MONTHLY ECONOMIC UPDATE

5 MAY 2025

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **International Monetary Fund (IMF) cuts U.S. growth forecast, citing rising recession risks.** The IMF has raised the chances of a U.S. recession to 40%, citing President Trump's tariff policies as a key risk to global growth. It downgraded the U.S. 2025 growth forecast to 1.8% from 2.7%. Trade tensions are expected to push inflation higher and increase financial instability worldwide. According to the U.S. Bureau of Economic Analysis, the U.S. real GDP shrank by 0.3% in Q1 2025, reversing the 2.4% growth seen in Q4 2024. This marks a sharp slowdown in economic activity at the start of the year. The decline was mainly driven by a rise in imports and reduced government spending, both of which weighed on growth. These were partially offset by gains in investment, consumer spending, and exports, softening the overall contraction. President Trump has implemented steep tariffs on Chinese imports and a 10% baseline levy on goods from most other countries. He has temporarily delayed higher tariffs on several trading partners until July, allowing time for renegotiation of trade agreements. Meanwhile, the Federal Reserve (Fed) is expected to maintain its pause on interest rate cuts this week as it monitors the economic impact of President Trump's shifting tariff policies.

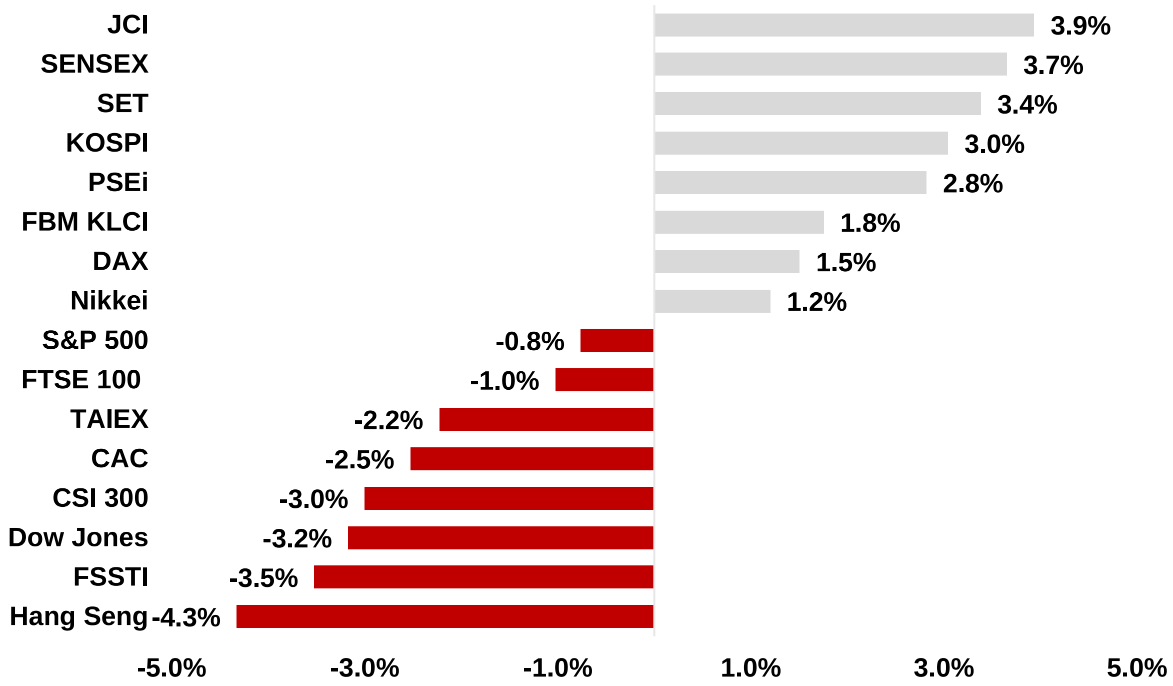
- **The European Central Bank (ECB) slashes interest rates amid rising tariff pressures on eurozone economy**. The ECB cut its benchmark interest rate by 25 basis points to 2.25% on April 17, marking its seventh reduction in the past year to combat sluggish growth amid U.S. tariffs and weak business confidence. The ECB dropped its earlier view that rates were "meaningfully less restrictive," warning instead of growing risks to the eurozone economy. President Christine Lagarde cited global trade tensions, particularly those driven by President Trump's tariffs, as key factors likely to dampen exports, investment, and consumption across the euro area. The IMF also lowered its eurozone growth forecasts, citing rising U.S. tariffs and mounting uncertainty. It now expects growth of 0.8% in 2025 and 1.2% in 2026—both 0.2 percentage points below previous estimates. The IMF warned that trade tensions remain a major drag on the region's economic outlook.

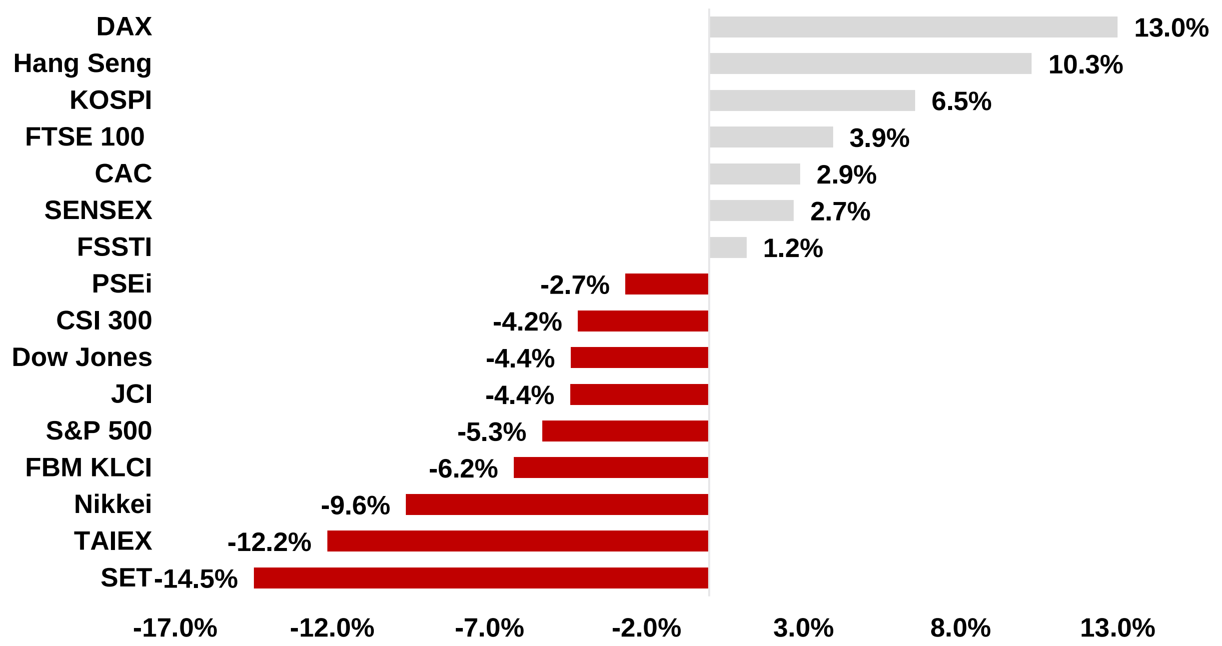
- **Chinese President Xi Jinping visited Malaysia, Vietnam, and Cambodia to promote regional unity under his "Asian family" vision amid escalating U.S. tariffs**. President Xi Jinping with a clear aim to strengthen regional alliances and present China as a stabilizing force amid intensifying U.S. trade aggression. Promoting his "Asian family" vision, Xi positioned China as a partner offering economic support and solidarity to Southeast Asian nations hit hard by President Trump's sweeping "reciprocal tariffs" which imposed rates as high as 49% on Cambodia, 46% on Vietnam, and 24% on Malaysia. By deepening Belt and Road cooperation and pushing for peaceful resolution of regional disputes, Xi sought to counterbalance U.S. influence and rally neighboring countries around a shared economic future.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: TRADE WORRIES AND ECONOMIC DATA DRIVE MIXED GLOBAL STOCKS MARKET IN APRIL





