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MONTHLY ECONOMIC UPDATE

4 AUGUST 2025

ECONOMIC RESEARCH

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

KEY TAKEAWAYS

- **The International Monetary Fund (IMF) raised the global growth projection higher for 2025 in its July World Economic Outlook (WEO).** Global GDP is currently expected to grow by 3.0%, slightly higher from the earlier estimate of 2.8%, with 2026 growth forecasted at 3.1%. This upgrade was due to a stronger-than-expected economic growth in the first half of the year amid front-loading activities ahead of tariffs, lower U.S. effective tariff rates on its trading partners, and better financial conditions. Nevertheless, the institution notes that this momentum may be temporary, driven by business accelerating purchases ahead of future tariff hikes rather than lasting structural improvements. In the U.S., growth is now projected at 1.9%, 0.1 percentage point (ppt) higher than the April's forecast, while China's GDP is revised upward by 0.8 ppt to 4.8%. Despite these upward revisions, the IMF remains cautious as risks from renewed trade frictions, geopolitical tensions and uncertainty in fiscal policy could still derail the global recovery. While the near-term growth looks better than expected, the global economy is not out of the wood yet and remains vulnerable to shocks.

- **The U.S. Federal Reserve (The Fed) decided to keep its interest rate unchanged at 4.25%-4.50%.** As widely expected, the Fed maintained the Fed Fund Rate (FFR) at the current level, marking the fifth straight meeting without any adjustment. This signals that the Fed is staying cautious despite growing pressures from both markets and politics. The decision suggests the Fed views the current level as a good middle ground that is tight enough to keep inflation in check, but not so high that it chokes off growth. President Trump has been loudly criticizing the Fed, calling for immediate and aggressive rate cuts to boost the economy. Yet Jerome Powell is making clear that the decisions are based on data, not political noise. U.S. inflation picked up in June, mainly due to rising prices on imported goods after new tariffs. High inflation may delay Fed rate cuts, but weak job data is shifting sentiment. July nonfarm payrolls rose by just 73,000, well below expectations, while May and June figures were sharply revised down. As a result, market expect a 25bps cut in September jumped from 40% to 80%, with additional cuts now expected in October and December.

- **U.S. reduces tariffs on Malaysian imports to 19% from 25%.** The new tariff rates bring Malaysia in line with those applied to Thailand, Indonesia, Cambodia, and the Philippines. Importantly, Malaysian semiconductor and pharmaceutical products remain fully exempt, retaining a 0% tariff. The revised structure will take effect on August 8 and will apply to goods entering the U.S., with limited exceptions for shipments already in transit before August 1. As part of the agreement, Malaysia committed to reducing or eliminating tariffs on 98.4% of the items requested by the U.S., covering a total of 11,260 product lines. Of these, approximately 61%, primarily industrial and manufacturing goods, will become fully duty-free, while the remaining 39% will be subject to reduced tariff rates. While the lower rates offer some relief, exporters, particularly SMEs, may still struggle to absorb the additional costs tied to the revised tariff framework.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: GLOBAL STOCKS SOARED IN JULY, LED BY THAILAND AS TRADE TENSIONS EASE

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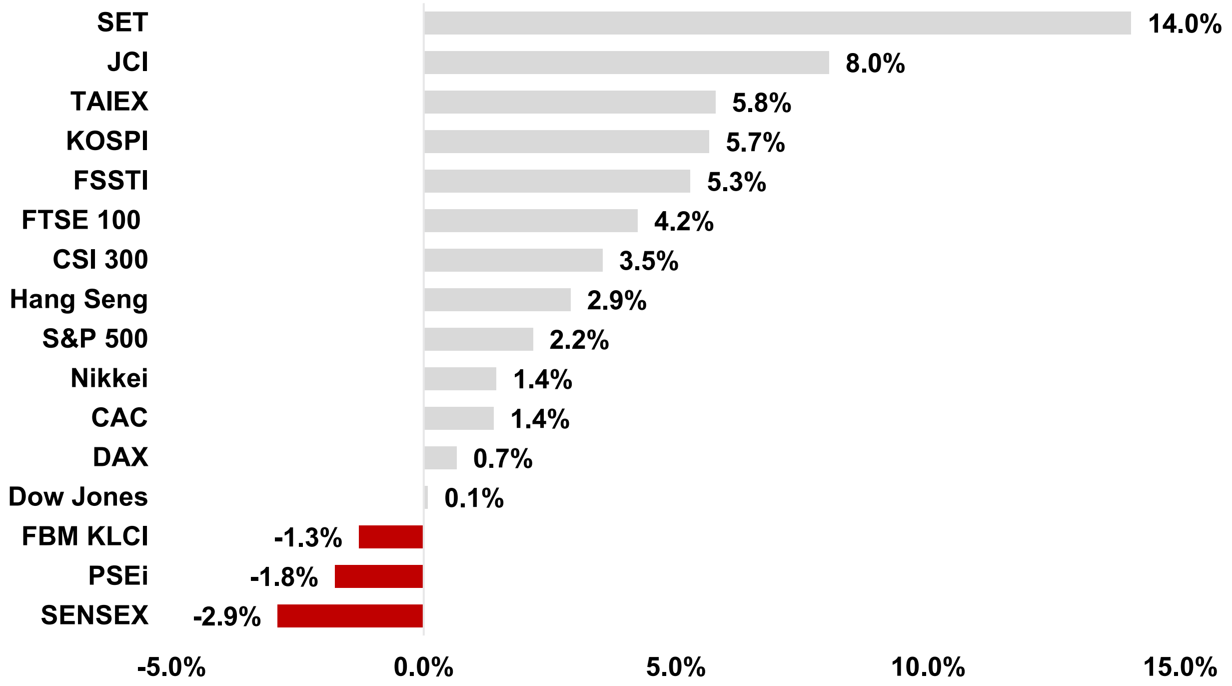

