



# **MONTHLY ECONOMIC UPDATE**

**2 MARCH 2025**

**ECONOMIC RESEARCH**

IMRAN NURGINIAS IBRAHIM  
FARAH ZAZREEN ZAINUDIN  
NOR LYANA ZAINAL ABIDIN  
KHAYRIN FARZANA FAZLI

## KEY TAKEAWAYS

- **The United States and Israel launched coordinated military strikes against Iran on 28 February 2026, representing one of the most direct Western military confrontations with Tehran in decades.** The joint operation reportedly targeted Iranian nuclear facilities and reportedly resulted in the death of Supreme Leader Ayatollah Ali Khamenei. In response, Iran carried out retaliatory strikes against U.S. assets and allied bases in several Gulf states hosting American forces, marking a significant escalation in regional tensions. The immediate economic spillovers were evident in widespread airspace closures across parts of the Middle East, disrupting commercial aviation and forcing flight diversions. Financial markets are expected to react as trading resumes this week, with heightened volatility anticipated. Energy prices are likely to firm, while safe-haven assets such as gold may gain amid concerns of a broader regional conflict. Political reactions within the U.S. appear divided, with Republican leaders largely supportive of the strikes and Democratic leaders adopting a more cautious stance. Internationally, global leaders have expressed concern over further escalation and the risk of prolonged instability. If sustained, the confrontation could pose material risks to global trade routes, particularly through the Persian Gulf, and potentially disrupt energy supplies.
- **The U.S. introduced a new 15% global tariff on imports under Section 122 of the Trade Act of 1974,** effective for up to 150 days following the U.S. Supreme Court's ruling that struck down previous broad tariffs as exceeding presidential authority. The administration indicated plans to raise the tariff to 15% where legally permissible, a move often referred to as the "Plan B" tariff strategy. Legal experts have questioned the legality of the proposed increase, citing the absence of an official balance-of-payments deficit. Markets reacted cautiously, largely ignoring the looming 150-day review period as investors assessed the potential for litigation and policy reversal. Economists warned that the escalating tariffs could disrupt global supply chains, increase production costs for U.S. manufacturers dependent on imported inputs, and provoke retaliatory measures from trading partners. Business leaders expressed concern that the uncertainty surrounding tariff policy could undermine investment planning and slow GDP growth if extended. Meanwhile, export-oriented economies in Asia remain particularly alert to potential trade disruptions.
- **Malaysia's economy grew strongly in 4Q2025, with real GDP expanding 6.3%,** driven by resilient domestic demand, a recovery in exports, and sustained investment activity. For the full year 2025, Malaysia's GDP grew by 5.2%, reflecting strong private consumption, business investment, and supportive government spending. Robust labor market conditions helped maintain household income levels, underpinning consumer demand throughout the year. The strong performance have boosted the ringgit and supported positive investor sentiment, despite ongoing global economic headwinds. Policymakers attributed the growth to fiscal discipline, improved governance, and targeted economic reforms, while cautioning that external risks including trade tensions and geopolitical uncertainties could weigh on 2026 growth.

