MONTHLY ECONOMIC UPDATE

2 DECEMBER 2024

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Fed cut interest rates by a quarter point.** The U.S. Federal Reserve (Fed) reduced the federal funds rate (FFR) by 25 basis points to 4.50-4.75% annually, aligning with market and analyst expectations. This follows a larger 50-bp cut in September, which lowered the rate from its 2024 peak of 5.25%-5.50%. Recent indicators point to robust economic activity, with labour market conditions improving overall despite a slight rise in the unemployment rate, which remains low. Inflation has approached the Committee's 2.0% target but is still somewhat elevated. Chair Powell hinted at a potential pause in December, emphasising that future decisions will depend on upcoming data. He also noted that Trump's presidency would not influence near-term monetary policy.

- **Bank of Korea (BoK) surprises markets with 25bps rate cut.** The BoK cut its base rate by 25bps to 3.0% in November, marking a second consecutive rate reduction and defying expectations of a pause. This move lowered borrowing costs to their lowest level since October 2022, as inflation continued to ease, household debt stabilised, and economic growth remained sluggish. The board revised its inflation forecasts downward, expecting 2.3% for this year and 1.9% for next year, compared to previous estimates of 2.5% and 2.1%, influenced by exchange rate shifts and lower oil prices. Core inflation is projected to stay at 2.2% for 2024 and drop to 1.9% in 2025. GDP growth forecasts were also trimmed to 2.2% for 2024 and 1.9% for 2025, reflecting export challenges and concerns over rising global trade protectionism. The board emphasised cautious evaluation of monetary easing's effects while balancing medium-term inflation targets.

- **Malaysia's economy soared with a 5.3% GDP growth in 3Q2024,** matching preliminary estimates but slowing from the 5.9% growth recorded in 2Q2024. The deceleration was driven by weaker growth in the services sector (5.2% vs. 5.9% in 2Q2024) and agriculture (3.9% vs. 7.3%), along with a contraction in mining and quarrying (-3.9% vs. 2.7%). Meanwhile, manufacturing (5.6% vs. 4.7%) and construction (19.9% vs. 17.3%) experienced faster growth. On the expenditure front, private consumption growth eased (4.8% vs. 6%), but government spending (4.9% vs. 3.6%) and fixed investment (15.3% vs. 11.5%) gained momentum. Net external trade negatively impacted GDP as imports grew by 13.5% (vs. 8.7%), outpacing the slower rise in exports at 11.8% (vs. 8.4%). Seasonally adjusted, quarterly GDP growth slowed to 1.8% from 2.9% in the previous quarter.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: U.S. STOCKS OUTSHINED IN NOVEMBER AMID OPTIMISM OVER TRUMP'S SECOND PRESIDENCY

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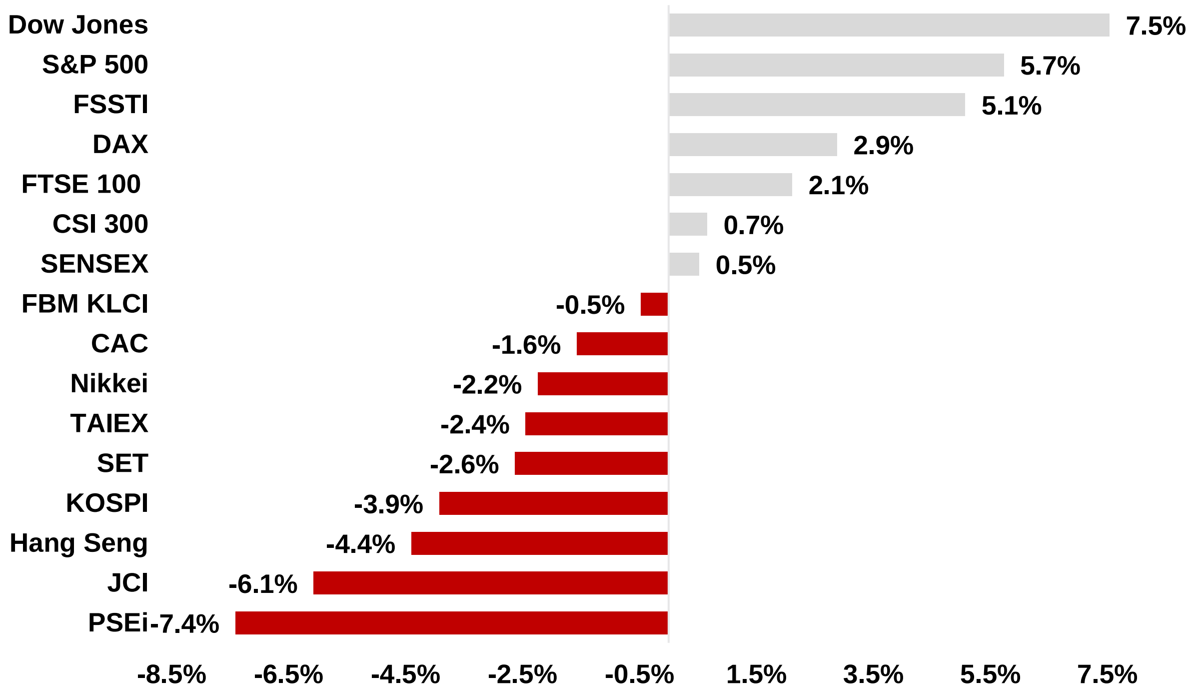

