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2Q25 GDP Growth:	**+4.4%**
2025 GDP Growth Forecast:	**+4.2%**
7M25 Headline Inflation:	**+1.4%**
2025 Headline Inflation Forecast:	**+1.9%**
BNM OPR:	**2.75%**
End-2025 OPR Forecast:	**2.75%**

Malaysia Inflation Rate

Policy measures to drive 2H25 inflation

- **Headline inflation edged up to +1.2% YoY in July 2025 (Jun: +1.1%), in line with consensus, while core inflation remained unchanged at +1.8% for the third straight month.**
- **July's inflation reflected mixed policy effects. Insurance premiums rose as medical policy repricing was phased in under BNM's staggered adjustment framework, while electricity bills declined on softer fuel costs.**
- **SST pass-through remains limited, with only some items rising in July. Overall, it is expected to add c.15bps to 2H25 inflation.**
- **Inflation in 2H25 could be supported by the RM1,700 minimum wage extension to all employers from August, potential implementation of RON95 subsidy rationalisation, and US tariffs that may push up consumer goods prices.**
- **We maintain our 2025 inflation forecast of +1.9% YoY, though the muted July print and delays in RON95 subsidy rationalisation tilt risks to the downside.**
- **With real interest rate still above the pre-pandemic average, BNM has room to ease should growth falters. Our base case is for OPR to remain at 2.75% through 2025.**

Inflation remained modest in July 2025

Malaysia's headline inflation edged up to +1.2% YoY in July 2025 (Jun: +1.1%), in line with Bloomberg consensus. Core inflation was unchanged at +1.8% for the third straight month. Among the key components, transport cost inched up (+0.4%; Jun: +0.3%) amid a smaller decline in pump prices (-0.7%; Jun: -1.0%). The general downtrend in Brent prices this year should continue to cap transport costs ahead. Meanwhile, food prices eased to +1.9% (Jun: +2.1%), driven by softer "food away from home" (+4.3%; Jun: +4.7%).

Mixed policy impact on July inflation

Policy effects were evident in July, with two components standing out, namely higher insurance premiums and lower electricity bills. Insurance & financial services inflation jumped to +5.5% YoY (Jun: +1.5%), led by higher health insurance (+14.7%; Jun: +0.4%). The surge reflects BNM's mandate for insurers to stagger medical premium hikes over 2024–2026, capped at 10% annually for most policyholders. While this rule smooths the burden on households, CPI still records each tranche of repricing as a step-up when it occurs, explaining July's jump. Importantly, the overall impact remains limited given health insurance's 1.3% weight.

In contrast, electricity costs fell 3.9% YoY (Jun: 0%), reflecting the restructuring of electricity tariffs. The biannual Imbalance Cost Pass-through (ICPT) has been replaced with the new Automatic Fuel Adjustment (AFA) mechanism, which adopts monthly rate adjustment to better reflect commodity price fluctuations. With coal and natural gas making up the bulk of generation costs, the recent decline in both fuels has translated into lower tariffs. The government has indicated that around 85% of TNB customers would benefit from lower bills beginning July.

No clear SST pass-through yet

The latest print shows little immediate inflationary pressure from the SST expansion in July. MoM readings were uneven, with "food & beverages" down (-0.1% MoM; Jun: +0.2%), "personal care, social protection & miscellaneous" flat (0%; Jun: +0.4%), while "restaurant & accommodation" rose sharply (+0.8%; Jun: +0.1%). The muted outcome reflects exemptions on essential goods. Nonetheless, we expect SST-related pass-through to gradually materialise in discretionary segments, with a contained contribution of around 15 bps to 2H25 inflation.

Domestic measures will drive inflation in 2H25

Beyond SST, the RM1,700 minimum wage extension to all employers from August could raise costs pressures, particularly for micro firms with less than five workers (c.67% of businesses) previously exempted. The larger risk lies in the rationalisation of RON95 fuel subsidies. While the roll-out has been delayed, with details expected by end-September, the government has indicated a phased implementation, which should moderate the near-term inflationary impact.

