



MONTHLY ECONOMIC UPDATE

2 SEPTEMBER 2025

ECONOMIC RESEARCH

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KEY TAKEAWAYS

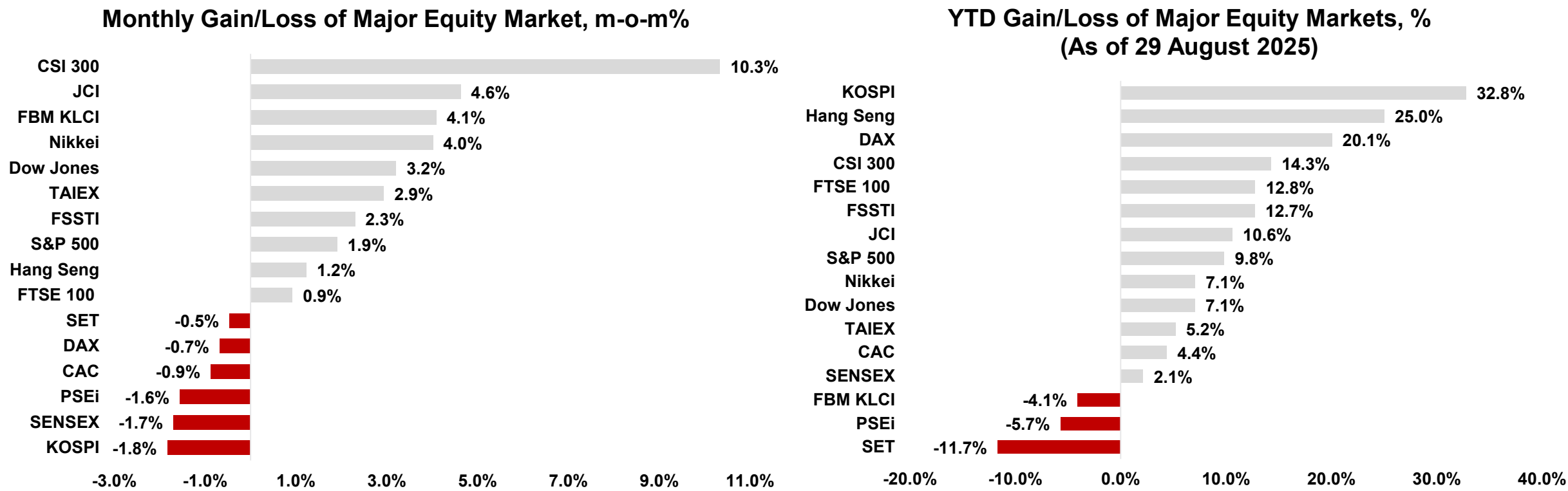
- The Federal Reserve (The Fed) Chair Powell opens door to September rate cut amid rising job market risks.** The Fed Chair Jerome Powell signaled the possibility of a rate cut at the upcoming September 16-17 FOMC meeting, citing rising risks to the labour market despite inflation still being a concern. While inflation remains above target, Powell stressed that any policy move would depend heavily on incoming data. The subdued job gains, averaging just 35,000 between May and July, with only 73,000 jobs added in July have reinforced market expectations of a rate cut. While not committing to a decision, Powell highlighted that monetary policy remains restrictive and may need adjusting. His remarks led markets to bring forward expectations for rate cuts, with some now forecasting up to 50 bps reduction by year-end. The Fed's next moves will heavily depend on key labour and inflation data due in early September. In a controversial move, Trump attempted to fire Fed Governor Lisa Cook over allegations of mortgage fraud. The move has sparked widespread concern over the independence of the Federal Reserve, with lawmakers and business leaders stressing the need to protect the central bank from political interference.
- China's growth outlook dims amid ongoing manufacturing contraction.** China's manufacturing activity contracted for the fifth consecutive month in August, with the official purchasing managers' index (PMI) rising slightly to 49.4 from 49.3 in July, but still below the 50-mark indicating contraction. Despite a modest uptick in the non-manufacturing PMI (includes services and construction) to 50.3 versus 50.1 in previous month, overall economic momentum remains weak amid persistent domestic demand softness, a struggling property sector, and trade uncertainties. Nonetheless, the private survey by the RatingDog China General Manufacturing PMI, compiled by S&P Global rose from 49.5 in July to 50.5 in August, signaling the delay in new tariffs helped slow the drop in export orders. At the same time, stronger demand led to the fastest buildup of unfinished work in six months. While exports to Southeast Asia have supported growth, Beijing's 2025 growth target of "around 5%" is under threat unless stronger fiscal support materializes.
- Malaysia's economy grew 4.4% y-o-y in 2Q2025, slightly below the 4.5% advance estimate but unchanged from 1Q2025.** Growth was driven by strong domestic demand, supported by better labour market conditions, lower inflation, and fiscal support. Private investment remained firm, supported by earlier FDI inflows in data centres, real estate, and manufacturing, while public investment stayed solid, backed by steady progress in key projects. Sector-wise, most industries posted positive growth in 2Q2025. The agriculture and services sectors gained traction, but construction and manufacturing activities moderated, while the mining sector contracted further. External trade weakened amid subdued global demand and escalating geopolitical risks. Export momentum was front-loaded in April especially for E&E and other manufacturing products but faded significantly in the following months. In light of these developments, we have revised our 2025 GDP growth forecast downward to 4.2% from 4.4%, to reflect the anticipated drag from weaker external trade and moderating investment activity. Despite securing a lower 19% average U.S. tariff, Malaysia remains exposed to global trade uncertainties.