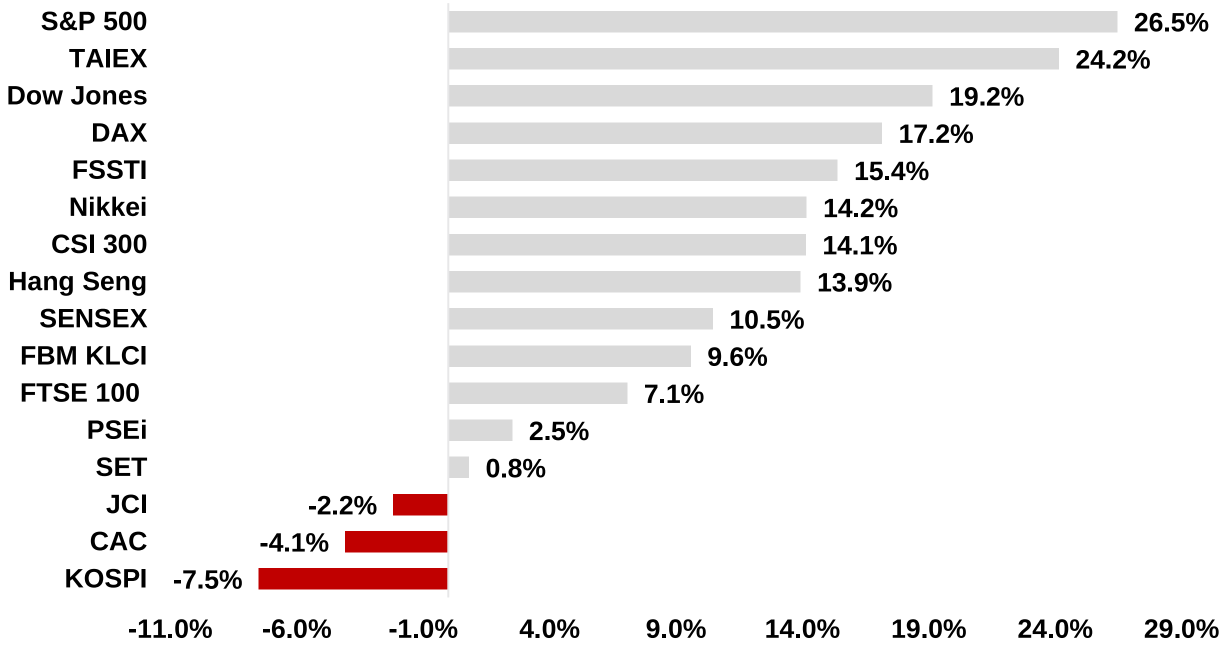

Sources: Bursa, CEIC data

- In November, U.S. stocks – Dow Jones (+7.5%) and S&P 500 (+5.7%) emerged as the major gainers as there is growing optimism that a second Trump administration will adopt a more business-friendly approach, fueled by increasing expectations that his choice for Treasury Secretary will play a key role in moderating the threat of tariffs.
- On the contrary, Philippines' PSEi (-7.4%) and Indonesia's JCI (-6.1%) plunged in November, amid investors continued to process President-elect Donald Trump's latest tariff threats directed at China, Canada, and Mexico,
- YTD, U.S' S&P 500 emerged as the top performer in November, with a gain of 26.5%.

DOMESTIC EQUITY: THE LOCAL MARKET REMAINED IN THE RED AS INVESTOR SENTIMENTS STAYED CATIOUS

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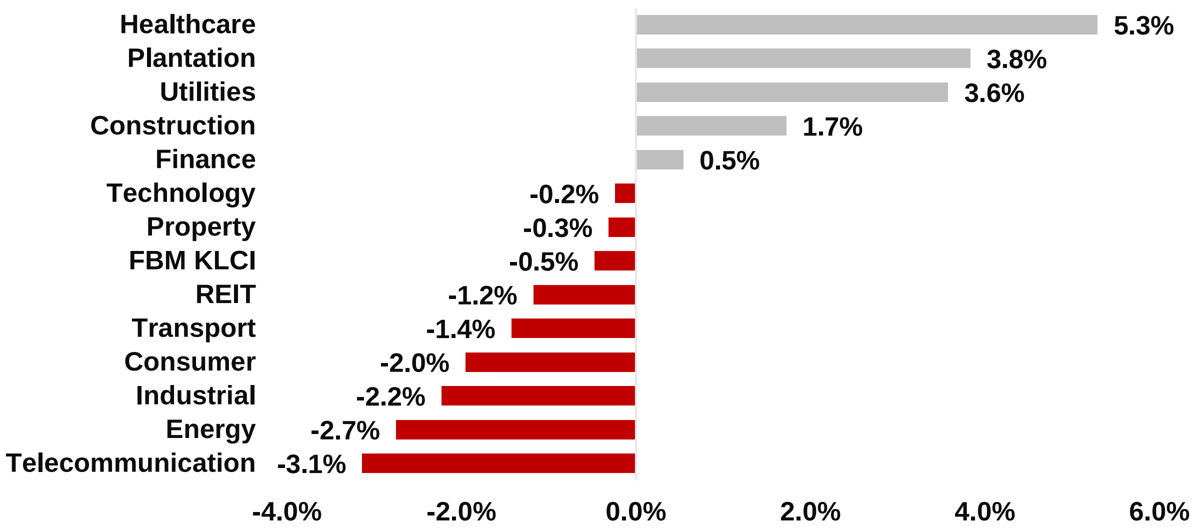
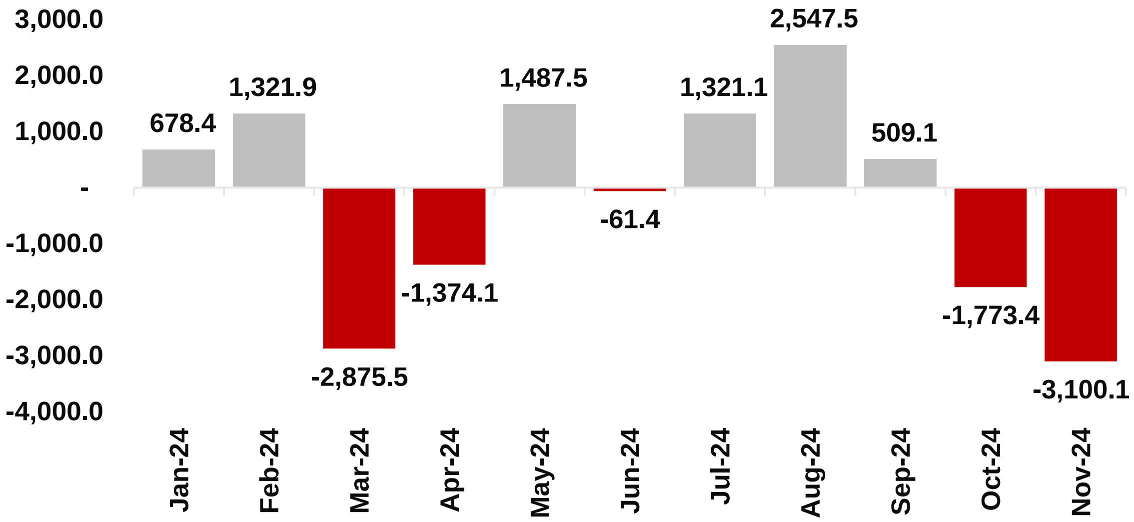
Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



Sources: DOSM, CEIC Data

- The FBM KLCI slipped by 0.5% m-o-m in November (October: -2.9%) as buying interest into the local market remains dampened.
- Throughout the month, investors veered towards risk-off modes as they digested the outcome of the U.S. presidential election and the shifting outlook of global markets moving forward which are steered by the Fed's policy decisions. Intensifying conflicts on the geopolitical front, both in the Middle East and Ukraine, also presented drags to market sentiments and drove investors away from emerging market assets.
- The lack of catalysts domestically, barring the 3Q2024 growth figures, also contributed to the muted performance.
- In the broader market, the Telecommunications index continued its downtrend to plunge by 3.1% in the same month, marking the lowest level since March 2020. This was followed by the Energy (-2.7%) and Industrial (-2.2%) indices.
- Meanwhile, the Healthcare index (+5.3%) emerged as the biggest winner, followed by the Plantation and Utilities indices which rose by 3.8% and 3.6%, respectively.
- Foreign investors remained as net sellers for the second straight month, shedding off RM3.1 billion worth of equities. The net selling had reversed the cumulative net inflow this year to a total net outflow of RM1.3 billion.

