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2025 GDP Growth	+5.2%
2026 GDP Growth Forecast:	+4.7%
2025 Export Growth:	+6.4%
2026 Export Growth Forecast:	+4.8%
2025 Unemployment Rate	3.0%
2026 Unemployment Rate Forecast:	3.0%
2025 Headline Inflation:	+1.4%
2026 Headline Inflation Forecast:	+1.8%
End-2025 OPR	2.75%
End-2026 OPR Forecast:	2.75%

Malaysia Industrial Production

Steady outlook even as external risks rise

- The Industrial Production Index (IPI) rose +5.9% YoY in January (Dec: +4.8%), beating market expectations of +5.0%, driven mainly by firmer manufacturing output.
- The export-oriented cluster recorded another strong month, supported by E&E, while the domestic-oriented cluster accelerated to +5.4% YoY (Dec: +4.9%).
- The AI-driven semiconductor upcycle, together with resilient domestic consumption, should continue to support Malaysia's manufacturing sector.
- While lingering uncertainty surrounding US tariff policy and the US-Iran conflict has raised external risks, we expect the impact on Malaysia's economy to remain limited and manageable at this juncture.
- We keep our 2026 manufacturing growth forecast at +4.5% YoY (2025: +4.5%) and GDP forecast at +4.7% (2025: +5.2%) for now.

Broad-based strength lifts headline IPI

IPI growth accelerated to an 18-month high of +5.9% YoY in January (Dec: +4.8%), beating market expectations of +5.0%. The stronger print was driven by firmer manufacturing production (+7.3%; Dec: +6.7%) and a rebound in mining (+0.1%; Dec: -2.5%), while electricity output strengthened further (+6.3%; Dec: +3.8%).

Export-oriented manufacturing remains the bright spot

The export-oriented cluster recorded another strong month, consistent with the +19.6% YoY surge in January nominal exports. On a 3-month moving average (3MMA) basis, export-oriented output rose further to +6.7% (Dec: +6.5%), supported by firmer gains in "computer, electronics & optical products" (+13.6%; Dec: +12.7%), "wood & related products" (+3.3%; Dec: +2.4%) and "vegetable & animal oils and fats" (+14.3%; Dec: +12.1%).

Meanwhile, the domestic-oriented cluster accelerated to +5.4% YoY (Dec: +4.9%), underpinned by stronger growth in "food processing products" (+9.0%; Dec: +8.9%), "motor vehicles, trailers & semi-trailers" (+2.0%; Dec: -0.1%) and "transport equipment" (+4.4%; Dec: +4.3%). Notably, the domestic-oriented cluster has been on an uptrend since May 2025, underscoring its role in cushioning overall manufacturing output amid rising external uncertainties.

AI-led tech cycle remains the key anchor

January IPI data points to robust expansion in manufacturing, in line with our view that growth momentum should sustain into 2026. The AI-driven semiconductor upcycle remains the key anchor for Malaysia's export sector, with E&E accounting for c.44% of total exports in 2025. Malaysia remains well-positioned within the global semiconductor value chain, which should continue to support export-oriented manufacturing.

Importantly, BNM recently noted that while global non-E&E exports to the US have moderated following earlier front-loading ahead of the US reciprocal tariff announcement in April 2025, E&E exports continue to trend higher, suggesting that the current E&E strength reflects firm underlying global demand rather than transitory factors.

On the domestic front, resilient consumption should sustain domestic-oriented industries. Stronger tourism flows under Visit Malaysia 2026, favourable labour market conditions and ongoing policy support measures are expected to support household income and spending.

Room for caution as external risks rise

That said, lingering uncertainty surrounding US tariff policy and the US-Iran conflict has raised external risks and could cloud the global outlook in the near term.

While the recently announced 15% global tariff under Section 122 of the US Trade Act of 1974 is lower than the earlier 19% reciprocal tariff on Malaysia under the Agreement on Reciprocal Tariffs (ART), the Trump administration is likely to explore alternative legal channels. In particular, a potential semiconductor tariff under Section 232 remains a key downside risk to Malaysia's E&E sector, although implementation has reportedly been delayed.

