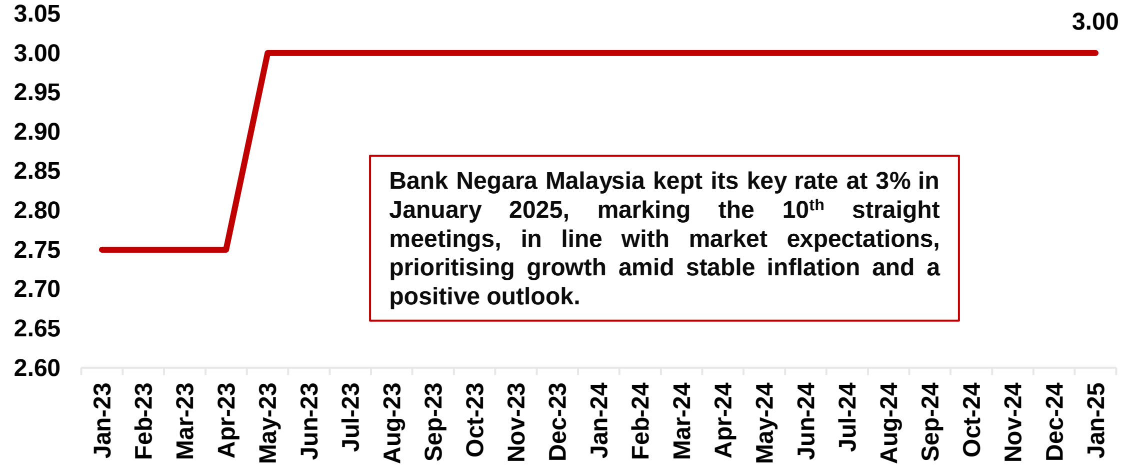


Singapore - Consumer Price Index (CPI), y-o-y%

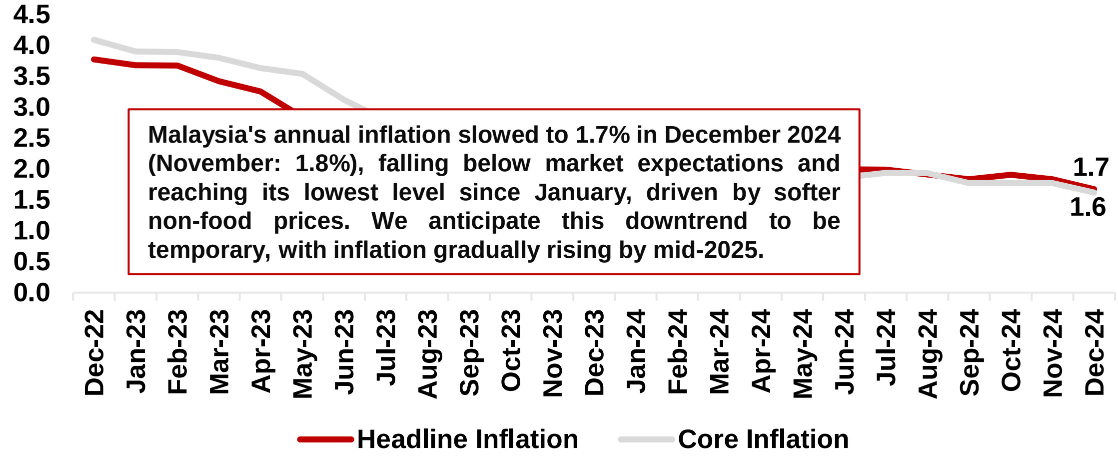


DOMESTIC

Malaysia – Overnight Policy Rate, %



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



Sources: The Bank of Japan, Singapore Department of Statistics, Bank Negara Malaysia, Department of Statistics Malaysia (DOSM)