Sources: Bursa, CEIC data

- The global stocks market were mixed in April with Hong Kong’s Hang Seng as the biggest loser, contracting by 4.3% dragged down by the concerns mounted due to China's weak manufacturing activity in April, as official PMI figures indicated the sharpest decline in nearly a year and a half. Many traders were also hesitant to initiate new trades before the Labour Day holiday on May 1.
- In addition, U.S. stocks – Dow Jones (-3.2%) and S&P 500 (-0.8%) plunged as the U.S. economy unexpectedly shrank in 1Q2025, highlighting the initial negative effects of President Trump's threatened tariffs and uncertain economic policies.
- On the other hand, Indonesia’s JCI expanded by 3.9% in April but ongoing ambiguity in the U.S. trade strategy keeps traders on edge.
- YTD, Germany’s DAX emerged as the top performer in April, with a gain of 13.0%.

FIXED INCOME: UST YIELDS DROPPED AS ECONOMIC GLOOM SPURS FED RATE CUT BETS

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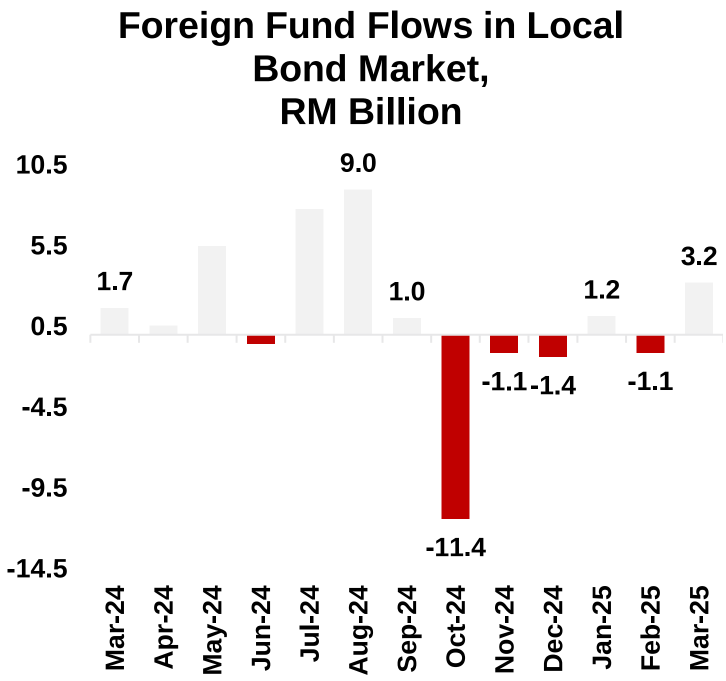
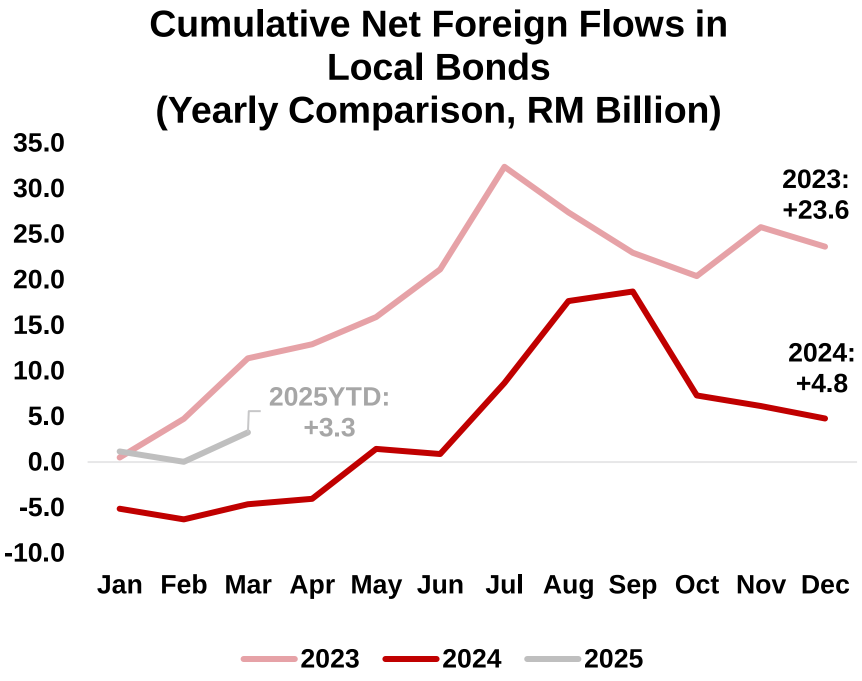
Monthly changes, basis points (bps)			
UST	Yields (%) 31-Mar-25	Yields (%) 30-Apr-25	Change (bps)
3-Y UST	3.89	3.58	-31
5-Y UST	3.96	3.72	-24
7-Y UST	4.09	3.93	-16
10-Y UST	4.23	4.17	-6
MGS	Yields (%) 28-Mar-25	Yields (%) 30-Apr-25	Change (bps)
3-Y MGS	3.41	3.25	-16
5-Y MGS	3.57	3.37	-20
7-Y MGS	3.71	3.55	-16
10-Y MGS	3.77	3.66	-11
GII	Yields (%) 28-Mar-25	Yields (%) 30-Apr-25	Change (bps)
3-Y GII	3.51	3.30	-21
5-Y GII	3.59	3.42	-17
7-Y GII	3.71	3.53	-18
10-Y GII	3.78	3.64	-14

