MONTHLY ECONOMIC UPDATE

7 APRIL 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **President Trump has reignited a global trade war with the imposition of reciprocal tariffs, marking a significant shift in U.S. trade policy.** On April 2, 2025, dubbed "Liberation Day," the U.S. rolled out sweeping tariffs against its trading partners, citing longstanding unfair trade practices over several decades. Approximately 60 countries will face tariffs exceeding 10%. Notably, key economies will see substantial tariff increases: China will be charged a 34% tariff, the European Union will face a 20% tariff, South Korea will be subjected to a 25% tariff, Japan will incur a 24% tariff, and Taiwan will face a 32% tariff. These new tariffs will not be added to the previously announced tariffs on steel, aluminum, and automobiles. Additionally, the 25% tariff on goods from Mexico and Canada that do not comply with the United States-Mexico-Canada Agreement (USMCA) will remain in place until Trump determines that issues related to fentanyl and illegal immigration have been addressed. On April 4, in retaliation, China announced its intention to impose 34% tariffs on all U.S. products, effective April 10, aligning with Trump's new reciprocal tariffs on Chinese goods. China also stated it would impose additional export controls on rare earth minerals, which are critical in the production of high-tech products such as computer chips and electric vehicle batteries.

- **China's consumer prices declined by 0.7% y-o-y in February, marking the first deflation since January 2024.** This fall followed a brief 0.5% rise in January, prompted by a temporary post-Lunar New Year demand boost that began to fade. In March, the People's Bank of China (PBoC) kept lending rates steady for the fifth straight month, maintaining the one-year Loan Prime Rate (LPR) at 3.1% for corporate and household loans, and the five-year LPR at 3.6% for mortgages, aligning with market expectations. On a positive note, the Caixin Manufacturing PMI climbed to 51.2 in March, hitting a four-month high as factory activity expanded on stronger new orders and improving demand. While deflationary pressures remain a concern, the rebound in manufacturing indicates some resilience in China's economic recovery.

- **In response to the evolving economic conditions, the European Central Bank (ECB) implemented a 25-basis point reduction in its three key interest rates,** in line with market expectations. The deposit facility rate was adjusted to 2.50%, the main refinancing rate to 2.65%, and the marginal lending rate to 2.90%. This policy action reflects the ECB's updated assessment of the inflation outlook and the transmission mechanisms of monetary policy. Meanwhile, annual inflation in the Euro Area moderated to 2.2% in March 2025, marking the lowest rate since November 2024 and slightly below market expectations of 2.3%, according to the preliminary estimate.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: U.S. TARIFF FEARS TRIGGERED REGIONAL STOCKS DECLINE

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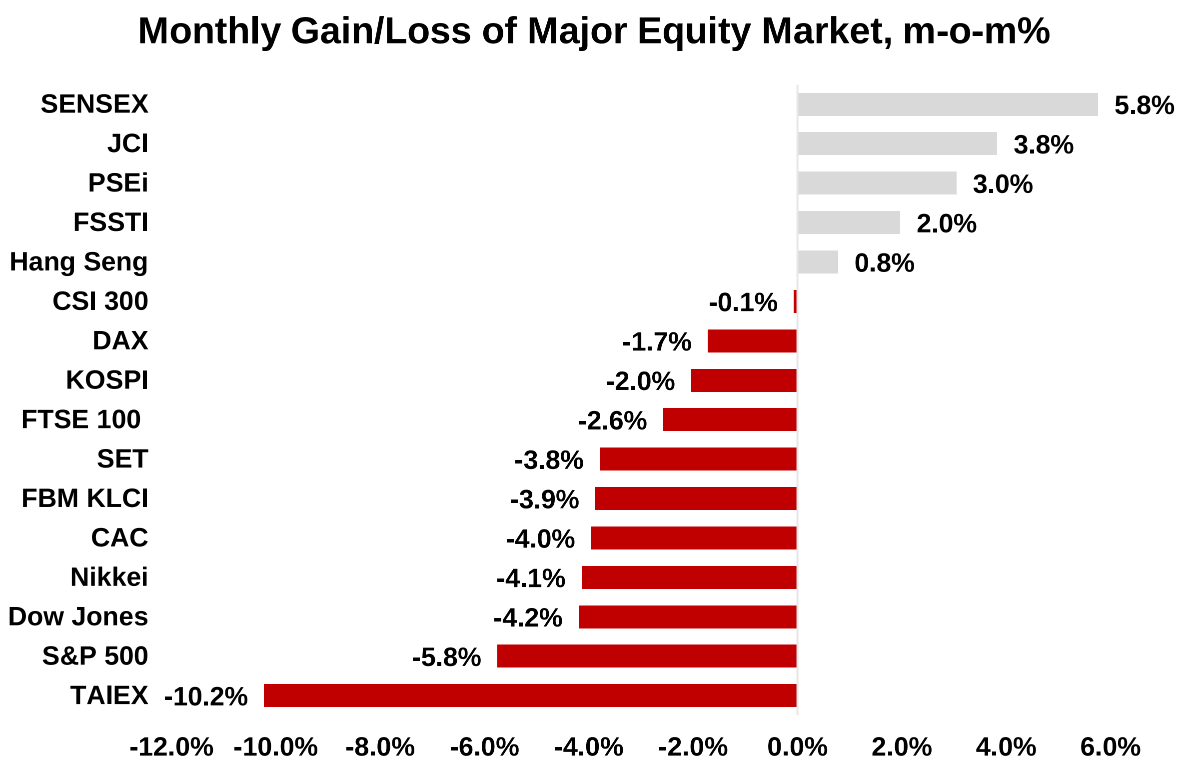
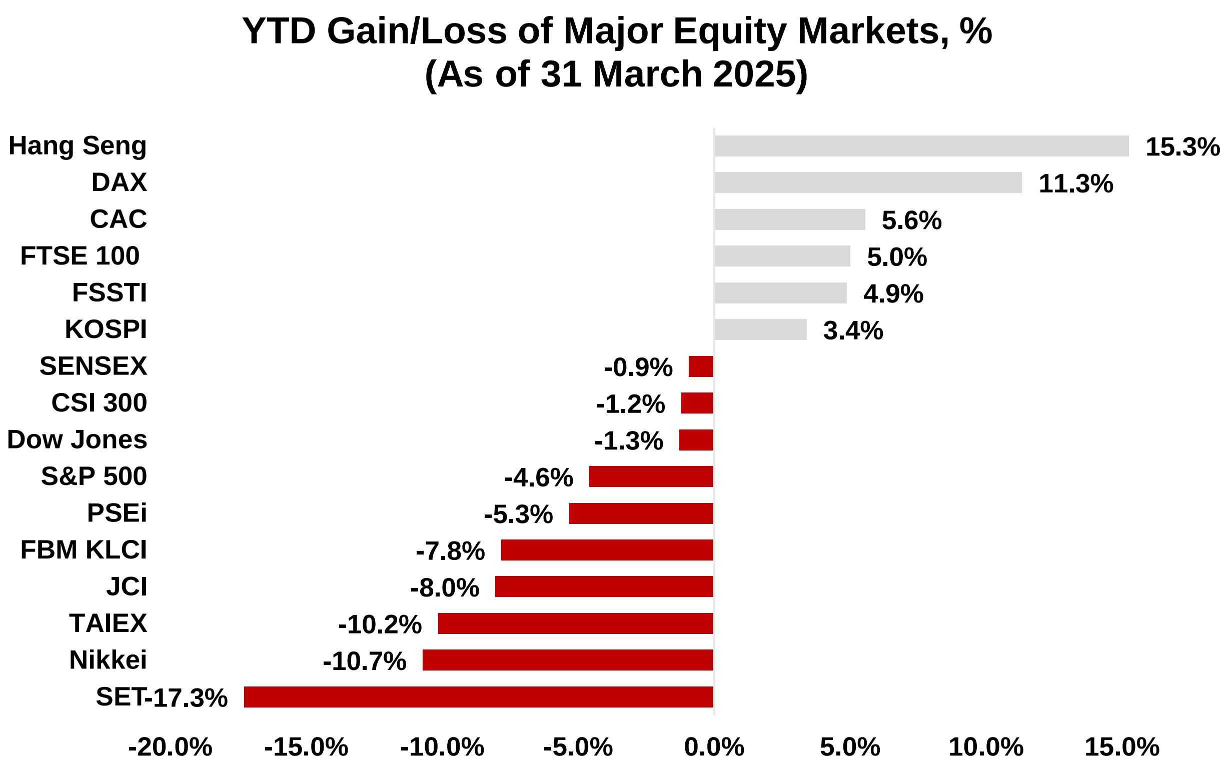
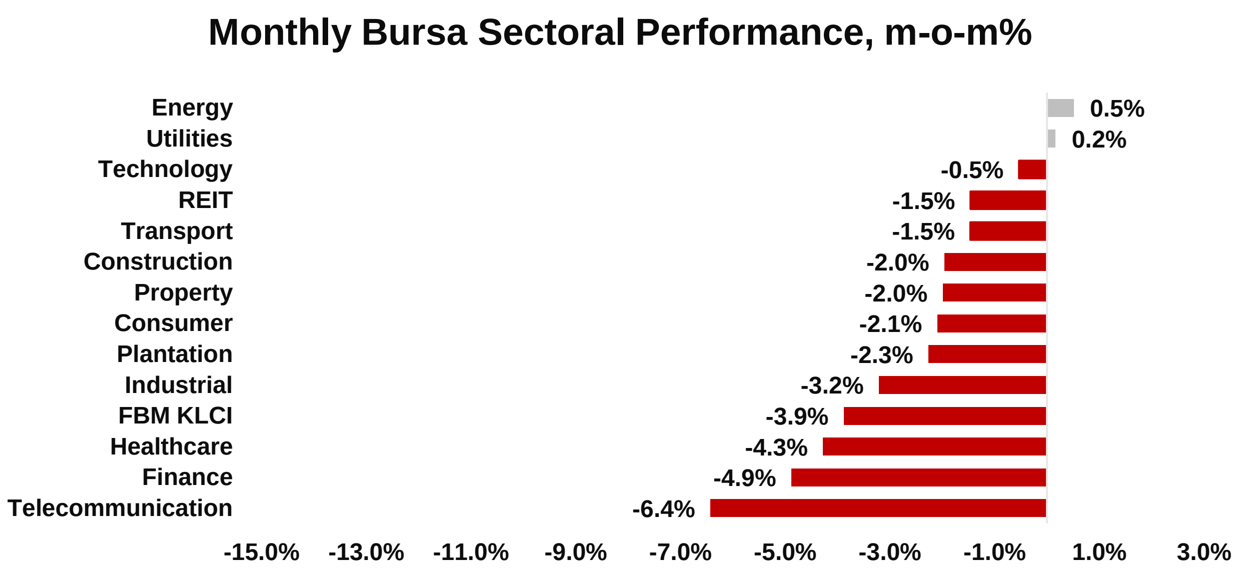


