midf RESEARCH

2 December 2024

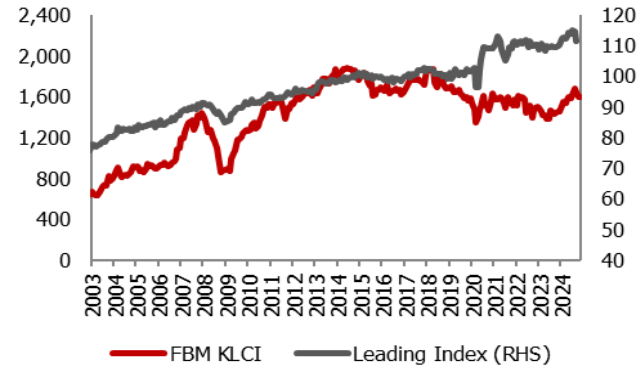
MONTHLY ECONOMIC REVIEW | November 2024

Growth Momentum to Remain Positive but Moderate in the Short Run

- *Moderate rise in LI in Sep-24. Malaysia's Leading Index (LI) increased +1.8%yoy to 111.5, a more moderate growth of +1.8%yoy in Sep-24, compared to +4.2%yoy in Aug-24. Albeit the modest growth, this marks the tenth consecutive month of expansion in LI mainly driven by a surge in the Bursa Malaysia Industrial Index.*
- *GDP growth remained robust albeit moderating to +5.3%yoy. Malaysia's GDP grew by +5.3%yoy in 3QCY24 (2QCY24: +5.9%yoy), reflecting a still robust above-5% growth attributable to vigorous investment activity, an uptick in exports and expansion of household spending.*
- *Exports returned to growth in Oct-24. Malaysia's exports rebounded and rose by +1.6%yoy in Oct-24, driven by stronger exports of E&E products, palm oil and rubber products.*
- *Malaysia's economic growth to grow at +5.0% in 2024. We maintain our projection that Malaysia's economy will expand faster at +5.0% (2023: +3.6%), underpinned by growing domestic spending and recovery in the external demand. At this point, we foresee growth will be at more normalised level next year.*

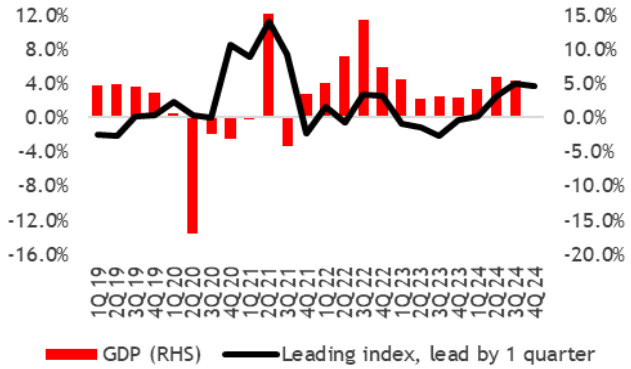
Moderate rise in LI in Sep-24. Malaysia's Leading Index (LI) increased +1.8%yoy to 111.5, a more moderate growth of +1.8%yoy in Sep-24, compared to +4.2%yoy in Aug-24. Albeit the modest growth, this marks the tenth consecutive month of annual expansion in LI mainly driven by a surge in the Bursa Malaysia Industrial Index (+30.4%yoy). In contrast, on a month-on-month basis, the LI recorded a sharper decline of -2.6%mom (Aug-24: -0.5%mom), primarily attributed to contraction in most components, except real money supply (M1) and Bursa Malaysia Industrial Index. The Coincident Index (CI) also registered slower growth at +1.3%yoy (Aug-24: +2.1%yoy), supported by increases across almost all components, except Real Salaries and Wages in Manufacturing which decreased by -0.6%yoy. On a monthly basis, the CI dropped by -0.7%mom due to decreases in Capacity Utilisation in the manufacturing sector, Industrial Production and Real EPF Contributions. The modest growth in the CI was in line with the slower growth in monthly GDP (Sep-24: +4.0%yoy; Aug-24: +4.7%yoy). Given the sustained rise in the LI, we expect Malaysia's economic outlook will remain positive for the near term, likely at a more normalised pace. We foresee stronger domestic consumption, robust business activities and steady recovery in external demand will continue to contribute towards sustained economic growth going forward.

Chart 1: Leading Index vs KLCI (Points)



Source: Macrobond, MIDFR

Chart 2: Leading Index* vs GDP (YoY%)



