



MONTHLY ECONOMIC UPDATE

1 JULY 2025

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- The Israel-Iran war has shaken global markets and intensified geopolitical tensions.** The armed conflict between Iran and Israel, which began on June 13 following Israeli airstrikes on Iranian nuclear facilities under “Operation Rising Lion”, has triggered sharp volatility in global markets. In retaliation, Iran launched a series of missile attacks, denouncing the strikes as a declaration of war. Tensions escalated further with U.S. involvement, including targeted strikes on three Iranian nuclear sites, fueling fears of a broader regional war. The conflict immediately impacted global oil markets, with Brent and WTI crude prices surging nearly 7% in a week, reaching their highest levels since January 2025. Markets are increasingly concerned about the potential closure of the Strait of Hormuz, a critical chokepoint for nearly 20% of global oil flows, which could severely disrupt supply and drive prices even higher. Overall, the intensifying conflict has deepened uncertainty in commodity markets and clouded the already fragile global economic outlook.
- The World Bank and the OECD downgraded their global economic growth forecast in June 2025.** Both institutions downgraded their projections, attributing the revisions to escalating geopolitical tensions, intensifying trade conflicts, and sustained inflationary pressures. The World Bank cut its 2025 growth estimate to 2.3%, the slowest pace since 2008 outside of recession years, with only a slight recovery to 2.4% projected for 2026. Around 70% of countries saw their outlooks downgraded, with notable weakness in advanced economies such as the U.S. and the euro area. Similarly, the OECD lowered its global growth forecasts to 2.9% for both 2025 and 2026, from earlier projections of 3.0% and 3.1%. The downgrade was largely attributed to the re-emergence of trade barriers, particularly steep U.S. tariffs, which are straining global trade, driving up inflation, and weakening investor confidence.
- The Ministry of Finance (MOF) announced an expansion of the Sales and Services Tax (SST) scope, which will take effect on July 1, 2025.** On June 9, the MOF stated that the government will broaden the SST coverage starting July with measures outlined in Budget 2025, as part of a fiscal reform strategy. The expanded SST will now cover more sectors including construction, private healthcare, private education, leasing and rental, and financial services. These newly included services will be subject to a 6.0% to 8.0% service tax, depending on the category. At the same time, the Sales Tax component will be revised in a more targeted manner, of which the essential goods such as basic food items will remain exempt, while non-essential and luxury items will be taxed at an increased rate of 5.0% to 10.0%. The government emphasized that these changes are aimed to broaden the tax base while minimizing the burdening on lower- and middle-income groups.

