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2Q25 advance GDP Growth:	+4.5%
2025 GDP Growth Forecast:	+4.2%
6M25 Headline Inflation:	+1.4%
2025 Headline Inflation Forecast:	+1.9%
BNM OPR:	2.75%
End-2025 OPR Forecast:	2.75%

## Malaysia Inflation Rate

### Inflation risks remain contained

- Malaysia's headline inflation eased to a more than four-year low of +1.1% YoY in Jun 2025 (May: +1.2%), undershooting the market estimate of +1.2%, driven by lower transport costs amid softer fuel prices and stable food inflation.
- We expect a weaker global growth outlook, muted commodity demand and potential trade diversion to keep imported inflation for Malaysia in check.
- New policy measures, including the SST expansion and RON95 subsidy rationalisation, are expected to lift inflation modestly in 2H25, with a combined estimated impact of c.30bps.
- Given the soft inflation trend year-to-date, we recently revised our full-year inflation forecast to +1.9% (from +2.4% previously). Muted global demand, subdued domestic demand pressures, and implementation delays of policy measures should keep inflation contained in 2025.

### Inflation growth eased further in June 2025

Malaysia's headline inflation came in at +1.1% YoY in Jun 2025 (May: +1.2%), the lowest since Feb 2021, and slightly below our and Bloomberg consensus estimates of +1.2%. Core Inflation held steady at +1.8% (May: +1.8%). The softer headline inflation print was mainly driven by slower growth in transport costs (+0.3%; May: +0.7%), led by a moderation in the sub-component "operations of personal transport equipment" (+0.3%; May: +0.6%). This reflects the lower pump prices for RON97 (RM3.11/litre; Jun-24: RM3.47) and diesel (RM2.78/litre; Jun-24: RM2.99), in line with Brent's 13.5% decline to US\$71.5/bbl over the period. Food inflation was unchanged at +2.1%, as higher "food away from home" (+4.7%; May: +4.4%) was offset by a decline in "food at home" (-0.4%; May: 0.0%). We believe the government's Program Jualan Rahmah MADANI, which offers savings of 10–30% on daily essentials, has helped contain food prices.

### Muted global commodities outlook helps contain inflation

From a global perspective, the weak commodity outlook continues to cap imported inflation. Escalating US tariff tensions and broader trade disruptions could weigh on global growth and commodity demand. In addition, trade diversion from exporters facing steep US tariffs, such as food and energy producers, could result in oversupply and exert downward pressure on global prices. Malaysia has considerable import reliance on agriculture and energy-related products, including meats, cereals, edible oils, dairy, and coal, which account for c.8.3% of total imports. Thus, we see the subdued global commodity prices to be broadly disinflationary for Malaysia. Nonetheless, we remain watchful of potential spillovers from second-round inflation risks, particularly from tariff passthrough on intermediate inputs, which may eventually raise the cost of final goods imported into Malaysia, especially from the US. A breakdown in trade talks could also trigger retaliatory tariffs, adding to global inflation uncertainty.

### Domestic policy remains key to inflation trajectory

New domestic policy measures, particularly the SST expansion and RON95 subsidy rationalisation, will be the main factors influencing Malaysia's inflation trend in 2H25. The SST expansion, initially set for 1 May under Budget 2025, was delayed to 1 July. To ease the cost burden on households, the government revised the scope by excluding beauty services and selected fruits, and raising the annual threshold for rental services to RM1m (from RM500k), which should soften its inflationary impact. As the SST excludes most necessities and applies mainly to higher-value goods and services, we estimate a limited impact of c.10bps on 2025 inflation. To recap, the March 2024 SST rate hike from 6% to 8% lifted headline CPI by just +0.1% MoM. While there are some risks of secondary pass-through, we expect them to remain muted given soft domestic demand.

