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MONTHLY ECONOMIC UPDATE

3 JUNE 2025

ECONOMIC RESEARCH

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

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KEY TAKEAWAYS

- **In mid-May 2025, the U.S. and China reached a temporary agreement to reduce tariffs for 90 days to ease trade tensions.** Nevertheless, disputes have resurfaced, as the U.S. accused China of not fulfilling commitments, particularly regarding the export of critical minerals essential for industries like semiconductors and defense. China rejected these claims as “unreasonable” and vowed to take “forceful measures” in response. During the same month, Moody downgraded the U.S. sovereign credit rating by one notch to Aa1 from Aaa, citing concerns over fiscal management and political stability. In 1Q2025, the U.S. economy contracted by 0.2% y-o-y, dragged down by a surge in imports as people rushed to buy goods from abroad before Trump’s tariff take effect in July 2025. Meanwhile, China posted unexpectedly strong GDP growth during the same quarter, exceeding estimated growth of 5.1%. The significant impact on its exports is expected to be more visible in 2Q2025, as Trump’s additional “reciprocal” tariffs on Chinese imports took effect in April 2025. Beside negotiation with China, in late May, Trump also threatened to raise tariffs to 50% on all EU goods but this escalation has been postponed until July 9 to allow for further negotiations.

- **Malaysia’s economic growth eased to 4.4% in the 1Q2025, reflecting softer domestic demand and external headwinds.** The Malaysian economy moderated further from 4.9% in 4Q2024, in line with the Department of Statistics Malaysia’s (DOSM) advanced estimate. A sharper contraction in the mining sector driven by lower oil and gas output was the primary drag on growth in 1Q2025, alongside a broad-based moderation across most other sectors, with the exception of agriculture, which recorded a slight increase. Additionally, net exports slowed significantly, contributing only 0.83 percentage points to GDP growth in 1Q2025, markedly lower than the 2.03 percentage point contribution in 4Q2024. We maintain our full-year GDP growth projection at 4.4% with slower exports being the key factor behind the moderation. Malaysia may benefit from front-loaded export activities in 1H2025, but this effect is expected to subside by July 2025, once Trump’s tariff imposition takes effect in July 2025. In May 2025, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3.00%, while lowering Statutory Reserve Requirement (SRR) ratio by 100 bps from 2% to 1% effective May 16.

- **The recent ASEAN Summit emphasized regional integration, digital transformation, and sustainability.** A significant milestone was the initiation of negotiations for the ASEAN Digital Economy Framework Agreement (DEFA), aiming to establish a cohesive digital economy across member states by 2025. Leaders also focused on enhancing regional payment connectivity, promoting the use of local currencies in cross-border transactions to reduce reliance on foreign currencies. Sustainability was also a central theme, with commitments to the ASEAN Strategy for Carbon Neutrality and the development of the Blue Economy Framework.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: STOCKS SURGED GLOBALLY IN MAY AS INFLATION COOLS AND ECB CUT LOOMS

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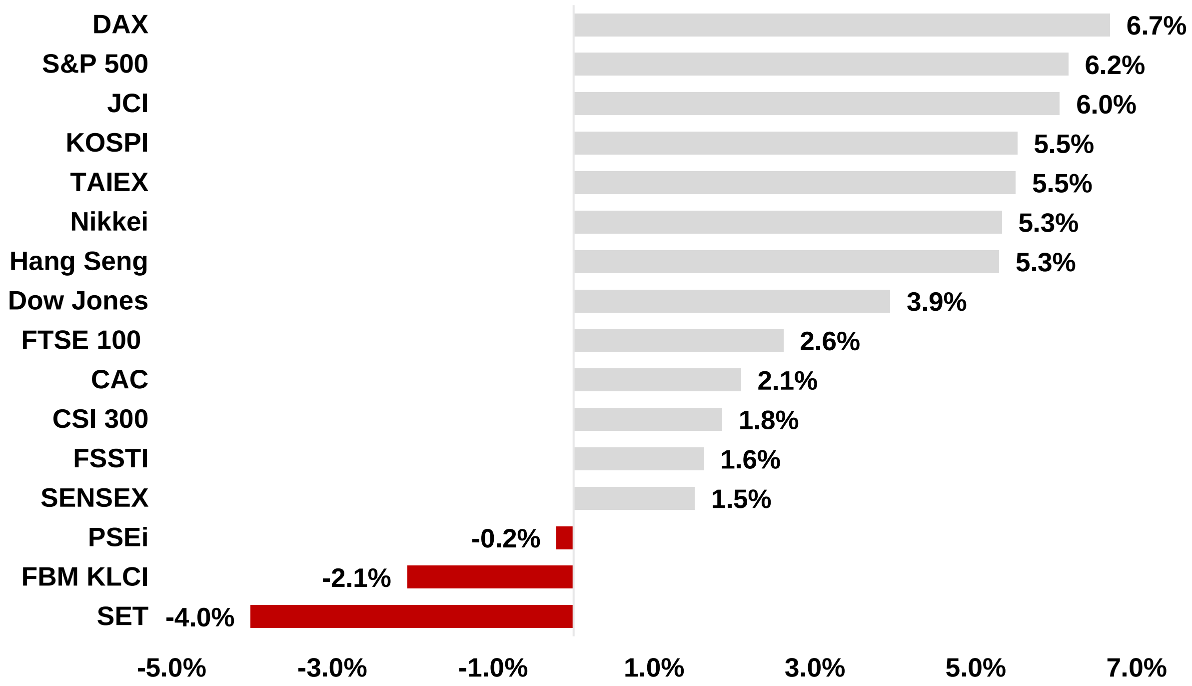
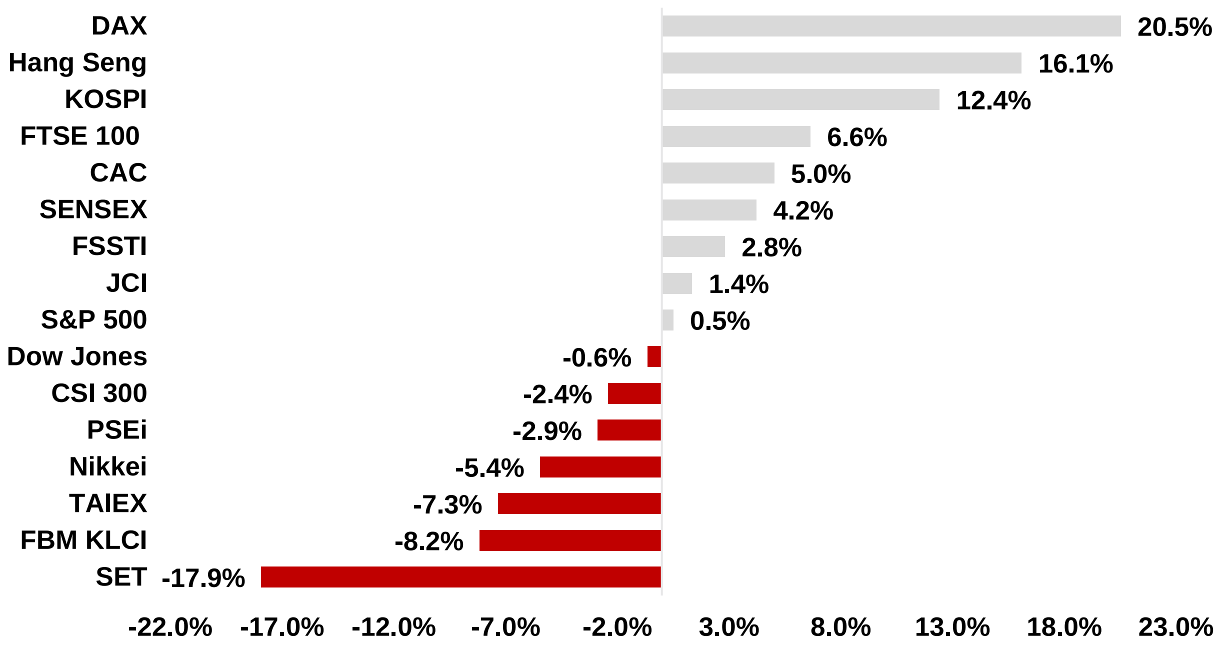
Monthly Gain/Loss of Major Equity Market, m-o-m%