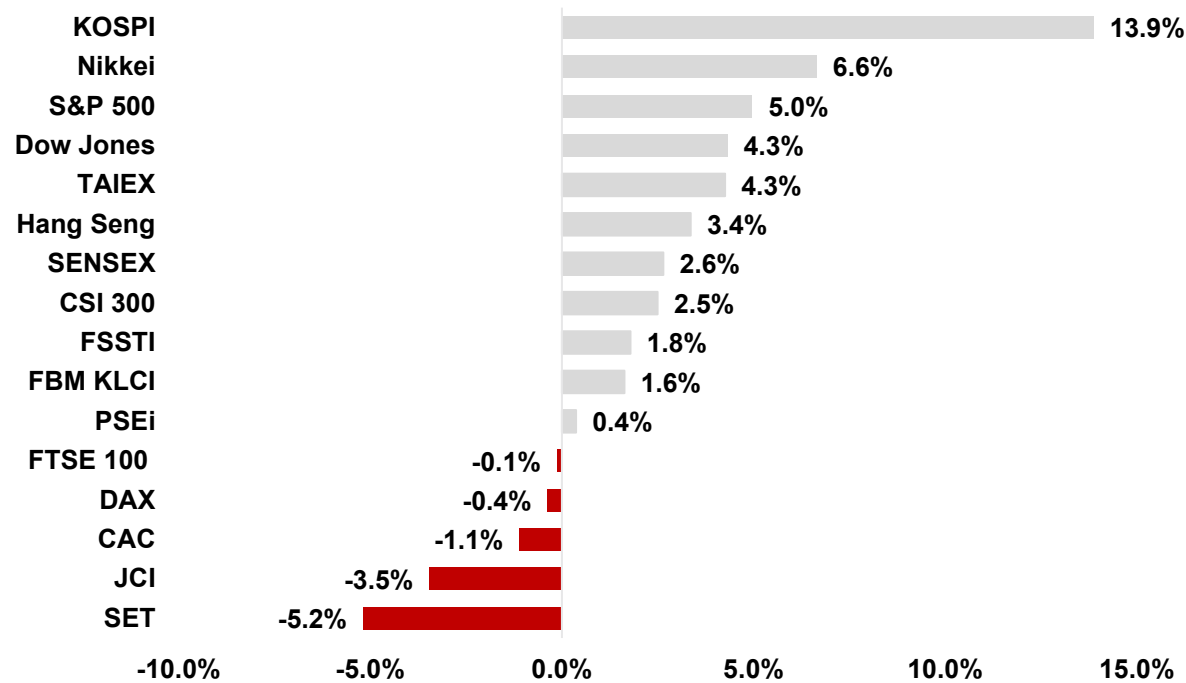


SECTION 1

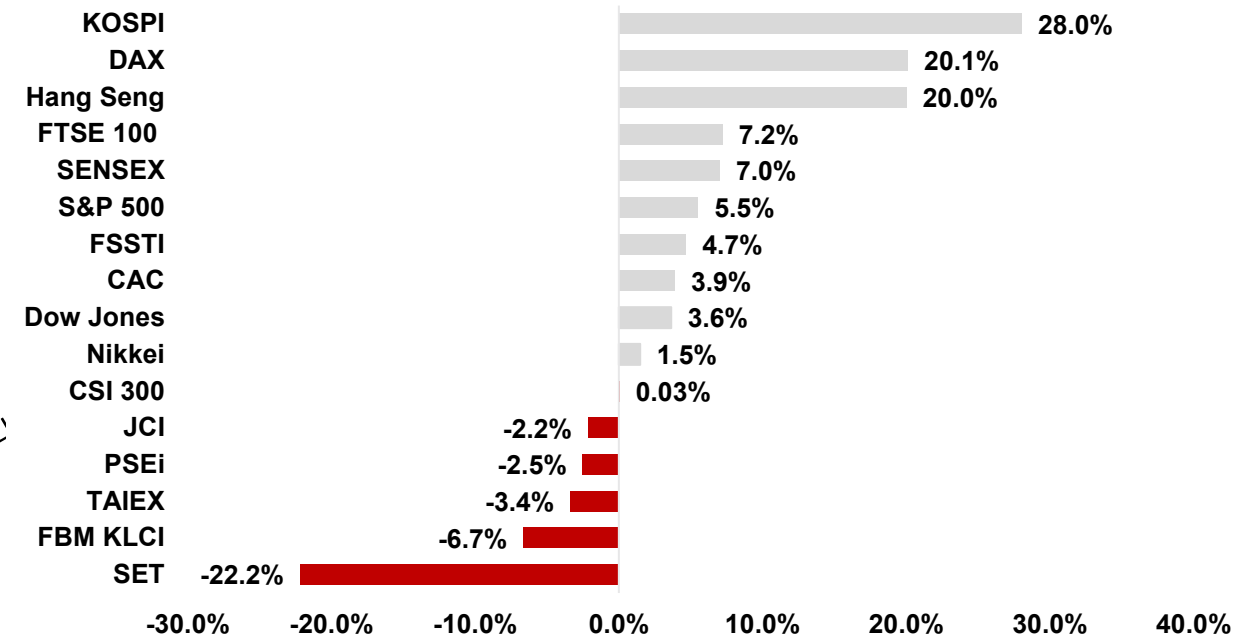
Malaysia's Financial Market

REGIONAL EQUITY: BROAD-BASED GAINS IN JUNE DRIVEN BY IRAN-ISRAEL CEASEFIRE AND OPTIMISM OVER GLOBAL TRADE TALKS

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



YTD Gain/Loss of Major Equity Markets, %
(As of 30 June 2025)

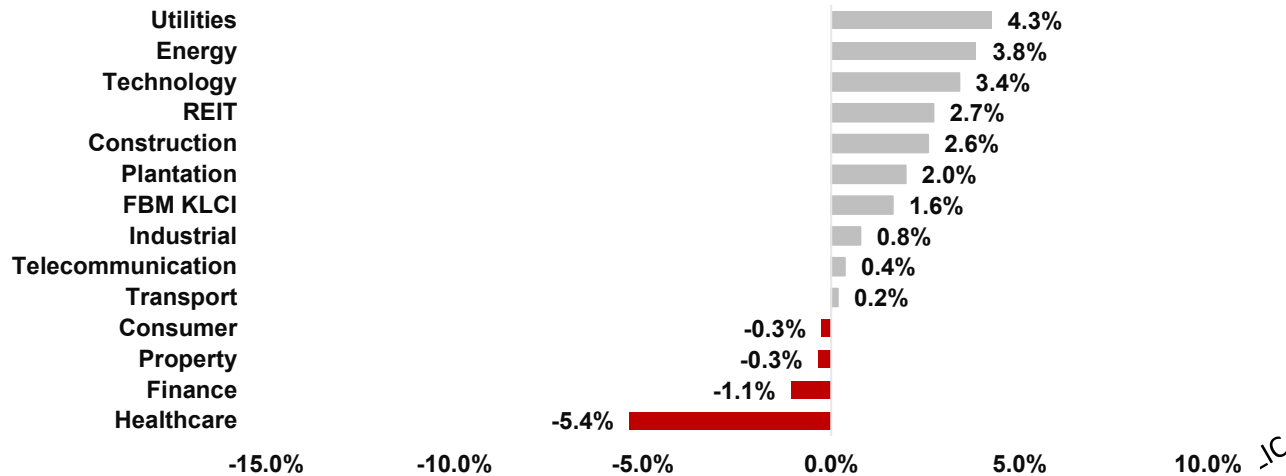


Sources: Bursa, CEIC data

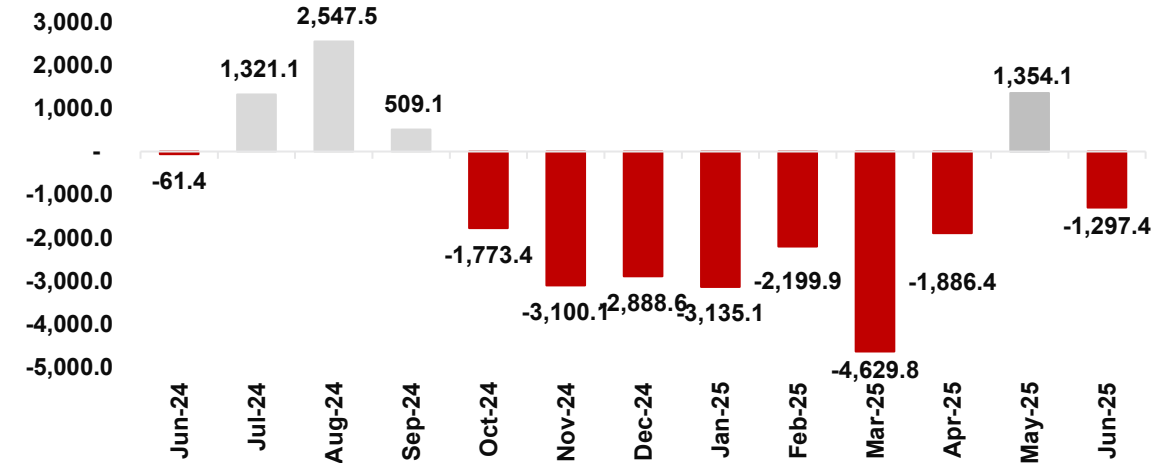
- The global equity market experienced upward momentum in June, supported by easing geopolitical tensions following the ceasefire between Iran and Israel. This development significantly reduced tensions in the Middle East and drove oil prices lower, reversing the spike seen earlier in the month. South Korea's KOSPI emerged as the best monthly performer with a strong gain of 13.9%, followed by Japan's Nikkei (+6.6%).
- Gains were also seen in Taiwan's TAIEX (+4.3%) and Hong Kong's Hang Seng (+3.4%), reflecting improved investor sentiment amid a more stable geopolitical landscape after the Iran-Israel ceasefire.
- In the U.S., both the S&P 500 (+5.0%) and Dow Jones (+4.3%) strengthened in June, buoyed by optimism over global trade negotiations, Fed rate cut hopes and strong rally in tech stocks. Investors are increasingly confident that President Trump will secure new trade agreement, which could ease global economic uncertainty.
- Meanwhile, Thailand's SET (-5.2%), Indonesia's JCI (-3.5%) and France's CAC (-1.1%) were the major losers in June.
- YTD, KOSPI surged 28.0%, overtaking Germany's DAX (20.1%) as the top performer.

