



MONTHLY ECONOMIC UPDATE

2 OCTOBER 2025

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- The U.S. Federal Reserve (The Fed) cut its benchmark interest rate by 25 basis points at its September meeting.** As widely expected, the Fed reduced the federal funds rate by a quarter point to a target range of 4.00%-4.25%, marking its first cut of the year. This decision came amid growing signs of weakening labor market and slowing economic momentum, even though inflation remains above the Fed's 2.0% target. Fed Chair Jerome Powell emphasized that the central bank is trying to strike a balance between supporting the economy and keeping price pressures in check. While the Fed's updated projections hinted at further rate cuts in the remaining two meetings of the year, Powell clarified that future decisions would depend heavily on incoming data, especially on inflation, employment and consumer demand. Investors will closely watch upcoming economic indicators, especially labor market figures and inflation data, together with remarks from Fed officials for any signals on the future path of monetary policy. On the downside, a potential U.S. government shutdown may delay the release of the upcoming jobs report on Friday, which could leave the Fed without timely data to guide its policy decisions.
- Bank of England (BoE) and the Bank of Japan (BoJ) kept their policy rates unchanged at 4.00% and 0.5%, respectively in September meeting.** The UK economy showed weaker momentum, with 2Q2025 GDP growth easing to 0.3% q-o-q and industrial activity contracting amid subdued business confidence. Inflation remained elevated at 3.8% y-o-y, driven by higher fuel and service costs, though core inflation edged down to 3.6%. In Japan, headline inflation moderated to 2.7% y-o-y, the lowest since October 2024 largely due to falling energy prices, while core inflation held steady at 2.7%. Despite easing price pressures, the BoJ maintained its cautious stance as domestic demand weakened, with retail sales plunging 1.1% y-o-y and industrial production falling further. Both central banks signaled a data-dependent approach moving forward amid diverging inflation dynamics and slowing growth.
- The full implementation of the Sumbangan Asas Rahmah (SARA) Program in September, along with the Budi Madani RON95 (BUDI95) aims to support the domestic economy.** The full rollout of the SARA program in September is expected to provide support to the Malaysian economy, particularly by boosting consumer spending and retail sales through rising disposable income. This program encourages spending within the domestic market by supporting local retailers and small and medium enterprises (SMEs). Through the injection of demand, it could help the businesses to sustain. Coupled with the implementation of BUDI95 at the end of September, households will benefit from lower transportation costs and further strengthening their purchasing power. Hence, it will reinforce the positive effect on retail consumption. Overall, the combined effect of these initiatives can stimulate overall economic activity by increasing demand across various sectors. By offsetting some cost-of-living pressures, both programs may help stabilize consumer spending patterns, aiding inflation control efforts. As the government's earlier plan to remove the RON95 subsidy is not come into effect in 4Q2025, we have revised downwards our headline inflation forecast for the year to 1.5% from 2.0%.