On the external front, the outlook remains mixed. The potential US product-specific tariffs, including on semiconductors, could push up final goods prices. At the same time, softer global demand and potential trade diversion may exert disinflationary pressure. Brent crude has slipped 9.2% YTD to USD67.8/bbl, reflecting softer global demand. We expect the lower crude oil price to keep imported inflation pressures in check in the near term.

Inflation risks tilted lower; ample room for OPR cut

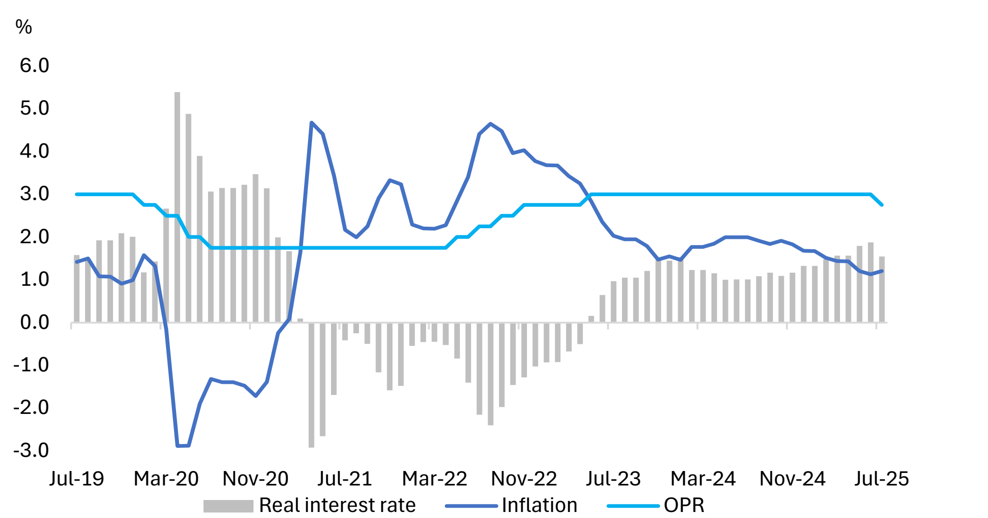
We maintain our projection for inflation to average +2.3% YoY in 2H25 (1H25: +1.4%), bringing the **full-year 2025 inflation to +1.9%.** The muted July print and delay in RON95 subsidy rationalisation tilt risks to the downside. With inflation subdued and real interest rate (Jul: +1.5%) still above the pre-pandemic average (2015–2019: +1.2%), BNM has room to ease should growth falters. Our base case is for **OPR to stay at 2.75% through 2025**, though another pre-emptive 25-bp cut cannot be ruled out.

Figure 1: Inflation Breakdown by Segment

	% Weight	% YoY 7M25	May-25	Jun-25	Jul-25
Headline Inflation	100	1.4	1.2	1.1	1.2
Food & Beverages	29.8	2.3	2.1	2.1	1.9
Alcoholic Beverages & Tobacco	1.9	0.7	0.6	0.6	0.6
Clothing & Footwear	2.7	-0.2	-0.2	-0.3	-0.2
Housing, Water, Electricity, Gas & Other Fuels	23.2	2.0	1.7	1.7	1.3
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.2	0.1	0.1
Health	2.7	1.1	1.1	1.2	1.2
Transport	11.3	0.6	0.7	0.3	0.4
Information & Communication	6.6	-5.4	-5.2	-5.4	-6.4
Recreation, Sports & Culture	3.0	1.2	0.9	0.8	0.8
Education	1.3	2.1	2.2	2.2	2.2
Restaurants & Accommodation Services	3.4	3.1	3.0	2.8	3.1
Insurance & Financial Services	4.0	1.9	1.5	1.5	5.5
Personal Care, Social Protect, Miscellaneous	5.8	3.8	3.7	4.2	3.9
Core Inflation		1.8	1.8	1.8	1.8

Source: Macrobond, Apex Securities

Figure 2: Subdued inflation drove real interest rate higher



Source: Macrobond, Apex Securities

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

As of **Monday, 25 Aug, 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.