REGIONAL EQUITY: GLOBAL STOCKS ROSE FOLLOWING TRUMP'S ANNOUNCEMENT TO DELAY TARIFF PLAN

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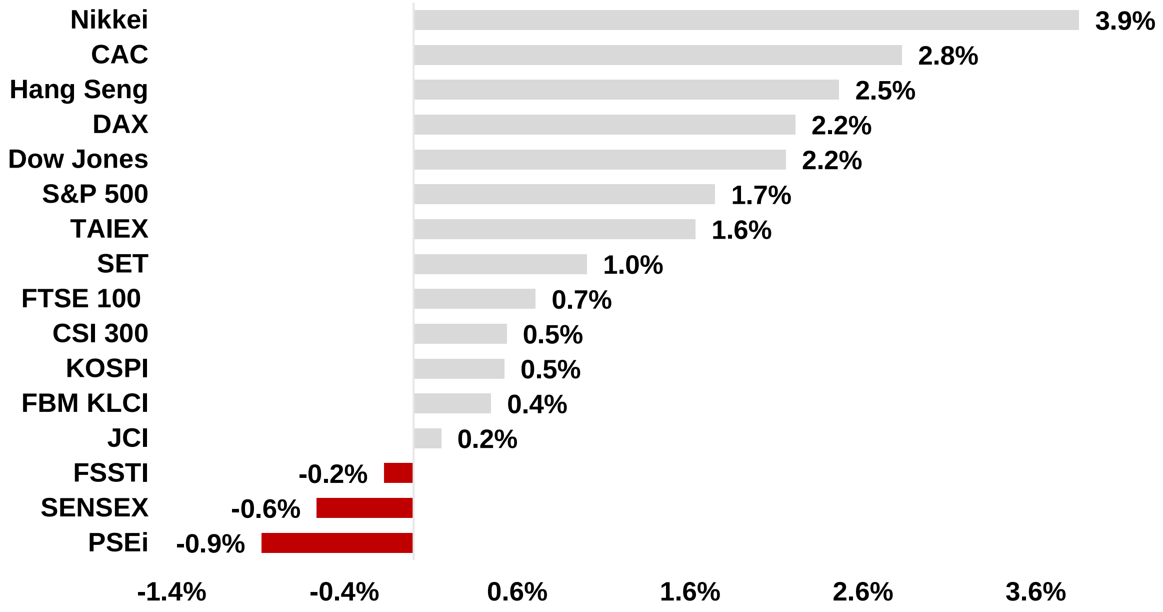
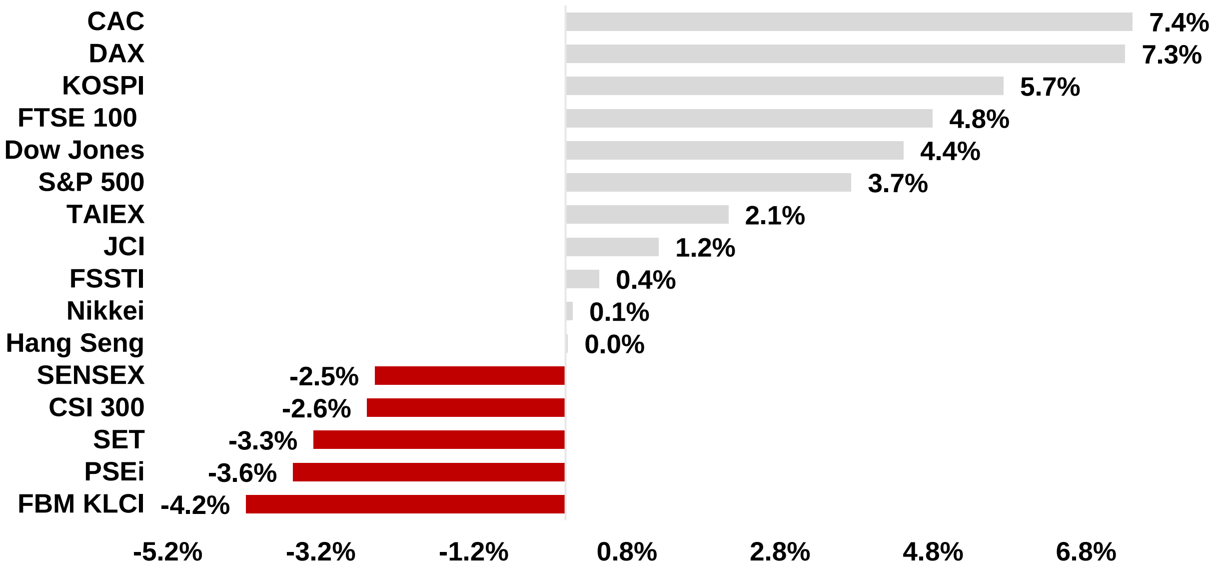
Weekly Gain/Loss of Major Equity Market, w-o-w%



YTD Gain/Loss of Major Equity Markets, %
(As of 24 January 2025)



Sources: Bursa, CEIC Data

- The global stocks market were mostly in the green sea last week. Japan's Nikkei was the major gainer, closing 3.9% higher as investors gained reassurance from the potential delay of tariff implementation by U.S. President Donald Trump.
- US stocks – Dow Jones (+2.2%) and S&P 500 (+1.7%) also surged as Trump mentioned that his administration preferred to avoid imposing tariffs on China, reducing the risk of higher input costs for manufacturers. He also refrained from placing restrictions on the European Union (EU) but reiterated his previous warning of potential tariffs on Mexico and Canada.
- On the other hand, Philippines' PSEi (-0.9%), India's SENSEX (-0.6%) and Singapore's FSSTI (-0.2%) were the biggest losers for the week ending January 24.