DOMESTIC EQUITY: FBM KLCI ENDS JUNE ON A HIGH NOTE DESPITE MID-MONTH VOLATILITY CAUSED BY IRAN-ISRAEL CONFLICT

Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



Sources: DOSM, CEIC Data

- The FBM KLCI ended June on a firmer note, rising 1.6% m-o-m to close at 1,532.96, rebounding from a 2.1% decline in May. The recovery was driven by easing geopolitical tensions in the Middle East, which lifted overall market sentiment.
- The index had earlier extended its losses following Israel's June 13 strike on Iran, with the local bourse falling as much as 10.51 points (0.7%) to 1,501.44 on June 19 amid a subdued regional market. Sentiment was further dampened by U.S. involvement in the conflict, raising fears of military escalation. Meanwhile, global oil prices remained volatile throughout the month, with both Brent and WTI crude posting sharp gains on concerns over supply disruptions. Nonetheless, markets recovered toward the month's end.
- Most sectoral indices ended in positive territory. The Utilities index led the gains, rising 4.3%, followed by Energy (+3.8%) and Technology (+3.4%). In contrast, the Healthcare index posted the steepest monthly drop at -5.4%, followed by Finance (-1.1%), while Property and Consumer sectors each declined marginally by 0.3%.
- Foreign investors turned net sellers in June, reversing their buying trend from the previous month, with equity outflows totaling RM1.3 billion. This brought the YTD net outflow for the year to RM8.7 billion.

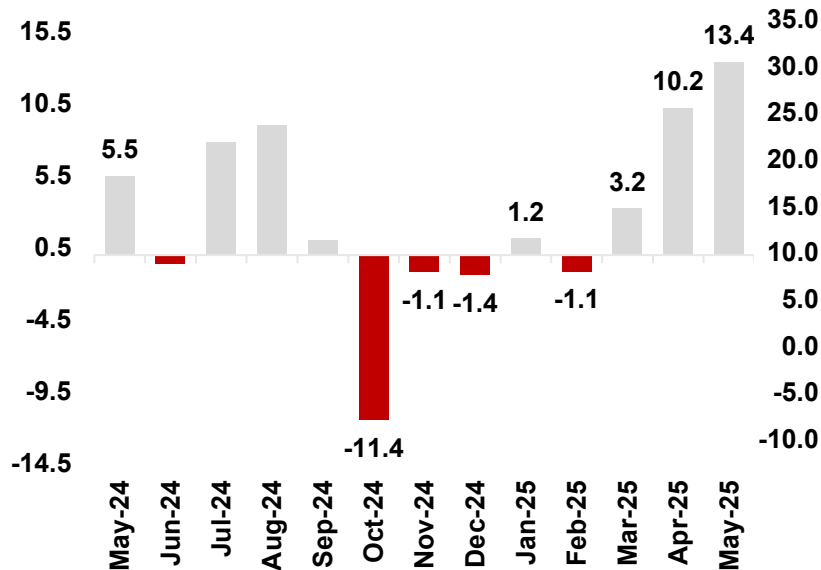
FIXED INCOME: UST YIELDS DIP ON TRUMP BILL AND FED RATE CUT HOPES

Monthly changes, basis points (bps)			
UST	Yields (%) 30-May-25	Yields (%) 30-Jun-25	Change (bps)
3-Y UST	3.87	3.68	-19
5-Y UST	3.96	3.79	-17
7-Y UST	4.18	3.98	-20
10-Y UST	4.41	4.24	-17
MGS	Yields (%) 30-May-25	Yields (%) 30-Jun-25	Change (bps)
3-Y MGS	3.15	3.14	-2
5-Y MGS	3.19	3.20	1
7-Y MGS	3.39	3.40	1
10-Y MGS	3.53	3.49	-4
GII	Yields (%) 30-May-25	Yields (%) 30-Jun-25	Change (bps)
3-Y GII	3.17	3.16	-1
5-Y GII	3.29	3.28	-1
7-Y GII	3.40	3.39	-2
10-Y GII	3.53	3.52	-2