Source: Macrobond, MIDFR

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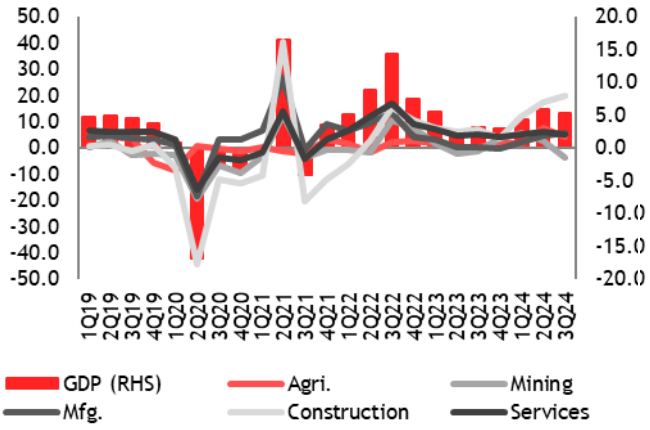
GDP growth remained robust, albeit moderating to +5.3%yoy. Malaysia's GDP grew by +5.3%yoy in 3QCY24 (2QCY24: +5.9%yoy), as widely anticipated. The growth performance aligned with both our projections and the advance estimate, reflecting a still robust above-5% growth trajectory. The robust growth can be attributed to several factors, notably vigorous investment activity, an uptick in exports and expansion of household spending. Private and public sector investments have been particularly strong, driven by ongoing multi-year projects outlined in national master plans, which have facilitated higher realization rates of approved investments. This momentum is expected to persist, bolstered by advancements in the semiconductor sector and the initiation of various construction projects slated for 2HCY24. On a seasonally adjusted basis, Malaysia's GDP increased by +1.8%qoq (2QCY24: +2.9%qoq), dragged down by -0.5%qoq contraction in private consumption but more than offset by the stronger growth in government spending (+5.1%qoq) and gross fixed capital formation (+5.7%qoq). From sector breakdown, the quarterly growth was driven by increased activities in all major economic sectors except the mining & quarrying industry, which fell further for the third straight quarter. We expect domestic spending and a recovery in exports will continue to support growth in the final quarter of 2024 and going into 2025.

Chart 3: Malaysia's Real GDP by Supply Side (YoY%)



Source: DOSM, MIDFR

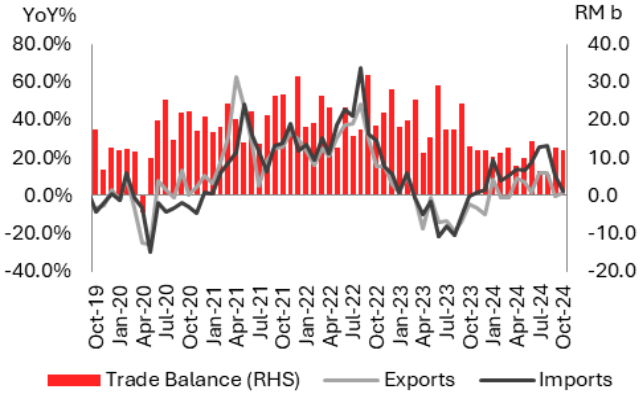
Chart 4: GDP vs. Private Sector (YoY%)



Source: Macrobond, MIDFR

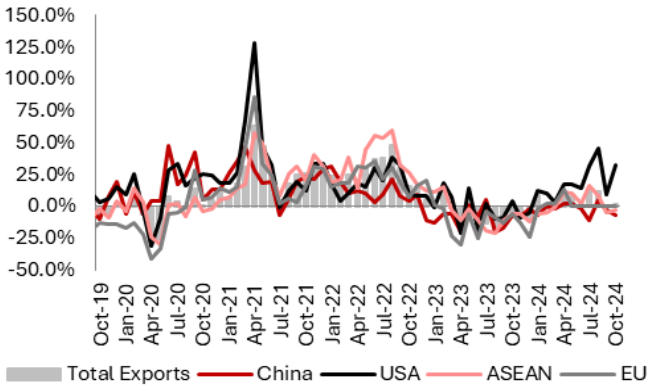
Exports returned back to growth in Oct-24. Malaysia's total trade growth decelerated further to +2.1%yoy, marking the slowest pace in 10 months. Trade surplus shrank to +RM12.0b (Sep-24: +RM12.8b) as due to relatively stronger rebound in imports (+4.8%mom) compared to exports (+3.7%mom). From year-on-year perspective, Malaysia's exports rebounded and rose by +1.6%yoy in Oct-24, slightly below ours and market expectations but driven by stronger exports of E&E products, palm oil and rubber products which more than offset the continued contractions in exports of crude petroleum and petroleum products. On another note, the export growth in Oct-24 was underpinned by sustained rise in domestic exports (+3.1%yoy; Sep-24: +3.3%yoy), while re-exports remained a downward drag albeit falling at slower pace in Oct-24 (-3.5%yoy; Sep-24: -14.4%yoy). Meanwhile, import growth moderated to +2.6%yoy, sustaining growth since Nov-23 but the slowest expansion in 11 months. Import growth in Oct-24 was underpinned by increased imports of E&E products; machinery, equipment & parts; crude petroleum and LNG. As Malaysia's E&E exports continued to show signs of recovery in Oct-24, we expect trade recovery to continue in the final two months of 2024 on the back of the growing global demand for technology products and devices. In addition, we expect increased demand for non-E&E commodities will also support export growth as we anticipate global demand will continue to increase in the coming months.