SECTION 1

Malaysia's Financial Market

REGIONAL EQUITY: GLOBAL EQUITY MARKETS ADVANCE IN AUGUST DRIVEN BY CHINA'S RALLY AND U.S. OPTIMISM



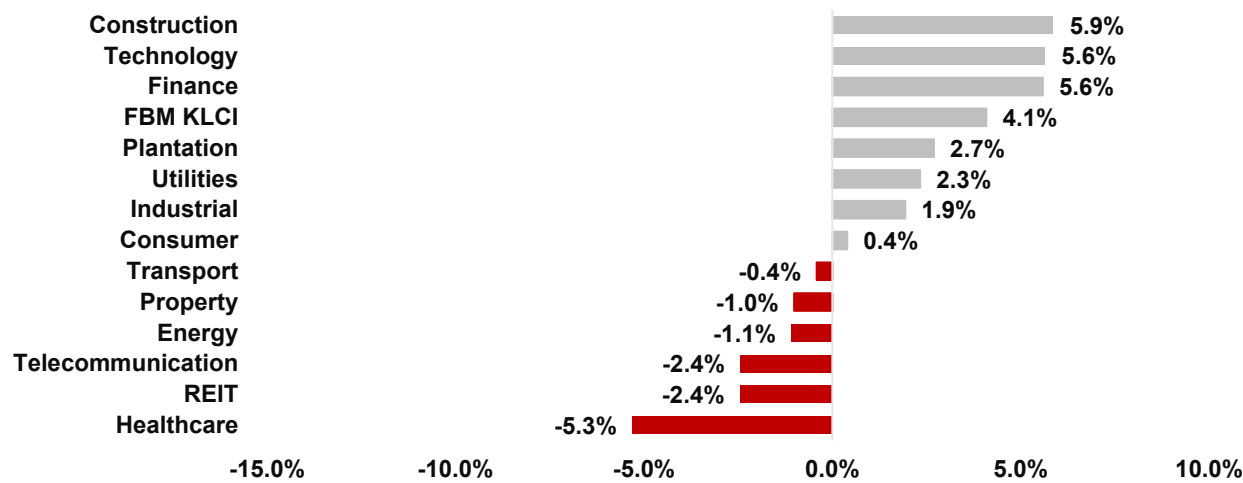
Sources: Bursa, CEIC data

- The global stocks market were mostly in the green in August with China’s CSI 300 as the major winner with a gain of 10.3% driven by the easing of U.S.-China trade tensions and government initiatives to curb intense price competition. Leading the surge were artificial intelligence (A.I.) and semiconductor stocks, which saw renewed investor interest even though their underlying fundamentals remained a concern.
- In addition, U.S. stocks – Dow Jones (+3.2%) and S&P 500 (+1.9%) surged amid hope for Fed interest rate cuts, better-than-expected corporate earnings, and the persistent belief that the A.I. boom will yield significant returns for investors are all contributing to the positive market sentiment.
- In contrast, South Korea’s KOSPI (-1.8%), India’s SENSEX (-1.7%) and Philippines’ PSEi (-1.6%) were the major losers in August.
- YTD, South Korea’s KOSPI leading the gainers as the top performer in August, with a gain of 32.8%.

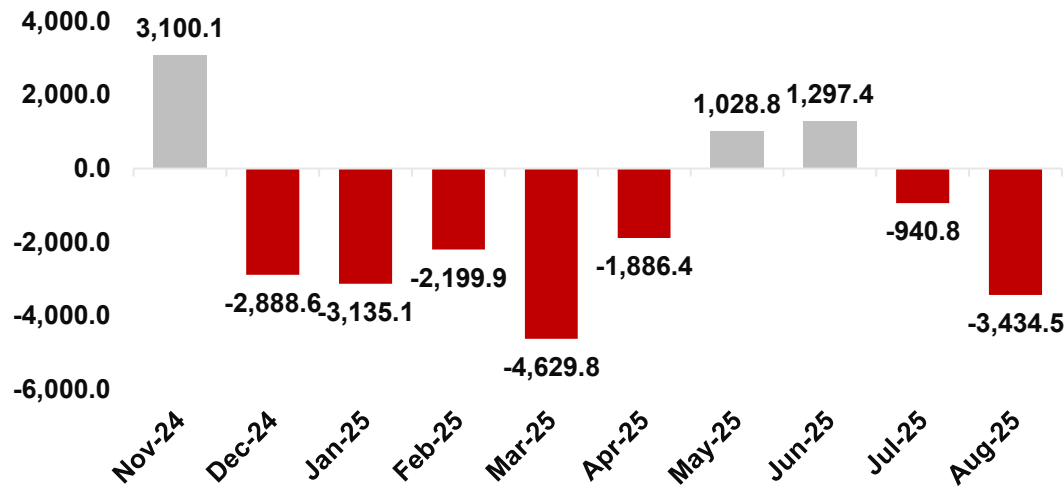
DOMESTIC EQUITY: FBM KLCI REBOUNDS IN AUGUST AMID TARIFF RELIEF AND FED RATE CUT OPTIMISM



Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



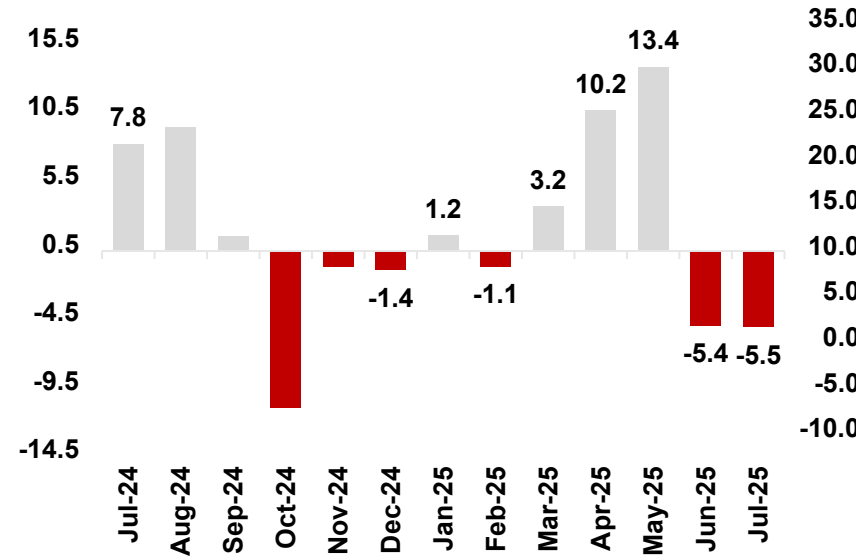
Sources: DOSM, CEIC Data

- The FBM KLCI rebounded strongly in August, rising 4.1% m-o-m to close at 1,575.12 after falling by 1.3% in the previous month. The rally was largely driven by improved investor sentiment following greater clarity on U.S. trade policy, where tariffs on Malaysian imports were revised down to 19% from the earlier proposed 25.0%.
- Adding to the positive momentum was Malaysia’s resilient 2Q2025 GDP performance, which held steady at 4.4%, matching the previous quarter’s growth and defying market expectations of a slowdown.
- Furthermore, expectations of a U.S. Federal Reserve (The Fed) rate cut in September fueled interest in emerging market assets further lifting the local bourse.
- Sectoral performance was mixed, which construction led the gains with a 5.9% rise, followed closely by technology and finance, both up 5.6%. On the flip side, healthcare posted the steepest decline at -5.3%, followed by REITS and telecommunications each fell by 2.4%.
- Foreign investors continued to shed off a total of RM3.4 billion worth of equities, marking the highest net outflow since March. This brought the year-to-date (YTD) net outflow to RM17.1 billion, reflecting sustained cautious sentiment.

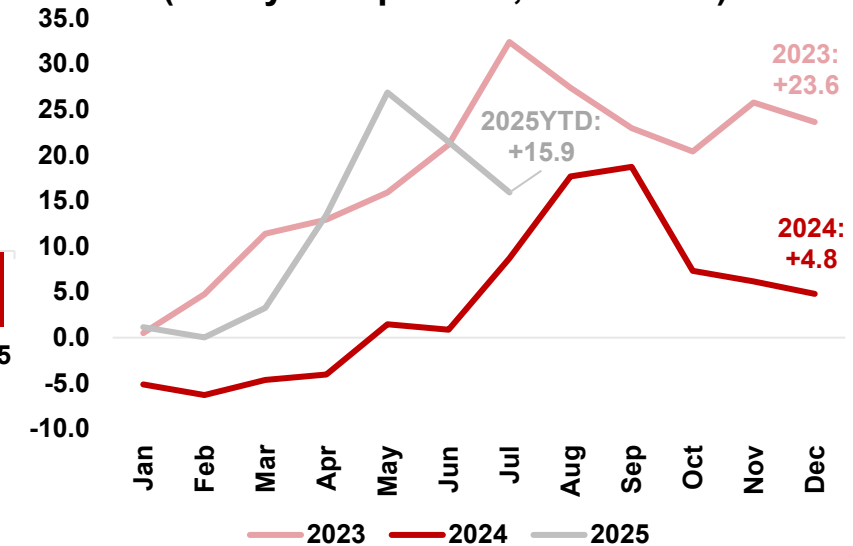
FIXED INCOME: UST YIELDS DIPPED UPON UPWARD GDP REVISION AND FED SIGNALS REINFORCE EASING PROSPECTS

Monthly changes, basis points (bps)			
UST	Yields (%) 31-Jul-25	Yields (%) 29-Aug-25	Change (bps)
3-Y UST	3.89	3.58	-31
5-Y UST	3.96	3.68	-28
7-Y UST	4.14	3.92	-22
10-Y UST	4.37	4.23	-14
MGS	Yields (%) 31-Jul-25	Yields (%) 29-Aug-25	Change (bps)
3-Y MGS	3.05	2.99	-1
5-Y MGS	3.15	3.08	-7
7-Y MGS	3.34	3.29	-4
10-Y MGS	3.37	3.39	2
GII	Yields (%) 31-Jul-25	Yields (%) 29-Aug-25	Change (bps)
3-Y GII	3.10	3.03	-7
5-Y GII	3.19	3.13	-6
7-Y GII	3.33	3.25	-8
10-Y GII	3.41	3.42	1

