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2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+4.7%
2025 Export Growth:	+6.5%
2M26 Export Growth:	+15.2%
2026 Export Growth Forecast:	+4.8%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2M26 Headline Inflation:	+1.5%
2026 Headline Inflation Forecast:	+1.8%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

## Malaysia Inflation Rate

### Inflation upside raises prospect of BNM hike

- Malaysia's headline inflation moderated to **+1.4% YoY** in February (Jan: +1.6%), slightly below consensus of **+1.6%**, driven mainly by easing food prices.
- Core inflation printed **+2.0% YoY** (Jan: +2.3%), slightly below its 2021–2025 average of **+2.1%**. Domestic demand should remain the key growth anchor in 2026, in our view.
- Rising geopolitical tensions in the Middle East pose upside risks to the inflation outlook, with the main risk stemming from adjustments to domestic fuel prices.
- Using the Russia-Ukraine conflict in 2022 as a reference, assuming Brent averages USD101/bbl through year-end and subsidised RON95 rises to RM2.40/litre or higher, headline inflation could exceed **3.0%**, raising the prospect of a BNM rate hike.
- Nonetheless, we believe BNM will remain cautious, as monetary tightening may not be ideal in a cost-push inflation environment.
- An upward revision to our inflation forecast looks increasingly likely if fuel prices remain elevated. For now, we maintain our 2026 inflation forecast at **+1.8%**.

### Sub-2% inflation sustained

Malaysia's headline inflation eased to +1.4% YoY in February (Jan: +1.6%), slightly below consensus of +1.6%, extending the sub-2.0% inflation environment seen over the past 1.5 years.

The moderation was driven mainly by food (+1.3% YoY; Jan: +1.5%), as both "food away from home" (+2.3%; Jan: +2.4%) and "food at home" (+0.6%; Jan: +0.8%) slowed for the month. Transport declined further by 0.7% (Jan: -0.7%), reflecting lower pump prices for RON97 (RM3.11/litre; Feb-25: RM3.43/litre) and diesel (RM2.98/litre; Feb-25: RM3.18/litre).

### Domestic demand remains firm

Core inflation printed +2.0% YoY in February (Jan: +2.3%), slightly below its 2021-2025 average of +2.1%. The still-firm core reading points to steady underlying demand conditions, consistent with our expectation of resilient household spending and sustained investment activity. We maintain our view that domestic demand will remain the key growth anchor in 2026, cushioning the economy against a volatile external backdrop.

### Middle East tensions pose upside inflation risks

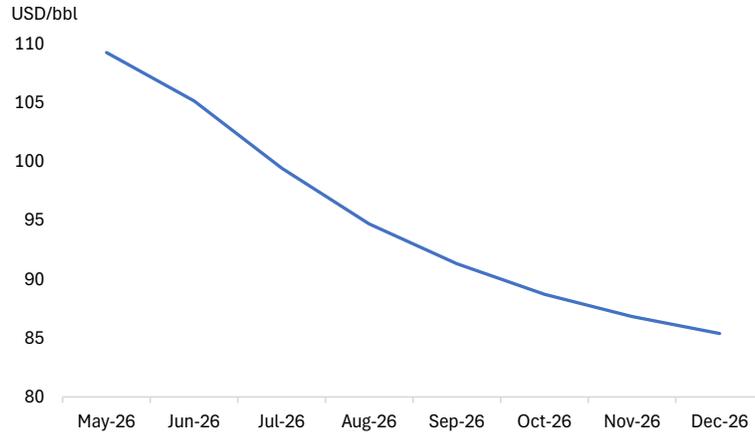
Inflation averaged just +1.5% in 2M26, below its 10-year average of +1.8%. However, rising geopolitical tensions in the Middle East pose upside risks to the inflation outlook. The closure of the Strait of Hormuz has disrupted global supply chains, particularly for crude oil as well as key industrial and agricultural inputs such as fertiliser. Higher logistics, utility and raw material costs could lift producer prices and gradually spill over into consumer inflation.

