



MONTHLY ECONOMIC UPDATE

4 FEBRUARY 2025

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Geopolitical tensions between the U.S. and the EU over Greenland highlighted the growing risk of political disputes spilling into financial markets and trade, with potential tariffs threatening European countries.** Market concerns eased after President Trump's announcement at the Davos forum outlining a preliminary framework for cooperation on Greenland and the Arctic, which included shared resource access and defense collaboration, and confirmed that the proposed February tariffs would not be implemented. While the deal remains conceptual and details are limited, the episode reinforces the sensitivity of global supply chains and investor sentiment to abrupt policy shifts among major economies.
- **US Federal Reserve keeps fed funds rate unchanged in first meeting of 2026.** As widely anticipated, the Federal Open Market Committee (FOMC) decided to keep its benchmark interest rate unchanged at 3.50%-3.75% on 28th January, following a series of three quarter-point cuts in late last year. Among the 12 committee members, only Fed Governors Stephen Miran and Christopher Waller dissented, favouring another rate cut. The decision reflects improvements in labour market, with the unemployment rate declining further to 4.4% in December, and steady inflation at 2.7% for two consecutive months. Considering these developments and the need to assess the impact of the 75bps, the FOMC judged that a further rate reduction in January^{was not justified} was not justified. Also, the U.S. economy remains on solid footing, with 3Q2025 GDP growth at 4.4% y-o-y, exceeding market forecasts^{Pub}. The strong economy, together with signs of stabilization in the labour market, may extend pause in monetary policy easing, though future policy will remain data-dependent. Fed Chairman Powell also cited that risks to both sides of the Fed's dual mandate have diminished.
- **Malaysia's 4Q2025 advance estimate GDP growth surpasses expectations, lifting full-year growth above official forecast.** According to the advance estimate from Department of Statistics Malaysia (DOSM), Malaysia's economy expanded by 5.7% y-o-y in 4Q2025, outperforming market expectations of 5.0%, driven by broad-based gains across key sectors. The expansion was also supported by resilient domestic demand, complemented by more favourable external conditions. During the quarter, exports growth accelerated to 11.0% y-o-y (3Q2025: 6.8%), led by manufacturing, which expanded by double-digit (12.4%; 3Q2025: 7.6%). The strong manufacturing growth was mainly driven by higher demand for electrical and electronics product, which surged 22.6% in 4Q2025 (3Q2025: 17.6%), partly supported by front-loading of shipments ahead of expected slowdowns and supply-chain uncertainties. With the stronger-than-expected advance estimate for 4Q2025, Malaysia's full year GDP growth for 2025 reached 4.9% (2024: 5.1%), surpassing the government's upper-end target of 4.8%. This strong economic momentum has also partly supported the ringgit, which recently touched below the RM4.00 level against the US dollar. Meanwhile, Bank Negara Malaysia maintained the Overnight Policy Rate (OPR) at 2.75% in its first meeting of the year on 22nd January amid resilient GDP momentum and benign inflation.