FIXED INCOME: UST YIELDS PLUNGED ON BESSENT NOMINATION AND INFLATION DATA

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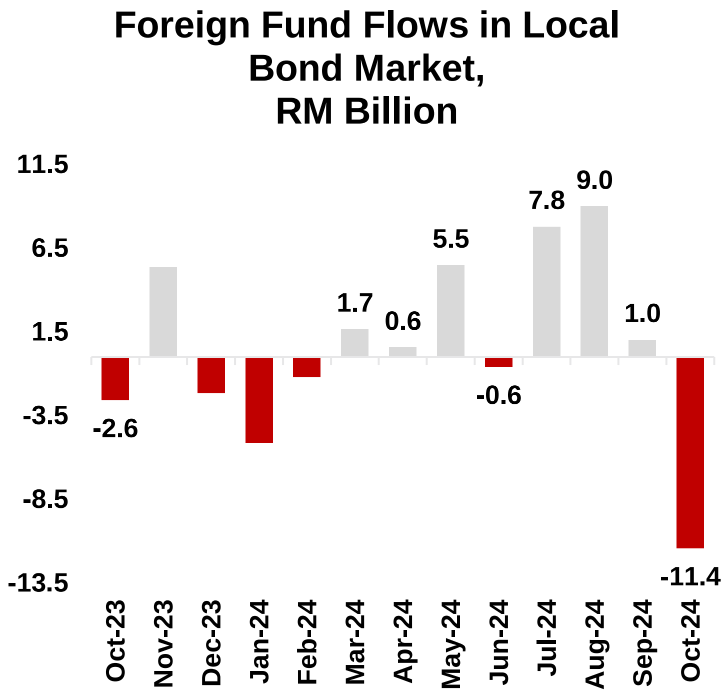
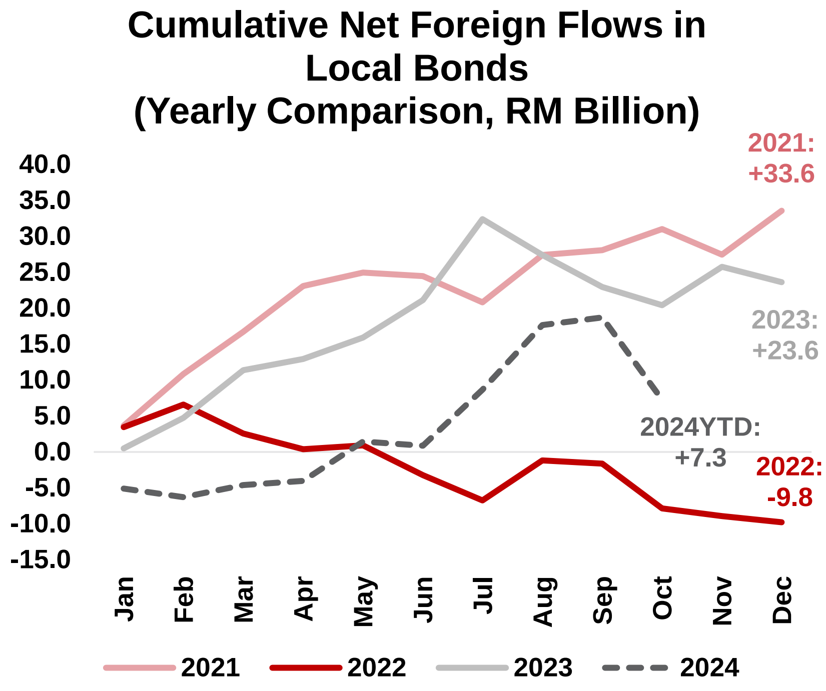
Monthly changes, basis points (bps)			
UST	Yields (%) 31-Oct-24	Yields (%) 29-Nov-24	Change (bps)
3-Y UST	4.12	4.10	-2
5-Y UST	4.15	4.05	-10
7-Y UST	4.21	4.10	-11
10-Y UST	4.28	4.18	-10
MGS	Yields (%) 30-Oct-24	Yields (%) 29-Nov-24	Change (bps)
3-Y MGS	3.52	3.46	-6
5-Y MGS	3.65	3.59	-6
7-Y MGS	3.90	3.77	-13
10-Y MGS	3.93	3.81	-12
GII	Yields (%) 30-Oct-24	Yields (%) 29-Nov-24	Change (bps)
3-Y GII	3.45	3.40	-5
5-Y GII	3.65	3.61	-4
7-Y GII	3.91	3.77	-14
10-Y GII	3.95	3.81	-13

