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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 Industrial Production

Steady outlook, but external risks are building

- **Industrial Production Index (IPI) growth jumped to +4.2% YoY in July (Jun: +2.9%), beating market expectations of +2.8%, supported by stronger manufacturing production and a sharper-than-expected rebound in mining output.**
- **Manufacturing signals remain mixed. While we see the sector outlook holding steady, it remains susceptible to external shocks over the medium term.**
- **Global trade risks continue to cloud the outlook. Reciprocal tariffs, potential semiconductor tariffs, and a firmer ringgit pose downside risks to export competitiveness.**
- **Nonetheless, AI-driven semiconductor demand and resilient household spending should provide some cushion for domestic-oriented manufacturers.**
- **We remain cautiously optimistic on the outlook, but risks are building into 2026. We keep our 2025 manufacturing growth forecast at +3.7% and headline GDP at +4.2%.**

Rebound in mining output lifts headline IPI

IPI growth jumped to +4.2% YoY in July (Jun: +2.9%), beating market expectations of +2.8%. The expansion was driven by stronger manufacturing production (+4.4%; Jun: +3.6%) and a notable rebound in mining output (+4.3%; Jun: -0.01%). Meanwhile, electricity output eased to +1.6% (Jun: +2.3%).

Mining recovery was notable, with natural gas output strengthening further to +6.8% YoY (Jun: +2.3%) and petroleum rebounding to +1.0% (Jun: -3.2%). While post-maintenance output normalisation had been anticipated, the pace of recovery was firmer than expected, marking a positive surprise for July IPI.

Mixed signals from manufacturing

Despite the solid headline manufacturing print, underlying signals remain uneven. On a 3-month moving average (3mma) basis, growth in key export clusters has continued to lose steam since the start of the year, in which E&E products eased to +6.8% YoY (Jun: +7.2%), “petroleum, chemical, rubber & plastic” products contracted further (-1.4%; Jun: -0.9%), while “wood, furniture, paper & printing” also softened (+3.3%; Jun: +3.4%). In contrast, domestic-oriented clusters improved to +3.8% (Jun: +2.9%).

Meanwhile, the August manufacturing PMI suggests firmer momentum, with output rising for the first time in over a year alongside a pick-up in new orders. Still, the cutback in hiring and a four-year low in business confidence for the 12-month outlook underscore manufacturers’ caution and mounting external risks. We think the manufacturing sector outlook remains intact in the near term, but increasingly susceptible to external shocks going into 2026.

Trade risks remain in focus

We continue to view the global trade outlook as tilted to the downside. The US federal appeals court’s ruling against the President’s IEEPA-based reciprocal tariffs has not changed our risk assessment, as the measures remain in place pending a Supreme Court hearing in November. Even if overturned, tariffs are unlikely to go away. Trump still has alternative legal pathways to advance his tariff policy. These include Section 122 of the Trade Act of 1974, which can authorize duties of up to 15% for 150 days to address uneven balance-of-payments concerns; Section 338 of the Tariff Act of 1930, which allows the President to impose duties up to 50% on imports from countries found to be discriminating against US commerce; and Section 301, the USTR tool to target country-specific unfair trade practices.

Meanwhile, the Section 232 investigation on semiconductors is ongoing, with potential tariffs as high as 200-300%. If implemented, the tariffs could have material implications for Malaysia’s exports. Lastly, the ringgit’s year-to-date strength (+5.6%) against the greenback, driven by Fed easing expectations, adds further pressure by eroding export competitiveness.

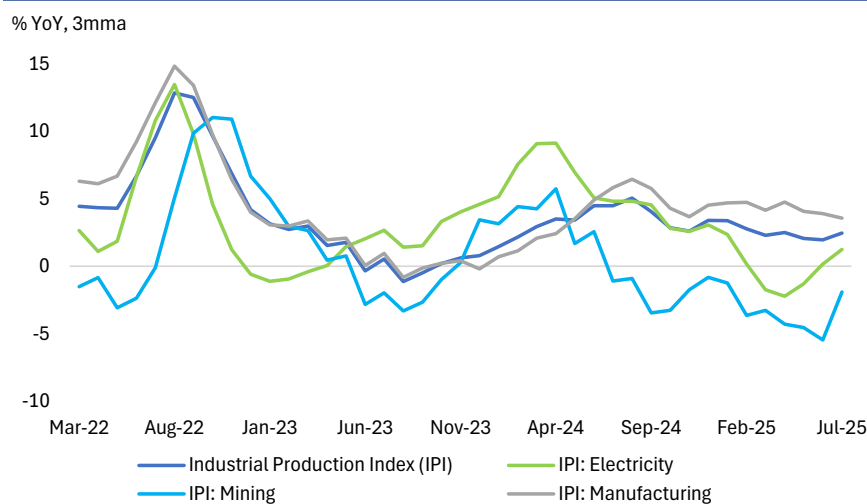
It is not all gloom

Nonetheless, we see several key supports for the manufacturing sector. Global semiconductor sales rose by a robust 20.6% YoY in July, and the Semiconductor Industry Association (SIA) projects double-digit sales growth of 11.2% in 2025 (2024: +19.1%), led by AI-driven demand. Riding on this trend, Malaysia's E&E exports rose +17.4% in 7M25. On the domestic front, resilient household demand, supported by policy measures such as the minimum wage hike and the RM100 MyKasih cash disbursement, should continue to cushion domestic-oriented manufacturers against external headwinds.

Outlook remains steady for now, risks building into 2026

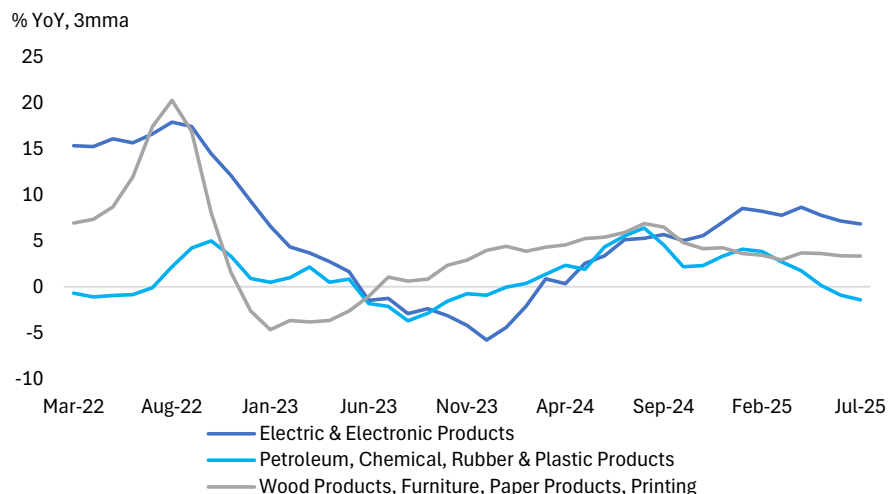
We remain cautiously optimistic on the outlook. The mining rebound should continue to lend support to IPI, while manufacturing momentum should hold steady barring further tariff escalation. But risks are building, and we may see the brunt of tariff impacts only in 2026. For now, we keep our 2025 manufacturing growth forecast at +3.7% YoY (2024: +4.2%) and headline GDP at +4.2% (2024: +5.1%).

Figure 1: Industrial output strengthened in July



Source: Macrobond, Apex Securities

Figure 2: Export-oriented industries saw a broad-based slowdown



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

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(a) nil.