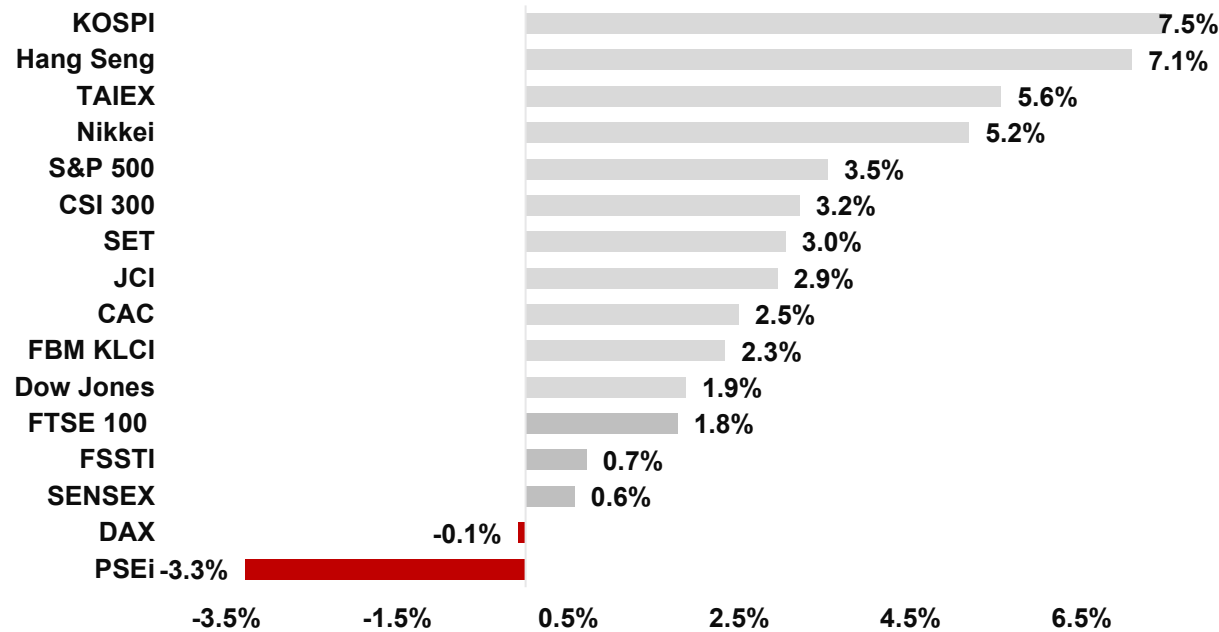


SECTION 1

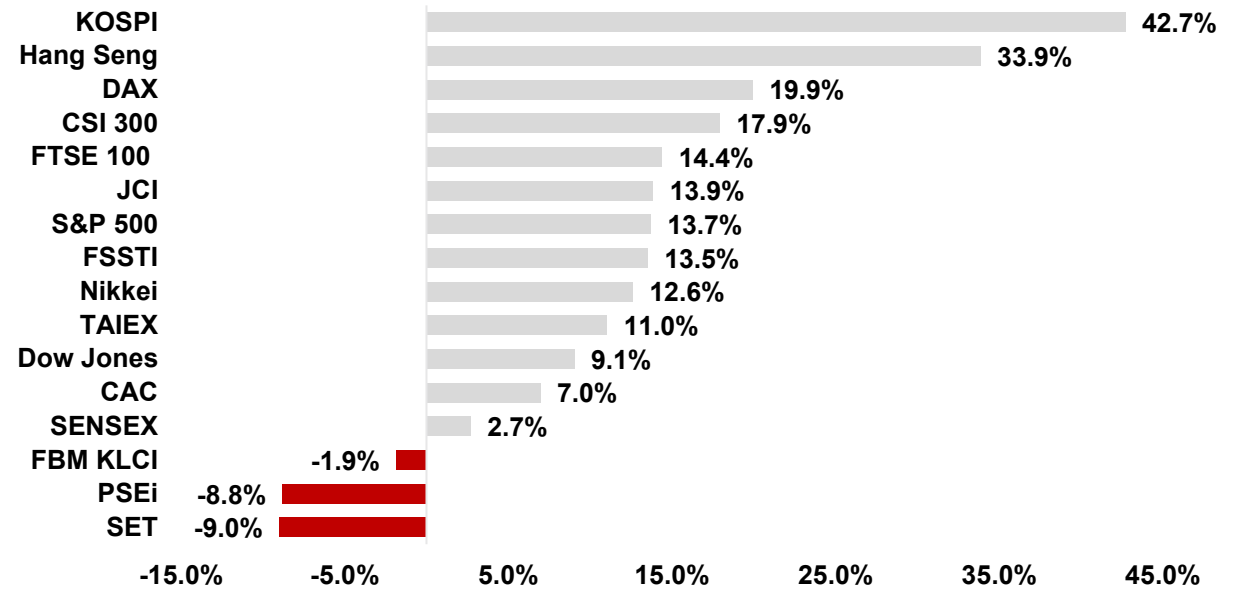
Malaysia's Financial Market

REGIONAL EQUITY: GLOBAL EQUITY MARKETS ENDED IN A SEA OF GREEN AMID UPBEAT INVESTOR SENTIMENTS

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



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

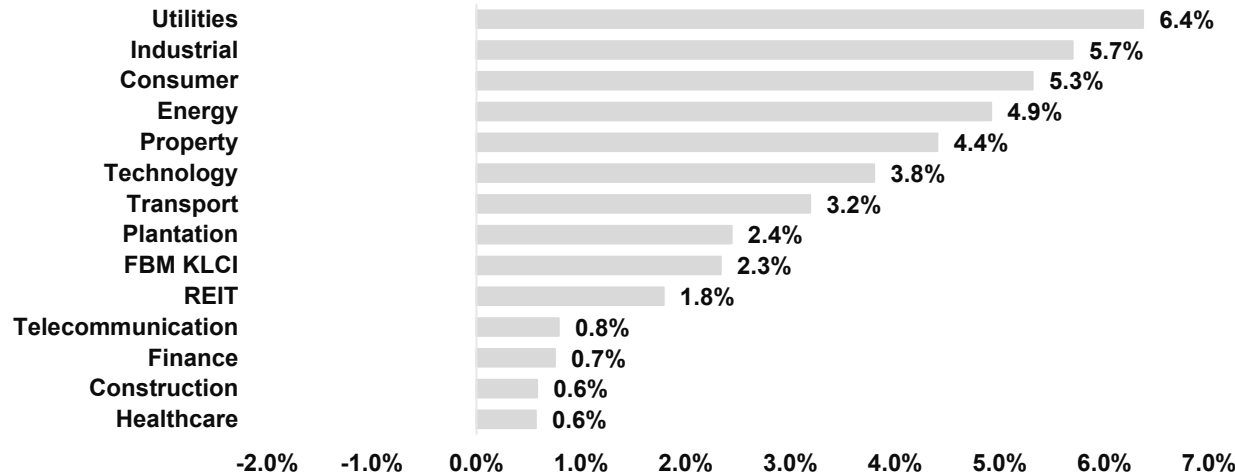


Sources: Bursa, CEIC data

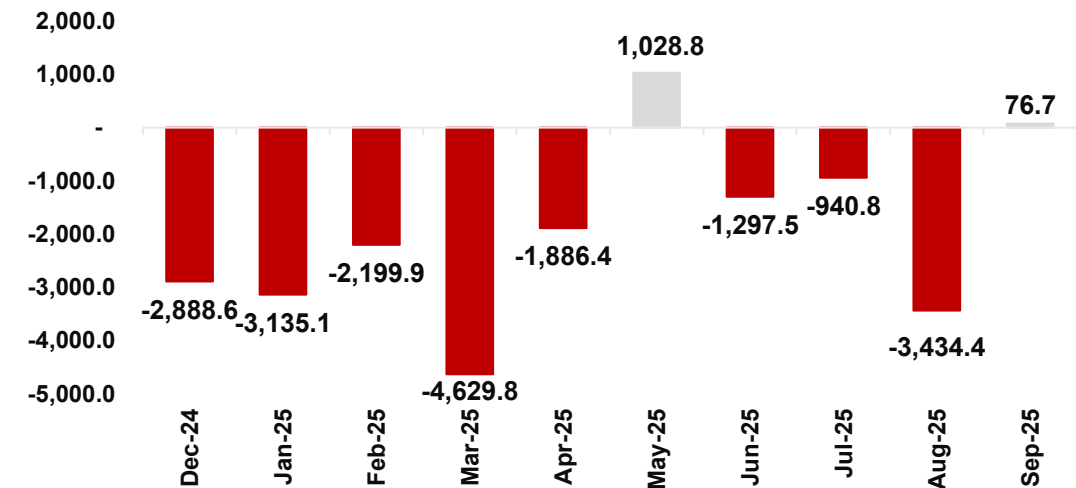
- Global equity markets mostly advanced in September, with South Korea's KOSPI leading the gains, surging 7.5% after President Lee Jae-Myung announced the suspension of a planned capital gains tax revision. The proposal, which sought to lower the tax threshold from 5 billion won to 1 billion won, had raised concerns about dampening investor sentiment and prompting capital outflows. The policy reversal boosted confidence and propelled the KOSPI's year-to-date gains to an impressive 42.7%.
- Hong Kong's Hang Seng index followed closely as it soared by 7.1%, propelled by China's National Development and Reform Commission (NDRC) announcement of CNY500 billion in support for the artificial intelligence (AI) initiative.
- Investor sentiments were also largely lifted amid the Fed's policy easing in the U.S., prompting investors to seek riskier assets in global equity markets.
- On the flip side, Philippines' PSEi (-3.3%) and Germany's DAX (-0.1%) were the only losers for September.

