



MONTHLY ECONOMIC UPDATE

1 DECEMBER 2025

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **Markets have increasingly priced in a December rate cut as recent labor-market data point to cooling momentum**, marking a clear shift from the more divided expectations earlier in the month. Within the Federal Reserve, policymakers remain split: some view the softer job gains and easing consumer demand as sufficient justification for another cut, while others caution that underlying inflation, particularly within services, remains too elevated to warrant additional easing at this stage. The Fed lowered the federal funds rate by 25 basis points in October to 3.75–4.00%, but minutes from that meeting underscored “strongly differing views” on the path forward, reflecting the inherent tension between managing inflation and safeguarding employment. Although the data backdrop remains mixed and economic momentum uncertain, market sentiment has shifted decisively. The probability of a December cut has climbed to over 85%, up from around 40% a month earlier, after New York Fed President John Williams signalled that further policy easing is becoming increasingly likely.
- **Malaysia’s economic performance in 3Q2025 was in line with the preliminary estimate, registering a stronger-than-expected growth of 5.2% (2Q2025: 4.4%)**. This outturn has prompted an upward revision to the full-year GDP forecast, now estimated at 4.6% y-o-y compared with 4.2% previously. Domestic demand remained the key driver of growth, underpinned by resilient private consumption, which expanded by 5.3% on the back of firm household spending, stable inflation, and strong retail and tourism activity. Investment momentum, however, moderated, with gross fixed capital formation (GFCF) easing to 7.4% from 12.1% in the preceding quarter. External demand provided an additional lift as net exports rebounded sharply to 17.7% (2Q2025: -72.6%), largely reflecting weaker import growth amid softer investment and consumption. Across sectors, mining recorded the most notable turnaround, expanding 9.7% after four consecutive quarters of contraction. The services and manufacturing sectors also remained solid, growing by 5.0% and 4.1%, respectively, together contributing 3.9 percentage points to headline growth. Looking ahead, growth is expected to moderate in 4Q2025 as the temporary boost from accelerated shipments dissipates and the revised U.S. tariff regime begins to weigh on trade flows. The global backdrop also remains uneven, with geopolitical uncertainties continuing to shape investment decisions and external demand dynamics.
- **Bank Negara Malaysia kept the Overnight Policy Rate (OPR) unchanged at 2.75% during its final Monetary Policy Committee (MPC) meeting of the year**. In line with our expectation, the central bank decided to maintain its policy rate at the current level of 2.75% at its last MPC meeting of the year on November 6. The decision highlights the central bank’s confidence in Malaysia’s economic resilience amid ongoing global uncertainties. BNM last adjusted the OPR in July, delivering a 25bps cut after maintaining steady policy for two years. The current real interest rate of 1.35% indicates that BNM retains some room to ease policy if economic conditions deteriorate. Nevertheless, there remains a downside risk in which the MPC may consider an additional 25bps cut if tariff tensions intensify and GDP growth slips below the lower bound of the official 2026 forecast range of 4.0%–4.5%. Overall, given easing global tariff pressures and resilient domestic demand, we consider the current monetary policy stance to be appropriately calibrated to support sustainable growth while maintaining price stability in 2026.