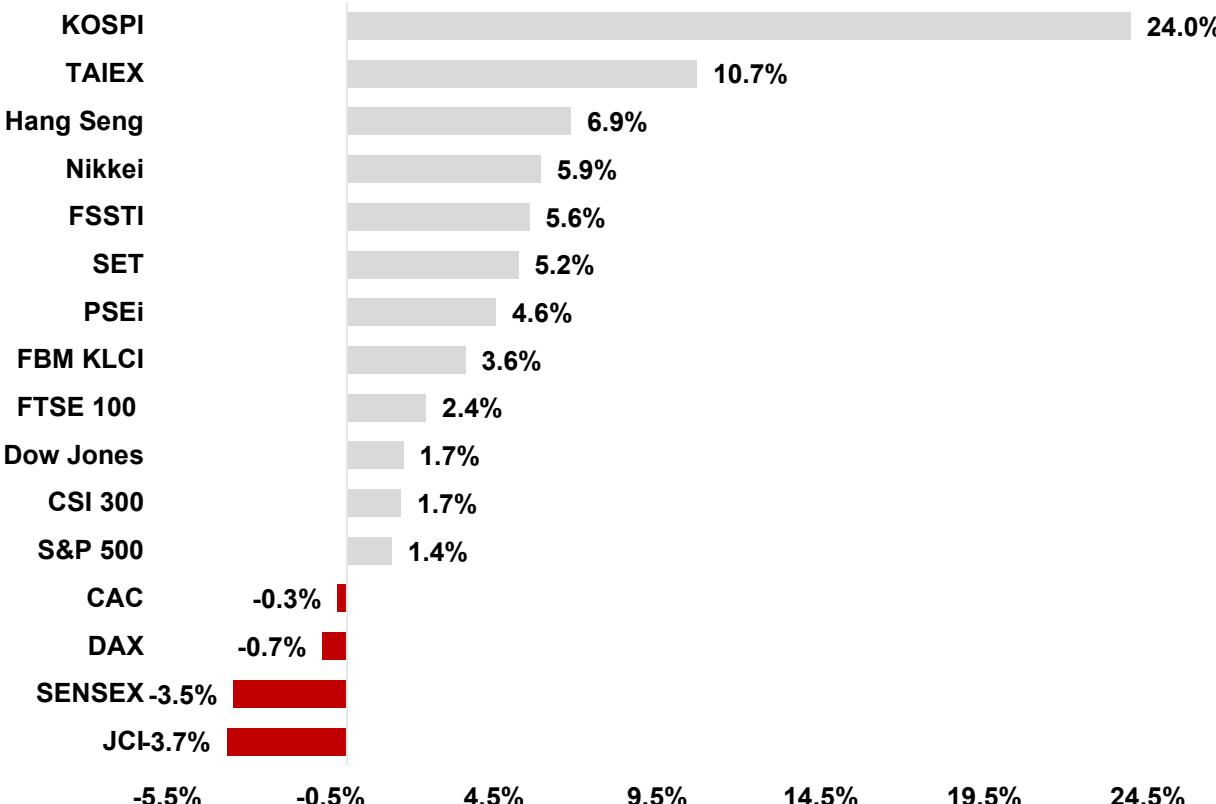


SECTION 1

Malaysia's Financial Market

REGIONAL EQUITY: GLOBAL EQUITIES RALLY IN JANUARY, LED BY SOUTH KOREA AS U.S. OPTIMISM RETURNS

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

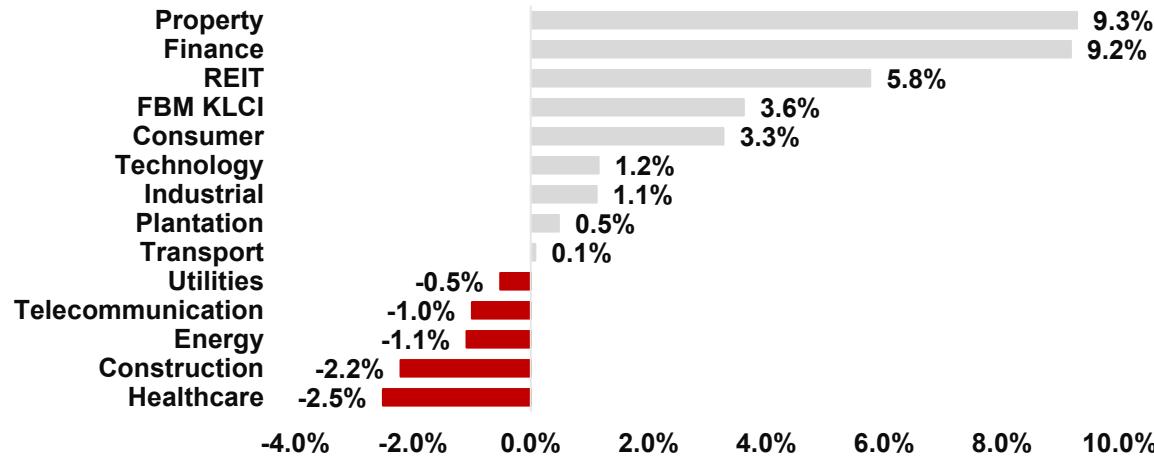


- In January, the regional benchmark indices were mostly in the green sea with South Korea's KOSPI as the major winner, leading by 24.0%, boosted by a recovery in global sentiment and opportunistic buying, the market rallied following a strong overnight performance on Wall Street. The catalyst was a rebound in U.S. manufacturing, which expanded for the first time in a year—soothing economic fears and driving investors toward South Korea's export-driven semiconductor sector.
- U.S. stocks – Dow Jones (+1.7%) and S&P 500 (+1.4%) surged in January. Nevertheless, President Trump's nomination of Kevin Warsh to replace Fed Chair Jerome Powell signaled a shift toward a stricter, more measured approach to interest rate cuts, putting immediate pressure on rate-sensitive sectors that had previously benefited from January's robust rally.
- On the other hand, Indonesia's JCI (-3.7%), India's SENSEX (-3.5%), Germany's DAX (-0.7%) and France's CAC (-0.3%) were the only losers in January.