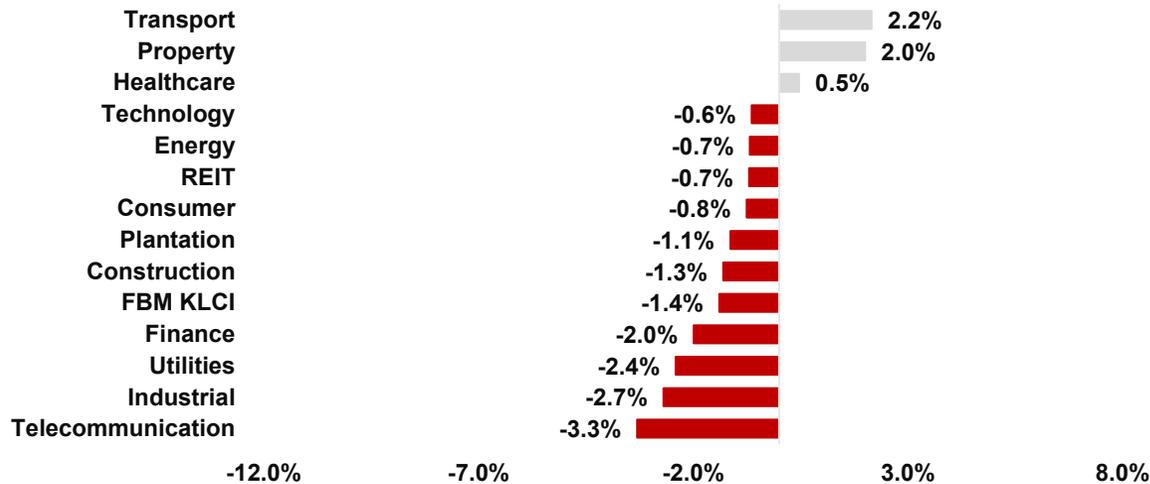


# **SECTION 1**

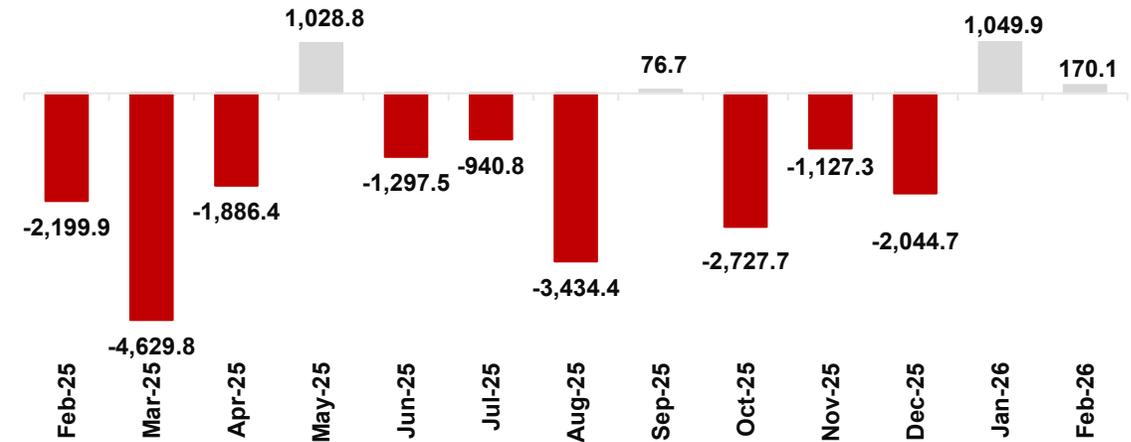
## Malaysia's Financial Market

# DOMESTIC EQUITY: FBM KLCI REVERSE JANUARY GAINS AS EXTERNAL RISKS WEIGH ON SENTIMENT

## Monthly Bursa Sectoral Performance, m-o-m%



## Monthly Foreign Fund Net Inflows/Outflows, RM Million

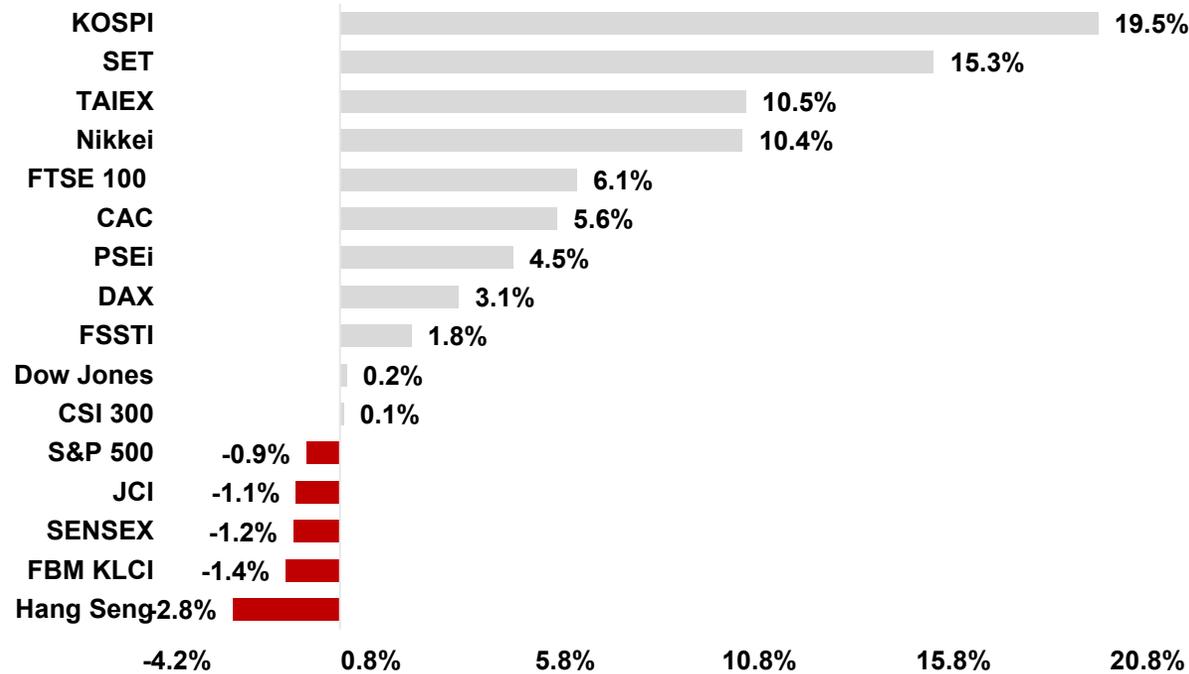


Sources: DOSM, CEIC Data

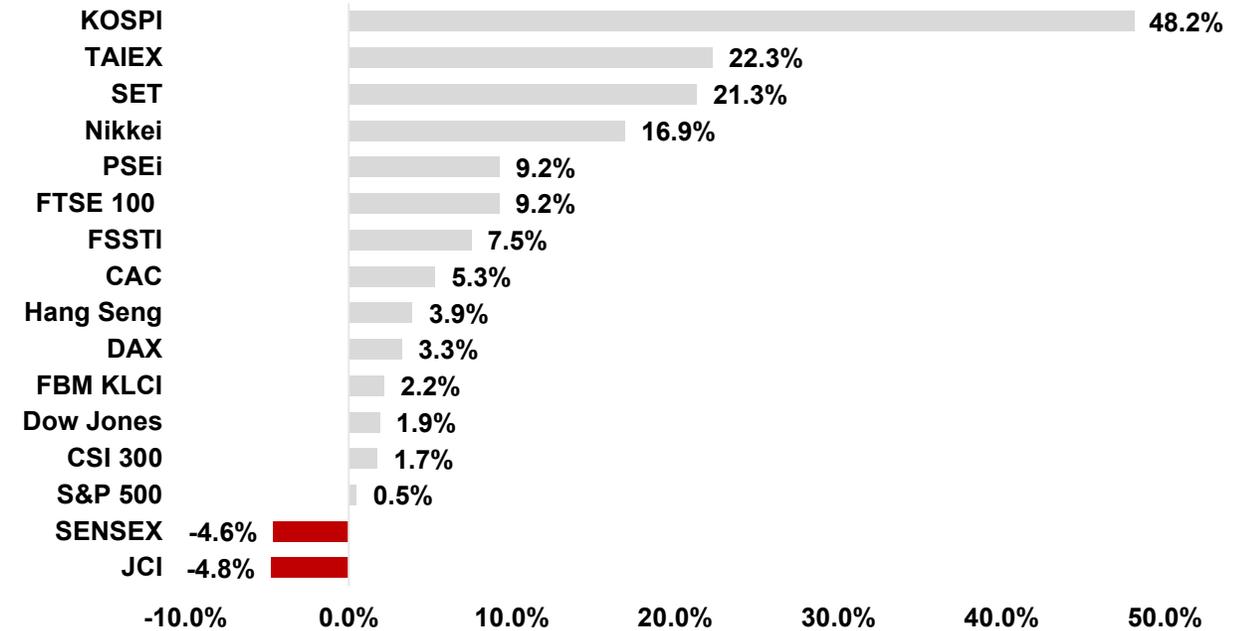
- The FBM KLCI ended February with a 1.4% m-o-m decline, closing at 1,716.6, reversing the 3.6% gain recorded in the previous month. The index reached its highest level on February 11, supported by strong economic fundamental and anticipation of stronger-than-expected GDP growth. In 4Q2025, Malaysia's economy expanded by 6.3% y-o-y, bringing full-year GDP growth to 5.2%, exceeding the official forecast range of 4.0%-4.8%.
- Nonetheless, the local market trended downward towards the end of the month amid rising geopolitical uncertainties surrounding Trump's tariff measures and escalating concerns over U.S.-Iran dispute, which dampened investor confidence due to the potential risk of a broader regional conflict. Trump introduced a new executive order imposing a 15% of global tariff following the Court's decision to strike down previously imposed reciprocal tariffs.
- Most Bursa indices closed in negative territory with telecommunication emerging as the biggest loser (-3.3%), followed by industrial (-2.7%) and utilities (-2.4%). Only the transport (+2.2%), property (2.0%) and healthcare (+0.5%) indices recorded gains during the month.
- Foreign investors remained net buyers for the second consecutive months, albeit net inflows declined by 83.8% m-o-m in February, amounting to RM0.17 billion. This brought the cumulative net foreign inflow to RM1.2 billion as of February 2026.