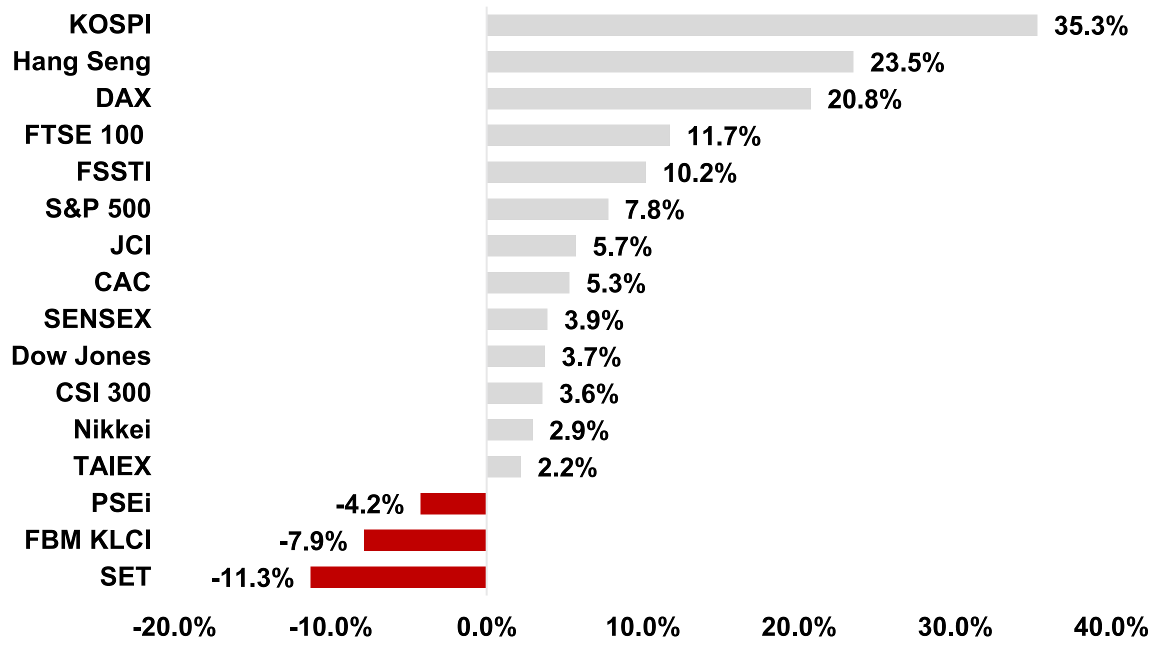

Sources: Bursa, CEIC data

- Global stock markets mostly ended July in positive territory, with Thailand's SET emerging as the top performer, surging 14.0%. The rally followed the finalization of a trade agreement between the U.S. and Thailand, concluding several rounds of negotiations with the Trump administration. Under the deal, a 19% import tariff will be imposed on Thai goods entering the U.S., significantly lower than the 36% reciprocal tariff initially proposed by President Trump in early April. This new rate also replaces the 20% baseline tariff that was set to take effect after the August 1 deadline.
- In addition, U.S. stocks – S&P 500 (+2.2%) and Dow Jones (+0.1%) soared, driven by continued strength in personal spending, consumption, and unemployment claims in June, despite the elevated PCE prices.
- Meanwhile, India's SENSEX (-2.9%), Philippines PSEi (-1.8%) and Malaysia's FBM KLCI (-1.3%) were the only major losers in July.
- YTD, South Korea's KOSPI emerged as the top performer in July, with a gain of 35.3%.

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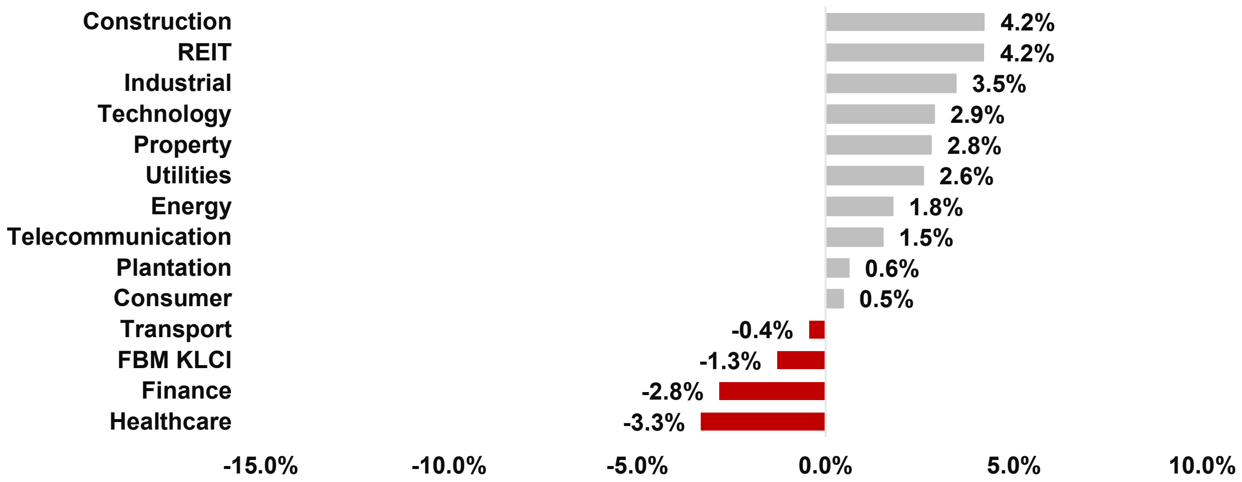
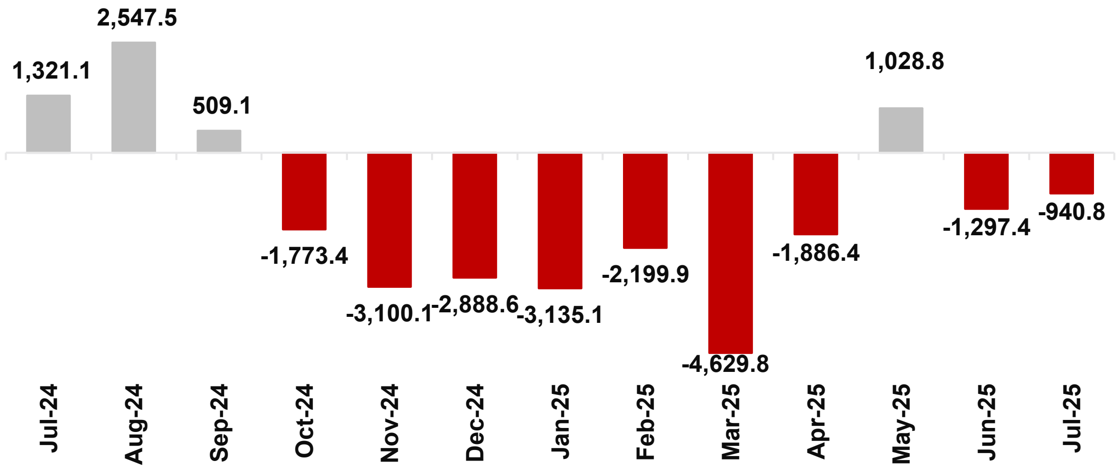
DOMESTIC EQUITY: FBM KLCI SLIPS IN JULY AMID TARIFF UNCERTAINTY, BRIEFLY LIFTED BY DOMESTIC STIMULUS

Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



Sources: DOSM, CEIC Data

- The FBM KLCI lost momentum in July, declining 1.3% m-o-m to close at 1,513.30, reversing from a 1.6% gain recorded in June. Early losses in the month were largely triggered by U.S. President Trump's announcement of unilateral tariffs on selected trade partners, including Malaysia, raising tariffs on Malaysian goods to 25%, up from the earlier proposed 24%. However, the market rebounded after Prime Minister Datuk Seri Anwar announced new stimulus measures to support domestic demand amid global uncertainties, pushing the index up to 1,540.32 on July 24.
- Despite the rebound, gains were short-lived as concerns lingered over the unresolved U.S.-Malaysia tariff deal, particularly with other regional countries having already reached agreements. However, sentiment improved on August 1 following the announcement of the 13th Malaysia Plan (13MP) and the U.S. decision to lower tariffs on Malaysian imports from 25% to 19%, which helped lift the market to close at 1,533.35.
- Most sectoral indices ended in the green, led by construction with a 4.2% growth, followed by REIT (+4.2%) and Industrial (+3.5%). Meanwhile, the Healthcare index remained the biggest loser, recording the steepest monthly decline of -3.3%, followed by Finance (-2.8%), and Transport (-0.4%).
- Foreign investors continued to sell Malaysian equities in July, registering a net outflow of RM0.9 billion. This brought the year-to-date (YTD) net outflow to RM13.1 billion, reflecting sustained cautious sentiment.