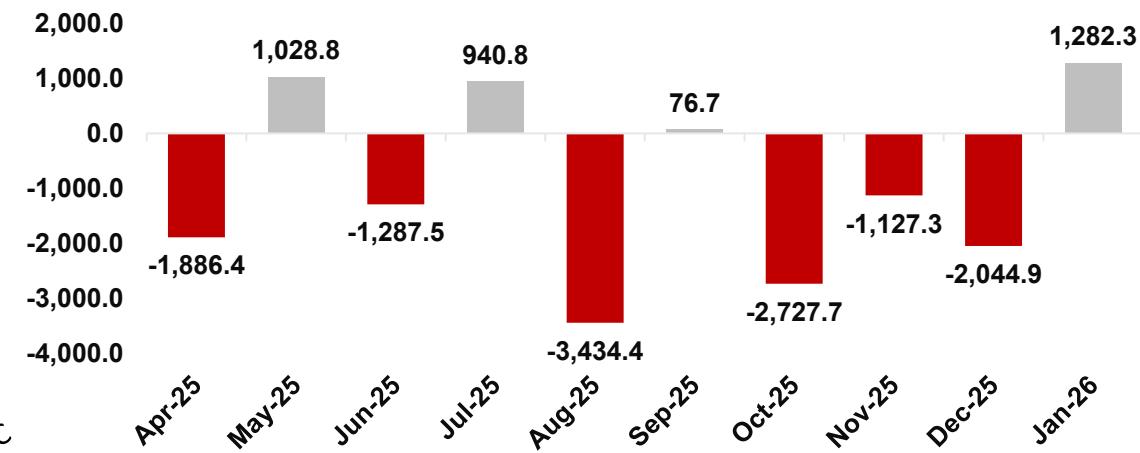
Sources: Bursa, CEIC data

DOMESTIC EQUITY: DOMESTIC ECONOMIC RESILIENCE LIFTS FBM KLCI IN JANUARY

Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



Sources: DOSM, CEIC Data

- The FBM KLCI started the year on a strong footing, briefly surpassing the 1,770 level on 27 January before closing the month at 1,740.9, as investors took profit following recent gains. Overall, the benchmark index rose by 3.6% m-o-m in January (December: +4.7%).
- The strong buying momentum in the local bourse was underpinned by resilient domestic economic conditions, reflected in stronger-than-expected 4Q2025 GDP growth. According to the Department of Statistics Malaysia (DOSM), GDP growth accelerated to 5.7% in 4Q2025, bringing full-year 2025 growth to 4.9%, exceeding the upper end of the official forecast range of 4.8%.
- Labour market conditions also improved, with Malaysia's unemployment rate falling to a more than decade-low of 2.9% in November (October: 3.0%). Meanwhile, the Overnight Policy Rate (OPR) was maintained at 2.75% following the Monetary Policy Committee (MPC) meeting on 22 January, signalling a continued accommodative monetary stance amid resilient economic conditions and benign inflation.
- Malaysia's neutral stance amid geopolitical tensions between the U.S. and the EU over Greenland may have also provided some support to the local market.
- Sectoral performance was broadly positive, led by property (+9.3% m-o-m), followed by finance (+9.2%) and REITs (+5.8%). In contrast, healthcare recorded the steepest decline (-2.5%), followed by construction (-2.2%) and energy (-1.1%).
- Foreign investors emerged as net buyers for the first month of 2026, with a net inflow of RM1.3 billion.

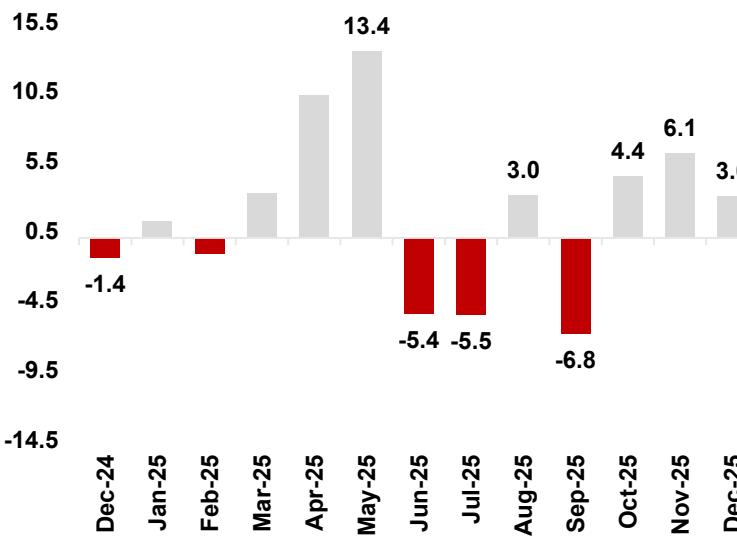
FIXED INCOME: UST YIELDS EDGED UP AS WARSH NOMINATION SIGNALS A MORE HAWKISH FED

Monthly changes, basis points (bps)			
UST	Yields (%) 31-Dec-25	Yields (%) 30-Jan-26	Change (bps)
3-Y UST	3.55	3.60	5
5-Y UST	3.73	3.79	6
7-Y UST	3.94	4.01	7
10-Y UST	4.18	4.26	8
MGS	Yields (%) 31-Dec-25	Yields (%) 30-Jan-26	Change (bps)
3-Y MGS	3.00	3.03	3
5-Y MGS	3.25	3.28	3
7-Y MGS	3.38	3.44	6
10-Y MGS	3.51	3.50	-1
GII	Yields (%) 31-Dec-25	Yields (%) 30-Jan-26	Change (bps)
3-Y GII	3.10	3.12	2
5-Y GII	3.26	3.27	1
7-Y GII	3.34	3.37	3
10-Y GII	3.52	3.53	1

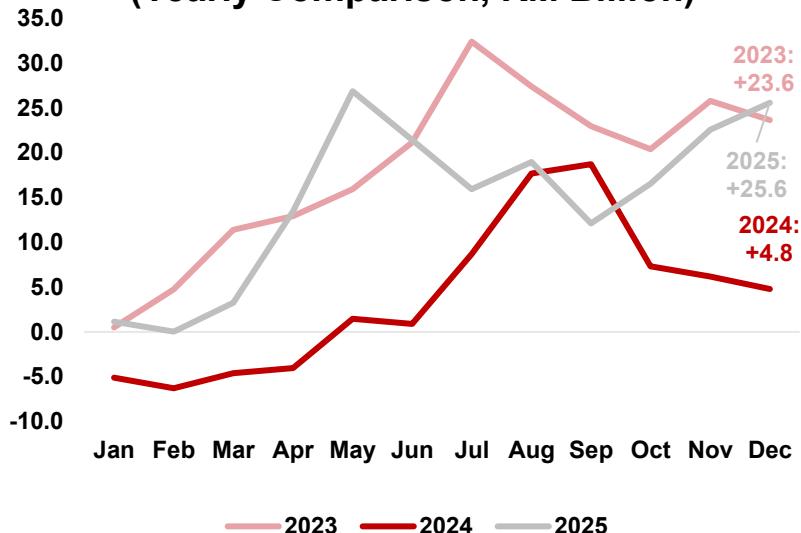
Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) yield curve bearishly steepened by between 5bps and 8bps after President Trump tapped former Governor Kevin Warsh to lead the Fed, the central bank appears headed for a more hawkish era. Warsh, known for his historical opposition to the Fed's post-crisis quantitative easing and his reputation as an inflation hawk, now takes the helm despite his recent alignment with Trump's calls for lower rates. This transition follows the January 28 meeting where the Fed held rates steady, citing balanced risks to its dual mandate.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ticked higher in January in the range of 1bp and 6bps except for 10-Y MGS yield which reduced by 1bp to end the month at 3.50%.
- Foreign fund flows in the local bond market remained in the positive territory with a net foreign inflow of RM3.0 billion in December (Nov: +RM6.1 billion). Consequently, local govvies' foreign shareholdings to total outstanding increased to 21.5% in December (Nov: 21.4%).
- In 2025, the local bond market recorded the cumulative net foreign inflows of RM25.6 billion, significantly higher than the inflows of RM4.8 billion in 2024.