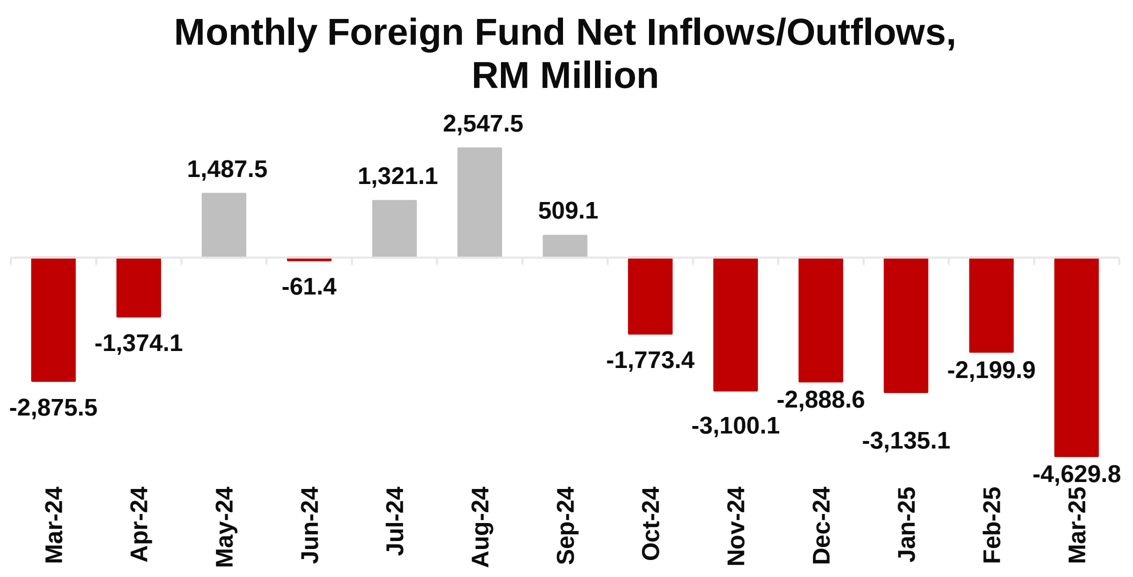


Sources: Bursa, CEIC data

- The regional stocks market were mostly in the red sea in March with Taiwan’s TAIEX being the biggest loser, declining by 10.2% due to increasing worries of that U.S. tariffs damaging global economic growth leading to investors pulling funds out of risky assets.
- Additionally, U.S. stocks – S&P 500 (-5.8%) and Dow Jones (-4.2%) slumped amid investors remained anxious due to the looming threat of President Trump's tariffs and concerning economic indicators.
- On the contrary, India’s SENSEX grew by 5.8% in March as the positive signals from domestic economic figures boosted confidence, leading to increased foreign investment.
- YTD, Hong Kong’s Hang Seng emerged as the top performer in March, with a gain of 15.3%.