Sources: BNM, Federal Reserve Board

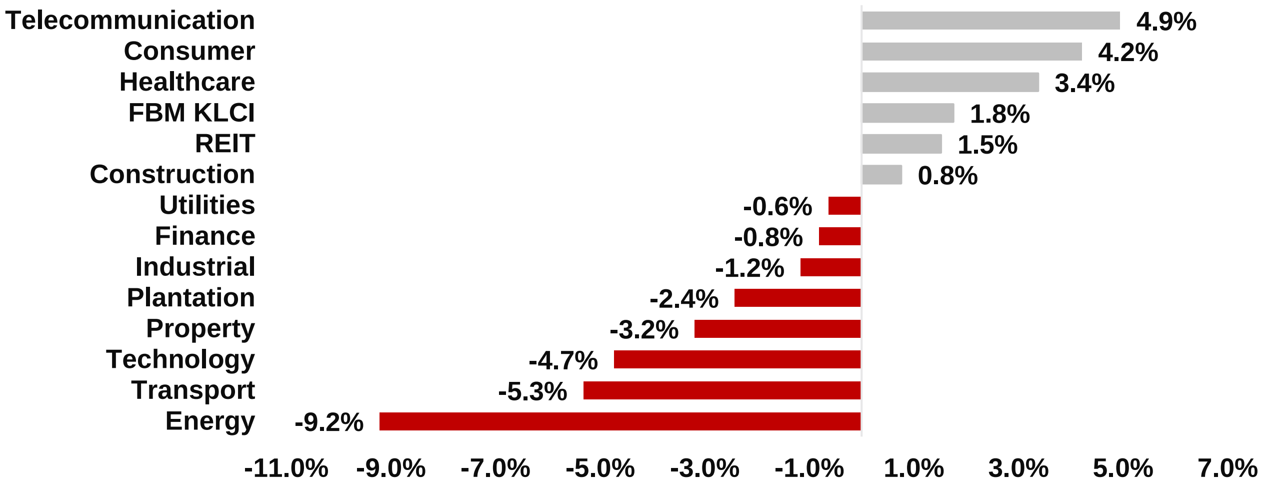




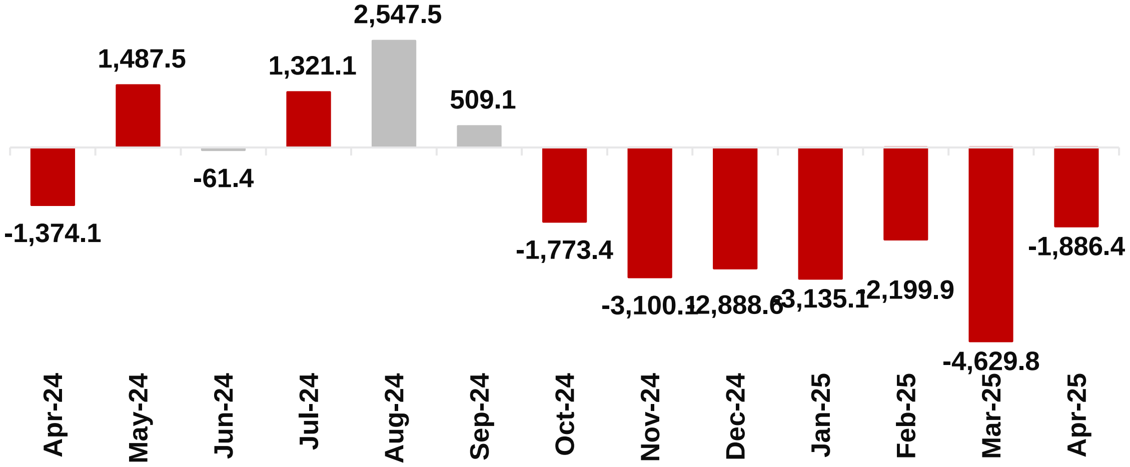
- The U.S. Treasury (UST) yields edged lower in the range of 6bp and 31bps amid bleak economic figures have intensified bets that the Fed will slash interest rates to counteract signs of increasing risk associated with holding longer-term Treasury bonds. Meanwhile, the U.S. Treasury significantly increased its 2Q2025 borrowing estimates, marking a departure from the lower deficit expectations communicated under the Trump administration, though the issuance of longer-maturity USTs remained constant.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also declined in April by between 11bps and 21bps, following the movement in UST yields.
- Foreign fund flows in the local bond market recorded a net foreign inflow of RM3.2 billion in March (Feb: -RM1.1 billion). Consequently, local govvies' foreign shareholdings to total outstanding reduced to 21.6% in March (Feb: 21.4%).
- As of 1Q2025, the local bond market logged cumulative net foreign inflows of RM3.3 billion, higher than the outflows of RM4.6 billion in the same period in the previous year.

DOMESTIC EQUITY: FBM KLCI REBOUNDS IN APRIL ON STRENGTHENED MALAYSIA-CHINA TIES AND MARKET OPTIMISM

Monthly Bursa Sectoral Performance, m-o-m%



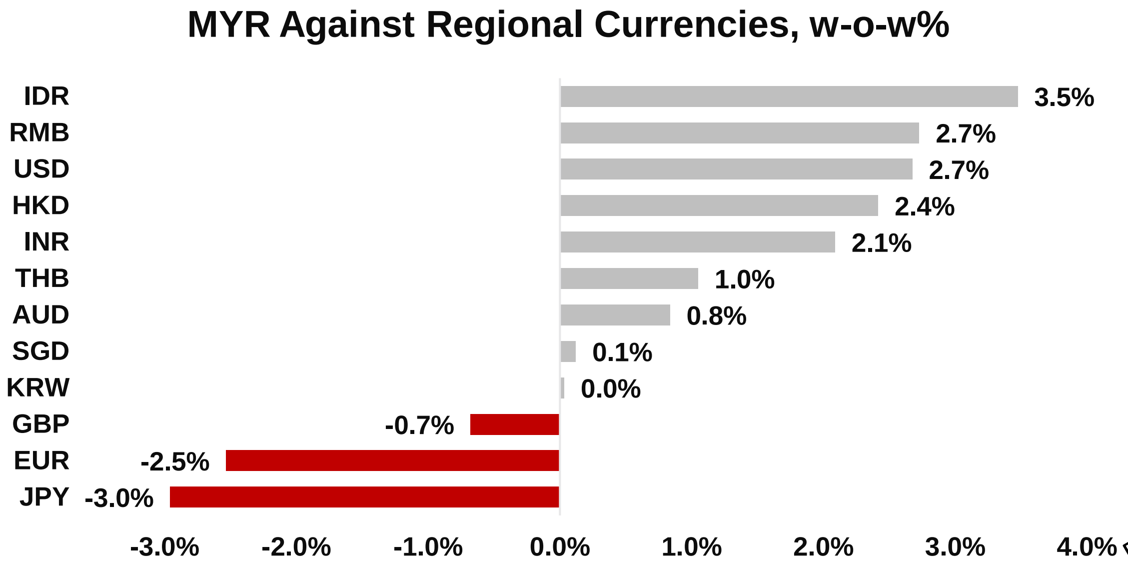
Monthly Foreign Fund Net Inflows/Outflows, RM Million