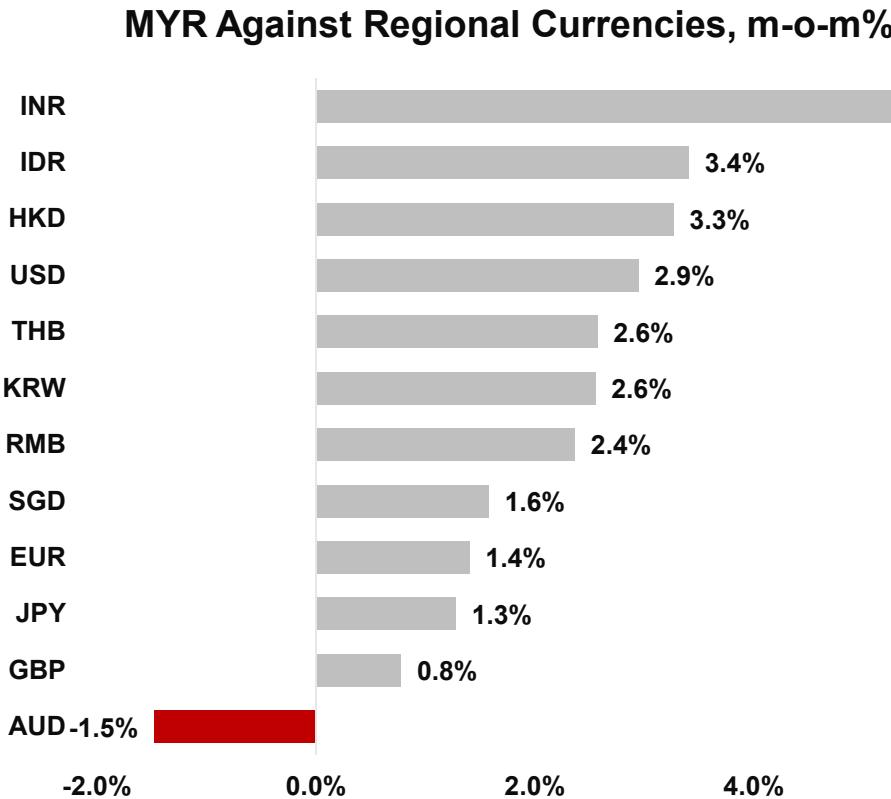
Foreign Fund Flows in Local Bond Market, RM Billion



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



FX MARKET: RINGGIT HIT STRONGEST LEVEL SINCE APRIL 2018 AT RM3.91, DRIVEN BY BEARISH USD AS U.S.-SPECIFIC RISK AVERSION GREW



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

- The Ringgit was on a roll last month, touching RM3.9140 on 28th January, the strongest since April 2018, before retreating to RM3.94 on 30th January. On a monthly basis, the Ringgit had appreciated by 2.9% against the USD.
- The bearish slide of the USD/MYR mirrored the USD's slide, which fell below the 97-level as U.S. policy volatility undermined the reliability of the Dollar.
- In the latter half of the month, risk aversion surged as Trump shared his plans to annex Greenland, a notion that was collectively rejected by the European Union (EU). The transatlantic diplomatic tensions quickly deteriorated into a direct trade confrontation when Trump threatened to impose a 10% tariff, potentially up to 25%, on eight European countries. Markets swiftly reacted as they fled from USD-denominated assets, now seen as highly risky, toward other safe-haven options.
- While ~~the~~ ^{the} episode concluded with Trump announcing a framework agreement for cooperation over Greenland and the broader Arctic region, it highlighted the significant risk marked by Trump's term – his unpredictable policy stance.
- The USD index, which fell below 99.0 following the initial threat, extended its downtrend in the coming weeks as investors became increasingly fatigued with the volatility associated with Trump.
- The wariness was further reinforced by a slew of other trade barriers dished out last week, including but not limited to a 25% tariff on South Korea, a 50% tariff on Canadian aircrafts, on top of the 100% tariff imposed should Canada reach a trade deal with China, as well as potential tariffs on countries supplying oil to Cuba.
- Beyond the USD's weakness, the Ringgit experienced fundamental support from strong investor confidence surrounding Malaysia's growth prospects alongside Bank Negara Malaysia (BNM)'s steady policy outlook, sustaining funds inflow into the local market.