# REGIONAL EQUITY: SOUTH KOREA'S KOSPI LEADS GLOBAL GAINS IN FEBRUARY ON REFORM DRIVEN RALLY

## Monthly Gain/Loss of Major Equity Market, m-o-m%



## YTD Gain/Loss of Major Equity Markets, % (As of 27 February 2026)



Sources: Bursa, CEIC data

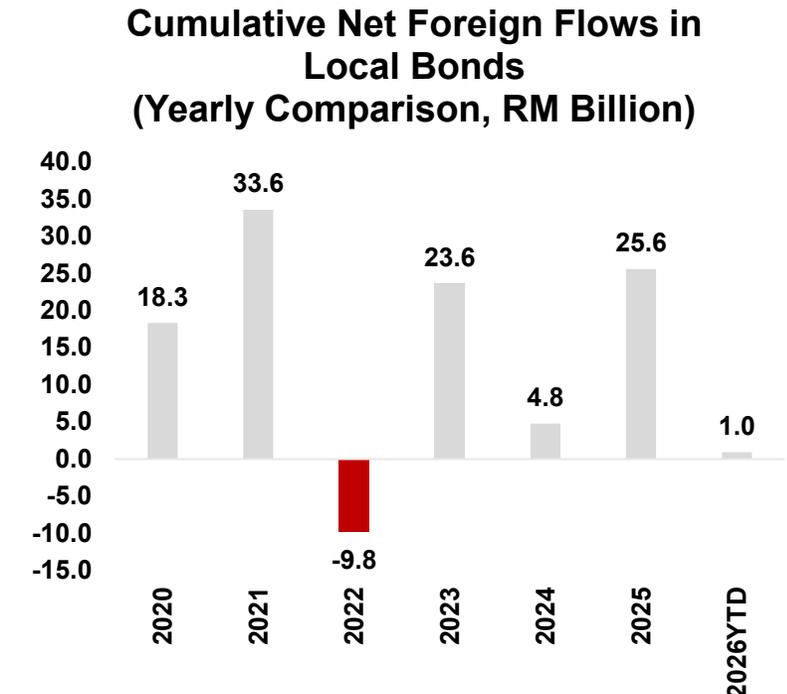
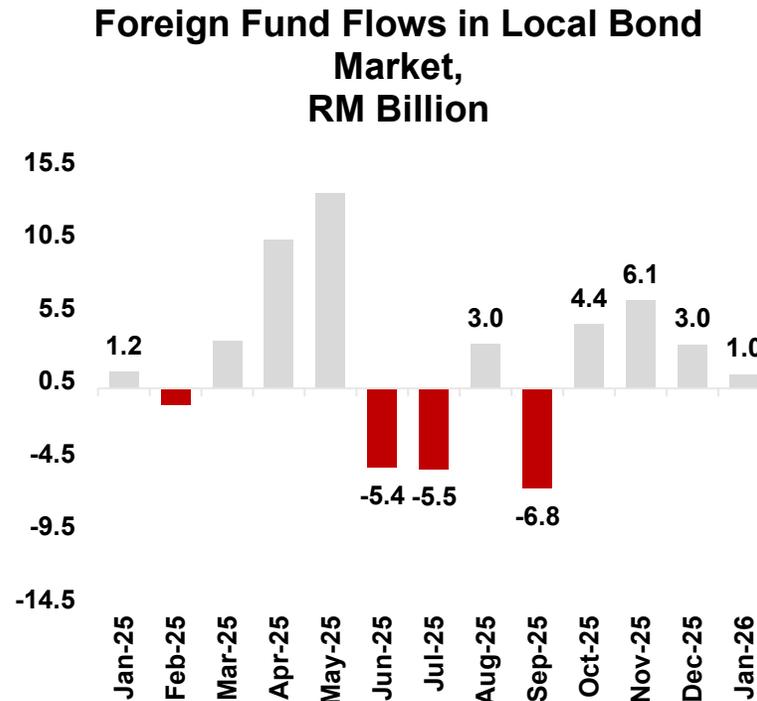
- Global equity markets closed February largely in positive territory, led by a strong rally in South Korea. The KOSPI surged 19.5%, making it the top performer for the month. The gains were underpinned by President Lee Jae-myung's commitment to revitalising the domestic capital market and improve corporate valuations, positioning his reform agenda as central to eliminating the longstanding "Korea discount." Following the index's historic breakthrough above the 6,000 level, President Lee underscored that the proposed structural reforms are aimed at delivering a sustained market re-rating and anchoring long-term growth prospects, rather than generating a short-term rally.
- On the other hand, Hong Kong's Hang Seng (-2.8%), Malaysia's FBM KLCI (-1.4%) and India's SENSEX (-1.2%) were the major losers in February.
- YTD, South Korea's KOSPI remained as the top performer in February, with a gain of 48.2%.

# FIXED INCOME: GEOPOLITICAL TENSIONS AND GROWTH DOUBTS PUSH TREASURY YIELDS LOWER

Monthly changes, basis points (bps)			
UST	Yields (%)	Yields (%)	Change (bps)
	30-Jan-26	27-Feb-26	
3-Y UST	3.60	3.39	-21
5-Y UST	3.79	3.51	-28
7-Y UST	4.01	3.72	-29
10-Y UST	4.26	3.97	-29
MGS	Yields (%)	Yields (%)	Change (bps)
	30-Jan-26	27-Feb-26	
3-Y MGS	3.03	3.06	2
5-Y MGS	3.28	3.31	3
7-Y MGS	3.44	3.42	-2
10-Y MGS	3.50	3.50	0
GII	Yields (%)	Yields (%)	Change (bps)
	30-Jan-26	27-Feb-26	
3-Y GII	3.12	3.10	-2
5-Y GII	3.27	3.27	1
7-Y GII	3.37	3.36	-1
10-Y GII	3.53	3.51	-2

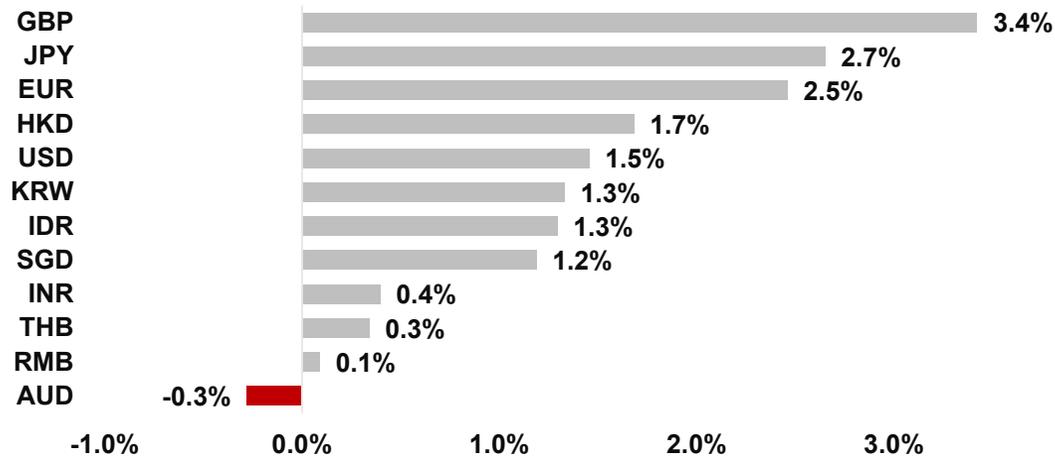
Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) yields tumbled in the range of 21bps and 29bps amid safe-haven demand remained elevated as investors grappled with trade policy ambiguity under the Trump administration, intensifying Middle East tensions, and skepticism regarding U.S. economic resilience. Even though January marked the second consecutive month of higher-than-anticipated producer price growth, the market consensus still points toward Federal Reserve (Fed) rate cuts in July.
- Meanwhile, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were little changed in February, moving by -2bps and 3bps.
- Foreign fund flows in the local bond market recorded a net foreign inflow of RM1.0 billion in January (Dec: +RM3.0 billion). Nevertheless, local govies' foreign shareholdings to total outstanding slowed to 21.4% in January (Dec 25: 21.5%).