Chart 5: Exports & Imports (YoY%) vs Trade Balance (RM b)



Source: Macrobond, MIDFR

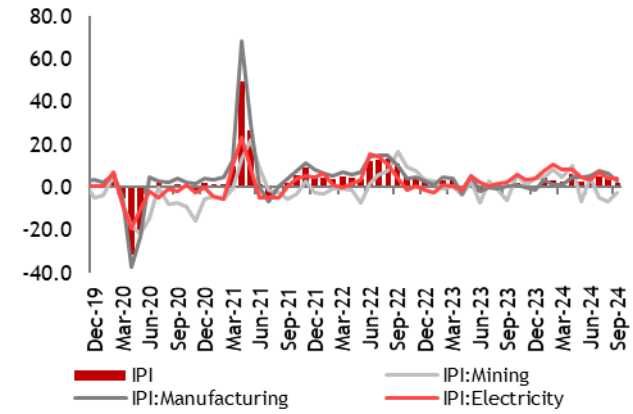
Chart 6: Exports Growth by Major Destination (YoY%)



Source: Macrobond, MIDFR

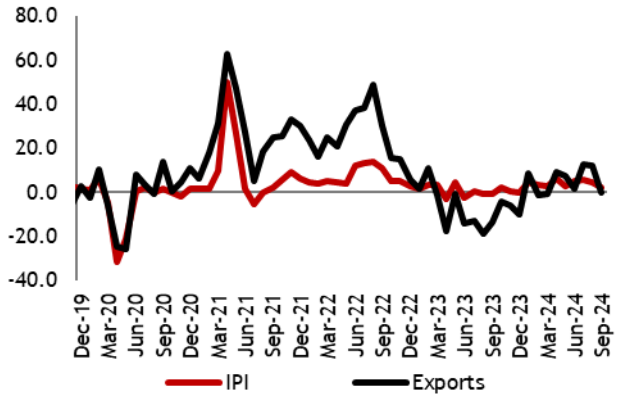
Easing of IPI growth in Sep-24 somewhat steeper than expected. Malaysia's IPI growth moderated further to +2.3%yoy in Sep-24 (Aug-24: +4.1%yoy), the slowest growth in 9 months. The moderation was steeper than ours and market expectations but aligned with the much weaker export performance in Sep-24. The slower IPI growth reflected the continued drag from reduced mining output and slower rise in both manufacturing and electricity output. Mining production fell further by -2.2%yoy due to sharper fall in extraction of crude petroleum, which offset the rebound in natural gas output. Meanwhile, manufacturing output growth eased to +3.2%yoy due to slower growth in export-oriented sectors and weaker motor vehicle production. The sustained (albeit slower) growth in electricity at +3.9%yoy signals continued rise in energy demand and consumption for the 17th straight month on the back of growing economic activities. We expect both domestic and external demand will continue to grow, and therefore we foresee IPI growth will remain in the positives in the coming months.

Chart 7: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

Chart 8: IPI vs Exports (YoY%)

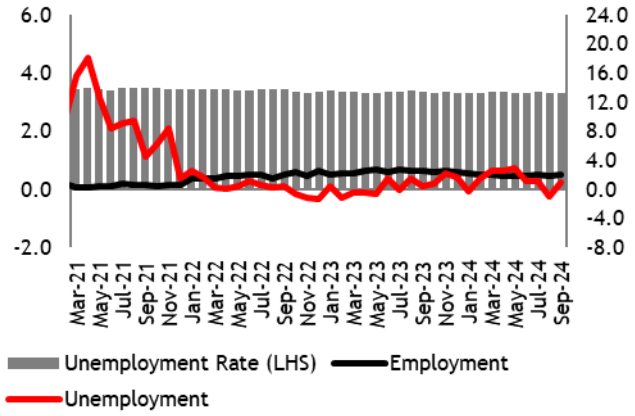


Source: Macrobond, MIDFR

Unemployment rate maintained at 3.2%. Malaysia's labour market remained robust in Sep-24, with the unemployment rate holding steady at a post-pandemic low of 3.2%. Both labour force and employment experienced growth at +1.7%yoy and +1.9%yoy, respectively. As a result, with more people getting employed, the number of unemployed individuals fell to 555K, the lowest since Feb-20 although this figure is still about 36K higher than the average of 519K jobless individuals in 2019. The youth unemployment rate for those aged 15-24 saw a slight rise to 10.5% (Aug-24: 10.4%), back to the reading recorded in May-July 2024. In terms of

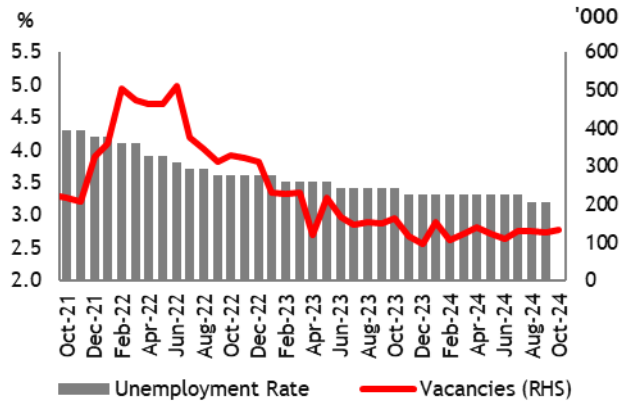
employment type, employee (share: 75% of total employment) and the employer (3.6% of employment) grew at +1.4%yoy and +5.6%yoy, respectively, while the own-account-worker (18.5% of employment) continue to expand at +3.8%yoy in Sep-24. The labour force participation rate rose to record high of 70.5%, with more people entering the job market, after remaining unchanged at 70.4% in the past 3 months. We foresee that favourable labour market conditions will persist as companies are ramping up their hiring and demand for workers to keep pace with expanding economic activities. We expect the labour market specifically in employment growth, will be a crucial driver of continued increases in domestic spending.