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



Sources: Bursa, CEIC data

- The global stocks market were mostly in the green in May with Germany's DAX as the biggest winner, expanding by 6.7% amid positive reaction to economic data, particularly the benign inflation numbers from Germany, Italy, and Spain, as these figures reinforced predictions of a European Central Bank (ECB) rate cut happening this Thursday.
- In addition, U.S. stocks – S&P 500 (+6.2%) and Dow Jones (+3.9%) soared despite U.S. stocks had a rocky but ultimately strong May as investors reacted to renewed trade tensions with China and cooler inflation data. These market fluctuations were primarily driven by President Trump's accusation that China had violated their recent trade agreement. On a more positive note, the Federal Reserve's (Fed's) preferred inflation indicator showed signs of cooling price pressures, which offered some relief to the market.
- Meanwhile, Thailand's SET (-4.0%), Malaysia's FBM KLCI (-2.1%) and Philippines PSEi (-0.2%) were the major losers in May.
- YTD, Germany's DAX remained as the top performer in May, with a gain of 20.5%.

DOMESTIC EQUITY: FBM KLCI RETREATS IN MAY AMID GLOBAL UNCERTAINTY AND SLOWER GDP GROWTH

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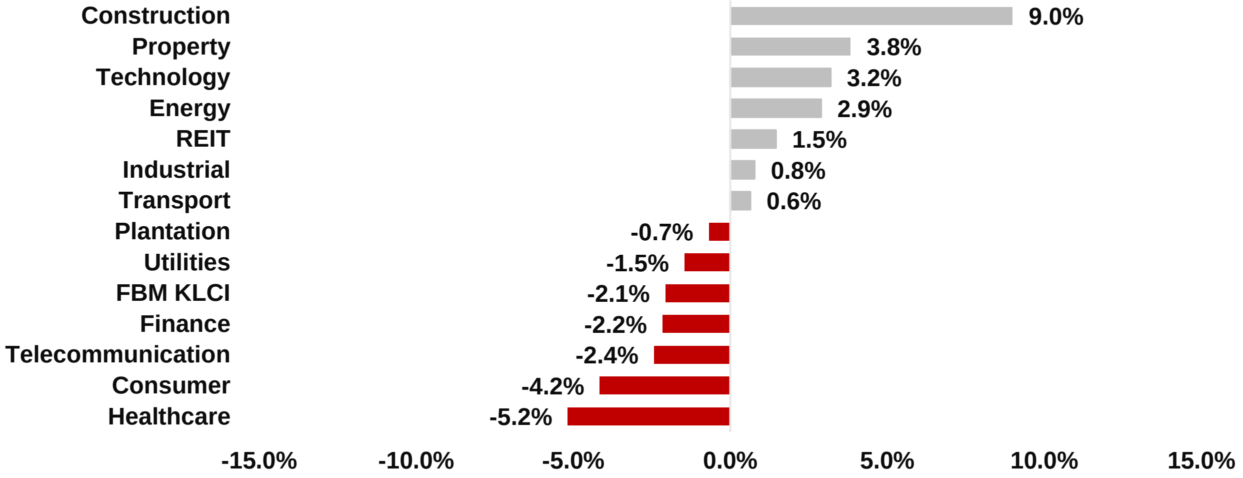
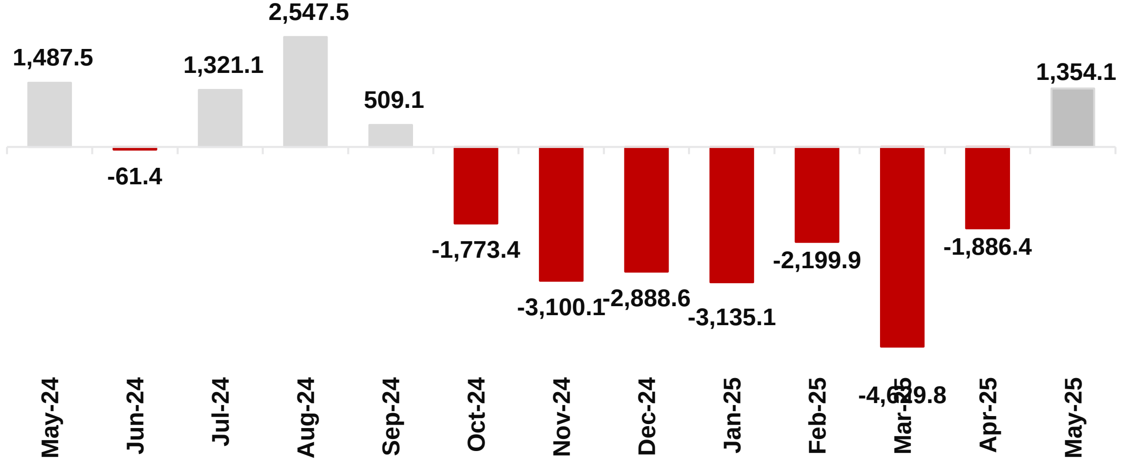
Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



Sources: DOSM, CEIC Data

- The FBM KLCI ended May on a softer footing, declining 2.1% m-o-m to close at 1,508.35 (April: +1.8%), erasing earlier gains as risk-off sentiment took hold. The pullback coincided with a moderation in Malaysia's 1Q2025 GDP growth to 4.4% y-o-y, in line with DOSM's advance estimate. A key drag came from net exports, which grew by a slower 19.6% compared to 63.6% in 4Q2024, reflecting a normalization in trade flows following front-loading ahead of expected tariff measures.
- Global uncertainties, particularly surrounding U.S. trade policies, continue to weigh on investor sentiment. While recent US-China agreements have led to some tariff reductions, the overall trade policy landscape remains uncertain. The acceleration in exports driven by front-loading to circumvent expected higher tariffs, has distorted economic data, raising concerns about potential corrections in trade flows. Such ongoing trade tension pose significant challenges for export-oriented economies like Malaysia.
- Sector indices performance was mixed in May, with Construction index led gains with a 9.0% increase, followed by Property (3.8%) and Technology (+3.2%). Conversely, the Healthcare index saw the largest decline at 5.2% m-o-m, followed by Consumer (-4.2%) and Telecommunication (-2.4%).
- Foreign investors turned net buyer in May after seven consecutive months of selling, recording RM1.4 billion in equity inflows.

This brought the cumulative net outflow for the year to RM10.5 billion.