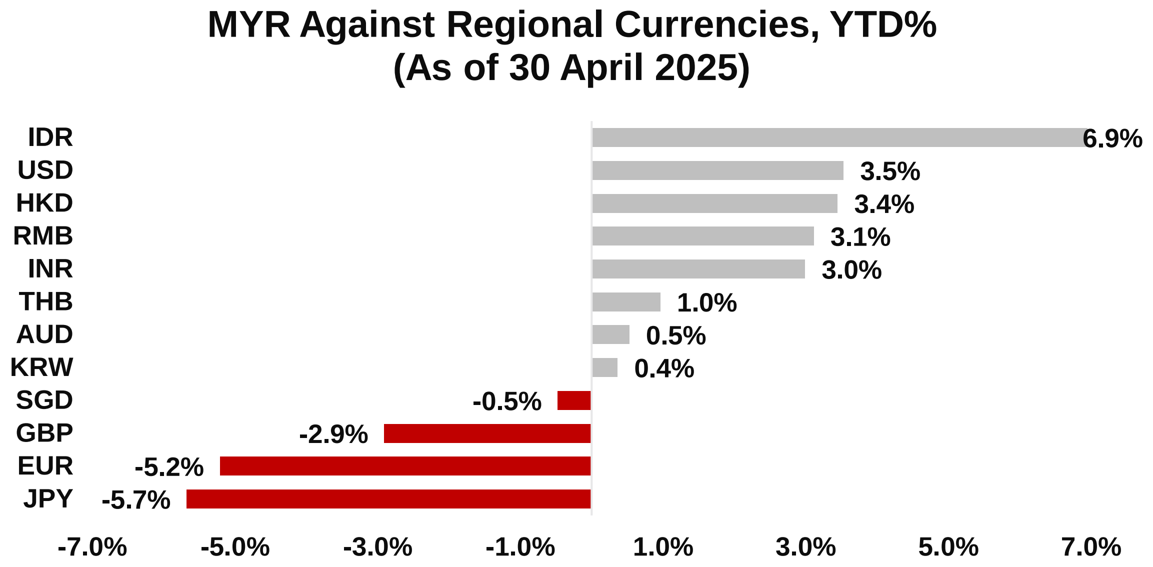


Sources: DOSM, CEIC Data

- The FBM KLCI registered a m-o-m gain of 1.8% in April 2025, rebounding from a 3.9% decline in the previous month. Despite this, the index remained below the 1550 level throughout the month and fell to 20-month low at 1400.6 on April 9. The drop was triggered by global economic pressures following the U.S. announcement of a new round of tariffs, including a steep 145% levy on Chinese imports, but suspending reciprocal tariffs for most countries for 90 days.
- On April 11, China responded by raising tariffs on U.S. goods to 125%, with implementation set for April 12. However, the local market gradually regained traction after China's President Xi Jinping's state visit to Malaysia from April 15 to 17. During the visit, both countries sealed 31 MoUs covering sectors such as digital technology and green energy, trains, trade, security and tourism. Both countries agreed to extend their mutual visa-free travel arrangements. Under the renewed deal, Chinese tourists can continue to enjoy visa-free entry to Malaysia for up to 30 days until the end of 2026.
- Sector-wise, the telecommunication (+4.9%), consumer (+4.2%), and healthcare (+3.4%) indices were the top gainers in April. Meanwhile, the energy index recorded the steepest decline, contracting by 9.2% m-o-m.
- In April 2025, foreign investors remained net sellers for the seventh consecutive month, registering a net outflow of RM1.9 billion. This brought the cumulative net outflow for the year to RM11.9 billion.

FX MARKET: RINGGIT STRENGTHENED TO A SIX-MONTH HIGH AS TRADE TENSIONS EASED; SENTIMENTS LIFTED AMID CHINA'S VISIT





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

- The Ringgit appreciated by 2.7% against the USD for the month ending 30th April to mark the strongest level since late October 2024 (30th Apr: RM4.3175 vs. 28th Mar: RM4.433), lifted by favourable domestic developments against a volatile external backdrop.
- Earlier in the month, Ringgit remained under pressure following Trump's 'Liberation Day' tariffs announcement up to 9th April when the slew of reciprocal tariffs are set to take effect, breaching above the RM4.50-level. Nevertheless, just hours after the implementation, Trump had partially rolled back these tariffs, ultimately maintaining a base rate of 10% for all imports to the U.S. and making way for negotiation talks.
- Malaysia's delegation to Washington for the formal negotiations with U.S. officials was led by Investment, Trade and Industry minister, Tengku Datuk Seri Zafrul, carving the first steps to address the trade relationship between both countries, thus buoying the Ringgit's rise.
- Beyond our trade relationship with the U.S. being on the mend, sentiments on the Malaysian economic outlook is optimistic following China's President Xi's state visit during the month, where both sides had inked 31 Memoranda of Understandings (MoUs) coverings area of trade, technology, tourism and security, as stronger cooperation between both countries is anticipated to provide boost to the economic sectors alongside higher influx of foreign investments.

SECTION 2

The Global Economy

POLICY SHIFTS ARE EXPECTED TO DAMPEN GLOBAL GROWTH AND AMPLIFY DOWNSIDE RISKS

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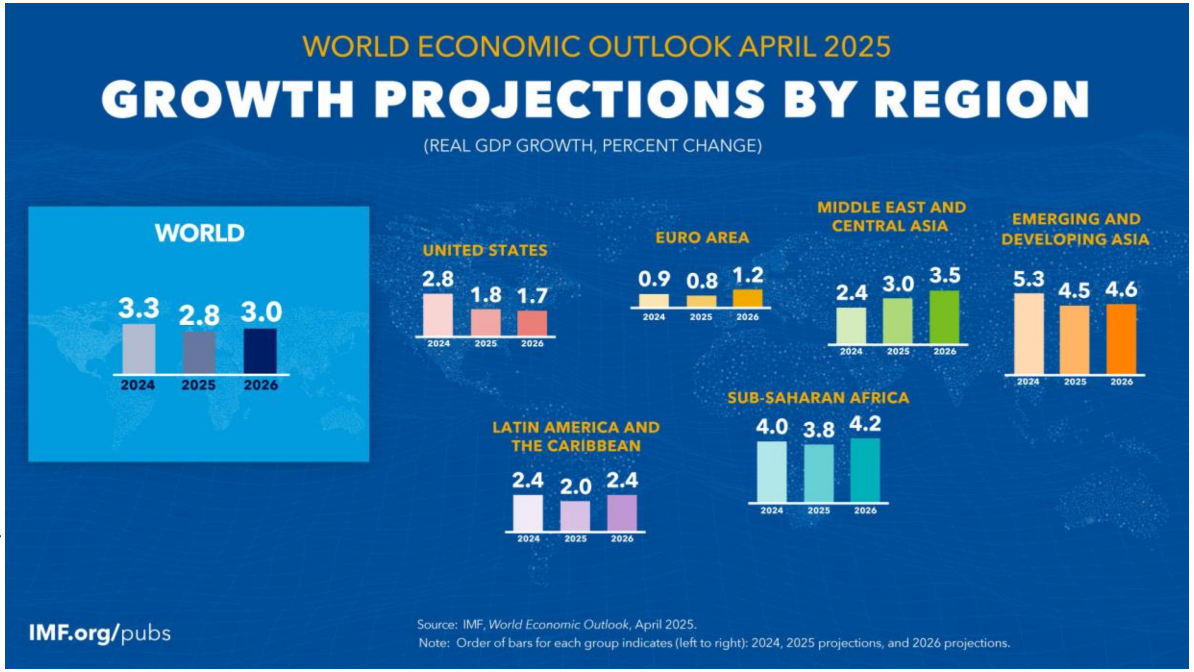

Sources: International Monetary Fund (IMF), World Economic Outlook (WEO), April 2025

- The IMF’s WEO in April 2025 predicted moderate global growth of 2.8% in 2025, a downward revision from the previous projection of 3.3% in January 2025 due to effective tariff rates unprecedented in a century and a significantly volatile global landscape.
- Escalating trade tensions and financial market adjustments are amplifying downside risks, which now heavily influence the outlook. Divergent and rapidly changing policies or declining sentiment pose a threat of even tighter global financial conditions.
- The intensification of trade wars and greater uncertainty in trade policy could significantly impede both short-term and long-term growth prospects. Diminished international cooperation risks undermining progress towards a more resilient global economy.
- To navigate this critical juncture effectively, countries should collaboratively promote a stable and predictable trade environment and facilitate international cooperation, alongside addressing domestic policy gaps and structural imbalances. This coordinated approach will lead to greater internal and external economic stability. Furthermore, policies encouraging healthy aging and enhanced labor force participation for older individuals and women offer a pathway to stimulate growth and ease fiscal pressures.