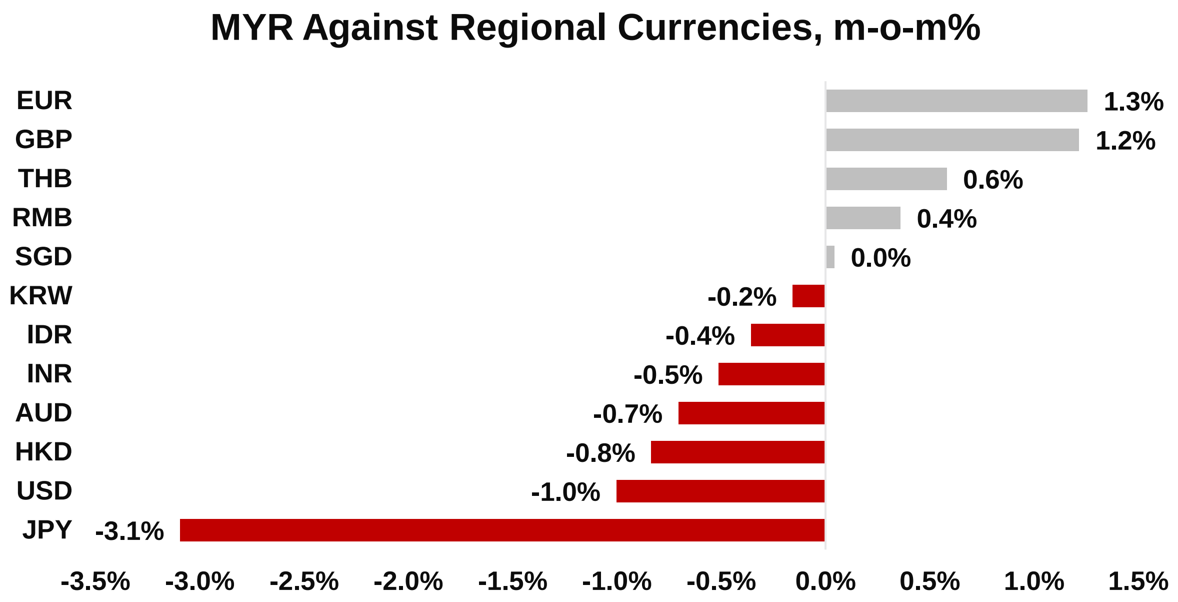
Sources: BNM, Federal Reserve Board

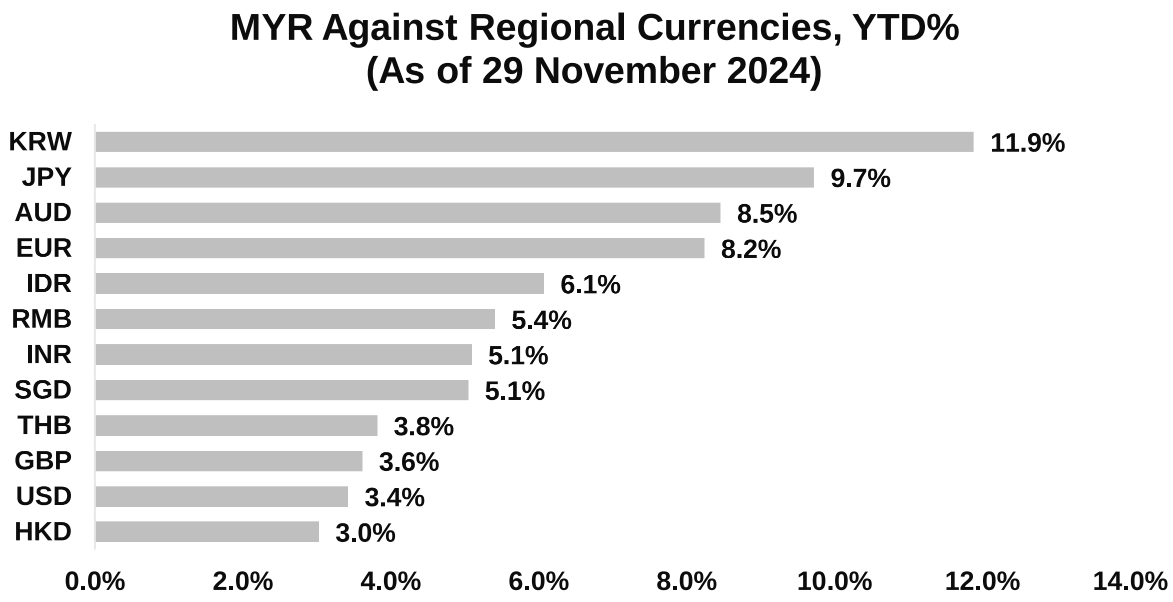




- The U.S. Treasury (UST) yields slumped in the range of 2bps and 11bps which were initially triggered by the nomination of Scott Bessent as Treasury Secretary, which offered markets a sense of stability and helped alleviate concerns about drastic policy shifts under the incoming Trump administration. The drop accelerated after the U.S. personal consumption expenditure (PCE) inflation data met expectations, indicating that the Federal Reserve's (Fed's) position on interest rate cuts was unlikely to change.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also inched down between 4bps and 14bps.
- Foreign fund flows in the local bond market slumped into negative territory with a net foreign outflow of RM11.4 billion in October (Sep: +RM1.0 billion), the largest since March 2020 amid increased global uncertainty led to a reduced appetite for long-term Malaysian securities. Consequently, local govvies' foreign shareholdings to total outstanding increased to 21.8% in October (Sep: 22.7%).
- As of the first ten months of 2024, the local bond market recorded the cumulative net foreign inflows of RM7.3 billion, significantly lower than the inflows of RM20.4 billion in the same period in the previous year.

FX MARKET: RINGGIT CONTINUED ON A DOWNTREND, UNDER PRESSURE OF TRUMP'S VICTORY IN THE U.S. PRESIDENTIAL ELECTION





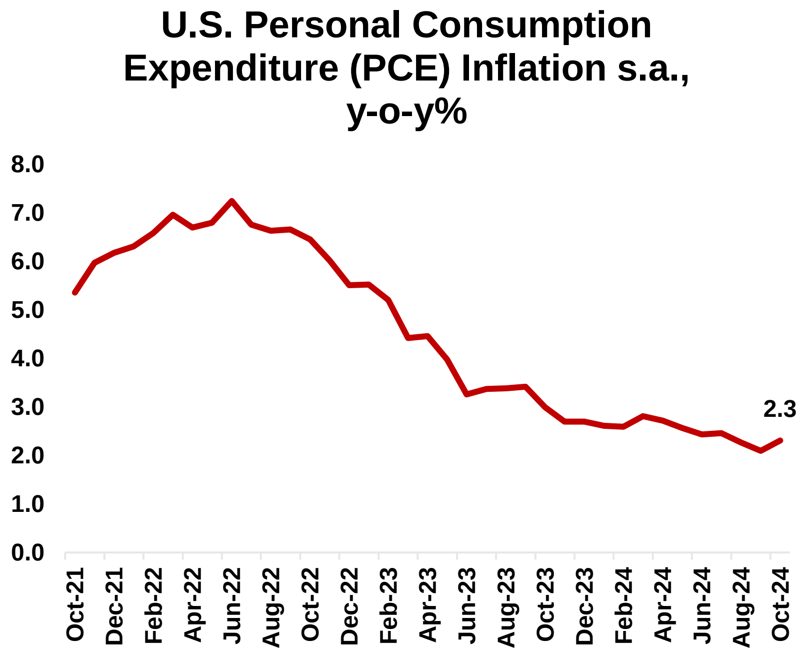
Sources: Bank Negara Malaysia(BNM), Bloomberg, CEIC Data

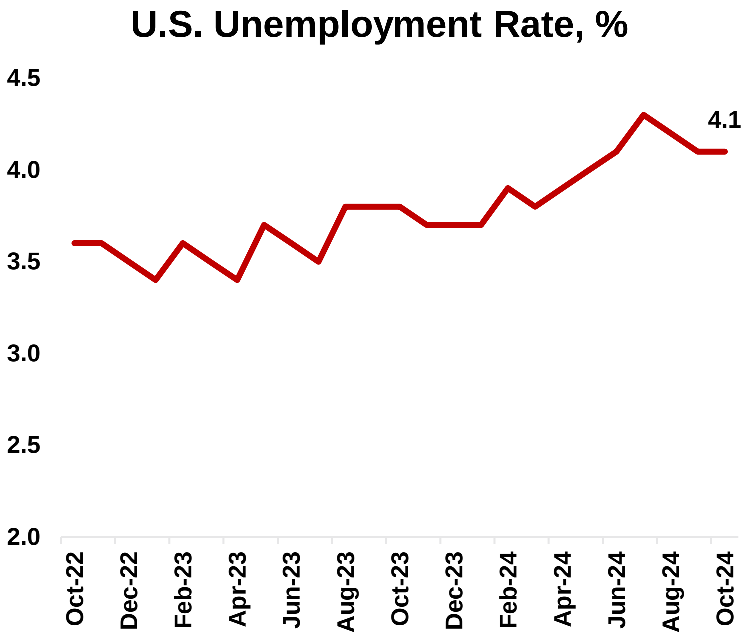
- The Ringgit continued to depreciate by 1.0% m-o-m against the USD as the U.S. presidential election takes front seat in steering currency movements. The election concluded with Trump's win, an outcome that led the USD index surged as high as the 107-level, last seen in November 2022, driven by expectations of a looser fiscal-tighter monetary policy mix under the Trump administration.
- Such view was backed by Trump's rhetoric of higher tariffs and extended and expanded tax cuts which would cause moderating inflation to flare up once more, leading to further delays in the Fed's monetary easing path. In recent news, Trump had vowed to impose steep tariffs on imports from Canada, Mexico and China, causing jitters throughout the financial market while the dollar climbed.
- However, the greenback pulled back slightly following Trump's pick for Treasury Secretary, Scott Bessent, as Scott is viewed by the markets to be fiscal conservative, previously mentioning focus on tax and spending cuts as well as restraining U.S. borrowing.
- In another highlight, the local note depreciated by 3.1% against the Japanese Yen amid heightened bets of a rate hike by the Bank of Japan in its December meeting. Markets are echoing Governor Kazuo Ueda's hawkish sentiment that BoJ's rate hikes are approaching amid favourable economic environment as well as wage trends. Furthermore, both Tokyo's headline (November: 2.6% vs. October: 1.8%) and core inflation (November: 2.2% vs. October: 1.8%) had increased notably.

