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Q1 2025 GDP Growth Rate:	+4.4%
2025F GDP Growth Rate Target:	+4.2%
5M 2025 Headline Inflation:	+1.5%
2025F Headline Inflation Target:	+1.9%
BNM OPR:	2.75%
End-2025 OPR Target:	2.75%
End-2025 Fiscal Deficit Target:	3.8%

US Tariffs on Malaysia

Hopeful for a Positive Outcome

- Countries with high export exposure to US, including Malaysia, are likely to face stronger pressure to compromise, thereby raising the odds of a favourable outcome.
- Given limited negotiating leverage in key areas, Malaysia may need to pivot towards increasing imports of US goods, such as LNG, agricultural commodities like corn and soybeans, Boeing aircrafts, or possibly defence assets, as a means of securing tariff relief.
- Our base case assumes a positive trade outcome, with tariffs settling at 15%-19%, supporting GDP growth at 4.1%-4.2% in 2025. Based on our sensitivity analysis, every 10%-pt increase in tariffs could shave off approximately 0.12%-pt from GDP growth.
- If final tariff settles at 20% or higher, GDP growth could risks dipping below 4.0%. Given the limited room for large fiscal stimulus due to political resistance, monetary policy is likely to bear the primary burden of supporting growth. A lower OPR would help support REITs, while falling bond yields point to potential upside for fixed income.
- Despite near term risk, we think Malaysia's underlying fundamentals remain resilient. The tariff deadline deferments since April have provided firms with time to adjust supply chains and frontload shipments. The bigger challenge lies in 2026 and beyond, where on-and-off tariff tensions triggered by the US become the new normal. That said, Malaysia remains well positioned, given its pivotal role in the global semiconductor supply chain and relative competitive advantage with lower tariffs relative to peers.
- Following the onboarding of a new economist and recent macro data releases, we have made some revisions to our 2025 forecasts. Considering the YTD inflation of 1.5%, we revise our 2025 inflation forecast to 1.9% (2.4% previously). Similarly, following BNM's 25-bp cut in July, we now expect the OPR to stay at 2.75% for the remainder of the year.

Another Tariff Surprise for the World

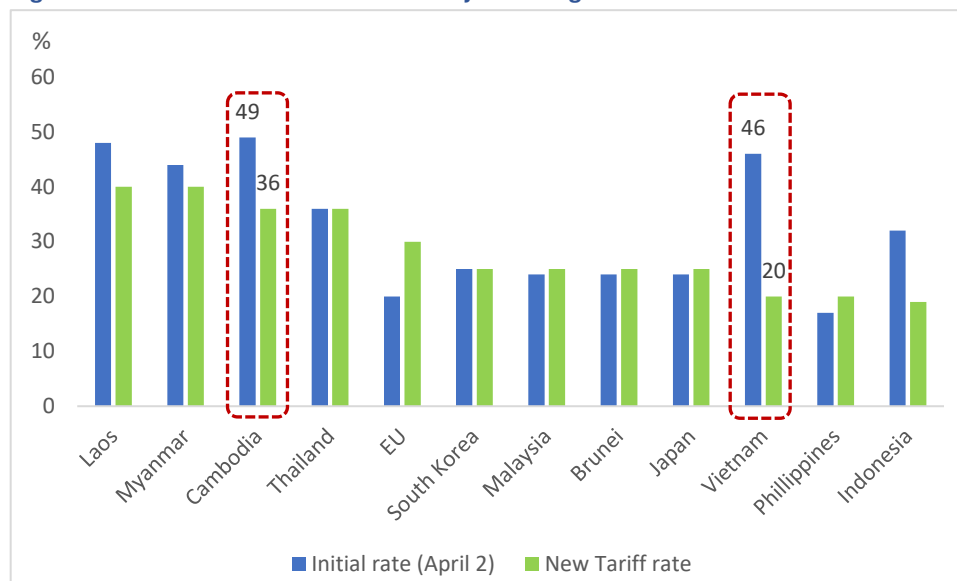
Following "Liberation Day" in April, the world was once again taken aback in July when the Trump administration dispatched tariff letters to a growing list of countries, announcing steeper-than-expected reciprocal tariffs under the International Emergency Economic Powers Act (IEEPA). These tariffs, ranging from 10%-50%, are slated to take effect on 1 August. As of writing, 27 countries have either received formal tariff notifications or reached bilateral trade agreements with the US. Surprisingly, some of US' closest allies and major trading partners have also been targeted with high tariffs, including Canada (35%), the EU (30%), Mexico (30%), Japan (25%), and South Korea (25%). Malaysia, too, was not exempt, and was slapped with a 25% tariff, exceeding our expectations of 15%-19%, and the initial 24% indicated in April.