DOMESTIC EQUITY: LOCAL MARKET CLOSED MIXED AMID DELAYED U.S. TARIFF MOVES

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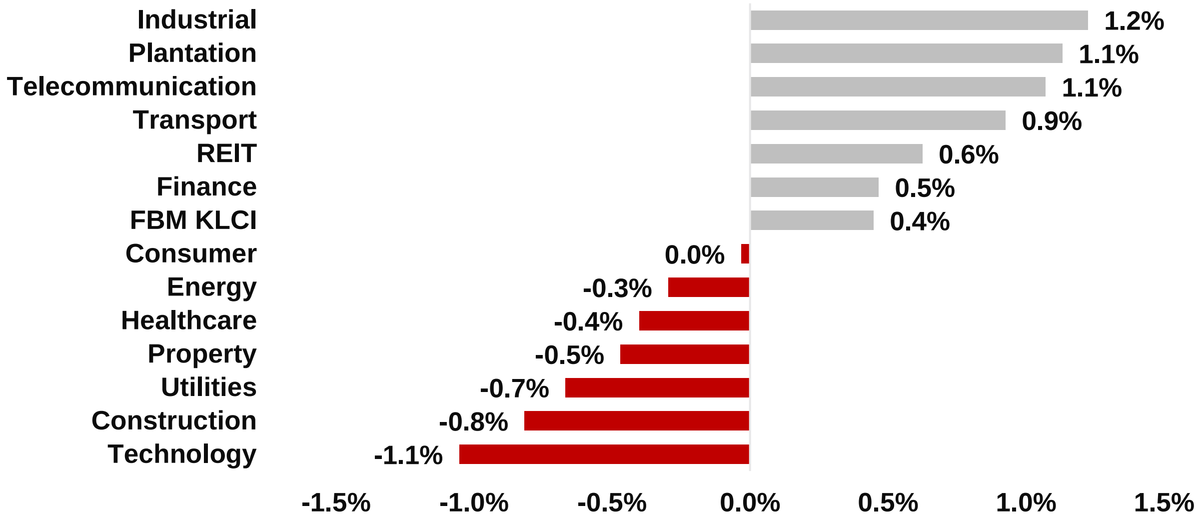
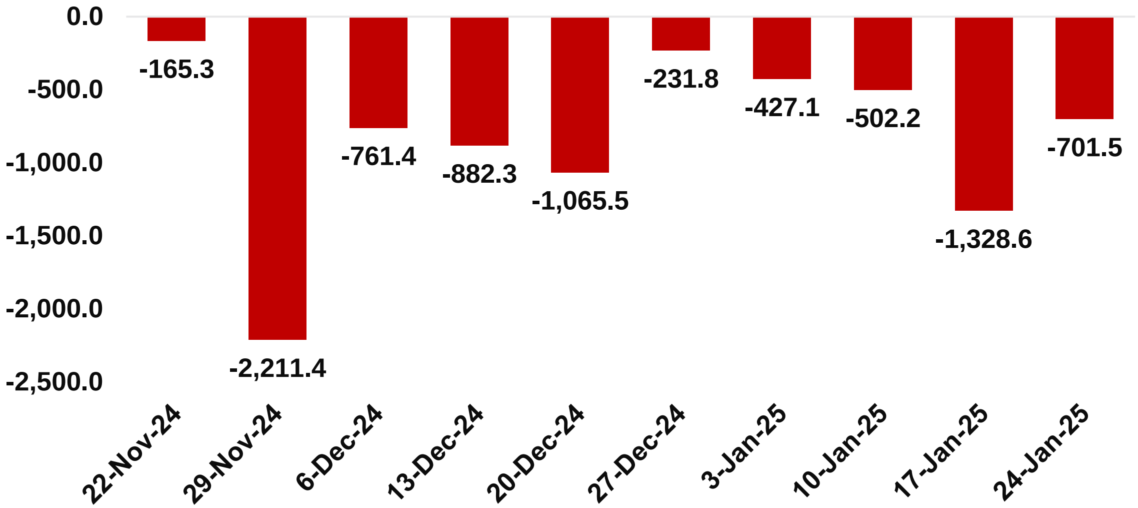
Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, CEIC Data

- The FBM KLCI took a breather from its persistent downtrend to rise by 0.4% w-o-w for the week ending January 17 amid bargain hunting activities.
- Investor sentiments were cautiously optimistic following Trump's first day in the office, during which the much-feared aggressive tariffs on U.S.' trade partners did not take off. Furthermore, Trump has softened his stance on China, stating that he would rather not impose tariffs on the country. This had spurring buying interest into emerging market assets, providing lift to the local market.
- In the broader market, the Industrial index was the biggest winner as it surged by 1.2%, followed closely by the Plantation and Telecommunications indices which both rose by 1.1%.
- Meanwhile, the Technology index plunged by 1.1%, followed by the Construction (-0.8%) and Utilities (-0.7%) indices.
- Foreign investors persisted as net sellers for the fourteenth straight week, shedding a total of RM701.5 million worth of equities. The net selling increased the cumulative net outflow this year thus far to RM3.0 billion.