DOMESTIC EQUITY: FBM KLCI GAINS MOMENTUM IN SEPTEMBER AMID U.S. FED RATE CUT AND DOMESTIC STIMULUS MEASURES

Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



Sources: DOSM, CEIC Data

- The FBM KLCI rose by 2.3% m-o-m in September, closing at 1,611.88, which was nearly half the growth rate recorded in August (4.1% m-o-m). The positive gain was mainly attributed to the 25-bps cut in the federal fund rate in mid-September, alongside growing optimism that the U.S. Federal Reserve would continue reducing its benchmark interest rates in the remaining Federal Open Market Committee (FOMC) meetings this year. This move boosted sentiment in the emerging markets, including Malaysia.
- Furthermore, the government's approach to rationalizing the RON95 subsidy through the Budi Madani RON95 (BUDI95) program, the full rollout of SARA program with cash assistance of RM100, and optimistic expectations ahead of the Budget 2026 tabling on October 10, collectively helped lift positive market sentiment during the month.
- All Bursa indices closed in the green, led by the Utilities index with a 6.4% surge, followed by the Industrial (+5.7%) and Consumer (+5.3%) indices. Meanwhile, the Healthcare and Construction indices rose only marginally by 0.6% m-o-m, followed by Finance at 0.7% m-o-m.
- Foreign investors turned net buyers in September, acquiring a total of RM0.08 billion worth of equities after three consecutive months of net selling. This reduced the cumulative net outflow to RM16.4 billion.

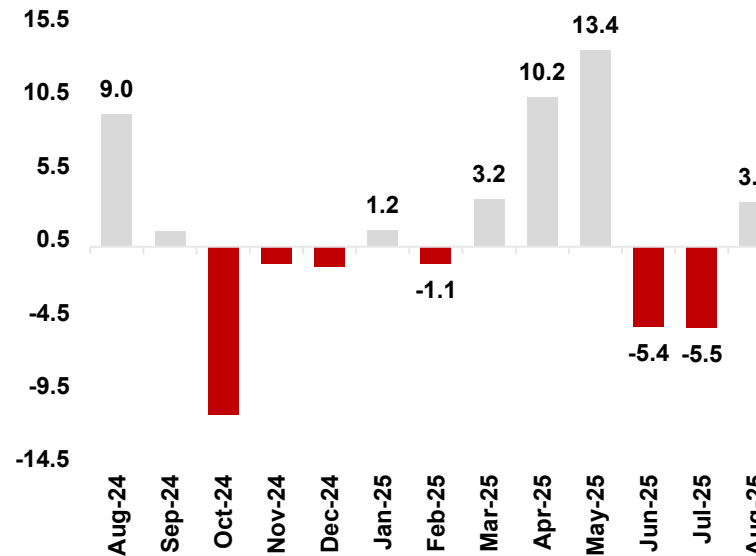
FIXED INCOME: UST YIELDS RISE AMID STRONG ECONOMIC DATA AND US GOVERNMENT SHUTDOWN CONCERNS

Monthly changes, basis points (bps)			
UST	Yields (%) 29-Aug-25	Yields (%) 30-Sep-25	Change (bps)
3-Y UST	3.58	3.61	3
5-Y UST	3.68	3.74	6
7-Y UST	3.92	3.93	1
10-Y UST	4.23	4.16	-7
MGS	Yields (%) 29-Aug-25	Yields (%) 30-Sep-25	Change (bps)
3-Y MGS	2.99	3.12	13
5-Y MGS	3.08	3.22	14
7-Y MGS	3.29	3.42	13
10-Y MGS	3.39	3.46	7
GII	Yields (%) 29-Aug-25	Yields (%) 30-Sep-25	Change (bps)
3-Y GII	3.03	3.15	12
5-Y GII	3.13	3.25	12
7-Y GII	3.25	3.36	11
10-Y GII	3.42	3.49	7

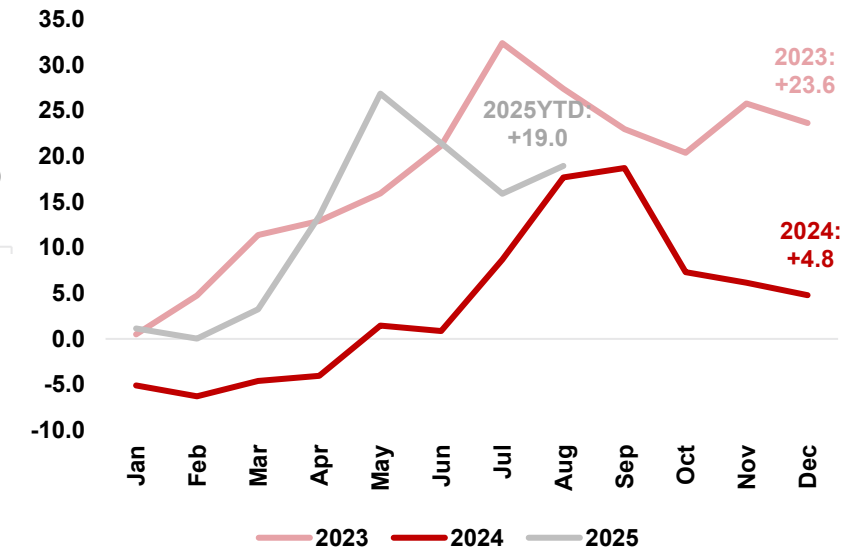
Sources: BNM, Federal Reserve Board

- In September, most U.S. Treasury (UST) yields closed higher, rising between 1bps and 6bps, except for the 10-Y UST yield, which dipped by 7bps to end at 4.16%. The strong personal income, spending, and labour market data reduced expectations for aggressive Fed rate cuts, while persistent inflation kept rates elevated. Additionally, concerns over a potential U.S. government shutdown created uncertainty, causing investors to reassess risk and demand higher yields as compensation.
- Meanwhile, all Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields surged between 7bps and 14bps during the month.
- Foreign fund flows in the local bond market registered a net foreign inflow of RM3.0 billion in August, following two consecutive months of net selling. Local govovies' foreign shareholdings to total outstanding remained steady at 22.1% for two straight months.
- As of the first eight months of 2025, the local bond market recorded the cumulative net foreign inflows of RM19.0 billion, surpassing the RM17.7 billion inflows recorded during the same period last year.