Stakes are Higher for Some Countries

Selective tariff reductions signal US strategy. The uneven application of tariff rates reveals Washington's strategic use of trade policy to extract deeper concessions. In the July revision, Vietnam and Cambodia stood out for receiving substantial tariff cuts (Figure 1). Vietnam's tariff was more than halved from 46% to 20%, while Cambodia's was reduced from 49% to 36%. These changes reflect both countries' proactive approach in bilateral negotiations. Vietnam agreed to reduce tariffs on US goods to essentially zero and to tighten enforcement against illegal transshipment and trade fraud, while Cambodia offered to slash import tariffs on US goods from 35% to 5%. Indonesia was also a notable case, with its final tariff rate revised downwards to 19% from a previously announced 32%, following its commitment to ramp up purchases of US energy, agricultural products, and Boeing aircraft. These instances highlight the effectiveness of reciprocal economic concessions in securing favourable tariff outcomes.

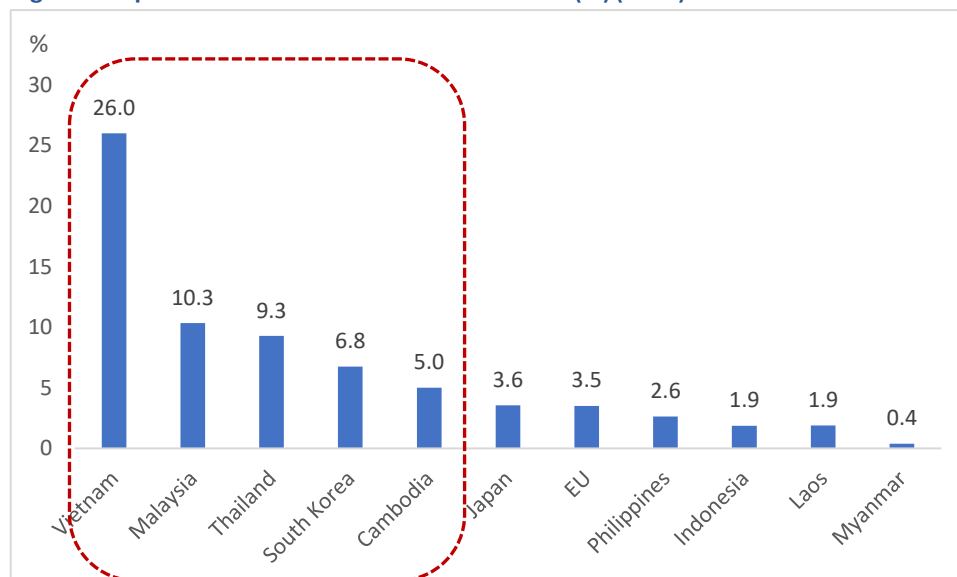
High exposure, high urgency. We believe the magnitude of concessions offered by countries like Vietnam and Cambodia is driven by the high stakes involved. These economies are highly dependent on the US, with exports to the US constituting a sizable share of GDP (Figure 2). A trade fallout would bring significant risks to their economies. By the same token, we believe other highly exposed countries, including Malaysia, Thailand, and South Korea are likely to face stronger pressure to compromise, raising the odds of a favourable outcome.

Figure 1: US Tariff Rates on ASEAN and Major Trading Partners



Source: The White House, various media outlet

Figure 2: Exports to the US Relative to Nominal GDP (%) (2024)



Source: Macrobond, Bloomberg

Note: Figures for Thailand, South Korea, Cambodia and Myanmar refer to 2023 data

Hopeful on US-Malaysia Trade Talks, but Risks Persist

Room for cautious optimism. The imposition of 25% tariff on Malaysia suggests that the Trump administration is unconvinced by the concessions offered thus far. However, the repeated deadline deferrals since April indicate a US preference for a negotiated deal over full-blown escalation. The latest US-Indonesia trade deal is also an encouraging sign for Malaysia, supporting the notion that Washington remains open to negotiation if meaningful concessions are on the table.

Cabotage policy likely to be reformed. The US Trade Representative's 2025 National Trade Estimate Report identifies several structural trade and investment barriers in Malaysia (Figure 3). Among the most likely to be reformed is the cabotage policy. We anticipate that Malaysia may offer a framework for the permanent exemption of foreign vessels engaged in submarine cable repairs in Malaysia waters.