FIXED INCOME: UST YIELDS SURGED AS MARKET WEIGH TRUMP'S POLICY IMPACT

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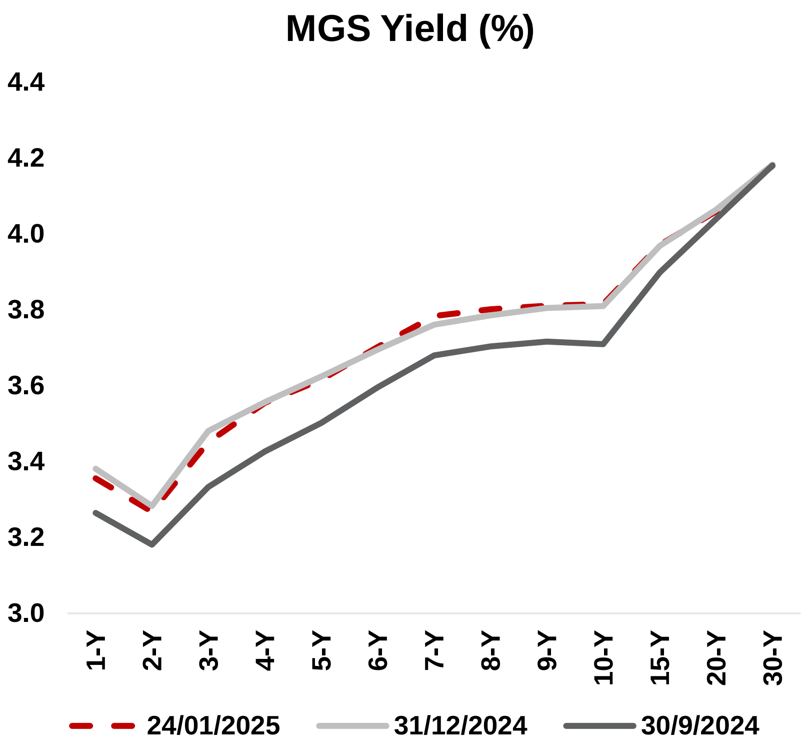
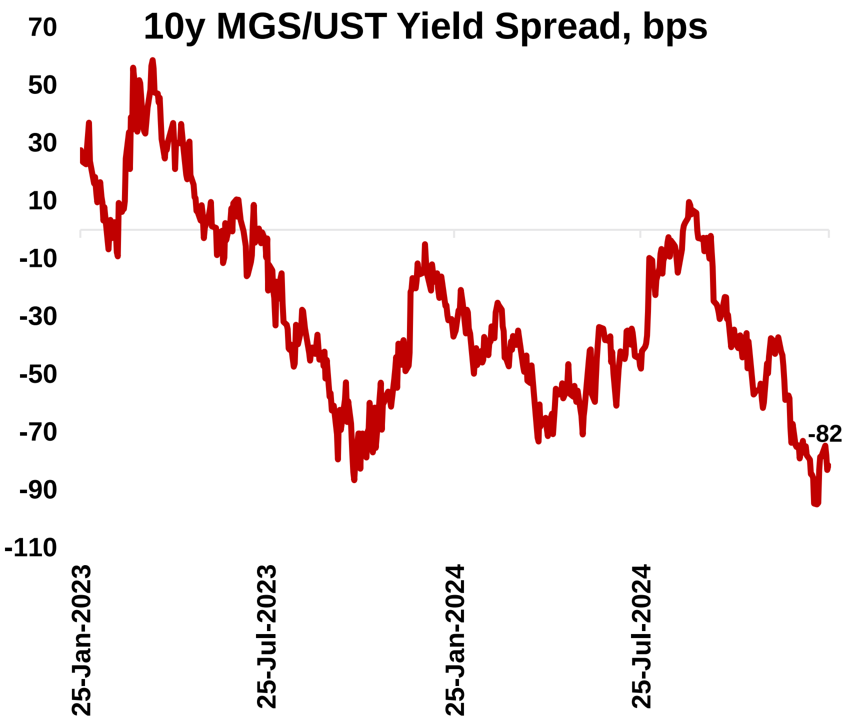
Weekly Changes, basis points (bps)

UST	Yields (%) 17-Jan-25	Yields (%) 24-Jan-25	Change (bps)
3-Y UST	4.33	4.33	0
5-Y UST	4.42	4.43	1
7-Y UST	4.52	4.53	1
10-Y UST	4.61	4.63	2
MGS	**Yields (%) 17-Jan-25**	**Yields (%) 24-Jan-25**	**Change (bps)**
3-Y MGS	3.46	3.45	-1
5-Y MGS	3.62	3.62	0
7-Y MGS	3.79	3.78	-1
10-Y MGS	3.82	3.82	0
GII	**Yields (%) 17-Jan-25**	**Yields (%) 24-Jan-25**	**Change (bps)**
3-Y GII	3.41	3.52	11
5-Y GII	3.63	3.63	0
7-Y GII	3.78	3.78	0
10-Y GII	3.84	3.84	0