Another key policy in focus is the RON95 fuel subsidy rationalisation. Initially scheduled for mid-2025, implementation has been delayed due to the finalisation of eligibility criteria and rollout

mechanics. No new date has been confirmed as of writing. As the fuel subsidy rationalisation only targets the top 15% income group, we expect the headline inflation impact to be modest at c.20bps. The final magnitude will depend on the timing and structure of the implementation.

### Higher inflation in 2H25; but upside risks remain contained

Following the soft Jan–Jun 2025 average inflation of +1.4% YoY, we recently revised our full-year inflation forecast to +1.9% (+2.4% previously), below the official projection range of between +2.0% and +3.5%. Headline inflation is expected to rise modestly to an average of +2.3% in 2H25 (1H25: +1.4%), led by domestic policy drivers. That said, muted global demand, benign domestic demand pressures, and implementation delays of policy measures should keep inflation largely in check.

**Table 1: Inflation Breakdown by Group**

	% Weight	% YoY			
		6M25	Apr-25	May-25	Jun-25
<b>Headline Inflation</b>	100	1.4	1.4	1.2	1.1
Food & Beverages	29.8	2.4	2.3	2.1	2.1
Alcoholic Beverages & Tobacco	1.9	0.8	0.8	0.6	0.6
Clothing & Footwear	2.7	-0.2	-0.1	-0.2	-0.3
Housing, Water, Electricity, Gas & Other Fuels	23.2	2.0	2.0	1.7	1.7
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.1	0.2	0.1
Health	2.7	1.1	0.9	1.1	1.2
Transport	11.3	0.7	0.7	0.7	0.3
Information & Communication	6.6	-5.2	-4.5	-5.2	-5.4
Recreation, Sports & Culture	3.0	1.3	1.3	0.9	0.8
Education	1.3	2.1	2.3	2.2	2.2
Restaurants & Accommodation Services	3.4	3.1	2.9	3.0	2.8
Insurance & Financial Services	4.0	1.4	1.5	1.5	1.5
Personal Care, Social Protect, Miscellaneous	5.8	3.9	4.1	3.7	4.2
<b>Core Inflation</b>		1.9	2.0	1.8	1.8