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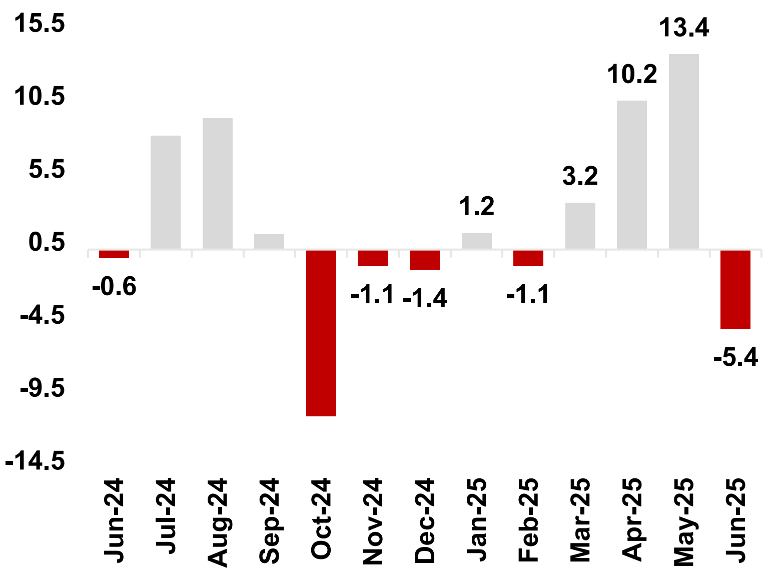
FIXED INCOME: UST YIELDS CLIMBED AMID STUBBORN INFLATION AND SLUGGISH GROWTH SIGNALS

Monthly changes, basis points (bps)

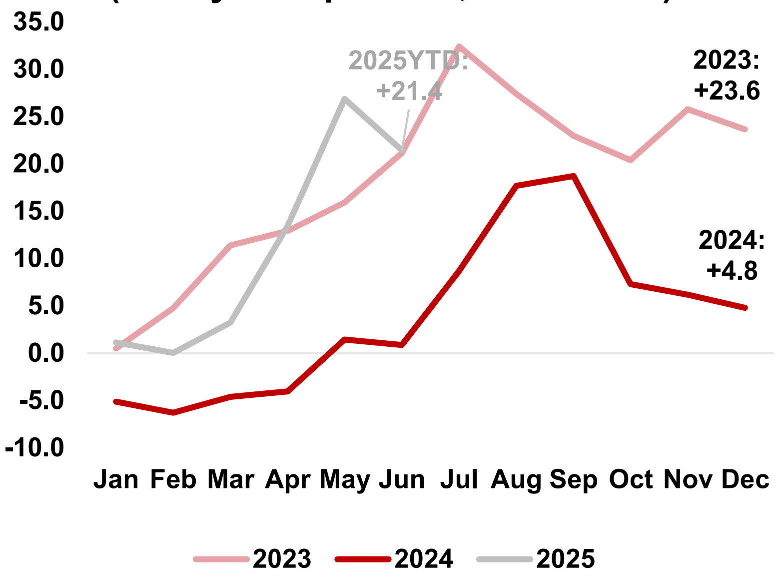
UST	Yields (%) 30-Jun-25	Yields (%) 31-Jul-25	Change (bps)
3-Y UST	3.68	3.89	21
5-Y UST	3.79	3.96	17
7-Y UST	3.98	4.14	16
10-Y UST	4.24	4.37	13
MGS	**Yields (%) 30-Jun-25**	**Yields (%) 31-Jul-25**	**Change (bps)**
3-Y MGS	3.14	3.05	-1
5-Y MGS	3.20	3.15	-5
7-Y MGS	3.40	3.34	-7
10-Y MGS	3.49	3.37	-11
GII	**Yields (%) 30-Jun-25**	**Yields (%) 31-Jul-25**	**Change (bps)**
3-Y GII	3.16	3.10	-6
5-Y GII	3.28	3.19	-9
7-Y GII	3.39	3.33	-6
10-Y GII	3.52	3.41	-10

Sources: BNM, Federal Reserve Board

Foreign Fund Flows in Local Bond Market, RM Billion

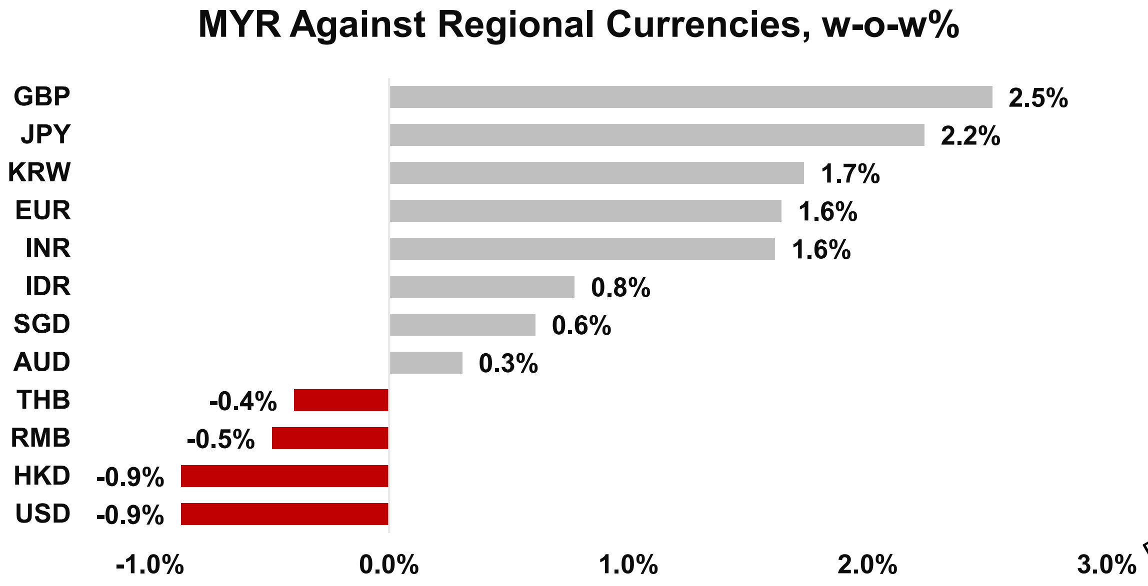


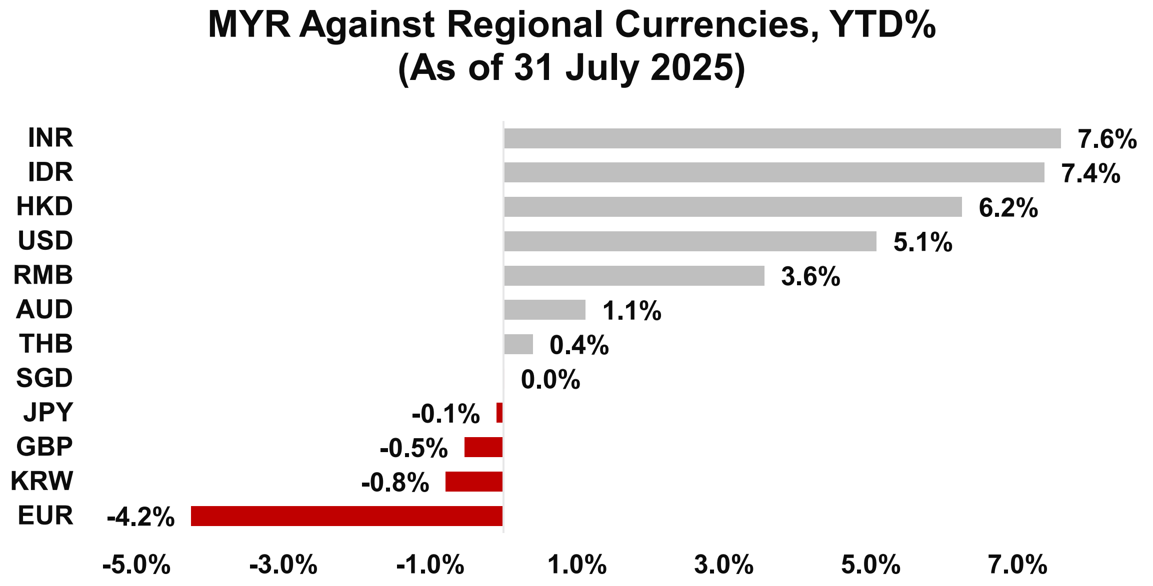
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



- The U.S. Treasury (UST) yields surged in the range of 13bps and 21bps as investors are currently navigating a complex economic landscape, balancing persistent inflation against slowing economic growth. The Fed's preferred inflation indicator, core Personal Consumption Expenditures (PCE) registered a 2.8% rise in June (May: +2.7%). This suggests that inflation remains stubborn, while data showing minimal growth in consumer spending indicates a potential slowdown in economic activity.
- In contrast, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields edged down by between -1bp and -11bps.
- Foreign fund flows in the local bond market recorded a net foreign outflow of RM5.4 billion in June (May: +RM13.4 billion). Consequently, local govvies' foreign shareholdings to total outstanding surged to 22.8% in June (May: 23.3%).
- As of 1H2025, the local bond market recorded the cumulative net foreign inflows of RM21.4 billion, higher than the inflows of RM0.9 billion in the same period in the previous year.