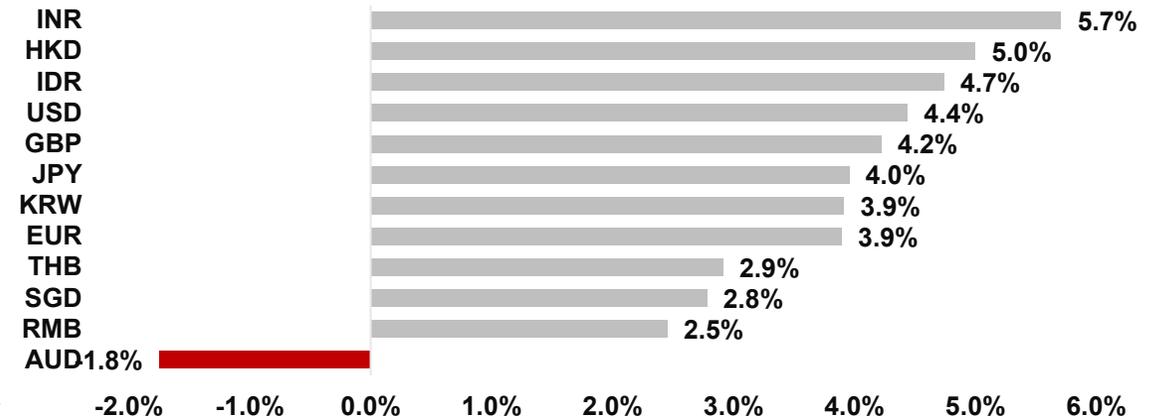


# FX MARKET: RINGGIT CLIMBED AMID STRONGER THAN EXPECTED 4Q2025 GDP, USD ROSE AS MARKETS RECALIBRATED FED RATE EXPECTATIONS

### MYR Against Regional Currencies, m-o-m%



### MYR Against Regional Currencies, YTD% (As of 27 February 2026)



Sources: Bank Negara Malaysia (BNM), Federal Reserve, CEIC Data

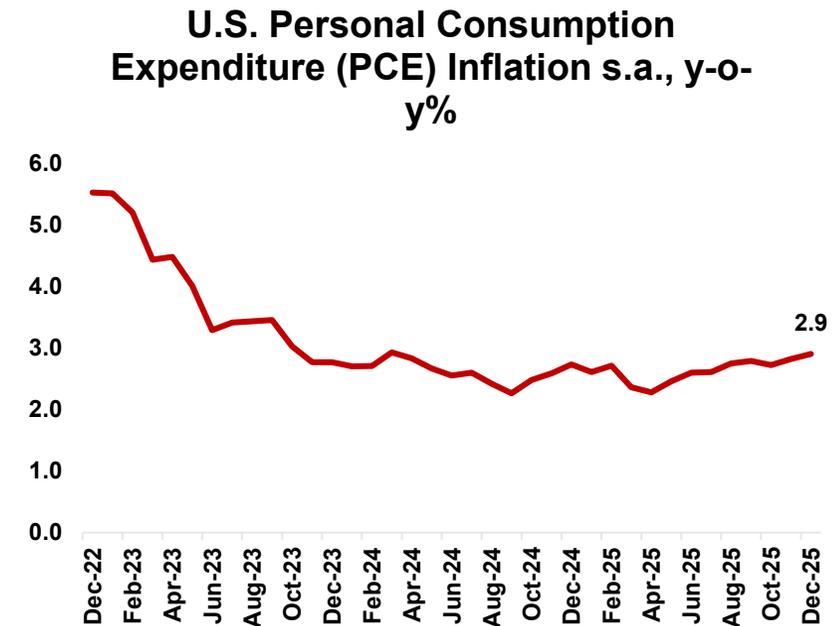
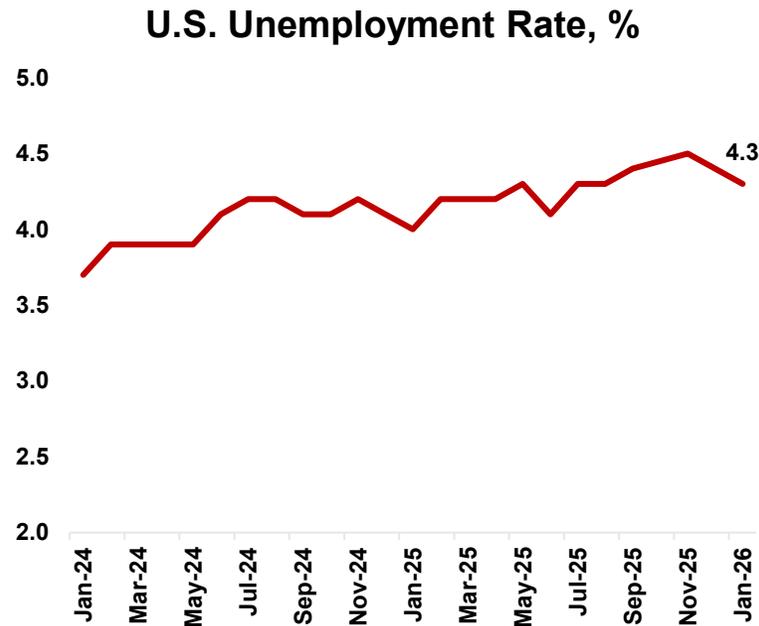
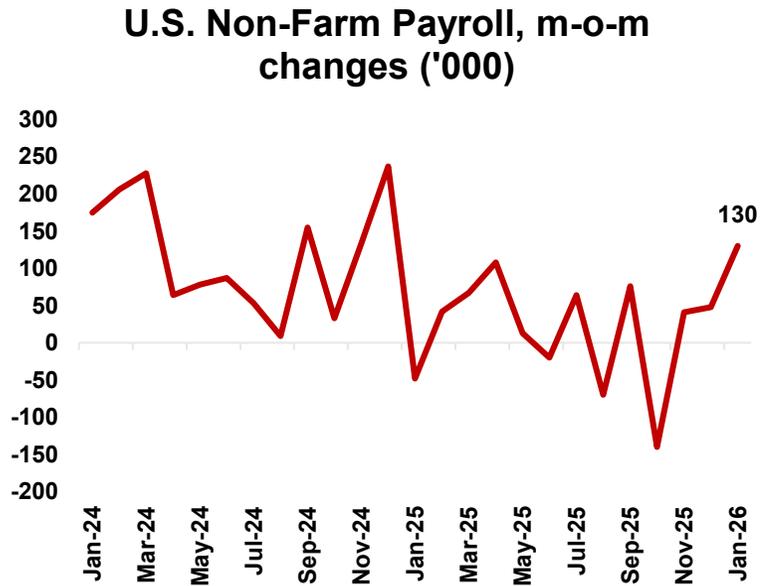
- The Ringgit extended its upward momentum in February, strengthening to an intraday high of RM3.8845 on 27 February — its strongest level since April 2018, before easing slightly to close the month at RM3.8935. On a monthly basis, the Ringgit appreciated by 1.5%, outperforming despite a 0.6% rise in the US Dollar Index over the same period.
- Domestically, the Ringgit was supported by continued foreign inflow into the local markets and Malaysia's strong economic fundamentals, evidenced by the economy expanding by 6.3% y-o-y in 4Q2025, the fastest pace in twelve quarters.
- Meanwhile, the USD rebounded above the 97-level during the month, underpinned by markets repricing their Federal Reserve (Fed) policy expectations against a backdrop of persistent inflation. Of note, the core PCE inflation has remained above target since March 2021 and recently ticked up to 3.0% in December (Nov: 2.8%), reinforcing bets of an extended pause through April.
- On the other hand, job market weakness appeared less severe than expected with the January nonfarm payrolls (NFP) marking the highest level in over a year while the unemployment rate eased to 4.3% (Dec: 4.4%).
- Following the Supreme Court ruling against Trump's reciprocal tariff, Trump announced a global 10% tariff, later to be hiked to 15%, which further extended uncertainty around the inflation and policy outlook.
- Additionally, military operations between Iran and U.S. is expected to drive up oil prices, which would potentially pressure the Fed to keep its interest rates steady for longer.