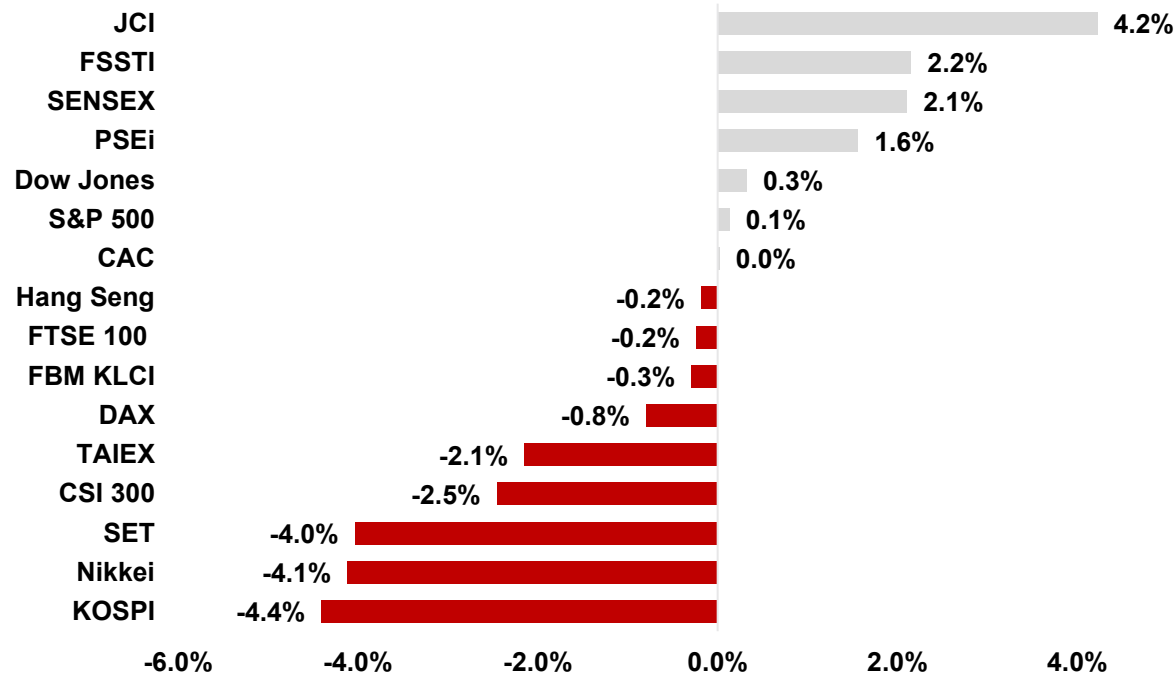
SECTION 1

Malaysia's Financial Market

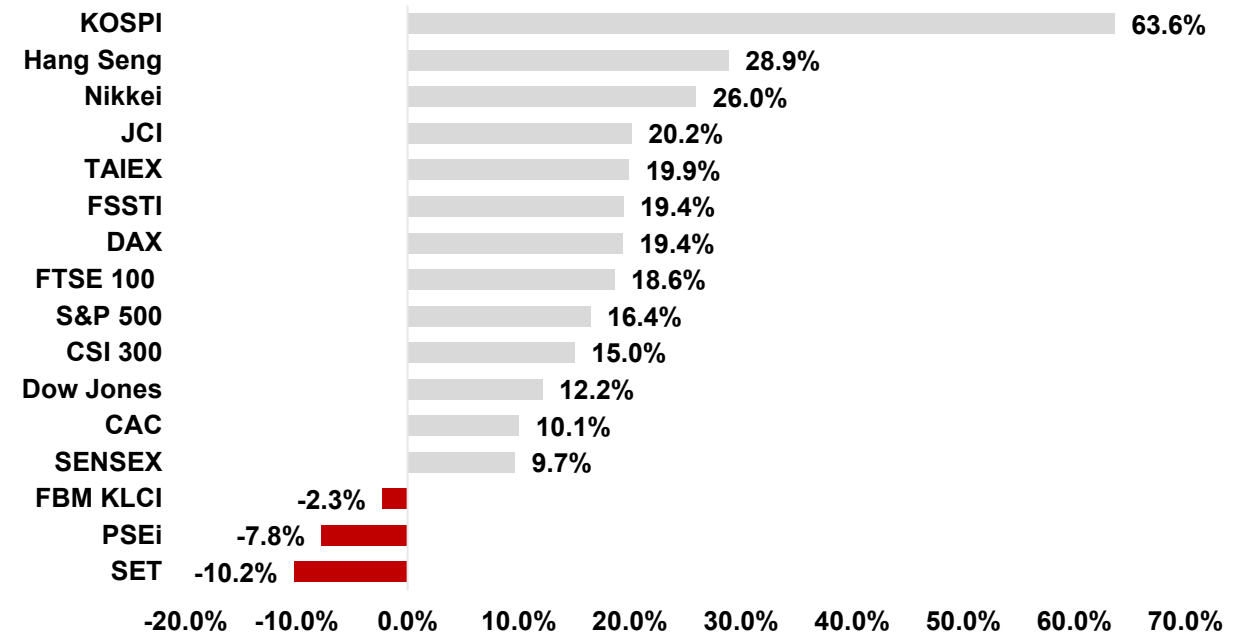
REGIONAL EQUITY: GLOBAL STOCKS MARKET DIPPED IN NOVEMBER, U.S. STOCKS EDGED UP ON FED CUT HOPES



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



YTD Gain/Loss of Major Equity Markets, % (As of 28 November 2025)

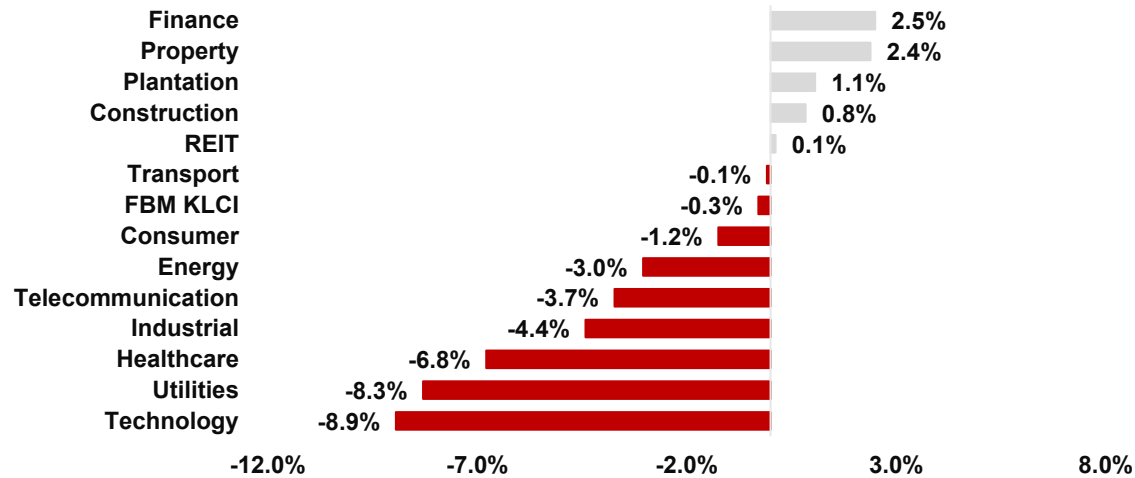


Sources: Bursa, CEIC data

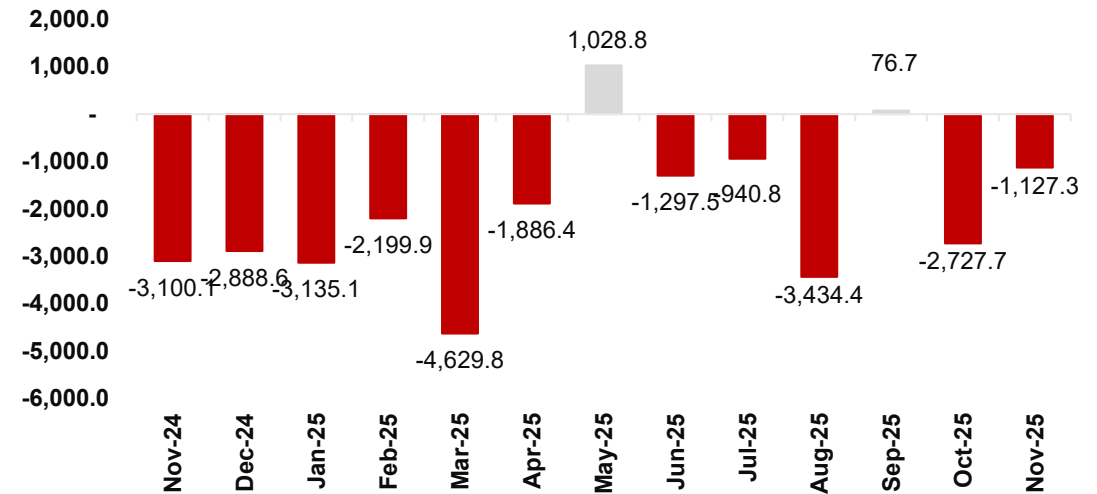
- The global stocks market were mostly in the red in November with South Korea's KOSPI as the major loser, declining by 4.4%. South Korea's industrial output saw a notable decline in October, heavily pressured by a sharp downturn in semiconductor production, which plunged 26.5% m-o-m. Officials, however, attributed much of the drop to a strong base effect following a significant surge in September, while noting that global demand for chips remains robust due to the A.I. boom.
- In contrast, U.S. stocks – Dow Jones (+0.3%) and S&P 500 (+0.1) surged marginally despite investor confidence has surged, with the market now pricing in an 80% to 85% chance that the Federal Reserve (Fed) will implement an interest rate cut in December's meeting.
- Nevertheless, YTD, South Korea's KOSPI remained as the top performer in November, with a gain of 63.6%.