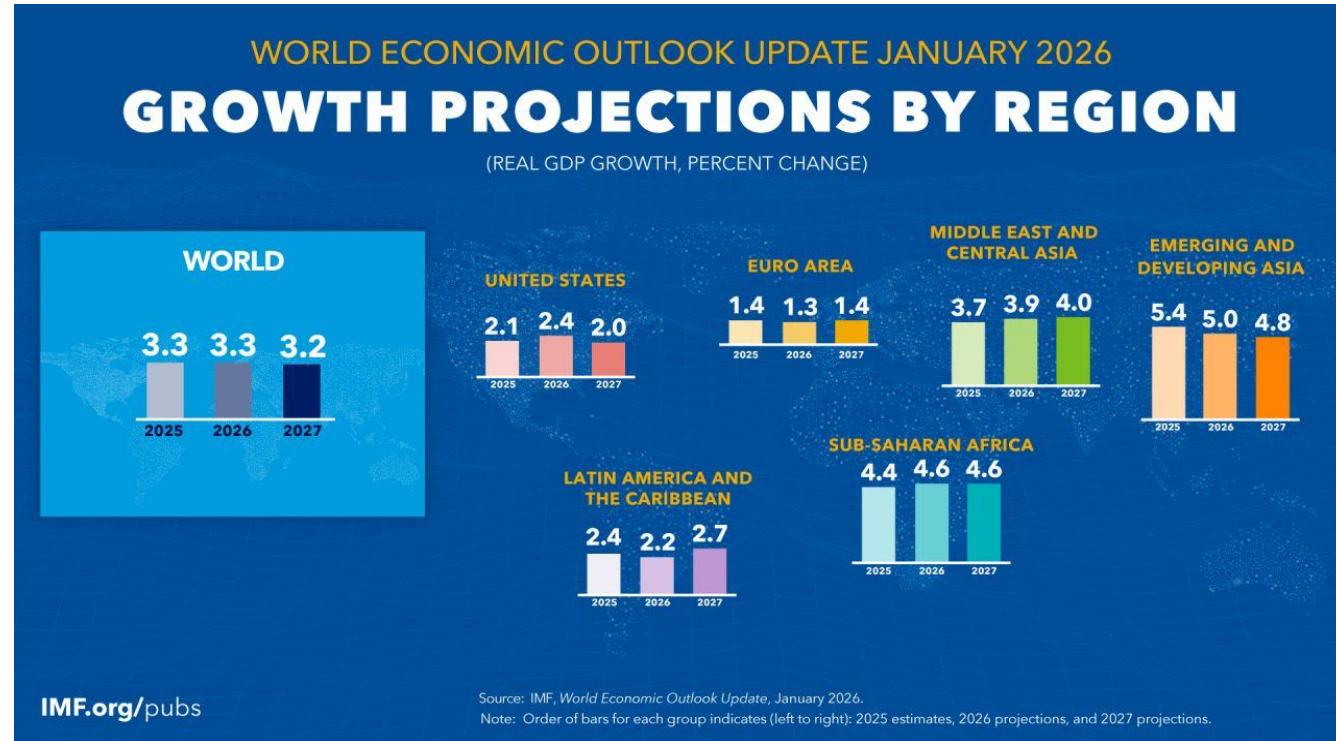
SECTION 2

The Global Economy

GLOBAL GROWTH OUTLOOK BRIGHTENS DESPITE PERSISTENT INFLATION AND GEOPOLITICAL RISKS

World Economic Outlook Growth Projections

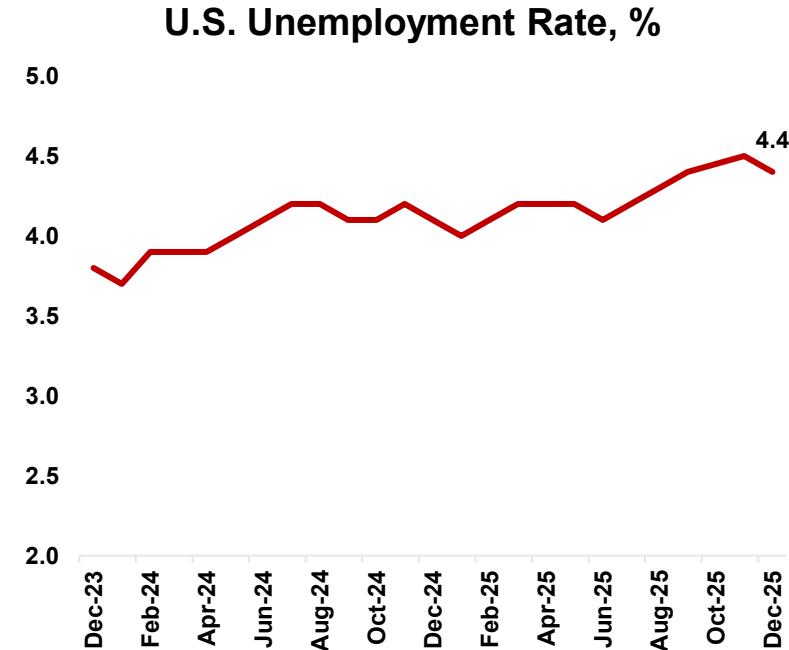
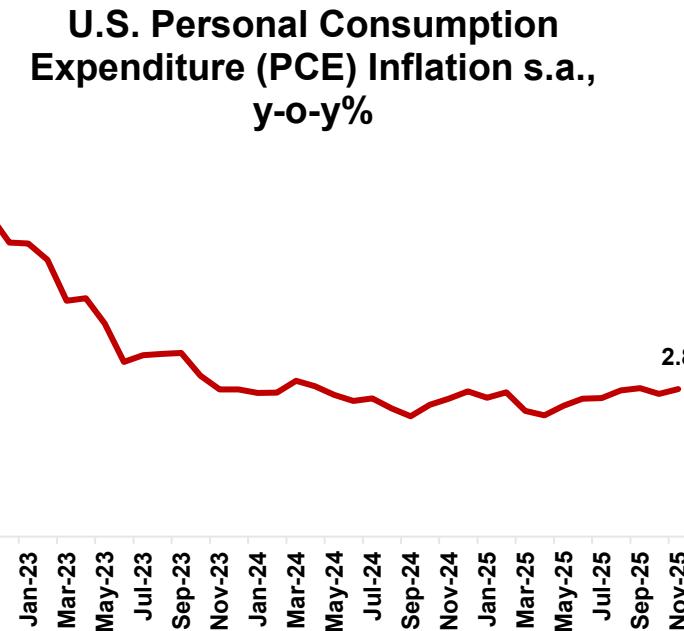
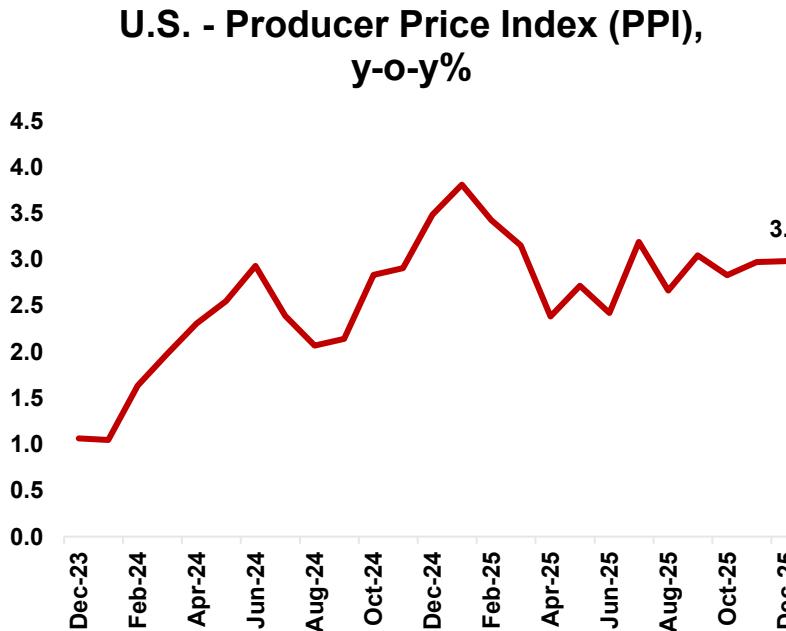
(Real GDP, annual percent change)	ESTIMATE		PROJECTIONS	
	2025	2026	2027	
World Output	3.3	3.3	3.2	
Advanced Economies	1.7	1.8	1.7	
United States	2.1	2.4	2.0	
Euro Area	1.4	1.3	1.4	
Germany	0.2	1.1	1.5	
France	0.8	1.0	1.2	
Italy	0.5	0.7	0.7	
Spain	2.9	2.3	1.9	
Japan	1.1	0.7	0.6	
United Kingdom	1.4	1.3	1.5	
Canada	1.6	1.6	1.9	
Other Advanced Economies	1.8	2.0	2.1	
Emerging Market and Developing Economies	4.4	4.2	4.1	