FX MARKET: RINGGIT DECLINED AS THE U.S. FED MAINTAINED INTEREST RATES AT 4.25-4.50%, SIGNALS CAUTIOUS PATH FORWARD





Sources: Bank Negara Malaysia(BNM), CEIC Data

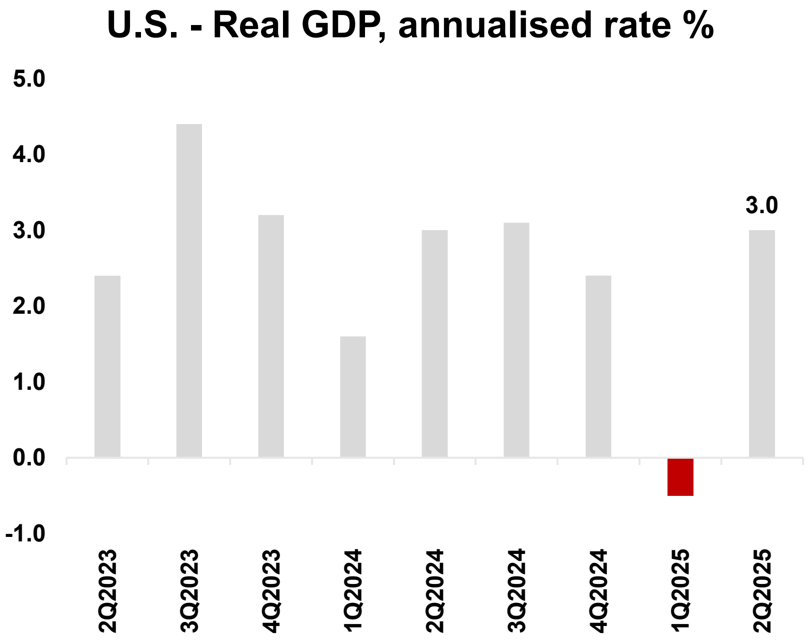
- The Ringgit depreciated by 0.9% m-o-m against the USD for the month ending July 31 as the USD index gained some last-minute boost following the Federal Reserve Board (Fed)'s July meeting.
- Starting the month on a solid footing with the Ringgit marking the highest level since early October 2024 (July 1: RM4.193), the local note experienced some volatility amid Trump's unpredictable trade moves. Notably, Malaysia was hit with 25% tariffs in his first round of tariff letters, one percentage point higher than the 24% Liberation Day rate. Nonetheless, the Ringgit had recovered following Prime Minister Datuk Seri Anwar Ibrahim's surprise announcement of several government measures to support domestic consumption while on the trade front, Malaysia successfully finalized a trade deal with the U.S. that brought down tariffs on Malaysian goods to 19%.
- However, the USD rebounded from its trade-induced weakness at month-end as the Fed opted to keep its Federal Funds Rate (FFR) steady at 4.25-4.50%, signaling that the central bank needs more clarity on the impact of Trump's trade policies on the inflation and economic outlook before moving on rates. This had propelled the USD to soar to a two-month high above the 100-level during the week.
- Nevertheless, cooler than expected job market surprised markets on Friday, erasing the USD's gains when the Nonfarm Payrolls (NFP) for May and June were revised lower by 258K, suggesting the job market is easing swifter than expected.

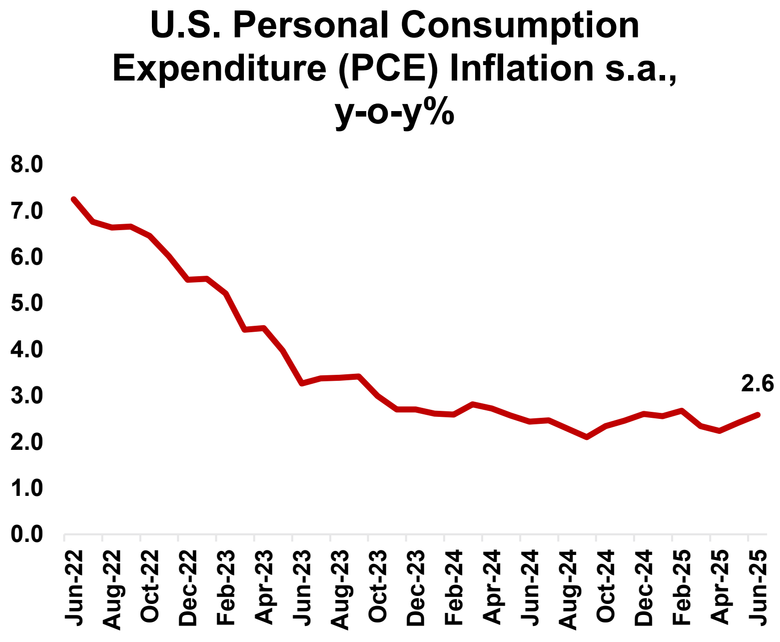
SECTION 2

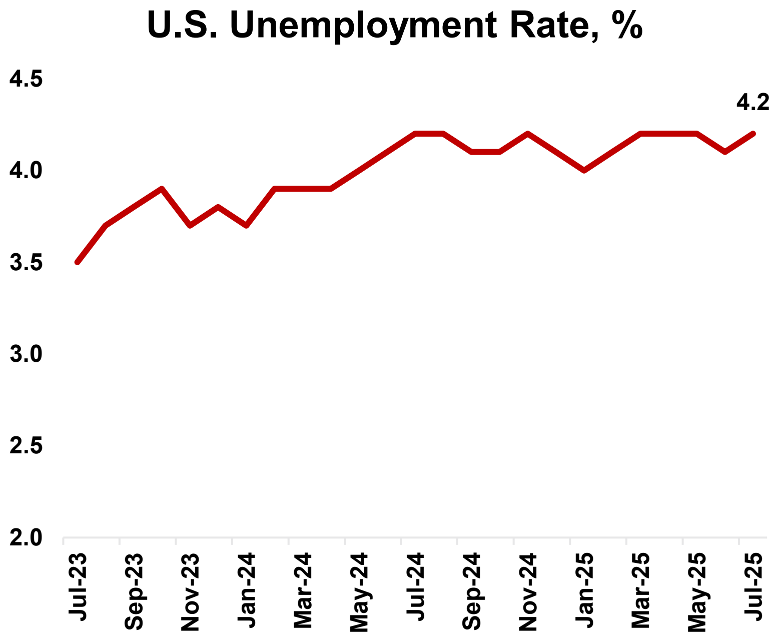
The Global Economy

PUBLIC

U.S. GROWTH BEATS EXPECTATIONS, BUT SOFT DOMESTIC DEMAND AND TARIFF DRIVEN INFLATION RAISE CONCERNS







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

- While U.S. economic growth rebounded to an annualized 3.0% in 2Q25, beating expectations after 1Q25 contraction, this figure overstates the economy's true health. The improvement was primarily driven by declining imports, masking the fact that domestic demand saw its slowest growth in two and a half years.
- The Fed's preferred inflation gauge, the PCE price index, revealed a sharper-than-anticipated increase in June. Businesses, facing tariff costs, largely passed these on to customers, driving the annual PCE inflation rate to 2.6% (May: +2.4%) and keeping core PCE inflation at 2.8% in June (May: +2.7%). These figures surpassed forecasts of 2.5% for overall PCE and 2.7% for core.
- Prior to the release of July's nonfarm payrolls (NFP) report, the Fed was expected to maintain a cautious stance, as job growth was anticipated to moderate and the unemployment rate to edge up to 4.2%. However, these developments alone were seen as insufficient to trigger an immediate rate cut, especially with inflation pressures—partly driven by tariffs—remaining elevated.
- Following the release of the weaker-than-expected July jobs data, however, market expectations shifted significantly. As of the time of writing, markets pricing indicates an 82.5% probability that the Fed will cut interest rates by 25bps at its next FOMC meeting on September 17, bringing the target range down to 4.00%–4.25%.