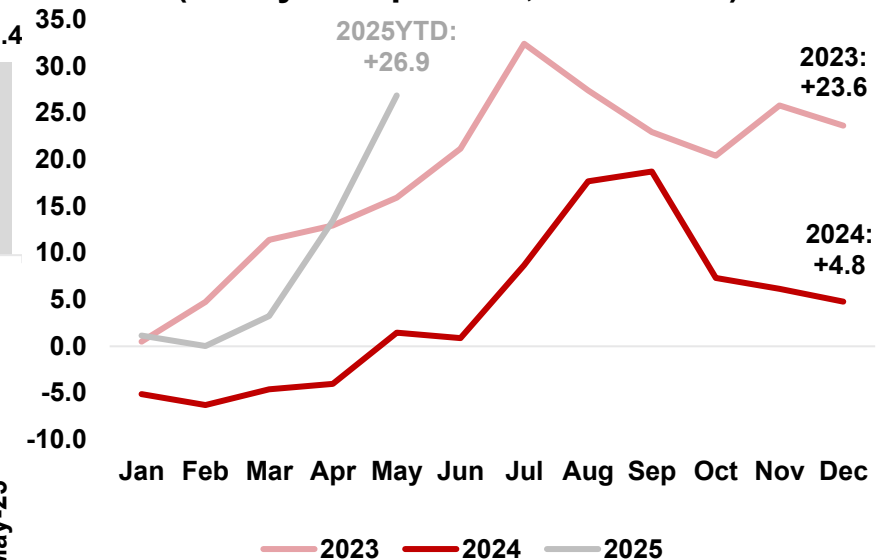
Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) yields dipped in the range of 17bps and 20bps as investors kept a close eye on two key developments, President Trump's proposed spending bill and the increasing likelihood of Federal Reserve interest rate cuts later this year. Trump's "big beautiful bill," which is expected to add over USD3 trillion to the national debt, passed a crucial Senate hurdle and is now headed for final debate. The President is pushing for its passage before the Independence Day holiday.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields mostly closed lower by between -1bp and -4bps except for 5-Y and 7-Y MGS yields which ended higher by 1bp to close at 3.20% and 3.40%, respectively.
- Foreign fund flows in the local bond market recorded a net foreign inflow of RM13.4 billion in May (Apr: +RM10.2 billion), the highest since May 2014. Consequently, local govvnies' foreign shareholdings to total outstanding surged to 23.3% in May (Apr: 22.4%).
- As of the first five months of 2025, the local bond market recorded the cumulative net foreign inflows of RM26.9 billion, higher than the inflows of RM1.5 billion in the same period in the previous year.

Foreign Fund Flows in Local Bond Market, RM Billion



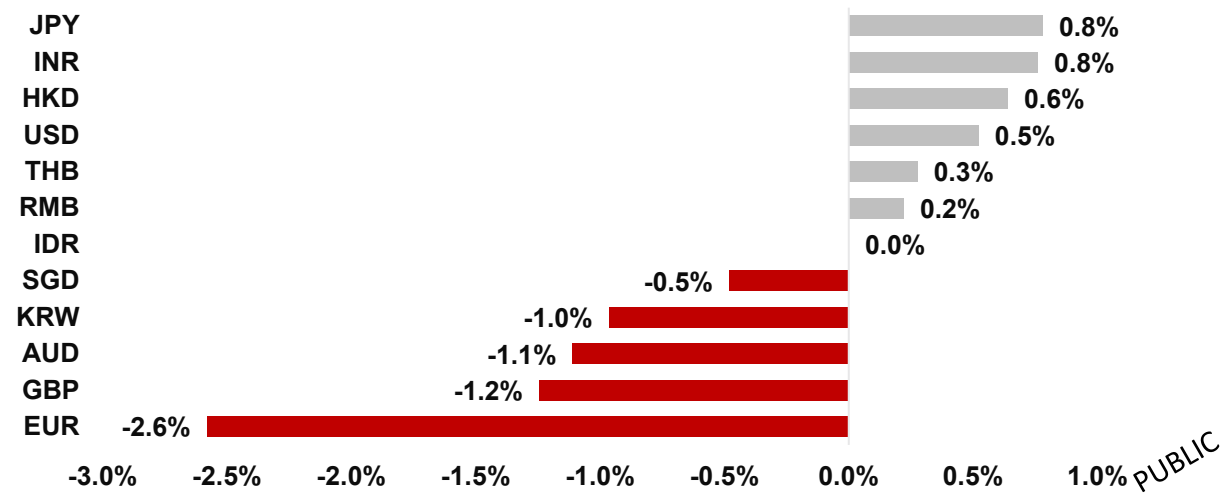
Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)



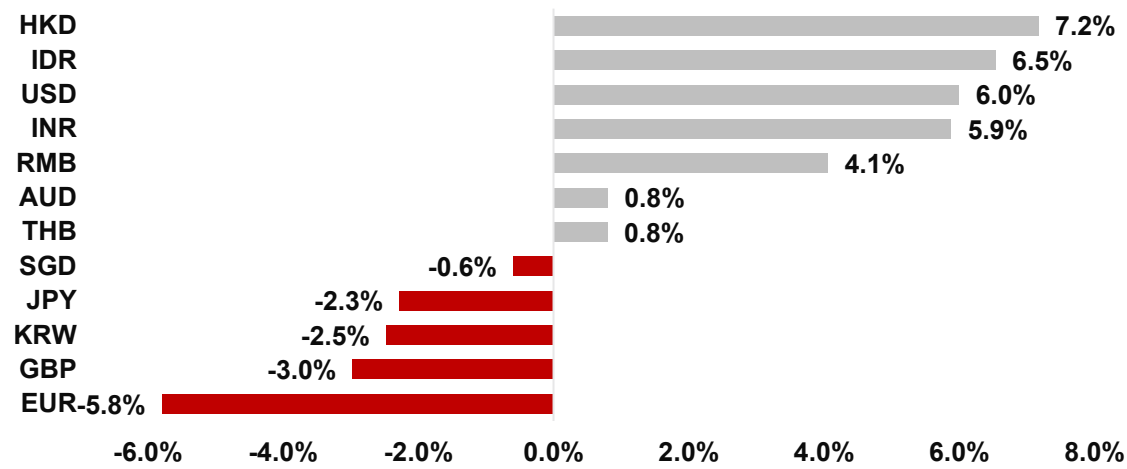
FX MARKET: RINGGIT APPRECIATED ON A MONTHLY BASIS AS THE USD SLIPPED ON FISCAL AND MONETARY WOES