Figure 3: Key Trade and Investment Barriers in Malaysia

Barrier	Details	Odds of Concessions
Import restrictions on motor vehicles	<ul style="list-style-type: none"> High import duties on fully built-up vehicles (up to 105%) Excise duties calculated in non-transparent ways Import permits (AP system) still required, especially for foreign vehicles 	<ul style="list-style-type: none"> Unlikely. Liberation of this sector may hurt the domestic car industry, which lacks the competitiveness to go against foreign automakers. Targeted tariff reductions on US-made vehicles may be offered.
Government procurement	<ul style="list-style-type: none"> Preference for Bumiputera-owned companies Foreign suppliers often excluded Restricted access in sectors like construction, engineering and defence 	<ul style="list-style-type: none"> Unlikely. The Bumiputera policy remains a sovereign red line and is expected to face strong resistance from domestic interest groups.
Limitation on foreign ownership	<ul style="list-style-type: none"> Caps foreign equity in key sectors eg telecoms, financial services, oil and gas Sometimes restricted to 30-70% Strategic sectors require government approval 	<ul style="list-style-type: none"> Selective relaxation maybe possible. Some flexibility may be offered, but room for concessions is limited especially in strategic sectors such as oil & gas and telecommunications.
Cabotage policy on undersea cable repairs	<ul style="list-style-type: none"> Local licensing requirement delays repair operations Average approval time = 27 days vs global standard of 3 days Impacts global internet firms (Google, Facebook, etc) 	<ul style="list-style-type: none"> Likely. This could be a negotiable area for Malaysia. The government reinstated the exemption on June 1, 2024, though US concerns remain about the lack of a permanent framework.
Halal certification	<ul style="list-style-type: none"> All imported meat (besides pork) and animal-based products require halal certification Malaysia's halal requirements are more prescriptive than relevant international practices 	<ul style="list-style-type: none"> Unlikely. The halal certification requirement is a socio-religious framework that is not expected to be negotiable. However, streamlining of certification process may be a feasible concession.

Source: The Edge, US Trade Representative's National Trade Estimate Report 2025, Apex Securities

Scope for selective liberalisation. On 16 July 2025, Malaysia's Minister of MITI, Tengku Zafrul disclosed that the US has urged Malaysia to lift foreign equity restrictions in key sectors as part of ongoing tariff negotiations. While sectors such as logistics and construction could see partial liberalisation, more strategic industries, namely oil and gas, telecommunications and finance are unlikely due to sovereignty and national security considerations (Figure 4). As for automotive sector, full liberation is unlikely. However, targeted tariff reductions on US-made vehicles may be offered as a trade-off.

Government procurement and halal certification unlikely to shift. Malaysia's Bumiputera policy is politically sensitive and widely viewed as non-negotiable. As such, Government's preference of Bumiputera-owned companies in procurement will likely remain intact. Similarly, Malaysia's globally respected halal certification system is unlikely to be diluted. The most feasible concession may involve streamlining the certification process to facilitate US meat imports.

Figure 4: Foreign Ownership Cap and Bumiputera Requirements on Sectors

Sector	Sub-Sector	Foreign Equity Ownership Cap	Minimum Bumiputera Participation	Notes
Telco	Application Service Providers (ASP)	Up to 100%	None mandated, but 30% may be required for strategic licenses or government contracts	Liberalized since April 2012; subject to MCMC licensing conditions.
	Network Service Provider (NSP)	Up to 100%	None mandated, but 30% may be required for spectrum or infrastructure projects	Liberalized since April 2012; local partnerships often encouraged.
	Network Facilities Provider (NFP)	Up to 100%	None mandated, but 30% may be required for critical infrastructure	Liberalized since April 2012; MCMC may impose local content requirements.
	Content Application Service Providers (CASP)	Up to 49%	At least 30% for broadcasting/content services	Protects local media and cultural interests; case-by-case exceptions possible.
	Telekom Malaysia (TM)	30% (aggregate); 5% (individual investor)	At least 30% typically required, as TM is a GLC	Strategic infrastructure provider; government-linked via Khazanah Nasional.
	5G Infra (DNB)	0% (fully government-owned)	100% local (government-controlled)	Foreign participation limited to technology partnerships, not equity.
Manufacturing	General Manufacturing	Up to 100%	None mandated	Applies to new projects or expansions since 2003; licenses required for projects above RM2.5M capital or 75 employees.
Services	Logistics/Wholesale/Distributive Trade	Up to 49%	At least 30%	Wholesale, Retail, and Trade (WRT) licenses require Bumiputera equity; local partnerships common.
	Transportation (Commercial Vehicles)	Up to 49%	At least 30%	Requires 51% local equity, with 30% Bumiputera for licensing.
Oil and Gas	Upstream (Exploration/Production)	0% (PETRONAS-controlled)	Case-by-case; local partnerships required	Managed via Production Sharing Contracts (PSCs); no direct foreign equity in deposits.
	Oil Services	Up to 49% (if principal shareholder)	At least 30% for PETRONAS licenses	Bumiputera equity often mandated for service contracts.
Financial Services	Insurance	Up to 70%	None mandated, but 30% encouraged	Exceptions (e.g., 100%) for contributions to low-income schemes.
	Banking	Varies; discretionary	None mandated, but local control encouraged	Bank Negara Malaysia (BNM) approves on case-by-case basis; restrictions on branch locations.
Agriculture	General Agriculture	Up to 50%	At least 30% for certain licenses	Varies by project; local/Bumiputera equity often required. Includes palm oil plantations.
Construction	Government/GLC Projects	Varies; often <50%	At least 30%	Bumiputera firms prioritized; joint ventures common.
Energy and Water Supply	General	Up to 49%	At least 30% for certain licenses	Strategic sectors; local control emphasized.

