Economic Review

LI Signals Momentum to Soften But Remain Positive in the Near Term

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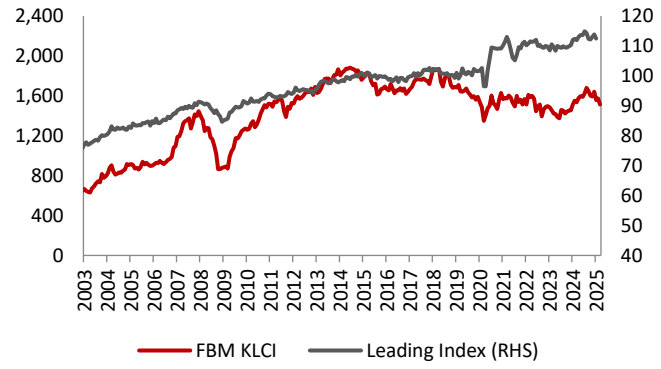
- LI rose slower at +0.4%yoy in Jan-25. Malaysia's economy will continue to expand in the near term although the leading index (LI) grew at slower pace of +0.4%yoy in Jan-25 (Dec-24: +3.4%yoy). Nevertheless, the Jan-25 expansion marked 14 straight months of growth, with double-digit growth in Real Imports of Semiconductors and the Number of Housing Units Approved.
- Exports growth picked up in Feb-25. Malaysia's total trade expanded +5.9%yoy in Feb-25 (Jan-25: +3.1%yoy), driven by an improvement in exports (+6.2%yoy; Jan-25: +0.3%yoy), mainly stemmed from higher shipments of E&E and palm oil products.
- Retail trade grew faster in Jan-25. Malaysia's retail spending registered an encouraging start at the beginning of the year as retail trade grew faster at +8.2%yoy in Jan-25 (Dec-24: +5.4%yoy). Nevertheless, the overall distributive trade growth softened to +4.6%yoy in Jan-25 (Dec: +5.7%yoy) on the back of more moderate rise in wholesale trade and weaker spending on motor vehicles.
- Malaysia's GDP to grow at +4.6% this year. We maintain our forecast that Malaysia's GDP would grow at a more normalized rate of +4.6% in 2025 (2024: +5.1%). Despite growing uncertainties on the external front, domestic fundamentals remain positive, driven by spending from consumers and businesses, which will continue to support economic expansion this year.

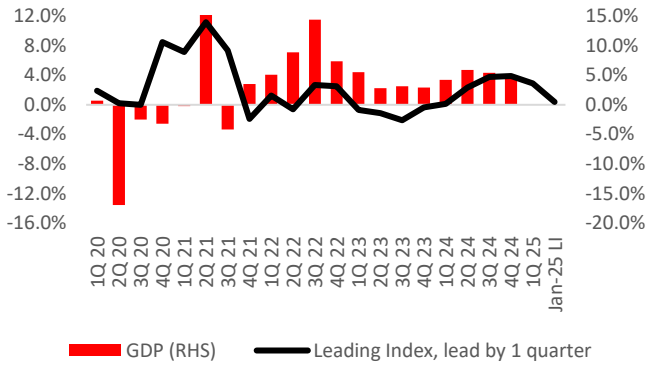
LI rose slower at +0.4%yoy in Jan-25. Malaysia's economy will continue to expand in the near term although the leading index (LI) grew at slower pace of +0.4%yoy in Jan-25 (Dec-24: +3.4%yoy). The expansion in Jan-25 marked 14 straight months of growth, driven by the double-digit growth in *Real Imports of Semiconductors* (+14.1%yoy) and the *Number of Housing Units Approved* (+13.7%yoy). Contrastingly, on a monthly basis, the leading index dropped by -1.2%mom (Dec-24: +0.8%mom), reversing growth in the previous two months, due to decreases in five of its seven components, notably *Real Imports of Other Basic Precious & Non-Ferrous Metals* (-0.6%mom), *Bursa Malaysia Industrial Index* (-0.5%mom) and *Real Imports of Semi-Conductors* (-0.3%mom). In contrast, LI components which recorded monthly increases were *Expected Manufacturing Sales Value* (+0.2%mom) and *Number of New Company Registration* (+0.1%mom). Similarly, the coincident index (CI), also indicated a significant moderation in current economic conditions as the CI only rose marginally by +0.1%yoy (Dec-24: +1.9%yoy), the slowest expansion since Sep-21. On a monthly basis, the CI contracted by -1.4%mom (Dec-24: 0%mom), mainly stemming from a steep decline in *Capacity Utilisation in the Manufacturing Sector* (-1.9%mom) as well as reduction in the sector's *Employment* (-0.1%mom) and *Real Salaries & Wages* (-0.1%mom). We opine the moderation in both LI and CI to be in line with our expectations for a more normalized GDP growth this year. In other words, amid heightened global trade uncertainties, we believe Malaysia's economy is set to sustain positive growth, supported by solid fundamentals such as robust domestic demand, resilient household spending, and increased investments.

