BANK ISLAM

MONTHLY ECONOMIC UPDATE

3 NOVEMBER 2025

ECONOMIC RESEARCH

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KEY TAKEAWAYS

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- **The Federal Reserve (the Fed) lowered its interest rate by 25bps to a range of 3.75%-4.00% at its October meeting, marking the second consecutive cut this year.** The move aims to support economic stability amid softening labour market conditions and heightened uncertainty from the prolonged government shutdown. While the decision was widely expected, it revealed growing divisions within the Federal Open Market Committee (FOMC) over the direction of monetary policy, with some members favouring a larger cut and others preferring to hold rates steady. Governor Stephen Miran advocated a deeper 50-basis-point cut to pre-empt a sharper slowdown, while Kansas City Fed President Jeffrey Schmid preferred to maintain current rates. This reflects the Fed's challenge of supporting growth while managing inflation risks. However, Chairman Powell signaled uncertainty over another rate cut in December, noting concerns about core inflation staying above 3%. As of writing, markets have priced in a 63% chance of a 25bps cut to 3.50%–3.75% at the December 10 FOMC meeting.

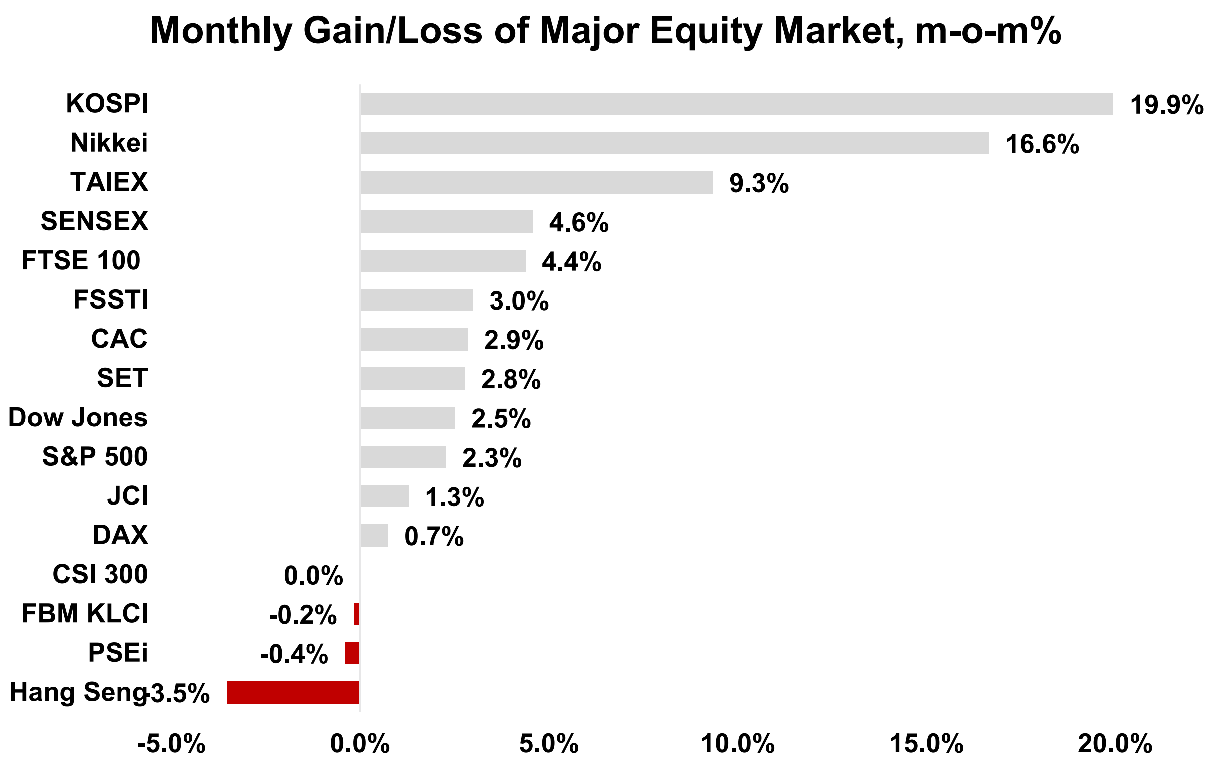
- **The 47th ASEAN Summit concluded with a strong focus on deepening regional integration and revitalizing economic growth across the bloc**. ASEAN reaffirmed its centrality and collective voice in engaging major powers such as the U.S. and China, while promoting sustainability and inclusive growth through climate action, digitalization, and efforts to reduce intra-ASEAN income gaps. Another key outcome is the signing of a new U.S.–Malaysia trade agreement, which deepens bilateral ties through collaboration in critical minerals, semiconductor manufacturing, and clean energy. The deal offers Malaysia better market access and fresh investment opportunities, while supporting the U.S. strategy to diversify supply chains across Southeast Asia. In return, Malaysia agreed to gradually liberalise selected sectors and align certain regulatory standards with international practices. The U.S. also pledged to boost investments in high-tech and green industries, reinforcing Malaysia's role as a regional technology and manufacturing hub. Additionally, Trump and Xi Jinping reached an agreement during their meeting in Busan. Under the deal, China committed to resume significant purchases of U.S. soybeans, pause export curbs on rare earths for at least a year, and crack down on the illicit fentanyl trade entering the U.S. In exchange, the U.S. agreed to reduce tariffs on Chinese goods, bringing the overall rate down from 57% to around 47%, and to ease certain export-control restrictions on Chinese firms.

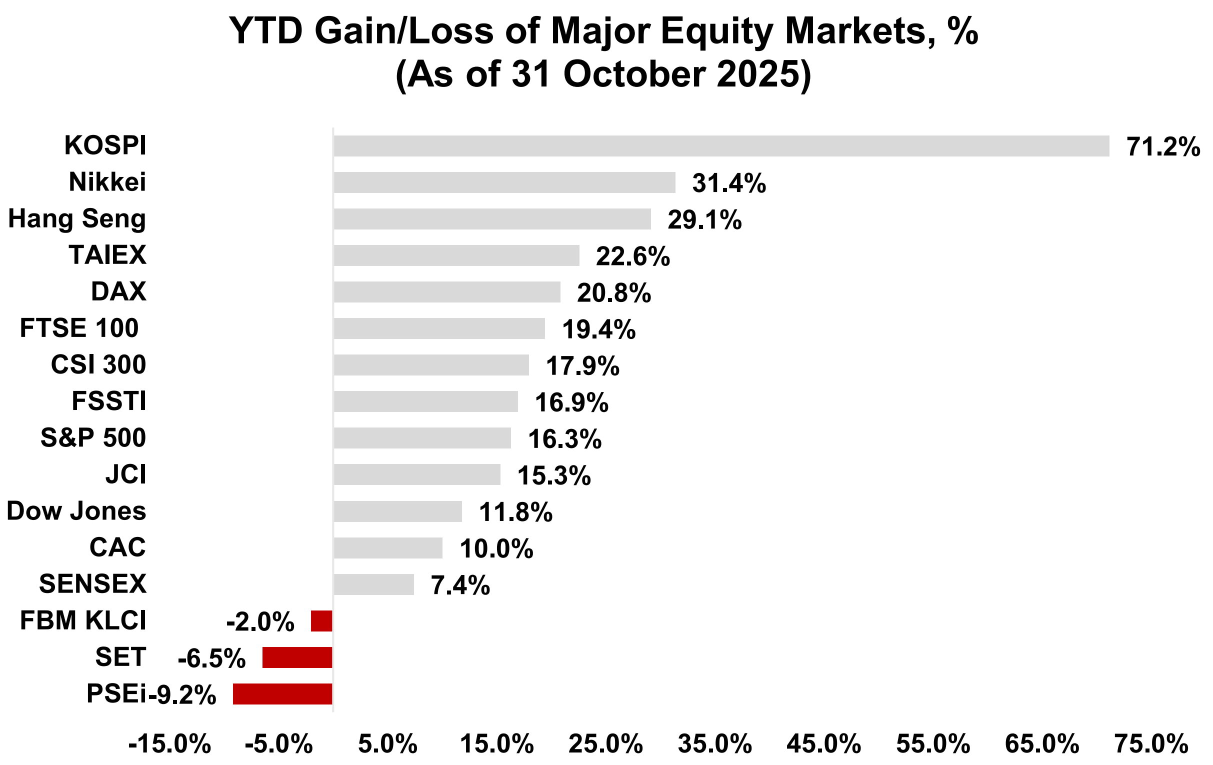
- **Malaysia's economy grew by an estimated 5.2% y-o-y in 3Q2025, up from 4.4% in the previous quarter**, according to the Department of Statistics Malaysia (DOSM) advance estimate. The stronger performance was driven by steady expansion in the services sector, improved manufacturing output, and a rebound in the mining and quarrying industry. The final GDP figures, including detailed sectoral and demand breakdowns, will be released on 14 November 2025, providing clearer insight into the structural versus cyclical drivers of growth. While the advance estimate suggests Malaysia is on track to achieve growth near the upper end of its official target range of 4.0-4.8%, the growth momentum is expected to moderate in 4Q2025, reflecting a more uncertain external environment following the imposition of 19% tariffs on Malaysia's exports to the U.S. The earlier boost from frontloading activities that had supported exports is likely to fade, while investment appetite may soften amid weaker global sentiment.