DOMESTIC EQUITY: LOCAL MARKET WEAKENS WITH MOST SECTORS IN RED





Sources: DOSM, CEIC Data

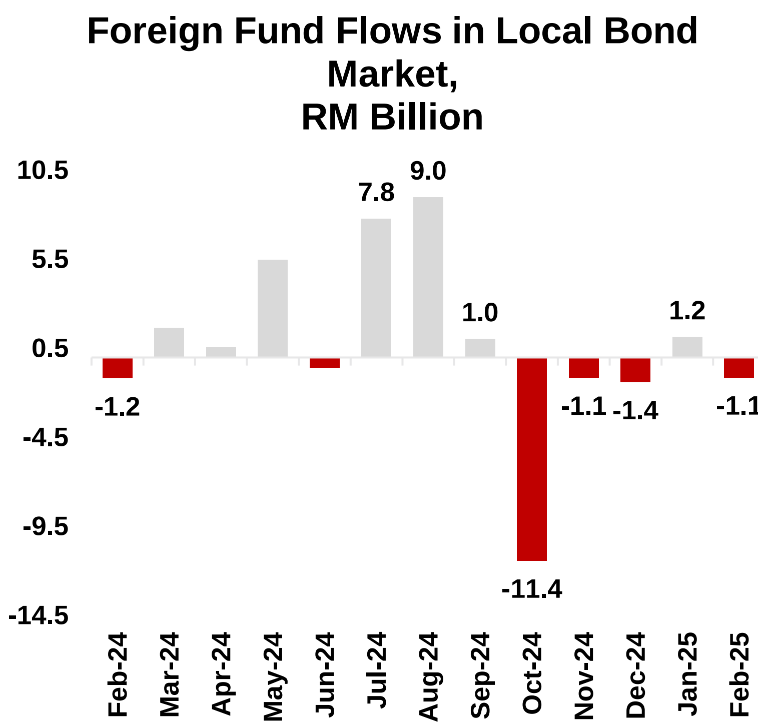
- The FBM KLCI returned to negative territory in March 2025, declining by 3.9% m-o-m after a 1.1% increase in February. The uncertainty surrounding the global economy continued to exert pressure on the local market as investors adopted a risk-averse stance in the face of the uncertainty.
- On March 12, the local bourse experienced a significant downturn, plunging by 2.3% to 1,484.83, the lowest level in 14 months. The slump was triggered by mounting fears of a global trade wars following U.S. President Trump's remarks about imposing tariffs. Volatility was also experienced by other regional markets, as concerns over a potential U.S. economic slowdown, caused by the trade tariffs grew.
- As an export-driven economy, Malaysia is vulnerable to disruptions in trade, especially in the manufacturing of semiconductors and automotives, as well as commodities. A deceleration in the U.S. economy could reduce demand for Malaysian products.
- In the broader market, the telecommunication (-6.4%), finance (-4.9%), and healthcare (-4.3%) indices were the top losers during the month. Only the energy (+0.5%) and utilities (+0.2%) indices recorded positive growth, albeit with only marginal gains.
- Foreign investors remained net sellers for the sixth consecutive month, recording a total net outflow of RM4.6 billion. This net selling resulted in a cumulative net outflow of RM10.0 billion in March 2025.

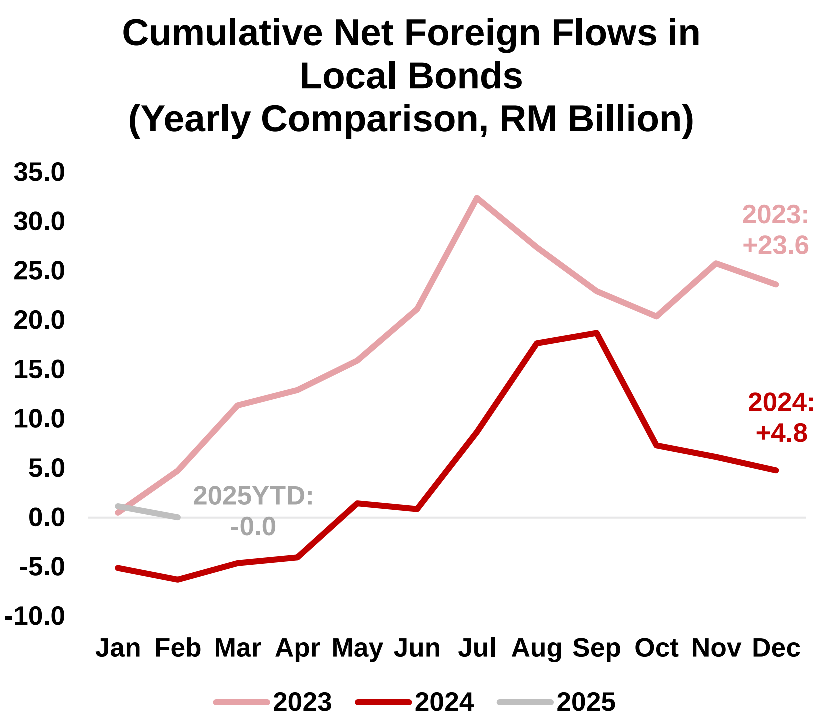
FIXED INCOME: UST YIELDS PLUNGED AMID GLOBAL ECONOMIC WORRIES

Monthly changes, basis points (bps)

UST	Yields (%) 28-Feb-25	Yields (%) 31-Mar-25	Change (bps)
3-Y UST	3.99	3.89	-10
5-Y UST	4.03	3.96	-7
7-Y UST	4.14	4.09	-5
10-Y UST	4.24	4.23	-1
MGS	**Yields (%) 28-Feb-25**	**Yields (%) 28-Mar-25**	**Change (bps)**
3-Y MGS	3.45	3.41	-4
5-Y MGS	3.60	3.57	-3
7-Y MGS	3.75	3.71	-4
10-Y MGS	3.79	3.77	-2
GII	**Yields (%) 28-Feb-25**	**Yields (%) 28-Mar-25**	**Change (bps)**
3-Y GII	3.55	3.51	-4
5-Y GII	3.63	3.59	-4
7-Y GII	3.76	3.71	-5
10-Y GII	3.81	3.78	-3