CHINA'S MANUFACTURING SLIPS IN JULY DESPITE EXPORT REBOUND AND INFLATION UPTICK

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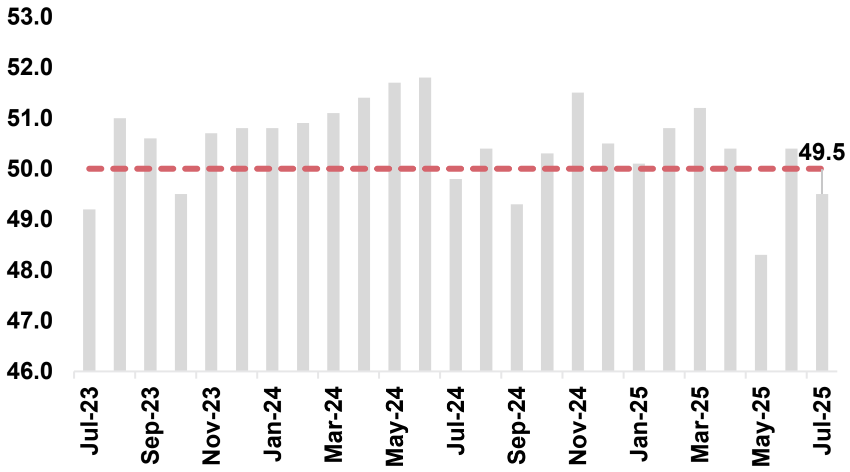
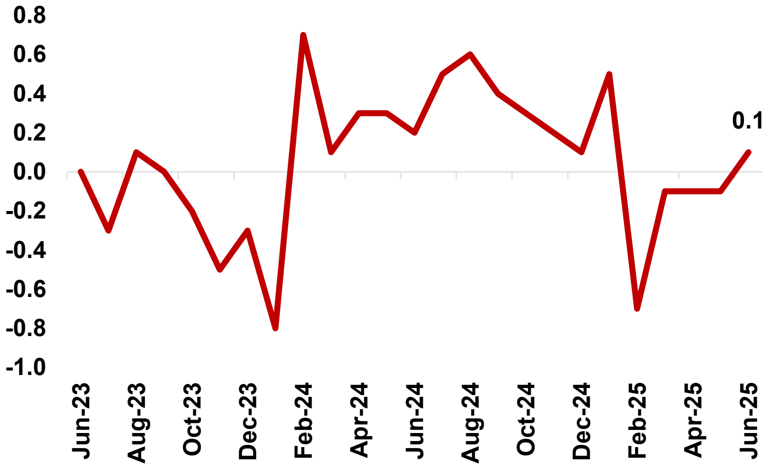
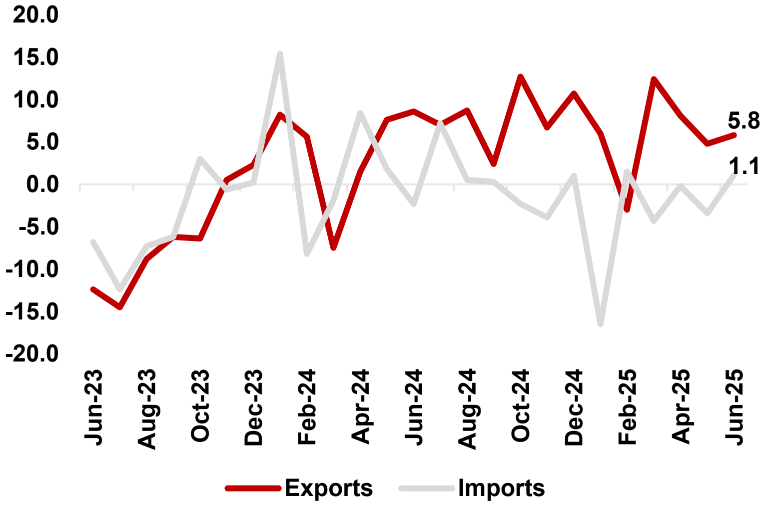
China - Manufacturing Purchasing Managers' Index (PMI), points