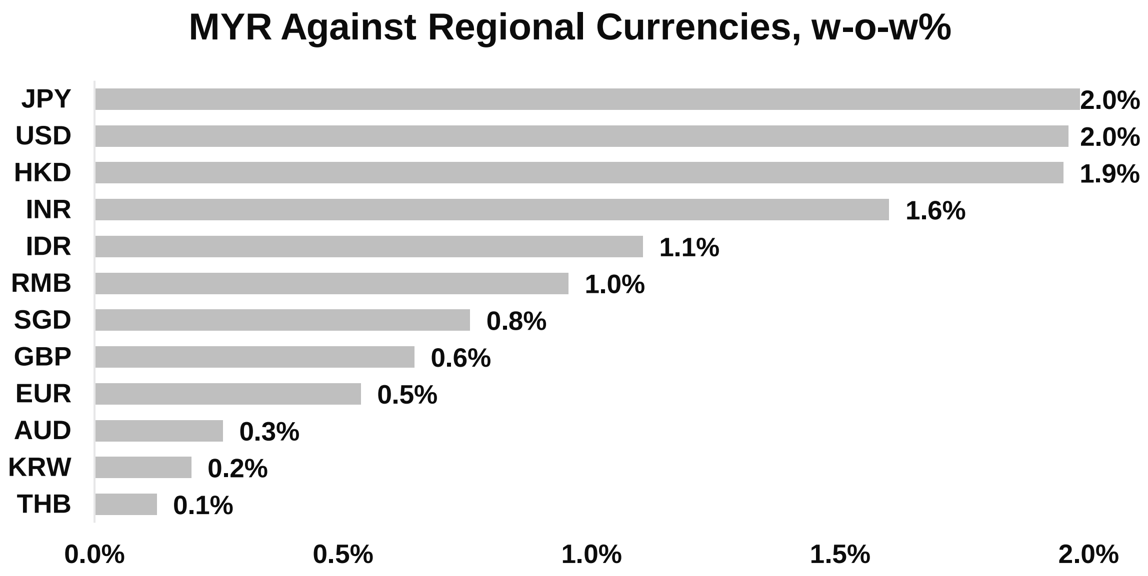
Sources: BNM, Federal Reserve Board

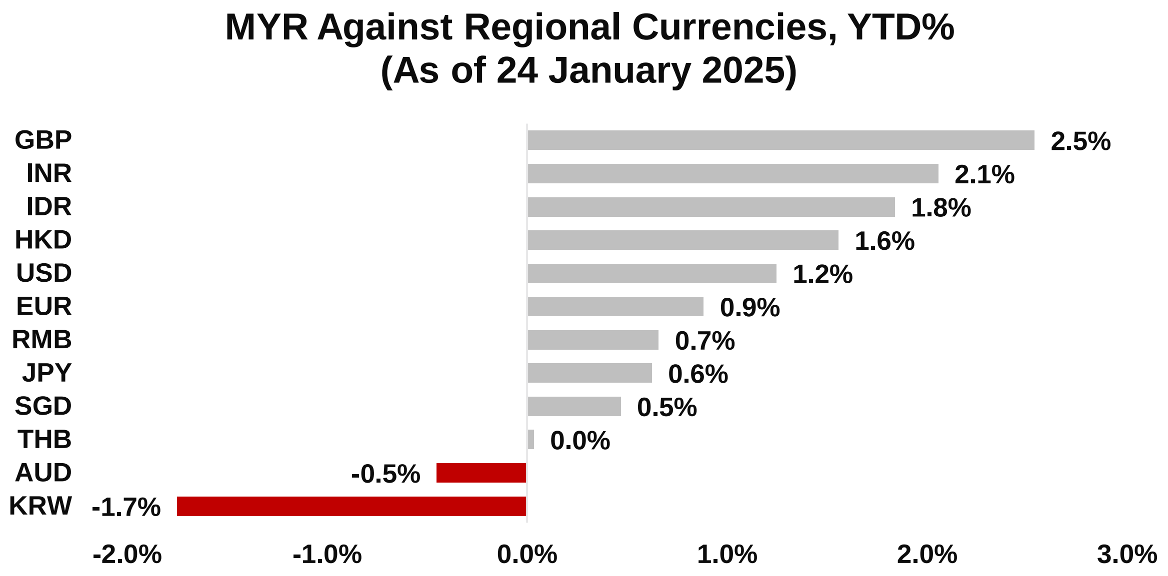




- The U.S. Treasury (UST) yield curve bearishly steepened in the range of 1bp and 2bps last week, as markets continued to evaluate how US President Trump's policy promises might influence the broader economic landscape and prompt a response from the Federal Reserve (Fed).
- Meanwhile, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were mostly little changed with 3-Y and 10-Y MGS yields fell by merely 1bp. On the other hand, 3-Y GII rose by 11bps to end at 3.52%.
- The auction of 3-Y reopening of GII worth RM5.5 billion which was issued on January 24 drew a strong demand with a bid-to-cover (BTC) ratio of 2.6x, significantly higher compared to the previous RM5.0 billion 3-Y reopening of GII in April 2024 with a BTS ratio of 1.7x.
- The 10y MGS/UST yield spread widened in the negative territory at 82bps relative to -79bps in the previous week.