Chart 9: Employment vs. Unemployment (YoY%)



Source: Macrobond, MIDFR

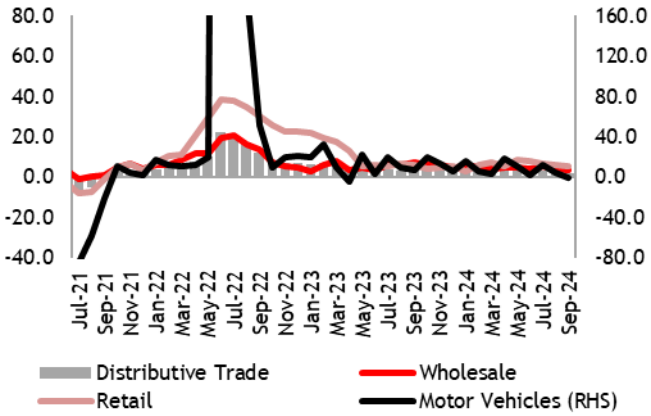
Chart 10: Unemployment Rate (%) vs. Vacancies ('000)



Source: Macrobond, MIDFR

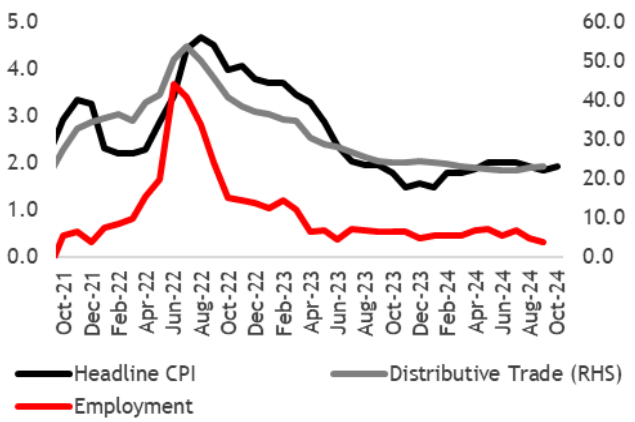
Retail trade growth slowed at +5.5%yoy in Sep-24. Domestic expenditure continued to show steady growth, with overall distributive trade increasing by +3.8%yoy in Sep-24 (Aug-24: +4.7%yoy). The growth in Sep-24 was supported by rises in retail trade (+5.5%yoy) and wholesale trade (+3.6%yoy). Conversely, the sales for motor vehicles fell to -1.0%yoy (Aug-24: +4.1%yoy), the lowest since May-23. In non-seasonally adjusted terms, distributive trade volume grew by +3.5%yoy (Aug-24: +3.8%yoy), driven by higher retail (+3.8%yoy; Aug-24: +4.0%yoy) and wholesale trade (+4.8%yoy; Aug-24: +3.8%yoy), while motor vehicle sales fell (-2.4%yoy; Aug-24: +2.8%yoy). Looking ahead, we anticipate spending activities will grow further in the coming months on the back of favourable labour market conditions, easing inflation, stable monetary policy setting and increased tourist arrivals. The growth will be further boosted by government support measures (e.g. cash assistance and subsidies) and the flexible access to retirement funds.

Chart 11: Distributive Trade (YoY%)



Source: Macrobond, MIDFR

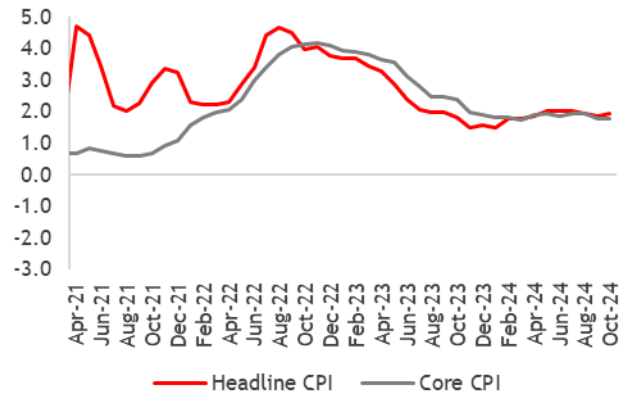
Chart 12: Distributive Trade vs. CPI vs. Employment (YoY%)