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



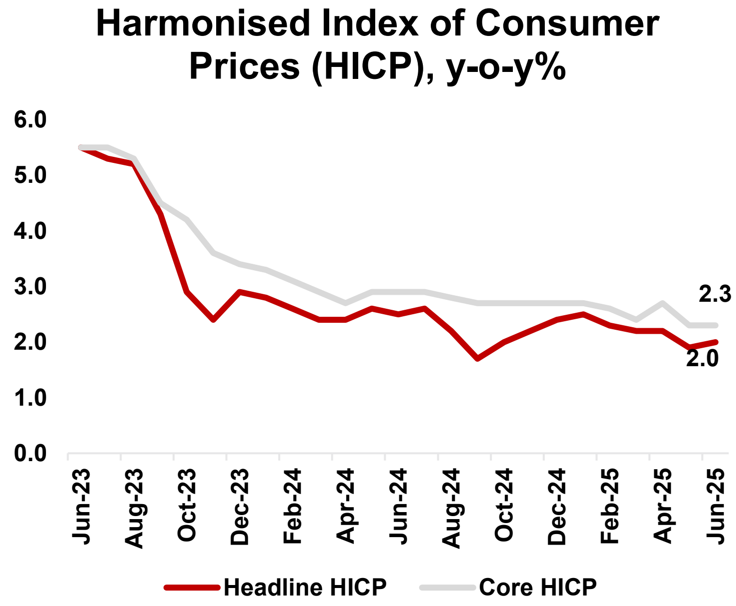
Exports and Imports, y-o-y%

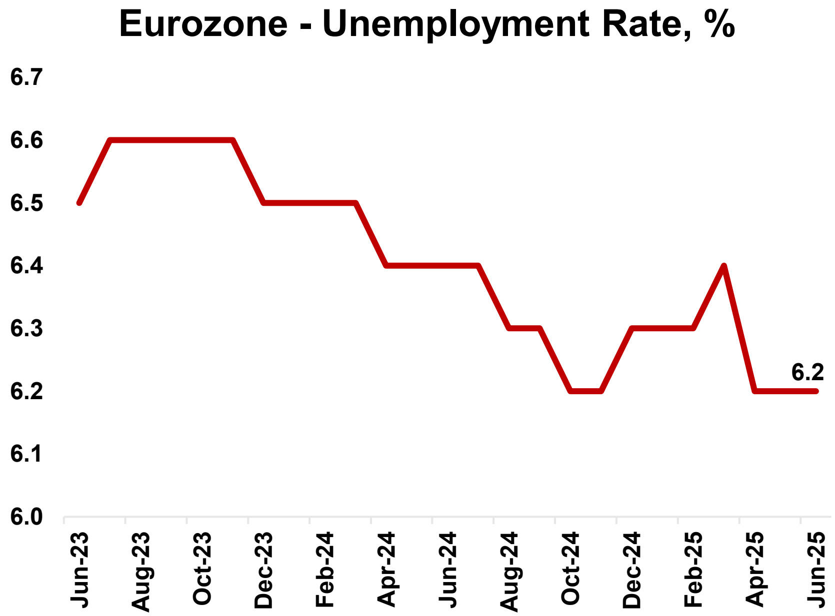


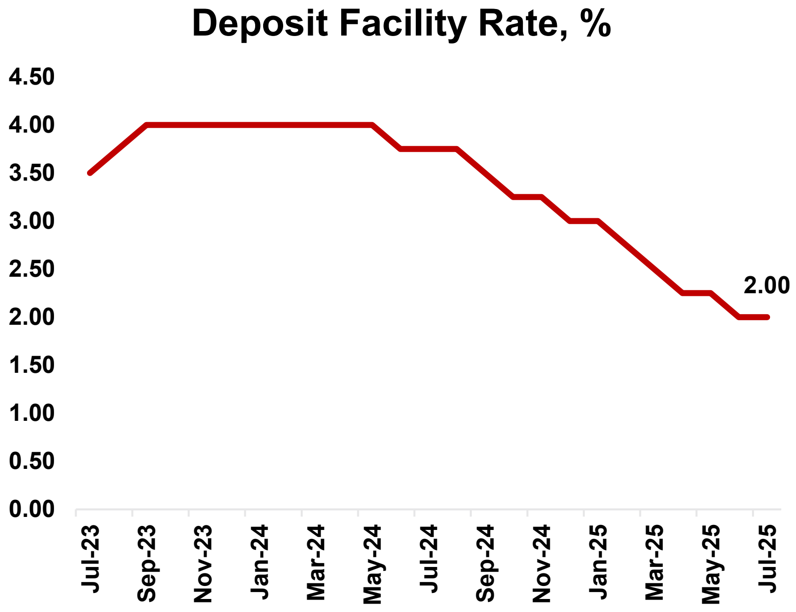
Sources: National Bureau of Statistics, General Administration of Customs, CEIC

- The S&P Global China General Manufacturing PMI dropped to 49.5 points in July, down from 50.4 points in June. This figure also missed markets' predictions of 50.4 points. The survey revealed that a slowdown in new business growth prompted manufacturers to reduce their output. This deterioration in factory activity suggests a challenging start to the third quarter for China's economic growth, especially after the strong performance seen in the first half of the year.
- China's CPI increased by 0.1% in June (May: -0.1%), ending a four-month streak of declines. The reversal in consumer price deflation is a direct result of the government's fiscal and monetary policy stimulus measures aimed at boosting domestic consumption.
- China's exports saw a significant acceleration in June, climbing 5.8% year-on-year, an increase from the 4.8% rise observed in May. This surge was primarily driven by a rush of orders from companies and consumers, who capitalized on a temporary reprieve from U.S. tariffs ahead of an August deadline.

ECB HOLDS STEADY AS INFLATION PRESSURES PERSIST AND TARIFF TALKS COMPLICATE TRADE OUTLOOK







Sources: ECB, Eurostat, S&P Global

- Euro area annual inflation rose to 2.0% in June 2025, a slight increase from 1.9% in May. This compares to a rate of 2.5% recorded in June 2024. Core inflation, which excludes volatile items such as food and fuel, held steady at 2.3% in the 12 months leading up to June. This sustained level underscores persistent underlying price pressures, with a notable impact from the services sector.
- The Eurozone's seasonally adjusted unemployment rate remained stable at 6.2% in June, matching May's figure which represents a decrease from 6.4% recorded in June 2024.
- The European Central Bank (ECB) kept its deposit facility rate, the primary interest rate guiding monetary policy, at 2.00%. This decision leaves the rate at its lowest point in over two years.
- The E.U. and U.S. reached a new trade agreement over the weekend, just before the August 1 deadline set by the White House. This deal, which aims to ease concerns, replaces a threatened 30% tariff with a 15% rate on most E.U. goods. However, ambiguity remains regarding the specific application of the 15% tariff, particularly concerning pharmaceuticals and semiconductors, where the U.S. and E.U. have differing interpretations.

SECTION 3

Domestic Landscape & Banking Sector Update

MALAYSIA'S EXPORTS MARKED STEEPEST CONTRACTION IN 18 MONTHS AS EXTERNAL HEADWINDS INTENSIFIED

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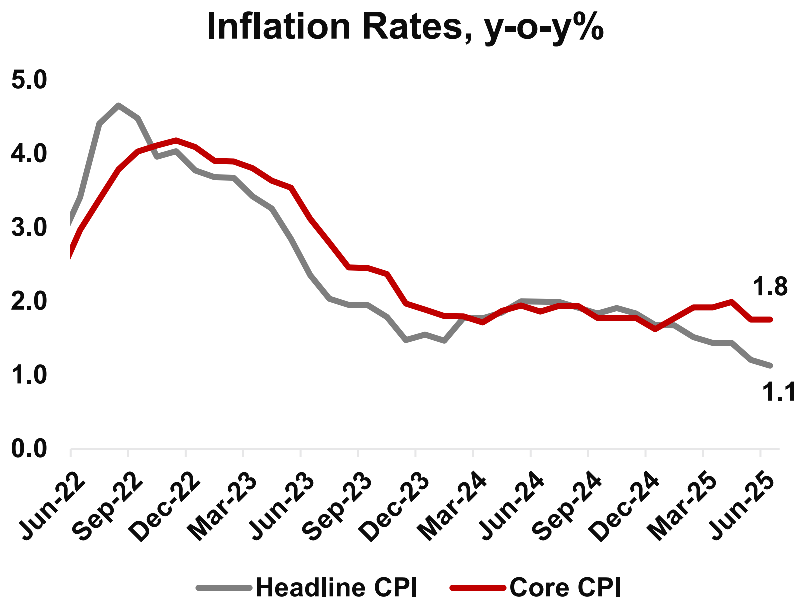
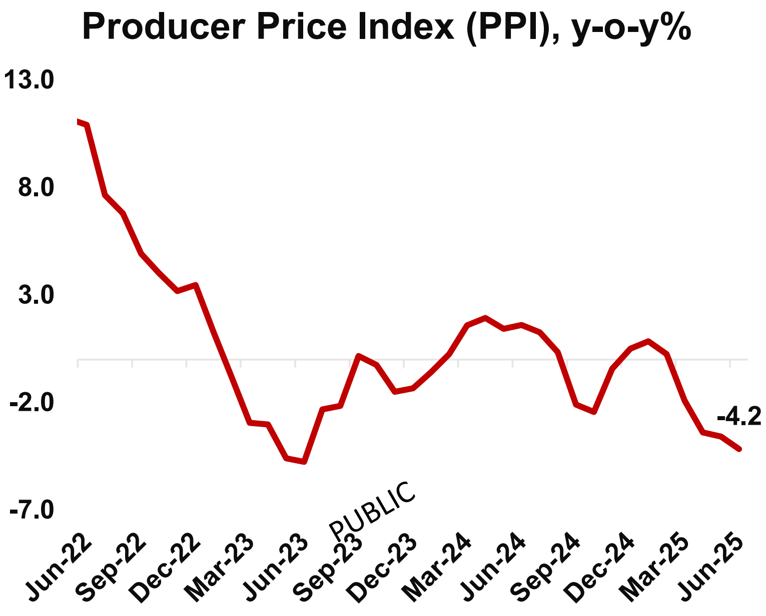
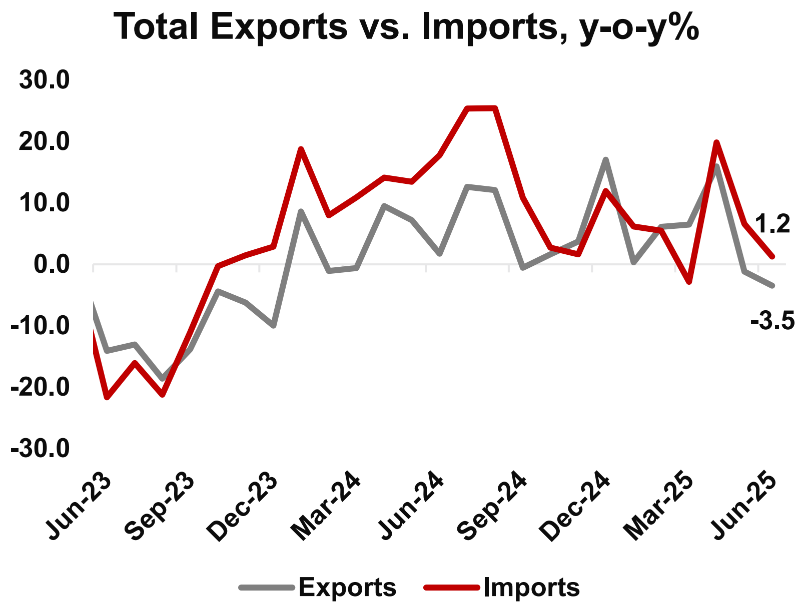