Source: MIDA, USDA, Lexology, Mahwengkwai & Associates, The Edge, Asean Briefing, Acclime Malaysia, 3E Accounting, Apex Securities

Efforts to address transshipments and semiconductor diversion. Malaysia's recent policy moves indicate a willingness to address US concerns. MITI's new requirement for trade permits on the export, transshipment, and transit of high-performance AI chips of US origin as a constructive step. Furthermore, MITI's decision to centralise the issuance of certificates of origin for exports to the US aims to tighten control over potential transshipment abuses. Still, we think Malaysia may be compelled to accept higher tariffs on transshipped goods as part of broader compromise.

Shifting towards managed trade. Given limited negotiating leverage, Malaysia may need to pivot towards increasing imports of US goods, such as liquefied natural gas (LNG), agricultural commodities like corn and soybeans, Boeing aircrafts, or possibly defence assets. Collaboration in emerging sectors such as nuclear technology or small modular reactors is plausible but constrained by high capital costs.

Scenario Analysis

Base case (15-19% tariff): Positive trade agreements reached, resilience prevails. In our base case (55% probability), Malaysia strikes a deal to reduce the final tariffs to 15-19% tariff, a competitive rate compared with Vietnam's 20% and Indonesia's 19% (Figure 5). This outcome would help preserve Malaysia's export competitiveness and maintain macroeconomic stability, leading to a forecasted GDP growth of 4.1%-4.2% for 2025.

Bearish case ($\geq 20\%$ tariff rate): Disappointing trade outcome puts growth at risk. In 2024, US is Malaysia's second largest export market, with total exports to US stood at RM198.6bn, representing 13.2% of total exports, or 10.3% of GDP. We assign a 40% probability to this Bearish scenario, where final tariff settles at 20% or higher (Figure 5). If tariffs reach 25% or higher, GDP growth could fall below 4.0%, especially if BRICS-related tariffs are concurrently introduced.

Best case (10-14% tariff rate): Exceptional outcome, low probability. An outcome below 15% would be highly favourable, but is unlikely (5% probability) due to domestic political constraints on liberalisation (Figure 5).

Figure 5: Scenario Analysis (Based on elasticity demand of -0.5)

	Scenario (Probability)	Tariff Rate	Real GDP	Remarks
Bullish	Best (5%)	10-14%	4.2-4.3%	Exceptional deal
	Base (55%)	15-19%	4.1-4.2%	Positive deal
Bearish	Worse (35%)	20-24%	4.1%	Disappointing deal
	Worst (5%)	≥ 25%	≤4.1%	No deal + BRICS related tariff

Source: Apex Securities

Sensitivity Analysis

Assuming a 15% tariff and price elasticity of -0.5 (given supply chain stickiness and limited supplier switching in the near term), our model projects 2025 GDP growth at 4.2% (Figure 6). Every 10%-pt increase in tariffs could shave off approximately 0.12%-pt from GDP. This estimate excludes secondary effects such as transshipment tariff impacts.