DOMESTIC EQUITY: FBM KLCI SOFTENS IN NOVEMBER AMID PROFIT-TAKING DESPITE STRONG EARLY MONTH MOMENTUM

Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million

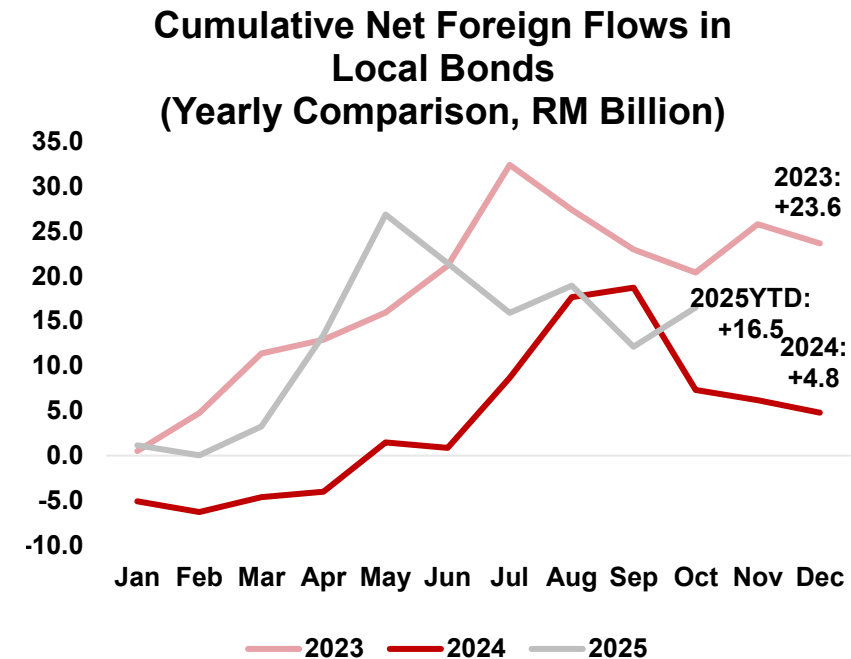
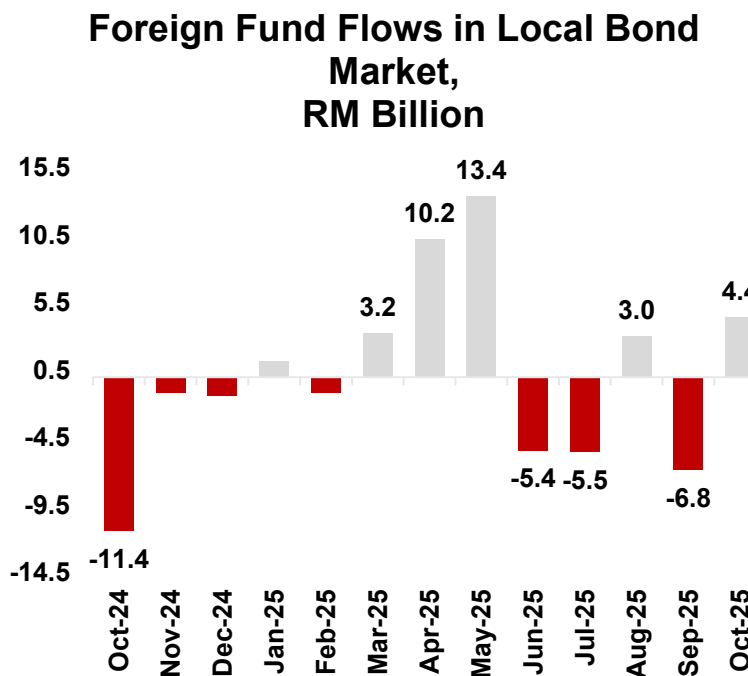


Sources: DOSM, CEIC Data

- The FBM KLCI ended November lower at 1,604.47, declining 0.3% m-o-m, and extending the 0.2% contraction recorded in October.
- The local bourse began the month on solid footing, supported in part by expectations that Bank Negara Malaysia (BNM) would maintain the Overnight Policy Rate (OPR) at 2.75%, a decision that was confirmed at its final meeting of the year on November 6. Investor sentiment was also bolstered by Malaysia's firm economic fundamentals, with 3Q2025 GDP growth coming in at 5.2%, surpassing expectations and improving from 4.4% in 2Q2025.
- On the external front, the uncertainty surrounding the prolonged U.S. government shutdown encouraged investors to shift interest toward emerging markets like Malaysia. A softer U.S. dollar and a potential 25bps Fed rate cut in December also provided support to Malaysia's export-oriented sectors. The strengthening ringgit throughout the month underscored confidence in Malaysia's economic resilience. However, market momentum tapered toward the end of November amid profit-taking activities following the earlier rally.
- Sector performance was broadly weaker, with technology posting the steepest decline at -8.9% m-o-m, followed by utilities (-8.3%), and healthcare (-6.8%). In contrast, the financial sector outperformed with a 2.5% gain, followed by property (+2.4%) and plantation (+1.1%).
- Foreign investors continued to be net sellers in November, with a net outflow of RM1.1 billion, bringing the total cumulative outflow for the year to RM20.3 billion.

FIXED INCOME: UST YIELDS DECLINED ON RISING ODDS OF YEAR-END FED RATE CUT

Monthly changes, basis points (bps)			
UST	Yields (%) 31-Oct-25	Yields (%) 28-Nov-25	Change (bps)
3-Y UST	3.60	3.49	-11
5-Y UST	3.71	3.59	-12
7-Y UST	3.89	3.78	-11
10-Y UST	4.11	4.02	-9
MGS	Yields (%) 31-Oct-25	Yields (%) 28-Nov-25	Change (bps)
3-Y MGS	3.12	3.03	-9
5-Y MGS	3.24	3.24	-1
7-Y MGS	3.44	3.44	0
10-Y MGS	3.50	3.46	-4
GII	Yields (%) 31-Oct-25	Yields (%) 28-Nov-25	Change (bps)
3-Y GII	3.13	3.11	-3
5-Y GII	3.24	3.25	1
7-Y GII	3.37	3.35	-2
10-Y GII	3.51	3.53	2