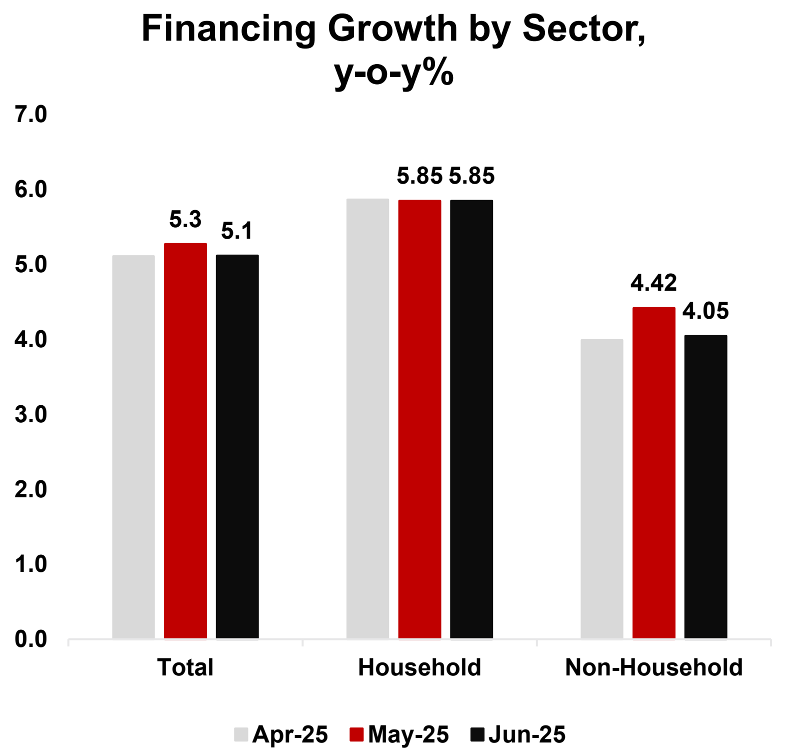


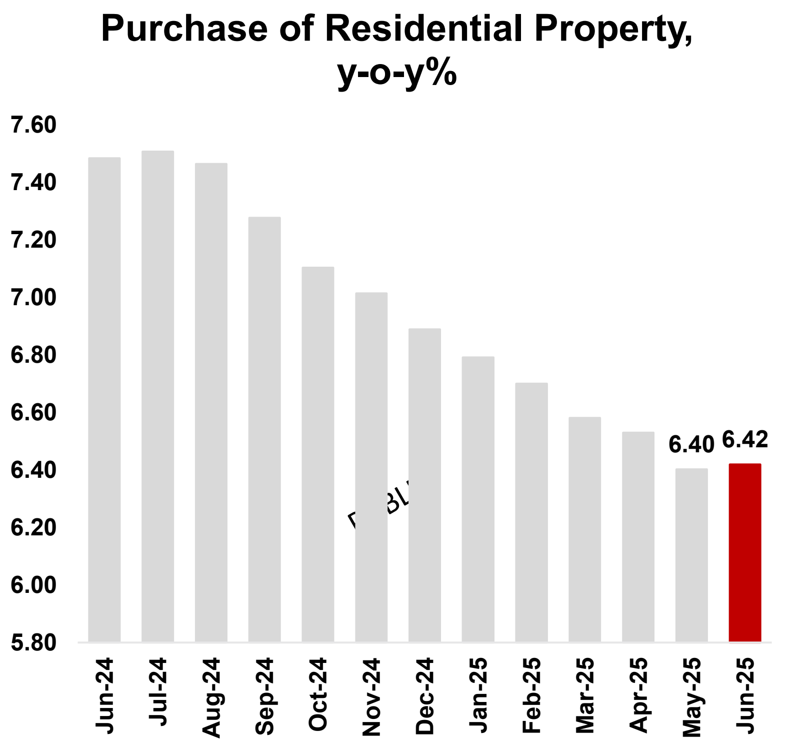


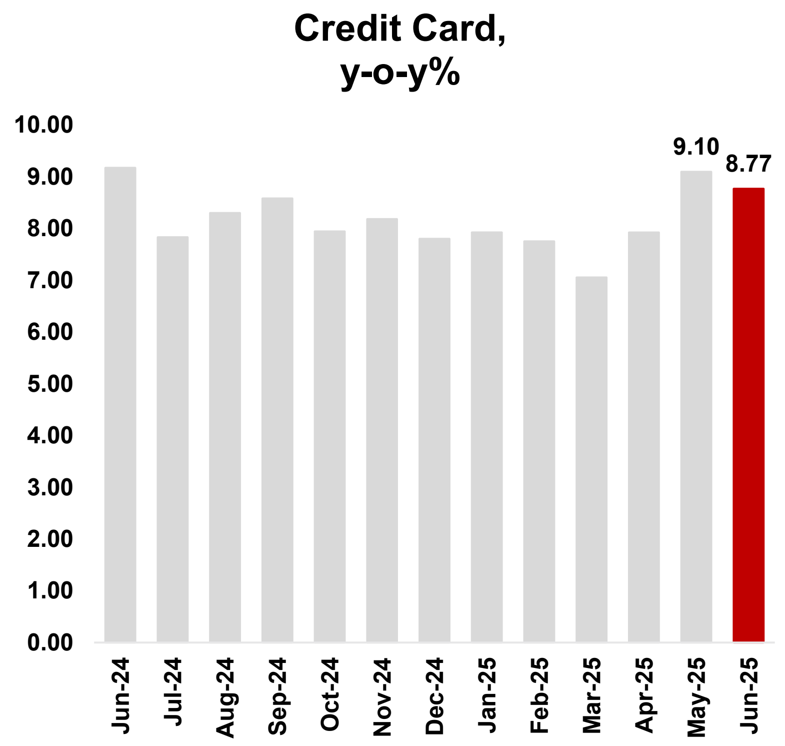
Sources: DOSM, CEIC Data

- Malaysia's disinflation trend continued with headline inflation easing by 1.1% y-o-y in June from 1.2% in May, marking the lowest level since February 2021. This is underpinned by slower increases across several groups, namely Restaurant & Accommodation Services (June: 2.8% vs. May: 3.0%), Transport (June: 0.3% vs. May: 0.7%) and Recreation, Sport & Culture (June: 0.8% vs. May: 0.9%).
- Meanwhile, core inflation grew by 1.8% y-o-y in June, the same pace as in May.
- Such moderation in inflation was also supported by easing prices on the producer front as the Producer Price Index (PPI) fell by 4.2% y-o-y (May: -3.6% y-o-y) amid broad-based declines across all sectors.
- On the trade front, Malaysia's exports extended its slide, declining by an 18-month low of 3.5% y-o-y in June (May: -1.2% y-o-y) amid steeper contractions across the Manufacturing (June: -3.3% vs. May: -0.3%) and Mining (June: -28.7% vs. May: -23.5%) sectors. Nevertheless, agriculture exports had surged by 17.5% y-o-y in June from 8.2% previously. On the flip side, imports rose at a slower pace of 1.2% y-o-y in the same month compared to 6.6% in May.