Foreign Fund Flows in Local Bond Market, RM Billion

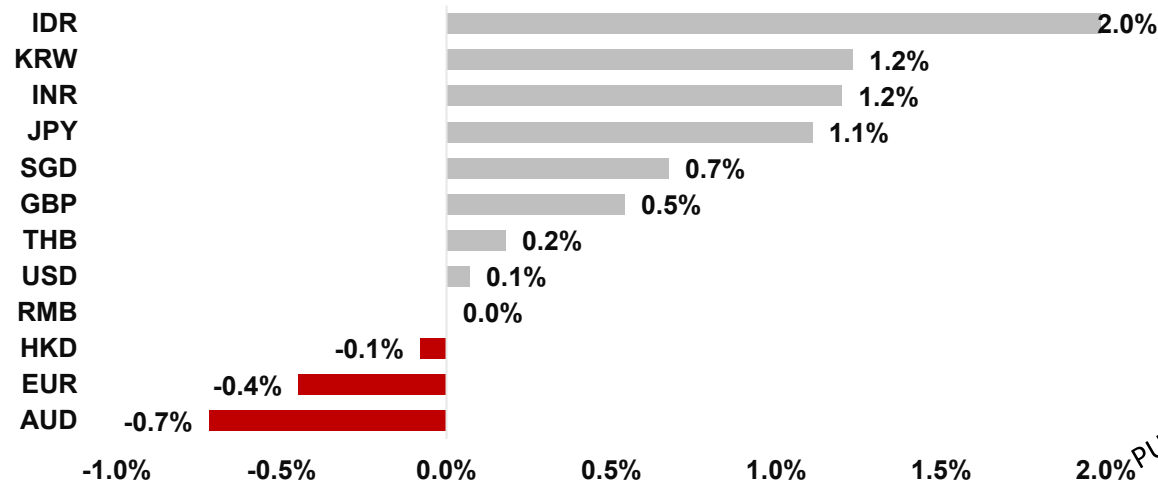


Cumulative Net Foreign Flows in Local Bonds (Yearly Comparison, RM Billion)

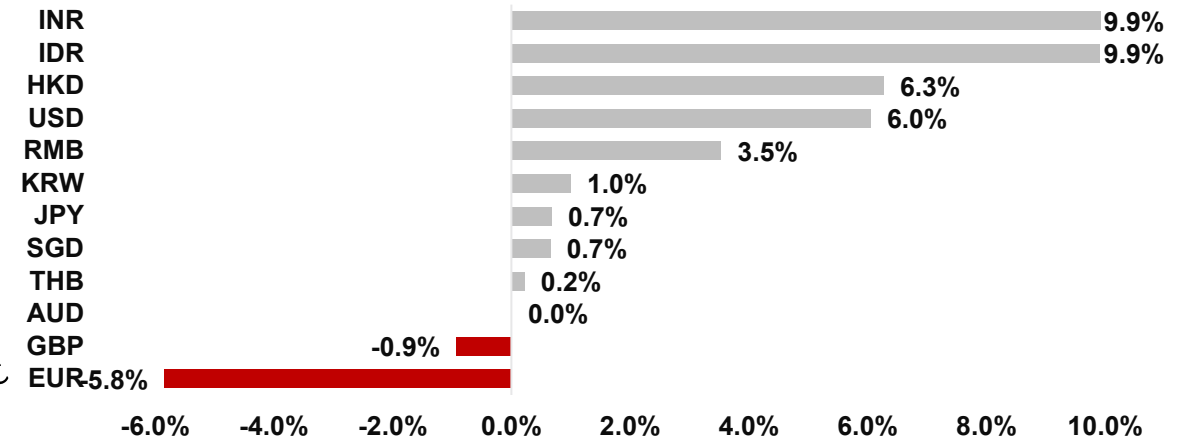


FX MARKET: RINGGIT CLOSED THE MONTH ON A POSITIVE NOTE WHILE THE USD DIPPED FOLLOWING 25BP FED RATE CUT

MYR Against Regional Currencies, m-o-m%



MYR Against Regional Currencies, YTD%
(As of 30 September 2025)



Sources: Bank Negara Malaysia(BNM), CEIC Data

- The Ringgit appreciated by 0.1% m-o-m against the USD for the month ending September 30 as the USD index slipped at the same pace, trending around the 96.60-98.55 range during the month.
- The USD remained under pressure in the run up to the Fed's meeting as markets had fully priced in the probability of a 25 bp cut, taking hints from Fed Chair Powell's previous statement who hinted that the central bank is ready to adjust its policy stance.
- Furthermore, the precarious balance of risks had been tipped over when the U.S. job market was seen to cool much faster than anticipated against a backdrop of gradually increasing price pressures, solidifying the case for a more supportive policy environment.
- Looking ahead, the Fed signaled a shift towards a more dovish stance in its median dot plot projections, foreseeing another 50 bp reduction in 2025, up from just one quarter-point cut projected in June, as well as one 25 bp cut in 2026 and 2027 each.
- Be that as it may, fears of a rapid economic slowdown were tempered by the stronger than expected 2Q2025 growth, suggesting that the weak job market is exerting less drag on activity than feared and causing markets to reassess the broader trajectory of the Fed's policy path.
- On another note, the USD was also dragged by jitters of a U.S. government shutdown following stalled negotiations over healthcare funding and the federal budget in Congress.



SECTION 2

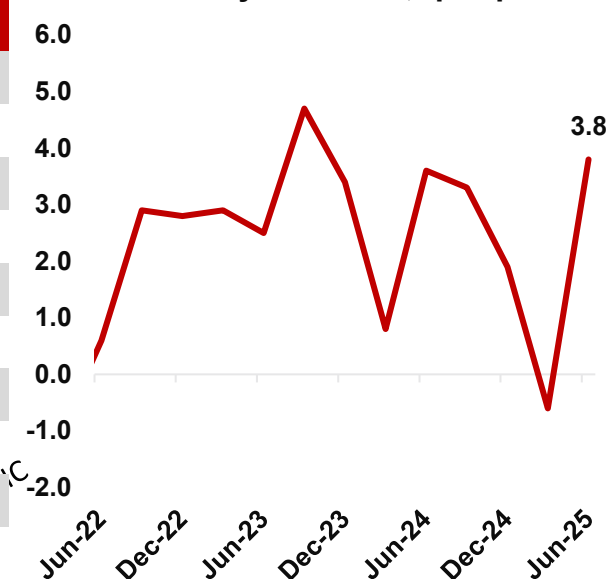
The Global Economy

U.S. FED DELIVERED ITS FIRST RATE CUT THIS YEAR AS SHIFTING BALANCE OF RISKS WEIGHED ON THE JOB MARKET

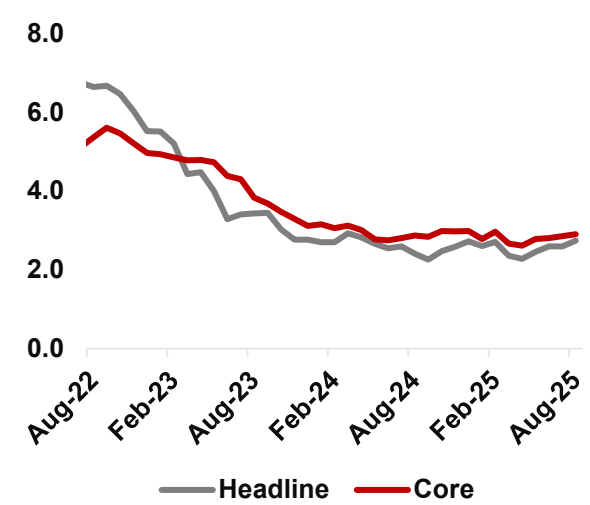
Fed's Summary of Economic Projections - Median Projection