SECTION 1

Malaysia’s Financial Market

REGIONAL EQUITY: GLOBAL STOCKS RALLY ON A.I. OPTIMISM AND ROBUST U.S. EARNINGS





Sources: Bursa, CEIC data

- The global stocks market were mostly in the green in October with South Korea's KOSPI as the major winner with a gain of 19.9% largely driven by optimism around the global demand for artificial intelligence (AI) chips. This strong sentiment boosted technology and semiconductor stocks. Despite the AI-fueled momentum, investors are still being selective due to concerns over a fragile global economic outlook.
- Additionally, U.S. stocks – Dow Jones (+2.5%) and S&P 500 (+2.3) surged as investors cheered a fresh round of strong corporate earnings reports. Amazon was the standout, surging nearly 11% on the back of its cloud unit's fastest growth in almost three years. Nvidia rose 2% after announcing new partnerships with major South Korean firms. Apple gained 0.5% after exceeding revenue forecasts and offering an optimistic holiday outlook.
- YTD, South Korea's KOSPI leading the gainers as the top performer in October, with a gain of 71.2%.

DOMESTIC EQUITY: FBM KLCI DECLINES ON PROFIT-TAKING, FED REMARKS TEMPER SENTIMENT

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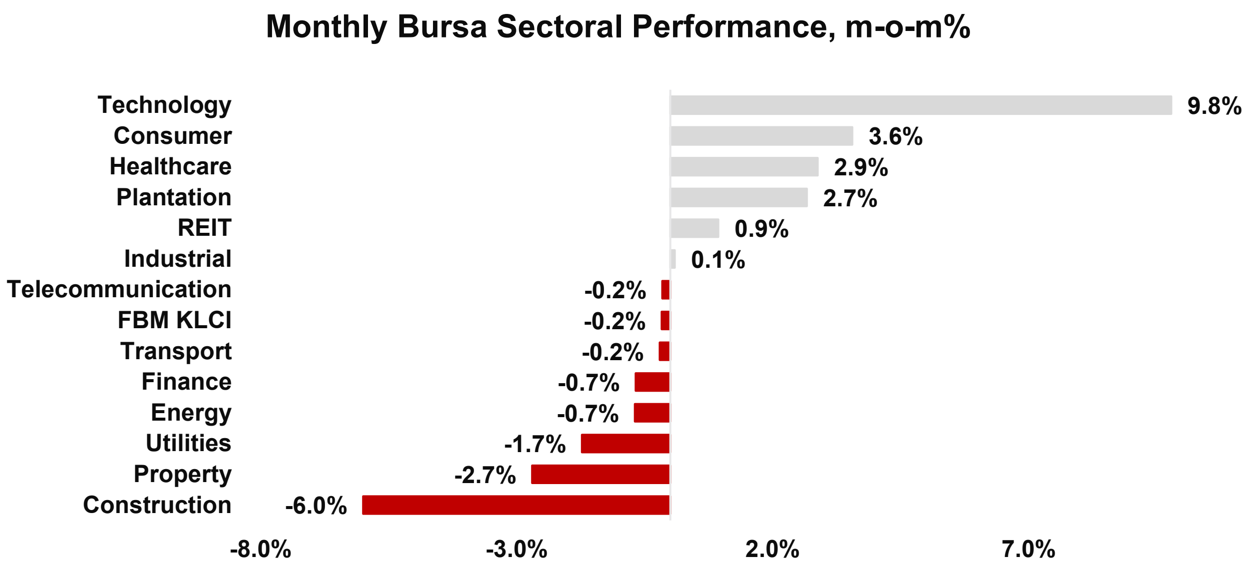