BANKING SECTOR: FINANCING GROWTH SLOWS IN JUNE AS NON-HOUSEHOLD LENDING MODERATES



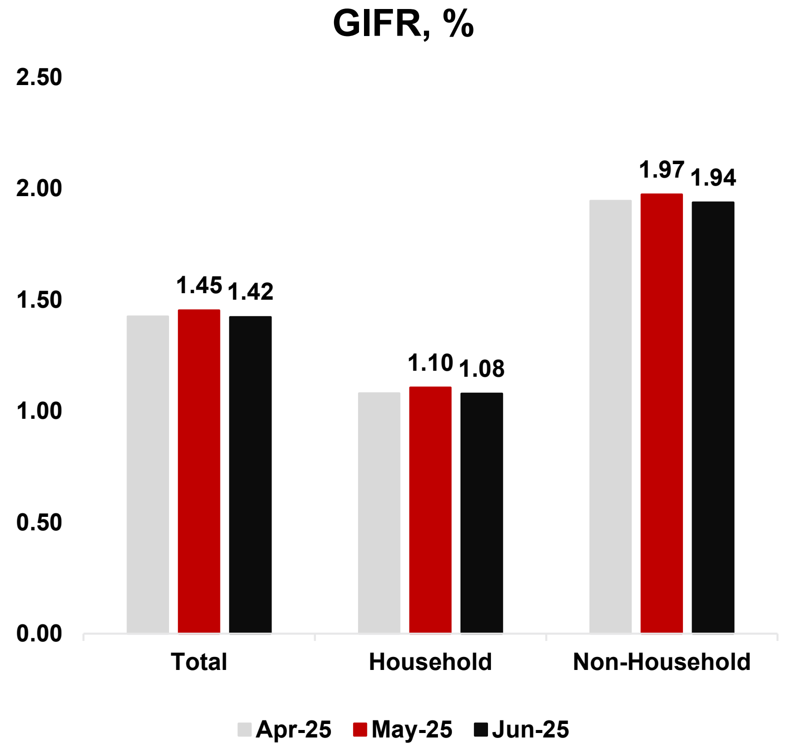


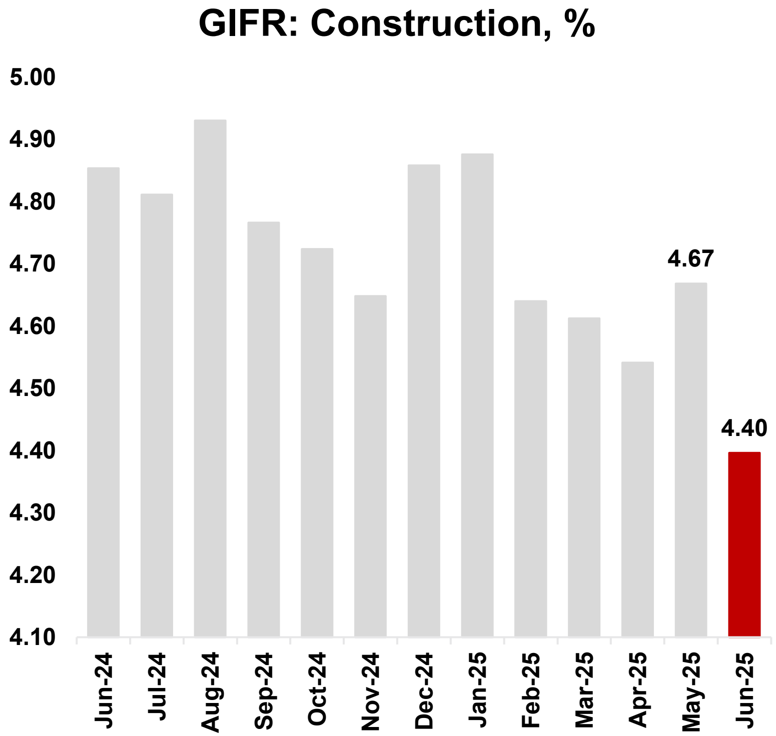


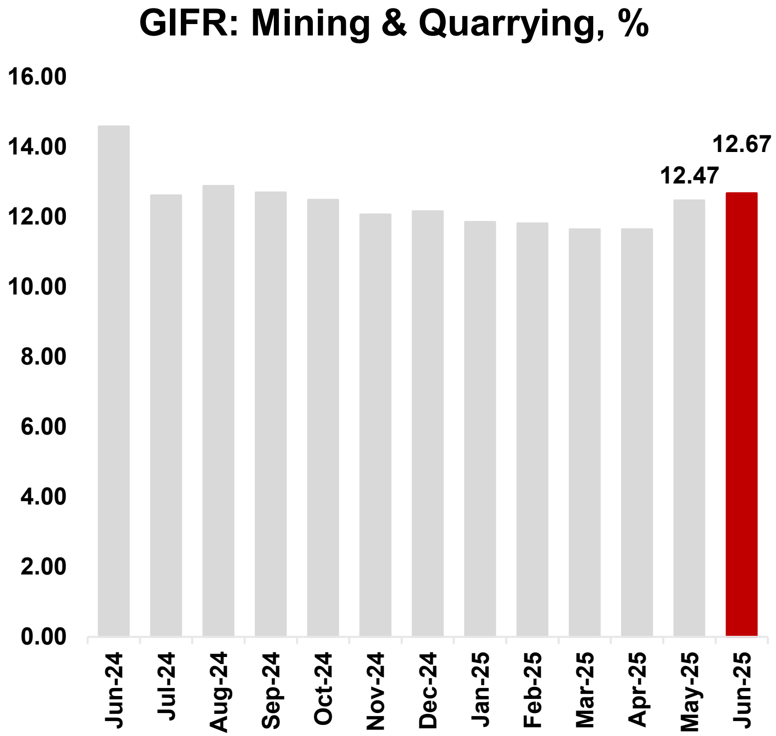
Source: BNM

- Total financing growth eased slightly to 5.1% in June, down from 5.3% in May, mainly due to a moderation in non-household lending, which slowed to 4.05% from 4.42% previously. In contrast, household financing remained firm, holding steady at 5.85%.
- Financing for residential property purchases saw a slight increase to 6.42% in June, up marginally from 6.40% in May. Meanwhile, passenger car financing remained steady at 7.15%, maintaining the same pace as the previous month. Credit card financing, on the other hand, eased to 8.77% from 9.10% in May, reflecting a moderation in consumer credit growth.

BANKING SECTOR: BANK ASSET QUALITY IMPROVES SLIGHTLY, BUT MINING SECTOR RISKS RISE







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector declined to 1.42% in June, from 1.45% in May. Both the household and non-household sectors recorded slight decrease, with GIFR falling to 1.08% (May: 1.10%) and 1.94% (May: 1.97%) respectively, indicating better financing repayments.
- Asset quality in the construction sector improved, as its GIFR decreased to 4.40% in June from 4.67% in May. In contrast, the mining and quarrying industry experienced worsening conditions as the GIFR further increased to 12.67% in June from 12.47% in May 2025, signaling higher risk in this sector.

THANK YOU