BANK ISLAM

## **SECTION 2**

The Global Economy

# U.S. ECONOMIC RESILIENCE AND GEOPOLITICAL RISKS DELAY FED EASING HOPES

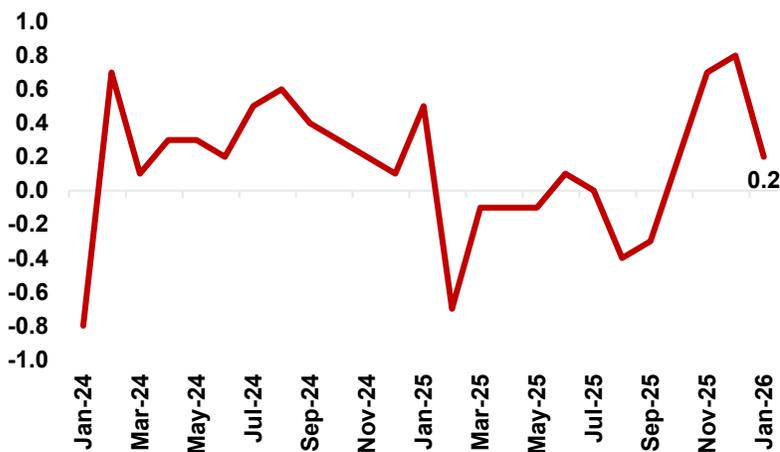


Sources: Bureau of Economic Analysis (BEA), CEIC

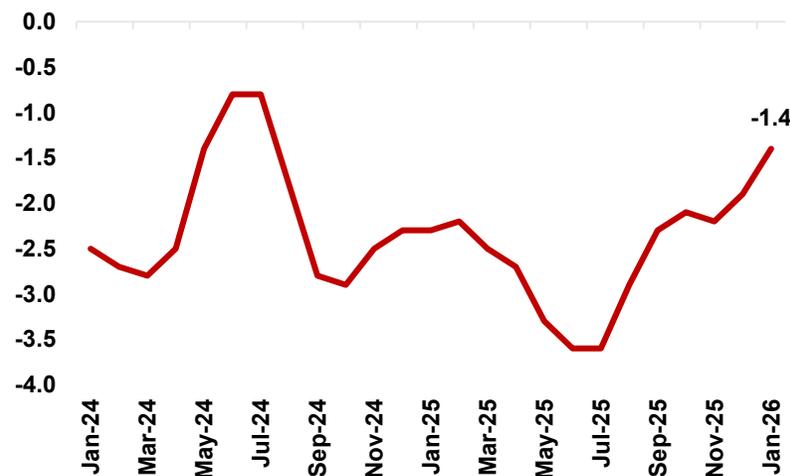
- The U.S. labor market kicked off 2026 on a high note, as January's nonfarm payrolls surged by 130K—shattering the market estimate of 55K. This robust performance offered a reprieve from recent employment anxieties and marked a significant jump from December's revised gain of 48K. Adding to the positive momentum, the unemployment rate unexpectedly dipped to 4.3%, outperforming forecasts that had predicted it would hold steady at 4.4%.
- The headline Personal Consumption Expenditures (PCE) inflation held at 2.9% for December. However, Core PCE—which excludes volatile food and energy prices—came in slightly higher at 3.0%, indicating that underlying inflationary pressures remain somewhat stubborn.
- Escalating geopolitical tensions in the Middle East, particularly involving Iran, have triggered a renewed surge in global oil prices, effectively unwinding earlier market expectations of a Fed rate cut this year. The resulting energy-driven inflationary pressures, compounded by still-sticky core inflation and stronger-than-expected labor market data, have created a more challenging policy environment. While the U.S. labor market's resilience provides some relief, the potential for a sustained "war premium" on crude complicates the Fed's path, shifting the narrative from imminent easing to a more cautious, high-for-longer stance.

# CHINA: DEFLATIONARY PRESSURES PERSIST AMID DEEPENING PROPERTY SLUMP

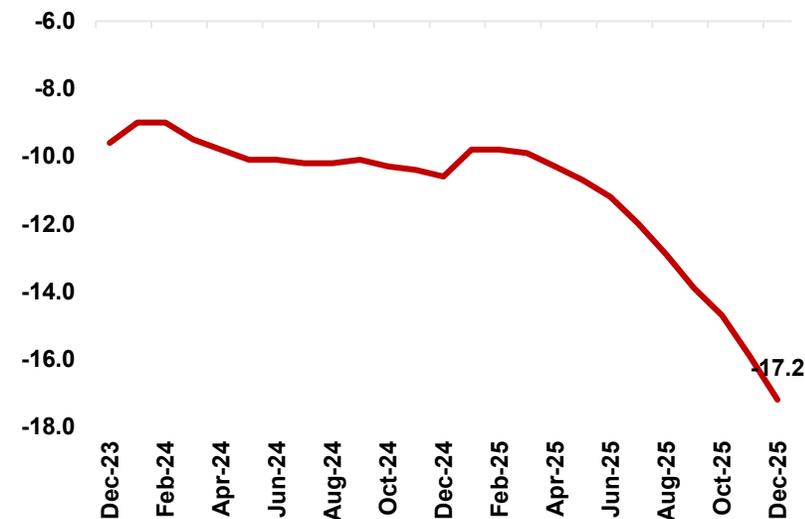
China - Consumer Price Index (CPI),  
y-o-y%