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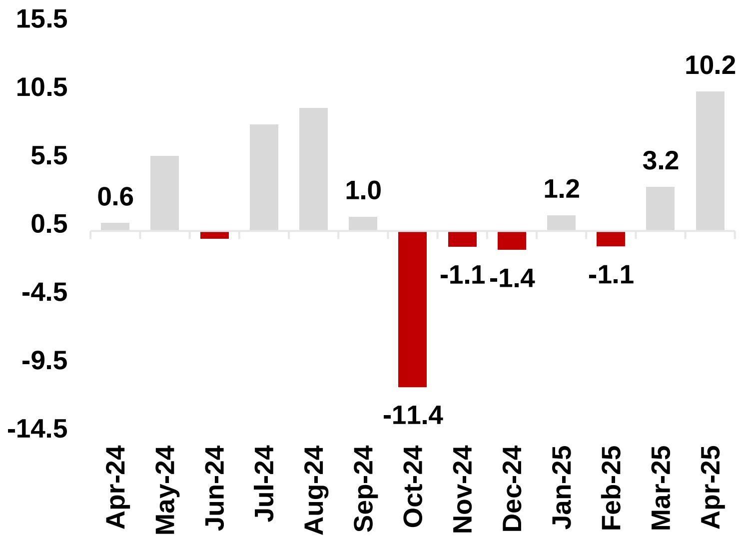
FIXED INCOME: UST YIELDS REACTED TO RENEWED TRADE TENSIONS AND GROWING FED RATE CUT EXPECTATIONS

Monthly changes, basis points (bps)

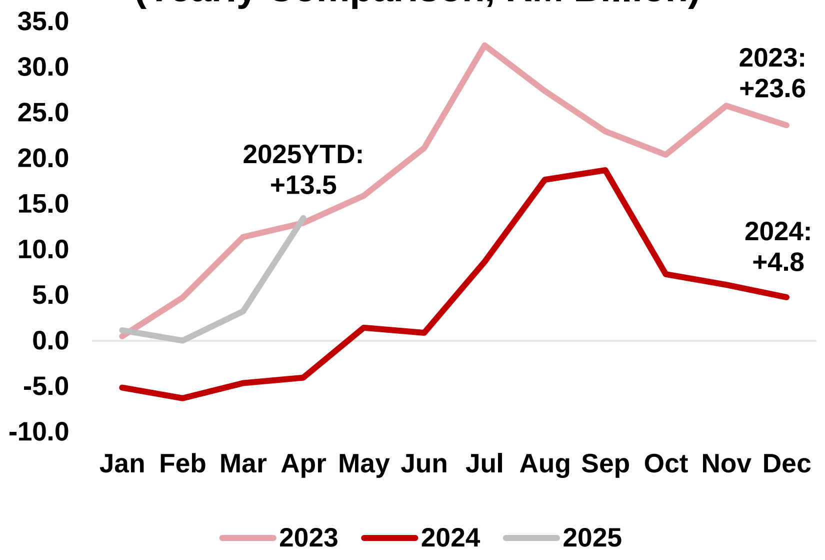
UST	Yields (%) 30-Apr-25	Yields (%) 30-May-25	Change (bps)
3-Y UST	3.58	3.87	29
5-Y UST	3.72	3.96	24
7-Y UST	3.93	4.18	25
10-Y UST	4.17	4.41	24
MGS	**Yields (%) 30-Apr-25**	**Yields (%) 30-May-25**	**Change (bps)**
3-Y MGS	3.25	3.15	-10
5-Y MGS	3.37	3.19	-18
7-Y MGS	3.55	3.39	-16
10-Y MGS	3.66	3.53	-13
GII	**Yields (%) 30-Apr-25**	**Yields (%) 30-May-25**	**Change (bps)**
3-Y GII	3.30	3.17	-13
5-Y GII	3.42	3.29	-12
7-Y GII	3.53	3.40	-13
10-Y GII	3.64	3.53	-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 climbed in the range of 24bps and 29bps as traders assess trade war developments and fresh economic data, including President Trump's recent social media post alleging China "totally violated" their agreement added to uncertainty. However, cooling PCE inflation reinforced expectations for a possible Fed interest rate cut later in the year.
- In contrast, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields declined in May by between 10bps and 18bps amid continued demand for domestic bond.
- Foreign fund flows in the local bond market recorded a net foreign inflow of RM10.2 billion in April (Mar: +RM3.2 billion). Consequently, local govvies' foreign shareholdings to total outstanding surged to 22.4% in April (Mar: 21.6%).
- As of the first four months of 2025, the local bond market recorded the cumulative net foreign inflows of RM13.5 billion, higher than the outflows of RM4.0 billion in the same period in the previous year.

FX MARKET: RINGGIT APPRECIATED TO A SEVENTH-MONTH HIGH AS FISCAL WORRIES WEIGHED ON THE USD

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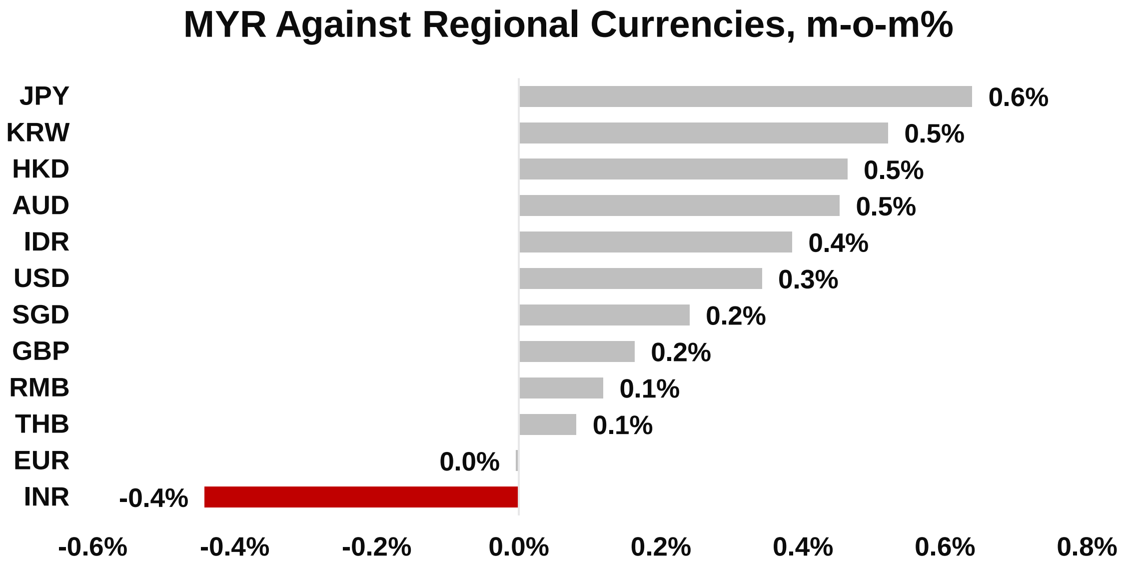
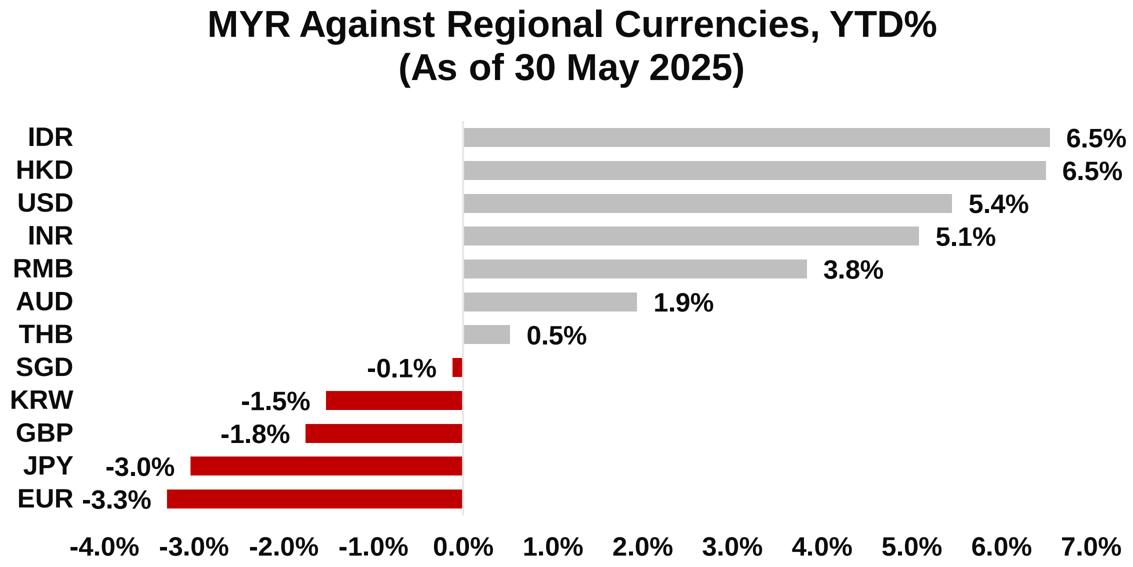