MYR Against Regional Currencies, m-o-m%



MYR Against Regional Currencies, YTD% (As of 30 June 2025)



Sources: Bank Negara Malaysia(BNM), CEIC Data

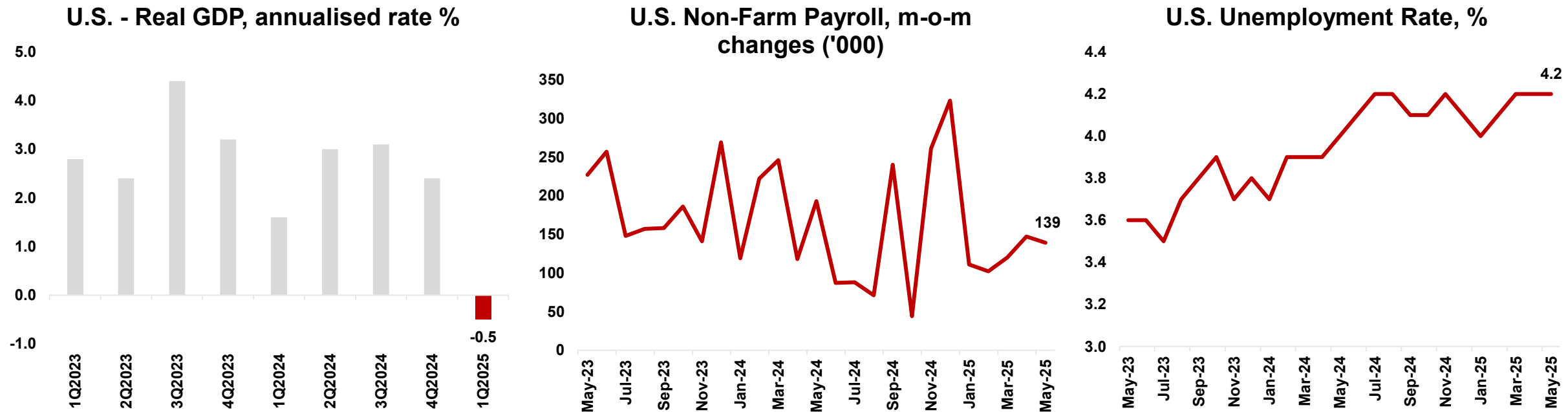
- The Ringgit appreciated by 0.5% m-o-m against the USD for the month ending June 30 as the USD index plummeted to the weakest level since February 2022. The greenback was under pressure towards month-end (30 May: 99.33 vs. 30 June: 97.40) as fiscal worries mounted alongside heightened bets of further easing on the Fed's Federal Funds Rate (FFR).
- Previously, Trump had been vocal in his calls for Fed Chair Powell to step down as well as lobbying for looser monetary policy such as in early June when he called for a full percentage point cut after the May ADP job report showed that private payroll increased at the slowest pace in more than two years.
- As such, reports of Trump gearing up to nominate Powell's successor in the near term had sent jitters through financial markets, exacerbated by his remarks that he will name "somebody that wants to cut rates", thus ramping up expectations of a more dovish Fed.
- Furthermore, market sentiments were cautious, eyeing Trump's sweeping tax cut and spending bill as it progressed through the U.S. Senate before heading to the House of Representatives and onto Trump's desk by the 4th of July. The legislation is expected to worsen the U.S.' ballooning USD36.2 trillion debt, casting a shadow over its fiscal outlook and further exerting pressure on the USD.