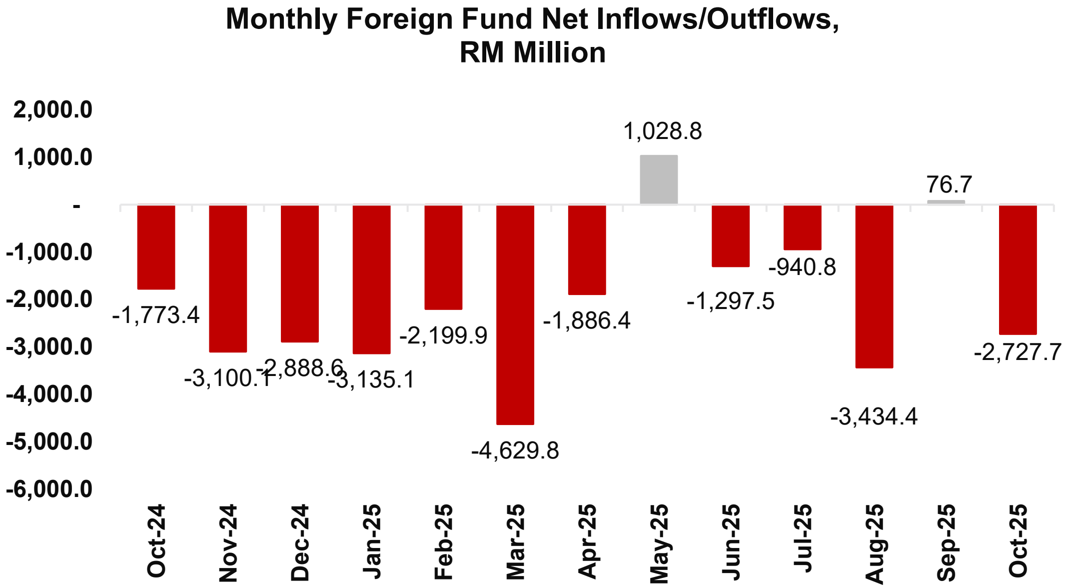

Sources: DOSM, CEIC Data

- The FBM KLCI declined 0.2% m-o-m in October to close at 1,609.15, reversing the 2.3% gain recorded in September. The weaker performance was in line with regional market trends and reflected investor caution following Federal Reserve Chair Jerome Powell's remarks downplaying the likelihood of an additional rate cut in December, contrary to market expectations. High U.S. interest rates could make U.S. assets more attractive, prompting investors to reduce investments from emerging markets like Malaysia, which can weigh on the stock market.
- Looking at the earlier part of the month, the Malaysian bourse surge to a nine-month high of 1,637.8 on 2 October, representing a 1.0% gain from the previous day. The increase was driven by optimism ahead of the Budget 2026 announcement, which is expected to support economic growth through various measures and fiscal reforms. After the initial rally above 1,630 during the first week, the index declined subsequently, primarily due to profit-taking activities by investors before picking up again on 21 October, supported by a stronger-than-expected advance estimate of 3Q2025 GDP growth at 5.2%, compared with the market consensus of 4.2%.
- Sectoral performance was mixed. Technology led the gains with a 9.8% increase, followed by consumer (+3.6%) and healthcare (+2.9%) indices. In contrast, construction recorded the steepest decline at -6.0% m-o-m, followed by property (-2.7%) and utilities (-1.7%).
- In October, foreign investors turned net sellers, registering a net outflow of RM2.7billion, bringing the total cumulative outflow for the year to RM16.0 billion.

FIXED INCOME: UST YIELDS STEADY AS FED SIGNALS CAUTION ON FURTHER EASING

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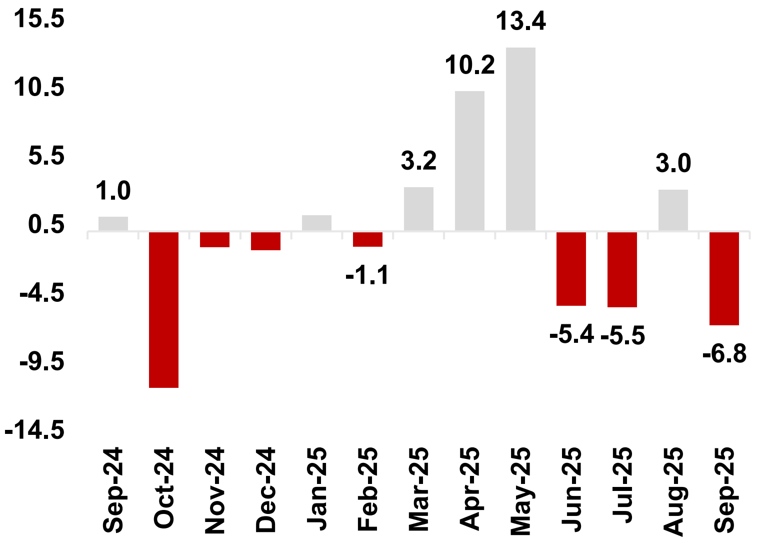
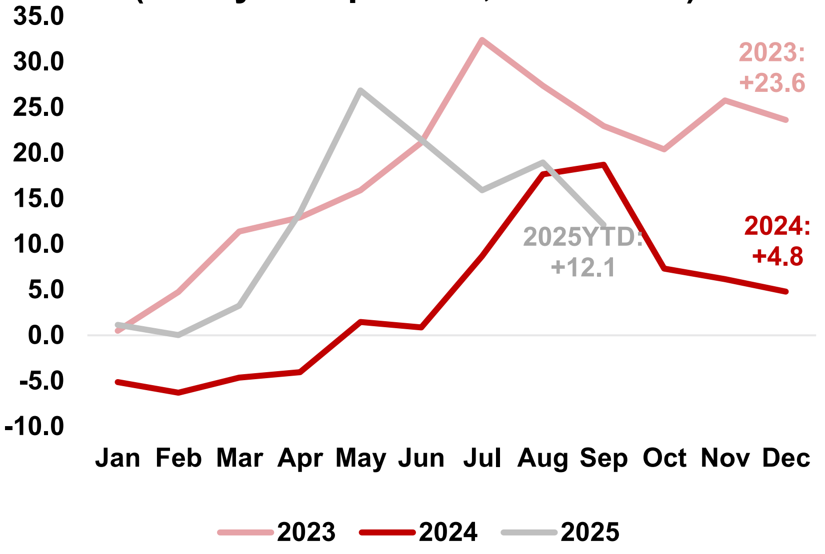
Monthly changes, basis points (bps)			
UST	Yields (%) 30-Sep-25	Yields (%) 31-Oct-25	Change (bps)
3-Y UST	3.61	3.60	-1
5-Y UST	3.74	3.71	-3
7-Y UST	3.93	3.89	-4
10-Y UST	4.16	4.11	-5
MGS	Yields (%) 30-Sep-25	Yields (%) 31-Oct-25	Change (bps)
3-Y MGS	3.12	3.12	0
5-Y MGS	3.22	3.24	2
7-Y MGS	3.42	3.44	3
10-Y MGS	3.46	3.50	4
GII	Yields (%) 30-Sep-25	Yields (%) 31-Oct-25	Change (bps)
3-Y GII	3.15	3.13	-1
5-Y GII	3.25	3.24	0
7-Y GII	3.36	3.37	1
10-Y GII	3.49	3.51	2

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 were little changed in October in the range of 1bp and 5bps. The Fed delivered the expected 25bp rate cut in October. However, Chairman Powell suggested that a follow-up cut in December is uncertain, indicating policymakers are still worried about core inflation persisting above 3%. This caution comes after the 10-year UST yield fell to a one-year low of 3.95% on October 22, driven by earlier fears of an economic slowdown, a potential U.S. government shutdown, and expectations that the Fed would hold its balance sheet steady.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields remained broadly stable over the month, fluctuating within a narrow range of -1 to +4 basis points.
- Foreign fund flows in the local bond market recorded a net foreign outflow of RM6.8 billion in September (August: +RM3.0 billion). Consequently, local govvies' foreign shareholdings to total outstanding dipped to 21.7% in September (August: 22.1%).
- As of the nine months of 2025, the local bond market recorded the cumulative net foreign inflows of RM12.1 billion but lower than the inflows of RM18.7 billion in the same period in the previous year.

FX MARKET: RINGGIT ROSE AMID GREATER POLICY CLARITY FOLLOWING ASEAN SUMMIT, USD STRENGTHENED AS MARKETS RECALIBRATED POLICY EXPECTATIONS