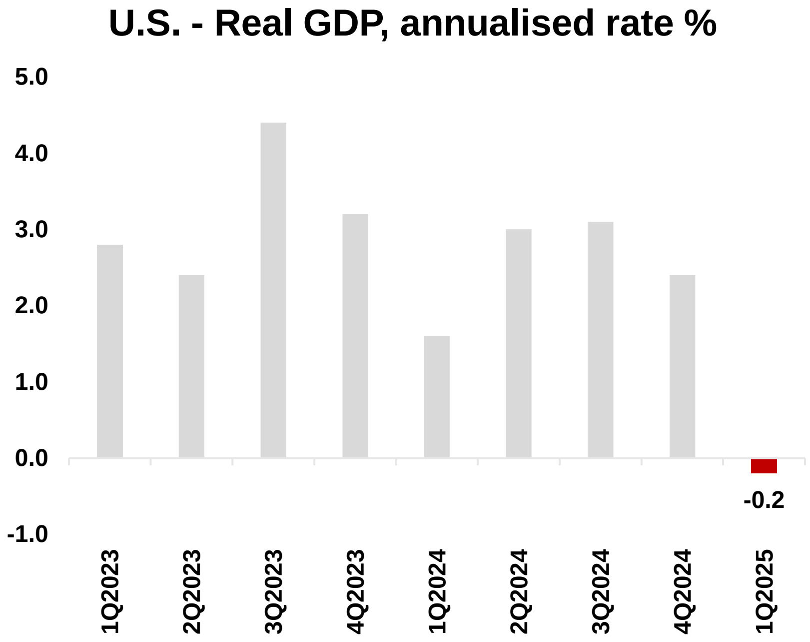
Sources: Bank Negara Malaysia(BNM), Bloomberg, CEIC Data

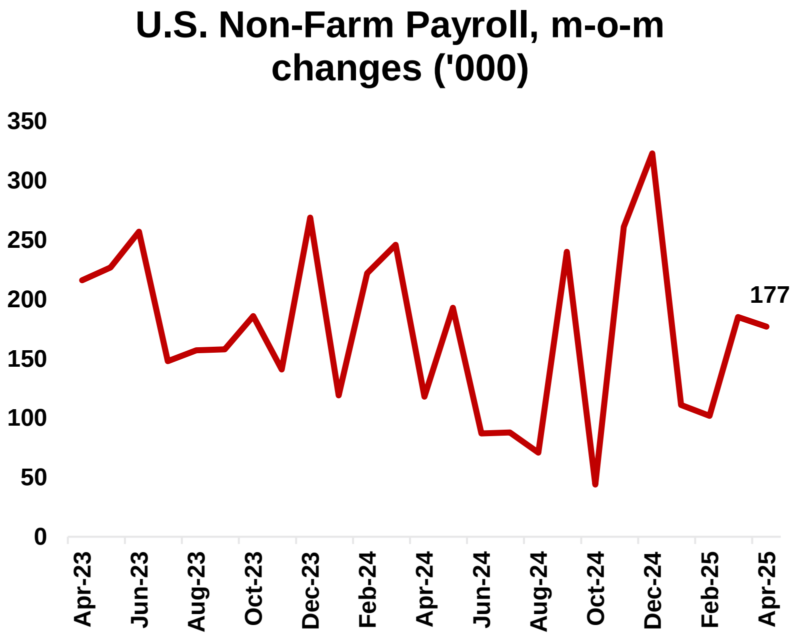
- The Ringgit appreciated by 0.3% m-o-m against the USD for the month ending May 30 as the USD index ended just above the 99-level, marking a seven-month high of RM4.20 on 5th May (2 October 2024: RM4.163).
- Such strength was underpinned by the 46th ASEAN Summit held in Kuala Lumpur from 26th to 27th of May, alongside the 2nd ASEAN-Gulf Cooperation Council (GCC) Summit and the ASEAN-GCC-China Summit, boosting investor confidence in Malaysia's economic outlook.
- Furthermore, robust trade figures had backed the resilience displayed by the Malaysian economy thus far as it expanded by 4.4% y-o-y in 1Q2025 (4Q2024: 5.0%), placing the local note higher compared to its regional peers.
- On the flipside, the USD had depreciated by 0.2% m-o-m amid worsening fiscal concerns and the US economy losing momentum. Investors had grown increasingly cautious of the US fiscal outlook as Moody's Ratings downgraded its sovereign credit rating to Aa1 from Aaa. Such worries were further exacerbated amid the passage of a sweeping tax cut and spending bill in the US House of Representatives.
- Meanwhile, the US economy was reported to contract by 0.2% q-o-q in 1Q2025 (4Q24: 2.4%), dragged by soaring imports (1Q25: 15.6% y-o-y, 4Q24: 1.0% y-o-y) following the implementation of Trump's protectionist policies which includes steeper trade tariffs.