Sources: BNM, Federal Reserve Board

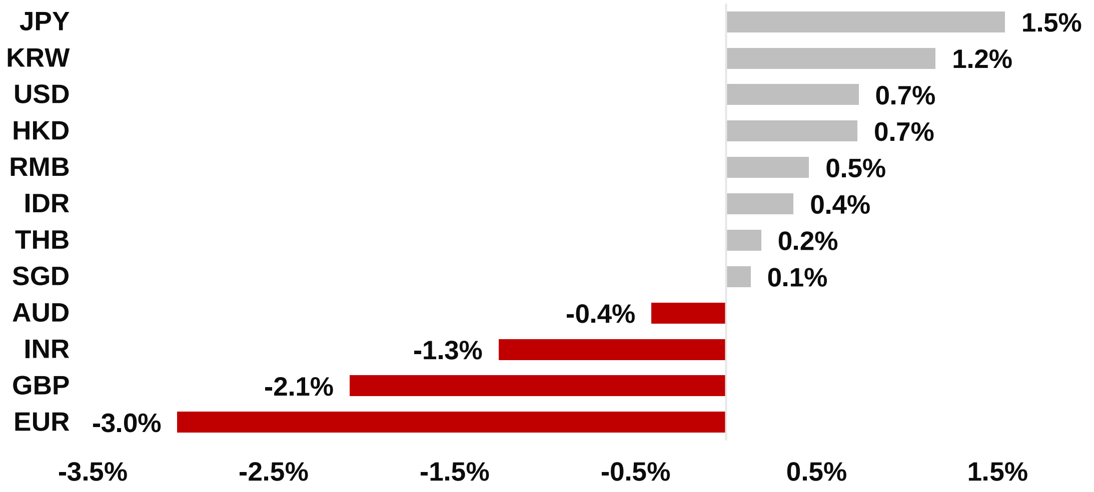




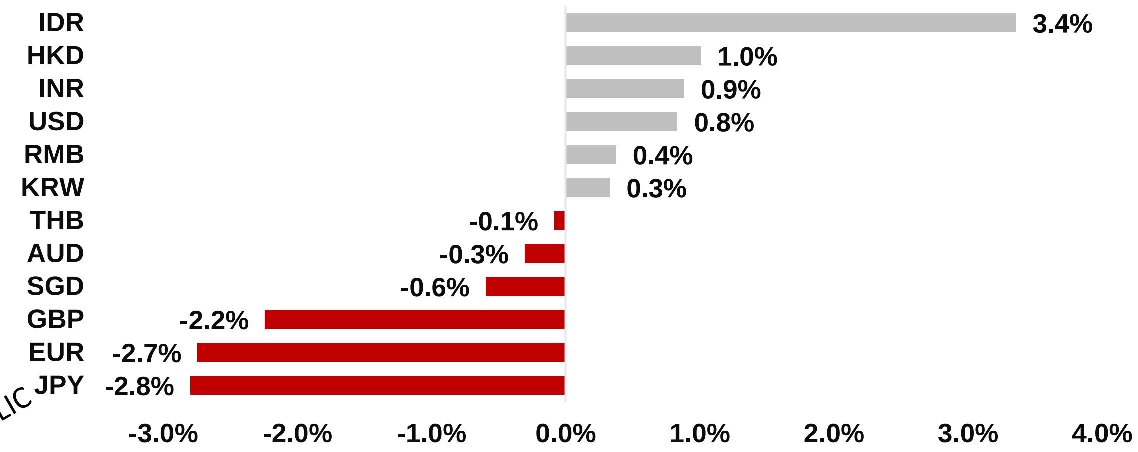
- The U.S. Treasury (UST) yields plunged in the range of 1bp and 10bps as growing global economic uncertainty and market worries prompted investors to seek refuge in safer assets.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields mostly edged slightly lower in March between 2bps and 5bps, following the movement in UST yields.
- Foreign fund flows in the local bond market recorded a net foreign outflow of RM1.1 billion in February (Jan: +RM1.2 billion). Consequently, local govvies' foreign shareholdings to total outstanding reduced to 21.4% in February (Jan: 21.7%).
- As of the first two months of 2025, the local bond market recorded the cumulative net foreign inflows of RM28.4 million, higher than the outflows of RM6.3 billion in the same period in the previous year.

FX MARKET: RINGGIT ENDED THE MONTH ON A SOLID FOOTING, BRACING FOR A ROCKY PATH FORWARD

MYR Against Regional Currencies, m-o-m%



MYR Against Regional Currencies, YTD% (As of 28 March 2025)



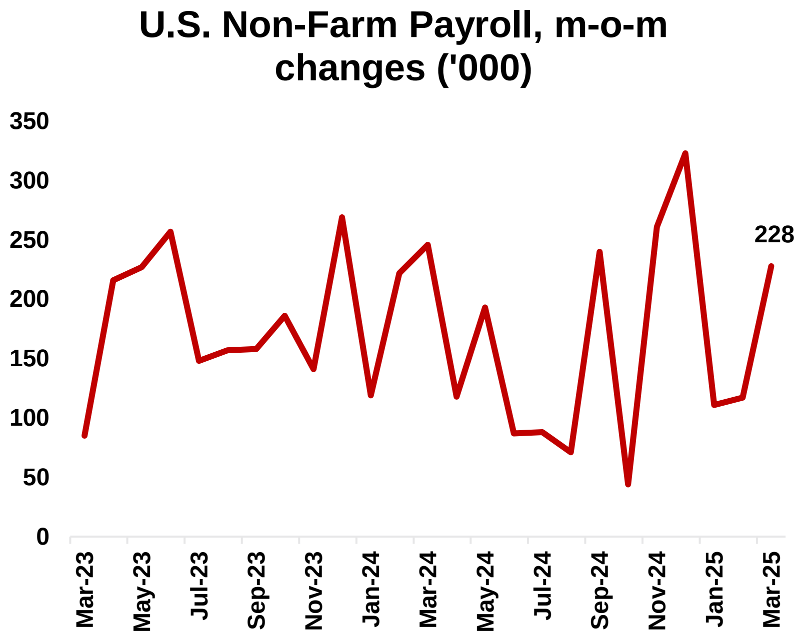
Sources: Bank Negara Malaysia(BNM), Bloomberg, CEIC Data

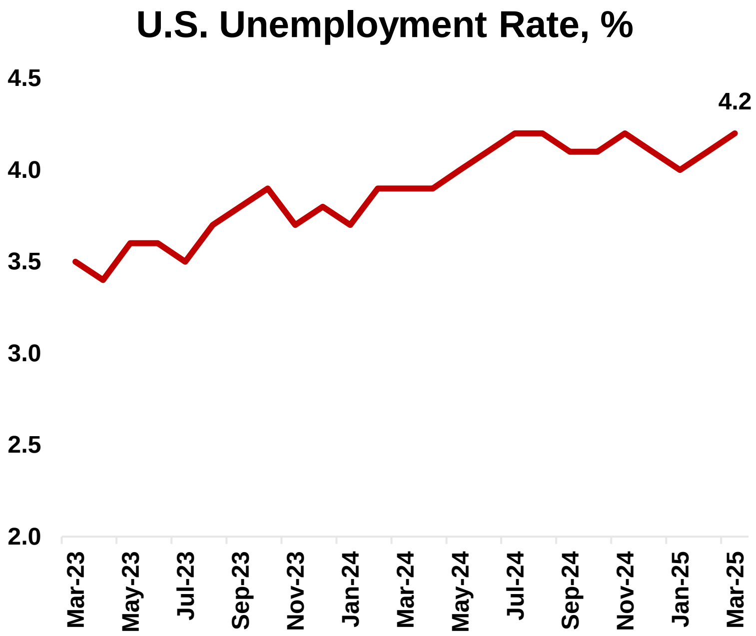
- The Ringgit appreciated by 0.7% against the USD for the month ending 28th March (28th Mar: RM4.433 vs. 28th Feb: RM4.4655), buoyed by the USD index trending downwards throughout the month.
- The greenback's weakness remained driven by U.S. President Trump's trade policies—more specifically, by the inconsistency between his public statements and the actual implementation of tariffs. This disparity has added to market uncertainty, making it increasingly difficult to anticipate his next moves. Just this month alone, Trump granted a conditional extension to the one-month pause on tariffs for Mexican and Canadian imports, announced a hike in tariffs on Canadian metals from 25% to 50% only to reverse the decision within hours, and proposed a 25% tariff on all auto imports, set to take effect on April 3 for fully imported cars, with plans to eventually include auto parts as well.
- Such volatile and aggressive moves had dampened the U.S.' economy outlook with the Federal Reserve revising its 2025 growth forecast downwards to 1.7% in its March Summary of Economic Projections (SEP) (December Est: 2.1%), thus dragging the dollar.
- Nevertheless, Trump had kept his word with the Liberation Day tariffs, of which Malaysian imports is tacked with 24% reciprocal tariffs. Moving forward, we expect Ringgit to trade cautiously as markets digest the latest decision while Malaysian officials aim to renegotiate the terms with its U.S. counterparts, with trade uncertainties to linger around for longer.