U.S. ECONOMIC SLOWDOWN AS U.S. GDP SHRANK IN 1Q2025 AND INFLATION EASED

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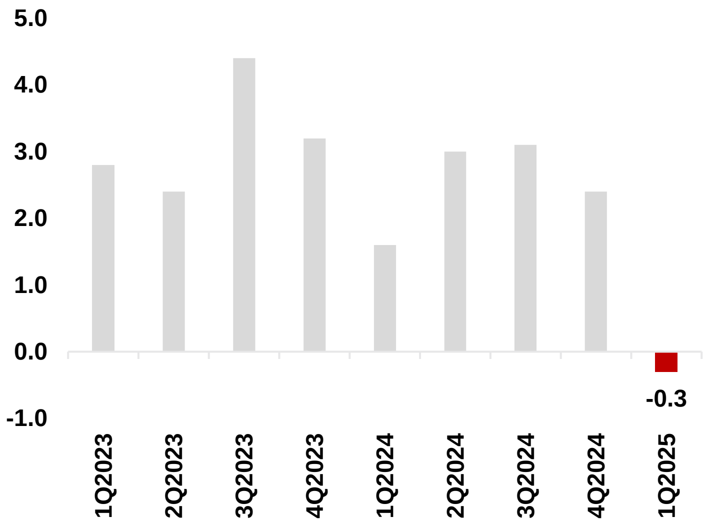
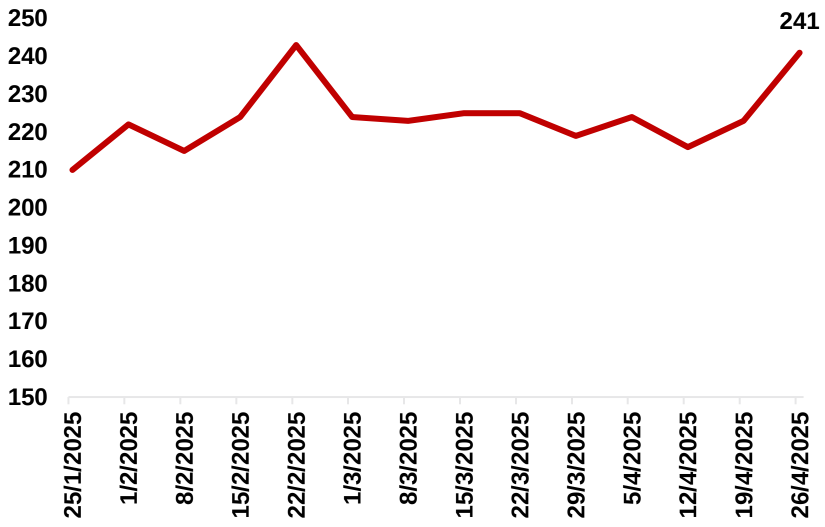
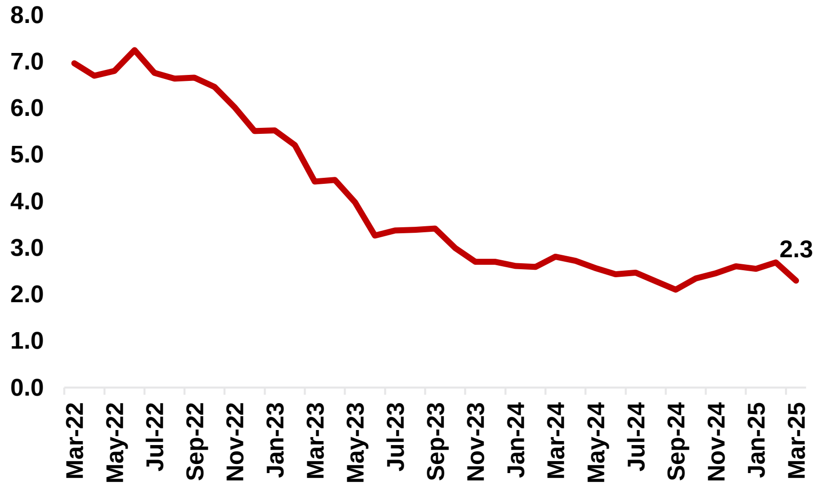
U.S. - Real GDP, annualised rate %



U.S. Weekly Initial Jobless Claims (IJC), '000



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



Sources: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), CEIC

- The U.S. economy unexpectedly shrank at a 0.3% in 1Q2025, the first contraction since early 2022. This downturn was a significant shift from the prior quarter's 2.4% expansion and surprised the markets which had predicted a 0.3% increase, based on preliminary data.
- The number of Americans filing new claims for unemployment benefits increased more than anticipated last week, reaching its highest level since February. Initial jobless claims climbed by 18K to 241K in the week ending April 26, surpassing market forecasts of 224K.
- The annual growth rate of the Personal Consumption Expenditures (PCE) price index slowed to 2.3% in March (Feb: 2.7%), marking its lowest point in the past five months. Simultaneously, the annual rate of core PCE inflation, which excludes volatile food and energy prices, also decreased to 2.6% in March (Feb: 3.0%).
- At this moment, market sentiment strongly suggests a 95.3% likelihood that the Fed will choose to keep the target range for the federal funds rate unchanged at 4.25% to 4.50% following the upcoming Federal Open Market Committee (FOMC) meeting scheduled for May 7.