Sources: International Monetary Fund (IMF), *World Economic Outlook (WEO)*, January 2026

- Global growth forecasts for 2026 and 2027 have been revised slightly upward to 3.3% and 3.2%, respectively, according to the latest World Economic Outlook update. This improved outlook suggests that a combination of robust technology investment, continued fiscal and monetary support, and private sector resilience is effectively neutralizing the potential drag from shifting trade policies and shifting financial conditions.
- While global inflation is projected to cool, the U.S. is expected to see a slower descent toward its target. Major threats to this outlook include a potential correction in tech sector valuations and intensifying geopolitical instability.
- To ensure economic health, policymakers must restore fiscal space and protect market stability. This requires a commitment to lowering uncertainty and implementing the structural changes necessary for modernization.

STICKY INFLATION, MIXED JOBS DATA KEEP FED ON HOLD

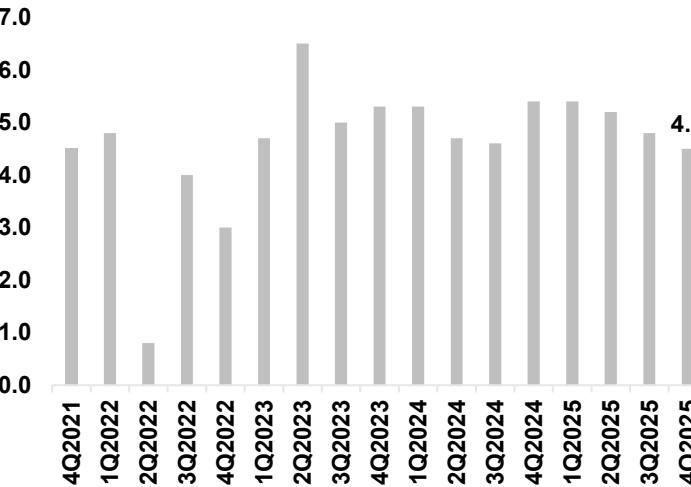


Sources: Bureau of Economic Analysis (BEA), CEIC

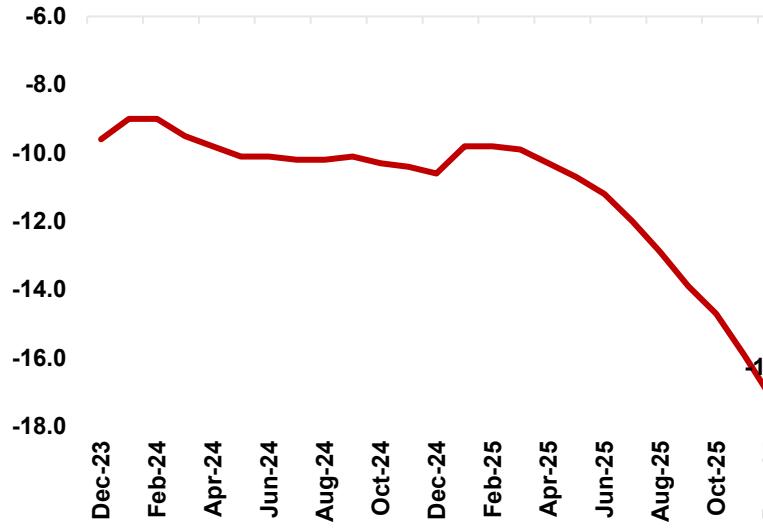
- Producer prices held steady at a 3.0% annual increase through December. While the total 2025 increase of 3.0% was slightly lower than 2024's 3.5%, the underlying data shows a divide: services are surging while goods are stalling. The main drivers were higher trade margins, hotel stays, and flights, which offset the lack of movement in physical product prices.
- In November, the Fed's primary inflation barometer drifted slightly further from its 2% target, though the results aligned with market expectations. The Personal Consumption Expenditures (PCE) price index—the central bank's favored tool for economic forecasting—showed both headline and core inflation holding steady at 2.8% for the month, in line with the market expectations.
- The labor market showed unexpected strength as the unemployment rate fell to 4.4% in December, beating the consensus forecast of 4.5%.
- Hiring missed the mark in December with nonfarm payrolls adding just 50K jobs, failing to meet the 73K forecast and coming in below November's downwardly revised 56K.
- At the time of writing, the market is looking at an 91.0% probability that the Fed will maintain interest rate at 3.50% and 3.75% at the Federal Open Market Committee (FOMC) meeting on March 18.