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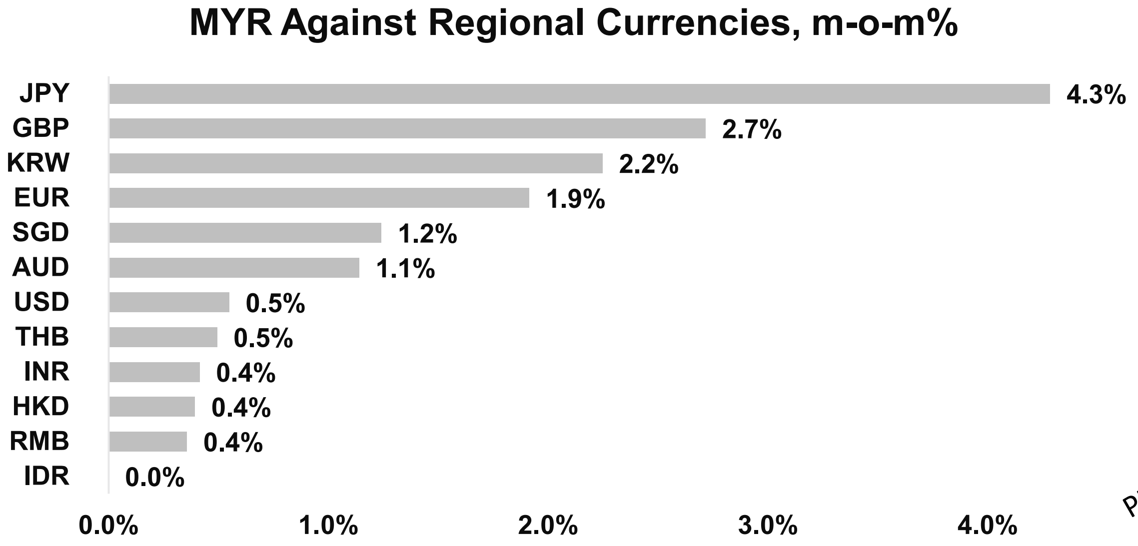
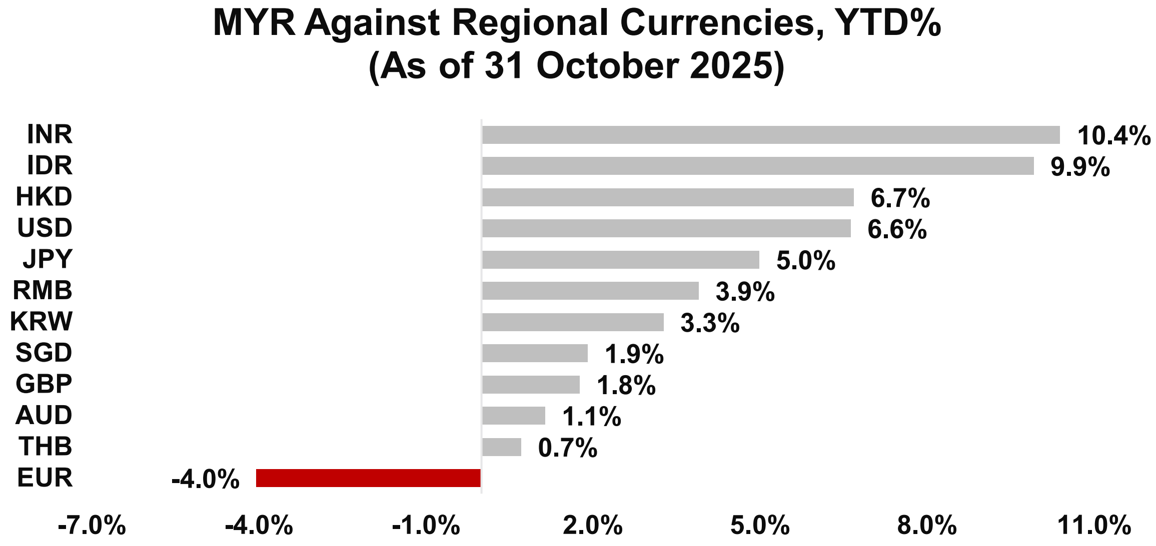




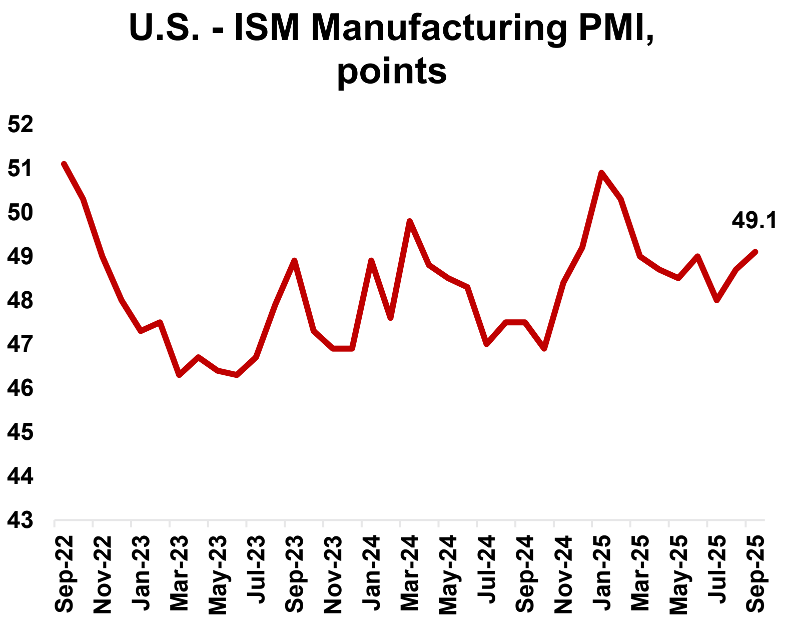
Sources: Bank Negara Malaysia(BNM), CEIC Data

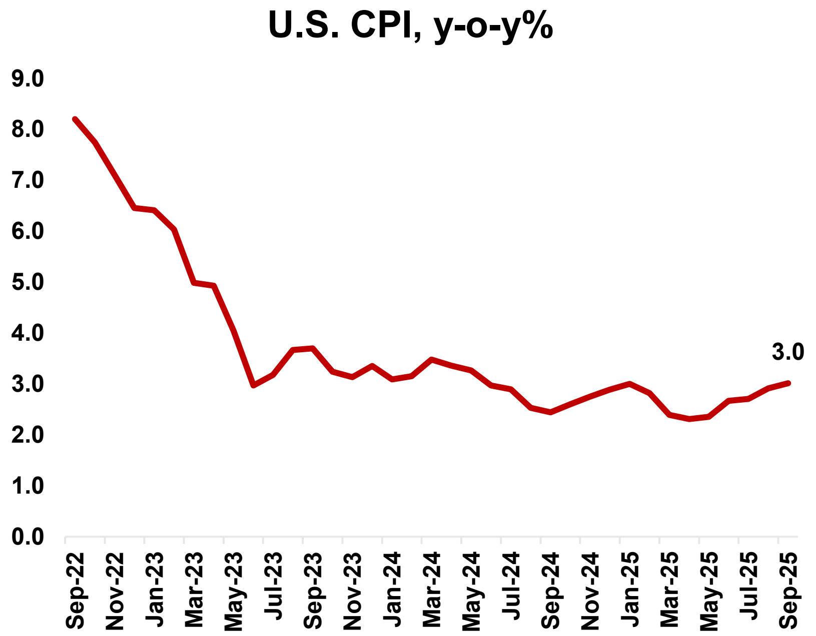
- The Ringgit appreciated by 0.5% m-o-m against the USD as of end-October, defying a 2.0% gain in the USD index over the same period. The local currency's resilience was underpinned by improving investor confidence, driven by greater policy clarity following the finalization of the U.S.-Malaysia trade agreement.
- The U.S. Federal Open Market Committee (FOMC) had slashed its Federal Funds Rate (FFR) by a quarter-basis point in its October meeting, following an earlier cut in September, bringing its range down to 3.75-4.00% amid growing signs of a rapidly cooling job market.
- Nevertheless, the decision was split 7-2 with Fed Governor Stephen Miran backing a deeper 50 bp cut while Kansas City Fed President Jeffrey Schmid voting to keep the FFR steady. This revealed dissentions between policymakers on the appropriate pace of easing amid the delicate balance of supporting growth without reigniting inflation while limited data visibility following the prolonged U.S. government shutdown heightens uncertainties surrounding the policy path.
- Furthermore, Fed Chair Jerome Powell also highlighted growing caution amongst policymakers, stating that a December cut is "far from a foregone conclusion, which led to a swift reaction from markets. Probabilities of a 25 bp cut in December fell below 70.0% from above 90.0% previously, according to the CME FedWatch tool.