Foreign Fund Flows in Local Bond Market, RM Billion



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

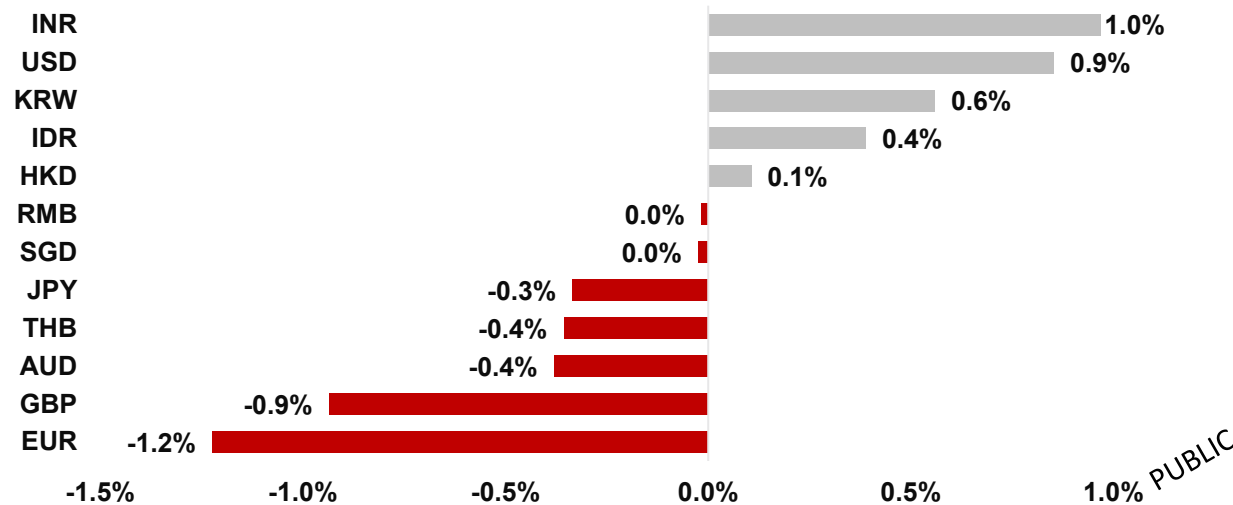


Sources: BNM, Federal Reserve Board

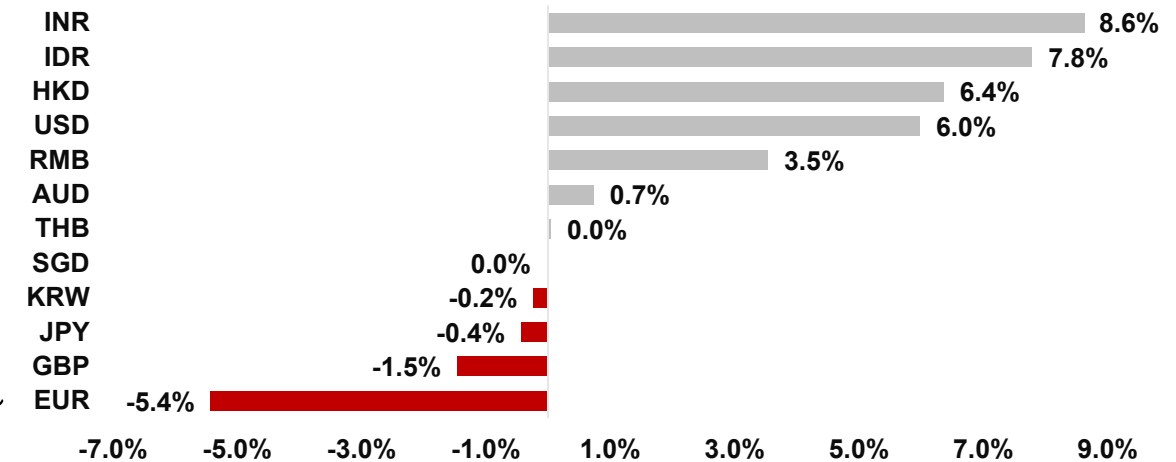
- The U.S. Treasury (UST) yields dipped in the range of 14bps and 31bps as the U.S. economy grew a bit faster in the second quarter than previously anticipated, thanks to stronger business investment and trade. Meanwhile, Fed Governor Christopher Waller stated that he supports starting interest rate cuts next month and anticipates further reductions afterward.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were mostly lower by between 1bp and 7bps. Nevertheless, both 10-Y MGS and GII yields edged slightly higher by 2bps and 1bp to end at 3.39% and 3.42%.
- Foreign fund flows in the local bond market logged a net foreign outflow of RM5.5 billion in July (June: -RM5.4 billion). Consequently, local govies' foreign shareholdings to total outstanding plunged to 22.1% in July (June: 22.8%).
- As of the first seven months of 2025, the local bond market recorded the cumulative net foreign inflows of RM15.9 billion, higher than the inflows of RM8.7 billion in the same period in the previous year.

FX MARKET: RINGGIT TO TRADE CAUTIOUSLY AHEAD OF KEY U.S. JOB MARKET FIGURES

MYR Against Regional Currencies, m-o-m%



MYR Against Regional Currencies, YTD%
(As of 29 August 2025)



Sources: Bank Negara Malaysia(BNM), CEIC Data

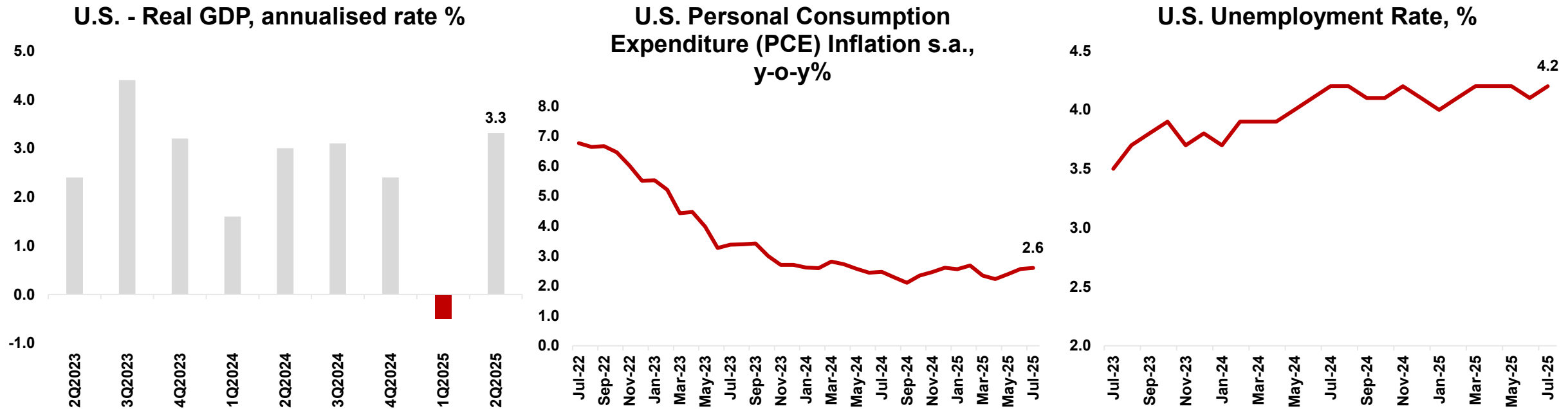
- The Ringgit strengthened by 0.9% m-o-m against the USD for the month ending August 29 as the USD index hovered around the 97-98 level amid heightened bets of the U.S. Federal Reserve Board (Fed) initiating its policy easing cycle in September.
- Latest figures showed that the core personal consumption expenditure (PCE) Price Index ticked up by 0.3% m-o-m in July, in line with estimates. This had driven the annual PCE figure to a five-month high of 2.9% in the same month from 2.8% in June.
- However, while tariff-induced price pressures had begun to translate into consumer prices, the uptrend is seemingly gradual which deterred concerns of a more pronounced price shock, instead signaling a steadier pace of rising inflation. Coupled with the softer than expected Nonfarm Payroll (NFP) data earlier, this had refocused attention towards the cooling job market.
- Fed Chair Powell noted that the balanced job market landscape seen previously belied the real picture—where the balance stemmed from both declining labour supply as well as demand. As such, he hinted at a potential cut when he stated that the “shifting balance of risks may warrant adjusting our policy stance”, exerting pressure on the USD.
- Moving forward, markets are on the lookout for the JOLTS Job Openings data on Thursday as well as the NFP figures on Friday to capture the last crucial labour market indicators before the 17th September meeting.