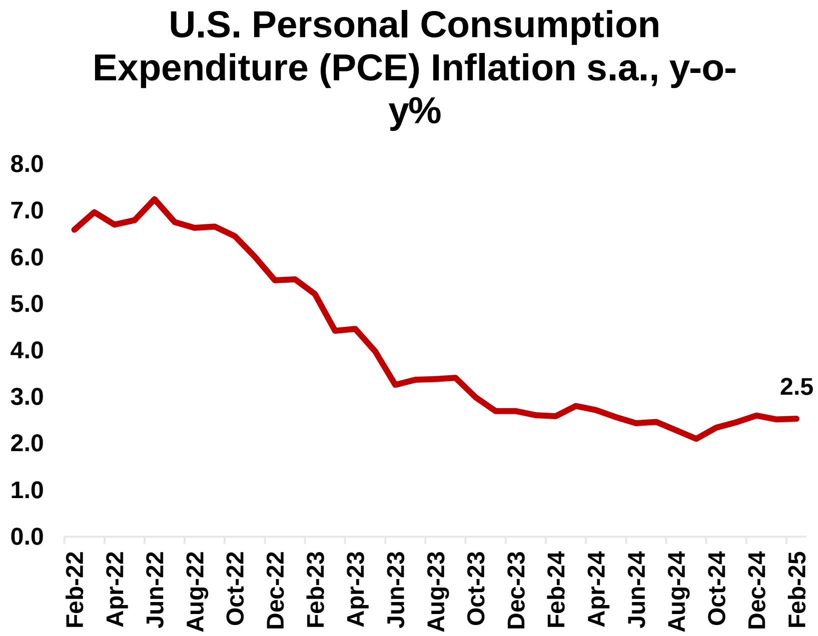
SECTION 2

The Global Economy

U.S. JOB GROWTH SURGED IN MARCH BUT UNEMPLOYMENT ROSE; FED FOCUSED ON INFLATION DESPITE TARIFF CONCERNS







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

- Beating market predictions, U.S. Non-Farm Payrolls jumped by a strong 228K in March, the BLS announced, a notable increase from February's revised 117K. On the other hand, the U.S. unemployment rate moved up to 4.2%, higher than the 4.1% forecast.
- The Federal Reserve's (Fed's) preferred inflation gauge, U.S. PCE inflation rate held steady at 2.5% in February, This matched both what the market anticipated and January's figure. Digging deeper, the core PCE index, which leaves out fluctuating food and energy costs, climbed by 2.8% in February, a bit higher than the expected 2.7% and January's 2.7%.
- Fed Chair Jerome Powell stated that the new tariffs imposed by President Donald Trump have raised the likelihood of higher unemployment, potentially driving up inflation and slowing economic growth. His remarks indicate that the Fed is in no hurry to lower its benchmark lending rate, currently set between 4.25% and 4.50%, as it remains focused on bringing inflation down to its long-term 2.0% target.

CHINA’S MANUFACTURING SHOWS IMPROVEMENT DESPITE LINGERING PRICE WEAKNESS

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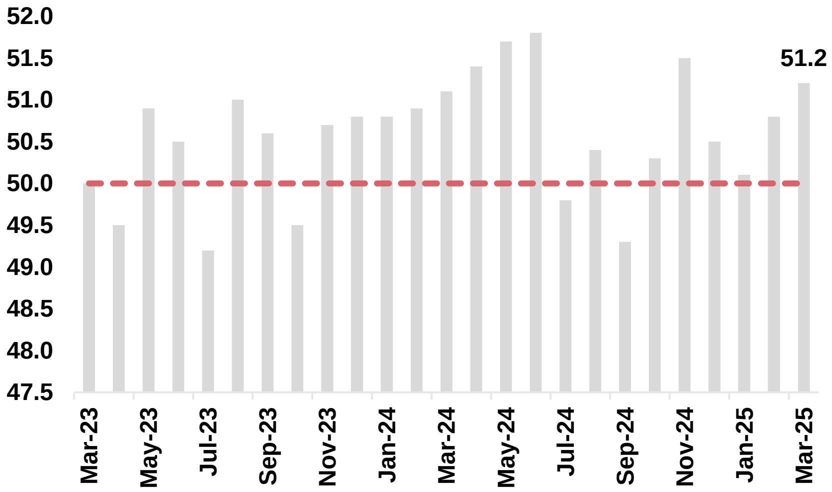
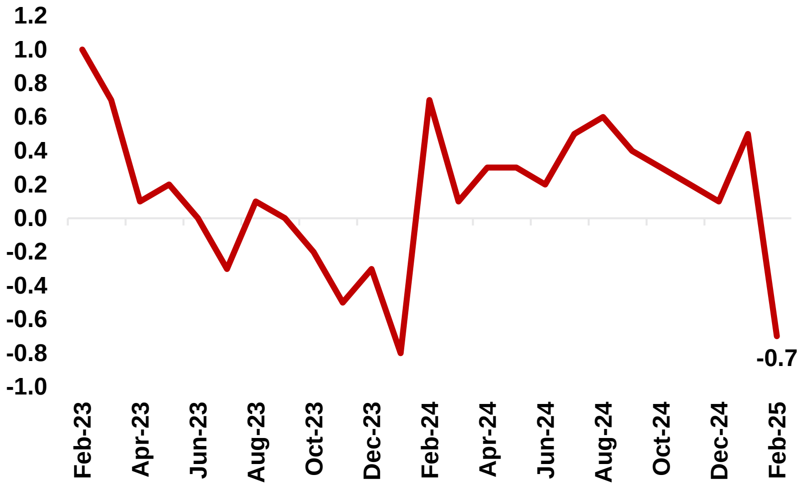
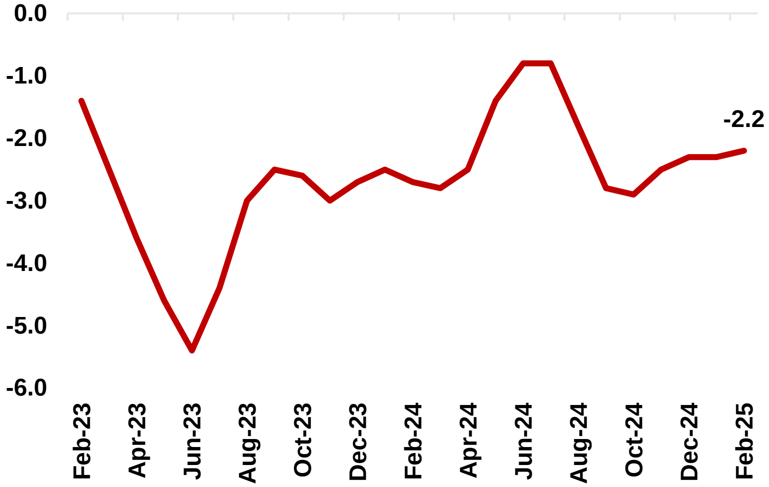
China - Manufacturing Purchasing Managers' Index (PMI), points



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



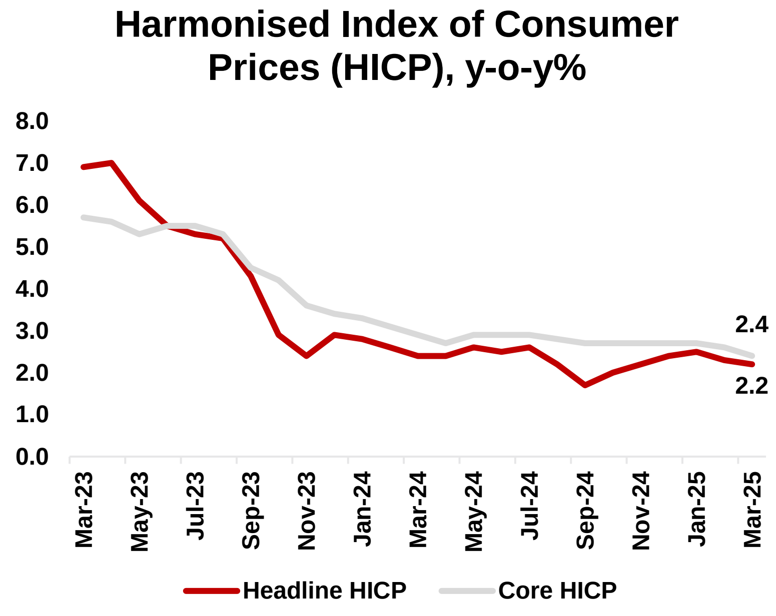
China - Producer Price Index (PPI), y-o-y%