ROBUST CHINA 1Q2025 GROWTH PRECEDES FULL TARIFF IMPACT, PBOC HOLDS RATE STEADY

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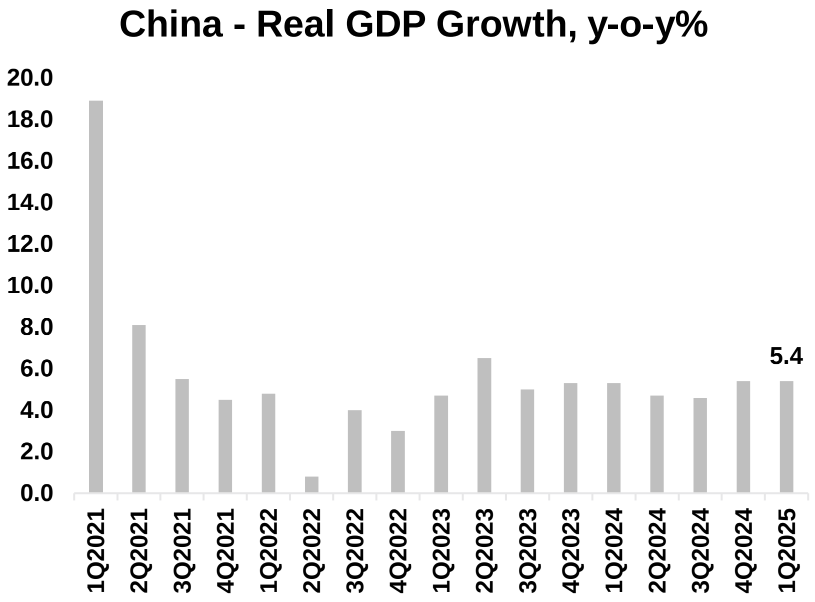
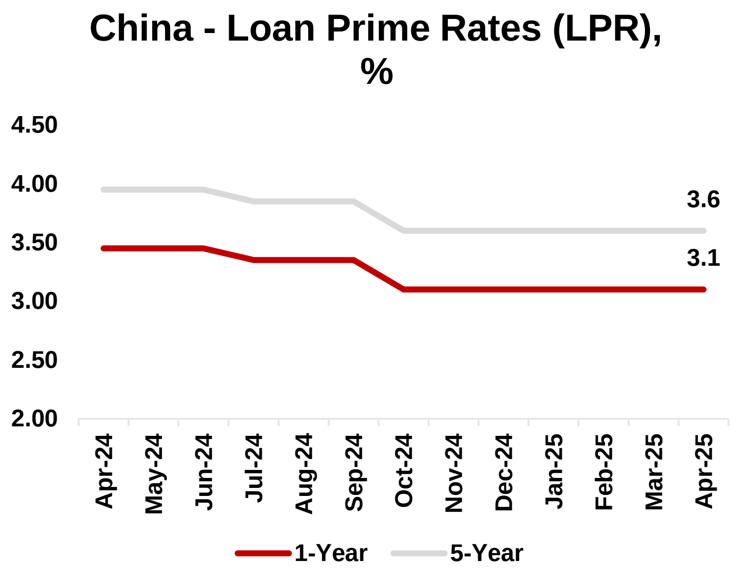




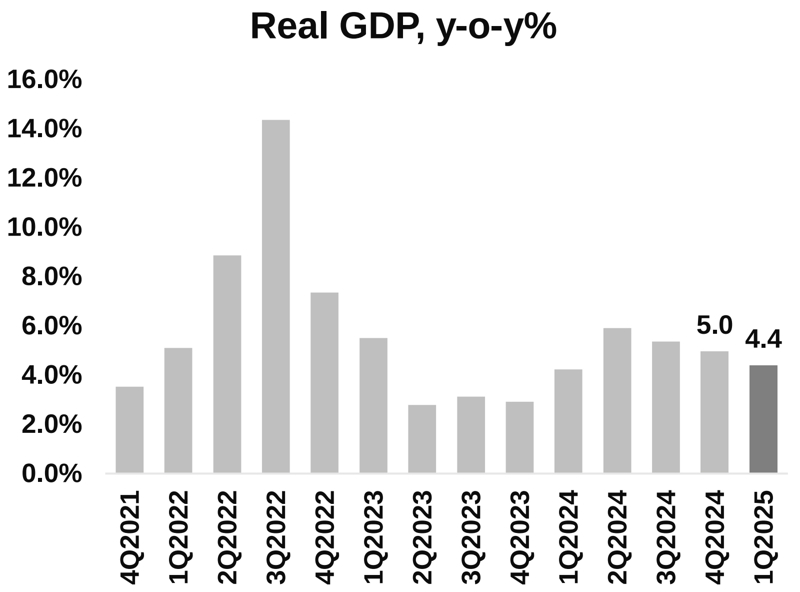
Sources: National Bureau of Statistics, National Interbank Funding Center, CEIC

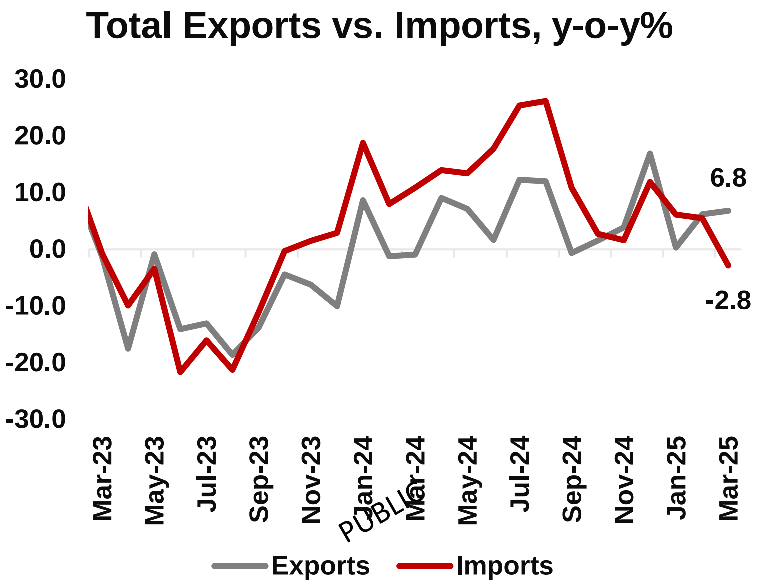
- China's economy showed surprisingly robust growth of 5.4% in 1Q2025 (4Q2025: 5.4%), significantly exceeded the anticipated 5.1% expansion and builds on the unexpectedly strong, export-led growth experienced at the end of the previous year. This performance occurred before the full impact of U.S. President Donald Trump's tariffs was felt, signaling optimism from Beijing regarding its ability to navigate the ongoing trade dispute with Washington.
- For the sixth month running in April, the People's Bank of China (PBoC) held its main lending rates steady, a move that was widely anticipated. This decision reflects the central bank's cautious approach, as it monitors the unfolding consequences of trade tensions with the US before implementing additional economic support measures. Specifically, the one-year LPR, which serves as a primary reference for the majority of business and personal loans, stayed at 3.1%. Similarly, the five-year LPR, a crucial benchmark for mortgage rates, remained at 3.6%.
- The Caixin China General Manufacturing PMI registered 50.4 points in April, a decrease of 0.8 points from the previous month. While this marked the lowest reading since January, it still indicated the seventh consecutive month of expansion for the manufacturing sector. US tariff increases negatively impacted international demand, causing new export orders to fall at their quickest pace since July 2023, which resulted in only a slight rise in overall new orders in April.