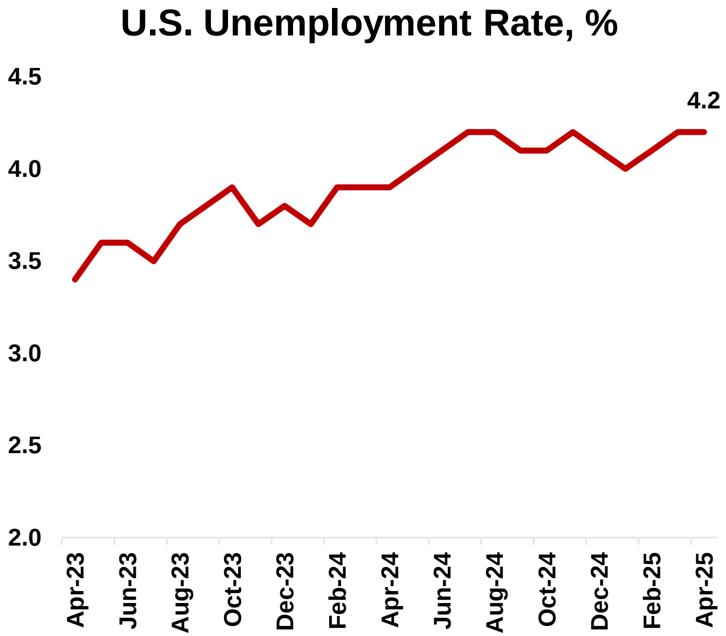
SECTION 2

The Global Economy

U.S. ECONOMY CONTRACTED IN 1Q2025, DRIVEN BY WEAKER SPENDING AND INCREASED IMPORTS



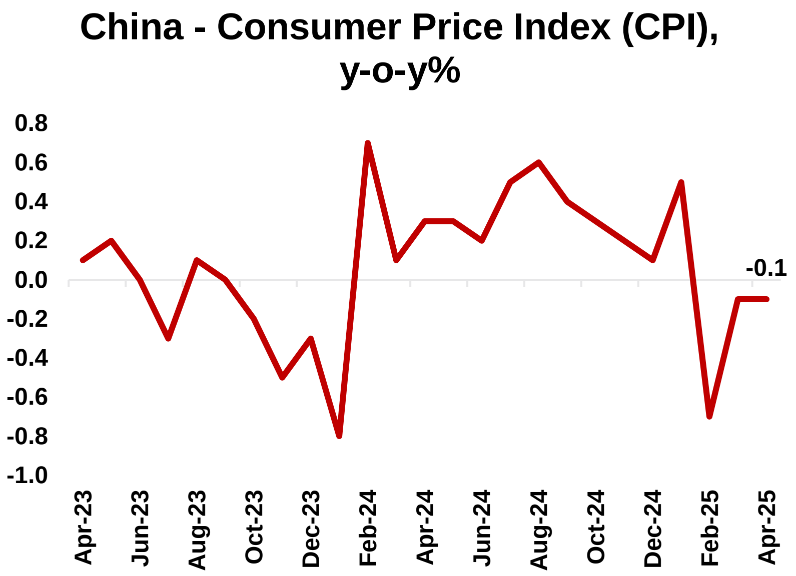


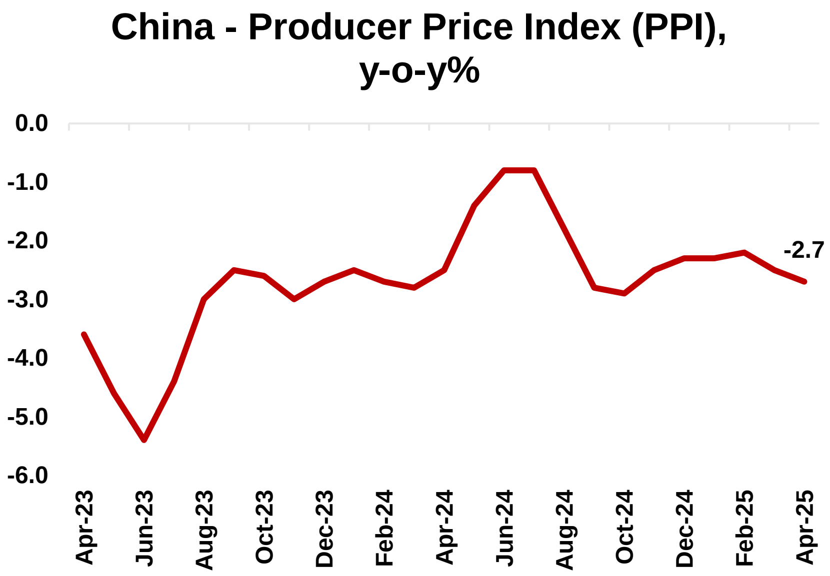


Sources: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), CEIC Data

- The U.S. economy contracted by an annualized 0.2% in the first quarter, a slight improvement from the initial 0.3% decline. This shrinkage was primarily due to weaker consumer spending which advanced 1.2%, compared with an initial estimate of 1.8% and a larger than expected increase in imports. While business investment and inventory growth showed strength, and federal spending was not as much of a drag, these factors were not enough to offset the overall slowdown.
- April saw a notable increase in U.S. Non-Farm Payroll, with 177K jobs added, significantly exceeding the market prediction of 130K but lower than the revised gain of 185K in March. Meanwhile, the unemployment rate remained as anticipated at 4.2%, and the labor force participation rate improved marginally to 62.6% from 62.5% in the previous month.
- At this moment, market sentiment strongly suggests a 96.1% likelihood 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 June 18.