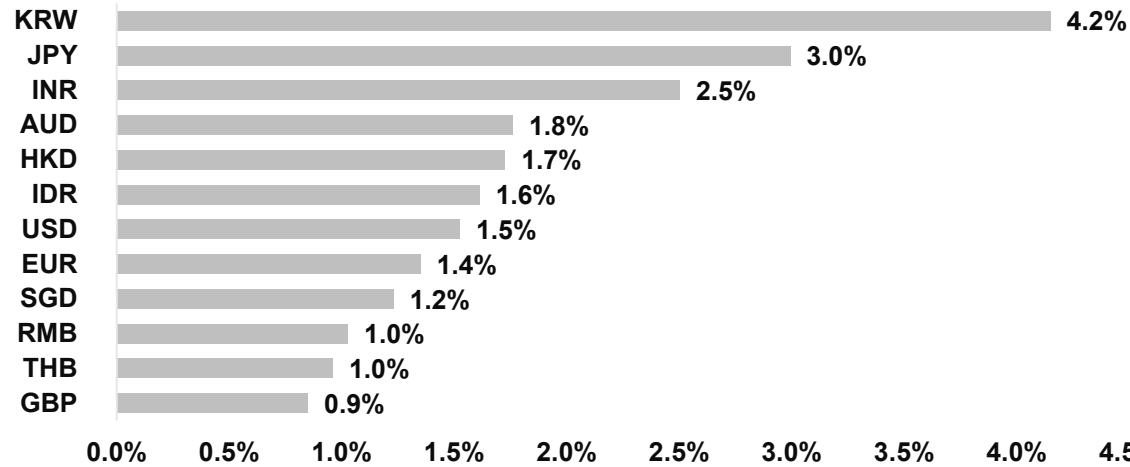
Sources: BNM, Federal Reserve Board

- The U.S. Treasury (UST) yields were lower in November in the range of 9bps and 12bps amid firming expectations for a Fed rate cut in December. This sentiment was supported by recent commentary from Fed officials, including Governor Waller and President Williams, who both indicated support for a cut at the year's final meeting. Furthermore, delayed U.S. data pointed to economic softness with retail sales rose less than anticipated in September, and ADP employment figures signaled a sharp labor market slowdown.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields were mixed, moving by between -9bps and 2bps.
- Foreign fund flows in the local bond market recorded a net foreign inflows of RM4.4 billion in October (September: -RM6.8 billion). Consequently, local govies' foreign shareholdings to total outstanding soared to 21.2% in October (September: 20.9%).
- As of the ten months of 2025, the local bond market recorded the cumulative net foreign inflows of RM16.5 billion, higher than the inflows of RM7.3 billion in the same period in the previous year.

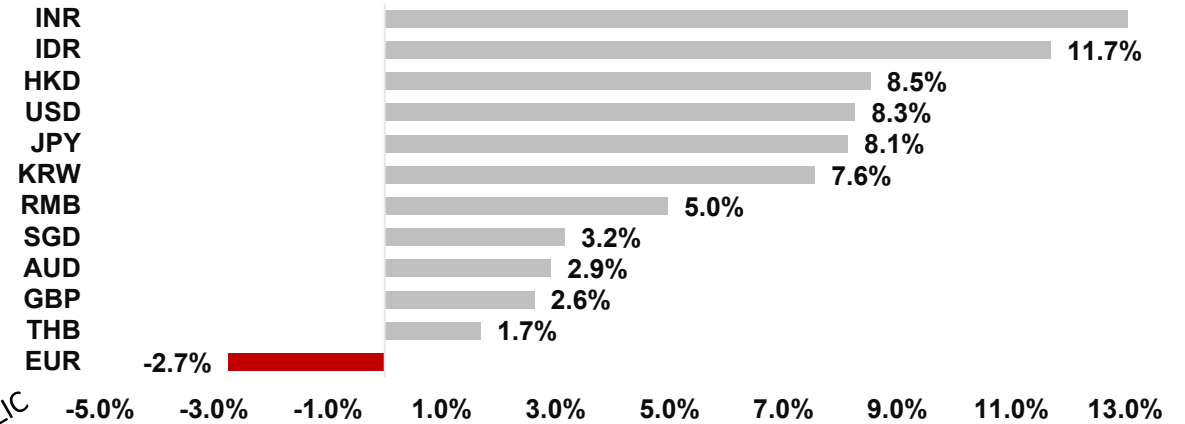
FX MARKET: RINGGIT APPRECIATED AMID RISING FED RATE CUT HOPES, UNDERPINNED BY MALAYSIA'S STRONG FUNDAMENTALS



MYR Against Regional Currencies, m-o-m%



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



Sources: Bank Negara Malaysia(BNM), Federal Reserve, CEIC Data

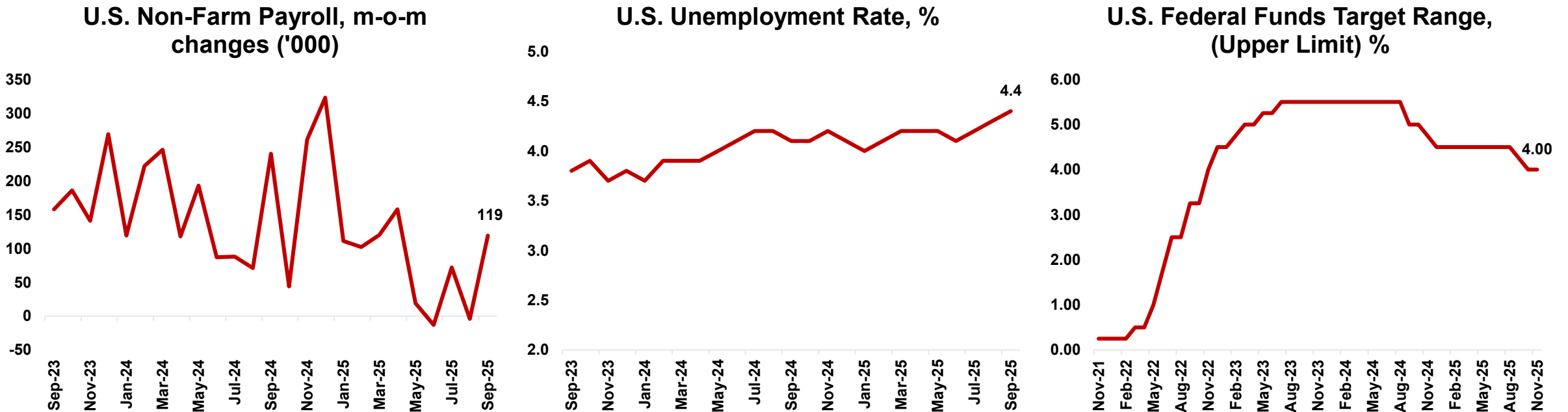
- The Ringgit appreciated by 1.5% m-o-m against the USD as of end-November as the USD index declined by 0.3% amid expectations of narrowing Overnight Policy Rate (OPR) and Federal Funds Rate (FFR) differentials.
- In its final meeting of 2025, Bank Negara Malaysia (BNM) maintained the OPR at 2.75%, in line with expectations, while the Malaysian economy's stronger than expected growth bolstered investor confidence. This underpins the Ringgit's appreciation, marking the highest level since September 2024 on 28th November at RM4.129.
- Meanwhile, the Fed's policy path faced heightened ambiguity during the month as the limited data visibility weighed on policy considerations. October's Federal Open Market Committee (FOMC) minutes revealed a deepening divide among policymakers on the appropriate near-term decision with "many" participants opposing a December cut, reinforcing the bank's cautious, data-dependent approach.
- In one camp, policymakers are wary of persistent upside risks to inflation but on the other hand, several participants assign greater weight to the rapidly cooling job market conditions. One of the latter includes New York Fed President John Williams, a permanent FOMC voter, who indicated scope for a "near-term adjustment", boosting market hopes for a 25 bp cut.
- Additionally, latest job market report following the end of the government shutdown showed that job growth momentum remains weak while the Fed's Beige Book revealed an uptick in layoffs and slowing employment. At the time of writing, the probability of a December cut has climbed to almost 90.0% according to the CME FedWatch tool.