Chart 1: Leading Index vs KLCI (Points)



Source: Bloomberg, MIDFR

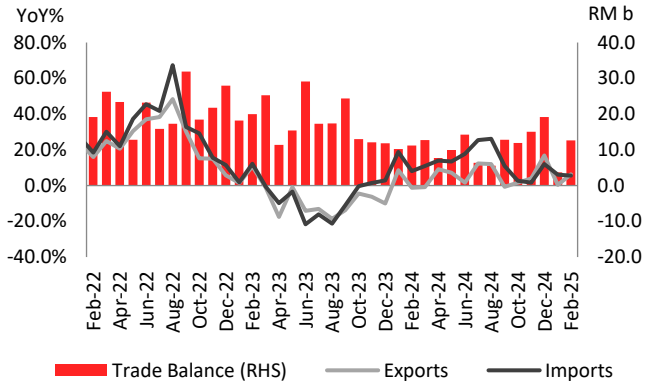
Chart 2: Leading Index vs GDP (YoY%)



Source: Bloomberg, MIDFR

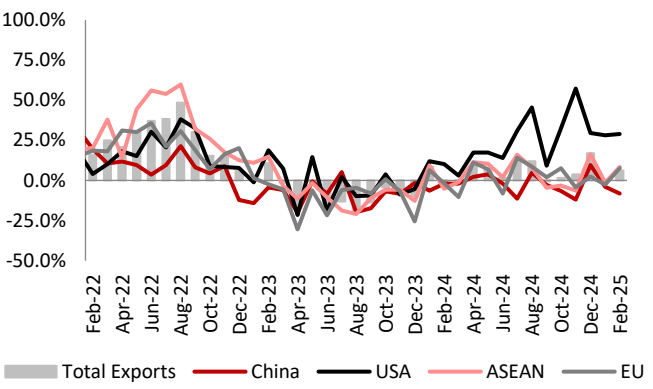
Exports growth picked up in Feb-25. Malaysia's total trade expanded +5.9%yoy in Feb-25 (Jan-25: +3.1%yoy), driven by an improvement in exports (+6.2%yoy; Jan-25: +0.3%yoy) from the previous month's low, which was the weakest reading since Sep-24. The improved exports mainly stemmed from higher shipments of E&E products (+18.1%yoy; Jan-25: 14.9%yoy) and exports of palm oil & palm oil-based products (+25.5%yoy; Jan-25: +10.5%yoy). On the other hand, the decline in petroleum products shipments eased to -12.3%yoy (Jan-25: -34.1%yoy), whereas the steep fall in LNG shipment of -24.5%yoy (Jan-25: -13.3%yoy) mainly dragged exports growth during the month. Re-exports and domestic exports grew faster by +7.3%yoy (Jan-25: -8.8%yoy) and +5.9%yoy (Jan-25: +3%yoy), respectively. Meanwhile, imports continued to expand albeit relatively slower at +5.5%yoy (Jan-25: +6.2%yoy), driven by increased imports of E&E products (+23.1%yoy) and transport equipment (+49.4%yoy). On a month-on-month basis, the monthly decline in exports was slower at -3.7%mom (Jan-25: -11.3%yoy) vis-à-vis -11.3%mom contraction in imports (Jan-25: +0.2%mom), which led to a broadening of trade surplus to +RM12.6b (Jan-25: +RM3.7b). Looking ahead, Malaysia's exports are expected to remain resilient, driven by steady demand for E&E products amid the sector's ongoing upcycle, along with sustained commodity exports. However, uncertainties surrounding US trade policy changes and weaker demand from key trading partners pose potential risks to Malaysia's trade outlook.

Chart 3: Exports & Imports (YoY%) vs Trade Balance (RM b)



Source: Macrobond, MIDFR

Chart 4: Exports Growth by Major Destination (YoY%)

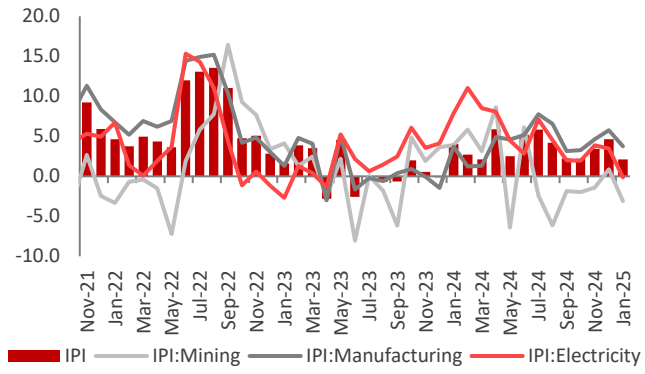


Source: Macrobond, MIDFR

IPI growth moderated more than expected. Malaysia's IPI growth eased to +2.1%yoy in Jan-25 (Dec-24: +4.6%yoy), growing for the 13th straight month since Jan-24. The moderation was expected in view of slower export growth, but the Jan-25 IPI growth mainly reflected slower growth in manufacturing output (+3.7%yoy; Dec-24: +5.8%yoy), particularly weighed down by reduced output of motor vehicles. Meanwhile, mining output fell by -3.1%yoy during the month mainly because of sharper contraction in crude oil production. Electricity generation also decreased marginally by -0.1%yoy, marking the first decline after 20th month of expansion. Despite the small contraction, overall energy demand was largely unchanged from a year ago. Despite the slower growth in Jan-25, we continue to expect IPI to continue expanding this year as firms strive to fulfill growing demand. Nevertheless, some sectors may