The main risk to Malaysia's inflation outlook comes from the extent of adjustments in domestic fuel prices, which account for 5.7% of the CPI basket. Brent crude has climbed above USD100/bbl, while domestic unsubsidised fuel prices have risen sharply. As of the week ended 19 March, RON95, RON97 and diesel prices were higher by RM0.68/litre (+26%), RM0.70/litre (+22%) and RM0.88/litre (+29%) respectively, compared with end-February levels.

### Past oil shocks provide some guidance

Oil price movements remain highly volatile given the fluid geopolitical developments. At the time of writing, the Brent futures curve is downward sloping, with contracts priced at USD109/bbl for May and USD85/bbl for December, suggesting market expectations for de-escalation and a gradual normalisation in oil prices later this year (Figure 1).

**Figure 1: Brent futures prices**



Source: Bloomberg, Apex Securities

For reference, during the Russia-Ukraine conflict in 2022, Brent surged above USD100/bbl in March and remained elevated for about five months before easing towards USD80/bbl by year-end. This episode provides a benchmark in assessing the potential inflation impact of the current oil shock. (Figure 2).

**Figure 2: Fuel price during Russia-Ukraine war**

	Brent price (USD/bbl)	Ron97 (RM/litre)
Jan-22	85.4	3.06
Feb-22	94.4	3.21
Mar-22	113.0	3.77
Apr-22	106.4	3.84
May-22	112.5	4.26
Jun-22	117.5	4.77
Jul-22	105.7	4.73
Aug-22	97.6	4.40
Sep-22	90.7	4.16
Oct-22	93.7	3.96
Nov-22	91.0	3.95
Dec-22	81.7	3.60
<b>Average*</b>	<b>101.0</b>	<b>4.14</b>

Source: Bloomberg, Apex Securities

\*Average for Mar-Dec 2022

### Inflation sensitivity to fuel prices

For simplicity, we use the 2022 oil price trajectory as a reference. Our model suggests that if Brent averages around USD101/bbl through end-2026, higher unsubsidised fuel prices alone could add about 0.74ppt to headline inflation (Figure 3).

**Figure 3: Estimated CPI impact under higher unsubsidised fuel prices**

Fuel	Price @ Brent USD65/bbl (RM/litre)	Price @ Brent USD101/bbl (RM/litre)	Change (%)	CPI impact (ppts)
RON95	2.22	3.56	60.7	0.55
RON97	3.18	4.14	30.3	0.14
Diesel	2.93	4.21	44.0	0.05
<b>Total CPI impact</b>				<b>0.74</b>

Source: Bloomberg, Apex Securities

Another key variable is the subsidised RON95 price, which the government indicated that it may only be maintained at RM1.99/litre until May 2026. Our estimates suggest that every RM0.10/litre increase in subsidised RON95 could raise headline inflation by about 0.11ppt. The combined inflation impact under different fuel price assumptions is shown in our sensitivity analysis (Figure 4).

**Figure 4: Sensitivity analysis**

Subsidised RON95 Price (RM/litre)	Subsidised fuel impact (ppts)	Unsubsidised fuel impact (ppts)	Total impact (ppts)	Headline inflation (%)
1.99	0.0	0.74	0.74	2.5
2.10	0.1	0.74	0.87	2.7
2.20	0.2	0.74	0.98	2.8
2.30	0.4	0.74	1.09	2.9
2.40*	0.5	0.74	1.20	3.0
2.50	0.6	0.74	1.32	3.1
2.60	0.7	0.74	1.43	3.2
2.70	0.8	0.74	1.54	3.3
2.80	0.9	0.74	1.66	3.5
2.90	1.0	0.74	1.77	3.6
3.00	1.1	0.74	1.88	3.7

Source: Bloomberg, Apex Securities

\* The highest subsidised RON95 price registered was RM2.38/litre in November 2017

### Higher prospect of a rate hike

Under a scenario where Brent stays around USD101/bbl through year-end and subsidised RON95 rises to RM2.40/litre or higher, headline inflation could exceed 3.0% (Figure 4). Such an outcome could raise the prospect of BNM rate hike.