China - Producer Price Index (PPI),  
y-o-y%



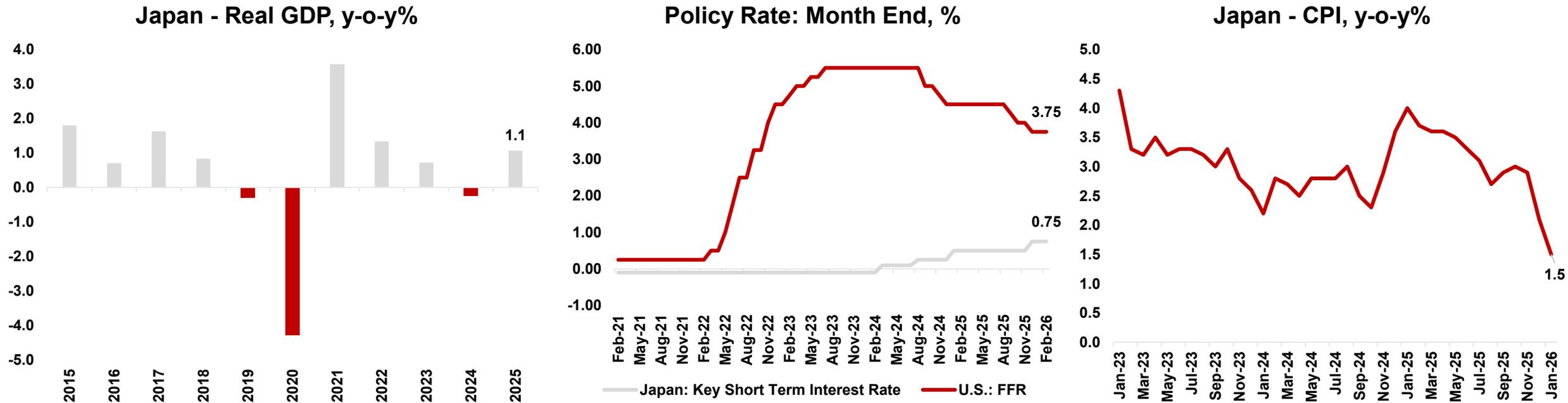
Real Estate Investment, YTD%



Sources: National Bureau of Statistics, CEIC

- China's CPI inflation slowed more than expected in January, dropping to 0.2% from December's 0.8%. This cooling was primarily driven by a sharp reversal in food prices, which fell 0.7% after previously rising 1.1%. This dip was largely a byproduct of the "calendar effect": the Lunar New Year fell in late January last year, creating a high base of comparison, whereas the 2026 celebrations took place in mid-February. Because households typically front-load their holiday spending—triggering a temporary price spike—this downward trend is expected to reverse in the February data. Despite this monthly volatility, the broader outlook for 2026 remains focused on a gradual recovery in food inflation.
- The PPI dropped by 1.4% in January (Dec: -1.9%), a decline that underscores the deep-seated deflationary pressures currently weighing on the industrial sector. This persistent downward trend suggests that manufacturers are facing cooling demand and excess capacity, which may continue to squeeze profit margins across the supply chain.
- China's property sector crisis deepened in 2025 as real estate investment plummeted by 17.2%, an acceleration of the 15.9% decline observed during the year's first 11 months. This worsening contraction signals that state-led policy interventions have yet to find a floor for the market. Consequently, the slump remains a significant headwind for the broader economy, persistently eroding consumer confidence and hollowing out the fiscal reserves of local governments reliant on land sales.

# JAPAN'S DISAPPOINTING GROWTH STALLS AS INFLATION NORMALIZES



Sources: Statistical Bureau, Federal Reserve Economic Data (FRED), CEIC Data,

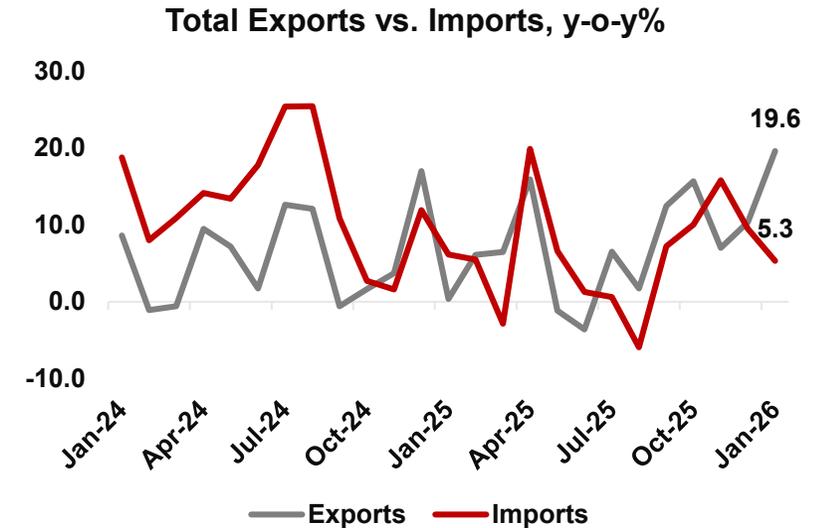
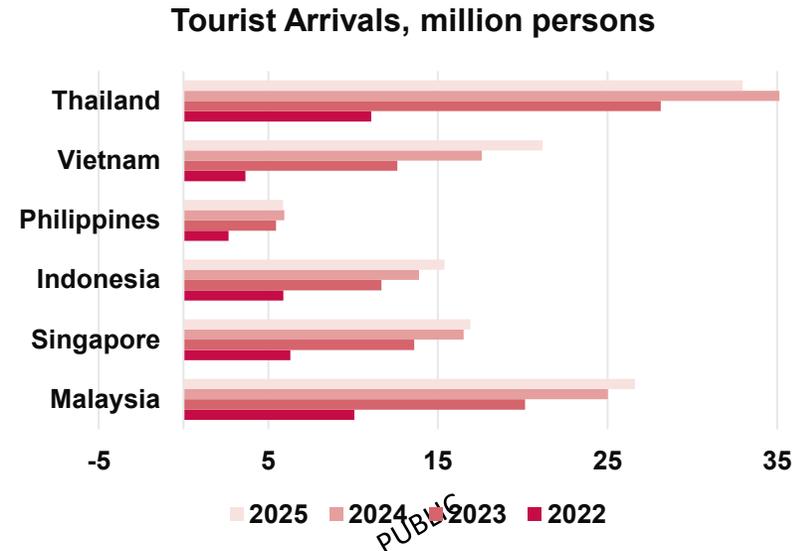
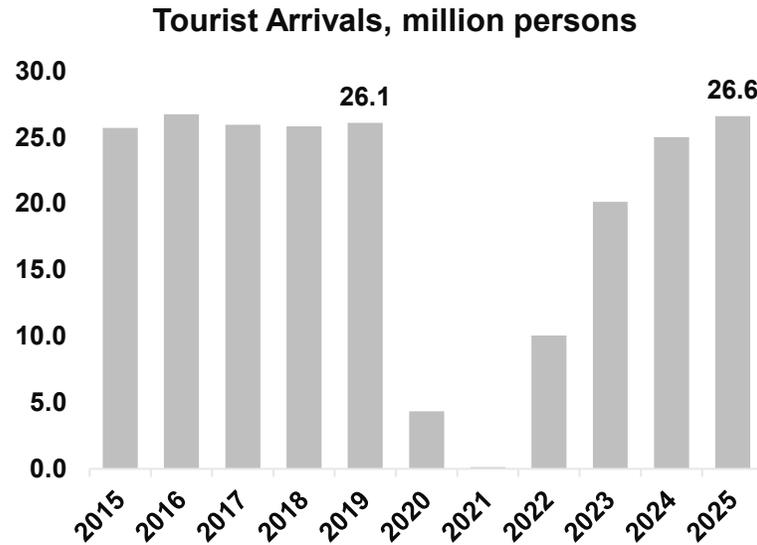
- Japan's economic growth missed market forecasts at the close of 2025, a disappointing development for Prime Minister Sanae Takaichi following her recent landslide election victory. The world's fourth-largest economy expanded by a mere 0.1% in the fourth quarter, significantly trailing the 0.4% growth analysts had anticipated. Despite the weak finish, the full-calendar 2025 figures showed a 1.1% expansion, marking a recovery from the 0.2% contraction recorded in 2024.
- Japan's headline inflation cooled to 1.5% in January, marking its lowest point since March 2022. This shift effectively ended a 45-month streak where inflation consistently outpaced the Bank of Japan's (BoJ's) 2% target. Meanwhile, core inflation—which strips out volatile fresh food prices—eased to 2% from December's 2.4%, landing exactly in line with economist forecasts and hitting its lowest level since the start of 2024.
- Despite slowing headline inflation, the BoJ remains unlikely to delay rate hikes. Policymakers are looking through the recent dip in energy costs, which was largely driven by December's fuel tax repeal rather than organic cooling. With fresh-food prices remaining volatile and underlying pressures persistent, the central bank appears set to maintain its tightening path.