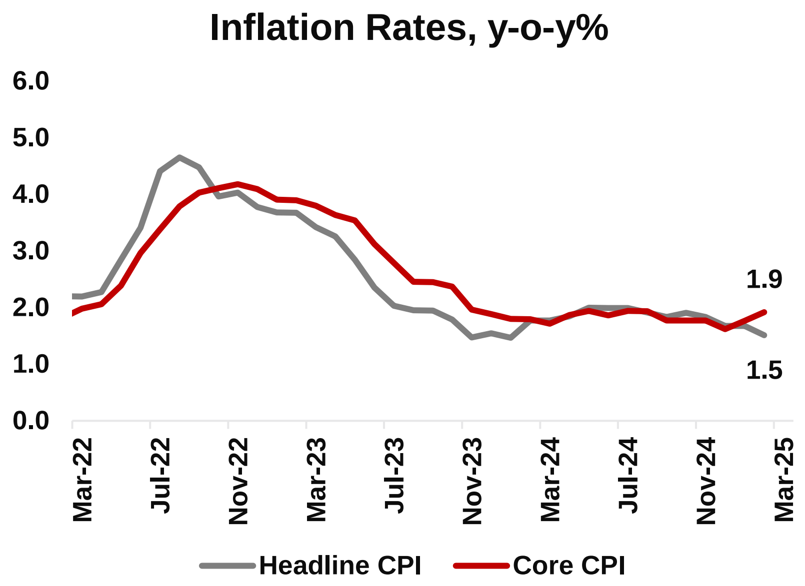
SECTION 3

Domestic Landscape & Banking Sector Update

HEADLINE INFLATION MARKED LOWEST LEVEL SINCE FEBRUARY 2021, DOMESTIC DEMAND EXPECTED TO PROP THE ECONOMY



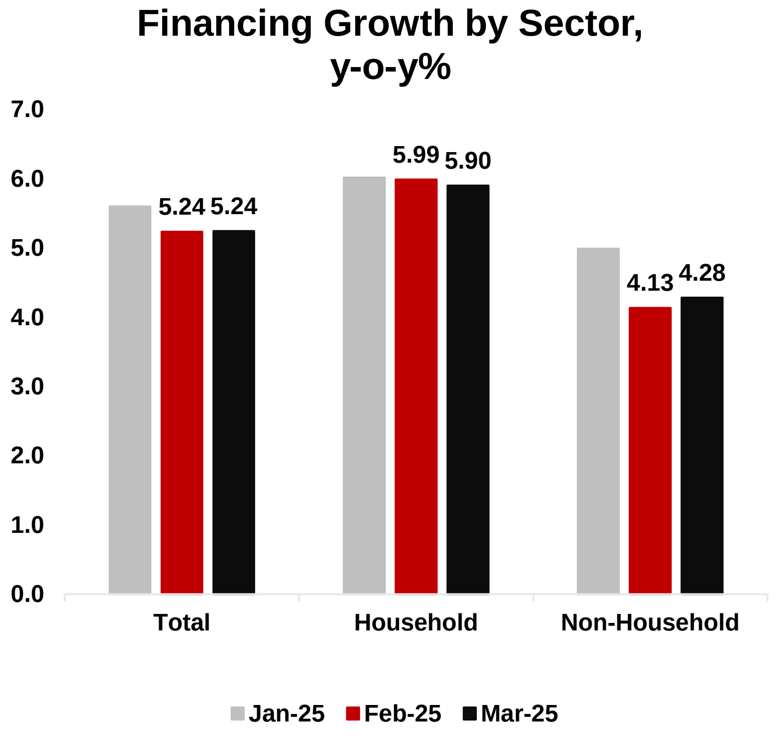


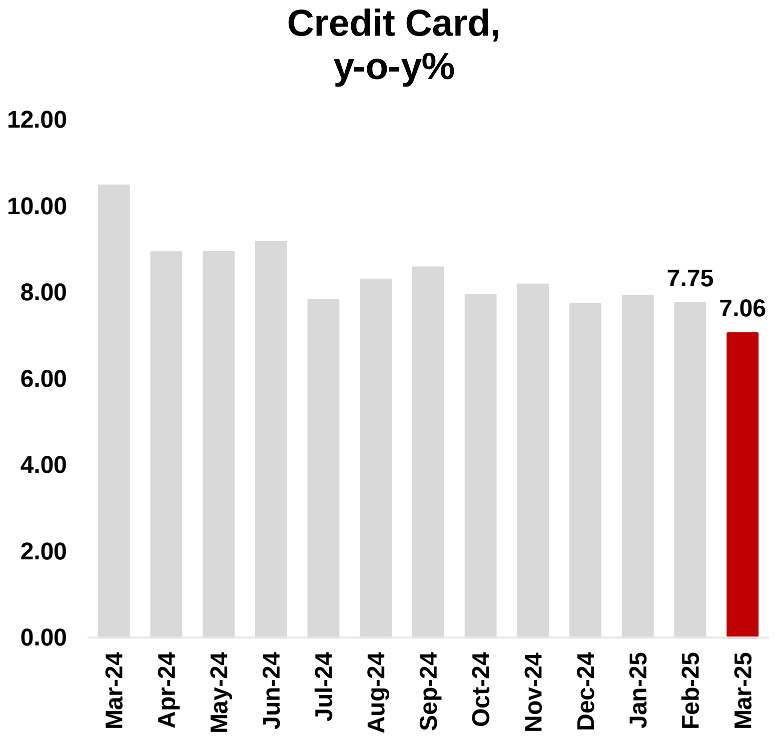


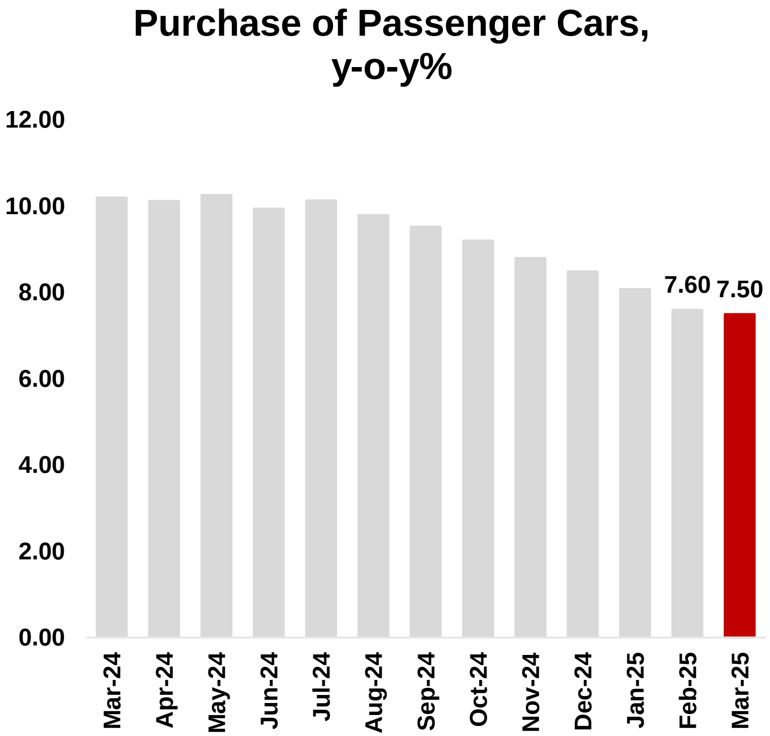
Sources: DOSM, CEIC Data

- Official estimates projected the Malaysian economy to expand by 4.4% y-o-y in 1Q2025, at a slightly slower pace than the previous quarter at 5.0%, underpinned by expansions in the Services, Manufacturing and Construction sectors.
- On the external front, risks remain from the turbulent global trade landscape and expected slowdown in major economies. Of note, Malaysia was hit with 24% reciprocal tariffs by the U.S. on 2nd April, but it was partially lifted within hours of implementation. While this provided temporary relief, the U.S.-China trade war seemed to be rolling ahead with tit-for-tat retaliatory measures.
- With both being Malaysia's major trade partners, such heightened trade tensions could spill over into lower external demand and cause wider supply chain disruptions. Nevertheless, Malaysia's trade seemed to be on stable ground with exports rising by 6.8% in March (February: 6.2%) on front-loading activities while imports contracted by 2.8% (February: 5.5%). Notably, exports to the U.S. surged by 50.8% (February: 28.9%).
- Meanwhile, Malaysia's headline inflation slowed to 1.4% in March (February: 1.5%), marking the lowest level in four years, and core inflation steadied at 1.9% for two consecutive months.