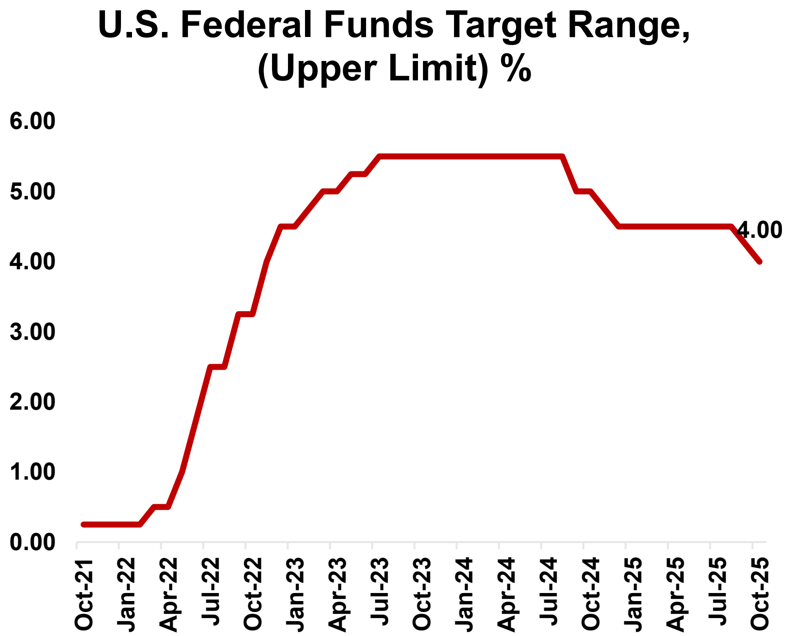
SECTION 2

The Global Economy

CAUTIOUS FED NAVIGATES FOGGY OUTLOOK DESPITE RATE CUT



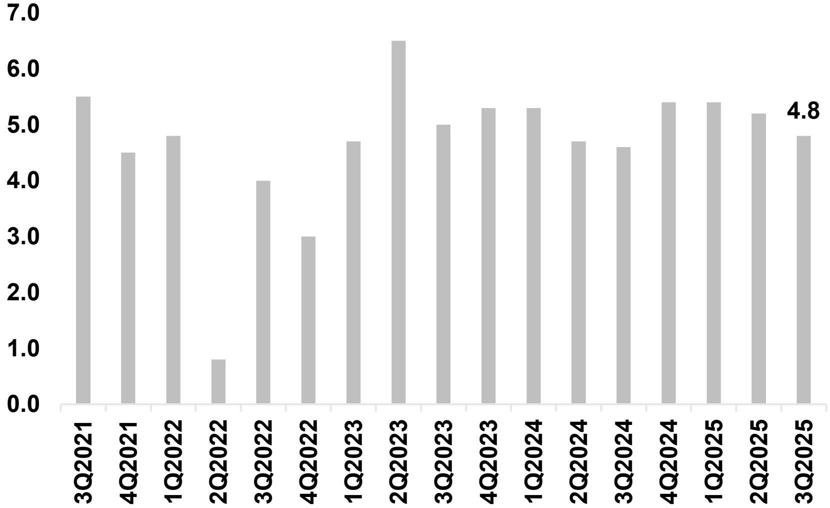


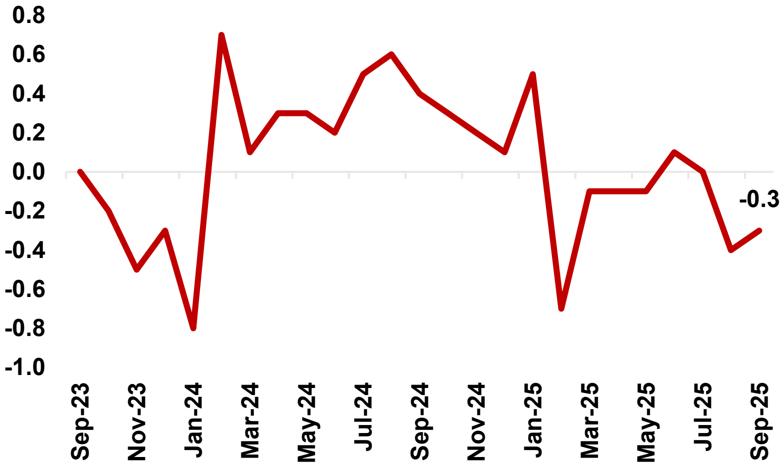


Sources: Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), CEIC

- The ISM US Manufacturing PMI for September increased to 49.1 points (up from 48.7 points in August), slightly exceeding the expected 49.0 points. While this marks the seventh straight month of contraction, it is also the strongest reading recorded during this current downturn.
- U.S. CPI inflation in September rose to 3.0% (up from 2.9% in August), slightly undershooting expectations. The increase in gasoline costs was largely offset by a notable slowdown in the rate of rent increases.
- Although the Fed delivered the widely anticipated 25bps rate cut, it immediately pushed back on bets for further easing. Fed Chair Jerome Powell explained the need for caution, likening the situation to "driving in the fog" because the government shutdown had obscured economic data, clouding the central bank's outlook.
- As of this writing, markets have priced in a 63.0% probability that the Fed will cut its policy rate by 25bps to a range of 3.50%–3.75% at the upcoming Federal Open Market Committee (FOMC) meeting scheduled for December 10.

CHINA'S GROWTH SLOWED AS REAL ESTATE DRAGS BUT TRADE MOMENTUM STRENGTHENS





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

- China's economic growth slowed to 4.8% in the third quarter of 2025 (2Q2025: +5.2%)—the slowest rate in a year amid the persistent real estate downturn. Adding to the concern, fixed-asset investment (FAI) unexpectedly shrank by 0.5% over the first nine months of the year, driven by a reduction in spending on both infrastructure and manufacturing.
- China's consumer prices (CPI) fell by 0.3% in September (Aug: -0.4%). However, core annual inflation, which excludes volatile food and energy costs, painted a different picture, rising for the fifth straight month to 1%. This core figure marked its strongest increase since February 2024.
- China's trade performance accelerated sharply in September, with exports soaring by 8.3%. This was a significant jump from the 4.4% growth recorded in August and handily beat the 6% market forecast. Simultaneously, imports grew 7.4%, the highest level in 17 months, far surpassing the expected 1.5% increase.