SECTION 2

The Global Economy

U.S. ECONOMY REBOUNDS IN 2Q2025, INFLATION STICKY AS FED EYES SEPTEMBER RATE CUT

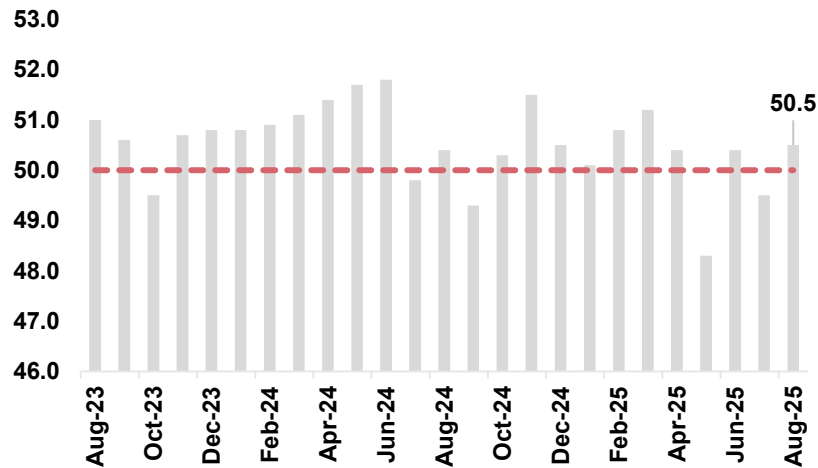


Sources: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), CEIC

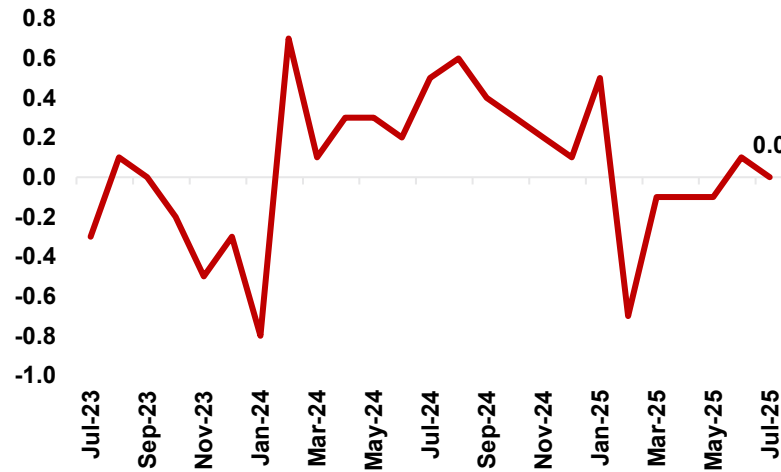
- The U.S. economy bounced back significantly in the 2Q2025, growing by 3.3%. This is a sharp reversal from the 0.5% contraction seen in the first quarter. The growth figure was slightly higher than the initial estimate of 3.0%, primarily due to a substantial upward revision in investment.
- July's headline PCE inflation remained at 2.6%, meeting market expectations. However, core PCE inflation, which excludes volatile food and energy prices, rose to a five-month high of 2.9% from 2.8%. The PCE index is the Fed's preferred measure of inflation.
- Despite a drop in new jobless claims last week, slow hiring could push the August unemployment rate up to 4.3%. For the week ending August 23, initial claims for state unemployment benefits fell by 5,000 to a seasonally adjusted 229K, slightly better than the 230K claims that analysts had predicted.
- Nevertheless, at the time of writing, the market has priced in an 89.6% probability that the Fed will slash interest rate by 25bps to a range of 4.00% to 4.25% for the next Federal Open Market Committee (FOMC) meeting scheduled for September 17.

CHINA'S MANUFACTURING IMPROVED IN AUGUST AS TARIFF TRUCE BOOSTS EXPORTS AND MARKET CONFIDENCE

China - Manufacturing Purchasing Managers' Index (PMI), points



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



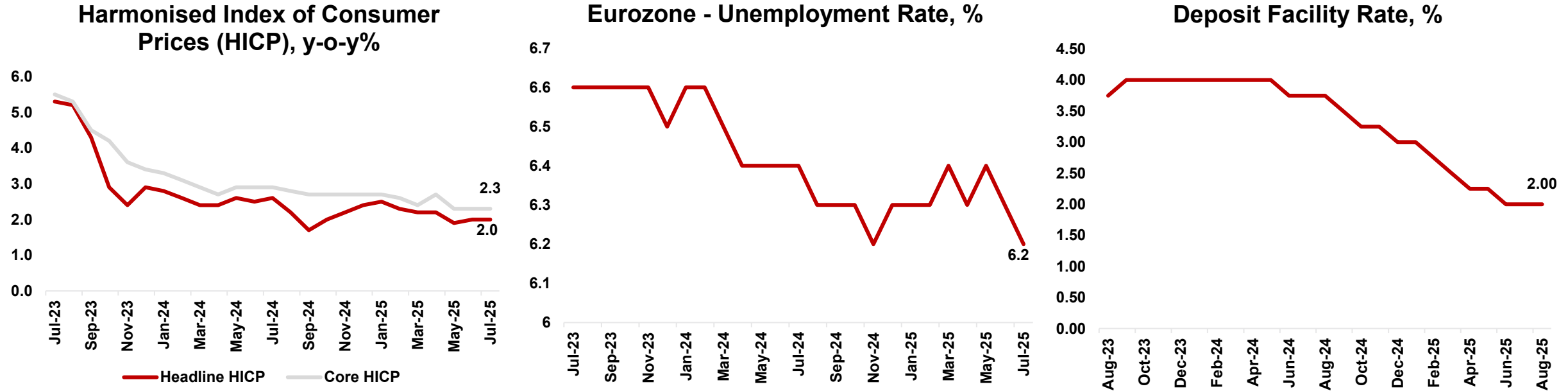
Exports and Imports, y-o-y%



Sources: National Bureau of Statistics, S&P Global General Administration of Customs, CEIC