BANK ISLAM

## **SECTION 3**

Domestic Landscape & Banking Sector  
Update

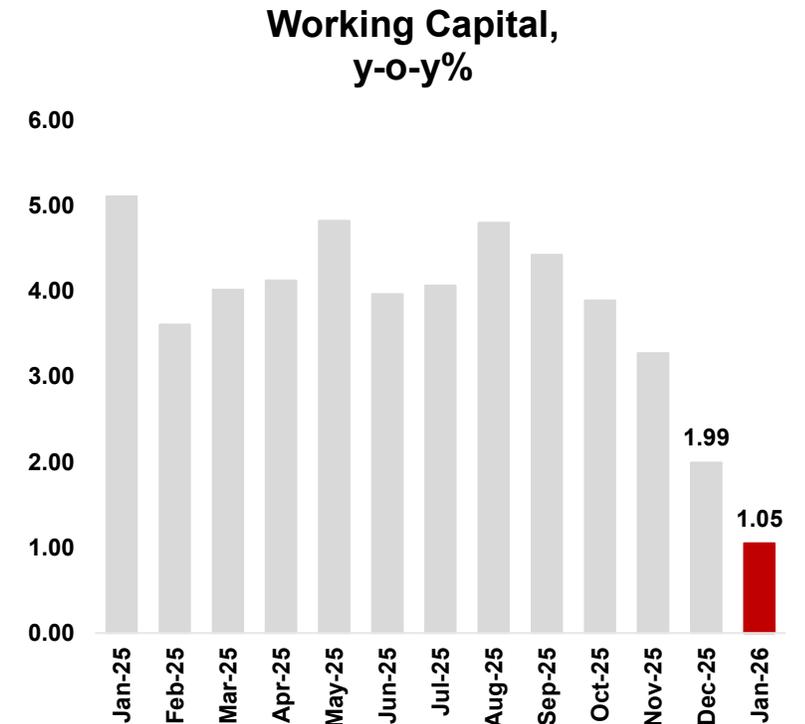
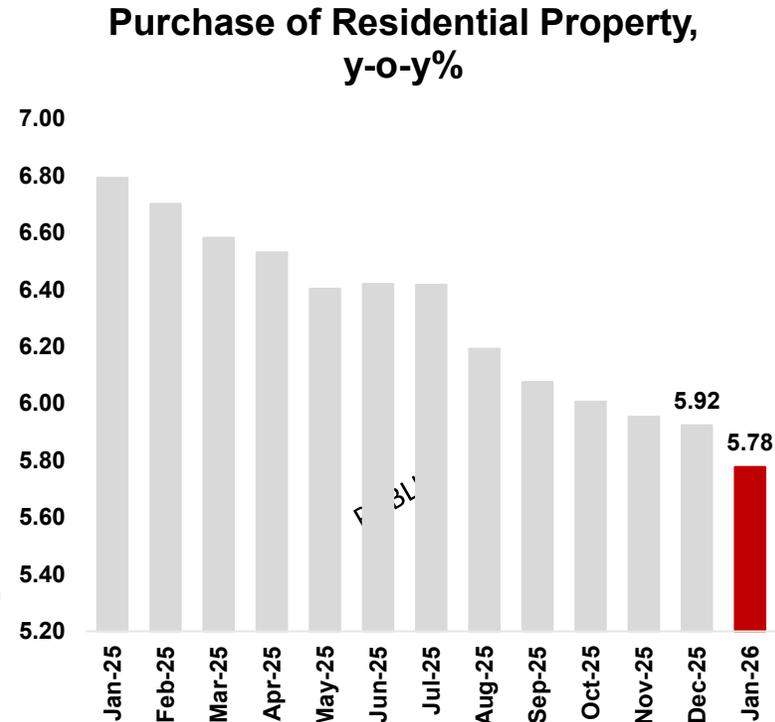
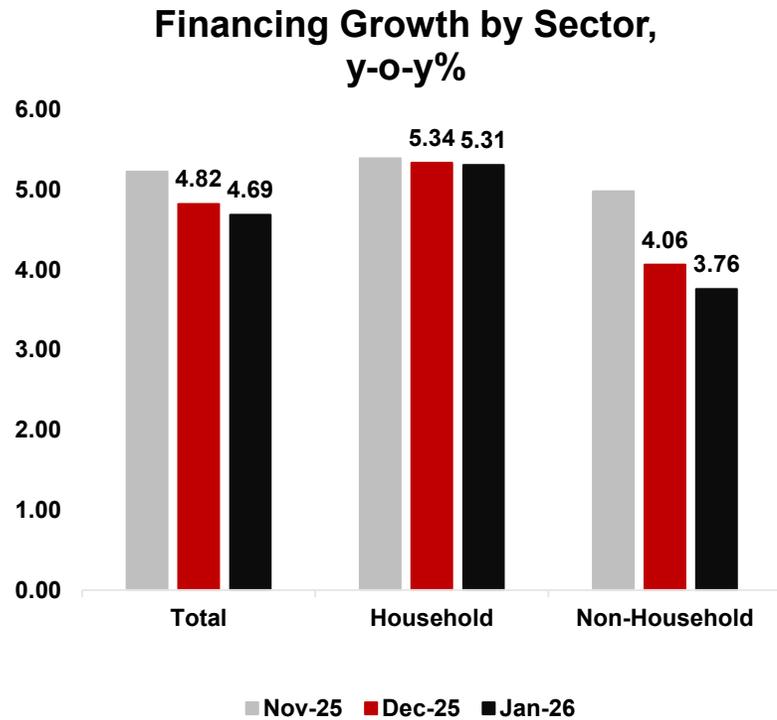
# TRADE MOMENTUM REMAINS STRONG HEADING INTO 2026 WHILE THE TOURISM INDUSTRY IS EXPECTED TO BE LIFTED BY VISIT MALAYSIA 2026



Sources: DOSM, CEIC Data

- External demand held firm in 2025 despite broader economic and geopolitical headwinds, reinforcing Malaysia's structural competitiveness across key economic sectors.
- The tourism industry was thriving amid stronger foreign arrivals linked to the 47th ASEAN Summit and related conferences, improved air connectivity, sustained recovery in demand and the rollout of promotional initiatives ahead of Visit Malaysia 2026. The number of tourist arrivals rebounded to pre-pandemic levels as it surged to 26.6 million in 2025 (2024: 25.1 million), cementing Malaysia as one of the top tourism destinations in ASEAN.
- Meanwhile, trade performance gained further traction in January 2026 with total trade expanding by 12.6% (Dec: 9.9%), underpinned by exports jumping by 19.6%, the fastest pace since October 2022, while imports moderated slightly to 5.3%.
- A closer examination showed that sustained technology-related demand drove the growth in exports with Electrical & Electronic (E&E) products surging by 39.5%. On a sectoral basis, manufacturing exports displayed the strongest expansion (Jan: 22.3%), followed by mining (Jan: 2.7%) while agriculture shipments declined (Jan: -2.7%).
- Although trade momentum appears solid in the first month of 1Q2026, downside risks remain from geopolitical tensions, rising protectionism and global trade uncertainties, particularly stemming from Trump's trade agenda.