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SECTION 2

The Global Economy

MUTED U.S. ECONOMIC MOMENTUM FUELS EXPECTATION OF DECEMBER RATE CUT

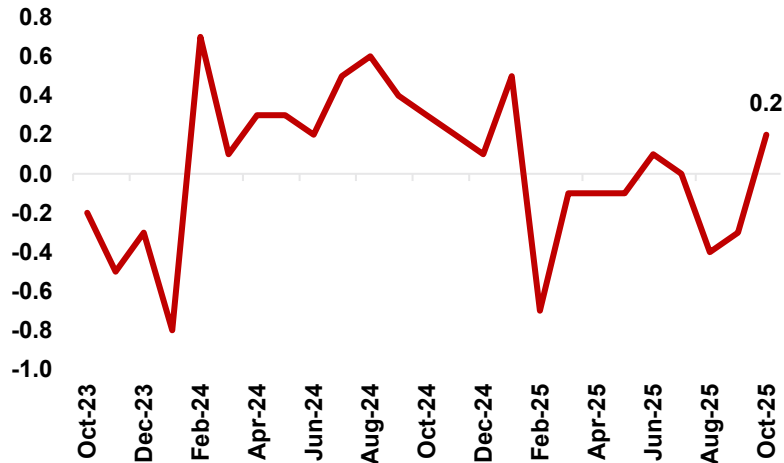


Sources: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), CEIC

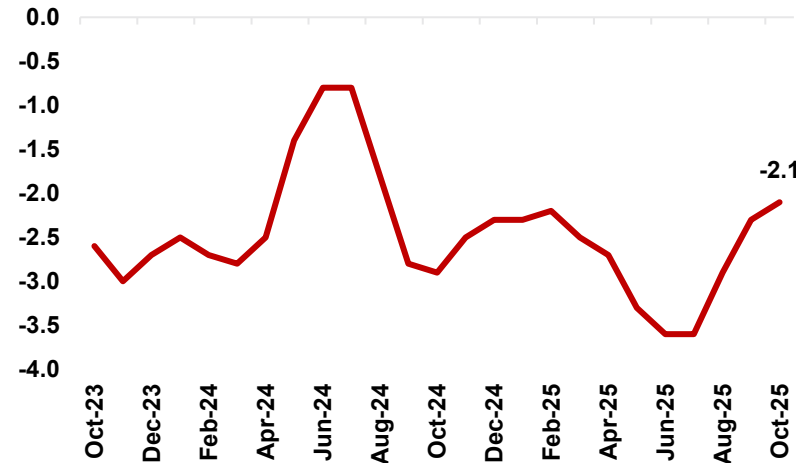
- U.S. job growth accelerated in September, adding 119k non-farm payrolls. However, this increase followed an August job loss, a downwardly revised 4k drop, and the unemployment rate rose to 4.4%, collectively suggesting that the labor market remains sluggish despite the September rebound.
- Nevertheless, at the point of writing, the market priced in an 87.4% probability that the Fed will slash interest rate by 25bps to the range of 3.50% to 3.75% for the next Federal Open Market Committee (FOMC) meeting scheduled for on December 10.
- U.S. retail sales slowed in September to 4.3% y-o-y from 5.0% in August, and businesses faced higher costs, highlighting mounting worries about affordability in the U.S. economy.
- The release of both consumer inflation and employment reports was delayed due to the government shutdown from October to mid-November, which paused data collection. Specifically, the shutdown canceled full October reports for both government reports, with the available data now set to be released alongside November's figures.