Source: Macrobond, MIDFR

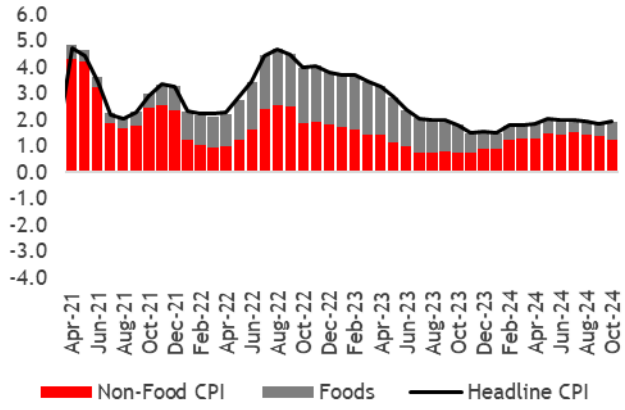
Headline inflation accelerated slightly to +1.9%yoy in Oct-24. Malaysia's headline CPI inflation re-accelerated to +1.9%yoy in Oct-24, marginally higher than our estimate driven mainly by higher food inflation (+2.3%yoy; Sep-24: +1.6%yoy). Foods away from home recorded higher inflation of +4.1%yoy (Sep-24: +2.8%yoy), the fastest rise in 12 months. Meanwhile, inflation for foods at home was relatively slower despite rising to +0.6%yoy (Sep-24: +0.4%yoy) due to higher prices of meat (+1.4%yoy; Sep-24: +0.7%yoy) and vegetables (+2.7%yoy; Sep-24: +1.9%yoy). Non-food inflation, however, eased to +1.7%yoy (Sep-24: +2.0%yoy) due to deflation in information & communication charges and clothing as well as slower inflation in several components such as restaurant & accommodation, health and transport. Meanwhile, core CPI inflation remained steady at +1.8%yoy, signalling little change in terms of underlying demand on general prices. With the further easing in non-food inflation and unchanged core inflation, we conclude there have been limited upward price pressures from policy changes (such as targeted diesel subsidy, higher utility tariffs and SST rate hike). As the government indicated the next fuel subsidy rationalisation will be done next year, we anticipate the moderate inflation will continue in 4QCY24. Relatively lower crude oil prices and easing cost pressures will also keep inflation under control.

Chart 13: Headline vs. Core CPI (YoY%)



Source: Macrobond, MIDFR

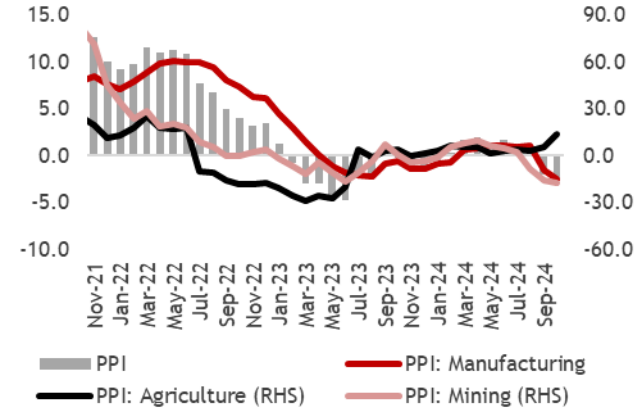
Chart 14: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

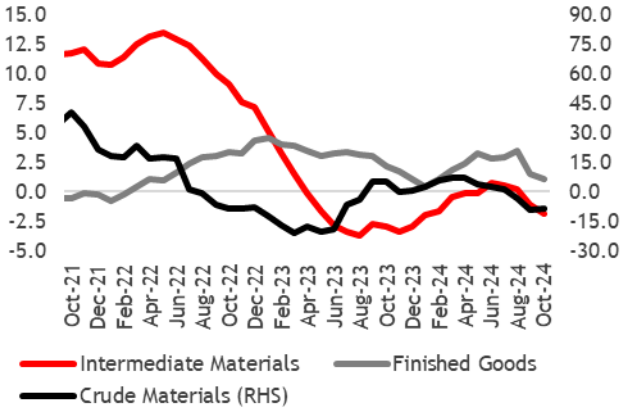
PPI declined at -2.1%yoy in Sep-24. Cost pressures eased as Malaysia's PPI inflation recorded a -2.1% decline in Sep-24 (Aug-24: +0.3%yoy), marking the first decrease since Jan-24. The decline was primarily driven by a sharper cooldown in PPI for the mining sector (Sep-24: -16.1%yoy; Aug-24: -8.3%), led by reductions in the producer prices for the extraction of crude petroleum (-18.6%yoy) and natural gas (=7.9%yoy) as a result of lower commodity prices. For the record, Brent crude oil dropped by -22.2%yoy to USD71.70pb vis-à-vis Sep-23. At the same time, PPI for the manufacturing sector deflated by -1.5%yoy (Aug-24: +1.0%yoy), largely driven by deflation in the manufacture of coke and refined petroleum products (Sep-24: -18.7%yoy). Meanwhile, PPI for electricity and gas supply eased to +0.3%yoy (Aug-24: +1.0%yoy) and PPI for water supply decelerated slightly to +7.8%yoy (Aug-24: +8.0%yoy). Producer prices for agriculture, forestry and fishing, in contrast, inflated faster at +5.8%yoy (Aug-24: +2.7%yoy). By stage of processing, PPI for crude materials for further processing and intermediate materials, supplies and components fell by -9.5%yoy (Aug-24: -3.5%yoy), and -1.1%yoy (Aug-24: +0.2%yoy), respectively. PPI inflation for finished goods eased to +1.5%yoy (Aug-24: +3.5%yoy). We opine the deflation of producer prices suggests local production costs are more influenced by external factors such as movement in the commodity prices. In other words, domestic policy changes pose limited impact on the cost pressures, thus far. We maintain our expectation that selling prices are likely to remain stable given the decline in PPI. With inflation remains under control, we expect BNM will maintain the current OPR setting.