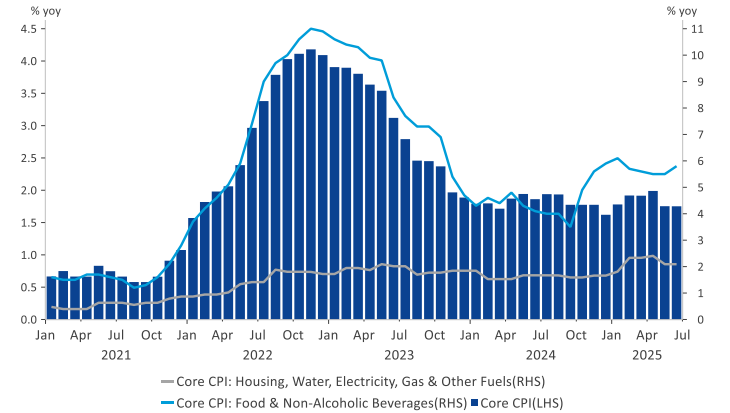
Source: Macrobond, Apex Securities

**Figure 1: Inflation rate eased further to +1.1% YoY in June (May: +1.2%), marking its lowest level since Feb 2021**



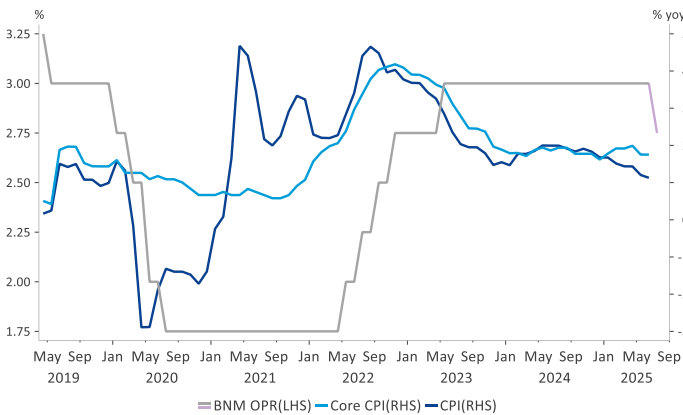
Source: Macrobond, Apex Securities

**Figure 2: Core CPI remained steady at +1.8% YoY**



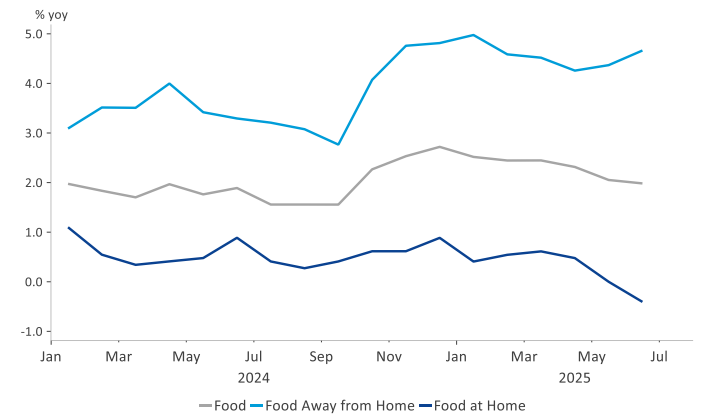
Source: Macrobond, Apex Securities

**Figure 3: Following its latest 25-bp rate cut in July, BNM is expected to keep the OPR at 2.75% for the remainder of the year**



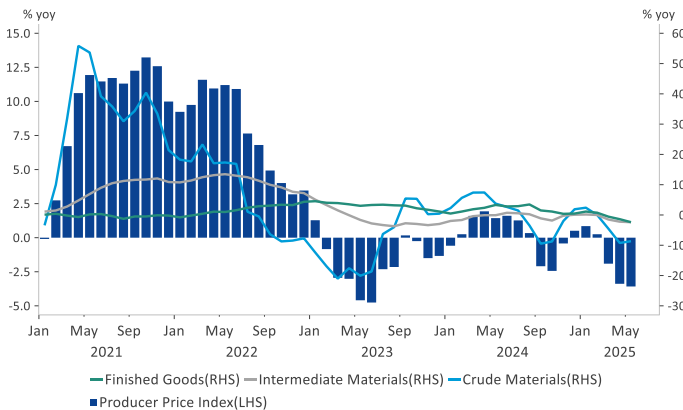
Source: Macrobond, Apex Securities

**Figure 4: The cost of food away from home rose (+4.7% YoY; May: +4.4%), while prices for food at home declined (-0.4%; May: 0.0%)**



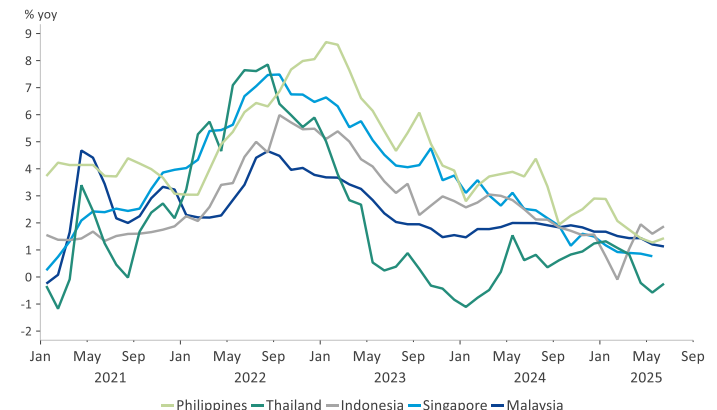
Source: Macrobond, Apex Securities

**Figure 5: The Producer Price Index (PPI) declined further in May (-3.6% YoY; Apr: -3.4%)**



Source: Macrobond, Apex Securities

**Figure 6: Inflation across ASEAN moderated in recent months**



Source: Macrobond, Apex Securities

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## 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.

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## 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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As of **Wednesday, 23 Jul, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

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