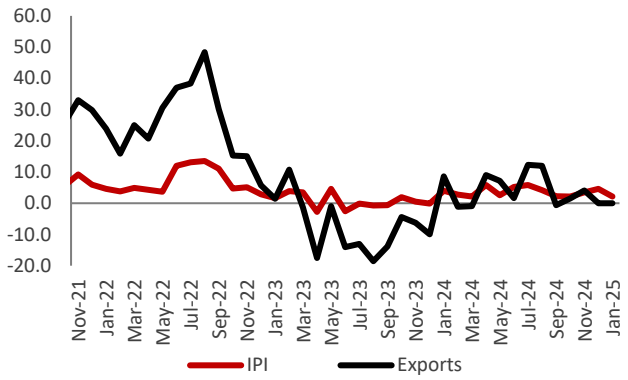
be more cautious in view of the intensified trade tensions following hikes in import tariffs announced by the US government, which could affect this year's trade and manufacturing outlook.

Chart 5: IPI Performances by Sector (YoY%)



Source: Macrobond, MIDFR

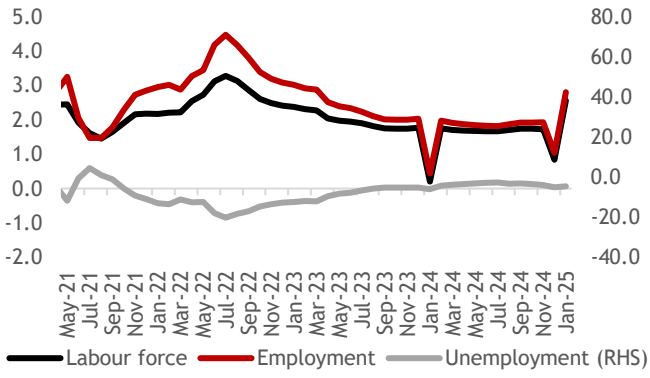
Chart 6: IPI vs Exports (YoY%)



Source: Macrobond, MIDFR

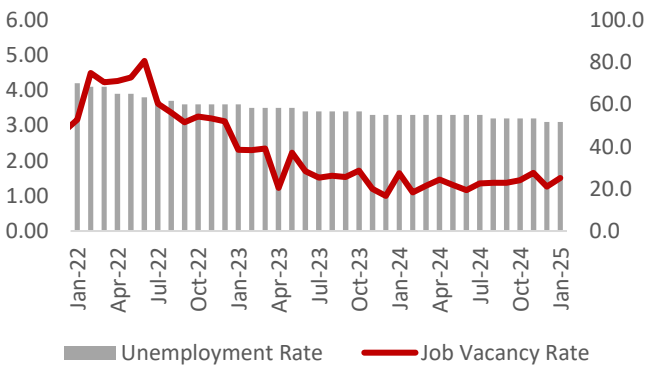
Healthy labour market conditions. Malaysia's labour market began the year on a stable footing as the unemployment rate remained steady at 3.1% in Jan-25, unchanged from the previous month. Malaysia's labor market remained stable, mainly attributable to robust investment in the semiconductor industry, which continues to fuel job creation and boost employment. This steady performance was underpinned by a continued rise in the labour force (+2.6%yoy) and steady employment growth (+2.8%yoy). Notably, this marked the 42nd consecutive month since Aug-21 in which employment growth outpaced the expansion of the labour force. Consequently, the number of unemployed individuals declined to 534K (Dec-24: 539K), the lowest level since Feb-20. Unemployment count declined further by -4.7%yoy, which has consistently been on a declining trend since Sep-21. Among youths aged 15-24, the unemployment rate edged down to 10.3% in Jan-25 (Dec-24: 10.4%). By employment type, employees continued to make up the largest share of total employment at 75.3% during the month, followed by own-account workers (18.6%) and employers (3.3%). All three categories contributed to employment growth, with year-on-year increases during the month of +2.7%yoy, +3.3%yoy, and +2.1%yoy, respectively. The labour force participation rate remained high and steady at 70.6%, reflecting increased workforce entry. Coupled with steady employment growth and lower unemployment rate, this signals that more individuals are securing jobs, supported by Malaysia's steady domestic economic conditions. Looking ahead, a stable labour market along with growing wages are expected to support consumer spending and drive domestic economic growth.

Chart 7: Labour Market Key Indicators (YoY%)