BANKING SECTOR: STABLE FINANCING GROWTH IN MARCH AS HOUSEHOLD LENDING EASES AND NON-HOUSEHOLD SEGMENT STRENGTHENS



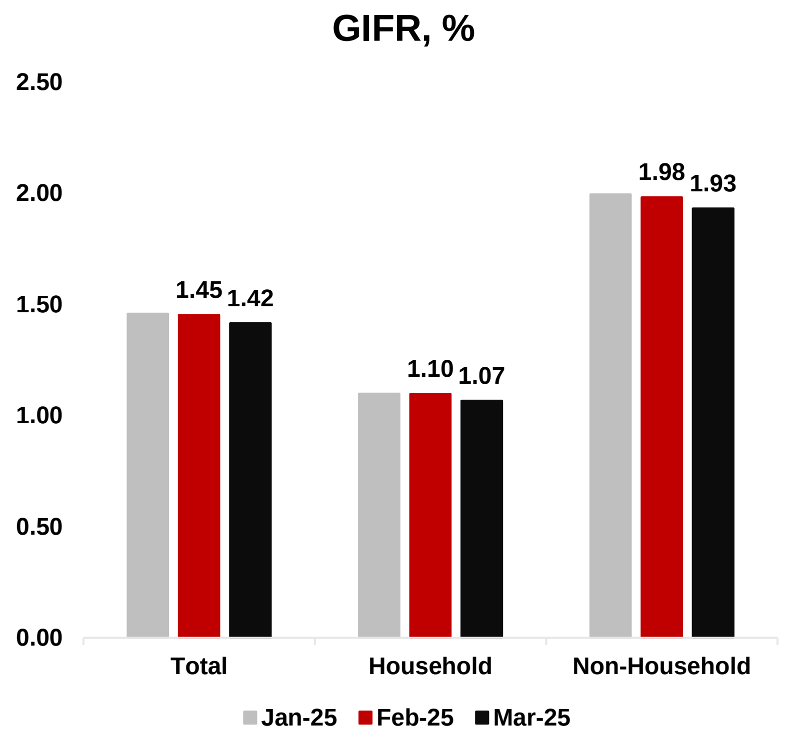


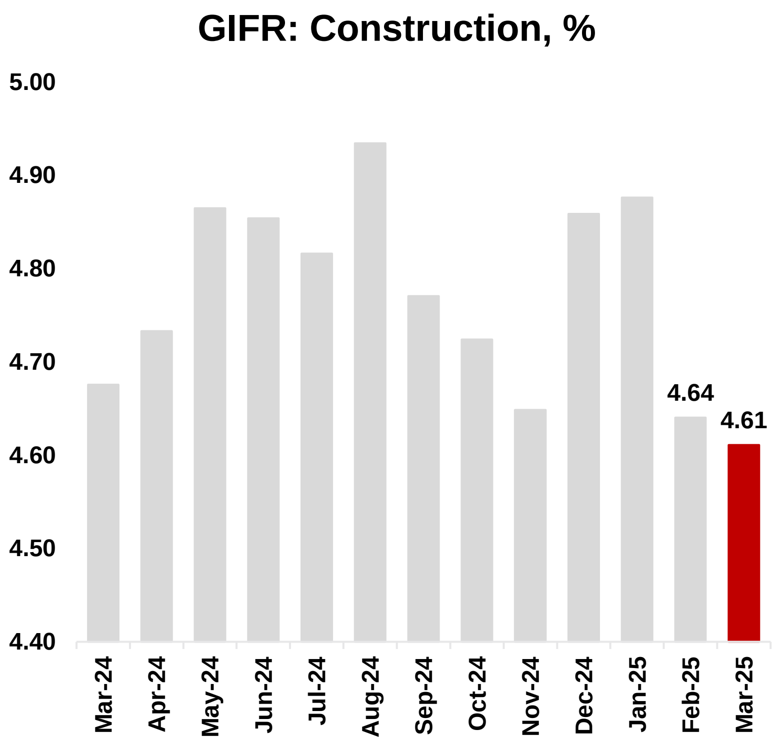


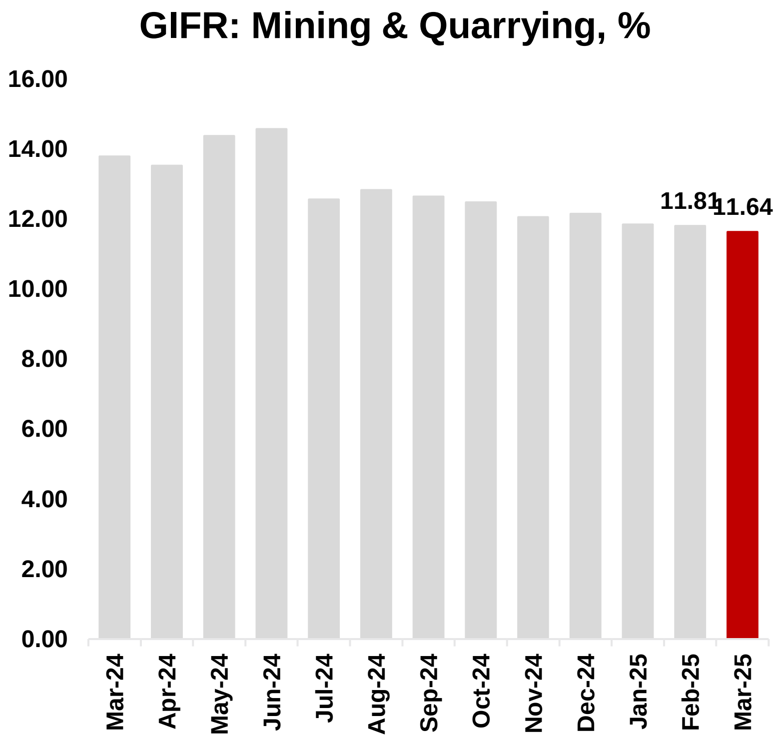
Source: BNM

- Financing growth remained stable at 5.24% in March, with the financing activities for the household easing slightly to 5.90% (February: 5.99%), offset by an improvement in non-household financing, which rose to 4.28% from 4.13% in February.
- Financing for credit card moderated to 7.06% in March from 7.75% in February. At the same time, the financing growth for both passenger car and residential property purchases eased further to 7.50% (February: 7.60%) and 6.58% (February: 6.70%), respectively in March.

BANKING SECTOR: ASSET QUALITY IMPROVES IN MARCH AS IMPAIRED FINANCING RATIOS DECLINE ACROSS KEY SECTORS







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector eased marginally to 1.42% in March (February: 1.42%). The GIFR for both the household and non-household sector declined slightly to 1.07% (February: 1.10%) and 1.93% (February: 1.98%) respectively.
- The asset quality in the construction, as well as mining and quarrying industry improved further in March, with the GIFR falling to 4.61% (February: 4.64%) and 11.64% (February: 11.81%), respectively.

THANK YOU