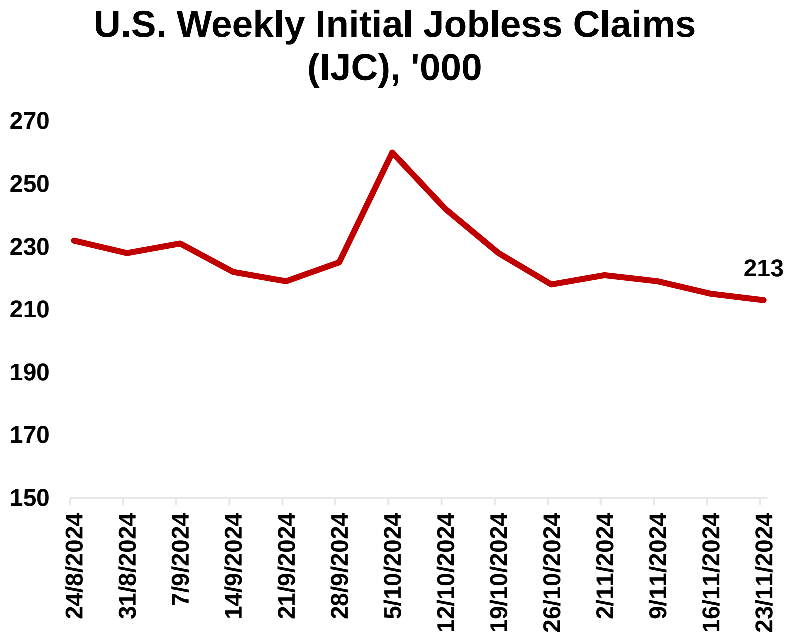
SECTION 2

The Global Economy

U.S. INFLATION REBOUNDS, BUT RATE CUT BETS REMAIN STRONG







Sources: Bureau of Economic Analysis, CEIC

- On an annual basis, the Fed's preferred inflation gauge, PCE inflation rate ticked up to 2.3%, from a low of 2.1% in the previous month. The core rate increased to 2.8%, up from 2.7%. These annual increases are partly driven by base effects from the previous year, although the overall trend of slowing disinflation is expected to continue.
- Despite the increase in headline inflation, traders raised their expectations that the Fed would implement another rate cut in December. At the time of writing, the probability of a 25bp reduction in the interest rate stood at 66.0%, according to the CME Group's FedWatch tool.
- As for the latest development post U.S. Presidential Election, President-elect Donald Trump announced on his first day in office that he would impose a 25% tariff on all products from Mexico and Canada, along with an additional 10% tariff on goods from China.
- On the labour market, the unemployment was unchanged at 4.1% in October. Meanwhile, initial jobless claims for state unemployment benefits decreased by 2K, reaching a seasonally adjusted 213K for the week ending November 23, marking the lowest level since April.

CHINA’S ECONOMY CONTINUED TO SHOW MIXED SIGNALS

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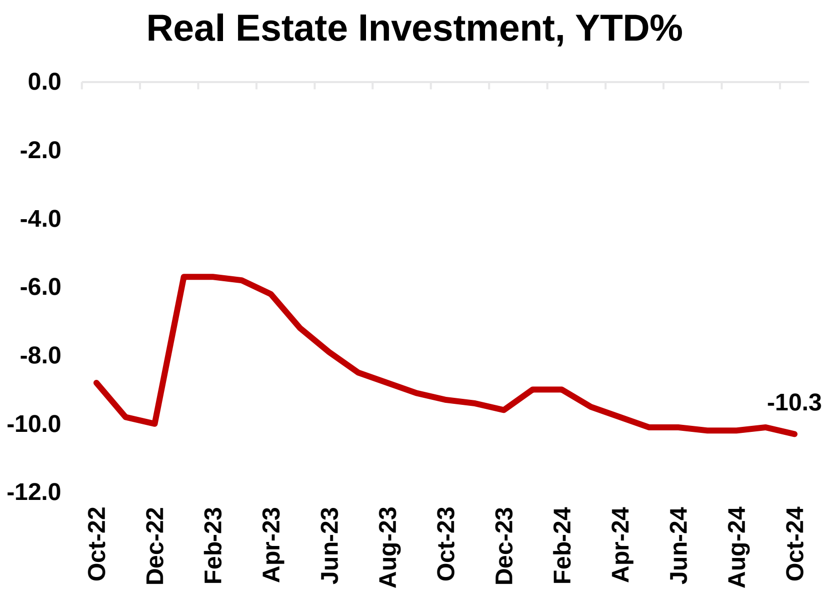
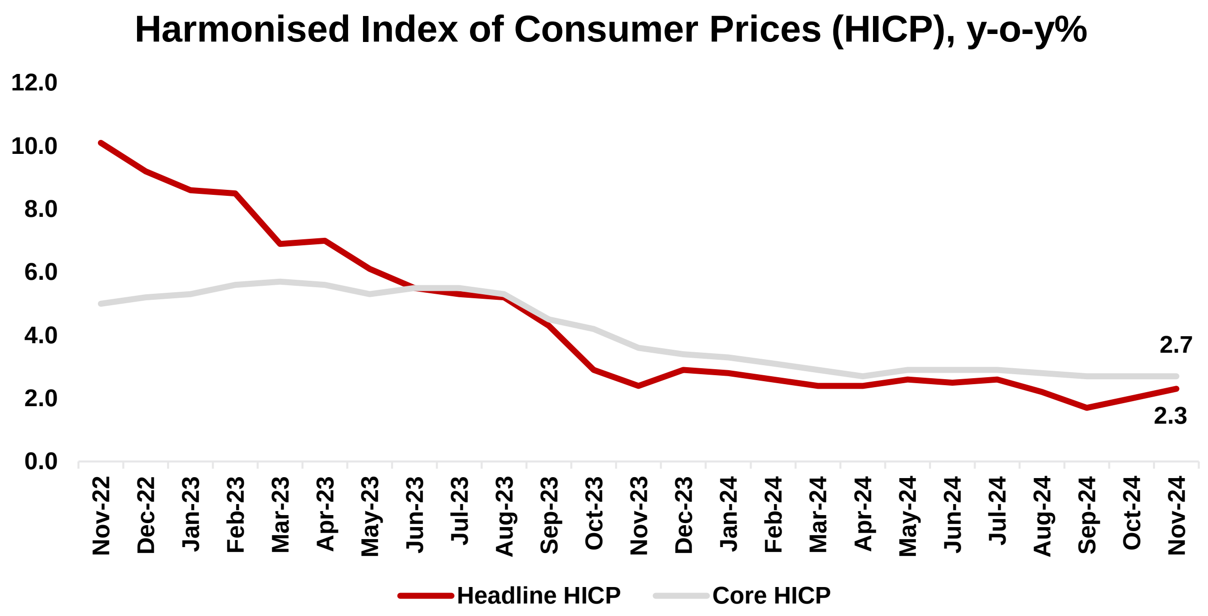
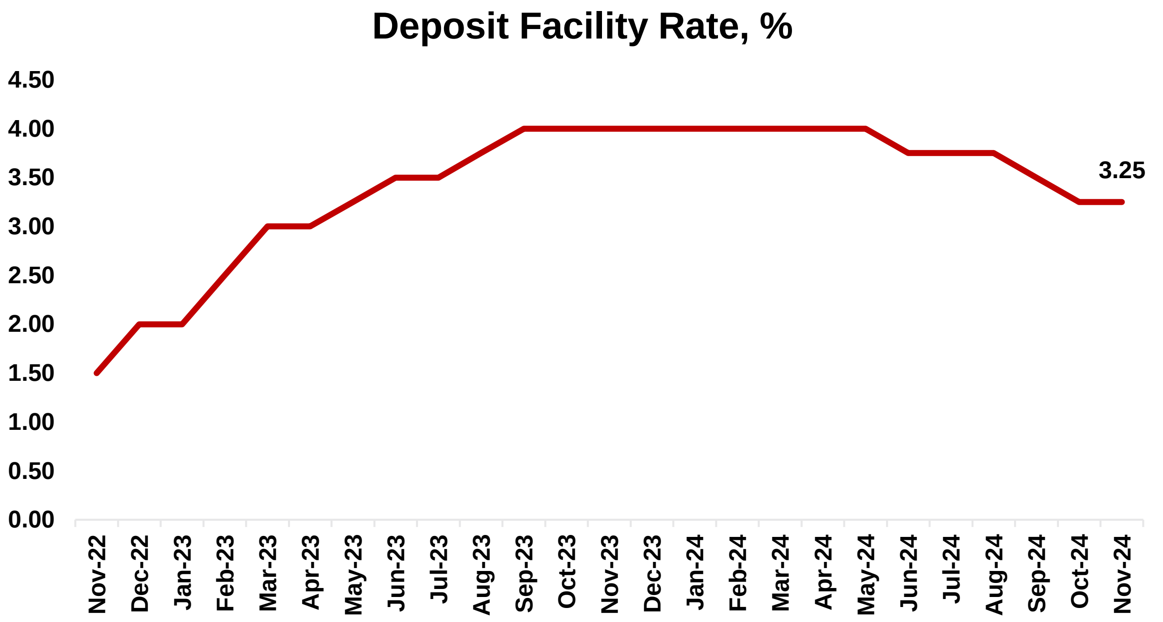