Chart 15: : PPI by Sector (YoY%)



Source: Macrobond, MIDFR

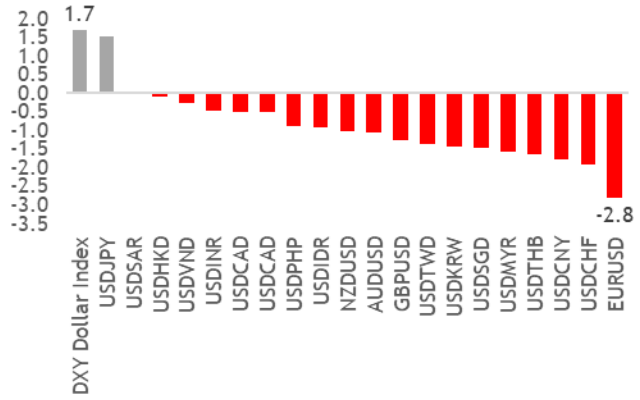
Chart 16: PPI by Processing Stage (YoY%)



Source: Macrobond, MIDFR

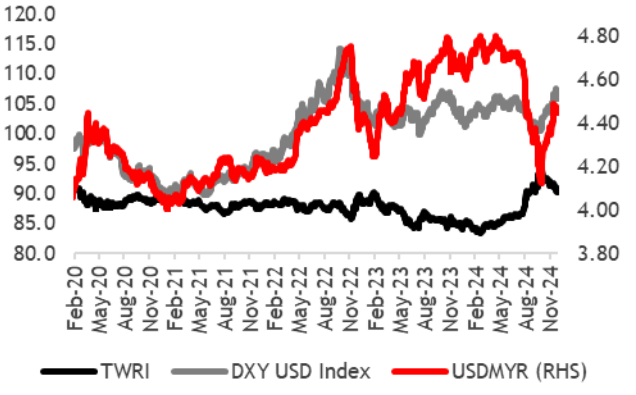
Ringgit affected by the strengthening of US dollar. In addition to the re-election of Donald Trump, the sticky inflation and shift in market expectations to a more gradual rate cuts by the Fed caused a renewed demand in US dollar and consequently caused ringgit to weaken by -1.6%mom in Nov-24. Ringgit even touched RM4.48, the weakest level last seen in early Aug-24, on 14 November 2024 before reversing some of the weakness and ending the month somewhat stronger at RM4.45 to the dollar. Apart from the still wide interest rate differentials in favour of the dollar, the broad strengthening of US dollar was also attributable to the recent escalation of the geo-political conflicts, particularly in Europe and the Middle East. While we expect the narrowing differentials (with the Fed to continue its policy easing) to support for a stronger ringgit, we anticipate a potential downside risk to our ringgit outlook which could come from prolonged strength in the US dollar because Fed will likely be more cautious not to cut aggressively to avoid re-acceleration in inflation on the back of still resilient US economy and the job market. Fundamentally, given the sustained positive economic growth and relatively lower inflation, we believe there is room for ringgit to appreciate further, benefiting from improved risk-off sentiment and renewed capital inflows in the local market.

Chart 19: Monthly FX Rate Changes for Selected Currencies Against US Dollar (%)



Source: Bloomberg, MIDFR

Chart 20: USDMYR vs. US Dollar Index vs. MIDF Trade-Weighted Index

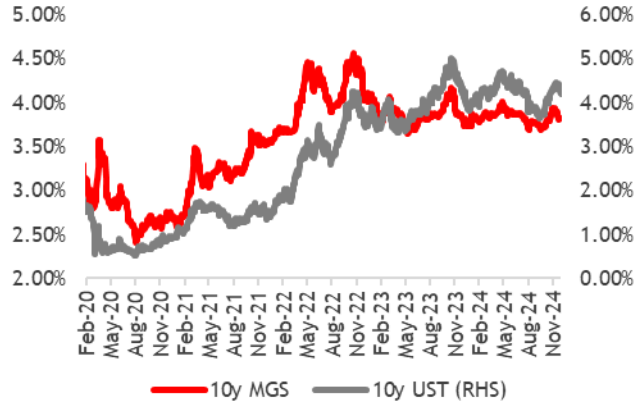


Source: Bloomberg, MIDFR

10-year MGS yield increased in Oct-24. The benchmark 10-year MGS yield declined by -11bps to 3.82% as at end-Nov-24 (Oct-24: 3.93%). The general trend in MGS continued to closely follow movement in the US treasury yields, which also fell by -10bps to 4.18% last month as market expectations still anticipated for rate cuts by the Fed albeit the pace will be not as aggressive as previously priced in. This explains why the differential between