SECTION 2

The Global Economy

U.S. ECONOMY SHRUNKEN, JOB GROWTH SLOWED AMID TARIFF RUSH

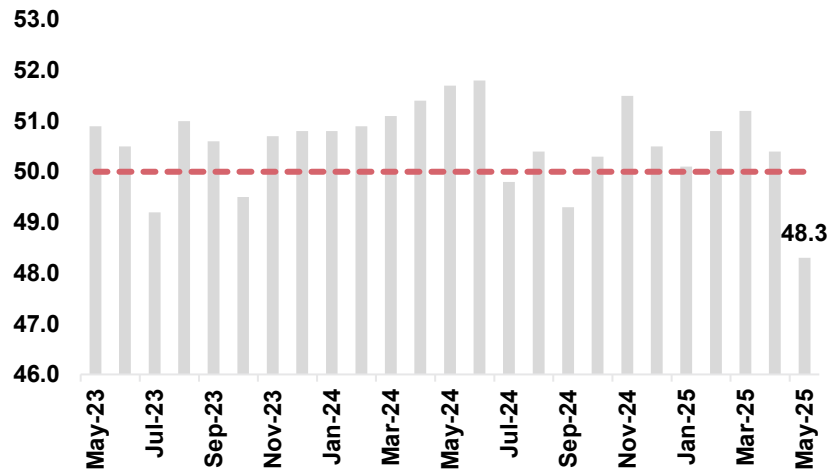


Sources: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), CEIC

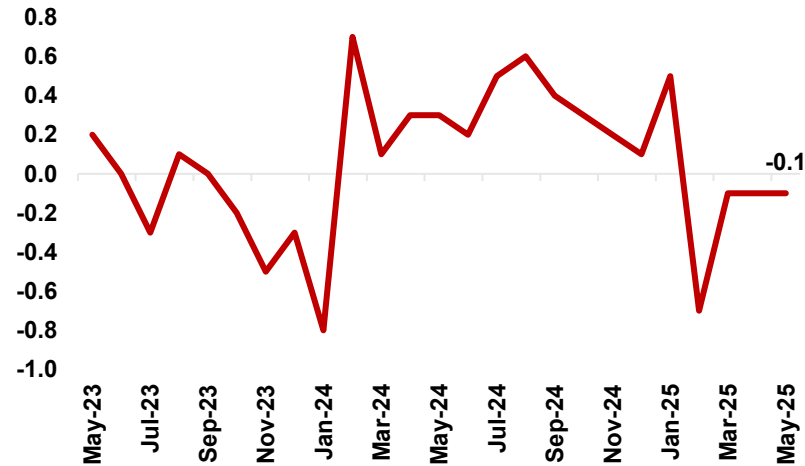
- In the first quarter of 2025, the U.S. economy saw a 0.5% decrease in its economy (4Q2025: +2.4%), marking first contraction in three years. This downturn, confirmed by final data released on June 26, was primarily attributed to companies rushing to import foreign goods ahead of the implementation of new, comprehensive tariffs.
- U.S. job growth slowed in May, with non-farm payrolls rising by 139K, down from April's revised figure of 147K. The deceleration, amid ongoing tariff-related uncertainties, kept the unemployment rate unchanged at 4.2%. The data, released by the Bureau of Labor Statistics (BLS) on June 6, came in slightly above markets' forecast of 130K and may give the Federal Reserve (Fed) reason to postpone further interest rate cuts.
- At the point of writing, the market priced in a 79.8% probability 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 on July 30.

CHINA FACES DEFLATION AND TRADE PRESSURES AMID WEAK DEMAND AND SHRINKING MANUFACTURING

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

- China's economy is facing a significant challenge as consumer prices experienced deflation for the third month in a row, settling at -0.1% in May. This ongoing decline in prices, primarily driven by weak domestic demand, is hindering the country's economic growth.
- China's manufacturing sector surprisingly shrank in May, with the Caixin Manufacturing PMI dropping to 48.3, down from 50.4 in April and missed market expectations of a slight expansion, indicating a worsening of both supply and demand.
- The U.S. significantly hampered China's export performance in May, causing growth to miss forecasts. The market anticipates that the effects of the trade truce between Beijing and Washington will be more evident in June. Notably, Chinese exports to the U.S. saw a dramatic 34.5% decrease, the steepest fall since the early days of the Covid-19 pandemic in February 2020. China's overall exports increased by 4.8% in May slightly missing forecast of a 5.0% rise.
- Imports from the U.S. also fell by more than 18%, shrinking China's trade surplus with America by 41.55% to USD18 billion. Meanwhile, imports saw a sharper-than-expected decline of 3.4% from a year earlier, compared to investors' prediction of a 0.9% fall. This continued drop in imports reflects weak domestic demand throughout the year.

ECB CUT RATES AS EUROZONE INFLATION COOLS FASTER THAN EXPECTED



Sources: ECB, Eurostat, S&P Global

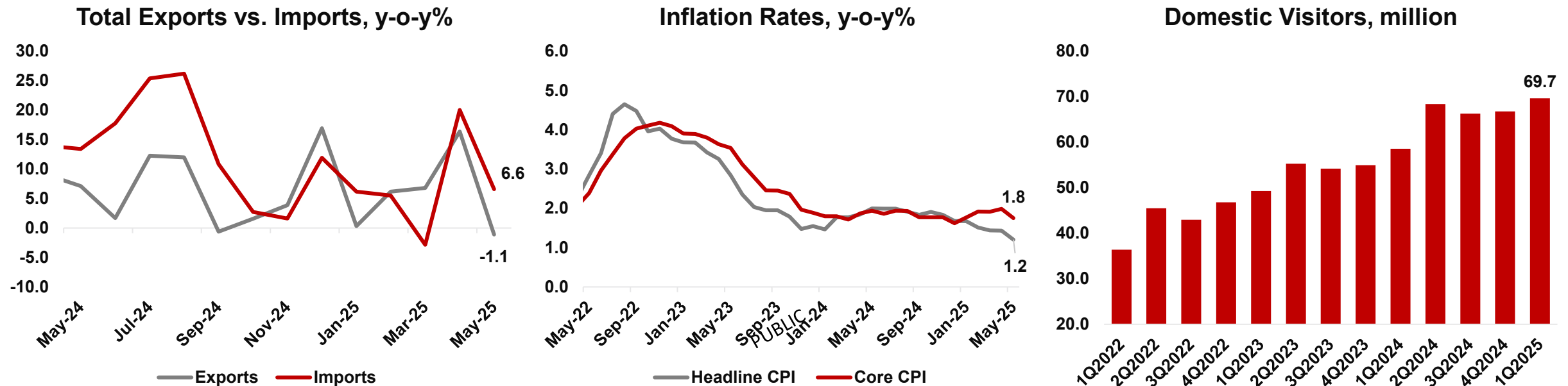
- The European Central Bank's (ECB) latest projections forecast headline inflation averaging 2.0% in 2025, 1.6% in 2026, and 2.0% in 2027. This comes as the Eurozone's annual inflation rate in May unexpectedly fell to 1.9%, down from 2.2% in April and below the ECB's 2.00% target. Core inflation also showed a decline in May, easing to 2.4% from 2.7%.
- The Euro Area's unemployment rate decreased to a record-matching 6.2% in April 2025, down from a revised 6.3% in March and aligning with market expectations. This fall means 207,000 fewer people were unemployed, bringing the total to 10.680 million.
- The ECB lowered its key deposit rate by 25bps to 2.00%, marking its lowest point in over two years. Effective June 11, 2025, the rates for its main refinancing operations and marginal lending facility will also decrease to 2.15% and 2.40% respectively.
- Inflation is cooling faster than the ECB anticipated earlier this year. This accelerated decline is partly due to a stronger euro, which makes imported goods cheaper, and lower-than-expected energy prices. These elements, combined with a softer labor market, are expected to help further temper inflation in the coming months. Additionally, goods diverted from the U.S. due to high tariffs might be rerouted to Europe, potentially driving down costs as supply increases.