Source: Macrobond, MIDFR

Chart 8: Unemployment Rate (%) vs. Job Vacancies

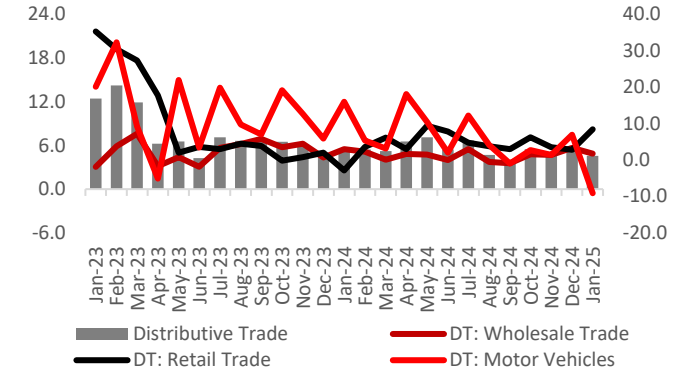


Source: Macrobond, MIDFR

Retail trade grew faster in Jan-25. Malaysia's retail spending registered an encouraging start at the beginning of the year as retail trade grew faster at +8.2%yoy in Jan-25 (Dec-24: +5.4%yoy). Nevertheless, the overall distributive trade growth softened to +4.6%yoy in Jan-25 (Dec: +5.7%yoy) on the back of a more moderate rise in wholesale trade (+4.9%yoy; Dec-24: +5.7%yoy) and weaker spending on motor vehicles. Motor vehicles sales fell by -9.1%yoy (Dec-24: +6.9%yoy), marking the first decline since Sep-

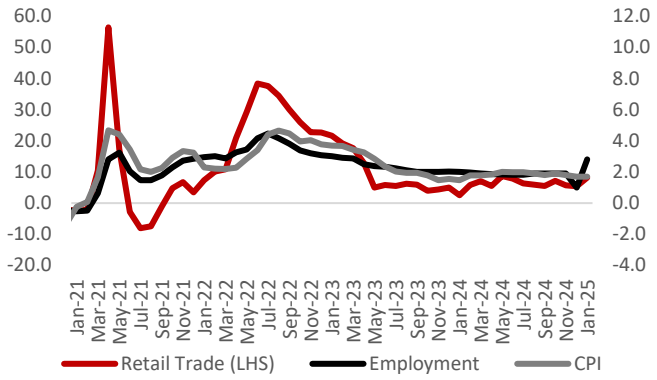
24. Meanwhile, the volume of distributive trade also expanded at softer pace of +3.8%yoy (Dec-24: +4.4%yoy) but supported by the volume growth in the wholesale trade (+4.5%yoy; Dec-24: +5%yoy) and retail trade (+6.6%yoy; Dec-24: +3.6%yoy). The volume of motor vehicles, on the other hand, plunged by -11.1%yoy (Dec-24: +5.5%yoy). Going forward, we anticipate continued growth in domestic spending, driven by a robust labor market, manageable inflation, accommodative monetary policy, and recovery in tourism activities. Government support measures, including cash assistance, will further stimulate spending. Additionally, expanded access to flexible retirement fund accounts, higher civil servant salaries, and an increased minimum wage are expected to further reinforce consumption.

Chart 9: Distributive Trade (DT) Sales Growth by Component (YoY%)



Source: Macrobond, MIDFR

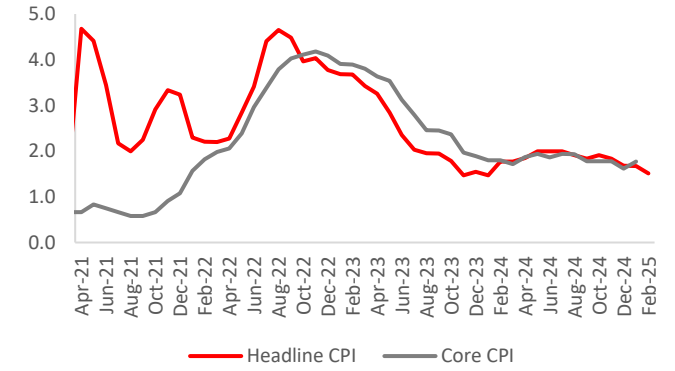
Chart 10: DT vs. CPI Inflation vs. Employment (YoY%)



Source: Macrobond, MIDFR

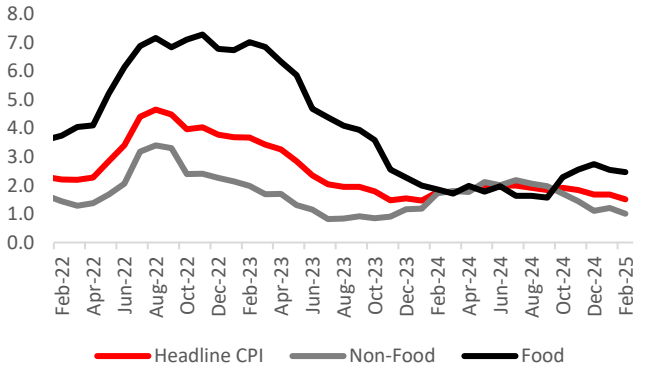
Headline inflation moderated but core inflation accelerated marginally in Feb-25. Malaysia's headline inflation moderated to +1.5%yoy in Feb-25 on the back of easing inflation in both food and non-food prices. Food inflation eased to +2.4%yoy (Jan-25: +2.5%yoy) due to slower inflation for food away from home (+4.6%yoy; Jan-24: +5.0%yoy), while prices for food at home slightly picked up to +0.5%yoy (Jan-24: +0.4%yoy), with a broad-based increase across all components except for meat (-0.3%yoy), and milk, other dairy products & eggs (-0.8%yoy) among others. Non-food inflation eased further to +1.0%yoy (Jan-25: +1.2%yoy) due to the deflation in clothing and footwear, information and communication and slower inflation in housing, water, electricity, gas & other fuels, furnishings, household Equipment & maintenance, health, transport, recreation, and sports and culture. Meanwhile, core CPI increased slightly faster at +1.9%yoy (Jan-25: +1.8%yoy) and continued to reverse higher from the 35-month low of +1.6%yoy recorded back in Dec-24. Nevertheless, we view this a mild increase in underlying price pressure. The still mild inflation as shown by the food, non-food, and core CPI suggests limited price pressures from last year's government policy changes (targeted subsidies, higher utility tariffs, and the SST rate hike), thus having limited upside impacts on the overall inflation. Even with planned government fuel subsidy rationalisation and policy shifts this year, we project moderate inflation to continue into 1QCY25. Controlled cost pressures and steady crude oil prices are expected to mitigate significant inflation increases. However, we expect policy changes will be the key reason for price pressures this year while demand pressures remain under control.