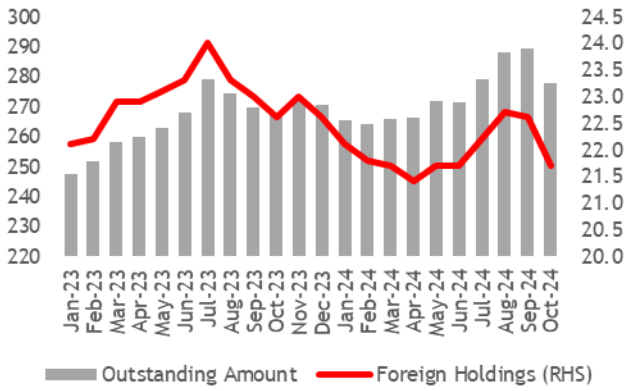
10y MGS yield and 10y UST yield was little changed at -36bps as at end-Nov-24 (end-Oct-24: -35bps). Based on the latest data, the ratio of foreign holdings out of total outstanding government securities fell further to 21.7% as of end-Oct-24 (end-Sep-24: 22.6%). This reflected the outflows from debt markets as the value of foreign holdings of Malaysia's debt securities fell by -RM11b to RM277.7b (Sep-24: RM289.1b), the lowest in 4 months.

Chart 21: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 22: Share of Foreign Holding (%) vs Outstanding MGS/MGII (RM t)



Source: Macrobond, MIDFR

Malaysia's economic growth to grow at +5.0% in 2024. We maintain our projection that Malaysia's economy will expand faster at +5.0% (2023: +3.6%), underpinned by growing domestic spending and recovery in the external demand. At this point, we foresee growth will be at more normalised level of between 4.0-5.0% next year. Nevertheless, we remain cautious that growth outlook may be constrained by downside risks such as weaker growth in major economies and worsening of geopolitical and trade tensions, which will disrupt the stability of global supply chain and trade flows. In addition, renewed inflation concerns would be an another risk to growth, which could affect both external and domestic demand. On the other hand, possible upside surprise to our 2024 growth projection could come from stronger pick-up in exports and sustained rise in consumption, backed by positive labour market conditions, increased tourist arrivals and relatively stable inflation.

Table 1: Macroeconomic Past Performances (%)

(YoY%) Unless Stated Otherwise	2020	2021	2022	2023	2024_f
Real GDP	(5.5)	3.3	8.9	3.6	5.0
Govt. Consumption	4.1	6.4	4.5	3.3	4.5
Private Consumption	(3.9)	1.9	11.2	4.7	5.4
Gross Fixed Capital Formation	(14.4)	(0.8)	6.8	5.5	10.8
Govt. Investment	(21.2)	(11.1)	5.3	8.6	9.5
Private Investment	(11.9)	2.7	7.2	4.6	11.2
Exports of goods & services;	(8.6)	18.5	14.5	(8.1)	7.5
Goods Exports	(0.7)	21.4	11.1	(12.7)	4.5
Services Exports	(47.8)	(8.2)	56.8	33.0	24.6
Imports of goods & services;	(7.9)	21.2	15.9	(7.4)	8.9
Goods Imports	(3.6)	23.8	14.6	(11.7)	9.0
Services Imports	(25.3)	7.7	23.9	15.8	8.3
Net Exports	(13.7)	(4.0)	(1.0)	(16.2)	(12.0)
Agriculture etc.	(2.4)	(0.1)	0.1	0.7	2.9
Mining & Quarrying	(9.7)	0.9	2.6	0.5	3.5
Manufacturing	(2.7)	9.5	8.1	0.7	4.4
Construction	(19.3)	(5.1)	5.0	6.1	9.8
Services	(5.2)	2.2	10.9	5.1	5.4
Exports of Goods (f.o.b)	(1.1)	26.1	24.9	(8.0)	5.2
Imports of Goods (c.i.f)	(5.8)	23.3	31.0	(6.4)	11.2
Headline CPI Inflation (%)	(1.1)	2.5	3.4	2.5	2.0
Current Account, % of GDP	4.1	3.9	3.0	1.5	1.5
Fiscal Balance, % of GDP	(6.2)	(6.4)	(5.6)	(5.0)	(4.3)
Federal Government Debt, % of GDP	62.0	63.2	60.3	64.3	62.5
Unemployment Rate (%)	4.48	4.58	3.82	3.43	3.30
Brent Crude Oil (Avg), USD per barrel	41.6	71.5	102.0	82.2	80.0
Crude Palm Oil (Avg), MYR per tonne	2,775	4,486	5,262	3,813	4,200
USD/MYR (Avg)	4.20	4.14	4.40	4.56	4.56
USD/MYR (End-period)	4.02	4.17	4.35	4.59	4.23
MGS 10-Yr Yield (Avg)	2.84	3.23	4.07	3.86	3.80
MGS 10-Yr Yield (End-period)	2.65	3.59	4.04	3.73	3.68
Overnight Policy Rate (%)	1.75	1.75	2.75	3.00	3.00

Source: Macrobond, DOSM, MIDFR

November 2024 Key Economic Events

4 Nov: Miti initiates administrative review of anti-dumping duty for stainless steel imports The government has initiated an administrative review of anti-dumping duties with regard to imports of cold rolled stainless steel in coils, sheets or any other form from China, Indonesia, South Korea, Taiwan, Thailand and Vietnam, said the Ministry of Investment, Trade and Industry (Miti).