CHINA'S ECONOMY SENDS MIXED SIGNALS AS DEFLATION DEEPENS AND EXPORTS BEAT EXPECTATIONS

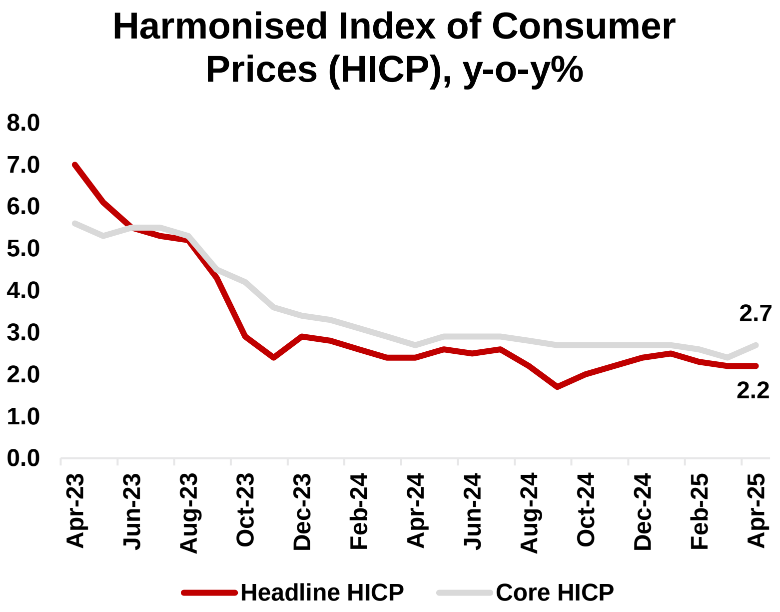


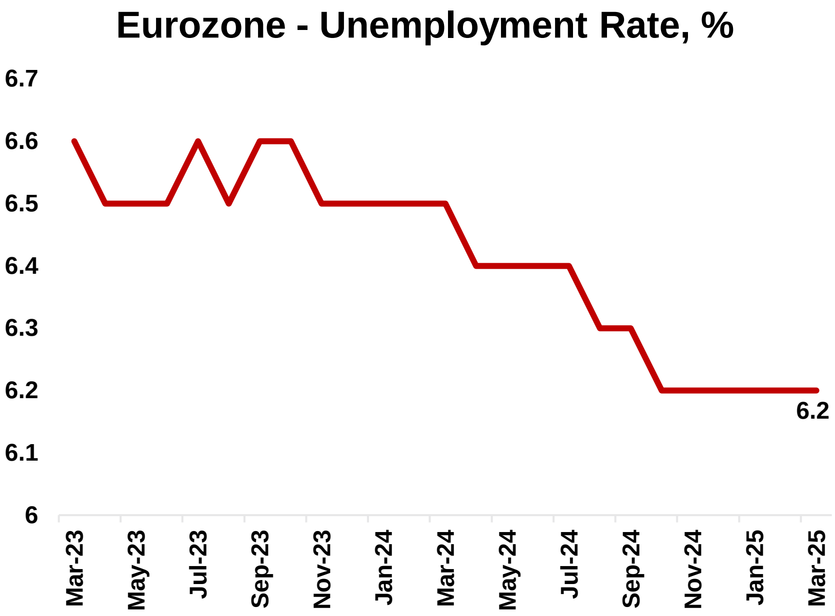


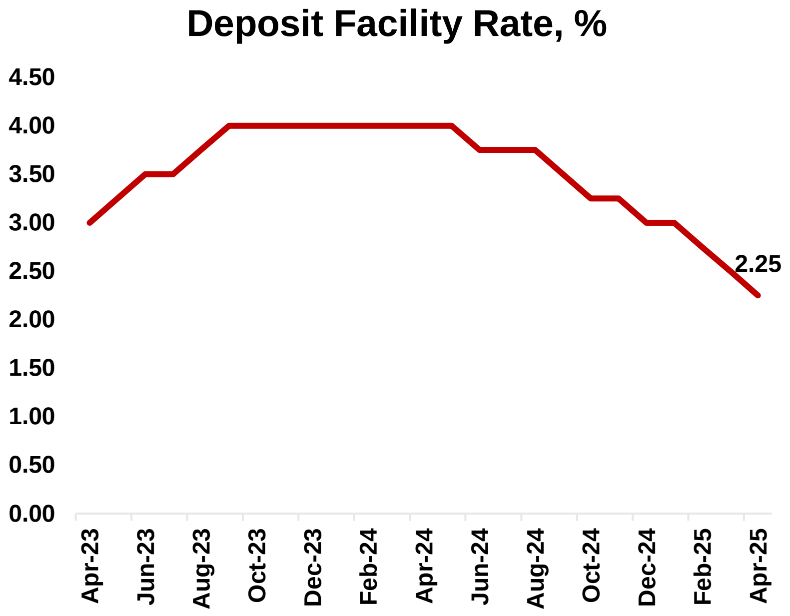
Sources: National Bureau of Statistics, General Administration of Customs, CEIC Data

- China's consumer prices remained in the negative territory in April, a concerning sign as the nation struggles with deflation. This decline, a 0.1% year-on-year drop in the consumer price index (CPI), closely matched economists' predictions. This deflationary trend has been exacerbated by high tariffs on trade between China and the United States. The first quarter of 2025 also saw a 0.1% year-on-year decrease in the CPI.
- In April, the Producer Price Index (PPI) declined by 2.7% year-on-year. This marks a larger drop than March's 2.5% decrease, though it was slightly better than the 2.8% fall, the market had predicted.
- Chinese trade figures in April surprised positively, with exports increasing by a stronger-than-expected 8.1% growth. This growth surpassed the 1.9% anticipated by economists but was less rapid than March's 12.4% surge, which was largely attributed to exporters front-loading shipments. On the import side, the decline significantly narrowed to just 0.2%, a marked improvement from March's 4.3% fall but below the forecasts of a 5.9% contraction, effectively slowing a slide that began at the start of 2025.

STABLE INFLATION AND JOB MARKET KEEP ECB IN WAIT-AND-SEE MODE AMID TARIFF TENSIONS







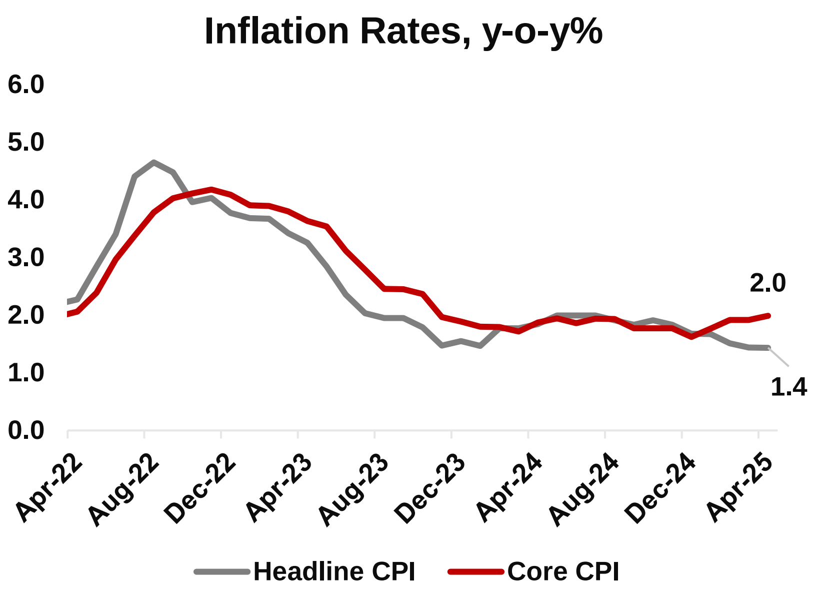
Sources: ECB, Eurostat, CEIC Data

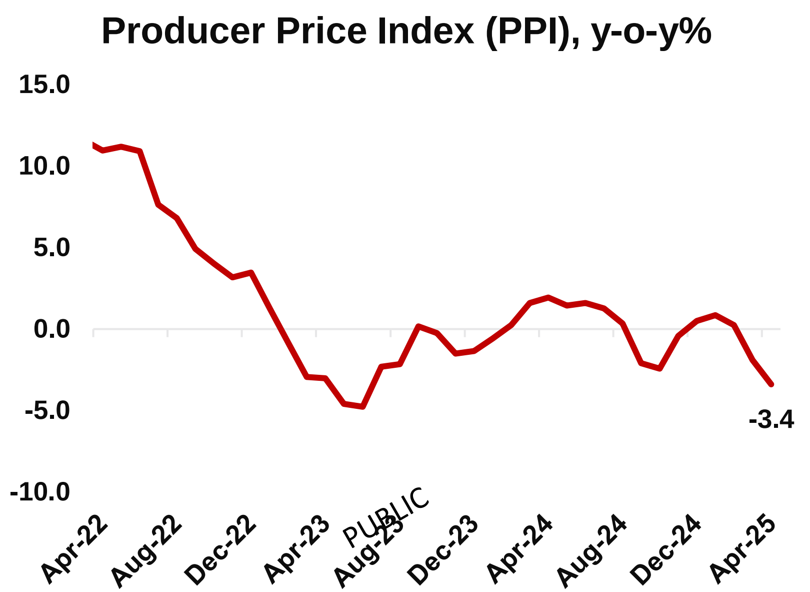
- Eurozone annual inflation remained at 2.2% in April 2025, the lowest since November 2024 and in line with the market consensus as inflation moves closer to the European Central Bank's (ECB's) 2.0% target. Nevertheless, core inflation also edged up to 2.7% in April, from 2.4% in the previous month but matching forecast.
- The Eurozone's unemployment rate also plateaued for sixth consecutive months at 6.2% in April 2025, but higher than the anticipated 6.1%.
- The ECB is nearing its 2.0% inflation target. However, the high level of uncertainty means the ECB cannot predict future interest rate changes and needs to remain highly flexible.
- The central bank is widely anticipated to cut borrowing costs on June 5, driven by receding inflation and economic headwinds from U.S. tariffs. While some officials favor lowering the deposit rate below 2% (the perceived neutral level), others advocate for caution due to lingering price pressures. Investor expectations for further easing increased after U.S. President Donald Trump initially threatened 50% tariffs on the E.U., an outlook that persists despite his recent extension of trade talks to July 9.