CHINA'S GROWTH MEETS TARGET BUT DOMESTIC WEAKNESS PERSISTS DESPITE TRADE STRENGTH

China - Real GDP Growth,
y-o-y%



Real Estate Investment, YTD%



China - Exports and Imports, y-o-y%



Sources: National Bureau of Statistics, CEIC

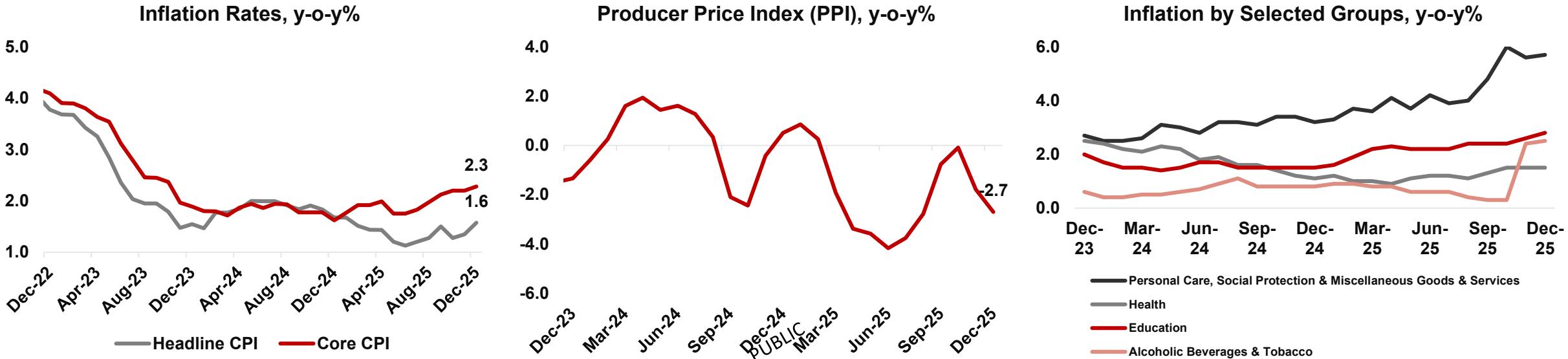
- Official statistics reveal that China's economy expanded by 5% in 2025, successfully reaching Beijing's annual growth target despite marking one of its weakest performances in decades. The world's second-largest economy lost momentum toward the end of the year, with annualized growth cooling to 4.5% in the fourth quarter—a notable decline from the 4.8% and 5.2% growth rates recorded in the third and second quarters, respectively.
- Real estate investment in China contracted by 17.2% in 2025 (11M2025: -15.9%), signaling a prolonged slump and impacting local government revenues and consumer confidence, despite some policy support.
- Chinese customs data highlighted a robust trade performance, with exports surging 6.6% in December. This figure significantly outpaced the 3% growth projected by analysts and accelerated from November's 5.9% increase. On the other side of the ledger, imports climbed 5.7%, far exceeding the 0.9% estimate to mark the strongest growth since September of the previous year. For the full year, China's exports rose 5.5% while imports remained unchanged, driving the annual trade surplus to a record USD1.19 trillion—a 20% jump compared to 2024.



SECTION 3

Domestic Landscape & Banking Sector
Update

ANNUAL 2025 INFLATION WAS SUBDUED AMID LOWER GLOBAL COMMODITY AND ENERGY PRICES ALONGSIDE RON95 SUBSIDY REFORM



Sources: DOSM, CEIC Data

- Price dynamics in Malaysia had been increasingly skewed towards domestic demand factors, culminating in a more subdued headline reading while underlying price pressures mount. On one hand, global energy prices remained moderate, mitigating supply-side inflationary pressures. Evidently, Producer Price Index (PPI) recorded a deeper decline of 2.7% in December (Nov: -1.8%) while the annual PPI fell by 2.0%, a sharp pivot from 0.3% in 2024.
- On the other hand, household consumption is increasingly skewed towards discretionary spending and essential services, underpinned by the ongoing post-pandemic recovery in demand as well as growing health awareness.
- Key policy reforms also shaped this environment. The Budi Madani RON95 (BUDI95) subsidy program has eased transport-related financial burden on consumers while the expanded Sales and Services Tax (SST) resulted in higher prices elsewhere.
- In December, Malaysia's headline inflation increased to 1.6% y-o-y in December (Nov: 1.4%), the highest in eleven months. However, on an annual basis, headline inflation eased to 1.4% in 2025, notably softer than 1.8% in 2024.
- Meanwhile, core inflation edged up to 2.3% in December (Nov: 2.2%), culminating in an uptick to 2.0% in 2025 (2024: 1.8%).
- Looking closer, prices rose across the Personal Care, Social Protection & Miscellaneous Goods & Services (+5.7%), Education (+2.8%) and Alcoholic Beverages & Tobacco (+2.5%), groups, among others.