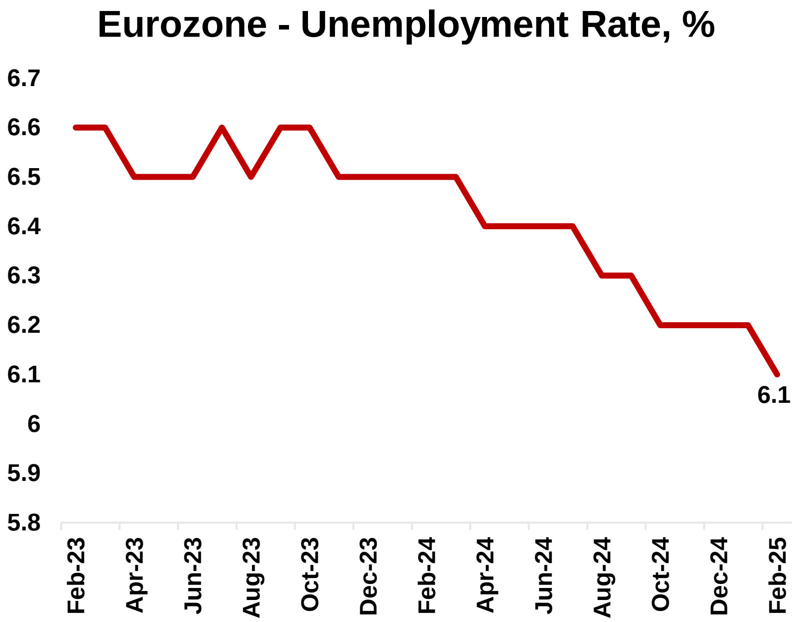


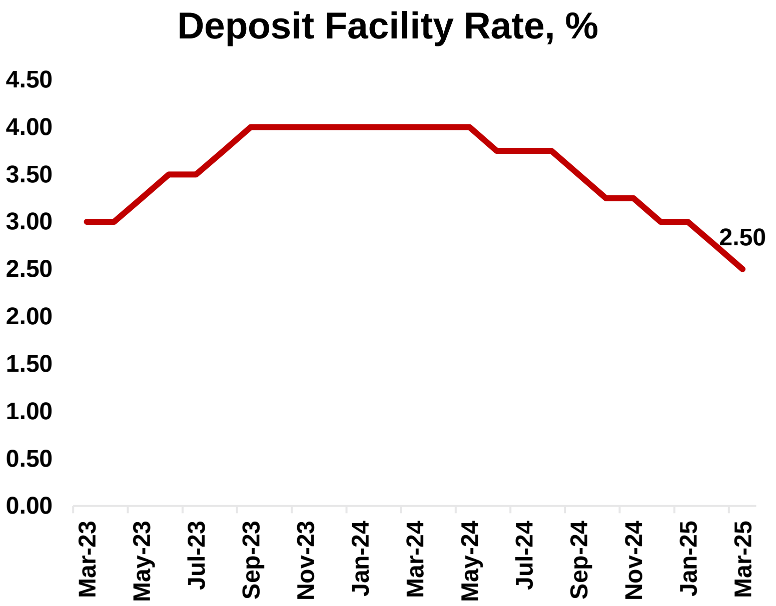
Sources: National Bureau of Statistics, CEIC

- March saw an uptick in Chinese manufacturing activity, with the Caixin PMI reaching a four-month high of 51.2 points, up from 50.8 points in February and above the expected 51.1 points. The stronger performance was driven by accelerated production growth, supported by a continuous increase in new orders amid better demand.
- China saw its CPI, a key inflation indicator, contracted 0.7% year-on-year in February, reversing January's 0.5% increase. This dip is primarily attributed to the timing of the Spring Festival holiday and its impact on the comparison with last year. Additionally, favorable weather for produce and promotional pricing on vehicles and other goods contributed to the decrease.
- Adding to the picture, wholesale inflation, as measured by the Producer Price Index (PPI), remained in the negative territory of 2.2% in February relative to the contraction of 2.3% in January. This marks the 29th straight month of declining factory-gate prices, a trend that began in October 2022.
- Meanwhile, China is hitting back at U.S. tariffs with its own 34% tariffs on all U.S. imports, effective April 10th.

ECB EASED MONETARY POLICY AS EUROZONE INFLATION HITS LOW, TRADE WAR LOOMS







Sources: ECB, Eurostat, S&P Global

- Eurozone annual inflation continued its downward trend in March 2025, landing at 2.2%, the lowest since November and slightly under the anticipated 2.3%. Key drivers included a slowdown in services inflation to a 33-month low of 3.4% and falling energy costs (-0.7%). Core inflation also eased to 2.4%, its lowest since January 2022 and below the 2.5% forecast. However, unprocessed food prices saw a notable increase (4.1%).
- The Euro Area's unemployment rate continued its downward trend in February 2025, hitting a fresh low of 6.1%, better than the anticipated 6.2%. In contrast, the rate of joblessness among those under 25 edged up slightly to 14.2% from 14.1% in January.
- The European Central Bank (ECB) continued its monetary easing in March, cutting its key interest rate by 0.25% to 2.50%. This decision reflected the central bank's increasing worries about the economic headwinds facing the eurozone due to geopolitical instability and trade risks.
- European Commission President Ursula von der Leyen criticized U.S. President Donald Trump's decision to impose a 20% tariff on E.U. goods and pledged to retaliate, stating that the E.U. was "ready to respond."

SECTION 3

Domestic Landscape & Banking Sector Update

DOMESTIC TOURISM RETURNED TO PRE-PANDEMIC GLORY, POINTS TO HEALTHY ECONOMIC FUNDAMENTALS

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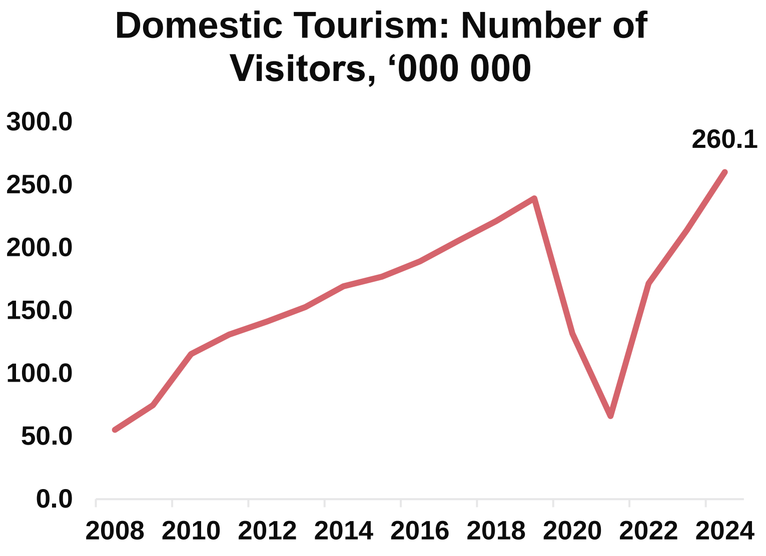
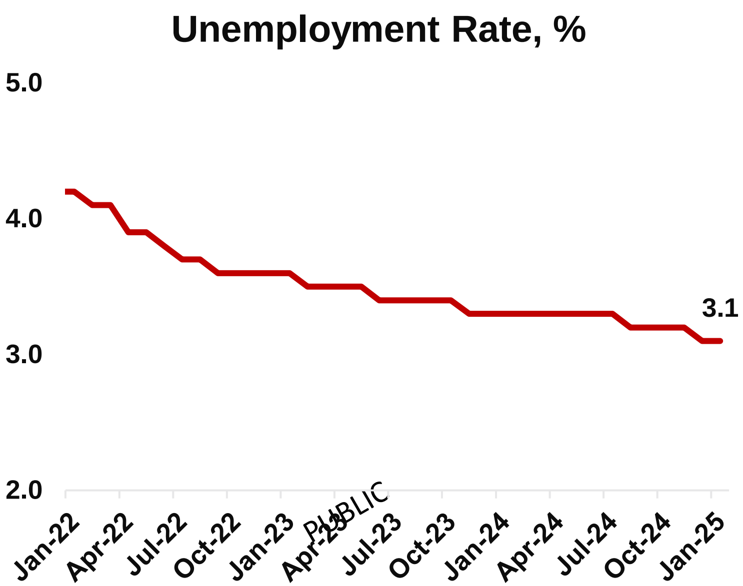
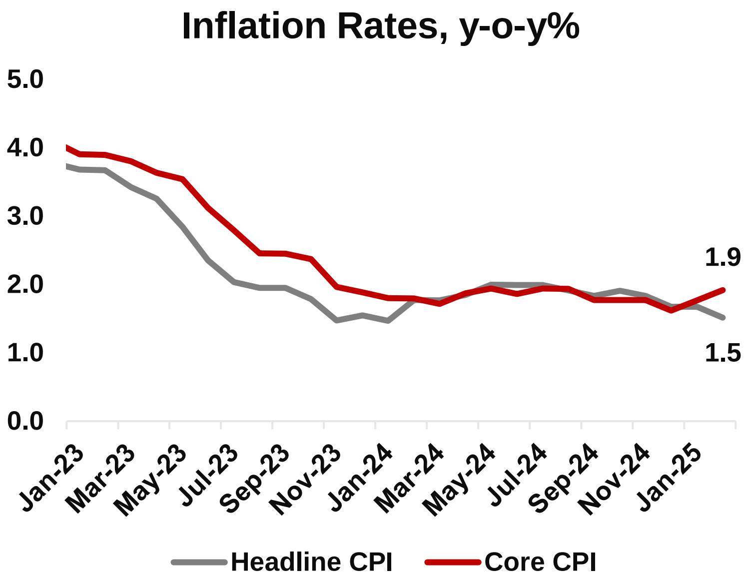