	2025	2026	2027	2028	Long Run
Change in real GDP (Sep Forecast)	1.6	1.8	1.9	1.8	1.8
June Projections	1.4	1.6	1.8		1.8
Unemployment Rate (Sep Forecast)	4.5	4.4	4.3	4.2	4.2
June Projections	4.5	4.5	4.4		4.2
PCE Inflation (Sep Forecast)	3.1	2.6	2.1	2.0	2.0
June Projections	3.0	2.4	2.1		2.0
Core PCE Inflation (Sep Forecast)	3.1	2.6	2.1	2.0	-
June Projections	3.1	2.4	2.1		-
Federal Funds Rate (Sep Forecast)	3.6	3.4	3.1	3.1	3.0
June Projections	3.9	3.6	3.4		3.0

Quarterly Real GDP, q-o-q%



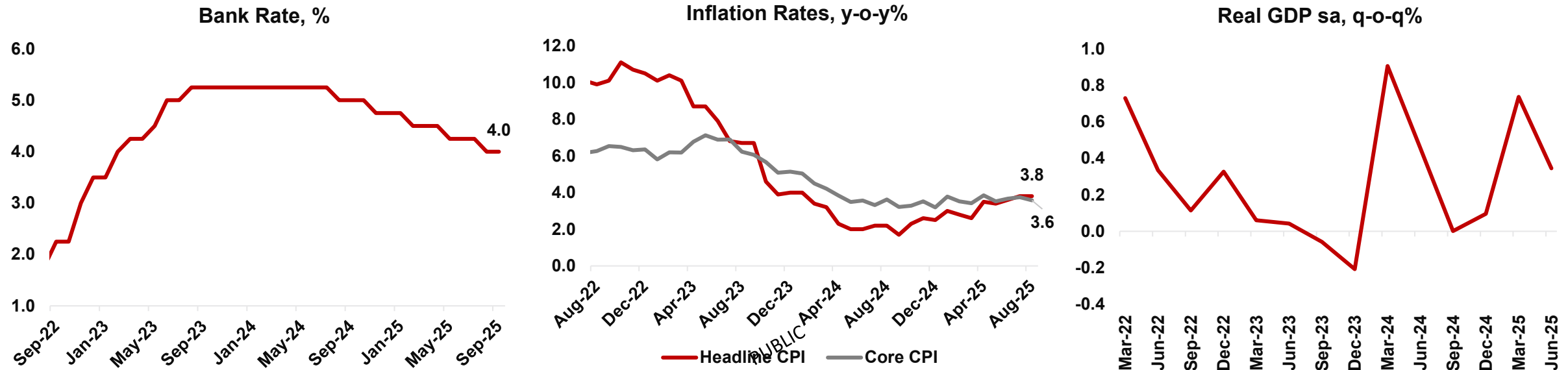
Personal Consumption Expenditure (PCE) Price Index, y-o-y%



Sources: U.S. Federal Reserve Board, Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), CEIC

- Despite markets already bracing for a weaker job market report, they were blindsided once more when the latest Nonfarm Payrolls (NFP) figures increased by only 22K in August (July: 79K), well below expectations of 75K, while private businesses added 38K jobs (Est: 75K). This suggested that the job market is cooling much faster than anticipated, thus solidifying the case for the Fed to deliver a rate cut in September.
- Additionally, BLS's preliminary benchmark revision revealed that the economy added 911K lesser jobs in the 12 months to March than initially reported (Act: 847K, Est: 1.76 million), underscoring a far softer job market momentum prior to Trump's protectionist policies.
- Furthermore, the central bank had greater flexibility to navigate its policy path as tariff-driven price pressures appeared to be less pronounced than expected. As such, the Fed slashed its benchmark interest rate by 25 bp to the 4.00-4.25% range, citing mounting risks to employment. The accompanying median dot plot projections pointed towards another half-point reduction in 2025, potentially with a 25 bp each in October and December.
- Nevertheless, stronger than expected GDP growth (3rd Est: 3.8%, 2nd Est: 3.3%) casted some doubt over the need for an aggressive pace of Fed rate cuts, causing markets to recalibrate their policy expectations moving forward.

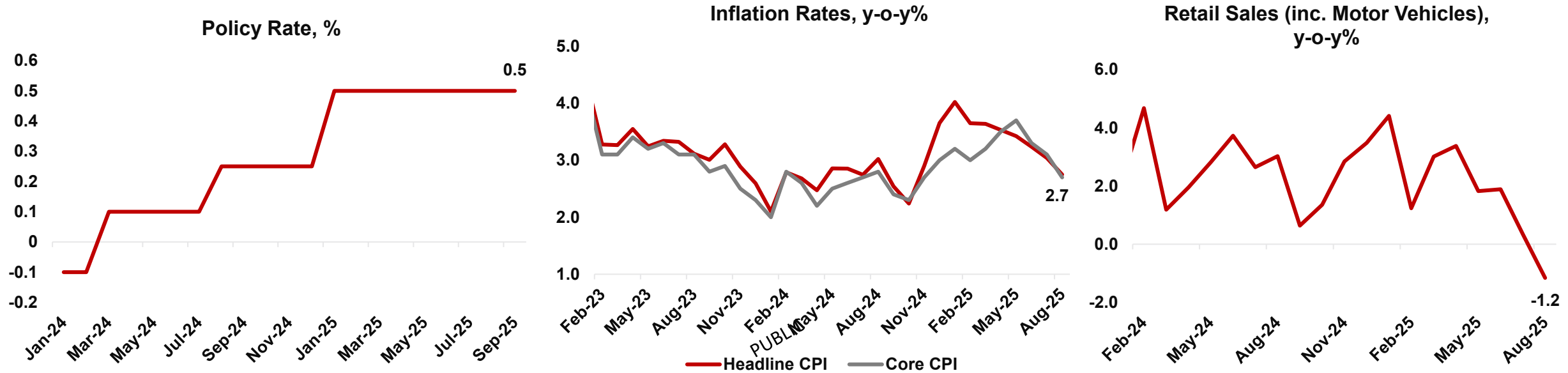
THE BANK OF ENGLAND STRIKED A CAREFUL NOTE AMID ELEVATED INFLATION AND SLOWING PRODUCTION