FX MARKET: RINGGIT TO TRADE CAUTIOUSLY AHEAD OF THE FED'S FIRST MEETING OF THE YEAR

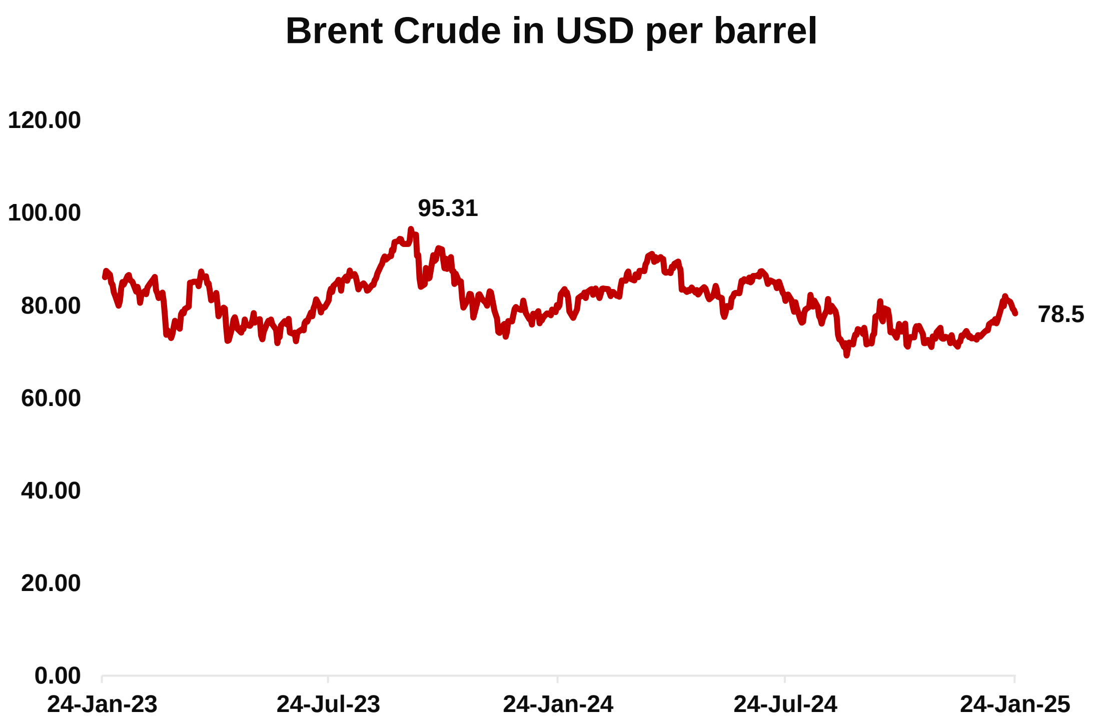


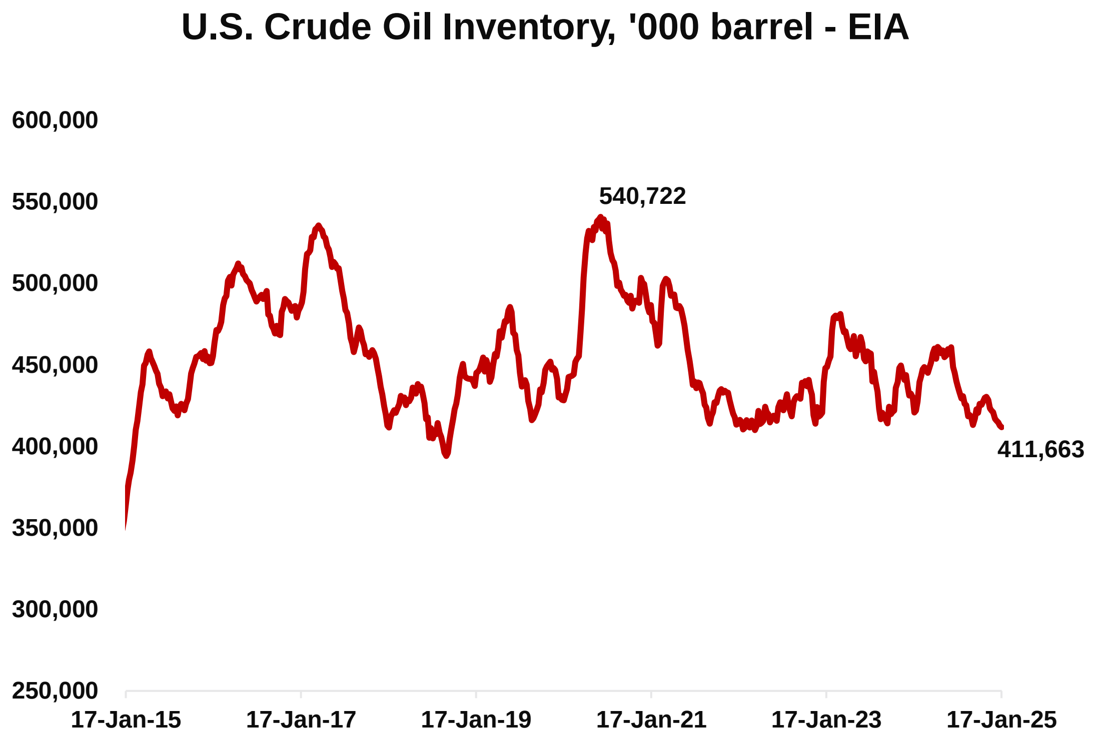


Sources: BNM, U.S. Bureau of Labor Statistics (BLS), CEIC Data

- Mirroring the strength of the local market, Ringgit appreciated by 2.0% w-o-w against the USD for the week ending January 24 as the USD index slipped below the 108-level, the lowest level in more than a month.
- The weakness of the greenback was due to apparent delays in the trade tariffs which were previously touted by Trump, allaying the fears of heightened trade frictions and supply chain disruptions globally. Furthermore, Trump had also remarked on his reluctance to impose tariffs on China, opining that he could reach a deal with the economic giant, which furthers the greenback's downtrend.
- The softer stance also points to the Fed having ample space to deliver its rate cuts as price pressures, which missed market expectations last week, would not be as hot as previously anticipated.