Sources: National Bureau of Statistics, CEIC

- On November 25th, the People’s Bank of China (PBoC) injected CNY 900 billion into financial institutions through a one-year MLF at a stable rate of 2.0%. This was in contrast to CNY1.45 trillion in MLF loans maturing this month, resulting in a net cash withdrawal of CNY550 billion. This move signifies the second consecutive month of maintaining the MLF rate after a record 30bp cut in September, alongside a series of measures aimed at supporting the sluggish economy.
- Real estate investment in China declined by 10.3% year-on-year during the January-October period this year (9M2024: -10.1%). Government measures to revive the market, such as reducing borrowing costs and providing increased funding to struggling developers, have been implemented since last year. However, despite these efforts, a substantial recovery has yet to materialize.
- China's exports increased by 12.7% in October compared to the growth of 2.4% in September, marking the fastest monthly growth in over two years. Imports, however, declined by 2.3% in October (Sep: +0.3%). China's trade surplus grew to USD95.7 billion in October, up from USD81.7 billion in September. The rise in exports suggests continued strong demand for Chinese goods abroad, while domestic market demand remains weak.

EUROZONE INFLATION RISES, CASTING DOUBTS ON ECB'S EASING PATH





Sources: ECB, Eurostat

- Preliminary estimates showed that the annual inflation rate in the Eurozone accelerated for the second consecutive month, rising to 2.3% in November 2024 from 2% in October, in line with market expectations. This year-end increase was largely anticipated due to base effects, as the significant drops in energy prices from the previous year are no longer included in the annual calculations.
- Meanwhile, core inflation, which excludes the more volatile prices of food, energy, alcohol, and tobacco, remained steady at 2.7%, unchanged from the previous month and defying expectations that it would rise to 2.8%.
- Despite the rise in inflation, market mostly expects the European Central Bank (ECB) to go ahead with its planned interest rate cut at the meeting on December 12. The current consensus is for a 25bp reduction in the benchmark rate, which stands at 3.25%. However, the inflation increase may spark discussions about the possibility of a larger cut to boost growth in the sluggish eurozone economy.

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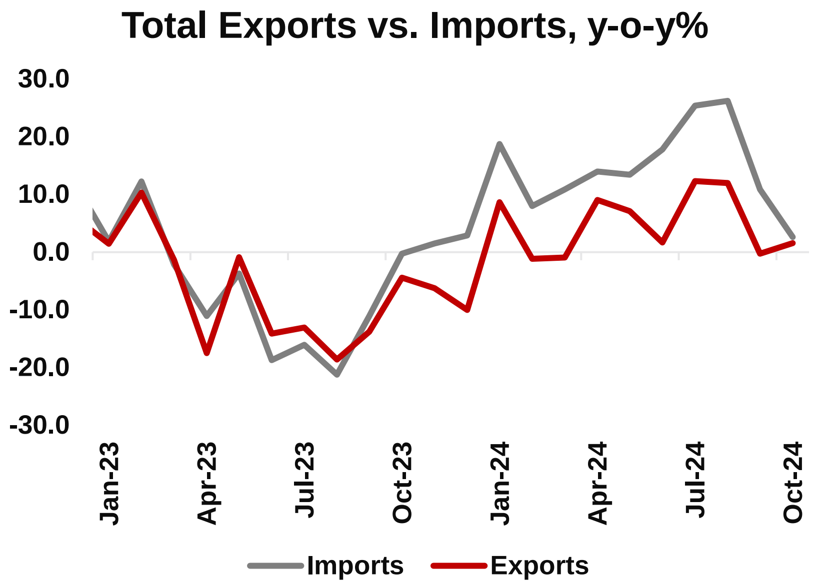
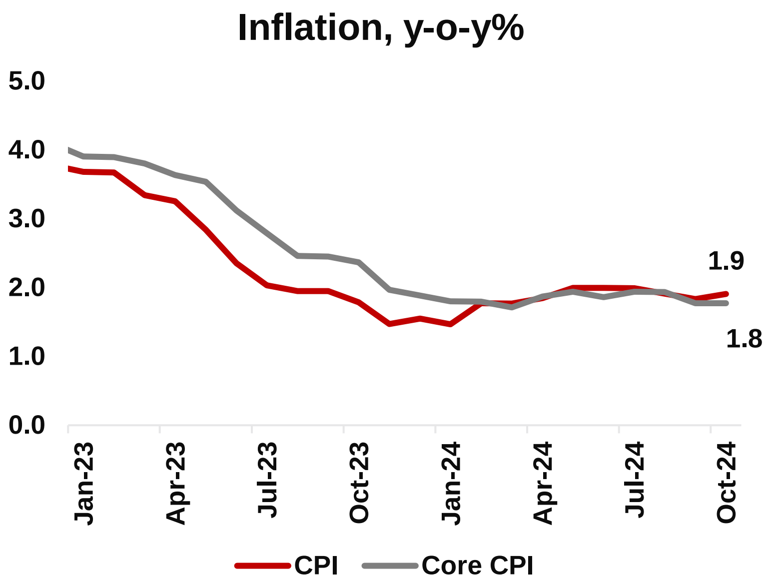
SECTION 3