Chart 11: Headline vs. Core CPI (YoY%)



Source: Macrobond, MIDFR

Chart 12: Food vs Non-Food CPI (YoY%)



Source: Macrobond, MIDFR

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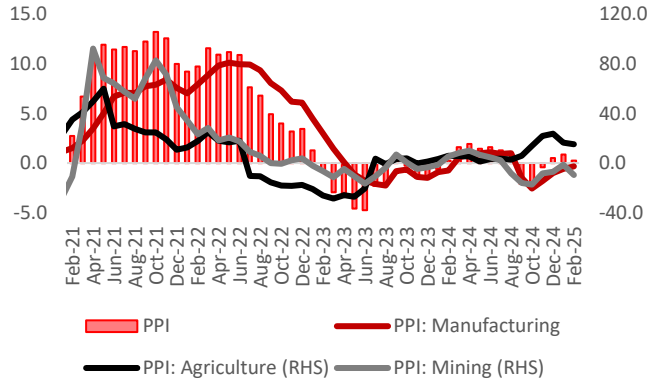
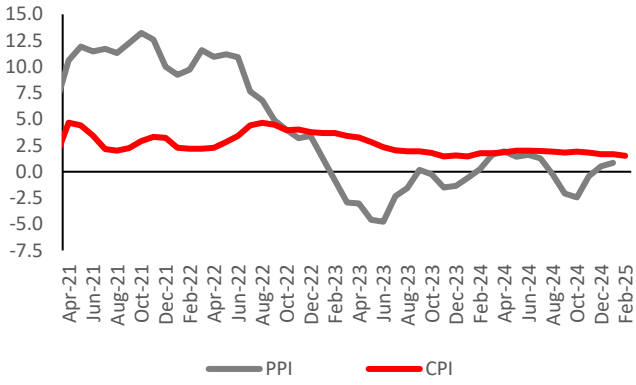
Chart 13: PPI for Selected Sectors (YoY%)



Source: Macrobond, MIDFR

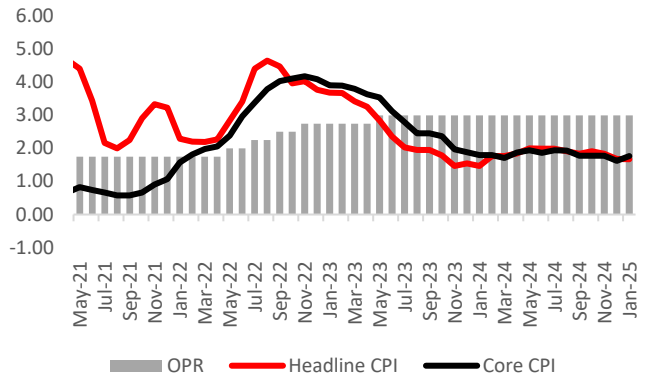
Chart 14: PPI vs CPI (YoY%)



Source: Macrobond, MIDFR

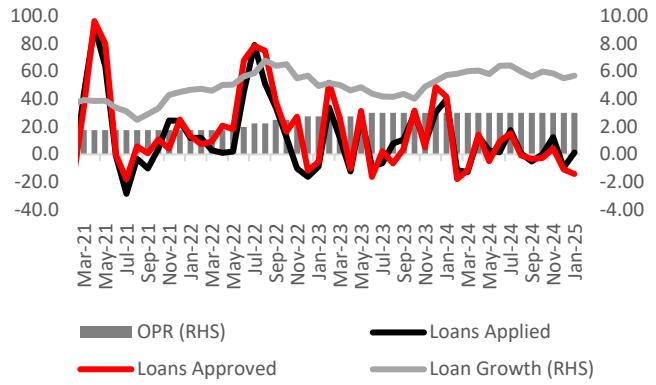
OPR remains unchanged, maintaining supportive growth. As broadly expected, BNM maintained the Overnight Policy Rate (OPR) at 3.00% during the Mar-25 Monetary Policy Meeting, emphasising that the current policy stance remains conducive to sustaining economic growth. In its Monetary Policy Statement (MPS), the current economic indicators signal a trend of continued global growth, underpinned by robust domestic demand and international trade. The projected economic landscape for 2025 is characterised by sustained growth, facilitated by favourable labour market dynamics, a deceleration in inflationary pressures, and a transition to less restrictive monetary policy stances. Advanced economies are anticipated to experience further disinflation, driven by moderating commodity prices and the lagged effects of prior monetary policy tightening. Global trade should see support from the ongoing tech upcycle. However, the potential for tariff changes in major economies, geopolitical instability, and associated financial market volatility presents considerable risks to the projected growth trajectory. As a result, a potential for increased volatility within global financial markets. We share a similar view, as the market sentiment has been showing signs of concerns on the potential trade disruptions under the new US administration.