- Ringgit had also appreciated by 2.0% against the Japanese Yen, despite the latter's strength. Last week, the Bank of Japan (BoJ) had hiked its key interest rate by 25bp to 0.5%, the highest since 2008. This move comes after Japan's inflation (December: 3.6% vs. November: 2.9%) and core inflation (December: 3.0% vs. November: 2.7%) figures rose above 3.0%. Furthermore, the central bank revised upwards its inflation forecast for 2025 to 2.4% from 1.9% projected in its October outlook report.

COMMODITY: OIL PRICES EDGED HIGHER BUT FELL WEEKLY AS TRUMP PUSHES ENERGY AGENDA





Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices settled higher for the week ending January 24 but recorded a weekly drop, breaking a four-week streak of gains, after US President Donald Trump unveiled extensive plans to boost domestic production and urged OPEC to reduce crude prices.
- Meanwhile, U.S. crude oil inventories fell for the ninth consecutive week, down by approximately 1 million barrels to 411.7 million for the week ending January 17. This decline was smaller than the forecasted 2.1 million draw, following a 2 million barrel drop last week.

COMMODITY: GOLD PRICE WAS ON A ROLL FOLLOWING TRUMP'S INAUGURATION

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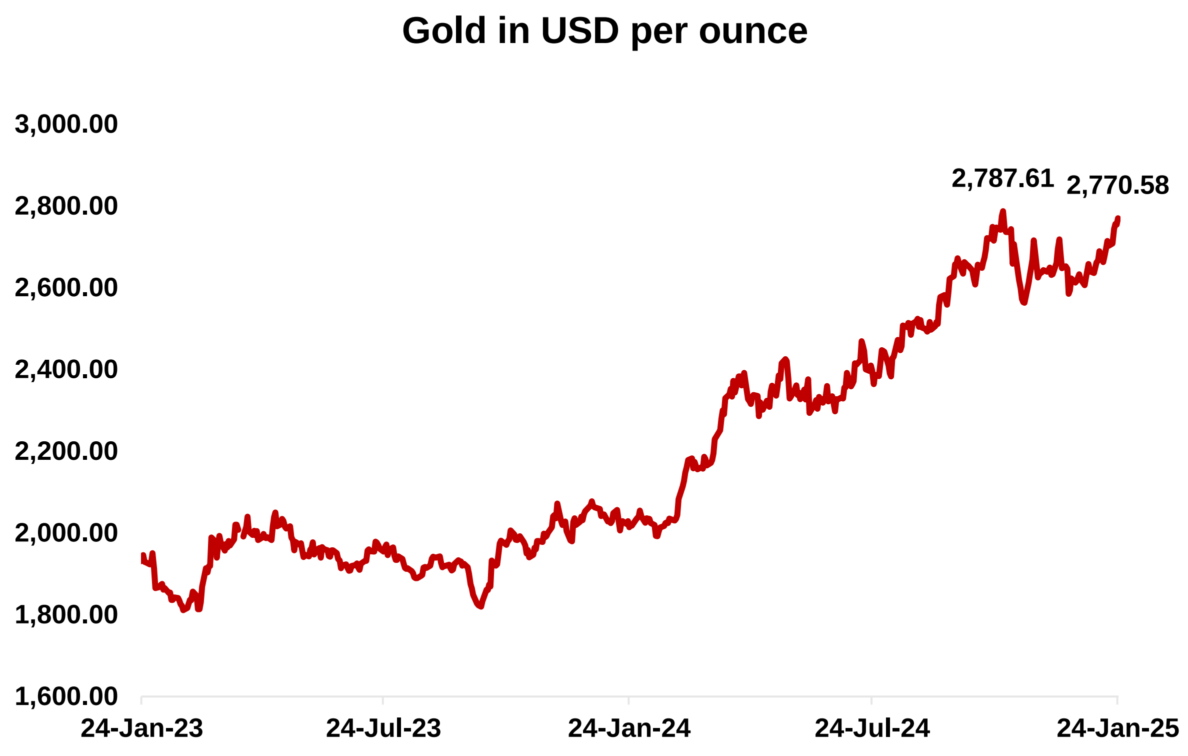