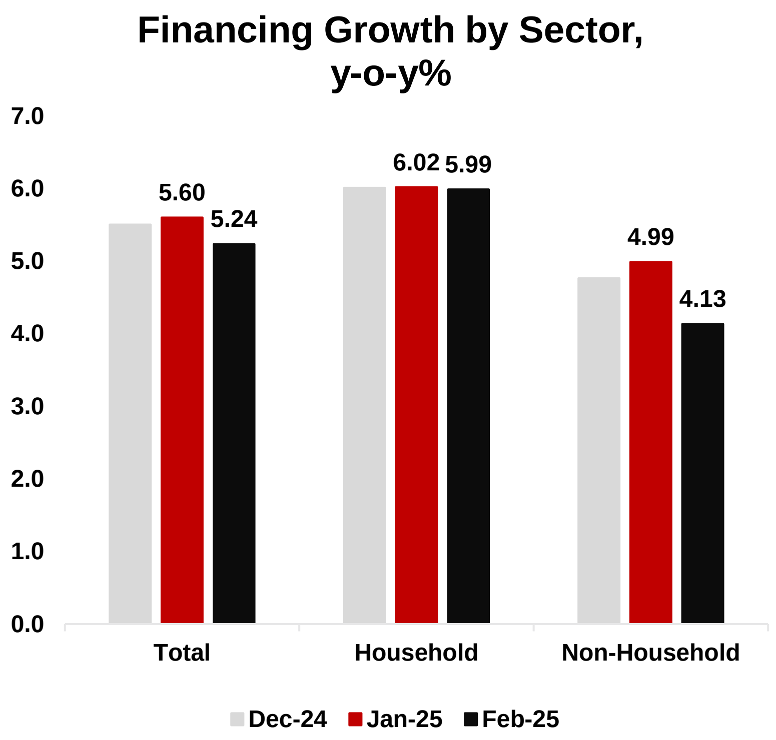


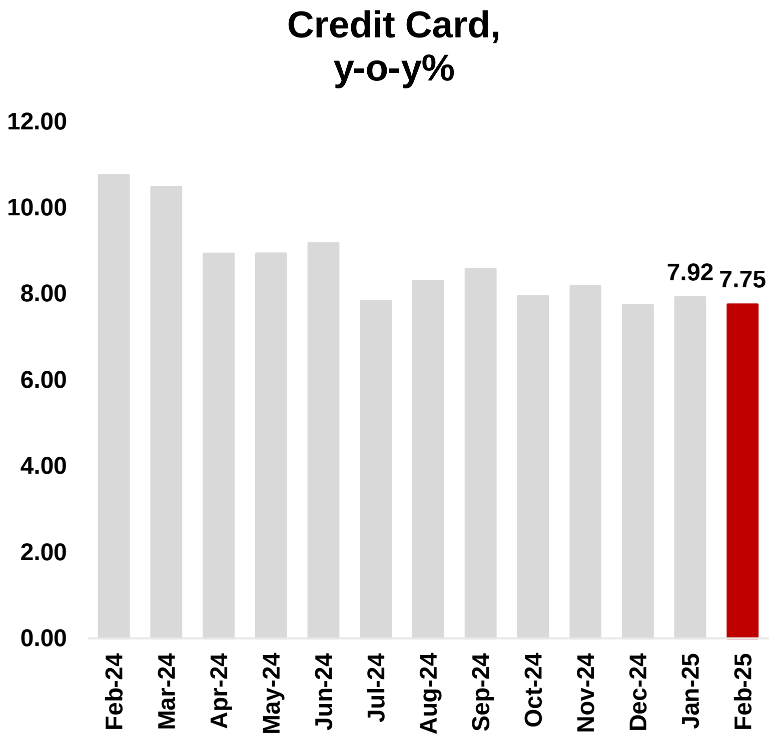


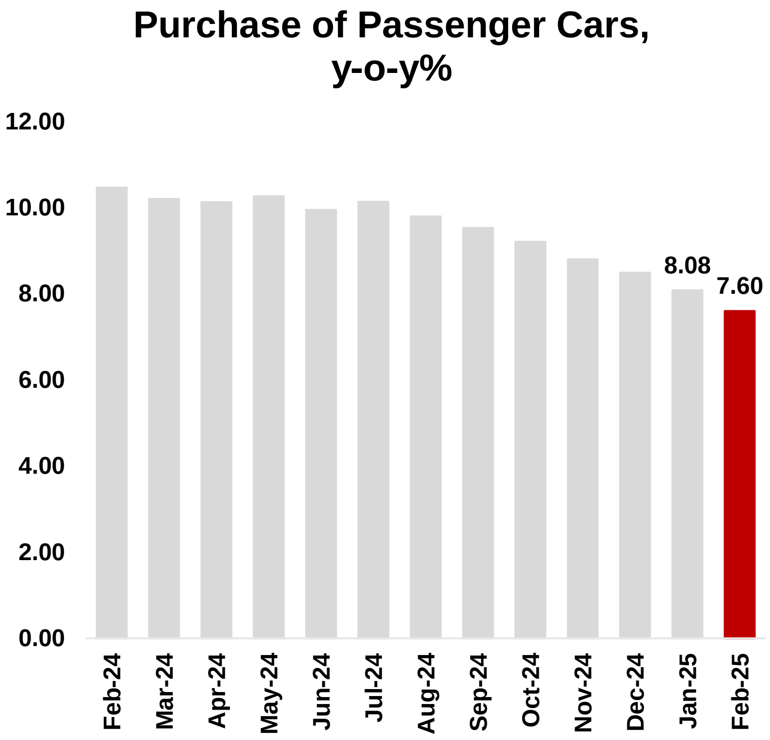
Sources: DOSM, CEIC Data

- Malaysia's domestic tourism experienced a booming year in 2024 with the number of domestic visitors surpassing the pre-pandemic volume at 260.1 million persons (2019: 239.1 million persons, 2023: 213.7 million persons) with a total tourist receipt surging above RM100 billion (2024: RM107.2 billion vs. 2023: RM84.9 billion).
- Looking closer, volume of visitors in 4Q2024 rose to 66.8 million from 66.3 million in the previous quarter while tourism expenditure increased to RM29.0 billion (3Q2024: RM25.6 billion), signaling continuous robust demand for entertainment and recreational activities.
- Such growth trajectory was underpinned by households' ample purchasing power amid a backdrop of improving labour market conditions and moderate inflation. Moving forward, we expect the favourable conditions to remain, with domestic demand playing the focal role in supporting the economy in the face of external headwinds.
- Thus far, the disinflation trend continued with headline inflation slowing to 1.5% in February from 1.7% in January. However, core inflation ticked up slightly to 1.9% in the same month (January: 1.8%). Nevertheless, upside risk remains from the RON95 subsidy rationalisation and the electricity tariff hike, both expected to be delivered in 2H2025.