Sources: Office for National Statistics (ONS), Bank of England (BOE), CEIC Data

- The Bank of England (BOE) maintained its bank rate unchanged at 4.00% during its meeting this month, highlighting upside risks to inflation while also noting the warning signs of a cooling labour market and slowing growth.
- Latest figures showed that the economy expanded by 0.3% q-o-q in 2Q2025 (1Q2025: 0.7% q-o-q), amid a softer increase in the services sector (2Q2025: 0.4% vs 1Q2025: 0.7%) and a contraction in the production sector (2Q2025: -0.8% vs. 1Q2025: 0.6%).
- While the decline in production could be attributed to weaker external demand, due to the UK-U.S. reciprocal trade deal only being finalised in June, factory activities failed to generate momentum moving into 2H2025 as business and consumer confidence remained subdued. July's Industrial Production Index (IPI) grew by a marginal 0.1% y-o-y (June: 0.2% y-o-y), missing consensus estimates of an expansion (Est: 1.1% y-o-y), while on a monthly basis, it contracted sharply by 0.9% (June: 0.7%).
- Nonetheless, UK's headline inflation remained persistent when it increased by 3.8% y-o-y in August, as recorded in July, amid rising fuel, restaurant and accommodation costs. On the flip side, core inflation rose at a slightly slower pace by 3.6% y-o-y compared to 3.8% y-o-y in July, in line with consensus estimates.

BANK OF JAPAN (BOJ) STRESSED CAUTIOUS, DATA-DEPENDENT APPROACH AS DOWNSIDE RISKS LOOMED OVER THE GROWTH OUTLOOK



Sources: Bank of Japan (BOJ), Ministry of Trade, Economy and Industry, CEIC Data

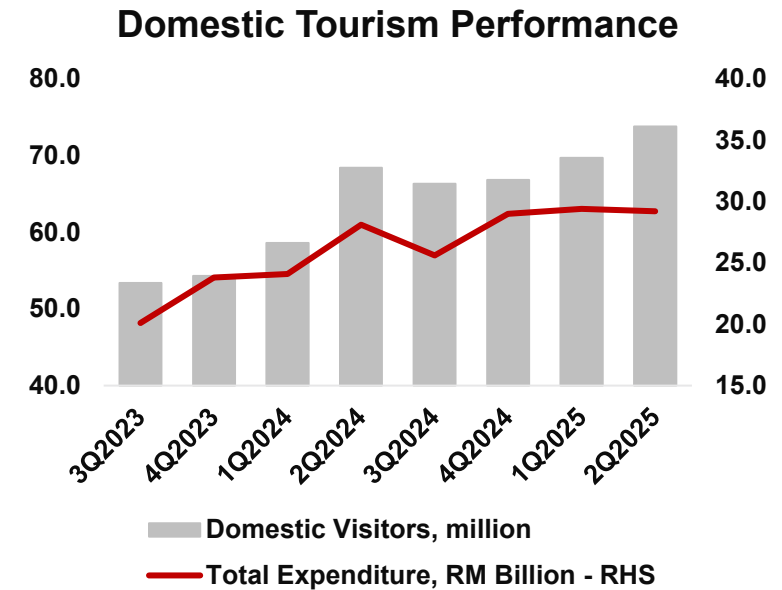
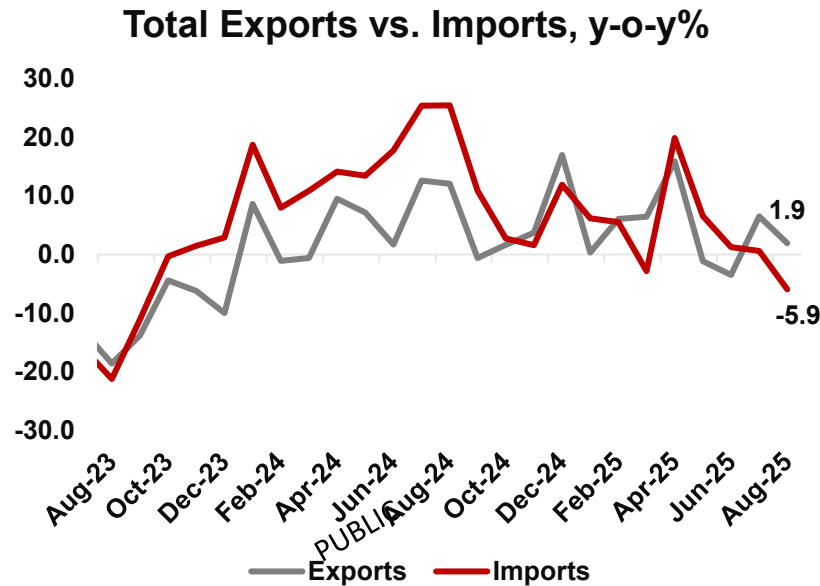
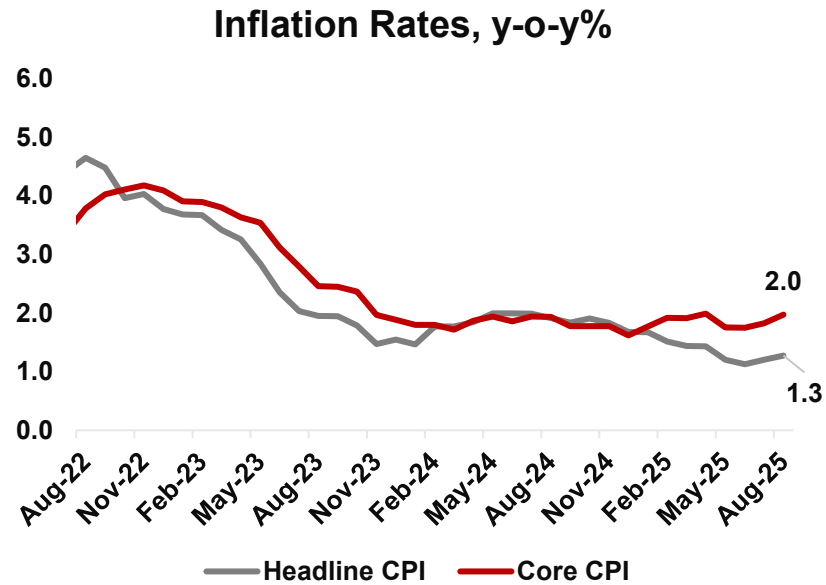
- Japan's headline inflation moderated to 2.7% y-o-y in August from 3.1% y-o-y in July, marking the lowest level since October 2024, amid sharp declines in electricity (August: -7.0% vs. July: -0.7%) and gas (August: -2.7% vs. July: 0%) prices.
- On the flip side, core inflation remained steady at a nine-month low of 2.7% y-o-y. The disinflationary trend suggested that the current monetary policy level remains sufficiently restrictive in curbing hotter price pressures, offering the BOJ greater flexibility in navigating its policy path.
- In line with market expectations, the central bank maintained its policy rate at 0.5% in September and noted risks to Japan's political outlook as well as potential downsides from U.S. tariffs, suggesting a cautious data-dependent approach moving forward while the overall tightening trajectory remains intact.
- This view is further supported by latest downbeat economic data whereby retail sales plummeted by 1.1% y-o-y in August (July: 0.4%), well below estimates of a 1.0% growth. This marked the steepest contraction in four years as elevated price pressures, subdued wage growth and unfavourable weather eroded consumer demand.
- On the factory front, slowing demand and prolonged trade volatility had weighed on production activities with the preliminary Industrial Production Index (IPI) recording a sharper downturn in August (-1.3% vs. July: -0.4%).