Chart 15: OPR (%) vs. Inflation (YoY%)



Source: Macrobond, MIDFR

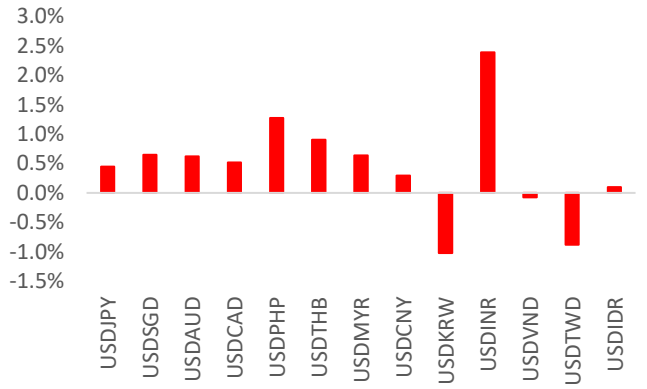
Chart 16: OPR (%) vs Loans (YoY%)



Source: Macrobond, MIDFR

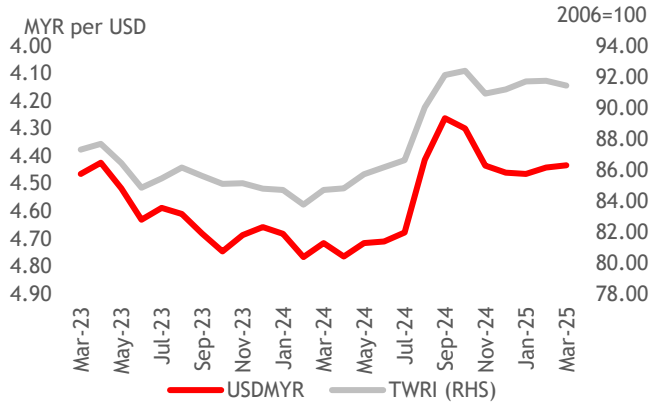
Ringgit appreciated for the third month. The ringgit appreciated by +0.6%mom against the US dollar and ended the month at RM4.434 (previous: RM4.463). As a result, the ringgit has been appreciated by +0.8%ytd in the first 3 months this year. In particular, ringgit gained in the early part of the month and strengthened to RM4.41 by 7th March on the back of weakening dollar. Although we have a favourable assessment of Malaysia's economic performance, the ringgit's recent weakness was primarily attributed to capital outflows on the back of the persistent divergence in interest rates between Malaysia and the US. With the Fed is expected to continue easing its monetary policy later this year, we foresee the ringgit will continue to appreciate. However, the pace of rate cuts, and therefore ringgit's appreciation bias, may be limited by the elevated inflation outlook in the US.

Chart 17: Monthly FX Rate Changes for Selected Currencies Against US Dollar (%)



Source: Macrobond, MIDFR

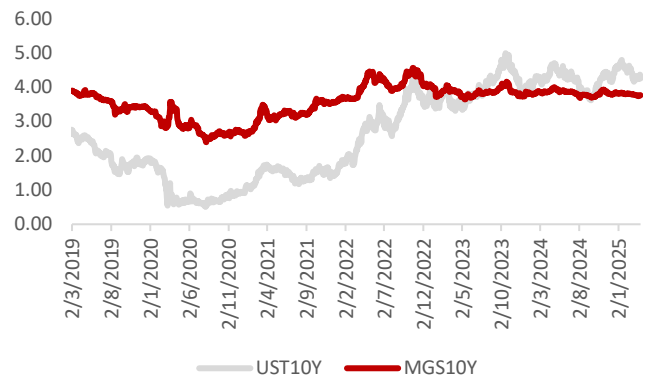
Chart 18: USDMYR vs. US Dollar Index vs. MIDF Trade-Weighted Index Monthly Average



Source: Macrobond, MIDFR

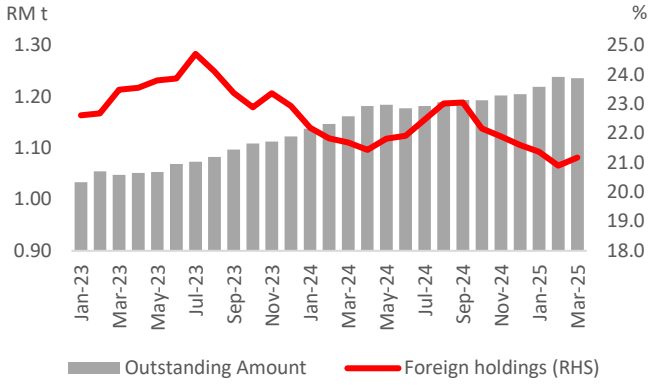
10y MGS yield moved lower last month. The MGS yield curve moved lower last month tracking changes in the UST market. Nevertheless, the pace of decrease in the MGS yields was not as much as the US treasury yields. The 3-year MGS yield declined by -2bps and ended the month at 3.46%. Meanwhile, the 10-year MGS yield closed slightly lower by -1bps to 3.80%. The 10-year yield was stable in Mar-25, averaging around 3.81%. With OPR and inflation rate in Malaysia remaining relatively stable, changes in the MGS yields continued to be more influenced by developments in the financial markets. In Mar-25, foreign holdings of Malaysian bonds rose +RM3.2b to RM278.5b (Feb-25: RM275.2b). As a result, we estimated that the ratio of foreign holdings out of the total outstanding government bonds increased to 21.2% (Feb-25: 20.9%), remaining below the pre-pandemic level (2019 average: 23.1%) and also lower than 21.7% a year ago.