6 Nov: Donal Trump elected US president in historic comeback Donald Trump has has defeated Kamala Harris in the US presidential election, sealing an improbable comeback that is expected to pitch American democracy, US alliances and global markets into an era of upheaval. The president-elect gained ground on the Democrats in 48 of the 50 states in the union, sweeping past Harris in the "blue wall" of Midwestern states she had thought could deliver her the White House.

8 Nov: Malaysia to deepen biz ties with China As this year's guest of honor country at the 7th China International Import Expo, Malaysia is making the most of the spotlight to showcase its export offerings and develop stronger economic cooperation with China, said Tengku Datuk Seri Zafrul Abdul Aziz, Malaysia's minister of investment, trade and industry.

8 Nov: Bank of England cuts rates but sees higher inflation after Reeves's budget The Bank of England cut interest rates on Thursday for only the second time since 2020 and said future reductions were likely to be gradual as it predicted the British government's first budget would lead to higher inflation and economic growth.

8 Nov: Narrowing interest rate differentials positive for ringgit, backed by solid economic prospects — BNM Falling interest rates in advanced economies will be positive for ringgit at a time when Malaysia keeps its policy rate unchanged while the economic fundamentals remain healthy, said Bank Negara Malaysia. The global environment has been fraught with uncertainty, leading to heightened volatility in financial markets, Governor Datuk Seri Abdul Rasheed Ghaffour said.

12 Nov: Govt committed to reducing fiscal deficit to 3.8% of GDP, keeping debt-to-GDP ratio below 60% — MOF The trend of a declining fiscal deficit reflects the government's commitment to reducing the debt-to-gross domestic product (GDP) ratio, ensuring it stays below 60% in the medium term, as stipulated in the Public Finance and Fiscal Responsibility Act 2023 (Act 850).

13 Nov: Cabinet approves RM442m upgrade for Kota Kinabalu International Airport Transport Minister Anthony Loke announced on Wednesday that the Cabinet has approved a RM442.3 million upgrade for Kota Kinabalu International Airport (KKIA). The project will be fully funded by Malaysia Airports Holdings Bhd, or MAHB, through an investment-recovery model, without the need for government guarantees, Loke noted.

14 Nov: Rubio pick signals a Trump China policy that could go beyond tariffs. With his nomination of China hardliner Marco Rubio for secretary of state, U.S. President-elect Donald Trump has signalled his policy toward Beijing could go beyond tariffs and trade to a more hawkish stance on China as the United States' main strategic rival.

17 Nov: Govt discussed issue of removing packet cooking oil subsidy, says Rafizi The government has discussed the issue of abolishing the packet cooking oil subsidy to address the problem of leakages, says Economy Minister Rafizi Ramli. He said if the packet cooking oil subsidy is abolished, it could have certain risks as the government had spent millions of ringgits for the cooking oil subsidy.

18 Nov: Xi calls for multi-polar world, inclusive globalization ahead of G20 Summit Upon arriving in Rio de Janeiro for the 19th G20 Summit on Sunday, Chinese President Xi Jinping expressed readiness to work with all parties for an equal and orderly multi-polar world and a universally beneficial and inclusive economic globalization.

18 Nov: Rafizi: 13MP to focus on talent development reforms. The 13th Malaysia Plan (13MP) emphasises a need for talent development reforms in the country to meet workforce needs in the high-income economic sector, said Economy Minister Rafizi Ramli.

18 Nov: Construction of MRT3 project may only start in 2027, says MRT Corp The on-site construction of the Mass Rapid Transit 3 (MRT3) project may only commence in 2027 after Mass Rapid Transit Corporation Sdn Bhd (MRT Corp) completes the land acquisition process, MRT Corp chief executive officer Datuk Mohd Zarif Hashim said.

19 Nov: BNM exploring wholesale central bank digital currency, no plans for immediate use Bank Negara Malaysia (BNM) said it has no immediate plans to issue wholesale central bank digital currency (CBDC) but is exploring its potential and undergoing preparatory work to understand the implications.

25 Nov: People's Income Initiative to continue under 13MP, says Rafizi. The People's Income Initiative (IPR) project that seeks to boost the income of the poor will continue in the 13th Malaysia Plan (13MP), said Economy Minister Rafizi Ramli. Rafizi said the Agro Entrepreneur Initiative (IPR-Intan), one of the three initiatives under the project, helps the low-income group by providing job opportunities, eradicating poverty, and ensuring food security.

25 Nov: Ukraine fires several U.S.-made longer-range missiles into Russia for the first time The use of the Army Tactical Missile System, known as ATACMS, came as Russian President Vladimir Putin formally lowered the threshold for using nuclear weapons, opening the door to a potential nuclear response by Moscow to even a conventional attack by any nation supported by a nuclear power.

27 Nov: Kota Kinabalu airport upgrade set for mid-2028 completion The RM442.3mil Kota Kinabalu International Airport (KKIA) Airport Development Plan, which will increase the capacity of KKIA Terminal 1 to 12 million passengers per annum (mmpa), is expected to be completed in mid-2028.

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