However, we see this as a low-probability scenario. Historically, the highest subsidised RON95 price registered was RM2.38/litre in November 2017, suggesting limited room for a sharp increase. We believe the government is unlikely to opt for a large adjustment that would significantly raise household living costs.

### Keep inflation forecast; OPR to stay put

Risks to inflation are tilted to the upside, with an upward revision to our forecast increasingly likely if fuel prices remain elevated. For now, we **maintain our 2026 inflation forecast at +1.8%**, pending further clarity on domestic fuel price adjustments.

Although the prospect of a rate hike has increased, we believe BNM will remain cautious as the current inflation risk is largely cost-driven. Monetary tightening may not be ideal in a cost-push environment, as it could weigh on household spending and business financing.

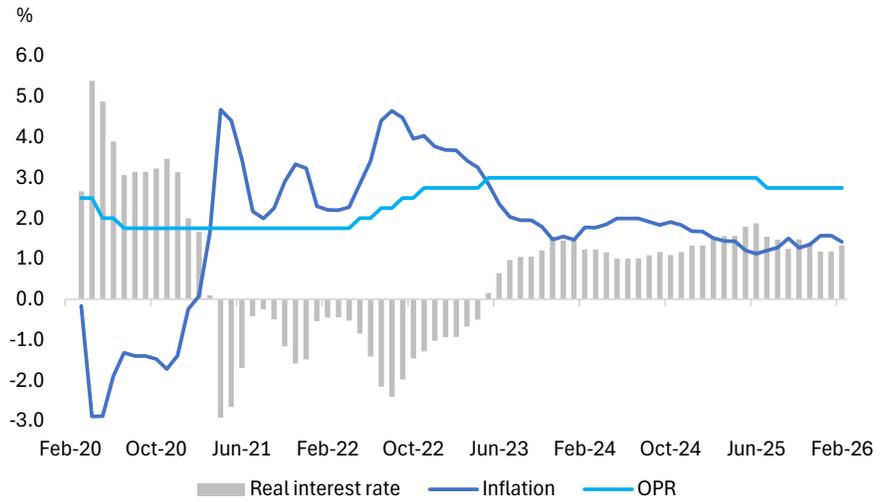
Overall, domestic fuel subsidy mechanisms should continue to cushion the pass-through from higher global oil prices, keeping inflation contained in the near term. For now, we maintain our view that the OPR will remain at 2.75% throughout 2026.

Figure 5: Inflation Breakdown by Segment

	% Weight	% YoY			
		2025	Dec-25	Jan-26	Feb-26
<b>Headline Inflation</b>	100	1.4	1.6	1.6	1.4
Food & Beverages	29.8	2.1	1.5	1.5	1.3
Alcoholic Beverages & Tobacco	1.9	0.9	2.5	2.5	2.6
Clothing & Footwear	2.7	-0.2	0.1	0.0	0.0
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.6	0.9	1.2	1.1
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.3	0.2	0.2
Health	2.7	1.2	1.5	1.4	1.2
Transport	11.3	0.4	0.1	-0.7	-0.7
Information & Communication	6.6	-4.3	0.9	0.7	0.5
Recreation, Sports & Culture	3.0	1.1	0.8	0.9	0.8
Education	1.3	2.3	2.8	3.2	2.8
Restaurants & Accommodation Services	3.4	3.2	3.1	3.0	2.5
Insurance & Financial Services	4.0	3.4	5.6	5.5	4.7
Personal Care, Social Protect, Miscellaneous	5.8	4.4	5.7	6.6	6.9
<b>Core Inflation</b>		2.0	2.3	2.3	2.0

Source: Department of Statistics, Apex Securities

Figure 6: Inflation eased to +1.4% in February



Source: Department of Statistics, 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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(a) nil.

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