- The RatingDog China General Manufacturing PMI, compiled by S&P Global (a private survey) surged to 50.5 in August 2025, significantly exceeding expectations and marking the fastest growth in five months, a notable increase from July's 49.5. This expansion was fueled by the continued postponement of tariffs, which helped temper the decline in new export orders, and a rise in demand that led to the quickest accumulation of backlogged work in six months. Business confidence also improved, reaching a peak not seen since March. However, the momentum could be threatened by persistent tariffs, front-loaded exports, and the ongoing property market downturn.
- China's main inflation gauge, the CPI, remained flat in July compared to a year ago. However, on a m-o-m basis, the CPI increased by 0.4%, reversing a 0.1% decline in June. Furthermore, the core CPI, saw its increase widen for the third consecutive month, climbing 0.8%.
- China's exports surged in July, far exceeding expectations as the country's tariff truce with the U.S. continues. Exports jumped 7.2% y-o-y, much higher than the 5.4% increase that economists had predicted. Meanwhile, imports rose 4.1% in July, marking their largest increase in a year and bouncing back from June's modest 1.1% rebound.

STABLE EUROZONE INFLATION AND LABOR MARKET REINFORCE ECB'S CAUTIOUS, DATA-DEPENDENT POLICY STANCE



Sources: ECB, Eurostat, S&P Global

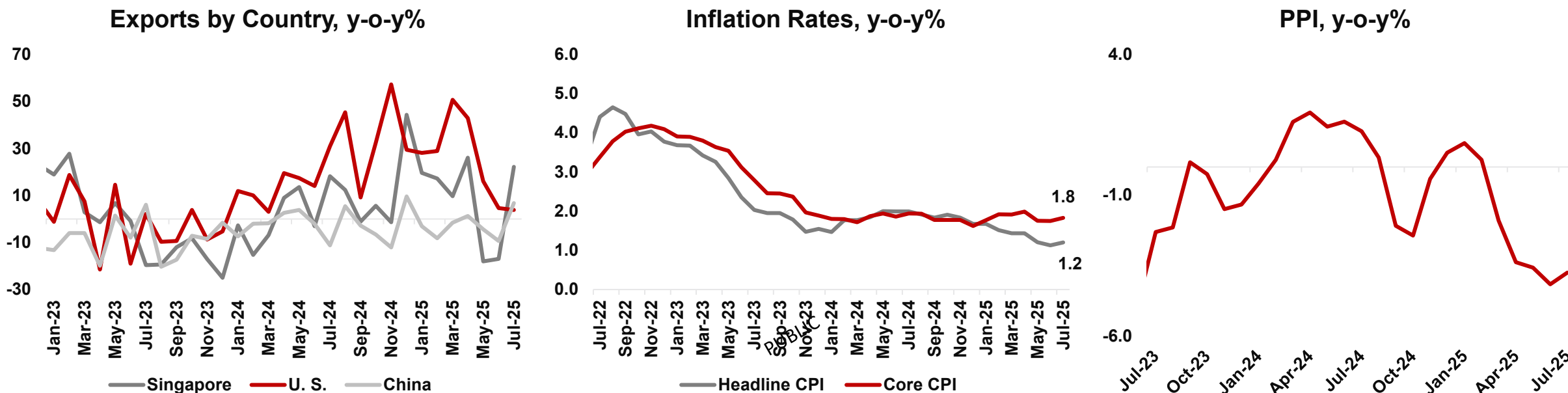
- The annual inflation rate for the eurozone remained steady at 2.0% in July 2025, unchanged from the previous month. In addition, core HICP also plateaued at 2.3% in July, showing little change in Eurozone inflation dynamics.
- The Eurozone unemployment rate in July fell slightly to 6.2%, aligning with market expectations and marking a decrease from 6.3% in June.
- In a recent interview with the Finnish newspaper, European Central Bank (ECB) Governing Council member Olli Rehn stated that the central bank should maintain a flexible approach to future interest rate decisions. Citing several downside risks to Eurozone inflation, including a stronger euro, cheaper energy, easing core inflation, and global trade-policy disruptions, Rehn emphasized that the current economic shocks are more complex than in the past.
- He underscored that the ECB is not tied to any predetermined rate path and will make decisions on a meeting-by-meeting basis, guided by the latest economic data. While noting that economic growth has remained stable and inflation has leveled off, he stressed that there is no room for complacency. The ECB is widely expected to keep its rates unchanged at 2% at its upcoming meeting on September 10-11, following a similar decision in July.