ECB MAINTAINS STEADY COURSE AMID EASING INFLATION AND GLOBAL UNCERTAINTY

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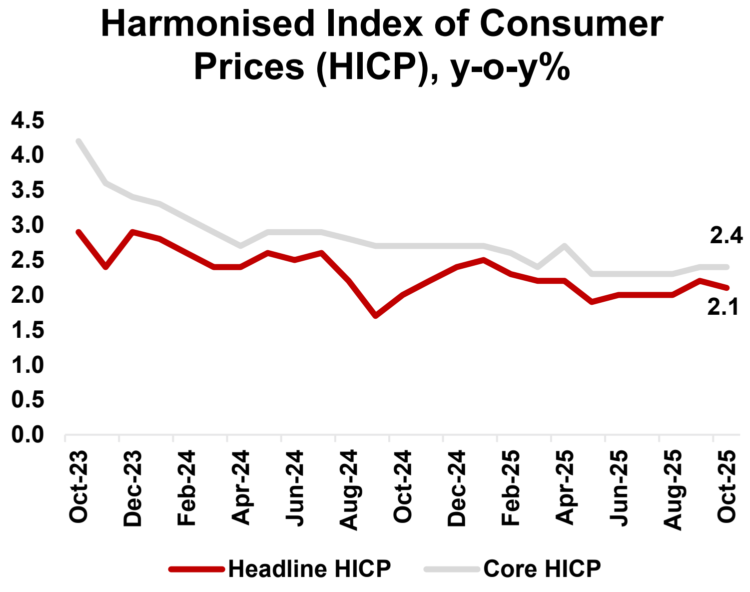

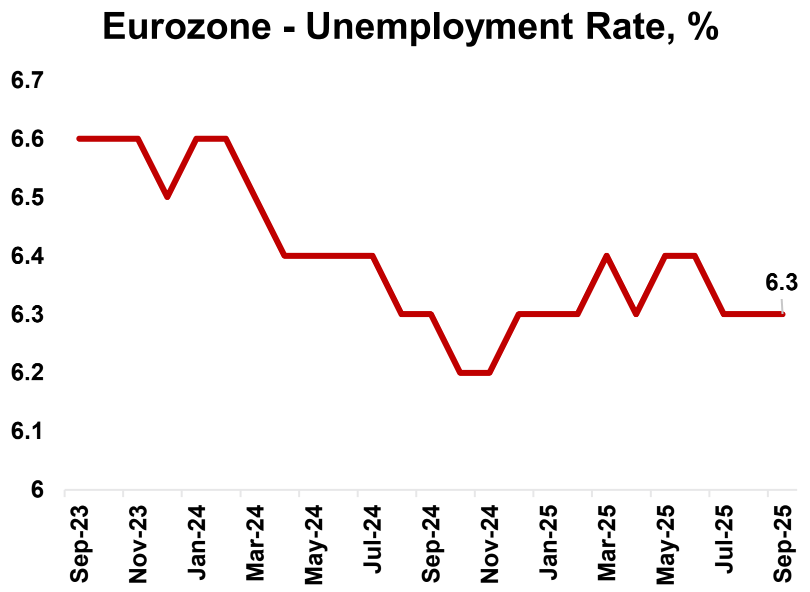

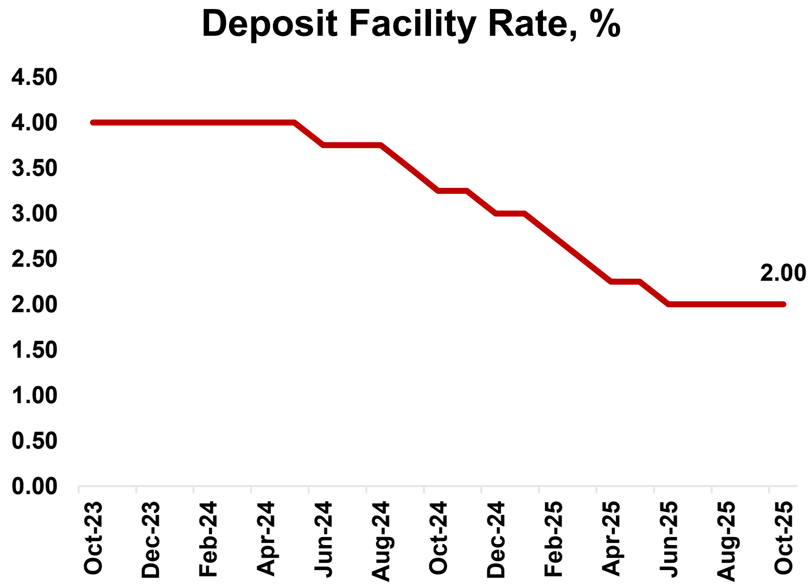

Sources: ECB, Eurostat, S&P Global

- The Eurozone's flash headline HICP slowed moderately in October, rising 2.1% annually as expected, down from 2.2% in September. However, core HICP grew steadily at 2.4%, surpassing the 2.3% forecast.
- The Eurozone's unemployment rate held steady at 6.3%, matching the previous month's figure. This signals a stable labor market with consistent employment dynamics.
- The ECB's Governing Council kept its three key interest rates unchanged, citing the stability of inflation near its 2% medium-term target. The Eurozone economy continues to grow despite a challenging global backdrop, supported by a robust labor market and the resilience from past rate cuts. However, the outlook is still seen as uncertain due to geopolitical risks and global trade disputes. The Council affirmed its commitment to stabilizing inflation at 2%. Future policy will be data-dependent and decided meeting-by-meeting, with no pre-commitment to a specific rate path. Decisions will hinge on the inflation outlook, underlying price dynamics, and the effectiveness of policy transmission.

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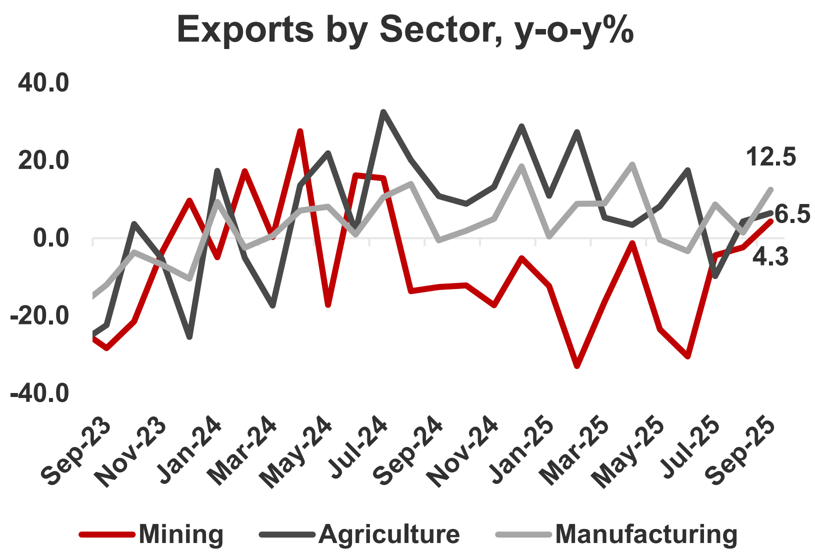
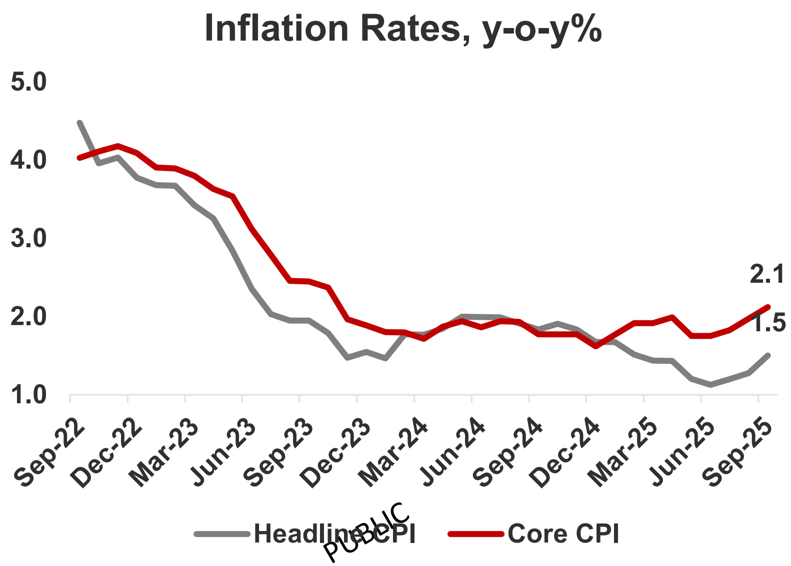
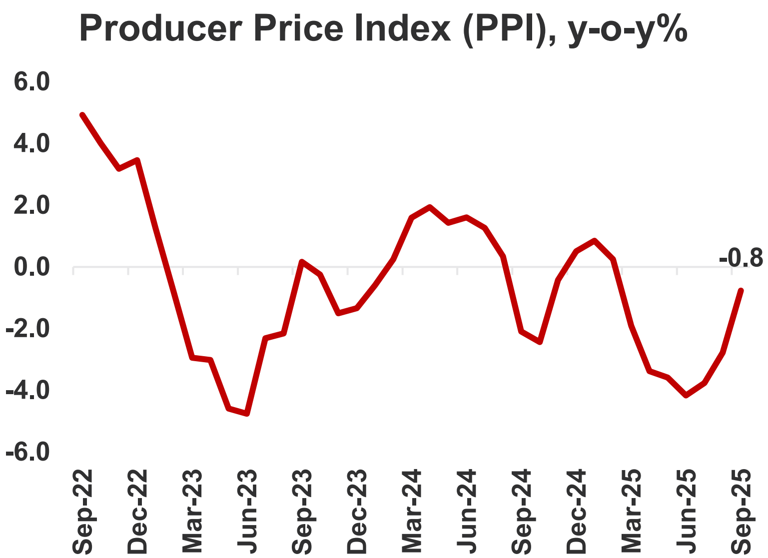
SECTION 3