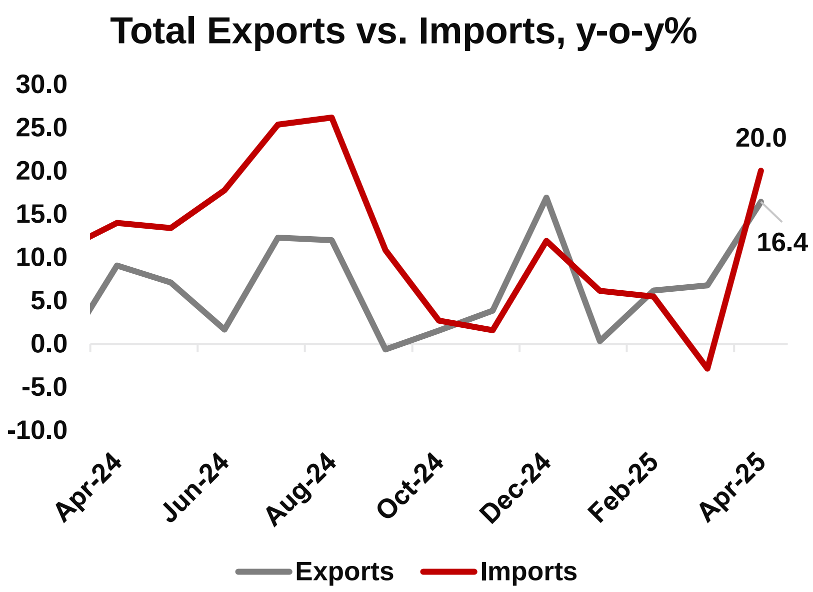
SECTION 3

Domestic Landscape & Banking Sector Update

MALAYSIA'S TRADE SUSTAINED SOLID PERFORMANCE AMID EASING GLOBAL TRADE TENSIONS, RISKS REMAIN FROM TRUMP'S UNPREDICTABILITY



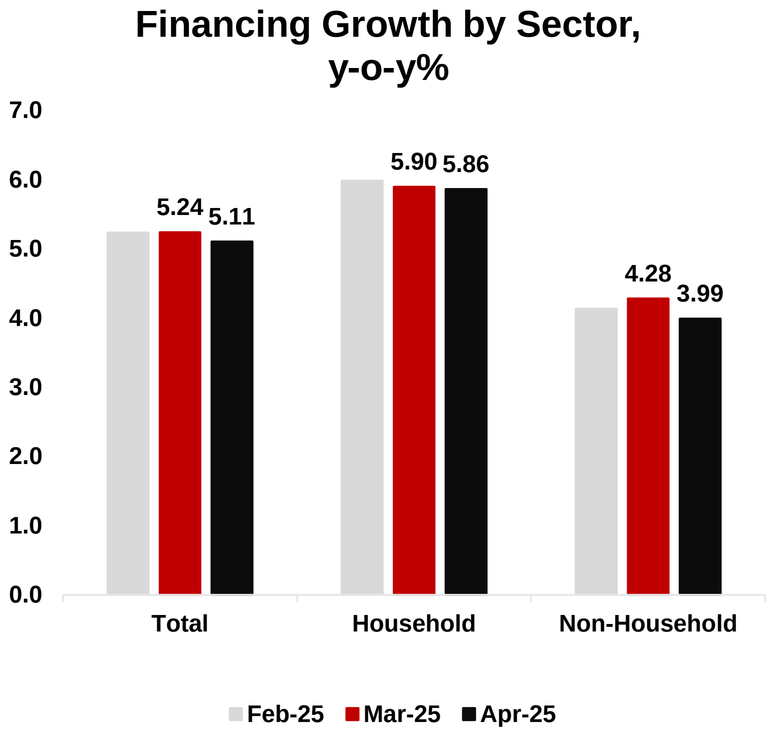


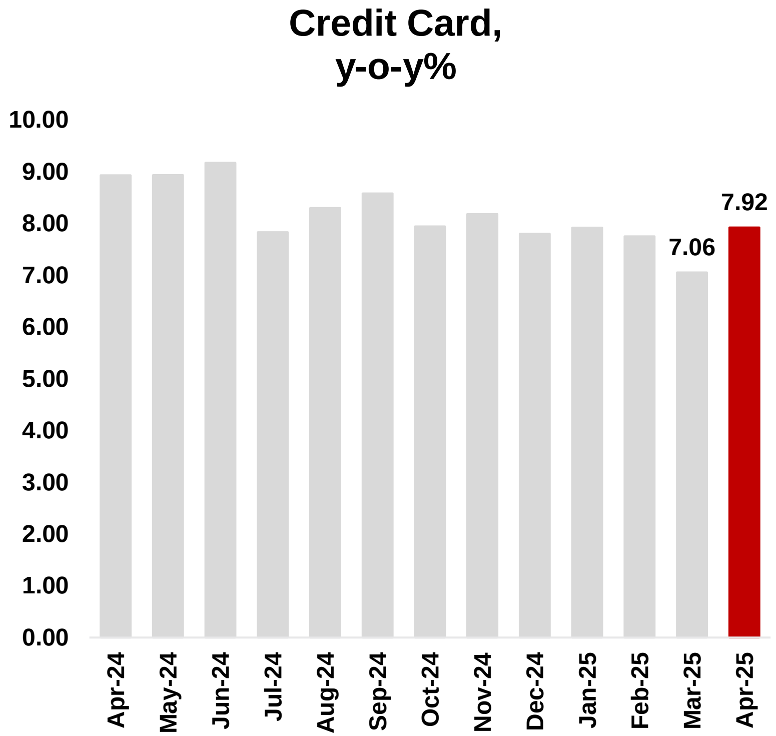


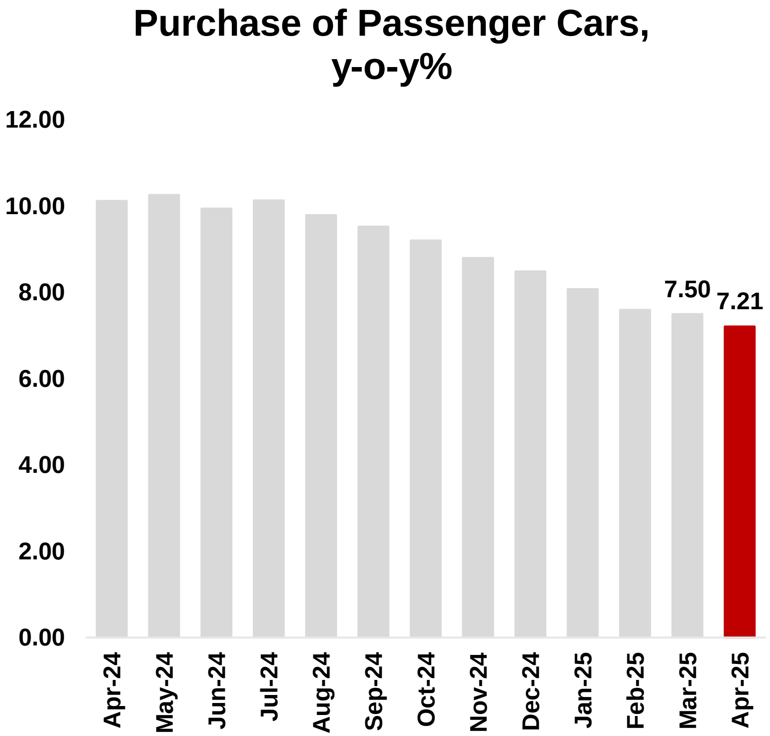
Sources: DOSM, CEIC Data

- Malaysia's household consumption remained steady in 1Q2025 (1Q25: 4.9% y-o-y, 4Q24: 5.0% y-o-y), underpinned by supportive government policies against a backdrop of tight labour market and moderate price pressures.
- Such landscape is seen to prevail heading into 2Q2025 with headline inflation trending at a four-year low of 1.4% y-o-y in April (March: 1.4%). Nevertheless, core inflation ticked up slightly to 2.0% y-o-y from 1.9% in March.
- The disinflation trend is also due to declining costs on the producers' front with the Producer Price Index (PPI) slumping by 3.4% y-o-y in April (March: -1.9%) amid a double-digit decline in the Mining sector (April: 17.8%, March: 16.0%) as demand for mining output weakened.
- On the trade front, Malaysia's trade sector displayed robust expansion with exports surging by 16.4% y-o-y in April (March: 6.8%) while imports rebounded strongly by 20.0% y-o-y from March's 2.9% contraction. Looking closer, easing trade tensions following Trump's conditional postponement of the U.S.' Liberation Day tariffs had bolstered exports growth to Malaysia's top trade partners, namely U.S. (April: 45.6%, March: 50.8%), China (April: 2.1%, March: -1.3%) and Singapore (April: 26.1%, March: 9.7%).