SECTION 3

Domestic Landscape & Banking Sector Update

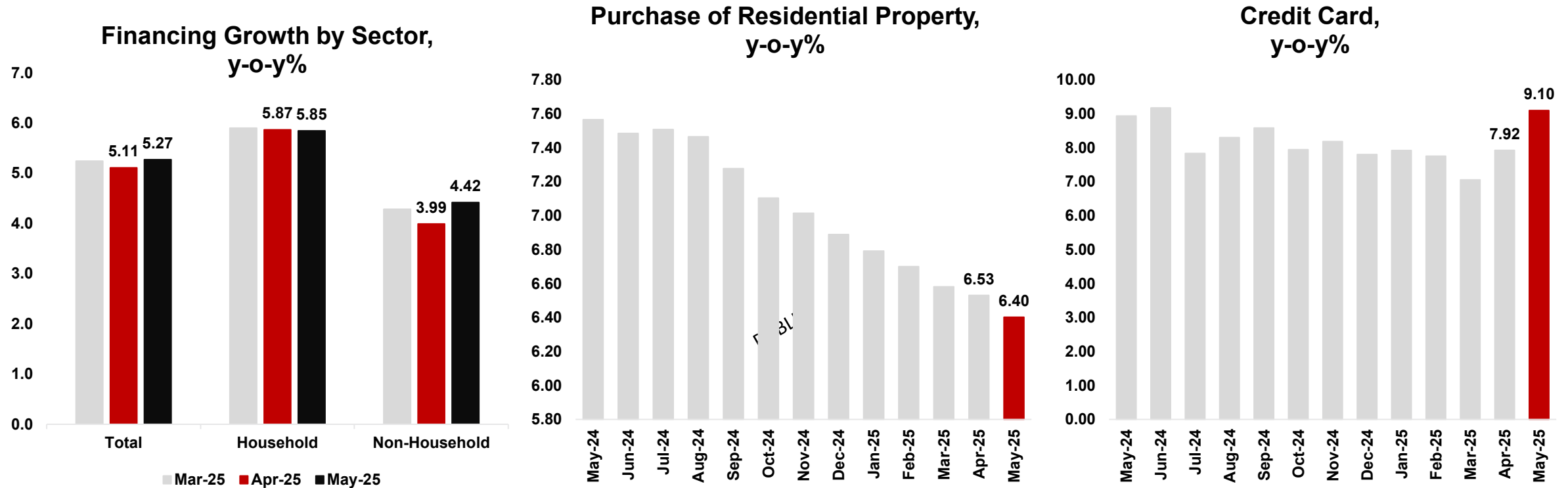
MALAYSIA'S INFLATION EASED TO 51-MONTH LOW AHEAD OF ELECTRICITY TARIFF HIKE AND SALES AND SERVICE TAX (SST) REVISION



Sources: DOSM, CEIC Data

- Malaysia's exports contracted by 1.1% in May from an expansion of 16.4% in April, dragged by declines in both Manufacturing (May: -0.3% vs. Apr: +19.0%) and Mining (May: -23.6% vs. Apr: -1.3%) sectors. However, agriculture exports recorded an acceleration of 8.3% in the same month (Apr: +3.4%). On the flipside, Malaysia's imports grew at a slower pace of 6.6% in May compared to a 20.0% growth in April.
- Malaysia's domestic demand remained solid, underpinned by low inflation and tight labour market conditions. Of note, headline inflation eased to 1.2% y-o-y in May (Apr: 1.4%) to mark the lowest level since February 2021, driven by slower increases in Food & Beverages (May: 2.1% vs. Apr: 2.3%), Personal Care, Social Protection & Miscellaneous Goods & Services (May: 3.7% vs. Apr: 4.1%) and Housing, Water, Electricity, Gas & Other Fuels (May: 1.7% vs. Apr: 2.0%), among others. Meanwhile, core inflation moderated to 1.8% in May from 2.0% in April.
- Such favourable backdrop had lifted consumer sentiments, leading to a robust domestic tourism performance as the number of domestic visitors surged by 18.9% y-o-y to 69.7 million persons in 1Q2025 (4Q2024: 66.8 million persons) with the total tourism expenditure soaring by 22.1% y-o-y to RM29.4 billion (4Q2024: RM29.0 billion).