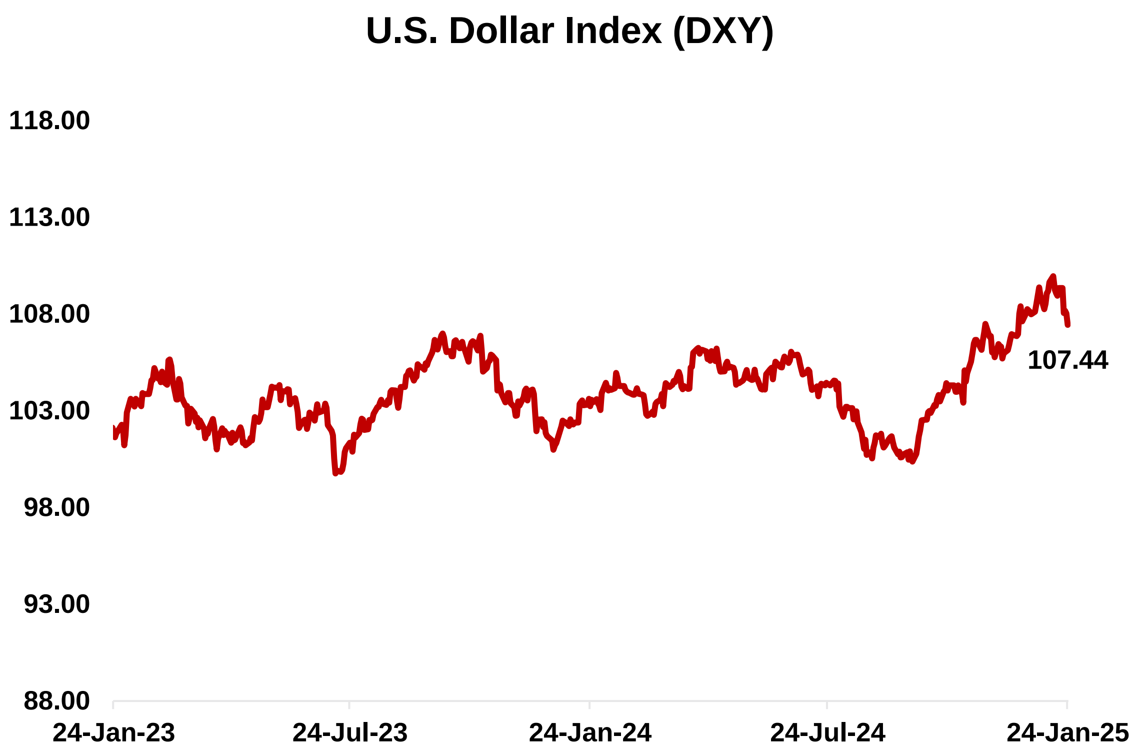

Sources: Bloomberg, CEIC Data

- The bullion price accelerated by 2.5% w-o-w, approaching its historic high amid trade uncertainties casted by Trump last week. Demand for the bullion surged amid Trump shifting to a softer stance on his trade policies and heightening bets of at least two Fed rate cuts this year.
- Moving forward, all eyes are on the Fed's FOMC meeting this week for further hints on its policy path. Furthermore, markets are also on the lookout for the latest figures on the U.S.' economy and inflation, to be released on Thursday.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The upcoming FOMC meeting on January 29th will likely gain huge attention this week, as it will mark Trump's first FOMC meeting after his victory. The Fed is widely expected to pause interest rate cuts at this meeting, keeping the fed funds rate at a range of 4.25% to 4.50% after three consecutive cuts since September 2024. With US inflation stubbornly remaining above the 2.0% target and the labor market showing resilience, the Fed appears to be scaling back its appetite for further rate cuts. However, we anticipate the Fed will lower its interest rates twice in 2H2025, each by 25 basis points. Another concern is that Fed officials are wary that Trump's economic policies such as tax cuts and tariffs could fuel inflation, potentially forcing the central bank to maintain higher rates for a longer period.

- Attention is also focused on the US economic performance for 4Q2024, which is expected to remain robust, fueled by resilient consumer spending. Economists surveyed by Bloomberg expect that the government's initial estimate for 4Q2024 GDP will show a solid annualized growth of 2.7%. Notably, personal consumption of goods and services is projected to surpass a 3.0% annualized rate for the second consecutive quarter, supported by strong labour market.

- Another key focus this week is the anticipation that the European Central Bank (ECB) will reduce its policy rate by 25bps to 2.75%, according to the majority of those surveyed by Reuters. This would likely be the first of four similar-sized cuts expected this year, following a 100bps reduction last year. As policymakers are concerned about Trump's potential tariffs and relatively sanguine about inflation risks, further rate cuts are likely.

- Additionally, the market will likely be looking ahead to the release of the Euro Area's 4Q2024 real GDP data, with forecasts pointing to a contraction in Germany and stagnation in France. However, these downturns could be offset by growth in Spain and Italy. Other key releases this week include the composite Eurozone PMI for January 2025, which is expected to remain in contractionary territory.

THANK YOU