SECTION 3

Domestic Landscape & Banking Sector Update

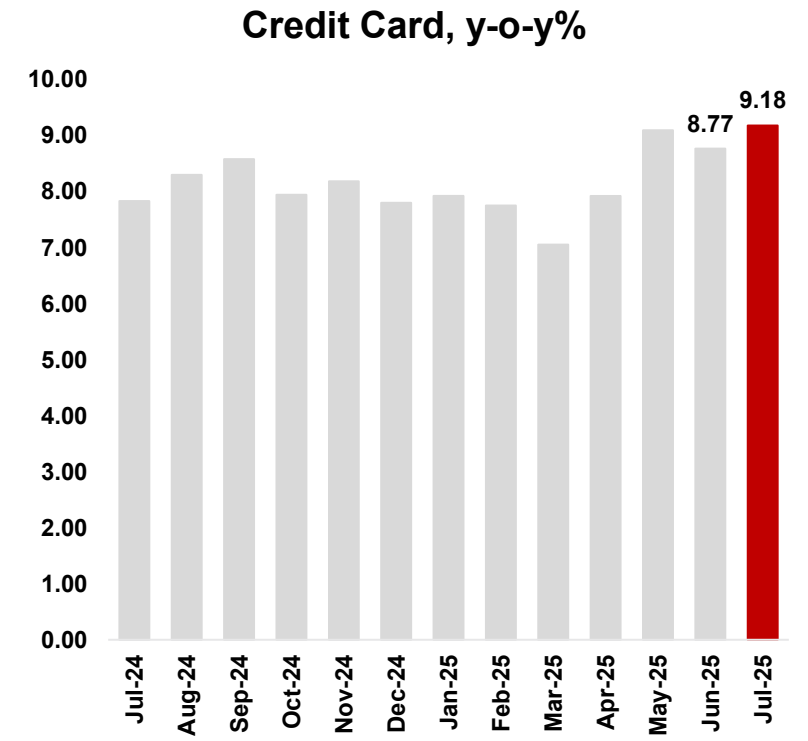
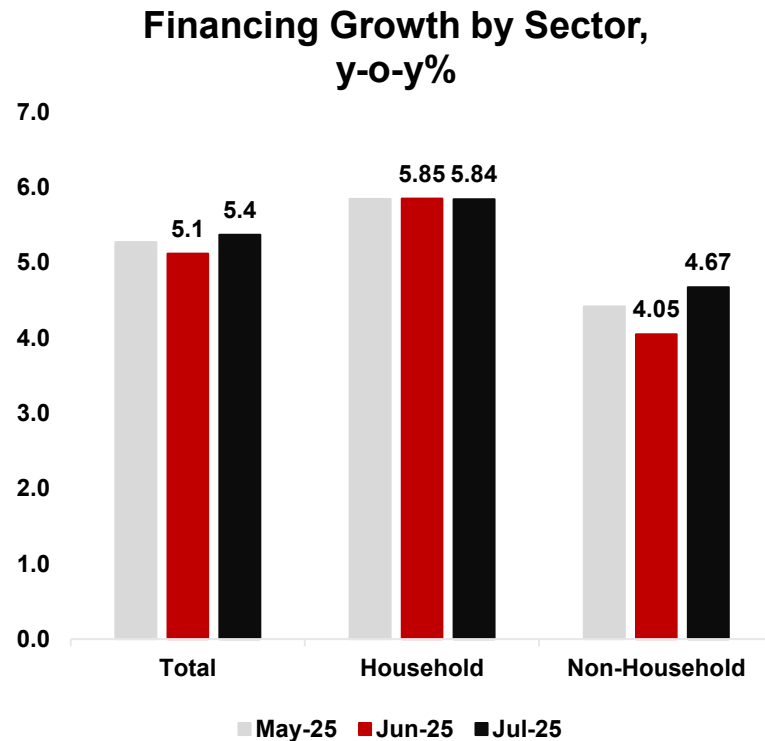
HEADLINE INFLATION TICKED UP marginally amid a smaller decline in PRODUCER PRICES



Sources: DOSM, CEIC Data

- Malaysia's exports rebounded strongly by 6.8% y-o-y in July from an 18-month low of 3.6% y-o-y in June, propelled by a surge in exports to Singapore (July: 22.2% vs. June: -16.9%) and China (July: 6.8% vs. June: -9.3%). Nevertheless, rapid frontloading activities to the U.S. have eased from its peak of 50.7% y-o-y in March as it rose by only 3.8% y-o-y (June: 4.7%).
- On a sectorial basis, manufacturing exports accelerated by 9.0% while both mining (-4.3%) and agriculture (-8.6%) exports recorded contractions. Meanwhile, imports increased by 0.6% y-o-y in July, recording a slower pace compared to 1.2% in the previous month.
- Headline inflation ticked up slightly by 1.2% y-o-y in July (June: 1.1%), underpinned by increases across several groups, namely Restaurant & Accommodation Services (July: 3.1% vs. June: 2.8%), Transport (July: 0.4% vs. June: 0.3%) and Insurance & Financial Services (July: 5.5% vs. June: 1.5%). On the flip side, core inflation rose by 1.8% y-o-y, recording the same pace for three straight months.
- The marginal increase in inflation also mirrored the smaller decline of 3.8% in the Producer Price Index (PPI) compared to 4.2% y-o-y in June amid growths across the Agriculture, Forestry & Fishing (July: 1.1% vs. June: -0.3%) and Electricity & Gas Supply (July: 4.0% vs. June: -0.2%) subsectors.