Domestic Landscape & Banking Sector Update

MINING SECTOR REVIVAL ALONGSIDE ROBUST MANUFACTURING AND AGRICULTURE SECTORS BOLSTERED EXPORT GROWTH



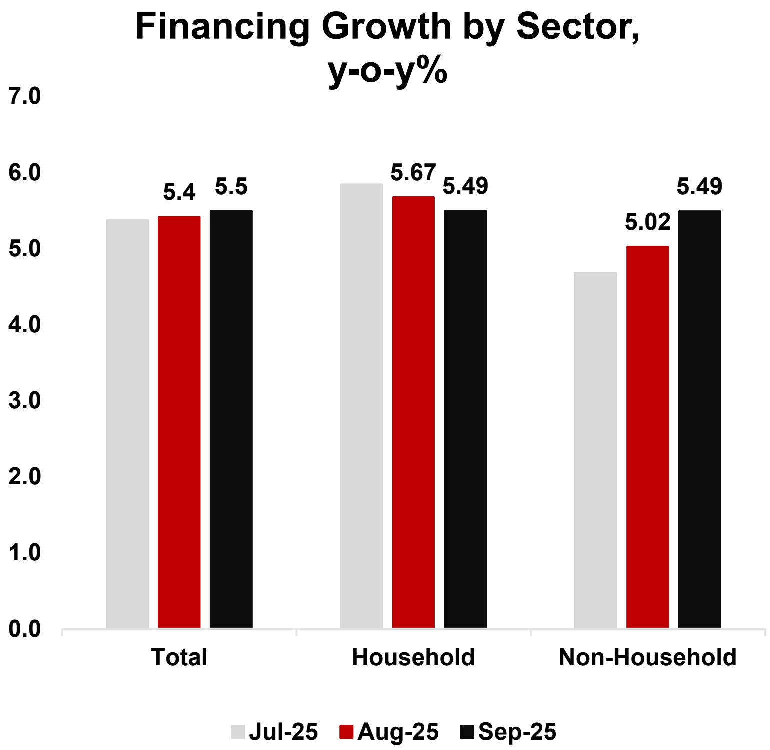


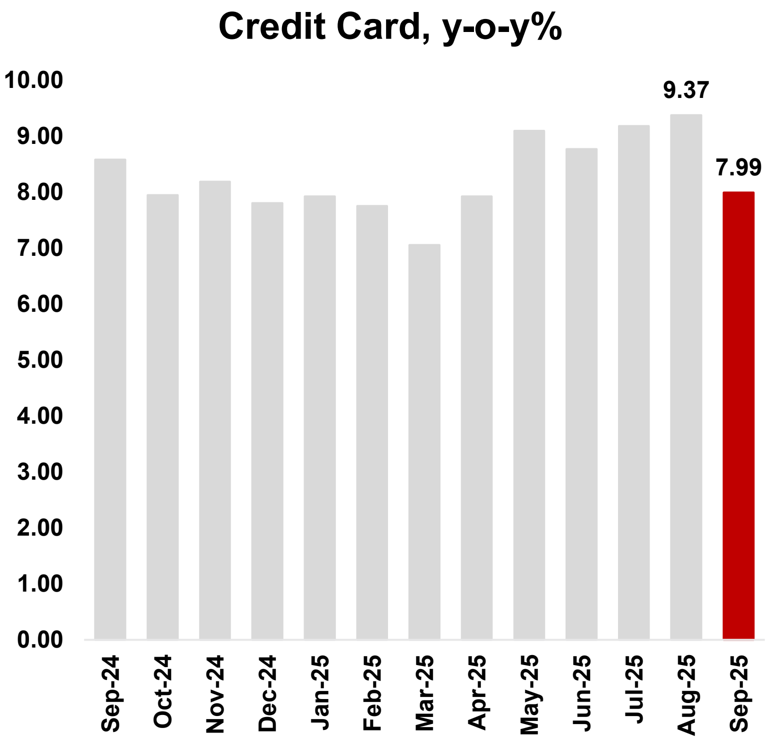


Sources: DOSM, CEIC Data

- Malaysia's exports expanded by 12.2% y-o-y in September (August: 1.7%) as re-exports surged to a 4-year high (September: 46.1% vs. August: 22.6%) while domestic exports rebounded by 4.2% in the same month (August: -2.8%), signaling recovering business confidence and higher external demand amid greater policy certainty following the finalisation of 19% U.S. tariffs on most Malaysian goods.
- On a sectoral basis, Mining exports (September: 4.3% vs. August: -4.4%) saw a sharp revival after 13 months of declines while the Agriculture (September: 6.5% vs. August: 4.4%) and Manufacturing (September: 12.5% vs. August: 1.5%) sectors sustained their robust momentums.
- Meanwhile, headline inflation rose to a 7-month high of 1.5% y-o-y in September (August: 1.3%) amid pass-through effects from the Sales and Services Tax (SST) reform in July while core inflation climbed by 2.1% (August: 2.0%), marking the highest level since October 2023.
- Looking closer, prices for Food & Beverages (September: 2.1% vs. August: 2.0%), Personal Care, Social Protection & Miscellaneous Goods & Services (September: 4.8% vs. August: 4.0%), Health (September: 1.3% vs. August: 1.1%) and Transport (September: 0.7% vs. August: 0.2%) groups recorded increases.
- On the producers' front, the Producer Price Index (PPI) recorded a smaller decline of 0.8% (August: -2.8%).
- In particular, the domestic water tariff adjustments had pushed Housing, Water, Electricity, Gas & Other Fuels inflation higher (September: 1.5% vs. August: 1.2%) while the Water Supply PPI jumped by 9.1% (August: 3.4%).