SECTION 3

Domestic Landscape & Banking Sector Update

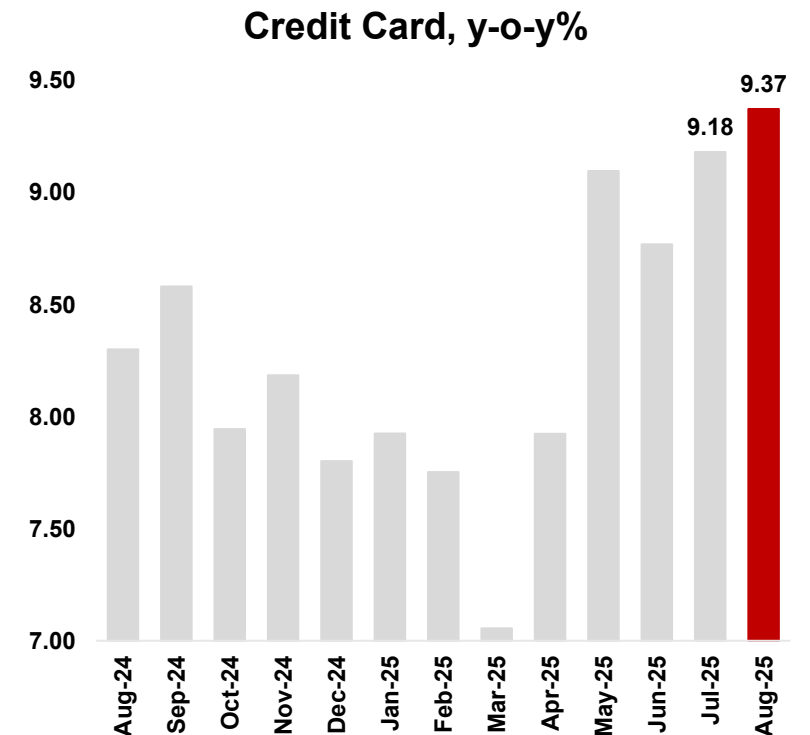
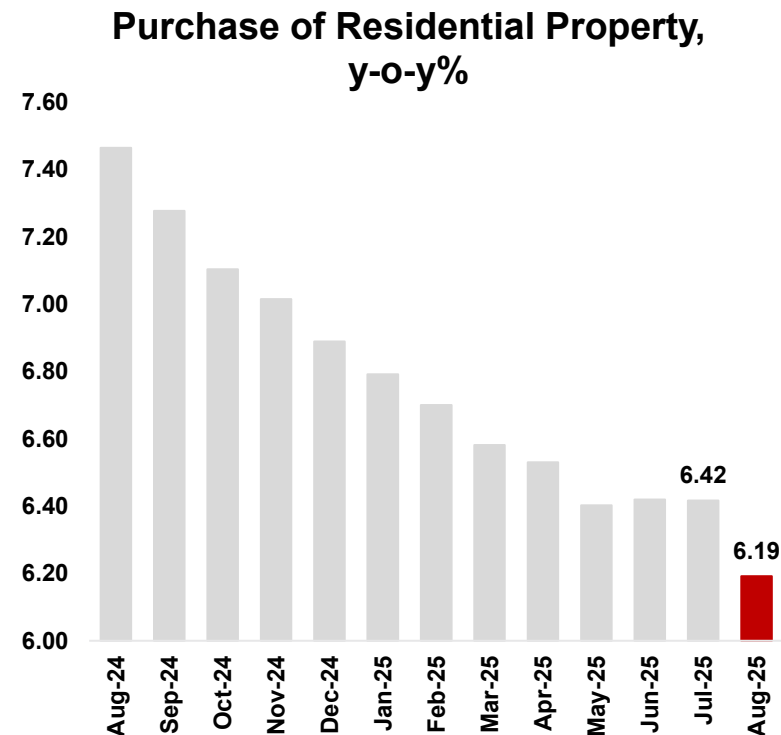
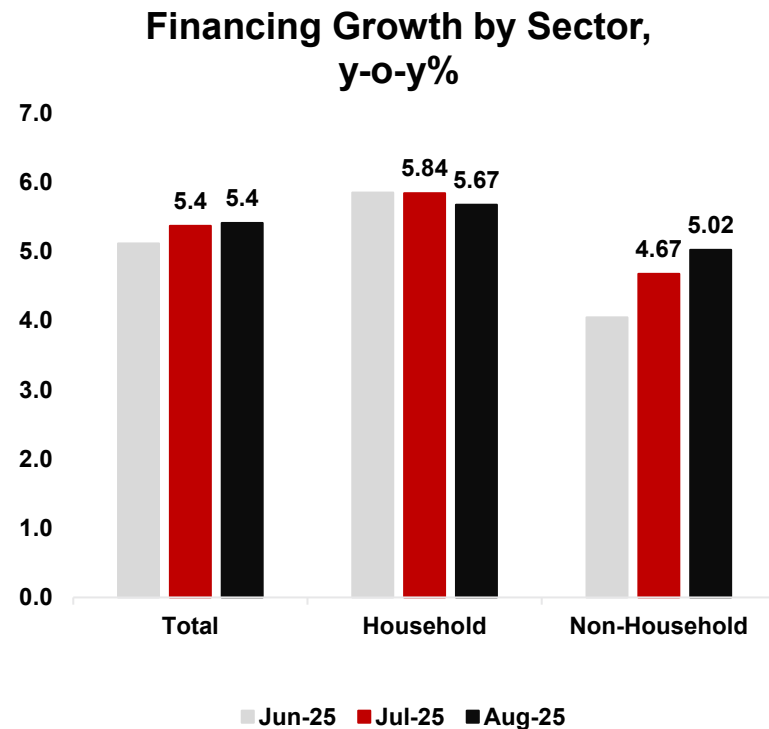
HEADLINE INFLATION MARKED FOUR-MONTH HIGH, BUDI95 PROGRAMME TO EASE MALAYSIANS' TRANSPORTATION EXPENSES