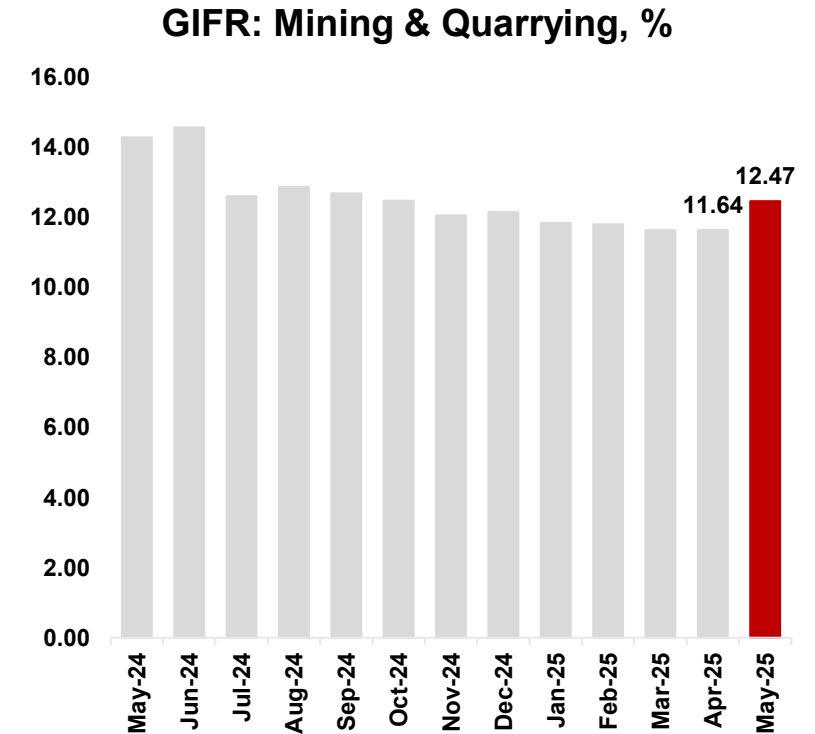
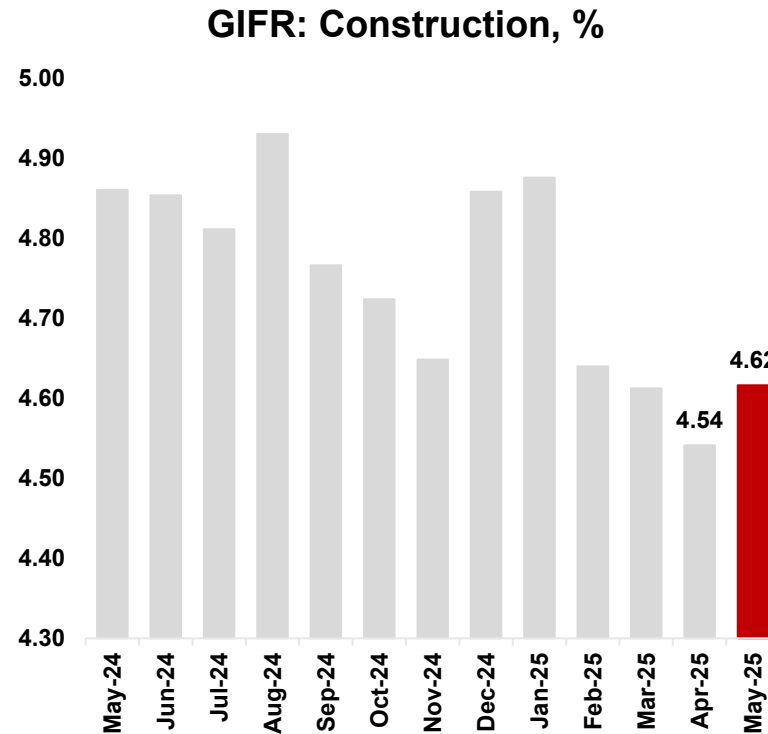
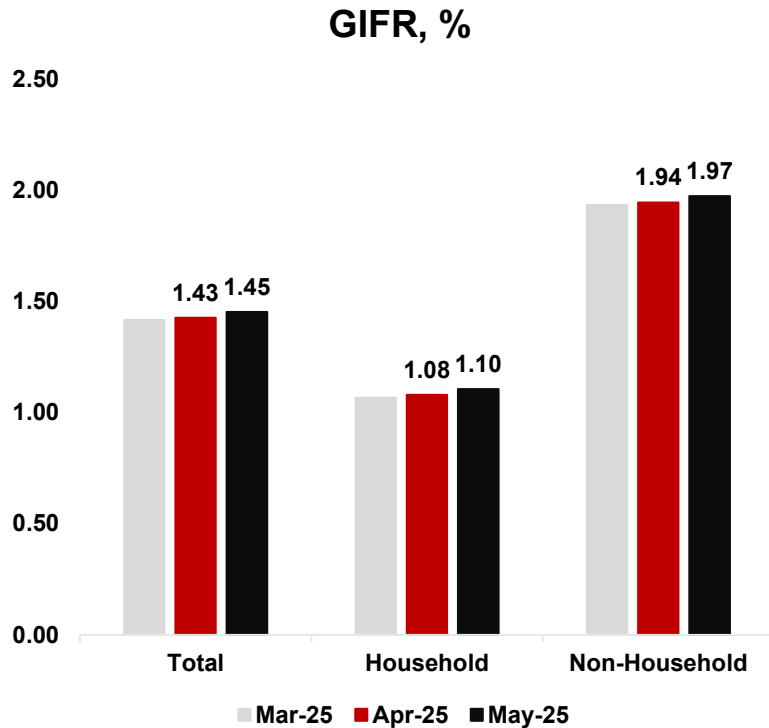
BANKING SECTOR: FINANCING GROWTH REBOUNDS IN MAY ON STRONGER NON-HOUSEHOLD LENDING



Source: BNM

- Total financing growth strengthened to 5.27% in May, up from 5.11%, supported by resilient household financing and a rebound in non-household lending. Non-household financing grew by 4.42%, the fastest pace in four months, compared to 3.99% in April.
- Household financing showed a mixed performance in May with growth in financing for residential property purchases eased slightly to 6.40% (April: 6.53%), while passenger car financing moderated to 7.16% (April: 7.21%). In contrast, credit card financing continued to accelerate, rising to 9.10% from 7.92% in a month earlier, reflecting stronger consumer spending momentum.

BANKING SECTOR: IMPAIRED FINANCING INCHES HIGHER; CONSTRUCTION AND MINING SHOW RISING RISKS



Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector inched up marginally to 1.45% in May, from 1.43% in April. Both the household and non-household sectors recorded slight increase, with GIFR rising to 1.10% (April: 1.08%) and 1.97% (April: 1.94%) respectively.
- Asset quality in the construction sector weakened, as its GIFR rose to 4.62% in May (April: 4.54%). Similarly, the mining and quarrying industry saw a further deterioration, with the GIFR increasing to 12.47% from 11.64% in April 2025. These trends suggest rising credit risks in selected segments despite overall stability in banking sector asset quality.

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THANK YOU