BANKING SECTOR: FINANCING GROWTH MODERATES IN DECEMBER AMID NON-HOUSEHOLD SLOWDOWN

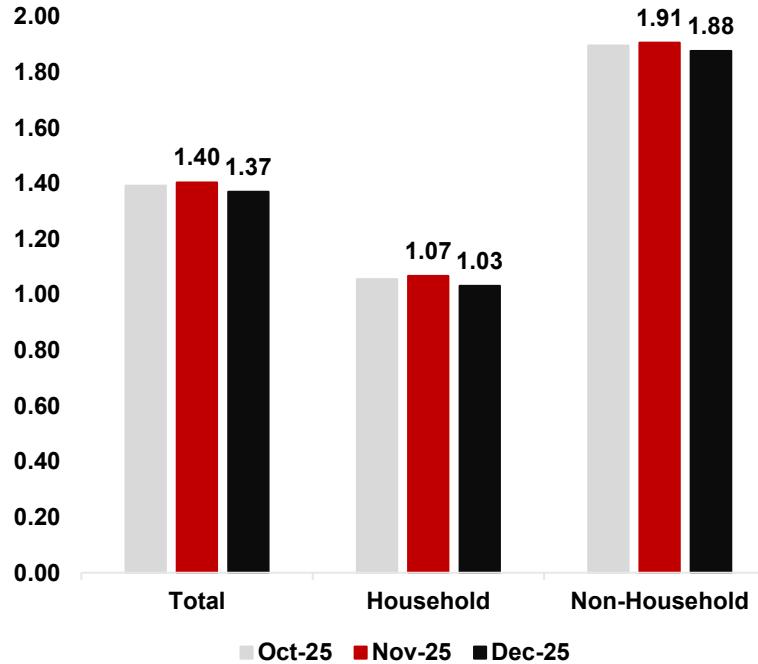


Source: BNM

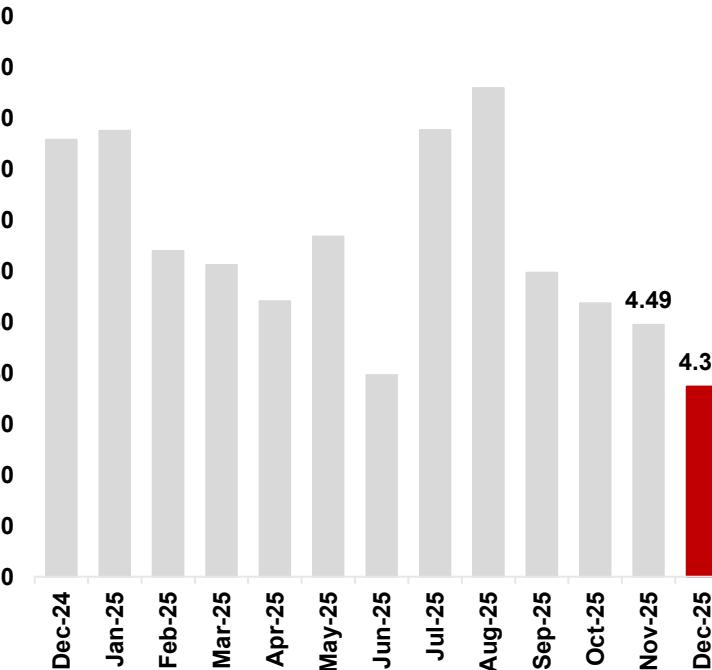
- Financing activities lost momentum in December 2025, slowing to 4.82% from 5.23% in the previous month, marking the lowest growth since October 2023. A significant deceleration in non-household financing growth (4.06; November: 4.06%) was the main drag on overall financing growth during the month, while the household sector growth remained resilient at 5.34% (November: 5.39%).
- A slower pace of growth was recorded across financing purposes. Financing for residential property, which accounted for 38.0% of total financing, continued to register a downward growth trend over the months. Meanwhile, credit card financing growth softened markedly to 6.01% in December from 8.32% in November.

BANKING SECTOR: OVERALL ASSET QUALITY IMPROVED IN DECEMBER

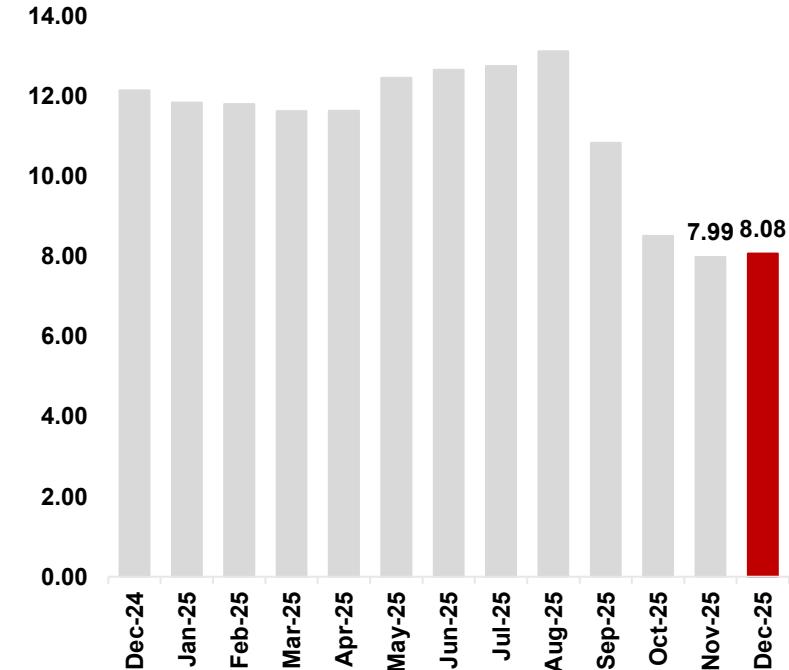
GIFR, %



GIFR: Construction, %



GIFR: Mining & Quarrying, %



Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector improved to 1.37% in December (November: 1.40%). The GIFR in the household segment declined slightly to 1.03% in December (November: 1.07%), while impairment in the non-household sector eased to 1.88% during the month (November: 1.91%).
- The impairment rate in the construction sector decreased further to 4.37% in December, down from 4.49% in November. Nevertheless, asset quality in the mining and quarrying industry deteriorated marginally, with the impairment rate increasing to 8.08% (November: 7.99%).



THANK YOU