Chart 19: 10y MGS vs 10y UST Yields (%)



Source: Macrobond, MIDFR

Chart 20: Share of Foreign Holding (%) vs Outstanding MGS/MGII (RM t)



Source: Macrobond, MIDFR

Malaysia's GDP to grow at +4.6% this year. We maintain our forecast that Malaysia's GDP would grow at a more normalized rate of +4.6% in 2025 (2024: +5.1%). Domestic growth fundamentals remain positive, driven by increasing spending from both consumers and businesses, which will continue to support economic expansion this year. Beyond increased government expenditure, investment activities will be fuelled by the initiation and progress of various infrastructure projects. However, we remain cautious of Malaysia's trade outlook amid the heightened uncertainties surrounding global trade. Malaysia's trade environment could be more challenging in the coming months, especially if the US imposes higher tariffs on semiconductors and other manufactured goods. However, we believe Malaysia remains well-positioned to navigate these challenges, backed by strong economic fundamentals, sustained rise in domestic demand, resilient household spending, and increased investments.

Table 1: Selected Macroeconomic Data: Past Performance and Latest Projection (%)

(YoY %) Unless Stated Otherwise	2021	2022	2023	2024	2025F
Real GDP	3.3	8.9	3.6	5.1	4.6
Govt. Consumption	5.8	5.1	3.3	4.7	5.0
Private Consumption	1.8	11.3	4.7	5.1	4.8
Gross Fixed Capital Formation	(0.7)	6.8	5.5	12.0	6.1
Govt. Investment	(11.0)	5.3	8.6	11.1	6.4
Private Investment	2.8	7.2	4.6	12.3	6.0
Exports of goods & services;	18.5	14.5	(8.1)	8.5	5.2
Goods Exports	21.4	11.0	(12.7)	5.5	3.7
Services Exports	(8.2)	58.3	33.0	25.9	12.5
Imports of goods & services;	21.2	16.0	(7.4)	8.9	3.8
Goods Imports	23.8	14.4	(11.7)	9.4	3.4
Services Imports	7.7	25.7	15.8	7.3	5.4
Net Exports	(4.0)	(1.5)	(16.2)	2.2	25.7
Agriculture etc.	(0.3)	1.3	0.7	3.1	1.0
Mining & Quarrying	0.9	3.5	0.5	0.9	1.6
Manufacturing	9.5	8.1	0.7	4.2	3.5
Construction	(5.2)	5.1	6.1	17.5	12.8
Services	2.2	11.0	5.1	5.4	5.1
Exports of Goods (f.o.b)	26.1	24.9	(8.0)	5.7	4.9
Imports of Goods (c.i.f)	23.3	31.0	(6.4)	13.2	4.5
Headline CPI Inflation (%)	2.5	3.4	2.5	1.8	2.5
Current Account, % of GDP	3.9	3.0	1.5	1.5	2.3
Fiscal Balance, % of GDP	(6.4)	(5.6)	(5.0)	(4.1)	(3.7)
Federal Government Debt, % of GDP	63.2	60.3	64.3	64.6	62.5
Unemployment Rate (%)	4.58	3.82	3.43	3.30	3.10
Brent Crude Oil (Avg), USD per barrel	71.5	102.0	82.2	79.9	73.0-74.0
Crude Palm Oil (Avg), MYR per tonne	4,486	5,262	3,813	4,194	4,300
USD/MYR (Avg)	4.14	4.40	4.56	4.56	4.23
USD/MYR (End-period)	4.17	4.35	4.59	4.47	4.13
MGS 10-Yr Yield (Avg)	3.23	4.07	3.86	3.83	3.68
MGS 10-Yr Yield (End-period)	3.59	4.04	3.73	3.84	3.60
Overnight Policy Rate (%)	1.75	2.75	3.00	3.00	3.00

Source: Macrobond, National Sources, MIDFR

MARCH 2025 KEY ECONOMIC EVENTS

1 Mar: Govt: Subsidised local white rice to be available by Monday. The government has assured that the supply of 10kg of subsidised local white rice, priced at RM26 per bag, will be gradually available at supermarkets nationwide, no later than this Monday.

4 Mar: Malaysian capital market's 50% rise in average daily value in 2024 shows investor confidence, says Amir Hamzah The Malaysian capital market's average daily value (ADV) rose by more than 50% to RM3.15 billion in 2024 from RM2.06 billion in 2023, underscoring investor confidence and interest, according to Second Finance Minister Datuk Seri Amir Hamzah Azizan.