CHINA'S DEFLATION EASES BUT WEAK TRADE HIGHLIGHTS ONGOING GROWTH CHALLENGES

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



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



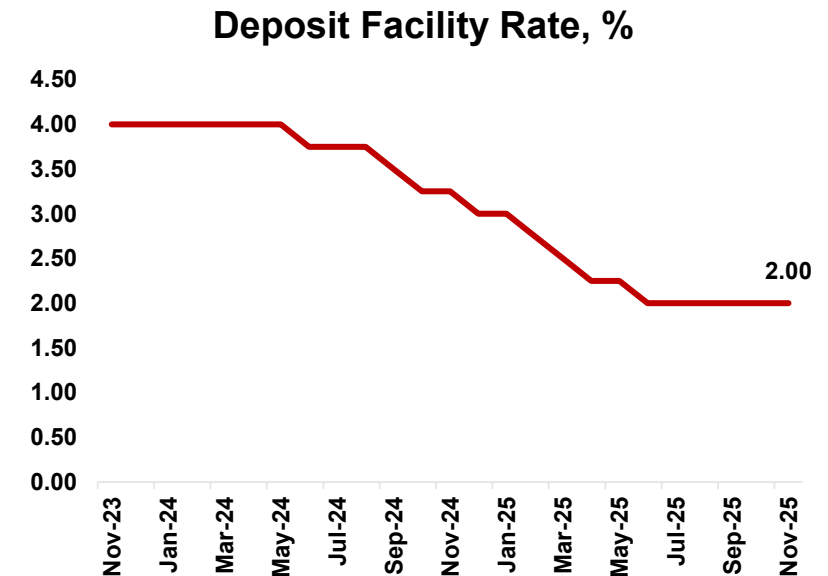
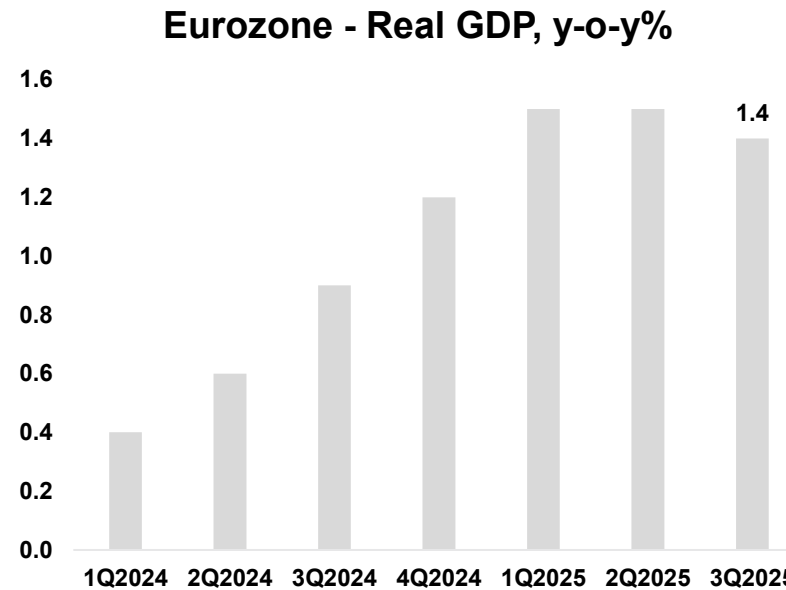
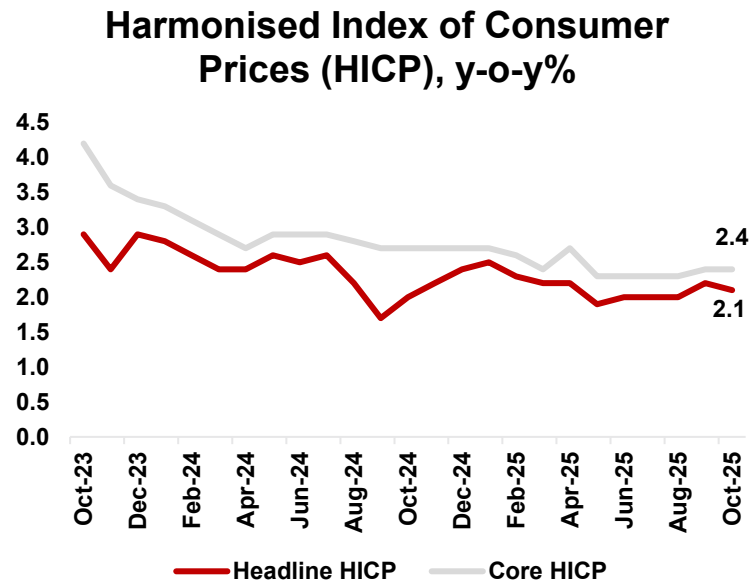
China - Exports and Imports, y-o-y%



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

- China saw a reduction in deflationary pressures in October. Consumer prices grew by 0.2% y-o-y, returning to positive territory after spending much of the year in decline, primarily driven by holiday season demand. The drop in wholesale prices also slowed down. This 0.2% CPI reading exceeded markets' expectations of zero growth.
- Factory-gate deflation is slowing down. Producer prices fell 2.1% y-o-y, marking an improvement over the 2.2% decline expected by the market. Additionally, producer prices saw a 0.1% increase m-o-m in October.
- October customs data highlighted significant weaknesses in China's trade. Exports unexpectedly shrank by 1.1%—the worst performance since February—reversing September's 8.3% gain and missing the 3.0% forecast. Furthermore, the slow pace of imports, which grew by only 1.0%, down sharply from 7.4% in September and below the 3.2% forecast, underscored the ongoing hurdle of insufficient domestic demand for driving growth.

BENIGN EUROZONE INFLATION LESSENS URGENCY FOR INTEREST RATE CUTS



Sources: ECB, Eurostat, S&P Global

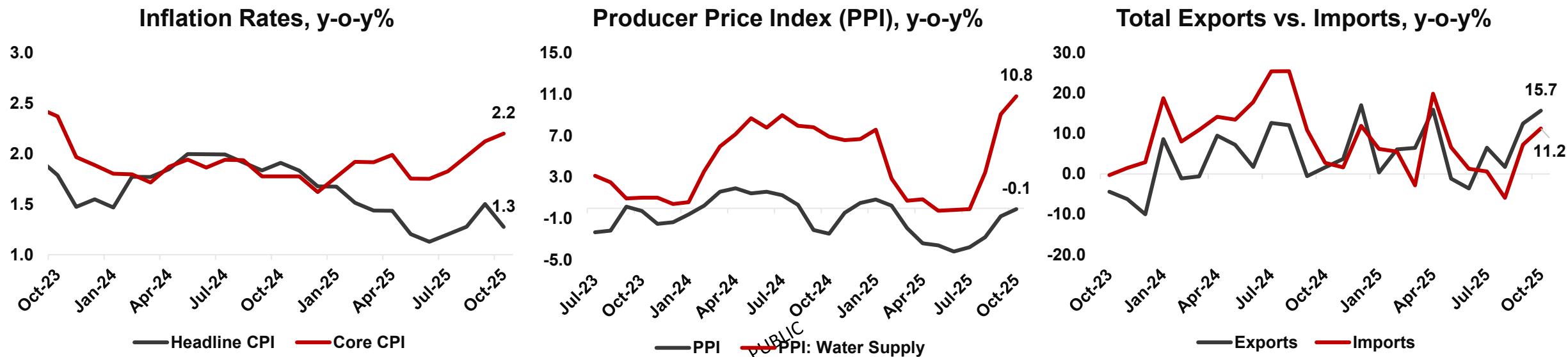
- The Eurozone's flash headline HICP showed a modest rise of 2.1% annually in October, matching expectations but slowing slightly from the 2.2% growth recorded in September. On the other hand, the core HICP grew steadily at 2.4%, which was slightly faster than the anticipated 2.3% increase.
- The Eurozone economy expanded by 1.4% year-on-year in the third quarter of 2025 based on the second GDP estimate, which is a slight upward revision from the initial estimate of 1.3%, but still down from the 1.5% growth seen in the second quarter.
- European Central Bank (ECB) President Christine Lagarde stated that the bank is well-positioned in its fight against inflation, asserting that current borrowing costs are at the "right level." She emphasized that the interest rates set in recent meetings are "correct" given that the ECB has managed to get the inflation cycle "under control." While noting that the scope of risks to the inflation outlook has narrowed, Lagarde cautioned that upward price pressure could resurface if the US raised tariffs or if global supply chains faced disruption.