Domestic Landscape & Banking Sector Update

MALAYSIA'S ECONOMY IS SLOWING DOWN AS EXTERNAL AND DOMESTIC DEVELOPMENT WEIGHS ON DEMAND

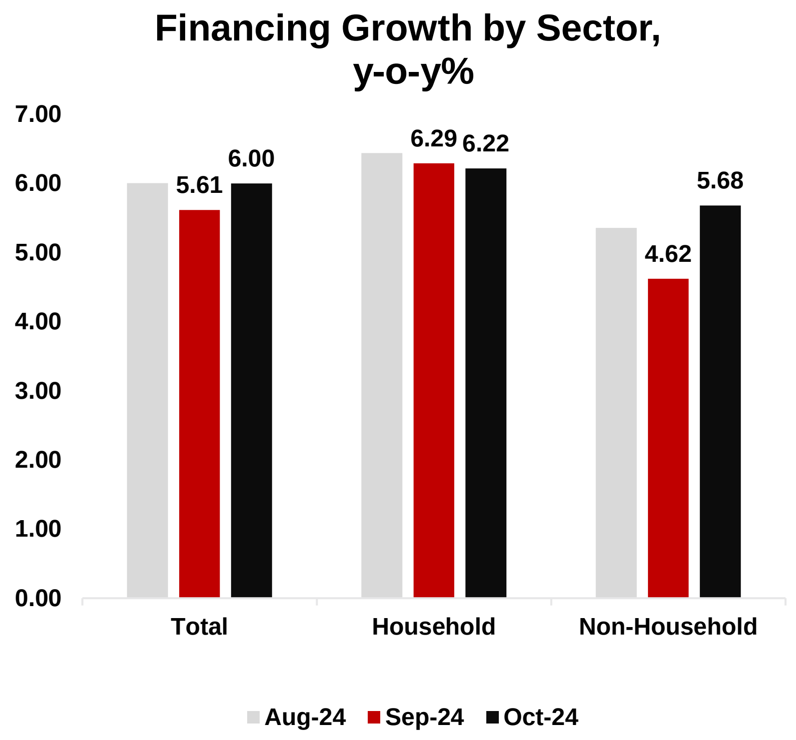


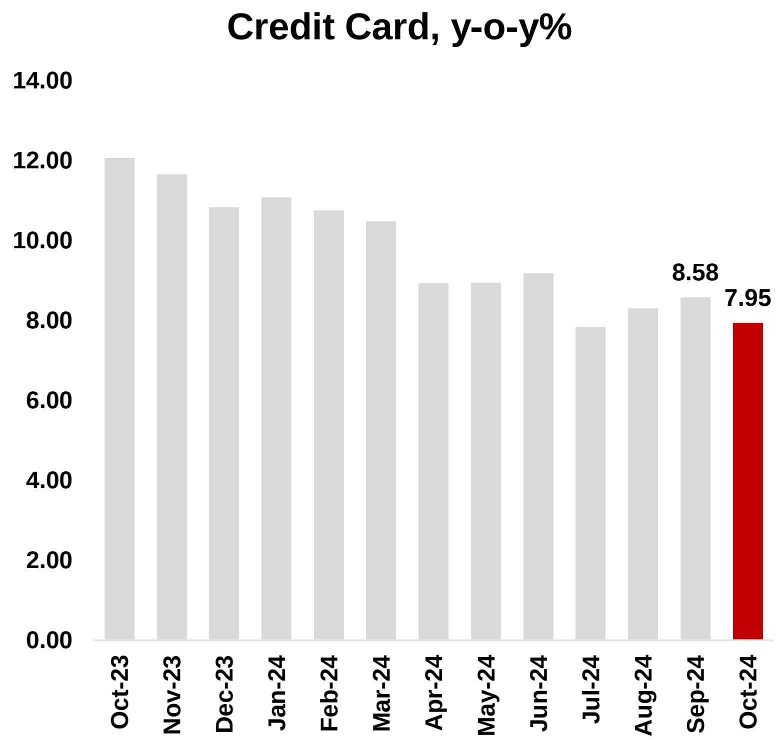


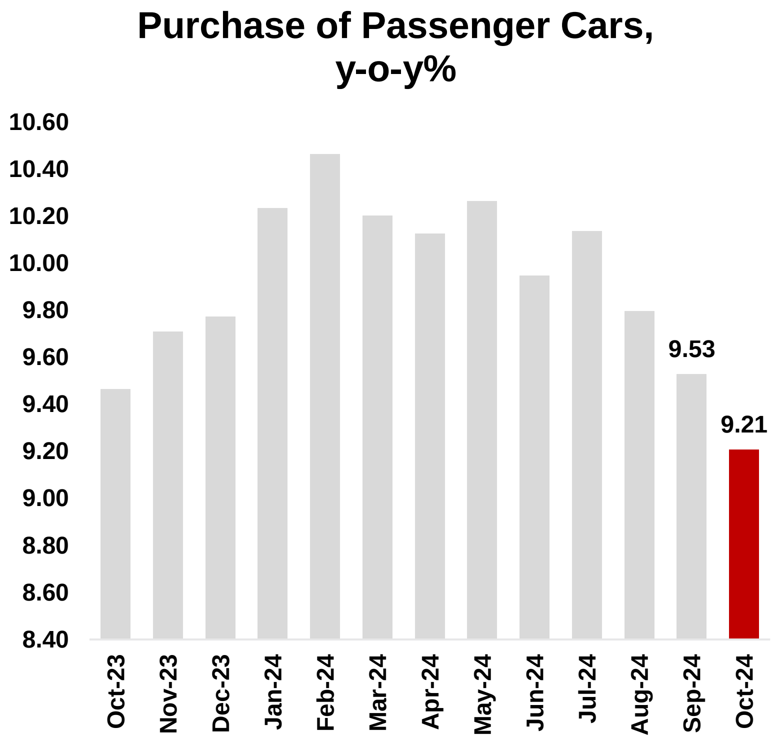
Sources: DOSM, CEIC Data

- Malaysia's trade grew by 2.1% in October, moderating further from the 4.7% expansion in September. While exports had rebounded from its contraction of 0.3% in September (October: 1.6%), total trade was dragged by the plunge in imports as it increased by a meagre 2.6% (September: 10.9%), marking the lowest rise since November 2023.
- While the performance of exports was weighed by the contraction of capital goods import (October: -2.7% vs. September: 56.3%), this is mainly attributable to the slump in imports of industrial transport equipment and not indicative of a slowdown in the construction sector's growth.
- Meanwhile, domestic demand is also showing signs of slowdown as expected, dragged by the higher cost of living environment. Distributive trade sales rose at the slowest pace since December 2021 by 3.8% in September (August: 4.7%), underpinned by smaller increases in Wholesale (September: 3.6% vs. August: 3.7%) and Retail (September: 5.5% vs. August: 5.9%) as well as contraction in Motor Vehicles (September: -1.0% vs. August: 4.1%).
- Headline inflation ticked up marginally to 1.9% in October, driven by acceleration in Food and Beverages (October: 2.3% vs. September: 1.6%) and Personal Care, Social Protection & Miscellaneous Goods & Services (October: 3.4% vs. September: 3.1%). However, core inflation trended steady at 1.8% for the second straight month.