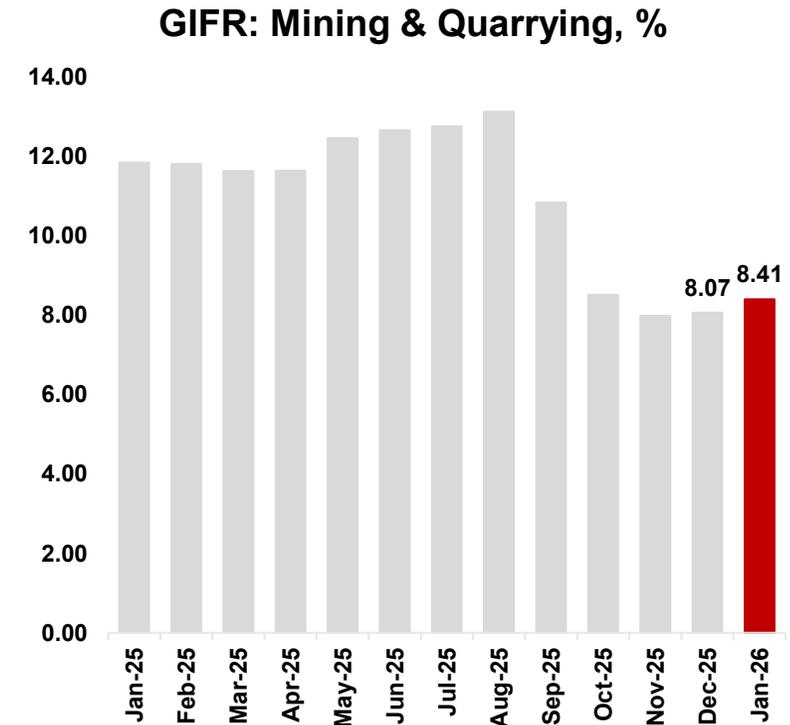
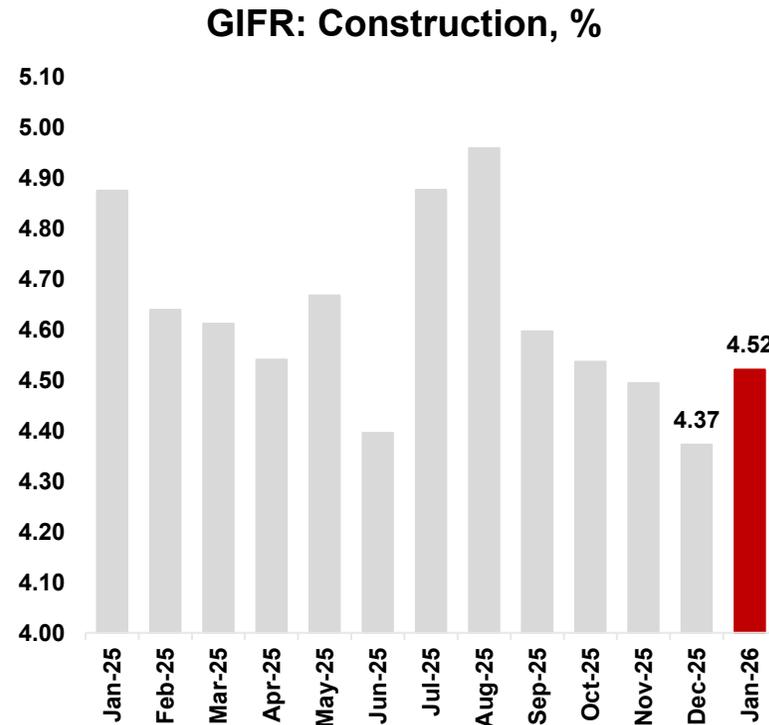
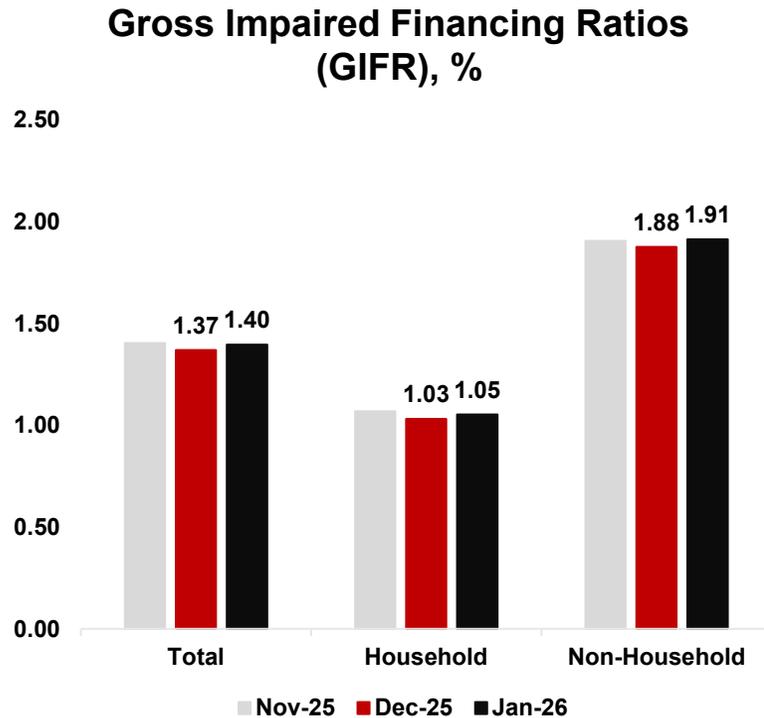
# BANKING SECTOR: FINANCING ACTIVITY SOFTENS AT START OF 2026, DRIVEN BY NON-HOUSEHOLD SEGMENT



Source: BNM

- Financing activities weakened at the start of 2026, with total financing growth slowing to 4.69% in January 2026 (December: 4.82%), mainly weighed down by slower expansion in the non-household segment. Non-household financing growth eased to 3.76% (December: 4.06%), reflecting more cautious business borrowing amid ongoing global economic uncertainties. In contrast, household financing growth remained broadly stable at 5.31%, only slightly lower than December's 5.34%.
- By purposes, financing for residential property (5.78%; December: 5.92%) and working capital (1.05%; December: 1.99%), which together account for nearly 60% of total loan growth, recorded a slowdown. Nevertheless, credit card financing growth picked up to 6.35% in January from 6.0% in December.

# BANKING SECTOR: ASSET QUALITY DETERIORATED IN JANUARY



Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector rose slightly to 1.40% in January 2026 (December: 1.37%), indicating a mild deterioration in overall asset quality. The increase was driven by both household and non-household segments.
- In the household segment, the impairment ratio edged up to 1.05% (December: 1.03%), while impairment in the non-household segment increased to 1.91% (December: 1.88%), suggesting persistent challenges among businesses, particularly in sectors exposed to weaker demand and cost pressures.
- Sectoral data show that the GIFR in the construction sector rose to 4.52% in January (December: 4.37%), likely reflecting slower project rollouts, margin compression from elevated input costs, and softer property market conditions. Similarly, asset quality in the mining and quarrying industry deteriorated, with the impairment rate increasing to 8.41% (December: 8.07%), potentially due to commodity price volatility, softer external demand, and operational cost pressures.

BANK ISLAM

**THANK YOU**