BANKING SECTOR: FINANCING GROWTH FOR THE NON-HOUSEHOLD SECTOR SLOWED SIGNIFICANTLY IN FEBRUARY







Source: BNM

- Financing growth moderated to 5.24% in February, down from 5.60% in January. A notable slowdown in growth was observed in financing activities for the non-household sector, which eased from 4.99% in January to 4.13% in February. Meanwhile, financing growth in the household segment remained stable, with 5.99% in February compared to 6.02% in January.
- Financing for credit card rose by 7.75% in February, easing from 7.92% in January. Likewise, the financing growth for both passenger car and residential property purchases moderated to 7.60% (January: 8.08%) and 6.70% (January: 6.79%), respectively in February.

BANKING SECTOR: FEBRUARY'S ASSET QUALITY REMAINED STABLE

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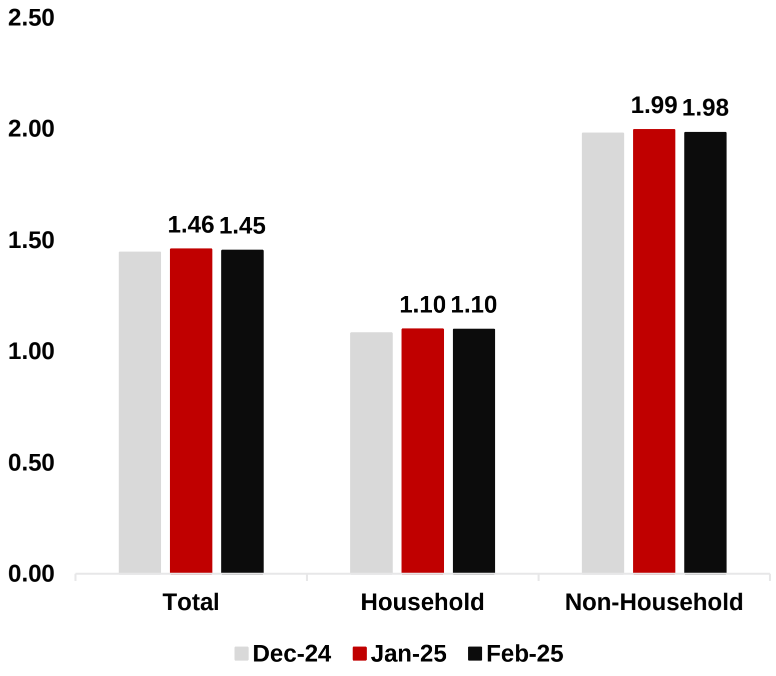

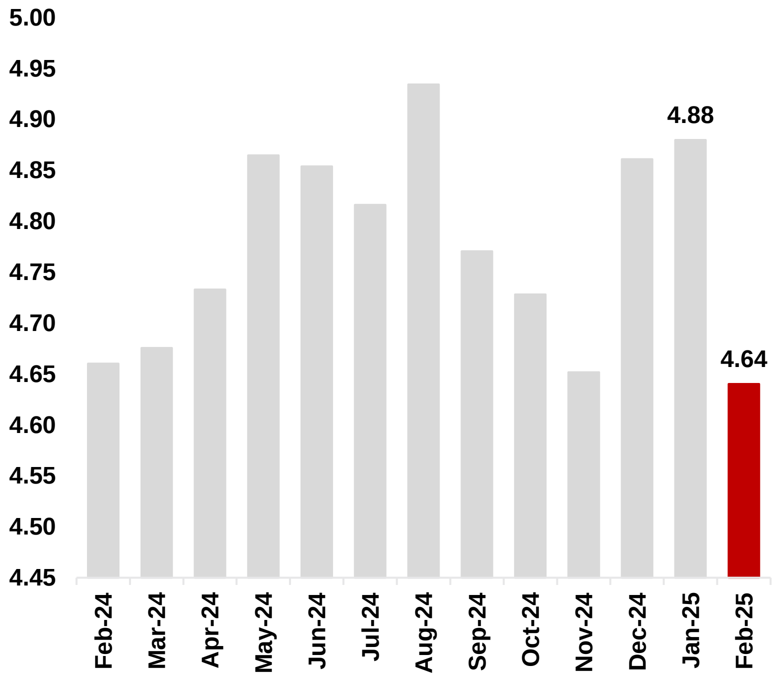

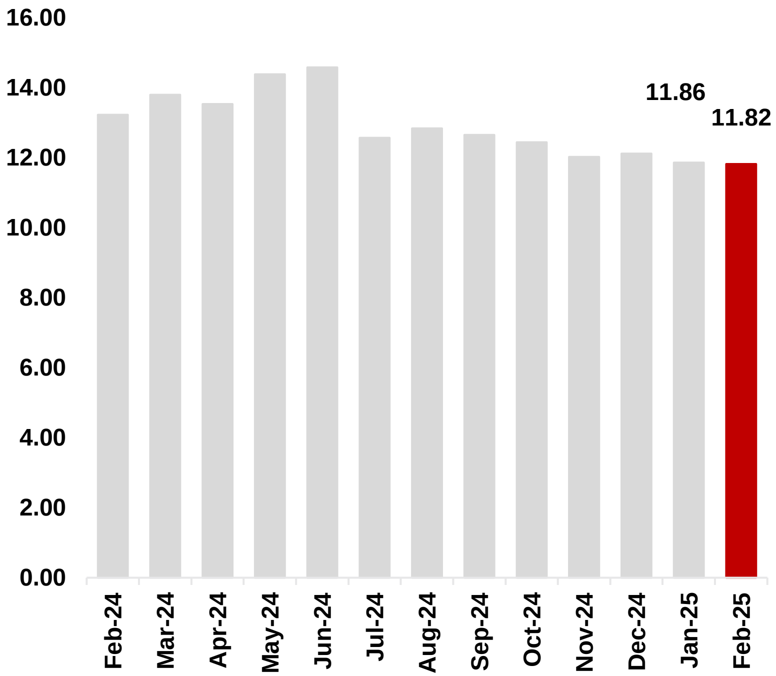

Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector decreased slightly to 1.45% in February (January: 1.46%). The GIFR for the household sector remained stable at 1.10% in February, unchanged from January's figure. Meanwhile, impairment in the non-household sector changed only marginally, easing to 1.98% in February from 1.99% in January.
- The asset quality in the construction, as well as mining and quarrying industry improved in February, with the GIFR falling to 4.64% (January: 4.88%) and 11.82% (January: 11.86%), respectively.

THANK YOU