BANKING SECTOR: FINANCING GROWTH ACCELERATED IN OCTOBER







Source: BNM

- Financing activities picked up pace in October, rising to 6.00% compared to 5.61% in September. Growth in the non-household financing segment climbed to 5.68% in October, up from 4.62% in September. Conversely, the household sector's growth edged down slightly to 6.22% in October from 6.29% the previous month.
- The financing growth in the passenger car purchase segment eased to 9.21% in October, down from 9.53% in September. Similarly, financing activities for residential property purchases declined to 7.11% in October (September: 7.28%). Credit card financing growth also softened, falling to 7.95% in October compared to 8.58% in September.

BANKING SECTOR: OCTOBER'S ASSET QUALITY REMAINED STABLE

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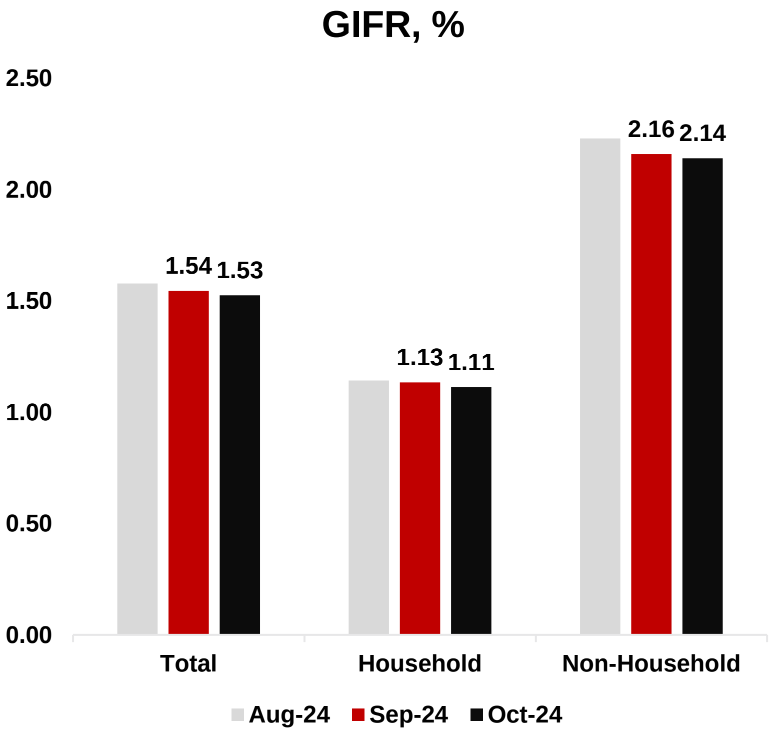

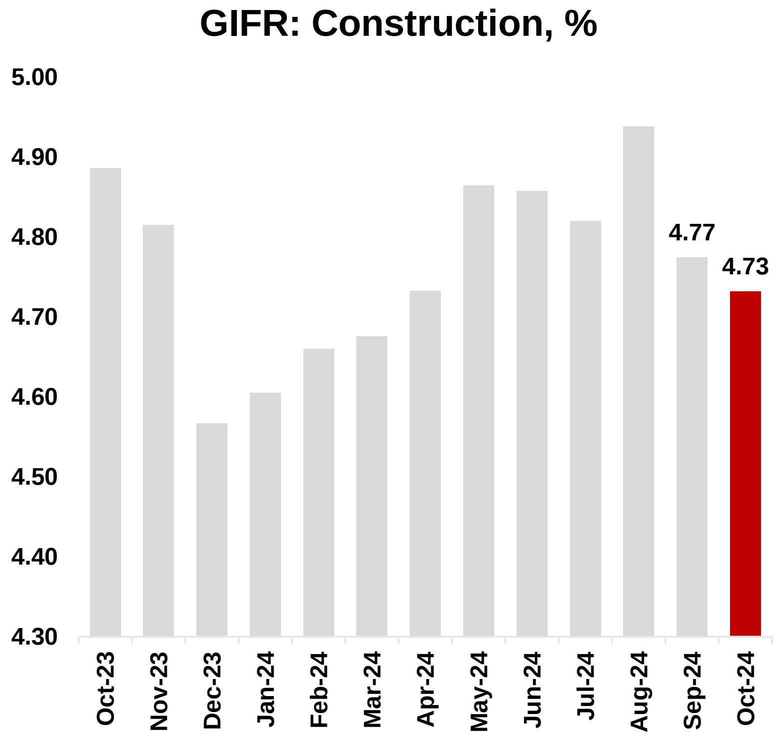

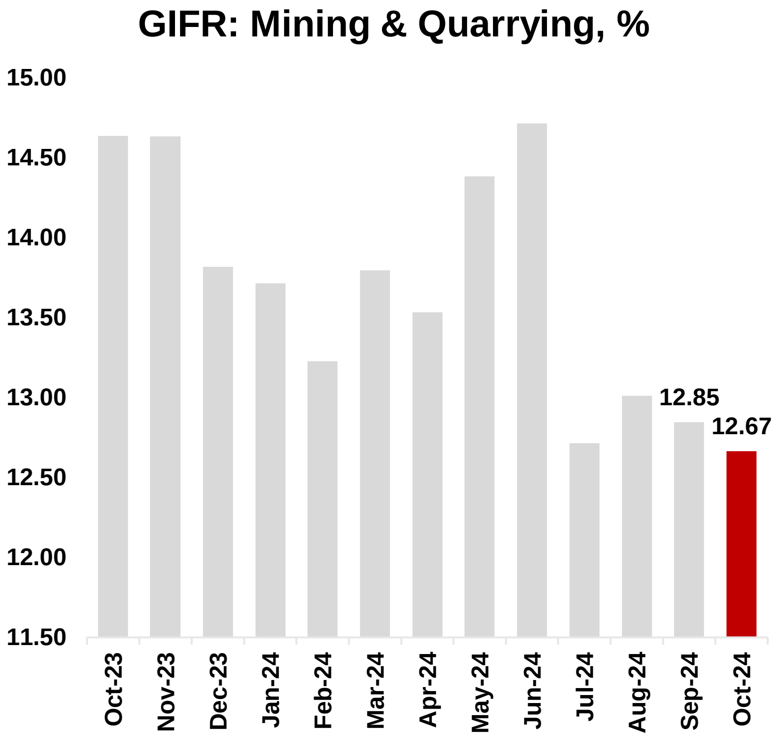

Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector improved slightly to 1.53% in October (September: 1.54%). The GIFR in the household segment reduced to 1.11% in October (September: 1.13%). Meanwhile, the impairment within the non-household sector also eased to 2.14% in October (September: 2.16%).
- The impairment rate in the construction sector decreased to 4.73% in October, down from 4.77% in September. Similarly, the asset quality in the Mining and Quarrying industry moderated to 12.67% in October (September: 12.85%).

THANK YOU