Figure 6: Projected Malaysia GDP Growth (%) Based on Tariff rate and demand elasticity

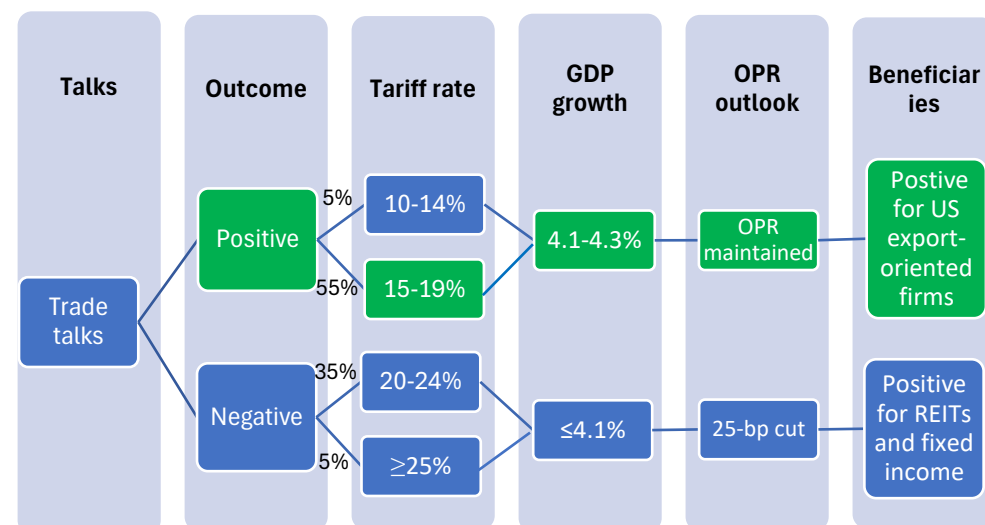
US Reciprocal Tariff/ Price Elasticity of Demand	10%	15%	25%	35%
-0.5	4.3	4.2	4.1	3.9
-1.0	4.1	4.0	3.8	3.5
-1.5	4.0	3.8	3.5	3.1
-2.0	3.9	3.6	3.2	2.7

Source: Apex Securities

Policy Implications

If the Bearish scenarios materialise, growth will need to be supported by stronger domestic demand, implying a potentially more dovish monetary stance and expansionary fiscal policy.

Figure 7: Trade Talk Scenario Analysis: Implications on OPR outlook



Source: Apex Securities

I) Potential of additional OPR cut. Our scenario analysis shows that in the Bearish cases (40% probability), GDP growth could potentially dip below 4.0%, well below the official BNM forecast of 4.5–5.5% (due for revision later in July), warranting another 25-bp OPR cut (Figure 7). Recall that during COVID, the OPR was cut to as low as 1.75% to cushion the economic shock. Given the estimated two- to three-quarter monetary policy transmission lag, we expect BNM to assess the effect of the July cut by 1Q2026. While we expect OPR to remain at 2.75% by end-2025, risks are tilted toward a cut in 2Q2026. Lower rates would help support REITs, while falling bond yields point to potential upside for fixed income, making both sectors possible beneficiaries.

II) Limited fiscal space. Although the government might ramp up fiscal measures through targeted cash aid for lower-income households, SME support, and selective loan facilities, the room for large fiscal stimulus is constrained. Malaysia remains committed to a gradual fiscal consolidation, targeting a 3.8% deficit-to-GDP ratio in 2025 (vs 4.1% in 2024), in line with the Fiscal Responsibility Act (aims for a 3% medium-term deficit). With reforms such as SST expansion and RON95 subsidy rationalisation delayed by political resistance, monetary policy is likely to bear the primary burden of supporting growth.

Final Thought: Comparative Regional Advantage

Despite near term risk, we think Malaysia's underlying fundamentals remain resilient. The tariff deadline deferments since April have provided firms with time to adjust supply chains and frontload shipments. The bigger challenge lies in 2026 and beyond, where on-and-off tariff tensions triggered by the US becomes the new normal. Malaysia remains well positioned, for two key reasons:

I) Pivotal role in global semiconductor. Malaysia accounts for about 13% of the world's semiconductor testing and packaging, and a significant 7% of global market share, with increasing investments in the higher value-added integrated circuit (IC) design. Given the sector's exemption from current tariffs and its strategic value to the US, Malaysia may retain a relative buffer from escalating trade pressures.

II) Comparative regional advantage. While Malaysia's current 25% tariff seems high, it is lower than some of our regional peers. ASEAN countries such as Thailand and Cambodia have been hit with 36% tariffs. Given structural similarities with ASEAN neighbours, Malaysia stand to gain relative advantage in the global supply chain reshuffle, in which Malaysia could emerge as a preferred alternative for US firms.

Forecast Revision

Following the onboarding of a new economist and recent macro data releases, we have made some revisions to our 2025 forecasts. On the inflation front, we project price pressures to remain manageable. Considering the year-to-date inflation of 1.5%, we revise our 2025 full-year inflation forecast to 1.9% (2.4% previously), supported by a gradual and targeted rollout of reform measures. Similarly, following BNM's 25-bp cut in July, we now expect the OPR to stay at 2.75% for the remainder of the year.

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