Sources: DOSM, CEIC Data

- Malaysia's headline inflation edged up by 1.3% y-o-y in August (July: 1.2% y-o-y), in line with expectations, while core inflation increased by 2.0% (July: 1.8%). The trend underscored rising price pressures following the 1st July Sales and Service Tax (SST) expansion, evidenced by accelerations across the Restaurant & Accommodation Services (August: 3.5% vs. July: 3.1%), Insurance & Financial Services (August: 5.6% vs. July: 5.5%), Personal Care, Social Protection & Miscellaneous Goods & Services (August: 4.0% vs. July: 3.9%), and Food & Beverages (August: 2.0% vs. July: 1.9%) categories, although the impact on broader inflation will remain limited and temporary.
- Furthermore, the recently implemented Budi Madani RON95 programme, which lowered RON95 pump price to RM1.99 from RM2.05 per litre previously, is expected to ease households' transport expenses and keep inflation contained.
- On the trade front, exports grew at a slower pace of 1.9% y-o-y in August against 6.8% y-o-y in July while imports declined sharply by 5.9% y-o-y (July: +0.6%) y-o-y in July, suggesting both external and domestic demand slowing down.
- Nonetheless, domestic tourism displayed sustained robust momentum with number of visitors surging by 7.8% y-o-y in 2Q2025 to 73.8 million persons with total tourism expenditure expanding by 3.8% y-o-y to RM29.2 billion in the same quarter.

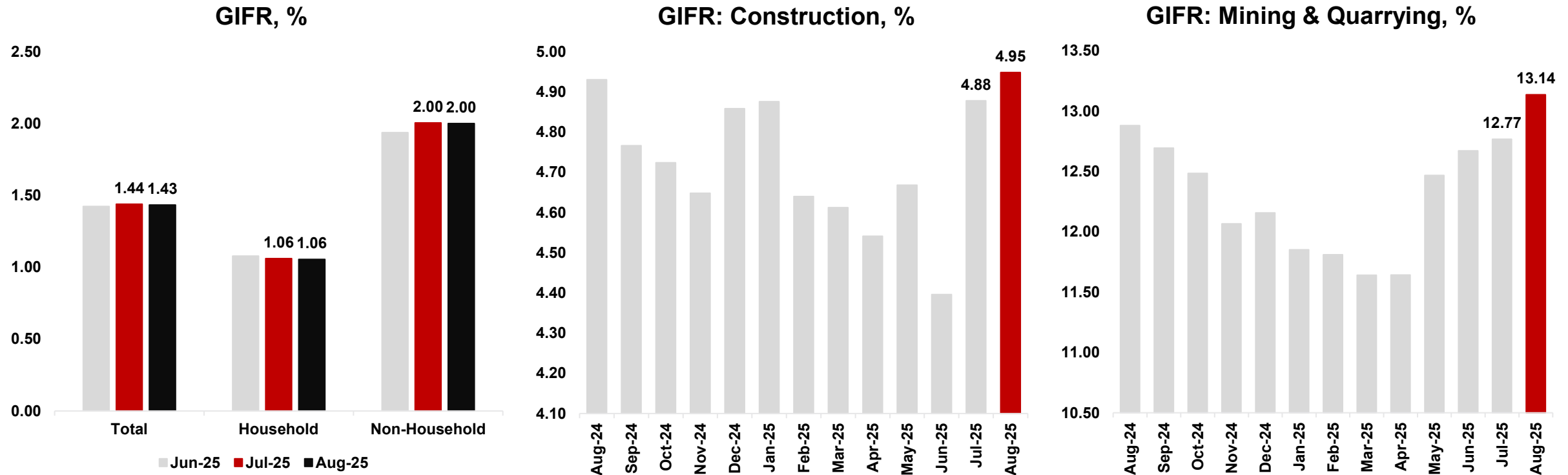
BANKING SECTOR: FINANCING GROWTH STAYS STABLE IN AUGUST



Source: BNM

- Total financing growth remained steady at 5.4% in August. While household financing growth ease to 5.67% (July: 5.84%), this was offset by a pickup in non-household financing, which rose from 4.67% in July to 5.02% in August 2025.
- By purpose, financing for the purchase of residential property continued to slow, registering a growth of 6.19% in August compared to 6.42% in July. This trend suggests softening demand for housing, likely driven by the high cost of living, which may be discouraging consumers from committing to big-ticket purchases such as home ownership. Meanwhile, financing growth for passenger cars edged down to 6.89% (July: 6.93%).
- In contrast, credit card financing growth continued to accelerate, rising from 9.18% in July to 9.37% in August, signaling a greater reliance on credit for purchases, potentially reflecting resilience in consumer spending despite economic pressures.

BANKING SECTOR: STABLE ASSET QUALITY IN AUGUST



Source: BNM

- The total gross impaired financing ratio (GIFR) in the banking sector inched down marginally from 1.44% in July to 1.43% in August, indicating only a slight improvement in overall asset quality during the month.
- The GIFR for both household and non-household segments sustained at 1.06% and 2.00%, respectively in August.
- On a sectoral basis, impairment levels for the construction and mining sectors continued to rise. The GIFR in the construction sector increased to 4.95% (July: 4.88%), while the mining sector saw a sharper jump to 13.14% (July: 12.77%). These increases point to elevated credit risks in these high-exposure industries, potentially due to delayed project execution or ongoing cash flow constraints.

BANK ISLAM

THANK YOU