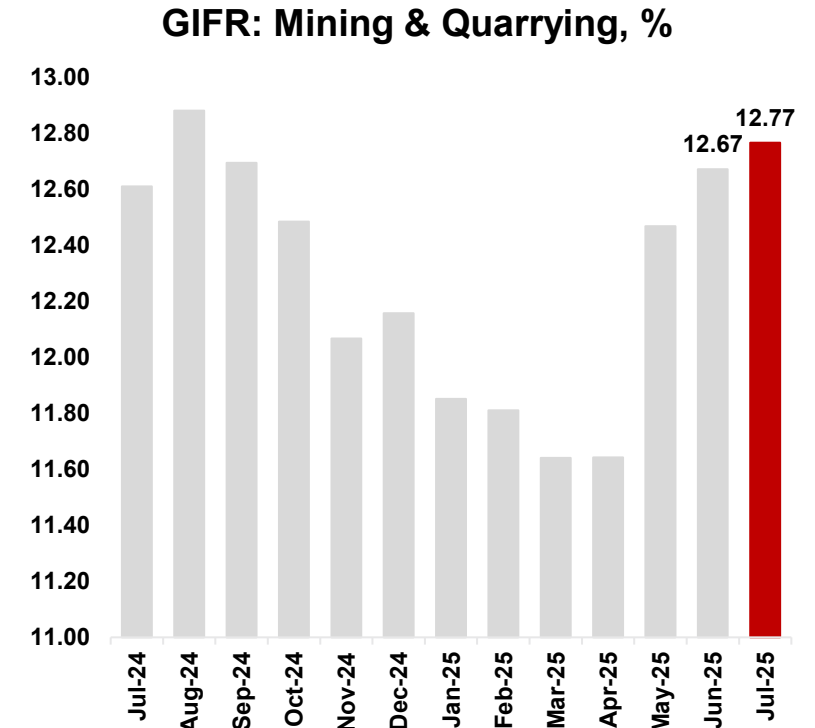
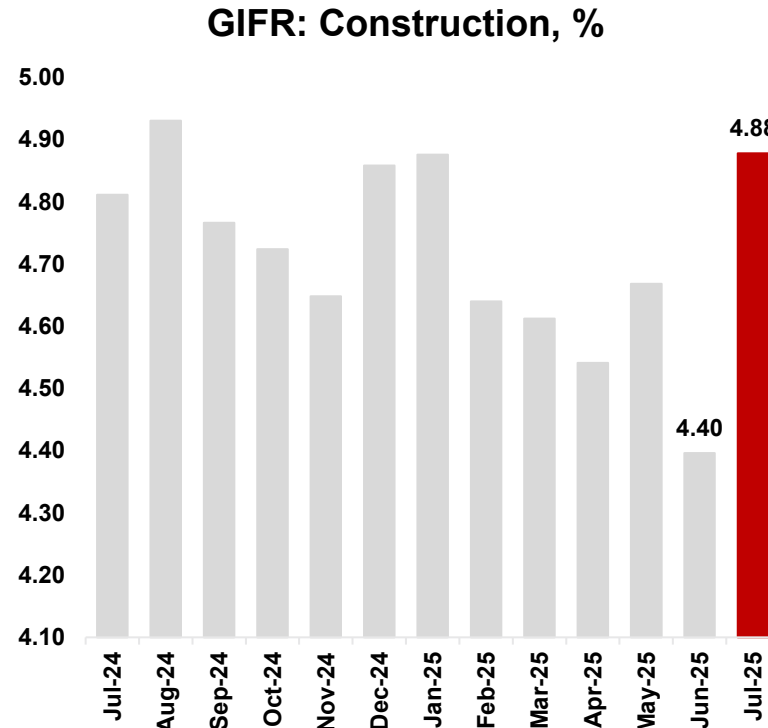
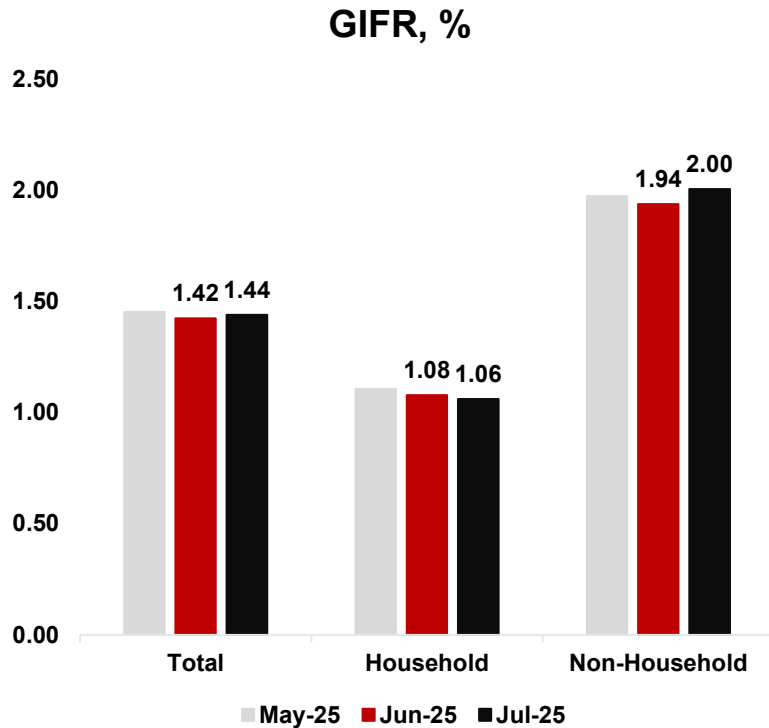
BANKING SECTOR: STRONGER FINANCING GROWTH IN JULY DRIVEN BY NON-HOUSEHOLD CREDIT



Source: BNM

- Total financing growth rose to 5.4% in July, up from 5.1% in June, supported by stronger non-household lending which accelerated to 4.67% from 4.05% in the previous month, alongside stable household financing.
- Residential property financing growth held steady at 6.42% for the second straight month, indicating sustained demand for housing. Meanwhile, passenger car financing growth eased further to 6.93% from 7.15% previously, possibly reflecting moderating automotive demand.
- In contrast, credit card financing continued to strengthen, rising to 9.18% from 8.77% in June, signaling resilient consumer spending and a pickup in short-term credit usage.

BANKING SECTOR: SLIGHT UPTICK IN BANKING SECTOR IMPAIRMENTS LED BY NON-HOUSEHOLD FINANCING



Source: BNM

- The total gross impaired financing ratio (GIFR) in the banking sector edged up slightly to 1.44% in July, from 1.42% in June, reflecting a marginal deterioration in overall asset quality.
- While the household segment showed improvement with the GIFR easing to 1.06% (June: 1.08%), the non-household segment saw an increase to 2.00% (June: 1.94%), suggesting rising repayment stress in the business sector.
- Sector-wise, construction and mining continued to register elevated impairment levels. The GIFR in the construction sector climbed to 4.88% (June: 4.40%), while the mining sector rose to 12.77% (June: 12.67%). These increases point to heightened credit risk within these high-exposure industries, possibly due to delayed project execution or cash flow constraints.

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THANK YOU