BANKING SECTOR: SLOWER FINANCING GROWTH IN APRIL AMID SOFTER LENDING IN BOTH HOUSEHOLD AND NON-HOUSEHOLD



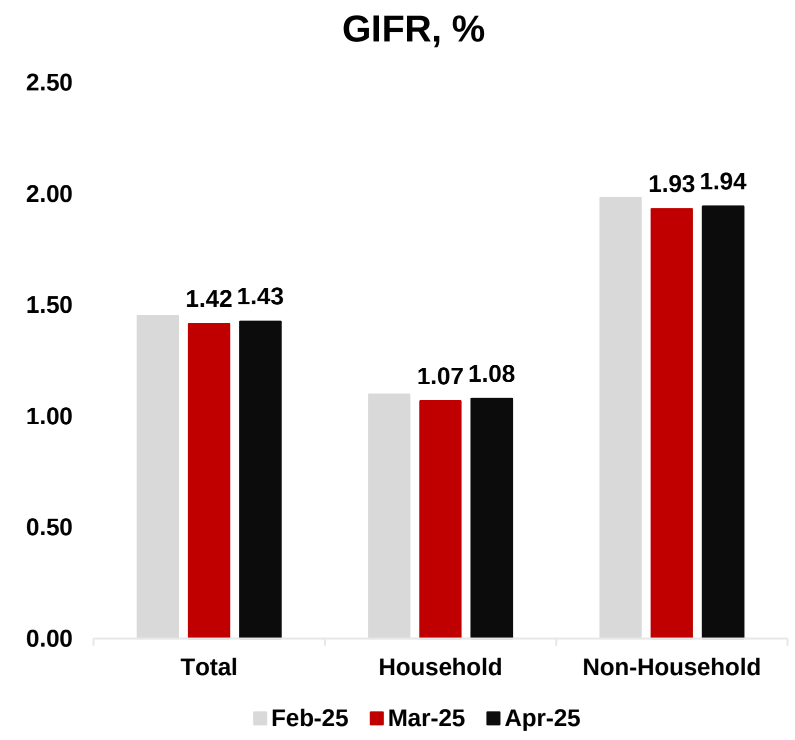


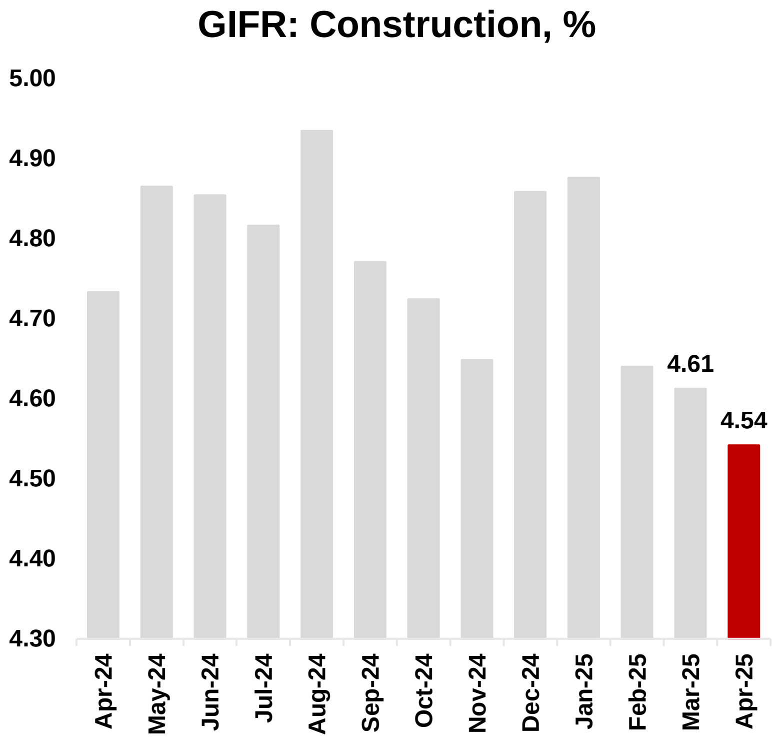


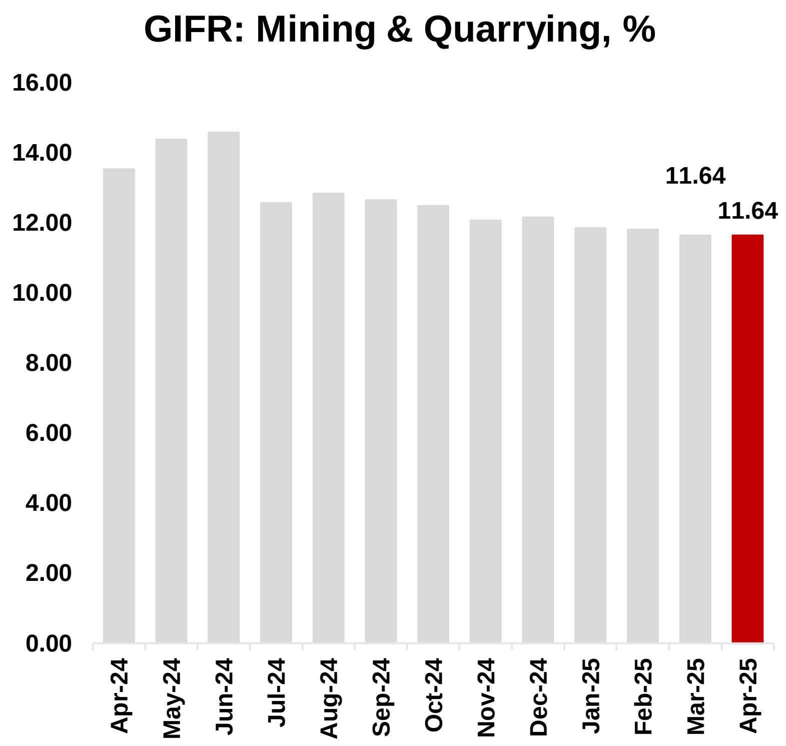
Source: BNM

- Financing growth slowed to 5.11% in April, as both household and non-household financing activities eased during the month. Notably, financing for non-household registered slightly below 4.0% in April, the lowest since October 2023 after recording 4.28% in the previous month.
- Despite the slight moderation in overall household financing from 5.90% in March 2025 to 5.86% in April, credit card financing accelerated to 7.92% during the month (March: 7.06%). In contrast, the financing growth for both passenger cars and residential property purchases continued to moderate, easing to 7.21% (March: 7.50%) and 6.53% (March: 6.58%), respectively in April.

BANKING SECTOR: SLIGHT UPTICK IN APRIL GIFR, BUT CONSTRUCTION SECTOR SHOWS CONTINUED RECOVERY







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector edged up slightly to 1.43% in April (March: 1.42%). The GIFR for both the household and non-household sectors also increased marginally to 1.08% (March: 1.07%) and 1.94% (March: 1.93%) respectively.
- Asset quality in the construction sector maintain its improving trend, with its GIFR declining to 4.54% (March: 4.61%), while the GIFR for the mining and quarrying industry remained stable at 11.64% for the second consecutive month.

THANK YOU