SECTION 3

Domestic Landscape & Banking Sector
Update

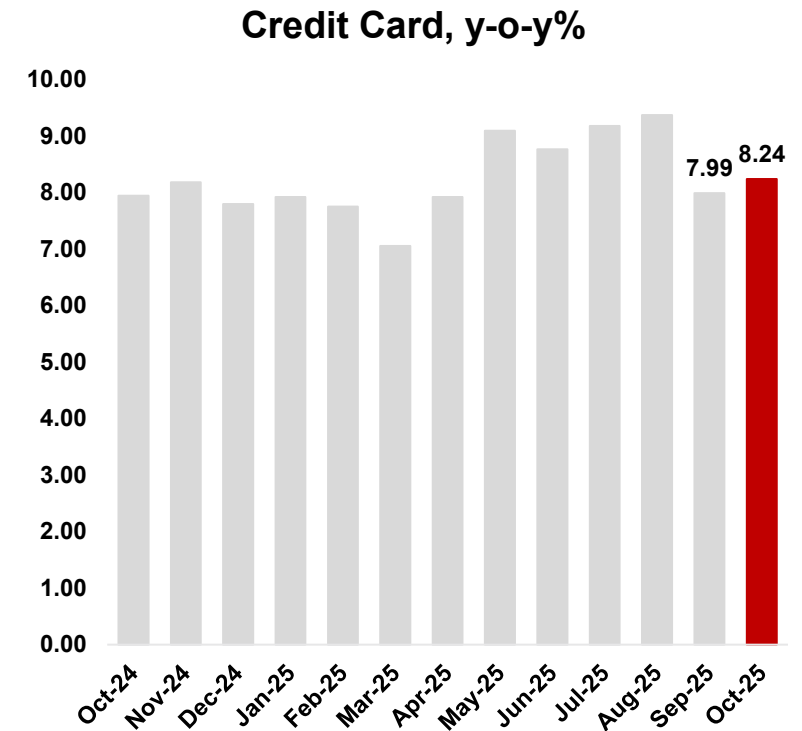
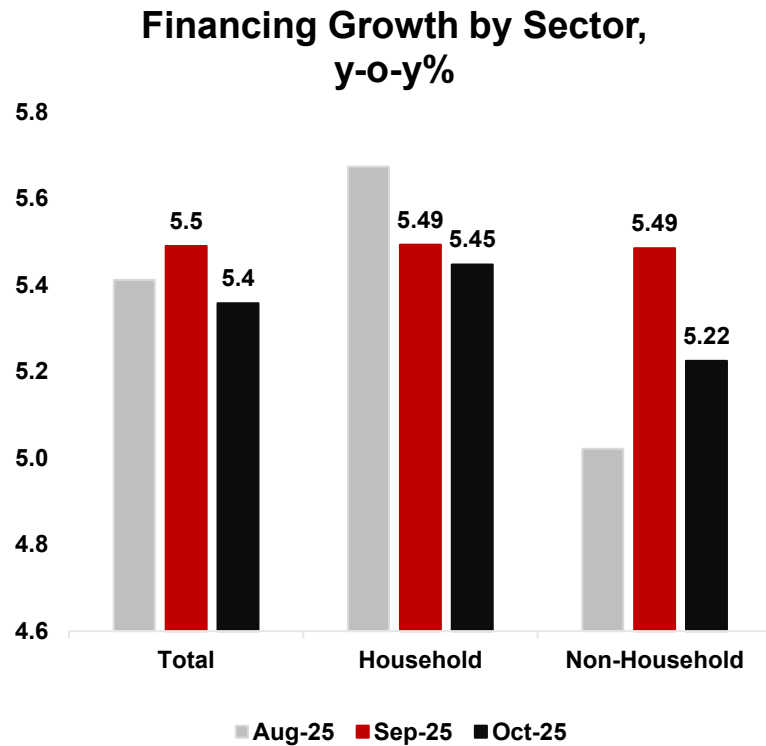
WATER TARIFF ADJUSTMENTS UNDERPINNED DOMESTIC PRICE PRESSURES WHILE SOFTER AGRICULTURAL PRICES CURBED HIGHER FOOD INFLATION



Sources: DOSM, CEIC Data

- Malaysia's headline inflation eased to 1.3% y-o-y in October from 1.5% y-o-y in September, suggesting that the impact of tax reforms thus far has a more modest impact on consumer prices than expected. Looking closer, the slower increase is underpinned by softer food (October: 1.5% vs. September: 2.1%) and utilities (October: 1.1% vs. September: 1.5%) inflations. Of the latter, weaker global coal prices had translated into lower electricity costs, offsetting the increase due to domestic water tariff adjustments.
- However, core inflation ticked up to 2.2% y-o-y from September's 2.1% y-o-y, marking the fastest pace of increase since October 2023.
- On the producers' front, the Producer Price Index (PPI) recorded a smaller decline of 0.1% (September: -0.8%) amid a record surge in the water supply PPI (October: 10.8% vs. September: 9.9%) and a softer drop in the manufacturing PPI (October: -0.6% vs. September: -2.1%).
- Meanwhile, Malaysia's trade performance remained solid as total trade jumped by 13.6% y-o-y in October, driven by double-digit growths of imports (October: 11.2% vs. September: 7.2%) and exports (October: 15.7% vs. September: 12.5%). Broad based accelerations were seen across all export sectors, namely manufacturing (+15.7%), agriculture (+20.3%) and mining (+8.0%).
- Notably, imports of capital goods marked a five-month high of 51.9% compared to 9.0% in September, signaling solid momentum across infrastructure development and capacity expansion activities.