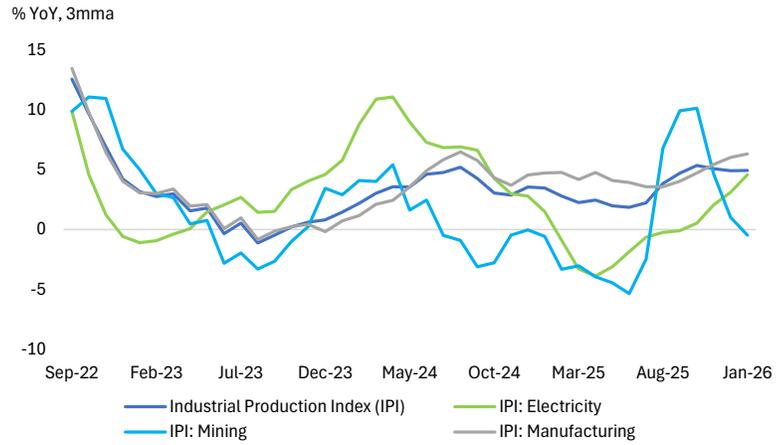
The US-Iran conflict and rising geopolitical tensions in the Middle East have led to supply chain disruption and sharp volatility in Brent prices, posing upside risks to inflation and downside risks to global growth. A slowdown in the US, Malaysia's key export destination, could weigh on the export-oriented sector. The US accounted for 14.5% of Malaysia's total exports in 2025. On a positive note, oil prices have eased below USD100/bbl, and market sentiment has improved after President Trump hinted at waiving certain oil-related sanctions and suggested that the conflict may end soon, easing concerns over a prolonged conflict and a sharp deterioration in the global growth outlook.

While we continue to closely monitor geopolitical developments in the Middle East, we expect the impact on Malaysia's economy to remain limited and manageable at this juncture. Our cautious optimism is broadly in line with BNM's view. While BNM noted that risks to growth are increasingly tilted to the downside, Malaysia should be relatively shielded from commodity price volatility, given that the country remains a net energy exporter (refer to our [BNM MPC Meeting report](#)).

Maintaining our 2026 growth forecast

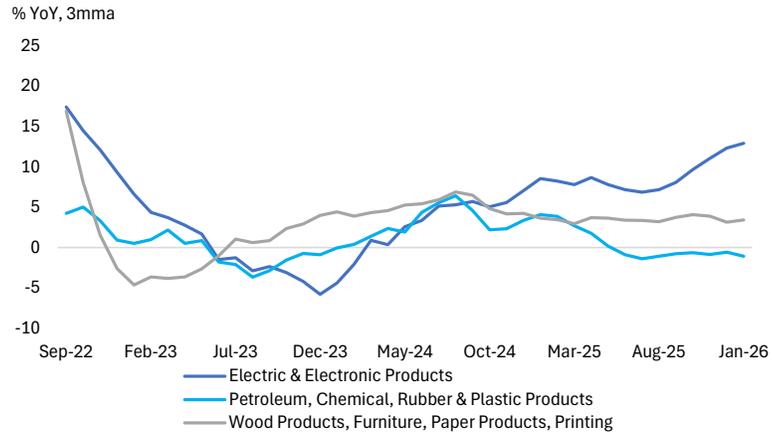
Overall, the firm IPI performance at the start of the year supports our expectation of steady growth in 2026. Barring a prolonged escalation in geopolitical tensions that materially weakens global demand, the semiconductor upcycle should continue to underpin manufacturing activity. Thus, we keep our **2026 manufacturing growth forecast at +4.5% YoY** (2025: +4.5%) and **GDP forecast at +4.7%** (2025: +5.2%) for now.

Figure 1: Manufacturing output accelerated in January



Source: Department of Statistics, Apex Securities

Figure 2: Export-oriented industries rose in January



Source: Department of Statistics, 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.