9 Mar: Amir Hamzah: Putrajaya to cut reliance on Petronas, eyes SST expansion for extra RM5b revenue. Putrajaya will continue reducing its reliance on local oil and gas giant Petronas for revenue, with the sales and services tax (SST) set to generate additional revenue rather than a return to the goods and services tax (GST).

11 Mar: BNM, stakeholders to expedite long-term solution to tackle rising medical cost, Dewan Negara told. Bank Negara Malaysia (BNM) and relevant stakeholders are working together to expedite the implementation of a long-term solution to effectively control medical cost inflation, said Finance Minister II Datuk Seri Amir Hamzah Azizan.

20 Mar: Rafizi: 13MP to continue integrated policy, focus on high-growth and high-value industries. The Ministry of Economy will ensure that an integrated and appropriate policy focusing on high-growth and high-value (HGHV) industries continues in the preparation of the 13th Malaysia Plan (13MP) to boost the economy towards a higher and more complex value chain.

23 Mar: Loke: Two sets of ETS trains set to arrive by April, operational by August this year. Two sets of Electric Train Service (ETS) trains are expected to arrive in April and will be operational by August this year after going through necessary trials.

24 Mar: BNM sees Malaysia's economy on steady course, inflation to stay manageable. Bank Negara Malaysia (BNM) maintained its forecast for the country's economy to expand steadily this year, as domestic demand stays robust amid intensifying external headwinds. GDP growth will likely range between 4.5% and 5.5% for 2025, the central bank reiterated on Monday.

27 Mar: Malaysia's air passenger traffic up 6.9% in February, driven by new routes and visa perks. Malaysia's air passenger traffic saw a 6.9% year-on-year (y-o-y) increase in February 2025, reaching 8.7 million passengers. This growth was fuelled by increased seat capacity, the introduction of new international routes, and visa exemptions for tourists from China and India, according to the Malaysian Aviation Commission (Mavcom).

29 Mar: RM131.5m govt funding and P2P, ECF platforms to help SMEs scale up on tech. Seven equity crowdfunding (ECF) and peer-to-peer financing (P2P) platforms have been selected to participate in the RM131.5 million New Industrial Master Plan 2030 Strategic Co-Investment Fund (CoSIF). MITI said the platforms are pitchIN, Mystartr, Leet Capital, and Crowdo, while the P2P platforms are Funding Societies Malaysia, CapBay, and B2B Finpal.

3 Mar: Govt committed to reducing deficit to 3.8% in 2025, says Amir Hamzah. The government remains committed to reducing the deficit with a projection of 3.8% in 2025, said Finance Minister II Datuk Seri Amir Hamzah Azizan.

5 Mar: Anwar: RM1.1b partnership with UK's Arm Holdings marks beginning of Malaysia's second semiconductor wave. The Malaysian government's US$250 million (RM1.11 billion) partnership with leading semiconductor design firm Arm Holdings plc will usher in Malaysia's second semiconductor wave, said Prime Minister Datuk Seri Anwar Ibrahim.

10 Mar: Matrade unveiling Madani Digital Trade to connect Malaysian businesses to global markets The Malaysia External Trade Development Corporation (Matrade) is set to launch Madani Digital Trade (MDT), an integrated virtual showcase, on March 13, 2025, at the Malaysia International Trade and Exhibition Centre (Mitec) here.

13 Mar: Anwar: Sim: Gig Workers Bill aims to make Socso contribution mandatory The Ministry of Human Resources (Kesuma) will work to ensure the Gig Workers Bill is passed and enforced as soon as possible, to make it mandatory for gig workers to contribute to the Social Security Organisation (Socso).

20 Mar: GLICs urged to invest around RM120b over five years for economic growth, says Anwar. Government-linked investment companies (GLICs) have been urged to make domestic direct investments (DDIs) of about RM120 billion over five years to stimulate the country's economic growth, said Prime Minister Datuk Seri Anwar Ibrahim.

24 Mar: Govt Drafts National Strategy, Establishes NGCC To Strengthen Economy -- Tengku Zafrul The government is drafting a robust national strategy to face any eventualities, including the establishment of the National Geoeconomic Command Centre (NGCC), said Minister of Investment, Trade and Industry Tengku Datuk Seri Zafrul Abdul Aziz.

26 Mar: BNM works with ASEAN peers to boost local currency settlement: Deputy Governor. - Bank Negara Malaysia (BNM) will work with its ASEAN counterparts to encourage businesses to use local currencies in facilitating trade within the region, said Deputy Governor Datuk Marzunisham Omar.

27 Mar: Targeted RON95 subsidy mechanism still being fine-tuned: Amir Hamzah. The mechanism for the targeted RON95 subsidy is still being fine-tuned and will involve a two-tier pricing system as well as potentially involve using MyKad said Second Finance Minister Datuk Seri Amir Hamzah Azizan.

31 Mar: Trump says reciprocal tariffs will target all countries. U.S. President Donald Trump said on Sunday that reciprocal tariffs he is set to announce this week will include all nations, not just a smaller group of 10 to 15 countries with the biggest trade imbalances. Trump has promised to unveil a massive tariff plan on Wednesday, which he has dubbed "Liberation Day."

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