BANKING SECTOR: NON-HOUSEHOLD FINANCING OFFSETS HOUSEHOLD FINANCING SLOWDOWN

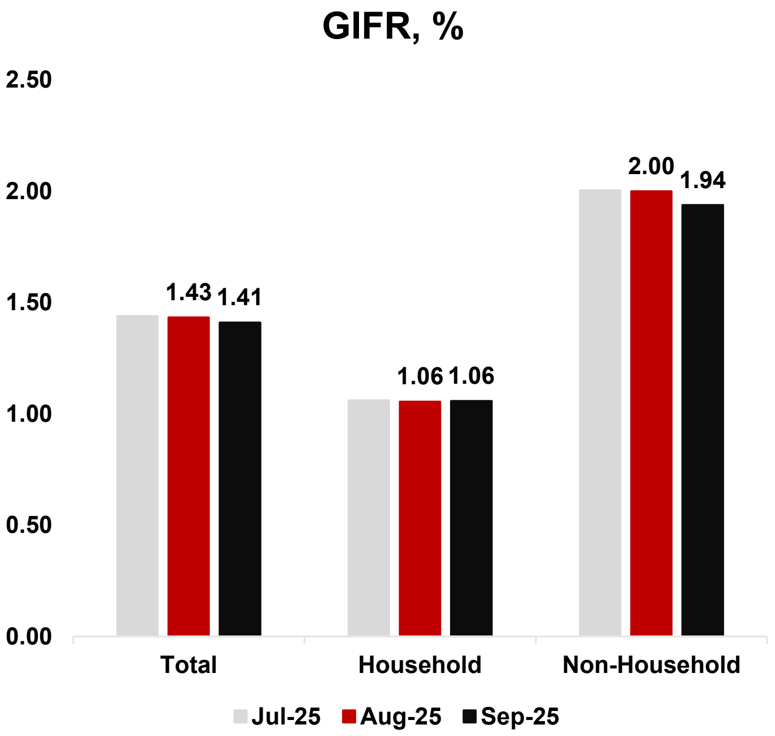


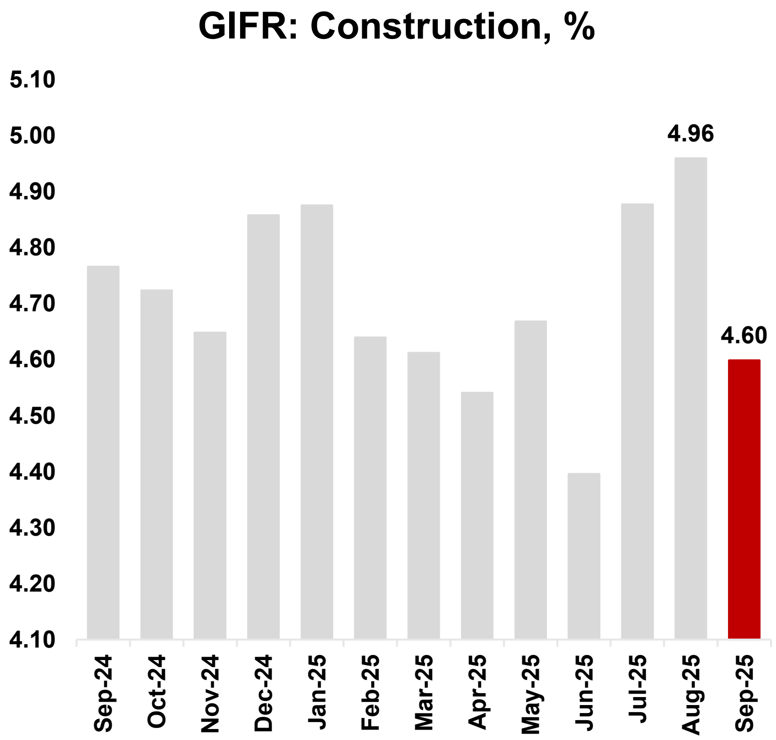


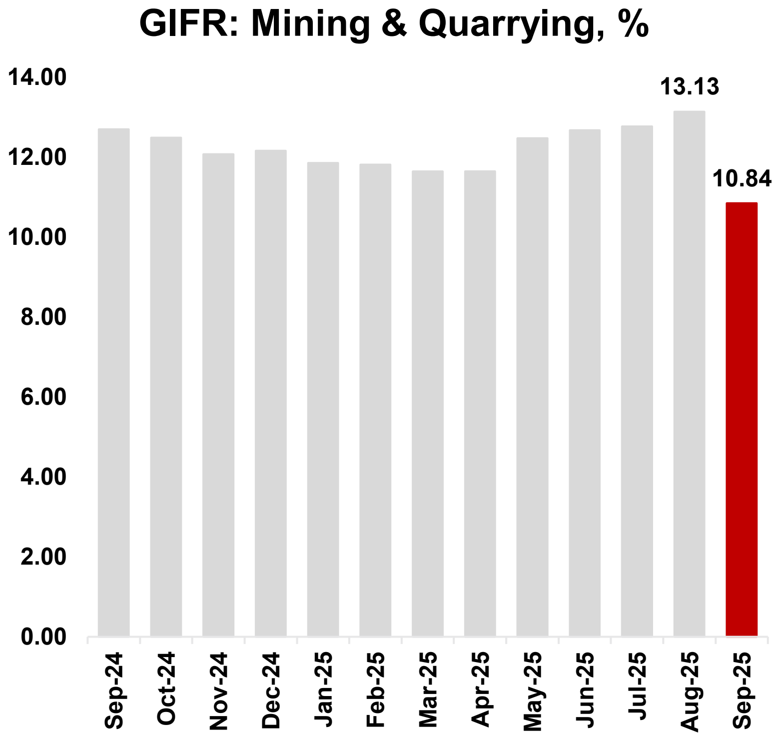
Source: BNM

- Total financing growth edged up marginally to 5.5% in September (August: 5.4%), supported by higher financing in the non-household segment. Financing for the non-household sector rose to 5.49% (August: 5.02%), offsetting the moderation in household financing (5.49%; August:5.67%).
- By purpose, financing for the purchase of residential property moderated further to 6.08% in September (August: 6.19%), while passenger car financing growth inched down to 6.70% (August: 6.89%). The downtrend in both segments indicates slower demand amid a high cost-of-living environment and weaker consumer sentiment, despite a stable interest rate environment.
- Meanwhile, credit card financing growth moderated in September, easing to 7.99% from 9.37% in August. This suggests that credit card demand is stabilizing after a period of strong expansion, reflecting heightened consumer caution in discretionary spending.

BANKING SECTOR: DECLINE IN IMPAIRED FINANCING REFLECTS STRONGER FINANCIAL RESILIENCE







Source: BNM

- The total gross impaired financing ratio (GIFR) in the banking sector edged slightly lower to 1.41% in September from 1.43% in August, reflecting a marginal improvement in overall asset quality during the month.
- The GIFR for the household segment remained unchanged at 1.06% in September, while the non-household segment declined to 1.94% from 2.00% in August.
- By sector, impairment levels in the construction and mining sectors fell in September after trending upwards previously. The GIFR for the construction and mining sectors dropped to 4.60% (August: 4.96%) and 10.84% (August: 13.13%), respectively. These lower rates suggest that businesses in these industries are demonstrating better financial resilience.

THANK YOU