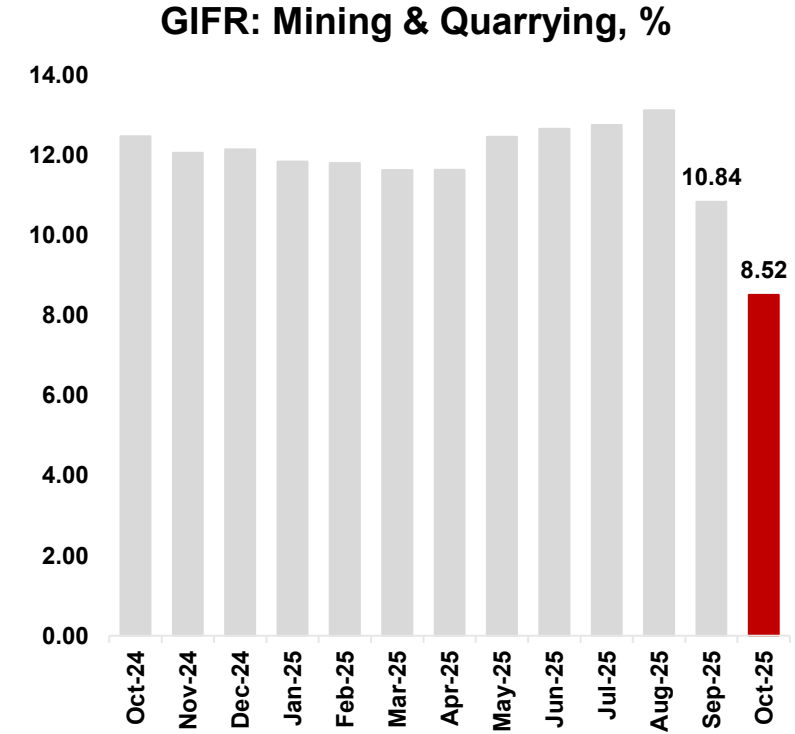
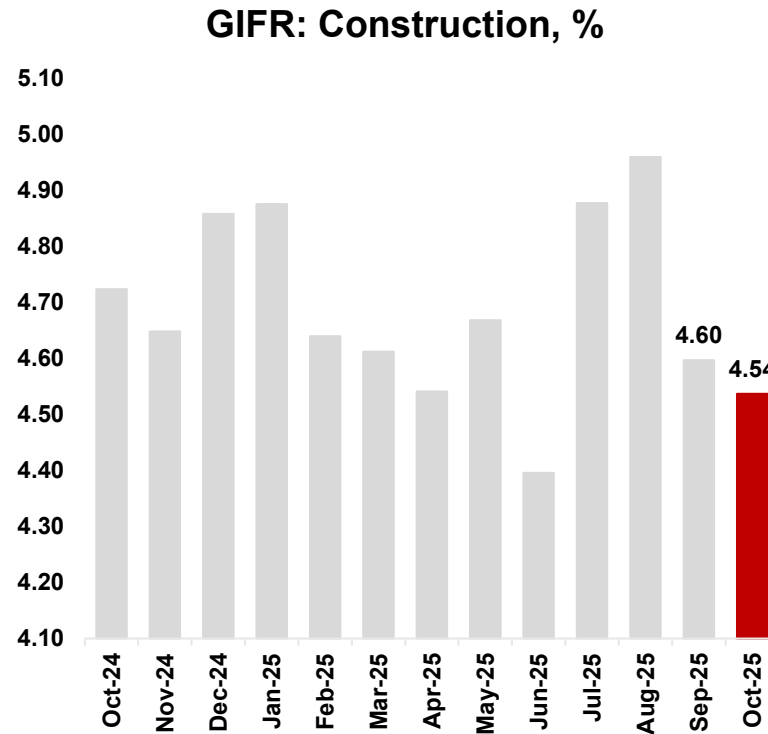
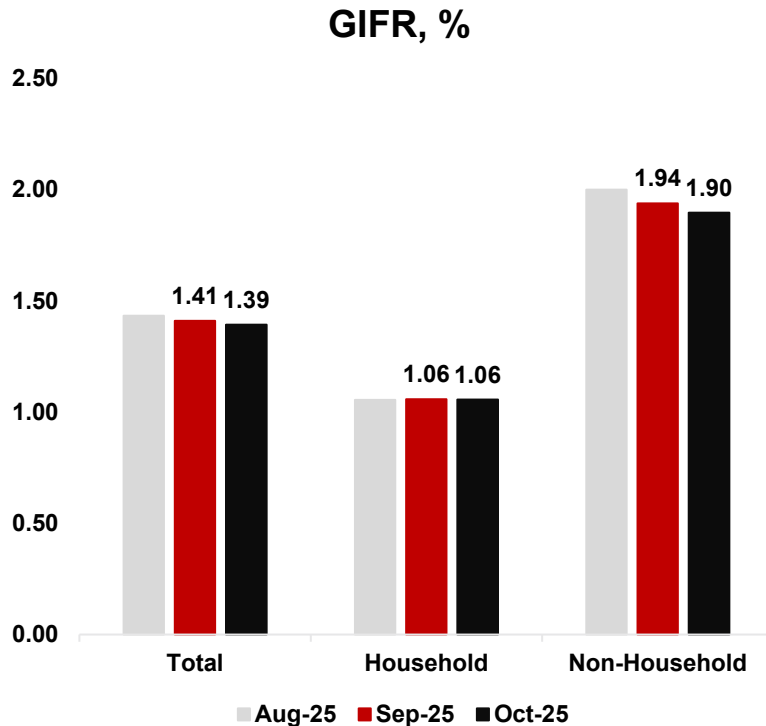
BANKING SECTOR: FINANCING GROWTH SOFTENS AS HOUSEHOLD AND BUSINESS LOANS SLOW



Source: BNM

- Total financing growth moderated slightly from 5.5% in September to 5.4% in October, reflecting softer expansion in both household (5.45%; September: 5.49%) and non-household (5.45%; September: 5.49%) financing activities.
- Residential property financing, which accounts for 38.0% of total financing, continued to lose momentum, rising by 6.01% in October compared to 6.08% previously. The slowdown likely reflects the impact of higher living costs, the broader expansion of SST and weaker household affordability, which may be prompting households to defer home purchases.
- In contrast, credit card financing growth strengthened to 8.24% from 7.99% in September, suggesting rising reliance on short-term credit amid tighter financial conditions.

BANKING SECTOR: ASSET QUALITY IMPROVES AS IMPAIRMENT RATIOS DECLINE ACROSS KEY SECTORS



Source: BNM

- The total gross impaired financing ratio (GIFR) for the banking sector edged down to 1.39% in October from 1.41% in September, signaling a modest improvement in overall asset quality.
- The household segment's GIFR remained stable at 1.06% for the fourth consecutive month, reflecting continued resilience in household repayment activity. Meanwhile, the non-household segment recorded further improvement, with the GIFR declining to 1.90% from 1.94% in September.
- At the sectoral level, impairment indicators in the construction and mining industries showed notable progress. The GIFR for the construction sector eased to 4.54% (September: 4.60%), while the mining sector saw a more pronounced reduction to 8.52% (September: 10.84%). The sustained decline in impairments indicates that firms are better managing debt obligations.

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THANK YOU